
**TOTAL RETURN INVESTMENT POOL (TRIP)
INVESTMENT GUIDELINES**

The purpose for these performance objectives (“Objectives”) and management guidelines (Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the University’s Total Return Investment Pool, or TRIP (“Program”). These Objectives and Guidelines shall be subject to ongoing review by the Committee on Investments. Capital market conditions, changes in the investment industry, new financial instruments, or a change in the Committee on Investments’ risk tolerance, are among factors to be considered in determining whether the Guidelines shall be revised.

1. Investment Policy

a. Background:

The TRIP is an investment pool established by The Regents and is available to UC Campuses and the UC Office of the President. The TRIP allows Campuses to maximize return on their long-term working capital, subject to an acceptable level of risk, by taking advantage of the economies of scale of investing in a larger pool and investing across a broad range of asset classes.

b. Incorporation of Regents Investment Policies

1. Investment governance, philosophy, policies and oversight procedures for this Program will be similar to those for the University of California Retirement Plan (UCRP) and General Endowment Pool (GEP), as specified in the Investment Policies for the UCRP.

2. Relevant policies from Sections 1-3 of the UCRP Investment Policy Statement are incorporated by reference into this Policy.

c. Investment Objective

The Objective of the Program is to generate a rate of return, after all costs and fees, in excess of the policy benchmark, and consistent with liquidity, cash flow requirements, and risk budget. See Section 2 for asset allocation and benchmark. As its name implies, TRIP is managed according to a total return objective, and will be subject to interest rate risk, credit risk, and equity risk. It is appropriate for longer-term investors who can accept this volatility in exchange for higher expected return.

d. Investment Strategy

The Program shall be implemented by the Treasurer’s Office, using a combination of internal and external management (“Managers”), employing actively managed strategies where appropriate. Active strategies will include both sector allocation and security selection. The Treasurer will monitor the Program’s adherence to these Guidelines.

e. Risk Objective

The Program shall be managed so that its annualized tracking error budget shall be 300 basis points. This budget is consistent with the $\pm 10\%$ ranges around the combined asset classes

(see 2a below), and incorporates both sector allocation and security selection differences from the aggregate benchmark.

Each Manager or asset class segment will have a unique active risk budget, relative to its asset class benchmark, which is appropriate to its individual strategy, and specified in its guidelines, and which will reflect the risk-return profile of its specific investment objectives.

f. Other Constraints and Considerations

- Managers shall comply with applicable State and Federal laws and regulations
- Managers shall at all times 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
- Managers shall act solely in the interest of the Program’s owners.

2. Investment Guidelines

The portfolio will be invested primarily in marketable, publicly traded equity and fixed income securities denominated in (or hedged back to) U.S. dollars.

a. Strategic Asset Allocation and Allowable Ranges

	<u>Target Allocation</u>
US Fixed Income – Government	10%
US Fixed Income – Credit	45%
US Fixed Income – Securitized	10%
High Yield Debt	10%
US Equity - Large Cap	10%
US Equity - Small Cap	5%
Non US Equity (hedged)	10%
Liquidity	0%

Combined Asset Classes	<u>Target Allocation</u>	<u>Minimum</u>	<u>Maximum</u>
Public Equity	25%	15%	35%
US Fixed Income	75%	65%	85%
Liquidity	0%	0%	10%
Total	100%		

b. Total TRIP Performance Benchmark

This is the composition of the total TRIP performance benchmark:

<u>Percentage</u>	<u>Benchmark</u>
10%	× Lehman Aggregate Government Index
45%	× Lehman Aggregate Credit Index
10%	× Lehman Aggregate Securitized Index
10%	× Merrill Lynch HY Cash Pay Index
10%	× Russell 1000 Index (Tobacco Free)
5%	× Russell 2000 Index (Tobacco Free)
10%	× MSCI World ex US Net Index (hedged) (Tobacco Free)

Notes on Total Program benchmark:

1. The calculation of the Total Program benchmark will assume a monthly rebalancing methodology.
2. In the event of a significant change in asset allocation, The Regents' generalist consultant may specify an alternative weighting scheme to be used during a transition period.

c. Rebalancing Policy

There will be periodic deviations in actual asset weights from the policy asset weights specified above. Causes for periodic deviations are market movements, cash flows, and varying portfolio performance. Significant movements from the asset class policy weights will alter the intended expected return and risk of the Fund. Accordingly, the Investment Committee authorizes the Treasurer to rebalance the Fund when necessary to ensure adherence to the Investment Policy.

The Treasurer will monitor the actual asset allocation at least monthly. The Committee directs the Treasurer to take all actions necessary, within the requirement to act prudently, to rebalance assets to within the policy ranges in a timely and cost effective manner when actual weights are outside the prescribed ranges. The Treasurer may utilize derivative contracts (in accordance with the Derivatives Policy found in Appendix 4 of the UCRP Policy Statement) to rebalance the portfolio.

The Treasurer shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. With approval from the Chair of the Committee, the Treasurer may delay a rebalancing program when the Treasurer believes the delay is in the best interest of the Plan. Results of rebalancing will be reported to the Committee at quarterly meetings.

d. Asset Class Guidelines

The Program will be invested in a diversified portfolio of equity and fixed income securities. Each Segment of the Program, as defined above, will be subject to the Regents Asset Class guidelines that is appropriate and in effect for that Segment. These Guidelines are found in the Appendices to the UC Retirement Plan Investment Policies, and are hereby incorporated by reference.

e. Restrictions

The Managers may **not**:

- Purchase securities of tobacco related companies, as per the UCRP Investment Policy, section 5b.
- Invest in mutual funds or group trusts unless specifically allowed in its guidelines
- Buy party-in-interest securities
- Buy securities restricted as to sale or transfer, except for 144A securities, which are permitted
- Buy or write structured (“levered”) notes
- Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy

Subject to the limitations above, the Managers have complete discretion with regard to choosing sector weights, issuers, and maturities.

3. Evaluation and Review

a. Policy and Guideline Review

The Treasurer’s Office shall review the Objectives and Guidelines at least annually, and report to the Committee on Investments on the impact of the Guidelines on the Program’s performance.

b. Program performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Program and individual Managers.

4. Reporting

On a quarterly basis, the Treasurer’s Office shall provide the following reports to the Committee on Investments:

- a. A summary of Program investments and risks.
- b. A summary of Program performance, on an absolute and benchmark relative basis.

Each Manager will be required to provide the Treasurer monthly and quarterly reports, including but not limited to:

- a. Monthly accounting statements showing portfolio income, holdings and transactions
- b. Quarterly review of portfolio and strategy performance including a market outlook
- c. Annual statement of compliance with investment guidelines

5. Investment Operations and Restrictions

a. University Financial Management may establish limitations on Campus investments to maintain sufficient short term liquidity for University cash needs, and restrictions on withdrawals as is appropriate for the investment of longer-term assets.

b. Annual distributions of income and capital gains will be made to participating Campuses, according to a spending rate will be reviewed and approved annually by the Committee on Investments.

6. Definitions: See Appendix 8 of the UCRP Policy Statement