Treasurer's Annual Report

One hundred and thirty-fourth fiscal year

University of California • 2001-2002

The University of California

The University of California, founded in 1868, is a system of 10 campuses with a mission of teaching, research and public service. With over 183,000 graduate and undergraduate students, UC is the world's premier public university. UC has three law schools, five medical schools and the nation's largest continuing education program. The University also manages three national laboratories that are engaged in energy and environmental research. Its Natural Reserve System manages approximately 130,000 acres of natural habitats for research, teaching and outreach activities.

Campuses and National Laboratories

The Regents of the University of California

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.

Treasurer's Annual Report Fiscal 2001-2002

Established in 1933, The Office of the Treasurer of The Regents has had a long and successful history of managing the University's pension and endowment funds. These investments provide substantial benefits to current and retired employees and support the University's mission of education, research and public service. The Treasurer's Office currently manages a portfolio of retirement and endowment funds totaling $51 billion.

FISCAL YEAR 2002 IN REVIEW

As the technology and telecommunications spending bubble of the late 1990s continued to unwind, investor confidence was further rocked by the September 11 terrorist attacks and several high-profile corporate accounting scandals and bankruptcies.

In the first quarter of calendar 2002, the U.S. economy staged a recovery from the mild recession of 2001, achieving 5% real growth measured by gross domestic product. This GDP growth caused investors to question the apparent "disconnect" between the real economy and equity market performance. However, economic growth slowed precipitously in the second quarter, downgrading corporate earnings prospects and negatively impacting the equity market.

In the fiscal year, the Russell 3000 Tobacco Free Index declined 17.4%, NASDAQ 32.3%, S&P 500 18.0% and the Dow Jones Industrial Average 10.3%. Large capitalization stocks were particularly hard hit. Small and mid-capitalization stocks outperformed the broad market indices.

The major foreign markets, represented by the Morgan Stanley Capital International All Country World ex U.S. Index and Morgan Stanley Capital International Europe, Australia, and Far East Index, declined 8.2% and 9.2% respectively.

Private Equity market returns were similar to public equities as opposed to the severe underperformance experienced last year. New private equity investing slowed dramatically across the industry, with several partnerships returning uninvested funds and reducing the fees to their limited partners.

In the fiscal year, the Federal Reserve lowered interest rates from 3.75% to 1.75%, impacting the short end of the yield curve. Overall, bonds provided positive returns, for as interest rates fell, prices rose.

MESSAGE FROM THE TREASURER

The past fiscal year brought us many portfolio management challenges. As discussed in the previous column, the United States and International equity markets experienced further declines in value. At this time, equity markets have reached 6-year lows. The largest risks to our investment portfolios are uncertain global markets, rising budget deficits at all levels of government, and a possible slide into recession. On the positive side, low interest rates are promoting mortgage refinancing, corporations are reducing debt, and equity valuations have been severely reduced to reasonable levels.

The U.S. bond markets produced relatively large total returns as the low interest rates that we are now experiencing raised the price on all outstanding bonds. These gains could be reversed if interest rates or inflation rises in the future.

Corporate accounting scandals rocked the U.S. equity market. The Regents' investment portfolios were directly affected by the Enron and WorldCom bankruptcies that were the result of alleged accounting fraud by the firms and their accountants. While UC's losses were significant dollar amounts, they represented a small percentage of funds under management and did not impact our ability to meet obligations.

Following action by The Regents to authorize an application for lead plaintiff status in the Enron litigation, the University was designated as such by the federal court in Houston. A first step in the process of recovery was a $40 million settlement with Arthur Andersen International on behalf of the total class of defrauded Enron investors.

At the May 2002 Regents' meeting, The Regents approved the addition of Treasury Inflation Protected Securities (TIPS) as a separate asset class in the U.C. Retirement System defined benefit portfolio. TIPS increase in value as inflation, as measured by the Consumer Price Inflation (CPI - seasonally not adjusted), increases. This action by The Regents dedicated 5% of the defined benefit portfolio to TIPS, while reducing the overall risk of the portfolio. The allocation was shifted from regular coupon bonds to TIPS and was completed as of fiscal year end.

The Regents approved changes to the General Endowment Pool (GEP) asset allocation at the May 2002 meeting. The new asset allocation for the GEP reduced the exposure to U.S. Equity from 53% to 45%, increased International Equity from 7% to 10%, doubled Private Equity from 5% to 10%, and decreased Fixed Income from 35% to 30%. The changes to the endowment portfolio also included the addition of a new asset class: Absolute Return Strategies (ABS) with an allocation of 5%. ABS include market neutral, long/short equities, merger arbitrage, and other investment methods that attempt to reduce risk while preserving capital. We plan to have begun implementation of the new asset allocation for the GEP by calendar year end. Due to the nature of the investing cycle for Private Equity, the increase to Private Equity will take place over a three to five year period as we make commitments to new funds and existing relationships.

The Treasurer's Office added new personnel in several key areas during the year. These new positions include: Manager of Communications to interface with our clients and the HR/Benefits group, Director of Investment Risk Management to control, measure and report on investment portfolio risks, Managing Director – Alternative Investments to manage the Private Equity (Venture Capital and Buy-out Funds), and a Middle Office administrator to improve the flow of information from the securities trading operation to the essential investment accounting group and custodial bank.

The Treasurer's Office also implemented several enhancements to its operational and analytics areas such as risk management software and performance evaluation tools.

The Treasurer's Office created four new low-cost pooled investment options for the U.C. Campus Foundations and affiliated groups: Russell 3000 Tobacco Free Index, Morgan Stanley Capital International (MSCI) Europe Asia Far East (EAFE) Tobacco Free Index, Lehman Brothers Aggregate Bond Index and the UC Vintage Year Private Equity Funds. These options permit the Foundations to alter their asset allocations to fit their institutional risk tolerance and portfolio expected risk and return parameters. The index fund options are available now. The UC Vintage Year Private Equity Funds will be available early next year.

Looking ahead, the Treasurer's Office will focus on implementation of asset allocation changes for GEP, which includes the recent hiring of a Director of Absolute Return Strategies. We will continue to research, identify, refine and manage specialized asset classes.

I am pleased to serve The Regents, faculty, staff and students of the University of California. Please visit our website for timely announcements and quarterly portfolio performance reporting at www.ucop.edu/treasurer/.

Sincerely,

David H. Russ
Treasurer and Vice President For Investments
October 2002

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 16 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 Equity 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 25 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.

JEFFREY E. HEIL, CFA – Managing Director – Public Equity

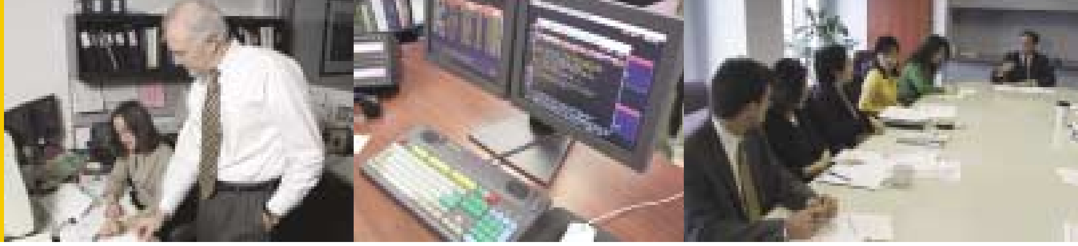
Mr. Heil is responsible for the strategic focus and management of the public equity portfolio. He began his career as an Investment Analyst with Arnold Bernhard and Company, Inc. Prior to joining the Treasurer's Office in 1997, Mr. Heil was Vice President of Equity Research for Key Asset Management, Cleveland; Corporate Finance Consultant with McKinsey & Company, Cleveland; and Investment Banker for Asset Growth Partners, New York. Mr. Heil received his MBA degree in Finance from New York University and his BA degree in Government from Ohio University. Mr. Heil holds the CFA designation.

RANDOLPH E. WEDDING, MBA – Managing Director – Fixed Income

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 portfolio, venture capital and buy-out investments. 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 Investment Advisors, Ms. Berggren held the titles of Director of Research, Managing Director of Equities, Senior Vice President/Department Head for Corporate Mergers and Acquisitions, and Vice President – Corporate Strategy. 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.



INVESTMENT MANAGEMENT

PUBLIC EQUITY INVESTMENTS			years exp.	years with UC
James Cottle, CFA, MBA	Investment Officer	Technology-Software & Services Sector	35	17
Gary DeWeese, MAI, MBA	Investment Officer	Real Estate and Capital Goods Sector	29	28
Alison Shimada, MBA	Investment Officer	Health Care Sector	13	3
David Stewart, CFA, MBA	Investment Officer	Technology-Hardware Sector	11	3
Arild Holm, CFA, MBA	Investment Officer	Energy Sector	8	2
Sandra Salas, MBA	Investment Officer	Consumer Sector	6	1
Jeremy Berk, CFA, BS	Investment Analyst	Financial Services Sector	6	4
Ingrid Yang, MBA	Research Associate	Investment Research	3	1
Thalia Murray, BA	Research Assistant	Research/Administrative Support	3	2

ALTERNATIVE INVESTMENTS			years exp.	years with UC
Neetesh Kumar, MBA, MS	Investment Officer	Private Equity Investments	9	-
Leslie Watson, BA	Research Assistant	Private Equity Investments	1	7

FIXED INCOME INVESTMENTS		years exp.	years with UC
David Schroeder, BA	Senior Portfolio Manager, Long-Term Securities, Gov'ts.	22	-
Satish Swamy, CFA, MBA	Senior Portfolio Manager, Long-Term Securities, MBS	10	4
Alice Yee, MBA	Senior Portfolio Manager, Short-Term Securities	26	22
Kim Evans, MBA	Head of Credit Analysis	18	12
Omar Sanders, MBA	Credit Analyst	7	1
Aaron Staines, BA	Research Assistant	1	1

RISK MANAGEMENT/ANALYTICS		years exp.	years with UC
Jesse Phillips, CFA, MBA, MA	Director of Investment Risk Management	10	-
Jenny Shen, CPA, MA	Quantitative Analytics Manager	7	2

TRADING		years exp.	years with UC
Linda Fried, BA	Head of Trading	28	20
Matthew Scoble, CFA, BS	Equity Trading	7	3

INVESTMENT SERVICES

OPERATIONS

Robert Yastishak, Director
Ofelia Abaya
Angelica Beckman
Paula Ferreira, Supervisor
Floyd Gazaway, Jr.
Brian Hagland
Jan Kehoe, Assistant Director
Khaleelah Muhammad
Edward Quave
Marjan Shomali
Michael Strach
Allen Woo

INFORMATION SYSTEMS

Michael Comstock
Michael John

COMMUNICATIONS

Susan Rossi, Manager
Alison Johnson

PROJECT MANAGEMENT

Nelson Chiu, Manager
Jennifer Lipscomb

ADMINISTRATIVE STAFF

Gayle Tapscott, Manager
Gay Adams
Elizabeth Agbayani
Claudia Green
Anita Gridley
Joyce Lewis
Barbaretta Morris

INVESTMENT MANAGEMENT OVERVIEW

The investment funds managed by the Treasurer of the Regents consist of the University's retirement, defined contribution and endowment funds, as well as the system's cash assets. At June 30, 2002, the Treasurer's Office managed $51.0 billion in total assets as outlined below.

TOTAL FUNDS UNDER MANAGEMENT
June 30, 2002
($ in billions)

UC Retirement Plan (UCRP)	$34.3
DC Funds	6.3
Endowment Funds	4.6
Short Term Investment Pool (STIP)[1]	5.8
Total Funds	$51.0

The Treasurer's investment management staff includes 26 investment professionals with an average of 15 years of investment experience. The Treasurer's Office strengths as an investment manager include:

- Long-term investment focus
- Global tactical approach to investing
- Consistent investment philosophy and investing style
- Original, in-depth research
- Access to corporate managements and global financial research
- Streamlined decision-making
- Experienced investment team
- Significantly lower cost

INVESTMENT OBJECTIVES & PHILOSOPHY

The investment objective for all funds under management is to maximize long-term total real returns (adjusted for inflation) while assuming appropriate levels of risk. Because the purpose of each fund is unique, The Regents has established specific objectives for each fund, along with the overall goal of exceeding the median return of our peer institutions and the rate of inflation.

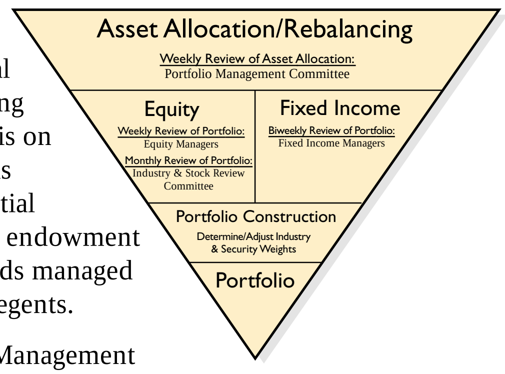
Retirement Funds Objective: For UCRP, produce a real return to meet obligations to beneficiaries and to meet or exceed the actuarial rate of return. For University-Managed Defined Contribution Funds, meet stated investment objectives for each fund.

Endowed Funds Objective: Produce a real return sufficient to meet the needs of the endowed projects, and generate growth of principal and a growing payout stream to ensure that future funding for endowment-supported activities can be maintained in perpetuity.

[1] The Short Term Investment Pool excludes the cash invested for, and reported as part of the UCRP, DC and Endowment funds.

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, 25 and 30.) Historically, portfolio asset allocation has favored equity investments over fixed-income securities due to the expectation that equities will provide higher total returns over the long term. This emphasis on equity investing has resulted in substantial growth in both the endowment and retirement funds managed on behalf of The Regents.

