UNIVERSITY OF CALIFORNIA

Office of the Chief Investment Officer

Short Term

Investment Review as of March 31, 2016

May 2016

Growing Portfolios Building Partnerships

UC Investments

The investment objective of the Short Term Investment Pool ("STIP") is to maximize returns consistent with safety of principal, liquidity, and cash-flow requirements.

STIP investments managed by the Office of the Chief Investment Officer include a broad spectrum of high quality money-market and fixed-income instruments with a maximum maturity of five-and-a-half years.

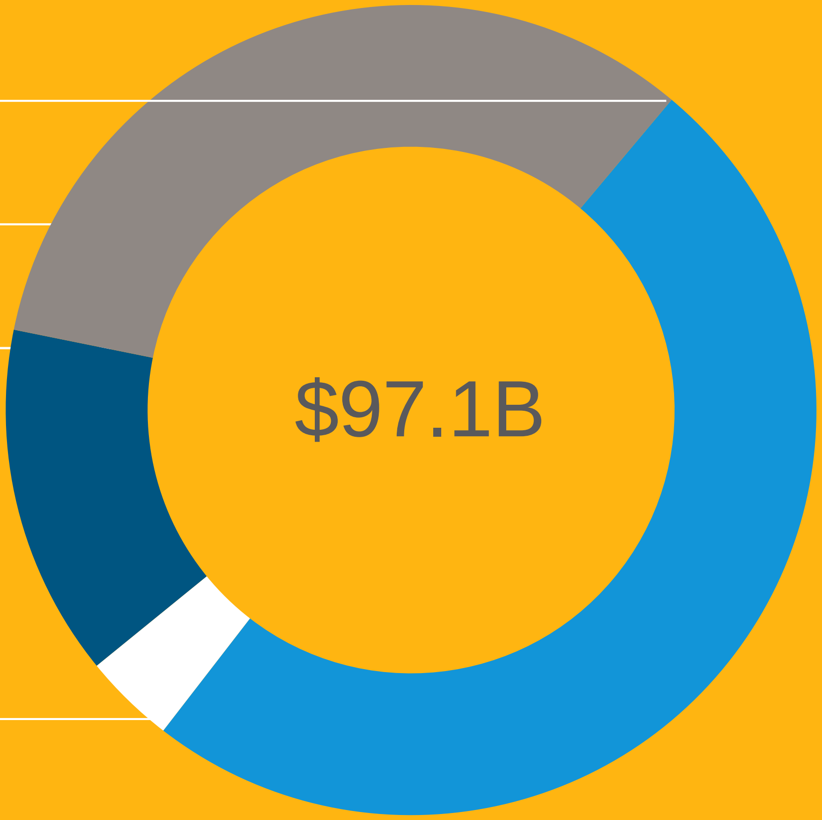
Investment maturities are structured to ensure an adequate flow of funds to meet the University's cash needs as well as to provide the liquidity needed to facilitate asset class rebalancing and other major liquidity events.

Delivering value through values.

Our Products

As of March 31, 2016

●	Public Equity: $48.0B	49%
●	Fixed Income: $31.9B	33%
●	Other Investments: $13.7B	14%
	Absolute Return: $4.7B	5%
	Private Equity: $4.1B	4%
	Real Estate: $3.7B	4%
	Real Asset: $1.2B	1%
●	Cash: $3.5B	4%
	$97.1 Billion	**100%**

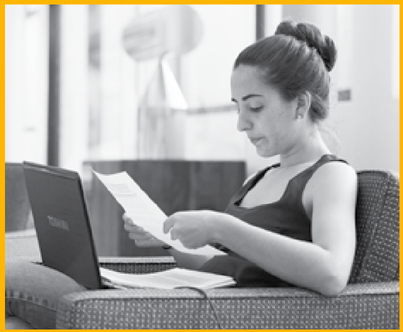


Delivering value through values.

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.

