UNIVERSITY OF CALIFORNIA

Office of the Chief Investment Officer

Pension

Investment Review as of December 31, 2015

February 2016

Growing Portfolios Building Partnerships

UC Investments

The overall **investment objective** for all University of California Retirement Plan ("UCRP") assets is to maximize real, long-term total returns (income plus capital appreciation adjusted for inflation), while assuming appropriate levels of risk.

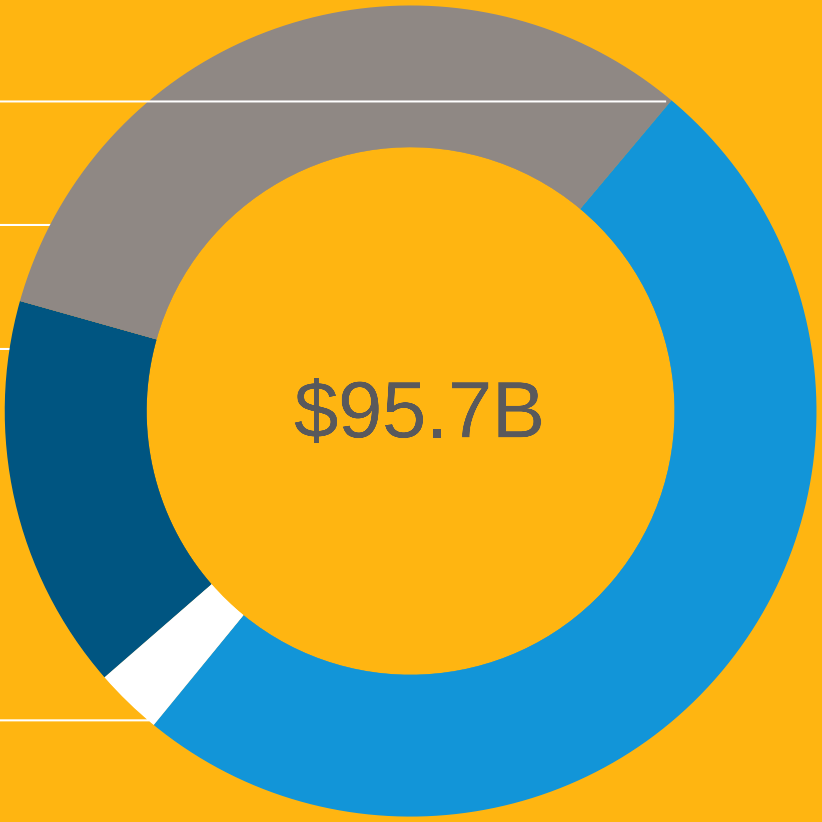
UCRP's specific objective is to maximize the probability of meeting the Plan's liabilities, subject to the Regents' funding policy, and to preserve the real (inflation adjusted) purchasing power of assets.

Delivering **value** through values.

Our Products

As of December 31, 2015

Public Equity: $47.7B	50%
Fixed Income: $30.4B	32%
Other Investments: $15.0B	15%
Absolute Return: $6.2B	6%
Private Equity: $3.8B	4%
Real Estate: $3.7B	4%
Real Asset: $1.3B	1%
Cash: $2.6B	3%
$95.7 Billion	**100%**

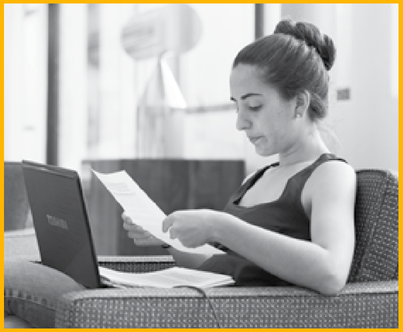


Delivering value through values.

1
Invest for the long term.
Where we can, we focus on investments over 10 years and beyond. This offers many more opportunities than those available to short- and intermediate- term investors. We aim to make the most of our scale and ability to be patient.

2
Invest in people.
The contributions of talented people are among the most important drivers of success for any investment organization. So we've made the recruitment and retention of exceptional staff a cornerstone of our strategy.

3
Build a high-performance culture.
Every organization needs a clearly defined culture to make sure everyone is working towards the same goals and speaking the same language. Our culture is one of responsibility, accountability and high performance. We are proud of our achievements but try to be humble, as markets sometimes surge and fall without warning or logic.



4
We are all risk managers.
Our aim is simple: to earn the best risk-adjusted returns that meets the objectives of our various portfolios. But achieving that aim is complex. An effective risk-management function is critical, enabling the leadership to delegate authority to the investment team. Everyone on the team is in the risk-management business.

5
Allocate wisely.
The key to investing, and the most important driver of performance, is asset allocation. To make effective investment decisions and achieve the appropriate combination of risk and return, we have to maintain a clear and balanced understanding of stakeholders' unique objectives, time horizon, risk tolerances, liquidity and other constraints. As a globally significant investor, we also aim to make the most of our scale and patience when we allocate assets.

6
Costs matter.
High-quality advice comes at a cost. We get that. But we also believe fees and costs for external managers must be fully transparent and straightforward. Anything else creates potential problems — opaque fees can mask risk. Plus, cost savings can be considered a risk-free return. If we can save money through efficient, well-executed strategies, then we must. We intend to aggressively capture every dollar of this risk-free return that we can.

7

Diversify with care. Act with clarity.

Diversification is invaluable, but it's not a cure-all. It allows us to spread risk and reduce the impact of any individual loss. But diversifying too broadly has the effect of producing returns that are index like and can draw investors into assets and products they don't fully understand. We prefer a more focused portfolio of assets and risks that we know extremely well. We also need to be keenly aware of our own strengths and weaknesses in the global context in order to act decisively when we believe markets are behaving irrationally or when we have a skill or knowledge advantage. That means keeping a constant, clear-eyed check on our evolving capabilities. It's not always an easy or painless process, but it's an essential one.

8

Sustainability impacts investing.

Sustainability is not a "check box," but rather, a fundamental concern that we incorporate into decision making. We focus particularly on how sustainability can improve investment performance. Sustainable businesses are often more rooted in communities and resilient to future crises, which means investing in them makes good business sense. They are bound to affect portfolios in the future, and we need to consider them in our broader lens of investment decision making.

9

Collaborate widely.

We are proud to be a part of the University of California, as well as the broader community of institutional investors. Through active collaboration, we aim to leverage the unique resources of the university. We also want to foster collaborative relationships with our peers to leverage our long-term competitive advantages.

10

Innovation counts.

The best investors recognize that markets are constantly fluctuating and that no good idea lasts forever. We must always be innovating and identifying new opportunities. Getting in early brings rewards. Just as importantly, some of the best opportunities transcend asset-class silos. There are advantages in thinking differently and partnering with peers that are willing to work with us on innovative projects. Collaboration is one of the most powerful drivers of innovation.

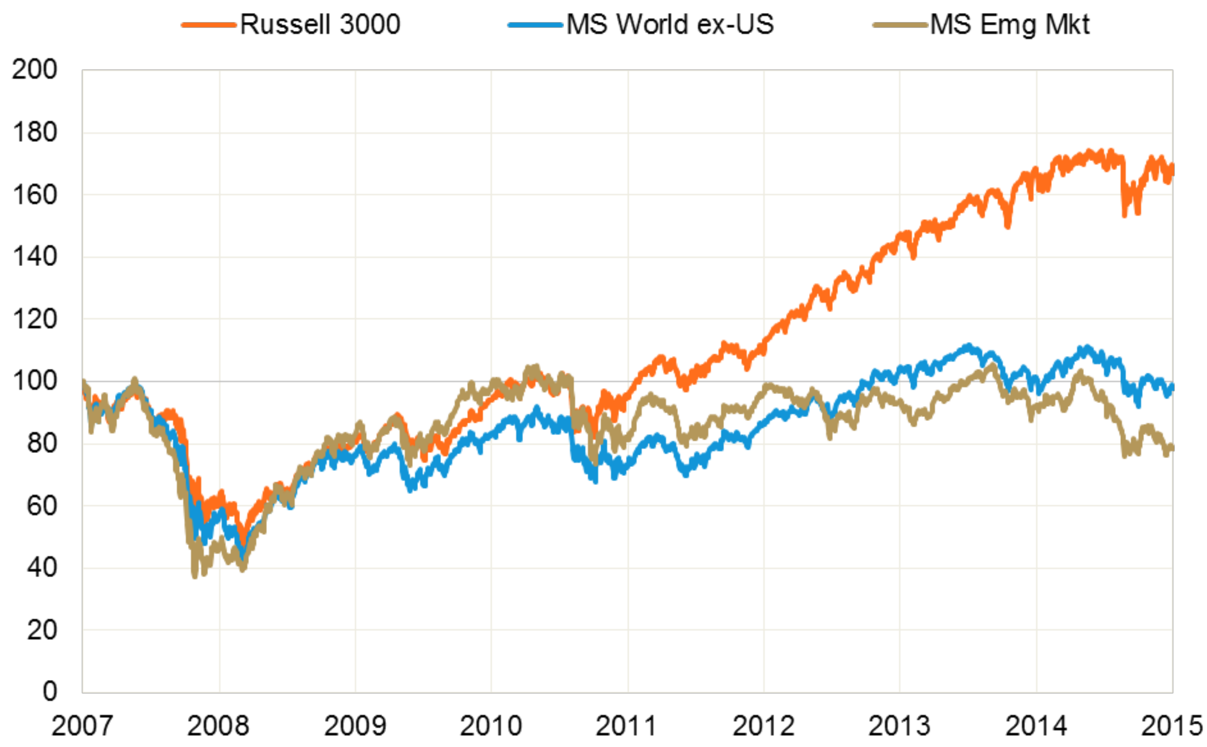
Table of Contents

Market Review	8
Investment Highlights	15
Investment Performance	16
Asset Allocation	19
Performance Attribution	21
Risk Measures	22
Asset Class Summary	26
Public Equity	27
Fixed Income	33
Private Equity	39
Absolute Return	45
Real Estate	49
Real Assets	54
Policy Benchmark	58

Market Review

Equity Markets

Performance



Highlights

China's stock market crash, the meltdown in commodities, the emerging market equity selloff, a Fed rate increase and the rising U.S. Dollar vis-à-vis most currencies, made the past six months memorable.

Risks from China are clearly top of mind as it attempts the largest economic transformation, morphing from a fixed asset / export driven economy to one that is consumer-led. While hiccups and policy mistakes are to be expected, two came to the forefront including: 1) A margin fueled stock market crash leading to a 20% selloff for the MSCI China; and 2) Miscommunication of foreign exchange policy leading to currency devaluation. China's transformation is also having huge global effects including contributing to decelerating global growth and much lower demand for commodities and materials.

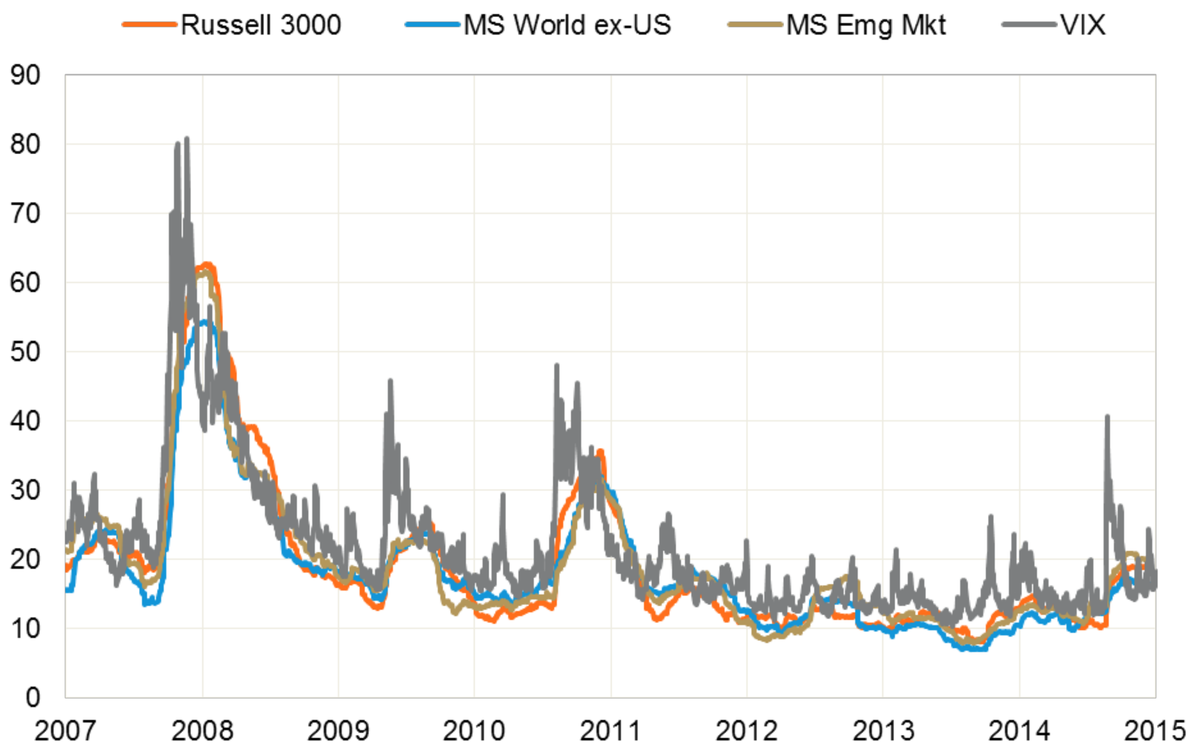
A sustained collapse in commodity prices, slower global GDP and a rising U.S. Dollar, all helped spur the market rout in emerging markets, which were down 17.4%.

Despite a sharp selloff in August and September, developed market performance fared much better with the U.S., European and Japanese markets losing anywhere from -1.4% to -7.5%.

The business cycle continues to mature in the U.S., as evidenced by the Fed's willingness to raise rates. Compared to other developed markets, the U.S. and its equity drivers appear to be reaching peak levels such as quantitative easing, share buybacks, mergers & acquisitions, distributions, and operating margins.

Equity Markets

Volatility



Highlights

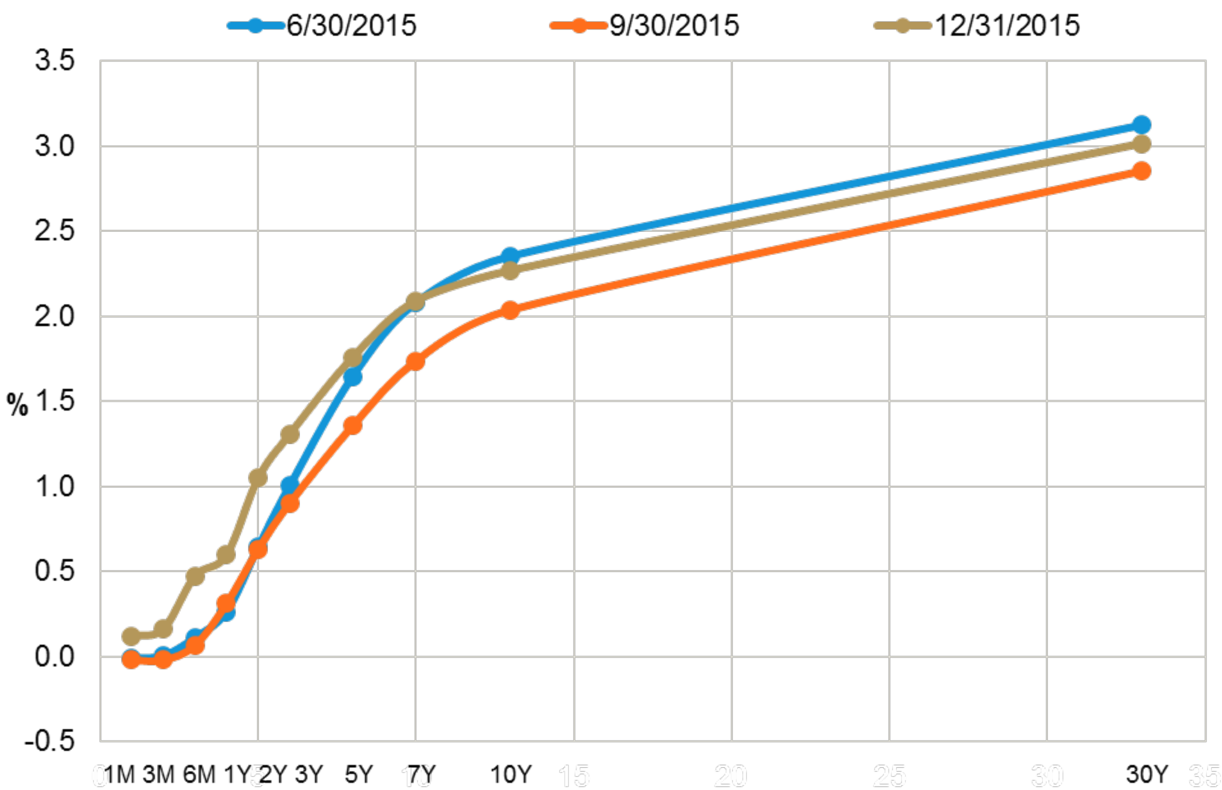
Equity values remain elevated above historic averages at the same time the business cycle continues to mature and vulnerabilities and risks are rising. Many of the drivers of global growth appear to be slowing as stimulus in the form of low interest rates, quantitative easing and currency devaluation becomes less and less effective and China's economy continues to transition. Above average valuations and rising risks, coupled with expectations for slow global growth, should lead to much lower returns and higher volatility than that of the past six years.

