The Regents of the University of California

INVESTMENTS COMMITTEE
January 17, 2023

The Investments Committee met on the above date at the UCLA Luskin Conference Center, Los Angeles campus and by teleconference meeting conducted in accordance with California Government Code §§ 11133.

Members present: Regents Anguiano, Blas Pedral, Makarechian, Pouchot, Robinson, and Sherman; Ex officio member Leib, Advisory members Ellis and Steintrager; Chancellors May and Muñoz; Advisors Lybarger and Zager; Staff Advisor Lakireddy

In attendance: Regents Hernandez and Pérez, Regents-designate Raznick and Tesfai, Faculty Representative Cochran, Secretary and Chief of Staff Lyall, General Counsel Robinson, Chief Investment Officer Bachher, Executive Vice President and Chief Financial Officer Brostrom, and Recording Secretary Li

The meeting convened at 2:05 p.m. with Committee Chair Sherman presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of November 16, 2022 were approved, Regents Anguiano, Leib, Makarechian, Pouchot, Robinson, and Sherman voting "aye."[1]

2. **PUBLIC COMMENT**

Committee Chair Sherman explained that the public comment period permitted members of the public an opportunity to address University-related matters. The following persons addressed the Committee concerning the items noted.

A. Rebecca Emigh, UCLA professor, urged the Regents to support the Academic Senate memorial on decarbonization and to make the University a leader in pursuing climate justice. She stated that the University's climate action policies were not robust enough, and UC campuses were large emitters of greenhouse gases, with UCLA emitting the most of any campus.

B. Sarah Guzman, representative of the Alliance of Californians for Community Empowerment (ACCE), expressed disappointment in UC's decision to invest $4 billion in the Blackstone Real Estate Income Trust. She stated that Blackstone was raising rent in San Diego, leaving tenants in poor living conditions, and pushing

[1] Roll call vote required by the Bagley-Keene Open Meeting Act [Government Code §11123(b)(1)(D)] for all meetings held by teleconference.

people out of their communities. She urged the University to divest from Blackstone until the latter agrees not raise rent more than three percent, not to evict tenants who could not keep up with rent payments, and to maintain its properties.

C. Mira Mbidi, ACCE member and tenant of a Blackstone property, called on Blackstone to stop charging tenants high rent and to address maintenance issues. She stated that majority of Blackstone tenants were Black, Latin(o), low-income, and immigrants. Tenants were looking for employment following the COVID-19 pandemic and could not afford high rent.

D. Eshita Seshadri, UC Davis student, stated that UC must provide equal access and opportunities for all students regardless of immigration status. This meant allowing undocumented students to seek employment at the University, such as at the UCLA Labor Center.

E. Sosseh Prom, State Policy Manager at African Communities Together, called attention to the effects of UC's investment in CIM Group. She stated that, as a condition of obtaining a Freddie Mac loan to purchase a portion of Southern Towers Apartments, CIM Group was required to provide the tenants of the apartment complex with 30-day eviction notices but gave tenants five-day notices instead. CIM group also filed some 66 evictions during the eviction moratorium under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. She called on UC to exercise its fiduciary duty and invest responsibly.

F. Lucila Echeveste, ACCE member and Blackstone tenant, called on Blackstone to stop evictions and rent increases. She shared that multiple families lived together in order to afford their rent. She added that, as an investor in Blackstone, the University ought to know what Blackstone was doing.

G. Ana Esquivel, President of UCLA Staff Assembly, thanked the Regents for approving a 4.6 percent salary increase for policy-covered staff and asked that the Regents consider aligning future cost of living adjustments with Governor Newsom's funding Compact. Ms. Esquivel invited Regents to meet with the UCLA Staff Assembly to learn more about the campus' needs.

H. Carlos Alarcon, UCLA graduate student, spoke in support of the Opportunity for All campaign. He stated that allowing undocumented students to work would help the University achieve its goal of providing a debt-free education. He added that 29 of the nation's leading constitutional and immigration law scholars, including Dean Erwin Chemerinsky of UC Berkeley School of Law and Dean Kevin Johnson of UC Davis School of Law, agreed that UC currently had legal authority to hire undocumented students.

