

The UC Berkeley Foundation

ENDOWMENT RETURNS AND INVESTMENT POLICY

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I am pleased to report that the 2012–13 fiscal year was very strong for the financial returns of the UC Berkeley Foundation's endowments and the continued evolution of the Berkeley Endowment Management Company (BEMCO). With assets at June 30, 2013 topping \$1.2 billion, the amount contributed from the Berkeley Foundation endowment earnings to Berkeley's great work has never been larger.

Background

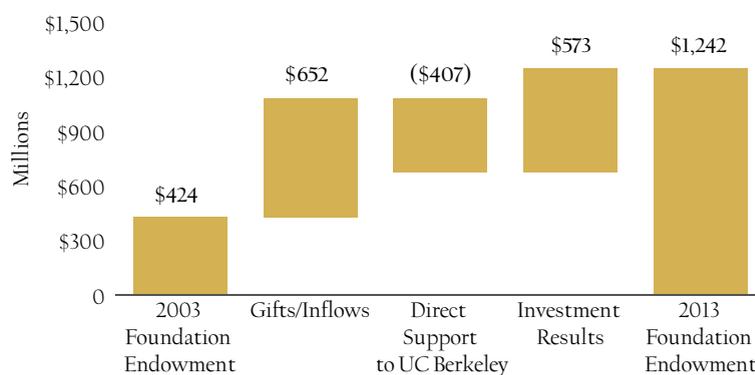
The Berkeley Foundation created a wholly owned subsidiary, the Berkeley Endowment Management Company, in 2009 to steward its endowment assets. Building on the years of dedicated service of the Foundation investment committee, the management company ensures that the highest level of stewardship and resources are devoted to managing our capital.

Our approach has been to identify high-quality specialist investors in different segments of the financial markets, and to build a diversified portfolio of these top firms. This method of portfolio construction enables us to gain access to a breadth and level of investment talent that would be impossible to replicate in-house. We evaluate these partners using the highest standards for investment management, selecting them not only for their historical results but also based on our qualitative assessment of their team and organization.

Long-Term Results

Endowment investing is a long-term enterprise, with success best measured over long periods of time. For the Foundation, the 10-year results are strong with an annualized return of 8.0%. This translates to more than \$570 million of investment gains over the past decade, outpacing U.S. and global equity markets, the portfolio's benchmark, and the Foundation's inflation-adjusted rate of spending. These results also exceed the median returns of other colleges and universities over this same period.

Growth of the Foundation's Endowment Over the Last 10 Years



Importantly, the investment strategy pursued in the portfolio seeks to deliver results over the long term with less volatility than the markets. Over this period, the annualized standard deviation of the endowment's returns has been 9.5% vs. 14.6% for the U.S. (S&P 500) and 16.5% for the global (MSCI ACWI) equity markets.

Annualized Results

	10 Years	5 Years	3 Years	1 Year
Berkeley Foundation Portfolio Benchmark	8.0%	3.4%	10.0%	13.1%
S&P 500	7.3%	7.0%	18.4%	20.6%
MSCI ACWI	7.9%	2.6%	12.7%	16.9%
CPI + 5%	7.4%	6.4%	7.4%	6.9%
College & Univ. Top Quartile*	8.2%	4.4%	10.7%	12.7%
College & Univ. Median*	7.6%	3.7%	9.9%	11.6%

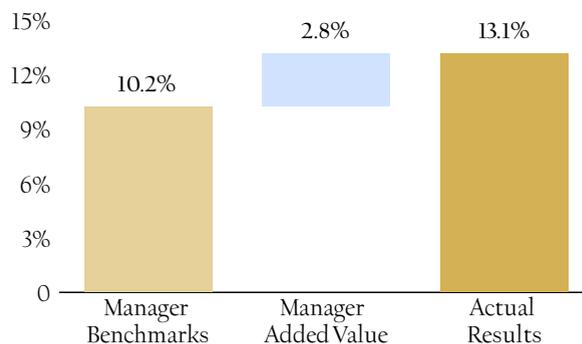
*Source: Cambridge Associates. 128, 137, 139 and 143 institutions, respectively.

2013: The Year in Review

This fiscal year was characterized by remarkably strong returns in equity markets, spurred on by the continuing interventions of the Federal Reserve and other central banks. The endowment posted a 13.1% return for the year, buoyed up by these very favorable markets. This amounts to more than \$140 million of investment gains in the year.

What was most remarkable about the year's results, however, was the 280 basis points of the total portfolio return that was generated by our investments exceeding their underlying benchmarks. This is an anomalously high level, and one which we aspire to but should not regularly expect. Strong relative results came in virtually all parts of the portfolio, with active management adding value in most strategies.

