Fortune favors the agile.

Office of the Chief Investment Officer of the Regents

UNIVERSITY OF CALIFORNIA

Contents

The Answer is Yes.

The UC Investments Way: Agility

Agility is coded into our DNA. It's what allows UC Investments' comparatively small team to take advantage of investment opportunities that traditionally have eluded institutional investors. We are opportunists in the best sense of the word, with an entrepreneurial core. We move quickly and hold what we believe to be lucrative assets for the long term.

Market volatility, geopolitical uncertainty and the effects of climate change are just some of the forces that call for agile thinking, proactive strategies and the calm, reasoned execution that are hallmarks of UC Investments. But without stability, we couldn't take advantage of a market dislocation or act quickly when an unexpected phone call from a partner presents a tantalizing investment opportunity. We rely on our solid foundation, our 10 investment pillars, to ground us.

Over the past five years, we have worked to integrate an agile ethos into everything we do. This shows in our culture and in our market leverage. It is underwritten by the ballast of good governance. And it's built to support the legacy of our great institution, widely considered the world's best public research university. With all this in place, UC Investments is able to be agile and thrive with change. It's our competitive advantage, one that will help the university now and for decades to come.

Jagdeep Singh Bachher

Chief Investment Officer and Treasurer

The answer is yes.

The University of California has been educating students for more than 150 years, and its investment office has been managing the university's money for close to 90. Though I'm quick to recognize that my tenure at UC Investments thus far is a mere blip on the radar compared to our great institutional legacy, as I think back over my first five years as chief investment officer, what stands out is our team's growth and success. When I arrived in April of 2014, our total assets under management were valued at $91.6 billion. Five years later they total $126.1 billion. We've added $2.4 billion in value above our benchmarks and saved $1 billion by reducing management costs.

Since my first day at UC, I've worked with our team to create a culture and an investment strategy that serve the long-term goals and needs of our university. We've been on a mission to change the way we operate and make decisions to ensure that, even when the inevitable market challenges come our way, our strategy will bear fruit and pay dividends.

But no matter how we change — or how the markets do — what grounds us is our commitment to stay true to our core values and the UC Investments Way we created back in my first year at UC. And if you look at our 10 pillars — such as less is more, risk rules, creativity pays, concentrate and build knowledge — and how they've played out over the past five years, we see that they've actually done their job. For example, when I started, our public equity pool had 60 external managers. We whittled that down to 20. When I started, our public equity pool held 8,000 stocks, which is twice the size of the entire stock market. We brought that down to 800. We made all these changes — which affected some $65 billion, or about half our assets — while we improved performance. When I started, our Endowment was in the bottom quartile for performance. Today, we're in the top quartile.

Over the past five years, we've also worked to be more focused: we strive to do fewer things really well and not divert our attention to whatever emerges as the latest shiny object. That doesn't mean we just stay in our well-traveled lane. We've made great progress in creating a new culture built on agility, creativity and success.

We've also continuously worked to build better relationships and be of service to the university and our partners wherever and whenever we can. We take phone calls 24/7: night or day, weekday or weekend. If someone needs something, we help. If someone has a problem, we try to solve it.

And we've done the hard work of making sure the shift in our culture, the UC Investments Way, is "sticky" so that it persists among all our leaders and teams and so that our investment partners know they have a stable entity in us.

The real test of any leader doesn't come when things are going well. Leaders are measured by how they lead when things turn bad. Though our national economy is still in an expansion — the longest in its history — we know one day that will change. We've worked toward positioning ourselves to be ready to take advantage of the opportunities that come from an eventual market downturn. We're leveraging the great power of our institution, which will be more important than ever in what is expected to be a lower return environment. We're working within the boundaries of the governance structure and not taking on undue risk. We're doing all this while staying ready to pursue new high-quality opportunities with speed and agility. To me, that's an exciting place to be.

Over the past five years, UC Investments has helped lay the foundation for the University of California's continued success in the next decade and beyond. I look forward to being part of it.

Janet Napolitano

President, University of California

Last year marked the University of California's sesquicentennial anniversary, a milestone that lent itself to reflection about what groundbreaking advances the university will pioneer in its next 150 years. In 2019, we took our first steps into the next phase of our history, and there has already been much to celebrate.

In all the major rankings of U.S. colleges and universities, University of California campuses continued to score at or near the top. *U.S. News & World Report* ranked six UC campuses among the top 12 public universities in the nation, with UCLA and Berkeley as numbers one and two. In *Forbes Magazine's* list of America's Best Value Colleges, UC Irvine ranked third in the nation, followed by UCLA at number four, and Berkeley at number five. The five other undergraduate UC campuses — Davis, Santa Barbara, San Diego, Riverside and Santa Cruz — all ranked in the top 50.

In late 2018, the U.S. Environmental Protection Agency awarded UC with its Green Power Leadership Award. Over the past two years, UC has doubled its use of clean, renewable electricity and now uses more "green power" than any other university in the country. Over the next six years, UC will transition to 100 percent clean or renewable sources of electricity. UC's own power company, which supplies electricity to campuses and medical centers, will hit that milestone even sooner, with all of its electricity coming from zero-carbon sources by the end of this year.

And we are gratified that in his first state budget, California Governor Gavin Newsom allocated nearly $4 billion for UC. This represents a 7 percent increase in support and the highest level of annual growth experienced in more than a decade. The funds include $50 million for new California undergraduate enrollment over the next two years, and $6 million for low-income high school student recruitment and retention. This increase will bring UC closer to its goal of making the California Dream a reality for the next generation. While we are always happy to celebrate good news, we are also keenly aware that the changing needs of our state and its population require the UC system to continually evolve, and that includes in its funding model. The days of relying on government funding are gone. We must be creative and forward looking, which is why our partnership with UC Investments is more important than ever.

UC Investments has been key to our success on some of our most important and exciting initiatives. One of this year's highlights was the creation of the Blue and Gold Pool, which gives campuses access to a low-cost, liquid and diversified vehicle in which they can invest their longer-term capital to earn a better return without paying high fees. It's already become a valuable tool for campuses, giving them easy access to funds needed to enhance the quality of the UC experience for students, faculty and staff alike.

This is just one example of UC Investments' creativity, but it illustrates why I'm confident we will continue to find innovative ways to generate more funding from our investments. And I'm pleased UC Investments has also kept a close eye on costs while continuing to deliver the strong investment results we seek.

Staying agile and open to new opportunities and partnerships is a bold approach that will help our long-term investment strategy and meet the challenges of the next 150 years at the University of California. Because of our collective commitment, UC will continue to shine brightly as a beacon of opportunity and public service.

Richard Sherman

UC Board of Regents, Chair of the Investments Committee

It's Jagdeep's fifth year as the leader of the office. What are some of the changes you've seen evolve since he took over as CIO?

He's done a great job of improving expense management, which is important because if you reduce your cost of management, that's a "riskless" return on investment. Most of our managers now are on incentive fees, and our cost of managing capital is much lower than it was. In fact, I would bet that we're probably one of the lowest of any of the major endowments in the country in terms of the actual cost of management, both internal costs and external fees. We pay for performance, and I'd love nothing more than to have very big incentive fees because that would mean that we've done very well.

They've also done a good job of streamlining the defined contribution plans for the employees should they choose to invest in things other than target date funds. On top of that, they've brought down the cost of all the target date funds. Again, riskless return to the employees.

Finally, during Jagdeep's tenure, the transparency in their reporting is head and shoulders better than it was even just a few years ago. All of their reports are very clear and easily understood by stakeholders across the spectrum.

Can you talk about UC Investments' approach to building an agile and responsive culture and what effect that has on its ability to seize opportunities that might otherwise have been missed or lost?

In today's investment landscape, we need to be able to react in reasonably short order on opportunities that come our way or that we ferret out. Many of these opportunities come from relationships that the UC Investments office has developed and nurtured with people in the real estate industry, private equity industry and beyond. This means that if someone is contemplating a sale or an investment, and they need a partner, the relationship is established, so we can do our due diligence quickly and be prepared to act. It's a substantial competitive advantage.

How would you say this approach is different from other institutional investors in our sphere?

People always talk about Yale's substantial exposure in the private equity world as their core differentiator. I'd like us to be known as a nimble, entrepreneurial investor that can be a partner to people in all industries. And accordingly, UC Investments has fostered a culture where even if an opportunity doesn't fit in a particular asset class or sub-asset class, they're open-minded enough to pursue it if the investment stands on its merits. By being more creative, by putting ourselves out there in a different way than a traditional large institutional investor, we're able to deploy our funds to add significant value for UC.

What else stands out for you this year in terms of what's happened in the UC Investments office?

