UNIVERSITY
OF
CALIFORNIA

# Annual Financial Report

## Retirement Savings Program

10/11

UNIVERSITY OF CALIFORNIA

# 10/11 Annual Financial Report Retirement Savings Plan

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# Summary Statement

This report contains information about the University of California Defined Contribution Plan, Supplemental Defined Contribution Plan, the Tax-Deferred 403(b) Plan and the 457(b) Deferred Compensation Plan, or collectively "the Plans," for the fiscal year ended June 30, 2011, and includes audited financial statements. Significant statistics relating to the Plans and their participants as of the 2010–2011 fiscal year-end are as follows:

| | |
|---|---|
| **Net assets** | **$16.3 billion** |
| **Total contributions** | **$872.7 million** |
| **Net investment gain** | **$2.2 billion** |
| **Program administrative expenses** | **$8.4 million** |

| | |
|---|---|
| DEFINED CONTRIBUTION PLAN | |
| ACTIVE PLAN PARTICIPATION | |
| **Pretax Account:** | |
| Management/Senior Professional | 144 participants |
| Professional/Support Staff | 10,913 participants |
| **Total** | **11,057 participants** |
| • Average Pretax Account monthly contribution | $44 |
| • Average Pretax Account value | $4,342 |
| **Safe Harbor:** | |
| Academic Faculty | 56 participants |
| Management/Senior Professional | 102 participants |
| Professional/Support Staff | 35,667 participants |
| **Total Safe Harbor** | **35,825 participants** |
| • Average Safe Harbor monthly contribution | $171 |
| • Average Safe Harbor Pretax Account value | $3,935 |
| **After-Tax Account:** | |
| Academic Faculty | 482 participants |
| Management/Senior Professional | 421 participants |
| Professional/Support Staff | 2,432 participants |
| Hastings College of the Law | 3 participants |
| **Total After Tax** | **3,338 participants** |
| • Average After-Tax Account monthly contribution | $269 |
| • Average After-Tax Account value | $21,539 |
| **Inactive Plan Participation** | **157,380 participants** |

| TAX-DEFERRED 403(B) PLAN | |
|---|---|
| ACTIVE PLAN PARTICIPATION | |
| Academic Faculty | 8,351 participants |
| Management/Senior Professional | 10,118 participants |
| Professional/Support Staff | 39,586 participants |
| Hastings College of the Law | 108 participants |
| **Total** | **58,163 participants** |
| • Average percent of salary contributed | 9.5% |
| • Average monthly contribution | $704 |
| Average Plan Account value | $78,259 |
| Outstanding Loan Program loans | 15,741 |
| Aggregate outstanding loan principal | $139.4 million |
| **Inactive Plan Participation** | **51,814 participants** |

| 457(B) DEFERRED COMPENSATION PLAN | |
|---|---|
| ACTIVE PLAN PARTICIPATION | |
| Academic Faculty | 3,692 participants |
| Management/Senior Professional | 3,113 participants |
| Professional/Support Staff | 7,075 participants |
| Hastings College of the Law | 43 participants |
| **Total** | **13,923 participants** |
| • Average monthly contribution | $957 |
| • Average plan account balance | $46,313 |
| **Inactive Plan Participation** | **6,382 participants** |

# Plan Overview and Administration

The University of California Retirement Savings Program (UCRSP) currently consists of four Plans—the Defined Contribution Plan (DC Plan), the Tax-Deferred 403(b) Plan (403(b) Plan), the 457(b) Deferred Compensation Plan (457(b) Plan), and the University of California Supplemental Defined Contribution Plan (SDC Plan.) These Plans were established to complement employees' University of California Retirement Plan (UCRP) pension benefits, and with the exception of the SDC Plan, cover virtually all employees of the University of California and its affiliate, Hastings College of the Law. The Plans include defined contribution plans described in §401(a) and §403(b) of the Internal Revenue Code (IRC) and a deferred compensation plan described in IRC §457(b).

Benefits from the Plans are based on participants' mandatory and voluntary contributions, and certain University contributions, plus earnings. While their savings accumulate, employees also have the benefit of reductions in their personal income taxes.

A defined contribution plan was first made available to University employees in 1967. Employees could invest after-tax contributions in two University-managed annuity funds. Two years later, the 403(b) Plan was added for voluntary pretax savings. Over the years, 403(b) Plan features have been expanded to include:

- external mutual fund investment options including a brokerage window;
- a Loan Program through which participants can borrow from their 403(b) Plan savings;
- diverse investment options in line with requirements established by the Department of Labor for non-governmental plans through a Core Funds lineup of investment fund options that now includes 12 single, diversified investments for building retirement savings; 7 primary asset class options for asset allocation; and 5 specialized asset class options managed by independent investment advisors.

The 457(b) Plan was established effective September 1, 2004. Although 457(b) plans have been available for many years, the IRC salary deferral contribution limits previously applied to participants' combined annual contributions to both 457(b) and 403(b) plans, so there was no advantage in offering both. A change in tax law, however, allows the maximum limit to be applied separately to each kind of plan. Thus, with the addition of the 457(b) Plan, University faculty and staff can double the amount of their voluntary, pretax retirement savings.

PLAN PROGRESSION

| | |
|---|---|
| 1967 | Supplemental Retirement Program established with Fixed (Savings) and Variable (Equity) annuity investment options. |
| 1969 | Tax-Deferred Annuity Plan (the 403(b) Plan) established for investment of pretax contributions in Fixed and Variable annuities. |
| 1978 | Variable Bond Fund added to annuity investment options. |
| 1985 | Money Market and Insurance Company Contract funds added as University-managed investment fund options. |
| 1986-1987 | Mutual fund investment options offered to 403(b) Plan participants through Fidelity Investments and Calvert Social Investment Fund. 403(b) Plan Loan Program established under IRC §72(p). |
| 1990 | Multi-Asset Fund added as sixth University-managed investment fund option. DC Plan expanded to accept redirected mandatory pretax contributions from UCRP members. |
| 1991 | Part-time University employees and California State University (CSU) employees not otherwise covered by a retirement system contribute to the DC Plan in lieu of paying Social Security taxes. |
| 1994-1995 | DC Plan investment options expanded to include Fidelity Investments mutual funds. Plan participation extended to non-exempt student employees in lieu of paying Social Security taxes. |
| 2001-2002 | Rollover options expanded under the Economic Growth and Tax Relief Reconciliation Act. Calvert Group mutual fund investment options expanded. |
| 2004 | 457(b) Deferred Compensation Plan established effective September 1, 2004. |
| 2005 | Introduced new Core Funds menu and expanded services to participants through a new master recordkeeping platform. |
| 2007 | Expanded distribution and rollover provisions of the Plans as provided for in the Pension Protection Act of 2006. |
| 2008 | Allowed rollover of eligible distributions to Roth IRAs, as provided for by the Pension Protection Act of 2006. |
| 2009-2010 | Discontinued the redirection of UCRP employee contributions to the DC Plan subject to collective bargaining for represented employees. |
| 2010-2011 | There were no Plan changes during fiscal year 2010–2011. |

The SDC Plan was established effective January 1, 2009. Its primary purpose is to provide savings and retirement income to designated employees of the University of California and their beneficiaries. The SDC Plan constitutes a profit-sharing plan within the meaning of IRC §401(a).

All employee contributions to the Plans are deducted from participants' wages. University contributions are made on behalf of academic employees who earn summer term or equivalent salary and eligible senior managers.

Effective July 1, 2005, the University created the UCRSP plan administration structure, transferred the Plans' administration to a master recordkeeping platform and expanded services.

The fiduciary oversight structure for the UCRSP Plans aligns Regental oversight of the Plans through the Committee on Compensation, which oversees the administration of the Plans, and the Committee on Investments, which recommends investment policy for the Plans for Regental approval and oversees the investment management function carried out by the Chief Investment Officer.

The Vice-President—Human Resources (VP-HR) serves as the Plan Administrator. The VP-HR oversees policy research, implements regulations to preserve the Plans' qualification and/or tax-advantaged status with the Internal Revenue Service, and provides related administrative services as needed. The Plans' administration and investment management activities are reviewed semi-annually by the Retirement Savings Program Advisory Committee.

Fidelity Employer Services Company (FESCo) acts as the master recordkeeper for the Plans. The master record keeping and participant services include daily valuation, daily exchanges, expedited processing of distributions and 403(b) Plan loans, a consolidated recordkeeping platform for the Plans and all the funds offered under the UCRSP, and a Core Funds menu with a broad offering of Single, Diversified Investments, Primary Asset Class Options, Specialized Asset Class Options and externally managed mutual fund options.

For services rendered in connection with the Plans, an administrative fee is charged to the University-managed investment funds each day, based upon the previous day's net assets, and is paid to the University. The fee is deducted before calculating the unit values and interest factors. The administrative fee pays for the Plans' expenses, such as charges for investment management, investor education and accounting, audit, legal and recordkeeping services. There are no front-end or deferred sales loads or other marketing expenses associated with the Single, Diversified Investments and Primary Asset Class Options. The total administrative expenses are estimated and actual expenses could be lower or higher in some periods. If actual administrative expenses are less than estimated, any residual amount will be returned to the Plans' Core Funds periodically, on a prorated basis, thereby lowering the effective expense ratio for participants.

In addition, any fees paid by participants, including loan fees and brokerage window account fees, and any fees that may be awarded for FESCo's failure to meet certain performance standards, will be credited to the Plans' fee account. At the direction of the Plan Administrator and subject to receipt of supporting documentation, FESCo will apply the Plans' fee account funds against reasonable Plan expenses that otherwise would be paid from other Plan assets. A portion of the basis points that are assessed against the market value of the mutual fund investments offered under the Plans pursuant to a revenue sharing agreement are credited to an expense credit account and offset against charges for services provided by FESCo and its affiliates.

A participant can obtain information on fees charged by a mutual fund investment option by reviewing the fund prospectus available on the FESCo web site (netbenefits.fidelity.com).

