University of California

The University of California Retirement Plan

Annual Financial Report 2007-2008

UCRS Plan Administration

Year Ended June 30, 2008

Summary Statement

This report contains information about the University of California Retirement Plan (UCRP or the Plan) as of and for the fiscal year ended June 30, 2008, and includes audited financial statements. Significant statistics relating to the Plan and its membership base as of the 2007–2008 fiscal year end are as follows:

Net assets	$42.0	billion
Net investment loss	$2.6	billion
Monthly benefit payments (excluding member withdrawals and lump sum cashouts)	$1.5	billion
Plan administrative and other expenses	$36.6	million
Transfer of Assets to LLNS* defined benefit pension plan	$1.6	billion

Active Plan Membership

Senate Faculty and Non-Faculty Academics	22,311	members
Management/Senior Professional	7,967	members
Professional/Support Staff	83,964	members
Total	114,242	members
• Average annual salary		
Senate Faculty	$110,479	
Non-Faculty Academics	$71,735	
Management/Senior Professional	$117,317	
Professional/Support Staff	$56,391	
• Average age		
Senate Faculty	50	years
Non-Faculty Academics	44	years
Management/Senior Professional	49	years
Professional/Support Staff	43	years

Inactive Plan Membership/Other*

64,566 members

Retiree Membership

Faculty	4,524	retirees
Management/Senior Professional	5,805	retirees
Professional/Support Staff	31,255	retirees
Total	41,584	retirees
• Average retirement age		
Faculty	63	years
Management/Senior Professional	60	years
Professional/Support Staff	59	years
• Average service credit at retirement		
Faculty	26	years
Management/Senior Professional	22	years
Professional/Support Staff	20	years
• Average annual UCRP income		
Faculty	$65,832	
Management/Senior Professional	$49,248	
Professional/Support Staff	$26,712	
Survivor/Beneficiary	6,369	recipients
Disabled	2,218	recipients

Lawrence Livermore National Security

Plan Overview and Administration

The University of California Retirement Plan (UCRP or the Plan) is a key component of the comprehensive benefits package offered to employees of the University of California (the University) and its affiliate, Hastings College of the Law. The Plan is a governmental defined benefit pension plan intended to be qualified under §401(a) of the Internal Revenue Code (IRC).

The University's pension program dates back to 1904, with a plan that provided for the purchase of commercial annuities for retiring professors at UC Berkeley and UC San Francisco. The current Plan was designed in 1961, before the University's participation in Social Security and before the introduction of employee life and disability insurance coverage. Over the years, the Plan has evolved to include provisions for:

- basic retirement income (includes post-retirement survivor benefits) and four alternative monthly payment options;
- disability benefits;
- death benefits;
- preretirement survivor benefits; and
- annual adjustments for increases in the cost of living for monthly benefits and the compensation component of the benefit formula for inactive members.

Further, in lieu of lifetime retirement benefits, members may choose a refund of their accumulated Plan contributions and earnings or, if eligible to retire, they may elect a lump sum payment that is the actuarial equivalent present value of their lifetime retirement income.

At June 30, 2008, active UCRP members included 114,242 employees at the University's 10 campuses, five medical centers, one Department of Energy national laboratory, and Hastings College of the Law.

The Associate Vice President—Human Resources and Benefits (AVP–HR/B) of the University of California is the Plan Administrator and is responsible for the day-to-day management and operation of the Plan. The Plan Administrator conducts policy research, implements changes to the Plan and the Plan regulations to preserve the Plan's qualification under the IRC, and provides member recordkeeping, accounting and reporting, and receipt and disbursement of Plan assets to eligible members.

Plan Progression

1904	Provided commercial annuities equal to two-thirds salary for faculty aged 70 or older with 20 years of service.
1924	Pension and Retiring Annuities System (PRAS) pension plan introduced for faculty and high ranking administrators.
1937	Pension plan coverage established for nonacademic employees through CalPERS.
1961	PRAS terminated due to insolvency and UCRP established to provide retirement, disability, and preretirement survivor benefits to all University career employees.
1971	Annual 2 percent (maximum) COLAs applied to retirement, survivor and disability benefits.
1976	Social Security coverage offered to UCRP members.
1990-93	Employer/employee UCRP contributions gradually suspended.
1990-94	Offered a total of three early retirement incentive programs to UCRP members and one to UC members of CalPERS.
1992-94	Made a total of five Capital Accumulation Payment (CAP) allocations in behalf of eligible members.
2001-02	Modified membership eligibility to include employees who work 1,000 hours in a 12-month period and increased UCRP age factors to enhance retirement benefits.
2002-03	Made two additional Capital Accumulation Payment (CAP II) allocations in behalf of eligible members.
2005-06	Transferred management of the Los Alamos National Laboratory (LANL) to the Los Alamos National Security, LLC (LANS)
2006-07	Expanded Plan distribution and rollover provisions to offer additional options made available by the Pension Protection Act of 2006.
2007-08	Allowed rollover of eligible distributions to Roth IRAs, as provided for by the Pension Protection Act of 2006. (See page 4 for additional changes.)

Changes in the Plan

The following Plan changes occurred during fiscal year 2007-2008. These changes were mandated by legislation or recommended by the President of the University and approved by the Regents. All currently effective Plan provisions are contained in the Plan document.

Date	Change
July 2007	Changed assumed annual rate of increase in the Consumer Price Index from 4.0% to 3.5%.
October 2007	Facilitated the transition of LLNL to LLNS in compliance with contractual obligations. Active LLNL Members permitted to voluntarily transfer their accrued UCRP benefits and service credit to the LLNS defined benefit pension plan, thereby waiving rights to future UCRP benefits, with the exception of the Capital Accumulation Payment (CAP), which will remain in UCRP until they separate employment from LLNS.
January 2008	Effective for rollovers after December 31, 2007, allowed rollover of eligible distributions to Roth IRAs, as provided for by the Pension Protection Act of 2006.
April 2008	Transfered approximately $1.6 billion in UCRP assets to the Lawrence Livermore National Security, LLC (LLNS) successor defined benefit pension plan (LLNS Plan) as required under the University's contract with DOE/NNSA for the benefit of the approximately 4,000 Lawrence Livermore National Laboratory (LLNL) employees who accepted employment with LLNS and elected to participate in the LLNS Plan.

Membership

Employees participate in the Plan in one of four membership classifications:

- Members with Social Security coverage
- Members without Social Security coverage
- Safety Members (police and firefighters)
- Tier Two

The following table reflects Plan membership by classification over the past 10 years.

Plan Membership

	Active Membership						
Year Ended June 30	**With Social Security**	**Without Social Security**	**Safety Members**	**Tier Two Members**	**Total Active[1]**	**Inactive Members/ Other[1][2]**	**Total[3]**
2008	111,254	2,556	411	21	114,242	64,566	178,808
2007*	115,254	3,179	432	20	118,885	59,056	177,941
2006	117,917	3,941	425	34	122,317	52,548	174,865
2005	118,756	5,419	418	49	124,642	47,123	171,765
2004	117,100	6,165	399	53	123,717	39,874	163,591
2003	113,913	6,982	400	56	121,351	31,262	152,613
2002	109,708	7,614	398	56	117,776	25,198	142,974
2001	101,261	8,127	396	64	109,848	23,278	133,126
2000	94,361	8,558	393	70	103,382	21,950	125,332
1999	88,723	8,923	395	82	98,123	22,109	120,232

(1) The changes in active and inactive membership during fiscal years 2008 and 2007 include the results of elections made by LLNS and LANL employees, respectively, who either retired, became inactive, or accepted employment with LLNS and LANS, respectively, and joined its defined benefit pension plan.

(2) Includes terminated nonvested employees eligible for a refund of Plan accumulations or Capital Accumulation Provision balance.

(3) Excludes UCRP benefit recipients, as accounted for in the table on page 7.

Funding Policy

The Regents' funding policy has been to establish annual contributions as a percentage of payroll by using the entry age normal actuarial funding method. In fiscal year 1990-91, the Regents adopted a full funding policy. Under that policy, the Regents suspend contributions to the Plan when the market value or the actuarial value of Plan assets (whichever is less) exceeds the lesser of the actuarial accrued liability plus normal cost or 150 percent of current liability plus normal cost.

In March 2006, the Regents approved several changes intended to ensure UCRP's long-term financial stability:

- A targeted funding level of 100 percent over the long term;
- University and member contributions at rates necessary to maintain that level within a range of 95 to 110 percent;
- A multi-year contribution strategy under which contribution rates will increase gradually over time to 16 percent of covered earnings, based on UCRP's current normal cost; and
- The resumption of UCRP contributions effective July 2007, subject to available funding, completion of the budget process and collective bargaining, as applicable. Funding for UCRP contributions was not included in the State of California budget for the 2007-2008 fiscal year so the restart of UCRP contributions was delayed.

UCRP Funding Status

($ in millions)

Plan Year Beginning July 1	(a) Actuarial Value of Assets in Excess of Actuarial Accrued Liability
2007	$ 1,997.4
2006	1,670.8
2005	3,832.5
2004	6,258.9
2003	8,474.6
2002	11,549.2
2001	13,103.3
2000	12,958.9
1999	9,932.6
1998	6,515.7

(a) The Actuarial Value of Assets is determined using an Adjusted Market Value Method. The Actuarial Accrued Liability is equal to the present value of benefits to be paid less the present value of all future contributions required to finance the Plan.

Plan Benefits

The Plan paid approximately $1,479.5 million in retirement, disability, and preretirement survivor benefits to 50,171 members and their beneficiaries during fiscal year 2007-2008. Retirement payments include cost-of-living adjustments and exclude lump sum cashouts. Payments to survivors include basic death payments. The table below reflects total benefits paid in each category over the past 10 years.

UCRP Benefit Payments

($ in thousands)

Year Ended June 30	Retirement	Disability	Death & Survivor	Total*
2008	$1,403,778	$36,098	$39,624	$1,479,500
2007	1,260,092	35,815	36,487	1,332,394
2006	1,106,711	34,771	34,338	1,175,820
2005	984,816	33,434	33,254	1,051,504
2004	877,696	31,900	30,731	940,327
2003	794,861	29,311	28,534	852,706
2002	730,115	27,132	26,475	783,722
2001	657,105	25,414	24,600	707,119
2000	614,302	22,974	22,869	660,145
1999	583,133	20,047	21,141	624,321

** Does not include non-periodic member withdrawals (including CAP distributions) and lump sum cashouts.*

The number of UCRP benefit recipients in each category for the year ended June 30 for each of the past 10 years is shown below.

UCRP Benefit Recipients

Year Ended June 30	Retired Members	Disabled Members	Deceased Members	Survivors	Total*
2008	41,584	2,218	1,964	6,369	50,171
2007	39,261	2,269	1,817	6,152	47,682
2006	37,289	2,269	1,686	5,884	45,442
2005	33,590	2,225	1,774	5,662	41,477
2004	32,072	2,194	1,781	5,472	39,738
2003	30,655	2,129	1,603	5,083	37,867
2002	29,247	2,096	589	4,822	36,165
2001	27,991	2,032	753	4,661	34,684
2000	26,879	1,927	503	3,964	32,770
1999	25,639	1,713	648	3,890	31,242

**Does not include Deceased Members.*

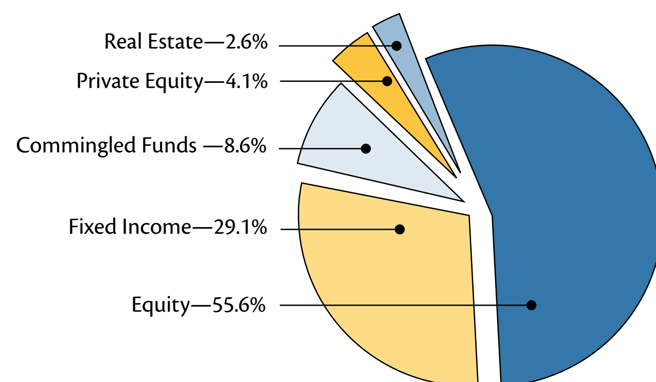
Investments

Investment Management

In a defined benefit plan such as UCRP, the employer/plan sponsor has a contractual obligation to pay benefit obligations, with or without the necessary assets segregated in a trust fund. The employer bears the mortality and investment risk because members' benefits are based on the employer's promise rather than the contributions or plan assets available to pay the benefits.

The Chief Investment Officer has primary responsibility for investing the Plan's assets consistent with policies established by the Regents. The Regents have fiduciary responsibility for establishing investment policy for the Plan and for overseeing the implementation of that policy.

The assets of the Plan are held separately under a custodial agreement with State Street Bank & Trust Co. The bank carries insurance against loss of property caused by employee dishonesty, theft, misplacement, damage, distribution or mysterious disappearance.



Asset Allocation

Total Fund. UCRP is a balanced investment fund of **$42.1 billion** in total investments. **$23.5 billion** of the investment portfolio is invested in *domestic and foreign equities*. The **$1.7 billion** *private equity segment* includes $762 million in venture capital, $929 million in buyout funds, and $26 million international private equity and $4 million in common stock distributions. Another **$12.3 billion** is invested in *fixed income securities*, of which $3.6 billion is in high-quality government, and $7.5 billion is invested in corporate, foreign and mortgage-backed bonds and commercial paper, and $1.2 billion in foreign currency denominated government and corporate issues. The fund also includes allocations of **$3.5 billion** *commingled funds* comprised of $649 in absolute return funds, $285 million in domestic equity funds, $2.3 billion in non-U.S. equity funds, $420 million in money market funds. In addition, the fund holds **$1.1 billion** in *real estate investment trusts*.

