
LESS
IS
MORE

Behind the Design

All of the illustrations in this year's report were made by hand using a printmaking technique called linocut. The artist started with a block of linoleum and carefully stripped away the excess, much as a sculptor would.

We photographed the blocks to show the expertise and hard work needed to eliminate what's not necessary to create art.

To complement the illustrations, we chose an "inktrap"-style font featuring apertures that appear to be chiseled, much like the linocuts themselves.

Less is More

At UC Investments, we believe that when we eliminate what's not essential, we're better able to recognize and act on market openings we might have otherwise missed.

So as the world grew significantly noisier this year, we tuned out the static.

Instead of striving to get more things done, we focused on getting the right things done.

The results have been worth it.

In another year roiled by uncertainty, we used our size and scale to capitalize on game-changing opportunities.

Contents

Part One

More Less or Less... **Less is More**

Statement from CIO
Jagdeep Singh Bachher, Ph.D.
Chief Investment Officer

Words:

Jagdeep Singh Bachher, Ph.D.
Chief Investment Officer

→ The fiscal year began with a sense of déjà vu. War in Ukraine, climbing interest rates, kinked supply chains, and Covid still infecting hundreds of thousands of people a week. The bear market kept growling.

Big picture? It was getting old. But our job isn't to react to every dip and spike of the volatile markets, or to simply wring our hands. Our job is to assess the state of the world as it is, calculate the risks, and thoughtfully and assuredly position our portfolio for the long-term benefit of the University of California.

So we did what we know works. We stuck to the 10 pillars that define our UC Investments Way culture, the first among them "Less is More." We sold some $4 billion in real estate into a rising market, including office buildings with an uncertain future in a post-pandemic work world. To manage global risks, we shored up some $12 billion in the early days of rising interest rates with the added benefit of making us a valuable liquidity provider and, finally, we earned a return on cash. We continued paring the ranks of our active managers in the public markets – and with them, their fees – in our shift toward index funds that are hard to beat. The sale of our fossil fuel assets catalyzed more investments in renewables that will sustainably fuel our planet's future. Keeping a lean operations team meant we relied on state-of-the-art technology to streamline our workload and keep us rich in the data we need.

It paid off. At the close of the fiscal year, the portfolio stood at $164 billion, a $12 billion increase from the year before that was helped by market enthusiasm for artificial intelligence and a 73% increase since I joined the university nine years ago. The pension was up by 10.1%, while the endowment returned 8.8% and working capital, 7%.

Today, the system-wide UC Investments office is nearly unrecognizable from the one I joined in 2014. Our 10 pillars encapsulate the foundational changes we've made and prepare us for what's to come. We've built a collaborative, creative culture focused on how best to serve our UC stakeholders, not merely in a single year, but for at least the next 100 or so.

On a personal note, I've taken more time to think, learn, and strategize over this past year. That's meant fewer meetings, and bigger moves – the biggest among them our $4.5 billion investment in Blackstone's real estate investment trust, BREIT. This transaction that made headlines around the world showcased the wisdom of Less is More and cemented UC's powerful reputation as an investor rather than simply an asset allocator. A Wall Street Journal headline read, "University of California's terms on BREIT fund are comparable to Warren Buffett's 2008 Goldman deal."

Like most financial reports, the bulk of this 2022-2023 annual report is about the numbers. But numbers don't tell the whole story, neither of this fiscal year nor of those that have come before. It's this other story, one far richer and multidimensional, that makes my role at the University of California so rewarding.

When I think of the endowment, for example, it's not simply about whether the unit value is up or down. It's about the people – our students, faculty, and staff – who directly benefit from the 6,741 separate funds, or endowments within the endowment, that make up the General Endowment Pool. Thanks to annual payouts, these UC stakeholders are able to study, research, teach, and improve the lives of so many others that they touch. And that's only because our campuses, medical centers, and thousands of individual donors to the University of California have entrusted us to invest their pooled assets. Over the past nine years, our campuses have sent us nearly $10 billion to manage on their behalf in the endowment, which is about $2 billion more than the total value of the pool when I joined the university in 2014. It's all about paying it forward. It's a humbling responsibility that motivates our team.

In the same vein, our working capital portfolios have afforded me the opportunity to act as in-house "wealth advisor" to our campuses and medical centers with the goals of maximizing returns, managing risk, and ensuring liquidity is available when needed. I think of our Short-Term Investment Pool much like a checking account, which campuses should use for at-the-ready cash, whereas the Total Return Investment Pool, with a different asset profile, provides a better return on capital that our UC clients might not need right away. Even better in that regard is our Blue & Gold Pool, which acts as an endowment but, as proven during the pandemic, is more liquid than the General Endowment Pool. As of June 30, 2023, the Blue & Gold was our best performing investment product, with a 13.3% return.

And, of course, what we broadly refer to as "retirement" is all about people and their long-term financial security, which goes a long way toward making dreams come true. It's no secret that traditional pensions, which place the funding onus on employers, are becoming rare. But at UC, this amazing benefit is very much alive and 258,485 people have chosen to be part of the plan. Even with a relatively high investment hurdle (discount rate) of 6.75%, today the pension is 83% funded on an actuarial basis, which has spared the university and its employees larger contribution increases. This is especially important during bumpy markets, because with annual net cash outflows of more than $1 billion, strong pension returns have kept this retirement lifeline from falling into a deep hole.

One thing I have had very much top of mind this past year is that our hundreds of thousands of UC retirement savers come in different ages, with different income levels, and with different dreams. Half of the 335,000 participants in our defined contribution plan, for instance, are under 40 years old. To them, "retirement" may seem as distant and old-timey as their grandfather's Oldsmobile. They're focused on growing their assets, are less risk averse, and because they might not stay at UC for their entire careers, they want to take their growing portfolios with them if they move. So we've given retirement savers some new higher growth funds in which to invest, and we're planning for more. For those who are closer to retirement, we're going to make it easier to model out their retirement income and continue to demystify the process of picking the best investments tailored to an individual's needs.

There's no playbook for managing the money of the world's greatest public research university and the wonderfully diverse group of people who help it thrive. At UC Investments, we're wealth advisors, investment bankers, asset managers, and then some. To say we are committed to paying it forward means that we add value in dollars but also to people, including through programs intentionally focused on driving diversity and bringing unique opportunities to our UC students. Count among these opportunities the UC Investments Academy, fellowships for UC students and post-docs to the Lindau Nobel Laureate Meetings in Germany, our partnership with the Toigo Foundation, which advances inclusive leadership in finance, our own internship program, and more.

"But numbers don't tell the whole story, neither of this fiscal year nor of those that have come before. It's this other story, one far richer and multidimensional, that makes my role at the University of California so rewarding.

To succeed at all this, it takes experience, agility, and the confidence to innovate and move when others are hunkered down. It takes talented and dedicated staff; at 50 people, UC Investments is remarkably lean. We keep on track by staying laser-focused on the pillars that have served us well, which helps tune out the noise.

Fundamental to this strategy has been the calm, confident wisdom of Regent Richard Sherman, who has served as chair of the Investments Committee for the past eight years and will move to vice committee chair in the coming year. Richard has been a true partner to UC Investments. Key to his legacy on the board will be the change in asset allocation, in the middle of the pandemic, that added billions to our bottom line and his strong belief that to consistently beat the markets, UC must leverage its size and scale. I look forward to working with the committee's new chair, Regent Mark Robinson, as well as our UC president, Dr. Michael Drake, in 2023–2024.

I am proud of the work our office did this fiscal year, as I am every year. Our partners added value in dollars, in opportunities, and in insights. We've deepened relationships and added new friends. I'm optimistic, and excited, about what's to come. We're on the cusp of a dynamic new era of innovation and technological advancement, especially in the United States, I believe. And geopolitical shifts should bolster Asian nations that had long been in China's shadow, including an ascendent India and Japan. I look forward to a new year of engagement, exploration, and growth.

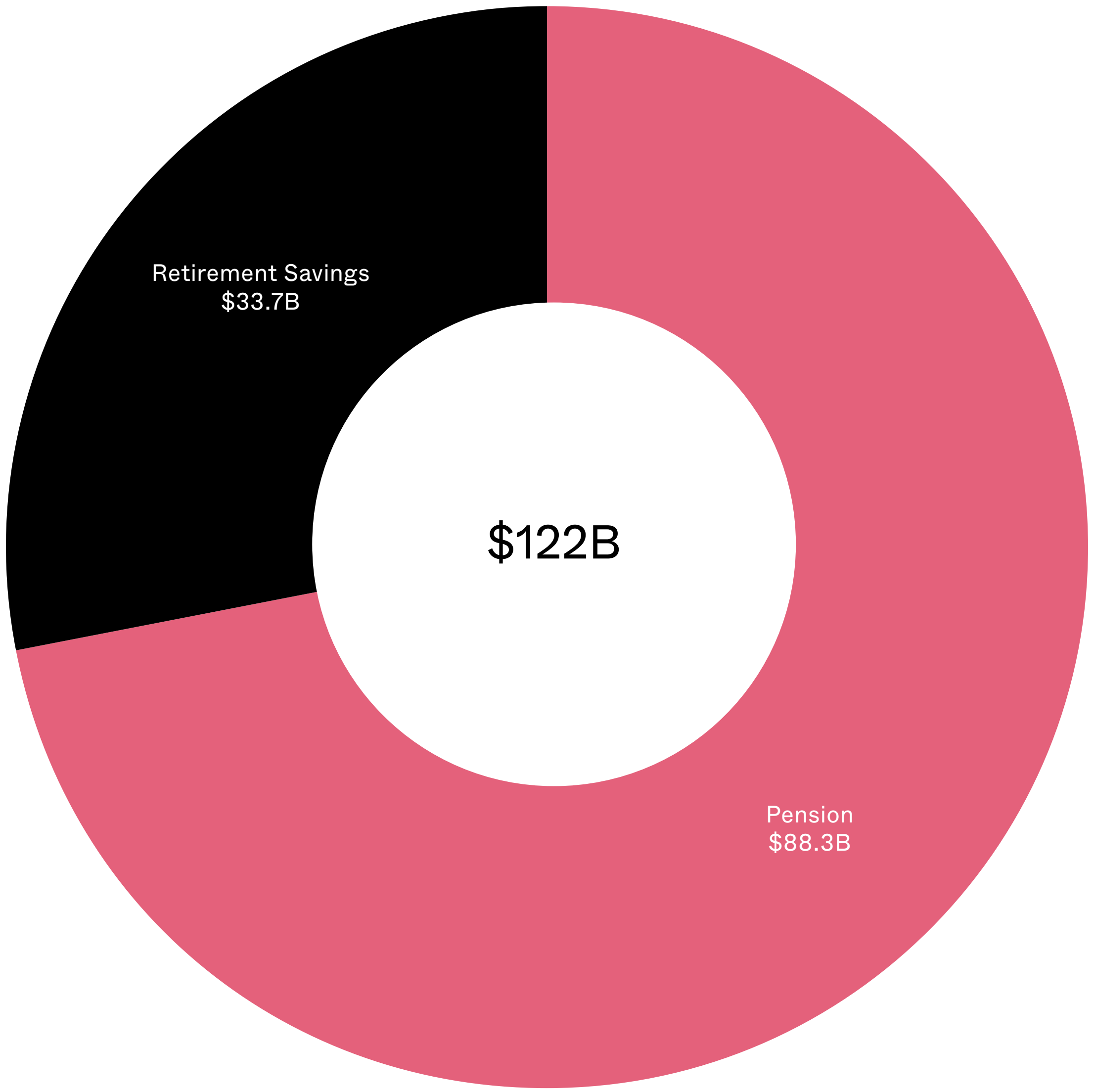
Total portfolio value, up $12 billion from 2022.
As of June 30, 2023

$164B

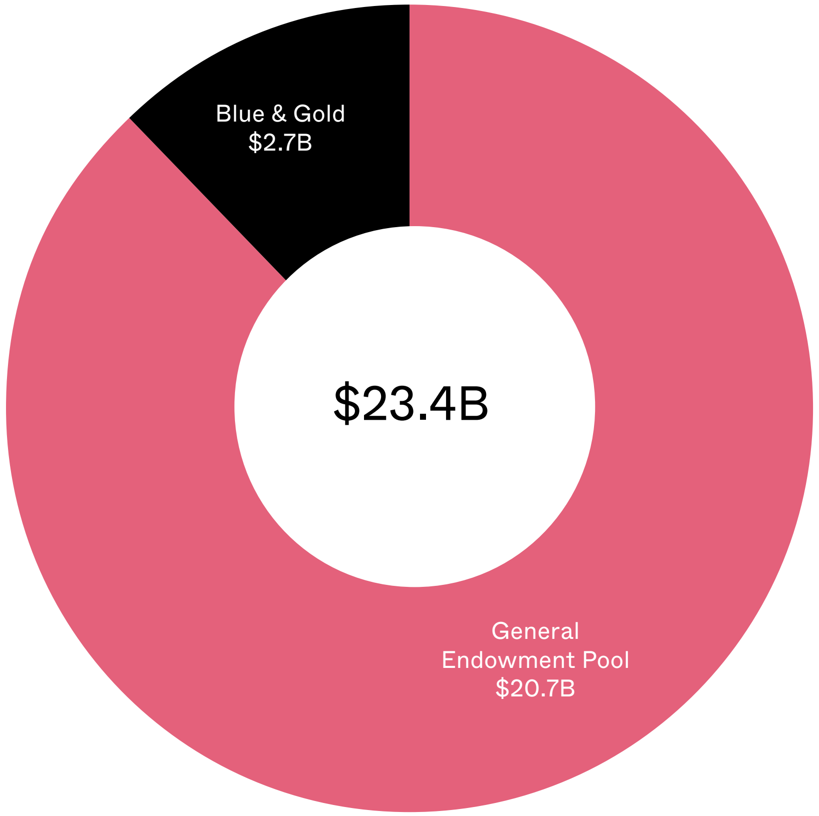
UC Investments Assets

Our financial products address the needs of our clients: our students, staff, retirees, and the University of California's 10 campuses and five medical centers.

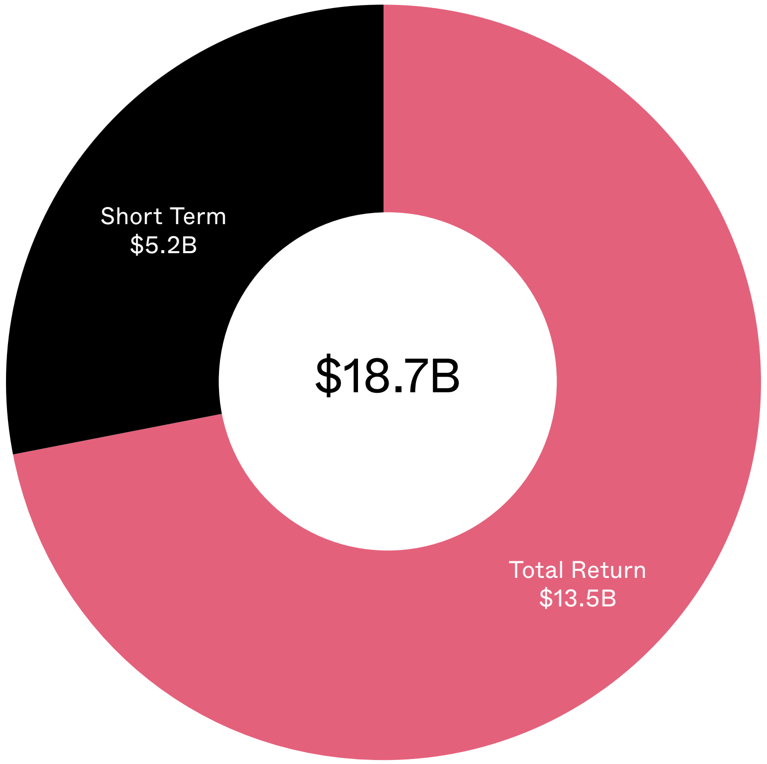
Retirement



Endowment



Working Capital

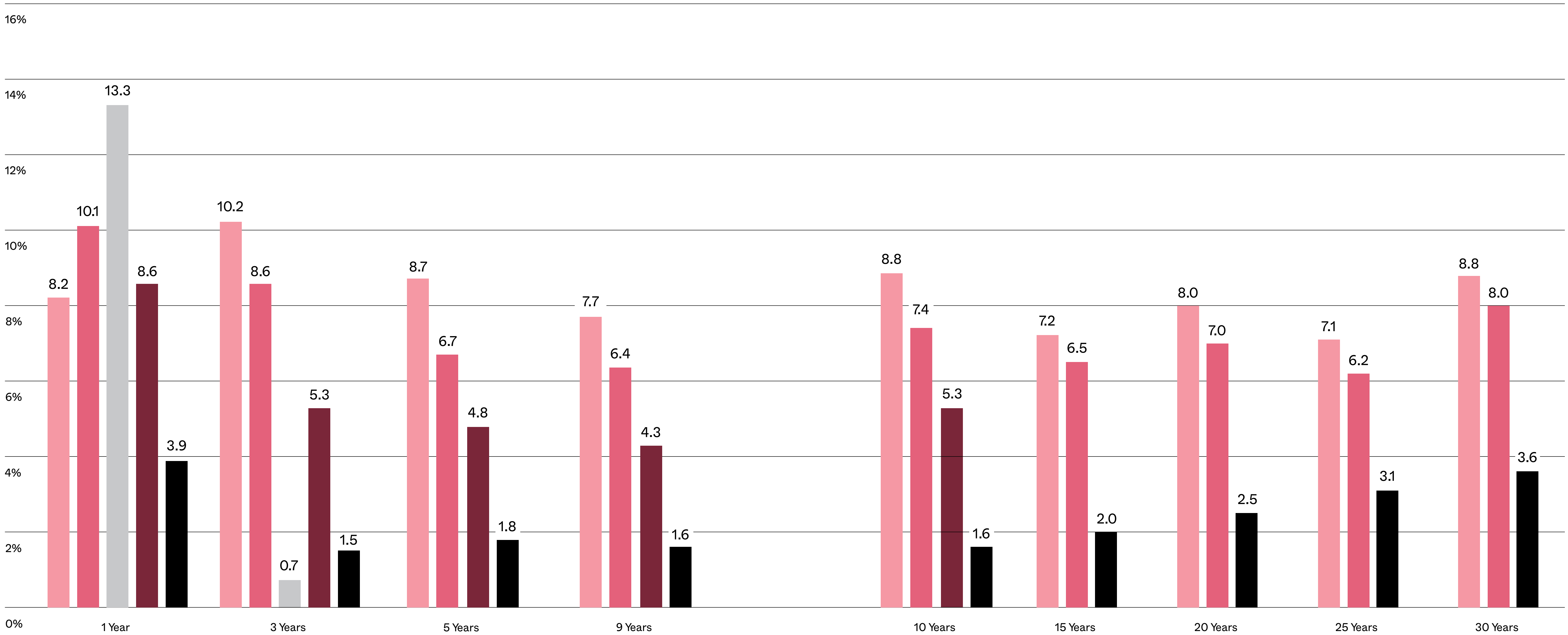


UC Investments Net Returns: 30 years

As of June 30, 2023

1 Year Returns

General Endowment Pool	8.2%
Pension	10.1%
Blue & Gold	13.3%
Total Return	8.6%
Short-Term	3.9%



The Culture

Our ten

pillllllllllars

#

The UC Investments Way

We created the 10 pillars of what we call the UC Investments Way to guide our long-term investment strategy. Amid epic uncertainty and market turbulence due to the global pandemic, we relied on our pillars more than ever before.

The 10 pillars gave us the strength and confidence to respond thoughtfully — not react defensively — as we made investment decisions in this unusually chaotic time. The pillars are our office's common language and our guiding light. We wouldn't be where we are today without them.

I

Less is More

Fewer assets, higher quality, better performance. Experience has shown us the value of lean, high-performance teams working collaboratively to manage a concentrated, high-conviction portfolio. We've greatly reduced the number of external managers we use and the number of line items on our books. That makes it easier to understand what we own, especially in a crisis, and gives us fewer decisions to make. The result is a small, agile team laser-focused on areas where we can outperform the market.

"You have to work hard to get your thinking clean to make it simple. But it's worth it in the end because once you get there, you can move mountains."
Steve Jobs

II

Risk Rules

With opportunity, there is always risk. We've instilled that truism in our team members, and now we think of ourselves as risk managers, not asset managers. To bridge perspectives among asset classes, we speak the same "risk language." From our partners, we demand transparency into the assets we hold, which allows us to assess the risks we're taking across all our portfolios. We don't just measure risk, we manage it with a forward-looking approach. That's why we understand that risk is dynamic, human and long-term.

"In investing, what is comfortable is rarely profitable."
—
Robert Arnott

III

Concentrate

Know what you own, well. We construct our portfolios from a concentrated set of assets that we understand deeply, as opposed to many assets that we would be hard pressed to describe to our mothers. By limiting the number of investments in our portfolios, we believe we can reduce risk and increase returns.

"Wide diversification is only required when investors do not understand what they are doing."
—
Warren Buffet

IV

Creativity Pays

Building a culture of innovation means opening minds and sometimes charting new paths toward performance. We think like entrepreneurs, celebrating the wins and learning from the flops. Our innovation mindset — a rarity among institutional investors — means we incubate and validate ideas and find creative ways to leverage our UC competitive advantages.

"The person who goes farthest is generally the one who is willing to do and dare. The sure-thing boat never gets far from shore."
—
Dale Carnegie

V

Build Knowledge
We are always on the lookout for opportunities that others might not have noticed or simply passed by. That's why it's critical to build knowledge — through connections, collaborations and the occasional deep dive into research — that can give us an edge. We're fortunate to operate within one of the world's most knowledge-rich university systems and we're delighted to capitalize on that.

"An investment in knowledge pays the best interest."
—
Benjamin Franklin

VI

Team Up
We're a collaborative bunch. And we realize that to be successful, we must attract the highest-caliber people aligned with that culture of honesty, humility and respect. We put people first, not lone wolves. We prize diversity of thought and background and share the University of California's core values. That makes it an honor and pleasure to work in service of the university's long-term investment goals.

"Talent wins games, but teamwork and intelligence wins championships."
—
Michael Jordan

VII

What Makes UC, UC
We are integrated within one of the world's premier public research universities. We manage its money, while its students, faculty, staff and alumni discover and create. This unparalleled innovation ecosystem is a steady source of high-quality investment opportunities we can mine, while its people — including world-class experts in every discipline and field — offer knowledge and insights that bolster our success.

"If you don't have a competitive advantage, don't compete."
—
Jack Welch

VIII

Perfect Alignment
As long-term investors, we choose our partners with particular care. Without trust and transparency, a long-term relationship won't work. Costs matter, of course. If external managers won't provide us with a detailed accounting of how they make their money from our money, we pull our capital and walk. Perfect alignment means win-win — in performance, collaboration, and goals — and the costs tend to take care of themselves. By demanding complete transparency, which gives us understanding of our risks, we avoid a misalignment of interests and relationships cut short.

"Control your expenses better than your competition. This is where you can always find the competitive advantage."
—
Sam Walton

IX

Human Meets Machine
With a small team investing large sums of money, we rely on technology to gather data that drives our returns and blends our human intelligence with artificial intelligence and machine learning. The synergy makes us better, faster, and smarter. We're just a short drive from Silicon Valley and fully recognize the benefits, and near limitless future, of tech. Now, we're working with innovative companies to better understand and manage our portfolios and gain more access to unique opportunities around the world.

