Treasurer's Annual Report

One hundred and fortieth fiscal year

University of California • 2007-2008

The Regents of the University of California

2007-2008

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.

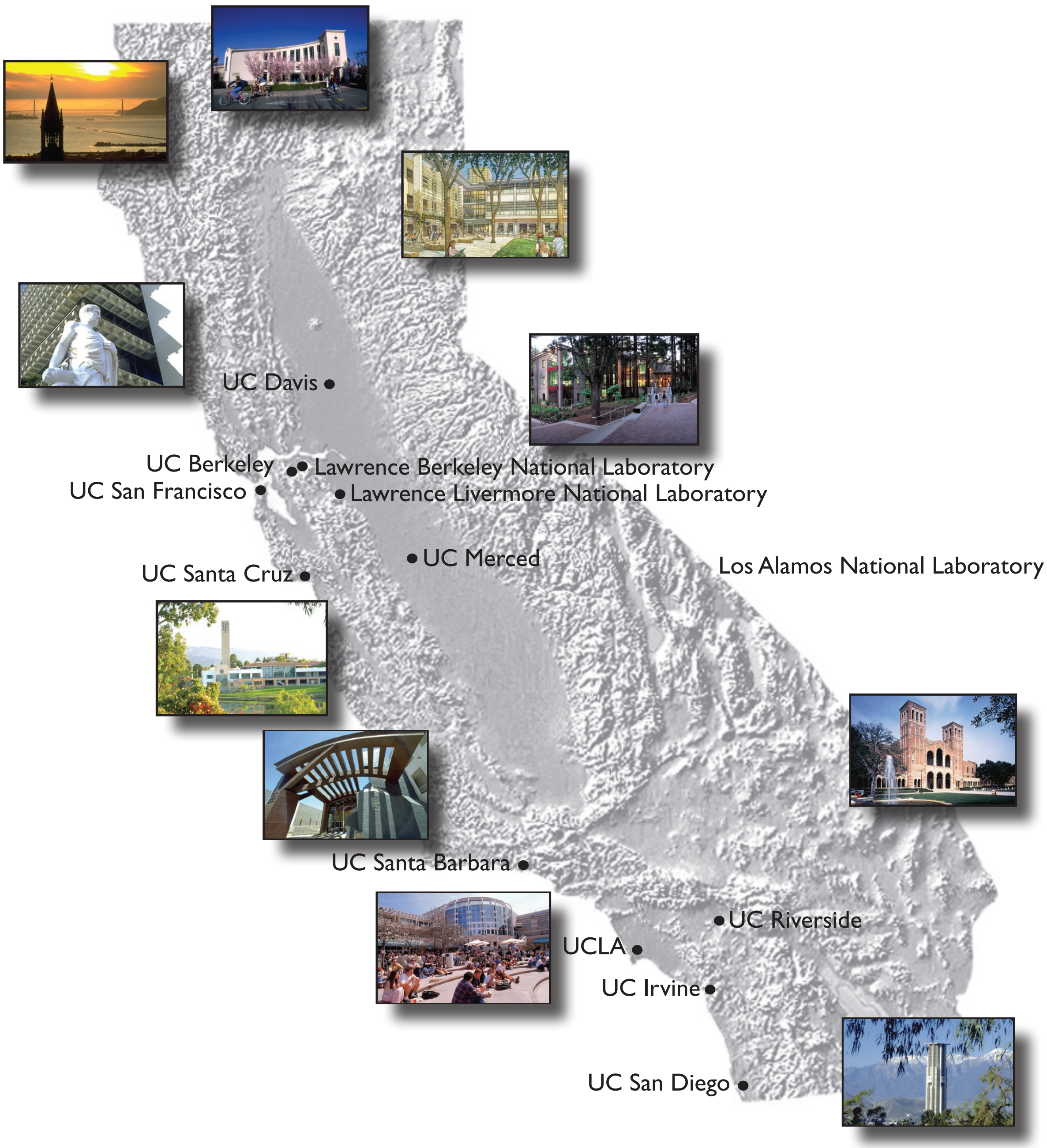
Mission Statement

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, three 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 214,000 enrolled students, 170,000 faculty and staff, 45,000 retirees, and 1.5 million alumni, living and working around the world. Its Natural Reserve System manages approximately 130,000 acres of natural habitats for research, teaching, and outreach activities.

Campuses and National Laboratories



Treasurer's Annual Report Fiscal 2007-2008

Table of Contents and Summary

FISCAL YEAR 2008 IN REVIEW

Financial markets experienced a level of turmoil in the fiscal year and ensuing months not seen since the Great Depression. The impact of severe stress in the U.S. housing and mortgage markets and a doubling of oil prices were the predominant drivers of global securities markets throughout the fiscal year. Real gross-domestic-product growth in the U.S. slowed to 1.9% from 4.8% last year, and the Federal Reserve lowered the federal-funds rate six times from 5.25% to the rate of 2%, as of June 30, 2008. At the same time, rising energy and food prices caused headline consumer price inflation (CPI) to rise to 5% from 2.7% in June 2007, while core CPI rose modestly to 2.4% from 2.2%. The Russell 3000 declined 12.6%, and the MSCI World ex U.S. (Net) Index declined 15.0%. As emerging market economies held up better, the MSCI Emerging Market (Net) Index recorded a 4.63% gain. As investors shunned riskier assets, spreads on corporate bonds and mortgage-backed securities reached their widest levels since the 1990s; however, the decline in U.S. Treasury yields led to strong gains in most fixed-income benchmarks. The Citigroup Large Pension Fund Bond Index returned 8.2%; the Lehman Aggregate Bond Index 6.1%; and the J.P. Morgan Emerging Markets Bond Fund Index Plus (EMBI+) 5.16%. The exception was the Merrill Lynch High Yield Cash Pay Index, which fell 2.03%.

Although more than a year has passed since this crisis began, the U.S. housing market has yet to find a bottom; financial institutions are still writing off bad investments; mortgage availability and consumer lending is constrained; and economic weakness has spread to many foreign economies. On the plus side, oil prices have retreated from their highs, the dollar has recovered approximately 7% from its lows, and government officials around the world are trying to address these problems.

Although the effects of this economic “adjustment” will be felt for some time to come—causing higher unemployment levels, subpar economic performance, and sagging consumer confidence, as troubled financial institutions are recapitalized—mortgage lending and housing activity should gradually improve, allowing some normality to return to financial markets as the fiscal year progresses.

MESSAGE FROM THE CHIEF INVESTMENT OFFICER

The performance of the University’s portfolios needs to be viewed in the context that the fiscal year ending June 2008 was the most turbulent since 2002 for the economy and the financial markets.

Performance: Amid this setting, the University of California Retirement Plan (UCRP) and the General Endowment Pool (GEP) both experienced declines in performance for the fiscal year ending June 30, 2008, while the Short Term Investment Pool (STIP) increased in value. The UCRP Portfolio return was -5.74% and the GEP Portfolio return was -1.93%. While overall market conditions were challenging, our ongoing refinement of the UCRP and the GEP asset allocation had a positive effect by softening the negative U.S. and developed equity impacts. The difference in the returns of the two portfolios is primarily due to the GEP’s lower exposure to equity markets due to its higher allocation to Absolute Return. The STIP had a positive return of 4.76%.

The UCRP market value stood at over $42 billion at fiscal year-end and paid out benefits of $1.9 billion to UC retirees for the year. Pension contributions, which have not been required of employees for 18 years, were again postponed for the recent fiscal year but are slated to resume in July 2009, pending formal Regental approval in November.

The value of assets within the 18 core funds available within the University’s Retirement Savings Program (the DC Plan, 403(b) Plan and 457(b) Plan) is over $10.3 billion. Our Office continues to work jointly with Human Resources and Benefits to facilitate enhancements to both the financial education and record-keeping services of the program. We added a 100% Treasury fund to the line-up this fall. Performance of the individual UC-managed funds is available beginning on page 28 of this report.

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

At the March 2008 meeting, the Regents approved the addition of a Global Equity asset category to the asset allocation of UCRP and GEP, at a current policy weight of 2% and long-term target weight of 5%. They also voted to increase the current policy weight of Non-U.S. Developed Equity from 18% to 22% and to increase the current policy weight of Emerging Market Equity from 3% to 4%, both in the UCRP. The U.S. Equity allocation would be used to fund these increases.

Owing to the long lead times in Private Equity and Real Estate investing, achieving higher net asset values requires increased commitments now. Therefore, at the Regents September 2008 meeting, they approved an increase in the long-term targets for these asset classes consistent with the higher level of commitments being made today. An increase was also approved for Absolute Returns Strategies, to allow for opportunistic investments during market stress in traditional equity and debt markets.

In addition, the Regents approved Investment Guidelines for Private Equity allowing for co-investment and direct investment strategies.

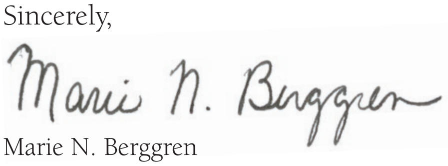
A co-investment is an incremental investment in one or more portfolio companies in a private equity fund. A direct investment is an equity investment made in a company (e.g., corporation, partnership). These strategies are more labor intensive than the limited partnership investments, owing to an additional level of due diligence and valuation assessment required. The upside is that no management fees or carry are charged, thus increasing expected return. This improves the risk-reward trade-off enough to justify an allocation to these strategies.

Service: In May 2007, the Department of Energy (DOE) awarded the management and operating contract for Lawrence Livermore National Laboratory (LLNL) to Lawrence Livermore National Security, LLC (LLNS). The RFP required LLNS to operate and manage the laboratory as a separate corporate entity. The new contract began October 1, 2007. As part of the transition process to the new management team and consistent with the requirements set forth in the University's contract with the DOE, UC transferred assets and liabilities attributable to the benefits of LLNL employees who continued employment with LLNS and subsequently participate in the new corporate defined benefit plan. The actuarial accrued liability for those members electing to participate in the LLNS Plan was estimated by the Regents' actuary, The Segal Company, to be in excess of $1.8 billion. Assets were transferred from UCRP in April. Retired members and inactive members of the UCRP-LANL Plan remain in the UC-sponsored plan, and their benefits will be paid from the related trust.

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

Personnel: We are very pleased to have hired a Senior Managing Director of Public Equity, who along with an expanded team, has diligently worked to restructure our active managers program and bolstered the governance and monitoring process. Implementation of the Private Equity co-investment and direct investment strategies mentioned earlier will require two additional staff, an investment officer and a senior analyst. I am very pleased with the efforts of our entire team during very challenging conditions and look forward to continue serving The Regents, faculty, staff, and students of the University of California.

Sincerely,



Marie N. Berggren
**Chief Investment Officer and Vice President - Investments,
Office of the President and Acting Treasurer of The Regents
University of California, October 2008**

LOOKING FORWARD

The CIO's message (at left) discusses the Regents approval of the addition of a Global Equity asset category to the asset allocation of UCRP and GEP, at a current policy weight of 2% and long-term target weight of 5%. The goals of adding this asset class are to reduce home bias and more closely mirror global capital market weights and broaden diversification. We recognize that the global economy is becoming more integrated, capital markets are becoming even more tightly connected, and investment opportunities/relative values are related to global industrial sectors and styles, as well as country and currency. Designation of "U.S." vs. "Non-U.S." has been problematic, as 40-60% of most multinational company sales comes from outside their home region and many "emerging market" companies are becoming multinationals, as well. Implementation will be done in two stages and accomplished over a two-year period.

In March 2008, the Regents discussed the establishment of a new fund, Total Return Investment Pool (TRIP), with a "total return" mandate, appropriate for longer-term Campus working capital. This fund is designed to supplement the Short Term Investment Pool (STIP), which has a "current income" mandate, appropriate for shorter-term working capital. In order to build an appropriate overall asset allocation, we started with approved UCRP/GEP asset types and then excluded assets with limited liquidity, emerging market equity and debt, "alternative" assets, and excluded currency risk. The pool allows currency-hedged non-U.S. equity and debt (developed markets) and was opened to Campuses August 1, 2008.

The Office has been working with Human Resources and Benefits to introduce additional Pathway Funds for use within the University's Retirement Savings Program. To help participants refine their asset allocation, target-date funds will be added so that the Pathway Funds offer a target date in five-year increments rather than 10-year increments. Also, to address the needs of younger workers, a 2060 Fund will be added. These additional Funds are slated to be available December 1, 2008.

