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**UNIVERSITY OF CALIFORNIA**

**APPENDICES TO  
INVESTMENT POLICY  
STATEMENTS  
OF UCRP and GEP**



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**UNIVERSITY OF CALIFORNIA  
APPENDICES TO INVESTMENT POLICY STATEMENTS**

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**These Appendices are applicable to the UC Retirement Plan (UCRP) and General Endowment Pool (GEP), and are incorporated by reference into the Investment Policies of both UCRP and GEP (hereinafter referred to as “the Fund”).** The term “constituents” is used to generically refer to the Pension’s participants and beneficiaries, and the Endowment’s donors.

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APPENDIX 4

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**DERIVATIVES POLICY**

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**1. INTRODUCTION**

The purpose of the Derivatives Policy is to establish permitted (and prohibited) uses of derivatives, to establish procedures for managing risks related to derivative securities, and for monitoring and reporting of their use in the Fund.

**2. DEFINITION AND SCOPE**

A derivative is a contract or security whose value is *derived* from another security or risk factor. There are three fundamental *classes* of derivatives - futures, options and swaps - each with many variations; in addition, some securities are *combinations* of derivatives or contain *embedded* derivatives.

This Policy covers only futures, options, swaps, and their combinations. It is applicable to marketable equity and bond asset classes only, not to absolute return strategies, real estate, or private equity. Securities with embedded option features, such as callable or convertible bonds, or mortgaged backed securities, typically have different risks, and are discussed in the Fixed Income Guidelines.

**3. DERIVATIVES POLICY**

The Committee recognizes that all investing, including the use of derivatives, involves risk, and that derivatives use is part of modern institutional portfolio management. The principal risk of derivative strategies comes from the potential to lever a portfolio (i.e., to magnify risk exposures using borrowed funds) or otherwise speculate (express views on a security or risk factor without committing capital). Successful and prudent use of derivatives thus depends on

- Well defined uses for derivatives, and avoidance of economic leverage
- Monitoring and measuring risk, and limits on economic exposures
- Investment manager internal controls and defined procedures for managing risk

The following policies govern the use of derivative securities in the Fund:

1. All derivative strategies are *prohibited unless specifically allowed in writing* as part of an investment manager's guidelines. In the latter case, those guidelines must be consistent with the policies stated herein.
2. Use of derivatives to create economic leverage is prohibited, *except for specific strategies only*, as per the Investment Policy Statement of UCRP and GEP, Section 2g, on page 6.
3. Permitted applications for derivatives are (a) efficient substitutes for physical securities, (b) managing risk by hedging existing exposures, or (c) to implement arbitrage or other approved active management strategies, and are detailed in the following section.
4. Although individual derivative securities may be considered risky or inappropriate as stand-alone investments, their use in a portfolio may actually reduce or otherwise manage risk.

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Therefore *the risk of derivatives – and their acceptability as investments - should be measured by their impact on the portfolio in which they are used, not in isolation.*

5. The Treasurer shall implement procedures to ensure (a) that the purpose, use, and risks of derivative strategies are well understood and consistent with overall investment objectives and individual strategies, (b) that risks taken are prudent and maintained within acceptable limits, (c) that expected return is commensurate with the risk taken, (d) that their potential impact on the value of the Fund's assets is measured periodically, and (e) that there is compliance with this policy (see below, section 8).

#### **4. USE OF DERIVATIVES**

The use of derivatives instruments and strategies will be allowed in three broad areas:

- As efficient substitutes for physical securities for portfolio management , and during portfolio rebalancing, asset allocation, or transition management
  - It is often possible to create the same economic exposure to an asset or asset class by using derivatives as by purchasing the assets directly (in the “cash” or “spot” markets), but with these advantages
    - Reduced transaction cost
    - Increased speed of execution
    - Reduced disruption to existing portfolio strategies
    - Better risk-reward trade-off than exists in the cash markets
- To manage risk by hedging existing exposures
  - Hedging is 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
- To implement arbitrage strategies
  - Arbitrage is the simultaneous purchase and sale of similar securities in order to capture a perceived pricing disparity between them

These acceptable uses are described in detail below (see sections 4A-C) in the context of specific investment functions.

#### **4A. PORTFOLIO REBALANCING, ASSET ALLOCATION AND TRANSITION MANAGEMENT**

Following are potential uses of derivatives, which *may* be permitted for use. This is a representative, not an exhaustive list.

- Maintaining exposure to an asset class or risk factor when large cash inflows or outflows are expected (without changing the existing portfolios' holding of physical securities). In the case of equity portfolios, this is referred to as cash equitization, but the concept and practice applies to any asset class for which derivatives exist.
- Implementing an asset allocation efficiently prior to manager selection and/or before funding is completed
- Implementing a portfolio restructuring / rebalancing efficiently prior to manager selection and/or before funding is completed
- Implementing tactical asset allocation programs efficiently

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- Implementing “alpha transport” or “portable alpha” strategies (i.e., to separate capital market exposures from the active management process and maintain a desired asset allocation while optimizing the use of active risk) between distinct asset classes, such as from (to) equity to (from) fixed income
- Implementing a portfolio insurance strategy during a period of heightened market volatility

**4B. EQUITY PORTFOLIO MANAGEMENT**

Following are potential uses of derivatives, which *may* be permitted for use. This is a representative, not an exhaustive list.

- Maintaining exposure to an asset class when large cash inflows or outflows are expected (without changing the portfolio’s holding of physical securities)
- Obtaining exposure to a sector, country, or asset class more efficiently or more cheaply than is possible in the spot markets
- Eliminating or reducing the performance “drag” of cash held to facilitate transactions by purchasing ETF’s or futures
- Return enhancement in a risk controlled framework (e.g., selling covered calls)
- Hedging anticipated market moves (without changing a portfolio’s holding of physical securities) using futures and/or options. Such hedging is limited to (a) offsetting existing positions, or (b) offsetting anticipated near term portfolio rebalancing.
- Hedging foreign currency exposure using foreign exchange forwards, futures, or options.
- Implementing long/short, market neutral, or other arbitrage strategies.
- Implementing “alpha transport” or “portable alpha” strategies within an asset class or across distinct equity asset classes

**4C. FIXED INCOME PORTFOLIO MANAGEMENT**

Following are potential uses of derivatives, which *may* be permitted for use. This is a representative, not an exhaustive list.

- Maintaining exposure to an asset class or risk factor when large cash inflows or outflows are expected (without changing the portfolio’s holding of physical securities)
- Modifying a portfolio’s duration or otherwise changing its exposure to various points along the yield curve (without changing the portfolio’s holding of physical securities)
- Maintaining a portfolio’s targeted yield curve exposure while making sector or security selection decisions which would otherwise change it
- Modifying a portfolio’s credit quality by creating a synthetic credit exposure or neutralizing (hedging) a particular credit exposure
- Obtaining exposure to a sector, country, or asset class more efficiently or more cheaply than is possible in the spot markets
- Facilitating arbitrage strategies, to exploit perceived relative value between securities, subject to the fundamental policy prohibiting leverage stated above
- Eliminating or reducing the performance “drag” of cash held to facilitate transactions by purchasing futures

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- Enhancing return by substituting an exposure in the cash market with a similar derivative exposure
- Hedging anticipated market moves using futures and/or options.
- Hedging foreign currency exposure using foreign exchange forwards, futures, or options.
- Implementing “alpha transport” or “portable alpha” strategies within an asset class or across distinct fixed income asset classes

**5. AUTHORITY TO USE DERIVATIVES**

The Treasurer will determine whether the Fund’s investment managers may employ particular permitted strategies. For each investment manager, after determining that the purpose falls within this policy, and that the investment manager has adequate controls and procedures to monitor and measure risk, that manager’s investment guidelines will be developed or modified to permit use of those particular strategies.

The Treasurer will determine that the investment manager has, at a minimum,

- A defined purpose for each derivatives strategy within the investment mandate, including a thorough understanding of the proposed benefits and potential risks
- Developed and implemented written policies for controlling market, counterparty credit, liquidity, and basis risk
- Ability to value the derivative instruments, and explain the frequency and source of pricing
- Adequate analytical tools to measure and control the risks of the derivatives and assess their impact on the portfolio, on at least a daily basis
- Procedures for periodically stress testing the projected returns of the derivative instruments on both a stand-alone and portfolio basis. In addition, managers must demonstrate awareness of and controls for model risk.
- Adequate internal controls and organizational capabilities for monitoring and reporting market and counterparty credit risk, and internal procedures for identifying and reversing risks in excess of agreed upon limits
- Adequate internal controls and organizational capabilities to account for and control legal, settlement, and operational risk
- Ability to demonstrate compliance with this policy and answer reasonable requests for reporting derivative positions and their risk characteristics

Appropriate senior members of the Treasurer’s Office, including a senior member of the Risk Management function, will conduct the necessary due diligence and make a recommendation to the Treasurer concerning the scope of the derivative strategies permitted and any required investment guidelines or amendment(s) to the manager’s investment guidelines.

**6. PERMITTED INSTRUMENTS**

6A. The following derivative types are permitted under this policy, subject to the conditions and restrictions noted above. This is a representative, not an exhaustive list. As markets evolve and new derivative instruments and strategies are developed, the Treasurer and

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Regents' Investment Consultant may permit the use of additional derivative instruments or strategies not listed herein, on a case-by-case basis, provided they are consistent with this Policy and with the investment manager's mandate and risk parameters.

- Interest rate futures and equity index futures
- Exchange traded funds (ETF's)
- Foreign currency options, futures and forwards
- Over-the-counter (OTC) options and options on futures
- Swaps and swaptions
- Inverse Floaters
- Credit Default Swaps (CDS)

**6B. The following derivative types and strategies are not permitted**

- Structured and levered notes in which the structure is designed to mask underlying risk factor(s) which would not be permissible under the Policy and/or the Derivatives Policy
- Derivative positions creating economic leverage in the portfolio context
- Derivatives used for speculative purposes

**7. LIMITATIONS, CONTROLS, AND RESTRICTIONS**  
(see Definitions, section 9)

**7A. Portfolio Rebalancing / Asset Allocation**

- Selling (writing) uncovered options is prohibited
- Long futures positions must be backed by 100% cash or cash equivalents (i.e., leverage is not permitted)
- Short futures positions must be collateralized by a risk equivalent (long position) of highly correlated physical securities.

**7B. Equity Portfolio Management**

- The net of long and short dollar exposures to assets or currencies, whether derived from physical or derivative securities, must be less than or equal to the dollar market value of the portfolio, except for very small, inadvertent, or temporary amounts that occur in the normal course of portfolio management
- The gross dollar exposures of the portfolio from physical and derivative securities (whether futures, options, or swaps), cannot exceed 300% of the market value of the underlying portfolio, at all times
- The Treasurer may impose further limits on the use of derivatives so that derivative notional values are not only constrained by their contribution to portfolio risk factors (such as beta, regional or industry exposure) but also with consideration to: liquidity, counterparty credit risk, pricing transparency, and model risk. Thus derivative use may be limited even if other portfolio risk limits are not breached.

**7C. Foreign Exchange Transactions**

- Foreign exchange derivative contracts must have a maturity less than or equal to the anticipated holding period of the underlying security.

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**7D. Fixed Income Portfolio Management**

- The net of long and short dollar exposures to assets or currencies, whether derived from physical or derivative securities, must be less than or equal to the dollar market value of the portfolio, except for very small, inadvertent, or temporary amounts that occur in the normal course of portfolio management
- The gross dollar exposures of the portfolio from physical and derivative securities (whether futures, options, or swaps), cannot exceed 300% of the market value of the underlying portfolio, at all times
- The Treasurer may impose further limits on the use of derivatives so that derivative notional values are not only constrained by their contribution to portfolio risk factors (such as contribution to portfolio effective duration and spread duration) but also with consideration to: liquidity, counterparty credit risk, pricing transparency, and model risk. Thus derivative use may be limited even if other portfolio risk limits are not breached.

**8. MONITORING AND REPORTING**

The Treasurer will implement procedures for periodic monitoring of derivative strategies. Investment managers will be required to provide the following to the Treasurer:

- Month end position report of derivatives
  - Report will include impact on portfolio, using metrics determined by the Treasurer
  - For fixed income managers only, report will include contribution to portfolio effective duration and effective convexity
- Quarterly statement of compliance with this policy
- Quarterly strategy report, including economic exposure to each class of derivatives, their use within the portfolio, performance characteristics, and risk controls employed.
- Quarterly report on counterparty credit risk for OTC derivatives

When derivatives are used by the Treasurer for portfolio rebalancing or asset allocation, the Operations and Trading functions will provide the following to the Treasurer

- Daily position, exposure, and profit/loss (P/L) reports

The Treasurer's risk management process for derivatives will include:

- Monthly reconciliation of managers' derivatives reports with custodian positions in derivatives (for all managers who are permitted to use derivatives)
- Monthly review of Managers' use of derivatives relative to their own policies and with their intended use of derivatives, and with this Policy
- Monthly reports of risk model results (for fixed income managers only)
  - Contribution to effective duration and effective convexity, by portfolio, of *all* positions
  - Economic exposures and risk characteristics of derivatives designated in section A above
  - Stress tests will be required for volatile classes of derivatives such as IOs, POs, and Inverse Floaters

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- A monthly statement that all portfolios are in compliance with this policy, and a description of any instances of non-compliance and their disposition
- An annual report on potential model risk (for the risk model currently in use by the Treasurer)

While the risk of an individual derivative security may be large, risk will be assessed in a portfolio framework (i.e., how each portfolio responds to various market and interest rate scenarios, with and without the derivatives).

