Treasurer's Annual Report

One hundred and forty-second fiscal year
University of California • 2009-2010

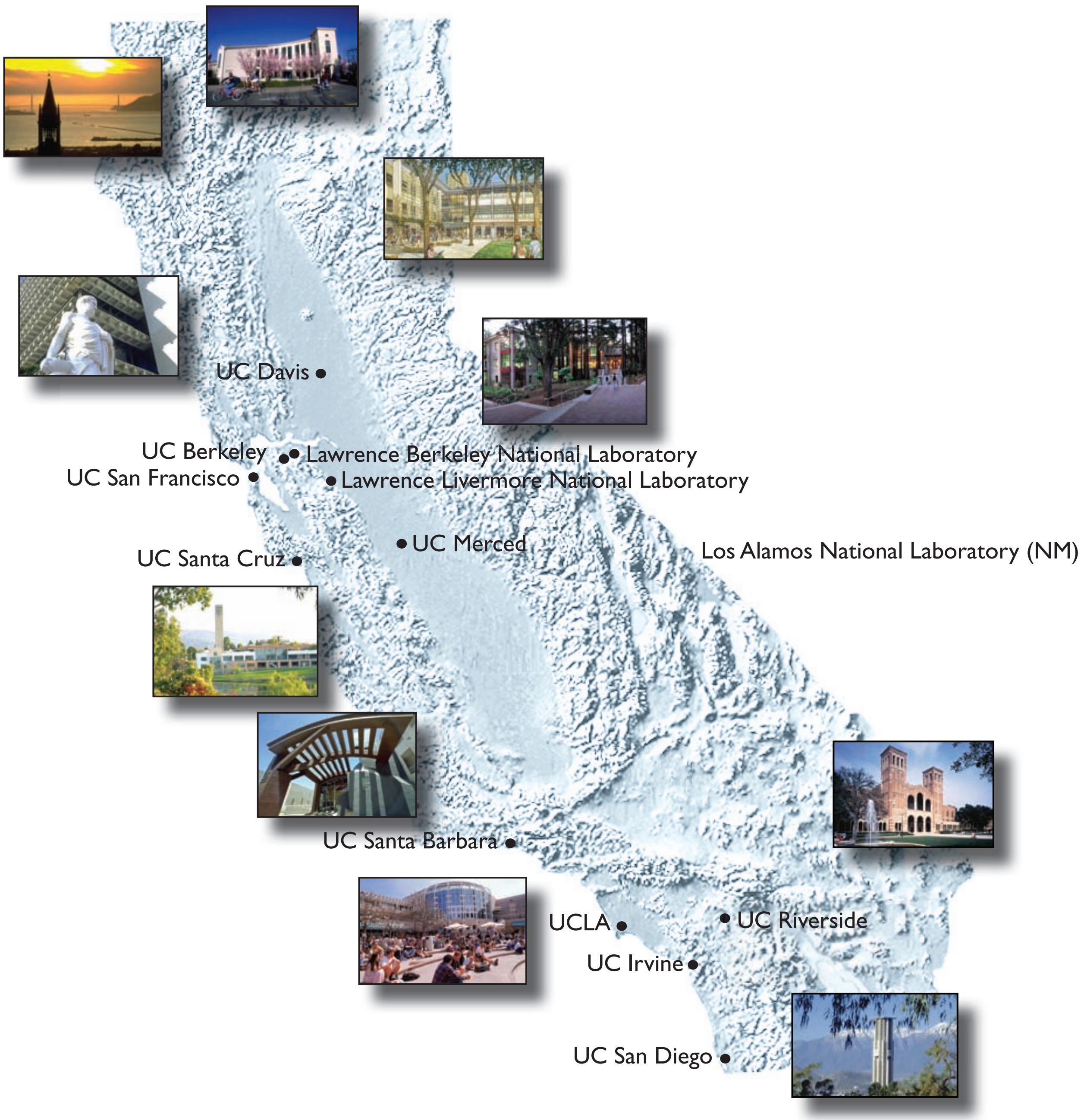
Mission Statement

The Office of the Treasurer of The Regents manages the University of California's retirement, endowment and cash assets under the policies, guidelines, and performance benchmarks established by The Regents. The Office's mission is to implement those policies and guidelines by selecting, executing, and monitoring investment strategies designed to add value over the benchmarks within a risk controlled framework. The Office adheres to high ethical as well as professional standards in serving the investment management needs of its constituency.

The University of California

The University of California is the world's premier public university with a mission of teaching, research, and public service. The UC system—founded in 1868—has 10 campuses and operates five medical centers, 15 health professional schools, four law schools, the nation's largest continuing education program, and a statewide Division of Agriculture and Natural Resources. In addition, the University is involved in the management of three national laboratories for the Department of Energy, performing cutting-edge research in fields ranging from national security to energy efficiency. The UC community includes over 228,000 enrolled students, 180,000 faculty and staff, 50,000 retirees, and over 1.6 million alumni, living and working around the world. Its Natural Reserve System manages approximately 135,000 acres of natural habitats for research, teaching, and outreach activities.

Campuses and National Laboratories



Treasurer's Annual Report Fiscal 2009-2010

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FISCAL YEAR 2010 IN REVIEW

The global economy and risk markets staged a healthy rebound from the trough of the financial crisis in the first half of fiscal 2009-2010. The main drivers were accommodative fiscal and monetary policies, massive restocking of inventories, robust activity in the emerging markets economies, and strong corporate profits. However, as calendar 2010 began, the positive effects of stimulus were fading and several new concerns arose: rising debt levels in the developed world; fears that China's attempts to cool runaway growth would further dampen the global economic recovery; uncertainty over the effects of healthcare and financial reforms, tax policy, and upcoming mid-term elections in the U.S.; and a stalling of progress on relieving the housing crisis. Weekly jobless claims made little further progress after coming off the high of 509,000 in November 2009. Although corporations reported record profits during this past fiscal year, most of the gains were the result of cost-cutting measures rather than top-line growth. As such, while results were still positive, economic data took a decidedly negative turn in the March quarter and a new round of risk aversion emerged triggered by sovereign debt crisis in southern Europe.

For the full fiscal year, real gross-domestic-product in the U.S. rose 3% after falling 3.9% last year. Headline consumer price inflation (CPI) rose 1.1% after falling 1.4% in FY 2009, and core CPI rose just 0.9% vs. 1.7% in fiscal 2009. The Russell 3000 rose 15.7%, the MSCI World ex-U.S. (Net) Index 6.8%, and the MSCI Emerging Market (Net) Index 23.2%. Against most predictions, U.S. Treasury yields fell as the Fed maintained a zero interest rate policy, producing healthy total returns on fixed income assets. The Barclays Capital Aggregate Bond Index gained 9.5%; the JP Morgan EMBI Global Diversified Bond Index rose 18.4%; and the Merrill Lynch High Yield Cash Pay Index, 27.0%.

Currently, investors are debating whether the recent slowdown in economic activity was temporary or not and whether renewed fiscal and/or monetary stimulus is forthcoming. Corporations have record levels of cash on their balance sheets and are postponing new hirings, if not actually continuing layoffs. Investors have poured money into fixed income investments of all kinds while withdrawing from equities.

The most recent data (Q3 2010) in the U.S. and developed world suggest a double dip is less likely. Economic activity in most of the emerging world has remained fairly robust; corporate balance sheets are healthy; consumers are saving more to strengthen their own financial positions; and the severe cuts seen in capital spending and payrolls may slowly be reversing. However, it is likely the markets will remain volatile in the coming months as leverage and the effects of the credit crisis continue to gradually unwind.

MESSAGE FROM THE CHIEF INVESTMENT OFFICER

Performance: Amid another year of turbulent markets, the University of California Retirement Plan (UCRP) and the General Endowment Pool (GEP) both delivered strong returns. For the fiscal year ended June 30, 2010, the UCRP returned 12.72% and the GEP returned 10.87%, outperforming their policy benchmarks by 111 bp and 132 bp, respectively. The Short Term Investment Pool (STIP) had a positive return of 2.72% and the Total Return Investment Pool (TRIP) achieved 13.99%.

The portfolios benefited from good asset allocation decisions, including limited exposure to Real Estate (which continued to lag the market), and thoughtful and disciplined rebalancing of beta exposures. Our rigorous due diligence allowed us to avoid hedge fund, real estate, and private equity "blow-ups." The portfolios maintained liquidity, helping the University to avoid liquidity issues that continue to plague many of our peers.

The UCRP market value stood at over $34 billion at fiscal year end and paid out benefits of $1.98 billion to UC retirees for the year. Pension contributions, which had not been required of employees for 19 years, were resumed in April 2010.

The value of assets within the 25 Core Funds, including the target-date Pathway Funds, available within the University's Retirement Savings Program—the DC Plan, 403(b) Plan, and 457(b) Plan—is over $10.4 billion. Our Office continues to work jointly with Human Resources to facilitate enhancements to both the financial education and recordkeeping services of the program. Performance of the individual UC-managed funds is available beginning on page 29 of this report.

The market value of the GEP, as of June 30, 2010, was approximately $5.7 billion, or $20.37 per share. A combination of more disciplined tactical allocation and superior manager selection decisions helped us navigate into a top quintile ranking within GEP, relative to our peers as of the one-year period ended March 31, 2010 (the latest information available).

Governance: The Regents' responsibilities center on approving investment policy, asset allocation, benchmarks, and risk budgets and guidelines, while our Office is responsible for all aspects of implementation, including the development of processes and procedures and the selection of investment products. Recognizing that the primary determinant of investment return and the investment risk is the overall asset allocation, our Office—under the guidance of The Regents—continues to diversify holdings to provide for the long-term needs of the University, its programs, and employees.

At the March 2010 meeting, The Regents approved a 0.5% current policy allocation to Real Assets for the UCRP and the GEP, with a long-term allocation of 3%. "Real Assets" are expected to provide value protection during unexpected bouts of inflation and participate in continued industrialization of emerging economies. We hired an investment officer and senior investment analyst to concentrate in the Real Assets area; other members of the team from Private Equity and Absolute Returns are also involved in vetting potential investments.

Marie N. Berggren

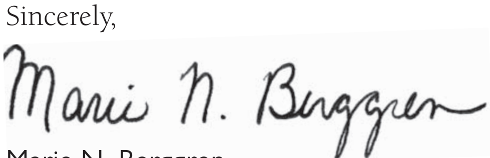
The Regents also approved a 0.5% allocation to Opportunistic Investments for both UCRP and GEP to allow the Treasurer to take advantage of investment opportunities that are either of limited duration (e.g., distressed assets) or do not neatly fit into other categories, e.g., global asset allocation and active currency strategies). For the GEP, The Regents approved a reduction to the Non-U.S. Bond allocation and an increase to both the U.S. Equity and Non-U.S. Developed Equity allocations. For the UCRP, they approved a reduction to the U.S. Equity allocation. All changes were effective April 1, 2010.

Service: Investment returns are the largest driver of assets available to pay benefits. The University Treasurer's Office investment performance has been consistently above its benchmark and the UCRP assumed rate of return; however, investments alone cannot overcome a 20-year lack of contributions. Both Associate CIO Melvin Stanton and I participated in the Post-Employment Benefits Task Force, which worked throughout the year to study, consult, and discuss recommendations for pension and retiree health-benefit changes to the University of California retirement Plan. The work of the Task Force has reinforced the belief that pension and retiree health benefits are an integral part of recruitment, retention and a general commitment to the University community in support of its primary mission of teaching, research, and public service. Additionally, consultation has reinforced the University's position that benefit plans must be at a cost sustainable for the decades ahead. Returning UCRP to a sound financial footing requires contributions equal to the "Annual Required Contribution" (ARC), consisting of Normal Cost, plus an amortization charge for the unfunded liability.

Our Office continues to offer three special programs to UC Foundations desiring to increase their portfolios' allocation to alternative investments: Private Equity Vintage Year Program, Real Estate Vintage Year Program, and Absolute Return Unitized Program. The UC Foundations may elect to participate in any or all of the programs. The benefits the UC Foundations receive by partnering with our Office include access to managers who impose high-minimum investment amounts; lower fees than those charged by funds of funds; and elimination of time spent on paperwork related to manager searches and monitoring.

Personnel: I am very pleased with the team we have built and their productive efforts under such challenging conditions. Our Office looks forward to continuing to serve The Regents, faculty, staff, and students of the University of California.

Sincerely,



Marie N. Berggren
Chief Investment Officer, Vice President–Investments,
and Acting Treasurer of The Regents
University of California, October 2010

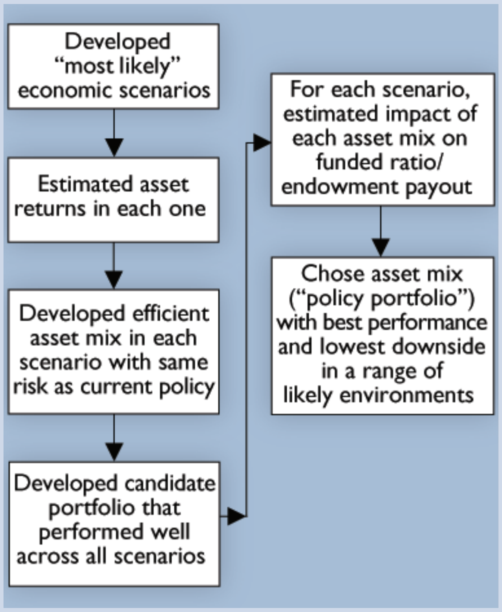
LOOKING FORWARD

Flexible Approach to Asset Allocation

Based on the highly uncertain macro-economic and political outlook, we believe asset markets will continue to remain volatile. In this type of environment, a scenario approach to asset allocation can be very useful.

The Treasurer's Office has developed several likely economic scenarios for the next three years. Crucial factors considered were to provide adequate liquidity to fund spending, meet existing commitments, and focus on managing downside risk.

Policy Portfolio Selection Process



The "global" optimal portfolio was developed combining the optimal portfolios from all of the scenarios, because no one portfolio has the best performance in all economic environments.

This single optimal portfolio was compared to the current policy portfolio. Modifications were recommended to reflect the Treasurer's Office views over the three-year decision horizon, as well as liquidity and other constraints.

SENIOR MANAGEMENT

MARIE N. BERGGREN, MS Chief Investment Officer, Vice President–Investments, and Acting Treasurer of The Regents

As chief investment officer, Ms. Berggren is responsible for overseeing the University of California investment portfolio. Before joining the Treasurer's Office in 2002, Ms. Berggren was executive vice president/department head of Venture Capital Investments for Bank One Corporation. While employed at Bank One and its predecessor organization, First Chicago Corporation, she was the senior vice president and department head of the Corporation's mergers and acquisitions activity. Before that she was the managing director of public equities and director of research for First Chicago Investment Advisors (the predecessor to Brinson Partners). Ms. Berggren earned her MS in management from Stanford University Graduate School of Business and a BA in economics from the College of New Rochelle.

MELVIN L. STANTON, MBA Associate Chief Investment Officer

Mr. Stanton, along with the Treasurer, is responsible for the overall management of the Treasurer's Office. Before joining the Treasurer's Office in 1989, Mr. Stanton had more than 13 years of experience as a financial executive in portfolio management and securities trading, including director of sales for Midland Montagu Securities, Inc., San Francisco; first vice president and manager with Crocker National Bank, San Francisco; and vice president and regional sales manager with Bankers Trust Company, Los Angeles. He received his MBA and BS degrees from California State University, Northridge.

RANDOLPH E. WEDDING, MBA Senior Managing Director – Fixed-Income Investments

Mr. Wedding is responsible for the strategic focus and management of the long- and short-term fixed-income portfolios. Before joining the Treasurer's Office in 1998, he was manager of currency options and derivatives trading for Bank of America, NT&SA, New York; managing director, commodities and derivative sales for Bear Stearns & Co., New York; and principal, manager of fixed-income derivative sales for Morgan Stanley & Co., New York. Mr. Wedding began his career with Wells Fargo Bank, responsible for the Bank's Fixed Income Portfolio. He earned his MBA in finance from the University of California, Berkeley, and BA in mathematics from the University of California, San Diego.

JESSE L. PHILLIPS, CFA, MBA, MA Senior Managing Director – Investment Risk Management

Mr. Phillips is responsible for integrating risk monitoring, measurement, and management into all aspects of the investment process. Before joining the Treasurer's Office in 2002, Mr. Phillips worked at Northrop Grumman for 11 years, first as corporate M&A analyst and then as manager, risk analysis and research in the Treasury Department. Mr. Phillips also worked as corporate planning analyst with Florida Power & Light Company and as senior financial analyst with Storer Communications, Inc., both in Miami, Florida. He earned his BA degree in mathematics/economics and MA in applied mathematics from the University of California, Los Angeles, and his MBA in finance from the University of Miami. Mr. Phillips is a CPA (Florida) and holds the CFA designation.

WILLIAM J. COAKER, CFA, MBA Senior Managing Director – Public Equity

Mr. Coaker is responsible for overseeing all externally managed public equity funds and activities with overall responsibility for executing an investment strategy that generates optimal total return relative to risk taken. Before joining the Treasurer's Office in 2008, he was a senior investment officer for San Francisco City-County Employees Retirement System. Mr. Coaker has also served as CIO, controller at Bishop Clinch Endowment and the Diocese of Monterey. He earned his BS degree in accounting from Loyola Marymount University and his MBA from Golden Gate University. Mr. Coaker holds the CFA, CFP, and CIMA designations.

INVESTMENT MANAGEMENT OVERVIEW

The investment funds managed by the Treasurer of The Regents consist of the University's retirement, defined contribution and endowment funds, as well as the system's cash assets. As of June 30, 2010, the Treasurer's Office managed $60.4 billion in total assets, as outlined below.

TOTAL MARKET VALUE OF ALL ASSETS[1]
June 30, 2010
($ in billions)

University of California Retirement Plan (UCRP)[2]	$34.6
Defined Contribution Plan Funds	10.4
General Endowment Pool (GEP) and Other Endowments[2]	6.6
Short Term Investment Pool (STIP)[3]	7.0
Total Return Investment Pool (TRIP)	1.8
Total Funds	$60.4

The Treasurer's Office investment management staff includes 33 investment professionals with an average of 17 years of investment experience.

INVESTMENT OBJECTIVES AND PHILOSOPHY

The investment objective for all funds under management is to maximize long-term total returns while assuming appropriate levels of risk. Because the purpose of each fund is unique, The Regents have established the following specific objectives for each fund, along with the overall goals of exceeding the policy benchmark return and the rate of inflation:

RETIREMENT FUNDS:

For the University of California Retirement Plan: Maximize the probability of meeting the Plan's liabilities, subject to The Regents' funding policy, and preserve the real (inflation adjusted) purchasing power of assets.

