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**UNIVERSITY OF CALIFORNIA  
GENERAL ENDOWMENT POOL**

**INVESTMENT POLICY  
STATEMENT**



Approved March 15, 2018  
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# UNIVERSITY OF CALIFORNIA GENERAL ENDOWMENT POOL INVESTMENT POLICY STATEMENT

## POLICY SUMMARY/BACKGROUND

The purpose of this Investment Policy Statement (“Policy” or “IPS”) is to define the objectives and policies established for the management of the investments of the University of California General Endowment Pool (“GEP”). The management of the GEP is subject to state and federal regulations and laws, and all other University investment policies, which may not be listed in this document. The IPS is approved by the Board of Regents. The investment policy statement consists of the following sections:

- Investment Objectives
- Monitoring and Reporting
- Total Return Expenditure (Spending) Rate
- Endowment Administration Cost Recovery
- Conflicts of Interest
- Disclosures
- Restrictions
- Policy Maintenance

This policy reflects the Governance Framework outlined in Bylaws 22 and 23 of the University and the Finance and Capital Strategies Committee Charter.

The Board defines the goals and objectives of the GEP and is responsible for establishing and approving changes to this IPS. The Finance and Capital Strategies Committee and Investments Subcommittee are responsible for establishing the Asset and Risk Allocation Policy (with approval by the Board on a consent agenda), which defines the strategic asset allocation, risk tolerance, asset types and benchmarks of the portfolio.

The Chief Investment Officer (or “Office of the Chief Investment Officer”) is responsible for implementing the approved investment policies and developing investment processes and procedures for asset allocation, risk management, investment manager selection and termination, monitoring and evaluation, and the identification of management strategies that will improve the investment efficiency of the GEP assets.

## POLICY TEXT

### INVESTMENT OBJECTIVES

#### 1. Overall Objective

The GEP provides a common investment vehicle, which will generate a stable and growing income stream, for (most but not all of) the University’s endowments and quasi-endowments, for which the University is both trustee and beneficiary.

The overall investment goal of the GEP is to preserve the purchasing power of the future stream of endowment payout for those funds and activities supported by the endowments, and to the extent this is achieved, cause the principal to grow in value over time. GEP seeks to maintain liquidity needed to support spending in prolonged down markets to maximize the value of the endowment.

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## 2. Return Objective

GEP seeks to maximize its return on investment, consistent with levels of investment risk that are prudent and reasonable given long-term capital market expectations and the overall objectives of the GEP. The performance of GEP will be measured relative to its objectives (e.g. spending, inflation, growth) and policy benchmarks found in the asset and risk allocation policy.

## 3. Risk Objective

While the Board recognizes the importance of the preservation of capital, it also recognizes that to achieve the GEP's overall objectives requires prudent risk-taking, and that risk is the prerequisite for generating investment returns. Therefore, investment risk cannot be eliminated but should be managed. Risk exposures should be identified, measured, monitored and tied to responsible parties as identified in the Asset and Risk Allocation Policy; and risk should be taken consistent with the GEP's objectives and the expectations for return from the risk exposures. GEP seeks a level of risk that is prudent and reasonable to maximize the probability of achieving its overall objective consistent with capital market conditions. GEP should limit the probability of loss of capital and/or a loss of purchasing power over a full market cycle (typically 4-8 years). Another important risk objective is limiting declines in purchasing power over the spending policy rolling period, currently 60 months (i.e. 5 years).

## 4. Sustainability Objective

The Office of the Chief Investment Officer shall incorporate environmental sustainability, social responsibility, and governance (ESG) into the investment evaluation process as part of its overall risk assessment in its investments decision making. ESG factors are considered with the same weight as other material risk factors influencing investment decision making.

The Office of the Chief Investment Officer uses a proprietary sustainability framework to provide core universal principles that inform the decisions and assist in the process of investment evaluation. The Office of the Chief Investment Officer manages the GEP consistent with these sustainability principles. The Framework can be found on the Office of the Chief Investment Officer website in the sustainability section.