Markets are likely to remain volatile while they adjust for the (slow) removal of crisis-era policies. In other words, central banks might migrate from being a source of stability to a source of instability. So to, sovereign funds once flush with cash from high commodity prices may become 'liquidity demanders' versus 'liquidity providers'.

Volatility spiked from a long period of abnormally low levels. As we move into an average or higher level of volatility, equity investors will need to re-price risk. This has been leading to a transition in equity leadership and will likely lead to greater differentiation among stock, sector, and country selection going forward.

Yields

US Treasury Bond Curve



Highlights

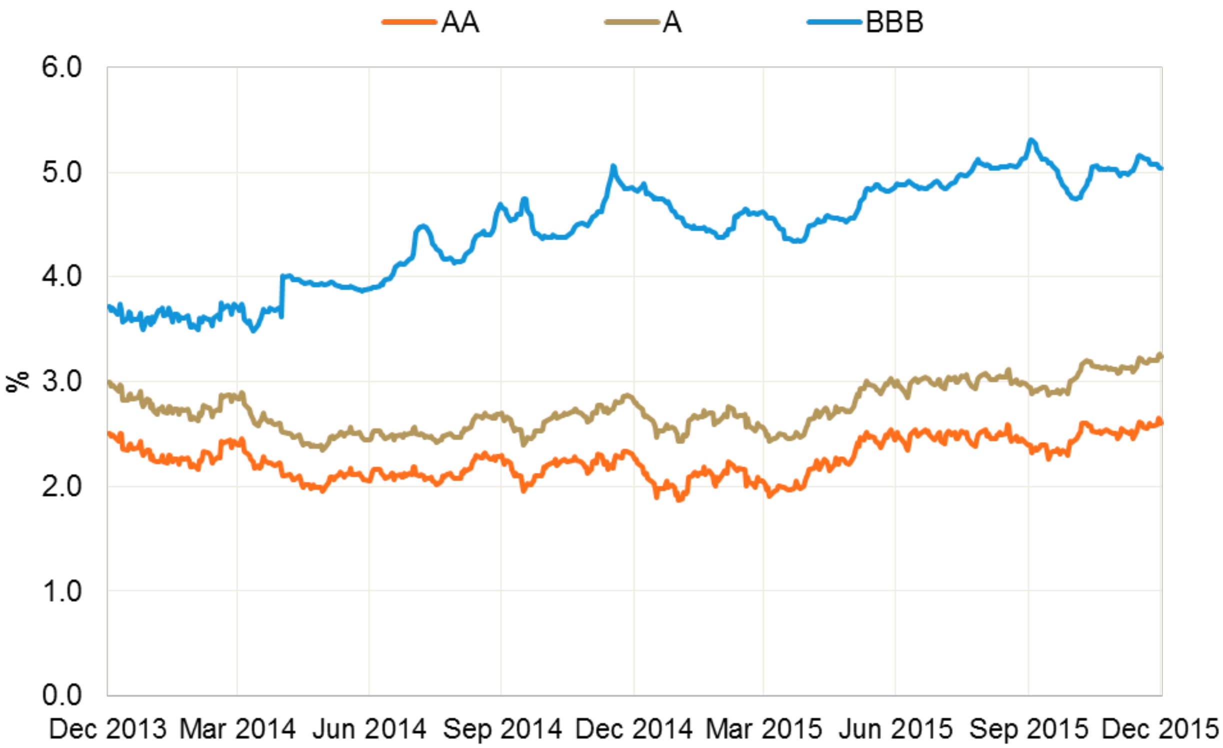
Treasury yields rose during the quarter and the yield curve flattened as the Federal Open Market Committee (FOMC) finally raised the Fed funds target range to 0.25% - 0.50% from 0.0% - 0.25%. Treasury yields increased 15 - 40 basis points over the past quarter with the 1 to 2 year sector underperforming along the curve.

In aggregate, the FOMC's first rate hike since 2006 had a dovish quality – although their policy statement described the risks to the outlook as balanced and gave an upbeat assessment of labor market slack, it also suggested a higher threshold for progress toward inflation goals.

Economic data ended 2015 on a weak note. While the labor market continues to generate new jobs at a steady pace, retail sales and manufacturing slowed. Fourth quarter gross domestic product (GDP) growth expectations are now below 1%. If this weakness persists, 2016 GDP growth expectations of 2% may have to be revised lower.

Spreads

Credit Spreads by Ratings



Highlights

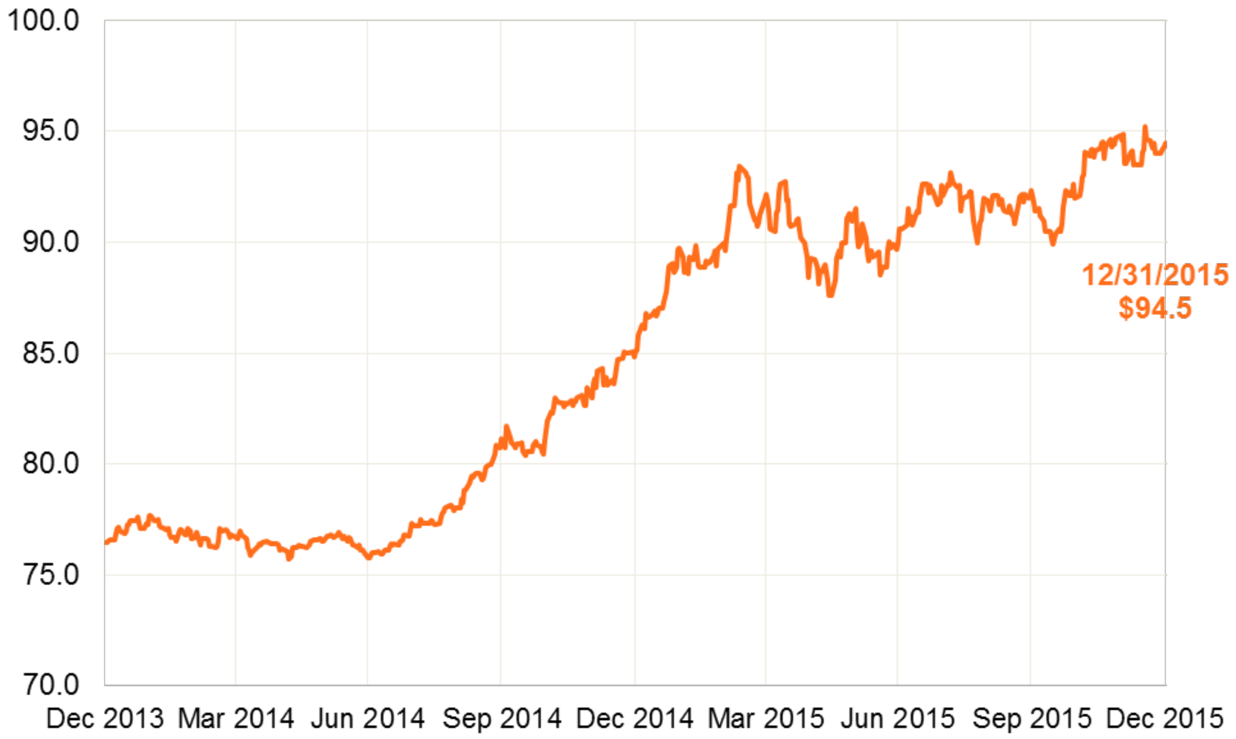
After a brief relief rally in the early fall, spreads continued their march wider into the end of the year. Drivers of concern in the market include the Fed rate hiking cycle, destruction in the commodity sector, the slowdown in China, record new issue supply, and the deterioration in credit fundamentals.

Higher quality credit continues to outperform lower rated securities. CCC rated securities have traded to distress levels and now yield approximately 20% on average.

Companies continued to engage in shareholder enhancing activity – mergers & acquisitions, share buybacks, and general re-leveraging of balance sheets.

Currency

US Dollar Index



Highlights

The U.S. dollar has been the main channel to express investors' views as they adjusted to the first rate hike.

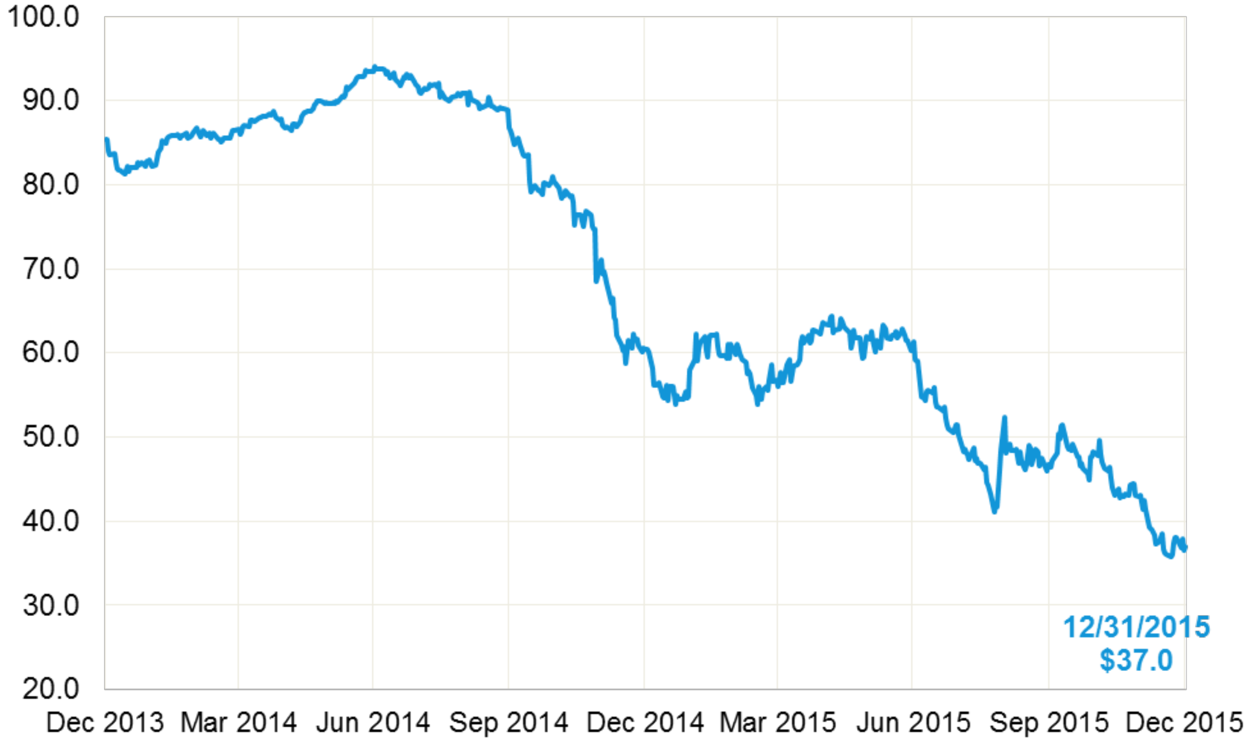
Over the past six months, the U.S. Dollar has strengthened versus many currencies.

In November, the IMF included the Yuan in the SDR (Special Drawing Rights). Unfortunately, slowing growth, miscommunication of its currency strategy, and surprisingly rapid deterioration of reserves, led to a few devaluations of the Yuan compared to U.S. Dollar.

While the pace has slowed, quantitative easing driven by slow growth and very low inflation in both Japan and Europe, are expected to keep a lid on currencies vis-à-vis the U.S. Dollar.

Crude Oil

Crude Oil Price

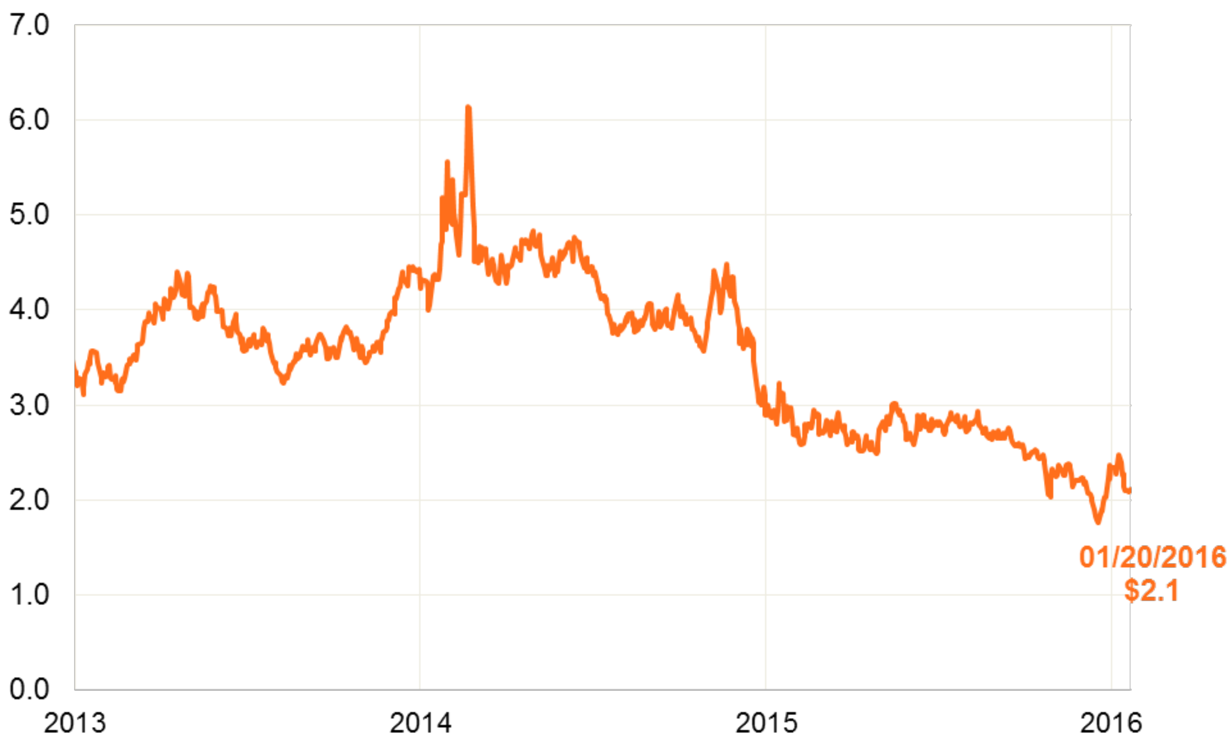


Highlights

China's transition is having a profound impact on material prices and commodities as it demands far less of these goods. The resource and energy-intensive nature of Chinese economic growth in recent years caused a huge increase in the demand for, and the prices of, most commodities and energy, which is now unwinding at an accelerated pace.

Natural Gas

Natural Gas Price



Highlights

Oil price declines have overshadowed significant declines in natural gas prices which is also having a significant impact on energy companies.

Increased production capabilities combined with a mild winter have resulted in lower natural gas prices.