**9. DEFINITIONS**

- a. Derivative: a bilateral contract or payment exchange agreement whose value derives from the value of an underlying asset, reference rate, or index.
- b. Investment Manager: term includes portfolio managers with a fiduciary responsibility for a given investment mandate, whether directly employed by the Treasurer or an external asset management firm.
- c. Leverage: in the context of these guidelines means “economic leverage,” not “gross leverage.”
- d. 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
- e. Net dollar exposure (of a portfolio): the arithmetic sum of the dollar market values of all long (positive) and short (negative) positions in securities, plus the notional value of futures contracts, plus the dollar delta of options contracts.
- f. Dollar delta (of an option): a measure of net dollar exposure of an option; defined to be the option’s notional value times the option’s delta.
- g. Gross dollar exposure is defined as the sum of the combined long exposures and the absolute value of the short exposures, including all physical and derivative securities positions.
- h. Gross leverage: a term used to indicate that the gross dollar exposure of a portfolio exceeds the net market value of the total portfolio

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**APPENDIX 5**

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**PROXY VOTING POLICY**

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**INTRODUCTION**

It is part of the generally accepted standards of fiduciary care that proxy-voting rights must be diligently exercised as an aspect of fiduciary duty. The purpose of this policy is to establish the principles and process for the exercise of that duty.

**PROXY VOTING POLICY**

1. In general, but with certain exceptions, proxy issues that are of a routine business management nature, such as election of directors and appointment of auditors, are voted in accordance with the recommendations of management.
2. Other issues will be reviewed case-by-case and are generally voted according to existing Treasurer's Proxy Guidelines (see Exhibit I).
3. For all shares in the Russell 3000 Index portfolio managed by State Street Global Advisors (SSGA), the manager will vote proxies in accordance with the Treasurer's Proxy Guidelines.
4. For all shares in the MSCI EAFE Index fund, SSGA will vote proxies in accordance with SSGA's Proxy voting policy, incorporated by reference.
5. If the Treasurer's Proxy Guidelines conflict with those of SSGA, those of the Treasurer shall have precedence.
6. SSGA may use a third party organization, such as Institutional Shareholder Services (ISS) to manage the voting process and will provide a written summary of all proxy votes on all Fund assets on an annual basis.
7. For all shares in external managers' portfolios, the Treasurer will appoint a third party organization, such as Institutional Shareholder Services (ISS), to vote all proxies in accordance with the Treasurer's Proxy Guidelines, and to provide a written summary of all proxy votes on all Fund assets on an annual basis.

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**APPENDIX 5 - EXHIBIT I**

**OFFICE OF THE TREASURER GUIDELINES FOR PROXY VOTING**

Note: These are general guidelines with broad application. Company-specific issues, such as past performance, shareholder responsiveness, etc. may result in a deviation from the standard recommendation.

**I. Social Issues**

Issues that are controversial or relate to social issues (i.e., tobacco issues, animal testing, military contracts, etc.) are reviewed on a case-by-case basis in light of their potential long-term economic impact on shareholders, along with ongoing review of company codes of conduct and social responsibility, any existing UC policies, and the advice of independent proxy monitor services. This may result in a vote against management if the company is not reasonably responsive to shareholder concerns.

**II. Corporate Governance**

A. Classified Board (or staggered board proposals): The Treasurer recommends annual elections for directors and that classified boards not be allowed, as they tend to entrench management.

B. Cumulative voting or restoration of cumulative voting issues: In general, the Treasurer recommends a vote in favor of cumulative voting. California law allows companies incorporated in the state to eliminate cumulative voting with shareholder vote.

C. Preemptive Rights or restoration of limited preemptive rights: The Treasurer recommends a vote in favor, as this is normally good for shareholders.

D. Confidential Voting Issues: The Treasurer recommends a vote with management, as existing voting safeguards are normally adequate to protect shareholder interests.

E. Authorization of blank check preferred (poison pill): The Treasurer recommends a vote against these anti-takeover measures as they overtly entrench management and have specific anti-takeover intent.

F. Fair price super-majority proposals: The Treasurer recommends a vote against supermajority proposals of 85 percent or more.

G. Golden Parachutes: Although the Treasurer recommends a vote against these incentives for management when they provide overly rich rewards for executives upon a takeover of the company, they should be assessed on a case-by-case basis with that negative criterion in mind.

**III. Compensation Issues**

A. Stock option plans resulting in over 10 percent dilution shall be examined on a case-by-case basis to determine the dilution in the context of the peer group and norms. Plans with excessive dilution may be voted against.

B. Stock options for non-employee directors are examined on a case-by-case basis. Excessively rich plans for non-employee directors, where the annual payments exceed the average for its peer group may be voted against.

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C. Compensation for non-employee directors, which take the form of retirement payments, is normally voted against.

D. Exchanging underwater options (granting lower-priced options to replace higher-priced options) issues are normally voted against.

E. Granting stock options to executives to be exercised at less than fair market value are normally voted against.

F. Employee stock purchase plans normally are voted in favor as they involve a purchase of common shares at 15 percent of market value through payroll deduction. Plans at discounts of more than 85 percent (although there are very few) are examined on a case-by case basis.

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**APPENDIX 6**

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**INVESTMENT MANAGER  
SELECTION, OVERSIGHT, REVIEW, AND TERMINATION**

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When selecting investment managers, the Treasurer will:

- Follow a due-diligence process to make prudent selections of investment managers. The due-diligence process will involve analyzing investment manager candidates in terms of certain:
  - **Qualitative Characteristics**, such as key personnel, investment philosophy, investment strategy, research orientation, decision-making process, and risk controls.
  - **Quantitative Characteristics**, such as CFA Institute-compliant composite return data, risk-adjusted rates of return (e.g., information ratios), and other risk factors.
  - **Organizational Factors**, such as type and size of firm, ownership structure, client-servicing capabilities, record of gaining and keeping clients, and fees.

Other factors will be considered as part of the due-diligence process as facts and circumstances warrant.

- Use third-party database(s) to access appropriate screening information and ensure an unbiased and objective search process.
- With respect to qualified retirement plans, select only entities that meet the definition of “investment manager” under Section 3(38) of ERISA (a bank, insurance company, or investment adviser registered under the Investment Advisers Act of 1940).

A key aspect of a prudent investment program is the designation of a performance benchmark for each investment manager. This benchmark should be specified in writing, and should satisfy the same set of quality criteria as stated for asset class benchmarks in [Appendix 1](#), section B. In addition, the benchmark for an actively managed portfolio should also satisfy the criteria of Ownership: the investment manager should be aware of and accept accountability for the constituents and performance of the benchmark. It is encouraged that the benchmark be embedded in and integral to the investment process and procedures of the investment manager.

Investment managers will provide to the Treasurer the following:

- A monthly performance statement for the portfolio (gross and net) and the benchmark. Also include the gross performance for the product Composite at least quarterly
- If available, a monthly or quarterly forecast risk report, using the investment manager’s risk system, showing the total, systematic (“common factor”), and non-systematic (“residual”) risk of the portfolio relative to the benchmark
- A monthly or quarterly variance analysis, indicating sources of performance variances (difference between portfolio and benchmark return), and an explanation of any material differences
- A quarterly review of portfolio and strategy performance including a market outlook
- An annual statement of compliance with investment guidelines
- Any other items specified by the appropriate guidelines under the Policy

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In order to ensure that thorough and consistent manager oversight is carried out on a regular basis, it is the intent of the Treasurer to meet with each investment manager once each calendar year, and no less than once every eighteen months. In addition to the investment performance review listed above, several other issues will be reviewed. These include brokerage commissions, account turnover, personnel turnover, client service issues, investment guideline compliance and changes in ownership.

The Committee acknowledges that, from time to time, it may be necessary to replace an existing investment manager. Consequently, the following guidelines will govern review and/or termination of investment managers because of qualitative, quantitative, or organizational concerns.

At each quarterly performance evaluation, the Treasurer will initiate an inquiry should any investment manager not meet the established performance objectives, including:

- Significantly under perform the previously agreed-upon benchmark over the cumulative performance period, with proper adjustment for the manager's active risk.

Additionally, the Treasurer will initiate an inquiry should any investment manager:

- Undergo significant organizational changes, including departure of key investment professionals;
- Implement significant change in strategy;
- Be involved in material litigation;
- Be involved in an SEC or other securities investigation;
- Be acquired by or acquire another firm.

After reviewing the appropriate qualitative and quantitative information, the Treasurer may deem it appropriate to terminate, place the investment manager on notice, or to take no action at that time. In cases in which the manager is placed on notice, the manager will be informed of this decision in writing. The manager may be removed from this status upon exhibiting significant organizational and/or performance changes.

Should the investment manager fail to exhibit the desired changes, the Treasurer will conduct further discussions and analysis to determine if termination is warranted. While a systematic process will be carried out in such instances, the decision to retain or terminate a manager will not be made by a formula and will be made at the discretion of the Treasurer. It is a judgment that depends on the Treasurer's confidence in the investment firm to perform in the future.

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**APPENDIX 7**

**Asset Class Guidelines**

- 7A) U.S. Equity Guidelines
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  - 7D) Long Duration Fixed Income Guidelines
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  - 7N) Reinvestment of Cash Collateral from Securities Lending Program
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**APPENDIX 7A**

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**U.S. EQUITY**  
**INVESTMENT GUIDELINES**

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The purpose for these performance objectives (“Objectives”) and management guidelines (“Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the U.S. Equity allocation of the Fund (“the Program”). These Objectives and 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 Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Program is to generate a rate of return from investments in common stocks of US companies which exceeds the return on the broad US equity market, measured by the Russell 3000 Tobacco Free Index (“Benchmark”), while maintaining risk similar to that of the Benchmark.

**b. Investment Strategy**

The Program shall be implemented by hiring multiple external investment managers (“Managers”). Each Manager’s strategy will focus on a subset of the broad equity market in which the Manager is believed to have a competitive advantage in providing returns in excess of its respective benchmark on a risk adjusted basis. The Treasurer will monitor whether the aggregate of all externally managed portfolios adheres to these Guidelines, and in particular achieves the overall performance and risk objectives stated below. In addition, each Manager shall have written guidelines, which will detail its strategy, performance objectives, permitted investments, and restrictions. The Treasurer will monitor each Manager’s adherence to its respective guidelines. In no case may a Manager’s guidelines create potential conflict with the Guidelines for the Program.

**c. Performance Objective**

The performance objective of the Program is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees. Each Manager will have a unique objective, or style benchmark, which is appropriate to its individual strategy, and specified in its guidelines.

**d. Risk Objective**

The Program shall be managed so that its annualized tracking error budget shall be 250 basis points. Each Manager will have a unique active risk budget, relative to its style benchmark, which is appropriate to its individual strategy, and specified in its guidelines, and which will reflect the risk-return profile of its specific investment objectives.

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e. Other Constraints and Considerations

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Managers shall act solely in the interest of the Fund's constituents.
- Implementation of this Program shall comply with the Fund's Policy.

**2. Investment Guidelines**

a. Asset Allocation

It is expected that the Program will be fully invested in equity and equity-related securities at all times. Any cash or held by Managers for the purpose of facilitating cash flows or portfolio transactions will be swept daily by the custodian. The Treasurer or designated overlay manager may equitize this cash using appropriate derivatives contracts.

b. Types of Securities

The Program will be invested in diversified portfolios of common stocks that are listed on national securities exchanges. These common stocks shall be predominantly of companies domiciled in the United States, or which derive the majority of their sales and earnings from the United States. Managers may also invest in stocks that are traded over-the-counter and in other equity-related securities and private placements as limited in their guidelines. Subject to limitations in their guidelines, Managers may also obtain equity exposure through their own specialty commingled funds.

Use of and limits on equity derivative securities by individual managers must be specified in writing in their guidelines and must be consistent with the Derivatives Policy, Appendix 4.

Nothing in these guidelines shall be construed to restrict the use of diversified global equity strategies (consisting of equities of U.S. and Non-U.S. domiciled companies). The Treasurer shall ensure that such strategies are consistent with both these guidelines and the guidelines of the Non-U.S. equity Program, and the Manager(s)' guidelines will be structured to ensure that performance and risk objectives for both equity classes are met.

c. Restrictions

The Managers may **not**

- Purchase securities of tobacco related companies, as per the Policy, section 5b.
- Lend securities
- Purchase commodities or commodity derivatives
- Purchase fixed income securities except for cash equivalents and margin requirements as part of a portable alpha strategy
- Buy party-in-interest securities
- Buy lettered, legend, or other restricted stock, except for 144A securities, which are permitted
- Buy or write equity linked notes
- Employ economic leverage in the portfolio through borrowing or derivatives

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- Employ gross leverage in their portfolio in excess of 300% of the market value of the portfolio, at all times

**d. Diversification and Concentration**

The Program's investments will be appropriately diversified to control overall risk and will exhibit portfolio risk characteristics similar to those of the Benchmark. The Treasurer is responsible for managing aggregate risk exposures. The following limitations apply:

- The Program's beta with respect to the Benchmark will not be significantly different from 1.0, as measured over the most recent 12 month period.
- Notwithstanding the overall diversification of the Program, the Treasurer may set limits on any individual Manager's tracking error and/or contribution to active risk of the Program.
- The aggregate holdings of any security may not exceed 4.9% of that security's outstanding shares.

