Office of the President

TO MEMBERS OF THE COMMITTEE ON COMPENSATION:

ACTION ITEM

For Meeting of July 15, 2010

REVISIONS TO TREASURER’S ANNUAL INCENTIVE PLAN AND CLINICAL ENTERPRISE MANAGEMENT RECOGNITION PLAN

EXECUTIVE SUMMARY AND BACKGROUND

Seeking efficiency and oversight for what can be an easily misconstrued compensation practice, the President directed the Department of Human Resources to conduct a full review of all incentive plans now in place across the system – on campuses, at medical centers and within the Office of the President. The purpose of the review was to determine whether the plans were effective, fair and in full alignment with UC policy and best industry practices, and also to recommend how they might be better designed and monitored going forward. In general, the University does not provide incentive plans. In those instances where market forces or standard industry practices require their implementation, the plans have proven to be a valuable management tool for driving performance toward strategic goals and retaining key personnel in competitive fields. Properly calibrated incentive plans put a percentage of an employee’s cash compensation at risk – only to be recovered by meeting specific performance targets. While some plans are applied to top levels of management, others are spread to a broader spectrum of employees. This is especially true in the medical centers, where thousands of represented employees participate.

This item provides a forum to discuss the review findings as well as specific recommendations it generated. A key proposal calls for a new, independent governance structure – an Administrative Oversight Committee (AOC) for every incentive plan. This body of subject matter experts and top management staff at the UCOP will oversee the design and regularly audit the execution of all incentive plans across the University system, making sure they are fairly applied and properly tailored to stretch performance toward goals that are relevant to the University mission. Moreover, it is proposed that all plans going forward must seek and receive the highest levels of approval, either by the President or the Regents, before they can be implemented. In addition, it is proposed that no plan can be altered in any material way without review by the AOC and final approval by the President or Regents. The goal is not only to make sure these plans are as effective as possible, but also to bring full transparency and accountability to this selectively offered but strategically valuable compensation practice.

These proposed plan documents were presented in June for discussion and are now being
presented to the Regents for action. The marked text in Attachments 3 and 4 reflects those amendments made since consideration by the Committee in June. The Department of Human Resources is also reviewing non-SMG staff plans and policies and will recommend revisions for approval by the President that are consistent with the new governance framework.

**Market Competitive Total Cash Compensation**

In order to maintain the level of excellence for which UC is noted, as well as to recruit and retain top faculty and administrators, the University of California’s compensation strategy is targeted at the average of the market, with the market defined as those labor markets in which the University competes for talent. In some cases, total targeted cash compensation may be comprised completely of base salary. If, however, an incentive program is deemed the most viable compensation method, the program shall be devised to provide an incentive in addition to base salary, awarded upon performance against stated objectives. Incentive plans provide the opportunity (not guarantee) for participants to receive a set amount (or portion thereof) of an award based on how they meet or exceed stated objectives that elevate their performance above the norm. The incentive pay is at risk, meaning that, if the participant fails to achieve their objectives, he/she would receive only a partial award or no award at all, depending on actual performance. Likewise, if the participant exceeds all expectations, the participant could receive an award up to a stated maximum award level that is greater than the stated target award.

**RECOMMENDATION**

The President recommends that the Committee on Compensation recommend to the Regents approval of the plan amendments represented below and contained in the plan documents for the Treasurer’s Annual Incentive Plan (Attachment 1) and the Clinical Enterprise Management Recognition Plan (Attachment 2).

**Amending the Incentive Plans and Applying Standards**

Consistent with the March Regents’ Item on Governance, all existing incentive plans that include SMG participants were carefully reviewed. The 2010-2011 plan documents for those plans were then drafted to conform to the new governance standards. These proposed plan documents were submitted for discussion in June and are now being submitted for approval by the Regents.

Accordingly, each of the proposed plan documents submitted with this item does the following:

1. Establishes oversight by an independent Administrative Oversight Committee (AOC) responsible for the design and annual review of the plan.
2. Establishes that the Chief Audit and Compliance Officer will assure that periodic auditing and monitoring will occur, as appropriate.
3. Establishes the protocol for the plan design review and approval process. Approval by the Board of Regents will be required initially for all plans with SMG participants. Once approved by the Regents, the plan will be implemented each year upon the approval of the AOC if the plan is being implemented without changes. If the AOC recommends any substantive or material changes to the plan, including, but not limited to, changes in the award opportunity levels (e.g., increasing or decreasing threshold, target or maximum award opportunity levels), such changes will require the President’s approval and the
approval of the Regents’ Committee on Compensation and other Committees, as appropriate, before implementation. However, if changes are implemented during the plan year that would affect the award calculations, changes will only be applied prospectively to the remaining portion of the plan year. Plan changes recommended by the AOC that are not material or substantive, or are deemed to be technical corrections, may be approved by the AOC after consultation with the President and the Chairs of the Regents’ Committees on Compensation and Investments and will then be implemented by the AOC at an appropriate time. The Regents will receive reports of all changes to the plans. Accordingly, no location will have the authority to create an incentive plan that includes SMG participants or to make any changes to an existing incentive plan that includes SMG participants without the express authorization of the AOC.

4. Defines the plan year and eligibility criteria governing participation and requires that the AOC provide the President and Chair of the Regents’ Committee on Compensation with a list of plan participants prior to the beginning of the plan year that includes appropriate detail regarding each plan participant.

5. Defines award opportunity levels (e.g., threshold, target, and maximum awards), when appropriate.

6. Defines the criteria for establishing the annual performance objectives for each participant and, when appropriate, sets the weightings to be given to the objectives. Objectives for plan participants must be submitted to the AOC for review and approval in advance of the plan year.

7. Establishes the protocol for the review and approval of awards. All awards will be reviewed by and require the approval of the AOC. Any award for an employee who reports directly to the Regents or who holds one of the executive offices identified in section 92032(b)(7)(B)(i) of the California Education Code will also require the approval of the Regents. The AOC will provide the Chair of the Regents’ Committee on Compensation with a listing of the award recommendations before the awards are scheduled to be paid. All awards will be reported annually to the Regents, with appropriate detail, such as the range of awards and the percentage and amount of the award granted for each plan participant.

8. Establishes administrative standards that include providing each participant in the plan with an annual Terms and Conditions document that (a) identifies the participant’s individual performance objectives applicable for the plan year, (b) defines the performance standards that will be used to determine the level of performance achieved for each objective, and (c) when appropriate, assigns performance weightings to the participant’s objectives.

9. Establishes circumstances under which award payouts may be deferred.

10. Allows for Plan termination or replacement at any time and for any reason upon the recommendation of the President, in consultation with the Chairs of the appropriate committee(s) of the Regents, and with the approval of the Regents. Reasonable efforts, given all circumstances, will be made to delay plan termination until after the current plan year has concluded. However, if the plan is terminated during the plan year, awards for the current year will still be processed based on participants’ performance during the portion of the plan year prior to termination.

11. Authorizes the University to require repayment of an award that was made as a result of inappropriate circumstances.
Changes proposed for existing incentive plans
The proposed plan documents for the following two incentive plans that include SMG participants conform to the standards articulated above. The proposed plan documents also contain certain terms that would be materially different from those administered during the 2009-2010 plan year, as summarized below.

Treasurer’s Annual Incentive Plan (AIP)
Consistent with common practice, the threshold award opportunities (expressed as a percent of salary) were adjusted to consistently represent 50 percent of the target award opportunity level. This resulted in new threshold award opportunity levels of 30 percent rather than 25 percent for the Senior Managing Directors and the Associate CIO; 22.5 percent rather than 20 percent for the Managing Directors, Directors and Sr. Portfolio Managers; and 17.5 percent rather than 15 percent for the Investment Officers. The threshold award opportunity levels remain unchanged for the Chief Investment Officer, the Analysts, Jr. Portfolio Managers, and other participants. There were no changes made to the existing targets or maximum award opportunity levels for participants.

In addition, to align with market practices, the weightings for the various types of objectives have been adjusted. The table below provides the specifics.

<table>
<thead>
<tr>
<th>Position</th>
<th>Weighting for Entity Performance Objectives</th>
<th>Weighting for Asset Class and Sector/Functional Group Performance Objectives</th>
<th>Weighting for Individual/Qualitative Performance Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Investment Officer</td>
<td>80%75%</td>
<td>0%</td>
<td>20%25%</td>
</tr>
<tr>
<td>Associate CIO</td>
<td>65%60%</td>
<td>15%</td>
<td>20%25%</td>
</tr>
<tr>
<td>Senior Managing Director (Risk Mgmt)</td>
<td>80%75%</td>
<td>0%</td>
<td>20%25%</td>
</tr>
<tr>
<td>Senior Managing Director (Asset Class)</td>
<td>40%20%</td>
<td>50%</td>
<td>10%20%</td>
</tr>
<tr>
<td>Managing Director</td>
<td>40%20%</td>
<td>50%</td>
<td>10%20%</td>
</tr>
<tr>
<td>Director</td>
<td>30%10%</td>
<td>60%</td>
<td>10%20%</td>
</tr>
<tr>
<td>Senior Portfolio Manager</td>
<td>30%10%</td>
<td>60%</td>
<td>10%20%</td>
</tr>
<tr>
<td>Investment Officer, Asset Class</td>
<td>20%10%</td>
<td>70%</td>
<td>10%20%</td>
</tr>
<tr>
<td>Investment Officer, Risk Management</td>
<td>70%</td>
<td>0%</td>
<td>30%</td>
</tr>
<tr>
<td>Risk Management Analyst</td>
<td>70%</td>
<td>0%</td>
<td>30%</td>
</tr>
<tr>
<td>Jr. Portfolio Manager; Jr. / Sr. Analyst</td>
<td>10%</td>
<td>70%</td>
<td>20%</td>
</tr>
<tr>
<td>Other Participants</td>
<td>20%</td>
<td>0%</td>
<td>80%</td>
</tr>
</tbody>
</table>

Consistent with common market practices, the contingencies were removed that previously required asset class or entity performance at threshold levels in order for participants to receive Individual/Qualitative awards. As a result, whether participants receive Individual awards would depend solely on their performance against pre-established objectives.
Also consistent with market practices, the payouts were adjusted such that 50 percent of each year’s earned award would be paid in that year, and 50 percent would be deferred and paid out in equal installments of 25 percent each year over the following two years. This is in contrast to the current arrangement, which provides for equal thirds to be paid in the current and following two years.

