Treasurer's Annual Report

One hundred and forty-fourth fiscal year
University of California • 2011-2012

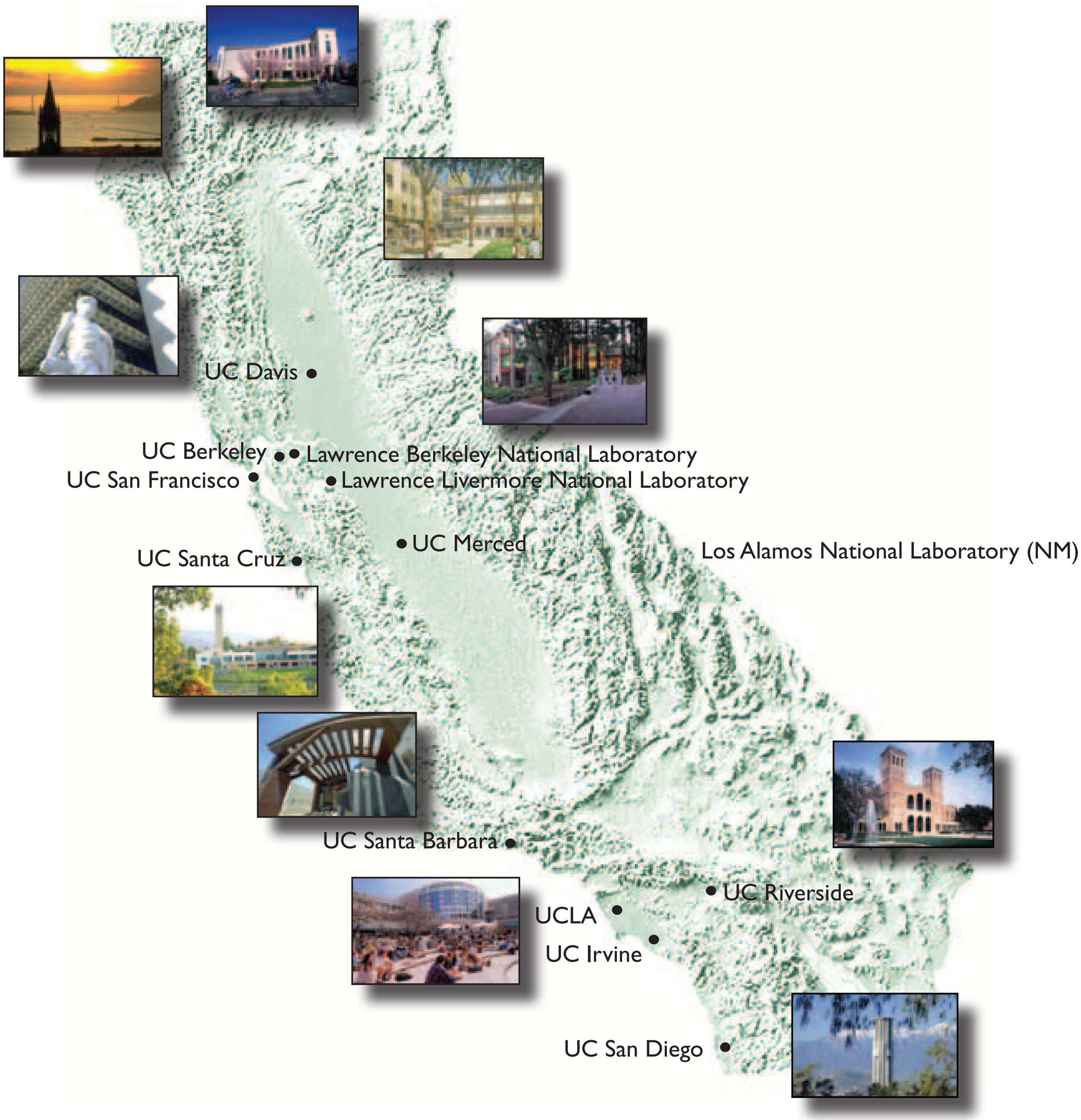
Mission Statement

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 235,000 students, more than 190,000 employees, 50,000 living retirees, and over 1.6 million alumni, living and working around the world. Its Natural Reserve System manages approximately 750,000 acres of natural habitats for research, teaching, and outreach activities. It is the largest university-run system of natural reserves in the world.

Campuses and National Laboratories



Treasurer's Annual Report Fiscal 2011-2012

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FISCAL YEAR 2012 IN REVIEW

Financial market returns in fiscal year 2011-2012 were driven by the inability of European leaders to reach agreement on a way to resolve the ongoing debt crisis, which spread from Ireland and Iceland last year to Greece, Spain, and Italy this year. Only on the final day of the fiscal year did they take what was considered the first real step toward achieving future fiscal and political union, although that road is still a long and difficult one, and the ultimate outcome remains uncertain. Despite much volatility in between, U.S. equity markets finished the fiscal year nearly where they began, with the Russell 3000 returning 3.8%. Foreign stocks were the big losers, with the MSCI World ex-U.S. Index sustaining a loss of -14.13%.

Once again, U.S. fixed income markets—both government and corporate bonds—were the recipients of safe-haven-type flows, with the Barclays Aggregate returning 7.47%; the Merrill Lynch Cash Pay HY Index 6.62%; and the JPM EMBIGD 9.77%. Ten-year U.S. Treasury yields fell to record low yields of 1.45%. The performance of European government bonds varied widely, however, with German bond yields at a record low 1% and Spanish yields above 7%.

Global economic activity was negatively impacted by the debt crisis; a moderation in China's growth rate; uncertainties over new capital requirements and regulations for financial institutions; the Supreme Court decision on healthcare; and prospects for expiring tax cuts. While the U.S. economy initially held up well, it ended the year on a definite slow note, such that gross domestic product rose only 1.9% vs. 1.6% in FY 2011. Employment was perhaps the biggest disappointment, as after a string of good payroll gains and a drop in the unemployment rate to 8.1% from 9.1% last June, progress has stalled. Inflation remained modest, rising just 1.6% overall, and 2.2% excluding food and energy. Energy prices were fairly volatile as Middle East politics initially impacted crude-oil futures prices, while slowing global demand prompted a reversal.

This leaves world markets somewhat in limbo—paying some credence to recent European Union developments but needing more definitive action and looking for further stimulus from major central banks to avoid a more serious economic downturn. While equity valuations seem reasonable and government bond yields expensive, further fundamental progress is likely needed to change those dynamics in the near future.

MESSAGE FROM THE CHIEF INVESTMENT OFFICER

Performance: Operating in a challenging market that continued to be tested by uncertainties triggered by the global deleveraging crisis, the UC Treasurer's Office closed the year with strong relative returns for UCRP, GEP, TRIP, and STIP. For the fiscal-year-to-date period, the UCRP, with a market value of $41.4 billion, increased 0.37% compared to the policy benchmark return of -0.59%. The year-end market value of the GEP was $6.5 billion, which declined -0.36% compared to the policy benchmark return of -2.48%. STIP ended the fiscal year with $7.0 billion, for a return of 2.44%, exceeding its benchmark by 2.24%. TRIP had an ending market value of $4.3 billion, gaining 6.71%, 0.95% ahead of policy benchmark returns.

For the fiscal year, manager selection was the key driver for returns. Total asset selection contributed 0.99% to UCRP's relative performance and 2.20% to GEP's relative performance. Most asset classes, including Public Equity and Absolute Returns, demonstrated positive relative performance. In a year of modest sideways returns for risk assets, several of our portfolios managed double-digit gains including TIPS, Absolute Return Cross-Asset Class, and Real Estate. The portfolio's asset allocation policy modestly detracted from overall performance, given our underweight to Core Fixed Income and TIPS, as economic uncertainties and accommodative central bank policies drove yields lower.

In summary, the fiscal year saw Equity markets retrace back to beginning-of-year levels, after making new highs at mid-year. The uncertainty in global markets, particularly in peripheral Europe, has challenged risk assets throughout the year. The potential for a recovery has already been observed in certain sectors, such as Real Estate, as the U.S. housing sector has shown signs of stabilizing. The Treasurer's Office will remain vigilant in assessing new opportunities as they arise.

The Treasurer's Office manages 19 of the 24 core funds available to University employees for use within the UC Retirement Savings Program—made up of the 403(b), 457(b), Defined Contribution plans. Total assets of the UC-managed funds were $12.2 billion as of June 30, 2012, versus $11.6 billion on June 30, 2011.

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 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.

Service: Investment returns are the largest driver of assets available to pay retirement benefits. The Treasurer's Office investment performance has been consistently above its benchmark. The UCRP costs are funded by a combination of investment earnings, and employee and employer contributions. Beginning July 1, 2012, faculty, staff, and the University will contribute more to the UCRP: 5% of pay for employees; 10% of pay for UC. All employee contributions are pre-tax. The amount will increase again in July 2013, with employees paying 6.5% and UC adding 12%. For the first time in many years, the combined contributions will cover the annual increase in UCRP liability for active members (over 17% of pay on average). This is the result of actions taken by The Regents in 2010, which have included the establishment of a new tier of benefits for employees hired or rehired beginning July 1, 2013, and the approval of internal borrowing options to better fund the pension plan.

Marie N. Berggren

The Treasurer's Office continues to work with the UC Human Resources Benefits Programs and Strategy Group, to support employee retirement and financial education through classes, consultations with investment representatives, and the "UC Focus on Your Future" web site. In addition, Fidelity workplace planning and guidance consultants are available to assist UC employees and retirees.

The core UC-managed funds, a comprehensive range of investment options overseen by the UC Treasurer's Office, are designed to carry lower expenses than many similar publicly traded mutual funds. In addition, during the last few years, UC has moved to lower-cost share classes for a number of non-core Funds.

The Treasurer's Office continues to offer support to the 10 UC Foundations, including opportunities to invest in the Private Equity and Real Estate Vintage Year programs, and the Absolute Return Unitized Program. The UC Foundations can benefit by partnering with our Office, with access to managers who impose high-minimum investment amounts; lower fees than those charged by funds of funds; and the elimination of time spent on manager searches and monitoring.

Personnel: During the past fiscal year, the Treasurer's Office hired two new investment professionals to assist in the asset-class areas of Absolute Return and Fixed Income. We have built a very solid team overall that demonstrates productive efforts despite challenging conditions.

Our Office looks forward to continuing to serve the UC Regents, faculty, staff, retirees, and students.

Sincerely,

Marie N. Berggren
Chief Investment Officer, Vice President–Investments,
and Acting Treasurer of The Regents
University of California, October 2012

LOOKING FORWARD

Changes within the UC Retirement Savings Program

The Insurance Company Contract (ICC) Fund is one of 19 UC-managed funds offered to employees and retirees through the Retirement Savings Program. This particular Fund invests in contracts of select investment-grade, financially sound insurance companies. In the current low market environment, however, these contracts are no longer offering attractive returns. Based on the interest rates being offered by insurance companies and the expectation those rates will remain at current levels for an extended period of time, the Fund is no longer purchasing new contracts. All the recent contract redemptions have been invested in the UC Short-Term Investment Pool (STIP). Beginning June 29, 2012, the ICC Fund is no longer accepting transfers or contributions. This action has been taken to protect current investors from the risk of having the fund performance potentially diluted. The ICC Fund manager continues to evaluate the investment opportunities of insurance company contracts and may choose to reopen the Fund to new contributions in the future, if conditions warrant.

The UC Retirement Savings Program is committed to offering competitive and cost-effective choices to University employees, such as the UC core funds chosen and monitored by the Treasurer's Office with their lower expense ratios (the percentage of a fund's assets used to pay its annual expenses).

In the past year, the Treasurer's Office has supported efforts by the UC Human Resources Benefits Programs and Strategy Group as they have worked with Fidelity and Calvert to convert nearly 50 non-core funds to be Class K, Institutional Class, or Advantage Class funds, which carry lower expense ratios. Over time, these lower expense ratios will mean higher returns for participants invested in the funds. These new share classes offer the same investment strategy and risk but with lower expense ratios, resulting in lower fees charged.

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, 2012, the Treasurer's Office managed $71.7 billion in total assets, as outlined below.

TOTAL MARKET VALUE OF CONSOLIDATED ASSETS[1]
June 30, 2012
($ in billions)

University of California Retirement Plan (UCRP)[2]	41.4
Defined Contribution Plan Funds	12.2
General Endowment Pool (GEP) and Other Endowments[2]	7.2
Short Term Investment Pool (STIP)[3]	7.9
Total Return Investment Pool (TRIP)	4.3
Total Funds	$71.7

The Treasurer's Office investment management staff includes 33 investment professionals with an average of 18 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.