I. Roslyn Gadley, tenant of Southern Towers Apartments, asked the Regents to demand that CIM Group stop filing evictions, stop raising rent to unaffordable levels, and include utility payments in rent. In Ms. Gadley's view, CIM Group has been the worst landlord of Southern Towers Apartments in the roughly 30 years that she has lived there. She added that CIM Group filed over 500 evictions during an eviction moratorium from 2020 to 2021.

J. Ash Emmert, UCLA student and representative of the UC Divest coalition, called for divestment from the U.S. military-industrial complex and for the abolition of the Board of Regents due to its perpetuation of the U.S. military-industrial complex and exploitation of students and workers.

K. Tewodros Teklemariam, tenant of Southern Towers Apartments, shared that tenants were paying high rent and experiencing habitability issues despite meeting with the CIM group multiple times to discuss their concerns. He stated that blue collar workers should not have to fight with their landlord for habitable living conditions. He asked UC to demand that CIM Group take tenants' requests seriously and that UC not invest in CIM Group in the future.

L. Dante Gonzales, representative of Uprooted and Rising, called on the University to divest from the Thirty Meter Telescope (TMT) project on Mauna Kea in Hawaii. He shared past and upcoming events organized by Uprooted and Rising.

M. Mariana Brito, ACCE member, called on Blackstone to stop rent increases and evictions, and to conduct business fairly. She shared that she had been living in San Diego for nearly 30 years and witnessed an increase in homelessness and housing insecurity. She stated that Blackstone had a negative impact on communities.

N. Barbara Pinto, ACCE member, shared her experience as a former Blackstone tenant. She stated that there were many placards in her building warning of cancer-causing materials, and there were significant noise and ventilation issues. Ms. Pinto moved after her rent increased $200 during her ten-month lease. She stated that, as a senior citizen with a fixed income, moving was very difficult and expensive.

O. K Agbebiyi, Housing Campaign Coordinator for the Private Equity Stakeholder Project, stated that CIM group engaged in predatory practices across the country. In 2020, CIM Group acquired Southern Towers, once known as a stable home for blue-collar workers and their families, and tenants have since been subject to habitability issues, hostile treatment, rent increases, and mass evictions. Similar practices were observed in the West Adams neighborhood in Los Angeles. She asked that UC not invest in CIM Group until these issues are addressed.

P. Minerva Garcia, ACCE member, stated that the University was playing a role in displacement by investing in Blackstone. She stated that United Nations human rights experts criticized Blackstone for helping fuel the global housing crisis with business practices such as rent increases and large fees. She believed that taxpayer money allocated to UC should be invested in higher education, and that UC should make conscious investment decisions.

Q. Gina Ligone, ACCE member and Blackstone tenant, expressed disappointment in UC's investment in Blackstone. She shared that her request to move to an apartment on a lower floor following an epileptic seizure was denied because Blackstone raised rent so high that her Section 8 housing assistance would not cover it.

R. Michael McBride, ACCE member and Blackstone tenant, shared that he was a Section 8 tenant and that the lack of heating in his apartment had not been addressed until recently. He called on Blackstone to maintain its property and help tenants stay in these apartments as the alternative was homelessness.

S. Patricia Mendoza, ACCE organizer, characterized Blackstone as a money-hungry monster that was displacing the elderly. She appealed to Blackstone to consider low-income communities of color, to stop all evictions, and to stop raising rent beyond what tenants could afford.

T. Connie Villalpando, ACCE member, shared that, as an apartment manager, she never treated tenants the way Blackstone has treated its tenants, such as giving three-day eviction notices instead of extensions for late rent. She stated that Blackstone was taking advantage of hardworking families.

U. Jose Lopez, San Diego Director of ACCE, stated that Blackstone funded a campaign to prevent the enactment of rent control ordinances and was the largest donor opposing Proposition 15 in 2022. He opined that investing in Blackstone went against UC's interests and called on the University to direct Blackstone to stop evictions and rent increases, and to convert its properties to affordable housing or sell them to another entity that would. Otherwise, he called on UC to divest from Blackstone and invest in entities that provided high-quality, affordable housing.

