Investment Letter for the Quarter Ending March 31, 2014

Market Overview

The euphoria of 2013 didn't carry into the start of the year as markets posted losses for the month of January, given concerns over emerging markets and Central Bank policies. In February, there was a reversal and markets erased most of their losses as the Fed affirmed its stance on accommodative monetary policy. In March, performance was relatively flat across most of the equity markets, resulting in modest gains for the quarter.

Equity markets in the developed world posted gains of +1.97% (Russell 3000) and +0.75% (MSCI World ex-U.S.) for the quarter-end, and were up +19.40% and +18.37%, respectively, for the fiscal year to date (9 months ending March 31, 2014). Emerging markets declined -0.43% for the quarter, but in positive territory for the FYTD (fiscal year-to-date), gaining +7.24% (MSCI Emerging Markets). Fixed income markets as measured by the Barclays Aggregate Bond Index gained +1.84% for the quarter and +2.28% for the FYTD.

Asset Allocation

The asset allocation of UCRP, GEP, STIP and TRIP were in line with their respective policy portfolios at quarter-end.

Performance

The UC Entity, the aggregate of all Plans (UCRP, GEP, STIP, TRIP, and UCRSP) managed by the Office of the CIO had $88.5 Billion ($B) in assets as of quarter-end. The UC Entity returned 1.65% for the quarter, 0.23% below the benchmark return of 1.88%. All portfolios are meeting policy objectives and in line with policy benchmarks. Asset allocation and manager selection across most of the asset classes contributed to performance.

Fixed Income

Total Fixed Income assets were $13.8B across all portfolios at quarter end. The core fixed income ($7.2B), high yield ($2.0B), and TIPS ($2.9B) portfolios were in line with their benchmarks for the quarter. Within the core fixed income portfolio, an underweight to government and overweight to credit contributed, as did issuer selection in the collateral (securitized) sector. During the quarter, spreads continued to tighten, which benefitted the credit and high yield portfolio. The Emerging Market Debt ($1.7B) Portfolio struggled to keep pace with the index rally of February and March as sentiment and trade balances improved in the region.

Public Equity

Total assets in Public Equity were $28.4B at quarter-end, U.S. Equity held $14.5B, Non-U.S. $9.2B and Emerging Markets Equity $4.7B. The Public Equity portfolio trailed its benchmarks for the quarter as all segments (U.S., Non-U.S. and EM) underperformed. An overweight to Emerging Markets hurt performance as the Developed Markets outperformed Emerging Markets. Stock selection in the energy, health care, and industrial sectors contributed to results but holdings in materials, technology, and consumer discretionary detracted.

Opportunistic Equity

At quarter end the Opportunistic Equity portfolio held $5.1B. During the quarter, the portfolio fell short of its benchmark. The portfolio's overweight to the U.S., growth businesses, the health care sector, and small-cap companies detracted from results. Mitigating losses was the underweight to Japan and strong stock selection within Japan and

Brazil. The portfolio was launched in 2013 and since inception has outpaced its benchmark.

Absolute Return

At quarter-end the Absolute Return portfolio held $5.4B in assets. The portfolio posted an absolute gain for the quarter but struggled relative to its benchmark. The top performing strategies during the quarter were distressed, equity market neutral, event-driven, and multi-strategy, while the weakest were emerging market equities, equity hedge, relative value, and macro related strategies.

Private Equity

Total Private Equity assets were $4.4B at quarter-end and the Private Equity portfolio returns were strong across all three segments of the portfolio. The venture capital and co-investment portfolios led results with an 11.95% and 10.72% return, respectively. These returns were driven by broad based strength across the portfolio, which has been sustained for multiple years.

Cross Asset Class

Cross Asset Class held $2.2B at quarter end and the portfolio underperformed its benchmark. Equity exposure of the Strategic Partners, primarily non-U.S. and emerging markets, detracted from performance as did the hedge fund selection and tactical tilts in emerging markets and international real estate. Fixed income exposure, primarily nominal and inflation-linked bonds, helped results. Within Satellite Strategies ($0.5B), the distressed fixed income and real estate portfolios struggled relative to the policy benchmark.

Real Assets

The Real Assets portfolio held $1.3B at March 31, 2014. For the quarter, the portfolio modestly lagged its benchmark as the energy segment faced a challenging quarter. The infrastructure and opportunistic segments each gained during the period, mitigating the losses of the energy segment. The inception date of the portfolio is April 2010 and the team continues to build the portfolio, taking on a measured and constructive approach to new opportunities, while being sensitive to the J-Curve impact of new investments.

Real Estate

The Real Estate Portfolio held $4.1B in assets at quarter-end. The Private Real Estate ($3.1B) portfolio outpaced its benchmark as closed-ended (value-added and opportunistic), open-ended (core and value-added), as well as separate accounts (core and opportunistic) investments contributed, while separate accounts (value-added) detracted. The Public Real Estate ($1.0B) portfolio was above the index for the quarter. The primary drivers were the underweight to Japan and market selection in the UK.