"You are cruising along, and then technology changes. You have to adapt."
—
Marc Andreessen

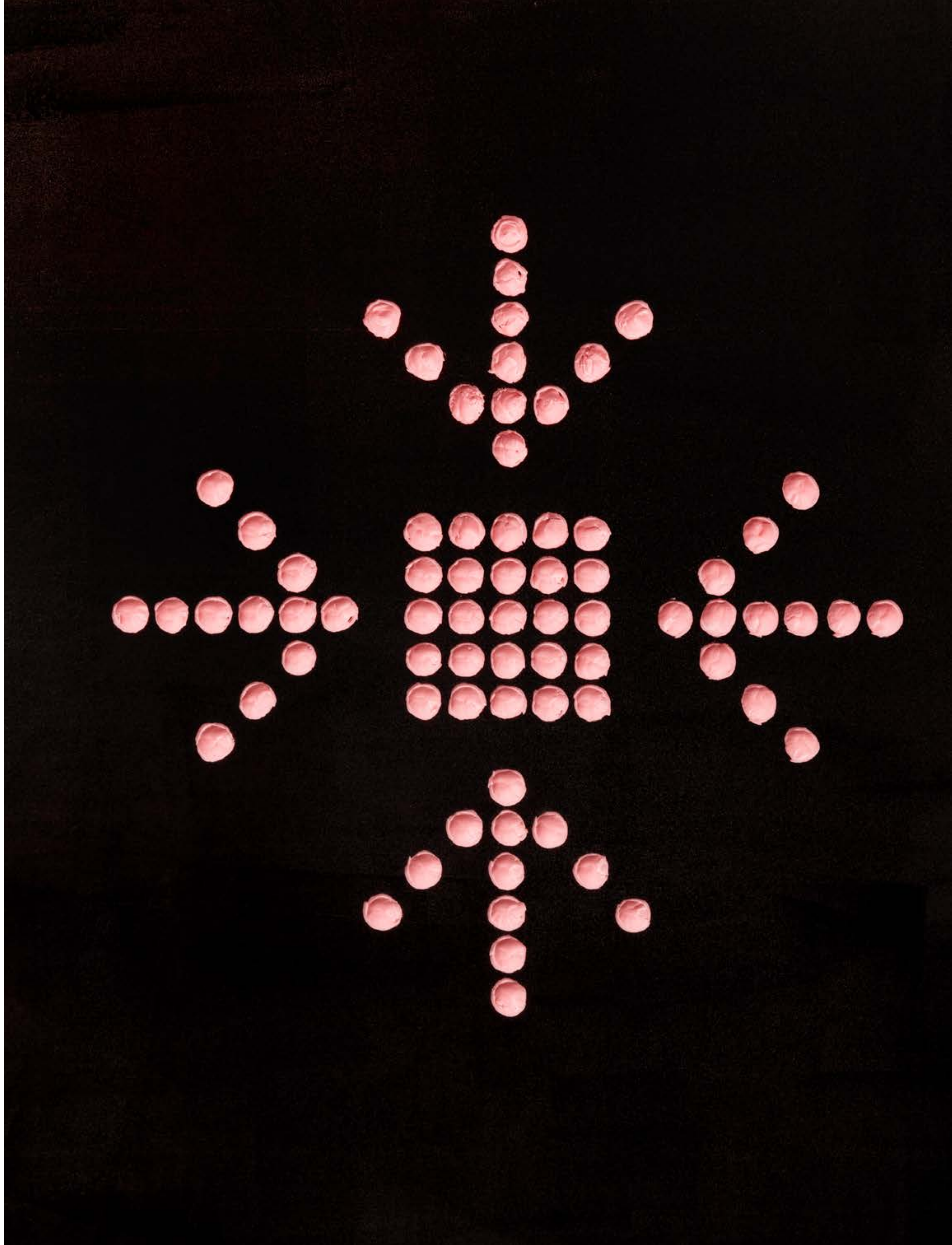
X

Centennial Performance
We think of ourselves as an organization that invests for the next 100 years. We're not in this to make a quick buck. Instead, we are always mindful of our fiduciary duty to help ensure the success of the University of California for generations to come. Our centennial orientation means our decision-making considers the long-term, fundamental challenges and risks facing society such as climate change, diversity, equity and inclusion and corporate governance.

"We should all be concerned about the future because we will have to spend the rest of our lives there."
—
Charles Franklin Kettering

Simplicity is about subtracting the obvious and adding the meaningful.

John Maeda
Technologist



OPPORTUNITY KNOCKED (LOUDLY).

WE ANSWERED.

UC & BREIT

The pace of business usually slows at UC Investments in December. As we head toward the close of our fiscal second quarter, virtually all offices at the University of California's system-wide headquarters shut down. Employees are required to take more than a week of holiday time off, a mandatory winter curtailment with few exceptions made.

Except this year at UC Investments, opportunity called – loudly. For a handful of team members, that meant something far more exciting, and likely far more lucrative for the University of California, than time off.

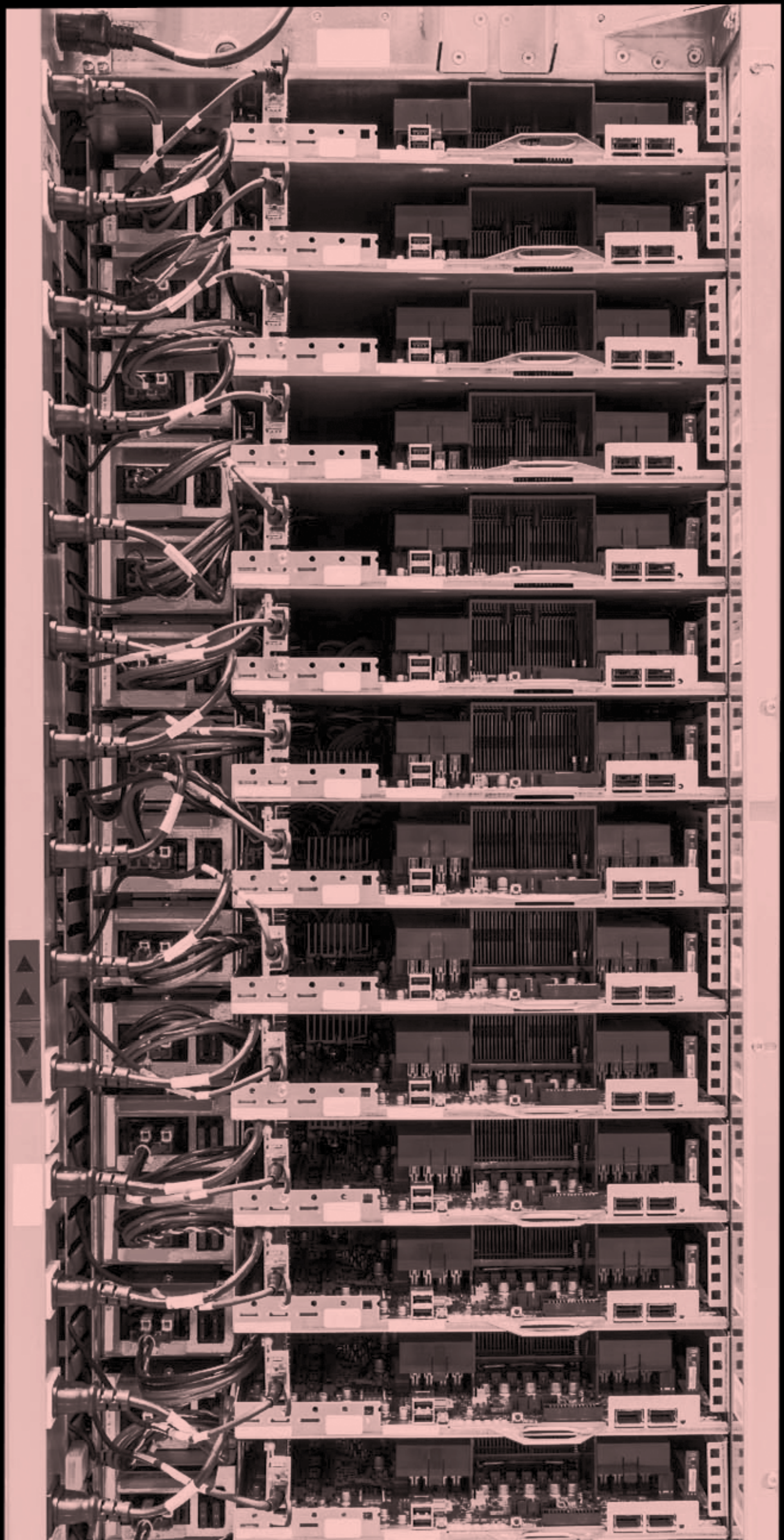
Within a span of three weeks, UC Investments had signed a deal with real estate behemoth Blackstone to invest $4 billion in its market-leading real estate investment trust known as BREIT. The size of the deal – and more important, its terms – made headlines around the world. It was UC Investments' single largest transaction ever, and while the deal closed quickly, it took years of steady, quiet preparation to reach that game-changing milestone. With one big move and the likelihood that it won't be the last, UC Investments was compared to investors such as Berkshire Hathaway and others well-positioned to seize opportunities that require investment acumen, decisiveness, and lots of cash.

The adventure officially began on December 8, 2022 when Chief Investment Officer Jagdeep Singh Bachher happened to catch Blackstone President Jonathan Gray talking about BREIT live on CNBC's "Squawk on the Steet." Wealthy individual investors, mostly in Asia, were looking to shore up liquidity in volatile markets and sought to redeem BREIT shares. With $9 billion in liquidity, BREIT was well-positioned, but when Blackstone hit its contractual redemption limits and began restricting withdrawals, the media sensed the makings of a juicy story and created a drama not backed by facts.

As Gray spoke on camera, Bachher thought of UC Investments' own real estate portfolio and the one Gray had built at Blackstone. Bachher had spent three years streamlining assets and changing the portfolio's strategic direction. Now with cracks in the global order and high inflation and interest rates at home, his efforts to bank liquidity seemed especially well-timed. Recent sales from the real estate portfolio alone had netted more than $4 billion that was just waiting for the right opportunity to knock.

"University of California's terms on BREIT fund are comparable to Warren Buffett's 2008 Goldman deal."

Streetwise
Wall Street Journal



Minutes after Gray left the television screen, Bachher sent him a note:

"Hi Jon. Hope all is well. I just wanted to offer in case we can help with the liquidity needs at all. I know you don't need us for any of it. But just in case we can help creatively pls don't hesitate to call me. Happy to do a bespoke solution not widely marketed. Thanks. Jagdeep"

A few seconds later came the response: "Thank you Jagdeep. Good to know. Best, Jon"

At Blackstone's New York headquarters, this out-of-the-blue offer quickly got mental gears churning. With ample liquidity, BREIT, which is sold through select financial advisors and not publicly traded, really didn't need more cash. What it needed was a public vote of confidence to calm the nerves of its individual investors. A big infusion from, say, a sovereign wealth fund might work. But the University of California? The idea intrigued. Blackstone and UC Investments have been trusted partners for 16 years.

Three days later, Gray called Bachher on Sunday afternoon to further discuss possibilities and a few days after that, Gray asked his partner, Nadeem Meghji, Blackstone's head of Real Estate Americas, to fly to San Francisco. Meghji had planned for what he thought would be a two-hour "conceptual" meeting with Bachher, after which he'd fly back to New York for a holiday party he'd promised to attend. But waiting for him in a quiet downtown hotel were Bachher and UC Investments' co-heads of real estate, Arthur Guimarães and Satish Swamy as well as the youngest UC Investments' team member, 23-year-old analyst Martin Scott, who was eager to listen, watch, and learn.

The UC team wanted to understand, in detail, the BREIT financials and the companies that make up the trust. They knew that BREIT was primarily invested in high-growth sectors like data centers, warehouses, and apartments across the U.S. Sunbelt. With their understanding of the strong tailwinds in these areas, they recognized the opportunity in the disconnect between BREIT's strength and the negative media commentary. Meghji answered countless questions backed by the materials he'd brought and when it became clear that "conceptual" was morphing into tangible, he got Gray on the line.

"At the time of the Blackstone take private of QTS, the company was the fastest growing large scale data center REIT and one of the largest U.S. portfolios of mission critical data centers in top-tier data center markets with primarily investment grade global technology, media, and financial services tenants.

After the Blackstone acquisition in 2022, we signed more leases than in the 15 years previously combined."

Chad Williams
Chairman & Chief Executive Officer, QTS

"It was kind of like haggling in a Turkish bazaar," Meghji says. "We'd talk, reach an impasse, I'd call Jon from another room, and the UC team would huddle. We did this like four times. I thought. 'This is never happening.' We both kept saying, 'We don't need to do this.'"

But after some nine hours, with the San Francisco participants snacking and quaffing coffee for fuel and that New York holiday party barely an afterthought, a tentative deal took shape. Bachher scribbled the terms in a note pad, the team shook hands, and Bachher offered a toast.

As part of a strategic venture with Blackstone, UC Investments would invest $4 billion in BREIT (later increased to $4.5 billion) for a five-year hold with unlimited upside. Blackstone contributed $1 billion of its current BREIT holdings to support an 11.25% minimum target annualized net return, should BREIT's annual returns dip below 11.25%. After five years, the investment would be fully redeemable over 24 months, an effective six-year lock-up. As part of the 11.25% supported return, BREIT would pay UC a yearly dividend of approximately 4.4% distributed monthly in cash and reinvested as additional shares.

"The stars aligned," says Bachher. "But chance favors the prepared, and we were prepared. My objective is always to do the best I can for our institution. What makes this deal so fundamentally attractive is that our pension needs to earn an annualized return of 6.75%, and the endowment 8%, to ensure their sustainability. This is a return of 11.25% in an uncertain economic environment, which makes it more attractive still."

The next step was bringing in the lawyers and crucially, UC's due diligence. Guimarães, who is also UC Investments' chief operating officer, Jim Castro, director of investment transaction services, Larry Adkison, senior counsel, and analyst Scott headed to New York to meet with the Blackstone team. The rest of the lean UC deal team hopscotched across the country – Chicago, Austin, and New York – to personally learn from the leadership of key companies in which BREIT invests.

By then Bachher had brought in his chief of staff, Dianne Klein, but only after they had walked the streets of Oakland's Montclair village – better than a café where someone might overhear – and maybe only joking that he'd have to kill her if she breathed a word of the potential deal, even to her cat. She joined the cross-country trek, very much alive.

Blackstone's proposed term sheet arrived during the group's flight from Austin to New York, but in keeping with the UC Investments pillar, Less is More, Bachher sent it back. Too complicated, he said. Simplify. Make it one page. Blackstone did.

But then a disagreement emerged during negotiations over the deal structure; the two teams had divergent opinions on terms. The stalemate hardened. Neither side moved, for more than a day.

Then Bachher told Swamy to let Meghji know the deal was off, that he was out, and Swamy complied.

Meghji took that call, the first of many – now not from New York but while on his honeymoon in New Zealand, 19 hours ahead of California and 16 hours ahead of New York. Excluding the legal teams, by then Blackstone had 18 people working on the potential transaction literally around-the-clock. That meant Meghji started working at 4 a.m. in New Zealand – tiptoeing out of his hotel room so as not to wake his wife – when it was noon the previous day in New York, and 9 a.m. in California. This latest hiccup looked to derail the deal after two weeks of intense work.

Meghji told Swamy, "You've gotta help me out. I'm in New Zealand, man. On my honeymoon!" Then Meghji had an idea. He asked his New York team to model out different earnings scenarios to assuage any concerns Bachher might have. Later Guimarães and Swamy walked their boss through all the what-ifs. The deal was back to a strong maybe, and pretty soon, it was back on.

By now the still highly confidential transaction had acquired a code name: Project Pillar. Given that Blackstone wanted to announce it publicly just before markets opened on January 3, 2023, much remained to be done. Among the must-dos was letting key UC and state government leaders know in confidence about the announcement before it was publicly revealed. First on the list was Regent Richard Sherman, chair of the Board of Regents' Investments Committee, and Bachher was adamant that only a face-to-face meeting at Sherman's Los Angeles office would do.

Enter Southwest Airlines, which was in the throes of an operational meltdown that canceled flights and left rival carriers

"Link Logistics is Blackstone's largest portfolio company, and Blackstone is the world's largest owner of commercial real estate. Our customers range from global e-commerce companies, retailers and manufacturers to the smaller entrepreneurs driving local 'main street' businesses.

In fact, over 5% of the U.S. economy flows through our buildings.

We consider the University of California to be one of the most sophisticated investors in the world, and when they invested in BREIT, it showed us they have confidence in our business, our platform and our real estate. It's really humbling to us — and we don't take it for granted."

Luke Petherbridge
CEO, Link Logistics

in the California market completely sold out. So Bachher drove from Oakland to Los Angeles, leaving his home exactly at 5 a.m. on December 28 and racing to Sherman's office in five hours flat.

Because UC regents limit their involvement to investment policy, never to decisions or even suggestions on individual transactions, Sherman had no idea that anything was in the works. But when Bachher described the outlines of the BREIT deal, Sherman told him, "This is exactly the type of deal you've prepared for, leveraging the size of the portfolio and the skill of your team." The two called Chief of Staff Klein from the meeting and dictated a quote for the news release.

UC Investments signed the term sheet with Blackstone on the evening of December 29, 2022. Then after the market close on Friday, Dec. 30, 2022, Bachher began the task of calling 22 UC regents to inform them of the transaction and answer any questions they had.

Once the news was out on January 3, 2023, interest in the widely reported transaction surged, with observers outside and within the university lauding the deal. Blackstone CEO Steve Schwarzman had a long call with Dr. Michael Drake during which the UC president enthusiastically backed the unique transaction.

Schwarzman recapped that call to Bachher, "I told him what a remarkable job you and your team did in this situation. Not only did you initiate the transaction, but you found a way to put both the Christmas and New Year holidays aside and work continually over a three-week period – smartly and with great expertise – to get a complex transaction done. Seeing that kind of effort and enthusiasm was incredible."

Says Bachher, "This deal is transformative for both UC Investments and Blackstone, and it serves as an important lesson to the asset management industry, which is exploring ways to expand private market investing to individual investors. These individuals have different liquidity needs. We've just showed them how it can be done."

So, what's next for the UC Investments team?

"We're open for business and willing to take calculated risks," Bachher says. "That's what investors do, for the benefit of their shareholders. We're agile and we work hard. We're not merely asset allocators. We're always looking for a way to invest in the next big win-win."

"Investing in affordable housing can be a win-win — it provides important community impact while delivering steady results throughout all economic cycles.

While we are currently operating in 40 states, California is an important market to us and a state where we can have a great deal of impact. We are based in Los Angeles, where there is a great need for quality affordable housing due to its high cost and population.

We mostly serve residents that earn 60% or less of the area's median income with an average rent discount of 45%. Our residents include teachers, bus drivers and hospital workers, people who are working hard, earning a living, and serving our state.

The Blackstone and UC Investments strategic venture is a great partnership. I think it's not just a win for us, but it's also a win for the UC pension and endowment."

Alice Carr
Chief Executive Officer, April Housing

Do Simple

Regent
Richard Sherman
Q&A

Richard Sherman is the chief executive officer of The David Geffen Company, an investment management firm. From 1977 until 1992, Mr. Sherman was a partner with Breslauer, Jacobson, Rutman, and Sherman, which provided business management services. Mr. Sherman was a staff accountant with Peat, Marwick, and Mitchell from 1973 until 1977. Mr. Sherman is a certified public accountant. Mr. Sherman serves on the boards of directors of the Geffen Playhouse and The David Geffen Foundation. Mr. Sherman also previously served as an adjunct professor of finance with the Graduate School of Architecture and Engineering of the University of Southern California. He has a Master of Business Taxation degree from the University of Southern California. Governor Brown appointed Mr. Sherman in 2014 to a term ending in 2025.

Better

Q&A: Richard Sherman
UC Board of Regents, Chair of the Investments Committee

The theme for the report this year is one of our core pillars: Less is More. Can you talk about how you've seen that pillar work for UC Investments?

R Early in my relationship with Jagdeep and the team, we agreed that a large number of outside fund managers kept us from gaining our scale's benefits. So starting a few years ago, we consciously decided to reduce the number of managers, thereby increasing our influence and making better deals with fewer external managers. Moreover, we made a significant shift in public equity toward index investing, and the bottom line is we've significantly lowered our cost of management overall, both externally and internally, without impacting our performance. Borrowing a page from the playbook of Joe Maddon and the world champion 2016 Chicago Cubs, we strived to "Do Simple Better."

Besides the bottom-line effectiveness of that less-is-more approach, how do you think a more "minimalist" approach in the office can reveal opportunities that might have otherwise been missed?

R When you eliminate distractions and keep your focus streamlined, you have more space and freedom to think creatively and see new ways of doing things. And most importantly, you have far more bandwidth to be proactive in moving the needle on our most significant opportunities. The Blackstone deal this year is a perfect example. Using this pillar of "Less is More," we worked with one partner, deploying a sizable amount of capital in an off-market deal structure that, barring major macroeconomic events, will bring us an above-average return given the risk involved.

That's the perfect segue into the big story of the year: the BREIT deal. What did you think when Jagdeep brought it to you?

R Though the regents don't have implementation responsibility, I appreciated that Jagdeep came to us before the deal to get my support, as well as other Investments Committee members and key decision makers. We had no policy objections as it was within our allocation for real estate, and it was also within our asset allocation when you consider that a part of it is a private equity investment in a sense. At the end of the day, we're relying on the strength of Blackstone itself as they're putting in a chunk of their capital to backstop the return. Overall, the deal is emblematic of the entrepreneurial spirit we try to infuse into the organization.

After the BREIT deal closed, there was a lot of press, much of which focused on the UC Investments profile being raised in the investment world. What's your take on this?

R Within that first week, my Bloomberg machine blew up with articles on the deal. I thought it was excellent because it announced to the world that we were open for business to do things other than stocks and bonds, 60/40 allocations, and the more traditional way of investing. It told the world, "We're a phone call you should make in addition to Berkshire Hathaway or the other usual suspects that can act quickly with a significant amount of capital." It opens the door to new and exciting opportunities.

We should also point out that there was some negative press, too.

R BREIT is a private investment, not a public one, so some people were unaware of the holdings' details. To Blackstone's deep credit, they're very transparent. They've met with different constituents to review their holdings, specifically in the multi-family housing area. They've had several meetings where they laid out the facts as to what they're doing regarding complying with rent regulations, etc., coming out of the pandemic.

It seems our world has been in a bit of limbo this past year—not quite post-pandemic, with recession fears, and ongoing war in Ukraine. What do you think this past year has shown us about UC Investments' long-term investment strategy?

R All these forces, especially the recession that hasn't happened yet, mean you must be very cautious. You hold a bit more cash than you might otherwise, so you have dry powder, if you will, for opportunities, whether it's a BREIT deal or something else. Because you're now getting paid for holding cash today, there's an opportunity cost if you put it to work in something. That means we have to look at things through a long-term lens and be patient while waiting for the right opportunity.

Was there anything else that particularly stood out to you with respect to the office this year?

R Beyond what we've discussed, nothing stands out—and that means something, in a good way. Everybody is back in the office and wants to be back because of the camaraderie and interchange of ideas. There hasn't been any significant turnover in this pivotal time, which I think says a lot about the excellent management of Jagdeep, Arthur Guimarães, and the rest of the senior team.

Heading into the new fiscal year, what do you think are some of the most significant opportunities for UC Investments?

R The most significant ongoing opportunity is being a central capital source for the 10 campuses. I think that will continue both on the real estate side and providing capitalization for entrepreneurship and innovation from the campuses. Based on everything we've discussed, who knows what the markets will do in the next year or so. But the one thing we do know is that the University of California continues to innovate and generate patents and intellectual property. A lot is coming out of our system that can be propelled with the support of our investment office. I'm particularly excited about the artificial intelligence innovation happening at UC. We're in the first inning of the technology, and from an investment standpoint with our academic research centers, it's a tremendously exciting time.

Your last year as a regent is 2025, and in advance, there will be a passing of the torch as chair of the Investments Committee. Can you tell us more about that?

R According to our bylaws, the committee chair is technically not supposed to serve more than two years uninterrupted, and I've been doing it for eight years based on our waiver system. The regents' nomination committee named Regent Mark Robinson as the new chair. I'll stay on as vice chair until I leave the board. I've been Mark's fellow regent "mentor" since he joined the Regents in 2022, and he's been a quick study. The Investments Committee is in great hands.

Priorities

Living Our Priorities

Statement from President
Michael V. Drake, M.D.

Priorities

Priorities

Words:

Michael V. Drake, M.D.
President, University of California

Since becoming the 21st president of the University of California nearly three years ago, I've met with hundreds of UC stakeholders, from students and faculty to elected officials and community leaders – all of them committed to making the nation's best public research university even better.

These insightful conversations, buttressed by the research and thoughtful input of my system-wide leadership team, have led me to formulate presidential priorities to focus our collective efforts as we head into the new academic year and beyond.

Each of these four institutional priorities includes specific, measurable goals grounded in our tripartite mission of teaching, research and public service.

Priority 1: Expanding Opportunity and Excellence

UC's current population does not mirror the rich diversity of the state we serve. By becoming a system that better serves students from underrepresented racial, ethnic, and geographic groups and offering debt-free pathways to undergraduates—among other initiatives—we will promote inclusive excellence and expand opportunities for students while strengthening existing programs and research. UC Investments is helping with its new UC Investments Academy, offering free professional training, mentoring and other opportunities to students throughout our system with a focus on increasing the pipeline of women and diverse investment professionals.

Priority 2: Leading on Climate Change

The urgency and ever-increasing impacts of the climate crisis threaten many of the University's other long-term goals. At all levels of the University, we will build upon ongoing climate science, decarbonization strategies, policy recommendations, health impacts, adaptation and communications research. Our goal is to be at the forefront of understanding the climate crisis and implementing practical solutions that help build a more equitable, resilient and healthy world. UC Investments has been a key player in this priority, eliminating fossil fuel investments from our pension, endowment, working capital and retirement saving programs while investing in green technologies to fuel the future.

