



# UC TIPS (Treasury Inflation-Protected Securities) Fund

**Investment Objective:** The Fund seeks to provide long-term return and inflation protection consistent with an investment in U.S. Government inflation-indexed securities.

## Quick Stats

1 Year Return (12/31/2007)	11.66%
NAV (12/31/2007)	\$11.94
Investment Category	Bonds
Net Assets (\$M)	\$65
Inception	April 1, 2004

The TIPS Fund is part of the UC Retirement Savings Program's Core Funds, which include a full range of asset classes designed to help meet participant needs. Participants in the Program should consider their unique needs and goals, along with any savings held outside of the Program, when building an appropriately diversified asset allocation of funds.

## Risks to You

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.

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.

For more information on risk, see the "Investment Risk Factor Guide," available online at [www.netbenefits.com](http://www.netbenefits.com).

## Average Annual Total Returns

as of 12/31/2007

The UC TIPS Fund started operations on April 1, 2004. Therefore, long-term performance information is not yet available.

Returns (%)	1 Year	3 Years
TIPS Fund	11.66	4.90
Policy Benchmark	11.63	4.85

## How We Invest

The Treasurer's Office manages the TIPS Fund according to the policies established by The Regents of the University of California.

The Fund invests in inflation-indexed securities issued by the U.S. Treasury. Inflation-indexed securities are designed to protect future purchasing power. The principal value is adjusted for changes in inflation, and interest is accrued on the inflation-adjusted principal. The Fund's performance benchmark is the Lehman Brothers U.S. TIPS Index, and the Fund seeks to provide a total return that matches the Index.

The Fund is managed by Senior Portfolio Manager David Schroeder, who also manages the government bond portions of the UCRP and the Bond Fund.

## Fees and Expenses

Investor expenses are limited to 0.15% (or \$1.50 per \$1,000 invested) of the Fund's average market value per year, assessed on a daily basis (1/365th per day invested). These expenses are not billed to participants, but are netted against the investment experience of the fund. These expenses are comprised of approximately 0.03% for investment management, 0.02% for investor education and 0.10% for administration (including accounting, audit, legal, custodial and recordkeeping services). The total administrative expenses are estimated and could actually be lower in some periods. If actual administrative expenses are less than estimated, any accumulation will be returned to the Fund each quarter, on a prorated basis, thereby lowering the effective expense ratio for participants. There are no front-end or deferred-sales loads or other marketing expenses.



# UC TIPS Fund *continued*

## Asset Class Overview

as of 12/31/2007

Total market value of the TIPS (Treasury Inflation-Protected Securities) Fund at 12/31/07 was \$65 million. At 12/31/07, 100% of the Fund was invested in TIPS. 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 accrued on the adjusted principal amount. For example, assume the Treasurer's Office invests \$10,000 in an inflation-protected note. If there is 4% inflation, the principal would be adjusted to \$10,400 and interest would be accrued on that amount.

At 12/31/07, 74.3% of the holdings had a maturity of less than 10 years, 13.3% had a maturity between 15 and 20 years, and the remaining 12.4% had a maturity of 20 years plus. The weighted average maturity of the Fund was 8.8 years. The weighted average credit quality of the Fund was AAA.

## Month-End Values

most recent 12 months ending 12/31/2007

January 2007	10.70089
February 2007	10.92370
March 2007	10.95224
April 2007	11.03232
May 2007	10.88971
June 2007	10.87078
July 2007	11.12078
August 2007	11.21715
September 2007	11.36773
October 2007	11.49822
November 2007	11.95216
December 2007	11.93560

Keep in mind that investing involves risk. The value of your investment may fluctuate over time and you may gain or lose money.

The information contained herein regarding the UC Funds has been provided by the University of California Office of the Treasurer and is solely the responsibility of the University of California Office of the Treasurer.