Executive Committee Meeting Agenda

Thursday, January 9, 2020
12:00-2:00 p.m.
Location: Alumni & Visitors Center, Johnson Board Room

I. Call to Order and Welcome
   Chair-elect Brian Hawley

II. Action Items
   Chair-elect Brian Hawley
   a. Approval of September 11, 2019 Meeting Minutes
   b. Approval of December 16, 2019 Meeting Minutes
   c. Approval of Foundation Officer:
      Sharlyn Berry -- UCR Foundation Secretary
   d. Approval of Revised Board of Trustees Expectations Document

III. UCR Update
     Chancellor Kim Wilcox

IV. Advancement Update
    VCUA Peter Hayashida

V. Campaign Update
    Co-chair Tom Haider

VI. Committee Reports
    Chair Darin Anderson
    a. Finance and Investment
    Chair Ron Stovitz
    b. Nominations
    Chair Brian Hawley
    c. Advocacy
       i. AB48/Proposition 13: Public Preschool, K-12, and College Health
          and Safety Bond Act of 2020

VII. Review of February 12, 2020
     Meeting Schedule & Board Agenda
     Chair-elect Brian Hawley

VIII. Adjournment and Closing Remarks
     Chair-elect Brian Hawley

Calendar Dates of Note
February 12, 2020 – UCR Foundation Board of Trustees Meeting
April 7, 2020 – UCR Foundation Executive Committee Meeting (NOTE new date!)
March 14, 2020 – Watkins Society Brunch
May 2, 2020 – Donors and Scholars Luncheon
May 13, 2020 – UCR Foundation Board of Trustees Meeting
May 13, 2020 – Chancellor’s Associates Members Spring Reception
October 17, 2020 – Chancellor’s Dinner
February 20, 2021 – Campaign Celebration
University of California, Riverside Foundation
Executive Committee Meeting
Wednesday, September 11, 2019
Johnson Board Room

MINUTES

Attending:
Trustees constituting a quorum: Susan Atherton, Erik Anderson, Wally Bakare, Allison Campbell (via phone) Brian Hawley, Irv Hendrick, Matt Lyons, Ron Stovitz, Chancellor Kim Wilcox

UCR leadership: David Bergquist, Peter Hayashida, Christine Victorino

UCR staff: LaDonna Ardary, Sharilyn Berry, Pat Kohlmeier, Kim McDade, Essam Ulhaq

Chair Susan Atherton called the meeting to order at 12:04 p.m. She acknowledged and welcomed the newest members of the Executive Committee: Allison Campbell as the new chair of the Stewardship Committee and Wally Bakare as a new member-at-large. Chair Atherton also introduced Sharilyn Berry, the Sr. Director of Foundation and Donor Relations, and welcomed Brian Hawley and Irv Hendrick in their new roles as Chair-elect and Audit Committee chair, respectively.

Chair Report:
Chair Atherton gave a brief update on the current Foundation committee structure and led a discussion about ACA 14, proposed legislation that seeks to amend the state constitution to prohibit UC from entering into contracts for a broad array of support and clinical services. Chair-elect Brian Hawley urged the committee to reach out again to their state senators and other contacts that can be helpful in securing a “no” vote.

Chair Atherton shared her pride in the most recent university rankings which are reflective of UCR’s student success focus, including U.S. News 2020 rankings that lists UCR #1 for Student Social Mobility in the United States, the Forbes 2019 “America’s Best Value Colleges” that ranked UCR among the nation’s top 12 public universities, and the success of UCR Athletics.

At the close of FY2019, 86% of the Trustees met or exceeded the $5,000 annual gift expectation.

Action Item: Approval of Consent Agenda
On the motion and unanimous vote, the April 4, 2019 meeting minutes and the 2019-2020 committee appointments were approved.
UCR Update – Chancellor Wilcox

Chancellor Wilcox spoke about the latest national rankings and how they can be both positive and negative for universities. The national rankings systems recognize what UCR does well—maintaining an environment of both excellence and success for all students. UCR’s stature as a leading public university continues to grow. Most recently, UCR was ranked No. 1 in the United States for social mobility in the 2020 U.S. News & World Report Best Colleges rankings. The social mobility ranking measures the size of the student population receiving Pell Grants and how well universities performed in graduating those individuals. UCR received over 60,000 applications for enrollment this school year.

Governor Newsom continues to be supportive of the University of California and has approved a 5% increase in funding. However, most of the increase is one-time money and making up for past cuts. The Board of Regents voted not to raise resident student tuition for the 2019-20 academic year given the significant investment in the UC. State legislative leaders are negotiating with Governor Newsom on AB 48 which would place a general obligation (GO) education facilities bond on the March 2020 ballot. The legislation includes $2 billion in proceeds for the University of California and would also benefit public Pre-K, community colleges, and CSU. Passage would be a significant step toward helping UC meet many of its critical capital needs across the entire system and would be the first GO bond funding for UC in over 13 years.

Currently, UCR holds 9 commencement ceremonies each spring. With campus growth, 10 ceremonies are forecast for 2020. The campus is in conversation with stakeholders about updating the graduation venue and programs. It is an opportunity to create more meaningful and effective ceremonies. An arena in Ontario has been tentatively rented to hold commencements in 2020. The feedback received from graduates and their families regarding ceremonies on campus includes complaints about heat, the view, and the length and content of the program. The current goal is to maintain a personal touch with scale.

Chancellor Wilcox travelled to Australia to visit Nilpena Station and sign an agreement allowing UCR to continue its pioneering research on a government-owned goldmine for unusual fossils. The new Vice Chancellor of Research and Development Rodolfo Torres began on September 9, 2019. Dr. Donald W. Larsen has been hired as the new Chief Executive Officer for the School of Medicine. Dean Deborah Deas’ title has been changed to Vice Chancellor of Health Sciences & Mark and Pam Rubin Dean.

Advancement Update – Vice Chancellor Peter Hayashida

Vice Chancellor Hayashida advised the committee that $33.8 million was raised in FY19; about 5% behind last year. A couple of gifts expected in FY19 will book in FY20. The campaign dollars raised passed the $250 million mark towards the $300 million goal. Most of the colleges/units are making their campaign fundraising goals. The Living the Promise campaign will close on 12/31/2020. UCR is gaining more attention from large foundations who are interested in providing funding to support UCR research. Communications and storytelling will focus on UCR’s research excellence. The Chancellor’s Dinner is on October 19, 2019 and will honor Jack
and Laura Dangermond, Helen Newman, Jerry Swain, and Sabrina Cervantes. The search for the Associate Vice Chancellor for Development is on-going. Hotel interviews will be held in November and on-campus interviews will take place in December. The goal is to have an AVC start in January 2020.

Committee Reports

Audit Committee – Chair Irv Hendrick
Chair Hendrick reported there was a “meet and greet” for members of the Audit Committee on August 29, 2019. The audit process is nearing completion. PricewaterhouseCoopers (PwC) is performing the audit. The financial statements will be posted on the UCR Foundation website as soon as they are approved. The FY2018 IRS 990 Form was approved at the April 8, 2019 meeting of the committee. At that time, two recommendations were made by KPMG: the Foundation has 1) no policy on whistleblowing and 2) no document retention policy. (The campus has policies for these items, but the Foundation does not have their own.) Kim and Essam will make recommendations to the committee regarding these two items.

Finance & Investment Committee Report – Chair Matt Lyons
Chair Lyons reported that the endowment underperformed for FY19. The endowment increased by just over 1% and was around 450 basis points behind the target benchmark. The endowment was heavily weighted in equities (was 80% and now is 70%). Graystone favored value over growth and international markets (40% of portfolio). UCRF has been with Graystone for the past 4 years. At the three-year mark, the Finance and Investment Committee began a conversation about evaluating investment managers. Committee members have been impressed with the fund managers at the University of California Office of the Chief Investment Officer (OCIO) and the performance of the UC General Endowment Pool (GEP). As a result, at their September 10, 2019 meeting, the members of the Finance and Investment Committee voted unanimously to change their endowment investment manager from Graystone Consulting to the UC OCIO, which manages the UC GEP. The move to GEP/Regents will reduce administrative fees and is anticipated to reduce the UCRF endowment’s current level of risk.

Review of October 17, 2019 Board Agenda and Meeting Schedule
Chair Atherton led a review of the October 17, 2019 meeting agenda and schedule.

Adjournment and Closing – Chair Susan Atherton
The meeting was adjourned at 1:20 p.m.
University of California, Riverside Foundation  
Executive Committee Meeting  
Monday, December 16, 2019  
By Teleconference  

MINUTES

Participating by phone:

Trustees constituting a quorum: Susan Atherton, Darin Anderson, Wally Bakare, Allison Campbell, Tom Haider, Brian Hawley, Irv Hendrick, Ron Stovitz, Chancellor Kim Wilcox

Trustees unable to participate: Erik Anderson, S. Sue Johnson

UCR leadership: David Bergquist, Peter Hayashida

UCR staff: Sharilyn Berry, Pat Kohlmeier, Kim McDade, Essam Ulhaq

Chair Susan Atherton called the meeting to order at 9:02 a.m. She thanked everyone for their participation and took a roll call attendance.

Chair Atherton invited UCRF President Hayashida to provide a summary of Proposition 13, the history, and the action item on the meeting agenda.

President Hayashida shared that, if approved by voters on March 3, 2020, Proposition 13 (AB 48), the Public Preschool, K-12, and College Health and Safety Bond Act of 2020 would allocate $15 billion in general obligation funds to modernize public education facilities, with $2 billion for the University of California. Under the terms of Proposition 13, priority would be given to UC projects that address fire and life safety issues, seismic deficiencies and critical deferred maintenance issues in buildings identified as high priority by the University. Specific projects have not yet been finalized and, if approved, it requires UC to adopt a five-year affordable student housing plan. University funds (including University paid time and equipment) may not lawfully be used for campaign purposes in connection with supporting the bond measure. By contrast, University funds may be used for legitimate informational activities for the ballot measure. However, the UC Campus Foundations are not similarly constrained: as separately incorporated 501(c)(3) organizations, campus foundations may contribute funds to support a ballot measure campaign as long as: 1) the funds were raised from private sources (and not pass through any university account); 2) there are no donor restrictions on the funds in question; and 3) the funds were not solicited for the express purpose of supporting a ballot measure. Historically, campus foundations have relied upon unrestricted gifts and interest income for contributions for ballot measures. The California Coalition for Public Higher Education (CCPHE) is coordinating the statewide campaign to pass Proposition 13.
Chair Atherton invited discussion.

Action Item: UCR Foundation Endorsement of Proposition 13 and Transfer of $100,000 to the California Coalition for Public Higher Education (CCPHE)

On the motion and roll call vote, the following action was approved:

Endorse Proposition 13, the Public Preschool, K-12, and College Health and Safety Bond Act and authorize the transfer of $100,000 of unrestricted funds generated by endowment investment returns and unrestricted gift funds from the UCR Foundation, a nonprofit entity incorporated under IRC §501(c)(3) to the California Coalition for Public Higher Education (CCPHE) to aid its efforts to support the University of California.

Ayes: Atherton, D. Anderson, Bakare, A. Campbell, Haider, Hawley, Hendrick
Recused: Stovitz
Abstained: Wilcox

Adjournment – Chair Susan Atherton
The meeting was adjourned at 9:09 a.m.
Consent Agenda Item II. c.: Per the UCR Foundation Bylaws (Article IV, Section 1; referenced below), Peter Hayashida, President of the UCR Foundation, recommends the appointment of the following staff Officer of the Corporation:

Sharilyn Berry, Secretary

ARTICLE IV

Officers

Section 1. Number. The Officers of the Corporation shall be a Chair, an Immediate Past Chair, a Chair-Elect, if applicable, and a Treasurer, all elected by the Board. Officers of the Corporation shall also include a President who shall be the Vice Chancellor of University Advancement, an Executive Vice President who shall be the Associate Vice Chancellor for Development, a Vice President, Finance and Chief Financial Officer, who shall be the Associate Vice Chancellor of Advancement Finance & Administration; and a Secretary/Executive Director; and an Associate Treasurer, each of whom shall be appointed from the Advancement staff by the UCRF President. Staff Officers (Vice President and other appropriate titles) may be appointed as recommended by the President with approval of the Executive Committee with ratification by the full Board.
BOARD OF TRUSTEES EXPECTATIONS

The mission of the UCR Foundation (UCRF) is to support UCR philanthropically and manage the UCRF endowment. Strong leadership and participation from the UCRF Trustees are essential to realize UCRF’s mission.

Successful accomplishment of UCRF’s mission requires that its Board of Trustees functions as a fundraising board, to recognize and celebrate the service of those who have a history of contributions to UCR, and to provide opportunities for emerging UCR leaders to join the board. To fulfill these goals, the Nominations Committee will consider the following in reviewing candidates for new terms or reappointment.

