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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**

**APPENDIX 4  
CORE OPTION INVESTMENT GUIDELINES**



This version dated May 2, 2006

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

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**APPENDIX 4**

**Investment Guidelines for Core Funds**

- 1) For participants who desire to implement asset allocation through a variety of investment choices, the University has selected a limited number of investment options (at least one for each investment category) to provide and monitor on behalf of the participants.

Managed by the Treasurer

- **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**

- 2) For participants who desire to implement asset allocation through a single investment choice, the Program provides the following single-fund strategic asset allocation funds.

Managed by the Treasurer (built from other Core Funds; rebalanced by Treasurer)

- **UC Balanced Growth Fund**
- **UC Pathway Funds:**
  - **2050 Fund**
  - **2040 Fund**
  - **2030 Fund**
  - **2020 Fund**
  - **2010 Fund**
  - **Income Fund**

The following definitions apply to the appendices in Appendix 4 Series

**“Benchmark”** means the standard established for each Core Fund described in the Appendix 4 series for measuring performance.

**“Investment Guidelines”** means the investment guidelines established for each Core Fund described in the Appendix 4 series.

**“Objectives”** means the performance, investment and risk objectives established for each Core Fund described in the Appendix 4 series.

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**APPENDIX 4A**

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**UC Equity Fund  
INVESTMENT GUIDELINES**

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

**1. Investment Objective**

**a. Investment Objective**

The primary investment objective of the Fund is to maximize long-term capital appreciation with a moderate level of risk. The Fund’s Benchmark consists of 85% (less the actual private equity weight from the prior month end) times the Russell 3000 Tobacco Free Index return, plus 15% times the MSCI World ex-US Tobacco Free Index return, plus the actual private equity weight of the previous month end times the actual return of the private equity portfolio.

**b. Investment Strategy**

The Fund is managed by the Treasurer. Currently, both the US and non-US portions of the Fund are managed passively. The private equity allocation is actively managed by the Treasurer’s Office Private Equity Group, according to the Guidelines established by The Regents for private equity investments in the pension and endowment funds. The Fund will be regularly rebalanced to maintain the portfolio within asset allocation guidelines (see section 2 below).

**c. Performance Objective**

The performance objective of the Fund is to meet the return of the Benchmark on a consistent basis over time, net of all costs and fees.

**d. Risk Objective**

The Fund shall be managed so that its annualized tracking error budget to the stated Benchmark shall be 50 basis points.

**2. Investment Guidelines**

**a. Asset Allocation**

It is expected that the Fund will be fully invested in equity and equity-related securities at all times. The policy asset allocation for the Fund is 80% US equity, 15% non-US developed equity, and 5% private equity. Due to the illiquid nature of private equity, any difference between actual and target weights will be added or subtracted from the US equity target weight.

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**b. Types of Securities**

The Fund's US equity and non-US equity allocations are passively managed. Permitted and restricted securities are identical to those contained in the UC Domestic Equity Index Fund and the UC International Equity Index Fund (see separate Investment Guidelines). Private equity will be managed according to the Regents' Private Equity Guidelines (see separate guidelines).

**c. Managing Cash Flows**

The Treasurer may use derivative contracts (including but not limited to index futures and ETF's) for facilitating investment of cash flows related to contributions, withdrawals, or other asset allocation rebalancing.

**d. Rebalancing**

The Fund may be rebalanced periodically, and in accordance with its risk budget. The Fund allocations are monitored monthly, and if market movements cause the allocations to move significantly from their policy weights, the Treasurer will rebalance the Fund. In cases of extreme volatility, the Treasurer may choose to monitor the markets, and begin rebalancing the Fund only when trading volumes return to more normal levels.

**3. Evaluation and Review**

- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.
- b. Fund performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives.

**University of California Retirement Savings Program  
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**APPENDIX 4B**

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**UC Domestic Equity Index Fund  
INVESTMENT GUIDELINES**

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

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Fund is to provide investment results approximating the total return performance of the securities included in the Russell 3000 Tobacco Free Index (the “Benchmark”).

**b. Investment Strategy**

The Fund shall be managed passively, using a full replication method. Limited departures from full replication are allowed, for limited time periods, in order to minimize transactions costs associated with Benchmark reconstitution. Equity derivatives may be used in a limited fashion as described below.

**c. Performance Objective**

The performance objective of the Fund is to earn a return equal to the Benchmark return (before custody and investment management fees, and excluding securities lending income) each month.

**d. Risk Objective**

The Fund’s realized monthly tracking error shall be less than 20 basis points on an annualized basis.

**2. Investment Guidelines**

**a. Asset Allocation**

The portfolio will be invested in the actual securities of the Benchmark, equity derivatives securities designed to replicate Benchmark exposure, or cash equivalents. Cash and derivatives will be held solely for the purpose of managing cash flows, i.e., maintaining equity exposure while minimizing transactions costs.

**b. Types of Securities**

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Equity securities must be of US domiciled corporations, and either constituents of the Benchmark or, in the manager's opinion, must either have a high probability of being included in the Benchmark within three months, or be very close substitutes for index constituent securities.

The Fund may also be invested in cash equivalent securities, provided the cash is equitized using CFTC exchange traded futures. Exchange traded funds (ETF's) are also permitted.

Except on days in which large cash flows occur, the amount of cash / futures or ETF's may not exceed 3% of the market value of the portfolio.

- c. Restrictions: The Manager may **not**
- Purchase securities of tobacco related companies, as defined in Section 5(b), page 6 of the Policy
  - Buy securities on margin
  - Sell securities short
  - Buy party-in-interest securities
  - Buy lettered, legend, or other restricted stock
  - Buy or sell call options or put options
  - Buy or write swaps or equity linked notes
  - Purchase a notional value of equity futures or other equity derivatives in excess of cash held or expected to be received, i.e., Manager may not leverage the portfolio
  - Utilize derivatives in any way inconsistent with the Regents' Derivatives Policy.

**3. Evaluation and Review**

- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.
- b. Fund performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Fund.

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**APPENDIX 4C**

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**UC International Equity Index Fund  
INVESTMENT GUIDELINES**

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

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Fund is to provide investment results approximating the total return performance of the securities included in the MSCI World ex US Tobacco Free Net Dividends Index (“Benchmark”), as measured in U.S. dollars (i.e., Benchmark is “unhedged”).

**b. Investment Strategy**

The portfolio shall be managed passively, using a full replication method. Limited departures from full replication are allowed, for limited time periods, in order to minimize transactions costs associated with Benchmark reconstitution. Equity derivatives may be used in a limited fashion as described below.

**c. Performance Objective**

The performance objective of the Fund is to earn a return equal to the Benchmark index return (before custody and investment management fees, and excluding securities lending income) each month.

**d. Risk Objective**

The Fund’s realized monthly tracking error shall be less than 50 basis points on an annualized basis.

