

# Growing Portfolios. Building Partnerships.

## 2015/2016

# Opportunities

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Develop asset and risk allocation for all products

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Manage products differently based on their risk and return objectives

---

Add value through active management

---

Aggressively reduce costs in a low-return environment

---

Benefit from our competitive advantages

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**Size. Scale. Patience. The UC.**

Delivering  
value  
through  
values.

# Delivering value through values.

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## 1

Invest for the long term. Where we can, we focus on investments over 10 years and beyond. This offers many more opportunities than those available to short- and intermediate-term investors. We aim to make the most of our scale and ability to be patient.

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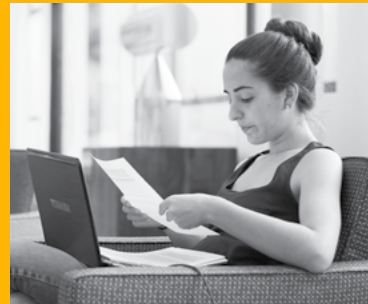
## 2

Invest in people. The contributions of talented people are among the most important drivers of success for any investment organization. So we've made the recruitment and retention of exceptional staff a cornerstone of our strategy.

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## 3

Build a high-performance culture. Every organization needs a clearly defined culture to make sure everyone is working towards the same goals and speaking the same language. Our culture is one of responsibility, accountability and high performance. We are proud of our achievements but try to be humble, as markets sometimes surge and fall without warning or logic.



## 4

We are all risk managers. Our aim is simple: to earn the best risk-adjusted returns that meets the objectives of our various portfolios. But achieving that aim is complex. An effective risk-management function is critical, enabling the leadership to delegate authority to the investment team. Everyone on the team is in the risk-management business.

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## 5

Allocate wisely. The key to investing, and the most important driver of performance, is asset allocation. To make effective investment decisions and achieve the appropriate combination of risk and return, we have to maintain a clear and balanced understanding of stakeholders' unique objectives, time horizon, risk tolerances, liquidity and other constraints. As a globally significant investor, we also aim to make the most of our scale and patience when we allocate assets.

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## 6

Costs matter. High-quality advice comes at a cost. We get that. But we also believe fees and costs for external managers must be fully transparent and straightforward. Anything else creates potential problems — opaque fees can mask risk. Plus, cost savings can be considered a risk-free return. If we can save money through efficient, well-executed strategies, then we must. We intend to aggressively capture every dollar of this risk-free return that we can.



## 7

**Diversify with care. Act with clarity.** Diversification is invaluable, but it's not a cure-all. It allows us to spread risk and reduce the impact of any individual loss. But diversifying too broadly has the effect of producing returns that are index like and can draw investors into assets and products they don't fully understand. We prefer a more focused portfolio of assets and risks that we know extremely well. We also need to be keenly aware of our own strengths and weaknesses in the global context in order to act decisively when we believe markets are behaving irrationally or when we have a skill or knowledge advantage. That means keeping a constant, clear-eyed check on our evolving capabilities. It's not always an easy or painless process, but it's an essential one.

## 8

**Sustainability impacts investing.** Sustainability is not a "check box," but rather, a fundamental concern that we incorporate into decision making. We focus particularly on how sustainability can improve investment performance. Sustainable businesses are often more rooted in communities and resilient to future crises, which means investing in them makes good business sense. They are bound to affect portfolios in the future, and we need to consider them in our broader lens of investment decision making.



## 9

**Collaborate widely.** We are proud to be a part of the University of California, as well as the broader community of institutional investors. Through active collaboration, we aim to leverage the unique resources of the university. We also want to foster collaborative relationships with our peers to leverage our long-term competitive advantages.

## 10

**Innovation counts.** The best investors recognize that markets are constantly fluctuating and that no good idea lasts forever. We must always be innovating and identifying new opportunities. Getting in early brings rewards. Just as importantly, some of the best opportunities transcend asset-class silos. There are advantages in thinking differently and partnering with peers that are willing to work with us on innovative projects. Collaboration is one of the most powerful drivers of innovation.

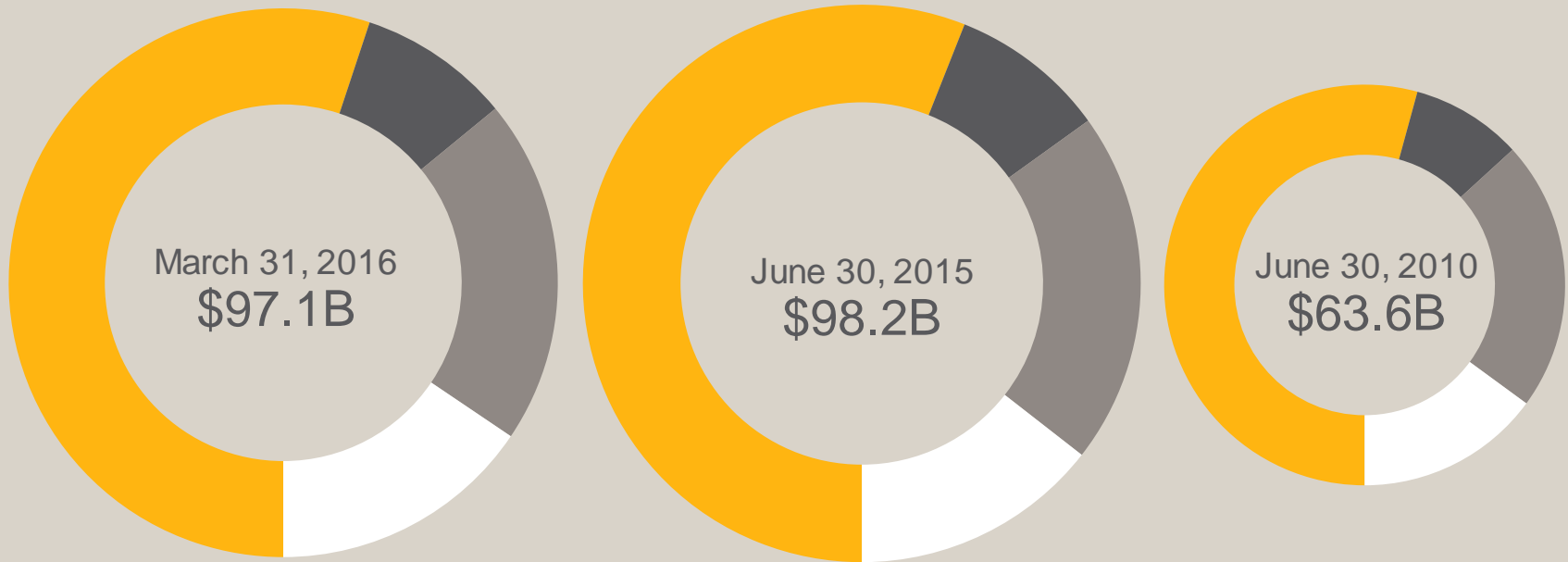
# Our Products

## Office of the Chief Investment Officer of the Regents

			Market Value in Billions (\$)
	March 31, 2016	June 30, 2015	June 30, 2010
Endowment	\$8.7	\$8.9	\$5.7
Pension	\$53.5	\$55.0	\$34.5
Retirement Savings	\$19.8	\$20.1	\$13.9
Working Capital Total Return	\$8.7	\$7.4	\$1.8
Short Term	\$6.4	\$6.8	\$7.7
<b>Total</b>	<b>\$97.1</b>	<b>\$98.2</b>	<b>\$63.6</b>

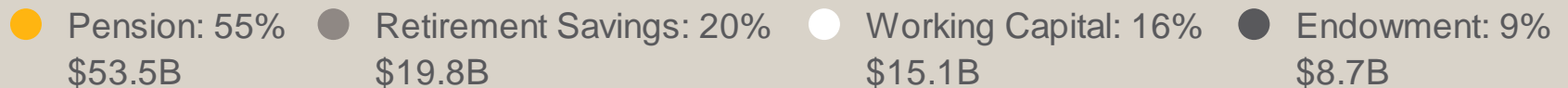
# Investing Globally \$97.1 Billion

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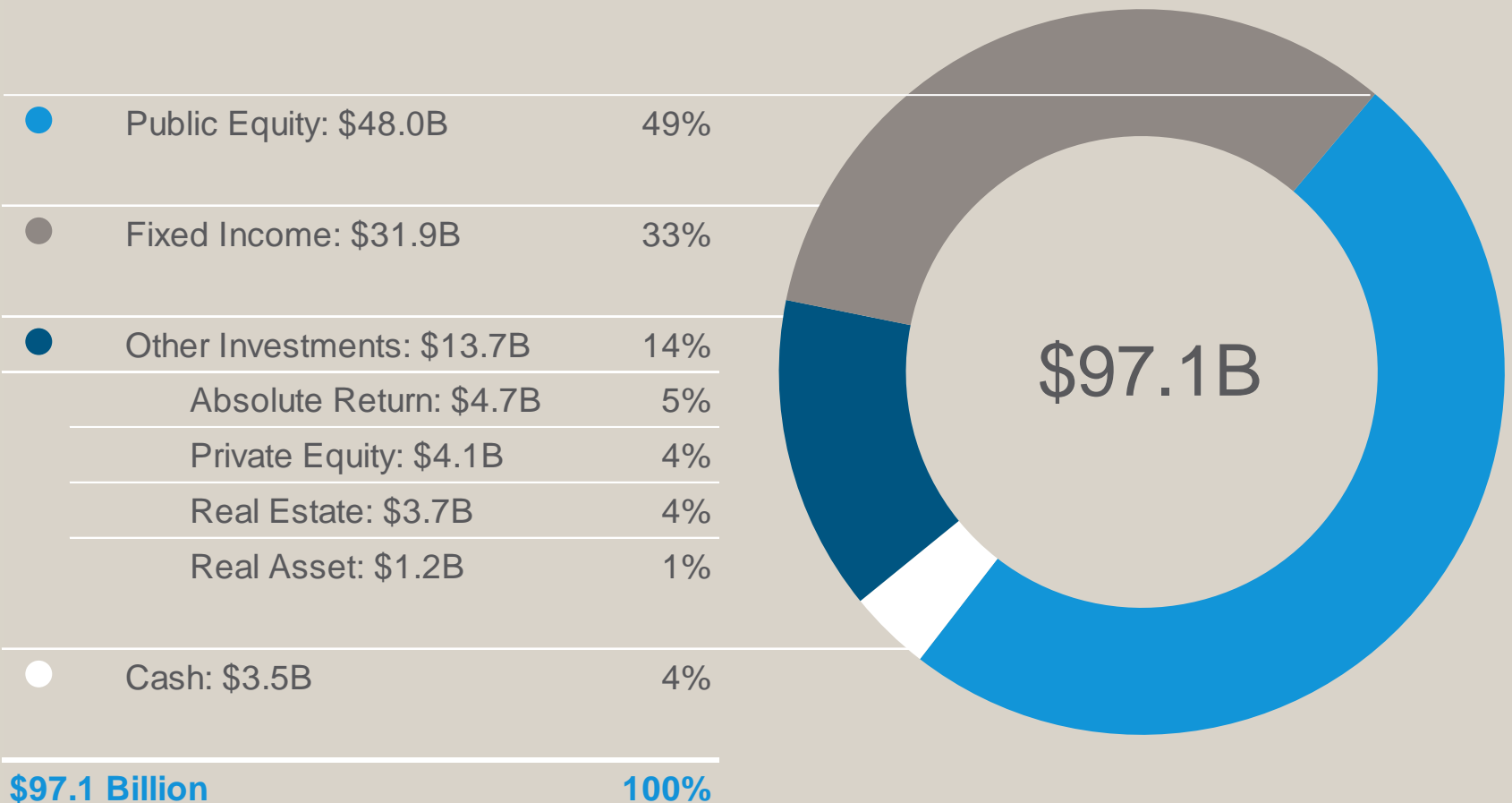
As of March 31, 2016

