UNIVERSITY OF CALIFORNIA
Office of the Treasurer

603 U.S. Equity Manager Search Update

Committee on Investments/Investment Advisory Committee

August 17, 2004

Table of Contents

UC Asset Allocation Guidelines

- Domestic Equities:

  Indexed to the Russell 3000-TF
  75% of Total UCRP & GEP Assets

  Active Strategies
  25% of Total UCRP & GEP Assets

  - Structured to maximize potential out-performance at acceptable levels of risk
  - Styles and capitalizations will be complementary and varied

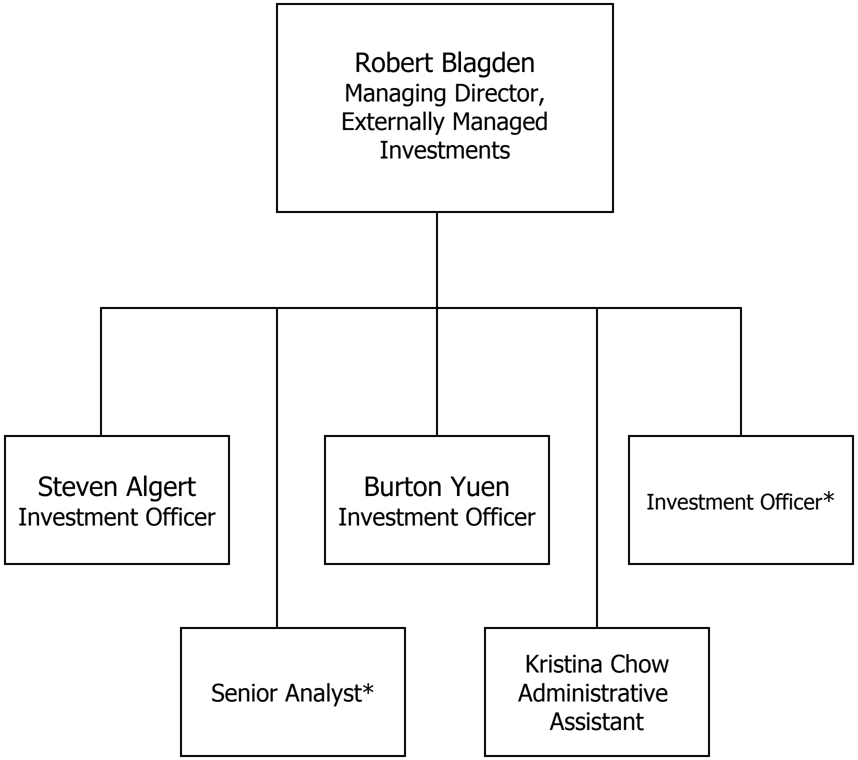
- International Equities:

  Indexed to the MSCI All Country World ex US-TF
  50% of Total UCRP & GEP Assets

  Active Strategies
  50% of Total UCRP & GEP Assets

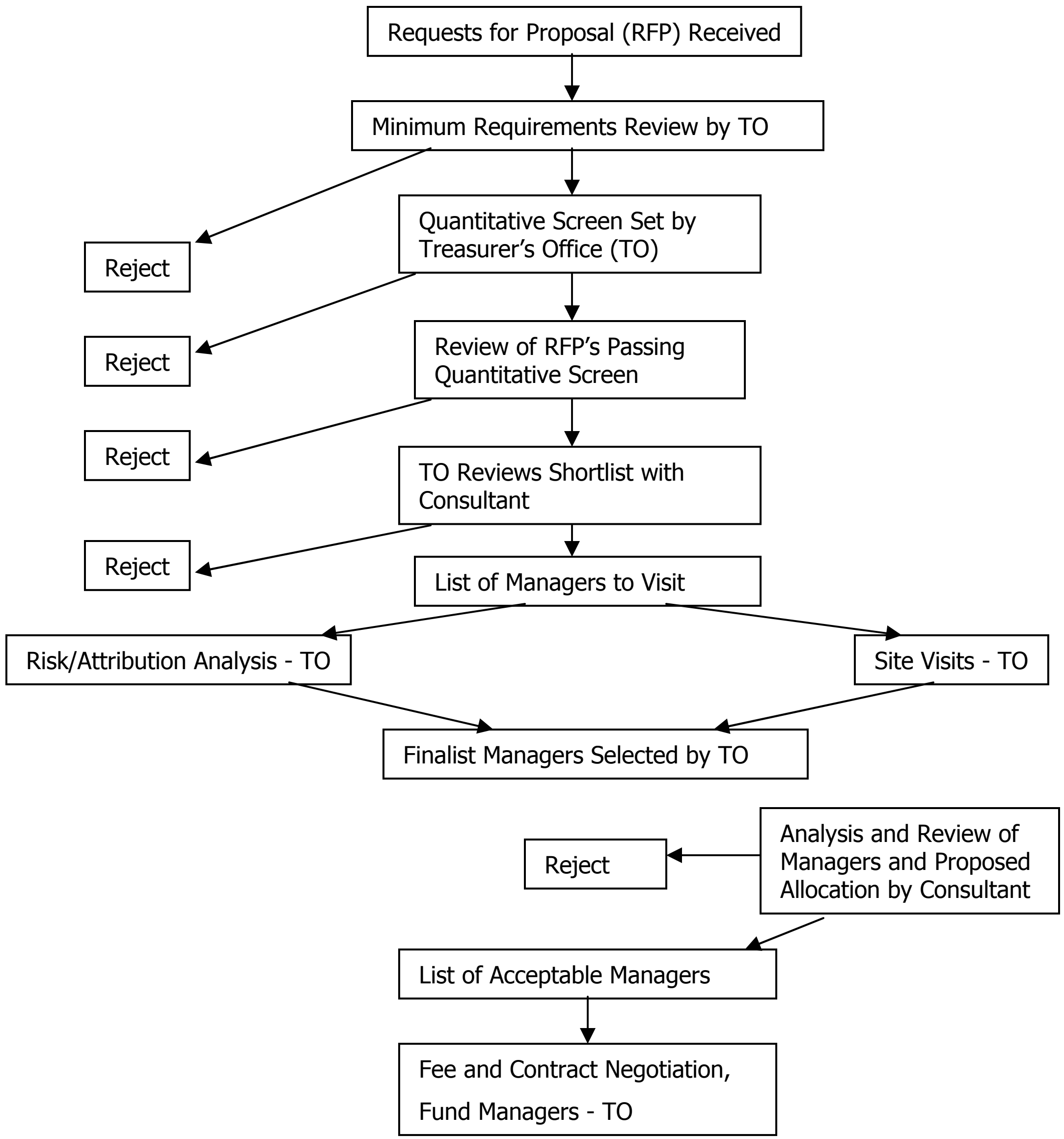
  - Structured to maximize potential out-performance at acceptable levels of risk
  - The allocation to existing emerging markets' managers will be reviewed prior to the RFP for developed markets' managers