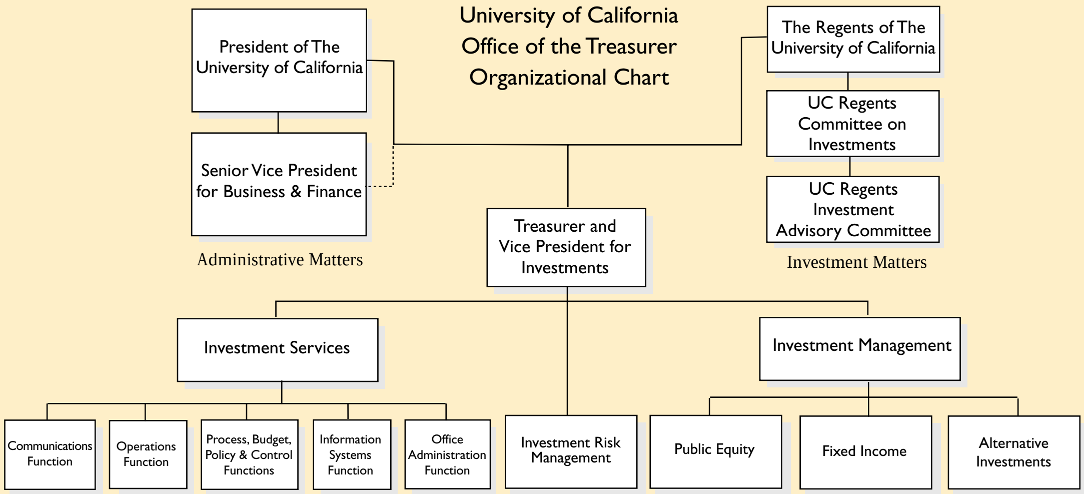


The Portfolio Management Committee meets weekly to review asset allocation and other portfolio issues. Asset allocation rebalancing is required when an asset class falls below the allowable range. The Committee decides on the timing and extent of the rebalancing, within The Regents' policy, based on market conditions.

PUBLIC EQUITY INVESTING

The Regents' public equity investment strategy utilizes both active and passive management. In its active equity investment process, the Treasurer's Office focuses on a value-oriented, long-term approach to growth-stock investing. This means using a "top-down" theme oriented approach to find attractive industry segments, followed by a "bottom-up" stock selection process to find quality businesses with good management and robust cash flow. The results are portfolios of stocks that are believed to be selling at a discount to their future value, as well as fitting within equity and portfolio guidelines.

The Equity Managers meet weekly to review the portfolio, including new buy and sell recommendations, and an Industry Weighting Committee meets monthly. Sell decisions are made when a security has reached a valuation level beyond that supported by the fundamental outlook for the company, or when the fundamentals themselves have changed or deteriorated.



FIXED INCOME INVESTING

Within the overall goal of maximizing total return over a long-term horizon, the Treasurer's Office Fixed Income team focuses on safety of principal, liquidity, credit quality, and efficient use of risk. They use a "top-down" approach to sector and country selection by analyzing macroeconomic factors, business cycle, monetary and fiscal policy, and political stability combined with a "bottom-up" approach to security selection within sectors or countries by analyzing financial strength, quality of management, position within the industry and credit rating for individual investments. Analysts also monitor market conditions to take advantage of short-term supply/demand inequalities and temporary changes in the yield curve. The Fixed Income Managers meet weekly to review the portfolio.

PRIVATE EQUITY INVESTING

The Regents include private equity investments such as venture capital and buyouts in their overall asset allocation to increase portfolio diversification and reduce risk due to its low correlation 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's team has a strong competitive advantage and highly distinctive strategies. The team is seen as a sophisticated, long-term investor in the private equity arena, achieving well above average returns over the past 20-plus years. The office has long standing relationships with many top-tier private equity groups and continues to build new relationships with premier firms not accessible to most institutions. The objective is to build a well-diversified portfolio of top tier U.S. partnerships. The Treasurer's Office Alternative Investments team reviews and recommends private equity investments along with a private equity consultant.

Post-investment monitoring, including investment documentations, interim valuations, and regular meetings with general partners, bolster the integrity of the investment program.

RISK MANAGEMENT

The primary objective of the Risk Management function 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 involves identifying risks and setting bounds for possible losses; implementing policies, guidelines and controls; and integrating risk monitoring, measurement, and analysis into all aspects of the investment process.

At the portfolio level, various aspects of risk, both quantitative and qualitative, are monitored 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 how the volatility of assets impacts the ability to pay promised benefits or support spending policies. In addition to measuring risk exposures, scenario analysis, stress testing key assumptions, and optimization of risk and expected return are key components of the risk management process.

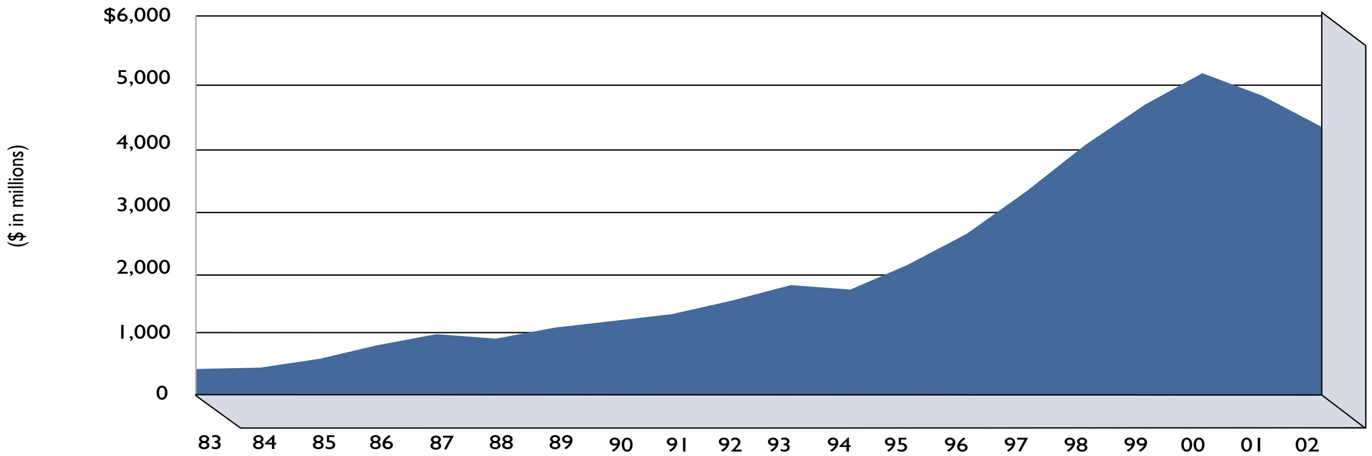
Risk exposures are continually monitored, compared to targets, and altered when appropriate.

General Endowment Pool (GEP)

GENERAL ENDOWMENT POOL (GEP)
Summary of Investments[1]
($ in thousands)

GENERAL ENDOWMENT POOL	June 30, 2002 Cost	June 30, 2002 Market Value	June 30, 2002 % of Pool	June 30, 2001 Market Value	June 30, 2001 % of Pool
EQUITIES					
U.S. Equity	$ 2,274,736	$ 2,223,564	53.0 %	$ 2,382,532	50.7 %
Non-U.S. Equity	382,772	286,930	6.8 %	292,371	6.2 %
Private Equity	161,660	142,749	3.4 %	170,360	3.6 %
TOTAL EQUITIES	$ 2,819,168	$ 2,653,243	63.2 %	$ 2,845,263	60.5 %
FIXED-INCOME SECURITIES	$ 1,475,655	$ 1,523,429	36.3 %	$ 1,745,730	37.1 %
STIP PARTICIPATION	$ 22,394	$ 22,394	0.5 %	$ 111,736	2.4 %
TOTAL GENERAL ENDOWMENT POOL	$ 4,317,217	$ 4,199,066	100.0 %	$ 4,702,729	100.0 %
OTHER ENDOWMENT FUNDS	$ 364,239	$ 364,239		$ 384,000	
TOTAL GEP AND OTHER ENDOWMENT FUNDS	$ 4,681,456	$ 4,563,305		$ 5,086,729	

GEP Market Values
(Fiscal Periods Ending June 30)



Established in 1933, and unitized in 1958, the General Endowment Pool (GEP) is The Regents' primary investment vehicle for endowed gift funds. GEP is comprised of over 5,000 individual endowments that support the University's mission. GEP is a balanced portfolio of equities and fixed-income securities in which all endowment funds participate, unless payout needs require otherwise.

The June 30, 2002 market value of GEP was $4.2 billion, or $15.56 per share, versus $4.7 billion, or $17.76 per share, at the end of fiscal 2001. Total GEP net investment income for the year was $143.9 million, or $0.54 per share, versus $164.8 million, or $0.63 per share, at the end of fiscal 2001.

SPENDING POLICY

The Regents has long believed that a total return investment philosophy aimed at achieving real (after inflation) asset growth would be able to generate growing annual payouts to support donors' designated programs. In October 1998, The Regents adopted a long-term spending rate of 4.75% of a 60-month (5-year) moving average of GEP's market value. The Regents will review the payout rate each year in the context of GEP's investment returns, inflation and the University's programmatic needs, in conjunction with prudent preservation of principal and prudent increases in the payout amount.

[1] For fiscal 2001 and fiscal 2002, the cash portion of the various portfolios excludes the unrealized market appreciation or depreciation of STIP investments, accounts receivable and accounts payable, and the investments in the security lending collateral pool. Therefore, the balances differ from the University's Annual Financial Report.

INVESTMENT OBJECTIVE

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

For GEP, the primary goal is to generate growth of principal and a growing payout stream to ensure that future funding for endowment-supported activities can be maintained.

INVESTMENT STRATEGY

In order to continue to achieve these investment objectives, The Regents adopted the following asset allocation policy in March 2000:

Asset Class	Target	Minimum	Maximum
U.S. Equity	53%	48%	58%
Non-U.S. Equity	7%	5%	9%
Private Equity	5%	3%	7%
Fixed-Income	35%	30%	40%

The asset allocation benchmarks and portfolio guidelines are designed to reduce risk and ensure portfolio diversification. The benchmarks for the individual asset classes are: Russell 3000 Tobacco Free for U.S. Equity; MSCI ACWI-ex-US for Non-U.S. Equity; Russell 3000 Tobacco Free +3% for Private Equity; and Salomon Large Pension Fund (LPF) for Fixed Income. The total fund benchmark is a target-weighted average of the individual asset class benchmarks.

Within the U.S. Equity asset class, approximately 70% of the fund is actively managed by the Treasurer's Office, which targets investments primarily in the common stocks of high-quality global companies with reasonable valuations that have the ability to grow their earnings at a higher rate than market averages. The remaining 30% is invested in a Russell 3000 Tobacco Free Index fund managed by State Street Global Advisors, which is intended to mirror the returns of the broad U.S. stock market.

In the Non-U.S. Equity category, 85% is invested in a MSCI EAFE Tobacco Free Index fund managed by State Street Global Advisors, designed to mirror the returns of the broad developed foreign stock markets. The remaining 15% is invested in emerging markets net asset value funds, to gain exposure to the developing foreign markets.

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

For Fixed-Income investments, the Treasurer's Office analyzes relative value among the core benchmark sectors of Governments, Corporates, and Mortgage-backed securities and overweights those sectors and securities offering attractive real returns, while maintaining a risk level commensurate with the benchmark index.

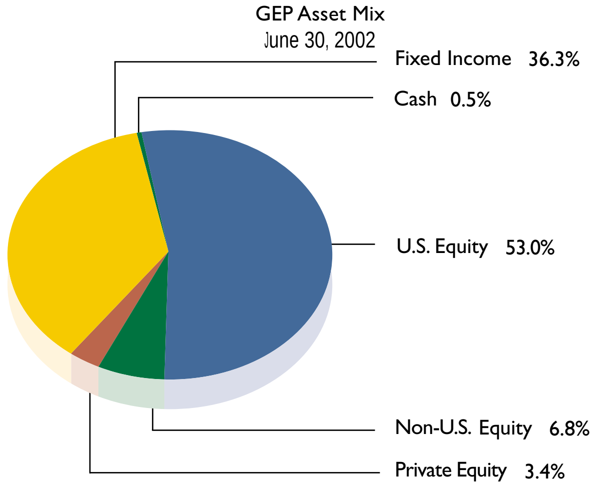
RETURNS

Throughout the years, GEP has exceeded its fund objectives. As illustrated in Table I on page 12, GEP has also consistently performed well vs. its peers and policy benchmarks. GEP's total return of (9.5%) for the fiscal year was impacted by weak global equity markets, and the negative environment for large cap growth stocks in particular. For the past 20 years, however, GEP's compound annual total return was a strong 14.8% vs. 12.2% for the CRA Median[1] and 14.3% for its benchmark. During that time, payout distributions grew at an average annual rate of 7.8%—well above annualized inflation of 3.1%.

Chart I on page 12 illustrates the cumulative total returns for GEP for the past 20 years relative to the policy benchmark, CRA Balanced Fund Median, and inflation. Table II on page 14 provides a detailed illustration of the performance of an endowed gift to GEP for the past 20 years. GEP's five-year average annual turnover rate was 20.6%

ASSET MIX

The following represents GEP's assets at June 30, 2002.