It is expected that each Manager's portfolio will be appropriately diversified, within limits established in its guidelines and relative to its performance objectives, to control risk, but without unduly restricting a Manager's ability to out-perform its benchmark. That is, an individual Manager's portfolio may be more concentrated than is appropriate for the Program's aggregate investments.

e. Managers shall employ best execution. Transactions may be directed to brokers/dealers designated by the Treasurer at the Manager's discretion when best execution is available.

**f. 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.

**3. Evaluation and Review**

**a. Policy and Guideline Review**

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

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

**4. Reporting**

On a quarterly basis, the Treasurer shall provide the following reports to the Committee:

- a. A performance attribution explaining differences in sector weights and returns, between the aggregate Program investments and the Benchmark, and an explanation of any material differences.

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APPENDICES TO INVESTMENT POLICY STATEMENTS**

- b. A forecast risk report, using the Treasurer's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the aggregate portfolio, the Benchmark, and the active Program relative to the Benchmark, and an explanation of any material differences.
- c. A summary of individual manager performance, on an absolute and benchmark relative basis.

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

- a. A monthly performance statement for the portfolio (gross and net) and the benchmark, and provide the gross performance for the product Composite at least quarterly.
- b. If available, a monthly or quarterly forecast risk report, using the Manager's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the portfolio relative to the benchmark.
- c. A monthly or quarterly variance analysis, indicating sources of performance variances (difference between portfolio and benchmark return), and an explanation of any material differences.
- d. A quarterly review of portfolio and strategy performance including a market outlook.
- e. An annual statement of compliance with investment guidelines.

**5. Definitions: See Appendix 8**

**UNIVERSITY OF CALIFORNIA  
APPENDICES TO INVESTMENT POLICY STATEMENTS**

**APPENDIX 7B**

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**DEVELOPED MARKET NON U.S. EQUITY  
INVESTMENT GUIDELINES**

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The purpose for these performance objectives (“Objectives”) and management guidelines (“Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the Developed Market Non U.S. Equity allocation of the Fund (“the Program”). These Objectives and 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 Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Program is to generate a rate of return from investments in common stocks of Non US domiciled, developed market companies which exceeds the return of the MSCI World ex-US (Net Dividends) Tobacco Free Index (“Benchmark”), while maintaining risk similar to that of the Benchmark. The Benchmark shall be unhedged (see part (e) below).

**b. Investment Strategy**

The Program shall be implemented by hiring multiple external investment managers (“Managers”). Each Manager’s strategy will focus on a subset of the broad equity market in which the Manager is believed to have a competitive advantage in providing returns in excess of its respective benchmark on a risk adjusted basis. The Treasurer will monitor whether the aggregate of all externally managed portfolios adheres to these Guidelines, and in particular achieves the overall performance and risk objectives stated below. In addition, each Manager shall have written guidelines, which will detail its strategy, performance objectives, permitted investments, and restrictions. The Treasurer will monitor each Manager’s adherence to its respective guidelines. In no case may a Manager’s guidelines create potential conflict with the Guidelines for the Program.

**c. Performance Objective**

The performance objective of the Program is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees. Each Manager will have a unique objective, or style benchmark, which is appropriate to its individual strategy, and specified in its guidelines.

**d. Risk Objective**

The Program shall be managed so that its annualized tracking error budget shall be 300 basis points. Each Manager will have a unique active risk budget, relative to its style

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benchmark, which is appropriate to its individual strategy, and specified in its guidelines, and which will reflect the risk-return profile of its specific investment objectives.

**e. Currency Risk**

The Committee accepts that as a US dollar denominated investor, investing in Non US developed markets equity implicitly involves currency risk. The Committee accepts this additional risk or volatility as part of the asset class and has adopted an “unhedged” performance benchmark. An unhedged benchmark is a benchmark in which the underlying securities’ returns are translated from their local currency back to US dollars at each measurement date.

However, this general policy toward currency risk shall not prevent individual Managers from fully or partially hedging or otherwise actively managing the currency risk in their portfolios (subject to their individual guidelines). Nor shall it prevent the Treasurer from employing currency overlay managers to manage the currency risk of the aggregate portfolio.

The contribution to active risk resulting from the aggregate of active currency management, whether by Managers or by the Treasurer’s overlay managers, shall be included in the total tracking error and be subject to limitations above and to the Retirement Fund’s overall risk budget as described in Appendix 2.

**f. Other Constraints and Considerations**

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Managers shall act solely in the interests of the Fund’s constituents.
- Implementation of this Program shall comply with the Fund’s Policy.

**2. Investment Guidelines**

**a. Asset Allocation**

It is expected that the Program will be fully invested in equity and equity related securities at all times. Any cash held by Managers for the purpose of facilitating cash flows or portfolio transactions will be swept daily by the custodian. The Treasurer or designated overlay manager may equitize this cash using appropriate derivative contracts.

**b. Types of Securities**

The Program will be invested in diversified portfolios of common stocks that are listed on national securities exchanges. These common stocks shall be predominantly of developed market companies domiciled outside the United States, or which derive the majority of their sales and earnings from countries outside the United States. Managers may also invest in stocks that are traded over-the-counter and in other equity-related securities and private placements as limited in their guidelines. Subject to limitations in their guidelines, Managers may also obtain equity exposure through their own specialty commingled funds.

Managers may use currency futures, forward contracts, or options to manage currency risk and hedge existing equity exposures. Use of and limits on equity derivative securities by individual managers must be specified in writing in their guidelines and must be consistent with the Derivatives Policy, Appendix 4.

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Nothing in these guidelines shall be construed to restrict the use of diversified global equity strategies (consisting of equities of U.S. and Non-U.S. domiciled companies). The Treasurer shall ensure that such strategies are consistent with both these guidelines and the guidelines of the U.S. equity Program, and the Manager(s)' guidelines will be structured to ensure that performance and risk objectives for both equity classes are met.

c. Restrictions

The Managers may **not**

- Purchase securities of tobacco related companies, within separately managed accounts, as per the Policy, section 5b.
- Lend securities
- Purchase commodities or commodity derivatives within separately managed accounts
- Purchase fixed income securities except for cash equivalents and margin requirements as part of a portable alpha strategy
- Buy party-in-interest securities
- Buy lettered, legend, or other restricted stock, except for 144A securities, which are permitted
- Buy or write equity linked notes
- Employ economic leverage in the portfolio through borrowing or derivatives
- Employ gross leverage in their portfolio in excess of 300% of the market value of the portfolio, at all times

d. Diversification and Concentration

The Program's investments will be appropriately diversified to control overall risk and will exhibit portfolio risk characteristics similar to those of the Benchmark. The Treasurer is responsible for managing aggregate risk exposures, including country allocation, industry allocation, and currency. The following limitations apply:

- The Program's beta with respect to the Benchmark will not be significantly different from 1.0, as measured over the most recent 12 month period.
- Notwithstanding the overall diversification of the Program, the Treasurer may set limits on any individual Manager's tracking error and/or contribution to active risk of the Program.
- The aggregate holdings of any security may not exceed 4.9% of that security's outstanding shares.

It is expected that each Manager's portfolio will be appropriately diversified, within limits established in its guidelines and relative to its performance objectives, to control risk, but without unduly restricting a Manager's ability to out-perform its benchmark. That is, an individual Manager's portfolio may be more concentrated than is appropriate for the Program's aggregate investments.

e. Managers shall employ best execution. Transactions may be directed to brokers/dealers designated by the Treasurer at the Manager's discretion when best execution is available.

f. Managing Cash Flows

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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.

**3. Evaluation and Review**

a. Policy and Guideline Review

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

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

**4. Reporting**

On a quarterly basis, the Treasurer shall provide the following reports to the Committee:

- a. A performance attribution explaining differences in sector, country, and currency weights and returns, between the aggregate Program investments and the Benchmark, and an explanation of any material differences.
- b. A forecast risk report, using the Treasurer's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the aggregate portfolio, the Benchmark, and the active Program relative to the Benchmark, and an explanation of any material differences.
- c. A summary of individual Manager performance, on an absolute and benchmark relative basis.

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

- a. A monthly performance statement for the portfolio (gross and net) and the benchmark, and also provide the gross performance for the product Composite at least quarterly
- b. If available, a monthly or quarterly forecast risk report, using the Manager's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the portfolio relative to the benchmark
- c. A monthly or quarterly variance analysis, indicating sources of performance variances (difference between portfolio and benchmark return), and an explanation of any material differences.
- d. A quarterly review of portfolio and strategy performance including a market outlook
- e. An annual statement of compliance with investment guidelines

**5. Definitions: See Appendix 8**

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**APPENDICES TO INVESTMENT POLICY STATEMENTS**

**APPENDIX 7C**

This Version: February 14, 2006

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**EMERGING MARKET NON U.S. EQUITY**  
**INVESTMENT GUIDELINES**

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The purpose for these performance objectives (“Objectives”) and management guidelines (“Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the Emerging Market Non U.S. Equity allocation of the Fund (“the Program”). These Objectives and 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 Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Program is to generate a rate of return from investments in common stocks of emerging market domiciled companies which exceeds the return on the MSCI Emerging Market (Net Dividends) Index (“Benchmark”), while maintaining risk similar to that of the Benchmark. The Benchmark shall be unhedged (see part (e) below).

**b. Investment Strategy**

The Program shall be implemented by hiring multiple external investment managers (“Managers”). Each Manager’s strategy will focus on a subset of the broad equity market in which the Manager is believed to have a competitive advantage in providing returns in excess of its respective benchmark on a risk adjusted basis. The Treasurer will monitor whether the aggregate of all externally managed portfolios adheres to these Guidelines, and in particular achieves the overall performance and risk objectives stated below. In addition, each Manager shall have written guidelines, which will detail its strategy, performance objectives, permitted investments, and restrictions. The Treasurer will monitor each Manager’s adherence to its respective guidelines. In no case may a Manager’s guidelines create potential conflict with the Guidelines for the Program.

**c. Performance Objective**

The performance objective of the Program is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees. Each Manager will have a unique objective, or style benchmark, which is appropriate to its individual strategy, and specified in its guidelines.

**d. Risk Objective**

The Program shall be managed so that its annualized tracking error budget shall be 400 basis points. Each Manager will have a unique active risk budget, relative to its style benchmark, which is appropriate to its individual strategy, and specified in its guidelines, and which will reflect the risk-return profile of its specific investment objectives.

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e. Currency Risk

The Committee accepts that as a US dollar denominated investor, investing in Emerging Markets equity implicitly involves currency risk. The Committee accepts this additional risk or volatility as part of the asset class and has adopted an “unhedged” performance benchmark. An unhedged benchmark is a benchmark in which the underlying securities’ returns are translated from their local currency back to US dollars at each measurement date.

However, this general policy toward currency risk shall not prevent individual Managers from fully or partially hedging or otherwise actively managing the currency risk in their portfolios (subject to their individual guidelines). Nor shall it prevent the Treasurer from employing currency overlay managers to manage the currency risk of the aggregate portfolio.

The contribution to active risk resulting from the aggregate of active currency management, whether by Managers or by the Treasurer’s overlay managers, shall be included in the total tracking error and be subject to limitations above and to the Retirement Fund’s overall risk budget as described in [Appendix 2](#).

f. Other Constraints and Considerations

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Managers shall act solely in the interests of the Fund’s constituents.
- Implementation of this Program shall comply with the Fund’s Policy.

**2. Investment Guidelines**

a. Asset Allocation

It is expected that the Program will be fully invested in equity and equity related securities at all times. Any cash held by Managers for the purpose of facilitating cash flows or portfolio transactions will be swept daily by the custodian. The Treasurer or designated overlay manager may equitize this cash using appropriate derivatives contracts.

b. Types of Securities

The Program will be invested in diversified portfolios of common stocks that are listed on national securities exchanges. These common stocks shall be predominantly of companies domiciled in emerging market countries. Managers may also invest in stocks that are traded over-the-counter and in other equity-related securities and private placements as limited in their guidelines. Subject to limitations in their guidelines, Managers may obtain equity exposure through their own specialty commingled funds.