SENIOR MANAGEMENT

MARIE N. BERGGREN, MS Chief Investment Officer and Vice President for Investments and Acting Treasurer

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 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, 2008, the Treasurer's Office managed $66.8 billion in total assets as outlined below.

TOTAL MARKET VALUE OF ALL ASSETS[1]

June 30, 2008
($ in billions)

University of California Retirement Plan (UCRP)	$42.0
Defined Contribution Plan Funds	10.3
Endowment Funds	7.2
Short Term Investment Pool (STIP)[2]	7.3
Total Funds	$66.8

The Treasurer's Office investment management staff includes 30 investment professionals with an average of 16 years of investment experience.

INVESTMENT OBJECTIVES AND PHILOSOPHY

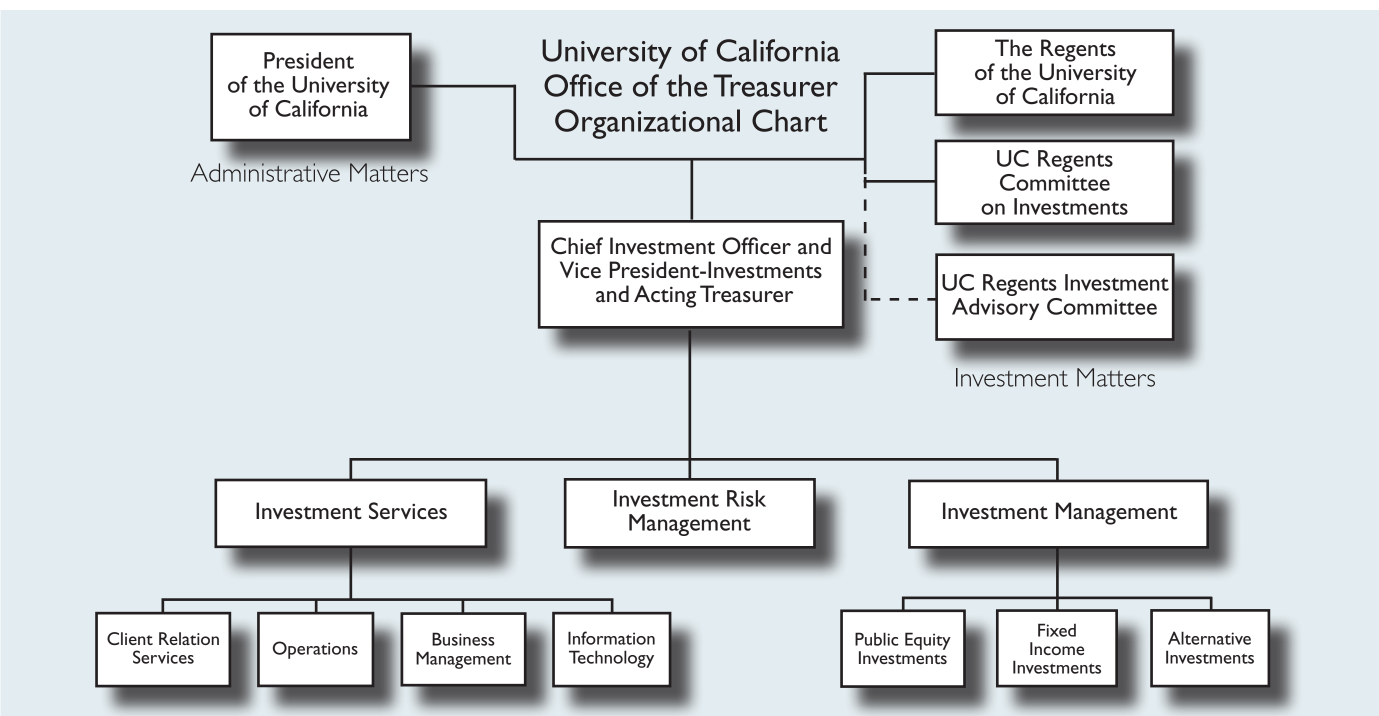
The investment objective for all funds under management is to maximize long-term total real returns while assuming appropriate levels of risk. Because the purpose of each fund is unique, The Regents have established the following specific objectives for each fund, along with the overall goal of exceeding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

Retirement Funds: For the University of California Retirement Plan, produce a real return to meet obligations to beneficiaries and to meet or exceed the actuarial rate of return; for the University-Managed Defined Contribution Funds, meet stated investment objectives for each fund.

Endowed Funds: To ensure that future funding for endowment-supported activities be maintained in perpetuity both by generating a growing payout stream and by real growth of principal.

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, CAM, and HIP assets and is net of the STIP balances in other portfolios.

[2] The Short Term Investment Pool excludes the cash invested for, and reported as part of, the UCRP, Defined Contribution and Endowment Funds.

The asset allocations for UCRP and GEP are developed as follows: First, expected return and risk for each asset class are estimated using an equilibrium framework and current prices. Second, a set of efficient portfolios is developed, consistent with those assumptions. Third, the assets and liabilities (pension benefits or endowment spending) are modeled under alternative economic scenarios and different efficient portfolio mixes. Fourth, the Regents choose a portfolio allocation consistent with its risk tolerance, one which maximizes the probability of meeting scheduled payments over time.

The Portfolio Management Group meets weekly to review asset allocation, portfolio performance, and market conditions. Asset allocation rebalancing is required 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, and Emerging Markets asset classes. The first step in the investment process is to survey the market opportunity set—as circumscribed by the benchmark index—and forecast the risk-return trade-off in each segment of the market. For example, the market may be segmented by style, such as growth or value, capitalization size, industrial sector, or in the case of non-U.S. companies, region or country. Then a portfolio of these market factors is constructed to maximize expected return at the benchmark level of volatility. Next, the team determines which strategies best fit each market segment. Strategies include fundamental research, top-down, and quantitative, and will exhibit various approaches to idea generation and portfolio construction.

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

The combined assets in each of the asset classes are monitored under investment guidelines established by the Regents. Each asset class is managed according to a risk budget framework set by the Regents. The allocation between passive and active strategies is determined by both the risk budget and by the opportunities to add value to the benchmark for each asset class. As of June 30, 2008, approximately 36% of Domestic Equity assets and 42% of non-U.S. Equity assets were managed in active strategies by 24 external managers. Emerging markets are all actively managed by nine 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, along with representatives from the Risk Management Group, meet monthly to review performance, portfolio exposures 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.

The Regents includes inflation-indexed bonds (TIPS) in its 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 Treasurer's Office inflation-indexed bond investment strategy utilizes passive management techniques. The objective of this strategy is to replicate the performance of the U.S. TIPS market.

The Fixed-Income investments also include allocations to Emerging Markets, U.S. Domestic High-Yield and Foreign-Government bonds. 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 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, 2008, the allocation to Fixed-Income securities was 24.6% of the GEP and 29% of the UCRP.

ALTERNATIVE INVESTING

Absolute Return

The Absolute Return (AR) investments are designed to protect capital and provide equity like returns over a full market cycle but with much less volatility than that of equity markets. AR managers do not have the same constraints as traditional equity managers; therefore, they can be net long, net short or neutral relative to the underlying financial markets. This allows them opportunities 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. AR includes long/short equity, merger arbitrage, event-driven and other strategies.

Strategy and manager selection are the important drivers of the AR allocation. The Treasurer's Office is focusing on a subset of available strategies to achieve diversification benefits and preservation of capital. The Office has also been able to invest with established and accomplished managers, including some that are no longer open to new investors. The AR portfolio currently is invested with 30 funds across a broad mix of managers. This number is expected to increase slightly over the next fiscal year for further diversification of strategies and managers.

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. In addition, the Alternative Investments team works with a consultant that specializes in AR strategies to supplement the capabilities of the team.

As of June 30, 2008, the allocation to AR strategies was approximately 20.5% of the GEP and 1.5% of the UCRP.

Private Equity

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

The Regents has been a long-standing investor 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 has formed long-standing relationships with some of the premier venture capital groups and has built a reputation as an active and sophisticated partner. Since 2002, the Private Equity program has also been diversifying its Private Equity investment strategy to include buyout funds and select new relationships.

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

As of June 30, 2008, the allocation to Private Equity was 7.6% of the GEP and 4.1% of the UCRP.

Real Estate

The Real Estate program commenced in 2005 and is currently $1.1 billion or 2.5% invested in UCRP and $266 million or 4.1% in GEP, with 5% and 7.5% target allocations respectively. Ninety percent of the total plan investments are in the U.S. and 10% are invested in Asia, Europe, and Mexico.

For both plans, the program invests through open-end, closed-end commingled funds, and REITS, while direct real estate in separate accounts (via title-holding corporations for each asset) invests for UCRP only.

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

The Real Estate staff has intentionally not invested in REIT securities in the past year as private-equity real estate provided less volatility and more attractive risk-adjusted returns.

To date, the staff has allocated $2.3 billion in 38 funds and five separate account managers with $1.4 billion invested. The Real Estate managers are projecting to invest the remainder of the allocation ($900 million) within the next 18 to 24 months.

Real Estate requires a strategic long-term program implementation and fund managers are focused on fundamental supply-demand drivers, and asset specific submarket dynamics. High construction costs and lack of available debt have resulted in a very limited supply of new development projects in major markets. Combined with low existing vacancy levels, the fund's portfolio is poised to weather the slowdown in leasing requirements.

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. 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 quantitative and qualitative 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, stress testing key assumptions, and optimization of risk and expected return. 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 risk preferences, 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 20 years experience in banking and/or investment operations and seven analysts with an average of 15 years experience in investment accounting and operations. This unit is responsible for investment accounting and reporting, as well as the central management of all cash services for the University.

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

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

Information Systems

The management of the portfolios is also supported by state-of-the-art information systems. The Information Systems group within the Treasurer's Office consists of a technology manager, financial and systems analyst, and a computer-resource specialist. The group is responsible for all Information Technology (IT) functions within the Treasurer's Office including desktop installation and support, system integration with third-party applications such as Bloomberg L.P., management of the various types of servers, and other hardware such as switches and firewalls. The group also develops and integrates in-house applications and databases to further support the mission of the Treasurer's Office. Additionally, this group works directly with the University of California Office of the President central IT department to ensure seamless integration of infrastructure, electronic security, and compliance with best practices and procedures.

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 includes 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.

Client Relation Services

The Client Relation Services group serves as an information agent for the Treasurer's Office. Among the group's many roles is 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 Web site.

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? But investors, fiduciaries, and other interested parties should immediately ask two more questions: what happened to our investments relative to our investment goals and objectives, and how much risk was taken to achieve those returns? Finding meaningful answers to these questions requires the selection of, and comparison of performance to, a diversified basket of similar securities of similar risk known as a benchmark.

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

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

A policy benchmark for a fund can be a blend of indices, each weighted by the percentage it represents in the asset allocation, e.g., 65% Russell 3000 + 35% Lehman Aggregate. Additionally, 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, whether the fund added value by allocating assets differently than the policy percentages. And second, whether the investments chosen within each asset class added value over their class benchmarks. This information is referred to as performance attribution, and it can be derived for each component of the total fund to understand further where and how value was added.

