UNIVERSITY OF CALIFORNIA

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Treasurer's Annual Report

ONE HUNDRED and THIRTY-FIRST FISCAL YEAR

1998-1999

The Regents of the University of California

as of October 1999

University of California Treasurer's Annual Report

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TREASURER'S LETTER

The Treasurer of The Regents is responsible for managing the investments, cash and external financing for the University of California System, which includes the nine campuses, four teaching hospitals and three national laboratories. The Treasurer's Office carries out these activities under the policies established by the Investment Committee of The Regents of the University of California.

The investment funds managed consist of the University's retirement, defined contribution and endowment funds, as well as the system's cash assets. At June 30, 1999, the Treasurer's Office managed $52.9 billion in total assets as outlined below.

Total Funds Under Management
June 30, 1999
($ in billions)

UC Retirement Plan (UCRP)	$37.9
DC Funds	5.8
Endowment Funds	5.2
Short Term Investment Pool (STIP)[1]	4.0
Total Funds	$52.9

The Treasurer's investment management staff includes 15 senior investment professionals, with an average of 18 years of investment experience.

INVESTMENT OBJECTIVE

The overall investment objective for all funds under management is to maximize real long-term total returns while assuming appropriate levels of risk. Because the purpose of each fund is unique, The Regents has established specific objectives for each fund, along with the overall goal of beating the median return of our peers and exceeding inflation.

INVESTMENT PHILOSOPHY/STRATEGY

The fundamental basis of The Regents' investment philosophy is to invest strategically with a global emphasis, taking a long-term perspective with regard to both asset allocation decisions and individual security selection.

Historically, The Regents' balanced portfolios have been more heavily invested in equities than in fixed-income instruments, because equities have provided greater total returns over the long term than both inflation and fixed-income investments.

The Regents believes that investing in superior companies with above-average total return prospects provides superior investment results over the long term. However, the degree to which equity returns exceed those of fixed-income securities will vary given the economic environment at any particular time.

Importantly, this philosophy is backed by original, in-depth research. The Treasurer's Office uses a "top-down" approach to identify secular themes that can produce superior returns over a multi-year time horizon and a "bottom-up" approach to individual security selection.

In order to achieve higher returns and even greater diversification within the portfolios beyond a balanced fund approach with sector and industry allocations, The Regents has also sought attractive investment opportunities outside traditional security investments, including premier venture capital partnerships, buyout funds and select public and private emerging markets funds. The Regents has been involved in venture capital investing for more than 30 years and has been investing in select buyout funds and emerging markets funds for more than 10 years.

1 The Short Term Investment Pool balance excludes the cash invested for, and reported as, part of the UCRP, DC and Endowment funds.

FISCAL 1999 IN REVIEW

The past fiscal year witnessed the peak of the global financial crisis that began in 1997 and the beginning of the recovery process for the world economy. Despite the challenges posed by such an environment, The Regents' funds continued to perform very well and meet their objectives.

The U.S. equity markets continued their unprecedented string of 20%+ returns, with the S&P 500 producing a total return of 22.8%. However, divergences in performance among individual stocks and sectors became more pronounced. Technology and telecommunications were the clear leaders for the market and the UC portfolios, while consumer staples and financial names lagged. Global fixed-income markets were strong early in the year, but suffered later, as the massive infusion of liquidity by central bankers in late 1998 led to increasing concerns over inflation. Yields on 30-year U.S. Treasuries ended the year modestly higher, at 5.96% versus 5.62% one year ago. Spreads, however, increased dramatically on all types of corporate and government agency debt securities relative to U.S. Treasuries as a result of oversupply and a perceived deterioration in credit quality.

During the year, inflation remained remarkably tame, as intense competition forced corporations to absorb higher input costs, and wage increases were offset by strong productivity gains. In the U.S., core inflation declined during the year, from 2.2% to 2.0%. However, central bankers remain attentive to the increasing risks of better growth prospects and rebounding commodity prices, coupled with an above-average consumer spending rate and tight labor markets in the U.S. The Federal Reserve and the Bank of England have both increased interest rates by 50 basis points, and the European Central Bank is expected to follow suit in early 2000, if not sooner.

MESSAGE FROM THE TREASURER

Market volatility has continued to increase since the close of the fiscal year. U.S. equity markets experienced a correction of approximately 10% from their recent highs, and many sectors and individual names are down more than 20%. A variety of concerns have come together, including U.S. dollar weakness versus the Japanese yen, uncertainty over future Fed policy, potential Y2K disruptions, the Taiwan earthquake and a marked increase in oil and gold prices from their lows. As these concerns are occurring against the backdrop of relatively high stock market valuations, narrow focus or breadth in the markets, higher bond yields and a slowdown in foreign and mutual fund inflows, the risks of a more pronounced correction have increased. An expected moderation in the pace of U.S. GDP growth would help to alleviate some of the current pressures.

All in all, this promises to be an interesting, if uncertain, cyclical period, eventually leading to renewed optimism. While the secular theme of modest inflation, supported by global competition, should remain intact, the impact of an Internet economy on corporate strategies and earnings, let alone on asset and country choice, remains an interesting wildcard. The traditional models, both for corporations and investors, are breaking down, and success will come to those who understand and adapt to the dynamic trends.

While The Regents is currently reviewing asset allocation issues and other policies to properly discharge their fiduciary obligations, the Treasurer's Office remains committed to achieving strong risk-adjusted returns to meet The Regents' and the funds' needs.

We remain excited about The Treasurer's Office mission, additions to personnel and the implementation of new analytical systems.

Patricia A. Small
Treasurer of The Regents
October 15, 1999

Patricia A. Small

The Regents' Endowment Funds

THE REGENTS' ENDOWMENT FUNDS

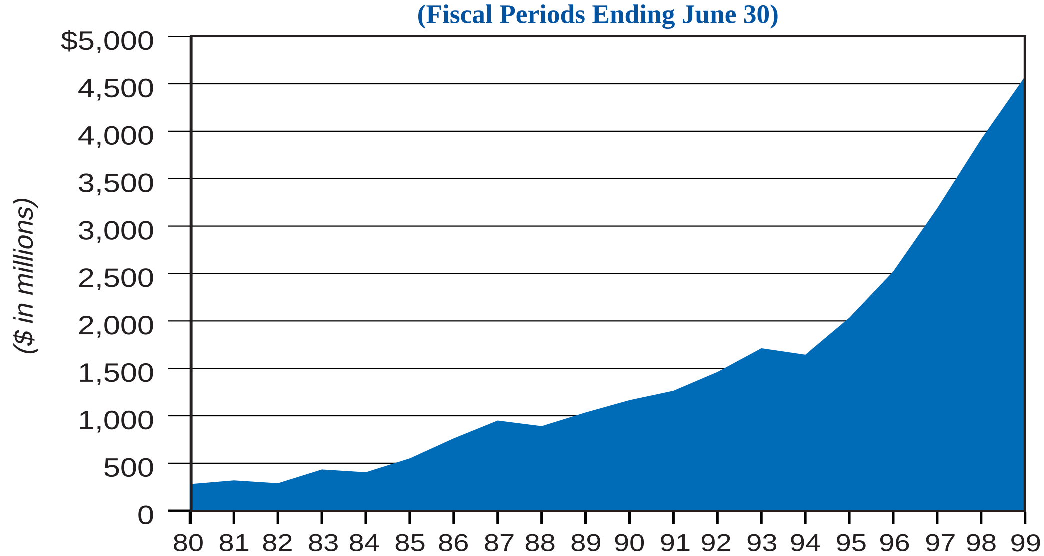
Summary of Investments[1]

(*$ in thousands*)

	June 30, 1999 Cost	June 30, 1999 Market Value	June 30, 1999 % of Pool	June 30, 1998 Market Value	June 30, 1998 % of Pool
GENERAL ENDOWMENT POOL					
EQUITIES					
Common Stock	$ 1,056,685	$ 2,903,470	63.4 %	$ 2,456,690	62.7 %
Alternative Equities[2]	175,985	221,658	4.9	144,669	3.7 %
Total Equities	$ 1,232,670	$ 3,125,128	68.3 %	$ 2,601,359	66.4 %
FIXED-INCOME SECURITIES	$ 1,294,035	$ 1,377,999	30.1 %	$ 1,290,995	33.0 %
STIP PARTICIPATION	$ 74,557	$ 74,557	1.6 %	$ 23,318	0.6 %
TOTAL GENERAL ENDOWMENT POOL	$ 2,601,262	$ 4,577,684	100.0 %	$ 3,915,672	100.0 %
HIGH INCOME ENDOWMENT POOL					
EQUITIES	$ 25,844	$ 42,098	26.1 %	$ 32,970	27.4 %
FIXED-INCOME SECURITIES	$ 110,473	$ 113,948	70.6 %	$ 84,091	69.8 %
STIP PARTICIPATION	$ 5,280	$ 5,280	3.3 %	$ 3,325	2.8 %
TOTAL HIGH INCOME ENDOWMENT POOL	$ 141,597	$ 161,326	100.0 %	$ 120,386	100.0 %
OTHER ENDOWMENT FUNDS	$ 308,998	$ 474,156		$ 424,369	
TOTAL REGENTS' ENDOWMENT FUNDS	$ 3,051,857	$ 5,213,166		$ 4,460,427	

GEP Market Values

(Fiscal Periods Ending June 30)



[1] For fiscal 1998 and fiscal 1999, the cash portion of the various portfolios excludes the unrealized market appreciation or depreciation of STIP investments and the investments in the security lending collateral pool. Therefore, the balances differ from the University's Annual Financial Report.

[2] Alternative equities include investments in premier private equity funds, select public equity funds and a minor amount of gifted real estate.

THE REGENTS' ENDOWMENT FUNDS: GENERAL ENDOWMENT POOL

Established in 1933, and unitized in 1958, the General Endowment Pool (GEP) is The Regents' primary investment vehicle for endowed gift funds. GEP is a balanced portfolio of equities and fixed-income securities in which all endowment funds participate, unless payout needs require otherwise.

The June 30, 1999 market value of GEP was $4.6 billion, or $17.73 per share, up from $3.9 billion, or $15.70 per share, at the end of fiscal 1998. Total GEP payout for the year was $136.8 million, or $0.5406 per share, up from $116.5 million, or $0.4795 per share, at the end of fiscal 1998, for an increase of 12.7%. The total return for GEP for the fiscal year was a strong 16.7%.

