

Office of the Treasurer

**TO MEMBERS OF THE COMMITTEE ON INVESTMENTS / INVESTMENT  
ADVISORY GROUP:**

## **ACTION ITEM**

*For Meeting of February 26, 2013*

### **AMENDMENT OF INVESTMENT POLICY STATEMENTS OF THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN AND THE GENERAL ENDOWMENT POOL TO ESTABLISH INVESTMENT GUIDELINES FOR OPPORTUNISTIC EQUITY STRATEGIES AND CROSS ASSET CLASS STRATEGIES**

The Chief Investment Officer and the Regents' General Investment Consultant recommend that the Committee on Investments recommend to the Regents that the Investment Guidelines for Opportunistic Equity Strategies and Cross Asset Class Strategies, (as shown in Attachments 1 and 2) be approved for addition to the Appendices to Investment Policy Statements of the University of California Retirement Plan and the General Endowment Pool, effective April 1, 2013.

## **BACKGROUND**

The Opportunistic Equity asset class was initiated in the General Endowment Pool (GEP) in December 2012 and is proposed to be included in the University of California Retirement Plan (UCRP). No guidelines were approved at the time, but the Regents Investment Consultant has temporarily approved the use of the MSCI All Country World Index as the policy benchmark. Formal Guidelines are now being presented to the Committee for adoption.

The strategy will have fewer constraints on the portfolio as a whole and on underlying managers than is typical for long-only equity strategies. It will make greater use of nontraditional approaches toward investing in equities. In particular, long/short equity strategies, such as 130/30 strategies are permitted, so the portfolio as a whole will have moderate gross leverage.

The Cross Asset Class Strategies asset class had an inception date of April 2010. Due to the heterogeneous and opportunistic nature of these strategies, no guidelines were developed at the time. However, the Committee did establish a policy benchmark for the category: the category is measured against the aggregate UCRP or GEP Policy benchmark, consistent with their mandate and risk level.

Additional guidelines are now being proposed. Since these portfolios are less constrained than the other long-only strategies, a small amount of gross leverage is permitted, although in aggregate the market exposures will be similar to those of the benchmark.

A summary of key points is found below:

### **OPPORTUNISTIC EQUITY**

1. Policy Benchmark: MSCI All Country World Index (net dividends)
2. Strategy: Investing in global equity in a differentiated way, using a variety of strategies with fewer constraints and possibly greater concentration than traditional long equity programs. Strategies employed will include: 130/30 strategies, activist strategies, tactical or directional strategies, long/short strategies, and specialty strategies (such as global small cap, emerging market small cap, country or sector specialists, frontier markets, and thematic investing).
3. Market Exposure: net long equity exposure will range between 75% and 125%
4. Limit on single manager net asset value as a percent of portfolio net asset value: 15%
5. Limit on gross leverage: 150%

### **CROSS ASSET CLASS STRATEGIES**

1. Policy Benchmark: weighted average of the UCRP and GEP policy benchmarks, weighted by the asset values of the UCRP and GEP, rebalanced monthly.
2. Strategy: The Program will have the scope to integrate and leverage best ideas across all asset classes primarily by utilizing Strategic Partners which have capabilities across multiple strategies and geographies to inform the Chief Investment Officer's asset allocation process, and creating an innovation engine for new investment ideas.
3. Market Exposure: will be a combination of global asset allocation strategies with net long positions similar to the performance benchmark, and specialty strategies to capitalize on temporary market dislocations and mispricing.
4. Limit on single manager net asset value as a percent of portfolio net asset value: 33%
5. Limit on gross leverage: 200%

Attachments:

1. [Appendix R \(Opportunistic Equity Guidelines\) to Investment Policy Statements of UCRP and GEP](#)
2. [Appendix S \(Cross Asset Class Strategies Guidelines\) to Investment Policy Statements of UCRP and GEP](#)
3. [Slides](#)