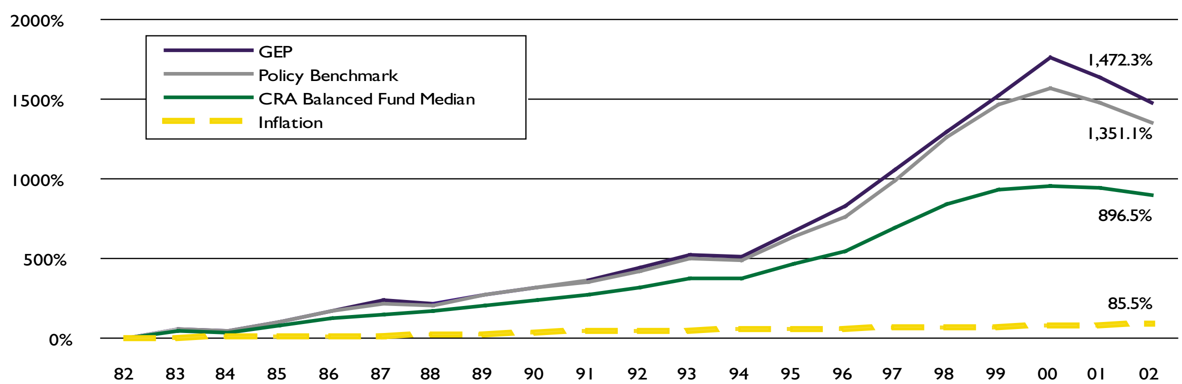


[1] Capital Resource Advisors (CRA), measures investment returns on approximately 5,500 portfolios, with $364 billion in assets. These are gross returns and are before any investment management fees, which would be approximately 0.50% of average annual market value. For periods longer than ten years, the Treasurer's Office uses the linked median, which is the compounded return of the annual universe median during a given time period.

Table I
GEP Annualized Total Returns[1] versus Peers[2], Benchmarks and Inflation
June 30, 2002

	1-Year	5-Year	10-Year	20-Year	20-Year Cumulative
Total Fund					
GEP	(9.5)%	6.3%	11.3%	14.8%	1,472.3%
CRA Balanced Fund Median	(4.8)	6.1	9.8	12.2	896.5
Policy Benchmark[3]	(7.7)	6.0	10.9	14.3	1,351.1
Inflation[4]	1.3	2.4	2.6	3.1	85.5
U.S. Equity					
GEP	(21.8)%	2.3%	10.3%	14.0%	1,279.0%
Policy Benchmark[5]	(17.4)	4.0	11.6	15.0	1,533.2
Non-U.S. Equity					
GEP	(8.8)%	(9.6)%	2.6%	N/A	N/A
Policy Benchmark[6]	(8.2)	N/M	N/M	N/M	N/M
Private Equity					
GEP	(15.4)%	34.7%	37.1%	N/A	N/A
Policy Benchmark[7]	(14.8)	8.4	16.7	N/A	N/A
Fixed Income Securities					
GEP	9.5%	8.3%	9.8%	13.4%	1,134.6%
Policy Benchmark[8]	8.8	8.4	8.7	12.2	890.7

Chart I
GEP Cumulative Total Returns: Fiscal 1983-2002
Fiscal Periods Ending June 30



1 GEP's total returns are based on unit values calculated by UCOP Endowment and Investment Accounting and are net of (after) investment management and administrative expenses of 0.04% of average annual market value, which are automatically deducted from income. The asset class returns reflect investment returns. The performance of The Regents' total return investment portfolio is calculated by QED, according to the standard recommended by the Bank Administration Institute (BAI), which uses a time-weighted methodology that essentially neutralizes the effect of contributions and withdrawals so as to measure only the return on assets. These calculations comply with the Association for Investment Management and Research (AIMR) standards, which require time-weighted rates of return using realized and unrealized gains plus income. Performance is reconciled to the Treasurer's Office internal calculations.

2 Capital Resource Advisors (CRA), measures investment returns on approximately 5,500 portfolios, with $364 billion in assets. These are gross returns and are before any investment management fees, which would be approximately 0.50% of average annual market value. For periods longer than ten years, the Treasurer's Office uses the linked median, which is the compounded return of the annual universe median during a given time period.

3 53% Russell 3000 Tobacco Free (TF), 35% SB LPF, 7% MSCI AC World ex US, 5% Russell 3000 TF + 3%; Historical: 65% S&P 500 and 35% LB LT G/C.

4 Inflation as measured by the Consumer Price Index.

5 Russell 3000 TF; Historical: S&P 500.

6 MSCI AC World ex US, since November 2000.

7 Russell 3000 TF +3%; Historical: S&P 500 +5%.

8 SB LPF; Historical: LB LTG/C.

EQUITY INVESTMENTS

The equity portion of GEP consists primarily of domestic and foreign common stocks, with a modest exposure to private equity. Total equities represented 63.2% of GEP at year-end, with a market value of $2.6 billion.

U.S. Equity represented 53.0% of the fund at year-end, with a market value of $2.2 billion. In a difficult year for the U.S. stock markets, GEP's U.S. Equity returns declined by 21.8%, trailing the benchmark return of (17.4%). Over the longer-term, however, GEP's U.S. Equity returns of 10.3% and 14.0% for the 10- and 20-year periods compare more favorably. The portfolio's five-year average annual turnover rate was 16.7%.

The following are the 10 largest equity holdings and sector breakdown of the active portion of the U.S. Equity portfolio:

Largest Equity Holdings
General Electric
American International Group
Sysco
Exxon Mobil
Microsoft
Pharmacia
Automatic Data Processing
Wyeth
Baxter International
Pepsico, Inc.

Major Sector Allocations	% of Total
Non-Cyc. Consumer Goods	21%
Other Public Equity[1]	17%
Financials	16%
Information Technology	16%
Cyclical Services	12%
General Industrials	8%
Resources	4%
Non-Cyclical Services	3%
Basic Industries	2%
Utilities	1%

Non-U.S. Equity represented 6.8% of GEP at year-end, with a market value of $287 million. GEP's Non-U.S. Equities declined 8.8% in the fiscal year, similar to the benchmark return of (8.2%). The longer-term returns for this asset class represent the emerging markets NAV funds only, so comparisons are not yet meaningful.

Private Equity represented 3.4% of GEP at year-end with a market value of $143 million. Returns for this asset class in the fiscal year were similar to the public equity markets as the excessive valuations achieved during the internet boom were largely reversed. Over the past 5 and 10 years, however, GEP's private equity returns of 34.7% and 37.1% have been very rewarding. Longer-term, this category should provide attractive returns, although likely more modest than those of the previous few years.

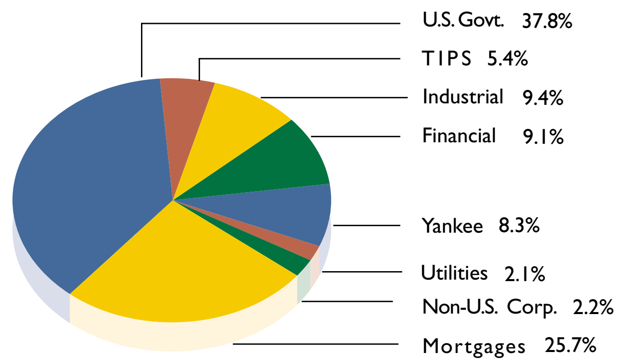
FIXED-INCOME INVESTMENTS

At year-end, Fixed-Income investments constituted 36.3% of the portfolio, with a market value of $1.5 billion.

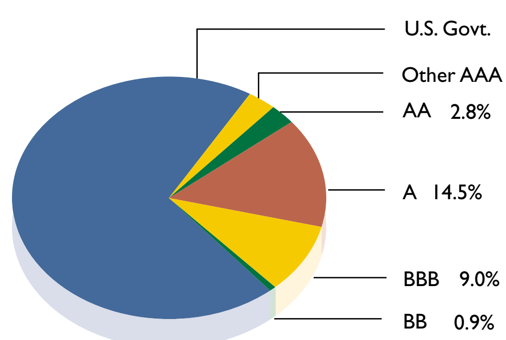
GEP's fixed-income investments returned a strong 9.5% during the year, out performing the benchmark return of 8.8%. Over the long-term, GEP's fixed income returns of 9.8% and 13.4% for the 10- and 20-year periods have consistently exceeded the benchmark. The portfolio's five-year average annual turnover rate was 26.6%.

The weighted average maturity of the bond portfolio at year-end was approximately 15 years, the average duration 7.1 years, and the average credit quality was AA, with more than 90% of fixed-income securities rated A or higher. The following pie charts illustrate the sector mix and quality breakdown of the GEP bond portfolio.

GEP Fixed-Income Sector Mix
June 30, 2002



GEP Fixed-Income Quality Mix
June 30, 2002
(BBB and higher = investment grade) Average Quality = AA



1 Comprised principally of exchange-traded index funds, which are sometimes used to gain exposure to specific sectors of the market or to maintain overall equity exposure until attractive individual securities are identified for long-term holdings.

Table II
Example of GEP Investment Performance Fiscal 1983-2002

Endowed Scholarship Fund Growth Example

A Donor made a $100,000 cash gift to the University at the end of fiscal 1982. The Gift entered GEP on the first day of fiscal 1983. The gift purchased 43,917 shares, or units, in the pool based on a unit price of $2.277. GEP and the gift have performed as follows.

	Per Share Performance				Endowment Gift Performance				
Fiscal Year Ending 6/30	Market Value	Payout		% Change Payout	Market Value	Payout	Yield on Beg. Book	Total Return (1)	Inflation
Enter Pool 7/1/82	$2.277				$100,000				
1983	3.263	$0.1813		4.8%	$125,742	$7,962	7.0%	52.41%	4.5%
1984	2.942	0.1769		-2.4%	$113,372	$7,769	6.8%	-4.63%	3.8%
1985	3.801	0.1925		8.8%	$146,474	$8,454	7.4%	36.70%	3.5%
1986	4.986	0.1941		0.8%	$192,139	$8,524	7.5%	37.37%	2.6%
1987	5.937	0.1965		1.2%	$228,786	$8,630	7.6%	23.60%	3.1%
1988	5.346	0.2259		15.0%	$206,012	$9,921	8.7%	-6.13%	3.5%
1989	5.968	0.2522		11.6%	$229,981	$11,076	9.7%	16.84%	4.5%
1990	6.521	0.2933		16.3%	$251,291	$12,881	11.3%	14.43%	4.2%
1991	6.824	0.3157		7.6%	$262,963	$13,864	12.2%	9.86%	4.1%
1992	7.576	0.3203		1.5%	$291,946	$14,067	12.3%	15.91%	2.9%
1993	8.410	0.3489	(2)	8.9%	$324,085	$15,323	13.4%	15.91%	2.6%
1994	7.883	0.3299		-5.4%	$303,771	$14,488	12.7%	-2.51%	2.3%
1995	9.518	0.3435		4.1%	$366,786	$15,086	13.2%	25.64%	2.4%
1996	11.215	0.3507		2.2%	$432,167	$15,402	13.5%	21.80%	1.9%
1997	13.461	0.4090		16.5%	$518,728	$17,962	15.8%	24.20%	2.0%
1998	15.698	0.4795		17.2%	$604,933	$21,058	18.5%	20.47%	1.0%
1999	17.731	0.5406	(3)	12.7%	$682,706	$23,740	20.8%	16.67%	1.2%
2000	19.722	0.6254	(3)	15.7%	$756,888	$27,466	24.1%	14.70%	2.1%
2001	17.759	0.7145	(3)	14.2%	$678,210	$31,379	27.4%	-6.92%	2.5%
2002	15.557	0.7572	(3)	6.0%	$668,274	$33,254	23.2%	-9.50%	1.3%

<u>Compound Annual Total Return for 20 years (Fiscal 1983-2002)</u>

(Capital Appreciation plus Income)	14.8%

<u>Compound Annualized Growth Rate for 20 years (Fiscal 1983-2002)</u>

Payout Per Share	7.8%
Inflation (Consumer Price Index)	3.1%

1 GEP's total returns are based on unit values calculated by UCOP Endowment and Investment Accounting and are net of (after) investment management and administrative expenses of 0.04% of average annual market value, which are automatically deducted from income. The performance of The Regents' total return investment portfolio is calculated by QED, according to the standard recommended by the Bank Administration Institute (BAI), which uses a time-weighted methodology that essentially neutralizes the effect of contributions and withdrawals so as to measure only the returns on assets. 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. Performance is reconciled to the Treasurer's Office own internal calculations.

2 Payout per share in fiscal 1993 is approximately $0.0133 higher than normal as a result of an accounting policy change to distribute equity accruals. Without the change, payout per share would have been $0.3356, or $14,882 for the $100,000 gift.

3 The payout for fiscal years 1999 and 2000 was 4.35% and the payout for fiscal years 2001 and 2002 was 4.45% of a 60-month moving average of GEP's market value.

ENDOWED CHAIRS

Just four years after its creation, the University of California received a gift that established the first endowed chair. Edward Tompkins, an attorney, California senator, and honorary Regent, made the generous gift — the first major gift to the fledgling university — in 1872. Tompkins deeded 47 acres of property to be held until it became worth $50,000.

Several of the University's earliest gifts came in the form of endowed chairs. The benefactors who endowed those first chairs knew that their gifts would form the bedrock upon which the University's excellence would be secured.

Few other gifts offer the same promise of enduring impact. The salaries of UC professors are, in most instances, provided by the state, as part of California's system of public higher education. The state does not, however, provide sufficient supplemental support for research and innovative teaching projects. Endowed chairs make up the difference, empowering the University of California to remain competitive in keeping and attracting outstanding professors.

Mr. Tompkins' gift established the Agassiz Professorship of Oriental Languages and Literature, named in honor of Louis Agassiz, a prominent Swiss-born naturalist and geologist who provided counsel in 1860 to the University's founding fathers.

It is particularly striking to look back now and ponder how Mr. Tompkins could have had the prescience to know the importance in the 20th and 21st centuries to California and the nation of our neighbors on the Pacific Rim.

