

Berkeley Endowment Management Company

2019-20 ENDOWMENT REPORT

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

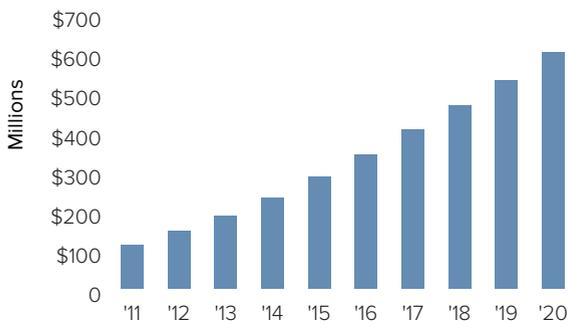
The Berkeley Endowment Management Company (BEMCO), a nonprofit subsidiary of the UC Berkeley Foundation (the Foundation), manages the investment of endowment funds given in support of UC Berkeley. For the fiscal year ending June 30, 2020, the Foundation's general endowment pool (GEP) posted returns of 2.2%, with assets growing to \$2.12 billion. The payout distribution from the endowment to campus was a record \$71.91 million.

BEMCO's mandate is to preserve and grow the endowment, while providing annual financial support to students and faculty at UC Berkeley. An intergenerational outlook is essential to this effort, and our long-term time horizon enables us to implement strategies well-positioned to deliver on this objective.

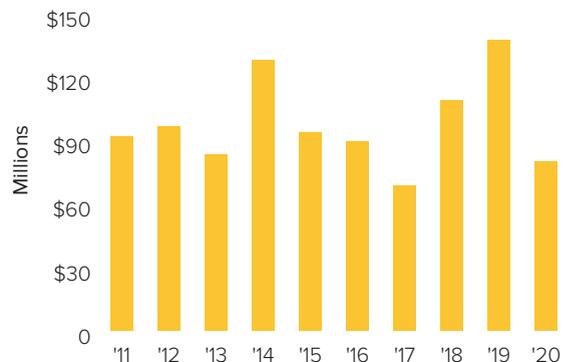
REFLECTION

We would first like to acknowledge the difficult and deeply human events of this past year. The global pandemic's ongoing health and economic impacts, societal struggles around equity and inclusion, acute impacts of climate change, and myriad other challenges serve as daily reminders of the importance and

10-YEAR CUMULATIVE ACTUAL DISTRIBUTIONS



HISTORICAL REALIZED GIFT INFLOWS



* A small portion of the Foundation's assets, where donors have stipulated funds be spent in a shorter timeframe, are managed by TIAA-Kaspick. All information contained in this report about BEMCO excludes those assets.

urgency of our work to grow the endowment's resources to further enable UC Berkeley's positive impacts on the world.

Everyone at BEMCO felt a deeply personal loss with the passing last October of Rob Chandra, an exceptional human being who was a tireless member of the BEMCO Board of Directors and an active member of the UC Berkeley community. We are forever grateful for his many contributions to BEMCO and to Berkeley. Looking forward, we are fortunate to have a strong, engaged, and active Board. We are thankful to them, and to all who contribute valuable time, resources, and perspectives to our efforts.

ASSET ALLOCATION AND PORTFOLIO POSITIONING

Last year, we discussed our newly developed long-term asset allocation, forward-looking investment strategy, Investment Policy Statement, and early implementation efforts. This year, we are happy to report significant progress in advancing our strategies, while acknowledging we are still in the early stages of reaping the expected benefits.

In fiscal year 2020, BEMCO increased exposure to private equity, emerging markets, absolute return, and special situations. We decreased exposure to fixed income and cash but maintained significant liquidity throughout the year. We took multiple rebalancing actions in response to significant capital markets volatility. Real assets exposure declined as investments in illiquid natural resources were negatively impacted by a severely challenged market environment (these investments remain in run-off mode).

ASSET ALLOCATION AS OF JUNE 30, 2020

Developed Equity	42.3%
Emerging Markets Equity	11.1%
Private Equity	11.4%
Real Assets	6.0%
Opportunistic	4.1%
Absolute Return	16.5%
Fixed Income & Cash	8.6%

We are excited to have partnered with multiple new investment firms who exhibit competence, high integrity, and a commitment to strong organizational cultures. Many of these firms open to new capital partners infrequently, and we are gratified that our managers view Berkeley as a high-quality partner and embrace the opportunity to contribute to Berkeley's mission. In private markets, we committed significant capital to fund future investments identified by our managers, though these commitments are not yet reflected in the portfolio's exposure. Also, we parted ways with multiple managers, as we continually retest conviction that our partners are aligned with our strategic objectives.