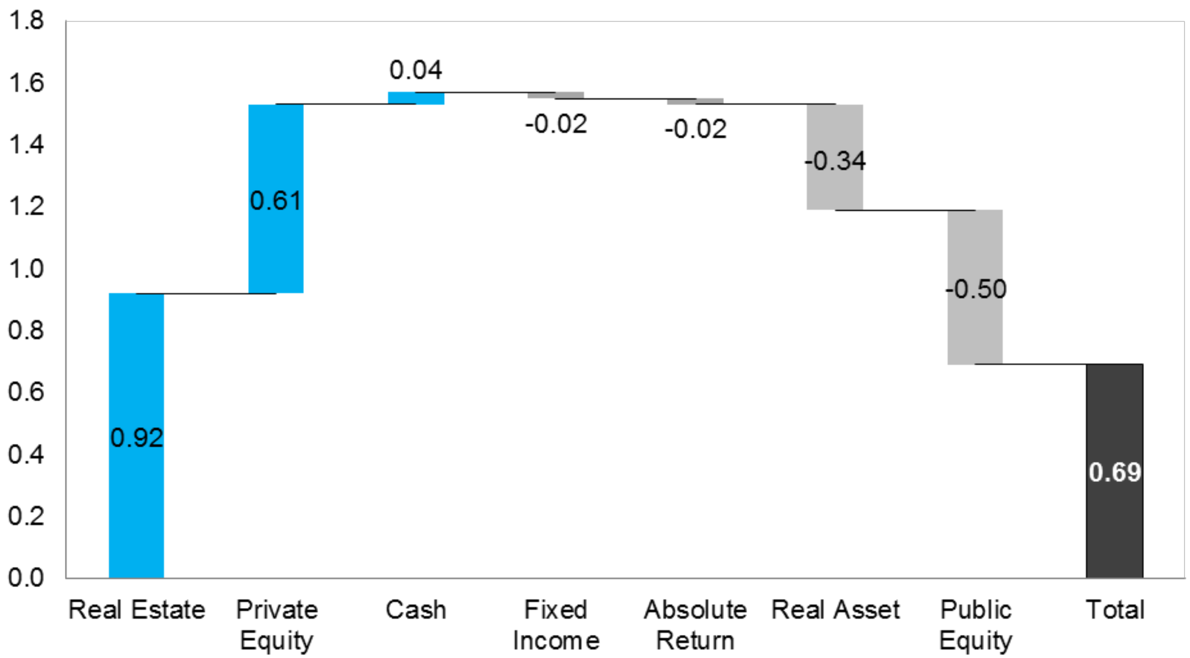
Investment Highlights

Investment Performance

Net Returns (%) As of December 31, 2015	6 Month	1 Year	3 Year	Annualized Returns 5 Year	7 Year	10 Year	20 Year
UC Pension	-2.8	0.7	7.4	7.1	9.9	5.5	7.5
UC Pension Benchmark	-3.1	-0.7	6.2	6.0	9.0	4.9	7.0
Value Added	*0.3*	*1.4*	*1.2*	*1.1*	*0.9*	*0.6*	*0.5*

Investment Performance

12 Months Contribution to Return - Percentage (%)



As of December 31, 2015

Highlights

Over the 12 months ending December 31, 2015, the Pension returned +0.70% vs. -0.70% for our benchmark.

Largest positive contributors were Real Estate and Private Equity, while largest detractors were Public Equity and Real Assets.

We navigated the year with a rather defensive stance, expressed mainly through our overweight to Cash and underweight to Private Equity. We were also underweight TIPS and Real Assets.

In terms of performance attribution, securities selection added +1.3% throughout the portfolio, with Public Equity responsible for almost two thirds of the added value. Absolute Return and Real Estate also contributed positively. The only detractor to our relative performance was our underweight to Private Equity, which subtracted about 0.3% of performance. Total value added return was +1.4% for the year or $336 Million.

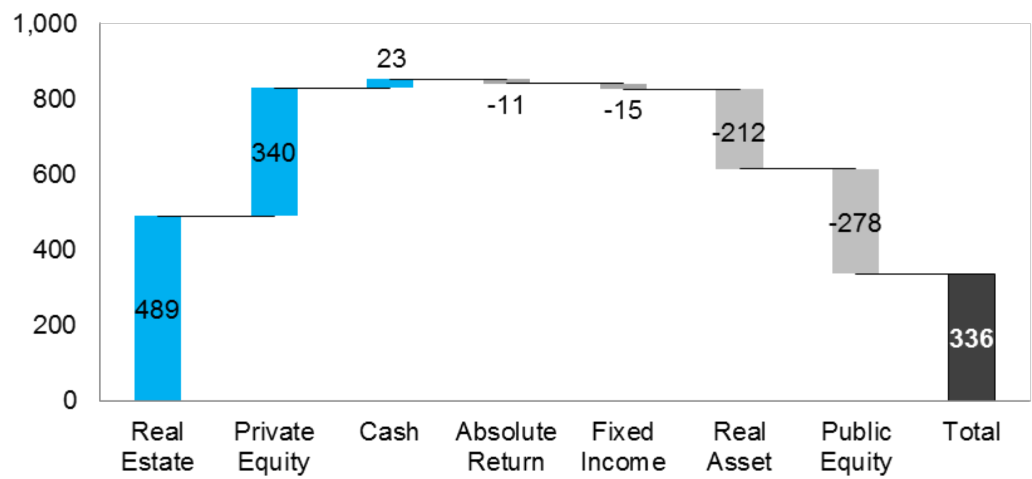
Investment Performance

Assets Under Management Attribution

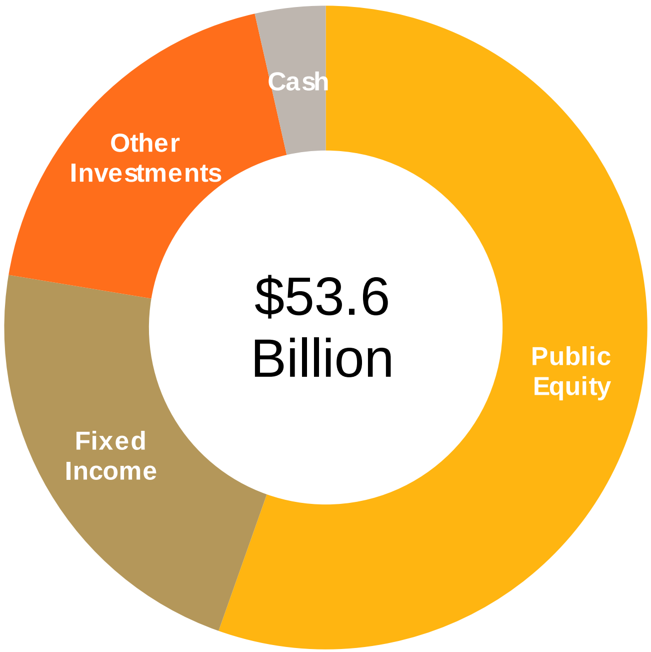
Assets Under Management December 31, 2014	$52.8 billion
Market Gains	($0.4 billion)
Value Added	$0.7 billion
Net Cash Flow	$0.5 billion
Assets Under Management December 31, 2015	**$53.6 billion**

12 Months Contribution to Return - Millions ($)

As of December 31, 2015



Asset Allocation



Public Equity: 55% $29.7B	Fixed Income: 22% $11.9B
Other Investments: 19% $10.1B	Cash: 4% $1.9B

As of December 31, 2015

Highlights

We continue to expect both lower returns and higher volatility. The main culprits include valuations, maturity of the business cycle, and rising geopolitical risks.

The 10 year Treasury, at 2.3%, has anchored risk premiums lower across asset classes, making it difficult to achieve returns at or above the discount rate for the foreseeable future.

We used the past year to reposition the portfolio. Specifically, rebalanced Private Equity and Real Estate to better align the allocation with the portfolio objectives and our investment beliefs. We also took profits in private equity, real estate and REITs mainly because of their valuations.

The portfolio continues to be positioned to weather and take advantage of some volatility:

- 4% cash;
- Below target allocations to growth assets (Public and Private Equity) and slightly higher allocation to Fixed Income (mainly Core and Unconstrained);
- Beta 0.55 and volatility at 7.9%.

Compared to our Endowment, the Pension allocation is much more sensitive to Equity (and to a much lesser extent, Fixed Income). While this is not uncommon, it raises questions about potential drawdowns in times of stress.

Asset Allocation

	Market Value in $ Billions	Percentage	Over/Underweight Relative to Policy
Public Equity	**29.7**	**55.4%**	**0.5%**
Fixed Income	**11.9**	**22.3%**	**0.0%**
Core	7.2	13.4%	1.0%
High Yield	1.6	3.0%	0.4%
Emerging Market Debt	1.2	2.4%	-0.2%
TIPS	1.9	3.5%	-1.2%
Other Investments	**10.1**	**18.9%**	**-3.9%**
Absolute Return	3.2	6.0%	-0.2%
Private Equity	2.6	4.9%	-3.1%
Real Estate	3.2	6.0%	0.5%
Real Asset	1.1	2.0%	-1.1%
Cash	**1.9**	**3.4%**	**3.4%**
Total	**53.6**	**100.0%**	**0.0%**

As of December 31, 2015

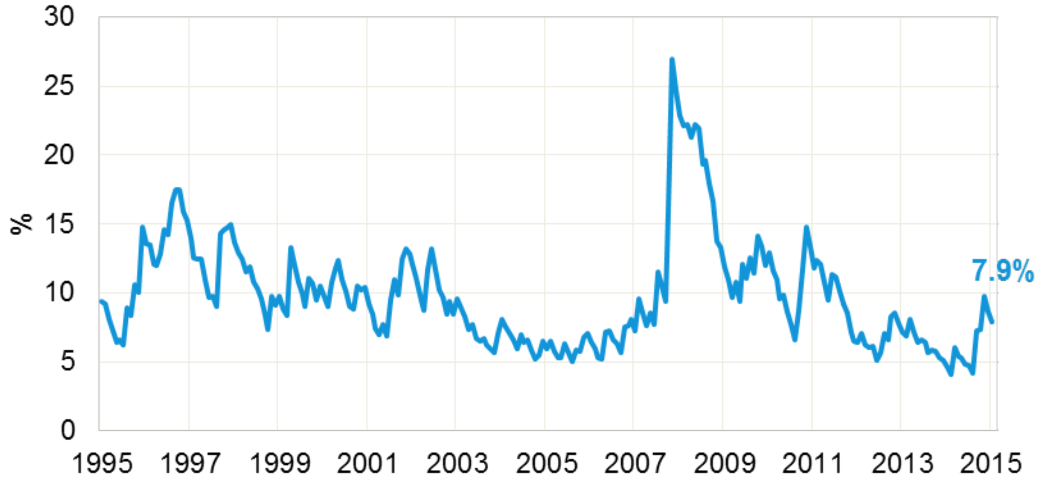
Performance Attribution – 1 Year

As of December 31, 2015	Average Weight	Active Weight	Allocation Attribution	Selection Attribution	Total Attribution
Public Equity	55.4	+0.5	+0.0	+0.9	+0.9
Fixed Income					
Core	13.4	+1.0	+0.0	+0.0	+0.0
High Yield	3.0	+0.4	+0.0	+0.1	+0.1
Emerging Market Debt	2.4	-0.2	+0.0	+0.0	+0.0
TIPS	3.5	-1.2	+0.0	+0.0	+0.0
Other Investments					
Absolute Return	6.0	-0.2	+0.0	+0.2	+0.2
Private Equity	4.9	-3.1	-0.3	+0.0	-0.3
Real Estate	6.0	+0.5	+0.1	+0.1	+0.2
Real Asset	2.0	-1.1	+0.2	+0.0	+0.2
Cash	3.4	3.4	+0.1	+0.0	+0.1
Total	**100%**	**+0.0%**	**+0.1%**	**+1.3%**	**+1.4%**

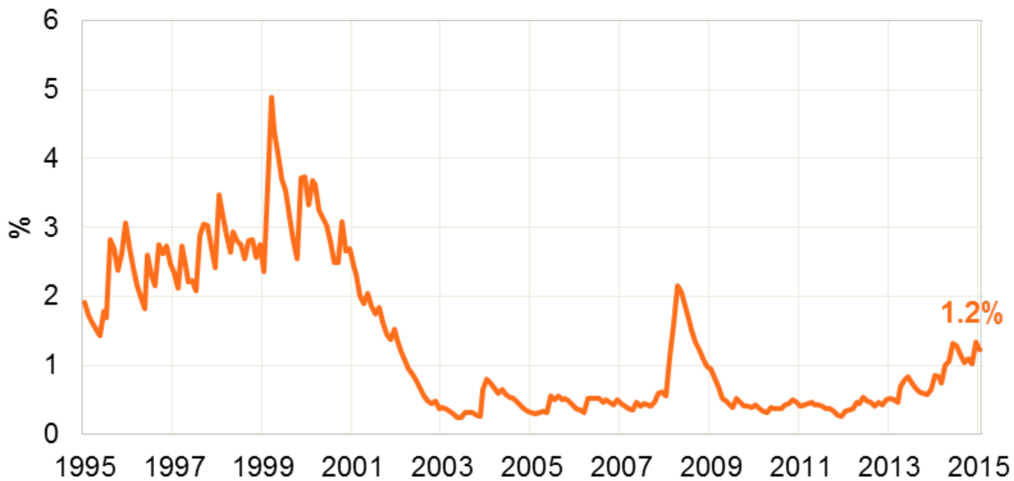
As of December 31, 2015

Risk Measures

Total Risk



Active Risk



Highlights

Total Risk (Volatility) is measured by standard deviation of monthly total returns; each point shows a 1-year measurement period. A standard deviation of 8% means that roughly two-thirds of the time, the realized return will be within 8% from the average return.

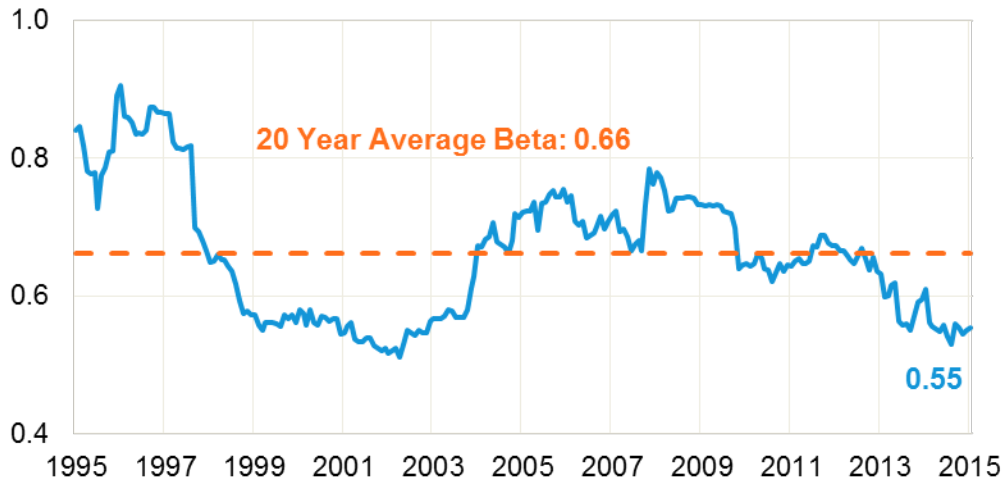
Total Risk was 7.9% at the end of December; which has been increasing from prior years when volatility was in the 5-7% range.

Active risk is measured by standard deviation of monthly active returns; each point or bar shows a 1-year measurement period. A standard deviation of 3% means that roughly two-thirds of the time, the realized active return will be within 3% from the average active return.

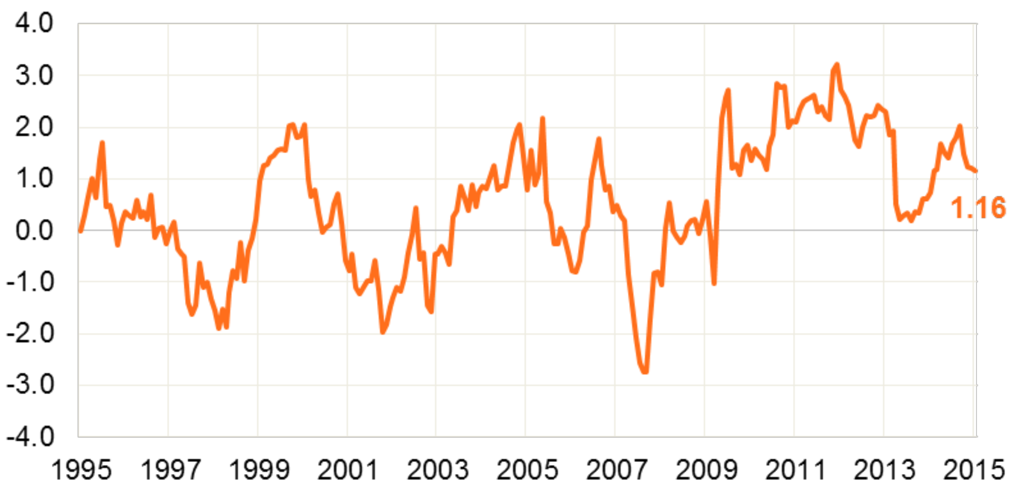
Most of the active risk is attributed to security and manager selection decisions that differ from the benchmark. The Active Risk was 1.2% at the end of December and has been trending upward as we have increased our tilts from the benchmark.