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# How We Invest \$97.1 Billion










































As of March 31, 2016





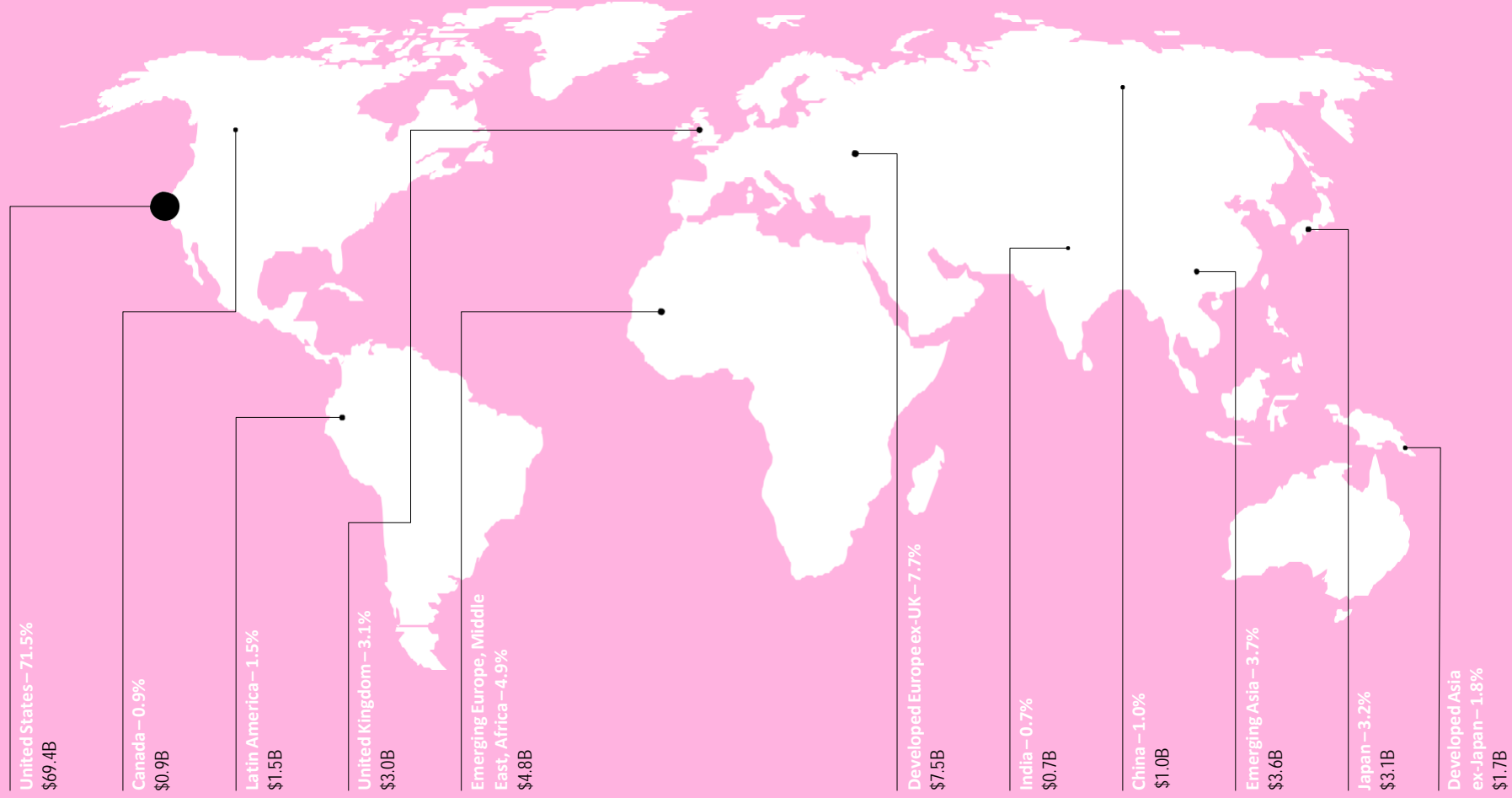
# How We Invest

## Across Our Products

In Billions (\$)	Endowment	Pension	Retirement Savings	Total Return	Short Term	Total
<b>Public Equity</b>	4.2 	29.2 	11.5 	3.1 		<b>\$48.0</b> 
<b>Fixed Income</b>	0.7 	12.3 	8.1 	4.4 	6.4 	<b>\$31.9</b> 
<b>Other Investments</b>	3.2 	9.3 	0.2 	1.0 		<b>\$13.7</b> 
Absolute Return	1.4 	2.3 		1.0 		<b>\$4.7</b> 
Private Equity	1.1 	2.8 	0.2 			<b>\$4.1</b> 
Real Estate	0.5 	3.2 				<b>\$3.7</b> 
Real Asset	0.2 	1.0 				<b>\$1.2</b> 
<b>Cash</b>	0.6 	2.7 	0.04 	0.2 		<b>\$3.5</b> 
<b>Total</b>	<b>\$8.7</b> 	<b>\$53.5</b> 	<b>\$19.8</b> 	<b>\$8.7</b> 	<b>\$6.4</b> 	<b>\$97.1</b> 

# Where we Invest

## Our Products



# Contents

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Market Review

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Endowment

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Pension and Retirement Savings

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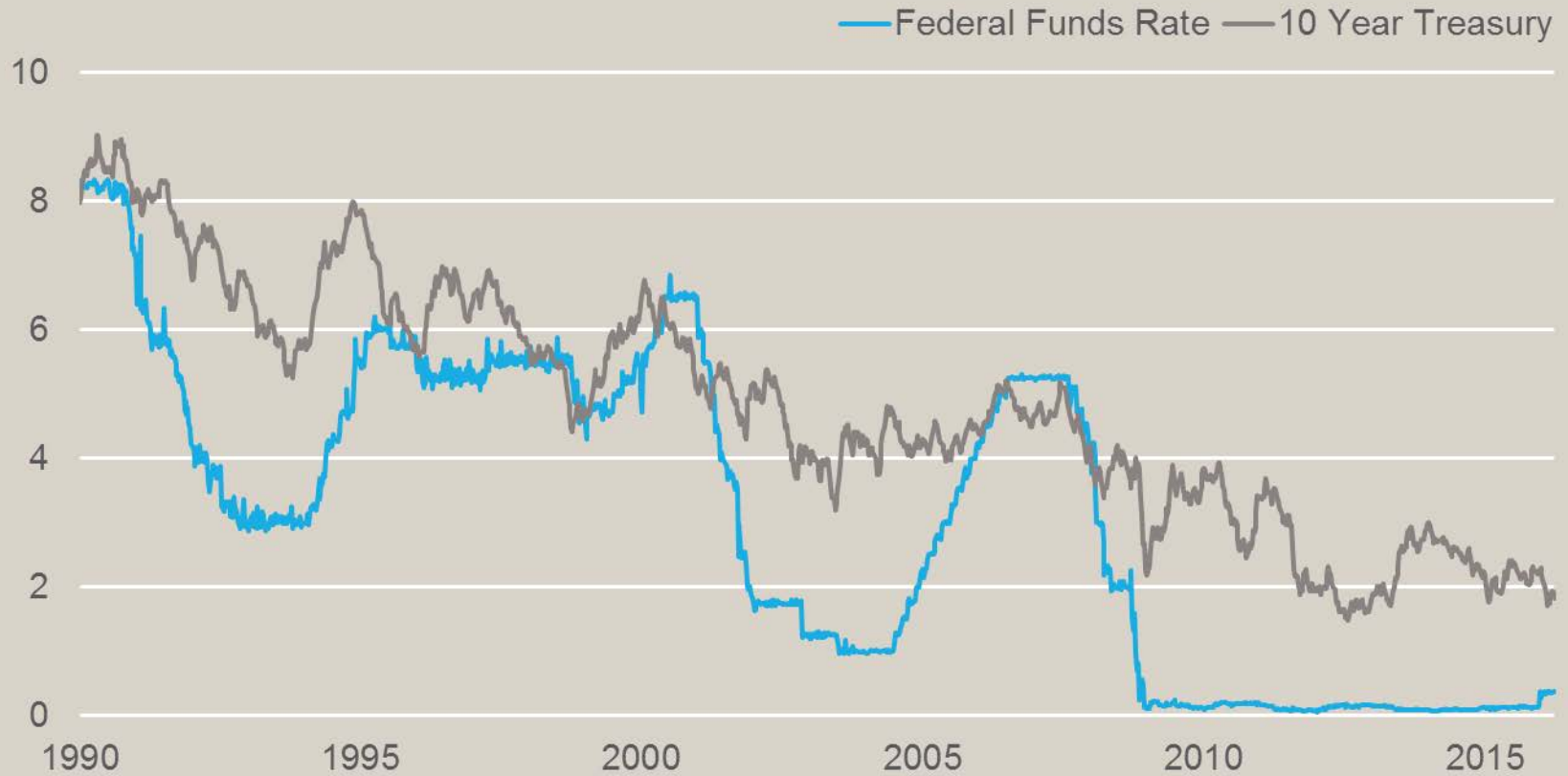
Working Capital