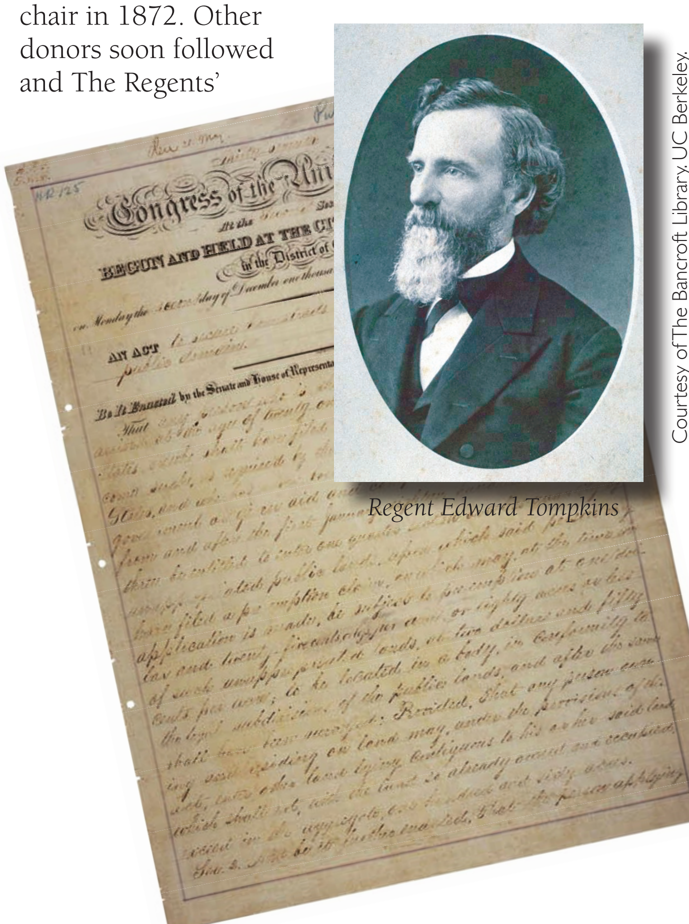
It is also natural to ask, how did the fund perform relative to those funds of peer institutions? The answer is not so straightforward. This is because other institutions may have different investment objectives and risk tolerance, and may utilize asset allocations that differ from their peers' and thus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

An in-depth look at UC General Endowment Pool expenditures

A BRIEF HISTORY OF THE UNIVERSITY OF CALIFORNIA ENDOWMENT

Abraham Lincoln established the first University of California (UC) endowment when he signed the Morrill Act on July 2, 1862, thereby establishing the land-grant colleges and universities—including the University of California. The Act provided 30,000 acres to each state that had a Congressional representative at the time. The land, and proceeds from sale, were to establish an endowment (that could be invested only in a particular fashion). UC only recently sold off the last acreage obtained under the Morrill Act. In short, UC had an endowment before UC opened its doors in 1869.

The UC's first major donor was Regent Edward Tompkins who made a gift to establish the first endowed chair in 1872. Other donors soon followed and The Regents' General Endowment Pool (GEP) was created in 1933. Before the creation of the GEP, each endowment was individually invested, as would be appropriate, with a trust fund. Primarily invested in bonds, the pool paid out yield. In 1958, the pool was unitized and included a wider range of assets. At that time the GEP started investing on a total return basis (including both realized and unrealized changes in market value) with distributions limited to ordinary income (dividends plus accrued interest income.) Alumni from the UC campuses who wished to give back to the institution led to the formation of Campus Foundations—which, while part of the UC system, have separate and unique identities yet share the same mission and purpose.



Regent Edward Tompkins

Courtesy of The Bancroft Library, UC Berkeley.

In 1972, the Uniform Management of Institutional Funds Act (UMIFA) was passed which guides charities on the management and investment of funds, provides rules on spending from endowment funds, and permits the release of restrictions on the use and management of charitable funds. It codified the practice of a total return endowment payout (paying out yield and accumulated net gains)—as long as each fund did not go below "historic dollar value." When initially adopted in California, it was limited to private colleges. UMIFA was revised in 1990, expanded to all charitable institutions, and moved from the Education Code to the Probate Code (where the Trust Law is located). In 1998, The Regents adopted UMIFA, marking the first time the GEP had a total return expenditure policy. UC also added the ability to have endowment cost recovery.

ENDOWMENT EXPENDITURE RATES

Following a study in October 1998, The Regents adopted a target endowment expenditure rate of 4.75%, with a first-year payout of 4.35%. The President and the Treasurer have made a commitment to review the GEP performance, inflation expectations, and the University's programmatic needs each year and recommend a payout rate to the Regents that provides an appropriate increase in the dollar value that matches or exceeds inflation. Since 1998, the payout rate was increased in stages ultimately reaching 4.75% for expenditure in 2006-07.

Most recently, in May 2008, The Regents voted to maintain an expenditure rate of 4.75% for the 2008-09 fiscal year. The payout is considered to be an appropriate balance among the following objectives:

1) Maximize long-term total return;
2) Preserve the real (i.e., after inflation) long-term purchasing power of the endowment portfolio's principal and of its distributions;
3) Optimize annual distributions from the endowment portfolio;
4) Maximize the stability and predictability of distributions;
5) Promote accountability of asset management (disclosures to donors, performance reporting, etc.); and
6) Promote the fundraising effort.

In the future, there may be other factors that will have to be added to the analysis for an appropriate payout rate.

SENATE REVIEW OF ENDOWMENT ADMINISTRATION AT U.S. COLLEGES AND UNIVERSITIES

The U.S. Senate Finance Committee is currently studying endowment administration at U.S. colleges and universities. The committee's particular interest is college access and affordability for American students. The Office of the President will monitor the Committee's deliberations in order to advise The Regents and recommend appropriate action going forward.

The Campus Foundations, which also set payout and recovery rates on an annual basis, are expected to make similar reviews and independently set their endowment payout and cost-recovery rates for endowments in their portfolios.

Sources include "The University of California's Response to the Senate Finance Committee Regarding the January 25, 2008, Inquiry on Affordability and Endowments" and various materials presented to The Regents related to the General Endowment Pool.

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. GEP is comprised of over 5,073 individual endowments that support the University's mission. 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, 2008		June 30, 2007	
GENERAL ENDOWMENT POOL	Market Value	% of Pool	Market Value	% of Pool
EQUITIES				
U.S. Equity	$1,203,347	18.7%	$1,883,682	28.0%
Non-U.S. Equity-Developed	1,213,443	18.8	1,435,718	21.3
Non-U.S. Equity-Emerging Market	360,149	5.6	420,614	6.3
TOTAL EQUITIES	2,776,939	43.1%	3,740,014	55.6%
FIXED-INCOME SECURITIES				
Core Fixed Income	$635,676	9.9%	$474,985	7.1%
High-Yield Bond	170,568	2.6	177,003	2.6
Non-U.S. Fixed Income	189,068	2.9	165,557	2.5
Emerging Market Debt	162,001	2.5	164,897	2.4
TIPS	428,171	6.7	401,123	6.0
TOTAL FIXED-INCOME SECURITIES	$1,585,484	24.6%	1,383,565	20.6%
ALTERNATIVE ASSETS				
Absolute Return	$1,316,709	20.5%	$1,063,117	15.8%
Private Equity	486,455	7.6	351,755	5.2
Real Estate	265,619	4.1	177,423	2.6
TOTAL ALTERNATIVES	$2,068,783	32.2%	$1,592,295	23.6%
LIQUIDITY PORTFOLIO	6,683	0.1	12,100	0.2
TOTAL GENERAL ENDOWMENT POOL	$6,437,889	100.0%	$6,727,974	100.0%
OTHER ENDOWMENT FUNDS	527,139		575,770	
TOTAL GEP AND OTHER ENDOWMENT FUNDS	$6,965,028		$7,303,744	

The June 30, 2008, market value of GEP exceeded $6.4 billion, or $23.35 per share, versus $6.7 billion, or $24.29 per share, at the end of fiscal 2007. Total GEP net investment income for the year was $161.2 million, or $0.59 per share, versus $162.3 million, or $0.59 per share, for fiscal 2007. In addition, $90.0 million was withdrawn to fund the Total Return Payout.

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 GEP's market value. The Regents reviews the payout rate each year in the context of 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 17, 2007, The Regents approved the continuance of a rate of 4.75% for expenditure in the 2007-2008 fiscal year.

INVESTMENT OBJECTIVE

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

The primary goal for GEP is to ensure that future funding for endowment-supported activities be maintained both by generating a growing payout stream and by growth of principal.

[1] For fiscal years 2007 and 2008, 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

	2004	2005	2006	2007	2008
MARKET VALUE (in millions)	$4,782	$5,210	$5,747	$6,728	$6,478
ANNUAL TOTAL RETURN	14.65%	10.31%	11.57%	20.01%	-1.93%
ANNUAL TOTAL RISK[1]	5.75%	6.20%	6.50%	3.68%	7.37%
ASSET ALLOCATION:					
PUBLIC EQUITY	65.66%	64.01%	63.52%	55.59%	45.00%
PUBLIC FIXED INCOME	26.63	24.76	22.11	20.56	23.00
ALL ALTERNATIVES	7.39	11.05	14.20	23.67	32.00
LIQUIDITY	0.32	0.18	0.17	0.18	0.00

OVERALL INVESTMENT STRATEGY AND RETURNS

In order to continue to achieve these investment objectives, The Regents adopted the following asset allocation policy in May 2007[2]:

Asset Class	Current Policy	Min.	Max.
Public Equity	47%	40%	54%
Public Fixed Income	23%	18%	28%
All Alternatives*	30%	25%	35%
Liquidity	0%	0%	10%

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

The asset allocation benchmarks and portfolio guidelines are designed to manage risk and ensure portfolio diversification. The benchmarks for the individual asset classes are: Russell 3000 Tobacco Free (TF) Index for U.S. Equity; MSCI World Index ex-U.S. TF (Net) Index for Non-U.S. Equity-Developed Markets; MSCI Emerging Markets (Net) Index for Non-U.S. Equity-Emerging Markets; Lehman Aggregate Index for Fixed Income; Merrill Lynch High-Yield Cash Pay Index for High-Yield Debt; Citigroup World Government Bond Index Non-U.S. for Non-U.S. Fixed Income; J.P. Morgan Emerging Market Bond Index "Plus" for Emerging Market Fixed Income; Lehman TIPS Index for TIPS; 30-Day Treasury Bill + 4.5% for Absolute Return; Actual Real Estate returns; and Actual Private Equity returns. The total fund benchmark is a policy-weighted average of the individual asset-class benchmarks.

GEP had a return of -1.93% for the fiscal year, as illustrated in the table on page 19. For the past 10 years, GEP's average annual total return was a strong 7.03% vs. 6.23% for its benchmark. During that time, payout distributions grew at an average annual rate of 7.4%—well above annualized inflation of 3.0%.

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. Equity assets are segmented into U.S., Non-U.S. Developed, and Emerging Markets 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 to the benchmark for each asset class.

As of June 30, 2008, approximately 36% of Domestic Equity assets and 42% of Non-U.S. Equity assets were managed in active strategies by 24 external managers. Emerging Markets are all actively managed by nine firms.

The Equity portion of GEP represented 43.1% of the portfolio at year-end, with a market value of $2.8 billion. U.S. Equity represented 19% of the fund at year-end, with a market value of $1.2 billion. GEP's U.S. Equity assets had a return of -14.74% for the fiscal year and 7.75% for the five-year period.

Total Non-U.S. Equity represented 25% of GEP at year-end with a market value of $1.6 billion. Non-U.S. Equity-Developed markets represented 19% with a market value of $1.2 billion and Non-U.S. Equity Emerging Markets represented 6% with a market value of $360 million. GEP's Non-U.S. Equities Developed Markets declined by -9.32% and Non-U.S. Equity Emerging Markets gained 2.65% in the fiscal year.

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

[2] See "Message from the Chief Investment Officer" (pages 4-5) for information on revised allocation approved by The Regents in September 2008, effective October 1, 2008.

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 24.6% of the portfolio, with a market value of $1.6 billion.

Within total Fixed Income, GEP's U.S. Core Fixed-Income investments returned 5.26% during the year.

Three new asset classes were added to GEP's Fixed-Income portfolio during the 2006-2007 fiscal year—High Yield, Non-U.S. Fixed Income, and Emerging Markets. Performance for these three asset classes for the 2007-2008 fiscal year was -2.68% for High Yield, 18.73% for Non-U.S., and 5.20% for Emerging Markets.

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.

GEP's TIPS represented 6.7% of total assets with a market value of $428 million on June 30, 2008. TIPS returned 15.74% in the fiscal year.

The weighted average maturity of the Bond portfolio at year-end was approximately 10.8 years, the average duration 7.1 years, and the average credit quality was AA, with more than 85% of Fixed-Income securities rated A or higher.

ALTERNATIVE INVESTMENTS STRATEGY AND RETURNS

Absolute Return investments include long/short equity, merger arbitrage, event-driven and other strategies.

Absolute Return represented 20.5% of GEP at year-end and returned 2.52%.

For Private Equity, the Treasurer's Office seeks opportunities through recognized top-tier venture capital partnerships and select buyout funds.

Private Equity represented 7.6% of GEP at year-end with a market value of $486 million. GEP returns for this asset class in the fiscal year were 9.13%. Over the long term, GEP's private equity returns have been an important contributor to total fund return.