Risk Measures

Beta to S&P 500



Information Ratio



Highlights

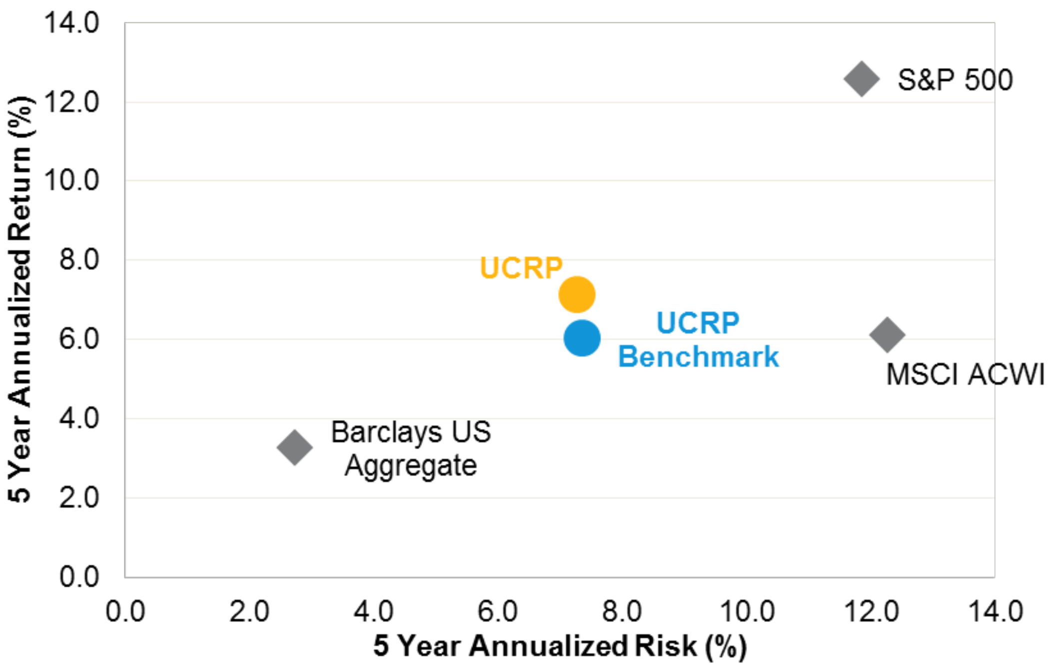
Beta is a measure of the sensitivity of the total portfolio to the S&P 500 Index. Beta was 0.55 at the end of the December; which means that if the S&P 500 went down 10%, we would expect the portfolio to go down by 5.5%.

Information Ratio is a ratio of Active Return over Tracking Error; Tracking Error is the standard deviation of the active return over time. The higher the information ratio, the better the portfolio is able to achieve active return against the relative risk to the policy benchmark taken.

Information Ratio was 1.16 at the end of December, given our outperformance of 1.4% above the benchmark and tracking error (active risk) of 1.2%.

Risk Measures

Risk vs Return 5 Years	Return	Risk	Ratio
UCRP	7.09	7.30	0.97
UCRP Benchmark	6.02	7.38	0.81
S&P 500	12.57	11.87	1.06
MSCI ACWI	6.09	12.29	0.50
Barclays US Aggregate	3.25	2.74	1.18



As of December 31, 2015

Highlights

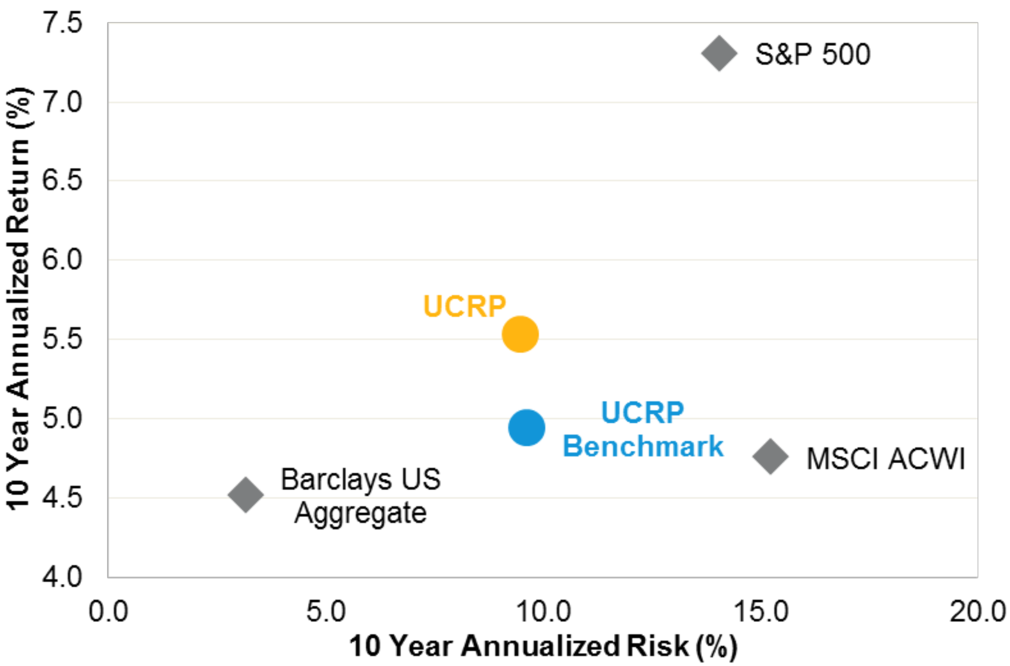
The Risk Return chart shows return and the amount of volatility taken to achieve it. The return to risk ratio reflects the reward per unit of risk we are achieving. For the past 5-years, for every unit of risk we took we were rewarded 0.97.

Our total risk is primarily related to our allocation between equity and bonds. At the end of December our allocation was underweight to private equity, real assets, absolute return, overweight to public equity and real estate, and neutral in fixed income relative to the policy benchmark. Our total risk is similar to the benchmark but with a higher total return.

Over the past 5 years the portfolio has earned more than the global stock portfolio as measured by the MSCI ACWI and taken on less risk.

Risk Measures

Risk vs Return 10 Year	Return	Risk	Ratio
UCRP	5.52	9.53	0.58
UCRP Benchmark	4.93	9.66	0.51
S&P 500	7.31	14.07	0.52
MSCI ACWI	4.76	15.27	0.31
Barclays US Aggregate	4.51	3.18	1.42



As of December 31, 2015

Highlights

Risk Return chart shows return and the amount of volatility taken to achieve it. The return to risk ratio reflects the reward per unit of risk we are achieving. For the past 10 years, for every unit of risk we took we were rewarded 0.58.

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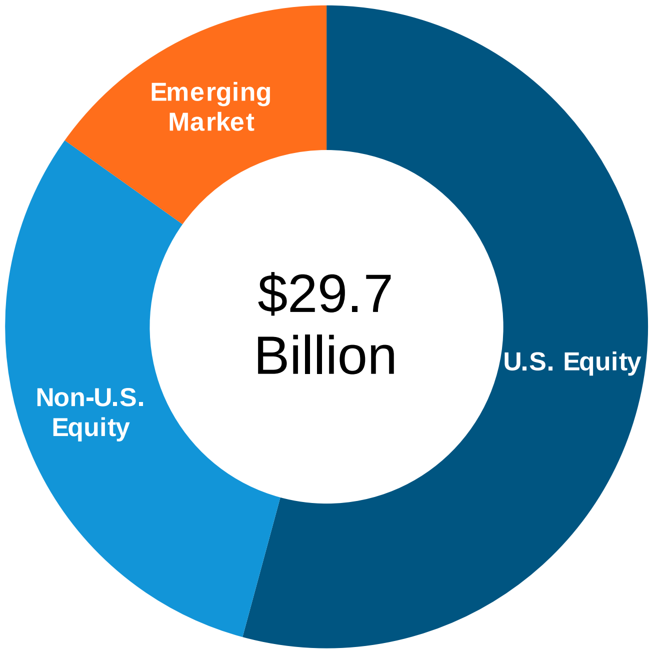
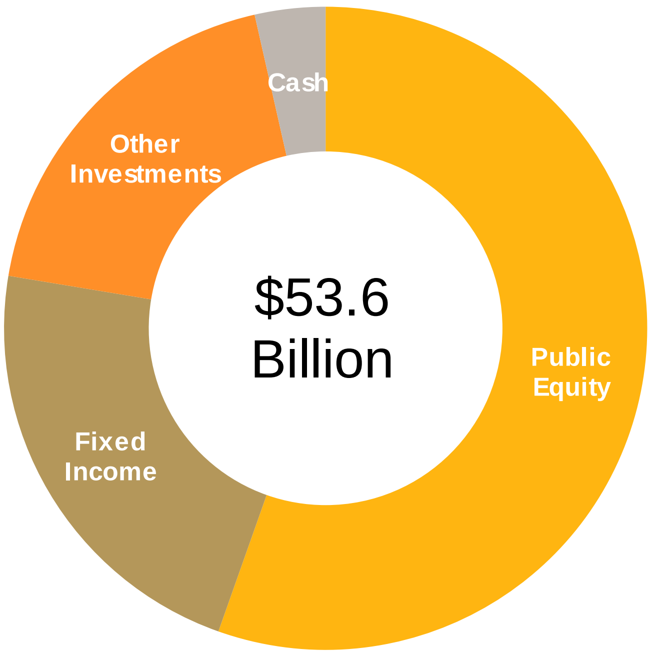
Asset Class Summary

Public Equity

Public Equity



Pension

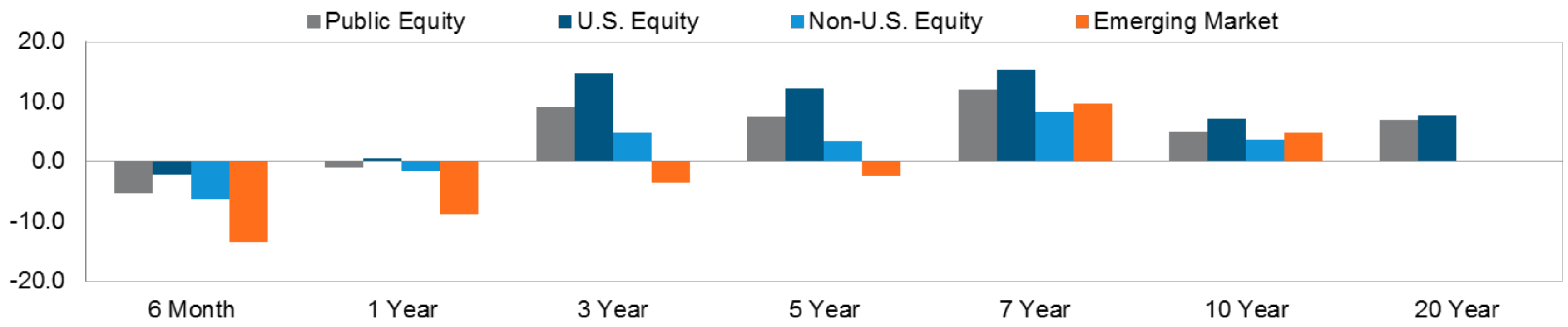


U.S. Equity: 54% **$16.1B**	**Non-U.S. Equity: 31%** **$9.1B**	**Public Equity: 55%** **$29.7B**	**Fixed Income: 22%** **$11.9B**
Emerging Market: 15% **$4.5B**		**Other Investments: 19%** **$10.1B**	**Cash: 4%** **$1.9B**

As of December 31, 2015

Public Equity

Net Returns (%) As of December 31, 2015	Market Value ($ Million)	% Allocation	6 Month	1 Year	3 Year	5 Year	7 Year	10 Year	20 Year
				Annualized Returns					
Public Equity	**29,675**	**100%**	**-5.3**	**-1.0**	**9.1**	**7.4**	**11.9**	**5.0**	**6.8**
MSCI All Country World Index (net dividends)			-4.9	-2.2	7.2	6.1	10.7	4.4	7.1
Value Added			*-0.4*	*1.2*	*1.9*	*1.3*	*1.2*	*0.6*	*-0.3*
U.S. Equity	16,058	54%	-2.2	0.4	14.6	12.1	15.2	7.0	7.7
Russell 3000 Tobacco Free Index			-1.6	0.2	14.7	12.1	15.0	7.2	8.4
Value Added			*-0.6*	*0.2*	*-0.1*	*0.0*	*0.2*	*-0.2*	*-0.7*
Non-U.S. Equity	9,080	31%	-6.4	-1.7	4.8	3.5	8.2	3.5	-
MSCI World ex-U.S. (net dividends) Tobacco Free			-7.3	-3.3	3.8	2.7	7.5	2.8	-
Value Added			*0.9*	*1.6*	*1.0*	*0.8*	*0.7*	*0.7*	*-*
Emerging Market	4,537	15%	-13.4	-8.9	-3.6	-2.4	9.7	4.7	-
MSCI Emerging Market (net dividends)			-17.4	-14.9	-6.8	-4.8	7.5	3.6	-
Value Added			*4.0*	*6.0*	*3.2*	*2.4*	*2.2*	*1.1*	*-*



Public Equity Highlights

- Returns across major equity markets were all negative over the past six months with the global benchmark (MSCI ACWI IMI Index) down -5.2%. Emerging markets, China, small cap biotech stocks and small cap stocks were down the most. The correlated move across regions and low cross-sectional volatility created a difficult environment for active management.

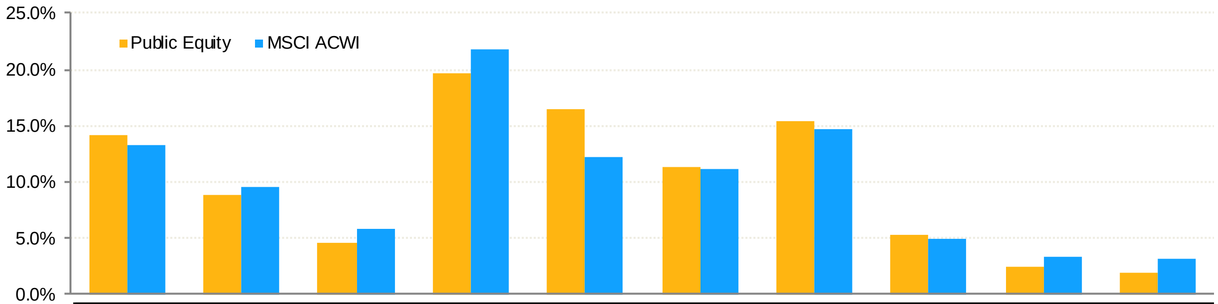
- We have been expecting higher than average equity valuations combined with rising risks would create an environment of low returns and higher volatility. So it is not surprising to see that we are transitioning from an abnormal period of extremely low volatility. Accordingly, risks across global equities are being re-priced during this transition phase.

- Ultimately, we expect this volatility to create investing opportunities, which it is beginning to do in select areas. We also expect the opportunity for active management to increase because differentiation amongst stocks increases at the end of cycles and near inflection points.

- Over the past six months, stock selection in the U.S. was the single largest detractor, particularly in the healthcare sector.

- The cumulative allocation effect of overweight and underweight positions across regions and sectors was approximately neutral to performance. Our underweight to energy was the largest contributor, whereas our overweight position to China was the largest detractor.

Sector Exposures



	Cons Disc	Cons Staples	Energy	Financials	Health Care	Industrials	Info Tech	Materials	Telecom	Utilities
Public Equity	14.1%	8.8%	4.6%	19.6%	16.5%	11.3%	15.5%	5.3%	2.4%	1.9%
MSCI ACWI	13.3%	9.5%	5.8%	21.8%	12.3%	11.2%	14.7%	4.9%	3.3%	3.2%
Active	*0.8%*	*-0.7%*	*-1.2%*	*-2.2%*	*4.2%*	*0.1%*	*0.8%*	*0.4%*	*-0.9%*	*-1.3%*

As of December 31, 2015

Highlights

Losses in the MSCI ACWI IMI Index were led by materials, energy and financials sectors.