I've definitely seen a shift to a more collaborative approach at the office, as well as a greater sense of community. People know what their colleagues are doing in different asset classes, and they're sharing information with each other freely. Each team has a different way of looking at things: the fixed income people are thinking about how they protect the downside, whereas the equity asset folks are maybe more focused on where the potential upside is down the road. Having them communicate openly with each other serves us well.

There's been a more intense focus on sustainable investing in the office over the past year, including the hiring of a director for ESG (environmental, social and governance) integration. Why do you think this focus is important?

First, I'll say that no matter what the investment, we take all risks into consideration, including ESG risks. As a natural evolution and independent of political views, we're evaluating our investment choices based on both our sustainable investing framework as well as the market forces overall. We ask ourselves: Does it make sense to invest in asset classes like fossil fuels that the world is turning away from? And obviously we're being thoughtful in evaluating how to reduce our exposure in an efficient way, taking into consideration liquidity, disposition costs, when's the best time to dispose of an asset, etc.

The US economy is now officially in the longest expansion in its history. How do you think UC can best prepare for the inevitable market correction to come?

The biggest determinant of returns is asset allocation; it's what asset class you invest in, not necessarily where you invest. So the fact that we have an asset allocation with a significant portion in fixed income gives us some protection when the economy does reverse course.

The university had its 150th anniversary in 2018. What's on your radar right now as we look forward to the next 150?

Given that we have a plan to graduate 200,000 more students by 2030, we need to protect our thriving Endowment so it continues to support the university's growth. And that growth means we're going to have more employees, which means more retirees. So we need to make sure that the pension is there for them and continues to move closer to a fully-funded status, an area we've worked hard on over the last few years.

"UC Investments has fostered a culture where even if an opportunity doesn't fit in a particular asset class or sub-asset class, they're open-minded enough to pursue it if the investment stands on its merits."

Richard Sherman

UC Board of Regents, Chair of the Investments Committee

The UC Investments Way

1. Less is more.

"You have to work hard to get your thinking clean to make it simple. But it's worth it in the end because once you get there, you can move mountains."
— *Steve Jobs*

We believe in high-performance teams working collaboratively to manage a concentrated portfolio of high-quality assets. That's why we are working actively to reduce the number of decisions we have to make, the number of line items in our portfolio and the number of external managers we use. The result is an agile, world-class team with a laser focus on the areas where we can outperform the market.

2. Risk rules.

"In investing, what is comfortable is rarely profitable."
— *Robert Arnott*

We are working to shift the culture of UC Investments so that everyone on our team becomes a risk manager. We're also allocating our assets according to the risk factors that drive returns to create more diversity and generate more return per unit of risk. Formalizing our expectations around risk will enable us to assess a single portfolio while also respecting the changing nature of each of our product lines' risks.

3. Concentrate.

"Wide diversification is only required when investors do not understand what they are doing."
— *Warren Buffett*

We are working to construct portfolios from a concentrated set of assets that we understand deeply, as opposed to holding many assets that we barely understand, that cost us more to manage and that are passively replicable. By reducing the number of investments in our portfolios, we believe we can reduce unwanted risks and increase desired returns, while balancing the need to be proactive with the need to adhere to the diligence requirements of our organization.

4. Creativity pays.

"The person who goes farthest is generally the one who is willing to do and dare. The sure-thing boat never gets far from shore."
— *Dale Carnegie*

We are focused on developing competitive portfolios, even if, at times, that means taking an unconventional or uncomfortable stance. One way we are building a culture of innovation is by developing a dedicated innovation team in our organization — a rarity in the world of institutional investment — to incubate, validate and develop creative vehicles that leverage our competitive advantages.

5. Build knowledge.

“An investment in knowledge pays the best interest.”
— Benjamin Franklin

We consider ourselves remarkably lucky to be sitting at the heart of such a knowledge-rich university environment, and we are working to get the right systems, policies and processes in place to capitalize on it. We are putting an emphasis on building a culture of collaboration to break down silos and share information across the organization. We are also investing in high-quality data infrastructure to track portfolios, risks and networks.

6. Team up.

“Talent wins games, but teamwork and intelligence wins championships.”
— Michael Jordan

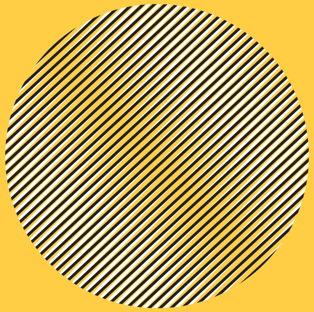
We realize that to be successful, we must attract the highest-caliber people who are in alignment with our culture and our long-term approach to investing. We target our recruiting where we are most likely to be successful. The gray: those who’ve had successful careers in the private sector and want a change. The green: bright young recruits who want to accelerate their careers. The grounded: loyal UC alums and others who want to live in California.

7. What makes UC, UC.

“If you don’t have a competitive advantage, don’t compete.”
— Jack Welch

As the investment organization for one of the premier public research institutions in the world, we have an abundance of characteristics that, if cultivated appropriately, should be a persistent source of high-quality investment opportunities. Our innovation ecosystem is unparalleled on a global scale, and because we sit at the center of it, we believe we can leverage our unique characteristics in ways that drive investment returns.

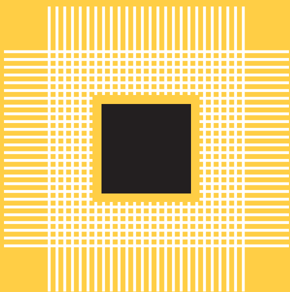
8. Perfect alignment.



“Control your expenses better than your competition. This is where you can always find the competitive advantage.”
— Sam Walton

Now more than ever, we need to fully understand what we’re paying for. If a third-party manager isn’t willing to provide a detailed breakdown of how they make their money from managing our money, then we should be willing to pull our capital and walk away. By having complete transparency and a better understanding of our investment risks, we will reduce misalignment of interests and capture risk-free returns.

9. Human meets machine.



“You are cruising along,
and then technology changes.
You have to adapt.”
— Marc Andreessen

Sitting on our perch here in Silicon Valley, we believe we can use technology to help us streamline and strengthen operations to level the playing field between us and the private financial services industry. In the years ahead, we’ll be working with innovative startups to better understand and manage our portfolios and gain greater access to unique markets that had previously been too expensive for us to enter.

10. Centennial performance.

“We should all be concerned about the future because we will have to spend the rest of our lives there.”
— Charles Franklin Kettering

We think of ourselves as an organization that invests for the next 100 years. Our centennial orientation drives us to assess our portfolio in ways that consider the long-term, fundamental challenges facing society like climate change, human rights or corporate governance. We’re also working to incorporate a broader set of risks into our decision-making than organizations with shorter time horizons.

“You’ve got to keep it simple. You’ve got to be agile. And you’ve got to have less on your desk so that when an opportunity shows up, you’re ready to seize it.”

Jagdeep Singh Bachher

Chief Investment Officer and Treasurer

UC Students

280K

Pension Plan Members

241K

Retirement Savings Program Members

320K

Living Alumni

2M

Always in Service

Our goal at UC Investments is to provide excellent service to our ultimate clients: the 280,380 UC students, 241,450 pension plan members, 2 million living alumni and 320,000 people who participate in the Retirement Savings Program.

Among our internal partners are the UC Board of Regents, the Academic Senate, the chief financial officers of our campuses as well as the campus foundations. We work for and with our stakeholders to offer customized solutions to meet the evolving needs of the University of California. As part of this agile approach, we have launched tailored investment products that include:

- **Blue and Gold with assets of $1.3 billion.**
- **Fiat Lux Insurance with assets of $1.1 billion.**
- **Private Equity, Real Assets and Absolute Return sleeves for our campus foundations with assets of more than $100 million.**

In total, our stakeholders have entrusted us with more than $5 billion in additional assets to manage since 2014, including more than $3.3 billion in the Endowment. As we look forward, our clients and stakeholders can count on our unwavering commitment to collaboration, agility and proactive communication, all in service of the mission of the University of California.

All the Right Moves

As UC campuses seek to make the most of their own endowments, UC Investments is becoming a trusted partner. UC San Diego's story shows why.

As state funding for the University of California system becomes ever more unpredictable, robust campus endowments become ever more important. That's why the UC San Diego Foundation is in the process of moving all of the actively managed funds in its endowment to UC Investments.

As both the chancellor of UC San Diego and president of its separately managed foundation, Pradeep K. Khosla has a unique vantage point on what it takes to maintain and enhance the university's margin of excellence. "I have a big interest in making sure that the returns on our Endowment are the best they can be," he says.

Soon after Jagdeep Singh Bachher joined UC as its chief investment officer, he met with Khosla to see if UC Investments could help the campus foundation maximize its investment returns and lower its administrative costs. "Since UC Investments' buying power is so large, Jagdeep could create specialized funds that we could buy into, and the fees would be much lower than what we had been paying," Khosla says.

