

INVESTMENTS AND INVESTMENT INCOME

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INVESTMENTS AND INVESTMENT INCOME

"Take care of the pence, and the pounds will take care
of themselves." ---Franklin

I. INTRODUCTION

This chapter provides an overview of the management of the University's investment operations and addresses the fund accounting procedures used in recording investment activity. The methodology for distributing the income from pooled investments is also described.

II. INVESTMENT MANAGEMENT

The following groups are involved in the management of the University's investment operations:

- The **Regents'** are charged in The Regents' Bylaw 12.5 with managing the investments of the Corporation (University) and with establishing investment policy.
- The **Office of The Treasurer of The Regents** (OTR) is charged with carrying out The Regents' investment policy. It is responsible for managing all investments, cash, and external financing for the University of California system. Various related entities, such as University support groups, may utilize the investment services of OTR. These agency funds are pooled with University assets for investing purposes, but are tracked separately in the University's accounts. OTR also represents the University in all bank-related matters. The Treasurer reports directly to the Investment Committee of the Board of Regents.
- **The Office of the President (OP) Office of the Vice President--Financial Management (OFM)**, Endowment and Investment Accounting (EIA), provides accounting services for all aspects of the University's investment operations. This includes recording and reconciling investment transactions (e.g., pool processing and

distribution of income); providing regular reports to OTR on the amount of funds available for investment; and maintaining detailed accounting records for all security and real estate transactions, including mortgage loans. EIA also prepares a monthly endowment report for each campus. The report lists the value of all endowments by campus, and reflects book and market value by fund.

III. INVESTMENT ACCOUNTING POLICY

A. INVESTMENT GOALS

Investment operations are conducted to achieve the following goals:

- Endowment funds are invested to provide the income and long-term growth required to support the educational operations for which the endowments were received.
- University of California Retirement System (UCRS) funds are invested to provide the income and long-term growth necessary to finance retirement benefits.
- The cash balances of plant, loan, and current funds that are not required for immediate use are invested on a short-term basis, in order to provide additional funds to the University.

All accounts used to record investments and investment income are included in the location J - Office of the President General Ledger (OP General Ledger).

B. FUND GROUPS

The University invests funds from the following fund groups:

1. Current Funds

Current funds designated for all campus and teaching hospital payroll and operating expenses that are not required immediately are invested in the University's Short-Term Investment Pool (STIP) (see section C.1 below).

III. INVESTMENT ACCOUNTING POLICY (Cont.)

B. FUND GROUPS (Cont.)

2. Student Loan Funds

Student loan funds that are not required immediately for loans to students are invested in the STIP.

Earnings on Federal student loan funds are credited to the loan programs to which the cash belongs.

3. Endowment and Similar Funds

The investment and administration of Regents' endowments are administered centrally by the University. Endowed gifts are recorded in the OP General Ledger in accordance with University policy (refer to the Development Policy and Administration Manual and Accounting Manual [chapter E-525](#), Endowment and Similar Funds, for more information). Subsequent investment and income transactions are also reported in the OP General Ledger. On a monthly basis, campus accounting officers receive an Endowment Summary, prepared by EIA, which reports the book and market values of all their invested endowment, funds functioning as endowment, and agency funds.

4. Unexpended Plant Funds

Unexpended Plant Funds in excess of immediate spending requirements are invested in the STIP.

5. Retirement of Indebtedness Funds

The Retirement of Indebtedness Funds (Plant Funds) group includes the Bond and Interest Sinking Funds for each revenue bond series. The assets of these funds are held by trustee banks and invested by them in accordance with the instructions of OTR.

Other Retirement of Indebtedness Funds in excess of immediate spending requirements are invested in the STIP.

6. UCRS Funds

a. University of California Retirement Plan

The University of California Retirement Plan (UCRP) receives employer and employee contributions when required under The Regents' Funding Policy. Contributions and investment activity for the Plan are recorded in the OP General Ledger. Transactions related to contributions are received by EIA via campus payroll systems and as journal entries prepared by UCRP. EIA reports the STIP income monthly on all UCRP funds invested by OTR. EIA also calculates an asset management fee that is charged, along with UCRP administration fees, to the UCRP expense account.

b. Defined Contribution & 403(b) Plans

The University of California Defined Contribution Plans and the University of California Tax-Deferred 403(b) Plan (403(b) Plan) receive employee elective and nonelective contributions. Employees may direct their 403(b) Plan contributions either to an OTR-managed fund, or to an outside investment manager. The OTR-managed funds offer a variety of fund choices. Investment activity related to these funds is recorded in the OP General Ledger and allocated to individual employee accounts monthly by UCRS.

