

UCBF

THE UC BERKELEY FOUNDATION ANNUAL REPORT FOR 2018–19

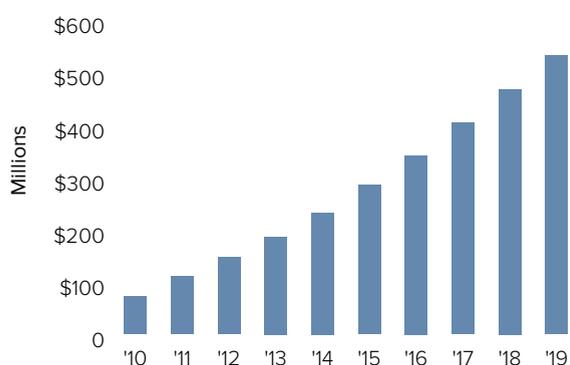
Endowed assets gifted to the UC Berkeley Foundation are managed by the Berkeley Endowment Management Company (BEMCO). The following pages provide data and insights on the endowment's performance and approach from BEMCO President and Chief Investment Officer, David McAuliffe.

INTRODUCTION

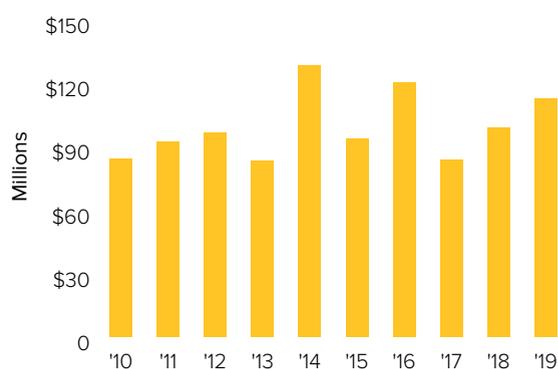
The Berkeley Endowment Management Company, a nonprofit subsidiary of the UC Berkeley Foundation (the Foundation), manages the investment of endowment funds given in support of Berkeley. For the fiscal year ending June 30, 2019, the Foundation's general endowment pool (GEP) posted results of 4.9%, with assets growing to \$2.07 billion. BEMCO's efforts resulted in payout distribution of \$64.06 million to the campus.

BEMCO focuses on the long-term performance of the endowment, delivering and executing well-developed strategies to carry out this mission. Our objective is that the university is well supported to serve students and faculty at Berkeley, both now and for years to come.

10-YEAR CUMULATIVE ACTUAL DISTRIBUTIONS



HISTORICAL REALIZED GIFT INFLOWS TO FOUNDATION ENDOWMENT

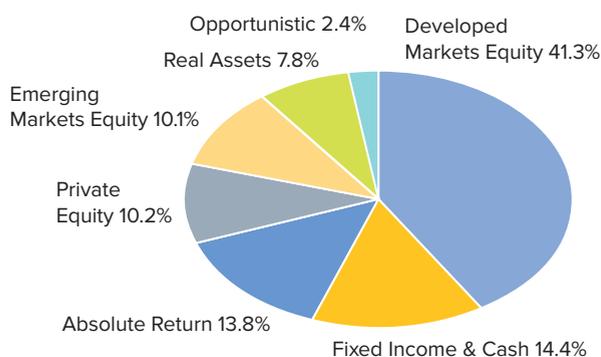


ASSET ALLOCATION AND PORTFOLIO POSITIONING

In fiscal year 2019, significant time and resources went into developing and approving a new long-term asset allocation. This included targets, ranges, and benchmarks for each of the core asset classes that BEMCO utilizes in its investment approach. These improvements, as well as additional detail on BEMCO's overall investment approach, have been documented in a new investment policy statement, available through the Foundation website. We want to thank the many constituents and stakeholders who provided feedback throughout the process, and look forward to sharing our progress on the implementation of this new strategy.

Our mandate is to preserve and grow the endowment while providing annual support to campus. BEMCO's long-term time horizon enables us to develop strategies that will deliver on this objective. Our investment approach and asset allocation includes a structural commitment to equity and growth, a willingness to invest in illiquid assets and less efficient market strategies, and a tolerance for near-term volatility.

**MANAGED ENDOWMENT FUNDS BY ASSET ALLOCATION
(AS OF JUNE 30, 2019)**



In fiscal year 2019, BEMCO made good progress on rebalancing the portfolio, including reducing exposure in hedged equities and fixed income, and adding to exposure in other areas. This included making multiple changes to the investment relationships we utilize in pursuit of our strategy. We are excited to have partnered with multiple firms over the last year that, while new to BEMCO, exhibit strong and established track records of success. In many cases, particularly in private markets, seeds planted today should bear fruit for years down the line. BEMCO expects a multi-year path to rebalancing towards long-term targets. Implementation has been a primary focus in fiscal year 2019, complementing the shift in strategic direction.

