UNIVERSITY
OF
CALIFORNIA

Quarterly Investment Performance Review

Quarter Ending March 2013

Office of the Treasurer

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Quarterly Investment Performance Review: *March 31, 2013*

EXECUTIVE SUMMARY – MARKET REVIEW (See Attachments IA-IB)

U.S. stocks climbed inexorably higher, surpassing 2007 peak levels in the wake of an improving economic outlook, supported by the housing recovery and accommodative central bank policies

- U.S. broad market indices marked strong double digit gains over the quarter with the Russell 3000 and Dow Jones Industrial, climbing 11.07% and 11.93% respectively. The rally brought the Dow to a peak milestone of 14,578 at quarter end, surpassing the pre-crisis high of 14,164 reached on October 9, 2007. Positive consumer sentiment and continued asset purchases by the Fed helped fuel the first quarter rally.
- As U.S. Equity markets rallied to new highs, the Core Fixed Income markets faltered. The Barclay's Aggregate had a rare loss this quarter, -0.12%, as rates moved up modestly. Long treasuries fared worst, as treasury yields topped 2.0% over several days in the quarter. The Barclay's long government index sustained a -2.26% loss for the quarter.
- Global Equity markets performed unevenly as the MSCI Non-U.S. Equity index rose 4.7%, significantly lagging U.S. Equities this quarter. Uncertainties surrounding the Italian election outcome and the EU's tough stance in handling Cyprus' solvency dampened the European Equity rally. MSCI Europe rose only 2.7%, while the MSCI Emerging Market index fell -1.62%.

Residential housing shows signs of a sustainable recovery

- The brightest spots this quarter were the rise in both prices and demand for Residential Real Estate, as well as an improvement in durable goods orders. The unprecedented low interest rate environment has accelerated the pace of real estate activity, and has helped elevate home prices since the last half of 2012. The residential price recovery shows persistence as the latest reading marks the first time the National Association of Realtors has recorded 12 consecutive months of home price appreciation since 2006.
- Not all economic releases were robust. Unemployment and GDP releases came in at tepid levels, diminishing fears that the Fed will prematurely end Quantitative Easing. The February unemployment rate was 7.7%, still well above the Fed's QE target of 6.5%. The fourth quarter GDP, released on March 28, revealed an anemic 0.4% growth rate with most of the growth driven by personal consumption and residential investments.

This quarter saw episodic increases in volatility around heightened European uncertainties (See Attachment IC)

- Over the quarter, the VIX index (a measure of the S&P's volatility tied to futures markets) flared briefly as European concerns weighed on the market. At the end of February, the VIX surged the most since 2011, spurred by additional fears of renewed turmoil in Europe.
- The market was able to move past the European concerns focusing instead on the mitigation in tail risk based on the expectation of accommodative central bank policies globally. The VIX fell to a five-year low by quarter end.

EXECUTIVE SUMMARY – PLAN REVIEW

All UC plans delivered robust absolute and relative gains for the quarter (See Attachments IIA – IIE)

The **UC Entity** returned 3.95% or 0.40% in excess of the benchmark for the quarter. For the fiscal year to date, the entity climbed 10.39%, 0.93% ahead of policy.

- Total assets under management as of March 31 were $80.1 billion, above peak asset levels achieved prior to the start of the financial crisis. For both the quarter and fiscal year to date periods, all plans managed under the Treasurer's Office delivered robust returns and generated solid relative gains over the policy benchmark. (See Attachment IIA.)

The **UCRP Retirement Plan (UCRP)**, with assets under management of $45.6 billion returned 4.59% or 0.44% in excess of the benchmark for the quarter. The UCRP gained 12.43%, 0.85% above the policy return of 11.58% for the fiscal year.

- The UCRP's gains over policy were driven by asset selection and tactical asset allocation decisions. For the quarter, Emerging Markets delivered the strongest relative performance among the asset classes. Active asset selection decisions within Core Fixed Income, Absolute Return Diversified, and Private Real Estate also were accretive relative to their policies. The tactical decision to modestly overweight equities and underweight Core Fixed Income and TIPS contributed 15 bps to active return. (See attribution details in Attachments IIB and IIC.)

The **General Endowment Pool (GEP)**, with assets under management of $7.2 billion, returned 4.58%, or 0.82% in excess of the benchmark for the quarter. For the fiscal year to date, the GEP returned 12.19%, a significant gain of 1.66% over the policy return of 10.53%.

- The GEP's gains for the recent quarter were driven primarily by strong asset selection, particularly in Absolute Return Diversified, Emerging Market Equity and our recently launched Opportunistic Equity portfolio. Asset allocation was slightly accretive for the quarter primarily due to the Core Fixed Income and TIPS underweights. The overweight in U.S. Equity, which was beneficial to the plan, was offset by the Emerging Market Equity overweight, which detracted. (See attribution details in Attachments IIB and IID.)

The **Short Term Investment Pool (STIP)**, with assets under management of $9.4 billion, returned 0.46% or 0.42% in excess of the benchmark for the quarter and 1.70% for the fiscal year, which was significantly above the policy return of 0.15%.

- STIP is still exceeding its benchmark, the two-year Treasury income return, by a material amount: 0.42% in Q1. The STIP income return will decline to 1% over the next year, assuming that the Fed remains on hold and the current term structure of interest rates remains in place.

The **Total Return Investment Pool (TRIP)**, with assets under management of $4.7 billion, returned 3.56% or 0.07% in excess of the benchmark and 9.84% for the fiscal year, or 0.30% ahead of the policy return of 9.54%.

- TRIP has consistently met The Regents' objective of delivering more yield and return to the University's operating portfolio with less risk. Security selection was the primary driver of returns for the quarter. At quarter end, TRIP was 55% exposed to Core Fixed Income, 35% in Equities and REITs, and 10% in High Yield Debt. (See Attachments IIB and IIE.)

EXECUTIVE SUMMARY – ASSET CLASS REVIEWS – PUBLIC EQUITY

PUBLIC EQUITY REVIEW (See Attachment III for a detailed review)

U.S. Equity

The Russell 3000 Tobacco Free U.S. Equity Index returned 11.08% in the first quarter as better than expected economic news, particularly in the housing market, provided a strong boost to stock returns. When stocks gap up as much as they did in the first quarter, cyclically oriented sectors usually lead the rally and defensive sectors underperform. But in Q1 2013, defensive segments of the market such as Health Care (+15.7% during the quarter), Consumer Staples (+14.7%) and Utilities (+13.4%) were the market leaders, while cyclically-oriented sectors such as Technology, 5.4% and Materials, 5.2% were the laggards.

- The total U.S. equity portfolio returned 11.07%, performing in line with the index during the quarter. The actively managed portion of the U.S. Equity portfolio returned 11.19%, slightly outpacing the index by 0.11%.
- Positive stock selection, particularly in Financials and Materials, enabled the active portfolio to slightly outperform the benchmark during the quarter, while sector allocation modestly detracted.
- The active portfolio is overweight the Technology and Consumer Discretionary sectors, which modestly detracted from performance, as these sectors underperformed. The Technology Sector is trading at historic lows relative to the overall market. Strong demand and higher profits than the broader market should bolster the Technology Sector going forward. The Portfolio is overweight the Consumer Discretionary sector due to the strong franchise value and global brands of companies such as Disney, Nike, Starbucks, and others.
- The active portfolio's underweight the Consumer Staples and Utilities sectors detracted from returns as both sectors outperformed with strong double digit gains. Our managers are underweight based on their belief that yield and defensiveness are very expensive relative to the broader market.

Non-U.S. Developed Equity

The MSCI World ex-U.S. Equity Index returned 4.70% in the first quarter. Europe, which significantly outperformed in the previous several quarters, lagged this quarter, returning just 2.1%. On the other hand, Japan, which had significantly underperformed since the economic recovery began in March 2009, soared during the quarter. Japan has initiated an aggressive program of quantitative easing to pull their economy out of a two-decade slump. The policy activism enabled Japan's stock market to jump an astonishing 20.4% the past three months, though the return was paired down to 10.7% in U.S. dollars as the yen weakened substantially.

- The total Non-U.S. Developed Markets Equity portfolio returned 4.90%, outperforming the index by 0.21% during the quarter. The actively managed portion of the portfolio outpaced the index by 0.27%.
- An underweight to Canada, which lagged in the first quarter, combined with good stock selection, particularly in Germany, the U.K., and the Materials sector, enabled the active portfolio to outperform. However, an underweight to Japan hurt returns as Japan substantially outperformed during the quarter.
- The active portfolio is overweight the Technology and Consumer Discretionary sectors, which had a positive impact on performance as both sectors outperformed the MSCI World ex-U.S. Equity Index. The Technology sector as a group is trading at historic lows relative to the overall market while the Consumer Discretionary companies overseas often have strong brand following.

- The active portfolio is underweight the Financials, Energy, Materials, and Utilities sectors, which was also accretive for the portfolio as these areas underperformed. Australian and Canadian banks are expensive, and European banks have not cleaned up their balance sheets and still lack transparency as compared to U.S. banks. The Energy sector has performed poorly in recent quarters as demand has flattened, oil prices have been in a trading range, exploration costs have risen, and the supply of natural gas has become abundant. Utilities are considered expensive as investors have been willing to pay a substantial premium for yield.

Emerging Market Equity

The Emerging Markets Equity Index fell -1.62% in the first quarter as economic news in China and Brazil edged downward. Positive investor sentiment toward the U.S. economy also resulted in flows moving from Emerging Markets to the U.S.