Spending Policy

The Regents has long believed that a total return investment philosophy aimed at achieving real (after inflation) asset growth would be able to generate growing annual payouts to support donors' designated programs.

In October 1998, The Regents adopted a long-term target spending rate of 4.75% of a 60-month (5-year) moving average of GEP's market value. The Regents will review the payout rate each year in the context of GEP's investment returns, inflation and the University's programmatic needs, in conjunction with prudent preservation of principal and prudent increases in the payout amount.

Investment Objective

The overall investment objective for all funds under management is to maximize real, long-term total returns (income plus capital appreciation adjusted for inflation), while assuming appropriate levels of risk.

For GEP, the primary goal is to generate growth of principal and a growing payout stream to ensure that future funding for endowment-supported activities can be maintained.

Investment Strategy

In order to achieve these investment objectives, The Regents' asset allocation strategy for GEP is to invest the great majority of assets in equities within a range of 75-60% and the remaining 25-40% in fixed-income securities, depending on market conditions and the relative total return prospects of the various asset classes.

The Treasurer's Office targets equity investments primarily in the common stocks of global companies that have the ability to grow their earnings and dividends at a higher rate than market averages, and fixed-income investments primarily in high-quality, long-term, global debt securities with attractive real returns. In addition, the Treasurer invests a modest portion of the equity portfolio in alternative equities, which include premier private equity funds and select public equity funds.

Returns

Throughout the years, GEP has performed extremely well versus its peers. As illustrated in Table I (on page 4), GEP has consistently performed well above the median returns of the CRA Balanced Fund universe[1] and the college and university endowment funds in the Cambridge Endowment Study[2]. GEP's excellent return record is driven by a commitment to quality issues, which has led GEP to perform very well on a risk-adjusted basis versus its peers and balanced fund market indices. GEP's compound annual total return for the past 20 years was a strong 15.9% versus 13.6% for the CRA Balanced Fund Median and 13.8% for the Cambridge Endowment Study Median. During that time, payout distributions grew at an average annual rate of 7.0%—well above annualized inflation of 3.7%[3].

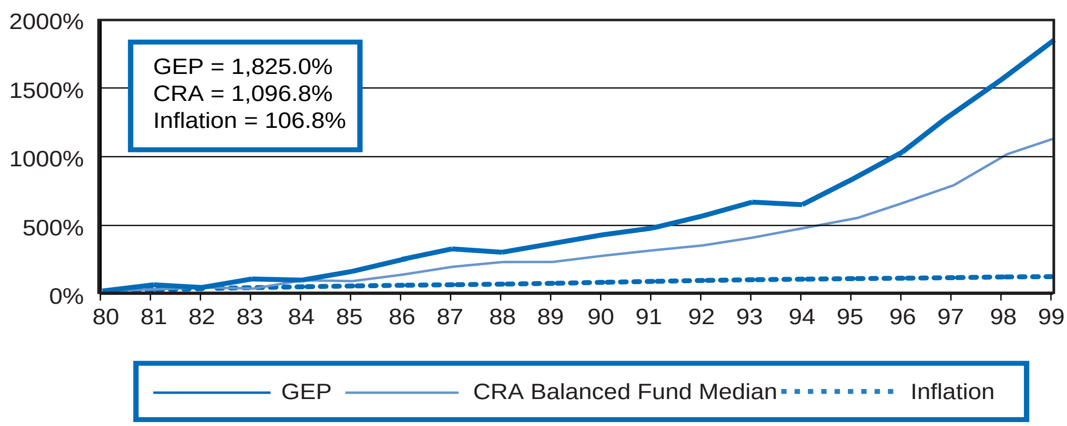
Chart I (on page 4) illustrates the cumulative total returns for GEP for the past 20 years relative to the CRA Balanced Fund Median and inflation. Table II (on page 5) provides a detailed illustration of the performance of an endowed gift to GEP for the past 20 years.

1 Capital Resource Advisors (CRA), formerly SEI, measures investment returns on approximately 5,500 portfolios, with $364 billion in assets.
2 Cambridge Associates, Inc., measures investment returns on a universe of 107 college and university endowment funds (including GEP).
3 Inflation as measured by the GDP deflator.

TABLE I
GEP ANNUALIZED TOTAL RETURNS VERSUS PEERS AND INFLATION
June 30, 1999

	1-Year	5-Years	10-Years	15-Years	20-Years	20-Year Cumulative
Total Fund						
GEP[1]	**16.7%**	**21.7%**	**16.0%**	**17.5%**	**15.9%**	**1,825.0%**
CRA Balanced Fund Median[2]	*10.5*	*17.1*	*13.5*	*13.8*	*13.2*	*1,096.8*
Cambridge Endowment Study Median[3]	*10.6*	*16.2*	*13.2*	*14.2*	*13.8*	*1,224.6*
Inflation[4]	*1.2*	*1.7*	*2.5*	*2.8*	*3.7*	*106.8*
Common Stocks						
GEP[1]	**26.0%**	**26.5%**	**18.3%**	**18.5%**	**17.1%**	**2,265.4%**
CRA Equity Only Median[2]	*16.3*	*25.0*	*17.3*	*17.9*	*16.7*	*2,102.4*
Fixed-Income Securities						
GEP[1]	**-1.1%**	**12.8%**	**10.7%**	**14.2%**	**12.7%**	**983.9%**
CRA Bond Only Median[2]	*3.0*	*7.8*	*8.4*	*9.8*	*9.4*	*501.9*

CHART I
GEP CUMULATIVE TOTAL RETURNS: FISCAL 1980-1999
Fiscal Periods Ending June 30



(1) GEP's total returns are based on unit values calculated by UCOP Endowment and Investment Accounting and are net of (after) investment management and administrative expenses of 0.04% of average annual market value, which are automatically deducted from income. The asset class returns reflect investment returns. The performance of The Regents' total return investment portfolio is calculated by Shaw Data Systems, according to the standard recommended by the Bank Administration Institute (BAI), which uses a time-weighted methodology that essentially neutralizes the effect of contributions and withdrawals so as to measure only the returns on assets. These calculations comply with the Association for Investment Management and Research (AIMR) standards, which require time-weighted rates of return using realized and unrealized gains plus income. Performance is reconciled to the Treasurer's Office own internal calculations.

(2) Capital Resource Advisors (CRA), formerly SEI, measures investment returns on approximately 5,500 portfolios, with $364 billion in assets. These are gross returns and are before any investment management fees, which would be approximately 0.50% of average annual market value. For periods longer than 10 years, the Treasurer's Office uses the linked median, which is the compounded return of the annual universe median during a given time period.

(3) Cambridge Associates, Inc., measures returns on 107 college and university endowment pools in its Endowment Study. For periods longer than 10 years, the Treasurer's Office uses the linked median, which is the compounded return of annual median returns during a given time period.

(4) Inflation as measured by the GDP deflator.

TABLE II
EXAMPLE OF GEP INVESTMENT PERFORMANCE FISCAL 1980-1999

In order to endow a scholarship fund, a donor made a $100,000 cash gift to the University at the end of fiscal 1979, which then entered GEP on the first day of fiscal 1980, purchasing 42,535 shares, or units, in the pool based on a unit price of $2.351. GEP and the gift have performed as follows.

	Per Share Performance			Endowment Gift Performance				Inflation
Fiscal Year Ending 6/30	Market Value	Payout	% Change Payout	Market Value	Payout	Yield on Beg. Book	Annual Total Return[1]	(GDP Deflator)
Enter Pool 7/1/79	$ 2.351	—		$100,000	—	—	—	—
1980	2.405	$0.1507		102,297	$6,410	6.4%	9.13%	9.0%
1981	2.595	0.1604	6.4%	110,379	6,823	6.8	14.80	7.7
1982	2.277	0.1730	7.9	96,852	7,359	7.4	-5.59	7.1
1983	3.263	0.1813	4.8	138,792	7,712	7.7	52.41	4.0
1984	2.942	0.1769	-2.4	125,138	7,524	7.5	-4.63	4.5
1985	3.801	0.1925	8.8	161,676	8,188	8.2	36.70	3.7
1986	4.986	0.1941	0.8	212,080	8,256	8.3	37.37	2.7
1987	5.937	0.1965	1.2	252,531	8,358	8.4	23.60	3.1
1988	5.346	0.2259	15.0	227,393	9,609	9.6	-6.13	3.7
1989	5.968	0.2522	11.6	253,849	10,727	10.7	16.84	4.8
1990	6.521	0.2933	16.3	277,371	12,476	12.5	14.43	4.3
1991	6.824	0.3157	7.6	290,254	13,428	13.4	9.86	4.0
1992	7.576	0.3203	1.5	322,246	13,624	13.6	15.91	3.0
1993	8.410	0.3489[2]	8.9	357,720	14,840	14.8	15.91	2.2
1994	7.883	0.3299	-5.4	335,299	14,032	14.0	-2.51	2.0
1995	9.518	0.3435	4.1	404,853	14,611	14.6	25.64	1.7
1996	11.215	0.3511	2.2	477,020	14,934	14.9	21.80	2.1
1997	13.461	0.4090	16.5	572,565	17,397	17.4	24.20	2.7
1998	15.698	0.4795	17.2	667,716	20,396	20.4	20.47	1.0
1999	17.731	0.5406[3]	12.7	753,561	22,993	23.0	16.67	1.2

Compound Annual Total Return for 20 years (Fiscal 1980-1999)	
(Capital Appreciation plus Income)	**15.9%**
Compound Annualized Growth Rate for 20 years (Fiscal 1980-1999)	
Payout Per Share	**7.0%**
Inflation (GDP Deflator)	**3.7%**

(1) GEP's total returns are based on unit values calculated by UCOP Endowment and Investment Accounting and are net of (after) investment management and administrative expenses of 0.04% of average annual market value, which are automatically deducted from income. The asset class returns reflect investment returns. The performance of The Regents' total return investment portfolio is calculated by Shaw Data Systems, according to the standard recommended by the Bank Administration Institute (BAI), which uses a time-weighted methodology that essentially neutralizes the effect of contributions and withdrawals so as to measure only the returns on assets. These calculations comply with the Association for Investment Management and Research (AIMR) standards, which require time-weighted rates of return using realized and unrealized gains plus income. Performance is reconciled to the Treasurer's Office own internal calculations.

(2) Payout per share in fiscal 1993 is approximately $0.0133 higher than normal as a result of an accounting policy change to distribute equity accruals. Without the change, payout per share would have been $0.3356, or $14,882 for the $100,000 gift.

