UNIVERSITY OF CALIFORNIA
GENERAL ENDOWMENT POOL

[UC ENDOWMENT]

INVESTMENT POLICY STATEMENT

Effective: July 1, 2020, Amended: February 27, 2024*
Replaces the GEP Investment Policy Statement and Asset and Risk Allocation Policy effective March 15, 2018

UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL
INVESTMENT POLICY STATEMENT

POLICY SUMMARY/BACKGROUND

The purpose of this Investment Policy Statement (“Policy”) is to define the objectives, policies and guidelines for the management and oversight of the University of California (“UC”) General Endowment Pool (“GEP”). The management of GEP is subject to state and federal regulations and laws, and all other University investment policies, which may not be listed in this document.

The Policy consists of the following sections:

1. ROLES AND RESPONSIBILITIES

Board of Regents
The Board defines the goals and objectives of GEP and is responsible for establishing and approving changes to this Policy. The Board of Regents may delegate the implementation of this policy to sub-committees, the Chief Investment Officer and investment advisors.

Chief Investment Officer
The Chief Investment Officer (“Office of the Chief Investment Officer”, “OCIO”) is responsible for implementing the approved investment policies and developing investment processes and procedures for asset allocation, risk management, investment manager selection and termination, monitoring and evaluation, and the identification of management strategies that will improve the investment efficiency of the GEP assets.

Investment Managers
The OCIO may delegate to external Investment Managers responsibility for managing all or a portion of the assets. Any external Investment Managers will assume the roles and responsibilities of “investment manager” under Section 3(38) of ERISA, including but not limited to acknowledging in writing that such Investment Manager is a fiduciary with respect to the assets it manages on behalf of GEP. The Investment Manager will accept assets and invest in compliance with all relevant laws, the Investment Manager’s

individual investment management agreement(s), and as applicable, the stated investment guidelines in this Policy.

Trustee/Custodian
The role of the Trustee/Custodian is to provide safekeeping, accounting and valuation of Trust assets.

2. OBJECTIVES

Overall Objective

The GEP provides a common investment vehicle, intended to generate a stable and growing income stream, for (most but not all of) the University's endowments and quasi-endowments, for which the University is both trustee and beneficiary.

The overall investment objective of the GEP is to preserve and grow the purchasing power of the future stream of endowment payout for those funds and activities supported by the endowments. GEP also seeks to maintain liquidity needed to support spending in prolonged down market environments without impairing long term growth.

Return Objective

GEP seeks to maximize its return on investment, consistent with levels of investment risk that are prudent and reasonable given long-term capital market expectations and the overall objectives of the GEP. The performance of GEP will be measured relative to its objectives (e.g. spending, inflation growth) and policy benchmarks found in this Policy.

Risk Objective

While the Board recognizes the importance of the preservation of capital, it also recognizes that to achieve the GEP's overall objectives requires prudent risk-taking, and that risk is the prerequisite for generating investment returns GEP seeks a level of risk that is prudent and reasonable to maximize the probability of achieving its overall objective consistent with capital market conditions. GEP should limit the probability of loss of capital and/or a loss of purchasing power over a full market cycle (typically 4-8 years). Another important risk objective is limiting declines in purchasing power over the spending policy's stated rolling period of 60 months.

Sustainability Objective

The Office of the Chief Investment Officer shall incorporate environmental sustainability, social responsibility, and governance (ESG) into the investment evaluation process as part of its overall risk assessment in its investments decision making. ESG factors are considered with the same weight as other material risk factors influencing investment decision making.

The Office of the Chief Investment Officer uses a proprietary sustainability framework to provide core universal principles that inform the decisions and assist in the process of investment evaluation. The Office of the Chief Investment Officer manages the GEP consistent with these sustainability principles. The Framework can be found on the Office of the Chief Investment Officer website in the sustainability section.