Under the Treasurer's Office stewardship, the endowment has grown dramatically and is currently held within the General Endowment Pool (formed in 1956) and managed to produce both growth of principal and a growing payout stream so that future funding for endowment-supported activities can be maintained. The cumulative total return for the most recent 20 year period was 1,634.8%.

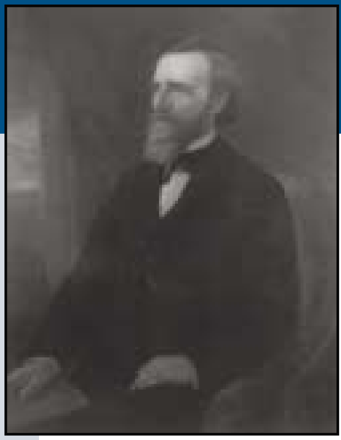
As of June 30, 2002, the Edward Tompkins Endowment was valued at $4,114,604 and supports the following endowed chairs in the department of East Asian Languages and Cultures at the University of California, Berkeley:

Agassiz Professor of Chinese, Professor Stephen West

Agassiz Professor of Japanese, search in progress

Agassiz Visiting Professor of East Asian Languages and Cultures, Poet Bei Dao

Tompkins-Agassiz 1872 Administrative Chair, Professor Susan Matisoff



Edward Tompkins,
1815-1872

Honorary Regent,
University of California
1868-1872

We wish to acknowledge the help of the following in preparing this information: The University of California Office of The President's department of Institutional Advancement, The University of California, Berkeley's departments of East Asian Languages and Cultures and University Relations.

ASSET DESIGNATION BY CAMPUS AND PURPOSE

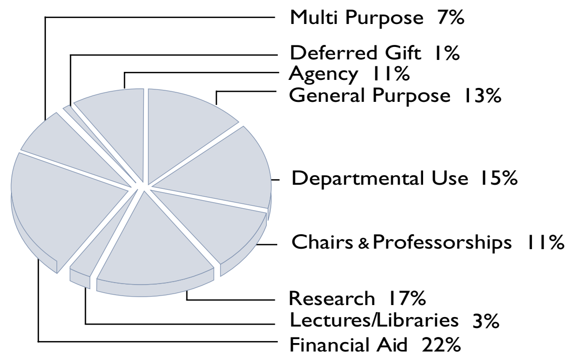
A donor has two avenues for making a gift to or establishing an endowment at the University: either directly to The Regents for a specific campus and/or purpose, or directly to a campus through its Foundation. The campus foundation trustees have discretion in their choice of investment managers and may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

The Regents' endowment pools include assets that were gifted directly to The Regents, as well as foundation assets where the Treasurer was retained as the investment manager. Chart III (below) illustrates the breakdown of GEP's assets among the campuses. Not surprisingly, a higher proportion of the assets is dedicated to the older campuses, which have a more established alumni and donor base. Development efforts at the younger campuses aim to leverage the growth of their alumni base, as well as cultivate donors.

Fundraising efforts provide critically needed monies to support the goals of the University. As illustrated above in Chart II, more than half of GEP's assets support departmental use (15%), financial aid (22%) and research (17%).

More detailed information on fundraising results may be found in the University's *Annual Report on Private Support* published by the Office of University and External Relations.

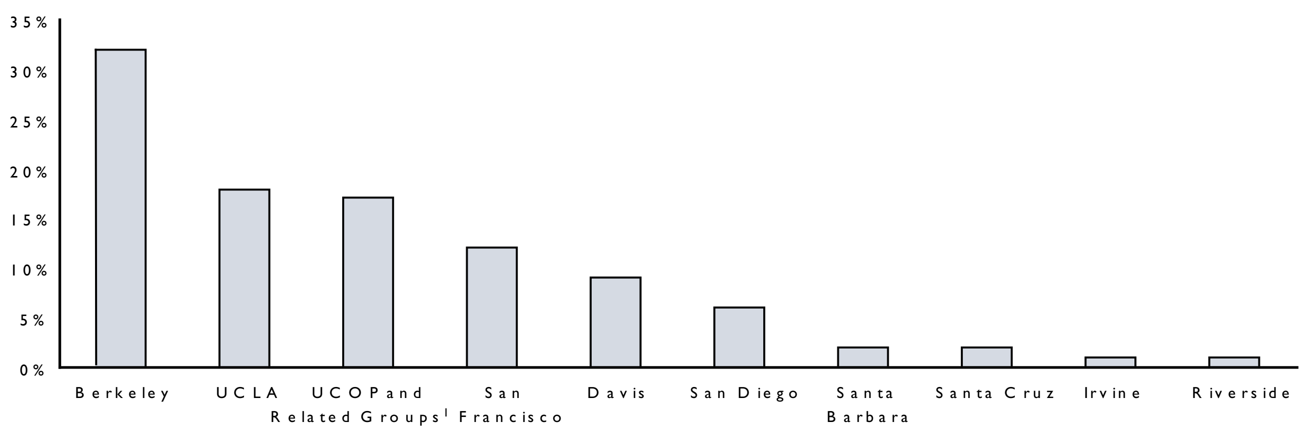
Chart II
GEP Assets Designated by Purpose
June 30, 2002



OTHER ENDOWMENT FUNDS

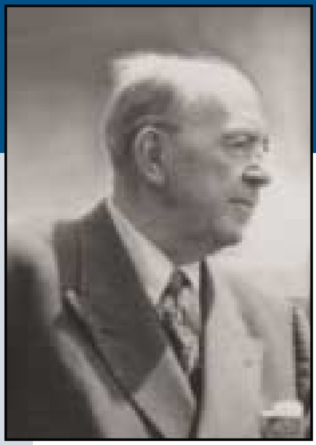
At June 30, 2002, The Regents had $318 million of separately managed endowment funds (including approximately $128 million where The Regents are the beneficiaries, but not the trustees). The separately managed funds were established to achieve specified payout requirements for donor and agency monies, as well as to comply with the terms of gift agreements in which donors required funds to be invested separately (e.g., no commingling of funds) and/or placed restrictions on the investment options (e.g., only U.S. Treasury bonds).

Chart III
GEP Assets Designated by Campus
June 30, 2002



[1] UCOP = UCOP-administered programs and multi-campus gifts.

FELLOWSHIPS



Earle C. Anthony is among the University of California's long list of names of successful, visionary supporters collected from all walks of life. He was a colorful character and when his life's path crossed with that of the University of California, both of their futures (and that of many future graduate students) changed forever.

Born in Illinois in 1880, Earle and his family moved to Los Angeles when he was 12. As a youngster, exhibiting his fascination with technology, he built an electrically powered vehicle — a novel idea in its day! It is not surprising that he graduated from the University of California, Berkeley in 1903 with a degree in Mechanical Engineering. Also skilled in writing, it is interesting to note that while attending Berkeley, he founded the school's (now defunct) humor magazine, the *Pelican*.

He had financial success with his Los Angeles-based Packard auto dealership and also in broadcasting, founding the West's first 50,000-watt, clear channel station, KFI. In addition, he is recognized as creator of the concept of the filling station and for bringing neon signage to the United States from France.

In 1955, Mr. Anthony established a trust (held outside of the University), the income of which benefits graduate students at the University of California's Berkeley campus. In 1974, the Regents of The University of California established an additional trust funded with extraordinary distributions made by the Trustees of that original Anthony Trust as a result of the sale of the radio station and its related assets.

This additional endowment is managed as a part of the General Endowment Pool (GEP) with one-half of the annual income distributed to the Berkeley campus and one-half of the annual income distributed among all the University's other campuses in the form of fellowships. These fellowships aid graduate students in the fields of biological, physical, agricultural, and health sciences, engineering, and mathematics to pursue scientific research or experiments.

As most California state post-secondary educational funding supports undergraduate education, endowments such as this one help keep the University of California competitive in both attracting and retaining gifted graduate students.

As of June 30, 2002, the Earle C. Anthony Trust managed within UC's GEP was valued at $26.8 million.

Earle C. Anthony,
1880-1961

Graduate: University of California at Berkeley

Degree: Mechanical Engineering

Motto: Don't waste time dreaming about it! If it's worth thinking about, do it! If not, forget it!

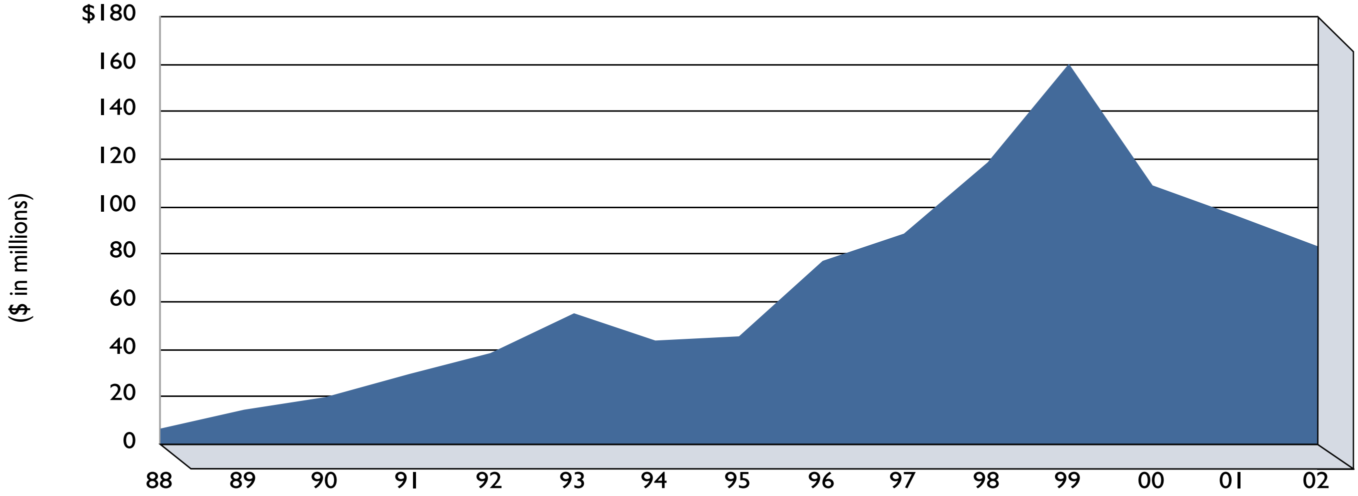
We wish to acknowledge the help of The University of California Office of the President's department of Institutional Advancement in preparing this information.
The photograph of Mr. Anthony is courtesy of the University Archives, The Bancroft Library, University of California, Berkeley.

High Income Pool (HIP)

High Income Pool (HIP)
Summary of Investments[1]
($ in thousands)

	June 30, 2002			June 30, 2001	
	Cost	Market Value	% of Pool	Market Value	% of Pool
HIGH INCOME ENDOWMENT POOL					
EQUITIES	$9,395	$9,449	11.1%	$12,807	13.0%
FIXED-INCOME SECURITIES	$69,862	$71,527	84.2%	$85,250	86.6%
STIP PARTICIPATION	$3,960	$3,960	4.7%	$399	0.4%
TOTAL HIGH INCOME ENDOWMENT POOL	$83,217	$84,936	100.0%	$98,456	100.0%

HIP Market Values
(Fiscal Periods Ending June 30)



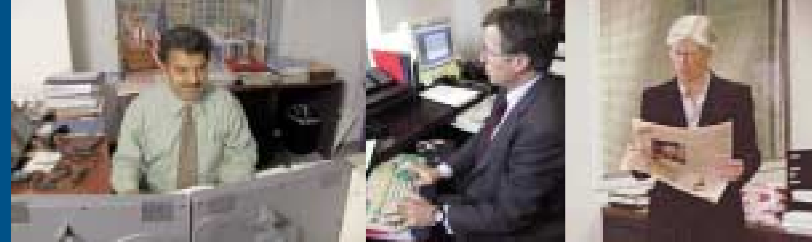
Note: The total return generated by the High Income Pool in recent years remains positive. However, due to the adoption of a total return payout policy by The Regents in 1998, a number of participants have moved their funds to the University's General Endowment Pool. The High Income Pool continues to pay out income only.

The High Income Pool (HIP) was established in May 1987 to accommodate endowments with high payout requirements and deferred gift giving programs with high contractual payout obligations. As such, HIP is a balanced portfolio comprised primarily of fixed-income securities, along with select higher-yielding equities. The General Endowment Pool (GEP) remains The Regents' primary investment vehicle for endowed gift funds.

The June 30, 2002 market value of HIP was $84.9 million, or $1.70 per share, versus $98.5 million, or $1.69 per share, at the end of fiscal 2001. HIP generated a strong total return of 6.8% for the fiscal year. However, HIP assets declined in the fiscal year as several participating agency funds have withdrawn their funds and certain regental assets were transferred to the UC General Endowment Pool.

Total HIP net investment income for the year was $6.0 million, or $0.111 per share, versus $6.5 million, or $0.113 per share, at the end of fiscal 2001. HIP's current yield on market value at June 30, 2002 was 6.2%.

1 For fiscal 2001 and fiscal 2002, the cash portion of the various portfolios excludes the unrealized market appreciation or depreciation of STIP investments, accounts receivable and accounts payable and the investments in the security lending collateral pool. Therefore, the balances differ from the University's Annual Financial Report.



SPENDING POLICY

Although The Regents adopted a total return spending policy for GEP during fiscal 1999, the income only payout spending policy is being maintained for HIP given the nature of the gifts and their required payouts.

INVESTMENT OBJECTIVE

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

For HIP, the primary goal is to produce a relatively high and stable level of current income sufficient to meet the needs of the specific funds, with moderate growth of income and preservation of capital.

