The University of California
Office of the Chief Investment Officer
Annual Incentive Plan (AIP)
For Plan Year July 1, 2015 through June 30, 2016

Plan Purpose

Under the authority granted by The Board of Regents, the purpose of the University of California Office of the Chief Investment Officer Annual Incentive Plan ("Plan") is to provide the opportunity for at risk variable financial incentives to those employees responsible for attaining or exceeding key objectives in the Office of the Chief Investment Officer (CIO) which are consistent with University investment objectives. The Plan provides participants with an opportunity to receive an annual non-base building cash incentive based on the performance of the University's investment portfolio, the assets and sectors/functional groups managed by the individual participant, and the individual participant's performance. The incentive award is earned based on the achievement of specific financial, non-financial, and strategic objectives relative to the mission and goals of the Office of the CIO and the performance of the investment portfolio. The Plan focuses participants on maximizing returns in excess of stated performance benchmarks for all funds managed while assuming appropriate levels of risk. It is intended to support teamwork so that members of the Office of the CIO operate as a cohesive group.

Plan Year

The Plan year will correspond to the University's fiscal year, beginning July 1 of each year and ending the following June 30.

Plan Oversight

Development, governance and interpretation of the Plan will be overseen by an independent Administrative Oversight Committee (AOC) comprised as follows:

- Executive Vice President – Business Operations
- Executive Vice President and Chief Financial Officer
- The Vice President – Human Resources
- The Executive Director – Compensation Programs and Strategy

The AOC, in its deliberations pertaining to the development or revision of the Plan, will consult with the CIO or other key members of the CIO's staff. The AOC will abide by the Political Reform Act, which would prohibit Plan participants, such as the CIO and other members of the CIO's staff, from making, participating in making, or influencing decisions that would affect whether they participate in the Plan, the objectives that will govern whether they earn awards under the Plan, and the amount of awards paid to them under the Plan. The Office of General Counsel will be consulted if there are any questions about the application of the Political Reform Act in this context. The Chief Audit and Compliance Officer will assure that periodic auditing and monitoring will occur, as appropriate.

Plan Approval

The Plan will be subject to an annual review conducted by the AOC to address design issues and market alignment. Once approved by the Regents, the Plan will be implemented each year upon the approval of the AOC if no changes to the Plan are being recommended. If the AOC recommends any substantive or material changes to the Plan, including, but not limited to, changing the award opportunity levels, the AOC will obtain the approval of the President and the Regents' Committees on Compensation and Investments before implementing such changes.

Reasonable efforts, given all circumstances, will be made to delay implementing substantive or material Plan changes until after the current Plan year has ended. However, if changes are implemented during the Plan year that would affect the award calculations, changes will only be applied prospectively to the remaining portion of the Plan year. Moreover, no changes will affect awards earned by Plan participants for performance in prior Plan years. Plan changes recommended by the AOC that are not material or substantive, or are deemed to be technical corrections, may be approved by the AOC after consultation with the President and the Chairs of the Regents' Committees on Compensation and Investments and will then be implemented by the AOC at an appropriate time. The Regents will receive reports of all changes to the Plan.

Plan Eligibility

Eligible participants include senior management, professional investment and trading staff and other key positions in the Office of the CIO as recommended by the CIO and subject to approval by the AOC. Eligibility is reviewed annually by the CIO and is subject to approval by the AOC, prior to the beginning of the Plan year. A participant who has been found to have violated state or federal law or to have committed a serious violation of University policy will not be eligible for an award under the Plan.

Participants in the Plan are not eligible to receive an award under any other University of California incentive program, except in the event of a mid-year transfer within the University. Specifically, if a Plan participant is eligible for only a partial year award under this Plan because a mid-year transfer of position renders him or her eligible for Plan participation for only a portion of the Plan year, he or she may participate in a different University plan for the other portion of the Plan year. Concurrent participation in this Plan and another University plan is not permitted.

Prior to the beginning of the Plan year, the AOC will provide the President and the Chairs of the Regents' Committees on Compensation and Investments with a list of Plan participants for that Plan year, including appropriate detail regarding each Plan participant.

Plan participation in any one year does not provide any right or guarantee of eligibility or participation in any subsequent year of the Plan.