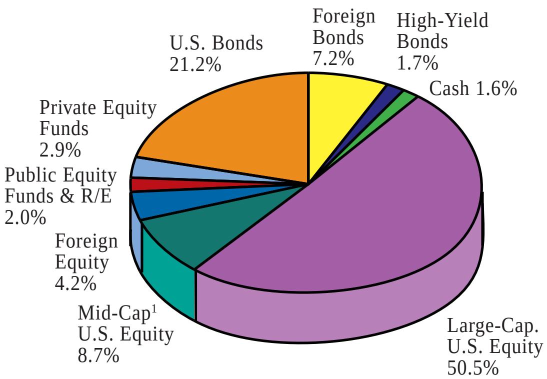
(3) The payout for fiscal 1999 was 4.35% of a 60-month moving average of GEP's market value. Prior to fiscal 1999, the payout was actual earned income.

Asset Mix

At June 30, 1999, GEP consisted of 68.3% equities, 30.1% fixed-income securities and 1.6% cash. The five-year average annual turnover rate at the end of fiscal 1999 was 9.6%.

GEP Asset Mix

June 30, 1999



Equity Investments

The equity portion of GEP consists primarily of domestic and foreign common stocks, with a modest exposure to alternative equities. Common stocks represented 63.4% of GEP at year-end, with a market value of $2.9 billion.

GEP 10 Largest Equity Holdings

(June 30, 1999)

Hewlett Packard Co.
General Electric Co.
Merck & Co., Inc.
Exxon Corp.
MCI WorldCom, Inc.
American Home Products Corp.
Time Warner, Inc.
Houston Aces (TWX Convert.)
Charles Schwab Corp.
Microsoft Corp.

GEP's common stocks returned 26.0% during the year, significantly higher that the CRA Equity Only Median return of 16.3%. For the past 5, 10, 15 and 20 years, GEP's common stocks have performed ahead of the CRA Equity Only Median.

[1] Mid-cap. stocks have a market capitalization of approximately $1-10 billion.

Alternative equities constituted 4.9% of the total portfolio at year-end, with a market value of $221.7 million. GEP's alternative equities returned 55.0% for the fiscal year.

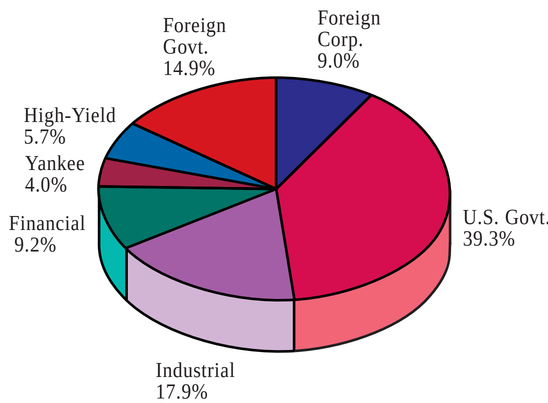
Fixed-Income Investments

At year-end, fixed-income investments constituted 30.1% of the portfolio, with a market value of $1.4 billion. GEP's fixed-income securities returned -1.1% during the year and underperformed the CRA Bond Only Median return of 3.0%. However, for the past 5, 10, 15 and 20 years, GEP's fixed-income securities have outperformed the CRA Bond Only Median by a wide margin.

The weighted average maturity of GEP's bond portfolio at year-end was approximately 22 years, and the average credit quality was AA, with 56.7% of fixed-income securities rated AAA. The following pie charts illustrate the sector mix and quality breakdown of the GEP bond portfolio.

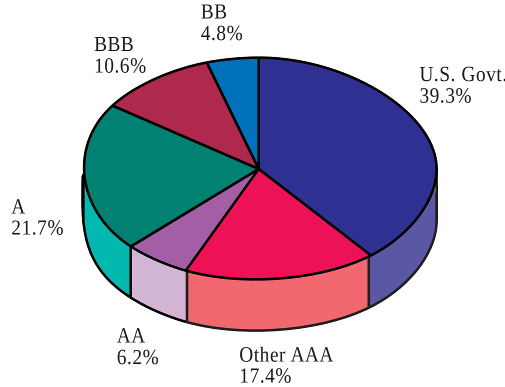
GEP Fixed-Income Sector Mix

June 30, 1999



GEP Fixed-Income Quality Mix

June 30, 1999
(BBB and higher = investment grade)



Asset Designation by Campus and Purpose

A donor has two avenues for making a gift to or establishing an endowment at the University: either directly to The Regents for a specific campus and/or purpose, or directly to a campus through its foundation. The campus foundation trustees have discretion in their choice of investment managers and may use the Treasurer's Office or external investment managers.

The Regents' endowment pools include assets that were gifted directly to The Regents, as well as foundation assets where the Treasurer was retained as the investment manager. Chart II below illustrates the breakdown of GEP's assets among the campuses. Not surprisingly, a higher proportion of the assets is dedicated to the older campuses, which have a more established alumni and donor base. Development efforts at the younger campuses aim to leverage the growth of their alumni base, as well as cultivate donors.

Fundraising efforts provide critically needed monies to support the goals of the University. As illustrated below in Chart III, two-thirds of GEP's assets are donor specified for departmental support (28%), student aid (22%) and research (16%).

More detailed information on fundraising results may be found in the University's Annual Report on Private Support published by the Office of University and External Relations.

CHART II
GEP ASSETS DESIGNATED BY CAMPUS
June 30, 1999
($ in millions)

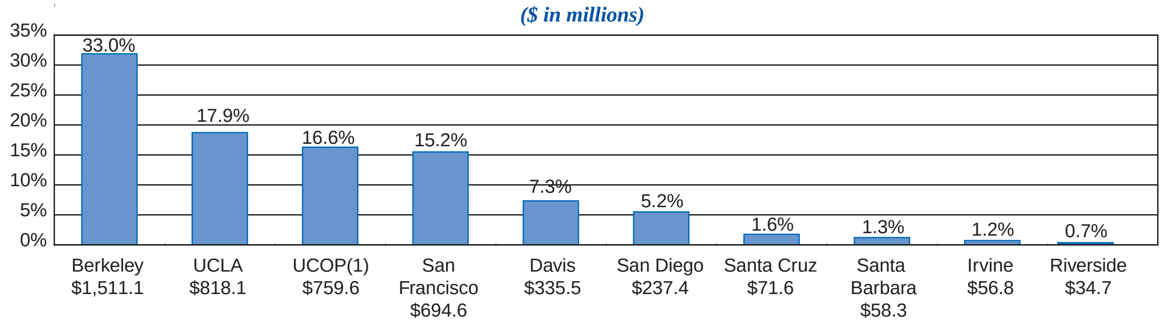
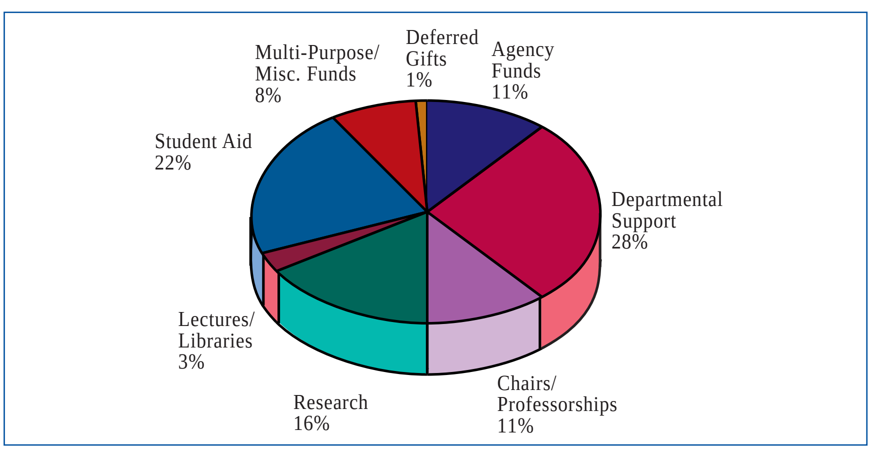


CHART III
GEP ASSETS DESIGNATED BY PURPOSE[2]
June 30, 1999

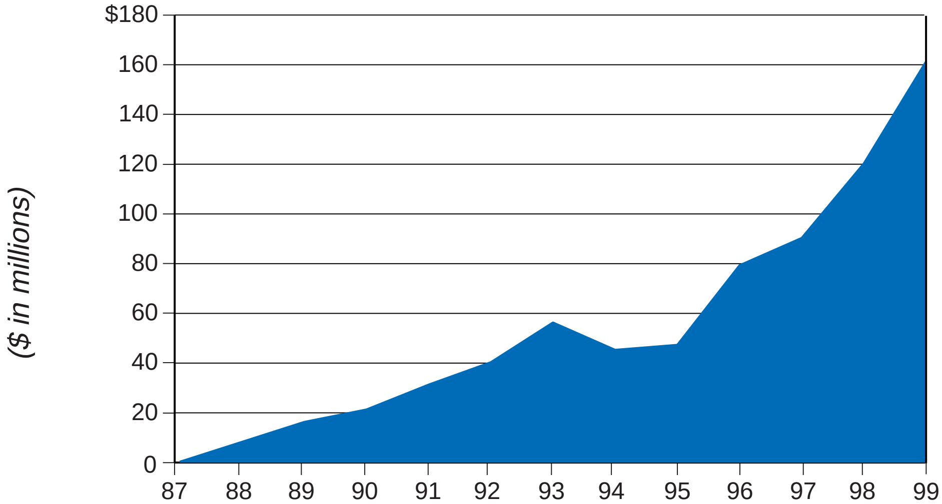


[1] UCOP = UCOP-administered programs and multi-campus gifts.
[2] 71% of GEP assets are restricted as to purpose.

HIGH INCOME ENDOWMENT POOL

HIP Market Values

(Fiscal Periods Ending June 30)



The High Income Endowment Pool (HIP) was established in May 1987 to accommodate endowments with high payout requirements and deferred gift giving programs with high contractual payout obligations. As such, HIP is a balanced portfolio more heavily weighted in fixed-income securities. The General Endowment Pool (GEP) remains The Regents' primary endowment investment vehicle.