INVESTMENT STRATEGY

In order to achieve these higher income goals, The Regents' asset allocation strategy for HIP calls for the majority of assets to be invested in fixed-income securities. The Treasurer's Office targets those fixed-income securities and equities that will provide a high level of current income and can also generate moderate growth. The Treasurer's Office may vary the asset mix to maintain a relatively high level of income.

RETURNS

During its 15-year history, HIP has performed very well versus its peers and benchmark, as illustrated in Table III on page 20. HIP's positive return of 6.8% in the fiscal year reflects its emphasis on fixed income investments.

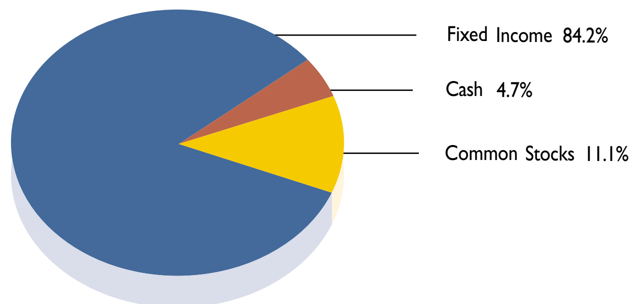
Chart IV on page 20 illustrates HIP's cumulative total returns versus the policy benchmark, CRA Bond Fund Median, and inflation since inception.

Table IV on page 21 provides a detailed illustration of the performance of an endowed gift to HIP since inception. During that time, HIP has generated a compound annual total return of 11.2%, and payout distributions have grown at an average annual rate of 3.2%, exceeding average inflation of 3.1%. HIP's five-year average annual turnover rate was 22.3%

ASSET MIX

The following chart represents HIP's asset mix at June 30, 2002.

HIP Asset Mix
June 30, 2002



FIXED-INCOME INVESTMENTS

At year-end, fixed-income investments were 84.2% of HIP, with $71.5 million in market value. HIP's fixed-income investments returned 8.9% during the year, outperforming the CRA Bond Only Median return of 8.0%.

U.S. Government bonds constituted 59.6% of the fixed-income investments at year-end, while high-grade industrial bonds represented 13.2%, financial bonds 17.3%, Yankee bonds 7.8%, and utility bonds 2.1%. The weighted average maturity of the bond portfolio at year-end was approximately 21 years, and the average quality was AA, with 84% of the portfolio rated A or higher.

EQUITY INVESTMENTS

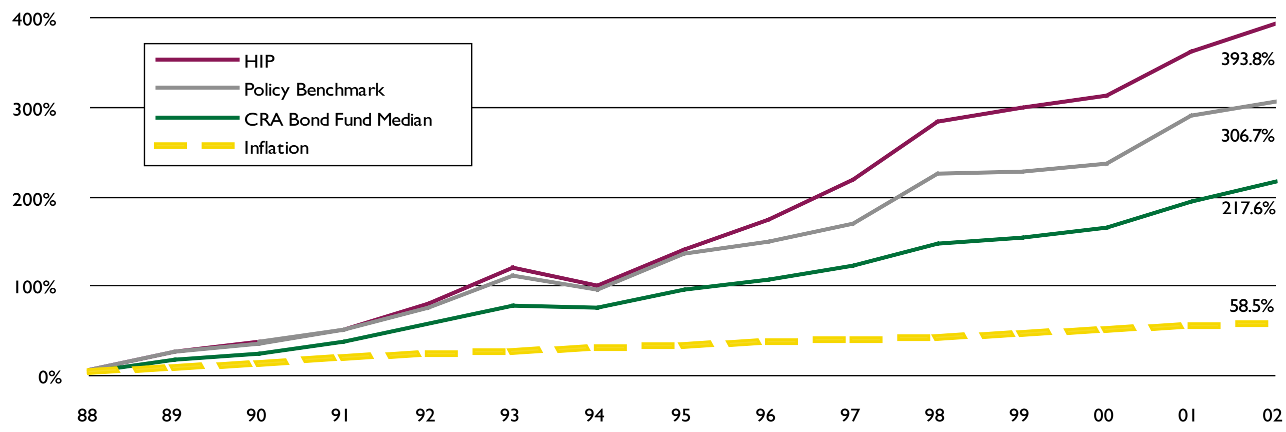
The equity portion of HIP constituted 11.1% of the fund at year-end, with a market value of $9.5 million. HIP's equity portfolio was comprised primarily of REITS and electric utilities. HIP's common stocks returned (9.0)% in the fiscal year, outperforming the broad equity market indices due to its concentration in higher-yielding, more defensive sectors.

Table III
HIP Annualized Performance versus Peers, Benchmark and Inflation
June 30, 2002

	Annualized Total Returns				
	1-Year	5-Years	10-Years	15-Years	15-Year Cumulative (HIP Inception)
Total Fund					
HIP[1]	6.8%	9.2%	10.6%	11.2%	393.8%
Policy Benchmark[2]	3.8	8.6	8.7	9.8	306.7
CRA Bond Only Median[3]	8.0	7.4	7.4	8.0	217.6
Inflation[4]	1.3	2.4	2.6	3.1	58.5

	Average Yields			
	1-Year	5-Years	10-Years	15-Years (HIP Inception)
Total Fund				
HIP	6.8%	6.3%	6.6%	7.0%
5-Year U.S. Treasury Notes	4.3	5.2	5.7	6.5

Chart IV
HIP Cumulative Total Returns: Since Inception
Fiscal Periods Ending June 30



1 HIP's total returns are based on unit values calculated by UCOP Endowment and Investment Accounting and are net of (after) investment management and administrative expenses of 0.04% of average annual market value, which are automatically deducted from income. The performance of The Regents' total return investment portfolio is calculated by QED, according to the standard recommended by the Bank Administration Institute (BAI), which uses a time-weighted methodology that essentially neutralizes the effect of contributions and withdrawals so as to measure only the returns on assets. 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. Performance is reconciled to the Treasurer's Office own internal calculations.

2 For the period 7/1/87-9/30/89 the benchmark consisted of 80% LB LT G/C; 20% S&P Utilities. For the period 10/1/89-6/30/02 the benchmark consisted of 80% LB LT G/C; 20% S&P 500 Electric Utilities.

3 Capital Resource Advisors (CRA), measures investment returns on approximately 5,500 portfolios, with $364 billion in assets. These are gross returns and are before any investment management fees, which would be approximately 0.50% of average annual market value. For periods longer than ten years, the Treasurer's Office uses the linked median, which is the compounded return of the annual universe median during a given time period.

4 Inflation as measured by the Consumer Price Index.

Table IV
Example of HIP Investment Performance Fiscal 1988-2002

Endowed Scholarship Fund Growth Example

A Donor made a $100,000 cash gift to the University at the end of fiscal 1987. The Gift entered HIP on the first day of fiscal 1988, purchasing 103,149 shares, or units, in the pool based on a unit price of $0.969. HIP and the gift have performed as follows.

	Per Share Performance			Endowment Gift Performance				
Fiscal Year Ending 6/30	Market Value	Payout	% Change Payout	Market Value	Payout	Yield on Beg. Book	Annual Total Return (1)	Inflation
Enter Pool 7/1/1987	$0.969			$100,000				
1988	0.952	$0.0718		$98,233	$7,403	7.4%	5.99%	3.5%
1989	1.059	0.0761	6.1%	$109,250	$7,855	7.9%	20.20%	4.5%
1990	1.069	0.0839	10.2%	$110,243	$8,657	8.7%	8.99%	4.2%
1991	1.080	0.0848	1.0%	$111,450	$8,743	8.7%	9.47%	4.1%
1992	1.197	0.0833	-1.8%	$123,432	$8,588	8.6%	18.96%	2.9%
1993	1.358	0.0923 (2)	10.8%	$140,087	$9,518	9.5%	21.98%	2.6%
1994	1.160	0.0888	-3.8%	$119,667	$9,154	9.2%	-8.64%	2.3%
1995	1.284	0.0869	-2.1%	$132,487	$8,964	9.0%	19.03%	2.4%
1996	1.374	0.0893	2.7%	$141,774	$9,209	9.2%	14.21%	1.9%
1997	1.494	0.0946	6.0%	$154,084	$9,758	9.8%	16.06%	2.0%
1998	1.699	0.0962	1.8%	$175,209	$9,933	9.9%	20.58%	1.0%
1999	1.674	0.0982	1.9%	$168,358	$10,126	10.1%	4.41%	1.2%
2000	1.615	0.1050	7.0%	$166,624	$10,831	10.8%	3.04%	2.1%
2001	1.694	0.1130	8.4%	$174,735	$11,655	11.7%	12.13%	2.5%
2002	1.696	0.1112	-1.5%	$174,941	$11,474	11.5%	6.80%	1.3%

<u>Compound Annual Total Return for 15 years (Fiscal 1988-2002)</u>

(Capital Appreciation plus Income) 11.2%

<u>Compound Annualized Growth Rate for 15 years (Fiscal 1988-2002)</u>

Payout Per Share 3.2%

Inflation (Consumer Price Index) 3.1%

[1] HIP's total returns are based on unit values calculated by UCOP Endowment and Investment Accounting and are net of (after) investment management and administrative expenses of 0.04% of average annual market value, which are automatically deducted from income. The performance of The Regents' total return investment portfolio is calculated by QED, according to the standard recommended by the Bank Administration Institute (BAI), which uses a time-weighted methodology that essentially neutralizes the effect of contributions and withdrawals so as to measure only the returns on assets. 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. Performance is reconciled to the Treasurer's Office internal calculations.

[2] Payout per share in fiscal 1993 is approximately $0.0019 higher than normal as a result of an accounting policy change to distribute equity accruals. Without the change, payout per share would have been $0.0904, or $9,325 for the $100,000 gift.

Short Term Investment Pool (STIP)

The Short Term Investment Pool (STIP) is a cash investment pool established in fiscal 1976 by The Regents and is available to all University groups, including retirement and endowment funds. STIP allows fund participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a larger pool and investing in a broader range of maturities.

STIP consists primarily of current funds slated for payroll, operating and construction expenses for all the campuses and teaching hospitals of the University. In addition, funds awaiting permanent investment are invested in STIP to earn maximum daily interest until transferred.

INVESTMENT OBJECTIVE

STIP's investment objective is to maximize returns consistent with safety of principal, liquidity and cash-flow requirements. STIP's investments encompass a broad spectrum of high-quality money-market and fixed-income instruments with a maximum maturity of five years. The Treasurer's Office structures investment maturities to ensure an adequate flow of funds to meet the University's cash requirements.

INVESTMENT STRATEGY

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

YIELDS

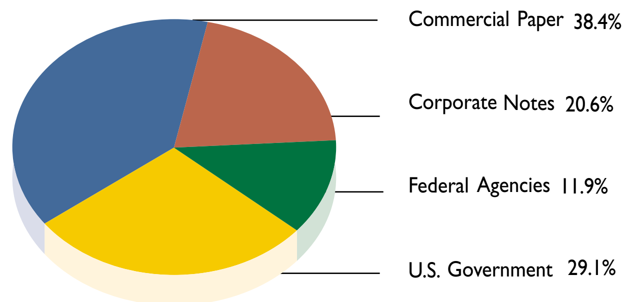
STIP has achieved very attractive returns over the years as illustrated in Table V. For fiscal 2002, STIP's yield of 5.0% outperformed 3-month U.S. Treasury Bills at 2.2%. During the past 20 years, the average yield on STIP was 7.5%, compared to 6.1% for 3-month U.S. Treasury Bills.

STIP continued to maintain a high degree of liquidity in the fiscal year to accommodate periodic asset class rebalancing in the longer-term portfolios. At the same time, as the front end of the yield curve steepened, high quality spread products in the 3-5 year maturities were added to enhance the portfolio's yield.

ASSET MIX

STIP totaled $6.4 billion at June 30, 2002, compared to $7.0 billion at the end of fiscal 2001. STIP's asset mix and maturity distribution as of June 30, 2002 are illustrated below.

STIP Asset Mix
June 30, 2002



STIP Maturity Distribution
June 30, 2002
(Average Maturity = 1.7 years)

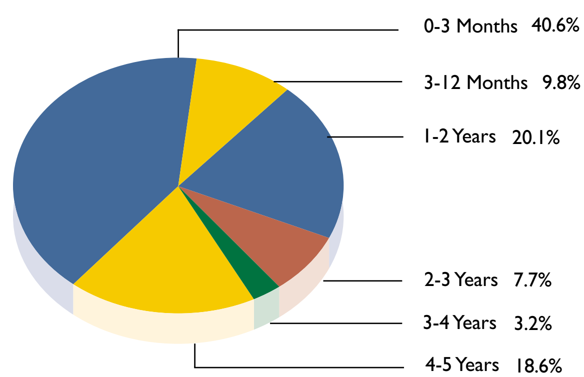


Table V
STIP Annualized Yields[1]
June 30, 2002

	1-Year	5-Years	10-Years	20-Years	20-Year Cumulative
STIP[1]	5.0%	5.9%	6.1%	7.5%	325.2%
3-Month U.S. Treasury Bills	2.2	4.5	4.6	6.1	225.3%
Inflation[2]	1.3	2.4	2.6	3.1	84.7%

[1] STIP's annualized yields are net of (after) investment management and administrative expenses of 1.5% of average annual income for the fiscal year, which are automatically deducted from income.

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

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 $459.6 million at June 30, 2002, 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.

CHOOSING TO UTILIZE UC-MANAGED POOLS

As of June 30,2002, the Treasurer's Office manages $760 million for the campus foundations and support groups. A donor has two avenues for making a gift to or establishing an endowment at the University of California: either directly to The Regents for a specific campus and/or purpose, or directly to a campus through its Foundation. The campus foundation trustees have discretion in their choice of investment managers and may use the Treasurer's Office or external investment managers.

The Treasurer's Office has worked with The UCSB Foundation since 1985.