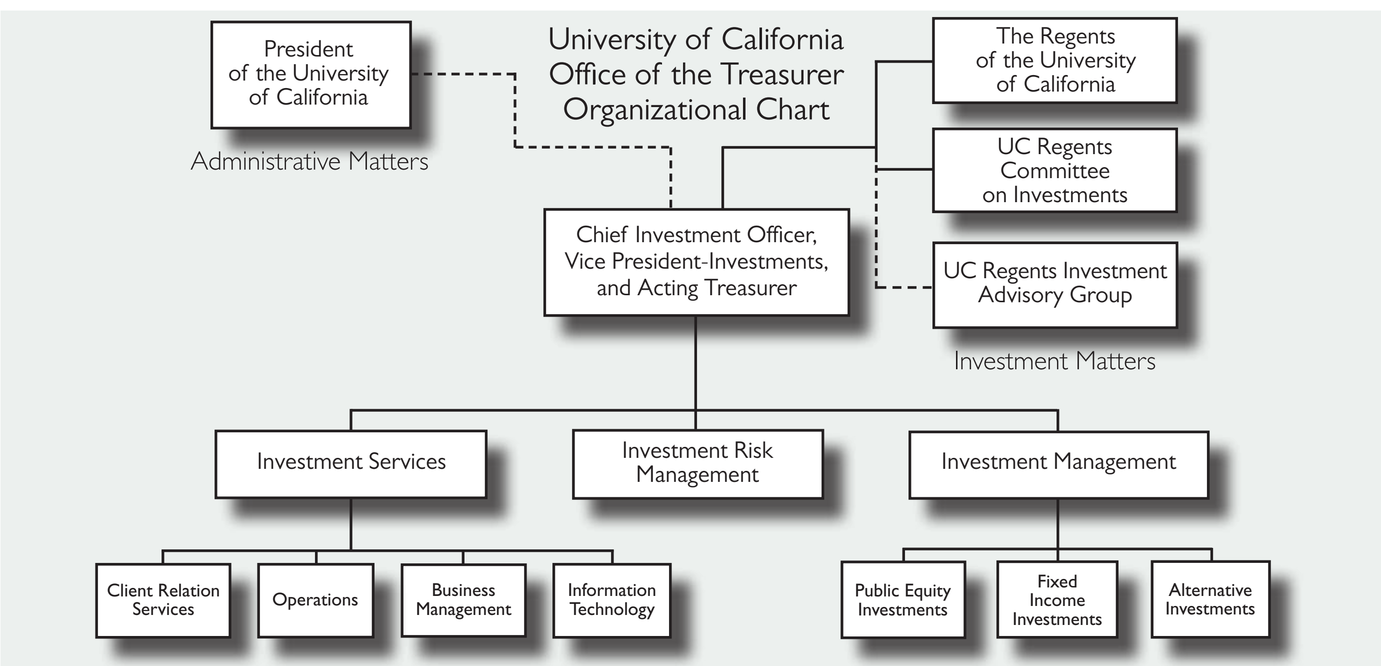
For the University-Managed Defined Contribution Funds: Meet stated investment objectives for each fund.

ENDOWED FUNDS

Maximize the value of the endowment while maintaining liquidity needed to support spending in prolonged down markets 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 Planned Giving 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 initial steps in the investment process are to evaluate the investment opportunity set 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 a level of volatility that is comparable to the overall market. 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. The manager hiring process includes multiple meetings with each manager and their staff of analysts, a comprehensive "request for information" of approximately 150 questions, onsite visits, an examination of the managers' factor exposures over their history, and the fit of managers within a multiple manager portfolio.

After managers are selected, the combined exposures of all the managers are compared to the benchmark to ensure that the aggregate portfolio does not result in unintended risk.

After managers are hired, considerable time is spent in monitoring them on an ongoing basis, which includes completion of a quarterly questionnaire, quarterly calls, on-site visits, and analysis of holdings, performance, and risk.

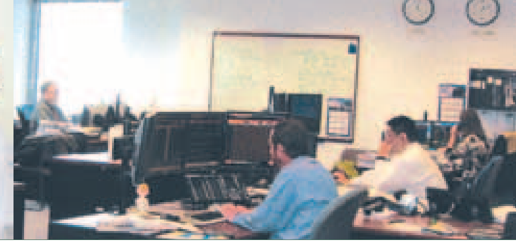
The combined assets in each of the asset classes are monitored under investment guidelines established by The Regents. Each asset class is managed according to a risk budget framework set by The Regents. The allocation between passive and active strategies is determined by both the risk budget and the opportunities to add value to the benchmark for each asset class.

As of June 30, 2012, Public Equities represented 53% of UCRP and 42% of GEP. For UCRP, 34% of the U.S. equity portfolio and 32% of the Non-U.S. Equity portfolio are actively managed by a total of 29 external managers. For GEP, 38% of the U.S. equity portfolio and 44% of the Non-U.S. Equity portfolio are actively managed, also by 29 external managers. Emerging markets for UCRP and GEP are, on average, 72% actively managed by 11 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 regularly 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 manager takes an active approach to managing the TIPS portfolio, focusing on real yield duration, break-even inflation levels, slope of the break-even inflation curve, and security selection. The objective of these strategies is to add value to the TIPS benchmark with a focus on the active risks associated with each strategy.

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, 2012, the allocations to Fixed Income securities were 14% of the GEP and 24% 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 41 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 AR team works with a consultant that specializes in AR strategies to supplement the capabilities of the team.

As of June 30, 2012, the allocations to AR strategies (Diversified) were approximately 24% 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. 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 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. Starting in 2009, The Regents began investing in co-investment opportunities.

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 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 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, 2012, the allocations to Private Equity were 9% of the GEP and 8% of the UCRP.

Real Assets

The Regents of the University of California approved a 3% long-term target allocation to Real Assets 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 enhanced portfolio returns, inflation protection, strong cash yields and low correlation to other assets in the portfolio.

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, 2012, the allocation to Real Assets was 2% of the GEP and 1% of the UCRP. Staff expects that it will take a number of years to appropriately build up the portfolio to its long-term target.

Cross-Asset Class Strategy

As the investment universe continues to evolve and be more complex, the University of California is seeking innovative ways to create value and enhance returns. The Cross-Asset Class Strategy (CAC) is at the forefront of institutional portfolio construction and serves this role. CAC is gaining significant institutional interest but has not yet been widely adopted. The 2008/2009 financial crisis has been a catalyst for new approaches to portfolio construction and the Cross-Asset Class Strategy was developed over the course of the financial crisis to provide more flexibility to asset allocation.

The key objective of the CAC Strategy is to identify and invest in assets that provide attractive, risk-adjusted returns that are beneficial to the UCRP and GEP through investments that cut across the various asset-class silos. The CAC team collaborates with various asset-class managers to draw on the deep expertise across the institution to properly evaluate investment strategies that work across groups.

The Regents formally approved the CAC Strategy on February 22, 2011, with a 2% long-term strategic allocation. However, the history of CAC goes back to March 2010 when The Regents approved a 0.5% allocation to an Opportunistic program focused on taking advantage of the dynamic investment environment at that time.

The UC Cross-Asset Class Strategy is comprised of a small stable of strategic partnerships with asset managers that have expertise globally across a broad array of asset areas. These managers are expected, over time, to outperform the UCRP and GEP aggregate plans through both strategic asset allocation decisions and more frequent and flexible tactical asset allocation decisions by the managers. Tactical asset allocation refers to the short-term changes in asset class weightings; whereas, strategic asset allocation refers to the long-term target-asset class weights and portfolio construction.

In addition, we expect the managers to contribute innovative investment ideas to the Treasurer's Office, above and beyond managing a specific Cross-Asset Class mandate.

We have engaged strategic partners willing to be part of an "idea engine" and surfacing new investment ideas that can be shared across other asset classes. In addition, we seek market insights into tactical asset allocation decisions based on an evolving financial market. These insights will be used to improve our own internal asset allocation decisions on the entire set of assets managed by the Treasurer's Office. As a result, the frequency and depth of involvement with our strategic partners is more than the typical managers as we transfer knowledge and extract value from our strategic partners across asset classes.

As of June 30, 2012, the allocation to Cross-Asset Class Strategy was 2% of the GEP and 2% of the UCRP.

Real Estate

The Real Estate program is now entering its seventh year of portfolio building. The Real Estate portfolio is currently comprised of an allocation to Private Real Estate and a smaller exposure to Public Real Estate securities. The Private Real Estate portion is invested via commingled funds and separately managed accounts. The commingled funds include both open-end funds with a perpetual life and periodic liquidity, and closed-end funds with a fixed term and no exit permitted until the fund is liquidated. Assets are also acquired directly via the separately managed accounts. Direct Real Estate was initially included in UCRP only; however, it has now been added to the GEP portfolio, as well.

Open-end funds are generally comprised of large pools of diversified, income-producing assets. These investments serve as a good foundation for the portfolio by providing broad market exposure and immediate diversification. Closed-end funds, though less liquid, offer a wider variety of investment strategies and the full spectrum of risk-return profiles. Separately managed accounts provide tactical flexibility and control in the portfolio while maintaining some discretion over liquidity.

The existing portfolio is constructed with the flexibility to reposition or adjust the strategy in changing market conditions. More than 50% of UC's investment commitments are to structures that provide some degree of liquidity (i.e., separate accounts, open-end funds, and REITS). There is currently $585 million in unfunded commitments in the Private Real Estate portfolio (including separate accounts and commingled funds), available to invest into lower pricing in a post-correction market.

As of June 30, 2012, the GEP Real Estate portfolio was valued at $431.3 million and was 7% of the GEP. The UCRP Real Estate portfolio was valued at $2.2 billion and represented a 5% allocation. Long-term target allocations are 7.0% and 7.5%, respectively. Eighty-nine percent of the total plan investments are in the U.S. and 11% 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 24 years of experience in banking and/or investment operations and six analysts with an average of 17 years of experience in investment accounting and operations.

The Investment Operations staff is responsible for all middle- and back-office trade responsibilities, including confirming and insuring trade settlement, processing corporate actions, and validating and funding daily margin transactions. All gifts of securities to the University are received, valued, and reported through the unit. Operations also initiates the trade documentation and letters of direction for all alternative assets transactions with the external managers and for the daily cash transactions with external managers utilized in the definied contribution retirement system. Other functions include verifying and analyzing the returns prepared by the custodian bank, State Street Corporation, preparing performance and holdings reports, and providing the investment accounting entries for input into the UCOP Endowment and Investment Accounting general ledger.

A well-established custodial relationship with State Street, 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.

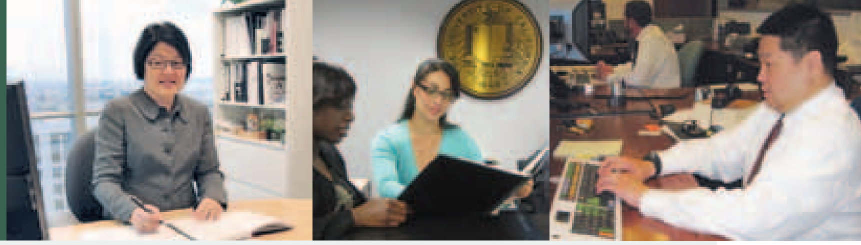
Client Relation Services

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 follow up with 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 investable 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 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 (such as the UCRP or GEP) 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 called a *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? This answer is not so straightforward. This is because other institutions usually 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 investment preferences of The Regents' Committee on Investments.
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 the UC Real Estate Investment Strategy

Real estate remains a frequent subject of prominent headlines in the present market environment. The sector is still materially impacted by the unprecedented events of recent history. Nonetheless, there has been some stabilization and recovery in a number of geographies and property types since the financial crisis. Real estate returns are expected to outperform other asset classes in the near to medium term. A risk to this outlook is that the prospect of a rising interest-rate environment, which could place downward pressure on prices if fundamentals—i.e., rental rates, occupancy levels, and other drivers of operating income—don't keep pace. The challenge is to select those investment strategies that best exploit improving property market fundamentals while mitigating the potential adverse effect of a rise in interest rates.

INVESTMENT STRATEGIES

Real estate investment strategies range across a spectrum of risk and return levels, as detailed below.

Core: This strategy involves investing in investment-grade, income-producing properties in good condition with stabilized occupancies that are near or above average market occupancy levels. Properties are generally leased to credit-worthy tenants and located in major geographic markets with above-average economic growth and some constraints on future development activity. The investment emphasis is on stable income generation and modest value appreciation. The level of leverage employed is generally less than 50%.