- The total Emerging Markets Equity portfolio returned -0.14%, outperforming the index by 1.48% during the quarter. The actively managed portion of the portfolio outperformed by 2.29%.
- In aggregate, country allocation decisions were beneficial this quarter. An underweight to China boosted performance as China lagged the overall Emerging Market index. Overweights to Indonesia, Philippines, Thailand, and Turkey were additive to returns as all four countries outperformed. Stock selection was very positive in 8 of 10 sectors, and flat in the other two sectors. Stock selection was also very positive within countries, particularly in Mexico, South Korea, Thailand, and Turkey.
- The active portfolio is underweight China, due to the presence of many state-owned companies whose emphasis is on providing for citizens rather than shareholders. The portfolio is overweight Indonesia, Philippines, Thailand, and Turkey due to political, regulatory, and company specific issues in those countries. The overweights were key drivers to the portfolio's outperformance.

EXECUTIVE SUMMARY - ASSET CLASS REVIEWS – FIXED INCOME

FIXED INCOME REVIEW (See Attachment IV for a detailed review)

Core Fixed Income

The Barclay's U.S. Aggregate Index returned -0.12% in the March quarter, as upbeat economic news led to a modest rise in rates during the quarter. The 10-year U.S. Treasury yield started the year at 1.75% and traded as high as 2.06% during the period before the Cyprus crisis late in the quarter drove yields higher. The major components of the Barclay's Aggregate index performed similarly and all had slight negative returns. Credit spreads traded in a very narrow range, with the market focused on corporate balance sheet re-leveraging and high profile LBO's such as Dell and Heinz. Flows into core fixed income funds remained robust during the quarter, resulting in another near record setting quarter for new issue supply.

- The Core Fixed Income portfolio posted positive absolute returns for the quarter, generating 34 basis points of excess returns. All three major sectors outperformed their respective benchmark.
- The collateralized sector contributed the strongest excess returns, driven by the continued recovery in non-agency MBS and a significant carry advantage versus the Index.
- Core portfolio durations are slightly short relative to benchmark. We expect continued economic growth and eventual tapering of Federal Reserve Bank asset purchases to result in higher interest rates as we approach year-end.

TIPS

Real yields rose during Q1, resulting in a small loss for the Barclay's U.S. TIPS Index. The index returned -0.36%, while UCRP/GEP TIPS returned -0.31%, outperforming by 0.05% for the quarter and 0.26% fiscal year to date. The plans remain materially underweight TIPs as the negative real yields in the TIPS market are unattractive versus other fixed income alternatives.

High Yield Market

The High Yield market, based on the BofA ML High Yield index managed to return an impressive 2.87% during the first quarter, given the fact that yields started the year at record low levels. The benchmark for lower quality High Yield ended the quarter at 4.87%. Investors continue to find yields attractive versus much lower yielding investment grade corporate bonds. The domestic dominated asset class continues to benefit from U.S. GDP expansion, pushing any significant credit concerns well into the future. Investor demand remains robust, with the market setting another quarterly record for new issue volume.

- The High Yield portfolios returned 3.25% during the quarter, beating the benchmark by 38 basis points. Fiscal year to date returns for the portfolios stand at 11.49%, 53 basis points better than benchmark.
- Good performance in the external High Yield managers was responsible for the excess return in the quarter. High Yield has now returned 11.49% fiscal year to date and over 11% a year for the last 5 years.
- Internal portfolios trailed the benchmark due to underperformance in the consumer cyclical and financial sectors. During the quarter there was an effort to move the portfolio yield closer to that of the index by selling lower yielding holdings that had been previously upgraded and rotating into higher yielding securities. The portfolio yield ended the quarter 33 basis points shy of the benchmark, after starting the quarter 47 basis points lower.

Emerging Market Debt

Emerging market debt markets reversed some of its recent strong gains with a loss of -2.26% during the first quarter. However, returns for the fiscal year to date stand at 7.00%.

- Returns were hurt by rising rates and the subsequent move away from lower yielding sovereigns into higher yielding corporate issuers.
- EM corporate new issuance was $106 billion for the quarter, illustrating the depth of the demand for corporate issuers. Inflows to the sector remained robust, with $26 billion for the first quarter; however, the majority of the inflow was targeted to local markets.
  - The EM Debt portfolio returned -1.75%, beating the benchmark by 51 basis points. The externally managed funds had stronger returns, as local currency EM Debt significantly outperformed dollar denominated debt.
  - Internally managed funds lagged the index due to an overweight to some of the lower yielding sovereign issuers which underperformed during the quarter, as well as investment grade EM corporate bonds which underperformed during the quarter.
  - The external managers managed to modestly outperform their benchmark during the quarter. Returns in local currency for the quarter were -0.12%, far better than the -2.26% return of the EMBI Global Diversified.

TRIP

TRIP Core FI outperformed slightly for the quarter, returning -0.04% versus the benchmark return of -0.16%. TRIP continues to hold an overweight in Credit, which has been a strong relative performer for the past year. However, this quarter credit performed in line with the other major sub-sectors, and our overweight did not benefit overall performance. The strong Collateralized debt sector performance observed in UCRP/GEP was more muted in TRIP due to the lack of legacy non-agency Residential Mortgage Bond Securities.

STIP

The STIP current income return is beginning to decline more rapidly as higher yielding corporate securities purchased in 2008 and 2009 are maturing or being called by the issuer. The first quarter annualized income return was 1.92% versus 2.4% for the previous quarter.

- STIP is still exceeding its benchmark, the two-year Treasury income return, by a material amount: 0.44% in the quarter.
- The STIP income return will approach 1% over the next year, assuming that the Fed remains on hold and the current term structure of interest rates remains in place.
- The maturity of the $1 billion California State deposit and large inflows related to recent UC bond issuance will increase the short-term portion of STIP and lower the overall return in Q2 2013.

ALTERNATIVE INVESTMENTS REVIEW

Alternative Investments assets had positive gains over the quarter; however, in aggregate, Alternatives modestly lagged UC policy as expectations of accommodative central bank policy fueled a rally in long equities and riskier assets.

Private Equity (See Attachment V for a detailed review)

- Muted performance in the buyout portfolio and weak performance in the venture capital portfolio weighed on total private equity portfolio returns this quarter. The co-investment portfolio outperformed on the back of a strong economy and robust capital markets.
- Co-investment activity was strong with one transaction closed and three approved. Staff continues to expand the co-investment portfolio to enhance total portfolio returns.
- Distributions throughout the quarter continued to be strong resulting in net positive cash inflows of $41 million for the private equity portfolio. First quarter distributions of $205 million were favorable versus $141 million for the first quarter of 2012. First quarter capital calls of $164 million were flat when compared to the first quarter of 2012.

Absolute Return (AR) Portfolio (See Attachment VI for a detailed review)

- During the quarter, the UC AR portfolio posted a gain of 4.19%, outperforming its HFRX benchmark by 154 basis points. For comparative purposes, the HFRI Fund of Funds Index gained 3.36% over the same period.
- All major strategies in the portfolio were positive contributors to performance during the quarter.
- The team continues to make tactical adjustments across strategies within the portfolio. During the quarter we increased our Multi-Strategy and Emerging Markets exposures and decreased the size of our Global Macro and Convertible Arbitrage investments.
- The team continues to reduce the number of hedge fund managers in the portfolio in an effort to concentrate investments into the highest conviction managers.

Cross-Asset Class (CAC) (See Attachment VII for a detailed review)

- The Cross-Asset Class (“CAC”) strategy underperformed the policy return this quarter. This was primarily driven by one manager that has a risk-weighted exposure to nominal fixed income that dampened returns as the U.S. equity markets rallied relative to treasuries.
- The Regents, in their February Committee on Investments meeting, approved increasing the long term allocation to Cross Asset Class within the UC Retirement Plan to 8% of the total plan from 2%. The long term allocation for the General Endowment Plan remains at 5%.
- The Satellite Strategy based on a recovering U.S. housing market made significant additions during the quarter. The team completed a new commitment to a residential single family home buy- to-lease manager. In addition, an additional pool of whole loan mortgages was funded. Both of these strategies benefit from a recovering U.S. housing market.

Real Assets (See Attachment VIII for a detailed review)

- The Real Assets portfolio increased by 1.59% for the quarter, exceeding its benchmark by 107 bps. Returns were positively impacted by all asset segments: Commodities, Opportunistic, Infrastructure, Timberland, and Energy. The excess performance was driven by the short position in coal and overweight to palladium within Commodities.
- Investment activity was strong during the quarter with new allocations to Infrastructure, Commodities, Energy, and an Opportunistic portfolio. This level of activity is consistent with Staff's strategic plan reflecting the relative immaturity of the Real Assets portfolio.
- Staff has a robust pipeline of new investments under review and expects to see significant co-investment deal flow in 2013. Three co-investment vehicles were created in the second half of 2012 that will seek to participate in select deals alongside managers. These structures should help drive significant transaction activity for the UC in the coming years.

Opportunistic Equity (See Attachment IX for a detailed review)

- The Opportunistic Equity strategy was initiated for GEP on January 1, 2013 to offer expanded investable opportunities across the global equity universe. It is currently 75% funded relative to its long-term allocation of 10.0% of GEP's portfolio. The strategy was initiated for UCRP on March 31, 2013. It is currently 19% funded relative to its long-term allocation of 8.5% of UCRP's portfolio.
- The Opportunistic Equity portfolio returned 9.21%, which represented an outperformance of 2.71% versus the benchmark. Performance was strong on both a relative and absolute basis. The portfolio outperformed due to strong performance by three of the five managers. Asset allocation benefited the portfolio as the underweight to China and overweight to Japan added significant value as did underweights to energy and materials.
- The strategies funded thus far have been mostly global strategies. Strategies that will be funded in the next several quarters include regional, country, and sector specialists, activist managers, highly differentiated emerging market equity specialists, long-short strategies, and highly concentrated managers.