A provision was added that would allow the President, in consultation with the Chair of the Board of Regents, to defer the payout of awards in years with unusual market and economic stress if the entity experiences negative investment returns.

The Entity Award performance objectives relative to benchmark performance have been reviewed by Mercer Investment Consulting. Given the changes in relative fund weights, fund policy changes and the allocation of active versus passive management in the total entity, the Entity performance objectives for Plan year 2010-2011 are being recalibrated as follows:

<table>
<thead>
<tr>
<th>Entity Performance Standard</th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Threshold</td>
<td>4bp</td>
<td>5bp</td>
</tr>
<tr>
<td>Target</td>
<td>32bp</td>
<td>33bp</td>
</tr>
<tr>
<td>Maximum</td>
<td>70bp</td>
<td>72bp</td>
</tr>
</tbody>
</table>

The proposed plan document for AIP is provided as Attachment 1.

**Clinical Enterprise Management Recognition Plan (CEMRP)**

The performance weighting guidelines, as shown below, were adjusted slightly to allow greater weightings to be used for the Institutional objectives at the lowest level of participation. No changes were made to threshold, target, or maximum award opportunity levels. The proposed plan document for CEMRP is provided as Attachment 2.

**Performance Weightings:**

<table>
<thead>
<tr>
<th>Position Level within Organization</th>
<th>Clinical Enterprise Level</th>
<th>Institutional Level</th>
<th>Individual Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>25% - 50%</td>
<td>25% - 50%</td>
<td>10% - 25%</td>
</tr>
<tr>
<td>Other “Chief Levels” and Other Key Senior Clinical Enterprise Leadership</td>
<td>10% - 25%</td>
<td>25% - 50%</td>
<td>25% - 50%</td>
</tr>
<tr>
<td>Other Clinical Participants</td>
<td>NA</td>
<td>25% - 50%</td>
<td>25% - 75%</td>
</tr>
</tbody>
</table>
The University of California
Office of the Treasurer
Annual Incentive Plan (AIP)
For Plan Year July 1, 2010 through June 30, 2011

Plan Purpose
Under the authority granted by The Board of Regents, the purpose of the University of California Office of the Treasurer Annual Incentive Plan (“Plan”) is to provide the opportunity for at risk variable financial incentives to those employees responsible for attaining or exceeding key objectives in the Treasurer’s Office which are consistent with University investment objectives. The Plan provides participants with an opportunity to receive an annual non-base building cash incentive based on the performance of the University’s investment portfolio, the assets and sectors/functional groups managed by the individual participant, and the individual participant’s performance. The incentive award is earned based on the achievement of specific financial, non-financial, and strategic objectives relative to the mission and goals of the Treasurer’s Office and the performance of the investment portfolio. The Plan focuses participants on maximizing returns in excess of stated performance benchmarks for all funds managed while assuming appropriate levels of risk. It is intended to support teamwork so that members of the Treasurer’s Office operate as a cohesive group.

Plan Year
The Plan year will correspond to the University’s fiscal year, beginning July 1 of each year and ending the following June 30.

Plan Oversight
Development, governance and interpretation of the Plan will be overseen by an independent Administrative Oversight Committee (AOC) comprised as follows:

- Executive Vice President – Business Operations
- Executive Vice President and Chief Financial Officer
- The Vice President – Human Resources
- The Executive Director – Compensation Programs and Strategy

The AOC, in its deliberations pertaining to the development or revision of the Plan, will consult with the Chief Investment Officer (CIO) or other key members of the CIO’s staff. The AOC will abide by the Political Reform Act, which would prohibit Plan participants, such as the CIO and other members of the CIO’s staff, from making, participating in making, or influencing decisions that would affect whether they participate in the Plan, the objectives that will govern whether they earn awards under the Plan, and the amount of awards paid to them under the Plan. The Office of General Counsel will be consulted if there are any questions about the application of the Political Reform Act in this context. The Chief Audit and Compliance Officer will assure that periodic auditing and monitoring will occur, as appropriate.
Plan Approval
The Plan will be subject to an annual review conducted by the AOC to address design issues and market alignment. Once approved by the Regents, the Plan will be implemented each year upon the approval of the AOC if no changes to the Plan are being recommended. If the AOC recommends any substantive or material changes to the Plan, including, but not limited to, changes in the award opportunity levels, the AOC will obtain the approval of the President and the Regents’ Committees on Compensation and Investments before implementing such changes. Reasonable efforts, given all circumstances, will be made to delay implementing substantive or material Plan changes until after the current Plan year has ended. However, if changes are implemented during the Plan year that would affect the award calculations, changes will only be applied prospectively to the remaining portion of the Plan year. Moreover, no changes will affect awards earned by Plan participants for performance in prior Plan years. Plan changes recommended by the AOC that are not material or substantive, or are deemed to be technical corrections, may be approved by the AOC after consultation with the President and the Chairs of the Regents’ Committees on Compensation and Investments and will then be implemented by the AOC at an appropriate time. The Regents will receive reports of all changes to the Plan.

Plan Eligibility
Eligible participants include senior management, professional investment and trading staff and other key positions in the Treasurer’s Office as recommended by the CIO and subject to approval by the AOC. Eligibility is reviewed annually by the CIO and is subject to approval by the AOC, prior to the beginning of the Plan year. A participant who has been found to have violated state or federal law or to have committed a serious violation of University policy will not be eligible for an award under the Plan.

Participants in the Plan are not eligible to receive an award under any other University of California incentive program, except in the event of a mid-year transfer within the University. Specifically, if a Plan participant is eligible for only a partial year award under this Plan because a mid-year transfer of position renders him or her eligible for Plan participation for only a portion of the Plan year, he or she may participate in a different University plan for the other portion of the Plan year. Concurrent participation in this Plan and another University plan is not permitted.

Prior to the beginning of the Plan year, the AOC will provide the President and the Chairs of the Regents’ Committees on Compensation and Investments with a list of Plan participants for that Plan year, including appropriate detail regarding each Plan participant.

Plan participation in any one year does not provide any right or guarantee of eligibility or participation in any subsequent year of the Plan.

Continuing participants must be full-time employees of the University of California Office of the Treasurer at the end of the Plan year (i.e., on June 30) to be eligible to receive an award for that Plan year. Eligible employees who are appointed after the start of the Plan year must have an employment start date no later than January 15, to be eligible to receive an award for that Plan year. Newly hired participants will receive a prorated award in the first year based on the actual
salary received during the Plan year. Participants who were not working for a significant portion of the Plan year may receive a prorated award. For the purpose of this Plan leave of absence status will be determined by applicable University policies governing such leaves.

**Termination Provisions**
Participants must remain actively employed by the University of California at the end of each Plan year in order to receive previously deferred payments of a determined award. Participants who voluntarily separate or who are involuntarily terminated for cause from employment with the University of California will forfeit any previously deferred award amount and any associated interest that has not yet been paid as of the date of separation from University employment.

Participants who retire, become totally disabled, or involuntarily separate (due to reorganization or restructuring) are eligible to receive a prorated incentive award for the current Plan year and a lump sum payment for the deferred portion(s) of approved awards from prior years that have not yet been paid (as explained in the Payout Determination provision below) and associated interest, based on the date of separation of employment from the University. For the purpose of this Plan retirement and total disability status will be determined by applicable University policies. Lump sum payments as described above will be issued as soon as practicable following the date of separation. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued in accordance with the normal processing schedule.

Involuntary separation for any other reason will be handled on a case by case basis.

Participants whose employment terminates as a result of death are similarly eligible to receive a prorated incentive award for the current Plan year and a lump sum payment for the deferred portion(s) of approved awards from prior years that have not yet been paid (as explained in the Payout Determination provision below) and associated interest, based on the date of death. In this situation, lump sum award payments will be made to the estate of the deceased participant as soon as practicable following the date of death. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued to the estate of the deceased participant in accordance with the normal processing schedule.

**Incentive Award Opportunity Levels**
Plan participants are assigned award levels that serve to motivate individual, group and total entity performance as part of a competitive total cash compensation package. Participants are eligible to receive an incentive award, expressed as a percentage of their salary, which corresponds to predetermined target levels of performance. Actual incentive award levels may be greater or less than the target opportunity level, depending on performance relative to policy portfolio benchmarks and individual contribution. Award opportunity levels by position are as follows:
<table>
<thead>
<tr>
<th>Position</th>
<th>Threshold Opportunity (as % of Salary)</th>
<th>Target Opportunity (as % of Salary)</th>
<th>Maximum Opportunity (as % of Salary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Investment Officer (CIO)</td>
<td>50%</td>
<td>100%</td>
<td>165%</td>
</tr>
<tr>
<td>Senior Managing Director &amp; Associate CIO</td>
<td>30%</td>
<td>60%</td>
<td>120%</td>
</tr>
<tr>
<td>Managing Director, Director, &amp; Sr. Portfolio Manager</td>
<td>22.5%</td>
<td>45%</td>
<td>90%</td>
</tr>
<tr>
<td>Investment Officer</td>
<td>17.5%</td>
<td>35%</td>
<td>70%</td>
</tr>
<tr>
<td>Analysts &amp; Jr. Portfolio Manager</td>
<td>10%</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>Other Participants</td>
<td>10%</td>
<td>20%</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Performance Objectives**

Annual investment performance objectives will be reviewed by the Executive Director – Compensation Programs and Strategy in consultation with the CIO and an independent investment consultant. The investment performance objectives will be reviewed and approved by the AOC in consultation with the CIO, the President, and Chairs of the Regents’ Committees on Compensation and Investment prior to the beginning of the Plan year. Attachment 1 of this Plan Document contains the investment performance objectives approved by the AOC for the current Plan year.

Individual/Qualitative performance objectives for each Plan participant other than the CIO will be defined by his/her supervisor. These objectives will be subject to endorsement by the CIO and approval by the AOC in consultation with the President and Chairs of the Regents’ Committees on Compensation and Investments prior to the beginning of the Plan year. The individual performance objectives of the CIO will be approved annually by the President and Chairs of the Regents’ Committees on Compensation and Investments, in consultation with the AOC, prior to the beginning of the Plan year. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of Plan participants’ objectives.