Summary plan descriptions are updated periodically to reflect legislative, Plan and administrative changes. These booklets are available online on At Your Service (atyourservice.ucop.edu) or through local Benefits Offices. They are mailed directly to active participants once every five years.

## Changes in the Plan

There were no Plan changes during fiscal year 2010–2011.

# Contributions

Prior to Spring 2010, nearly all employees contributed to the DC Plan as a condition of employment. Mandatory and voluntary employee contributions are held in separate accounts—the Pretax Account and the After-Tax Account. Mandatory contributions to the Pretax Account are based on covered compensation at rates specified by The Regents, and varied depending on an employee's membership classification (see chart below). Safe Harbor employees (non-UCRP members) continue to make mandatory employee contributions to the DC Plan. Pretax Account contributions, which are deducted from gross salary and thereby reduce taxable income, may be invested in and transferred among any of the investment options available to the Plans.

PRETAX ACCOUNT CONTRIBUTION RATES*

| UCRP Membership Classification | Contribution Rate |
|---|---|
| With Social Security | 2% to 4% less $19 a month |
| Without Social Security | 3% less $19 a month |
| Safety | 3% less $19 a month |
| Tier Two | 0% |
| Safe Harbor (Non-UCRP members; i.e., part-time employees, non-exempt students, certain foreign nationals) | 7.5% |

* *The contribution rate is two percent of annual earnings up to the Social Security wage base ($106,800 in 2011 and 2010), then four percent on any earnings over the wage base.*

In Spring 2010, the redirection of UCRP employee contributions to the University of California Defined Contribution Plan, was terminated subject to collective bargaining for represented employees and certain contract terms if applicable.

Effective July 1, 2001, The Regents approved DC Plan retirement contributions on the summer or equivalent term salaries of eligible academic employees who teach, conduct research or provide administrative service during the summer session or equivalent term. The eligible employees must hold academic year appointments and be active members of UCRP or another defined benefit plan to which the University contributes. The contribution rate is 7.0 percent of eligible summer salary, of which 3.5 percent is University-paid and 3.5 percent is employee-paid, both on a pretax basis.

University contributions may also be made for eligible senior managers on a pretax basis.

Voluntary DC Plan contributions, which employees make on an after-tax basis, are held in the Plan's After-Tax Account. The maximum amount employees may contribute annually as after-tax voluntary contributions is determined by the IRC §415(c) limit. Generally, this amount is the lesser of 100 percent of the participant's adjusted gross University salary or $49,000 in 2011 and 2010. This limit takes into account all annual additions, including any pretax employee and University contributions to the DC Plan and the SDC Plan where applicable. After-tax contributions are deducted from net income and also may be invested in and transferred among any of the investment options available to the Plans.

The 403(b) Plan includes voluntary employee salary deferral contributions that are made on a pretax basis. Within IRC limits, a 403(b) plan participant may make contributions as a percentage of salary or in flat dollar amounts. 403(b) Plan contributions may be invested in and transferred among any of the investment options available to the Plans. University contributions are made for eligible senior managers on a pretax basis.

The 457(b) Plan includes voluntary salary deferral employee contributions. Within IRC limits a Plan participant may make contributions as a percentage of their salary or in a flat dollar amount. Plan contributions may be invested in and transferred among any of the investment options available to the Plans.

All four Plans accept rollovers of pretax distributions from other University-sponsored plans, including lump sum cashouts and Capital Accumulation Payment (CAP) distributions from UCRP, 401(a), 401(k), 403(b), governmental 457(b) plans, and from traditional IRAs. In addition, the DC, SDC, and 403(b) Plans accept direct rollovers of after-tax amounts from 401(a), 401(k) and 403(b) plans. The 457(b) Plan does not accept rollovers of after-tax distributions.

## Participation

At June 30, 2011, the number of active employees contributing to the UC Retirement Savings Program was as follows:

DC, 403(B) AND 457(B) PLAN PARTICIPATION—ACTIVE EMPLOYEES

| | DC PLANS | | | | |
|---|---|---|---|---|---|
| **Location** | **Pretax** | **Safe Harbor** | **After Tax** | **403(b) Plan** | **457(b) Plan** |
| Berkeley | 986 | 5,704 | 224 | 4,851 | 1,061 |
| Davis | 1,574 | 5,851 | 565 | 9,719 | 2,344 |
| Irvine | 814 | 2,643 | 368 | 5,350 | 1,360 |
| Los Angeles* | 2,596 | 8,668 | 741 | 13,499 | 2,935 |
| Merced | 69 | 389 | 33 | 304 | 73 |
| Riverside | 430 | 758 | 76 | 1,508 | 352 |
| San Diego | 1,503 | 4,318 | 507 | 8,347 | 1,900 |
| San Francisco | 2,031 | 4,837 | 583 | 9,518 | 2,643 |
| Santa Barbara | 521 | 981 | 93 | 1,794 | 332 |
| Santa Cruz | 388 | 718 | 72 | 1,471 | 289 |
| Lawrence Berkeley National Laboratory | 144 | 658 | 68 | 1,615 | 585 |
| ASUCLA | 1 | 168 | 5 | 79 | 5 |
| Hastings College of the Law | – | 132 | 3 | 108 | 44 |
| **Total** | **11,057** | **35,825** | **3,338** | **58,163** | **13,923** |

* *Includes employees at UC Office of the President*

# Net Assets and Participant Accounts by Plan

The following tables show the assets, liabilities, and net assets and the number of participant accounts in each of the Plans as of June 30, 2011. The participant counts reflect the fact that participants may have an account in more than one plan and may also have more than one account in one or more of the Plans.

NET ASSETS BY PLANS ($ in thousands)

| June 30, 2011 | 403(b) Plan | DC Plans | 457(b) Plan | Total Plans |
|---|---|---|---|---|
| **ASSETS** | | | | |
| UC Core Fund investments | $ 7,675,876 | $ 3,363,502 | $ 836,331 | $ 11,875,709 |
| Investment of securities lending collateral | 1,936,177 | 604,354 | 80,793 | 2,621,324 |
| Participants' interests in mutual funds | 3,424,826 | 731,841 | 331,824 | 4,488,491 |
| Participant 403(b) Plan loans | 139,424 | – | – | 139,424 |
| Other assets | 16,643 | 7,481 | 1,512 | 25,636 |
| **Total Assets** | **13,192,946** | **4,707,178** | **1,250,460** | **19,150,584** |
| **LIABILITIES** | | | | |
| Other liabilities | 188,350 | 54,432 | 10,875 | 253,657 |
| Collateral held for securities lending | 1,533,062 | 902,535 | 185,715 | 2,621,312 |
| **Total Liabilities** | **1,721,412** | **956,967** | **196,590** | **2,874,969** |
| **Net Assets** | **$11,471,534** | **$3,750,211** | **$1,053,870** | **$16,275,615** |

PARTICIPANT ACCOUNTS BY PLANS

| June 30, 2011 | 403(b) Plan | DC Plans | 457(b) Plan | Total Plans |
|---|---|---|---|---|
| **ACTIVE ACCOUNTS** | | | | |
| Pretax | 58,163 | 11,057 | 13,923 | 83,143 |
| Safe Harbor, pretax | – | 35,825 | – | 35,825 |
| After-tax | – | 3,338 | – | 3,338 |
| **Total Active Accounts** | **58,163** | **50,220** | **13,923** | **122,306** |
| **Inactive Accounts** | **51,814** | **157,380** | **6,382** | **215,576** |
| **Total Participant Accounts** | **109,977** | **207,600** | **20,305** | **337,882** |
| **Participant Plan Loans** | **15,741** | – | – | **15,741** |

# Investments

## Investment Management

The Chief Investment Officer has primary responsibility for selecting appropriate asset classes and specific investment options that constitute the Core Funds menu, establishing investment guidelines and benchmarks against which the Core Funds' performance is measured, and making changes in the Core Funds menu as it deems appropriate based on its periodic evaluations. The Chief Investment Officer selection and monitoring responsibilities do not extend to the Fidelity and Calvert mutual fund options that have been retained as an accommodation to participants nor does it extend to mutual funds available through the Fidelity brokerage account option. The Regents has fiduciary responsibility for establishing broad investment policy and overseeing the performance of the investment functions.

## Proxy Voting Policy

The Chief Investment Officer has instructed The Regents' custodian bank to vote all proxies on behalf of The Regents according to guidelines established by The Regents.

## Investment Options

Currently, participants in the UCRSP have the following investment options:

- the UC Core Funds—investment options for single diversified investments including the Balanced Growth Fund and the Pathway Funds; primary asset class investment options for general asset allocation—all managed by the Chief Investment Officer; and, specialized asset class options for additional asset allocation which are mutual funds managed by independent investment advisors overseen by the Chief Investment Officer;
- the Fidelity Investments mutual fund lineup;
- Calvert socially responsible mutual funds; and
- other mutual funds through the Fidelity brokerage window.