V. Ms. Guzman stated that Blackstone purchased about 6,000 apartment units in San Diego and that it would do anything to achieve a good return on investment, including eviction, rent increases, and reducing maintenance expenditures. She stated that, as an investor in Blackstone, the University bore the same responsibility. She called on UC to either pressure Blackstone to respond to tenant demands or divest from the company.

3. REVIEW OF PERFORMANCE FOR THE FIRST QUARTER OF FISCAL YEAR 2022–2023 OF UC PENSION, ENDOWMENT, BLUE AND GOLD POOL, WORKING CAPITAL, AND RETIREMENT SAVINGS

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Chief Investment Officer (CIO) Bachher reported that the Office of the CIO managed $152 billion in investments assets at the end of fiscal year 2021–22 and $157 billion as of January 15, 2023. Since 2014, assets have grown at a rate of five percent per year, largely due to asset allocation decisions. Of the $157 billion, $83.5 billion was in the pension, $31.2 billion was in the Retirement Savings Program, and $19.7 billion was in working capital. Within the endowment, $2.5 billion was in the Blue and Gold Pool and $20 billion was in the General Endowment Pool (GEP). Mr. Bachher presented a chart of fiscal year-to-date net returns and underscored the strength of the markets in the first two weeks of the quarter. The endowment returned 2.3 percent, the pension and the Blue and Gold Pool both returned 4.2 percent, the Total Return Investment Pool (TRIP) returned 3.6 percent, and the Short Term Investment Pool (STIP) returned 1.5 percent. Mr. Bachher presented a chart of 30-year net returns, noting negative returns on a one-year basis. The Office of the CIO aimed to earn 6.75 percent per year in the pension and eight to nine percent per year in the endowment to maintain financial stability. Shortening the duration of bonds has saved UC nearly $1 billion, increasing equities has added about $1.6 billion, and reducing stock picking by half has brought UC about $10 billion. With a rising real estate market, the Office of the CIO sold almost $3 billion of real estate. With a $4 billion investment in Blackstone, the Office of the CIO anticipated a minimum return of 11.25 percent annually over the next several years. Cash was earning 4.7 percent returns.

Mr. Bachher stated that the COVID-19 pandemic had created a liquidity crisis. For several weeks during the onset of the pandemic, U.S. Treasury securities did not trade, and the Office of the CIO needed to ensure that there was enough liquidity to sustain the University for 18 to 24 months and avoid layoffs. Once UC Health and campus operations somewhat resumed and the Office of the CIO could raise money in the debt market through bond offerings, the Office of the CIO was investing $3 billion per week back into the markets. The Office of the CIO projected liquidity crises worldwide given fractures in financial markets and the geopolitical landscape. In November 2022, the United Kingdom faced a liquidity crisis in its pension system, but the Office of the CIO decided not to get involved. In December, the Office of the CIO invested $4 billion in Blackstone for what Mr. Bachher viewed as a perceived crisis. In his view, the anticipated 11.25 percent annual return from this investment was accretive to the sustainability of UC's investment assets. Mr. Bachher believed that the Office of the CIO's real estate investments were appropriate for an anticipated economic recession. He presented a table comparing asset allocation on June 30, 2022 and January 15, 2023. Market declines in July and August 2022 led the Office of the CIO to sell assets, which resulted in almost $12 billion in liquidity. The geographic positioning of UC's investments was almost identical to what it was in June.