Real Estate (See Attachment X for a detailed review)

- The Private Real Estate Portfolio continued its steady recovery during the first quarter, with UCRP gaining 3.32% and GEP adding 2.65%. The UCRP portfolio exceeded the benchmark by 1.24%, while the GEP portfolio outperformed by 0.57%.
- New assets under investigation for potential investments include: debt-to-own strategies, certain types of loan origination, as well as acquisition and servicing of large loan portfolios. Also of interest are European strategies that capitalize on the bank distress, and Asian and Latin American funds well positioned to benefit from growth and development in those regions.
- The REIT portfolio gained about 5% in the quarter but underperformed the benchmark, as our portfolio excludes emerging market REITs, which outperformed developed market REITs this quarter.
- Following quarter end, $20 million of the total public real estate securities allocation was shifted to a dedicated Emerging Markets mandate with the active manager, in order to balance the structural underweight present in the passive portfolio relative to the policy benchmark.

Attachments

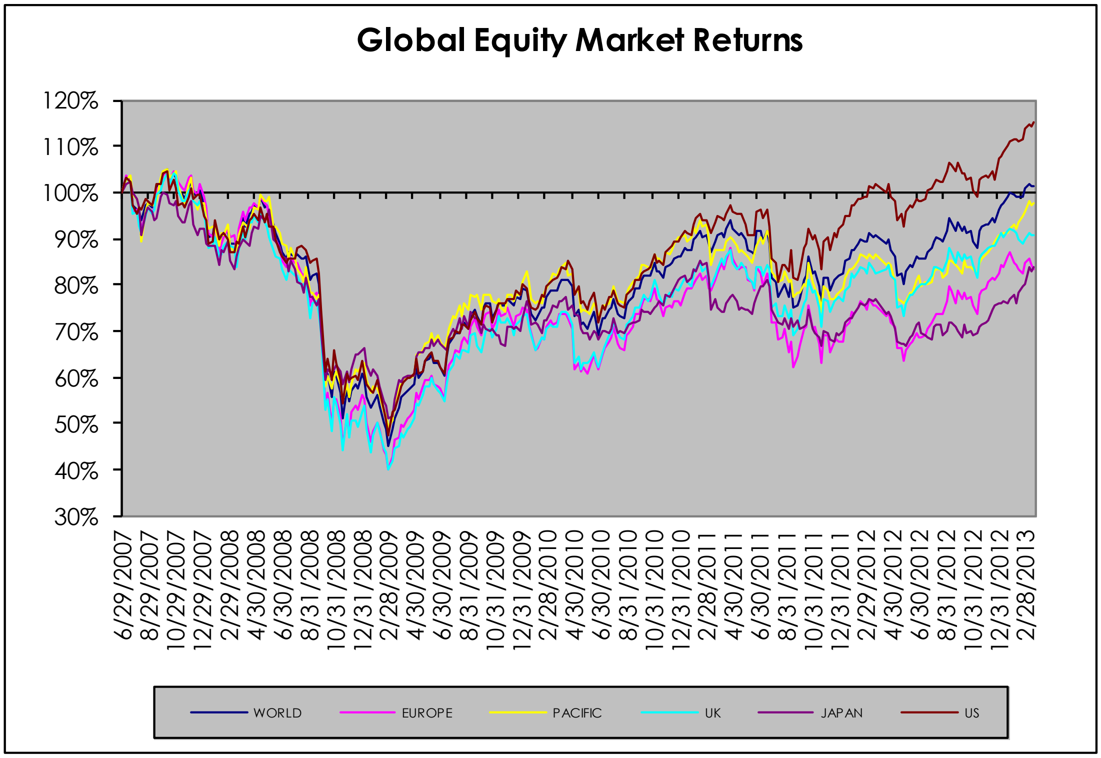
MARKET INDICES PERFORMANCE REPORT

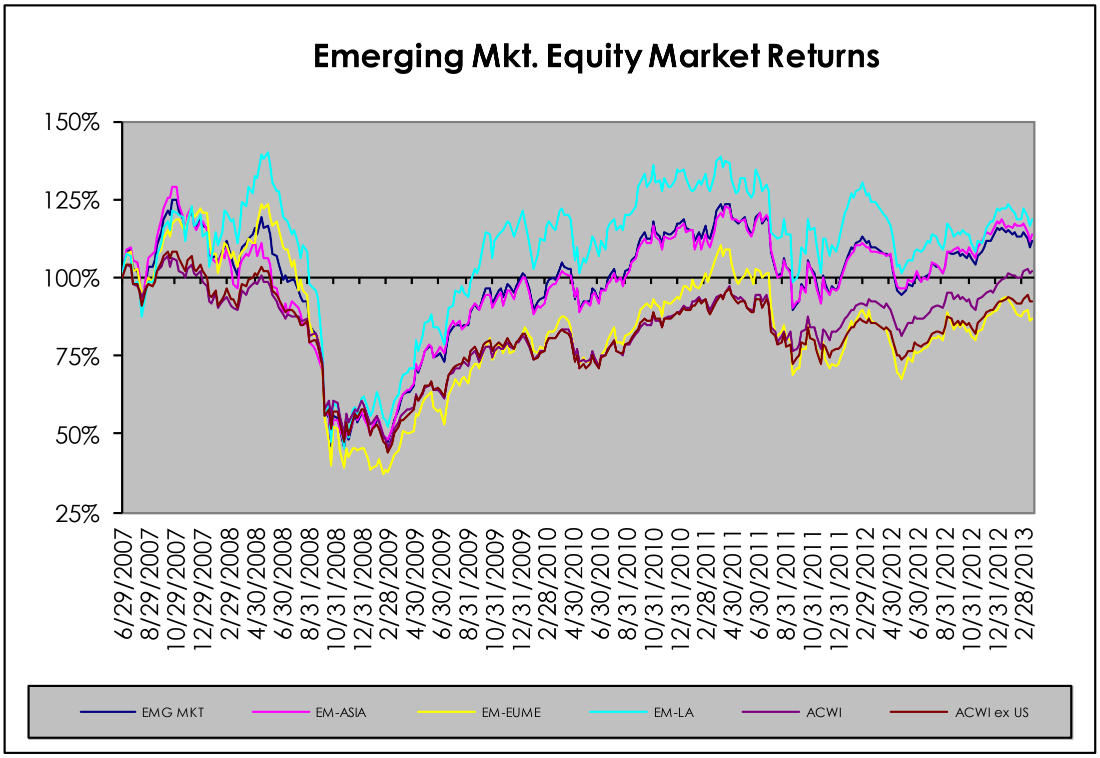
Period Ended March 31, 2013

	Returns	
	Quarter (%)	FYTD (%) July 1, 2012 – Mar 31, 2013
U.S. Equity		
S&P 500	10.61	17.19
Russell 3000	11.07	18.29
Dow Jones Industrial Average	11.93	15.51
Non-U.S. Equity		
MSCI World ex-U.S.	4.70	18.99
MSCI Emerging Markets	-1.62	11.91
U.S. Fixed Income		
Barclays Aggregate	-0.12	1.68
Barclays TIPS	-0.36	2.45
BofA ML High Yield U.S. Corporate	2.87	10.96
Non-U.S. Fixed Income		
JP Morgan EMBI Global Diversified	-2.26	7.00
Real Estate		
FTSE EPRA NAREIT Global	5.85	19.35
Cash Equivalents		
91 Day Treasury Bill	0.02	0.09
Consumer Price Index	1.95	2.00