> **"UC Investments has been a key player in our priority to lead on climate change."**

Priority 3: Strengthening an Inclusive, Respectful and Safe Community

Members of historically marginalized and underrepresented groups continue to be more likely to experience exclusionary behavior. Addressing the dynamics of our institution's climate around bias, discrimination, and exclusion is critical for faculty recruitment and retention, student completion, diversity of senior leadership, patient care, and the University's reputation. Our goal is for all University of California locations to be environments where those who study, teach, conduct research, work, and receive patient care feel included, safe and valued. UC Investments is focused on ensuring that the management firms they work with reflect our commitment to diversity. Approximately one-third of our actively managed investments are with diverse managers, and they recently met with more than 300 firms led by women and people of color to create more opportunities to raise that figure.

Priority 4: Promoting Health in California's Vulnerable Communities

As California and UC transition to the next phase of the post-pandemic world, there is a need to "catch up" on the health status of Californians and ensure health equity advances. We therefore seek to improve the health of Californians, including the most vulnerable communities, in three key areas: cancer screening, chronic illness management (hypertension and diabetes control), and long COVID.

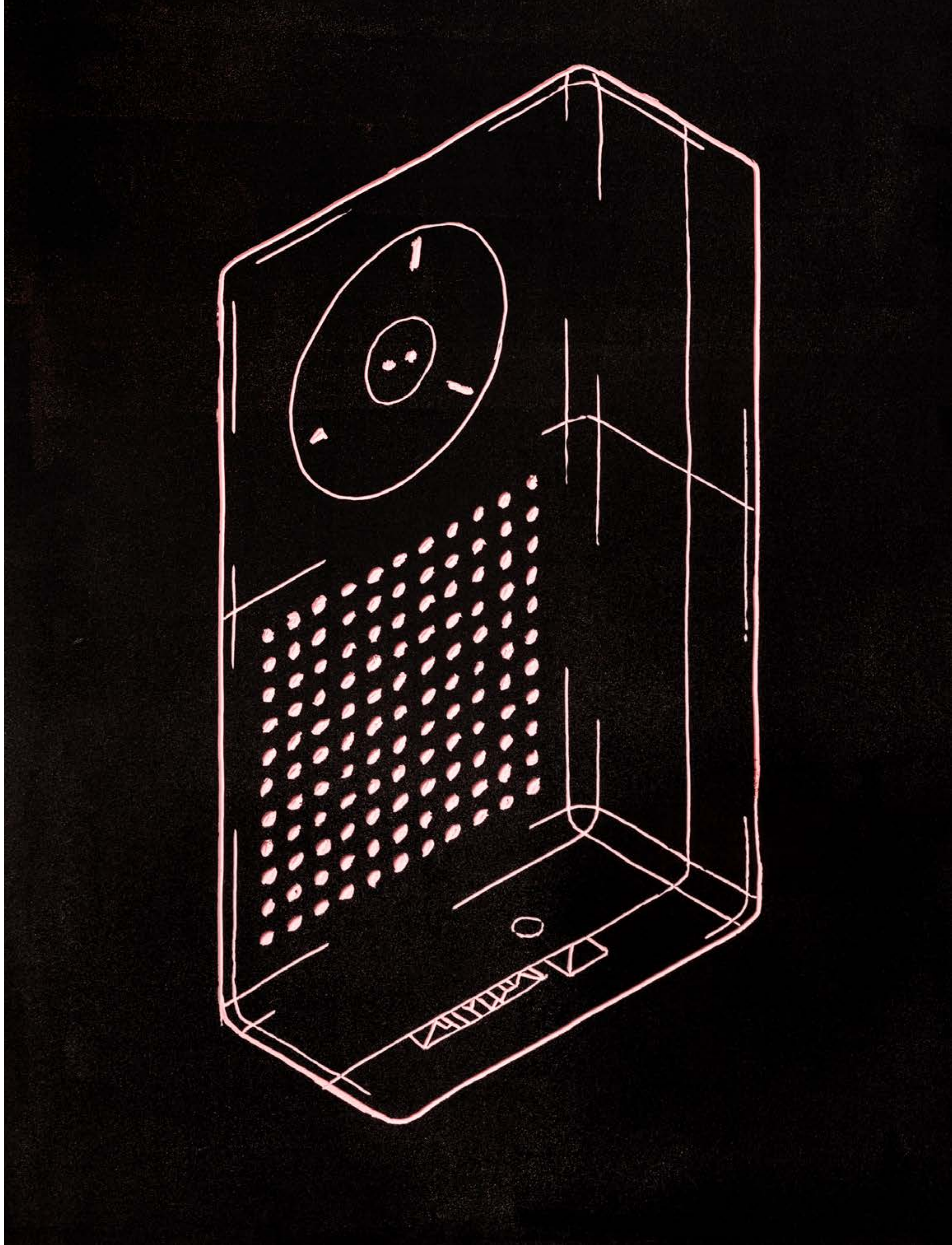
Our additional goal is to improve the health of Californians now and in the future by promoting health equity across the state and expanding access to UC care. Recently, UC Investments joined with UCI Health to launch a $50 million fund to invest in healthcare innovation and digital health aimed at revolutionizing patient care and public health. This is the first such partnership between UC Investments and our UC healthcare enterprise.

These priorities are intended to help the University focus time, resources, and effort, providing the direction needed to effectively organize across a large and complex organization. By bringing special attention to these priorities and working with valuable partners like Jagdeep Singh Bachher and the UC Investments team, we will build on our tradition of excellence and advance our ability to have a meaningful impact on the world.

Fiat Lux,
Michael V. Drake, M.D.
President, University of California

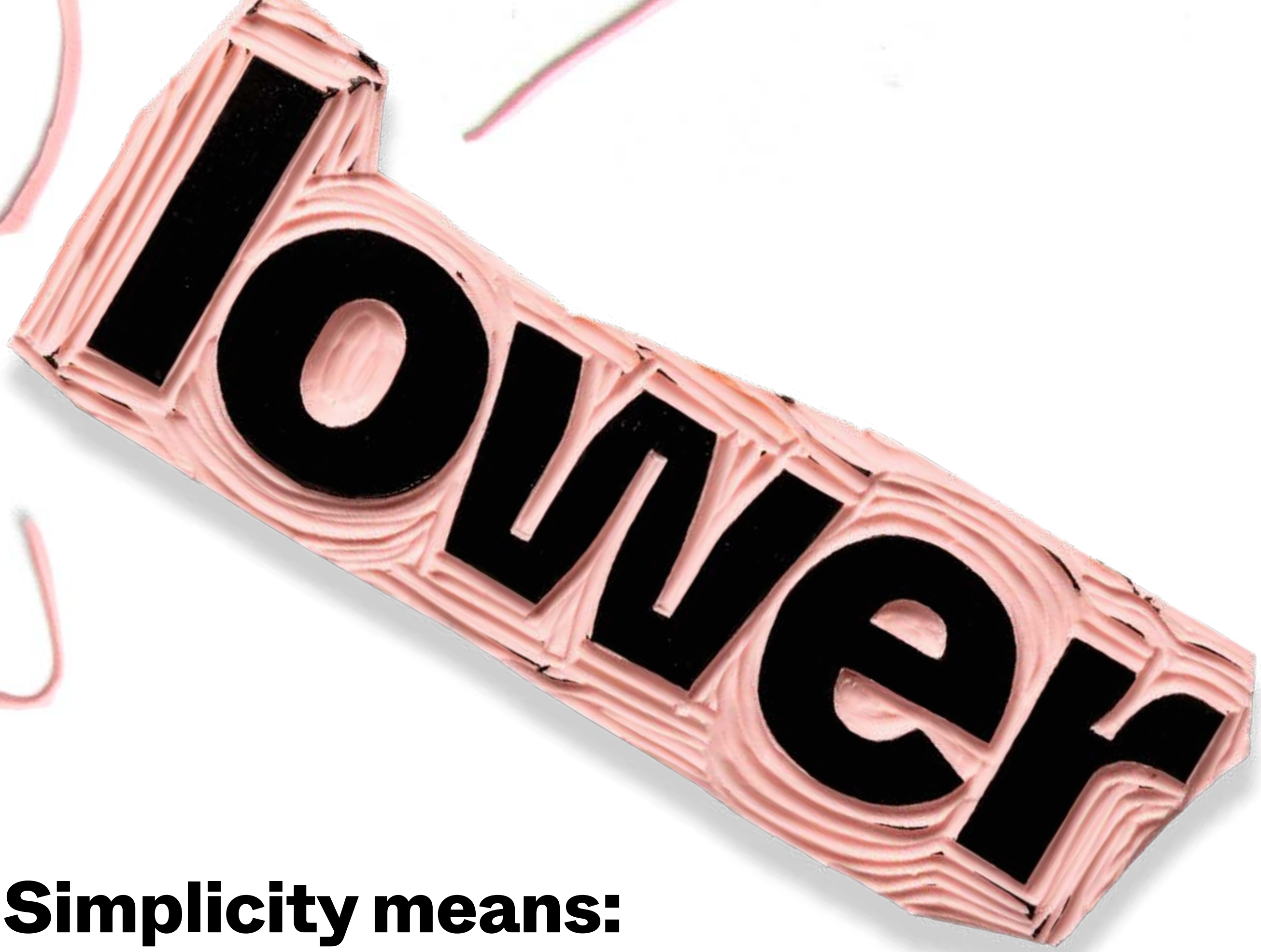
Less, but better.

Dieter Rams
Designer



How we invest:

We keep it simple.



Simplicity means:

more

focus

Reducing the number of key partnerships adds up to better returns.

33

Key partnerships in 2023

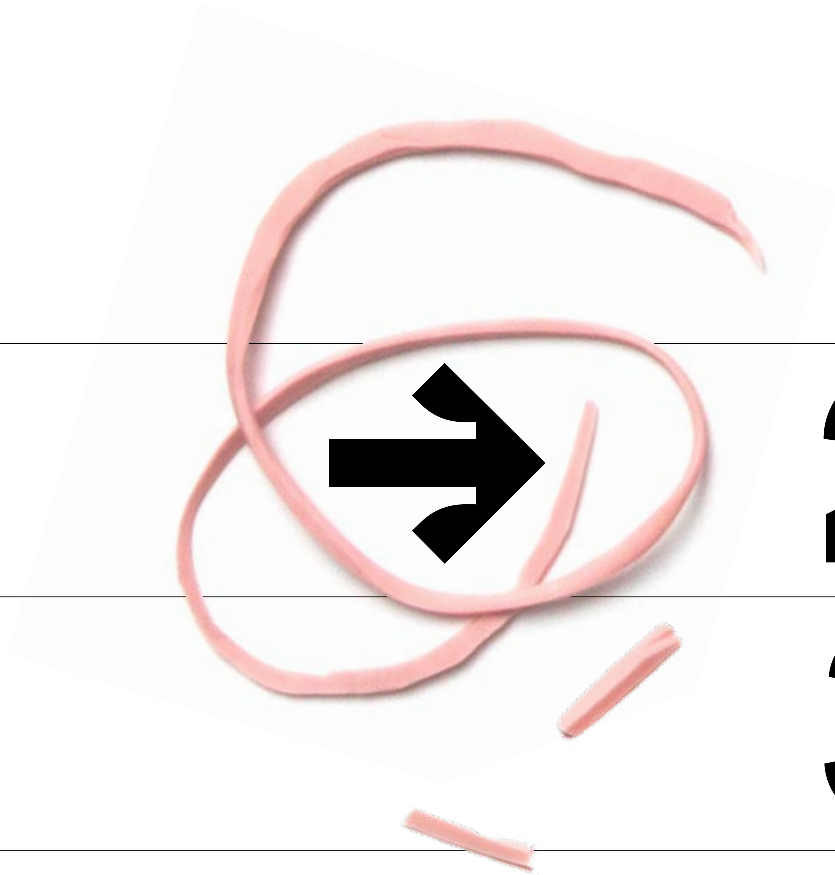
Fewer active investments means fewer external managers.

And far less money spent on fees.

We reduced the number of key partnerships from 280 in 2014 to 33 today. These 33 partners help manage 92% of our total assets, with three of them accounting for $124 billion.

And as our assets have grown, our active investments have declined. That's meant higher returns, fewer external managers and far less money spent on fees. In 2014, our portfolios had $30 billion in passive investments. Today, that number is $117 billion. Out of our total portfolio of $164 billion, we have $47 billion actively invested today, as compared to the $65 billion we actively invested in 2014 when our total portfolio stood at $95 billion.

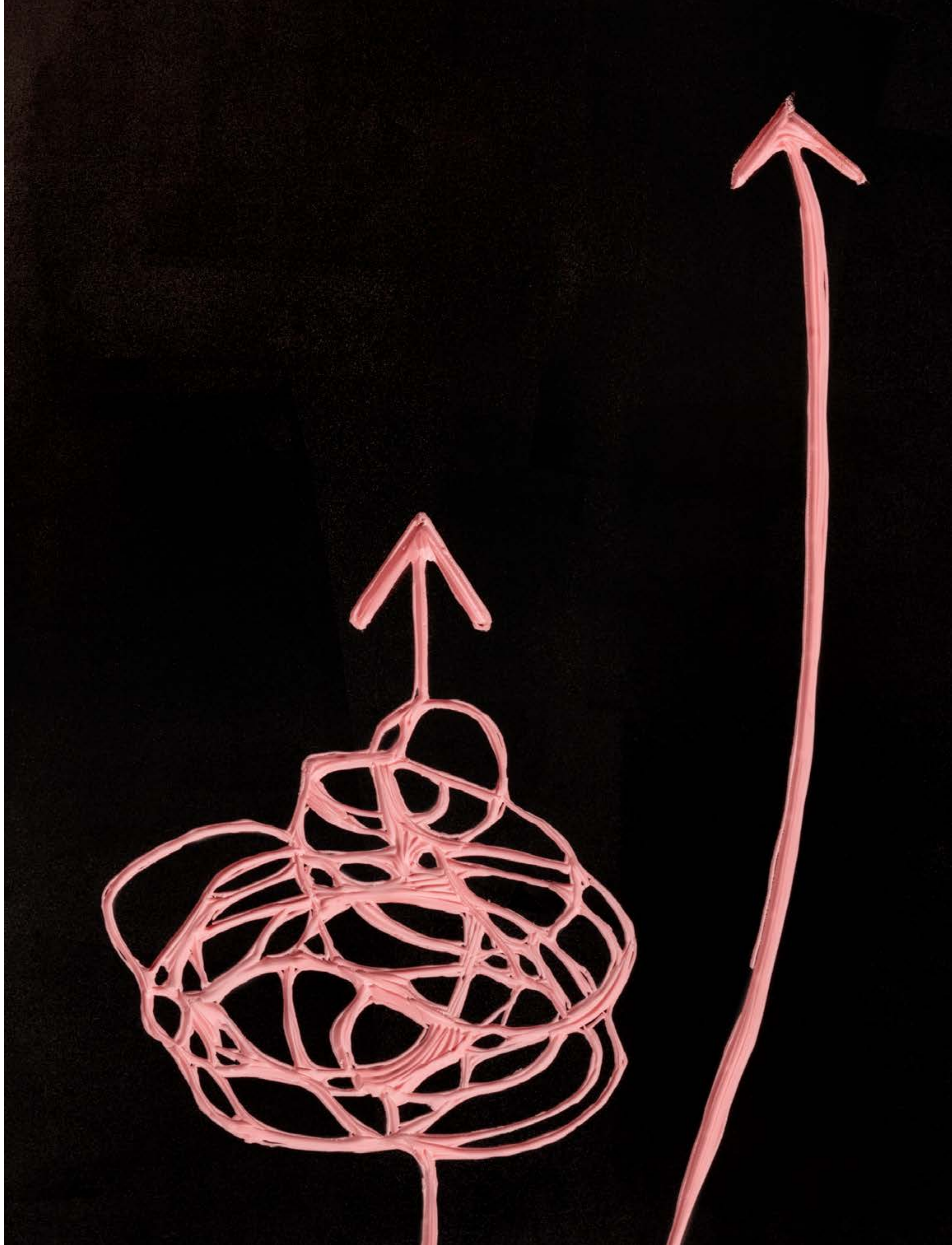
The bottom line: Where we believe we can do better than the market, we actively invest. Otherwise, we earn returns while paying only minimal fees.



Year	2014	→	2023
Key Partnerships	280		33
Passive Investments	$30B		$117B
Active Investments	$65B		$47B

Sometimes what you don’t do is just as important as what you do.

Greg
McKeown
Author



Our Team

At UC Investments, we do more for less. We manage $6.8 billion per person. The industry standard is $1.1 billion. To do this work, our peers charge an average of 0.3%. That's more than 10 times what our clients pay at 0.028%. In other words, instead of $492 million a year, our clients pay $46 million.

There are far fewer of us as well. We manage $164 billion. Most portfolios of that size have teams at least five times larger.

Risk rules

The past few years have thrown us—and the markets—an unprecedented number of curve balls.

This core pillar keeps us grounded and able to manage risk with a forward-looking approach.

S&P Boom & Bust

-34% in 23 days in 2020

+114% from the bottom in 2020 and 2021

-25% in 2022

First $1tn companies: Apple, Amazon, Google, Microsoft, Saudi Aramco, Nvidia

Inflation

Core CPI inflation YoY increases from 0% to 9% back to 6%

Short-Term Rates

2yr yield low was 0.1%

High-Yield / Leveraged Loans

HY Issuance was $487bn in 2021, $112bn in 2022

Loan market dysfunctional following Twitter ($44bn) and Citrix ($16bn) deals

Commercial Real Estate Boom & Bust

July 2020-2022 were the best years in real estate in recent history.

Since then, market has seized, no debt available, office and retail dead

Developed Market Gov't Debt Yield Rises

Yields on $19tn of debt increase from -100bps to +100bps

Middle East State Profits

Saudi Aramco books $160bn in profits

Gulf state sovereign wealth funds flush with cash

Global Central Bank Hikes

G10 currency central banks hiked 4000bps over 3 years

Unemployment

Unemployment jumped to 14.7%, now at record low 3.5%

SPAC / IPO Boom

SPACS went from 525 in 2021 to 41 in 2022

Source: BBG

IPOs went from 274 in 2021 to 77 in 2022

Ongoing Banking Fragility

Failures of Silicon Valley Bank, Signature Bank, Silvergate, First Republic

New Bank Term Funding Program with US Treasury backstop

Return of War

Russia invades Ukraine

China threatening Taiwan

S&P 500 Outliers

Profit margin jumps from 8% to 14%, highest ever

Top 10 companies increase from 21% to 31% of the index

End of Easy Money / Leverage

Fed hikes 5.5% over 18mo

Rogue State Tensions

Iran nuclear ambitions

North Korea missile launches

Saudi Arabia drone refinery attacks

Venture Capital Investments

VC activity massively grew in 2020 and 2021, only to drop off in 2022.

80% decline in VC backed IPOs by $. Source: kpmg

Covid

Seven million dead

13 billion vaccine shots

Small Biz Credit Drought

Deposits from regional banks being withdrawn

SVB causes lender pullback

Crypto

Bitcoin +1280% then -76%

FTX, Genesis, Three Arrows, BlockFi, Voyager, Celsius bankrupt

US Rates Volatility

10yr yield goes from 1.9% to 0.5% to ~4% now

Tech Competition

AI / machine learning / facial recognition

Hacking by state actors cybersecuri[ty] threats

Emergence of ChatGPT

Energy Prices

WTI futures -$40 in April 2020, peaked at $122 in summer 2022

EU gas jumped 100x: €3 to €340

China Risk

Chinese domestic policy (zero COVID, tech crackdown, common prosperity)

US / China geopolitical risk

Deglobalization / supply chains

Surveillance balloons

US Fiscal Stimulus

CARES Act ($2tn), Consolidated Appropriations Act ($2tn), American Rescue Plan ($2tn), Inflation Reduction Act ($500mm)

Asset-Liability Mismanagement

UK pensions are forced to liquidate bonds, 10yr gilt yield increases from 1.8% to 4.5% in 2 months

What keeps us up at night?

Inflation
Interest Rates / Fed
Economic Slowdown / Recession
US Politics
China / US Geopolitics
Russia / Ukraine War
Middle East War