In the years since, the UC Investments team has made many trips down to San Diego to meet with the foundation, and Khosla regularly saw the team in action from his position on the Investments Committee of the UC Board of Regents. "The more I saw, the more I realized they had a new way of thinking about investments at UC," he says. "Their returns were superior to what our foundation was getting, and they're at the cutting edge of creative management. I wanted our campus to be a part of it."

Inspired by the meetings with Bachher and his team, the UC San Diego Foundation decided to pursue a new investment strategy. The foundation no longer does active management on its own and has selected UC Investments as its sole partner. "Even if nothing else changes, we'll be eliminating the higher active management fees we were paying to separate managers and consultants when we were managing the money ourselves," says Khosla. "And now we get to have more strategic conversations about our investments instead of tactical ones."

Systemwide, UC Investments manages $13.4 billion on behalf of all 10 UC campuses and foundations, including all active Endowment assets for UC Santa Barbara, UC Santa Cruz and UC Merced and now UC San Diego Foundation. As Khosla says, "At the end of the day it's about trust and the quality of the managers. UC Investments has it all."

"Their returns were superior to what our foundation was getting, and they're at the cutting edge of creative management. I wanted our campus to be a part of it."

Pradeep K. Khosla

UC San Diego Chancellor

Investing in UC — and in the Future

The University of California is one of the greatest innovation engines ever designed and implemented. UC Investments is capitalizing on the rich opportunities being generated by our own leaders, like Arie Belldegrun and David Chang, both of UCLA.

For those who still think of an academic physician as someone who stays holed up in a lab doing research or in a library drafting an article for The Lancet, it's clear they haven't met UCLA professor Arie Belldegrun.

Yes, on some days you can still find him teaching medical residents or scrubbing up for surgery. But his pioneering business ventures more often have him taking a meeting with a 20-something entrepreneur wearing a hoodie and a pair of Allbirds. That's because along with his business partner, David Chang, M.D., Ph.D. (formerly of UCLA), Belldegrun has created two of the most successful biotech companies of the past decade.

The duo's first venture was Kite Pharma, where they worked on developing novel cancer immunotherapy products with a primary focus on engineered autologous T cell therapy (eACT). Data from their product, YESCARTA, shows that two years out, 80 percent of terminal patients were still living and a full 50 percent showed no sign of cancer. It might come as no surprise, then, that the success of the treatment brought bigger pharma companies to their door; Gilead ended up purchasing Kite for $12 billion.

From there, Belldegrun and Chang wasted no time jumping into something new. Just a few months after the sale, they founded Allogene Therapeutics, which sought to license YESCARTA's competing technology from Pfizer and make it better — and more accessible — for patients all over the world. "We weren't interested in just making another therapy; we want to cure cancer," says Belldegrun. "And we wanted to make that cure more accessible, less expensive, and even more effective."

"Many believed the idea behind Kite's therapy was rooted in science fiction, but science fiction became a reality," says Chang. "We knew if we could partner with leaders in the field — visionaries, industry forerunners, venture capitalists and researchers — we'd have the potential to accelerate the development of allogeneic T cell therapy, making it a reality and forever changing how cancer is treated."

"We weren't interested in just making another therapy. We want to cure cancer." Arie Belldegrun, MD

UCLA Professor and Biotech Entrepreneur

But to change the paradigm of cancer treatment, they needed investors. Neither UCLA nor UC had ever invested in a significant way in Belldegrun's previous startups, but Belldegrun had watched UC become more entrepreneurial over the past decade. He thought it couldn't hurt to try again. "We needed $300 million dollars, and we had less than a week to get it and prove to Pfizer we were ready to take the technology and run," he says. "Though we actually gathered the funds rather quickly, I still was interested in having UC be a part of the deal. So I made a phone call — really, just one phone call — to Jagdeep [UC CIO] to describe what we were doing. And Jagdeep being Jagdeep said, 'I got it. What do you need?'"

Barely an hour later, the decision was made, and an investment was committed. Belldegrun was so unprepared for such a swift response that his team actually had to go back and cut the amount allotted to one of their other investors.

And less than two years later, UC's investment in Allogene has already quadrupled. "Having sophisticated long-term investors such as UC Investments provided us with the flexibility to invest in a similarly long-term time horizon and spend our research dollars on programs directed at transforming the treatment standard for cancer patients," says Chang.

"Jagdeep understands that when you see an opportunity, you take it," says Belldegrun. "It's not easy, and it's always risky, but his office has a team of super smart people to make these kinds of opportunities happen. And with their investment in us, they were able to fund a product that has the potential to change lives and improve our society while creating a significant financial return for the UC system. It's a healthy outcome for all."

A Sustainable Journey

At UC Investments, we believe that certain core sustainability values are needed to keep us grounded as we attempt to respond to new and dynamic market conditions. We keep these beliefs in mind as we aim to ensure the best return on investment for our university and its many stakeholders. Here's what we've been focusing on over the past year.

One of the world's 25 most responsible institutional investors.

Always Learning. Always Growing.

Just five years ago, UC Investments had no structural approach to sustainable investing. Today, we are on track to beat our own five-year goal of investing at least $1 billion in climate change solutions, we are selling our remaining fossil fuel assets to further de-risk our portfolio and we are integrating diversity, equity and inclusion into our investment process. By incorporating environmental, social and governance factors (ESG) into our decision-making, we are better fiduciaries of university funds.

Some highlights of our journey so far? In 2014, we became the first public university in the United States to sign onto the U.N.'s Principles of Responsible Investing. The following year we published our own Framework for Sustainable Investing, which identifies the eight ESG factors most salient to our work. In 2018, the UC Board of Regents changed the university's investment policy to explicitly include ESG into investment decision-making. And this year, in response to these and other initiatives, the Responsible Asset Allocator Initiative at New America recognized UC Investments as one of the world's 25 most responsible institutional investors.

We are proud to partner with sustainability leaders at the University of California to deliver on UC President Janet Napolitano's bold commitments to address climate change. Says Wendell Brase, UC Irvine's associate chancellor for sustainability, "We've witnessed significant movement in the investments office toward a closer alignment with important core values that have been expressed by our students, faculty, staff, and supporters."

UC Investments will continue to build on the university's record of investing time and money into climate solutions. Research, educate, and act — these are hallmarks of our UC ethos and culture. UC Investments has learned a lot about how to integrate the risks of climate change into our investment decisions over the past five years. Now we've begun applying these strategic lessons to diversity, equity and inclusion. Stay tuned.

The Endowment is the bedrock of our university, providing critical financial support to the programs and initiatives that make our system the best in the world. Here are two shining examples of student and faculty support made possible by our Endowment.

Endowed Well

Endowment Total Value

$13.4B

Number of Individual Funds

6000+

Supporting Our Students

At the UC campuses, the returns on our Endowment investments are used to fund a variety of strategic initiatives that support our students as well as recruit and retain world-class faculty. The total value of the Endowment at the end of this past fiscal year was $13.4 billion, and the pool consists of more than 6,000 individual funds. Like our peer institutions, the payouts are often designated by the donor for a particular use, and we're profiling just two of the thousands of success stories the Endowment has made possible.

Marquell Craddock
David Geffen School of Medicine
M.D. Class of 2019
Harry Borun Memorial Scholarship

Marquell, the youngest of three children of a single parent, was born and grew up on the South Side of Chicago. He was raised primarily by his grandmother while his mother worked multiple jobs to support the family, eventually coming to the University of California, Berkeley, where he was a first-generation college student and majored in public health. During this time, his mother and brother faced medical challenges and Marquell dedicated most of his time to caring for his family while trying to balance his college responsibilities. He participated in Berkeley's Biology Scholars Program (BSP), designed to help underrepresented minority students from low-income backgrounds. Through his work with BSP and the people he met there, Marquell realized that he wanted to pursue a career in medicine.

Marquell started the Charles R. Drew/UCLA Medical Education Program and Program in Medical Education at the David Geffen School of Medicine in 2015, and a few years later was awarded the prestigious Harry Borun Memorial Scholarship, which is funded by the Endowment and provides vital support for aspiring physicians as they pursue their professional goals and contribute to advancements in patient and community well-being. This chef and new doctor feels that fusing his knowledge of food, family, and medicine is imperative to creating a world where health is easier to obtain and maintain.

"This scholarship helped me obtain the much-needed clinical tools, books and expenses associated with academia so that I may meet the demands of serving humanity through medicine," he says. "As a Harry Borun Memorial scholarship recipient, I look forward to becoming the physician I envision being — someone who uplifts humanity while healing the mind, body and entire communities."

Supporting Our Faculty

Endowments help attract world-class faculty in a variety of fields, and they also help retain senior faculty members. This past year, a $1 million Endowment at the University of California Merced was used to fund the new Presidential Chair in Humanities with Professor Ignacio López-Calvo as its first occupant.