Value-Added: This strategy involves investing in functional, high-quality assets with good long-term potential that have lost value due to property-specific circumstances (for example, high vacancies, significant lease expirations, below-market rents). These assets typically generate about half of their income from in-place leases, the other half being dependent on new leases and property repositioning efforts. Properties have typically been under-managed and may require some maintenance or renovation requiring additional capital expenditure. The investment emphasis is on growth in income and appreciation in value. The level of leverage employed usually ranges from 50% to 70%.

Opportunistic: This strategy involves investing in properties that have good long-term potential but are currently generating income from less than half of the available rental space or may even be empty, or that require major repositioning, high levels of financial restructuring, or even changes in use. Assets in this category might also include major redevelopment or new building development. The investment emphasis is on value appreciation. The level of leverage employed is often 70% or higher, although today's credit environment remains constrained and thus debt is largely limited to lower proportions.

Public Equities: This strategy entails investment in publicly-traded Real Estate Investment Trusts (REITs) and other companies related to public real estate. The investment emphasis is on provision of stable dividend income and modest value appreciation.

CURRENT REAL ESTATE PORTFOLIO

The UC Real Estate portfolio is currently comprised primarily of investments in private real estate via a combination of commingled funds and separate accounts (sometimes also called managed accounts). Commingled funds pool investors' money to acquire a portfolio of assets and include both open-end funds, which have a perpetual life and periodic liquidity, and closed-end funds that have a fixed term and are held until the funds are liquidated. In the separate accounts, individual assets are acquired directly on behalf of UC by an approved investment advisor with a pre-negotiated fee and control structure in place. In this manner, UC can maintain control over which assets are acquired, the investment plan that is to be executed, and when they are to be sold. The policy benchmark for the Private Real Estate Portfolio is the NFI Open-End Diversified Core Equity Index (ODCE), which is an index comprised of the universe of core, open-end, commingled real estate funds.

The UC Real Estate portfolio also includes a relatively small allocation to public real estate equities, one portion of which is actively managed by an outside investment advisor, and the other invested in a passive strategy, also managed by an outside advisor. The policy benchmark for the Public Real Estate portfolio is the FTSE EPRA/NAREIT Global Index.

The existing portfolio is constructed with the flexibility to reposition or adjust the strategy in changing market conditions, with more than 50% of investments in structures that provide some degree of liquidity (which include the separate accounts, open-end funds and public securities). In addition, we continually monitor and review the Real Estate portfolio investment plan, and have made moderate adjustments in order to ensure that the strategic focus is appropriate to the risks and opportunities presented by the current market environment.

Some recent modifications include: moderately raising the target allocation to core strategies from 25% to 30% in order to place increased emphasis on stable income generation; reducing the focus on appreciation gains by decreasing the target allocation to value-added strategies from 40% to 30%; enhancing the ability to take advantage of distressed situations and capital market dislocation through an increased target allocation to Opportunistic strategies, from 25% to 30%.

The portfolio is permitted to, and does, hold out of benchmark positions. For example, the portfolio guidelines permit up to 20% to be invested in the hospitality sector, and it currently holds a 13% allocation. This is in contrast to the ODCE, which has a 2.5% allocation to the sector. Hotels are expected to outperform through the economic recovery, and central business district hotels in metropolitan areas with diverse business and tourist demand are especially of interest. The UC Real Estate portfolio may also invest up to 20% in niche property types, such as student housing, senior housing, and self-storage. It currently holds an 11% allocation in aggregate, as compared to less than 3% in the benchmark. These niche sectors have demand-drivers that are less correlated to the macroeconomic conditions that impact other property types and, therefore, contribute beneficial diversification characteristics to the portfolio overall.

In terms of geographic diversification, the portfolio guidelines permit up to a 25% allocation to markets outside of the U.S., with a 7.5% exposure currently. In contrast, the ODCE is a U.S.-only index and thus the UC real estate portfolio does differ in its geographic allocation versus the benchmark. The outlook is for select markets in Asia and Latin America to outperform, and additional investment in those regions is planned. While macro events in Europe are worrisome, it is anticipated that the capital market dislocation will create attractive opportunities in carefully selected investment strategies and structures. Within the U.S., the portfolio may be overweight to any given region by up to 5%. However, given the inclusion of international exposure, it is presently underweight to all but the Northeast, in which it is on target with the index, and the Pacific region, to which it is 2% overweight. This is partly due to the fact that valuations (and transaction pricing) in primary, coastal markets rebounded more quickly than secondary locations, and the UC portfolio tends to skew to these more liquid markets. Income and occupancy in those markets are also strengthening more quickly than the rest of the nation, and this trend is expected to continue.

LOOKING AHEAD

Looking forward, staff continues to invest the portfolio, moving toward the long-term target allocation for each of the UCRP and GEP. As of June 30, 2012, there remains about $600 million in unfunded commitments in the Private Real Estate portfolio that is available to be invested. Separate account managers continue to deploy capital and report an increasingly robust pipeline of opportunities. Additional separate account managers and strategies are under consideration for addition to the portfolio, as well. For the commingled fund allocation, opportunities presented by dislocation and distress in the credit markets are under review, with interest especially in debt-to-own strategies, certain types of loan origination, as well as acquisition and servicing of large loan portfolios. Also of interest are U.S. strategies that acquire niche property types or larger assets that are not accessible via the separate account portfolio. Globally, we are targeting investments that capitalize on the bank distress in Europe, and Asian and Latin American funds well-positioned to benefit from growth and development in those regions.

UC Treasurer's Office Real Estate Investment Group

L-R: Cay Sison, Senior Investment Analyst; Milkah Cunningham, Administrative Specialist; Gloria Gil, Managing Director; Farhan Zamil, Analyst; Rebecca Stafford, Investment Officer

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 5,000 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, 2012		June 30, 2011	
GENERAL ENDOWMENT POOL	Market Value	% of Pool	Market Value	% of Pool
EQUITIES				
U.S. Equity	**$1,248,595**	19.1%	**$1,353,136**	20.1%
Non-U.S. Equity-Developed	**1,001,680**	15.4	**1,258,106**	18.7
Emerging Market Equity	**360,395**	5.5	**344,215**	5.1
Global Equity	**110,720**	1.7	**136,985**	2.0
TOTAL EQUITIES	**$2,721,390**	41.7%	**$3,092,442**	45.9%
FIXED-INCOME SECURITIES				
U.S. Core Fixed Income	**$365,563**	5.6%	**$461,653**	6.9%
High-Yield Bond	**207,885**	3.2	**197,177**	2.9
Emerging Market Debt	**191,066**	2.9	**181,036**	2.7
TIPS	**168,974**	2.6	**227,677**	3.4
TOTAL FIXED-INCOME SECURITIES	**$933,488**	14.3%	**$1,067,543**	15.9%
ALTERNATIVE ASSETS				
Absolute Return, Diversified	**$1,547,584**	23.7%	**$1,518,236**	22.5%
Absolute Return, Cross-Asset Class[2]	**149,312**	2.3	**53,003**	0.8
Private Equity	**619,278**	9.5	**512,721**	7.6
Real Assets	**116,968**	1.8	**72,641**	1.1
Real Estate	**431,278**	6.6	**349,795**	5.2
TOTAL ALTERNATIVES	**$2,864,420**	43.9%	**$2,509,396**	37.2%
LIQUIDITY PORTFOLIO	**$7,002**	0.1%	**64,666**	1.0
TOTAL GENERAL ENDOWMENT POOL	**$6,526,301**	100.0%	**$6,731,047**	100.0%

The market value of the GEP, as of June 30, 2012, was approximately $6.5 billion, or $23.88 per share, versus $6.7 billion, or $24.08 per share, at the end of fiscal 2011. The total GEP net investment income for the year was $100.0 million, or $.360 per share, versus $106.0 million, or $0.378 per share, at the end of fiscal 2011. In addition, $160.7 million was withdrawn to fund the Total Return Payout.

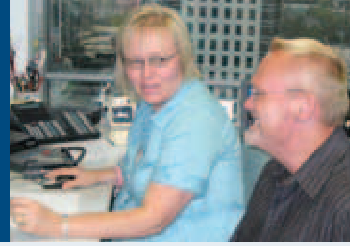
GEP returned -0.36% for the fiscal year versus -2.48% for its benchmark. For the past 10 years, GEP's total return was 6.74% vs. 6.45% for its benchmark. During that time, payout distributions grew at an average annual rate of 3.27%—above annualized inflation of 2.47%.

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 18, 2011, The Regents approved the continuance of a rate of 4.75% for expenditure in fiscal year 2011-2012.

1 For FY2011 and FY2012, 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 the Absolute Return Cross-Asset Class was March 22, 2011. Previously allocated as Opportunistic Class, which was incorporated into Absolute Return Cross-Asset Class in March 2011.



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

	2008	2009	2010	2011	2012
MARKET VALUE (in millions)	$6,438	$5,186	$5,723	$6,731	$6,526
ANNUAL TOTAL RETURN	-1.93%	-17.74%	10.87%	20.49%	-0.36%
ANNUAL TOTAL RISK[1]	8.37%	17.63%	9.34%	7.93%	11.22%

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 payouts 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 March 2011:[2]

Asset Class	Current Policy	Min.	Max.
Public Equity	45.5%	35.5%	55.5%
Fixed Income	17.5	12.5	22.5
All Alternatives*	37.0	27.0	47.0
Liquidity	0.0	0.0	10.0

* Including, but not limited to: Real Estate, Private Equity, Real Assets, 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 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, 2012, about 38% of Domestic Equity assets and 44% of Non-U.S. Equity-Developed assets were managed in active strategies by 29 external managers. Emerging Markets are approximately 84% actively managed by 11 firms.

The Equity portion of GEP represented 42% of the portfolio at year-end, with a market value of $2.7 billion. U.S. Equity represented 19% of the fund at year-end, with a market value of $1.2 billion. The U.S. Equity assets had returns of 3.53% for the fiscal year and 5.40% for the 10-year period.

Total Non-U.S. Equity represented 23% of GEP at year-end with a market value of $1.5 billion. Non-U.S. Equity-Developed markets represented 15% with a market value of $1 billion and Non-U.S. Equity Emerging Markets represented 6% with a market value of $360 million. The Global Equity asset class represented 2% of the GEP, with a market value of $111 million. The GEP Non-U.S. Equities-Developed Markets returned -13.46% for the fiscal year and had a 10-year return of 5.98%. Non-U.S. Equity-Emerging Markets returned -13.15% in the fiscal year and had a 10-year return of 13.93%. The Global Equity asset class returned -6.84% 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 14% of the portfolio, with a market value of $933 billion. Within total Fixed Income, the GEP U.S. Core Fixed Income investments returned 6.19% during the year, and 5.98% and 6.08% for the five- and 10-year periods. The GEP High Yield Bond and Emerging Market Debt investments had a one-year return of 7.88% and 7.61%, respectively, and a five-year return of 7.62% and 8.88%.

[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 February 22, 2011, and were effective March 1, 2011, with adjustments toward long-term targets approved by The Regents' consultant effective June 1, 2012.

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% of total assets, with a market value of $169 million on June 30, 2012. The TIPS rate of return was 11.76% for the fiscal year and 8.98% for the five-year period.

The average duration of the Bond portfolio at year-end was 5.2 years and the average credit quality was AA, with more than 76% 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, 2012, the AR Diversified portfolio represented approximately 24% of the GEP, had a market value of $1.5 billion and a five-year return of 1.40%.

The Cross-Asset Class (CAC) Strategy was approved by the Regents in March 2011. The key objective of the CAC Strategy is to identify and invest in assets that provide attractive risk-adjusted returns beneficial to the GEP through investments that cut across the various asset-class silos. It is also expected to bring a strategic partnership approach with a limited number of managers in an effort to enhance total portfolio returns. As of June 30, 2012, the market value of the Absolute Return CAC investments was about $149 million and the one-year return was 11.73%.

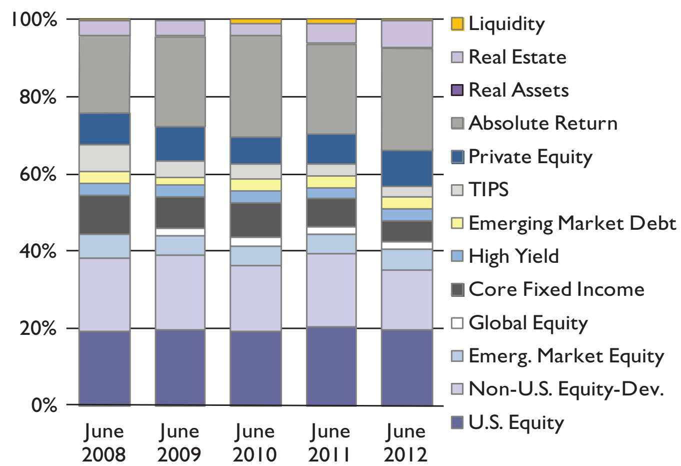
Real Assets was added to the GEP portfolio on April 1, 2010, and is primarily composed of energy assets, timberland, infrastructure, and commodities. It is currently 1.8% of the GEP portfolio. These assets generally provide inflation protection, a strong current income component and diversification benefits relative to other financial assets. The market value of the Real Assets investments, as of June 30, 2012, was about $117 million and the return for the fiscal year was -1.09%.

