Treasurer's Annual Report

One hundred and thirty-ninth fiscal year
University of California • 2006-2007

The Regents of the University of California

June 2007

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.

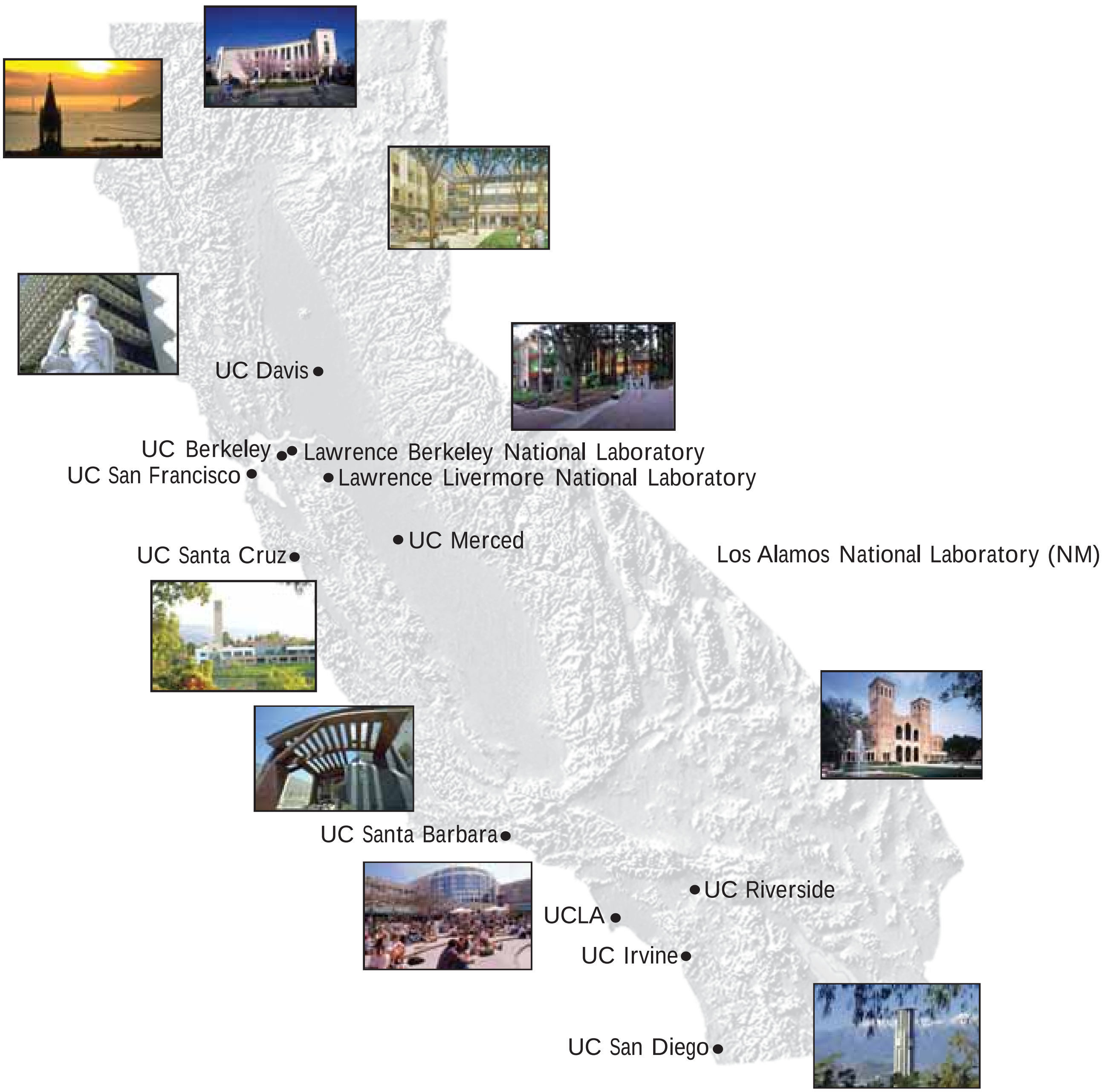
Mission Statement

The Office of the Treasurer of The Regents manages the University of California's retirement, endowment and cash assets under the policies, guidelines, and performance benchmarks established by The Regents. The Office's mission is to implement those policies and guidelines by selecting, executing, and monitoring investment strategies designed to add value over the benchmarks within a risk controlled framework. The Office adheres to high ethical as well as professional standards in serving the financial management needs of its constituency.

The University of California

The University of California is the world's premier public university with a mission of teaching, research and public service. The UC system, founded in 1868, includes 10 campuses, five medical centers, three law schools and the nation's largest continuing education program. The University also manages three national laboratories for the Department of Energy that are engaged in energy and environmental research. The UC community encompasses over 209,000 students, 170,000 employees, 45,000 retirees, and 1.4 million alumni living and working around the world. Its Natural Reserve System manages approximately 130,000 acres of natural habitats for research, teaching and outreach activities.

Campuses and National Laboratories



Treasurer's Annual Report Fiscal 2006-2007

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FISCAL YEAR 2007 IN REVIEW

Two major investment themes were prevalent in Fiscal 2007: ample liquidity fueling healthy global economic growth, corporate M&A activity, private equity-led LBO's, and share repurchases pitted against growing stress in the U.S. housing and mortgage markets. For most of the year, liquidity won out, leading to strong equity market gains. The MSCI World ex U.S. (Net) Index gained 26.9%; the MSCI Emerging Market (Net) Index 45.0%; and the Russell 3000 Tobacco Free (TF) 19.9%. Real GDP growth in the U.S. of 3.4% was similar to last year, but more erratic. The Federal Reserve left the Fed Funds rate at 5.25% throughout the fiscal year as the headline Consumer Price Index fell to 2.7% from 4.3% in June 2006, and the Core CPI moderated to 2.2% from 2.6%. Our fixed income benchmarks rose, with the Citigroup LPF (Large Pension Fund) Bond Index returning 6.5%; the Lehman Aggregate Bond Index 6.1%; the Merrill Lynch High Yield Cash Pay Index 11.6%; the J.P. Morgan Emerging Markets Bond Index (EMBI+) 11.9%; and the Citigroup World Government Bond Index 2.2%.

In recent months, a rise in mortgage delinquencies among sub-prime borrowers has led to considerable stress in financial markets, particularly in certain mortgage-backed securities and other complex structured products. Some investment funds have been forced to seek cash infusions; several sub-prime mortgage lenders have closed their doors; financial institutions are tightening lending standards; and securities markets are repricing the cost of borrowing. Subsequent to the end of the fiscal year, access to short-term funding became so restricted that global Central Banks intervened to provide liquidity. On September 18th, the Fed lowered the Fed Funds and Discount rates by 50 basis points each, to 4.75% and 5.25% respectively. Fortunately, the global economy and major financial institutions were strong going into this turmoil. However, the impact of tighter credit on the ability of corporations and mortgage borrowers to finance their businesses as well as on the broader economy will be monitored carefully.

MESSAGE FROM THE CHIEF INVESTMENT OFFICER

Strong global economic growth in the past year, meaningful changes in asset allocation over the past two years and good security selection significantly benefitted the University's investments.

Performance: We are pleased to report that the University of California Retirement Plan (UCRP) returned 18.83% for the fiscal year. The General Endowment Pool (GEP) and the Short Term Investment Pool (STIP) produced positive returns of 20.01% and 4.75% respectively. The total Regents assets grew by $6.7 billion over the previous fiscal year to $73.1 billion, reflecting a total return of 16.35%.

The UCRP grew by $4.6 billion over the fiscal year, net of all payments to beneficiaries and expenses. In fact, the UCRP paid out benefits of $1.7 billion to UC retirees for the year. Pension contributions, which have not been required of employees for 17 years but were originally slated to resume in July 2007, have been postponed for at least the rest of the 2007-2008 fiscal year.

The value of assets within the 18 Core Funds available within the University's Retirement Savings Program (the DC Plan, 403(b) Plan and 457(b) Plan) rose by $1.1 billion during the past year. Our Office continues to work jointly with Human Resources and Benefits to facilitate enhancements to both the financial education and recordkeeping services of the program. Performance of the individual UC-managed funds is available beginning on page 28 of this report.

Governance: Under a conflict of interest policy adopted in 2005, the Regents' responsibilities center on approving policy, asset allocation, benchmarks, and risk budgets and guidelines, while our Office is responsible for all aspects of implementation, including the development of processes and procedures and the selection of investment products. The Regents determines the amount of risk that is appropriate for each fund, and we must ensure that risk is kept within these parameters. We are also charged with presenting an annual review of policies and guidelines and recommending any changes. Compliance with this policy ensures the continuance of sound investment practice and the protection against real or perceived conflict of interest, especially with regard to the selection of individual investments or investment managers.

Recognizing that the primary determinant of investment return and the investment risk is the overall asset allocation, our Office, under the guidance of The Regents, continues to diversify holdings to provide for the long-term needs of the University, its programs and employees. We worked with the Regents' consultant to recommend an expansion of the allocation to absolute return (AR) strategies in the GEP from 15 percent to 20 percent and an introduction of a small allocation to AR strategies in the UCRP, initially set at 0.5%, with a long term target of 5%. This allocation is expected to improve the risk adjusted return of the portfolio by providing a modest increase in excess return along with modest downside protection. These changes affecting asset allocation policy, rebalancing policy, and total fund performance benchmarks were approved in May and effective on July 1, 2007.

Service: In December 2005, the Department of Energy (DOE) awarded the management and operating contract for Los Alamos National Laboratory (LANL) to Los Alamos Security, LLC (LANS). The RFP required LANS to operate and

manage the laboratory as a separate corporate entity. The new contract began June 1, 2006. As part of the transition process to the new management team and consistent with the requirements set forth in the University's contract with the DOE, UC transferred assets and liabilities attributable to the benefits of LANL employees who continued employment with LANS and subsequently participate in the new corporate defined benefit plan. The actuarial accrued liability for those members electing to participate in the LANS Plan was estimated by the Regents' actuary, The Segal Company, to be in excess of $1.3 billion. Assets were transferred from UCRP in April. Retired members and inactive members of the UCRP-LANL Plan remain in the UC-sponsored plan, and their benefits will be paid from the related trust.

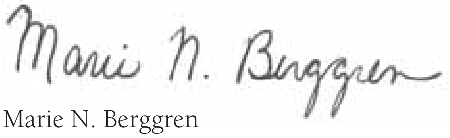
In response to requests from several UC Foundations desiring to increase their portfolios' allocation to alternative investments, the Office created three new programs: Private Equity Vintage Year Program, Real Estate Vintage Year Program and Absolute Return Unitized Program. All three programs began in January 2007. The UC Foundations may elect to participate in any or all of the programs. The benefits the UC Foundations receive by partnering with our Office include access to managers who impose high minimum investment amounts; lower fees than those charged by funds of funds; and elimination of time spent on paper work related to manager searches and monitoring.

Personnel: Here, as in other investment-related firms, one of the biggest challenges we face is attracting and retaining qualified staff. We have made a lot of progress on this front, but the investment business is on another hiring cycle, and the University continues to struggle to remain competitive. We are very pleased to have hired a Director of Private Equity in April who, along with our highly skilled team, continues to find excellent investment opportunities in venture capital, buy-outs, and now in non-US private equity. In light of the departure of the Managing Director of Public Equity we have engaged Mercer Investment Consulting to evaluate and monitor that function, and we have retained an executive search firm to aid us in filling this position.

I am in complete support of the governance structure and culture put in place in 2000 by The Regents. These changes were essential to provide proper fiduciary oversight for the investment portfolios. These changes have created an appropriate new balance, ensuring greater safety but also solid returns like those we are now beginning to see, and reflect steady improvement in performance as The Regents continues to refine investment allocations among stocks, bonds, real estate and other asset classes.

I am extremely pleased to serve The Regents, faculty, staff and students of the University of California.

Sincerely,



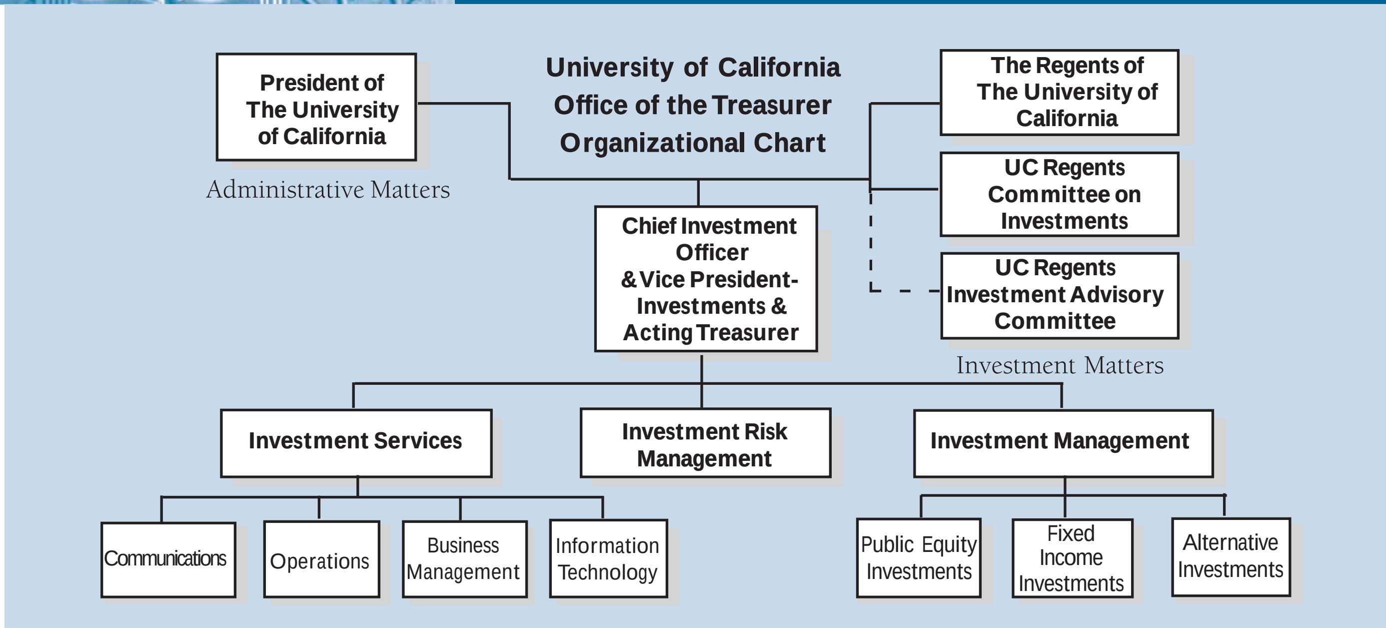
Marie N. Berggren
Chief Investment Officer and Vice President - Investments,
Office of the President and Acting Treasurer of The Regents
University of California, October 2007

LOOKING FORWARD

UCRP In May 2007, the Department of Energy (DOE) awarded the management and operating contract for Lawrence Livermore National Laboratory (LLNL) to Lawrence Livermore National Security, LLC (LLNS). The RFP required LLNS to operate and manage the laboratory as a separate corporate entity. The new contract begins October 1, 2007. As part of the transition process to the new management team, and consistent with the requirements set forth in the University's contract with the DOE, UC is required to transfer assets and liabilities attributable to the benefits of LLNL employees who continue employment with LLNS and participate in the new corporate defined benefit plan. Assets will be transferred from UCRP when both plans have obtained the necessary approvals. Retired members and inactive members of the UCRP-LLNL Plan will remain in the UC-sponsored plan, and their benefits will be paid from the related trust.

