

Diversified Returns in 2020: UC Investments' Annual Diversity, Equity and Inclusion Report

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CIO Statement



UC Investments' commitment to diversity, equity and inclusion is premised on what we know to be true, that diverse teams lead to higher performance and better results.¹ I am pleased to share our second annual Diversified Returns report, which documents how our team engaged on diversity, equity and inclusion across our three areas of responsibility – as an employer, an investor and shareholder – in 2020.

The backdrop for our work was a global pandemic, a pandemic-induced recession and an increased national focus on racial injustice. All three of these factors underscored the importance of sustaining the University of California by earning superior investment returns for the pension, endowment, and working capital

pools while creating and maintaining diverse, equitable, and inclusive teams.

In 2020, UC Investments made significant progress in expanding and implementing our Diversified Returns program, which aims to increase our access to and inclusion of diverse talent when we invest, when we hire, and when we exercise our rights as a company shareholder. Among other things, we added several new diverse investment partners, put in place annual DEI goals for our leaders and collaborated with other institutional investors to advance diversity and inclusion at the companies in which we invest. As we did in 2019, we surveyed our investment partners to learn their ownership demographics and spoke with our top investment partners about diversity, equity and inclusion at their firms. In 2020, we expanded the scope of these interviews and demographic surveys to include our top business partners, including consultants and outside counsel.

¹ See for example: *Diversity Matters*. New York: Catalyst, October 1, 2014 (reviews more than 30 research

“Build Knowledge” is one of the 10 pillars that guide our investment strategy, and like any endeavor we commit to, our commitment to diversity, equity, and inclusion is premised on continuous learning. Another pillar is "Risk Rules," and navigating the financial landscape without accessing the full range of top talent would be akin to tying one hand behind our backs. That is a risk we are unwilling to take. We will “Team Up” to ensure inclusion. And the capstone will be our "Centennial Performance."

Our strategy and tactics to increase diversity, equity, and inclusion will help financially sustain the University of California for at least the next 100 years.

As this report makes clear, our success is not summed up by a single metric; we do not chase arbitrary numbers or fill quotas. Our success here involves people, and culture, and human relationships, and our efforts and results will evolve. Our bottom line will ultimately telegraph the measure of our success. And speaking of the bottom line: early indications are that at least two of the diverse-owned firms we partnered with this past fiscal year are out-performing; in fact, we have already increased our initial allocations to each of them by a combined 50%.

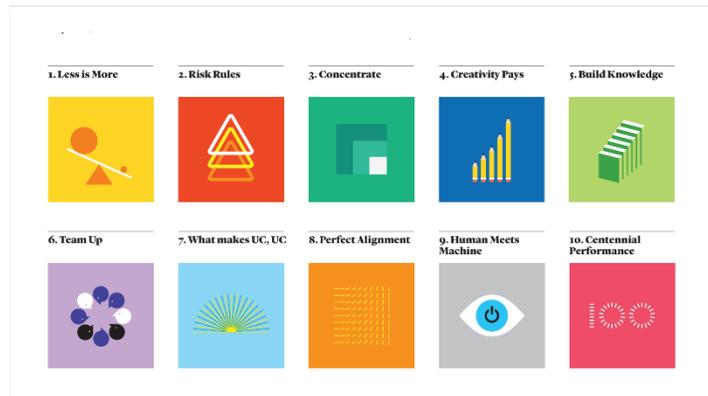
We believe that, by sharing this annual report, we can help inspire other influential institutional investors to do the same, to the good of our University of California beneficiaries and of the asset management industry.

While we are proud of the progress we made in 2020 we are mindful that there is much to learn - and do - on the journey ahead. We look forward to your collaboration along the way.

Sincerely,



Jagdeep Singh Bachher
Chief Investment Officer



Our Commitment

As part of the University of California, UC Investments is fully committed to diversity and inclusion. Through our Diversified Returns program, we are harnessing the power of diversity, equity and inclusion to enable us to be better at what we do – manage risk and add value to our portfolios.

Building on the U.C. Board of Regents' foundational Policy on Diversity, UC Investments developed a "Statement on Diversity, Equity and Inclusion." Taken together, these two documents establish the guiding principles for our commitment to incorporate diversity, equity and inclusion into our investment processes.

The U.C. Board of Regents articulate the University's commitment to diversity in part as follows:

"The diversity of the people of California has been the source of innovative ideas and creative accomplishments throughout the state's history into the present. Diversity – a defining feature of California's past, present, and future – refers to the variety of personal experiences, values, and worldviews that arise from differences of culture and circumstance. Such differences include race, ethnicity, gender, age, religion, language, abilities/disabilities, sexual orientation, gender identity, socioeconomic status, and geographic region, and more.

[The University of California is committed] to the full realization of its historic promise to recognize and nurture merit, talent, and achievement by supporting diversity and equal opportunity in its education, services, and administration, as well as research and creative activity. The University particularly acknowledges the acute need to remove barriers to the recruitment, retention, and advancement of talented students, faculty, and staff from historically excluded populations who are currently underrepresented."

Regents Policy 4400

UC Investments

Statement on Diversity, Equity and Inclusion

The Office of the Chief Investment Officer of the Regents (UC Investments) embraces the University of California's Board of Regents' policy on diversity (Policy 4400), which articulates the value of diversity to the University at large.

As investment professionals, we believe that diverse teams achieve higher performance and better results and that accessing the full range of top talent is critical to managing risk.

Fostering diversity - in experience, thought and background—on our team, among our investment partners and within our investee companies is key to achieving superior operational and investment performance. The many dimensions of demographic diversity, including gender, race and ethnicity, age, veteran status, gender identity and sexual orientation and disability status, are a part of the rich tapestry of lived experience that informs cognitive diversity.

Through our Diversified Returns program, UC Investments incorporates diversity, equity and inclusion into our investment and operations processes in furtherance of our mission to sustain the University of California financially for the next 100 years.

We are committed to engaging with intentionality on diversity, equity and inclusion. We will collaborate with - and learn from - others and share our progress along this journey.

The Diversified Returns Program

Through our Diversified Returns program, UC Investments engages on diversity, equity and inclusion comprehensively and intentionally across our three spheres of influence: as an employer, an investor and a shareholder.

CHART 1

Diversified Returns Helps Us Deliver Centennial Performance

Diverse teams achieve higher performance and better results.
Accessing the full range of top talent is critical to managing risk.
We engage with intentionality on diversity, equity and inclusion.

Institutional Investor	Employer	Shareholder
 We Team Up with investment partners across diverse backgrounds to deliver superior risk-adjusted returns.	 We intentionally recruit top performing talent to Build Knowledge.	 Because Risk Rules, we seek to advance cognitive diversity on the boards and workforces of investee companies.

In 2020, we took significant steps to develop integrated components of the Diversified Returns program infrastructure, namely the strategic framework, program goals, metrics, and leadership goals.

CHART 2



CHART 3

Diversified Returns:
 FY20-21 Annual Program Goals



We also developed metrics to track our progress toward annual program goals (see Chart 4). It is important to note that the overarching metric is investment performance – the performance of our managers, our team and the companies in which we invest.

CHART 4

Diversified Returns Program:
 FY 20-21 Metrics



Engaging as an Employer

UC Investments is a high-performing, culturally, cognitively and demographically diverse team of 53 people. One measure of our diversity is the number of native tongues – 21 in all – of our team members.

CHART 5



In 2020, UC Investments undertook numerous initiatives to leverage diversity, equity and inclusion in our role as an employer. Notably, CIO Jagdeep Singh Bachher, COO Arthur Guimarães and all asset class leaders at UC Investments now have annual goals that are directly linked to the annual Diversified Returns program goals. This accountability across senior leadership will build the foundation for future success. UC Investments leaders have specific and measurable annual goals for building their knowledge around diversity, equity and inclusion; for implementing the diverse slate rule for any new hires²; for implementing the diverse slate rule for new investment partners; and for building a diverse professional network.

Recruiting & Hiring

Building upon our 2019 work to adopt best practices in DEI recruiting and hiring, in 2020 we took significant additional steps.