Artificial Intelligence
Climate Change
Demographics
Deglobalization

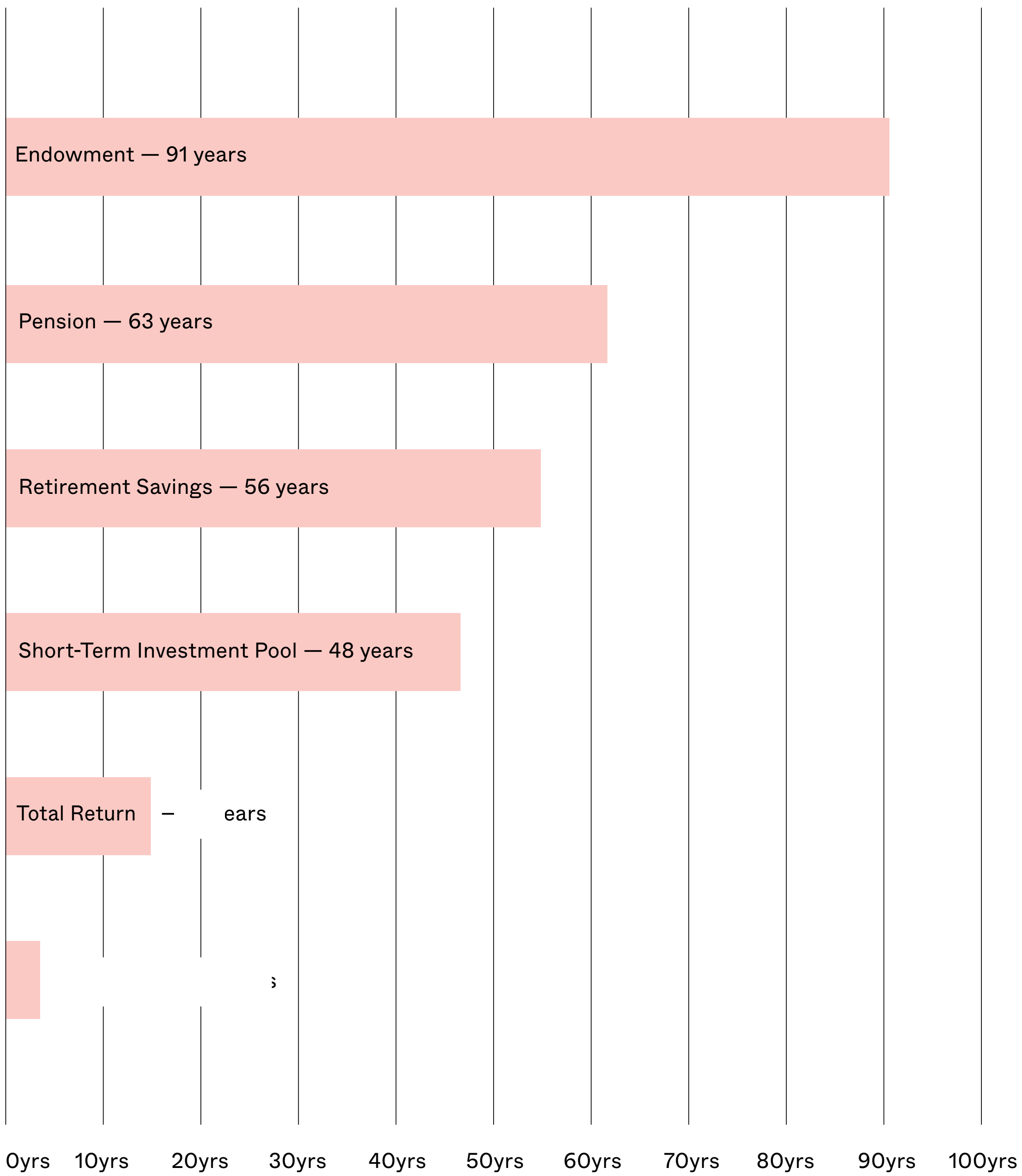
$10 Billion

in campus deposits since 2014

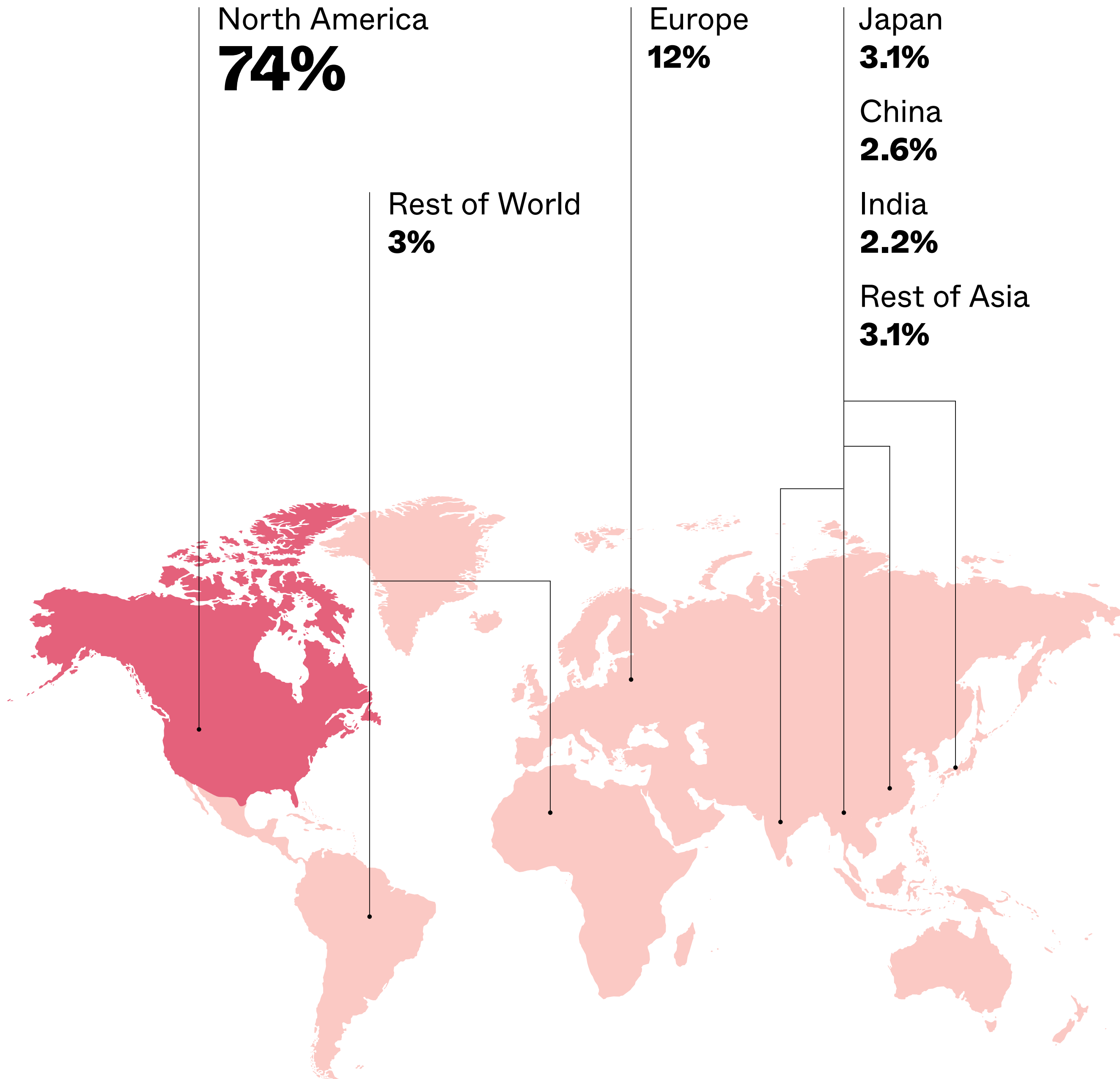
Over 9 years
2014—2023

Value added: $3.5B

Fees saved: $3B



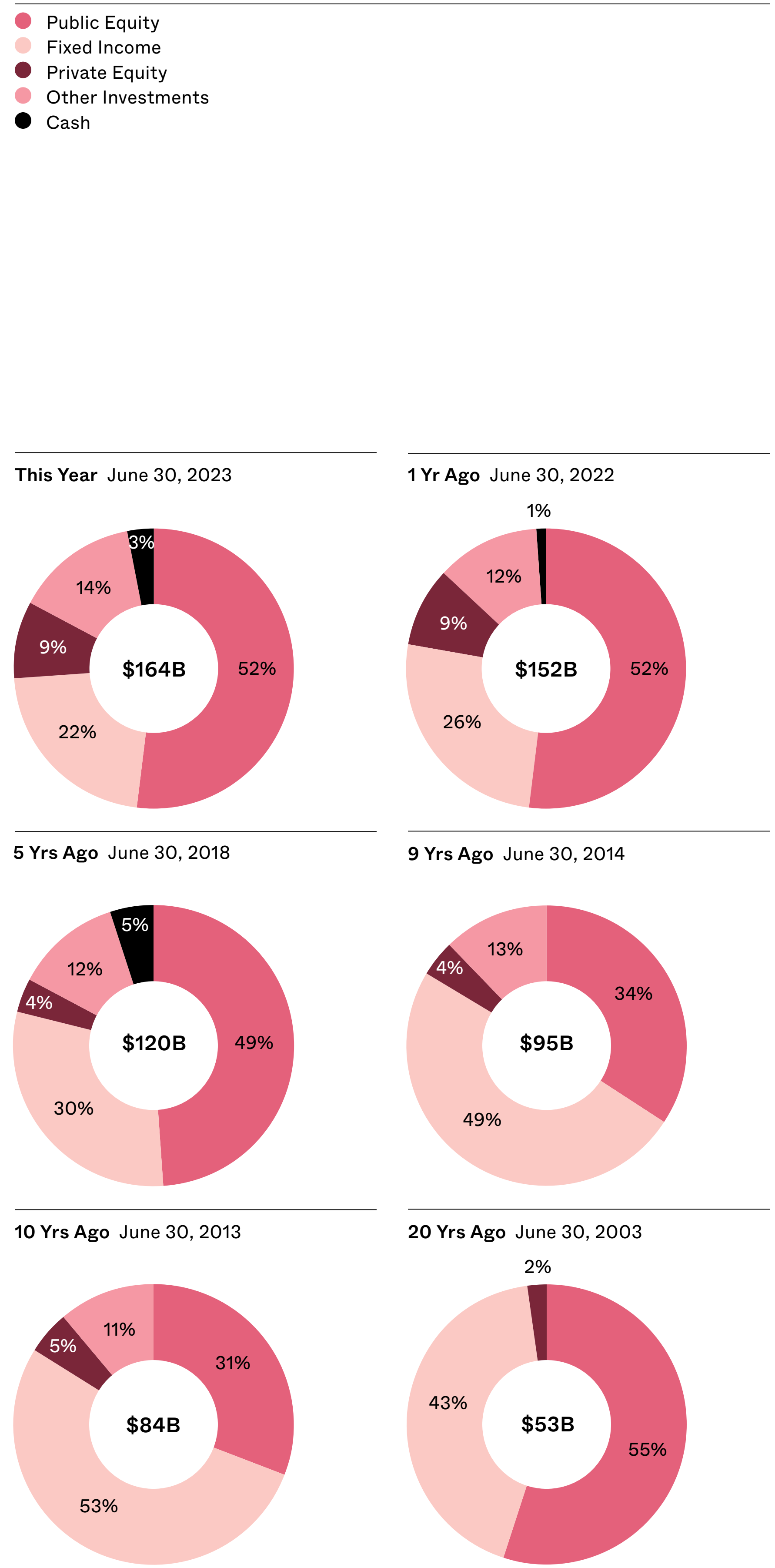
As of June 30, 2023



Asset allocation drives returns

As of June 30, 2023

	Market Value ($M)	Weight (%)
Public Equity	**86,038**	**52.4**
Fixed Income	**35,691**	**21.8**
Private Markets	**37,265**	**22.7**
Private Equity	14,468	8.8
Absolute Return	2,751	1.7
Private Credit	4,484	2.7
Real Estate	10,874	6.6
Real Assets	4,668	2.9
Cash	**5,068**	**3.1**
Total	**164,062**	**100**



Our strong relationships with the Board of Regents allowed us to be nimble and shift our asset allocations to take advantage of market conditions.

Public Equity: Stocks

Putting another 10% in stocks before post-pandemic run-up added

$2.6B

Switching $10.5B to the S&P 500 added

$1B

Fixed Income: Bonds

Shifting from long-term to short-term bonds saved

$825M

Part Two

We have been investing the endowment for **91 years.**

The endowment is **$21 billion** in assets, divided among **6,741** funds.

It supports **294,309** UC students.

The 2023 payout to campuses is **$625 million.**

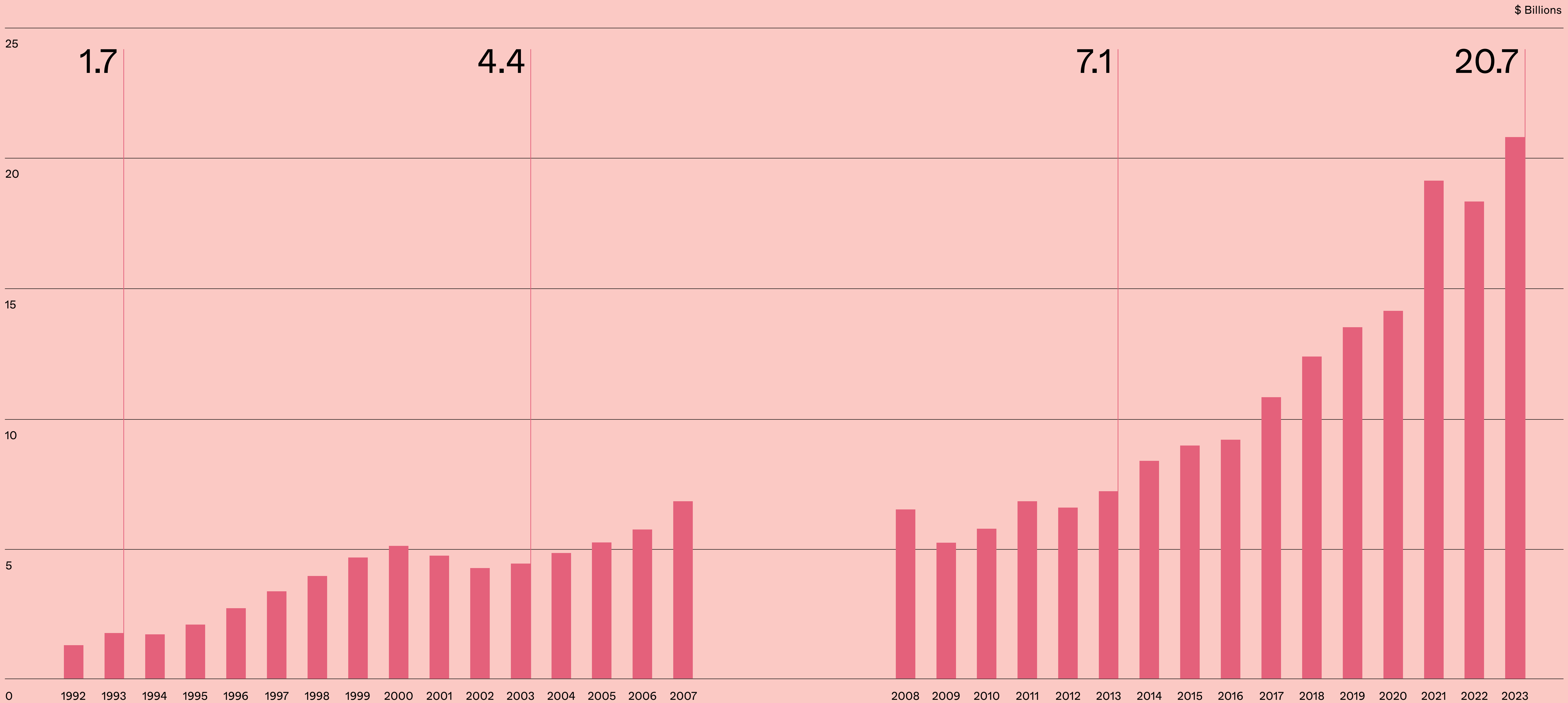
Gross return: **8.9%**

Net return: **8.2%**

30-year annualized net return: **8.8%**

Since 2014, this amounts to **$1.7 billion** in value added (over the benchmark) with asset growth of **$13 billion, $7.2 billion** in deposits from campuses, and **$808 million** in fees saved.

Investing for the long-term
UC Endowment 1993—2023



We have been investing the pension for **63 years.**

The pension stands at **$88 billion.**

Supporting **258,485** members, **52.2%** of them active.

% Employer contribution: **14%**

% Employee contributions: **7%** to **9%**

Gross return: **10.5%**

Net return: **10.1%**

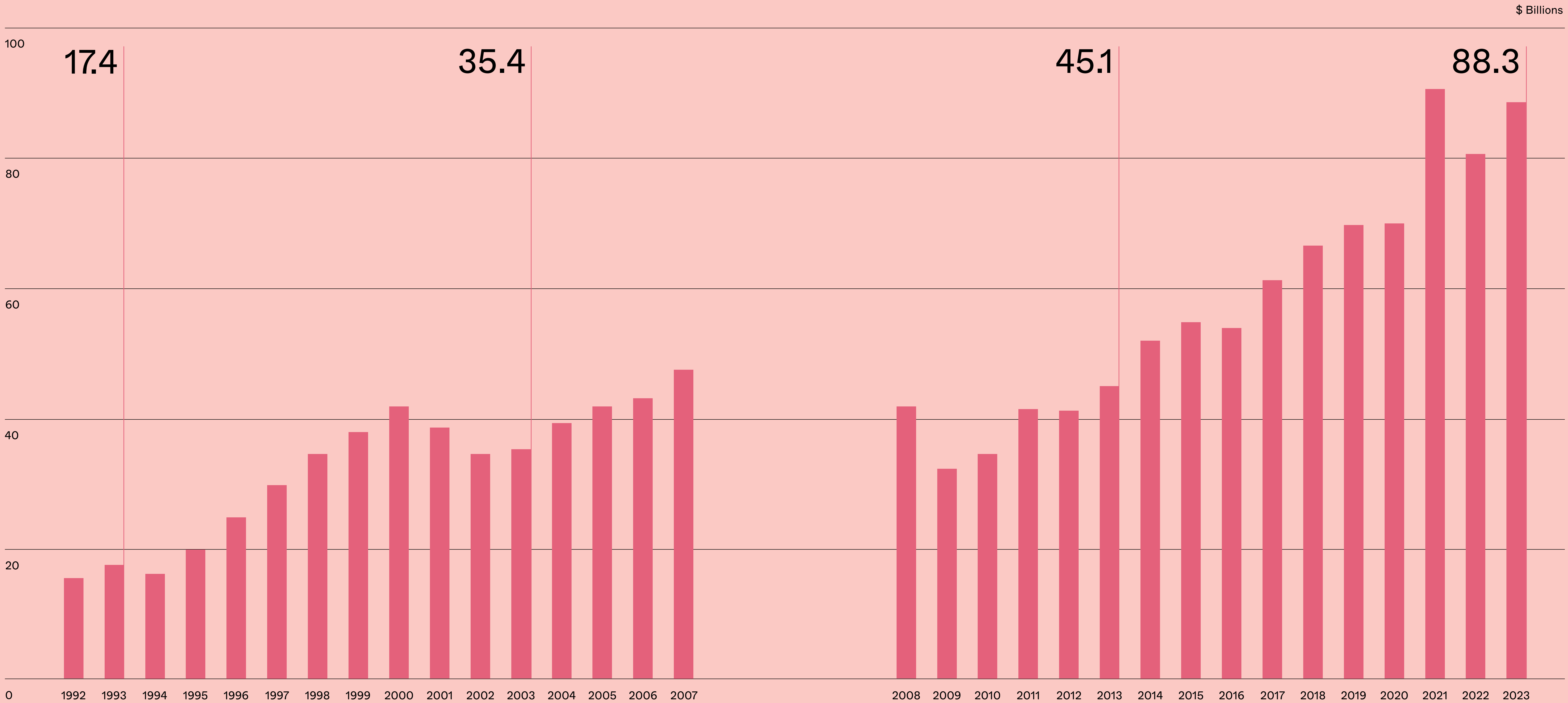
30-year annualized net return: **8%**

Funded ratio (actuarial): **83%**

Discount Rate: **6.75%**

Since 2014, we added **$0.84 billion** in value (over the benchmark) and grew assets by **$36 billion** while saving **$1.9 billion** in fees.

Investing for the long-term
UC Pension 1993—2023



The Retirement Savings plan serves 335,000+ members, making it the second largest U.S. public defined contribution plan, behind the federal government.

The plan offers participants the best choices at the lowest cost of any plan in the nation.

Total assets: $33.7 billion across three plans.

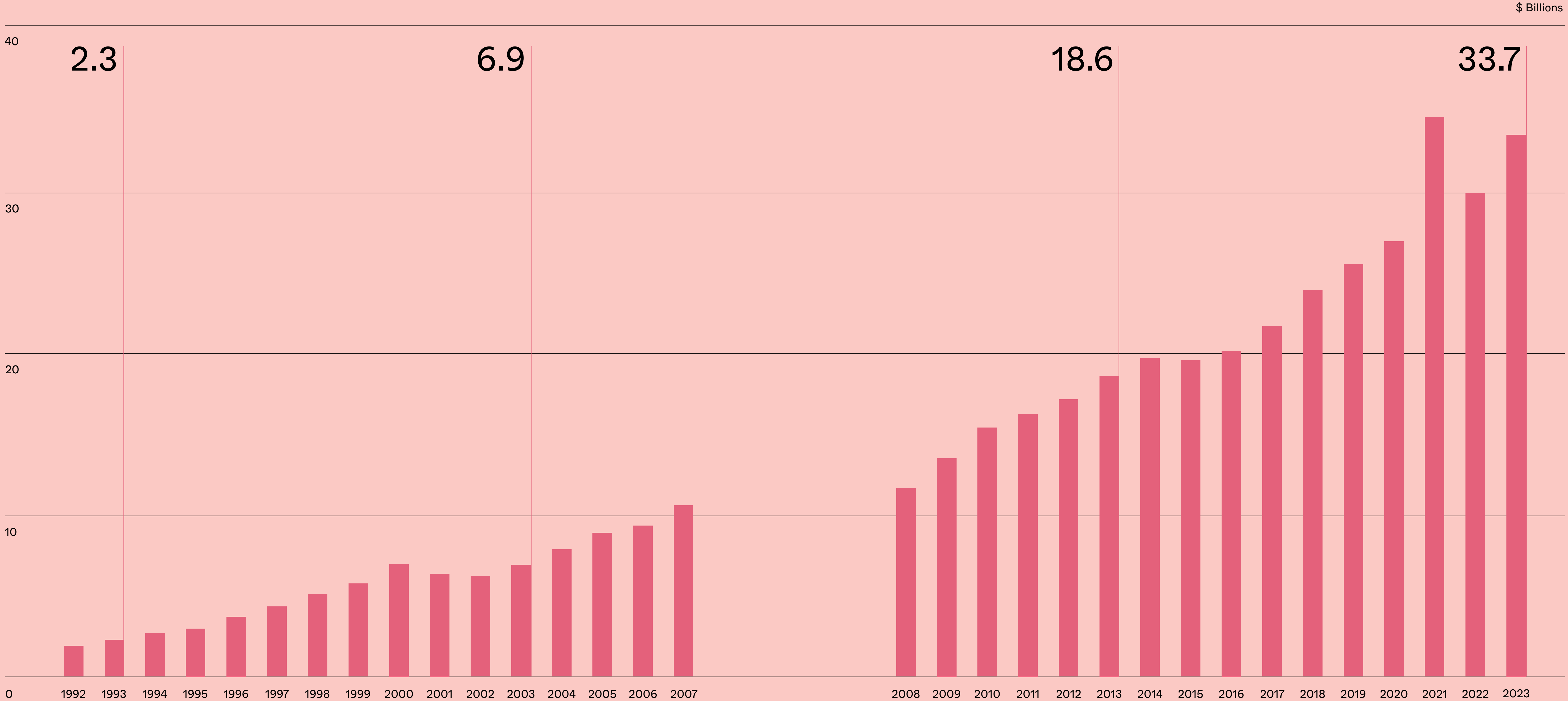
We make investing for retirement simple. Since 2014, we've streamlined investment choices from 75 to 14.

We are always innovating. We have launched a low-cost way to guarantee an uninterrupted income stream for participants 78 and older.

We made the investment fund lineup fossil free, with an industry leading management fee of 0.05%.

Since 2014, we've added $521 million in value (over the benchmark) for our participants, saved them $96 million in fees, and grown assets by $13.9 billion.

Investing for the long-term
UC Retirement Savings Program 1993—2023



We have been investing working capital for **48 years.**

Working capital is **$18.7 billion: $5.2 billion** in short-term and **$13.5 billion** in total return.

Our **10** campuses and **five** medical centers rely on working capital to pay for the mission-critical projects and programs that make UC the gold standard of U.S. public universities.

Total Return

Gross return: **8.6%**

Net return: **8.6%**

10-year annualized net return: **5.3%**

Short-Term

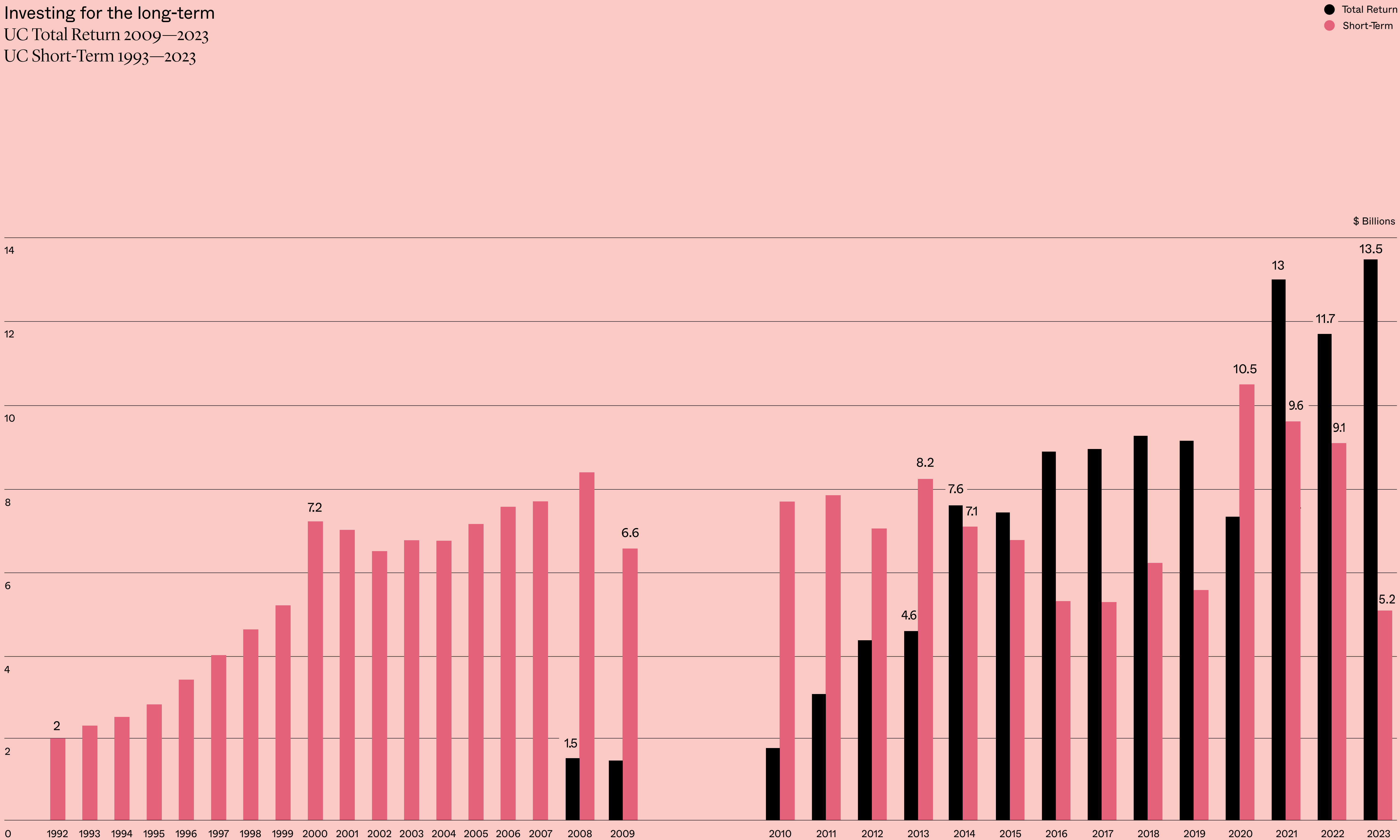
Gross return: **3.9%**

Net return: **3.9%**

30-year annualized net return: **3.6%**

Investing for the long-term

UC Total Return 2009—2023
UC Short-Term 1993—2023



What happened in the markets?