At the time of this report the actuarial accrued liability for those members electing to participate in the LLNS Plan has not yet been calculated. This future transfer will require Regental approval and will not reduce the ability of the UCRP to meet its obligations to its members.

UCRP and GEP The Office of the Treasurer views the entire globe as the appropriate investment universe. In recent years, policy allocations to non-US assets have increased substantially, both in equity and fixed income. For example, in 2000, the UCRP had 7% of assets in non-US equity. Today, the proportions are 21% and 6% for non-US equity and non-US fixed income, respectively. The proportions for the GEP are even higher. In addition, where opportunities exist in alternative assets (Private Equity, Real Estate, and Absolute Return Strategies), the Regents' portfolios are being diversified globally. Investment guidelines that have historically limited non-US exposure are being widened as opportunities expand and investment personnel with international experience are added to the staff.



SENIOR MANAGEMENT

MARIE N. BERGGREN, MS **Chief Investment Officer and Vice President for Investments and Acting Treasurer**

Ms. Berggren is responsible for overseeing the University of California investment portfolio. Prior to joining the Treasurer's Office in 2002, Ms. Berggren was Executive Vice President/Department Head of Venture Capital Investments for Bank One Corporation. While employed at Bank One and its predecessor organization, First Chicago Corporation, she was the Senior Vice President and Department Head of the Corporation's Mergers and Acquisitions activity. Prior to that she was the Managing Director of Public Equities and Director of Research for First Chicago Investment Advisors (the predecessor to Brinson Partners). Ms. Berggren earned her MS in Management from Stanford University Graduate School of Business and a BA in Economics from the College of New Rochelle.

MELVIN L. STANTON, MBA **Associate Chief Investment Officer**

Mr. Stanton, along with the Treasurer, is responsible for the overall management of the Treasurer's Office. Prior to joining the Treasurer's Office in 1989, Mr. Stanton had more than 13 years experience as a financial executive in portfolio management and securities trading, including Director of Sales for Midland Montagu Securities, Inc., San Francisco; First Vice President and Manager with Crocker National Bank, San Francisco; and Vice President and Regional Sales Manager with Bankers Trust Company, Los Angeles. Mr. Stanton received his MBA and BS degrees from California State University, Northridge.

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

Mr. Wedding is responsible for the strategic focus and management of the long- and short-term fixed-income portfolios. Prior to joining the Treasurer's Office in 1998, Mr. Wedding was Manager of Currency Options and Derivatives Trading for Bank of America, NT&SA, New York; Managing Director, Commodities and Derivative Sales for Bear Stearns & Co., New York; and Principal, Manager of Fixed-Income Derivative Sales for Morgan Stanley & Co., New York. Mr. Wedding began his career with Wells Fargo Bank, responsible for the Bank's Fixed Income Portfolio. Mr. Wedding earned his MBA in Finance from the University of California, Berkeley and BA in Mathematics from the University of California, San Diego.

JESSE L. PHILLIPS, CFA, MBA, MA **Managing Director – Investment Risk Management**

Mr. Phillips is responsible for integrating risk monitoring, measurement, and management into all aspects of the investment process. Prior to joining the Treasurer's Office in 2002, Mr. Phillips worked at Northrop Gruman for 11 years, first as Corporate M&A Analyst and then as Manager, Risk Analysis and Research in the Treasury department. Mr. Phillips also worked as Corporate Planning Analyst with Florida Power & Light Company and as Senior Financial Analyst with Storer Communications, Inc., both in Miami Florida. Mr. Phillips earned his BA degree in Mathematics/Economics and MA in Applied Mathematics from the University of California, Los Angeles and his MBA in Finance from the University of Miami. Mr. Phillips is a CPA (Florida) and holds the CFA designation.

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, 2007, the Treasurer's Office managed over $73 billion in total assets as outlined below.

TOTAL FUNDS UNDER MANAGEMENT[1]
June 30, 2007
($ in billions)

University of California Retirement Plan (UCRP)	$48.0
Defined Contribution Plan Funds	10.6
Endowment Funds	7.5
Short Term Investment Pool (STIP)[2]	7.3
Total Funds	$73.4

The Treasurer's Office investment management staff includes 25 investment professionals with an average of 16 years of investment experience.

INVESTMENT OBJECTIVES & PHILOSOPHY

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

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

Endowed Funds: to ensure that future funding for endowment-supported activities be maintained in perpetuity both by generating a growing payout stream and by real growth of principal.

[1] Market values include accrued income.

[2] The Short Term Investment Pool excludes the cash invested for, and reported as part of, the UCRP, Defined Contribution and Endowment Funds.

ASSET ALLOCATION

Asset allocation is the primary determinant of long-term investment returns. UC funds are diversified among global equities, fixed-income securities, and other non-marketable investments, within the Regents' target allocation (see pages 17, 24 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, albeit with greater year-to-year volatility.

The asset allocations for UCRP and GEP are developed as follows: First, expected return and risk for each asset class is estimated using an equilibrium framework and current prices. Second, a set of efficient portfolios is developed, consistent with those assumptions. Third, the assets and liabilities (pension benefits or endowment spending) are modeled under alternative economic scenarios and different efficient portfolio mixes. Fourth, the Regents chooses a portfolio allocation consistent with its risk tolerance, one which maximizes the probability of meeting scheduled payments over time.

The Portfolio Management Group meets weekly to review asset allocation, portfolio performance, and market conditions. Asset allocation rebalancing is required when asset class weights move out of the allowable range. The Treasurer decides on the timing and extent of the rebalancing, within the Regents' policy, based on market conditions.

PUBLIC EQUITY INVESTING

The Treasurer's Office has an internal team of experienced investment professionals who implement the Regents' allocation to public equity. Equity assets are segmented into US, non-US developed, and emerging markets asset classes. The first step in the investment process is to survey the market opportunity set – as circumscribed by the benchmark index – and forecast the risk-return trade-off in each segment of the market. For example, the market may be segmented by style, such as growth or value, capitalization size, industrial sector, or in the case of non-US companies, region or country. Then a portfolio of these market factors is constructed to maximize expected return at the benchmark level of volatility. Next the team determines which strategies best fit each market segment. Strategies include fundamental research, top-down, and quantitative, and will exhibit various approaches to idea generation and portfolio construction. The final step is to select investment products (managers) for each strategy, typically looking for several products per strategy to diversify the risk. Managers must have sound organizational structures, experienced people, consistency between philosophy and implementation, adherence to established processes, adequate operational controls, and strong risk management. After managers are selected, aggregate exposures are compared to the benchmark to ensure that the combination of managers does not result in unintended risk. After managers are hired, considerable time is spent in monitoring them on an ongoing basis, which includes on-site visits, quarterly calls, and analysis of holdings, performance, and risk. The combined assets in each of the asset classes are monitored under investment guidelines established by the Regents. Each asset class is managed according to a risk budget framework set by the Regents. The allocation between passive and active strategies is determined by both the risk budget and by the opportunities to add value to the benchmark for each asset class. As of June 30, 2007, approximately 48 percent of domestic equity assets and 41 percent of non-U.S. equity assets are managed in active strategies by 38 external managers. Emerging markets are all actively managed by 9 firms.

FIXED INCOME INVESTING

Within the primary goal of maximizing total return over a long-term horizon, the members of the Treasurer's Office Fixed Income Team take an active approach to managing the portfolios, focusing on safety of principal, credit quality, liquidity and efficient use of risk. They start with a "top-down" approach to evaluate the global macroeconomic environment, including analysis of business cycles, monetary and fiscal policies, and political backdrops, in order to assign appropriate sector weights and duration exposure among the three core sectors of Government, Credit and Collateralized bonds. This is coupled with a "bottom-up" approach to individual security selection. Each portfolio manager utilizes a variety of proprietary and industry-developed analytical tools best suited for the particular sector, emphasizing rigorous analysis of such factors as yield curve exposures, portfolio duration and convexity, credit fundamentals, relative value and position weights.

The portfolio managers closely monitor current and prospective investments on a daily basis. New opportunities are identified, and existing positions are adjusted as appropriate. The team, along with representatives from the Risk Management Group, meet monthly to review performance, portfolio exposures and current economic assumptions. Potential new products and strategies are also presented at these sessions before seeking the Treasurer's approval. This combination of rigorous fundamental and quantitative analysis within an active risk management framework has produced a history of successful returns for the Regents' fixed income funds.

The Regents includes inflation-indexed bonds (TIPS) in its overall asset allocation to achieve the objective of maximizing long-term total real returns. The low correlation of TIPS returns with other asset classes also increases portfolio diversification. The Treasurer's Office inflation-indexed bond investment strategy utilizes passive management techniques. The objective of this strategy is to replicate the performance of the U.S. TIPS market.

The fixed income investments also include allocations to emerging markets, U.S. domestic high yield and foreign government bonds. The allocations are intended to improve the risk/reward profile of fixed income and the overall asset allocation. These funds are managed both internally and externally.

The Treasurer's Office also manages the Short Term Investment Pool (STIP) for the benefit of numerous University groups. The STIP portfolio managers participate in the Fixed Income process with the Team as outlined above, but place a greater emphasis on generating current income in the execution of two major mandates.

The first is to insure that the daily liquidity needs of the University are met by investing an appropriate portion of total assets in short-term money market instruments at attractive yields relative to the desired quality. The second is to maximize the interest income paid to participants by investing the remaining funds not required for immediate expenditure in a variety of government and corporate bonds with maturities up to five and one-half years. The maturity restrictions and emphasis on quality assets help minimize the price volatility of the overall portfolio. The STIP has achieved an impressive long-term record of above-market interest income returns.

ALTERNATIVE INVESTING

Absolute Return

The Absolute Return (AR) investments offer risk-return attributes that are not readily available through traditional equity and fixed income investments because they are designed to protect capital and provide positive returns irrespective of overall equity and fixed income market performance. The AR strategies are designed to

achieve this by selling instruments short, in addition to positions owned long, to hedge out much of the market risk. AR investments typically have low correlation with other asset classes and increase the overall portfolio diversification and reduce risk. AR includes long/short equity, merger arbitrage, event-driven and other strategies. An AR portfolio might be net long, net short or neutral relative to the underlying investment market. Currently, AR strategies are used in the General Endowment Pool (GEP) solely.

Strategy and manager selection are the important drivers of the Absolute Return allocation. The Treasurer's Office is focusing on a subset of available strategies to achieve diversification benefits and preservation of capital. The Office has also been able to invest with established and accomplished managers, including some that are no longer open to new investors. The AR portfolio currently is invested with 24 AR funds across a broad mix of managers. This number is expected to increase over the next fiscal year for further diversification of strategies and managers.

Another critical element of the AR program is ongoing monitoring of the investments. The Treasurer's Office has regular contact with the investment managers to review adherence to the expected investment style, personnel turnover, performance and other issues to ensure the appropriate investments and allocations for the program. In addition, the Alternative Investments Team works with a consultant that specializes in AR strategies to supplement the capabilities of the Team.

As of June 30, 2007, the allocation to AR strategies was approximately 16% of the GEP.

Private Equity

The Regents of the University of California recognizes the benefits of including private equity investments as an integral part of the diversified asset pool of the Treasurer's investment program. The long-term strategic objective of the private equity program is to develop and maintain adequate exposure to a select group of buyout and venture capital investments in order to reduce the overall risk of the Regents' portfolio through added diversification and to generate attractive long-term rates of return. Indeed, long term return expectations for private equity as an asset class stand several hundred basis points above public market indices.

The Regents has been a long standing investor in the asset class. The Regents began the private equity program in the 1970's, initially investing directly in a number of private companies and, starting in 1979, emphasizing investments in established west coast venture capital funds which primarily focused on early-stage investments in technology. The Regents' participation in venture capital was based on an early insight into the importance of technology industries to the State of California, the unique position the University holds within the state, and the University's unique contributions to and benefits derived from these industries. As one of the first investors in Silicon Valley, The Regents has formed long-standing relationships with some of the premier venture capital groups and has built a reputation as an active and sophisticated partner. Since 2002, the private equity program has also been diversifying its private equity investment strategy to include buyout funds and select new relationships.

The process of successfully investing in private equity is resource intensive and requires a high degree of specialized expertise. Consequently, the Regents' private equity program continuously strives to incorporate "best-practices" from across the investment world and to attract professionals who contribute a positive impact both on decisions and processes used by the team. In addition, since it is extremely difficult to "time" the private equity market, the private equity team is focused on building a strategically consistent portfolio of select partnerships to generate superior investment performance over long cycles. The team dedicates careful attention to identifying managers with a superior track record in selecting technologies, companies and industries with the highest potential for value creation. In addition to active portfolio management and oversight, the team works with its private equity consultant to review potential investment opportunities on a periodic basis.

Real Estate

In May 2003, The Regents approved a 5% allocation to real estate for UCRP and GEP, funded from existing equity and bond allocations. Adding real estate investments to these portfolios seeks to provide long-term risk-adjusted total returns between those of U.S. equities and bonds; diversification benefits given real estate's low correlation with other asset classes; protection against unanticipated inflation; and a high proportion of the total return derived from current income.

The real estate investment program began during fiscal year 2004-2005. The program utilizes a combined public and private market strategy. The dual strategy seeks to reduce risk within the real estate allocation, offers opportunities for increased liquidity and broader diversification (across investments, time and geography) and enables the

Treasurer to actively rebalance overall real estate exposure toward public or private investments depending on relative valuations.

The public strategy employs the use of external managers who specialize in publicly-traded real estate securities, such as real estate investment trusts (REITs). The private strategy is accomplished through investing in limited liability investment vehicles, such as limited partnerships sponsored by experienced real estate investment firms with demonstrated expertise and superior performance. The Real Estate Investment Team, along with a real estate consultant, reviews and recommends managers of publicly-traded investments and sponsors of private investments, screens investment opportunities, negotiates investment agreements and monitors performance. To date, staff has allocated $880 million (including $178.6 million invested to date) to 14 funds, and managers expect to fully invest this allocation within the next 18 to 24 months.

RISK MANAGEMENT

Investors perceive risk as the possibility of a loss, which they accept in order to achieve their investment goals. Thus investors accept risk to earn returns. In modern investment theory and practice, risk refers to the inherent uncertainty of outcomes and is often proxied by the volatility of asset returns. Because risk is an essential aspect of investing, risk management does not aim to eliminate or necessarily reduce risk, but to balance risk and expected return. As Benjamin Graham said, "The essence of investment management is the management of risks, not the management of returns."

The primary objective of the Risk Management Team is to ensure that the Treasurer's Office investment and operational activities do not expose the University to potential or unexpected losses beyond The Regents' risk tolerance levels. This process involves three steps: 1) to identify risks and the range of possible losses; 2) to implement policies, guidelines and controls on the investment process to maintain the probability of loss within acceptable limits; and 3) to integrate risk monitoring, measurement, and analysis into all aspects of the investment process.

At the portfolio level, both quantitative and qualitative aspects of risk are monitored or measured to ensure that risk levels are proportional to return expectations, and that risk is taken intentionally and diversified optimally. At the plan level, risk management focuses on the adequacy of assets to pay promised benefits or to support spending policies. Other key components of the risk management process include scenario analysis, stress testing key assumptions, and optimization of risk and expected return. A key element of modern - and traditional - risk management is diversification across asset classes, strategies, and securities.

