The UCLA Foundation

INVESTMENT POLICY STATEMENT FOR ENDOWED INVESTMENT POOL

The Investment Steering Committee reviewed the IPS, and recommended approval by the Foundation Board of Directors, September 5, 2012

Reviewed by UCLA Investment Company Board of Directors, September 18, 2012

Approved by The UCLA Foundation Board of Directors, September 21, 2012

First Proposed modifications approved by UCLA Investment Company Board of Directors and The UCLA Foundation Board of Directors, June 2, 2014

Second Proposed modifications approved by UCLA Investment Company Board of Directors and The UCLA Foundation Board of Directors, March 14, 2017

Third Proposed modifications approved by UCLA Investment Company Board of Directors and The UCLA Foundation Board of Directors, June 5, 2018

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Fifth Proposed modifications approved by UCLA Investment Company Board of Directors and The UCLA Foundation Board of Directors, December 1, 2020

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INTRODUCTION

The UCLA Foundation's Endowment ("the Endowment") testifies to the generosity of the University's friends and alumni and their faith in University of California, Los Angeles (the "University"). The responsibility to prudently manage Endowment funds which are donated to the University rests with the Board of Directors of The UCLA Foundation (the "Foundation"). The Foundation has placed oversight responsibility for the Endowment with its wholly owned subsidiary, UCLA Investment Company ("the Company").

This Investment Policy Statement establishes objectives, policies and guidelines for the administration and investment of the Endowment by the Company. Its purpose is to document the policies and procedures that are intended to provide the greatest probability that the Endowment's purpose established by donors is met in a prudent manner, consistent with the established guidelines.

MISSION

The purpose of the Endowment is to support the educational mission of the University by providing a reliable source of funds for current and future use. The Endowment has two primary goals. First, the purchasing power of the Endowment's assets must be preserved in perpetuity; second, the Endowment must achieve investment returns sufficient to sustain the level of spending necessary to support ongoing University operations and stakeholder payouts. To the extent these first two goals are achieved, the Foundation endeavors to grow the Endowment corpus so that it represents an even larger source of funding for future generations. Such goals ensure the university has the resources to attract the most talented professors and students.

PHILOSOPHY

At the core of this Investment Policy Statement is a set of fundamental investment beliefs which are the underpinnings of all investment policies of the Foundation:

- Endowment assets have a perpetual time horizon. The Foundation should take a long-term view in setting investment policy.

- Given the objectives and time horizon, the Endowment should maintain a bias toward equity investments, which have historically produced higher long-term returns.

- Diversification by asset class, sector and geography can reduce risk and increase return.

- The Foundation is committed to environmental, social and governance (ESG) best practices; accordingly, implementation of the investment program shall be consistent with the Company's ESG philosophy (the ESG Framework). The Company shall incorporate the ESG Framework into the investment evaluation process as part of its overall risk assessment in its investment decision making.

- The Foundation should exploit its competitive advantages, which include size, time horizon, ability to withstand market volatility and tolerance for illiquidity.

SPENDING POLICY

The Foundation's spending policy was developed to meet several objectives, namely to: (a) preserve the purchasing power of the Endowment in real terms, (b) meet the intergenerational needs of campus constituents by funding both current and future expenditure requirements and (c) provide year-to-year budget stability.

- The Foundation does not follow a specific rule for determining the spending policy. Each fiscal year, a stated spending percentage is calculated that, when applied to average market values, will result in distributions consistent with the Company's outlook on expected returns and meet the program objective. A trailing twelve quarter average of market values is used to smooth fluctuations in Endowment unit value.

The combination of spendable income rate, anticipated expenses and allowance for inflation should not exceed expected returns. General economic conditions are considered in setting the spendable income rate.[1]

INVESTMENT OBJECTIVES

The primary investment objective of the Foundation Endowment is to earn an annualized real total return necessary to cover the spending rate adopted by the Foundation over the long term, net of cost. Attainment of this objective will enable the University to maintain the purchasing power of endowment assets in perpetuity and meet its spending policy.