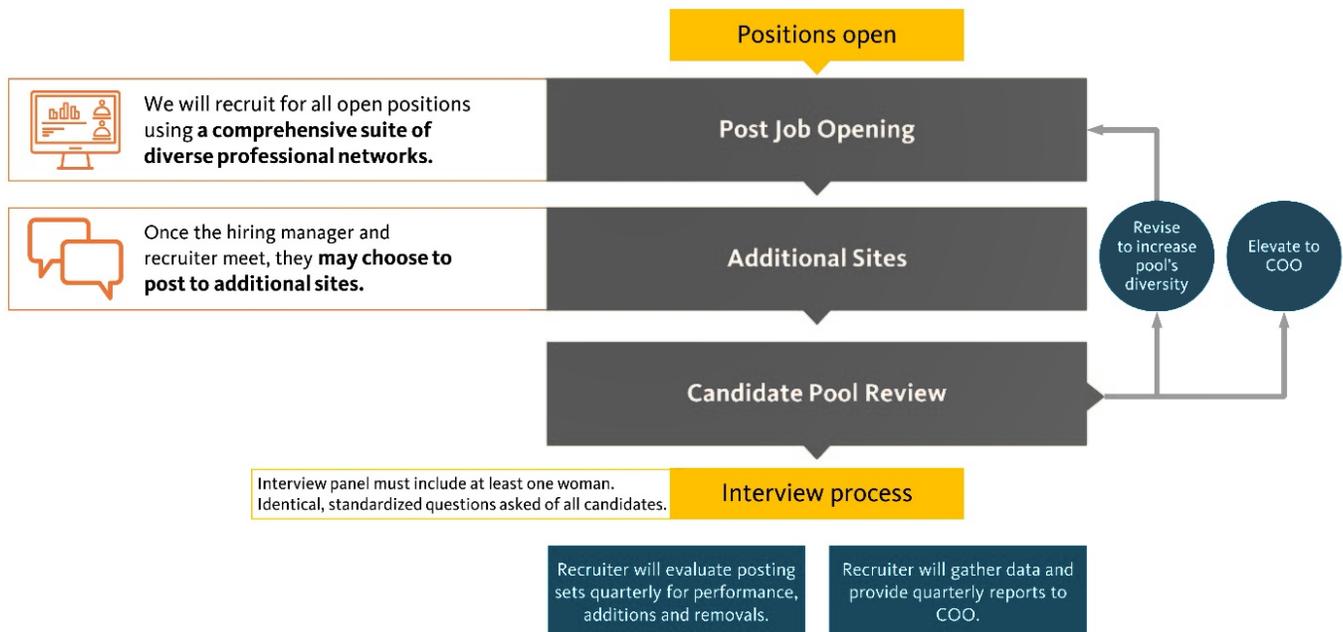
To reap the benefits of diversity in the workplace, leading employers often start by ensuring a large, diverse pool of talented candidates. One way to do so is to require that candidate pools be diverse before the hiring process may advance. In 2019, UC Investments piloted the use of such a “diverse slate rule” in one of our asset classes; in 2020, we expanded its use to all hiring at UC Investments. Due to a hiring freeze brought about by Covid-19, however, we have not had the opportunity to put our new policy into practice.

² The “diverse slate rule” refers to a hiring or other selection process in which hiring managers are required to fill open positions using a demographically diverse qualified applicant pool.

When we are able to hire again, we will begin every hiring process with broad outreach including targeted outreach to qualified women and people of color, using a suite of contacts and networks we curated in 2020 and will update regularly. Systematically tapping into networks of professional organizations, such as the National Association of Investment Companies (NAIC), 100 Women in Finance and the Toigo Foundation, will enable UC Investments to “widen the funnel” and attract a diverse slate of qualified applicants. In addition, when we resume hiring, we will put in place another DEI hiring best practice: ensuring diversity on every interview panel.

CHART 6

Recruiting Process: Intentionally Building Diverse Candidate Pools



Learning

To integrate Diversified Returns across our work, we expect all UC Investments team members to actively build their knowledge of diversity, equity and inclusion. We took a number of steps to facilitate this practice in 2020. For example, Chief Investment Officer Bachher convened (virtually, due to Covid-19), a series of interviews - open to UC Investments team members, endowment clients and other UC colleagues - with female and diverse leaders in finance and asset management.

UC Investments also developed a DEI learning “toolkit.”³ The DEI toolkit is essentially a reference library in the form of a smartphone app, available only to the UC Investments team. Topics covered include, for example, how to run inclusive meetings and events, the science of unconscious bias and the importance of being “color brave,” not color blind.⁴

This past year, UC Investments’ senior leaders were required to take a multi-part, online unconscious bias training, offered through the UC Office of the President. This training is the start of our ongoing commitment to increase our awareness of the unconscious biases we all have and to take active steps to overcome them.

Transparency

We developed a Diversified Returns webpage on the UC Investments website to increase transparency around this important work, which we know is of interest to many of our stakeholders.⁵ We hope that by sharing our journey, we can help advance transparency in the U.S. asset management industry overall.



“What Makes, UC, UC”

UC Investments partnered with the Center for Equity, Gender and Leadership (EGAL) at the UC Berkeley Haas School of Business in 2020. We supervised a project team of MBA students that developed our DEI Learning Toolkit. Enrolled in EGAL’s “Equity Fluent Leadership” class, these five students conducted interviews to assess what DEI topics would be of most interest to the UC Investments team. They then researched academic and business articles, books, podcasts and videos and assembled them into a smartphone app. The app is available to all UC Investments employees and will be regularly updated.

³ UC Investments acknowledges the work of our colleagues at the Lawrence Berkeley Laboratory’s Inclusion Diversity Equity and Accountability program, which provided us with the idea to create a DEI toolkit for our team. See, <https://ideas-in-action.lbl.gov/>

⁴ See Mellody Hobson at: https://www.ted.com/talks/mellody_hobson_color_blind_or_color_brave?language=en

⁵ See: <https://www.ucop.edu/investment-office/sustainable-investment/diversified-returns/index.html>

Demographic Data

UC Investments' employees are roughly evenly split between investment professionals and those who work in Operations and Risk. Our workforce demographic statistics as of April 2020 (by gender and race) are summarized in charts 7 – 9.

CHART 7

UC Investments Workforce Diversity Trends - Gender

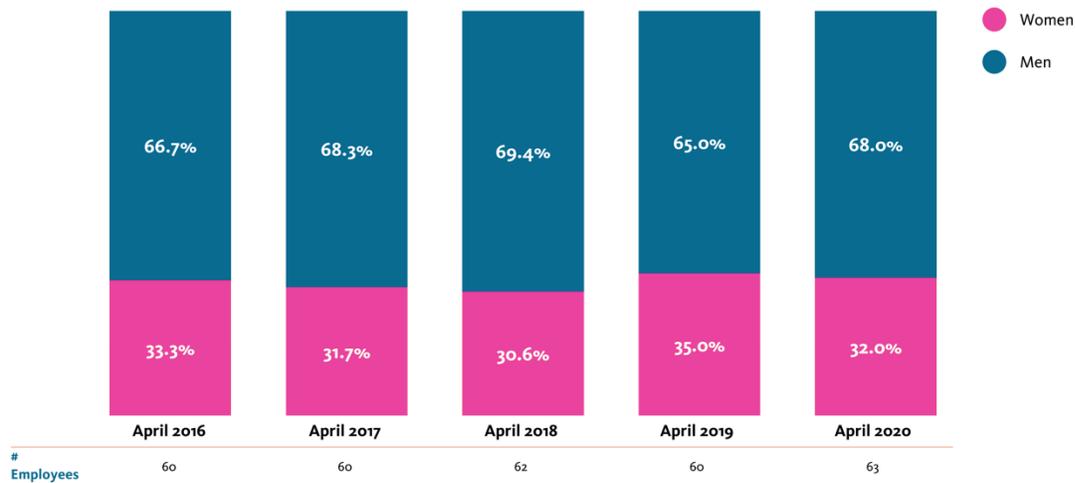


CHART 8

UC Investments Workforce Diversity Trends - Race

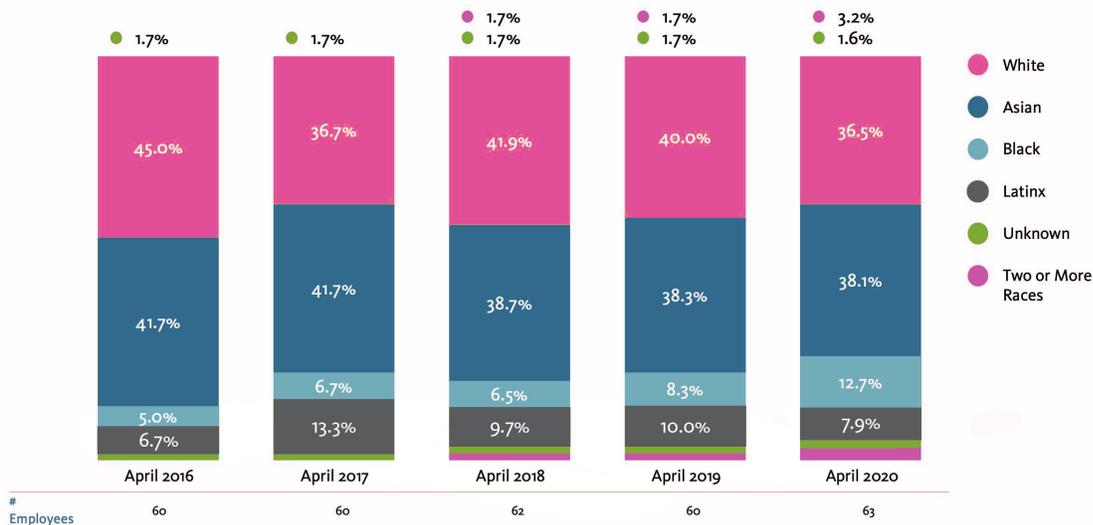


CHART 9

UC Investments Workforce Demographics by Job Type



For comparative purposes, a 2018 analysis of the US financial services industry’s workforce demographics found that:

Overall female representation in the industry is 44%, with representation declining as one moves up the hierarchy. The highest representation is at the Staff level, which is roughly two-thirds female (64%). Representation drops below 40% at the Professional (38%) and Manager (35%) levels, and fewer than one in four Executives are women. . . . People of color collectively make up 32% of the overall industry workforce in the US. People of color representation hovers in the thirties at the lower levels, dropping to one-quarter at the Manager level and 14% at the Executive level.⁶

Looking ahead

Moving forward, we will continue to provide the resources and tools our team needs to integrate diversity, equity and inclusion into its work. We are especially focused on expanding

⁶ Gail Greenfield, Principal, Workforce Strategy and Analytics, Mercer, Testimony before the US Financial Services Committee Subcommittee on Diversity and Inclusion, February 12, 2020, “A Review of Diversity and Inclusion at America’s Large Banks,” at 4. Available at: <https://financialservices.house.gov/uploadedfiles/hhrg-116-ba13-wstate-greenfieldg-20200212.pdf>

the training opportunities around implicit bias and moving toward “conscious inclusion.”⁷ Also, once we are able to hire again, we look forward to expanding our use of diversity, equity and inclusion best practices in recruiting, hiring, retention and advancement. In particular, we will explore the use of software products to assist us in writing inclusive position descriptions.

Engaging as an Institutional Investor

2020 Initiatives

UC Investments’ small team takes full advantage of market opportunities by partnering with third party investment partners across all asset classes. In 2020, we took additional steps to maximize access to the benefits of diverse and inclusive teams among our investment partners. We put in place a “diverse slate” approach for the selection of new investment partners, seeking to advance our commitment to expand our partner searches. In addition, our operational due diligence questionnaire now includes qualitative questions on potential investment partners’ commitment to diversity and inclusion.

Our team expanded its network, albeit in the virtual world of Covid-19, building new relationships and deepening others with trade organizations such as the National Association of Investment Companies (NAIC) and The Investor Diversity Exchange (TIDE). We also shared our perspective on evolving industry practices around diversity, equity and inclusion. For example, we provided input for the Institutional Limited Partnership Association’s (ILPA) Diversity & Inclusion Roadmap, the first-ever clearinghouse for best practices around diversity and inclusion⁸ in the private equity industry. UC Investments also signed on to ILPA’s “Diversity in Action program,”⁹ which we hope will lead to positive change among ILPA members.

To communicate the importance of diversity and inclusion to our investment partners, UC Investments continued the two-pronged strategy we launched in 2019: partner interviews and partner demographic surveys. In this second year of our Diversified Returns program, we were heartened by a noticeable shift among our investment partners. Not only did a higher percentage of them respond to our demographic survey than in 2019, but in conversations with our largest investment partners, we noticed a greater eagerness to learn and engage, as described more fully below.

Finally, in 2020, we expanded the scope of our Diversified Returns program by raising diversity, equity and inclusion topics with our consultants, data providers and other business partners, as described more fully below.

⁷ The phrase “conscious inclusion” is attributed to Korn Ferry. See, https://www.kornferry.com/content/dam/kornferry/docs/fact-sheets/ConsciousInclusion_FactSheet_Final.pdf

⁸ See https://ilpa.org/ilpa_di/

⁹ See https://ilpa.org/ilpa_diversityinaction/

Qualitative Interviews with Investment Partners

As we did in 2019, UC Investments initiated qualitative conversations around DEI with a subset of our investment partners in 2020. Our objectives for the calls were simple: to convey that UC Investments places a priority on DEI and to learn how our partners were themselves engaging on DEI. We spoke with 19 of our U.S. based investment partners, across most asset classes. This group of 19 consisted of our top 15 partners (as measured by value of assets placed with them) and four of the five partners who did not respond to our demographic survey in 2019.

Our conversations covered a range of topics including, but not limited to, the firm's business case for diversity, the firm's approach to recruiting, hiring and promoting diverse talent, and programs in place for fostering an inclusive workplace. In sum, of the universe of our most significant investment partners, the larger their size and scope, the more sophisticated their approach to diversity, equity and inclusion, regardless of asset class.

Thirteen of the 19 interviewed were partners we had interviewed in 2019, so our conversations with them focused on how their journey had progressed over the year. What we learned was encouraging. Almost without exception, the firms with whom we had spoken in 2019 reported progress made. Partners who in 2019 were unable to articulate a business case for DEI did so in 2020. Partners who in 2019 were beginning to engage on DEI had built new programs and made strategic hires to carry them out in 2020. Chart 10 summarizes what we learned.

CHART 10

DEI Practices at 19 Investment Partners



Investment Partner Demographic Survey

In 2020, as we did in 2019, we undertook a demographic survey of our investment partners in every asset class. We set out to answer two questions in particular:

1. What percentage of our assets under management is managed by firms owned or led by women or diverse populations?
2. How many of our investment partners are firms owned or led by women or diverse populations?

UC Investments' definition of diverse spans multiple demographic dimensions: gender and gender identity, race and ethnicity, sexual orientation, veteran status, and disability status. Because rigorous and comprehensive demographic data on our investment partners was not available from third party sources, UC Investments designed and conducted a survey to gather this data.¹⁰

Survey Methodology

To gather comprehensive data, we designed our survey to cover both privately and publicly owned investment partners. For privately owned firms, we asked about the demographics of their ownership, broken down by individual ownership percentages. For publicly owned firms, we asked about the demographics of the decision makers on the team managing UC's investments. Data is as of June 30, 2020, the end of our fiscal year.

Excluded from the survey were products and asset classes that UC Investments manages internally (e.g., Short Term Investment Pool and part of Fixed Income). Furthermore, we did not survey investment partners headquartered outside the United States and those whose relationship with UC Investments was scheduled to end in 2020.

In reporting and aggregating the data, we tracked the same two ownership/leadership thresholds, 25% and 50%, tracked by the landmark 2019 "Knight Foundation report."¹¹

In instances where data reported multiple demographic dimensions of diversity – for example a Black woman veteran – we "count" that person's ownership three times – in the gender, Black and veteran charts. But that person is only "counted" once in the chart reflecting overall diverse ownership.

¹⁰ We continue to explore the possibility of purchasing high quality, comprehensive demographic data. The investment data firm eVestment, for example, announced in 2020 that it will begin collecting staff demographic data from asset managers in 2021. See, Aziza Azimov, "eVestment Will Start Asking Mgrs for Staff Diversity Data in 2021," *Fundfire*, September 30, 2020 and Mariana Lemann, "eVestment Makes Headway with D&I Data Collection; Sets Lofty Goal," *Fundfire*, February 8, 2021.