Healthcare stock selection was the largest detractor over the past six months. Hospitals and healthcare insurers fell significantly more than the market due to anti-trust concerns and negative comments from presidential candidates during election primaries.

Consumer discretionary sector performed better than average, but our overweight was more than offset by poor stock selection.

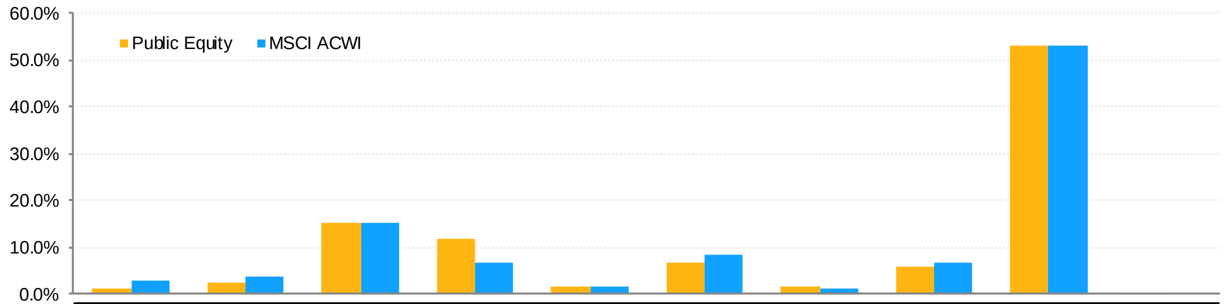
Underweight to energy sector was the largest contributor. While the energy sector has continued to fall significantly, we remain underweight as low commodity prices are not yet fully reflected in valuations. However, midstream energy infrastructure companies are beginning to look cheap.

Strong stock selection by our managers in the materials segment generated the second largest positive contribution relative to benchmark, despite headwinds in the sector.

As the financial sector sold off, we removed some of the underweight to financials because solid balance sheets, affordable valuations, and the prospect of rising rates in the U.S. may create tailwinds.

Public Equity – Regions

Regional Exposures



	Canada	Asia ex-JP	Europe ex-UK	Emerg Asia	Emerg EU	Japan	Latin Amer	UK	US	Rest of World
Public Equity	1.3%	2.5%	15.2%	12.0%	1.6%	6.7%	1.6%	5.9%	53.1%	0.1%
MSCI ACWI	2.8%	3.9%	15.5%	7.0%	1.5%	8.4%	1.1%	6.8%	53.0%	0.0%
Active	*-1.5%*	*-1.4%*	*-0.3%*	*5.0%*	*0.1%*	*-1.7%*	*0.5%*	*-0.9%*	*0.1%*	*0.1%*

As of December 31, 2015

Highlights

Overweight to China was a detractor with MSCI China down 20%. We anticipated that much higher than average values in the Shenzhen index, tech stocks, and small cap stocks would deflate, but did not expect a stock market crash due to margin fueled leverage. Superior stock selection by our managers mitigated losses.

At slightly over 2% of the MSCI ACWI, the index does not adequately reflect China as the second largest stock market in the world. Believe the recent crisis has created stock specific opportunities with active managers. However, continued missteps in equity market and currency policies continue to create uncertainty.

Underweight to Canada was the largest positive contributor to country allocation, primarily due to foreign exchange weakness.

While underweight to Japan was a slight positive contributor, we removed some of the underweight as the market sold off. Focus on corporate governance has strong potential to create value for active management, given large cash balances and ample free cash flow generation of companies.

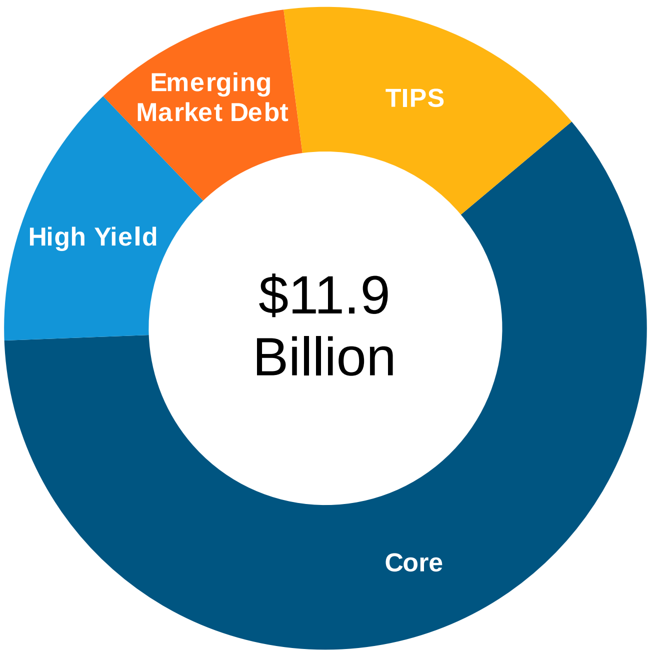
Public Equity – Characteristics

	Dividend Yield (%)	Dividend per Share	EPS	Price To Book Value	Price To Cash Earnings	Price To Earnings	Price To Sales	Payout Ratio	ROE
Public Equity	**2.17**	**1.48**	**4.94**	**2.09**	**11.35**	**19.47**	**1.30**	**23.10**	**21.63**
U.S. Equity	1.77	1.20	4.15	2.74	13.01	22.77	1.52	32.72	28.11
Non-U.S. Equity	3.03	2.08	4.44	1.57	9.16	16.94	1.03	15.63	16.80
EM Equity	2.20	1.03	7.08	1.79	10.00	15.62	1.23	26.12	16.38
MSCI ACWI	2.58	1.76	4.77	2.00	10.54	17.94	1.35	18.49	25.41
S&P 500	2.19	1.56	4.63	2.76	12.31	19.92	1.77	43.79	36.31
MSCI EM	2.80	1.09	7.12	1.23	7.91	11.73	0.96	45.69	15.94
MSCI ACWI ex U.S.	3.08	2.02	5.07	1.53	8.72	15.70	1.04	5.66	14.93

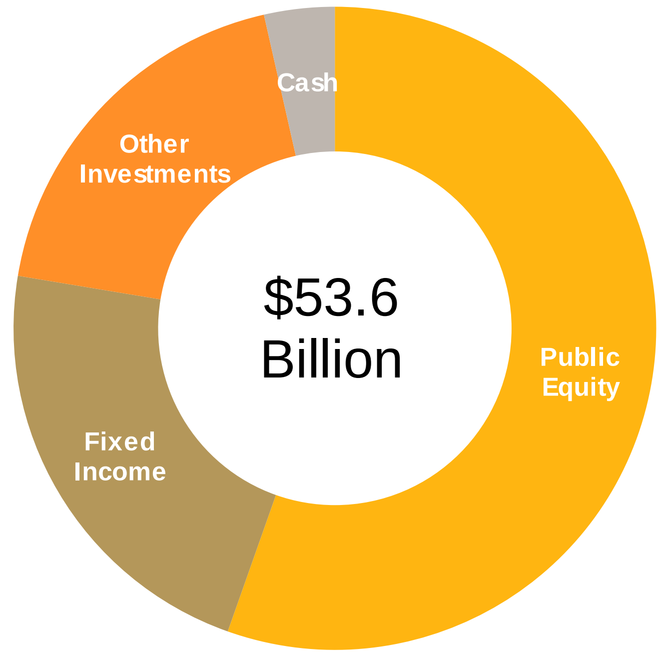
As of December 31, 2015

Fixed Income

Fixed Income



Pension

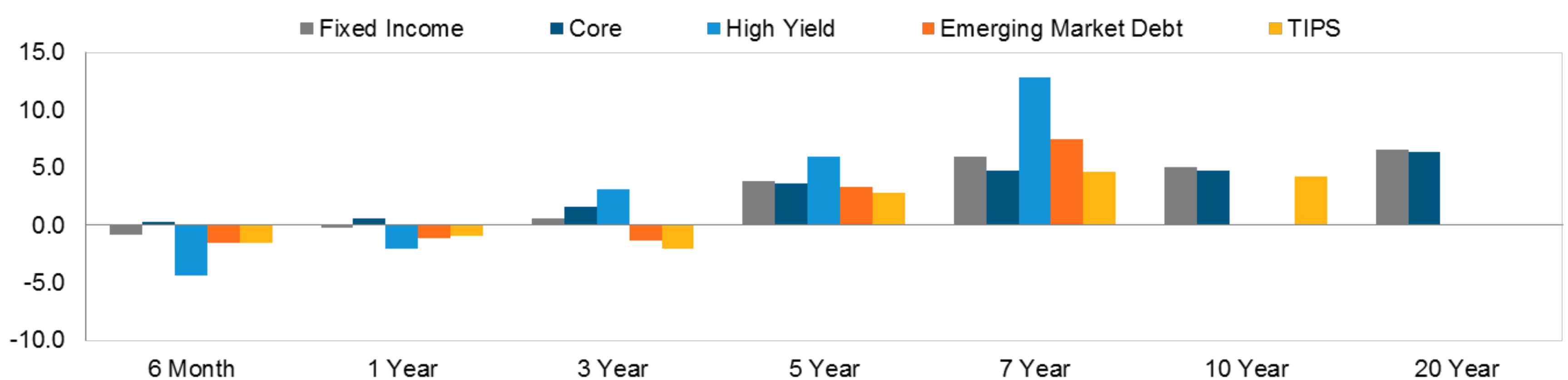


Core: 60% **$7.2B**	**High Yield: 13%** **$1.6B**	**Public Equity: 55%** **$29.7B**	**Fixed Income: 22%** **$11.9B**
Emerging Market Debt: 11% **$1.2B**	**TIPS: 16%** **$1.9B**	**Other Investments: 19%** **$10.1B**	**Cash: 4%** **$1.9B**

As of December 31, 2015

Fixed Income

Net Returns (%) As of December 31, 2015	Market Value ($ Million)	% Allocation	6 Month	1 Year	3 Year	5 Year	7 Year	10 Year	20 Year
				Annualized Returns					
Fixed Income	**11,942**	**100%**	**-0.8**	**-0.2**	**0.6**	**3.8**	**6.0**	**5.0**	**6.5**
Policy Benchmark			-0.9	-0.4	0.5	3.5	5.5	4.9	5.9
Value Added			*0.1*	*0.2*	*0.1*	*0.3*	*0.5*	*0.1*	*0.6*
Core	7,208	60%	0.3	0.6	1.6	3.6	4.7	4.7	6.4
Barclays U.S. Aggregate Bond Index			0.7	0.5	1.4	3.2	3.7	4.6	5.7
Value Added			*-0.4*	*0.1*	*0.2*	*0.4*	*1.0*	*0.1*	*0.7*
High Yield	1,602	13%	-4.4	-2.0	3.1	5.9	12.9	-	-
Merrill Lynch High Yield Cash Pay Index			-6.9	-4.6	1.6	4.8	12.5	-	-
Value Added			*2.5*	*2.6*	*1.5*	*1.1*	*0.4*	*-*	*-*
Emerging Market Debt	1,258	11%	-1.5	-1.1	-1.3	3.3	7.5	-	-
JP Morgan Emerging Markets Bond Index Global Diversified			-0.5	1.2	1.0	4.8	8.9	-	-
Value Added			*-1.0*	*-2.3*	*-2.3*	*-1.5*	*-1.4*	*-*	*-*
TIPS	1,874	16%	-1.5	-0.9	-2.0	2.8	4.6	4.2	-
Barclays U.S. TIPS			-1.8	-1.4	-2.3	2.5	4.3	3.9	-
Value Added			*0.3*	*0.5*	*0.3*	*0.3*	*0.3*	*0.3*	*-*



Fixed Income Highlights

- We continue to have a bias to higher rates, although we expect the Fed to be very gradual in the normalization of rates.

- We have trimmed our growth and inflation targets for 2016 due to a weaker than anticipated Chinese economy and lower than expected energy prices. As such, we expect the rate movement higher to be well contained.

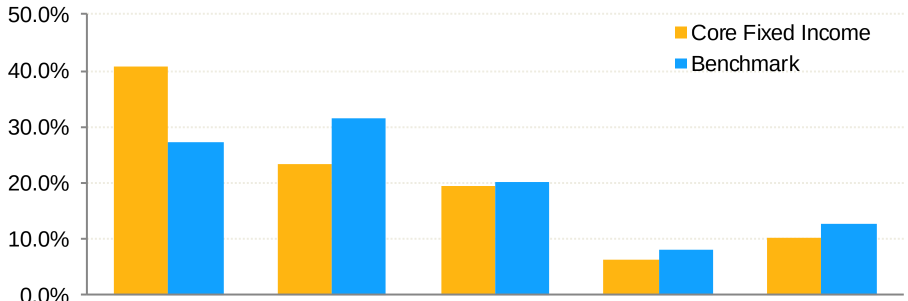
- We believe that an environment of slowly rising rates and 1.5% to 2% U.S. GDP growth will lead to spread product outperforming Treasuries on the carry advantage. With lower growth expectations and a Fed hiking cycle underway, volatility can be expected and credit selection will be critical.

- The High Yield market has sold off considerably, however, excluding the commodities sectors, we believe High Yield will continue to benefit from a slow growth economy and the higher yield now offered across the market.

- The start of 2016 has not been great for the U.S. inflation outlook with energy futures declining sharply, the U.S. dollar rising and concerns over global growth, particularly China hitting equities. Break-Even inflation rates have been trading like a risk asset and are down modestly since year end. We continue to believe that U.S. break-evens offers structural value and are likely to bounce if other markets stabilize.

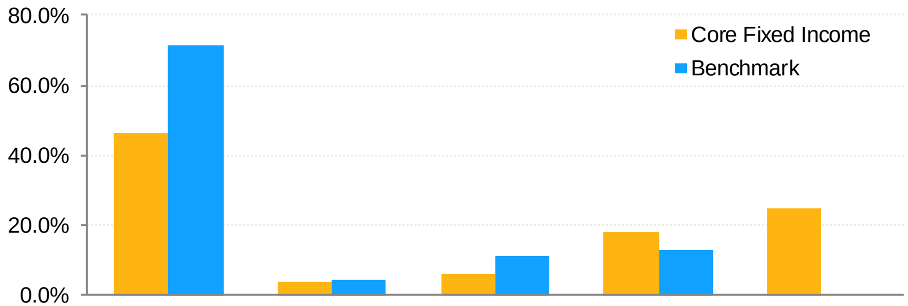
Fixed Income – Core

Summary of Duration Buckets



	0 to 3	3 to 5	5 to 7	7 to 10	10 to +INF
Core Fixed Income	40.7%	23.3%	19.6%	6.3%	10.2%
Benchmark	27.4%	31.7%	20.1%	8.1%	12.7%
Active	*13.3%*	*-8.4%*	*-0.5%*	*-1.8%*	*-2.5%*

Summary of Credit Rating



	AAA	AA	A	BBB	BB or lower
Core Fixed Income	46.6%	3.9%	6.3%	18.1%	25.1%
Benchmark	71.5%	4.4%	11.4%	12.7%	0.0%
Active	*-24.9%*	*-0.5%*	*-5.1%*	*5.4%*	*25.1%*

As of December 31, 2015

Highlights

Core Fixed Income is positioned short of benchmark duration.

Curve exposure is weighted to the front end of the curve and underweight the long-end of the curve.

The portfolio is underweight Treasury securities and overweight spread product – investment grade credit and structured product.

The spread product overweight leaves the portfolio underweight high quality AAA government and Agency securities and overweight lower credit quality.

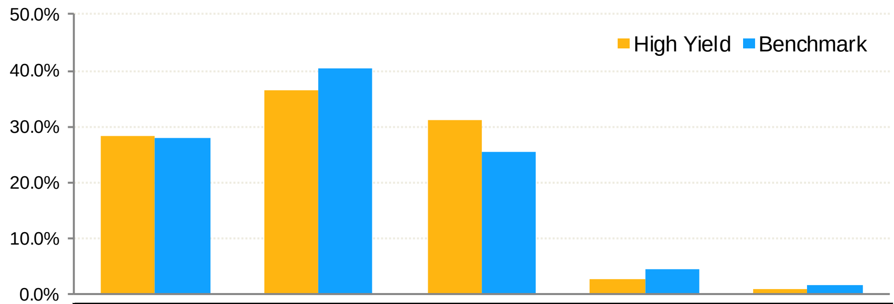
The underweight to Treasury securities detracted from performance as government returns were higher than returns of corporate bonds.