Performance objectives for each Plan participant must include both the Entity Performance and Individual/Qualitative Performance categories listed below. Asset Class Performance and Sector/Functional Group Performance objectives are incorporated for participants as appropriate. The supervisor of each Plan participant will provide him/her with an annual Terms and Conditions document that (a) identifies the participant’s individual performance objectives applicable to the Plan, (b) defines the performance standards and metrics that will be used to measure threshold, target, and maximum performance for each objective, and (c) assigns performance weightings to the participant’s objectives.

Below are the four Performance Objective categories for the Plan:

1. Entity Performance (e.g., total investment portfolio performance)
2. Asset Class Performance (e.g., US equity, international equity, private equity, bonds & STIP)
3. Sector/Functional Group Performance (e.g., government, credit, etc.)
4. Individual/Qualitative Performance
Individual/Qualitative Performance objectives may be established in, but not limited to, the following areas:
- Leadership
- Implementation of operational goals
- Management of key strategic projects
- Effective utilization of human and financial resources

**Performance Standards**
Each performance objective will include standards of performance defined as follows:
- Threshold Performance: This level represents satisfactory results, but less than full achievement of performance objectives.
- Target Performance: This level represents full achievement of all performance expectations.
- Maximum Performance: This level represents results which clearly exceed expectations.

See the table in Attachment 1 for more detail on specific investment performance metrics.

**Performance Measures and Weightings**
A Plan participant’s performance against assigned qualitative goals will be assessed by the CIO in consultation with the participant’s supervisor, if the immediate supervisor is not the CIO.

Investment performance of both the University portfolios and the market indexes is measured using a three-year rolling average. This method provides for longer term focus on and accountability for sustainable performance results. Investment returns in a given year, whether positive or negative, affect the average, and thus the payout, over three separate Plan years. The lowest value of any award in a given year will be zero.

Individual awards are determined based on achievement of performance objectives relative to policy portfolio benchmarks and individual contribution, and in accordance with the payout curve established for each performance objective. Performance measures for participants in their third full Plan year or later are weighted as displayed in the table below.

<table>
<thead>
<tr>
<th>Position</th>
<th>Weighting for Entity Performance Objectives</th>
<th>Weighting for Asset Class and Sector/Functional Group Performance Objectives</th>
<th>Weighting for Individual/Qualitative Performance Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Investment Officer</td>
<td>80%</td>
<td>0%</td>
<td>20%</td>
</tr>
<tr>
<td>Associate CIO</td>
<td>65%</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Senior Managing Director (Risk Mgmt)</td>
<td>80%</td>
<td>0%</td>
<td>20%</td>
</tr>
<tr>
<td>Senior Managing Director (Asset Class)</td>
<td>40%</td>
<td>50%</td>
<td>10%</td>
</tr>
<tr>
<td>Managing Director</td>
<td>40%</td>
<td>50%</td>
<td>10%</td>
</tr>
<tr>
<td>Director</td>
<td>30%</td>
<td>60%</td>
<td>10%</td>
</tr>
<tr>
<td>Senior Portfolio Manager</td>
<td>30%</td>
<td>60%</td>
<td>10%</td>
</tr>
</tbody>
</table>
In recognition of a participant’s limited ability to affect attainment of goals in the Plan during the first two years of service, the following adjustments are made in the Weighting table for participants in their first three Plan years.

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Weighting for Quantitative Performance Objectives (Entity, Asset Class, Sector/Functional Group)</th>
<th>Weighting for Individual/Qualitative Performance Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>First partial year</td>
<td>20% / 1 year performance</td>
<td>80%</td>
</tr>
<tr>
<td>Year 1</td>
<td>30% / 1 year performance</td>
<td>70%</td>
</tr>
<tr>
<td>Year 2</td>
<td>50% / 2 years performance</td>
<td>50%</td>
</tr>
</tbody>
</table>

For the new employee, the relevant investment returns achieved during the transition period (up to 18 months) may be excluded from the three year rolling average.

In special cases, such as for a new participant charged with the restructuring of an entire asset class or strategy, the above weights may be modified at the recommendation of the CIO, subject to approval by the AOC. In such a case, the participant will be required to meet specific objectives which contribute to long-term performance.

The phase-in of new asset classes will be handled in a similar way, that is, performance for the first year of a new asset class will be based on a single year’s return; performance for the second year of the class will be based on the first two years’ returns. See the Administrative Guidelines for more details of specific circumstances.

**Payout Determination**

Annual incentive awards will be payable in cash, subject to appropriate taxes and pursuant to normal University payroll procedures. The participant’s total salary (including base salary, stipends, vacation pay, and sick pay, but excluding prior year incentive award payouts and disability pay) paid as of the end of the Plan year (i.e., on June 30) will be used in the calculation of the award payout. The current position held by the participant at the end of the Plan year will determine the award opportunity level in the calculation. For participants at or above the Investment Officer level (as reflected in the charts above), awards are payable in three annual payments comprised of 50 percent paid in the current Plan year, 25 percent paid in the next year and 25 percent paid in the year thereafter. Award payments will be made as soon as practicable following the end of the Plan year. The deferred portion of the award earns interest based on the Short-Term Investment Pool (STIP) rate of return. Payments of the deferred portions of awards are generally issued during the fall of each year. Accrued awards for participants on approved leave of absence will be paid according to the normal schedule. Awards for participants below
the Investment Officer level (as reflected in the charts above) are payable in one lump sum; there is no deferral of any portion of their awards.

A polynomial payout curve is used to determine actual award payouts for performance levels between threshold and maximum and relative to Entity, Asset Class, and Sector/Functional Group performance objectives. The chart below shows an example of the polynomial payout curve for the US Equity asset class. In this example, the Threshold is 15 bp, the Target is 75 bp, and the Maximum is 150 bp.

The primary advantage of the polynomial curve is that it supports the achievement of consistent and sustained performance over the longer term by encouraging participants to achieve target level or higher performance.

**Extraordinary Market Environments**
In periods of unusual market and economic stress, when the entity experiences negative investment returns, regardless of the entity’s relative performance, the portion of the current Plan year awards that would normally be paid at the end of the current Plan year may be deferred. If this deferral mechanism is invoked, awards will be reviewed and approved in the usual manner. But, in conjunction with that review and approval process, deferral will be recommended by the AOC and then approved by the President and the Chairs of the Regents’ Committees on Compensation and Investments. In such a case, the portion of the current Plan year awards that have been deferred will earn interest at the STIP rate. The portion of the current Plan year awards that have been deferred will be processed and distributed as soon as possible. However, in no event will they be deferred longer than one year.

**Plan Administration**
The Plan will be administered by the Executive Director – Compensation Programs and Strategy consistent with the specific design parameters approved by the President and the Regents. The Plan features and provisions outlined in this document shall supersede any other Plan summary.
Except as set forth below, all award amounts will be reviewed by and require the approval of the AOC in consultation with the President and Chairs of the Regents’ Committees on Compensation and Investments. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of proposed awards. Evaluation of the CIO will be conducted by the Chair of the Regents’ Committee on Compensation with input from the President and the Chair of the Regents’ Committee on Investments. Any incentive award for the CIO, the Assistant Treasurer, or any other Plan participant who holds one of the executive offices identified in section 92032(b)(7)(B)(i) of the California Education Code will require the approval of the Board in addition to the AOC.

The AOC must convene to review all recommended awards within 60 days of the fiscal year-end. Payouts to individuals of approved awards must be made within 90 days of the fiscal year-end unless the provision above regarding Extraordinary Market Environments applies.

Award amounts for Plan participants in the Senior Management Group will be reported annually to the Regents by the Executive Director – Compensation Programs and Strategy. The reports will contain appropriate levels of detail, such as the range of awards and the percentage and amount of the award granted for each Plan participant.

This Plan may be terminated or replaced at any time for any reason upon the recommendation of the President, in consultation with the Chairs of the Regents’ Committees on Compensation and Investments, and with the approval of the Regents. Reasonable efforts, given all circumstances, will be made to delay Plan termination until after the current Plan year has concluded. However, if the Plan is terminated during the Plan year, awards for the current year will still be processed based on participants’ performance during the portion of the Plan year prior to termination. Moreover, such termination will not affect awards earned by Plan participants for performance in prior Plan years.

The University may require repayment of an award that that was made as a result of inappropriate circumstances.
## Treasurer’s Office Annual Incentive Plan (AIP)