Managers may use currency futures, forward contracts, or options to manage currency risk and hedge existing equity exposures. Use of and limits on equity derivative securities by individual managers must be specified in writing in their guidelines and must be consistent with the Derivatives Policy, Appendix 4.

c. Restrictions

The Managers may **not**

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- Purchase securities of tobacco related companies, within separately managed accounts, as per the Policy, section 5b.
- Lend securities
- Purchase commodities or commodity derivatives, within separately managed accounts
- Purchase fixed income securities within separately managed accounts, except for cash equivalents and margin requirements as part of a portable alpha strategy, or in lieu of the same company's equity securities
- Buy party-in-interest securities
- Buy lettered, legend, or other restricted stock, except for 144A securities, which are permitted
- Buy or write equity linked notes
- Employ economic leverage in the portfolio through borrowing or derivatives
- Employ gross leverage in their portfolio in excess of 300% of the market value of the portfolio, at all times

**d. Diversification and Concentration**

The Program's investments will be appropriately diversified to control overall risk and will exhibit portfolio risk characteristics similar to those of the Benchmark. The Treasurer is responsible for managing aggregate risk exposures, including country allocation, industry allocation, and currency. The following limitations apply:

- The Program's beta with respect to the Benchmark will not be significantly different from 1.0, as measured over the most recent 12 month period.
- Notwithstanding the overall diversification of the Program, the Treasurer may set limits on any individual Manager's tracking error and/or contribution to active risk of the Program.
- The aggregate holdings of any security may not exceed 4.9% of that security's outstanding shares.

It is expected that each Manager's portfolio will be appropriately diversified, within limits established in its guidelines and relative to its performance objectives, to control risk without unduly restricting a Manager's ability to out-perform its benchmark. That is, an individual Manager's portfolio may be more concentrated than is appropriate for the Program's aggregate investments.

e. Managers shall employ best execution. Transactions may be directed to brokers/dealers designated by the Treasurer at the Manager's discretion when best execution is available.

**f. 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.

**3. Evaluation and Review**

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**APPENDICES TO INVESTMENT POLICY STATEMENTS**

a. Policy and Guideline Review

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

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

**4. Reporting**

On a quarterly basis, the Treasurer shall provide the following reports to the Committee:

- a. A performance attribution explaining differences in sector, country, and currency weights and returns, between the aggregate Program investments and the Benchmark, and an explanation of any material differences.
- b. A forecast risk report, using the Treasurer's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the aggregate portfolio, the Benchmark, and the active Program relative to the Benchmark, and an explanation of any material differences.
- c. A summary of individual Manager performance, on an absolute and benchmark relative basis.

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

- a. A monthly performance statement for the portfolio (gross and net) and the benchmark, and also provide the gross performance for the product Composite at least quarterly
- b. If available, a monthly or quarterly forecast risk report, using the Manager's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the portfolio relative to the benchmark
- c. A monthly or quarterly variance analysis, indicating sources of performance variances (difference between portfolio and benchmark return), and an explanation of any material differences.
- d. A quarterly review of portfolio and strategy performance including a market outlook
- e. An annual statement of compliance with investment guidelines

**5. Definitions: See Appendix 8**

**UNIVERSITY OF CALIFORNIA**  
**APPENDICES TO INVESTMENT POLICY STATEMENTS**

**APPENDIX 7D**

Last approved: August 16, 2005

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**LONG DURATION FIXED INCOME**  
**INVESTMENT GUIDELINES**

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The purpose for these performance objectives (“Objectives”) and management guidelines (“Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the Long Duration Fixed Income allocation of the Fund (“the Program”). These Objectives and 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 Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Program is to generate a rate of return from investments in US dollar denominated bonds which exceeds the return on the long duration US fixed income market, as measured by the Citigroup Large Pension Fund Index (“Benchmark”), while maintaining risk similar to that of the Benchmark.

**b. Investment Strategy**

The Program shall be implemented by the Treasurer’s internal fixed income staff, and may be supplemented by hiring multiple external investment managers (internal and external strategies will be collectively referred to as “Managers”). Each strategy will focus on a subset of the broad fixed income market in which the Manager is believed to have a competitive advantage in providing returns in excess of its respective benchmark on a risk adjusted basis. The Treasurer will monitor whether the aggregate of all fixed income portfolios adheres to these Guidelines, and in particular achieves the overall performance and risk objectives stated below. In addition, each Manager shall have written guidelines, which will detail its strategy, performance objectives, permitted investments, and restrictions. The Treasurer will monitor each Manager’s adherence to its respective guidelines. In no case may a Manager’s guidelines conflict with the Guidelines for the Program.

**c. Performance Objectives**

The performance objective of the Program is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees. Each Manager will have a unique objective, or style benchmark, which is appropriate to its individual strategy, and specified in its guidelines.

**d. Risk Objective**

The Program shall be managed so that its annualized tracking error budget shall be 150 basis points. Each Manager will have a unique active risk budget, relative to its style

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benchmark, which is appropriate to its individual strategy, and specified in its guidelines, and which will reflect the risk-return profile of its specific investment objectives.

e. Other Constraints and Considerations

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Managers shall act solely in the interest of the Fund's constituents.
- Implementation of this Program shall comply with the Fund's Policy.

**2. Investment Guidelines**

a. Asset Allocation

The portfolio will be invested **primarily** in marketable, publicly traded, investment grade fixed income instruments, notes and debentures denominated in U.S. dollars.

b. Types of Securities

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

The following list is indicative of the securities which are appropriate for the Program, given its Benchmark and risk budget. It should not be construed to be an exhaustive list of "allowable" investment securities. Security types and/or strategies not specifically enumerated, but which the Treasurer and Regents' Investment Consultant believe are appropriate and consistent with the Investment Policy 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.

1. Fixed income instruments

- a. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. government-sponsored corporations and agencies
- b. Obligations of U.S. 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, including CMO's, REMICS, IO's, and PO's
- d. CBO's, CLO's, and CDO's
- e. 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.
- f. Obligations issued or guaranteed by U.S. local, city and state governments and agencies
- g. Private Placements or Rule 144A securities, issued with or without registration rights

2. 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

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- 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
3. 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. Foreign currency forward contracts and options
  - e. Inflation linked futures and swaps
  - f. Total rate of return swaps

c. Restrictions

The Managers may **not**

- Purchase securities of tobacco related companies, as per the Policy, section 5b.
- Invest in mutual funds or group trusts unless specifically allowed in their guidelines
- Buy securities on margin, except for futures or swaps, against which are held a risk equivalent amount of cash or liquid securities
- 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
- Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy
- Purchase or sell foreign exchange contracts for any purpose other than hedging their portfolio exposures

d. Diversification and Concentration

The Program's investments will be appropriately diversified to control overall risk. The Program'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 Program'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

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**APPENDICES TO INVESTMENT POLICY STATEMENTS**

- The Program'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 Program's market value may be invested in any single issuer.
- **Liquidity risk**
  - No more than 20% of the Program's market value may be invested in Private Placements or Rule 144A securities
  - The Program'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.
- **Foreign exchange risk**
  - No more than 10% of the Program market value can be invested in securities denominated in currencies other than US dollar
- **Asset allocation risk**
  - The Program's investments in aggregate may overweight or underweight Core sectors so that the Core sector contribution to portfolio effective duration is within +/- 50% of the corresponding Benchmark core sector contribution to portfolio effective duration. [Core sectors are defined as Government Sponsored, Credit, and Collateral.]
- Notwithstanding the overall diversification of the Program, the Treasurer may set limits on any individual Manager's tracking error and/or contribution to active risk of the Program.

It is expected that each Manager's portfolio be appropriately diversified, within limits established in its guidelines and relative to its performance objectives, to control risk, but without unduly restricting the Manager's ability to out-perform its benchmark. That is, the Managers' portfolios may be more concentrated than is appropriate for the Program's aggregate investments.

e. Managers shall employ best execution. Transactions shall be directed to brokers/dealers designated by the Treasurer at the Manager's discretion when best execution is available.

f. Managing Cash Flows

Managers 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**

a. Policy and Guideline Review

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

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APPENDICES TO INVESTMENT POLICY STATEMENTS**

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

**4. Reporting**

On a quarterly basis, the Treasurer shall provide the following reports to the Committee:

- a. A performance attribution explaining differences in sector weights and returns, between the aggregate Program investments and the Benchmark, and an explanation of any material differences.
- b. A forecast risk report, using the Treasurer's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the aggregate portfolio, the Benchmark, and the active Program relative to the Benchmark, and an explanation of any material differences.
- c. A summary of individual Manager performance, on an absolute and benchmark relative basis.

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

- a. A monthly performance statement for the portfolio (gross and net) and the benchmark, and also provide the gross performance for the product Composite at least quarterly
- b. If available, a monthly or quarterly forecast risk report, using the Manager's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the portfolio relative to the benchmark
- c. A monthly or quarterly variance analysis, indicating sources of performance variances (difference between portfolio and benchmark return), and an explanation of any material differences.
- d. A quarterly review of portfolio and strategy performance including a market outlook
- e. An annual statement of compliance with investment guidelines

**5. Definitions: See Appendix 8**

**UNIVERSITY OF CALIFORNIA**  
**APPENDICES TO INVESTMENT POLICY STATEMENTS**

**APPENDIX 7E**

This Version: February 14, 2006

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**CORE FIXED INCOME**  
**INVESTMENT GUIDELINES**

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The purpose for these performance objectives (“Objectives”) and management guidelines (“Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the Core Fixed Income allocation of the Fund (“the Program”). These Objectives and 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 Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Program is to generate a rate of return from investments in US dollar denominated bonds which exceeds the return on the aggregate US fixed income market, as measured by the Lehman Brothers US Aggregate Index (“Benchmark”), while maintaining risk similar to that of the Benchmark.

**b. Investment Strategy**

The Program shall be implemented by the Treasurer’s internal fixed income staff, and may be supplemented by hiring multiple external investment managers (internal and external strategies will be collectively referred to as “Managers”). Each Manager’s strategy will focus on a subset of the broad fixed income market in which the Manager is believed to have a competitive advantage in providing returns in excess of its respective benchmark on a risk adjusted basis. The Treasurer will monitor whether the aggregate of all fixed income portfolios adheres to these Guidelines, and in particular achieves the overall performance and risk objectives stated below. In addition, each Manager shall have written guidelines, which will detail its strategy, performance objectives, permitted investments, and restrictions. The Treasurer will monitor each Manager’s adherence to its respective guidelines. In no case may a Manager’s guidelines conflict with the Guidelines for the Program.

**c. Performance Objectives**

The performance objective of the Program is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees. Each Manager will have a unique objective, or style benchmark, which is appropriate to its individual strategy, and specified in its guidelines.

**d. Risk Objective**

The Program shall be managed so that its annualized tracking error budget shall be 100 basis points. Each Manager will have a unique active risk budget, relative to its style benchmark, which is appropriate to its individual strategy, and specified in its guidelines, and which will reflect the risk-return profile of its specific investment objectives.

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e. Other Constraints and Considerations

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Managers shall act solely in the interest of the Fund's constituents.
- Implementation of this Program shall comply with the Fund's Policy.

**2. Investment Guidelines**

a. Asset Allocation

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

b. Types of Securities

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

The following list is indicative of the securities which are appropriate for the Program, given its Benchmark and risk budget. It should not be construed to be an exhaustive list of "allowable" investment securities. Security types and/or strategies not specifically enumerated, but which the Treasurer and Regents' Investment Consultant believe are appropriate and consistent with the Investment Policy 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.

1. Fixed income instruments

- a. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. government-sponsored corporations and agencies
- b. Obligations of U.S. 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, including CMO's, REMICS, IO's, and PO's
- d. CBO's, CLO's, and CDO's
- e. 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.
- f. Obligations issued or guaranteed by U.S. local, city and state governments and agencies
- g. Private Placements or Rule 144A securities, issued with or without registration rights

2. 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

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- 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
3. 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. Foreign currency forward contracts and options
  - e. Inflation linked futures and swaps
  - f. Total rate of return swaps

c. Restrictions

The Managers may **not**

- Purchase securities of tobacco related companies, as per the Policy, section 5b.
- Invest in mutual funds or group trusts unless specifically allowed in their guidelines
- Buy securities on margin, except for futures or swaps, against which are held a risk equivalent amount of cash or liquid securities
- 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
- Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy
- Purchase or sell foreign exchange contracts for any purpose other than hedging their portfolio exposures

d. Diversification and Concentration

The Program’s investments will be appropriately diversified to control overall risk. The Program’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 Program’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 Program’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

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- Except for securities issued by the US Treasury or Agencies of the US Government, no more than 3% of the Program's market value may be invested in any single issuer.
- **Liquidity risk**
  - No more than 20% of the Program's market value may be invested in Private Placements or Rule 144A securities
  - The Program'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.
- **Foreign exchange risk**
  - No more than 10% of the Program market value can be invested in securities denominated in currencies other than US dollar
- **Asset allocation risk**
  - The Program's investments in aggregate may overweight or underweight Core sectors so that the Core sector contribution to portfolio effective duration is within +/- 50% of the corresponding Benchmark core sector contribution to portfolio effective duration. [Core sectors are defined as Government Sponsored, Credit, and Collateral.]
- Notwithstanding the overall diversification of the Program, the Treasurer may set limits on any individual Manager's tracking error and/or contribution to active risk of the Program.

It is expected that each Manager's portfolio be appropriately diversified, within limits established in its guidelines and relative to its performance objectives, to control risk, but without unduly restricting the Manager's ability to out-perform its benchmark. That is, the Managers' portfolios may be more concentrated than is appropriate for the Program's aggregate investments.

e. Managers shall employ best execution. Transactions shall be directed to brokers/dealers designated by the Treasurer at the Manager's discretion when best execution is available.

f. Managing Cash Flows

Managers 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**

a. Policy and Guideline Review

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

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

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**4. Reporting**

On a quarterly basis, the Treasurer shall provide the following reports to the Committee:

- a. A performance attribution explaining differences in sector weights and returns, between the aggregate Program investments and the Benchmark, and an explanation of any material differences.
- b. A forecast risk report, using the Treasurer's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the aggregate portfolio, the Benchmark, and the active Program relative to the Benchmark, and an explanation of any material differences.
- c. A summary of individual Manager performance, on an absolute and benchmark relative basis.