For Private Equity, the Treasurer's Office seeks opportunities through high caliber top-tier buyout funds and select venture capital partnerships. Private Equity represented 9.5% of the GEP at year-end with a market value of $619 million. Returns for this asset class in the fiscal year were 8.79%.

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 pro-portion of the total return derived from current income. Real Estate represented 6.6% ($432 million invested) of the GEP at year end. Private Real Estate ($404 million) had a return of 12.54% in the fiscal year. Public Real Estate ($28 million), which was established September 1, 2008, had a one-year return of 4.53%.

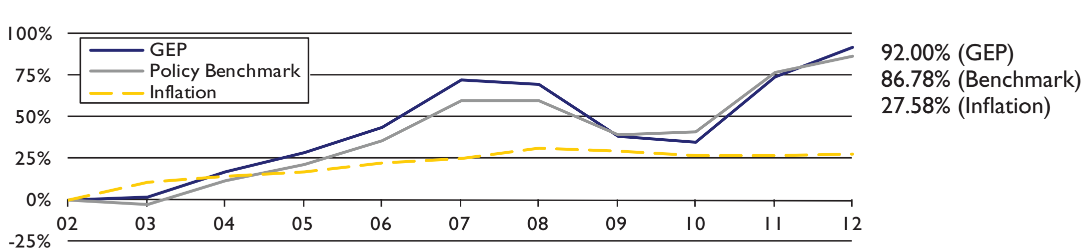
ASSET MIX

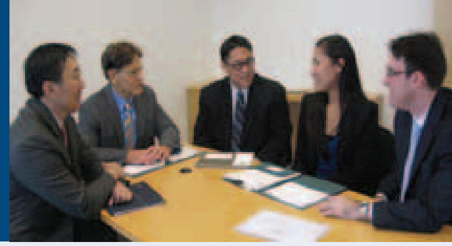
The following chart represents the GEP asset mix as of each of the past five fiscal year ends.

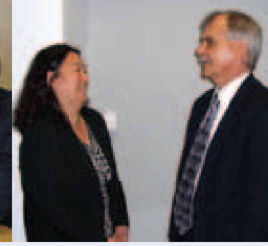


The chart below illustrates the returns for the GEP for the past 10 years relative to the policy benchmark and inflation.

GEP Cumulative Total Returns: Fiscal 2002-2012
Periods Ending June 30







GEP ANNUALIZED TOTAL RETURNS[1] VERSUS BENCHMARKS AND INFLATION

June 30, 2012

	1-Year	5-Year	10-Year	10-Year Cumulative	Benchmark Description[2]
TOTAL FUND					
GEP	-0.36%	1.43%	6.74%	92.00%	Total Fund Policy Benchmark: A blend of the indices described in detail below, each weighted by the percentage it represents in the asset allocation. Annual index returns assume monthly rebalancing. Inflation: Consumer Price Index.
Policy Benchmark	-2.48	1.59	6.45	86.78	
Inflation	1.66	2.09	2.47	27.58	
U.S. EQUITY[2]					
GEP	3.53%	-0.19%	5.40%	69.28%	
Policy Benchmark	3.41	0.17	5.64	73.09	Russell 3000 TF Index.
NON-U.S. EQUITY-DEVELOPED[2]					
GEP	-13.46%	-5.00%	5.98%	78.81%	
Policy Benchmark	-14.58	-5.86	5.32	67.96	MSCI World ex-U.S. (net dividends) Index TF.
EMERGING MARKET EQUITY[2]					
GEP	-13.15%	-0.04%	13.93%	268.53%	
Policy Benchmark	-15.95	-0.09	14.11	274.22	MSCI Emerging Markets (net dividends) Index.
GLOBAL EQUITY					
GEP	-6.84%	N/A	N/A	N/A	MSCI All Country World Index (Net), Investable Market Index (IMI)
Policy Benchmark	-6.91	N/A	N/A	N/A	
U.S. CORE FIXED INCOME					
GEP	6.19%	5.98%	6.08%	80.44%	
Policy Benchmark	7.47	6.79	6.32	85.87	Barclays Capital U.S. Aggregate Bond Index.
HIGH-YIELD BOND					
GEP	7.88%	7.62	N/A	N/A	
Policy Benchmark	6.62	8.07	N/A	N/A	Merrill Lynch High Yield Cash Pay Index.
EMERGING MARKET DEBT					
GEP	7.61%	8.88	N/A	N/A	Dollar Denominated: 67% JP Morgan Emerging Market Bond Index Global Diversified + Local Currency: 33% JP Morgan Gov Bond Index Emerging Markets Global Diversified.
Policy Benchmark	6.93	9.05	N/A	N/A	
TIPS					
GEP	11.76%	8.98%	N/A	N/A	
Policy Benchmark	11.66	8.44	N/A	N/A	Barclays Capital U.S. TIPS Index.
PRIVATE EQUITY[3]	8.79%	6.02%	10.08%	161.30%	Actual PE Returns.
ABSOLUTE RETURN, DIVERSIFIED[4]					
GEP	-2.00%	1.40%	N/A	N/A	50% HFRX Absolute Return Index + 50% HFRX Market Directional Index.
Policy Benchmark	-9.32	2.55	N/A	N/A	
ABSOLUTE RETURN, CROSS-ASSET CLASS[5]					
GEP	11.73%	N/A	N/A	N/A	
Policy Benchmark	-2.48	N/A	N/A	N/A	Aggregate GEP Policy Benchmark.
REAL ASSETS					
GEP	-1.09%	N/A	N/A	N/A	Commodities: S&P GSCI Reduced Energy Index; All Others: Actual Portfolio Return.
Policy Benchmark	1.44	N/A	N/A	N/A	
PUBLIC REAL ESTATE					
GEP	4.53%	N/A	N/A	N/A	
Policy Benchmark	1.13	N/A	N/A	N/A	FTSE EPRA NAREIT Global Index.
PRIVATE REAL ESTATE					
GEP	12.54%	-8.03%	N/A	N/A	NFI-ODCE Index – NCREIF Funds Index-Open-End Diversified Core Equity (lagged 3 months).
Policy Benchmark	13.59	-5.69	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) 0.095% of average annual market value, which are automatically deducted from income, is -0.67%, 1.38%, and 6.67% for the one-, five-, and 10-year periods, respectively.

2 For 10-year period, returns were reclassified to match current asset classes.

3 See Private Equity Performance information on page 13 of the "Investment Performance Summary," June Quarter 2012, for comparison of Private Equity to multiple performance metrics: www.ucop.edu/treasurer/invinfo/Investment_Perf_Summary_06-30-12.pdf.

4 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.

5 Inception date for the Real Assets Absolute Return Cross-Asset classes (formerly known as Opportunistic) was April 1, 2010..

ASSET DESIGNATION BY CAMPUS AND PURPOSE

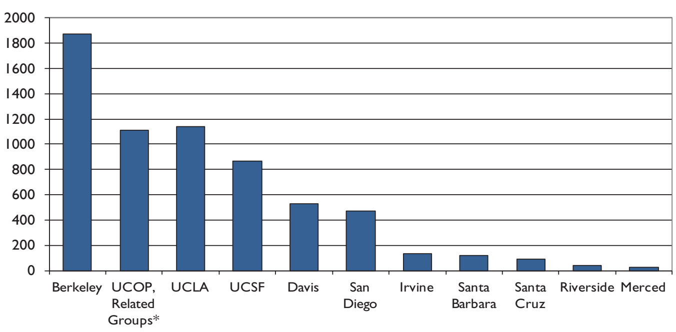
A donor has two avenues for making a gift to the University or establishing an endowment at the University: directly to The Regents for a specific campus and/or purpose or directly to a campus through its Foundation. The campus foundation trustees have discretion in their choice of investment managers 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 in the chart below, more than half of GEP's assets support financial aid (22%), research (16%), and departmental use (19%).

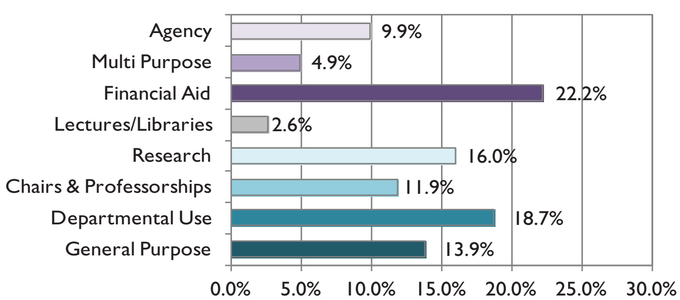
Detailed information on fund-raising results are available in the University's *Annual Report on University Private Support,* prepared by the UC Office of Institutional Advancement.

GEP Assets Designated by Campus
(in millions)
June 30, 2012



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

GEP Assets Designated by Purpose
June 30, 2012



PLANNED GIVING INVESTMENTS

In August 2011, the administration of the three Charitable Asset Management (CAM) pools used by The Regents was moved to the Bank of New York Mellon (BNY Mellon), Charitable Gift Services, from State Street Global Advisors. The pool was renamed Planned Giving (PG) Investments and is 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 pools were originally created in November 2003.

At fiscal year-end, the Planned Giving assets totaled approximately \$66 million, with the PG Russell 3000 Tobacco Free (TF) Index Pool's market value at about \$28 million, the PG EAFE + Canada TF Index Pool's market value at approximately \$8 million, and the PG Fixed Income Pool's market value at about \$30 million.

WAYS OF GIVING TO THE UNIVERSITY

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

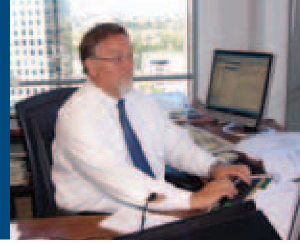
CHARITABLE REMAINDER UNITRUST

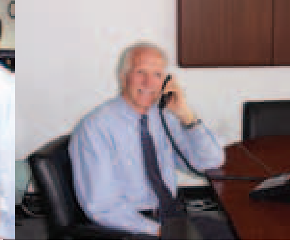
This trust pays the donor or designated beneficiary a percentage (at least 5%) of its net asset value each year. The trust is revalued annually. A charitable contribution deduction is allowed for the value of the trust's remainder interest. One variation is the "net income" unitrust, which distributes the trust's net income, up to the set percentage of the annual market value of the trust assets; another variation is the "flip" unitrust, that starts as a net income trust and then "flips" or converts to a standard charitable remainder unitrust upon the occurrence of a specific event. Minimum gift to establish a trust with The Regents as trustee is generally \$250,000. Additional contributions are accepted anytime into any of these charitable remainder unitrusts.

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.

All of the giving vehicles outlined above are administered
that the investments are prudently managed for all of these
to be invested in the Regents Gen





RETURNS

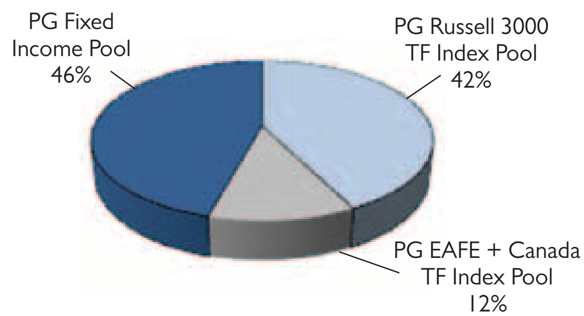
Performance ending June 30, 2012, was as follows:

Fund/Policy Benchmark	Annualized 1-Year Return	3-Year Return	5-Year Return
PG Russell 3000 TF Index Pool	3.71%	16.74%	0.38%
Russell 3000 TF Index	*3.41*	*16.50*	*0.17*
PG EAFE + Canada TF Index Pool	-14.14	6.42	-5.38
MSCI EAFE + Canada TF Index	*-14.54*	*5.93*	*-5.85*
PG Fixed Income Pool	8.23	8.29	7.33
Barclays Capital U.S. Aggregate	*7.47*	*6.93*	*6.79*

INVESTMENT OBJECTIVES

The PG 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 PG 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 PG Fixed Income Pool seeks to outperform the Barclays Capital U.S. Aggregate 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 Planned Giving Investment Assets by Pool
June 30, 2012



UC Merced student Ricardo Camargo is one of more than 20,000 UC students who benefit each year from scholarships made possible through private donations.

