

University of California

Office of the Chief Investment Officer of the Regents

POLICY – Best Execution



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I. Purpose

The University of California (the “University”) Office of the Chief Investment Officer of the Regents (“UC Investments”) has adopted this Policy to establish the standard of business conduct that the Fixed Income and Equity teams must follow. This Policy is in line with the University of California’s (“UC”) Standards of Ethical Conduct¹ that all UC employees are subject to. In accordance with ethical standards, the Policy incorporates the following general principles:

- Conduct UC Investments business in a manner consistent with the Policy, which includes avoiding any actual or potential conflicts of interest and any abuse of a Covered UC Investments Associate’s position of trust and responsibility.

II. Scope

UC Investments is structured in a way that significant portion of its assets are invested in commingled funds and separately managed accounts managed by external managers. A large amount of assets is also managed internally by the UC Investments’ fixed income team. As stated in UC Investments’ Investment Implementation Manual², external managers and UC Investments’ fixed income team are expected to allocate their brokerage business generally in accordance with their duty to obtain “best execution” of securities transactions. Although the external managers have discretion to make brokerage decisions as they see fit, including the use of soft dollars, to execute transactions on behalf of UC Investments, it is still the responsibility of UC Investments’ equity and fixed income department heads to periodically review external managers’ trading practices to ensure they are attempting to achieve best execution at all times. The use of soft dollars for internally managed portfolios is not allowed.

¹ https://www.ucop.edu/ethics-compliance-audit-services/_files/stmt-stds-ethics.pdf

² <https://regents.universityofcalifornia.edu/regmeet/mar18/i2attach13.pdf>

III. Monitoring Best Execution

A. Externally Managed Portfolios

UC Investments reviews external managers' best execution and soft dollar processes during initial due diligence. As part of the on-going diligence, UC Investments may directly reach out to the external managers at any time to review updated policies and provide recommendations as needed.

B. Internally Managed Portfolios

UC Investments engages in a limited amount of direct trading in securities for certain portfolios. It must execute securities transactions for those portfolios so that the brokerage transactions represent the best qualitative execution for those portfolios, based on such factors as the efficiency of execution, the timing of the transaction, the price of the security purchased or sold, the commission rate, and the financial responsibility and responsiveness of the broker. The lowest possible commission cost is not by itself the determinative factor, and as discussed below, Portfolios may not always pay the lowest possible commission rates.

UC Investments has discretion over the selection of the broker to be used and the commission rates to be paid. In selecting a broker for any transaction or series of transactions, UC Investments may consider a number of factors, including, for example: opportunity for price improvement, transaction costs, anonymity, liquidity, expertise with difficult securities (i.e., illiquid trades), speed of execution, trading style and strategy (taking market conditions into consideration), frequency of errors, access to new issues, financial strength and stability, special execution capabilities, willingness to execute related or unrelated difficult transactions in the future, order of call, information accuracy and timeliness, ability to minimize market impact, availability of derivative securities, capital commitment, perceived integrity and reputation, and morning/intraday flow call.

C. Reporting and Review Processes

UC Investments has engaged with Abel Noser to provide trade cost analysis ("TCA") reports on internally managed accounts as well as externally managed separately managed accounts ("SMA"). The commingled funds are out of scope from the TCA reporting perspective. The types of securities that fall under the scope of Abel Noser's reporting include: fixed income, equity, and FX. UC Investments' Compliance team reviews these reports on a quarterly basis and escalates material issues to the internal

portfolio managers for further review. As part of its review, Compliance considers the following factors:

- Total Cost Per Trade
- Relative Cost Per Trade
- Total Implicit Cost
- Total Explicit Cost
- Total Cost Per Security
- Total Cost Per Account

The Compliance team reports its results of the review to UC Investments' CIO on a quarterly basis.