The June 30, 1999 market value of HIP was $161.3 million, or $1.67 per share, up from $120.4 million, or $1.70 per share, at the end of fiscal 1998. Total HIP net investment income for the year was $8.2 million, or $0.0982 per share, up from $6.4 million, or $0.0963 per share, at the end of fiscal 1998. HIP's current yield at June 30, 1999 was 5.8% on market value. HIP generated a total return of 4.4% for the fiscal year.

Spending Policy

Although The Regents adopted a total return spending policy for GEP, the income payout spending policy is being maintained for HIP given the nature of the gifts and their required payouts.

Investment Objective

The overall investment objective for all funds under management is to maximize real, long-term total returns (income plus capital appreciation adjusted for inflation), while assuming appropriate levels of risk.

For HIP, the primary goal is to produce a relatively high and stable level of current income sufficient to meet the needs of the specific funds, with moderate growth of income and preservation of capital.

Investment Strategy

In order to achieve these higher income goals, The Regents' asset allocation strategy for HIP calls for a greater allocation of fixed-income securities. Within that, the Treasurer's Office targets those fixed-income securities and equities that will provide a high level of current income and can also generate moderate growth.

Returns

During its 12-year history, HIP has performed extremely well versus its peers. As illustrated in Table III (on page 10), HIP has outperformed the CRA Bond Fund Median during the last 1, 5 and 10 years, as well as from HIP's inception.

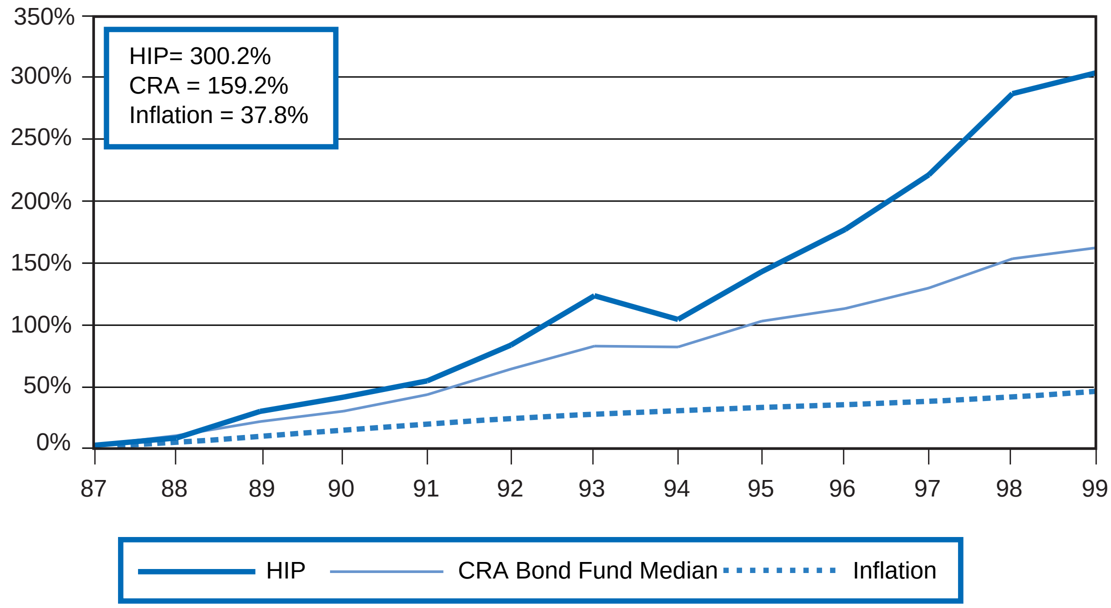
Chart IV (on page 10) illustrates HIP's cumulative total returns versus the CRA Bond Fund Median and inflation since May 1987.

Table IV (on page 11) provides a detailed illustration of the performance of an endowed gift to HIP since inception. During that time, HIP has generated a compound annual total return of 12.2%, and payout distributions have grown at an average annual rate of 2.9%, exceeding average inflation of 2.7%.

Table III
HIP Annualized Performance versus Peers and Inflation
June 30, 1999

	Annualized Total Returns			12-Year
	1-Year	5-Years	10-Years	Cumulative
Total Fund				*(HIP Inception)*
HIP[1]	**4.4%**	**14.7%**	**12.1%**	**300.2%**
CRA Bond Fund Median[2]	*3.5*	*7.7*	*8.4*	*159.2*
Inflation[3]	*1.2*	*1.7*	*2.5*	*37.8*
	Annualized Yields			**12-Year**
	1-Year	**5-Years**	**10-Years**	**Cumulative**
HIP Total Fund	**5.8%**	**6.5%**	**6.9%**	**139.3%**
5-Year U.S. Treasury Notes	*5.0*	*6.0*	*6.4*	*119.7*

Chart IV
HIP Cumulative Total Returns: Since Inception
Fiscal Periods Ending June 30



(1) HIP's total returns are based on unit values calculated by UCOP Endowment and Investment Accounting and are net of (after) investment management and administrative expenses of 0.04% of average annual market value, which are automatically deducted from income. The asset class returns reflect investment returns. The performance of The Regents' total return investment portfolio is calculated by Shaw Data Systems, according to the standard recommended by the Bank Administration Institute (BAI), which uses a time-weighted methodology that essentially neutralizes the effect of contributions and withdrawals so as to measure only the returns on assets. These calculations comply with the Association for Investment Management and Research (AIMR) standards, which require time-weighted rates of return using realized and unrealized gains plus income. Performance is reconciled to the Treasurer's Office own internal calculations.

(2) Capital Resource Advisors (CRA), formerly SEI, measures investment returns on approximately 5,500 portfolios, with $364 billion in assets. These returns are gross returns and are before any investment management fees, which would be approximately 0.50% of average annual market value. For periods longer than 10 years, the Treasurer's Office uses the linked median, which is the compounded return of the annual universe median during a given time period.

(3) Inflation as measured by the GDP deflator.

TABLE IV
EXAMPLE OF HIP INVESTMENT PERFORMANCE FISCAL 1988-1999

In order to endow a scholarship fund, a donor made a $100,000 cash gift to the University at the end of fiscal 1987, which then entered HIP on the first day of fiscal 1988, purchasing 103,149 shares, or units, in the pool based on a unit price of $0.969. HIP and the gift have performed as follows.

Fiscal Year Ending 6/30	Per Share Performance: Market Value	Payout	% Change Payout	Endowment Gift Performance: Market Value	Payout	Yield on Beg. Book	Annual Total Return (1)	Inflation (GDP Deflator)
Enter Pool 7/1/87	$ 0.969	—		$100,000	—	—	—	—
1988	0.952	$0.0718		98,233	$7,403	7.4%	5.99%	3.7%
1989	1.059	0.0761	6.1%	109,250	7,855	7.9	20.20	4.8
1990	1.069	0.0839	10.2	110,243	8,657	8.7	8.99	4.3
1991	1.080	0.0848	1.0	111,450	8,743	8.7	9.47	4.0
1992	1.197	0.0833	-1.8	123,432	8,588	8.6	18.96	3.0
1993	1.358	0.0923 (2)	10.8	140,087	9,518	9.5	21.98	2.2
1994	1.160	0.0888	-3.8	119,667	9,154	9.2	–8.64	2.0
1995	1.284	0.0869	-2.1	132,487	8,964	9.0	19.03	1.7
1996	1.374	0.0893	2.7	141,774	9,209	9.2	14.21	2.1
1997	1.494	0.0946	6.0	154,084	9,758	9.8	16.06	2.7
1998	1.699	0.0963	1.8	175,209	9,933	9.9	20.58	1.0
1999	1.632	0.0982	1.9	168,358	10,126	10.1	4.36	1.2

Compound Annual Total Return for 12 years (Fiscal 1988-1999)
(Capital Appreciation plus Income) **12.2%**

Compound Annualized Growth Rate for 12 years (Fiscal 1988-1999)

Payout Per Share **2.9%**
Inflation (GDP Deflator) **2.7%**

(1) HIP's total returns are based on unit values calculated by UCOP Endowment and Investment Accounting and are net of (after) investment management and administrative expenses of 0.04% of average annual market value, which are automatically deducted from income. The asset class returns reflect investment returns. The performance of The Regents' total return investment portfolio is calculated by Shaw Data Systems, according to the standard recommended by the Bank Administration Institute (BAI), which uses a time-weighted methodology that essentially neutralizes the effect of contributions and withdrawals so as to measure only the returns on assets. These calculations comply with the Association for Investment Management and Research (AIMR) standards, which require time-weighted rates of return using realized and unrealized gains plus income. Performance is reconciled to the Treasurer's Office own internal calculations.

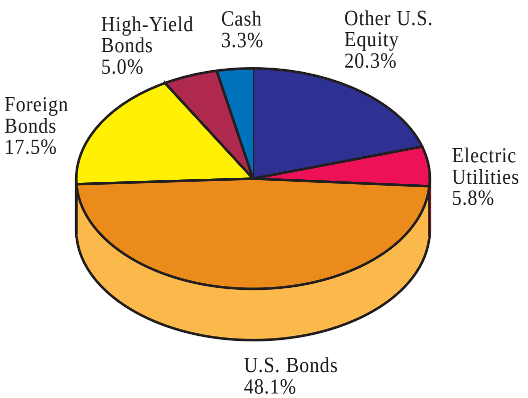
(2) Payout per share in fiscal 1993 is approximately $0.0019 higher than normal as a result of an accounting policy change to distribute equity accruals. Without the change, payout per share would have been $0.0904, or $9,325 for the $100,000 gift.

Asset Mix

HIP's historic asset mix has been approximately 50-70% fixed-income securities, with the remainder primarily in higher-yielding equities. At June 30, 1999, HIP consisted of 70.6% fixed-income securities, 26.1% higher-yielding equities and 3.3% cash. The five-year average annual turnover rate was 6.2%.

HIP ASSET MIX

June 30, 1999



Fixed-Income Investments

At year-end, fixed-income investments were 70.6% of HIP, with $113.9 million in market value. HIP's fixed-income investments returned –0.2% during the year, underperforming the CRA Bond Only Median's return of 3.0%, but more closely matching the Lehman Long-Term G/C/Y return of -0.6%.

U.S. Government bonds constituted 35.0% of the fixed-income investments at year-end, while high-grade industrial bonds represented 21.3%, financial bonds 9.5%, Yankee bonds 2.2%, high-yield bonds 7.1% and foreign bonds 24.9%. The weighted average maturity of the portfolio at year-end was approximately 23 years, the weighted average credit quality was AA and 52.1% of the bond portfolio was rated AAA.