Biennally, the UCRF Nomination Committee reviews the service and contributions of trustees whose terms are expiring. Some trustees are invited to serve another term if eligible to do so, and the purpose of these expectations is to clarify the circumstances under which that would occur:

1. **ANNUAL AND MAJOR GIVING**
   a. **ANNUAL GIVING:** The UCRF Board of Trustees expects 100% participation, with every trustee annually contributing at least $5,000 in private support to UC Riverside during each year of service. Recognizing that individual circumstances can impact the timing of specific gifts, the Committee will consider a total of $10,000 over a two year term as having met the spirit of this expectation. Gifts from employer matching gift programs will be recognized as fulfilling a portion of the annual giving or major gift expectation.

   b. **MAJOR GIFT:** During The Campaign for UC Riverside, each trustee is expected to contribute a major gift. The contribution may be paid in installments over no longer than a five year period and may also take the form of an estate gift. Any trustee whose lifetime, cumulative giving to UC Riverside is at least $1,000,000 will be considered to have fulfilled the major giving requirement for the remainder of their service as a member of the Board of Trustees. For initial terms beginning on July 1, 2016, a major gift is defined as a total gift or pledge of at least $100,000. Trustees who joined prior to that date are asked to consider an amount of personal significance that recognizes UCR as among their highest philanthropic priorities. The major giving expectation may also be fulfilled by gifts from entities where a trustee has decision-making authority to direct philanthropic gifts to UCR.

2. **CONNECTIONS:** In addition to philanthropic contributions, each trustee serves as an ambassador for UC Riverside and is expected to make introductions and substantive connections with philanthropic and business leaders whose engagement results in major gifts to the University. Identifying and cultivating new major gift donors is a key role of trustees.

3. **PARTICIPATION:** Trustees are expected to attend at least two of three annual board meetings, attend the Chancellor’s Dinner to Benefit UCR Students, and engage with the campus in other meaningful ways. This could include active UCRF committee service, if appointed; membership in a school/college/unit advisory board or committee, volunteering as a guest lecturer or mentor; and attending other UCR events.

4. **ELIGIBILITY:** Any trustee who declines to sign an annual UCRF Conflict of Interest statement and disclosures or other agreements required by UCRF may not be considered for continued service as a UCRF trustee.

These expectations are not intended to override provisions of UCRF’s Articles of Incorporation or Bylaws. With the Board of Trustees consent, these expectations may be revised to meet changing needs of the UCRF and may apply to future terms of new or reappointed trustees.
UC Riverside Foundation
Board of Trustees
Executive Committee Meeting
January 9, 2020

FINANCE AND INVESTMENT COMMITTEE REPORT

MEETINGS AND ACTIONS SINCE LAST EXECUTIVE COMMITTEE MEETING

- **Investment Committee Meeting – December 5, 2019**
  - **Items Discussed:** Highlander Venture Fund presentation and update. Endowment – investment performance and market update. UC OCIO presentation, which included GEP performance and individual asset class representative presentations. Investment Policy updates and approval to align with UC GEP policy. GEP transition update. Charitable Trusts – monitoring reports. Hylander Student Investment Fund Board update.

OTHER INFORMATION -- ENDOWMENT

- **Values**
  - **Fiscal year-to-date @ October 31, 2019:**
    - $181 million, up $5.0M (2.9%) for fiscal year 2020
    - For the month, additions totaled $436K; investment gain was $4.5M
    - For fiscal year 2020, additions totaled $1.4M; investment gain was $3.6M
      - For the 1st quarter, additions totaled $996K; investment loss was $914K

- **Performance**
  - **Period Ended October 31, 2019**
    - The investment return was 2.3% for fiscal year to date (4 months)

- **Economic and Market Overview (December 2019) – Attached**

UPCOMING MEETING: March 12, 2020

COMMITTEE CHAIR, MEMBERS, AND OTHER REGULAR ATTENDEES

Voting Members – Darin Anderson (Chair), Susan Atherton (ex-officio), Erik Anderson (UCRF Treasurer), Timothy Greenleaf, Judith Posnikoff, Glen Grayman, John Leonard, Dave Hadley
Other regular attendees – Peter Hayashida, Kim McDade, Essam Ulhaq

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1 September 11, 2019
DRAFT Pending Approval by the Finance and Investment Committee

MINUTES
UC Riverside Foundation Board of Trustees
Finance and Investment Committee Meeting

Thursday, December 5, 2019
1127 Hinderaker Hall
University of California, Riverside

Present: Voting Members — Matt Lyons (Chair), Erik Anderson (UCRF Treasurer), Glen Grayman, John Leonard, Judith Posnikoff (via phone), Dave Hadley (via phone); Non-Voting Members — Peter Hayashida, Kim McDade, Essam Ulhaq; Investment Consultants — Jagdeep Bachher, Arthur Guimaraes, Satish Ananthaswamy, Jessica Hans, Allen Kuo, Margaux O’Brien, Edmond Fong; Highlander Venture Fund Representatives: David Schwab, Rosibel Ochoa, Rodolfo Torres

Unable to Attend: Voting Members — Susan Atherton (ex-officio), Darin Anderson, Timothy Greenleaf

I. Call to Order – Matt Lyons

Trustee Matt Lyons called the meeting to order at 12:00 p.m.

II. Highlander Venture Fund Update

Dave Schwab, Managing Director of Vertical Venture Partners discussed the commercialization of the University IP. He runs a $150M firm in Palo Alto called Vertical Venture Partners, an early-stage venture capital firm focused on Seed and Series A investments in companies that address industry-specific pain points for enterprise customers. His firm works with the University of California (UC) in the area of technology transfer. The first $1M comes from VVP and then they do fundraising with the universities to raise more money. They have increased the Highlander Fund from $1M to $4.5M. Dave discussed the 3 life lessons he has learned in his business: 1) Decision making profit minded system, 2) Size of investment needs to be where the company is and 3) Rapid development of ecosystem is necessary. VVP has a 100-person board with CIO’s and CTO’s. UC companies present to CEO’s and CIO’s and then these companies reach out to the Universities to invest. Dave talked about MANTA Instruments located in Scripps College at UCSD, which has technology to measure nano particles for seawater research. They were able to partner the University with another company and able to profit off the tool in a different industry. VVP’s focus is to provide $250K+ in needed pre-seed investments to bring a company product to fruition and get a customer; in essence create the “goo in the gear”. As of right now, Highlander Fund has done well with three investments: 2 that are complete and 1 is currently in the pipeline. The UCR Foundation currently has a $2M commitment to the Highlander Fund, with $1M funded.

III. Approval of September 10, 2019 Meeting Minutes

After determining there were no comments or questions, Matt Lyons called for a motion to approve the minutes of the September 10, 2019 Finance and Investment Committee. A motion to approve the minutes was made:
Motion: John Leonard; Second: Erik Anderson. The minutes were unanimously approved as presented.

IV. Endowment

Investment Results – FIC Committee Chair, Matt Lyons, reviewed the September 30, 2019 quarterly investment report, which was provided to members in advance of the meeting. He stated that the asset allocation is in line with the target. For quarter year to date, we were down 40 basis points which was an underperformance of approximately 80 basis points. There was an underperformance of international equities, which were down 2.25 basis points. The Pimco Fixed Income funds, which are typically good performers, were below the benchmark for the quarter.

V. UC OCIO Presentation

Arthur Guimaraes, Chief Operating Officer of the UC OCIO office, started the presentation by letting us know that their office is honored to manage our investments. The OCIO’s assets have grown by 30%, but their team size has remained consistent. Overall, the OCIO now has a billion-dollar relationship with UCR, between the campus and the Foundation. He then handed off the presentation to Satish Ananthaswamy to discuss international markets.

Satish Ananthaswamy, Managing Director of Asia Investments, mentioned that the fixed income return was lower and couldn’t keep up with the AGG because of the Feds decision to lower the interest rates and keep them low. When he first started at the UC, 95% of the investments were in America. Satish mentioned that it will be tough to generate returns like 2019 in 2020. He stated that in the US, they have exhausted all cylinders, so they are looking internationally at faster growing regions, Asia as an example. He mentioned though, that there are a lot of land mines and many of the public markets are not too developed. He stated the Fed is going to take a backseat in 2020 and watch the economy.

Matt Lyons asked what the impact Hong Kong and its current situation has on the markets.

Satish Ananthaswamy stated that the situation in Hong Kong is sad, but it’s a small percentage of global markets. They are keeping an eye on the situation, but they do not anticipate to much of an impact.

Allen Kuo, Director of Investment Risk Management, who is from Hong Kong and visited there, also mentioned that the situation can get out of hand in Hong Kong, but they are definitely keeping a close eye on it.

Jagdeep Bachher, Chief Investment Officer, said he visited there twice and the first time it was fine, but the second time, the situation was not as fine.

Arthur stated that the UC Riverside Foundation recently invested $160M in GEP as of November 30, 2019. The return for Q1 FY20 was 0.3% and he stated the performance is anticipated to be better in the following quarters.

Jagdeep stated that the private equity market value numbers for 6/30 and 9/30 create a lot of noise in performance due to their accounting reporting. Jagdeep mentioned that we should spend some time at
our next meeting to discuss how the OCIO does estimating and how they true up. Matt felt that this would also be helpful.

Margaux O'Brien, Director, Public Equity Investments, talked about the public equities team and what they do. Their team monitors and selects active managers. They look for fund managers that have long term time horizons and their focus is to find efficient and niche markets. They have extensive projects outside of the US in Europe, Asia, and India, with local managers on the ground. They went through a major overhaul of their portfolio by reducing the number of managers from 38 to 8. They also increased their passive allocation to 45%. Global managers performed well. Markets are cautious in the active equity space. The benchmark used is MSCI ACWI Index that includes the US.

Satish discussed the fixed income performance and how it was all interest rate driven. The economy was pretty robust. The Feds anticipated slowdowns, so they cut interest rates. As of right now, the economy is chugging along, not specifically doing great. He does not foresee a recession coming in 2020, but does anticipate slowdowns in growth. The GEP fixed income target is 10%, which is made up of 5% in AGG type investments and the other 5% in opportunistic income.

Edmond Fong, Senior Managing Director of Absolute Return Investments, stated that 60% of the GEP investments is in other assets, with less than 40% being traditional and 60%+ being strategic/opportunistic. In 2 decades, alternative investments overall have increased from $1.2TN to $9.7TN. More companies going private is what’s driving this. Private equity market valuations are increasing due to overstating of the EBITDA and as such, expectations are being downgraded. Private equities have been great, but there’s been a lot of dry powder. The real estate cap rates are compressing and there are troughs for cap rates. For absolute return hedge funds, they look for zero beta hedge funds, with negative down capture. From a fee perspective, they are fee neutral due to their partnership with companies and revenue share.

Jagdeep commented that the macro private equity funds funded by rich people are shutting down and it’s become harder to make money. The game has changed. At a future meeting, the OCIO will provide a deeper dive into Absolute Return investments.

Jessica Hans, Investment Officer for Real Estate, discussed the real estate portfolio, which includes real estate and real assets. 2/3 of the portfolio is private real estate and 1/3 is real assets. They think about the portfolio in two ways, strategy and implementation. For higher risk strategies, they seek out good partners and they have the advantage because of their large scale. For real assets, they maintain a diverse portfolio. They started their strategy in oil and gas, but now its 55% infrastructure, 25% opportunistic, and 20% natural resources (energy, agriculture, timber). They are looking to reduce the number of their relationships and increase returns. For the real estate market, 98% of it is domestic.

Jagdeep mentioned that real assets are in the form of service giving a cash flow stream, like solar or wind. There is an upside because of the service element. Real Estate is buildings. We have to work with less partners and start doing more with less.

Allen discussed the risks of the current environment by stating the top 3 risks: 1) China, 2) Climate Change, and 3) Business cycle, which is currently at the longest economic expansion in US history. He shared that the current GEP investment strategy is taking a defensive position and not taking on too much risk. The active risk has gone down in public equities. In terms of internal governance, if a
specific asset class is higher risk than the OCIO established threshold, Allen’s team reaches out to the asset class department and the department must write a memo justifying the risk.

Jagdeep shared with the Committee that they should ask two questions of the team at each meeting: 1) how much of the GEP is in cash and 2) how much is in the bank? The answers to those questions will provide a sense of the temperature of his team. He stated that the team’s thinking allows them to manage risk as they don’t use consultants or third parties. They actively monitor risks within the team. Jagdeep recommended that we dedicate time at future meetings to hear the process employed by each team. In addition, he recommended a review of the GEP long-term asset allocation, where we are and where we are heading towards, as this drives their decision making at the next meeting.

Jagdeep ended the presentation by reviewing from a number’s perspective, the GEP performance has been flat for the first quarter, but that is because private equity is catching up due to their accounting. He stated that the US is still the best place for good opportunistic opportunities. His team is like hunters and gatherers and they are looking for the best investments. He reiterated that Arthur and him are available 24/7.

VI. UC GEP Transition Update

Kim McDade discussed the GEP transition and stated the UCOP CIO office has been good partners and Graystone has been cooperative and helpful during the transition process.

Matt mentioned that the call with Graystone to terminate services went well and they appreciated the opportunity to work with us.

Kim discussed that for Graham, we are waiting on the specific date we are going to receive the proceeds in December or January. Balyasny should be liquidated April 2020. The Foundation staff is going to work with Arthur and his team to potentially sell Hamilton Lane. Arthur mentioned that we could potentially sell Hamilton Lane in the secondary market. The UCR Foundation will retain its investment in Highlander.

Kim stated that we are working on the MOU with the UCOP CIO office and we should have that finalized soon.

The UC OCIO left the meeting at this time.