Risk exposures are continually monitored, compared to targets, and altered when appropriate. Pension plan risk factors include asset volatility, inflation and interest rates. Equity risk factors include economic activity, market risk preferences, style factors (e.g., relative value, capitalization size) and industry membership. Fixed Income risk factors include interest rate volatility, term structure, credit quality, mortgage prepayments, currency and liquidity. Private Equity and Real Estate risk factors include local economic activity, industry fundamentals and business risk. Absolute Return risk factors include the equity and fixed income factors defined above, and the degree to which they are offsetting, hedged or diversified.

Risk measurement is the first step in a process known as risk budgeting. Risk budgeting involves two additional steps: 1) determining the overall amount of risk required to meet a given investment objective and 2) budgeting or allocating it in an optimal manner. Optimal use of risk means constructing a fund so that, at the margin, the contribution to expected return of each sector, portfolio, or asset class is proportional to its estimated contribution to risk. This process is being implemented in the Treasurer's Office and integrated into the asset allocation and rebalancing process.

INVESTMENT SERVICES

Operations

Supporting the management of the portfolios is an experienced Operations staff consisting of a Director, Assistant Director, and Supervisor with an average of 19 years experience in banking and/or investment operations and seven analysts with an average of 13 years experience in investment accounting and operations. This unit is responsible for investment accounting and reporting, as well as the central management of all cash services for the University.

In addition to tracking and monitoring all investment security transactions and holdings, the Investment Operations staff verifies and analyzes the returns prepared by the Custodian Bank (State Street Corporation), prepares performance and holdings reports, and provides investment accounting entries for input into the UCOP Endowment and Investment Accounting general ledger.

A well-established custodial relationship with State Street Corporation, a leading industry provider, ensures sound safekeeping and recording of assets. In addition, State Street Corporation has been the official book of

record for the investment portfolios since June 2002. Among other functions, State Street provides independent calculations of the monthly performance data that is reported for the various portfolios and for all of the UC Campus Foundations.

Information Systems

The management of the portfolios is also supported by state-of-the-art information systems. The Information Systems group within the Treasurer's Office consists of a Network Manager, Systems Analyst, and a Computer Resource Specialist. The group is responsible for all Information Technology (IT) functions within the Treasurer's Office including desktop installation and support, system integration with third-party applications such as Bloomberg L.P., management of the various types of servers, and other hardware such as switches and firewalls.

The group also develops and integrates in-house applications and databases to further support the mission of the Treasurer's Office. Additionally, this group works directly with the University of California Office of the President central IT department to ensure seamless integration of infrastructure, electronic security and compliance with best practices and procedures.

Business Management

Supporting the management of the portfolios is a Business Management staff. This unit is responsible for administrative and non-investment operational matters in the Office of the Treasurer which includes internal and external audit issues, business accounting, contract negotiations, human resources, budget, accounts payable, supply and equipment inventory, control and maintenance, space planning, and security.

Communications

The Communications Group serves as an information agent for the Treasurer's Office. Among the Group's many roles is collecting, organizing and presenting information related to the selection, execution, performance, and monitoring of the University's investment portfolios in communication materials for the Board of Regents, Campus Foundations and other stakeholder groups.

In addition to producing communication materials, the Group serves as strategic counsel to the investment management team for best practices in presenting strategies, objectives and performance for the investment portfolios. The Group also oversees the Treasurer's Office website.

A WORD ABOUT BENCHMARKS

The primary objective of a performance report is to answer the question: what happened to our investments during the last quarter or year? But investors, fiduciaries, and other interested parties should immediately ask two more questions: what happened to our investments *relative to our investment goals* and objectives, and *how much risk was taken* to achieve those returns? Finding meaningful answers to these questions requires the selection of, and comparison of performance to, a diversified basket of similar securities of similar risk known as a ***benchmark.***

While an investor may state that his or her long-term ***goal*** is to preserve purchasing power and increase assets by 5% in real terms, an investment ***program*** is best articulated in terms of an asset allocation. An asset allocation is the formal policy describing investments in terms of broad asset classes. A policy could be as simple as stating the percentage of assets to be invested in equities, fixed income, and cash equivalents, or it could be more detailed, e.g., further segmentation of equity into U.S. stocks, non-U.S. stocks, and private equity.

Once a policy allocation is set, the natural (and best) benchmark is the market index that most closely represents the asset class, such as the Russell 3000 Index for U.S. stocks or the Lehman Aggregate Bond Index for U.S. bonds. Market indices are also good benchmarks in that they represent the investor's "opportunity cost," i.e. an institutional investor can earn the index return via a low cost passively managed portfolio.

A policy benchmark for a ***fund*** can be a blend of indices, each weighted by the percentage it represents in the asset allocation, e.g., 65% Russell 3000 + 35% Lehman Aggregate. Additionally, although targets may be set for the percentages of assets in each category, it is customary to allow for a range around each target, to avoid frequent and costly rebalancing, and to allow for tactical deviations from policy when market conditions warrant (see range example on page 17).

When compared to its policy benchmark, a fund's investment performance reveals at least two things. First, whether the fund added value by allocating assets differently than the policy percentages. And second, whether the investments chosen within each asset class added value over their class benchmarks. This information is referred to as ***performance attribution,*** and it can be derived for each component of the total fund to understand further where and how value was added.

It is also natural to ask, how did the fund perform relative to those funds of peer institutions? The answer is not so straightforward, mainly because other institutions may utilize asset allocations that differ from their peers' and thus are expected to perform differently. This is especially true in the case of endowments and foundations. Before comparing performance, compare the asset allocation policies and designated benchmarks.

Fixed Income Securities

Three New Fixed Income Portfolios: High Yield, Emerging Market and Non-dollar Government Bonds

In late 2005, the Board of Regents approved a new asset allocation for the UC Retirement Plan. The impact on the fixed income assets of the Plan was material as the new allocation mandated a reduction of almost 50% in the Core fixed income portfolio. The bulk of the cash freed up by that action was redeployed into three new specialty fixed income asset classes: High Yield (HY) Bonds, Emerging Market (EM) Bonds and Non-dollar Government Bonds. While the Treasurer's Office Fixed Income Team has invested tactically in these asset types over many years, the new plan envisioned a permanent dedicated allocation. The three new portfolios yield a beneficial diversification effect when combined with Core fixed income and increase the expected return of the overall fixed income allocation.

The Treasurer proposed that these new portfolios be managed by both staff and external active managers. Specifically, the Fixed Income Team manages a portion of the High Yield and Emerging Market portfolios while active external managers invest the remainder. The Non-dollar Government Bonds allocation is managed externally as a passive index fund. To date, mandates have been awarded to four external High Yield managers, while external managers for Emerging Markets will be selected in the coming fiscal year.

The decision to manage a portion of the new High Yield and Emerging Markets portfolios internally was driven by the credit team's successful history of identifying superior investments regardless of ratings or country venue. This global approach to evaluating individual credits and industries has led to a record of considerable outperformance vs. its benchmarks. This approach is also expected to add diversification to the styles of selected external managers. In evaluating external managers, The Treasurer's Office seeks firms with a consistent history of strong returns; stable managements; well-articulated philosophies; and disciplined execution of these philosophies.

The Regents has adopted one or more benchmarks to measure the performance of each new asset class, based on the specific strategy or market sub-segment of the manager.

More about the philosophy, management, and benchmarks of each of the new asset classes is detailed below.

High Yield

In High Yield, the Fixed Income Team's expertise has historically been geared towards the higher quality segment of high yield, for example, identifying credits believed to be upgrade candidates or excellent foreign companies whose ratings are constrained by the country in which they are domiciled. A select group of external managers has been selected based on their strong performance histories in a diverse array of alpha generating strategies. While both the internal staff and selected managers take a fundamental credit analysis approach to managing the sector, the diversification within the portfolio should serve to enhance returns in various environments.

The overall benchmark for the High Yield portfolio is the Merrill Lynch High Yield Cash Pay Index, which includes bonds rated from BB+ to CCC-, issued by approximately 900 distinct credits. This rich opportunity set provides a wide scope for security selection and fundamental analysis to add value and alpha relative to the benchmark.

The portion managed internally uses the Merrill Lynch BB/B Cash Pay Index as its benchmark due to the higher quality nature of its holdings, while the external managers use both the Merrill Lynch Cash Pay Index and related benchmarks.

Emerging Markets

The Treasurer's Office has been investing in Emerging Markets bonds for over 12 years. Emerging markets exposure has ranged from 5-25% of the total credit portfolio over this time, in a combination of sovereign and high quality corporate issuers. In addition, the Treasurer's Office has a significant established network of relationships with emerging markets broker/dealers, corporate managements, and government officials upon which to draw in conducting in-depth research into these credits.

FIXED INCOME INVESTMENTS TEAM

Front row left to right: Alice Yee, Sr. Portfolio Manager, Short-Term Securities; Kim Evans, Sr. Portfolio Manager and Head of Credit Analysis; Linda Fried, Sr. Portfolio Manager, Credit Sector; *Back row left to right:* David Schroeder, Sr. Portfolio Manager Governments Sector; Aaron Staines, Jr. Portfolio Manager; Randy Wedding, Sr. Managing Director, Fixed Income Investments; and Satish Swamy, Sr. Portfolio Manager, Collateralized Sector.

The benchmark for the EM portfolio is the JP Morgan EMBI+ (Emerging Markets Bond Index). This index contains U.S. dollar denominated sovereign credits, nine of which account for over 90% of the Index value. As such, there is a more limited scope for adding value through security selection and credit research. Therefore, the internal staff will manage approximately two-thirds of the EM portfolio, while select external active managers will be chosen to complement the Treasurer's Office strategy and add value through strategies such as local currency exposures.

It is expected that The Treasurer's Office and Regents' consultants will explore the suitability of other Emerging Markets benchmarks and the potential for greater involvement in local currency markets in the coming fiscal year.

Non-U.S. Fixed Income

Exposure to Non-U.S. government bonds is expected to offer currency and modest interest rate risk diversification to the portfolios. The benchmark is the Citigroup Non- U.S. Dollar World Government Bond Index, which is comprised of bonds from 22 developed foreign countries. Due to convergence of inflation levels and interest rates around the world in recent years, there are currently limited opportunities for value added strategies in this asset class. As such, the portfolio is currently invested in a passive index portfolio managed by State Street Global Advisors.

History of the New Asset Classes to Date

The Treasurer's Office initially constructed the High Yield and Emerging Markets portfolios in the UCRP in the second half of fiscal 2006. A considerable portion of the securities included were transferred from the existing core credit portfolio, which lowered overall execution costs. The Regents approved the strategies for the GEP in early fiscal 2007, and the portfolios were similarly constructed in the following months.

Performance to date for the new asset classes has been favorable, both on an absolute and relative basis. For the fiscal year, High Yield and Emerging Markets bonds were strong performers due to the beneficial background of a healthy global economy and investors' preference for higher yielding assets. Specifically, HY also benefited from a low default rate and favorable borrowing conditions and EM from improving credit profiles, fiscal positions, and stable politics in most of the benchmark countries.

The returns for these new asset classes for the fiscal year are shown below:

Fiscal Year Performance
New Fixed Income Asset Classes

	Total Return Fiscal Year 2007
UCRP High Yield Bonds	11.56 %
ML HY Cash Pay Index	11.63
UCRP Emerging Markets Bonds	12.77
JPM Emerging Markets Bond Index +	11.94
UCRP Non-US Gvt. Bonds	2.25
Citigroup World Gvt. Bond Index Ex-US	2.20

Performance Attri

An in depth look at investment performance reporting in the Office of the Treasurer of The Regents

For the past four years in this report we have included a small section on benchmarks (see page 11). This year we are providing a deeper understanding of their role in analyzing a fund's performance.

Fiduciaries and beneficiaries need to be asking the right questions in order to see a more complete picture of how their funds are performing. Among the questions that should be asked are:

- What was the investment objective?
- What was the opportunity set of eligible investments, and what was its performance?
- What were the decisions that contributed to – or reduced – return, and by how much did each contribute?
- Were the risks taken to earn the returns appropriate (both in quality and quantity)?
- Were the results consistent with our understanding of the possible outcomes?

One of the tools used by institutional investors to analyze performance is called performance attribution. This piece will discuss the role of performance evaluation in answering the above questions, followed by a simple hypothetical example. Understanding what happened is essential to improve both process and future performance.

A multi-asset class portfolio such as the UCRP (Pension) or GEP (Endowment) is constructed to provide diversification across different sources of return and to perform well in different economic environments. The investment objective may be to earn a given amount of real or nominal return over a market cycle, by taking prudent risk. In practice, this objective is translated into a benchmark index and risk budget, which provides the CIO, staff, and portfolio managers guidance for implementing the program. The Fund benchmark is a weighted average of market indices, each one representing a different asset class, where the weights are the policy weights of the different asset classes. The benchmark serves not only as the standard for performance evaluation, but also for risk measurement.

Success has to be measured relative to available opportunities. One investor's "market" is not the same as another's; nor do popular indices like the Dow or Nasdaq reflect a meaningful opportunity set for all investors.

It is hard to believe that the concept of "market" didn't really exist 40 years ago, until William Sharpe developed the first equilibrium asset pricing model and postulated that the capitalization weighted "market" portfolio was efficient (meaning it has the highest expected return for a given level of risk.) In the 21st century, most institutional investors use published market indices as benchmarks. These indices are capitalization weighted and include all securities in a given asset class that meet minimal requirements for liquidity (ability to trade in meaningful amounts).

The concept of performance attribution was developed in the mid 1980's. It attempts to answer the question, how does performance relate to two key decisions:

1. The decision to overweight or underweight an asset class relative to the policy benchmark weights. (e.g. 52% actual weight in US Equity vs. 55% weight in the benchmark)
2. The decision to overweight or underweight individual securities within each asset class relative to their weight in the benchmark (e.g., 2.0% actual weight in Electro-micro-bio-tech Co. vs. 0.01% weight in the benchmark)

The first large-scale study of pension fund returns, published in 1986, observed the behavior of large pension funds and revealed an important, if obvious truth. Most institutional investors at the time (and to this day) develop a Strategic Asset Allocation as part of their Investment Policy, in which they set not only the target weights for each asset class, but an acceptable range for actual asset weights. When market movements (or cash flows) result in significant deviations from those weights, institutions tend to rebalance back to the target weights or within the allowed range. In other words, investors take asset allocation seriously. The somewhat obvious corol-

bution

lary is that asset allocation is by far the largest contributor to return, usually more than 90% of total return. This is a sensible result, as it is well known that systematic risk – that of the market factors - can not be “diversified away,” while selection risk – arising from idiosyncratic or security specific factors – can be almost completely eliminated by diversification.

There are other variations of performance attribution, depending on the type of decisions which are relevant in an investment strategy; they are all similar to the method discussed above. For example, a non-U.S. Equity manager may first look at country allocation before choosing sector weights and then individual security weights; in this case the attribution would decompose performance into these three decisions.

To help explain the concept of performance attribution, following is an example based on a hypothetical portfolio comprised of four basic asset classes : U.S. Equities, non-U.S. Equities, Private Equities, and Fixed Income.