Proxy Voting Policy

The Treasurer's Office has instructed the Regents' custodian bank to vote all proxies on behalf of the Regents according to guidelines established by the Regents.

Historical Investment Performance

Annualized Rates of Return at June 30, 2008

	1-year	5-year	10-year
UCRP Total Fund	**(5.74)%**	**8.61%**	**5.66%**
Policy Benchmark(1)	*(4.65)%*	*8.53%*	*5.36%*
U.S. Equity Portfolio	**(14.27)%**	**7.88%**	**3.13%**
Policy Benchmark(2)	*(12.84)%*	*8.24%*	*3.41%*
Non-U.S. Equity-Developed	**(9.34)%**	**17.30%**	**n/a**
Policy Benchmark(3)	*(8.90)%*	*17.24%*	*n/a*
Non-U.S. Equity-Emerging Markets	**1.53%**	**29.20%**	**14.84%**
Policy Benchmark(4)	*4.63%*	*29.75%*	*15.33%*
Core Fixed Income Portfolio	**5.26%**	**3.87%**	**5.78%**
Policy Benchmark(5)	*8.24%*	*4.24%*	*6.01%*
High Yield Bond Portfolio	**(2.57)%**	**n/a**	**n/a**
Policy Benchmark(6)	*(2.03)%*	*n/a*	*n/a*
Non-U.S. Fixed Income Portfolio	**18.73%**	**n/a**	**n/a**
Policy Benchmark(7)	*18.72%*	*n/a*	*n/a*
Emerging Market Debt Portfolio	**5.11%**	**n/a**	**n/a**
Policy Benchmark(8)	*5.17%*	*n/a*	*n/a*
TIPS Portfolio	**15.69%**	**6.12%**	**n/a**
Policy Benchmark(9)	*15.09%*	*5.98%*	*n/a*
Private Equity Portfolio(10)	**7.20%**	**20.86%**	**19.72%**
Absolute Return(11)	**2.52%**	**n/a**	**n/a**
Real Estate	**5.64%**	**n/a**	**n/a**
Policy Benchmark(12)	*5.63%*	*n/a*	*n/a*

Current Policy Benchmarks:

Asset Class	*Benchmark*	*Component Percentage of Total Fund*
(1) Total Fund	*Combination of benchmarks stated below.*	*100% (see components below)*
(2) U.S. Equity	*Russell 3000 Tobacco Free Index*	*52% - actual wt (PE)-actual wt (RE)-actual wt (AR)*
(3) Non-U.S. Equity-Developed	*MSCI World ex-US (Net Dividends) Tobacco Free*	*18%*
(4) Non-U.S. Equity-Emerging Mkts	*MSCI Emerging Market (Net Dividends)*	*3%*
(5) US Core Fixed Income	*Citigroup Large Pension Fund (LPF)*	*12%*
(6) High Yield Debt	*Merrill Lynch High Yield Cash Pay Index*	*3%*
(7) Non-US Fixed Income	*Citigroup World Gov't Bond Index ex-US*	*3%*
(8) Emerging Market Debt	*JP Morgan Emerging Market Bond Index "Plus"*	*3%*
(9) TIPS	*Lehman Brothers TIPS*	*6%*
(10) Private Equity	*Actual Private Equity Returns*	*actual weight*
(11) Absolute Return	*30-Day U.S. T-Bill + 4.5%*	*actual weight*
(12) Real Estate	*Closed End: Actual RE Returns/Open End: NCREIF Property Index (NPI)*	*actual weight*

Equity Portfolio

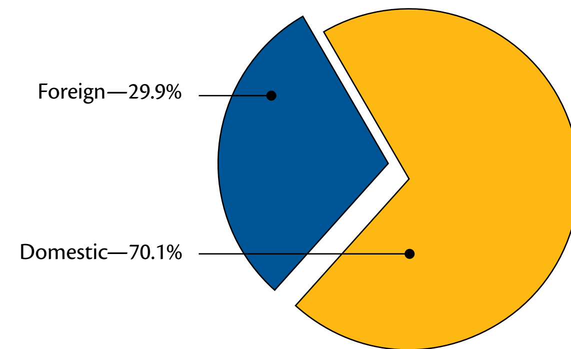
Quality and Diversification

The Equity Portfolio is diversified among multiple strategic economic sectors within passive and actively managed accounts. The Equity Portfolio represents 55.6 percent (or $23.4 billion) of the total Fund and is diversified among domestic and non-U.S. equity securities.

The asset mix within the Equity Portfolio as of June 30, 2008, is 70.1 percent domestic equity and 29.9 percent non-U.S. equity.

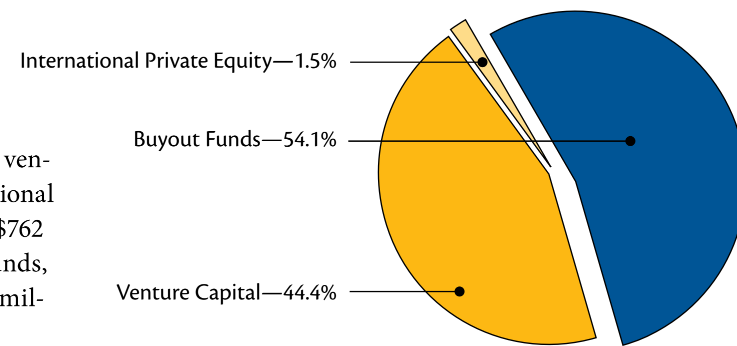
The non-U.S. equity developed sector ($7.0 billion) is invested primarily in an EAFE-based international index fund portfolio. The remainder of the sector is managed by various independent international investment advisors.

Equity Portfolio Asset Allocation



Private Equity Segment

The private equity sector ($1.7 billion) is invested in venture capital partnerships, buyout funds and international private equity. The *private equity segment* includes $762 million in venture capital, $929 million in buyout funds, and $26 million international private equity and $4 million in common stock distributions.

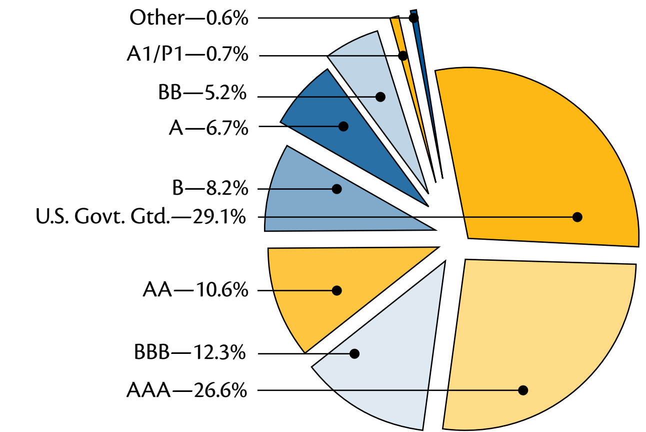


Fixed Income Portfolio

The fixed income portfolio accounts for 29.1 percent of the total Fund (excluding investments of cash collateral) and is invested primarily in high-quality, call-protected, global bonds. The effective duration of the fixed income portfolio as of June 30, 2008, was 7.6, and the weighted average quality rating was AA.

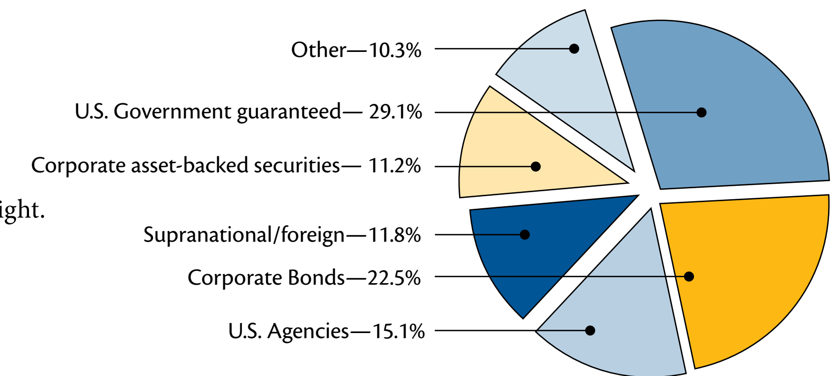
Quality*

Approximately 29.1 percent of the core fixed income portfolio consists of U.S. government-guaranteed securities, and 43.9 percent of the portfolio consists of high quality corporate issues rated investment grade or better, 26.3 percent in mortgage-backed securities with the remaining 0.7 percent in cash equivalents. The quality of the holdings is illustrated at right.



Diversification

The fixed income portfolio investments are diversified among the sectors illustrated at right.



* Credit Ratings

U.S. Treasury Obligations:
Guaranteed by the full faith and credit of the United States and rated AAA by Standard & Poor's.

Standard & Poor's (S&P) and Other Bond Ratings

AAA:	Prime, maximum safety. Extremely strong capacity to pay principal and interest.
AA:	High grade, high quality. Very strong capacity to pay principal and interest.
A:	Upper medium investment grade. Strong capacity to pay principal and interest.
A1/P1/F1:	Highest short-term rating by S&P, Moody's, and Fitch respectively indicate a superior ability to repay short-term debt obligations. Securities that have been assigned both an A1, P1, or F1 rating are considered to be of high credit quality.
BBB:	Medium investment grade. Adequate capacity to pay principal and interest.
BB:	Speculative characteristics. Exposure to adverse conditions could impair current ability to pay principal and interest.
B:	Low grade, speculative. Financial situation varies noticeably.

UCRP Management's Discussion & Analysis (Unaudited)

The objective of Management's Discussion and Analysis is to help readers of the University of California Retirement Plan (the Plan) financial statements better understand the Plan's financial position and operating activities for the fiscal year ended June 30, 2008, with selected comparative information for the years ended June 30, 2007 and June 30, 2006. This discussion should be read in conjunction with the financial statements and the notes to the financial statements.

Financial Highlights

- The net assets held in trust for pension benefits at June 30, 2008, are $42.0 billion compared to $48.1 billion at June 30, 2007 and $43.4 billion at June 30, 2006. The net assets are available to meet the Plan's ongoing obligations to Plan members, retirees and their beneficiaries.
- The net assets of the Plan decreased by $6.1 billion or 12.6 percent in 2008 compared to an increase of $4.7 billion or 10.9 percent in 2007 and $1.5 billion or 3.6 percent in 2006.
- The Plan's total investment rate of return was (5.7) percent in 2008 compared to 18.8 percent in 2007 and 7.1 percent in 2006.
- During 2008, $1.6 billion in Plan net assets were transferred to LLNS defined benefit pension plan.
- As of July 1, 2007, the date of the most recent actuarial valuation, the Plan's funded ratio was 104.8 percent, compared to 104.1 percent at July 1, 2006 and 110.3 percent at July 1, 2005. For July 1, 2007, this indicates that, for every dollar of actuarial accrued liability, assets of $1.05 are available to cover such obligations as compared to $1.04 at July 1, 2006 and $1.10 at July 1, 2005.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's financial statements, which are comprised of the following:

- Statements of Fiduciary Net Assets
- Statements of Changes in Fiduciary Net Assets
- Notes to Financial Statements
- Required Supplementary Information and Note to Required Supplementary Information
- Other Supplementary Information

The Statements of Fiduciary Net Assets present information on the Plan's assets and liabilities and the resulting net assets held in trust for pension benefits. This statement reflects the Plan's investments at fair value, along with cash and short-term investments, receivables and other assets and liabilities.

The Statements of Changes in Fiduciary Net Assets present information showing how the Plan's net assets held in trust for pension benefits changed during the years ended June 30, 2008 and 2007. It reflects contributions along with investment income (or losses) during the period from investing and securities lending activities. Deductions for retirement benefits, withdrawals, cost-of-living adjustments, lump sum cashouts, survivor, disability and death benefits, transfer of plan net assets to Lawrence Livermore National Security (LLNS), and administrative expenses are also presented.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The Required Supplementary Information consists of two schedules and a related note concerning the funded status of the Plan. The Note to Required Supplementary Information provides additional trend information as of the valuation date. This information includes actuarial cost method, amortization method, remaining amortization period, asset valuation period and actuarial assumptions.

The Other Supplementary Information consists of two schedules concerning the actuarial accrued liability of the Plan and the revenues by source and expenses by type for the past 10 years.

Financial Analysis

The Plan provides retirement benefits to University of California employees. Plan benefits are funded by member and employer contributions and by investment income. The Plan's net assets held in trust for benefits as of June 30, 2008 amounted to $42.0 billion compared to $48.1 billion at June 30, 2007, for a decrease of $6.1 billion or 12.6 percent. The Plan's net assets held in trust for benefits as of June 30, 2007 amounted to $48.1 billion compared to $43.4 billion at June 30, 2006 for an increase of $4.7 billion or 10.9 percent.

Additions or reductions to the Plan's net assets held in trust for benefits include contributions and investment income or loss. In 2008 net reductions were $2.6 billion compared to additions of $7.9 billion in 2007 and $3.0 billion in 2006. Net reductions in 2008 reflect significantly lower net investment income earned by the Plan. Member and employer contributions during 2008 amounted to $4.0 million, compared to $25.3 million in 2007 (including a contribution of $17.4 million on behalf of LANL members under a recent agreement between the University and the Department of Energy (DOE) and $1.8 million in 2006, primarily for service credit buybacks and other transfers.