Externally Managed Investment Group Organization Chart



* 2 positions open

External Manager Selection Process



Updated Timeline Projections: Request for Proposals

	RFP Posting		Managers Funding Date		Dollars Awarded		Number of Managers	
RFP Description	**8/03 Est.**	**Actual / Revised 8/04 Est.**	**8/03 Est.**	**Actual / Revised 8/04 Est.**	**8/03 Est.**	**Actual / Revised 8/04 Est.**	**8/03 Est.**	**Actual / Revised 8/04 Est.**
Small Cap Domestic Equity	Q3 – 2003	Sept. 2003	Q1/Q2 – 2004	April 2004	$1.0 B	$1.0 B	5 - 8	9
Large Cap Domestic Equity	Q1 – 2004	Feb. 2004	Q2/Q3 – 2004	Q3/Q4 – 2004	$5.2 B	$5.5 B	8 - 12	10 - 15
International Developed Equity	Q2 – 2004	Q3 – 2004	Q3/Q4 – 2004	Q4 2004 – Q1 2005	$1.6 B	$1.4 B	6 - 9	6 - 9

External Equity Manager Hiring Timeline Update in Days

	August 2003 Estimate	Domestic Small Cap	Domestic Large Cap	International Developed – E
Post RFP	28	32	25	28 – E
Verify Minimum Requirement, Load Composite Returns	14	14	13	14 – E
Quantitative Screening, Determine Managers to Visit	35	31	27	35 – E
Visit Managers, Analysis of Representative Account Holdings and Returns	42	44	32	42 – E
Determine Finalists Managers	14	18	21	14 – E
Secure Affirmation from Consultant	7	2	53 – E	7 – E
Contract, Negotiate Fees, Determine the Manager Combination	28	43	14 - 28 E	28 – E
Transition to the New Managers From the Legacy Portfolio	14	13	14 - 35 E	14 - 28 E
Total Days	182	197	199 – 234 E	182 – 196 E

Small Capitalization Managers Funded

Manager Name	Location	Style	Dollars	Fee Type
American Century	Mountain View, CA	Core	$101,000,000	Asset Based
AMEX/Kenwood	Minneapolis, MN	Value	$128,000,000	Performance
AXA Rosenberg	Orinda, CA	Core	$106,000,000	Performance
Burgundy	Toronto, ON	Value	$99,000,000	Performance
Ironbridge	Oakbrook Terrace, IL	Core	$127,000,000	Performance
Mazama	Portland, OR	Growth	$111,000,000	Asset Based
State Street Research	Boston, MA	Growth	$149,000,000	Performance
UBS	Chicago, IL	Core	$116,000,000	Performance
Wellington	Boston, MA	Value	$115,000,000	Asset Based
Total			**$1,052,000,000**	

Small Capitalization Investment Management Fees

Asset Based Fees for 3 of the 9 managers (31% of assets):

- Average fee per manager is 72 basis points
- Account sizes vary from $101 million to $115 million

Performance Based Fees for 6 of the 9 managers (69% of assets):