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(ies) on 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.

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.

centrally but donors will generally designate specific campus programs to be supported. The UC Treasurer's Office ensures
planned gifts. In addition, the University received a private letter ruling from the IRS that enables charitable remainder trusts
eral Endowment Pool – if the donor and the University determine that this is an appropriate option.

Endowments Make All the Difference: The Early History of the Scripps Institution of Oceanography

Scripps Institution of Oceanography

The study of history helps us understand change and appreciate how dreams can become springboards for profound transformation. In looking at the early history of the UC San Diego campus, one can see that it grew out of an "institutional seed," planted over 100 years ago in the form of a small but influential marine research center. When Scripps Institution of Oceanography was founded in 1903, it turned out to be a major catalyst for change in the San Diego area and within the University of California. It has flourished to become a world-renowned center with hundreds of research programs on all aspects of earth, ocean, and atmospheric sciences being carried out in 65 countries. Its horizons continue to expand. Today, Scripps operates one of the largest U.S. academic fleets, with four research vessels and one research platform for worldwide exploration, as well as robotic networks to monitor the world's oceans. The Birch Aquarium, which is the "public face" of Scripps, serves as an interpretive center and showcase for the research carried out at the institution. It offers programs and exhibits to approximately 400,000 visitors each year. Scripps now has about 184 faculty members and researchers, nearly 250 graduate students, more than 1,170 academics and staff, and almost 700 volunteers.

Because of the efforts of an enthusiastic young UC zoology professor who worked closely with a group of visionaries and generous benefactors, a permanent marine biological laboratory was established at an ideal Pacific-coast site in the village of La Jolla, north of San Diego. Professor William E. Ritter and a group of forward-thinking individuals shared a passion to support the San Diego community, advance scientific research, and better understand the world. Very early on, The Regents of the University of California became involved in the work conducted at the institution, which officially joined the University in 1912.

At the turn of the century, Professor Ritter worked for UC Berkeley, which was the first and, at that time, the only UC campus. Ritter would make summertime research trips along the California coast. In the summer of 1892, he did research at the newly established Stanford University Hopkins Marine Station in Pacific Grove. In 1893, Ritter set up his own summer laboratory at Catalina Island. Then, in 1894, Ritter spent a year in Europe at the Stazione Zoologica in Naples, Italy, and at the University of Berlin. Modern oceanography, as a formal field of science, was in its infancy and Ritter was at the cutting edge. When he returned home, he spent his summers studying marine organisms at various places along the coast, with a dream of finding a permanent research site.

In 1899, Ritter was invited by E.H. Harriman, a railroad magnate, to join a two-month expedition to Alaska, in which 23 scientists participated. On that expedition, Ritter shared a tent with John Muir and almost persuaded Harriman to fund a permanent marine laboratory. After this major trip, Ritter discussed his dreams with Phoebe Apperson Hearst (mother of William Randolph Hearst and a philanthropic donor to UC Berkeley) as well as generous university alumni in the Bay Area and Los Angeles. In the summer of 1901, with donations from UC and other supporters, Professor Ritter set up a temporary marine laboratory in San Pedro.

Many of Ritter's students participated in these summer research programs, as they were attracted by Professor Ritter's "stimulating instruction, boyish enthusiasm, and ever-kindly and helpful attitude." In 1902, Ritter, his colleagues, and Berkeley students were given permission to conduct their summer work at the boathouse next to the Hotel del Coronado. This became their first "home" in the San Diego area. The next summer, in 1903, four members of the wealthy Scripps family and their friends met Professor Ritter at the boathouse. E.W. Scripps remarked, "We aren't too old to learn a good deal about biology and I tell you it is mighty interesting." An invaluable supporter of the work of Professor Ritter was Dr. Fred Baker, a prominent San Diego physician, who was an enthusiastic amateur naturalist and avid conchologist. Dr. Baker was drawn to the work of Professor Ritter, whom he had first met at the Hotel del Coronado in the summer of 1891, when Ritter was on his honeymoon and collecting zoological specimens along the seashore for his doctoral thesis. Professor Ritter was convinced in 1903 that he should establish his permanent research operation in San Diego and "Scripps" was officially founded. Dr. Baker demonstrated enthusiastic support and the ability to raise the needed funds to construct the facilities, with sizeable donations from the well-to-do Scripps family (primarily E.W. Scripps and his half-sister, Ellen Browning Scripps). Early financial support came from the Marine Biological Association of San Diego, formed to endow this scientific institution called the Marine Biological Station. Ritter had found his "team"—the convergence of the right people at the right time and place, to provide the necessary financial support, administrative guidance, and positive synergetic energy to get the project up and running.


Ellen Browning Scripps, 1927

E.W. Scripps, a well-known newspaper tycoon, and Ellen, a businesswoman and journalist, had moved to La Jolla in the late 1890s. Ellen inherited a great deal of money and company shares from her brother, George, when he died in 1900. She decided to put the funds aside as "a trust for the benefit of humanity." Initially, E.W. said that he didn't believe in giving to charity but "was glad to help anybody who is trying to do something constructive and scientific." Later, he said, "The possessor of great wealth may be, and frequently is, corrupted. No matter how good and moral a man may be, the possession of great wealth must have a certain amount of corrupting influence upon him. The possession of great wealth isolates a man to a great extent from his fellows. This isolation results in a constantly diminishing sympathy for mankind." Perhaps this explains the philanthropic attitudes of the Scrippses.

In 1905, Ritter was able to begin his work in a small wooden laboratory—the "Little Green Lab" at La Jolla Cove—built with donations from the older brother of E.W., Fred Scripps. In January 1906, Ellen promised to contribute $50,000 to the Marine Biological Association, in support of the research facility. In 1910, the research effort was moved to its permanent site with the opening of the George H. Scripps Memorial Marine Biological Laboratory, named in honor of Ellen's brother and designed by the visionary architect Irving Gill. Ellen paid for the library-museum, some cottages, the director's house, the pier, and the marine institution's first ship. Both E.W. and Ellen Scripps became longtime friends of Professor Ritter and his wife, Dr. Mary Bennett Ritter, the "First Lady of Scripps." Another Scripps family member who supported Ritter's early efforts was E.W.'s sister (Ellen's half-sister), Eliza Virginia Scripps. Virginia, as she was known, was an amateur naturalist with an active interest in marine biology, as well. However, it was Ellen who became the institution's biggest benefactor, contributing about $600,000 in her lifetime.

In 1912, the institution's land and improvements were deeded to The Regents of the University and the facility was renamed Scripps Institution for Biological Research. By 1925, the scope of the activity broadened even more and it became Scripps Institution of Oceanography. Ellen Browning Scripps had become one of the country's most notable philanthropists and was featured in a 1926 "Time" magazine article, recognizing that "she made giving an art." For the rest of their lives, Ellen and E.W. maintained their commitment to the success of the institution. E.W. died in 1926 at the age of 71 and Ellen passed away in 1932 at 95 years old.

A descendant of the Scripps publishing family was Ellen Revelle (a grandniece of Ellen and E.W.). She helped her oceanographer husband and Scripps professor, Roger Revelle, to establish UC San Diego. Roger was considered to be a major force in persuading The Regents to establish the San Diego campus adjacent to Scripps Institution. The campus was approved in 1959 and Ellen Revelle was viewed as the university's unofficial ambassador. She generously provided substantial funding for Scripps instruments, a research vessel, a replacement pier named in honor of her great aunt, several additional campus facilities, and scholarships.

Scripps continues to secure philanthropic funds from many generous individuals and foundations. The importance of private donations in supporting its institutional priorities is critical. The current Scripps director Tony Haymet, emphatically states, "We are extremely grateful to our friends and supporters who continue to step up and invest in Scripps' promising future."

As of June 30, 2012, the total market value of the 58 Scripps endowments managed by the UC Regents under the General Endowment Pool was $44 million.

We wish to acknowledge the help of Shannon Casey, Cindy Clark, Stuart Krantz, and Mary Darling in the preparation of this article. http://supportscripps.ucsd.edu

University of California Retirement Plan

The largest pool of assets managed by the Treasurer's Office is the University of California Retirement Plan (UCRP), created in 1961. UCRP is a defined benefit plan, whereby retirement benefits are a function of the employee's age, average salary, and length of service.

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

UC RETIREMENT PLAN (UCRP)	June 30, 2012 Market Value	June 30, 2012 % of UCRP	June 30, 2011 Market Value	June 30, 2011 % of UCRP
EQUITIES				
U.S. Equity	$10,718,458	25.9%	$11,838,951	28.5%
Non-U.S. Equity-Developed	7,705,374	18.6	9,110,364	22.0
Emerging Market Equity	2,636,383	6.4	2,109,151	5.1
Global Equity	797,021	1.9	862,788	2.1
TOTAL EQUITIES	$21,857,236	52.8%	$23,921,254	57.6%
FIXED-INCOME SECURITIES				
U.S. Core Fixed Income	$4,989,489	12.1%	$4,466,039	10.8%
High-Yield Bond	1,272,508	3.1	1,075,421	2.6
Emerging Market Debt	1,048,422	2.5	963,197	2.3
TIPS	2,664,348	6.4	3,057,010	7.4
TOTAL FIXED INCOME	$9,974,767	24.1%	$9,561,667	23.1%
ALTERNATIVE ASSETS				
Private Equity	$3,302,720	8.0%	$2,883,768	6.9%
Absolute Return, Diversified	2,482,020	6.0	2,516,409	6.1
Absolute Return, Cross-Asset Class[2]	903,060	2.2	387,264	0.9
Real Assets	534,525	1.3	325,101	0.8
Real Estate (Public and Private)	2,211,238	5.3	1,740,425	4.2
TOTAL ALTERNATIVE ASSETS	$9,433,563	22.8%	$7,852,967	18.9%
LIQUIDITY PORTFOLIO	$110,842	0.3	$162,659	0.4
TOTAL UCRP	$41,376,408	100.0%	$41,498,548	100.0%

UCRP is a balanced portfolio of equities, fixed-income securities, and alternative investments, which, at June 30, 2012, totaled $41.4 billion versus $41.5 billion at the end of fiscal 2011. For the fiscal year, UCRP returned 0.37% versus -0.59% for its benchmark. Over the long term, UCRP has performed well and exceeded its policy benchmarks. UCRP's annualized total return for the past 10 years through June 30, 2012, was 6.04% versus its benchmark at 5.68%.

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

The benchmarks for the individual UCRP asset classes for the 2011-2012 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. In order to continue to achieve the UCRP investment objectives, The Regents adopted the following asset allocation policy as of June 1, 2012[3]:

Asset Class	Current Policy	Min.	Max.
Public Equity	53.50%	43.50%	63.75%
Fixed Income	25.00	20.00	30.00
All Alternatives*	21.50	14.25	28.25
Liquidity	0.00	0.00	10.00

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

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.

1 For FY2011 and FY2012, the cash portion of the various portfolios excluded 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 UC Annual Financial Report. UCRP's investments include assets associated with the UC PERS Voluntary Early Retirement Incentive Program, totaling $63.2 million. The UCRP assets were unitized with UCRP and PERS jointly owning all the units. 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 the Absolute Return Cross-Asset Class was March 22, 2011. Previously allocated as Opportunistic Class, which was incorporated into Absolute Return Cross-Asset Class in March 2011.