For Real Estate, the Treasurer's Office seeks investments which provide long-term, risk-adjusted total returns between those of U.S. equities and bonds; diversification benefits given Real Estate's low correlation with other asset classes; protection against unanticipated inflation; and a high proportion of the total return derived from current income.

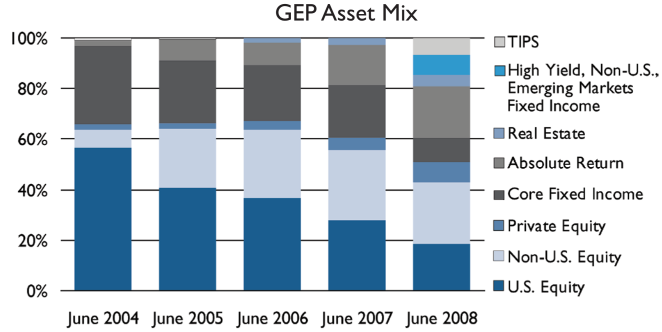
Real Estate represented 4.1% ($266 million invested) of GEP at year-end and returned 10.37% net in the fiscal year, outperforming the benchmark return of 9.80% by 57 bps. The since inception net return of 19.12% outperformed the benchmark return of 15.45% by 367 bps.

The cumulative Total Returns Chart below illustrates the returns for GEP for the past 10 years relative to the policy benchmark and inflation.

ASSET MIX

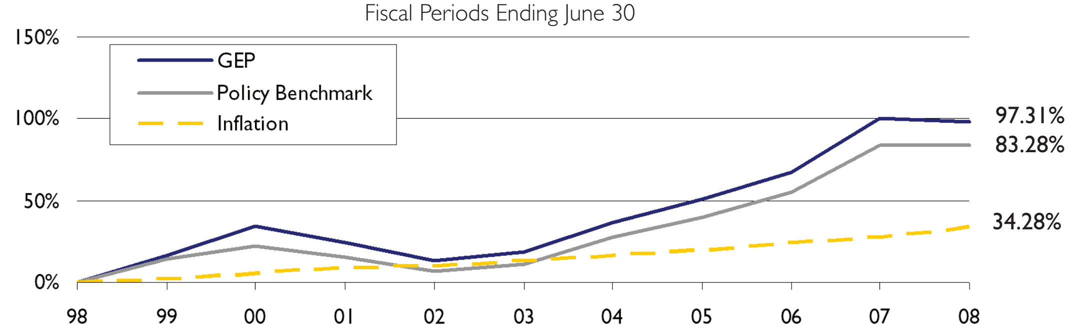
The following represents GEP's asset mix as of each of the past five fiscal year-ends.

GEP Asset Mix



GEP Cumulative Total Returns: Fiscal 1998-2008

Fiscal Periods Ending June 30



GEP ANNUALIZED TOTAL RETURNS[1] VERSUS BENCHMARKS AND INFLATION

June 30, 2008

	1-Year	5-Year	10-Year	10-Year Cumulative	Benchmark Description[2]
TOTAL FUND					
GEP	-1.93%	10.72%	7.03%	97.31%	Total Fund Policy Benchmark: A blend of the indices described in detail below, each weighted by the percentage it represents in the asset allocation, except that the policy of Private Equity, Real Estate, and Absolute Return are set equal to the actual weights each month. Annual index returns assume monthly rebalancing. Inflation: Consumer Price Index.
Policy Benchmark	-0.17	10.42	6.23	83.28	
Inflation	5.03	3.56	2.99	34.28	
U.S. EQUITY					
GEP	-14.74%	7.75%	3.17%	36.63%	Policy Benchmark: Russell 3000 TF Index; Historical: S&P 500 Index.
Policy Benchmark	-12.84	8.24	3.41	39.78	
NON-U.S. EQUITY-DEVELOPED					
GEP	-9.32%	17.38%	N/A	N/A	
Policy Benchmark	-8.90	17.24	N/A	N/A	Policy Benchmark: MSCI World ex U.S. (Net) Index TF.
NON-U.S. EQUITY-EMERGING MARKET					
GEP	2.65%	28.58%	14.64%	292.24%	
Policy Benchmark	4.63	29.75	15.33	316.41	Policy Benchmark: MSCI Emerging Markets (Net) Index.
CORE FIXED INCOME					
GEP	5.26%	4.15%	5.88%	77.14%	Policy Benchmark: Lehman Aggregate Bond Index. Historical: Citigroup LPF;LB LT G/C Index.
Policy Benchmark	7.12	4.34	6.06	80.04	
HIGH-YIELD BOND					
GEP	-2.68%	N/A	N/A	N/A	
Policy Benchmark	-2.03	N/A	N/A	N/A	Policy Benchmark: Merrill Lynch High Yield Cash Pay Index.
NON-U.S. FIXED INCOME					
GEP	18.73%	N/A	N/A	N/A	Policy Benchmark: Citigroup World Government Bond Index ex-U.S.
Policy Benchmark	18.72	N/A	N/A	N/A	
EMERGING MARKET DEBT					
GEP	5.20%	N/A	N/A	N/A	Policy Benchmark: J.P. Morgan Emerging Market Bond Plus Index.
Policy Benchmark	5.17	N/A	N/A	N/A	
TIPS					
GEP	15.74%	N/A	N/A	N/A	
Policy Benchmark	15.09	N/A	N/A	N/A	Policy Benchmark: Lehman TIPS Index.
PRIVATE EQUITY[3]	9.13%	21.15%	20.92%	568.06%	
ABSOLUTE RETURN[4]					
GEP	2.52%	8.70	N/A	N/A	
Policy Benchmark	N/A	7.19	N/A	N/A	Policy Benchmark: 30-Day TBills + 4.5%.
REAL ESTATE[5]	10.37%	N/A	N/A	N/A	

[1] The performance of The Regents' total return investment portfolio is calculated by State Street Bank, according to the standard recommended by the Bank Administration Institute (BAI), which uses a time-weighted methodology that essentially neutralizes the effect of contributions and withdrawals so as to measure only the return on assets. These calculations comply with the CFA Institute's standards, which require time-weighted rates of return using realized and unrealized gains plus income.

GEP's Total Fund total return based on unit value calculated by UCOP Endowment and Investment Accounting and net of (after) UC's investment management expenses and administrative expenses of (currently) 0.09% of average annual market value, which are automatically deducted from income, is -1.49%, 10.73%, and 7.06% for the one-, five-, and 10-year periods, respectively.

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

[3] Until December 2004, the Private Equity Benchmark was the Russell 3000 TF Index + 3% (lagged by three months). Beginning January 2005 the performance benchmark for PE was no longer based on a market index. PE is properly evaluated using an internal rate of return (IRR), which cannot be combined with other time-weighted returns. For purposes of calculating the Total Fund benchmark, the actual PE portfolio return is used as the PE benchmark. This has the effect of neutralizing any excess performance contributed by PE in the total fund.

[4] Performance benchmarks for periods less than five years are not relevant for the Absolute Return asset class.

[5] Until Q4 of 2007-2008 fiscal year, the benchmark was NCREIF Property Index (NPI) for all Real Estate. Beginning that same quarter, the benchmark was actual return for closed-end Real Estate.

ASSET DESIGNATION BY CAMPUS AND PURPOSE

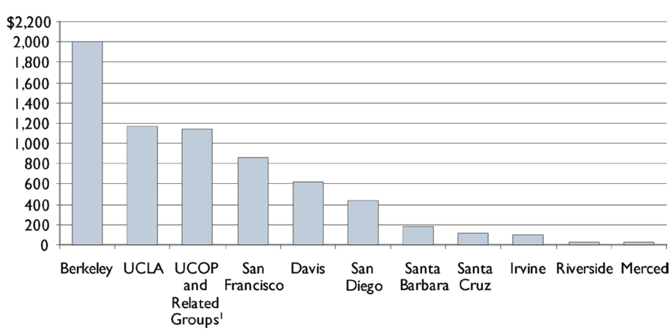
A donor has two avenues for making a gift to or establishing an endowment at the University: directly to The Regents for a specific campus and/or purpose or directly to a campus through its Foundation. The campus foundation trustees have discretion in their choice of investment managers and may use the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

The Regents' endowment pools include assets that were gifted directly to The Regents, as well as foundation assets where the Treasurer was retained as the investment manager. The chart below illustrates the breakdown of GEP's assets among the campuses. Not surprisingly, a higher proportion of the assets is dedicated to the older campuses, which have a more established alumni and donor base.

Fund-raising efforts provide critically needed monies to support the goals of the University. As illustrated by the chart at the right, more than half of GEP's assets support financial aid (23%), research (16%), and departmental use (17%).

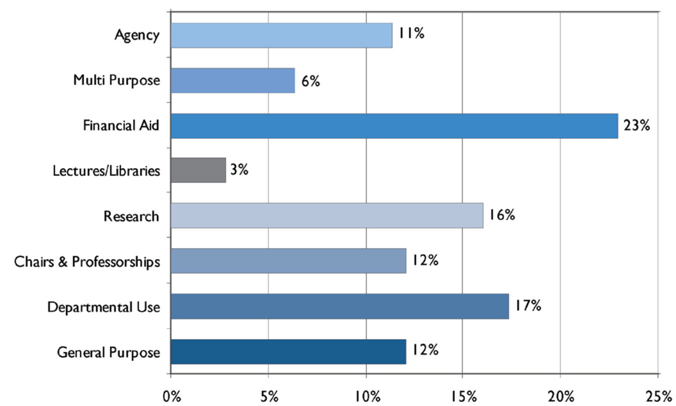
More detailed information on fund-raising results may be found in the University's *Annual Report on University Private Support,* prepared by the UC Office of Institutional Advancement.

GEP Assets Designated by Campus
(in millions)
June 30, 2008



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

GEP Assets Designated by Purpose
June 30, 2008



HIGH-INCOME POOL

The High-Income Pool (HIP) was established in May 1987 to accommodate endowments and deferred gift giving programs with high contractual payout obligations. Although The Regents' adopted a total return spending policy for The General Endowment Pool (GEP) in 1998, the income only spending policy was maintained for HIP. As the campus foundations have adopted a total return spending policy, they have moved most of their assets out of HIP into GEP. The GEP is The Regents' primary investment vehicle for endowed gift funds. As of June 30, 2008, $41.9 million is invested in HIP. The HIP assets are reported as part of "Other Endowment Funds" market value (see GEP Summary of Investments table on page 16).

WAYS OF GIVING TO THE UNIVERSITY

CHARITABLE REMAINDER UNITRUST

This pays the income beneficiary a percentage (at least 5%) of its net asset value each year. The trust is revalued annually. A variation is the "net income" unitrust, which distributes the trust's net income, up to the set percentage of the annual market value of the trust assets. Minimum gift is $100,000. Additional contributions are accepted anytime.

CHARITABLE REMAINDER ANNUITY TRUST

This plan pays a fixed dollar amount (at least 5% of initial value of transferred property) to the donor or designated beneficiary for life. A charitable contribution deduction is allowed for the value of trust's remainder interest. Minimum gift is $100,000. Additional contributions are not accepted.

CHARITABLE GIFT ANNUITY

This pays a fixed annuity for the life of the income beneficiary. The rate is based on the age of the income

CHARITABLE ASSET MANAGEMENT POOLS

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

INVESTMENT OBJECTIVES

The CAM Russell 3000 TF Index Pool seeks to provide investment results that correspond to the total return (i.e., the combination of price changes and income) performance of a broad base of stocks publicly traded in the United States. The CAM EAFE International TF Index Pool seeks to provide investment results that correspond to the total return performance of non-U.S.-developed country stocks. The CAM Fixed Income Pool seeks to outperform the Lehman 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 Lehman Aggregate Index, respectively.

