

INVESTING IN YOUR FUTURE

RETIREMENT INVESTMENT FUNDS ANNUAL REPORT DECEMBER 2004

UNIVERSITY OF CALIFORNIA
RETIREMENT PLAN (UCRP)

EQUITY FUND

BOND FUND

TIPS (TREASURY INFLATION-PROTECTED
SECURITIES) FUND

BALANCED GROWTH FUND

SAVINGS FUND

ICC (INSURANCE COMPANY
CONTRACT) FUND



It starts here

UNIVERSITY OF CALIFORNIA
OFFICE OF THE TREASURER

The Regents of the University of California

at December 31, 2004

The University of California is governed by The Regents, a 26-member board, as established under Article IX, Section 9 of the California Constitution. The Treasurer of The Regents is responsible for managing the investments and cash for the University of California System. The Treasurer's Office carries out these activities under the policies established by the Investment Committee of The Regents of the University of California.

OFFICERS OF THE REGENTS	The Honorable Arnold Schwarzenegger, President Gerald L. Parsky, Chairman Richard Blum, Vice Chairman James E. Holst, General Counsel and Vice President for Legal Affairs Leigh Trivette, Secretary David H. Russ, Treasurer and Vice President for Investments	
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FACULTY REPRESENTATIVES	George Blumenthal	Clifford Brunk
REGENTS-DESIGNATE	Eric G. Juline Richard E. Rominger	Adam Rosenthal
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	Ex Officio Members: The Honorable Arnold Schwarzenegger John J. Moores	Robert C. Dynes Gerald L. Parsky
	Advisory Members: George Blumenthal	

RETIREMENT INVESTMENT FUNDS REPORT 2004

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CALENDAR YEAR 2004 IN REVIEW

The global economy continued to perform well in calendar 2004, led by very strong results in China and other Asian economies and Latin America. U.S. real Gross Domestic Product (GDP) growth rose a healthy 3.9% after 4.3% in 2003. Equity markets responded positively, with the Russell 3000 Tobacco-Free Index rising 11.85%, Nasdaq 9.2%, the S&P 500 10.9%, and the Dow Jones Industrial Average 5.3%. Foreign markets performed even better, with the MSCI EAFE Index gaining 20.91%. Private equity markets recorded very strong returns, as merger and acquisition activity continues to pick up.

Strong global demand for oil and commodities led to a general rise in inflation, with headline Consumer Price inflation (CPI) advancing to 3.3% at year-end from 1.9% in December 2003. As such, the Federal Reserve raised short-term interest rates by 50 basis points during the year to 2% and is expected to continue until Fed Funds reach a more neutral level between 3.5-4%.

However, while short-term interest rates rose, longer-term yields were largely unchanged, with 10-year U.S. Treasury yields ending the year at 4.22% vs. 4.25% at December 2003. This unusual result is partially explained by the strong buying of U.S. Treasuries by foreign central banks as well as potential demand for longer-term fixed income assets to fund pension plans. The Lehman Aggregate Bond Index returned 4.34% during the year.

At this point, the global economy remains on a solid footing, although moderating somewhat from last year. Core inflation remains relatively subdued, but the eventual impact on inflation from elevated oil prices, strong demand for commodities, housing price gains, and the potential for wage gains will determine the ultimate level of U.S. interest rates. Other major issues for investors are the high U.S. budget deficits, pension reform, and proposals to amend Social Security.

MESSAGE FROM THE TREASURER

Our 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 financial management needs of its constituency.

We are pleased to report that all of the UC-managed funds produced positive returns for calendar year 2004. The University of California Retirement Plan (UCRP) earned 11.59% and grew by over \$3 billion over the year, net of the payments to beneficiaries and expenses which totaled over \$1 billion. Over the past ten years, beneficiaries have received over \$8.2 billion in UCRP-funded benefits.

The Equity Fund and Bond Fund returned 13.89% and 4.41%, respectively. The new TIPS (Treasury Inflation-Protected Securities) Fund and new Balanced Growth Fund returned 3.40% and 7.92%, respectively, since their launch in April 2004. Interest in these two new funds has been great and their combined market value at year end was over \$900 million. The Savings Fund and the ICC (Insurance Company Contract) Fund returns exceeded the returns of their benchmarks.

Our Office continues to implement The Regents' November 2002 plan to diversify further the range of investments in the UCRP. At this writing, actively-managed Domestic Small Capitalization and actively-managed Large Capitalization managers have been hired. The management team intends to implement a similar process for Non-U.S. Developed Market Equity, to be concluded in 2005. In addition, the 5% Real Estate allocation approved by The Regents in May 2003 began implementation in December 2004.

The University of California's retirement benefits remain a significant component of the comprehensive benefits package the University offers to employees. The core of these benefits, the UCRP, can provide a valuable foundation for retirement. Yet, your pension income may not be sufficient to meet all of your retirement needs, so some of your retirement income may have to come from your own savings and investments. Fortunately, the University offers several attractive and convenient ways to supplement your retirement savings: the Tax-Deferred 403(b) Plan, the (new) 457(b) Deferred Compensation Plan, the Defined Contribution Plan (DC Plan) Pretax Account, and the Defined Contribution Plan After-Tax/Rollover Account.

The Treasurer's Office and UC HR/Benefits have been working together, consulting with stakeholders within the University, on a multi-phased project involving a review of fiduciary oversight, administrative services and the investment structure and investment offerings available to participants in these Plans.

Major project achievements in 2004 included the creation of the 457(b) Plan and the selection of Fidelity Investments Tax-Exempt Services Company to provide participant account and recordkeeping for the Plans. The next project milestone is July 2005: the target date to transition administration of the 403(b) Plan and the DC Plan to Fidelity's recordkeeping platform and to offer an expanded investment structure. Among the enhanced service features that participants can expect are 1) Daily valuation of the UC funds (which historically have been valued monthly), 2) A single website designed to help participants manage all their investments, and 3) A single quarterly account statement showing all Defined Contribution, 403(b), and 457(b) Plan balances and activity. The project plans for 2005 include a Request for Proposal (RFP) to select an investment education services provider. Providing quality financial education for UC participants is a crucial element of successful retirement planning.

After the July recordkeeping transition, participants will still be able to contribute to the six existing UC-managed funds. Our Office will provide oversight responsibility for the assets and investment options of the Plans. We will review and update the overall investment choices, creating a set of prudently selected options within a range of asset classes called "Core Funds." All communication

and financial education efforts will focus on these funds. Our Office will monitor the Core Funds on an on-going basis and will make changes if needed.



It is intended that a new advisory committee, similar to the steering committee that has guided this project, will meet on a regular basis to address the overlap between the investment and administrative functions. The committee will include representatives from the Office of the Treasurer, the Division of Business and Finance, the Office of the General Counsel, and external consultants as appropriate. Consultation with the relevant Academic Senate committees and other University constituent groups will continue as in the past.

Investment choices for all the Plans will continue to be conveniently available through automatic payroll deduction for active employees. It is never too early or too late to start investing for your retirement.

Whether you are a new University of California employee, in mid-career, nearing retirement, or already retired, our University of California-managed investment options can be combined to build a strategy that reflects your goals. Working closely with the University's Human Resources and Benefits Department we strive to keep investment expenses to a minimum - there are no loads (front- or back-end fees) on our University of California managed funds and annual investment management and administrative expenses are only 0.15% of fund assets - relatively low compared to the current industry average of 1.4% for U.S. large capitalization mutual funds.

I encourage all plan participants to review this report and invest for your future.

Sincerely,

David H. Russ
Treasurer and Vice President For Investments



The Office of the Treasurer

Established in 1933, the Office of The Treasurer of The Regents is responsible for managing the investments and cash of the University of California system, which includes the ten campuses, five teaching hospitals and three national laboratories.

The Office has a long and successful history of managing the University's pension and endowment funds, beginning with the endowment funds in 1933, and continuing with the creation of its defined benefit retirement plan (UCRP) in 1961 and the first defined contribution plan in 1967. The Treasurer's Office carries out these activities under the policies established by The Regents of The University of California. The Treasurer's investment management staff includes 22 investment professionals with an average of 18 years of investment experience. Total funds under management at December 31, 2004 were \$62.9 billion.

THE FUNDS

The University of California Retirement Plan (UCRP): A defined benefit plan utilizing a balanced portfolio of equity and fixed-income securities.

Total Return Funds: Equity Fund, Bond Fund, TIPS Fund and Balanced Growth Fund. The performance of the Total Return Funds is driven by a combination of price appreciation and income.

Interest Income Funds: Savings Fund and Insurance Company Contract (ICC) Fund. The performance of the Interest Income Funds is driven by interest income earned on the securities in the portfolios, while the principal value of the fund is designed to remain stable.

INVESTMENT OBJECTIVES & 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 has 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.

ASSET ALLOCATION

Asset allocation is the primary determinant of long-term investment returns. UC funds are diversified among global equities and fixed-income securities, within a Regental target allocation (see pages 11 and 17.) Historically, the UCRP 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. This emphasis on equity investing has resulted in substantial growth in both the endowment and retirement funds managed on behalf of The Regents.

The Portfolio Management Committee meets weekly to review asset allocation and other portfolio issues. Asset allocation rebalancing is required when an asset class moves 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

Historically, The Regents' Public Equity investment strategy utilized both active and passive management. In the process of implementing the November 2002 Regents-approved changes to the U.S. equity strategy, the internally managed U.S. common stock was transferred into a Russell 3000 Tobacco Free (TF) Index fund. The Treasurer's Office has an internal team of experienced investment professionals in place selecting multiple U.S. equity strategies; selecting the external

managers to implement these strategies; and monitoring those external managers on an ongoing basis. As strategies are implemented within the UCRP, the Office is transferring some of the holdings out of the index fund. As of the writing of this report, selection of Small Capitalization U.S. Equity and Large Capitalization U.S. Equity managers has been completed. The management team intends to implement a similar process for Non-U.S. Developed Market Equity to be concluded in early 2005. The U.S. Equity portion of the Equity Fund remains in the Russell 3000 TF Index Fund.

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 their 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.

PRIVATE EQUITY INVESTING

The Regents includes private equity investments such as venture capital and leveraged buyout partnerships in their overall asset allocation to increase portfolio diversification and reduce risk due to the low correlation of private equity with other asset classes. Adding to its attraction, return expectations for private equity are generally at least 300 basis points greater than those of the public equity markets.

Manager selection is key to this asset class, and the Treasurer's Office Alternative Investments Team has a strong competitive advantage and many years of successful experience. The University is seen as a sophisticated, long-term investor in the private equity arena, achieving well above average returns over the past 25 years. The University has long standing relationships with many top-tier private equity groups and continues to build new relationships with premier firms. The objective is to build a well-diversified portfolio of top tier U.S. partnerships. The Team works with a private equity consultant to review private equity investment opportunities. The Team actively monitors investments through regular meetings with the general partners.

REAL ESTATE INVESTING

In May 2003, The Regents approved a 5% allocation to real estate for the UCRP funded from existing equity and bond allocations. Adding real estate investments to this portfolio is expected to 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



The Office of the Treasurer

against unanticipated inflation; and a high proportion of the total return derived from current income.

The real estate investment program began this year and utilizes a combined public and private market strategy. The dual strategy seeks to reduce risk within the real estate allocation, offers opportunities for increased liquidity and broader diversification (across investments, time and geography), and will enable the Treasurer to actively tilt overall real estate exposure toward public or private investments depending on relative valuations.

The public strategy employs the use of external managers who specialize in publicly-traded real estate securities, such as real estate investment trusts (REITs). The private strategy is accomplished through investing in limited liability investment vehicles, such as limited partnerships sponsored by experienced real estate investment firms with demonstrated expertise and superior performance. The Real Estate Investment Team, along with a real estate consultant, will review and recommend managers of publicly-traded investments and sponsors of private investments and screen investment opportunities. Upon completion of due diligence and subsequent investment selection, the Team will negotiate investment agreements and monitor performance.