David Schroeder, Managing Director of Fixed Income, stated that the year-on-year Core Consumer Price Index (CPI) dropped to 6.5 percent in December 2022 from a high of 9.1 percent in June 2022. Core inflation was currently around 5.6 percent, and CPI was relatively flat due to lower energy prices. Core services rose, while core goods prices dropped due to lower used car prices. This might lead the Federal Reserve (Fed) to moderate the pace at which it increased interest rates. Mr. Schroeder presented a chart indicating increases in the federal funds rate, Ten Year Treasury yield, and the Two Year Treasury yield. The selloff in rates was accompanied by credit spreads last calendar year and this led to double-digit negative returns in fixed income in the U.S. The UC Retirement Plan (UCRP) returned about negative seven percent, the endowment about negative four percent, and TRIP about negative five percent. The UCRP performed somewhat worse due to the growth fixed income in that portfolio. Mr. Schroeder predicted that, this year, the Fed would moderate rate increases, increase the policy target by 25 basis points, and guide short-term rates from five to 5.25 percent. Futures markets predicted that the federal funds rate would decline to three percent by 2024. The U.S. and global fixed income markets have pivoted to an eased Fed policy in the next year. Typically, securities tend to fall dramatically towards the end of a policy tightening cycle, but the Fed expected to adjust interest rates until the summer.

Ronnie Swinkels, Managing Director of Public Equity Investments, stated that, as equities were becoming more inexpensive, earnings were expected to be softer as well. He predicted that equities might outperform government bonds for the next four to five years. Global equities fell 20 percent in 2022 partly due to currency impacts. The U.S. and global indices performed similarly. The Office of the CIO's investments continued to be overweight to the U.S., as U.S. companies were of higher quality, focused more on shareholder value, and could withstand recession better than companies in other countries. For its active portfolios in Europe and Japan, the Office of the CIO preferred stocks from companies with diversified revenue bases. Utilities, staples, and healthcare performed well, while technology underperformed. The U.S. fossil free index outperformed the U.S. tobacco free index. The Office of the CIO had overweight investments in India, which has outperformed the other countries over the last 25 years. It was too early to tell whether the reopening of the Chinese economy would be successful.

Marco Merz, Managing Director of Defined Contributions Products, stated that the UC Retirement Saving Plan (UCRSP) had about $31 billion, down $5 billion at the end of last year. This was driven by equity market and fixed income declines. Over 40 percent of UCRSP's 320,000 participants were invested in the target date fund. About 60 percent of UCRSP was invested in equities, 35 percent in fixed income, and the rest in the brokerage window. Following an asset allocation study, the Office of the CIO planned to add $1 billion in equities to the target date fund. The Office of the CIO has also partnered with the Teachers Insurance and Annuity Association of America to generate a guaranteed income stream for fixed income. U.S. President Biden had recently signed the SECURE 2.0 Act of 2022, which would eliminate some of restrictions when converting assets to a Qualified Longevity Annuity Contract (QLAC), increase the conversion amount, and allow catchup contributions only after taxes. Regental approval would be needed to add an equivalent to the Roth individual retirement account (IRA) to plan documents. The law would also require distributions at age 75.

Committee Chair Sherman asked Mr. Schroeder for his prediction regarding interest rates given the significant increase in Treasury rates and the U.S. government rolling over debt. Mr. Schroeder replied that outstanding U.S. debt was increasing and the Fed was reducing the amount of the U.S. Treasury market that it owned. He observed a reduction in liquidity provisioning. A working group was proposing ways to improve Treasury market function, which has been affected. He predicted higher rates as a likely impact.

Committee Chair Sherman asked how conflict over debt limit and extraordinary measures taken by the U.S. Treasury affected the fixed income portfolio. Mr. Schroeder believed that one should restore the Gephardt Rule, but this was not politically feasible.

Committee Chair Sherman asked about the performance of active managers compared with benchmarks. Mr. Swinkels replied that value-biased managers performed unusually well, but there was also a large number of underperforming managers who invested in biotechnology, Asian technology stocks with small market capitalization, or European equities. The pension performed in line with the benchmark, but the endowment performed 70 to 75 basis points under the benchmarks.

Committee Chair Sherman asked if active managers were not outperforming benchmarks. Mr. Swinkels responded in the affirmative. Committee Chair Sherman asked if this would still be the case over a five-year period. Mr. Swinkels responded that active managers still outperformed benchmarks over a five-year period. Mr. Bachher stated that there were three categories of managers: index plus, who have performed well; concentrated stock pickers, who have not performed as well; and diverse managers, who have performed well.