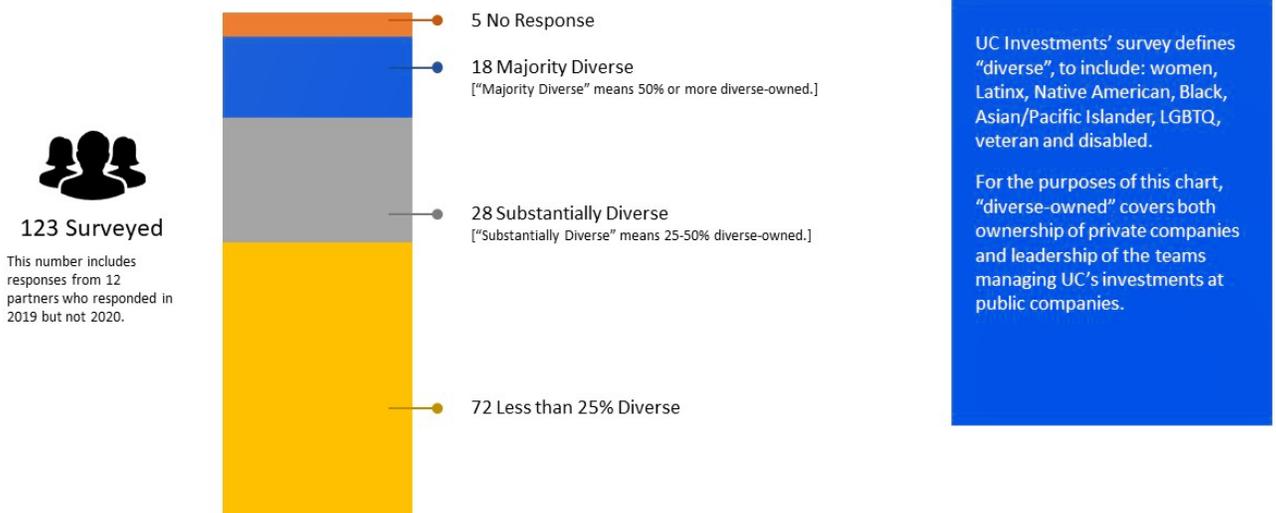
¹¹ See, "Diversifying Investments: A Study of Ownership and Performance in the Asset Management Industry," Lerner, Josh et al., 2019. <https://knightfoundation.org/reports/diversifying-investments-a-study-of-ownership-diversity-and-performance-in-the-asset-management-industry/>

Demographic Survey Results

To gather the best possible data, we worked with our investment partners to drive the survey response rate to 96%, an increase over last year's 92% response rate. Chart 11 provides a summary of the results.

CHART 11

Number of Diverse-Owned Investment Partners



Understanding the Numbers

In 2020, UC Investments added five new investment partners: one Black man-owned, one Black woman-owned, one white woman-owned and two whose "diverse" ownership demographics are below 25%.

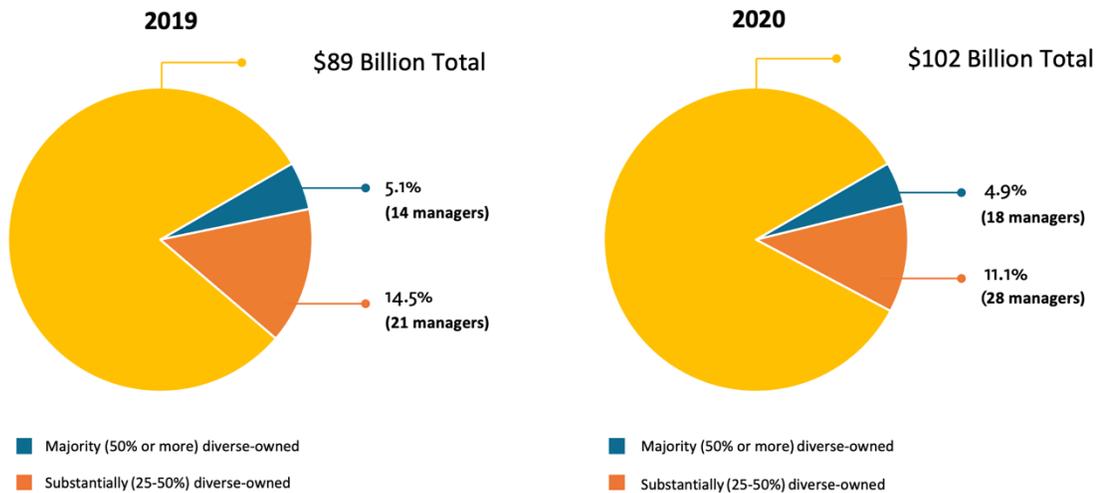
The tables below compare our 2020 demographic survey results to those of our 2019 survey, which was our baseline year. In no instances have we re-stated the 2019 baseline. In addition to adding five new investment partners, five other factors explain the 2020 results:

1. Our passively managed assets, which are not managed by a diverse-owned partner, grew by roughly \$13.4 billion from 2019 to 2020.
2. We redeemed (in full or in part) investment partners that we surveyed in 2019.
3. Investment partners we surveyed in 2019 experienced personnel additions or departures resulting in increases or decreases to their respective substantially or majority diverse threshold levels in 2020.

4. We used publicly available data to correct a few 2020 survey responses we knew to be inaccurate because they either over or under-stated the demographic diversity of their ownership.
5. We included in our 2020 survey a few investment partners inadvertently omitted from the 2019 survey.

CHART 12

Diversity as a Percentage of AUM

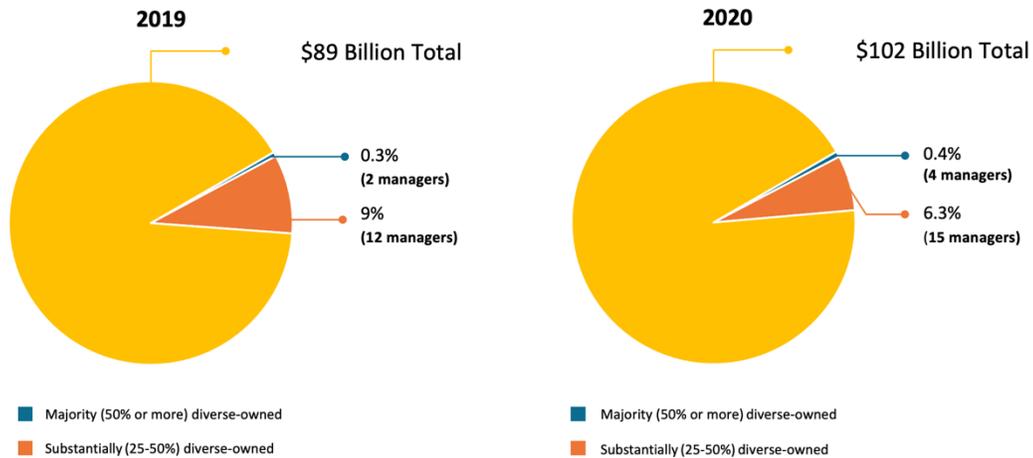


For the purposes of this chart, “diverse-owned” covers both ownership of private companies and leadership of the teams managing UC’s investments at public companies.

While Chart 12 seems to indicate an addition of 11 new “diverse” investment partners, instead, as noted above, UC Investments added three. The other 8 diverse investment partners were actually partners not counted as such in 2019, either because they were inadvertently not surveyed or because they under-counted their “diverse” ownership.

CHART 13

Percentage of AUM Managed by Women-Owned Partners

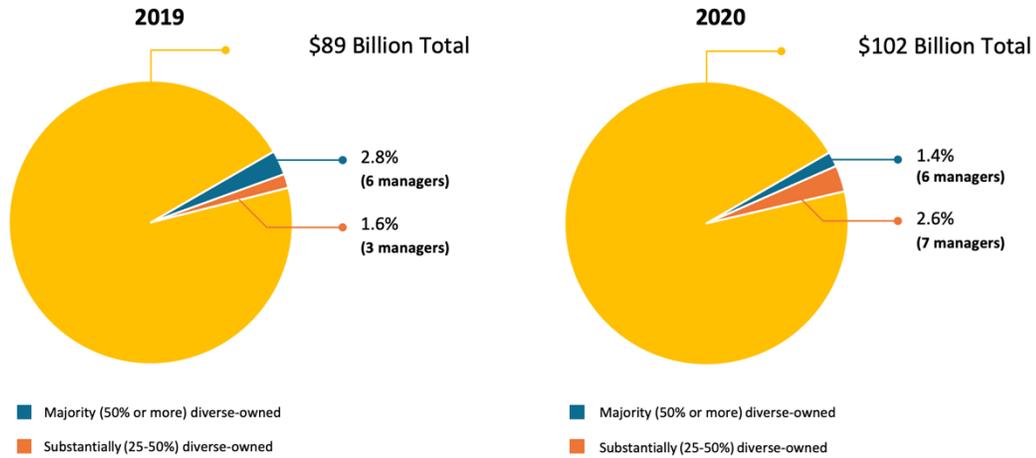


For the purposes of this chart, "diverse-owned" covers both ownership of private companies and leadership of the teams managing UC's investments at public companies.