VII. Investment Policy Statement Update and Approval

Essam Ulhaq went over the changes to the investment policy made as a result of the approval received at the October 17, 2019 Board meeting. The main change was in Section VIII. A. where the verbiage was updated to state that the UCR Foundation will use the UC GEP Asset and Risk Allocation policy to set its strategic asset allocation long term weights and allowable ranges. The Exhibits in the investment policy were also updated as follows: Exhibit 1) UC GEP Investment Policy Statement, Exhibit 2) UC GEP Asset and Risk Allocation Policy, Exhibit 3) UC OCIO Annual Report, and Exhibit 4) UC GEP Holdings.

Matt Lyons re-iterated the reason we had to update the policy is because at the October 2019 Board of Trustees meeting, the trustees approved having our investment policy directly align with the UC GEP policy.
A motion to approve the minutes was made:

*Motion: Dave Hadley; Second: Glen Grayman. The updates to the investment policy were unanimously approved as presented.*

Matt stated that the UC spending policies were included in the package. He referenced that the UC Riverside Foundation spending policy was lower than all the other UC spending policies.

Dave mentioned that the current spending policy was conservative in two ways: the 4% payout and the 84-month average.

The spending policy will be added as an agenda item for the next FIC meeting to review and discuss.

VIII. Hylander Student Investment Fund

Kim shared that the Hylander Student Investment Fund is now active. Jean Helwege, Professor of Finance, is the faculty advisor to the group. The FIC will receive an annual report on the Fund that includes performance, asset allocation, and activity. An Advisory Board has been established for the Investment Group and one member of the FIC should be on the Advisory Board. Kim asked the committee if there was anyone that would like to be a member on the advisory board for the Hylander Student Investment Fund. Dave Hadley stated that he was interested. Kim said she would reach out to the appropriate contact who would follow up with Dave with additional details regarding the commitment involved.

IX. Adjournment

As there was no further business to discuss, the meeting was adjourned at 1:24 p.m.
On the Markets

Modest Expectations

Last month, Morgan Stanley & Co. published global economic and market outlooks for 2020. To summarize, our outlook assumes a modest recovery in the global economy next year led by emerging market economies after what has been a rather meaningful and broad slowdown. We assume US GDP growth stabilizes near the third quarter level, or 1.8%.

With just modest GDP growth in the US and little slack in the labor market, profit margins will likely remain under pressure for the average US company. Operating leverage is already decidedly negative across a wide swath of companies and sectors based on the latest earnings reports. GDP growth of 1.8% combined with lower margins would result in little, if any, earnings-per-share (EPS) growth in the US next year for the S&P 500. Smaller capitalization companies could see a second full year of negative EPS growth.

With the Federal Reserve on hold, our interest rates strategy team expects a relatively restrained outlook for the 10-year US Treasury yield next year in the 1.75%-2.0% range. This should translate into a more stable environment for equity valuations, a sharp contrast to what we experienced in 2018, when they slid, or 2019, when they jumped. That means 2020 will likely come down to finding companies with reasonable valuations that can surprise to the upside on earnings. In other words, we see a return to good, old-fashioned stock-picking as opposed to trading big moves in the indexes, the more rewarding strategy of the past two years.

This dynamic also leads us to international equity markets, where both economic and earnings growth look better than the US and valuations are cheaper. Our preferences also reflect another important theme we have been espousing since early 2016—global reflation. This theme was originally based on multiple drivers—synchronous global growth and monetary policy, a weaker US dollar and a rise in populism. After a robust 2016 and 2017, the theme took a break as global growth slowed. While it’s possible that this past summer was the end of the pause in the global inflation narrative and global reflation is back, we think asset markets are responding more to the massive central bank balance sheet expansion.

Global reflation remains a powerful longer-term theme to consider for one’s portfolio allocations, one that we have positioned for in our recommendations since 2016. However, the multiyear consolidation of this theme could persist until the global economy bottoms definitively and we have more evidence that the margin pressures and trade tensions are truly abating. Therefore, stick with the reflation theme with outsized allocations to international equities and US value stocks but look to add only on pullbacks rather than chase performance.
Sequencing the Cycle

ANDREW SHEETS
Chief Cross-Asset Strategist
Morgan Stanley & Co.

At first glance, the 2020 investment outlook looks easy. Our economists expect global growth to bottom in the current quarter and improve thereafter. Such a move suggests that US and global purchasing managers indexes (PMIs) will soon inflect upward, and such moves usually boost equity and credit returns (see chart). Simple, easy, no more to see here—but even so, we see three reasons why next year defies such a simple characterization:

- Relative to past PMI and growth inflections, current valuations are unusually high while the rebound we forecast is unusually weak.
- This recovery varies widely in magnitude and timing: An uneven recovery will collide with uneven valuations. US risk assets are too expensive for the modest pickup we forecast, while rest-of-the-world assets are cheaper with a larger cyclical impulse.
- This recovery also rests on a knife’s edge. The enactment of tariffs this month, which is not our base case, could be enough to push our global economic forecasts to near global recession.

PROCEED WITH CAUTION. The differences between the timing of the recovery and cross-asset valuations suggest that sequencing the cycle is our key 2020 theme. This means being more aggressive in better-valued markets, which we think are now early-cycle with growth set to improve most, and being more defensive in expensive markets, where we see modest or even no improvement in fundamentals. Plus, this outlook could be changed materially by spur-of-the-moment tariff decisions.

In forecasting 2020, we recall 2019’s challenges. In November 2018, we were neutral equities and bonds, underweight credit and overweight cash. Our caution was based on concern that growth would slow and our cycle indicators would turn.

CENTRAL BANK POLICIES. Growth slowed and our indicators turned, but we underestimated three things: the aggressiveness of the central bank response; the decline in inflation both in the developed markets and the emerging markets that would make this possible; and the willingness of investors to pay much higher multiples even as global earnings growth turned downward. With valuations much higher entering 2020—and expectations for no further action from the Federal Reserve, the European Central Bank or the Bank of Japan—we are skeptical that central banks can pull off the same trick twice.

Growth also slowed differently than we expected. We thought the US would decelerate more; instead, the rest of the world did. This drove modest US dollar strength instead of our expectation of weakness, but with the rest of the world’s growth having slowed more in 2019, it now enjoys a much lower bar to do relatively better.

SUMMING UP. By asset class, we prefer non-US equities relative to US, choosing to focus on where valuations are reasonable and 2020 earnings expectations are achievable (see page 6). In particular, we favor equities in Korea, Japan, Brazil, the UK and Spain. We expect value-style stocks to outperform the growth stocks for different reasons in different regions. As for interest rates, we see US yields kept range-bound by the muted economy and election-year uncertainty. In contrast, yields in the UK and Germany should rise as global growth and political uncertainty recedes, and those forces are apt to work against the US dollar. Better growth abroad also favors corporate credit in Europe versus the US. As for commodities, we see oil remaining around $60 a barrel, and soft demand and limited inflation capping most markets. In short, there’s too much of everything.
The Late-Cycle Expansion Extends

In our framework, trade and monetary policy are the key determinants of swings in the global economy. Since early 2018, trade tensions have persistently escalated. The resulting drag on global corporate confidence and capital spending drove down global growth to an estimated annualized GDP of 2.9% in the current quarter from a peak of 4.1% in 2018’s first quarter. While economic sluggishness did trigger a monetary policy response early last year, the initial pace of easing was hesitant and its effectiveness was dampened by ongoing trade tensions.

Now, while our framework hasn’t changed, the inputs have. First, renewed US-China talks have staved off further tariff increases. The overall tone of the discussions has remained broadly constructive, and we think that a “phase one” deal could be signed, which would further reduce the risks of increased tariffs. Second, central banks around the world picked up the pace of easing since the third quarter (see chart). What’s more, 20 central banks have eased monetary policy during the past 12 months. We expect additional easing, with the global weighted-average policy rate touching a seven-year low by March 2020.

More importantly, for the first time in seven quarters, trade tensions and monetary policy are easing simultaneously. Throughout 2018, tighter policy and escalating trade tensions both weighed on growth, and even though monetary policy began to ease early last year, it was offset by rising trade tensions. Today, these two forces are reinforcing each other and supporting the global economy. We expect consumption growth to be supported by healthy household balance sheets, moderate wage growth and, in the developed markets, still-low unemployment. As consumption growth improves, the corporate sector will likely think about maintenance capital spending, at a minimum to feed domestic demand. After end-demand turns up and utilization ratios start to rise again, we expect a relatively modest improvement in capital spending from the second quarter on, as the magnitude of the recovery will be constrained by lingering uncertainties.

For 2020, we see global average GDP growth at 3.2% versus 2019’s 3.0% (see table, page 4). We expect a recovery in the first quarter to gradually gain momentum, reaching 3.4% by the fourth quarter versus the current quarter’s 2.9%. That’s the result of a strong pickup in the emerging markets—4.7% by 2020’s final quarter versus 3.8% in the current quarter—and more gradual growth in the developed markets. In our estimates, the US economy, with an estimated 1.8% GDP growth, outperforms the G10. Among the emerging markets, we expect China GDP to weigh in at 6.1% in the fourth quarter compared with 5.9% in the current quarter; similarly, India could have a 6.6% fourth quarter versus the current 4.8%.

Now, let’s look at the other highlights.

Developed Markets Improve Gradually

In the US, we expect growth to stabilize around trend in 2020, as lower rates help to offset fading fiscal support (see page 5). In the Euro Zone, growth picks up gradually during the course of the year as external headwinds ease and the impact of policy stimulus kicks in. We expect only a modest recovery in the Euro Zone as the magnitude of easing has been limited and its effectiveness constrained. In Japan, we expect growth to remain relatively sluggish with the consumption-tax hike weighing on activity despite the uptick in construction spending around the Tokyo 2020 Olympics. In the UK, we expect an orderly Brexit resolution and fiscal easing to drive an improvement in growth.
A Stronger Pickup in Emerging Markets

In China, an easing of trade tensions should lift corporate sentiment, and continued policy support will help to drive a recovery in growth. In emerging markets outside China, macro stability has given central banks room to ease monetary policy, which helps to support a recovery in growth. In India, the improvement in the health of the financial sector should reduce risk aversion and, coupled with continued policy reforms, drive an improvement in domestic demand. Similarly, in Brazil, lower interest rates could help boost consumer demand and the passage of pension reform should bolster sentiment in the corporate sector. In Russia, an acceleration in infrastructure spending, supported by fiscal easing, lifts growth higher in 2020.

Modest Rise in Inflationary Pressures

A modest recovery in growth also brings about a modest uptick in inflation. In the developed markets, core inflation moves up to an annualized 2.0% in the US in the second quarter, but moves sideways for the rest of the year. However, for the Euro Zone and Japan, we are expecting inflation to rise gradually but remain below their respective central banks' targets in the 2020-2021 period. For the emerging markets, the majority of the economies have kept macro stability risks in check, and thus inflationary pressures have been well contained. We expect this to continue into 2020, with inflation staying close to the respective central banks' target ranges. In the near term for China, higher food prices lead to elevated headline CPI in 2020's first half, but we expect this to reverse in the second half of the year.

More Easing Expected in Emerging Markets

Twenty of the 32 central banks we cover have already eased monetary policy in 2019. Looking into 2020, monetary policy will remain accommodative, and we expect 13 central banks to ease further, bringing the global weighted-average policy rates to a seven-year low by March 2020. These rate cuts that we expect are concentrated in the emerging markets, with the central banks in India, Brazil and Russia trimming rates once more to take nominal policy rates in these countries to either a historical or a postcrisis low. In the developed markets, the Federal Reserve, European Central Bank and the Bank of Japan should stay on hold throughout 2020, while we expect one rate hike by the Bank of England late next year.
"Insurance" Cuts Pay Off

ELLEN ZENTNER
Chief US Economist
Morgan Stanley & Co.

The Federal Reserve’s promise and delivery of interest rate cuts as "insurance" have paid off. In our view, lower interest rates will continue to support the economy in 2020, which helps to counteract less support from fiscal policy. Exports and business investment should rise from very low levels on the back of an improvement in global growth.

These factors are enough to stabilize the slowdown in growth. Our base-case GDP forecast is 1.8%, down from an estimated 2.3% for 2019 (see table). Even with slower growth, we see higher headline and core inflation. In our outlook, the unemployment rate falls to 3.2% from this year's estimated 3.5%. The Fed remains on hold to allow inflationary pressures to build from an ever-tightening labor market.

We think consumers, the largest part of the economy, will put in an average year. We see low rates as supportive, but the impulse from the 2019 cuts has largely been absorbed. A healthy labor market continues to drive wage gains, which affects most US households. Rising after-tax income continues to outpace rising debt, increasing the cushion of savings.

**CONSTRAINED GAINS.** Our equity strategists expect further gains in financial asset wealth to be constrained, keeping a lid on the wealth effect and, therefore, spending among high-income households. Heightened uncertainty on trade policy, which in turn has driven stock market volatility at times, has weighed on confidence broadly. Should layoffs begin to rise, a cutback in consumer spending would closely follow.

We expect business investment to make a tepid comeback next year, thanks to a better balance of inventories and stronger global growth. The manufacturing slowdown thus far is tracking prior slowdowns that did not end in recession.

**SLOWER JOB GROWTH.** Net job gains in the private sector should continue to slow, which is to be expected this late in the business cycle. Even so, the gains should be enough to keep the unemployment rate mildly under pressure, in turn exerting upward pressure on private sector hourly wages. One catalyst to watch: 2020 is the year of the decennial US census, which means the federal government will hire several hundred thousand temporary workers as it ramps up from January through May, then shed those workers into the fall. We expect the flow of these workers to support personal income, spending and saving in the first half relative to the second half.