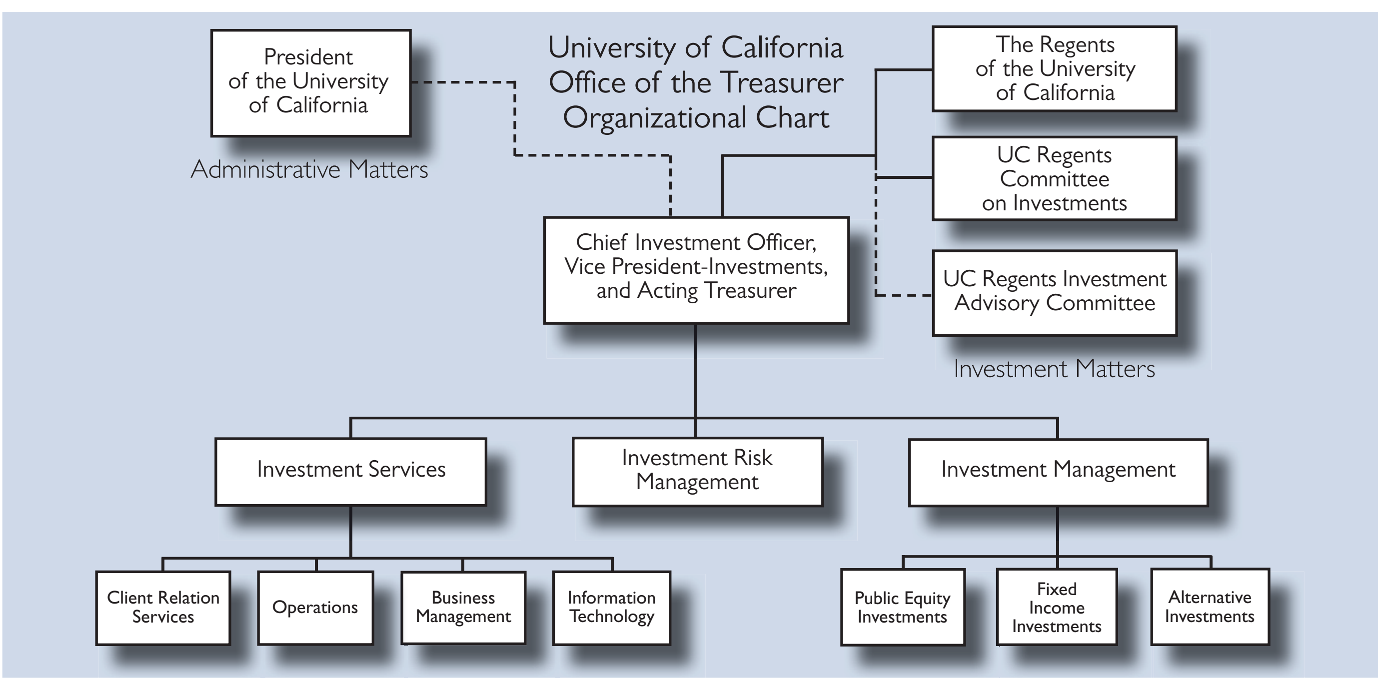
For the University-Managed Defined Contribution Funds: Meet stated investment objectives for each fund.

ENDOWED FUNDS:

Maximize the value of the endowment while maintaining liquidity needed to support spending in prolonged down market and preserve the real (inflation adjusted) purchasing power of assets.

ASSET ALLOCATION

Asset allocation is the primary determinant of long-term investment returns. UC funds are diversified among global equities, fixed-income securities, and other non-marketable investments, within The Regents' target allocation (see pages 17, 24, and 30). Historically, portfolio asset allocation has favored equity investments over fixed-income securities due to the expectation that equities will provide higher total returns over the long term, albeit with greater year-to-year volatility.



[1] Market values include other endowments and CAM assets and is net of the STIP balances in other portfolios. The method of rounding may produce the appearance of minor inconsistencies in various totals but the differences do not affect the accuracy of the data.

[2] UCRP and GEP market values shown here do not tie to those shown elsewhere in the report because of cash flows and different valuation dates for Real Estate and Absolute Returns.

[3] STIP asset value is stated at amortized book value plus accrued interest and excludes the cash invested for, and reported as part of, the UCRP, Defined Contribution, and Endowment Funds.

The asset allocations for the UCRP and GEP are developed as follows: First, several near-term economic scenarios are developed, and then expected return and risk for each asset class is simulated based on each economic environment and current valuations. Second, a set of efficient portfolios for each scenario is developed ("efficient" means maximized expected return for a given level of downside risk). Third, the assets and liabilities (pension benefits or endowment spending) are modeled under alternative economic scenarios and different efficient portfolio mixes. Fourth, given informed views of the likelihood of each scenario, a single portfolio is developed which optimizes return across all scenarios; this is then presented to The Regents for approval.

The Portfolio Management Group meets weekly to review asset allocation, portfolio performance, and market conditions. Asset allocation rebalancing is initiated when asset-class weights move out of the allowable range. The Treasurer decides on the timing and extent of the rebalancing, within The Regents' policy, based on market conditions.

PUBLIC EQUITY INVESTING

The Treasurer's Office has an internal team of experienced investment professionals who implement The Regents' allocation to Public Equity. Equity assets are segmented into U.S., Non-U.S. Developed, Non-U.S. Emerging Markets, and Global asset classes. The first step in the investment process is to survey the market opportunity set—as circumscribed by the respective benchmark index—and forecast the risk/return trade-off in each segment of the market. For example, the market may be segmented by style, such as growth or value, capitalization size, industrial sector, or in the case of non-U.S. companies, region or country. Then a portfolio of these market factors is constructed to maximize expected return at the benchmark level of volatility. Next, the team determines which strategies best fit each market segment. Strategies include fundamental research, top-down, and quantitative, and will exhibit various approaches to idea generation and portfolio construction.

The final step is to select investment products (managers) for each strategy, typically looking for several products per strategy to diversify the risk. Managers must have sound organizational structures, experienced people, consistency between philosophy and implementation, an investment process that makes sense as a source of earning excess returns, effective operational controls, and strong risk management. After managers are selected, aggregate exposures are compared to the benchmark to ensure that the combination of managers does not result in unintended risk. After managers are hired, considerable time is spent in monitoring them on an ongoing basis, which includes on-site visits, quarterly calls, and analysis of holdings, performance, and risk.

The combined assets in each of the asset classes are monitored under investment guidelines established by The Regents. Each asset class is managed according to a risk budget framework set by The Regents. The allocation between passive and active strategies is determined by both the risk budget and the opportunities to add value to the benchmark for each asset class. As of June 30, 2010, Public Equities represented 43% of GEP and 57% of UCRP, with approximately 22% of Domestic Equity assets and 29% of Non-U.S. Equity-Developed assets managed in active strategies by 27 external managers. Emerging markets are all actively managed by 10 firms.

FIXED INCOME INVESTING

Within the primary goal of maximizing total return over a long-term horizon, the members of the Treasurer's Office Fixed Income Team take an active approach to managing the portfolios, focusing on safety of principal, credit quality, liquidity and efficient use of risk. They start with a "top-down" approach to evaluate the global macroeconomic environment, including analysis of business cycles, monetary and fiscal policies, and political backdrops, in order to assign appropriate sector weights and duration exposure among the three core sectors of government, credit, and collateralized bonds. This is coupled with a "bottom-up" approach to individual security selection. Each portfolio manager utilizes a variety of proprietary and industry-developed analytical tools best suited for the particular sector, emphasizing rigorous analysis of such factors as yield curve exposures, portfolio duration and convexity, credit fundamentals, relative value, and position weights.

The portfolio managers closely monitor current and prospective investments on a daily basis. New opportunities are identified and existing positions are adjusted, as appropriate. The team and representatives from the Risk Management Group meet monthly to review performance and portfolio exposures. In addition, monthly Fixed Income meetings—which include investment professionals from all assets classes—review performance, Fixed Income market trends, and current economic assumptions. Potential new products and strategies are also presented at these sessions before seeking the Treasurer's approval. This combination

of rigorous fundamental and quantitative analysis within an active risk management framework has produced a history of successful returns for The Regents' fixed income funds.

Inflation-indexed bonds (TIPS) are included in the overall asset allocation to achieve the objective of maximizing long-term total real returns. The low correlation of TIPS returns with other asset classes also increases portfolio diversification. The objective of this strategy is to replicate the performance of the U.S. TIPS market.

The Fixed Income investments also include allocations to Emerging Markets and U.S. Domestic High-Yield Debt. The allocations are intended to improve the risk/reward profile of Fixed Income and the overall asset allocation. These funds are managed both internally and externally.

The Treasurer's Office also manages the Short Term Investment Pool (STIP) for the benefit of numerous University groups. The STIP portfolio managers participate in the fixed-income process with the Fixed Income Team, as outlined above; however, they place a greater emphasis on generating current income in the execution of two major mandates.

The first is to insure that the daily liquidity needs of the University are met by investing an appropriate portion of total assets in short-term money-market instruments at attractive yields relative to the desired quality. The second is to maximize the interest income paid to participants by investing the remaining funds not required for immediate expenditure in a variety of government and corporate bonds with maturities up to 5½ years. The maturity restrictions and emphasis on quality assets help minimize the price volatility of the overall portfolio. The STIP has achieved an impressive long-term record of above-market interest-income returns.

As of June 30, 2010, the allocations to Fixed Income securities were 19% of the GEP and 26% of the UCRP.

ALTERNATIVE INVESTING

Absolute Return

For Absolute Return (AR) investments, the Treasurer's Office seeks to generate positive returns over a multi-year period, regardless of the general market direction. AR investments typically have low correlation with other asset classes and increase the overall portfolio diversification while reducing risk. To accomplish this goal, the Treasurer's Office invests with top-tier asset management firms in a variety of strategies, including global long/short equity, relative value credit, distressed securities, mortgage arbitrage, global macro, event driven and other "hedge fund" strategies. Currently, the AR portfolio is benchmarked to an index comprised of 50% absolute-return, low market exposure strategies and 50% directional, higher market exposure strategies.

In addition to focusing on strategy diversification, much emphasis is placed on manager selection. After an extensive due diligence process, managers are selected based on a variety of criteria, including their contributions to the overall risk and return of the overall portfolio. The AR portfolio currently is invested with 42 funds across a broad mix of managers and styles. The number of core managers may vary from time to time but is expected to remain between 30 and 40 to maintain adequate diversification of strategies and managers without diluting returns. The Treasurer's Office has been able to invest with established and accomplished managers, including some that are no longer open to new investors.

Another critical element of the AR program is the ongoing monitoring of the investments. The Treasurer's Office has regular contact with the investment managers to review adherence to the expected investment style, personnel turnover, performance and other issues to ensure the appropriate investments and allocations for the program. Quantitative and qualitative measures are an integral part of the investment process. In addition, the Absolute Return team works with a consultant that specializes in AR strategies to supplement the capabilities of the team.

As of June 30, 2010, the allocations to AR strategies were approximately 25% of the GEP and 6% of the UCRP.

Private Equity

The Regents of the University of California recognize the benefits of including Private Equity investments as an integral part of the diversified asset pool of the Treasurer's investment program. The long-term strategic objective of the Private Equity program is to develop and maintain adequate exposure to a select group of buyout and venture capital investments in order to reduce the overall risk of The Regents' portfolio through added diversification and to generate attractive long-term rates of return. Indeed, long-term return expectations for Private Equity as an asset class stand several hundred basis points above public market indices.

The UC Regents have been long-standing investors in the asset class. The Regents began the Private Equity program in the 1970s, initially investing directly in a number of private companies and, starting in 1979, emphasizing investments in established West Coast venture-capital funds, which primarily focused on early-stage investments in technology. The Regents' participation in venture capital was based on an early insight into the importance of technology industries to the State of California, the unique position the University holds within the state, and the University's unique contributions to and benefits derived from these industries. As one of the first investors in Silicon Valley, The Regents have formed long-standing relationships with some of the premier venture capital groups and have built a reputation as an active and sophisticated partner. Since 2002, the Private Equity program has also been diversifying its Private Equity investment strategy to include buyout funds and select new relationships.

The process of successfully investing in private equity is resource intensive and requires a high degree of specialized expertise. Consequently, The Regents' Private Equity program continuously strives to incorporate "best practices" from across the investment world and to attract professionals who contribute a positive impact on both decisions and processes used by the team. In addition, because it is extremely difficult to "time" the private equity market, the Private Equity team is focused on building a strategically consistent portfolio of select partnerships to generate superior investment performance over long cycles. The team dedicates careful attention to identifying managers with a superior track record in selecting technologies, companies, and industries with the highest potential for value creation. In addition to active portfolio management and oversight, the team works with its private equity consultant to review potential investment opportunities on a periodic basis.

As of June 30, 2010, the allocations to Private Equity were 7% of the GEP and 7% of the UCRP.

Real Assets

The Regents of the University of California approved a Real Assets allocation in March 2010 with an effective date of April 1, 2010. Real Assets have four key investment objectives for the University of California Regents. These objectives for Real Assets are inflation protection, enhanced portfolio returns, strong cash yields and low correlation to other assets in the portfolio. The Regent's approved a 3% long-term target allocation with a 0.5% current target allocation. Staff expects that it will take a number of years to appropriately build up the portfolio to its long-term target.

The process of investing in Real Assets, consistent with other private-market investing, is resource intensive. Recognizing the synergies across other investments, the Treasurer's Office utilizes cross-functional expertise to provide the best investment capability. The Regents' Real Assets program implements "best practices" from across the institution to leverage our longstanding private market investing. The Real Assets team seeks a broad array of investment opportunities that meet our investment objectives, and complement each other and the overall UC portfolio. In addition to actively monitoring and conducting due diligence with internal resources, the team also works with several existing Alternative Investment consultants to review potential investment opportunities.

As of June 30, 2010, the allocation to Real Assets was 0.2% of the GEP and 0.2% of the UCRP.

Opportunistic

The Opportunistic program was approved by the Regents in March 2010 (with an effective date of April 1, 2010) to take advantage of the current dynamic investment environment. The key objective of the program is to identify and invest in assets that provide attractive risk adjusted returns that are beneficial to the UCRP and GEP plans but are outside of or not clearly in existing asset classes. An example of an Opportunistic investment is the Term Asset-Backed Securities Loan Facility (TALF) program, which is a government-sponsored program established during the financial crisis to help reinvigorate the credit markets. The current and long-term target allocation for Opportunistic is 0.5% in both the UCRP and the GEP.

Real Estate

The Real Estate program is now on its fifth year of portfolio building. The program invests through open-end and closed-end commingled funds and public real estate securities. Direct real estate via advised separate accounts was historically included in UCRP only; however, in the future, it will also be included in the GEP.

Open-end funds have large pools of existing properties that serve as a good foundation for the building-up stage of the portfolio because they have broad exposure to the market and provide immediate diversification. Closed-end funds are the least liquid structure; however, they offer the widest variety of investment strategies and diversification of assets. Separate accounts provide tactical flexibility (by manager, strategy, property type, location) and control in the portfolio while maintaining reasonable liquidity.

Real Estate requires a strategic long-term program implementation, and fund managers are focused on


fundamental supply-demand drivers and asset specific submarket dynamics. The recession has resulted in high unemployment, which translates to decreased demand for space in all property types. Due to lack of sale transactions for valuation comparison, asset valuations were calculated using assumptions about future asset performance and valuation metrics. Given the economic environment, managers assumed higher vacancy rates, lower rents, and more concessions offered to sign leases. These factors contributed to unprecedented write-downs in market values of the funds' existing portfolio. The lower values have triggered some loan-to-value covenants with existing debt that are being negotiated by fund managers with their existing lenders. Loan restructuring with principal pay downs and loan extensions will allow the managers time to weather the storm and hopefully see growth in demand and rent in the next few years. Real estate typically lags the capital markets by six to nine months; economists reported the recession ended in June 2009. Real estate is expected to begin to recover in the second half of 2010 and into 2011.

To date, the staff has committed $3.1 billion in 40 funds and five separate account managers, which together have invested $1.5 billion. The Real Estate managers are projecting to invest the remainder of the allocation ($1.0 billion) within the next two to three years.

As of June 30, 2010, the UCRP Real Estate portfolio was valued at $895.9 million and represented a 2.6% allocation. The GEP Real Estate portfolio was valued at $180.6 million and was 3.2% of the GEP. Long-term target allocations are 7% and 7.5%, respectively. Eighty percent of the total plan investments are in the U.S. and 20% is invested throughout the rest of the world, primarily in Europe and Asia.

RISK MANAGEMENT

Investors perceive risk as the possibility of a loss, which they accept in order to achieve their investment goals. Thus, investors accept risk to earn returns. In modern investment theory and practice, risk refers to the inherent uncertainty of outcomes and is often proxied by the volatility of asset returns or the expected loss in extreme environments. Because risk is an essential aspect of investing, Risk Management does not aim to eliminate or necessarily reduce risk but to balance risk and expected return. As Benjamin Graham said, "The essence of investment management is the management of risks, not the management of returns."

The primary objective of the Risk Management team is to ensure that the Treasurer's Office investment and operational activities do not expose the University to potential or unexpected losses beyond The Regents' risk-tolerance levels. This process involves three steps: 1) to identify risks and the range of possible losses; 2) to implement policies, guidelines, and controls on the investment process to maintain the probability of loss within acceptable limits; and 3) to integrate risk monitoring, measurement, and analysis into all aspects of the investment process.

At the portfolio level, both qualitative and quantitative aspects of risk are monitored or measured to ensure that risk levels are proportional to return expectations, and that risk is taken intentionally and diversified optimally. At the plan level, Risk Management focuses on the adequacy of assets to pay promised benefits or to support spending policies. Other key components of the risk management process include scenario analysis and stress testing key assumptions. A key element of modern and traditional risk management is diversification across asset classes, strategies, and securities.

Risk exposures are continually monitored, compared to targets, and altered when appropriate. Pension plan risk factors include asset volatility, inflation, and interest rates. Equity risk factors include economic activity, market psychology, style factors (e.g., relative value, capitalization size), and industry membership. Fixed-income risk factors include interest-rate volatility, term structure, credit quality, mortgage prepayments, currency, and liquidity. Private-equity and real-estate risk factors include local economic activity, industry fundamentals, and business risk. Absolute-return risk factors include the equity and fixed-income factors defined above, and the degree to which they are offsetting, hedged, or diversified.

Risk measurement is the first step in a process known as risk budgeting. Risk budgeting involves two additional steps: 1) determining the overall amount of risk required to meet a given investment objective and 2) budgeting or allocating it in an optimal manner. Optimal use of risk means constructing a fund so that, at the margin, the contribution to expected return of each sector, portfolio, or asset class is proportional to its estimated contribution to risk. This process is being implemented in the Treasurer's Office and integrated into the asset allocation and rebalancing process.

