2013/2014 ANNUAL REPORT
OFFICE OF THE CHIEF INVESTMENT OFFICER

UNIVERSITY OF CALIFORNIA

Growing portfolios. Building partnerships.

Next year begins here.

Janet Napolitano
President

The University of California's role in transforming the state of California into an economic and innovation powerhouse cannot be overstated. UC is a magnet for talented, passionate people, and their discoveries and inventions touch lives around the world every day. What few realize, however, is that behind UC's renowned teaching, research, and public service mission is an investment portfolio that is critical to our success. The university portfolio is roughly $91 billion comprised of the endowment, pension, retirement savings and working capital assets. These funds do not include any state appropriations or tuition dollars.

Together with newly-appointed Chief Investment Officer Jagdeep Singh Bachher, we are ensuring that UC's investments are working harder than ever to secure the long-term financial health of the university and its employees. We are also continuously assessing how best to grow our portfolios. This year, for example, we have developed new investment strategies to more fully capture the commercial value of UC's pioneering research and innovation.

We also took some important steps this year to ensure that our investments align with our values. In September, UC became the first public university to become a signatory to the United Nations-supported Principles for Responsible Investment, reflecting our commitment to incorporate sustainability into investment decisions.

In sum, the Office of the Chief Investment Officer is much like the university itself: innovative, values-driven, and always looking ahead.

Jagdeep Singh Bachher
Chief Investment Officer

As chief investment officer for the University of California, I see myself as responsible for meeting the objectives of four different clients: the stakeholders of the Endowment, Pension, Retirement Savings and Working Capital portfolios. Each group has its own specific needs, and one of my most important roles is to ensure that each is managed in the optimum way.

Building an effective investment organization means being ready to change as economies and markets change. At the Office of the Chief Investment Officer, we do this through collaboration and cooperation — within our organization, with our professional partners, with peers and with the broader University of California community — to foster an environment that is both efficient and innovative.

We live in uncertain times. It's challenging to withstand the short-term pressures that come from the daily movements in financial markets. But as long-term investors, we can't allow ourselves to be overwhelmed by them. With humility and careful consideration, we work hard as a team to keep our bearings and are constantly focused on achieving our long-term objectives.

Over the next year, we will review our long-term asset allocation, aiming to optimally invest each portfolio according to our clients objectives: endowment, pension, retirement savings and working capital.

We're anticipating and preparing for a low-return environment in the next cycle. And we are looking to manage costs more closely. Every million we can save adds a million in value, which can compound in the years to come.

We'll also be increasing our focus on active management to achieve the returns we need. While asset allocation remains the main driver of performance, active and skilled investment management is going to play a greater role in delivering results.

As we identify the strategies and positioning to meet long-term investment objectives, our size, scale and patience will be advantageous. Collaboration remains vital, and we will continue developing partnerships across the university and the world that support our work.


REMEMBER

INTRODUCTION

Investing in partnership.

We manage the endowment, pension, retirement savings and working capital assets for the university, totaling almost $91 billion at fiscal year-end. Each of the underlying investment portfolios has its own unique requirements and measures, and we handle each differently. But whatever the investment, we make the most of our partnerships through our size, scale and patience as well as the competitive advantage that comes with being the University of California.

Our University

Investing for the long term

The university has been in existence since 1869, and our longest-standing investment pool — the endowment — is now around 80 years old. Our pension program has been running for over 50 years, and the university's working capital account is approaching 40. This long history reminds us of the importance of taking the long view. It's essential to securing a future even greater than our past.

As long-term investors, we can be patient: an invaluable virtue in volatile times. And we are increasingly focused on taking advantage of this competitive edge. We typically look to invest in periods of up to 10 years or more where we can, as this presents us with many more opportunities than are available to short-term investors.

The power of partnership

We believe collaboration — within our organization, with our stakeholders and among our peers — helps create unique opportunities for success. So we're always working to build our partnerships and create networks of mutual support.

For example, as part of the largest public university in the United States, we have access to an extraordinary array of expertise and resources. With 10 campuses, three national laboratories, five medical centers, over 244,000 students and more than 138,000 faculty and staff, the University of California is home to world-class subject-matter experts in a range of disciplines. In the years ahead, we plan to cultivate our understanding of, and relationship with, this unique ecosystem.

More than money

Our job is to deliver the best possible risk-adjusted returns for the University of California, now and in the future. We take pride in doing that job well.

Our main goal is to meet our stakeholders' objectives by investing according to our policies and values that guide us on our way. These are fundamental and incorporated into all steps of the investment decision-making process.

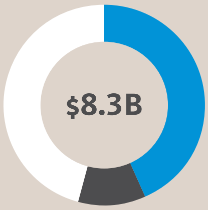
Equally important is our responsibility to be transparent and accountable, and to ensure that our work is adding significant value to the university. As investors, we're risk managers by definition. We're willing to take the risks necessary to achieve the results we need, but we avoid taking risks that aren't adequately compensated by market returns.

Finally, we have a clear and repeatable decision-making process — an essential factor in persistently adding value. Following our process and understanding our risks and exposures allows us to take advantage of the opportunities when identified. Everyone in the Office of the Chief Investment Officer acts as a risk manager, making a vital contribution to the decision-making process and helping ensure maximum value.