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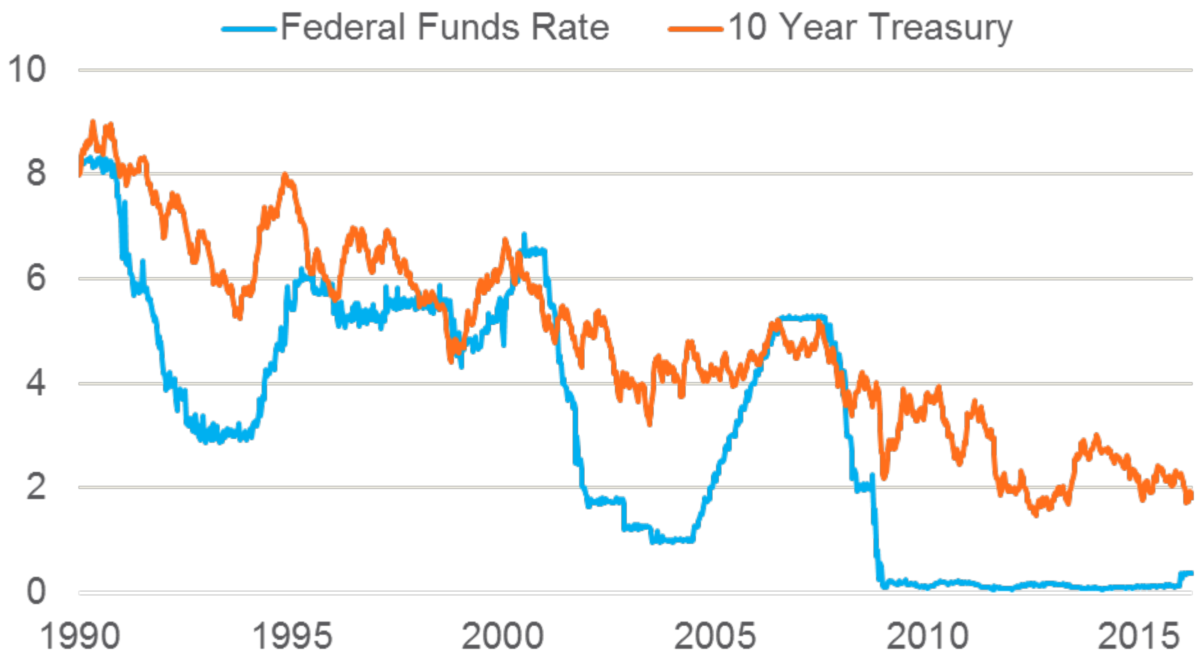
Market Review

Funding Rates

Decades of Declining Rates



Highlights

Treasury yields fell during the quarter as market expectations of a second Federal Reserve rate hike diminished. On March 16, 2016 the Federal Reserve held the Fed Funds target steady following the first hike in nearly 10 years in December 2015.

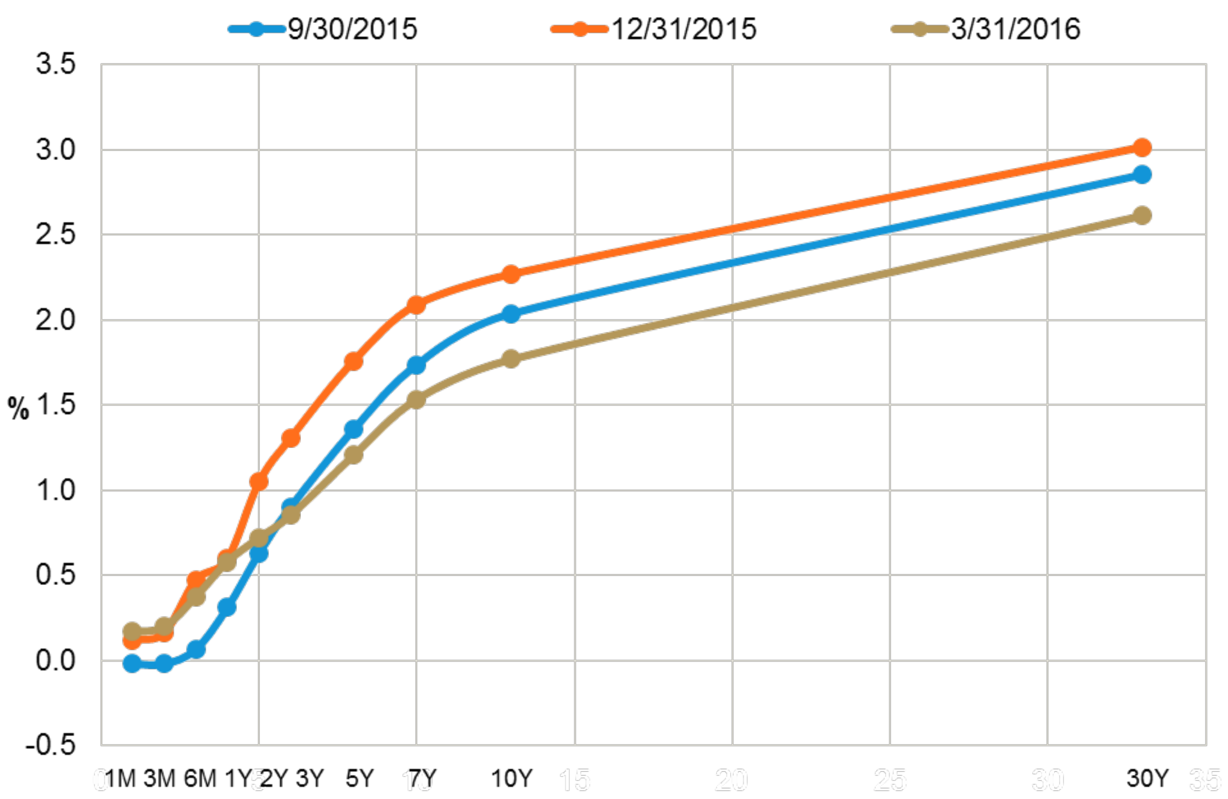
Fed funds futures contracts are now pricing in only a 50% chance of a hike by December 2016.

