

Office of the Chief Investment Officer of the Regents (UC Investments)

TO MEMBERS OF THE INVESTMENTS COMMITTEE:

DISCUSSION ITEM

For Meeting of September 19, 2024

REVIEW OF FISCAL YEAR 2023–24 PERFORMANCE FOR UC RETIREMENT, ENDOWMENT, AND WORKING CAPITAL ASSETS

EXECUTIVE SUMMARY

The University of California’s investment portfolios ended the 2023–24 fiscal year at \$180 billion, a \$16 billion increase over the previous year that was fueled by market enthusiasm for artificial intelligence for the second straight year. The UC endowment was up 12.8 percent, while the pension returned 12.2 percent and working capital 9.7 percent. Since 2014, the University’s total investment assets have doubled.

UC Investments manages the University’s retirement, endowment, and working capital assets. Its six financial products support UC’s 295,573 students, 73,000 faculty members and other academics, 173,300 staff, more than 77,000 retirees, and the ten UC campuses and six academic health centers.

As of June 30, 2024, the UC Endowment, which includes the General Endowment Pool and the Blue and Gold Endowment Pool, stood at \$29.5 billion, up from \$23.4 billion the year before. Over the past ten years, the endowment has more than tripled in value—growing from \$8 billion to \$29.5 billion—and paid out \$4.5 billion to benefit UC students, faculty, and various academic programs. The 2023–24 annual payout, which includes capital from both funds, was \$885 million. About \$13 billion of the endowment’s growth—including the Blue and Gold Endowment Pool—came directly from UC campuses and medical centers that have entrusted UC Investments to manage their assets.

The Blue and Gold Endowment Pool, which was launched on March 31, 2019 with \$250 million, stood at \$6.9 billion as of June 30, 2024, up from \$2.7 billion the year before. The size of the increase was largely due to campuses investing funds from working capital portfolios to take advantage of the Blue and Gold Endowment Pool’s near instant liquidity, and this year, its 15.7 percent return. The Blue and Gold had the highest performance of the University’s six financial products for the second year in a row.

UC’s retirement assets, which include the pension and the Retirement Savings Program, currently stand at \$137.6 billion, having grown from \$72 billion in 2014. Over those ten years, the pension has grown by 90 percent, from \$52 billion to \$98.6 billion. Even with a relatively

high discount rate of 6.75 percent, today the pension is 85 percent funded on a market value basis and 83 percent on an actuarial basis. Despite not having had the benefit of funding from State government, UC's pension is the best funded of the three state plans.

For its part, the UC Retirement Savings Program has added 51,600 participants since 2014—from 301,000 in 2014 to 352,600 today, a 17 percent increase—and its assets have grown from \$20 billion to \$39 billion, nearly doubling. The plan, the second largest public defined contribution program behind the federal government, continues to have the lowest management fee in the nation, only 0.05 percent.

The **General Endowment Pool** stood at \$22.6 billion as of June 30, 2024, up from \$20.7 billion the year before. The 30-year annualized net return was 9.3 percent, the 20-year return was 7.9 percent, the ten-year return was 8.1 percent, the five-year return was 9.4 percent, and the one-year net return was 11.7 percent. UC's investment office has been investing the General Endowment Pool for 92 years.

Figure 1. General Endowment Pool as of June 30, 2024

As of June 30, 2024	Market Value in Millions (\$)	Annualized Returns							
		1 Year	3 Year	5 Year	10 Year	15 Year	20 Year	25 Year	30 Year
General Endowment Pool	\$22,564	11.7	3.8	9.4	8.1	9.4	7.9	6.9	9.3
Policy Benchmark		14.5	5.3	9.2	7.4	8.3	7.3	6.2	8.6
Value Added		(2.8)	(1.5)	0.2	0.7	1.1	0.6	0.7	0.7
Public Equity	\$10,725	21.6	4.8	11.5	8.9	11.0	8.2	6.1	9.1
Public Equity Policy Benchmark		18.7	4.2	10.0	8.1	10.3	8.1	6.4	9.7
Value Added		2.9	0.6	1.5	0.8	0.7	0.1	(0.3)	(0.6)
Total Fixed Income	\$1,702	5.0	0.4	1.3	2.1	3.9	4.3	5.0	6.2
Fixed Income Policy Benchmark		4.7	(0.2)	1.6	2.4	4.0	4.4	5.0	5.7
Value Added		0.3	0.6	(0.3)	(0.3)	(0.1)	(0.1)	0.0	0.5
Private Assets									
Private Equity	\$4,757	0.8	1.3	15.0	18.2	17.8	16.4	16.2	19.5
Private Equity Policy Benchmark		26.1	11.1	16.9	16.9	16.9	13.7	10.5	14.2
Value Added		(25.3)	(9.8)	(1.9)	1.3	0.9	2.7	5.7	5.3
Absolute Return	\$875	9.4	3.4	5.8	4.9	6.1	5.6	-	-
Absolute Return Policy Benchmark		8.6	2.2	4.8	2.4	2.3	3.6	-	-
Value Added		0.8	1.2	1.0	2.5	3.8	2.0	-	-
Real Estate	\$2,801	10.1	13.3	10.6	10.7	8.5	-	-	-
Real Estate Policy Benchmark		(10.0)	1.0	2.4	5.8	5.5	-	-	-
Value Added		20.1	12.3	8.2	4.9	3.0	-	-	-
Real Assets	\$593	(0.9)	4.6	6.7	2.8	-	-	-	-
Private Credit	\$949	8.8	6.7	-	-	-	-	-	-
Private Credit Policy Benchmark		12.3	6.4	-	-	-	-	-	-
Value Added		(3.5)	0.3	-	-	-	-	-	-
Cash	\$161	4.5	2.6	-	-	-	-	-	-
Cash Policy Benchmark		5.4	3.0	-	-	-	-	-	-
Value Added		(0.9)	(0.4)	-	-	-	-	-	-