2013 Results vs. Underlying Manager Benchmarks



Peer Results

While we focus on long-term results, we are often asked about our results compared with those of our peer institutions in any given year. This natural instinct to make short-term comparisons can be misleading, and we should never lose sight of the goal of compounding capital over the long term.

The BEMCO team is building a portfolio that is specifically tailored to Berkeley's unique strengths and needs, much like our counterparts do at their institutions. Differences in approach, resources, scale, history, and risk tolerance can lead to wide variances in annual results.

For example, in the 2013 fiscal year, portfolios like ours — those with smaller historical exposures to private investing and larger exposure to equities — generally outpaced those with portfolios more weighted toward private investing. The same has been generally true over the past several years, as the breathtaking resurgence of the equity markets from the depths of the global financial crisis has dominated all other stories.

We aspire to be among those institutions with the strongest long-term records. Their outsized results have been generated by a willingness to take the road less traveled, be patient in areas that are out of favor, and diversify across a broad range of strategies.

This is how patient capital compounds over time. BEMCO continues to build capacity in all of these critical areas, and we are confident those efforts will similarly drive our long-term results.

Asset Allocation

As noted above, we continue to broaden the range of investment strategies to which the endowment is exposed. University endowments have historically been thought leaders in exploring new areas of investment, and have benefited from their perpetual time horizons versus markets that are increasingly focused on the short term. With this in mind, the Foundation endowment has increased its exposure to illiquid and diversifying strategies, including real assets, venture capital, and private equity.

In the 2013 fiscal year alone, the BEMCO team engaged 14 new investment managers, representing capital invested or commitments of more than \$250 million.

Building on Berkeley's exceptional global brand, we have early measures of our progress on these fronts. We now have more than \$600 million of our endowment with partners that are either closed to new investment or are highly selective in taking on new clients, up from \$120 million at BEMCO's launch.

Two Bears Join BEMCO's Board

BEMCO's board of directors is made up of leading investment professionals and supporters of Berkeley. This year, two more dedicated alums bring their accomplishments to the oversight of BEMCO's work.

Rob Chandra '88 has been a venture capitalist for more than 20 years, having spent most of his career at Bessemer Venture Partners. He was named to *Forbes Magazine's* Midas List as a top dealmaker in five of the past six years.

Nat Simons '89, M.A. '95 has been a principal at Renaissance Technologies since 1994, serving as the portfolio manager of the multibillion-dollar Meritage Fund since its inception in 1997.

Both join BEMCO's board this fall, and add to the depth and breadth of experience on our board of directors. To learn more about the board, visit www.berkeleyendowment.org/about/board.

Evolution of the Foundation's Asset Allocation Since the Inception of BEMCO



Alignment

During the year, we continued to make substantial upgrades to the firms we partner with across the portfolio. We hold these third-party investment managers to high standards of conduct and look for a strong alignment of interests. These kinds of partners are highly sought-after, and Berkeley must compete for access to their talents.

The Year Ahead

Last year's letter closed with a mention of the macro factors that could impact our results. A year later, we still face highly uncertain markets — with the U.S. government shutdown at the time of this writing, markets jittery over the notion of Fed tapering, and upcoming debt ceiling negotiations.

While no one knows how the short term will play out, our purpose remains clear: delivering long-term financial results to support Berkeley's remarkable students and faculty.

For additional details on BEMCO's staff and investment policy, visit www.berkeleyendowment.org.

Berkeley Endowment Managed by the Berkeley Foundation

	6/30/13	6/30/12	6/30/11	6/30/10	6/30/09
Market Value (\$ thousands)	\$1,243,182	\$1,126,822	\$1,091,985	\$895,456	\$785,758
Annual Return on Investment	13.1%	-1.6%	18.9%	11.7%	-20.6%

Berkeley Foundation Payout

	2012-13	2011-12	2010-11	2009-10	2008-09
Annual Payout Policy Rate	4.25%	4.27%	4.75%	4.75%	4.76%
	Aug-13	Aug-12	Aug-11	Aug-10	Aug-09
Payout (\$ thousands)	\$39,354	\$38,443	\$37,676	\$36,570	\$35,915

The Berkeley Foundation payout is based on a 12-quarter moving average rate. The payout figures above reflect actual distributions. While the majority of payout is distributed in August of each year, distributions do occur throughout the year, and those incremental distributions are included. The August 2012 figure reflects, for example, the total of distributions made in the 2012-13 fiscal year.