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

- a. A monthly performance statement for the portfolio (gross and net) and the benchmark, and also provide the gross performance for the product Composite at least quarterly
- b. If available, a monthly or quarterly forecast risk report, using the Manager's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the portfolio relative to the benchmark
- c. A monthly or quarterly variance analysis, indicating sources of performance variances (difference between portfolio and benchmark return), and an explanation of any material differences.
- d. A quarterly review of portfolio and strategy performance including a market outlook
- e. An annual statement of compliance with investment guidelines

**5. Definitions: See Appendix 8**

**UNIVERSITY OF CALIFORNIA  
APPENDICES TO INVESTMENT POLICY STATEMENTS**

**APPENDIX 7F**

This Version: February 14, 2006

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**TIPS (TREASURY INFLATION PROTECTED SECURITIES)  
INVESTMENT GUIDELINES**

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The purpose for these performance objectives (“Objectives”) and management guidelines (“Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the TIPS allocation of the Fund (“the Program”). These Objectives and 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 Guidelines shall be revised.

**1. Investment Policy**

a. Investment Objective

The primary investment objective of the Program is to generate a rate of return from investments in US Government issued, dollar denominated, inflation protected bonds which matches the return on the Lehman Brothers TIPS Index (“Benchmark”), while maintaining risk similar to that of the Benchmark.

b. Investment Strategy

The Program shall be passively managed by the Treasurer’s internal fixed income staff (“Manager”), 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. The Treasurer will monitor whether the Program adheres to these Guidelines, and in particular achieves the performance and risk objectives stated below.

c. Performance Objectives

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

d. Risk Objective

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

e. Other Constraints and Considerations

- Manager shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Manager shall act solely in the interest of the Fund’s constituents.
- Implementation of this Program shall comply with the Fund’s Policy.

**2. Investment Guidelines**

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**APPENDICES TO INVESTMENT POLICY STATEMENTS**

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

The portfolio 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 Manager may **not**

- Purchase securities of tobacco related companies, as per the Policy, section 5b.
- Invest in mutual funds or group trusts unless specifically allowed in their guidelines
- Buy securities on margin, except for futures or swaps, against which are held a risk equivalent amount of cash or liquid securities
- 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
- Employ leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy
- Purchase or sell foreign exchange contracts

**c. Diversification and Concentration**

Based on the investment strategy described above (section 1.b.) it is expected that there will be no material differences in security allocations or other portfolio characteristics between the Program and the benchmark.

**d. Managing Cash Flows**

Manager 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**

**a. Policy and Guideline Review**

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

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

**4. Reporting**

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**APPENDICES TO INVESTMENT POLICY STATEMENTS**

On a quarterly basis, the Treasurer shall provide the following reports to the Committee:

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

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

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

**5. Definitions: See Appendix 8**

**UNIVERSITY OF CALIFORNIA**  
**APPENDICES TO INVESTMENT POLICY STATEMENTS**

**APPENDIX 7G**

This Version: February 14, 2006

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**NON DOLLAR DENOMINATED FIXED INCOME**  
**INVESTMENT GUIDELINES**

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The purpose for these performance objectives (“Objectives”) and management guidelines (“Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the Non Dollar Denominated Fixed Income allocation of the Fund (“the Program”). These Objectives and 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 Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Program is to generate a rate of return from investments in Non-US dollar denominated bonds which exceeds the return on the Non Dollar denominated global fixed income market, as measured by the Citigroup World Government Bond–ex U.S Index. (“Benchmark”), while maintaining risk similar to that of the Benchmark. The Benchmark shall be unhedged (see part (e) below).

**b. Investment Strategy**

The Program shall be implemented by a combination of the Treasurer’s internal fixed income staff and multiple external investment managers (internal and external strategies will be collectively referred to as “Managers”). Each Manager’s strategy will focus on a subset of the Non US dollar denominated fixed income market in which the Manager is believed to have a competitive advantage in providing returns in excess of its respective benchmark on a risk adjusted basis. The Treasurer will monitor whether the aggregate of all Non US dollar denominated fixed income portfolios adheres to these Guidelines, and in particular achieves the overall performance and risk objectives stated below. In addition, each Manager shall have written guidelines, which will detail its strategy, performance objectives, permitted investments, and restrictions. The Treasurer will monitor each Manager’s adherence to its respective guidelines. In no case may a Manager’s guidelines conflict with the Guidelines for the Program.

**c. Performance Objectives**

The performance objective of the Program is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees. Each Manager will have a unique objective, (benchmark), which is appropriate to its individual strategy, and specified in its guidelines.

**d. Risk Objective**

The Program shall be managed so that its annualized tracking error budget shall be 200 basis points. Each Manager will have a unique active risk budget, relative to its specific

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**APPENDICES TO INVESTMENT POLICY STATEMENTS**

benchmark, which is appropriate to its individual strategy, and specified in its guidelines, and which will reflect the risk-return profile of its specific investment objectives.

**e. Currency Risk**

The Committee accepts that as a US dollar denominated investor, investing in Non US dollar denominated bonds implicitly involves currency risk. The Committee accepts this additional risk or volatility as part of the asset class and has adopted an “unhedged” performance benchmark. An unhedged benchmark is a benchmark in which the underlying securities’ returns are translated from their local currency back to US dollars at each measurement date.

However, this general policy toward currency risk shall not prevent individual Managers from fully or partially hedging or otherwise actively managing the currency risk in their portfolios (subject to their individual guidelines). Nor shall it prevent the Treasurer from employing currency overlay managers to manage the currency risk of the aggregate portfolio.

The contribution to active risk resulting from the aggregate of active currency management, whether by Managers or by the Treasurer’s overlay managers, shall be included in the total tracking error and be subject to limitations above and to the Retirement Fund’s overall risk budget as described in Appendix 2.

**f. Other Constraints and Considerations**

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Managers shall act solely in the interest of the Fund’s constituents.
- Implementation of this Program shall comply with the Fund’s Policy.

**2. Investment Guidelines**

**a. Asset Allocation**

The portfolio will be invested primarily in marketable, publicly traded, investment grade fixed income instruments, notes and debentures issued by developed market countries other than the U.S. and denominated in currencies other than U.S. dollars.

Nothing in these guidelines shall be construed to restrict the use of diversified global fixed income strategies (consisting of bonds denominated in both US and Non-US currencies). The Treasurer shall ensure that such strategies are consistent with both these guidelines and the guidelines of the other fixed income Programs, and may develop separate guidelines for such strategies to ensure that performance and risk objectives for all fixed income classes are met.

**b. Types of Securities**

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

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

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**APPENDICES TO INVESTMENT POLICY STATEMENTS**

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

1. Fixed income instruments
  - a. Obligations of foreign governments (or their subdivisions or agencies), international agencies, and supranational entities
  - b. Obligations of U.S. and foreign corporations such as corporate bonds, convertible and non-convertible notes and debentures, preferred stocks, and bank loans
  - c. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. government-sponsored corporations and agencies
2. Short term fixed income instruments
  - a. US dollar and foreign currencies
  - b. Short term obligations of US and foreign governments
  - c. Repurchase and reverse repurchase agreements (must be fully collateralized with approved collateral, using approved counterparties only)
  - d. Eurodollar CD's and Eurodollar floating rate notes
  - e. Money market funds managed by the Custodian
  - f. Short Term Investment Pool (STIP), managed by the Treasurer
3. Currency and Fixed income derivatives
  - a. Government bond and other bond index futures
  - b. Interest rate options, swaps, and swaptions
  - c. Single name or basket Credit default swaps (CDS)
  - d. Foreign currency forward contracts and options
  - e. Total rate of return swaps

c. Restrictions

The Managers may **not**

- Purchase securities of tobacco related companies, as per the Policy, section 5b..
- Purchase currencies (or bonds denominated in currencies) not freely convertible to US dollars
- Invest in mutual funds or group trusts unless specifically allowed in their guidelines
- Buy securities on margin, except for futures or swaps, against which are held a risk equivalent amount of cash or liquid securities
- 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
- Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy

d. Diversification and Concentration

The Program's investments will be appropriately diversified to control overall risk. The Program'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**

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- 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 Program'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)
  - The Program'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 sovereign entities included in the benchmark, no more than 3% of the Program's market value may be invested in any single issuer.
- **Liquidity risk**
  - The Program'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.
- **Foreign exchange risk**
  - No more than 20% of the Program market value can be invested in securities denominated in currencies other than currencies included in the Benchmark
  - No more than 20% of the Program's net foreign exchange exposure (inclusive of currency overlay managers) can be in currencies not included in the Benchmark
- **Asset allocation risk**
  - The Program's investments in aggregate may overweight or underweight currencies so that each currency contribution to portfolio risk is within +/- 20 percentage points of the corresponding Benchmark currency contribution to portfolio risk for Euro and Yen denominated bonds, and is within +/- 10 percentage points of the corresponding Benchmark currency contribution to portfolio risk for all other currency denominated bonds, including US Dollar. That is, if Euro denominated bonds contribute 50% of total Benchmark risk, then the Program's Euro bonds contribution to portfolio risk should be between 30% and 70%.
- Notwithstanding the overall diversification of the Program, the Treasurer may set limits on any individual Manager's tracking error and/or contribution to active risk of the Program.

It is expected that each Manager's portfolio be appropriately diversified, within limits established in its guidelines and relative to its performance objectives, to control risk, but without unduly restricting the Manager's ability to out-perform its benchmark. That is, the Managers' portfolios may be more concentrated than is appropriate for the Program's aggregate investments.

e. Managers shall employ best execution. Transactions shall be directed to brokers/dealers designated by the Treasurer at the Manager's discretion when best execution is available.

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**f. Managing Cash Flows**

Managers 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**

**a. Policy and Guideline Review**

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

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

**4. Reporting**

On a quarterly basis, the Treasurer shall provide the following reports to the Committee:

a. A performance attribution explaining differences in country and currency weights and returns, between the aggregate Program investments and the Benchmark, and an explanation of any material differences.

b. A forecast risk report, using the Treasurer's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the aggregate portfolio, the Benchmark, and the active Program relative to the Benchmark, and an explanation of any material differences.

c. A summary of individual Manager performance, on an absolute and benchmark relative basis.

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

a. A monthly performance statement for the portfolio (gross and net) and the benchmark, and also provide the gross performance for the product Composite at least quarterly

b. If available, a monthly or quarterly forecast risk report, using the Manager's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the portfolio relative to the benchmark

c. A monthly or quarterly variance analysis, indicating sources of performance variances (difference between portfolio and benchmark return), and an explanation of any material differences.

d. A quarterly review of portfolio and strategy performance including a market outlook

e. An annual statement of compliance with investment guidelines

**5. Definitions: See Appendix 8**

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**APPENDICES TO INVESTMENT POLICY STATEMENTS**

**APPENDIX 7H**

This Version: February 14, 2006

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**HIGH YIELD DEBT**  
**INVESTMENT GUIDELINES**

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The purpose for these performance objectives (“Objectives”) and management guidelines (“Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the High Yield Debt allocation of the Fund (“the Program”). These Objectives and 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 Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Program is to generate a rate of return from investments in high yield US dollar denominated debt which exceeds the return of the non-investment grade fixed income market, as measured by the Merrill Lynch High Yield Cash Pay Index (“Benchmark”), while maintaining risk similar to that of the Benchmark..

**b. Investment Strategy**

The Program shall be implemented by a combination of the Treasurer’s internal fixed income staff and multiple external investment managers (internal and external strategies will be collectively referred to as “Managers”). Each Manager’s strategy will focus on a subset of the high yield debt market in which the Manager is believed to have a competitive advantage in providing returns in excess of its respective benchmark on a risk adjusted basis. The Treasurer will monitor whether the aggregate of all high yield debt portfolios adheres to these Guidelines, and in particular achieves the overall performance and risk objectives stated below. In addition, each Manager shall have written guidelines, which will detail its strategy, performance objectives, permitted investments, and restrictions. The Treasurer will monitor each Manager’s adherence to its respective guidelines. In no case may a Manager’s guidelines conflict with the Guidelines for the Program.

**c. Performance Objectives**

The performance objective of the Program is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees. Each Manager will have a unique objective, (benchmark), which is appropriate to its individual strategy, and specified in its guidelines.

**d. Risk Objective**

The Program shall be managed so that its annualized tracking error budget shall be 350 basis points. Each Manager will have a unique active risk budget, relative to its specific benchmark, which is appropriate to its individual strategy, and specified in its guidelines, and which will reflect the risk-return profile of its specific investment objectives.

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e. Other Constraints and Considerations

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Managers shall act solely in the interest of the Fund’s constituents.
- Implementation of this Program shall comply with the Fund’s Policy.