## MONITORING AND REPORTING

The Office of the Chief Investment Officer (OCIO) is responsible for monitoring the portfolio and investment managers on an ongoing basis. The OCIO should monitor and report to the Investments Subcommittee, Finance and Capital Strategies Committee and Board of Regents on the following items.

1. Asset and Risk Allocation
2. Investment Performance and Attribution (against benchmarks identified in the **GEP Asset and Risk Allocation Policy**)
3. Material Changes to Organization and Investment Strategy

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### **4. Potential Material Issues and Risks**

While short-term results will be monitored, it is understood that GEP's objectives are long-term in nature and progress towards these objectives will be evaluated from a long-term perspective.

### **TOTAL RETURN EXPENDITURE (SPENDING) RATE**

The endowment spending rate provides University programs with a source of income that is perpetual, growing (at least as fast as inflation) and predictable. The spending rate should balance the needs of current and future generations (equalize real value of per unit distributions over time), and preserve the purchasing power (real value) of the endowment, net of annual spending distributions.

The objective of the spending rate is to allow the principal or core assets to grow on a total return basis (total return = change in market value + income generated from the securities held) while "smoothing" the payout from the endowment assets in order to mitigate disruptions to the budgets of the endowed activities throughout economic and market cycles. Total return expenditure rates permit the spending of realized portfolio gains. The Spending Rate is a percent of unit value (or average unit value) distributed to programs each year and uses a smoothing formula that mediates between volatile market returns and program needs for predictable income.

The total return expenditure (spending) policy for eligible assets in the General Endowment Pool is 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.

### **ENDOWMENT ADMINISTRATION COST RECOVERY**

Endowment cost recovery is taken from the endowment payout each year and is used to defray, in part, the cost of the campuses and at the system-wide offices of administering and carrying out the terms of the Regents' endowments. The funds released by this mechanism are used by the campuses and the Office of the President as support for incremental fundraising activities. The endowment administration cost recovery rate of 55 basis points (0.55 percent) is to recover reasonable and actual costs related to the administration of gift assets invested in the General Endowment Pool.

### **DISCLOSURES**

The Chief Investment Officer provides investment-related information on the GEP to The Regents' Investments Subcommittee in a manner consistent with the requirements outlined in this policy. Current and historical materials are publicly available on The Regents' website within the section on Meeting Agendas and Schedule. The Chief Investment Officer's Annual Report for the most recent fiscal year is also available on the Chief Investment Officer's website. Other disclosures that will be posted on the Chief Investment Officer's website are:

1. A report on private equity internal rates of return is publicly available on the Chief Investment Officer's website on a lagged quarterly basis.
2. As soon as practicable after each fiscal year, a complete listing of all assets held by the GEP at calendar year end will be posted on the Chief Investment Officer'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

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Chief Investment Officer.

## **RESTRICTIONS**

The Regents have restricted that purchase of securities issued by tobacco companies and companies with business operations in Sudan are prohibited in separately managed accounts. The Chief Investment Officer will determine what constitutes a tobacco or Sudan company based on standard industry classification of the major index providers and must communicate this list to investment managers annually and whenever changes occur.

## **COMPLIANCE/DELEGATION**

The GEP Investment Policy Statement should be reviewed at least annually and updated as necessary. Revisions may be recommended by the Office of the Chief Investment Officer, Investments Subcommittee, Finance and Capital Strategies Committee, and approved by the Board of Regents.

## **NO RIGHT OF ACTION**

This policy is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the University of California or its Board of Regents, individual Regents, officers, employees, or agents.

## **PROCEDURES AND RELATED DOCUMENTS**

[GEP Asset and Risk Allocation Policy](#)

[Investment Implementation Manual](#)

Changes to procedures and related documents do not require Regents approval, and inclusion or amendment of references to these documents can be implemented administratively by the Office of the Secretary and Chief of Staff upon request by the unit responsible for the linked documents.