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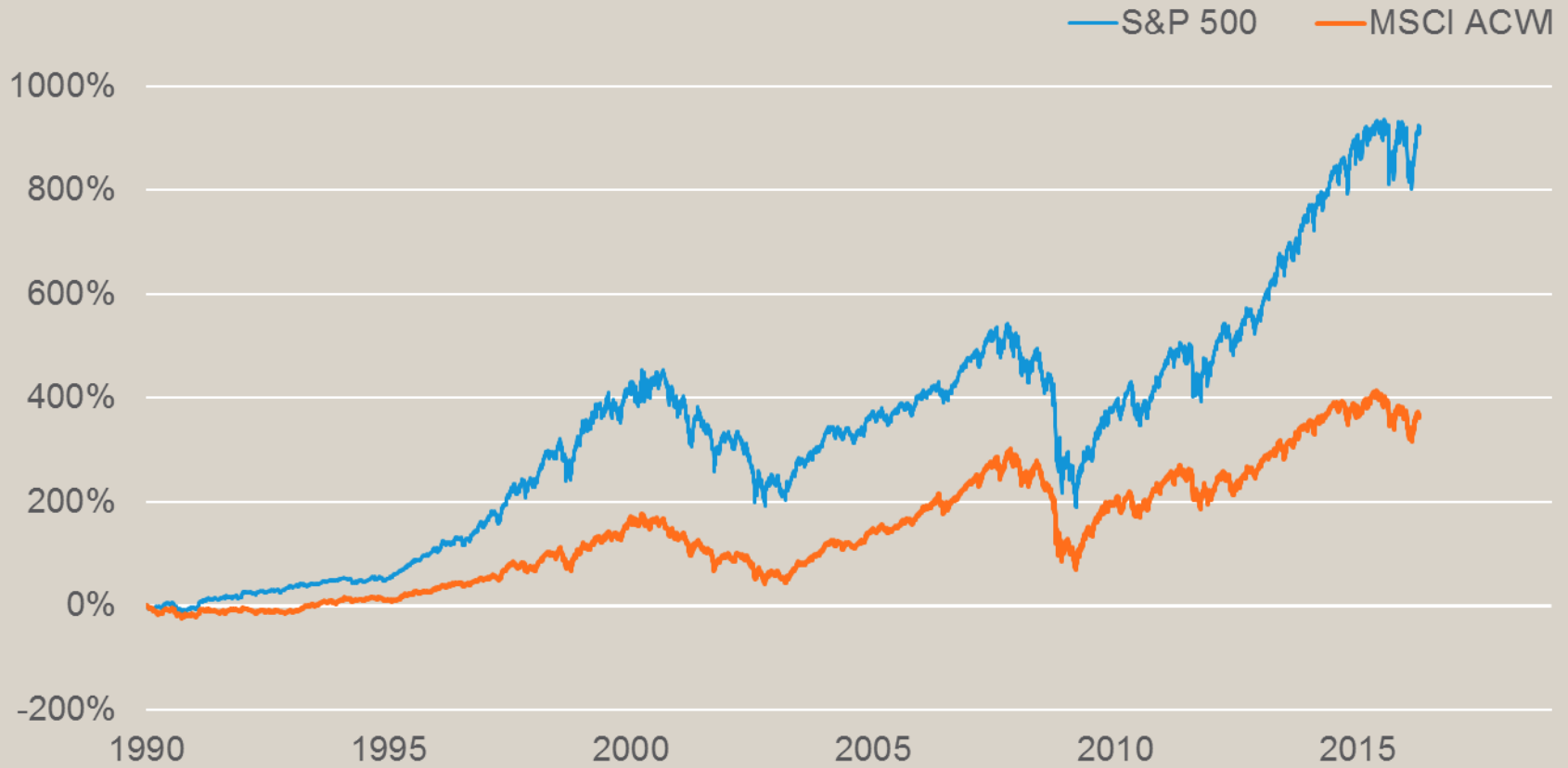
Opportunities

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# Will U.S. rates fall below zero?



# Volatility is back



Growing for more  
than 80 years.

# Endowment

## Investment Highlights

Market Value  
in Billions (\$)

---

June 30, 2015

**\$8.9**

---

Market Gains

**(\$0.2)**

---

Value Added

**(\$0.05)**

---

**+** Cash Inflow

**\$0.3**

---

**-** Cash Outflow

**(\$0.3)**

---

March 31, 2016

**\$8.7**

# Endowment

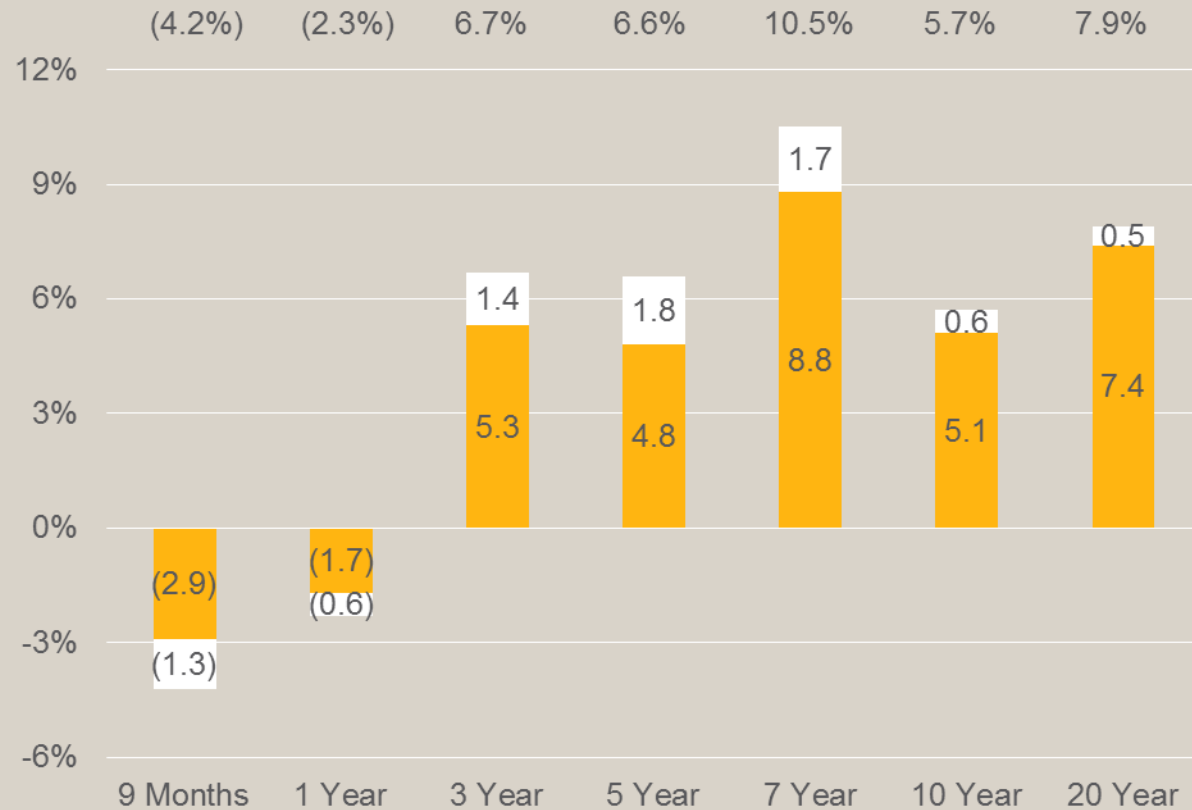
## Investing Since 1933

Dollar Value Added

(\$0.4B) (\$0.2B) \$1.5B \$2.3B \$4.4B \$3.8B

### Net Returns

- Value Added
- Benchmark











As of March 31, 2016



# Endowment Asset Allocation
















As of March 31, 2016

	Market Value in Billions (\$)	Portfolio Weight (%)	Policy Weight (%)	Overweight/(Underweight)	
<b>Public Equity</b>	4.2	48.0	43.2	4.8	
<b>Fixed Income</b>	0.7	8.4	13.0	(4.6)	
<b>Other Investments</b>	3.2	36.8	43.8	(7.0)	
Absolute Return	1.4	16.5	24.5	(8.0)	
Private Equity	1.1	12.4	9.4	3.0	
Real Estate	0.5	5.9	7.0	(1.1)	
Real Asset	0.2	2.0	2.9	(0.9)	
<b>Cash</b>	0.6	6.8	0.0	6.8	
<b>Endowment</b>	<b>\$8.7 Billion</b>	<b>100.0%</b>	<b>100.0%</b>		

# Endowment

## Detailed Asset Allocation

As of March 31, 2016

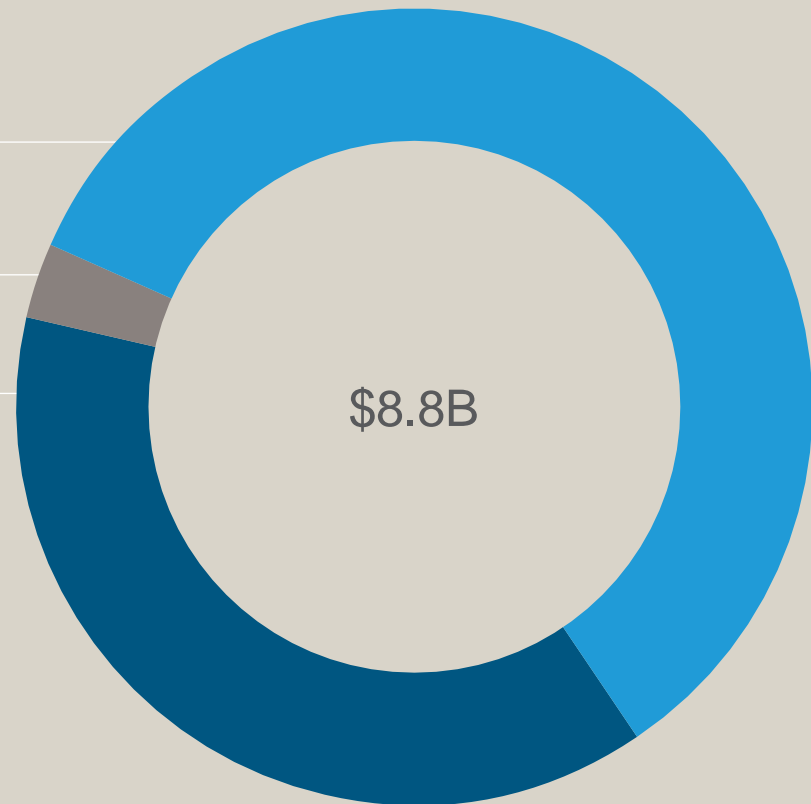
	Market Value in Billions (\$)	Portfolio Weight (%)	Policy Weight (%)	Overweight/(Underweight)	
<b>Public Equity</b>	4.2	48.0	43.2	4.8	
U.S. Equity	2.1	24.1	22.6	1.5	
Non-U.S. Equity	1.2	13.5	12.9	0.6	
Emerging Market Equity	0.9	10.4	7.7	2.7	
<b>Fixed Income</b>	0.7	8.4	13.0	(4.6)	
Core	0.3	3.1	5.2	(2.1)	
High Yield	0.2	2.9	2.6	0.3	
Emerging Market Debt	0.0	0.0	2.6	(2.6)	
TIPS	0.2	2.4	2.6	(0.2)	
<b>Other Investments</b>	3.2	36.8	43.8	(7.0)	
Absolute Return	1.4	16.5	24.5	(8.0)	
Private Equity	1.1	12.4	9.4	3.0	
Real Estate	0.5	5.9	7.0	(1.1)	
Real Asset	0.2	2.0	2.9	(0.9)	
<b>Cash</b>	0.6	6.8	0.0	6.8	
<b>Endowment</b>	<b>\$8.7 Billion</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>	