GLOBAL EQUITY MARKET RETURNS

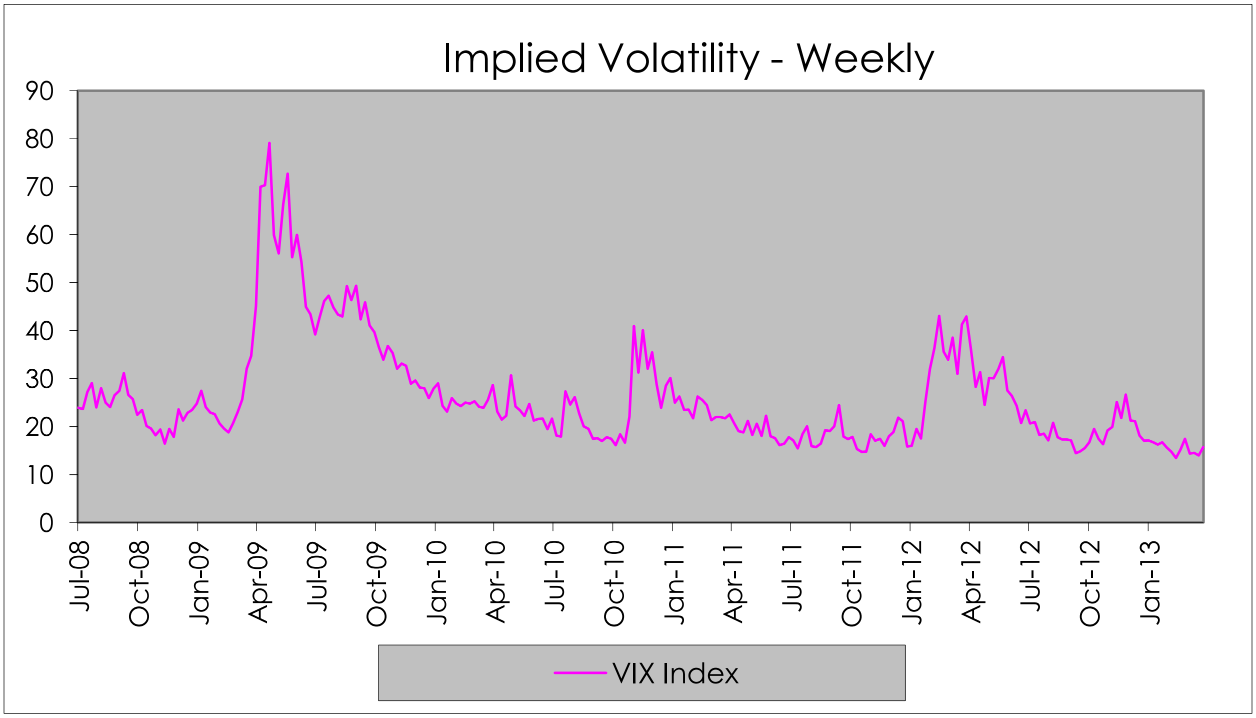
Period Ended March 31, 2013

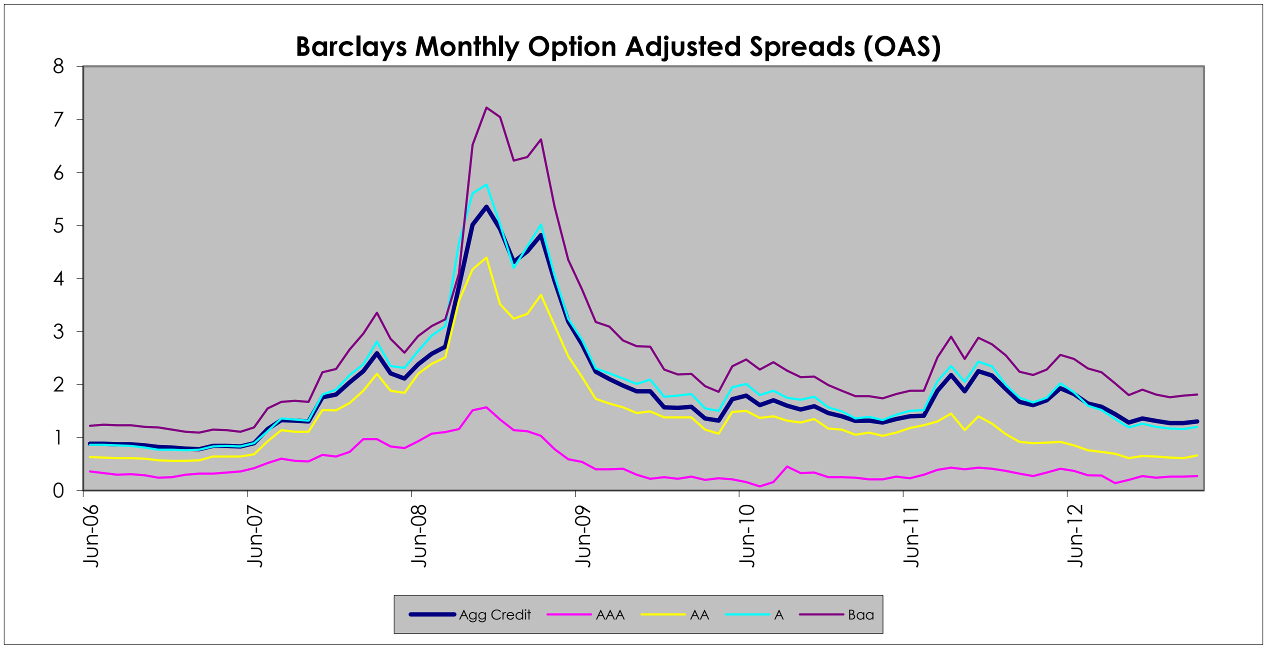




RISK TRENDS

Period Ended March 31, 2013





INVESTMENT PERFORMANCE REPORT

Period Ended March 31, 2013

UCRP, GEP, AND TRIP ASSET CLASS PERFORMANCE

UC Entity		Return		
	Market Value ($M)	**Quarter (%)**	**Fiscal YTD (%)**	**One Year (%)**
UCRP	**$45,592**	**4.59%**	**12.43%**	**10.25%**
Policy Benchmark		4.15	11.58	9.29
Variance to Benchmark		*+0.44*	*+0.85*	*+0.96*
GEP	**$7,158**	**4.58%**	**12.19%**	**9.91%**
Policy Benchmark		3.76	10.53	8.24
Variance to Benchmark		*+0.82*	*+1.66*	*+1.67*
STIP	**$10,337**	**0.46%**	**0.46%**	**2.30%**
Policy Benchmark		*0.04*	*0.04*	*0.20*
Variance to Benchmark		*+0.42*	*+0.42*	*+2.10*
TRIP	**$4,651**	**3.56%**	**9.84%**	**10.57%**
Policy Benchmark		3.49	9.54	10.03
Variance to Benchmark		*+0.07*	*+0.30*	*+0.54*
Total Assets	**$80,078**	**3.95%**	**10.39%**	**8.89%**
Entity Benchmark		**3.55**	**9.46**	**7.79**
Variance to Benchmark		***+0.40***	***+0.93***	***+1.10***

UCRP, GEP, AND TRIP ASSET CLASS PERFORMANCE

Period Ended March 31, 2013

		Total Return			Excess Return		
UC RETIREMENT PLAN	Market Value ($M)	Recent Quarter	Fiscal YTD	One Year	Recent Quarter	Fiscal YTD	One Year
	$45,592	**4.59%**	**12.43%**	**10.25%**	***+0.44%***	***+0.85%***	***+0.96%***
EQUITIES							
U.S. Equity	12,089	11.07	18.74	14.72	*-0.01*	*+0.25*	*+0.09*
Non-U.S. Equity-Developed	8,460	4.88	19.07	10.66	*+0.19*	*-0.15*	*+0.15*
Emerging Market Equity	3,243	-0.18	13.46	4.42	*+1.44*	*+1.55*	*+2.46*
FIXED-INCOME SECURITIES							
Core Fixed Income	5,105	0.20	3.47	5.62	*+0.32*	*+1.79*	*+1.85*
High Yield Bond	1,385	3.25	11.48	13.67	*+0.38*	*+0.52*	*+0.62*
Emerging Market Debt	1,161	-1.76	7.60	8.95	*+0.50*	*+0.60*	*+0.38*
TIPS	2,954	-0.31	2.69	6.03	*+0.05*	*+0.24*	*+0.35*
ALTERNATIVE ASSETS							
Private Equity	3,379	2.21	5.53	10.09	-	-	-
Absolute Return Strategies	2,570	4.19	10.31	8.26	*+1.54*	*+4.86*	*+5.27*
Cross-Asset Class Strategies	1,157	2.35	9.62	9.32	*-1.80*	*-1.96*	*+0.03*
Real Assets	807	1.59	2.97	2.53	*+1.07*	*+1.26*	*+1.26*
Opportunistic Equity	719	N/A	N/A	N/A	N/A	N/A	N/A
Public Real Estate	227	5.04	17.36	19.40	*-0.81*	*-1.99*	*-1.73*
Private Real Estate	2,194	3.32	7.09	12.31	*+1.24*	*+0.03*	*+2.52*

		Total Return			Excess Return		
GENERAL ENDOWMENT POOL	Market Value ($M)	Recent Quarter	Fiscal YTD	One Year	Recent Quarter	Fiscal YTD	One Year
	$7,158	**4.58%**	**12.19%**	**9.91%**	***+0.82%***	***+1.66%***	***+1.67%***
EQUITIES							
U.S. Equity	1,215	11.05	18.60	14.58	*-0.03*	*+0.11*	*-0.05*
Non-U.S. Equity-Developed	925	4.96	19.08	10.67	*+0.27*	*-0.14*	*+0.16*
Emerging Market Equity	452	0.12	13.96	5.11	*+1.74*	*+2.05*	*+3.15*
FIXED-INCOME SECURITIES							
Core Fixed Income	332	0.51	4.15	5.75	*+0.63*	*+2.47*	*+1.98*
High Yield Bond	181	3.21	11.45	13.70	*+0.34*	*+0.49*	*+0.65*
Emerging Market Debt	177	-1.68	7.84	9.34	*+0.58*	*+0.84*	*+0.77*
TIPS	165	-0.28	2.71	5.91	*+0.08*	*+0.26*	*+0.23*
ALTERNATIVE ASSETS							
Private Equity	634	2.21	5.52	10.08	-	-	-
Absolute Return Strategies	1,671	4.19	10.31	8.26	*+1.54*	*+4.86*	*+5.27*
Cross-Asset Class Strategies	226	1.98	9.36	9.31	*-1.78*	*-1.17*	*+1.07*
Real Assets	142	1.59	3.05	1.48	*+1.07*	*+1.33*	*+0.42*
Opportunistic Equity	514	9.21	N/A	N/A	*+2.71*	N/A	N/A
Public Real Estate	32	4.94	17.43	19.36	*-0.91*	*-1.92*	*-1.77*
Private Real Estate	484	2.65	7.97	10.13	*+0.57*	*+0.91*	*+0.34*