**2. Investment Guidelines**

a. Asset Allocation

The portfolio will be invested primarily in marketable, publicly traded, non-investment grade debt instruments, notes and debentures denominated in U.S. dollars.

b. Types of Securities

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

The following list is indicative of the securities which are appropriate for the Program, given its Benchmark and risk budget. It should not be construed to be an exhaustive list of “allowable” investment securities. Security types and/or strategies not specifically enumerated, but which the Treasurer and Regents’ Investment Consultant believe are appropriate and consistent with the Investment Policy 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.

1. Fixed income instruments

- a. Obligations of U.S. and foreign corporations such as corporate bonds, convertible and non-convertible notes and debentures, preferred stocks, and bank loans
- a. Obligations of international agencies, supranational entities, and foreign governments (or their subdivisions or agencies).
- b. Obligations issued or guaranteed by U.S. local, city and state governments and agencies
- c. Private Placements or Rule 144A securities, issued with or without registration rights

2. Short term fixed income instruments

- a. US Treasury and Agency bills and notes
- b. Repurchase and reverse repurchase agreements (must be fully collateralized with approved collateral, using approved counterparties only)
- c. Money market funds managed by the Custodian
- d. Short Term Investment Pool (STIP), managed by the Treasurer

3. 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. Total rate of return swaps

c. Restrictions

The Managers may **not**

**UNIVERSITY OF CALIFORNIA**  
**APPENDICES TO INVESTMENT POLICY STATEMENTS**

- Purchase securities of tobacco related companies, as per the Policy, section 5b.
- Invest in mutual funds or group trusts unless specifically allowed in their guidelines
- 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
- 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
- Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy
- Purchase or sell foreign exchange contracts for any purpose other than hedging their portfolio exposures

**d. Diversification and Concentration**

The Program’s investments will be appropriately diversified to control overall risk. The Program’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 spread 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 Program’s investments, measured by market value, should be rated “in default”, i.e. rated lower than the following standards or their equivalent by all major NRSRO’s
    - Standard & Poor’s and Fitch (C)
    - Moody’s (C)
  - The Program’s investments should exhibit an average credit quality of B (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 5% of the Program’s market value may be invested in any single issuer.
- **Liquidity risk**
  - No more than 20% of the Program’s market value may be invested in Private Placements or Rule 144A securities
  - The Program’s investments in aggregate of any marketable security may not exceed 20% of that security’s outstanding par value, without a written exception approved by the Treasurer.
- **Foreign exchange risk**
  - No more than 10% of the Program market value can be invested in securities denominated in currencies other than US dollar

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- Notwithstanding the overall diversification of the Program, the Treasurer may set limits on any individual Manager's tracking error and/or contribution to active risk of the Program.

It is expected that each Manager's portfolio be appropriately diversified, within limits established in its guidelines and relative to its performance objectives, to control risk, but without unduly restricting the Manager's ability to out-perform its benchmark. That is, the Managers' portfolios may be more concentrated than is appropriate for the Program's aggregate investments.

e. Managers shall employ best execution. Transactions shall be directed to brokers/dealers designated by the Treasurer at the Manager's discretion when best execution is available.

f. Managing Cash Flows

Managers may use derivatives 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**

a. Policy and Guideline Review

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

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

**4. Reporting**

On a quarterly basis, the Treasurer shall provide the following reports to the Committee:

- a. A performance attribution explaining differences in sector and quality weights and returns, between the aggregate Program investments and the Benchmark, and an explanation of any material differences.
- b. A forecast risk report, using the Treasurer's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the aggregate portfolio, the Benchmark, and the active Program relative to the Benchmark, and an explanation of any material differences.
- c. A summary of individual Manager performance, on an absolute and benchmark relative basis.

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

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- a. A monthly performance statement for the portfolio (gross and net) and the benchmark, and also provide the gross performance for the product Composite at least quarterly
- b. If available, a monthly or quarterly forecast risk report, using the Manager's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the portfolio relative to the benchmark
- c. A monthly or quarterly variance analysis, indicating sources of performance variances (difference between portfolio and benchmark return), and an explanation of any material differences.
- d. A quarterly review of portfolio and strategy performance including a market outlook
- e. An annual statement of compliance with investment guidelines

**5. Definitions: See Appendix 8**

**UNIVERSITY OF CALIFORNIA**  
**APPENDICES TO INVESTMENT POLICY STATEMENTS**

**APPENDIX 7I**

This Version: February 14, 2006

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**EMERGING MARKET DEBT**  
**INVESTMENT GUIDELINES**

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The purpose for these performance objectives (“Objectives”) and management guidelines (“Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the Emerging Market Debt allocation of the Fund (“the Program”). These Objectives and 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 Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Program is to generate a rate of return from investments in US dollar denominated debt of issuers in emerging market countries which exceeds the return on the J.P. Morgan Emerging Market Bond “Plus” Index (“Benchmark”), while maintaining risk similar to that of the Benchmark..

**b. Investment Strategy**

The Program shall be implemented by a combination of the Treasurer’s internal fixed income staff, and multiple external investment managers (internal and external strategies will be collectively referred to as “Managers”). Each Manager’s strategy will focus on a subset of the emerging market debt universe in which the Manager is believed to have a competitive advantage in providing returns in excess of its respective benchmark on a risk adjusted basis. The Treasurer will monitor whether the aggregate of all emerging market debt portfolios adheres to these Guidelines, and in particular achieves the overall performance and risk objectives stated below. In addition, each Manager shall have written guidelines, which will detail its strategy, performance objectives, permitted investments, and restrictions. The Treasurer will monitor each Manager’s adherence to its respective guidelines. In no case may a Manager’s guidelines conflict with the Guidelines for the Program.

**c. Performance Objectives**

The performance objective of the Program is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees. Each Manager will have a unique objective, (benchmark), which is appropriate to its individual strategy, and specified in its guidelines.

**d. Risk Objective**

The Program shall be managed so that its annualized tracking error budget shall be 400 basis points. Each Manager will have a unique active risk budget, relative to its specific benchmark, which is appropriate to its individual strategy, and specified in its guidelines, and which will reflect the risk-return profile of its specific investment objectives.

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e. Other Constraints and Considerations

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Managers shall act solely in the interest of the Fund's constituents.
- Implementation of this Program shall comply with the Fund's Policy.

**2. Investment Guidelines**

a. Asset Allocation

The portfolio will be invested primarily in marketable, publicly traded, fixed income instruments, notes and debentures issued by emerging market sovereign or corporate issuers, denominated in U.S. dollars.

b. Types of Securities

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

The following list is indicative of the securities which are appropriate for the Program, given its Benchmark and risk budget. It should not be construed to be an exhaustive list of "allowable" investment securities. Security types and/or strategies not specifically enumerated, but which the Treasurer and Regents' Investment Consultant believe are appropriate and consistent with the Investment Policy 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.

1. Fixed income instruments
  - a. Obligations of foreign governments (or their subdivisions or agencies), international agencies, and supranational entities.
  - b. Obligations of foreign corporations such as corporate bonds, convertible and non-convertible notes and debentures, preferred stocks, and bank loans
  - c. Private Placements or Rule 144A securities, issued with or without registration rights
2. Short term fixed income instruments
  - a. US Treasury and Agency bills and notes
  - b. Repurchase and reverse repurchase agreements (must be fully collateralized with approved collateral, using approved counterparties only)
  - c. Eurodollar CD's, TD's, and commercial paper
  - d. US and Eurodollar floating rate notes
  - e. Money market funds managed by the Custodian
  - f. Short Term Investment Pool (STIP), managed by the Treasurer
3. 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. Foreign currency forward contracts and options
  - e. Total rate of return swaps

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c. Restrictions

The Managers may **not**:

- Purchase securities of tobacco related companies, as per the Policy, section 5b.
- Invest in mutual funds or group trusts unless specifically allowed in their guidelines
- 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
- 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
- Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy
- Purchase or sell foreign exchange contracts for any purpose other than hedging their portfolio exposures

d. Diversification and Concentration

The Program’s investments will be appropriately diversified to control overall risk. The Program’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 20% of the Program’s investments, measured by market value, should be rated “B+” (or equivalent) or below by all major NRSRO’s
    - Standard & Poor’s and Fitch (B+)
    - Moody’s (B1)
  - The Program’s investments should exhibit an average credit quality of BB (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 sovereign entities included in the Benchmark, no more than 5% of the Program’s market value may be invested in any single issuer, without a written exception approved by the Treasurer.
- **Liquidity risk**
  - No more than 20% of the Program’s market value may be invested in Private Placements or Rule 144A securities
  - The Program’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.
- **Foreign exchange risk**
  - No more than 20% of the Program market value can be invested in securities denominated in currencies other than US dollar

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- No more than 10% of the Program market value can be held in securities denominated in currencies not freely convertible to the US dollar
- **Asset allocation risk**
  - The Program's investments in aggregate may overweight or underweight issuer countries so that the country contribution to portfolio risk is within +/- 20 percentage points of the corresponding Benchmark country contribution to portfolio risk. That is, if Brazilian bonds contribute 20% of total Benchmark risk, then the Program's Brazilian bonds contribution to portfolio risk should be between 0% and 40%.
- Notwithstanding the overall diversification of the Program, the Treasurer may set limits on any individual Manager's tracking error and/or contribution to active risk of the Program.

It is expected that each Manager's portfolio be appropriately diversified, within limits established in its guidelines and relative to its performance objectives, to control risk, but without unduly restricting the Manager's ability to out-perform its benchmark. That is, the Managers' portfolios may be more concentrated than is appropriate for the Program's aggregate investments.

e. Managers shall employ best execution. Transactions shall be directed to brokers/dealers designated by the Treasurer at the Manager's discretion when best execution is available.

f. Managing Cash Flows

Managers 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**

a. Policy and Guideline Review

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

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

**4. Reporting**

On a quarterly basis, the Treasurer shall provide the following reports to the Committee:

a. A performance attribution explaining differences in country weights and returns, between the aggregate Program investments and the Benchmark, and an explanation of any material differences.

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- b. A forecast risk report, using the Treasurer's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the aggregate portfolio, the Benchmark, and the active Program relative to the Benchmark, and an explanation of any material differences.
- c. A summary of individual Manager performance, on an absolute and benchmark relative basis.

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

- a. A monthly performance statement for the portfolio (gross and net) and the benchmark, and also provide the gross performance for the product Composite at least quarterly
- b. If available, a monthly or quarterly forecast risk report, using the Manager's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the portfolio relative to the benchmark
- c. A monthly or quarterly variance analysis, indicating sources of performance variances (difference between portfolio and benchmark return), and an explanation of any material differences.
- d. A quarterly review of portfolio and strategy performance including a market outlook
- e. An annual statement of compliance with investment guidelines

**5. Definitions: See Appendix 8**

**UNIVERSITY OF CALIFORNIA  
APPENDICES TO INVESTMENT POLICY STATEMENTS**

**APPENDIX 7J**

Last approved: August 16, 2005

This Version: February 14, 2006

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**SHORT TERM INVESTMENT POOL (STIP)  
INVESTMENT GUIDELINES**

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The purpose for these performance objectives (“Objectives”) and management guidelines (Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the University’s Short Term Investment Pool, or STIP (“Program”). These Objectives and 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 Guidelines shall be revised.

**1. Investment Policy**

**a. Background:**

The STIP is a cash investment pool established by The Regents and is available to all University groups, including retirement and endowment funds. The STIP allows fund participants to maximize income on their short-term cash balances by taking advantage of the economies of scale of investing in a larger pool and investing in a broader range of maturities.

**b. Investment Objective**

The Objective of the Program is to maximize returns consistent with safety of principal, liquidity, and cash flow requirements. The primary investment objective is to generate an income from investments in short duration US dollar denominated bonds which exceeds the income return on a constant maturity two (2) year Treasury note (“Benchmark”).

**c. Investment Strategy**

The Program shall be implemented by the Treasurer internal fixed income staff (“Manager”). The Treasurer will monitor the Program’s adherence to these Guidelines.

**d. Performance Objectives**

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

**e. Risk Objective**

The Program shall be managed so that its annualized tracking error budget shall be 75 basis points. Each Manager will have a unique active risk budget, relative to its style benchmark, which is appropriate to its individual strategy, and specified in its guidelines, and which will reflect the risk-return profile of its specific investment objectives.

**f. Other Constraints and Considerations**

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.

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**APPENDICES TO INVESTMENT POLICY STATEMENTS**

- Manager shall act solely in the interest of the Fund's owners.
- Implementation of this Program shall comply with the Fund's Policy.

**2. Investment Guidelines**

a. Asset Allocation

The portfolio will be invested primarily in marketable, publicly traded, investment grade short term fixed income instruments, notes and debentures denominated in U.S. dollars.

b. Types of Securities

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

The following list is indicative of the investment classes which are appropriate for the Program, 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 and Regents' Investment Consultant believe are appropriate and consistent with the Investment Policy 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.

