



Facts correcting the East Bay Express' May 9, 2007, article about UC investment policies

Investment policy reforms. In March 2000, the University of California Board of Regents unanimously adopted a series of investment policy and management guideline changes strictly to increase portfolio diversification, reduce risk exposure and improve reporting procedures to maintain the long-term strength of the University's assets. These measures included 28 guidelines for portfolio management, quarterly reports on fund performance, and new market benchmarks to assist fund managers in tracking and adjusting investment performance targets to ensure fund safety and growth. The revised strategy also brought UC's pension fund management more in line with investment industry standards by expanding independent external review mechanisms.

Since the new policies were first adopted, the University's retirement and endowment funds have grown from approximately \$51 billion to \$71 billion. In fact, the UC Retirement Plan's assets today would be approximately \$2.7 billion lower had the Regents not taken action to reduce the risk profile of the UCRP through its investment policy changes in 2000 but had remained in a traditional 60/40 S&P 500/Lehman Aggregate mix.

The review process. There were no "secret meetings" for making these reforms. Like all state and local boards, the Regents occasionally meet in closed session by law to discuss personnel, investment and legal matters. The investment policy decisions were also extensively discussed, and acted upon, in open, public meetings.

Moreover, these policy changes were not made for political or personal reasons, as the East Bay Express suggests. The reforms were made unanimously by a board comprised of Democrats and Republicans, in open meetings. They were adopted after an extensive and lengthy review of financial, market and actuarial conditions to fulfill the Regents' fiduciary obligation to protect the long-term health of the pension fund and the retirement benefits it provides UC employees.

The policy changes were not undertaken "radically and swiftly," as the East Bay Express falsely claims. The process occurred over the course of two years, and the resulting changes in asset allocation and reporting requirements were completely consistent with those of other prudent institutional funds.

Evaluating performance and future changes. Returns are based upon an institution's asset allocation and the level of risk exposure it chooses to take. Asset allocation varies from institution to institution, in the short term and over the long term. UC's asset allocation policy since 2000 has been implemented with deliberate, measured steps, and the current asset allocation framework continues to evolve.

It is reasonable to expect that over selected periods, one university's investments would achieve higher returns than another university's. Asset allocation policies are adjusted from time to time, to address changing market conditions and institutional risk-return objectives.

It is expected that the UC Regents, and other universities' boards, will make such adjustments over time to their respective asset mixes and benchmark targets. UC returns have performed well in comparison to benchmarks set for its investment strategies. UC uses a variety of benchmarks for different asset classes. Generally, they reflect what are viewed as appropriate target ranges balancing risk and return. For a list of current benchmarks: www.ucop.edu/treasurer/invinfo/Benchmarks.html

From a risk-return framework, the Regents agree that increasing allocations to international equity and real estate enhances returns, however, building allocation to assets such as real estate into the best fund products and managers requires time and careful due diligence.

The use of outside managers. In November 2002, the Regents approved two core changes to the public equity strategy: move from internal management to multiple external managers, and diversify from a single concentrated actively managed large capitalization strategy to a range of diversified equity strategies. The Regents approved the

enhancements to improve equity investment performance, reduce overall portfolio risk exposures, and conform the University's practices to the national industry norm of institutional external equity management. This move was both an extension of, and consistent with, the University's overall asset allocation strategy approved in 2000.

The public equity market is increasingly complex and challenging, and the University anticipates that the investment managers retained will add value by outperforming their respective benchmark indices net of all management fees on a risk-adjusted basis.

The UC treasurer's office determines the optimal range of equity strategies, hires qualified active external managers within each of these strategies, and monitors these managers on an on-going basis. The treasurer's office works with the Regents to continue to ensure that appropriate asset allocations and diversification are maintained.

Some external managers have negotiated a fee based on the amount of assets; others have negotiated a fee based on their performance against a benchmark. For FY 2006, UCRP management fees totaled approximately \$32 million. These fees are offset by income from securities lending and commission recapture. The net investment expenses for public securities (expressed as a percent of assets) was approximately 6.2 basis points for the year.

Contrary to the East Bay Express' claims, the Regents did not "farm out control" of the pension fund to "an army of consultants." Like a majority of large institutional funds, UC uses management firms with greater expertise in specific investment areas than could be employed in-house. The Regents and the University treasurer's office maintain control of the investment funds and make decisions about the direction, diversification and risk profile of the University's assets.

In fact, the use of external managers, while expensive, is actually a more cost-effective approach. The East Bay Express mentions the cost of these services, but fails to put the relatively small amount of the fees in the context of the larger picture of a \$71 billion portfolio – less than 1% of total assets under management.

The role of Wilshire Associates. The selection of Wilshire Associates was a non-partisan decision by the Regents based upon the company's financial expertise and record, and made without any knowledge or consideration of Mr. Tito's personal political contributions. Furthermore, Wilshire Associates was never responsible for implementing the policy changes: they did not make decisions, they never handled any University money, and they never selected any of UC's external fund managers. Wilshire's role was merely to serve as outside, independent advisors to the Regents, who establish general policy guidelines and benchmarks for the UC treasurer's office.

Regent Parsky. Regent Gerald L. Parsky has a long and distinguished career of public service, as a government official, in higher education on the Princeton Board of Trustees (1981-91) and the University of California Board of Regents (1996-present), and as a prudent business leader for three decades. He has a well-deserved reputation as an honest, fair and wise consensus-builder, whose leadership is especially valued in addressing complex, difficult challenges. It is this record of service and success that led the governor to ask him recently to serve on the state's new pension commission, an appointment widely appreciated by Democrats, Republicans and union leaders.

Treasurer's job review. Annual performance reviews are standard practice for all employees. These reviews are not 'personal' but rather are part of the University's 'personnel' procedures. Former treasurer Patricia Small's performance review was completely consistent with University practices for all employees. The treasurer reported directly to the Board of Regents; thus the board – not Parsky or any other individual regent – would initiate and conduct the treasurer's performance review. The Regents regularly conduct performance reviews of the president, treasurer, general counsel and regents' secretary – Ms. Small was obviously not singled out for review.

UCRP membership. As of June 30, 2006, UCRP members included 122,317 active employees, 45,442 retirees and their survivors, and 25,570 inactive vested members (people who are no longer with UC or actively participating in UCRP but whose money remains with UC).

Joint governance. UC has met numerous times with its employee unions, and continues to do so, to discuss this and other benefits-related issues. These discussions have included the topic of joint governance, which AFSCME's own web site acknowledges: www.afscme3299.org/media-current-dtl.php?recordID=120