



UCRS Advisory Board

Professor David Brownstone
Chair, UCRS Advisory Board
July 9, 2018

Jagdeep Bachher
Chief Investment Officer
Office of the President
University of California

Re: Letter to OCIO for inclusion in their annual report

Dear Jagdeep:

The University of California Retirement System Advisory Board (UCRSAB) has been established to provide advice to those charged with operating the University of California Retirement System. The Board membership includes representatives from faculty, staff, retirees, and the UC Office of the President. We regularly receive reports from the UC Chief Investment Officer and his staff, and we very much appreciate the thoroughness of the reports and discussion provided by the investment office.

The UCRSAB has been very pleased with the performance of OCIO over the past few years managing the pension fund assets. They have earned excellent investment returns and taken prudent steps to reduce the risks associated with inevitable market corrections. The likelihood of higher interest rates, inflation, and generally high valuations across many asset classes may make it challenging for the OCIO to maintain the recent high returns. Many UCRSAB members are concerned that the current University of California Retirement Plan (UCRP) rate of return target of 7.25% may not be achievable without taking excessive risks. While it is understood that reducing the projected rate of return would require higher contributions and/or increasing the time to remove the unfunded liability, many members feel that this issue deserves more analysis.

UCRSAB members have also been pleased with the substantial changes to the defined contribution plans to improve default fund choices, streamline fund options, and greatly reduce investment management fees in the core funds. Under the new Retirement Choice Program, faculty and staff who selected Savings Choice and those in Pension Choice with income exceeding the PEPRA cap will be more exposed to rate of return and longevity risks than UCRP members in prior tiers. We are pleased that the OCIO is working to include more options for

Jagdeep Bachher

July 10, 2018

Page 2

guaranteed income in the defined contribution program. We are also concerned that a single set of defaults in the defined contribution plans may no longer be appropriate for all employees.

Yours truly,

A handwritten signature in black ink, appearing to read "Dai B" followed by a long horizontal flourish.

David Brownstone

Chair, UCRS Advisory Board

cc: Senior Investment Analyst Susie Ardeshir
UCRS Advisory Board Members (listed below)
Professor Henning Bohn (Vice Chair)
Executive Vice President and COO Rachael Nava
Vice President Dwaine B. Duckett
CFO, Vice Chancellor Ronald Cortez
CUCEA Chair Richard Attiyeh
CUCRA Chair Marianne Schnaubelt
Computer Resource Specialist Michael Fehr
Pharmacy Technician II Naomi Nakamura