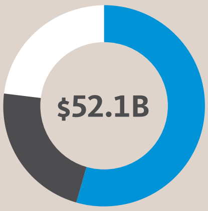
OUR PORTFOLIOS

- Equity
- Fixed Income
- Alternatives

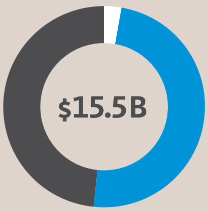
Endowment



Pension

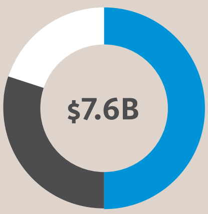


Retirement Savings Program



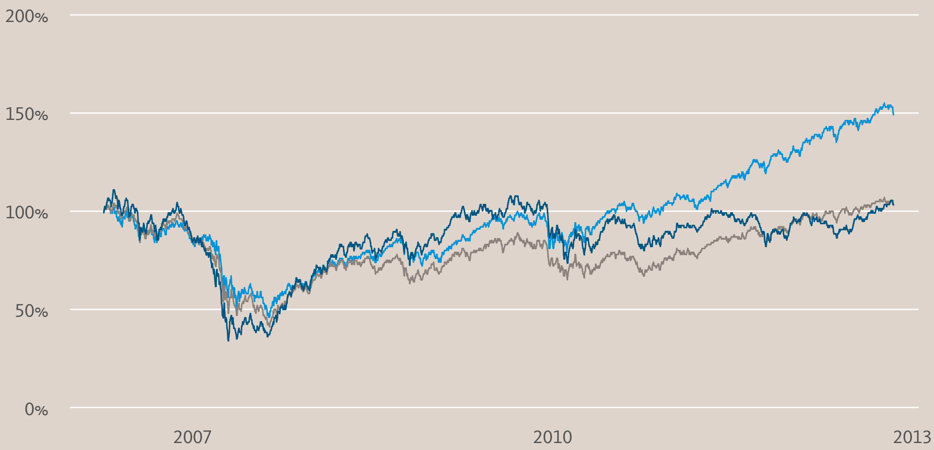
Short-Term Investment Pool

Total-Return Investment Pool



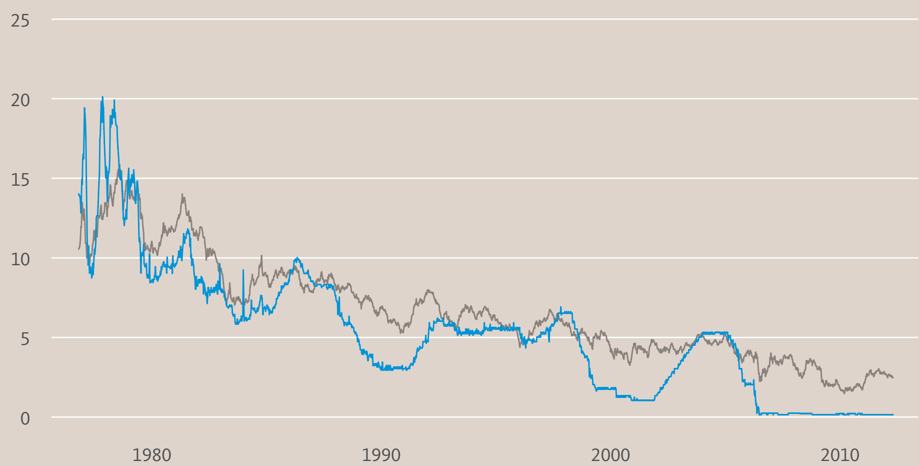
THE RALLY IN GLOBAL EQUITIES

- Russell 3000
- MSCI World ex-US
- MSCI Emerging Market

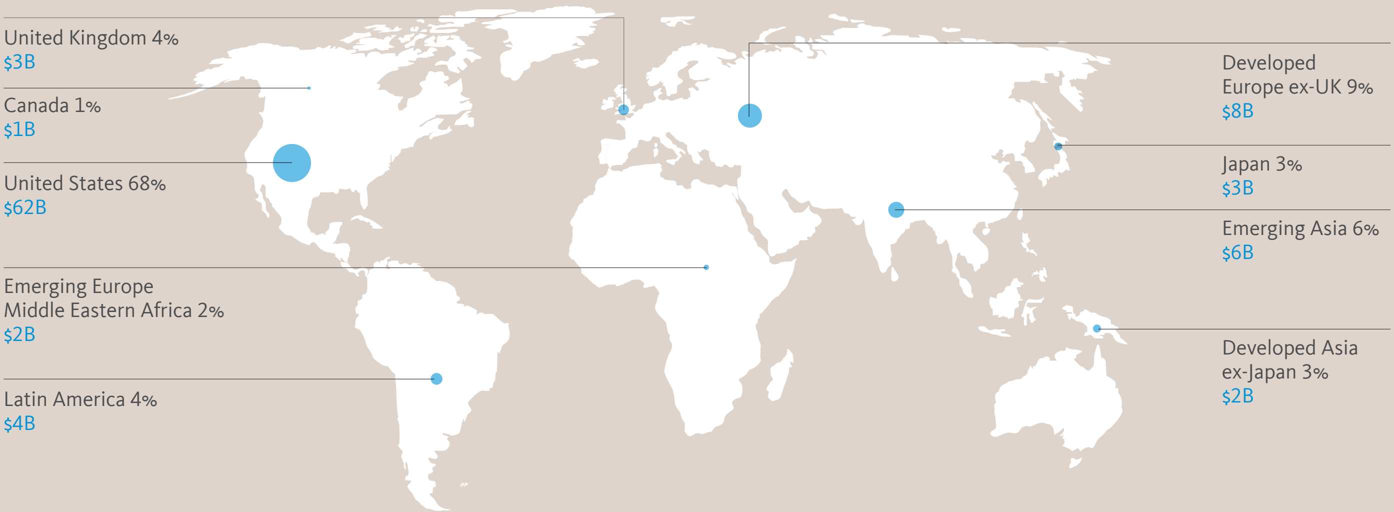


SECULAR DECLINE IN INTEREST RATES

- Fed Funds Rate
- US 10 Year Treasury



INVESTED AND DIVERSIFIED GLOBALLY
AS OF JUNE 30, 2014



PORTFOLIO BREAKDOWN
KEY HIGHLIGHTS AS OF JUNE 30, 2014

		Ending Market Value ($ Billion)	Net Return	Market Gains ($ Billion)	Value Added ($ Billion)
Endowment		8.3	18.7%	1.1	0.1
Retirement	Pension Plan	52.1	17.4%	7.6	0.1
	Savings Program	15.5	Participant Directed		
Working Capital	Total-Return	7.6	14.6%	0.9	0.01
	Short-Term	7.1	1.6%	0.1	0.1

In this section, we'll review the past year, and how the changing markets have affected our approach.

An improving — but complex — picture

This year saw global economic conditions improving in general, especially in the United States. It has been a time of unprecedented monetary policies worldwide, with central banks involved as never before in boosting their economies.

The European Central Bank attempted to stabilize its local markets, as President Mario Draghi's promise to "do whatever it takes" became manifest in reduced interest rates and a policy of asset-buying. Meanwhile, Japan has continued to kick-start a moribund economy by pumping in millions of yen through quantitative easing. Emerging markets bounced back and forth amidst worries of "tapering" central support.

The main driver for capital markets this year has once again been the United States Federal Reserve. It was a roller-coaster year for 10-year interest rates, which shot from 2.5% to 3% as markets absorbed talk of a taper in Fed support. But stable inflation, bond-buying by pension funds and limited supply cooled the rate back to 2.5% by the end of the fiscal year.

Thirty years of declining interest rates has encouraged a rise in higher-risk investments such as stocks and alternatives. However, the Fed is now pulling back, and markets are preparing for rate hikes by the second half of 2015. The year also saw increasing geopolitical tensions. We have been watching these developments closely and positioning strategies to manage our portfolios according to various potential risks.

Over the past five years, equity indices have reached new highs — and they're still rising. Exceptional liquidity, low inflation and low volatility have all helped fuel the increase.

The improving U.S. economy and generally settled markets have narrowed spreads in every bond sector, boosting returns over Treasuries, with valuations elevated across all assets. At the Office of the Chief Investment Officer, we're positioning ourselves to make the most of the university's scale and patience to identify and maximize opportunities as they emerge in the coming cycle, given the low return expectations.

The world is our platform

As a diversified investment organization, we have assets all over the globe. The vast majority of our investments are, naturally, in the United States, but we have almost $30 billion invested across the rest of the world — including $11 billion in Europe, $10 billion in Asia and $4 billion in Latin America.

The scale of our investments outside the United States is growing, and we now have more than 10% of our assets in emerging economies — five times more than in 2005. So the state of the global economy, and market conditions in all parts of the world, influence our overall portfolio performance.

Our overall performance

As always, the markets hold the greatest sway. This year, robust market gains have driven our results, which break down over the various portfolios as shown on the opposite page.

Our investment highlights

We have consistently outperformed the benchmark across each of our portfolios in recent years, adding $35 billion in aggregate-asset gains over five years, and $16 billion in the last three years alone.

Each portfolio performed well, achieving returns from 18.7% (Endowment) to 1.6% (Short-Term Investment Pool). Asset allocation has been central to that achievement, as changes made in previous years are now bearing fruit.


NO FOOD

Your partner in the future.

As the office charged with managing the University of California's investments, we never forget how critical our work is to the university. As we see it, we're not here just to make money, but to help build a world-class learning institution. While we measure our success in financial terms, we are constantly reminded of our vital connection to the university's success.

Your Partner in the Future

We're committed to developing ever-closer collaboration with every part of the university, so it's important for us to partner and share with everyone who we are and what we do.

Our full title is the Office of the Chief Investment Officer of the Regents. As a large and complex institutional investor, we're managing over $90 billion across various portfolios.

Our investments provide substantial benefits to our stakeholders — who encompass more than half a million employees, retirees and students as well as the wider world — through the support we provide to further the mission of the University of California.

The Office of the Chief Investment Officer is organized into three teams:

- Investment management is responsible for investing across the public and private markets with specialist teams across the asset classes.
- Risk and Asset Allocation develops and defines the investment strategy of each of the investment portfolios while managing and measuring the risks to inform the investment decision-making process.
- Investment Operations and Client Relationships enables a disciplined and data-driven investment process in the organization.