INVESTMENT RISK MANAGEMENT

Investors perceive risk as the possibility of a loss which is accepted in order to achieve some investment goal. Thus investors accept risk to earn returns. In modern investment theory and practice, risk refers to this uncertainty of outcomes and is measured by the volatility of asset returns. Because risk is an essential aspect of investing, risk management is not about eliminating or necessarily reducing risk, but balancing 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 proportionate 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 over the next fiscal year and being integrated into the asset allocation and rebalancing process.

OPERATIONS

Supporting the management of the portfolios is an experienced Operations staff consisting of a Director, Assistant Director, and Supervisor with an average of 16 years experience in banking and/or investment operations and 7 analysts with an average of 11 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.

The management of the portfolios is also supported by state-of-the-art information systems and a well-established custodial relationship with State Street Corporation, a leading industry provider, ensuring 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.

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 Citigroup Large Pension Fund Index for U.S. bonds. Market indexes are also good benchmarks in that they represent the investor's

“opportunity cost,” i.e. an institutional investor can earn the index return via a low cost passively managed portfolio.

A policy benchmark for a *fund* can be a blend of indexes, each weighted by the percentage it represents in the asset allocation, e.g., 65% Russell 3000 + 35% Citigroup LPF. 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 14).

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, mainly because other institutions may utilize asset allocations that differ from their peers' and thus are expected to perform differently. Before comparing performance, compare the asset allocation policies and designated benchmarks.



The Office of the Treasurer

SENIOR MANAGEMENT

DAVID H. RUSS, MA

Treasurer and Vice President for Investments

Mr. Russ is responsible for overseeing the University of California investment portfolio. Mr. Russ brings over 19 years of investment management experience to the Treasurer's Office. Prior to joining the Treasurer's Office in 2001, Mr. Russ served as Managing Director-Public Markets for the University of Texas Investment Management Company. Mr. Russ also served as the Director of Investment Management and Portfolio Manager for Pacific Telesis Group (now SBC Communications) and as Senior Portfolio Manager for the Stanford Management Company. Mr. Russ received his Master of Administration in Finance and Accounting from the University of California, Davis, and his BA degree in Genetics from the University of California, Berkeley.

MELVIN L. STANTON, MBA

The Assistant Treasurer

Mr. Stanton, along with the Treasurer, is responsible for the overall management of the Treasurer's Office. Prior to 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. Mr. Stanton received his MBA and BS degrees from California State University, Northridge.

RANDOLPH E. WEDDING, MBA

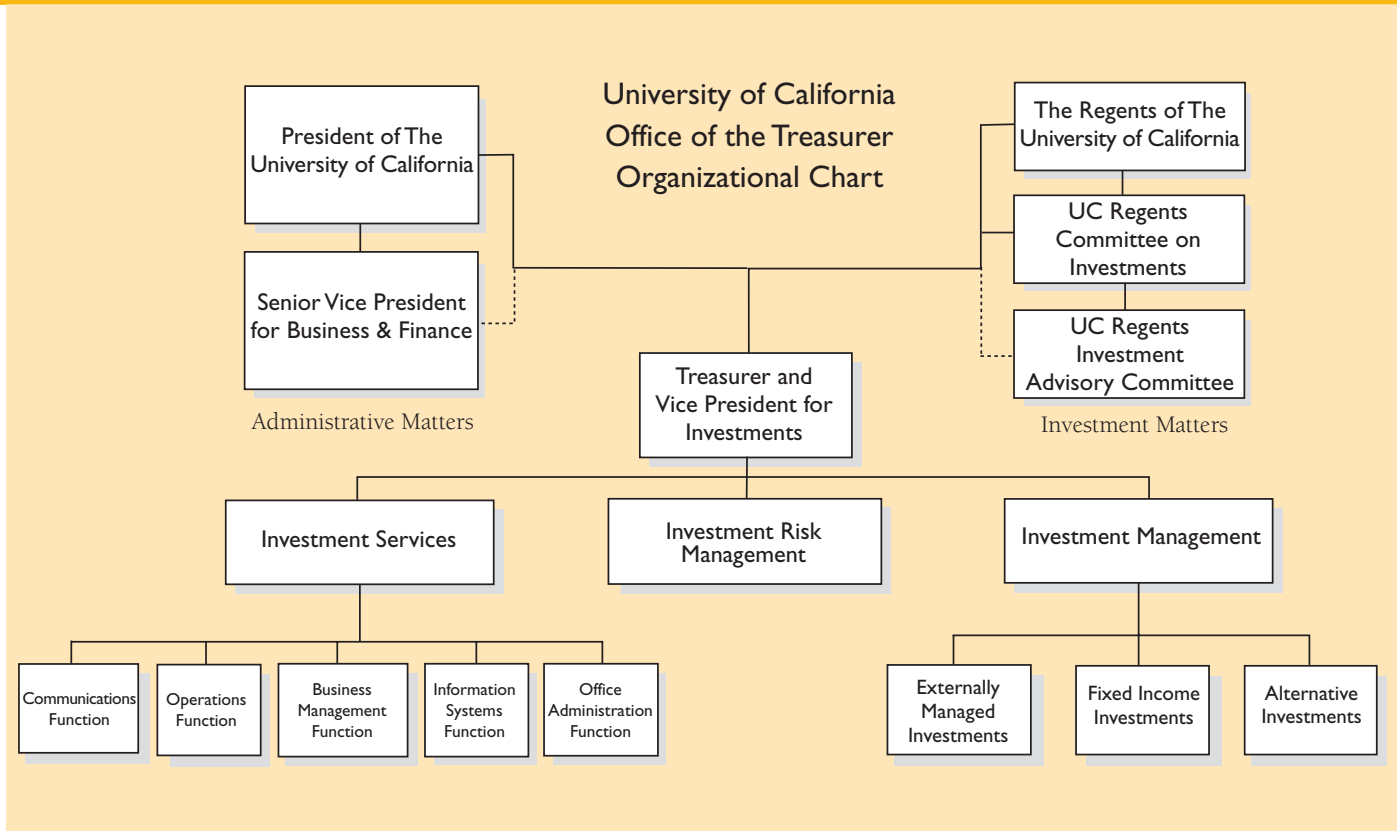
Managing Director – Fixed Income Investments

Mr. Wedding is responsible for the strategic focus and management of the long- and short-term fixed-income portfolios. Prior to joining the Treasurer's Office in 1998, Mr. Wedding 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. Mr. Wedding earned his MBA in Finance from the University of California, Berkeley and BA in Mathematics from the University of California, San Diego.

MARIE N. BERGGREN, MS

Managing Director – Alternative Investments

Ms. Berggren is responsible for the private equity, real estate and absolute return portfolios. Prior to 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. Prior to 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.



JESSE L. PHILLIPS, CFA, MBA, MA

Managing Director – Investment Risk Management

Mr. Phillips is responsible for integrating risk monitoring, measurement, and management into all aspects of the investment process. Prior to joining the Treasurer’s Office in 2002, Mr. Phillips worked at Northrop Gruman 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. Mr. Phillips 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.

ROBERT B. BLAGDEN, MBA

Managing Director – Externally Managed Investments

Mr. Blagden is responsible for overseeing all externally managed funds and activities with overall responsibility for executing an investment strategy that generates optimal total return relative to risk taken. Prior to joining the Treasurer’s Office in 2003, Mr. Blagden had more than 35 years experience as a financial executive including, most recently serving as Director of Investments overseeing endowment assets of the Ludwig Institute for Cancer Research. Previous to this position, Mr. Blagden served as Managing Director, Public Equity for the Stanford Management Company, when the company was established in 1991. He served as Associate Treasurer in the Treasurer’s Office of Stanford University from 1982-1991. Prior corporate planning and finance positions held at Kaiser Cement Corporation between 1968 and 1982 included management of pension and profit sharing assets. Mr. Blagden received his MBA, Finance degree from Stanford University Graduate School of Business and his BA in Statistical Psychology from Dartmouth College.



University of California Retirement Plan (UCRP)

PORTFOLIO CHARACTERISTICS December 31, 2004

TOTAL FUND		ACTIVE U.S. EQUITY PORTFOLIO		FIXED INCOME PORTFOLIO	
Market Value	\$42.0 billion	Number of Holdings	1,772	Weighted Average Quality	AA
1-Year Return	11.59%	Weighted Average Market Capitalization	\$48.3 billion	Weighted Average Maturity	12.1 Years
5-Year Annualized Return ¹	3.68%	Weighted Average P/E	21.6x	Weighted Average Duration	7.2 Years
5-Year Standard Deviation of Annual Returns	13.69%	Benchmark: Russell 3000 Tobacco Free		Benchmark: Citigroup Large Pension Fund	

Actuarial reviews over the past 10 years have determined that, given the Plan's surplus funding position and its ability to provide benefit obligations, employer and member contributions are not currently needed to fund UCRP. During this period, beneficiaries received \$8.2 billion. Currently, mandatory employee contributions (2-4% of annual salary for most employees) are redirected to the Defined Contribution Pretax Account. The funding status of UCRP is periodically reviewed by the Plan's actuary and any change in contributions and contribution rates must be approved by The Regents.

ASSET CLASS OVERVIEW

The U.S. Equity allocation, using a diversified combination of actively- and passively-managed U.S. equity strategies seeks to outperform the Russell 3000 Index.

An allocation to Non-U.S. Equity further increases the plan's diversification.

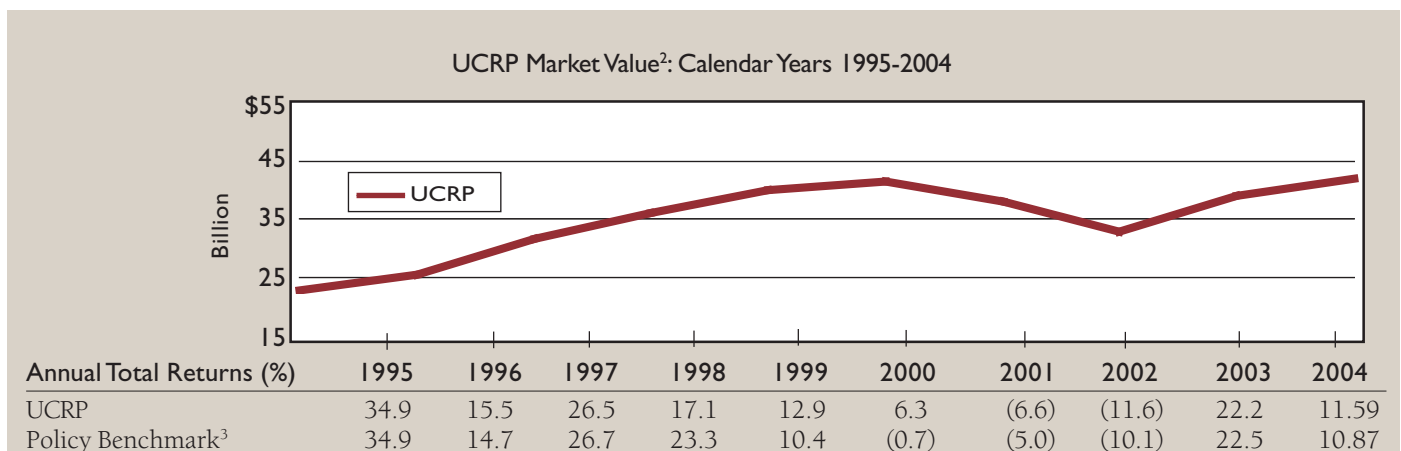
An allocation to private equity includes venture capital partnerships, non-U.S. private equity, and buyout funds.

The fixed-income allocation, which is comprised primarily of high-quality, global debt securities seeks to offer above average real returns and incorporates a 5% allocation of United States Treasury Inflation Protected Securities (TIPS) as a hedge against inflation.

