

# UNIVERSITY OF CALIFORNIA, ACADEMIC SENATE

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Assembly of the Academic Senate, Academic Council  
University of California  
1111 Franklin Street, 12th Floor  
Oakland, California 94607-5200

April 15, 2004

**JOSEPH MULLINIX, SENIOR VICE PRESIDENT  
BUSINESS AND FINANCE**

**Re: Academic Council Resolution on Including Private Equity Investments within the  
403(b) Plan and Proposed New 457(b) Plan**

Dear Joe:

At our March 31 meeting, the University Committee on Faculty (UCFW) requested Council's endorsement of its Resolution on including private equity investments within the 403(b) plan and the proposed new 457(b) plan. The Resolution is a result of UCFW's concern that the University might remove these investments from the 403(b) plan's Equity option and not include them in the new 457(b) plan because of valuation issues that have been raised by the University's investment consultants.

Currently, UC employees and retirees can invest in the Equity fund of the 403(b) plan, which mirrors the stock holdings that the University Treasurer chooses for the UCRP portfolio. Since, of all asset classes, the private equity portion of the portfolio has produced the highest rate of return over the last decade, it was UCFW's view, and the Academic Council concurred, that UC employees and retirees should not be deprived from this investment opportunity.

Members of the Academic Council unanimously endorsed the UCFW Resolution, and by that action the Resolution is now a Resolution of the Academic Council. I am pleased to forward it to you, with a request that you distribute it to the appropriate UCOP administrators.

Cordially,

A handwritten signature in black ink, appearing to read "Lawrence Pitts", with a long horizontal flourish extending to the right.

Lawrence Pitts, Chair  
Academic Council

encl. Academic Council Resolution  
cc: Academic Council

**Academic Council Resolution on Including Private Equity Investments within the  
403(b) Plan and New 457(b) Plan**  
Adopted on March 31, 2004

Many UC employees and retirees have a strong desire to make use of the expertise of the Treasurer's Office in choosing equity investments. For this reason, UCFW recommends that the University continue to offer an equity option within the 403(b) and the new 457(b) plans that mirrors the equity portion of the UCRP portfolio. Current Regental policy provides that the equity portion of the UCRP portfolio be invested in a mix of sub-portfolios, including a passively managed index sub-portfolio, a group of sub-portfolios managed by outside managers chosen by the Treasurer's office on the basis of performance, and a small private equity sub-portfolio.

- Except for the private equity sub-portfolio, all of these holdings can readily be evaluated on a daily basis using market-closing prices. Because the private equity sub-portfolio consists of non-marketed securities, its valuation is subjective, which creates problems in determining the price at which participants can buy or sell shares in the entire 403(b) and 457(b) equity plans. However, this problem is not unique to the equity portfolio. Participants buy or sell holdings in the Savings Fund at prices that are systematically below net asset value when interest rates are declining, and systematically above net asset value when interest rates are increasing. Because private equity is a small part of the overall equity portfolio, the subjectivity of its valuation has a very small effect on the valuation of the overall portfolio. UCFW believes that any problems arising from this subjectivity are outweighed by the substantially higher returns that the private equity portfolio has produced over time.

The Treasurer's office has far more expertise in the evaluation of outside managers for actively managed sub-portfolios than any individual employee or retiree. In addition, the large size of the UCRP and other UC portfolios allow the Treasurer's office to obtain very favorable terms on management fees. Employees and retirees would lose these advantages if the actively managed offerings in the 403(b) and 457(b) did not include an option that mirrored the actively managed portion of the UCRP portfolio.