Each investment portfolio is designed to meet different objectives for our many varied constituents. The Board of Regents sets the policies and asset allocation for each portfolio, and it's our job to implement these policies and invest assets accordingly.

How we're governed

The Office of the Chief Investment Officer reports to the Board of Regents, the president and the chief financial officer of the university. We provide investment-management services for the entire university.

Our investment beliefs

The Office of the Chief Investment Officer adheres to high ethical and professional standards in serving the investment-management needs of its stakeholders. We believe that delivering the required investment results begins with building a high-quality, performance-driven organization that can respond to the ever-changing investment landscape. Our culture is driven by a number of key values, including collaboration, accountability, humility, respect and transparency.

MISSION STATEMENT

To meet the objectives of our stakeholders through the implementation of the policies and guidelines approved by the Regents to further the education, impact, research and public service of the University of California.

In the constantly shifting ecosystem of financial markets, institutional investors must display ingenuity, adaptability and innovation. Collaboration is central to all those qualities. We look at collaboration in four ways.

1 Portfolios

We manage investment portfolios across the endowment, pension, retirement savings, and working capital assets. Each portfolio represents the needs and objectives of distinct stakeholders, and we balance risk and returns differently based on those needs. At the same time, the Office of the Chief Investment Officer works as a single team, aiming for a coherent portfolio that achieves all our objectives. We always look to cut across silos or simple asset-class designations and generate the best risk-adjusted returns in new ways.

2 Professors and scholars

We aim to leverage the unique resources of the university by collaborating with the wider academic community. This might be through informal discussions or by finding investment opportunities within the University of California ecosystem.

COLLABORATION

3 Peers and platforms

We're always looking to collaborate and, where possible, invest with like-minded peers. Peer networks can be invaluable for investment innovation, as peers can pool capital, scale costs and share risks across a range of opportunities. Peer-to-peer platforms can also help connect investors around particular opportunities or themes.

4 Professionals and partners

We manage our money both internally and externally, drawing on the skills of professionals and partners. Where we use external managers, we seek relationships that are truly collaborative. To the extent possible, we want to add value to these relationships beyond just the capital we provide, and we expect our partners to be an extension of our team and to share their knowledge.

INVESTMENT BELIEFS

We have developed a set of 10 core "investment beliefs" that guide everything we do. They help keep us grounded as we attempt to evolve and respond to dynamic market conditions. These are our beacons as we aim to secure the best results for the university and its many stakeholders.

1
Invest for the long term.

Where we can, we focus on investments over 10 years and beyond. This offers many more opportunities than those available to short- and intermediate-term investors. We aim to make the most of our scale and ability to be patient.

2
Invest in people.

The contributions of talented people are among the most important drivers of success for any investment organization. So we've made the recruitment and retention of exceptional staff a cornerstone of our strategy.

3
Build a high-performance culture.

Every organization needs a clearly defined culture to make sure everyone is working towards the same ends and speaking the same language. Our culture is one of responsibility, accountability and high performance. We are proud of our achievements but try to be humble, as markets sometimes surge and fall without warning.

4
We are all risk managers.

Our aim is simple: to earn the best risk-adjusted return that meets the objectives of our various portfolios. But achieving that aim is complex. An effective risk-management function is critical, enabling the leadership to delegate authority to the investment team. Everyone on the team is in the risk-management business.

5
Allocate wisely.

The key to investing, and the most important driver of performance, is asset allocation. To make effective investment decisions and achieve the appropriate combination of risk and return, we have to maintain a clear and balanced understanding of stakeholders' unique objectives, time horizon, risk tolerances, liquidity and other constraints. As a globally significant investor, we also aim to make the most of our scale and patience when we allocate assets.

6
Costs matter.

High-quality advice comes at a cost. We get that. But we also believe fees and costs for external managers must be fully transparent and straightforward. Anything else creates potential problems — opaque fees can mask risk. Plus, cost savings can be considered a risk-free return. If we can save money through efficient, well-executed strategies, then we must. We intend to capture every dollar of this risk-free return that we can.

7
Diversify with care. Act with clarity.

Diversification is invaluable, but it's not a cure-all. It allows us to spread risk and reduce the impact of any individual loss. But diversifying too broadly can draw investors into assets and products they don't fully understand. We prefer a more focused portfolio of assets and risks that we know extremely well. We also need to be keenly aware of our own strengths and weaknesses in the global context in order to act decisively when we believe markets are behaving irrationally or when we have a skill or knowledge advantage. That means keeping a constant, clear-eyed check on our evolving capabilities. It's not always an easy or painless process, but it's an essential one.

8
Sustainability impacts Investing.

Sustainability is not a "check box," but rather, a fundamental concern that we incorporate into decision making. We focus particularly on how sustainability can improve investment performance. Sustainable businesses are often more rooted in communities and resilient to future crises, which means investing in them makes good business sense. They are bound to affect portfolios in the future, and we need to consider them in our broader lens of investment decision making.

9
Collaborate widely.

We are proud to be a part of the University of California, as well as the broader community of institutional investors. Through active collaboration, we aim to leverage the unique resources of the university. We also want to foster collaborative relationships with our peers to leverage our long-term competitive advantages.

10
Innovation counts.

The best investors recognize that markets are constantly fluctuating and that no good idea lasts forever. We must always be innovating and identifying new opportunities. Getting in early brings rewards. Just as importantly, some of the best opportunities transcend asset-class silos. There are advantages in thinking differently and partnering with peers that are willing to work with us on innovative projects. Collaboration is one of the most powerful drivers of innovation.

Our portfolio of portfolios.

We manage the assets of the following investment portfolios: Endowment, Pension, Retirement Savings Program, Working Capital Short-Term Investment Pool and Working Capital Total-Return Investment Pool. In this section, we set out the details of each of the portfolios.

ENDOWMENT

80 years old. 80 times larger.

Established in 1933, the General Endowment Pool (GEP) is our primary investment vehicle for endowed gift funds. It's a balanced portfolio of equities, fixed-income securities and alternative investments. Almost all endowment funds participate in the General Endowment Pool.

Endowment

After 80 years of investment, the Endowment Pool is now 80 times larger at $8 billion.

Established in 1933 and unitized in 1958, our General Endowment Pool (GEP) is the Board of Regents' primary investment vehicle for endowed gift funds. Its primary objectives are to preserve the purchasing power of future endowment payouts and to grow the value of the principal over time.

All endowment funds participate in the General Endowment Pool, unless higher payout needs require otherwise. The spending policy is determined by the Board of Regents and as of fiscal year end the payout was 4.75% of the average market value over the past 60 months.

The pool began as a $100 million endowment, when the university had just over 2,500 students. Eighty years on, the pool is 80 times larger at $8 billion. It helps to fund over 244,000 students, 150 academic disciplines, 600 graduate degree programs and 20,000 UC extension courses.

It is now a balanced portfolio of equities, fixed-income securities and alternative investments that provides its stakeholders with diversification and economics of scale in its investments.

The regents have followed a very long-term, conservative investment strategy for the General Endowment Pool. Given that we are a public university, we have different responsibilities compared to other institutions, especially private universities, which invest more aggressively. However, our asset allocation has shifted over the years, adding more alternative assets. Ten years ago, the endowment was invested primarily in equities and fixed income.

The shift in strategy is paying off. Our endowment posted strong results on a risk-adjusted basis, with a fiscal year net return of 18.7%. The Endowment Pool's payout was $259 million for the year: $230 million in distribution, and the remainder in income.

Much of the performance and asset allocation of the endowment portfolio is driven by equity and alternative risk premia. We actively manage 87% of the portfolio, and 91% is managed externally.

Our overweight to equity contributed to performance, with a return of more than 20%. We also achieved more than 18% in alternatives, notably private equity, absolute return and real estate. Meanwhile, our selection of fixed-income issuers gained over 7%.