The **Blue and Gold Endowment Pool**, which was launched on March 31, 2019 with \$250 million, stood at \$6.9 billion as of June 30, 2024, largely due to campuses' investing capital previously held in working capital portfolios. The Blue and Gold Endowment Pool stood at \$2.7 billion at the end of the prior fiscal year. The pool's five-year return was 9.2 percent, the three-year return was 3.6 percent, and the one-year net return was 15.7 percent, the highest returning of UC Investments' six financial products for the second year in a row. To increase campuses' liquidity during the COVID-19 pandemic, all assets of the Blue and Gold Endowment Pool were withdrawn in April 2020. The pool, which is 100 percent passive and extremely low-cost to manage, was re-launched on March 31, 2021 with \$200 million.

Figure 2. Blue and Gold Endowment Pool as of June 30, 2024

As of June 30, 2024	Market Value in Millions (\$)	Annualized Returns				
		1 Year	3 Year	5 Year	10 Year	15 Year
Blue and Gold Endowment Pool	\$6,891	15.7	3.6	9.2	-	-
Policy Benchmark		15.8	3.5	9.1	-	-
Value Added		(0.1)	0.1	0.1	-	-
Public Equity	\$5,927	19.3	4.7	10.4	-	-
Public Equity Policy Benchmark		18.7	4.2	10.1	-	-
Value Added		0.6	0.5	0.3	-	-
Fixed Income	\$964	4.7	(0.2)	1.2	-	-
Fixed Income Policy Benchmark		4.7	(0.2)	1.2	-	-
Value Added		0.0	0.0	0.0	-	-

The **pension** stood at \$98.6 billion as of June 30, 2024, up from \$88.3 billion the year before. The 30-year annualized net return was 8.6 percent, the 20-year return was 6.9 percent, the ten-year return was 6.9 percent, the five-year return was 7.9 percent, and the one-year net return was 12.2 percent. UC Investments has been investing the pension for 64 years. The pension has 279,546 members, 54 percent of whom are currently active.