**2. Investment Guidelines**

**a. Asset Allocation**

The Fund will be invested in: the actual securities of the Benchmark, equity derivatives securities designed to replicate Benchmark exposure, or cash equivalents. Cash and derivatives will be held solely for the purpose of managing cash flows, i.e. maintaining equity exposure while minimizing transactions costs.

**b. Types of Securities**

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Equity securities must be of non-US domiciled corporations in developed equity markets, and either constituents of the Benchmark, or in the manager's opinion, must either have a high probability of being included in the Benchmark within three months, or be very close substitutes for index constituent securities.

The Fund may also be invested in cash equivalent securities, provided the cash is equitized using CFTC exchange traded futures. Exchange traded funds (ETF's) are also permitted.

Except on days in which large cash flows occur, the amount of cash / futures or ETF's may not exceed 3% of the market value of the portfolio.

c. Restrictions: The manager may **not**

- Purchase securities of tobacco related companies, as defined in Section 5(b), page 6 of the Policy
- Buy securities on margin
- Sell securities short
- Buy party-in-interest securities
- Buy lettered, legend, or other restricted stock, except for 144A securities, which are permitted
- Buy or sell call options or put options
- Buy or write swaps or equity linked notes
- Purchase a notional value of equity futures or other equity derivatives in excess of cash held or expected to be received, i.e., manager may not leverage the portfolio
- Use currency derivatives for purposes other than maintaining Benchmark currency exposures while managing cash flows
- Utilize derivatives in any way inconsistent with the Regents' Derivatives Policy.

### **3. Evaluation and Review**

- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually
- b. Fund performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Fund.

**University of California Retirement Savings Program  
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**APPENDIX 4D**

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**UC Bond Fund  
INVESTMENT GUIDELINES**

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

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Bond Fund is to maximize long-term total return through a combination of interest income and price appreciation, by investing in the investment grade, US dollar denominated, fixed income market. The Benchmark for the Fund is the Lehman Aggregate Index.

**b. Investment Strategy**

The Fund is managed actively by the Office of the Treasurer (“Manager”). The Fund utilizes extensive analysis of economic and political factors using a top-down approach and fundamental, ‘bottom-up’ analysis for individual security selection. It maintains a diversified portfolio primarily of high-quality debt securities. The Fund seeks to be fully invested at all times, although a modest cash level may exist until invested.

**c. Performance Objectives**

The performance objective of the Fund is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees.

**d. Risk Objective**

The Fund shall be managed so that its annualized tracking error budget shall be 100 basis points.

**2. Investment Guidelines**

**a. Asset Allocation**

The Fund will be invested primarily in marketable, publicly traded, investment grade fixed income instruments, notes and debentures, denominated in US dollars.

**b. Types of Securities**

The Fund will be invested in a diversified portfolio of fixed income securities and their derivative securities, subject to restrictions noted below in section 2c.

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The following list is indicative of the types of securities which are appropriate for the Fund, given its Benchmark and risk budget. It should not be construed to be an exhaustive list of “allowable” asset types. Security types and/or strategies not specifically enumerated, but which the Treasurer believes are appropriate and consistent with the Objectives and risk budget of the Fund may also be held, subject to the restrictions in 2c and 2d below.

The Program may purchase securities on a when-issued basis or for forward delivery

- Fixed income instruments
  - a. Obligations issued or guaranteed by the US Government, US federal agencies or US government-sponsored corporations and agencies
  - b. Obligations of US and foreign corporations such as corporate bonds, convertible and non-convertible notes and debentures, preferred stocks, and bank loans
  - c. Mortgage-backed and asset-backed securities, including CMBS, mortgage TBA’s, and other MBS derivatives
  - d. Obligations of international agencies, supranational entities, and foreign governments (or their subdivisions or agencies), as well as foreign currency linked securities, warrants, preferred stocks and forward contracts
  - e. Obligations issued or guaranteed by US local, city and state governments and agencies
  - f. Private placements or Rule 144A securities, issued with or without registration rights
- Short term fixed income instruments
  - a. US Treasury and agency bills and notes
  - b. Certificates of deposit
  - c. Bankers acceptances
  - d. Commercial paper
  - e. Repurchase and reverse repurchase agreements (must be fully collateralized with approved collateral, using approved counterparties only)
  - f. Eurodollar CD’s, TD’s, and commercial paper
  - g. US and Eurodollar floating rate notes
  - h. Money market funds managed by the custodian
  - i. Short Term Investment Pool (STIP), managed by the Treasurer
- Fixed income derivatives
  - a. US Treasury, agency, and Eurodollar futures
  - b. Interest rate options, swaps, and swaptions
  - c. Credit default swaps (CDS) and their derivatives
  - d. Inflation linked futures and swaps
  - e. Total rate of return swaps

### c. Restrictions

The Managers may **not**

- Purchase securities of tobacco related companies, as defined in Section 5(b), page 6 of the Policy
- Buy securities on margin, except for futures or swaps, against which are held a risk equivalent amount of cash or liquid securities
- Sell securities short, except for interest rate futures and options, credit default swaps, and foreign currency forwards and options

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- Purchase equity securities (other than preferred stock) or commodities or their derivatives
- 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
- Use derivatives or borrowing to leverage the portfolio
- Purchase securities denominated in currencies other than the US dollar, or purchase foreign currencies.

### d. Diversification and Concentration

The Fund’s investments will be appropriately diversified to control overall risk. The Fund’s investments will exhibit portfolio risk characteristics similar to the Benchmark. The following limitations apply in order to manage risk within acceptable ranges:

- **Interest rate risk**
  - The average weighted effective duration of portfolio security holdings shall not vary from that of the Benchmark index by more +/-20%.
- **Credit risk**
  - No more than 10% of the Fund’s investments, measured by market value, should be below “investment grade”, i.e. rated lower than the following standards or their equivalent by all major NRSRO’s
    - Standard & Poor’s and Fitch (BBB-)
    - Moody’s (Baa3)
  - Commercial paper must have a rating of at least A-1, P-1, D-1, or F-1
  - The Fund’s investments should exhibit an average credit quality of A (or equivalent) or better. Split-rated credits are considered to have the higher credit rating as long as the higher rating is given by one of the NRSRO’s
  - Except for securities issued by the US Treasury or agencies of the US government, no more than 3% of the Fund’s market value may be invested in any single issuer.
- **Liquidity risk**
  - No more than 20% of the Fund’s market value may be invested in private placements or Rule 144A securities
  - The Fund’s investments in aggregate of any security may not exceed 20% of that security’s outstanding par value, without a written exception approved by the Treasurer.

### e. Managing Cash Flows

The Fund may use derivatives and foreign exchange forwards for facilitating investment of cash flows related to income received, contributions, withdrawals, or other asset allocation rebalancing. Fixed income exposure, including cash and derivative instruments, shall at all times be equal to the market value of the portfolio (leverage is not permitted).

## 3. Evaluation and Review

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- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.
- b. Fund performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Fund.