3. INVESTMENT GUIDELINES

Permitted Investments

Below is a list of asset class types in which the GEP may invest so long as they do not conflict with the constraints and restrictions described elsewhere in this document. The criteria used to determine which asset classes may be included are:

- Positive contribution to the investment objective of GEP
- Widely recognized and accepted among institutional investors
- Diversification with some or all of the other accepted asset classes

Based on the criteria above, the types of assets for building the portfolio allocation are:

1. **Public Equity**
   Includes publicly traded common and preferred stock of issuers domiciled in US, Non-US, and Emerging (and Frontier) Markets. The objective of the public equity portfolio is to generate investment growth with adequate liquidity through a globally diversified portfolio of common and preferred stocks.

2. **Fixed Income**
   Fixed Income includes a variety of income related asset types. The portfolio will invest in interest bearing and income based instruments such as corporate and government bonds, high yield debt, emerging markets debt, inflation linked securities, cash and cash equivalents. The portfolio can hold a mix of traditional (benchmark relative) strategies and unconstrained (benchmark agnostic) strategies. The objectives of the fixed income portfolio are to provide diversification relative to other higher risk assets and necessary liquidity for payment obligations and portfolio rebalancing needs, while investing in higher yielding and less liquid fixed income opportunities when appropriate.

3. **Private Equity**
   Private equity includes, but is not limited to, venture capital and buyout funds, direct investments, special situations and co-investments in private companies. This includes investments in privately held companies and private investments in public entities which are illiquid. The objective of the portfolio is to earn higher returns than the

public equity markets over the long term and take advantage of the illiquidity premium.

4. **Private Credit**
   Private credit includes debt issued by and loans made to companies through privately negotiated, non-public transactions, other debt backed private structures, such as consumer or asset backed loans. The objective of the portfolio is to earn higher returns than the public debt markets over the long term and take advantage of preferential yields, terms and other characteristics available through private transactions.

5. **Real Estate**
   Real estate includes private investments in real property and related debt investments. The objectives of the real estate portfolio are to contribute to the diversification of the portfolio, generate returns through income and/or capital appreciation, and provide protection against unanticipated inflation.

6. **Real Assets**
   Real assets includes, but is not limited to, natural resources, timberland royalties, energy, infrastructure, and commodities related equity and related debt investments. The objectives of the real assets portfolio are to contribute to the diversification of the portfolio, generate returns through income and/or capital appreciation, and provide protection against unanticipated inflation.

7. **Absolute Return**
   Absolute return investments are expected to generate long-term real returns by exploiting market inefficiencies. The portfolio may invest in various strategies, including, but not limited to, Relative Value, Macro and Event Driven strategies. The objective of the portfolio is to provide diversification and generate capital appreciation.

8. **Derivatives**
   A derivative is a contract or security whose value is derived from another security or risk factor. There are three fundamental classes of derivatives – futures, options and swaps – each with many variations; in addition, some securities are combinations of derivatives or contain embedded derivatives. Use of derivatives to create economic leverage is prohibited. Permitted applications for derivatives are: efficient substitutes for physical securities, managing risk by hedging existing exposures, to implement arbitrage or other approved active management strategies.

Each asset class is assigned a benchmark that represents the opportunity set and risk and return characteristics associated with the asset class. For some private or more complex asset classes the benchmark serves as a proxy for the expected level and pattern of returns rather than an approximation of the actual investment holdings.

Investment Restrictions
The Regents have established that the purchase of securities issued by tobacco and fossil fuel companies and companies with business operations in Sudan are prohibited in separately managed accounts. The Chief Investment Officer will determine what

constitutes a tobacco or Sudan company based on standard industry classification of the major index providers and must communicate this list to investment managers annually and whenever changes occur.