Continuing participants must be full-time employees of the University of California Office of the CIO at the end of the Plan year (i.e., on June 30) to be eligible to receive an award for that Plan year. Eligible employees who are appointed after the start of the Plan year must have an employment start date no later than January 15, to be eligible to receive an award for that Plan year. Newly hired participants will receive a prorated award in the first year based on the actual salary received during the Plan year. Participants who were not working for a significant portion of the Plan year may receive a prorated award. For the purpose of this Plan leave of absence status will be determined by applicable University policies governing such leaves.

Termination Provisions

Participants must remain actively employed by the University of California at the end of each Plan year in order to receive previously deferred payments of a determined award. Participants who voluntarily separate or who are involuntarily terminated for cause from employment with the University of California will forfeit any previously deferred award amount and any associated interest that has not yet been paid as of the date of separation from University employment.

Participants who retire, become totally disabled, or involuntarily separate (due to reorganization or restructuring) are eligible to receive a prorated incentive award for the current Plan year and a lump sum payment for the deferred portion(s) of approved awards from prior years that have not yet been paid (as explained in the Payout Determination provision below) and associated interest, based on the date of separation of employment from the University. For the purpose of this Plan retirement and total disability status will be determined by applicable University policies. Lump sum payments as described above will be issued as soon as practicable following the date of separation. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued in accordance with the normal processing schedule.

Involuntary separation for any other reason will be handled on a case by case basis.

Participants whose employment terminates as a result of death are similarly eligible to receive a prorated incentive award for the current Plan year and a lump sum payment for the deferred portion(s) of approved awards from prior years that have not yet been paid (as explained in the Payout Determination provision below) and associated interest, based on the date of death. In this situation, lump sum award payments will be made to the estate of the deceased participant as soon as practicable following the date of death. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued to the estate of the deceased participant in accordance with the normal processing schedule.

Incentive Award Opportunity Levels

Plan participants are assigned award levels that serve to motivate individual, group and total entity performance as part of a competitive total cash compensation package. Participants are eligible to receive an incentive award, expressed as a percentage of their salary, which corresponds to predetermined target levels of performance. Actual incentive award levels may be greater or less than the target opportunity level, depending on performance relative to policy portfolio benchmarks and individual contribution. Award opportunity levels by position are as follows:

Position	Threshold Opportunity (as % of Salary)	Target Opportunity (as % of Salary)	Maximum Opportunity (as % of Salary)
Chief Investment Officer (CIO)	50%	100%	165%
Senior Managing Director & Associate CIO	30%	60%	120%
Managing Director, Director, & Sr. Portfolio Manager	22.5%	45%	90%
Investment Officer	17.5%	35%	70%
Analysts & Jr. Portfolio Manager	10%	20%	40%
Other Participants	10%	20%	25%

Performance Objectives

Below are the four Performance Objective categories for the Plan:

1. Entity Performance (e.g., total investment portfolio performance)
2. Asset Class Performance (e.g., US equity, international equity, private equity, bonds & STIP)
3. Sector/Functional Group Performance (e.g., government, credit, etc.)

4. Individual/Qualitative Performance

The investment performance objectives will be reviewed and approved by the AOC in consultation with the CIO, the President, and Chairs of the Regents' Committees on Compensation and Investment, and an independent investment consultant prior to the beginning of the Plan year.

Performance objectives for each Plan participant must include both the Entity Performance and Individual/Qualitative Performance categories listed below. Asset Class Performance and Sector/Functional Group Performance objectives are incorporated for participants as appropriate. The supervisor of each Plan participant will provide him/her with an annual Terms and Conditions document that (a) identifies the participant's individual performance objectives applicable to the Plan, (b) defines the performance standards and metrics that will be used to measure threshold, target, and maximum performance for each investment objective, and (c) assigns performance weightings to the participant's objectives.

Performance Standards

Each investment performance objective will include standards of performance defined as follows:

- Threshold Performance: This level represents satisfactory results, but less than full achievement of performance objectives.
- Target Performance: This level represents full achievement of all performance expectations.
- Maximum Performance: This level represents results which clearly exceed expectations.

Individual/Qualitative performance objectives for each Plan participant other than the CIO will be defined by his/her supervisor. These objectives will be subject to endorsement by the CIO and approval by the AOC in consultation with the President and Chairs of the Regents' Committees on Compensation and Investments prior to the beginning of the Plan year. The individual performance objectives of the CIO will be approved annually by the President and Chairs of the Regents' Committees on Compensation and Investments, in consultation with the AOC, prior to the beginning of the Plan year. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of Plan participants' objectives.

