

APPENDIX 1Effective: ~~July 19, 2012~~ April 1, 2013Replaces Version Effective: ~~January 1, 2012~~ July 19, 2012

**ASSET ALLOCATION,
PERFORMANCE BENCHMARKS,
AND REBALANCING POLICY**

Based on the risk budget for the Retirement Fund, the Committee has adopted the following asset allocation policy, including asset class weights and ranges, benchmarks for each asset class, and the benchmark for the total Retirement Fund.

Criteria for including an asset class in the strategic policy include:

- Widely recognized and accepted among institutional investors
- Has low correlation with other accepted asset classes
- Has a meaningful performance history
- Involves a unique set of investors.

The Current Policy Allocation recognizes the current underinvestment in illiquid asset classes (real estate, real assets) and the corresponding need to set rebalancing ranges around this effective policy allocation until such time as long-term policy weights in these classes are achieved. The allowable ranges for each asset class and in total have been chosen to be consistent with budgets and ranges for total and active risk (see [Appendix 2](#)).

A. Strategic Asset Allocation and Ranges

	Current Policy Allocation¹	Long-Term Target Allocation	<u>Allowable Ranges²</u>	
			<u>Minimum</u>	<u>Maximum</u>
U.S. Equity	25.75 <u>25.0</u> %	20.5 <u>15.0</u> %	20.75 <u>20</u>	30.75 <u>30</u>
Developed Non US Equity	19.25 <u>19.0</u>	19.0 <u>13.5</u>	14.25 <u>14</u>	24.25 <u>24</u>
Emerging Mkt Equity	6.75	7.0 <u>11.0</u>	4.75	8.75
Global Equity	2.0	-2.0 <u>0.0</u>	1.0	3.0
US Fixed Income	12.0	12.0	9.0	15.0
High Yield Fixed Income	2.5	2.5	1.5	3.5
Emerging Mkt Fixed Income	2.5	2.5	1.5	3.5
TIPS	8.0	8.0 <u>3.0</u>	6.0	10.0
Private Equity	7.75	8.0	4.75	10.75
Absolute Return	6.0	6.5 <u>6.0</u>	1.0	11.0
Diversified <u>Strategies</u>				
Cross Asset Class <u>Absolute</u>	2.0	2.0 <u>8.0</u>	0.0	4.0 <u>5.0</u>
Return—				
Cross Asset Class				
<u>Opportunistic Equity</u>	<u>0.0</u>	<u>8.5</u>	<u>0.0</u>	<u>3.0</u>
Real Assets	1.0 <u>1.75</u>	3.0	0.0 <u>0.75</u>	2.0 <u>2.75</u>
Real Estate	4.5 <u>4.75</u>	7.0	1.5 <u>1.75</u>	7.5 <u>7.75</u>
Liquidity	0.0	0.0	0.0	10.0
TOTAL	100%	100%		

**UNIVERSITY OF CALIFORNIA RETIREMENT PLAN
INVESTMENT POLICY STATEMENT**

Combined Public Equity	53.75 <u>52.75</u>	48.5 <u>39.5</u>	43.75 <u>42.75</u>	63.75 <u>62.75</u>
Combined Fixed Income	25.0	25.0 <u>20.0</u>	20.0	30.0
Combined Alternatives	21.25 <u>22.25</u>	26.5 <u>40.5</u>	14.25 <u>15.25</u>	28.25 <u>29.25</u>

1 [Current Policy allocation as of January 1, 2013](#)

2 [Ranges are set around the Current Policy Allocations, not the Long-Term Target Allocations. Ranges will be adjusted accordingly as the Current Policy Allocations converge on Long-Term Target Allocations.](#)

B. Asset Class Performance Benchmarks

The Committee has adopted the following performance benchmarks for each asset class. Criteria for selection of a benchmark include:

- Unambiguous: the names and weights of securities comprising the benchmark are clearly delineated
- Investable: the option is to forego active management and simply replicate the benchmark
- Measurable: it is possible to readily calculate the benchmark’s return on a reasonably frequent basis
- Appropriate: the benchmark is consistent with the Committee’s investment preferences or biases
- Specified in Advance: the benchmark is constructed prior to the start of an evaluation period
- 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