**HIGHER INFLATION.** Inflation is supported by a better global growth backdrop, but the dominant effect in our forecast is slack. We estimate that a tighter labor market will boost inflation. Notable downside risks to inflation would come from a stronger dollar and lower energy prices than expected, as well as an unknown schedule for methodological changes from the Bureau of Labor Statistics.

Our policy view remains unchanged: The Fed has moved into an extended hold, waiting for core PCE inflation to move convincingly above 2.0% and with inflation expectations strongly anchored at 2.0%. Only after core PCE has reached 2.5% do we pencil in two hikes—and that’s in the back half of 2021.

**FISCAL SUPPORT.** In 2020, fiscal support remains positive, but the GDP contribution from government slides to 0.3 percentage points from 0.5 percentage points. A predetermined spending cap means there isn’t much uncertainty around fiscal support, at least through 2020. We believe that the first chance for stimulus would come in 2021—and that, of course, depends on the electoral outcome.

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Morgan Stanley & Co. US Economic Forecast

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019E</th>
<th>2020E</th>
<th>2021E</th>
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<tr>
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<td>2.3</td>
<td>1.8</td>
<td>1.9</td>
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<tr>
<td>Private consumption</td>
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<td>2.6</td>
<td>2.4</td>
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<td>Government consumption</td>
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<td>2.4</td>
<td>2.2</td>
<td>1.2</td>
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<td>Gross fixed investment</td>
<td>4.6</td>
<td>1.4</td>
<td>1.2</td>
<td>1.8</td>
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<td><strong>GDP contribution (percentage points)</strong></td>
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<tr>
<td>Final domestic demand</td>
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<td>2.4</td>
<td>2.3</td>
<td>2.1</td>
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<tr>
<td>Net exports</td>
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<td>-0.2</td>
<td>-0.3</td>
<td>-0.2</td>
</tr>
<tr>
<td>Unemployment rate* (% annual)</td>
<td>3.8</td>
<td>3.5</td>
<td>3.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Consumer Price Index (% annual)</td>
<td>2.4</td>
<td>1.8</td>
<td>2.4</td>
<td>3.1</td>
</tr>
<tr>
<td>Core PCE** (% annual)</td>
<td>1.9</td>
<td>1.6</td>
<td>2.0</td>
<td>2.4</td>
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<tr>
<td><strong>Policy rate</strong></td>
<td>2.375%</td>
<td>1.625%</td>
<td>1.625%</td>
<td>2.125%</td>
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<tr>
<td>General govt. balance (% GDP)</td>
<td>-4.2</td>
<td>-4.6</td>
<td>-4.6</td>
<td>-4.4</td>
</tr>
<tr>
<td>Gross govt. debt (% GDP)</td>
<td>106.1</td>
<td>107.2</td>
<td>107.5</td>
<td>107.2</td>
</tr>
<tr>
<td>Current account balance (% GDP)</td>
<td>-2.4</td>
<td>-2.4</td>
<td>-2.5</td>
<td>-2.5</td>
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</tbody>
</table>

*End of period **Personal Consumption Expenditure Index
Source: Bureau of Economic Analysis, Bureau of Labor Statistics, MS & Co. Research as of Nov. 17, 2019

Please refer to important information, disclosures and qualifications at the end of this material. December 2019

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A Preference for Value and The Rest of the World

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Chief US Equity Strategist
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Head of European and UK Equity Strategy
Morgan Stanley & Co International plc

JONATHAN GARNER
Chief Asia and Emerging Markets Strategist
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The path for global GDP growth may look better next year, but our economists project that the rebound is only to modest levels of economic growth that, in many cases, are still below trend. With many valuations across major equity markets already having rebounded to slightly above five-year averages, we don’t think it prudent to rely on more expansion of the price/earnings (P/E) multiple to drive stocks higher in what is still a fairly tepid growth environment. This means that forward returns at this point need to be driven by a realization of the earnings growth that is already in the price.

An outlook that hinges on easing trade tensions, monetary easing and stabilization of growth at a low rate embeds a high degree of uncertainty. Our bull, bear and base cases reflect this concern. Generally, the ranges are widest for Europe and the emerging markets—both regions with significant exposure to the global growth environment and trade tensions—where our regional strategy teams think that valuations could see large volatility across different scenarios. The range of outcomes looks a bit narrower for Japan and the US. In Japan, we expect positive structural trends like improving governance, higher return on equity and return of capital to help support the multiple in a downside scenario. In our view, the US benefits from lower interest rates and flows to a more defensive equity index in the case where global growth disappoints.

RELATIVE EARNINGS GROWTH.
Relative earnings growth is a core component of our relative preferences across equity regions. We showed earlier that, in the absence of material changes to multiples, earnings growth is the principal driver behind our regional price targets and the relative up/downside (see table).

Following the end of the last postcrisis mini cycle, earnings grew at a robust rate across all major equity indexes. From the start of 2017 on, earnings among the various global equity indexes failed to keep pace with the S&P 500, which was fueled by tax cuts and their impact on the economy. Forward earnings expectations across the emerging markets, Europe and Japan have all actually fallen during the past two years, while earnings estimates for the US have continued to rise.

Now, we think that a mix of easier comparisons, better ex US global growth relative to US growth, monetary easing, a weaker dollar and easing of trade tensions are all contributing to a dramatic shift in the rate of change in earnings growth across global equities. The US forward 12-month earnings numbers have begun to stagnate and even turn a bit lower, while the emerging markets, Europe and Japan all look to be bottoming (see chart, page 7). In the US, we expect earnings to remain under pressure as profit margins continue to get squeezed. The forecasts from our economics team, which include slow growth and accelerating wage gains, are likely to amplify these pressures and weigh on the outlook for earnings further, which should translate into better earnings growth outside the US.

PREMIUM MULTIPLE. On a relative basis, the US also has the least room for multiple expansion. The US generally trades at a premium multiple to global equities, but even relative to its own history this premium looks to be at the high end, meaning that it most likely will not appreciate further and may even fall on a relative basis. We believe that if our economic and earnings forecast comes to pass, the US’ relative premium will decline as investors move to non-US markets with better growth prospects. On this basis, Europe looks cheapest versus its own history, which is why we feel comfortable giving it some credit for a higher multiple in our base-case targets.

<table>
<thead>
<tr>
<th>Morgan Stanley &amp; Co.’s 2020 Equity Market Targets</th>
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<tbody>
<tr>
<td><strong>Index</strong></td>
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<tr>
<td></td>
</tr>
<tr>
<td><strong>S&amp;P 500</strong></td>
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<tr>
<td></td>
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<tr>
<td><strong>MSCI Europe</strong></td>
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<tr>
<td></td>
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<tr>
<td><strong>TOPIX</strong></td>
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<tr>
<td></td>
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<tr>
<td><strong>MSCI Emerging Markets</strong></td>
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Source: FactSet, Morgan Stanley & Co. Research as of Nov. 29, 2019

Please refer to important information, disclosures and qualifications at the end of this material.
While the emerging markets appear marginally elevated relative to their own history on this metric, our base case actually embeds some multiple contraction. This allows for potential upside if better growth helps to support the modestly elevated relative multiple.

We continue to prefer value-style equities to the growth style, but for different reasons across regions. Outside the US, our preference for value has more of a cyclical tilt, given the relative improvement in global growth and trade embedded in our house forecasts. For the emerging markets, this means rotating away from yield plays and toward global cyclical like autos, capital goods and tech hardware. In Europe, our team likes autos, banks and mining companies as a play on rising yields outside the US. In the US, where we forecast the smallest cyclical inflection, we are looking more for the continued underperformance of growth stocks rather than the outperformance of value stocks. In an environment where growth picks up modestly, we think that the defensive/quality premium built into growth stocks should recede and, in an environment where economic growth disappoints, we think that further reductions in business spending will begin to press on the earnings of the parts of the growth complex that have been treated as noncyclical, such as software.

**TRADE TENSIONS.** We are not incorporating a full de-escalation of trade tensions in our house outlook, but we do assume that there is no material upswing in trade disputes and tariffs. The assumption allows our economists to embed forecasts of higher confidence, a resumption of business investment, reflecting global trade and, therefore, better global growth. In turn, this allows us to assume higher earnings and that multiples on equity indexes can remain around current levels in the coming year.

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**Forward Earnings Outside the US Are Turning Up, While US Estimates Are Likely to Fall**

<table>
<thead>
<tr>
<th>Year</th>
<th>S&amp;P 500</th>
<th>MSCI Emerging Mkt</th>
<th>MSCI Europe</th>
<th>TOPIX</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>140</td>
<td>135</td>
<td>130</td>
<td>125</td>
</tr>
<tr>
<td>2017</td>
<td>135</td>
<td>130</td>
<td>125</td>
<td>120</td>
</tr>
<tr>
<td>2018</td>
<td>130</td>
<td>125</td>
<td>120</td>
<td>115</td>
</tr>
<tr>
<td>2019</td>
<td>125</td>
<td>120</td>
<td>115</td>
<td>110</td>
</tr>
</tbody>
</table>

Source: FactSet, MS & Co. Research as of Nov. 17, 2019

If we are wrong about trade, many of these core assumptions may be challenged, and we suspect that equity markets globally would trade somewhere closer to our bear cases than our current base cases. That’s because earnings estimates would need to be marked down and a higher equity risk premium demanded by investors will lower multiples. Without knowing the exact form or timing of increased trade friction, we’re hesitant to make a precise forecast other than to say that the scenario is closer to our bear case, and our relative preference for the emerging markets versus the US will likely be challenged.
Investing for Dividends—Growth Tops Yield

Interest rates have declined sharply during the past 12 months as bonds priced in a slowing global economy and increasingly dovish monetary policy; after peaking at 3.25% in November 2018, the 10-year US Treasury yield currently sits at 1.76%. "Bond proxies," or high-dividend stocks, have benefitted from this combination of lower growth and interest rates. Of note, the utilities and real estate sectors have rallied 20% this year. Looking at the past 10 years, this puts both sectors in the top quintile of annual performance—with still a month to go.

This outperformance has put income-oriented equity investors in a difficult position. With valuations currently near peak levels in many high-dividend sectors, the risk/reward looks less attractive. An additional headwind to these stocks into next year is the possibility of a pickup in global growth. Morgan Stanley & Co. economists expect a recovery as soon as the first quarter of 2020 as trade tensions ease and continued easy money policy supports growth. If this plays out, inflation and real interest rates could pick up, which in turn could trigger reversal of high-dividend stocks' outperformance. In a potentially reflationary scenario, we favor "dividend growth."

Besides the tactical case for dividend growth, this factor also has been effective over the long term (see chart). Since 1990, the S&P 500 Dividend Aristocrats Index—comprising companies that have raised dividends consistently for 25 or more years—has produced a 12.0% annualized total return versus the S&P 500 Index's 10.0%. In addition, we see that the dividend growth factor has cushioned the downside; since 1990 the maximum monthly drawdown for the Aristocrats has been -13% versus the S&P 500’s -17%; both occurred in 2008.

In the current environment, we note three sectors where we find dividend growth traits. Notably (and ironically) all of these sectors are considered more "value oriented" and have generally lagged the growth/defensive parts of the market. However, we could see improved performance if a rotation to value materializes in 2020. That's the expectation of Michael Wilson, MS & Co.'s chief investment officer and chief US equity strategist.

**Financials.** Rising interest rates would typically be a headwind for dividend stocks, but not banks. As rates rise, so does net interest income, a contributor to earnings. Additionally, given increased regulation since the financial crisis, banks have built up plenty of excess capital, which may be used for share repurchases. With a 3% average dividend yield and a 27% five-year dividend growth rate, we see banks as a compelling source of income.

**Industrials.** The industrial sector has been hit by negative sentiment, largely driven by falling purchasing manager indexes and uncertainty about trade. This has capped valuations, currently at 16.5 times consensus fiscal year 2020 earnings per share, a 5% discount to the market. Consider industries such as building products and machinery, which have an average yield of 1.7% and a five-year 11% compound annual growth rate (CAGR).

**Health Care.** With limited cyclical drivers, the health care sector provides both defensive and growth characteristics. Valuations are currently depressed due to political, not fundamental, reasons. However, as candidate policy stances firm up, we think that the political discount should subside. In this sector, look to managed care and pharmaceutical stocks, which provide a unique combination of attractive valuation and growth, offering an average yield of 1.9% and a 9.0% five-year annualized earnings growth rate.
S&P 500 Payout Ratio Climbs to a Likely Unsustainable Level

Headline earnings growth for the S&P 500 is expected to be flat to slightly positive for 2019. However, even this modest achievement would not have been possible without a major contribution from corporate stock repurchases; by reducing the number of shares, buybacks effectively increase reported earnings per share (EPS). Corporate buyback activity in the US has expanded rapidly over the past decade and is now near an all-time high. Looking at shareholder return, a more comprehensive measure that considers both dividends and share repurchases, the largest US companies are currently paying out more than 100% of their earnings as dividends or buybacks. The S&P 500’s total payout ratio has rarely reached 100% in the past 30-plus years, and it has never stayed there for long (see chart). In our view, the current excessive buyback activity is unsustainable—and a reason to question the achievability of 2020 consensus EPS estimates.