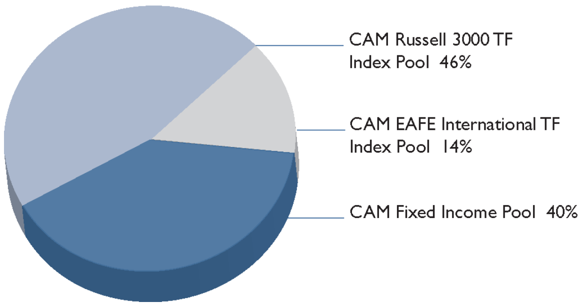
RETURNS

Performance ending June 30, 2008, follows:

Fund/Policy Benchmark	1-Year Return	Annualized 3-Year Return
CAM Russell 3000 TF Index Pool	-12.69%	4.67%
Russell 3000 TF Index	-12.84	4.58
CAM EAFE International TF Index Pool	-8.41	14.10
MSCI EAFE + Canada TF Index	-8.90	13.63
CAM Fixed Income Pool	6.73	4.17
Lehman Aggregate Index	7.13	4.09

At fiscal year-end, CAM assets totaled $130 million, with CAM Russell 3000 Tobacco Free (TF) Index Pool's market value at $60 million, The CAM EAFE International TF Index Pool's market value at $18 million, and the CAM Fixed Income Pool's market value at $52 million.

Total CAM Assets by Pool
June 30, 2008



beneficiary on the date of gift, and part of each payment is usually tax exempt. The amount of the charitable contribution deduction is basically the difference between the values of the gift and annuity. Minimum gift is $10,000.

Mosher Alumni House, UC Santa Barbara

DEFERRED PAYMENT GIFT ANNUITY

This plan pays a fixed amount but the first payment is deferred for a year or more from the date of the gift, usually timed to coincide with retirement or other plans. 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 is needed. Each payment may be tax-free, depending on the donor's life expectancy and the appreciation in the gift assets. The charitable contribution is the face value of the gift less the actuarial value of the deferred annuity. Minimum donation is $10,000.

POOLED INCOME FUNDS

These funds are 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 earnings 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 $5,000. Additional contributions of $1,000 or more are accepted.

LIFE INCOME OPTIONS WITH APPRECIATED SECURITIES

Donors to charitable remainder trusts and pooled income funds may make a gift using appreciated property without having to incur capital gains taxes. The trust can sell those assets and purchase other higher yielding assets, also without capital gains taxes. Capital gains on donations to gift annuities are usually distributed over the annuitant's life expectancy.

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

UC ENDOWED CHAIRS

Many people live their lives hoping to make a real difference in the world—not only today but also in the future. Of course, there are countless ways that people attempt to achieve this goal. Some individuals, with both a passion for education and generous spirit, choose to make a significant difference by making sizeable financial gifts to higher education—more specifically, through endowed chairs.

The University of California received its first major financial gift of an endowed chair in 1872, just four years after its creation. Edward Tompkins, an attorney and California senator, made that initial transformational donation. His gift established a position in Oriental Languages and Literature at UC Berkeley in honor of Louis Agassiz, who provided counsel in 1860 to the University's founding fathers. It is quite impressive that Mr. Tomkins had the vision to understand the importance of our Pacific-Rim neighbors in California and the nation at that time and in the future. The current market value of the Edward Tompkins Endowment Fund, as of June 30, 2008, exceeds $5.7 million.

Endowed chairs are highly prized academic positions that make it possible for the University of California to recruit and retain the world's most sought-after, distinguished scholars at the peak of their careers, while enhancing and expanding departmental programs. Endowed chairs have proven to have the most enduring impact, enriching the academic life of the campus community, positively affecting individual lives, advancing research, and even transforming the world.

Endowing a chair gives donors an opportunity to have their name or the name of someone they wish to honor associated in perpetuity with academic excellence.

Many forward-thinking and generous benefactors have followed Mr. Tompkins' example to establish UC endowments, helping the University to maintain its status as a premiere institution of higher education and research.

According to UC policy, the corpus of a gift consisting of cash, its equivalent, or a legally binding pledge from a donor(s) of at least $350,000 is required to establish an endowed chair, although a higher minimum may be required at some individual campuses.

Courtesy of UC Davis School of Education

David and Dolly Fiddyment

David and Dolly Fiddyment, of Roseville, California, have had a deep interest and involvement in education for years. They have expressed their commitment to education by being major supporters of UC Davis. In 2006, the Fiddyments generously donated $1.09 million to the UC Davis School of Education to establish the School's first endowed chair. It is one of only a handful of academic chairs nationwide that are focused on teacher education.

Dr. Christian Faltis was selected in October 2008 to be the first holder of the Fiddyment Endowed Chair in Teacher Education. Upon his arrival in January 2009 from Arizona State University, Dr. Faltis will also assume the role of director of Teacher Education. For much of his professional career, he has been devoted to the preparation of teachers and brings to UC Davis a primary concern with researching the teaching practices that most successfully engage and educate immigrant and English language learners.

Through this donation, the Fiddyments have already made a difference—today and well into the future. "It is such a joy for us to be able to stand up and take a position on something of such importance," said Mr. Fiddyment. "With this gift, we are hoping to make a difference in the education of children everywhere."

Donald Bren is another generous philanthropist who has made a significant impact on education and research at the University of California—at both UC Irvine and UC Santa Barbara. Mr. Bren, chairman of the Irvine Company, has contributed more to establish endowed chairs than any other single donor in UC's history—39 to date. In 2004, Mr. Bren was awarded UC's highest honor, the University of California Presidential Medal, in recognition of his generous donations and collaborative spirit. According to the Irvine Company, "He has directed more than $60 million to support faculty and programmatic excellence at UC."

Courtesy of the Irvine Company

Donald Bren, Chairman
Irvine Company

"For well over two decades, Mr. Bren's focus on the creation of endowment funds to support faculty chairs has helped bring to the University of California some of the best researchers and scholars in the nation and the world," then-UC-President Robert Dynes said when Mr. Bren was awarded the UC Presidential Medal. "His passionate philanthropy and commitment to educational excellence have helped strengthen the university."

Mr. Bren said, "I strongly believe that the quality of education and research that any institution provides is squarely rooted in the excellence of its faculty. That's why I am focusing more and more of my philanthropic support on the creation of endowed chairs, which will enable the university (UC Santa Barbara) to bring to the Bren School (Environmental Science & Management) world-class scholars and thinkers. The addition of such appointments to the superb faculty at this school will help it firmly establish itself as the most important center anywhere for teaching and research in environmental science and management."

Being appointed to an endowed chair is extremely prestigious, of course. Individuals appointed to endowed-chair positions are held in very high esteem within the academic world. In fact, American colleges and universities compare the number of endowed chairs as a way of ranking faculty strength and reputation, especially among wealthy older institutions.

One example of an exemplary scholar selected for a UC endowed chair is **Laura Dugan**, M.D., associate professor of Medicine. She is the inaugural holder of the Larry L. Hillblom Chair in Geriatric Medicine at UC San Diego. She also holds joint appointments in its departments of Medicine and Neurosciences. She has been the recipient of a Dana Research Fellowship, a Paul Beeson Physician Scholars Award through the American Federation for Aging Research, a Hartford Foundation Award for Geriatric Research, a Hartford Leadership Scholars in Geriatric Medicine Award, the Kopolow Award for Geriatric Psychiatry and Neurology, and an Innovation Award from the St. Louis Academy of Sciences.

Courtesy of UC San Diego School of Medicine

Laura Dugan, M.D.,
Endowed Chair Holder,
UC San Diego

Dr. Dugan is leading a four-year research project aimed at understanding the basic biology of aging in humans, which might lead to dramatic and far-reaching benefits to human health. It has been suggested that slowing the aging process by five to 10 percent could have dramatic affects on the health of older adults and significantly decrease the number of individuals living with disease and disability.

In addition to funding Dr. Dugan's faculty chair position, the Larry L. Hillblom Foundation—which provides support primarily to medical research targeting the prevention, diagnosis, treatment, and cure of age-related chronic or degenerative disorders of the brain or vision, as well as diabetes and its complications—recently granted $2 million to UC San Diego for the groundbreaking research study on aging. "We are extremely grateful to the Larry L. Hillblom Foundation for their continued generous and comprehensive support of aging research at UC San Diego," said Dr. Dugan.

During the 2007-2008 fiscal year, The Regents, together with the Treasurer's Office, were the stewards of 409 UC endowed-chair endowments, with a market value of nearly $600 million. The UC campus foundations also manage endowments for hundreds of endowed chairs. It is estimated that the University has a total of over 1,300 endowed chairs. According to June Smith, of the UC Institutional Advancement Office, "We have seen a dramatic growth in the number of chairs. This is a very attractive option for donors."

The benefactors who established the UC's first endowed chairs had the insight and vision to know their gifts would be the foundation upon which the University would build its excellence. That tradition continues today, with more and more individuals understanding the value of making significant donations to the University. The gift of endowed chairs empowers the University of California to remain competitive in attracting and keeping outstanding professors while fostering academic excellence.

We wish to acknowledge the help of UC Davis, UC San Diego, and the University of California Institutional Advancement Office, in the preparation of this article.
For additional information about Endowed Chairs, please visit this Web site: http://www.ucop.edu/instadv/endowedchairs.html.

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. With the plan in surplus, The Regents suspended both employee and employer contributions to UCRP in 1990, but redirected the mandatory employee contributions to the newly established Defined Contribution Plan.

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

UC RETIREMENT PLAN (UCRP)	June 30, 2008 Market Value	June 30, 2008 % of UCRP	June 30, 2007 Market Value	June 30, 2007 % of UCRP
EQUITIES				
U.S. Equity	$16,935,500	40.3%	$22,911,909	47.8%
Non-U.S. Equity-Developed	7,788,998	18.5	8,939,983	18.7
Non-U.S. Equity-Emerging Markets	1,695,066	4.0	1,794,071	3.7
TOTAL EQUITIES	$26,419,564	62.8%	$33,645,963	70.2%
FIXED-INCOME SECURITIES				
Core Fixed Income	$6,292,534	15.0%	$6,085,889	12.7%
High-Yield Bond	1,311,322	3.1	1,295,693	2.7
Non-U.S. Fixed Income	1,125,748	2.7	1,314,610	2.7
Emerging Market Debt	967,964	2.3	954,600	2.0
TIPS	2,485,151	5.9	2,892,692	6.0
TOTAL FIXED INCOME	$12,182,719	29.0%	$12,543,484	26.1%
ALTERNATIVE ASSETS				
Private Equity	$1,720,925	4.1%	$1,235,559	2.6%
Real Estate	1,051,845	2.5	489,498	1.0
Absolute Return	645,143	1.5		
TOTAL ALTERNATIVE ASSETS	$3,417,913	8.1%	$1,725,057	3.6%
LIQUIDITY PORTFOLIO	$10,494	0.1	39,284	0.1
TOTAL UCRP	$42,030,691	100.0%	$47,953,789	100.0%

UCRP is a balanced portfolio of equities and fixed-income securities, which at June 30, 2008, totaled $42.0 billion, versus $47.9 billion at the end of fiscal 2007.

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 ensure its ability to meet its obligation to beneficiaries by earning returns over the long term that meet or exceed the actuarial rate of return of 7.5%.

OVERALL INVESTMENT STRATEGY AND RETURNS

In order to continue to achieve these investment objectives, The Regents adopted the following asset allocation policy in May 2007[2]:

Asset Class	Current Policy	Policy Range
U.S. Equity	45.5%	41-51%
Non-U.S. Equity-Dev.	18.0	15-21
Non-U.S. Equity-Emrg.	3.0	0-6
Core Fixed Income	12.0	9-15
High Yield Bond	3.0	0-6
Non-U.S. Fixed Income	3.0	0-6
Emerging Market Debt	3.0	0-6
TIPS	6.0	3-9
Private Equity	3.0	0-6
Real Estate	3.0	0-6
Absolute Return	0.5	0-4
Liquidity	0.0	0-10

The benchmarks for the individual asset classes are: Russell 3000 Tobacco Free (TF) Index for U.S. Equity; MSCI World ex-U.S. (Net) Index (TF) for Non-U.S. Equity-Developed; MSCI Emerging Markets (Net) Index

[1] For fiscal years 2007 and 2008, the cash portion of the various portfolios excludes the unrealized market appreciation or depreciation of STIP investments, accounts receivable and accounts payable and the investments in the security lending collateral pool. Therefore, the balances differ from the University's Annual Financial Report. UCRP's STIP investments include assets associated with the UC PERS Voluntary Early Retirement Incentive Program totaling $76.4 million. For 2008, the UCRP assets were unitized with UCRP and PERS jointly owning all the units.

[2] See "Message from the Chief Investment Officer" (pp. 4-5) for information on revised allocation approved by The Regents in September 2008, and effective October 1, 2008.