# Endowment Risk Allocation

As of March 31, 2016

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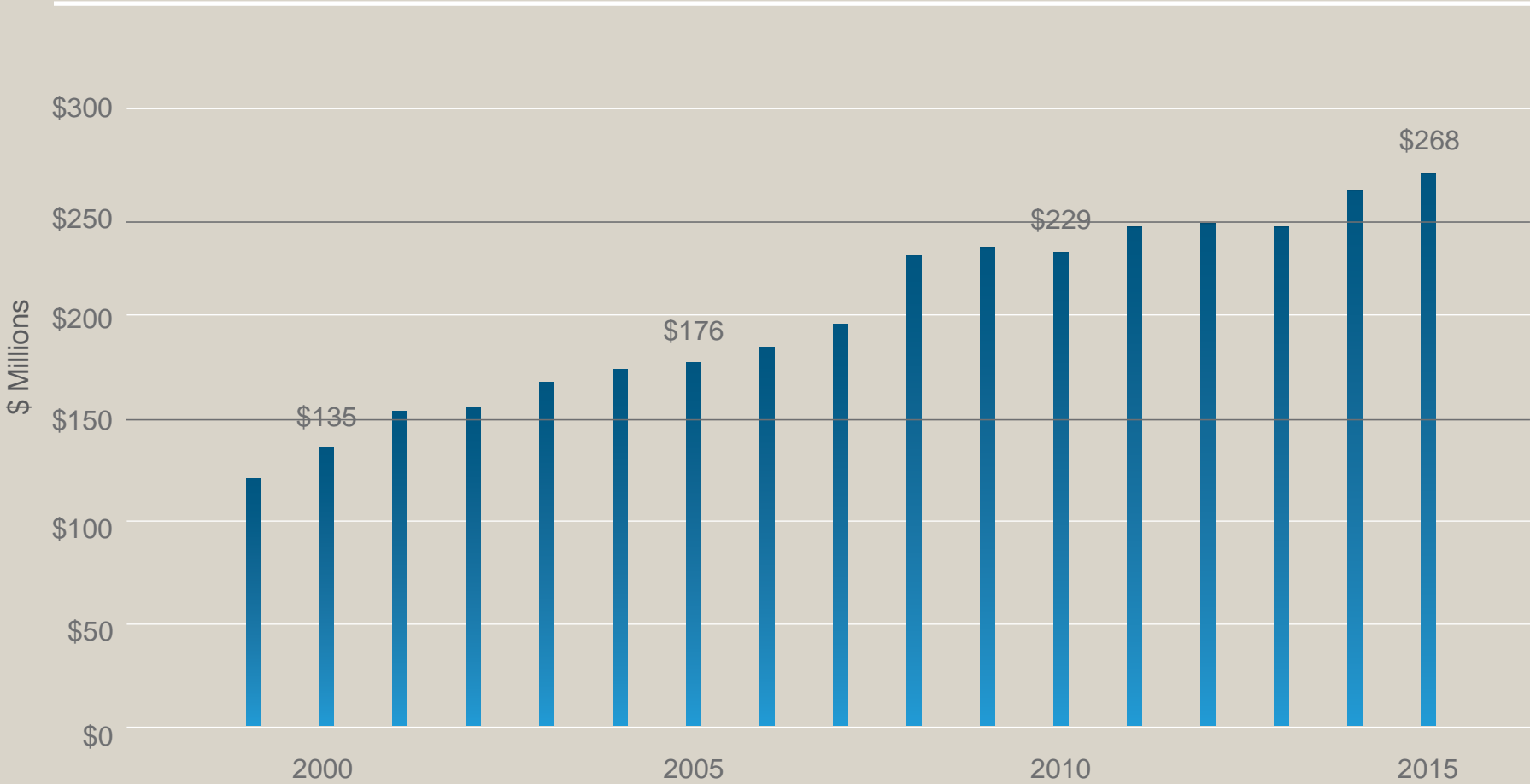
- Public Equity: 56%
- Fixed Income: 2%
- Other Investments: 42%



Our capital allocation to public equities is \$4.2 Billion, or 48% of the portfolio, but public equities have more risk on a dollar by dollar basis than other assets, and so contribute more to risk for it's dollar allocation.

# Endowment

Payout of more than \$2 Billion over the past decade to support thousands of students



# Securing the future.



# Pension

## Investment Highlights

Market Value  
in Billions (\$)

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June 30, 2015

**\$55.0**

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Market Gains

**(\$0.9)**

---

Value Added

**(\$0.4)**

---

**+** Cash Inflow

**\$0.6**

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**-** Cash Outflow

**(\$0.8)**

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March 31, 2016

**\$53.5**

# Pension

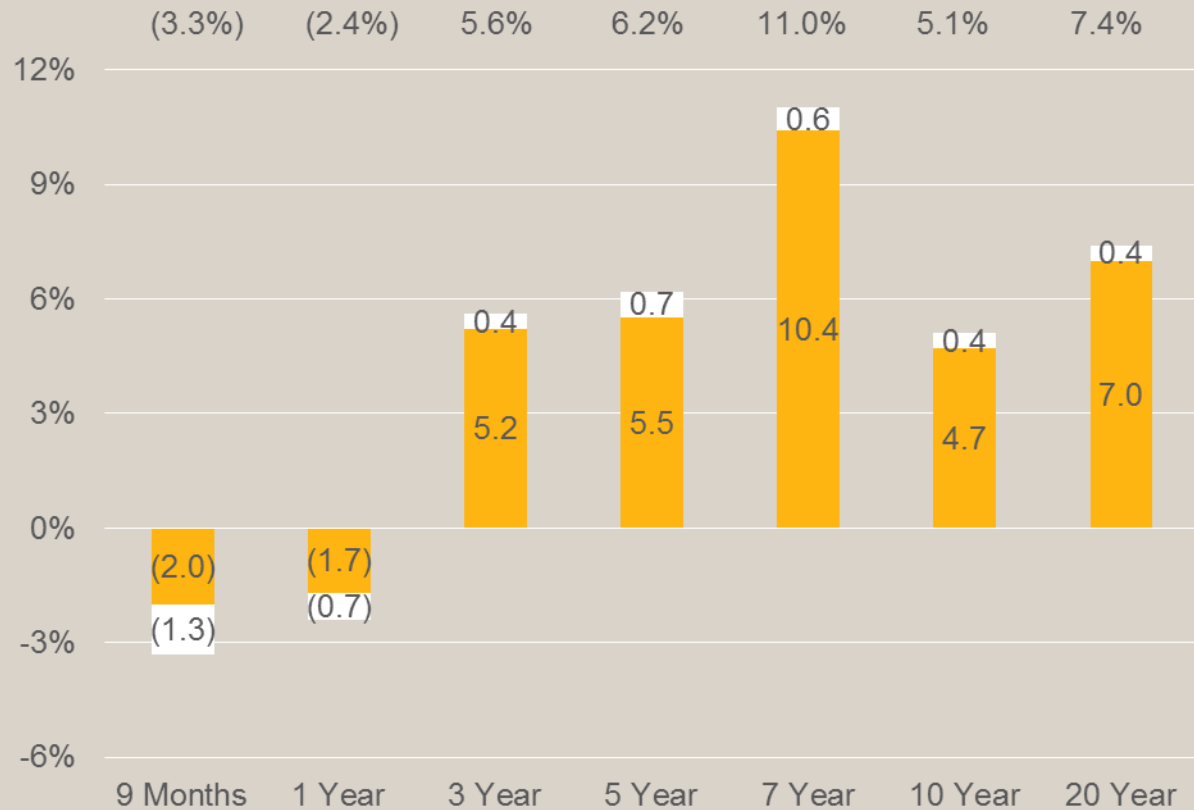
## Investing Since 1961

Dollar Value Added

(\$1.8B) (\$1.3B) \$8.0B \$13.8B \$28.7B \$21.7B

### Net Returns

- Value Added
- Benchmark



As of March 31, 2016

# Pension

## Asset Allocation

As of March 31, 2016

	Market Value in Billions (\$)	Portfolio Weight (%)	Policy Weight (%)	Overweight/(Underweight)	
<b>Public Equity</b>	29.2	54.6	54.9	(0.3)	
<b>Fixed Income</b>	12.3	23.1	22.3	0.8	
<b>Other Investments</b>	9.3	17.3	22.8	(5.5)	
Absolute Return	2.3	4.3	6.2	(1.9)	
Private Equity	2.8	5.2	8.0	(2.8)	
Real Estate	3.2	6.0	5.5	0.5	
Real Asset	1.0	1.8	3.1	(1.3)	
<b>Cash</b>	2.7	5.0	0.0	5.0	
<b>Pension</b>	<b>\$53.5 Billion</b>	<b>100.0%</b>	<b>100.0%</b>		



# Pension

## Detailed Asset Allocation

As of March 31, 2016

	Market Value in Billions (\$)	Portfolio Weight (%)	Policy Weight (%)	Overweight/(Underweight)	
<b>Public Equity</b>	29.2	54.6	54.9	(0.3)	
U.S. Equity	18.5	34.6	29.5	5.1	
Non-U.S. Equity	5.8	10.8	17.1	(6.3)	
Emerging Market Equity	4.9	9.2	8.3	0.9	
<b>Fixed Income</b>	12.3	23.1	22.3	0.8	
Core	7.4	13.9	12.4	1.5	
High Yield	1.7	3.2	2.6	0.6	
Emerging Market Debt	1.3	2.4	2.6	(0.2)	
TIPS	1.9	3.6	4.7	(1.1)	
<b>Other Investments</b>	9.3	17.3	22.8	(5.5)	
Absolute Return	2.3	4.3	6.2	(1.9)	
Private Equity	2.8	5.2	8.0	(2.8)	
Real Estate	3.2	6.0	5.5	0.5	
Real Asset	1.0	1.8	3.1	(1.3)	
<b>Cash</b>	2.7	5.0	0.0	5.0	
<b>Pension</b>	<b>\$53.5 Billion</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>	

