

The Regents of the University of California

INVESTMENTS COMMITTEE

November 16, 2023

The Regents of the University of California met on the above date at the Luskin Conference Center, Los Angeles campus and by teleconference at 455 Golden Gate Avenue, San Francisco and Corral del Risco, 63727 Nayarit, Mexico.

Members present: Regents Cohen, Ellis, Makarechian, Park, Robinson, and Sherman; Ex officio members Drake and Leib, Advisory member Zager; Chancellor Wilcox; Staff Advisor Mackness

In attendance: Regents Hernandez, Pérez, Raznick, and Tesfai, Regents-designate Beharry and Salazar, Secretary and Chief of Staff Lyall, General Counsel Robinson, Chief Investment Officer Bachher, Executive Vice President and Chief Financial Officer Brostrom, Chancellors Block, Muñoz, Larive, and Yang, and Recording Secretary Li

The meeting convened at 2:00 p.m. with Committee Chair Robinson presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of September 19, 2023 were approved, Regents Cohen, Drake, Ellis, Leib, Makarechian, Park, Robinson, and Sherman voting “aye.”¹

2. REVIEW OF FIRST QUARTER PERFORMANCE FOR FISCAL YEAR 2023–24 OF UC PENSION, ENDOWMENT, BLUE AND GOLD POOL, AND WORKING CAPITAL ASSETS

[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, at the start of fiscal year 2023–24, the University had \$164 billion in investment assets, and much of the nearly \$12 billion decline of the last two months was recovered in the last 48 hours. Fiscal year to date, both the pension and the endowment saw zero percent returns, and working capital saw close to zero percent returns. Conflicts between Israel and Hamas and between Russia and Ukraine were driving volatility. Mr. Bachher observed that consumers with high Fair Isaac Corporation (FICO) credit scores could obtain money more easily, and corporations with high, investment grade credit ratings could access capital, as can countries with developed markets. There was more risk in emerging markets and with lower credit scores. The Office of the CIO maintained conservative posturing, with \$6.6 billion in cash and \$33 billion in

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

fixed income, which was fairly liquid, and did need to take more risks to meet return targets.

Committee Chair Robinson asked what was meant by the previous comment about reaching benchmarks and also asked about UC's cash returns. Satish Ananthaswamy, Senior Managing Director of Asset Allocation, Real Estate, and Asia Investments, replied that the last time the Federal Reserve (Fed) raised interest rates was in July 2023. He opined that the Fed would not raise rates further and that interest rates for cash would remain at 5.25 to 5.5 percent. However, the Fed might reduce interest rates if the economy slows down. Over the last 12 to 18 months, the Fed engineered a "soft landing" for the economy, whereby inflation is reaching target levels. The economy continued to be resilient, although consumer spending and retail sales were slowing down and corporations were not spending. However, one did not anticipate a recession in the next six months. The markets were trying to account for interest rate cuts in stock pricing. In 2023, gross domestic product (GDP) increased 2.1 or 2.2 percent, and the Fed expected 1.5 to 1.8 percent in 2024. Inflation was coming down; headline inflation was 3.2 percent and core inflation was four percent, but the Personal Consumption Expenditures Price Index rate was 3.7 percent, so inflation had not reached the Fed's goal of two percent. Cash rates were expected to remain at elevated levels until the Fed begins to cut interest rates.

Committee Chair Robinson asked how campus foundations should strategize given current market conditions. Mr. Bachher encouraged campus foundations to invest with the Office of the CIO if they had not already done so. The endowment managed by the Office of the CIO was consistently returning 4.75 percent.

Regent Makarechian asked where the Office of the CIO would invest cash if presented with the opportunity. Mr. Bachher replied that the Office of the CIO sold \$5.5 billion in stocks in the Standard and Poor's (S&P) 500 and was moving that money to the MSCI All Country World Index (ACWI). UC was currently underweight in equities by about one to two percent, and fixed income was very liquid due to its short duration. At present, Mr. Bachher did not observe signs of distress or urgent opportunities. Private credit funds were very popular but overcrowded.

Regent Makarechian, noting that the \$6.6 billion in cash was earning about five percent in returns and UC's benchmark was about 6.75 percent, asked if the Office of the CIO would make up this difference with future opportunities. Mr. Bachher responded that there were seven more months in the fiscal year, and much could happen in one month.