The UC Core Funds currently consist of the following:

- **UC Balanced Growth Fund**, which seeks to provide long-term growth and income through a balanced portfolio of equity and fixed income securities held within UC Funds.
- **UC Equity Fund**, which seeks to maximize long-term capital appreciation with a moderate level of risk.
- **UC Domestic Equity Index Fund**, which seeks to provide investment results approximating the total return performance of the securities included in the Russell 3000 Index.
- **UC International Equity Index Fund**, which seeks to provide investment results approximating the total return performance of the securities included in the MSCI EAFE + Canada Index.
- **UC Bond Fund**, which seeks to maximize interest income returns, while protecting principal, in order to provide a safe low-risk investment, with attractive and stable returns.
- **UC Savings Fund**, which seeks to maximize interest income returns, while protecting principal, in order to provide a stable, low-risk investment, with attractive returns.
- **UC ICC Fund**, which seeks to maximize interest income, while protecting principal.
- **UC TIPS Fund**, which seeks to provide long-term return and inflation protection consistent with an investment in U.S. Government inflation-indexed securities.
- **Vanguard Small Cap Index Fund**, which seeks to track the performance of a benchmark index that measures the investment return of small-capitalization stocks.
- **Dimensional Emerging Markets Portfolio**, which seeks long-term capital appreciation. The Portfolio pursues its objective by investing in emerging markets equity securities that Dimensional deems to be large company stocks at the time of purchase.
- **Vanguard REIT Index Fund**, which seeks to provide a high level of income and moderate long-term capital appreciation by tracking the performance of a benchmark index that measures the performance of publicly traded equity REITs.
- **Vanguard FTSE Social Index Fund**, seeks to track the performance of a benchmark index that measures the investment return of large- and mid-capitalization stocks.
- **Dreyfus Treasury Prime Cash Management Fund**, seeks as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity.
- **The UC Pathway Funds**, are designed for investors who want a simple yet diversified approach to saving for retirement. These Funds provide one-stop shopping and maximum convenience. The UC Pathway Funds are managed to adjust risk level as each fund approaches a target date. The current target date years are: 2010, 2015, 2020, 2025, 2030, 2035, 2040, 2045, 2050, 2055 and 2060.

  Each Pathway Fund is diversified across several asset classes (stocks, bonds, and short-term investments) by investing in a variety of Core Funds. Over time, the amount invested in stock funds is gradually reduced, while the amount invested in bond and short-term funds is increased.

The UC Pathway Funds are comprised of a variety of Core Funds. Please refer to the individual Core Fund profiles for further information on the specific investment objectives, strategies, returns, and risks associated with those Funds.

The investment risks of each Pathway Fund change over time as the Fund's asset allocation changes. Assets held in the Funds are subject to the volatility of the financial markets, including equity and fixed income investments in the U.S. and abroad and may be subject to risks associated with investing in high yield, small cap and foreign securities. Principal invested is not guaranteed at any time, including at or after their target dates.

## Investment Risk Factors

The UC Core Funds, include a full range of asset classes designed to help meet participant needs. Participants in the UCRSP should consider their unique needs and goals, along with any savings held outside of the Program, when building an appropriately diversified asset allocation of funds.

There are many factors that can affect the value of the individual investments within each of the UC Core Funds and, therefore, the overall value of the UC Core Fund. These vary depending on the type of investment, e.g., equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to changes in interest rates and credit risks. As a fund manager, the Chief Investment Officer attempts to identify and analyze these and other potential risks in managing the funds, although no guarantee can be made that the decisions made will produce the desired results.

"Risk" refers to the possibility of loss of principal, or alternatively to a rate of investment return below expectations or requirements. While volatility (price fluctuation) is not synonymous with risk, it is true that high volatility on the downside results in loss, and therefore higher volatility is associated with higher risk. Of course, volatility results in realized losses only if securities are sold after a fall in price; it is expected (but not assured) that for diversified portfolios, higher volatility is associated with higher expected returns in the long run. Thus, the length of an individual's investment horizon will to some degree determine the appropriate amount of investment risk. Remember that all risk factors can be partially mitigated by diversification, both within a fund and across a person's entire assets.

### *Market Risk*

The broad risk that securities prices may fluctuate, due to a variety of factors, potentially reducing the value of an investment.

### *Individual Company or Issuer Risk*

The value of an individual stock or corporate bond may vary according to number of factors directly related to the company's own performance, such as management expertise, the company's financial condition, changes in demand for the company's products, changes in the regulatory environment, etc.

### *Concentration Risk (Non-Diversification)*

The risk of having too much money invested in a few individual issuers or similar industries, countries, etc., thereby exposing a fund to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

### *Credit Risk*

The risk that a company will be unable to repay its debt obligations, relating to a variety of factors such as financial weakness or bankruptcy, litigation, and/or adverse political or regulatory developments. This risk is often measured by Credit Ratings issued by several leading ratings agencies, such as Moody's and Standard & Poor's.

### *Prepayment Risk*

Prepayment features on debt securities can increase volatility and affect returns, as cash flows may have to be reinvested at lower yields.

### *Interest Rate Risk*

As interest rates rise, the market value of fixed income investments normally falls. The prices of fixed income securities with longer time to maturity (duration) tend to be more sensitive to changes in interest rates, and therefore more volatile, than those with shorter durations.

### *Liquidity Risk*

The risk that certain securities may be difficult to buy or sell at various times in the markets, resulting in potentially unfavorable prices. Liquidity can be affected by a variety of factors, such as security type, general market conditions, and credit risk. Liquidity risk is particularly relevant to private equity investments.

*Foreign Security Risk*

Foreign securities may carry greater risk than domestic securities for a variety of reasons such as increased political risks; smaller or less liquid markets; higher transaction costs; less rigorous accounting and reporting standards for corporations; and changes in currency rates vs. the U.S. dollar. This last factor may be most significant, as the value of foreign currencies may fluctuate considerably over short periods of time, potentially reducing the market value of the investment.

Current detailed information regarding the UC Core Funds and other investment options is available at netbenefits.com.

## Investments by UC Fund

Of the UC-managed funds (UC Funds) in the UC Core Funds lineup, the Equity and Savings funds comprise the bulk of the $11.9 billion investment base (including short-term investments) with a combined total of 64.1 percent or $7.6 billion of total investments. The UC Fund Allocation chart below illustrates the percentages of investments held and the market value of the investments in each investment fund as of June 30, 2011.

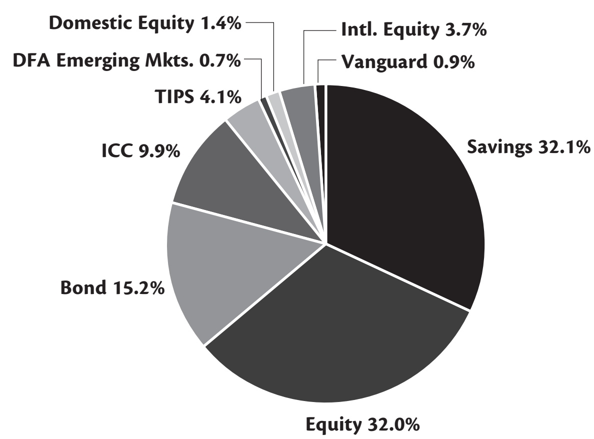
The Balanced Growth Fund and the Pathway Funds are not represented separately in the chart because they consist exclusively of assets held in other University-managed funds. At June 30, 2011, the net assets of the Balanced Growth Fund totaled $1.2 billion. Contributions to the Balanced Growth Fund are currently invested according to a fixed ratio: 52% Domestic Equity/REITs, 22% International Equity, and 26% Bonds. The Fund is comprised of a variety of Core Funds and is rebalanced as needed. Rebalancing prevents the component funds from growing outside their allocation percentage. The asset allocation and underlying Core Funds of the UC Balanced Growth Fund may be adjusted from time to time as determined by the Chief Investment Officer to align with the Fund's investment objective. At June 30, 2011, the Pathway Funds totaled $949.1 billion holding various percentages of other University-managed funds according to their asset allocation mixes.

## Investment Performance

The Equity, Dosmetic and International Equity, Bond, Balanced Growth, TIPS, and Vanguard funds generate returns (gain or loss) through increases or decreases in the fund net asset value (NAV) prices (unit values). Similar to mutual fund NAV prices, the values change each day based on the current fair value of the investment portfolio and are determined by dividing the net assets of the funds by the number of participant shares outstanding. Earnings, as well as market fluctuations, are reflected in the NAVs.

The Savings and Insurance Company Contract (ICC) funds generate returns primarily through interest earnings, and interest factors represent the percentage earned for each dollar invested. Interest is calculated daily on the net earnings of the respective fund and then allocated to participants' accounts on a pro rata basis.