We will look at one asset class in greater detail—non-U.S. Equities. As shown in the first section, the portfolio manager had an average 5% overweight relative to the weight of non-U.S. Equity in the policy benchmark. Since this asset class outperformed the total policy benchmark (25% vs. 11.5% return), this was a good decision, for a positive 0.7% asset allocation affect ({25% - 11.5%} x 5% overweight). However, stock selection decisions within the portfolio’s non-U.S. Equities resulted in a return of 21% vs. 25% for the benchmark, a negative 4% return difference. Hence, the effect of security selection was a -1% contribution (25% allocation x -4% return difference). These two factors together contributed a negative 0.3% to the portfolio’s return (0.7% + -1%). The last column of the table shows the other asset classes’ contributions, for a net return difference of 4.5%. Note that roughly half of the return difference resulted from asset allocation (2.2%) and half from security selection (2.3%) decisions.

These results help answer the questions raised about the relationship between risk and returns. Although an in depth discussion of risk measurement cannot be done here, the attribution reveals much about the risk management processes for this hypothetical fund. The size of the allocation differences and the return differences are a reflection of the measured risk taking in (a) implementing the asset allocation policy and (b) selecting securities, managers, and strategies within each asset class. The last step of the analysis (not shown here) would be a comparison of the realized volatility to the forecast volatility and risk budget, and an attribution of risk (volatility) to asset allocation and security selection decisions.

HYPOTHETICAL PORTFOLIO
ASSET ALLOCATION AND ATTRIBUTION ANALYSIS

	Port. Asset Alloc.	Policy Asset Alloc.	Allocation Difference	Port. Return	Policy Bench. Return	Return Difference	Asset Alloc. Effect	Security Select. Effect	Total Contrib.
US EQUITIES	35.0%	40.0%	-5.0%	7.0%	5.0%	2.0%	0.3%	0.7%	1.0%
NON-US EQUITIES	25.0%	20.0%	5.0%	21.0%	25.0%	-4.0%	0.7%	-1.0%	-0.3%
PRIVATE EQUITIES	15.0%	10.0%	5.0%	45.0%	30.0%	15.0%	0.9%	2.3%	3.2%
FIXED INCOME	25.0%	30.0%	-5.0%	6.0%	5.0%	1.0%	0.3%	0.3%	0.6%
TOTAL FUND	100.0%	100.0%	0.0%	16.0%	11.5%	4.5%	2.2%	2.3%	4.5%

Performance attribution breaks down the portfolio’s returns vs. its benchmark into two components: (1) Asset Allocation Effect: the impact of overweighting, underweighting, or marketweighting an asset class relative to its benchmark weight; (2) Security Selection Effect: the impact of asset class performance relative to its benchmark counterpart, which is a combination of the decisions on which individual securities to own and how to weight them. The last column, Total Contribution, is the sum of the contributions from asset allocation and security selection.

General Endowment Pool (GEP)

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 4,879 individual endowments that support the University's mission. GEP is a balanced portfolio of equities, fixed-income securities and alternative investments in which all endowment funds participate, unless payout needs require otherwise.

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

	June 30, 2007		June 30, 2006	
GENERAL ENDOWMENT POOL	Market Value	% of Pool	Market Value	% of Pool
EQUITIES				
U.S. Equity	$ 1,883,682	28.0%	$ 2,115,884	36.8%
Non-U.S. Equity-Developed	$ 1,435,718	21.3%	$ 1,239,797	21.6%
Non-U.S. Equity-Emerging Market	$ 420,614	6.3%	$ 295,032	5.1%
TOTAL EQUITIES	$ 3,740,014	55.6%	$ 3,650,713	63.5%
FIXED-INCOME SECURITIES				
US Core Fixed Income	$ 474,985	7.1%	$ 1,024,630	17.8%
High Yield Bond	$ 177,003	2.6%	$ N/A	N/A
Non USD Fixed Income	$ 165,557	2.5%	$ N/A	N/A
Emerging Market Debt	$ 164,897	2.4%	$ N/A	N/A
TIPS	$ 401,123	6.0%	$ 246,381	4.3%
TOTAL FIXED-INCOME SECURITIES	$ 1,383,565	20.6%	$ 1,271,011	22.1%
ALTERNATIVE ASSETS				
Absolute Return	$ 1,063,117	15.8%	$ 518,693	9.0%
Private Equity	$ 351,755	5.2%	$ 206,256	3.6%
Real Estate	$ 177,423	2.6%	$ 90,958	1.6%
TOTAL ALTERNATIVES	$ 1,592,295	23.6%	$ 815,907	14.2%
LIQUIDITY PORTFOLIO	$ 12,100	0.2%	$ 9,849	0.2%
TOTAL GENERAL ENDOWMENT POOL	$ 6,727,974	100.0%	$ 5,747,480	100.0%
OTHER ENDOWMENT FUNDS	$ 575,770		$ 533,450	
TOTAL GEP AND OTHER ENDOWMENT FUNDS	$ 7,303,744		$ 6,280,930	

The June 30, 2007 market value of GEP was $6.7 billion, or $24.29 per share, versus $5.7 billion, or $20.81 per share, at the end of fiscal 2006. Total GEP net investment income for the year was $162.3 million, or $0.59 per share, versus $130.3 million, or $0.48 per share, for fiscal 2006. In addition, $58.5 million was withdrawn to fund the Total Return Payout.

SPENDING POLICY

The Regents adopted a total return investment philosophy aimed at achieving real asset growth in order to generate growing annual payouts to support donors' designated programs. In October 1998, The Regents adopted a long-term spending rate range of 4.35% to 4.75% of a 60-month (5-year) moving average of GEP's market value. The Regents reviews 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. In May 2006, The Regents adopted a rate of 4.75% for expenditure in the 2006-2007 fiscal year.

INVESTMENT OBJECTIVE

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

The primary goal for GEP is to ensure that future funding for endowment-supported activities be maintained both by generating a growing payout stream and by growth of principal.

[1] For fiscal 2007 and fiscal 2006, 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.

GENERAL ENDOWMENT POOL (GEP) POLICY ASSET ALLOCATION

as of June 30

	2003	2004	2005	2006	2007
MARKET VALUE (in millions)	$4,385	$4,782	$5,210	$5,747	$6,728
ANNUAL TOTAL RETURN	5.36%	14.65%	10.31%	11.57%	20.01%
ANNUAL TOTAL RISK[1]	12.17	5.75	6.20	6.50	3.68
ASSET ALLOCATION:					
PUBLIC EQUITY	63.76%	65.66%	64.01%	63.52%	55.59%
PUBLIC FIXED INCOME	30.86	26.63	24.76	22.11	20.56
ALL ALTERNATIVES	4.71	7.39	11.05	14.20	23.67
LIQUIDITY	0.67	0.32	0.18	0.17	0.18

OVERALL INVESTMENT STRATEGY AND RETURNS

In order to continue to achieve these investment objectives, The Regents adopted the following asset allocation policy in May 2006[2]:

Asset Class	Current Policy	Min.	Max.
Public Equity	57%	42%	72%
Public Fixed Income	23%	8%	38%
All Alternatives*	20%	5%	35%
Liquidity	0%	0%	10%

*including, but not limited to: Real Estate, Private Equity, and Absolute Return Strategies

The asset allocation benchmarks and portfolio guidelines are designed to manage risk and ensure portfolio diversification. The benchmarks for the individual asset classes are: Russell 3000 Tobacco Free (TF) Index for U.S. Equity; MSCI World Index ex-U.S. TF (Net) Index for Non-U.S. Equity-Developed Markets; MSCI Emerging Markets (Net) Index for Non-U.S. Equity-Emerging Markets; Lehman Aggregate Index for Fixed Income; Lehman TIPS Index for TIPS; 30-Day Treasury Bill + 4.5% for Absolute Return; and NCREIF Property Index for Private Real Estate and the Dow Jones-Wilshire REIT Index for Public Real Estate. The total fund benchmark is a policy-weighted average of the individual asset class benchmarks.

Throughout the years, GEP has exceeded its fund objectives. As illustrated in the table on page 19, GEP has consistently performed well vs. its policy benchmarks.

GEP returned 20.01% for the fiscal year. For the past 10 years, GEP's average annual total return was a strong 9.25% vs. 8.73% for its benchmark. During that time, payout distributions grew at an average annual rate of 8.8%—well above annualized inflation of 2.7%.

EQUITY INVESTMENTS STRATEGY AND RETURNS

The Treasurer's Office has an internal team of experienced investment professionals who implement the Regents' allocation to public equity. Equity assets are segmented into US, non-US developed, and emerging markets asset classes. The Treasurer's Office team selects multiple equity strategies and the external managers to implement these strategies. After managers are selected, aggregate exposures are compared to the benchmark to ensure that the combination of managers does not result in unintended risk. After managers are hired, considerable time is spent in monitoring them on an ongoing basis.

The combined assets in each of the asset classes are monitored under investment guidelines established by the Regents. Each asset class is managed according to a risk budget framework set by the Regents. The allocation between passive and active strategies is determined by both the risk budget and by the opportunities to add value to the benchmark for each asset class.

As of June 30, 2007, approximately 48 percent of domestic equity assets and 41 percent of non-U.S. equity assets are managed in active strategies by 38 external managers. Emerging Markets are all actively managed by 9 firms.

The equity portion of GEP represented 55.6% of the portfolio at year-end, with a market value of $3.7 billion.

U.S. Equity represented 28.0% of the fund at year-end, with a market value of $1.9 billion. GEP's U.S. Equity assets returned 19.49% for the fiscal year and 6.96% for the 10-year period.

Total non-U.S. equity represented 27.6% of GEP at year-end with a market value of $1.9 billion. Non-U.S. Equity-Developed Markets represented 21.3% with a market value of $1.4 billion and non-U.S. Equity-Emerging Markets represented 6.3% with a market value of $421 million. GEP's non-U.S. Equities-Developed Markets gained 28.19% and non-U.S. Equity-Emerging Markets gained 43.85% in the fiscal year.

[1] Annual Total Risk is defined as the standard deviation of monthly total return over the 12 month period ended June 30.

[2] See "Message from the Chief Investment Officer" (pages 4-5) for information on revised allocation approved by The Regents in May 2007, effective July 1, 2007.

General Endowment Pool (GEP)

FIXED-INCOME INVESTMENTS STRATEGY AND RETURNS

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.

At year-end, Fixed Income constituted 20.6% of the portfolio, with a market value of $1.4 billion.

Within total fixed income, GEP's US Core Fixed-Income investments returned 6.58% during the year, outperforming the benchmark return of 6.12%. GEP's US Core Fixed-Income return of 7.25% for the 10-year period exceeded the benchmark return of 7.10%.

Three new asset classes were added to GEP's Fixed Income portfolio during the fiscal year—High Yield, non-US, and Emerging Markets. Since the inception date for these asset classes is August 1, 2006, performance for the eleven months ending June 30, 2007 was 10.25% for High-Yield, 1.56% for non-US and 9.31% for Emerging Markets.

For TIPS, the Treasurer's Office seeks to maximize long-term total real returns and increase portfolio diversification, given TIPS' low correlation with other asset classes.

GEP's TIPS represented 6.0% of total assets with a market value of $401 million on June 30, 2007. TIPS returned 3.99% in the fiscal year.

The weighted average maturity of the bond portfolio at year-end was approximately 12.2 years, the average duration 5.1 years, and the average credit quality was AA, with more than 75% of fixed-income securities rated A or higher.

ALTERNATIVE INVESTMENTS STRATEGY AND RETURNS

Absolute Return investments include long/short equity, arbitrage, event-driven and other strategies.

Absolute Return represented 15.8% of GEP at year-end and returned 17.10% in the fiscal year, strongly outperforming the benchmark return of 9.73%.

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

Private Equity represented 5.2% of GEP at year-end with a market value of $352 million. GEP returns for this asset class in the fiscal year were 17.42%. Over the long term, GEP's private equity returns have been an important contributor to total fund return.

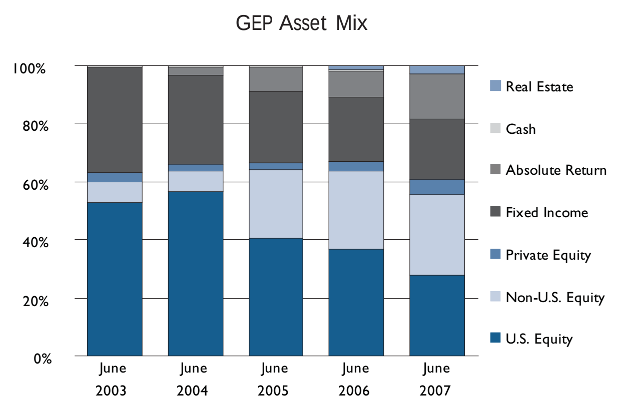
For Real Estate, the Treasurer's Office seeks investments which provide long-term risk-adjusted total returns between those of U.S. equities and bonds; diversification benefits given real estate's low correlation with other asset classes; protection against unanticipated inflation; and a high proportion of the total return derived from current income.

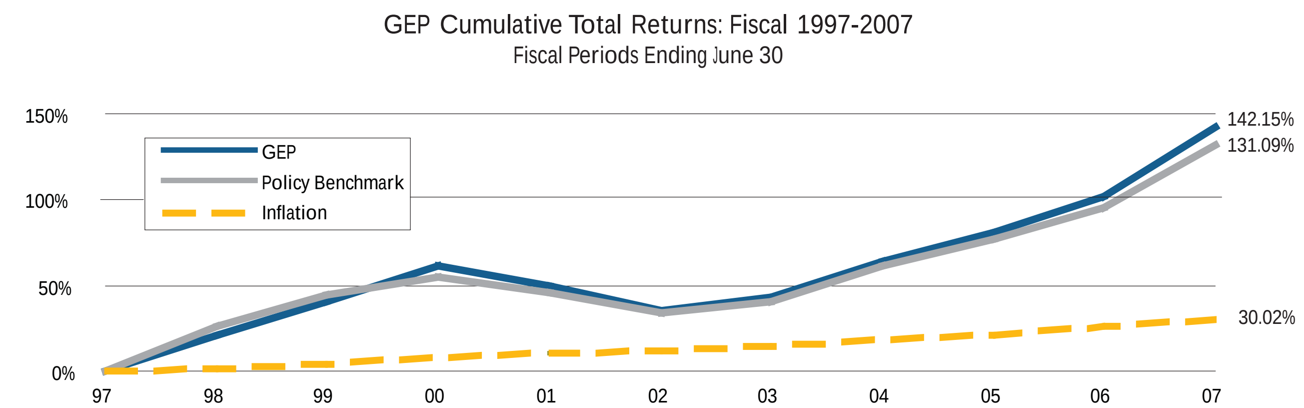
Real Estate represented 2.6% of GEP at year-end and returned 28.82% in the fiscal year, strongly outperforming the benchmark return of 16.59%.

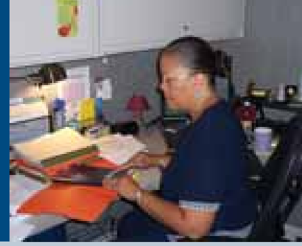
The cumulative Total Returns Chart below illustrates the returns for GEP for the past 10 years relative to the policy benchmark and inflation.