The underperformance due to the Treasury underweight was offset by outperformance in the credit and collateral portfolios.

The out-of-benchmark allocation to unconstrained fixed income detracted from performance due to very short duration and long credit exposure.

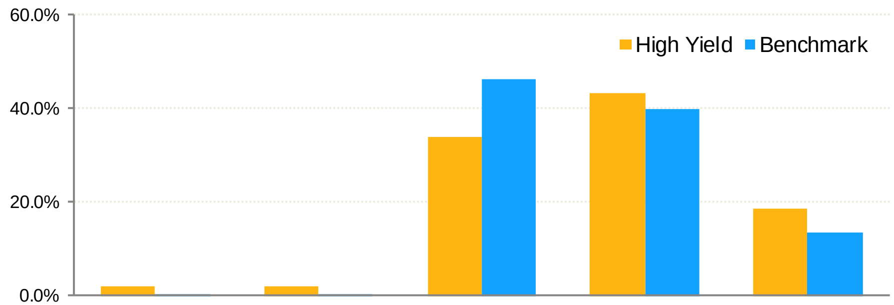
Fixed Income – High Yield

Summary of Duration Buckets



	0 to 3	3 to 5	5 to 7	7 to 10	10 to +INF
High Yield	28.4%	36.5%	31.2%	2.9%	1.0%
Benchmark	28.0%	40.3%	25.5%	4.5%	1.6%
Active	*0.4%*	*-3.8%*	*5.7%*	*-1.6%*	*-0.6%*

Summary of Credit Rating



	AAA to A	BBB	BB	B	CCC or lower
High Yield	2.1%	1.9%	34.1%	43.4%	18.5%
Benchmark	0.1%	0.2%	46.2%	39.8%	13.7%
Active	*2.0%*	*1.7%*	*-12.1%*	*3.6%*	*4.8%*

As of December 31, 2015

Highlights

High yield is positioned in-line with the benchmark on overall duration with slightly less exposure to the longer end of the high yield curve.

Management is split approximately 55% external and 45% internal.

Internal performance added significant value through security selection, a significant underweight to energy, metals, and mining, as well as a focus on higher quality B/BB rated securities which outperformed CCC's. We are positioned in stronger credits with less overall yield than the benchmark. This continues to enhance relative returns as higher quality continues to outperform lower quality.

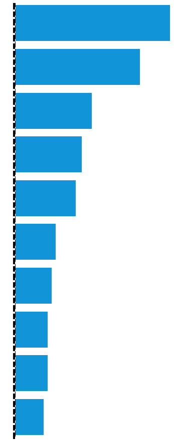
External managers have outperformed fiscal year-to-date and contributed to value added. Managers have generally repositioned portfolios over the past six months to reduce energy exposure and improve overall credit quality.

Given the selloff in High Yield and our expectations for a benign default scenario ex-energy, we believe there is value in the high yield market. Fundamental credit research and security selection will be the key to success in a volatile and at times illiquid market.

Fixed Income – Emerging Debt

Top 10 Country Exposures

United States	3.9%
Mexico	3.1%
Indonesia	1.9%
Hungary	1.7%
Colombia	1.5%
Slovenia	1.0%
Romania	0.9%
Dominican Republic	0.8%
Philippines	0.8%
Croatia	0.7%



Bottom 10 Country Exposures

Azerbaijan	-0.6%
Pakistan	-0.8%
India	-0.8%
Jamaica	-0.8%
China	-1.7%
Argentina	-1.9%
Malaysia	-2.2%
Lebanon	-2.6%
Ukraine	-2.7%
Russia	-2.8%

As of December 31, 2015

Highlights

The Emerging Market Debt portfolio is positioned short of benchmark duration and higher in credit quality.

Due to concerns about ramifications of the commodity sector on Emerging Market countries, the portfolio ended the quarter with over 4% cash and another 4% invested in U.S. high yield securities as a substitute for Emerging Market sovereigns.

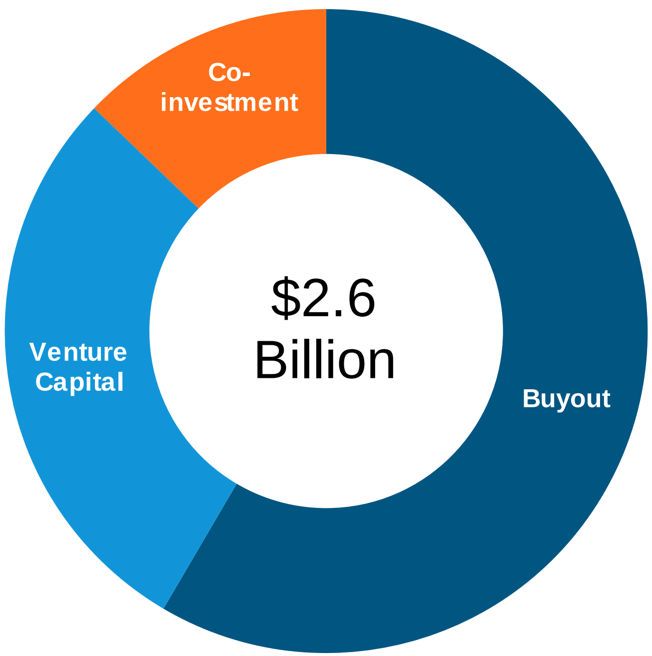
The portfolio is overweight to Mexico, Indonesia, and Hungary.

Significant underweights include Russia, Lebanon, and Ukraine.

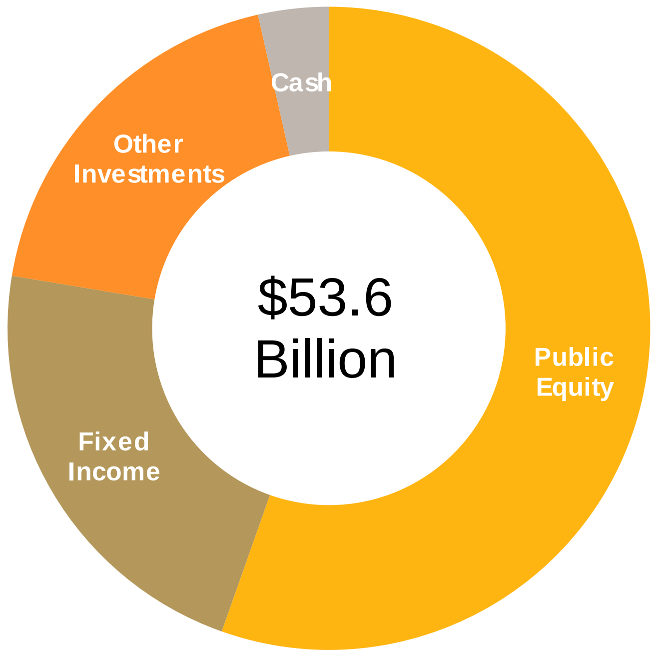
We believe that emerging markets will continue to be volatile and struggle to adjust to lower commodity prices, a strong U.S. dollar and a drawdown of liquidity.

Private Equity

Private Equity



Pension

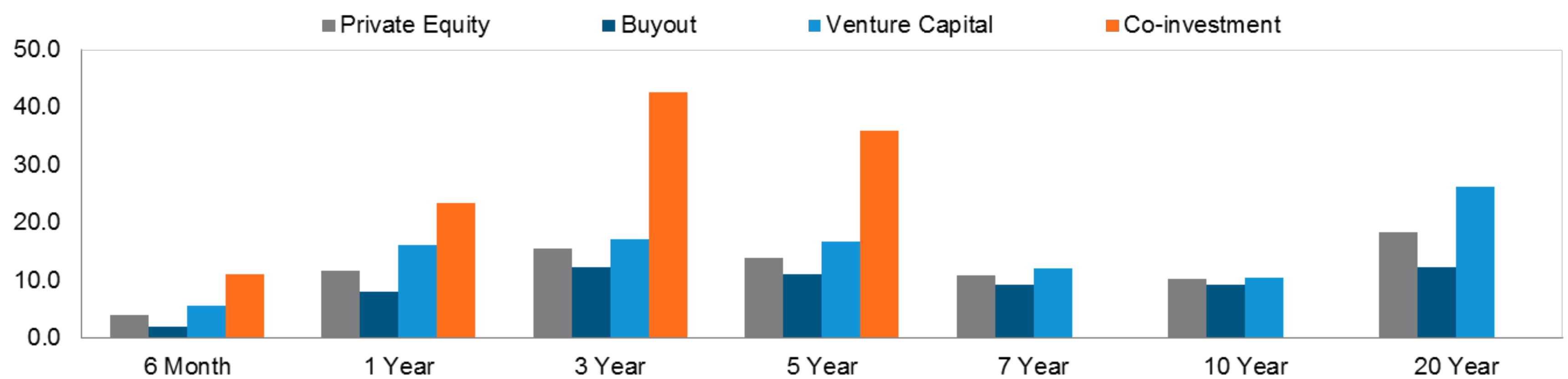


Buyout: 58% **$1.5B**	**Venture Capital: 29%** **$0.8B**	**Public Equity: 55%** **$29.7B**	**Fixed Income: 22%** **$11.9B**
Co-investment: 13% **$0.3B**		**Other Investments: 19%** **$10.1B**	**Cash: 4%** **$1.9B**

As of December 31, 2015

Private Equity

Net Returns (%) As of December 31, 2015	Market Value ($ Million)	% Allocation	6 Month	1 Year	3 Year	5 Year	7 Year	10 Year	20 Year
			Annualized Returns						
Private Equity	**2,639**	**100%**	**4.0**	**11.7**	**15.6**	**14.0**	**10.8**	**10.2**	**18.4**
Actual Private Equity Returns			4.0	11.7	15.6	14.0	10.8	10.2	18.4
Value Added			*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Buyout	1,542	58%	1.9	8.0	12.4	11.2	9.3	9.3	12.4
Venture Capital	758	29%	5.7	16.1	17.1	16.7	12.1	10.4	26.3
Co-investment	339	13%	11.1	23.4	42.6	35.9	-	-	-



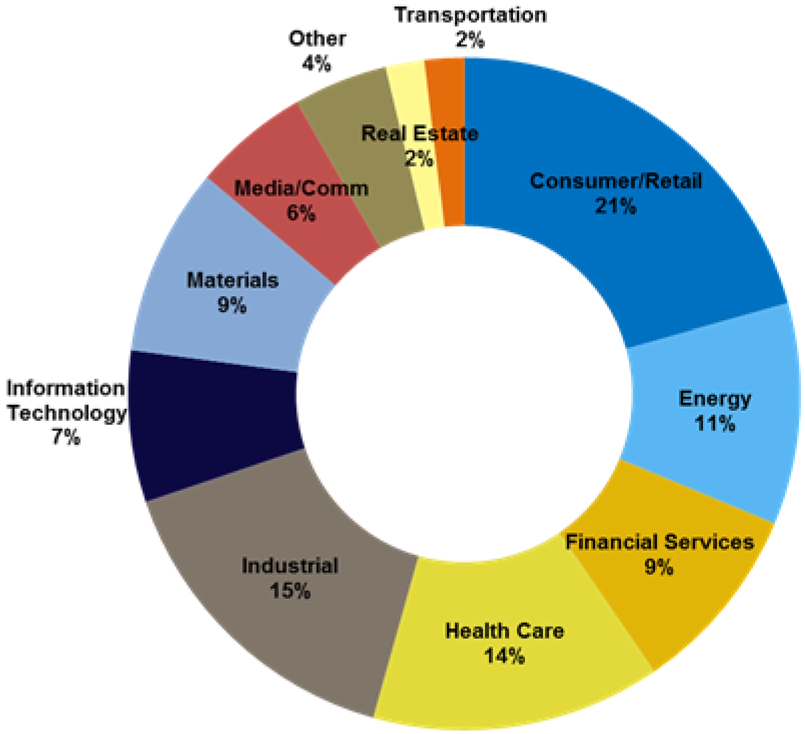
Private Equity

Performance and Attribution

- Major risk exposures and positioning have a structural bias toward growth with emphasis on single company risk exposures:
    - Key sector exposures continue to be Healthcare, Information Technology and Consumer
- Reallocated portfolio in November concentrating the portfolio in less than 30 managers and far fewer line items which improves risk management through concentration and idiosyncratic risk.
- Generated strong performance with an 11.7% return for the year through contributions from all segments, but led by co-investment returns:
    - Co-investments were the strongest contributor with a 23.4% return for the year
    - Venture Capital was also a strong contributor at 16.1% for the year
    - Buyouts contributed 8.0% for the year
- Generated more than $575 million of cash flow in 2015:
    - Received distributions of almost $1.2 billion
    - Invested almost $0.6 billion

Private Equity – Buyout

Buyout - Industry Exposures



As of September 30, 2015

Highlights

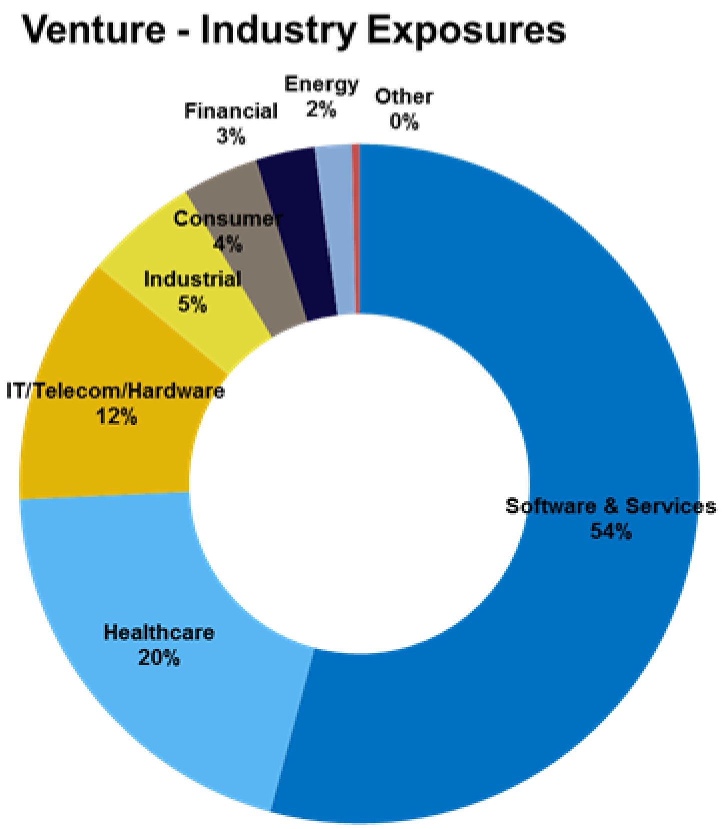
Buyout returns were 8.0% for the year.

Buyout exposure of $1,542 million represents approximately 58% of Private Equity and 3.0% of the overall portfolio.

The buyout market benefitted from robust Merger & Acquisition activity and numerous indicators signal that we are in a frothy market environment:

- Debt/EBITDA multiples average 5.7x, down slightly from 5.9x in 2014
- Purchase price multiples now average 10.3x, up from 9.7x in 2014

Private Equity – Venture



As of September 30, 2015

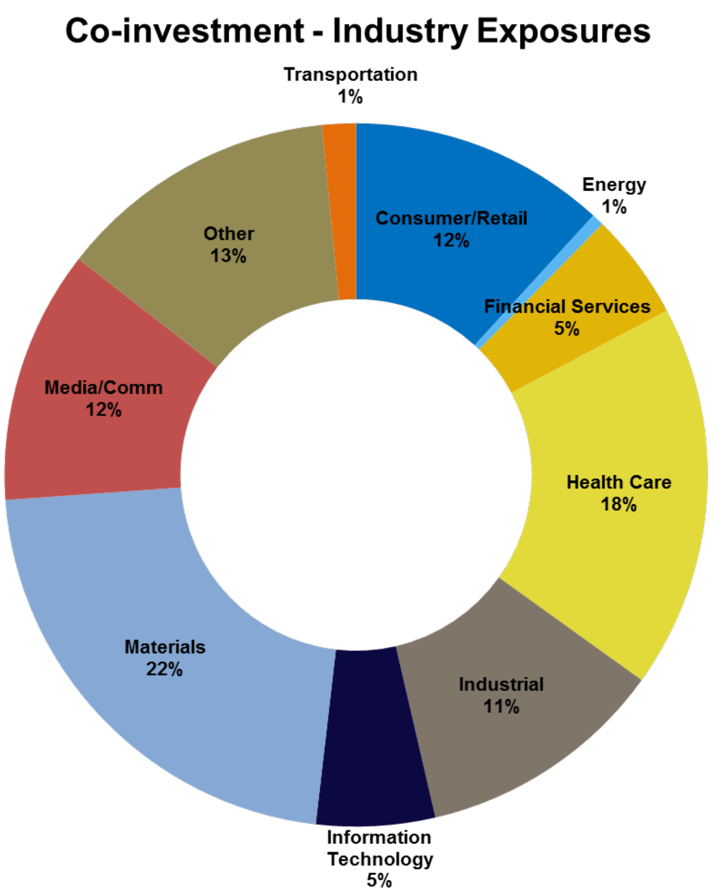
Highlights

Venture returned 16.1% for the year.