INVESTMENT SERVICES

Operations

Supporting the management of the portfolios is an experienced Operations staff consisting of a director, assistant director, and supervisor with an average of 22 years of experience in banking and/or investment operations and six analysts with an average of 15 years of experience in investment accounting and operations. This unit is responsible for investment accounting and reporting, as well as the central management of all cash services for the University.

In addition to tracking and monitoring all investment security transactions and holdings, the Investment Operations staff verifies and analyzes the returns prepared by the custodian bank (State Street Corporation), prepares performance and holdings reports, and provides investment accounting entries for input into the UCOP Endowment and Investment Accounting general ledger.

A well-established custodial relationship with State Street Corporation, a leading industry provider, ensures sound safekeeping and recording of assets. In addition, State Street Corporation has been the official book of record for the investment portfolios since June 2002. Among other functions, State Street provides independent calculations of the monthly performance data that is reported for the various portfolios and for all of the UC Campus Foundations.

Information Systems

The management of the portfolios is also supported by state-of-the-art information systems. Support of these systems is performed by a financial and systems analyst who is responsible for all information technology functions within the Treasurer's Office, including system integration with third-party applications such as Bloomberg L.P., Barra One, and State Street. The financial and systems analyst also develops and integrates in-house applications and databases to further support the mission of the Treasurer's Office. Custom workflow software allows the financial and systems analyst to manage and run reports or perform calculations for the Treasurer's Office using Microsoft Visual C# .NET, Microsoft SQL Server, and Crystal Reports for Visual Studio .NET.

Client Relation Services

The Client Relation Services group serves as an information agent for the Treasurer's Office. The group's many roles include collecting, organizing, and presenting information related to the selection, execution, performance, and monitoring of the University's investment portfolios in communication materials for the Board of Regents, Campus Foundations, and other stakeholder groups.

In addition to producing communication materials, the group serves as strategic counsel to the investment management team for best practices in presenting strategies, objectives, and performance for the investment portfolios. The group also oversees the Treasurer's Office website.

Business Management

Supporting the management of the portfolios is a Business Management staff. This unit is responsible for administrative and non-investment operational matters in the Office of the Treasurer, which include internal and external audit issues, business accounting, contract negotiations, human resources, budget, accounts payable, supply and equipment inventory, control and maintenance, space planning, and security.

A WORD ABOUT BENCHMARKS

The primary objective of a performance report is to answer the question: what happened to our investments during the last quarter or year? However, investors, fiduciaries, and other interested parties should not stop there. They should immediately ask two more questions: What happened to our investments relative to our investment goals and objectives, and how much risk was taken to achieve those returns? Finding meaningful answers to these questions requires the selection of, and comparison of performance to, a diversified basket of similar securities of similar risk known as a *benchmark*.

While an investor may state that his or her *long-term goal* is to preserve purchasing power and increase assets by 5% in real terms, an investment program is best articulated in terms of an *asset allocation*. An asset allocation is the formal policy describing investments in terms of broad asset classes. A policy could be as simple as stating the percentage of assets to be invested in equities, fixed income, and cash equivalents, or it could be more detailed, e.g., further segmentation of equity into U.S. stocks, non-U.S. stocks, and private equity.

Once a policy allocation is set, the natural (and best) benchmark for an asset class is an investible market index that most closely represents the asset class, such as the Russell 3000 Index for U.S. stocks or the Barclays Capital Aggregate Bond Index for U.S. bonds. Market indices are also good benchmarks in that they represent the investor's "opportunity cost," i.e., an institutional investor usually can earn the index return via a low-cost passively managed portfolio.

A policy benchmark for a multi-asset class fund can be a blend of indices, each weighted by the percentage it represents in the asset allocation, e.g., 65% Russell 3000 + 35% Barclays Capital Aggregate. Although targets may be set for the percentages of assets in each category, it is customary to allow for a range around each target, to avoid frequent and costly rebalancing, and to allow for tactical deviations from policy when market conditions warrant (see range example on page 17).

When compared to its policy benchmark, a fund's investment performance reveals at least two things. First, has the fund added value by allocating assets differently than the policy percentages. And second, have the investments chosen within each asset class added value over their class benchmarks. This information is referred to as *performance attribution*, and it can be derived for each component of the total fund to understand further where and how value was added.

It is also natural to ask, how did the fund perform relative to those funds of peer institutions? The answer is not so straightforward. This is because other institutions may have different investment objectives and risk tolerance and may utilize asset allocations that differ from their peers' and thus are expected to perform differently. This is especially true in the case of endowments and foundations. Before comparing performance, it is important to compare the asset allocation policies and designated benchmarks.

Criteria for the selection of a benchmark

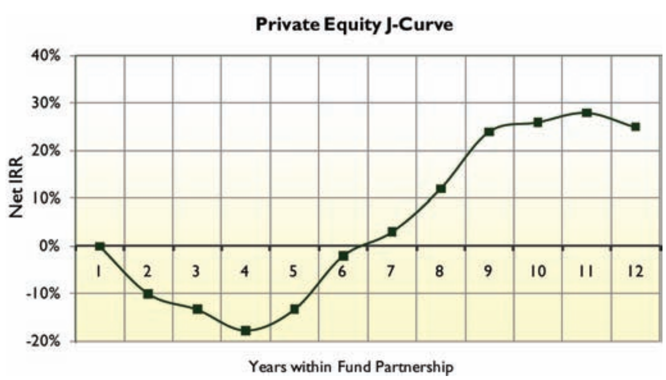
Unambiguous	The names and weights of securities comprising the benchmark are clearly delineated
Investable	The option is to forego active management and simply replicate the benchmark
Measurable	It is possible to readily calculate the benchmark's return on a reasonably frequent basis
Appropriate	The benchmark is consistent with the Committee's investment preferences
Specified in Advance	The benchmark is constructed prior to the start of an evaluation period
Reflects Current Investment Opinion	Investment professionals in the asset class should have views on the assets in the benchmark and incorporate those views in their portfolio construction

An in-depth look at UC Private Equity Investments

WHAT IS PRIVATE EQUITY?

Private equity is a term commonly used to refer to venture capital and leveraged buyout investments; however, in reality private equity represents a highly diverse set of investment strategies, including growth capital, distressed debt, mezzanine, upstream oil and gas exploration, bank funds, and special situations. While there are exceptions, the vast majority of investments carried out in this asset class are in private, illiquid securities (as opposed to publicly traded, more liquid instruments) across a firm's capital structure. This form of ownership enables strong alignment of interest between the investor, the fund manager and the firm's management team, and, thus, allows the deployment of active value creation strategies that can create long-term investment appreciation.

Private equity is highly accretive to The Regents' investment program for it has the potential to generate excess returns driven by its long-term and illiquid nature. However, precisely because of its long-term focus, it may take many years to see the fruits of new investments. The early years of a private equity fund's life are typically associated with negative investment returns driven by a combination of fees paid to the investment manager and by the early impairment, potentially, of some of the less successful companies in the portfolio. Implementing corporate changes that unlock long-term value can take time. Therefore, private equity funds usually take five or six years before generating cumulative positive returns. The period of greatest value creation generally occurs from year five or six to year nine or ten and is commonly referred to as the fund's harvesting period. During this period successful investments become liquid through strategic mergers and acquisitions or initial public offerings. This return pattern is commonly referred to as the J-Curve (in the accompanying chart). Investments in private equity funds are commonly measured on two key criteria: cash weighted returns (the net internal rate of return or net IRR), and the ratio of capital distributed to the investor versus capital contributed by the investor for that fund.



UC APPROACH

The UC primarily commits to commingled funds run by managers who, in turn, invest in underlying companies consistent with that fund manager's strategy and expertise. Strategy types vary widely by return and risk profile. The UC, therefore, takes a methodical approach to portfolio construction to generate attractive returns with prudent levels of risk. Considerations for portfolio construction include diversification across strategies, geographies, stages of company development, industries, operational risks, and the amount of leverage utilized. The UC private equity team conducts thorough due diligence on new fund investments with a bias toward value-oriented managers with operational expertise and differentiated skill sets that can drive profitable growth. After an investment is made, the private equity team maintains a robust monitoring process with periodic engagement with the fund managers and portfolio company management teams.

In addition to commingled fund investments, the UC also makes select co-investments alongside private-equity managers. A co-investment is an incremental investment into a specific portfolio company on the same terms and conditions as the fund but without any of the typical fees charged by the manager for a fund investment. The UC co-investment strategy is complementary to the commingled fund investments and has the ability to generate additional excess returns for the institution. The co-investment portfolio has tightly controlled risk parameters and is considered in the context of the total private-equity portfolio. In addition to enhanced returns, co-investments provide a due diligence tool on an ongoing basis with managers as the UC private equity team obtains further insights into the fund managers providing the co-investment.

A hallmark of the UC private equity program is to be flexible and adaptable in the face of changing market conditions. Given the recent period of extreme financial volatility, attractive investment opportunities presented themselves across the capital structure. The private equity team tactically adjusted its investment strategy to take advantage of these dislocations while applying consistent and strict due-diligence standards. An example of this is the secondary strategy implemented in the midst of last year's financial crisis. A secondary investment is the purchase of an existing commingled fund interest from another investor that made the original commitment to a partnership. During the last 18 months, many stories of peer institutions facing liquidity challenges resulting from overcommitment to illiquid asset classes appeared in the press. The Treasurer's Office's careful approach to liquidity management throughout the crisis enabled the private equity team to capitalize on stressed market conditions by buying select top-quality private assets at substantial discounts to their fair market value. This strategy was very successful and already generated substantial returns for the portfolio during the last 18 months. Investments made in the Term Asset-Backed Securities Loan Facility (TALF) and Public Private Investment Program (PPIP) are another example of flexibility during this unusual time period. Resources from multiple asset classes at the Treasurer's Office closely collaborated to evaluate and ultimately recommend investment opportunities in those two federally sponsored programs.

SIGNIFICANT EVENTS IN FISCAL YEAR 2009

The past fiscal year has been an extremely interesting period for the private equity asset class. The financial markets were still recovering from their market lows in March 2009 for most of the 2009-2010 fiscal year. Meanwhile, many private equity portfolio companies experienced steep declines in revenues and profitability in the first half of calendar year 2009 creating a significant level of stress later in the year on many companies that employed leverage. The vast majority of UC's private equity managers responded aggressively with significant operational improvement initiatives and proactive cost-cutting initiatives to their portfolio companies. This resulted in the private equity asset class experiencing a sharp recovery in valuations during the fiscal year.

The UC's preference for managers that command operational skill sets, as well as a value mindset, allowed the UC private-equity portfolio to perform strongly during a period of financial and economic stress. Furthermore, the portfolio is currently positioned to continue to benefit from an economic recovery. The UC private equity team was actively making opportunistic investments during this period of dislocation. The team also took the opportunity to access top quality managers who were seeking capital in a difficult fundraising environment. This included adding a few select high-quality venture capital managers and some premier leveraged buyout funds. The team was able to access these managers both by buying commitments from existing investors (secondaries) facing liquidity problems and committing directly to the manager's new fund being raised during the year.

LOOKING AHEAD

The private equity market will continue to evolve over the coming years. However, in the near term, private equity managers can access significant amounts of capital from funds to which investors committed in recent years but which have not yet been invested. As a result, the UC private equity team expects to see a sustained number of transactions taking place in the asset class in a stable economic environment.

The UC has prudently managed its fund commitments, affording ample capacity for new investments with attractive risk and return characteristics. The existing portfolio is positioned well for a multitude of economic scenarios due to the value-oriented portfolio construction. Furthermore, the portfolio is maturing and there are numerous companies that are reaching their harvesting phase which is likely to result in increased distributions to the UC from our fund managers as they sell companies.

UC TREASURER'S OFFICE
PRIVATE EQUITY STAFF

Front row: Thomas Lurquin, Director; Timothy Recker, Managing Director; Michele Cucullu, Investment Officer

Back row: Leslie Watson, Analyst; Julia Winterson, Investment Officer; Feleciana Feller, Administrative Assistant

General Endowment Pool (GEP)

Established in 1933, and unitized in 1958, the General Endowment Pool (GEP) is The Regents' primary investment vehicle for endowed gift funds. The GEP is comprised of over 5,540 individual endowments that support the University's mission. The GEP is a balanced portfolio of equities, fixed-income securities, and alternative investments in which all endowment funds participate, unless payout needs require otherwise.

GENERAL ENDOWMENT POOL (GEP)
Summary of Investments[1] ($ in thousands)

	June 30, 2010		June 30, 2009	
GENERAL ENDOWMENT POOL	Market Value	% of Pool	Market Value	% of Pool
EQUITIES				
U.S. Equity	$1,103,152	19.3%	$976,999	18.8%
Non-U.S. Equity-Developed	992,550	17.3	959,742	18.5
Non-U.S. Equity-Emerging Market	276,691	4.8	257,606	5.0
Global Equity	106,722	1.9	88,484	1.7
TOTAL EQUITIES	$2,479,115	43.3%	$2,282,831	44.0%
FIXED-INCOME SECURITIES				
Core Fixed Income	$513,782	9.0%	$408,927	7.9%
High-Yield Bond	168,821	2.9	143,239	2.8
Non-U.S. Fixed Income	-	-	126,096	2.4
Emerging Market Debt	181,107	3.2	122,085	2.4
TIPS	214,933	3.8	197,049	3.8
TOTAL FIXED-INCOME SECURITIES	$1,078,643	18.8%	$997,396	19.3%
ALTERNATIVE ASSETS				
Absolute Return	$1,432,248	25.0%	$1,211,671	23.4%
Private Equity	411,930	7.2	441,759	8.5
Real Assets[2]	9,500	0.2	NA	NA
Opportunistic[2]	62,855	1.1	NA	NA
Real Estate	180,643	3.2	209,060	4.0
TOTAL ALTERNATIVES	$2,097,176	36.6%	$1,862,490	35.9%
LIQUIDITY PORTFOLIO	68,241	1.2	43,077	0.8
TOTAL GENERAL ENDOWMENT POOL	$5,723,175	100.0%	$5,185,795	100.0%
OTHER ENDOWMENT FUNDS	40,111		625,064	
TOTAL GEP AND OTHER ENDOWMENT FUNDS	$5,763,286		$5,810,859	

The market value of the GEP, as of June 30, 2010, was approximately $5.7 billion, or $20.37 per share, versus $5.2 billion, or $18.60 per share, at the end of fiscal 2009. The total GEP net investment income for the year was $94.5 million, or $0.34 per share, versus $144.0 million, or $0.52 per share, at the end of fiscal 2009. In addition, $155.6 million was withdrawn to fund the Total Return Payout.

GEP returned 10.87% for the fiscal year versus 9.55% for its benchmark. For the past five years, GEP's total return was 3.68% vs. 4.27% for its benchmark. During that time, payout distributions grew at an average annual rate of 4.82%—well above annualized inflation of 1.05%.

SPENDING POLICY

The Regents adopted a total-return investment philosophy aimed at achieving real-asset growth in order to generate growing annual payouts to support donors' designated programs. In October 1998, The Regents adopted a long-term spending rate range of 4.35% to 4.75% of a 60-month (five-year) moving average of the GEP market value. The Regents review the payout rate each year in the context of the 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. On May 7, 2009, The Regents approved the continuance of a rate of 4.75% for expenditure in the 2009-2010 fiscal year.

[1] For fiscal years 2009 and 2010, the cash portion of the various portfolios excludes the unrealized market appreciation or depreciation of STIP investments, accounts receivable and accounts payable, and the investments in the security lending collateral pool. Therefore, the balances differ from the University's Annual Financial Report.. The method of rounding may produce the appearance of minor inconsistencies in various totals and percentages but the differences do not affect the accuracy of the data.

[2] Inception date for Real Assets and Opportunistic asset classes was April 1, 2010.

GENERAL ENDOWMENT POOL (GEP) POLICY ASSET ALLOCATION
as of June 30

	2006	2007	2008	2009	2010
MARKET VALUE (in millions)	$5,747	$6,728	$6,438	$5,186	$5,723
ANNUAL TOTAL RETURN	11.57%	20.01%	-1.93%	-17.74%	10.87%
ANNUAL TOTAL RISK[1]	6.50	3.68	8.37	17.63	9.34

INVESTMENT OBJECTIVE

The overall investment objective for all the GEP assets is to maximize the value of the endowment while maintaining liquidity needed to support spending in prolonged down markets. The primary goal for the GEP is to preserve the purchasing power of the future stream of endowment payout for those funds and activities supported by the endowments, and, to the extent this is achieved, cause the principal to grow in value over time.

OVERALL INVESTMENT STRATEGY

In order to continue to achieve the GEP investment objectives, The Regents adopted the following asset allocation policy in April 2010:[2]

Asset Class	Current Policy	Min.	Max.
Public Equity	45.5%	35.5%	55.5%
Fixed Income	18.0	13.0	23.0
All Alternatives*	36.5	26.5	46.5
Liquidity	0.0	0.0	10.0

*Including, but not limited to: Real Estate, Private Equity, Real Assets, Opportunistic, and Absolute Return Strategies.

The asset allocation benchmarks and portfolio guidelines are designed to manage risk and ensure portfolio diversification and are reviewed monthly. The Regents' Committee on Investments adopts performance benchmarks for each asset class, as advised by the Treasurer's Office. The GEP benchmarks for the fiscal year ended June 30, 2010, are listed on page 19.

In addition, the Treasurer monitors the actual asset allocation at least monthly. The Committee directs the Treasurer to take all actions necessary, within the requirement to act prudently, to rebalance assets to within the policy ranges in a timely and cost-effective manner when actual weights are outside the prescribed ranges. The Treasurer may utilize derivative contracts (in accordance with policy) to rebalance the portfolio.

EQUITY INVESTMENTS STRATEGY AND RETURNS

The Treasurer's Office has an internal team of experienced investment professionals who implement The Regents' allocation to Equity. Equity assets are segmented into U.S., Non-U.S. Developed, Non-U.S. Emerging Markets, and Global Equity asset classes. The Treasurer's Office selects multiple equity strategies and the external managers to implement these strategies. After managers are selected, aggregate exposures are compared to the benchmark to ensure that the combination of managers does not result in unintended risk. After managers are hired, considerable time is spent in monitoring them on an ongoing basis. The combined assets in each of the asset classes are monitored under investment guidelines established by The Regents. Each asset class is managed according to a risk budget framework set by The Regents. The allocation between passive and active strategies is determined by both the risk budget and by the opportunities to add value over the benchmark return for each asset class.

As of June 30, 2010, about 33% of Domestic Equity assets and 47% of Non-U.S. Equity-Developed assets were managed in active strategies by 27 external managers. Emerging Markets are all actively managed by 10 firms. The Equity portion of GEP represented 43% of the portfolio at year-end, with a market value of $2.5 billion. U.S. Equity represented 19% of the fund at year-end, with a market value of $1.1 billion. The U.S. Equity assets had returns of 15.69% for the fiscal year and -1.07% for the five-year period.