UC FUND ALLOCATION



## HISTORIC UC CORE FUNDS INVESTMENT PERFORMANCE — ANNUALIZED RATES OF RETURN AT JUNE 30, 2011

| | 1-Year | 3-Year | 5-Year |
|---|---|---|---|
| **Savings Fund** | 1.92% | 2.65% | 3.42% |
| 2-Yr U.S. Treasury Notes | 0.64 | 1.05 | 2.26 |
| **ICC Fund** | 3.94 | 4.59 | 4.87 |
| 5-Yr U.S. Treasury Notes | 1.70 | 2.19 | 3.02 |
| **TIPS Fund** | 8.10 | 5.88 | 7.34 |
| Policy Benchmark[1] | 7.74 | 5.28 | 6.91 |
| **Bond Fund** | 4.34 | 7.26 | 6.60 |
| Policy Benchmark[2] | 3.90 | 6.46 | 6.52 |
| **Balanced Growth Fund** | 21.61 | 5.79 | 5.45 |
| Policy Benchmark[3] | 21.49 | 4.63 | 4.68 |
| **Domestic Equity Index Fund** | 32.18 | 4.01 | 3.32 |
| Policy Benchmark[4] | 32.16 | 3.82 | 3.19 |
| **Equity Fund** | 31.34 | 3.27 | 3.41 |
| Policy Benchmark[5] | 31.27 | 2.97 | 3.08 |
| **International Equity Index Fund** | 30.55 | (1.26) | 2.34 |
| Policy Benchmark[6] | 30.19 | (1.69) | 1.90 |
| **Pathway Income Fund** | 4.82 | 5.40 | 5.46 |
| Policy Benchmark[7] | 4.09 | 4.04 | 4.68 |
| **Pathway Fund 2015** | 10.31 | N/A | N/A |
| Policy Benchmark[7] | 9.69 | N/A | N/A |
| **Pathway Fund 2020** | 11.99 | 3.85 | 4.45 |
| Policy Benchmark[7] | 11.92 | 2.93 | 3.92 |
| **Pathway Fund 2025** | 13.97 | N/A | N/A |
| Policy Benchmark[7] | 13.77 | N/A | N/A |
| **Pathway Fund 2030** | 15.77 | 2.88 | 3.79 |
| Policy Benchmark[7] | 15.62 | 2.04 | 3.25 |
| **Pathway Fund 2035** | 17.73 | N/A | N/A |
| Policy Benchmark[7] | 17.49 | N/A | N/A |
| **Pathway Fund 2040** | 19.75 | 2.72 | 3.69 |
| Policy Benchmark[7] | 19.50 | 1.91 | 3.14 |
| **Pathway Fund 2045** | 21.94 | N/A | N/A |
| Policy Benchmark[7] | 21.53 | N/A | N/A |
| **Pathway Fund 2050** | 24.10 | 2.74 | 3.47 |
| Policy Benchmark[7] | 23.79 | 2.08 | 3.02 |
| **Pathway Fund 2055** | 26.44 | N/A | N/A |
| Policy Benchmark[7] | 26.08 | N/A | N/A |
| **Pathway Fund 2060** | 28.77 | N/A | N/A |
| Policy Benchmark[7] | 28.39 | N/A | N/A |
| **Vanguard Small Cap Index Fund** | 39.51 | 9.40 | 5.69 |
| Policy Benchmark: Spliced Small Cap Index | 39.36 | 9.18 | 5.53 |
| **Vanguard REIT Index Fund** | 34.07 | 6.24 | 2.97 |
| Policy Benchmark: MSCI US REIT Index | 34.09 | 5.96 | 2.80 |
| **Vanguard FTSE Social Index Fund** | 26.57 | 3.14 | 0.49 |
| Policy Benchmark: Spliced Social Index | 26.66 | 3.19 | 0.54 |
| **Dreyfus Treasury Prime Cash Management Fund** | 0.00 | 0.17 | 1.67 |
| Policy Benchmark: | 0.01 | 0.16 | 1.58 |
| **DFA Emerging Markets Portfolio** | 30.49 | 6.93 | 12.83 |
| Policy Benchmark: MSCI Emerging Markets Index (net div.) | 27.80 | 4.22 | 11.42 |

### Policy Benchmarks

*1 Barclays Capital U.S. TIPS Index. The Fund seeks to provide a total return that matches the Index.*

*2 Barclays Capital U.S. Aggregate Bond Index. Prior to June 2000 the Policy Benchmark was the Barclays Capital U.S. Long Term Gov/Credit Index.*

*3 Consists of 65% of the Equity Fund benchmark; 30% of the Bond Fund benchmark; and, 5% of the TIPS Fund benchmark.*

*4 Russell 3000 Tobacco Free (TF) Index.*

*5 Consists of 85% less the actual private equity weight from the prior month end times the Russell 3000 TF Index, 15% MSCI ACWI ex US Index (Net) and the actual private equity weight of the previous month end times actual PE returns; Historical: S&P 500 Index.*

*6 MSCI EAFE + Canada Index.*

*7 Blend of the benchmarks of the individual underlying Core Funds based on holdings according to the Fund asset allocation mix.*

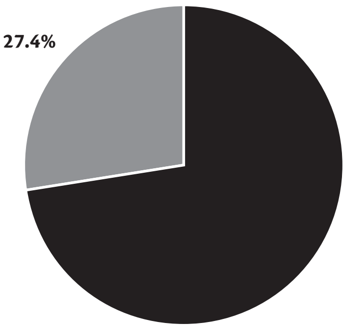
## Participation by Fund Groups/Plans

Participants may invest contributions and eligible rollovers in UC Core Funds, non-UC Core Funds mutual funds through Fidelity (and its extended mutual funds network), and the Calvert Group mutual funds.

At June 30, 2011 fiscal year end, $11.9 billion or 72.6 percent of Total Plans investments was invested in the UC Core Funds, and $4.5 billion or 27.4 percent was invested in externally managed funds.

The table below shows the total market values of the UC Core Funds and the non-UC Core Funds mutual funds by fund group and by plan as of June 30, 2011:

UC FUND GROUPS




INVESTMENTS BY FUND GROUPS/PLANS *($ in thousands)*

| June 30, 2011 | 403(b) Plan | DC Plans | 457(b) Plan | Total Plans |
|---|---|---|---|---|
| **ASSETS** | | | | |
| UC Core Funds | $ 7,675,876 | $ 3,363,502 | $ 836,331 | **$ 11,875,709** |
| Non-UC Core mutual funds | 3,424,826 | 731,841 | 331,824 | **4,488,491** |
| **Total investments held by the Plans** | **$11,100,702** | **$4,095,343** | **$1,168,155** | **$16,364,200** |

## Tax-Deferred 403(b) Plan Loan Program

As permitted by IRC §72(p), active participants with a combined DC Plan/403(b) Plan balance of at least $1,000 may generally borrow from their total 403(b) Plan account balance without incurring taxes or penalties. Certain limitations apply to the available borrowing amount depending on account balance, previous loan activity, and highest outstanding loan balance within the past 12 months.

The 403(b) Plan Loan Program offers short-term general-purpose loans with repayment terms of five years or less, and long-term principal-residence loans, with repayment terms of up to fifteen years. A participant may have one general-purpose loan and one principal-residence loan outstanding at one time but may not take more than one loan within a 12-month period. Monthly repayments of principal and interest are credited proportionately to the investment fund(s) according to the current 403(b) Plan contribution investment mix established by the participant. A nonrefundable loan initiation fee of $35 is deducted from the 403(b) Plan account balance at the end of the calendar quarter in which the loan is taken. An annual maintenance fee of $15 is deducted ($3.75 per calendar quarter) from the participant's 403(b) Plan account balance.

The interest rate is fixed at the time the loan is granted and equals the prevailing bank Prime Rate as published by The Wall Street Journal plus 1 percent. During fiscal year 2010–2011, the Loan Program interest rate for new loans was unchanged at 4.25 percent. As of June 30, 2011 the loan rate remained at 4.25 percent.

At June 30, 2011, the aggregate outstanding loan balance of 15,741 active loans was $139.4 million compared to 14,729 active loans with an aggregate outstanding balance of $126.7 million at June 30, 2010.

The following table reflects participant loans funded during ten years ended June 30, 2011.

LOANS FUNDED

| Year Ended June 30 | Number | ($ in thousands) |
|---|---|---|
| 2011 | 5,150 | $62,460 |
| 2010 | 5,560 | 64,253 |
| 2009 | 4,396 | 48,017 |
| 2008 | 4,162 | 47,904 |
| 2007 | 3,909 | 42,267 |
| 2006 | 4,208 | 46,728 |
| 2005 | 4,224 | 40,231 |
| 2004 | 4,157 | 36,479 |
| 2003 | 3,703 | 31,425 |
| 2002 | 3,029 | 27,300 |

# Management's Discussion & Analysis (Unaudited)

The objective of Management's Discussion and Analysis is to help readers of the Plans' financial statements better understand the Plans' financial position and operating activities for the fiscal year ended June 30, 2011, with selected comparative information for the years ended June 30, 2010 and 2009. This discussion should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2009, 2010, 2011, etc.) in this discussion refer to the fiscal years ended June 30.

## Financial Highlights

- The net assets of the Plans at June 30, 2011 are $16.3 billion compared to $14.1 billion at June 30, 2010 and $12.5 billion at June 30, 2009.
- The net assets of the Plans increased by $2.2 billion in 2011 compared to a increase of $1.6 billion in 2010 and a decrease of $1.6 billion in 2009.
- The Plans had net investment income of $2.2 billion in 2011 compared to investment income of $1.3 billion in 2010 and net investment loss of $1.9 billion in 2009.
- The Plans had participant and University contributions and rollovers totaling $872.7 million in 2011 compared to contributions and rollovers of $935.0 million in 2010 and $927.2 million in 2009.
- The Plans had total deductions consisting of benefit payments, withdrawals, and administrative expenses of $868.9 million in 2011 compared to $640.1 million in 2010 and $634.9 million in 2009.

## Overview of the Financial Statements

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

- Statements of Fiduciary Net Assets
- Statements of Changes in Fiduciary Net Assets
- Notes to Financial Statements

The Statements of Fiduciary Net Assets present information on the Plans' assets and liabilities and the resulting net assets held on behalf of the Plans. This statement reflects the Plans' 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 Plans' net assets changed during the years ended June 30, 2011 and 2010. It reflects contributions by participants along with investment income (or losses) during the period from investing and securities lending activities. Deductions for participant withdrawals, benefit payments and administrative expenses (or surplus) 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.

| FIDUCIARY NET ASSETS ($ in thousands) | | | |
|---|---|---|---|
| **June 30** | **2011** | **2010** | **2009** |
| **ASSETS** | | | |
| Investments | $ 11,875,709 | $ 10,654,869 | $ 9,585,015 |
| Investment of securities lending collateral | 2,621,324 | 3,737,426 | 3,742,295 |
| Participants' interests in mutual funds | 4,488,491 | 3,461,615 | 2,923,695 |
| Participant 403(b) Plan loans | 139,424 | 126,694 | 107,192 |
| Other assets | 25,636 | 30,213 | 35,877 |
| **Total Assets** | **19,150,584** | **18,010,817** | **16,394,074** |
| **LIABILITIES** | | | |
| Other liabilities | 253,657 | 219,157 | 155,387 |
| Collateral held for securities lending | 2,621,312 | 3,739,129 | 3,755,636 |
| **Total Liabilities** | **2,874,969** | **3,958,286** | **3,911,023** |
| **Net Assets** | **$16,275,615** | **$14,052,531** | **$12,483,051** |

| CHANGES IN FIDUCIARY NET ASSETS ($ in thousands) | | | |
|---|---|---|---|
| **Year ended June 30** | **2011** | **2010** | **2009** |
| **ADDITIONS (REDUCTIONS)** | | | |
| Participant and University contributions and rollovers | $ 872,710 | $ 934,954 | $ 927,230 |
| Net investment income (loss) | 2,219,365 | 1,274,629 | (1,893,366) |
| **Total Additions (Reductions)** | **3,092,075** | **2,209,583** | **(966,136)** |
| **DEDUCTIONS** | | | |
| Plan(s) benefits payments and participant withdrawals | 860,562 | 634,895 | 630,889 |
| Administrative and other expenses | 8,429 | 5,208 | 3,968 |
| **Total Deductions** | **868,991** | **640,103** | **634,857** |
| **Increase (Decrease) in Net Assets** | **2,223,084** | **1,569,480** | **(1,600,993)** |
| **NET ASSETS HELD IN TRUST FOR PENSION BENEFITS** | | | |
| Beginning of Year | 14,052,531 | 12,483,051 | 14,084,044 |
| **End of Year** | **$16,275,615** | **$14,052,531** | **$12,483,051** |

## Financial Analysis

The Plans provide savings incentives and the opportunity for additional retirement security for all eligible University of California employees. Participants' interests in the Plans from contributions and investment income are fully and immediately vested.

