

**Office of the Chief Investment Officer**

**TO MEMBERS OF THE INVESTMENTS COMMITTEE:**

**DISCUSSION ITEM**

*For Meeting of September 28, 2021*

**REVIEW OF FISCAL YEAR 2020–21 PERFORMANCE OF UC PENSION, ENDOWMENT, RETIREMENT SAVINGS PROGRAM, BLUE AND GOLD POOL AND WORKING CAPITAL**

**EXECUTIVE SUMMARY**

**UC ASSETS GROW BY \$38 BILLION IN 2021 TO \$168 BILLION WITH ENDOWMENT RETURNING 33.7 PERCENT AND PENSION UP 30.5 PERCENT**

The University of California’s investment portfolios grew to \$168 billion in assets under management as of June 30, 2021, gaining \$37.7 billion over the prior year, a 28.9 percent increase that represents the largest one-year jump in UC Investments’ history. Since 2014, the portfolios have grown by \$73.1 billion, or 77 percent.

The University’s investment portfolios contain both public and private assets and are spread across six unique financial products, each of which addresses the needs of our students, staff, retirees, and the ten UC campuses and five medical centers. Retirement, which includes the traditional pension and the Retirement Savings Plan, a defined contribution program, stood at \$125.6 billion on June 30, 2021, the end of the fiscal year. The pension is now estimated to be funded at 94 percent on a market value basis.

The endowment, which includes the General Endowment and Blue & Gold Pools, stood at \$19.7 billion. Working capital, which includes the Total Return and Short Term Investment Pools, ended the fiscal year at \$22.6 billion.

Asset allocation was the key driver behind these strong returns, which were led by the record performance of public and private equities. Moreover, we were shown once again that incorporating diversity into our investment process drives returns. This year, some of our strongest performances came from our diverse external managers.

Since 2014, the UC Investments team has generated \$5.2 billion in value added (returns over the benchmarks) and saved \$2.2 billion in costs by reducing the number of external managers and increasing direct co-investments in companies. UC Investments has reduced the number of its key external partnerships from 280 in 2014 to 50 today.

## DISCUSSION

### **Endowment Grows by \$11 billion Since 2014**

The General Endowment Pool stood at \$19 billion as of June 30, 2021. That was up \$5 billion from the prior year and represents an increase of \$10.7 billion since 2014 (a 129 percent increase). The one-year net return was 33.7 percent, (4.2 percent over the benchmark), the three-year return was 14.9 percent, the five-year return was 13.7 percent, and the seven-year return was ten percent. The ten-year return was 9.9 percent, the 20-year return was 7.8 percent, the 25-year return was 8.9 percent, and the 30-year rate, 9.7 percent. All of these returns surpassed the policy benchmarks.

Private equities in the endowment returned 58.7 percent and public equities, 41.1 percent for the year.

UC Investments has been investing the endowment for 90 years. Its current \$19 billion in assets under management are divided among more than 6,300 funds. These support 285,862 UC students. In 2021, the annual payout to campuses was \$430 million.

Since 2014, UC Investments has added \$2.1 billion in value beyond the benchmark and saved \$592 million in fees in the endowment.

### **UC Pension Estimated to Be 94 Percent Funded on Market Value Basis.**

The UC pension stood at \$91 billion as of June 30, 2021, up \$20.8 billion from the prior year and representing an increase of \$38.9 billion since 2014 (a 75 percent increase). The one-year net return was 30.5 percent (2.0 percent over the benchmark). The three-year return was 12 percent, the five-year return was 11.6 percent and the seven-year return was 8.5 percent. The ten-year return was 8.9 percent, the 20-year return was 6.9 percent, and the 25-year rate, 8.1 percent, and the 29-year rate is nine percent. Over these time frames, all returns were at or above the policy benchmarks.

Private equities in the pension returned 54.7 percent and public equities returned 41.8 percent for the year.

The pension liabilities as of June 30, 2021 stood at approximately \$97 billion (estimated), making the pension funded at an estimated 94 percent on a market value basis and 83 percent on an actuarial basis. The current pension discount rate is 6.75 percent.

