

Approved

COMMITTEE ON INVESTMENTS

November 20, 2008

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

1. **RECOMMENDATION TO CHANGE COMPUTATION METHODOLOGY OF TOTAL FUND POLICY BENCHMARK RETURN**

The Committee recommends that the computation of the University of California Retirement Plan (UCRP) and the General Endowment Pool (GEP) total fund performance benchmark return, as described in Appendix 1 of the Investment Policy Statements for UCRP and GEP, be amended as described in Attachment 1, effective December 1, 2008.

2. **APPROVAL OF TREASURER'S FISCAL YEAR 2007-2008 ANNUAL REPORT**

The Committee reports its acceptance of the Treasurer's Annual Report for the fiscal year ended June 30, 2008.

3. **AMENDMENT OF REGENTS' POLICY ON DIVESTMENT OF UNIVERSITY HOLDINGS IN COMPANIES WITH BUSINESS OPERATIONS IN SUDAN**

The Committee recommends that the Policy on Divestment of University Holdings in Companies with Business Operations in Sudan be amended, as shown in Attachment 2, to again permit purchase of four of the companies previously targeted for divestment: Tatneft, Videocon, Nam Fatt, and Sudatel.

# UNIVERSITY OF CALIFORNIA RETIREMENT PLAN

# INVESTMENT POLICY STATEMENT



Originally approved [September 17, 2008](#)~~March 19, 2008~~  
This version dated [November 12, 2008](#)~~September 17, 2008~~

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

**APPENDIX 1**Effective: ~~December 1, 2008~~ ~~October 1, 2008~~Replaces Version Effective: ~~October 1, 2008~~ ~~July 1, 2008~~:

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

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

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

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

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

**A. Strategic Asset Allocation and Ranges**

	<b>Long-Term Target Allocation</b>	<b>Current Policy Allocation</b>	<b>Allowable Ranges</b>	
			<b>Minimum</b>	<b>Maximum</b>
U.S. Equity	23%	34.5%	29	39
Developed Non US Equity	22	22	19	25
Emerging Mkt Equity	5	4	1	7
Global Equity	5	2	0	5
US Fixed Income	12	12	9	15
High Yield Fixed Income	3	3	0	6
Non USD Fixed Income	3	3	0	6
Emerging Mkt Fixed Income	3	3	0	6
TIPS	6	6	3	9
Private Equity	6	4	1	7
Real Estate	7	3	0	6
Absolute Return Strategy	5	3.5	0	6
Liquidity	0	0	0	10
	100%	100%		
Combined Public Equity	55	62.5	55	69
Combined Fixed Income	27	27	22	32
Combined Alternatives	18	10.5	5	15

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**B. Asset Class Performance Benchmarks**

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

- Unambiguous: the names and weights of securities comprising the benchmark are clearly delineated
- Investable: the option is to forego active management and simply replicate the benchmark
- Measurable: it is possible to readily calculate the benchmark's return on a reasonably frequent basis
- Appropriate: the benchmark is consistent with the Committee's investment preferences or biases
- Specified in Advance: the benchmark is constructed prior to the start of an evaluation period
- Reflects Current Investment Opinion: investment professionals in the asset class should have views on the assets in the benchmark and incorporate those views in their portfolio construction

<b><u>Asset Class</u></b>	<b><u>Benchmark</u></b>
U.S. Equity	Russell 3000 Tobacco Free Index
Developed Non US Equity	MSCI World ex-US (Net Dividends) Tobacco Free
Emerging Mkt Equity	MSCI Emerging Market Free (Net Dividends)
Global Equity	MSCI All Country World Index Net – IMI – Tobacco Free
Fixed Income	Citigroup Large Pension Fund Index
High Yield Fixed Income	Merrill Lynch High Yield Cash Pay Index
Non USD Fixed Income	Citigroup World Government Bond Index ex-US
Emg Mkt Fixed Income	33% times JP Morgan Emerging Market Bond Index – Global Diversified, plus 67% times the JP Morgan Global Bond Index – Emerging Markets – Global Diversified
TIPS	Lehman Brothers TIPS Index
Absolute Return Strategy	1 Month T Bill + 450 bp
Private Equity	N/A (see below note 2)
Real Estate	Public: 50% times the FTSE EPRA NAREIT US Index plus 50% times the FTSE EPRA NAREIT Global ex-US Index Private (core strategies): NCREIF Property Index Private (non-core strategies): N/A (see below note 3)

Notes on asset class benchmarks:

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

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**C. Total Retirement Fund Performance Benchmark**