The Plan recognized a net investment loss of $2.6 billion during 2008, compared to investment income of $7.9 billion in 2007 and $3.0 billion in 2006. The investment loss in 2008 was due primarily to negative returns in the equity portfolio. The higher investment income in 2007 was due primarily to positive returns in the equity portfolio. The gains in 2006 were due primarily to the core fixed income portfolio.

Fiduciary Net Assets

($ in thousands)

June 30	2008	2007	2006
Assets			
Investments (including Short-Term Investment Pool)	$42,092,691	$48,835,961	$44,199,460
Investment of securities lending collateral	7,985,216	12,641,611	10,445,933
Receivables	742,520	214,694	502,907
Total Assets	**50,820,427**	**61,692,266**	**55,148,300**
Liabilities			
Payable for securities purchased, member withdrawals, refunds and other payables	768,495	944,662	1,339,177
Collateral held for securities lending	8,028,770	12,642,256	10,446,899
Total Liabilities	**8,797,265**	**13,586,918**	**11,786,076**
Net Assets Held in Trust for Pension Benefits	**$42,023,162**	**$48,105,348**	**$43,362,224**

Changes in Fiduciary Net Assets

($ in thousands)

Year Ended June 30	2008	2007	2006
(Reductions) Additions			
Employer contributions	$ 2,657	$ 23,934	$ 13
Member contributions	1,391	1,406	1,746
Investment (loss) in	(2,599,489)	7,909,821	2,971,154
Other	5,700	6,119	6,506
Total (Reductions) Additions	**(2,589,741)**	**7,941,280**	**2,979,419**
Deductions			
Retirement, cost-of-living adjustments, lump sum cashouts, survivor, disability, and death payments	1,791,989	1,624,953	1,369,819
Member withdrawals	96,690	89,829	70,865
Administrative and other expenses	36,557	38,914	34,011
Transfer of plan net assets	1,567,209	1,444,460	-
Total Deductions	**3,492,445**	**3,198,156**	**1,474,695**
(Decrease) Increase in Net Assets Held in Trust for Pension Benefits	**$(6,082,186)**	**$ 4,743,124**	**$ 1,504,724**
Net Assets Held in Trust for Pension Benefits:			
Beginning of Year	48,105,348	43,362,224	41,857,500
End of Year	**$42,023,162**	**$48,105,348**	**$43,362,224**

Investments

At June 30, 2008, the Plan held $25.2 billion in domestic equity, non-U.S. and private equity securities, compared to $31.5 billion at June 30, 2007 and $29.2 billion at June 30, 2006.

The domestic equity portfolio return was (14.3) percent in 2008, 19.7 percent in 2007 and 9.3 percent in 2006, compared to the Plan's domestic equity policy benchmark returns of (12.8) percent, 19.9 percent, and 9.4 percent, respectively. The non-U.S. equity (developed countries) portfolio return was (9.3) percent in 2008, 27.7 percent in 2007, and 26.5 percent in 2006, compared to the Plan's non-U.S. equity policy benchmark returns of (8.9) percent, 26.9 percent, and 26.9 percent, respectively. The non-U.S. equity (emerging market countries) portfolio return was 1.5 percent in 2008, and 48.2 percent in 2007, compared to the benchmark returns of 4.6 percent and 45.0 percent, respectively.

The private equity portfolio return was 7.2 percent in 2008 19.9 percent in 2007, and 16.1 percent in 2006, respectively.

At June 30, 2008, the Plan held $9.8 billion in U.S. government (excluding the TIPS portfolio), other U.S. dollar-denominated and non-U.S. fixed income securities compared to $10.2 billion at June 30, 2007 and $9.9 billion at June 30, 2006.

The core fixed income portfolio (excluding TIPS) earned a total return of 5.3 percent in 2008, 6.9 percent in 2007 and (2.7) percent in 2006, compared to the Plan's fixed income policy benchmark returns of 8.2 percent, 6.5 percent, and (3.4) percent, respectively.

At June 30, 2008, the Plan held $2.5 billion in TIPS, compared to $2.9 billion at June 30, 2007 and $2.7 billion at June 30, 2006. The TIPS portfolio earned a total return of 15.7 percent in 2008, 4.0 percent in 2007 and (1.6) percent in 2006, compared to the Plan's TIPS policy benchmark returns of 15.1 percent, 4.0 percent, and (1.6) percent, respectively.

At June 30, 2008, the Plan also held $1.1 billion in institutional real estate investments compared to $633.1 million in 2007 and $230.0 million in 2006. The real estate portfolio earned a total return of 5.6 percent in 2008 compared to 11.6 in 2007 and 17.6 percent during the fourth quarter of the fiscal year ended June 30, 2006, compared to policy benchmark returns of 8.0 percent, 16.6 percent, and 20.2 percent, respectively.

The Plan's total fund investment rate of return was (5.7) percent in 2008, 18.8 percent in 2007 and 7.1 percent in 2006, compared to the Plan's total fund policy benchmark returns of (4.7) percent, 18.0 percent, and 6.8 percent, respectively.

The financial markets, both domestically and internationally, are currently demonstrating significant volatility on a daily basis that affect the valuation of investments. As a result, the fair value of investments held by the Plan have declined subsequent to June 30, 2008. The Regents utilize asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk.

Transfer of Plan Net Assets

During 2008 the Plan transferred $1.6 billion in Plan net assets representing assets and liabilities attributable to the Plan's benefits of the approximately 3,900 Lawrence Livermore National Laboratory (LLNL) employees who accepted employment with LLNS as the successor contractor to the University for the management of the LLNL. During 2007 the Plan transferred $1.4 billion in Plan net assets representing assets and liabilities attributable to the Plan's benefits of the approximately 6,500 Los Alamos National Laboratory (LANL) employees who accepted employment with Los Alamos National Security (LANS) as the successor contractor to the University for the management of the LANL.

Funded Status

The Plan's actuarial value of assets available for benefits was $43.4 billion at July 1, 2007 compared to $42.0 billion at July 1, 2006 and $41.1 billion at July 1, 2005. The actuarial accrued liability was $41.4 billion at July 1, 2007 compared to $40.3 billion at July 1, 2006 and $37.3 billion at July 1, 2005. The Plan's actuarial surplus was $2.0 billion at July 1, 2007 compared to $1.7 billion at July 1, 2006 and $3.8 billion at July 1, 2005. The funded percentage at July 1, 2007, was 104.8 percent compared to 104.1 percent at July 1, 2006 and 110.3 percent at July 1, 2005. An analysis of the funding progress and employer contributions and a discussion of actuarial assumptions and methods is set forth in the required supplementary information section of the financial statements.

Fiduciary Responsibilities

The Plan Administrator, the Associate Vice President—Human Resources and Benefits, has primary responsibility for UCRP administrative functions; the Chief Investment Officer has primary responsibility for implementing UCRP investment policy; and the Regents determine investment policy and retain broad oversight responsibility for investment and administrative functions. Under law, the assets can only be used for the exclusive benefit of Plan members, retirees, beneficiaries and administrative expenses.

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Report of Independent Auditors

To the Regents of the
University of California

In our opinion, the accompanying statements of fiduciary net assets and the related statements of changes in fiduciary net assets (presented on pages 16 through 33) present fairly, in all material respects, the financial position of the University of California Retirement Plan (the "Plan") at June 30, 2008 and 2007, and the changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2008 and 2007, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 10, 2008
San Francisco, California

Financial Statements

Statements of Fiduciary Net Assets

($ in thousands)

June 30	2008	2007
Assets		
Investments, at fair value:		
Equity securities:		
Domestic	$16,419,941	$22,189,384
Foreign	7,006,021	8,091,698
Private equities	1,749,766	1,229,465
Fixed income securities:		
U.S. government	3,570,784	4,251,945
Other U.S. dollar-denominated	7,520,899	7,427,366
Foreign	1,178,339	1,398,340
Commingled funds	3,536,387	3,085,839
Real estate	1,110,554	633,081
Equitized market neutral investments	-	528,843
Total Investments	42,092,691	48,835,961
Investment of cash collateral	7,985,216	12,641,611
Receivables:		
Contributions	67,394	92,540
Interest and dividends	109,345	114,509
Securities sales and other	565,781	7,645
Total Receivables	742,520	214,694
Total Assets	**50,820,427**	**61,692,266**
Liabilities		
Payable for securities purchased	595,899	900,010
Member withdrawals, refunds and other payables	172,596	44,652
Collateral held for securities lending	8,028,770	12,642,256
Total Liabilities	**8,797,265**	**13,586,918**
Net Assets Held in Trust for Pension Benefits*	**$42,023,162**	**$48,105,348**

**See Required Supplementary Schedule of Funding Progress.*

See accompanying Notes to Financial Statements.

Statements of Changes in Fiduciary Net Assets

($ in thousands)

Years Ended June 30	2008	2007
(Reductions) Additions		
Contributions:		
Employer	$ 2,657	$ 23,934
Members	1,391	1,406
Total Contributions	4,048	25,340
Investment (Loss) Income:		
Net (depreciation) appreciation in fair value of investments	(3,996,828)	6,616,576
Interest, dividends, and other investment income	1,325,418	1,266,051
Securities lending income	512,746	741,547
Less securities lending fees and rebates	(440,825)	(714,353)
Total Investment (Loss) Income	(2,599,489)	7,909,821
Interest Income from Contributions Receivable	5,700	6,119
Total (Reductions) Additions	**(2,589,741)**	**7,941,280**
Deductions		
Benefit Payments:		
Retirement payments	1,190,300	1,066,342
Member withdrawals	96,690	89,829
Cost-of-living adjustments	213,478	193,751
Lump sum cashouts	312,489	292,556
Preretirement survivor payments	32,315	29,480
Disability payments	36,098	35,816
Death payments	7,309	7,008
Total Benefit Payments	1,888,679	1,714,782
Expenses:		
Plan administration	35,357	37,801
Other	1,200	1,113
Total Expenses	36,557	38,914
Transfer of Assets to LLNS Defined Benefit Pension Plan	1,567,209	-
Transfer of Assets to LANS Defined Benefit Pension Plan	-	1,444,460
Total Deductions	**3,492,445**	**3,198,156**
(Decrease) Increase in Net Assets Held in Trust for Pension Benefits	**(6,082,186)**	**4,743,124**
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	48,105,348	43,362,224
End of Year	**$42,023,162**	**$48,105,348**

See accompanying Notes to Financial Statements.

Note 1—Description of the Plan and Significant Accounting Policies

General Introduction

The University of California Retirement Plan (the Plan) is a defined benefit plan providing lifetime retirement income, disability protection, death benefits, and post- and preretirement survivor benefits to eligible employees of the University of California (the University) and its affiliate, Hastings College of the Law.

Established in 1961, membership in the Plan is required for all employees appointed to work at least 50 percent time for one year or more or for an indefinite period. Effective January 1, 2001, employees with limited appointments, employees in contract positions, employees in "non-career" positions at the Department of Energy's Lawrence Livermore National Laboratory (LLNL) and the Lawrence Berkeley National Laboratory, and certain academic employees may become eligible for UCRP membership after working 1,000 hours in a rolling, continuous 12-month period.

Generally, five years of service are required for entitlement to Plan benefits. The amount of the monthly pension benefit is determined under the basic formula of covered compensation times age factor times years of service credit. The maximum monthly benefit cannot exceed 100 percent of the employee's highest average compensation over a 36-month period, as adjusted for the annual Internal Revenue Code (IRC) §401(a)(17) limit on covered compensation. The annual benefit is subjected to limitations established by IRC §415. Annual cost-of-living adjustments (COLAs) are made to monthly benefits according to a specified formula based on the Consumer Price Index (CPI). Ad hoc COLAs may be granted subject to funding availability.

The Plan offered three Voluntary Early Retirement Incentive Programs (VERIPs) adopted by the Regents of the University of California (the Regents), which granted enhanced benefits to certain eligible members upon electing early retirement. The VERIPs are known as Plus 5 (fiscal year 1990-1991), Take 5 (fiscal year 1992-1993) and VERIP III (fiscal year 1993-1994).

The Plan includes four membership classifications: members with Social Security, members without Social Security, Safety members (police and firefighters), and Tier Two members. At June 30, 2008, active Plan membership consisted of 111,254 members with Social Security, 2,556 members without Social Security, 411 safety members and 21 Tier Two members.

Members' contributions are recorded separately and accrue interest at a rate determined by the Regents, the Plan's trustee, from time to time. Currently member contributions accrue interest at an annual compounded rate of 6 percent, credited monthly. Upon termination, members may elect a refund of their contributions plus accumulated interest (and their Capital Accumulation Provision (CAP) balance if any); vested terminated members who are eligible to retire may also elect a lump sum payment equal to the present value of their accrued benefits. Both actions forfeit the member's rights to monthly benefits based on the same service credit.

From July 1, 1966, to June 30, 1971, the Plan maintained a noncontributory period for most members; contributions were required only from members who had reached age 30 and had at least one year of service. Member plan accounts designated "Plan 02" were established to keep track of contributions that would have been made had a member been contributing during this period. Future retirement benefits for members with Plan 02 accounts are reduced to account for the contributions that were not made, unless the member repays the Plan 02 balance.

For the period from July 1, 1987, to July 1, 1990, qualifying Plan members could elect to participate in noncontributory Plan membership known as Tier Two. Tier Two provides a lower level of retirement income, disability protection and survivor benefits, calculated using specific Tier Two formulas based on the member's covered compensation times age factor times years of service credit.