<u>Asset Class</u>	<u>Benchmark</u>
U.S. Equity	Russell 3000 Tobacco Free Index
Developed Non US Equity	MSCI World ex-US (Net Dividends) Tobacco Free
Emerging Mkt Equity	MSCI Emerging Market Free (Net Dividends)
Global Equity	MSCI All Country World Index Net – IMI – Tobacco Free
Fixed Income	Barclays Capital US Aggregate Index
High Yield Fixed Income	Merrill Lynch High Yield Cash Pay Index
Emg Mkt Fixed Income	Dollar Denominated: JP Morgan Emerging Markets Bond Index Global Diversified
Emg Mkt Fixed Income	Local Currency: JP Morgan Government Bond Index Emerging Markets Global Diversified
TIPS	Barclays Capital US TIPS Index
Private Equity	N/A (See below note 2.)
Absolute Return Strategies	Diversified: HFRX Absolute Return Index (50%) + HFRX Market Directional Index (50%)
Cross Asset Class Absolute Return Strategy	Cross Asset Class: Aggregate UCRP Policy Benchmark
<u>Opportunistic Equity</u>	<u>MSCI All Country World Index (Net Dividends)</u>

**UNIVERSITY OF CALIFORNIA RETIREMENT PLAN
INVESTMENT POLICY STATEMENT**

Real Assets	Commodities: S&PGSCI Reduced Energy Index All other: N/A (See below note 3.)
Real Estate	Public: FTSE EPRA NAREIT Global Index
Real Estate	Private: NCREIF Funds Index – Open End Diversified Core Equity (ODCE), lagged 3 months

Notes on asset class benchmarks:

1. Global Equity: The Chief Investment Officer will determine what constitutes a tobacco company based on standard industry classification of the major index providers (e.g., Russell, MSCI) and communicate this list to investment managers annually and whenever changes occur.
2. Private Equity: *Long-term* portfolio returns will be compared to investable public equity alternatives as well as non-investable peer group indices. There is no appropriate market benchmark to use for *short-term* performance evaluation or decision making.
3. Real Assets (all strategies ex-commodities): similar to Private Equity

C. Total Retirement Fund Performance Benchmark

This is the composition of the total Fund performance benchmark referred to in the Investment Policy Statement, Part 4(d). The percentages below add to 100%.

Percentage	Benchmark
28.525 %	× Russell 3000 Tobacco Free Index
22.19 %	× MSCI World ex-US (Net Dividends) Tobacco Free
56.75 %	× MSCI Emerging Market Free (Net Dividends)
2%	× MSCI All Country World Index Net – IMI – Tobacco Free
12%	× Barclays Capital US Aggregate Index
2.5%	× Merrill Lynch High Yield Cash Pay Index
2.5%	× JP Morgan Emerging Market Bond Index Global Diversified
8%	× Barclays Capital US TIPS Index
67.75 %	× Actual return of private equity portfolio
6%	× [HFRX Absolute Return Index × 50%] + [HFRX Market Directional Index × 50%] [Abs. Ret. - Diversified]
0.52 %	× Aggregate UCRP Policy Benchmark [Abs. Ret. - Cross Asset Class]
0 %	× <u>MSCI All Country World Index (Net Dividends)</u>
1.75 %	× Aggregate Real Assets benchmark (see section B), with components weighted by their actual weights within the total real assets portfolio
44.75 %	× Aggregate of Public and Private Real Estate benchmarks (see section B), with components weighted by their actual weights within the total real estate portfolio

Notes on total fund benchmark:

1. The benchmark for private equity is replaced by the private equity portfolio's actual performance. This has the effect of neutralizing the active performance of this class for purposes

**UNIVERSITY OF CALIFORNIA RETIREMENT PLAN
INVESTMENT POLICY STATEMENT**

of total fund performance evaluation. Similar comments apply to private real estate – non-core strategies (closed end funds) and Real Assets (all strategies ex commodities).

2. The calculation of the total fund benchmark will assume a monthly rebalancing methodology.

3. In the event of a significant change in asset allocation, The Regents' generalist consultant may specify an alternative weighting scheme to be used during a transition period.

D. Rebalancing Policy

There will be periodic deviations in actual asset weights from the long-term/current policy asset weights specified above. Causes for periodic deviations are market movements, cash flows, and varying portfolio performance. Significant movements from the asset class policy weights will alter the intended expected return and risk of the Fund. Accordingly, the Investment Committee authorizes the Chief Investment Officer to rebalance the Fund when necessary to ensure adherence to the Investment Policy.

The Chief Investment Officer will monitor the actual asset allocation at least monthly. The Committee directs the Chief Investment Officer to take all actions necessary, within the requirement to act prudently, to rebalance assets to within the policy ranges in a timely and cost effective manner when actual weights are outside the prescribed ranges. The Chief Investment Officer may utilize derivative contracts (in accordance with Appendix 4) to rebalance the portfolio.

The Chief Investment Officer shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. With approval from the Chair of the Committee, the Chief Investment Officer may delay a rebalancing program when the Chief Investment Officer believes the delay is in the best interest of the Plan. Results of rebalancing will be reported to the Committee at quarterly meetings.