

# **University of California**

Public Institution

Ten campuses at: Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Cruz and Santa Barbara

208,000 students statewide

The University's fundamental missions are teaching, research and public service.

## **Governance: Board of Regents**

About the Regents:

The University of California is governed by The Regents, a 26-member board, as established under Article IX, Section 9 of the California Constitution. The board appoints the President of the University and the principal officers of The Regents: the General Counsel, the Treasurer, and the Secretary. The current Chairman is Gerald Parsky and the Vice Chairman is George Marcus  
The University is governed by The Regents, which under Article IX, Section 9 of the California Constitution has "full powers of organization and governance" subject only to very specific areas of legislative control. The article states that "the university shall be entirely independent of all political and sectarian influence and kept free therefrom in the appointment of its Regents and in the administration of its affairs."

### **Board Membership**

Article IX, Section 9 was drafted in 1878 after a decade of political conflict demonstrated the importance of sheltering the university from shifting political winds. The board consists of 26 members:

18 regents are appointed by the governor for 12-year terms

One is a student appointed by the Regents to a one-year term

Seven are ex officio members -- the Governor, Lieutenant Governor, Speaker of the Assembly, Superintendent of Public Instruction, president and vice president of the Alumni Associations of UC and the UC president.

In addition, two faculty members -- the chair and vice chair of the Academic Council -- sit on the board as non-voting members.

### **Board Officers**

The Governor is officially the president of the Board of Regents, but in practice the presiding officer of the Regents is the Chairman of the Board, elected from among its body for a one-year term, beginning July 1.

The current Chairman is Regent Gerald Parsky. The Vice Chairman is Regent George Marcus.

The Regents appoints principal officers of The Regents: the General Counsel, Treasurer, and Secretary.

### **Committees and Meetings**

The Regents operates through seven standing committees: Audit, Educational Policy, Finance, Grounds and Buildings, Health Services, Investments and Oversight of the Department of Energy Laboratories.

The Regents meets six times a year every other month in two-day meetings.

## **Endowment:**

There are 3 types of endowment funds:

### **General Endowment Pool**

General Endowment Pool (GEP) is the UC Regents' primary investment vehicle for endowed gift funds. Established in 1933, and unitized in 1958, GEP is a balanced portfolio containing equities and fixed-

income securities that provides excellent diversification and economies of scale. All endowment funds participate in GEP, unless payout needs by the donors require otherwise.

**High Income Endowment Pool**

High Income Endowment Pool (HIP) was established in 1987 to accommodate endowments with high payout requirements and deferred gift giving programs with high contractual payout obligations. Although the GEP is the Regents' primary endowment investment vehicle, HIP provides an investment alternative for donors.

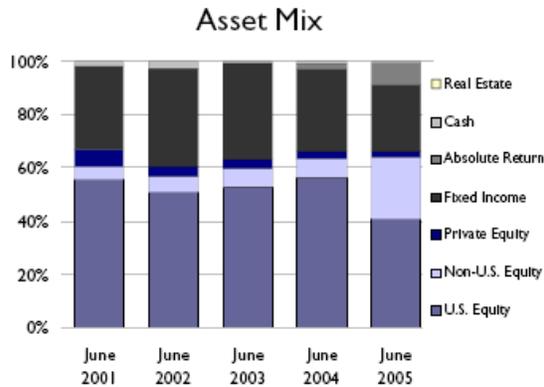
**Short Term Investment Pool**

Short Term Investment Pool (STIP) was established in FY 1976 as a cash investment pool available to all UC fund groups. STIP allows fund participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a larger pool. STIP consists primarily of current funds slated for payroll and operating / construction expenses for all UC campuses and medical centers. In addition, funds awaiting permanent investment in one of the long-term pools are invested in STIP to earn maximum daily interest until transferred.

The General Endowment is \$5.2 billion as of June 30, 2005. It is the 2<sup>nd</sup> largest among public institutions and 7<sup>th</sup> overall among universities. The Following table summarizes the General Endowment:

ANNUALIZED RETURNS			
	Net GEP <sup>1</sup>	Benchmark <sup>2</sup>	Inflation <sup>3</sup>
1 Yr	10.31%	9.45%	2.52%
5 Yr	2.34%	2.71%	2.44%
10 Yr	10.59%	10.05%	2.46%

**Asset Mix:** GEP's assets totaled \$5.2 billion at June 30, 2005. The following chart illustrates GEP's asset mix as of each of the past five fiscal year ends.



Information about the other endowment funds can be found at: <http://www.ucop.edu/treasurer/brochures/welcome.html>

The Office of the Treasurer of The Regents is responsible for managing the investments and cash for the University of California system. The principal activity of the Treasurer's Office is the management of the system's retirement, defined contribution and endowment funds, as well as the system's cash.