### Performance Objectives for FY 2010-11

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>ENTITY</th>
<th>Benchmark</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>PUBLIC EQUITY</td>
<td>GEP, UCRP, UCRSP, STIP &amp; TRIP</td>
<td>Asset Weighted Policy Benchmark</td>
<td>5 bp</td>
<td>33 bp</td>
<td>72 bp</td>
</tr>
<tr>
<td>FIXED INCOME</td>
<td>Combined Equity</td>
<td>Asset Weighted Policy Benchmark (Equity)</td>
<td>15 bp</td>
<td>80 bp</td>
<td>170 bp</td>
</tr>
<tr>
<td>PRIVATE EQUITY</td>
<td>Private Equity - Asset Class</td>
<td>Venture Economics Vintage Year Indices</td>
<td>50 bp</td>
<td>100 bp</td>
<td>200 bp</td>
</tr>
<tr>
<td>INCOME FUNDS</td>
<td>ICC Fund</td>
<td>5-year Treasury Notes Income Return</td>
<td>5 bp</td>
<td>30 bp</td>
<td>60 bp</td>
</tr>
<tr>
<td>SEC:</td>
<td>Short Term Investment Pool (STIP)</td>
<td>2-year Treasury Notes Income Return</td>
<td>5 bp</td>
<td>30 bp</td>
<td>60 bp</td>
</tr>
<tr>
<td></td>
<td>Savings Fund</td>
<td>2-year Treasury Notes Income Return</td>
<td>5 bp</td>
<td>30 bp</td>
<td>60 bp</td>
</tr>
<tr>
<td>FIXED INCOME GOVERNMENT SECTOR</td>
<td>Combined Fixed Income</td>
<td>Asset Weighted Policy Benchmark (Fixed Income)</td>
<td>5 bp</td>
<td>40 bp</td>
<td>80 bp</td>
</tr>
<tr>
<td>FIXED INCOME CREDIT SECTOR</td>
<td>Credit - UCRP / GEP / TRIP / UCRSP</td>
<td>Credit Sector of Barclays Aggregate</td>
<td>5 bp</td>
<td>30 bp</td>
<td>60 bp</td>
</tr>
<tr>
<td>REAL ESTATE SECTOR</td>
<td>Global REITS</td>
<td>FTSE/NAREIT Global ex US Index</td>
<td>50%</td>
<td>25 bp</td>
<td>125 bp</td>
</tr>
<tr>
<td></td>
<td>Open End Funds - Core</td>
<td>NFI-ODCE Index</td>
<td>5 bp</td>
<td>35 bp</td>
<td>70 bp</td>
</tr>
<tr>
<td></td>
<td>Open End Funds - Value Add</td>
<td>NFI-ODCE Index</td>
<td>25 bp</td>
<td>100 bp</td>
<td>200 bp</td>
</tr>
<tr>
<td>REFERENCE – USED IN WEIGHTED PUBLIC EQUITY AND FIXED INCOME CALCULATIONS</td>
<td>US Equity - UCRP / GEP</td>
<td>Russell 3000 Tobacco-Free Index</td>
<td>15 bp</td>
<td>75 bp</td>
<td>150 bp</td>
</tr>
<tr>
<td></td>
<td>Developed Non US Equity - UCRP / GEP</td>
<td>MSCI World ex US Net Tobacco Free Index</td>
<td>18 bp</td>
<td>100 bp</td>
<td>200 bp</td>
</tr>
<tr>
<td></td>
<td>Emerging Markets Equity - UCRP / GEP</td>
<td>MSCI Emerging Markets Free Net Index</td>
<td>25 bp</td>
<td>125 bp</td>
<td>250 bp</td>
</tr>
<tr>
<td></td>
<td>Bonds - UCRP / GEP</td>
<td>Barclays Aggregate</td>
<td>5 bp</td>
<td>30 bp</td>
<td>60 bp</td>
</tr>
<tr>
<td></td>
<td>403(b) Bonds</td>
<td>Barclays Aggregate</td>
<td>5 bp</td>
<td>30 bp</td>
<td>60 bp</td>
</tr>
</tbody>
</table>

1: Excess performance targets refer to 1, 2, or 3 year investment results as appropriate; all performance objectives are based on total return, net of all management fees.

### Notes:
- UC Retirement Savings Plan = 403(b), 457, and Defined Contribution plan options managed by Treasurer.
- Asset classes are not marked to market and their performance is meaningfully measured only over a long period using Internal Rates of Return (IRRs), not the time-weighted returns of marketable assets. Thus, special procedures have been implemented to fairly measure their performance and award those responsible for managing the assets. See the Administrative Guidelines for these detailed procedures.
The University of California
Clinical Enterprise Management Recognition Plan (CEMRP)
For Plan Year July 1, 2010 through June 30, 2011

Plan Purpose
The purpose of the University of California Clinical Enterprise Management Recognition Plan (“Plan”) is to provide the opportunity for at risk variable financial incentives to those employees responsible for attaining or exceeding key Clinical Enterprise objectives. Achievement is measured based on specific financial and/or non-financial objectives, e.g. quality of care or patient safety, and strategic objectives which relate to the Clinical Enterprise’s mission.

The Plan encourages the teamwork required to meet challenging organizational goals. The Plan also uses individual performance objectives to encourage participants to maximize their personal effort and to demonstrate individual excellence.

Plan Oversight
Development, governance and interpretation of the Plan will be overseen by an independent Administrative Oversight Committee (AOC) comprised as follows:

- Executive Vice President – Business Operations
- The Chancellor of every campus with a medical center
- The Vice President – Human Resources
- The Executive Director – Compensation Programs and Strategy

The AOC, in its deliberations pertaining to the development or revision of the Plan, will consult with the Senior Vice President – Health Sciences and Services, and representatives from the medical centers comprised of a Chief Medical Officer, a Chief Nursing Officer, and a Chief Human Resources Officer, each selected from a UC medical center. The AOC will abide by the Political Reform Act, which would prohibit Plan participants, such as the Senior Vice President – Health Sciences and Services, Chief Medical Officers, Chief Nursing Officers, and Chief Human Resources Officers, from making, participating in making, or influencing decisions that would affect whether they participate in the Plan, the objectives that will govern whether they earn awards under the Plan, and the amount of awards paid to them under the Plan. The Office of General Counsel will be consulted if there are any questions about the application of the Political Reform Act in this context. The Chief Audit and Compliance Officer will assure that periodic auditing and monitoring will occur, as appropriate.

Plan Approval
The Plan will be subject to an annual review conducted by the AOC to address design issues and market alignment. Once approved by the Regents, the Plan will be implemented each year upon the approval of the AOC if no changes to the Plan are being recommended. If the AOC recommends any substantive or material changes to the Plan, including, but not limited to, changes in the award opportunity levels, the AOC will obtain the approval of the President and the Regents’ Committees on Compensation and Health Services before implementing such changes. Reasonable efforts, given all circumstances, will be made to delay implementing substantive or material Plan changes until after the end of the current Plan year. However, if
changes are implemented during the Plan year that would affect the award calculations, changes will only be applied prospectively to the remaining portion of the Plan year. Plan changes recommended by the AOC that are not material or substantive, or are deemed to be technical corrections, may be approved by the AOC after consultation with the President and the Chairs of the Regents’ Committees on Compensation and Health Services and will then be implemented by the AOC at an appropriate time. The Regents will receive reports of all changes to the Plan.

**Plan Year**
The Plan year will correspond to the University’s fiscal year, beginning July 1 and ending the following June 30.

**Eligibility**
Eligible participants are defined as the senior leadership of the Clinical Enterprise who have significant strategic impact and a broad span of control with the ability to effect enterprise-wide change. Participants must be full-time employees of the University at the end of the Plan year to be eligible to receive an award for that Plan year, unless they have retired or involuntarily separated from the University as set forth in the Separation from the University provision below. A participant who has been found to have violated state or federal law or to have committed a serious violation of University policy will not be eligible for an award under the Plan.

Prior to the beginning of the Plan year, the AOC will provide the President and the Chair of the Regents’ Committee on Compensation with a list of Plan participants for that Plan year, including appropriate detail regarding each Plan participant.

Plan participation in any one year does not provide any right or guarantee of eligibility or participation in any subsequent year of the Plan.

Participants in this Plan may not participate in any other incentive or bonus plan during the Plan year, including the Health Sciences Compensation Plan, except in the event of a mid-year transfer within the University. Specifically, if a Plan participant is eligible for only a partial year award under this Plan because a mid-year transfer of position renders him or her eligible for Plan participation for only a portion of the Plan year, he or she may participate in a different University plan for the other portion of the Plan year. Concurrent participation in this Plan and another University plan is not permitted.

**Award Opportunity Levels**
As part of their competitive total cash compensation package, Plan participants are assigned threshold, target and maximum recognition award levels, expressed as a percentage of their salary. These award opportunity levels serve to motivate and drive individual and team performance toward annually established objectives. Target awards shall be calibrated to expected results while maximum awards shall only be granted for superior performance against established performance standards. Actual awards for any individual participant may not exceed the maximum award opportunity level assigned. Award opportunity levels are determined, in part, based on the participant’s level within the organization and the relative scope of responsibilities, impact of decisions, and long term strategic impact.
<table>
<thead>
<tr>
<th>Position Level within Organization</th>
<th>Threshold Opportunity (as % of Salary)</th>
<th>Target Opportunity (as % of Salary)</th>
<th>Maximum Opportunity (as % of Salary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>Other “Chief Levels” and Other Key Senior Clinical Enterprise Leadership</td>
<td>7.5%</td>
<td>15%</td>
<td>25%</td>
</tr>
<tr>
<td>Other Key Clinical Enterprise Leadership</td>
<td>7.5%</td>
<td>15%</td>
<td>20%</td>
</tr>
</tbody>
</table>

**Performance Standards**
Each Plan participant shall be assigned Performance Objectives which have standards of performance defined as Threshold, Target, and Maximum performance consistent with the following:

*Threshold Performance* – Represents the minimum acceptable performance standard for which a recognition award can be paid. This level represents satisfactory results, but less than full achievement of stretch objectives.

*Target Performance* – Represents successful attainment of expected level of performance against stretch objectives.

*Maximum Performance* – Represents results which clearly and significantly exceed all performance expectations for the year. This level of accomplishment should be rare.

**Performance Objectives and Weightings**
Prior to the beginning of each fiscal year, a series of financial and non-financial objectives will be established for each participant, consistent with the mission and goals of each medical center in the Clinical Enterprise. Objectives should fall into the categories below, with no single category accounting for more than 50 percent of the total incentive. It is recommended that no more than three objectives be established per category utilized, with no more than nine objectives in total per participant. Objectives should each relate to one of the following:

- Financial Performance
- Quality Improvements
- Patient Satisfaction
- Key Initiatives in Support of the Strategic Plan
- People and other Resource Management

In addition, the participants’ performance toward their assigned objectives will be measured across three organizational levels, when appropriate: Clinical Enterprise, Institutional (defined as the participant’s medical center) and Individual. Suggested weighting ranges are listed in the table below. Clinical Enterprise level objectives encourage medical centers to work together for the benefit of the entire Clinical Enterprise system. Institutional objectives encourage local teamwork and recognize the joint effort needed to meet challenging organizational goals.
Individual objectives are designed to encourage participants’ maximum effort and demonstration of individual excellence.