Individual/Qualitative Performance objectives may be established in, but not limited to, the following areas:

- Leadership
- Implementation of operational goals
- Management of key strategic projects
- Effective utilization of human and financial resources

Performance Measures and Weightings

A Plan participant's performance against assigned qualitative goals will be assessed by the CIO in consultation with the participant's supervisor, if the immediate supervisor is not the CIO.

Investment performance of both the University portfolios and the market indexes is measured using a three-year rolling average. This method provides for longer term focus on and accountability for sustainable performance results. Investment returns in a given year, whether positive or negative, affect the average, and thus the payout, over three separate Plan years. The lowest value of any award in a given year will be zero.

Individual awards are determined based on achievement of performance objectives relative to policy portfolio benchmarks and individual contribution, and in accordance with the payout curve established for each performance objective. Performance measures for participants in their third full Plan year or later are weighted as displayed in the table below.

Position	Weighting for Entity Performance Objectives	Weighting for Asset Class and Sector/Functional Group Performance Objectives	Weighting for Individual/ Qualitative Performance Objectives
Chief Investment Officer	80%	0%	20%
Associate CIO	65%	15%	20%
Senior Managing Director (Risk Mgmt)	80%	0%	20%
Senior Managing Director (Asset Class)	40%	50%	10%
Managing Director	40%	50%	10%
Director	30%	60%	10%
Senior Portfolio Manager	30%	60%	10%
Investment Officer, Asset Class	20%	70%	10%
Investment Officer, Risk Management	70%	0%	30%
Risk Management Analyst	70%	0%	30%
Jr. Portfolio Manager; Jr. / Sr. Analyst	10%	70%	20%
Other Participants	20%	0%	80%

In recognition of a participant's limited ability to affect attainment of goals in the Plan during the first two years of service, the following adjustments are made in the Weighting table for participants in their first three Plan years.

Time Period	Weighting for Quantitative Performance Objectives (Entity, Asset Class, Sector/Functional Group)	Weighting for Individual/Qualitative Performance Objectives
First *partial* year	20% / 1 year performance	80%
Year 1	30% / 1 year performance	70%
Year 2	50% / 2 years performance	50%

For the new employee, the relevant investment returns achieved during the transition period (up to 18 months) may be excluded from the three year rolling average.

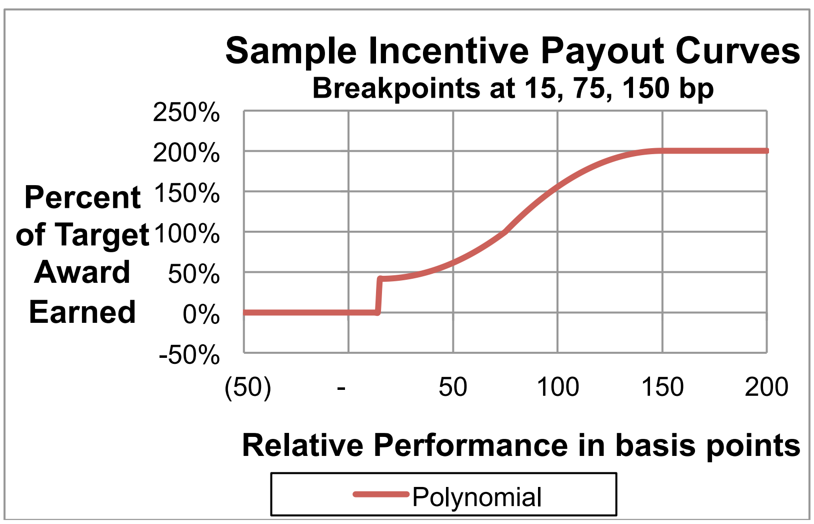
In special cases, such as for a new participant charged with the restructuring of an entire asset class or strategy, the above weights may be modified at the recommendation of the CIO, subject to approval by the AOC. In such a case, the participant will be required to meet specific objectives which contribute to long-term performance.

The phase-in of new asset classes will be handled in a similar way, that is, performance for the first year of a new asset class will be based on a single year's return; performance for the second year of the class will be based on the first two years' returns. See the Administrative Guidelines for more details of specific circumstances.