Since 2014, UC Investments has added \$2.1 billion in value to the pension beyond the benchmark and saved \$1.4 billion in fees.

UC Investments has been investing the pension for 62 years and today it has 250,976 members, 54 percent of them active.

### **Working Capital Grows by \$5 billion**

UC working capital stood at \$22.6 billion as of June 30, 2021, up \$4.7 billion from the prior year and representing an increase of \$7.9 billion since 2014 (a 53.7 percent increase).

University of California campuses and medical centers rely on working capital to pay for the mission-critical projects and programs that make UC the gold standard of public universities in the United States. Here is how we were able to support our campuses this year: over the past year, the Total Return Investment Pool returned 21.3 percent, compared to 0.6 percent for the Short Term Investment Pool.

The UC Total Return Investment Pool, which was created in August 2008, stood at \$13 billion as of June 30, 2021, up \$5.6 billion from the prior year, representing an increase of \$5.4 billion since 2014 (a 71.1 percent increase). The one-year net return was 21.3 percent, the three-year return was 9.5 percent, the five-year return was 8.1 percent, the seven-year return was 6.2 percent, and the ten-year rate was 7.2 percent. The 12-year return was 8.1 percent.

The UC Short Term Investment Pool stood at \$9.6 billion as of June 30, 2021, down \$0.9 billion from the prior year, representing an increase of \$2.5 billion since 2014 (a 35.2 percent increase). The one-year net return was 0.6 percent, the three-year return was 1.6 percent, the five-year return was 1.6 percent and the seven-year return was 1.5 percent. The ten-year return was 1.7 percent, the 12-year return was 1.8 percent, the 20-year return was 2.8 percent, and the 25-year rate, 3.4 percent.

### **Re-launched Blue & Gold Pool up 5.8 percent in three months**

The UC Blue & Gold Pool stood at \$0.7 billion as of June 30, 2021, up \$0.3 billion from the prior quarter. The three-month return was 5.8 percent. During the pandemic, in April 2020, campuses used the Blue & Gold pool to increase their liquidity and all assets were withdrawn. The pool was re-launched on March 31, 2021 with funding of \$0.4 billion. The Blue & Gold Pool was first launched two years ago, on March 31, 2019, with \$250 million in assets. By December 31, 2019, assets had grown to \$2 billion from campuses.

### **Best-in-Class Retirement Savings Program Grows to \$35 billion**

The UC Retirement Savings Program ended at \$34.6 billion on June 30, 2021, an increase of \$7.6 billion from June 30, 2020, and representing a jump of \$14.8 billion since 2014 (a 74.7 percent increase). The UC Retirement Savings Program is the second largest public plan in the country, after only the federal government. It serves 316,000 participants at an industry leading average cost of 0.04 percent and offers participants the best choices of any plan in the nation.

UC Investments makes investing for retirement simple. Since 2014, it has streamlined investment choices from 75 to 14.

UC Investments is always innovating, planning to launch a low-cost way to guarantee an

uninterrupted income stream for participants 75 and older. In addition, UC Investments has introduced a fossil free fund with a management fee of only .01 percent.

Over seven years, UC Investments has added \$411 million in value for participants and saved them \$65 million in fees.

### **The UC Investments Way Guides Everything UC Investments Does**

As the first of UC Investments' ten investment pillars states, "Less is More," and simplicity means lower costs and more focus, which adds up to better returns. UC Investments has realigned its portfolios by investing 64 percent of its assets in passive index funds—where it pays far less in fees—while actively investing the remaining 36 percent in areas where it believes it can do better than what the market passively provides. Overall, \$108 billion of our total \$168 billion in assets is passively invested, while the remaining \$60 billion is actively managed. That compares to 2014, when only \$30 billion was passively managed and the remaining \$65 billion was actively managed.

UC Investments manages \$6.7 billion per investment professional. The industry standard is \$1.1 billion. To do this work, industry peers charge an average of 0.3 percent, more than ten times what UC clients pay: 0.023 percent. In other words, instead of paying \$504 million in annual internal management fees, UC clients pay \$39 million.