Over the past quarter, rates on 2 year, 3 year and 5 year U.S. Treasury notes all fell by 30-50 bps, while 10 year and 30 year rates fell a similar amount.

The overall environment was one of falling rates as markets pushed out anticipated Fed rate hikes amid low expectations for Q1 economic growth and a sharp fall in appetite for risky assets in the first part of the quarter.

Yields

US Treasury Bond Curve



Highlights

Treasury yields fell during the quarter and the yield curve flattened as the market priced out expectations of further Federal Open Market Committee (FOMC) rate hikes . Treasury yields fell 30-50 basis points over the past quarter with the 5 to 10 year part of the curve outperforming.

A the March FOMC meeting, at which no rate move was made, the Committee maintained a dovish stance, noting that global economic and financial developments continue to pose downside risks.

Economic data in the quarter was weak on balance. While the labor market continued to generate new jobs, retail sales remained lackluster. First quarter gross domestic product (GDP) is currently tracking only slightly positive. If this weakness persists, 2016 GDP growth expectations of 2% may have to be revised lower.

Investment Highlights

Investment Highlights

STIP balance was $6.4 billion as of March 31, 2016. We are managing maturities to accommodate outflows that we anticipate over the next three to six months.

Maturities and inflows were reinvested in money market instruments amid falling rates and in anticipation of an eventual Fed rate hike. We continue to maintain the required $2.5 billion minimum in Treasury holdings to support UC's commercial paper rating.

Front-end yields fell as the market pushed out expectations of further tightening in monetary policy, with 2-year Treasuries ending the quarter at 0.72%, 33 basis points lower than December 31.

Working with the Office of the Chief Financial Officer and Campuses, STIP will continue to be managed to a minimum balance of $5 billion to ensure sufficient liquidity for daily operating cash flow, extraordinary liquidity needs, and rating agency requirements.

Portfolio Summary

Investment Performance

Net Returns (%) As of March 31, 2016	9 Month	1 Year	3 Year	Annualized Returns 5 Year	7 Year	10 Year	20 Year
Short-Term	1.0	1.2	1.4	1.8	2.1	2.8	4.0
Policy Benchmark	0.4	0.5	0.4	0.3	0.4	1.4	2.9
Value Added	*0.6*	*0.7*	*1.0*	*1.5*	*1.7*	*1.4*	*1.1*

Assets Under Management Attribution

Assets Under Management March 31, 2015	$8.3 billion
Market Gains	$0.04 billion
Value Added	$0.03 billion
Net Cash Flow	($2.0 billion)
Assets Under Management March 31, 2016	**$6.4 billion**

