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**UNIVERSITY OF CALIFORNIA RETIREMENT  
SAVINGS PROGRAM  
DEFINED CONTRIBUTION PLAN, TAX-DEFERRED 403(b) PLAN, and  
457(b) DEFERRED COMPENSATION PLAN**

**INVESTMENT POLICY  
STATEMENT**



This version dated May 2, 2006

**University of California Retirement Savings Program  
Investment Policy Statement**

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**TABLE OF CONTENTS**

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	Page
<b>1. Introduction and Scope.....</b>	<b>3</b>
<b>2. Investment goals, key responsibilities, and philosophy .....</b>	<b>3</b>
<b>3. Investment policies .....</b>	<b>4</b>
<b>4. Fiduciary oversight procedures .....</b>	<b>5</b>
<b>5. Asset class / Manager guidelines .....</b>	<b>6</b>
<b>Appendix 1: Derivatives Policy .....</b>	<b>Note 1,3</b>
<b>Appendix 2: Proxy Voting Policy .....</b>	<b>Note 1,3</b>
<b>Appendix 3: Investment Manager Selection and Evaluation.....</b>	<b>Note 1,3</b>
<b>Appendix 4: Core Fund Investment Guidelines .....</b>	<b>Note 2,3</b>

**Primary Asset Class Options**

- 4A: UC Equity Fund
- 4B: UC Domestic Equity Index Fund
- 4C: UC International Equity Index Fund
- 4D: UC Bond Fund
- 4E: UC TIPS (Treasury Inflation-Protected Securities) Fund
- 4F: UC Savings Fund
- 4G: UC ICC (Insurance Company Contract) Fund

**Specialized Asset Class Options**

- 4H: Vanguard Small Cap Index Fund- Institutional Shares
- 4I: Vanguard REIT Index Fund – Institutional Shares
- 4J: Vanguard FTSE Social Index Fund-Investor Shares
- 4K: Dimensional Emerging Markets Portfolio

**Asset Allocation funds**

- 4L: UC Balanced Growth Fund
- 4M1-M6: UC Pathway Funds: 2050,2040,2030,2020,2010, Income Fund

**Definitions**

**NOTES:**

- 1 These Policies (approved by The Regents) are applicable to all assets managed by the Treasurer, and are found in the UCRP / GEP Investment Policy Statement Appendices.**
- 2 Investment Guidelines for the Core Options of the Program have been established by the Treasurer, and are found in a separate Appendix document.**
- 3. These Appendices are *not included herein but incorporated by reference.***

# University of California Retirement Savings Program Investment Policy Statement

## **1. Introduction, Scope, and Purpose**

This Investment Policy Statement (“Policy” or IPS”) provides the framework for the management of the investments of the University of California Retirement Savings Program (“UCRSP” or the “Program”), which includes the Defined Contribution (DC) Plan, the Tax Deferred 403(b) Plan, and the 457(b) Deferred Compensation Plan. The purpose of a policy statement is to document the investment management process by

- Identifying the key roles and responsibilities relating to the ongoing management of the Program’s assets;
- Setting forth an investment structure and guidelines for the Program’s assets
- Establishing formalized criteria to measure, monitor, and evaluate performance results on a regular basis; and
- Encouraging effective communication among all fiduciaries, including external parties engaged to execute investment strategies.

This document is divided into five sections. There are also a number of Appendices, which are integral parts of this document, and are incorporated by reference.

The Policy applies to a core set of investment products (“Core Funds” described below) under the direction of the Office of the Treasurer. The Policy does not extend to the Fidelity and Calvert mutual funds that have been retained as Program investment options as an accommodation to participants, nor does it apply to mutual funds purchased through the Brokerage Link (individual brokerage account) provided through Fidelity. References to “Program options” refer only to the Core Funds.

### **RETIREMENT SAVINGS PROGRAM CORE FUNDS**

- **Managed by the Treasurer (single asset class funds)**
  - UC Equity Fund
  - UC Domestic Equity Index Fund
  - UC International Equity Index Fund
  - UC Bond Fund
  - UC TIPS (Treasury Inflation-protected Securities) Fund
  - UC Savings Fund
  - UC ICC (Insurance Company Contract) Fund
- **Managed by Firms selected by the Treasurer for particular mandates**
  - Vanguard Small Cap Index Fund-Institutional Shares
  - Vanguard REIT Index Fund – Institutional Shares
  - Vanguard FTSE Social Index Fund-Investor Shares
  - Dimensional Emerging Markets Portfolio
- **Managed by the Treasurer (asset allocation funds, built from other Core Funds)**
  - UC Balanced Growth Fund
  - UC Pathway Funds:
    - 2050 Fund
    - 2040 Fund

## University of California Retirement Savings Program Investment Policy Statement

- 2030 Fund
- 2020 Fund
- 2010 Fund
- Income Fund

### **2. Investment Goals, Key Responsibilities, and Risks**

The investment **goals** state the mission of the Program and its investment programs.