- Average fee is a function of actual performance relative to benchmark:
- Average arrangement varies from 50% - 150% of asset based fee
  - The normal asset based fee is earned when gross out-performance of the benchmark is approximately 4.0%
  - The average performance fee is 79 basis points at the 4.0% level of gross out-performance
  - The average performance based fees vary from a 43% reduction to a 43% increase to asset based fees, depending on performance
  - Average level of gross out-performance at which the maximum performance fee would be paid would be 7.2%
  - Performance fees accrued are paid over two years during the first 2 years
  - Performance fees are based on a 3 year rolling performance history
- Account sizes vary from $99 million to $149 million

THE PROCESS BY WHICH THE SMALL CAPITALIZATION DOMESTIC EQUITY MANAGERS WERE SELECTED BY THE OFFICE OF THE TREASURER'S EMG

The Request For Proposals (RFP) were made available on the Treasurer's website on September 16, 2003. The Request For Proposals were advertised in *Pensions and Investments*. Submissions to the RFP were due as of the close of business on October 17, 2003. Responses were received from 90 different organizations. Per the RFP, copies of submissions were sent to Wilshire Associates (The Regents' Consultant) in order that Wilshire Associates could compare the data submitted in the RFP against the manager product composite data within Wilshire's Compass database and to allow composites submitted that were not in the database to be added to the database. The 90 investment management organizations submitted 117 individual proposals to the RFP. The assistance provided by Wilshire to the External Management Investment Group (EMG) facilitated the review by the EMG. The complete set of reviewed manager returns for all products submitted according to the RFP had been displayed within the Wilshire Compass database as of October 31, 2003. These manager product returns were electronically uploaded to the Office of the Treasurer for initial quantitative screening, according to criteria determined by the EMG. The primary screening criterion used by the EMG was an Information Ratio relative to the manager's style benchmark that equaled or exceeded 0.5 on either a 3- year or a 5- year period (data permitting) ending June 30, 2003. Additional quantitative considerations noted by the EMG included the growth of manager assets under management, the length of the manager product history and the consistency of the investment approach, measured against the style benchmarks. Additional performance data subsequent to June was also reviewed.

After the 117 product submissions to the Request For Proposals had been divided into style groups of core, growth and value manager products, the information ratio criterion was applied to each style group in order to reduce the number of total products to approximately 40. The EMG shared its tentative product list with Wilshire on November 20, 2003 in a conference call during which the products that were selected by the EMG by applying the screens were discussed. Several products were deleted from the list, based upon recent developments that had occurred at the organizations. Personnel changes and/or SEC investigations accounted for the majority of the deletions. Several firms were added to the screened list because their longer- term investment performance records were strong, although their 3 and/or 5 year records were below the 0.5 information ratio threshold. The revised list included 35 manager products. These were the firms/products that the EMG team reviewed at the managers' offices, starting December 2, 2003 and ending January 15, 2004. All products submitted were discussed with the investment teams for any manager the EMG visited.

During the site visits, the EMG evaluated the individual product teams qualitatively, placing most emphasis on the manager's investment process, the financial strength and integrity of the firm, and the skills of the investment team implementing the investment process. From the managers visited within each style subgroup, the EMG determined those manager products that were deemed to be the most qualified from those products visited and evaluated. This additional step reduced further the number of products deemed to be most qualified such that, as a group, their number exceeded the number likely to be funded by a factor of approximately two. The EMG reviewed the findings of its manager evaluations with the Portfolio Management Group on February 2, 2004 before sharing the list with Wilshire for affirmation.

Appendix: Description of Small Capitalization Process – August 3, 2004

A list of 17 managers deemed to be the most qualified by the EMG was forwarded to Wilshire to be reviewed by Wilshire and affirmed to the Treasurer. Although the EMG had made tentative decisions regarding which managers from the list of 17 sent to Wilshire for affirmation seemed to represent the best combination to fund, the manager names and weights were never shared with Wilshire. The EMG informed Wilshire that the capitalizations and style groupings would be balanced, and that the expected tracking error of the combination would be within the risk budget of the active manager segment of domestic public equity. It was explained that the EMG would determine a combination of manager products that would produce the preferred level of total expected active return net of fees/total expected active risk, relative to a Russell 2500 aggregate benchmark.

After the Treasurer received affirmation from Wilshire on February 4, 2004, the focus of the EMG switched to contracting and to the negotiation of performance-based fees with those managers willing to negotiate performance-based fees at a level and structure acceptable to the EMG, rather than managing the account under the traditional asset-based investment management fee schedules that had been proposed within the RFP submissions. When the manager contracts, including investment guidelines and management fee arrangements, had been signed, the EMG obtained target portfolios from each of the nine managers to be funded. These nine manager target portfolios were aggregated and then compared to the holdings of the legacy portfolio. A transition manager was engaged to oversee the funding of the active managers from the legacy portfolio. The transition occurred during the second half of March during a period of five consecutive trading days. The nine managers the EMG funded had been selected from the affirmed list of 17 products.

The new managers assumed management of the University Funds on April 1, 2004. Those organizations funded on April 1, 2004 will be identified to The Regents at the Committee On Investments (COI) meeting scheduled for August 17, 2004, according to the normal quarterly presentation format. The Regents will be informed of the amounts funded by the manager as well as the range and structure of the investment management fees negotiated with the nine managers. The report to The COI will be available to the public on the Treasurer's website immediately after the meeting.