

Attachment 4: Investments Footnote

The Regents, as the governing Board, is responsible for the management of the University's and the UCRS's investments and establishes investment policy, which is carried out by the Treasurer. All of these investments are associated with the Short Term Investment Pool (STIP), General Endowment Pool (GEP), High Income Pool (HIP), UCRS, or are separately invested. The Board of Trustees for each campus foundation is responsible for their specific investment policy. They may determine that all or a portion of their investments will be managed by the Treasurer.

The STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities. Cash to provide for payroll, construction expenditures, and other operating expenses for campuses and medical centers is invested in the STIP. The available cash in the UCRS or endowment investment pools awaiting investment or for administrative expenses is also invested in the STIP. The GEP is the primary investment vehicle for endowed gift funds. The HIP accommodates endowments with high payout requirements.

The GEP and HIP are balanced portfolios in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. The separate investments cannot be pooled due to investment restrictions or income requirements.

Investments authorized by The Regents for the STIP include fixed income securities with a maximum maturity of five years. In addition, The Regents has also authorized loans, primarily to faculty members, under the University's Mortgage Origination Program with terms up to 40 years.

Investments authorized by The Regents for the GEP, HIP, UCRS, and other separate investments include equity securities, fixed-income securities, and real estate. The equity portion of the investment portfolio may include both domestic and foreign common and preferred stocks, actively managed and passive (index) strategies, along with a modest exposure to private equities. Private equities include venture capital partnerships, buy-outs, and international funds. The fixed income portion of the investment portfolio may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. Absolute return strategies, incorporating short sales, plus derivative or option positions to implement or hedge an investment position, are also authorized for the GEP. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

The University's investment portfolio also includes certain foreign denominated securities. To reduce the exposure to foreign currency fluctuations inherent in such investments, the Treasurer may enter into foreign currency forward contracts and options. Under the investment policies, such instruments are not permitted for speculative use or to create leverage.

The investments that are owned and not lent, or owned and lent for securities collateral, are insured, registered, or held in the University's name by the custodial bank as an agent for the University. Investments of cash collateral are held by the custodian and designated as University investments in the records of the custodian. Investments that are not categorized include venture capital/private equity funds, mortgage loans, insurance contracts, other investments, and investments owned and lent for cash collateral.

The composition of investments at June 30, 2004 and 2003 is as follows (in thousands of dollars):

Investment Type	University of California		University of California Retirement System		University of California Campus Foundations	
	2004	2003	2004	2003	2004	2003
Equity securities:						
Domestic		\$ 2,482,333		\$22,385,471		\$ 599,251
Foreign		338,059		3,043,642		176,048
Fixed income securities:						
U.S. government		2,049,783		8,035,217		245,007
Other U.S. dollar denominated		6,475,829		7,584,030		166,553
Foreign		14,269		94,267		5,077
Private equity		78,498		499,692		98,589
Absolute return		106,288				
Mortgage loans		53,796				12,479
Insurance contracts				479,015		810
Real estate		61,289				47,519
Commingled funds		3,813				285,308
Other investments		159,887				12,920
UCRS investment in the STIP		(203,223)		203,223		
Campus foundations' investments with the University:						
STIP	()	(196,214)				196,214
GEP	()	(392,240)				392,240
HIP	()	(8,308)				8,308
Separate investments	()	(509)				509
Less: Cash equivalents					()	(23,930)
Total investments	-	11,023,350	\$ -	\$42,324,557	-	2,222,902
Less: Current portion		(2,682,379)				(256,187)
Noncurrent portion	\$ -	\$ 8,340,971			\$ -	\$ 1,966,715

The UCRS invests available cash in the STIP. Shares are purchased or redeemed in the STIP at a constant value of \$1 per share. Actual income earned, including any realized gains or losses on the sale of the STIP investments, is allocated to the UCRS based upon the number of shares held. Unrealized gains and losses associated with the fluctuation in the fair value of investments included in the STIP are not allocated to the UCRS, but are absorbed by the University of California as the manager of the pool.

The UCRS had \$ ___ million and \$203.2 million invested in the STIP at June 30, 2004 and 2003, respectively. These investments are included in the UCRS' statement of plans' fiduciary net assets.

The campus foundations may manage their investments or the University may manage all or a portion of their investments. Under the accounting policies elected by each separate campus foundation, certain foundations classify all or a portion of their investments in the STIP as cash and cash equivalents rather than investments. The campus foundations had \$ ___ million and \$597.3 million invested with the University and managed by The Treasurer. These amounts are included in the campus foundations' statement of net assets.