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**APPENDIX 4E**

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**UC TIPS Fund  
INVESTMENT GUIDELINES**

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The purpose for these Objectives and Investment Guidelines is to clearly state the investment approach, define performance objectives and to control risk in the management of the UC TIPS (Treasury Inflation-Protected Securities) Fund (the “Fund”). These Objectives and Investment Guidelines shall be subject to ongoing review by the Committee. Capital market conditions, changes in the investment industry, new financial instruments, or a change in the Committee’s risk tolerance, are among factors to be considered in determining whether the Investment Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The Fund seeks to provide long-term total return and inflation protection consistent with an investment in U.S. government inflation-indexed securities, and invests in inflation-protected securities issued by the U.S. government. The Benchmark of the Fund is the Lehman Brothers US TIPS Index.

**b. Investment Strategy**

The portfolio is managed passively by the Office of the Treasurer (“Manager”), using a full replication method. Departures from full replication are allowed, for limited time periods, in order to minimize transactions costs associated with Benchmark reconstitution. Fixed income derivatives may be used in a limited fashion as described below.

**c. Performance Objectives**

The performance objective of the Fund is to match the return of the Benchmark, net of all costs and fees

**d. Risk Objective**

The Fund shall be managed so that its annualized tracking error budget shall be 25 basis points.

**2. Investment Guidelines**

**a. Asset Allocation / Types of Securities**

The Fund will be invested in the actual securities of the Benchmark, fixed income derivatives securities designed to replicate Benchmark exposure, or cash equivalents. Cash and derivatives will be held solely for the purpose of managing cash flows, i.e., maintaining index while minimizing transactions costs.

**b. Restrictions: The Fund may **not**:**

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- Buy securities on margin, except for futures or swaps, against which are held a risk equivalent amount of cash or liquid securities
- Sell securities short, except for interest rate futures and options, and foreign currency forwards and options
- Purchase equity securities or commodities or their derivatives
- 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
- Use derivatives or borrowing to leverage the portfolio.
- Purchase or sell foreign exchange contracts

**3. Evaluation and Review**

a. Policy and Guideline Review

The Treasurer shall review the Objectives and Investment Guidelines at least annually.

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

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**APPENDIX 4F**

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**UC Savings Fund  
INVESTMENT GUIDELINES**

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

**1. Investment Policy**

**a. Investment Objective**

The investment objective of the Fund is to maximize interest income returns while protecting principal, in order to provide a safe, low risk investment with attractive and stable returns. The Benchmark is the income return on a constant maturity two (2) year US Treasury note.

**b. Investment Strategy**

The Fund is actively managed by the Office of the Treasurer (“Manager”). The Fund is optimized by adjusting the average maturity to respond to expected changes in interest rates. The Fund seeks to be fully invested at all times, although a modest cash level may exist until invested.

**c. Performance Objectives**

The performance objective of the Fund is to meet or exceed the return of the Benchmark and to outpace inflation, on a consistent basis over time, net of all costs and fees.

**d. Risk Objective**

The Fund shall be managed so that its annualized tracking error budget shall be 50 basis points.

**2. Investment Guidelines**

**a. Asset Allocation / Types of Securities**

The Fund will be invested solely in obligations issued or guaranteed by the U.S. Treasury, U.S. federal agencies or U.S. government-sponsored corporations and agencies of up to five years in maturity.

**b. Restrictions**

The following security types are **not** permitted:

- Interest rate derivative contracts, including options and futures

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- Equity like securities, including but not limited to convertible bonds, preferred stocks, warrants, equity linked notes, and commodities
- Bonds issued in currencies other than US dollar, or foreign currency linked notes

The Manager may **not**

- Buy securities on margin
- Sell securities short
- 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
- Use derivatives or borrowing to leverage the portfolio.
- Purchase or sell foreign exchange contracts

c. Diversification and Concentration

The Fund’s investments will be appropriately diversified to control overall risk and to maintain interest rate risk similar to the Benchmark.

**3. Evaluation and Review**

- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.
- b. Fund performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Fund.

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**APPENDIX 4G**

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**UC ICC Fund  
INVESTMENT GUIDELINES**

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The purpose for these Objectives) and Investment Guidelines is to clearly state the investment approach, define performance objectives and to control risk in the management of the UC ICC (Insurance Company Contract) Fund (the “Fund”). These Objectives and Investment Guidelines shall be subject to ongoing review by the Committee. Capital market conditions, changes in the investment industry, new financial instruments, or a change in the Committee’s risk tolerance, are among factors to be considered in determining whether the Investment Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The investment objective of the Fund is to maximize interest income while protecting principal. The Benchmark is the income return of a constant maturity five (5) year US Treasury note.

**b. Investment Strategy**

The Fund is actively managed by the Office of the Treasurer (“Manager”). The Fund purchases insurance company contracts which guarantee a fixed annual rate of interest for a specified time period and the repayment of principal at the end of that time period. Assets invested in the ICC Fund earn the blended interest rate of all contracts which comprise the fund. The Fund seeks to be fully invested at all times, although a modest cash level may exist until invested.

**c. Performance Objectives**

The performance objective of the Fund is to meet or exceed the return of the Benchmark and to outpace inflation, on a consistent basis over time, net of all costs and fees.

**d. Risk Objective**

The Fund shall be managed so that its annualized tracking error budget shall be 50 basis points.

**2. Investment Guidelines**

**a. Asset Allocation / Types of Securities**

The Fund will be invested in multiple insurance company contracts, Guaranteed Investment Contract (GIC)-backed bonds, or funding agreements offered by select, highly rated, financially sound insurance companies.

Under these contracts, the insurance companies guarantee fixed annual rates of interest for specified periods of time as stated in each contract, if held to maturity. Contracts are typically backed by a diversified portfolio of high quality short and intermediate term bonds.

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The contracts are pooled to diversify risk and provide a blended rate of return for participants. In addition, the maturity dates of the contracts are staggered, resulting in some money coming due each year. This allows proceeds to be reinvested during different interest rate cycles, which helps to keep the blended rate of the contracts stable over time.

If market or economic conditions warrant, the Fund may, as a temporary defensive measure, invest proceeds from maturing contracts in US government and US government agency securities and cash or cash equivalents, as such investments are in keeping with the Fund's investment objectives.

**b. Diversification and Concentration**

The Fund's investments will be appropriately diversified to control overall risk and to maintain interest rate risk similar to the Benchmark.

- The Fund's investments in aggregate of any single issuer may not exceed 40% of the market value of the Fund, without a written exception approved by the Treasurer.

**3. Evaluation and Review**

- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.
- b. Fund performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Fund and individual Managers.

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**APPENDIX 4H**

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**Vanguard Small Cap Index Fund-Institutional Shares  
INVESTMENT GUIDELINES**

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

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Fund is to provide investment results approximating the total return performance of the securities included in the MSCI US Small Cap 1750 Index, which is the Benchmark.

**b. Investment Strategy**

The Fund employs a “passive management” or indexing investment approach. The Fund attempts to replicate the Benchmark performance by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weighting in the Index.

