Fact Sheet: Center for Investigative Reporting – UC Endowment Response

The Center for Investigative Reporting recently released an article stating that the University of California has the worst investment returns among other comparable endowments. However, the scope of the CIR analysis is incomplete and fails to recognize the improvements made in the past five years. The investment goal of the UC Endowment (GEP) is to preserve the purchasing power of the endowment payouts, and cause the principal to grow in value over time. Secondary goals include maximizing returns within reasonable and prudent levels of risk while maintaining liquidity needed to support spending in down markets. The endowment has successfully met these objectives and consistently outperformed its policy benchmark.

Fact: The University of California substantially improved its endowment return ranking in the past 5 years and has increasingly outperformed its peers.

- While the article notes that the University performed poorly over a full decade, it fails to recognize a notable trend in GEP’s ranking as compared to its peers over the most recent five years, which is more reflective of the strategy in place today. From 2005 to 2007, the endowment shifted from primarily a public equity and fixed income portfolio to one with increasing exposures to alternatives. Many of the institutions that GEP is compared to have been investing in alternative asset classes prior to 2000, and are therefore at different stages of the return cycle. This explains the variation in performance and why the UC endowment is experiencing improving returns.

- In the past 5 years, GEP’s returns have increasingly outperformed its peers, particularly with respect to endowments exceeding $5 billion. The figure below shows the steady improvement of UC’s endowment over time.

Fact: UC has restructured its asset allocation while diversifying its portfolio and managing its risk.

- The diversification of UC’s endowment has increased significantly. In 2005, the GEP portfolio was allocated among four asset classes; fixed income and public equity comprised 90%. In 2013, assets were allocated among six different asset classes. The proportion of alternatives increased, while fixed income and public equity decreased to represent less than 60% of the portfolio. This illustrates the GEP asset allocation diversification efforts adopted by the CIO (see figure 1, below).

- Since 2002, the UC has built-up the Private Equity program, which focuses on diversification, the purchasing of buyout funds and the cultivation of new investment-related relationships. A UC Berkeley graduate student, James Ryans, evaluated the allocation of

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UC Endowment Performance Has Improved Steadily Over Time:

<table>
<thead>
<tr>
<th>Ranking (out of 100):</th>
<th>10 year performance</th>
<th>5 year performance</th>
<th>1 year performance</th>
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<tr>
<td>Quartile:</td>
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<td>4th Quartile</td>
<td>94</td>
<td>30</td>
<td>24</td>
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- Most notably in 2008-09, when other universities faced a liquidity crunch due to the financial crises, the GEP was not forced to sell assets to meet liquidity needs.
UC’s endowment for CIR. He found that the proportion of UC’s private equity assets is relatively small compared to private institutions such as Yale, which had about 31% of private equity compared to UC’s 9%. However, this analysis fails to recognize the increase in UC’s private equity allocation over time, which has experienced substantial growth from 2% in June 2005 to more than 9% in June 2013.

- Data shows that in 2005, hedge funds only represented 10% of the portfolio. This increased to 24% in 2013, illustrating the attempt to increase alternative exposure and diversify UC investments. The data counters the CIR article assertion that hedge funds make up the largest class of assets in the UC endowment.
- No single asset class served as the primary driver of lags in GEP returns. The primary driver was that GEP’s asset allocation was different from comparable endowments, which held more than 50% of their endowment in alternative investments (private equity, hedge funds, real estate, and real assets), while GEP held much less.

**Figure 1**

![Asset Allocation Chart]

**Conclusion:** The CIR article is limited in scope. The UC Office of the Chief Investment Officer has been strategically evaluating UC’s investments. This on-going, long-term effort is reflected in both the trends of UC’s GEP asset allocation from 2005 onward and improved performance as noted in the article. With new leadership on the horizon, the asset allocation and the endowment’s objectives will undergo review.