Total Non-U.S. Equity represented 24% of GEP at year-end with a market value of $1.4 billion. Non-U.S. Equity-Developed markets represented 17% with a market value of $993 million and Non-U.S. Equity Emerging Markets represented 5% with a market value of $277 million. The Global Equity asset class represented 2% of the GEP, with a market value of $107 million. GEP's Non-U.S. Equities-Developed Markets returned 8.80% for the fiscal year and had a five-year return of 2.18%. Non-U.S. Equity-Emerging Markets returned 25.56% in the fiscal year and had a five-year return of 11.71%. The Global Equity asset class returned 13.40% for the fiscal year.

FIXED-INCOME INVESTMENTS STRATEGY AND RETURNS

For Fixed-Income investments, the Treasurer's Office analyzes relative value among the core benchmark sectors of governments, corporates, and mortgage-backed securities and overweights those sectors and securities offering attractive real returns, while maintaining a risk level commensurate with the benchmark index. At year-end, Fixed Income constituted 18.8% of the portfolio, with a market value of $1.1 billion. Within total Fixed Income, the GEP U.S. Core Fixed-Income investments returned 9.50% during the year and 4.88% and 7.02% for the five- and 10-year periods. The GEP High Yield Bond and Emerging Market Debt investments had a one-year return of 25.21% and 17.55%, respectively.

[1] Annual Total Risk is defined as the standard deviation of monthly total return over the 12-month period, ending June 30.
[2] Revised policy ranges, targets and allocations were approved by The Regents on March 24, 2010, and were effective April 1, 2010.

For GEP TIPS, the Treasurer's Office seeks to maximize long-term total real returns and increase portfolio diversification, given TIPS' low correlation with other asset classes. TIPS represented 3.8% of total assets, with a market value of $215 million on June 30, 2010. The TIPS rate of return was 9.89% for the fiscal year and 5.39% for the five-year period.

The weighted average maturity of the Bond portfolio at year-end was approximately 10.21 years, the average duration 4.48 years, and the average credit quality was AA-, with more than 68% of Fixed-Income securities rated A or higher.

ALTERNATIVE INVESTMENTS STRATEGY AND RETURNS

For Absolute Return (AR) investments, the Treasurer's Office seeks to generate positive returns over a multi-year period, regardless of the general market direction. AR investments typically have low correlation with other asset classes and increase the overall portfolio diversification while reducing risk. To accomplish this goal, the Treasurer's Office invests with top-tier asset management firms in a variety of strategies, including global long/short equity, relative value credit, distressed securities, mortgage arbitrage, global macro, event-driven and other "hedge fund" strategies. Currently, the AR portfolio is benchmarked to an index comprised of 50% absolute-return, low market exposure strategies and 50% directional, higher market exposure strategies. As of June 30, 2010, the AR portfolio represented 25.0% of the GEP, had a market value of $1.4 billion and a one-year return of 9.06%.

For Private Equity, the Treasurer's Office seeks opportunities through recognized top-tier venture capital partnerships and select buyout funds. Private Equity represented 7.2% of the GEP at year-end with a market value of $412 million. Returns for this asset class in the fiscal year were 19.91%.

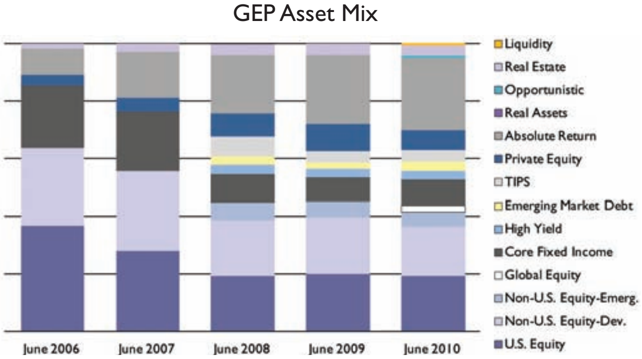
For Real Estate, the Treasurer's Office seeks investments that provide long-term, risk-adjusted total returns between those of U.S. equities and bonds; diversification benefits given Real Estate's low correlation with other asset classes; protection against unanticipated inflation; and a high proportion of the total return derived from current income. Real Estate represented 3.2% ($181 million invested) of the GEP at year-end. Private Real Estate ($173 million) had negative return of 29.75% in the fiscal year. The five-year return was -6.24%. Public Real Estate ($8 million), with an effective date of September 1, 2008, had a one-year return of 18.79%.

The Real Assets and Opportunistic asset classes were added to the GEP portfolio on April 1, 2010. Real Assets is primarily composed of energy assets, timberland, infrastructure, and commodities. These assets generally provide inflation protection, a strong current income component and diversification benefits relative to other financial assets. The key objective of the Opportunistic program is to identify and invest in assets that provide attractive risk-adjusted returns beneficial to the GEP but are outside of or not clearly in existing asset classes. The market value of the Real Assets investments, as of June 30, 2010, was about $9 million and the return for the quarter was 24.49%. The market value of the Opportunistic investments was about $63 million and the return for the quarter was -2.63%.

ASSET MIX

The following chart represents the GEP asset mix as of each of the past five fiscal year ends.

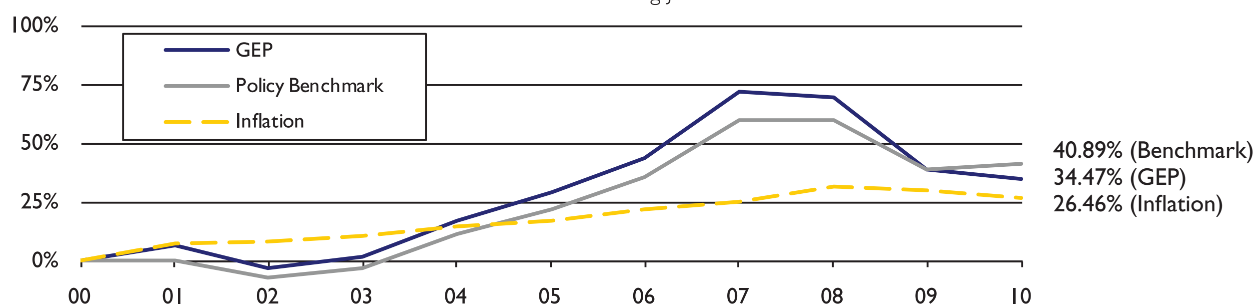
GEP Asset Mix



The chart below illustrates the returns for the GEP for the past 10 years relative to the policy benchmark and inflation.

GEP Cumulative Total Returns: Fiscal 2000-2010

Periods Ending June 30



GEP ANNUALIZED TOTAL RETURNS[1] VERSUS BENCHMARKS AND INFLATION

June 30, 2010

	1-Year	5-Year	10-Year	10-Year Cumulative	Benchmark Description[2]
TOTAL FUND					
GEP	10.87%	3.68%	3.01%	34.47%	Total Fund Policy Benchmark: A blend of the indices described in detail below, each weighted by the percentage it represents in the asset allocation, except that the policy of Private Equity, Real Estate, and Absolute Return are set equal to the actual weights each month. Annual index returns assume monthly rebalancing. Inflation: Consumer Price Index.
Policy Benchmark	9.55	4.27	3.49	40.89	
Inflation	1.05	2.31	2.38	26.46	
U.S. EQUITY[3]					
GEP	15.69%	-1.07%	-1.91%	-17.50%	
Policy Benchmark	15.71	-0.63	-1.06	-10.07	Policy Benchmark: Russell 3000 TF Index.
NON-U.S. EQUITY-DEVELOPED[3]					
GEP	8.80%	2.18%	N/A	N/A	
Policy Benchmark	6.84	1.38	N/A	N/A	Policy Benchmark: MSCI World ex-U.S. (Net) Index TF.
NON-U.S. EQUITY-EMERGING MARKET[3]					
GEP	25.56%	11.71%	8.92%	134.98%	
Policy Benchmark	23.15	12.73	10.10	161.81	Policy Benchmark: MSCI Emerging Markets (Net) Index.
GLOBAL EQUITY					
GEP	13.40%	N/A	N/A	N/A	Policy Benchmark: MSCI All Country World Index (Net), Investable Market Index (IMI) TF.
Policy Benchmark	13.07	N/A	N/A	N/A	
U.S. CORE FIXED INCOME					
GEP	9.50%	4.88%	7.02%	97.17%	Policy Benchmark: Barclays Capital U.S. Aggregate Bond Index.
Policy Benchmark	9.50	5.36	7.23	100.99	
HIGH-YIELD BOND					
GEP	25.21%	N/A	N/A	N/A	Policy Benchmark: Merrill Lynch High Yield Cash Pay Index.
Policy Benchmark	27.01	N/A	N/A	N/A	
EMERGING MARKET DEBT					
GEP	17.55%	N/A	N/A	N/A	Policy Benchmark: JP Morgan Emerging Market Bond Index – Global Diversified.
Policy Benchmark	18.44	N/A	N/A	N/A	
TIPS					
GEP	9.89%	5.39%	N/A	N/A	
Policy Benchmark	9.52	4.98	N/A	N/A	Policy Benchmark: Barclays Capital TIPS Index.
PRIVATE EQUITY[4]	19.91%	6.45%	2.18%	24.10%	Actual PE Returns.
ABSOLUTE RETURN[5]					
GEP	9.06%	4.79%	N/A	N/A	Policy Benchmark: 50% HFRX Absolute Return Index + 50% HFRX Market Directional Index.
Policy Benchmark	5.62	7.39	N/A	N/A	
REAL ASSETS[6]					Timberland, Energy, Infrastructure, Opportunistic Benchmarks: Internal Rate of Return (IRR)-Based Benchmark; Commodities: S&P GSCI Reduced Energy Index.
GEP	N/A	N/A	N/A	N/A	
Policy Benchmark	N/A	N/.A	N/A	N/A	
OPPORTUNISTIC[6]					The Regents' general investment consultant will establish an appropriate individual benchmark after the investment is chosen but before funding the investment.
GEP	N/A	N/A	N/A	N/A	
Policy Benchmark	N/A	N/A	N/A	N/A	
PUBLIC REAL ESTATE					
GEP	18.79%	N/A	N/A	N/A	50% times the FTSE EPRA NAREIT US Index plus 50% times the FTSE EPRA NAREIT Global ex-US Index.
Policy Benchmark	31.18	N/A	N/A	N/A	
PRIVATE REAL ESTATE					
GEP	-29.75%	-6.24%	N/A	N/A	Open End = NCREIF Funds Index-Open-End Diversified Core Equity (lagged 3 months); Closed End = Actual Closed-End Return.
Policy Benchmark	-26.78	-5.61	N/A	N/A	

1 The performance of The Regents' total return investment portfolio is calculated by State Street Bank, 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 return on assets. These calculations comply with the CFA Institute's standards, which require time-weighted rates of return using realized and unrealized gains plus income. GEP's Total Fund total return based on unit value calculated by UCOP Endowment and Investment Accounting and net of (after) UC's investment management expenses and administrative expenses of (currently) 0.09% of average annual market value, which are automatically deducted from income, is 11.31%, 3.70%, and 3.01% for the one-, five-, and 10-year periods, respectively.

2 Historical benchmark information is available online at http://www.ucop.edu/treasurer/currentpol/Benchmarks.html.

3 Ten-year-period returns were reclassified to match current asset classes.

4 There is no appropriate market-based index that can be used as a meaningful performance benchmark for Private Equity. For additional information, refer to p. 13 of the "Investment Performance Summary," dated June Quarter 2010: http://www.ucop.edu/treasurer/invinfo/06-10_Investment_Performance_Summary.pdf

5 The benchmark for Absolute Return (AR) class was changed effective March 1, 2009, from TBills + 450 bp to 50% HFRX-AR Index + 50% HFRX-MD Index. AR includes a small allocation to Real Assets.

6 Inception date for Real Assets and Opportunistic asset classes was April 1, 2010.

ASSET DESIGNATION BY CAMPUS AND PURPOSE

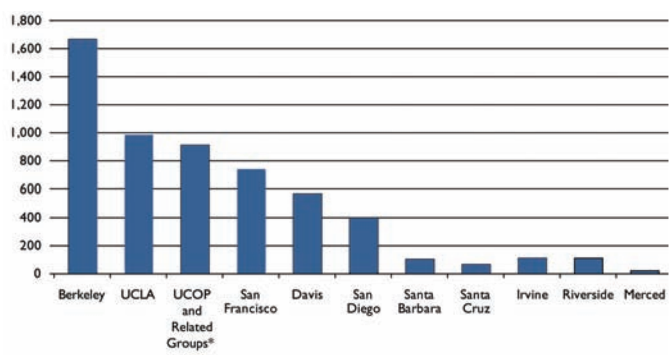
A donor has two avenues for making a gift to or establishing an endowment at the University: directly to The Regents for a specific campus and/or purpose or directly to a campus through its Foundation. The campus foundation trustees have discretion in their choice of investment managers and may use the 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. The chart 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 more established alumni and donor bases.

Fund-raising efforts provide critically needed monies to support the goals of the University. As illustrated by the chart at the right, more than half of GEP's assets support financial aid (23%), research (16%), and departmental use (18%).

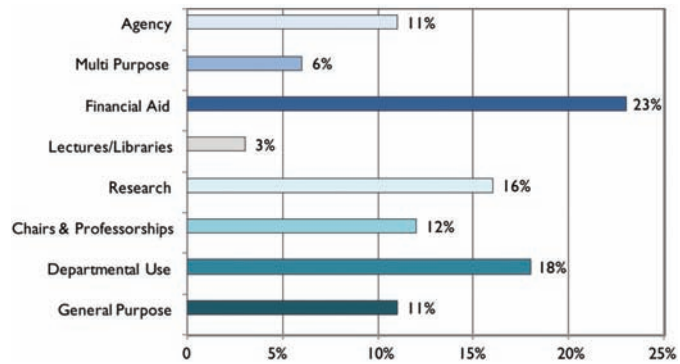
Detailed information on fund-raising results are available in the University's *Annual Report on University Private Support,* prepared by the UC Office of Institutional Advancement.

GEP Assets Designated by Campus
(in millions)
June 30, 2010



* UCOP = UCOP-administered programs and multi-campus gifts.

GEP Assets Designated by Purpose
June 30, 2010



HIGH-INCOME POOL

The High-Income Pool (HIP), established in May 1987, was merged into the General Endowment Pool on December 31, 2009. The GEP is The Regents' primary investment vehicle for endowed gift funds. In October 1998, The Regents adopted a total-return spending policy for the GEP, establishing a long-term target spending rate of 4.75% of a 60-month (five-year) moving average of the GEP's market value. The change reduced the attractiveness of the HIP as an option for endowment investments. Because the Foundations have also adopted a total-return spending policy, utilizing HIP as a partial investment choice was no longer serving their long-term investment needs. The market value of HIP on December 31, 2009, was about $40 million.

WAYS OF GIVING TO THE UNIVERSITY

http://www.universityofcalifornia.edu/giving/ways.html

CHARITABLE REMAINDER UNITRUST

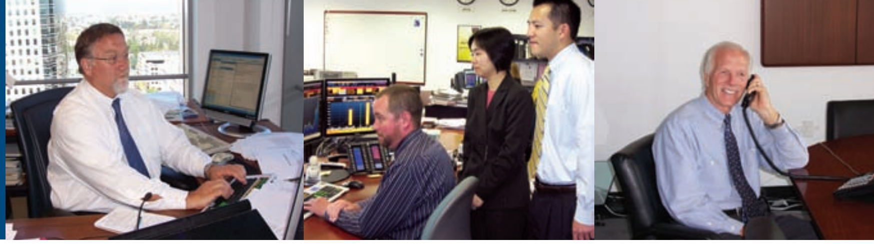
This trust pays the donor or designated beneficiary a percentage (at least 5%) of its net asset value each year. The trust is revalued annually. A charitable contribution deduction is allowed for the value of the trust's remainder interest. A variation is the "net income" unitrust, which distributes the trust's net income, up to the set percentage of the annual market value of the trust assets. Minimum gift to establish a trust with The Regents as trustee is generally $250,000. Additional contributions are accepted anytime.

CHARITABLE REMAINDER ANNUITY TRUST

This trust pays a fixed dollar amount (at least 5% of initial value of transferred property) to the donor or designated beneficiary each year. A charitable contribution deduction is allowed for the value of the trust's remainder interest. Minimum gift to establish a trust with The Regents as trustee is generally $250,000. Additional contributions are not accepted.

CHARITABLE GIFT ANNUITY

This pays a fixed dollar amount each year to the donor or designated beneficiary for the life of the beneficiary. The rate is based on the age of the income beneficiary on



CHARITABLE ASSET MANAGEMENT POOLS

The Charitable Asset Management (CAM) Pools are used by The Regents and the Campus Foundations for the investment of split-interest gifts, including charitable remainder trusts, pooled income funds, and charitable gift annuities. The investment of these funds is directed by the Treasurer of The Regents; the administration of these funds is handled by the Charitable Asset Management group of State Street Global Advisors, Boston and San Francisco. The pools were created in November 2003.

At fiscal year-end, CAM assets totaled $108 million, with CAM Russell 3000 Tobacco Free (TF) Index Pool's market value at about $46 million, The CAM EAFE International TF Index Pool's market value at appoximately $13 million, and the CAM Fixed Income Pool's market value at about $48 million.

RETURNS

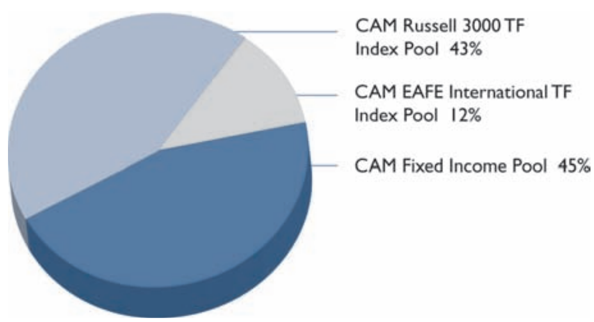
Performance ending June 30, 2010, was as follows:

Fund/Policy Benchmark	1-Year Return	Annualized 3-Year Return	Annualized 5-Year Return
CAM Russell 3000 TF Index Pool	15.97%	-9.43%	-0.48%
Russell 3000 TF Index	15.71	-9.63	-0.63
CAM EAFE Internat. TF Index Pool	7.44	-12.23	1.86
MSCI EAFE + Canada TF Index	6.84	-12.72	1.38
CAM Fixed Income Pool	11.36	7.69	5.75
Barclays Capital U.S. Aggregate Bond Index	9.50	7.55	5.54

INVESTMENT OBJECTIVES

The CAM Russell 3000 TF Index Pool seeks to provide investment results that correspond to the total return (i.e., the combination of price changes and income) performance of a broad base of stocks publicly traded in the United States. The CAM EAFE International TF Index Pool seeks to provide investment results that correspond to the total return performance of non-U.S.-developed country stocks. The CAM Fixed Income Pool seeks to outperform the Barclays Capital U.S. Aggregate Bond Index and consistently have higher current income. The Funds' policy benchmarks are the Russell 3000 TF Index, MSCI EAFE + Canada TF Index, and the Barclays Capital U.S. Aggregate Bond Index, respectively.