The Endowment generates around $40,000 a year to support López-Calvo's Latin-American studies research and graduate students, as well as the annual international conference López-Calvo organizes on East-West relations.

López-Calvo's research focuses on two interrelated issues: cultural production by and about Latin American authors of Asian descent and the literary and cultural representations of the relationship between human rights, racialization, gender, migration and authoritarianism.

"Brazil has the largest Nikkei (Japanese immigrants and their descendants) community in the world outside Japan," he said. "Until recently, Asians have been a forgotten population in the Americas, but this is becoming a far more widely studied field."

He wrote the first book on the Latin American authors of Asian descent in 2009 and has since written three more on the subject. He is now working on a book about cultural production by Mexican authors of Asian ancestry. López-Calvo has single-authored eight books in total and has edited eleven more.

López-Calvo joined the campus in 2008 and served as director of the Center for the Humanities for three years. The Presidential Chair in the Humanities is a five-year appointment with the possibility of a five-year renewal.

Higher Returns,

More Flexibility

In a complex funding world, flexibility is key. But not at the expense of returns. So UC Investments created a new investing vehicle, specifically for campuses to increase their revenues while reducing reliance on state funds. Meet the Blue and Gold Pool.

UC Investments' newly launched Blue and Gold is an investment product that fits between the university's Total Return Investment Pool and the Endowment.

It's for campuses looking to invest their capital reserves for a higher return than could be expected in other short-term cash management vehicles, yet with liquidity that an Endowment simply can't provide.

"The Total Return Investment Pool was the university's first foray into trying to optimize the returns from working capital," says UC Chief Financial Officer Nathan Brostrom. "That product has been very successful: it's now grown to about $9 billion, and the returns have been even better than we expected. So when we realized the university needed another investment vehicle, we had a good roadmap for creating something new."

Brostrom worked with UC Chief Investment Officer Jagdeep Singh Bachher to create Blue and Gold, which launched in spring of 2019, to optimize the university's working capital even more.

Blue and Gold provides a low-cost, liquid, diversified investment vehicle for long-term capital reserves and as with all UC Investments' products, its asset allocations are optimized for projected performance, risk and volatility, as well as aligned to UC's sustainable investing framework.

Payouts go to the campuses to support their core operating missions, and unlike the Endowment, which is mostly restricted funds, Blue and Gold revenues would be almost entirely unrestricted. The campuses' response to the new product has been positive, and already has assets of more than $1 billion in the pool.

"We've been doing an analysis of both our seismic retrofit needs and our deferred maintenance, and the projected costs are in the several billions of dollars," says Brostrom. "That's prompted campus leadership across the system to look at every opportunity to generate returns that can help them meet some of these capital challenges."

UC Davis Medical Center is one example. To comply with a mandate that all UC medical centers complete seismic retrofits by the year 2030, Davis started planning its project and trying to figure out where the money would come from. By investing its funds in the Blue and Gold Pool, the medical center is projected to earn between 6–7 percent on its investment over the next five years, instead of the more standard return of 2–3 percent for short-term investing. "It will have a significant impact in terms of the capital they can commit to the project," says Brostrom. "And this is exactly what we'd hoped to be able to do when we created the pool."

"Campus leaders across the system are looking at every opportunity to generate returns that can help them meet capital challenges."

Nathan Brostrom

UC Chief Financial Officer

Last Five Years: Less is More

Value Added

$2.4B

Fees Saved

$1B

Reduction in Number of Key Investment Relationships

65%

Partnerships.
Patience.
Performance.

On June 30, 2019, our assets under management totaled $126.1 billion, an increase of $6.6 billion across all our investment products from the prior fiscal year, as a result of strong equity markets and value added gains.

Over the past five years, we added $29.8 billion: $27.4 billion from the markets and $2.4 billion from active management.

These assets are contained within the following investment products: Endowment, Pension, Retirement Savings, Working Capital (Total Return Investment Pool and Short Term Investment Pool), Fiat Lux Insurance and Blue and Gold.

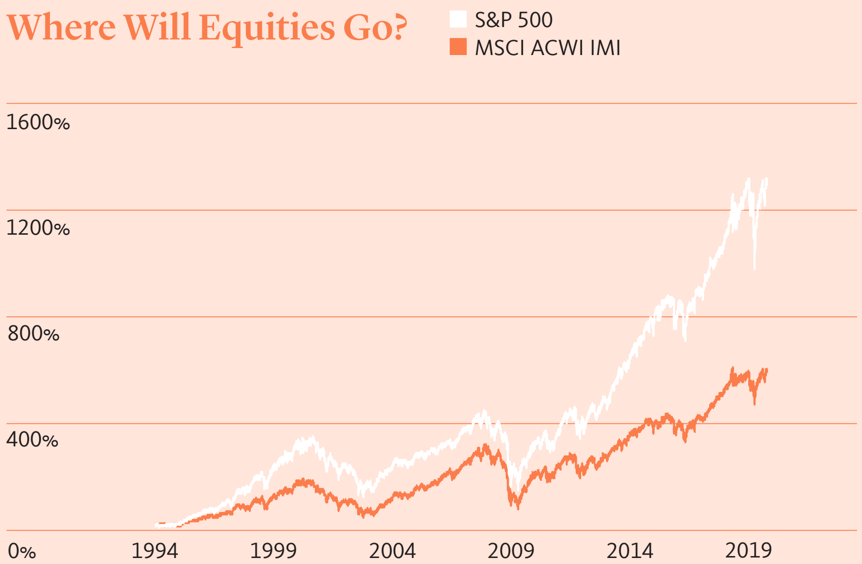
In this same five year period, we have saved over $1 billion in costs across these seven products and manage all $126.1 billion assets for .028 percent of UC Investments costs.

Market Recap: What Happened in the Equity Markets This Year?

Global equity indices ended the fiscal year up a modest 4.6 percent as measured by the MSCI All Country World Index Investable Market Index (MSCI ACWI IMI).

Markets recovered strongly in the second half of the fiscal year after a very weak fourth quarter of 2018 when risk appetite declined significantly. U.S. equities drove index performance in FY 18-19, returning 10.4 percent . In particular, U.S. growth stocks did well, with faster earnings growth and improving return-on-equity metrics, which have benefited from low interest rates. MSCI ACWI ex-U.S. equities returned 1.3 percent, and emerging markets returned 1.2 percent. Large markets in Asia suffered negative returns for the fiscal year, with Japan returning -4.2 percent and China returning -6.7 percent, due in part to the ongoing trade war. European equities returned +1.9 percent, despite concerns around the timing and impact of Brexit. More broadly, worries about the global economy's ability to grow without strong central bank support has made investor sentiment less rosy, as central banks are attempting to graduate from the quantitative easing of the past decade to quantitative tightening.

Where Will Equities Go?

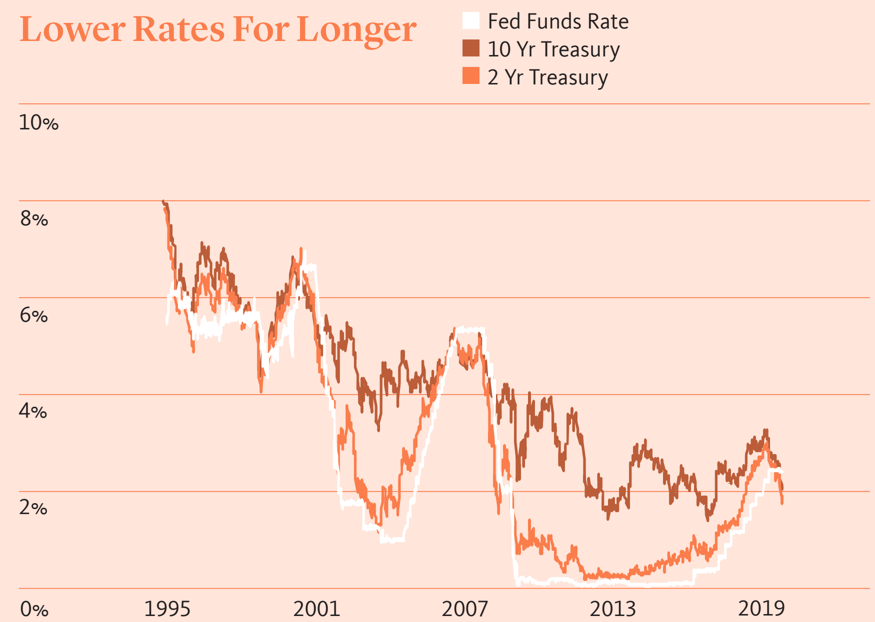


What Happened in the Bond Markets This Year?

U.S. Bond Market returns were driven by a significant rally in the Treasury market, sparked by a sudden shift by the Fed from "being a long way from neutral" in October, to "flexible" in January.