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

<b>Percentage</b>	<b>Benchmark</b>
<del>45%</del> <u>[A]34.5</u>	× Russell 3000 Tobacco Free Index
22%	× MSCI World ex-US (Net Dividends) Tobacco Free
4%	× MSCI Emerging Market Free (Net Dividends)
2%	× MSCI All Country World Index Net – IMI – Tobacco Free
12%	× Citigroup Large Pension Fund Index
3%	× Merrill Lynch High Yield Cash Pay Index
3%	× Citigroup World Government Bond Index ex-US
3%	× 33% times JP Morgan Emerging Market Bond Index – Global Diversified, plus 67% times the JP Morgan Global Bond Index – Emerging Markets – Global Diversified
6%	× Lehman Brothers TIPS Index
<del>Actual Weight [A.R.]3.5%</del>	× 1 Month T Bill + 450 bp
<del>Actual Weight [P.E.]4%</del>	× Actual return of private equity portfolio
<u>3%</u>	× <u>Aggregate Real Estate benchmark (see section B, with components weighted by their actual weights within the total real estate portfolio)</u>
<del>Actual Weight [public R.E.]</del>	<del>× 50% times the FTSE EPRA NAREIT US Index plus 50% times the FTSE EPRA NAREIT Global ex US Index</del>
<del>Actual Weight [core private R.E.]</del>	<del>× NCREIF Property Index (lagged 3 Months)</del>
<del>Actual Weight [non-core private R.E.]</del>	<del>× Actual return of private real estate portfolio</del>
<del>— where —</del>	
	<del>[A] = Actual A.R. Weight + Actual P.E. Weight + Actual Total R.E. Weight</del>

Notes on total fund benchmark:

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

~~2. The total fund benchmark contains the actual weights of Absolute Returns, Private Equity and Real Estate, rather than their policy weights. This is in recognition of the difficulty in quickly increasing or decreasing allocations in these illiquid asset classes. The difference between policy and actual weight is added to the US equity percentage, as shown. Thus the percentage to US Equity = 34.5% + 3.5% (abs. return) + 4% (private equity) + 3% (real estate) = 45%.~~

~~23.~~ The calculation of the total fund benchmark will assume a monthly rebalancing methodology.

~~34.~~ In the event of a significant change in asset allocation, The Regents' generalist consultant may specify an alternative weighting scheme to be used during a transition period.

**UNIVERSITY OF CALIFORNIA RETIREMENT PLAN  
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**D. Rebalancing Policy**

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

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

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

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# UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL

## INVESTMENT POLICY STATEMENT



Originally approved [September 17, 2008](#)~~March 19, 2008~~  
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**UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL  
INVESTMENT POLICY STATEMENT**

**APPENDIX 1**Effective: ~~October~~ December 1, 2008Replaces Version Effective: October 1, 2008 ~~July 1, 2008~~

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

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

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

- widely recognized and accepted among institutional investors
- has low correlation with other accepted asset classes
- has a meaningful performance history
- involves a unique set of investors

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

**A. Strategic Asset Allocation and Ranges**

	<b>Long-Term Target <u>Allocation</u></b>	<b>Current Policy <u>Allocation</u></b>	<b><u>Allowable Ranges</u></b>	
			<b><u>Minimum</u></b>	<b><u>Maximum</u></b>
U.S. Equity	18%	19%	14	24
Developed Non US Equity	17	18	15	21
Emerging Mkt Equity	5	5	2	8
Global Equity	5	2	0	5
US Fixed Income	5	8	5	11
High Yield Fixed Income	2.5	3	0	6
Non USD Fixed Income	2.5	2.5	0	6
Emerging Mkt Fixed Income	2.5	3	0	6
TIPS	2.5	4	1	7
Absolute Return	23.5	23.5	20	26
Private Equity	9	7	4	10
Real Estate	7.5	5	2	8
Liquidity	0	0	0	10
	100%	100%		
Combined Public Equity	45	44	37	51
Combined Fixed Income	15	20.5	15	25
Combined Alternatives	40	35.5	30	40

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\* Alternatives category including, but not limited to: Real Estate, Private Equity, and Absolute Return Strategies

**B. Asset Class Performance Benchmarks**

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

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

<b><u>Asset Class</u></b>	<b><u>Benchmark</u></b>
U.S. Equity	Russell 3000 Tobacco Free Index
Non US Eq. Devel.	MSCI World ex-US Net Tobacco Free
Emerging Mkt Eq	MSCI Emerging Market Free Net
Global Equity	MSCI All Country World Index Net – IMI – Tobacco Free
Fixed Income	Lehman Aggregate Bond Index
High Yield Fixed Income	Merrill Lynch High Yield Cash Pay Index
Non USD Fixed Income	Citigroup World Government Bond Index ex-US
Emg Mkt Fixed Income	33% times JP Morgan Emerging Market Bond Index – Global Diversified, plus 67% times the JP Morgan Global Bond Index – Emerging Markets – Global Diversified
TIPS	Lehman TIPS Index
Absolute Return	1 Month T-Bill + 450 bp
Private Equity	N/A (see below note 1)
Real Estate	Public: 50% times the FTSE EPRA NAREIT US Index return plus 50% times the FTSE EPRA NAREIT Global ex-US Index return Private (core strategies): NCREIF Property Index, lagged 3 months Private (non-core strategies): N/A (see below note 2)

Notes on asset class benchmarks:

1. Private Equity: *Long term* portfolio returns will be compared to investable public equity alternatives as well as non-investable peer group indices. There is no appropriate market benchmark to use for *short term* performance evaluation or decision making.
2. Private Real Estate (non-core strategies only): similar to Private Equity