"The UC Treasurer's Office provides us with a wide range of services that are especially sensitive to our needs as a campus. Not only do they do a great job of managing the funds - unlike other fund management entities, they have a keen understanding of the particular needs of donors to a university and of the concerns of faculty members.

"These sensitivities help those of us in development be both more responsive and more effective in doing our jobs."

John M. Wiemann
Vice Chancellor, Institutional Advancement
UC Santa Barbara

"As chair of the UCSB Foundation's finance committee and as a banker, I can appreciate the tremendous technical expertise that the UC Treasurer's Office brings to the task of managing our investments. The economies of scale they offer in reducing transaction costs contribute significantly to our efficiency. It gives me great confidence as a trustee of our campus foundation to have our investments in the hands of a staff the caliber of that found in the UC Treasurer's Office."

William S. "Tom" Thomas
President and CEO, Santa Barbara Bank & Trust
Chair, Finance Committee
The UCSB Foundation

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM

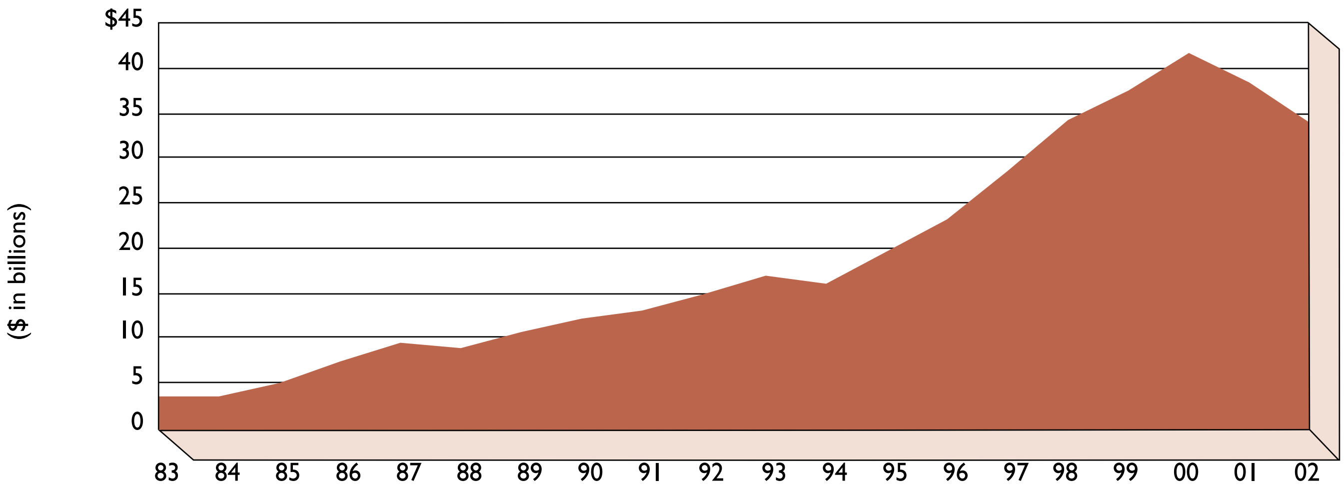
Summary of Investments[1]

($ in thousands)

	June 30, 2002			June 30, 2001	
UC RETIREMENT PLAN (UCRP)	Cost	Market Value	% of UCRP	Market Value	% of UCRP
EQUITIES					
U.S. Equity	$ 17,606,211	$ 18,369,435	53.6%	$ 19,953,399	51.5%
Non-U.S. Equity	$ 3,088,469	$ 2,417,921	7.0%	$ 2,474,151	6.4%
Private Equity	$ 793,129	$ 659,455	1.9%	$ 802,929	2.1%
TOTAL EQUITIES	$ 21,487,808	$ 21,446,810	62.5%	$ 23,230,479	60.0%
FIXED INCOME SECURITIES	$ 11,955,382	$ 12,607,171	36.8%	$ 14,281,066	36.9%
STIP PARTICIPATION[2]	$ 238,222	$ 238,222	0.7%	$ 1,187,698	3.1%
TOTAL UCRP	$ 33,681,412	$ 34,292,203	100.0%	$ 38,699,243	100.0%

	June 30, 2002			June 30, 2001	
DEFINED CONTRIBUTION (DC) FUNDS	Cost	Market Value	% of DC	Market Value	% of DC
TOTAL RETURN FUNDS					
EQUITY FUND	$ 2,677,621	$ 2,428,097	38.4%	$ 3,008,396	46.6%
BOND FUND	$ 742,774	$ 760,753	12.0%	$ 642,299	10.0%
INTEREST INCOME FUNDS					
SAVINGS FUND	$ 2,618,095	$ 2,618,095	41.4%	$ 2,372,636	36.8%
ICC FUND	$ 377,216	$ 377,216	6.0%	$ 299,769	4.6%
MONEY MARKET FUND	$ 140,687	$ 140,687	2.2%	$ 131,425	2.0%
TOTAL DC FUNDS[3]	$ 6,556,393	$ 6,324,848	100.0%	$ 6,454,525	100.0%

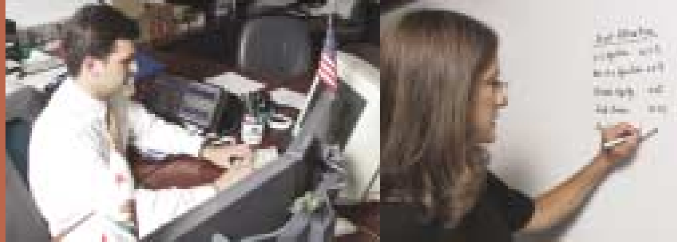
UCRP Market Values
(Fiscal Periods Ending June 30)



[1] For fiscal 2001 and fiscal 2002, the cash portion of the various portfolios excludes the unrealized market appreciation or depreciation of STIP investments, accounts receivable and accounts payable and the investments in the security lending collateral pool. Therefore, the balances differ from the University's Annual Financial Report.

[2] UCRP's STIP investments include assets associated with the UC PERS Voluntary Early Retirement Incentive Program totaling $84.7 million in fiscal 2001 and $72.8 million in fiscal 2002.

[3] Total DC Funds excludes the Multi-Asset Fund, which totaled $588 million at June 30, 2002, and is invested in and reported as part of the Equity, Bond, Savings and Money Market Funds.



The largest pool of assets managed by the Treasurer's Office is the University of California Retirement Plan (UCRP), created in 1961. UCRP is a defined benefit plan, whereby retirement benefits are a function of the employee's age, average income and length of service. With the plan in surplus, The Regents suspended both employee and employer contributions to UCRP in 1990, but redirected the mandatory employee contributions (less than 2% of annual salary for most employees) to the newly established Defined Contribution Plan.

UCRP is a balanced portfolio of equities and fixed-income securities, which at June 30, 2002 totaled $34.3 billion, versus $38.7 billion at the end of fiscal 2001.

INVESTMENT OBJECTIVE

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

UCRP's specific objective is to ensure its ability to meet its obligation to beneficiaries by earning sufficient returns over the long term that meet or exceed the actuarial rate of return of 7.5%.

INVESTMENT STRATEGY

In order to continue to achieve these investment objectives, The Regents adopted the following asset allocation policy in March 2000:

Asset Class	Target	Minimum	Maximum
U.S. Equity	53%	48%	58%
Non-U.S. Equity	7%	5%	9%
Private Equity	5%	3%	7%
Fixed-Income	35%	30%	40%

The asset allocation changes were designed to reduce risk and broaden portfolio diversification. The benchmarks for the individual asset classes are: Russell 3000 Tobacco Free for U.S. Equity; MSCI ACWI-ex-US for Non-U.S. Equity; Russell 3000 Tobacco Free +3% for Private Equity; and Salomon Large Pension Fund (LPF) for Fixed Income. The total fund benchmark is a target-weighted average of the individual asset class benchmarks.

Within the U.S. Equity asset class, approximately 70% of the fund is managed actively by the Treasurer's Office, which targets equity investments primarily in the common stocks of high quality global companies with reasonable valuations that have the ability to grow their earnings at a higher rate than market averages. The remaining 30% is invested in a Russell 3000 Tobacco Free Index fund managed by State Street Global Advisors, which is intended to mirror the returns of the broad U.S. stock market.

In the Non-U.S. Equity category, 85% is invested in a MSCI EAFE Tobacco Free Index fund managed by State Street Global Advisors, designed to mirror the returns of the broad developed foreign stock markets. The remaining 15% is invested in emerging markets net asset value funds, to gain exposure to the developing foreign markets.

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

For Fixed Income investments, the Treasurer's Office analyzes relative value among the core benchmark sectors of Governments, Corporates, and Mortgage-backed securities and overweights those sectors and securities offering attractive real returns, while maintaining a risk level commensurate with the benchmark index.

RETURNS

UCRP has exceeded its investment objectives over the long-term. It has also performed very well versus its policy benchmarks and peers. As illustrated in Table VI on page 26, UCRP has a proven history of above-median investment performance when compared to the CRA universe of balanced funds[1]. UCRP's return of (9.2%) in the fiscal year reflects weak global equity markets. However, UCRP's annualized total return for the past 20 years through June 30, 2002 was 14.3%, matching its benchmark and beating the CRA Balanced Fund Median return of 12.2%.

Chart VI on page 26 illustrates the cumulative total returns for UCRP for the past 20 years relative to the policy benchmark, CRA Balanced Fund Median, and inflation.

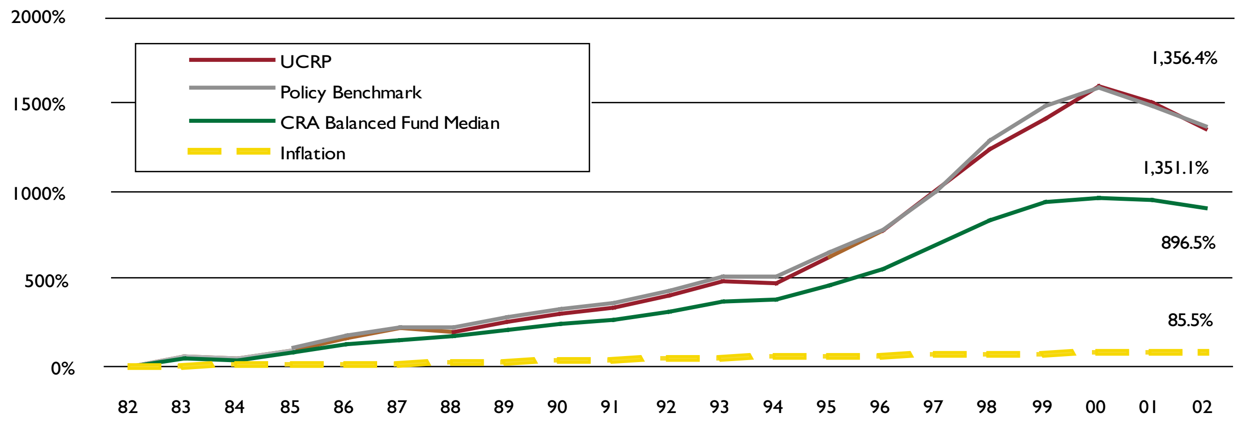
UCRP's five-year average annual turnover rate was 21.7%.

[1] Capital Resource Advisors (CRA), measures investment returns on approximately 5,500 portfolios, with $364 billion in assets. These are gross returns and are before any investment management fees, which would be approximately 0.50% of average annual market value. For periods longer than ten years, the Treasurer's Office uses the linked median, which is the compounded return of the annual universe median during a given time period.

Table VI
UCRP Annualized Total Returns[1] versus Peers[2], Benchmarks and Inflation
June 30, 2002

	1-Year	5-Year	10-Year	20-Year	20-Year Cumulative
Total Fund					
UCRP	(9.2)%	5.7%	11.2%	14.3%	1,356.4%
CRA Balanced Fund Median	(4.8)	6.1	9.8	12.2	896.5
Policy Benchmark[3]	(7.7)	6.0	10.9	14.3	1,351.1
Inflation[4]	1.3	2.4	2.6	3.1	85.5
U.S. Equity					
UCRP	(21.4)%	2.3%	10.3%	13.9%	1,256.0%
Policy Benchmark[5]	(17.4)	4.0	11.6	15.0	1,533.2
Non-U.S. Equity					
UCRP	(7.4)%	(9.1)%	3.7%	N/A	N/A
Policy Benchmark[6]	(8.2)	N/M	N/M	N/M	N/M
Private Equity					
UCRP	(14.9)%	32.5%	35.9%	N/A	N/A
Policy Benchmark[7]	(14.8)	8.4	16.7	N/A	N/A
Fixed-Income Securities					
UCRP	9.5%	9.0%	10.4%	12.4%	935.7%
Policy Benchmark[8]	8.8	8.4	8.7	12.2	890.7

Chart VI
UCRP Cumulative Total Returns: Fiscal 1983-2002
June 30, 2002



[1] UCRP's total returns are net of (after) investment management and administrative expenses of 0.04% of average annual market value. The asset class returns reflect investment returns. The performance of The Regents' total return investment portfolio is calculated by QED, according to the standard recommended by the Bank Administration Institute (BAI), which uses a time-weighted methodology that essentially neutralizes the effect of contributions and withdrawals so as to measure only the return on assets. These calculations comply with the Association for Investment Management and Research (AIMR) standards, which require time-weighted rates of return using realized and unrealized gains plus income. Performance is reconciled to the Treasurer's Office internal calculations.

[2] Capital Resource Advisors (CRA), measures investment returns on approximately 5,500 portfolios, with $364 billion in assets. These returns are gross returns and are before any investment management fees, which would be approximately 0.50% of average annual market value. For periods longer than ten years, the Treasurer's Office uses the linked median, which is the compounded return of the annual universe median during a given time period.