The short answer: Less chaos than expected.

The long answer:

Fixed Income Markets

The world has changed dramatically since the long years of easy money and low inflation, and it's unlikely we will see those days again soon. So far, the Federal Reserve Bank has, rather remarkably, avoided steering the economy into recession as it tries to beat back inflation by pushing interest rates to a 16-year high. The Fed is fixated on a 2% target inflation rate and says we may get there in 2025.

That's the best case scenario.

But core inflation, which is the Consumer Price Index minus volatile energy and food prices, is still high at 4.1%. And while the price of goods is dropping, the costs of services and housing remain steep. This sticky inflation, more than double the Fed's target, will likely keep interest rates higher than what we had become used to.

In addition, economic trends in place since the early 1980s are now unwinding. Globalization characterized by growing trade and production overseas is in reverse, partly due to U.S. policy and geopolitics, including Russia's war in Ukraine. This de-globalization leads to higher production costs, ultimately fueling more inflation. At the same time, immigration trends associated with globalization are also doing an about-face, and less immigration leads to more domestic wage growth and, ultimately, higher costs. Add to all this the transition to green energy, which is expected to continue for the next decade or so. The shift from fossil fuels to new energy sources brings higher production costs, furthering inflationary pressure as well.

We could see inflation remaining high for longer.

At UC Investments, we prepared for higher interest rates and rising inflation as early as March 2020. With interest rates near zero, fixed income wasn't producing much income. That's why it made sense to look elsewhere to generate returns. Instead, we bought more equities and benefitted from a rally partly spurred by those same low interest rates. And as an organization that, for 60 years, had actively managed fixed income, we figured it was time for a change. We switched to passive management of our fixed income portfolio – with a management fee of just .01% – and didn't look back. Finally, we knew that nothing lasts forever, including low interest rates. That's why we reduced the duration of our fixed income holdings and embraced a shorter duration benchmark, safeguarding the principal against potential (probable) interest rate flux.

All of these moves added up to a gain of some $3.4 billion for UC's portfolios.

The current economic landscape includes cyclical and structural reasons that indicate that high interest rates and stubborn inflation will be with us for a while. We will remain vigilant and responsive to navigate what comes next. We're up for the challenge.

Public Equities Markets

As of June 30, 2023, UC Investments held some $86 billion in global public equities, 74% of which is invested in passive indices and 26% through active stock-pickers. A year earlier, that total was $69 billion, split 64% in passive and 36% in active.

We continue to believe that U.S. stocks stand to benefit the most from economic growth and innovation, including a new wave of artificial intelligence. U.S. corporate balance sheets also remain in good shape.

Early in the fiscal year, we invested $10.5 billion in the S&P 500 and we maintained this overweight to the U.S. throughout the year, during which the S&P 500 outperformed the global index (MSCI ACWI IMI) by 3.5%: 19.7% versus 16.2%. Over the past 10 years, the ACWI index returned 9.1% per year, while the S&P 500 annualized 13.4%.

Below the surface of the equity indices, there was large variability in returns over the year. Gains so far in 2023 in the MSCI ACWI and S&P 500 have been dominated by a handful of mega-cap U.S. technology companies. The five largest companies (all in technology) make up 24% of the S&P 500, the highest concentration in decades, with the remaining 495 companies making up 76%. For instance, Apple now exceeds $3 trillion in market capitalization.

The global economy held up relatively well overall during the past year, as companies and consumers withstood the higher financing costs that the Federal Reserve and other central banks continue to impose to combat inflation. In a year characterized by financial and geopolitical uncertainties, equity indices overcame a weak start to show surprising resilience, particularly toward the end of the fiscal year. The best performing regions were Latin America (+30.1%) and Europe (+22.3%), followed by Japan (+18.6%) and India (+14.7%). A continuing headwind globally has been the Chinese equity market, with the MSCI China index down 16.7%.

Active stock-pickers have continued to struggle to keep pace with rapidly rising equity indices. Over the course of the past three years, we have reduced active manager exposure by $17.5 billion. We ended the fiscal year with approximately $8 billion in active exposure.

Our decision five years ago to sell our fossil fuel assets has not hurt performance. Our equity portfolio benchmark, which is fossil free, has had a 5-year annual return of 7.9%, compared to 7.7% for the MSCI ACWI Tobacco Free index. The S&P 500 Tobacco and Fossil Fuel Free Index had a return of 12.6% versus 12.4% for the S&P 500 tobacco free index.

We believe that equities remain compelling for long-term investors such as the University of California. While valuations have risen in 2023 (especially in U.S. technology stocks) and market volatility may pick up from current below-average levels, our investment horizon should allow us to navigate through this. Key risks include further monetary tightening, geopolitics, and declining corporate profit margins.

Interest rates:

Higher for longer.

Inflation:

Sticky.

Where Will Equities Go: 30 years

US Equities (S&P 500)
Global Equities (MSCI ACWI IMI)

Source: Bloomberg

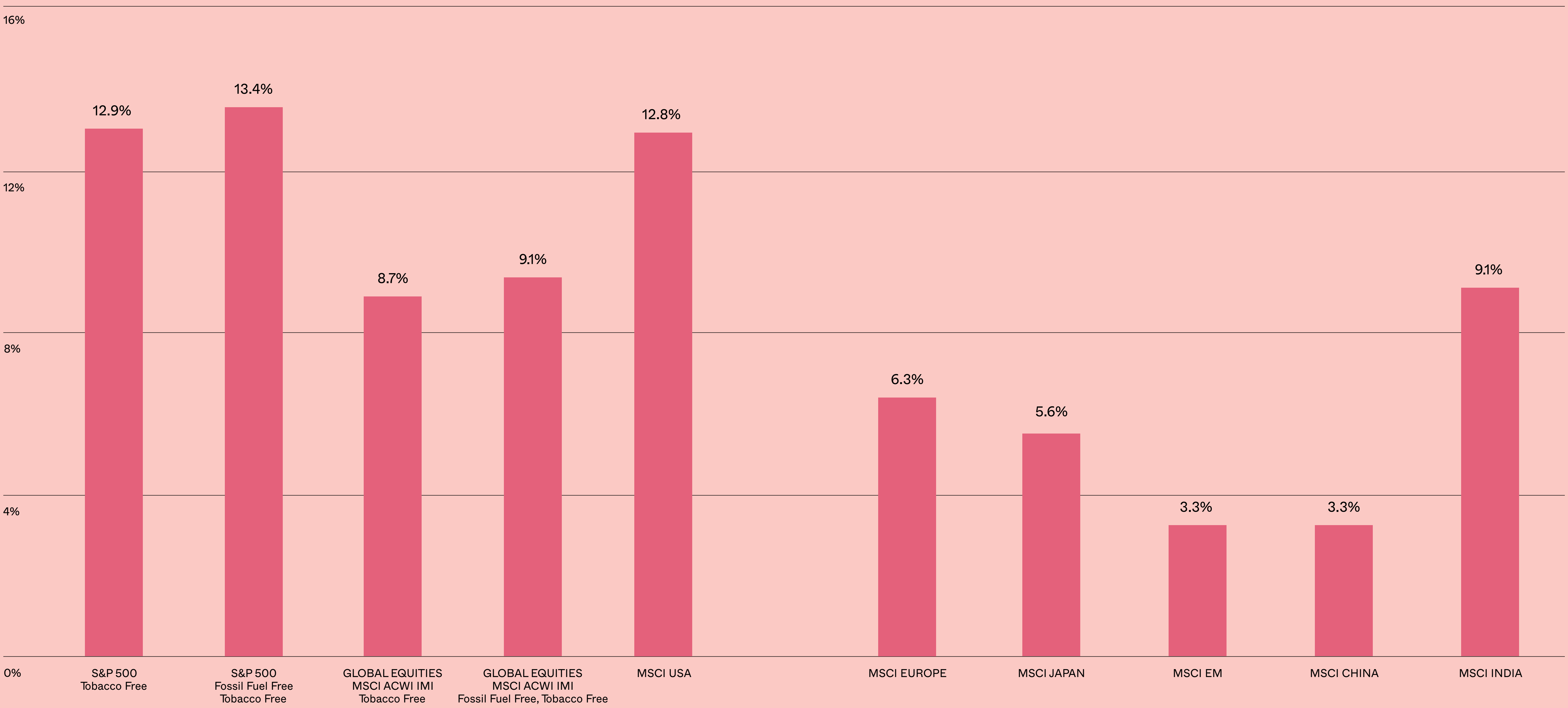
Fed Funds Rate is 5.25% – 5.5%

Federal Funds Rate
10 Year Treasury
2 Year Treasury

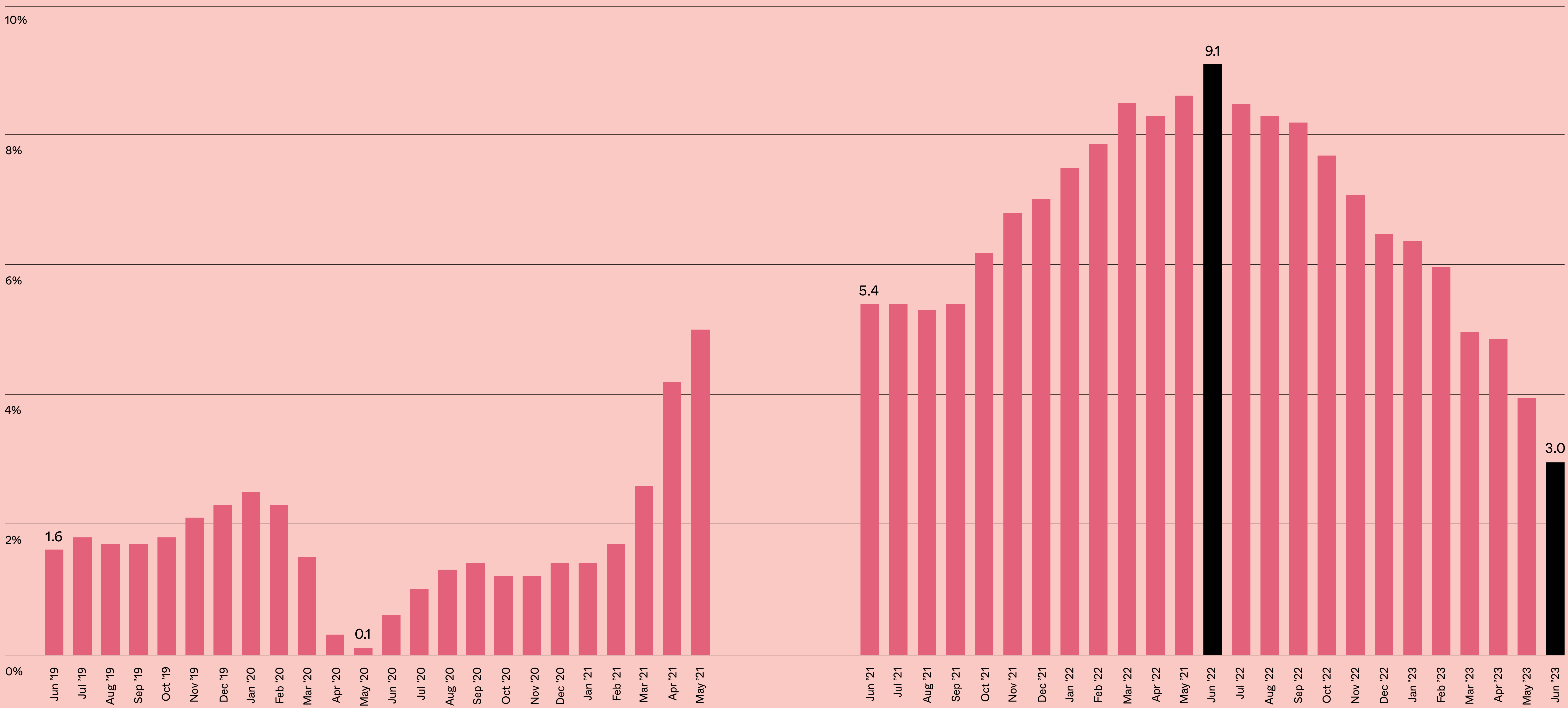
Source: Board of Governors of the Federal Reserve System (US)

Global Equity Returns: 10 years

As of June 30, 2023



Falling Inflation



E

Endowment

Critical financial support for the programs and initiatives that make our public research university system the best in the world.

General Endowment Pool

+

Blue & Gold Pool

Highlights

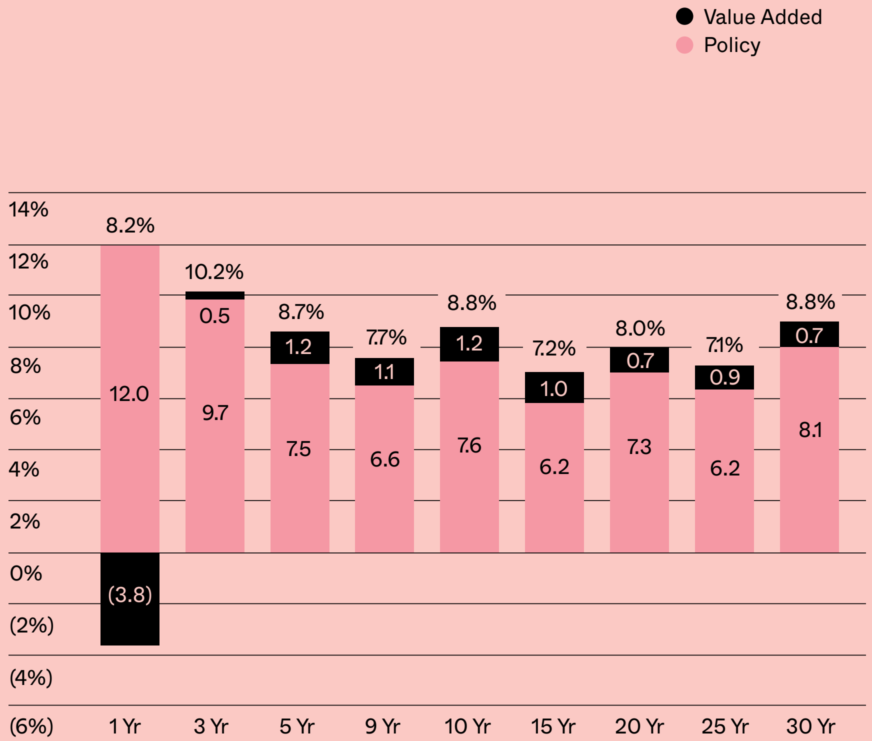
As of June 30, 2023

Gross Return	8.9%	Assets	$20.7B
Net Return	8.2%		

	Fiscal Year To Date
Beginning Market Value	$18.1B
Market Gains	$2.3B
Value Added	($0.7B)
Net Cash Flow	$0.9B
Ending Market Value	$20.7B

Net Returns

As of June 30, 2023



Performance

As of June 30, 2023

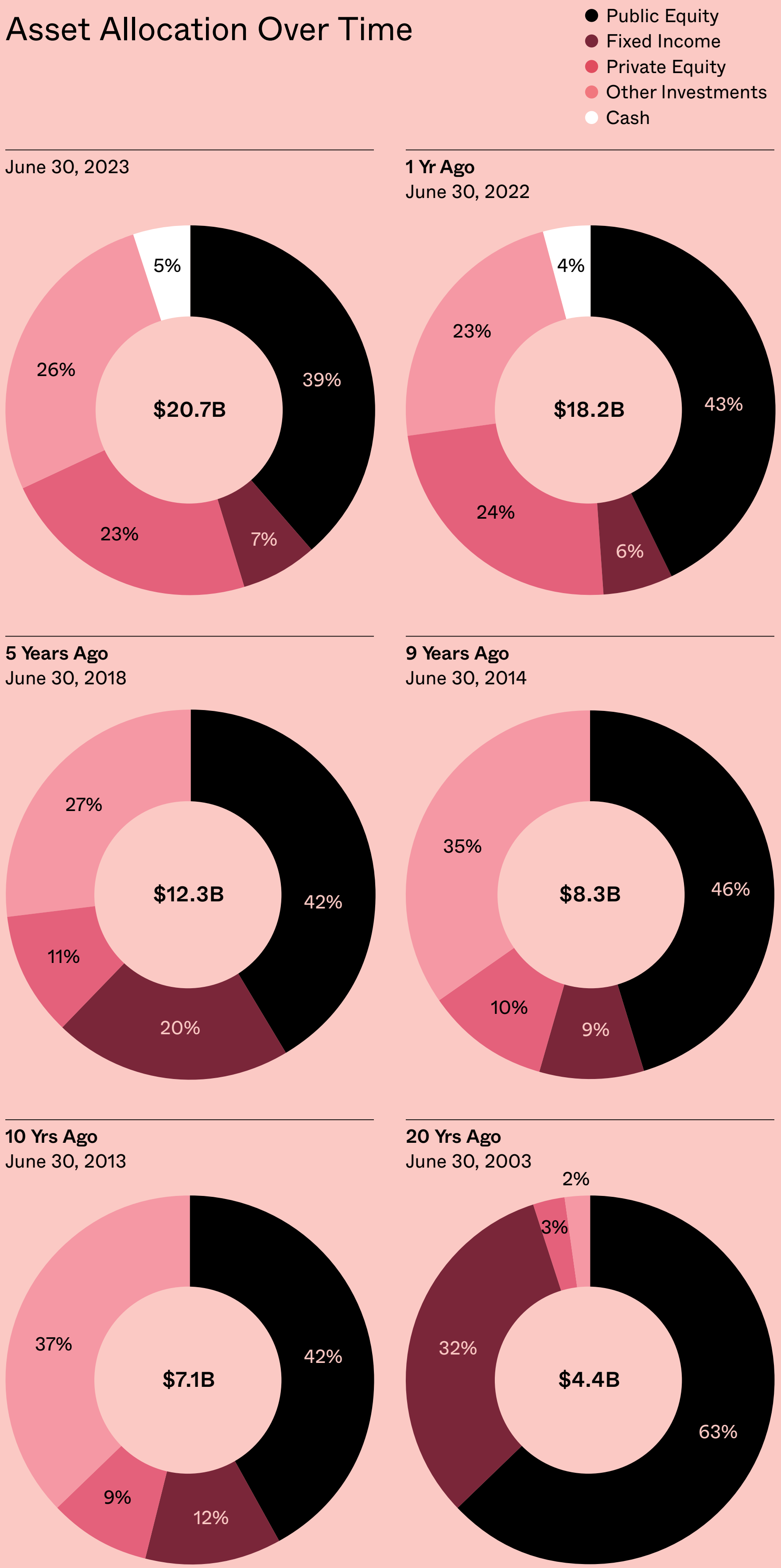
	Market Value in Billions ($)	Annualized Net Return (%) 1 Yr	3 Yr	5 Yr	9 Yr	10 Yr	15 Yr	20 Yr	25 Yr	30 Yr
Endowment	20.7	8.2	10.2	8.7	7.7	8.8	7.2	8.0	7.1	8.8
Policy Benchmark		12.0	9.7	7.5	6.6	7.6	6.2	7.3	6.2	8.1
Value Added		(3.8)	0.5	1.2	1.1	1.2	1.0	0.7	0.9	0.7
Public Equity	8.1	16.3	10.2	8.2	7.5	9.0	7.1	8.2	6.3	8.3
Fixed Income	1.4	0.6	(1.2)	1.8	2.0	2.5	3.8	4.1	4.8	5.9
Private Markets										
Private Equity	4.7	4.4	17.9	20.5	20.4	21.5	16.1	17.3	18.0	20.3
Absolute Return	1.0	3.9	7.1	5.3	4.4	5.4	4.5	5.5	—	—
Private Credit	1.1	6.7	8.8	—	—	—	—	—	—	—
Real Estate	2.7	(0.1)	14.6	10.0	10.7	11.1	4.3	—	—	—
Real Assets	0.7	4.9	8.5	8.2	3.3	4.1	—	—	—	—
Cash	1.0	2.6	1.6	—	—	—	—	—	—	—

Asset Allocation

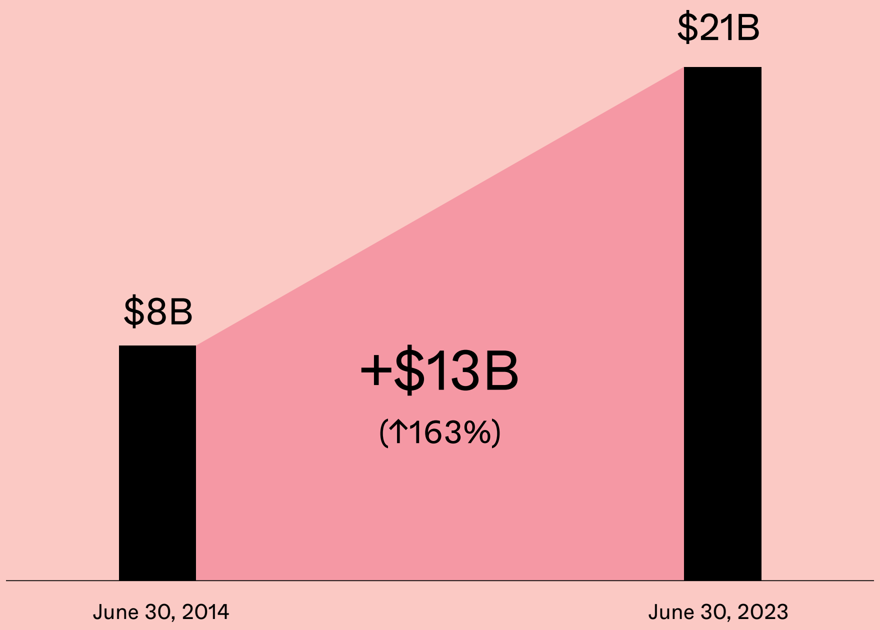
As of June 30, 2023

	Market Value in Billions ($)	Portfolio Weight (%)	Over/Underweight (%)	Policy (%)
Public Equity	8.1	39.2	(0.8)	40
Fixed Income	1.4	7.0	(1.0)	8
Private Markets	10.2	49.3	(0.7)	50
Private Equity	4.7	22.8	(1.2)	24
Absolute Return	1.0	4.7	(5.3)	10
Private Credit	1.1	5.3	1.3	4
Real Estate	2.7	13.0	5	8
Real Assets	0.7	3.5	(0.5)	4
Cash	1	4.5	2.5	2
Total	20.7	100		100