Equity Investments

The equity portion of HIP constituted 26.1% of the fund at year-end, with a market value of $42.1 million. HIP's equity portfolio was comprised primarily of electric utilities and other higher-yielding common stocks, along with select convertible preferred issues that offer attractive current yields. HIP's common stocks returned 18.7% during the year.

OTHER ENDOWMENT FUNDS

At June 30, 1999, The Regents had $474 million of separately managed endowment funds (including approximately $125 million where The Regents is the beneficiaries, but not the trustees). The separately managed funds were established to achieve specified payout requirements for donor and agency monies, as well as to comply with the terms of gift agreements in which donors required funds to be invested separately (e.g., no commingling of funds) and/or placed restrictions on the investment options (e.g., only U.S. Treasury bonds).

Short Term Investment Pool

SHORT TERM INVESTMENT POOL

The Short Term Investment Pool (STIP) is a cash investment pool established in fiscal 1976 by The Regents and is available to all University groups, including retirement and endowment funds. STIP allows fund participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a larger pool and investing in a broader range of maturities.

STIP consists primarily of current funds slated for payroll, operating and construction expenses for all the campuses and teaching hospitals of the University. In addition, funds awaiting permanent investment in one of the long-term pools are invested in STIP to earn maximum daily interest until transferred.

Investment Objective

STIP's basic investment objective is to maximize returns consistent with safety of principal, liquidity and cash-flow requirements. STIP's investments encompass a broad spectrum of high-quality, money-market and fixed-income instruments with a maximum maturity of five years. The Treasurer's Office structures investment maturities to ensure an adequate flow of funds to meet the University's cash requirements.

Investment Strategy

The Treasurer's Office manages STIP as a highly liquid portfolio, using maturity distribution strategies to maximize returns in different yield-curve environments. The Treasurer's Office also employs select swapping strategies by taking advantage of disparities in the market to improve quality and yield, while maintaining liquidity.

Yields

STIP has achieved very attractive returns over the years as illustrated in Table V (on page 16). For fiscal 1999, STIP's yield of 6.0% outperformed those of both 2-year U.S. Treasury Notes (4.9%) and 3-month U.S. Treasury Bills (4.6%). During the past 20 years, the average yield on STIP was 8.7%, compared to 8.1% for 2-year U.S. Treasury Notes and 7.2% for 3-month U.S. Treasury Bills.

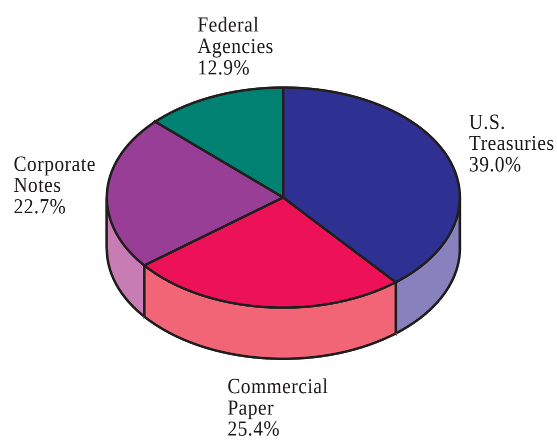
During the year, the very short end of the yield curve steepened, as yields in the 3-month to 1-year sector fell by approximately 30 basis points, while yields in the 2-year to 5-year sector increased between 4-18 basis points. With short-term interest rates still higher in yield than the expected rate of inflation, the Treasurer's Office continued to purchase longer-maturity securities, mainly U.S. Treasuries and Federal agencies, in order to capture attractive yields for STIP.

Asset Mix

STIP totaled $5.2 billion at June 30, 1999, compared to $4.6 billion at the end of fiscal 1998[1]. The portfolio consisted of 39.0% U.S. Treasury securities, 12.9% Federal agency securities, 25.4% prime commercial paper and 22.7% short-term corporate notes. The weighted average maturity of the portfolio at year-end was 2.2 years.

STIP Asset Mix

June 30, 1999

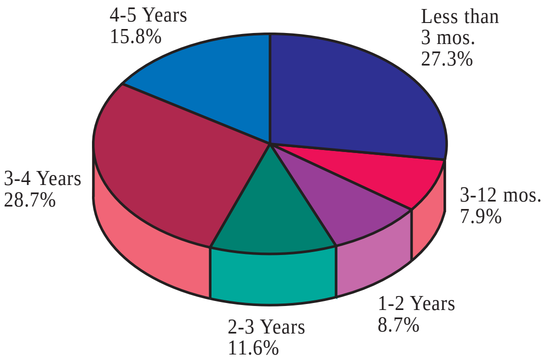


[1] For fiscal 1998 and fiscal 1999, the cash portion of the various portfolios excludes the unrealized market appreciation or depreciation of STIP investments and the investments in the security lending collateral pool. Therefore, the balances differ from the University's Annual Financial Report.

STIP Maturity Distribution

June 30, 1999

(Average Maturity = 2.2 years)



University Programs Utilizing STIP

In fiscal 1985, The Regents authorized the University of California Mortgage Origination Program, which provides first deed of trust mortgage loans to eligible members of the University's faculty and staff. These loans totaled $243.6 million at June 30, 1999, and were funded by the legally available cash balances in the unrestricted portion of STIP. In March 1999, The Regents authorized the use of the legally available cash balances in the unrestricted portion of STIP to provide liquidity support for The Regents' Commercial Paper Program.

Table V
STIP Annualized Yields[1]
June 30, 1999

	1-Year	5-Years	10-Years	15-Years	20-Years	20-Year Cumulative
STIP[1]	**6.0%**	**6.3%**	**6.8%**	**7.4%**	**8.7%**	**426.9%**
2-Year U.S. Treasury Notes	*4.9*	*5.8*	*5.9*	*6.7*	*8.1*	*371.3*
3-Month U.S. Treasury Bills	*4.6*	*5.1*	*5.1*	*6.1*	*7.2*	*301.7*
Inflation[2]	*1.2*	*1.7*	*2.5*	*2.8*	*3.7*	*106.8*

(1) STIP's annualized yields are net of (after) investment management and administrative expenses of 1.5% of average annual income for the fiscal year, which are automatically deducted from income.

(2) Inflation as measured by the GDP deflator.

University of California Retirement System

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM

Summary of Investments[1]

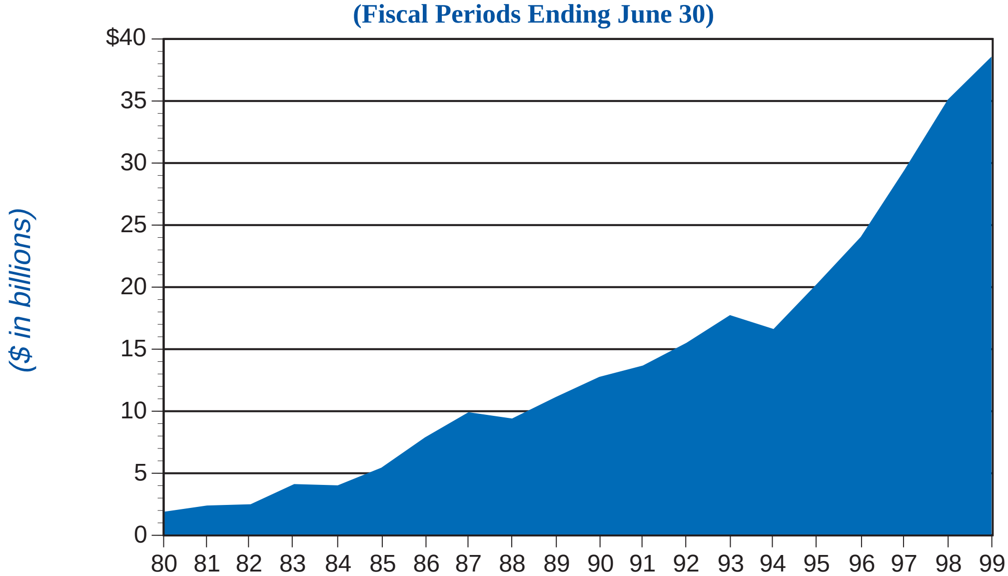
($ in thousands)

UC RETIREMENT PLAN (UCRP)	June 30, 1999 Cost	June 30, 1999 Market Value	June 30, 1999 % of UCRP	June 30, 1998 Market Value	June 30, 1998 % of UCRP
EQUITIES					
Common Stock	$ 6,796,517	$ 22,548,442	59.5%	$ 20,990,445	60.8%
Alternative Equities[2]	1,025,271	1,300,110	3.4%	927,294	2.7%
Total Equities	$ 7,821,788	$ 23,848,552	62.9%	$ 21,917,739	63.5%
FIXED-INCOME SECURITIES	$ 11,258,234	$ 13,305,540	35.1%	$ 11,802,460	34.2%
STIP PARTICIPATION[3]	$ 775,958	$ 775,958	2.0%	$ 810,530	2.3%
TOTAL UCRP	$ 19,855,980	$ 37,930,050	100.0%	$ 34,530,729	100.0%

DEFINED CONTRIBUTION DC FUNDS	June 30, 1999 Cost	June 30, 1999 Market Value	June 30, 1999 % DC Funds	June 30, 1998 Market Value	June 30, 1998 % DC Funds
TOTAL RETURN FUNDS					
EQUITY FUND	$ 1,418,252	$ 2,795,469	48.0%	$ 2,195,425	43.7%
BOND FUND	$ 448,773	$ 553,750	9.5%	$ 530,123	10.5%
INTEREST INCOME FUNDS					
SAVINGS FUND	$ 2,141,663	$ 2,141,663	36.8%	$ 2,014,510	40.1%
ICC FUND	$ 238,780	$ 238,780	4.1%	$ 205,408	4.1%
MONEY MARKET FUND	$ 91,392	$ 91,392	1.6%	$ 82,219	1.6%
TOTAL DC FUNDS[4]	$ 4,338,860	$ 5,821,054	100.0%	$ 5,027,685	100.0%

UCRP Market Values

(Fiscal Periods Ending June 30)



[1] For fiscal 1998 and fiscal 1999, the cash portion of the various portfolios excludes the unrealized market appreciation of STIP investments and the investments in the security lending collateral pool. Therefore, the balances differ from the University's Annual Financial Report.

[2] Alternative equities include investments in premier private equity funds and select public equity funds.