Committee Chair Sherman asked how the cost of UCRSP compared with other institutions' plans. Mr. Merz replied that UCRSP costs 50 to 60 percent less than its comparators. Mr. Bachher added that, in the pension industry, growth required the addition of staff. In 2020, the Office of the CIO made the entire fixed income portfolio passive for one to two basis points. Mr. Merz stated that the Office of the CIO encouraged participants to keep their assets in UCRSP even if they depart UC because of the plan's cost effectiveness.

Regent Makarechian asked why the Office of the CIO predicted that inflation would decline. Aside from interest rates, factors such as near shoring, the high cost of goods and labor in the U.S. and Europe, defense spending, war, and energy costs did not contribute to productivity. Mr. Schroeder replied that the market was pricing inflation at lower than three percent, and break-even inflation rates for inflation-linked bonds in the U.S. were in the two percent range in several years. Most private sector economists predicted an end-of-year run rate of around three percent. Lower energy prices in the second half of the year were not as much of an indicator as consumers or the economic cycle. The Fed was raising interest rates to take pressure off demand, and, in the third quarter, U.S. consumers were spending less on goods and more on services. Mr. Schroeder expected goods inflation to be lower than it has been during the pandemic as consumers reduce their goods spending. Services inflation had a big weight in shelter and would likely remain at three percent.

Regent Leib expressed his belief that the University had an obligation to be an activist investor, and UC's investment in Blackstone presented such an opportunity. He asked Mr. Bachher about such opportunities in light of statements made during the public comment period. Mr. Bachher stated that CIM Group property, referenced during the public comment period in relation to the Southern Towers Apartments, was not in UC's portfolio. UC's total exposure in San Diego was $3 million. Mr. Bachher Invited Blackstone representatives to speak. Regent Leib noted that many of the public commenters lived in his community.

Kathleen McCarthy, Global Co-Head of Blackstone Real Estate, stated that Blackstone defined affordable housing as housing that was built under the federal Low-Income Housing Tax Credit (LIHTC) program and limited to people and families making less than 60 percent of area median income. This made up two-thirds of Blackstone's California portfolio. She stated that she wished to clarify misconceptions put forth during the public comment period. Like UC, Blackstone was focused on high-quality results in a highly responsible manner. Blackstone was prioritizing residents, ensuring proper staffing at its properties to promptly address issues, and supporting tenants encountering challenges. Ms. McCarthy stated that Blackstone did not evict any tenant for nonpayment for two years during the pandemic. Blackstone completed 20,000 work orders on properties mentioned by the Alliance of Californians for Community Empowerment (ACCE), and it would address areas where it had fallen short. Blackstone was focused on helping tenants stay in their homes and partnered with UC to offer housing with rent that was 30 percent below market rate.

Regent Pérez shared that he spoke to public commenters from ACCE. In his view, tenants had a more intimate relationship with their housing units. In California, not evicting during the pandemic was required by law. He expressed concern about the mention of double-digit rent increases during the public comment period, as this was not consistent with his understanding of State law and federally controlled affordable housing. Ms. McCarthy replied that Blackstone's approach to eviction went above and beyond State and local laws anywhere in the country. Regardless of whether there was a pandemic, Blackstone was trying to help tenants stay in their homes by, for instance, earning the ability to forgive unpaid rent. Ms. McCarthy stated that Blackstone would examine statements about rent increases. In California, the rent for 67 percent of its portfolio was set by the federal government. The small fraction of inflationary growth in its campus community properties was by design in partnership with UC. Rent increases were the result of insufficient supply and high demand. She stated that the solution to the housing affordability challenge was new supply.

Regent Pérez asked that Blackstone share its findings on issues that had been raised about habitability.

Committee Sherman asked what Blackstone was doing to create more housing and how UC could provide support. Ms. McCarthy responded that the University's $4 billion investment would help Blackstone create more housing. Through its acquisition of April Housing, Blackstone owned the one of the largest LIHTC portfolios in the country. The LIHTC program was one of most successful public-private partnerships. American Campus Communities were working to address university housing needs and to relieve pressure on surrounding communities.

