

December 21, 2001

The Enron holdings in UC portfolios and related class action litigation

The University of California investment portfolios currently have no exposure to Enron common stock or Enron fixed income securities. Enron shares were first purchased in the internal actively managed Equity portfolios in May and June of 2000. The passively managed State Street Russell 3000 Tobacco-free Index fund first purchased Enron stock in November 2000. The internal actively managed Enron common stock holding was sold by the Treasurer's Office from November 14 to 21, 2001 as it became increasingly likely that the company might file for bankruptcy. State Street Global Advisors, managers of the passive Russell 3000 Tobacco-free Index fund, sold all the UC separate account Enron shares on November 29. Enron filed for Chapter 11 bankruptcy protection on December 2, 2001.

The average purchase price per share for the internally managed active portfolios was \$68.50, while the average sale price was \$5.33. This represents a change in value in the actively managed portfolios of \$88 million dollars for the UCRP, \$11 million for the GEP, and \$11 million for the 403(b) Equity fund over the 18-month holding period. The passively managed Russell 3000 Tobacco-free Index purchases averaged \$73.40 per share, while the average sale price was \$1.52 per share. This represents a change in value for the Russell 3000 Tobacco-free Index funds of \$35 million. These transactions represent a total change in value of \$145 million across all University of California portfolios. The current market value of the UC portfolios was \$54 billion as of November 30, 2001.

Viewed in isolation, this single stock exposure represents a significant loss in value over the course of the holding period. Viewed in the context of the total holdings, the Enron exposure represented a relatively small portion of the equity portfolios (UCRP, GEP, and the 403(b) Equity Fund), which are well-diversified across all market sectors. At its peak, the Enron holding represented approximately 0.7% of the actively-managed equity portfolios and 0.3% of total funds under management. The passively managed Russell 3000 Tobacco-free Index exposure represented a market capitalization weight. The Enron equity position was marked-to-market (i.e. valued) on a daily basis, so the loss in value of the position has already been reflected in the monthly and quarterly returns as reported in previous time periods.

In the month of November, the UC equity portfolios performed well, even accounting for the demise of Enron: both the UCRP and GEP US common stock portfolios recorded a total return of +7.70%, within 0.08% of their performance

benchmark, the Russell 3000 Tobacco-free Index, return of +7.78%. The 403(b) Equity fund US common stocks posted a +7.80% return for November.

In addition, the loss on the Enron holdings in no way affects the ability of the retirement plan to meet its obligations to its beneficiaries. Nor will it affect the spending policy of the General Endowment Pool. The total retirement fund portfolio has grown by over \$1.9 billion from September 30 to November 30. For the same time period, the GEP added \$231 million and the 403(b) Equity Fund added \$188 million.

From September through November the Treasurer's office was actively rebalancing the exposures to stocks and bonds, from an over-weight to bonds and an under-weight to stocks relative to the neutral policy benchmark. Currently, the UCRP and GEP are in alignment with the policy portfolio of 65% Equity and 35% Bonds. This rebalancing activity demonstrates the benefits of managing a diversified multiple-asset class portfolio that reduces the overall portfolio risk.

In conjunction with the General Counsel, we are aggressively pursuing participation as a lead plaintiff in a class action lawsuit in an attempt to recover losses incurred by the University of California and other Enron shareholders between October 1998 and November 2001. This so-called "class period" covers the time frame when the University purchased and held Enron shares based on an alleged falsification of profitability in Enron's financial statements. Whether or not the University is selected as a lead plaintiff, the class action will proceed in seeking recovery from the Enron officers and directors, and from Arthur Andersen LLP, the accounting firm that audited and certified Enron's financial statements.

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Treasurer