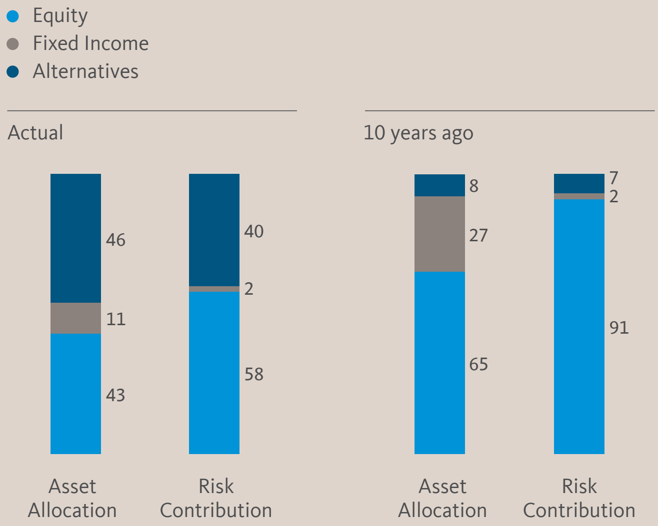
We also focused on building up liquidity to be ready for buying opportunities, while taking advantage of the growth in the market. Greater liquidity allows us to take advantage of potential market dislocations and emerging opportunities.

Endowment Data
as of June 30, 2014

INVESTMENT HIGHLIGHTS

Net Fiscal Year Return	**18.7%**
Assets Under Management June 30, 2013	$7.2 billion
Market Gains	$1.1 billion
Value Added	$0.1 billion
Net Cash Flow	($0.1 billion)
Assets Under Management June 30, 2014	**$8.3 billion**

ASSET ALLOCATION AND RISK CONTRIBUTION (%)

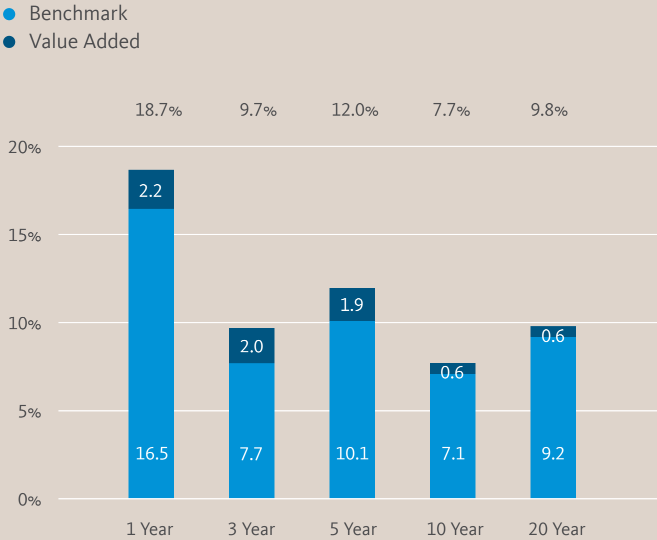


DETAILED ASSET ALLOCATION

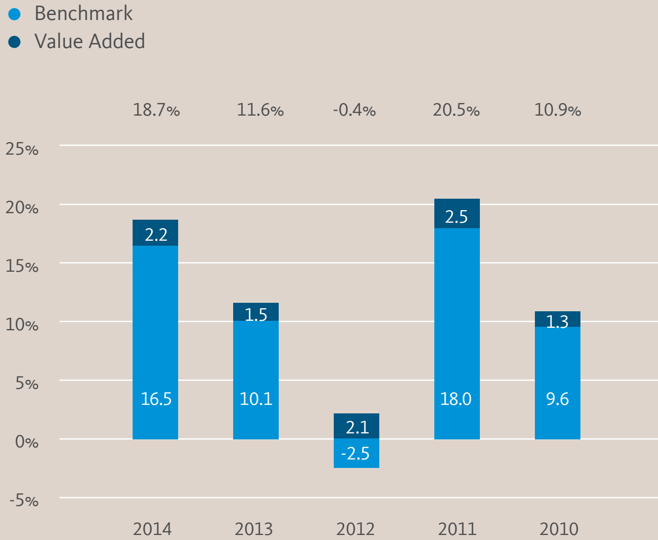
	Market Value in $ Billions	Percentage	Over/Underweight Relative to Policy
Equity			
U.S.	1.3	16.3	0.7
Non-U.S. Developed	0.9	11.1	-0.4
Emerging Markets	0.5	6.5	0.5
Opportunistic	0.8	9.2	1.2
Total	$3.5B	43.1%	2.0%
Fixed Income			
Core	0.3	3.5	-1.4
High Yield	0.2	2.2	-0.3
Emerging Markets	0.2	2.6	-0.4
TIPS	0.2	1.9	-0.6
Total	$0.9B	10.2%	-2.7%
Alternatives			
Private Equity	0.9	10.3	1.4
Absolute Return	1.9	22.6	-1.0
Real Estate	0.7	7.8	1.1
Real Assets	0.2	2.7	-0.1
Cross Asset Class	0.2	2.7	-1.3
Total	$3.9B	46.1%	0.1%
Cash	$0.04B	0.6%	0.6%
Total	$8.3B	100%	0%

Endowment Data
as of June 30, 2014

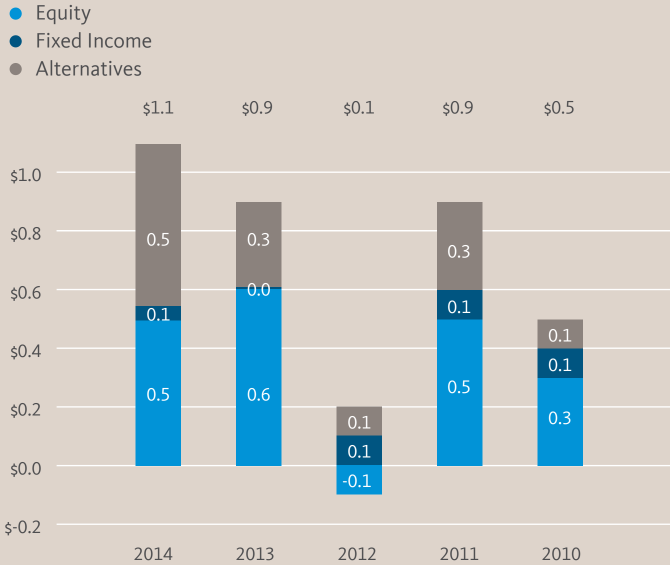
ANNUALIZED NET RETURNS



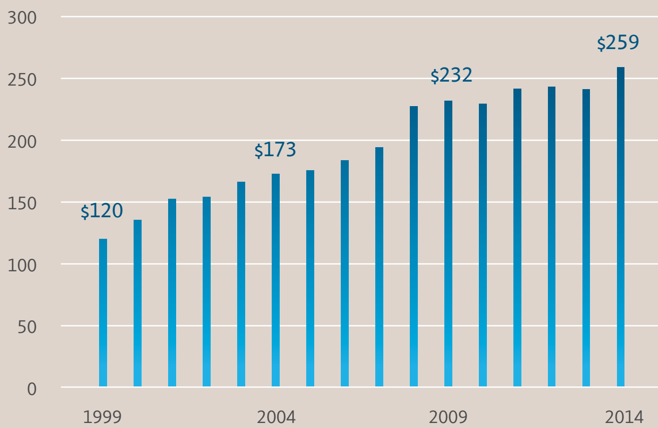
FISCAL YEAR NET PERFORMANCE



VALUE ADDED BY ASSET CLASS



GROSS PAYOUT (INCOME + DISTRIBUTION)



Endowment Data
as of June 30, 2014

POLICY BENCHMARKS

Endowment		
Asset Class	Benchmark Component	Percentage
U.S. Equity	Russell 3000 Tobacco Free Index	15.50%
Non-U.S. Developed Equity	MSCI World ex-U.S. (net dividends) Tobacco Free	11.50
Emerging Market Equity	MSCI Emerging Market (net dividends)	6.00
Opportunistic Equity	MSCI All Country World Index (net dividends)	8.00
Core Fixed Income	Barclays U.S. Aggregate Bond Index	5.00
High Yield Debt	Merrill Lynch High Yield Cash Pay Index	2.50
Emerging Market Debt	JP Morgan Emerging Markets Bond Index Global Diversified	3.00
TIPS	Barclays U.S. TIPS	2.50
Private Equity	Actual PE Returns	9.00
Absolute Return	50% HFRX Absolute Return Index + 50% HFRX Market Directional Index	23.50
Real Estate	Private: NCREIF Funds Index-Open End Diversified Core Equity Index (lagged 3 months) and Public: FTSE EPRA NAREIT Global Index and	6.75
Real Assets	Commodities: S&P GSCI Reduced Energy Index; All Other: Actual Portfolio Return	2.75
Cross Asset Class	Aggregate Endowment Policy Benchmark	4.00

An age-old pension plan.