Total CAM Assets by Pool
June 30, 2010



the date of gift. The amount of the charitable contribution deduction is the difference between the amount of the gift and actuarial value of the annuity. Minimum gift is $20,000. Additional annuities for the same designated beneficiaries can be established with a minimum gift of $10,000.

Photo by Carlos Puma

Donors Ida and Rodney Moore with UCR scholarship recipient Devonna Gaitlin (at center).

DEFERRED PAYMENT GIFT ANNUITY

This is a charitable gift annuity in which the first annuity payment is deferred for a year or more from the date of the gift, often timed to coincide with retirement. The donor is able to make a gift now and use the income tax charitable deduction while in a higher tax bracket, deferring annuity payments until the income will be needed. The donor may claim a charitable contribution deduction for the difference between the value of the gift and the actuarial value of the deferred annuity. Minimum donation is $20,000.

POOLED INCOME FUNDS

This is a trust funded with gifts from many donors. There are two pooled income funds operated by The Regents and open to donors to any campus or university program. These funds pay the donor or designated beneficiary a pro-rata share of the particular pooled-income fund's net income each year for life. Income is taxed as ordinary income, and a charitable deduction is allowed for the value of the remainder interest. Minimum gift is $20,000. Additional contributions of $5,000 or more are accepted.

LIFE INCOME OPTIONS WITH APPRECIATED SECURITIES

Donors to gift annuities, charitable remainder trusts, and pooled income funds may make a gift using appreciated property and defer or avoid paying taxes on their capital gains. When appreciated stock is donated to a charitable remainder trust, the trust can sell those assets on a tax-free basis and purchase other, higher-yielding assets, and the income beneficiary only pays tax on the capital gains as the gains are actually paid out to them in annual unitrust or annuity payments. Capital gains on the donation of appreciated securities for a charitable gift annuity are usually distributed over the donor's actuarial life expectancy, if the donor and/or the donor's spouse are the only annuitants. When appreciated assets are donated to a pooled income fund, the donor does not pay taxes on any of the capital gains.

Endowments, Foundations, and Scholarships Support UC and California Agriculture

If you've ever traveled the great expanse of beautiful California by car or plane, you've undoubtedly gotten a glimpse of the many agricultural activities carried out here. Those who have never ventured inside our state primarily see only the "glamorous" images of California in the media—the beaches, mountains, and sophisticated cities. However, the dominant use of land in California is actually farming and ranching, with eight of the top 10 agricultural counties here in the United States. The Central Valley, California's agricultural heartland and the richest agricultural valley in the world, contains almost half of the state's farmland and nearly 70 percent of the state's cropland.

California has held the title of the nation's most agriculturally productive state since 1948, even through many economic downturns. In 2008, cash farm receipts equaled $36.2 billion or 11.2 percent of the U.S. total. California's agricultural sector is very diverse. Farmers and growers in the state produce over 400 different commodities, with milk and cream ranking number one. In 1993, California became the nation's leading dairy state, even outproducing Wisconsin. Milk production in California was valued at $6.92 billion in 2008. When compared to the impact of other notable California industries, the dairy industry provides more economic stimulus and jobs to the state yearly than either the iconic film/television or wine industries.

Photo by Ed Vertucci

Hansen Agricultural Center in Santa Paula, CA

Across the nation, U.S. consumers regularly purchase several crops produced solely in California (99 percent or more), including almonds, artichokes, dates, figs, grapes and raisins, kiwifruit, olives, cling peaches, pistachios, dried plums, pomegranates, sweet rice, ladino clover seed, and walnuts. California produces nearly half of all U.S.-grown fruits, nuts, and vegetables and its agricultural exports are enjoyed by millions around the world. The quality, freshness, and flavor of California's food products allow consumers to experience a little "taste of sunshine."

This brief introduction to California agriculture is intended to lay the groundwork for understanding why the University of California has, since its inception, been fervently involved in the state's agricultural activities.

The UC agricultural program traces its roots to legislation signed by President Abraham Lincoln in 1862. The Morrill Act provided states with land or money to develop educational institutions with a focus on agriculture, science, and engineering at a time when higher education centered on classical studies. In California, an Agricultural, Mining, and Mechanical Arts College was established on the east shore of San Francisco Bay. It soon merged with the College of California in Oakland to become the University of California in Berkeley (1868). In 1914, Congress sought to boost agricultural productivity and enhance the lives of rural families by creating cooperative extension, a service that channels research advances from college campuses to rural Americans. From the beginning, UC research and extension programs have benefited from foundations and endowments established by generous and forward-thinking individuals who have cared passionately about issues related to agricultural, natural, and environmental resources. These donors have truly illustrated the "Give First; Get Later" perspective and have appreciated the contributions of UC faculty, researchers, and students to the field of agriculture. These financial supporters have also known that agriculture makes a significant contribution to the California economy and California is a major global player in exporting commodities.

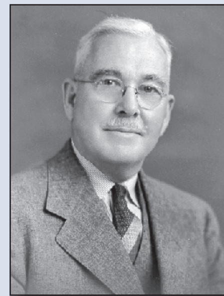
UC research is now instrumental in the success of the state's multi-billion-dollar wine industry. More than 95 percent of the grapes grown in California come from rootstock that originated at UC Davis. Disease-resistant varieties, including chardonnay, cabernet sauvignon, merlot, zinfandel, and sauvignon blanc, now provide winemakers with a reliable supply of high-quality grapes. Many of the state's winemakers and grape growers receive their education and training at UC.

The $767 million strawberry industry in California, which is capable of growing berries nearly year-round, relies on a steady stream of new varieties developed, patented, and released by the University.

The UC Division of Agriculture and Natural Resources (ANR) is a statewide research and public-service organization responsible for activities in agricultural, natural resources, environmental sciences, family and consumer sciences, forestry, human and community development, and related areas. ANR is based on the Berkeley, Davis, and Riverside campuses of the University of California, and in more than 50 regional and county offices throughout the state. The organization serves as a liaison—taking new scientific discoveries from UC research laboratories, testing and evaluating them in the field, then adapting and delivering practical applications directly to farmers and ranchers.

ANR is also responsible for the administration of 37 large endowment funds that are managed by the Regents of the University of California within the General Endowment Pool. ANR continues to welcome private contributions so that it can enhance its wide range of activities. State, federal, and county funding only provides basic support for research and extension.

According to ANR, "During the next 25 years, California will face formidable challenges—to maintain productivity in the face of rapid population growth, to compete effectively in new global markets, to maximize the use of new technology, and to manage increasingly scarce resources, such as water. ANR benefits from the generosity of individuals, corporations, and foundations that support our efforts to meet these challenges. An investment in ANR represents an investment in California's present and future."



Claude Burton Hutchison, the first director of the Giannini Foundation, is considered to be responsible for developing the high quality of agricultural sciences that prevails today at the University of California.

ANR has more than 300 campus-based specialists and county-based farm, home, and youth advisors who work as teams to provide Californians with "practical, unbiased, science-based solutions." ANR focuses on four primary areas: sustainability and viability of California agriculture; promoting healthy Californians; promoting human and community development; and conserving our natural resources. Its strategic vision is to optimize opportunities for conducting outstanding research and extension programs that meet the needs of Californians. ANR helps California agriculture fight E. coli O157:H7 and Salmonella outbreaks in food; controls Pierce's disease and the glassy-winged sharpshooter; helps combat a variety of invasive pests; promotes nutrition, after-school, and youth programs among underserved populations; and works with legislators, researchers, and industry to best guide California's resources into the future.

Even though the diversity, complexity, and impact of California agriculture are not fully appreciated by most people, there are, no doubt, many millions of people who "enjoy the fruits" of UC contributions to the state's agriculture.

UC Agriculture-Related Endowments Managed by the UC Regents

Kearney Endowment Fund (market value: $41.6 million)

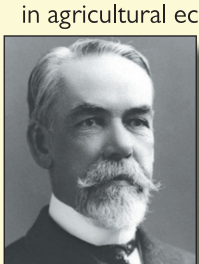
The Kearney Foundation was established in 1951 through an endowment managed by the UC Board of Regents. It is named in honor of M. Theo Kearney, a prominent agricultural leader in the history of California's San Joaquin Valley. It was Kearney's bequest of his 5,400-acre estate to the University of California that ultimately led to the establishment of the Foundation. Kearney Foundation of Soil Science was created to encourage and support research in the fields of soils, plant nutrition, and water science within the UC ANR. Its five-year missions are dedicated to issues of public concern and are planned and implemented to support the major goals of the California Agricultural Experimental Station. In 1965, the UC Kearney Research and Extension Center was dedicated near Parlier, CA, to "usher in a new era in Central California agricultural research."

Thelma Hansen Fund ($21.4 million)

The Hansen Trust was created in 1993 following the death of Thelma Hansen, the last member of the John C. Hansen family of Saticoy, a small unincorporated town in Ventura County. Thelma graduated from UC Berkeley with a degree in mathematics but returned to the family farm to help with their business operations. She developed a deep appreciation and understanding of the importance of agriculture, and became an advocate for the conservation of natural resources for a prosperous and healthy agriculture. Thelma valued the University of California as a premier institution for agricultural research and education, and left a restricted endowment to the University to carry out the mission to support and maintain University research and Extension activities and related facilities for the benefit and sustainability of agriculture in Ventura County and matters related to agricultural and natural resource issues.

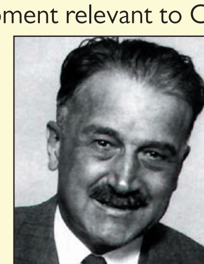
Giannini Foundation of Agricultural Economics ($17.7 million)

This foundation was founded in 1930 from a grant made by the Bancitaly Corporation to the University of California in tribute to its organizer and past president, Amadeo Peter Giannini of San Francisco. Members of the Giannini Foundation are UC faculty and Cooperative Extension specialists in agricultural and resource economics on the Berkeley, Davis, and Riverside campuses. The broad mission of the Foundation is to promote and support research and outreach activities in agricultural economics and rural development relevant to California. The Giannini Foundation is reported to be the nations' first philanthropic endowment in the field of agricultural research. The activities of the Foundation are chiefly: (a) those of research, with the purpose to find the facts and conditions which will promise or threaten to affect the economic status of California agriculturalists; and (b) those of formulating ways and means of enabling the agriculturalists of California to profit from the existence of favorable facts and conditions, and to protect themselves as well as possible from adverse facts and conditions.



Martin Theodore Kearney

Thelma Hansen



Amadeo Peter Giannini

We wish to acknowledge the help of Jeannette Warnert, Patti Verdugo Johnson, and Doug Peters in the preparation of this article.
For information about donating to the UC Agriculture and Natural Resources Division, please visit: http://ucanr.org/

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 salary, and length of service.

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN (UCRP)
Summary of Investments[1]
($ in thousands)

	June 30, 2010		June 30, 2009	
UC RETIREMENT PLAN (UCRP)	Market Value	% of UCRP	Market Value	% of UCRP
EQUITIES				
U.S. Equity	$10,347,379	30.0%	$11,069,628	34.3%
Non-U.S. Equity-Developed	7,276,353	21.1	7,091,695	22.0
Non-U.S. Equity-Emerging Markets	1,360,861	3.9	1,316,678	4.0
Global Equity	672,095	2.0	593,618	1.8
TOTAL EQUITIES	$19,656,688	57.0%	$20,071,619	62.1%
FIXED-INCOME SECURITIES				
Core Fixed Income	$4,514,972	13.1%	$3,680,678	11.4%
High-Yield Bond	936,060	2.7	1,029,373	3.2
Emerging Market Debt	903,246	2.6	748,685	2.3
TIPS	2,711,196	7.9	2,073,285	6.4
TOTAL FIXED INCOME	$9,065,474	26.3%	$7,532,021	23.3%
ALTERNATIVE ASSETS				
Private Equity	$2,357,728	6.8%	$1,730,742	5.4%
Real Assets	53,827	0.2	-	-
Opportunistic	409,686	1.2	-	-
Real Estate	895,857	2.6	894,751	2.8
Absolute Return	2,055,609	6.0	1,906,905	5.9
TOTAL ALTERNATIVE ASSETS	$5,772,707	16.8%	$4,532,398	14.1%
LIQUIDITY PORTFOLIO	$47,918	.1	$172,753	.5
TOTAL UCRP	$34,542,787	100.0%[3]	$32,308,791	100.0%

UCRP is a balanced portfolio of equities, fixed-income securities, and alternative investments, which, at June 30, 2010, totaled $34.5 billion versus $32.3 billion at the end of fiscal 2009. For the fiscal year, UCRP returned 12.72% versus 11.61% for its benchmark. Over the long term, UCRP has performed well and exceeded its policy benchmarks. UCRP's annualized total return for the past five years through June 30, 2010, was 1.86% versus its benchmark at 1.71%.

INVESTMENT OBJECTIVE

The overall investment objective for all UCRP assets 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 maximize the probability of meeting the Plan's liabilities, subject to The Regents' funding policy, and to preserve the real (inflation adjusted) purchasing power of assets.

OVERALL INVESTMENT STRATEGY

In order to continue to achieve the UCRP investment objectives, The Regents adopted the following asset allocation policy in March 2010[2]:

Asset Class	Current Policy	Min.	Max.
Public Equity	59.0%	49.0%	69.0%
Fixed Income	25.0	20.0	30.0
All Alternatives*	16.0	9.0	23.0
Liquidity	0.0	0.0	10.0

*Including, but not limited to: Real Estate, Private Equity, Real Assets, Opportunistic, and Absolute Return Strategies.

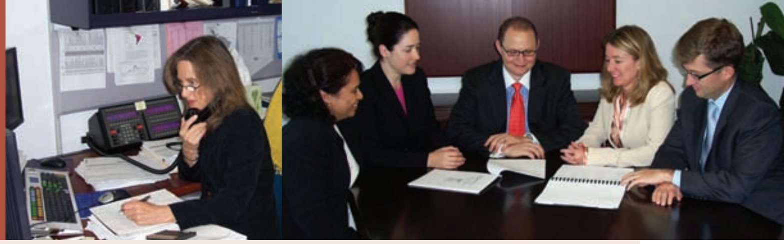
The benchmarks for the individual UCRP asset classes for the 2009-2010 fiscal year are listed on page 27.

The asset allocation benchmarks and portfolio guidelines are designed to manage risk and ensure portfolio diversification and are reviewed monthly. The Regents' Committee on Investments adopts performance benchmarks for each asset class, as advised by the Treasurer's Office.

1 For fiscal years 2009 and 2010, the cash portion of the various portfolios excludes the unrealized market appreciation or depreciation of STIP investments, accounts receivable and accounts payable, and the investments in the security lending collateral pool. Therefore, the balances differ from the University's Annual Financial Report. UCRP's STIP investments include assets associated with the UC PERS Voluntary Early Retirement Incentive Program totaling $60.8 million. For 2010, the UCRP assets were unitized with UCRP and PERS jointly owning all the units.

2 Revised policy ranges, targets, and allocations were approved by The Regents on March 24, 2010, and were effective April 1, 2010.

3 The method of rounding may produce the appearance of minor inconsistencies in various totals and percentages but the differences do not affect the accuracy of the data.



UNIVERSITY OF CALIFORNIA RETIREMENT PLAN (UCRP) FUNDED STATUS

as of June 30

	2006	2007	2008	2009	2010
MARKET VALUE (in millions)	$43,387	$47,954	$42,031	$32,308	$34,543
ANNUAL TOTAL RETURN	7.10%	18.83%	-5.74%	-18.81%	12.72%
ANNUAL TOTAL RISK[1]	5.59%	4.22%	9.82%	22.14%	10.99%
TOTAL CONTRIBUTIONS[2] (in millions) AND INVESTMENT ACTIVITY	$2,979	$7,941	($2,590)	($7,903)	$4,326
TOTAL PAYMENTS (in millions) AND EXPENSES[3]	($1,474)	($3,198)	($3,492)	($1,861)	($2,010)
SURPLUS ASSETS[4] (in millions)	$3,800	$1,700	$2,000	$1,300	($2,400)
FUNDED RATIO[5]	110.30%	104.10%	104.80%	103.00%	94.80%

In addition, the Treasurer monitors the actual asset allocation at least monthly. The Committee directs the Treasurer to take all actions necessary, within the requirement to act prudently, to rebalance assets to within the policy ranges in a timely and cost-effective manner when actual weights are outside the prescribed ranges. The Treasurer may utilize derivative contracts (in accordance with policy) to rebalance the portfolio.

EQUITY INVESTMENTS STRATEGY AND RETURNS

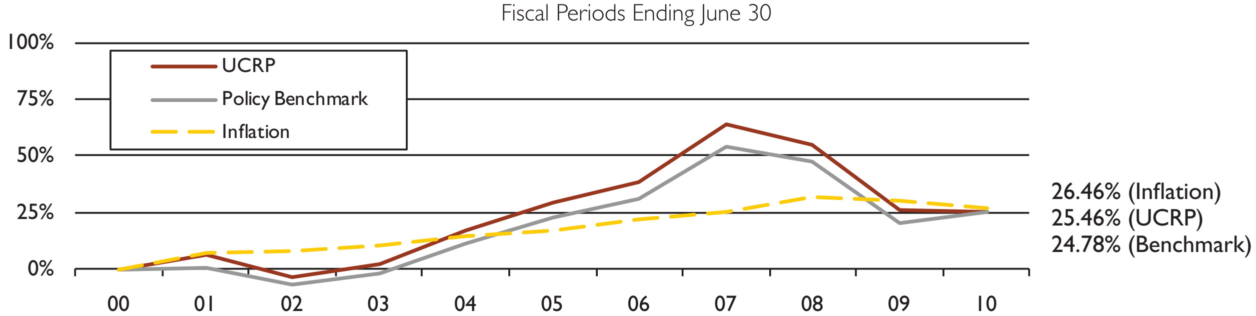
The Treasurer's Office has an internal team of experienced investment professionals who implement The Regents' allocation to public equity. Assets are segmented into U.S. Equity, Non-U.S. Developed and Non-U.S. Emerging Markets, and Global Equity. The Treasurer's Office team selects multiple equity strategies and the external managers to implement these strategies. After managers are selected, aggregate exposures are compared to the benchmark to ensure that the combination of managers does not result in unintended risk. After managers are hired, considerable time is spent in monitoring them on an ongoing basis. The combined assets in each of the asset classes are monitored under investment guidelines established by The Regents. Each asset class is managed according to a risk budget framework set by The Regents. The allocation between passive and active strategies is determined by both the risk budget and by the opportunities to add value to the benchmark for each asset class.