Chart 13 indicates a drop in AUM managed by women-owned investment partners in 2020 compared to 2019. This drop in AUM is explained by the fact that three investment partners reported being substantially women-owned in 2019 and 2020, which is not the case. The 2020 chart does not "count" these three partners as substantially women owned, which caused the AUM managed by substantially women-owned partners to drop compared to 2019. For additional explanatory notes on Chart 13, please see the Appendix.

CHART 14

Percentage of AUM Managed by Asian/Pacific-Islander-Owned Partners

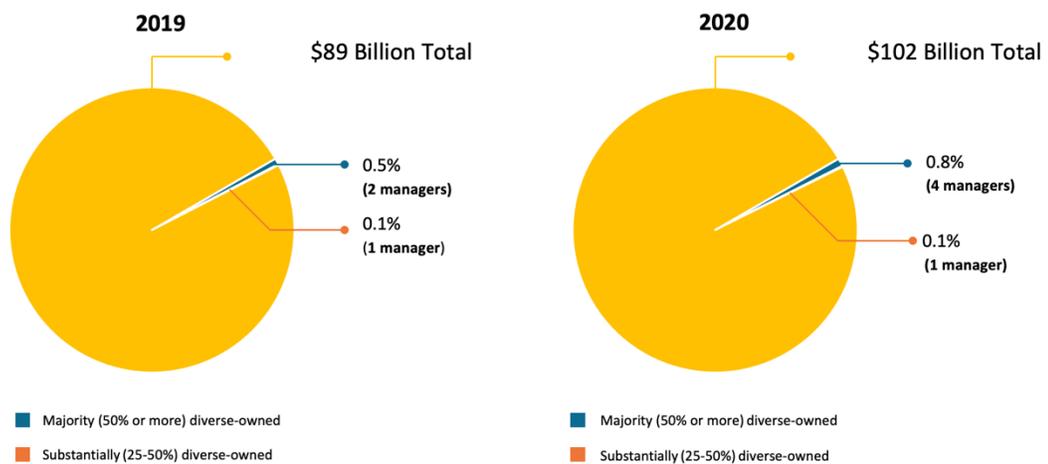


For the purposes of this chart, "diverse-owned" covers both ownership of private companies and leadership of the teams managing UC's investments at public companies.

For explanatory notes on Chart 14, please see the Appendix.

CHART 15

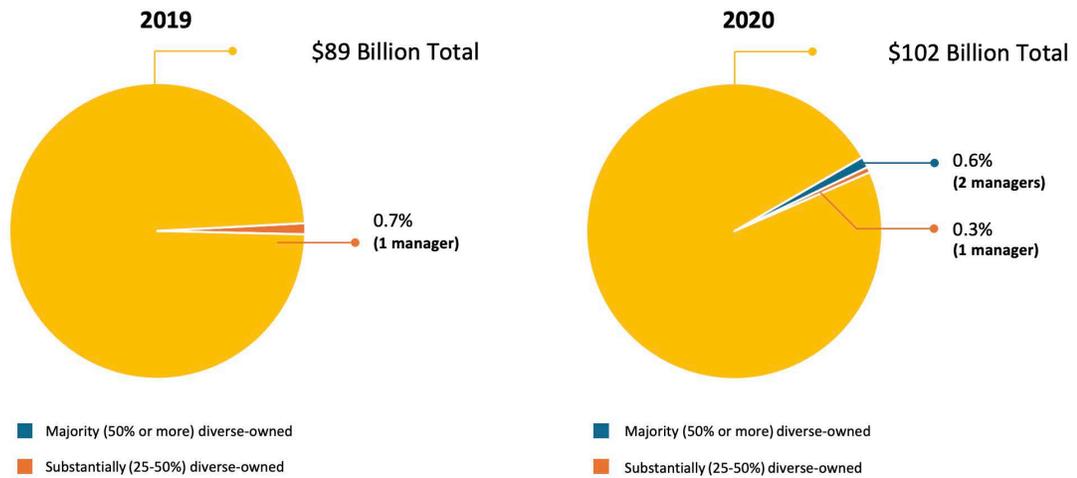
Percentage of AUM Managed by Black-Owned Partners



For the purposes of this chart, "diverse-owned" covers both ownership of private companies and leadership of the teams managing UC's investments at public companies.

CHART 16

Percentage of AUM Managed by Latinx–Owned Partners

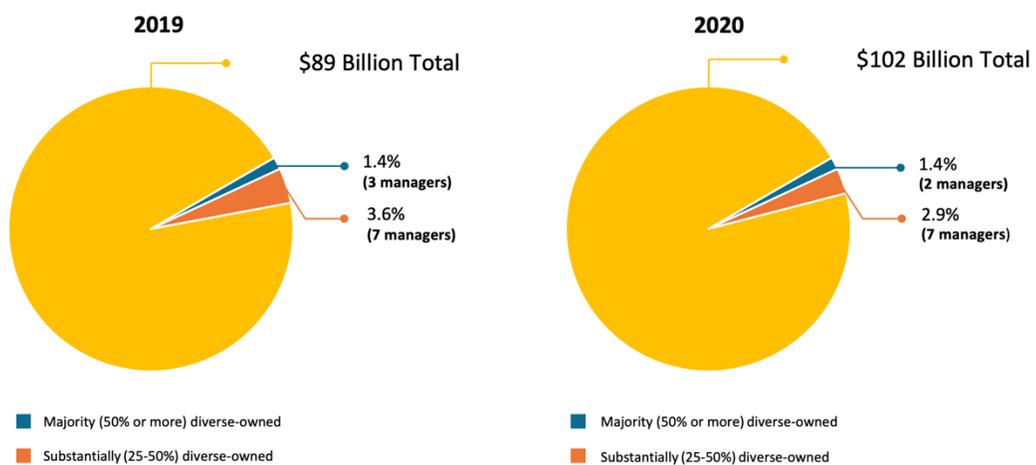


For the purposes of this chart, “diverse-owned” covers both ownership of private companies and leadership of the teams managing UC’s investments at public companies.

For explanatory notes on Chart 16, please see the Appendix.

CHART 17

Percentage of AUM Managed by “Multi-Racial” Owned Partners

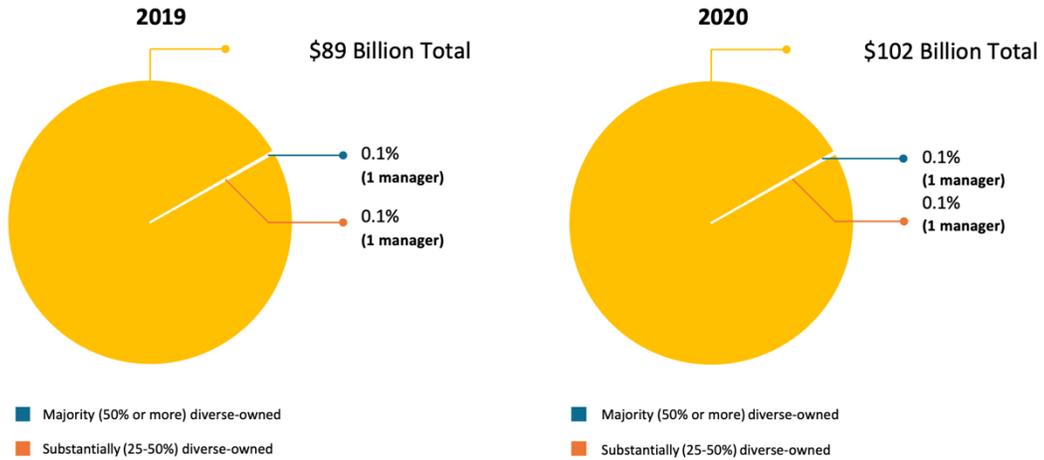


In the context of this report, “Multi-Racial” describes ownership of firms with individuals reporting as multi-racial at a level above the 25% or 50% threshold and/or individuals reporting races other than white that in combination exceed the 25% or 50% threshold.

For the purposes of this chart, “diverse-owned” covers both ownership of private companies and leadership of the teams managing UC’s investments at public companies.