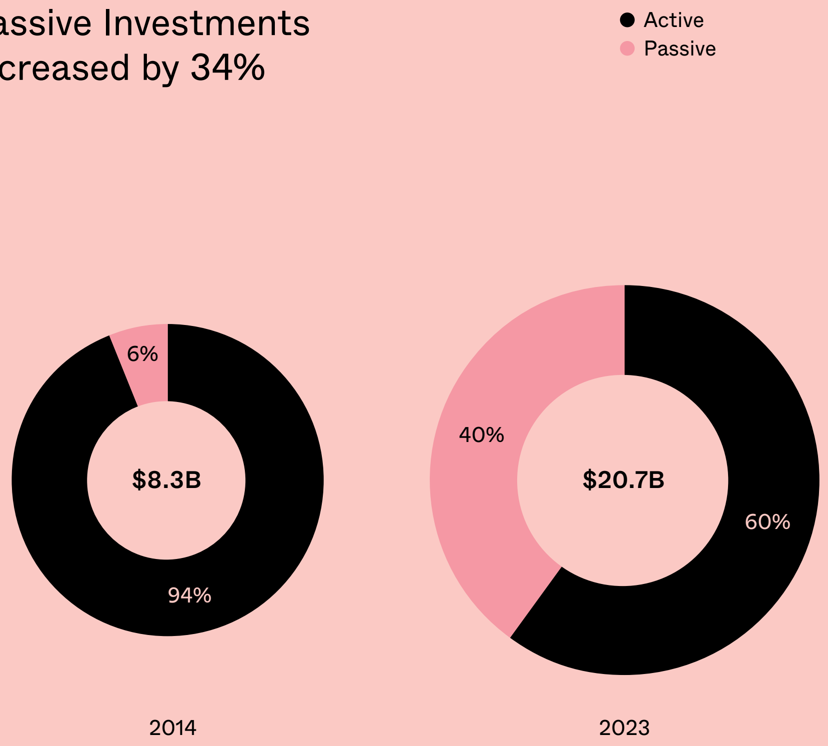
Asset Allocation Over Time



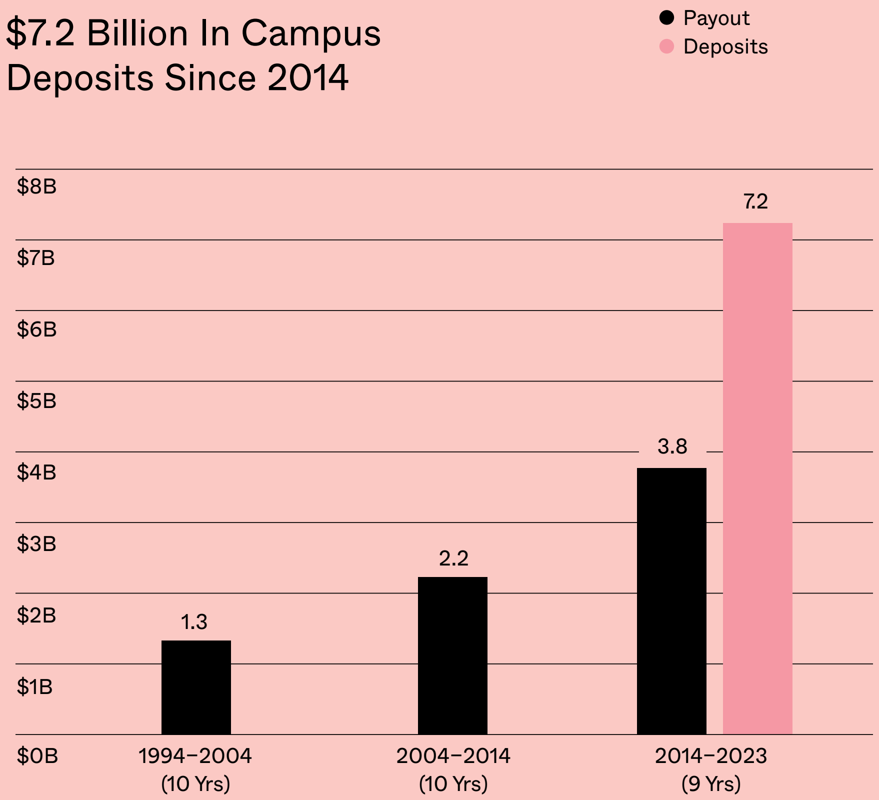
Assets Over 9 Years



Passive Investments Increased by 34%



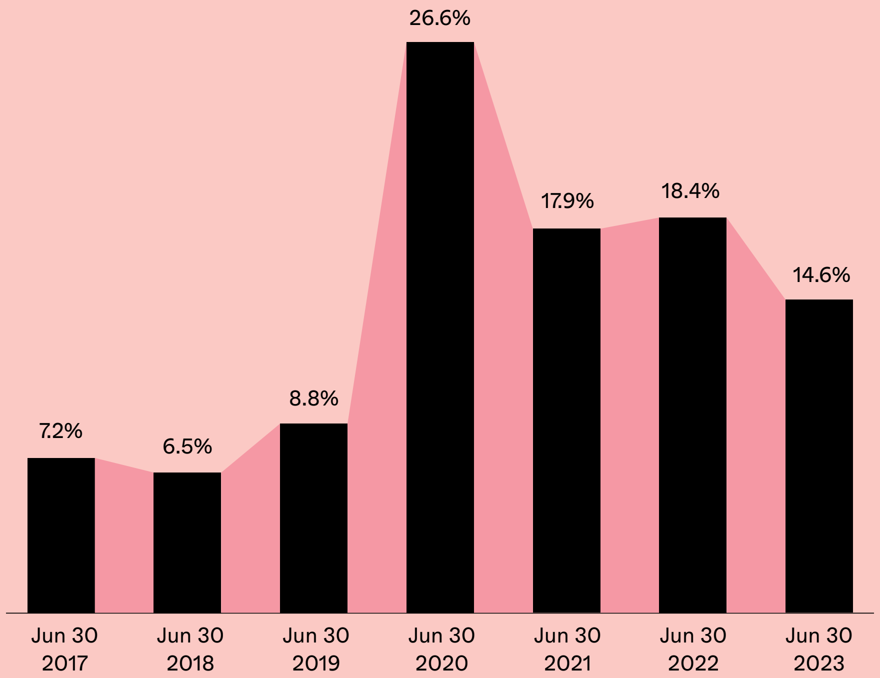
$7.2 Billion In Campus Deposits Since 2014



Policy Benchmarks
June 30, 2023

		Target (%)	Minimum (%)	Maximum (%)
Public Equity	MSCI All Country World Index (ACWI) Investable Market Index (IMI) Tobacco and Fossil Fuel Free – Net Dividends	40	30	50
Fixed Income	Bloomberg Barclays 1-5 Year US Government/Credit Index	8	5	15
Private Equity	Russell 3000 Index + 3%	24	10	30
Absolute Return	HFRI Fund of Funds Composite	10	5	15
Private Credit	75% Credit Suisse Leveraged Loan Fossil Free Index / 25% Merrill Lynch U.S. High Yield BB-B Constrained Fossil Free Index + 1.5%	4	0	6
Real Estate	NCREIF Fund Index – Open End Diversified Core Equity (ODCE) non lagged	8	4	12
Real Assets	Actual Real Assets Portfolio Returns	4	0	8
Cash	Bank of America 3-Month US Treasury Bill Index	2	1	5

Risk Volatility



Risk Allocation

As of June 30, 2023

Economic Growth	86.7%
Residual	12.6%
FX	0.5%
Emerging Markets	0.1%
Other	0.2%

B

Blue & Gold

An investment vehicle created in March 2019 that helps our campuses increase their revenues while reducing reliance on state funds.

Highlights

As of June 30, 2023

Gross Return	13.3%
Net Return	13.3%
Assets	$2,718M

	Fiscal Year To Date
Beginning Market Value	$2,244M
Market Gains	$318M
Value Added	$6M
Net Cash Flow	$150M
Ending Market Value	$2,718M

Performance

As of June 30, 2023

	Market Value in Millions ($)	Weight (%)	1 Yr (%)	3 Yr (%)
Blue & Gold Pool	**2,718**	**100**	**13.3**	**0.7**
Policy Benchmark			13.1	0.5
Value Added			0.2	0.2
Public Equity	**2,213**	**81**	**16.8**	**1.3**
Fixed Income	**505**	**19**	**0.2**	**(2.1)**

Asset Allocation

As of June 30, 2023

	Market Value in Millions ($)	Portfolio Weight (%)	Over/Underweight (%)	Policy (%)
Public Equity	**2,213**	**81.4**	**1.4**	**80**
Fixed Income	**505**	**18.6**	**(1.4)**	**20**
Total	**2,718**	**100**		**100**

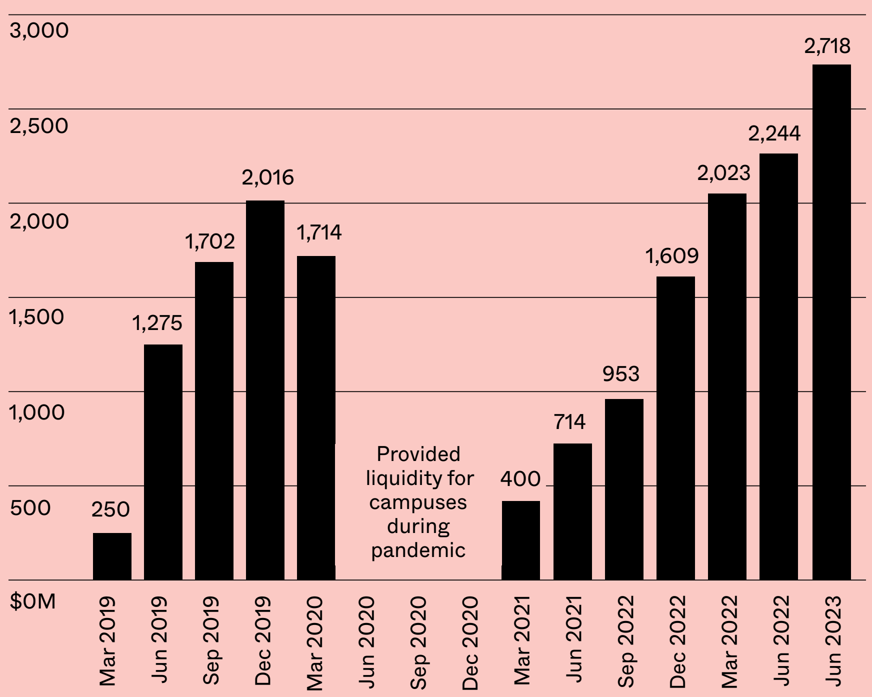
Policy Benchmarks

June 30, 2023

		Target (%)	Minimum (%)	Maximum (%)
Public Equity	MSCI All Country World Index (ACWI) Investable Market Index (IMI) Tobacco and Fossil Fuel Free – Net Dividends	80	60	90
Fixed Income	Bloomberg Barclays 1-5 Year US Government/Credit Index	20	10	40

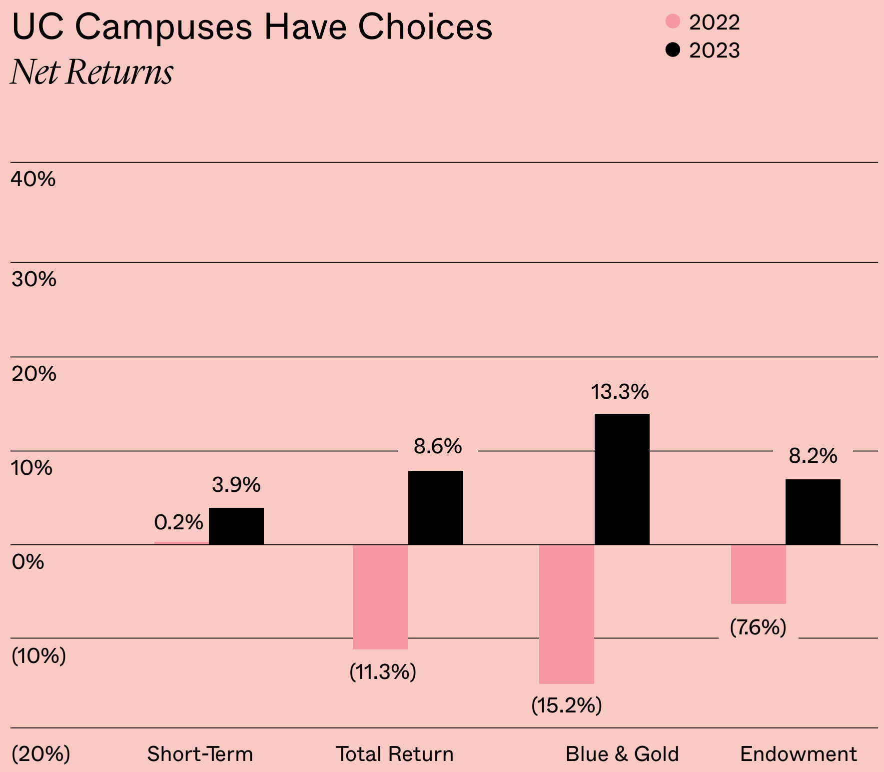
Assets

As of June 30, 2023



UC Campuses Have Choices

Net Returns



P

Pension

A plan that invests across a broad range of asset types to provide retirement income security for all our members.

Pension

+

Retirement Savings

Highlights

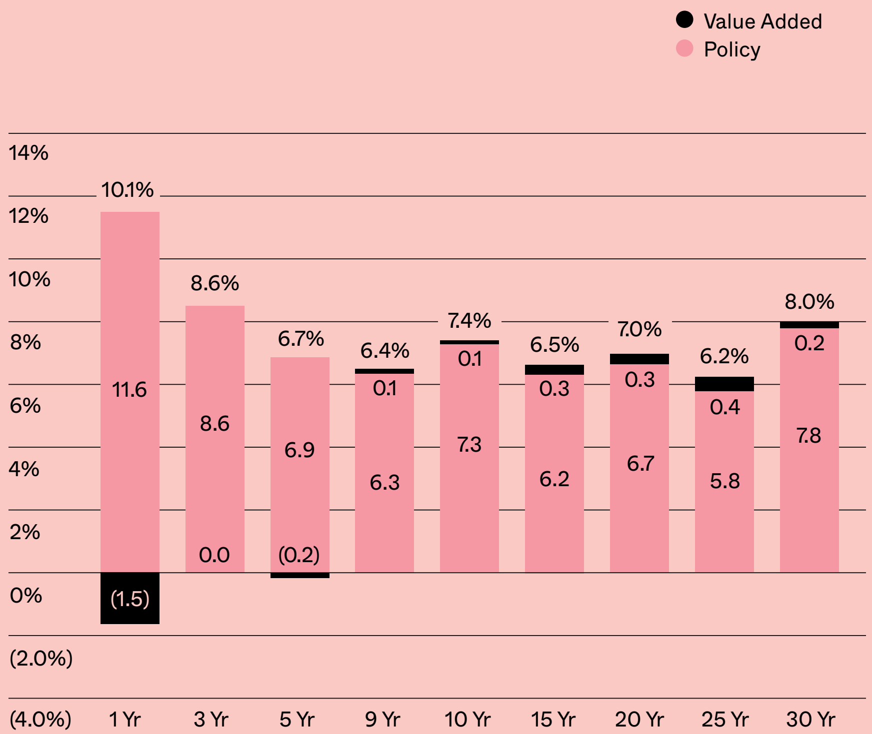
As of June 30, 2023

Gross Return	10.5%	**Assets**	$88.3B
Net Return	10.1%		

	Fiscal Year To Date
Beginning Market Value	$80.9B
Market Gains	$9.3B
Value Added	($1.2B)
Net Cash Flow	($0.8B)
Ending Market Value	$88.3B

Net Returns

As of June 30, 2023



Performance

As of June 30, 2023

	Market Value in Billions ($)	Annualized Net Return (%) 1 Yr	3 Yr	5 Yr	9 Yr	10 Yr	15 Yr	20 Yr	25 Yr	30 Yr
Pension	**88.3**	**10.1**	**8.6**	**6.7**	**6.4**	**7.4**	**6.5**	**7**	**6.2**	**8**
Policy Benchmark		11.6	8.6	6.9	6.3	7.3	6.2	6.7	5.8	7.8
Value Added		(1.5)	0	(0.2)	0.1	0.1	0.3	0.3	0.4	0.2
Public Equity	**45.5**	**16.9**	**10.4**	**7.9**	**7.6**	**9**	**7.2**	**7.9**	**6**	**8.2**
Fixed Income	**12.3**	**3.2**	**(0.9)**	**2**	**2.1**	**2.5**	**3.8**	**4**	**4.8**	**6**
Core	9.8	0.6	(1.5)	1.9	2	2.3	3.5	3.6	4.4	5.7
High-Yield	2.1	10.2	3.3	3.3	3.6	4.4	6.4	—	—	—
Emerging Market Debt	0.4	7.1	(3)	0.5	1.3	1.9	3.9	—	—	—
Private Markets										
Private Equity	9.7	8.2	19.1	16	14.6	15.6	12.2	14.3	15.2	18.2
Absolute Return	1.8	3.8	7.4	5.3	4.3	5.3	4.4	—	—	—
Private Credit	3.4	6.6	8	—	—	—	—	—	—	—
Real Estate	7.5	(4.2)	10.2	7	9	9.4	3.1	—	—	—
Real Assets	4	4.1	8.3	6.8	3.1	4	—	—	—	—
Cash	**4.1**	**2.7**	**1.3**	**1.7**	**1.6**	**1.3**	**4.7**	—	—	—

Asset Allocation

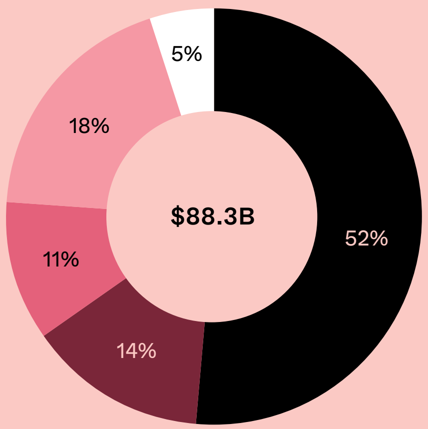
As of June 30, 2023

	Market Value in Billions ($)	Portfolio Weight (%)	Over/Underweight (%)	Policy (%)
Public Equity	**45.5**	**51.5**	**(1.5)**	**53**
Fixed Income	**12.3**	**14**	**(3)**	**17**
Private Markets	**26.4**	**29.9**	**(0.1)**	**30**
Private Equity	9.7	11	(1)	12
Absolute Return	1.8	2	(1.5)	3.5
Private Credit	3.4	3.9	0.4	3.5
Real Estate	7.5	8.5	1.5	7
Real Assets	4.0	4.5	0.5	4
Cash	**4.1**	**4.6**	**4.6**	**0**
Total	**88.3**	**100**		**100**

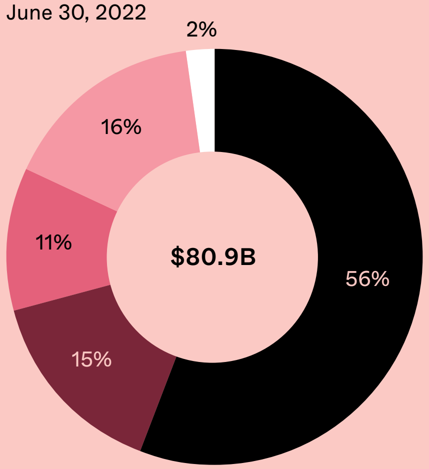
Asset Allocation Over Time

- Public Equity
- Fixed Income
- Private Equity
- Other Investments
- Cash

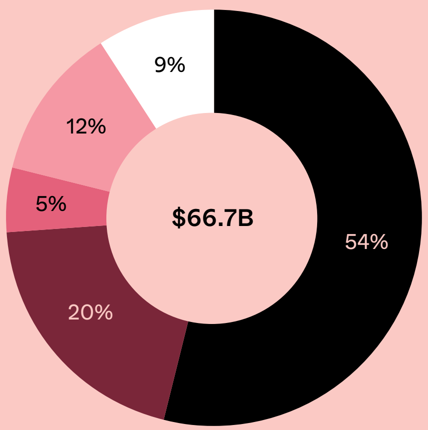
June 30, 2023



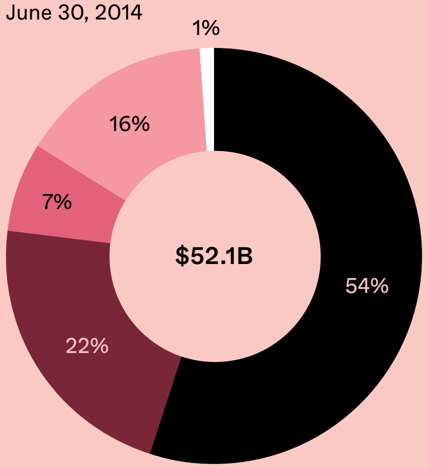
1 Yr Ago
June 30, 2022



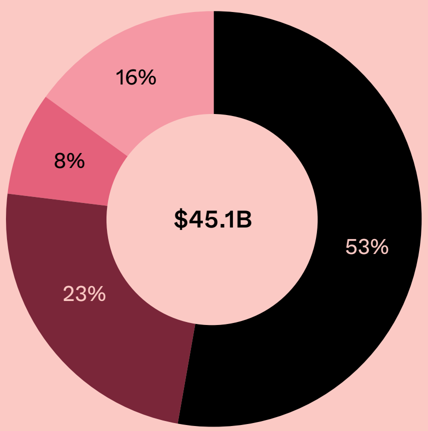
5 Yrs Ago
June 30, 2018



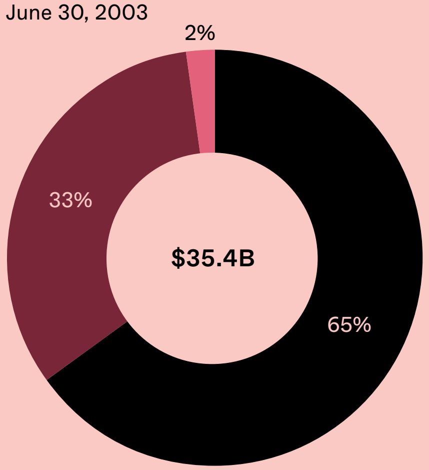
9 Yrs Ago
June 30, 2014



10 Yrs Ago
June 30, 2013



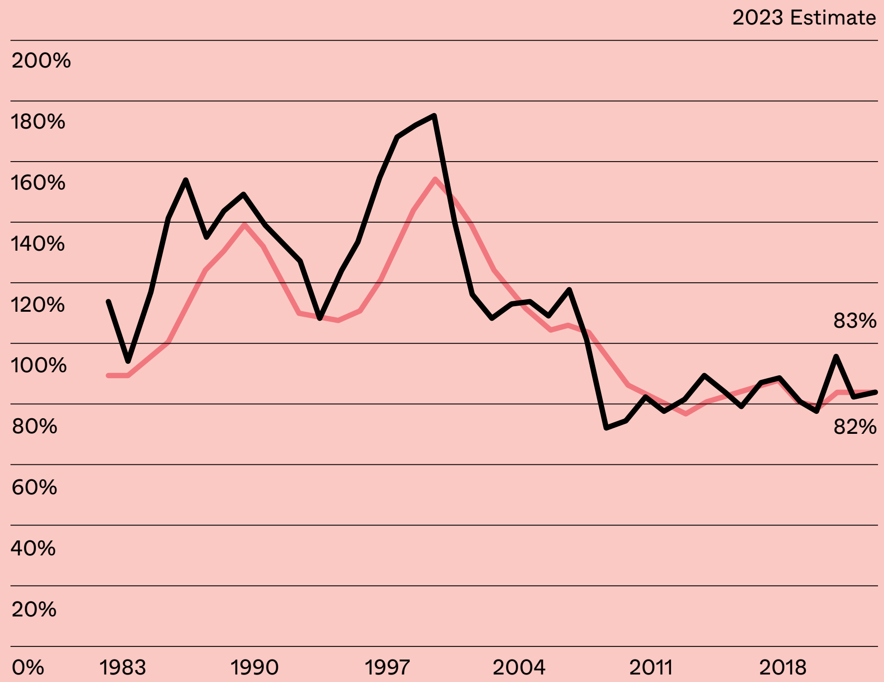
20 Yrs Ago
June 30, 2003



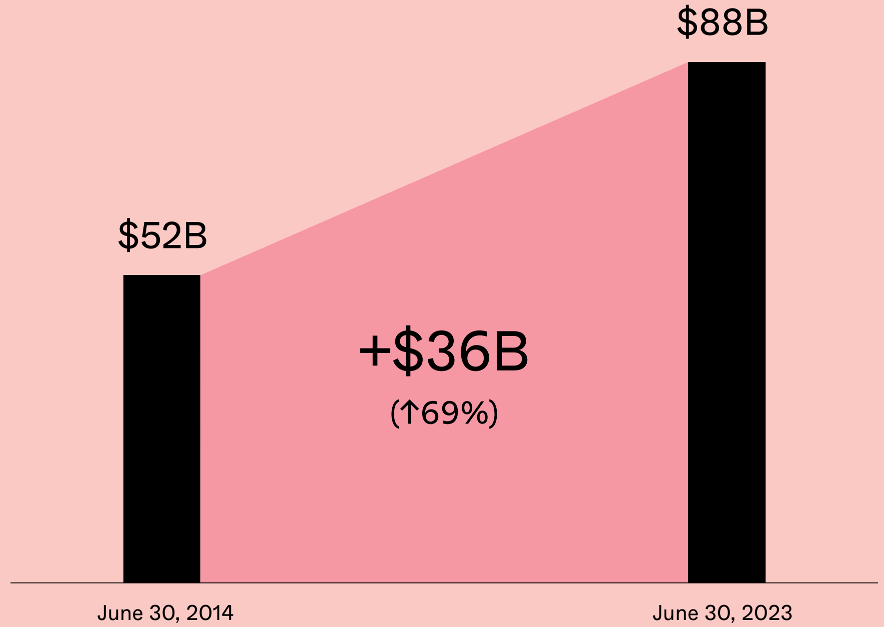
Pension Funded Ratio

Pension is 83% funded on an actuarial basis in 2023.