4. STRATEGIC ALLOCATION

The Strategic Asset Allocation (SAA) is the primary determinant of the return and risk of the portfolio. The SAA is set by the Board of Regents in consultation with the OCIO and reviewed periodically to reflect current program objectives and capital market expectations. The SAA expresses the target allocation and the allowable minimum and maximum allocations for each asset class. The actual portfolio exposures may deviate from the SAA as a result of price drifts, opportunity set, and value adding activities of the OCIO, but generally should remain within the allowable ranges Tactical asset allocation shifts within and across asset classes are permitted if those decisions are expected to add value to GEP.

Below are the strategic asset allocation long-term weights and allowable ranges:

Table 1

	Strategic Asset Allocation	Allowable Ranges	
		Minimum	Maximum
Public Equity	40.0	30.0	50.0
Fixed Income	8.0	5.0	15.0
Private Equity	24.0	10.0	30.0
Real Estate	8.0	4.0	12.0
Real Assets	4.0	0.0	8.0
Private Credit	4.0	0.0	6.0
Absolute Return	10.0	5.0	15.0
Cash	2.0	1.0	5.0

5. RISK MANAGEMENT

The primary risks to GEP are the inability to meet planned spending and deterioration in long term spending power. Total program volatility will be managed to limit these risks. The principal risk factors that determine GEP's asset volatility, and the parties responsible for managing them are as follows:

- **Capital market risk** is the risk that the investment return associated with the asset allocation policy is not sufficient to provide the required returns to meet the GEP's investment objectives. Responsibility for determining the overall level of capital market risk lies with the Board and OCIO.

- **Total active risk** refers to the volatility of the difference between the return of the GEP policy benchmark and the actual return. It incorporates the aggregate of investment style risk, active management risk, and tactical/strategic risks and is thus the responsibility of the Chief Investment Officer.

The OCIO is responsible for managing both active risk and total risk, including both capital market and active risk, and shall implement procedures and safeguards so that the combined risk exposures of all portfolios taken together are kept within risk bands. Further, within limits of prudent diversification and risk budgets, total and active risk exposures are fungible. That is, the OCIO may allocate risk exposures within and between asset types in order to optimize return.

Although the management of investment portfolios may be outsourced, investment oversight and risk management are primary fiduciary duties of the Board that are delegated to and performed by the Chief Investment Officer.

6. BENCHMARKS

GEP's performance will be evaluated against appropriate benchmarks including a strategic asset allocation benchmark ("Total GEP Portfolio Benchmark") and specific benchmarks for each asset class and investment manager. The Total GEP Portfolio Benchmark is a weighted average consisting of the asset class benchmarks listed below weighted by the SAA target weights. The benchmarks for each asset class are shown in **Table 2**:

Table 2

Asset Class	Benchmark
Global Equity	MSCI All Country World Index (ACWI) Investable Market Index (IMI) Tobacco and Fossil Fuel Free - Net Dividends
Fixed Income	Bloomberg Barclays 1-5 Year US Government/Credit Index
Private Equity	Russell 3000 + 3*%
Real Estate	NCREIF Fund Index – Open End Diversified Core Equity (ODCE)
Real Assets	Actual Real Assets Portfolio Return
Private Credit	Actual Private Credit Portfolio Return
Absolute Return	HFRI Fund of Funds Composite
Cash	Bank of America 3-Month US Treasury Bill Index

* The Private Equity benchmark is in transition from Russell 3000 + 2.5% for FY 2021 to Russell 3000 + 3.0% thereafter.

The **Total GEP Portfolio Benchmark** is a weighted average consisting of each of the monthly returns of the benchmarks noted above weighted by the Policy Allocation percentages. The policy benchmarks may differ from the target allocations in **Table 1** until implementation reaches the long- term strategic asset allocation.

7. REBALANCING

There will be periodic deviations in actual asset weights from the strategic target weights. Causes for periodic deviations are market movements, cash flows, tactical tilts, and asset selection. Significant movements from the asset class policy weights will alter the intended expected return and risk of the GEP. Accordingly, the GEP may be rebalanced when target weights are outside of the allowable ranges to ensure adherence to this policy.