**c. Performance Objective**

The performance objective of the Fund is to match the return of the Benchmark, on a consistent basis over time, before management and administrative costs.

**d. Risk Objective**

The sources of tracking error for the Fund are evaluated daily, and tracking error is expected to be minimal. The Fund managers have systematic decision rules driving buy/sell decisions to accommodate cash flows (a potential source of tracking error).

**2. Investment Guidelines**

**Asset Allocation / Types of Securities**

The Fund will be invested in: the actual securities of the Benchmark. A limited percentage of the fund’s assets (up to 5% if required for deposit and no more than 20% of total assets) may be invested in futures contracts.

**3. Evaluation and Review**

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- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.
- b. Fund performance and risk exposures shall be evaluated in accordance with the Objectives of the Fund.

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**APPENDIX 4I**

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**Vanguard REIT Index Fund Institutional Shares  
INVESTMENT GUIDELINES**

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

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Fund is to provide a high level of income and moderate long-term capital appreciation by approximating the total return performance of the securities included in the Morgan Stanley REIT Index (the Benchmark).

**b. Investment Strategy**

The Fund employs a “passive management” or indexing investment approach. The Fund attempts to replicate the Benchmark performance by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weighting in the Index.

**c. Performance Objective**

The performance objective of the Fund is to match the return of the Benchmark, on a consistent basis over time, before management and administrative costs.

**d. Risk Objective**

The sources of tracking error for the Fund are evaluated daily, and tracking error is expected to be minimal. The Fund maintains up to 2% in cash investments to supply liquidity, which will add minimally to the tracking error.

**2. Investment Guidelines**

**Asset Allocation / Types of Securities**

The Fund will be invested in the actual securities of the Benchmark. A limited percentage of the Fund’s assets (up to 5% if required for deposit and no more than 20% of total assets) may be invested in futures contracts

**3. Evaluation and Review**

a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.

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b. Fund performance and risk exposures shall be evaluated in accordance with the Objectives of the Fund.

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**APPENDIX 4J**

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**Vanguard FTSE Social Index Fund  
INVESTMENT GUIDELINES**

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

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Fund is to provide investment results approximating the total return performance of the securities included in the FTSE4Good US Select Index (Benchmark).

**b. Investment Strategy**

The Fund employs a “passive management” or indexing investment approach. The Fund attempts to replicate the Benchmark performance by investing all, or substantially all, of its assets in the stocks that make up the Benchmark, holding each stock in approximately the same proportion as its weighting in the Benchmark.

The Benchmark is administered by FTSE Group (FTSE stands for Financial Times-London Stock Exchange), which is independent of Vanguard. Starting with the FTSE US Index, an index of more than 700 of the largest US stocks, the FTSE4Good Index focuses on three social responsibility criteria when screening for investments: environmental sustainability, upholding and supporting universal human rights, and developing positive relationships with stakeholders. The Benchmark is composed primarily of large- and mid-cap stocks that have been screened for certain social and environmental criteria by the Benchmark sponsor.

**c. Performance Objective**

The performance objective of the Fund is to match the return of the Benchmark, on a consistent basis over time, before management and administrative costs.

**d. Risk Objective**

The sources of tracking error for the Fund are evaluated daily, and tracking error is expected to be minimal. The Fund managers have systematic decision rules driving buy/sell decisions to accommodate cash flows (a potential source of tracking error).

**2. Investment Guidelines**

**Asset Allocation / Types of Securities**

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The Fund will be invested in the actual securities of the Benchmark. Only a limited percentage of the fund's assets (up to 5% if required for deposit and no more than 20% of total assets) may be in futures contracts.

**3. Evaluation and Review**

- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.
- b. Fund performance and risk exposures shall be evaluated in accordance with the Objectives of the Fund.

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**APPENDIX 4K**

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**Dimensional Emerging Markets Fund  
INVESTMENT GUIDELINES**

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

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Fund is to achieve long-term capital appreciation by investing in stocks of companies domiciled in emerging market countries. The Benchmark is the MSCI Emerging Markets (Net Dividends) Index.

**b. Investment Strategy**

The Fund seeks broad market diversification in large capitalization companies in emerging markets. The decision to include or exclude the shares of an issuer will be made primarily on the basis of such issuer’s relative market capitalization determined by reference to other companies located in the same country. The Fund does not utilize “fundamental” securities research techniques in identifying securities selections.

**c. Performance Objective**

The performance objective of the Fund is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees.

**d. Risk Objective**

The Fund is not managed to a targeted tracking error. Historically, the Fund’s realized tracking error has ranged between 600-800 bps.

**2. Investment Guidelines**

**a. Asset Allocation**

The Fund will invest in equity securities of companies domiciled in emerging market countries, equity derivatives securities such as futures contracts and options on futures contracts designed to replicate Benchmark exposure, as well as ETFs and similarly structured pooled investments.

**b. Types of Securities:**

The Fund seeks to obtain broad market coverage of larger companies within each approved market. Approved markets may not include all emerging markets. The Fund takes

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into account, among other things, market liquidity, relative availability of investor information, government regulation, including fiscal and foreign exchange repatriation rules, and the availability of other access to these markets for investment.

The Fund owns shares of companies whose aggregate overall share of the approved market's total public market capitalization is at least in the upper 40% of such capitalization. Under normal circumstances, the Fund will invest at least 80% of its net assets in emerging market securities that are defined as approved market securities.

The Fund can invest up to 10% of total assets in shares of other investment companies only where access to an approved market is significantly limited.

**c. Managing Cash Flows**

Pending new capital investment the Fund typically invests in money market instruments or other highly liquid debt instruments, including those denominated in US dollars. The Fund may, for liquidity, or for temporary defensive purposes during periods in which market or economic or political conditions warrant, purchase highly liquid debt instruments or hold freely convertible currencies, although the Fund does not expect the aggregate of all such amounts to exceed 10% of its net assets under normal circumstances. The Fund may also invest in ETFs and similarly structured pooled investments that provide exposure to approved markets or other equity markets, including the US, for the purposes of gaining exposure to the equity markets while maintaining liquidity.

**3. Evaluation and Review**

- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.
- b. Fund performance and risk exposures shall be evaluated in accordance with the Objectives of the Fund.

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**APPENDIX 4L**

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**UC Balanced Growth Fund  
INVESTMENT GUIDELINES**

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

**1. Investment Policy**

a. Investment Objective

The primary investment objective of the UC Balanced Growth Fund is to provide long-term growth and income through a balanced portfolio of equity and fixed income securities. The Benchmark is the sum of 65% times the Benchmark of the UC Equity Fund, 30% times the Benchmark of the UC Bond Fund, and 5% times the Benchmark of the UC TIPS Fund.

b. Investment Strategy

The Fund consists of fixed proportions of other UC Core Funds. Contributions to the Fund are invested according to the ratio specified in the Asset Allocation section (2a below). The Treasurer manages the component Funds according to the investment objectives and strategies of those Funds. The Fund will be regularly rebalanced to maintain the portfolio within asset allocation guidelines.

c. Performance Objective

The performance objective of the Fund is to meet the return of the Benchmark, on a consistent basis over time, net of all costs and fees.

d. Risk Objective

The Fund shall be managed so that its annualized tracking error budget shall be 50 basis points.