Plan members may also have a balance in the Plan consisting of Capital Accumulation Provision (CAP) allocations, which were credited in behalf of eligible members on various dates in 1992, 1993, 1994, 2002 and 2003. Provided to supplement basic Plan benefits, the allocations were equal to a percentage of the eligible member's covered compensation paid during the specified period. The CAP balance is generally payable in a lump sum at retirement or separation from service and includes interest credited monthly equal to an annual percentage yield (APY) of 8.5 percent for allocations made in 1992, 1993, and 1994. For allocations made in 2002 and 2003, the interest credited monthly is equal to the Plan's actuarial investment rate of return assumption, which currently equates to an APY of 7.5 percent. The APY applied to the 2002 and 2003 allocation will vary according to changes in the investment rate of return assumption.

At June 30, 2008, Plan membership included 50,171 retirees, beneficiaries, and disabled members currently receiving benefits, 29,436 terminated vested employees entitled to benefits but not yet receiving them, and 35,130 terminated non-vested employees entitled to a refund of their Plan accumulations and/or CAP balance, including the balances for Los Alamos National Laboratory (LANL) and LLNL members who transferred their benefits and service credit to the defined benefit pension plans established by Los Alamos National Security (LANS) or Lawrence Livermore National Security (LLNS), as applicable, and are eligible for a CAP distribution. Of current active employees, 64,027 are fully vested and 50,215 are non-vested active employees covered by the Plan.

Employer contributions can be made to the Plan, on behalf of all members. The rate of employer contributions is established annually pursuant to the Regents' funding policy (see Note 4 on page 32). For LLNL and LANL retirees and inactive members who remain members in the Plan, the DOE has an ongoing financial responsibility to make contributions to the Plan, if needed, to satisfy the liabilities of members who previously worked at LLNL and LANL.

Basis of Accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board (GASB), and the accrual basis of accounting.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the Plan's fiscal year beginning July 1, 2009. This Statement requires the Plan to report its derivative instruments at fair value. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferrals in the statement of net assets. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are to be classified as investment derivative instruments. Changes in fair value of those derivative instruments are to be reported as investment revenue. The University is evaluating the effect that Statement 53 will have on the Plan's financial statements.

Valuation of Investments

Investments are recorded at fair value. Securities, including derivative investments, are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source.

Investments include private equities, absolute return funds and real estate. Private equities include venture capital partnerships, buyout and international funds. Interests in private equity and real estate partnerships are based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts, cash disbursements and securities distributions through June 30. Investments in absolute return partnerships are valued as of May 31, adjusted for cash receipts and cash disbursements through June 30. Interests in certain direct investments in real estate are estimated based upon independent appraisals. The Plan believes the carrying amount of these financial instruments and real estate is a reasonable estimate of fair value at June 30. Because the private equity, real estate and absolute return partnerships, along with direct investments in real estate, are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed. Investments in registered investment companies are valued based upon the reported net asset value of those companies.

Accounting for Investments

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the Plan's statement of changes in fiduciary net assets.

Administrative Expenses

Administrative expenses are incurred in connection with the operation of the Plan for items such as staff salaries and benefits, investment management, information systems, leased space, supplies and equipment, and professional services rendered by the Plan actuary, legal counsel, and independent auditor. Total Plan administrative expenses, which are paid from Plan assets, represent approximately $35.4 million or 0.08 percent and $37.8 million or 0.08 percent, respectively, of the net assets held in trust for pension benefits for fiscal years 2008 and 2007.

Income Tax Status

The form of the Plan is intended to qualify under Internal Revenue Code (IRC) §401(a) and the regulations thereunder and the Plan's trust is intended to be exempt under IRC §501(a).

In a letter to the University dated November 8, 2007, the Internal Revenue Service (IRS) confirmed its determination that the form of the Plan as amended through December 11, 2002 (other than amendments authorized by the Economic Growth and Tax Relief Reconciliation Act of 2001) met the requirements for qualification under IRC §401(a). Since then, the Plan has been amended to comply with subsequent tax acts and state laws and to make certain design changes recommended by the President of the University and approved by the Regents. Tax counsel for the Plan is not aware of any existing circumstances related to such amendments that indicate a failure to comply with the relevant requirements of the IRC in any material respect. To the best of tax counsel's knowledge, the Plan has been administered in accordance with its terms and the applicable provisions of the IRC and related regulations thereunder, in all material respects.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimates.

The financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2008 and 2007.

Note 2—Investments

The Regents, as the governing board, is responsible for the oversight of the Plan's investments and establishes investment policy, which is carried out by the Chief Investment Officer. The Chief Investment Officer has primary responsibility for investing the Plan's assets consistent with the policies established by the Regents. The Regents establishes investment policies for the Plan and has responsibility for overseeing the implementation of those policies.

Participation in the STIP maximizes the returns on short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities. The available cash in the Plan awaiting investment or for administrative expenses is also invested in the STIP. Investments authorized by the Regents for the STIP include fixed income securities with a maximum maturity of five and one-half years.

Investments authorized by the Regents for the Plan's investment pool and separate investments include equity securities, fixed-income securities and certain other asset classes. The equity portion of the investment portfolios may include both domestic and foreign common and preferred stocks, and actively managed and passive (index) strategies, along with a modest exposure to private equities. Private equities include venture capital partnerships, buyouts and international funds. The University's investment portfolios may include certain foreign currency–denominated equity securities.

The fixed income portion of the investment portfolios may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. Fixed income investment guidelines permit the use of futures and options on fixed income instruments in the ongoing management of the portfolios. Derivative contracts are authorized for portfolio rebalancing in accordance with the Regents' asset allocation policy and as substitutes for physical securities. Real estate investments are authorized for the Plan.

The financial markets, both domestically and internationally, are currently demonstrating significant volatility on a daily basis that affect the valuation of investments. As a result, the fair value of investments held by the Plan have declined subsequent to June 30, 2008. The Regents utilize asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk.

Composition of Investments

The composition of investments, by investment type, at June 30, 2008 and 2007 is as follows:

($ in thousands)

June 30	2008	2007
Investment Type		
Equity securities:		
Domestic	$16,419,941	$22,189,384
Foreign	7,006,021	8,091,698
Equity securities	23,425,962	30,281,082
Fixed income securities:		
U.S. government-guaranteed:		
U.S. Treasury bills, notes and bonds	-	42,977
U.S. Treasury strips	1,098,477	1,332,502
U.S. TIPS	2,459,943	2,864,305
U.S. government-backed securities	12,364	12,161
U.S. government-guaranteed	3,570,784	4,251,945
Other U.S. dollar-denominated:		
Corporate bonds	2,766,803	2,736,502
Commercial paper	89,588	337,647
U.S. agencies	891,133	832,915
U.S. agencies asset-backed securities	959,279	1,290,906
Corporate asset-backed securities	1,369,484	848,697
Supranational/foreign	1,444,612	1,380,699
Other U.S. dollar-denominated	7,520,899	7,427,366
Foreign currency-denominated:		
Government/sovereign	1,125,748	1,314,611
Corporate	52,591	83,729
Foreign currency-denominated	1,178,339	1,398,340
Commingled funds:		
Absolute Return	648,683	-
U.S. equity funds	285,012	317,402
Non-U.S. equity funds	2,259,199	2,446,242
Money market funds*	343,493	322,195
Commingled funds	3,536,387	3,085,839
Private equity	1,749,766	1,229,465
Real Estate	1,110,554	633,081
Equitized market neutral investments	-	528,843
Total Investments	**$42,092,691**	**$48,835,961**

* *Includes investment of $306,828 and $179,436 in the Short Term Investment Pool as of June 30, 2008 and 2007, respectively.*

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example, Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance in the rating agency's opinion that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

The investment guidelines for STIP recognize that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk-adjusted return over its benchmark. (The benchmark for STIP, the 2-year Treasury Note, does not contain credit risk.) No more than 5 percent of the total market value of the STIP portfolio may be invested in securities rated below investment grade (BB, Ba or lower). The average credit quality of the STIP must be A or better, and commercial paper must be rated at least A-1, P-1, or F-1.

The Plan's trustee recognizes that credit risk is appropriate in a balanced investment pool such as the Plan, by virtue of the benchmark chosen for the fixed income portion of the pool. That fixed income benchmark, the Citigroup Large Pension Fund Index and Lehman Aggregate Index, is comprised of approximately 30 percent high grade corporate bonds and 30 to 35 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 35 to 40 percent are government-issued bonds. Credit risk in the Plan is managed primarily by diversifying across issuers, and portfolio guidelines mandate that no more than 10 percent of the market value of fixed income may be invested in issues with a credit rating below investment grade. Further, the weighted average credit rating must be A or higher.

In addition, the investment policy for the Plan allows for dedicated allocations to non-investment grade and emerging market bonds, investment in which entails credit, default and/or sovereign risk.

The credit risk profile for fixed income securities at June 30, 2008 and 2007 is as follows:

($ in thousands)

June 30	2008	2007
Investment Type		
Fixed income securities:		
U.S. government-guaranteed	$3,570,784	$4,251,945
Other U.S. dollar-denominated:		
AAA	3,259,864	3,040,131
AA	170,433	214,208
A	824,743	693,374
BBB	1,506,687	1,316,639
BB	636,480	889,739
B	958,315	931,395
CCC	2,979	4,233
A1/P1/F1	89,588	337,647
Not rated	71,810	-
Foreign currency-denominated:		
AA	1,125,748	1,314,611
A	5,946	25,824
BBB	-	25,527
B	46,645	32,378
Commingled funds/Money market: Not rated	343,493	230,106

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. The Plan's securities are registered in the University's name by the custodial bank as an agent for the Plan. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

The U.S. and non-U.S. equity portions of the Plan investment fund may be managed either passively or actively. For the portion managed passively, the concentration of individual securities is exactly equal to their concentration in the benchmark. While some securities have a larger representation in the benchmark than others, the Plan's trustee considers that passive management results in an absence of concentration of credit risk. For the portion managed actively, asset class guidelines do not specifically address concentration risk, but do state that the U.S. equity asset class in the aggregate will be appropriately diversified to control overall risk and will exhibit portfolio characteristics similar to the asset class benchmark (including concentration of credit risk). Concentration risk for individual portfolios is monitored relative to their individual benchmarks and agreed-upon risk parameters in their guidelines.

Investment guidelines addressing concentration of credit risk related to the investment-grade fixed income portion of the Plan portfolio include a limit of no more than three percent of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to the STIP. For high-yield and emerging market debt, the corresponding limit is five percent.

Interest Rate Risk

Interest rate risk is the risk that the value of fixed and variable income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (one percentage point) change in the level of interest rates. It is not a measure of time.

Interest rate risk for the STIP is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to the maturity structure of the liabilities, that is, the liquidity demands of the investors.

Portfolio guidelines for the fixed income portion of the Plan limit weighted average effective duration to the effective duration of the benchmarks (Citigroup Large Pension Fund Index and Lehman Aggregate Index), plus or minus 20 percent. This constrains the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark.

The effective duration for fixed and variable income securities at June 30, 2008 and 2007 are as follows:

(in years)

June 30	2008	2007
Investment Type		
Fixed income securities:		
U.S. government guaranteed:		
U.S. Treasury bills, notes and bonds	-	1.4
U.S. Treasury strips	11.7	12.2
U.S. TIPS	5.3	5.4
U.S. government-backed securities	6.3	6.3
Other U.S. dollar-denominated:		
Corporate bonds	7.8	7.3
U.S. agencies	4.4	3.8
U.S. agencies asset-backed securities	4.6	5.4
Corporate asset-backed securities	4.1	1.8
Supranational/foreign	7.2	7.1
Foreign currency-denominated:		
Government/sovereign	6.6	6.3
Corporate	6.1	10.0
Commingled funds:		
STIP, other money market funds	1.2	1.2

The money market funds have a constant $1.00 share value due to the short-term, liquid nature of the underlying securities.

Investments may also include various mortgage-backed securities, collateralized mortgage obligations, structured notes, variable-rate securities, callable bonds and convertible bonds that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. Although the effective durations of the securities may be low, they are considered to be highly sensitive to changes in interest rates.

At June 30, 2008 and 2007, the fair values of such investments are as follows:

($ in thousands)

	2008	2007
Mortgage-backed securities	$1,771,346	$2,091,086
Collateralized mortgage obligations	41,633	48,517
Variable rate securities	66,412	30,898
Callable bonds	1,066,471	1,165,869
Other asset-backed securities	24,183	-
Total	$2,970,046	$3,336,370

Mortgage-Backed Securities

These securities are issued by Fannie Mae, Ginnie Mae and Freddie Mac and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized Mortgage Obligations

Collateralized mortgage obligations (CMOs) generate a return based upon the payment of either interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true.

Callable Bonds

Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The Plan's trustee must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.

Variable Rate Securities

These securities are investments with terms that provide for the adjustment of their interest rates on set dates and are expected to have fair values that will be relatively unaffected by interest rate changes. Variable rate securities may have limits on how high or low the interest rate may change. These constraints may affect the market value of the security.

Other Asset-Backed Securities

Other asset-backed securities also generate a return based upon the payment of either interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates.