—Spencer Cavallo

For Tax-Loss Harvesting, 2019 Delivered a Poor Crop

'Tis the season when investments that have not done well during the year often do even worse as investors seek tax-loss swaps. They sell losers for tax losses and replace them with investments with similar objectives (but not too similar, lest they violate the IRS’ wash-sale provisions). This year, thanks to strong gains in both equity and fixed income markets, opportunities for tax losses in exchange-traded funds and closed-end funds are few. Energy-related funds, including those holding master limited partnerships, could be candidates (see page 10). They’re down 25% from their three-year high (see chart). Other candidates for tax selling are in small-cap stocks and non-US equities, both emerging and developed markets. The Global Investment Committee prefers non-US equities to US equities going forward, so taking a loss and reestablishing a position may be a good move. In fixed income, senior loan funds could face year-end selling pressure.

—Gray Perkins

Bond Investors Are Much More Skittish Than the Stock Market Crowd

Both the stock and bond markets have made noteworthy gains this year, but perhaps not for the same reason. The bond market may be signaling a recession, yet the S&P 500 Index is at a record high, which suggests investor optimism about the near future. Similarly, there has been a divergence between the MOVE Index, which tracks the volatility of US Treasury yields, and the VIX Index, which measures the stock market’s volatility (see chart). The MOVE Index has crept up over the past 12 months while the VIX has remained largely subdued, and the ratio between the two has reached extreme levels. Clearly, the current level of systematic risk—built around trade tensions, economic growth and political uncertainty—worries bond investors more than it does equity investors. Historically, sovereign bond investors have been more sensitive to economic growth as it affects inflation and monetary policy, which calls for caution for the equity market.—Alii Chen

Source: Bloomberg as of Nov. 25, 2019
MLPs/Midstream—Waiting For the Tide to Turn

Vijay Chandar
Market Strategist
Morgan Stanley Wealth Management

Indexes that track master limited partnerships (MLPs) and energy infrastructure have been testing and, in some cases, breaking below their 2016 lows. Investors are right to question if industry conditions are worsening. We believe the fundamental backdrop in 2019 is significantly better than in 2015-2016. The most important “fundamental” for the midstream industry is oil and natural gas production volume, which is at an all-time high (see chart). As the US is set to produce more oil and gas, it needs more infrastructure to move it and process it.

**Improved Cash Flow.** Strong volume growth translates to industry cash flows. In 2018, per-share earnings before taxes, interest, depreciation and amortization (EBITDA) for the Alerian MLP Infrastructure Index grew 12% and 2019 growth is on track for a 9% gain. Mid-single-digit growth is also forecast for 2020-2021. In contrast, per-share EBITDA declined more than 20% in 2015-2016. Industry leverage, as measured by net debt to EBITDA, is down about 15% from its peak, leaving balance sheets much improved. Companies also largely have shifted away from funding capital spending with equity issuance, reducing their reliance on favorable capital market conditions. While equity markets paint a bleak picture, debt markets are more sanguine. Credit spreads in the midstream sector have been stable all year and remain near their tightest levels of the cycle.

Valuations are rivalling their lowest since 2009. The Alerian MLP Infrastructure Index trades at just 9.2 enterprise value/forward EBITDA estimates, in line with the post-crisis lows of 8.5 in 2016 and 9.0 in 2018. (Enterprise value is the market capitalization of a company plus its long-term debt and short-term debt, minus cash on the balance sheet.) Current valuations are more than 10% below their historical average. On a distribution basis, the sector also looks inexpensive. For the Alerian Midstream Energy Index (AMEI), the distribution yield is 7.5%, near a 10-year high. On a relative basis, yield spread versus the 10-year US Treasury is also near its highest level in recent history.

**Distribution Growth.** Importantly, the Alerian MLP Infrastructure Index is poised to deliver distribution growth in 2019, ending a five-year streak of cutting payouts—and this growth is also forecast to continue in 2020 and 2021. Historically, MLP prices have generally moved in concert with distributions; when distributions are growing, MLPs have traded well, and we believe the industry is returning to sustainable distribution growth. Importantly, the US midstream “majors”—the 10 largest US-listed midstream companies by market capitalization—all have maintained or raised their distributions in 2019, with average distribution growth for the year coming in at 10.2%. While there may be funding pressure or distribution risk in some smaller companies, we believe the majors are largely well positioned to maintain and increase their distributions.

In all, we believe price action has disconnected from fundamentals. Balance sheets are in better shape, commodity trends have been favorable and cash flow and distributions are growing again. That said, the sector is “cheap without a catalyst,” and with potential technical pressures on the horizon, volatility should be expected to remain high. We would focus on larger-cap holdings and stress that investors should adopt a flexible mandate to investing in energy infrastructure, given shifting industry dynamics.

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This article is an excerpt from the Special Report, “MLPs/Midstream—Waiting for the Tide to Turn,” Nov. 15, 2019. For a copy of the report, please contact your Financial Advisor.

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US Energy Production at New High and Still Growing

<table>
<thead>
<tr>
<th>Year</th>
<th>US Oil and Gas Production*</th>
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</thead>
<tbody>
<tr>
<td>2013</td>
<td>3.0 Oil and Gas Production*</td>
</tr>
<tr>
<td>2014</td>
<td>2.9 Natural Gas, Trillion Cubic Feet (left axis)</td>
</tr>
<tr>
<td>2015</td>
<td>2.8 Oil, Million Barrels per Day (right axis)</td>
</tr>
<tr>
<td>2016</td>
<td>2.7</td>
</tr>
<tr>
<td>2017</td>
<td>2.6</td>
</tr>
<tr>
<td>2018</td>
<td>2.5</td>
</tr>
<tr>
<td>2019</td>
<td>2.4</td>
</tr>
</tbody>
</table>

*Three-month moving average
Sources: Bloomberg, Morgan Stanley & Co. as of Aug. 31, 2019

Please refer to important information, disclosures and qualifications at the end of this material. December 2019 10
Upward Pressure on Bond Yields, But Not Too Much

MATTHEW HORNBACK
Global Head of Interest Rate Strategy
Morgan Stanley & Co.

Our economists expect the global economy to recover modestly in 2020, helped by both a détente in trade tensions and central bank easing. They expect global growth to recover from the first quarter of the year, to levels that are still subpar, driven by economies outside the US led by China and the emerging markets initially, followed by the Euro Zone. All told, that should put some upward pressure on government bond yields early in the year—but not too much.

Despite the more optimistic growth outlook, our economists still see downside risks, driven by three factors. First, while trade tensions between the US and China seem to have eased for now, uncertainties will linger. Second, in the event of another global shock, central banks have less room to respond. Third, while expansions don’t die of old age, they become more sensitive to the challenges that come with age.

Here is how we view government bond markets:

US
We expect US Treasury yields to spend the first half of 2020 contending with higher yields in Europe, though we don’t expect upward pressure on Treasury yields to last very long. We see the 10-year US Treasury yield trading around 2% as yields in Europe take flight (see table). Higher Treasury yields should help the yield curve remain steeper than its inverted state throughout the middle of 2019.

The presidential election will highlight the second half (see page 12). Expectations for policies that might result from the election will affect how Treasury yields evolve, and polling may influence investors. In addition, uncertainty about election outcomes, policy priorities and policy paths will loom over businesses, consumers and investors alike, and may subdue economic activity or prevent a robust increase in demand. In 2020’s second half, we think that the 10-year US Treasury yield will revisit 1.75%—the middle of the 1.5%-to-2.0% range that took hold in the second half of this year.

UK
We foresee gilt yields rising due to the combination of greater clarity about Brexit and substantial fiscal easing. We expect the Bank of England’s Monetary Policy Committee (MPC) to move toward a rate hike in the second half of 2020. At its November 2019 meeting, the MPC voted 7-2 to keep interest rates unchanged, with two members voting for a rate cut. However, our economists believe that the outcome of the meeting was more hawkish than the vote would imply. Current MPC forecasts do not include the additional fiscal easing our economists expect next year, meaning that current estimates for 2020 growth and inflation, as well as potential UK gilt supply, may be too low.

Euro Zone
We expect a rise in longer-maturity German Bund yields, consistent with our economists’ expectation for a modest rebound in Euro Zone growth and inflation. In our view, the probability of higher yields in the two-year and five-year maturities remains fairly low and any increase in yields will be in the 10-year and 30-year Bunds. The European Central Bank has made it clear that becoming more hawkish will require a prolonged period of targeting above-trend inflation. We see this environment as consistent with stable front-end yields and higher long-end yields.

Japan
The Bank of Japan (BOJ) left open the possibility of further rate cuts by tweaking its forward guidance in October. Hence, we expect the market to price in possible rate cuts. We expect short-end yields to remain anchored around -0.20% next year, and see Japanese government bond (JGB) yields moving in that neighborhood into the first half of 2020. Then, we see yields moving lower in the second half as strong demand for long-end JGBs emerges. We don’t see the BOJ changing its policy framework in order to prevent lower long-end yields.

Morgan Stanley & Co. Sovereign Bond Yield Forecasts

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Country</th>
<th>Two-Year</th>
<th>Five-Year</th>
<th>10-Year</th>
<th>30-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2Q '20</td>
<td>4Q '20</td>
<td>2Q '20</td>
<td>4Q '20</td>
<td>2Q '20</td>
</tr>
<tr>
<td>US</td>
<td>1.65%</td>
<td>1.55%</td>
<td>1.80%</td>
<td>1.60%</td>
<td>2.00%</td>
</tr>
<tr>
<td>Germany</td>
<td>-0.60%</td>
<td>-0.55%</td>
<td>-0.50%</td>
<td>-0.45%</td>
<td>0.10%</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.20%</td>
<td>-0.28%</td>
<td>-0.23%</td>
<td>-0.30%</td>
<td>-0.13%</td>
</tr>
<tr>
<td>UK</td>
<td>0.75%</td>
<td>0.85%</td>
<td>0.90%</td>
<td>1.00%</td>
<td>1.25%</td>
</tr>
</tbody>
</table>

Source: Morgan Stanley & Co. Research as of Nov. 17, 2019
An Early Guide to the US Election

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Ten months out, we identify election scenarios, the policies we expect they put in play, and what’s most exposed, both positively and negatively. Divided versus united government is the key macro variable, with unified government a path to potential fiscal expansion. Yet, the impact on sectors varies by the party in control.

Investors agree: Elections have consequences. We surveyed 645 investors on their expectations for the investment impact of the 2020 election. Here are the conclusions: (1) Most expect the election to have a significant impact on the market for the next 12 months, with nine out of 10 expecting a moderate-to-significant impact; (2) Fiscal policy and tax changes are their top two concerns, and the election’s impact on the business cycle may be more important than its impact on the most recent policy risk—trade policy. Investors see Democrats as de-escalating tariffs with China, which, in our view, would lift near-term growth expectations.

Even so, investors also are more likely to associate a Democratic victory with an equity market sell-off. Perhaps that’s because investors see Democrats as less likely to pursue fiscal expansion. We think this could suggest investors’ late-cycle concerns and the need to combat them with traditional countermoves. These concerns are valid to us. The difference between Republicans and Democrats on key policy issues is stark.

Reactive is better than proactive. Investor expectations and market pricing appear at odds, making markets vulnerable to volatility on swings in the race for the White House. While investors expect outcomes could drive policy in meaningfully different ways, option markets are currently not pricing in meaningful policy changes. Options for the broad equity index, or technology and financial sectors, for example, are not incorporating potential pressure that our survey respondents expect from a Democratic victory. Current pricing suggests a trust in the status quo will continue, but it also means that small changes in the campaign narrative can potentially shake investors’ outlooks and turn markets more volatile.

While it would be reasonable to deduce from our survey that moves toward a Democratic victory could initially weigh on risk markets, we wouldn’t have confidence in the durability of such a reaction. The 2016 election serves as a cautionary tale. Then, survey respondents overwhelmingly identified a Trump victory with an equity market sell-off—and on election night 2016, that’s what happened in the futures market, at least for a few hours. The subsequent risk asset rally is well known. In our view, investors realized that a unified Republican government was a path to tax-cut stimulus. Hence, we think investors must consider the total government outcome of the election, the policy path it drives and whether that path is reflected in the price in order to react appropriately to election-driven market volatility.

Expect policy ambitions to fall short in practice. While the policy ambitions of each party contrast in both direction and magnitude, that doesn’t mean investors should assume those policies will actually be implemented if the party takes control of the White House. While we agree that elections have consequences, those consequences don’t simply align with the campaign platform of the future president. Rather, postelection policy paths tend to conform more in direction than precision to a candidate’s platform, as they are moderated and constrained by the composition of Congress. So while it is rational to investigate candidates’ policy proposals, we wouldn’t assume a high likelihood of implementation just because their sponsor wins the White House. History shows that in the first year in office, presidents typically can deliver legislatively on only about half of their campaign promises, even when their party controls Congress. Hence, a presidential candidate’s campaign promises should be treated not as a "to do" list but as an indication of policy objectives.

What’s more, when transformative legislation happens, it is likely to be more moderate. A study from Skopos Labs argues that, historically, legislation that is more likely to be enacted is typically sponsored by more moderate members of Congress. We think this pattern would carry forward, even under a unified government scenario. Consider, for example, that a unified Democratic government would likely have at least two senators from states that lean Republican, probably a sufficient number to ensure successful legislation will be moderated.