The UC Pension Plan is the largest pool of assets we manage. Our pension has been invested for 52 years, since it was brought in-house in 1961. In that time, it has grown to $52 billion, and it now has 118,000 active members. Among the 62,000 retirees, the average years of service is 21 and the average monthly income is $3,300.

Pension
Invested for 52 years. Grown to $52 billion.

Our core objective for the Pension Plan is to maximize the likelihood of meeting the plan's liabilities within the bounds of the Board of Regents' funding policy. The most important role of the plan is to pay all benefits and obligations as they become due.

Three types of policies determine the health of our Pension Plan, and these are set by the Board of Regents.

Benefit Policy
This manages the cash flow out of the fund. It sets benefits and eligibility requirements.

Funding Policy
This manages cash flow into the fund, determining what level of contribution is made when, and by whom. Contributions were reinstated in 2010, after a pension holiday that began in 1990.

Investment Policy
This determines the level and type of investment risk approved for the plan.

We aim to remain flexible in determining the level of future contributions, to maximize returns at prudent levels of risk and to preserve our assets' purchasing power in line with inflation.

We are currently beginning an asset-liability management study in collaboration with the Finance and Investments Committees.

Asset allocation is the primary driver of performance. Much of the risk in our portfolios comes from equity and alternatives. We actively manage 70% of the portfolio, and 80% is managed externally. This year, biasing the portfolio towards equity helped boost performance, with equities up more than 22%. Our selection in alternatives rose by 17%, with private equity, absolute return and real estate leading the way. We saw an excess of 6% in fixed-income returns, given our issuer selection and focus on shorter maturity, high-quality investments.

The pension ended the year with $52 billion in assets — up $7 billion from the prior year. Over the past five years, the pension value has risen by $24 billion.

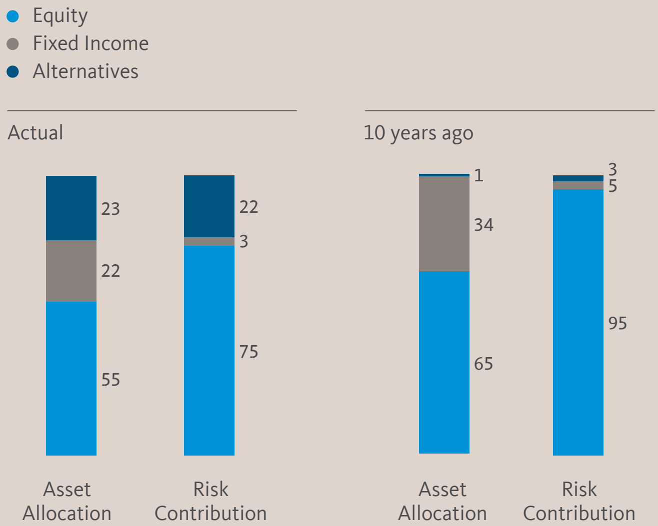
The plan made benefit payments of more than $1 billion and received $450 million in contributions, setting the net cash flow at $650 million. Contributions were reinstated in 2010 after a 20-year holiday and are now increasing at 3% per year. The estimated funded ratio now stands at 85% on a market value basis, up from 79% last year. The ratio of active staff to retirees is currently 2x, down from the peak of 3x in 2003.

Pension Data
as of June 30, 2014

INVESTMENT HIGHLIGHTS

Net Fiscal Year Return	**17.4%**
Assets Under Management June 30, 2013	$45.1 billion
Market Gains	$7.6 billion
Value Added	$0.1 billion
Net Cash Flow	($0.7 billion)
Assets Under Management June 30, 2014	**$52.1 billion**

ASSET ALLOCATION AND RISK CONTRIBUTION (%)

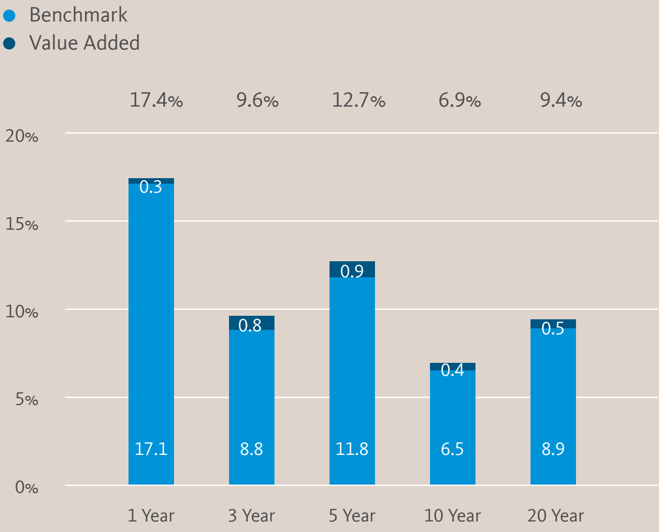


DETAILED ASSET ALLOCATION

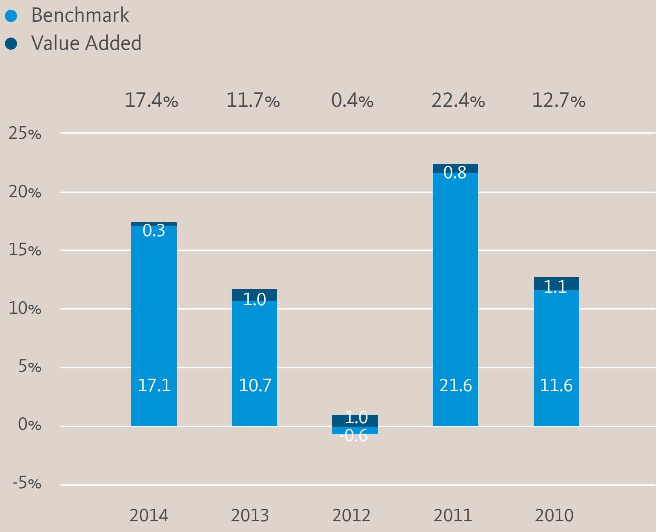
	Market Value in $ Billions	Percentage	Over/Underweight Relative to Policy
Equity			
U.S.	12.5	24.2	0.9
Non-U.S. Developed	8.1	15.5	0.0
Emerging Markets	4.0	7.6	0.8
Opportunistic	3.8	7.4	0.9
Total	$28.4B	54.7%	2.6%
Fixed Income			
Core	5.7	11.0	-1.0
High Yield	1.5	3.0	0.5
Emerging Markets	1.2	2.3	-0.2
TIPS	2.9	5.5	0.0
Total	$11.3B	21.8%	-0.7%
Alternatives			
Private Equity	3.5	6.6	-1.1
Absolute Return	3.0	5.6	-0.3
Real Estate	3.0	5.7	0.4
Real Assets	1.2	2.4	-0.6
Cross Asset Class	1.4	2.6	-0.9
Total	$12.1B	22.9%	-2.5
Cash	$0.3B	0.6%	0.6%
Total	$52.1B	100%	0%

