University of California, Berkeley Foundation
Investment Policy Statement

Adopted by BEMCO on February 26, 2015
Ratified by UCBF on February 27, 2015
Effective Date: March 1, 2015

The University of California, Berkeley Foundation ("UCBF") is the fiduciary for long term endowment assets (collectively, "General Endowment Pool" or "GEP") designated for the support of UC Berkeley. UCBF has delegated certain aspects of investment oversight to Berkeley Endowment Management Company ("BEMCO") pursuant to standing corporate resolutions and an Investment Management Services Agreement between UCBF and BEMCO.

In accordance with its delegated authorities, BEMCO serves as the investment manager with day-to-day oversight of investment activity and implementation through its Board of Directors ("BEMCO Board"), Chief Investment Officer ("CIO") and staff, while UCBF retains ultimate authority over BEMCO's policies and practices.

As of the date of adoption by UCBF, this document will become UCBF's current Investment Policy Statement ("IPS") and supersede all previous investment policy statements. BEMCO will thereafter carry out its responsibilities for the investment of the General Endowment Pool in a manner consistent with and subject to this IPS.

I. Objectives

Support of UC Berkeley

The primary objective of the GEP is to generate returns sufficient to meet UCBF's desired financial support to UC Berkeley over the long term, while maintaining real purchasing power, sufficient liquidity and acceptable volatility. UCBF intends that the key terms used in the statement of the primary objective have the following meanings:

- "Long Term" means rolling ten year periods.
- "Real Purchasing Power" means UCBF's actual spending rate adjusted by the CPI-U.
- "Sufficient Liquidity" means holding assets:
  - That can be readily turned into cash to meet annual payout needs, and
  - Such that BEMCO can effectively rebalance the GEP's exposures.
- "Acceptable Volatility" means variations in payout are not unreasonably disruptive to the GEP's support of UC Berkeley's programs.

UCBF's Spending Policy, as drafted by UCBF's Finance Committee, is attached and incorporated herein as Exhibit A.

Market Rate Returns

Another objective for the GEP is to generate results after all relevant expenses that match or exceed the returns of a representative mix of investable assets, known as the Total Portfolio Benchmark, over rolling ten year periods. The Total Portfolio Benchmark should balance simplicity with completeness.

The Total Portfolio Benchmark is attached and incorporated herein as Exhibit B. The Total Portfolio Benchmark may be revised from time to time by the BEMCO Board.

Demonstrable Skill in Investment Selection

A final objective is for the GEP to demonstrate success in selecting investments, as measured by comparing performance after all relevant expenses versus the return and volatility measures of other investable optionsover rolling five year periods. These investment-specific benchmarks should be stated at the time of investment, and shall be subject to revision from time to time by the Chief Investment Officer or the BEMCO Board, in a manner consistent with BEMCO's delegated authorities.

II. Risk

It is recognized that investing is an inherently risky enterprise and the GEP should be constructed to consider risks in these three dimensions:

1. **Shortfall:** Endowment returns fail to both fund UCBF's spending goals and offset inflation resulting in a decline in real purchasing power of the corpus
2. **Excess Volatility:** Endowment returns are so volatile as to disrupt the endowment's orderly support of the University or management of the portfolio
3. **Illiquidity:** Endowment assets are not sufficiently liquid to fund payout needs or to be reallocated among investments

A successful portfolio addresses these risks and balances sufficient returns with volatility and liquidity. Nevertheless, drawdowns come with exposure to financial markets and are to be expected intermittently, resulting in the GEP falling as much as 30% in value.

III. Asset Allocation

General Principles

BEMCO is expected to invest the GEP to meet the objectives stated above, while balancing prudent diversification and sufficient concentration. Diversification in asset classes, strategies, geographies and managers is meant to reduce the overall volatility of the portfolio. Concentration is meant to ensure the portfolio reflects BEMCO's best thinking, and the benefits of those insights are sized so as to meaningfully impact total portfolio performance.