Building on observations of the electorate from 2016 and 2018, we establish four stylized scenarios for 2020 (see table, page 13): Thin Red Line (Republican President/Senate, Democratic House); Blue Tide (Democratic President/House, Republican Senate); Blue Wave (Democratic President, Senate/House); and Red Redux.
Key Fundamental Exposures by Plausible Postelection Policy Path

<table>
<thead>
<tr>
<th>Scenarios</th>
<th>+</th>
<th>-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blue Tides</td>
<td>Emerging Markets</td>
<td>US Dollar</td>
</tr>
<tr>
<td>D President</td>
<td>Energy (US-focused oil and gas)</td>
<td>Energy (US-focused oil and gas)</td>
</tr>
<tr>
<td>R Senate</td>
<td>Large-Cap Banks</td>
<td>Large-Cap Banks</td>
</tr>
<tr>
<td>D House</td>
<td>Consumer Finance</td>
<td>Consumer Finance</td>
</tr>
<tr>
<td></td>
<td>Telecom</td>
<td>Telecom</td>
</tr>
<tr>
<td></td>
<td>US Energy</td>
<td>US Energy</td>
</tr>
<tr>
<td></td>
<td>Asset Managers</td>
<td>Asset Managers</td>
</tr>
</tbody>
</table>

| Thin Red Line   | Large-Cap Banks                         | US Treasuries                          |
| R President     | Consumer Finance                        | Pharma                                 |
| R Senate        | Telecom                                 | Large-Cap Banks                         |
| D House         | US Energy                               | Consumer Finance                        |
|                 | Asset Managers                          | IT Hardware                             |

| Blue Wave       | US GDP                                  | US Treasuries                          |
| D President     | US Dollar                               | Pharma                                 |
| D Senate        | Large Managed Care Organizations        | Large-Cap Banks                         |
| D House         | Transportation                          | Consumer Finance                        |
|                 | Energy (US-focused oil and gas)         | IT Hardware                             |
|                 |                                         | US Internet                            |
|                 |                                         | Telecom                                |

| Red Redux       | US GDP                                  | Emerging Markets                       |
| R President     | US Dollar                               |                                         |
| R Senate        | US Financials                           |                                         |
| R House         | US Energy                               |                                         |
|                 | Asset Managers                          |                                         |

Source: Morgan Stanley & Co. Research as of Nov. 4, 2019

Republication President/Senate/House). For each, we have “plausible policy paths”—which policy proposals to take seriously under each scenario and which to ignore. To do so, we apply the above guidelines and substantiate our conclusions using the findings of a model built by Skopos Labs on the attributes of legislation that affect its likelihood of enactment.

Macro impact is more about unified versus divided than Republican versus Democrat. Divided government tends toward legislative gridlock and, though divided governments could still influence the outlook through regulatory reinterpretations and impact in business sentiment, they are unlikely to deliver transformative policy. Hence, divided government is unlikely to deliver policy that counteracts the current late-cycle economic conditions. A more surprising observation might be that we see some symmetry to the potential direction of the macro impact in both divided government scenarios. While far from assured, both open the possibility of fiscal expansion.

This appears to cut against electorate expectations, at least as it pertains to the Blue Wave. Our survey suggests investors see a Democratic White House as both less likely to pursue fiscal stimulus and more likely to coincide with weakness in risk assets. Perhaps it is because investors also see Democrats as more likely to pursue policies that will challenge profitability in sectors such as health care.

Yet our US economics team counters that this conclusion is not necessarily true, at least in the near term. A policy of net stimulus, even with tax increases, can be a directional positive for growth, depending on its composition. Hence, markets may reflect a reflation theme over time if a larger margin of victory for either side becomes more likely, though the sectors that would benefit most will differ based on the winning party.

Sector impacts vary more in magnitude and direction across scenarios. While many of the existential legislation proposals that investors have expressed concerns about seem unlikely across our scenarios, more likely but less ambitious initiatives would still have a meaningful effect on fundamentals. That’s in part due to regulatory changes that can be initiated by the president. While those changes typically take years to implement, we think it is fair to recognize the potential impact of such moves. While our table focuses on key fundamental exposures, sector analysts in their dedicated sections also focus on how scenarios can influence investor sentiment in the near term. Hence, in some cases the view of potential near-term market influences may be different from the view on the potential policy impact of a scenario. Health care is a good example of this, where concerns around Medicare-for-All could pressure stocks of health insurance companies, though we view that policy as unlikely even in a Democratic sweep.

Global Investment Committee
Tactical Asset Allocation

The Global Investment Committee provides guidance on asset allocation decisions through its various models. The five models below are recommended for investors with up to $2.5 million in investable assets. They are based on an increasing scale of risk (expected volatility) and expected return.

### Wealth Conservation
- 3% MLPs
- 3% Absolute Return Assets
- 26% US Fixed Income Taxable
- 21% Short-Term Fixed Income
- 12% US Equities
- 10% International Equities
- 4% Emerging & Frontier Markets

### Income
- 4% MLPs
- 4% Absolute Return Assets
- 21% US Fixed Income Taxable
- 12% US Equities
- 10% International Equities
- 7% Emerging & Frontier Markets

### Balanced Growth
- 4% Absolute Return Assets
- 4% Equity Hedge Assets
- 6% Ultrashort-Term Fixed Income
- 21% US Equities
- 20% Short-Term Fixed Income
- 12% International Equities
- 14% US Fixed Income Taxable
- 5% Emerging & Frontier Markets

### Market Growth
- 4% Equity Hedge Assets
- 7% Equity Return Assets
- 3% MLPs
- 1% Absolute Return Assets
- 12% US Fixed Income Taxable
- 10% Emerging & Frontier Markets
- 5% Short-Term Fixed Income

### Opportunistic Growth
- 6% Equity Hedge Assets
- 9% Equity Return Assets
- 2% Ultrashort-Term Fixed Income
- 30% US Equities
- 27% International Equities
- 11% Emerging & Frontier Markets

### Key
- Ultrashort-Term Fixed Income
- Fixed Income & Preferreds
- Equities
- Alternatives

Source: Morgan Stanley Wealth Management GIC as of Nov. 30, 2019

Please refer to important information, disclosures and qualifications at the end of this material.
The Global Investment Committee provides guidance on asset allocation decisions through its various models. The five models below are recommended for investors with over $2.5 million in investable assets. They are based on an increasing scale of risk (expected volatility) and expected return.

**Wealth Conservation**
- 2% Inflation-Protected Securities
- 2% MLPs
- 2% Absolute Return Assets
- 6% Opportunistic Assets
- 16% Ultrashort-Term Fixed Income
- 12% US Equities
- 22% Short-Term Fixed Income
- 7% International Equities
- 5% Emerging & Frontier Markets

**Income**
- 1% Ultra-Short-Term Fixed Income
- 30% US Fixed Income Taxable
- 11% International Equities
- 7% Short-Term Fixed Income
- 28% US Equities
- 6% Emerging & Frontier Markets
- 15% US Equities
- 0% Opportunistic Assets

**Balanced Growth**
- 4% Equity Hedge Assets
- 2% Absolute Return Assets
- 3% MLPs
- 2% Inflation-Protected Securities
- 13% Opportunistic Assets
- 6% Ultrashort-Term Fixed Income
- 22% US Equities
- 16% International Equities
- 16% US Fixed Income Taxable
- 7% Emerging & Frontier Markets

**Market Growth**
- 3% Equity Hedge Assets
- 1% Absolute Return Assets
- 3% MLPs
- 2% Inflation-Protected Securities
- 11% Opportunistic Assets
- 7% Ultrashort-Term Fixed Income
- 20% US Equities
- 17% US Fixed Income Taxable
- 4% Short-Term Fixed Income
- 3% Emerging & Frontier Markets

**Opportunistic Growth**
- 4% Equity Hedge Assets
- 6% Absolute Return Assets
- 1% MLPs
- 8% US Fixed Income Taxable
- 11% Opportunistic Assets
- 2% Ultrashort-Term Fixed Income
- 34% US Equities
- 16% International Equities
- 5% Emerging & Frontier Markets

**Key**
- Ultrashort-Term Fixed Income
- Fixed Income & Preferreds
- Equities
- Alternatives

Source: Morgan Stanley Wealth Management G/C as of Nov. 30, 2019
Tactical Asset Allocation Reasoning

<table>
<thead>
<tr>
<th>Global Equities</th>
<th>Relative Weight Within Equities</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>Underweight</td>
<td>While the benchmark S&amp;P 500 has recently made an all-time high, higher risk indexes like the small-cap Russell 2000 Index are well below the high made last year. Meanwhile, sector leadership has come from defensive and high-quality sectors, which is indicative of a market that is not as bullish as it may appear. We think this is due to both economic and earnings growth, which have slowed materially this year and are apt to weigh on US stocks in the third quarter. Our year-end base case S&amp;P 500 price target remains 2,750.</td>
</tr>
<tr>
<td>International Equities (Developed Markets)</td>
<td>Overweight</td>
<td>We maintain a positive bias for Japanese and European equity markets. The populit movements around the world are likely to drive more fiscal policy action in both regions, especially in Europe, which will allow the central banks to exit their extraordinary monetary policies and help valuations to rise.</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>Overweight</td>
<td>After a difficult first 10 months of 2018, emerging market (EM) equities have performed relatively well, a positive sign for future leadership. With our view for the US dollar to make a secular top this year, global nominal GDP growth should accelerate faster than the US GDP, particularly as China's fiscal stimulus takes hold. This should disproportionately benefit international equities, led by EM equities.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Global Fixed Income</th>
<th>Relative Weight Within Fixed Income</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Investment Grade</td>
<td>Underweight</td>
<td>We have recommended shorter-duration* (maturities) since March 2013 given the extremely low yields and potential capital losses associated with rising interest rates from such low levels. We are also increasingly concerned that credit spreads do not reflect the current earnings recession in the US or the significant leverage now present on corporate balance sheet. Therefore, we are underweight US investment grade.</td>
</tr>
<tr>
<td>International Investment Grade</td>
<td>Underweight</td>
<td>Yields are even lower outside the US, leaving very little value in international fixed income, particularly as the global economy begins to recover more broadly. While interest rates are likely to stay low, the offsetting diversification benefits do not warrant much, if any, position, in our view.</td>
</tr>
<tr>
<td>Inflation-Protected Securities</td>
<td>Overweight</td>
<td>With the recent collapse in real yields from the Fed’s pivot, these securities offer little relative value in the context of our expectations for global growth to eventually accelerate, oil prices to trough and the US dollar to top. In short, inflation risk is underpriced.</td>
</tr>
<tr>
<td>High Yield</td>
<td>Underweight</td>
<td>High yield bonds have rebounded with equity markets this year as the Fed pivoted to a more dovish policy. Since February, high yield has underperformed investment grade as it starts to reflect earnings recession risk in the US. With a zero weighting in high yield since January 2019, we will revisit our allocation to high yield bonds during 2019 if spreads widen appropriately.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Alternative Investments</th>
<th>Relative Weight Within Alternative Investments</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>REITs</td>
<td>Underweight</td>
<td>Real estate investment trusts (REITs) have performed very well as global growth slowed and interest rates fell. However, REITs remain expensive and are vulnerable to credit risks. We will revisit our position as nominal GDP troughs and/or valuations become more attractive.</td>
</tr>
<tr>
<td>Master Limited Partnerships/Energy Infrastructure*</td>
<td>Overweight</td>
<td>Master limited partnerships (MLPs) rebounded this year. With oil prices recovering and a more favorable regulatory environment, MLPs should provide a reliable and attractive yield relative to high yield. Global supply shortages from Iranian sanctions should also be supportive for fracking activity and pipeline construction, both of which should lead to an acceleration in dividend growth.</td>
</tr>
<tr>
<td>Hedged Strategies (Hedge Funds and Managed Futures)</td>
<td>Equal Weight</td>
<td>This asset category can provide uncorrelated exposure to traditional risk-asset markets. It tends to outperform when traditional asset categories are challenged by growth scares and/or interest rate volatility spikes. With the recent surge in volatility, these strategies could perform better on a relative basis.</td>
</tr>
</tbody>
</table>

Source: Morgan Stanley Wealth Management GIC as of Nov. 30, 2019

*For more about the risks to Master Limited Partnerships (MLPs) and Duration, please see the Risk Considerations section beginning on page 17 of this report.

Please refer to important information, disclosures and qualifications at the end of this material.
The Global Investment Committee (GIC) is a group of seasoned investment professionals from Morgan Stanley & Co. and Morgan Stanley Wealth Management who meet regularly to discuss the global economy and markets. The committee determines the investment outlook that guides our advice to clients. They continually monitor developing economic and market conditions, review tactical outlooks and recommend asset allocation model weightings, as well as produce a suite of strategy, analysis, commentary, portfolio positioning suggestions and other reports and broadcasts.

Chetan Ahya, Spencer Cavallo, Vijay Chandar, Alii Chen, Kevin Demers, Jonathan Garner, Matthew Hornbach, Gray Perkins, Meredith Pickett, Mark Schmidt, Graham Secker, Daniel Skelly, Ellen Zentner and Michael Zetas are not members of the Global Investment Committee and any implementation strategies suggested have not been reviewed or approved by the Global Investment Committee.