3 Revised policy ranges, targets, and allocations were effective June 1, 2012.

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN (UCRP) FUNDED STATUS

as of June 30	2008	2009	2010	2011	2012
MARKET VALUE (in millions)	$42,031	$32,308	$34,543	$41,499	$41,377
ANNUAL TOTAL RETURN	-5.74%	-18.81%	12.72%	22.45%	0.37%
ANNUAL TOTAL RISK[1]	9.82%	22.14%	10.99%	9.04%	12.66%
TOTAL CONTRIBUTIONS[2] (in millions) AND INVESTMENT ACTIVITY	($2,590)	($7,903)	$4,326	$9,451	$2,240
TOTAL PAYMENTS (in millions) AND EXPENSES[3]	($3,492)	($1,861)	($2,010)	($2,152)	($2,306)
SURPLUS/(DEFICIT) ASSETS[4] (in millions)	$2,000	$1,300	($2,400)	($6,300)	($9,100)
FUNDED RATIO[5]	104.80%	103.00%	94.80%	86.70%	82.50%

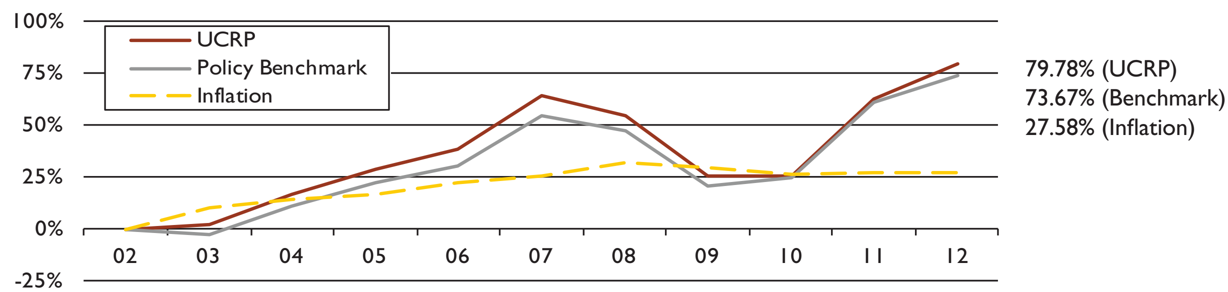
EQUITY INVESTMENTS STRATEGY AND RETURNS

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, 2012, approximately 34% of Domestic Equity assets and 32% of Non-U.S. Equity-Developed assets were managed in active strategies by 29 external managers. Emerging Markets are approximately 71% actively managed by 11 firms.

The equity portion of UCRP represented 53% of the portfolio at year-end, with a market value of $21.9 billion. U.S. Equity represented 26% of the fund, with a market value of $10.7 billion. UCRP's U.S. Equity assets returned 3.80% for the fiscal year and 5.44% for the 10-year period. Non-U.S. Equity Developed Markets represented 19%, with a market value of $7.7 billion; Emerging Markets represented 6%, with a market value of $2.6 billion; and Global Equity represented 2% of UCRP, with a market value of $797 million. The UCRP Non-U.S. Developed Markets portfolio returned -13.71% for the fiscal year and had a 10-year annualized return of 5.81%. The Emerging Markets portfolio returned -13.76% for the fiscal year and had a 10-year return of 14.39%. The Global Equity portfolio, initiated in July 2008, returned -6.84% for the fiscal year, and 11.54% for the three-year period.

UCRP Cumulative Total Returns: Fiscal 2002-2012
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.

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 24% of the portfolio, with a market value of approximately $10 billion. UCRP's Core Fixed-Income investments returned 7.13% during the year. Over the long-term, UCRP's Fixed Income returned 6.94% for the five-year period and 6.42% for the 10-year period. UCRP's High Yield Bond returned 7.42% for the fiscal year and 7.81% for the five-year period. Emerging Markets Debt investments returned 6.77% for the fiscal year and 8.79% for the five-year period.

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 6% of total assets with a market value of approximately $2.7 billion on June 30, 2012. TIPS returned 11.82% in the fiscal year and 8.88% for the five-year period. At the end of the fiscal year, the weighted average duration of the Fixed-Income portfolio was 5.24 years and the average credit rating was AA, with 77% 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, 2012, the AR Diversified portfolio represented 6% of the UCRP, with a market value of $2.5 billion. It had a one-year return of -2.00% and five-year annualized return of 1.40%.

The Cross-Asset Class Strategy was approved by the Regents on March 22, 2011. The key objective is to identify and invest in assets that provide attractive risk-adjusted returns beneficial to the UCRP through investments that cut across the various asset-class silos. This strategy is also expected to bring a strategic partnership approach with a limited number of managers in an effort to enhance total portfolio returns. The market value of the Absolute Return Cross-Asset Class investments was about $903 million and the return for the fiscal year was 11.04%.

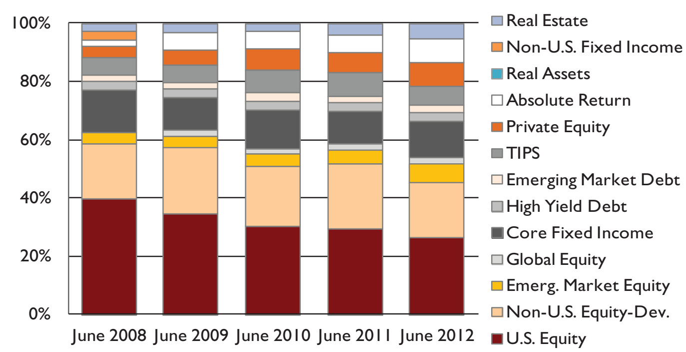
For Private Equity, the Treasurer's Office seeks opportunities through high-caliber, top-tier buyout funds and select venture-capital partnerships. Private Equity represented 8% of UCRP at year-end with a market value of $3.3 billion. UCRP returns for this asset class in the fiscal year were 8.93% and 9.40% for the 10-year period.

Real Assets was added to the UCRP 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 market value of the UCRP Real Assets investments as of June 30, 2012, was approximately $535 million and the return for the fiscal year was 1.15%.

For Real Estate, the Treasurer's Office seeks investments that provide long-term risk-adjusted total returns between 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 5% of UCRP at year end, with a market value of $2.2 billion. Private Real Estate, with a market value of $2 billion, returned 14.68% in the fiscal year. Public Real Estate, which began in September 2008, had a market value of $193 million and returned 5.13%.

ASSET MIX

UCRP's asset mix for five fiscal-year ends is illustrated.



UCRP FUNDING

The UCRP benefits are funded by contributions from both the University and active members, and by the investment earnings of the portfolio. These contributions and earnings constitute a single pool of assets. Annual actuarial valuations determine the Plan's liabilities (i.e., projected benefits to be paid) and the funding status. The UC Board of Regents periodically adjusts University and member contributions to maintain adequate funding levels. University contributions are used to pay Plan benefits for all members, and are not allocated to individual member accounts. During the 2011-2012 fiscal year, UC contributed 7% of members' covered compensation and active members made contributions to UCRP equal to 3.5% of covered compensation.

UCRP ANNUALIZED TOTAL RETURNS[1] VERSUS BENCHMARKS AND INFLATION
June 30, 2012

	1-Year	5-Years	10-Years	10-Year Cumulative	Benchmark Description[2]
TOTAL FUND					
UCRP	0.37%	1.17%	6.04%	79.78%	Total Fund Policy Benchmark: A blend of the indices described in detail below, each weighted by the percentage it represents in the asset allocation. Annual index returns assume monthly rebalancing. Inflation: Consumer Price Index.
Policy Benchmark	-0.59	0.86	5.68	73.67	
Inflation	1.66	1.95	2.47	27.58	
U.S. EQUITY					
UCRP	3.80%	-0.12%	5.44%	69.90%	
Policy Benchmark	3.41	0.17	5.64	73.09	Russell 3000 TF Index.
NON-U.S. EQUITY-DEVELOPED[3]					
UCRP	-13.71%	-5.25%	5.81%	75.94%	
Policy Benchmark	-14.58	-5.86	5.32	67.96	MSCI World ex-U.S. (net dividends) Index TF.
EMERGING MARKET EQUITY[4]					
UCRP	-13.76%	-0.03%	14.39%	283.74%	
Policy Benchmark	-15.95	-0.09	14.11	274.22	MSCI Emerging Market (net dividends) Index.
GLOBAL EQUITY					
UCRP	-6.84%	N/A	N/A	N/A	
Policy Benchmark	-6.91	N/A	N/A	N/A	MSCI All Country World Index Net - IMI
U.S. CORE FIXED INCOME					
UCRP	7.13%	6.94%	6.42%	86.36%	
Policy Benchmark	7.47	7.27	6.39	85.87	Barclays Capital U.S. Aggregate Bond Index.
HIGH-YIELD BOND					
UCRP	7.42%	7.81%	N/A	N/A	
Policy Benchmark	6.62	8.07	N/A	N/A	Merrill Lynch High Yield Cash Pay Index.
EMERGING MARKET DEBT					
UCRP	6.77%	8.79%	N/A	N/A	Dollar Denominated: 67% JP Morgan Emerging Market Bond Index Global Diversified + Local Currency: 33% JP Morgan Govt Bond Index Emerging Market Global Diversified.
Policy Benchmark	6.93	9.05	N/A	N/A	
TIPS					
UCRP	11.82%	8.88%	N/A	N/A	
Policy Benchmark	11.66	8.44	N/A	N/A	Barclays Capital U.S. TIPS.
PRIVATE EQUITY[4]	8.93%	5.38%	9.40%	145.50%	Actual PE Returns.
ABSOLUTE RETURN, DIVERSIFIED[5]					
UCRP	-2.00%	1.40%	N/A	N/A	50% HFRX Absolute Return Index + 50% HRFX Market Directional Index.
Policy Benchmark	-9.32	2.55	N/A	N/A	
ABSOLUTE RETURN, CROSS-ASSET CLASS[6]					
UCRP	11.04%	N/A	N/A	N/A	
Policy Benchmark	-0.59	N/A	N/A	N/A	Aggregate UCRP Policy Benchmark.
REAL ASSETS					
UCRP	1.15%	N/A	N/A	N/A	Commodities: S&P GSCI Reduced Energy Index; All Other: Actual Portfolio Return.
Policy Benchmark	1.65	N/A	N/A	N/A	
PUBLIC REAL ESTATE					
UCRP	5.13%	N/A	N/A	N/A	
Policy Benchmark	1.13	N/A	N/A	N/A	FTSE EPRA NAREIT Global Index.
PRIVATE REAL ESTATE					
UCRP	14.68%	-9.11%	N/A	N/A	NFI-ODCE Index - NCREIF Funds Index-Open-End Diversified Core Equity (lagged three months).
Policy Benchmark	13.59	-8.23	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 2011-2012, the cost of managing the UCRP was 57 basis points, comprised of 50 basis points attributable to external money managers and 7 basis points to UC's internal costs (4 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 For 10-year period returns were reclassified to match current asset classes.

4 See Private Equity Performance information on page 13 of the "Investment Performance Summary," June Quarter 2012, for comparison of Private Equity to multiple performance metrics: www.ucop.edu/treasurer/invinfo/Investment_Perf_Summary_06-30-12.pdf

5 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.

6 Inception date for the Absolute Return Cross-Asset Class was March 22, 2011.

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)

	June 30, 2012		June 30, 2011	
DEFINED CONTRIBUTION (DC) FUNDS	Market Value	% of DC	Market Value	% of DC
TOTAL RETURN FUNDS				
EQUITY FUND	$3,130,104	26.1%	$3,235,869	27.8%
BOND FUND	1,079,369	9.0	983,747	8.5
TIPS FUND	317,054	2.6	219,887	1.9
BALANCED GROWTH FUND	1,135,890	9.5	1,154,103	9.9
DOMESTIC EQUITY INDEX FUND	68,844	0.6	57,913	0.5
INTERNATIONAL EQUITY INDEX FUND	115,950	1.0	134,355	1.2
PATHWAY INCOME FUND[2]	230,808	1.9	192,678	1.7
PATHWAY FUND 2015[3,4]	119,185	1.0	68,063	0.6
PATHWAY FUND 2020[3,4]	301,833	2.5	241,425	2.1
PATHWAY FUND 2025[3,4]	57,777	0.5	31,013	0.3
PATHWAY FUND 2030[3,4]	220,248	1.8	192,287	1.7
PATHWAY FUND 2035[3,4]	34,982	0.3	22,020	0.2
PATHWAY FUND 2040[3,4]	137,990	1.2	116,939	1.0
PATHWAY FUND 2045[3,4]	21,655	0.2	12,436	0.1
PATHWAY FUND 2050[3,4]	61,014	0.5	54,779	0.5
PATHWAY FUND 2055[3,4]	9,074	0.1	5,247	0.0
PATHWAY FUND 2060[3,4]	16,599	0.1	12,176	0.1
INTEREST INCOME FUNDS				
SAVINGS FUND	$3,715,542	31.0%	$3,718,134	32.0%
ICC FUND	1,224,469	10.2	1,170,306	10.1
TOTAL UC MANAGED DC FUNDS	$11,998,387	100.0%[5]	$11,623,376	100.0%[5]

Total assets in the UC-managed defined contribution plans were approximately $12 billion as of June 30, 2012, versus $11.6 billion on June 30, 2011.

When investing their defined contribution funds, employees may choose among 24 UC Core Funds.[6] 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.

[1] For FY2011 and FY2012, 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.