Pension Data
as of June 30, 2014

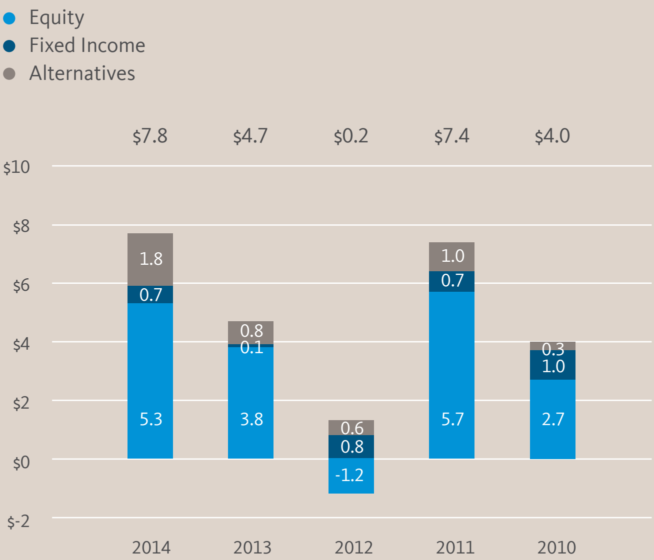
ANNUALIZED NET RETURNS



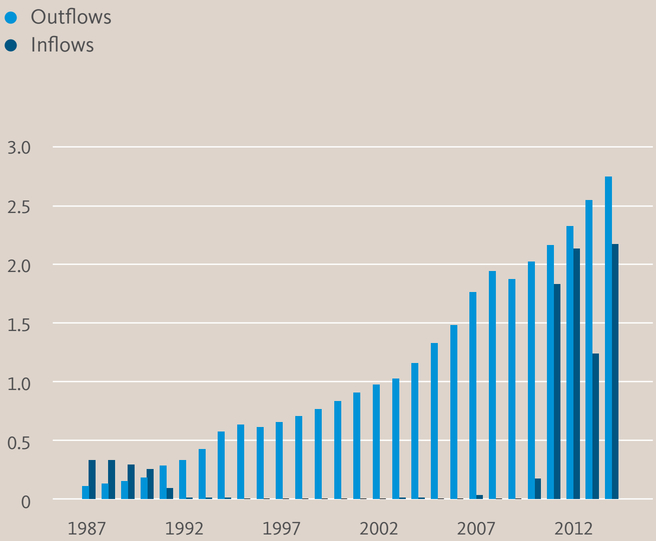
FISCAL YEAR NET PERFORMANCE



VALUE ADDED BY ASSET CLASS



PENSION CONTRIBUTIONS AND BENEFIT PAYMENTS

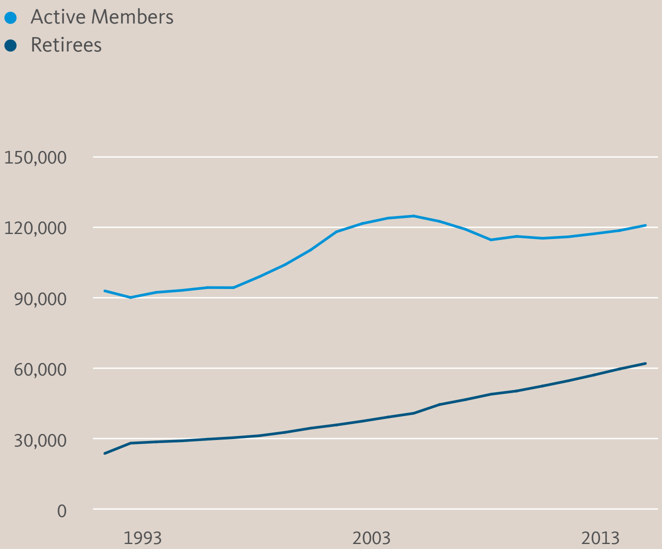


Pension Data
as of June 30, 2014

POLICY BENCHMARKS

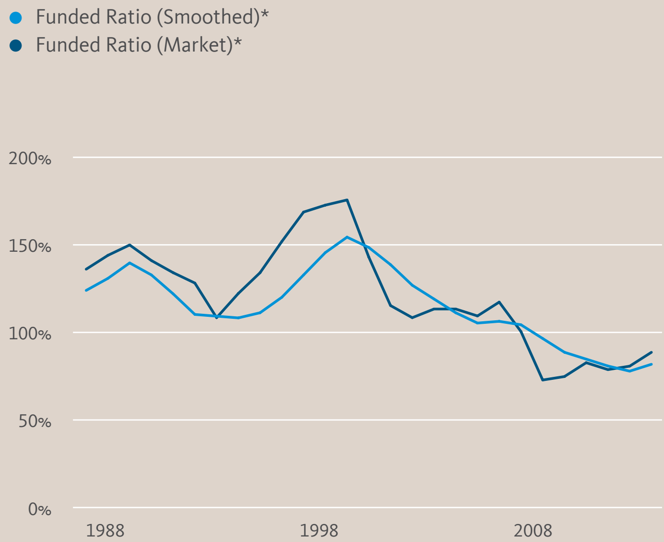
Pension		
Asset Class	Benchmark Component	Percentage
U.S. Equity	Russell 3000 Tobacco Free Index	23.25%
Non-U.S. Developed Equity	MSCI World ex-U.S. (net dividends) Tobacco Free	15.50
Emerging Market Equity	MSCI Emerging Market (net dividends)	6.75
Opportunistic Equity	MSCI All Country World Index (net dividends)	6.50
Core Fixed Income	Barclays U.S. Aggregate Bond Index	12.00
High Yield Debt	Merrill Lynch High Yield Cash Pay Index	2.50
Emerging Market Debt	JP Morgan Emerging Markets Bond Index Global Diversified	2.50
TIPS	Barclays U.S. TIPS	5.50
Private Equity	Actual PE Returns	7.75
Absolute Return	50% HFRX Absolute Return Index + 50% HFRX Market Directional Index	6.00
Real Estate	Private: NCREIF Funds Index-Open End Diversified Core Equity Index (lagged 3 months) and Public: FTSE EPRA NAREIT Global Index and	5.25
Real Assets	Commodities: S&P GSCI Reduced Energy Index; All Other: Actual Portfolio Return	3.00
Cross Asset Class	Aggregate Pension Policy Benchmark	3.50

PENSION MEMBERSHIP



PENSION PLAN FUNDING RATIO

* Estimated by the Office of the Chief Investment Officer



RETIREMENT SAVINGS PROGRAM

Securing the future.

The Retirement Savings Program offers extra benefits to supplement the Pension Plan. As a participant-directed plan, it allows individuals to decide their own mix of investments and set parameters of risk and return that match their future retirement income needs.

Retirement Savings Program

Over $15 billion in total plan assets.

Alongside the Pension Plan, we provide a participant directed Retirement Savings Program for UC faculty, staff and retirees. This is central to the university's mission of providing a robust, flexible benefits program that gives everyone the chance to build a secure financial future.

Originally introduced as a supplemental savings vehicle to the UC Retirement Plan, this program has become an increasingly important way for us to meet the evolving needs of our workforce. It's now one of the largest programs of its kind in the United States, with more than $15 billion in total plan assets.

Just over 51% of our faculty and staff now take part in the program. When combined with our Pension Plan, appropriate savings and planning, participants are given a realistic way to ensure continuity of income in retirement.

In this program, participants' benefits are solely based on their own contributions and the returns earned on those contributions. Each participant can also choose a mix of funds based on his or her own objectives and risk tolerance. As their circumstances change, participants are responsible for reallocating their assets.