# Pension

## Cash Flow and Projections

Fiscal Year End

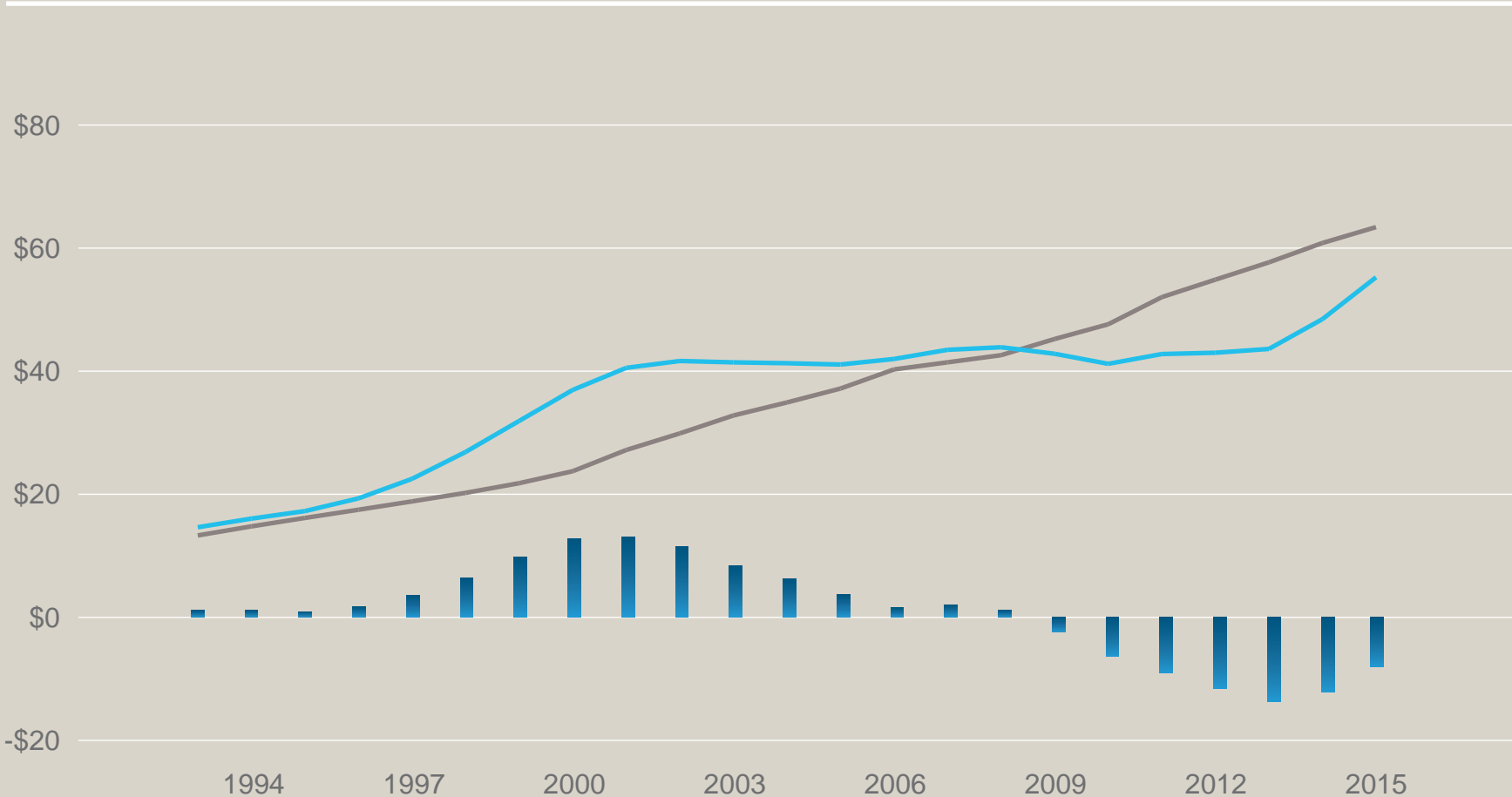
In Billions (\$)

<b>Inflows</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
Internal Borrowing from Short Term	\$1.1				\$0.7	\$0.6	\$0.5	\$0.4
External Borrowing from Short Term		\$0.9						
State Contributions						\$0.1	\$0.2	\$0.2
<b>Total Contributions</b>	<b>\$1.8</b>	<b>\$2.1</b>	<b>\$1.2</b>	<b>\$2.2</b>	<b>\$3.3</b>	<b>\$3.3</b>	<b>\$3.3</b>	<b>\$3.3</b>
Employer	\$1.7	\$1.8	\$0.8	\$1.6	\$2.5	\$2.5	\$2.5	\$2.5
Employee	\$0.1	\$0.3	\$0.4	\$0.6	\$0.8	\$0.8	\$0.8	\$0.8
<b>Total Inflows</b>	<b>\$2.9</b>	<b>\$3.0</b>	<b>\$1.2</b>	<b>\$2.2</b>	<b>\$4.0</b>	<b>\$4.0</b>	<b>\$4.0</b>	<b>\$4.0</b>
<b>Outflows</b>								
Benefit Payments	\$2.0	\$2.2	\$2.5	\$2.7	\$3.0	\$3.2	\$3.4	\$3.6
<b>Net Cash Flow</b>	<b>\$0.9</b>	<b>\$0.8</b>	<b>(\$1.3)</b>	<b>(\$0.5)</b>	<b>\$1.0</b>	<b>\$0.8</b>	<b>\$0.6</b>	<b>\$0.3</b>

# Pension

## Assets and Liabilities

● Assets ● Liabilities ● Surplus/Deficit (all values in \$ Billions)

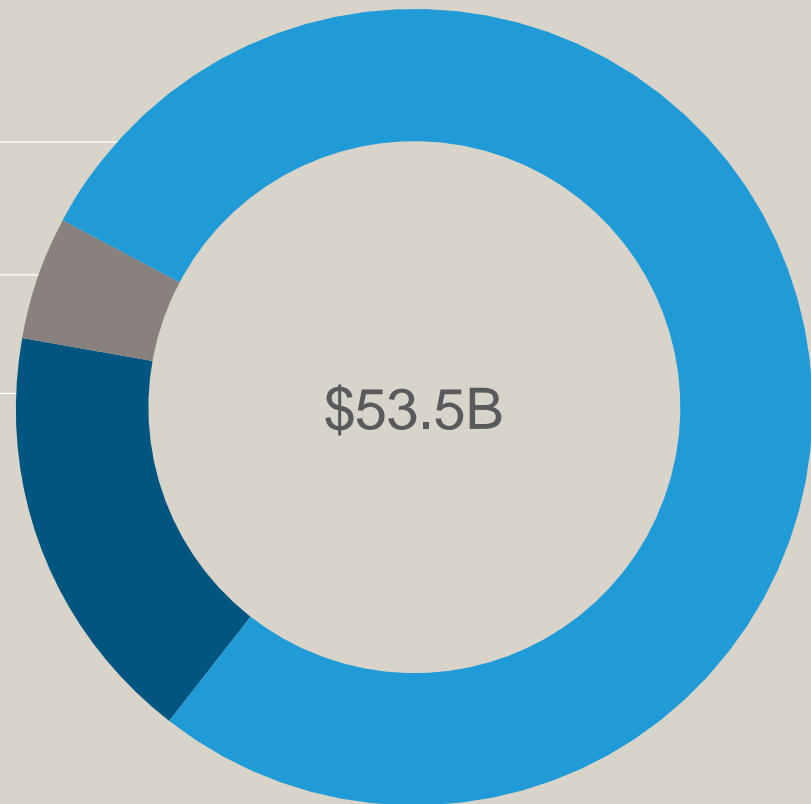


# Pension Risk Allocation

As of March 31, 2016

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- Public Equity: 78%
- Fixed Income: 4%
- Other Investments: 18%



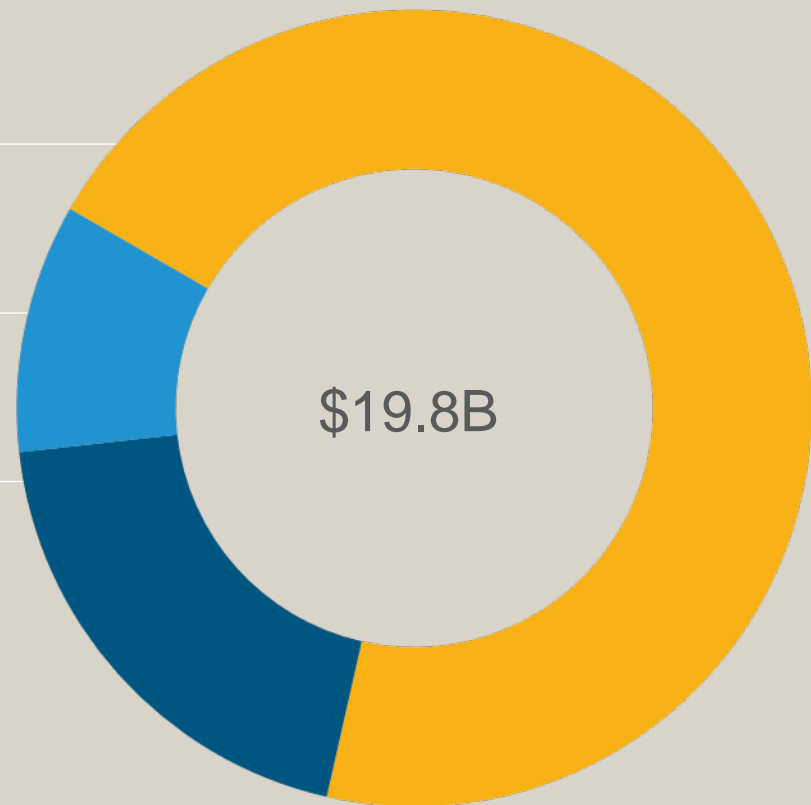
Our capital allocation to public equities is \$29.2 Billion, or 55% of the portfolio, but our risk allocation from equities is 78% because the risk from equities is higher dollar for dollar than other assets such as fixed income.

# Retirement Savings

As of March 31, 2016

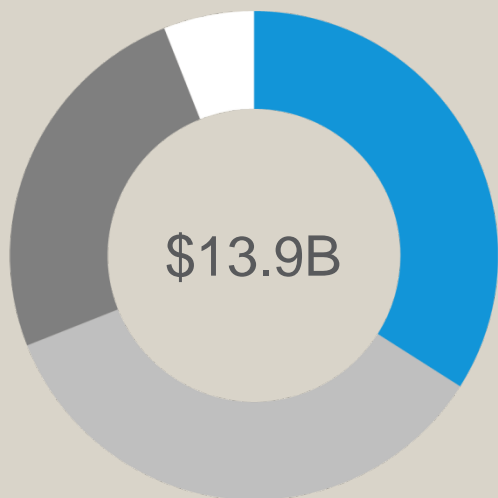
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- Tax Deferred 403(b) Plan: \$13.9B  
70%
- 457(b) Deferred Compensation Plan: \$2.0B  
10%
- Defined Contribution Plan: \$3.9B  
20%



