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, 2013		June 30, 2012	
GENERAL ENDOWMENT POOL	Market Value	% of Pool	Market Value	% of Pool
EQUITIES				
U.S. Equity	$1,098,427	15.4%	$1,248,595	19.1%
Non-U.S. Developed Equity	890,997	12.5	1,001,680	15.4
Emerging Market Equity	447,246	6.3	360,395	5.5
Global Equity	N/A	N/A	110,720	1.7
TOTAL EQUITIES	$2,436,670	34.2%	$2,721,390	41.7%
FIXED-INCOME SECURITIES				
U.S. Core Fixed Income	$321,114	4.5%	$365,563	5.6%
High-Yield Bond	175,561	2.5	207,885	3.2
Emerging Market Debt	164,026	2.3	191,066	2.9
TIPS	152,357	2.1	168,974	2.6
TOTAL FIXED-INCOME SECURITIES	$813,058	11.4%	$933,488	14.3%
ALTERNATIVE ASSETS				
Private Equity	659,705	9.2%	619,278	9.5%
Absolute Return Strategies	$1,617,065	22.7	$1,547,584	23.7
Cross-Asset Class Strategy	290,788	4.1	149,312	2.3
Opportunistic Equity	570,190	8.0	N/A	N/A
Real Assets	154,192	2.2	116,968	1.8
Real Estate	550,438	7.7	431,278	6.6
TOTAL ALTERNATIVES	$3,842,378	53.9%	$2,864,420	43.9%
LIQUIDITY PORTFOLIO	$40,410	0.5%	$7,002	0.1%
TOTAL GENERAL ENDOWMENT POOL	$7,132,514	100.0%	$6,526,301	100.0%

The market value of the GEP, as of June 30, 2013, was approximately $7.1 billion, or $26.05 per share, versus $6.5 billion, or $23.88 per share, at the end of fiscal 2012. The total GEP net investment income for the year was $82.7 million, or $.30 per share, versus $100.0 million, or $.36 per share, at the end of fiscal 2012. In addition, $173.7 million was withdrawn to fund the Total Return Payout.

GEP returned 11.63% for the fiscal year versus 10.08% for its benchmark. For the past five years, GEP's total return was 4.09% vs. 3.60% for its benchmark. During that time, payout distributions grew at an average annual rate of 1.53%—above the annualized inflation of 1.31%.

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 16, 2012, the Regents approved the continuance of a rate of 4.75% for expenditure in fiscal year 2012-2013.

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

[1] For FY2012 and FY2013, 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.

GENERAL ENDOWMENT POOL (GEP) POLICY ASSET ALLOCATION as of June 30	2009	2010	2011	2012	2013
MARKET VALUE (in millions)	$5,186	$5,723	$6,731	$6,526	$7,133
ANNUAL TOTAL RETURN	-17.74%	10.87%	20.49%	-0.36%	11.63%
ANNUAL TOTAL RISK[1]	17.63%	9.34%	7.93%	11.22%	4.13%

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 long-term asset allocation policy in July 2012:[2]

Asset Class	Long-Term Policy	Min.	Max.
Public Equity	28.5%	18.5%	38.5%
Fixed Income	12.5	7.5	17.5
All Alternatives*	59.0	49.0	69.0
Liquidity	0.0	0.0	10.0

* Including, but not limited to: Private Equity, Absolute Return Strategies, Cross-Asset Class Strategy, Opportunistic Equity, Real Assets, Real Estate.

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 Office of the CIO. GEP benchmarks are listed on page 19.

In addition, the Chief Investment Officer monitors the actual asset allocation at least monthly. The Committee directs the Chief Investment Officer 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 Office of the CIO may utilize derivative contracts (in accordance with policy) to rebalance the portfolio.

EQUITY INVESTMENTS STRATEGY AND RETURNS

The Office of the CIO 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, and Emerging Market Equity asset classes. The 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, 2013, about 40% of Domestic Equity assets and 50% of Non-U.S. Developed Equity assets were managed in active strategies by 32 external managers. Emerging Markets are approximately 70% actively managed by 11 firms.

The Equity portion of GEP represented 34% of the portfolio at year-end, with a market value of $2.4 billion. U.S. Equity represented 15% of the fund at year-end, with a market value of $1.1 billion. The U.S. Equity assets had returns of 21.82% for the fiscal year and 7.47% for the 10-year period.

Total Non-U.S. Developed Equity represented 13% of GEP at year-end with a market value of $891 million. Emerging Market Equity represented 6% with a market value of $447 million. The GEP Non-U.S. Developed Equities returned 17.91% for the fiscal year and had a 10-year return of 8.41%. Emerging Market Equity returned 4.40% in the fiscal year and had a 10-year return of 13.56%.