An allocation to real estate seeks to 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.

EQUITY INVESTMENTS

U.S. Equity represented 57% of UCRP assets at year-end, with a market value of \$24.0 billion. The passively-managed portion of the allocation was held in a Russell 3000 TF Index fund managed by State Street Global Advisors. The actively-managed portion of the allocation included fifteen large capitalization and ten small capitalization portfolios.



¹ Return reflects performance over the entire period during which the U.S. Equity portfolio was part actively-managed and part passively-managed.

² Market values reflect growth of investments adjusted for beneficiary payments and administrative costs.

³ The Policy Benchmark consists of 58% less the actual Private Equity weight from the prior month end times the Russell 3000 TF Index, 7% MSCI ACWI ex US Index (Net), 5% Lehman TIPS Index, the actual Private Equity weight of the previous month end times the Russell 3000 TF Index + 3% (lagged by 3 months) and 30% CG LPF Index, linked to 65% S&P 500 Index and 35% LB LT G/C Index.

UCRP AT A GLANCE

The University offers eligible employees a substantial foundation for retirement income through the University of California Retirement Plan (UCRP). Eligible employees automatically become members of UCRP as a condition of employment and typically vest after five or more years of service credit.

UCRP is a defined benefit plan, in which future retirement benefits are based on the employee's age at retirement, average income and years of service credit. Plan benefits are funded by contributions from both the University and active members, as well as by investment earnings on the Plan's assets.

INVESTMENT OBJECTIVE AND STRATEGY

The overall investment objective for UCRP is to ensure the Plan's ability to meet its obligation to members and beneficiaries by earning sufficient returns over the long term to meet or exceed the actuarial expected rate of return of 7.5%. UCRP is managed as a balanced portfolio of equity and fixed-income securities. Should an asset class move outside of its allowable range, holdings are rebalanced.

INVESTMENT MANAGEMENT

The Treasurer's Office manages UCRP according to policies established by The Regents of The University of California. The Treasurer's Office investment management team is comprised of 22 investment professionals with an average of 18 years of investment experience.

INVESTMENT RETURNS

UCRP has exceeded its investment objectives and performed well over the years versus its market benchmarks. UCRP's annualized total return for the past 5- and 10-year periods ending December 31, 2004 were 3.68% and 12.06% versus 2.85% and 11.85%, respectively, for the Policy Benchmark.

ASSET ALLOCATION POLICY

In May 2003, The Regents adopted the following asset allocation policy for UCRP. The actual holdings as of 12/31/2004 appear in the far right column:

	POLICY	POLICY RANGE	ACTUAL
U.S. Equity	50%	53%-73%	57%
Non-U.S. Equity	7%		9%
Private Equity	5%	1%-7%	2%
Fixed Income	28%	25%-45%	26%
TIPS	5%		6%
Real Estate	5%	0%-7%	0%

For more information on UCRP, please refer to the University of California Retirement Plan Summary Plan Description available from UC Human Resources and Benefits or your local Benefits Office.

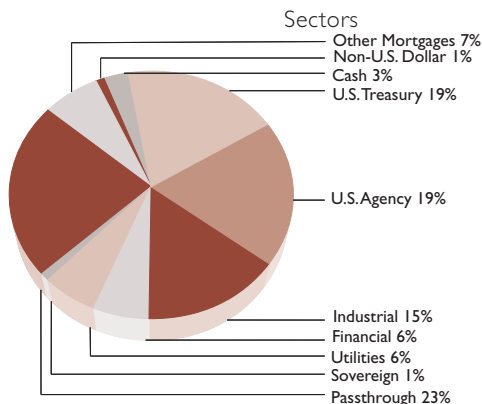
Non-U.S. Equity represented 9% of UCRP at year-end, with a market value of \$3.7 billion. \$3.3 billion was invested in a MSCI EAFE TF+Canada Index Fund managed by State Street Global Advisors and \$481 million in four actively-managed emerging markets funds.

Private equity, which includes venture capital partnerships, select buyout funds, and private emerging markets funds, constituted 2% of the total portfolio at year-end, with a market value of \$654 million.

FIXED-INCOME INVESTMENTS

At year-end, fixed-income investments constituted 32% of the portfolio, with a market value of \$13.5 billion. Of this, \$2.7 billion is invested in the TIPS (Treasury Inflation Protected Securities) portfolio (see discussion on page 5) and \$10.8 billion is invested in the bond portfolio. The weighted average maturity of the portfolio at year-end was approximately 12.1 years and the average credit quality was AA, with more than 82% of the securities rated A or higher.

Breakdowns of ratings and industries give current and prospective investors important information regarding the securities held in the fixed income portfolio. The rating on a bond, which is a measure of a company's financial strength, and the sector they represent are two factors which affect the performance of the portfolio in different economic environments. The portfolio's managers vary the mix of securities in response to changes in their economic outlook. At year-end the fixed income portfolio ratings were 72.1% AAA, 1.3% AA, 8.7% A, 15.0% BBB, 2.5% BB and 0.4% B.



REAL ESTATE INVESTMENTS

At year-end, Real Estate investments constituted less than 1% of the portfolio, with a market value of \$23 million.



The UCRP can provide a valuable foundation for retirement, yet your pension may not be sufficient to meet all of your retirement needs. Some of your retirement income may have to come from your own savings and investments. Fortunately, the University offers several attractive and convenient ways to supplement your retirement savings through the Tax-Deferred 403(b) Plan, the 457(b) Deferred Compensation Plan, the Defined Contribution Plan Pretax Account, and the Defined Contribution Plan After-Tax/Rollover Account.

There are a number of very important factors to consider when investing for retirement, including your age, number of years to retirement, tolerance for risk and estimated total retirement needs and sources of income. Although an evaluation of individual circumstances is necessary, there are some general criteria that apply to everyone—such as risk and return, investment time horizon and asset allocation—that could affect your decisions and help determine your investment returns.

TIME HORIZON

One of the most important things to consider when investing for retirement is your time horizon, or the length of time until you retire. However, you also need to consider the number of years you expect to be in retirement, because that's how long you'll need your investments for support.

Given these two factors, you can start to estimate how much you need to save between now and retirement and how to invest your savings. For example, employees with longer time horizons can focus on long-term principal growth through equities, while those with shorter time horizons may be inclined to emphasize interest income more heavily through shorter-term, fixed-income investments.

In addition, time enables you to take advantage of compounding, whereby your money (principal and reinvested income) grows faster as it builds over time. Even a small amount of money invested early can grow to a substantial sum through the power of compounding.

RISK AND RETURN

In the long run, investors are compensated for the amount of risk they take in their overall portfolios, so a key investment goal is to balance your personal risk tolerance with your required returns.

The two most common types of risk related to investing retirement savings are: (1) shortfall risk, or

the possibility of not accumulating as much as required, and (2) the risk of losing principal.

Shortfall risk can occur either from not saving enough during your working years or from being too conservative with your investments. By investing “too safely,” you can run the risk of not having enough money to retire comfortably or of outliving your investments—even if you invest regularly—simply because your investments didn't grow at your life-style-sustainable rate.

The risk of losing principal is often associated with volatility, or the price fluctuations of a security or market within a specified period of time. Although volatility is inherent in the stock and bond markets, time is on your side. The longer the time horizon, or holding period, the better the historical performance of stocks versus other investment vehicles.

ASSET ALLOCATION

Asset allocation—or the mix of your investments between equity and fixed-income securities—is the primary determinant of investment returns. A diversified asset mix is also one of the best ways to protect your portfolio from both shortfall risk and volatility.

By spreading your investments among a variety of asset classes that tend to respond differently to market events, you can help protect your portfolio from drastic

swings in the market. No single asset class performs “best” all of the time, and no one can accurately predict all of the winners and losers for any given period.

You can diversify your portfolio by:

1. Creating your own portfolio mix from single asset class funds (e.g., equity funds for capital appreciation, long and intermediate bond funds for income plus modest capital appreciation, and income-only funds for income and price stability); or

2. Investing in a balanced fund, which holds a combination of the above assets in varying mixes. For example, the UC-managed Balanced Growth Fund is appropriate for investors who are seeking growth with moderate market risk.

DOLLAR COST AVERAGING

Another way to help “smooth out” volatility is through dollar cost averaging, or investing equal amounts of money at regular intervals. By investing consistently and regularly—rather than trying to time the market—you, in effect, buy more shares when prices are low and fewer shares when prices are high, potentially lowering your overall price per share.

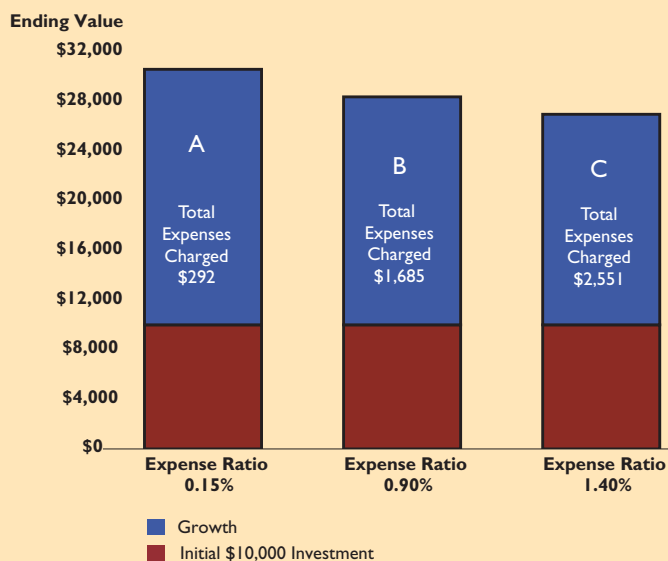
Dollar cost averaging, easily implemented through payroll deductions, provides a disciplined, systematic investment program that will help build your retirement nest egg.

REBALANCING YOUR PORTFOLIO

It is important to reevaluate your overall retirement portfolio strategy periodically, because the investment returns achieved by the different asset classes over time may cause your actual asset allocation to differ from your original target mix. In addition, your circumstances (time horizon, risk tolerance, investment goals) will likely change as you approach retirement.

You can easily rebalance your portfolio by shifting assets from one fund to another or by directing a higher percentage of your total 403(b), 457(b) and/or DC Plan contributions to the underweighted fund. The Treasurer’s Office follows a systematic rebalancing procedure within the UCRP.

THE IMPACT OF FUND EXPENSES



All funds charge investors expenses – even “no-load” funds. Expressed as an “expense ratio,” (an annual percentage) these expenses are deducted from the fund’s earnings and assets and are used to pay management and operating expenses. Returns are usually calculated net of these annual expenses, or in other words, after deduction of expenses. The lower the expense ratio, the higher the return passed on to investors. Over time, even small differences in expense ratios can generate large differences in performance.

The chart above compares the impact of three different expense ratios on a hypothetical \$10,000 investment growing at an annual rate of 12% over a ten year period. Fund A’s expenses are 0.15%, Fund B’s expenses are 0.90%, and Fund C’s expenses are 1.40%.

Over the ten years, Fund A grew to \$30,596; Fund B grew to \$28,374; and Fund C grew to \$26,974. The difference in returns to the investor were the expenses charged to manage the fund.

Over the ten years, Fund A’s total expenses were \$292; Fund B’s were \$1,685; and Fund C’s were \$2,551.

These hypothetical charts are for illustration only and do not represent the earnings of any particular fund. The expense ratios were selected from within a representative range of industry expenses tracked by Morningstar, Inc. as of 12/31/04.



Suggested Allocation Strategies

Depending on your own **time horizon**, **investment goals** and **risk tolerance**, your allocation among equity and fixed-income securities can range from highly aggressive (100% equity) to highly conservative (100% short-term, fixed-income securities), with any mix in-between.