At June 30, 2008 and 2007, the effective durations are as follows:

(in years)

	2008	2007
Mortgage-backed securities	5.0	3.9
Collateralized mortgage obligations	5.2	5.9
Variable rate securities	5.2	2.6
Callable bonds	4.4	4.8
Other asset-backed securities	4.0	-

Foreign Currency Risk

The Plan trustee's strategic asset allocation policy includes allocations to non-U.S. equities and non-dollar-denominated bonds. The benchmarks for these investments are not hedged; therefore, foreign currency risk is an essential part of the investment strategies. Portfolio guidelines for U.S. investment-grade fixed income securities also allow exposure to non-U.S. dollar-denominated bonds up to 10 percent of the total portfolio market value. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the Regents investment policies, such instruments are not permitted for speculative use or to create leverage. Similar limits on foreign exchange exposure apply to the high-yield debt and emerging market debt portfolios (10 percent and 20 percent, respectively).

At June 30, 2008 and 2007, the U.S. dollar-denominated balances organized by currency denominations and investment type are as follows:

	($ in thousands) 2008	2007
Equity securities:		
Euro	$2,392,175	$ 2,774,310
British Pound	1,333,996	1,725,421
Japanese Yen	1,318,872	1,522,423
Canadian Dollar	540,797	479,915
Swiss Franc	488,007	557,099
Australian Dollar	388,049	409,589
Hong Kong Dollar	154,806	168,591
Swedish Krona	127,444	179,200
Singapore Dollar	88,456	87,854
Norwegian Krone	61,939	71,450
Danish Krone	60,799	55,655
South Korean Won	13,532	20,452
Thailand Baht	10,617	8,547
South African Rand	8,639	7,105
New Zealand Dollar	4,762	15,472
Other	13,131	8,615
Subtotal	7,006,021	8,091,698
Fixed income securities:		
Euro	609,937	701,342
Japanese Yen	400,358	448,145
British Pound	81,620	100,204
Canadian Dollar	31,316	84,637
Polish Zloty	11,977	13,362
Danish Krone	9,094	12,132
Swedish Krona	8,225	11,646
Swiss Franc	8,161	11,904
Malaysian Ringgit	5,086	-
Australian Dollar	4,811	5,660
Singapore Dollar	4,338	4,977
Norwegian Krone	3,416	4,331
Subtotal	1,178,339	1,398,340
Commingled Funds:		
Various currency denominations		
Non-U.S. equity funds	2,259,199	2,446,242
Private equity - Euro	20,114	-
Total exposure to foreign currency risk	**$10,463,673**	**$11,936,280**

Alternative Investment Strategies

Alternative investments are defined as marketable alternatives (hedge funds), limited partnerships, private equity and venture capital funds. Alternative investments include ownership interests in a wide variety of vehicles including partnerships and corporations that may be domiciled in the United States or off-shore. Generally, there is little or no regulation of these investment vehicles by the Securities and Exchange Commission or the applicable state agencies. Managers of these investments employ a wide variety of strategies and have areas of concentration including absolute return, venture capital or early stage investing, private equity or later stage investing and the underlying investments may be leveraged to enhance the total investment return. Each asset class has guidelines and policies regarding the use of leverage. Such underlying investments may include financial assets such as marketable securities, non-marketable securities, derivatives and other synthetic and structured investments as well as tangible and intangible assets. Generally, these alternative investments do not have a ready market and ownership interests in these investment vehicles may not be traded without the approval of the general partner or fund management. These investments are subject to the risks generally associated with equities and fixed income instruments with additional risks due to leverage and the lack of a ready market for acquisition or disposition of ownership interests.

Futures, Forward Contracts, Options and Swaps

The Plan may include futures, forward contracts, options and swap contracts in its investment portfolios.

The Plan enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed income securities. A futures contract is an agreement between two parties to buy and sell a security or financial index, interest rate or foreign currency at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. Upon entering into such a contract, the Plan's trustee is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contract is traded. Pursuant to the contract, the Plan agrees to receive from, or pay to, the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. Since these contracts are settled on a daily basis, with the resulting realized gain or loss included in the statement of changes in fiduciary net assets, there is no fair value for these contracts at the end of the year included in the statement of fiduciary net assets.

Forward contracts are similar to futures, except they are custom contracts and are not exchange-traded. They are the primary instrument used in currency management.

An option contract gives the Plan the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a nonrefundable fee (the premium). The maximum loss to the Plan is limited to the premium originally paid for covered options. The Plan records premiums paid for the purchase of these options in the statement of fiduciary net assets as an investment which is subsequently adjusted to reflect the fair value of the options, with unrealized gains and losses included in the statement of changes in fiduciary net assets. The Plan did not hold any option contracts at June 30, 2008 or 2007.

A swap is a contractual agreement entered into between the Plan and a counterparty under which each agrees to exchange periodic fixed or variable payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The payments correspond to an equity index, interest rate or currency. The Plan records interest rate swaps entered into for investment purposes at fair value, with unrealized gains and losses included in the statement of changes in fiduciary net assets. The Plan did not hold any interest rate swap contracts at June 30, 2008 or 2007.

The Plan could be exposed to risk if the counterparty to the contracts was unable to meet the terms of the contracts. Counterparty credit risk is limited to a receivable due to the variation margin in futures contracts, or to the ability of the counterparty to meet the terms of an option contract that the Plan may exercise. Either risk is remote for exchange-traded contracts. Additional risk may arise from futures contracts traded in non-U.S. markets as the foreign futures contracts are cleared on, and subject to, the rules of foreign boards of trade. In addition, funds provided for foreign futures contracts may not be afforded the same protection as funds received in respect of U.S. transactions. The Plan's trustee seeks to control counterparty credit risk in all derivative contracts that are not exchange-traded through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures undertaken by the Chief Investment Officer.

Note 3—Securities Lending

The Plan participates in a securities lending program as a means to augment income. Securities are lent to selected brokerage firms for which collateral received equals or exceeds the fair value of such investments during the period of the loan. Securities loans immediately terminate upon notice by either the Plan or the borrower. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Collateral securities cannot be pledged or sold by the Plan unless the borrower defaults.

Loans of domestic equities and all fixed income securities are initially collateralized at 102 percent of the fair value of securities lent.

Loans of foreign equities are initially collateralized at 105 percent. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of securities lent.

Cash collateral received from the borrower is invested by lending agents, as agents for the Plan, in investment pools in the name of the Plan, with guidelines approved by the Plan. These investments are shown as investment of cash collateral in the statement of fiduciary net assets. At June 30, 2008 and 2007, the securities in these pools had a weighted average maturity of 27 and 62 days, respectively. The Plan records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of fiduciary net assets. Securities collateral received from the borrower is held in an investment pool by the Plan's custodial bank.

At June 30, 2008, the Plan had no exposure to borrowers because the amounts the Plan owed the borrowers exceeded the amounts the borrowers owed the Plan. The Plan is fully indemnified by its lending agents against any losses incurred as a result of borrower default.

Securities lending transactions at June 30, 2008 and 2007 are as follows:

($ in thousands)

Securities Lent	**2008**	**2007**
For cash collateral:		
Equity securities:		
Domestic	$2,240,955	$ 4,704,141
Foreign	1,101,826	2,130,022
Fixed income securities:		
U.S. government	3,026,440	3,746,269
Other U.S. dollar-denominated	1,419,003	1,381,178
Foreign currency-denominated	7,729	353,751
Lent for Cash Collateral	**7,795,953**	**12,315,361**
For securities collateral:		
Equity securities:		
Domestic	68,565	95,946
Foreign	217,551	113,709
Fixed income securities:		
U.S. government	521,747	250,180
Other U.S. dollar-denominated	11,210	594
Foreign currency-denominated	6,180	7,418
Lent for Securities Collateral	**825,251**	**467,847**
Total Securities Lent	**$8,621,204**	**$12,783,208**
Collateral Received		
Cash	$8,028,770	$12,642,256
Securities	857,047	558,697
Total Collateral Received	**$8,885,817**	**$13,200,953**
Investment of Cash Collateral		
Fixed income securities:		
Other U.S. dollar-denominated:		
Corporate bonds	$ 1,791,423	$ 1,949,896
Commercial paper	22,629	2,241,125
Repurchase agreements	1,611,655	3,963,163
Corporate asset-backed securities	2,243,574	1,734,312
Certificates of deposit/time deposits	1,819,044	1,682,560
Supranational/foreign	427,039	1,027,647
Commingled funds/money market funds	67,818	26,762
Other assets, net	2,034	16,146
Total Investment of Cash Collateral	**$7,985,216**	**$12,641,611**

The Plan earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to pay a fee and rebate to the borrower. The Plan receives the net investment income. The securities lending income and fees and rebates for the years ended June 30, 2008 and 2007 are as follows:

	($ in thousands)	
	2008	**2007**
Securities lending income	$512,746	$741,547
Securities lending fees and rebates	(440,825)	(714,353)
Securities lending income, net	$ 71,921	$ 27,194

Investment Risk Factors

There are a variety of potential risk factors involved in a securities lending program. Risks associated with the investment of cash collateral may include the credit risk from fixed income securities, concentration of credit risk, interest rate risk and foreign currency risk. In addition, there may be custodial credit risk associated with both cash and securities received as collateral for securities lent.

The Plan investment policies and other information related to each of these risks are summarized below.

Credit Risk

The Plan's investment policies for the investment of cash collateral maintained in separately managed collateral pools restrict the credit rating of issuers to no less than A-1, P-1, or F-1 for short-term securities and no less than A2/A for long-term securities. Asset-backed securities must have a rating of AAA.

The credit risk profile for fixed or variable income securities associated with the investment of cash collateral at June 30, 2008 and 2007 is as follows:

	($ in thousands)	
	2008	**2007**
Fixed or variable income securities:		
Other U.S. dollar-denominated:		
AAA	$ 2,589,955	$1,892,504
AA	1,436,719	554,919
A	546,979	1,219,082
BBB	55,073	60,359
A1+	-	3,711,968
A1/P1/F1	3,172,738	4,145,765
Not rated	128,360	1,036,767
Commingled/Money market funds	67,942	26,810
Other assets, net: Not rated	2,038	16,175

Custodial Credit Risk

Cash collateral received for securities lent is invested in pools by the Plan's lending agents. The Plan's securities related to the investment of cash collateral are registered in the Plan's name by the lending agent. Securities collateral received for securities lent are held in investment pools by the Plan's lending agent. As a result, custodial credit risk is remote.

Concentration of Credit Risk

The Plan's investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pools restricts investments in any single issuer of corporate debt securities, time deposits, certificates of deposit, bankers acceptances and money market funds to no more than five percent of the portfolio value. As of June 30, 2008, there was $611,172 and $414,763, of invested cash collateral with JP Morgan Chase and Lehman Brothers, respectively.

Interest Rate Risk

The nature of individual securities in the collateral pools allows for the use of weighted average maturity as an effective risk management measure. The Plan's investment policy with respect to the interest rate risk associated with the investment of cash collateral in the separately managed collateral pools requires the weighted average maturity of the entire collateral pool to be less than 120 days. The maturity of securities issued by the U.S. government and asset-backed securities must be less than five years, corporate debt obligations must be less than two years and time deposits must be less than 190 days. Floating rate debt may be used, but it is limited to 65 percent of the market value of the portfolio.

At June 30, 2008 and 2007, the weighted average maturity expressed in days outstanding for asset-backed securities was 58 days and 56 days, respectively; 22 days and 26 days, respectively, for variable-rate investments.

The weighted average maturity expressed in days outstanding for fixed or variable income securities associated with the investment of cash collateral at June 30, 2008 and 2007 is as follows:

	(in days)	
Investment type	**2008**	**2007**
Fixed income securities:		
Other U.S. dollar-denominated:		
Corporate bonds	48	75
Commercial paper	35	141
Repurchase agreements	1	2
U.S. agencies	39	67
Certificates of deposit/time deposits	38	84
Supranational/foreign	83	60
Commingled/Money market funds	1	2

Investment of cash collateral may include various asset-backed securities, structured notes and variable-rate securities that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the weighted average maturity may be short.

At June 30, 2008 and 2007, the fair value of investments that are considered to be highly sensitive to changes in interest rates is as follows:

	($ in thousands)	
Investment type	**2008**	**2007**
Asset-backed securities	$2,247,672	$1,737,412
Variable-rate investments	2,107,523	1,987,677

Foreign Currency Risk

The Plan's investment policy with respect to the foreign currency risk associated with the investment of cash collateral maintained in separate collateral pools restricts investments to U.S. dollar-denominated securities. Therefore, there is no foreign currency risk.

Note 4—Contributions and Reserves

Actuarially Determined Contribution Requirements and Contributions Made

The Regents' funding policy provides for actuarially determined periodic University and employee contributions at rates reasonably expected to maintain the Plan on an actuarially sound basis. Employee contributions are subject to collective bargaining. In addition, the DOE may be required to make contributions related to LLNL and LANL members. The contribution rate is determined using the entry age normal actuarial funding method. The entry age normal funding method has been utilized since 1975 as the fundamental basis for the valuation of retirement benefits. Under this method, the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit ages).

The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability. Under this method, the actuarial gains (losses), as they occur, reduce (increase) the unfunded actuarial accrued liability. Under the current funding policy, the Plan is fully funded at July 1, 2007, the date of the latest actuarial valuation.