The OCIO will monitor the actual asset allocation. The Board directs the OCIO to take all actions necessary, within the requirement to act prudently, to manage the asset allocation in a manner that ensures that the GEP achieves its long-term risk and return objectives.

The OCIO shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. The Chief Investment Officer may delay a rebalancing program when the Chief Investment Officer believes the delay is in the best interest of the GEP.

8. MONITORING AND REPORTING

The OCIO is responsible for monitoring the portfolio and investment managers on an ongoing basis. The OCIO should monitor and report to the Investments Committee and Board of Regents on the following items:

1. Asset and Risk Measures and Exposures
2. Investment Performance and Attribution (against benchmarks identified in this Policy)
3. Material Changes to Organization and Investment Strategy
4. Potential Material Issues and Risks
5. Compliance of GEP with this Policy

While short-term results will be monitored, it is understood that GEP's objectives are long-term in nature and progress towards these objectives will be evaluated from a long-term perspective.

On at least an annual basis the CIO will report on the implementation of the UC's Sustainability Framework which will include a discussion on the portfolio's environmental, social, and governance risks considered during the year.

9. TOTAL RETURN EXPENDITURE (SPENDING) RATE

The endowment spending rate provides University programs with a source of income that is perpetual, growing (at least as fast as inflation) and predictable. The spending rate should balance the needs of current and future generations (equalize real value of per unit distributions over time), and preserve the purchasing power (real value) of the endowment, net of annual spending distributions.

The objective of the spending rate is to allow the principal or core assets to grow on a total return basis (total return = change in market value + income generated from the securities held) while "smoothing" the payout from the endowment assets in order to mitigate disruptions to the budgets of the endowed activities throughout economic and market cycles. Total return expenditure rates permit the spending of realized portfolio gains. The Spending Rate is a percent of unit value (or average unit value) distributed to programs each year and uses a smoothing formula that mediates between volatile market returns and program needs for predictable income.

The total return expenditure (spending) policy for eligible assets in the General Endowment Pool is 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.

10. ENDOWMENT ADMINISTRATION COST RECOVERY

Endowment cost recovery is taken from the endowment payout each year and is used to defray, in part, the cost of the campuses and at the system-wide offices of administering and carrying out the terms of the Regents' endowments. The funds released by this mechanism are used by the campuses and the Office of the President as support for incremental fundraising activities. The endowment administration cost recovery rate of 55 basis points (0.55 percent) is to recover reasonable and actual costs related to the administration of gift assets invested in the General Endowment Pool.

11. POLICY MAINTENANCE

The Policy should be reviewed at least annually and updated as necessary. Revisions may be recommended by the OCIO, Investments Committee and approved by the Board of Regents.

12. NO RIGHT OF ACTION

This policy is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the University of California or its Board of Regents, individual Regents, officers, employees, or agents.

13. DISCLOSURES

The Chief Investment Officer provides investment-related information on the GEP to The Regents' Investments Subcommittee in a manner consistent with the requirements outlined in this policy. Current and historical materials are publicly available on The Regents' website within the section on Meeting Agendas and Schedule. The Chief Investment Officer's Annual Report for the most recent fiscal year is also available on the Chief Investment Officer's website. Other disclosures that will be posted on the Chief Investment Officer's website are:

1. A report on private equity internal rates of return is publicly available on the Chief Investment Officer's website on a lagged quarterly basis.
2. As soon as practicable after each fiscal year, a complete listing of all assets held by the GEP at calendar year end will be posted on the Chief Investment Officer's website. Each listing will include the asset's market value at the end of the year. The assets will be grouped in the standard categories used by the custodian bank to group the assets in the asset reports provided to the Chief Investment Officer

Changes to procedures and related documents do not require Regents approval, and inclusion or amendment of references to these documents can be implemented administratively by the Office of the Secretary and Chief of Staff upon request by the unit responsible for the linked documents.

**Technical Amendments made by the Secretary and Chief of Staff to the Regents per Policy 1000*