A secondary investment objective of the Endowment is to outperform key benchmarks over the long-term (typically viewed as rolling five-year periods). The Foundation looks to the following benchmark, which is relevant, measurable, and reflects market returns for asset classes:

- A blended custom benchmark based on a current asset allocation policy[2] of:
  - 45% MSCI All Country World Index, (Global Public Equity)
  - 20% HFRI Fund Weighted Composite Index, (Independent Return)
  - 15% Cambridge Associates ("CA") Private Equity & Venture Capital Index, (Private Equity and Venture Capital)
  - 7.5% CA Real Estate Index + 7.5% CA Natural Resources Index (Real Assets)
  - 4.875% Citigroup 3 Month Treasury Bill Index (Cash and Fixed Income) and
  - 0.125% 3-month S&P 500 put options with strike prices 15% out of the money[3] (Portfolio Insurance)

An easily replicable and investable global index that reflects traditional risk metrics for the Endowment is

[1] Spending percentages above 5% are generally deemed unsustainable and incongruent with this policy's objectives.
[2] See asset allocation section for descriptions of each asset class.
[3] Options will be held to maturity reflecting any gains or losses then rebalanced to 0.125%. The benchmark measures the percentage change in the premium received versus the premium paid over the reporting period and may require multiple purchases depending upon precise expiration dates available. Alternative securities with similar expected payoff profiles may be selected at the start of each quarter due to availability, timing, appropriateness or other factors. For avoidance of doubt the annual budget for portfolio hedging is 50bps of the endowment's NAV.

a benchmark consisting of 70% MSCI All Country World Index and 30% Barclays Global Bond Aggregate index.

ASSET ALLOCATION POLICY

The primary objective of the Foundation's asset allocation policy is to provide a strategic mix of assets which will produce investment returns that meet the Foundation's objectives within a prudent risk framework. Each asset class should not be considered alone, but by the role it plays in a diversified portfolio. Diversification among asset classes has historically increased returns and reduced overall portfolio risk. How asset classes relate/correlate to each other is the key to making asset allocation decisions within the context of overall endowment risk and return.

A core investment bias of the Foundation is to maintain a sizeable equity allocation. An equity bias is desirable as it offers capital appreciation and provides a viable long-term hedge against inflation. Historically, equities outperform fixed income over longer periods of time. In addition, the endowment's perpetual time horizon is well suited to exploiting illiquid, less efficient markets that offer higher potential returns.

With the following basic tenets in mind:

- Equity bias – increases returns
- Diversification – reduces risk
- Long time horizon – increases returns through risk premiums
- Exploitation of economies of scale/diseconomies of scale – increases returns through risk premiums,

the Foundation has decided to invest in the following asset classes:

GLOBAL PUBLIC EQUITY: Includes publicly traded common stock from a combination of domestic, developed international and developing/emerging international markets. The objective of the Global Equity portfolio is to generate investment returns with adequate liquidity through a globally diversified portfolio of common stocks that will provide return sources from less correlated regions of the world. The Global Equity portfolio will largely employ an active investment strategy, though from time to time may utilize swaps, ETFs and other derivative products to add or reduce the overall directionality of the portfolio and/or adjust exposure in a cost-effective manner.

While some mandates may focus on specific geographic regions to exploit inefficiencies or specific manager acumen, the portfolio does not target specific geographic weightings because simple domicile listings offer little information regarding the economic exposure of the underlying companies.

The portfolio seeks to generate incremental returns (alpha) through active investments. Active managers within the Global Equity Asset Class frequently display the following characteristics:

- Fundamental, deeply researched investment methodology
- Concentrated approach to portfolio construction
- Bias toward inefficient market segments
- Flexible, opportunistic mandates

The primary benchmark for the Global Equity portfolio is the MSCI All Country World index.

INDEPENDENT RETURN: Includes managers specializing in investment strategies that have low correlations and/or exposure to the publicly equity markets. The objective of this asset class is to generate returns over the long run that meet the Endowment's overall objective while exhibiting defensive characteristics, acting as a diversifier and providing some growth. Although beta will be limited in this asset class, individual manager volatility may be tolerated in pursuit of long run real returns.

The portfolio's liquidity will be moderate. This portfolio will focus on areas and strategies where active management can contribute a substantial portion of the return. The portfolio may utilize swaps, derivatives, ETFs or other instruments in order to manage risk, liquidity and/or cost.

The primary benchmark for this asset class is the HFRI Fund Weighted Composite Index.

PRIVATE EQUITY AND VENTURE CAPITAL: Includes illiquid investments in both private and public companies both domestically and internationally. These investments include venture capital, growth equity, buyouts, and subordinated debt which offer higher rates of return compared to other asset classes. The Private Equity and Venture Capital portfolio's objective is to earn higher returns than the public equity markets over the long term. This portfolio invests in highly illiquid positions and should generate higher returns as compensation for that illiquidity. A secondary objective of these investments is to provide diversification.

The portfolio's strategy is to invest primarily in vehicles managed by professional management teams usually organized as limited partnerships. Managers are sought which have access to attractive deal flow and whose experience enables them to bring strategic, operational, and/or technical expertise to a transaction in addition to financial acumen and capital. The portfolio is diversified across strategies, sectors and investment stage.