As of July 1, 2007, the date of the latest actuarial valuation, and July 1, 2006, the difference between the net assets held in trust for pension benefits presented in the Statements of Fiduciary Net Assets and the net assets allocated to fund the actuarial accrued liability (shown on page 36) is as follows:

($ in millions)

July 1	**2007**	**2006**
Net Assets Held in Trust for Pension Benefits	$48,105.3	$43,362.2
Difference between smoothed market value, used for the actuarial valuation, and fair value, used for financial statement presentation	(4,671.3)	(1,389.7)
Net assets allocated to fund the actuarial accrued liability	$43,434.0	$41,972.5

The difference between smoothed market value and fair value is not considered available for purposes of calculating the net assets allocated to fund the actuarially determined accrued liability.

Member Assessment*

Mandatory employee contributions, made as a condition of employment, are based upon covered University wages less a specified monthly reduction, determined periodically by the Regents, as shown below:

	Members Without Social Security	**Members With Social Security**		**Safety Members**	
Effective:		**Below Wage Base**	**Above Wage Base**		**Monthly Reduction**
07/01/93	3.0%	2.0%	4.0%	3.0%	$19
11/01/90	4.5%	2.0%	4.0%	8.0%	$19
06/30/90	6.0%	2.0%	4.0%	8.0%	$19

**The entire member assessment was directed to the Defined Contribution Plan during fiscal years 2006-2007 and 2007-2008.*

At June 30, 2008 and 2007, member accumulations of active employees, including allocated investment income, in the Plan amounted to approximately $376.7 million and $496.6 million, respectively.

The rates for employer contributions as a percentage of covered payroll are determined annually pursuant to the Regents' funding policy and based on recommendations of the consulting actuary. Employer contributions, if any, are credited as a percentage of covered University pay. The recommended employer contributions when combined with member contributions are intended to accumulate sufficient assets to fund the actuarial accrued liability under the entry age normal cost method in order to pay accumulated Plan benefits to vested members.

Accumulated Plan benefits are those future benefit payments that are attributable under the Plan's provisions to the service employees have rendered. Accumulated Plan benefits include benefits expected to be paid to (a) retired or terminated members or their beneficiaries, (b) beneficiaries of deceased members and (c) present active members or their beneficiaries.

Accumulated Plan benefits are based on members' compensation histories and years of service rendered as of the valuation date of July 1, 2007 and 2006.

Note 5—Contributions Receivable

Contributions receivable includes $63.3 million and $68.9 million at June 30, 2008 and 2007, respectively, related to agreements between the State of California (the State) and the University on behalf of the Plan. In 1984, the State agreed to pay the University for contributions due to the Plan of $66.5 million in 30 annual installments of approximately $5.9 million, including interest at 8 percent, based on the discount rate used in the 1984 actuarial valuation. Similarly, in fiscal year 1990, the State agreed to pay the University for contributions due to the Plan of $57.2 million in 30 annual installments of approximately $5.3 million, including interest at 8.46 percent, based on the discount rate used in the 1990 actuarial valuation.

Note 6—Plan Termination

The Regents expects to continue the Plan indefinitely, but reserves the right to amend or discontinue the Plan at any time provided that any such action shall not lessen accrued benefits. In the event that the Plan is terminated, its assets shall be applied solely for the benefit of retired, vested or active participants and beneficiaries, until all liabilities of the Plan have been satisfied. Once all liabilities have been satisfied, any excess assets shall revert to the Regents.

The benefits of the Plan are not insured by the Pension Benefit Guaranty Corporation, a federal insurance agency established under Title IV of the Employee Retirement Income Security Act of 1974.

Actuarial Information

Analysis of dollar amounts of the actuarial value of assets, actuarial accrued liability, and actuarial value of assets in excess of the actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the funding status on a going-concern basis. Analysis of this percentage over time indicates whether a plan is becoming financially stronger or weaker.

Generally, the greater this percentage, the stronger the plan. Trends in the unfunded actuarial accrued liability or assets in excess of the actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability or surplus as a percentage of annual covered payroll generally adjusts for the effects of inflation and aids in the analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the greater this percentage, the stronger the plan.

Required Supplementary Schedule of Funding Progress for the Past Six Years

Valuation Date As of July 1 *($ in millions)*

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Actuarial Surplus	Total Funded Ratio (1)÷(2)	Annual Covered Payroll	Actuarial Surplus as a Percentage of Annual Covered Payroll (3)÷(5)
2007	$43,434.0	$41,436.6	$ 1,997.4	104.8%	$7,612.7	26.2%
2006	41,972.5	40,301.7	1,670.8	104.1	8,259.0	20.2
2005	41,084.9	37,252.4	3,832.5	110.3	8,149.6	47.0
2004	41,293.1	35,034.2	6,258.9	117.9	7,835.2	79.9
2003	41,429.3	32,954.8	8,474.5	125.7	7,733.8	109.6
2002	41,648.8	30,099.6	11,549.2	138.4	7,226.5	159.8

The July 1, 2007 information includes changes in actuarial assumptions that decreased the July 1, 2007 actuarial accrued liability by $535 million. A change in an actuarial method for projecting covered payroll is also included. Covered payroll is now reduced to anticipate members who leave active status during the year. This decreased the July 1, 2007 annual covered payroll by $814 million.

Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate. Actuarially determined amounts are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Required Schedule of Employer and Employee Contributions

The rates for employer contributions as a percentage of covered payroll are determined annually pursuant to the Regents' funding policy and based on recommendations of the consulting actuary. In addition, as a result of their ongoing financial responsibility to UCRP, the DOE may be required to make contributions related to LLNL and LANL members, who were University employees while the laboratories were managed by the University. As a result of the funded status of the Plan, during the years ended June 30, 2008 and 2007, the Plan had no actuarially required employer contributions other than $17.4 million from the DOE to support the funded status of the segment to which assets and liabilities of LANL members are allocated for the year ended June 30, 2008.

Employee contributions may also be required to be made to the Plan. The rate of employee contributions as a percentage of covered payroll is determined annually pursuant to the Regents' funding policy, based on recommendations of the consulting actuary and subject to collective bargaining. During the years ended June 30, 2008 and 2007, the Plan had no required employee contributions.

Note to Required Supplementary Information

Actuarial Information

The required supplementary information is determined as part of the actuarial valuation as of the date indicated. Additional information as of the most recent actuarial valuations is as follows:

Additional Trend Information

Valuation Date As of July 1	2007	2006
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level percent open	Level percent open
Remaining amortization period	1.59 years	1.58 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return*	7.50%	7.50%
Projected salary increases*	4.35-7.00%	4.35-7.00%
Cost-of-living adjustments	2.00%	2.00%

**Includes inflation assumption at 3.50% for fiscal year 2008 and 4.00% for 2007.*

Other Supplementary Information

The total actuarial accrued liability of the Plan, calculated using the entry age normal cost method, was $41.4 billion and $40.3 billion at July 1, 2007 and 2006, respectively. This liability is then compared against the actuarial value of Plan assets to determine the annual required contribution to fund the Plan. The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate.

Actuarial Accrued Liability

($ in millions)

July 1	2007	2006
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$19,801.4	$17,964.1
Active employees:		
Accumulated employee contributions, including allocated investment earnings	456.3	498.0
Employer-financed vested	19,887.2	20,410.3
Employer-financed nonvested	1,291.7	1,429.3
Total actuarial accrued liability – entry age normal cost basis	(41,436.6)	(40,301.7)
Net assets allocated to fund the actuarial accrued liability, at smoothed market value	43,434.0	41,972.5
Actuarial value of assets in excess of actuarial accrued liability – entry age normal cost basis	$ 1,997.4	$ 1,670.8

Other Supplementary Information

Revenues by Source and Expenses by Type for the Past Ten Years

Revenues by Source

($ in thousands)

Year Ended June 30	Member Contributions	Employer Contributions	Total Investment (Loss) Income (a)	Total
2008	$1,391	$ 2,657	$(2,593,789)	$(2,589,741)
2007	1,406	23,934	7,915,940	7,941,280
2006	1,746	13	2,977,660	2,979,419
2005	1,653	737	3,982,916	3,985,306
2004	2,503	5,150	4,998,664	5,006,317
2003	7,060	811	1,892,384	1,900,255
2002	2,954	118	(3,460,714)	(3,457,642)
2001	4,405	517	(2,301,959)	(2,297,037)
2000	3,248	438	4,798,389	4,802,075
1999	2,755	472	4,137,197	4,140,424

Expenses by Type

($ in thousands)

Year Ended June 30	Benefits (b)	Administrative & Other Expenses	Member Withdrawals, Transfers & Other Activity	Total
2008	$1,791,989	$36,557	$1,663,899 (c)	$3,492,445
2007	1,624,953	38,914	1,534,289 (d)	3,198,156
2006	1,369,819	34,011	70,865	1,474,695
2005	1,223,648	21,258	70,560	1,315,466
2004	1,064,180	24,053	57,236	1,145,469
2003	954,887	27,696	32,665	1,015,248
2002	917,747	26,246	26,460	970,453
2001	856,876	23,224	23,881	903,981
2000	793,927	16,520	20,016	830,463
1999	725,543	20,110	17,453	763,106

(a) Total investment income (loss) includes net appreciation (depreciation) in fair value of investments, interest, dividends, other investment income, and securities lending income net of lending fees and rebate expenses.

(b) Does not include member withdrawals including CAP distributions.

(c) Includes $1.57 billion of Plan net assets transferred to LLNS successor pension plan.

(d) Includes $1.44 billion of Plan net assets transferred to LANS successor pension plan.

Management's Discussion & Analysis (Unaudited)

The objective of Management's Discussion and Analysis is to help readers of the University of California PERS Voluntary Early Retirement Incentive Program (the PERS Plus 5 Plan) financial statements better understand the PERS Plus 5 Plan's financial position and operating activities for the fiscal year ended June 30, 2008, with selected comparative information for the years ended June 30, 2007 and 2006. This discussion should be read in conjunction with the financial statements and the notes to the financial statements.

Financial Highlights

- The net assets of the PERS Plus 5 Plan at June 30, 2008, are $76.3 million compared to $86.1 million at June 30, 2007 and $77.8 million at June 30, 2006. The net assets are available to meet the Plan's ongoing obligations to Plan retirees and their beneficiaries.
- The net assets of the PERS Plus 5 Plan decreased by $9.8 million, or 11.4 percent, compared to an increase of $8.3 million in 2007, or 10.7 percent, and an increase of $57 thousand in 2006, or 0.1 percent.
- The PERS Plus 5 Plan's total investment rate of return was (5.7) percent in 2008 compared to 18.0 percent in 2007 and 7.2 percent in 2006.
- As of July 1, 2007, the date of the most recent actuarial valuation, the PERS Plus 5 Plan's funded ratio was 203.4 percent compared to 177.4 percent at July 1, 2006 and 169.8 percent at July 1, 2005. For July 1, 2007, this indicates that for every dollar of actuarial accrued liability, assets of $2.03 are available to cover such obligations compared to $1.77 at July 1, 2006 and $1.70 at July 1, 2005.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the PERS Plus 5 Plan's basic financial statements, which are comprised of the following:

- Statements of Fiduciary Net Assets
- Statements of Changes in Fiduciary Net Assets
- Notes to Financial Statements
- Required Supplementary Information and Note to Required Supplementary Information
- Other Supplementary Information

The Statements of Fiduciary Net Assets present information on the PERS Plus 5 Plan's assets and liabilities and the resulting net assets held in trust for pension benefits. They reflect the Plan's investments at fair value, along with cash and short-term investments, receivables, and other assets and liabilities.

The Statements of Changes in Fiduciary Net Assets present information showing how the PERS Plus 5 Plan's net assets held in trust for pension benefits changed during the years ended June 30, 2008 and 2007. They reflect investment income (or losses) during the period from investing and securities lending activities. Deductions for retirement benefits are also presented.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The Required Supplementary Information consists of two schedules and a related note concerning the funded status of the PERS Plus 5 Plan.

The Note to Required Supplementary Information provides additional trend information as of the valuation date. This information includes actuarial cost method, amortization method, remaining amortization period, asset valuation period, and actuarial assumptions.

The Other Supplementary Information consists of a schedule concerning the actuarial accrued liability of the PERS Plus 5.

Financial Analysis

The PERS Plus 5 Plan provides retirement benefits to UC-PERS members who elected early retirement under the provisions of the Plan. Plan benefits are funded by employer contributions and by investment income. The Plan's net assets held in trust for benefits at June 30, 2008, amounted to $76.3 million compared to $86.1 million at June 30, 2007 and $77.8 million at June 30, 2006. Additions to the Plan's net assets held in trust for benefits include investment income or loss. There were no employer contributions during the 2006-2008 fiscal years. The Plan recognized a net investment loss of $4.7 million in 2008 compared to net investment income of $13.6 million in 2007 and net investment income of $5.4 million in 2006. The decrease in net investment income in 2008 was due primarily to adverse conditions in the global markets resulting in negative returns in the domestic equity and non-U.S. equity portfolios of the investment pool. The increase in net investment income in 2007 was due primarily to higher total returns in the equity portfolio. The lower net investment income in 2006 was due primarily to negative returns in the core fixed income and Treasury Inflation Protected Securities (TIPS) portfolios.