The Plans' net assets as of June 30, 2011 amounted to $16.3 billion compared to $14.1 billion at June 30, 2010 and $12.5 billion at June 30, 2009.

Additions to the Plans' net assets include contributions, rollovers, and any investment income. Participant and University contributions, and rollovers for 2011 amounted to $872.7 million compared to $935.0 million in 2010 and $927.2 million in 2009.

The Plans recognized net investment income of $2.2 billion in 2011 compared to net investment income of $1.3 billion in 2010 and a net investment loss of $1.9 billion in 2009.

The investment loss in 2009 was due to adverse conditions in global markets over the past years resulting in negative returns across all equity portfolios in the Plans.

Deductions from the Plans' net assets include benefit payments to participants, participant withdrawals, and administrative expenses. For 2011, deductions amounted to $869.0 million compared to $640.1 million in 2010 and $634.9 million in 2009. The deductions in 2011 and 2010, reflect higher levels of benefit payments and withdrawals from the Plans due to retirements and other factors.

The Plans' investment of cash collateral totaled $2.6 billion at June 30, 2011 compared to $3.7 billion at June 30, 2010 and $3.7 billion at June 30, 2009.

Securities lending activity contributed $16.2 million in 2011 in net investment income after fees and rebates compared to $16.4 million in 2010 and $35.8 million in 2009.

### *Investments*

The Plans' investments are held in the UC-managed funds (UC Funds), externally managed commingled investment funds and mutual funds. The UC Funds and certain mutual funds totaling $11.9 billion in assets at June 30, 2011 comprise the UC Funds lineup over which the Chief Investment Officer exercises investment fiduciary oversight. The Chief Investment Officer does not exercise any fiduciary oversight over any mutual funds that are not of the UC Funds line-up. The other mutual funds may be offered by Fidelity or The Calvert Group, or any mutual funds available through the Fidelity Investments brokerage window. For detailed information about the UC Funds, see the general Investments section of this report beginning on page 9.

### *UC Core Funds Total Investment Returns*

The investment returns for the UC Core Funds directly managed by the Chief Investment Officer were as follows for the fiscal years ended June 30, 2011, 2010 and 2009 (historical mutual fund performance and prospectuses for the specialized asset class options under the UC Core Funds lineup are available through "Performance and Research" on the Fidelity web site (netbenefits.com)):

UC CORE FUNDS

| | **2011** | **2010** | **2009** |
|---|---|---|---|
| Savings Fund | 1.9% | 2.5% | 3.5% |
| ICC Fund | 3.9 | 4.8 | 5.1 |
| TIPS Fund | 8.1 | 9.9 | (0.1) |
| Bond Fund | 4.3 | 10.6 | 6.9 |
| Balanced Growth Fund | 21.6 | 13.6 | (14.3) |
| Domestic Equity Index Fund | 32.2 | 15.9 | (26.5) |
| Equity Fund | 31.3 | 15.0 | (27.1) |
| International Equity Index Fund | 30.6 | 7.4 | (31.3) |
| **Pathway Funds:** | | | |
| Income Fund | 4.8 | 14.6 | (2.5) |
| Fund 2010 | – | 18.2 | (8.9) |
| Fund 2015 | 10.3 | 17.3 | – |
| Fund 2020 | 12.0 | 17.0 | (14.6) |
| Fund 2025 | 14.0 | 17.0 | – |
| Fund 2030 | 15.8 | 16.4 | (19.2) |
| Fund 2035 | 17.7 | 16.0 | – |
| Fund 2040 | 19.8 | 14.5 | (21.0) |
| Fund 2045 | 21.9 | 13.6 | – |
| Fund 2050 | 24.1 | 13.9 | (23.3) |
| Fund 2055 | 26.4 | 14.4 | – |
| Fund 2060 | 28.8 | 14.2 | – |
| **Specialized Asset Class Options** | | | |
| Vanguard Small Cap Index Fund | 39.5 | 25.3 | (25.1) |
| Vanguard REIT Index Fund | 34.1 | 55.3 | (42.4) |
| Vanguard FTSE Social Index Fund | 26.6 | 18.4 | (26.9) |
| Dreyfus Treasury Prime Cash Management Fund | 0.0 | 0.0 | 0.0 |
| DFA Emerging Markets Portfolio | 30.5 | 23.6 | (24.2) |

## Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the Plans, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events, or developments that the University expects or anticipates will or may occur in the future contain forward-looking information.


MIKE BALTER

# 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 22 through 38) present fairly, in all material respects, the financial position of the University of California Defined Contribution Plan, Supplemental Defined Contribution Plan, Tax Deferred 403(b) Plan, and 457(b) Deferred Compensation Plan (the "Plans") at June 30, 2011 and 2010, 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 Plans' 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 Plans 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 Plans. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2011 and 2010, 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

SAN FRANCISCO, CALIFORNIA
OCTOBER 12, 2011

# Financial Statements

| STATEMENTS OF FIDUCIARY NET ASSETS *($ in thousands)* | | |
|---|---|---|
| **June 30** | **2011** | **2010** |
| **ASSETS** | | |
| **Investments, at fair value:** | | |
| Equity securities: | | |
| Domestic | $ 3,190,803 | $ 2,753,471 |
| Foreign | 1,016,208 | 679,063 |
| Private equity | 204,715 | 156,630 |
| Fixed income securities: | | |
| U.S. government | 2,490,784 | 2,335,356 |
| Other U.S. dollar denominated | 3,486,662 | 3,440,848 |
| Insurance company contracts (at contract value) | 630,091 | 904,028 |
| Commingled funds | 855,768 | 385,797 |
| Investment derivatives | 678 | (324) |
| Participants' interests in mutual funds | 4,488,491 | 3,461,615 |
| Participant 403(b) Plan loans | 139,424 | 126,694 |
| **Total Investments** | **16,503,624** | **14,243,178** |
| **Investment of cash collateral** | **2,621,324** | **3,737,426** |
| **Receivables:** | | |
| Interest and dividends | 25,507 | 29,844 |
| Securities sales and other | 129 | 369 |
| **Total Receivables** | **25,636** | **30,213** |
| **Total Assets** | **19,150,584** | **18,010,817** |
| **LIABILITIES** | | |
| Payable for securities purchased and other | 253,657 | 219,157 |
| Collateral held for securities lending | 2,621,312 | 3,739,129 |
| **Total Liabilities** | **2,874,969** | **3,958,286** |
| **Net Assets** | **$16,275,615** | **$14,052,531** |

*See accompanying Notes to Financial Statements.*

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS *($ in thousands)*

| **Years Ended June 30** | **2011** | **2010** |
|---|---|---|
| **ADDITIONS** | | |
| Participant contributions | $ 866,999 | $ 927,651 |
| University contributions | 5,711 | 7,303 |
| **Total Contributions** | **872,710** | **934,954** |
| **Investment Income:** | | |
| Net appreciation in fair value of investments | 1,843,033 | 926,845 |
| Interest, dividends, and other investment income | 360,167 | 331,358 |
| Securities lending income | 23,635 | 23,735 |
| Less securities lending fees and rebates | (7,470) | (7,309) |
| **Total Investment Income** | **2,219,365** | **1,274,629** |
| **Total Additions** | **3,092,075** | **2,209,583** |
| **DEDUCTIONS** | | |
| **Benefit Payments and expenses:** | | |
| Plan(s) benefit payments and participant withdrawals | 860,562 | 634,895 |
| Administrative expenses | 8,429 | 5,208 |
| **Total Deductions** | **868,991** | **640,103** |
| **Increase in Net Assets** | **2,223,084** | **1,569,480** |
| **NET ASSETS** | | |
| Beginning of Year | 14,052,531 | 12,483,051 |
| **End of Year** | **$16,275,615** | **$14,052,531** |

*See accompanying Notes to Financial Statements.*

## NOTE 1 — Description of the Plans and Significant Accounting Policies

### *General Introduction*

The Plans consist of three defined contribution plans, two plans structured under §401(a) of the Internal Revenue Code (IRC) of 1986; and, one plan structured under §403(b) of the IRC, as amended, and a deferred compensation plan structured under IRC §457(b), collectively referred to as the "Plans". The Plans were created to provide savings incentives and additional retirement security for eligible University of California employees. The Defined Contribution Plan (the DC Plan) was established by resolution of The Regents of the University of California (The Regents) to accept after-tax contributions effective July 1, 1967, and pretax contributions effective November 1, 1990. The Regents established the Supplemental Defined Contribution Plan (SDC Plan) effective January 1, 2009 to provide savings and retirement income to designated employees of the University of California and their beneficiaries. The Tax-Deferred 403(b) Plan (the 403(b) Plan), also established by regental resolution, became effective July 1, 1969. The Regents established the 457(b) Deferred Compensation Plan (457(b) Plan) effective September 1, 2004.

Fidelity Employer Services Co. (FESCo) is the master recordkeeper for all four Plans. A Core Funds lineup developed by the University of California (UC) Chief Investment Officer is available to Plan participants. The Fidelity Investments and Calvert Funds Group mutual funds are alternative investment choices under all four Plans. Additionally, a network of mutual funds is available through the Fidelity Investments brokerage service.