Projections of multiple Fed rate hikes in 2019 quickly shifted to expectations of several rate cuts. The U.S. 10-year treasury yield declined 86 basis points during the fiscal year, leading to a 7.9% return for the Bloomberg Barclays Aggregate Index. While the very flat yield curve sparked much discussion regarding the possibilities of a recession, the backdrop of an accommodative stance by global central banks and a belief that this would support continued economic growth led to attractive returns for risk assets such as investment grade credit, high yield, and emerging market debt.

Lower Rates For Longer



Geopolitics: A Five-Year Review

By Neil Brown

The year 2014 feels like the distant past. The existential threat of the global financial crisis seemed to have been averted, and President Obama's declared withdrawal from Iraq and Afghanistan suggested the beginning of the end of the huge national effort that began after 9/11. The West had avoided embroilment in the Arab Spring, and after Iraq and Afghanistan, that was enough to be regarded as a success — despite the consequences across the Middle East and North Africa. Except when terrorism came to its streets, the West largely missed the Arab Spring turning straight into Arab Winter, creating a vacuum nearly filled by ISIS, especially in Syria after the West reneged on promises to enforce its "red lines." We were in a unipolar, U.S.-led world. Russia was just a "regional power"— its destructive engagement in Crimea and the Ukraine almost ignored — and China could be brought into the community of nations through economic engagement. Francis Fukuyama's prediction of "The End of History" again seemed plausible, a triumph of globalization and Western liberalization. But beneath the superficial sense of order were the makings of five years of political and geopolitical flux.

In the West, the bailout of the banks and quantitative easing may have stabilized the ship but few noticed that the ship was sitting lower in the water and that many had been left behind, on or below the waterline. This set the conditions for the populist surge that delivered Brexit, the Trump victory, and led to a series of populist victories in Europe, including right-wing populist advances into parliaments (Germany) and even government (Italy). Populist policies spread across the continent, fueled by mass migration caused by poverty and insecurity and amplified by social media.

President Obama's signature foreign policy "pivot to Asia' had at its heart the Trans Pacific Partnership (TPP), which was designed to deliver American influence in the world's most important emerging region. But Europeans and Gulf Cooperation Council allies feared the U.S. pivoting away from them, and China resented the U.S. pivoting into its back yard. The European Union saw an opportunity to divert from the U.S. path when advantageous, and Gulf allies, notably Saudi Arabia, took it as a signal to broaden their network, arm, and be prepared to assert and defend themselves whatever the cost — as seen in Yemen. China responded forcibly against regional allies it saw in the American "sphere" but this drove many of them to increase military cooperation in the face of China's spurious territorial claims in the South China Seas, and perhaps most important for markets, brought political impetus to the proposed TPP.

But one of the first acts of the Trump administration (along with withdrawing from the Paris Protocol on Climate Change and NAFTA), was to walk away from the TPP. This appeared to create a vacuum into which China stepped, promoting its own multilateral structures and furthering its influence and currency ambitions. The most significant feature of these past five years has been the emergence of China to challenge the U.S., not by acquisition or militarization of islands or the build-up of its military, both of which happened, but by ambitious

> It has been an extraordinary five years, in the world and in the markets. By 2019, many world leaders, while popular, appear to have taken control of the levers of power to develop narratives loaded with protectionism, isolationism and nationalism.

international expansion. The Made in China 2025 policy that signaled China's ambition to surpass the U.S. in technology, and help Beijing avoid the middle income trap, was the catalyst for an American re-interpretation of the Belt and Road Initiative. In 2017, China became a "strategic rival." Cold War rhetoric returned but this time between the world's two largest economies in a globalized world. China's more than $1 trillion investment in 126 countries, notably in Africa, but also in impoverished and increasingly fragile Central and South America, was a game-changer.

President Trump has delighted supporters by his ability to disrupt as he has aggressively delivered on campaign promises. Abroad that included walking away from the Iran Nuclear Deal agreed to by his predecessor and the rest of the permanent members of the UN Security Council, plus Germany. At home his tax reforms and deregulation provided early economic impetus that, if he is to be re-elected, he will be under pressure to sustain. His use of sanctions has been notable for its secondary effect, forcing allies to choose between trading with the U.S. and, say, Russia or Iran. His use of tariffs, at times apparently unconnected to trade or economic policy, has had far-reaching effects. He has been able to persuade allies in OPEC to sustain oil production, no doubt in return for support (notably for Saudi Arabia) that has a domestic political price. Tension is rising between the White House and a Congress determined to rein in presidential delegated or executive powers.

It has been an extraordinary five years, in the world and in the markets. By 2019, many world leaders, while popular, appear to have taken control of the levers of power to develop narratives loaded with protectionism, isolationism and nationalism. At the same time both states and international institutions are set to struggle as they try to harness the exponential technological change now underway.

Neil Brown is global strategist at CQS (UK) LLP, a UC investment partner based in London.

Endowment

Highlights

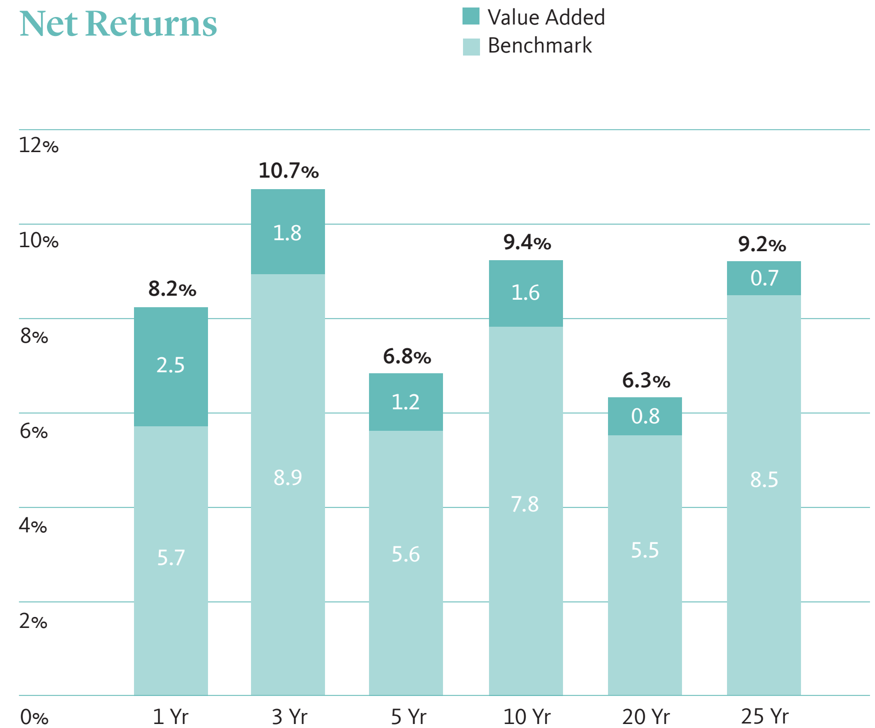
Gross Return	9.7%
Assets	$13.4B
Net Return	8.2%

June 30, 2018	$12.3B
Market Gains	$0.7B
Value Added	$0.3B
Net Cash Flow	$0.1B
June 30, 2019	$13.4B

Performance

	Market Value in Billions ($)	1 Yr (%)	3 Yr (%)	5 Yr (%)	10 Yr (%)	20 Yr (%)	25 Yr (%)
Endowment	**13.4**	**8.2**	**10.7**	**6.8**	**9.4**	**6.3**	**9.2**
Policy Benchmark		5.7	8.9	5.6	7.8	5.5	8.5
Value Added		2.5	1.8	1.2	1.6	0.8	0.7
Public Equity	**5**	**4.6**	**13**	**6.3**	**10.7**	**4.8**	**8.7**
Liquidity (Income)	**1.6**	**7.5**	**3.9**	**3**	**5.2**	**5.1**	**7.2**
Other Investments							
Absolute Return	3	7.2	6.1	3.9	6.2	–	–
Private Equity	1.9	27.4	23.7	21.6	19.2	16.5	20.4
Real Estate	0.9	7	8.5	10.7	7.4	–	–
Real Assets	0.6	6.2	6.1	(0.9)	–	–	–
Cash	**0.4**	**3.3**	**2**	**1.7**	**2.1**	**–**	**–**