In 2012, the university introduced the "Focus on Your Future" portal — a digital tool that provides learning recommendations, retirement planning tools and a comprehensive library of "financial fitness" articles, classes and videos. The site has proved enormously popular, receiving 385,000 visits in 2013 — up 33% from 2012. In 2013, more than 26,000 people took advantage of our on-site financial education program.

Retirement Savings Program Data as of June 30, 2014

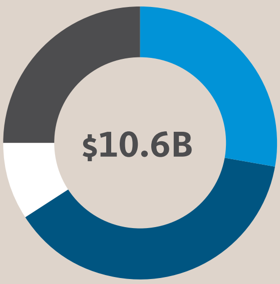
INVESTMENT HIGHLIGHTS

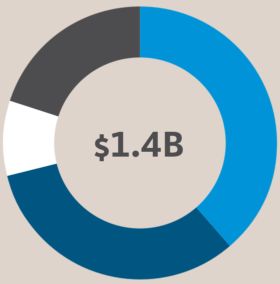
Assets Under Management June 30, 2013	$14.3 billion
Market Gains	$1.7 billion
Net Cash Flow	($0.5 billion)
Assets Under Management June 30, 2014	**$15.5 billion**

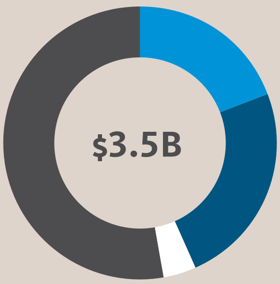
RETIREMENT SAVINGS PROGRAM

- **Tax-Deferred 403(b) Plan** $10.6 billion
- **457(b) Deferred Compensation Plan** $1.4 billion
- **Defined Contribution Plan** $3.5 billion

RETIREMENT SAVINGS PLAN INVESTMENTS







Tax-Deferred 403(b) Plan	
28%	Asset Allocation
38%	Equity
9%	Fixed Income
25%	Cash

457(b) Deferred Compensation Plan	
38%	Asset Allocation
33%	Equity
9%	Fixed Income
20%	Cash

Defined Contribution Plan	
20%	Asset Allocation
24%	Equity
4%	Fixed Income
52%	Cash


CALIFORNIA
Hurley

Capital, working.

Our working capital — the money that keeps the vast machinery of the university moving — is drawn from two investment portfolios: the Short-Term Investment Pool (STIP) and the Total-Return Investment Pool (TRIP).

Working Capital
Two investment portfolios. One world-class university.

Short-Term Investment Pool
Established in 1976, the Short-Term Investment Pool funds the day-to-day operations of the university.

This pool seeks to maximize returns, consistent with requirements for the safety of principal, liquidity and cash flow. Its primary objective is to generate income from investments in short-term U.S. dollar-denominated bonds and cash equivalents.

We manage the Short-Term Investment Pool as a highly liquid portfolio, using maturity distribution strategies to maximize returns in different yield-curve environments. Using select swapping strategies, we take advantage of disparities in the market to improve quality and yield, while maintaining liquidity.

This central short-term pool stood at $7.1 billion by the end of the fiscal year, returning 1.58%. Much of this is the result of our selection of issuers. The Short-Term Investment Pool has strongly outperformed almost flat benchmark returns, given the low-interest-rate environment of the past five years.

We have utilized a “barbell” strategy, balancing our investments across short-intermediate and ultra short maturities.

Around 75% of our investments were in government and credit issuers with maturity of five years or less.

We are in a challenging environment given the expected interest rate hikes next year, and we’re positioning the portfolio accordingly.

Total-Return Investment Pool
Set up in 2008, the Total-Return Investment Pool supplements the Short-Term Investment Pool by investing in an intermediate-term, higher-risk portfolio allocated across equities, fixed income and liquid alternative strategies. It allows all UC campuses, as well as the Office of the President, to maximize the return on their long-term capital. Its objective is to generate a rate of return above the policy benchmark, after all costs and fees, consistent with liquidity, cash flow requirements and the risk budget.

The Total-Return Investment Pool gained more than $850 million for the fiscal year — up 14.6%. In the five years since its inception, the pool has performed consistently well and is up 10% overall, adding over $1.5 billion. We combine internal and external management, employing actively managed strategies where appropriate and monitoring the program relative to its guidelines.

The portfolios exposure to equities contributed to performance, with equities up more than 21%, as was our selection in absolute return. Our selection in fixed income also made a difference, up more than 7% for the year.

Working Capital Data
Combined Short-Term and Total-Return Investment Portfolios as of June 30, 2014

COMBINED WORKING CAPITAL ASSET ALLOCATION AND RISK CONTRIBUTION (%)

COMBINED WORKING CAPITAL DETAILED ASSET ALLOCATION

	Market Value in $Billion	Percentage
Equity		
U.S.	1.1	7.5
Non-U.S. Developed	0.6	4.1
Emerging Markets	0.6	4.1
Opportunistic	0.7	4.8
Real Estate – Public	0.8	5.4
Total	$3.8B	25.9%
Fixed Income		
Core	6.8	46.3
High Yield	0.4	2.7
Emerging Markets	0.4	2.7
Total	$7.6B	51.7%
Alternatives		
Absolute Return	0.8	5.4
Cross Asset Class	0.7	4.8
Total	$1.5B	10.2%
Cash	$1.8B	12.2%
Total Combined Working Capital	$14.7B	100%

POLICY BENCHMARKS

Short-Term Investment Pool

Asset Class	Benchmark Component	Percentage
Short-Term Fixed Income	Weighted Average of Income Return on a Constant Maturity Two-Year U.S. Treasury Note and the Return on U.S. 30-Day Treasury Bills	Actual weights of bond and cash equivalent components

Total-Return Investment Pool

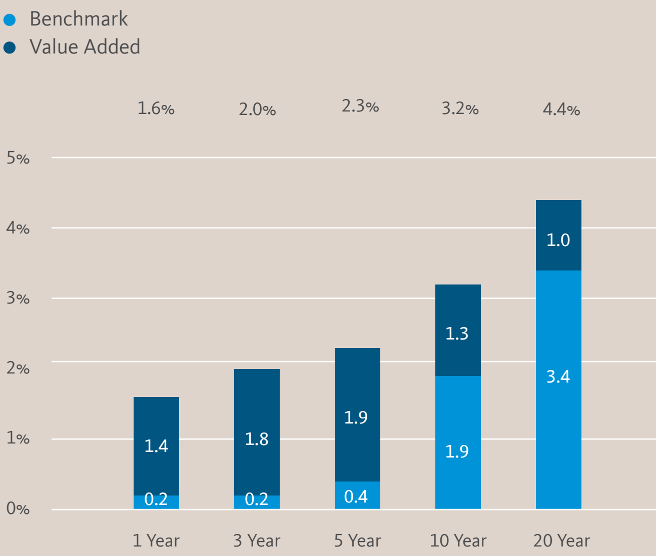
Asset Class	Benchmark Component	Percentage
U.S. Equtiy	Russell 3000 Index Tobacco Free	15.00%
Non-U.S. Developed Equity	MSCI World ex-U.S. (net dividends) Tobacco Free	7.50
Emerging Market Equity	MSCI Emerging Market (net dividends)	7.50
Opportunistic Equity	MSCI All Country World Index (net dividends)	10.00
Public Real Estate	FTSE EPRA NAREIT Global Index	10.00
Core Fixed Income	Barclays Aggregate Credit Index + Government Index	19.50
High Yield Debt	Merrill Lynch High Yield Cash Pay BB/B Index	5.00
Emerging Market Debt	JP Morgan Emerging Markets Bond Index Global Diversifi ed	5.00
Absolute Return	50% HFRX Absolute Return Index + 50% HFRX Market Directi onal Index	10.00
Cross Asset Class	Aggregate Total-Return Policy Benchmark	10.50

