UNIVERSITY OF CALIFORNIA
SHORT TERM INVESTMENT POOL

ASSET AND RISK ALLOCATION POLICY

Approved March 15, 2018

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POLICY SUMMARY/BACKGROUND

The purpose of this Asset and Risk Allocation Policy ("Policy") is to define the asset allocation, risk guidelines, and benchmark for the University of California Short Term Investment Pool ("STIP"). The Investments Subcommittee has consent responsibilities over this policy.

POLICY TEXT

ASSET CLASS TYPES

STIP will primarily invest in short duration US dollar-denominated bonds and cash equivalents.

The following list is indicative of the investment classes, which are appropriate for STIP, given its Benchmark and risk budget. This is not an exhaustive list of "allowable" asset types.

Security types and/or strategies not specifically enumerated, but which the Chief Investment Officer believes are appropriate and consistent with the Investment Policy may also be held, subject to policy restrictions.

The Program may purchase securities on a when-issued basis or for forward delivery.

1. Fixed income instruments

    a. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. government-sponsored corporations and agencies

    b. Obligations of U.S. and foreign corporations such as corporate bonds, notes and debentures, and bank loans

    c. Mortgage-backed and asset-backed securities

    d. Obligations of international agencies, supranational entities, and foreign governments (or their subdivisions or agencies)

    e. Obligations issued or guaranteed by U.S. local, city and State governments and agencies

    f. Private Placements or Rule 144A securities, issued with or without registration rights

2. Short term fixed income instruments (having maturity of less than 13 months)

    a. US Treasury and Agency bills and notes

    b. Certificates of deposit

    c. Bankers acceptances

    d. Commercial paper

e. Repurchase and reverse repurchase agreements (must be fully collateralized with approved collateral, using approved counterparties only)

f. Eurodollar CD's, TD's, and commercial paper

g. US and Eurodollar floating rate notes

h. Money market funds managed by the custodian

Restrictions

The following security types are **not** permitted:

a) Interest rate derivative contracts, including options and futures

b) Equity like securities, including but not limited to convertible bonds, preferred stocks, warrants, equity linked notes, and commodities

c) Securities issued in currencies other than US Dollar

d) Foreign currency linked notes

e) Buy securities on margin

f) Sell securities short

g) Buy party-in-interest securities

h) Buy securities restricted as to sale or transfer, except for 144A securities, which are permitted

i) Buy or write structured ("levered") notes

j) Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy

k) Purchase or sell foreign exchange contracts

l) Below investment grade securities, but we maintain the ability to hold up to 5% below investment grade in the event of ratings downgrades

STRATEGIC ALLOCATION

The portfolio will be invested primarily in marketable, publicly traded, investment grade short term fixed income instruments, notes and debentures denominated in U.S. dollars.

STIP will be invested in a diversified portfolio of fixed income securities, subject to policy restrictions.

RISK MANAGEMENT

STIP's investments will be appropriately diversified to control overall risk. The following limitations apply in order to manage risk within acceptable ranges:

1. Interest rate risk

    a. No security may have a maturity of more than 5 ½ years, excluding internal notes receivable

    b. The effective duration of the investment program, excluding internal note receivables, should be less than 3 years

2. Credit risk

    a. Commercial Paper must have a rating of at least A-1, P-1, D-1, or F-1

    b. The Program's investments should exhibit an average credit quality of A (or equivalent) or better. Split-rated credits are considered to have the higher credit rating as long as the higher rating is given by one of the NRSRO's

    c. No more than 5% of the Program's allocation to commercial paper may be invested in any single issuer. This guideline may be exceeded on a temporary basis due to unusual cash flows, up to a limit of 10%, for a period not to exceed one month.

    d. Except for securities issued by the US Treasury or Agencies of the US Government, no more than 3% of the Program's market value (exclusive of commercial paper) may be invested in any single issuer.

3. Liquidity risk

    a. No more than 10% of the Program's market value may be invested in Private Placements or Rule 144A securities

    b. The Programs' investments in aggregate of any security may not exceed 20% of that security's outstanding par value at time of purchase, without a written exception approved by the Chief Investment Officer.

BENCHMARKS

The following criteria have been adopted for the selection of benchmark indices. It is understood that not all benchmarks will meet the entire list of criteria, but ideally, benchmarks that meet most of the criteria will be selected. There may be instances where tradeoffs are made between benchmarks that meet some of the criteria but not others.

1. **Unambiguous**: the names and weights of securities comprising the benchmark are clearly delineated.

2. **Investable**: is possible to replicate the benchmark performance by investing in the benchmark holdings.

3. **Measurable**: it is possible to readily calculate the benchmark's return on a reasonably frequent basis.

4. **Appropriate**: the benchmark is consistent with investment preferences or biases.

5. **Specified in Advance**: the benchmark is constructed prior to the start of an evaluation period.

6. **Reflects Current Investment Opinion**: investment professionals in the asset class should have views on the assets in the benchmark and incorporate those views in their portfolio construction.

Benchmarks are a tool against which to measure the effectiveness of investment strategy either at a total fund level, at an investment class or strategy level, or at the mandate level. Based on the benchmark selection criteria, the STIP Benchmark will be a weighted average of the income return on a constant maturity two (2) year US Treasury note and the return on US 30 day Treasury Bills. The weights for the two constituents will be the actual average weights of the bond and cash equivalent components of the pool. The Benchmark will be rebalanced monthly.

COMPLIANCE/DELEGATION

The STIP Asset and Risk Allocation Policy Statement should be reviewed at least annually and updated as necessary. The Investments Subcommittee may recommend action which will be placed on the Consent Agenda for approval by the Board.

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.

PROCEDURES AND RELATED DOCUMENTS

Investment Implementation Manual

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.