

## Administration of GEP

**Spending Policy and Expenses:** The Regents adopted a total-return investment philosophy aimed at achieving real-asset growth in order to generate growing annual payouts to support donors' designated programs. On May 6, 2008, The Regents approved the continuance of a rate of 4.75% of a 60-month (five-year) moving average of the GEP market value for expenditure in the 2008-2009 fiscal year.

The total cost of managing the GEP is 79 basis points of average market value. This consists of approximately 0.70% (70.0 basis points) attributable to external managers (evidenced as the difference between their gross and net returns), plus 0.04% (4.0 basis points) attributable to investment management and custodial expenses, and 0.05% (5.0 basis points) attributable to administrative costs.

**Custody of Assets:** State Street Bank & Trust Company, The Regents' custodian.

**Administration of Account:** The Treasurer's Office is responsible for investing the funds, while the Endowment and Investment Accounting Office maintains all records.

**Deposits and Withdrawals:** Monthly. Transactions can be made by check or federal funds wire.

**Distributions:** Annually for Regents' funds; monthly for Foundations/Support Groups if requested.

Mailing Address:

1111 Broadway, Suite 1400  
Oakland, CA 94607

(510) 987-9600 Fax: (510) 987-9651

<http://www.ucop.edu/treasurer/>  
E-mail: [Treas.Regents@ucop.edu](mailto:Treas.Regents@ucop.edu)

---

The Office of the Treasurer of The Regents is responsible for managing the investments and cash for the University of California system. The principal activity of the Treasurer's Office is the management of the system's retirement, defined contribution and endowment funds, as well as the system's cash.

At June 30, 2009, the Treasurer's Office managed approximately \$55.2 billion in total assets.

The Treasurer's Office carries out all investment activities according to the policies established by the Investment Committee of The Regents of the University of California. The Treasurer's Office investment staff includes 32 investment professionals with an average of 16 years of investment experience.

## The General Endowment Pool

Office of the  
Treasurer  
of The Regents

June 30, 2009



## General Endowment Pool (GEP)

June 30, 2009

The General Endowment Pool (GEP), established in 1933, and unitized in 1958, is The Regents' primary investment vehicle for endowed gift funds. GEP is a balanced portfolio of equities, fixed-income securities, and alternative investments that provides diversification and economies of scale in the investment process to participants. All endowment funds participate in GEP, unless higher payout needs require otherwise.

**Investment Objective:**  
Maximize total returns  
and generate growth of principal  
and a growing payout stream  
to support endowment-funded activities.

**Investment Objective:** The overall investment objective for all the GEP assets is to maximize the value of the endowment while maintaining liquidity needed to support spending in prolonged down markets.

The primary goal for the GEP is to preserve the purchasing power of the future stream of endowment payout for those funds and activities supported by the endowments, and to the extent this is achieved, cause the principal to grow in value over time.

**Investment Strategy:**  
Balanced portfolio  
with a long-term asset mix target\*  
of 44% Public Equity,  
20.5% Public Fixed Income,  
and 35.5% All Alternatives

\* Asset mix target is effective as of September 2008. All Alternatives include, but are not limited to: Real Estate, Private Equity, and Absolute Return Strategies.

### Investment Strategy:

The Treasurer's Office has an internal team of experienced investment professionals who implement The Regents' allocation to Equity. Equity assets are segmented into U.S., Non-U.S. Developed, Non-U.S. Emerging Markets, and Global Equity asset classes. The Treasurer's Office selects multiple equity strategies and the external managers to implement these strategies.

For Fixed-Income investments, the Treasurer's Office analyzes relative value among the core benchmark sectors of governments, corporates, and mortgage-backed securities and overweights those sectors and securities offering attractive real returns, while maintaining a risk level commensurate with the benchmark index.

For Absolute Return (AR) investments, the Treasurer's Office seeks to generate positive returns over a multi-year period, regardless of the general market direction. AR investments typically have low correlation with other asset classes and increase the overall portfolio diversification while reducing risk. To accomplish this goal, the Treasurer's Office invests with top-tier asset management firms in a variety of strategies, including global long/short equity, relative value credit, distressed securities, mortgage arbitrage, global macro, merger arbitrage and other "hedge fund" strategies.

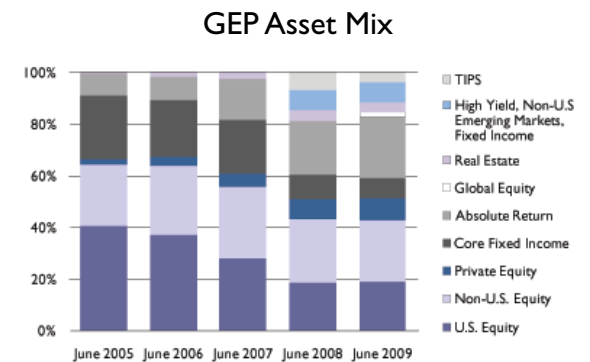
For Private Equity, the Treasurer's Office seeks opportunities through recognized top-tier venture capital partnerships and select buyout funds.

For Real Estate, the Treasurer's Office seeks investments which provide long-term, risk-adjusted total returns between those of U.S. equities and bonds; diversification benefits given Real Estate's low correlation with other asset classes; protection against unanticipated inflation; and a high proportion of the total return derived from current income.

**Returns:** GEP's annualized net total return for the past five years through June 30, 2009, was 3.59%. GEP has a proven history of steady above-inflation payout growth; the payout distributions have grown at an average annual rate of 7.6% for the past 10 years vs. inflation at 2.6%.

ANNUALIZED RETURNS			
	Net GEP <sup>1</sup>	Benchmark <sup>2</sup>	Inflation <sup>3</sup>
1 Yr	-18.18%	-13.99%	-1.42%
5 Yr	3.51	4.26	2.60
10 Yr	3.32	3.21	2.64

**Asset Mix:** GEP's assets totaled approximately \$5.2 billion at June 30, 2009. The following chart illustrates GEP's asset mix as of each of the past five fiscal year ends.



<sup>1</sup> GEP's annualized returns are net of (after) all expenses.

<sup>2</sup> The benchmarks for the individual asset classes are: Russell 3000 Tobacco Free (TF) Index for U.S. Equity; MSCI World Index ex-U.S. TF (Net) Index for Non-U.S. Equity-Developed Markets; MSCI Emerging Markets (Net) Index for Non-U.S. Equity-Emerging Markets; MSCI All Country World Index Net Investable Market Index (IMI) TF for Global Equity; Barclays Capital Aggregate Bond Index for U.S. Core Fixed Income; Merrill Lynch High-Yield Cash Pay Index for High Yield Debt; Citigroup World Government Bond Index ex-U.S. for Non-U.S. Fixed Income; JP Morgan Emerging Market Bond Index Global Diversified for Emerging Market Debt; Barclays Capital TIPS Index for TIPS; HFRX Absolute Return Index and HFRX Market Directional Index for Absolute Return; Real Estate Public: Public: FTSE EPRA NAREIT U.S. Index and FTSE EPRA NAREIT Global ex-U.S. Index and Private: NCREIF Funds Index-Open-End Diversified Core Equity. The total fund benchmark is a policy-weighted average of the individual asset-class benchmarks.

<sup>3</sup> Inflation as measured by the Consumer Price Index.