

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

Judith L. Hopkinson
Chair, Committee on Investments
August 7, 2000

Summary of Investment Policy Changes

On March 16, 2000, the UC Board of Regents adopted the Asset Allocation Strategy which sets forth the current investment policies governing the management of the UC Retirement Plan, the General Endowment Pool, and the Equity and Bond Portfolio investment options offered by the Tax-Deferred 403(b) Plan and Defined Contribution Plan. Differences between the new investment policy and the prior program are provided below. These policy changes will be phased in by June 30, 2001.

I. UC RETIREMENT PLAN AND GENERAL ENDOWMENT POOL

ASSET ALLOCATION

The overall allocation to equity remains at 65% of total assets. A policy allocation to non-U.S. equity was added and the allocation to private equity was increased to enhance diversification. The Regents expect the new asset allocation policy to maximize returns with lower portfolio risk.

	<u>6/30/99 Asset Mix*</u>	<u>New Policy</u>
EQUITY:		
U.S. Equity	62%	53%
Non-U.S. Equity	1	7
Private Equity	<u>2</u>	<u>5</u>
Total Equity	65%	65%
FIXED INCOME	<u>35%</u>	<u>35%</u>
TOTAL	100%	100%

** Although there was no formal policy allocation to non-U.S. equities, the Regents' portfolios have historically had exposure to foreign stocks. At June 30, 1999, this represented approximately 5% of total assets and is included in the U.S. Equity category. Going forward, up to 10% of the U.S. Equity portfolio managed by the UC Treasurer's Office may be invested in foreign stocks to enhance performance.*

ASSET MANAGEMENT

U.S. Equity: A portion of the 53% of total assets allocated to U.S. equities will be invested in a broadly diversified index fund designed to mirror the return of the U.S. stock market. The Regents expect the addition of an index fund to further diversify the U.S. equity portfolio by including market sectors not normally part of the UC Treasurer’s actively managed portfolio.

	<u>6/30/99 Asset Mix</u>	<u>New Policy</u>
Actively managed by		
UC Treasurer’s Office	63%	37.1%
Index Fund Investment	<u>0</u>	<u>15.9</u>
Total U.S. Equity	63%	53%

Non-U.S. Equity: Of the 7% of total assets allocated to non-U.S. equities, 6% is allocated to a broadly diversified index fund designed to mirror the return of the developed foreign stock markets and 1% of assets is allocated to existing investments with external managers investing in emerging foreign stock markets.

Private Equity: The management of the Private Equity investments, increased from 2% of total assets to 5%, will continue to be performed by the Treasurer.

Fixed Income: The UC Treasurer’s Office will continue to manage all fixed income assets.

MATURITY – FIXED INCOME PORTFOLIO

To control risk more closely, the Regents have adopted new guidelines that impose new limits for the duration or the fixed income portfolio and the percentage of fixed income assets that can be invested in lower quality bonds and foreign bonds.

	<u>6/30/99 Actual</u>	<u>New Policy</u>
Average Duration	13 years	7 years +/- 20%
Lower Quality Bonds	7%	10% maximum
Foreign Bonds	22%	10% maximum
Emerging Market Bonds	7%	5% maximum

II. 403(b) PLAN AND DEFINED CONTRIBUTION PLAN EQUITY PORTFOLIO

Policy changes to the 403(b) and DCP Equity Portfolio will be coordinated with the President’s Office and communicated to employees.

ASSET ALLOCATION

The allocation of assets is expanded to add non-U.S. equity to enhance diversification. The Regents expect the new asset allocation policy to maximize return with better control of portfolio risk.

	<u>6/30/99 Asset Mix*</u>	<u>New Policy</u>
U.S. Equity	93%	80%
Non-U.S. Equity	2	15
Private Equity	<u>5</u>	<u>5</u>
Total	100%	100%

ASSET MANAGEMENT

U.S. Equity: A portion of the 80% allocation to U.S. equity will be invested in a broadly diversified index fund designed to mirror the performance of the U.S. stock market.

Non-U.S. Equity: Of the 15% of total assets allocated to non-U.S. equities, 12.8% is allocated to a broadly diversified index fund designed to mirror the return of the developed foreign stock markets and 2.2% of assets is allocated to existing investments with external managers investing in emerging foreign stock markets.

Private Equity: The management of the Private Equity investments will continue to be performed by the UC Treasurer's Office.

	<u>6/30/99 Asset Mix</u>	<u>New Policy</u>
U.S. EQUITY		
Actively managed by		
UC Treasurer	93%	56%
Index Fund Investment	<u>0</u>	<u>24</u>
Total U.S. Equity	93%	85%
NON-U.S. EQUITY		
Actively managed by		
UC Treasurer	0%	0%
Index Fund Investment	0	12.8
External Manager-Emerging		
Markets	<u>2</u>	<u>2.2</u>
Total Non-U.S. Equity	2%	15%
PRIVATE EQUITY	<u>5%</u>	<u>5%</u>
TOTAL	100%	100%

** Although there was no formal policy allocation to non-U.S. equities, the Regents' portfolios have historically had exposure to foreign stocks. At June 30, 1999, this represented approximately 6% of total assets and is included in the U.S. Equity category. Going forward, up to 10% of the U.S. Equity portfolio managed by the UC Treasurer's Office may be invested in foreign stocks to enhance performance.*

III. 403(b) PLAN AND DEFINED CONTRIBUTION PLAN BOND PORTFOLIO

Policy changes to the 403(b) and DCP Bond Portfolio will be coordinated with the President's Office and communicated to employees.

The UC Treasurer's Office will continue to manage all fixed income assets under the new policy.

To control risk more closely, the duration of the fixed income portfolio and the percentage of the fixed income assets that can be invested in lower quality bonds and foreign bonds are limited.

	<u>6/30/99 Actual</u>	<u>New Policy</u>
Average Duration	13.2 years	5 years +/- 20%
Lower Quality Bonds	8%	10%
Foreign Bonds	26%	10%
Emerging Market Bonds	8%	5%