The UC Chief Investment Officer oversees twelve single, diversified investment funds and seven primary asset class options that form part of the UC Core Funds lineup. In addition, the UC Core Funds line-up includes five mutual funds that are specialized asset class options. Participants may direct investment of their contributions and transfer Plan accumulations to any of these funds:

### *Single, Diversified Investment Funds:*

Includes the Balanced Growth Fund, Pathway Income Fund and Pathway target date funds for the years 2015, 2020, 2025, 2030, 2035, 2040, 2045, 2050, 2055 and 2060.

### *Primary Asset Class Options:*

- Savings Fund
- ICC Fund
- Bond Fund
- TIPS Fund
- Domestic Equity Index Fund
- Equity Fund
- International Equity Index Fund

### *Specialized Asset Class Options:*

- Vanguard Small Cap Index Fund
- Vanguard REIT Index Fund
- Vanguard FTSE Social Index Fund
- Dreyfus Treasury Prime Cash Management Fund
- DFA Emerging Markets Portfolio

Participants may also invest in mutual funds offered by Fidelity (including non-Fidelity mutual funds) and the Calvert Group funds.

Transfers and investment changes must be made in accordance with Plan provisions, and all contributions made to the Plans are allocated to the Plans and invested in one or more of the available investment options, as directed by participants.

The University of California Human Resources Department (UC HR) retained the recordkeeping of accounts of participants who left UC employment before July 1, 2005, and who failed to claim account balances under $2,000 in the 403(b) Plan or the DC Plan. These accounts were forfeited (if under $50) and remaining balances deposited into a forfeiture fund. Participants can request distributions of forfeited and residual accounts by contacting UC Residual Accounts at 1-877-822-7759.

Participants' interests in the Plans are fully and immediately vested and are distributable at death, retirement, or termination of employment. Participants may elect to defer distribution until age 70½ or separation from service, whichever is later, in accordance with IRC minimum distribution requirements. In-service withdrawals are permitted in conformance with applicable IRC regulations.

The Plans accepts rollover contributions from other 401(a), 401(k), 403(b) and governmental 457(b) plans.

The DC Plan accepts after-tax rollover amounts from 403(b) plans in addition to after-tax rollovers from 401(a) and 401(k) plans. The 403(b) Plan accepts rollovers of after-tax amounts from 401(a) and 401(k) plans in addition to after-tax rollovers from other 403(b) plans.

Effective January 1, 2008, participants may rollover their eligible distributions to a Roth IRA.

### *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.

GASB Statement No. 59, *Financial Instruments Omnibus*, was adopted by the Plan during the year ended June 30, 2011. This Statement updates existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. Implementation of Statement No. 59 had no effect on the Plan's net assets or changes in net assets for the years ended June 30, 2011 and 2010.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was adopted by the Plan during the year ended June 30, 2011. This Statement incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedures that were issued on or before November 30, 1989. Implementation of Statement No. 62 had no effect on the Plan's net assets or changes in net assets for the years ended June 30, 2011 and 2010.

### *Defined Contribution Plan*

Prior to Spring 2010, and subject to collective bargaining, DC Plan Pretax Account contributions were required for all employees who were members of the University's defined benefit plan, the University of California Retirement Plan (UCRP).

As a condition of employment, most employees who were UCRP members were required to contribute a percentage of their UCRP covered compensation on a pretax basis, dependent upon their UCRP membership status, as follows:

- For the 113,652 members with Social Security benefits: two percent of covered compensation up to the Social Security wage base, plus four percent of covered compensation in excess of the wage base but less than the IRC limit on compensation may be taken into account, if any, less $19 per month;
- For the 1,497 members without Social Security benefits: three percent of covered compensation less $19 per month;
- For the 404 members with safety benefits: three percent of covered compensation less $19 per month.
- There are currently 15 UCRP members who elected Tier Two membership status. Tier Two members do not contribute to UCRP and, therefore, are not required to contribute to the DC Plan Pretax Account. Their UCRP benefits are adjusted accordingly.

In Spring 2010, contributions resumed in UCRP and the redirect to the DC Plan was discontinued, subject to collective bargaining for represented employees.

The University makes DC Plan retirement contributions on the summer or equivalent term salaries of eligible academic employees who teach, conduct research or provide administrative service during the summer session or an equivalent term. To be eligible, employees must hold academic year appointments and be active members of UCRP or another defined benefit plan to which the University contributes. The contribution rate is 7.0 percent of eligible salary, of which 3.5 percent is University paid and 3.5 percent is employee-paid, both on a pretax basis.

The DC Plan Pretax Account also includes mandatory contributions from part-time, seasonal and temporary employees at the University who are not currently participating in UCRP or another defined benefit plan to which the University contributes (Safe Harbor participants).

Safe Harbor participation includes certain University student employees and resident aliens with F-1 and J-1 visa status. Safe Harbor participants contribute 7.5 percent of gross salary (up to the Social Security wage base) to the Plan in lieu of deductions for Social Security taxes. All University employees, except students who normally work fewer than 20 hours per week, are eligible to make voluntary contributions to the DC Plan After-Tax Account and defer taxation on the earnings until the accumulations are withdrawn. The maximum amount participants may contribute annually to the After-Tax Account is determined by the IRC §415(c) limit.

### *Tax-Deferred 403(b) Plan*

The Tax-Deferred 403(b) Plan is available to all University employees except students who normally work fewer than 20 hours per week.

Employees who want to participate in the 403(b) Plan designate a portion of their gross salary within the IRC established limits to be contributed on a pretax basis, thus reducing their taxable income. Income taxes on contributions and any earnings are deferred (that is, postponed) until the participant withdraws the money.

The University also makes Plan contributions on behalf of eligible senior managers.

Annual salary deferral contribution limits for the 403(b) Plan during fiscal year 2010–2011, were as follows: the maximum annual contribution limit for participants under age 50 for the calendar years 2010 and 2011, were $16,500 (or 100 percent of adjusted gross salary, if less). For participants age 50 or older, the annual contribution limit is $22,000 for calendar years 2010 and 2011, (or 100 percent of adjusted gross salary, if less). Participants with 15 or more years of service may be able to increase their limit under a special catch-up provision in the 403(b) and 457(b) Plans.

### *457(b) Deferred Compensation Plan*

The 457(b) Deferred Compensation Plan is available to all University employees except students who normally work less than 20 hours per week. Taxes on contributions (deferred compensation) and earnings thereon are deferred until the accumulations are withdrawn. The University also makes Plan contributions on behalf of eligible senior managers. The deferred compensation limits for the 457(b) Plan were the same as the 403(b) Plan limits (described in the previous paragraph) during fiscal year 2010-2011.

### *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.

As a result of inactive or illiquid markets, certain investments in non- agency mortgage-backed fixed income securities are valued on the basis of their estimated future principal and interest payments using appropriate risk-adjusted discount rates.

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. Insurance contracts are valued at contract value, plus reinvested interest, which approximates market value.

Derivative instruments are recorded at fair value. Futures contracts, foreign currency exchange contracts, forward contracts, stock rights and warrants are valued at the last sales price on the last day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service.

### *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.

Contributions allocated to the Pathway, Equity, Bond, TIPS, Balanced Growth, Domestic Equity Index, and International Equity Index funds are credited to participant accounts as units. The value of a unit changes each day based on the current fair value of the investment portfolio. Earnings of each fund, as well as market fluctuations, are reflected in the unit values.

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 Plans' Statements of Changes in Fiduciary Net Assets.

### *Administrative Expenses*

Investor expenses for the single diversified UC Core Funds and the primary asset class UC Core Funds are limited to 0.15 percent (or $1.50 per $1,000 invested) of the fund's average market value per year, assessed on a daily basis (1/365th per day invested). These expenses are not billed to participants, but are netted against the investment experience of the fund. These expenses are comprised of approximately 0.03 percent for investment management, 0.02 percent for investor education, and 0.10 percent for administration (including accounting, audit, legal, custodial, and recordkeeping services). The total administrative expenses are estimated and could actually be lower in some periods. If actual administrative expenses are less than estimated, any accumulation will be returned to the appropriate funds, on a prorated basis, thereby lowering the effective expense ratio for participants. There are no front-end or deferred sales loads or other marketing expenses in these Core Funds. Descriptions of expenses for the specialized asset class UC Core Funds are available in each mutual fund's prospectus.

In addition, any fees paid by participants, including loan fees and brokerage window account fees, and any fees that may be awarded for Fidelity's failure to meet certain performance standards, will be credited to the Plans' fee account. At the direction of the Plan Administrator and subject to receipt of supporting documentation, Fidelity will apply the Plans' fee account funds against reasonable Plan expenses that otherwise would be paid from other Plan assets. A portion of basis points that are assessed against the market value of the mutual fund investments in the Plans pursuant to revenue sharing agreements will be credited to an expense credit account and offset against charges for services provided by Fidelity and its affiliates. If any amount remains after payment for Fidelity-related services, funds in the expense credit account will be used to reimburse the University for reasonable Plan expenses previously paid by the University.

A participant can obtain information on fees charged by a mutual fund investment option by reviewing the fund prospectus available on the Fidelity Investments web site (netbenefits.com).

The net administrative fees and expenses or (surplus) incurred by the University-managed investment funds for the fiscal years ended June 30, 2011 and 2010 totaled $8.4 million and $5.2 million respectively.

### *Income Tax Status*

In January 1997, the IRS confirmed its determination that the form of the DC Plan met the requirements for qualification under IRC §401(a). Since then, the DC Plan has been amended to comply with subsequent tax acts and state laws and to make certain design changes recommended by the Plan Administrator and approved by The Regents. Tax counsel for the Plan is not aware of any existing circumstances related to such amendments that indicate a material failure to comply with the relevant requirements of the IRC in any material respect. The University has requested that the IRS issue an updated determination letter on the DC Plan.