CHART 18

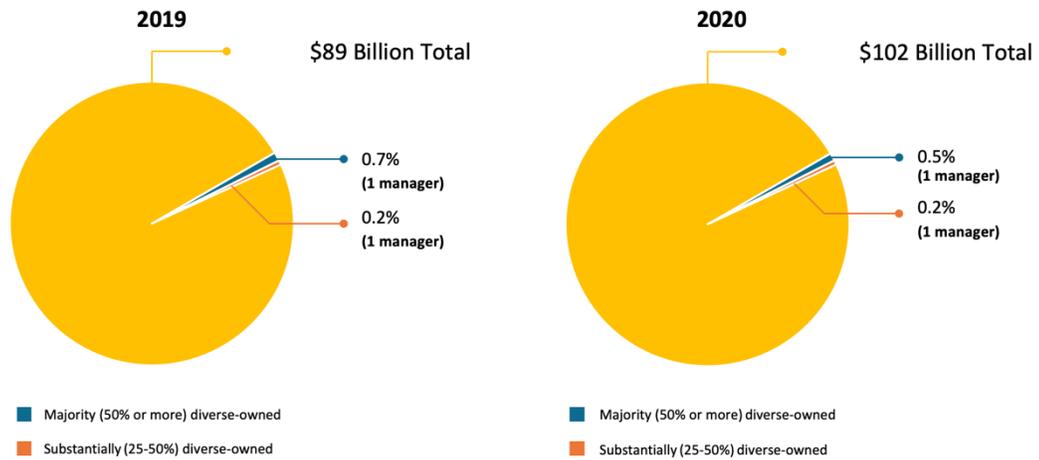
Percentage of AUM Managed by Veteran-Owned Partners



For the purposes of this chart, “diverse-owned” covers both ownership of private companies and leadership of the teams managing UC’s investments at public companies.

CHART 19

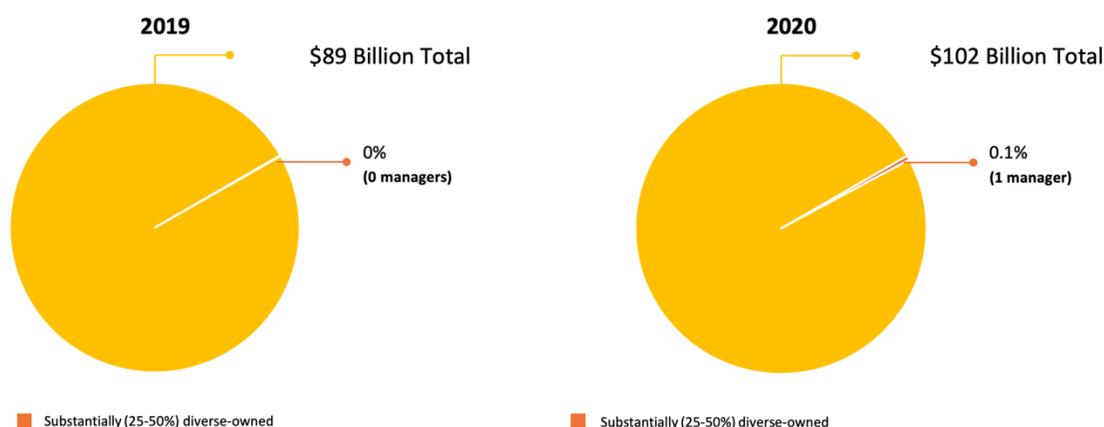
Percentage of AUM Managed by LGBTQ-Owned Partners



For the purposes of this chart, “diverse-owned” covers both ownership of private companies and leadership of the teams managing UC’s investments at public companies.

CHART 20

Diversity as a Percentage of AUM Managed by Disabled-Owned Managers



For the purposes of this chart, "diverse-owned" covers both ownership of private companies and leadership of the teams managing UC's investments at public companies.

In 2020, one of our existing investment partner's ownership demographics changed since the 2019 survey, resulting in substantial ownership by a disabled person.

Demographic Data in Context

Due to the dearth of comparable data, it is challenging to compare the demographics of our investment partners with those of peer institutional investors. In addition, UC Investments, which manages a pension, retirement savings plan, university endowment and working capital, is unusual in its broad scope. The landscape may be changing, however, as more institutional investors move toward greater transparency around the demographics of their investment partners.¹²

Business Partners

UC Investments' business partners – the companies that provide us with professional services such as legal counsel, investment consulting, and investment data – are critical to our success. As such, UC Investments has a business interest in understanding diversity, equity and inclusion practices among these suppliers. Thus, in 2020 we expanded the scope of engagement to include entities in our supply chain beyond investment partners.

¹² For example, in 2020, U.S. Representatives Patrick Kennedy and Emanuel Cleaver released a report detailing the investment partner demographic data for 24 college/university endowments, including UC Investments. See: https://edit-.house.gov/sites/cleaver.house.gov/files/Endowment_Inquiry_Final_Report.pdf

We sought to develop an understanding of our business partners' demographic composition and of their engagement on diversity, equity and inclusion. To do so, we surveyed the business partners who provide services valued at \$100,000 or more annually, comprising a total of 23 companies and the Lawrence Berkeley National Laboratory, accounting for almost \$14 million in spend. In addition, the UC's Office of the General Counsel provided data from its DEI survey of law firms that provide legal counsel to UC Investments, valued at roughly \$2.1 million in 2018.

In addition to asking for demographic data, our survey asked respondents to describe their firm's commitment to diversity, equity and inclusion and any goals they had for advancing diversity, equity and inclusion in their supply chain.

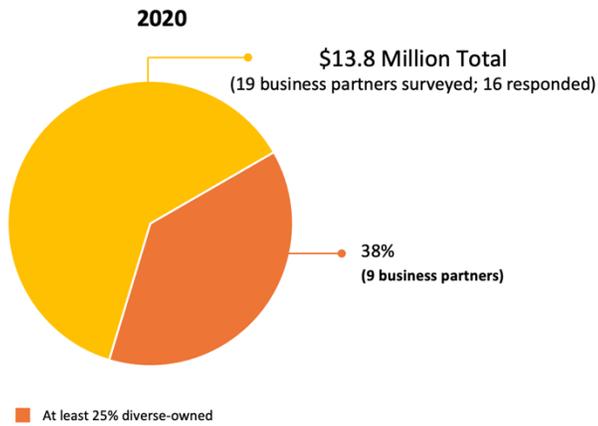
CHART 21

DEI Practices at 16 Business Partners



CHART 22

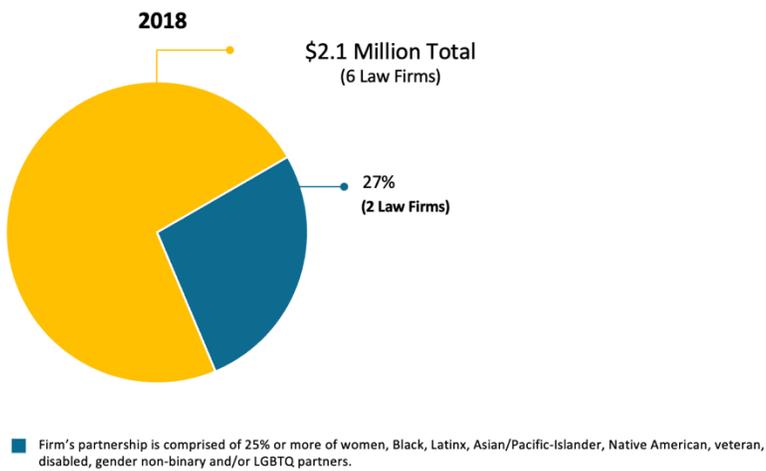
Diverse-owned Business Partners



For the purposes of this chart, "diverse-owned" covers both ownership of privately owned business partners and leadership of publicly owned business partners.

CHART 23

Diverse-owned Outside Counsel



Among our outside counsel, two of the surveyed firms have supplier diversity programs in place.

Looking Ahead

In the coming year, we will continue to engage with existing investment partners and business partners on diversity, equity and inclusion in order to get the best possible performance for the University of California. We will also deliver on two important commitments we made in 2020.

Intentionally Embracing Diversity Enhances Investment Returns

In 2020, Chief Investment Officer Bachher and Regent Richard Sherman announced that:

"over the next four years . . . [UC Investments] will invest at least another \$2 billion with diverse investment firms, in both the private and public realms.

Because we manage the money of the largest public research university in the nation, we are also able to connect promising students from different backgrounds with our most significant investment partners, firms that manage trillions of dollars in assets. We commit to that. We will work with the chancellors of our 10 campuses to create a pipeline of underrepresented talent, today's students who will become tomorrow's finance leaders and entrepreneurs."

Full text available at:

<https://regents.universityofcalifornia.edu/regmeet/july20/i4attach.pdf>

Engaging as a Shareholder

With roughly \$70 billion invested in public equities around the world, UC Investments has a significant interest in corporate governance of the companies we own. As active shareowners, we use the power of our proxy vote as well as direct engagement with certain investee companies, to advance long-term shareholder value.