[3] UCRP's STIP investments include assets associated with the UC PERS Voluntary Early Retirement Incentive Program totaling $82.8 million in fiscal 1999 and $72.6 million in fiscal 1998.

[4] Total Funds excludes the Multi-Asset Fund, which totaled $499.9 million at June 30, 1999, and is invested in and reported as part of the Equity, Bond, Savings and Money Market funds.

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN

The largest pool of assets managed by the Treasurer's Office is the University of California Retirement Plan (UCRP), created in 1961. UCRP is a defined benefit plan, whereby retirement benefits are a function of the employee's age, average income and length of service. With the plan in surplus, The Regents suspended both employee and employer contributions to UCRP in 1990, but redirected the mandatory employee contributions (less than 2% of annual salary for most employees) to the newly established Defined Contribution Plan.

UCRP is a balanced portfolio of equities and fixed-income securities, which at June 30, 1999 totaled $37.9 billion, up from $34.5 billion at the end of fiscal 1998.

Investment Objective

The overall investment objective for all funds under management is to maximize real, long-term total returns (income plus capital appreciation adjusted for inflation), while assuming appropriate levels of risk.

UCRP's specific objective is to ensure its ability to meet its obligation to beneficiaries by earning sufficient returns over the long term that meet or exceed the actuarial rate of return of 7.5%.

Investment Strategy

In order to achieve these investment objectives, The Regents' asset allocation strategy for UCRP is to invest the great majority of assets in equities within a range of 75-60% and the remaining 25-40% in fixed-income securities, depending on market conditions and the relative total return prospects of the various asset classes.

The Treasurer's Office targets equity investments primarily in the common stocks of global companies that have the ability to grow their earnings and dividends at a higher rate than market averages, and fixed-income investments primarily in high-quality, long-term, global debt securities with attractive real returns. In addition, the Treasurer invests a modest portion of the equity portfolio in alternative equities, which include premier private equity funds and select public equity funds.

Returns

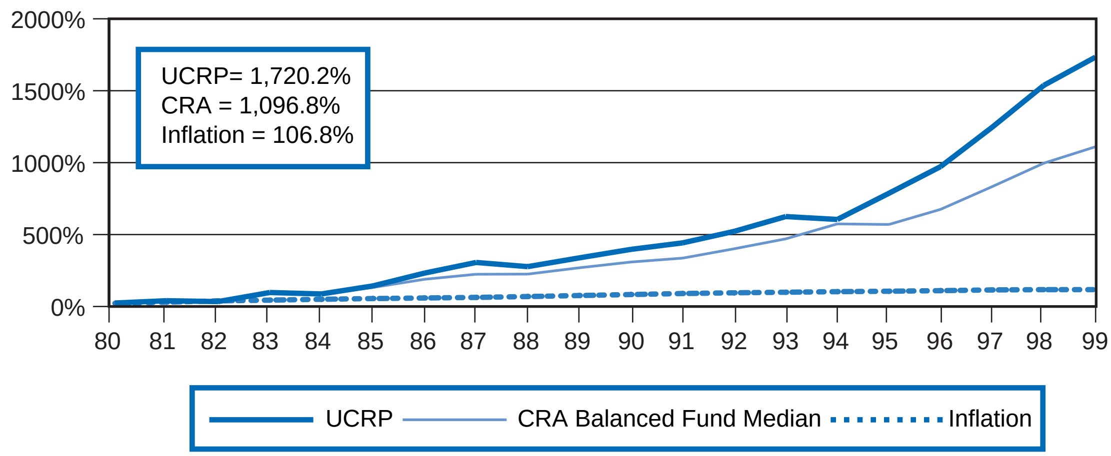
UCRP has performed extremely well over the years versus its peers. As illustrated in Table VI (on page 20), UCRP has a proven history of above-median investment performance when compared to the CRA universe of balanced funds. UCRP's excellent return record is driven by a commitment to quality issues, which has led UCRP to perform very well on a risk-adjusted basis versus its peers and balanced fund market indices. UCRP's annualized total return for the past 20 years through June 30, 1999 was a strong 15.6% versus 13.6% for the CRA Balanced Fund Median. UCRP also outperformed the Wilshire Large Pension Plan Median for the last five-year period, the longest period for which data is available, at 21.3% versus 16.7%.

Chart V (on page 20) illustrates the cumulative total returns for UCRP for the past 20 years relative to the CRA Balanced Fund Median and inflation.

Table VI
UCRP Annualized Total Returns versus Peers and Inflation
June 30, 1999

	1-Year	5-Years	10-Years	15-Years	20-Years	20-Year Cumulative
Total Fund						
UCRP[1]	**12.2%**	**21.3%**	**15.7%**	**17.0%**	**15.6%**	**1,720.2%**
CRA Balanced Fund Median[2]	*10.5*	*17.1*	*13.5*	*13.8*	*13.2*	*1,096.8*
Wilshire Large Pension Plan Median[3]	*12.2*	*16.7*	*N/A*	*N/A*	*N/A*	*N/A*
Inflation[4]	*1.2*	*1.7*	*2.5*	*2.8*	*3.7*	*106.8*
Common Stocks						
UCRP[1]	**21.1**	**25.8**	**17.9**	**18.2**	**16.9**	**2,174.1**
CRA Equity Only Median[2]	*16.3*	*25.0*	*17.3*	*17.9*	*16.7*	*2,102.4*
Fixed-Income Securities						
UCRP[1]	**-1.2**	**13.6**	**11.2**	**14.0**	**12.9**	**1,023.0**
CRA Bond Only Median[2]	*3.0*	*7.8*	*8.4*	*9.8*	*9.4*	*501.9*

Chart V
UCRP Cumulative Total Returns: Fiscal 1980-1999
Fiscal Periods Ending June 30



(1) UCRP's total returns are net of (after) investment management and administrative expenses of 0.04% of average annual market value. The asset class returns reflect investment returns. The performance of The Regents' total return investment portfolio is calculated by Shaw Data Systems, according to the standard recommended by the Bank Administration Institute (BAI), which uses a time-weighted methodology that essentially neutralizes the effect of contributions and withdrawals so as to measure only the returns on assets. These calculations comply with the Association for Investment Management and Research (AIMR) standards, which require time-weighted rates of return using realized and unrealized gains plus income. Performance is reconciled to the Treasurer's Office own internal calculations.

(2) Capital Resource Advisors (CRA), formerly SEI, measures investment returns on approximately 5,500 portfolios, with $364 billion in assets. These returns are gross returns and are before any investment management fees, which would be approximately 0.50% of average annual market value. For periods longer than 10 years, the Treasurer's Office uses the linked median, which is the compounded return of the annual universe median during a given time period.

(3) The Wilshire Large Pension Plan Index measures investment returns on a universe of 26 pension plans greater than $10 billion, of which seven are corporate and 19 are public (including UCRP).

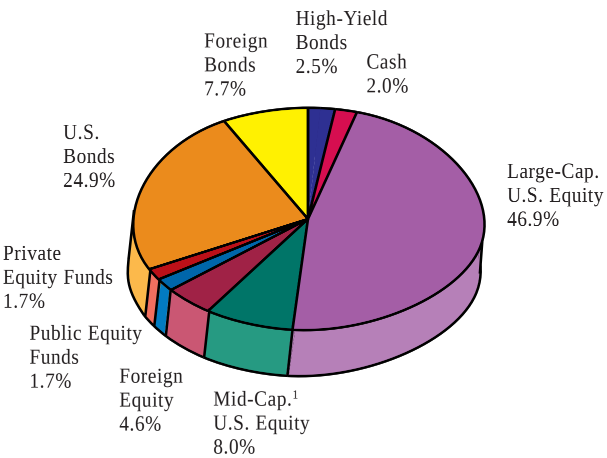
(4) Inflation as measured by the GDP deflator.

Asset Mix

At June 30, 1999, UCRP consisted of 62.9% equities, 35.1% fixed-income securities and 2.0% cash. The five-year average annual turnover rate at the end of fiscal 1999 was 9.7%.

UCRP Asset Mix

June 30, 1999



Equity Investments

The equity portion of UCRP consists primarily of domestic and foreign common stocks, with a modest exposure to alternative equities. Common stocks represented 59.5% of UCRP at year-end, with a market value of $22.5 billion.

UCRP's 10 Largest Equity Holdings

(June 30, 1999)

Hewlett Packard Co.
General Electric Co.
Merck & Co., Inc.
American Home Products Corp.
Time Warner, Inc.
Exxon Corp.
Ericsson Tel 'B' ADR
Automatic Data Processing, Inc.
Marsh & McLennan Cos., Inc.
Gannett Co., Inc.

UCRP's common stocks returned 21.1% during the year, outperforming the CRA Equity Only Median return of 16.3% by a wide margin. For the past 5, 10, 15 and 20 years, UCRP's common stocks have outpaced the CRA Equity Only Median.

1 Mid-cap. stocks have a market capitalization of approximately $1-10 billion.

Alternative equities constituted 3.4% of the total portfolio at year-end, with a market value of $1.3 billion. UCRP's alternative equities returned 45.6% for the fiscal year.

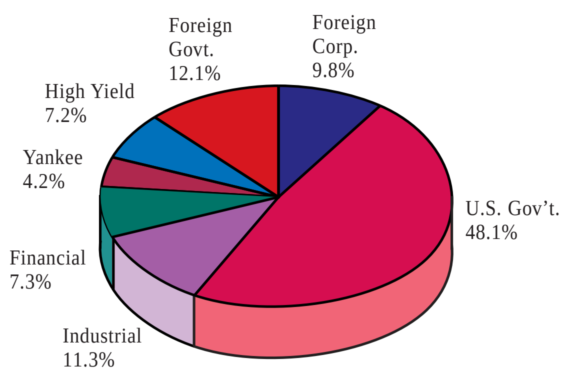
Fixed-Income Investments

At year-end, fixed-income investments constituted 35.1% of the portfolio, with a market value of $13.3 billion. UCRP's fixed-income securities returned –1.2% during the year and underperformed the CRA Bond Only Median return of 3.0%. However, for the past 5, 10, 15 and 20 years, UCRP's fixed-income securities have outperformed the CRA Bond Only Median by a wide margin.

The weighted average maturity of UCRP's bond portfolio at year-end was approximately 20 years, and the average credit quality was AA, with 61.7% of the fixed-income securities rated AAA. The following pie charts illustrate the sector mix and quality breakdown of the UCRP bond portfolio.