Payout Determination

Annual incentive awards will be payable in cash, subject to appropriate taxes and pursuant to normal University payroll procedures. The participant's total salary (including base salary, stipends, vacation pay, and sick pay, but excluding prior year incentive award payouts and disability pay) paid as of the end of the Plan year (i.e., on June 30) will be used in the calculation of the award payout. The current position held by the participant at the end of the Plan year will determine the award opportunity level in the calculation. For participants at or above the Investment Officer level (as reflected in the charts above), awards are payable in three annual payments comprised of 50 percent paid in the current Plan year, 25 percent paid in the next year and 25 percent paid in the year thereafter. Award payments will be made as soon as practicable following the end of the Plan year. The deferred portion of the award earns interest based on the Short-Term Investment Pool (STIP) rate of return. Payments of the deferred portions of awards are generally issued during the fall of each year. Accrued awards for participants on approved leave of absence will be paid according to the normal schedule. Awards for participants below the Investment Officer level (as reflected in the charts above) are payable in one lump sum; there is no deferral of any portion of their awards.

A polynomial payout curve is used to determine actual award payouts for performance levels between threshold and maximum and relative to Entity, Asset Class, and Sector/Functional Group performance objectives. The chart below shows an example of the polynomial payout curve for the US Equity asset class. In this example, the Threshold is 15 bp, the Target is 75 bp, and the Maximum is 150 bp.



The primary advantage of the polynomial curve is that it supports the achievement of consistent and sustained performance over the longer term by encouraging participants to achieve target level or higher performance.

Extraordinary Market Environments

In periods of unusual market and economic stress, when the entity experiences negative investment returns, regardless of the entity's relative performance, the portion of the current Plan year awards that would normally be paid at the end of the current Plan year may be deferred. If this deferral mechanism is invoked, awards will be reviewed and approved in the usual manner. But, in conjunction with that review and approval process, deferral will be recommended by the AOC and then approved by the President and the Chairs of the Regents' Committees on Compensation and Investments. In such a case, the portion of the current Plan year awards that have been deferred will earn interest at the STIP rate. The portion of the current Plan year awards that have been deferred will be processed and distributed as soon as possible. However, in no event will they be deferred longer than one year.

Plan Administration

The Plan will be administered by the Executive Director – Compensation Programs and Strategy consistent with the specific design parameters approved by the President and the Regents. The Plan features and provisions outlined in this document shall supersede any other Plan summary. Except as set forth below, all award amounts will be reviewed by and require the approval of the AOC in consultation with the President and Chairs of the Regents' Committees on Compensation and Investments. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of proposed awards. Evaluation of the CIO will be conducted by the Chair of the Regents' Committee on Compensation with input from the President and the Chair of the Regents' Committee on Investments. Any incentive award for the CIO, the Assistant Treasurer, or any other Plan participant who holds one of the executive offices identified in section 92032(b)(7)(B)(i) of the California Education Code will require the approval of the Board in addition to the AOC.

The AOC must convene to review all recommended awards within 60 days of the fiscal year-end. Payouts to individuals of approved awards must be made within 90 days of the fiscal year-end unless the provision above regarding Extraordinary Market Environments applies.

Award amounts for Plan participants in the Senior Management Group will be reported annually to the Regents by the Executive Director – Compensation Programs and Strategy. The reports will contain appropriate levels of detail, such as the range of awards and the percentage and amount of the award granted for each Plan participant.

This Plan may be terminated or replaced at any time for any reason upon the recommendation of the President, in consultation with the Chairs of the Regents' Committees on Compensation and Investments, and with the approval of the Regents. Reasonable efforts, given all circumstances, will be made to delay Plan termination until after the current Plan year has concluded. However, if the Plan is terminated during the Plan year, awards for the current year will still be processed based on participants' performance during the portion of the Plan year prior to termination. Moreover, such termination will not affect awards earned by Plan participants for performance in prior Plan years.

The University may require repayment of an award that that was made as a result of inappropriate circumstances.

Private Equity

This asset class is not marked to market and its performance is meaningfully measured only over a long period using Internal Rates of Return (IRRs), not the time-weighted returns of marketable assets. Thus, special procedures have been implemented to fairly measure its performance and award those responsible for managing the assets. See the Administrative Guidelines for these detailed procedures.