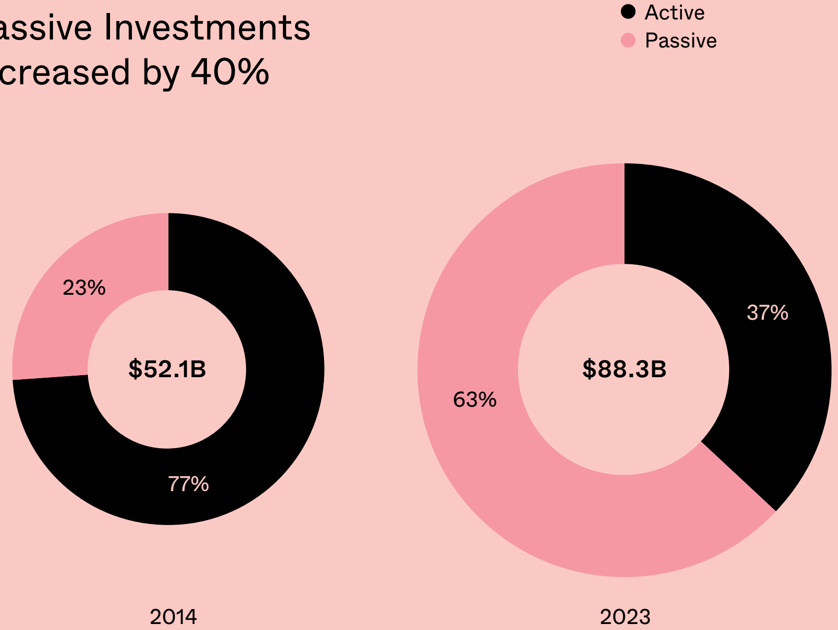
- Funded Ratio (Market Value)
- Funded Ratio (Actuarial)



Assets Over 9 Years



Passive Investments Increased by 40%

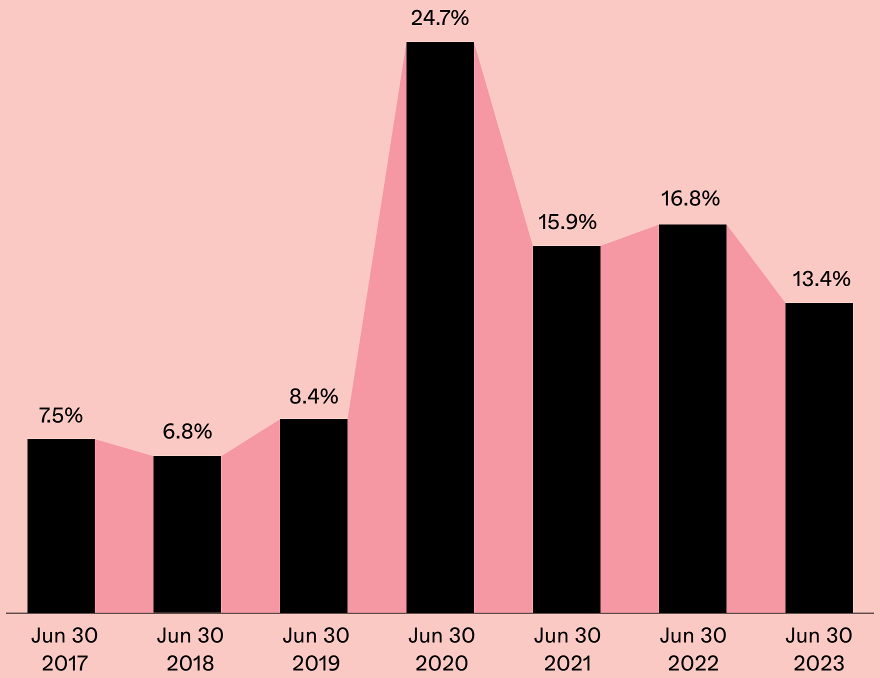


Policy Benchmarks

June 30, 2023

		Policy (%)	Minimum (%)	Maximum (%)
Public Equity	MSCI All Country World Index (ACWI) Investable Market Index (IMI) Tobacco and Fossil Fuel Free – Net Dividends	53	43	63
Fixed Income	Bloomberg Barclays 1-5 Year US Government/Credit Index	13	10	16
High Yield	Merrill Lynch High Yield Cash Pay Index Fossil Free	2.5	0	5
Emerging Market Debt	JP Morgan Emerging Markets Bond Index Global Diversified Fossil Free	1.5	0	3
Private Equity	Russell 3000 Index + 3%	12	7	17
Absolute Return	HFRI Fund of Funds Composite	3.5	0	5.5
Private Credit	75% Credit Suisse Leveraged Loan Fossil Free Index / 25% Merrill Lynch U.S. High Yield BB-B Constrained Fossil Free Index + 1.5%	3.5	0	7
Real Estate	NCREIF Fund Index – Open End Diversified Core Equity (ODCE) non lagged	7	2	12
Real Assets	Actual Real Assets Portfolio Return	4	0	8
Cash	Bank of America 3-Month US Treasury Bill Index	0	0	5

Risk Volatility



Risk Allocation

As of June 30, 2023

Economic Growth	89.5%
Residual	8.8%
FX	1.1%
Real Rates	0.2%
Other	0.4%

R

Retirement Savings

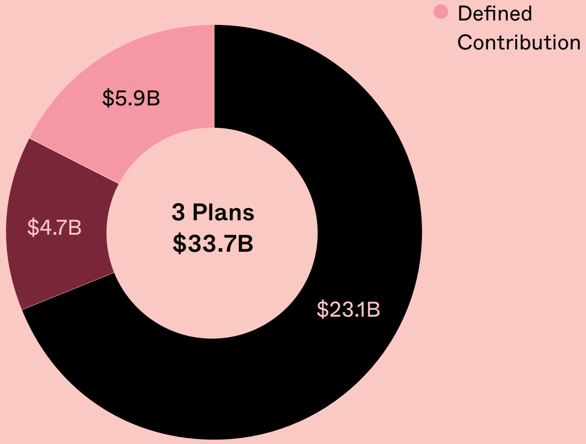
The Retirement Savings Program serves 335,000+ members, making it the second largest U.S. public defined contribution plan behind the federal government.

Highlights

As of June 30, 2023

	2014	2023	9 Years
Participants	301,000	335,000	+ 34,000
Assets	$19.8B	$33.7B	+ $13.9B
Default	UC Savings Fund	UC Pathway	UC Pathway
Target Date Assets	$3.1B	$14.2B	$11.1B
Investment Choices	75	14	↓ 61
Management Fee	0.14%	0.05%	↓ 64%
Management Fee	$26M	$15M	↓ $11M

Investment Choices



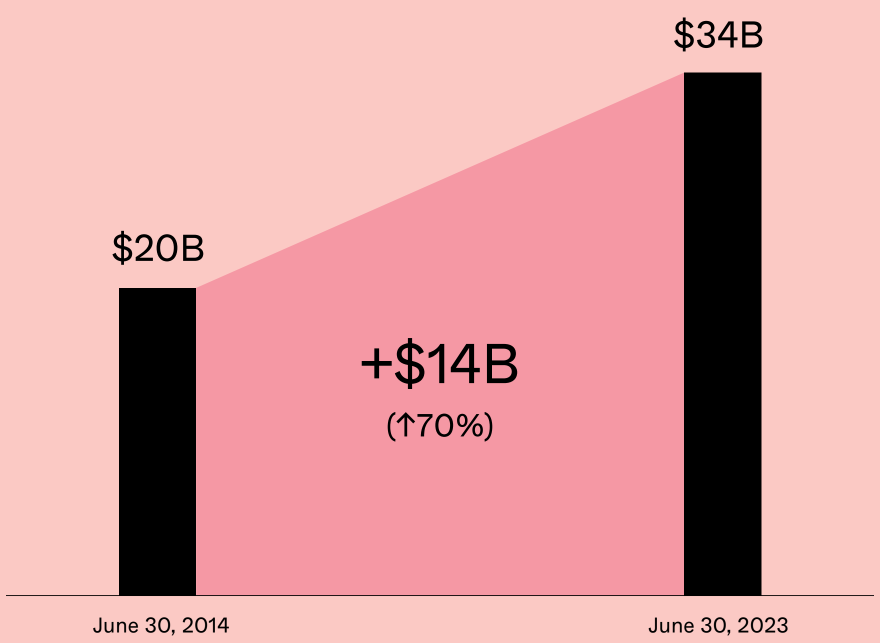
Investment Structure

Tier I	Tier II	Tier III
Target Date Fund	13 Core Options	Brokerage Window
$14.2B	$17.1B	$2.4B

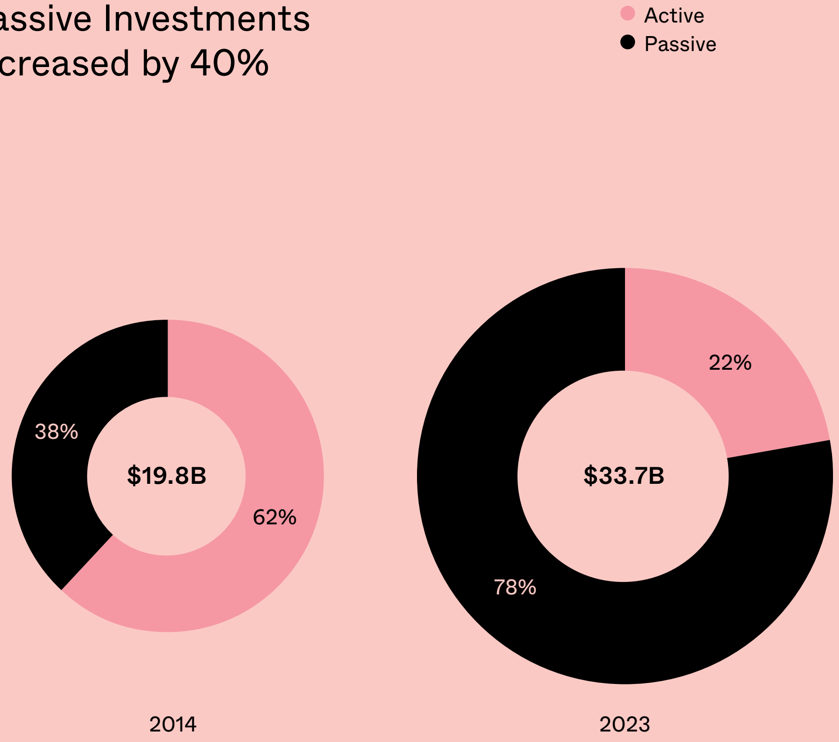
Investment Management Fee

0.05%

Assets Over 9 Years



Passive Investments Increased by 40%



Performance
Target Date Funds

As of June 30, 2023

	Market Value ($M)	% of Program	Annualized Net Return (%) 1 Yr	3 Yr	5 Yr	9 Yr	10 Yr
UC Pathway Income Fund	$1,641	4.9%	6.2	4.6	4.4	3.8	3.8
Policy Benchmark			6.9	4.7	4.6	3.8	3.7
Value Added			(0.6)	(0.1)	(0.2)	0	0.1
UC Pathway Fund 2020	$1,523	4.5%	7.1	5.6	5.3	4.8	5.2
Policy Benchmark			7.6	5.7	5.4	4.8	5.2
Value Added			(0.5)	(0.1)	(0.1)	0	0
UC Pathway Fund 2025	$1,953	5.8%	9.1	6	5.8	5.2	5.7
Policy Benchmark			9.2	5.9	5.9	5.2	5.7
Value Added			(0.1)	(0.1)	(0.1)	0	0
UC Pathway Fund 2030	$2,148	6.4%	11.1	6.5	6.2	5.7	6.2
Policy Benchmark			11.2	6.4	6.3	5.6	6.2
Value Added			(0.1)	0.1	(0.1)	0.1	0
UC Pathway Fund 2035	$1,645	4.9%	12.3	7.3	6.5	6	6.7
Policy Benchmark			12.3	7.2	6.6	6	6.6
Value Added			0	0.1	(0.1)	0	0.1
UC Pathway Fund 2040	$1,530	4.6%	12.8	7.9	6.8	6.3	7.1
Policy Benchmark			12.8	7.8	6.8	6.3	7.0
Value Added			0	0.1	(0.1)	0	0.1
UC Pathway Fund 2045	$1,309	3.9%	13.6	8.6	7	6.5	7.5
Policy Benchmark			13.6	8.5	7	6.5	7.4
Value Added			0	0.1	0	0	0.1
UC Pathway Fund 2050	$1,173	3.5%	13.8	8.9	7	6.7	7.7
Policy Benchmark			13.7	8.8	7	6.7	7.7
Value Added			0.1	0.1	0	0	0
UC Pathway Fund 2055	$689	2%	13.8	8.9	7	6.8	7.9
Policy Benchmark			13.7	8.8	7	6.8	7.9
Value Added			0.1	0.1	0	0	0
UC Pathway Fund 2060	$475	1.4%	13.8	8.9	7	6.8	8
Policy Benchmark			13.7	8.8	7	6.8	8
Value Added			0.1	0.1	0	0	0
UC Pathway Fund 2065	$38	0.1%	13.8	8.9	—	—	—
Policy Benchmark			13.7	8.9	—	—	—
Value Added			0.1	0	—	—	—

Performance
Equities Core Lineup

As of June 30, 2023

	Market Value ($M)	% of Program	Annualized Net Return (%) 1 Yr	3 Yr	5 Yr	9 Yr	10 Yr
US Large Equity							
UC Domestic Equity Index Fund	$6,841	20.3%	19.2	14	11.6	11.2	12.5
Russell 3000 TF Index			19.1	13.9	11.4	11.0	12.4
Value Added			0.1	0.1	0.2	0.2	0.1
UC Social Index Fund	$723	2.1%	20.4	13.3	12.5	12.1	13.4
Spliced Social Index			20.5	13.4	12.5	12.2	13.5
Value Added			(0.1)	(0.1)	0	(0.1)	(0.1)
US Small/Mid Cap Equity							
UC Domestic Small Cap Index Fund	$590	1.8%	12.7	11.1	4.8	6.7	8.5
Small Cap Spliced Index			12.3	10.8	4.5	6.5	8.3
Value Added			0.4	0.3	0.4	0.2	0.2
Global/World ex-US Equity							
UC Intl. Equity Index Fund	$1,031	3.1%	16.6	8.9	4.5	3.7	5.5
MSCI World ex-US TF Index			16.4	8.9	4.2	3.4	5.3
Value Added			0.2	0	0.3	0.3	0.2
Growth Large Cap Equity							
UC Growth Company Fund	$2,249	6.7%	33.7	14.2	17.2	17.2	18.4
Russell 3000 Growth			26.6	13.2	14.4	14.1	15.3
Value Added			7.1	1.0	2.8	3.1	3.1
World ex-US Equity							
UC Diversified Intl. Fund	$180	0.5%	19.3	6.4	6	5	6.7
MSCI EAFE			18.8	8.9	4.4	3.6	5.5
Value Added			0.5	(2.5)	1.6	1.4	1.2
UC Emerging Markets Fund	$221	0.7%	2.6	3	0.8	1.5	2.8
MSCI Emerging Markets Index			2.6	2.6	1.1	1.9	3
Value Added			0	0.4	(0.3)	(0.4)	(0.2)
Global Equity							
UC Global Equity Fund	$18	0.1%	16.7	—	—	—	—
MSCI ACWI IMI ex Fossil Fuels ex Tobacco			16.2	—	—	—	—
Value Added			0.5	—	—	—	—
Real Estate							
UC Real Estate Fund	$281	0.8%	(0.1)	9	4.6	5.5	6.2
REIT Spliced Index			(0.1)	8.9	4.4	5.4	6.2
Value Added			0	0.1	0.2	0.1	0

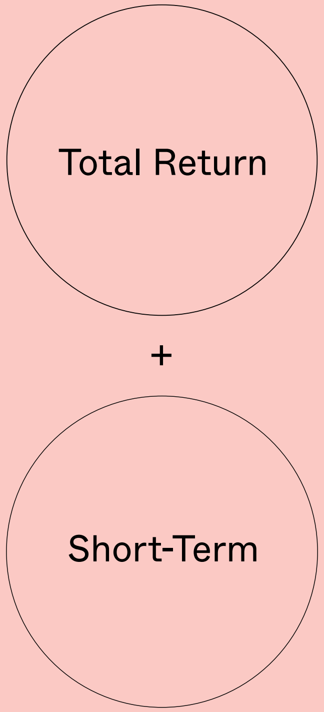
Performance
Fixed Income Core Lineup

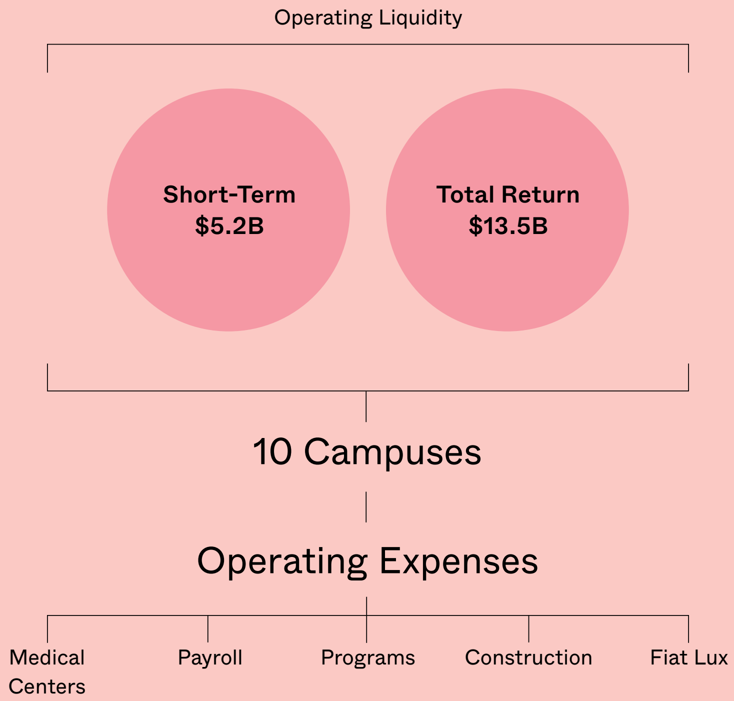
As of June 30, 2023

	Market Value ($M)	% of Program	Annualized Net Return (%) 1 Yr	3 Yr	5 Yr	9 Yr	10 Yr
Capital Preservation							
UC Savings Fund	$3,463	10.3%	0.7	0.6	1.1	1.1	1.1
Two-Year U.S. Treasury Notes Income Return			4	1.7	1.8	1.4	1.3
Value Added			(3.3)	(1.1)	(0.7)	(0.3)	(0.2)
Inflation Sensitive							
UC Short-Term TIPS Fund	$141	0.4%	0.1	2.7	2.7	1.8	1.8
Barclays 1-3 Year U.S. TIPS Index			0	2.6	2.6	1.5	1.6
Value Added			0.1	0.1	0.1	0.3	0.2
UC TIPS Fund	$319	0.9%	(1.6)	0	2.5	1.9	2.3
Barclays US TIPS Index			(1.4)	(0.1)	2.5	1.8	2.1
Value Added			(0.2)	0.1	0	0.1	0.2
Diversified Fixed Income							
UC Bond Fund	$1,122	3.3%	(1.2)	(3.9)	0.7	1.3	1.7
Barclays Aggregate Fixed Income Benchmark			(1.0)	(4.0)	0.8	1.2	1.5
Value Added			(0.2)	0.1	(0.1)	0.1	0.2

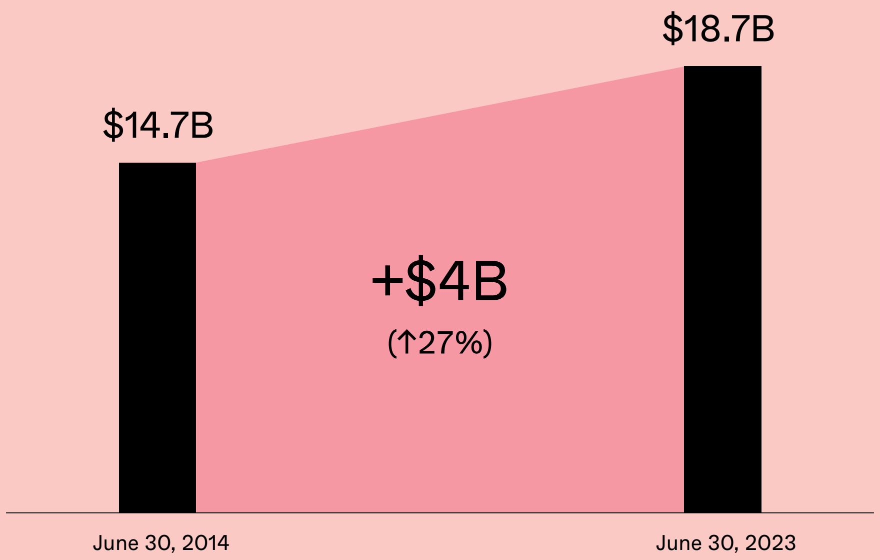
Working Capital

Capital, working.



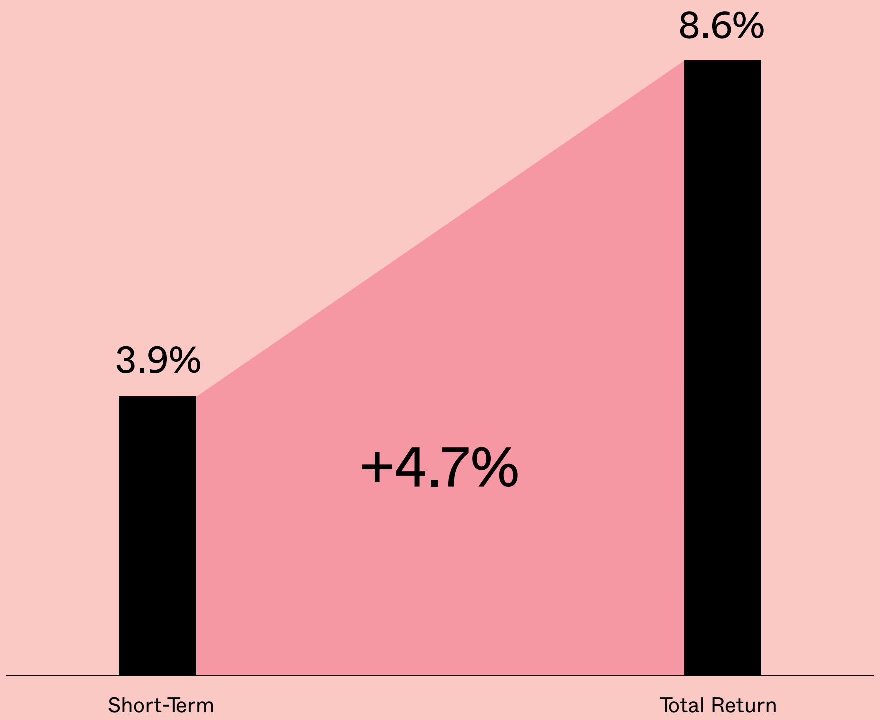


Assets Over 9 Years



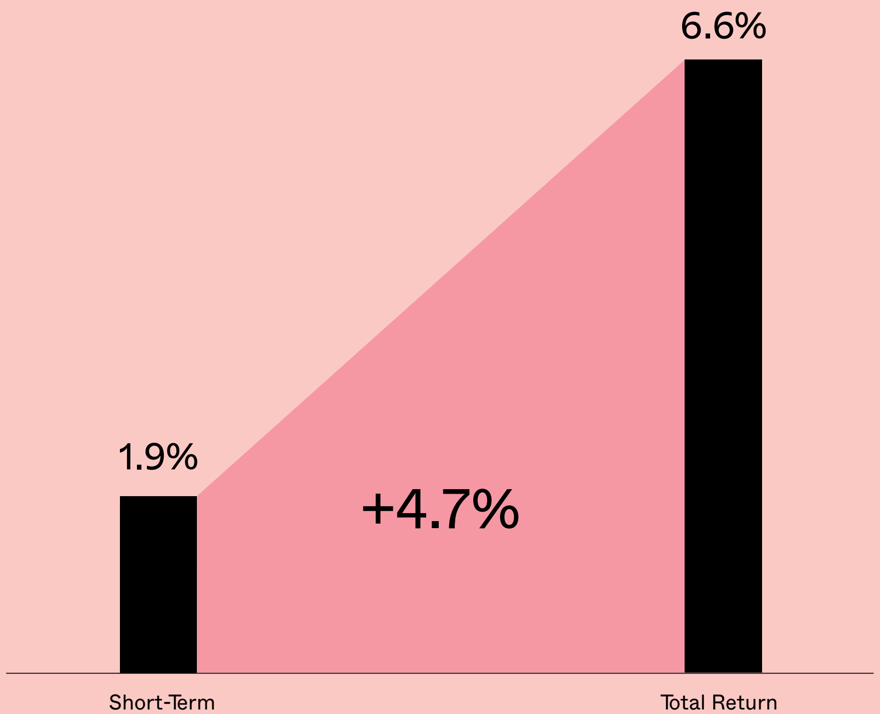
1 Year Net Returns

June 30, 2023



14 Year Net Returns

June 30, 2023



Total Return Investment Pool

A working capital portfolio created in August 2008 with an asset and risk allocation geared to an intermediate-term horizon.