**Performance Weightings:**

<table>
<thead>
<tr>
<th>Position Level within Organization</th>
<th>Clinical Enterprise Level</th>
<th>Institutional Level</th>
<th>Individual Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>25% - 50%</td>
<td>25% - 50%</td>
<td>10% - 25%</td>
</tr>
<tr>
<td>Other “Chief Levels” and Other Key Senior Clinical Enterprise Leadership</td>
<td>10% - 25%</td>
<td>25% - 50%</td>
<td>25% - 50%</td>
</tr>
<tr>
<td>Other Clinical Participants</td>
<td>NA</td>
<td>25% - 50%</td>
<td>25% - 75%</td>
</tr>
</tbody>
</table>

Annual performance objectives for the Clinical Enterprise Level (system-wide), annual Institutional performance objectives for each medical center, and annual performance objectives for the individual CEOs of the medical centers will be established and administered by the Senior Vice President – Health Sciences and Services in consultation with the respective Chancellors. Annual performance objectives for the Senior Vice President – Health Sciences and Services will be established by the President in consultation with the Chairs of the Regents’ Committees on Compensation and Health Services in advance of the Plan year. Annual performance objectives for other participants will be established and administered by each participant’s supervisor in consultation with the CEO of that medical center.

Performance objectives must be specific, measureable, and stretch. Assessment of participants’ performance and contribution relative to these objectives will determine their actual award amount.

Objectives for participants in this Plan must be submitted to the AOC, which will review and approve the objectives in consultation with the President and the Chairs of the Regents’ Committees on Compensation and Health Services in advance of the Plan year. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of Plan participants’ objectives.

**Financial Standards and Plan Funding**

A financial target will be set by each medical center for the Plan year. These financial targets will be reviewed by the AOC in consultation with the Senior Vice President – Health Sciences and Services and the Executive Vice President and Chief Financial Officer, and approved by the President in advance of the beginning of the Plan year.

Full funding of awards for participants at a medical center in the Plan year is contingent upon that medical center’s ability to pay out the awards while maintaining a positive net cash flow from operations before intra-institutional transfers. In the event that the medical center cannot meet that financial standard for the Plan year, but the medical center attains key Institutional non-financial objectives, the AOC may consider and approve, in consultation with the Chancellor and Senior Vice President – Health Sciences and Services, partial award payouts for
some or all of that medical center’s Plan participants based on the Award Opportunity Levels defined above and participants’ achievement of their assigned objectives for the Plan year.

**Administrative Provisions and Award Approval**
The Plan shall be administered under the purview of the Executive Director – Compensation Programs and Strategy, at the Office of the President, consistent with the Plan features outlined above, and as approved by the President and the Regents. The Plan features and provisions outlined in this document shall supersede any other Plan summary.

The supervisor of each Plan participant will provide him/her with an annual Terms and Conditions document that (a) identifies the participant’s individual performance objectives for the Plan year, (b) defines the standards that will be used to measure threshold, target, and maximum performance for each objective, and (c) assigns performance weightings to the participant’s objectives.

At the end of each fiscal year, proposed awards will be submitted to the Executive Director - Compensation Programs and Strategy. Except as set forth below, review and approval of all awards under the Plan will be the responsibility of the AOC, which will review recommended awards within 60 days of the end of the Plan Year. Any award for the Senior Vice President – Health Sciences and Services or any other Plan participant who holds one of the executive offices identified in section 92032(b)(7)(B)(i) of the California Education Code, including, but not limited to, any vice president of the University, will require the approval of the Regents in addition to the approval of the AOC. Approved awards will be processed as soon as possible unless they have been deferred pursuant to the provision set forth below. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of proposed awards.

The Executive Director – Compensation Programs and Strategy will provide the President and Chairs of the Regents’ Committees on Compensation and Health Services with a listing of the award recommendations before the awards are scheduled to be paid. The awards will be reported annually to the Regents, with appropriate detail, such as the range of awards and the percentage and amount of the award granted for each Plan participant.

Annual incentive awards will be payable in cash, subject to appropriate taxes and pursuant to normal University payroll procedures. The participant’s total University salary (including base salary, stipends, and PTO pay, but excluding any prior year incentive award payouts and disability pay) paid as of the end of the Plan year (i.e., on June 30) will be used in the calculation of the award payout.

This Plan may be terminated or replaced at any time for any reason upon the recommendation of the President, in consultation with the Chairs of the Regents’ Committees on Compensation and Health Services, and with the approval of the Regents. Reasonable efforts, given all circumstances, will be made to delay Plan termination until after the current Plan year has concluded. However, if the Plan is terminated during the Plan year, awards for the current year will still be processed based on participants’ performance during the portion of the Plan year prior to termination.
Notwithstanding any other term in the Plan, current year awards may be deferred if the Regents issue a declaration of extreme financial emergency upon the recommendation of the President or if the Clinical Enterprise experiences a system-wide negative cash flow. In such situations, the deferral would be made upon the recommendation of the AOC and require the approval of the President and the Chairs of the Regents’ Committees on Compensation and Health Services. In such a case the current year deferred awards will earn interest at the STIP rate. Award payments that have been approved, but deferred, will be processed and distributed as soon as possible. In no event will awards be deferred longer than one year.

The University may require repayment of an award that has been made as a result of inappropriate circumstances.

**Separation from the University**
Participants who retire or who involuntarily separate due to reorganization, restructuring, or total disability during the current Plan year are eligible to receive a prorated incentive award for the current Plan year based on the date of separation of employment from the University. Retirement and total disability status will be determined based upon applicable University policies. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued in accordance with the normal processing schedule.

Participants whose employment terminates as a result of death during the current Plan year are similarly eligible to receive a prorated incentive award for the current Plan year based on the date of death. In this situation, award payments will be made to the estate of the deceased participant. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued to the estate of the deceased participant in accordance with the normal processing schedule.

Involuntary separation during the current Plan year for any other reason will be handled on a case by case basis.

**Partial Year Awards**
Participants must have a minimum of six months of service to participate in the Plan and will receive a prorated award in their first year of participation. Similarly, participants who were not working for a significant portion of the Plan year may receive a prorated award. Participants who transfer within the University to a position that would not be eligible for participation in the Plan are eligible to receive a prorated award for that Plan year.
Additions shown by underscoring; deletions shown by strikethrough

The University of California
Office of the Treasurer
Annual Incentive Plan (AIP)
For Plan Year July 1, 2010 through June 30, 2011

Plan Purpose
Under the authority granted by The Board of Regents, the purpose of the University of California Office of the Treasurer Annual Incentive Plan ("Plan") is to provide the opportunity for at risk variable financial incentives to those employees responsible for attaining or exceeding key objectives in the Treasurer’s Office which are consistent with University investment objectives. The Plan provides participants with an opportunity to receive an annual non-base building cash incentive based on the performance of the University’s investment portfolio, the assets and sectors/functional groups managed by the individual participant, and the individual participant’s performance. The incentive award is earned based on the achievement of specific financial, non-financial, and strategic objectives relative to the mission and goals of the Treasurer’s Office and the performance of the investment portfolio. The Plan focuses participants on maximizing returns in excess of stated performance benchmarks for all funds managed while assuming appropriate levels of risk. It is intended to support teamwork so that members of the Treasurer’s Office operate as a cohesive group.

Plan Year
The Plan year will correspond to the University’s fiscal year, beginning July 1 of each year and ending the following June 30.

Plan Oversight
Development, governance and interpretation of the Plan will be overseen by an independent Administrative Oversight Committee (AOC) comprised as follows:

- Executive Vice President – Business Operations
- Executive Vice President and Chief Financial Officer
- The Vice President – Human Resources
- The Executive Director – Compensation Programs and Strategy

The AOC, in its deliberations pertaining to the development or revision of the Plan, will consult with the Chief Investment Officer (CIO) or other key members of the CIO’s staff. The AOC will abide by the Political Reform Act, which would prohibit Plan participants, such as the CIO and other members of the CIO’s staff, from making, participating in making, or influencing decisions that would affect whether they participate in the Plan, the objectives that will govern whether they earn awards under the Plan, and the amount of awards paid to them under the Plan. The Office of General Counsel will be consulted if there are any questions about the application of the Political Reform Act in this context. The Chief Audit and Compliance Officer will assure that periodic auditing and monitoring will occur, as appropriate.
**Plan Approval**
The Plan will be subject to an annual review conducted by the AOC to address design issues and market alignment. Once approved by the Regents, the Plan will be implemented each year upon the approval of the AOC if no changes to the Plan are being recommended. If the AOC recommends any substantive or material changes to the Plan, including, but not limited to, changes in the award opportunity levels, the AOC will obtain the approval of the President and the Regents’ Committees on Compensation and Investments before implementing such changes. Under such circumstances, every reasonable efforts, given all circumstances, will be made to delay implementing substantive or material Plan changes until after the current Plan year has ended. However, if changes are implemented during the Plan year that would affect the award calculations, changes will only be applied prospectively to the remaining portion of the Plan year. Moreover, no changes will affect awards earned by Plan participants for performance in prior Plan years. Plan changes recommended by the AOC that are not material or substantive, or are deemed to be technical corrections, may be approved by the AOC after consultation with the President and the Chairs of the Regents’ Committees on Compensation and Investments and will then be implemented by the AOC at an appropriate time. The Regents will receive reports of all changes to the Plan.

**Plan Eligibility**
Eligible participants include senior management, professional investment and trading staff and other key positions in the Treasurer’s Office as recommended by the CIO and subject to approval by the AOC. Eligibility is reviewed annually by the CIO and is subject to approval by the AOC, prior to the beginning of the Plan year. A participant who has been found to have violated state or federal law or to have committed a serious violation of University policy will not be eligible for an award under the Plan.

Participants in the Plan are not eligible to receive an award under any other University of California incentive program, except in the event of a mid-year transfer within the University. Specifically, if a Plan participant is eligible for only a partial year award under this Plan because a mid-year transfer of position renders him or her eligible for Plan participation for only a portion of the Plan year, he or she may participate in a different University plan for the other portion of the Plan year. Concurrent participation in this Plan and another University plan is not permitted.

Prior to the beginning of the Plan year, the AOC will provide the President and the Chairs of the Regents’ Committees on Compensation and Investments with a list of Plan participants for that Plan year, including appropriate detail regarding each Plan participant.

Plan participation in any one year does not provide any right or guarantee of eligibility or participation in any subsequent year of the Plan.

Continuing participants must be full-time employees of the University of California Office of the Treasurer at the end of the Plan year (i.e., on June 30) to be eligible to receive an award for that Plan year. Eligible employees who are appointed after the start of the Plan year must have an employment start date no later than January 15, to be eligible to receive an award for that Plan.
year. Newly hired participants will receive a prorated award in the first year based on the actual salary received during the Plan year. Participants who were not working for a significant portion of the Plan year may receive a prorated award. For the purpose of this Plan leave of absence status will be determined by applicable University policies governing such leaves categories.