		Total Return			Excess Return		
TOTAL RETURN INVESTMENT POOL	Market Value ($M)	Recent Quarter	Fiscal YTD	One Year	Recent Quarter	Fiscal YTD	One Year
	$4,651	**3.56%**	**9.84%**	**10.57%**	***+0.07%***	***+0.30%***	***+0.54%***
EQUITIES							
U.S. Equity	$703	11.06	18.49	14.85	*-0.02*	*+0.00*	*+0.22*
Non-U.S. Equity-Developed	$689	8.94	22.52	16.20	*+0.08*	*+0.60*	*+0.61*
FIXED-INCOME SECURITIES							
Core Fixed Income	$2,563	-0.04	4.33	7.12	*+0.12*	*+0.57*	*+0.93*
High Yield Bond	$464	1.95	8.47	10.80	*-0.43*	*-1.77*	*-1.67*
ALTERNATIVE ASSETS							
REITS	$232	7.84	10.76	14.60	*-0.08*	*-0.07*	*-0.24*

UCRP ASSET CLASS PERFORMANCE ATTRIBUTION

Period Ended March 31, 2013

UCRP Attribution	Recent Quarter		
	Asset Allocation %	Within Asset Class Return %	Total
EQUITY			
U.S. Equity	0.05	0.00	0.05
Non-U.S. Equity	0.01	0.03	0.04
Emerging Market Equity	(0.02)	0.10	0.07
Global Equity	0.03	(0.03)	(0.01)
FIXED INCOME			
Core Fixed Income	0.06	0.04	0.10
High Yield Debt	(0.00)	0.01	0.00
Emg Mkt Debt	(0.01)	0.01	0.00
TIPS	0.06	0.00	0.06
ALTERNATIVES			
Private Equity	0.00	(0.00)	0.00
Absolute Return Strategies	0.00	0.09	0.09
Cross-Asset Class Strategies	(0.00)	(0.04)	(0.04)
Real Assets	0.00	0.02	0.02
Real Estate - Private	(0.00)	0.05	0.05
Real Estate - Public	0.00	(0.00)	(0.00)
Other	(0.01)	-	(0.01)
TOTAL	**0.15**	**0.28**	**0.43**

GEP ASSET CLASS PERFORMANCE ATTRIBUTION

Period Ended March 31, 2013

GEP Attribution	Recent Quarter		
	Asset Allocation %	Within Asset Class Return %	Total
EQUITY			
U.S. Equity	0.02	(0.00)	0.02
Non-U.S. Equity	(0.00)	0.03	0.03
Emerging Market Equity	(0.02)	0.10	0.09
Global Equity	(0.00)	-	(0.00)
FIXED INCOME			
Core Fixed Income	0.02	0.03	0.06
High Yield Debt	(0.00)	0.01	0.01
Emg Mkt Debt	0.02	0.02	0.03
TIPS	0.06	0.00	0.06
ALTERNATIVES			
Private Equity	(0.00)	-	(0.00)
Absolute Return Strategies	(0.00)	0.36	0.35
Cross-Asset Class Strategies	(0.01)	(0.03)	(0.05)
Opportunistic Equity	0.01	0.18	0.19
Real Assets	(0.00)	0.02	0.02
Real Estate	(0.01)	0.03	0.03
Other	0.01	-	0.01
TOTAL	**0.08**	**0.74**	**0.83**

TRIP ASSET CLASS PERFORMANCE ATTRIBUTION

Period Ended March 31, 2013

TRIP Attribution	Recent Quarter		
	Asset Allocation %	Within Asset Class Return %	Total
EQUITY			
U.S. Equity	0.01	(0.00)	0.01
Non-U.S. Equity	0.02	0.01	0.03
FIXED INCOME			
Core FI – Govt.	0.00	0.01	0.01
Core FI - Credit	0.01	0.05	0.06
Core FI - Collateral	0.01	0.01	0.01
High Yield Debt	0.00	(0.04)	(0.04)
ALTERNATIVES			
REIT	0.01	(0.00)	0.00
TOTAL	**0.05**	**0.02**	**0.07**

PUBLIC EQUITY

Period ended March 31, 2013

Public Equity Returns	Total Return		Excess Return	
	Quarter (%)	FYTD (%)	Quarter (%)	FYTD (%)
US Equity – Combined (UCRP & GEP)	11.07	18.73	-0.01	0.24
US Equity - UCRP	11.07	18.74	-0.01	0.25
US Equity - GEP	11.05	18.60	-0.03	0.11
Non-US Developed - Combined (UCRP & GEP)	4.90	19.07	0.21	-0.15
Non-US Developed Equity - UCRP	4.88	19.07	0.19	-0.15
Non-US Developed Equity – GEP	4.96	19.08	0.27	-0.14
Emg. Mkt. Equity - Combine (UCRP & GEP)	-0.14	13.61	1.48	1.70
Emg. Mkt. Equity - UCRP	-0.18	13.46	1.44	1.55
Emg. Mkt. Equity - GEP	0.12	13.96	1.74	2.05

Public Equity Highlights

- Asset class returns diverged substantially during the quarter. The U.S. equity index returned a robust 11.08% over the past three months, while the Emerging Markets index actually declined by -1.62%.
- All three actively managed public equity portfolios outperformed during the quarter. The active U.S. equity and the active Non-U.S. equity portfolios edged past their benchmarks by 0.11% and 0.27%, respectively, during the quarter. The actively managed Emerging Markets Equity portfolio outpaced its benchmark by 2.27% in the quarter.
- The divergence in returns between the U.S. and Emerging Markets during the quarter of 12.70% was the second largest variance in the past thirteen years. In 3Q 2008, when the financial crisis was reaching its crescendo, U.S. stocks fell -8% while Emerging Market stocks declined -26%, a variance of 18%. U.S. stocks usually only outperform Emerging Markets by a large sum when stocks are falling. In the first quarter 2013, the outperformance of U.S. stocks in a rising market was the largest since 1998, which was during the technology bubble. The substantial divergence this quarter was driven by an improving U.S. economy while growth in China slowed and growth in Brazil approached zero.

Public Equity Portfolio Review

U.S. Equity

The Russell 3000 Tobacco Free U.S. Equity Index returned 11.08% in the first quarter as better than expected economic news, particularly in the housing market, provided a strong boost to stock returns. When stocks gap up as much as they did in the first quarter, cyclically oriented sectors usually lead the rally and defensive sectors underperform. But in the first quarter 2013, defensive segments of the market such as Health Care (+15.7% during the quarter), Consumer Staples (+14.7%) and Utilities (+13.4%) were the market leaders, while cyclically-oriented sectors such as Technology, 5.4% and Materials, 5.2% were the laggards.

- The total U.S. equity portfolio returned 11.07%, performing in line with the index during the quarter. The actively managed portion of the U.S. Equity portfolio returned 11.19%, slightly outpacing the index by 0.11%.

- Positive stock selection, particularly in Financials and Materials, enabled the active portfolio to slightly outperform the benchmark during the quarter, while sector allocation modestly detracted.
- The active portfolio is overweight the Technology and Consumer Discretionary sectors, which modestly detracted, as these sectors underperformed. The Technology Sector is trading at historic lows relative to the overall market. Strong demand and higher profits than the broader market should bolster the Technology Sector going forward. The Portfolio is overweight the Consumer Discretionary sector due to the strong franchise value and global brands of companies such as Disney, Nike, Starbucks, and others.
- The active portfolio is underweight the Consumer Staples and Utilities sectors; which detracted from returns as both sectors outperformed with strong double digit gains. Our managers are underweight based on their belief that yield and defensiveness are very expensive relative to the broader market.

Non-U.S. Developed Equity

The MSCI World ex-U.S. Equity Index returned 4.70% in the first quarter. Europe, which significantly outperformed in the previous several quarters, lagged this quarter, returning just 2.1%. On the other hand, Japan, which had significantly underperformed since the economic recovery began in March 2009, soared during the quarter. Japan has initiated an aggressive program of quantitative easing to pull their economy out of a two-decade slump. The policy activism enabled Japan's stock market to jump an astonishing 20.4% the past three months, though the return was paired down to 10.7% in U.S. dollars as the yen weakened substantially.

- The total Non-U.S. Developed Markets Equity portfolio returned 4.90%, outperforming the index by 0.21% during the quarter. The actively managed portion of the portfolio outpaced the index by 0.27%.
- An underweight to Canada, which lagged in the first quarter, combined with good stock selection, particularly in Germany, the U.K., and the Materials sector, enabled the active portfolio to outperform. However, an underweight to Japan hurt returns as Japan substantially outperformed during the quarter.
- The active portfolio is overweight the Technology and Consumer Discretionary sectors, which had a positive impact on performance as both sectors outperformed the MSCI World ex-U.S. Equity Index. The Technology sector as a group is trading at historic lows relative to the overall market while the Consumer Discretionary companies overseas often have strong brand following.
- The active portfolio is underweight the Financials, Energy, and Utilities sectors, which was also accretive for the portfolio as these areas underperformed. Australian and Canadian banks are expensive, and European banks have not cleaned up their balance sheets and still lack transparency as compared to U.S. banks. The Energy sector has performed poorly in recent quarters as demand has flattened, oil prices have been in a trading range, exploration costs have risen, and the supply of natural gas has become abundant. Utilities are considered expensive as investors have been willing to pay a substantial premium for yield.

Emerging Market Equity

The Emerging Markets Equity Index fell -1.62% in the first quarter as economic news in China and Brazil edged downward. Positive investor sentiment toward the U.S. economy also resulted in flows moving from Emerging Markets to the U.S.