Net appreciation in the fair value of investments during the year ended June 30, 2004 for the University of California, the UCRS, and the campus foundations was \$ ___ million, \$ ___ billion, and \$ ___ million, respectively. These amounts include all changes in fair value, including both realized and unrealized gains and

losses, that occurred during the year. The calculation of realized gains and losses is independent of the net unrealized appreciation or depreciation in the fair value of investments held at year-end.

The components of the net appreciation (depreciation) of investments for the years ended June 30, 2004 and 2003 are as follows (in thousands of dollars):

	University of California		Retirement System		Campus Foundations	
	2004	2003	2004	2003	2004	2003
Realized gains on sale of investments		\$ 87,186		\$ 2,010,049	\$ (37,053)	
Unrealized appreciation (depreciation)		123,738		(942,211)	70,102	
Net appreciation (depreciation) in fair value of investments	\$ -	\$ 210,924	\$ -	\$ 1,067,838	\$ -	\$ 33,049

The University of California Retirement System's unrealized appreciation (depreciation) on investments held at year end includes amounts related to participants' interest in external mutual funds that are not managed by the Treasurer. The net unrealized appreciation related to the participants' interest in external mutual funds was \$ ____ million for the year ended June 30, 2004. For the year ended June 30, 2003, the net unrealized appreciation was \$24.4 million.

The University of California and the UCRS had a net unrealized gain on outstanding forward commitments to sell foreign currency at June 30, 2004 of \$ ____ thousand and \$ ____ million, respectively. Any losses at contract maturity are offset by gains on the currency in the portfolio of foreign securities. At June 30, 2003, the University of California and the UCRS did not have any outstanding forward commitments to sell foreign currency.

The University's Investment Pools

The composition of the University of California's investments at June 30, 2004 by investment pool is as follows (in thousands of dollars):

Investment Type	University of California				Total
	STIP	GEP	HIP	Separately Invested	
Equity securities:					
Domestic				\$	-
Foreign					-
Private					-
Fixed income securities:					
U.S. government					-
Other U.S. dollar denominated					-
Foreign					-
Private equity					-
Absolute return					-
Mortgage loans					-
Real estate					-
Commingled funds					-
Other investments					-
Subtotal	-	-	-	-	-
UCRS investment in the STIP	()	()	()	()	()
Campus foundations' investments with the University	()	()	()	()	()
Total investments	\$ -	\$ -	\$ -	\$ -	\$ -

The total investment return, representing the combined income plus net appreciation (depreciation) in the fair value of investments, for the year ended June 30, 2004 was ___ percent for the GEP, ___ percent for the HIP and ___ percent for the UCRS. The investment return, representing combined income and realized gains or losses, for the same period was ___ percent for the STIP. Separate investments consist of numerous, small portfolios of investments, each with its individual rate of return.

Agency Relationships with the University

The STIP, GEP, and HIP may include investments on behalf of external organizations that are not financially accountable or significant to the University. These organizations are not required to invest in these pools and receive no guarantee to support the value of shares. Participants purchase or redeem shares in the STIP at a constant value of \$1 per share. Participants purchase or redeem shares in the GEP and the HIP at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to participants based upon the number of shares held.

The fair value of these investments in each investment pool and the related liability associated with these organizations that are included in the University's statement of net assets at June 30, 2004 and 2003 are as follows (in thousands of dollars):

	2004	2003
Assets		
Short-term investments:		
STIP		\$ 95,777
GEP		86,634
HIP		11,983
Separately invested		3,525
Total agency assets	\$ -	\$ 197,919
Liabilities		
Funds held for others	\$ -	\$ 197,919

The composition of the net assets at June 30, 2004 and 2003 for the STIP, GEP, and HIP is as follows (in thousands of dollars):

	STIP		GEP		HIP	
	2004	2003	2004	2003	2004	2003
Investments		\$ 7,151,947		\$ 4,345,823		\$ 88,918
Investments in the STIP				7,595		277
Investment of cash collateral		1,864,886		578,564		23,334
Securities lending collateral		(1,864,850)		(578,553)		(23,333)
Other assets (liabilities), net		91,196		11,069		2,932
Net assets	\$ -	\$ 7,243,179	\$ -	\$ 4,364,498	\$ -	\$ 92,128

The changes in net assets for the STIP, GEP, and HIP for the years ending June 30, 2004 and 2003 are as follows (in thousands of dollars):

	STIP		GEP		HIP	
	2004	2003	2004	2003	2004	2003
Net assets, beginning of year		\$ 7,145,655		\$ 4,212,676		\$ 81,047
Investment income		260,266		124,594		5,056
Net appreciation (depreciation) in fair value of investments		141,721		101,171		8,959
Participant contributions (withdrawals), net		(304,463)		(73,943)		(2,934)
Net assets, end of year	\$ -	\$ 7,243,179	\$ -	\$ 4,364,498	\$ -	\$ 92,128