Highlights

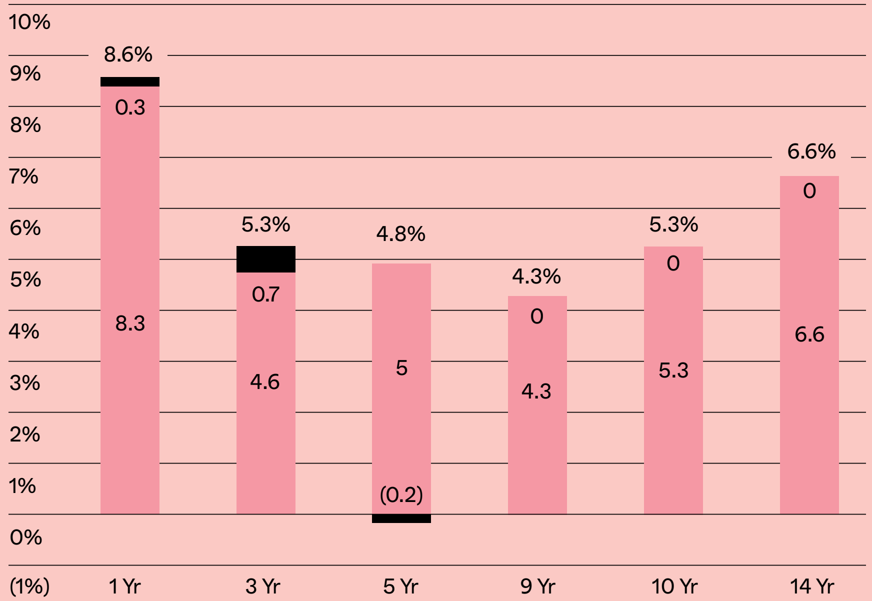
As of June 30, 2023

Gross Return	8.6%	Assets	$13.5B
Net Return	8.6%		

	Fiscal Year To Date
Beginning Market Value	$11.7B
Market Gains	$1.1B
Value Added	$0.03B
Net Cash Flow	$0.7B
Ending Market Value	$13.5B

Net Returns

As of June 30, 2023



Performance

As of June 30, 2023

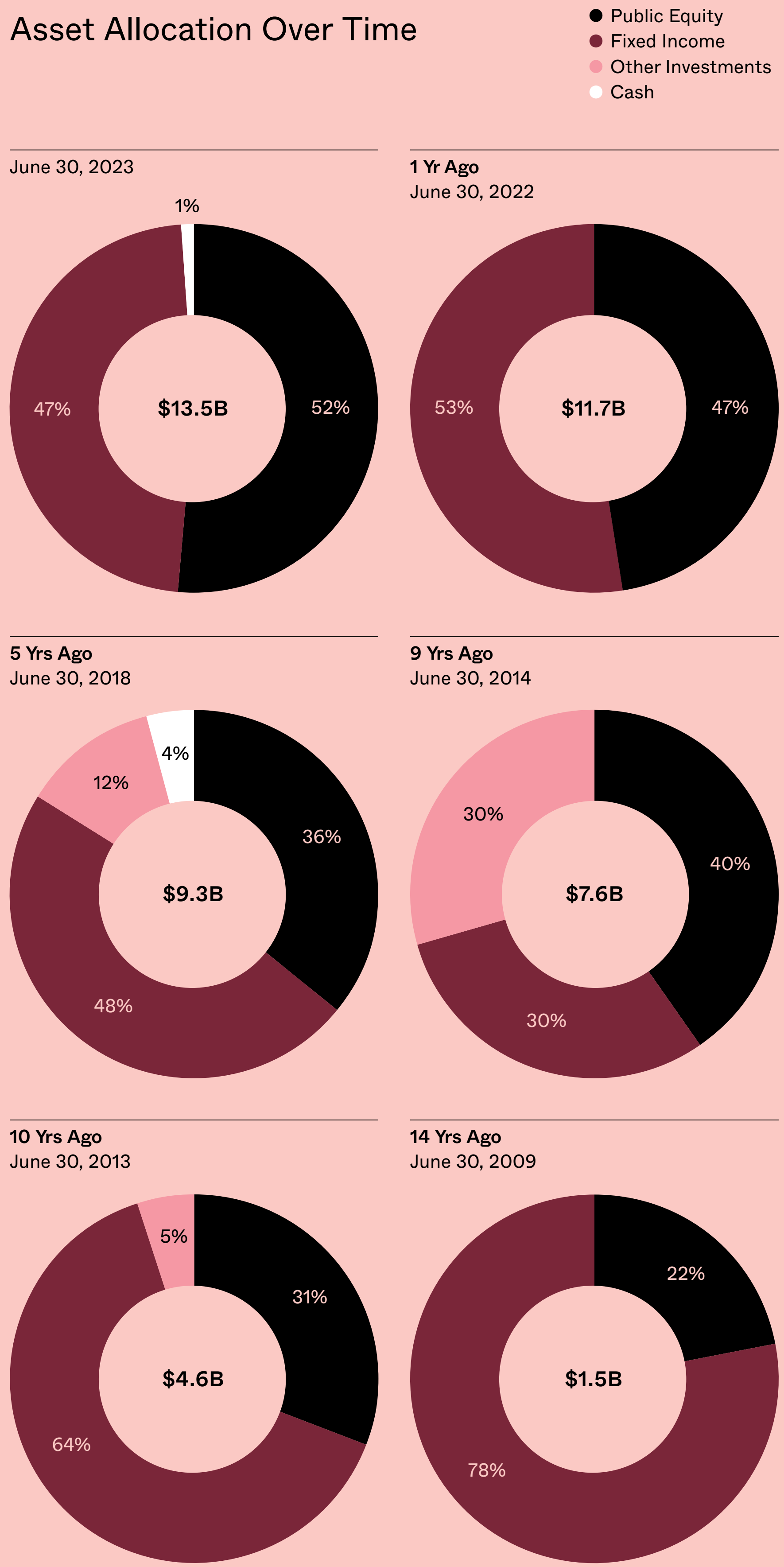
	Market Value in Billions ($)	Annualized Net Return (%) 1 Yr	3 Yr	5 Yr	9 Yr	10 Yr	14 Yr
Total Return Investment Pool	13.5	8.6	5.3	4.8	4.3	5.3	6.6
Policy Benchmark		8.3	4.6	5.0	4.3	5.3	6.6
Value Added		0.3	0.7	(0.2)	0	0	0
Public Equity	7	16.8	10.7	5.0	5.8	7.5	9.4
Fixed Income	6.4	0.3	(1.4)	2.0	2.1	2.7	4.2
Cash	0.1	3.9	1.5	1.8	1.6	1.6	1.9

Asset Allocation

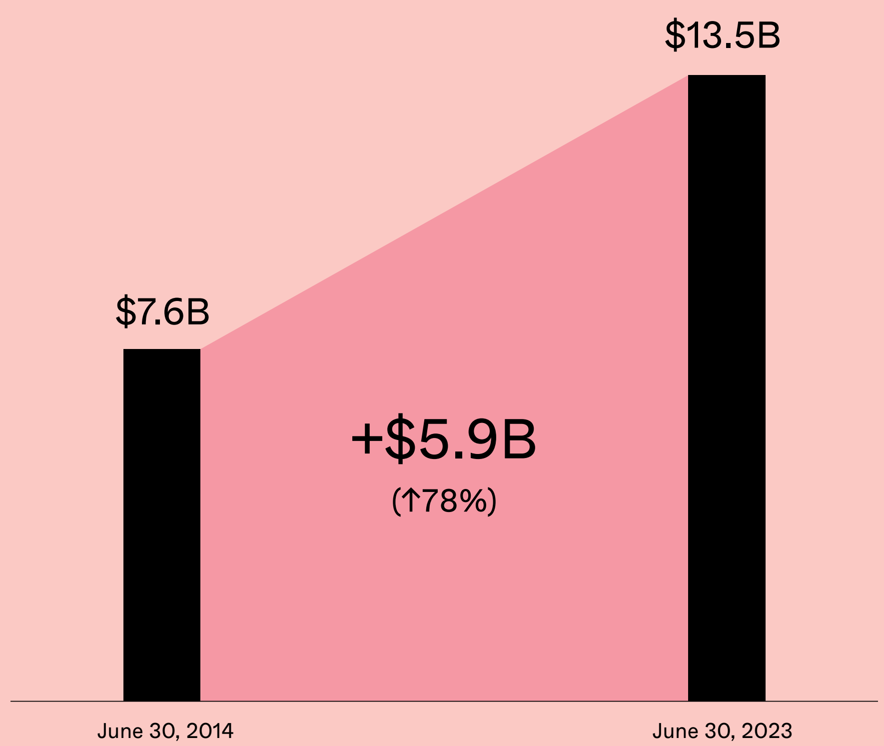
As of June 30, 2023

	Market Value in Millions ($)	Portfolio Weight (%)	Over/Underweight (%)	Policy (%)
Public Equity	7	51.9	1.9	50
Fixed Income	6.4	47.5	(2.5)	50
Private Markets	0	0	0	0
Cash	0.1	0.6	0.6	0
Total	13.5	100		100

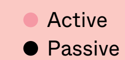
Asset Allocation Over Time



Assets Over 9 Years



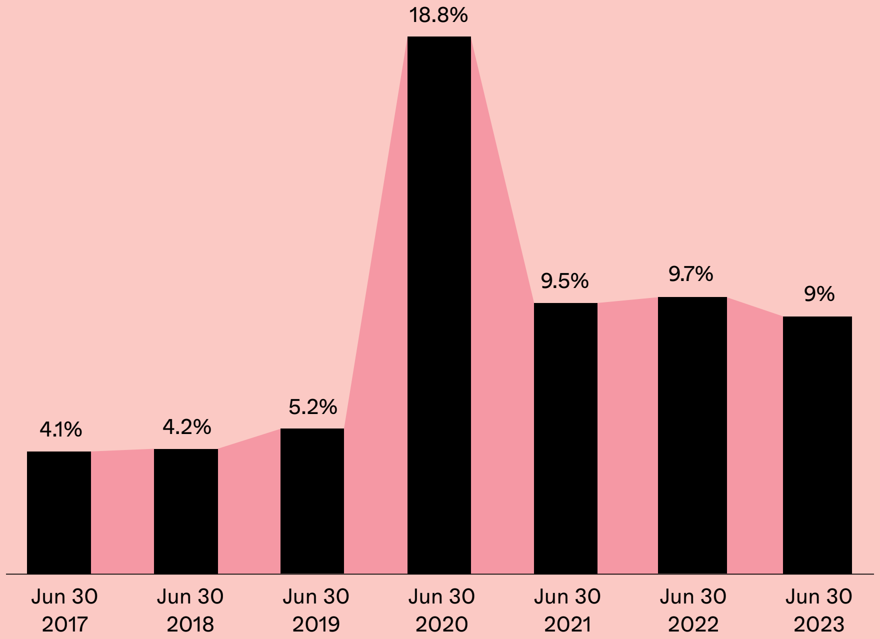
Passive Investments Increased by 72%



Policy Benchmarks
June 30, 2023

		Policy (%)	Minimum (%)	Maximum (%)
Public Equity	MSCI All Country World Index (ACWI) Investable Market Index (IMI) Tobacco and Fossil Fuel Free – Net Dividends	50	35	55
Fixed Income	Bloomberg Barclays 1-5 Year US Government/Credit Index	50	35	55
Private Assets	Total TRIP Portfolio Benchmark	0	0	10

Risk Volatility



Risk Allocation

As of June 30, 2023

Economic Growth	85.2%
Residual	9.2%
Real Rates	2.2%
Inflation	1.9%
Other	1.5%

Short-Term Investment Pool

A working capital portfolio managed to ensure adequate liquidity to meet our system's cash needs.

Highlights

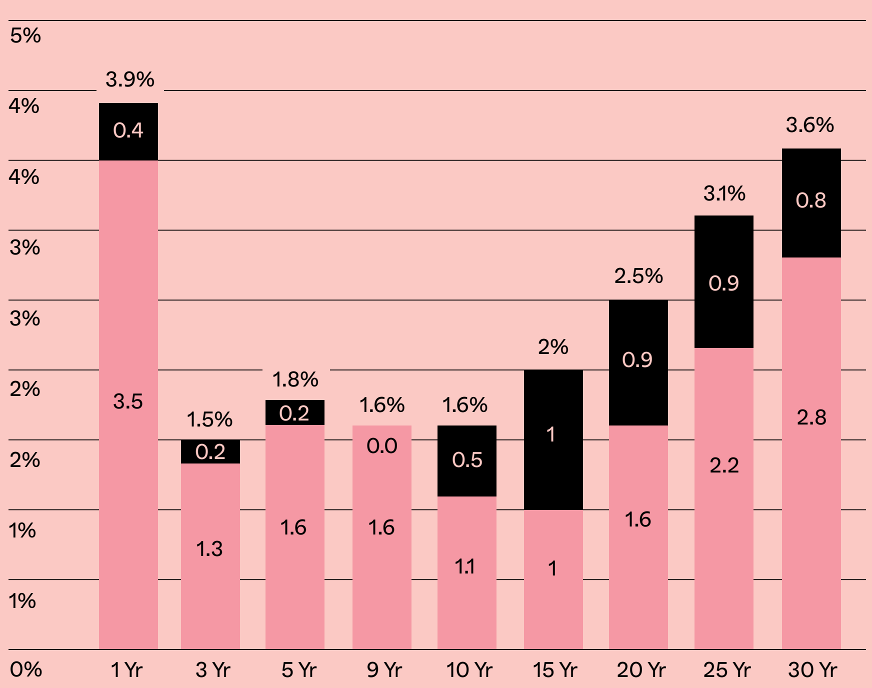
As of June 30, 2023

Gross Return	3.9%	Assets	$5.2B
Net Return	3.9%		

	Fiscal Year To Date
Beginning Market Value	$9.1B
Market Gains	$0.2
Value Added	$0.1
Net Cash Flow	($4.2B)
Ending Market Value	$5.2B

Net Returns

As of June 30, 2023



Performance

As of June 30, 2023

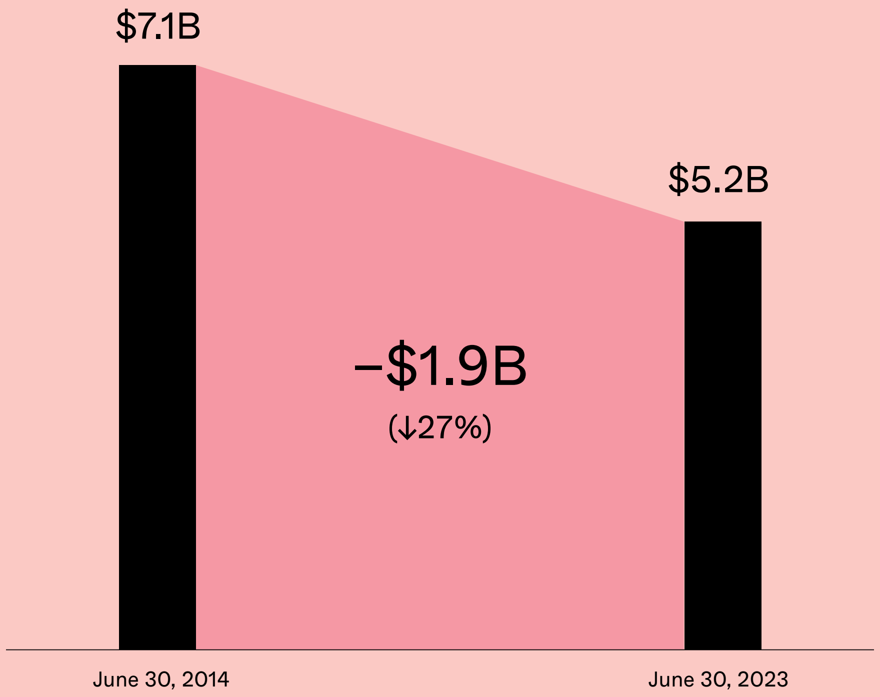
	Market Value in Billions ($)	Annualized Net Return (%) 1 Yr	3 Yr	5 Yr	9 Yr	10 Yr	15 Yr	20 Yr	25 Yr	30 Yr
Short-Term	**5.2**	**3.9**	**1.5**	**1.8**	**1.6**	**1.6**	**2.0**	**2.5**	**3.1**	**3.6**
Policy Benchmark		3.5	1.3	1.6	1.6	1.1	1.0	1.6	2.2	2.8
Value Added		0.4	0.2	0.2	0.0	0.5	1.0	0.9	0.9	0.8

Asset Allocation

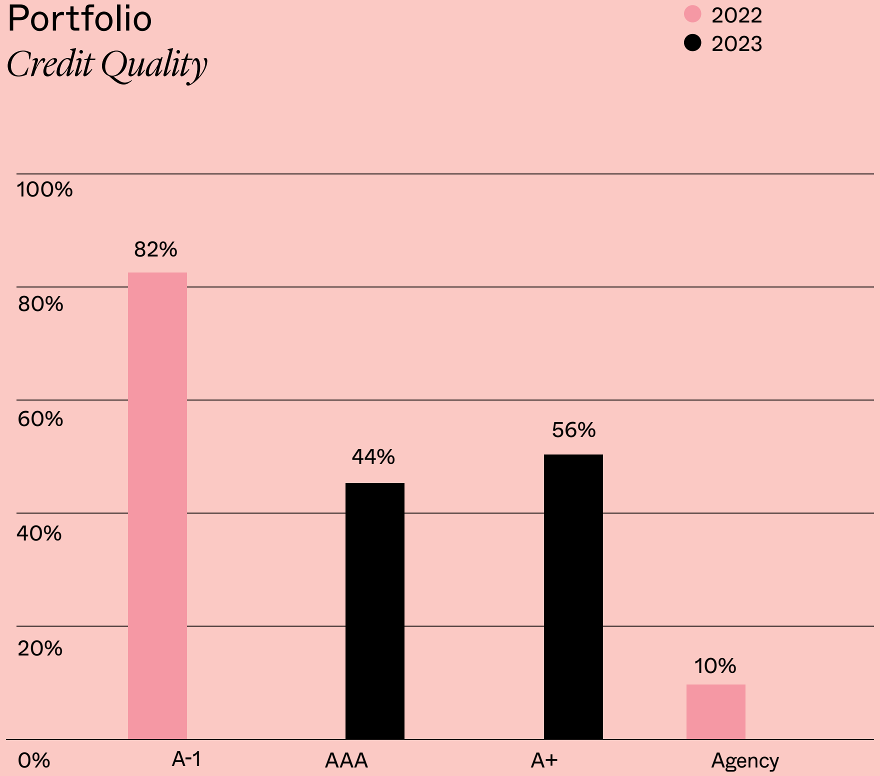
As of June 30, 2023

	Market Value in Billions ($)	Portfolio Weight (%)	Duration (Years)	Rating
Governments	2.3	44	0.21	AAA
Commercial Paper	2.9	56	0.11	A+
Total	5.2	100	0.32	AA

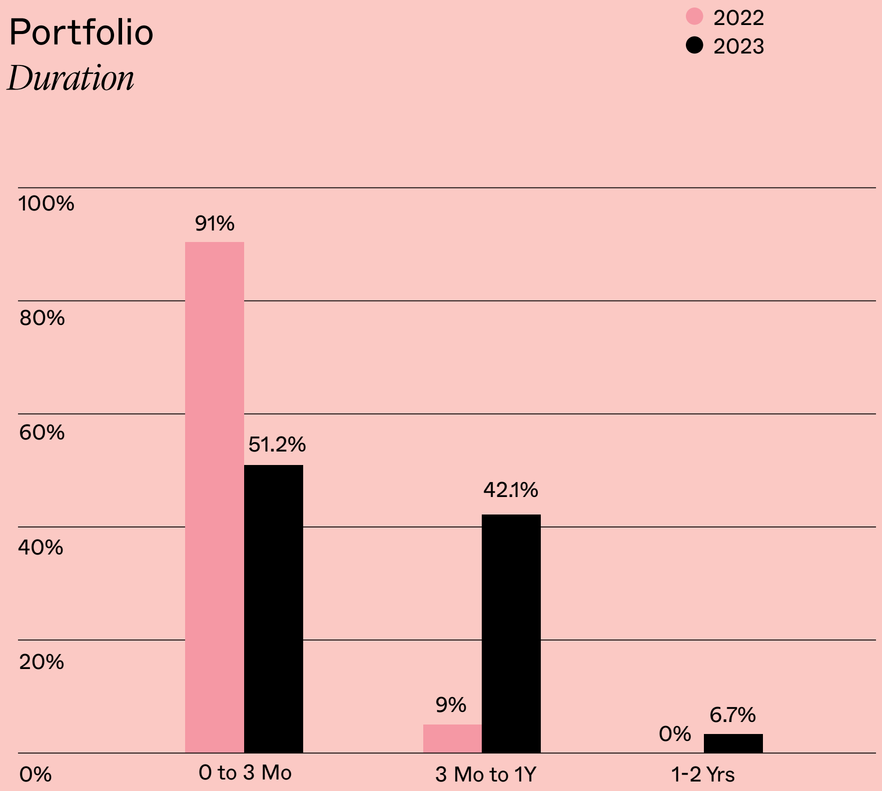
Assets Over 9 Years



Portfolio
Credit Quality



Portfolio
Duration



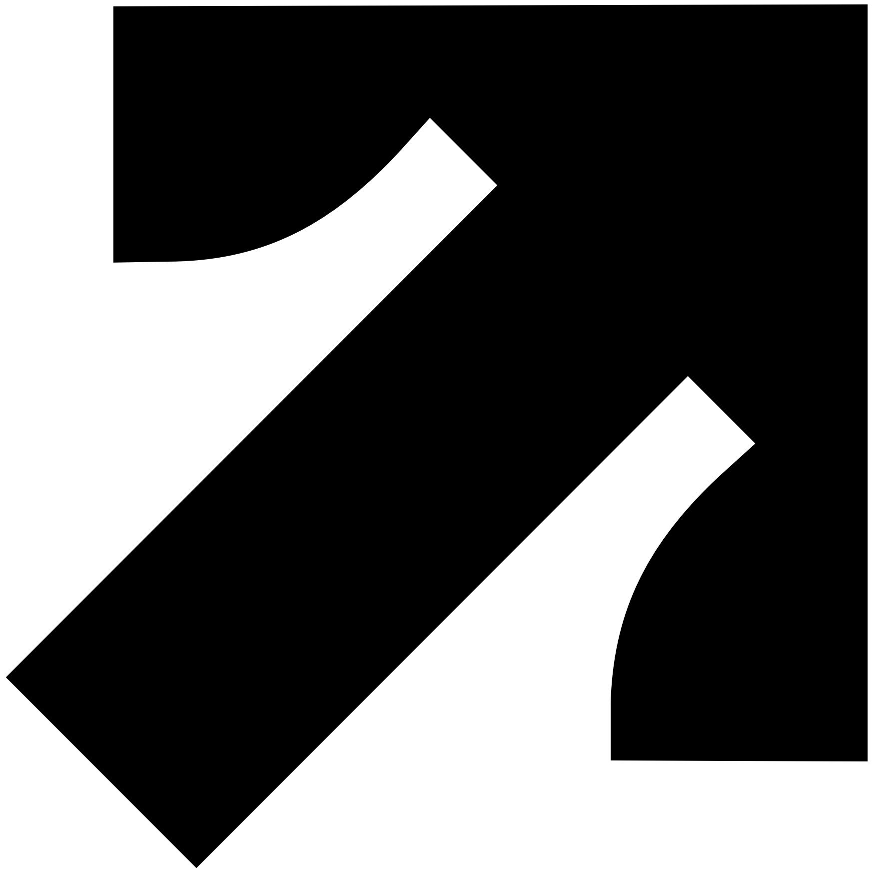
Policy Benchmarks
June 30, 2023

		Target (%)
Short-Term	50/50 Weighted Average of the Yield on a Constant Maturity One Year US Treasury Note and US 30 Day Treasury Bills	100

Beauty means the elimination of excess.

Michelangelo
Sculptor

Next



Less is More, the first of the 10 pillars that underpin our UC Investments Way culture, helped us navigate yet another challenging year with calm and confidence.

We recognize the beauty, and opportunity, in simplicity.

Our ongoing commitment to removing complexity helps us to reveal greater potential. That’s what we believe will lead us toward at least another 100 years of excellence for the University of California.

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