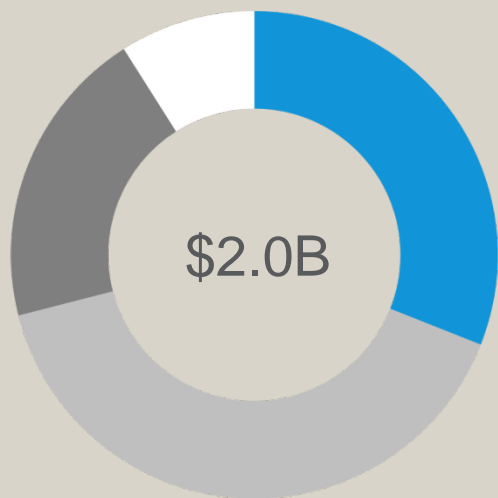
# Retirement Savings Plan Overview

As of March 31, 2016



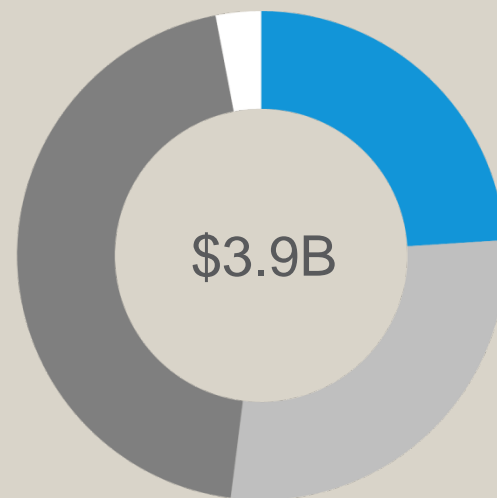
## 403(b)

Public Equity: \$4.7B	34%
Asset Allocation: \$4.9B	35%
Fixed Income: \$3.4B	25%
Brokerage Link: \$0.9B	6%



## 457(b)

Public Equity: \$0.6B	31%
Asset Allocation: \$0.8B	40%
Fixed Income: \$0.4B	20%
Brokerage Link: \$0.2B	9%

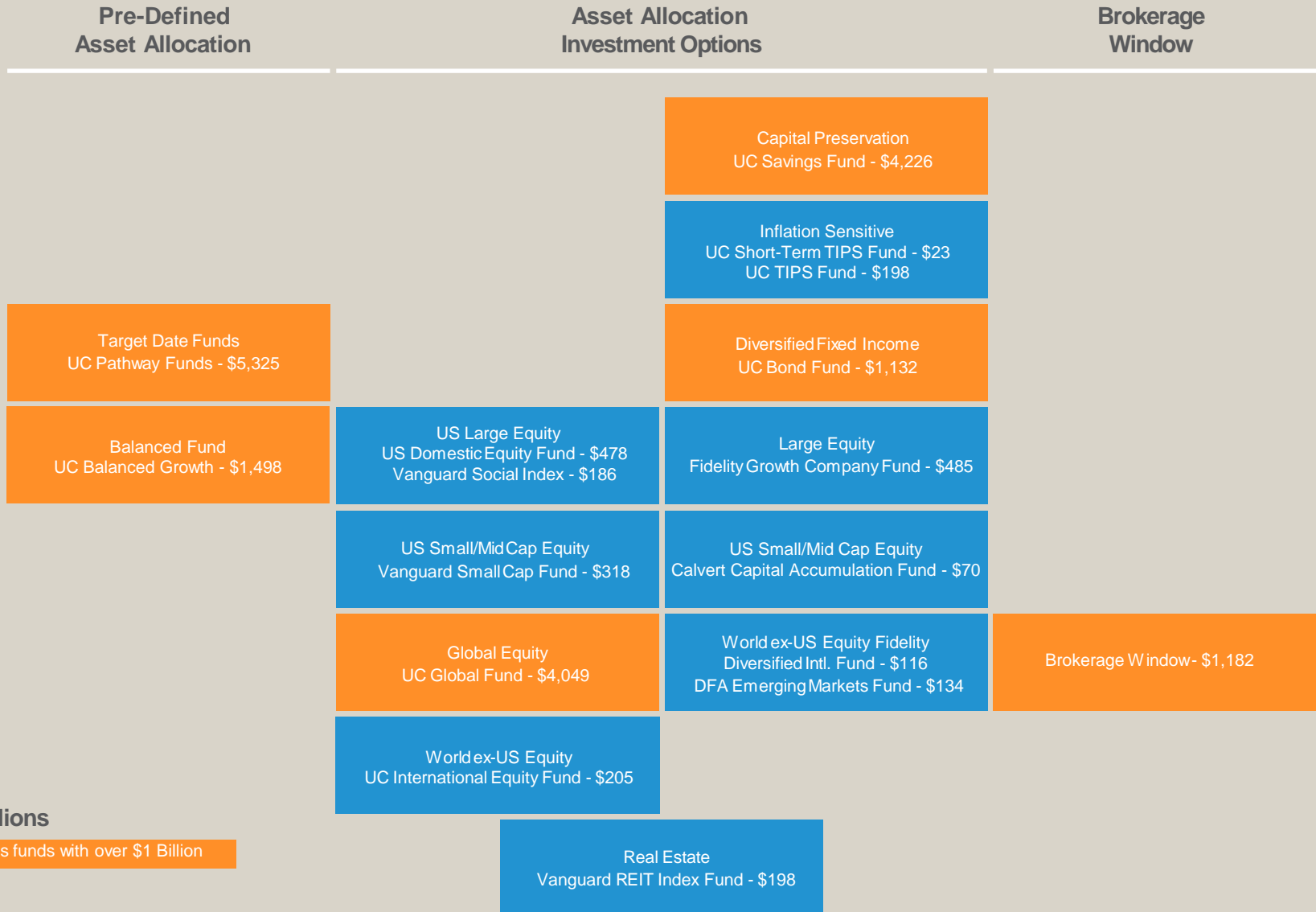


## Defined Contribution

Public Equity: \$0.9B	24%
Asset Allocation: \$1.1B	28%
Fixed Income: \$1.8B	45%
Brokerage Link: \$0.1B	3%

# Retirement Savings

## Investment Options



**In \$ Millions**

Signifies funds with over \$1 Billion

# Investment Options with Assets above \$1 Billion

## Performance

	Annualized Total Return %							
	Market Value (\$M)	% of Plan	9 Months	One Year	Three Year	Five Year	Seven Year	Ten Year
<b>Asset Allocation Funds</b>	<b>\$5,325</b>	<b>26.9%</b>	--	--	--	--	--	--
UC Pathway Income Fund	\$576	2.9%	0.2	0.2	0.3	2.4	4.9	3.7
UC Pathway Fund 2015	\$511	2.6%	0.3	0.1	0.9	3.2	7.4	-
UC Pathway Fund 2020	\$994	5.0%	0.1	-0.5	2.0	4.0	8.5	3.9
UC Pathway Fund 2025	\$804	4.1%	-0.8	-1.4	2.3	4.2	9.1	-
UC Pathway Fund 2030	\$839	4.2%	-1.4	-2.1	2.7	4.4	9.6	3.8
UC Pathway Fund 2035	\$542	2.7%	-2.0	-2.8	3.1	4.5	10.1	-
UC Pathway Fund 2040	\$474	2.4%	-2.6	-3.5	3.4	4.7	10.4	3.9
UC Pathway Fund 2045	\$240	1.2%	-3.3	-4.2	3.8	4.8	10.7	-
UC Pathway Fund 2050	\$175	0.9%	-3.8	-4.7	4.1	4.9	11.3	4.0
UC Pathway Fund 2055	\$65	0.3%	-3.8	-4.7	4.4	5.1	11.9	-
UC Pathway Fund 2060	\$106	0.5%	-3.8	-4.7	4.8	5.3	12.4	-
<b>Balanced Fund</b>								
UC Balanced Growth Fund	\$1,498	7.6%	-1.5	-2.7	4.7	5.8	10.6	5.4
<b>Other Fund Options</b>	<b>\$9,408</b>	<b>47.5%</b>	--	--	--	--	--	--
UC Savings Fund	\$4,049	20.4%	-1.8	-1.5	9.8	9.7	15.8	6.3
UC Bond Fund	\$4,226	21.3%	0.9	1.1	1.0	1.2	1.5	2.4
UC Global Equity Fund	\$1,132	5.7%	3.6	2.1	2.6	4.1	5.1	5.1
<b>Total</b>	<b>\$16,230</b>	<b>81.9%</b>	--	--	--	--	--	--



# Capital, working.



# Total Return

## Investment Highlights

Market Value  
in Billions (\$)

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June 30, 2015

**\$7.4**

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Market Gains

**(\$0.03)**

---

Value Added

**(\$0.1)**

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**+** Cash Inflow

**\$1.6**

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**-** Cash Outflow

**(\$0.2)**

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March 31, 2016

**\$8.7**

# Total Return

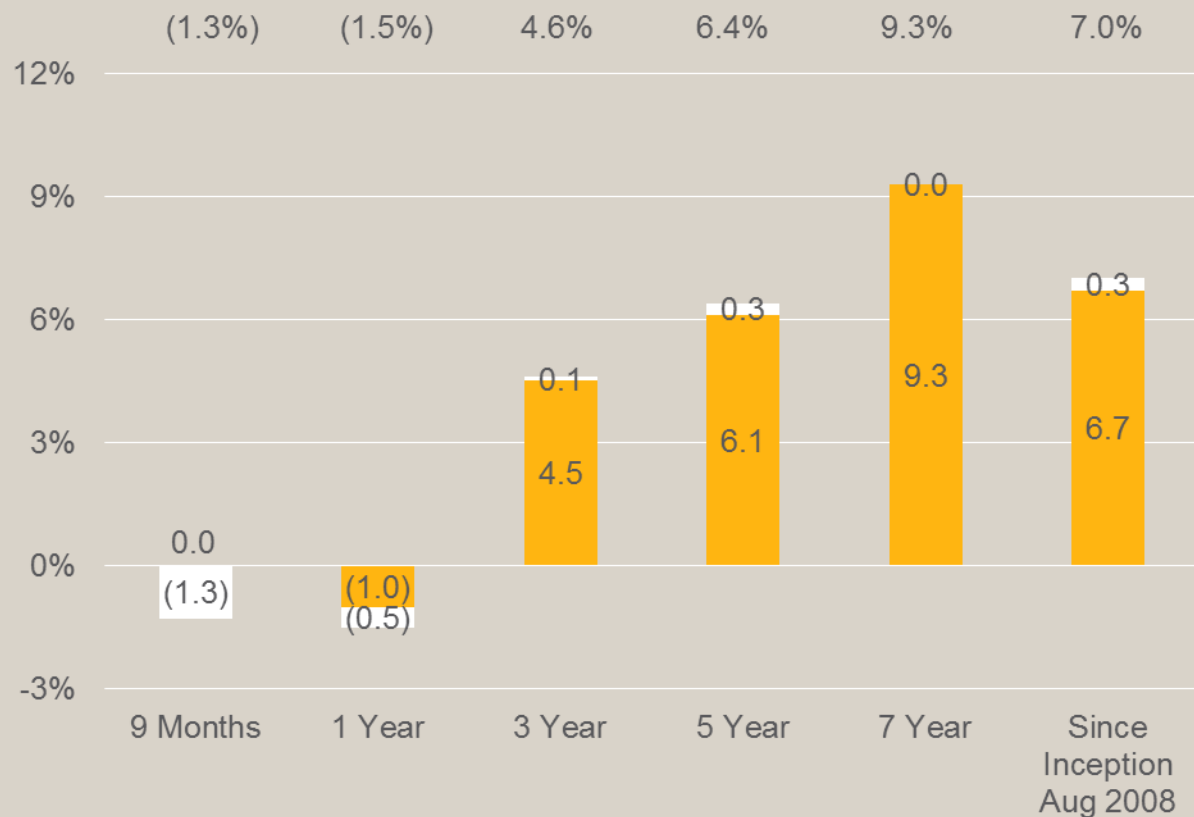
## Investing Since 2008

Dollar Value Added

(\$0.07B)    \$(0.09B)    \$1.0B    \$1.7B    \$2.2B    \$2.0B

### Net Returns

- Value Added
- Benchmark








As of March 31, 2016

# Total Return

## Asset Allocation






As of March 31, 2016

	Market Value in Billions (\$)	Portfolio Weight (%)	Policy Weight (%)	Overweight/(Underweight)	
<b>Equity</b>	3.1	35.3	35.0	0.3	
<b>Fixed Income</b>	4.4	50.6	50.0	0.6	
<b>Absolute Return</b>	1.0	11.9	15.0	(3.1)	
Absolute Return	1.0	11.9	15.0	(3.1)	
<b>Cash</b>	0.2	2.2	0.0	2.2	
<b>Total Return</b>	<b>\$8.7 Billion</b>	<b>100.0%</b>	<b>100.0%</b>		