ASSET MIX

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







GEP ANNUALIZED TOTAL RETURNS[1] VERSUS BENCHMARKS AND INFLATION

June 30, 2007

	1-Year	5-Year	10-Year	10-Year Cumulative	Benchmark Description[2]
TOTAL FUND					Total Fund Policy Benchmark: A blend of the indices described in detail below, each weighted by the percentage it represents in the asset allocation. Adjustments have been made to reflect that the actual investment in Private Equity and Real Estate are below policy weights. Annual index returns assume monthly rebalancing.
GEP	20.01%	12.32%	9.25%	142.15%	
Policy Benchmark	18.05	11.53	8.73	131.09	
Inflation	2.70	2.98	2.66	30.02	Inflation: Consumer Price Index.
U.S. EQUITY					
GEP	19.49%	11.32%	6.96%	95.93%	U.S. Equity Policy Benchmark: Russell 3000 TF Index; Historical: S&P 500 Index.
Policy Benchmark	19.90	11.40	7.64	108.85	
NON-U.S. EQUITY-DEVELOPED					
GEP	28.19%	18.24%	N/A	N/A	
Policy Benchmark	26.94	17.83	N/A	N/A	Non-U.S. Policy Benchmark: MSCI World ex US (Net) Index TF.
NON-U.S. EQUITY-EMERGING MARKET					
GEP	43.85%	29.86%	10.18%	163.76%	
Policy Benchmark	44.99	30.32	9.26	142.45	Non-U.S. Policy Benchmark: MSCI Emerging Markets (Net) Index.
US CORE FIXED INCOME[3]					
GEP	6.58%	6.18%	7.25%	101.33%	Fixed Income Policy Benchmark: Lehman Aggregate Bond Index. Historical: Citigroup LPF; LB LT G/C Index.
Policy Benchmark	6.12	5.84	7.10	98.50	
TIPS					
GEP	3.99%	N/A	N/A	N/A	
Policy Benchmark	3.99	N/A	N/A	N/A	TIPS Policy Benchmark: Lehman TIPS Index.
ABSOLUTE RETURN					
GEP	17.10%	N/A	N/A	N/A	
Policy Benchmark	9.73	N/A	N/A	N/A	Absolute Return Policy Benchmark: 30-Day TBills + 4.5%.
PRIVATE EQUITY[4]					
GEP	17.42%	14.30%	23.93%	754.29%	
REAL ESTATE					
GEP	28.82%	N/A	N/A	N/A	Real Estate Policy Benchmark: NCREIF Property Index (private real estate); Dow Jones-Wilshire REIT Index (public real estate).
Policy Benchmark	16.59	N/A	N/A	N/A	

[1] The performance of The Regents' total return investment portfolio is calculated by State Street Bank, 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 CFA Institute's standards, which require time-weighted rates of return using realized and unrealized gains plus income.

GEP's Total Fund total return based on unit value calculated by UCOP Endowment and Investment Accounting and net of (after) investment management expenses and also administrative expenses of (currently) 0.09% of average annual market value, which are automatically deducted from income, is 19.81%, 12.23%, and 9.23% for the 1-, 5-, and 10-Year periods respectively.

[2] Historical benchmark information is available online at http://www.ucop.edu/treasurer/invinfo/Benchmarks.html.

[3] Returns for the non-Core fixed income classes are not included as there is less than one year of results. (See page 18 for inception to date returns.)

[4] Until December 2004 the Private Equity Benchmark was the Russell 3000 TF Index + 3% (lagged by three months). Beginning January 2005 the performance benchmark for PE was no longer based on a market index. PE is properly evaluated using an internal rate of return (IRR), which cannot be combined with other time-weighted returns. For purposes of calculating the Total Fund benchmark, the actual PE portfolio return is used as the PE benchmark. This has the effect of neutralizing any excess performance contributed by PE in the total fund.

ASSET DESIGNATION BY CAMPUS AND PURPOSE

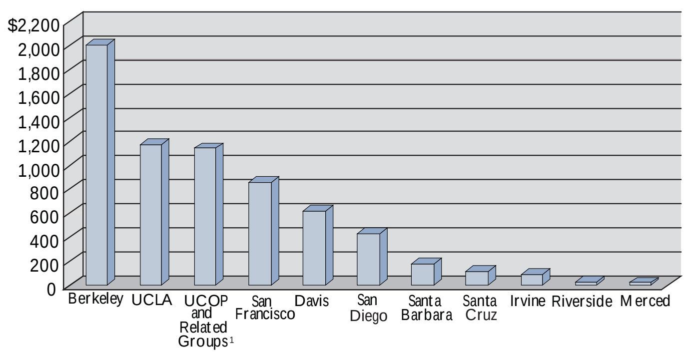
A donor has two avenues for making a gift to or establishing an endowment at the University: directly to The Regents for a specific campus and/or purpose or directly to a campus through its Foundation. The campus foundation trustees have discretion in their choice of investment managers and may use the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

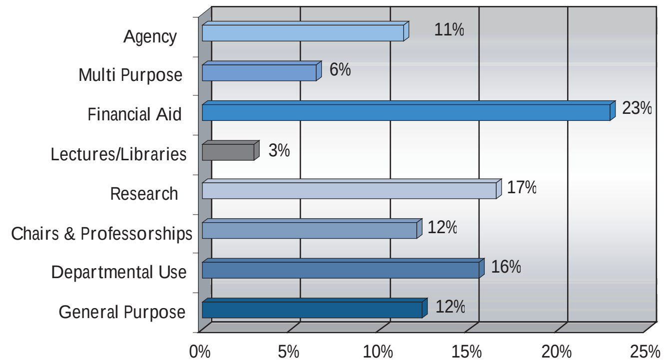
Fundraising efforts provide critically needed monies to support the goals of the University. As illustrated by the chart at the right, more than half of GEP's assets support financial aid (23%), research (17%) and departmental use (16%).

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.

GEP Assets Designated by Campus
(in millions)
June 30, 2007



GEP Assets Designated by Purpose
June 30, 2007



HIGH INCOME POOL (HIP)

The High Income Pool (HIP) was established in May 1987 to accommodate endowments and deferred gift giving programs with high contractual payout obligations. Although The Regents' adopted a total return spending policy for The General Endowment Pool (GEP) in 1998, the income only spending policy was maintained for HIP. As the campus foundations have adopted a total return spending policy, they have moved most of their assets out of HIP into GEP. The GEP is The Regents' primary investment vehicle for endowed gift funds. As of June 30, 2007, $46 million is invested in HIP. The HIP assets are reported as part of "Other Endowment Funds" market value (see GEP Summary of Investments table on page 16).

SEPARATELY MANAGED ENDOWMENT FUNDS

At June 30, 2007, The Regents had $294 million invested in separately managed endowment funds (including approximately $239 million where The Regents is the beneficiary, but not the trustee). 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).

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

CHARITABLE ASSET MANAGEMENT POOLS

The Charitable Asset Management (CAM) Pools are used by The Regents of the University of California and the Campus Foundations for the investment of split-interest gifts, including charitable remainder trusts, pooled income funds and charitable gift annuities. The investment of these funds is directed by the Treasurer of The Regents; the administration of these funds is handled by the Charitable Asset Management group of State Street Global Advisors, Boston and San Francisco. The pools were created in November 2003.

INVESTMENT OBJECTIVES

The CAM Russell 3000 TF Index Pool seeks to provide investment results that correspond to the total return (i.e. the combination of price changes and income) performance of a broad base of stocks publicly traded in the United States. The CAM EAFE International TF Index Pool seeks to provide investment results that correspond to the total return performance of Non-U.S. developed country stocks. The CAM Fixed Income Pool seeks to outperform the Lehman Aggregate Index and consistently have higher current income. The Funds' policy benchmarks are the Russell 3000 TF Index, MSCI EAFE + Canada TF Index and the Lehman Aggregate Index, respectively.

RETURNS

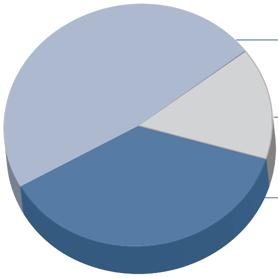
1-year performance ending June 30, 2007 follows:

Fund/Policy Benchmark	Return
CAM Russell 3000 TF Index Pool	19.98%
Russell 3000 TF Index	19.90%
CAM EAFE International TF Index Pool	27.40%
MSCI EAFE + Canada TF Index	26.94%
CAM Fixed Income Pool	6.45%
Lehman Aggregate Index	6.12%

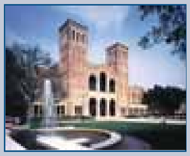
At fiscal year end CAM assets totaled $142 million, with CAM Russell 3000 Tobacco Free (TF) Index Pool's market value at $68 million, The CAM EAFE International TF Index Pool's market value at $21 million, and the CAM Fixed Income Pool's market value at $53 million.

Total CAM Assets by Pool

June 30, 2007



WAYS OF GIVING TO THE UNIVERSITY



CHARITABLE REMAINDER UNITRUST

This trust pays the income beneficiary a percentage (at least 5%) of its net asset value each year. The trust is revalued annually. An income tax charitable deduction is allowed for the value of the remainder interest of the trust. Minimum gift is $100,000; additional contributions are accepted at anytime.

CHARITABLE REMAINDER ANNUITY TRUST

This plan pays a fixed amount (at least 5% of initial value of transferred property) to the donor or designated beneficiary for life. A charitable contribution deduction is allowed for the value of the trust's remainder interest. Minimum gift is $100,000; additional contributions are not accepted.

CHARITABLE GIFT ANNUITY

This annuity plan pays a fixed annuity for the life of the income beneficiary. The rate is based on the age of the income beneficiary on the date of gift, and part of each payment is usually tax-exempt. The amount of the charitable contribution deduction is basically the difference between the value of the gift and the value of the annuity. Minimum gift of $10,000.

DEFERRED PAYMENT GIFT ANNUITY

This plan pays a fixed amount, but the first payment is deferred for a year or more from the date of gift--usually timed to coincide with retirement or other plans. The donor is able to make gift now and use the income tax charitable deduction while in a higher tax bracket, deferring annuity payments until the income is needed more. Each payment may be tax-free depending on the donor's life expectancy and appreciation in gift assets. The charitable contribution is face value of the gift less actuarial value of the deferred annuity. Minimum donation is $10,000.

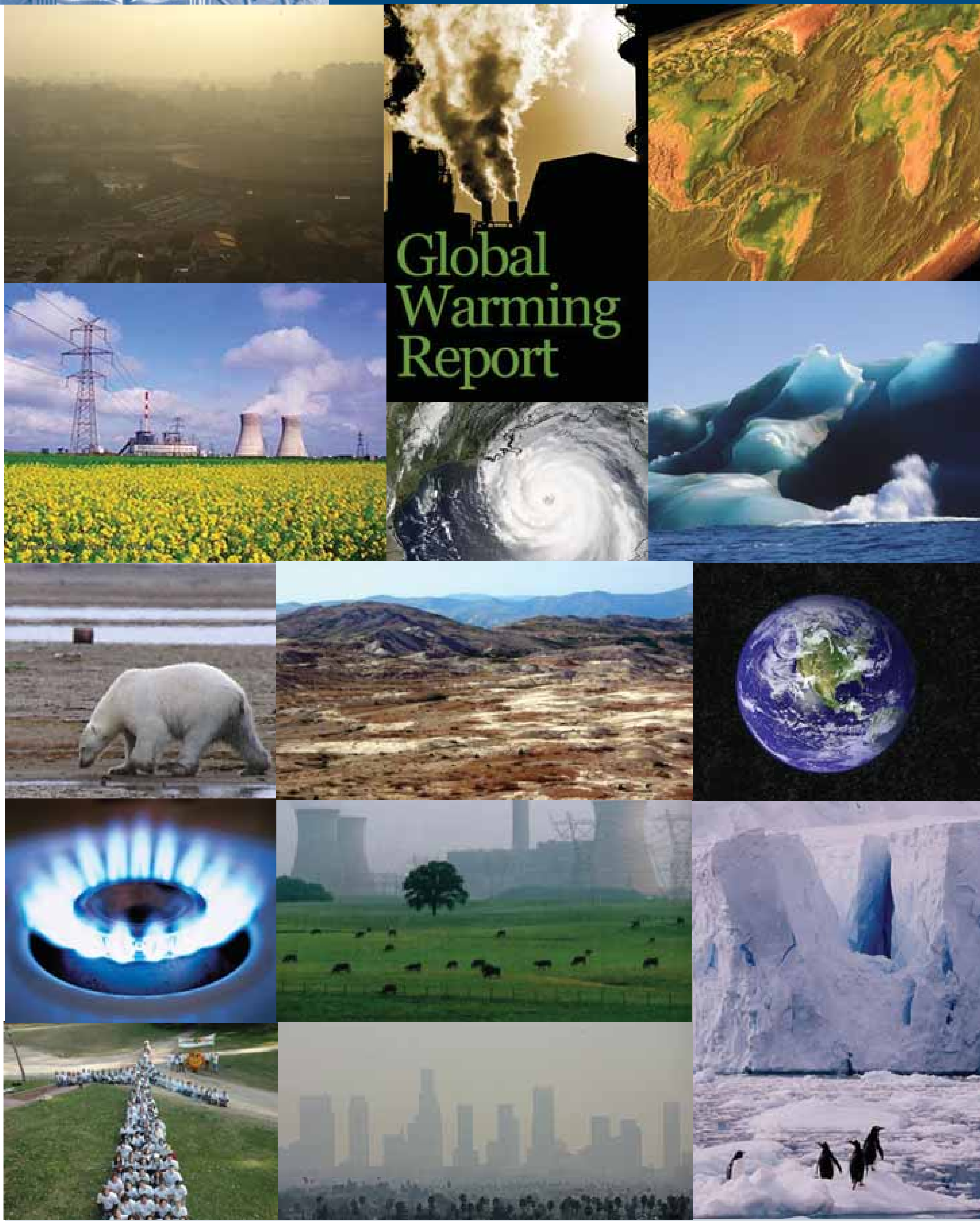
POOLED INCOME FUNDS

These funds are donations from many donors, combined for investment purposes. There are two pooled income funds operated by The Regents and are open to donors to any campus or university program. These funds pay the donor or designated beneficiary a pro rata share of the particular pool's earnings each year for life. Income is taxed as ordinary income and a charitable deduction is allowed for the value of the remainder interest. Minimum gift is $5,000; additional contributions of $1,000 or more are accepted.

LIFE INCOME OPTIONS WITH APPRECIATED SECURITIES

Donors to charitable remainder trusts and pooled income funds may make gifts using appreciated property without having to incur capital gains taxes. The trust can sell those assets and purchase other higher yielding assets, also without capital gains taxes. Capital gains on donations to gift annuities are usually distributed over the annuitant's life expectancy.

Additional information on giving to the University is available at http://www.universityofcalifornia.edu/giving/welcome.html.


Global
Warming
Report

UC INITIATIVES IN ENVIRONMENTAL SUSTAINABILITY

"California is not waiting for a clean-energy revolution. No—we are actually the leaders in the revolution."
-Gov. Arnold Schwarzenegger

Global climate change is not a new phenomenon. Over the course of history, the Earth's climate has changed many times. From the "Ice Age" to long periods of warmth, natural factors such as volcanic eruptions, changes in the Earth's orbit and the amount of energy released from the Sun have affected the Earth's climate. However, since the late 18th century, human activities associated with the Industrial Revolution, such as the burning of fossil fuels and deforestation, have also changed the composition of the atmosphere and likely are influencing the Earth's climate in terms of warming, currently referred to as "*Global Warming*".[1]

Naturally, the University of California has studied the phenomena of global climate change for more than a half century, long before global warming became a focus of international concern. In 1957 Roger Rovelle, a professor of Scripps Institution of Oceanography at UC San Diego, co-authored a paper with Hans Suess demonstrating that carbon dioxide had increased in the air as a result of fossil fuel usage. A few years later, Charles David Keeling became the first to confirm the rise of atmospheric carbon dioxide by very precise measurements producing a data set now known as the "Keeling Curve." In 1995 professor Sherwood Rowland from UC Irvine won the Nobel Prize in Chemistry with now UCSD professor Mario Molina and P.J. Crutzen for discovering that CFC's (chlorofluorocarbon) damage the ozone layer.