While this year's returns were extraordinary, UC Investments keeps its focus on the long term. With every investment opportunity, comes risk. That's why each of UC investment professionals are also risk managers. That will always be in the best interests of the University of California.

What follows are the performance tables for each of UC Investments' financial products as of the end of the fiscal year, June 30, 2021.

UC General Endowment Pool

As of June 30, 2021	Market Value in Millions (\$)	Annualized Returns (percent)							
		1 Year	3 Year	5 Year	7 Year	10 Year	20 Year	25 Year	30 Year
<b>Endowment</b>	\$19,028	<b>33.7</b>	<b>14.9</b>	<b>13.7</b>	<b>10.0</b>	<b>9.9</b>	<b>7.8</b>	<b>8.9</b>	<b>9.7</b>
Policy Benchmark		29.5	12.1	11.4	8.3	8.1	7.0	8.1	9.1
Value Added		<b>4.2</b>	<b>2.8</b>	<b>2.3</b>	<b>1.7</b>	<b>1.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.6</b>
<b>Public Equity</b>	\$8,878	<b>41.1</b>	<b>16.1</b>	<b>16.6</b>	<b>10.7</b>	<b>10.7</b>	<b>7.3</b>	<b>8.4</b>	-
Public Equity Policy Benchmark		40.9	14.3	14.9	9.8	10.0	7.8	9.1	-
Value Added		0.2	1.8	1.7	0.9	0.7	(0.5)	(0.7)	-
<b>Fixed Income</b>	\$1,421	<b>0.0</b>	<b>4.2</b>	<b>3.2</b>	<b>2.6</b>	<b>3.5</b>	<b>5.3</b>	<b>6.2</b>	-
Fixed Income Policy Benchmark		0.4	5.6	3.8	3.6	4.1	5.6	6.0	-
Value Added		(0.4)	(1.4)	(0.6)	(1.0)	(0.6)	(0.3)	0.2	-
<b>Private Assets</b>									
<b>Private Equity</b>	\$4,107	<b>58.7</b>	<b>35.1</b>	<b>29.6</b>	<b>26.3</b>	<b>23.2</b>	<b>15.0</b>	<b>20.6</b>	-
Private Equity Policy Benchmark		46.7	20.7	19.9	19.5	18.5	11.6	13.2	-
Value Added		12.0	14.4	9.7	6.8	4.7	3.4	7.4	-
<b>Absolute Return</b>	\$2,509	<b>21.2</b>	<b>8.6</b>	<b>7.4</b>	<b>5.5</b>	<b>6.0</b>	-	-	-
Absolute Return Policy Benchmark		18.5	6.2	5.2	2.5	2.0	-	-	-
Value Added		2.7	2.4	2.2	3.0	4.0	-	-	-
<b>Real Estate</b>	\$1,064	<b>14.0</b>	<b>6.9</b>	<b>7.8</b>	<b>9.6</b>	<b>10.4</b>	-	-	-
Real Estate Policy Benchmark		5.2	5.2	6.0	7.9	9.1	-	-	-
Value Added		8.8	1.7	1.8	1.7	1.3	-	-	-
<b>Real Assets</b>	\$546	<b>10.5</b>	<b>8.6</b>	<b>7.6</b>	<b>2.1</b>	<b>2.9</b>	-	-	-
<b>Private Credit</b>	\$351	<b>15.2</b>	-	-	-	-	-	-	-
Private Credit Policy Benchmark		13.4	-	-	-	-	-	-	-
Value Added		1.8	-	-	-	-	-	-	-
<b>Cash</b>	\$152	<b>0.7</b>	-	-	-	-	-	-	-
Cash Policy Benchmark		0.1	-	-	-	-	-	-	-
Value Added		0.6	-	-	-	-	-	-	-

