

Approved

COMMITTEE ON INVESTMENTS

March 19, 2009

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

1. **RECOMMENDATION TO CHANGE PERFORMANCE BENCHMARKS FOR ABSOLUTE RETURN STRATEGIES AND PRIVATE REAL ESTATE (OPEN ENDED FUNDS)**

The Committee recommends that the performance benchmarks for the Absolute Return Strategies and Private Real Estate (Open ended Funds) be changed as indicated below, effective March 1, 2009.

Absolute Return Strategies performance measurement benchmark

- Currently: T Bills + 4.5 percent.
- Proposed: ½ HFRX Absolute Returns Strategies Index + ½ HFRX Market Directional Index

Private Real Estate Benchmark for Open Ended Funds

- Currently: NCREIF Property Index (“NPI”)
- Proposed: NCREIF Fund Index – Open-end Core Diversified Equity Index (“NFI-ODCE”)

2. **BENCHMARK STANDARDS FOR PRIVATE REAL ESTATE STAFF**

The Committee recommends that the following benchmark performance standards be adopted for Fiscal Year 2008-09 for the Office of the Treasurer Private Real Estate Staff:

- A. Entity Performance (10-20 percent)
- B. Individual / Subjective (20 percent)
- C. Asset Class / Sector Performance (60-70 percent)
 - (1) Each segment (REITS, Open End and Closed End Funds) is weighted by actual dollars invested, consistent with other asset classes in the AIP.
 - (2) Performance hurdles over respective benchmarks for REITS and Open End Funds.

- (3) During a transition period during which initial investments are made, performance for the Closed End Funds will be evaluated subjectively using a variety of quantitative and qualitative portfolio metrics.

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

The Committee recommends that the Annual Endowment Report for Fiscal Year 2008 be approved.

4. **AMENDMENT OF REGENTS' INVESTMENT POLICY FOR UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS AND MERGER WITH POLICY ON INVESTMENTS OF CAMPUS FOUNDATIONS**

The Committee recommends that the Regents:

- A. Rescind the *Investment Policy for the UC Campus Foundations*.
- B. Rescind the *Policy on Investments of Campus Foundations*.
- C. Adopt the *Investment Policy for the University of California Campus Foundations*, which merges the former *Policy on Investments of Campus Foundations* into a new comprehensive investment policy for campus foundations, as shown in Attachment 1.

5. **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 add the following four companies to the list of prohibited investments: CNPC Hong Kong, MISC Berhad (Petronas), Lundin Petroleum, and AREF Investment Group, until further notice.

Additions shown by underscoring; deletions shown by strikethrough

INVESTMENT POLICY FOR THE UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS

The Regents authorize the Committee on Investments to review the investment policies and practices of campus foundations and conduct an annual review of statements of investment policy and reports of investment performance in a format approved by the Committee on Investments, together with the annual financial reports of campus foundations as audited by certified public accountants. The Treasurer of The Regents is available to provide investment management services, without charge, for any campus foundation which requires such service.

Delegation to Campus Foundations and Statement of Policy.

The Administrative Guidelines for Campus Foundations provide that each Campus Foundation Board of Directors has the duty to develop an appropriate investment policy for such Foundation. It is the Policy of The Regents that each Campus Foundation shall develop and follow an appropriate investment policy, and shall act as a prudent investor in accordance with applicable law, using a portfolio approach in making investments and considering the risk and return objectives of the endowment funds. A Campus Foundation may hold and invest endowments and funds functioning as endowments on a long-term basis. All such investments must be consistent with the terms of the gift instrument. Investment operations shall be conducted in accordance with prudent, sound practices to ensure that gift assets are protected and enhanced and that a reasonable return is achieved, and with due regard for the fiduciary responsibilities of the Foundation's governing Board and the Regents. Financial activities of a Campus Foundation shall be administered and reported in accordance with prudent business practices and generally accepted accounting principles.

Reporting from Campus Foundations.

The Regents generalist investment consultant shall review investment procedures and results annually and report the findings to The Regents. The Administrative Guidelines for Campus Foundations require the following reports from the Campus Foundations to the generalist Investment Consultant:

- A Campus Foundation's enabling documents (e.g., articles of incorporation, bylaws, constitution) shall be provided, and any amendments shall be forwarded promptly following any revision.

Within 90 days of the close of each fiscal year, a Campus Foundation shall submit a detailed report comparing budgeted to actual administrative expenditures by fund source.