As of June 30, 2010, approximately 27% of Domestic Equity assets and 31% of Non-U.S. Equity-Developed assets were managed in active strategies by 27 external managers. Emerging Markets are all actively managed by 10 firms. The equity portion of UCRP represented 56.9% of the portfolio at year-end, with a market value of $19.7 billion. U.S. Equity represented 30.0% of the fund, with a market value of $10.3 billion. UCRP's U.S. Equity assets returned 15.83% for the fiscal year and -1.00% for the five-year period. Total Non-U.S. Equity represented 27% of UCRP at year-end, with a market value of $9.3 billion. Non-U.S. Equity Developed Markets represented 21%, with a market value of $7.3 billion; Emerging Markets represented 4%, with a market value of $1.4 billion; Global Equity represented 2% of UCRP, with a market value of $672 million. The UCRP Non-U.S. Developed Markets portfolio returned 8.31% for the fiscal year and had a five-year annualized return of 1.86%. The Emerging Markets portfolio returned 25.90% for the fiscal year and had a five-year return of 11.92%. The Global Equity portfolio, initiated in July 2008, returned 13.39% for the fiscal year.

The following chart illustrates the returns for UCRP for the past 10 years relative to the policy benchmark and inflation.

UCRP Cumulative Total Returns: Fiscal 2000-2010

Fiscal Periods Ending June 30



1 Annual Total Risk is defined as the standard deviation of monthly total return over the 12-month period, ending June 30.

2 Total Contributions and Investment Activity include employer and member contributions, investment income, and realized and unrealized gains and losses, as of the beginning of the fiscal year.

3 Total Payments and Expenses include retirement, cost-of-living adjustments, lump sum cashouts, survivor, disability and death payments, member withdrawals, and administrative and other expenses.

4 Surplus assets are as of the beginning of the fiscal year and calculated as the difference of actuarial (or smoothed) assets and actuarial liabilities, neither of which are shown in the table above.

5 The Funded Ratio is the ratio of actuarial assets and actuarial liabilities, as of the beginning of the fiscal year.

FIXED-INCOME INVESTMENTS STRATEGY AND RETURNS

For Fixed-Income investments, the Treasurer's Office analyzes relative value among the core benchmark sectors of governments, corporates, and mortgage-backed securities and overweights those sectors and securities offering attractive real returns, while maintaining a risk level commensurate with the benchmark index. At year-end, Fixed-Income investments constituted 20.7% of the portfolio, with a market value of approximately $9.1 billion. Within total Fixed Income, UCRP's Core Fixed-Income investments returned 10.45% during the year. Over the long-term, UCRP's Fixed Income returned 5.32% and 7.26% for the five-year and 10-year periods. UCRP's High Yield Bond and Emerging Markets Debt investments returned 26.03% and 17.83% respectively, for the fiscal year.

For TIPS, the Treasurer's Office seeks to maximize long-term total real returns and increase portfolio diversification, given TIPS' low correlation with other asset classes. UCRP's TIPS represented 7.9% of total assets with a market value of $2.7 billion on June 30, 2010. TIPS returned 9.68% in the fiscal year. The weighted average maturity of the Fixed-Income portfolio at the end of the year was approximately 9.8 years, the weighted average duration 4.32 years, and the average credit rating was AA, with 74% rated A or better.

ALTERNATIVE INVESTMENTS STRATEGY AND RETURNS

For Absolute Return (AR) investments, the Treasurer's Office seeks to generate positive returns over a multi-year period, regardless of the general market direction. AR investments typically have low correlation with other asset classes and increase the overall portfolio diversification while reducing risk. To accomplish this goal, the Treasurer's Office invests with top-tier asset management firms in a variety of strategies, including global long/short equity, relative value credit, distressed securities, mortgage arbitrage, global macro, event driven and other "hedge fund" strategies. Currently, the AR portfolio is benchmarked to an index comprised of 50% absolute-return, low-market-exposure strategies and 50% directional, higher-market-exposure strategies. As of June 30, 2010, the AR portfolio represented 6.0% of the UCRP, had a market value of $2.1 billion and a one-year return of 9.06%.

For Private Equity, the Treasurer's Office seeks opportunities through recognized top-tier venture capital partnerships and select buyout funds. Private Equity represented 6.8% of UCRP at year-end with a market value of $2.4 billion. UCRP returns for this asset class in the fiscal year were 19.18%.

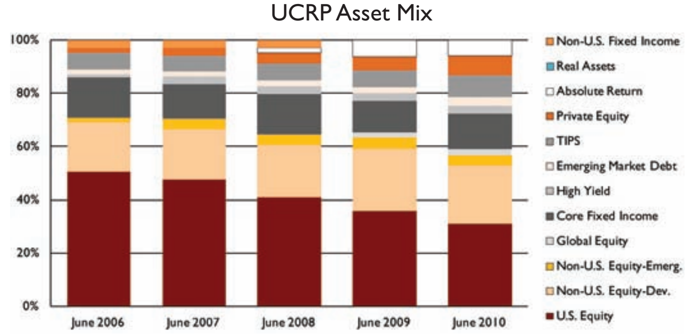
For Real Estate, the Treasurer's Office seeks investments which provide long-term risk-adjusted total returns between those of U.S. equities and bonds; diversification benefits given real estate's low correlation with other asset classes; protection against unanticipated inflation; and a high proportion of the total return derived from current income. Real Estate represented 2.6% ($896 million) of UCRP at year-end. Private Real Estate ($821 million) returned -29.03% in the fiscal year. Over the past five years, the return was -8.68%. Public Real Estate, with an effective date of September 1, 2008, returned 18.79% for the fiscal year.

The Real Assets and Opportunistic asset classes were added to the UCRP portfolio on April 1, 2010. Real Assets is primarily composed of energy assets, timberland, infra-structure, and commodities. These assets generally provide inflation protection, a strong current income component and diversifi-cation benefits relative to other finanial assets. The key objective of the Opportunistic program is to identify and invest in assets that provide attractive risk-adjusted returns which are beneficial to the UCRP but are outside of or not clearly in existing asset classes. The market value of the UCRP Real Assets investments as of June 30, 2010, was approxi-mately $54 million and the return for the quarter was 24.49%. The market value of the UCRP Opportunistic investments was about $410 million and the return for the quarter was -2.55%.

ASSET MIX

The following illustrates UCRP's asset mix as of the past five fiscal year ends.

UCRP Asset Mix



UCRP FUNDING

The UCRP costs are funded by a combination of investment earnings, employee member, and employer contributions. The University's contribution rate to the UCRP had been zero from 1990-2010 and most of the required employee member contri-butions were redirected to the separate defined-contribution plan maintained by UC. In 2006, The Regents updated the funding policy for UCRP to provide for a targeted funding level of 100% over the long term, and for University and UCRP member contri-butions at rates necessary to maintain that level within a range of 95–110%. In February 2009, the UC Regents adopted a plan to begin employer and employee contributions to UCRP in mid-April 2010. Employer contributions have begun at 4% of salary. Most employee members of UCRP are contributing the same amount that had been contributed to the Defined Contribution (DC) Plan--about 2% of pay. Contributions to the DC Plan have now stopped, resulting in no change to employees' take-home pay. Both employer and employee contributions are expected to increase over time in order to sustain the pension fund.

UCRP ANNUALIZED TOTAL RETURNS[1] VERSUS BENCHMARKS AND INFLATION

June 30, 2010

	1-Year	5-Years	10-Years	10-Year Cumulative	Benchmark Description[2]
TOTAL FUND					
UCRP	12.72%	1.86%	2.29%	25.46%	Total Fund Policy Benchmark: A blend of the indices described in detail below, each weighted by the percentage it represents in the asset allocation, except that the policy of Private Equity, Real Estate, and Absolute Return are set equal to the actual weights each month. Annual index returns assume monthly rebalancing. Inflation: Consumer Price Index.
Policy Benchmark	11.61	1.71	2.24	24.78	
Inflation	**1.05**	2.31	2.38	**26.46**	
U.S. EQUITY[3]					
UCRP	15.83%	-1.00%	-1.68%	-15.60%	
Policy Benchmark	15.71	-0.63	-1.06	-10.07	Policy Benchmark: Russell 3000 TF Index.
NON-U.S. EQUITY-DEVELOPED[3]					
UCRP	8.31%	1.86%	N/A	N/A	
Policy Benchmark	6.84	1.38	N/A	N/A	Policy Benchmark: MSCI World ex-U.S. (Net) Index TF.
NON-U.S. EQUITY-EMERGING MARKETS[3]					
UCRP	25.90%	11.92%	9.67%	151.58%	
Policy Benchmark	23.15	12.73	10.10	161.81	Policy Benchmark: MSCI Emerging Market (Net) Index.
GLOBAL EQUITY					
UCRP	13.39%	N/A	N/A	N/A	
Policy Benchmark	13.07	N/A	N/A	N/A	Policy Benchmark: MSCI All Country World Index Net - IMI - TF.
U.S. CORE FIXED INCOME					
UCRP	10.45%	5.32%	7.26%	101.46%	
Policy Benchmark	9.50	5.52	7.31	102.46	Policy Benchmark: Barclays Capital U.S. Aggregate Bond Index.
HIGH-YIELD FIXED INCOME					
UCRP	26.03%	N/A	N/A	N/A	
Policy Benchmark	27.01	N/A	N/A	N/A	Policy Benchmark: Merrill Lynch High Yield Cash Pay Index.
EMERGING MARKET DEBT					
UCRP	17.83%	N/A	N/A	N/A	Policy Benchmark: JP Morgan Emerging Market Bond Index Global Diversified.
Policy Benchmark	18.44	N/A	N/A	N/A	
TIPS					
UCRP	9.68%	5.32%	N/A	N/A	
Policy Benchmark	9.52	4.98	N/A	N/A	Policy Benchmark: Barclays Capital TIPS.
PRIVATE EQUITY[4]	19.18%	7.10%	1.48%	15.87%	Actual PE Returns.
ABSOLUTE RETURN[5]					
UCRP	9.06%	N/A	N/A	N/A	Policy Benchmark: 50% HFRX Absolute Return Index + 50% HRFX Market Directional Index.
Policy Benchmark	5.62	N/A	N/A	N/A	
REAL ASSETS[6]					
UCRP	N/A	N/A	N/A	N/A	Timberland, Energy, Infrastructure, Opportunistic Benchmarks: Internal Rate of Return (IRR)-Based Benchmark; Commodities: S&P GSCI Reduced Energy Index.
Policy Benchmark	N/A	N/A	N/A	N/A	
OPPORTUNITISTIC[6]					
UCRP	N/A	N/A	N/A	N/A	The Regents' general investment consultant will establish an appropriate individual benchmark after the investment is chosen but before funding the investment.
Policy Benchmark	N/A	N/A	N/A	N/A	
PUBLIC REAL ESTATE					
UCRP	18.79%	N/A	N/A	N/A	50% times the FTSE EPRA NAREIT U.S. Index plus 50% times the FTSE EPRA NAREIT Global ex-U.S. Index.
Policy Benchmark	31.18	N/A	N/A	N/A	
PRIVATE REAL ESTATE					
UCRP	-29.03%	-8.68%	N/A	N/A	Open End=NCREIF Funds Index-Open-End Diversified Core Equity (lagged three months); Closed End=Actual Closed-End Return.
Policy Benchmark	-27.32	-7.74	N/A	N/A	

1 UCRP's total returns are net of (after) the Treasurer's Office investment management, administrative expenses, and external management fees. The asset class returns reflect investment returns. The performance of The Regents' total return investment portfolio is calculated by State Street Bank, 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 return on assets. These calculations comply with the CFA Institute's standards, which require time-weighted rates of return using realized and unrealized gains plus income. For FY 2009-2010, the cost of managing the UCRP was 75 basis points, comprised of 67 basis points attributable to external money managers and 8 basis points to UC's internal costs (5 basis points related to administrative costs and 3 basis points related to investment management and custodial expenses).

2 Historical benchmark information is available online at http://www.ucop.edu/treasurer/currentpol/Benchmarks.html.

3 Ten-year-period returns were reclassified to match current asset classes.

4 There is no appropriate market-based index that can be used as a meaningful performance benchmark for Private Equity. For additional information, refer to p. 13 of the "Investment Performance Summary," dated June Quarter 2010: http://www.ucop.edu/treasurer/invinfo/06-10_Investment_Performance_Summary.pdf

5 The benchmark for Absolute Return (AR) class was changed effective March 1, 2009, from Treasury Bills + 450 bp to 50% HFRX-AR Index + 50% HFRX-MD Index. AR includes a small allocation to Real Assets.

6 Inception date for Real Assets and Opportunistic asset classes was April 1, 2010.

UC-Managed Defined Contribution Funds

In addition to the defined benefit program (UCRP), the University offers defined contribution plans to provide employees with supplemental retirement benefits—the Defined Contribution Plan (DC Plan), the Tax-Deferred 403(b) Plan, the 457(b) Deferred Compensation 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 and that each participant chooses a mix of asset classes (funds) consistent with his or her own investment objectives and risk tolerance.

UNIVERSITY-MANAGED DEFINED CONTRIBUTION (DC) FUNDS[1]

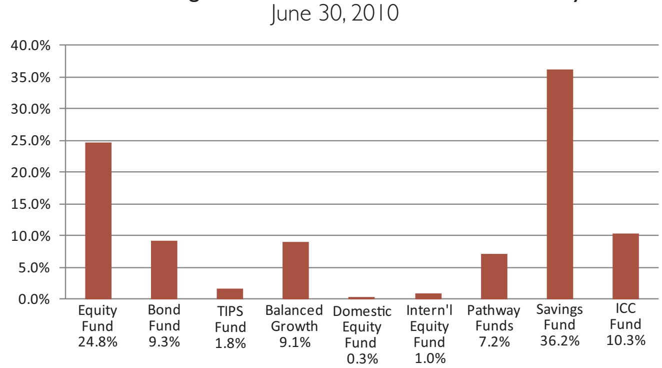
Summary of Investments
($ in thousands)

DEFINED CONTRIBUTION (DC) FUNDS	June 30, 2010 Market Value	June 30, 2010 % of DC	June 30, 2009 Market Value	June 30, 2009 % of DC
TOTAL RETURN FUNDS				
EQUITY FUND	$2,588,077	24.8%	$2,301,788	24.4%
BOND FUND	974,168	9.3	852,152	9.0
TIPS FUND	188,419	1.8	155,235	1.6
BALANCED GROWTH FUND	945,308	9.1	835,641	8.8
DOMESTIC EQUITY INDEX FUND	34,911	0.3	23,649	0.3
INTERNATIONAL EQUITY INDEX FUND	100,279	1.0	85,003	0.9
PATHWAY INCOME FUND[3]	57,794	0.6	42,568	0.5
PATHWAY FUND 2010[3]	142,553	1.4	115,809	1.2
PATHWAY FUND 2015[2, 3]	34,080	0.3	8,320	0.1
PATHWAY FUND 2020[3]	203,838	2.0	151,677	1.6
PATHWAY FUND 2025[2, 3]	13,762	0.1	2,703	0.0
PATHWAY FUND 2030[3]	148,632	1.4	105,920	1.1
PATHWAY FUND 2035[2, 3]	9,342	0.1	1,920	0.0
PATHWAY FUND 2040[3]	83,398	0.8	58,731	0.6
PATHWAY FUND 2045[2, 3]	3,952	0.0	640	0.0
PATHWAY FUND 2050[3]	38,775	0.4	28,618	0.3
PATHWAY FUND 2055[2, 3]	1,424	0.0	239	0.0
PATHWAY FUND 2060[2, 3]	2,996	0.0	387	0.0
INTEREST INCOME FUNDS				
SAVINGS FUND	$3,780,186	36.2%	$3,713,476	39.3%
ICC FUND	1,078,439	10.3	968,273	10.2
TOTAL UC MANAGED DC FUNDS	$10,430,333	100.0%[4]	$9,452,749	100.0%[4]

As of June 30, 2010, total assets in the UC-managed defined contribution plans were $10.4 billion versus $9.4 billion on June 30, 2009.

When investing their defined contribution funds, employees may choose among 25 UC Core Funds.[5] UC Core Funds are under the direction of the Office of the Treasurer. The UC Treasurer manages each fund, or selects the fund's investment manager.

Total UC-Managed Defined Contribution Plan Assets by Fund
June 30, 2010



[1] For fiscal years 2009 and 2010, the cash portion of the various portfolios excludes the unrealized market appreciation or depreciation of STIP investments, accounts receivable and accounts payable, and the investments in the security lending collateral pool. Therefore, the balances differ from the University's Annual Financial Report.

[2] New funds inception December 1, 2008.

[3] The Pathway Funds are funds of funds and include some assets managed by Vanguard.

[4] The method of rounding may produce the appearance of minor inconsistencies in various totals and percentages but the differences do not affect the accuracy of the data.

[5] The UC Core Funds also include three mutual funds managed by Vanguard, one managed by Dreyfus, and one by Dimensional. Information on the specific investment objectives, strategies, returns and risks associated with the UC Core Funds is available to plan participants on Fidelity NetBenefits website.