Alice Carr, Chief Executive Officer of April Housing, stated that April Housing owned a portfolio of 86,000 LIHTC units nationwide. Rent for these units was set by the federal government, and tenants earned less than 60 percent of area median income. She stated that April Housing worked hard to provide clean, stable, and affordable housing. In anticipation of the expiration of government requirements, April Housing was determining ways to expand affordability of existing units and develop an equity platform to invest in the creation in new LIHTC units.

In response to a question from Committee Chair Sherman, Ms. Carr explained that affordability meant that only 30 percent of one's income went toward rent.

Committee Chair Sherman, noting that affordable housing had the same building costs as other construction, asked how affordable housing was economically feasible. Ms. Carr replied that affordable housing developers received a government subsidy, and the LIHTC program, which had bipartisan support, provided a tax credit to affordable housing projects to incentivize private developers. Committee Chair Sherman asked if these programs were expected to continue or expand. Ms. Carr replied in the affirmative, adding that there has been support for increasing the amount of tax credits.

Chancellor Muñoz shared that he had served as Vice Chair of the Texas Department of Housing and Community Affairs, which issued about $3 billion in tax credits at the time. The affordability requirements did expire, after which owners were no longer obligated to maintain affordability. Ms. McCarthy replied that, unlike other developers, Blackstone aimed to keep its properties affordable, and having access to long-term capital was crucial. After acquiring properties, Blackstone retracted requests by prior owners to exit affordability programs. Chancellor Muñoz remarked that it was not surprising that developers would want to transition LIHTC units, which were built to a high standard and desirable, out of affordability. He stated that taxpayers make a tremendous investment in those properties. Ms. McCarthy stated that UC's investment helped preserve affordability.

Advisor Lybarger underscored the lived experience of renters who spoke during the public comment period and expressed dismay that the Office of the CIO decided to invest $4 billion in Blackstone. She stated that, since 2008, private equity firms like Blackstone have been acquiring many residential properties, raising rent, and evicting tenants. She noted that Blackstone used an extractive real estate investment model that accelerated the housing crisis at UC and across the nation. Rent in campus communities was some of the highest in the country and was one of the reasons UC academic workers engaged in a six-week strike. Ms. Lybarger stated that 95 percent of UC service workers were unable to afford a one-bedroom apartment near campus, with some commuting up to two hours each way. UC has created a conflict of interest as it invests in its stakeholders' housing insecurity. She stated that, in 2018, Blackstone spent millions of dollars to strike down Proposition 10, which would have reestablished rent control laws, and that its campaign funds came from pensions and endowments. She added that the University must make investments to expand the availability of affordable housing. The UC Union Coalition sent a letter calling on UC to divest from Blackstone and reconsider its housing investment strategy.

Regent Makarechian distinguished between landlords who made repairs and charged tenants and landlords who did not raise rent but also did not make repairs. He had spoken to Mr. Bachher and concluded that Mr. Bachher had done his due diligence and that Blackstone cared about its tenants and was a great investment for the University.

Regent-designate Ellis expressed appreciation for this conversation. He was surprised that Blackstone representatives were present and answering Regents' questions. In his view, UC could be an activist investor through these types of conversations. The University should be creative but should also be held accountable by the public.

Regent-designate Raznick remarked that this was a strong investment for the University. He asked if UC and Blackstone have discussed UC's infrastructure needs, such as housing, seismic retrofit, and deferred maintenance. William Bayless, Co-Founder of American Campus Communities, responded that American Campus Communities has partnered with UC to develop $1.1 billion in on-campus housing at UC Irvine, UC Riverside, and UC Berkeley. Through American Campus Communities, Blackstone invested $191 million in Albany Village Graduate Student Apartments at UC Berkeley, where rent would be 30 percent below market rate, and sought to ensure that long-term, low-cost housing would be available. Mr. Bachher emphasized the importance of transparency and dialogue.