Figure 3. Pension as of June 30, 2024

As of June 30, 2024	Market Value in Millions (\$)	Annualized Returns							
		1 Year	3 Year	5 Year	10 Year	15 Year	20 Year	25 Year	30 Year
Pension	\$98,568	12.2	3.3	7.9	6.9	8.8	6.9	6.2	8.6
Policy Benchmark		13.8	4.2	8.5	7.0	8.6	6.7	5.8	8.3
Value Added		(1.6)	(0.9)	(0.6)	(0.1)	0.2	0.2	0.4	0.3
Public Equity	\$57,071	19.9	4.4	10.8	8.8	11.0	7.8	5.9	8.9
Public Equity Policy Benchmark		18.7	4.2	10.0	8.1	10.4	8.0	6.4	9.7
Value Added		1.2	0.2	0.8	0.7	0.6	(0.2)	(0.5)	(0.8)
Fixed Income	\$13,795	5.8	0.0	1.6	2.4	4.0	4.3	5.0	6.4
Fixed Income Policy Benchmark		5.8	(0.1)	1.9	2.6	3.9	4.3	5.0	5.8
Value Added		0.0	0.1	(0.3)	(0.2)	0.1	0.0	0.0	0.6
Core	\$12,001	5.2	0.1	1.4	2.3	3.4	3.9	4.7	6.1
Core Policy Benchmark		4.7	(0.2)	1.6	2.3	3.1	3.8	4.6	5.4
Value Added		0.5	0.3	(0.2)	0.0	0.3	0.1	0.1	0.7
High Yield	\$1,794	10.2	1.9	3.9	4.3	7.4	-	-	-
High Yield Policy Benchmark		10.3	1.6	3.5	4.1	7.2	-	-	-
Value Added		(0.1)	0.3	0.4	0.2	0.2	-	-	-
Private Assets									
Private Equity	\$9,743	0.7	3.2	13.2	13.1	14.0	13.4	13.5	17.5
Private Equity Policy Benchmark		26.1	11.1	16.9	14.4	14.8	12.5	9.6	13.4
Value Added		(25.4)	(7.9)	(3.7)	(1.3)	(0.8)	0.9	3.9	4.1
Absolute Return	\$1,563	9.2	3.5	5.7	4.8	6.0	-	-	-
Absolute Return Policy Benchmark		8.6	2.2	4.8	2.9	2.6	-	-	-
Value Added		0.6	1.3	0.9	1.9	3.4	-	-	-
Real Estate	\$6,955	1.2	7.8	5.9	8.2	6.9	-	-	-
Real Estate Policy Benchmark		(10.0)	1.0	2.4	5.8	5.2	-	-	-
Value Added		11.2	6.8	3.5	2.4	1.7	-	-	-
Real Assets	\$3,155	(1.8)	3.8	5.6	2.6	-	-	-	-
Private Credit	\$2,683	9.5	6.5	-	-	-	-	-	-
Private Credit Policy Benchmark		12.3	6.4	-	-	-	-	-	-
Value Added		(2.8)	0.1	-	-	-	-	-	-
Cash	\$3,603	4.2	2.6	-	-	-	-	-	-

The **UC Retirement Savings Program**, the nation's second largest public defined contribution plan behind the federal government, stood at \$39 billion as of June 30, 2024, up from \$33.7 billion the year before and \$19.8 billion in 2014. In keeping with "Less is More," the first of the ten pillars of the UC Investments Way, over that same ten-year period, the number of investment funds in the program was reduced from 75 to 16, and the management fee to participants dropped by 64 percent to 0.05 percent, the lowest in the nation. As of July 1, 2024, all Retirement Savings Program participants have the same opportunity to invest in the Blue and

Gold Endowment Pool in which the University itself invests.

UC Working Capital, which comprises the **Total Return Investment Pool** and the **Short-Term Investment Pool**, stood at a combined \$12.8. billion as of June 30, 2024, down from \$18.7 billion the year before. The lower balances in these pools reflect the fact that campuses have moved their assets to other UC financial products, such as the higher-returning Blue and Gold Endowment Pool.

The **Total Return Investment Pool** stood at \$9.8 billion as of June 30, 2024, down from \$13.5 billion the year before. The 15-year annualized net return was seven percent, the ten-year return was 5.1 percent, the five-year return was 5.9 percent, and the one-year net return was 12.1 percent.

The **Short-Term Investment Pool** stood at \$3 billion as of June 30, 2024, down from \$5.2 billion the year before. The 30-year annualized net return was 3.6 percent, the 25-year return was 3.1 percent, the 20-year return was 2.6 percent, the ten-year return was 2 percent, the five-year return was 2.4 percent, and the one-year net return was 5.4 percent.

Figure 4. Working Capital as of June 30, 2024

As of June 30, 2024	Market Value in Millions (\$)	Annualized Returns				
		1 Year	3 Year	5 Year	10 Year	15 Year
Total Return	\$9,765	12.1	2.6	5.9	5.1	7.0
Policy Benchmark		11.7	2.3	6.2	5.0	6.9
Value Added		0.4	0.3	(0.3)	0.1	0.1
Public Equity	\$5,254	19.0	4.6	7.4	7.1	10.0
Public Equity Policy Benchmark		18.7	4.2	10.0	9.0	9.6
Value Added		0.3	0.4	(2.6)	(1.9)	0.4
Fixed Income	\$4,483	4.7	0.0	1.3	2.3	4.2
Fixed Income Policy Benchmark		4.7	(0.2)	1.6	2.3	3.1
Value Added		0.0	0.2	(0.3)	0.0	1.1
Cash	\$28	5.4	3.1	2.4	2.0	2.1

As of June 30, 2024	Market Value in Millions (\$)	Annualized Returns							
		1 Year	3 Year	5 Year	10 Year	15 Year	20 Year	25 Year	30 Year
Short-Term	\$3,033	5.4	3.1	2.4	2.0	2.1	2.6	3.1	3.6
Policy Benchmark		4.7	2.9	2.0	1.6	1.2	1.7	2.1	2.8
Value Added		0.7	0.2	0.4	0.4	0.9	0.9	1.0	0.8

WHAT HAPPENED IN THE MARKETS

Public Equity

The public equity markets finished the fiscal year on a high note thanks to a robust U.S. economy still enamored with the possibilities of artificial intelligence (AI) and a long-threatened recession that failed to materialize.