- Copies of the Foundation's report to the State Registry of Charitable Trusts, tax returns, and a current list of Foundation officers, directors or trustees, and legal counsel shall be provided promptly each year.
- The external auditor shall furnish a copy of the audit report, including the letter to management with management's response, promptly following the completion of the audit each year.
- A copy of each Foundation's investment policy shall be provided, and any amendments thereto shall be forwarded promptly following any revision.
- A copy of each investment performance report shall be provided [45] days following the close of each quarter.

Review by Investment Consultant.

The Regents' generalist investment consultant shall review, initially and at the time of any change, each Foundation's investment policy, asset allocation policy, and performance on an annual basis, including:

- Asset allocation relative to its policy, and
- Performance by asset class and relative to its benchmarks, and provide a report to the Committee on Investments annually on their findings.
- In addition, on an annual basis, beginning with the Fiscal Year 2006-2007, the Regents' investment consultant will review the written investment policies and governance structure of each Foundation to ensure that each set of written policies includes, at a minimum:
 - Asset allocation target percentages,
 - Ranges for each asset class,
 - Policy benchmarks for each asset class and in total, and
 - Investment guidelines for each asset class.

The Regents generalist investment consultant will raise any issues of concern with the campus foundations, and subsequently, if necessary, with the Committee on Investments.

If any Foundation approves changes to its investment policy (including but not limited to asset allocation targets and policy benchmarks), it must communicate such change to The Regents' generalist investment consultant prospectively before the effective date of such change.

Additions shown by underscoring; deletions shown by strikethrough

~~INVESTMENT POLICY FOR THE UC CAMPUS FOUNDATIONS~~

~~Approved November 2006~~

~~The Regents' generalist Investment Consultant shall conduct an annual review of each Campus Foundation's investment policy and performance on an annual basis, including:~~

~~.Asset allocation relative to its policy, and~~

~~.Performance by asset class and relative to its benchmarks, and provide a report to the Committee on Investments annually on their findings. In addition, on an annual basis, beginning with the Fiscal Year 2006-2007, the Regents' investment consultant will review the written investment policies and governance structure of each Foundation to ensure that each set of written policies includes, at a minimum:~~

~~.Asset allocation target percentages,~~

~~.Ranges for each asset class,~~

~~.Policy benchmarks for each asset class and in total, and~~

~~.Investment guidelines for each asset class.~~

~~Foundations should adopt the investment policies and guidelines of the GEP. If any Foundation's policies differ materially from those of the GEP, the Foundation is required to explain the differences to The Regents' generalist investment consultant. The Regents' generalist investment consultant shall review, initially and at the time of any change, each Foundation's asset allocation policy. If a Foundation's target asset class weights are (or will be) outside the ranges currently set annually for the GEP for the next fiscal year, the Foundation is required to explain its rationale to The Regents' generalist investment consultant. The Regents' generalist investment consultant will then provide an assessment and recommendation to the Committee on Investments, at the next scheduled meeting of the Committee on Investments. Any exception to the Regents' Investment Policy must be approved by the Committee on Investments or the Foundation must immediately move to comply with the approved GEP Policies and demonstrate such compliance to the Committee on Investments.~~

~~If the Committee on Investments approves an exception to The Regents investment policies, it will be reevaluated by The Regents' Investment Consultant on an annual basis and brought back to the Committee on Investments for approval each successive year.~~

~~If any Foundation makes changes to its policy (asset allocation percentages and/or benchmarks) that are outside the GEP guidelines, it must communicate such change to The Regents' generalist investment consultant and must be approved by the Committee on Investments before such change can be effective.~~

~~Beginning next fiscal year, the Committee on Investments will require the Foundations to also be in compliance with the GEP's risk budget, which will also be reviewed by the Consultant. The Treasurer's Office will work with the Foundations over the course of the next year to ensure that the Foundations are informed of the key assumptions underlying the risk budget.~~

Additions shown by underscoring; deletions shown by strikethrough

~~POLICY ON INVESTMENTS OF CAMPUS FOUNDATIONS~~ □

Approved March 20, 1981 □ *Amended September 22, 2005*

~~The Regents authorizes the Committee on Investments to review the investment policies and practices of campus foundations and conduct an annual review of statements of investment policy and reports of investment performance in a format approved by the Committee on Investments, together with the annual financial reports of campus foundations as audited by certified public accountants. The Treasurer of The Regents is available to provide investment management services, without charge, for any campus foundation which requires such service.~~

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I-9 Attachment

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), Oil & Natural Gas Co. Ltd., PECD Bhd., PetroChina Company Ltd., CNPC Hong Kong, MISC Berhad (Petronas), Lundin Petroleum, and AREF Investment Group 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 ~~five~~ nine 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.