Sound corporate governance is essential to creating long-term value; one measure of sound corporate governance is the composition of its board of directors. UC Investments engages on corporate governance issues in part as a member of the Council of Institutional Investors (CII).¹³ Like other institutional investors, UC Investments is persuaded by the extensive research

¹³ CII is a nonprofit, nonpartisan association of U.S. public, corporate and union employee benefit funds, other employee benefit plans, state and local entities charged with investing public assets, and foundations and endowments with combined assets under management of approximately \$4 trillion. See www.cii.org

linking board diversity to long-term financial performance.¹⁴ The benefits of board diversity can include a larger candidate pool from which to pick top talent, better understanding of consumer preferences, a stronger mix of leadership skills, and improved risk management.

In 2020, we amended our proxy voting guidelines to include greater scrutiny of the boards of US companies that lack women and people of color.¹⁵ Working with other institutional investors, we also engaged directly with certain US corporate boards of directors around their processes for board composition. As a member of the Thirty Percent Coalition¹⁶ UC Investments encourages investee companies to institutionalize a commitment to diversity in their nominating committee charter and commit to including women and minority candidates in every pool from which board nominees are chosen, a practice commonly referred to as the “diverse slate rule.”

In 2020, working with our partners on the responsible engagement overlay¹⁷ team at Bank of Montreal Global Asset Management, we engaged with 16 U.S. based companies in which we invest around disclosure of their board’s demographic information¹⁸ and board diversity. Chart 24 below summarizes the results.

¹⁴ See, e.g., Vivian Hunt et al., *Delivering through Diversity*, McKinsey & Co. 13 (Jan. 2018), https://www.mckinsey.com/~media/mckinsey/business%2ofunctions/organization/our%2oinsights/delivering%2othrough%2odiversity/delivering-through-diversity_full-report.ashx (“We found that companies with the most ethnically/ culturally diverse boards worldwide are 43% more likely to experience higher profits.”); and Jason Thomas & Megan Starr, Carlyle Group, “From Impact Investing to Investing for Impact,” 2020, https://www.carlyle.com/sites/default/files/202002/From%2oImpact%2oInvesting%2oto%2oInvesting%2ofor%2oImpact_022420.pdf

¹⁵ See, <https://www.ucop.edu/investment-office/sustainable-investment/active-ownership/custom-proxy-guidelines.pdf>

¹⁶ The Thirty Percent Coalition is a collaboration among corporations, investors and advocacy groups whose mission is to advocate for diversity on corporate boards, and promoting women and people of color.

¹⁷ See, https://www.bmogam.com/us-en/institutional/wp-content/uploads/2020/06/us_introducing-reo_responsible-investing.pdf

¹⁸ Without mandatory disclosure of racial demographics, and because there is very little voluntary disclosure, shareholders can only readily assess a board’s gender diversity. The Nasdaq Stock Market LLC (NASDAQ)

See, <https://listingcenter.nasdaq.com/assets/RuleBook/Nasdaq/filings/SR-NASDAQ-2020-081.pdf>. See also the Council of Institutional Investors’ letter to the U.S. Securities & Exchange Commission, in general support of the proposal, available at: [https://www.cii.org//Files/December%2030%202020%2oLetter%2oto%2oSEC%2oon%2odiversity%2oproposal%2o\(final\)-ABcomments%2oLN.v2.pdf](https://www.cii.org//Files/December%2030%202020%2oLetter%2oto%2oSEC%2oon%2odiversity%2oproposal%2o(final)-ABcomments%2oLN.v2.pdf)

CHART 24

Shareholder Engagement Results, 2020



In 2021, we will be engaging with select U.S. S&P500 companies on:

- Annual disclosure of diversity data on representation of minorities on boards, senior leadership teams and across the workforce
- Policies, targets and timelines to improve racial diversity on boards, at senior leadership teams and across the workforce
- Enhancing and annually disclosing information on corporate diversity & inclusion efforts and progress

The Journey Ahead

Our journey is far from over. While we have made progress in 2020, UC Investments, like the U.S. asset management industry more generally, is far from fully tapping into the benefits of diversity, equity and inclusion.

In our inaugural report on diversity and inclusion in 2019, UC Investments stated: "... we commit ourselves to taking action, measuring our results and sharing our work with the public."¹⁹

In 2020, as summarized and made public in this report, we recommit ourselves to those three goals.

¹⁹ See, https://www.ucop.edu/investment-office/files/diversity_report



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APPENDIX

2020 Investment & Business Partner Demographic Surveys:

Methodology & Explanatory Notes

I. Investment Partner Survey

Survey Administration: Because we were not satisfied with the mainstream institutional investor approach to collecting the data needed to answer these two questions, we developed our own approach. To gather high quality, comprehensive data, we needed to achieve a high response rate, which in turn meant we needed to eliminate obstacles to responding, including potential respondents' concerns about privacy.

Therefore, we designed the survey to be anonymous and confidential. A third-party survey administrator, Alphapipe, compiled the survey responses and aggregated the data across diversity dimensions and asset classes, per our instructions.

Disclaimer: While we and our survey administrator endeavored to design the survey, gather the data and aggregate the data in order to eliminate inaccuracies, there may be data imperfections resulting in under or over counting of demographic categories.

Definitions: UC Investments' definition of diverse spans multiple demographic dimensions: gender and gender identity, race and ethnicity, sexual orientation, veteran status, and disability status.

In reporting and aggregating the data, we tracked the same two ownership/leadership thresholds – 25% and 50% - tracked by the landmark 2019 “Knight Foundation report.”²⁰

For privately owned firms, we asked about the demographics of their ownership, broken down by individual ownership percentages. Based on our experience in 2019, we refined our survey in 2020. Specifically, in 2019, there were a handful of discrepancies between what privately owned investment partners reported as their ownership demographics and what we observed to be more accurate. These discrepancies arose, we believe, from an ambiguous definition of “ownership” that, in limited instances, both over and under counted demographic diversity amongst privately owned investment partners. To address this problem, we created a more precise definition of ownership. Where owners were not the same as the investment decision-makers, we asked for the demographics of the investment decision-makers instead.

For publicly owned firms, we asked about the demographics of the decision makers on the team managing UC's investments.

²⁰ See, “Diversifying Investments: A Study of Ownership and Performance in the Asset Management Industry,” Lerner, Josh et al., 2019. <https://knightfoundation.org/reports/diversifying-investments-a-study-of-ownership-diversity-and-performance-in-the-asset-management-industry/>

Scope: To gather comprehensive data, we designed our survey to cover both privately and publicly owned investment partners.

Excluded from the survey were products and asset classes that UC Investments manages internally (e.g., Short Term Investment Pool and part of Fixed Income). Furthermore, we excluded firms headquartered outside of the US (responsible for managing roughly 7% of our AUM) due to foreign data privacy laws and different definitions of “diversity” outside of the USA. We did not survey investment partners whose relationship with UC Investments was scheduled to end in 2020.

We surveyed our U.S.-based investment partners across all asset classes and covering the following products: General Endowment Pool, UC Retirement Program, UC Retirement Savings Plan and the Total Returns Investment Pool.

Our survey covered roughly \$102 billion – or 78% - of UC Investments’ \$130 billion AUM as of June 30, 2020. To calculate the assets under management for the purposes of this report, we include both the net asset value and the unfunded capital allocated to each manager. We include passively as well as actively managed AUM. We do not include the AUM of assets managed by firms that did not respond to our survey.

Data Aggregation: Survey responses include demographic information from 118 firms across 1,730 anonymized individuals. Percentages for these responses are based on counts of individuals identified as diverse by category (not weighted by ownership level). Separate ownership-weighted disclosures for privately owned firms are not available given most firms were reluctant to disclose ownership by anonymized individual owner. Five firms provided responses by category in aggregate for total firm or investment team leadership as available. For 12 firms that responded in 2019 but not in 2020, we used their 2019 responses.

In instances where data reported multiple demographic dimensions of diversity – for example a Black woman veteran – we “count” that person’s ownership three times – in the gender, Black and Veteran charts. But that person is only “counted” once in the chart reflecting overall diverse ownership.

Diversity for some firms may be under-stated as individuals identified with "Information not Available" or "Prefer not to Disclose" were included in the respective firm totals used as the denominator for percentage calculations. In such instances, individuals were presumed to be straight, white, male, not disabled and not veterans.