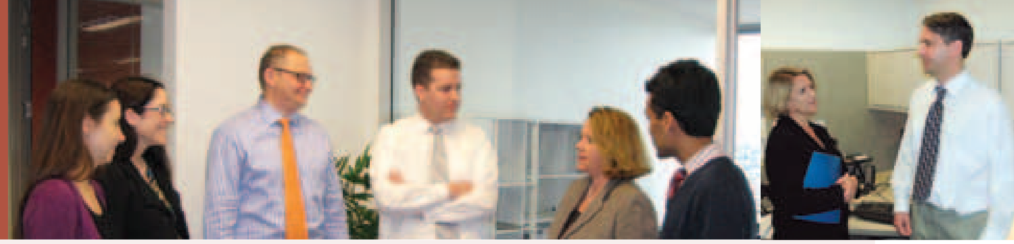
[2] On December 31, 2010, the entire UC Pathway Fund 2010 was merged into the UC Pathway Income Fund.

[3] New funds inception December 1, 2008.

[4] The Pathway Funds are funds of funds and include some assets managed by Vanguard and Dimensional Fund Advisors.

[5] 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.

[6] 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 at www.ucfocusonyourfuture.com/plan-investments/core-funds.php.



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

	1-Year	5-Year	10-Year	Fund Policy Benchmark Description
TOTAL RETURN FUNDS				
Equity Fund	1.33%	-0.31%	5.94%	Policy Benchmark: 85% less the actual Private Equity weight from the prior month end times the Russell 3000 TF Index, 15% MSCI World ex-U.S. TF Index and the actual Private Equity weight of the previous month end times the actual PE portfolio; Historical: S&P 500 Index.
Policy Benchmark	**0.87**	**-0.61**	**5.72**	
Morningstar Domestic Equity Funds Median[2]	-0.92	-0.04	5.80	
Bond Fund	7.44%	6.81%	5.88%	
Policy Benchmark	7.47	6.79	5.63	Barclays Capital U.S. Aggregate Bond Index.
Morningstar Taxable Bond Funds Median[2]	5.26	6.01	5.34	
TIPS Fund (started 4/1/04)	11.74%	8.90%	N/A	
Policy Benchmark	11.66	8.44	N/A	Barclays Capital U.S. TIPS Index.
Balanced Growth Fund (started 4/1/04)	0.48%	2.43%	N/A	Blend of benchmarks of underlying Funds based on holdings percentages.
Policy Benchmark	0.07	1.71	N/A	
Domestic Equity Index Fund (started 7/1/05)	3.66%	0.36%	N/A	
Policy Benchmark	3.41	0.17	N/A	Russell 3000 Tobacco Free Index.
International Equity Index Fund (started 7/1/05)	-14.20%	-5.43%	N/A	
Policy Benchmark	-14.58	-5.86	N/A	MSCI EAFE + Canada Tobacco Free Index.
UC Pathway 2015 (started 12/01/08)[3]	6.92%	N/A	N/A	Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	6.94	N/A	N/A	
UC Pathway 2020 (started 7/1/05)	5.82%	2.91%	N/A	Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	6.05	2.47	N/A	
UC Pathway 2025 (started 12/01/08)[3]	4.71%	N/A	N/A	Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	4.94	N/A	N/A	
UC Pathway 2030 (started 7/1/05)	3.58%	1.29%	N/A	Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	3.87	0.86	N/A	
UC Pathway 2035 (started 12/01/08)[3]	2.52%	N/A	N/A	Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	2.78	N/A	N/A	
UC Pathway 2040 (started 7/1/05)	1.32%	0.44%	N/A	Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	1.57	0.00	N/A	
UC Pathway 2045 (started 12/01/08)[3]	0.16%	N/A	N/A	Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	0.33	N/A	N/A	
UC Pathway 2050 (started 7/1/05)	-0.91%	-0.46%	N/A	Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	-0.79	-0.84	N/A	
UC Pathway 2055 (started 12/01/08)[3]	-1.85%	N/A	N/A	Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	-1.89	N/A	N/A	
UC Pathway 2060 (started 12/01/08)[3]	-2.88%	N/A	N/A	Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	-3.01	N/A	N/A	
UC Pathway Income (started 7/1/05)	6.85%	5.64%	N/A	Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	6.34	4.72	N/A	
INTEREST INCOME FUNDS				
Savings Fund	1.52%	2.86%	3.51%	
Policy Benchmark	0.25	1.34	2.25	2-Year U.S. Treasury Note Income Return.
ICC Fund	3.39%	4.48%	4.98%	
Policy Benchmark	1.01	2.27	3.06	5-Year U.S. Treasury Note Income Return.
Inflation	1.66%	1.95%	2.47%	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 11 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 Defined Contribution (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. The Treasurer's Office and the UC Human Resources Benefits Program and Strategy Group strive to keep annual investor expenses at or below 0.15%[1] of average annual market value, compared to the industry average of 1.2%.[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, 2012, the total market value of the Equity Fund was $3.1 billion. The portfolio consisted of 80.2% U.S. Equity, 14.8% Non-U.S. Equity, and 5.0% 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 TF 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 1.33%, compared to 0.87% for the benchmark. The Equity Fund outperformed its benchmark over a three-year period, with a return of 15.24% vs 14.91. The 10-year return for the Equity Fund was 5.94% vs. 5.72% 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, 2012, the total market value of the Bond Fund was approximately $1.1 billion. The Bond Fund sector weightings (types of securities) as of June 30, 2012, were: core collateral,[3] 42%; core credit, 26%; and core government, 32%. The weighted average maturity of the portfolio at year-end was approximately 7.4 years, the weighted average duration 5.9 years, and 76% of the portfolio was rated A or better.

The Bond Fund returned 7.44% in the fiscal year, 6.81% for five years, and 5.88% 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, 2012, was approximately $317 million and the Fund had a return of 11.74%, outperforming the benchmark with a return of 11.66%.

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

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



June 30, 2012, was $1.1 billion and returned 0.48% for the fiscal year. The benchmark had a return of 0.07%.

Contributions are currently being invested at these target weights: 55.25% Equity Fund, 30% Bond Fund, 9.75% International Equity Fund, and 5% TIPS, similar to the broad asset allocation of the UCRP. The Balanced Growth Fund's returns are a function of the performance of its component funds.

The Fund is rebalanced as needed to prevent the 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, 2012, the market value of the Domestic Equity Index Fund was $69 million and the Fund had a one-year return of 3.66%. The benchmark return was 3.41%.

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 EAFE + Canada Index, designed to measure the performance of developed equity markets outside the United States. The TF version excludes tobacco companies.

The market value of the International Equity Index Fund at June 30, 2012, was $116 million,with a one-year return of -14.20%. The benchmark return was -14.58%.

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 2015 may be appropriate for those investors planning to begin drawing income from their 403(b), 457(b), or DC accounts between 2013 and 2017.

At June 30, 2012, 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	$231	6.85%
2015	119	6.92
2020	302	5.82
2025	58	4.71
2030	220	3.58
2035	35	2.52
2040	138	1.32
2045	22	0.16
2050	61	-0.91
2055	9	-1.85
2060	17	-2.88

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-

[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 at www.ucfocusonyourfuture.com.

sponsored enterprises (GSEs) such as Fannie Mae, Freddie Mac and the Federal 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, 2012, the Savings Fund totaled $3.7 billion and was composed of 45% U.S. Treasuries and 55% government-sponsored enterprises (GSEs). The weighted average maturity of the Fund was 2.67 years.

The Savings Fund has historically provided an income return considerably greater than that of two-year U.S. Treasury Note income. In fiscal 2012, the Savings Fund generated an income return of 1.52% versus 0.25% for the benchmark. During the past 10 years, the Savings Fund generated an average income return of 3.51% versus 2.25% 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 has invested contributions to the ICC Fund in insurance company contracts offered by select, highly rated, financially sound insurance companies. Under such contracts, the insurance companies have guaranteed a fixed annual rate of interest for a specified time period and the repayment of principal at the end of that time period.

ICC Fund participants receive the blended interest rate of all contracts in the Fund. The Fund strives to exceed the income returns of five-year U.S. Treasury Notes and to outpace inflation.

Based on the current level of interest rates offered by insurance companies and the expectation that rates will remain at current levels for an extended period of time, the Fund is now no longer purchasing new contracts and all of the contract redemptions are now being invested in the UC Short Term Investment Pool (STIP). Historically, STIP has been the vehicle in which Retirement Savings Program Funds have been temporarily invested until used to purchase securities in one of the Core Fund options.

In addition, beginning June 29, 2012, the ICC Fund no longer accepts transfers or contributions from UC investors.

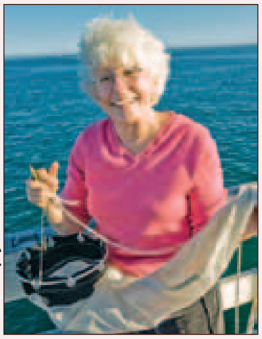
The ICC Fund manager will continue to evaluate the investment opportunities of insurance company contracts and may choose to reopen the Fund to new contributions in the future if conditions warrant.

At June 30, 2012, the ICC Fund totaled $1.2 billion, with a weighted average maturity of 1.7 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 2012, the ICC Fund generated an income return of 3.39% versus 1.01% for the benchmark. During the past 10 years, the ICC Fund generated an income return of 4.98% compared to 3.06% on five-year U.S. Treasury Note income

UC-MANAGED FUND FEES

The Fund strives to hold investor expenses at or below 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.

RETIREE PROFILE



Mary Wilcox Silver
Retired,
Professor Emeritus,
Ocean Sciences

37 years with
UC Santa Cruz

The famous self-taught oceanographer Jacques Cousteau once said, "The sea, once it casts its spell, holds one in its net of wonder forever." The sea obviously cast its spell on Mary Silver very early on. Not only did the sea capture her heart but the University of California seemed to cast a spell on her, too.

As an oceanographer educated and trained at the University of California, Professor Emeritus Mary Silver has maintained a long and dedicated relationship with both the sea and the University. She completed her undergraduate degree in zoology at UC Berkeley and Ph.D. in oceanography from the Scripps Institution of Oceanography at UC San Diego (see page 22 for a related article). She went on to have a successful 37-year career with the University of California at Santa Cruz. Now, even in her retirement, she continues to actively participate in UC research activities as professor emeritus. Her life has been a wonderful testimony and living example of the fundamental missions of the University of California—teaching, research, and public service.

Professor Silver said, "I obtained my undergraduate and graduate education, and also research training, at UC campuses. So, when the opportunity came about to help start a new marine science program at this innovative, new UC Santa Cruz campus in the early 1970s, I thought it was a dream job for me. It gave me the opportunity to teach and do research at a university of great stature. I helped initiate the oceanographic-research activities at UCSC with several students from my classes. I'm extremely proud of the many students who have done collaborative research with me in my lab, as well as some extraordinarily gifted undergraduate students with whom I've worked, over my nearly 40 years of teaching marine science."

Professor Silver, who is widely recognized for her pioneering role as a woman oceanographer, has received numerous awards of excellence over the years. When she first started working at UC, Mary admits she focused on retirement planning only sporadically. She was occasionally reminded of its importance through comments by colleagues or during various financial planning events held on campus for UC staff. "I finally recognized, after a few years, that the UC retirement system had excellent retiree benefits and that I would be even more secure if I participated in some of the additional investment programs (403B, 457B, and Defined Contribution plans) available to UC employees. I set up a monthly withdrawal plan from my salary to my 403B plan and maintained this over time, and occasionally increased the amounts when possible."

Mary eventually developed a vision for her retirement. "I hoped to be still engaged or participating in science or teaching in some way, though I had no clear formula for these activities. I have so loved teaching and working with students of all ages, wanted to continue this 'work' somehow, and remain involved in making discoveries."

Even when she formally "retired" at age 68, Mary decided to continue to serve as professor of ocean sciences at UCSC. "Three years into retirement, I'm greatly enjoying my status as an active participant in research activities (which young colleagues 'drag me into…'). I'm also entering into new research territory that grew as a sort of "synthesis" from my years of marine research, a research direction that doesn't require obtaining sizable amounts of external funds but does point me in a new direction, namely maritime aspects of anthropology. I'm not at all sure where this will take me, but it's certainly fun now! I'm also enjoying the luxury of spending time with new friends that I'm making, having more time for personal non-academic activities (e.g., Tai Chi). I'm also spending more time with recently discovered, extended family members and, best of all, my dear little grandkids."

> "Contribute to the 403B or 457(B) plan as soon as you start working for UC and get in the routine of saving."

When reflecting on her retirement planning, Mary said, "To me, the 403B plans–with their multitude of investing options–became extremely important. Also the occasional opportunity to hear speakers on the use of these investment tools was very helpful. Indeed, over time I built up a helpful reserve in my 403B plan, which has wonderful options. I hope to continue to maintain and draw upon the remaining funds for the rest of my life. I opted for a monthly salary, as this route meant I would be supported for the length of my life (and with fewer worries about financial issues)."