Regent Makarechian asked about total net outflows and inflows, and whether the amount that the UC Retirement Plan (UCRP) borrowed from the Short Term Investment Pool (STIP) was included in the totals. Mr. Bachher replied in the affirmative. Assets had grown by the inflows. So far, UCRP has borrowed about \$5 billion from STIP.

Regent Makarechian asked if the Office of the CIO had unfulfilled commitments with private equity. Mr. Bachher responded in the affirmative. He reviewed uncalled capital in

every private asset class, and the amount oscillated between \$2 billion and \$3 billion. UC was able to pay off this amount if needed.

Regent Hernandez asked whether Mr. Bachher or the Board considered divesting from Blackstone given calls to divest during the public comment period of multiple meetings.

Regent Cohen asked Mr. Bachher to remind the Board what return UC was receiving from the investment with Blackstone. Mr. Bachher, referring to Regent Makarechian's question about achieving returns of 6.75 percent, noted that the investment with Blackstone steadily returned a minimum of 11.25 percent. During his time at UC, people have always disapproved of certain investments. Even if the University invests all in cash, people might object to the party that manages UC's cash. Mr. Bachher stated that he stood behind and took personal accountability for UC's investment with Blackstone and the return.

3. **WHAT IS GOING ON IN THE BOND MARKET?**

[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.]

(See discussion in the previous item.)

4. **UPDATE ON THE UC INVESTMENTS ACADEMY**

[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 recalled that he had a goal to train 10,000 UC students in finance and investment over the next five years. In the last 18 months, 1,300 students have participated in the UC Investments Academy. He invited several students to share their experience with the Academy.

UC Irvine student Cristian Mendoza shared that he came from an immigrant family and was pursuing a double major in business administration and computer science. He was unsure of his career path until he met Craig Huie, Managing Director of Private Credit at the Office of the CIO, who helped him join the Academy, where he learned about the financial sector and was given the resources needed to excel in his endeavors. Mr. Mendoza completed an internship at the Office of the CIO, founded the campus club Irvine Investment and Trading Group, and secured an internship in New York City.

UC Irvine student Saad Siddiqui shared that he was pursuing a major in business economics and a minor in management. Mr. Siddiqui joined the UC Investments Academy through Mr. Mendoza, who introduced him to Mr. Huie. Beyond financial training, the Academy created a community of UC Irvine students who were passionate about careers in finance and learning about business. He completed an investment banking internship last summer and secured an internship next summer as well.

UC Irvine student Leland Bartikofsky shared that he was a first-generation student from a small town in Wisconsin and was studying political science and economics. After realizing that he did not wish to pursue law, he came upon the UC Investments Academy, which changed the trajectory of his life. Through the Academy, he not only received technical training but also learned how to network and have conversations about finance. He shared that he would be working at J.P. Morgan next summer.

Mr. Huie stated that there were plans to hold more in-person Academy events, including an all-day event at UC Merced later this month. So far, there have been about 100 internship and job placements through the Academy.

Mr. Bachher shared that the Office of the CIO was grateful for the opportunity to change its office culture and have an impact on the UC system.

Regent Leib asked for a primer on the UC Investments Academy. Mr. Huie stated that the Academy was active at all nine undergraduate campuses and aimed to expand to 2,000 students per year to meet its 10,000 student goal. The Academy offered programs in personal finance and financial literacy, financial careers and investing, and hard and soft skills training provided by the Office of the CIO and third parties. The Academy invited guest speakers for networking opportunities, managed a career management module, and offered career opportunities. In response to another question by Regent Leib, Mr. Huie explained that events had been virtual during the COVID-19 pandemic, but that the Academy was now hosting more in-person events that offer access via teleconference or recording.

Regent Park praised Mr. Bachher for his creativity and for investing in community impact. Mr. Bachher recalled that Regent Park had challenged the Office of the CIO to take action some years ago.

Regent Ellis noted that this type of program did not exist when he was a student. He asked about the Academy's goals with regard to gender balance. Mr. Huie expressed hope that the Academy's demographics would align with those of the UC system. The financial sector did not have gender parity, which presented an opportunity for the Academy. The Office of the CIO was determining outreach strategies. In response to a question by Mr. Bachher, Mr. Huie shared that the latest cohort was about 40 percent female.

The meeting adjourned at 2:30 p.m.

Attest:

Secretary and Chief of Staff