1. Fixed income instruments

- a. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. government-sponsored corporations and agencies
- b. Obligations of U.S. and foreign corporations such as corporate bonds, notes and debentures, and bank loans
- c. Mortgage-backed and asset-backed securities
- d. Obligations of international agencies, supranational entities, and foreign governments (or their subdivisions or agencies)
- e. Obligations issued or guaranteed by U.S. local, city and state governments and agencies
- f. Private Placements or Rule 144A securities, issued with or without registration rights

2. Short term fixed income instruments (having maturity of less than 13 months)

- 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

c. Restrictions

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

- Interest rate derivative contracts, including options and futures
- Equity like securities, including but not limited to convertible bonds, preferred stocks, warrants, equity linked notes, and commodities

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- Bonds issued in currencies other than US Dollar
- Foreign currency linked notes

The Manager may **not**:

- Purchase securities of tobacco related companies, as per the Policy, section 5b.
- Invest in mutual funds or group trusts unless specifically allowed in its guidelines
- 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
- Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy
- Purchase or sell foreign exchange contracts

d. Diversification and Concentration

The Program’s investments will be appropriately diversified to control overall risk. The following limitations apply in order to manage risk within acceptable ranges:

- **Interest rate risk**
  - No security may have a maturity of more than 5 ½ years
- **Credit risk**
  - No more than 5% of the Program’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 Program’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
  - No more than 5% of the Program’s allocation to commercial paper may be invested in any single issuer.
  - Except for securities issued by the US Treasury or Agencies of the US Government, no more than 3% of the Program’s market value (exclusive of commercial paper) may be invested in any single issuer.
- **Liquidity risk**
  - No more than 10% of the Program’s market value may be invested in Private Placements or Rule 144A securities
  - The Programs’ 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.

Subject to the limitations above, the investment manager has complete discretion with regard to choosing sector weights, issuers, and maturities.

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e. Managers shall employ best execution. Transactions shall be directed to brokers/dealers designated by the Treasurer at the Manager's discretion when best execution is available.

**3. Evaluation and Review**

a. Policy and Guideline Review

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

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

**4. Reporting**

On a quarterly basis, the Treasurer shall provide the following reports to the Committee:

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

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

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

**5. Definitions: See Appendix 8**

**UNIVERSITY OF CALIFORNIA  
APPENDICES TO INVESTMENT POLICY STATEMENTS**

**APPENDIX 7K**

Effective: May 17, 2007

Replaces Version: August 16, 2005

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**PRIVATE EQUITY  
INVESTMENT GUIDELINES**

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The purpose for portfolio guidelines is to clearly define performance objectives and to control risk. Portfolio guidelines to control risk should be subject to ongoing review.

***Performance Objectives:***

The objective of the private equity portfolio is to earn a return, after adjusting for risk, that exceeds the Russell 3000 Index return on a consistent basis over time.

***Portfolio Guidelines:***

1. Permissible investments include partnerships that invest in U.S. venture capital, U.S. buyouts, and non-U.S. private equity.
2. Co-investment and direct investments are not permitted at this time.
3. Fund-of-funds partnerships are permitted, and the commitment to any individual fund-of-funds partnership is recommended not to exceed 35 percent of the total capital raised by the partnership. The maximum of 35 percent represents the ownership percentage of the partnership at each closing.
4. The policy allocation to U.S. buyouts is 45 percent of the private equity portfolio with a minimum allocation of 30 percent and maximum allocation of 70 percent. U.S. buyouts are broadly defined as leveraged buyouts, growth capital buyouts, special situations, restructuring, and mezzanine funds. Real estate funds are not included.
5. The policy allocation to U.S. venture capital is 45 percent of the private equity portfolio with a minimum allocation of 30 percent and maximum allocation of 70 percent. U.S. venture capital includes early, middle, and late stage private investments in new high growth businesses.
6. The policy allocation to non-U.S. private equity is 10 percent of the private equity portfolio with a minimum allocation of 0 percent and maximum allocation of 20 percent. Non-U.S. private equity includes private equity and venture capital partnerships operating in Europe, Asia, and Latin America.
7. No single partnership commitment can represent, at the time of commitment, more than 5 percent of the current private equity allocation defined as the most recent quarter book value plus unfunded commitments plus approved target commitment for the current (one) year.
8. Investment in multiple funds of the same general partner is permitted. However, the total commitment to partnerships with the same general partner, at the time of commitment, can not exceed 15 percent of the approved three year private equity allocation defined as current book

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**APPENDICES TO INVESTMENT POLICY STATEMENTS**

value plus unfunded commitments plus approved commitment level for the current year and two subsequent years.

9. The commitment to any individual partnership is recommended not to exceed 20 percent of the total capital raised by the partnership. The maximum of 20 percent represents the ownership percentage of the partnership at each closing. Notwithstanding these limitations, commitments to any fund-of-funds partnership are recommended not to exceed 35 percent of the total capital raised by the partnership.

10. The private equity portfolio should be diversified across time as well. At the time the budget is set, no more than 30 percent of the approved private equity asset target allocation can be committed to partnerships in any one year.

**UNIVERSITY OF CALIFORNIA  
APPENDICES TO INVESTMENT POLICY STATEMENTS**

**APPENDIX 7L**

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**REAL ESTATE  
INVESTMENT GUIDELINES**

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The purpose of the real estate investment guidelines is to define the investment objectives, philosophy, and specific guidelines for making investments and the benchmarks to measure performance.

These guidelines are applicable to the entire real estate program (“Program”) consisting of investments made on behalf of the UCRP and GEP funds. The allocation of investments between the two funds will be managed by the Treasurer in accordance with the performance and risk objectives of those funds.

Allocations and ranges for the four principal strategies are shown below.

<b>Strategic Allocations</b>		
<b>Strategy</b>	<b>Allocation</b>	<b>Range</b>
REITS	10%	5%-20%
Core Real Estate	25%	15%-60%
Enhanced Strategies	40%	20%-50%
High Return Strategies	25%	10%-30%
Total	100%	

Core Real Estate, Enhanced Strategies, and High Return Strategies are combined below under the heading “Private Real Estate”. Enhanced and High Return strategies together are referred to as “Non-Core.” REITS are referred to in the section “Public Real Estate Securities (Appendix 7L-2).” The term “Program” will be interpreted in the context of private or public real estate.

**Investment Guidelines – Private**

1. When the Program is fully invested and mature, the benchmark for evaluating the Program’s investment performance will be the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index. The Program return is expected to meet or exceed this benchmark, on a consistent basis over time, after deducting all costs and expenses. During an implementation period of three to five years from the effective date, the investment performance of the Core portion of the Program will be compared to the NCREIF Property Index. During this same period, the investment performance of the non-Core portion, including the separate accounts, is correctly measured as an internal rate of return (IRR), and will be compared to an appropriate universe of similar strategies (rather than to a time-weighted index) by the Real Estate consultant.

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APPENDICES TO INVESTMENT POLICY STATEMENTS**

2. Investments shall be in limited liability investment vehicles such as limited partnerships, limited liability corporations, private REITs and other pooled investment funds. Direct investments through discretionary separate accounts may be made through title holding corporations.
3. Investments shall be primarily equity-oriented, but may also include debt instruments secured by real estate with equity-like returns.
4. Specific property types in the Program shall be within the following ranges:

<b>Property Diversification Guidelines</b>	
<b>Property Type</b>	<b>Range</b>
Office	20%-50%
Apartments	15%-35%
Industrial	15%-35%
Retail	10%-30%
Other	Up to 20%

5. Investments in the U.S. shall be diversified by geographic location with no one metropolitan area exceeding 20% of the portfolio.
6. Investments outside the U.S. may not represent more than 20% of the private real estate portfolio and must be diversified by type and geographic location.
7. The Program's investment in any one fund shall not exceed 20% of the total capital being raised for that investment.
8. No more than 15% of the Program's assets shall be invested with a single core manager and no more than 10% of the program's assets shall be invested with a single non-core (Enhanced or High Return) manager.
9. The Program's outstanding investment(s) with any given sponsor, or related sponsors, may not exceed 20% of that sponsor, or related sponsors', total real estate equity under management.
10. In order to properly align the interest of the investor and the sponsor, the sponsor of a closed-end fund investment will be required to make a co-investment of at least 1%.
11. Leverage at the Program level shall not exceed 65% of the market value of the assets. All leverage shall be non-recourse to the Regents.
12. The acquisition price of any single property or collective investment vehicle (portfolio of properties) shall not exceed 5% of the total Program dollar allocation (i.e., the target value of assets when the Program is fully invested). The Treasurer may approve the acquisition of properties greater than 5% but less than 10% of the total Program allocation.

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Note: Compliance with some of these guidelines will not be required until a sufficient number of investments have been made. The Treasurer will keep the Committee periodically informed as to the status of its compliance with these guidelines.

**UNIVERSITY OF CALIFORNIA  
APPENDICES TO INVESTMENT POLICY STATEMENTS**

**APPENDIX 7L-2**

Effective: May 17, 2007

Replaces version: new

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**PUBLIC REAL ESTATE SECURITIES  
INVESTMENT GUIDELINES**

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The purpose for these performance objectives (“Objectives”) and management guidelines (“Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the Public Real Estate Securities allocation of the Fund (“the Program”). These Objectives and 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 Guidelines shall be revised.

**1. Investment Policy**

**a. Investment Objective**

The primary investment objective of the Program is to generate a rate of return from investments in public real estate securities which exceeds the return on the global real estate securities market, measured by 50% times the FTSE EPRA NAREIT US Index return plus 50% times the FTSE EPRA NAREIT Global ex-US Index return (“Benchmark”), while maintaining risk similar to that of the Benchmark.

**b. Investment Strategy**

The Program shall be implemented by hiring multiple external investment managers (“Managers”). Each Manager’s strategy will focus on a subset of the global real estate securities market in which the Manager is believed to have a competitive advantage in providing returns in excess of its respective benchmark on a risk adjusted basis. The Treasurer will monitor whether the aggregate of all externally managed portfolios adheres to these Guidelines, and in particular achieves the overall performance and risk objectives stated below. In addition, each Manager shall have written guidelines, which will detail its strategy, performance objectives, permitted investments, and restrictions. The Treasurer will monitor each Manager’s adherence to its respective guidelines. In no case may a Manager’s guidelines create potential conflict with the Guidelines for the Program.

**c. Performance Objective**

Each Manager will have a unique objective, or style benchmark, which is appropriate to its individual strategy, and specified in its guidelines. The benchmark for evaluating investment performance for REIT managers (US only mandate) is the FTSE EPRA NAREIT US Index. The benchmark for non-US REIT managers is the FTSE EPRA NAREIT Global ex-US Index. The benchmark for global REIT managers (combined US and non-US mandate) is the FTSE EPRA NAREIT Global Index. The Program return is expected to meet or exceed a weighted aggregate of these benchmarks, on a consistent basis over time, after deducting all costs and expenses.

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**d. Risk Objective**

The Program shall be managed so that its annualized tracking error budget shall be 450 basis points. Each Manager will have a unique active risk budget, relative to its style benchmark, which is appropriate to its individual strategy, and specified in its guidelines, and which will reflect the risk-return profile of its specific investment objectives.

**e. Other Constraints and Considerations**

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Managers shall act solely in the interest of the Fund's constituents.
- Implementation of this Program shall comply with the Fund's Policy.

**2. Investment Guidelines**

**a. Asset Allocation**

It is expected that the Program will be fully invested in equity and equity-related securities at all times. Any cash held by Managers of separate accounts for the purpose of facilitating cash flows or portfolio transactions will be swept daily by the custodian. The Treasurer or designated overlay manager may equitize this cash using appropriate derivatives contracts.

**b. Types of Securities**

The Program will be invested in diversified portfolios of real estate securities that are listed on national securities exchanges. Managers may also invest in stocks that are traded over-the-counter and in other real estate-related securities and private placements as limited in their guidelines. A real estate-related company is one in which the predominant share of EBITDA is derived from rental income and/or the equity ownership of real estate.

**c. Restrictions**

The Managers may **not**

- Purchase securities of tobacco related companies, as per the Policy, section 5b.
- Lend securities
- Purchase commodities or commodity derivatives
- Purchase fixed income securities except for cash equivalents used for facilitating transactions
- Buy party-in-interest securities
- Buy securities restricted as to sale or transfer, except for 144A securities, which are permitted
- Buy or write equity linked notes
- Employ economic leverage in the portfolio through borrowing or derivatives

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**d. Diversification and Concentration**

The Program's investments will be appropriately diversified to control overall risk and will exhibit portfolio risk characteristics similar to those of the Benchmark. The Treasurer is responsible for managing aggregate risk exposures. The following limitations apply:

- The Program's beta with respect to the Benchmark will not be significantly different from 1.0, as measured over the most recent 12 month period.
- Notwithstanding the overall diversification of the Program, the Treasurer may set limits on any individual Manager's tracking error and/or contribution to active risk of the Program.
- The aggregate holdings within separate accounts of any security may not exceed 4.9% of that security's outstanding shares.

It is expected that each Manager's portfolio will be appropriately diversified, within limits established in its guidelines and relative to its performance objectives, to control risk, but without unduly restricting a Manager's ability to out-perform its benchmark. That is, an individual Manager's portfolio may be more concentrated than is appropriate for the Program's aggregate investments.

e. Managers shall employ best execution. Transactions may be directed to brokers/dealers designated by the Treasurer at the Manager's discretion when best execution is available.

**f. 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.

**3. Evaluation and Review**

**a. Policy and Guideline Review**

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

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

**4. Reporting**

On a quarterly basis, the Treasurer shall provide the following reports to the Committee:

- d. A performance attribution explaining differences in sector weights and returns (property type and/or geographical sectors, as appropriate), between the aggregate Program investments and the Benchmark, and an explanation of any material differences.
- e. A forecast risk report, using the Treasurer's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the aggregate portfolio, the

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Benchmark, and the active Program relative to the Benchmark, and an explanation of any material differences.