FIXED INCOME INVESTMENTS STRATEGY AND RETURNS

For Fixed Income investments, the Office of the CIO 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 11% of the portfolio, with a market value of $813 million. Within total Fixed Income, the GEP U.S. Core Fixed Income investments returned 1.39% during the year, and 5.19% and 4.67% for the five- and 10-year periods. The GEP High Yield Bond and Emerging Market Debt investments had a one-year return of 10.24% and 1.23%, respectively, and a five-year return of 10.33% and 8.04%.

For GEP TIPS, the Office of the CIO seeks to maximize long-term total real returns and increase portfolio diversification,

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 July 19, 2012, with adjustments toward long-term targets approved by the Regents' consultant.

given TIPS' low correlation with other asset classes. TIPS represented 2% of total assets, with a market value of $152 million on June 30, 2013. The TIPS rate of return was -4.71% for the fiscal year and 4.83% for the five-year period.

The average duration of the Core Fixed Income portfolio at year-end was 5.1 years and the average credit quality was AA, with more than 82% of Core Fixed Income securities rated A or higher.

ALTERNATIVE INVESTMENTS STRATEGY AND RETURNS

For Absolute Return (AR) strategies, the Office of the CIO 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 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, 2013, the AR portfolio represented approximately 23% of the GEP and had a market value of $1.6 billion. The return for the fiscal year was 8.79% and 5.61% for the 10-year period.

The Cross-Asset Class (CAC) Strategy investment 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, 2013, the CAC represented 4% of the GEP portfolio, the market value was about $291 million, and the one-year return was 6.26%.

The new Opportunistic Equity asset class was approved January 1, 2013, and now makes up 8% of the portfolio. The market value at the end of the fiscal year was $570 million. In its first six months, Opportunistic Equity returned 10.97% and outperformed the MSCI ACWI benchmark by 4.92%.

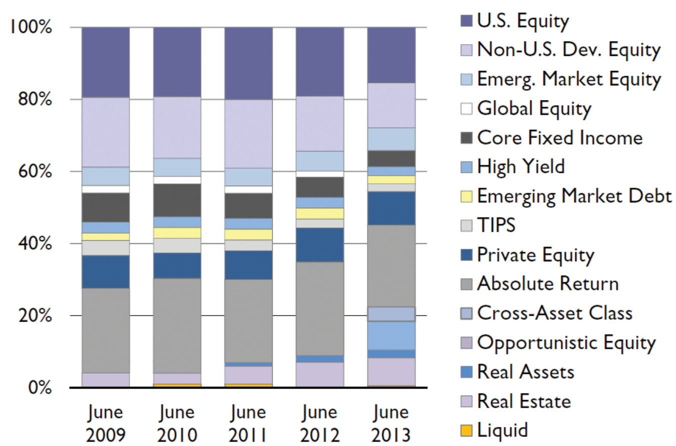
Real Assets was added to the GEP portfolio on April 1, 2010, and is primarily composed of energy assets, timberland, infrastructure, royalties, and commodities. It is currently 2% of the GEP portfolio. These assets generally provide inflation protection, a strong current income component and diversification benefits relative to other financial assets. The market value of the Real Assets investments, as of June 30, 2013, was about $154 million and the return for the fiscal year was 4.23%.

For Private Equity, the Office of the CIO seeks opportunities through high caliber top-tier buyout funds and select venture-capital partnerships. Private Equity represented 9% of the GEP, with a year-end with a market value of $660 million. The rate of return for the fiscal year was 8.97% and 13.32% for the 10-year period.

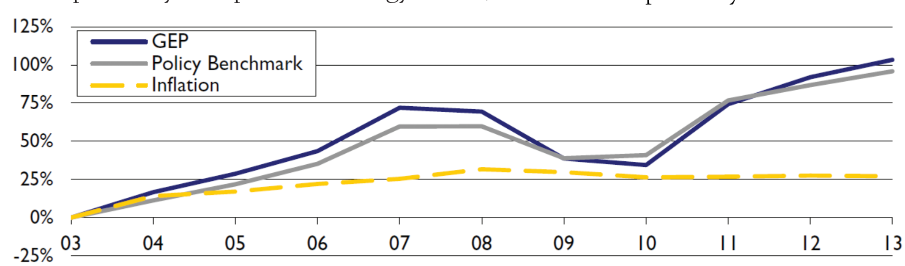
For Real Estate, the Office of the CIO seeks investments that provide long-term, risk-adjusted total returns between those of U.S. equities and bonds; diversification benefits given Real Estate's low correlation with other asset classes; protection against unanticipated inflation; and a high proportion of the total return derived from current income. Real Estate represented 8% (approximately $550 million invested) of the GEP at fiscal-year end. Private Real Estate ($520 million) had a return of 10.37% in the fiscal year. Public Real Estate (approximately $31 million), which was established September 1, 2008, had a one-year return of 12.44%.