Venture exposure of $758 million represents approximately 29% of Private Equity and 1.4% of the overall retirement plan.

We significantly reduced exposure to China and Tech-focused managers.

Private Equity – Co-Investment



As of September 30, 2015

Highlights

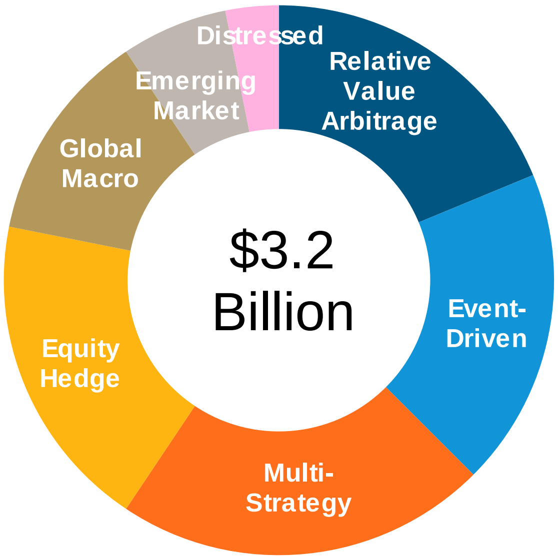
Co-investments returned 23.4% for the year.

Co-investment exposure of $339 million represents approximately 13% of Private Equity and 1% of the overall retirement plan.

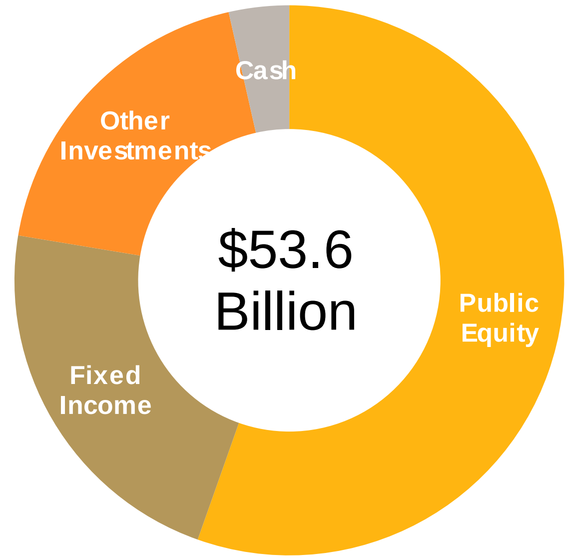
Co-Investment portfolio consists of 23 investments with an average age of 2.4 years since investment.

Absolute Return

Absolute Return



Pension



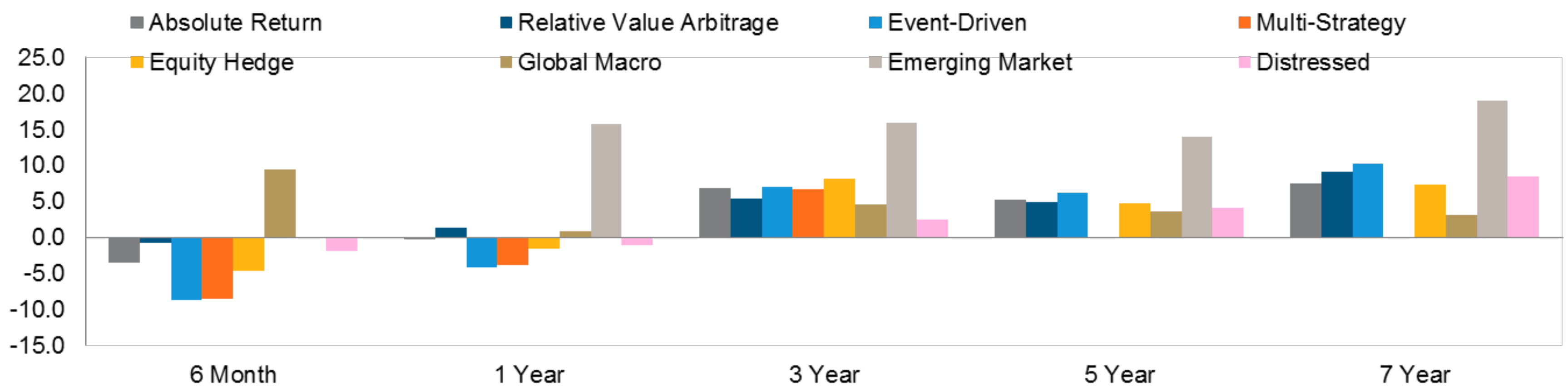
Relative Value Arbitrage: 19% **$0.6B**	**Event-Driven: 19%** **$0.6B**
Multi-Strategy: 21% **$0.7B**	**Equity Hedge: 18%** **$0.6B**
Global Macro: 13% **$0.4B**	**Emerging Market: 6%** **$0.2B**
Distressed: 4% **$0.1B**	

Public Equity: 55% **$29.7B**	**Fixed Income: 22%** **$11.9B**
Other Investments: 19% **$10.1B**	**Cash: 4%** **$1.9B**

As of December 31, 2015

Absolute Return

Net Returns (%) As of December 31, 2015	Market Value ($ Million)	% Allocation	6 Month	1 Year	3 Year (Annualized Returns)	5 Year (Annualized Returns)	7 Year (Annualized Returns)
Absolute Return	**3,205**	**100%**	**-3.5**	**-0.3**	**6.7**	**5.1**	**7.5**
50% HFRX Absolute Return Index + 50% HFRX Market Directional Index			-5.1	-2.9	2.1	-0.7	1.7
Value Added			*1.6*	*2.6*	*4.6*	*5.8*	*5.8*
Relative Value Arbitrage	623	19%	-0.8	1.4	5.4	4.8	9.1
Event-Driven	597	19%	-8.7	-4.1	7.0	6.2	10.2
Multi-Strategy	658	21%	-8.5	-3.8	6.6	-	-
Equity Hedge	579	18%	-4.6	-1.7	8.1	4.7	7.2
Global Macro	430	13%	9.4	0.9	4.5	3.6	3.1
Emerging Market	181	6%	-0.2	15.6	15.8	13.9	18.9
Distressed	137	4%	-1.8	-1.2	2.4	4.1	8.5



Absolute Return Highlights

- The first half of the fiscal year was a notable period for markets; scores of assets registered outsized moves and a number of anomalous events were observed. Absolute return strategies were challenged in this environment.
- Risk positioning, crowding, exogenous and idiosyncratic events all culminated in a perfect storm.
- While markets rebounded during the second quarter of the fiscal year, it was not enough to recoup the losses from the first quarter. Similarly, absolute return strategies were not able to recoup fully their losses from the prior period.
- Nonetheless, for the trailing 3 years, the Absolute Return portfolio returned 6.7%, outpacing its benchmark by 460 basis points despite the recent challenging half.
- Nonetheless, the team will take this opportunity to reposition the portfolio and reduce its vulnerability to risk-off market environments:
  - Focusing on adding strategies with modest correlations to stocks and bonds.

Absolute Return – Investment Strategies

As of December 31, 2015

Highlights

After beginning the fiscal year with relatively aggressive positioning, equity hedge and event driven strategies dramatically de-risked, reducing both leverage and net exposures. Crowded sectors and trades bore the brunt of this unwind.

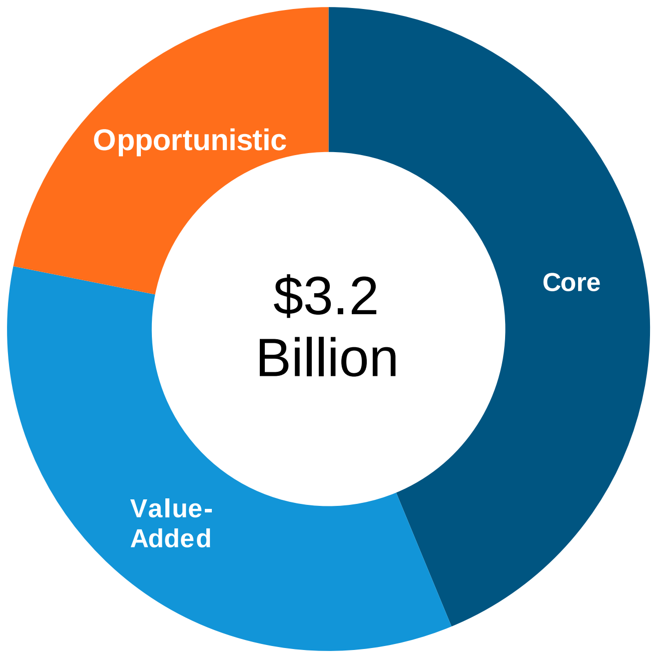
Relative value managers took advantage of technical dislocations in structured credit to add to risk. Overall, relative value managers managed the volatility well and were modestly down during the half.

Macro managers benefitted the most during this period of volatility and in particular from their positioning in select commodities within the energy and metals complexes as well as in currencies and rates.

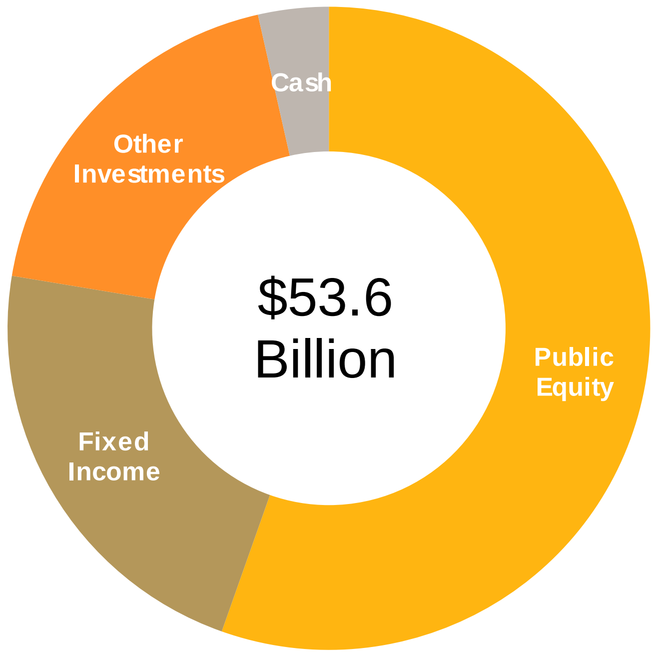
Distressed investors are beginning to find opportunities on both the short and long side of the ledger.

Real Estate

Real Estate



Pension

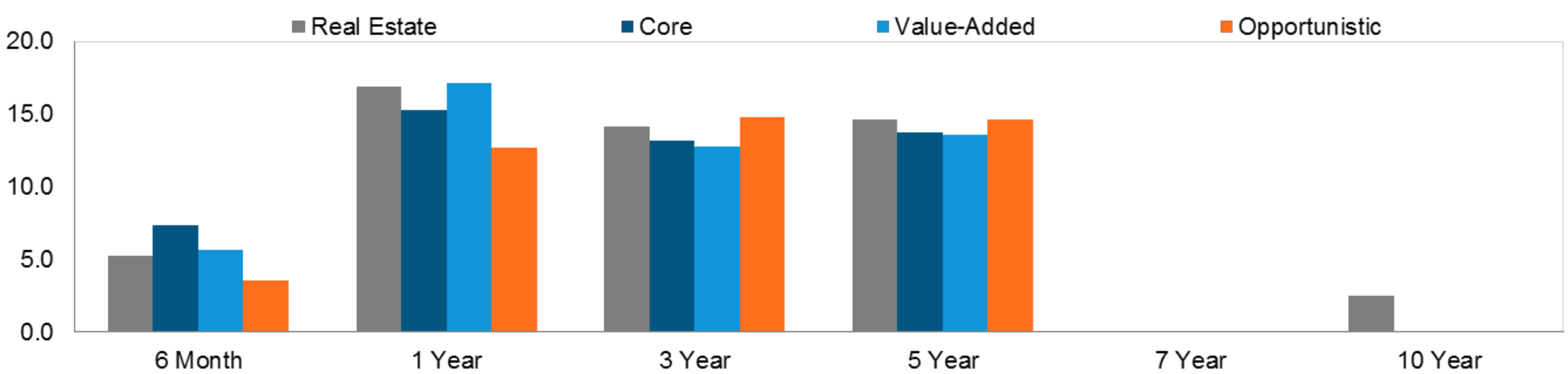


Core: 44% **$1.4B**	**Value-Added: 33%** **$1.1B**	**Public Equity: 55%** **$29.7B**	**Fixed Income: 22%** **$11.9B**
Opportunistic: 23% **$0.7B**		**Other Investments: 19%** **$10.1B**	**Cash: 4%** **$1.9B**

As of December 31, 2015

Real Estate

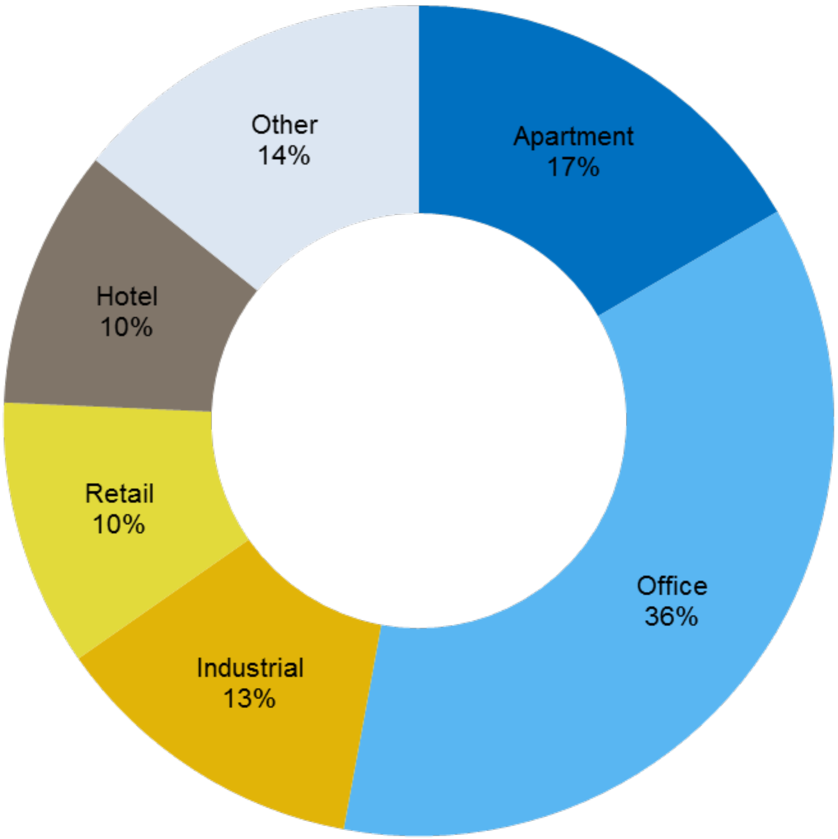
Net Returns (%) As of December 31, 2015	Market Value ($ Million)	% Allocation	6 Month	1 Year	3 Year	5 Year	7 Year	10 Year
					Annualized Returns			
Real Estate	**3,237**	**100%**	**5.3**	**16.9**	**14.2**	**14.6**	**0.1**	**2.5**
NCREIF Funds Index-Open End Diversified Core Equity Index (lagged 3 months)			7.1	14.0	12.5	13.3	0.0	2.2
Value Added			*-1.8*	*2.9*	*1.7*	*1.3*	*0.1*	*0.3*
Core	1,414	44%	7.3	15.3	13.2	13.7	-	-
Value-Added	1,089	33%	5.7	17.1	12.8	13.6	-	-
Opportunistic	734	23%	3.5	12.7	14.8	14.6	-	-



Real Estate Highlights

- **Real estate market fundamentals continue to be strong**. However, real estate valuations may be vulnerable if a capital market correction occurs.
- **Core investments posted the strongest performance** with continued rent growth and increased occupancies. Foreign and domestic investors' demand for stabilized properties continues to drive pricing appreciation.
- The **separate account portfolio continues to deliver the highest returns on an annual basis** as value creation strategies were completed resulting in higher rents and occupancies, and asset value appreciation.
- **Dispositions** – Strategic sale of assets continued to harvest gains from value creation activities in the past 2-3 years.
- **Acquisitions** – Being very selective in acquiring assets in major markets will be critical in building the portfolio further.

