



Information about UC's Multiple Manager Equity Investment Strategy

- UC's investments involve a combination of asset-specific strategies (equities, bonds, etc.), all of which are measured against specific performance objectives. Prudent investment management requires that investment performance for each asset class is reviewed regularly and that strategies are adjusted as warranted.
- As is well known, the economy has weakened and the stock market has fallen sharply in recent years. This has made managing certain investments, especially equities, increasingly complex and challenging. While UC's overall retirement investment portfolio has outperformed its policy benchmark by 0.30 percent over the past ten years, UC's internally managed U.S equity portfolio has under-performed its benchmark by 1.3 percent over the same time period.¹
- UC Treasurer and Vice President for Investments David H. Russ has been carefully monitoring and analyzing UC's active equity strategy for the past 18 months and believes an adjustment to the strategy is warranted.
- After extensive consultation with outside investment professionals as well as the UC Regents' Investment Advisory Committee and the Committee on Investments, Treasurer Russ has recommended that the University transfer the internal management of its U.S. equity investments to multiple external managers. Treasurer Russ has also recommended that UC diversify its equity holdings by moving from a single actively managed large capitalization strategy to a range of equity strategies.
- This equity strategy revision is being undertaken in order to improve equity investment performance, reduce overall portfolio risk exposure, and to better conform UC's practices to the national industry norm of institutional external equity management. It is both an extension of and consistent with the University's overall asset allocation investment strategy approved by the Regents in 2000.
- This recommendation was approved by the UC Regents at their November 13, 2002 meeting.
- The University initially will transfer, at a very low cost, all of its U.S. equity investments into the Russell 3000 Tobacco-free Index Fund under the management of State Street Global Advisors, a leading institutional investment manager and UC's current passive index manager. Subsequently, and in close consultation with the UC Regents' Investment Advisory Committee and its Committee on Investments, UC will hire additional external managers to complete the diversification of these holdings. The UC Board of Regents, through the Treasurer's office, will retain full control and authority over these investments and external managers.

- Transferring the management of equity investments externally will result in the closing of UC's internal equity portfolio management division. This will, unfortunately, mean the reduction of nine positions within this group.
- UC will work very closely with each of the affected employees to help them through this transition. Employees will receive their full salaries through January 15, 2003, severance packages appropriate to length of service, and outplacement assistance as desired. Under UC policy, health, dental and life insurance coverage will continue for these employees until February 28, 2003. Many of the employees also have retirement benefits provided by UC.
- For more information about UC investments, go to www.ucop.edu/treasurer/.
- For more information about UC's 2000 asset allocation strategy, go to www.ucop.edu/bencom/news/revisedasset.html

¹ For the ten years ending June 30, 2002, the overall UCRP portfolio delivered 11.2 percent annualized returns versus the investment policy benchmark of 10.9 percent. For the same time period, the internally managed U.S. Equity UCRP portfolio returned 10.3 percent while the historical benchmark, composed of the S&P 500 Index and the Russell 3000 Tobacco-free Index, returned 11.6 percent.