In making asset allocation decisions it is important to keep in mind a primary axiom of investing: The higher the price fluctuation or volatility (higher risk), the higher the potential reward. This volatility is the “cost” of the opportunity to capture a potentially higher return on a given investment. The reverse, of course, is also true. The lower the price fluctuation or volatility (lower risk), the lower the potential reward. The “cost” of safeguarding your funds is this potentially lower return.

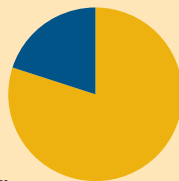
In general, you should start investing for retirement early in your career and begin by utilizing a high growth strategy. Over time, as you move toward retirement you may wish to move to a more conservative mix of securities. Keep in mind that even after you retire your investments need to continue to grow at a rate that outpaces inflation.

CAREER STAGES



HIGH GROWTH STRATEGY

- 80-100% equities and
- 0-20% fixed-income securities



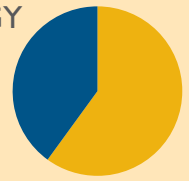
This strategy may be appropriate for someone early in his or her career who wants to maximize total returns over a long time horizon and who can tolerate significant market fluctuations. This strategy may also be used during retirement if sufficient wealth has been accumulated.

Investors choosing this strategy utilizing our UC-managed funds would place 90% of their investable assets in our Equity Fund and 10% in our Savings Fund. The Savings Fund component provides stability along with interest income, while the investment’s potential growth would come from the equity component.

Create using 90% Equity Fund and 10% Savings Fund

MODERATE GROWTH STRATEGY

- 60-70% equities and
- 30-40% fixed-income securities



This strategy is utilized in the UCRP defined benefit plan and may be appropriate for an investor seeking growth with moderate market fluctuations. This strategy may be used from career start through retirement to achieve strong returns with modest volatility throughout various economic cycles.

Create using 65% Equity Fund, 30% Bond Fund and 5% TIPS Fund or 100% Balanced Growth Fund

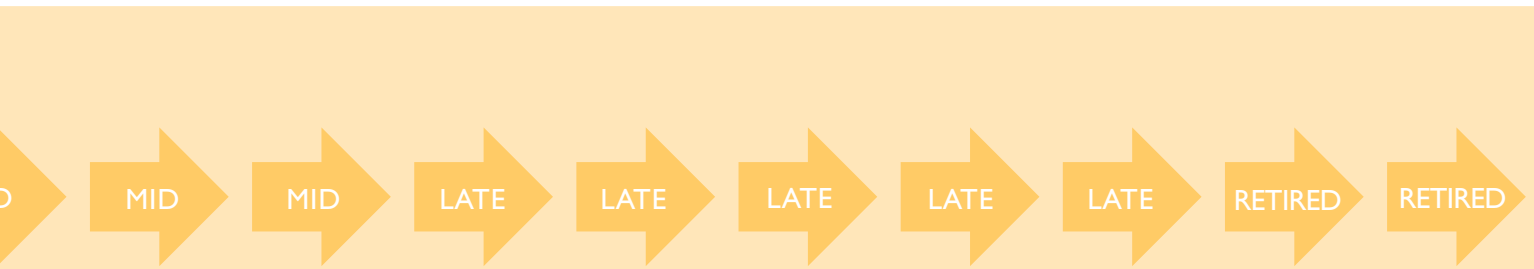
The power of compounding will assist you in the growth of your portfolio. If you believe you cannot start payroll deductions due to other financial obligations, start small. For example, bring a homemade lunch to work, versus purchasing a lunch, and invest the savings in your future.

Below are four examples of common asset allocation strategies and suggestions as to which of the various UC-managed funds—the **Equity Fund**, **Bond Fund**, **Savings Fund**, **ICC (Insurance Company Contract) Fund**, **TIPS (Treasury Inflation Protected Securities) Fund** and **Balanced Growth Fund**—might be used to implement them. Participants are free to create their own

asset allocation mixes using the various UC funds or any of the other mutual fund options offered by the University’s Defined Contribution Plan (DC Plan), the 403(b) Plan and the 457(b) Plan.

If you feel you have accumulated investment assets that will cover your expected post-retirement assets, you may want to seek to preserve those assets from the ravages of inflation by investing in the **TIPS Fund**. For more information on TIPS see page 20.

Please note that we offer no assurance that the suggested asset allocations will achieve the desired results or will meet prior performance results.



CONSERVATIVE GROWTH STRATEGY

- 50% equities and
- 50% fixed-income securities



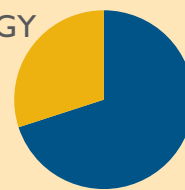
This strategy may be appropriate for someone close to retirement and those people with a lower tolerance for market fluctuations. This strategy may also be used during retirement.

Investors choosing this strategy utilizing our UC-managed funds would place 50% of their investable assets in our Equity Fund and 25% each into our Bond Fund and Savings Fund. The majority of the investment’s potential growth would be provided by the Equity Fund component. The fixed-income components serve to dampen price volatility and maximize income, with the Bond Fund also providing some additional growth potential.

**Create using 50% Equity Fund,
25% Bond Fund and 25% Savings Fund**

INCOME AND GROWTH STRATEGY

- 30% equities and
- 70% fixed-income securities



This strategy may be suitable for a retired investor who requires that his or her retirement portfolio produce a substantial portion of annual income, with a low level of market fluctuation. A 30% allocation to equity securities helps protect against the corrosive effect of inflation.

**Create using 30% Equity Fund,
20% Bond Fund, 25% Savings Fund
and 25% TIPS Fund**



Total Return Funds - Equity Fund

PORTFOLIO CHARACTERISTICS		December 31, 2004		ASSET COMPOSITION	
TOTAL FUND		U.S. EQUITY PORTFOLIO		U.S. Equity	82%
Market Value	\$3.8 billion	5-Year Beta	1.00	Non-U.S. Equity	16%
Expense Ratio	0.15%	Number of Holdings	2,985	Private Equity	2%
Current Yield	2.24%	Weighted Average Market Capitalization	\$82.8 billion	Cash	<1%
1-Year Total Return	13.89%	Weighted Average P/E	17.5x		100%
5-Year Average Annual Return (0.62)%					
5-Year Standard Deviation of Annual Returns	20.98%				

ASSET CLASS OVERVIEW

The Equity Fund asset allocation policy consists of 80% U.S. Equity, 15% Non-U.S. Equity and 5% Private Equity. In November 2002, The Regents approved changes to diversify the U.S. Equity holdings. The internally-managed U.S. common stock portfolio was transferred into a Russell 3000 Tobacco Free (TF) Index fund managed by State Street Global Advisors. At year-end the U.S. Equity allocation remained in the Russell 3000 TF Index Fund.

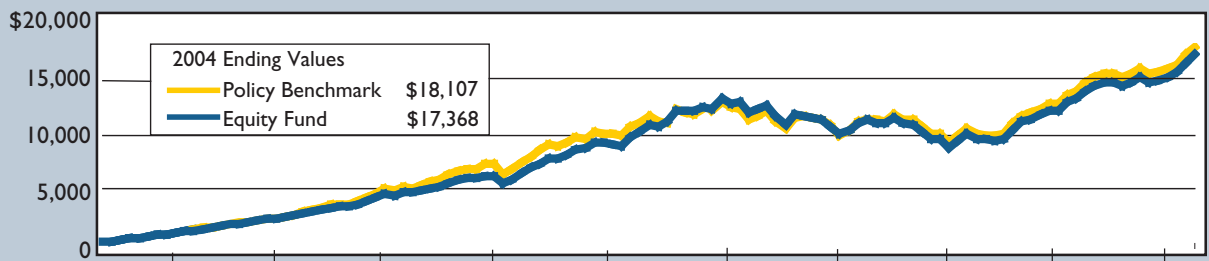
U.S. Equity represented 82% of the fund at year-end, with a market value of \$3.1 billion. The following are the 10 largest equity holdings and sector breakdown

of the U.S. Equity portfolio as of year end, reflective of the underlying index.

Largest Equity Index Holdings	
General Electric	2.9%
Exxon Mobil	2.5%
Citigroup Inc.	1.9%
Microsoft	1.9%
Pfizer Inc.	1.6%
Bank America Corp.	1.5%
Johnson & Johnson	1.4%
Int'l Business Machines	1.3%
Intel Corp.	1.1%
American Int'l Group Inc.	1.1%
	17.2%

Ten-Year Performance¹ of a \$100 Monthly Investment in the Equity Fund and the Policy Benchmark²

Total Deposits: \$12,000 Years Ended December 31



Annual Total Returns (%)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Equity Fund	31.2	19.2	24.0	19.0	28.7	3.3	(16.7)	(24.3)	30.7	13.9
Policy Benchmark	37.4	23.1	33.4	28.6	21.0	(9.2)	(12.7)	(21.4)	32.6	13.4
Russell 3000 TF ³	36.8	21.8	31.8	24.1	20.9	(7.5)	(11.6)	(21.7)	31.1	11.9
S & P 500	37.4	23.1	33.4	28.6	21.0	(9.1)	(11.9)	(22.1)	28.7	10.9
Inflation (CPI Index)	2.5	3.3	1.7	1.6	2.7	3.4	1.6	2.4	1.8	3.3

¹ All UC-managed fund returns are net (after) expenses. Private Equity funds' market value is lagged one quarter.

² Policy Benchmark consists of 85% less the actual Private Equity weight from the prior month end times the Russell 3000 TF Index, 15% MSCI ACWI ex US Index (Net) and the actual Private Equity weight of the previous month end times the Russell 3000 TF Index + 3% (lagged by 3 months); Historical: S&P 500 Index.

³ Beginning January 1, 2001, the Russell 3000 was reported as the Russell 3000 TF (Tobacco Free).

Major Index Sector Allocations % of Total

Financials	20.7%
Information Technology	16.0%
Consumer Discretionary	13.6%
Healthcare	13.2%
Industrials	12.2%
Consumer Staples	7.3%
Energy	6.7%
Utilities	3.8%
Materials	3.5%
Telecom Services	3.0%
	100.0%

Non-U.S. Equity represented 16% of the fund at year-end, with a market value of \$586 million. Of that amount, 87% was in a developed country index fund and 13% in three actively-managed emerging markets funds.

Private Equity represented 2% of the fund at year-end, with a market value of \$90 million.

INVESTMENT RETURNS

Returns fall near the top 40% of all domestic stock funds in the Morningstar universe for the 10-year period ending December 31, 2004.¹

Annualized Total Returns (%)	1 Year	5 Years	10 Years
Equity Fund	13.89	(0.62)	11.16
Policy Benchmark	13.41	(1.29)	12.65
U.S. Equity Benchmark ²	11.85	(1.54)	12.51
Non-U.S. Equity Benchmark ³	20.91	(1.05)	0.46
Private Equity Benchmark ⁴	17.65	(3.06)	14.39
Domestic Stock Funds Median ¹	10.99	1.01	10.48
Russell 3000	11.77	(1.18)	11.77
S & P 500	10.88	(2.30)	12.07
Inflation (CPI Index)	3.25	2.49	2.43

¹ Source: Morningstar, Inc. Although gathered from reliable sources, data completeness and accuracy cannot be guaranteed. Equity Fund return reflects performance over the entire period, during which the U.S. Equity portfolio was part actively-managed and part passively-managed.

² Benchmark is the Russell 3000 Tobacco Free Index.

³ Benchmark is the MSCI ACWI ex U.S. Index (Net).

⁴ Benchmark is the Russell 3000 Tobacco Free Index + 3%, lagged 3 months.

EQUITY FUND AT A GLANCE

The fund seeks to maximize long-term capital appreciation with a moderate level of risk.

INVESTMENT OBJECTIVE AND STRATEGY

The Fund's historical focus on large-capitalization stocks was modified in 2002. Currently, the fund's U.S. equity allocation is held in a Russell 3000 Tobacco Free (TF) Index fund. The Fund also has a small representation in private equities and an allocation to a MSCI EAFE+Canada TF Index Fund (non-U.S.) further increasing the fund's diversification. The Fund seeks to be fully invested at all times. Portfolio guidelines limit the cash level to 5%.