THE YEAR IN REVIEW

In fiscal year 2020, we experienced fluctuating investment environments and disparate results across geographies, sectors, and asset classes. The first half of the year was generally positive for risk assets, despite ongoing geopolitical and US/China trade war tensions. The Q1'20 arrival of the COVID 19 pandemic, resultant government response, and unprecedented economic impacts created extreme volatility and variant capital market impacts. Technology demonstrated resilient business models, benefiting from

pandemic-induced incremental market adoption. Technology drove US equity markets, with increasingly high valuations. We witnessed massive government stimulus in reaction to pandemic-induced economic stress. Central banks cut interest rates to exceptionally low levels and the Federal Reserve expanded quantitative easing in unconventional and unprecedented ways. This supported a rapid but uneven recovery in equity prices and corporate credit, despite ongoing economic and earnings concerns. Energy suffered a particularly acute set of impacts. Saudi Arabia and Russia increased oil production, while economic lockdowns severely constricted demand, shocking the price of oil. Outside of China, emerging market countries were less capable of providing stimulus support and less equipped to manage COVID 19 health-related impacts. Latin America and India suffered significant equity market declines. Foreign currencies suffered with a flight to the US dollar, exacerbating difficult non-US market performance. Private markets (outside of energy) offered a safe haven of sorts – with quarterly valuations not subject to rapid changes in market sentiment and extreme volatility. Ultimate impairment in private markets is unclear. Venture, particularly information technology, continued to experience end market support.

Despite the year's events, global equities were positive on the year, although this masks wide dispersion across markets. The MSCI All Country

equity index was up +2.1%. The S&P 500 was up +7.5% (dominated by technology and healthcare), developed markets excluding the US and Canada were down -5.1% (the UK was down a remarkable -17.7%), and broad emerging markets were down -3.4% (China +13%, India -17%, Brazil -33%). US fixed income delivered solid returns again this year despite low rates entering the year. The Barclays US Treasuries index returned +10.4% for the fiscal year. Energy witnessed significant drawdowns with MLPs down -41.4% and other energy indexes down more than -20%. Geographic and sector positioning turned out to be a significant factor over the year.

BEMCO PERFORMANCE

BEMCO's fiscal year-end results were +2.2%. Performance was led by Developed Equity and Opportunistic, up +5.9% and +5.8%, respectively. PE/VC generated a +5.3% return, net of "J-curve" fee burden from recent years' commitments. Absolute Return generated a +4.7% return, in line with expectations during the Q1'20 equity market decline. Fixed Income & Cash earned +4.9% for the year, while remaining conservatively positioned with short duration. Emerging Markets Equity struggled, down -8.3%, as positive performance in China could not overcome large drawdowns in Brazil and India. The most significant negative contributor was the Real Assets portfolio. While Real Estate was up +6.4% for the year, illiquid natural resources was down -30.7%. Though

ANNUALIZED INVESTMENT RESULTS AS OF JUNE 30, 2020

	10 Year	7 Year	5 Year	3 Year	1 Year
Portfolio	7.4%	6.3%	5.2%	5.2%	2.2%

this sub-strategy has not been an area of emphasis over recent years, the declining exposure continues to drag down overall portfolio performance.

BEMCO's 10-year return is +7.4%, annualized.

LOOKING FORWARD

Entering the new fiscal year, we are balancing near-term challenges with areas of opportunity. Within equities, we have emphasized quality, secular growth, innovation, and idiosyncratic catalyst-driven situations. We will continue to rotate

into private markets and grow our exposure to Asia. We are mindful of low interest rates, high valuations, geopolitical uncertainties, and the potential for a low return environment to persist. However, we acknowledge that value creation occurs in all markets, and the human capacity for resilience and renewal is a powerful force.

We are grateful for the opportunity to work on behalf of UC Berkeley Foundation and the University. We wish all of our stakeholders health and good fortune in the year ahead.

BERKELEY ENDOWMENT MANAGED BY THE UC BERKELEY FOUNDATION AS OF JUNE 30, 2020

	6/30/20	6/30/19	6/30/18	6/30/17	6/30/16
Market Value (\$ thousands)	\$2,117,306	\$2,070,905	\$1,944,306	\$1,794,602	\$1,586,686
Annual Return on Investment	2.2%	4.9%	8.4%	13.1%	-2.3%

UC BERKELEY ENDOWMENT PAYOUT

Annual Declared Payout Rate	2019–20	2018–19	2017–18	2016–17	2015–16
	4.25%	4.00%	4.10%	4.25%	4.25%
Aggregate Payout** (\$ thousands)	FY21	FY20	FY19	FY18	FY17
	\$73,009	\$63,621	\$65,733	\$62,216	\$57,467

** BEMCO implemented a cash management strategy to distribute payout on a quarterly schedule. The figure shown for FY21 reflects the total amount expected to be distributed and will be updated to reflect the actual payout in next year's report.

For additional information regarding the management of Berkeley's endowment, please visit www.berkeleyendowment.org.

LIGHT THE WAY

THE CAMPAIGN FOR BERKELEY