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 2003-2013
Periods Ending June 30

103.35% (GEP)
95.84% (Benchmark)
27.14% (Inflation)

GEP ANNUALIZED TOTAL RETURNS[1] VERSUS BENCHMARKS AND INFLATION

June 30, 2013

	1-Year	5-Year	10-Year	10-Year Cumulative	Benchmark Description[2]
TOTAL FUND					
GEP	11.63%	4.09%	7.36%	103.35%	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	10.08	3.60	6.95	95.84	
Inflation	1.75%	1.31%	2.43%	27.14%	
U.S. EQUITY[2]					
GEP	21.82%	7.19%	7.47%	105.49%	
Policy Benchmark	21.75	7.10	7.67	109.32	Russell 3000 TF Index.
NON-U.S. DEVELOPED EQUITY[2]					
GEP	17.91%	0.12%	8.41%	124.17%	
Policy Benchmark	17.27	-0.98	7.74	107.77	MSCI World ex-U.S. (net dividends) TF.
EMERGING MARKET EQUITY[2]					
GEP	4.40%	0.29%	13.56%	256.72%	
Policy Benchmark	2.87	-0.43	13.66	259.92	MSCI Emerging Market (net dividends)
U.S. CORE FIXED INCOME					
GEP	1.39%	5.19%	4.67%	57.79%	
Policy Benchmark	-0.69	5.19	4.76	59.27	Barclays U.S. Aggregate Bond Index.
HIGH-YIELD BOND					
GEP	10.24%	10.33%	N/A	N/A	
Policy Benchmark	9.44	10.49	N/A	N/A	Merrill Lynch High Yield Cash Pay Index.
EMERGING MARKET DEBT					
GEP	1.23%	8.04%	N/A	N/A	
Policy Benchmark	0.97	8.17	N/A	N/A	JP Morgan Emerging Market Bond Index Global Diversified.
TIPS					
GEP	-4.71%	4.83%	N/A	N/A	
Policy Benchmark	-4.78	4.41	N/A	N/A	Barclays U.S. TIPS Index.
PRIVATE EQUITY[3]	8.97%	5.99%	13.32%	249.07%	Actual PE Returns.
ABSOLUTE RETURN STRATEGIES[4]					
GEP	8.79%	2.61%	5.61%	72.66%	50% HFRX Absolute Return Index + 50% HFRX Market Directional Index.
Policy Benchmark	5.54	2.15	4.64	57.43	
CROSS-ASSET CLASS STRATEGY[5]					
GEP	6.26%	N/A	N/A	N/A	
Policy Benchmark	10.08	N/A	N/A	N/A	Aggregate GEP Policy Benchmark.
OPPORTUNISTIC EQUITY[6]					
GEP	N/A	N/A	N/A	N/A	
Policy Benchmark	N/A	N/A	N/A	N/A	MSCI All Country World Index (net)
REAL ASSETS[5]					
GEP	4.23%	N/A	N/A	N/A	Commodities: S&P GSCI Reduced Energy Index; All Other: Actual Portfolio Return.
Policy Benchmark	2.34	N/A	N/A	N/A	
PUBLIC REAL ESTATE					
GEP	12.44%	N/A	N/A	N/A	
Policy Benchmark	14.19	N/A	N/A	N/A	FTSE EPRA NAREIT Global Index.
PRIVATE REAL ESTATE					
GEP	10.37%	-8.03%	N/A	N/A	NCREIF Funds Index-Open-End Diversified Core Equity (lagged 3 months).
Policy Benchmark	9.68	-5.71	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. GEP's total returns, based on the unit value calculated by UCOP Endowment and Investment Accounting and net of all fees and expenses, are 11.96%, 4.01%, and 7.32% for the one-, five-, and 10-year periods, respectively. For FY 2012-2013, the cost of managing the GEP was 152.5 basis points, comprised of 143.0 basis points attributable to external money managers and 9.5 basis points to UC's internal costs (6.5 basis points related to administrative costs and 3.0 basis points related to investment management and custodial expenses).

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 2013, for comparison of Private Equity to multiple performance metrics: http://www.ucop.edu/investment-office/investment-reports/index.html.

4 Benchmark for Absolute Return Strategies 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 and Cross-Asset Class Strategy (formerly known as Opportunistic) was April 1, 2010.

6 Inception date for Opportunistic Equity was January 1, 2013.