- The total Emerging Markets Equity portfolio returned -0.14%, outperforming the index by 1.48% during the quarter. The actively managed portion of the portfolio outperformed by 2.29%.
- In aggregate, country allocation was beneficial. An underweight to China boosted performance as China lagged the overall Emerging Market index. Overweights to Indonesia, Philippines, Thailand, and Turkey were additive to returns as all four countries outperformed. Stock selection was very positive in

8 of 10 sectors, and flat in the other two sectors. Stock selection was also very positive within countries, particularly in Mexico, South Korea, Thailand, and Turkey.

- The active portfolio is underweight China, due to the presence of many state-owned companies whose emphasis is on providing for citizens rather than shareholders. The portfolio is overweight Indonesia, Philippines, Thailand, and Turkey due to political, regulatory, and company specific issues in those countries. The overweights were key drivers to the portfolio's outperformance. All allocation decisions drove positive performance for the quarter.

Looking Forward

- The portfolio strategy is focused on streamlining the number of managers, reducing the allocation to style specific strategies, increasing our allocation to all-cap strategies, and increasing the allocation to our highest conviction managers within the U.S. equity portfolio.
- In the non-U.S. developed markets portfolio we also plan to streamline the number of managers while increasing the allocation to our highest conviction strategies.
- The group plans to increase the allocation to our highest emerging market conviction managers as well as increase our weighting in unique strategies including emerging market small stocks and country specific managers.

FIXED INCOME

Period ended March 31, 2013

Fixed Income Returns	Total Return		Excess Return	
	Quarter (%)	FYTD (%)	Quarter (%)	FYTD (%)
Core FI - Combined (UCRP & GEP)	0.22	3.51	0.34	1.83
UCRP – Core FI	0.20	3.47	0.32	1.79
GEP – Core FI	0.51	4.15	0.63	2.47
UCRP – TIPS	-0.31	2.69	0.05	0.24
GEP – TIPS	-0.28	2.71	0.08	0.26
High Yield Debt - Combined (UCRP & GEP)	3.25	11.49	0.38	0.53
Emg. Mkt. Debt - Combined (UCRP & GEP)	-1.75	7.63	0.51	0.63
STIP	0.46	1.70	0.42	1.55
TRIP-Core FI	-0.04	4.33	0.12	0.57

Fixed Income Highlights

- Actively managed UCRP/GEP Core Fixed Income returned 0.27%, outperforming the Barclays Aggregate benchmark by 0.39%. All three sectors contributed but strong performance in the Collateralized sector was responsible for approximately 66% of the excess return.
- High Yield was the best performing asset class for the quarter with the BofA ML High Yield Cash Pay index returning 2.87%. High Yield and Emerging Market bond returns sharply diverged in the quarter. The emerging market index returned -2.26%, underperforming high yield by over 5% as high quality, long maturity EM sovereign bonds experienced heavy selling.
- STIP continues to provide liquidity and excellent income return for participants. However, the STIP income return is expected to decline, approaching 1% from its current run rate of 1.92% over the next year as higher-yielding investments roll off and are replaced by lower-yielding securities.

Fixed Income Portfolio Review

Core Fixed Income

The Barclay's U.S. Aggregate Index returned -0.12% in the first quarter as upbeat economic news led to a modest rise in rates during the quarter. The 10-year U.S. Treasury yield started the year at 1.75% and traded as high as 2.06% during the period before the Cyprus crisis late in the quarter drove yields higher. The major components of the Barclay's Aggregate index performed similarly and all had slight negative returns. Credit spreads traded in a very narrow range, with the market focused on corporate balance sheet releveraging and high profile LBO's such as Dell and Heinz. Flows into core fixed income funds remained robust during the quarter, resulting in another near record setting quarter for new issue supply.

- The Core Fixed Income portfolios posted positive absolute returns for the quarter, generating 34 basis points of excess returns. All three major sectors outperformed their respective benchmark.

Fixed Income (continued)

- The collateralized sector contributed the strongest excess returns, driven by the continued recovery in non-agency MBS and a significant carry advantage versus the Index.
- Core portfolio durations are slightly short relative to benchmark. We expect continued economic growth and eventual tapering of Federal Reserve Bank asset purchases to result in higher interest rates as we approach year-end.

TIPS

Real yields rose during the first quarter resulting in a small loss for the Barclay's U.S. TIPS Index. The index returned -0.36%, while UCRP/GEP TIPS returned -0.31%, outperforming by 0.05% for the quarter and 0.26% fiscal year to date. The plans remain materially underweight TIPs as the negative real yields in the TIPS market are unattractive versus other fixed income alternatives.

High Yield Market

The High Yield market, based on the BofA ML High Yield index, managed to return an impressive 2.87% during the first quarter, given the fact that yields started the year at record low levels. The benchmark for lower quality High Yield ended the quarter at 4.87%. Investors continue to find yields attractive versus much lower yielding investment grade corporate bonds. The domestic dominated asset class continues to benefit from U.S. GDP expansion, pushing any significant credit concerns well into the future. Investor demand remains robust, with the market setting another quarterly record for new issue volume.

- The High Yield portfolios returned 3.25% during the quarter, beating the benchmark by 38 basis points. Fiscal year to date returns for the portfolios stand at 11.49%, 53 basis points better than benchmark.
- Good performance in the external High Yield managers was responsible for the excess return in the first quarter. High Yield has now returned 11.49% fiscal year to date and over 11% a year for the last five years.
- Internal portfolios trailed the benchmark due to underperformance in the consumer cyclical and financial sectors. During the quarter there was an effort to move the portfolio yield closer to that of the index by selling lower yielding holdings that had been previously upgraded and rotating into higher yielding securities. The portfolio yield ended the quarter 33 basis points shy of the benchmark, after starting the quarter 47 basis points lower.

Emerging Market Debt

Emerging Market Debt markets reversed some of its recent strong gains with a loss of -2.26% during the first quarter. However, returns for the fiscal year to date stand at 7.00%. Returns were hurt by rising rates and the subsequent move away from lower yielding sovereigns into higher yielding corporate issuers. Emerging market corporate new issuance was $106 billion for the quarter, illustrating the depth of the demand for corporate issuers. Inflows to the sector remained robust, with $26 billion for the first quarter; however, the majority of the inflow was targeted to local markets.

- The Emerging Market Debt portfolio returned -1.75%, beating the benchmark by 51 basis points. The externally managed funds had stronger returns, as local currency Emerging Market Debt significantly outperformed dollar denominated debt. Internally managed funds lagged the index due to an overweight to some of the lower yielding sovereign issuers which underperformed during the quarter, as well as investment grade Emerging Market corporate bonds which underperformed during the quarter.
- The external managers managed to modestly outperform their benchmark during the quarter. Returns in local currency for the quarter were -0.12%, far better than the -2.26% return of the EMBI Global Diversified.

Fixed Income (continued)

TRIP

TRIP Core outperformed slightly for the quarter, returning -0.04% versus the benchmark return of -0.16%. TRIP continues to hold an overweight in Credit. The major components of the Barclay's Aggregate Index performed similarly and all had slight negative returns. The strong Collateralized sector performance observed in UCRP/GEP was more muted in TRIP due to the lack of legacy non-agency RMBS.

STIP

The STIP current income return is beginning to decline more rapidly as higher yielding corporate securities purchased in 2008 and 2009 are maturing or being called by the issuer. The Q1 annualized income return was 1.92% versus 2.4% for the previous quarter.

- STIP is still exceeding its benchmark, the two-year Treasury income return, by a material amount: 0.44% in Q1.
- The STIP income return will approach 1% over the next year, assuming that the FED remains on hold and the current term structure of interest rates remains in place.
- The maturity of the $1 billion California State deposit and large inflows related to recent UC bond issuance will increase the short-term portion of STIP and lower the overall return in Q2 2013.

Looking Forward

As noted last quarter, any forward-looking discussion of the economy and financial markets has to take into account the eventual unwinding of [the current] unprecedented monetary stimulus.

- The extraordinarily low level of Treasury yields is prompting reviews of Fixed Income allocations by institutional investors. The Regents' portfolios have been underweight Treasuries for some time and will remain so until a material adjustment higher in yields has occurred.
- An analysis of TIPS valuations and expected returns concluded that TIPS were even more unattractive than nominal Treasuries. Staff recommended that policy weights for TIPS be reduced in UCRP and GEP. That recommendation was approved by the Committee on Investments in late February and will be implemented over the next few months.
- The TRIP asset allocation is currently undergoing review which may result in a reduction in the Fixed Income weight. Fixed Income represents 65% of the total allocation in TRIP, much more than UCRP or GEP.

PRIVATE EQUITY

Period Ended March 31, 2013

Private Equity Returns	Total Return	
	Quarter (%)	FYTD (%)
Private Equity – combined (UCRP & GEP)	2.21	5.53
Private Equity – UCRP	2.21	5.53
Private Equity – GEP	2.21	5.52
Co Investments – UCRP & GEP	10.09	31.44
Buyouts – UCRP & GEP	2.43	1.47
Venture Capital – UCRP & GEP	0.73	11.06

PRIVATE EQUITY HIGHLIGHTS

- Muted performance in the buyout portfolio and weak performance in the venture capital portfolio weighed on total private equity portfolio returns this quarter. The co-investment portfolio outperformed on the back of a strong economy and robust capital markets.
- Distributions throughout the quarter continued to be strong resulting in net positive cash inflows for the private equity portfolio.
- Staff committed to three private equity funds during the quarter.
- Co-investment activity was strong with one transaction closed and three approved. Staff continues to expand the co-investment portfolio to enhance total portfolio returns.
- Staff continues to evaluate selling select non-core funds and opportunistically purchase funds through the secondary market to drive portfolio returns.

