

**UNIVERSITY OF CALIFORNIA
GENERAL ENDOWMENT POOL**

**ASSET & RISK ALLOCATION
POLICY**



**UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL
INVESTMENT POLICY STATEMENT**

TABLE OF CONTENTS

1. Statement of Purpose	3
2. Asset Class Types	3
3. Risk Management.....	4
4. Strategic Asset Allocation.....	4
5. Benchmark Selection Criteria.....	5
6. Benchmarks	5
7. Rebalancing.....	5

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UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL

INVESTMENT POLICY STATEMENT

1. Statement of Purpose

The purpose of this Asset & Risk Allocation Policy (“Policy”) is to define the asset classes, strategic asset allocation policy of the University of California General Endowment Pool (“GEP”), risk management, the selection of investment benchmarks, and rebalancing.

2. Asset Class Types

Investments can generally be divided into broad asset classes within which investments share common characteristics. Below is a list of asset classes in which the GEP may invest such that they do not conflict with the constraints and restrictions described in the GEP Investment Policy Statement. The criteria used to determine which asset classes may be included are:

- a. Positive contribution to the investment objective of GEP
- b. Widely recognized and accepted among institutional investors
- c. Low cross correlations with some or all of the other accepted asset classes
- d. Meaningful performance history

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

a. Public Equity

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

b. Liquidity (Income)

Liquidity (Income) includes a variety of asset types. The portfolio will invest in interest bearing and income based instruments such as corporate and government bonds, high yield debt, emerging markets debt, inflation linked securities, cash and cash equivalents. The portfolio can hold a mix of traditional (benchmark relative) strategies and unconstrained (benchmark agnostic) strategies. The objective of the income portfolio is to provide income and liquidity with low risk of principal loss.

c. Private Equity

Private equity includes, but is not limited to, venture capital and buyouts, direct investments, and co-investments in private companies. This includes investments in private equity entities and private investments in public entities which are illiquid. The objective of the portfolio is to earn higher returns than the public equity markets over the long term and take advantage of the illiquidity premium.

d. Real Assets

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

e. Real Estate (Real Assets)

Real Estate (Real Assets) investments are in properties accessed through separate accounts, direct investments, or funds. Strategies types for real estate are core, value added, and opportunistic investing in property types such as apartments, office, retail, industrial, and hotel.

**UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL
INVESTMENT POLICY STATEMENT**

f. Absolute Return / Strategic Opportunities (Growth, Diversifier)

This collection of strategies includes, but is not limited to, hedge funds across multiple strategy types such as Relative Value, Event Driven, and Strategic Opportunistic strategies. The objective of the portfolio is to provide diversification and generate capital appreciation for GEP.

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

3. Risk Management

The Office of the Chief Investment Officer is responsible for managing both total and active risk and shall implement procedures and safeguards so that the combined risk exposures of all portfolios in the aggregate are kept within limits established by the Subcommittee. Further, within limits of prudent diversification and risk budgets, total and active risk exposures are fungible. That is, the Office of the Chief Investment Officer may allocate risk exposures within and between asset classes in order to optimize return.

4. Strategic Asset Allocation

The purpose of the Strategic Asset Allocation is to reflect GEP's long-term purpose and objectives, as well as the investment beliefs and organizational capability of the Office of the Chief Investment Officer. The actual portfolio exposures will deviate from the Strategic Asset Allocation as a result of price drifts and value adding activities of the Office of the Chief Investment Officer. This is underpinned by the recognition that investment opportunities come and go, values rise and fall and, that implementation must be dynamic in order to benefit from this fluctuation. We follow a risk allocation process to ensure that the attractiveness of all opportunities is assessed on a consistent basis and that will meet the risk objectives set by the Board.

The investment strategy of the GEP will incorporate the relationship between current and projected assets, evolution of the University's financial needs, namely GEP Spending Policy, contributions, and growth expectations.

Below are the strategic asset allocation long term weights and allowable ranges for each asset class:

Table 1

	Strategic Asset Allocation	<u>Allowable Ranges</u>	
		<u>Minimum</u>	<u>Maximum</u>
Public Equity	30.0	20.0	52.5
Private Equity	22.5	10.0	32.5
Absolute Return (Strategic Opportunities)	25.0	15.0	32.0
Real Assets	12.5	3.0	17.5
<u>Liquidity (Income)</u>	<u>10.0</u>	<u>0.0</u>	<u>17.5</u>
TOTAL	100%		

UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL

INVESTMENT POLICY STATEMENT

5. **Benchmark Selection Criteria**

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

1. **Unambiguous:** the names and weights of securities comprising the benchmark are clearly delineated.
2. **Investable:** is possible to replicate the benchmark performance by investing in the benchmark holdings.
3. **Measurable:** it is possible to readily calculate the benchmark's return on a reasonably frequent basis.
4. **Appropriate:** the benchmark is consistent with the Committee's investment preferences or biases.
5. **Specified in Advance:** the benchmark is constructed prior to the start of an evaluation period.
6. **Reflects Current Investment Opinion:** investment professionals in the asset class should have views on the assets in the benchmark and incorporate those views in their portfolio construction.

6. **Benchmarks**

Benchmarks are a tool against which to measure the effectiveness of investment strategy either at a total fund level, at an investment class or strategy level, or at the mandate level.

Based on the benchmark selection criteria, the following strategic asset class policy benchmarks have been chosen:

Table 2

Asset Class	Benchmark
Global Equity	MSCI ACWI IMI Tobacco Free (Net Dividends)
Private Equity	Russell 3000 + 300 basis points*
Absolute Return (Strategic Opportunities)	HFRI Fund of Funds Composite
Real Assets (non Real Estate)	Actual Real Assets Portfolio Return
Real Estate (Real Assets)	NCREIF Open-End Diversified Core Equity (ODCE)
Income (Liquidity)	Barclays US Aggregate Index

*In the first year, as we transition the benchmark into the portfolio the illiquidity premium is 150 basis points

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

7. **Rebalancing**

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

**UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL
INVESTMENT POLICY STATEMENT**

The Office of the Chief Investment Officer will monitor the actual asset allocation. The Investments Sub-Committee directs the Office of the Chief Investment Officer to take all actions necessary, within the requirement to act prudently, to manage the asset allocation in a manner that ensures that the GEP achieves its long-term risk and return objectives.

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

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