# Total Return

## Detailed Asset Allocation

As of March 31, 2016

	Market Value in Billions (\$)	Portfolio Weight (%)	Policy Weight (%)	Overweight/(Underweight)	
<b>Equity</b>	3.1	35.3	35.0	0.3	
U.S. Equity	1.8	20.6			
Non-U.S. Equity	0.6	6.7			
Emerging Market Equity	0.6	7.1			
Private Growth	0.1	0.9			
<b>Fixed Income</b>	4.4	50.6	50.0	0.6	
Core	3.4	38.7			
High Yield	0.4	4.6			
Emerging Market Debt	0.3	3.3			
Private Income	0.3	4.0			
<b>Absolute Return</b>	1.0	11.9	15.0	(3.1)	
Absolute Return	1.0	11.9	15.0	(3.1)	
<b>Cash</b>	0.2	2.2	0.0	2.2	
<b>Total Return</b>	<b>\$8.7 Billion</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>	

# Total Return Risk Allocation

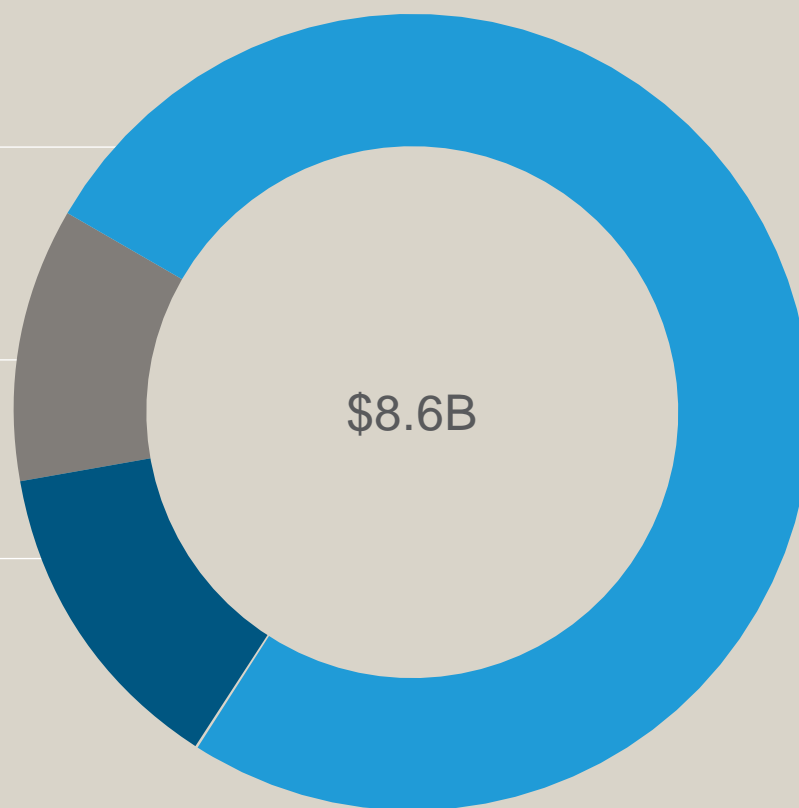
As of March 31, 2016

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● Public Equity: 67%

● Fixed Income: 20%

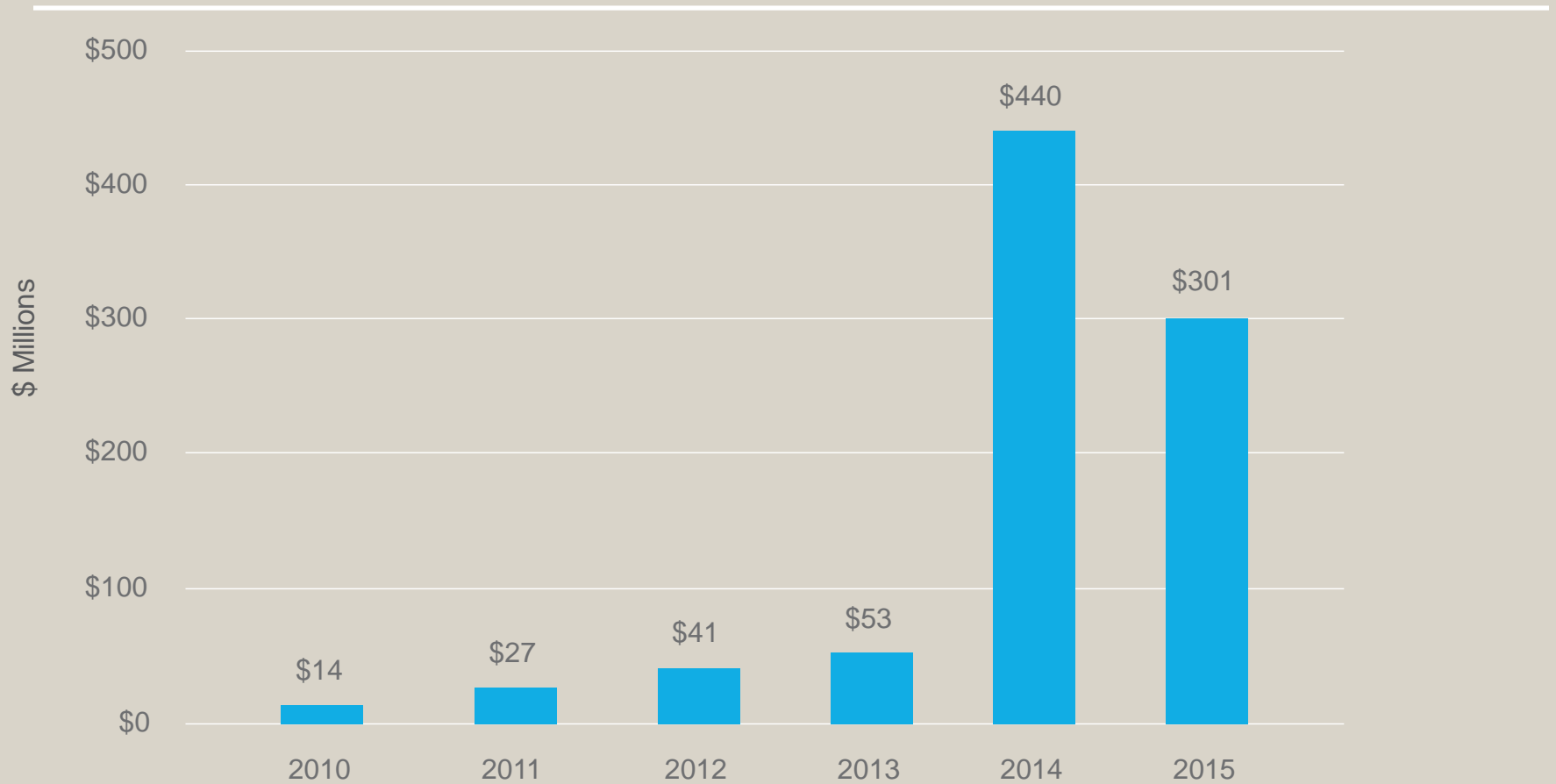
● Other Investments: 7%



Our capital allocation to public equities is \$3.1 Billion, or 35% of the portfolio, but public equities contribute almost twice as much risk dollar for dollar than do other assets.

# Total Return

## Annual Payout



# Short Term Investment Highlights

Market Value  
in Billions (\$)