C. INVESTMENT POOLS

Funds invested by the University are invested in the following pools:

1. Short-Term Investment Pool

The STIP is an interest only cash investment pool in which all University fund groups participate. The STIP includes excess cash from all funds, in all fund groups, that is not invested elsewhere.

III. INVESTMENT ACCOUNTING POLICY (Cont.)

C. INVESTMENT POOLS (Cont.)

1. Short-Term Investment Pool (Cont.)

EIA provides OTR with a monthly estimate of the cash available for investment in each of the major pools and in individual funds for which separate securities are purchased. After these securities have been purchased, OTR reviews current and projected bank balances and purchases and sells various investments, including commercial paper, with any funds that are not required for immediate expenditure. These securities are considered STIP investments.

In order to determine which funds or groups of funds provided the cash for investment, EIA maintains a computerized system that stores the daily balances of endowment funds, UCRS funds, certain retirement of indebtedness funds, and one fund for the cash totals of each campus. This data is used to allocate STIP income to each fund monthly, based on the average daily cash balance per fund. STIP income is redistributed quarterly to those funds that are not credited individually, such as campus funds.

2. General Endowment Pool

The General Endowment Pool (GEP) is The Regent's primary and largest endowment pool. Unless otherwise specified by a donor or an independent University fund-raising organization, all endowment funds and funds functioning as endowment are placed in the GEP.

The GEP operates much like a mutual fund. Funds enter the pool through the purchase of shares at the unitized market value at the time of entry. Actual income earned is allocated to participants based on the number of shares held, and is distributed to the funds monthly. Realized capital gains are reinvested in the pool. The Regents recently adopted the total return methodology for determining annual payouts from endowment funds invested in the GEP. Annually, at

the beginning of each fiscal year, the approved payout is distributed to campuses. Any difference between actual income earned and approved payout triggers a purchase or sale of shares in the pool.

For more information on GEP investment operations, see Accounting Manual [chapter E-525](#), Endowment and Similar Funds.

3. High Income Pool

The High Income Pool (HIP) was established to pool endowments with high initial payout requirements. These include deferred gifts whose donors require a high-income return and the funds of independent University fund-raising organizations that are required to produce a return greater than that provided by the GEP.

Realized capital gains are reinvested in the HIP. HIP income is distributed monthly and transferred annually to campuses for expenditures.

4. Separately-Invested Funds

Certain endowment funds or funds functioning as endowment receive gifts of securities. It is the policy of the University to sell such securities and reinvest the proceeds in one of the University's investment pools. In rare instances, the University retains the security and tracks the fund as separately-invested.

5. UCRS Funds

Retirement fund investments are pooled in accordance with UCRP requirements and investment objectives. Earnings net of expenditures are distributed proportionately to participant accounts monthly.

IV. RESPONSIBILITIES

The OTR is responsible for carrying out The Regents' investment policy.

The EIA unit of Financial Management is responsible for endowment and investment accounting.

IV. RESPONSIBILITIES (Cont.)

The General Accounting unit of Financial Management is responsible for quarterly STIP distribution, as provided in these guidelines.

UCRP Accounting is responsible for reporting on all accounting and administration of UCRUP funds.

V. REFERENCES

University of California Development Policy and Administration Manual

Accounting Manual chapters:

C-173	Cash: Cash Controls
C-173-13	Cash: Balances of Individual Funds
C-173-15.2	Cash: Controlled Disbursements
E-525	Endowment and Similar Funds
P-415-8	Plant Accounting: Unexpended Plant Funds
P-415-26	Plant Accounting: Commercial Paper

Bylaws of the Regents:

- 12.5 Committee on Investments
- 21.4 Treasurer

Treasurer's Annual Report

OTR Annual Report on Retirement Investment Funds

University of California Annual Financial Report

Historical note: Original Accounting Manual published 2/1/73.
Revised 3/31/99; analyst--Claudia Hardin.