



## Short Term Investment Pool (STIP)



The Short Term Investment Pool (STIP) is a cash investment pool established in fiscal 1976 by The Regents, in which all University fund groups participate, including retirement and endowment funds as well as campus endowment funds. Cash to meet payrolls, operating expenses, and construction funds of all the campuses and teaching hospitals of the University are the major funds invested in STIP until expended. Pension, endowment, and defined contribution funds awaiting permanent investment are also invested in STIP until transferred. STIP participants are able to maximize returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large cash pool.

### INVESTMENT OBJECTIVE

The basic investment objective of STIP is to maximize returns consistent with safety of principal, liquidity and cash-flow requirements. The STIP's investments include a broad spectrum of high-quality money-market and fixed-income instruments with a maximum maturity of five-and-a-half years. Investment maturities are structured to ensure an adequate flow of funds to meet the University's cash needs as well as to provide the liquidity needed to facilitate asset class rebalancing and other major liquidity events.

### INVESTMENT STRATEGY AND RETURNS

The Treasurer's Office manages the STIP as a highly liquid portfolio, using maturity distribution strategies to maximize returns in different yield-curve environments. Select swapping strategies are employed to take advantage of disparities in the market to improve quality and yield, while maintaining liquidity.

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

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

The credit crunch and liquidity contraction that began in mid-August 2007 with the ongoing stress in the housing markets continues to roil all financial markets. Even money markets, often considered safe havens, are under stress and remain severely dislocated. During the fiscal year, the money markets experienced several rare events, including: the unraveling of the ABCP (Asset-Backed

STIP Annualized Income Return <sup>1</sup> June 30, 2008				
	1-Year	5-Year	10-Year	10-Year Cumulative
STIP	4.76%	4.13%	4.81%	59.14%
2-Yr U.S. Treasury Income	3.30	3.45	3.90	46.58
Inflation <sup>2</sup>	5.03	3.56	2.99	34.28

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

<sup>2</sup> Inflation as measured by the Consumer Price Index.

Commercial Paper) market; money-market funds "breaking the buck" (NAV's falling below one dollar); still others suffering from unusually high redemptions and electing to halt redemptions; others needing large cash infusions from their sponsors; and very high liquidity premiums in borrowing rates for even high-quality corporate issuers.

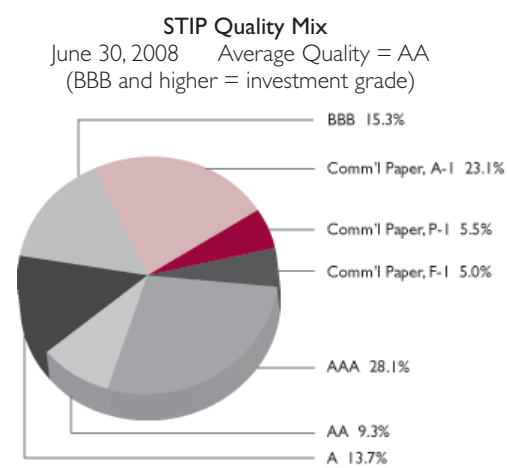
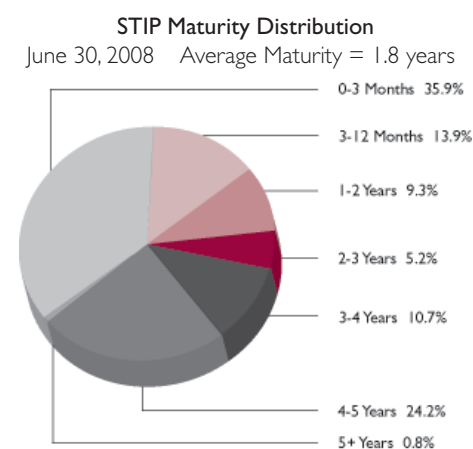
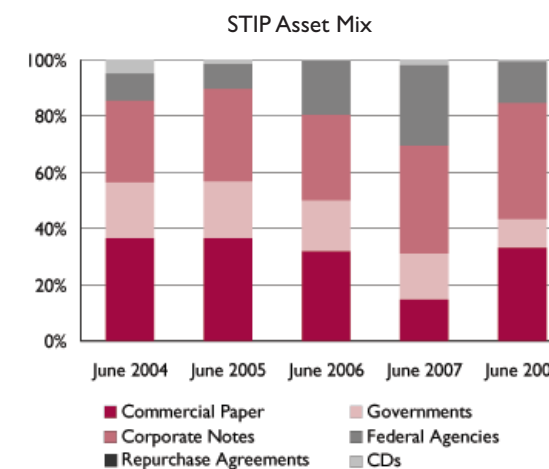
In response to these strains and a weakening economy, the Federal Reserve cut the federal funds target rate from 5.25% in August 2007 to a current rate of 2.0%. Additionally, the Fed has instituted a number of extraordinary lending facilities in order to ease the strains in the financial system.

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

In the fourth quarter of the fiscal year, the Regents approved the establishment of a new Total Return Investment Pool (TRIP), an investment alternative to the STIP that increases the expected return of long-term working capital. As the concept, strategies, and procedures for the TRIP were worked out over the fiscal year, the Treasurer's Office prepared to build the liquidity (\$1.5 billion) needed to fund the TRIP on August 1, 2008. Because of the large amount of liquidity needed, the average maturity of the fund at June 30, 2008, was 1.8 years, slightly short of the benchmark.

### ASSET MIX

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



Commercial paper must have a rating of at least A-1, P-1, D-1, or F-1.

### UNIVERSITY PROGRAMS UTILIZING STIP

In fiscal 1985, The Regents authorized the University of California Mortgage Origination Program, which provides first deed of trust mortgage loans to eligible members of the University's faculty and staff. These loans totaled \$585.6 million at June 30, 2008, and were funded by the legally available cash balances in the unrestricted portion of STIP. In March 1999, The Regents authorized the use of the legally available cash balances in the unrestricted portion of STIP to provide liquidity support for the University's Commercial Paper Program. The STIP also provides working capital advances to the medical centers.