PRIVATE EQUITY DISCLOSURE ISSUES

Regents of the University of California
Alternative Investments as of March 31, 2003

Since inception in 1979 through March 31, 2003, the Private Equity portfolio has consisted of $2.1 billion in commitments to 94 partnerships. As of March 31, 2003, $1.5 billion of these commitments have been called by the partnerships and $2.9 billion of distributions have been received from the partnerships. Including the Current Net Asset Value of $0.7 billion as of March 31, 2003, the Private Equity portfolio has produced $2.1 billion in profits and a 2.4x multiple on contributed capital. The Private Equity portfolio has generated a total return of 26.5% for the 10-year period ended June 30, 2003.

Since the beginning of 2001, Cambridge Associates, LLC ("CA") has been retained by The Regents of the University of California (the "Regents") to advise on the Private Equity portfolio and to calculate the Net Internal Rate of Return ("IRR") for each partnership held in the Private Equity portfolio. Prior to the engagement of CA, the Office of the Treasurer did not calculate IRRs for individual partnerships. The historical returns for all portfolios reported by the Regents and the Office of the Treasurer are based on the annualized Total Returns methodology. Total Return calculations are based on the changing value of a portfolio and any cash flows received during the specified time period.

The Private Equity portfolio was historically less than 2% of the total investment portfolio; therefore, the Regents evaluated the portfolio in its entirety and as part of the total equity portfolio. Moreover, Private Equity partnerships are 10 to 13 year investments, and the only relevant return measure is the amount returned at the end of the partnership compared to the capital invested. This has been the basis for investment decisions in the Private Equity asset class, and this long-term horizon has produced exceptional returns.

Private Equity partnerships are subject to a J-Curve Effect, meaning returns are often low or negative during the first several years. A –30% IRR or a 0.5x Investment Multiple might make for interesting headlines; however, it says little about the current performance of the partnership or the expected returns over the life of the investment. Most of the fully realized partnerships, which demonstrate strong returns on invested capital, previously demonstrated significantly negative IRRs. Low or negative returns in the early years of a partnership are inherent to the asset class, and the expected returns do not become readily apparent until the latter years of a partnership's life.

On July 24, 2003, the Alameda County Superior Court ruled in the *Coalition of University Employees, et al. v. The Regents of the University of California* lawsuit. In this ruling, the Court has ordered the Regents to disclose fund-level internal rates of return under the California Public Records Act. To be consistent with the disclosure provided by other California-based institutional limited partners subject to the California Public Records Act, the Regents are disclosing detailed fund-level performance information for the most recent period available. This information should provide a more meaningful interpretation of fund performance than disclosure of IRR information alone.

A number of General Partners have informed CA that performance information will no longer be provided to CA as a result of the Court's ruling. Consequently, it is uncertain whether or not the Regents will be able to provide IRRs for all partnerships in the Private Equity portfolio in future periods.

The attached performance information is sorted by Type and Vintage Year. In reviewing the attached information, please consider the following:

<u>Type</u>
Consistent with historical reporting by sub-asset class, partnerships are categorized as Venture Capital, Leveraged Buyout ("LBO"), or Emerging Market.

<u>Vintage Year</u>
Represents the year each partnership commenced investment activities according to CA; note, this may be different than the year in which the Regents committed to invest in the partnership.

<u>UC Commitment</u>
Represents the total commitment made by the Regents to each partnership, adjusted for any subsequent reductions to partnership commitments by the General Partners.

<u>Cash In</u>
Represents the total portion of the Regents' commitment that has been contributed to the partnership from inception through March 31, 2003.

<u>Current NAV</u>
Represents the net asset value of the Regents' interest in each partnership as determined by the General Partners in financial statements dated March 31, 2003.

<u>Cash Out</u>
Represents the total distributions received by the Regents from inception through March 31, 2003.

<u>Cash Out + Current NAV</u>
Represents the sum of distributions received by the Regents from inception through March 31, 2003 and the net asset value of the Regents' interest in each partnership as determined by the General Partners in financial statements dated March 31, 2003.

<u>Investment Multiple</u>
Represents each partnership's total value as a multiple of invested capital; the multiple is calculated by dividing Cash Out + Current NAV by Cash In.

<u>Net IRR</u>
Represents the cash-on-cash return net of fees, expenses, and carried interest from inception through March 31, 2003 as well as the net asset value of the Regents' interest in each partnership as determined by the General Partners in financial statements dated March 31, 2003.

Private Equity partnerships represent long-term commitments of typically 10 to 13 years. The majority of capital commitments are contributed to each partnership during the initial five- to six-year period when the General Partners are actively making new investments. Differences in the investment pace of each partnership have a significant impact on the Investment Multiple and Net IRR calculations. Since fees and expenses are paid on a regular schedule, partnerships with a relatively slower investment pace will tend to produce lower Investment Multiple and Net IRR figures. In addition, each General Partner uses different valuation policies to determine the net asset value of the partnership, as no industry standard currently exists. While each General Partner's valuation policy is different, conservatism often results in early write-downs for underperforming investments. In addition, write-ups are typically limited to an independent valuation event such as a third party financing or an initial public offering. All of these issues contribute to the J-Curve Effect and limit the comparability of returns across partnerships.