Mary offers this advice to UC employees: "Participate in the 403B and 457B plans as soon as you start working for the University and get in the routine of saving, without reducing your salary to a point of excessive discomfort. In addition, it's important to find ways to love what you do as a UC employee. There are so many options and so much flexibility, at least as a faculty member."

In conclusion, Mary said, "I hope to continue to contribute to the community around me (both academically and non-academically), stay physically active, and be involved with the world around me. I will also try to play a positive role in my own family, which continues to grow!"

We wish to acknowledge the help of Joe A. Lewis, of the UC Retirement Administration Service Center, and Ernest Newbrun, Chair of the Council of University of California Emeriti Associations.

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 managed by the Treasurer's Office 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 30-day U.S. Treasury Bills. The weights are set at the actual average weights of the bond and cash equivalent components of the pool, rebalanced monthly. This change allows the managers 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, 2012

	1-Year	5-Year	10-Year	10-Year Cumulative
STIP	2.44%	3.23%	3.60%	42.36%
Policy Benchmark[2]	0.20	1.29	2.25	24.96
Inflation[3]	1.66	1.95	2.47	27.58

[1] STIP returns are net of (after) investment management costs which are automatically deducted from income. The distribution return (net of all expenses) was 2.38%, 3.17%, and 3.56% 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 weight is the average of the actual weights of the bond and cash equivalent components of the pool, rebalanced monthly. This benchmark was effective October 1, 2009.

[3] Inflation as measured by the Consumer Price Index.

For the fiscal year ended June 30, 2012, the amortized book value of the STIP investments managed by the Treasurer's Office was approximately $8 billion. The STIP's income return was 2.44% versus the policy benchmark income return of 0.20%. The weighted average maturity of the fund was 2.3 years.

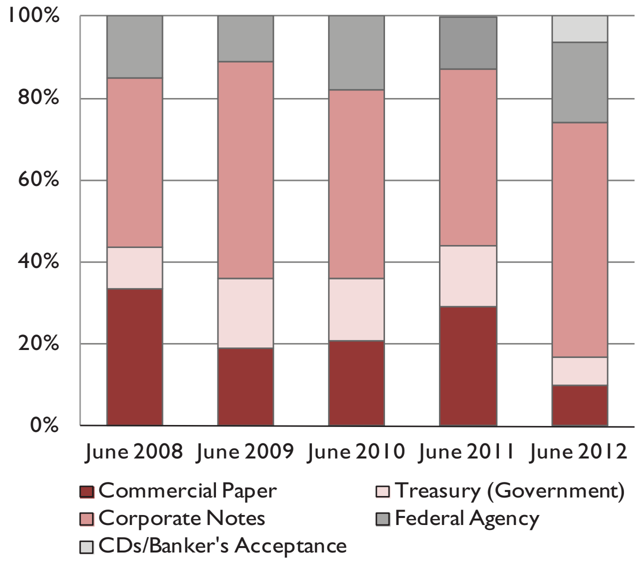
The STIP has achieved attractive returns over the long term. Over the last 10 years, the average annual income return on the STIP was 3.60%, compared to the policy benchmark income return of 2.25%.

The Federal funds rate has been near zero (0-0.25%) since December 2008. In September 2012, the Federal Open Market Committee (FOMC) extended its policy rate guidance at least through mid-2015 and committed to maintaining a highly accommodative monetary policy as the recovery progresses and the outlook for the job market improves. The FOMC also indicated that it may employ other policy tools, as appropriate, if the outlook for the labor market does not improve substantially, and it "expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable length of time after the economic recovery strengthens."

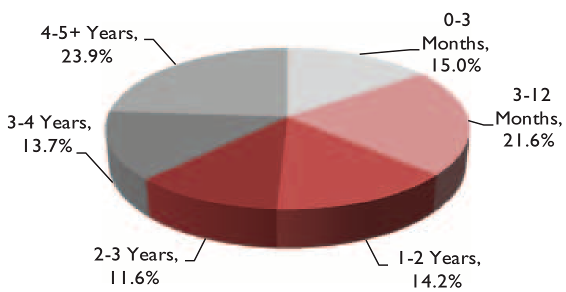
With the record level of low interest rates of the past few years, short-term yields remain pressured as the front end of the yield curve is anchored to the Fed's zero interest rate policy. During the year, the front end (0-5 years) of the yield curve continued to flatten. The decline in U.S. Treasury yields has been relentless and yields are now at the lowest levels seen in decades. As of October 5, 2012, the two-year U.S. Treasury Note yield is at 0.26% and the five-year U.S. Treasury Note yield is 0.67%. With Treasury yields remaining at historic lows, credit spreads remain attractive and continue to offer excellent yield enhancement opportunities for the portfolio, especially as high-grade corporate credit fundamentals remain positive. We continue 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.

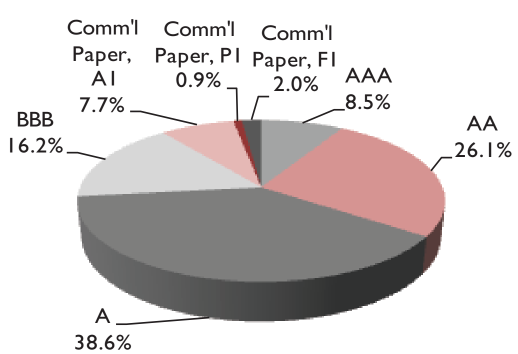
STIP Asset Mix



STIP Maturity Distribution
June 30, 2012 Average Maturity = 2.3 years



STIP Quality Mix
June 30, 2012 Average Long-Term Credit Rating = A
(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), 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 $562.5 million at June 30, 2012.

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.

In July 2008, 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. As a result of 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.

In March 2011, the Regents authorized the President to utilize borrowing from STIP, restructuring of University debt, and other internal or external sources to fund the gap between scheduled pension contributions from the University and employees and the required funding amount.

Total Return Investment Pool (TRIP)

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 asset-class benchmarks shown below. The asset class guidelines and rebalancing policy are similar to those governing the GEP and UCRP.

The asset allocation was developed to limit downside risk while providing higher current income than STIP. The TRIP portfolio is invested primarily in marketable, publicly traded, equity and fixed-income securities denominated in (or hedged to) U.S. dollars.

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 2011-2012, the total return for TRIP was 6.71% vs. 2.43% for STIP. TRIP also outperformed its benchmark, which had a 5.75% return.

Although the actual return of the portfolio will fluctuate from year to year, The Regents approved a TRIP expenditure rate (payout rate) at a maximum of 6% for the 2011-12 fiscal 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, 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 Investment Guidelines approved on November 2, 2010, and effective January 1, 2011, designates the following asset classes, target allocations, minimum and maximum policy ranges, and benchmarks for the TRIP:

TRIP Asset Allocation

<table>
<tr><th>Asset Class</th><th>Policy %</th><th>Min %</th><th>Max %</th><th>Weight at 6/30/12</th><th>Benchmark</th></tr>
<tr><td>U.S. Equity</td><td>15</td><td rowspan="3">25</td><td rowspan="3">45</td><td>14.9%</td><td>Russell 3000 TF</td></tr>
<tr><td>Non U.S. Developed Equity</td><td>15</td><td>14.8</td><td>MSCI World ex-U.S. (hedged) TF</td></tr>
<tr><td>U.S. REITS</td><td>5</td><td>5.0</td><td>FTSE/NAREIT U.S. REIT</td></tr>
<tr><td>Investment Grade Credit</td><td>45</td><td rowspan="4">55</td><td rowspan="4">75</td><td>45.3</td><td>Barclays U.S. Aggregate Credit Index</td></tr>
<tr><td>Investment Grade Gov't</td><td>5</td><td>5.0</td><td>Barclays U.S. Aggregate Govt Index</td></tr>
<tr><td>Investment Grade Securitized</td><td>5</td><td>5.0</td><td>Barclays U.S. Aggregate Securitized Index</td></tr>
<tr><td>High Yield Debt</td><td>10</td><td>10.0</td><td>Merrill Lynch High Yield Cash Pay BB/B Index</td></tr>
</table>

For the fiscal year ended June 30, 2012, the TRIP total market value was approximately $4.3 billion.

The Regents of the University of California

2011-2012

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 Jerry Brown, **President**
Sherry L. Lansing, **Chairman**
Bruce Varner, **Vice Chairman**
Charles F. Robinson, **General Counsel and Vice President for Legal Affairs**
Marsha Kelman, **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 Jerry Brown, **Governor of California**
Mark G. Yudof, **President of the University of California**
Gavin Newsom, **Lieutenant Governor of California**
John A. Pérez, **Speaker of the Assembly**
Tom Torlakson, **State Superintendent of Public Instruction**
Bruce Hallett, **Alumni Regent (President of the Alumni Associations of UC)**
Lori Pelliccioni, **Alumni Regent (Vice President, Alumni Associations of UC)**

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David Crane
William De La Peña
Russell Gould
Eddie R. Island
George Kieffer
Sherry L. Lansing
Monica C. Lozano
Hadi Makarechian
George M. Marcus
Norman J. Pattiz
Bonnie Reiss
Frederick Ruiz
Leslie Tang Schilling
Bruce Varner
Paul D. Wachter
Charlene Zettel
Alfred Mireles, Jr., **Student**

Faculty Representatives

Robert Anderson
Robert Powell

Regents-Designate

Ronald Rubenstein
Jonathan Stein, **Student**
Alan Mendelson

Staff Advisors to the Regents

Penny Herbert
Kevin Smith

Committee on Investments

William De La Peña
Bruce Hallett
George Kieffer
Hadi Makarechian
George M. Marcus
Leslie Tang Schilling
Paul D. Wachter, **Chair**

Ex Officio Members:

The Honorable Jerry Brown
Russell Gould
Sherry Lansing
Mark G. Yudof

Advisory Members:

Robert Anderson
Kevin Smith

As of June 30, 2012

Office of the Treasurer

June 2012

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
Edmond Fong, CFA, MBA	Director
George Song, CFA, CAIA, MBA	Investment Officer
Craig Huie, CFA, MBA	Senior Investment Analyst
Feleciana Feller, BA	Administrative Assistant (50/50 with Private Equity)

Private Equity/Real Assets/Cross-Asset Class

Timothy Recker, CFA, MBA	Managing Director
Michelle Cucullu, MS	Director
Brian J. Johnson, CFA, MBA	Investment Officer
Aileen Liu, SM	Investment Officer
Julia Winterson, MBA	Investment Officer
Ciera Ashley, MBA	Senior Investment Analyst
Gaurav Sood, MBA	Senior Investment Analyst
Leslie Watson, BA	Analyst

Real Estate

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

PUBLIC EQUITY INVESTMENTS

Rudy Hobson, MA, MBA	Investment Officer
Victoria Owens, CFA, MBA	Investment Officer
Paul Teng, CFA, MBA	Senior Investment Analyst
Kristina Chow, MBA	Senior Administrative Analyst

FIXED INCOME INVESTMENTS

Linda Fried, BA	Senior Portfolio Manager, Credit Sector
David Schroeder, BA	Senior Portfolio Manager, Government Sector
Satish Swamy, CFA, MBA	Senior Portfolio Manager, Collateralized Sector
Alice Yee, MBA	Senior Portfolio Manager, Short-Term Securities
Sharon Zhang, CFA, MBA	Director, Credit Research
Tony Lo, CFA, BA	Portfolio Manager
Aaron Staines, BA	Portfolio Manager
Byron Ong, CFA, MBA	Investment Officer
Jeffrey Gordon, MBA	Senior Investment Analyst

INVESTMENT RISK MANAGEMENT

William Dumas, PhD	Principal Risk Analyst
Joanne Birdsall	Executive Assistant (50/50 with Fixed Income)

CLIENT RELATION SERVICES

Susan Rossi, Director	Sharon Murphy, Specialist

OPERATIONS

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

BUSINESS MANAGEMENT

Nelson Chiu, Director	Claudia Green
William Byrd	Rosario Mendoza

INFORMATION SYSTEMS

Richard Thomas, Financial and Systems Analyst

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.ucfocusonyourfuture.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/

This *Treasurer's Annual Report 2011-2012* 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 2011-2012* (available at http://www.universityofcalifornia.edu/reportingtransparency/); *The University of California Retirement Savings Program* (Defined Contribution Plan, Supplemental Defined Contribution Plan, the Tax-Deferred 403(b) Plan and the 457(b) Deferred Compensation Plan) and *The University of California Retirement Plan 2011-2012* (both available at http://atyourservice.ucop.edu/forms_pubs/categorical/annual_reports.html).

Office of the Treasurer of The Regents, University of California
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Website: www.ucop.edu/treasurer   E-mail: treas.regents@ucop.edu