PRIVATE EQUITY PORTFOLIO REVIEW

- The private equity portfolio modestly underperformed the entity due to muted returns in the buyout portfolio and weak returns in the venture capital portfolio. The co-investment portfolio outperformed as portfolio companies benefited from an improving domestic economy and robust capital markets.
- Portfolio company-level operating performance has continued to be strong through the first quarter of 2013 as companies are benefiting from an improving U.S. economy and ability to access cheap covenant-lite debt.
- First quarter distributions of $205 million were favorable versus $141 million for the first quarter of 2012. First quarter capital calls of $164 million were flat when compared to the first quarter of 2012. Overall, the private equity portfolio experienced positive cash flows of $41 million for the quarter.

Commitment Pacing and Other Activity

- Calendar year 2013 commitments are estimated to be approximately $750 million. Staff committed $120 million to four new investments in the first quarter. This consisted of three new fund commitments totaling $95 million and one new co-investment totaling $25 million.
- Fund commitments included one U.S. large buyout fund, one U.S. distressed fund, and one lower middle market fund. These investments are consistent with the portfolio's theme to target best-in-class managers in respective market niches.

- The UC is continuing to build out its co-investment program to enhance private equity portfolio returns. For the first quarter of 2013, Staff sourced seven transactions, closed one transaction, and received approval on three additional transactions that are expected to close in the coming months. In total, Staff aims to close between 8 – 10 co-investments this year.

LOOKING FORWARD

- Robust M&A activity and debt markets are driving refinancing activity and portfolio exits, providing liquidity for private equity investors. In addition to portfolio sales, many private equity firms have executed dividend recapitalizations over the last twelve months. Staff expects this to continue while debt markets remain robust.
- As was the case in 2012, the private equity portfolio should continue to benefit from refinancing activity and is expected to be cash flow positive in 2013 as it closes in on its strategic asset allocation target.
- Total private equity commitments in 2013 are expected to be $750 million of which $200 - $250 million has been allocated for co-investments. The target co-investment allocation is 30% of the total private equity portfolio market value.
- The target allocation to co-investments was significantly increased from $74 million in 2012 to $200 - $250 million in 2013 to drive enhanced private equity returns from savings on management fees and carried interest. To date, the co-investment portfolio has also benefited from strong deal selection.

ABSOLUTE RETURN

Period Ended December 31, 2012

Absolute Return Strategies	Total Return	
	Quarter (%)	FYTD (%)
UC AR Portfolio	4.19	10.31
HFRX AR and MD Blended Index	2.65	5.45
HFRI Fund of Funds	3.36	7.26
S&P 500	10.61	17.19
Barclays Aggregate Bond Index	-0.12	1.68

Absolute Return Highlights

- The team continues to make tactical adjustments across strategies within the portfolio.
  - During the quarter we increased our Multi-Strategy and Emerging Markets exposures and decreased the size of our Global Macro and Convertible Arbitrage investments.
- We continue to reduce the number of hedge fund managers in our portfolio in an effort to concentrate investments into our highest conviction managers.
- All major HFRI strategy indices finished positive for the first quarter of 2013.
  - Equity Hedge and Event Driven strategies were the top-performing major HFRI strategies for the quarter, posting gains of 5.2% and 3.9%, respectively.
  - Macro was the bottom-performing major HFRI strategy for the quarter, advancing by 1.4%.
- For the first quarter of 2013, total capital invested in the global hedge fund industry increased to a record $2.375 trillion on positive performance and net inflows, according to Hedge Fund Research.
  - Investors allocated $15.2 billion of net new capital to hedge funds during the quarter, the highest level of inflows since the first quarter of 2012.
- In 2012, there were 1,108 hedge fund launches, in line with the 1,113 launches in 2011, according to Hedge Fund Research.
  - There were 873 hedge fund liquidations in 2012, which was the highest level since 2009.

Absolute Return Portfolio Review

- During the quarter, the UC AR portfolio posted a gain of 4.19%, outperforming its HFRX benchmark by 154 basis points. For comparative purposes, the HFRI Fund of Funds Index gained 3.36% over the same period.
- All major strategies in the portfolio were positive contributors to performance during the quarter.
- The largest positive contributors to performance during the quarter were Equity Hedge, Macro and Event Driven strategies, each of which outperformed its respective HFRI sub-strategy index. Event Driven strategies had the highest absolute performance for the period.
  - Equity Hedge strategies capitalized on the first quarter equity market rally through increased net exposures, while also benefitting from the higher level of performance dispersion among stocks.

Absolute Return (continued)

- Macro strategies benefitted from risk-on trades in the U.S. and Japan, long U.S. dollar exposures and short positioning in certain commodities, such as coal.
- Event Driven strategies profited during the quarter from an uptick in corporate restructurings, spinoffs, share buybacks, dividend recapitalizations and a notable pick-up in M&A activity in Asia.

- Despite equity market declines across greater China, our China-focused managers all posted positive performance for the quarter.

Looking Forward

- As tail risks have receded amidst a more buoyant market environment, hedge fund managers have increased gross and net exposures accordingly.
- Despite on-going macro concerns and policy interventions, correlations within and among asset classes continues to decline, improving the overall investing landscape.
- While the hedge fund industry has experienced net inflows, it continues to be challenging for smaller and new managers to attract capital. This remains an area of focus for the UC AR team.

CROSS ASSET CLASS

Period Ended March 31, 2013

CAC Strategies	Total Return		Excess Return	
	Quarter (%)	FYTD (%)	Quarter (%)	FYTD (%)
CAC - Combined (UCRP & GEP)	2.29	9.58	-1.80	-1.84

Cross Asset Class Highlights

- The Cross-Asset Class ("CAC") strategy underperformed the policy return this quarter. This was primarily driven by one manager that had a risk-weighted exposure to nominal fixed income which had dampened returns as the U.S. equity markets rallied relative to treasuries.
- The Regents, in their February Committee on Investments meeting, approved increasing the long term allocation to Cross Asset Class within the UC Retirement Plan to 8% of the total plan from 2%. The General Endowment Plan's long term allocation remains at 5%.
- Staff is actively seeking new Strategic Partners as well as new Satellite Strategies to expand the portfolio and reduce manager concentration.
- The Satellite Strategy based on a recovering U.S. housing market made significant additions during the quarter. The team has completed a new commitment to a residential buy to lease manager. In addition, an additional pool of whole loan mortgages was funded. Both of these strategies benefit from a recovering U.S. housing market.

Cross Asset Class Portfolio Review

- The CAC strategy lagged its benchmark over the quarter and fiscal year-to-date periods primarily due to a significant exposure to a risk balanced portfolio which is meant to provide balanced exposures in periods of rising and falling growth. For the quarter, strong equity gains were offset by a significant risk adjusted exposure to sovereign debt and nominal bonds. In periods when lower volatility asset classes such as treasury debt turn negative, the larger risk adjusted exposure can magnify losses.
- The drag in the quarter came from three key areas: the more significant exposure to fixed income from our core risk parity manager; a modest tail risk hedging position within a broader strategic partner portfolio; and negative alpha generated by a manager due to losses primarily from relative country tilts, including underweights to Japan and U.S. equity and overweights to Europe and Emerging Market equities.
- The team continues to expand the Satellite Strategy based on a U.S. Housing Recovery thesis and this strategy was a positive contributor to returns for the quarter. This strategy consists of two key substrategies. Both of these strategies are based on the thesis that a recovery in the residential housing market is sustainable given historically low mortgage financing, evidence of easing unemployment, and favorable housing supply demand dynamics.
  - The first strategy involves acquiring underwater whole loan mortgage pools with a borrower modification strategy. During the quarter, we funded an additional pool of loans bringing the total investment in the strategy to $250 million.

- The second is a recent commitment of $100 million to a strategy acquiring distressed and foreclosed single family properties that are renovated as rentals.

Looking Forward

- Given the increase in the CAC allocation in the UCRP, the team is seeking to add two or three new Strategic Partners. We expect to complete due diligence on the first of these managers in July 2013 with an expectation of adding the manager to the portfolio in the second half of 2013. These additional managers will reduce the significant manager concentration that currently exists in the portfolio.
- Staff is also actively market mapping and evaluating seven potential Satellite Strategies that are either niche opportunities or strategies which take advantage of current market dislocations. We expect to seek approval and implement two or three of these strategies over the next 12 months.
- Our current strategic partners are sources of ideas for new products and provide thought leadership in areas such as tail risk hedging, risk budgeting, and assessing volatility signals to inform asset allocation decisions. We also continue to monitor the pace of recovery from deleveraging, which has been uneven across the globe, potentially creating opportunities in Europe and peripheral markets.