UCRP Fixed-Income Sector Mix

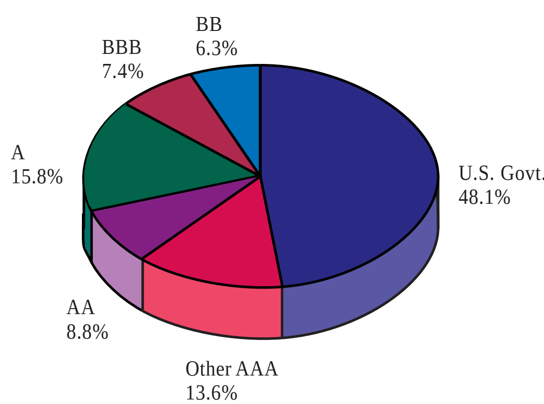
June 30, 1999



UCRP Fixed-Income Quality Mix

June 30, 1999

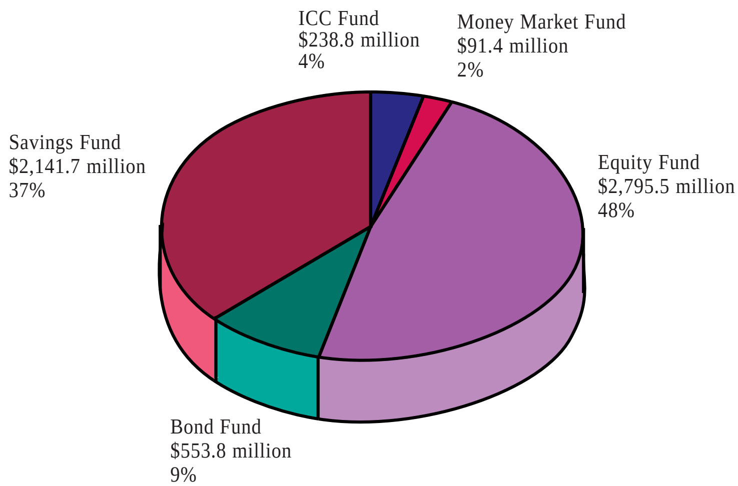
(BBB and higher = investment grade.)



DEFINED CONTRIBUTION FUNDS

TOTAL DC ASSETS BY FUND[1]

June 30, 1999



In addition to the defined benefit program (UCRP), the University offers three defined contribution plans to provide its employees with supplemental retirement benefits—the mandatory Defined Contribution Plan (DC Plan), the Tax-Deferred 403(b) Plan and the Defined Contribution Plan After-Tax Account. These programs differ from UCRP in that the benefits received by participants are based on the employee's contributions to the plans and the returns earned on those contributions over time.

When investing their defined contribution funds, employees may choose among six University Defined Contribution (DC) Funds managed internally by the Treasurer's Office or numerous external funds. The six University-managed funds include three total return funds—the Equity Fund, Bond Fund and Multi-Asset Fund—and three interest income funds—the Savings Fund, Insurance Company Contract (ICC) Fund and Money Market Fund.

INTERNALLY MANAGED UC FUNDS

The University-managed funds offer employees the opportunity to achieve excellent, long-term investment performance by investing in one or more funds of their choice. These funds represent diversified portfolios of high-quality, growth-oriented global stocks and bonds, as well as more conservative interest income funds with attractive above market yields. As Table VII (on page 26) illustrates, these funds consistently rank above average in performance comparisons. In addition, the University-managed funds are extremely low cost relative to external fund options: Annual expenses are only 0.15% of average annual market value, compared to the industry average of 1.4%[2].

1 At 6/30/99, the Multi-Asset Fund totaled $499.9 million and consisted of 34% Savings Fund, 39% Equity Fund, 19% Bond Fund and 8% Money Market Fund.

2 Source: *Principia Pro Plus© for Mutual Funds*, July 1999, Morningstar, Inc. Although gathered from reliable sources, data completeness and accuracy cannot be guaranteed.

Total Return Funds

Equity Fund

The largest of the University-managed funds is the Equity Fund, established in August 1967. The Equity Fund is a total return fund with the primary objective of maximizing long-term capital appreciation with a moderate level of risk. The Treasurer's Office invests the Equity Fund in a diversified portfolio primarily of high-quality, large-cap, growth-oriented, global companies, with a modest representation in alternative equities, including premier private equity funds and select public equity funds.

At June 30, 1999, the total market value of the Equity Fund was $2.8 billion. The portfolio consisted of 81.8% domestic common stocks, 6.3% foreign common stocks, 7.8% alternative equities and 4.1% cash. The five-year average annual turnover rate for the Equity Fund was 7.8% as of June 30, 1999.

For the fiscal year, the Equity Fund's return of 25.0% was significantly above the S&P 500 return of 22.8% and the Morningstar Domestic Equity Funds Average of 13.1%. In addition, the Equity Fund's long-term returns have outperformed the Morningstar Domestic Equity Funds Average by a wide margin. Furthermore, the Equity Fund compares favorably to the market on a risk-adjusted basis.

Bond Fund

The Bond Fund is a total return fund established by The Regents in January 1978. The primary objective of the Bond Fund is to maximize real long-term total return through a combination of interest income and price appreciation. The Treasurer's Office invests the Bond Fund in a diversified portfolio primarily of high-quality, long-term, global debt securities for which an attractive real return greater than the expected rate of inflation is achievable.

At June 30, 1999, the total market value of the Bond Fund was $553.8 million. U.S. Government securities constituted 35.0% of the Fund, while high-grade industrial bonds represented 17.8%, financial bonds 8.1%, Yankee bonds 3.9%, high-yield bonds 8.1% and foreign bonds 26.7%. The remaining 0.4% was in cash. The weighted average maturity of the portfolio at year-end was approximately 21 years, the weighted average credit quality was AA, and 51.7% of the portfolio was rated AAA. The five-year average annual turnover rate for the Bond Fund was 7.5% as of June 30, 1999.

In fiscal 1999, the Bond Fund returned –1.1% versus –0.6% for the Lehman Long-Term Index and1.2% for the Morningstar Taxable Bond Funds Average due largely to the Bond Fund's longer duration. The Bond Fund's returns have exceeded those of the Morningstar Taxable Bond Funds Average and long-term bond indices over the years.

Multi-Asset Fund

In September 1990, the University Administration established the Multi-Asset Fund as an investment option. The Multi-Asset Fund is not a managed fund, per se, but is a combination of four existing University-managed funds, whereby contributions are invested according to a fixed percentage: 30% in the Equity Fund, 20% in the Bond Fund, 40% in the Savings Fund and 10% in the Money Market Fund. As such, the Fund invests in an extremely conservative blend of 70% fixed-income assets and 30% equity assets. Although employee contributions enter the Multi-Asset Fund in a fixed percentage, the Multi-Asset Fund is not rebalanced. The actual mix of the Multi-Asset Fund will vary over time as the market values of the component funds fluctuate at different rates.

The market value of the Multi-Asset Fund at June 30, 1999 was $499.9 million, and the actual asset mix was 39% Equity Fund, 19% Bond Fund, 34% Savings Fund and 8% Money Market Fund.

The Multi-Asset Fund's returns are a function of the performance of its component funds, which has been excellent over the years.

Interest Income Funds

Savings Fund

The Savings Fund, the second largest DC fund, is an interest income fund created in July 1967. The investment objective of the Savings Fund is to maximize interest income returns, while protecting principal, by investing 100% in government, government-guaranteed and government agency securities of up to five years in maturity. The Treasurer's Office manages the portfolio by adjusting the Fund's maturity structure to maximize returns in different yield-curve environments.

The Savings Fund totaled $2.1 billion at June 30, 1999, and was invested 100% in AAA-rated U.S. Treasury and Federal agency securities. The weighted average maturity of the Savings Fund was 2.7 years at June 30, 1999.

The Savings Fund has consistently provided a yield greater than that of 2-year U.S. Treasury Notes. In fiscal 1999, the Savings Fund generated a yield of 6.1% versus 4.9% on 2-year U.S. Treasury Notes and generated an average yield of 8.1% during the past 15 years versus 6.7% on 2-year U.S. Treasury Notes.

Insurance Company Contract Fund

The Regents approved the Insurance Company Contract (ICC) Fund as an investment option in September 1985. The investment objective of the ICC Fund is to maximize interest income while protecting principal. The Treasurer's Office invests contributions to the ICC Fund in insurance company contracts offered by select, highly rated, financially sound insurance companies. Under such contracts, the insurance companies guarantee a fixed annual rate of interest for a specified time period and the repayment of principal at the end of that time period. The contracts are backed by the assets of the insurance companies, and ICC Fund participants receive the blended rate of all contracts in the fund. The Treasurer's Office uses staggered maturities to systematically manage the reinvestment of maturing contracts and to provide return stability.

At June 30, 1999, the ICC Fund totaled $238.8 million, with a weighted average maturity of 4.7 years.

Since inception, the ICC Fund has generated yields that have exceeded those of 5-year U.S. Treasury Notes by a comfortable margin. In fiscal 1999, the ICC Fund generated a 7.2% yield versus 5.0% on 5-year U.S. Treasury Notes and generated an average yield of 8.2% during the past 10 years compared to 6.4% on 5-year U.S. Treasury Notes.

Money Market Fund

The Regents approved the Money Market Fund as an investment option in September 1985 on the recommendation of the University Administration. Initially, the Treasurer's Office invested the assets in STIP, but then created a separate money market fund in February 1989. The Fund's investment objective is to maximize interest income while protecting principal. The Treasurer's Office invests the Money Market Fund in a diversified portfolio of high-quality, short-term securities. The weighted average maturity of the Fund may not exceed 90 days and no individual maturity may exceed 13 months.

The Money Market Fund totaled $91.4 million at June 30, 1999 and had a weighted average maturity of approximately 83 days. The portfolio was invested 100% in commercial paper.

The Money Market Fund's yields compare favorably to those of 3-month U.S. Treasury Bills. In fiscal 1999, the Money Market Fund generated a 5.3% yield compared to 4.6% on 3-month U.S. Treasury Bills. During the past 10 years, the Money Market Fund generated an average yield of 5.7% compared to 5.1% on 3-month U.S. Treasury Bills.

For Further Information

For more information on the University-managed funds, please refer to ***"Retirement Investment Funds", June 1998***, or log on to our website (http://www.ucop.edu/treasurer).