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN (UCRP) FUNDED STATUS

as of June 30

	2004	2005	2006	2007	2008
MARKET VALUE (in millions)	$39,289	$41,970	$43,387	$47,954	$42,031
TOTAL RETURN	14.34%	10.30%	7.10%	18.83%	-5.74%
ANNUAL TOTAL RISK[1]	6.04%	6.28%	5.59%	4.22%	9.82%
TOTAL CONTRIBUTIONS[2] (in millions) AND INVESTMENT ACTIVITY	$5,006	$3,985	$2,979	$7,916	$7,941
TOTAL PAYMENTS (in millions) & EXPENSES[3]	(1.145)	(1.315)	(1.474)	(3.198)	(3.492)
SURPLUS ASSETS[4] (in millions)	$8,500	$6,300	$3,800	$1,700	$2,000
FUNDED RATIO[5]	125.70%	117.90%	110.30%	104.10%	104.80%

for Non-U.S. Equity-Emerging Markets; Citigroup Large Pension Fund (LPF) Index for U.S. Core Fixed Income; Merrill Lynch High Yield Cash Pay Index for High Yield Bond; Citigroup World Government Bond Index ex-U.S. for Non-U.S. Fixed Income; J.P. Morgan Emerging Market Bond Plus Index for Emerging Market Debt; Lehman TIPS for TIPS; 30-Day Treasury Bill + 4.5% for Absolute Return; Actual Real Estate returns; and Actual Private Equity returns. The total fund benchmark is a policy-weighted average of the individual asset class benchmarks.

UCRP has exceeded its investment objectives and over the long-term, performed well versus its policy benchmarks. UCRP's annualized total return for the past 10 years through June 30, 2008, was 5.66% vs. its benchmark at 5.36%.

EQUITY INVESTMENTS STRATEGY AND RETURNS

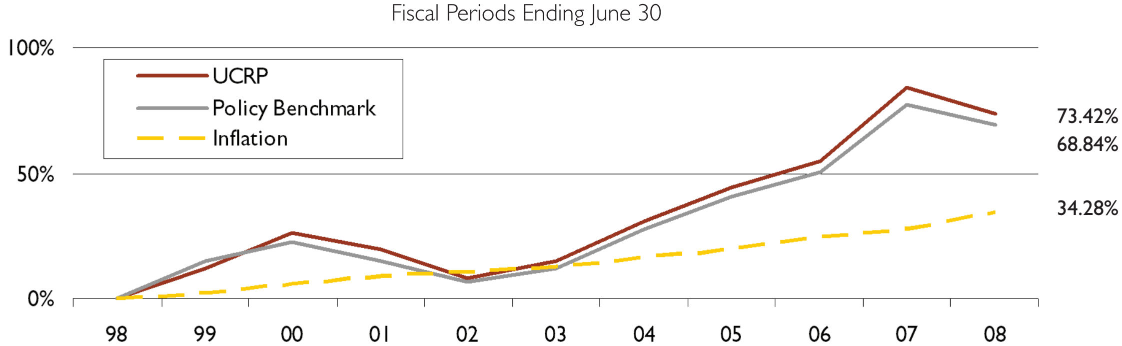
The Treasurer's Office has an internal team of experienced investment professionals who implement the Regents' allocation to public equity. Equity assets are segmented into U.S., Non-U.S. Developed, and Emerging Markets asset classes. The Treasurer's Office team selects multiple equity strategies and 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, 2008, approximately 36% of Domestic Equity assets and 42% of Non-U.S. Equity assets are managed in active strategies by 24 external managers. Emerging Markets are all actively managed by nine firms. The equity portion of UCRP represented 62.8% of the portfolio at year-end, with a market value of $26.4 billion. U.S. Equity represented 40.3% of the fund at year-end, with a market value of $16.9 billion. UCRP's U.S. Equity assets returned -14.27% for the fiscal year and 7.88% for the five-year period.

UCRP Cumulative Total Returns: Fiscal 1998-2008

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 (which have been negligible over this period), investment income and realized and unrealized gains and losses, as of the beginning of the fiscal year.

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

[4] Surplus assets are 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.

Total Non-U.S. Equity represented 22.5% of UCRP at year-end, with a market value exceeding $9.4 billion. Non-U.S. Equity-Developed Markets represented 18.5% with a market value of over $7.7 billion and Non-U.S. Equity-Emerging Markets represented 4% with a market value exceeding $1.6 billion. UCRP's Non-U.S. Equity-Developed returned -9.34% during the fiscal year and 17.30% for the five-year period. Non-U.S. Equity Emerging Markets returned 1.53% in the fiscal year and 29.20% for the five-year period.

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 29.0% of the portfolio, with a market value exceeding $12.1 billion. Within total Fixed Income, UCRP's Core Fixed-Income investments returned 5.26% during the year. Over the long-term, UCRP's Fixed Income returned 3.87% and 5.78% for the five- and 10-year periods. UCRP's High Yield, Non-U.S. and Emerging Markets Fixed-Income investments returned -2.57, 18.73, and 5.11% respectively, for the fiscal year.

For TIPS, the Treasurer's Office seeks to maximize long-term total real returns and increase portfolio diversification, given TIPS' low correlation with other asset classes. UCRP's TIPS represented 5.9% of total assets with a market value of over $2.4 billion on June 30, 2008. TIPS returned 15.69% in the fiscal year.

The weighted average maturity of the Fixed-Income portfolio at the end of the year was approximately 8.9 years, the weighted average duration 7.8 years, and the average credit rating was AA, with 81% rated A or better.

ALTERNATIVE INVESTMENTS STRATEGY AND RETURNS

For Private Equity, the Treasurer's Office seeks opportunities through recognized top-tier venture capital partnerships and select buyout funds. Private Equity represented 4.1% of UCRP at year-end with a market value of $1.7 billion. UCRP returns for this asset class in the fiscal year were 7.20%. Over the long term, UCRP's Private Equity returns have been an important contributor to total fund return.

For Real Estate, the Treasurer's office seeks investments which provide long-term risk-adjusted total returns between those of U.S. equities and bonds; diversification benefits given real estate's low correlation with other asset classes; protection against unanticipated inflation; and a high proportion of the total return derived from current income.

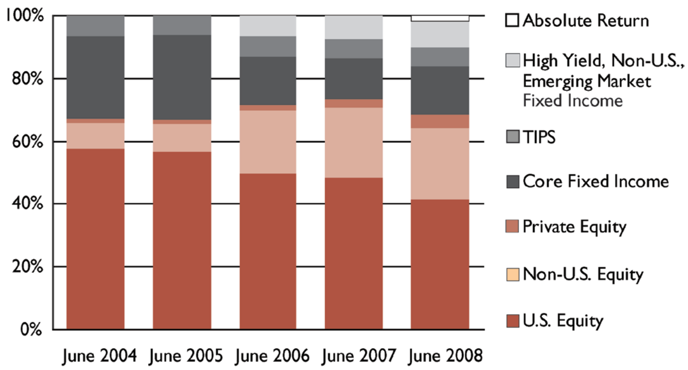
Real Estate represented 2.5% ($1.1 billion) of UCRP at year-end and returned 5.64% net in the fiscal year, matching its benchmark. Since inception, the net return of 14.70% outperformed the benchmark return of 13.97% by 73 bps.

The cumulative Total Returns Chart on page 25 illustrates the returns for UCRP for the past 10 years relative to the policy benchmark and inflation.

ASSET MIX

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

UCRP Asset Mix



UCRP FUNDED STATUS

The University of California Retirement Plan costs are funded by a combination of investment earnings, employee member and employer contributions. Since 1990, the University's contribution rate to the UCRP has been zero. In addition, since 1990, most of the required employee member contributions to the UCRP have been redirected to the separate defined contribution plan maintained by the University.

In 2006, The Regents updated the funding policy for UCRP to provide for a targeted funding level of 100 percent over the long term, and for University and UCRP member contributions at rates necessary to maintain that level within a range of 95–110%. The University will implement a multi-year contribution strategy under which shared employer and employee contribution rates will increase gradually over time to 16% of covered compensation, based upon UCRP's current normal cost. Contributions from both UC and employees are scheduled to start July 1, 2009.

UCRP ANNUALIZED TOTAL RETURNS[1] VERSUS BENCHMARKS AND INFLATION

June 30, 2008

	1-Year	5-Years	10-Years	10-Year Cumulative	Benchmark Description[2]
TOTAL FUND					
UCRP	-5.74%	8.61%	5.66%	73.42%	Total Fund Policy Benchmark: A blend of the indices described in detail below, each weighted by the percentage it represents in the asset allocation, except that the policy of Private Equity, Real Estate, and Absolute Return are set equal to the actual weights each month. Annual index returns assume monthly rebalancing. Inflation: Consumer Price Index.
Policy Benchmark	-4.65	8.53	5.36	68.84	
Inflation	5.03	3.56	2.99	34.28	
U.S. EQUITY					
UCRP	-14.27%	7.88%	3.13%	36.05%	U.S. Equity Policy Benchmark: Russell 3000 TF Index; Historical: S&P 500 Index.
Policy Benchmark	-12.84	8.24	3.41	39.78	
NON-U.S. EQUITY-DEVELOPED					
UCRP	-9.34%	17.30%	N/A	N/A	Non-U.S. Equity-Developed Policy Benchmark: MSCI World ex U.S. (Net) Index TF.
Policy Benchmark	-8.90	17.24	N/A	N/A	
NON-U.S. EQUITY-EMERGING MARKETS					
UCRP	1.53%	29.20%	14.84%	298.88%	Non-U.S. Equity-Emerging Markets Policy Benchmark: MSCI Emerging Market Free (Net) Index.
Policy Benchmark	4.63	29.75	15.33	316.41	
U.S. CORE FIXED INCOME					
UCRP	5.26%	3.87%	5.78%	75.41%	US Fixed Income Policy Benchmark: Citigroup Large Pension Fund Index; Historical: LB LTG/C Index.
Policy Benchmark	8.24	4.24	6.01	79.18	
HIGH-YIELD BOND					
UCRP	-2.57%	N/A	N/A	N/A	High Yield Bond Policy Benchmark: Merrill Lynch High Yield Cash Pay Index.
Policy Benchmark	-2.03	N/A	N/A	N/A	
NON-U.S. FIXED INCOME					
UCRP	18.73%	N/A	N/A	N/A	Non-U.S. Fixed Income Policy Benchmark: Citigroup World Government Bond Index ex-U.S.
Policy Benchmark	18.72	N/A	N/A	N/A	
EMERGING MARKET DEBT					
UCRP	5.11%	N/A	N/A	N/A	Emerging Market Debt Policy Benchmark: J.P. Morgan Emerging Market Bond Plus Index.
Policy Benchmark	5.17	N/A	N/A	N/A	
TIPS					
UCRP	15.69%	6.12	N/A	N/A	TIPS Policy Benchmark: Lehman TIPS.
Policy Benchmark	15.09	5.98	N/A	N/A	
PRIVATE EQUITY[3]	7.20%	20.86%	19.72%	504.73%	
ABSOLUTE RETURN[4]					
UCRP	2.52%	N/A	N/A	N/A	
Policy Benchmark	N/A	N/A	N/A	N/A	Absolute Return Policy Benchmark: 30-Day TBills + 4.5%
REAL ESTATE[5]	5.64%	N/A	N/A	N/A	

[1] UCRP's total returns are net of (after) the Treasurer's Office investment management and administrative expenses (currently 0.039%) of average annual market value. 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.

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

[3] Until December 2004, the Private Equity Benchmark was the Russell 3000 TF Index + 3% (lagged by three months). Beginning January 2005, the performance benchmark for PE was no longer based on a market index. PE is properly evaluated using an internal rate of return (IRR), which cannot be combined with other time-weighted returns. For purposes of calculating the Total Fund benchmark, the actual PE portfolio return is used as the PE benchmark. This has the effect of neutralizing any excess performance contributed by PE in the total fund.

[4] Performance benchmarks for periods less than five years are not relevant for the Absolute Return asset class.

[5] Until Q4 of 2007-2008 fiscal year, the benchmark was NCREIF Property Index (NPI) for all Real Estate. Beginning that same quarter, the benchmark was actual return for closed-end Real Estate.