Net Returns



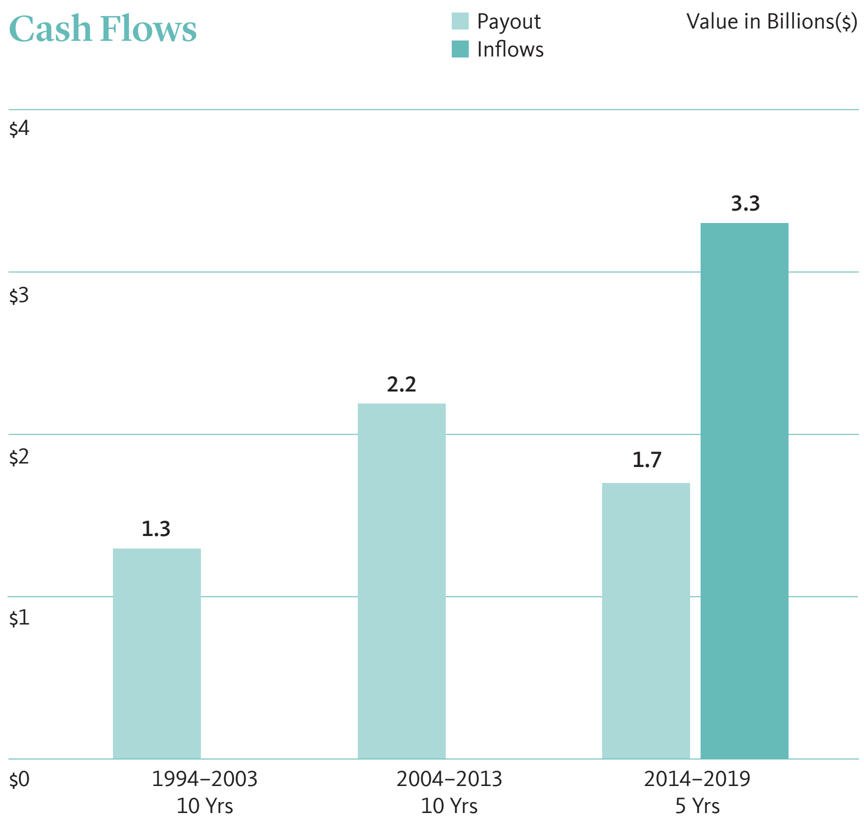
Asset Allocation

	Market Value in Billions ($)	Portfolio Weight (%)	Long-Term Policy Weight (%)
Public Equity	**5**	**37.2**	**30**
Liquidity (Income)	**1.6**	**11.8**	**10**
Other Investments	**6.4**	**47.7**	**60**
Absolute Return	3	22	25
Private Equity	1.9	14.5	22.5
Real Estate	0.9	6.9	
Real Assets	0.6	4.3	12.5
Cash	**0.4**	**3.3**	0
Total	**$13.4B**	**100%**	**100%**

Policy Benchmarks

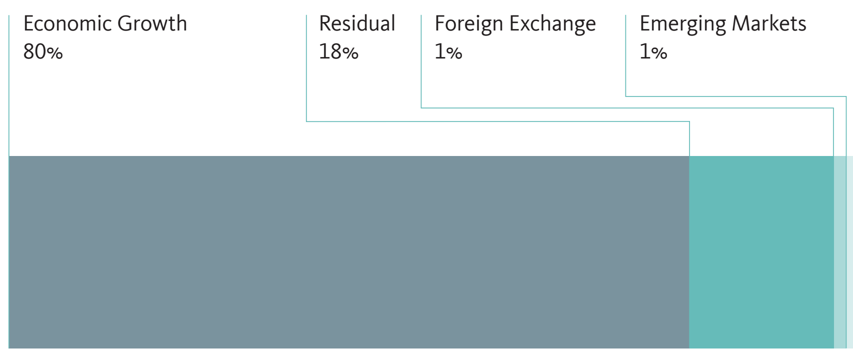
		Target (%)	Minimum (%)	Maximum (%)
Public Equity	**MSCI All Country World Index IMI Tobacco Free**	**39.6**	**30**	**63**
Liquidity (Income)	**Bloomberg Barclays US Aggregate Bond Index**	**13.1**	**3**	**21**
Other Investments				
Absolute Return	HFRI Fund of Funds Composite	22.3	12	29
Private Equity	Russell 3000 + 1.5%	14.4	2	25
Real Estate	NCREIF Open End Diversified Core Equity Index	10.6	1	16
Real Assets	Actual Portfolio Return			

Cash Flows



Risk Allocation

Volatility 8.8%



Blue and Gold

Highlights

Value in Billions ($)

Gross Return	3.5%
Assets	$1.3B
Net Return	3.5%

Asset Allocation

	Market Value in Billions ($)	Portfolio Weight (%)	Policy Weight (%)
Growth	0.9	70	70
Income	0.4	30	30
Total	$1.3B	100%	100%

Policy Benchmarks

		Target (%)	Minimum (%)	Maximum (%)
Growth	MSCI All Country World Index IMI Tobacco Free	70	60	80
Income	Bloomberg Barclays US Aggregate Index	30	20	40
Total		100%		

Retirement Savings

How we've evolved

	2014	2019
Participants	301,000	320,000
Assets	$19.8B	$25.6B
Investment Choices	75	14
Management Fee (%)	0.14%	0.05%
Management Fee ($)	$25.9M	$12.8M
Default Option	Savings Fund	Target Date Funds
Target Date Assets	$3.1B	$9.8B

Our Thought Leadership

Pension & Investment Defined Contribution Innovation Award 2018

The Future of the UC Retirement Savings Program

Guaranteed Income:
Adding a deferred annuity to our Target Date Funds

Pension

Active Members (129,879)

Retired Members (75,924)

Inactive Members (35,647)

1 icon represents 10,000 members

Assets $70B

21–23% Contributions

- 14% Employer
- 7-9% Employee

Average Active Age (45.0 yrs)

7.25% Investment Earnings

- +5.55% Expected Real Rate of Return
- +3.0% Inflation
- (0.8%) Expense Adjustment
- (0.5%) Risk Adjustment (55% Confidence)

87% Funded Ratio (Estimated)

Liabilities $77B

Benefits

Average Age of Retirement **60.6 yrs**	Average Service Credit **20.7 yrs**
Annual Income **$45,192**	Monthly Income **$3,766**

Pension

Highlights

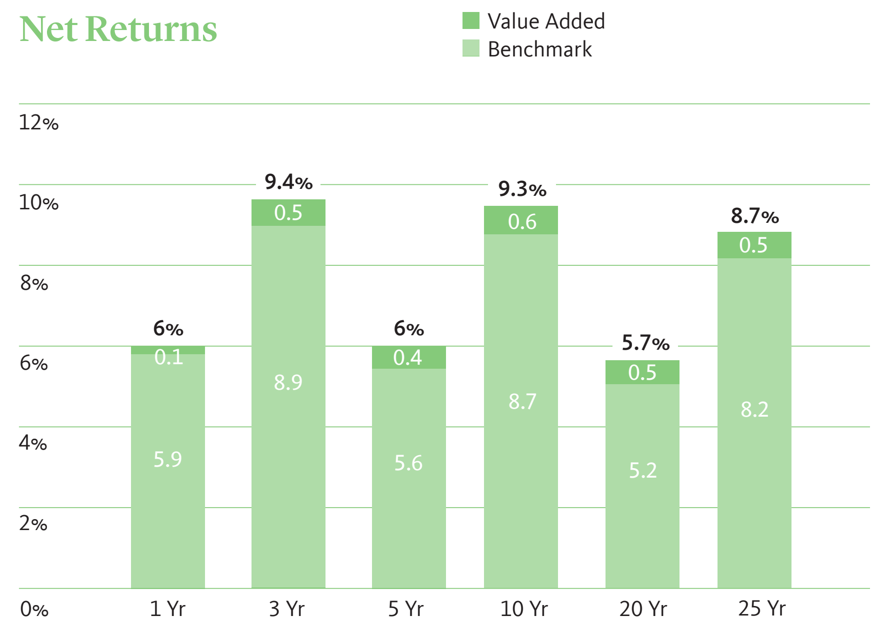
Gross Return	6.6%
Assets	$70B
Net Return	6%

June 30, 2018	$66.8B
Market Gains	$4B
Value Added	$30M
Net Cash Flow	($0.8B)
June 30, 2019	$70B

Performance

	Market Value in Billions ($)	1 Yr (%)	3 Yr (%)	5 Yr (%)	10 Yr (%)	20 Yr (%)	25 Yr (%)
Pension	**70**	**6**	**9.4**	**6**	**9.3**	**5.7**	**8.7**
Policy Benchmark		5.9	8.9	5.6	8.7	5.2	8.2
Value Added		0.1	0.5	0.4	0.6	0.5	0.5
Public Equity	**37**	**5.2**	**12.6**	**6.8**	**11**	**4.8**	**8.5**
Income	**15.3**	**7.6**	**3.7**	**3.3**	**5.2**	**5.9**	**7.4**
Core	9.5	7.4	2.9	3.2	4.4	5.5	7.1
High-Yield	2.2	7	6.9	4.6	9.2	–	–
Emerging Market Debt	1.7	12	5.1	4.2	6.5	–	–
TIPS	1.8	5.1	2.4	2	3.9	–	–
Other Investments							
Absolute Return	4.3	6.9	6.1	3.9	6.2	–	–
Private Equity	4.1	13.7	15.5	13.1	14.4	13.6	18.4
Real Estate	4.3	6.6	7.7	10.5	7.4	–	–
Real Assets	1.5	3.8	7.2	(0.4)	–	–	–
Cash	**3.4**	**2.5**	**1.7**	**1.6**	**3**	**–**	**–**