UC Pension

As of June 30, 2021	Market Value in Millions (\$)	Annualized Returns ( percent)							
		1 Year	3 Year	5 Year	7 Year	10 Year	20 Year	25 Year	29 Year
<b>Pension</b>	<b>\$90,977</b>	<b>30.5</b>	<b>12.0</b>	<b>11.6</b>	<b>8.5</b>	<b>8.9</b>	<b>6.9</b>	<b>8.1</b>	<b>9.0</b>
Policy Benchmark		28.5	12.0	11.3	8.2	8.4	6.6	7.8	8.6
Value Added		2.0	0.0	0.3	0.3	0.5	0.3	0.3	0.4
<b>Public Equity</b>	<b>\$52,678</b>	<b>41.8</b>	<b>15.5</b>	<b>15.9</b>	<b>10.7</b>	<b>10.8</b>	<b>7.0</b>	<b>8.1</b>	<b>9.2</b>
Public Equity Policy Benchmark		40.9	14.3	14.7	9.8	10.1	7.7	9.1	10.1
Value Added		0.9	1.2	1.2	0.9	0.7	(0.7)	(1.0)	(0.9)
<b>Fixed Income</b>	<b>\$16,185</b>	<b>3.0</b>	<b>5.3</b>	<b>3.8</b>	<b>3.5</b>	<b>4.0</b>	<b>5.6</b>	<b>6.6</b>	<b>7.1</b>
Fixed Income Policy Benchmark		3.0	6.1	4.0	3.7	4.0	5.5	6.1	6.5
Value Added		0.0	(0.8)	(0.2)	(0.2)	0.0	0.1	0.5	0.6
<b>Core</b>	<b>\$12,693</b>	<b>0.1</b>	<b>4.7</b>	<b>3.1</b>	<b>3.3</b>	<b>3.6</b>	<b>5.1</b>	<b>6.2</b>	<b>6.7</b>
Core Policy Benchmark		0.4	5.6	3.2	3.4	3.5	5.0	5.7	6.1
Value Added		(0.3)	(0.9)	(0.1)	(0.1)	0.1	0.1	0.5	0.6
<b>Emerging Market Debt</b>	<b>\$2,111</b>	<b>7.5</b>	<b>6.6</b>	<b>4.7</b>	<b>4.1</b>	<b>4.4</b>	-	-	-
Emerging Market Debt Policy Benchmark		7.5	6.7	4.9	4.9	5.4	-	-	-
Value Added		0.0	(0.1)	(0.2)	(0.8)	(1.0)	-	-	-
<b>High Yield</b>	<b>\$1,381</b>	<b>15.0</b>	<b>7.1</b>	<b>7.0</b>	<b>5.3</b>	<b>6.7</b>	-	-	-
High Yield Policy Benchmark		14.7	6.9	7.1	5.2	6.4	-	-	-
Value Added		0.3	0.2	(0.1)	0.1	0.3	-	-	-
<b>Private Assets</b>									
<b>Private Equity</b>	<b>\$7,529</b>	<b>54.7</b>	<b>24.4</b>	<b>21.2</b>	<b>17.7</b>	<b>16.6</b>	<b>11.5</b>	<b>17.5</b>	<b>19.2</b>
Private Equity Policy Benchmark		46.7	20.7	18.4	15.8	15.3	10.4	12.3	13.6
Value Added		8.0	3.7	2.8	1.9	1.3	1.1	5.2	5.6
<b>Absolute Return</b>	<b>\$5,174</b>	<b>21.8</b>	<b>8.3</b>	<b>7.2</b>	<b>5.3</b>	<b>5.8</b>	-	-	-
Absolute Return Policy Benchmark		18.5	6.2	6.1	3.2	2.4	-	-	-
Value Added		3.3	2.1	1.1	2.1	3.4	-	-	-
<b>Real Estate</b>	<b>\$4,405</b>	<b>8.2</b>	<b>4.3</b>	<b>5.9</b>	<b>8.4</b>	<b>9.6</b>	-	-	-
Real Estate Policy Benchmark		5.2	5.2	6.0	7.9	9.1	-	-	-
Value Added		3.0	(0.9)	(0.1)	0.5	0.5	-	-	-
<b>Real Assets</b>	<b>\$3,094</b>	<b>11.5</b>	<b>6.9</b>	<b>7.7</b>	<b>2.1</b>	<b>3.1</b>	-	-	-
<b>Private Credit</b>	<b>\$744</b>	<b>14.1</b>	-	-	-	-	-	-	-
Private Credit Policy Benchmark		13.4	-	-	-	-	-	-	-
Value Added		0.7	-	-	-	-	-	-	-
<b>Cash</b>	<b>\$1,167</b>	<b>1.8</b>	-	-	-	-	-	-	-
Cash Policy Benchmark		0.1	-	-	-	-	-	-	-
Value Added		1.7	-	-	-	-	-	-	-