**2. Investment Guidelines**

a. Asset Allocation / Types of Securities

The Fund is invested in fixed proportions of three other UC Core Funds:

- UC Equity Fund        65%
- UC Bond Fund         30%
- UC TIPS Fund         5%.

b. Rebalancing

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The Fund will be rebalanced periodically and in accordance with its risk budget. The Fund allocations are monitored monthly, and if market movements cause the allocations to move significantly the Treasurer will rebalance the Fund. In cases of extreme volatility, the Treasurer may choose to monitor the markets, and begin rebalancing the Fund only when trading volumes return to more normal levels.

**3. Evaluation and Review**

- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.
- b. Fund performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Fund.

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**APPENDIX 4M-1**

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**UC Pathway 2050 Fund  
INVESTMENT GUIDELINES**

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The purpose for these Objectives and Investment Guidelines is to clearly state the investment approach, define performance objectives and to control risk in the management of the UC Pathway 2050 Fund (the “Fund”). These Objectives and Investment Guidelines shall be subject to ongoing review by the Committee. Capital market conditions, changes in the investment industry, new financial instruments, or a change in the Committee’s risk tolerance, are among factors to be considered in determining whether the Investment Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the UC Pathway 2050 Fund is to maximize long-term capital appreciation. It is a continually rebalanced, single investment strategy appropriate for an employee whose expected retirement date is between 2045 and 2055. The Benchmark shall be a weighted sum of the Benchmarks of the component Funds. As of July 1, 2005, the weights of the component Funds are given in section 2b below. The Benchmark will change periodically in parallel with the rebalancing of the Fund, as described in section 2a below.

**b. Investment Strategy**

The Fund invests in a combination of Core Funds and allocates its assets among these Funds according to the asset allocation strategy described below. As the Fund moves toward its target date, its asset allocation becomes more conservative. Once the target date is met, the asset mix will be similar to the UC Pathway Income Fund and the two Funds will merge.

**c. Performance Objective**

The performance objective of the Fund is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees.

**d. Risk Objective**

The Fund shall be managed so that its annualized tracking error budget shall be 25 basis points.

**2. Investment Guidelines**

**a. Asset Allocation and Rebalancing**

For the Target Retirement Dates: 2045-2055, as of July 1, 2005 the Fund is invested 60% in domestic equity, 30% in international equity and 10% in bonds.

The Fund will be rebalanced at the end of each fiscal year (June 30) to a more conservative allocation. As the Pathway Funds are targeted allocation funds, tactical/market timing allocations will not be permitted for this product. Based on the 10 year increments between the Pathway Funds, this Fund’s asset allocation will be adjusted such that by the end of

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the ten year period (that is, July 1, 2015), the portfolio will be at the ‘starting’ allocation of the ‘current’ UC Pathway 2040 Fund.

**Allocation Path:**

<u>UC Pathway 2050 Fund</u>	<u>Start:</u>	<u>End Year 1</u>	<u>End Year 2</u>	<u>End Year 3.....</u>	<u>End Year 10*</u>
UC Domestic Equity Index	45	44.5	44		40
Vanguard Small Cap Index	15	14.5	14		10
UC International Equity Index	30	30	30		30
UC Bond	5	5.5	6		10
Vanguard REIT Index	0	0	0		0
UC Savings	0	0	0		0
UC TIPS	<u>5</u>	<u>5.5</u>	<u>6</u>		<u>10</u>
Total	100%	100%	100%		100%

\*Based on inception of Pathway 2040

For example, the UC Pathway 2050 starts with an allocation to the UC Domestic Equity Index Fund of 45%. At the end of the first year, that allocation will be reduced by 0.5% to 44.5%. After 10 years, the Fund’s allocation to the UC Domestic Equity Index Fund will be 40%. For UC International Equity Index Fund, the current allocation is 30%; after 10 years, the desired Fund target is still 30%, so the target will be maintained at 30%.

The Fund may also be rebalanced more frequently than annually, if market movements result in changes in weights more than +/-3% from the current targets. The Fund allocations will be monitored no less than monthly, and the Treasurer will rebalance the Fund back to target weights after assessing the level of volatility in the markets. In cases of extreme volatility, the Treasurer may choose to monitor the markets, and begin rebalancing the Fund only when trading volumes return to more normal levels.

**b. Types of Securities**

As of July 1, 2005, the Pathway 2050 Fund consists of the following UC Core Funds at the percentages shown:

- UC Domestic Equity Index Fund                      45%
- Vanguard Small Cap Index Fund                      15%
- UC International Equity Index Fund                      30%
- UC Bond Fund    5%
- UC TIPS Fund.    5%

**3. Evaluation and Review**

- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.
- b. Fund performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Fund.

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**APPENDIX 4M-2**

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**UC Pathway 2040 Fund  
INVESTMENT GUIDELINES**

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The purpose for these Objectives and Investment Guidelines is to clearly state the investment approach, define performance objectives and to control risk in the management of the UC Pathway 2040 Fund (the “Fund”). These Objectives and Investment Guidelines shall be subject to ongoing review by the Committee. Capital market conditions, changes in the investment industry, new financial instruments, or a change in the Committee’s risk tolerance, are among factors to be considered in determining whether the Investment Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the UC Pathway 2040 Fund is to provide capital appreciation and current income consistent with its current asset allocation. It is a continually rebalanced, single investment strategy appropriate for an employee whose expected retirement date is between 2035 and 2045. The Benchmark shall be a weighted sum of the Benchmarks of the component Funds. As of July 1, 2005, the weights of the component Funds are given in section 2b below. The Benchmark will change periodically in parallel with the rebalancing of the Fund, as described in section 2a below.

**b. Investment Strategy**

The Fund invests in a combination of Core Funds and allocates its assets among these Funds according to the asset allocation strategy described below. As the Fund moves toward its target date, its asset allocation becomes more conservative. Once the target date is met, the asset mix will be similar to the UC Pathway Income Fund and the two Funds will merge.

**c. Performance Objective**

The performance objective of the Fund is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees.

**d. Risk Objective**

The Fund shall be managed so that its annualized tracking error budget shall be 25 basis points.

**2. Investment Guidelines**

**a. Asset Allocation and Rebalancing**

For the Target Retirement Dates: 2035-2045, as of July 1, 2005 the Fund is invested 50% in domestic equity, 30% in international equity and 20% in bonds.

The Fund will be rebalanced at the end of each fiscal year (June 30) to a more conservative allocation. As the Pathway Funds are targeted allocation funds, tactical/market timing allocations will not be permitted for this product. Based on the 10 year increments between the Pathway Funds, this Fund’s asset allocation will be adjusted such that by the end of

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the ten year period (that is, July 1, 2015), the portfolio will be at the ‘starting’ allocation of the ‘current’ UC Pathway 2030 Fund.