[3] 53% Russell 3000 Tobacco Free (TF), 35% SB LPF, 7% MSCI AC World ex US, 5% Russell 3000 TF + 3%; Historical: 65% S&P 500 and 35% LB LT G/C.

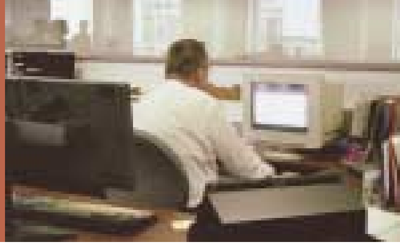
[4] Inflation as measured by the CPI.

[5] Russell 3000 TF; Historical: S&P 500.

[6] MSCI AC World ex US., since November 2000.

[7] Russell 3000 TF +3%; Historical: S&P 500 +5%.

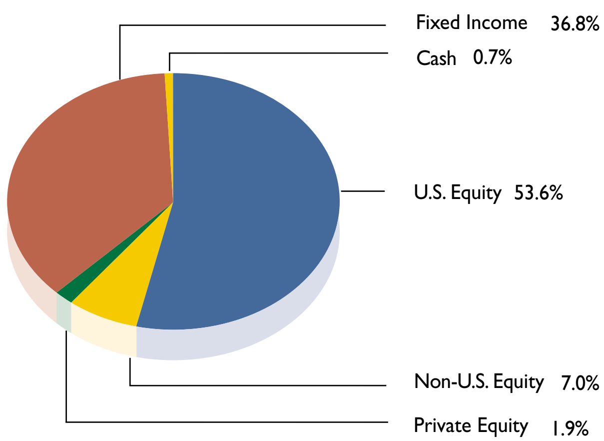
[8] SB LPF; Historical: LB LTG/C.



ASSET MIX

The following illustrates UCRP's asset mix at June 30, 2002.

UCRP Asset Mix
June 30, 2002



EQUITY INVESTMENTS

The equity portion of UCRP consists primarily of domestic and foreign common stocks, along with a modest exposure to private equity. Total Equities represented 62.5% of UCRP at year-end, with a market value of $21.4 billion.

U.S. Equity represented 53.6% of the fund at year-end, with a market value of $18.4 billion. In a difficult year for the U.S. stock markets, UCRP's U.S. Equity returns declined by 21.4%, underperforming the benchmark return of (17.4%). Over the longer-term, UCRP's U.S. Equity returns of 10.3 % and 13.9% for the 10 and 20 year periods compare more favorably. The portfolio's five-year average annual turnover rate was 17.1%.

The following are the 10 largest equity holdings and sector breakdown of the active U.S. Equity portfolio:

Largest Equity Holdings
General Electric
American International Group
Sysco
Exxon Mobil
Microsoft
Pharmacia
Automatic Data Processing
Wyeth
Pepsico, Inc.
Baxter International

Major Sector Allocations	% of Total
Non-Cyc. Consumer Goods	21%
Financials	16%
Information Technology	16%
Other Public Equity[1]	14%
Cyclical Services	12%
General Industrials	8%
Resources	5%
Non-Cyclical Services	4%
Basic Industries	2%
Utilities	2%

Non-U.S. Equity represented 7.0% of UCRP at year-end, with a market value of $2.4 billion. UCRP's Non-U.S. Equities declined 7.4% in the fiscal year, yet outperformed the benchmark return of (8.2%). The longer-term returns for this asset class represent the emerging markets net asset value funds only, so comparisons are not yet meaningful.

Private Equity represented 1.9% of UCRP at year-end with a market value of $659 million. Returns for this asset class in the fiscal year were similar to the public equity markets as the excessive valuations achieved during the internet boom were largely reversed. Over the past 5 and 10 years, however, UCRP's private equity returns of 32.5% and 35.9% have been very rewarding. Longer-term, this category should provide attractive returns, although likely more modest than those of the previous few years.

1 Comprised principally of exchange-traded index funds, which are sometimes used to gain exposure to specific sectors of the market or to maintain overall equity exposure until attractive individual securities are identified for long-term holdings.

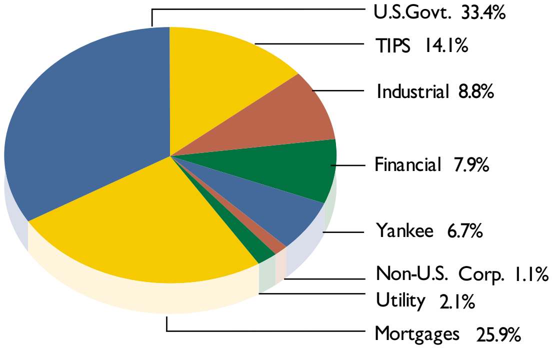
FIXED-INCOME INVESTMENTS

At year-end, Fixed-Income investments constituted 36.8% of the portfolio, with a market value of $12.6 billion.

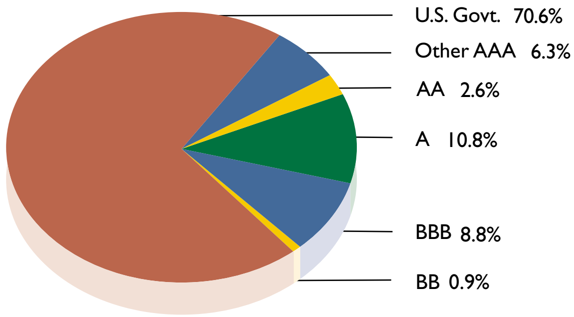
UCRP's fixed-income investments returned an attractive 9.5% during the year, well above the benchmark return of 8.8%. Over the long-term, UCRP's fixed-income returns of 10.4% and 12.4% for the 10- and 20-year periods have consistently exceeded the benchmark. The portfolio's five-year average turnover rate was 28.9%.

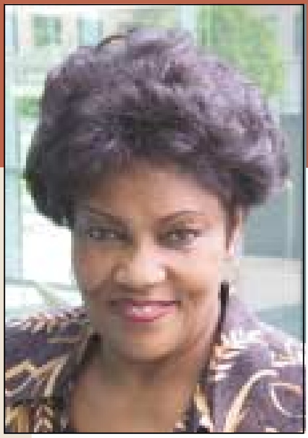
The weighted average maturity of the portfolio at the end of the year was approximately 13 years, the weighted average duration 7.0 years, and the average credit quality was AA, with more than 90% of the fixed-income securities rated A or higher. The following pie charts illustrate the sector mix and quality breakdown of the UCRP bond portfolio.

UCRP Fixed-Income Sector Mix
June 30, 2002



UCRP Fixed-Income Quality Mix
June 30, 2002
(BBB and higher = investment grade)





RETIREE PROFILE

Edna Coleman Smith spent much of her career making sure the University of California can choose from among the best when selecting employees.

With an educational background in Business Administration from University of California, Berkeley, she joined UC's staff knowing she wanted to make a contribution to the institution. She found her niche in Personnel Services early on and served on the team that created an independent Personnel Office for the Office of the President (UCOP.) She was also responsible for the development of UCOP Temporary Staffing Services and instrumental in developing and implementing the first UCOP Affirmative Action Plan.

In addition, she is credited with spearheading two very successful employee development programs: Professional Skills Assessment and the UCOP Scholarship Program. Both of these programs have been directly responsible for many career development success stories. Since 1978, her executive recruitment expertise was directly responsible for recruiting many of UC's current and former executives. Her special skills at sourcing diverse candidate pools contributed significantly to the excellent quality and meaningful diversity of the UCOP workforce. She prides herself on the camaraderie she developed across all lines of the UC system, from administrative support to Presidents (having served under seven of them.)

Edna began planning for retirement several years into her career by attending UC-sponsored retirement workshops and by consulting regularly with her financial advisor. She states, "The best advice I received was to always have a diversified investment portfolio. Invest in your self right now. Do research on your retirement future and make yourself and your financial well-being a priority!"

Edna retired later than planned only because she couldn't pass up the opportunity to perform a significant leadership role. The PERS (Public Employee Personnel System), which preceded UCRP, provided her with the opportunity to have reciprocity into the UCRP at retirement. She also took advantage of the 401(k) and 403(b) programs (utilizing a diversified combination of UC-managed funds in the latter) to enhance her retirement savings.

She continues to touch people's professional lives, even in retirement, as her dream of creating a consulting business is coming true. In addition, with her experience and insight into professional development, she is a natural serving on the Board of "Wardrobe for Opportunity." This organization serves economically disadvantaged women seeking employment in California's Contra Costa and Alameda counties. Volunteers provide vital, and often overlooked, services such as furnishing suitable business attire for both the interview process and the job and providing support for career advancement. She is also Chair of the Ebony Fashion Show sponsored by The Links, Inc. Oakland Bay Area Chapter (a nonprofit philanthropic organization.)

Edna Coleman Smith

Berkeley, California

Retired

40 years with the
University of California

Director of Human
Resources and Benefits
Services

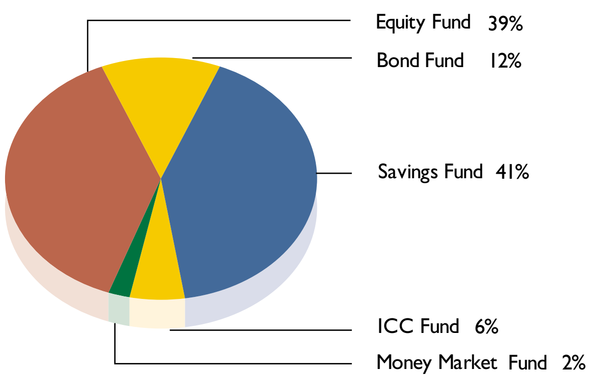
We wish to acknowledge the help of The University of California Office of the President's Department of Human Resources and Benefits, Department of Research, and the UC Berkeley Retirement Center in preparing this information.

Defined Contribution Funds

In addition to the defined benefit program (UCRP), the University offers three defined contribution plans to provide its employees with supplemental retirement benefits—the mandatory Defined Contribution Plan (DC Plan), the Tax-Deferred 403(b) Plan and the Defined Contribution Plan After-Tax Account. These programs differ from UCRP in that the benefits received by participants are based on the employee's contributions to the plans and the returns earned on those contributions over time.

When investing their defined contribution funds, employees may choose among six University Defined Contribution (DC) Funds managed internally by the Treasurer's Office or numerous external funds. The six University-managed funds include three total return funds—the Equity Fund, Bond Fund and Multi-Asset Fund—and three interest income funds—the Savings Fund, Insurance Company Contract (ICC) Fund and Money Market Fund.

Total DC Assets by Fund[1]
June 30, 2002



INTERNALLY MANAGED UC FUNDS

University-managed funds offer employees the opportunity to achieve attractive, long-term investment performance by investing in one or more funds of their choice. These funds represent diversified portfolios of high-quality, growth-oriented global stocks and bonds, as well as more conservative interest income funds with attractive above market yields. As Table VII on page 31 illustrates, most of these funds consistently rank above average in performance comparisons. In addition, the University-managed funds are extremely low cost relative to external fund options: Annual expenses are only 0.15% of average annual market value, compared to the industry average of 1.4%[2].

TOTAL RETURN FUNDS

EQUITY FUND

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

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

At June 30, 2002, the total market value of the Equity Fund was $2.4 billion. The portfolio consisted of 81.1% U.S. Equity, 13.8% Non-U.S. Equity, 5.0% Private Equity and 0.1% cash.

While the Treasurer's Office continues to manage the majority of the Equity Fund, allocations to a Russell 3000 Tobacco Free Index fund and an MSCI EAFE Tobacco Free Index fund were made in November 2000. These were intended to mirror the returns of the broad U.S. and foreign stock markets. The Russell 3000 TF Index is the fund's U.S. Equity benchmark.

The Treasurer manages the active portfolio as a diversified portfolio of primarily high quality, reasonably-priced large-cap, growth-oriented global companies with above average earnings prospects.

For the fiscal year, the Equity Fund's return of (19.9%) was below its policy benchmark return of (15.9%), reflecting the weak performance of large cap growth stocks. As shown in Table VII on page 31, the fund's long-term returns of 10.8% and 14.2% for the 10- and 20-year periods compare more favorably. The Equity Fund's five-year average annual turnover rate was 13.7%.

[1] Includes balances invested for the Multi-Asset Fund, which at 6/30/02 totaled $588 million and consisted of 41% in the Savings Fund, 27% in the Equity Fund, 22% in the Bond Fund, and 10% in the Money Market Fund.

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

Table VII
University-Managed Defined Contribution Funds
Annualized Total Returns and Yields[1]
June 30, 2002

	1-Year	5-Years	10-Years	20-Years
TOTAL RETURN FUNDS				
Equity Fund	(19.9)%	3.5%	10.8%	14.2%
Policy Benchmark[2]	(15.9)	4.1	11.6	15.0
Morningstar Domestic Equity Funds Average[3]	(16.3)	3.8	10.2	N/A
Bond Fund	9.8	8.7	10.4	13.6
Policy Benchmark[4]	8.6	8.2	8.6	12.1
Morningstar Taxable Bond Funds Average[3]	4.7	5.0	6.1	N/A
Multi-Asset Fund[5]	(2.4)	6.0	8.7	N/A
Policy Benchmark[6]	(2.1)	5.5	7.6	N/A
INTEREST INCOME FUNDS				
Savings Fund	5.5%	6.0%	6.4%	8.0%
2-Year U.S. Treasury Notes	3.2	5.1	5.3	7.1
ICC Fund	6.9	7.1	7.5	N/A
5-Year U.S. Treasury Notes	4.3	5.2	5.7	N/A
Money Market Fund	2.8	5.1	4.9	N/A
3-Month U.S. Treasury Bills	2.2	4.5	4.6	N/A
Inflation[7]	1.3	2.4	2.6	3.1

BOND FUND

The Bond Fund is a total return fund established by The Regents in January 1978. The primary objective of the Bond Fund is to maximize real (adjusted for inflation) long-term total return through a combination of interest income and price appreciation, subject to maturity and quality constraints. The Treasurer's Office invests the Bond Fund in a diversified portfolio of primarily high-quality, global debt securities for which an attractive real return greater than the expected rate of inflation is achievable.