- a. The mission of the Program is to facilitate retirement savings for employees and retirees by providing a core set of investment options (“Program options” or “Core Funds”) which will allow participants to tailor the investment of their retirement savings assets to their unique risk and return preferences, at low costs.
- b. The overall investment goal for each of the Core Funds is to maximize return within reasonable and prudent levels of risk, and to ensure that each investment option consistently follows its guidelines and objectives.

Key **responsibilities** in the oversight and management of the Program are as follows:

- c. Under the authority granted by The Regents’ Bylaws Sections 10.1.b and 12.5.a, The Regents has appointed a standing Committee on Investments (“Committee”), charged with responsibility for the management of investments, which includes the establishment of investment policies for the Program and oversight of the management of the Program’s assets.
- d. Under University Bylaw Section 21.4, The Regents has delegated to the Treasurer responsibility for implementation of investment policies established by the Committee for the Program.
- e. Furthermore, The Regents has designated the Treasurer as the primary fiduciary for investment functions of the Program, including the selection of asset classes and core investments and monitoring of investment performance. References to the “Treasurer” below shall be understood, depending on the context, to mean the “Office of the Treasurer.”

The **principal risks** that impact the Program’s assets are as follows:

- f. *Capital market risk* is the risk that the investment returns of the Program options do not meet participants’ expectations. Responsibility for determining the overall level of capital market risk lies with the Program participant (employee or retiree).
- g. *Total active risk* refers to the volatility of the difference between the return of the investment product and the return of its Benchmark. Responsibility for active risk is jointly shared by the Treasurer and the Program participant.
- h. *Total investment risk* refers to the volatility of the return of the products offered. It incorporates both capital market and active risk as enumerated above, and is thus the joint responsibility of the Program participant and the Treasurer.
- i. *Participant asset allocation risk*: Although The Regents may provide participants with education on retirement planning and asset allocation, responsibility for the determination of appropriate investment objectives and the selection of Core Funds to meet those objectives lies with the Program participant.

## **University of California Retirement Savings Program Investment Policy Statement**

### **3. Investment Policies**

- a. The Treasurer will establish performance benchmarks and overall investment guidelines (“Investment Guidelines”) for each Core Fund. See [Appendices 4](#).
- b. The assets of the Core Funds shall at all times avoid the use of economic leverage. Economic leverage, in the context of portfolio management, is defined as a net dollar exposure to assets in excess of the dollar amount of invested capital as measured by current market value.
- c. The Treasurer will select investment professionals (“managers”) with demonstrated experience and expertise who will be responsible for managing specific portfolios consistent with the Investment Guidelines in [Appendices 4](#). Each investment manager will function under a formal contract (“Individual Manager Guidelines”) that delineates its responsibilities, investment style and process, performance expectations, administrative requirements, and compensation. Where appropriate, each manager’s contract will include a Benchmark and range of probable outcomes relative to that Benchmark. The Treasurer shall establish and implement procedures for the selection, monitoring, evaluation, and termination of investment managers, which are found in [Appendix 3](#).
- d. The Treasurer shall be responsible for administering the investments of the Program at the lowest possible cost, without sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the Program.
- e. The Treasurer may participate in securities lending programs, as a means to augment income, with the custodian or other qualified third parties. Income generated by such a program will offset expenses for the Core Fund which owns the securities.
- f. The Committee considers the active voting of proxies an integral part of the investment process. Proxy voting for separately managed accounts will occur in accordance with the Proxy Voting Policy found in [Appendix 2](#).
- g. The Program shall comply with existing and future applicable state and federal laws and regulations and the prudence requirement found in section 3(a).
- h. All transactions undertaken on behalf of the Core Funds will be undertaken solely in the interests of those Funds’ participants and their beneficiaries.

### **4. Fiduciary Oversight Procedures**

- a. The Committee, in developing the investment policy for the Program assets, and the Treasurer, as the Program’s primary fiduciary for investment matters, shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.
- b. The Committee has appointed a standing Retirement Savings Program Advisory Committee (RSPAC), chaired by the Senior Vice President for Business and Finance, and including the Treasurer and Associate Vice President – Human Resources and Benefits. Its responsibilities will include:
  - i. Assess the quality of services provided by investment managers against established criteria and/or Benchmarks;