**Allocation Path:**

<b>UC Pathway 2040 Fund</b>	<b>Start:</b>	<b>End Year 1</b>	<b>End Year 2</b>	<b>End Year 3.....</b>	<b>End Year 10*</b>
UC Domestic Equity Index	40	39.5	39		35
Vanguard Small Cap Index	10	9.75	9.5		7.5
UC International Equity Index	30	29.5	29		25
UC Bond	10	10	10		10
Vanguard REIT Index	0	0.75	1.5		7.5
UC Savings	0	0	0		0
UC TIPS	<u>10</u>	<u>10.5</u>	<u>11</u>		<u>15</u>
Total	100%	100%	100%		100%

\*Based on inception of Pathway 2030

For example, the UC Pathway 2040 starts with an allocation to the UC Domestic Equity Index Fund of 40%. At the end of the first year, that allocation will be reduced by 0.5% to 39.5%. After 10 years, the Fund’s allocation to the UC Domestic Equity Index Fund will be 35%. For UC Bond Fund, the current allocation is 10%; after 10 years, the desired fund target is still 10%, so the target will be maintained at 10%.

The Fund may also be rebalanced more frequently than annually, if market movements result in changes in weights more than +/-3% from the current targets. The Fund allocations will be monitored no less than monthly, and the Treasurer will rebalance the Fund back to target weights after assessing the level of volatility in the markets. In cases of extreme volatility, the Treasurer may choose to monitor the markets, and begin rebalancing the Fund only when trading volumes return to more normal levels.

**b. Types of Securities**

As of July 1, 2005, the Pathway 2040 Fund consists of the following UC Core Funds at the percentages shown:

- UC Domestic Equity Index Fund                      40%
- Vanguard Small Cap Index Fund                      10%
- UC International Equity Index Fund                      30%
- UC Bond Fund    10%
- UC TIPS Fund    10%

**3. Evaluation and Review**

- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.
- b. Fund performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Fund.

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**APPENDIX 4M-3**

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**UC Pathway 2030 Fund  
INVESTMENT GUIDELINES**

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The purpose for these Objectives and Investment Guidelines is to clearly state the investment approach, define performance objectives and to control risk in the management of the UC Pathway 2030 Fund (the “Fund”). These Objectives and Investment Guidelines shall be subject to ongoing review by the Committee. Capital market conditions, changes in the investment industry, new financial instruments, or a change in the Committee’s risk tolerance, are among factors to be considered in determining whether the Investment Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the UC Pathway 2030 Fund is to provide capital appreciation and current income consistent with its current asset allocation. It is a continually rebalanced, single investment strategy appropriate for an employee whose expected retirement date is between 2025 and 2035. The Benchmark shall be a weighted sum of the Benchmarks of the component Funds. As of July 1, 2005, the weights of the component Funds are given in section 2b below. The Benchmark will change periodically in parallel with the rebalancing of the Fund, as described in section 2a below.

**b. Investment Strategy**

The Fund invests in a combination of Core Funds and allocates its assets among these Funds according to the asset allocation strategy described below. As the Fund moves toward its target date, its asset allocation becomes more conservative. Once the target date is met, the asset mix will be similar to the UC Pathway Income Fund and the two Funds will merge.

**c. Performance Objective**

The performance objective of the Fund is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees.

**d. Risk Objective**

The Fund shall be managed so that its annualized tracking error budget shall be 25 basis points.

**2. Investment Guidelines**

**a. Asset Allocation and Rebalancing**

For the Target Retirement Dates: 2025-2035, as of July 1, 2005 the Fund is invested 50% in domestic equity, 25% in international equity and 25% in bonds.

The Fund will be rebalanced at the end of each fiscal year (June 30) to a more conservative allocation. As the Pathway Funds are targeted allocation funds, tactical/market timing allocations will not be permitted for this product. Based on the 10 year increments between the Pathway Funds, this Fund’s asset allocation will be adjusted such that by the end of

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the ten year period (that is, July 1, 2015), the portfolio will be at the ‘starting’ allocation of the ‘current’ UC Pathway 2020 Fund.

**Allocation Path:**

<b>UC Pathway 2030 Fund</b>	<b>Start:</b>	<b>End Year 1</b>	<b>End Year 2</b>	<b>End Year 3.....</b>	<b>End Year 10*</b>
UC Domestic Equity Index	35	34.5	34		30
Vanguard Small Cap Index	7.5	7.25	7		5
UC International Equity Index	25	24	23		15
UC Bond	10	11	12		20
Vanguard REIT Index	7.5	7.75	8		10
UC Savings	0	0	0		0
UC TIPS	<u>15</u>	<u>15.5</u>	<u>16</u>		<u>20</u>
Total	100%	100%	100%		100%

\*Based on inception of Pathway 2020

For example, the UC Pathway 2030 starts with an allocation to the UC Domestic Equity Index Fund of 35%. At the end of the first year, that allocation will be reduced by 0.5% to 34.5%. After 10 years, the Fund’s allocation to the UC Domestic Equity Index Fund will be 30%. For UC International Equity Index Fund, the current allocation is 25%; after 10 years, the desired fund target will be 15%, and its allocation reduced by 1% per annum.

The Fund may also be rebalanced more frequently than annually, if market movements result in changes in weights more than +/-3% from the current targets. The Fund allocations will be monitored no less than monthly, and the Treasurer will rebalance the Fund back to target weights after assessing the level of volatility in the markets. In cases of extreme volatility, the Treasurer may choose to monitor the markets, and begin rebalancing the Fund only when trading volumes return to more normal levels.

**b. Types of Securities**

As of July 1, 2005, the Pathway 2030 Fund consists of the following UC Core Funds at the percentages shown:

- UC Domestic Equity Index Fund 35%
- Vanguard Small Cap Index Fund 7.5%
- UC International Equity Index Fund 25%
- UC Bond Fund 10%
- Vanguard REIT Index Fund 7.5%
- UC TIPS Fund 15%

**3. Evaluation and Review**

- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.
- b. Fund performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Fund.

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**UC Pathway 2020 Fund  
INVESTMENT GUIDELINES**

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The purpose for these Objectives and Investment Guidelines is to clearly state the investment approach, define performance objectives and to control risk in the management of the UC Pathway 2020 Fund (the “Fund”). These Objectives and Investment Guidelines shall be subject to ongoing review by the Committee. Capital market conditions, changes in the investment industry, new financial instruments, or a change in the Committee’s risk tolerance, are among factors to be considered in determining whether the Investment Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the UC Pathway 2020 Fund is to capital appreciation and current income consistent with its current asset allocation. It is a continually rebalanced, single investment strategy appropriate for an employee whose expected retirement date is between 2015 and 2025. The Benchmark shall be a weighted sum of the Benchmarks of the component Funds. As of July 1, 2005, the weights of the component Funds are given in section 2b below. The Benchmark will change periodically in parallel with the rebalancing of the Fund, as described in section 2a below.