As of June 30, 2024, UC Investments held some \$108 billion in global public equities, 90 percent invested in passive indices and ten percent with active managers, most of whom have been with UC Investments for many years. The same portfolio stood at \$86 billion the year before with 75 percent in the passive indices and 25 percent invested through active managers.

The University has continued to benefit from the portfolio's overweight to the United States, mostly through the S&P 500, as well as with managers that focus on big U.S. technology companies. The one-year return for equities in the UC pension stood at nearly 20 percent, while the endowment rose almost 22 percent over the previous year. Since the market's COVID-19 pandemic low on March 23, 2020, UC's portfolio of public equities has grown by \$62 billion, or 135 percent. And public equities make up 60 percent of UC's total \$180 billion in assets under management.

Although the high valuations of the handful of U.S. technology stocks that dominate the S&P 500 have sparked talk of another "tech bubble," the bull market still has room to run. Throughout the year, UC Investments gradually reduced UC's S&P 500 exposure, realizing \$1.3 billion in profit. By June 30, 2024, UC Investments held \$6 billion in the S&P and \$85 billion in the global index. As of fiscal year-end, the S&P 500 had returned 24.6 percent for the year, while the same index without fossil fuels and tobacco—the one in which UC invests—performed a bit better at 25.04 percent.

The strength of the U.S. equities market is particularly noteworthy in the face of relatively high domestic inflation and interest rates and rising geopolitical tensions. In India, where UC has invested for eight years, the economy continued to benefit from structural tailwinds like favorable demographics and a strong growth outlook.

A significant portion of profits in the U.S. stock market index have come from a handful of technology companies. This concentration is at an all-time high over the past 30 years at 35 percent. While the University benefited from this, it has also remained globally diversified.

Global sector returns were positive for the year, though with a wide distribution of returns. Technology was the top performer, up 36.2 percent for the year, communications followed with 30.5 percent, financial services was 22 percent, and energy landed at 17.2 percent. Global markets were up 18.5 percent for the year. Of these markets, China was down 1.5 percent, Japan returned 13.4 percent, and Europe returned 12.2 percent.

The best performing markets in the world were the United States at 25% and India at 34.9%, where UC Investments continues to have conviction over the next decade. UC Investments also

foresees the beginning of a technological revolution that will unfold over the next decade. The biggest companies of the next 30 years may not even exist today.

Fixed Income

Fixed income investors spent most of fiscal year 2023–24 anticipating when or if the Federal Reserve (Fed) would lower interest rates, reading the resilience of the U.S. economy as they might tea leaves in a half empty/half full cup.

That is because, when one has a long duration bond portfolio in a low interest rate environment, rising interest rates will have a negative effect on returns. As long as interest rates remain high, such as the 5.25 percent levels of today, it is prudent to have a shorter duration portfolio.

This basic tenet of fixed income investing was behind UC Investments' move in 2020 to shift our fixed income assets from the U.S. Aggregate Index, with its longer duration of nearly seven years, to a shorter Government/Credit Index with a duration of 2.75 years. The Fed had just slashed rates to near zero due to the pandemic, and UC Investments aimed to mitigate interest rate risk in that highly uncertain economic environment. UC Investments also counted on rates rising once the pandemic emergency eased.

That's why in fiscal year 2023–24, UC Investments continued our strategy of maintaining a short duration bond strategy, with 85 percent of the portfolio passively managed and 15 percent under active management. As for all the talk about Fed rate cuts over the fiscal year, UC Investments remained firmly in the "higher for longer," camp. By maintaining that stance for four years, this short duration strategy has led to a nine percent better return on UC's fixed income portfolio, which has led to a profit of \$1.2 billion.

And as to tea leaf reading, UC Investments definitely saw the U.S. economy as more than half-full. UC's public equities returns soared in a rising stock market energized by the potential of AI. Strong job growth, robust consumer spending, and a booming housing market defied recession predictions. However, this has also led to inflation stubbornly hovering above the Fed's target of two percent. The Fed has adopted a more cautious approach, delaying the anticipated series of rate cuts for fear of moving too fast, or at least not announcing how many cuts it might make.

The Fed did not make a single rate cut in the fiscal year. UC's core fixed income portfolio had a one-year return of 5.2 percent, up from the previous year's 0.6 percent, and the high-yield portfolio, which correlates to the stock market, returned 10.2 percent, the same as the prior year. Fiscal 2023–24 was a strong year.

Attachments:

[Attachment 1: UC Endowment](#)

[Attachment 2: UC Retirement](#)

[Attachment 3: Working Capital](#)