At June 30, 2005, the Treasurer's Office managed approximately \$63.3 billion in total assets.

The Treasurer's Office carries out all investment activities according to the policies established by the Investment Committee of The Regents of the University of California. The Treasurer's Office investment staff includes 21 investment professionals with an average of 17 years of investment experience.

**Custody of Assets:**

State Street Bank & Trust Company, The Regents' custodian.

**Administration of Account:**

The Treasurer's Office is responsible for investing the funds, while the Endowment and Investment Accounting Office maintains all records.

Mandate of the Committee on Investments from the UC By-laws:

**12.5 Committee on Investments.**

The Committee on Investments shall:

- a. Manage the investments and investment properties of the Corporation.
- b. Authorize the purchase, sale, or lease of real property held or acquired for investment purposes, and the construction and repair of buildings thereon; the loan of funds of the Corporation; the purchase, sale, transfer, or exchange of bonds, stocks, and other securities; and the transfer of investments among specific funds of the Corporation when such transfers of investments are not in conflict with the terms of any endowments which would be affected thereby; provided, however, that no loan from the funds of the Corporation, other than loans related to investment of funds under the Committee's jurisdiction, shall be effective until confirmed by the Board.
- c. By appropriate resolution or resolutions, at all times maintain in force a system of custodianship of all securities.
- d. Report periodically to the Board concerning the investment operations of the University.
- e. Consider and recommend to the Committee on Finance upon recommendation of the Treasurer the portion of the annual budget of the Office of the Treasurer charged to investment assets.

**Members of the Committee on Investments (Bylaw 12.5)**

Regents Lee, Wachter, Preuss, Pattiz, Blum, and Rosenthal

*Ex officio:* Regents Schwarzenegger, Parsky, and Dynes

*Advisory members:* Regent-designate Schreiner, Faculty Representative Oakley

Marie N. Berggren

Interim Treasurer and Interim Vice President for Investments

**Socially Responsible Investing:**

Victories:

There have been two major successes on Socially Responsible Investing – divestment from South Africa (1986) and tobacco (2001). In the case of South Africa, public pressure, on and off campus – including the atmosphere across the US at the time (many other universities had already divested) came to be the major factors driving the decision.

In the case of tobacco, the university faced pressure not only from on-campus, but there appears to have been political pressure from the State government to divest. Lt.-Gov. Cruz Bustamante had been vocally opposed to investment in tobacco (as state Lt.-Gov, he was also a member of the Board of Regents and raised the issue at a meeting), and it was the UC President who actually presented the motion at the Committee on Investments to divest. What made it easier also was that the university held no tobacco

stocks when the decision was made to divest, and it was only brought up because they wanted to invest in index funds that contained tobacco stocks. The university cited health issues, negative financial risk from tobacco company lawsuits, and the fact that tobacco free index funds were available as reasons to formally divest.

There are current campaigns to divest from Darfur, Sudan and Israel. Both campaigns are organized by students who cite the decisions and reasons for divestment from South Africa and tobacco, in their arguments for divestment. (most notably that the university has considered moral issues ahead of rates of return and that as there are available alternative investments that could generate the same return so there is no abandonment of fiduciary responsibility).

#### Addressing SRI and proxies

Should it arise, SRI issues are addressed on a case-by-case basis and pressing issues are brought to the Committee on Investments and Board of Regents.

The university has standing policy on proxy voting which directs how the university will vote in most circumstances. The Treasurer exercises most of these decisions, and the Office of the Treasurer has issued a set of guidelines with respect to proxy voting.

These guidelines make mention of how to vote on social issues:

#### *OFFICE OF THE TREASURER GUIDELINES FOR PROXY VOTING*

*Note: These are general guidelines with broad application. Company-specific issues, such as past performance, shareholder responsiveness, etc. may result in a deviation from the standard recommendation.*

#### *I. Social Issues*

*Issues that are controversial or relate to social issues (i.e., tobacco issues, animal testing, military contracts, etc.) are reviewed on a case-by-case basis in light of their potential long-term economic impact on shareholders, along with ongoing review of company codes of conduct and social responsibility, any existing UC policies, and the advice of independent proxy monitor services. This may result in a vote against management if the company is not reasonably responsive to shareholder concerns.*

Proxy records are not published.

With respect to the portfolio, the California Public Records Act requires the university to release this information, if requested. Additionally, the University recently (May, 2005) adopted the Policy on Disclosure of University of California Retirement Plan General Endowment Pool Investment-Related Information. This policy states:

*As soon as practicable after each calendar year, a complete listing of all assets held by the UCRP and the GEP at calendar year end will be posted on the Treasurer's website. Each listing will include the asset's market value at the end of the year. The assets will be grouped in the standard categories used by the custodian bank to group the assets in the asset reports provided to the Treasurer.*

I have yet to find this information on the website, nor am I certain if this will include specific company names.