Fiduciary Net Assets

June 30	2008	($ in thousands) 2007	2006
Net assets At Fair Value	$76,336	$86,149	$77,830
Net Assets Held in Trust for Pension Benefits	**$76,336**	**$86,149**	**$77,830**

Changes in Fiduciary Net Assets

Years Ended June 30	2008	($ in thousands) 2007	2006
(Reductions) Additions			
Net investment (loss) income	$(4,692)	$ 13,618	$ 5,429
Total (Reductions) Additions	**(4,692)**	**13,618**	**5,429**
Deductions			
Retirement payments and other expenses	5,121	5,299	5,372
Total Deductions	**5,121**	**5,299**	**5,372**
(Decrease) Increase in Net Assets Held in Trust for Pension Benefits	**$(9,813)**	**$ 8,319**	**$ 57**
Net Assets Held in Trust for Pension Benefits:			
Beginning of Year	86,149	77,830	77,773
End of Year	**$76,336**	**$86,149**	**$77,830**

Retirement benefit payments and other expenses were the only deductions from the PERS Plus 5 Plan's net assets held in trust for benefits. For 2008, deductions declined slightly at $5.1 million, compared to $5.3 million in 2007 and $5.4 million in 2006.

Investments

The assets of the PERS Plus 5 Plan are combined for investment purposes with the assets of the University of California Retirement Plan (UCRP) but are accounted for separately.

The financial markets, both domestically and internationally, are currently demonstrating significant volatility on a daily basis that affect the valuation of investments. As a result, the fair value of investments held by the Plan have declined subsequent to June 30, 2008. The Regents utilize asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk.

Funded Status

At July 1, 2007, the PERS Plus 5 Plan's actuarial value of assets available for benefits was $86.1 million, compared to $77.8 million at July 1, 2006 and $77.8 million at July 1, 2005. The actuarial accrued liability was $42.3 million compared to $43.9 million at July 1, 2006 and $45.8 million at July 1, 2005. The Plan's total surplus was $43.8 million, compared to $34.0 million at July 1, 2006 and $32.0 million at July 1, 2005.

Fiduciary Responsibilities

The PERS Plus 5 Plan Administrator, the Associate Vice President—Human Resources and Benefits, has primary responsibility for Plan administrative functions; the Chief Investment Officer has primary responsibility for implementing Plan investment policy; and the Regents determines investment policy and retains broad oversight responsibility for investment and administrative functions. Under law, the assets can only be used for the exclusive benefit of Plan members, retirees, beneficiaries and administrative expenses.

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Report of Independent Auditors

To the Regents of the
University of California

In our opinion, the accompanying statements of fiduciary net assets and the related statements of changes in fiduciary net assets (presented on pages 42 through 51) present fairly, in all material respects, the financial position of the University of California PERS Voluntary Early Retirement Incentive Program Plan (the "Plan") at June 30, 2008 and 2007, and the changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2008 and 2007, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 10, 2008
San Francisco, California

Financial Statements

Statements of Fiduciary Net Assets

($ in thousands)

June 30	2008	2007
Assets		
Investments, at fair value	$ 76,821	$ 87,609
Investment of cash collateral	14,590	22,738
Other assets - securities sales and investment income	1,109	218
Total Assets	**92,520**	**110,565**
Liabilities		
Liabilities - payable for securities purchased, and member withdrawals	1,515	1,677
Collateral held for securities lending	14,669	22,739
Total Liabilities	**16,184**	**24,416**
Net Assets Held in Trust for Pension Benefits	**$76,336**	**$86,149**

Statements of Changes in Fiduciary Net Assets

($ in thousands)

Years Ended June 30	2008	2007
(Reductions) Additions		
Net investment (loss) income	$(4,692)	$13,618
Total (Reductions) Additions	(4,692)	13,618
Deductions		
Retirement payments	5,114	5,291
Administrative expenses	7	8
Total Deductions	5,121	5,299
(Decrease) Increase in Net Assets Held in Trust for Pension Benefits	**(9,813)**	**8,319**
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	86,149	77,830
End of Year	**$76,336**	**$86,149**

See accompanying Notes to Financial Statements.

Notes to Financial Statements

Years Ended June 30, 2008, and 2007

Note 1—Description of the Plan and Significant Accounting Policies

General Introduction

The University of California Voluntary Early Retirement Incentive Program (the PERS Plus 5 Plan or Plan) is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to UC-PERS members who elected early retirement under the provisions of the Plan. The University of California contributed to the California Public Employees' Retirement System (PERS) in behalf of these UC-PERS members.

Generally, to participate in the PERS Plus 5 Plan, an eligible employee was required to elect concurrent retirement under PERS and the Plan effective October 1, 1991, and must have had Plan Age plus Plan Service Credit equal to 80 years as of September 30, 1991, if classified as a Qualified Academic Senate Faculty Member, or equal to 75 years if not classified as a Qualified Academic Senate Faculty Member. Of 1,579 eligible employees, 879 elected to retire under the Plan.

The cost of contributions made to the PERS Plus 5 Plan was borne entirely by the University. Over the five-year period ended June 30, 1996, the University was required to make contributions to the Plan as determined by the Plan actuary sufficient to maintain the promised benefits and the qualified status of the Plan under the Internal Revenue Code of 1986 (IRC). No additional contributions are required as long as the Plan remains fully funded under the actuarial basis used by the Plan.

Basis of Accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board (GASB), and on the accrual basis of accounting.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the Plan's fiscal year beginning July 1, 2009. This Statement requires the Plan to report its derivative instruments at fair value. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferrals in the statement of net assets. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are to be classified as investment derivative instruments. Changes in fair value of those derivative instruments are to be reported as investment revenue. The University is evaluating the effect that Statement 53 will have on the Plan's financial statements.

Valuation of Investments

Investments are recorded at fair value. Securities, including derivative investments, are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source.

Investments include private equities, absolute return funds and real estate. Private equities include venture capital partnerships, buyout and international funds. Interests in private equity and real estate partnerships are based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts, cash disbursements and securities distributions through June 30. Investments in absolute return partnerships are valued as of May 31, adjusted for cash receipts and cash disbursements through June 30. Interests in certain direct investments in real estate are estimated based upon independent appraisals. The Plan believes the carrying amount of these financial instruments and real estate is a reasonable estimate of fair value at June 30. Because the private equity, real estate and absolute return partnerships, along with direct investments in real estate, are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed.

Investments in registered investment companies are valued based upon the reported net asset value of those companies.

Accounting for Investments

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned. Investments denominated in foreign currencies are translated into U.S.

dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the PERS Plus 5 Plan's statement of changes in fiduciary net assets.

Administrative Expenses

Reasonable administrative expenses are assessed to the PERS Plus 5 Plan through an annual account servicing charge.

Income Tax Status

The form of the PERS Plus 5 Plan is intended to qualify under IRC §401(a) and the regulations thereunder, and the Plan's trust is intended to be exempt from taxation under IRC §501(a). Tax counsel for the Plan is not aware of any circumstances that indicate a material failure to comply with such requirements. To the best of tax counsel's knowledge, the Plan has been administered in accordance with its terms and the applicable provisions of the IRC and the regulations thereunder, in all material respects.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at the date of the financial statements and the reported amounts of changes in net assets held in trust for pension benefits during the reporting period. Actual results could differ from those estimates.

The financial statements of the PERS Plus 5 Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2008 and 2007.

Note 2–Investments

The PERS Plus 5 Plan's investments of $76.8 million are included within the UCRP investment pool, but are accounted for separately. The Regents have the responsibility for the investment of the Plan's assets.

The available cash in the PERS Plus 5 Plan's investment pool awaiting investment or for administrative expenses is also invested in the University of California Short Term Investment Pool (STIP). Investments authorized by the Regents for the STIP include fixed income securities with a maximum maturity of five and one-half years. The total investment return for the PERS Plus 5 Plan, representing income plus net appreciation or (depreciation) on investments, was (5.7) percent and 18.0 percent, respectively, for the years ended June 30, 2008 and 2007.

The financial markets, both domestically and internationally, are currently demonstrating significant volatility on a daily basis that affect the valuation of investments. As a result, the fair value of investments held by the Plan have declined subsequent to June 30, 2008. The Regents utilize asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk.

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example, Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance in the rating agency's opinion that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

The investment guidelines for STIP recognize that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk-adjusted return over its benchmark. (The benchmark for STIP, the 2-year Treasury Note, does not contain credit risk.) No more than five percent of the total market value of the STIP portfolio may be invested in securities rated below investment grade (BB, Ba or lower). The average credit quality of the STIP must be A or better, and commercial paper must be rated at least A-1, F-1, or P-1.

The PERS Plus 5 Plan recognizes that credit risk is appropriate in a balanced investment pool such as the Plan, by virtue of the benchmark chosen for the fixed income portion of the pool. That fixed income benchmark, the Citigroup Large Pension Fund Index and Lehman Aggregate Index, is comprised of approximately 30 percent high grade corporate bonds and 30 to 35 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 35 to 40 percent are government-issued bonds. Credit risk in the Plan is managed primarily by diversifying across issuers, and portfolio guidelines mandate that no more than 10 percent of the market value of fixed income may be invested in issues with credit rating below investment grade. Further, the weighted average credit rating must be A or higher.

In addition, the investment policy for the Plan allows for dedicated allocations to non-investment grade and emerging market bonds, investment in which entails credit, default and/or sovereign risk.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. The PERS Plus 5 Plan's securities are registered in the Plan's name by the custodial bank as an agent for the Plan. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

The U.S. and non-U.S. equity portions of the PERS Plus 5 Plan investment fund may be managed either passively or actively. For the portion managed passively, the concentration of individual securities is exactly equal to their concentration in the benchmark. While some securities have a larger representation in the benchmark than others, the Plan considers that passive management results in an absence of concentration of credit risk. For the portion managed actively, asset class guidelines do not specifically address concentration risk, but do state that the U.S. equity asset class in the aggregate will be appropriately diversified to control overall risk and will exhibit portfolio characteristics similar to the asset class benchmark (including concentration of credit risk). Concentration risk for individual portfolios is monitored relative to their individual benchmarks and agreed-upon risk parameters in their guidelines.

Investment guidelines addressing concentration of credit risk related to the investment-grade fixed income portion of the PERS Plus 5 Plan portfolio include a limit of no more than three percent of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to the STIP. For high-yield and emerging market debt, the corresponding limit is five percent.

The financial markets, both domestically and internationally, are currently demonstrating significant volatility on a daily basis that affect the valuation of investments. As a result, the fair value of investments held by the Plans have declined subsequent to June 30, 2008. The Regents utilize asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk.

Interest Rate Risk

Interest rate risk is the risk that the value of fixed and variable income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (one percentage point) change in the level of interest rates. It is not a measure of time.

Interest rate risk for the STIP is managed by constraining the maturity of all individual securities to be less than 5½ years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to the maturity structure of the liabilities, that is, the liquidity demands of the investors.

Portfolio guidelines for the fixed income portion of the PERS Plus 5 Plan limit weighted average effective duration to the effective duration of the benchmarks (Citigroup Large Pension Fund Index and Lehman Aggregate Index), plus or minus 20 percent. This constrains the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark.

The effective duration for fixed and variable income securities at June 30, 2008 and 2007 are as follows:

	(in years)	
June 30	**2008**	**2007**
Investment Type		
Fixed income securities:		
U.S. government-guaranteed:		
U.S. Treasury bills, notes and bonds	-	1.2
U.S. Treasury strips	11.7	12.3
U.S. TIPS	5.3	5.4
U.S. government-backed securities	6.3	6.3
Other U.S. dollar-denominated:		
Corporate bonds	7.8	7.1
U.S. agencies	4.4	1.7
U.S. agencies asset-backed securities	4.6	5.3
Corporate asset-backed securities	4.1	1.8
Supranational/foreign	7.2	7.0
Foreign currency-denominated:		
Government/sovereign	6.6	6.3
Corporate	6.1	10.0
Commingled funds:		
STIP and other money market funds	1.2	1.2

The money market funds have a constant $1.00 share value due to the short-term, liquid nature of the underlying securities.

Investments may also include various mortgage-backed securities, collateralized mortgage obligations, structured notes, variable-rate securities, callable bonds and convertible bonds that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. Although the effective durations of the securities may be low, they are considered to be highly sensitive to changes in interest rates.

Mortgage-Backed Securities

These securities are issued by Fannie Mae, Ginnie Mae and Freddie Mac and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized Mortgage Obligations

Collateralized mortgage obligations (CMOs) generate a return based upon the payment of either interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true

Variable Rate Securities

These securities are investments with terms that provide for the adjustment of their interest rates on set dates and are expected to have fair values that will be relatively unaffected by interest rate changes. Variable rate securities may have limits on how high or low the interest rate may change. These constraints may affect the market value of the security.

Callable Bonds

Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The Plan must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.

Other Asset-Backed Securities

Other asset-backed securities also generate a return based upon the payment of either interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates.

At June 30, 2008 and 2007, the effective durations are as follows:

	(in years)	
	2008	**2007**
Mortgage-backed securities	5.0	3.9
Collateralized mortgage obligations	5.2	5.9
Variable rate securities	5.2	2.6
Callable bonds	4.4	3.0
Other asset-backed securities	4.0	-

Foreign Currency Risk

The Regents' strategic asset allocation policy for the PERS Plus 5 Plan includes allocations to non-U.S. equities and non-dollar-denominated bonds. The benchmarks for these investments are not hedged; therefore, foreign currency risk is an essential part of the investment strategies. Portfolio guidelines for U.S. investment-grade fixed income securities also allow exposure to non-U.S. dollar-denominated bonds up to 10 percent of the total portfolio market value. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the Regents' investment policies, such instruments are not permitted for speculative use or to create leverage. Similar limits on foreign exchange exposure apply to the high-yield debt and emerging market debt portfolios (10 percent and 20 percent, respectively).