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June 30, 2015

**\$6.8**

---

Market Gains

**\$0.03**

---

Value Added

**\$0.04**

---

**+** Cash Inflow

**\$0.5**

---

**-** Cash Outflow

**(\$1.0)**

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March 31, 2016

**\$6.4**



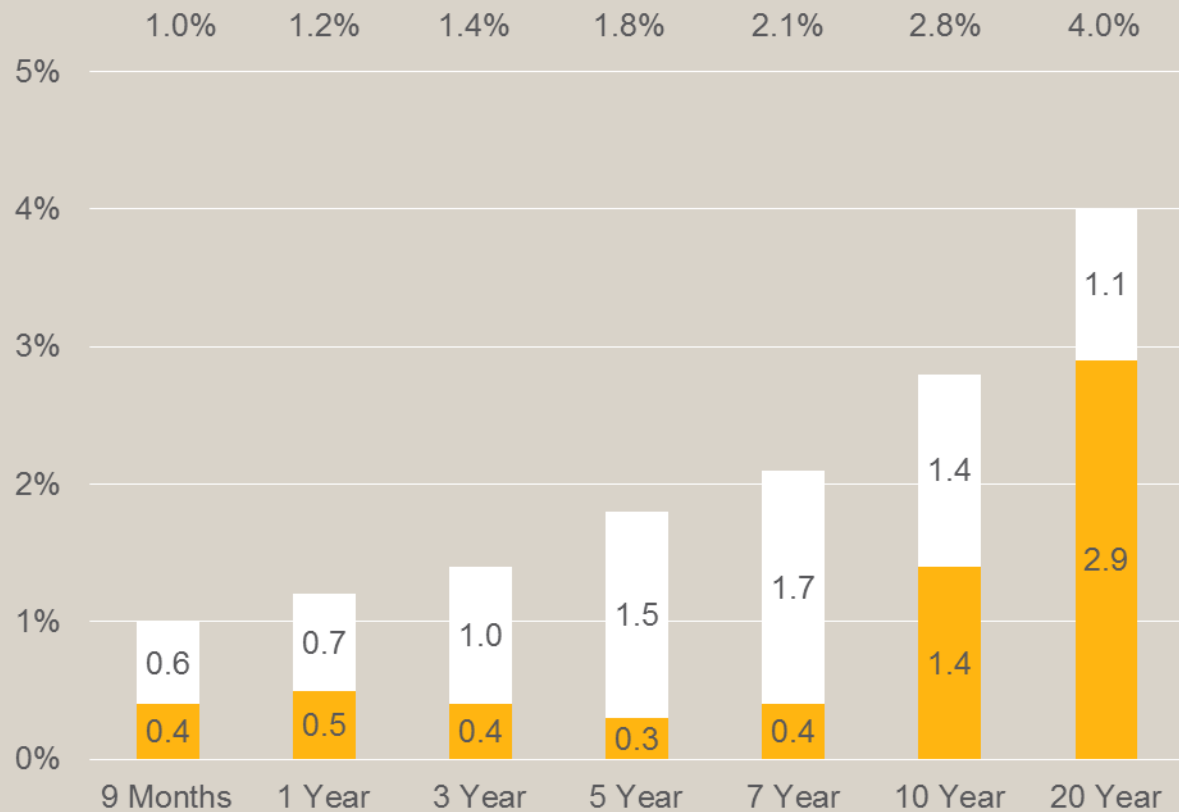
# Short Term Investing Since 1976

Dollar Value Added

\$0.1B    \$0.1B    \$0.3B    \$0.6B    \$1.0B    \$2.1B

## Net Returns

- Value Added
- Benchmark

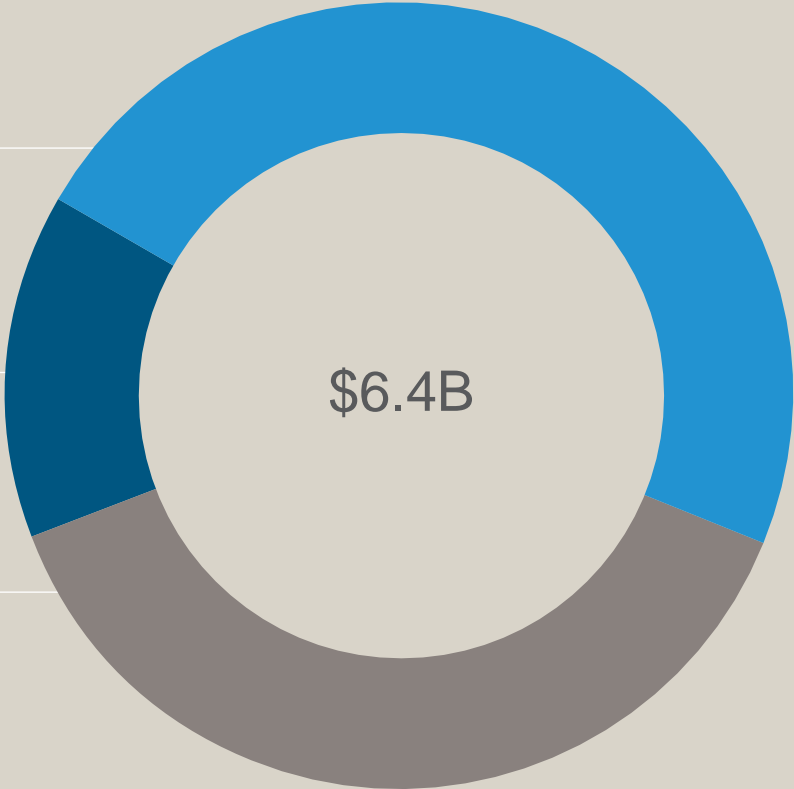


As of March 31, 2016

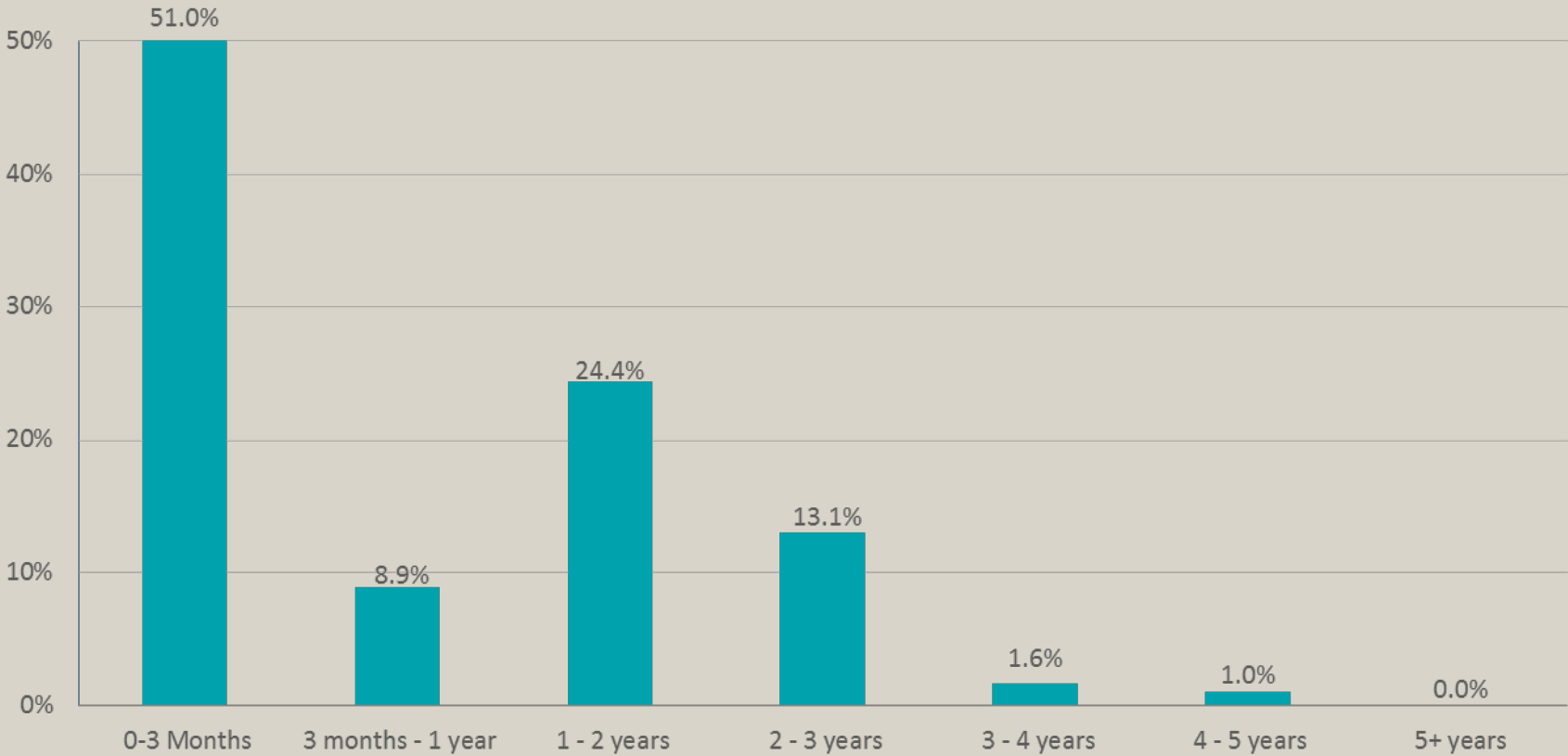
# Short Term Asset Allocation

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- Corporates: \$2.6B 41.0%
- Governments: \$1.3B 20.7%
- Commercial Paper: \$2.5B and Cash 38.3%

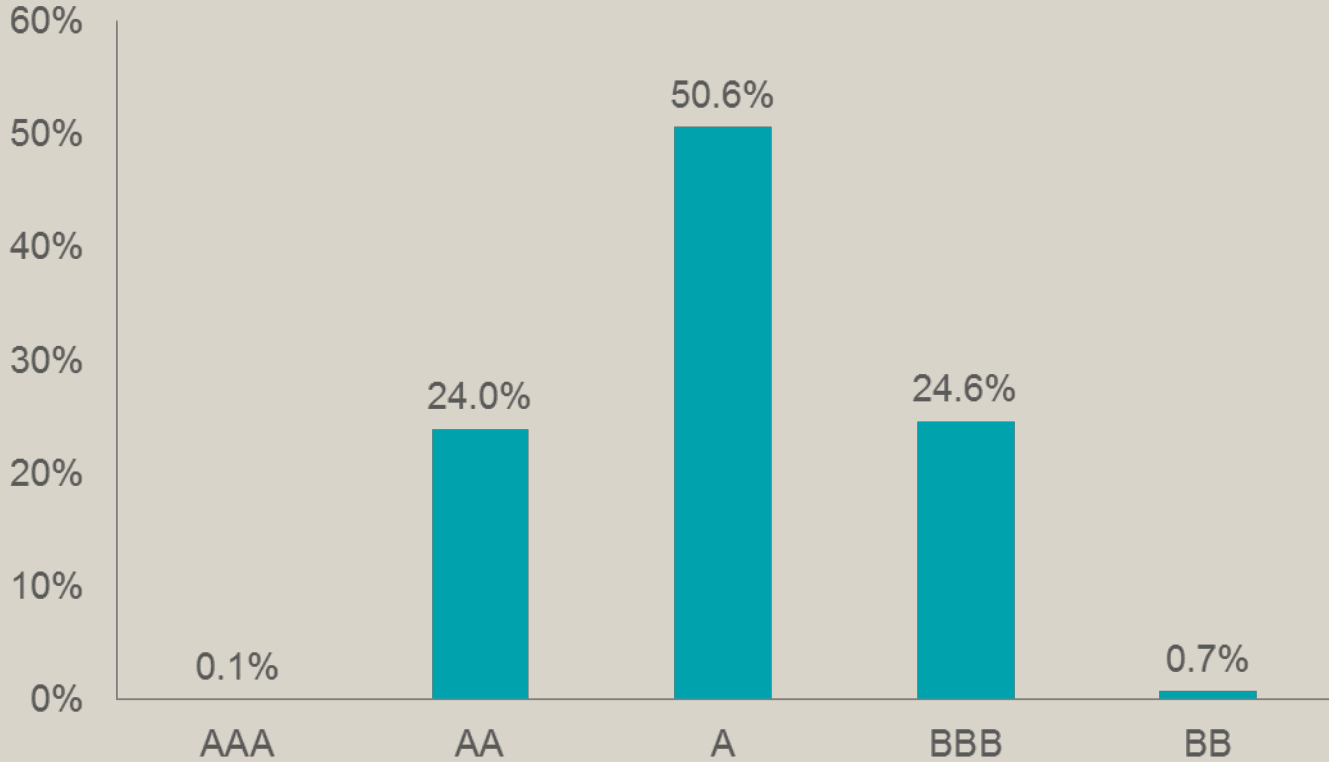


# Short Term Maturity Profile



# Short Term Ratings Distribution

● % of STIP



# Opportunities

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Develop asset and risk allocation for our products

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Manage products differently based on their risk and return objectives

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Add value through active management

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Aggressively reduce costs in a low-return environment

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Benefit from our competitive advantages

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**Size. Scale. Patience. The UC.**