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Steve Juarez, Associate Vice President and Director

May 14, 2015

The Honorable Ricardo Lara
Chair, Senate Appropriations Committee
State Capitol, Room 2206
Sacramento, CA 95814

RE: SB 574 (Pan), as amended April 22, 2015
Scheduled for hearing May 18th, 2015 in the Senate Appropriations Committee
Position: OPPOSE

Dear Senator Lara,

The University of California (UC) has reviewed SB 574 which would require that the University obtain certain detailed information, as described in the California Public Records Act (PRA), about alternative investments. Respectfully, UC must oppose SB 574 because it singles out the University, and would inappropriately mandate internal business processes that would require the University to obtain information it may neither need nor use. Specifically, UC believes this bill would require the University to pursue costly litigation – with legal expenses of \$500,000, at a minimum - to obtain noncritical investment information sought by the sponsors of this bill.

The University of California's role in transforming the State of California into an economic and innovation powerhouse cannot be overstated. UC is a magnet for talented, passionate people, and their discoveries and inventions touch lives around the world every day. What few realize, however, is that behind UC's renowned teaching, research, and public service mission is an investment portfolio that is critical to our success.

Although Section 6254.26 of the Government Code clearly requires all public investment funds to make available information regarding their alternative investments, SB 574 only applies to investments made by the University of California. As a matter of public policy, UC questions why the bill should apply to only one public institution and not to every other public investment fund making such investments. In effect, UC would be required to obtain the information in GC Section 6254.26, while permitting all other investment funds to ignore the requirement in the bill. This seems neither fair nor appropriate.

Specifically, SB 574 seeks to require the University to obtain specific records for each alternative investment in which the University provides or has provided, funds for investment **regardless of whether UC actually possesses or uses these detailed records**. UC's Private Equity, or alternative investment, portfolio is reviewed in its entirety and as part of the total equity portfolio. Moreover, Private Equity partnerships are 10- to 13-year investments, and the only relevant return measure is the amount returned at the end of the partnership compared to the capital invested. We do receive information from these funds annually at the firm level, which provides UC and the public with the necessary information to gauge overall performance for the firm under contract. This has been the basis for investment decisions in the Private Equity asset class, and this long-term horizon has produced exceptional returns.

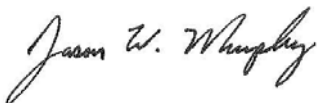
Trying to alter this process by forcing the University to obtain information that is not critical to its investment decisions is ill-advised, and could result in the University being prohibited from participating in certain types of investments. The central purpose of investing UC's pension and endowment funds is to maximize the benefits available to our retirees, students and faculty while managing risk. SB 574 will ultimately require the University to decline valuable investment opportunities, despite the judgment of investment professionals that the information required by the bill is not needed.

By requiring that the University seek information not already required under law, the University could be exposed to expensive litigation by being forced to secure information outside our current contracts. In 2012 the University was involved in costly litigation over the release of detailed investment information that the University neither had in its possession, nor used. During this lawsuit - which ultimately went to the appellate court in 2013 where the court overturned a previous decision, and ruled that the data in question were not public records - the two investment firms who held the data in question declined to provide UC with the requested information. Should SB 574 become law the University would be forced to seek this information from the firms for legacy investments. This will likely require the University to sue the firms to force them to provide the relevant records. These elite firms use top corporate litigation lawyers who would aggressively fight disclosure with burdensome discovery requests, depositions, motions, etc. UC would likely have to retain similarly experienced corporate litigation counsel to pursue such litigation. Litigation costs of such a case would be expected to top \$500,000, at a minimum. Further, UC is concerned that by litigating against our investment partners this could have the unintended consequence of harming other investment relationships by casting the University as an unreliable partner.

UC makes every effort to be transparent and accountable, and to ensure that the investments it makes add significant value to the University. Its investments provide substantial benefits to UC's stakeholders — who encompass more than half a million students, employees, and retirees. As such the University already makes public, via its website, a variety of annual, quarterly, and other reports detailing investment performance, investment goals and overarching strategy – and this information is discussed during numerous open meetings of the Board of Regents' Investment Committee. SB 574 adds an unnecessary requirement that will not provide the public with any additional useful information about UC's investments, and will only serve to negatively affect UC's overall financial position.

As always, the University appreciates your consideration of our views. Should you have any questions about the University's opposition of SB 574, please do not hesitate to contact me at (916) 445-9924.

Sincerely,



Jason Murphy
Legislative Director

cc: Senator Richard Pan
Vice Chair and Members Senate Appropriations Committee
President Janet Napolitano
Provost and Executive Vice President Aimée Dorr
Executive Vice President & CFO Nathan Brostrom
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