**Termination Provisions**
Participants must remain actively employed by the University of California at the end of each Plan year in order to receive previously deferred payments of a determined award. Participants who voluntarily separate or who are involuntarily terminated for cause from employment with the University of California will forfeit any previously deferred award amount and any associated interest that has not yet been paid as of the date of separation from University employment.

Participants who retire, become totally disabled, or involuntarily separate (due to reorganization or restructuring) are eligible to receive a prorated incentive award for the current Plan year and a lump sum payment for the deferred portion(s) of approved awards from prior years that have not yet been paid (as explained in the Payout Determination provision below) and associated interest, based on the date of separation of employment from the University. For the purpose of this Plan retirement and total disability status will be determined by applicable University policies. Lump sum payments as described above will be issued as soon as practicable following the date of separation. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued in accordance with the normal processing schedule.

Involuntary separation for any other reason will be handled on a case by case basis.

Participants whose employment terminates as a result of death are similarly eligible to receive a prorated incentive award for the current Plan year and a lump sum payment for the deferred portion(s) of approved awards from prior years that have not yet been paid (as explained in the Payout Determination provision below) and associated interest, based on the date of death. In this situation, lump sum award payments will be made to the estate of the deceased participant as soon as practicable following the date of death. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued to the estate of the deceased participant in accordance with the normal processing schedule.

**Incentive Award Opportunity Levels**
Plan participants are assigned award levels that serve to motivate individual, group and total entity performance as part of a competitive total cash compensation package. Participants are eligible to receive an incentive award, expressed as a percentage of their base salary, which corresponds to predetermined target levels of performance. Actual incentive award levels may be greater or less than the target opportunity level, depending on performance relative to policy portfolio benchmarks and individual contribution. Award opportunity levels by position are as follows:
<table>
<thead>
<tr>
<th>Position</th>
<th>Threshold Opportunity (as % of Base Salary)</th>
<th>Target Opportunity (as % of Base Salary)</th>
<th>Maximum Opportunity (as % of Base Salary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Investment Officer (CIO)</td>
<td>50%</td>
<td>100%</td>
<td>165%</td>
</tr>
<tr>
<td>Senior Managing Director &amp; Associate CIO</td>
<td>30%</td>
<td>60%</td>
<td>120%</td>
</tr>
<tr>
<td>Managing Director, Director, &amp; Sr. Portfolio Manager</td>
<td>22.5%</td>
<td>45%</td>
<td>90%</td>
</tr>
<tr>
<td>Investment Officer</td>
<td>17.5%</td>
<td>35%</td>
<td>70%</td>
</tr>
<tr>
<td>Analysts &amp; Jr. Portfolio Manager</td>
<td>10%</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>Other Participants</td>
<td>10%</td>
<td>20%</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Performance Objectives**

Annual investment performance objectives will be reviewed by the Executive Director – Compensation Programs and Strategy in consultation with the CIO and an independent investment consultant. The investment performance objectives will be reviewed and approved by the AOC in consultation with the CIO, the President, and Chairs of the Regents’ Committees on Compensation and Investment prior to the beginning of the Plan year. Attachment 1 of this Plan Document contains the investment performance objectives approved by the AOC for the current Plan year.

Individual/Qualitative performance objectives for each Plan participant other than the CIO will be defined by his/her supervisor. These objectives will be subject to endorsement by the CIO and approval by the AOC in consultation with the President and Chairs of the Regents’ Committees on Compensation and Investments prior to the beginning of the Plan year. The individual performance objectives of the CIO will be approved annually by the President and Chairs of the Regents’ Committees on Compensation and Investments, in consultation with the AOC, prior to the beginning of the Plan year. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of Plan participants’ objectives.

Performance objectives for each Plan participant must include both the Entity Performance and Individual/Qualitative Performance categories listed below. Asset Class Performance and Sector/Functional Group Performance objectives are incorporated for participants as appropriate. The supervisor of each Plan participant will provide him/her with an annual Terms and Conditions document that (a) identifies the participant’s individual performance objectives applicable to the Plan, (b) defines the performance standards and metrics that will be used to measure threshold, target, and maximum performance for each objective, and (c) assigns performance weightings to the participant’s objectives.

Below are the four Performance Objective categories for the Plan:

1. Entity Performance (e.g., total investment portfolio performance)
2. Asset Class Performance (e.g., US equity, international equity, private equity, bonds & STIP)
3. Sector/Functional Group Performance (e.g., government, credit, etc.)
4. Individual/Qualitative Performance
Individual/Qualitative Performance objectives may be established in, but not limited to, the following areas:

- Leadership
- Implementation of operational goals
- Management of key strategic projects
- Effective utilization of human and financial resources

**Performance Standards**

Each performance objective will include standards of performance defined as follows:

- **Threshold Performance:** This level represents satisfactory results, but less than full achievement of performance objectives.
- **Target Performance:** This level represents full achievement of all performance expectations.
- **Maximum Performance:** This level represents results which clearly exceed expectations.

See the table in Attachment 1 for more detail on specific investment performance metrics.

**Performance Measures and Weightings**

A Plan participant’s performance against assigned qualitative goals will be assessed by the CIO in consultation with the participant’s supervisor, if the immediate supervisor is not the CIO.

Investment performance of both the University portfolios and the market indexes is measured using a three-year rolling average. This method provides for longer term focus on and accountability for sustainable performance results. Investment returns in a given year, whether positive or negative, affect the average, and thus the payout, over three separate Plan years. The lowest value of any award in a given year will be zero.

Individual awards are determined based on achievement of performance objectives relative to policy portfolio benchmarks and individual contribution, and in accordance with the payout curve established for each performance objective. Performance measures for participants in their third full Plan year or later are weighted as displayed in the table below.

<table>
<thead>
<tr>
<th>Position</th>
<th>Weighting for Entity Performance Objectives</th>
<th>Weighting for Asset Class and Sector/Functional Group Performance Objectives</th>
<th>Weighting for Individual/Qualitative Performance Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Investment Officer</td>
<td>80%</td>
<td>0%</td>
<td>20%</td>
</tr>
<tr>
<td>Associate CIO</td>
<td>65%</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Senior Managing Director (Risk Mgmt)</td>
<td>80%</td>
<td>0%</td>
<td>20%</td>
</tr>
<tr>
<td>Senior Managing Director (Asset Class)</td>
<td>40%</td>
<td>50%</td>
<td>10%</td>
</tr>
<tr>
<td>Managing Director</td>
<td>40%</td>
<td>50%</td>
<td>10%</td>
</tr>
<tr>
<td>Director</td>
<td>30%</td>
<td>60%</td>
<td>10%</td>
</tr>
<tr>
<td>Senior Portfolio Manager</td>
<td>30%</td>
<td>60%</td>
<td>10%</td>
</tr>
<tr>
<td>Time Period</td>
<td>Weighting for Quantitative Performance Objectives (Entity, Asset Class, Sector/Functional Group)</td>
<td>Weighting for Individual/Qualitative Performance Objectives</td>
<td></td>
</tr>
<tr>
<td>-----------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>First partial year</td>
<td>20% / 1 year performance</td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>Year 1</td>
<td>30% / 1 year performance</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td>Year 2</td>
<td>50% / 2 years performance</td>
<td>50%</td>
<td></td>
</tr>
</tbody>
</table>

In recognition of a participant’s limited ability to affect attainment of goals in the Plan during the first two years of service, the following adjustments are made in the Weighting table for participants in their first three Plan years.

For the new employee, the relevant investment returns achieved during the transition period (up to 18 months) may be excluded from the three year rolling average.

In special cases, such as for a new participant charged with the restructuring of an entire asset class or strategy, the above weights may be modified at the recommendation of the CIO, subject to approval by the AOC. In such a case, the participant will be required to meet specific objectives which contribute to long-term performance.

The phase-in of new asset classes will be handled in a similar way, that is, performance for the first year of a new asset class will be based on a single year’s return; performance for the second year of the class will be based on the first two years’ returns. See the Administrative Guidelines for more details of specific circumstances.

**Payout Determination**
Annual incentive awards will be payable in cash, subject to appropriate taxes and pursuant to normal University payroll procedures. The participant’s total salary (including base salary, stipends, vacation pay, and sick pay, but excluding prior year incentive award payouts and disability pay) paid as of the end of the Plan year (i.e., on June 30) will be used in the calculation of the award payout. The current position held by the participant at the end of the Plan year will determine the award opportunity level in the calculation. For participants at or above the Investment Officer level (as reflected in the charts above), awards are payable in three annual payments comprised of 50 percent paid in the current Plan year, 25 percent paid in the next second Plan year and 25 percent paid in the third Plan year thereafter. Award payments will be made as soon as practicable following the end of the Plan year. The deferred portion of the award earns interest based on the Short-Term Investment Pool (STIP) rate of return. Payments of the deferred portions of awards are generally issued during the fall of each year. Accrued awards for participants on approved leave of absence will be paid according to the normal
schedule. Awards for participants below the Investment Officer level (as reflected in the charts above) are payable in one lump sum; there is no deferral of any portion of their awards.

A polynomial payout curve is used to determine actual award payouts for performance levels between threshold and maximum and relative to Entity, Asset Class, and Sector/Functional Group performance objectives. The chart below shows an example of the polynomial payout curve for the US Equity asset class. In this example, the Threshold is 15 bp, the Target is 75 bp, and the Maximum is 150 bp.

The primary advantage of the polynomial curve is that it supports the achievement of consistent and sustained performance over the longer term by encouraging participants to achieve target level or higher performance.

**Extraordinary Market Environments**

In periods of unusual market and economic stress, when the entity experiences negative investment returns, regardless of the entity’s relative performance, the portion of the current Plan year awards that would normally be paid at the end of the current Plan year may be deferred. If this deferral mechanism is invoked, awards will be reviewed and approved in the usual manner. But, in conjunction with that review and approval process, deferral will be recommended by the AOC and then approved by the President and the Chairs of the Regents’ Committees on Compensation and Investments. In such a case, the portion of the current Plan year awards that have been deferred will earn interest at the STIP rate. The portion of the current Plan year awards that have been deferred will be processed and distributed as soon as possible. However, in no event will they be deferred longer than one year.