Alternative Investment Strategies

Alternative investments are defined as marketable alternatives (hedge funds), limited partnerships, private equity and venture capital funds. Alternative investments include ownership interests in a wide variety of vehicles including partnerships and corporations that may be domiciled in the United States or off-shore. Generally, there is little or no regulation of these investment vehicles by the Securities and Exchange Commission or the applicable state agencies. Managers of these investments employ a wide variety of strategies and have areas of concentration including

absolute return, venture capital or early stage investing, private equity or later stage investing and the underlying investments may be leveraged to enhance the total investment return. Each asset class has guidelines and policies regarding the use of leverage. Such underlying investments may include financial assets such as marketable securities, non-marketable securities, derivatives and other synthetic and structured investments as well as tangible and intangible assets. Generally, these alternative investments do not have a ready market and ownership interests in these investment vehicles may not be traded without the approval of the general partner or fund management. These investments are subject to the risks generally associated with equities and fixed income instruments with additional risks due to leverage and the lack of a ready market for acquisition or disposition of ownership interests.

Futures, Forward Contracts, Options and Swaps

The PERS Plus 5 Plan may include futures, forward contracts, options and swap contracts in its investment portfolios.

The PERS Plus 5 Plan enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed income securities. A futures contract is an agreement between two parties to buy and sell a security or financial index, interest rate or foreign currency at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. Upon entering into such a contract, the Plan is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contract is traded. Pursuant to the contract, the Plan agrees to receive from, or pay to, the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. Since these contracts are settled on a daily basis, with the resulting realized gain or loss included in the statement of changes in fiduciary net assets, there is no fair value for these contracts at the end of the year included in the statement of fiduciary net assets.

Forward contracts are similar to futures, except they are custom contracts and are not exchange-traded. They are the primary instrument used in currency management.

An option contract gives the PERS Plus 5 Plan the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a non-refundable fee (the premium). The maximum loss to the Plan is limited to the premium originally paid for covered options. The Plan records premiums paid for the purchase of these options in the statement of fiduciary net assets as an investment which is subsequently adjusted to reflect the fair value of the options, with unrealized gains and losses included in the statement of changes in fiduciary net assets. The Plan did not hold any option contracts at June 30, 2008 or 2007.

A swap is a contractual agreement entered into between the PERS Plus 5 Plan and a counterparty under which each agrees to exchange periodic fixed or variable payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The payments correspond to an equity index, interest rate or currency. The Plan records interest rate swaps entered into for investment purposes at fair value, with unrealized gains and losses included in the statement of changes in fiduciary net assets. The Plan did not hold any interest rate swap contracts at June 30, 2008 or 2007.

The PERS Plus 5 Plan could be exposed to risk if the counterparty to the contracts was unable to meet the terms of the contracts. Counterparty credit risk is limited to a receivable due to the variation margin in futures contracts, or to the ability of the counterparty to meet the terms of an option contract that the Plan may exercise. Either risk is remote for exchange-traded contracts. Additional risk may arise from futures contracts traded in non-U.S. markets as the foreign futures contracts are cleared on, and subject to, the rules of foreign boards of trade. In addition, funds provided for foreign futures contracts may not be afforded the same protection as funds received in respect of U.S. transactions. The Plan seeks to control counterparty credit risk in all derivative contracts that are not exchange-traded through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures undertaken by the Chief Investment Officer.

Note 3—Securities Lending

The PERS Plus 5 Plan participates in a securities lending program through the UCRP investment portfolio as a means to augment income. Securities are lent to selected brokerage firms for which collateral received equals or exceeds the fair value of such investments during the period of the loan. Securities loans immediately terminate upon notice by either the Plan or the borrower. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Collateral securities cannot be pledged or sold by the Plan unless the borrower defaults.

Loans of domestic equities and all fixed income securities are initially collateralized at 102 percent of the fair value of securities lent.

Loans of foreign equities are initially collateralized at 105 percent. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of securities lent.

Cash collateral received from the borrower is invested by lending agents, as agents for the Plan, in investment pools in the name of the Plan, with guidelines approved by the Plan. At June 30, 2008 and 2007, the securities in these pools had a weighted average maturity of 27 and 62 days, respectively. The Plan records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of fiduciary net assets. Securities collateral received from the borrower is held in an investment pool by the Plan's custodial bank.

Investment Risk Factors

There are a variety of potential risk factors involved in a securities lending program. Risks associated with the investment of cash collateral may include the credit risk from fixed income securities, concentration of credit risk, interest rate risk and foreign currency risk. In addition, there may be custodial credit risk associated with both cash and securities received as collateral for securities lent.

The PERS Plus 5 Plan investment policies and other information related to each of these risks are summarized below.

Credit Risk

The PERS Plus 5 Plan's investment policies for the investment of cash collateral maintained in separately managed collateral pools restricts the credit rating of issuers to no less than A-1, F-1, or P-1 for short-term securities and no less than A2/A for long-term securities. Asset-backed securities must have a rating of AAA.

Custodial Credit Risk

Cash collateral received for securities lent is invested in pools by the Plan's lending agents. The PERS Plus 5 Plan's securities related to the investment of cash collateral are registered in the Plan's name by the lending agent. Securities collateral received for securities lent are held in investment pools by the Plan's lending agent. As a result, custodial credit risk is remote.

Concentration of Credit Risk

The PERS Plus 5 Plan's investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pools restricts investments in any single issuer of corporate debt securities, time deposits, certificates of deposit, bankers acceptances and money market funds to no more than five percent of the portfolio value. As of June 30, 2008, there was $1.84 million and $1.24 million of invested cash collateral with JP Morgan Chase and Lehman Brothers Inc., respectively.

Interest Rate Risk

The nature of individual securities in the collateral pools allows for the use of weighted average maturity as an effective risk management measure. The PERS Plus 5 Plan's investment policy with respect to the interest rate risk associated with the investment of cash collateral in the separately managed collateral pools requires the weighted average maturity of the entire collateral pool to be less than 120 days. The maturity of securities issued by the U.S. government and asset-backed securities must be less than five years, corporate debt obligations must be less than two years and time deposits must be less than 190 days. Floating rate debt may be used, but it is limited to 65 percent of the market value of the portfolio.

At June 30, 2008 and 2007, the weighted average maturity expressed in days outstanding for asset-backed securities was 58 days and 56 days, respectively; 22 days and 26 days, respectively, for variable-rate investments.

Investment of cash collateral may include various asset-backed securities, structured notes and variable-rate securities that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the weighted average maturity may be short.

At June 30, 2008, the Plan had no exposure to borrowers because the amounts the Plan owed the borrowers exceeded the amounts the borrowers owed the Plan. The Plan is fully indemnified by its lending agents against any losses incurred as a result of borrower default. Securities lending transactions at June 30, 2008 and 2007 are as follows (in thousands):

Securities Lent	**2008**	**2007**
For cash collateral:		
Equity securities:		
Domestic	$ 4,094	$ 8,461
International	2,013	3,831
Fixed income securities:		
U.S. government	5,530	6,738
Other U.S. dollar-denominated	2,593	2,484
Foreign currency-denominated	14	636
Lent for Cash Collateral	**14,244**	**22,150**
For securities collateral:		
Equity securities:		
Domestic	125	173
International	397	205
Fixed income securities:		
U.S. government	953	450
Other U.S. dollar-denominated	20	1
Foreign currency-denominated	11	13
Lent for Securities Collateral	**1,506**	**842**
Total Securities Lent	**$15,750**	**$22,992**
Collateral Received		
Cash	$14,669	$22,739
Securities	1,566	1,005
Total Collateral Received	**$16,235**	**$23,744**
Investment of Cash Collateral		
Fixed income securities:		
Other U.S. dollar-denominated:		
Corporate bonds	$ 3,273	$ 3,508
Commercial paper	41	4,031
Repurchase agreements	2,945	7,129
Corporate asset-backed securities	4,099	3,119
Certificates of deposit/time deposits	3,324	3,026
Supranational/foreign	780	1,848
Commingled funds/money market funds	124	48
Other assets, net	4	29
Total Investment of Cash Collateral	**$14,590**	**$22,738**

The weighted average maturity expressed in days outstanding for fixed or variable income securities associated with the investment of cash collateral at June 30, 2008 and 2007 is as follows:

	(in days)	
Investment type	**2008**	**2007**
Fixed income securities:		
Other U.S. dollar-denominated:		
Corporate bonds	48	75
Commercial paper	35	141
Repurchase agreements	1	2
Corporate asset-backed securities	39	67
Certificates of deposit/time deposits	38	84
Supranational/foreign	83	60
Commingled/Money market funds:	1	2

Foreign Currency Risk

The Regents investment policy with respect to the foreign currency risk associated with the investment of cash collateral maintained in separate collateral pools restricts investments to U.S. dollar-denominated securities. Therefore, there is no foreign currency risk.

Note 4–Contributions and Reserves

Actuarially Determined Contribution Requirements and Contributions

The Regents' funding policy provides for actuarially determined contributions to be made by the University. As of June 30, 2008 and 2007, the PERS Plus 5 Plan was fully funded and no annual contributions were required.

Note 5–Plan Termination

The Regents expects to continue the PERS Plus 5 Plan indefinitely, but reserves the right to amend or terminate the Plan at any time provided that any such action shall not lessen the accrued benefits of any participants. In the event that the Plan is terminated, Plan assets shall be applied solely for the benefit of retired members and their beneficiaries until all liabilities of the Plan have been satisfied. In the event Plan assets available for benefits are insufficient to meet its obligations, the Regents' funding policy provides for additional contributions to be made on behalf of Plan members by the University. Once all liabilities have been satisfied, any excess assets shall revert to the Regents.

The benefits of the PERS Plus 5 Plan are not insured by the Pension Benefit Guaranty Corporation, a federal insurance agency, as established under Title IV of the Employee Retirement Income Security Act of 1974.

Required Supplementary Information

Actuarial Information

Analysis of dollar amounts of the actuarial value of assets, actuarial accrued liability, and actuarial value of assets in excess of the actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the funding status on a going-concern basis. Analysis of this percentage over time indicates whether a plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Required Supplementary Schedule of Funding Progress for the Past Six Years

Valuation Date As of July 1 *($ in thousands)*

Actuarial Valuation Date	(1) Actuarial Value of Assets*	(2) Actuarial Accrued Liability	(3) Actuarial Surplus	(4) Total Funded Ratio (1)÷(2)
2007	$ 86,150	$ 42,346**	$ 43,804	203.4%
2006	77,830	43,877**	33,953	177.4%
2005	77,773	45,804**	31,969	169.8%
2004	75,738	47,482**	28,256	159.5%
2003	71,451	49,319**	22,132	144.9%
2002	72,756	51,021	21,735	142.6%

** Reported at fair value.*

*** Includes present value of administrative expenses equal to one percent of actuarial accrued liability.*

Note: Because 100 percent of the members in the PERS Plus 5 Plan are retired, there is no annual covered payroll.

Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Required Schedule of Employer Contributions

Since 1996, the University has not been required to make employer contributions to the PERS Plus 5 Plan due to its fully funded status.

Note to Required Supplementary Information

Actuarial Information

The required supplementary information was determined as part of the actuarial valuation as of the date indicated. Additional information as of the most recent actuarial valuations is as follows:

Additional Trend Information

Valuation Date As of July 1	2007	2006
Actuarial cost method	Unit Credit	Unit Credit
Amortization method	n/a	n/a
Remaining amortization period	n/a	n/a
Asset valuation method	Fair Value	Fair Value
Actuarial assumptions:		
Investment rate of return*	7.50%	7.50%
Projected salary increases	n/a	n/a
Cost-of-living adjustments	None	None

** Includes inflation assumption at 3.5% for fiscal year 2008 and 4.0% for 2007.*

The actuarial assumptions are based on the presumption that the PERS Plus 5 Plan will continue in operation. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated Plan benefits.

Other Supplementary Information

The total net assets available in excess of the total actuarial accrued liability (AAL) of the PERS Plus 5 Plan based on the measure of the AAL, which uses the unit credit basis, as appears in the actuarial valuation, was approximately $43.8 million at July 1, 2007, and $33.9 million at July 1, 2006, as follows:

Actuarial Accrued Liability

(in millions)	2007	2006
Retirees and beneficiaries currently receiving benefits*	$(42.3)	$(43.9)
Total actuarial accrued liability – unit credit basis	(42.3)	(43.9)
Net assets allocated to fund the actuarial accrued liability, at fair value	86.1	77.8
Actuarial value of assets in excess of the actuarial accrued liability – unit credit basis	$43.8	$33.9

** Includes present value of administrative expenses equal to 1.0% of actuarial accrued liability.*

Plan Oversight—The Board of Regents of the University of California

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Chief Investment Officer and Vice President—Investments and Acting Treasurer	Marie N. Berggren
Associate Chief Investment Officer—Investments and Chief Operating Officer	Melvin L. Stanton
Communications Director	Susan Rossi

Plan Administration—Human Resources and Benefits

Plan Administration Oversight and Executive Vice President—Business Operations	Katherine N. Lapp
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Plan Policy and Administrative Operations:	
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Plan Financial Reporting and Oversight—Financial Management

Assistant Vice President	John Plotts

University Counsel

Barbara A. Clark

Plan Actuary

The Segal Company

Independent Plan Auditor

PricewaterhouseCoopers LLP

Requests for Information

This financial report is designed to provide the Regents, Plans' retirees and others with a general overview of the Plans' financial postures. Questions concerning this report should be addressed to:

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