Separately, the University has requested that the IRS issue a favorable determination letter on the SDC Plan. The form of the SDC Plan is intended to satisfy the qualification requirements of IRC §401(a).

The form of the 403(b) Plan is intended to satisfy the requirements of IRC §403(b). The form of the 457(b) Plan is intended to satisfy the requirements of IRC §457(b). Tax counsel for the Plan is not aware of any existing circumstances that indicate a material failure to comply with the relevant requirements of IRC §403(b) and §457(b), as applicable.

To the best of tax counsel's knowledge, the DC Plan, the SDC Plan, the 403(b) Plan, and the 457(b) Plan have been administered in accordance with their terms and the applicable provisions of the IRC and related regulations thereunder, in all material respects.

DC Plan Pretax Account contributions, 403(b) Plan contributions, and 457(b) Plan contributions (and earnings thereon), as well as earnings on After-Tax Account contributions, are not subject to federal income taxes until the participant withdraws them from the Plan(s). In certain circumstances, Plan withdrawals may qualify for special tax treatment.

Pursuant to the Unemployment Compensation Amendments of 1992, all "eligible rollover distributions" that are not paid in the form of a direct rollover are subject to a mandatory 20 percent federal income tax withholding.

Loans taken by 403(b) Plan participants are not subject to federal income taxes as long as they are repaid within the term of the loan—up to five years for short-term loans and up to 15 years for long-term loans taken for the purchase of a principal residence—and comply with other requirements.

### *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 fiduciary net assets held in trust for benefits at the date of the financial statements and the reported amounts of changes in fiduciary net assets held in trust for benefits during the reporting period. Actual results could differ from those estimates.

The financial statements of the Plans 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 Plans. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2011 and 2010.

### *Reclassifications*

In connection with the preparation of the June 30, 2011 financial statements, $214.1 million of forward contracts on a to-be-announced basis held by the Plans were reclassified from derivatives to fixed or variable income securities. The effect on the prior period financial statements is not material. However, management elected to make the revisions in classification to the Plans' 2010 presentation. This revision had no effect on the Plans' net assets or changes in the Plans' net assets.

## NOTE 2 — Investments - Core Funds

The Regents, as the governing Board, is responsible for establishing investment policy, which is carried out by the Chief Investment Officer.

Investments authorized by for the Plans 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, 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 Plans 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.

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

Real estate investments and absolute return strategies are authorized for the Plans. Absolute return strategies may incorporate short sales, plus derivative positions to implement or hedge an investment position.

Derivative instruments, including futures, forward contracts, options and swap contracts are authorized for portfolio rebalancing in accordance with The Regents' asset allocation policy and as substitutes for physical securities. They are not used for speculative purposes.

The composition of investments at June 30, 2011 and 2010 is as follows:

| COMPOSITION OF INVESTMENTS *($ in thousands)* | | |
|---|---|---|
| **June 30** | **2011** | **2010** |
| **EQUITY SECURITIES:** | | |
| Domestic | $ 3,190,803 | $ 2,753,471 |
| Foreign | 1,016,208 | 679,063 |
| **Equity securities** | **4,207,011** | **3,432,534** |
| **FIXED OR VARIABLE INCOME SECURITIES:** | | |
| U.S. government guaranteed: | | |
| U.S. Treasury bills, notes and bonds | 1,807,971 | 1,798,498 |
| U.S. Treasury strips | 201,508 | 114,617 |
| U.S. TIPS | 481,305 | 422,241 |
| **U.S. government guaranteed** | **2,490,784** | **2,335,356** |
| Other U.S dollar denominated: | | |
| Corporate bonds | 284,574 | 274,164 |
| U.S. agencies | 2,342,149 | 2,302,498 |
| U.S. agencies—asset-backed securities | 476,037 | 356,166 |
| Corporate asset-backed securities | 263,372 | 373,992 |
| Supranational/foreign | 117,945 | 131,381 |
| Other | 2,585 | 2,647 |
| **Other U.S. dollar denominated** | **3,486,662** | **3,440,848** |
| **COMMINGLED FUNDS:** | | |
| U.S. equity funds | 101,457 | 36,228 |
| Real estate investment trusts | 90,864 | 81,241 |
| Money market funds** | 663,447 | 268,328 |
| **Commingled funds** | **855,768** | **385,797** |
| **Private equity** | **204,715** | **156,630** |
| **Insurance company contracts** | **630,091** | **904,028** |
| **Investment derivatives** | **678** | **(324)** |
| **Total Investments*** | **$11,875,709** | **$10,654,869** |

**Does not include Participants' interest in mutual funds and Participant 403(b) Plan loans shown in the statements of fiduciary net assets on P. 22.*

*** Includes investment of $553,362 and $185,034 in the Short Term Investment Pool as of June 30, 2011 and 2010, respectively.*

### *Total Investment Returns UC Core Funds*

The total investment return on a units-of-participation basis, representing investment income minus administrative fees and net appreciation or (depreciation) on investments, where applicable, for the years ended June 30, 2011 and 2010, was as follows:

| UC CORE FUNDS (%) | 2011 | 2010 |
|---|---|---|
| Savings Fund | 1.9 | 2.5 |
| ICC Fund | 3.9 | 4.8 |
| TIPS Fund | 8.1 | 9.9 |
| Bond Fund | 4.3 | 10.6 |
| Balanced Growth Fund | 21.6 | 13.6 |
| Domestic Equity Index Fund | 32.2 | 15.9 |
| Equity Fund | 31.3 | 15.0 |
| International Equity Index Fund | 30.6 | 7.4 |
| **Pathway funds** | | |
| Income Fund | 4.8 | 14.6 |
| Fund 2010 | - | 18.2 |
| Fund 2015 | 10.3 | 17.3 |
| Fund 2020 | 12.0 | 17.0 |
| Fund 2025 | 14.0 | 17.0 |
| Fund 2030 | 15.8 | 16.4 |
| Fund 2035 | 17.7 | 16.0 |
| Fund 2040 | 19.8 | 14.5 |
| Fund 2045 | 21.9 | 13.6 |
| Fund 2050 | 24.1 | 13.9 |
| Fund 2055 | 26.4 | 14.4 |
| Fund 2060 | 28.8 | 14.2 |
| **Specialized Asset Class Options** | | |
| Vanguard Small Cap Index Fund | 39.5 | 25.3 |
| Vanguard REIT Index Fund | 34.1 | 55.3 |
| Vanguard FTSE Social Index Fund | 26.6 | 18.4 |
| Dreyfus Treasury Prime Cash Management Fund | 0.0 | 0.0 |
| DFA Emerging Markets Portfolio | 30.5 | 23.6 |

## 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. Alternative investment strategies and their underlying assets and rights are also subject to an array of economic and market vagaries that can limit or erode value.

### *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. On August 8, 2011, the S&P downgraded the credit ratings of certain long-term debt instruments issued by Fannie Mae and Freddie Mac and other U.S. government agencies linked to long-term U.S. debt. These downgrades could adversely affect the market value of such instruments and the credit risk associated with the Plans' investments in U.S. Treasury securities held as investments by the Plan.

Asset backed securities are debt obligations that represent claims to the cash flows from pools of commercial, mortgage, credit card or student loans. Mortgage backed securities issued by Ginnie Mae are backed by the full faith and credit of the U.S. government. Effective September 2008, Fannie Mae and Freddie Mac were placed under the conservatorship of the Federal Housing Finance Agency. At the same time, the U.S. Treasury put in placed a set of financing agreements to ensure Fannie Mae and Freddie Mac have the ability to fulfill their obligations to holders of bonds that they have issued or guaranteed.

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, e.g., 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 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.

Credit risk is appropriate in a balanced investment pool such as the Plans' investment pool, by virtue of the benchmarks chosen for the fixed income portion of the pool. These fixed income benchmark Barclays Capital U.S. Aggregate Bond Index in 2010, is comprised of approximately 25 percent corporate bonds and 35 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 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 Plans 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 or variable income securities at June 30, 2011 and 2010 is as follows:

FIXED OR VARIABLE INCOME SECURITIES *($ in thousands)*

| | 2011 | 2010 |
|---|---|---|
| **U.S. government guaranteed** | $2,490,784 | $2,335,356 |
| **Other U.S. dollar denominated:** | | |
| AAA | 2,862,374 | 2,892,693 |
| AA | 56,360 | 69,943 |
| A | 280,827 | 135,450 |
| BBB | 182,788 | 191,358 |
| BB | 22,739 | 17,731 |
| B | 5,203 | 37,499 |
| CCC or below | 75,973 | 86,431 |
| A1/P1/F1 | 133 | 6,515 |
| Not rated | 265 | 3,228 |
| **Commingled funds:** | | |
| Money market funds: not rated | 663,447 | 268,328 |
| **Insurance company contracts** | 630,091 | 904,028 |

### *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 Plans' securities are registered in the Plans' name by the custodial bank as an agent for the Plans. 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 Plans investment pools to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

The U.S. and non-U.S. equity portions of the Plans' investment funds 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 of the investment fund. While some securities have a larger representation in the benchmark than others, the Plans consider 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 Plans' investment funds 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) at the time of purchase. These same guidelines apply to STIP. For high-yield and emerging market debt, the corresponding limit is five percent.

Investments in issuers that represent five percent or more of total investments held of all plans of the UC-managed investment option at June 30, 2011 and 2010 are as follows:

| ISSUER ($ in thousands) | 2011 | 2010 |
|---|---|---|
| Federal Home Loan Mortgage Association | $ – | $ 613,894 |
| Federal Home Loan Mortgage Association | 942,466 | 710,033 |
| Federal Farm Credit Bank | 1,002,747 | 1,277,889 |

### *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 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.

These portfolio guidelines for the fixed income portion of the Plans investment pools limit weighted average effective duration to the effective duration of the benchmarks (Citigroup Large Pension Fund Index and Barclays Capital U.S. Aggregate Bond Index), plus or minus 20 percent. These portfolio guidelines constrain the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark.