Regent-designate Raznick asked if the University's ability to invest in its own capital and infrastructure needs was still being discussed. Mr. Bachher replied in the affirmative. Since the November meeting, he has consulted with Executive Vice President and Chief Financial Officer (CFO) Brostrom regarding various opportunities. Mr. Bachher expressed his commitment to exploring these types of opportunities.

Chancellor Muñoz shared that the housing challenges at UC Merced had more to do with availability than cost. The campus needed partners that could creatively and sustainably finance new housing without burdening those whom UC wished to educate.

Regent-designate Tesfai asked for more information about Blackstone's role in opposing rent control initiatives in California, which countered UC's values of affordability and accessibility. Ms. McCarthy declared that Blackstone was pro-affordability and believed that the solution was building more housing. She stated that rent control exacerbates affordability issues.

Kenneth Rosen, Chair of the Haas Fisher Center for Real Estate and Urban Economics at UC Berkeley, stated that Proposition 10 would have eliminated vacancy decontrol. Studies have shown that rent control discourages new investment in housing. Vacancy decontrol provided a 15-year horizon for a developer to earn returns, and Blackstone and many economists opposed its elimination. The tightest housing markets were the result of rent control. He was impressed that Blackstone was taking affordability very seriously. Mr. Rosen shared that was involved in the creation of a rent-to-own housing company that has been acquired by Blackstone. In his view, new construction has been limited in California due to local building regulations and inefficiency. He agreed with Blackstone's approach from public policy and economic perspectives.

Regent Blas Pedral asked about Blackstone's short-term response to housing affordability issues and how different views about UC's partnership with Blackstone could be reconciled. Ms. McCarthy replied that Albany Village was set to be completed in 2024, and there was another UCB housing project being developed for faculty and staff.

Community opposition was a barrier to new development. Blackstone was consistently investing capital in its properties and being responsive to and supporting tenants.

Regent Hernandez stated that $4 billion could build much housing near UC campuses. He asked why UC did not establish a limited liability company and build student housing instead of investing in housing throughout the U.S. The University had a captive customer base in students. Mr. Bachher expressed his wish to commit $1 billion towards setting up a real estate management company to build new housing. The Office of the CIO could seed the company with $250 million in existing student housing. Committee Chair Sherman stated that this has been discussed for many years, and that the Office of the CIO and the Office of the CFO must work out various accounting restrictions.

Regent Robinson asked how hard and soft landings are defined in the fixed income market, and which indications in the market helped the Office of the CIO position its portfolio. Mr. Schroeder replied that a hard landing was a deep downturn while a soft landing was a mild recession, and these were observed in quarters of a fiscal year. A soft landing would entail a downturn in gross domestic product growth (GDP) of less than one percent over several quarters. A hard landing entailed deeper decline in GDP and a higher unemployment rate over several quarters. Credit spreads would widen, and lower-rated sectors of the credit markets would fare worse than higher-rated ones. In his view, higher-quality fixed income securities and shorter-duration spread product would perform better, and investment grade bonds would perform better than high yield bonds.

Regent Robinson asked whether the Office of the CIO was positioned for a softer landing. Mr. Schroeder responded in the affirmative. There was growth fixed income in the UCRP portfolio, which was market-weight in emerging market debt and 0.5 percent overweight in high yield debt. Two managers were actively invested in high yield debt, and, fiscal year to date, high yield debt has returned about eight percent. The Office of the CIO's return target for high yield debt for the fiscal year was seven to ten percent.

Mr. Bachher asked Mr. Schroeder how much of the $42 billion in fixed income was invested in emerging market debt and high yield debt. Mr. Schroeder replied that UCRP had about $13 billion in fixed income, with $2.5 billion in high yield debt and $1 billion in emerging market debt.