PRIMARY RISK FACTORS—MODERATE

Risks include market risk, individual company risk, foreign security risk and liquidity risk. Please see page 26 for a more complete discussion of these and other principal risks.

WHO MAY WANT TO INVEST

The Equity Fund is appropriate for investors seeking long-term capital appreciation from a diversified equity portfolio. The Equity Fund may not be appropriate for investors with short time horizons or those uncomfortable with fluctuations in market value.

INVESTOR EXPENSES

Annual investor expenses are 0.15% (or \$1.50 per \$1,000 invested) of the Fund's average market value. There are no front-end or deferred sales loads or other marketing expenses.

INVESTMENT MANAGEMENT

The Treasurer's Office manages the Equity Fund according to policies established by The Regents of the University of California. The Treasurer's Office equity management consists of a team focused on Externally Managed investments and a team focused on Alternative investments including Private Equity.

ASSET ALLOCATION

In March 2000, The Regents approved the following asset allocation strategy for the Equity Fund:

	POLICY	MINIMUM	MAXIMUM
U.S. Equity	80%	75%	85%
Non-U.S. Equity*	15%	10%	20%
Private Equity	5%	3%	7%

* Non-US Equity comprised of 85% MSCI EAFE+Canada TF Index Fund and 15% emerging markets funds.



Total Return Funds - Bond Fund

PORTFOLIO CHARACTERISTICS December 31, 2004			ASSET COMPOSITION		
Market Value	\$1.0 billion	Weighted Average Credit Quality	AA	U.S. Fixed Income	96%
Expense Ratio	0.15%	Weighted Average Maturity	8.35 Years	Cash	4%
Current Yield	4.67%	Weighted Average Duration	4.8 years		100%
1-Year Total Return	4.41%	Benchmark - Lehman Aggregate			
5-Year Average Annual Return	8.79%				
5-Year Standard Deviation of Returns	5.05%				

ASSET CLASS OVERVIEW

Fixed income investments include government securities, mortgage-backed securities and corporate bonds. The fund managers allocate exposures to these broad sectors based on their relative return projections.

MAJOR PORTFOLIO GUIDELINES

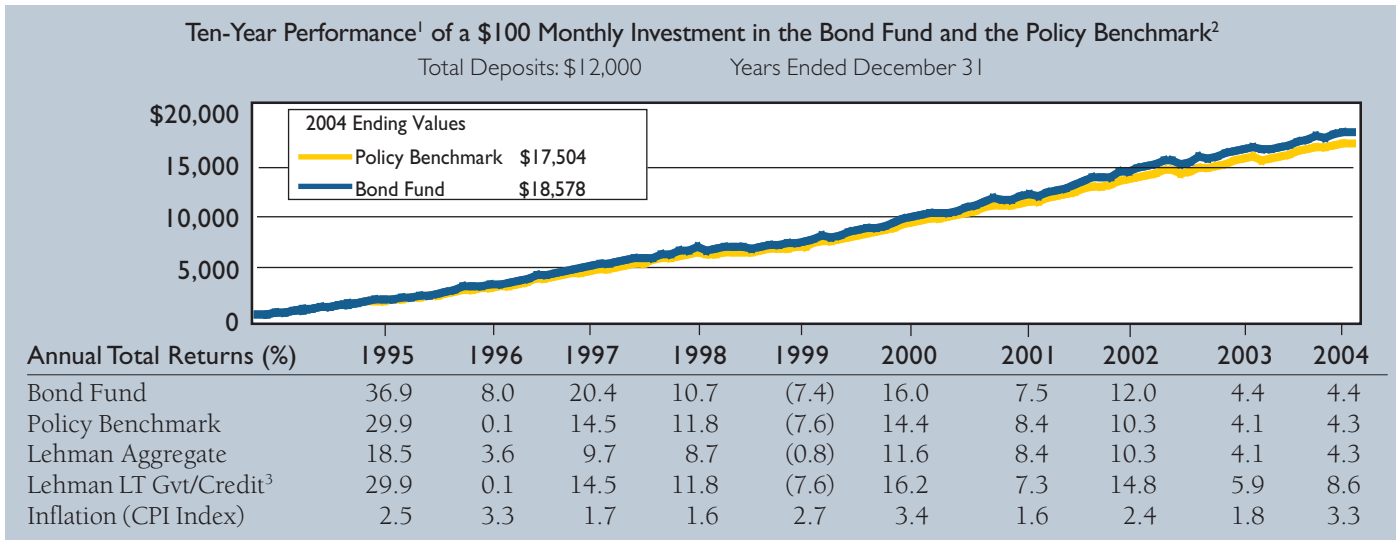
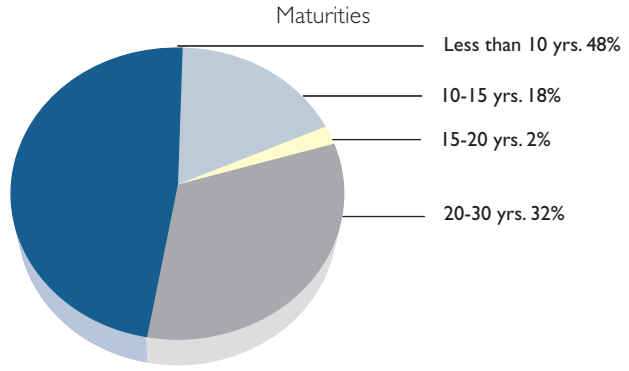
The average weighted duration of the fund will not vary from that of the Lehman Aggregate Index by more than +/- 20%.

The portfolio maintains an average credit quality of A (or equivalent) or better.

No more than 10% of the fund may be invested in non U.S.-dollar-denominated securities and no more than 10% of the fund may be invested in below-investment grade securities.

PORTFOLIO CHARACTERISTICS

The following charts illustrate the maturity, quality and sector profiles of the Bond Fund. The maturity of bonds in the fund can be an important determinant of its performance in different interest rate cycles. Although the average maturity of the fund is currently similar to its benchmark, the fund managers diversify maturities in order to mitigate risk and capture attractive spreads along the yield curve.



¹ All UC-managed fund returns are net of (after) expenses.
² Lehman Aggregate Index, Historical: Lehman LT G/C Index.
³ The benchmark changed from the Lehman LT G/C to the Lehman Aggregate in June 2000.

BOND FUND AT A GLANCE

The Bond Fund is a total return fund established by The Regents in January 1978. The fund seeks to maximize real (adjusted for inflation) long-term total return through a combination of interest income and price appreciation.

INVESTMENT OBJECTIVE AND STRATEGY

The fund utilizes extensive analysis of economic and political factors using a “top-down” approach and fundamental, “bottom-up” analysis for individual security selection. It maintains a diversified portfolio primarily of high-quality, debt securities. The Fund seeks to be fully invested at all times, although a modest cash level may exist until invested.

PRIMARY RISK FACTORS—MODERATE

Risks include interest rate risk, market risk, credit risk, foreign security risk and prepayment risk. A decrease in interest rates generally causes an increase in value of bonds. An increase, or the expectation of an increase, in interest rates generally causes a decrease in value of bonds. Please see page 26 for a more complete discussion of these and other principal risks.

WHO MAY WANT TO INVEST

The Bond Fund is appropriate for investors interested in a fixed-income vehicle that seeks to maximize long-term investment returns through a diversified portfolio of intermediate-term debt securities. The Bond Fund may not be appropriate for investors with short time horizons or those uncomfortable with fluctuations in market value or a changing interest rate environment.

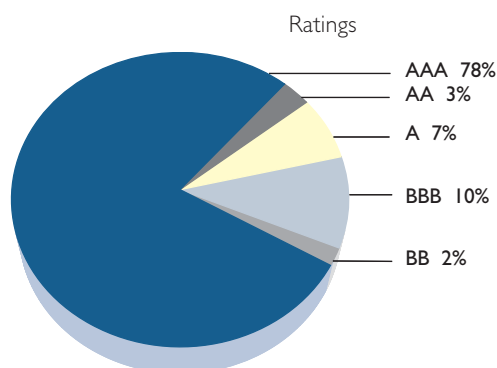
INVESTOR EXPENSES

Annual investor expenses are 0.15% (or \$1.50 per \$1,000 invested) of the Fund’s average market value. There are no front-end or deferred sales loads or other marketing expenses.

INVESTMENT MANAGEMENT

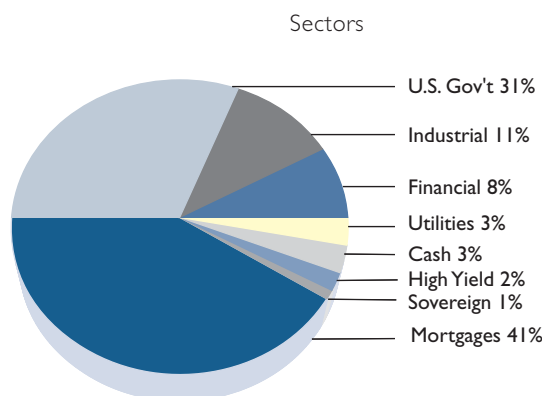
The Treasurer’s Office manages the Bond Fund according to the policies established by The Regents of the University of California. The Bond Fund is managed by Managing Director Randy Wedding and Senior Portfolio Managers Linda Fried, Dave Schroeder, and Satish Swamy. They are assisted by the Head of Credit Analysis Kim Evans, Senior Credit Analyst Omar Sanders and Junior Portfolio Manager Aaron Staines. Senior Portfolio Manager Alice Yee also lends her expertise in the short end of the yield curve.

Credit ratings are an indication of a company’s ability to repay its borrowings when due. Higher quality bonds generally offer lower yields than lower quality bonds. The yield offered on a bond relative to its quality rating is one important factor portfolio managers use in selecting securities for the fund.



Source: S & P bond ratings; Investment Grade = AAA, AA, A and BBB.

The Fund’s sector weightings (the types of individual securities) are shown below. The fund’s managers decide on the allocations to the broad sectors based on the macroeconomic outlook.



INVESTMENT RETURNS

Returns for the Bond Fund are among the top 2% of all taxable bond funds in the Morningstar universe for the 10-year period ending December 31, 2004¹.

Annualized Total Returns (%)	1 Year	5 Years	10 Years
Bond Fund	4.41	8.79	10.78
Policy Benchmark	4.34	8.24	8.61
Taxable Bond Funds Median ¹	3.93	6.29	6.48
Lehman Aggregate	4.34	8.24	8.61
Lehman LT Gvt/Credit	8.56	10.46	9.72
Inflation (CPI Index)	3.25	2.49	2.43

¹ Source: Morningstar, Inc. Although gathered from reliable sources, data completeness and accuracy cannot be guaranteed.



TIPS FUND PORTFOLIO CHARACTERISTICS

Total Market value of the TIPS (Treasury Inflation-Protected Securities) Fund at year end was \$80 million. At year end, 90% of the Fund was invested in TIPS with the remaining held in cash awaiting investment. The Fund, which is passively-managed, holds notes and bonds issued by the U.S. Treasury that are adjusted monthly to reflect the effects of inflation. Interest is paid on the adjusted principal amount. For example, the Treasurer's Office invests \$10,000 in an inflation-protected note. If there is 4 percent inflation, the principal would be adjusted to \$10,400 and interest would be paid on that amount.

TIPS have been part of UCRP's mix of investments as a hedge against inflation. The Fund is being offered to 403(b), 457(b) and DC Plan participants in order to extend the University's diverse range of investment options.

At year end, 72.9% of the holdings had a maturity of less than ten years and the remaining 27.1% had a maturity of 20 years plus. The weighted average maturity of the Fund was 10.0 years. The weighted average credit quality of the Fund was AAA.