Index Definitions

For index, indicator and survey definitions referenced in this report please visit the following:

https://www.morganstanley.com/wealth-investmentsolutions/wmir-definition

Risk Considerations

Alternative Investments

The sole purpose of this material is to inform, and it in no way is intended to be an offer or solicitation to purchase or sell any security, other investment or service, or to attract any funds or deposits. Investments mentioned may not be suitable for all clients. Any product discussed herein may be purchased only after a client has carefully reviewed the offering memorandum and executed the subscription documents. Morgan Stanley Wealth Management has not considered the actual or desired investment objectives, goals, strategies, guidelines, or factual circumstances of any investor in any fund(s). Before making any investment, each investor should carefully consider the risks associated with the investment, as discussed in the applicable offering memorandum, and make a determination based upon their own particular circumstances, that the investment is consistent with their investment objectives and risk tolerance.

Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are suitable only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing.

Certain information contained herein may constitute forward-looking statements. Due to various risks and uncertainties, actual events, results or the performance of a fund may differ materially from those reflected or contemplated in such forward-looking statements. Clients should carefully consider the investment objectives, risks, charges, and expenses of a fund before investing.

Alternative investments involve complex tax structures, tax inefficient investing, and delays in distributing important tax information. Individual funds have specific risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley Wealth Management does not provide tax or legal advice.

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Hypothetical Performance

General: Hypothetical performance should not be considered a guarantee of future performance or a guarantee of achieving overall financial objectives. Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets.

Hypothetical performance results have inherent limitations. The performance shown here is simulated performance based on benchmark indices, not investment results from an actual portfolio or actual trading. There can be large differences between hypothetical and actual performance results achieved by a particular asset allocation.

Despite the limitations of hypothetical performance, these hypothetical performance results may allow clients and Financial Advisors to obtain a sense of the risk / return trade-off of different asset allocation constructs.

Investing in the market entails the risk of market volatility. The value of all types of securities may increase or decrease over varying time periods.

This analysis does not purport to recommend or implement an investment strategy. Financial forecasts, rates of return, risk, inflation, and other assumptions may be used as the basis for illustrations in this analysis. They should not be considered a guarantee of future performance or a guarantee of achieving overall financial objectives. No analysis has the ability to accurately predict the future, eliminate risk or guarantee investment results. As investment returns, inflation, taxes, and other economic conditions vary from the assumptions used in this analysis, your actual results will vary (perhaps significantly) from those presented in this analysis.

Please refer to important information, disclosures and qualifications at the end of this material.
The assumed return rates in this analysis are not reflective of any specific investment and do not include any fees or expenses that may be incurred by investing in specific products. The actual returns of a specific investment may be more or less than the returns used in this analysis. The return assumptions are based on hypothetical rates of return of securities indices, which serve as proxies for the asset classes. Moreover, different forecasts may choose different indices as a proxy for the same asset class, thus influencing the return of the asset class.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.

ETF Investing
An investment in an exchange-traded fund involves risks similar to those of investing in a broadly based portfolio of equity securities traded on an exchange in the relevant securities market, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock and bond prices. Investing in an international ETF also involves certain risks and considerations not typically associated with investing in an ETF that invests in the securities of U.S. Issuers, such as political, currency, economic and market risks. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economies. ETFs investing in physical commodities and commodity or currency futures have special tax considerations. Physical commodities may be treated as collectibles subject to a maximum 28% long-term capital gains rates, while futures are marked-to-market and may be subject to a blended 60% long- and 40% short-term capital gains tax rate. Rolling futures positions may create taxable events. For specifics and a greater explanation of possible risks with ETFs, along with the ETF’s investment objectives, charges and expenses, please consult a copy of the ETF’s prospectus. Investing in sectors may be more volatile than diversifying across many industries. The investment return and principal value of ETF investments will fluctuate, so an investor’s ETF shares (Creation Units), if sold for cash, may be worth more or less than the original cost. ETFs are redeemable only in Creation Unit size through an Authorized Participant and are not individually redeemable from an ETF.

Investors should carefully consider the investment objectives and risks as well as charges and expenses of an exchange-traded fund or mutual fund before investing. The prospectus contains this and other important information about the mutual fund. To obtain a prospectus, contact your Financial Advisor or visit the mutual fund company’s website. Please read the prospectus carefully before investing.

MLPs
Master Limited Partnerships (MLPs) are limited partnerships or limited liability companies that are taxed as partnerships and whose interests (limited partnership units or limited liability company units) are traded on securities exchanges like shares of common stock. Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in MLP interests are subject to the risks generally applicable to companies in the energy and natural resources sectors, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. Individual MLPs are publicly traded partnerships that have unique risks related to their structure. These include, but are not limited to, their reliance on the capital markets to fund growth, adverse ruling on the current tax treatment of distributions (typically mostly tax deferred), and commodity volume risk.

The potential tax benefits from investing in MLPs depend on their being treated as partnerships for federal income tax purposes and, if the MLP is deemed to be a corporation, then its income would be subject to federal taxation at the entity level, reducing the amount of cash available for distribution to the fund which could result in a reduction of the fund’s value.

MLPs carry interest rate risk and may underperform in a rising interest rate environment. MLP funds accrue deferred income taxes for future tax liabilities associated with the portion of MLP distributions considered to be a tax-deferred return of capital and for any net operating losses as well as capital appreciation of its investments; this deferred tax liability is reflected in the daily NAV. and, as a result, the MLP fund’s after-tax performance could differ significantly from the underlying assets even if the pre-tax performance is closely tracked.

Duration
Duration, the most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio would be to changes in interest rates. Generally, if interest rates rise, bond prices fall and vice versa. Longer-term bonds carry a longer duration than shorter-term bonds; as such, they would be affected by changing interest rates for a greater period of time if interest rates were to increase. Consequently, the price of a long-term bond would drop significantly as compared to the price of a short-term bond.

International Investing entails greater risk, as well as greater potential rewards compared to U.S. Investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets and frontier markets, since these countries may have relatively unstable governments and less established markets and economies.

Investing in currency involves additional special risks such as credit, interest rate fluctuations, derivative investment risk, and domestic and foreign inflation rates, which can be volatile and may be less liquid than other securities and more sensitive to the effect of varied economic conditions. In addition, international investing entails greater risk, as well as greater potential rewards compared to U.S. Investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economies.

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Managed futures investments are speculative, involve a high degree of risk, use significant leverage, have limited liquidity and/or may be generally illiquid, may incur substantial charges, may subject investors to conflicts of interest, and are usually suitable only for the risk capital portion of an investor’s portfolio. Before investing in any partnership and in order to make an informed decision, investors should read the applicable prospectus and/or offering documents carefully for additional information, including charges, expenses, and risks. Managed futures investments are not intended to replace equities or fixed income securities but rather may act as a complement to these asset categories in a diversified portfolio.

Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) 8evolution, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

Physical precious metals are non-regulated products. Precious metals are speculative investments, which may experience short-term and long-term price volatility. The value of precious metals investments may fluctuate and may appreciate or decline, depending on market conditions. If sold in a declining market, the price you receive may be less than your original investment. Unlike bonds and stocks, precious metals do not make interest or dividend payments. The value of precious metals may not be suitable for investors who require current income. Precious metals are commodities that should be safely stored, which may impose additional costs on the investor. The Securities Investor Protection Corporation ("SIPC") provides certain protection for customers' cash and securities in the event of a brokerage firm's bankruptcy, other financial difficulties, or if customers' assets are missing. SIPC insurance does not apply to precious metals or other commodities.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives and risk tolerance before investing in high-yield bonds. High-yield bonds should comprise only a limited portion of a balanced portfolio.

Interest on municipal bonds is generally exempt from Federal income tax; however, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax-exemption applies if securities are issued within one's state of residence and, if applicable, local tax-exemption applies if securities are issued within one's city of residence.

Treasury Inflation Protection Securities (TIPS) coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation.

Ultras短期 fixed income asset class is comprised of fixed income securities with high quality, very short maturities. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk.

Although they are backed by the full faith and credit of the U.S. Government as to timely payment of principal and interest, Treasury Bills are subject to interest rate and inflation risk, as well as the opportunity risk of other more potentially lucrative investment opportunities.

CDs are insured by the FDIC, an independent agency of the U.S. Government, up to a maximum of $250,000 (including principal and accrued interest) for all deposits held in the same insured capacity (e.g., individual account, joint account, IRA, etc.) per CD account. Depositors are responsible for monitoring the total amount held in each CD account. All deposits at a single depositor held in the same insured capacity will be aggregated for the purposes of the applicable FDIC insurance limit, including deposits (such as bank accounts) maintained directly with the depository and CDs of the depository. For more information visit the FDIC website at www.fdic.gov.

The majority of $25 and $1,000 par preferred securities are "callable" meaning that the issuer may retire the securities at specific prices and dates prior to maturity. Interest/dividend payments on certain preferred securities may be deferred by the issuer for periods of up to 10 years, depending on the particular issue. The interest rate will still have income tax liability even though payments would not have been received. Price quoted is per $25 or $1,000 share, unless otherwise specified. Current yield is calculated by multiplying the coupon by par value divided by the market price.

The initial interest rate on a floating-rate security may be lower than that of a fixed-rate security of the same maturity because investors expect to receive additional income due to future increases in the floating security's underlying reference rate. The reference rate could be an index or an interest rate. However, there can be no assurance that the reference rate will increase. Some floating-rate securities may be subject to call risk.

The market value of convertible bonds and the underlying common stock(s) will fluctuate and after purchase may be worth more or less than original cost. If sold prior to maturity, investors may receive more or less than their original purchase price or maturity value, depending on market conditions. Callable bonds may be redeemed by the issuer prior to maturity. Additional call features may exist that could affect yield.

Some $25 or $1,000 par preferred securities are QDI (Qualified Dividend Income) eligible. Information on QDI eligibility is obtained from third party sources. The dividend income on QDI eligible preferred qualifies for a reduced tax rate. Many traditional 'dividend paying' perpetual preferred...
securities (traditional preferreds with no maturity date) are QDI eligible. In order to qualify for the preferential tax treatment all qualifying preferred securities must be held by investors for a minimum period – 61 days during a 180 day window period, beginning 60 days before the ex-dividend date.

Principal is returned on a monthly basis over the life of a mortgage-backed security. Principal prepayment can significantly affect the monthly income stream and the maturity of any type of MBS, including standard MBS, CMOs and Lottery Bonds. Yields and average lives are estimated based on prepayment assumptions and are subject to change based on actual prepayment of the mortgagee in the underlying pools. The level of prepayment of an MBS/CMO’s average life, and its market price, depends on the type of MBS/CMO class purchased and interest rate movements. In general, as interest rates fall, prepayment speeds are likely to increase, thus shortening the MBS/CMO’s average life and likely causing its market price to rise. Conversely, as interest rates rise, prepayment speeds are likely to decrease, thus lengthening average life and likely causing the MBS/CMO’s market price to fall. Some MBS/CMOs may have “original issue discount” (OID). OID occurs if the MBS/CMO’s original issue price is below its stated redemption price at maturity, and results in “imputed interest” that must be reported annually for tax purposes, resulting in a tax liability even though interest was not received. Investors are urged to consult their tax advisors for more information.

Rebalancing does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. Investors should consult with their tax advisor before implementing such a strategy.

Equity securities may fluctuate in response to news on companies, industries, market conditions and general economic environment. Companies paying dividends can reduce or cut payouts at any time.

Value Investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.

Growth Investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations.

Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets.

REITs investing risks are similar to those associated with direct investments in real estate: property value fluctuations, lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions.

Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies. Technology stocks may be especially volatile. Risks applicable to companies in the energy and natural resources sectors include commodity pricing risk, supply and demand risk, depletion risk and exploration risk.

Yields are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision.

Credit ratings are subject to change.