Endowment investing is unique in that it involves a conceptually infinite time horizon. Consequently, BEMCO should be in a position to earn the higher returns, if available, that can come from greater illiquidity or volatility due to this longer perspective.

BEMCO's portfolio consists of a relatively small group of managers operating in complex, global financial markets. The level of complexity taken on by BEMCO in performing its responsibilities should be managed with considerable care. It is acknowledged that BEMCO's relatively more limited resources may lead to different portfolio construction outcomes than other peer institutions.

As a result of evolving capital markets, the asset allocation process is a dynamic one. BEMCO should set ranges to reflect a breadth of capital market circumstances, and should set targets based on its best judgment of how to meet the objectives. Targets should be reviewed and revised as necessary or appropriate but in any case no less than every two years. Ranges should be revised less frequently. The initial ranges and targets are attached and incorporated herein as Exhibit C and may be revised from time to time by the BEMCO Board.

Framework

The portfolio is to have an equity orientation, based on the belief that equity-like returns over the long term are the best method to generate returns that will meet the Objectives. A pure equity portfolio has a high level of volatility, and so a balanced approach using different investment types or strategies will be employed so as to dampen that volatility.

BEMCO will categorize assets into four groups:

1. **Equities**: Assets that are heavily tied to equity markets, and expected to generate equity-like returns and volatility
2. **Diversifying Assets**: Assets that are intended to generate equity-like returns, but with less correlation to or volatility than the equity markets
3. **Excess Return**: Assets that are intended to meaningfully outperform equity markets over the long term, with less emphasis on interim volatility or liquidity
4. **Defensive Assets**: Assets that are intended to preserve their value and liquidity across a variety of markets

IV. Other Considerations

Allowable Investments

BEMCO will invest the GEP in a mix of funds or accounts managed by third party investment firms and direct holdings of individual securities or assets. BEMCO may utilize direct holdings of exchange traded funds, futures, options or swaps to create or alter market exposure within the total portfolio. All activity is conducted with the oversight of the BEMCO Board and administration by UCBF's Finance team. Direct holdings of derivatives require prior approval of the BEMCO Board.

Liquidity

The GEP has liquidity demands from its annual payout and in the management of its legal commitments to drawdown funds. Additionally, the portfolio needs to be able to respond to changing market conditions, and have the flexibility to lean towards areas of absolute or relative attractiveness. To address all of these needs, care must be given to the level of liquid assets in the portfolio and the level of future funding commitments made. In particular, there should be an awareness of how liquidity can change in periods of tumult.

Nevertheless, the permanent nature of the GEP's capital should enable it to accept lower levels of liquidity in instances where the capital is likely to earn a sufficient premium.

Leverage

While BEMCO may invest in funds that utilize differing forms of leverage, the portfolio as a whole is to remain unlevered. Unlevered means that the total notional exposure of the portfolio should not exceed 100% of the assets. Exceptions to this policy are as provided below:

- Line of Credit: Subject to UCBF's approval and oversight, the BEMCO Board may approve a line of credit created to address temporary liquidity needs in an amount not to exceed 10% of assets.
- Special Circumstances: In instances where BEMCO may seek to adjust exposures in the portfolio in a way that exceeds the available liquid assets, the BEMCO Board must approve in advance transactions designed to reduce the net exposure of the portfolio. These circumstances should be exceedingly rare.

Review and Revision

The BEMCO Board should review and consider revisions to this IPS, including its objectives, asset allocation targets and other components, as necessary or appropriate, but in any case no less than every three years.

Implementation

The GEP is a complex mix of investment strategies, liquidity profiles, and asset types. It is recognized that making substantial changes to the portfolio's composition and hitting the targeted asset allocation levels will take years to accomplish in some categories.