THE YEAR IN REVIEW

Fiscal year 2019 began with market participants balancing concern about a global growth slowdown with continued Federal Reserve accommodation, while also reacting to the escalation of U.S.-China trade tensions. The markets began the fiscal year with a mixed tone dependent on geography, after a very weak fourth quarter of 2018 when risk appetite declined significantly. Equities showed initial strength in the U.S., but were moderate in other developed markets, and weak in emerging markets. The fourth quarter was a very challenging negative quarter in global equities, as the U.S. Federal Reserve raised rates in September and again in December*. The Russell 2000 and S&P 500 were down over -20% and -13.5%, respectively, and global developed markets reacted similarly. Emerging market equities were the relative top performer, down high single digits to end the calendar year. Reminding us that short-term market timing is difficult, the first quarter was a banner quarter in global equities. The S&P 500 and Russell 2000

* As we write this, the Fed has subsequently cut rates in July and September of 2019.

were up over +14%, with developed ex-U.S. and emerging markets close behind, albeit lagging the U.S. snap-back. Across markets, growth continued its long period of outperformance over value.

The year finished with a broad-based positive quarter for developed equity markets, up +3-6% across financial markets, with emerging markets weak outside of Latin America. Fixed income witnessed a remarkable year. Despite asymmetry in the potential direction of interest rates, and in a world where many are positioned short duration, it paid to be long on U.S. Government Treasuries. After a negative start to the year, the Barclays U.S. Agg Government Long Treasuries ultimately returned +12.3% for the fiscal year. In the end, long Treasuries outperformed the S&P 500 (+10.4%) for the year, and the S&P 500 outperformed both the broad U.S. equity markets and non-U.S. equity markets (the Russell 2000 was down -3.3%, while the MSCI All Country World ex-U.S. was up +1.3% for the year). Geographic positioning turned out to be a significant factor over the one-year trailing period.

BEMCO PERFORMANCE

BEMCO's fiscal year-end results were +4.9%, outperforming the strategic policy benchmark. BEMCO's performance for the fiscal year was led by solid returns in emerging markets and private equity, up +13.4% and +11.0% respectively,

although both areas had a relatively modest allocation throughout the year. Emerging markets outperformed its benchmark while private equity lagged, partially due to being underexposed in newer venture capital. Developed equities were up +6.2%, in line with global equity markets. Real assets had generally negative performance, delivering returns of -4.6%, driven by legacy private natural resources exposure. We expect this exposure to come down over the coming years. BEMCO's return was impacted by higher cash and short duration fixed income over the course of the year, which earned +3.1%. Absolute return strategies, including various hedge fund managers, returned +1.2% for the fiscal year.

While BEMCO strives to deliver excellent performance in every year, we are not constructing the portfolio or selecting manager strategies based on short term goals. Over the medium- and long-term, we expect to generate strong, differentiated returns.

LOOKING FORWARD

Entering the new fiscal year, markets feel similar to this time last year. We are still in the midst of multiple near-term challenges. Monetary policy has eased, acknowledging uncertainty and weakness in economic data around the world. Rates are so low that there is significant asymmetry in the range

AVERAGE ANNUALIZED INVESTMENT RESULTS AS OF JUNE 30, 2019 VS BENCHMARKS

	10 Year	7 Year	5 Year	3 Year	1 Year
Portfolio	8.4%	7.9%	5.5%	8.9%	4.9%
Policy Benchmark ¹	8.2%	8.2%	5.1%	8.8%	2.5%
Value Added	0.2%	(0.3%)	0.4%	0.1%	2.4%

¹ The Policy Benchmark chain links all historical benchmarks, including the current policy benchmark detailed in the Investment Policy Statement. The Cambridge Associates benchmark returns included in the Policy Benchmark above are preliminary estimates subject to change.

of forward interest rate environments. China has continued to slow as it manages the transition to a consumer-led economy. Trade tensions remain, and there are multiple geopolitical hotspots contributing to uncertainty and instability. The U.S. economic cycle is one year further along in its slower than anticipated recovery, and leading indicators are generating mixed signals. U.S. equity valuations are not cheap, but many companies are positioned to thrive. European capital markets and the real estate economy have been languishing, while traditional metrics suggest pockets of value. We must navigate the near-term dynamics prudently, recognizing that our long-term strategy is designed to weather short-term bouts

of volatility; and position the endowment to benefit from growth, innovation, and market inefficiencies.

Looking into fiscal year 2020, we are focused on implementation of our newly approved asset allocation. Implementation brings strategy to life and determines its ultimate effectiveness. We continue to enhance our processes, which will be an ongoing effort as we constantly seek to improve execution and decision-making. We strive to be excellent stewards of Berkeley resources. In short, we feel honored and privileged to be working on behalf of the number one public institution in the country.

BERKELEY ENDOWMENT MANAGED BY THE UC BERKELEY FOUNDATION

	6/30/19	6/30/18	6/30/17	6/30/16	6/30/15
Market Value (\$ thousands)	\$2,070,872	\$1,944,306	\$1,794,602	\$1,586,686	\$1,618,404
Annual Return on Investment	4.9%	8.4%	13.1%	-2.3%	3.8%

UC BERKELEY FOUNDATION AGGREGATE PAYOUT

	2018–19	2017–18	2016–17	2015–16	2014–15
Annual Declared Payout Rate	4.00%	4.10%	4.25%	4.25%	4.25%
Actual Aggregate Payout (\$ thousands)	AUG–19 \$64,057	FY19 \$63,638	FY18 \$62,216	FY17 \$57,467	FY16 \$52,011

Please refer to the enclosed *Impact and Guide of Berkeley's Endowment 2018–19* for more information.

For additional information regarding the management of Berkeley's endowment, please visit www.berkeleyendowment.org or refer to the *Annual Endowment Report*, published by the Office of the Chief Investment Officer of the Regents. It is located online at www.ucop.edu/investment-office. 