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2020-2021 Trustee Nominations Timeline

2019-20 Committee Members: Ron Stovitz (Chair), Eddie Allen, Darin Anderson, Susan Atherton, Brian Hawley, Sue Johnson, Buzz Stewart, David Tsai, Chancellor Wilcox, Kathy Wright

Nominations Committee Staff: Sharilyn Berry, Peter Hayashida

November 2019  Trustee nomination forms are sent via email to all development officers, alumni staff, and key Advancement and Governmental & Community Relations staff members

November 2019  Letter from Ron Stovitz soliciting Trustee nominations emailed to all Trustees along with nomination form

December 2019  Reminder email and nomination form sent to all Trustees, all development officers, and key Advancement, Alumni and Governmental & Community Relations staff members

January 8, 2020  Nomination form due date

February 3, 2020  Nominations Committee notebooks delivered to all committee members (contains all nomination forms, nominee biographies and biographies of current Trustees whose terms expire on June 30, 2020)

February 12, 2020  Nominations Committee Meeting
- Review criteria for Trustee service and nominations
- Review Board composition/diversity
- Review and evaluate new nominations received along with nominations carried over from prior years
- Review Trustee terms that expire on June 30, 2020; Develop recommendations for continuing Trustee service
- Develop contact and follow-up plan of action
- Develop final proposed slate of nominees (new and continuing) to be contacted by members of the committee
- Determine new Trustee orientation plan

March 2020   All nominees are contacted to explore their willingness to serve if nominated

April 1, 2020   Deadline to determine final slate of nominees
Relationship Coordinators for all nominees are notified of slate

April 10, 2020   Deadline to email slate of nominees to all Trustees

May 13, 2020   Board of Trustees meeting

Action Item: Nomination Committee recommended slate of candidates for election to the Board

May 14 – June 30   New and continuing Trustees are notified and welcomed via letter from Board Chair

July 1, 2020   New and continuing Trustee terms begin for terms running 7/1/20 – 6/30/22
I. Call to Order and Welcome  
Chair Susan Atherton

II. Action Items  
Chair Susan Atherton
   a. Approval of October 17, 2019 Minutes
   b. Ratification of Foundation Officer:
      Sharilyn Berry -- UCR Foundation Secretary
   c. Ratification of Revised Board of Trustees Expectations Document

III. UCR Update  
Chancellor Kim Wilcox

IV. Advancement Update  
Vice Chancellor Peter Hayashida

V. Campaign Update  
Co-chair Tom Haider
Co-chair S. Sue Johnson

VI. Committee Reports  
Chair Darin Anderson
   a. Finance & Investment
   b. Advocacy
      i. AB48/Proposition 13 - Public Preschool, K-12, and College Health
         and Safety Bond Act of 2020
   Chair Brian Hawley

VII. Announcements and Acknowledgements  
Chair Susan Atherton

VIII. Adjournment and Closing  
Chair Susan Atherton

Calendar Dates of Note
February 27, 2020 – Hays Press-Enterprise Lecture
March 14, 2020 – Watkins Society Brunch
May 2, 2020 – Donors and Scholars Luncheon
May 13, 2020 – UCR Foundation Board of Trustees Meeting
May 13, 2020 – Chancellor’s Associates Members Spring Reception
October 17, 2020 – Chancellor’s Dinner
February 20, 2021 – Campaign Celebration
UCRF Board of Trustees Meeting
Meeting Schedule
February 12, 2020

10:00 a.m. – 12:00 p.m.
   Nominations Committee Meeting *(Committee members only)*
   - Hinderaker Hall 4127 (4th Fl)

11:00 a.m. – 12:00 p.m.
   Standing Committee Meetings *(Committee members only)*
   - Advocacy – Hinderaker Hall B154 (basement)

12:15 – 1:30 p.m. Trustee Lunches with Deans *(All Trustees)*
   - Dean Jennifer Brown – Hinderaker Hall, Conference Room 1127
   - Dean Chris Lynch – Winston Chung Hall 443
   - Librarian Steven Mandeville-Gamble – Orbach Science Library Room 240
   - Interim Dean Louie Rodriguez – GSOE Dean’s Suite
   - Dean Kathryn Uhrich – Botanic Gardens Conference Room

1:45 – 3:30 p.m.  “Deep Dive:” Faculty Presentation *(All Trustees)*
   - Program: School of Public Policy
   - Location: INTS 1109

4:00 – 5:30 p.m.  Board of Trustees Meeting *(All Trustees)*
   - Location: Alumni & Visitors Center

5:30 – 6:45 p.m.  Pre-Game Dinner *(All Trustees, provost, deans, senior administrators and invited guests)*
   - Location: Student Recreation Center (room TBD)

7:00 p.m.  Men’s Basketball Game vs. UC Irvine
   - Location: Student Recreation Center
I. Fiscal Year 2019/20 UCR Foundation Operating Budget-to-Actual as of October 31, 2019

- The FY 2019/20 approved Operating Budget is $320,000

- Fiscal Year 2019/20 UCR Foundation operating expenditures as of October 31, 2019 totaled $55,800 (17% of approved operating budget)

Expenditure Summary Information:

- Fiscal Year 2019/20 expenditures as of October 31, 2019 included:

  - Accounting Tech Improvements & Maintenance - $33,582
  - Board & Committee Meetings/Board Events - $12,995
  - Bank/Credit Card Fees - $5,061
  - Other Expenses - $4,056
  - Office Expenditures - $106
Attendees: Brian Hawley, Eddie Allen, Susan Atherton, Janet Davis, Dallas Holmes, Bob Krieger, Elizabeth Romero, Carol Stratford

Chair Hawley called the meeting to order at 11:00 am. He welcomed committee members and asked them to introduce themselves and what attracted them to the Advocacy Committee. The answers included being an alumnus, interest in the welfare of the university, and being a Riverside Community member.

Governmental & Community Relations Update – AVC Elizabeth Romero

Local & Regional Issues
UCR, RCCD, K-12 signed MOU with CARB. CARB and UCR can leverage their facilities and staffing resources to conduct air quality and climate change research. UCR is already partnering with local school districts and community colleges to offer training programs for local residents to become scientists and technicians in the environmental arena, with an emphasis on education for disadvantaged and underrepresented populations, including women and people of color. The MOU also underscores CARB’s commitment to providing educational opportunities and developing a synergistic relationship with the Riverside community.

This is a strong example of how advocacy has been effective. The facility was moving forward with a location in El Monte, however it was moved to the Riverside location after Senator Roth pushed for an open bid process. Property was given by Citrus Experiment Station (site is now on Iowa across from Ag Ops land). $460M investment to economy with exponential impact for local resources. Businesses will be moving to the area who want to be located near the CARB location – AVL, Huriba, and several that rely on air quality testing.

UCR is looking at how we build University Avenue as clean planning. Governor Newsom is set to raise visibility into coastal and inland communities. UCR has been pitching to compete in an innovation economy.

The Community Meeting for the RUSD STEM High School at UCR is scheduled for November 6th. UCR has received approval to build a STEM high school on UCR land. This school will include 9-12 grades with part- and full-time students
https://stemhighschool.ucr.edu/ http://stehighschool.riversideunified.org/ Arguments against this project include: 1) Community against any change and 2) How this will be built with bond funds (measure O), which opponents say should be used to rehab existing schools. Holmes stated opinion that UCR wouldn’t be involved in community. Romero re-emphasized that students will be accepted based on a lottery. There will be 20 seats for UCR recruitment (small percentage – 800 total students). Norco Community College has a school on their campus. Sue Johnson has been advocating for this magnet school for 20 years. Location is set for the practice fields on Blaine Street.
State Legislation Update
UCR School of Medicine – This has been a priority set by President Napolitano. SB56 has been advocated for by Senator Roth and Assemblyman Medina. Although $100M one-time funding for the building has been approved, the ongoing funds of $25M did not make it into the FY19 budget. Napolitano has requested that the $25M be included in the UC budget. UCR SOM is the only community-based medical school in that it cannot recoup revenue, like UCLA or Berkeley. Campus has received a $15M allocation from the state, but it has not kept up with inflation and opportunities are limited due to expenses. Funding for SOM Ed building will serve more students than enrolled. The $100M building approval was through bonding AB94 process. The state is responsible for bond repayments. The legislation will go before UC Regents on November 14, 2019 and groundbreaking will begin in 2021.

SB14 – School facilities bond will issue $8B in bonds. UC will have access to $2B for our system, divided across the campuses—the largest bond for school facilities in last 5-10 years. UCR would use the bond for seismic retrofitting Spleth Hall and Rivera Library, and to fund new construction for SB. Advocacy will be needed with strong messaging.

AB 1313 – This legislation would withhold student transcripts until all university debts are paid. Attorney General was a cosponsor of this bill and it was passed, though UC opposed.

ACA14 – Overall, this legislation would prohibit UC from entering into contracts for a board array of support and clinical services, which would dramatically increase expenses. The defeat of this legislation proves that advocacy is increasingly important with phone calls and letters from key campus stakeholders. Senator Roth spoke against this bill on the state floor. Romero asked that each advocacy committee member thank him for his support of UCR and UC.

SB206 – Enacts the Fair Pay to Play Act, which allows student-athletes at UC universities to receive compensation based on their name, image and likeness and prohibits any governing body with authority over intercollegiate athletics from limiting a student-athlete’s ability to earn compensation as a result of the student’s name, image or likeness. UC sent a letter requesting the Governor’s veto on September 18th. The Governor signed the bill on September 30th.

SB493 – Requires higher education institutions that receive state funds to comply with specified requirement relating to the protection of students from and providing students with procedural protection relating to complaints of sexual harassment. The University issued an oppose unless amended position letter on July 3rd. The bill was made a 2-year bill by the Assembly Appropriations Committee on August 30th.
Federal Legislation Update
Continuing Resolution (CR) is funding the government until November 21. UCR will continue to pursue the funding from the federal government. This was successful as documented in UCR Today – grants received for $16M for health disparities; $6M for Plant 3D and to further Agoscience. GCR is formulating an ask for the reauthorization of transportation funding.

Supreme Court hearing on DACA – UC Regents have a call to action. Communications will be sent out to advocacy groups.

AGA – higher education act. Following, but no updates.

UC Advocacy Network (UCAN) can easily engage community with state and local representatives. Members send letters, text message, and utilize social media. Connect to legislators by zip code. Stay up to date with advocacy platform. All committee members were encouraged to join at https://universityofcalifornia.edu/support-uc/ucan/join

Advocacy Priorities
ACA14 – revisions will come back. Be prepared to advocate again for the defeat of this legislation $25M for ongoing fund request for SOM through Napolitano’s budget or through Roth/Medina

CE-CERT activities closer to CARB – active proposal for clean tech park to build out research park closer to CARB. System priorities will be sent to committee Advocacy day is March 9-10.

There is a Living the Promise event with an evening reception in Sacramento on March 10th. Each UCR advocate is paired with a partner to see Senators and Assembly Members in their Sacramento offices. Feedback has been that the advocates continue to show up and support issues. Romero provides training beforehand with talking points and schedules.

New Business
Alumni Association – Committee discussed interacting more with the Alumni Association. The Foundation has not partnered in the past, but some ideas with advocacy are synonymous with the work the Alumni Association may advocate for. Romero sits on this advocacy committee and that of the advocacy committee on the Alumni Association. Working together would not consolidate into one committee, but rather to work actively together, or perhaps a joint committee.

Action Items / Next Steps:
Hawley has requested a list of which committee members know which federal or state legislators. The list should be given to Romero or Hawley.
Hawley to work with Romero to set up meeting with UCRAA president (Jeff Krynski)

Meeting concluded at 11:53 AM.
University of California Riverside Foundation
Nominations Committee Meeting Minutes
November 5, 2019
By Teleconference

Trustees participating: Eddie Allen, Susan Atherton, Brian Hawley, S. Sue Johnson, Walter “Buzz” Steward, Ron Stovitz (Chair), Kathy Wright

Absent: Darin Anderson, David Tsai

Staff present: Sharilyn Berry, Peter Hayashida, Pat Kohlmeier

Nominations Committee Chair Ron Stovitz called the meeting to order at 3:04 p.m. Roll call was taken.

Approval of Minutes
On the motion and unanimous vote, the Nominations Committee minutes of February 20, 2019 were approved.

Review of Committee Charge
It was the consensus of the Committee to continue with the stated Committee Charge.

Review of Committee Timeline
The Committee reviewed the nominations process timeline and had no changes.

Review of Trustee Nomination Process
Chair Stovitz reviewed the nominations process and explained that candidates for the board primarily come from three sources: 1) Re-nomination of previously termed-out trustees; 2) Re-nomination of eligible, current trustees; 3) Nominations submitted by Advancement and Governmental Relations staff members or trustees.

Nominations Committee Chair Stovitz and UCRF Chair Atherton expressed concern about how many nominees declined the nomination in the last cycle and suggested that the person submitting the nomination (Advancement staff or current trustee) have a conversation with the nominee in advance of submitting the nomination form. The goal of the conversation would be to share information about the board and expectations and to gauge interest in serving.

Vice Chancellor Hayashida shared that the philosophy in building the board over the past ten years has been to “swing for fences” and nominate individuals who would bring high value and prestige to the board and that sometimes it takes several conversations over multiple years with candidates prior to them accepting a nomination to the board. If the goal is to have a 100% acceptance rate, we may lose out on some good people. The Committee discussed and suggestions/comments included: 1) We need to retain flexibility; 2) Like the process we have; 3) Like the opportunity for engagement over time; 4) Concern about notifying a candidate or implying promise of election too soon; 5) Perhaps include in the nomination form a summary of previous conversations with the candidate; 6) Don’t want the call to come as a surprise to the
candidate; 7) A 50% acceptance rate is not a failure; be cautious about creating other problems; 8) Is there a set of guidelines to frame pre-nomination conversations? Need careful wording; 9) Flexibility is key; more information sooner is better but need to allow for flexibility in the process; 10) Explicit timeline should be provided to candidates in advance. At the conclusion of the conversation members agreed to add a section to the nomination form indicating all pre-nomination contacts and conversations with the candidate regarding board service.

Next steps: Chair Atherton, Nominations Chair Stovitz, the Foundation Secretary, and Vice Chancellor Hayashida will develop specific language and guidelines for pre-nomination conversations.

Review of Trustee Emeritus Criteria
The criteria for approving Emeritus Trustees, as outlined in Article III, Section 1.c. of the UCRF Bylaws, were reviewed and discussed. The consensus was that the Bylaws requirements for this status offer an adequate definition of the criteria to use in nominating candidates for this distinction. The emeritus status continues to be viewed by the Committee as an honor bestowed on a very few retiring trustees and not primarily to be used as a way to continue to engage former or termed-off trustees.

The meeting was adjourned at 4:06 p.m.