Today, the environment sustainability revolution is drawing global attention. It has spurred a host of policymakers, researchers and "green" citizens to pursue new environmentally sustainable and economically viable energy sources, as well as to consider strategies to address the economic, environmental and health consequences of pollution. Leading the charge for California, Governor Schwarzenegger last year signed the *Global Warming Solutions Act* that sets a statewide goal of cutting greenhouse gas emissions by 25% by 2020.

As a research arm for the state, the University of California in partnership with other research universities, private industry and government, is working to encourage multi-disciplinary research and education on environmental management and design for environment and pollution prevention issues. In February 2007, UC Berkeley in partnership with the Lawrence Berkeley National Laboratory and the University of Illinois won an international competition to lead the Energy Biosciences Institute—a $500 million research effort to develop new sources of energy and reduce the impact of energy consumption on the environment.

This program and many others like it across UC are spearheading what could be termed a "Green Revolution." The General Endowment Pool (GEP) and other Regentally managed endowment funds help support UC's attempts to minimize the effects of human activities contributing to global warming. As of June 30, 2007, the University of California Treasurer's Office manages more than $6 billion in endowment assets, of which approximately $1.1 billion is earmarked for funding research including initiatives related to global warming.

True to its reputation as the preeminent public university system, the University of California is leading a global effort to make certain our most precious natural resources are available for generations to come. Clean water, healthy air and safe soil—each is an invaluable commodity fundamental for human survival. Creation of new technologies related to renewable transportation fuels, production of solar hydrogen and conversion of crops into biofuels are just a few examples of ways in which UC is affecting how we can live more harmoniously with our planet and preserve the earth for our children and our children's children to enjoy.

[1] http://www.epa.gov/climatechange/basicinfo.html

We wish to acknowledge the help of the University of California University Affairs Department. For more information on University of California Research Initiatives to fight Global Warming visit our website at http://www.universityofcalifornia.edu/news/globalwarming.pdf.

University of California Retirement Plan

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 salary 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 to the newly established Defined Contribution Plan.

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN (UCRP)
Summary of Investments[1]
($ in thousands)

	June 30, 2007		June 30, 2006	
UC RETIREMENT PLAN (UCRP)	Market Value	% of UCRP	Market Value	% of UCRP
EQUITIES				
U.S. Equity	$ 22,911,909	47.8%	$ 21,539,288	49.6%
Non-U.S. Equity-Developed	$ 8,939,983	18.7%	$ 7,662,445	17.7%
Non-U.S. Equity-Emerging Markets	$ 1,794,071	3.7%	$ 940,606	2.2%
TOTAL EQUITIES	$ 33,645,963	70.2%	$ 30,142,339	69.5%
FIXED INCOME SECURITIES				
US Core Fixed Income	$ 6,085,889	12.7%	$ 6,534,992	15.1%
High Yield Bond	$ 1,295,693	2.7%	648,873	1.5%
Non USD Fixed Income	$ 1,314,610	2.7%	1,353,381	3.1%
Emerging Market Debt	$ 954,600	2.0%	859,682	2.0%
TIPS	$ 2,892,692	6.0%	$ 2,747,744	6.3%
TOTAL FIXED INCOME	$ 12,543,484	26.1%	$ 12,144,672	28.0%
ALTERNATIVE ASSETS				
Private Equity	$ 1,235,559	2.6%	$ 822,138	1.9%
Real Estate	$ 489,498	1.0%	$ 230,305	0.5%
TOTAL ALTERNATIVE ASSETS	$ 1,725,057	3.6%	$ 1,052,443	2.4%
LIQUIDITY PORTFOLIO	$ 39,284	0.1%	$ 47,683	0.1%
TOTAL UCRP	$ 47,953,789	100.0%	$ 43,387,137	100.0%

UCRP is a balanced portfolio of equities and fixed-income securities, which at June 30, 2007 totaled $47.9 billion, versus $43.4 billion at the end of fiscal 2006.

INVESTMENT OBJECTIVE

The overall investment objective for all UCRP assets 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 returns over the long term that meet or exceed the actuarial rate of return of 7.5%.

OVERALL INVESTMENT STRATEGY AND RETURNS

In order to continue to achieve these investment objectives, The Regents adopted the following asset allocation policy in May 2006[2]:

Asset Class	Current Policy	Policy Range
U.S. Equity	49%	60-80% Combined Equity
Non-U.S. Equity-Dev.	18%	
Non-U.S. Equity-Emrg.	3%	
Core U.S. Fixed Income	13%	18-38% Combined Fixed Income
High Yield Bond	3%	
Non-U.S. Fixed Income	3%	
Emrg. Mkt. Debt	3%	
TIPS	6%	
Private Equity	2%	2-12% Combined Alternatives
Real Estate	0%	
Liquidity	0%	0 - 10%

The benchmarks for the individual asset classes are: Russell 3000 Tobacco Free (TF) Index for U.S. Equity; MSCI World ex-U.S. (Net) Index (TF) for Non-U.S. Equity-Developed; MSCI Emerging Markets (Net) Index for Non-U.S. Equity-Emerging Markets; Citigroup Large Pension Fund (LPF) Index for U.S. Core Fixed Income; Merrill Lynch High Yield Cash Pay Index for High Yield Bond;

[1] For fiscal 2006 and fiscal 2007, 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. UCRP's STIP investments include assets associated with the UC PERS Voluntary Early Retirement Incentive Program totaling $77.9 million. For 2007 the UCRP assets were unitized with UCRP and PERS jointly owning all the units.

[2] See "Message from the Chief Investment Officer" (pages 4-5) for information on revised allocation approved by The Regents in May 2007, effective July 1, 2007.

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN (UCRP) FUNDED STATUS

as of June 30

	2003	2004	2005	2006	2007
MARKET VALUE (in millions)	$35,241	$39,289	$41,970	$43,387	$47,954
TOTAL RETURN	5.6%	14.34%	10.30%	7.10%	18.83%
ANNUAL TOTAL RISK[1]	12.37	6.04	6.28	5.59	4.22
TOTAL CONTRIBUTIONS[2] (in millions) AND INVESTMENT ACTIVITY	$1,900	$5,006	$3,985	$2,979	$7,916
TOTAL PAYMENTS AND (in millions) EXPENSES[3]	(1,015)	(1,145)	(1,315)	(1,474)	(3,198)
SURPLUS ASSETS[4] (in millions)	$8,500	$6,300	$3,800	$1,700	$2,000
FUNDED RATIO[5]	125.7%	117.9%	110.3%	104.1%	104.8%

Citigroup World Government Bond Index ex-U.S. for Non-U.S. Fixed Income; JP Morgan Emerging Market Bond Plus Index for Emerging Market Debt; Lehman TIPS for TIPS; and NCREIF Property Index for Private Real Estate and the Dow Jones-Wilshire REIT Index for Public Real Estate. The total fund benchmark is a policy-weighted average of the individual asset class benchmarks.

UCRP has exceeded its investment objectives and over the long-term, performed well versus its policy benchmarks. UCRP returned 18.83% in the fiscal year, outperforming its benchmark return of 18.01%. UCRP's annualized total return for the past 10 years through June 30, 2007 was 8.40% vs. its benchmark at 8.34%.

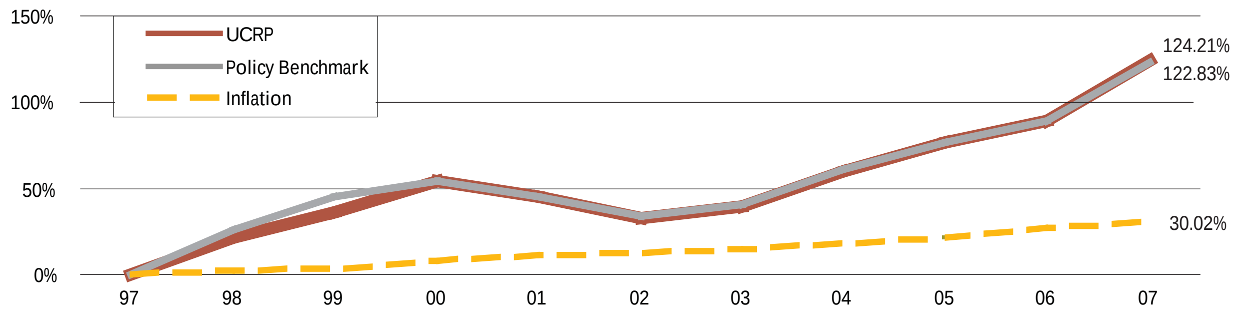
EQUITY INVESTMENTS STRATEGY AND RETURNS

The Treasurer's Office has an internal team of experienced investment professionals who implement the Regents' allocation to public equity. Equity assets are segmented into US, Non-US developed, and Emerging markets asset classes. The Treasurer's Office team selects multiple equity strategies and the external managers to implement these strategies. After managers are selected, aggregate exposures are compared to the benchmark to ensure that the combination of managers does not result in unintended risk. After managers are hired, considerable time is spent in monitoring them on an ongoing basis.

The combined assets in each of the asset classes are monitored under investment guidelines established by the Regents. Each asset class is managed according to a risk budget framework set by the Regents. The allocation between passive and active strategies is determined by both the risk budget and by the opportunities to add value to the benchmark for each asset class.

As of June 30, 2007, approximately 48 percent of domestic equity assets and 41 percent of non-U.S. equity assets are managed in active strategies by 38 external managers. Emerging Markets are all actively managed by nine firms.

UCRP Cumulative Total Returns: Fiscal 1997-2007
Fiscal Periods Ending June 30



[1]Annual Total Risk is defined as the standard deviation of monthly total return over the 12 month period ended June 30.

[2]Total Contributions and Investment Activity include employer and member contributions (which have been negligible over this period), investment income and realized and unrealized gains and losses.

[3]Total Payments and Expenses include retirement, cost-of-living adjustments, lump sum cashouts, survivor, disability and death payments, member withdrawals and administrative and other expenses. 2007 includes transfer of plan net assets to LANS Plan.

[4]Surplus assets are calculated as the difference of actuarial (or smoothed) assets and actuarial liabilities, neither of which are shown in the table above.

[5]The Funded Ratio is the ratio of actuarial assets and actuarial liabilities.

The equity portion of UCRP represented 70.2% of the portfolio at year-end, with a market value of $33.6 billion.

U.S. Equity represented 47.8% of the fund at year-end, with a market value of $22.9 billion. UCRP's U.S. Equity assets returned 19.72% for the fiscal year and 6.97% for the 10-year period.

Total Non-U.S. Equity represented 22.4% of UCRP at year-end, with a market value of $10.7 billion. Non-US Equity-Developed Markets represented 18.7% with a market value of $8.9 billion and Non-U.S. Equity-Emerging Markets represented 3.7% with a market value of $1.8 billion. UCRP's Non-U.S. Equity-Developed returned 27.71% and Non-U.S. Equity-Emerging Markets returned 48.23% in the fiscal year.

FIXED-INCOME INVESTMENTS STRATEGY AND RETURNS

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.

At year-end, Fixed-Income investments constituted 26.1% of the portfolio, with a market value of $12.5 billion.

Within total fixed income, UCRP's U.S. Core Fixed Income investments returned 6.93% during the year, exceeding the benchmark return of 6.47%. Over the long-term, UCRP's U.S. Fixed Income returns of 5.91% and 7.42% for the 5- and 10-year periods have exceeded the benchmark as well. UCRP's High Yield, Non-U.S. and Emerging Markets Fixed-Income investments returned 11.56%, 2.25% and 12.77% respectively, for the fiscal year.

For TIPS, the Treasurer's Office seeks to maximize long-term total real returns and increase portfolio diversification, given TIPS' low correlation with other asset classes.

UCRP's TIPS represented 6.0% of total assets with a market value of $2.9 billion on June 30, 2007. TIPS returned 4.02% in the fiscal year.

The weighted average maturity of the portfolio at the end of the year was approximately 13.8 years, the weighted average duration 7.6 years, and the average credit quality was AA, with nearly 80% of the fixed-income securities rated A or higher.

ALTERNATIVE INVESTMENTS STRATEGY AND RETURNS

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

Private Equity represented 2.6% of UCRP at year-end with a market value of $1.2 billion. UCRP returns for this asset class in the fiscal year were 19.91%. Over the long term, UCRP's private equity returns have been an important contributor to total fund return.

For Real Estate, the Treasurer's Office seeks investments which provide long-term risk-adjusted total returns between those of U.S. equities and bonds; diversification benefits given real estate's low correlation with other asset classes; protection against unanticipated inflation; and a high proportion of the total return derived from current income.

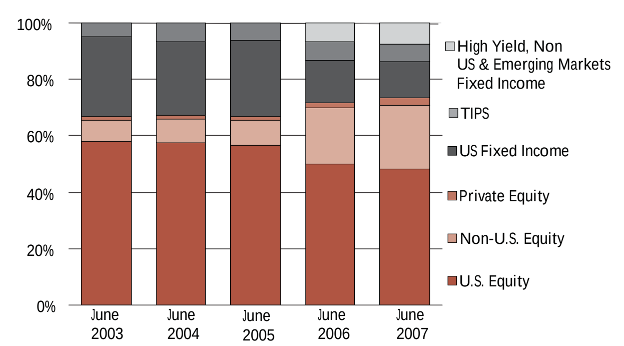
Real Estate represented 1.0% of UCRP at year-end with a market value of $489 million. Real Estate returned 20.92% in the fiscal year, well above the benchmark return of 16.59%.

The cumulative Total Returns Chart on page 25 illustrates the returns for UCRP for the past 10 years relative to the policy benchmark and inflation.

ASSET MIX

The following illustrates UCRP's asset mix at each of the past five fiscal year ends.

UCRP Asset Mix



UCRP FUNDED STATUS

The University of California Retirement Plan costs are funded by a combination of investment earnings, employee member and employer contributions. Since 1990, the University's contribution rate to the UCRP has been zero. In addition, since 1990, most of the required employee member contributions to the UCRP have been redirected to the separate defined contribution plan maintained by the University.

In 2006, The Regents updated the funding policy for UCRP to provide for a targeted funding level of 100 percent over the long term, and for University and UCRP member contributions at rates necessary to maintain that level within a range of 95 percent to 110 percent. The University will implement a multi-year contribution strategy under which shared employer and employee contribution rates will increase gradually over time to 16 percent of covered compensation, based upon UCRP's current normal cost. Contributions from both UC and employees were scheduled to start July 1, 2007. However, subject to several factors, including strong performance of the UCRP, the restart of contributions has been postponed.