**Blue & Gold Pool**

As of June 30, 2021	Market Value in Millions (\$)	Fiscal YTD 3 Months	Annualized Returns ( percent)				
			1 Year	3 Year	5 Year	7 Year	10 Year
<b>Blue &amp; Gold</b>	<b>\$714</b>	<b>5.8</b>	-	-	-	-	-
Policy Benchmark		5.7	-	-	-	-	-
Value Added		<b>0.1</b>	-	-	-	-	-
<b>Public Equity</b>	<b>\$575</b>	<b>7.2</b>	-	-	-	-	-
Public Equity Policy Benchmark		7.1	-	-	-	-	-
Value Added		0.1	-	-	-	-	-
<b>Fixed Income</b>	<b>\$139</b>	<b>0.2</b>	-	-	-	-	-
Fixed Income Policy Benchmark		0.3	-	-	-	-	-
Value Added		(0.1)	-	-	-	-	-

**Working Capital**

As of June 30, 2021	Market Value in Millions (\$)	Annualized Returns ( percent)					
		1 Year	3 Year	5 Year	7 Year	10 Year	12 Year
<b>Total Return</b>	<b>\$13,035</b>	<b>21.3</b>	<b>9.5</b>	<b>8.1</b>	<b>6.2</b>	<b>7.2</b>	<b>8.1</b>
Policy Benchmark		19.3	10.1	8.2	6.2	7.1	8.1
Value Added		<b>2.0</b>	<b>(0.6)</b>	<b>(0.1)</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>
<b>Public Equity</b>	<b>\$6,555</b>	<b>40.9</b>	<b>9.8</b>	<b>12.1</b>	<b>8.1</b>	<b>9.8</b>	<b>11.4</b>
Public Equity Policy Benchmark		40.9	14.3	14.7	11.1	10.8	11.0
Value Added		0.0	(4.5)	(2.6)	(3.0)	(1.0)	0.4
<b>Fixed Income</b>	<b>\$6,418</b>	<b>0.4</b>	<b>4.9</b>	<b>3.4</b>	<b>3.4</b>	<b>4.3</b>	<b>5.3</b>
Fixed Income Policy Benchmark		0.4	5.6	3.2	3.4	3.5	4.0
Value Added		0.0	(0.7)	0.2	0.0	0.8	1.3
<b>Cash</b>	<b>\$61</b>	<b>0.6</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>	<b>1.7</b>	<b>1.8</b>

As of June 30, 2021	Market Value in Millions (\$)	Annualized Returns ( percent)							
		1 Year	3 Year	5 Year	7 Year	10 Year	12 Year	20 Year	25 Year
<b>Short Term</b>	<b>\$9,636</b>	<b>0.6</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>	<b>1.7</b>	<b>1.8</b>	<b>2.8</b>	<b>3.4</b>
Policy Benchmark		0.0	1.3	1.2	1.0	0.8	1.1	1.7	2.5
Value Added		<b>0.6</b>	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>	<b>0.9</b>	<b>0.7</b>	<b>1.1</b>	<b>0.9</b>

**Attachments:**

1. **TRIP/STIP**
2. **UC Retirement Plan**

- 3. UC Retirement Savings**
- 4. Fiat Lux**
- 5. General Endowment Pool**
- 6. UC Investments Annual Report**