INVESTMENT RETURNS

The TIPS Fund began April 1, 2004 and does not have a full year of performance as of calendar year end.

TIPS FUND AT A GLANCE

The TIPS (Treasury Inflation-Protected Securities) Fund seeks to provide long-term return and inflation protection consistent with an investment in U.S. Government inflation-indexed securities.

INVESTMENT OBJECTIVE AND STRATEGY

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 Fund's performance benchmark is the Lehman Brothers U.S. TIPS Index and the Fund seeks to provide total return that matches the Index.

PRIMARY RISK FACTORS—MODERATE

The TIPS Fund is composed primarily of U.S. Treasury notes and bonds whose principal is adjusted for changes in the Consumer Price Index. The value of TIPS is subject to the effects of changes in market interest rates caused by factors other than inflation. Generally, when interest rates rise, the value of inflation-indexed securities will fall and the Fund's share value will decline. Interest rate risk should be moderate for the Fund. The greatest risk occurs when interest rates rise and inflation declines.

Additionally, the Fund is considered non-diversified and performance may be affected by the poor performance of relatively few securities. Please see page 26 for a more complete discussion of these and other principal risks.

WHO MAY WANT TO INVEST

The Fund may be suitable for participants with a long-term investment horizon and/or those who want protection from the effects of inflation. Please note, however, that fluctuations in the market can cause the Fund's unit value to increase or decrease, and a period of sustained deflation could cause the Fund's value to fall.

INVESTOR EXPENSES

Annual investor expenses are 0.15% (or \$1.50 per \$1,000 invested) of the Fund's average market value. There are no front-end or deferred sales loads or other marketing expenses.

INVESTMENT MANAGEMENT

The Treasurer's Office manages the TIPS Fund according to the policies established by The Regents of the University of California. The Fund is managed by Senior Portfolio Manager David Schroeder, who also manages the government bond portions of the UCRP and the Bond Fund.

BALANCED GROWTH FUND AT A GLANCE

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.

INVESTMENT OBJECTIVE AND STRATEGY

Contributions are invested according to a fixed ratio: 65% Equity Fund, 30% Bond Fund and 5% TIPS (Treasury Inflation-Protected Securities) Fund. The Balanced Growth Fund's asset allocation is similar to the broad asset allocation of the University of California Retirement Plan (UCRP).

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

PRIMARY RISK FACTORS—MODERATE

Risks include market risk, credit risk, interest rate risk, individual company risk and foreign security risk. TIPS offers investors some protection against the loss of value due to inflation; however these securities may lose value during periods of deflation. Please see page 26 for a more complete discussion of these and other principal risks.

WHO MAY WANT TO INVEST

The Balanced Growth Fund is appropriate for investors at all points in their careers who are seeking growth with moderate market risks. Investors with longer time horizons looking to maximize principal growth to fund retirement may want to use this fund.

INVESTOR EXPENSES

Annual investor expenses are 0.15% (or \$1.50 per \$1,000 invested) of the Fund's average market value. There are no front-end or deferred sales loads or other marketing expenses.

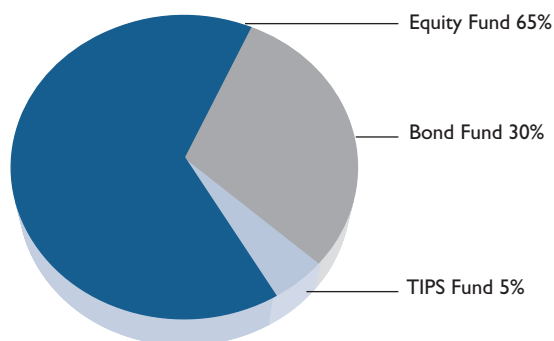
Note: Please refer to the Equity Fund, Bond Fund and TIPS Fund profiles for further information on the specific investment objectives, strategies, returns and risks associated with those funds.

BALANCED GROWTH FUND PORTFOLIO CHARACTERISTICS

Total Market value of the Balanced Growth Fund at year end was \$838 million. Market values of the underlying fund components as of year end were Equity Fund \$545 million, Bond Fund \$251 million and TIPS Fund \$42 million. Please refer to the Equity Fund, Bond Fund and TIPS Fund profiles for further information on the specific investment characteristics associated with those funds.

CONTRIBUTION ALLOCATION

Contributions are invested according to a fixed ratio: 65% Equity Fund, 30% Bond Fund and 5% TIPS (Treasury Inflation-Protected Securities) Fund and the Fund is rebalanced monthly.



INVESTMENT RETURNS

Overall total return is a function of the investment performance of the component funds. The Balanced Growth Fund began April 1, 2004 and does not have a full year of performance as of calendar year end.



Interest Income Funds - Savings Fund

PORTFOLIO CHARACTERISTICS December 31, 2004		ASSET COMPOSITION	
Market Value	\$3.0 billion	U.S. Treasuries	71%
Expense Ratio	0.15%	Federal Agencies	29%
Current Yield	3.92%		100%
Weighted Average Maturity	2.2 years		
Weighted Average Credit Quality	AAA		

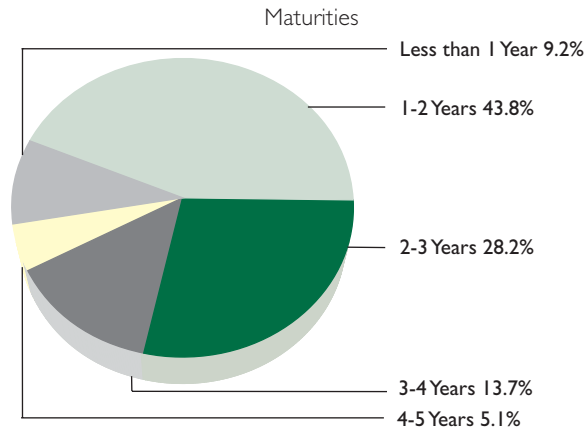
Note: Your DC Plan Pretax Account contributions are automatically invested in the Savings Fund unless you specify otherwise. If you do not inform your payroll office of a different investment choice, your Pretax Account contributions will continue to be invested in the Savings Fund.

ASSET CLASS OVERVIEW

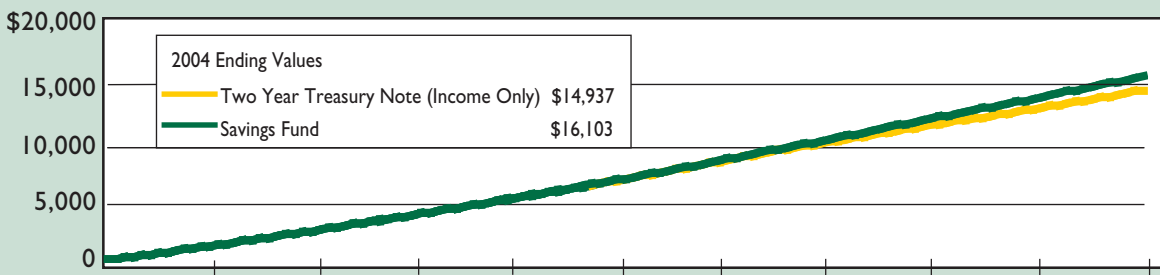
Fixed income investments within the Savings Fund include U.S. Treasuries and Federal Agencies with maturities less than five years.

PORTFOLIO CHARACTERISTICS

The maturity of bonds in the fund can be an important determinant of its performance in different interest rate cycles. Although the average maturity of the fund is currently similar to its benchmark, the fund managers diversify maturities in order to mitigate risk and capture attractive spreads along the yield curve.



Ten-Year Performance¹ of a \$100 Monthly Investment in the Savings Fund and 2-Year U.S. Treasury Notes²
 Total Deposits: \$12,000 Years Ended December 31



Annual Total Returns (%)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Savings Fund	6.6	6.2	6.2	6.2	6.0	6.0	5.8	5.2	4.3	3.9
2-Year U.S. Treasury Notes	6.3	6.0	6.2	5.2	5.4	6.2	3.8	2.7	1.6	2.2
Inflation (CPI Index)	2.5	3.3	1.7	1.6	2.7	3.4	1.6	2.4	1.8	3.3

¹ All UC-managed fund returns are net of (after) expenses.
² Performance represents the income return.
³ The Savings Fund was established in fiscal 1968; however, between fiscal 1968 and fiscal 1980, the Savings Fund operated under different investment parameters than today.

While the fund is limited in the types of securities it can hold, the percentage invested in U.S. Treasuries vs. other governmental agencies will vary depending on their relative yield advantage. At year end the Fund was composed of 71% U.S. Treasuries and 29% Federal Agencies.

INVESTMENT RETURNS

Returns are based on interest income. Over the years the fund has consistently out-performed its benchmark consisting of 2-year U.S. Treasury Notes.

Annualized Income Returns (%)	1 Year	5 Years	10 Years
Savings Fund	3.91	5.03	5.64
2-Year U.S. Treasury Notes	2.24	3.38	4.60
Inflation (CPI Index)	3.25	2.49	2.43

SAVINGS FUND AT A GLANCE

The Savings 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 safe low-risk investment, with attractive and stable returns.

INVESTMENT OBJECTIVE AND STRATEGY

The Fund invests 100% in government, government-guaranteed, and government agency securities of up to five years in maturity. The Fund strives to exceed the income returns of 2-year U.S. Treasury Notes and to outpace inflation. The portfolio is optimized by adjusting the average maturity to respond to expected changes in interest rates. The Fund seeks to be fully invested at all times, although a modest cash level may exist until invested.

PRIMARY RISK FACTORS—VERY LOW

The Savings Fund is designed to maintain a constant per-unit value of \$1.00, although it is not guaranteed. Risks include credit risk and interest rate risk. Please see page 26 for a more complete discussion of these and other principal risks.

WHO MAY WANT TO INVEST

The Savings Fund is appropriate for investors seeking a stable investment with greater interest income than that normally offered by a money market fund. The Savings Fund is appropriate for investors with shorter-term investment horizons and those near to or in retirement, as well as those highly averse to risk. The Savings Fund may not be appropriate for investors with longer time horizons looking for principal growth to fund retirement.

INVESTOR EXPENSES

Annual investor expenses are 0.15% (or \$1.50 per \$1,000 invested) of the Fund's average market value. There are no front-end or deferred sales loads or other marketing expenses.

INVESTMENT MANAGEMENT

The Treasurer's Office manages the Savings Fund according to the policies established by The Regents of the University of California. The Fund is managed by Senior Portfolio Manager Alice Yee, who also manages the University's Short-Term Cash (STIP) portfolio. Alice has over 28 years of experience, 24 with the University, in managing short-term investment funds.



Interest Income Funds - ICC (Insurance Company Con

PORTFOLIO CHARACTERISTICS December 31, 2004		RATINGS BREAKDOWN	
Market Value	\$652 million	Metlife	A+
Expense Ratio	0.15%	Monumental Life	A+
Current Yield	5.23%	Principal Life	A+
Weighted Average Maturity	2.5 years	Transamerica Occidental Life	A+
Weighted Average Credit Quality	A+	Travelers Life	A++

The Best's Rating (A++ to F) represents an opinion based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength and operating performance.

Note: Direct transfers are not allowed between the ICC Fund and the Savings Fund because of industry restrictions.