Table VII
University-Managed Defined Contribution Funds
Annualized Total Returns and Yields[1]
June 30, 1999

	1-Year	5-Years	10-Years	15-Years	20-Years
Total Return Funds					
Equity Fund	**25.0%**	**23.9%**	**17.2%**	**17.9%**	**16.7%**
S&P 500	*22.8*	*27.9*	*18.8*	*19.2*	*17.9*
Morningstar Domestic Equity Funds Average[2]	*13.1*	*19.6*	*14.7*	*15.2*	*N/A*
Bond Fund	**-1.1**	**13.9**	**11.2**	**14.5**	**12.3**
Lehman Long-Term G/C/Y	*-0.6*	*9.7*	*9.3*	*12.4*	*10.5*
Morningstar Taxable Bond Funds Average[2]	*1.2*	*6.8*	*7.5*	*9.6*	*N/A*
Multi-Asset Fund[3]	**11.2**	**13.6**	**N/A**	**N/A**	**N/A**
Market Index Mix[4]	*9.4*	*13.1*	*N/A*	*N/A*	*N/A*
Interest Income Funds					
Savings Fund	**6.1**	**6.3**	**7.2**	**8.1**	**8.7**
2-Year U.S. Treasury Notes	*4.9*	*5.8*	*5.9*	*6.7*	*8.1*
ICC Fund	**7.2**	**7.6**	**8.2**	**N/A**	**N/A**
5-Year U.S. Treasury Notes	*5.0*	*6.0*	*6.4*	*N/A*	*N/A*
Money Market Fund	**5.3**	**5.6**	**5.7**	**N/A**	**N/A**
3-Month U.S. Treasury Bills	*4.6*	*5.1*	*5.1*	*N/A*	*N/A*
Inflation[5]	*1.2*	*1.7*	*2.5*	*2.8*	*3.7*

(1) All returns and yields for the University-managed funds are net of (after) investment expenses of 0.15% and are based on unit values for the Equity, Bond and Multi-Asset funds and on interest factors for the Savings, ICC and Money Market funds. The Treasurer's Office calculates returns and yields by dividing the new unit value or interest factor by the previous unit value or interest factor supplied by UC Human Resources and Benefits. The Treasurer's Office compares these results to the gross investment returns calculated by the Shaw Data System. Shaw Data System's calculations comply with the Association for Investment Management and Research (AIMR) standards, which require time-weighted rates of return using realized and unrealized gains plus income.

(2) Source: *Principia Pro Plus© for Mutual Funds*, July 1999, Morningstar, Inc. Although gathered from reliable sources, data completeness and accuracy cannot be guaranteed. Morningstar is the leading investment information and services provider. [800-735-0700; http://www.morningstar.com]

(3) Contributions to the Multi-Asset Fund are invested 40% Savings Fund, 30% Equity Fund, 20% Bond Fund and 10% Money Market Fund. The fund is not rebalanced.

(4) The Market Index Mix consists of 30% S&P 500, 20% Lehman Long-Term G/C/Y, 40% 2-Year U.S. Treasury Notes and 10% 3-Month U.S. Treasury Bills.

(5) Inflation as measured by the GDP deflator.

External Finance

Total Regents' Outstanding Indebtedness

June 30, 1999
($ in thousands)

PUBLIC DEBT	
Revenue Bonds:	
University of California Housing System	$ 221,375
Irvine Parking System, Series A	255
Davis Memorial Union	1,050
1989 Multiple Purpose Projects	
Series B	2,885
Refunding Revenue Bonds, Series C	452,340
1991 Multiple Purpose Projects	
Refunding Revenue Bonds, Series A	40,985
Refunding Revenue Bonds, Series B	160,855
Refunding Revenue Bonds, Series C	294,615
Series D	20,590
Refunding Revenue Bonds, Series E	283,880
Series F	298,660
Series G	64,115
Hospital Revenue Bonds (UCLA Medical Center)	
UCLA Medical Center, Refunding Revenue Bonds, Series 1994	122,320
UC Davis Medical Center, Series A	345,880
Research Facility Revenue Bonds	
1993 Series A	38,145
1995 Series B	9,510
1998 Refunding Series C	89,015
1998 Series D	49,110
Faculty Mortgage Revenue Bonds	
Series 1979	5,885
Series 1987	2,925
Certificates of Participation	
Telephone and Communications Systems	
1987 Refunding Certificates of Participation	3,305
UCLA Central Chiller/Cogeneration Facility	
1991 Certificates of Participation	3,315
1993 Refunding Certificates of Participation	183,960
1999 Series A	60,465
1999 Series B	10,390
1999 Series C	10.815
Commercial Paper	
Series A	430,000
Series B	120,000
TOTAL PUBLIC DEBT	**$3,326,645**
COMMERCIAL BANK LOANS	
(Total commitments: $74,672)	**$ 64,398**
PRIVATE PLACEMENTS	
UC San Diego Medical Center-Thornton Hospital	71,582
Various Capital Projects, 1996 Series A	19,400
Various Capital Projects, 1996 Series B	21,500
TOTAL PRIVATE PLACEMENTS	**$ 112,482**
TOTAL REGENTS' INDEBTEDNESS	**$3,503,525**
TOTAL SPWB LEASE OBLIGATIONS	**$1,174,416**
TOTAL REGENTS' OBLIGATIONS	**$4,677,941**

EXTERNAL FINANCE

The Treasurer's Office is responsible for managing the external financing requirements of the University's nine campuses and four medical centers. All projects that require external financing are coordinated with the Treasurer's Office with regard to financing feasibility and approved by The Regents.

The external finance group consists of two professionals with an average of 18 years of experience in banking and finance.

The external finance group employs a comprehensive strategy to meet the short-term and long-term financing requirements of the University at the lowest cost of financing.

- Short-term requirements for construction and acquisition projects are met by issuing tax-exempt and taxable commercial paper and negotiating interim loans from commercial lenders.
- Intermediate and long-term needs are met through public sales of revenue bonds and certificates of participation and negotiated private placements.

Other financing activities and responsibilities of the external finance group include the following:

- Maintain an active investor relations program and meet with institutional investors to identify new resources for debt placement on a tax-exempt and taxable basis;
- Maintain relationships with rating agencies and bond insurance companies;
- Work closely with the State Treasurer's Office on the issuance of State Public Works Board (SPWB) lease revenue bonds and notes that provide long-term funding for research facilities and equipment, libraries and instructional facilities on the University's campuses and medical centers. Under this lease structure, the State provides appropriations for the lease rental payments; however, the University is ultimately responsible for making the payments from its lawfully available funds;
- Advise the Office of the President on debt capacity issues and financial market conditions; and
- Advise the campuses and medical centers on financing related issues.

During fiscal 1999, the Treasurer's Office managed $550 million in outstanding commercial paper used primarily for interim construction. In March 1999, The Board approved the use of the legally available cash balances in the unrestricted portion of the Short Term Investment Pool (STIP) as internal liquidity support for the Commercial Paper Program. This allowed the cancellation of the bank line of credit, thereby saving substantial bank fees. This change to internal liquidity was supported by the rating agencies, commercial paper dealers and major institutional investors. Standard and Poor's and Moody's Investors Service confirmed the highest short-term credit ratings, A1+ and P1, respectively, for the Commercial Paper Program after reviewing the liquidity inherent in STIP.

During fiscal 1999, the Treasurer's Office issued $81.7 million of new bonds to finance the construction of new projects for various University campuses, and at fiscal year-end, managed University external financing of $3.5 billion, excluding $1.1 billion of State Public Works Board leases. Subsequent to the end of the fiscal year, $197.3 million of new bonds were issued, increasing total University debt managed by the external finance group to $3.7 billion.

Treasury Operations
and
Banking and Treasury Services

Treasury Operations

The Treasury Operations unit is responsible for all investment portfolio operations, including investment accounting and reporting, as well as central management of all cash and banking/financial services for the University.

The investment and banking operations group consists of three managers with an average of 17 years experience in banking and/or investment operations and six analysts with an average of 18 years experience in investment accounting and operations.

The treasury operations group is responsible for the following investment accounting and cash management activities.

Investment Accounting

- Track all investment security transactions (foreign and domestic) from origination to settlement.
- Monitor and collect all investment income.
- Reconcile all investment assets with the master custodians daily.
- Monitor all transactions and holdings and reconcile all custodial records to in-house investment databases.
- Calculate, analyze and report investment performance.
- Coordinate incoming gifts with campuses and/or donors and monitor and report receipt of security and cash gifts.

Cash Management

- Sweep all depository accounts daily and transfer funds to the University's main account.
- Provide funds to cover all checks and electronic fund transfers for vendor and payroll accounts.

Investment Reporting

The investment group provides the following reports:

- All required reports to The Regents' Committee on Investments;
- Performance reports on the various portfolios and separately invested funds;
- All required governmental and other regulatory agency reports; and
- The Treasurer's Annual Report.

Systems and Y2K

During fiscal 1999, the Treasurer's Office installed and tested a new investment accounting system. Parallel testing of the new system with the existing system was completed utilizing current transactions in addition to back-loading two years of historical data. The new system will become the Treasurer's Office system of record during the second quarter of fiscal 2000.

The Treasurer's Office year 2000 (Y2K) compliance plan was first initiated in April 1997. During fiscal 1999, the Y2K plan was monitored and revised based on the results of internal and external testing procedures. For all mission critical activities, alternative processing procedures have been developed in case any of our primary systems are affected by the date change. These alternative procedures are being implemented according to the timetable in the Y2K plan.

Banking and Treasury Services

The Treasurer's Office manages all Regental banking services and bank accounts used within the UC system. As such, the Banking and Treasury Services unit of the Office of the Treasurer is responsible for the management and central oversight of all banking and related service facilities for the UC system, including all campuses and laboratories. This group is comprised of four professionals, with an average of 15 years experience, and is responsible for the following activities:

- Promote best practices in the areas of depository and disbursement banking, lockboxing, credit card processing, travel and procurement cards and other financial and banking services;
- Select and manage more than 230 bank accounts; open and close accounts as needed and monitor all bank account signatories;
- Negotiate all banking and related service contracts and pricing and monitor billings for these services;
- Review and upgrade cash management systems to ensure industry standards are met;
- Advise campuses and labs of new financial services and technologies; and
- Serve as office of record for all banking and related service contracts, and all bank accounts and associated signatories.

Office of the Treasurer
October 1999

PATRICIA A. SMALL, TREASURER
MELVIN L. STANTON, THE ASSISTANT TREASURER

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