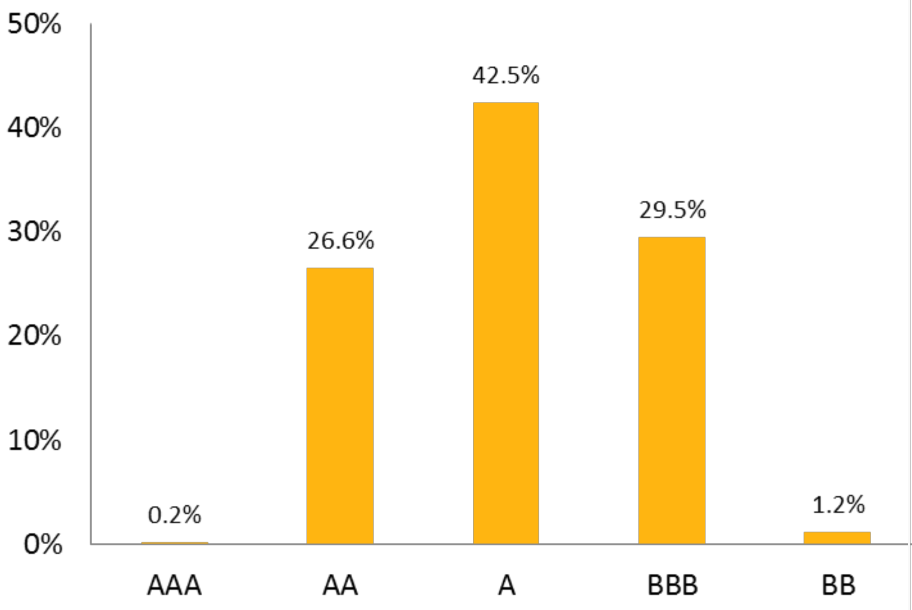
Asset Allocation

As of March 31, 2016

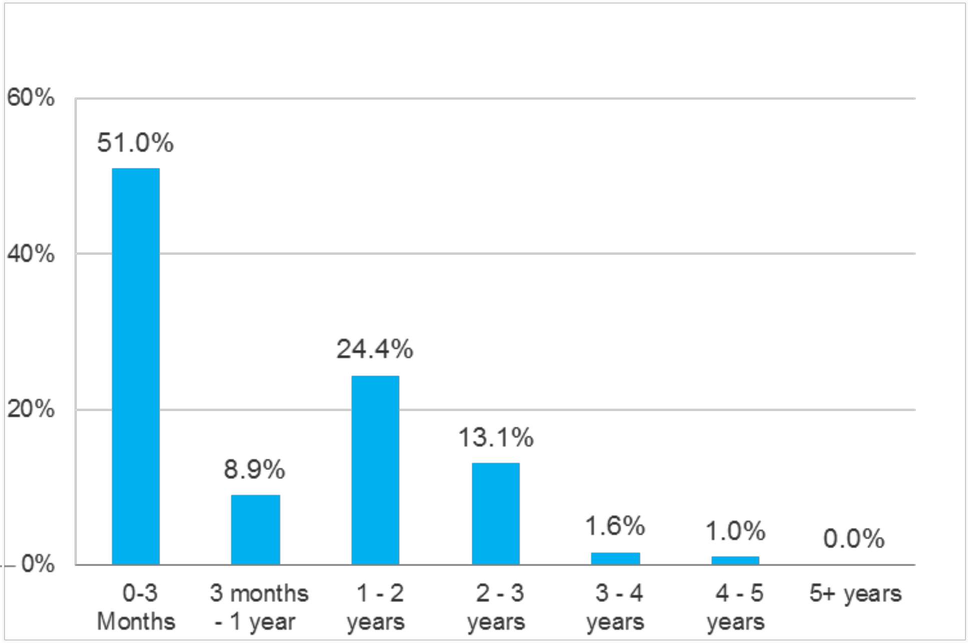
Corporates	$2.6	41.0%
Commercial Paper	$2.5	37.9%
Governments	$1.3	20.7%
Cash	$0.0	0.4%
Total	**$6.4 billion**	**100.0%**

Portfolio Summary

Rating Distribution



Maturity Profile



As of March 31, 2016

Policy Benchmark

Short Term Policy Benchmark

Asset Class	Benchmark Component	Target
Short-Term Fixed Income	Weighted Average of Income Return on:	
	Constant Maturity Two-Year U.S. Treasury Note	Actual weights of bond and cash equivalent components
	Return on U.S. 30-Day Treasury Bills	Actual weights of bond and cash equivalent components