UCRP ANNUALIZED TOTAL RETURNS[1] VERSUS BENCHMARKS AND INFLATION

June 30, 2007

	1-Year	5-Year	10-Year	10-Year Cumulative	Benchmark Description[2]
TOTAL FUND					
UCRP	18.83%	11.14%	8.40%	124.21%	Total Fund Policy Benchmark: A blend of the indices described in detail below, each weighted by the percentage it represents in the asset allocation. Adjustments have been made to reflect that the actual investment in Private Equity and Real Estate is below policy weight. Annual index returns assume monthly rebalancing.
Policy Benchmark	18.01	10.72	8.34	122.83	
Inflation	2.70	2.98	2.66	30.02	Inflation: Consumer Price Index.
U.S. EQUITY					
UCRP	19.72%	11.31%	6.97%	96.23%	U.S. Equity Policy Benchmark: Russell 3000 TF Index; Historical: S&P 500 Index.
Policy Benchmark	19.90	11.40	7.64	108.85	
NON-U.S. EQUITY-DEVELOPED					
UCRP	27.71%	18.16%	N/A	N/A	Non-U.S. Equity-Developed Policy Benchmark: MSCI World ex U.S. (Net) Index TF.
Policy Benchmark	26.94	17.83	N/A	N/A	
NON-U.S. EQUITY-EMERGING MARKETS					
UCRP	48.23%	30.90%	10.67%	175.64%	Non-U.S. Equity-Emerging Markets Policy Benchmark: MSCI Emerging Market Free (Net) Index.
Policy Benchmark	44.99	30.32	9.26	142.45	
US CORE FIXED INCOME					
UCRP	6.93%	5.91%	7.42%	104.53%	US Fixed Income Policy Benchmark: Citigroup Large Pension Fund Index; Historical: LB LTG/C Index.
Policy Benchmark	6.47	5.52	6.93	95.52	
HIGH YIELD BOND					
UCRP	11.56%	N/A	N/A	N/A	High Yield Bond Policy Benchmark: Merrill Lynch High Yield Cash Pay Index.
Policy Benchmark	11.63	N/A	N/A	N/A	
NON US FIXED INCOME					
UCRP	2.25%	N/A	N/A	N/A	Non US Fixed Income Policy Benchmark: Citigroup World Government Bond Index ex-US.
Policy Benchmark	2.20	N/A	N/A	N/A	
EMERGING MARKET DEBT					
UCRP	12.77%	N/A	N/A	N/A	Emerging Market Debt Policy Benchmark: JP Morgan Emerging Market Bond Plus Index.
Policy Benchmark	11.94	N/A	N/A	N/A	
TIPS					
UCRP	4.02%	N/A	N/A	N/A	
Policy Benchmark	3.99	N/A	N/A	N/A	TIPS Policy Benchmark: Lehman TIPS.
PRIVATE EQUITY[3]					
UCRP	19.91%	13.56%	22.90%	686.43%	
REAL ESTATE					
UCRP	20.92%	N/A	N/A	N/A	Real Estate Policy Benchmark: NCREIF Property Index (private real estate): Dow Jones-Wilshire REIT Index (public real estate).
Policy Benchmark	16.59	N/A	N/A	N/A	

1 UCRP's total returns are net of (after) investment management and administrative expenses (currently 0.045%) of average annual market value. The asset class returns reflect investment returns. The performance of The Regents' total return investment portfolio is calculated by State Street Bank, 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 CFA Institute's standards, which require time-weighted rates of return using realized and unrealized gains plus income.

2 Historical benchmark information is available online at http://www.ucop.edu/treasurer/invinfo/Benchmarks.html.

3 Until December 2004 the Private Equity Benchmark was the Russell 3000 TF Index + 3% (lagged by three months). Beginning January 2005 the performance benchmark for PE was no longer based on a market index. PE is properly evaluated using an internal rate of return (IRR), which cannot be combined with other time-weighted returns. For purposes of calculating the Total Fund benchmark, the actual PE portfolio return is used as the PE benchmark. This has the effect of neutralizing any excess performance contributed by PE in the total fund.

In addition to the defined benefit program (UCRP), the University offers defined contribution plans to provide employees with supplemental retirement benefits—the mandatory Defined Contribution Plan (DC Plan), the Tax-Deferred 403(b) Plan, the 457(b) Deferred Compensation 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 and that each participant chooses a mix of asset classes (funds) consistent with his or her own investment objectives and risk tolerance.

UNIVERSITY-MANAGED DEFINED CONTRIBUTION (DC) FUNDS[1]

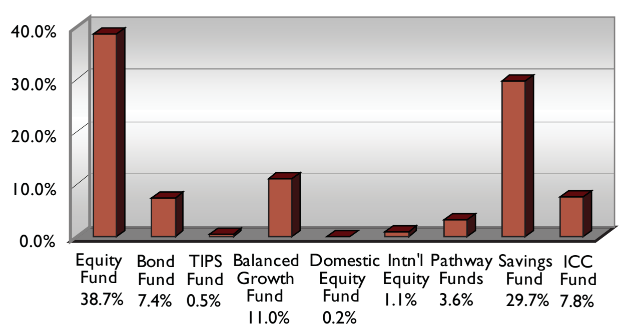
Summary of Investments[2]
($ in thousands)

DEFINED CONTRIBUTION (DC) FUNDS	June 30, 2007 Market Value	June 30, 2007 % of DC	June 30, 2006 Market Value	June 30, 2006 % of DC
TOTAL RETURN FUNDS				
EQUITY FUND	$ 4,100,608	38.7%	$ 3,524,432	37.5%
BOND FUND	$ 786,475	7.4%	$ 754,538	8.0%
TIPS FUND	$ 52,163	0.5%	$ 51,897	0.6%
BALANCED GROWTH FUND	$ 1,168,808	11.0%	$ 1,008,261	10.7%
DOMESTIC EQUITY INDEX FUND	$ 17,341	0.2%	$ 6,522	0.1%
INTERNATIONAL EQUITY INDEX FUND	$ 114,742	1.1%	$ 33,555	0.4%
PATHWAY INCOME FUND[3]	$ 20,582	0.2%	$ 9,178	0.1%
PATHWAY FUND 2010[3]	$ 102,576	1.0%	$ 32,256	0.3%
PATHWAY FUND 2020[3]	$ 113,592	1.1%	$ 37,092	0.4%
PATHWAY FUND 2030[3]	$ 79,915	0.8%	$ 21,155	0.2%
PATHWAY FUND 2040[3]	$ 30,560	0.3%	$ 7,969	0.1%
PATHWAY FUND 2050[3]	$ 20,879	0.2%	$ 4,850	0.0%
INTEREST INCOME FUNDS				
SAVINGS FUND	$ 3,148,644	29.7%	$ 3,140,301	33.2%
ICC FUND	$ 824,029	7.8%	$ 781,702	8.3%
TOTAL UC MANAGED DC FUNDS	$ 10,580,914	100.0%	$ 9,413,708	100.0%

As of June 30, 2007, total assets in the UC managed defined contribution plans were $10.6 billion vs. $9.4 billion on June 30, 2006.

When investing their defined contribution funds, employees may choose among eighteen UC CORE Funds.[4] UC CORE Funds are under the direction of UC's Office of the Treasurer. The UC Treasurer manages each fund, or selects the fund's investment manager.

Total UC-Managed Defined Contribution Plan Assets by Fund
June 30, 2007



[1]New funds inception 7/1/05.

[2] For fiscal 2006 and fiscal 2007, 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.

[3] The Pathway Funds are funds of funds and include some assets managed by Vanguard.

[4] The UC Core Funds also include three mutual funds managed by Vanguard and one managed by DFA. Information on the specific investment objectives, strategies, returns and risks associated with the UC Core Funds is available to plan participants on FESCo's NetBenefits website.

UNIVERSITY-MANAGED DEFINED CONTRIBUTION FUNDS[1] VERSUS BENCHMARKS AND INFLATION

June 30, 2007

	1-Year	5-Year	10-Year	Benchmark Description
TOTAL RETURN FUNDS				
Equity Fund	21.73%	12.58%	7.95%	Equity Fund Policy Benchmark: 85% less the actual Private Equity weight from the prior month end times the Russell 3000 TF Index, 15% MSCI ACWI ex US (Net) Index and the actual Private Equity weight of the previous month end times the actual PE return; Historical: S&P 500 Index.
Policy Benchmark	21.07	12.45	8.17	
Morningstar Domestic Equity Funds Median[2]	17.87	11.00	7.58	
Bond Fund	6.38%	4.96%	6.83%	Bond Fund Policy Benchmark: Lehman Aggregate Index; Historical: LB LTG/C Index.
Policy Benchmark	6.12	4.48	6.34	
Morningstar Taxable Bond Funds Median[2]	5.50	4.19	4.97	
TIPS Fund (started 4/1/04)	3.99%	NA	NA	
Policy Benchmark	3.99%	NA	NA	TIPS Fund Policy Benchmark: Lehman TIPS Index.
Balanced Growth Fund (started 4/1/04)	16.23%	NA	NA	Balanced Growth Fund Policy Benchmark: 65% policy benchmark for Equity Fund, 30% policy benchmark for Bond Fund and 5% policy benchmark for TIPS Fund.
Policy Benchmark	15.58%	NA	NA	
Domestic Equity Index Fund (started 7/1/05)	19.86%	NA	NA	Domestic Equity Index Fund Policy Benchmark: Russell 3000 Tobacco Free Index.
Policy Benchmark	19.90%	NA	NA	
International Equity Index Fund (started 7/1/05)	27.32%	NA	NA	
Policy Benchmark	26.94%	NA	NA	International Equity Index Fund Policy Benchmark: MSCI EAFE + Canada Tobacco Free Index.
UC Pathway 2010 (started 7/1/05)	10.94%	NA	NA	UC Pathway 2010 Fund Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	11.30%	NA	NA	
UC Pathway 2020 (started 7/1/05)	14.00%	NA	NA	UC Pathway 2020 Fund Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	14.05%	NA	NA	
UC Pathway 2030 (started 7/1/05)	17.02%	NA	NA	UC Pathway 2030 Fund Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	17.07%	NA	NA	
UC Pathway 2040 (started 7/1/05)	18.82%	NA	NA	UC Pathway 2040 Fund Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	18.73%	NA	NA	
UC Pathway 2050 (started 7/1/05)	20.26%	NA	NA	UC Pathway 2050 Fund Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	20.21%	NA	NA	
UC Pathway Income (started 7/1/05)	5.96%	NA	NA	UC Pathway Income Fund Policy Benchmark: Blend of benchmarks of underlying UC Core Funds based on holdings percentages.
Policy Benchmark	6.13%	NA	NA	
INTEREST INCOME FUNDS				
Savings Fund	4.33%	4.16%	5.06%	Savings Fund Policy Benchmark: 2-Year U.S. Treasury Note Income Return.
Policy Benchmark	4.90	3.17	4.15	
ICC Fund	5.32%	5.47%	6.28%	ICC Fund Policy Benchmark: 5-Year U.S. Treasury Note Income Return.
Policy Benchmark	4.77	3.85	4.63	
Inflation	2.70%	2.98%	2.66%	Inflation: Consumer Price Index.

[1] All returns for the University-managed funds are net of (after) investment expenses of 0.15% and are based on unit values for the Total Return Funds and on yields and interest factors for the Interest Income Funds. State Street Bank calculates returns and yields by dividing the new unit value or interest factor by the previous unit value or interest factor. The Treasurer's Office compares these results to the gross investment returns calculated by State Street Bank. State Street Bank'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] Source: Morningstar, Inc. Although gathered from reliable sources, data completeness and accuracy cannot be guaranteed.

INTERNALLY MANAGED UC FUNDS

The nine University-managed investment choices include total return funds—the Equity Fund, Bond Fund, TIPS Fund, Balanced Growth Fund, Domestic Equity Index Fund, International Index Fund, and the UC Pathway Funds—and interest income funds—the Savings Fund and Insurance Company Contract (ICC) Fund. 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 shown on page 29, these funds rank above average in performance comparisons for most time periods. In addition, the University-managed funds are extremely low cost relative to external fund options: Annual expenses are only 0.15%[1] of average annual market value, compared to the industry average of 1.4%[2].

TOTAL RETURN FUNDS

EQUITY FUND

The 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 following asset allocation policy for the Equity Fund has been in effect since March 2000:

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

At June 30, 2007, the total market value of the Equity Fund was $4.1 billion. The portfolio consisted of 83.1% U.S. Equity, 15.1% Non-U.S. Equity and 1.8% Private Equity.

At June 30, 2007 the U.S. equity is invested in a Russell 3000 Tobacco Free (TF) Index fund managed by State Street Global Advisors. Non-U.S. Equity is invested in a MSCI EAFE + Canada Tobacco Free Index fund (also managed by State Street Global Advisors). The private equity is invested in venture capital partnerships and buyout funds and is managed by the Treasurer's Office.

For the fiscal year, the Equity Fund returned 21.73% outperforming its policy benchmark return of 21.07%, and peers as measured by the Morningstar Domestic Equity Funds Median. The Equity Fund's longer-term returns are shown on page 29.

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 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 debt securities.

At June 30, 2007, the total market value of the Bond Fund was $786 million. U.S. Treasury securities constituted 20.6% of the fund, U.S. Agency 12.9%, high-grade industrials 11.6%, financial bonds 7.9%, utility bonds 6.1%, mortgage-backed securities 40.7% of the fund and Sovereigns 0.2%. The weighted average maturity of the portfolio at year-end was approximately 6.6 years, the weighted average duration 4.9 years, and 79% of the portfolio was rated A or better.

In fiscal 2007, the Bond Fund returned 6.38%, outperforming its benchmark return of 6.12%. As shown on page 29, the Bond Fund's long-term returns of 4.96% and 6.83% for the 5- and 10-year periods have exceeded those of its Morningstar peers and its benchmark by healthy margins.

BALANCED GROWTH FUND

The Balanced Growth Fund seeks to provide long-term growth and income through a balanced portfolio of equity and fixed income securities held within UC-managed funds. The market value of the Balanced Growth Fund at June 30, 2007 was $1.2 billion and returned 16.23% for the fiscal year.

Contributions are invested according to a fixed ratio: 65% Equity Fund, 30% Bond Fund and 5% TIPS Fund (see below). The Balanced Growth Fund's returns are a function of the performance of its component funds.

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

[1] Total expenses are comprised of approximately 0.03% for investment management, 0.02% for investor education and 0.10% for accounting, audit, legal and recordkeeping services.

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

TIPS FUND

The TIPS (Treasury Inflation-Protected Securities) Fund, started April 1, 2004, seeks to provide long-term total return and inflation protection consistent with an investment in U.S. Government inflation-indexed securities.

The Fund invests in inflation-protected securities issued by the U.S. Government. Inflation-indexed securities are designed to protect future purchasing power. The principal value is adjusted for changes in inflation, and interest is paid on the inflation-adjusted principal.

The market value of the TIPS Fund at June 30, 2007 was $52 million and returned 3.99% for the fiscal year.

DOMESTIC EQUITY INDEX FUND

The Domestic Equity Index Fund, started July 1, 2005, seeks to provide investment results approximating the total return performance of securities included in the Russell 3000 Index. The Fund is invested in the Russell 3000 Tobacco Free (TF) Index Fund, composed of shares of 3,000 U.S. companies as determined by market capitalization. The portfolio of securities represents approximately 98% of the investable U.S. equity market. The TF version excludes tobacco companies.

At June 30, 2007, the market value of the Domestic Equity Index Fund was $17.0 million and returned 19.86% for the fiscal year.

INTERNATIONAL EQUITY INDEX FUND

The International Equity Index Fund is invested in a MSCI EAFE + Canada Tobacco Free (TF) Index Fund. Started on July 1, 2005, the International Equity Index Fund seeks to provide investment results approximating the total return performance of the securities included in the MSCI + Canada Index.

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

The market value of the International Equity Index Fund at June 30, 2007 was $115 million and returned 27.32% for the fiscal year.