At June 30, 2002, the total market value of the Bond Fund was $761 million. U.S. Treasury securities constituted 28.5% of the fund, while high-grade industrial bonds represented 12.8%, financial bonds 4.4%, Yankee bonds 7.9%, utility bonds 5.0%, mortgage-backed securities 35.9%, and asset backed securities 5.5%. The weighted average maturity of the portfolio at year-end was approximately 9 years, the weighted average duration 5.6 years, and 87.6% of the portfolio was rated A or better. The 5-year average annual turnover rate for the Bond Fund was 32.1%.

In fiscal 2002, the Bond Fund returned 9.8%, outperforming both its benchmark and the Morningstar Taxable Bond Funds Average. As shown in Table VII (above), the Bond Fund's long-term returns of 8.7%, 10.4%, and 13.6% for the 5-, 10-, and 20-year periods have also consistently exceeded those of its Morningstar peers and its benchmark.

1 All returns and yields for the University-managed funds are net of (after) investment expenses of 0.15% and are based on unit values for the Equity, Bond and Multi-Asset Funds and on interest factors for the Savings, ICC and Money Market Funds. 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 by UC Human Resources and Benefits. The Treasurer's Office compares these results to the gross investment returns calculated by QED. QED's calculations comply with the Association for Investment Management and Research (AIMR) standards, which require time-weighted rates of return using realized and unrealized gains plus income.

2 80% Russell 3000 Tobacco Free (TF), 15%. MSCI ACWI ex-U.S.; 5% Russell 3000 TF +3%. Historical: S&P 500.

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

4 Lehman Aggregate; Historical: LB LTG/C.

5 Contributions to the Multi-Asset Fund are invested 40% Savings Fund, 30% Equity Fund, 20% Bond Fund and 10% Money Market Fund. The fund is not rebalanced.

6 The Market Index Mix consists of 40% 2-Year U.S. Treasury Notes, 30% Russell 3000 TF, 20% Lehman Aggregate, and 10% 3-Month U.S. Treasury Bills.

7 Inflation as measured by the CPI.

MULTI-ASSET FUND

In September 1990, the University Administration established the Multi-Asset Fund as an investment option. The Multi-Asset Fund is not a managed fund, per se, but is a combination of four existing University-managed funds, whereby contributions are invested according to a fixed percentage: 30% in the Equity Fund, 20% in the Bond Fund, 40% in the Savings Fund and 10% in the Money Market Fund. As such, the Fund invests in a conservative blend of 70% fixed-income assets and 30% equity assets. Although employee contributions enter the Multi-Asset Fund in a fixed percentage, the Multi-Asset Fund is not rebalanced. The actual mix of the Multi-Asset Fund will vary over time as the market values of the component funds fluctuate at different rates.

The market value of the Multi-Asset Fund at June 30, 2002 was $588 million, and the actual asset mix was 27.2% Equity Fund, 22.1% Bond Fund, 40.9% Savings Fund and 9.8% Money Market Fund.

The Multi-Asset Fund's returns are a function of the performance of its component funds.

INTEREST INCOME FUNDS

SAVINGS FUND

The Savings Fund, the largest DC fund, is an interest income fund created in July 1967. The investment objective of the Savings Fund is to maximize interest income returns, while protecting principal, in order to provide a safe, low-risk investment with attractive and stable returns. As such, the Savings Fund invests 100% in government, government-guaranteed and government agency securities of up to five years in maturity. The Treasurer's Office maximizes returns by altering the Fund's maturity structure in different yield curve environments.

The Savings Fund totaled $2.6 billion at June 30, 2002, and was invested 100% in AAA-rated U.S. Treasury and federal agency securities. The weighted average maturity of the Savings Fund was 2.1 years at June 30, 2002.

The Savings Fund has historically provided a yield greater than that of 2-year U.S. Treasury Notes. In fiscal 2002, the Savings Fund generated a yield of 5.5%, exceeding the 3.2% yield on 2-year U.S. Treasury Notes. During the past 20 years the Savings Fund generated an average yield of 8.0% versus 7.1% on 2-year U.S. Treasury Notes.

INSURANCE COMPANY CONTRACT FUND

The Regents approved the Insurance Company Contract (ICC) Fund as an investment option in September 1985. The investment objective of the ICC Fund is to maximize interest income while protecting principal. The Treasurer's Office invests contributions to the ICC Fund in insurance company contracts offered by select, highly rated, financially sound insurance companies. Under such contracts, the insurance companies guarantee a fixed annual rate of interest for a specified time period and the repayment of principal at the end of that time period. The contracts are backed by the assets of the insurance companies, and ICC Fund participants receive the blended rate of all contracts in the fund. The Treasurer's Office uses staggered maturities to systematically manage the reinvestment of maturing contracts and to provide return stability.

At June 30, 2002, the ICC Fund totaled $377 million, with a weighted average maturity of 3.6 years.

Since inception, the ICC Fund has generated yields that have exceeded those of 5-year U.S. Treasury Notes by a comfortable margin. In fiscal 2002, the ICC Fund generated a 6.9% yield versus 4.3% on 5-year U.S. Treasury Notes and during the past 10 years 7.5% compared to 5.7% on 5-year U.S. Treasury Notes.

MONEY MARKET FUND

The Regents approved the Money Market Fund as an investment option in September 1985 on the recommendation of the University Administration. The Fund's investment objective is to maximize interest income while protecting principal. The Treasurer's Office invests the Money Market Fund in a diversified portfolio of high-quality, short-term securities. The weighted average maturity of the Fund may not exceed 90 days and no individual maturity may exceed 13 months.

The Money Market Fund totaled $141 million at June 30, 2002 and had a weighted average maturity of 68.0 days. The portfolio was invested 59% in commercial paper, 27% in federal agencies and 14% in U.S. government securities.

The Money Market Fund's yields compare favorably to those of 3-month U.S. Treasury Bills. In fiscal 2002, the Money Market Fund generated a 2.8% yield compared to 2.2% on 3-month U.S. Treasury Bills. During the past 10 years, the Money Market Fund generated an average yield of 4.9% compared to 4.6% on 3-month U.S. Treasury Bills.

ANNUITANT PROFILE

Margaret Wellons

Berkeley, California

Retired

25 years with the University of California, Berkeley

Undergraduate Affairs (Political Science and English) and Academic Support Services for Student Athletes

Margaret Wellons came to the UC Berkeley campus on her weekends off to “hang out and read the Sunday paper” never imagining it would become her home for a career spanning 25 years. “I was working in a corporate office that sold commercial paper. The campus was such a beautiful place with such interesting looking people that I felt an immediate attraction. It was a much warmer environment than the one I was in.” So, despite a cut in pay, the 27 year-old joined the staff of the University and reveled in her surroundings.

Like many young people, she wasn’t thinking about her retirement at the time. However, upon reflection, she realizes how lucky she was to spend a career within an organization which provides a full range of benefits including a pension. Calling herself a late bloomer, she admits she had worked at UC over 15 years before she took her own retirement and savings seriously. Having received an upgraded job title and pay increase she felt she finally had an opportunity to put something away for the future. She created a 403(b) account choosing to utilize funds managed by UC’s Treasurer’s Office and remained in these funds over the years, diligently adding to her balance and adjusting her asset allocation as she approached retirement. “Once I started,” she says, “I became a good planner/ organizer and worked hard to realize my financial goals.” So hard in fact, she was able to opt for retirement earlier than she ever imagined.

Margaret speaks fondly of her role as an advocate for students and of her work designing and providing programs which helped students succeed. From offering a simple word of encouragement to rolling up her sleeves to help a student tackle a tough personal challenge, she made a difference for hundreds of students at the campus. She keeps in touch with several and speaks of their on-going accomplishments with great pride. In addition, her role with the Academic Support Services for Student Athletes built respect and understanding for them in the larger campus community by helping their peers and professors see them as true academics.

Looking back, she claims she would change nothing about her career and urges current UC employees to be team players. “Worry about changing yourself instead of worrying about changing others. Work hard; play hard. I would also encourage people to take advantage of the 403(b) plan at the University; to begin the habit of saving early. Just try it for 6 months—you will see how easy it is. Even though you think you just can’t do it until you pay down that credit card or that loan, just try it. You will surprise yourself!” But, she cautions that a successful retirement isn’t all about money. “After all,” she shares, “the real secret is threefold: Good friends. Good genes. Good luck.”

Retirement for Margaret means personal freedom. Though she had dreamed of traveling, once able to do so, she found she was happiest at home; working in her garden or on her house. “Plus,” she boasts, “Berkeley offers so much – why go elsewhere?” She often finds herself back on the same campus that lured her away from the corporate world so long ago.

We wish to acknowledge the help of The University of California Office of the President’s Department of Human Resources and Benefits, Department of Research, the UC Berkeley Retirement Center, and the UC Berkeley Art Museum & Pacific Film Archive in preparing this information.

Investment Operations

Supporting the management of the portfolios is an experienced Operations staff. The staff consists of a Director, Assistant Director, and Supervisor with an average of 13 years experience in banking and/or investment operations and eight analysts with an average of 14.5 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.

INVESTMENT ACCOUNTING

- Track all investment security transactions (foreign and domestic) from origination to settlement.
- Monitor and collect all investment income.
- Reconcile daily all investment assets with the master custodian.
- Monitor all transactions and holdings and reconcile all custodial records to in-house-investment databases.
- Calculate, analyze and report investment performance.
- Coordinate incoming gifts with campuses and/or donors and monitor and report receipt of security and cash gifts.
- Review and upgrade portfolio accounting systems on an ongoing basis in order to remain current with industry standards.
- Provide the UCOP Endowment and Investment Accounting Office with investment accounting entries for input into the general ledger.

INVESTMENT REPORTING

In addition to trading and monitoring all investment security transactions and holdings, the Investment Operations staff calculates, analyzes and reports all performance and provides investment accounting entries for input into the UCOP Endowment and Investment Accounting general ledger. The investment group provides all investment information for the following reports:

- All required reports to The Regents' Committee on Investments.
- Performance reports on the various portfolios and separately invested funds.
- All required governmental and other regulatory agency reports.
- The Treasurer's Annual Report.
- The Retirement Investment Funds Brochure.

CASH MANAGEMENT

- Sweep all depository accounts daily and transfer funds to the University's main accounts.
- Provide UCOP funds to cover all checks and electronic fund transfers for vendor and payroll accounts.
- Provide the Endowment and Investment Accounting Office with accounting entries for input into the general ledger for all cash and STIP transactions.

The management of the portfolios is also supported by state-of-the-art information systems and a well-established custodial relationship with a leading industry provider, ensuring sound safekeeping and recording of assets.

FISCAL YEAR CHANGES

As of June 1, 2002, State Street Corporation became "book of record" for the Treasurer's Office. This integration with their custody structure allows the Treasurer's Office to utilize State Street's accounting, performance, and analytics systems. This change allows for an additional verification of performance returns.

During the year, the Treasurer's Office installed electronic connections to the brokers, exchanges, and markets that execute our equity trading orders. The links increase the speed at which information is communicated and improve access to sources of liquidity. These connections help the staff make more timely investment decisions and improve the quality of trade executions. In addition, similar connections were installed to our custodian to enhance the overall efficiency of processing and clearing all securities trades. Both parts of this initiative should enhance the returns of the funds under management.

The Treasurer's Office established a Middle Office function to centralize settlement and risk responsibilities. The Middle Office administrator is responsible for confirming all relevant trade and foreign exchange information with external parties (e.g. brokers), for disseminating trade tickets to the custodian bank, resolving all trade settlement and failed trade issues, and ensuring that all corporate actions are responded to on a timely basis.

In conjunction with the Internal Audit Department, the Operations team developed a Disaster Recovery Site located a few hours drive from the Oakland-based Office of the Treasurer. System files are backed-up to this location nightly. In the case of an emergency situation affecting the Office's building or a larger geographic area, essential staff will be relocated and can begin operating from this site within hours.

In March of 2002, the Banking and Treasury Services unit moved from the Office of the Treasurer and became a part of UCOP's Division of Business and Finance. The Banking and Treasury Services unit is responsible for the management and central oversight of all banking and related service facilities for the UC system including all campuses and laboratories under the authority of The Regents' Committee on Finance. For current information regarding staff and/or services contact the Division of Business and Finance (available on the internet at www.ucop.edu/finmgt/banking).

This *Treasurer's Annual Report 2001-2002* is unaudited, however these investments are included in the following audited financial statements of the University of California: *The University of California Annual Financial Report 2001-2002* (available on the internet at www.ucop.edu/ucophome/busfin/reports.html), *The University of California Defined Contribution Plan and Tax-Deferred 403(b) Plan 2001-2002*, and *The University of California Retirement Plan 2001-2002* (both available on the internet at http://atyourservice.ucop.edu/forms_pubs/categorical/misc.html).

FOR FURTHER INFORMATION

For more information on the University-managed funds, please refer to *Retirement Investment Funds - December 2001* or log on to our website (http://www.ucop.edu/treasurer). You may contact us in writing at the University of California, Office of the Treasurer, P.O. Box 24000, Oakland, CA 94623-1000.

www.ucop.edu/treasurer Tel. (510) 987-9600 Fax. (510) 987-9651 email.Treas.Regents@ucop.edu