**b. Investment Strategy**

The Fund invests in a combination of Core Funds and allocates its assets among these Funds according to the asset allocation strategy described below. As the Fund moves toward its target date, its asset allocation becomes more conservative. Once the target date is met, the asset mix will be similar to the UC Pathway Income Fund and the two Funds will merge.

**c. Performance Objective**

The performance objective of the Fund is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees.

**d. Risk Objective**

The Fund shall be managed so that its annualized tracking error budget shall be 35 basis points.

**2. Investment Guidelines**

**a. Asset Allocation and Rebalancing**

For the Target Retirement Dates: 2015-2025, as of July 1, 2005 the Fund is invested 45% in domestic equity, 15% in international equity and 40% in bonds.

The Fund will be rebalanced at the end of each fiscal year (June 30) to a more conservative allocation. As the Pathway Funds are targeted allocation funds, tactical/market timing allocations will not be permitted for this product. Based on the 10 year increments between the Pathway Funds, this Fund’s asset allocation will be adjusted such that by the end of

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the ten year period (that is, July 1, 2015), the portfolio will be at the ‘starting’ allocation of the ‘current’ UC Pathway 2010 Fund.

**Allocation Path:**

<b>UC Pathway 2020 Fund</b>	<b>Start:</b>	<b>End Year 1</b>	<b>End Year 2</b>	<b>End Year 3.....</b>	<b>End Year 10*</b>
UC Domestic Equity Index	30	29	28		20
Vanguard Small Cap Index	5	4.75	4.5		2.5
UC International Equity Index	15	14.5	14		10
UC Bond	20	20.5	21		25
Vanguard REIT Index	10	10.25	10.5		12.5
UC Savings	0	0	0		0
UC TIPS	<u>20</u>	<u>21</u>	<u>22</u>		<u>30</u>
Total	100%	100%	100%		100%

\*Based on inception of Pathway 2010

For example, the UC Pathway 2020 starts with an allocation to the UC Domestic Equity Index Fund of 30%. At the end of the first year, that allocation will be reduced by 1% to 29%. After 10 years, the Fund’s allocation to the UC Domestic Equity Index Fund will be 20%. For UC International Equity Index Fund, the current allocation is 15%; after 10 years, the desired fund target is 10%, a reduction of .5% per annum.

The Fund may also be rebalanced more frequently than annually, if market movements result in changes in weights more than +/-3% from the current targets. The Fund allocations will be monitored no less than monthly, and the Treasurer will rebalance the Fund back to target weights after assessing the level of volatility in the markets. In cases of extreme volatility, the Treasurer may choose to monitor the markets, and begin rebalancing the Fund only when trading volumes return to more normal levels.

**b. Types of Securities**

As of July 1, 2005, the Pathway 2020 Fund consists of the following UC Core Funds at the percentages shown:

- UC Domestic Equity Index Fund 30%
- Vanguard Small Cap Index Fund 5%
- UC International Equity Index Fund 15%
- UC Bond Fund 20%
- Vanguard REIT Index Fund 10%
- UC TIPS Fund 20%

**3. Evaluation and Review**

- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.
- b. Fund performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Fund.

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**UC Pathway 2010 Fund  
INVESTMENT GUIDELINES**

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The purpose for these Objectives and Investment Guidelines is to clearly state the investment approach, define performance objectives and to control risk in the management of the UC Pathway 2010 Fund (the "Fund"). These Objectives and Investment Guidelines shall be subject to ongoing review by the Committee. Capital market conditions, changes in the investment industry, new financial instruments, or a change in the Committee's risk tolerance, are among factors to be considered in determining whether the Investment Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the UC Pathway 2010 Fund is to provide capital appreciation and current income consistent with its current asset allocation. It is a continually rebalanced, single investment strategy appropriate for an employee whose expected retirement date is between 2005 and 2015. The Benchmark shall be a weighted sum of the Benchmarks of the component Funds. As of July 1, 2005, the weights of the component Funds are given in section 2b below. The Benchmark will change periodically in parallel with the rebalancing of the Fund, as described in section 2a below.

**b. Investment Strategy**

The Fund invests in a combination of Core Funds and allocates its assets among these Funds according to the asset allocation strategy described below. As the Fund moves toward its target date, its asset allocation becomes more conservative. Once the target date is met, the asset mix will be similar to the UC Pathway Income Fund and the two Funds will merge.

**c. Performance Objective**

The performance objective of the Fund is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees.

**d. Risk Objective**

The Fund shall be managed so that its annualized tracking error budget shall be 40 basis points.

**2. Investment Guidelines**

**a. Asset Allocation and Rebalancing**

For the Target Retirement Dates: 2005-2015, as of July 1, 2005 the Fund is invested 35% in domestic equity, 10% in international equity and 55% in bonds.

The Fund will be rebalanced at the end of each fiscal year (June 30) to a more conservative allocation. As the Pathway Funds are targeted allocation funds, tactical/market timing allocations will not be permitted for this product. Based on the 10 year increments between the Pathway Funds, this Fund's asset allocation will be adjusted such that by the end of

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the ten year period (that is, July 1, 2015), the portfolio will be at the ‘starting’ allocation of the ‘current’ UC Pathway Income Fund.

**Allocation Path:**

<b>UC Pathway 2010 Fund</b>	<b>Start:</b>	<b>End Year 1</b>	<b>End Year 2</b>	<b>End Year 3.....</b>	<b>End Year 10*</b>
UC Domestic Equity Index	20	18	16		0
Vanguard Small Cap Index	2.5	2.25	2		0
UC International Equity Index	10	9	8		0
UC Bond	25	25	25		25
Vanguard REIT Index	12.5	12.75	13		15
UC Savings	0	3	6		30
UC TIPS	<u>30</u>	<u>30</u>	<u>30</u>		<u>30</u>
Total	100%	100%	100%		100%

\*Based on inception of Pathway Income

For example, the UC Pathway 2010 starts with an allocation to the UC Domestic Equity Index Fund of 20%. At the end of the first year, that allocation will be reduced by 2% to 18%. After 10 years, the Fund’s allocation to the UC Domestic Equity Index Fund will be 0%. For UC Savings Fund, the current allocation is 0%; after 10 years, the desired Fund target will be 30%, so the target will increase by 3% per annum.

The Fund may also be rebalanced more frequently than annually, if market movements result in changes in weights more than +/-3% from the current targets. The Fund allocations will be monitored no less than monthly, and the Treasurer will rebalance the Fund back to target weights after assessing the level of volatility in the markets. In cases of extreme volatility, the Treasurer may choose to monitor the markets, and begin rebalancing the Fund only when trading volumes return to more normal levels.

**b. Types of Securities**

As of July 1, 2005, the Pathway 2010 Fund consists of the following UC Core Funds at the percentages shown:

- UC Domestic Equity Index Fund 20%
- Vanguard Small Cap Index Fund 2.5%
- UC International Equity Index Fund 10%
- UC Bond Fund 25%
- Vanguard REIT Index Fund 12.5%
- UC Savings Fund 0%
- UC TIPS Fund 30%

**3. Evaluation and Review**

- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.