V. Corporate Governance

Proper oversight of investments includes being an informed, responsible participant in corporate governance matters affecting these investments, where reasonably possible and appropriate. BEMCO often works with third party investment managers who are experts in their respective fields, including the use of tools such as proxy voting to seek maximization of financial returns for the companies in which they invest. BEMCO will exercise or delegate to third party managers, when appropriate, the authority related to proxies and other governance mechanisms, with the primary mandate to maximize financial returns. Modifications and/or enhancements to these practices may be approved by UCBF, in consultation with BEMCO, in keeping with UCBF's role of representing the interests of the GEP's many and diverse stakeholders.

VI. Conduct

BEMCO is a representative of UC Berkeley to the investment community, and the community at large. As such, it should conduct itself in such a way as to reflect well on the institution it represents and seek to uphold the highest standards of professional conduct. The BEMCO Board and staff will adhere at all times to the then current Conflicts of Interest Policy, and actively avoid actual or potential conflicts.

As a California nonprofit public benefit corporation, UCBF is subject to the standards for investment or retention of assets set forth in the Section 5240 of the California Nonprofit Public Benefit Corporation Law. BEMCO will carry out its responsibilities in accordance with these standards and otherwise in good faith and in a manner consistent with the standard of care applicable to similar investment managers operating under similar circumstances.

UC Berkeley Foundation
Endowment Payout Policy

The UC Berkeley Foundation's (UCBF) payout policy is 4.00% of a twenty-quarter (five year) moving average market value of the general endowment pool. The Finance and Administration Committee, at its discretion, may recommend to the Executive Committee an alternative payout percentage, within a range of 3.5% to 4.5% for a specific payout year, giving due and prudent consideration to factors such as:

a) desire for stability of funding from one year to the next for planning purposes;
b) net investment return in current and prior years;
c) prevailing market conditions and economic outlook and their potential impact;
d) overall funding environment for the Berkeley campus;
e) need to maintain the real purchasing power of the endowment; and
f) total spending from the general endowment pool.

Total spending from the general endowment pool should not exceed 5.5% of a twenty-quarter (five year) moving average market value for a specific payout year. Total spending includes endowment payout, endowment cost recovery (currently 80 basis points), Berkeley Endowment Management Company (BEMCO) expenses, investment manager fees and other expenses. Managing total spending supports the endowment's financial objectives and encourages new endowment gifts.

The Finance and Administration Committee, at its discretion, may recommend to the Executive Committee an alternative payout percentage below 3.5%, or other spending control measures, to limit total endowment spending. The Executive Committee, after giving due and prudent consideration to the recommendation of the Finance and Administration Committee, proposes a payout percentage within a range of 3.5% to 4.5%, or below 3.5% if deemed advisable, for a specific payout year to the Board of Trustees for approval. The payout amount is calculated on a twenty-quarter average[1] of the ending market value of the endowment at March in the current year. The Foundation distributes the payout to the campus in the first quarter of the following year.

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[1] The use of a twelve-quarter (three year) moving average market value shall continue for FY 17-18, and a twenty-quarter (five year) moving average market value shall be used beginning in FY 18-19.

<u>Exhibit B</u>

TOTAL PORTFOLIO BENCHMARK

The Total Portfolio Benchmark is:

82.5% MSCI All Countries World Index
17.5% Barclays Capital Treasury Bond Index

Exhibit C

Asset Allocation Targets and Normal Ranges

Category		Target	*Min*	*Max*	Role	Includes:
Equities		37.5%	*30.0%*	*50.0%*	Equity Returns; Equity Volatility	Long-Only and directional L/S Strategies
Diversifying Assets		27.5%	*20.0%*	*35.0%*	Equity Returns; Lower Volatility/Correlation	Absolute Return, Lower Volatility/ Correlation Real Asset Strategies, Other
Excess Return		25.0%	*0.0%*	*30.0%*	High Returns	PE, VC, Higher Volatility/Correlated Real Asset Strategies, Other
Defensive Assets		10.0%	*5.0%`*	*25.0%*	Stable Value	Treasuries, Cash and Other Lower Vol/Correlated Strategies
Liquidity*		25.0%	*15.0%*	*n/a*		

* Liquidity: This is a total portfolio measure that captures assets that can be readily turned into cash within one month’s time.