**Plan Administration**

The Plan will be administered by the Executive Director – Compensation Programs and Strategy consistent with the specific design parameters approved by the President and the Regents. The Plan features and provisions outlined in this document shall supersede any other Plan summary.
Except as set forth below, all award amounts will be reviewed by and require the approval of the AOC in consultation with the President and Chairs of the Regents’ Committees on Compensation and Investments. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of proposed awards. Evaluation of the CIO will be conducted by the Chair of the Regents’ Committee on Compensation with input from the President and the Chair of the Regents’ Committee on Investments. Any incentive award for the CIO, the Assistant Treasurer, or any other Plan participant who holds one of the executive offices identified in section 92032(b)(7)(B)(i) of the California Education Code will require the approval of the Board in addition to the AOC.

The AOC must convene to review all recommended awards within 60 days of the fiscal year-end. Payouts to individuals of approved awards must be made within 90 days of the fiscal year-end unless the provision above regarding Extraordinary Market Environments applies.

Award amounts for Plan participants in the Senior Management Group will be reported annually to the Regents by the Executive Director – Compensation Programs and Strategy. The reports will contain appropriate levels of detail, such as the range of awards and the percentage and amount of the award granted for each Plan participant.

This Plan may be terminated or replaced at any time for any reason upon the recommendation of the President, in consultation with the Chairs of the Regents’ Committees on Compensation and Investments, and with the approval of the Regents. Under such circumstances every reasonable efforts, given all circumstances, will be made to delay Plan termination until after the current Plan year has concluded. However, if the Plan is terminated during the Plan year, awards for the current year will still be processed based on participants’ performance during the portion of the Plan year prior to termination. Moreover, such termination will not affect awards earned by Plan participants for performance in prior Plan years.

The University may require repayment of an award that that was made as a result of inappropriate circumstances.
# Treasurer’s Office Annual Incentive Plan (AIP)

## Performance Objectives for FY 2010-11\(^{(1)}\)

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>Benchmark</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PUBLIC EQUITY</strong></td>
<td>Asset Weighted Policy Benchmark</td>
<td>5 bp</td>
<td>33 bp</td>
<td>72 bp</td>
</tr>
<tr>
<td><strong>FIXED INCOME</strong></td>
<td>Asset Weighted Policy Benchmark (Fixed Income)</td>
<td>5 bp</td>
<td>40 bp</td>
<td>80 bp</td>
</tr>
<tr>
<td><strong>PRIVATE EQUITY</strong></td>
<td>Venture Economics Vintage Year Indices</td>
<td>50 bp</td>
<td>100 bp</td>
<td>200 bp</td>
</tr>
<tr>
<td><strong>ABSOLUTE RETURN</strong></td>
<td>Absolute Return</td>
<td>50% HFRX AR Index + 50% HFRX MD Index</td>
<td>75 bp</td>
<td>200 bp</td>
</tr>
<tr>
<td><strong>INCOME FUNDS</strong></td>
<td>US 5-year Treasury Notes Income Return</td>
<td>5 bp</td>
<td>30 bp</td>
<td>60 bp</td>
</tr>
<tr>
<td></td>
<td>US 2-year Treasury Notes Income Return</td>
<td>5 bp</td>
<td>30 bp</td>
<td>60 bp</td>
</tr>
<tr>
<td></td>
<td>US 2-year Treasury Notes Income Return</td>
<td>5 bp</td>
<td>30 bp</td>
<td>60 bp</td>
</tr>
<tr>
<td><strong>SECTOR</strong></td>
<td>Barclays Capital US TIPS Index</td>
<td>5 bp</td>
<td>12 bp</td>
<td>24 bp</td>
</tr>
<tr>
<td></td>
<td>Gov’t Sponsored Sector of Barclays Aggregate</td>
<td>5 bp</td>
<td>30 bp</td>
<td>60 bp</td>
</tr>
<tr>
<td><strong>FIXED INCOME GOVERNMENT SECTOR</strong></td>
<td>Barclays Capital US TIPS Index</td>
<td>5 bp</td>
<td>12 bp</td>
<td>24 bp</td>
</tr>
<tr>
<td></td>
<td>Gov’t Sponsored Sector of Barclays Aggregate</td>
<td>5 bp</td>
<td>30 bp</td>
<td>60 bp</td>
</tr>
<tr>
<td><strong>FIXED INCOME COLLATERAL SECTOR</strong></td>
<td>Barclays Capital US TIPS Index</td>
<td>5 bp</td>
<td>12 bp</td>
<td>24 bp</td>
</tr>
<tr>
<td></td>
<td>Gov’t Sponsored Sector of Barclays Aggregate</td>
<td>5 bp</td>
<td>30 bp</td>
<td>60 bp</td>
</tr>
<tr>
<td><strong>FIXED INCOME CREDIT SECTOR</strong></td>
<td>Barclays Capital US TIPS Index</td>
<td>5 bp</td>
<td>12 bp</td>
<td>24 bp</td>
</tr>
<tr>
<td></td>
<td>Gov’t Sponsored Sector of Barclays Aggregate</td>
<td>5 bp</td>
<td>30 bp</td>
<td>60 bp</td>
</tr>
<tr>
<td><strong>REAL ESTATE SECTOR</strong></td>
<td>FTSE/NAREIT Global ex US Index</td>
<td>25 bp</td>
<td>125 bp</td>
<td>250 bp</td>
</tr>
<tr>
<td></td>
<td>FTSE/NAREIT US Index</td>
<td>25 bp</td>
<td>125 bp</td>
<td>250 bp</td>
</tr>
<tr>
<td></td>
<td>NFI-ODCE Index</td>
<td>5 bp</td>
<td>35 bp</td>
<td>70 bp</td>
</tr>
<tr>
<td></td>
<td>NFI-ODCE Index</td>
<td>5 bp</td>
<td>35 bp</td>
<td>70 bp</td>
</tr>
<tr>
<td><strong>REFERENCE – USED IN WEIGHTED PUBLIC EQUITY AND FIXED INCOME CALCULATIONS</strong></td>
<td>Russell 3000 Tobacco-Free Index</td>
<td>15 bp</td>
<td>75 bp</td>
<td>150 bp</td>
</tr>
<tr>
<td></td>
<td>MSCI World ex US Net Tobacco Free Index</td>
<td>18 bp</td>
<td>100 bp</td>
<td>200 bp</td>
</tr>
<tr>
<td></td>
<td>MSCI Emerging Markets Free Net Index</td>
<td>23 bp</td>
<td>125 bp</td>
<td>250 bp</td>
</tr>
<tr>
<td></td>
<td>Barclays Aggregate</td>
<td>5 bp</td>
<td>30 bp</td>
<td>60 bp</td>
</tr>
</tbody>
</table>

1: Excess performance targets refer to 1, 2, or 3 year investment results as appropriate; all performance objectives are based on total return, net of all management fees.

2: UC Retirement Savings Plan = 403(b), 457, and Defined Contribution plan options managed by Treasurer.

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**Real Estate and Private Equity**

These asset classes are not marked to market and their performance is meaningfully measured only over a long period using Internal Rates of Return (IRRs), not the time-weighted returns of marketable assets. Thus, special procedures have been implemented to fairly measure their performance and award those responsible for managing the assets. See the Administrative Guidelines for these detailed procedures.
Plan Purpose
The purpose of the University of California Clinical Enterprise Management Recognition Plan ("Plan") is to provide the opportunity for at risk variable financial incentives to those employees responsible for attaining or exceeding key Clinical Enterprise objectives. Achievement is measured based on specific financial and/or non-financial objectives, e.g. quality of care or patient safety, and strategic objectives which relate to the Clinical Enterprise’s mission.

The Plan encourages the teamwork required to meet challenging organizational goals. The Plan also uses individual performance objectives to encourage participants to maximize their personal effort and to demonstrate individual excellence.

Plan Oversight
Development, governance and interpretation of the Plan will be overseen by an independent Administrative Oversight Committee (AOC) comprised as follows:

- Executive Vice President – Business Operations
- The Chancellor of every campus with a medical center
- The Vice President – Human Resources
- The Executive Director – Compensation Programs and Strategy

The AOC, in its deliberations pertaining to the development or revision of the Plan, will consult with the Senior Vice President – Health Sciences and Services, and representatives from the medical centers comprised of a Chief Medical Officer, a Chief Nursing Officer, and a Chief Human Resources Officer, each selected from a UC medical center. The AOC will abide by the Political Reform Act, which would prohibit Plan participants, such as the Senior Vice President – Health Sciences and Services, Chief Medical Officers, Chief Nursing Officers, and Chief Human Resources Officers, from making, participating in making, or influencing decisions that would affect whether they participate in the Plan, the objectives that will govern whether they earn awards under the Plan, and the amount of awards paid to them under the Plan. The Office of General Counsel will be consulted if there are any questions about the application of the Political Reform Act in this context. The Chief Audit and Compliance Officer will assure that periodic auditing and monitoring will occur, as appropriate.

Plan Approval
The Plan will be subject to an annual review conducted by the AOC to address design issues and market alignment. Once approved by the Regents, the Plan will be implemented each year upon the approval of the AOC if no changes to the Plan are being recommended. If the AOC recommends any substantive or material changes to the Plan, including, but not limited to, changes in the award opportunity levels, the AOC will obtain the approval of the President and the Regents’ Committees on Compensation and Health Services before implementing such changes. Under such circumstances, every reasonable efforts, given all circumstances, will be
made to delay implementing substantive or material Plan changes until after the end of the current Plan year. However, if changes are implemented during the Plan year that would affect the award calculations, changes will only be applied prospectively to the remaining portion of the Plan year. Plan changes recommended by the AOC that are not material or substantive, or are deemed to be technical corrections, may be approved by the AOC after consultation with the President and the Chairs of the Regents’ Committees on Compensation and Health Services and will then be implemented by the AOC at an appropriate time. The Regents will receive reports of all changes to the Plan.