Mr. Bachher invited Chief Data and Operating Officer Arthur Guimaraes to present an update on the Office of the CIO's diversity, equity, inclusion, and accessibility efforts. Mr. Guimaraes reported statistics from a survey of the Office of the CIO's top 100 partners. Forty percent of UC's actively managed assets were managed by diverse firms. Forty-four partners were "diverse," defined as being 25 percent or more diverse-owned. Year-over-year, there has been a 60 percent increase in the allocation to Black and Latino(a) managers and a $2.6 billion increase in allocation to diverse managers. In this survey, the Office of the CIO did not count non-U.S. assets, internally managed assets, imminent redemptions, and passive assets. From 2020 to 2022, there was a five percent increase in majority diverse-owned firms. From 2019 to 2021, the number of substantially diverse-owned firms declined due to data cleansing. Over 12 months, the Office of the CIO met with

333 diverse-owned firms, and, from 2021 to 2022, added or upgraded seven firms to majority diverse-owned firms.

In 2022, Mr. Bachher spoke at L'Attitude Ventures' annual event and the Robert Toigo Foundation's Los Angeles Industry conference. The UC Investments Academy has enrolled 380 UC students, and the Office of the CIO aimed to enroll 10,000 students by 2025. Mr. Guimaraes announced that the Office of the CIO was partnering with the Robert Toigo Foundation to fund 20 fellows and to match them with mentors.

Nancy Sims, President and Chief Executive Officer of the Robert Toigo Foundation (Toigo), stated that, over the last 15 years, Toigo has focused on the leadership potential of alumni and at retention. Annually, 85 to 100 students were selected to participate in Toigo's fellowship program, where they learned career management skills, technical skills, and leadership development. Alumni of the program returned to serve on the nominating committee. Students could apply for the Toigo's MBA fellowship or a new real estate intensive program. Student feedback indicated a desire for practical training alongside course instruction. Toigo has partnered with UC Berkeley and UCLA since 1994. Toigo alumni were serving as investment officers and could effect change in the industry.

Mr. Guimaraes presented a list of the Office of the CIO's diversity, equity, and inclusion (DEI) goals, which included observing the DEI efforts of its top 25 partners and capturing five years of data.

Regent Anguiano asked what demographic categories were included in the Office of the CIO's definition of "diverse-owned." Mr. Guimaraes replied that the Office of the CIO followed the federal definition, which included Latino(a), Black, LGBTQ, Asian Pacific Islander, women, and added Native American and veterans.

Regent Anguiano asked about the Office of the CIO's national leadership in its DEI goals. Mr. Guimaraes responded that this was a work in progress. The conversation on diversity with the Office of the CIO's top partners has changed significantly. As part of conducting due diligence on Blackstone, the Office of the CIO had a conversation with the company about environmental, social and governance issues as well as diversity. Mr. Bachher added that the Office of the CIO aimed to enroll 2,000 students across all ten campuses into the UC Investments Academy, provide them with training, and connect them to partners. He remarked on the challenging recruitment process and also suggested deploying diversity ambassadors at each campus.

Regent Anguiano asked whether there was data on the diversity of the Office of the CIO staff. Mr. Guimaraes stated that he could provide staff data. The Office of the CIO had six openings and the opportunity to hire diverse candidates.

Chancellor Muñoz asked if the Office of the CIO was capturing diversity in greater detail, citing as an example the differences between Latino(a) individuals born in the U.S. and those born in Latin America. Mr. Guimaraes responded that this had not been done yet.

Regent-designate Raznick asked if the Office of the CIO assesses the diversity of its partners' investment portfolios. Mr. Guimaraes replied that diversity was currently determined using ownership for a private company and management at a public company. The Office of the CIO did discuss diversity at both the corporate and company levels, though this was not captured in the survey. Regent-designate Raznick asked if this was a soft metric. Mr. Bachher replied that it was a soft metric but that firms were intentional about it. The key criterion for partnering with firms remained performance. He stated that the Office of the CIO was building its own network and that this was difficult work. Staff from the Office of the CIO traveled to firms to learn about their makeup and culture.

Regent Hernandez asked for more information about the statistic that 40 percent of UC's actively managed assets were managed by diverse firms. Mr. Guimaraes replied that these assets were managed by firms whose ownership was 25 percent or more diverse based on the aforementioned categories.

Staff Advisor Mackness suggested that the Office of the CIO capture in this report progress made in various commitments.

The meeting adjourned at 5:00 p.m.

Attest:

Secretary and Chief of Staff