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 mandatory 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]

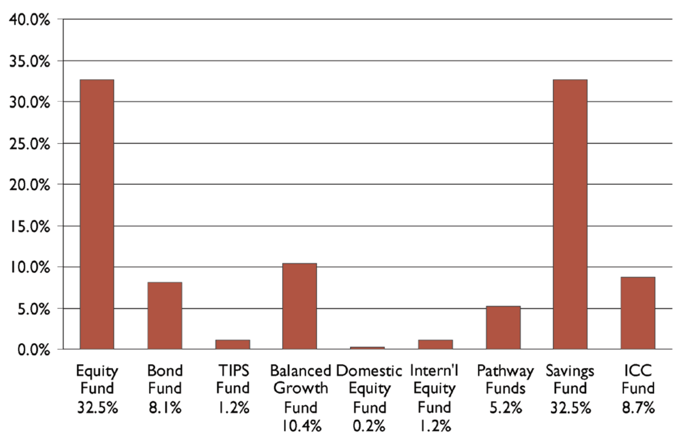
Summary of Investments[2]
($ in thousands)

DEFINED CONTRIBUTION (DC) FUNDS	June 30, 2008 Market Value	June 30, 2008 % of DC	June 30, 2007 Market Value	June 30, 2007 % of DC
TOTAL RETURN FUNDS				
EQUITY FUND	$3,327,860	32.5%	$4,100,608	38.7%
BOND FUND	826,564	8.1	786,475	7.4
TIPS FUND	120,468	1.2	52,163	0.5
BALANCED GROWTH FUND	1,060,065	10.4	1,168,808	11.0
DOMESTIC EQUITY INDEX FUND	21,383	0.2	17,341	0.2
INTERNATIONAL EQUITY INDEX FUND	124,403	1.2	114,742	1.1
PATHWAY INCOME FUND[3]	38,875	0.4	20,582	0.2
PATHWAY FUND 2010[3]	139,913	1.4	102,576	1.0
PATHWAY FUND 2020[3]	157,870	1.5	113,592	1.1
PATHWAY FUND 2030[3]	109,048	1.1	79,915	0.8
PATHWAY FUND 2040[3]	52,425	0.5	30,560	0.3
PATHWAY FUND 2050[3]	28,457	0.3	20,879	0.2
INTEREST INCOME FUNDS				
SAVINGS FUND	$3,330,169	32.5%	$3,148,644	29.7%
ICC FUND	886,157	8.7	824,029	7.8
TOTAL UC MANAGED DC FUNDS	$10,223,657	100.0%	$10,580,914	100.0%

As of June 30, 2008, total assets in the UC-managed defined contribution plans were $10.2 billion vs. $10.6 billion on June 30, 2007.

When investing their defined contribution funds, employees may choose among 18 UC Core Funds.[4] UC Core Funds are under the direction of UC's Office of the Treasurer. The UC Treasurer manages each fund, or selects the fund's investment manager.

Total UC-Managed Defined Contribution Plan Assets by Fund
June 30, 2008



[1] New funds inception 7/1/05.

[2] For fiscal years 2007 and 2008, 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.

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

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

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

June 30, 2008

	1-Year	5-Year	10-Year	Benchmark Description
TOTAL RETURN FUNDS				
Equity Fund	-11.78%	10.06%	4.93%	Equity Fund Policy Benchmark: 85% less the actual Private Equity weight from the prior month end times the Russell 3000 TF Index, 15% MSCI ACWI ex-U.S. (Net) Index and the actual Private Equity weight of the previous month end times the actual PE return; Historical: S&P 500 Index.
Policy Benchmark	-11.93	9.90	4.02	
Morningstar Domestic Equity Funds Median[2]	-10.60	8.22	4.51	
Bond Fund	4.84%	3.49%	5.23%	Bond Fund Policy Benchmark: Lehman Aggregate Index; Historical: LB LTG/C Index.
Policy Benchmark	7.12	3.85	5.30	
Morningstar Taxable Bond Funds Median[2]	3.58	3.31	4.53	
TIPS Fund (started 4/1/04)	15.46%	N/A	N/A	
Policy Benchmark	15.09	N/A	N/A	TIPS Fund Policy Benchmark: Lehman TIPS Index.
Balanced Growth Fund (started 4/1/04)	-5.24%	N/A	N/A	Balanced Growth Fund Policy Benchmark: 65% policy benchmark for Equity Fund, 30% policy benchmark for Bond Fund and 5% policy benchmark for TIPS Fund.
Policy Benchmark	-5.05	N/A	N/A	
Domestic Equity Index Fund (started 7/1/05)	-12.71%	N/A	N/A	Domestic Equity Index Fund Policy Benchmark: Russell 3000 Tobacco Free Index.
Policy Benchmark	-12.84	N/A	N/A	
International Equity Index Fund (started 7/1/05)	-8.41%	N/A	N/A	International Equity Index Fund Policy Benchmark: MSCI EAFE + Canada Tobacco Free Index.
Policy Benchmark	-8.90	N/A	N/A	
UC Pathway 2010 (started 7/1/05)	1.20%	N/A	N/A	UC Pathway 2010 Fund Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	0.58	N/A	N/A	
UC Pathway 2020 (started 7/1/05)	-2.61%	N/A	N/A	UC Pathway 2020 Fund Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	-3.03	N/A	N/A	
UC Pathway 2030 (started 7/1/05)	-5.49%	N/A	N/A	UC Pathway 2030 Fund Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	-6.01	N/A	N/A	
UC Pathway 2040 (started 7/1/05)	-6.94%	N/A	N/A	UC Pathway 2040 Fund Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	-7.20	N/A	N/A	
UC Pathway 2050 (started 7/1/05)	-9.06%	N/A	N/A	UC Pathway 2050 Fund Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	-9.64	N/A	N/A	
UC Pathway Income (started 7/1/05)	5.15%	N/A	N/A	UC Pathway Income Fund Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	5.19	N/A	N/A	
INTEREST INCOME FUNDS				
Savings Fund	4.87%	4.19%	4.92%	Savings Fund Policy Benchmark: 2-Year U.S. Treasury Note Income Return.
Policy Benchmark	3.30	3.45	3.90	
ICC Fund	5.28%	5.27%	6.06%	ICC Fund Policy Benchmark: 5-Year U.S. Treasury Note Income Return.
Policy Benchmark	3.78	3.97	4.41	
Inflation	5.03%	3.56%	2.99%	Inflation: Consumer Price Index.

[1] All returns for the University-managed funds are net of (after) investment expenses of 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.

INTERNALLY MANAGED UC FUNDS

The 14 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 six 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 how these DC funds performed for the periods of one year, five years, and 10 years. The University-managed funds have an extremely low cost relative to external fund options: Annual expenses are only 0.15%[1] of average annual market value, compared to the industry average of 1.4%[2].

TOTAL RETURN FUNDS

EQUITY FUND

The second largest of the University-managed DC funds is the Equity Fund, established in August 1967. The Equity Fund is a total return fund with the primary objective of maximizing long-term capital appreciation with a moderate level of risk. The following asset allocation policy for the Equity Fund has been in effect since March 2000:

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

At June 30, 2008, the total market value of the Equity Fund was $3.3 billion. The portfolio consisted of 82.4% U.S. Equity, 14.8% Non-U.S. Equity and 2.8% Private Equity.

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

For the fiscal year, the return for Equity Fund was -11.78, compared to -11.93 for the benchmark. However, the Equity Fund had a return of 10.06% over a five-year period and 4.93% for a five-year period.

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, 2008, the total market value of the Bond Fund was $826 million. Mortgage-backed securities made up 45% of the fund, U.S. government securities constituted 27% of the fund, industrials 12%, financial bonds 6%, utilities 4%, asset-backed securities 3%, high-yield securities 2%, and foreign sovereigns 1%. The weighted average maturity of the portfolio at year-end was approximately 13.25 years, the weighted average duration 9.15 years, and 87% of the portfolio was rated A or better.

In fiscal 2008, the Bond Fund returned 4.84%. As shown on page 29, the Bond Fund returned 3.49% and 5.23% for the five- and 10-year periods, respectively.

BALANCED GROWTH FUND

The Balanced Growth Fund seeks to provide long-term growth and income through a balanced portfolio of equity and fixed income securities held within UC-managed funds. The market value of the Balanced Growth Fund at June 30, 2008, was $1.0 billion and had a negative return of 5.24% for the fiscal year.

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

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

TIPS FUND

The TIPS (Treasury Inflation-Protected Securities) Fund, started April 1, 2004, seeks to provide long-term

1 Total expenses are comprised of approximately 0.03% for investment management, 0.02% for investor education and 0.10% for accounting, audit, legal and record-keeping services.

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

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, 2008, exceeded $120 million and returned 15.46% for the fiscal year.

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, 2008, the market value of the Domestic Equity Index Fund was $21.0 million and had a negative return of 12.71% for the fiscal year.

INTERNATIONAL EQUITY INDEX FUND

The International Equity Index Fund is invested in a MSCI EAFE + Canada Tobacco Free (TF) Index Fund. Started on July 1, 2005, the International Equity Index Fund seeks to provide investment results approximating the total return performance of the securities included in the MSCI + Canada Index.

The Morgan Stanley Capital International Europe, Australasia, and Far East Index is designed to measure the performance of stock markets in those regions. The TF version excludes tobacco companies.

The market value of the International Equity Index Fund at June 30, 2008, was $124 million and had a negative return of 8.41% for the fiscal year.

UC PATHWAY FUNDS

The UC Pathway Funds are a simple yet diversified, one-stop-shopping approach to saving for retirement. Established on July 1, 2005, the UC Pathway Funds are lifecycle funds managed to adjust the level of risk as the investor approaches a target date of 2010, 2020, 2030, 2040, or 2050. The Funds seek to provide capital appreciation and current income consistent with its asset allocation, which will increasingly emphasize income as the target date approaches. The UC Pathway Income Fund may be appropriate for those investors currently drawing income from their 403(b), 457(b), or DC accounts.

Each Pathway Fund is diversified across several asset classes by investing in a variety of Core Funds[1] at varying percentage levels. Over time, the amount invested in stock funds is gradually reduced, while the amount invested in bond and short-term funds is increased.

At June 30, 2008, the market values and fiscal year returns for the UC Pathway Funds were as follows: 2010, $140 million and returned 1.20%; 2020, $158 million and had a return of -2.61%; 2030, $109 million and had a return of -5.49%; 2040, $52 million and had a return of -6.94%; 2050, $28 million and had a return of -9.06%; and UC Pathway Income, $39 million and returned 5.15%.

INTEREST-INCOME FUNDS

SAVINGS FUND

The Savings Fund, the largest DC Fund, is an interest income fund created in July 1967. The Fund seeks to maximize interest-income returns, while protecting principal, in order to provide a stable, low-risk investment, with attractive returns. The Fund invests in fixed-income securities issued by the U.S. Treasury and U.S. government agencies, most of which are backed by the full faith and credit of the U.S. government. The Fund also invests in fixed income securities issued by U.S. government-sponsored enterprises (GSEs) such as Fannie Mae, Freddie Mac and the Federal 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, 2008, the Savings Fund totaled $3.3 billion and was composed of 47% U.S. Treasuries, and 53% government-sponsored enterprises (GSEs). The weighted average maturity of the Savings Fund was 2.07 years at June 30, 2008.

The Savings Fund has historically provided an income return greater than that of two-year U.S. Treasury Note income. In fiscal 2008, the Savings Fund generated an income return of 4.87%. During the past 10 years, the Savings Fund generated an average income return of 4.92% versus 3.90% on Two-Year U.S. Treasury Note income.

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

INSURANCE COMPANY CONTRACT FUND

The Regents approved the Insurance Company Contract (ICC) Fund as an investment option in September 1985. The investment objective of the ICC Fund is to maximize interest income return while protecting principal. The Treasurer's Office invests contributions to the ICC Fund in insurance company contracts offered by select, highly rated, financially sound insurance companies. Under such contracts, the insurance companies guarantee a fixed annual rate of interest for a specified time period and the repayment of principal at the end of that time period. The Fund may also invest in government and government agency securities and cash during periods in which maturing contracts expire and available contracts are not deemed attractive by the portfolio manager. ICC Fund participants receive the blended interest rate of all contracts in the fund. The Fund strives to exceed the returns of five-year U.S. Treasury Notes and to outpace inflation.