Net Returns

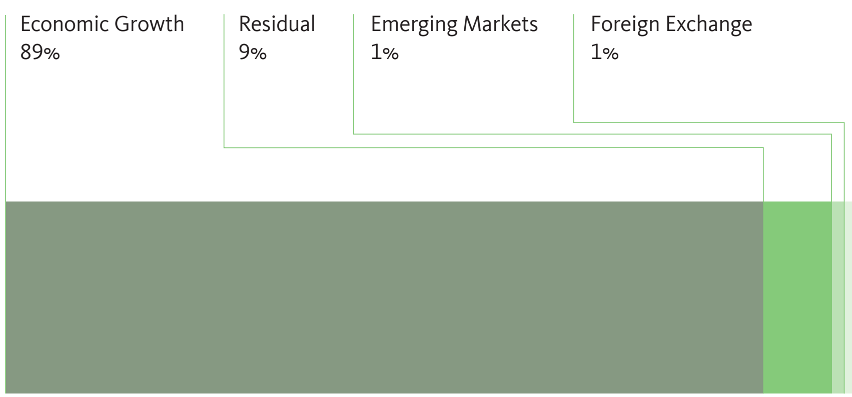


Asset Allocation

	Market Value in Billions ($)	Portfolio Weight (%)	Long-Term Policy Weight (%)
Public Equity	**37**	**52.9**	**50**
Income	**15.3**	**21.8**	**20**
Core	9.5	13.6	13
High-Yield	2.2	3.1	2.5
Emerging Market Debt	1.7	2.5	2.5
TIPS	1.8	2.6	2
Other Investments	**14.3**	**20.4**	**30**
Absolute Return	4.3	6.2	10
Private Equity	4.1	5.8	10
Real Estate	4.3	6.1	7
Real Assets	1.5	2.2	3
Cash	**3.4**	**4.9**	**–**
Total	**$70B**	**100%**	**100%**

Risk Allocation

Volatility 8.3%



Policy Benchmarks

		Target (%)	Minimum (%)	Maximum (%)
Public Equity	**MSCI All Country World Index IMI Tobacco Free**	**55.2**	**45.2**	**65.2**
Income				
US Core	Bloomberg Barclays US Aggregate Bond Index	**13.8**	**7.3**	**20.3**
High-Yield	Merrill Lynch High Yield Cash Pay Index	2.6	1.4	3.9
Emerging Market Debt	JP Morgan Emerging Markets Bond Index Global Diversified	2.6	1.4	3.9
TIPS	Bloomberg Barclays US TIPS	2.1	1.1	3.1
Other Investments				
Absolute Return	HFRI Fund of Funds Index	6.3	3	9.6
Private Equity	Russell 3000 + 1.5%	5.4	2	8.7
Real Estate	NCREIF Open End Diversified Core Equity Index	6.1	3.7	8.4
Real Assets	Actual Portfolio Returns	2	1	3
Cash		**3.9**	**0**	**14**

Total Return Investment Pool

Highlights

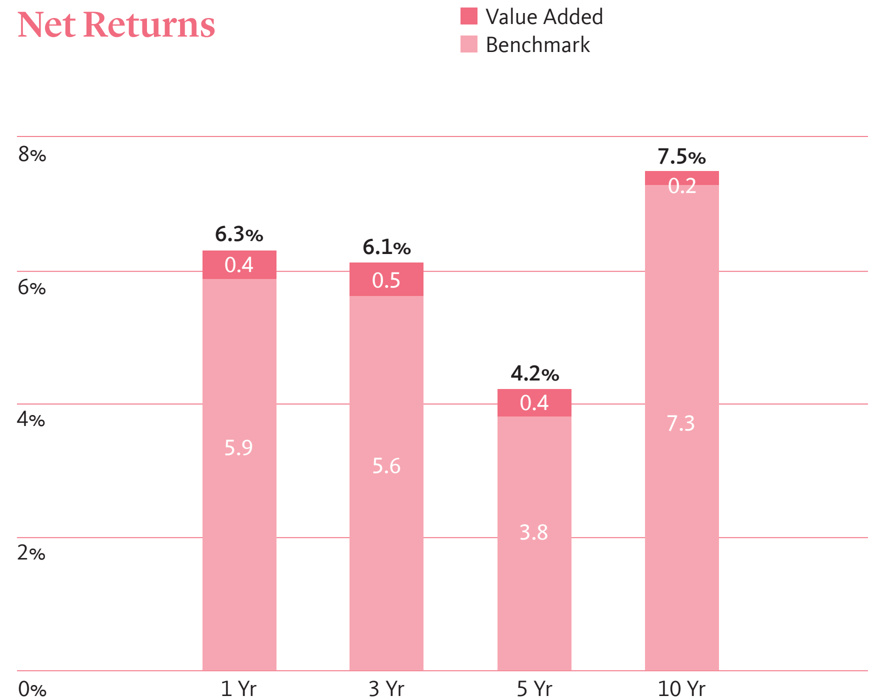
Gross Return	6.6%
Net Return	6.3%
Assets	$9.2B

June 30, 2018	$9.3B
Market Gains	$0.5B
Value Added	$30M
Net Cash Flow	($0.6B)
June 30, 2019	$9.2B

Performance

	Market Value in Billions ($)	1 Yr (%)	3 Yr (%)	5 Yr (%)	10 Yr (%)
Total Return Investment Pool	**9.2**	**6.3**	**6.1**	**4.2**	**7.5**
Policy Benchmark		5.9	5.6	3.8	7.3
Value Added		0.4	0.5	0.4	0.2
Growth	**3.3**	**6**	**12.3**	**6.3**	**11.2**
Public Growth	3.2	5.3	11.5	6.3	11.2
Private Growth	0.1	32.4	26.8	–	–
Income	**4.6**	**8.1**	**3.5**	**3.4**	**5.7**
Public Income	4.2	8	3.2	3.3	5.7
Private Income	0.4	9.3	6.2	–	–
Other Investments					
Absolute Return	1.2	0.5	1.1	0.3	–
Cash	**0.1**	**2.3**	**1.8**	**1.6**	**–**

Net Returns

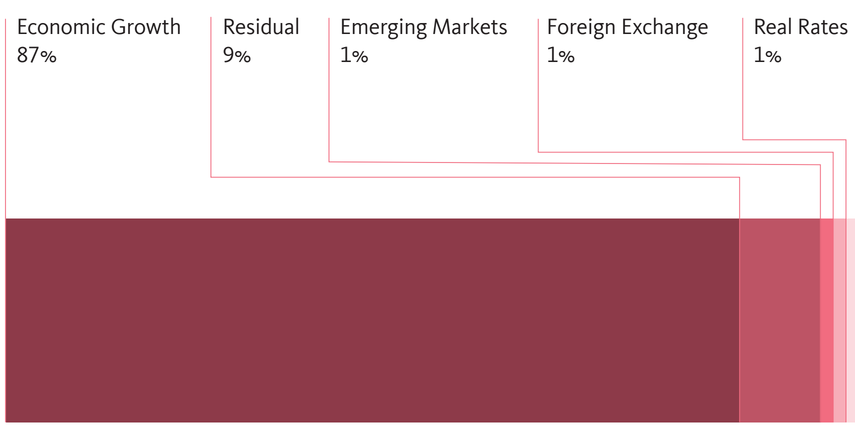


Asset Allocation

	Market Value in Billions ($)	Portfolio Weight (%)	Long-Term Policy Weight (%)
Growth	**3.3**	**35.8**	**35**
Public Growth	3.2	34.7	
Private Growth	0.1	1.1	
Income	**4.6**	**49.9**	**50**
Public Income	4.2	45.7	
Private Income	0.4	4.2	
Other Investments			
Absolute Return	1.2	13.2	15
Cash	**0.1**	**1.1**	**0**
Total	**$9.2B**	**100%**	**100%**

