Investment Risk Factor Guide

The UC Retirement Savings Program offers the UC Core Funds, which include a full range of asset classes designed to help meet participant needs. Participants in the Program should consider their unique needs and goals, along with any savings held outside of the Program, when building an appropriately diversified asset allocation of funds.

There are many factors that can affect the value of the individual investments within each of your Retirement Savings Program Funds and, therefore, the overall value of the Fund itself. These vary depending on the type of investment – e.g., equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to changes in interest rates and credit risks. As a fund manager, the Treasurer's Office attempts to identify and analyze these and other potential risks in managing the funds, although no guarantee can be made that the decisions made will produce the desired results.

"Risk" refers to the possibility of loss of principal, or alternatively to a rate of investment return below expectations or requirements. While volatility (price fluctuation) is not synonymous with risk, it is true that high volatility on the downside results in loss, and therefore higher volatility is associated with higher risk. Of course, volatility results in realized losses only if securities are sold after a fall in price; it is expected (but not assured) that for diversified portfolios, higher volatility is associated with higher expected returns in the long run. Thus, the length of an individual's investment horizon will to some degree determine the appropriate amount of investment risk. Remember that all risk factors can be partially mitigated by diversification, both within a fund and across a person's entire assets.

Market Risk – the broad risk that securities prices may fluctuate, due to a variety of factors, potentially reducing the value of an investment.

Individual Company or Issuer Risk – the value of an individual stock or corporate bond may vary according to a number of factors directly related to the company's own performance, such as: management expertise, the company's financial condition, changes in demand for the company's products, changes in the regulatory environment, etc.

> **Concentration Risk** (non-diversification) – the risk of having too much money invested in a few individual issuers or similar industries, countries, etc., thereby exposing a Fund to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

Credit Risk – the risk that a company will be unable to repay its debt obligations, relating to a variety of factors such as financial weakness or bankruptcy, litigation, and/or adverse political or regulatory developments. This risk is often measured by Credit Ratings issued by several leading ratings agencies, such as Moody's and Standard & Poor's.

> **Prepayment Risk** – Prepayment features on debt securities can increase volatility and affect returns, as cash flows may have to be reinvested at lower yields.

Interest Rate Risk – as interest rates rise, the market value of fixed income investments normally falls. The prices of fixed income securities with longer time to maturity (duration) tend to be more sensitive to changes in interest rates, and therefore more volatile, than those with shorter durations.

Liquidity Risk – the risk that certain securities may be difficult to buy or sell at various times in the markets, resulting in potentially unfavorable prices. Liquidity can be affected by a variety of factors, such as security type, general market conditions, and credit risk. Liquidity risk is particularly relevant to private equity investments.

Foreign Security Risk – foreign securities may carry greater risk than domestic securities for a variety of reasons such as increased political risks; smaller or less liquid markets; higher transaction costs; less rigorous accounting and reporting standards for corporations; and changes in currency rates vs. the U.S. dollar. This last factor may be most significant, as the value of foreign currencies may fluctuate considerably over short periods of time, potentially reducing the market value of the investment.

Relative Risk of UC Core Funds

Lower Risk *Lower Expected Return*				*Higher Risk* *Higher Expected Return*
UC Savings Fund UC ICC Fund Dreyfus Treasury Prime Cash Management – Institutional Shares	UC Bond Fund UC TIPS Fund	UC Balanced Growth Fund	UC Equity Fund UC Dom. Equity Index Fund Vanguard Social Index Fund	UC Int'l Eq. Index Fund DFA Emg. Mkt Port. Vanguard Sm.Cap. Index Fund Vanguard REIT Fund

Lower Risk
Lower Expected Return

Higher Risk
Higher Expected Return

UC Pathway Funds relative to each other

Income Fund	2010	2015	2020	2025	2030	2035	2040	2045	2050	2055	2060

Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.

The information contained herein regarding the UC Funds has been provided by the University of California Office of the Treasurer and is solely the responsibility of the University of California Office of the Treasurer.

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