UNIVERSITY-MANAGED DEFINED CONTRIBUTION FUNDS[1] VERSUS BENCHMARKS AND INFLATION

June 30, 2010

	1-Year	5-Year	10-Year	Fund Policy Benchmark Description
TOTAL RETURN FUNDS				
Equity Fund	14.99%	0.18%	-1.08%	Policy Benchmark: 85% less the actual Private Equity weight from the prior month end times the Russell 3000 TF Index, 15% MSCI ACWI ex-U.S. (Net) Index and the actual Private Equity weight of the previous month end times the actual PE return; Historical: S&P 500 Index.
Policy Benchmark	14.60	-0.12	-0.56	
Morningstar Domestic Equity Funds Median[2]	14.39	0.23	0.91	
Bond Fund	10.64%	5.61%	6.82%	Policy Benchmark: Barclays Capital U.S. Aggregate Bond Index; Historical: LB LTG/C Index.
Policy Benchmark	9.50	5.54	6.47	
Morningstar Taxable Bond Funds Median[2]	11.94	4.76	5.56	
TIPS Fund (started 4/1/04)	9.93%	5.34%	N/A	Policy Benchmark: Barclays Capital TIPS Index.
Policy Benchmark	9.52	4.98	N/A	
Balanced Growth Fund (started 4/1/04)	13.57%	2.89%	N/A	Policy Benchmark: 65% policy benchmark for Equity Fund, 30% policy benchmark for Bond Fund and 5% policy benchmark for TIPS Fund.
Policy Benchmark	13.16	2.14	N/A	
Domestic Equity Index Fund (started 7/1/05)	15.88%	-1.05%	N/A	Policy Benchmark: Russell 3000 Tobacco Free Index.
Policy Benchmark	15.70	-0.64	N/A	
International Equity Index Fund (started 7/1/05)	7.35%	1.54%	N/A	Policy Benchmark: MSCI EAFE + Canada Tobacco Free Index.
Policy Benchmark	6.84	1.12	N/A	
UC Pathway 2010 (started 7/1/05)	18.15%	5.12%	N/A	Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	16.61	4.45	N/A	
UC Pathway 2015 (started 12/01/08)[3]	17.30%	N/A	N/A	Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	16.32	N/A	N/A	
UC Pathway 2020 (started 7/1/05)	17.03%	3.67%	N/A	Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	16.25	3.11	N/A	
UC Pathway 2025 (started 12/01/08)[3]	16.96%	N/A	N/A	Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	16.12	N/A	N/A	
UC Pathway 2030 (started 7/1/05)	16.43%	2.81%	N/A	Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	15.80	2.28	N/A	
UC Pathway 2035 (started 12/01/08)[3]	16.00%	N/A	N/A	Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	15.27	N/A	N/A	
UC Pathway 2040 (started 7/1/05)	14.54%	2.13%	N/A	Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	14.03	1.60	N/A	
UC Pathway 2045 (started 12/01/08)[3]	13.55	N/A	N/A	Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	13.14	N/A	N/A	
UC Pathway 2050 (started 7/1/05)	13.92%	1.32%	N/A	Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	13.63	0.90	N/A	
UC Pathway 2055 (started 12/01/08)[3]	14.40%	N/A	N/A	Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	13.99	N/A	N/A	
UC Pathway 2060 (started 12/01/08)[3]	14.24%	N/A	N/A	Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	13.88	N/A	N/A	
UC Pathway Income (started 7/1/05)	14.58%	5.22%	N/A	Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	12.98	4.63	N/A	
INTEREST INCOME FUNDS				
Savings Fund	2.51%	3.81%	4.31%	Savings Fund: 2-Year U.S. Treasury Note Income Return.
Policy Benchmark	0.98	3.00	3.03	
ICC Fund	4.75%	5.10%	5.63%	ICC Fund: 5-Year U.S. Treasury Note Income Return.
Policy Benchmark	2.42	3.56	3.79	
Inflation	1.05%	2.31%	2.38%	Inflation: Consumer Price Index.

1 All returns for the University-managed funds are net of (after) investment expenses, which are targeted to be 0.15% and are based on unit values for the Total Return Funds and on yields and interest factors for the Interest Income Funds. State Street Bank calculates returns and yields by dividing the new unit value or interest factor by the previous unit value or interest factor. The Treasurer's Office compares these results to the gross investment returns calculated by State Street Bank. State Street Bank'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: Morningstar, Inc. Although gathered from reliable sources, data completeness and accuracy cannot be guaranteed.

3 UC Pathway Funds 2015, 2025, 2035, 2045, 2055, and 2060 became available on December 1, 2008; therefore, long-term performance information is not yet available.

INTERNALLY MANAGED UC FUNDS

The University-managed investment choices include total return funds—the Equity Fund, Bond Fund, TIPS Fund, Balanced Growth Fund, Domestic Equity Index Fund, International Index Fund, and the 12 UC Pathway Funds—and interest-income funds—the Savings Fund and Insurance Company Contract (ICC) Fund. University-managed funds offer employees the opportunity to achieve attractive, 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. The table on page 29 illustrates that these DC funds performed well versus their benchmarks in the fiscal year and over the long term, as well. The University-managed funds have an extremely low cost relative to external fund options. Annual expenses are targeted to be 0.15%[1] of average annual market value, compared to the industry average of 1.4%.[2]

TOTAL RETURN FUNDS

EQUITY FUND

The second largest of the University-managed DC 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 following asset allocation policy for the Equity Fund has been in effect since March 2000:

Asset Class	Policy	Minimum	Maximum
U.S. Equity	80%	75%	85%
Non-U.S. Equity	15	10	20
Private Equity	5	3	7

At June 30, 2010, the total market value of the Equity Fund was $2.6 billion. The portfolio consisted of 79.9% U.S. Equity, 15.2% Non-U.S. Equity, and 4.9% Private Equity.

During the fiscal year, the U.S. equity was invested in a Russell 3000 Tobacco Free (TF) Index fund managed by State Street Global Advisors. Non-U.S. Equity is invested in a MSCI EAFE + Canada Tobacco Free Index fund (also managed by State Street Global Advisors). The private equity is invested in venture capital partnerships and buyout funds and is managed by the Treasurer's Office.

For the fiscal year, the return for Equity Fund was 14.99%, compared to 14.60% for the benchmark. The Equity Fund has also outperformed its benchmark over a five-year period, with a return of 0.18% vs -0.12. The 10-year return for the Equity Fund was -1.08% vs. -0.56 for the benchmark.

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, subject to maturity and quality constraints. The Treasurer's Office invests the Bond Fund in a diversified portfolio of primarily high-quality debt securities.

At June 30, 2010, the total market value of the Bond Fund was $974 million. The Bond Fund sector weightings (types of securities) as of June 30, 2010, were: core collateral,[3] 48%; core credit, 24%; and core government, 28%. The weighted average maturity of the portfolio at year-end was approximately 9.14 years, the weighted average duration 4.34 years, and 77% of the portfolio was rated A or better.

As shown on page 29, the Bond Fund returned 10.64% in the fiscal year, 5.61% for five years, and 6.82% for the 10-year period, outperforming its benchmark in all periods.

TIPS FUND

The TIPS (Treasury Inflation-Protected Securities) Fund, started April 1, 2004, seeks to provide long-term total return and inflation protection consistent with an investment in U.S. Government inflation-indexed securities.

The Fund invests in inflation-protected securities issued by the U.S. Government. Inflation-indexed securities are designed to protect future purchasing power. The principal value is adjusted for changes in inflation, and interest is paid on the inflation-adjusted principal.

The market value of the TIPS Fund at June 30, 2010, exceeded $188 million and returned 9.93% for the fiscal year.

BALANCED GROWTH FUND

The Balanced Growth Fund seeks to provide long-term growth and income through a balanced portfolio of equity and fixed income securities held within UC-managed funds. The market value of the Balanced Growth Fund at June 30, 2010, was $945 million and returned 13.57% for the fiscal year.

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[1] Total expenses are comprised of about 0.03% for investment management, 0.02% for investor education, and 0.10% for accounting, audit, legal and recordkeeping services.

[2] Source: Morningstar, Inc. Although gathered from reliable sources, data completeness and accuracy cannot be guaranteed.

[3] "Securtized Investments" equivalent to the Barclays Capital U.S. Aggregate Bond Index benchmark, which includes investments in residential mortgage-backed securities, asset-backed securities, and commercial mortgage-backed securities.

[4] Similar to the reverse repurchase agreement—a simultaneous agreement to sell a security held in a portfolio with purchase of a similar security at a future date at an agreed-upon price.

Contributions are invested according to a fixed ratio: 65% Equity Fund, 30% Bond Fund and 5% TIPS Fund (see above). The Balanced Growth Fund's returns are a function of the performance of its component funds.

The Fund is rebalanced periodically. This will prevent the three component funds from growing outside their allocation percentages. The Treasurer's Office manages the component funds according to the investment objectives and strategies of those funds.

DOMESTIC EQUITY INDEX FUND

The Domestic Equity Index Fund, started July 1, 2005, seeks to provide investment results approximating the total return performance of securities included in the Russell 3000 Index. The Fund is invested in a Russell 3000 Tobacco Free (TF) Index Fund, composed of shares of 3,000 U.S. companies as determined by market capitalization. The portfolio of securities represents approximately 98% of the investable U.S. equity market. The TF version excludes tobacco companies.

At June 30, 2010, the market value of the Domestic Equity Index Fund was $35 million and the Fund had a one-year return of 15.88%.

INTERNATIONAL EQUITY INDEX FUND

The International Equity Index Fund is invested in a MSCI EAFE + Canada Tobacco Free (TF) Index Fund. Started on July 1, 2005, the International Equity Index Fund seeks to provide investment results approximating the total return performance of the securities included in the MSCI + Canada Index. The Morgan Stanley Capital International Europe, Australasia, and Far East Index is designed to measure the performance of stock markets in those regions. The TF version excludes tobacco companies.

The market value of the International Equity Index Fund at June 30, 2010, was $100 million,with a one-year return of 7.35%.

UC PATHWAY FUNDS

The UC Pathway Funds are a simple yet diversified, one-stop-shopping approach to saving for retirement. The UC Pathway Funds, which initially became available on July 1, 2005, and were expanded on December 1, 2008, are lifecycle funds that seek to provide capital appreciation and current income consistent with its asset allocation, which will increasingly emphasize income as the target dates approach.

The Pathway Funds invest in a combination of core funds[1] and allocate their assets among these funds according to an asset-allocation strategy. As each Pathway Fund moves toward its defined target dates, the asset allocation becomes more conservative. Over time, the amount invested in stock funds is gradually reduced, while the amount invested in bond and short-term funds is increased.

Once the target date is met for a particular Pathway Fund, the asset mix will be similar to the UC Pathway Income Fund and the two Funds will merge. Investor guidance is provided for each Pathway Fund, e.g., the UC Pathway Fund 2010 may be appropriate for those investors planning to begin drawing income from their 403(b), 457(b), or DC accounts between 2008 and 2012.

At June 30, 2010, the market values and fiscal year returns for the UC Pathway Funds were as follows:

Pathway Fund	Net Market Value (million)	One-Year Return
Pathway Income	$58	14.58%
2010	143	18.15
2015[2]	34	17.30
2020	204	17.03
2025[2]	14	16.96
2030	149	16.43
2035[2]	9	16.00
2040	83	14.54
2045[2]	4	13.55
2050	39	13.92
2055[2]	1	14.40
2060[2]	3	14.24

INTEREST-INCOME FUNDS

SAVINGS FUND

The Savings Fund, the largest DC Fund, is an interest income fund created in July 1967. The Fund seeks to maximize interest-income returns, while protecting principal, in order to provide a stable, low-risk investment, with attractive returns. The Fund invests in fixed-income securities issued by the U.S. Treasury and U.S. government agencies, most of which are backed by the full faith and credit of the U.S. government. The Fund also invests in fixed income securities issued by U.S. government-sponsored enterprises (GSEs) such as Fannie Mae, Freddie Mac and the Federal

[1] The Core Funds are under the direction of the UC Office of the Treasurer. The UC Treasurer manages each fund, or selects the fund's investment manager. Information on the specific investment objectives, strategies, returns and risks associated with the UC Core Funds is available to plan participants on Fidelity NetBenefits website.

[2] UC Pathway Funds 2015, 2025, 2035, 2045, 2055, and 2060 became available on December 1, 2008.

Home Loan Banks. The principal and interest payments of GSE obligations are guaranteed solely by the issuer. The maturity of all investments must be five years or less.

At June 30, 2010, the Savings Fund totaled $3.8 billion and was composed of 44% U.S. Treasuries and 56% government-sponsored enterprises (GSEs). The weighted average maturity of the Fund was 2.43 years at June 30, 2010.

The Savings Fund has historically provided an income return considerably greater than that of two-year U.S. Treasury Note income. In fiscal 2010, the Savings Fund generated an income return of 2.51% versus 0.98% for the benchmark. During the past 10 years, the Savings Fund generated an average income return of 4.31% versus 3.03% on Two-Year U.S. Treasury Note income.

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 return 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 Fund may also invest in government and government agency securities and cash during periods in which maturing contracts expire and available contracts are not deemed attractive by the portfolio manager. ICC Fund participants receive the blended interest rate of all contracts in the fund. The Fund strives to exceed the returns of five-year U.S. Treasury Notes and to outpace inflation.

At June 30, 2010, the ICC Fund totaled $1.1 billion, with a weighted average maturity of 2.65 years. Since its inception, the ICC Fund has generated income returns that have exceeded those of five-year U.S. Treasury Note income by a comfortable margin. In fiscal 2010, the ICC Fund generated an income return of 4.75% versus 2.42% for the benchmark. During the past 10 years, the ICC Fund generated an income return of 5.63% compared to 3.79% on five-year U.S. Treasury Note income.

UC-MANAGED FUND FEES

Investor expenses are targeted to be 0.15% (or $1.50 per $1,000 invested) of the Fund's average market value per year, assessed on a daily basis (1/365th per day invested). These expenses are not billed to participants, but are netted against the investment experience of the fund. These expenses are comprised of approximately 0.03% for investment management, 0.02% for investor education and 0.10% for administration (including accounting, audit, legal, custodial and recordkeeping services). The total administrative expenses are estimated and could actually be higher or lower in some periods. Because actual administrative expenses are netted against investment experience, if actual administrative expenses are higher than estimated, the effective expense ratio for participants will increase; if actual expenses are lower than estimated, the effective expense ratio will decrease. There are no front-end or deferred-sales loads or other marketing expenses.

Photo courtesy of Friedbits.com

Vincent Casalaina
Retired
16 years with the
University of California, Berkeley
Principal Producer/Director

RETIREE PROFILE

Vincent Casalaina had been working as a freelance producer/director/videographer in the Bay Area for more than 10 years before he started working at UC Berkeley. He had been recognized with an Emmy Award for sports programming and two nominations for entertainment and public-service programming. He had also directed a daily national PBS series, "Over Easy," and was nominated for an Emmy for his directorial work. When that series ended, he was a bit weary of all the constraints of the TV medium. Even though he had done ongoing freelance work at KGO-TV, he wanted a chance to explore other forms of video production. Vincent thought he had something to offer students who cared about communicating through news and documentary programming. When the opportunity came up to work with Professor Andrew Stern in the UC Berkeley Graduate School of Journalism television lab, Vincent jumped at the chance. He started work at UC in 1986 as adjunct lecturer and principal producer/director.

When asked about his greatest joy in working at UC, Vincent said, "Working with professors on projects of mutual interest was what I found most interesting. My work with Professor Lawrence Rowe's Berkeley Multimedia Research Center (BMRC) involved exploring how to better utilize video over the Internet. The BMRC was conceived as a research group to explore the edges of what was possible with current Internet video tools and find uses for those tools within the University environment.

This led to the capture of lectures by receptive faculty members and making video available on demand to students for review and study purposes. As with many new technology breakthroughs, this had unintended consequences. The BMRC found that students would time stamp their notes in class and then use those time stamps to view just the portions of the video they needed to study. In addition, Professor Rowe and I taught a class jointly sponsored by the Electrical Engineering and Computer Sciences (EECS) and Art departments, where we worked hard to meld those who enjoyed writing code that would do exciting things with those who wanted to push the conceptual boundaries of the web experience."

During his last year at UC Berkeley, with 16 years of experience as an employee, he landed a part-time job as team videographer with AmericaOne Challenger for America's Cup 2000, while continuing to work for the UC Berkeley Multimedia Research Center (BMRC). "Professor Rowe was very supportive of my dreams and allowed me to work for the team," said Vincent. In June 1999, Vincent was authorized to take a one-year leave of absence so that he could work full time for the team in the "run up to the Cup" in 2000. In 1999, putting his America's Cup videos up front and center on a website was special. "I used the skills that I'd learned at the BMRC and applied them to real-world marketing. The ability to put up so many pieces meant I could tell stories of the people who actually powered the campaign. You can still see those pieces 10 years later on the AmericaOne website," explained Vincent.[1]

As a UC employee, Vincent participated in the UC 403(b) investment program to supplement his pension. He also had 401(k) retirement money from his freelance work and retirement funds from earnings as part of the Directors Guild of America. In addition, he invested in rental housing. (His parents and grandparents had also bought and sold property, modeling that form of investment for him.) "Rental housing provides a relatively stable income and requires only management time to make sure it stays in good repair and that the tenants are not disruptive to their neighbors. I have another much smaller chunk that is invested through a broker that has generated a reasonable return (the past two years not withstanding). I am a very cautious investor."

Now, after nine years as a UC retiree, he gives the following advice to current UC employees: Plan Ahead. "It is important to listen to advice from Human Resources but also from your own financial consultant. As advised by professionals, I adjusted my portfolio to suit changing economic factors." Vincent also suggested, "Think about ways you can earn money doing things you like doing after you retire. The UC Retirement System and 403(b) retirement benefits are good . . . but, for those of us who spent only part of our career at UC, it's also a good idea to think about how to supplement those funds." He recommends diversifying your retirement portfolio. "I'm talking about more than just having your portfolio in different stocks or bonds. Look around for other relatively safe investments that are not tied to the stock market."

Because Vincent retired early, at age 55, he keeps extremely busy. "I am still dreaming about retiring. I'm looking forward to cutting back on the number of projects I commit to but that's much easier said than done. I love being busy and finding interesting things to do has never been a problem. Make sure you do things that interest you when you retire."

[1] http://www.americaone.org/video/video-new.html

We wish to acknowledge the help of the UCOP Human Resources staff and the UC Berkeley Retirement Center in preparing this information.

Short Term Investment Pool (STIP)

The Short Term Investment Pool (STIP) is a cash investment pool established in fiscal 1976 by The Regents, in which all University fund groups participate, including retirement and endowment funds as well as campus endowment funds. Cash to meet payrolls, operating expenses, and construction funds of all the campuses and teaching hospitals of the University are the major funds invested in the STIP until expended. Pension, endowment, and defined contribution funds awaiting permanent investment are also invested in the STIP until transferred. The STIP participants are able to maximize returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large cash pool.

INVESTMENT OBJECTIVE

The basic investment objective of the STIP is to maximize returns consistent with safety of principal, liquidity and cash-flow requirements. The STIP's investments include a broad spectrum of high-quality money-market and fixed-income instruments with a maximum maturity of five-and-a-half years. Investment maturities are structured to ensure an adequate flow of funds to meet the University's cash needs as well as to provide the liquidity needed to facilitate asset class rebalancing and other major liquidity events.

In September 2009, The Regents authorized a change in the investment guidelines for the STIP, effective October 2009. As the liquidity requirements of the University have changed, due in part to the financial status of the State of California, an increased level of liquidity is now maintained in the STIP portfolio. Accordingly, to reflect the fact that there are now implicitly two components of the portfolio—a very short-term liquid portion and a somewhat longer portion—the policy benchmark has been changed to one that combines both components. The new benchmark is the weighted average of the income return on a constant maturity two-year U.S. Treasury Note and the return on the U.S. 30-day Treasury Bills. The weights are set at the actual average weights of the bond and cash equivalent components of the pool, re-balanced monthly. This change allows the manager to continue managing STIP consistent with the fund's guidelines, while allowing for volatility in the amount of cash equivalents needed at any given time.