The Private Equity and Venture Capital portfolio's primary benchmark is the Cambridge Associates Private Equity and Venture Capital index.

REAL ASSETS: The Real Assets portfolio provides exposure to both real estate and natural resources, which are diversifying and inflation-sensitive assets. These strategies provide protection against unanticipated inflation and play an important diversifying role in the portfolio, due to their low correlation with other asset classes. Real Assets are comprised of investments in real estate, energy, infrastructure and commodities in securities across the capital structure. The portfolio is directed largely to illiquid investments with a long time horizon, although public investments will be held from time to time.

The primary benchmark is the Cambridge Associates Natural Resources Index and the Cambridge Associates Real Estate Index.

CASH/FIXED INCOME: Cash is a risky investment for an institution with a long time horizon due to its low return and the diminution of purchasing power as a result of inflation. It is prudent to minimize the use of cash in the overall endowment. Thus, this portfolio will include investments in publicly traded credit and credit related securities. The portfolio will contain, but not be limited to, bonds, equities, derivatives, currencies and other suitable securities. Outside of extraordinary market dislocation periods, cash will exist from time to time for transaction and/or rebalancing needs. The portfolio will be liquid, have shorter duration, and be less volatile than other asset classes.

The primary benchmark is the Citigroup 3 Month Treasury Bill Index.

PORTFOLIO INSURANCE: Unlike other asset classes, portfolio insurance contemplates an explicit, expected long-run, loss in exchange for liquidity during swift and severe equity market declines. Such insurance can enhance overall portfolio returns by allowing larger allocations to public and private equity asset classes with higher expected returns.

The primary benchmark is a rolling series of 3 month put options on the S&P 500 with strike prices 15% out of the money at the start of each period and held through maturity.

With the above serving as the approved asset classes, the Foundation has developed the following as its optimal long-term asset allocation policy.

ASSET CLASS	**Long-Term Desired Range**
GLOBAL PUBLIC EQUITY	35% - 70%
PRIVATE EQUITY AND VENTURE CAPITAL	10% - 30%
INDEPENDENT RETURN	10% - 40%
REAL ASSETS	5% - 30%
CASH/FIXED INCOME	0% - 10%
PORTFOLIO INSURANCE	0% - 3%

PORTFOLIO REBALANCING POLICY

The Foundation's Investment Policy Statement establishes the long-term asset allocation policy for the Endowment and certain minimum and maximum constraints for each individual asset class. The Board of Directors of UCLA Investment Company will rely on investment staff to determine allocations within the stated ranges and to initiate rebalancing of the Endowment whenever minimum or maximum constraints are violated.

Rebalancing is a critical element in controlling the long-term asset allocation of the endowment. The Portfolio Rebalancing Policy will be implemented in a systematic and disciplined fashion using the following guidelines:

- In the case of an asset class being below its minimum constraint, monies will be invested in that asset class to bring it back within the stated range. UCLA Investment Company will use cash flow to rebalance whenever feasible. When cash is not readily available to facilitate the rebalancing, the Company can raise funds by redeeming capital, or borrowing on a short-term basis. During periods of rapid equity-market declines, portfolio insurance investments are expected to serve as a key funding source for rebalancing.

- In the case of an asset class being above or below its stated range, then over the subsequent two quarters, the Company will attempt to rebalance back within the stated range.

- UCLA Investment Company has the ability to make additions and withdrawals from public market investments with managers with which the Company currently has relationships with for the purpose of portfolio rebalancing.

In a market characterized by extreme volatility in which one or more asset class's minimum and/or maximum constraint is exceeded, UCLA Investment Company will develop and recommend an alternative rebalancing plan subject to the Foundation's approval should the above guidelines otherwise require the sale of investments that may not be prudent and in the best long-term interest of the Foundation.

INVESTMENT DOCUMENTATION & REPORTING

Statements will be provided quarterly to the Foundation summarizing:

- performance for the quarter and trailing periods at the total portfolio and asset class levels
- asset allocation of total portfolio
- market value of the total portfolio

UCLA Investment Company will rely on its investment managers for voting proxies associated with its funds.

UCLA Investment Company will meet quarterly with the Foundation to review the portfolio and its investment results.

UCLA Investment Company will review this investment policy annually and any revisions to the IPS will be presented to the UCLA Foundation Board for approval. While core philosophies and objectives are expected to endure, updates reflecting the current environment and investing opportunity set will be presented to the Foundation Board.