REAL ASSETS

Period Ended March 31, 2013

Real Assets Returns	Total Return		Excess Return	
	Quarter (%)	FYTD (%)	Quarter (%)	FYTD (%)
Real Assets - Combined (UCRP & GEP)	1.59	2.98	1.07	1.26
Real Assets - UCRP	1.59	2.97	1.07	1.26
Real Assets - GEP	1.59	3.05	1.07	1.33

Real Assets Highlights

- The Real Assets composite increased by 1.59% for the quarter, exceeding its benchmark by 107 bps. Returns were positively impacted by all asset segments: Commodities, Opportunistic Strategies, Infrastructure, Timberland, and Energy. The excess performance was driven by the short position in coal and overweight to palladium within Commodities. As the Real Assets portfolio is still in its build-up phase the J-curve remains a drag on performance.
- Staff made two new investments during the quarter, including an infrastructure co-investment and a new active commodity manager. Investment activity and gains during the period brought the portfolio to a net asset value of $949 million with $698 million in unfunded capital commitments and a total exposure of $1.65 billion. The portfolio is now comprised of 24 investment manager relationships.
- Investment activity was strong during the quarter with total cash outflows of $89.2 million, which included $39.4 million to Infrastructure, $35.0 million to Commodities, $10.0 million to the Energy portfolio, and $4.8 million to the Opportunistic portfolio. This level of activity is consistent with Staff’s strategic plan given the relative immaturity of the Real Assets portfolio.
- Since the portfolio’s inception on April 1, 2010, the Real Assets composite has generated an annualized return of 12.07%, which has been accretive to entity level returns. The Real Asset portfolio’s returns have been broad based with all of the underlying portfolios demonstrating positive returns since inception.

Real Assets Portfolio Review

- The Commodity portfolio had the strongest returns, up 4.22% for the quarter versus a decline of -0.82% for the S&P GSCI Reduced Energy Index. Additionally, the Opportunistic portfolio was up 1.90% for the quarter, the Infrastructure portfolio increased 1.19%, the Timberland portfolio was up 1.02%, and the Energy portfolio was up 0.14%.
- The Commodity portfolio currently comprises 22% of the Real Assets composite. It was a positive contributor to absolute performance during the quarter with a return of 4.22%, and outperformed the S&P GSCI Reduced Energy Index return of -0.82% by 504 basis points. Relative outperformance during the first quarter was primarily attributable to a short position in coal and an overweight to palladium. Since its August 2010 inception, the portfolio has delivered positive alpha with an annualized return of 8.86% versus 5.04% for the benchmark.

- The Energy portfolio currently comprises 28% of the Real Assets composite. The portfolio saw positive returns across several key investments; however, results for the quarter were generally flat

- with a slight overall gain of 0.14%. Since January 2010, the Energy portfolio has generated an annualized return of 16.08%.
- The Infrastructure portfolio generated a positive return during the quarter with a gain of 1.19%. The portfolio currently represents 24% of the overall Real Assets portfolio. Staff closed on a new co-investment in the first quarter with an investment in the midstream energy sector.
- The Timberland portfolio was positive for the quarter with a 1.02% return. The portfolio remains heavily dominated by one asset that has an attractive long-term return profile, but a low current cash yield, particularly in the early years. The portfolio currently represents 15% of the overall Real Assets portfolio. This allocation is expected to decrease over time as Staff focuses on more compelling opportunities across other sectors of the Real Assets universe.
- The UC has committed to five Opportunistic investment strategies. The Opportunistic portfolio was a positive contributor for the quarter with a 1.90% return. It currently represents 10% of the Real Assets portfolio.
- Investment activity was strong during the quarter with net cash outflows of $82.0 million as a result of capital calls made by existing managers and new investments. This level of activity was lower than the previous quarter, which saw cash outflows of $109.5 million. Since the portfolio is still in the early stages of the J-curve, the portfolio's cash distributions are expected to be lower than Staff's longer-term expectations.

Looking Forward

- Staff has a robust pipeline of new investments that are currently being evaluated and we expect to see significant co-investment deal flow in 2013. Staff created three co-investment vehicles in the second half of 2012 that will seek to participate in select deals alongside managers. These structures should help drive significant transaction activity for the UC in the coming years.
- The current investment pipeline includes a drug royalty fund, an agriculture strategy, and a re-up with an existing infrastructure fund. Staff is also actively evaluating a new co-investment opportunity and a potential international timberland transaction. Further, Staff has visibility into two additional near-term co-investments that we expect to review in the second quarter.
- The secondary market has remained less attractive relative to primary opportunities due to seller pricing expectations. However, Staff is continuing to actively review secondary opportunities on a select basis. Staff continues to take a measured and constructive approach in evaluating new primary opportunities. Areas of particular interest under review include the midstream energy sector, the power sector, and royalty-based strategies.

OPPORTUNISTIC EQUITY

Period Ended March 31, 2013

Opportunistic Equity Returns	Total Return		Excess Return	
	Quarter (%)	FYTD (%)	Quarter (%)	FYTD (%)
Opportunistic Equity - Combined (UCRP & GEP)	8.86	N/A	2.36	N/A
Opportunistic Equity - GEP	9.21	N/A	2.71	N/A

Opportunistic Equity Strategy Highlights

- The Opportunistic Equity strategy was initiated for GEP on January 1, 2013. It is currently 75% funded relative to its long-term allocation of 10.0% of GEP's portfolio.
- The strategy was initiated for UCRP on March 31, 2013. It is currently 19% funded relative to its long-term allocation of 8.5% of UCRP's portfolio.

GEP Opportunistic Equity Portfolio

- The Opportunistic Equity portfolio returned 9.21%, which represented an outperformance of 2.71% versus the benchmark. Performance was strong on both a relative and absolute basis.
- The portfolio outperformed due to both strong selection and allocation. Three of the five managers outperformed their respective benchmarks, and those three accounted for 79% of the portfolios assets.
- Country and sector selection also added significant value. An underweight to China and an overweight to Japan added a total of 40 basis points in excess returns. A 7% underweight to Energy and a 5% underweight to Materials added another 70 basis points as those sectors underperformed the overall global market by 2.9% and 11.2%, respectively.

Looking Forward

- The strategies funded thus far have been mostly global strategies. Strategies that will be funded in the next several quarters include regional, country, and sector specialists, activist managers, highly differentiated emerging market equity specialists, long-short strategies, and highly concentrated managers.
- Our research has led us to a unique activist strategy that focuses on the small and mid-cap U.S. market. In addition to the manager's strengths, we view future M&A activity as providing a tailwind for the activist strategy, which will be added to the portfolio in April 2013.
- We have completed due diligence on an emerging markets activist strategy and two sector specialists. These three strategies will be added during the next quarter.

REAL ESTATE

Period Ended March 31, 2013

Real Estate Returns	Total Return		Excess Return	
	Quarter (%)	FYTD (%)	Quarter (%)	FYTD (%)
Private Real Estate - UCRP	3.32	7.09	1.24	0.03
Private Real Estate - GEP	2.65	7.97	0.57	0.91
Public Real Estate - UCRP	5.04	17.36	-0.81	-1.99
Public Real Estate – GEP	4.94	17.43	-0.91	-1.92

Real Estate Highlights

- Three additional acquisitions were made for the separate account portfolio during the third fiscal quarter – two value-add office properties, and one core office property, all in California – with an aggregate net value of $104 million.
- Subsequent to quarter end, a $20 million investment was made to an Emerging Markets public real estate securities mandate, as a means of balancing the total public real estate securities portfolio relative to the policy benchmark.

Portfolio Review

- The **Private Real Estate Portfolio** continued its steady recovery during the March quarter, with UCRP gaining 3.32% and GEP adding 2.65%. The UCRP portfolio exceeded the benchmark by 1.24%, while the GEP portfolio outperformed by 0.57%.
- Core investments continued to report steady income and appreciation, outperforming the benchmark by 0.2% during the quarter; they were among the biggest contributors to total return during the period. This was driven by solid returns from the open-end commingled fund portfolio, as well as moderately better than benchmark income recognized in the core separate account portfolio.
- Value added and opportunistic investments moderately exceeded the benchmark in terms of total return, primarily driven by strong performance by the commingled funds.
- The Separate Account composite, taken alone, kept pace with the benchmark, with core properties outperforming on the back of income gains, but value-add and opportunistic underperforming. This is expected as assets are in the value-creation phase of their business plan.
- In general, returns for Private Real Estate continued to trend positive, but to a more moderate degree reflecting valuation gains as the economic outlook stabilized.
- The **Public Real Estate portfolio** returned 5.04 % in UCRP and 4.94% in GEP during the quarter, underperforming the policy benchmark by 0.81% and 0.91%, respectively.
- The portfolio's underweight to emerging markets, which performed significantly better that the developed markets caused the portfolio's underperformance relative to the benchmark.

outperformed developed markets and causing the portfolio's underperformance relative to the benchmark.

- In the active portfolio, stock selection was slightly positive during the third fiscal quarter, with relative strength in the Hong Kong, China, and Western Europe holdings. Regional allocation was positive, with an overweight to Singapore, which outperformed other regions during the quarter.
- Following quarter end, $20 million of the total public real estate securities allocation was shifted to a dedicated Emerging Markets mandate with the active manager, in order to balance the structural underweight present in the passive portfolio relative to the policy benchmark.

Looking Forward

- The existing portfolio is constructed with the flexibility to reposition or adjust the strategy in changing market conditions. More than 50% of UC's investment commitments are to structures that provide some degree of liquidity (i.e., separate accounts, open-end funds, and REITs).
- There is currently $500 million in unfunded commitments in the Private Real Estate portfolio (including separate accounts and commingled funds), available to invest into lower pricing in a post-correction market.
- Committed capital continues to be deployed by the separate account managers, who report an increasingly robust pipeline of opportunities. Additional separate account managers and strategies are under consideration for addition to the portfolio.
- Opportunities presented by dislocation and distress in the credit markets are under review, with interest especially in debt-to-own strategies, certain types of loan origination, as well as acquisition and servicing of large loan portfolios.
- Also of interest are European strategies that capitalize on the bank distress there, and Asian and Latin American funds well positioned to benefit from growth and development in those regions.