Real Estate – Type



As of December 31, 2015

Highlights

Portfolio is well diversified by property type with office as largest, comprising a third of the portfolio

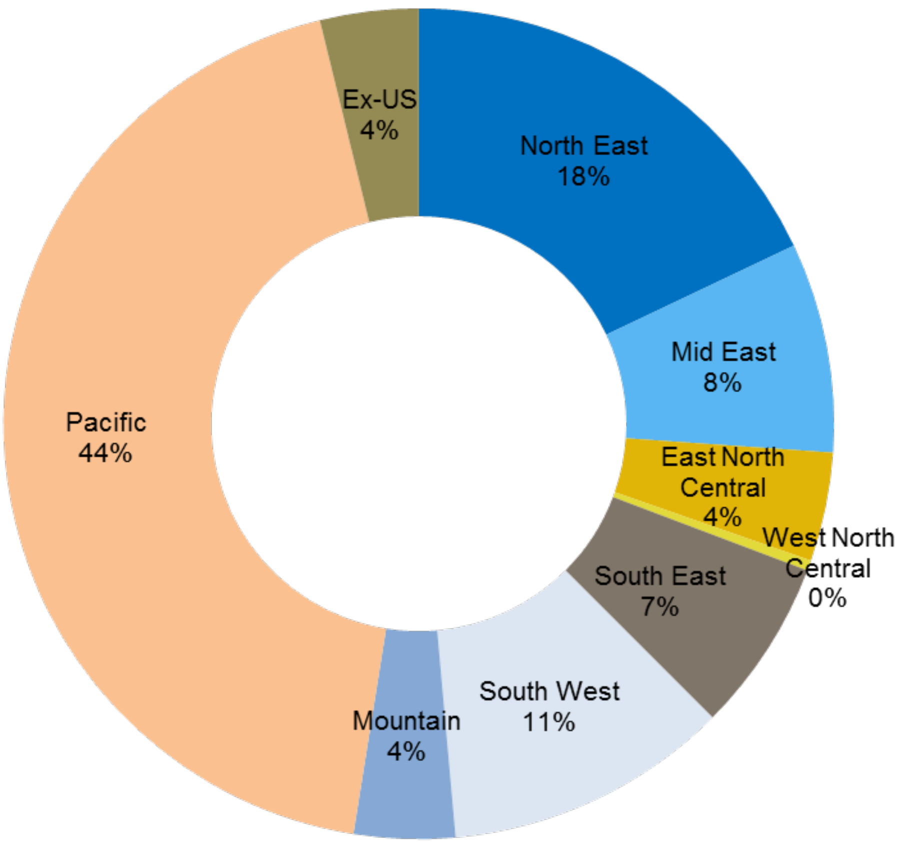
All property types had rising occupancies for the quarter with industrial as the highest (95%) followed by multi-family (94.4%).

Industrial was the strongest performing sector for the 2nd quarter in a row with 3.67% total return. Fundamental conditions on the demand side for warehouses of all sizes continue to be healthy nationwide. Office sector fundamentals strengthened due to sustained private sector office-using employment growth which is now above 2008 peak with national vacancy also at its lowest level since 3Q08.

U.S. multi-family sector fundamentals continue to be stronger than expected given a wave of new deliveries with overall effective rent levels at an all-time high across major markets. Multi-family demand largely stems from recovering household formation, favorable demographics, and improved labor market.

Retail fundamentals continue steadily across most segments. The consumer spending outlook for the next 6 months is positive, depending largely on the stability of financial markets and discretionary income. New supply and redevelopment of neighborhood/community centers remain at very low levels.

Real Estate – Region



As of December 31, 2015

Highlights

The portfolio is well diversified by region, with the Pacific region at 44% of the portfolio. This strategic overweight reflects the compelling rental and value growth opportunities in the region's diversified key metropolitan areas, including Los Angeles, San Diego, San Francisco, Seattle, Silicon Valley, and the Inland Empire.

San Diego is benefitting from bio-tech growth (human genome – bioresearch), San Francisco, Seattle, and San Jose are benefitting from growth in digital and related technology, and Seattle has been transformed by e-commerce.

After a significant slowdown of new construction and healthy employment figures, all property sectors are reporting vacancy rates near, or below their respective ten-year averages. With the exception of apartments, market supply and demand appear balanced. In apartments, construction is at levels exceeding the typical averages in several markets. A rise in vacancy rates and modestly increasing or flattening rents in these metropolitan areas may arise. This could be a potential problem for Houston, Washington DC, Denver, Atlanta, and Los Angeles. But apartment markets such as Denver, Oakland, Orange County, and San Francisco are expected to have strong growth in the near term.

Cities with exposure to the three key industries driving the U.S. economy (technology, housing, and healthcare) have out-performed the nation and attracted significant capital. Denver, New York, San Francisco, and Seattle are among these markets.

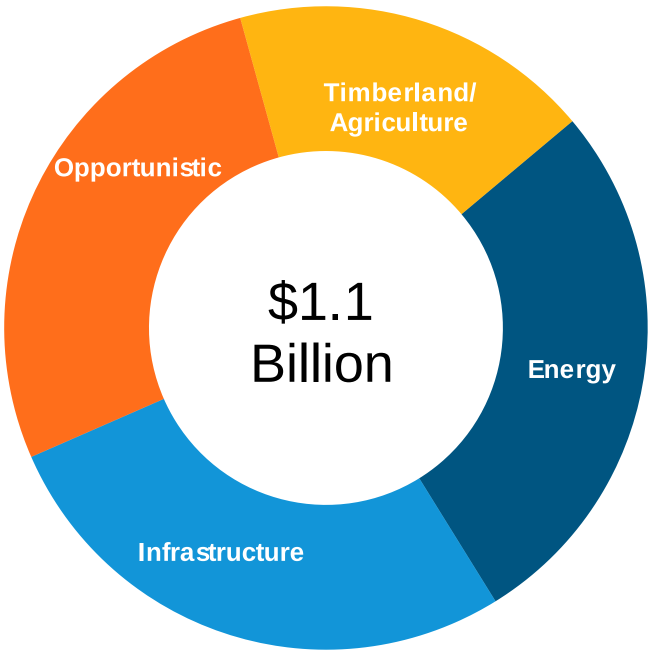
Pricing remains highly competitive for core or stabilized real estate in top-tier markets. Year-over-year percentage change in employment has been strongest in the top-tier markets of San Jose, San Francisco, Austin, Dallas, Orlando, and the Inland Empire.

The impact of contraction in the energy sector is apparent in Houston. After leading all Metropolitan Statistical Areas ("MSA") in average gross job growth for the past ten years, Houston placed last in growth among the 20 largest MSAs this past year.

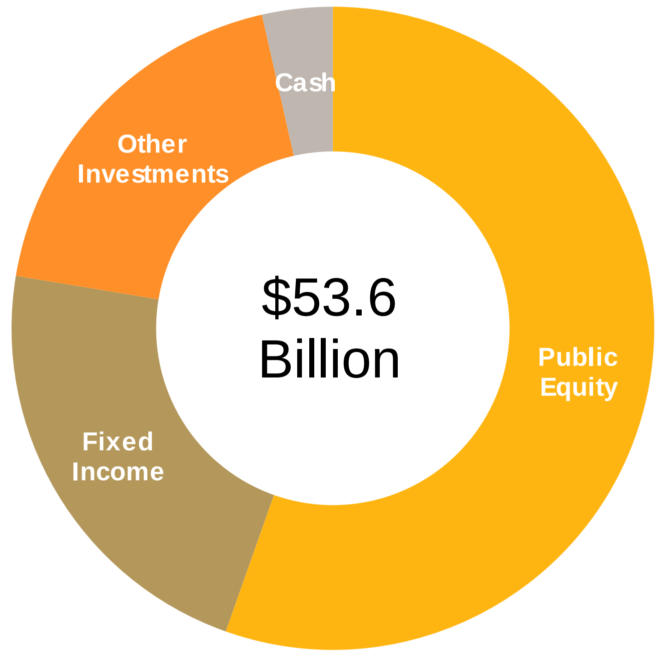
Strong domestic capital flows, as well as foreign investment in commercial real estate focused on rule-of-law countries like the U.S., UK, Canada, and Australia, tempered by the stronger U.S. dollar , slowdown in China and emerging markets, continue to put upward pricing pressure on asset values and are keeping cap rates at historical lows in many markets.

Real Assets

Real Assets



Pension

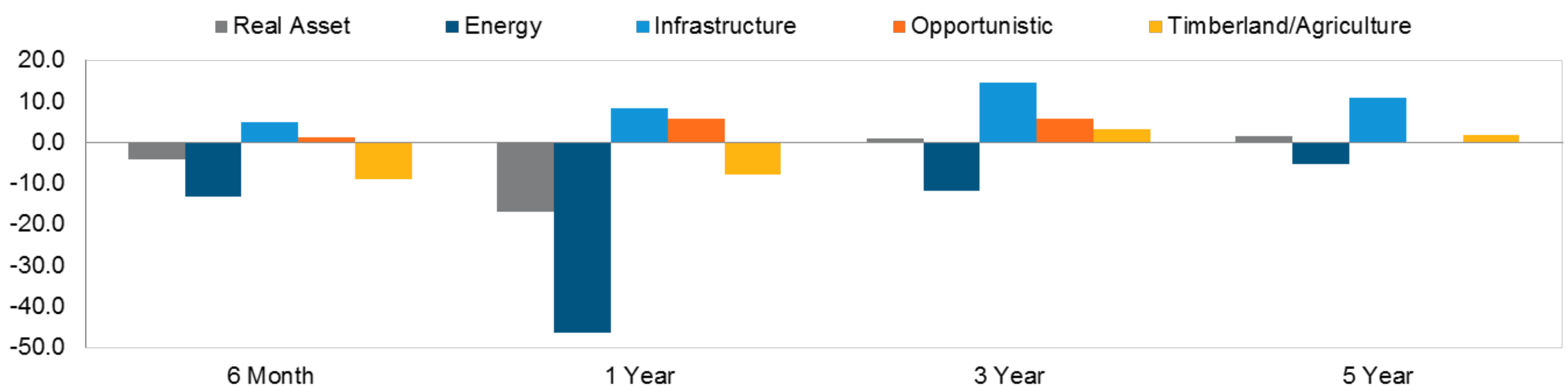


Energy: 28% **$0.3B**	**Infrastructure: 31%** **$0.3B**	**Public Equity: 55%** **$29.7B**	**Fixed Income: 22%** **$11.9B**
Opportunistic: 27% **$0.3B**	**Timberland/Agriculture: 14%** **$0.2B**	**Other Investments: 19%** **$10.1B**	**Cash: 4%** **$1.9B**

As of December 31, 2015

Real Assets

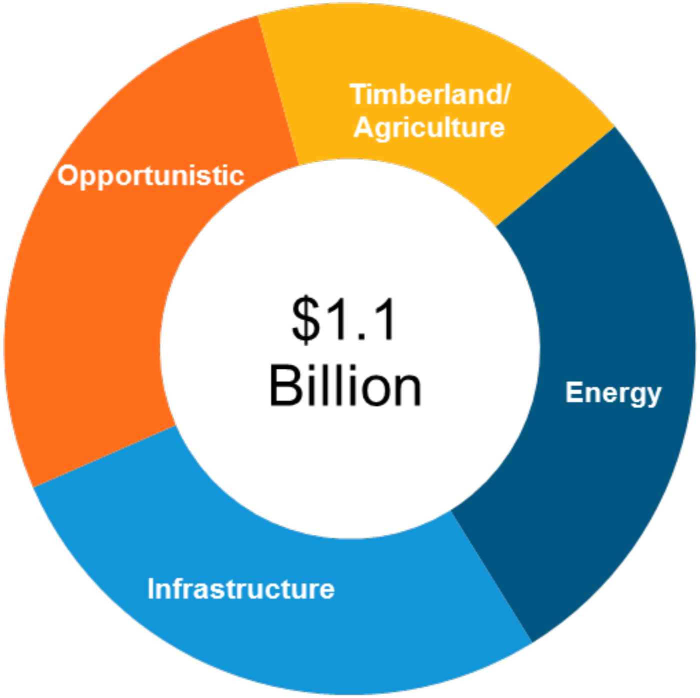
Net Returns (%) As of December 31, 2015	Market Value ($ Million)	% Allocation	6 Month	Annualized Returns 1 Year	3 Year	5 Year
Real Asset	**1,077**	**100%**	**-4.3**	**-16.8**	**0.9**	**1.5**
S&P GSCI Reduced Energy Index for Commodities: Actual Portfolio Returns for Others			-3.7	-17.6	-1.3	0.0
Value Added			*-0.6*	*0.8*	*2.2*	*1.5*
Energy	302	28%	-13.1	-46.3	-11.9	-5.4
Infrastructure	335	31%	4.8	8.3	14.6	10.8
Opportunistic	291	27%	1.3	5.6	5.8	-
Timberland/Agriculture	149	14%	-9.0	-7.8	3.2	1.7



Real Assets Highlights

- The Real Assets portfolio returned 0.9% annualized over the past 3 years, outpacing the benchmark by 2.2%.
- Positive returns from Infrastructure, Opportunistic and Timber where offset by weakness in Upstream Energy.
- Commodities had an extremely challenging year in 2015 across all segments:
    - Oil prices declined more than 30% while Natural Gas prices also declined more than 20% in 2015 and both commodities continue to show weakness
    - Non-Precious Metals declined more than 25% for the year
    - Agricultural commodities declined more than 10% during 2015

Real Assets – Investment Strategies



As of December 31, 2015

Highlights

The portfolio continues to be heavily weighted towards natural resources which include oil & gas exploration and production and opportunistic mining investments.

Upstream Energy exposure represents about 1/3 of the portfolio and has been severely impacted by oil prices declining more than 30% in 2015 and natural gas prices falling more than 20% in 2015.

Midstream Energy exposure represents about 10% of the portfolio and has maintained positive performance despite the challenging commodity price environment.

Geographically, 75% of co-investments and funds are targeting North American opportunities or have North American exposure, partially driven by the energy focus.

Opportunistic strategies focused on agricultural credit, mine finance and drug royalties have shown resilience and downside protection in the current low commodity environment.

Policy Benchmark

Pension Policy Benchmark

Asset Class	Benchmark Component	Target	Ranges
Total Public Equity		**54.92%**	
U.S. Equity	Russell 3000 Tobacco Free Index	24.09%	+/-5%
Developed Equity	MSCI World ex-U.S. (net dividends) Tobacco Free	15.03%	+/-5%
Emerging Market Equity	MSCI Emerging Market (net dividends)	6.99%	+/-2%
Opportunistic Equity	MSCI All Country World Index (net dividends)	8.81%	+/-3%
Total Fixed Income		**22.28%**	
U.S. Core Fixed Income	Barclays U.S. Aggregate Bond Index	12.44%	+/-3%
High Yield Debt	Merrill Lynch High Yield Cash Pay Index	2.59%	+/-1%
Emerging Market Debt	JP Morgan Emerging Markets Bond Index Global Diversified	2.59%	+/-1%
TIPS	Barclays U.S. TIPS	4.66%	+/-2%
Total Other Investments		**22.80%**	
Absolute Return	50% HFRX Absolute Return Index + 50% HFRX Market Directional Index	6.22%	+/-5%
Private Equity	Actual Private Equity Returns	8.03%	+/-3%
Real Estate (Private)	NCREIF Funds Index-Open End Diversified Core Equity Index (lagged 3 months)	5.44%	+/-3%
Real Assets	Commodities: S&P GSCI Reduced Energy Index; All other: Actual Real Assets Portfolio Returns	3.11%	+/-1%