Short-Term Investment Pool as of June 30, 2014

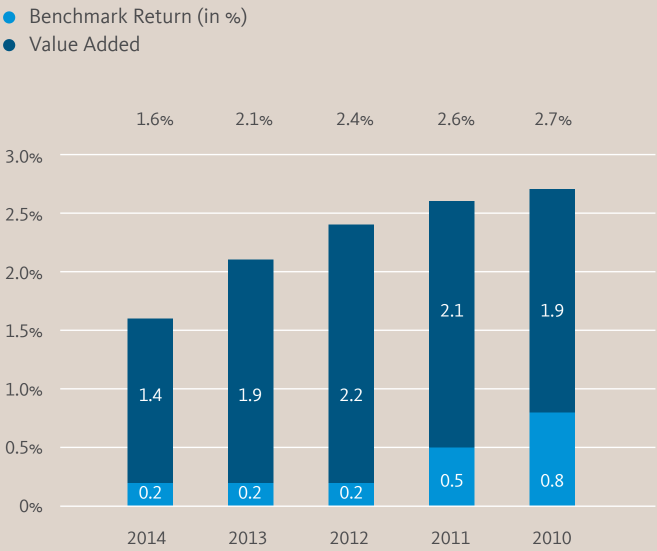
INVESTMENT HIGHLIGHTS

Net Fiscal Year Return	1.58%
Assets Under Management June 30, 2013	$7.9 billion
Market Gains	$0.1 billion
Value Added	$0.1 billion
Net Cash Flow	($1.0 billion)
Assets Under Management June 30, 2014	$7.1 billion

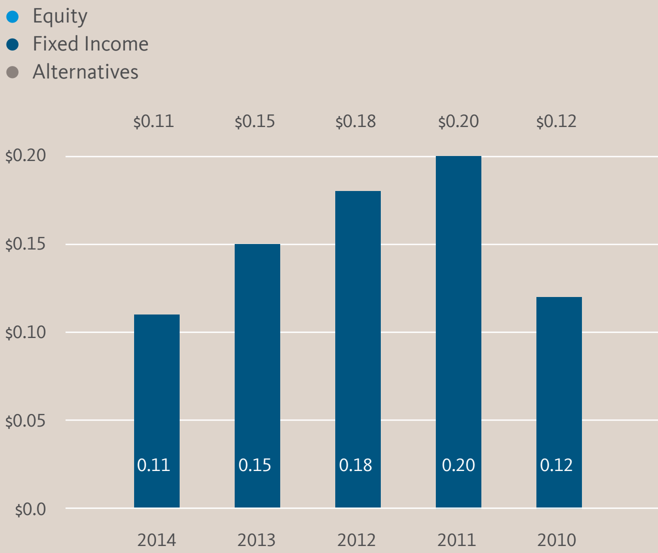
ANNUALIZED NET RETURNS



FISCAL YEAR NET PERFORMANCE



VALUE ADDED BY ASSET CLASS

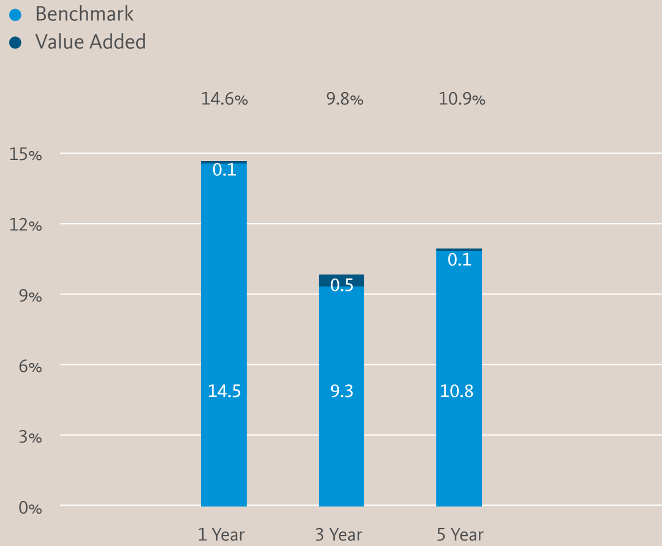


Total-Return Investment Pool
as of June 30, 2014

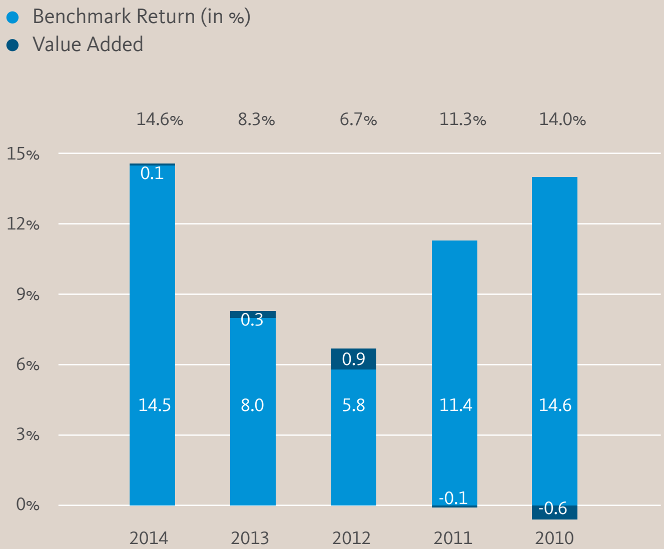
INVESTMENT HIGHLIGHTS

Net Fiscal Year Return	**14.6%**
Assets Under Management June 30, 2013	$4.6 billion
Market Gains	$0.9 billion
Value Added	$13 million
Net Cash Flow	$2.1 billion
Assets Under Management June 30, 2014	**$7.6 billion**

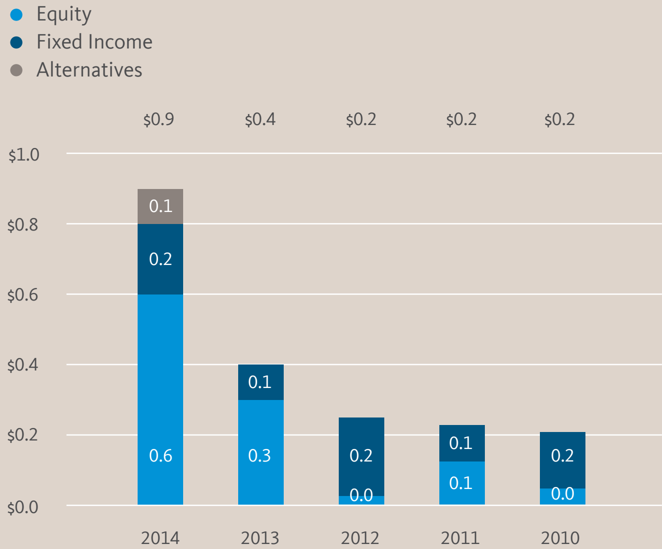
ANNUALIZED NET RETURNS



FISCAL YEAR NET PERFORMANCE



VALUE ADDED BY ASSET CLASS



IN CONCLUSION

The path to building a partnership.

We're proud to be a part of this world-class university and the community of institutional investors. We are continuously building our partnerships to leverage our mutual long-term competitive advantages.

Figures are only a snapshot in time, but the partnerships that we build in growing our portfolios are perpetual. A robust financial foundation is the first, critical step that allows us to build everything else, and we pride ourselves on making that foundation solid.

The impact of the university's vast network of campuses; laboratories; medical centers; agricultural, environmental and natural resource centers; and various other learning and public research facilities across California makes our work unique and rewarding. It's also what makes working in partnership more important than ever. Collaboration with internal and external partners — coupled with our size, scale and patience — will lead to new, innovative opportunities to meet our objectives.

We look forward to reviewing our progress with you next year, in the spirit of partnership that continues to inform all our work.

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Chief Investment Officer and Vice President-Investments

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