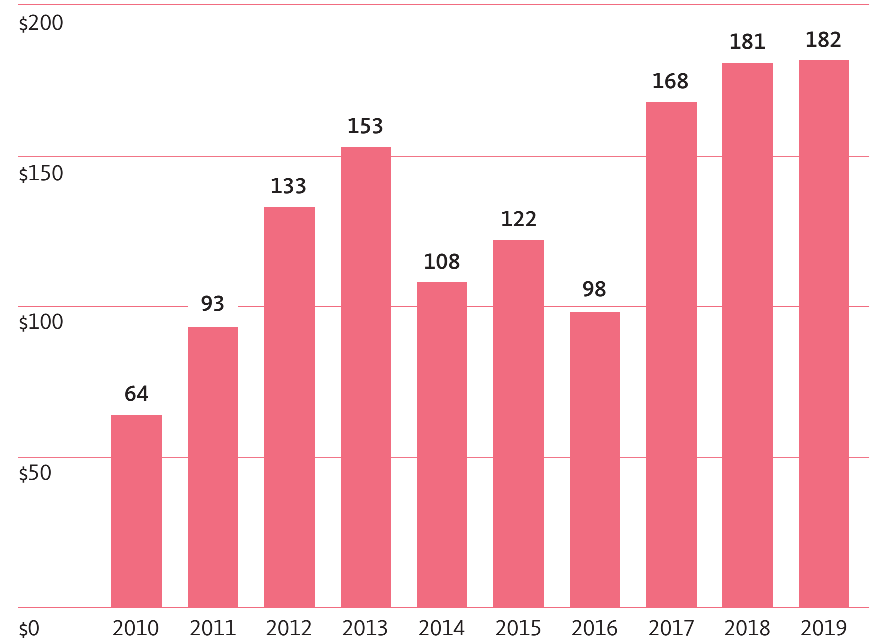
Risk Allocation

Volatility 5.2%



Total Payout

Value in Millions ($)



Policy Benchmarks

		Target (%)	Minimum (%)	Maximum (%)
Growth	MSCI All Country World Index IMI Tobacco Free	35	30	40
Income	Bloomberg Barclays US Aggregate Index	50	45	55
Absolute Return	HFRX Absolute Return Index	15	5	25

Short Term Investment Pool

Highlights

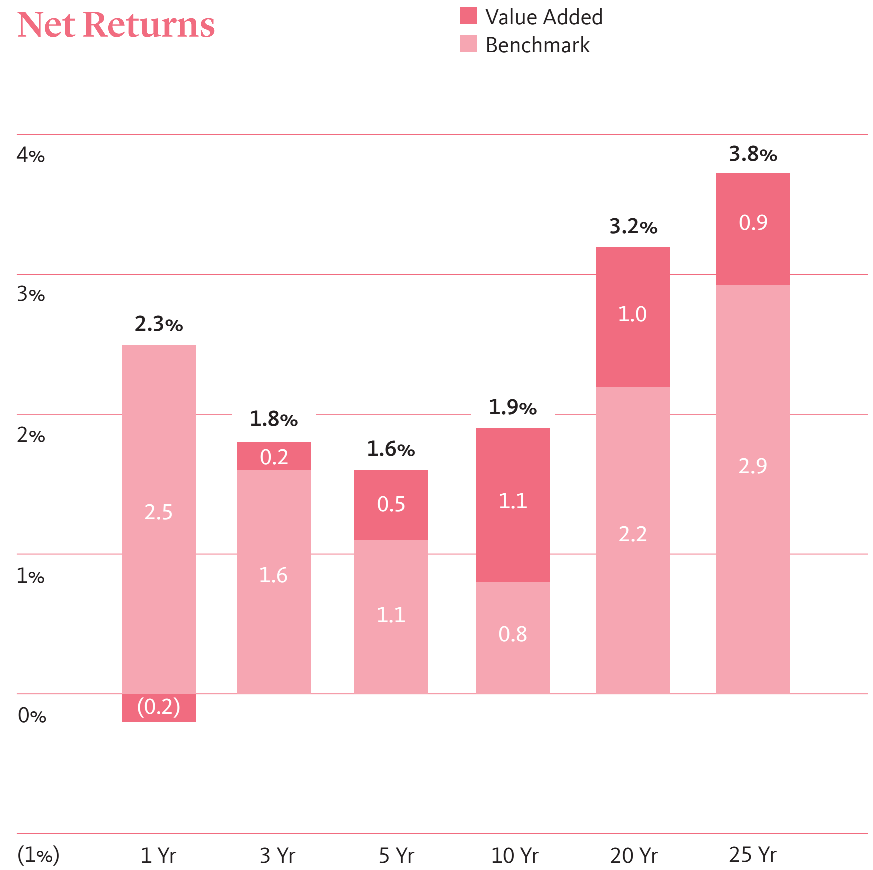
Gross Return **2.3%**

Assets **$5.6B**

Net Return **2.3%**

June 30, 2018	$6.2B
Market Gains	$0.2B
Value Added	($10M)
Net Cash Flow	($0.8B)
June 30, 2019	$5.6B

Net Returns



Policy Benchmarks

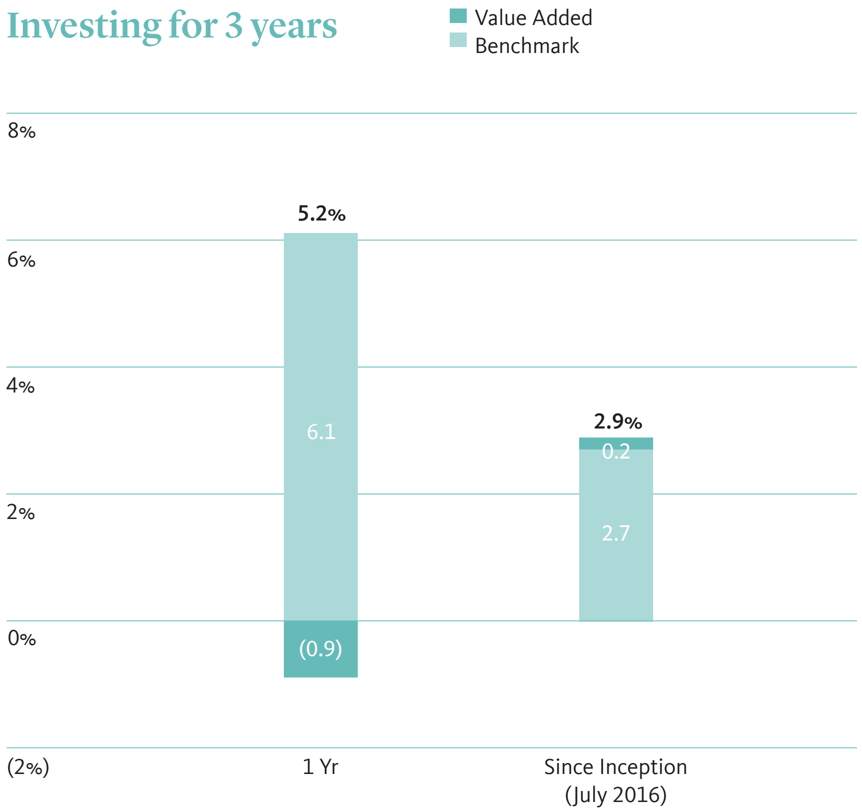
		Target (%)
Fixed Income	Weighted Average of Income Return on a Constant Maturity Two-Year US Treasury Note and the Return on US 30-Day Treasury Bills	100%

Fiat Lux Insurance

Highlights

Gross Return	5.2%	Assets	$1.1B
Net Return	5.2%		

Investing for 3 years



Asset Allocation

		Market Value in Billions ($)	Portfolio Weight (%)	Long-Term Policy Weight (%)
Growth	MSCI All Country World Index IMI	0.1	12	20
Income	Bloomberg Barclays Intermediate Aggregate Index	0.7	64.8	65
Alternatives	HFRI Fund of Funds Index	0.1	7.3	15
Cash	Citigroup 3-month T-Bill	0.2	15.9	0
Total		$1.1B	100%	100%

Policy Benchmarks

		Target (%)	Minimum (%)	Maximum (%)
Growth	MSCI All Country World Index IMI (Net)	14	–	30
Income	Bloomberg Barclays US Intermediate Bond Index	65	55	100
Alternatives	HFRI Fund of Funds Index	7.5	–	20
Cash	Citigroup 3-month T-Bill	13.5	–	30

Fortune Favors the Agile

To successfully manage more than $126 billion with a small team like ours, it takes more than brain power and hard work.

That's why we take a profoundly different approach: The UC Investments Way. It makes us agile enough to seize opportunities whenever and however we find them. It keeps us focused on staying true to our values and our principles. And it helps us cultivate and nourish strong relationships that can lead to bold, new ideas and enhanced growth.

Looking back over the past five years, it's clear the UC Investments Way works. Looking forward to the next 150 years, we know staying true to our approach while always striving to do better is what will allow us to deliver the best long-term returns for the University of California.

We've Only Just Begun...

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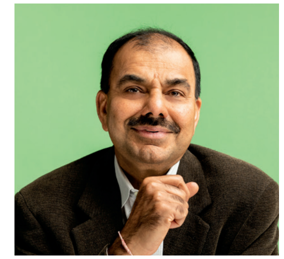










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