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**C. Total GEP Performance Benchmark**

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

<b><u>Percentage</u></b>	<b><u>Benchmark</u></b>
<del>54.5%</del> <del>[A]</del> <u>19%</u>	× Russell 3000 Tobacco Free Index
18%	× MSCI World ex-US Net Tobacco Free
5%	× MSCI Emerging Market Free Net
2%	× MSCI All Country World Index Net – IMI – Tobacco Free
8%	× Lehman Aggregate Bond Index
3%	× Merrill Lynch High Yield Cash Pay Index
2.5%	× Citigroup World Government Bond Index ex-US
3%	× 33% times JP Morgan Emerging Market Bond Index – Global Diversified, plus 67% times the JP Morgan Global Bond Index – Emerging Markets – Global Diversified
4%	× Lehman TIPS Index
<del>Actual Weight [A.R.]</del> <u>23.5%</u>	× 1 Month T Bill + 450 bp
<del>Actual Weight [P.E.]</del> <u>7%</u>	× Actual return of private equity portfolio
<del>Actual Weight [public R.E.]</del> <u>5%</u>	× <u>Aggregate Real Estate benchmark (see section B, with components weighted by their actual weights within the total real estate portfolio)</u>
<del>× 50% times the FTSE EPRA NAREIT US Index return plus 50% times the FTSE EPRA NAREIT Global ex-US Index return</del>	
<del>Actual Weight [core private R.E.]</del>	× <del>NCREIF Property Index, lagged one quarter</del>
<del>Actual Weight [non-core private R.E.]</del>	× <del>Actual return of private real estate portfolio</del>
<del>—where—</del>	
<del>[A] = Actual A.R. Weight + Actual P.E. Weight + Actual Total R.E. Weight</del>	

Notes on Total Fund benchmark:

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

~~2. The total fund benchmark contains the actual weights of Absolute Return Strategies, Private Equity and Real Estate, rather than their policy weights. This is in recognition of the difficulty in quickly increasing or decreasing allocations in these illiquid asset classes. The difference between policy and actual weight is added to the US equity percentage, as shown. Thus the percentage to US Equity = 19% + 23.5% (absolute return) + 7% (private equity) + 5% (real estate) = 54.5%.~~

~~3. The calculation of the Total Fund benchmark will assume a monthly rebalancing methodology.~~

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

**D. Rebalancing Policy**

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

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

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

**AMENDED TEXT OF POLICY**

**Additions shown by underscoring; deletions shown by strikethrough**

**DIVESTMENT OF UNIVERSITY HOLDINGS IN COMPANIES WITH BUSINESS OPERATIONS IN SUDAN**

In light of The Regents' decision of November 2005 to adopt a policy of divestment from a foreign government only when the United States government declares that a foreign regime is committing acts of genocide and The Regents' findings that the U.S. government has determined that there is ongoing genocide in the Darfur region of Sudan, it was recommended that The Regents:

A. Divest all shares of the following nine companies: Bharat Heavy Electricals Ltd., China Petroleum and Chemical Corp. (Sinopec), ~~Nam Fatt Co. Bhd.~~, Oil & Natural Gas Co. Ltd., PECD Bhd., PetroChina Company Ltd., ~~Sudan Telecom Co. Ltd. (Sudatel), Tatneft OAO, and Videocon Industries Ltd.~~, held within separately managed equity portfolios of the University of California Retirement Plan (UCRP) and the General Endowment Pool (GEP). The proposed policy would apply to both indexed and actively managed, publicly-traded equity portfolios

B. Prohibit future purchase of shares in the above ~~nine~~ five companies until such time as the Office of the Treasurer reports to the Committee on Investment that either there is compelling information that a company has materially improved its operation and is no longer thought to be contributing to the suffering in the Darfur region of Sudan, or that the situation in the Darfur region has improved to such a point that the prohibition on investment is no longer thought to be in the best interests of the people of Sudan.

C. Condition implementation of the proposed divestment policy upon enactment by the California legislature and signature by the Governor of legislation providing indemnification for past, present, and future individual Regents, and the University, its officers, agents, and employees, for all costs and defense of any claim arising from the decision to divest.

D. Instruct the Office of the Treasurer to contact the management of several other companies identified by the Sudan Divestment Study Group to ask them to ensure that their business operations in Sudan, while providing beneficial effects for the people of Sudan, do not inadvertently contribute to the campaign of genocide.

E. Instruct the Office of the Treasurer to report on the status of this policy to the Committee on Investments as part of the annual review of the Investment Policies for the UCRP and GEP.

F. Divest all shares held in the nine companies within an 18-month period commencing once indemnification legislation has been enacted.

G. Communicate the decision to divest shares held in the nine companies to the managers of commingled accounts in which assets of the UCRP and GEP are invested, with a request that they consider the University's stand on this issue as they make their investment decisions.

H. Communicate the decision to divest shares held in the nine companies to the Investment Committees of the Campus Foundations so that they may consider adopting similar policies for their Funds.