**University of California Retirement Savings Program  
Investment Policy Statement**

- ii. Review Program fees and expenses;
  - iii. Review and finalize an annual report to The Regents; and
  - iv. Retain consultants necessary to assist in reviewing performance.
- c. The Treasurer will develop and implement criteria for selecting appropriate asset classes and specific investment options (e.g., Core Funds) within those classes for the Program after consultation with the RSPAC and the appropriate constituent groups in the University community.
- d. The Core Funds will be chosen with the following objectives:
  - i. To cover a risk/return spectrum of appropriate investment classes;
  - ii. To provide distinct risk/return characteristics;
  - iii. To offer well diversified and professionally managed options;
  - iv. To provide, in aggregate, the participant with the opportunity to structure a portfolio with risk and return characteristics at any point within a normally appropriate range of investments; and
  - v. To charge fees that are reasonable for the asset class and investment style.
- e. The Treasurer will create and implement a process to monitor and evaluate the Program's investment structure and the Core Funds, and based on such periodic evaluations and consultation with appropriate parties, the Treasurer will make changes to either the asset classes or Core Funds.
- f. The Treasurer may appoint investment consultants to review investment performance of the Program as a whole or with respect to specific Core Funds, to assist in the development of the Program's investment policies, to monitor and report on investment risks, and to provide independent assessment of investments proposed by the Treasurer.
- g. The Treasurer shall review the investments of the Program no less than quarterly to assess whether Investment Guidelines continue to be appropriate and are met.
- h. The Treasurer shall monitor investment risk, as well as monitor investment returns on an absolute and Benchmark-relative basis. The Treasurer will monitor whether each Core Fund's level of total risk is consistent with the return objectives of the Fund. If conditions warrant, the Treasurer will adjust the investment structure to restore risk to appropriate levels. Where appropriate, active risk (tracking error) budgets will be established and monitored for each of the Core Funds.
- i. The Treasurer shall prepare quarterly performance reports on the Core Funds for the RSPAC, the Committee, and The Regents.
- j. Investment performance results for the Core Funds shall be calculated and verified at least monthly by an external, independent performance consultant.
- k. The Treasurer, in conjunction with the various investment consultants, will monitor the separate account investment managers for compliance with the appropriate Individual Manager Guidelines (as defined in section 5(a)), achievement of specific objectives, and individual risk exposures.
- l. The Treasurer shall monitor the conduct of the custodian of the Program's investments.
- m. The Treasurer shall adopt the CFA Institute Code of Ethics and Standards of Professional Conduct for all employees of the Office of the Treasurer and relevant consultants and managers. These are found at [http://www.cfainstitute.org/pdf/standards/english\\_code.pdf](http://www.cfainstitute.org/pdf/standards/english_code.pdf) and incorporated by reference. The Treasurer shall develop and enforce other ethics guidelines for the Office of the Treasurer as needed, consistent with other University policies and guidelines.

## **University of California Retirement Savings Program Investment Policy Statement**

- n. The Committee and the Treasurer will periodically review this Policy and the Investment Guidelines to determine if amendments are appropriate based on changed circumstances such as the market environment or the needs of the Program.
- o. Notwithstanding the fiduciary responsibility of The Regents, the Committee, and the Treasurer with respect to the investments of the Program, the following limitations apply:
  - i. The dissemination of generic educational information to participants to help them make informed choices about their investment alternatives, and the provision of investment alternatives do not constitute advice from the University to participants.
  - ii. Participants bear the risk of their investment choices. Additionally, each individual participant has the responsibility to reallocate assets among funds in his or her personal account as circumstances change.
  - iii. Investments outside of the Core Funds are not reviewed by the Treasurer's Office.

### **5. Investment Manager Guidelines**

The general guidelines that apply to all investment managers are:

- a. Subject to constraints and restrictions imposed by the individual investment manager guidelines ("Individual Manager Guidelines"), all decisions regarding sector and security selection, portfolio construction, and timing of purchases and sales are delegated to the investment manager.
- b. The purchase of securities issued by tobacco companies is prohibited in separately managed accounts. The Regents have defined a tobacco company as "a company which derives its revenues from the manufacture and distribution of tobacco products or, if a diversified company, that no other business line contributes more revenues or earnings than tobacco products." Recognizing that the establishment of social investing restrictions may limit investment opportunities, the Treasurer has established the use of "tobacco free" benchmarks as appropriate performance evaluation standards.
- c. The direct purchase of property owned or a security issued by the University, its subsidiaries and affiliates, is prohibited.
- d. The purchase of non-negotiable securities (with the exception of private equity investments in the UC Equity Fund) is prohibited.
- e. The use of derivative securities or contracts to leverage the portfolio is prohibited. Acceptable and prohibited uses of derivatives are found in the derivatives policy in Appendix 1.
- f. Transactions that involve a broker acting as a "principal," where such broker or an affiliate is also the investment manager, who is making the transaction, are prohibited.
- g. Transactions shall be executed at the lowest possible total cost, which includes commissions, efficiency of execution, and market impact.

Managers are required to inform the Treasurer of significant matters pertaining to the investment of Program assets, including at a minimum, substantive changes in investment strategy and portfolio structure; significant changes in ownership, organizational structure, financial condition or professional staffing; litigation or violation of securities regulations; significant account losses

## University of California Retirement Savings Program Investment Policy Statement

or growth of new business. Managers must inform the Treasurer in the event of discovering an unintended or involuntary violation of the Individual Manager Guidelines or of any of the Policies herein pertaining to them.

Investment Guidelines applicable to each Core Fund will be found in Appendices 4. Individual Manager Guidelines, if different, will contain specific provisions to ensure that Objectives and risk exposures are consistent with their particular investment mandate, which may be a style or subset of the Core Fund. However, all Individual Manager Guidelines will be consistent with Core Fund Investment Guidelines and this Policy.

**NOTE: Performance objectives, benchmarks, risk budgets, and rebalancing policies will be contained in the Investment Guidelines for each Core Fund as applicable**