UC PATHWAY FUNDS

The UC Pathway Funds are a simple yet diversified, one-stop-shopping approach to saving for retirement. Established on July 1, 2005, the UC Pathway Funds are lifecycle funds managed to adjust the level of risk as the investor approaches a target retirement date of 2010, 2020, 2030, 2040 and 2050. The investment objective of these Funds is to maximize long-term capital appreciation. For those participants near or in retirement, the UC Pathway Income Fund seeks to maximize income.

Each Pathway Fund is diversified across several asset classes by investing in a variety of Core Funds[1] at varying percentage levels. Over time, the amount invested in stock funds is gradually reduced, while the amount invested in bond and short-term funds is increased.

At June 30, 2007, the market values and fiscal year returns for the UC Pathway Funds were as follows: 2010, $103 million and returned 10.94%; 2020, $114 million and returned 14.00%; 2030, $80 million and returned 17.02%; 2040, $31 million and returned 18.82%; 2050, $21 million and returned 20.26%; and UC Pathway Income, $21 million and returned 5.96%.

INTEREST INCOME FUNDS

SAVINGS FUND

The Savings Fund, the second 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 $3.1 billion at June 30, 2007, and was invested 100% in AAA-rated U.S. Treasury and federal agency securities. The weighted average maturity of the Savings Fund was 1.2 years at June 30, 2007.

[1] UC Core Funds are under the direction of UC's Office of the Treasurer. The UC Treasurer manages each fund, or selects the fund's investment manager. Information on the specific investment objectives, strategies, returns and risks associated with the UC Core Funds is available to plan participants on FESCo's NetBenefits website.

The Savings Fund has historically provided an income return greater than that of 2-Year U.S. Treasury Note income. In fiscal 2007, the Savings Fund generated an income return of 4.33%. During the past 10 years the Savings Fund generated an average income return of 5.06% versus 4.15% on 2-Year U.S. Treasury Note income.

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 return 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 Fund may also invest in government and government agency securities and cash during periods in which maturing contracts expire and available contracts are not deemed attractive by the portfolio manager. ICC Fund participants receive the blended interest rate of all contracts in the fund. The Fund strives to exceed the returns of 5-Year U.S. Treasury Notes and to outpace inflation.

At June 30, 2007, the ICC Fund totaled $824 million, with a weighted average maturity of 2.5 years. Since inception, the ICC Fund has generated income returns that have exceeded those of 5-Year U.S. Treasury Note income by a comfortable margin. In fiscal 2007, the ICC Fund generated an income return of 5.32% During the past 10 years, the ICC Fund generated an income return of 6.28% compared to 4.63% on 5-Year U.S. Treasury Note income.

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

RETIREE PROFILE

Photo courtesy of Michael J. Elderman

Dericksen and Mary Brinkerhoff

Dericksen Brinkerhoff

Retired

Emeritus Professor of the History of Art

26 years with the University of California Riverside

Dericksen Brinkerhoff, emeritus professor of the history of art, arrived at UC Riverside in 1965 to chair the then department of art. Nomination to eight committees during his first year acquainted him rapidly with campus functions. Service on both the UCR and UC Academic Senate Committees on Educational Policy soon gave him a broader UC perspective, for at that time the committee was one of several meeting nearly monthly on each of the campuses along with the regents. Dericksen reports that whenever he needed to speak with others at UCR whom he had not met he would visit them personally, familiarizing him also with the campus and its buildings. Subsequent chairing of the local and university-wide Senate Committees on Welfare and on the Library expanded knowledge of UC workings. Today, as past chair and present member of the Council of UC Emeriti Associations, known as CUCEA, and chair of the UC Riverside Emeriti Association (UCREA), he continues to engage UC colleagues.

Growing up in New England, Dericksen feels fortunate that his education included attending one of the area's boarding schools, where every student was limited to an identical modest allowance, from which he had to give a percentage to charity. "That initially horrifying requirement taught me, once I fulfilled it, that giving to others brings a most satisfying reward. Probably it lies at the heart of why I continue to serve the university. My wife Mary, with whom I have enjoyed more than sixty years, and I established a UCR annuity, a fund with our community foundation, and keep a record book of other donations. Like so many others who grew up during the depression of the 1930s and during WW II, when Mary served in the Navy and I in the Air Corps, we have lived modestly and taken advantage of UC's excellent retirement program."

Like a number of other UC faculty, Dericksen won a research fellowship at the American Academy in Rome, where he joined scholars and artists working in widely varied fields from 1959 to 1961. He likens his time there to being in an intensely stimulating intellectual hothouse, and a transformative experience for him, his wife and their four children. At the Academy he completed a study of some classical sculpture in Libya for the University of Chicago's Oriental Institute and started work on *A Collection of Sculpture in Classical and Early Christian Antioch*, published in 1970, that helped earn his promotion to full professor at UCR.

Dericksen takes pride in helping develop art history's graduate program and that, until after his retirement in 1991, the undergraduate major culminated in a comprehensive examination, to his knowledge the last of its kind in the entire UC. His classical courses invariably required field trips to the Getty Museum; those on Early Christian Art included attending eastern orthodox church services, and both featured dining in Greek restaurants. While teaching at UCR, he simultaneously filled in at USC for an ailing art historian friend and later served as a sabbatical replacement at Berkeley. After retiring he gave a graduate seminar at USC and continued his field trip tradition by taking the class on an overnight trip to the Hearst monument in San Simeon. Beyond the campus he served as a trustee for the Riverside Art Association, helping it grow into a building designed by Hearst's architect, Julia Morgan.

Since becoming emeritus, Dericksen continues to bicycle to the Riverside campus, as he has for forty years, where he has served as board member, secretary, and president of the University Club. He jokes that more people recognize him as a bike rider than know him by name.

Together he and Mary explore areas of California, as they have since the 1960s in a sequence of small motorhomes, and have visited all of the state's viticultural areas. They pour wine and represent Temecula wineries at various local fundraisers. If asked for their favorite activities, their answer in inverse order would be wine tasting, home improvement, and sharing their lives with their offspring and grandchildren. If asked how to enjoy life, their reply would be to keep giving and maintain interests beyond yourselves.

We wish to acknowledge the help of the UCOP Human Resources staff in preparing this information.

Short Term Investment Pool (STIP)

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

INVESTMENT OBJECTIVE

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

INVESTMENT STRATEGY AND RETURNS

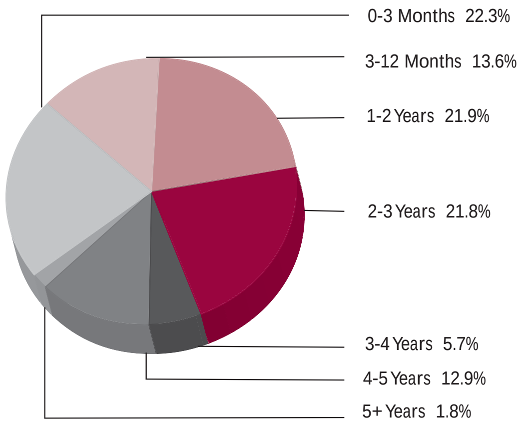
The Treasurer's Office manages the STIP as a highly liquid portfolio, using maturity distribution strategies to maximize returns in different yield-curve environments. Select swapping strategies are employed to take advantage of disparities in the market to improve quality and yield, while maintaining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

The STIP has achieved very attractive returns over the long term. Over the last 10 years, the average annual income return on the STIP was 4.97%, compared to the 2-Year U.S. Treasury Note income return of 4.15%, a net benefit of 82 basis points per year.

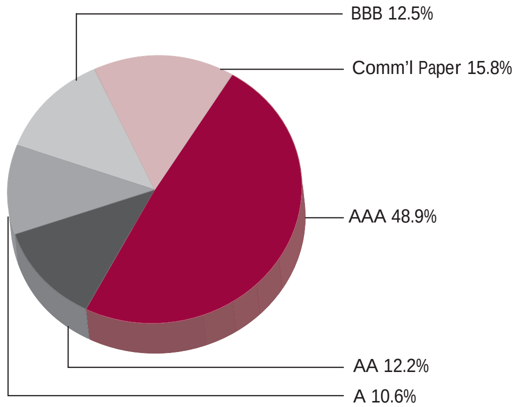
For the fiscal year ended June 30, 2007, the STIP totaled $8.0 billion. The STIP's income return of 4.75% trailed the 2-Year U.S. Treasury Note income return of 4.90%. The period was challenging with a very difficult and volatile interest rate environment. The inversion of the short end of the yield curve (0-5 years) which began in FY 2006 continued throughout FY 2007. A number of investment strategies were executed in order to increase the income return while maintaining liquidity and appropriate risk levels for the portfolio. These included barbell strategies using floating rate and fixed rate securities, increased investment in select high quality spread products, and investment in callable structures in federal agency securities.

In June 2007, the yield curve began to disinvert and gradually steepen, and credit spreads widened as well. This provided opportunities to invest in select high quality longer dated spread products to lock in higher yields and bring the portfolio's duration closer to the 2-Year U.S. Treasury benchmark. The combined effect of these strategies has begun to positively impact the current performance of the portfolio. For the latest quarter ending June 30, 2007, the STIP income return was 1.19% vs. the 2-Year U.S. Treasury Note income return of 1.14%

STIP Maturity Distribution
June 30, 2007 Average Maturity = 1.5 years



STIP Quality Mix
June 30, 2007 Average Quality = AA
(BBB and higher = investment grade)



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

STIP ANNUALIZED INCOME RETURN[1]

June 30, 2007

	1-Year	5-Year	10-Year	10-Year Cumulative
STIP	4.75%	3.96%	4.97%	62.35%
2-Yr U.S. Treasury Income	4.90	3.17	4.15	50.11
Inflation[2]	2.70	2.98	2.66	30.02

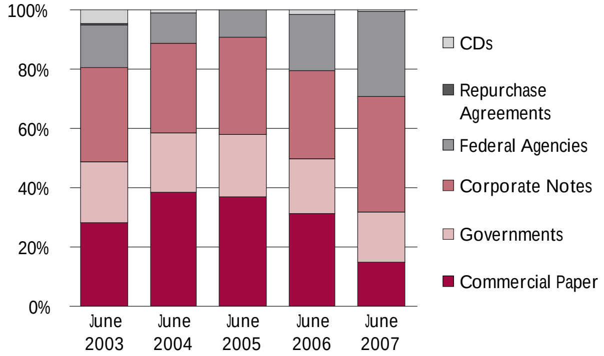
1 STIP's returns are net of (after) investment management costs which are automatically deducted from income. The distribution return (net of all expenses) was 4.70%, 3.95%, and 4.92% for the 1-, 5-, and 10-Year periods respectively.

2 Inflation as measured by the Consumer Price Index.

ASSET MIX

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

STIP Asset Mix



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 $395.6 million at June 30, 2007 and were funded by the legally available cash balances in the unrestricted portion of STIP. In March 1999, The Regents authorized the use of the legally available cash balances in the unrestricted portion of STIP to provide liquidity support for the University's Commercial Paper Program. The STIP also provides working capital advances to the medical centers.

This *Treasurer's Annual Report 2006-2007* 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 2006-2007*** (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 2006-2007***, and ***The University of California Retirement Plan 2006-2007*** (both available on the internet at http://atyourservice.ucop.edu/forms_pubs/categorical/annual_reports.html).

INTERNET LINKS OF INTEREST

UC-Managed Funds

UCRP Benefit Information: http://atyourservice.ucop.edu/

UC Retirement Savings Program including 403(b), 457(b) and DC Plan Information: https://netbenefits.fidelity.com/

GEP Investment Policy: http://www.ucop.edu/treasurer/invpol/GEP%20policy.pdf

UC Retirement Savings Program Investment Policy: http://www.ucop.edu/treasurer/invpol/RET%20sav%20ips%20-%20v9%20April%2024.pdf

UCRP Investment Policy: http://www.ucop.edu/treasurer/invpol/UCRP%20policy.pdf

Conflict of Interest Policy: http://www.ucop.edu/treasurer/currentpol/Conflict%20of%20Interest.pdf

Regents' Committee on Investments/Investment Advisory Committee

Schedule and Agendas: www.universityofcalifornia.edu/regents/meeting.html

UC News

UC Newsroom: http://www.universityofcalifornia.edu/news/welcome.html

UC Human Resources and Benefits News: http://atyourservice.ucop.edu/

UC Office of the Treasurer News: http://www.ucop.edu/treasurer/updates/welcome.html

You may contact us in writing at the University of California, Office of the Treasurer,
1111 Broadway, Suite 1400, Oakland, CA 94607-4007

www.ucop.edu/treasurer Email treas.regents@ucop.edu

OFFICE OF THE TREASURER

June 2007

Marie N. Berggren, MS – Chief Investment Officer and Vice President for Investments and Acting Treasurer
Elizabeth Agbayani – Executive Secretary

Melvin L. Stanton, MBA – Associate Chief Investment Officer
Randolph E. Wedding, MBA – Senior Managing Director – Fixed Income Investments
Jesse L. Phillips, CFA, MBA, MA – Senior Managing Director – Investment Risk Management

ALTERNATIVE INVESTMENTS

Absolute Return

Lynda Choi, MBA	Managing Director
Jonathan Mandle, CFA, MBA	Investment Officer
Feliciana Feller, BA	Administrative Assistant (50/50 with Private Equity)

Private Equity

Timothy Recker, CFA, MBA	Managing Director
Thomas Lurquin, Ph.D.	Investment Officer
Michelle Cucullu, MS	Senior Investment Analyst
Leslie Watson, BA	Analyst

Real Assets

Gloria Gil, BS, CRE	Managing Director
Rebecca Stafford, MA	Investment Officer
Carmelita Sison, BA	Senior Investment Analyst
Milkah Cunningham, AA	Administrative Specialist (50/50 with Fixed Income)

PUBLIC EQUITY INVESTMENTS

David Hughes, CFA, MBA	Investment Officer
William Ziomek, CFA, MBA	Investment Officer
Kristina Chow, BA	Research Assistant (50/50 with Investment Risk Management)

FIXED INCOME INVESTMENTS

Linda Fried, BA	Senior Portfolio Manager, Credit Sector
David Schroeder, BA	Senior Portfolio Manager, Governments Sector
Satish Swamy, CFA, MBA	Senior Portfolio Manager, Collateralized Sector
Alice Yee, MBA	Senior Portfolio Manager, Short-Term Securities
Kim Evans, MBA	Senior Portfolio Manager and Head of Credit Analysis
Jung Cho, BS	Senior Investment Analyst, Credit Analysis
Aaron Staines, BA	Junior Portfolio Manager

INVESTMENT RISK MANAGEMENT

Aileen Liu, MS	Associate Director
Duane Gilyot, MS	Analyst
Farhan Zamil, BA	Analyst
Ruth Welch	Executive Assistant

OPERATIONS

Robert Yastishak, Director	Floyd Gazaway, Jr.	Marjan Shomali
Jan Kehoe, Assistant Director	Brian Hagland	Pu Wang-Fackler
Paula Ferreira, Supervisor	Khaleelah Muhammad	

INFORMATION TECHNOLOGY

Michael Comstock, Manager

COMMUNICATIONS

Susan Rossi, Director	Alison Johnson

BUSINESS MANAGEMENT

Nelson Chiu, Manager	William Byrd	Joyce Lewis	Pamala Williams-Perkins
Gay Adams	Claudia Green	Barbaretta Morris	