**Plan Year**
The Plan year will correspond to the University’s fiscal year, beginning July 1 and ending the following June 30.

**Eligibility**
Eligible participants are defined as the senior leadership of the Clinical Enterprise who have significant strategic impact and a broad span of control with the ability to effect enterprise-wide change. Participants must be full-time employees of the University at the end of the Plan year to be eligible to receive an award for that Plan year, unless they have retired or involuntarily separated from the University as set forth in the Separation from the University provision below. A participant who has been found to have violated state or federal law or to have committed a serious violation of University policy will not be eligible for an award under the Plan.

Prior to the beginning of the Plan year, the AOC will provide the President and the Chair of the Regents’ Committee on Compensation with a list of Plan participants for that Plan year, including appropriate detail regarding each Plan participant.

Plan participation in any one year does not provide any right or guarantee of eligibility or participation in any subsequent year of the Plan.

Participants in this Plan may not participate in any other incentive or bonus plan during the Plan year, including the Health Sciences Compensation Plan, except in the event of a mid-year transfer within the University. Specifically, if a Plan participant is eligible for only a partial year award under this Plan because a mid-year transfer of position renders him or her eligible for Plan participation for only a portion of the Plan year, he or she may participate in a different University plan for the other portion of the Plan year. Concurrent participation in this Plan and another University plan is not permitted.

**Award Opportunity Levels**
As part of their competitive total cash compensation package, Plan participants are assigned threshold, target and maximum recognition award levels, expressed as a percentage of their base salary. These award opportunity levels serve to motivate and drive individual and team performance toward annually established objectives. Target awards shall be calibrated to expected results while maximum awards shall only be granted for superior performance against established performance standards. Actual awards for any individual participant may not exceed the maximum award opportunity level assigned. Award opportunity levels are determined, in
part, based on the participant’s level within the organization and the relative scope of responsibilities, impact of decisions, and long term strategic impact.

<table>
<thead>
<tr>
<th>Position Level within Organization</th>
<th>Threshold Opportunity (as % of Base-Salary)</th>
<th>Target Opportunity (as % of Base-Salary)</th>
<th>Maximum Opportunity (as % of Base-Salary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>Other “Chief Levels” and Other Key Senior Clinical Enterprise Leadership</td>
<td>7.5%</td>
<td>15%</td>
<td>25%</td>
</tr>
<tr>
<td>Other Key Clinical Enterprise Leadership</td>
<td>7.5%</td>
<td>15%</td>
<td>20%</td>
</tr>
</tbody>
</table>

**Performance Standards**

Each Plan participant shall be assigned Performance Objectives which have standards of performance defined as Threshold, Target, and Maximum performance consistent with the following:

*Threshold Performance* – Represents the minimum acceptable performance standard for which a recognition award can be paid. This level represents satisfactory results, but less than full achievement of stretch objectives.

*Target Performance* – Represents successful attainment of expected level of performance against stretch objectives.

*Maximum Performance* – Represents results which clearly and significantly exceed all performance expectations for the year. This level of accomplishment should be rare.

**Performance Objectives and Weightings**

Prior to the beginning of each fiscal year, a series of financial and non-financial objectives will be established for each participant, consistent with the mission and goals of each medical center in the Clinical Enterprise. Objectives should fall into the categories below, with no single category accounting for more than 50 percent of the total incentive. It is recommended that no more than three objectives be established per category utilized, with no more than nine objectives in total per participant. Objectives should each relate to one of the following:

- Financial Performance
- Quality Improvements
- Patient Satisfaction
- Key Initiatives in Support of the Strategic Plan
- People and other Resource Management

In addition, the participants’ performance toward their assigned objectives will be measured across three organizational levels, when appropriate: Clinical Enterprise, Institutional (defined as the participant’s medical center) and Individual. Suggested weighting ranges are listed in the table below. Clinical Enterprise level objectives encourage medical centers to work together for
the benefit of the entire Clinical Enterprise system. Institutional objectives encourage local teamwork and recognize the joint effort needed to meet challenging organizational goals. Individual objectives are designed to encourage participants’ maximum effort and demonstration of individual excellence.

**Performance Weightings:**

<table>
<thead>
<tr>
<th>Position Level within Organization</th>
<th>Clinical Enterprise Level</th>
<th>Institutional Level</th>
<th>Individual Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>25% - 50%</td>
<td>25% - 50%</td>
<td>10% - 25%</td>
</tr>
<tr>
<td>Other “Chief Levels” and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Key Senior Clinical Enterprise Leadership</td>
<td>10% - 25%</td>
<td>25% - 50%</td>
<td>25% - 50%</td>
</tr>
<tr>
<td>Other Clinical Participants</td>
<td>NA</td>
<td>25% - 50%</td>
<td>25% - 75%</td>
</tr>
</tbody>
</table>

Annual performance objectives for the Clinical Enterprise Level (system-wide), annual Institutional performance objectives for each medical center, and annual performance objectives for the individual CEOs of the medical centers will be established and administered by the Senior Vice President – Health Sciences and Services in consultation with the respective Chancellors. Annual performance objectives for the Senior Vice President – Health Sciences and Services will be established by the President in consultation with the Chairs of the Regents’ Committees on Compensation and Health Services in advance of the Plan year. Annual performance objectives for other participants will be established and administered by each participant’s supervisor in consultation with the CEO of that medical center.

Performance objectives must be specific, measurable, and stretch. Assessment of participants’ performance and contribution relative to these objectives will determine their actual award amount.

Objectives for participants in this Plan must be submitted to the AOC, which will review and approve the objectives in consultation with the President and the Chairs of the Regents’ Committees on Compensation and Health Services in advance of the Plan year. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of Plan participants’ objectives.

**Financial Standards and Plan Funding**

A financial target will be set by each medical center for the Plan year. These financial targets will be reviewed by the AOC in consultation with the Senior Vice President – Health Sciences and Services and the Executive Vice President and Chief Financial Officer, and approved by the President in advance of the beginning of the Plan year.

Full funding of awards for participants at a medical center in the Plan year is contingent upon that medical center’s ability to pay out the awards while maintaining a positive net cash flow from operations before intra-institutional transfers. In the event that the medical center cannot meet that financial standard for the Plan year, but the medical center attains key Institutional non-financial objectives, the AOC may consider and approve, in consultation with the
Chancellor and Senior Vice President – Health Sciences and Services, partial award payouts for some or all of that medical center’s Plan participants based on the Award Opportunity Levels defined above and participants’ achievement of their assigned objectives for the Plan year.

**Administrative Provisions and Award Approval**

The Plan shall be administered under the purview of the Executive Director – Compensation Programs and Strategy, at the Office of the President, consistent with the Plan features outlined above, and as approved by the President and the Regents. The Plan features and provisions outlined in this document shall supersede any other Plan summary.

The supervisor of each Plan participant will provide him/her with an annual Terms and Conditions document that (a) identifies the participant’s individual performance objectives for the Plan year, (b) defines the standards that will be used to measure threshold, target, and maximum performance for each objective, and (c) assigns performance weightings to the participant’s objectives.

At the end of each fiscal year, proposed awards will be submitted to the Executive Director - Compensation Programs and Strategy. Except as set forth below, review and approval of all awards under the Plan will be the responsibility of the AOC, which will review recommended awards within 60 days of the end of the Plan Year. Any award for the Senior Vice President – Health Sciences and Services or any other Plan participant who holds one of the executive offices identified in section 92032(b)(7)(B)(i) of the California Education Code, including, but not limited to, any vice president of the University, will require the approval of the Regents in addition to the approval of the AOC. Approved awards will be processed as soon as possible unless they have been deferred pursuant to the provision set forth below. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of proposed awards.

The Executive Director – Compensation Programs and Strategy will provide the President and Chairs of the Regents’ Committees on Compensation and Health Services with a listing of the award recommendations before the awards are scheduled to be paid. The awards will be reported annually to the Regents, with appropriate detail, such as the range of awards and the percentage and amount of the award granted for each Plan participant.

Annual incentive awards will be payable in cash, subject to appropriate taxes and pursuant to normal University payroll procedures. The participant’s total University salary (including base salary, stipends, and PTO pay, but excluding any prior year incentive award payouts and disability pay) paid as of the end of the Plan year (i.e., on June 30) will be used in the calculation of the award payout.

This Plan may be terminated or replaced at any time for any reason upon the recommendation of the President, in consultation with the Chairs of the Regents’ Committees on Compensation and Health Services, and with the approval of the Regents. Under such circumstances Reasonable every-efforts, given all circumstances, will be made to delay Plan termination until after the current Plan year has concluded. However, if the Plan is terminated during the Plan year, awards
for the current year will still be processed based on participants’ performance during the portion of the Plan year prior to termination.

Notwithstanding any other term in the Plan, current year awards may be deferred if the Regents issue a declaration of extreme financial emergency upon the recommendation of the President or if the Clinical Enterprise experiences a system-wide negative cash flow. In such situations, the deferral would be made upon the recommendation of the AOC and require the approval of the President and the Chairs of the Regents’ Committees on Compensation and Health Services. In such a case the current year deferred awards will earn interest at the STIP rate. Award payments that have been approved, but deferred, will be processed and distributed as soon as possible. In no event will awards be deferred longer than one year.

The University may require repayment of an award that has been made as a result of inappropriate circumstances.

**Separation from the University**

Participants who retire or who involuntarily separate due to reorganization, restructuring, or total disability during the current Plan year are eligible to receive a prorated incentive award for the current Plan year based on the date of separation of employment from the University. Retirement and total disability status will be determined based upon applicable University policies. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued in accordance with the normal processing schedule.

Participants whose employment terminates as a result of death during the current Plan year are similarly eligible to receive a prorated incentive award for the current Plan year based on the date of death. In this situation, award payments will be made to the estate of the deceased participant. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued to the estate of the deceased participant in accordance with the normal processing schedule.

Involuntary separation during the current Plan year for any other reason will be handled on a case by case basis.

**Partial Year Awards**

Participants must have a minimum of six months of service to participate in the Plan and will receive a prorated award in their first year of participation. Similarly, participants who were not working for a significant portion of the Plan year may receive a prorated award. Participants who transfer within the University to a position that would not be eligible for participation in the Plan are eligible to receive a prorated award for that Plan year.