In the context of this report, "Multi-Racial" describes ownership of firms with individuals reporting as multi-racial at a level above the 25% or 50% threshold and/or individuals reporting races other than white that – only in combination, not alone - exceed the 25% or 50% threshold.

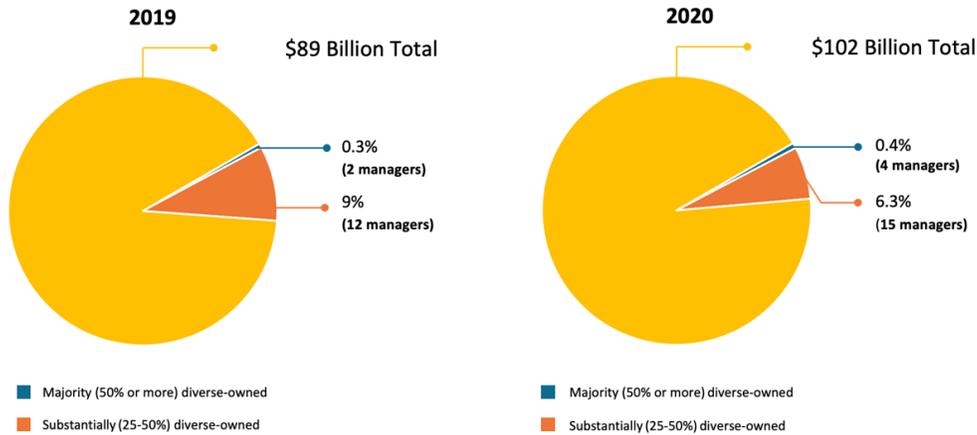
In most instances, we accepted the data as reported. For some investment partners, our survey administrator conducted a calibration of reported data against publicly available data. In three instances, this calibration resulted in the over-ride of survey data provided by the investment partner in favor of publicly available data. One of those instances resulted in an investment partner that reported being under 25% diverse-owned being over-riden as a majority diverse owned firm.

The two other instances resulted in the opposite – their reported data as being majority diverse owned was over-ridden resulting in our counting them as under 25% diverse-owned.

Explanatory Notes for Charts 13, 14 and 16:

CHART 13

Percentage of AUM Managed by Women-Owned Partners

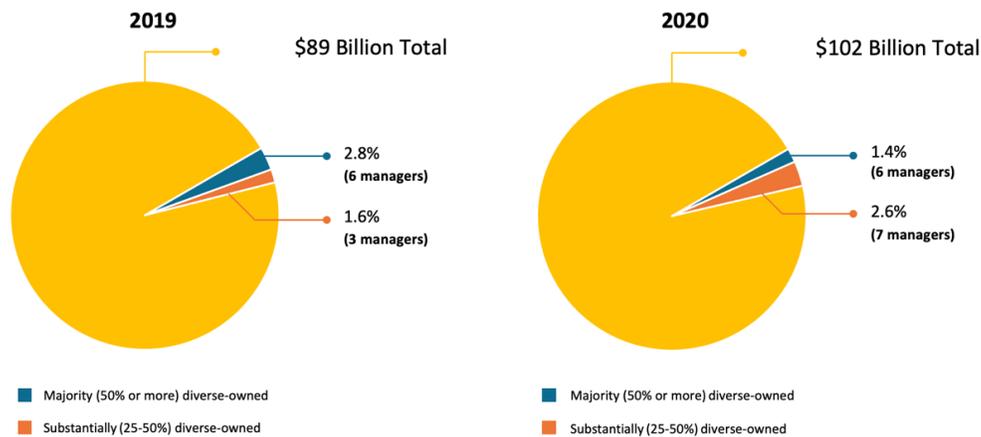


For the purposes of this chart, "diverse-owned" covers both ownership of private companies and leadership of the teams managing UC's investments at public companies.

Chart 13 above appears to indicate that UC Investments added five new women-owned investment partners in 2020. In fact, we added two new women-owned investment partners and surveyed three women-owned investment partners inadvertently omitted from our 2019 survey. Chart 13 also indicates a drop in AUM managed by women-owned investment partners in 2020 compared to 2019. This drop in AUM is explained by the fact that three investment partners reported being substantially women owned in 2019 and 2020, which is not the case. The 2020 chart does not "count" these three partners as substantially women owned, which caused the AUM managed by substantially women-owned partners to drop compared to 2019.

CHART 14

Percentage of AUM Managed by Asian/Pacific-Islander-Owned Partners

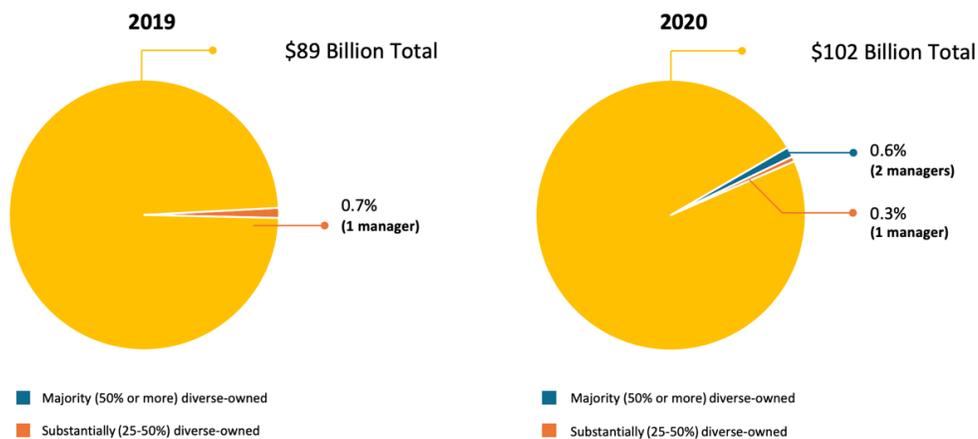


For the purposes of this chart, "diverse-owned" covers both ownership of private companies and leadership of the teams managing UC's investments at public companies.

As stated above, UC Investments did not add any Asian/Pacific Islander (API)-owned investment partners in 2020, not four, as Chart 14 appears to indicate. The 2020 chart includes three API partners inadvertently left out of the 2019 survey. The 2020 chart also reflects partial redemptions from some API-owned partners, which accounts for the drop in AUM amongst majority API-owned partners compared to 2019.

CHART 16

Percentage of AUM Managed by Latinx-Owned Partners



For the purposes of this chart, "diverse-owned" covers both ownership of private companies and leadership of the teams managing UC's investments at public companies.

While Chart 16 above indicates an apparent increase from one Latinx investment partner in 2019 to three in 2020, in actuality, we did not retain any new Latinx managers in 2020. Rather, in 2020, we surveyed one Latinx investment partner inadvertently not surveyed in 2019. Also, one existing investment partner reported, both in 2019 and 2020, being less than 25% Latinx-owned, which we found to be inaccurate. The 2020 chart "counts" this partner as majority Latinx-owned.

II. Business Partner Survey

We surveyed the business partners who provide services valued at \$100,000 or more annually, comprising a total of 23 companies and the Lawrence Berkeley National Laboratory, accounting for almost \$14 million in spend.

Survey Administration: Because we were not satisfied with the mainstream institutional investor approach to collecting the data needed to answer these two questions, we developed our own approach. To gather high quality, comprehensive data, we needed to achieve a high response rate, which in turn meant we needed to eliminate obstacles to responding, including potential respondents' concerns about privacy.

Therefore, we designed the survey to be anonymous and confidential. A third-party survey administrator, Alphapipe, compiled the survey responses and aggregated the data, per our instructions.

Disclaimer: While we and our survey administrator endeavored to design the survey, gather the data and aggregate the data in order to eliminate inaccuracies, there may be data imperfections resulting in under or over counting of demographic categories.

Definitions: UC Investments' definition of diverse spans multiple demographic dimensions: gender and gender identity, race and ethnicity, sexual orientation, veteran status, and disability status.

Our survey asked respondents to indicate whether their respective diverse owners (privately owned) or senior leaders (publicly owned) constituted 25% or more.

Scope: To gather comprehensive data, we designed our survey to cover both privately and publicly owned business partners. All data is as of June 30, 2020, the end of our fiscal year.

Outside Counsel: In addition, the UC General Counsel provided data from its DEI survey of law firms who provide legal counsel to UC Investments, valued at roughly \$2.1 million in 2018. Our survey administrator aggregated data from these firms to determine demographic diversity of the firms' partners (owners). UC Investments' definition of diverse spans multiple demographic dimensions: gender and gender identity, race and ethnicity, sexual orientation, veteran status, and disability status.