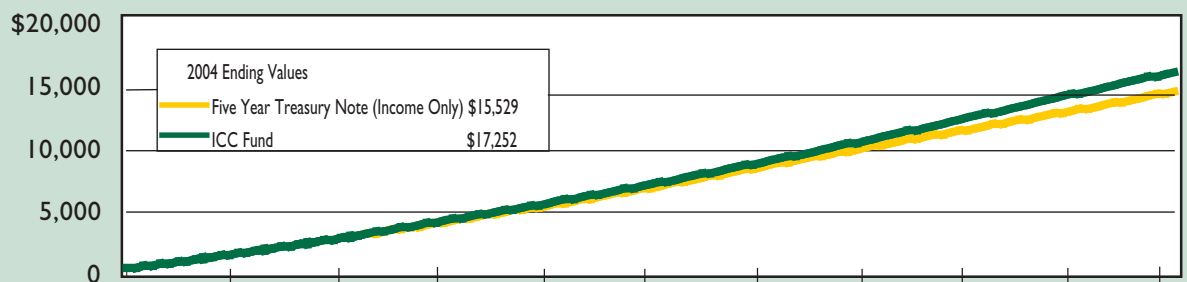
ASSET CLASS OVERVIEW

The ICC (Insurance Company Contract) Fund provides investment returns solely through interest income. The Fund consists of multiple insurance contracts negotiated with financially sound insurance companies. Under such contracts, the insurance companies guarantee a fixed annual rate of interest for specified periods of time as stated in each contract, if held to maturity. Insurance contract guarantees are backed by the general account assets of the issuing insurance company and are not insured or guaranteed by any third party.

The contracts are pooled to diversify risk and provide a blended rate of return for participants. In addition, the maturity dates of the contracts are staggered resulting in some money coming due each year. This allows proceeds to be reinvested during different interest rate cycles which helps to keep the blended rate of the contracts stable over time.

Ten-Year Performance¹ of a \$100 Monthly Investment in the ICC Fund and 5-Year U.S. Treasury Notes²

Total Deposits: \$12,000 Years Ended December 31



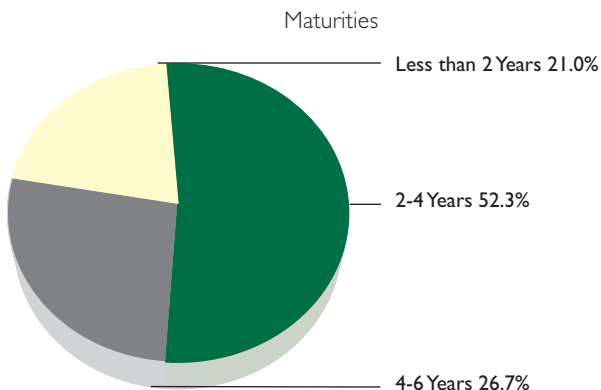
Annual Total Returns (%)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
ICC Fund	8.0	7.7	7.6	7.4	7.0	6.9	7.0	6.7	6.0	5.2
5-Year U.S. Treasury Notes	6.4	6.2	6.2	5.1	5.5	6.1	4.5	3.8	3.0	3.4
Inflation (CPI Index)	2.5	3.3	1.7	1.6	2.7	3.4	1.6	2.4	1.8	3.3

¹ All UC-managed fund returns are net of (after) expenses.

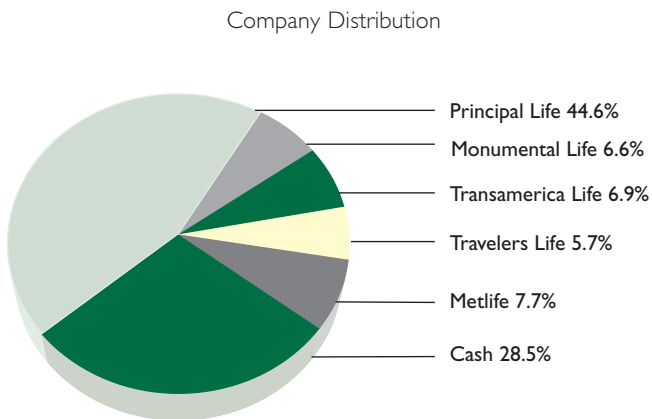
² Performance represents the income return.

PORTFOLIO CHARACTERISTICS

The Fund's maturity distribution (the range of dates on which individual holdings become due for payment) is well-diversified to help mitigate reinvestment risk in different interest rate environments.



The Fund's insurance company breakout is shown below. Diversification of companies helps reduce concentration risk. Metlife Insurance company was a new addition in 2004.



The Cash portion is held in the UC-managed Short Term Investment Pool

INVESTMENT RETURNS

The Fund's returns are based on interest income. The Fund has consistently out-performed its benchmark consisting of 5-year U.S. Treasury Notes.

Annualized Income Returns (%)	1 Year	5 Years	10 Years
ICC Fund	5.2	6.7	7.2
5-Year U.S. Treasury Notes	3.4	4.7	5.5
Inflation (CPI Index)	1.8	2.4	2.4

ICC FUND AT A GLANCE

The Regents approved the ICC Fund as an investment option in September 1985. The Fund seeks to maximize interest income, while protecting principal.

INVESTMENT OBJECTIVE AND STRATEGY

The Fund invests in insurance company contracts offered by select, highly rated, financially sound insurance companies. The Fund purchases insurance company contracts which guarantee a fixed annual rate of interest for a specified time period and the repayment of principal at the end of that time period. Participants in the ICC Fund receive the blended interest rate of all contracts which comprise the fund. The Fund strives to exceed the returns of 5-year U.S. Treasury Notes and to outpace inflation.

PRIMARY RISK FACTORS — LOW

The ICC Fund is designed to maintain a constant per-unit value of \$1.00, although it is not guaranteed. Risks include credit risk and interest rate risk. Please see page 26 for a more complete discussion of these and other principal risks.

WHO MAY WANT TO INVEST

The ICC Fund is appropriate for investors seeking an interest-income producing investment with greater interest income than normally offered by a standard savings or money market fund. The ICC Fund is appropriate for investors with shorter-term investment horizons and those near to or in retirement, as well as those highly averse to risk. The ICC Fund may not be appropriate for investors with longer time horizons looking for principal growth to fund retirement.

INVESTOR EXPENSES

Annual investor expenses are 0.15% (or \$1.50 per \$1,000 invested) of the Fund's average market value. There are no front-end or deferred sales loads or other marketing expenses.

INVESTMENT MANAGEMENT

The Treasurer's Office manages the ICC Fund according to the policies established by The Regents of the University of California. The ICC Fund is managed by Assistant Treasurer Mel Stanton, who has more than 28 years of experience in the investment industry. He is assisted by our fixed-income credit analysts in the selection of individual insurance companies.



PRINCIPAL INVESTMENT RISKS

There are many factors that can affect the value of the individual investments within each of your Retirement Investment Funds and, therefore, the overall value of the Fund itself. These vary depending on the type of investment – e.g., equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to changes in interest rates and credit risks. As a fund manager, the Treasurer's Office attempts to identify and analyze these and other potential risks in managing the funds, although no guarantee can be made that the decisions made will produce the desired results.

Market Risk – the broad risk that securities prices may fluctuate, due to a variety of factors, potentially reducing the value of an investment.

Individual Company or Issuer Risk – the value of an individual stock or bond may vary according to a number of factors directly related to the company's own performance, such as: management expertise, the company's financial condition, changes in demand for the company's products, changes in the regulatory environment, etc.

Credit Risk – the risk that a company will be unable to repay its debt obligations, relating to a variety of factors such as financial weakness or bankruptcy, litigation, and/or adverse political developments. This risk is often measured by Credit Ratings issued by several leading ratings agencies, such as Moody's and Standard & Poor's.

Interest Rate Risk – as interest rates rise, the value of fixed income investments normally falls. The prices of fixed income securities with longer time to maturity (duration) tend to be more sensitive to changes in interest rates, and therefore more volatile, than those with shorter durations.

Liquidity Risk – the risk that certain securities may be difficult to buy or sell at various times in the markets, resulting in potentially unfavorable prices. Liquidity can be affected by a variety of factors, such as security type, general market conditions, and credit risk. Liquidity risk is particularly relevant to private equity investments.

Foreign Security Risk – foreign securities may carry greater risk than domestic securities for a variety of reasons such as increased political risks; smaller markets; higher transaction costs; less rigorous accounting and reporting standards for corporations; and changes in currency rates vs. the U.S. dollar. This last factor may be most significant, as the value of foreign currencies may fluctuate considerably over short periods of time, potentially reducing the value of the investment.

Concentration Risk (non-diversification) – the risk of having too much money invested in a few individual issuers or similar industries, countries, etc., thereby exposing a Fund to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

Prepayment Risk – Prepayment features on debt securities can increase volatility and affect returns, as cash flows may have to be reinvested at lower yields.

SIGNIFICANT ACCOUNTING POLICIES

Interest Factors and Unit Values

Contributions to the **Equity, Bond, TIPS and Balanced Growth Funds** are credited to participants' accounts as units. The funds generate returns (gain or loss) through increases or decreases in the value of the units. Similar to mutual fund share prices, unit values change each month based on the current fair value of the investment portfolio and are determined by dividing the net assets of the funds by the number of units outstanding. Net earnings of each fund, which include dividends and interest income received and accrued, less administrative fees, as well as market fluctuations, are reflected in the unit values.

Contributions to the **Savings and ICC Funds** are credited to participants' accounts on a dollar-for-dollar basis. The funds generate returns primarily through interest earnings. The interest factors represent the percentage of net earnings for each dollar invested. Net earnings, which include income received, accrued income and amortized premiums, realized gains and discounts less administrative fees, are calculated monthly and then allocated to participants' accounts on a pro rata basis.

REPORTING

The Treasurer's Office reports quarterly to The Regents on performance of the total funds and individual asset classes; asset allocation; portfolio characteristics; risk factors and other relevant issues.

For a complete listing of each fund's portfolio holdings, please refer to The Treasurer's Office website: (<http://www.ucop.edu/treasurer/>).

VALUATION OF INVESTMENTS

Equity, Bond, TIPS and Balanced Growth Funds: Portfolio securities are valued each month at the last reported market price on an exchange that is the primary market for such securities. Short-term obligations are stated at amortized cost, which approximates market value. Interest income on interest-bearing obligations is recognized as earned using the accrual basis of accounting. These policies are in conformance with generally accepted accounting principles. Due to the long-term nature of investing in private equity, valuations of investments may fluctuate during various stages of the investment life cycle. In addition, valuation reports of private equity holdings are lagged one quarter which is standard industry practice.

Savings Fund: Securities are valued at amortized cost. This method involves valuing a security at its purchase price and thereafter, on a monthly basis, amortizing to maturity any discount or premium paid at the time of purchase. The original cost of the security is increased or decreased by the amount of the amortization and the amortized amount is recorded as income.

ICC Fund: Investments in the insurance contracts are valued at contract value, plus reinvested interest.

INVESTMENT RETURNS

Unit values for the Equity, Bond, TIPS and Balanced Growth Funds and interest factors for the Savings and ICC Funds are calculated by UC Human Resources and Benefits. The Treasurer's Office calculates returns and yields by dividing the new unit value or interest factor by the previous unit value or interest factor supplied.

The Treasurer's Office reconciles these results to the net investment returns calculated by the University's Custodian Bank. These 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. All returns and yields for the UC-managed funds are net of (after) investment expenses.

AUDIT

The independent auditors, PricewaterhouseCoopers LLC, conduct an annual audit at each fiscal year end in accordance with generally accepted auditing standards. The audit includes examining evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and evaluating the overall financial statement presentation in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An opinion is rendered as to whether the statements of net assets available for benefits and the related statements of changes in net assets available for benefits are presented fairly, in all material respects, and conform with generally accepted accounting principles. For audited financial statement purposes, all securities are valued at market value.

FURTHER INFORMATION

For further information please refer to the UC Retirement Plan/Defined Contribution Plan and Tax-Deferred 403(b) Plan Annual Financial Reports or the UC Tax-Deferred 403(b) Plan Summary/Defined Contribution Plan Summary Plan Descriptions.

All of these above referenced documents are available from UC Human Resources and Benefits, on-line at <http://atyourservice.ucop.edu> or from your local Benefits Office.



Glossary

A.M. Best An organization that rates the financial stability of insurance companies. Also known as **Best's Rating**.