- f. A summary of individual manager performance, on an absolute and benchmark relative basis.

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

- a. A monthly performance statement for the portfolio (gross and net) and the benchmark, and provide the gross performance for the product Composite at least quarterly.
- b. If available, a monthly or quarterly forecast risk report, using the Manager's risk system, showing the total, systematic ("common factor"), and non-systematic ("residual") risk of the portfolio relative to the benchmark.
- c. A monthly or quarterly variance analysis, indicating sources of performance variances (difference between portfolio and benchmark return), and an explanation of any material differences.
- d. A quarterly review of portfolio and strategy performance including a market outlook.
- e. An annual statement of compliance with investment guidelines.

**5. Definitions: See Appendix 8**

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**APPENDIX 7M**

Effective: May 16, 2007

Replaces version approved September 21, 2006

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**ABSOLUTE RETURN (AR) STRATEGIES  
INVESTMENT GUIDELINES**

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The purpose of portfolio guidelines is to clearly define performance objectives, state the investment approach, and to control risk. Portfolio guidelines should be subject to ongoing review. A change in the allocation to the strategy or the Investment Committee's risk tolerance can be among the reasons for a guideline review.

*Performance Objective:*

The objective of the absolute return strategy (AR) portfolio is to earn an annualized return that exceeds the annualized rate of return of the one-month US Treasury bill by 4.5%. The AR portfolio should also provide diversification benefits to the overall portfolio by offering returns that have low correlation to the performance of other asset classes.

*Portfolio Guidelines*

1. Permissible investments include funds that invest primarily in Long/Short strategies (including U.S., dedicated Non-U.S., short bias, and global equities), Relative Value strategies (including equity market neutral, convertible bond arbitrage, and fixed income), Event Driven strategies (including distressed securities, special situations, capital structure arbitrage, relative value credit, and risk arbitrage strategies), and Opportunistic strategies (including macro and emerging markets).
2. Investments may be made in funds that manage single or multiple strategies.
3. Fund-of-funds investments are permitted.
4. Policy allocations and ranges for the strategies are:

	<u><b>Policy</b></u>	<u><b>Range</b></u>
Long/Short Equity	35%	30-70%
Event Driven	30%	20-50%
Relative Value	30%	10-40%
Opportunistic	5%	0-20%

5. No investment with any single manager can represent more than 10% of the AR portfolio.
6. No investment with any single manager may exceed 15% of that manager's total assets under management.
7. Gross accounting leverage at the aggregate portfolio level shall not exceed 4.5 times the market value of the total AR assets. No more than 25% of the portfolio may be invested in managers who use on average more than 4.5 times gross accounting leverage. Recognizing

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the illiquidity of these investments, these constraints should guide the execution of the AR program, but may be exceeded temporarily between rebalancing. All leverage used by investment managers shall be non-recourse to the Regents.

8. The Treasurer may not incur debt to leverage the AR portfolio; however, portable alpha strategies are permitted.
9. No more than 10% of the total AR portfolio may be invested in emerging market securities on a look-through basis. For purposes of these Guidelines, emerging market countries are defined as countries in Latin America, Eastern Europe, Africa, and Asia (excluding Japan, Hong Kong, Singapore, South Korea, and Taiwan).
10. No more than 40% of the total AR portfolio may be invested in securities issued by entities domiciled outside the United States, inclusive of the restriction above.
11. No more than 15% of the total AR portfolio risk budget may be derived from any single manager.
12. Total AR portfolio forecast downside risk shall be maintained at a level of no more than 5% of total invested capital.

Note: During the initial implementation of an allocation for the UCRP, compliance with some of these guidelines will not be required. The Treasurer and Regent's investment consultants will monitor and inform the Committee as to the status of its compliance with these guidelines with respect to UCRP.

[Definition] Gross Accounting Leverage: the ratio of the sum of the absolute values of the long and short exposures of a portfolio divided by the net market value of the total portfolio. Gross accounting leverage of the AR portfolio is the sum of the individual manager leverage ratios, weighted by their market values.

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**APPENDIX 7N**

Last approved: August 16, 2005

This Version: February 14, 2006

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**INVESTMENT OF CASH COLLATERAL  
INVESTMENT GUIDELINES**

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This policy represents a set of guidelines governing the investment of cash collateral provided by borrowers of securities through a Securities Lending Program for the Fund. Collateral held on behalf of the Fund is managed by a qualified investment manager ("Manager") in a separate investment fund (the "Account").

Through active management of the Account, the Manager shall seek to provide safety of principal, daily liquidity and a competitive return.

The following guidelines govern investments held by the Account.

**(A) Investment Management**

1. U.S. Government -U.S. Treasury bills, notes and bonds, and other obligations issued by the U.S. Government, its agencies or sponsored agencies.
  - a. Maturity may not exceed five years.
2. Corporate Debt Obligations (including commercial paper, floating rate notes and master demand notes, and excluding asset-backed commercial paper, mortgage backed securities and letter of credit backed commercial paper).
  - a. Issuer must have a short-term debt rating not lower than A1, P1, D-1, or F-1 and the issuer must have a minimum long-term debt rating not lower than A2/A from one of the NRSRO's. In the event the issuer is only rated in either the long-term or the short-term area the issuer shall have a rating not lower than the rating required above for such area.
  - b. The Account may hold no more than 5% of its assets in unsecured Corporate Debt Obligations issued by a single issuer and its affiliates.
  - c. The Account will not hold corporate debt obligations issued by securities broker/dealers or their parent companies, except where issued by parent or holding companies with diversified business holdings wherein businesses other than securities brokerage and dealers represent a majority of their activities.
  - d. Maturity may not exceed two years.
3. Domestic or London Eurodollar Certificates of Deposit; Yankee Certificates of Deposit; London Time Deposits; and bankers acceptances issued by U.S. banks, foreign branches of U.S. banks, or U.S. branches of foreign banks, which are subject to state or federal banking regulations in the U.S., or London branches of foreign banks.
  - a. Nassau and Grand Cayman Time deposit centers are permitted but are limited to a maximum 5% of the portfolio's assets at time of purchase and maturity shall not exceed 7 days.

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- b. All banks must have minimum assets of \$5 billion and a short-term debt rating not lower than A1 and P1 and a long-term debt rating not lower than A2/A. In the event the issuer is only rated in either the long-term or the short-term area the issuer shall have a rating not lower than the rating required above for such area.
  - c. Not more than 5% of the Account's holdings may be invested in instruments issued by a single U.S. or foreign bank and its affiliates.
  - d. Maturity may not exceed 190 days except when matched against term loans, which may not exceed one year. Day count will commence (measured) from settlement date using conventional market cash, regular or spot settlement.
4. U.S. dollar denominated supranational and sovereign debt obligations.
- a. Issuing sovereign entity must have a long-term debt rating not lower than A.
5. Repurchase agreements.
- a. All counter-parties must have executed a written repurchase agreement.
  - b. All repurchase transactions must be fully collateralized by collateral determined by Manager in its discretion, which collateral may include, but not be limited to, any of the following: US Treasuries, US Treasury STRIPS, federal agency obligations, mortgage backed securities, federal agency REMICS/CMOs, commercial paper, corporate obligations, asset backed securities, equities, whole loans, or any combination thereof.
  - c. All counterparties shall have a long-term debt rating not lower than A2/A.
  - d. The Account must take possession of collateral either directly or through an independent third-party custodian.
6. Shares in registered money market mutual funds governed by SEC Rule 2a-7, which by definition maintains a constant dollar value and is restricted to investments in top tier rated securities.
- a. No more than 5% of the Account may be invested in any single money market mutual fund, nor may the Account own more than 5% of the net asset value of a single money market fund.
7. Asset Backed Securities (ABS), rated AAA, collateralized by auto or credit card receivables.
- a. Maximum average life for Asset Backed Securities is 5 years.
  - b. Asset Backed Securities are limited to a maximum of 50% of the portfolio at time of purchase.
8. Securities issued in currencies other than US Dollar are not permitted.

**(B) Liquidity and Investment Maturity**

The Manager will endeavor to manage the Account such that it maintains sufficient liquidity to honor the termination of security loan transactions with borrowers and return cash collateral to

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borrowers. Manager will manage the Account so that the weighted average maturity of the portfolio will not exceed 120 days.

1. No investment of securities lending cash collateral shall be made, directly or indirectly, in commercial paper or other obligations of Manager or its parent company or any of its affiliates or in any derivative instrument with respect to which State Street or any affiliate is a counterparty.
2. Loans of domestic securities must be initially collateralized at 102% and loans of non-dollar securities must be initially collateralized at 105%, and all borrowers shall be required to deliver additional collateral, immediately, in the event the market value of the collateral falls below 100%.
3. When the Manager lends non-dollar securities it may accept as collateral sovereign debt denominated in the same currency as the non-dollar security. The issuing sovereign entity must have a long-term debt rating not lower than A2/A.
4. In the event that an issuer's rating is downgraded such that it no longer meets the criteria set forth in I. above, the investment may be held to maturity if the maturity date is 30 days or less, providing Manager's credit analysis does not demand other action. Investments with a maturity longer than 30 days will be sold in a prudent manner.
5. No investment of securities lending cash collateral shall be made in any commingled funds, including mutual funds, managed by Manager or its affiliates.
6. Floating rate investments must not exceed 65% of the portfolio at time of purchase.

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**APPENDIX 8**

This Version: February 14, 2006

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**DEFINITIONS**

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1. **Actively managed:** that part of the assets of the Program 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).
2. **Annualized tracking error budget:** the amount of active risk which represents a typical amount of benchmark deviation for a Manager or the Program. The budget is not an absolute limit, and market conditions may dictate whether a greater or lesser amount of benchmark deviation is appropriate. The risk budget is normally expressed in forecast terms, and is compared to realized risk as a principal metric of the stability of a strategy.
3. **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 excess return, the portfolio’s excess return increases or decreases by 1.2% (alternately, 0.8%).
4. **Cash equivalents:** cash or short-term fixed income securities and an average quality rating of at least A or equivalent.
5. **CDO, CLO, CBO:** Collateralized Debt, Loan, and Bond obligations, respectively.
6. **CMBS:** Commercial mortgage backed securities.
7. **CMO:** Collateralized mortgage obligation (MBS derivative with unique structured risk and return characteristics).
8. **Counterparty:** One party to a trade legally bound to make a good delivery or a good payment.
9. **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.
10. **Derivatives:** securities whose value is completely determined by the value of an underlying security.
11. **Developed Markets:** Countries which have achieved an advanced stage of economic development, whose securities markets have met certain standards for stability, and are included in one or more index provider’s Developed Markets indexes; to be distinguished from “Emerging Markets.”
12. **Dollar delta (of an option):** a measure of net dollar exposure of an option; defined to be the option’s notional value times the option’s delta.
13. **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
14. **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.

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15. Emerging Markets: Countries at varying stages of economic development, whose securities markets have only recently met certain standards for stability, and are included in one or more index provider's Emerging Markets indexes; to be distinguished from "Developed Markets."
16. Equitizing cash: the process of purchasing equity derivatives for the purpose of maintaining equity exposure.
17. Equity related securities: includes, but is not limited to convertible securities, preferred securities, and equity warrants.
18. Eurodollar deposits: deposits issued in US dollars of foreign banks and foreign branches of US banks.
19. Forecast annualized tracking error: the forecast standard deviation of annual 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.
20. Global Equity Strategy: an investment mandate based on a global equity benchmark which includes equity securities of both U.S. and Non-US companies
21. Gross dollar exposure is defined as the sum of the combined long exposures and the absolute value of the short exposures, including all physical and derivative securities positions.
22. Gross leverage: a term used to indicate that the gross dollar exposure of a portfolio exceeds the net market value of the total portfolio
23. 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.
24. IO, PO: Interest only and Principal only strips (CMO variety).
25. Leverage: in the context of asset class guidelines, means "economic leverage," not "gross leverage"
26. Management costs and fees: for the purpose of the Objective in Part 1, 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.
27. 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]
28. Net dollar exposure (of a portfolio): the arithmetic sum of the dollar market values of all long (positive) and short (negative) positions in securities, plus the notional value of futures contracts, plus the dollar delta of options contracts.
29. NRSRO: Nationally recognized statistical rating organization, such as Moody's or Standard and Poor's.
30. 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.

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31. 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, allocation among countries or geographical regions, sector weights, effective duration, credit quality.
32. 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.
33. Prudence Requirement: a requirement of anyone acting in the capacity of a fiduciary, that they act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.
34. 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.
35. REMIC: Real estate mortgage investment conduit (CMO variety)
36. 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.
37. Separately managed account: an account entirely owned by The Regents of the University of California, as Fund trustee, for which investment policies and guidelines are determined jointly by the Treasurer and the manager.
38. Spread duration: a quantitative measure of the credit risk 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 spread (over the Treasury curve) of the security.
39. 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.
40. Unhedged benchmark: a benchmark in which the underlying securities' returns are translated from their local currency back to US dollars at each measurement date.