The Regents of the University of California

INVESTMENTS COMMITTEE

July 17, 2024

The Investments Committee met on the above date at the UCSF-Mission Bay Conference Center, San Francisco campus and by teleconference meeting conducted in accordance with California Government Code §§ 11133.

Members present: Regents Lee, Leib, Makarechian, Pack, Robinson, and Sherman; Ex officio members Drake and Reilly, Advisory member Steintrager; Chancellors Hawgood, Khosla, Lyons, Muñoz, and Wilcox

In attendance: Regents-designate Brooks, Komoto, and Wang, Faculty Representative Cheung, Secretary and Chief of Staff Lyall, General Counsel Robinson, Provost Newman, Chief Compliance and Audit Officer Bustamante, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Interim Senior Vice President Turner, Vice Presidents Brown, Kao, and Lloyd, Chancellors Block, Gillman, May, Larive, and Yang, and Recording Secretary Li

The meeting convened at 11:05 a.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 March 21, 2024 were approved, Regents Drake, Lee, Leib, Makarechian, Pack, Reilly, Robinson and Sherman voting "aye."[1]

2. AMENDMENT TO THE OFFICE OF THE CHIEF INVESTMENT OFFICER ANNUAL INCENTIVE PLAN

The President of the University recommended that the Investments Committee approve the amendment to the University of California Office of the Chief Investment Officer Annual Incentive Plan (OCIO-AIP) as shown in Attachment 1. The proposed changes will be effective July 1, 2024.

[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.]

Vice President Lloyd introduced the item, which sought the approval for the addition of a Long-Term Incentive (LTI) component to the Office of the Chief Investment Officer Annual Incentive Plan (OCIO-AIP). As this would be a substantive change to the plan document, approval by the Investments Committee was required.

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

Associate Vice President Jay Henderson explained that the OCIO-AIP focused on its participants adding value by maximizing investment returns in excess of performance benchmarks while assuming appropriate levels of risk. Over the past ten years, the Office of the Chief Investment Officer (OCIO) reduced the number of external money managers from 280 in 2014 to 30 in 2024, which has reduced the cost of managing UC's assets by $3 billion, an average of $300 million in savings each year. Managing a greater portion of assets internally has also increased the value of the total assets under management. Mercer Consulting, which reviewed the incentive plan and the market competitiveness of the at-risk earnings under the current plan, noted that UC lagged the market. The California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) both added a long-term component to their incentive plans. The proposed LTI component would provide a non–base-building incentive focused on three-year performance objectives, would be effective July 1, 2024, at the start of the 2024–25 OCIO-AIP, and would remain in place during future plan years up to and until substantive changes are considered and approved by the Committee. The estimated annual cost of adding an LTI component was $4.8 million and would be funded by investment returns; no tuition or State funds were used for this incentive plan. The first award would be calculated and payable at the conclusion of the 2026–27 plan year if the performance objectives are met. Mr. Henderson added that Mercer Consulting helped design a portion of the proposed plan.

Regent Hernandez asked how many people would receive incentive payouts and how the $4.8 million would be distributed. Matthew Mullen, Senior Principal at Mercer Consulting, replied that 35 people would be eligible to receive incentive payouts.

Committee Chair Robinson stated his understanding that the OCIO team had 50 to 60 individuals.

Regent Hernandez asked if the payout would range from 200 percent to 40 percent of base salary. Mr. Mullen replied in the affirmative.

Regent Lee stated that she was impressed with Chief Investment Officer Bachher and his team, the way he engaged with both stakeholders and critics, and his curiosity and open-mindedness. In her view, it made sense to adopt the LTI program to incentivize staff retention and bring compensation to market standards.

Regent Beharry, speaking from the student perspective, marveled at the extraordinary growth of the investment portfolio and noted the savings resulting from reducing the number of external managers. He expressed appreciation for the development of this plan, which would retain staff and continue to reward the amazing work that OCIO has done.

Faculty Representative Cheung expressed the faculty's appreciation for the work of the OCIO. The supplemental plans that the OCIO managed were very important, as the pension plan was not as rich as it had been in prior years, so this was very much welcome.

Committee Chair Robinson noted that, as of June 30, the CalPERS pension achieved a 9.3 percent return while the UC pension achieved a 12 percent return. The University had the best-funded pension of the three State pensions because of the OCIO’s performance.

Upon motion duly made and seconded, the Committee approved the President’s recommendation, Regents Drake, Lee, Leib, Makarechian, Pack, Reilly, Robinson and Sherman voting “aye.”

The meeting adjourned at 11:15 a.m.

Attest:

Secretary and Chief of Staff