Alternative Equities Investment opportunities outside the traditional realm of equity investments, including venture capital funds, buyout funds, emerging market funds and real estate.

Asset Allocation The process of dividing the money in a portfolio among different asset classes, such as equities, fixed-income securities and cash.

Balanced Fund A fund that invests in both equities and fixed-income securities. Balanced funds are designed to produce returns with less price volatility than equity funds typically exhibit.

Best's Rating See **A.M. Best**.

Beta A measure of a stock or mutual fund's volatility relative to the stock market as a whole. The S&P 500 has a beta of 1; stocks or funds with a beta higher than 1 are more volatile than the market and tend to have greater increases or steeper drops than the market does. Stocks or funds with a beta less than 1 are less volatile and generally do not increase or decrease as much as the market does.

Bond An interest-bearing or discounted corporate or government security that obligates the issuer to pay a specified amount of interest income for a specified time and then repay the bondholder the principal of the bond at maturity.

"Bottom-Up" Analysis Investment strategy with a primary emphasis on individual company selection driven by fundamental analysis (i.e., examination of sales, profits, research and development and growth).

Capital Appreciation Price gains over book value (or cost) resulting from the increased price or value of an asset over time.

CG LPF Bond Index Citigroup Large Pension Fund Bond Index is composed of 40% U.S. Treasury/Government-sponsored securities, 30% mortgage-backed securities, and 30% corporates. It is used by large pension funds that seek a longer duration for their bond portfolio to more closely match the longer duration of their benefit liabilities.

Commercial Paper Short-term, unsecured promissory notes issued by corporations to finance short-term credit needs. Commercial paper is usually sold on a discount basis and has a maturity at the time of issuance not exceeding nine months.

Common Stock Units of ownership of a public corporation. Owners are typically entitled to receive dividends and to vote on the selection of directors and other important matters. In the event a corporation is liquidated, the claims of secured and unsecured creditors, as well as those of bond holders and preferred stockholders, take precedence over common stockholders. (See **Equity**.)

Compounding The process by which invested money grows and builds upon itself, as all interest and dividend income (when reinvested) earns additional returns, thereby making the overall balance grow even faster.

Credit Quality Bond Rating A measure of the quality and safety of a bond, based on the issuer's financial condition. More specifically, an evaluation from a rating service indicating the likelihood that a debt issuer will be able to meet scheduled interest and principal repayments. The best-known bond rating companies are Standard & Poor's and Moody's. Their rating systems, although slightly different, both use a letter-grade system, with AAA being the highest rating and C or D the lowest.

Current Yield The annual dividend or interest income divided by the current price of the common stock or bond.

Dollar Cost Averaging A program of investing a specific amount of money on a regular schedule regardless of the price of the shares at the time. In the long run, dollar cost averaging results in buying more shares at low prices than at high prices. Dollar cost averaging provides a way to "smooth out" investment purchase costs.

Duration A measure of the price volatility of fixed-income securities expressed in number of years. It is used to estimate price changes resulting from interest rate changes.

Earnings Per Share A company's profits after taxes, bond interest and preferred stock payments have been subtracted, divided by the number of shares of common stock outstanding.

Emerging Markets Countries that are becoming industrialized, also called developing economies, or the capital markets of individual countries whose per capita income is in the low-to-middle range as defined by the World Bank.

Equity Ownership interest held by the shareholders/stockholders of a corporation. (See **Common Stock**.)

Expense Ratio The percentage of a fund's average net assets spent to operate and manage the fund annually.

Fixed-Income Investments A term used to describe a variety of investments that pay a fixed amount of interest until they mature.

Fundamental Analysis In-depth analysis of a company's financial and non-financial characteristics. These include earnings growth, earnings predictability and sustainability, profit and loss history, balance sheet strength, market position, strategic approach, competitive strength and depth of management.

Hedge Strategy that offers downside protection.

Inflation (Consumer Price Index) The Consumer Price Index (CPI) is an indicator that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food, and transportation.

Lehman Aggregate Bond Index Represents a broad cross section of U.S. dollar denominated fixed income securities composed of three main sectors, Mortgage-backed securities, U.S. Treasury/ Agency issues and corporate bonds. It is the most common benchmark for defined contribution fixed income investment options.

Lehman Long Term Government/Credit Index Represents a broad cross section of U.S. dollar denominated fixed income securities with maturities of 10 years or longer composed of two main sectors, U.S. Treasury/ Agency issues and corporate bonds.

Load The sales charge paid by an investor who buys shares in a mutual fund or insurance policy. A front-end load is imposed when an investor first purchases shares in the fund, or any time an investor purchases subsequent shares. A back-end load is charged when he/she redeems shares before a certain time period, typically five or six years. Some funds, called no-load funds, do not charge any sales fees.

Market Capitalization A measure of the current market value of a company, calculated by multiplying the total number of shares outstanding by the current unit or share price.

Market Value The current or prevailing price of a security or portfolio.

Maturity Date The date at which a bond or fixed-income security is scheduled to repay the principal (loan) to the holder.

Morningstar Morningstar Corporation tracks information and performance on a broad range of stock, bond and balanced mutual funds.

MSCIACWI ex U.S. Index The Morgan Stanley Capital International All Country World ex U.S. Index is designed to measure the performance of all non-U.S. equity markets, including the emerging stock markets of Latin America and Southeast Asia.

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

MSCI Emerging Markets Free Index This index is designed to measure the performance of emerging stock markets.

Price-to-Earnings (P/E) Ratio The relationship between a company's stock price and its earnings, calculated by dividing share price by earnings per share. The P/E ratio, also known as the multiple, gives investors an idea of how much they are paying for a company's earning power.

Russell 3000 TF Index The Russell 3000 Index is composed 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.

Standard Deviation A statistical measure of the historical volatility of a portfolio. Standard deviation measures the dispersion of a fund's periodic returns (often based on 36 months of returns). The wider the dispersion, the larger the standard deviation. A larger number equates to higher volatility, while a lower number signals less fluctuation.

S&P 500 The Standard & Poor's 500 Index is a market-value weighted index of 500 blue-chip stocks (considered to be a benchmark of the overall stock market). It is composed of industrial, transportation, utility, and financial companies with a heavy emphasis on industrial companies.

State Street Global Advisors (SSGA) The investment management arm of State Street Corporation and one of the world's largest investment managers. They deliver customized, cost-effective index equity products tracking over 160 standard and custom benchmarks. For more information visit their website at www.ssga.com.

TIPS A Treasury Inflation-Protected Security (TIPS) is identical to a treasury bond except that principal and coupon payments are adjusted to eliminate the effects of inflation.

"Top-Down" Analysis Investment strategy with an emphasis on analyzing the major economic, political and inflationary trends in a market and then identifying individual countries, industries and companies most likely to benefit from those trends.

Total Return A measure of investment performance that includes price changes and reinvestment of all earnings, such as interest or dividends, generated by the investment during the period being measured.

Turnover Rate A measure of a fund's trading activity.

U.S. Treasury Bill A negotiable debt obligation issued by the U.S. government and backed by its full faith and credit, having a maturity of one year or less and that is exempt from state and local taxes. The 91-Day Treasury Bill performance is a close approximation of a risk-free investment return.

U.S. Treasury Note A negotiable, coupon-bearing debt obligation issued by the U.S. government and backed by its full faith and credit having a maturity of more than 7 years. Interest is paid semiannually and is exempt from state and local taxes.

Volatility The price movement of a security, commodity or market within a specified time period.

Yankee Bonds U.S.-dollar-denominated bonds issued in the U.S. by foreign entities.

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM

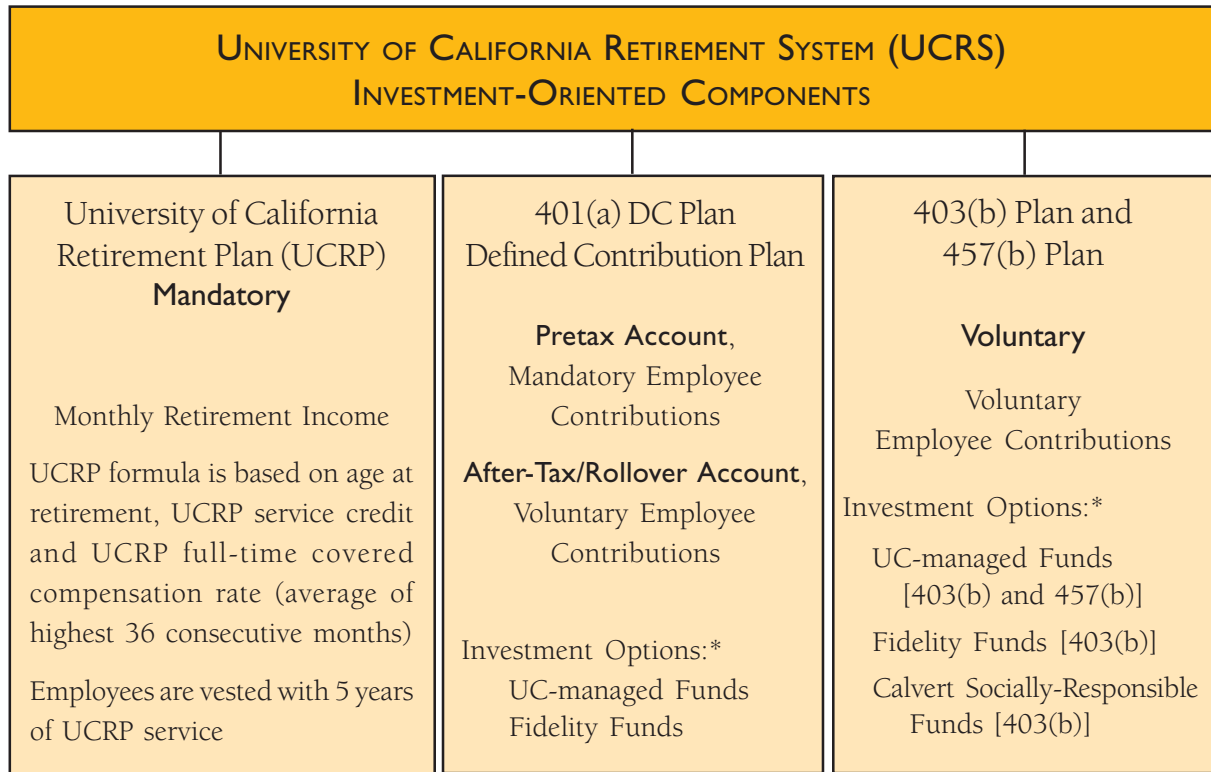
The University of California Retirement System has several investment-oriented components, as illustrated below.

The University of California Retirement Plan (UCRP) is a defined benefit plan which entitles you, at retirement, to be eligible to receive a specific amount based on your age at retirement, salary history and years of service, given you have met certain criteria. Due to the Plan's funded status faculty and staff are not currently required to contribute.

The 401(a) Defined Contribution Plan, or DC Plan, consists of two programs: a mandatory Pretax Account and a voluntary After-Tax/Rollover Account.

The 403(b) Plan and the 457(b) Plan are voluntary defined contribution plans. Contributions are made on a pre-tax basis deducted directly from individual pay. Information comparing these plans is available online at http://atyourservice.ucop.edu/news/retirement/457b_plan_booklet.pdf.

This Retirement Investment Funds Report profiles the UCRP and the UC-managed Funds offered within the 401(a), 403(b) and 457(b) Plans.



* Investment options will be revised in 2005.

FOR FURTHER INFORMATION

The Treasurer's Office website (<http://www.ucop.edu/treasurer>) contains our most recent quarterly investment information and other timely messages. Additional information regarding the UC-managed funds can also be found at the UC HR/Benefits website (<http://atyourservice.ucop.edu>) and NetBenefits (www.fidelity.com/atwork). You may contact us in writing at the University of California, Office of the Treasurer, P.O. Box 24000, Oakland, CA 94623-1000.