INVESTMENT STRATEGY AND RETURNS

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

STIP Annualized Income Return[1]
June 30, 2010

	1-Year	5-Year	10-Year	10-Year Cumulative
STIP	2.72%	4.02%	4.22%	51.21%
Policy Benchmark[2]	0.81	3.02	3.07	35.30
Inflation[3]	1.05	2.31	2.38	26.46

1 STIP returns are net of (after) investment management costs which are automatically deducted from income. The distribution return (net of all expenses) was 2.68%, 3.97%, and 4.18% for the one-, five-, and 10-Year periods respectively.

2 The STIP Policy Benchmark is a weighted average of the income return on a constant maturity two-year Treasury note and the return on U.S. 30-day Treasury Bills. The weights for the two constituents is the actual average weights of the bond and cash equivalent components of the pool and weights are rebalanced monthly. This benchmark was effective October 1, 2009.

3 Inflation as measured by the Consumer Price Index.

The STIP has achieved attractive returns over the long term. Over the last 10 years, the average annual income return on the STIP was 4.22%, compared to the policy benchmark income return of 3.07%.

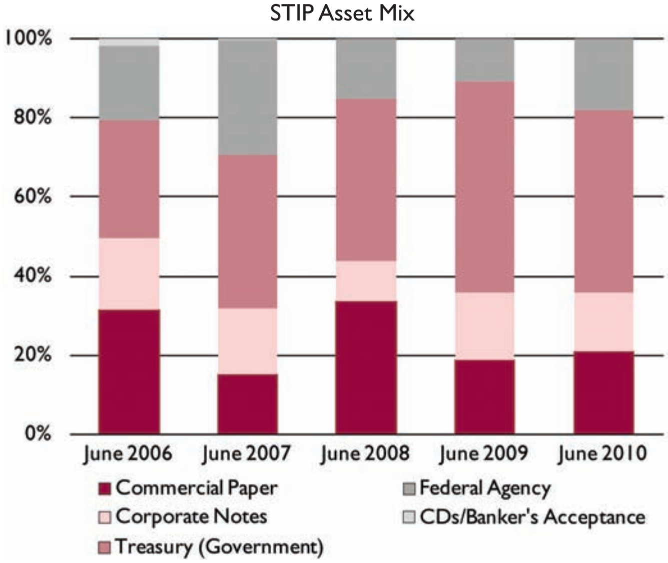
For the fiscal year ended June 30, 2010, the STIP market value was $8.0 billion. The STIP's income return was 2.72% versus the policy benchmark income return of 0.81%. The weighted average maturity of the fund was 2.2 years.

The scope and size of unprecedented government intervention during the recent financial crisis has since stabilized the markets and financial stress has continued to subside. As market conditions and the economic outlook have improved, the Federal Reserve has wound down some of the aggressive liquidity programs it enacted during that time, with plans to phase out the rest. However, as the sustainable pace of economic activity is still uncertain, the Fed has kept monetary policy very accommodative. The Federal funds rate has been near zero (0.25%) since December 2008, and the FOMC signaled at its July 2010 meeting that it is prepared to keep yields low for as long as necessary and to provide further stimulus if needed.

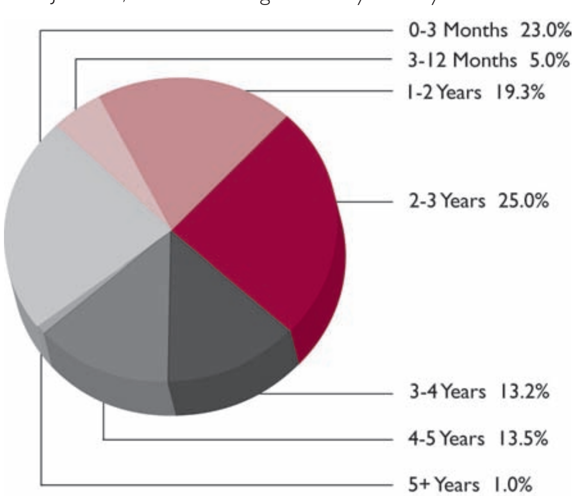
Out of the financial crisis of 2008, and especially in light of the weaknesses revealed by the "breaking of the buck" of the Reserve Primary Fund in September 2008, the SEC adopted significant new rules governing the oversight of money market funds in January 2010. The amendments to rule 2a-7, the section of the Investment Company Act governing money market mutual funds, will require money market funds to increase the credit quality of the portfolios, hold more liquid assets, shorten maturities in order to decrease interest rate risk, increase liquidity to meet both expected and unexpected redemptions, and increase transparency so that investors can better understand risks. And, in July 2010, Congress approved financial reform legislation aimed at preventing a replay of the recent financial crisis.

During the year, the front end (0-5 yrs) of the yield curve continued to flatten. The decline in U.S.Treasury yields has been relentless and are now at the lowest levels seen in decades. As of October 2010, the U.S.Treasury 2-year note yield was at 0.37% and the 5-yr note yield was at 1.23%. Corporate bond yields are also now at multi-decade lows. While credit spreads have tightened (rallied), they still offer excellent opportunities to add incremental yield to the portfolio, especially as high grade corporate credit fundamentals remain positive. As the STIP was not exposed to any of the toxic assets in the market, we were able to take advantage of the dislocations in the market to purchase very high quality credit spread products at attractive levels to lock in higher yields. At all times, the STIP's primary investment objective remained the safety of principal with the focus on maintaining liquidity and managing the risk in the portfolio. As the University continues to struggle with an ongoing budget shortfall for the fiscal year, the high quality of the STIP portfolio, with its highly liquid investments, provides the needed liquidity to meet the University's cash needs.

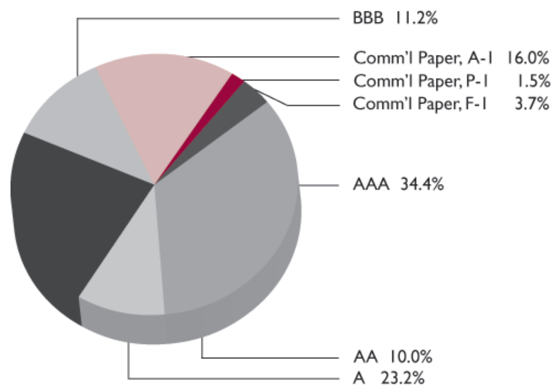
STIP Asset Mix



STIP Maturity Distribution
June 30, 2010 Average Maturity = 2.2 years



STIP Quality Mix
June 30, 2010 Average Long-Term Credit Rating = AA
(BBB and higher = investment grade)



Commercial paper must have a rating of at least A-1, P-1, D-1, or F-1.

UNIVERSITY PROGRAMS UTILIZING STIP

In fiscal 1985, The Regents authorized the University of California Mortgage Origination Program (MOP), which was funded by the legally available cash balances in the unrestricted portion of STIP. The MOP provides first deed of trust variable-rate mortgage loans with up to 40-year terms to eligible members of the University's faculty and staff. In November 2001, The Regents approved interest-only mortgage loans under the MOP. Graduated payment mortgages, which offer a reduced interest rate during the initial years of the loan, were approved for the MOP by The Regents in May 2007. These loans totaled $799.4 million at June 30, 2010.

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 University's Commercial Paper Program. At the July 2008 meeting, The Regents authorized the President to increase the program from $550 million to $2 billion. The STIP also provides working capital advances to the medical centers.

Subsequent to the creation of the TRIP portfolio, in November 2008, The Regents authorized the President to utilize up to 40% of the combined outstanding balances from the combined STIP and TRIP investment portfolios as liquidity support for the Commercial Paper Program, the medical centers' working capital borrowings, and the MOP loans. In November 2009, the Regents revised the internal limits and liquidity support options for the Commercial Paper Program.

The Total Return Investment Pool (TRIP) is an investment pool established by The Regents, which became available in August 2008 to the UC campuses and Office of the President.

The TRIP allows the campuses to maximize return on their long-term working capital, subject to an acceptable level of risk, by taking advantage of the economies of scale of investing in a larger pool and investing across a broad range of asset classes.

The fund—which has a total-return mandate responsive to campus needs—supplements the STIP, which has a current income mandate and is appropriate for short-term working capital needs.

The Regents' Committee on Investments has responsibility for governance and oversight of the TRIP. The benchmark for the fund is the weighted average of the same asset-class benchmarks used in the GEP and UCRP. The asset class guidelines and rebalancing policy are identical to those governing the GEP and UCRP.

The asset allocation was developed to produce limited downside risk combined with some current income. The approved UCRP and GEP asset classes were used as a starting point. The initial allocation excludes all assets with limited liquidity, emerging market equity and debt, and "alternative" assets. It also excludes currency risk. The portfolio contains currency-hedged non-U.S. equity in developed markets.

The TRIP is expected to have a higher total return and a higher volatility level compared to STIP, as well as a lower downside risk than other total return funds. For the fiscal year 2009-2010, the total return for TRIP was 13.99% vs. 2.72% for STIP.

Although the actual return of the portfolio will fluctuate from year to year, the expected long-term rate of return on the current TRIP asset allocation is still estimated to be six percent, which is the current payout rate. The UC campuses may elect to take the payout or reinvest it back in the pool each year.

INVESTMENT OBJECTIVE

The objective of the TRIP program is to generate a rate of return, after all costs and fees, in excess of the policy benchmark, and consistent with liquidity, cash flow requirements, and risk budget. As its name implies, TRIP is managed according to a total return objective, and will be subject to interest rate risk, credit risk, and equity risk. It is appropriate for longer-term investors who can accept this volatility in exchange for higher expected return.

INVESTMENT STRATEGY AND RETURNS

The Treasurer's Office uses a combination of internal and external management ("managers"), employing actively managed strategies where appropriate. Active strategies will include both sector allocation and security selection. The Treasurer's Office monitors the program's adherence to these guidelines.

The TRIP portfolio is invested primarily in marketable, publicly traded equity, and fixed-income securities denominated in U.S. dollars. The "Investment Guidelines" approved on February 23, 2010, and effective April 1, 2010, designates the following asset classes, target allocations, and minimum and maximum policy ranges for the TRIP:

Asset Class	Policy	Minimum	Maximum
Public Equity	25%	15%	35%
U.S. Fixed Income	75	65	85
Liquidity	0	0	10

For the fiscal year ended June 30, 2010, the TRIP total market value was approximately $1.8 billion. The portfolio consisted of 14.1% U.S. Equity, 9.5% Non-U.S. Equity, 66.6% Core Fixed Income, 9.8% High-Yield Debt.

The benchmarks for the individual TRIP asset classes are: Barclays Aggregate Government Index for U.S. Fixed Income, Government; Barclays Aggregate Credit Index for U.S. Fixed Income, Credit; Barclays Aggregate Securitized Index for U.S. Fixed Income, Securitized; Merrill Lynch High Yield Cash Pay Index for High Yield Debt; Russell 1000 Index (TF) for U.S. Equity, Large Cap; Russell 2000 Index (TF) for U.S. Equity, Small Cap; MSCI World ex-U.S. Net Index (hedged) (TF) for Non-U.S. Equity (hedged).

The TRIP one-year return of 13.99% underperformed the overall benchmark return of 14.59%; however, it has performed very well since its inception.

WEB RESOURCES

UC Treasurer's Office: http://www.ucop.edu/treasurer/

UC-Managed Funds

UC "At Your Service" — Retirement and Savings Plans:
http://atyourservice.ucop.edu/employees/retirement_savings/

UC Retirement Savings Program, including 403(b), 457(b), and DC Plan Information:
http://www.netbenefits.com

UC Retirement Savings Program Policy Statement:
http://www.ucop.edu/treasurer/invpol/Retirement_Sav_investment_policy.html

UC Retirement Plan Investment Policy Statement:
http://www.ucop.edu/treasurer/invpol/UCRP_investment_policy.html

UC General Endowment Policy (GEP) Investment Policy Statement:
http://www.ucop.edu/treasurer/invpol/GEP_investment_policy.html

UC Investment Guidelines for STIP:
http://www.ucop.edu/treasurer/stip/STIP_investment_guidelines.html

UC Investment Guidelines for TRIP:
http://www.ucop.edu/treasurer/trip/TRIP_investment_guidelines.html

Conflict of Interest Policy: http://www.universityofcalifornia.edu/regents/policies/6104.html

Regents' Committee on Investments/Investment Advisory Group

Schedule and Agendas: http://www.universityofcalifornia.edu/regents/meetings.html

UC News

UC Newsroom: http://www.universityofcalifornia.edu/news/

UC Human Resources and Benefits News: http://atyourservice.ucop.edu/

UC Office of the Treasurer News: http://www.ucop.edu/treasurer/updates/

This *Treasurer's Annual Report 2009-2010* is unaudited; however, these investments are included in the following audited financial statements of the University of California: *The University of California Annual Financial Report 2009-2010* (available at http://www.universityofcalifornia.edu/finreports/), *The University of California Defined Contribution Plan and Tax-Deferred 403(b) Plan 2009-2010*, and *The University of California Retirement Plan 2009-2010* (both available at http://atyourservice.ucop.edu/forms_pubs/categorical/annual_reports.html).

OFFICE OF THE TREASURER

June 2010

Marie N. Berggren, MS – **Chief Investment Officer, Vice President–Investments, and Acting Treasurer of The Regents**

Elizabeth Agbayani – **Executive Assistant**

Melvin L. Stanton, MBA – **Associate Chief Investment Officer**

Randolph E. Wedding, MBA – **Senior Managing Director – Fixed Income Investments**

Jesse L. Phillips, CFA, MBA, MA – **Senior Managing Director – Investment Risk Management**

William J. Coaker, CFA, MBA – **Senior Managing Director – Public Equity**

ALTERNATIVE INVESTMENTS

Absolute Return

Lynda Choi, MBA	Managing Director
Jonathan Mandle, CFA, MBA	Director
Edmond Fong, BS, MBA	Investment Officer
Scott Nystrom, AB	Senior Investment Analyst
Feleciana Feller, BA	Administrative Assistant (50/50 with Private Equity)

Private Equity/Real Assets

Timothy Recker, CFA, MBA	Managing Director
Thomas Lurquin, Ph.D.	Director
Michelle Cucullu, MS	Investment Officer
Brian J. Johnson, CFA, MBA	Investment Officer
Julia Winterson, MBA	Investment Officer
Aaron Houlihan, MBA	Senior Investment Analyst
Leslie Watson, BA	Analyst

Real Estate

Gloria Gil, BS, CRE	Managing Director
Rebecca Stafford, MA	Investment Officer
Cay Sison, BA	Senior Investment Analyst
Milkah Cunningham	Administrative Specialist

PUBLIC EQUITY INVESTMENTS

David Hughes, CFA, MBA	Investment Officer
Alyssa Rieder, CFA, CIPM, MBA	Investment Officer
Victoria Owens, CFA, MBA	Senior Investment Analyst
Kristina Chow, MBA	Administrative Analyst

FIXED INCOME INVESTMENTS

Kim Evans, MBA	Senior Portfolio Manager, Credit Analysis
Linda Fried, BA	Senior Portfolio Manager, Credit Sector
David Schroeder, BA	Senior Portfolio Manager, Governments Sector
Satish Swamy, CFA, MBA	Senior Portfolio Manager, Collateralized Sector
Alice Yee, MBA	Senior Portfolio Manager, Short-Term Securities
Sharon Zhang, CFA, MBA	Investment Officer
Byron Ong, CFA, MBA	Senior Investment Analyst
Aaron Staines, BA	Junior Portfolio Manager

INVESTMENT RISK MANAGEMENT

Aileen Liu, MS	Associate Director
Duane Gilyot, MS	Senior Analyst
Farhan Zamil, CFA, BA	Analyst
Joanne Birdsall	Executive Assistant (50/50 with Fixed Income)

OPERATIONS

Robert Yastishak, Director	Floyd Gazaway, Jr.	Marjan Shomali
Jan Kehoe, Assistant Director	Brian Hagland	Pu Wang-Fackler
Paula Ferreira, Supervisor	Khaleelah Muhammad	James Han

INFORMATION SYSTEMS

Richard Thomas, Financial and Systems Analyst

CLIENT RELATION SERVICES

Susan Rossi, Director	Sharon Murphy

BUSINESS MANAGEMENT

Nelson Chiu, Director	Claudia Green	Joyce Lewis
William Byrd	Barbaretta Morris	Pamala Williams-Perkins

The Regents of the University of California

2009-2010

The University of California is governed by The Regents, a 26-member board, as established under Article IX, Section 9 of the California Constitution. The Treasurer of The Regents is responsible for managing the investments and cash for the University of California System. The Treasurer's Office carries out these activities under the policies established by the Investment Committee of The Regents of the University of California.

Officers of The Regents

The Honorable Arnold Schwarzenegger, President
Russell Gould, Chairman
Sherry L. Lansing, Vice Chairman
Charles F. Robinson, General Counsel and Vice President for Legal Affairs
Diane M. Griffiths, Secretary and Chief of Staff to The Regents
Marie N. Berggren, Chief Investment Officer, Vice President–Investments, and Acting Treasurer of The Regents
Sheryl Vacca, Senior Vice President/Chief Compliance and Audit Officer

Ex Officio Regents

The Honorable Arnold Schwarzenegger, Governor of California
Mark G. Yudof, President of the University of California
Abel Maldonado, Lieutenant Governor of California
John A. Pérez, Speaker of the Assembly
Jack O'Connell, State Superintendent of Public Instruction
Ronald Stovitz, President of the Alumni Associations of the University of California
Yolanda Nunn Gorman, Vice President, Alumni Associations of the University of California

Appointed Regents

Richard C. Blum
William De La Peña
Russell Gould
Eddie R. Island
Odessa P. Johnson
George Kieffer
Sherry L. Lansing
Monica C. Lozano
George M. Marcus
Hadi Makarechian
Norman J. Pattiz
Bonnie Reiss
Frederick Ruiz
Leslie Tang Schilling
Bruce Varner
Paul D. Wachter
Charlene Zettle
Jesse Bernal, Student

Faculty Representatives

Harry Powell
Daniel Simmons

Regents-Designate

Jesse Cheng, Student
Darek DeFreece
Rex Hime

Staff Advisors to the Regents

Edward L. Abeyta
Juliann Martinez

Committee on Investments

William De La Peña
George Kieffer
Hadi Makarechian
George M. Marcus, Vice Chair
Yolanda Nunn Gorman
Leslie Tang Schilling
Paul D. Wachter, Chair

Ex Officio Members:

The Honorable Arnold Schwarzenegger
Richard C. Blum
Mark G. Yudof
Russell Gould

Advisory Members:

Edward L. Abeyta
Jesse Cheng
Darek DeFreece
Juliann Martinez
Harry Powell

As of June 30, 2010

Office of the Treasurer of The Regents, University of California
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