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- b. Fund performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Fund.

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**APPENDIX 4M-6**

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**UC Pathway Income Fund  
INVESTMENT GUIDELINES**

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

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the UC Pathway Income Fund is to provide current income and some capital appreciation. It is a continually rebalanced, single investment strategy appropriate for an employee who is currently retired. The Benchmark shall be a weighted sum of the Benchmarks of the component Funds. As of July 1, 2005, the weights of the component Funds are given in section 2a below.

**b. Investment Strategy**

The Fund invests in a combination of Core Funds and allocates its assets among these Funds according to the asset allocation strategy described below.

**c. Performance Objective**

The performance objective of the Fund is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees.

**d. Risk Objective**

The Fund shall be managed so that its annualized tracking error budget shall be 50 basis points.

**2. Investment Guidelines**

**a. Asset Allocation and Rebalancing**

As of July 1, 2005 the Fund is invested 15% in domestic equity, 30% in short-term instruments and 55% in bonds.

The Fund may be rebalanced periodically, if market movements result in changes in weights more than +/-3% from the current targets. The Fund allocations will be monitored no less than monthly, and the Treasurer will rebalance the Fund back to target weights after assessing the level of volatility in the markets. In cases of extreme volatility, the Treasurer may choose to monitor the markets, and begin rebalancing the Fund only when trading volumes return to more normal levels

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b. Types of Securities

As of July 1, 2005, the Pathway 2050 Fund consists of the following UC Core Funds at the percentages shown:

- UC Bond Fund 25%
- Vanguard REIT Index Fund 15%
- UC Savings Fund 30%
- UC TIPS Fund. 30%

**3. Evaluation and Review**

- a. The Treasurer shall review the Objectives and Investment Guidelines at least annually.
- b. Fund performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Fund.

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**DEFINITIONS**

- a. Actively managed: that part of the assets of a Fund in which securities are purchased in different proportions than in the benchmark in the expectation of earning a greater return than would be earned by replicating the benchmark portfolio (“passive” investing).
- b. Annualized tracking error budget: the amount of active risk which represents a typical amount of Benchmark deviation for a manager or the Fund. The budget is not an absolute limit, and market conditions may dictate a greater or lesser amount of benchmark deviation is appropriate. The risk budget is normally expressed in forecast terms, and compared to realized risk as a principal metric of the stability of a strategy.
- c. Beta: the sensitivity of a portfolio to a benchmark, computed by regressing portfolio excess returns on benchmark excess returns from the same period. A beta of 1.0 indicates similar return variability as the benchmark. A beta of 1.2 (alternately, 0.80) indicates that for every 1% increase or decrease in the benchmark, the portfolio increases or decreases by 1.2% (alternately, 0.8%).
- d. Cash equivalents: cash or fixed income securities with a maturity of less than one year and a quality rating of at least AA or equivalent.
- e. CMBS: Commercial mortgage backed securities.
- f. Counterparty: One party to a trade legally bound to make a good delivery or a good payment.
- g. Credit default swap (CDS): a security used to transfer the credit risk of a reference entity from one party (protection buyer) to another (seller). The protection buyer pays a premium to the protection seller, in exchange for a contingent payment following a credit event, such as defaults or bankruptcy.
- h. Derivatives: securities whose value is completely determined by the value of an underlying security.
- i. 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
- j. Effective duration: a quantitative measure of the interest sensitivity of a fixed income instrument. It measures the approximate change in price of a security given a 100 basis point (one percentage point) change in the yield to maturity of the security.
- k. Equitizing cash: the process of purchasing equity derivatives for the purpose of maintaining equity exposure.
- l. Equity related securities: includes, but is not limited to convertible securities, preferred securities, and equity warrants.
- m. Eurodollar deposits: deposits issued in US dollars of foreign banks and foreign branches of US banks.
- n. Forecast annualized tracking error: the forecast standard deviation of monthly differences between the portfolio return and the benchmark return, based on the current holdings in a portfolio, and using a particular risk estimation methodology and system.
- o. Full replication: a method of passive portfolio management whereby the manager purchases all or substantially all the securities in a given benchmark, at the same weights as in the benchmark, and engages in trading only to the extent required by receipt of dividends, corporate actions, benchmark reconstitution, or client initiated cash additions and withdrawals

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- p. Hedging: the process of reducing the possibility for gain or loss over a specific future period by taking an opposite position, yet not altering the underlying portfolio structure.
- q. Management costs and fees: shall refer only to those costs directly incurred by the Treasurer, either directly for this asset class or general office expenses allocated to it. It shall not include other University overhead or allocated indirect costs.
- r. Net dividends (with respect to a performance benchmark / market index): a calculation of total return which approximates the minimum dividend reinvestment. The dividend is reinvested after deduction of withholding tax, applying the rate to non-resident individuals who do not benefit from double taxation treaties. MSCI uses withholding tax rates applicable to Luxembourg holding companies, as Luxembourg applies the highest rates. [definition from MSCI]
- s. NRSRO: Nationally recognized statistical rating organization, such as Moody's or Standard and Poor's.
- t. Overlay manager: a manager whose mandate is to manage a specific risk factor, such as currency, of a group of accounts, each managed by a separate manager. The overlay manager usually compares the aggregate (net) exposures of underlying managers and adjusts those exposures to a pre-determined risk profile, e.g., the currency profile of the benchmark.
- u. Portfolio characteristics: attributes of a portfolio of securities, including but not limited to: weighted average market capitalization, weighted average dividend yield, weighted average price-earnings ratio, beta with respect to a benchmark [for equity strategies], and sector weights, effective duration, and credit quality [for fixed income strategies].
- v. Product composite: the return on the weighted aggregate of all portfolios managed by an investment firm using a similar process; see the CFA Institute Performance Presentation Standards for further explanation.
- w. Realized annualized tracking error: the standard deviation of the monthly differences between the portfolio return and the benchmark return, using returns from the most recent 12 month period, multiplied by the square root of 12.
- x. Reconstitution: A process whereby a benchmark vendor adds and deletes securities in the benchmark index, at regular intervals, in order to comply with the benchmark's published rules and definition
- y. Repurchase agreement: Sale of a security with a commitment from the seller to buy back the security from the purchaser at a specified price at a designated future date. A repurchase agreement is a collateralized loan where the collateral is a security.
- z. Separately managed account: an account entirely owned by The Regents of the University of California, as Plan trustee, for which investment policies and guidelines are determined jointly by the Treasurer and the manager.
- aa. Structured (levered) notes: securities where coupon or interest payments are leveraged, linked, or indexed to interest rates, index returns, foreign exchange rates, or other similar variables.
- bb. Unhedged benchmark: a benchmark in which the underlying securities' returns are translated from their local currency back to US dollars at each measurement date.