At June 30, 2008, the ICC Fund totaled $886 million, with a weighted average maturity of 2.93 years. Since 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 2008, the ICC Fund generated an income return of 5.28%. During the past 10 years, the ICC Fund generated an income return of 6.06% compared to 4.41% on five-year U.S. Treasury Note income.

UC-managed Funds' investor expenses are limited to 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 record-keeping services). The total administrative expenses are estimated and could actually be lower in some periods. If actual administrative expenses are less than estimated, any accumulation will be returned to the Fund each quarter, on a prorated basis, thereby lowering the effective expense ratio for participants. There are no front-end or deferred sales loads or other marketing expenses.

"If it hadn't been for my homeroom teacher on my first day at high school, I never would have ended up working with computers. She said that I couldn't take business math because I had an A+ in algebra the previous year. So, she enrolled me in geometry. That led me into a dual major in both college prep and business, which launched me on a career path working with computers—from their infancy through their current stature as an integral part of our everyday life."

Photo courtesy of Joyce Glantz

Ida Riordan

RETIREE PROFILE

Ida grew up in Boston with a great love of reading, an intense curiosity about everything around her, a strong desire to help others, and an uncanny ability to solve problems. She was the first person in her family to attend college and entered a field where she was usually one of only a few women. She started working with computers right out of college and it was through this work that she met her husband. They moved west to California, where she eventually ended up joining the University of California Los Angeles in 1964.

Her industry background, working with connecting computers, was a great match for the needs of UC at that time. Her initial interview at the UC Health Sciences Computing Facility was memorable on many levels as it was also the day President Kennedy was shot and she started work a few months later. Her initial challenges were centered on learning how humans interface with their computer printouts. She worked on how and in what order the output was viewed by the researcher, to design how the output would be displayed on screen—a novel idea at the time.

Her niche was being able to teach professionals enough about the world of computers that they (as end users) could effectively help her define and implement projects to ultimately meet their specific needs. In many cases, she was able to help them identify problems they didn't even know they had—and design an elegant solution!

Ida eventually joined the UCLA Institute of Library Research, where she developed search algorithms using information from the Brain Research Institute. From there she migrated to the Office of Management Analysis. There was a plethora of projects, as people saw automation happening elsewhere and wanted it for themselves. She was deployed to a variety of departments, studied what they did and how they did it, improved the process, and moved on to the next customer. Her work life was varied and, as she describes it, "joyful." Ultimately, she joined the Staff Affirmative Action Office (one of her "clients"), which offered her, as she puts it, "Oh, so many interesting problems." This was paradise for a person who describes herself as "a computer person always in search of a project."

It was during her time within Staff Affirmative Action that she had the opportunity to do her "best" work. Her work/study students were, by far, her favorite "projects." She saw them as family and experienced great pleasure in bringing them along in their study and work skills. With her encouragement, many of them have gone on to very successful and fulfilling careers. As some special people had done for her over the years, she in turn offered students special guidance. Her personal beliefs are fundamentally aligned with the office's goals, as Ida believes one should be valued for *who* they are, not *what* they are.

She has always been a saver, even as a child, and over the years she took advantage of the supplemental savings opportunity offered through the University's 403(b) Plan. At the beginning she didn't know too much about investing and, rather than rely solely on her husband's advice, she took a few business school classes at UCLA in the evenings. She was even able to retire a little earlier than originally planned because of a voluntary early retirement program (VERIP).

"Retirement is going okay," she reports and she relishes being able to stay connected to the University. She was pleased to discover the wonderful support network offered to her through the UCLA Retirees' Association, the Faculty Women's Club, and the Affiliates of UCLA, a town and gown organization. And, of course, she and her husband never miss a basketball game.

What is her advice to others? "UC is a great place to work! The people who devote their careers here are very special people."

Ida Riordan

Retired

27 years with the University of California - Los Angeles

We wish to acknowledge the help of the UCOP Human Resources staff and the UCLA Emeriti/Retirees Relations Center in preparing this information.

Short Term Investment Pool (STIP)

The Short Term Investment Pool (STIP) is a cash investment pool established in fiscal 1976 by The Regents, in which all University fund groups participate, including retirement and endowment funds as well as campus endowment funds. Cash to meet payrolls, operating expenses, and construction funds of all the campuses and teaching hospitals of the University are the major funds invested in STIP until expended. Pension, endowment, and defined contribution funds awaiting permanent investment are also invested in STIP until transferred. 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 STIP is to maximize returns consistent with safety of principal, liquidity and cash-flow requirements. The STIP's investments include a broad spectrum of high-quality money-market and fixed-income instruments with a maximum maturity of five-and a half years. Investment maturities are structured to ensure an adequate flow of funds to meet the University's cash needs as well as to provide the liquidity needed to facilitate asset class rebalancing and other major liquidity events.

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.

The STIP has achieved very attractive returns over the long term. Over the last 10 years, the average annual income return on the STIP was 4.81%, compared to the Two-Year U.S. Treasury Note income return of 3.90%, a net benefit of 91 basis points per year.

For the fiscal year ended June 30, 2008, the STIP exceeded $8.7 billion. The STIP's income return was 4.76% vs. the Two-Year U.S. Treasury Note income return of 3.30%.

The credit crunch and liquidity contraction that began in mid-August 2007 with the ongoing stress in the housing markets continues to roil all financial markets. Even money markets, often considered safe havens, are under stress and remain severely dislocated. During the fiscal year, the money markets experienced several rare events, including: the unraveling of the ABCP (Asset-Backed Commercial Paper) market; money-market funds "breaking the buck" (NAV's falling below one dollar); still others suffering from unusually high redemptions and electing to halt redemptions; others needing large cash infusions from their sponsors; and very high liquidity premiums in borrowing rates for even high-quality corporate issuers.

STIP Annualized Income Return[1]
June 30, 2008

	1-Year	5-Year	10-Year	10-Year Cumulative
STIP	4.76%	4.13%	4.81%	59.14%
2-Yr U.S. Treasury Income	3.30	3.45	3.90	46.58
Inflation[2]	5.03	3.56	2.99	34.28

[1] STIP returns are net of (after) investment management costs which are automatically deducted from income. The distribution return (net of all expenses) was 4.69%, 4.10%, and 4.76% for the one-, five-, and 10-Year periods respectively.

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

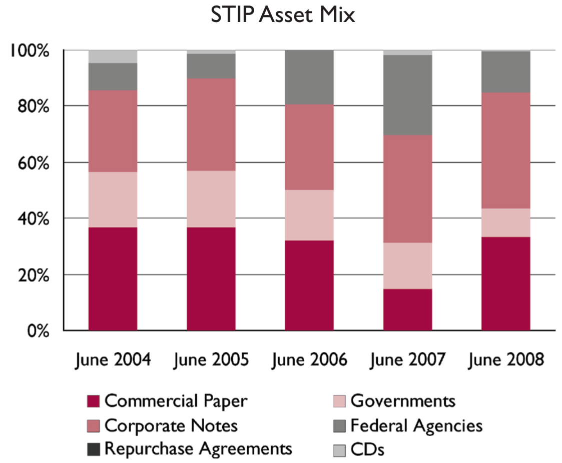
In response to these strains and a weakening economy, the Federal Reserve cut the federal funds target rate from 5.25% in August 2007 to a current rate of 2.0%. Additionally, the Fed has instituted a number of extraordinary lending facilities in order to ease the strains in the financial system.

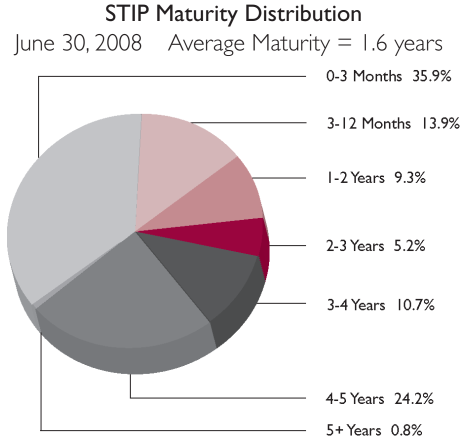
During the year, the yield curve steepened, and credit spreads widened substantially. As the STIP successfully avoided many of the above problems, its managers were able to take advantage of very attractive opportunities to selectively add high quality credit spread products to lock in higher yields. These included attractive callable structures in senior GSE securities. At all times, STIP's primary investment objective is the safety of principal, and we remain focused on maintaining liquidity and managing the risk in the portfolio.

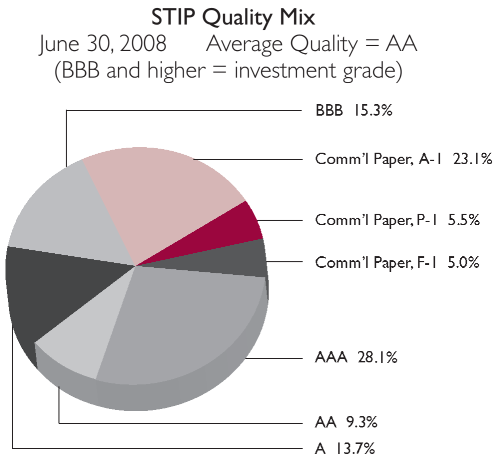
In the fourth quarter of the fiscal year, the Regents approved the establishment of a new Total Return Investment Pool (TRIP), an investment alternative to the STIP that increases the expected return of long-term working capital. As the concept, strategies, and procedures for the TRIP were worked out over the fiscal year, the Treasurer's Office prepared to build the liquidity ($1.5 billion) needed to fund the TRIP on August 1, 2008. Because of the large amount of liquidity needed, the average maturity of the fund at June 30, 2008, was 1.6 years, slightly short of the benchmark.

ASSET MIX

The following represents STIP's asset mix as of each of the past five fiscal year-ends.







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, which provides first deed of trust mortgage loans to eligible members of the University's faculty and staff. These loans totaled $585.6 million at June 30, 2008, and were funded by the legally available cash balances in the unrestricted portion of STIP. 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. The STIP also provides working capital advances to the medical centers.

This *Treasurer's Annual Report 2007-2008* 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 2007-2008* (available at www.ucop.edu/ucophome/busfin/reports.html), *The University of California Defined Contribution Plan and Tax-Deferred 403(b) Plan 2007-2008*, and *The University of California Retirement Plan 2007-2008* (both available at http://atyourservice.ucop.edu/forms_pubs/categorical/annual_reports.html).

WEB RESOURCES

UC-Managed Funds

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

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

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

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

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

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

Conflict of Interest Policy: http://www.ucop.edu/treasurer/currentpol/ConflictofInterest.pdf

Regents' Committee on Investments/Investment Advisory Group

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

UC News

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

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

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

Office of the Treasurer of the Regents, University of California
1111 Broadway, Suite 1400, Oakland, CA 94607-4007

Web site: www.ucop.edu/treasurer E-mail: treas.regents@ucop.edu

OFFICE OF THE TREASURER

June 2008

Marie N. Berggren, MS – **Chief Investment Officer, and Vice President for Investments and Acting Treasurer**
Elizabeth Agbayani – Executive Secretary

Melvin L. Stanton, MBA – **Associate Chief Investment Officer**
Randolph E. Wedding, MBA – **Senior Managing Director – Fixed Income Investments**
Jesse L. Phillips, CFA, MBA, MA – **Senior Managing Director – Investment Risk Management**
William J. Coaker, CFA, MBA – **Senior Managing Director – Public Equity**

ALTERNATIVE INVESTMENTS

Absolute Return

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

Private Equity

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

Real Assets

Gloria Gil, BS, CRE	Managing Director
Rebecca Stafford, MA	Investment Officer
Cay Sison, BA	Senior Investment Analyst
Milkah Cunningham, AA	Administrative Specialist (50/50 with Fixed Income)

PUBLIC EQUITY INVESTMENTS

David Hughes, CFA, MBA	Investment Officer
Victoria Owens, CFA, MBA	Senior Investment Analyst
Kristina Chow, MBA	Public Equity Analyst

FIXED INCOME INVESTMENTS

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

INVESTMENT RISK MANAGEMENT

Aileen Liu, MS	Associate Director
Duane Gilyot, MS	Senior Analyst
Farhan Zamil, BA	Analyst

OPERATIONS

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

INFORMATION SYSTEMS

Michael Comstock, **Technology Manager**

Richard Thomas	Gay Adams

CLIENT RELATION SERVICES

Susan Rossi, **Director**	Sharon Murphy

BUSINESS MANAGEMENT

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