The effective durations for fixed and variable income securities and commingled funds are as follows at June 30, 2011 and 2010:

| FIXED OR VARIABLE INCOME SECURITIES | 2011 | 2010 |
|---|---|---|
| **U.S. government guaranteed:** | | |
| U.S. Treasury bills, notes and bonds | 1.7 | 1.6 |
| U.S. Treasury strips | 7.0 | 7.4 |
| U.S. TIPS | 4.4 | 3.7 |
| **Other U.S. dollar denominated:** | | |
| Corporate bonds | 6.2 | 6.4 |
| U.S. agencies | 1.8 | 1.4 |
| U.S. agencies—asset-backed securities | 2.4 | 1.8 |
| Corporate asset-backed securities | 3.6 | 3.4 |
| Supranational/Foreign | 6.2 | 5.6 |
| Other | 13.0 | 14.2 |
| **Commingled funds:** | | |
| STIP and other money market funds | 1.5 | 1.6 |

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, 2011 and 2010, the fair values of such investments are as follows:

| INVESTMENT TYPE ($ in thousands) | 2011 | 2010 |
|---|---|---|
| Mortgage-backed securities | $ 478,118 | $ 553,367 |
| Collateralized mortgage obligations | 26,960 | 45,656 |
| Variable rate securities | 149,060 | - |
| Other asset-backed securities | 85,272 | 126,134 |
| Callable bonds | 860,680 | 1,349,826 |
| **Total** | **$1,600,090** | **$2,074,982** |

### *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 either the payment of 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.

### *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.

### *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 Plans 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.

At June 30, 2011 and 2010, the effective durations for these securities are as follows:

| INVESTMENT TYPE | 2011 | 2010 |
|---|---|---|
| Mortgage-backed securities | 5.1 | 3.7 |
| Collateralized mortgage obligations | 3.6 | 2.8 |
| Variable rate securities | 1.3 | – |
| Other asset-backed securities | 0.5 | 0.7 |
| Callable bonds | 2.3 | 1.3 |

### *Foreign Currency Risk*

The Plans' strategic asset allocation policy for investment pools or commingled investment funds includes allocations to non-US 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 strategy. Portfolio guidelines for 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 may be fully or partially hedged using forward foreign currency exchange contracts. Under the investment policies, such instruments are not permitted for speculative use or to create leverage.

At June 30, 2011 and 2010, the U.S. dollar balances organized by currency denominations and investment type are as follows:

| | ($ in thousands) | |
|---|---|---|
| | **2011** | **2010** |
| **Equity securities:** | | |
| Euro | $ 288,996 | $182,887 |
| British Pound | 186,403 | 123,497 |
| Japanese Yen | 183,636 | 143,006 |
| Canadian Dollar | 107,691 | 70,161 |
| Australian Dollar | 78,893 | 49,913 |
| Swiss Franc | 76,136 | 49,137 |
| Swedish Krona | 28,595 | 17,527 |
| Hong Kong Dollar | 24,897 | 15,960 |
| Singapore Dollar | 15,318 | 10,377 |
| Danish Krone | 9,587 | 6,093 |
| Norwegian Krone | 8,413 | 4,436 |
| Israeli Shekel | 6,578 | 5,433 |
| Other | 1,065 | 636 |
| **Total exposure to foreign currency risk** | **1,016,208** | **679,063** |
| **Investment derivatives:** | | |
| Euro | 74 | 4 |
| British Pound | 50 | (7) |
| Australian Dollar | 34 | (22) |
| Japanese Yen | 28 | (50) |
| Canadian Dollar | 18 | 11 |
| Other | 7 | (2) |
| **Sub total** | **211** | **(66)** |
| **Private equity:** | | |
| Euro | 4,012 | 1,374 |
| Swedish Krona | 1,029 | 334 |
| **Total exposure to foreign currency risk** | **$1,021,460** | **$680,705** |

### *Liquidity Risks*

Alternative investments are subject to liquidity risk. 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.

These securities 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.

The Plan's portfolio includes the following alternative investments as of June 2011 and 2010:

| | ($ in thousands) | |
|---|---|---|
| | **2011** | **2010** |
| Private equity | $ 204,715 | $ 156,630 |
| Corporate–asset-backed securities | 64,759 | 204,548 |
| **Total** | **$269,474** | **$361,178** |

The Plan has also made commitments to make investments in certain investment partnerships pursuant to provisions in the various partnership agreements. These commitments at June 30, 2011 totaled $131.9 million.

## NOTE 3 — Securities Lending

The Plans jointly participate in a securities lending program as a means to augment income.

Securities that are part of the net fiduciary assets 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 Plans 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 Plans 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.

Securities lending transactions at June 30, 2011 and 2010 are as follows:

| | *($ in thousands)* | |
|---|---|---|
| | **2011** | **2010** |
| **SECURITIES LENT** | | |
| **For cash collateral:** | | |
| Equity securities: | | |
| Domestic | $ 419,651 | $ 545,555 |
| Foreign | 90,147 | 75,711 |
| Fixed income securities: | | |
| U.S government | 1,297,676 | 1,733,644 |
| Domestic | 760,059 | 1,296,658 |
| **Lent for Cash Collateral** | **2,567,533** | **3,651,568** |
| **For securities collateral** | | |
| Equity securities: | | |
| Domestic | 33,650 | 50,292 |
| Foreign | 147,588 | 44,389 |
| Fixed income securities: | | |
| U.S. government | 895,564 | 273,237 |
| Other U.S. dollar denominated | 729,654 | 894,860 |
| **Lent for Securities Collateral** | **1,806,456** | **1,262,778** |
| **Total Securities Lent** | **$4,373,989** | **$4,914,346** |
| **COLLATERAL RECEIVED** | | |
| Cash | $ 2,621,312 | $ 3,739,129 |
| Securities | 1,874,792 | 1,307,005 |
| **Total Collateral Received** | **$4,496,104** | **$5,046,134** |
| **INVESTMENT OF CASH COLLATERAL** | | |
| **Fixed or variable income securities:** | | |
| Other U.S. dollar denominated | | |
| Corporate bonds | $ 237,737 | $ 216,691 |
| Commercial paper | 92,911 | 238,593 |
| Repurchase agreements | 1,406,357 | 1,146,638 |
| Corporate asset-backed securities | 152,416 | 301,360 |
| Certificates of deposit/ time deposits | 234,696 | 1,257,018 |
| Supranational/foreign | 363,907 | 404,499 |
| Other | 132,741 | 145,814 |
| Commingled funds: Money market funds: Not rated | – | 28,353 |
| Assets (liabilities), net[1] | 559 | (1,540) |
| **Total Investment of Cash Collateral** | **$2,621,324** | **$3,737,426** |

[1] *Assets (liabilities), net is comprised of pending settlements of cash collateral investments.*

Cash collateral received from the borrower is invested by lending agents, as agents for the Plans, in investment pools in the name of the Plans, with guidelines approved by the Plans. These investments are shown as investment of cash collateral in the statement of fiduciary net assets. At June 30, 2011 and 2010, the securities in these pools had a weighted average maturity of 17 and 32 days, respectively. The Plans record 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, 2011, the Plans had little exposure to borrowers because the amounts the Plans owed the borrowers were substantially the same as the amounts the borrowers owed the Plans. The Plans are fully indemnified by their lending agents against any losses incurred as a result of borrower default.

The securities lending income and fees and rebates for the years ended June 30, 2011 and 2010 are as follows:

| INVESTMENT TYPE *($ in thousands)* | 2011 | 2010 |
|---|---|---|
| Securities lending income | $ 23,635 | $ 23,735 |
| Securities lending fees and rebates | (7,470) | (7,309) |
| **Securities lending investment income, net** | **$16,165** | **$16,426** |

## 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 Plans' investment policies and other information related to each of these risks are summarized below.

### *Credit Risk*

The Plans' 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 and commingled funds associated with the investment of cash collateral at June 30, 2011 and 2010 is as follows:

| FIXED OR VARIABLE INCOME SECURITIES *($ in thousands)* | 2011 | 2010 |
|---|---|---|
| **Other U.S. dollar denominated:** | | |
| AAA | $ 348,914 | $ 467,380 |
| AA | 506,054 | 393,415 |
| A | 31,831 | 151,511 |
| BBB | – | 1,146 |
| A-1/P-1/F-1 | 1,733,964 | 2,697,161 |
| **Commingled funds:** | | |
| Money market funds: Not rated | – | 28,353 |
| **Assets (liabilities), net: Not rated**[1] | $ 559 | $ (1,540) |

[1] *Assets (liabilities) net is comprised of pending settlements of cash collateral investments.*

### *Custodial Credit Risk*

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

### *Concentration of Credit Risk*

The Plans' investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pools restrict 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 at the time of purchase.

Investments in issuers other than U.S. government securities that represent five percent or more of the total investment of cash collateral at June 30, 2011 and 2010 are as follows:

| | ($ in thousands) | |
|---|---|---|
| | 2011 | 2010 |
| Bank of America | $ – | $491,371 |
| BNP Paribas | – | 265,036 |
| ING Bank | – | 204,211 |
| Morgan Stanley | – | 218,807 |

### *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 Plans' investment policy with respect to the interest rate risk associated with the investment of cash collateral in the separately managed collateral pools require 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.

The weighted average maturity expressed in days outstanding for fixed or variable income securities and commingled funds associated with the investment of cash collateral at June 30, 2011 and 2010 is as follows:

| FIXED OR VARIABLE INCOME SECURITIES | | |
|---|---|---|
| | 2011 | 2010 |
| **Other U.S. dollar denominated** | | |
| Corporate bonds | 23 | 37 |
| Commercial paper | 31 | 12 |
| Repurchase agreements | 8 | 51 |
| U.S. agencies | 15 | – |
| Corporate-asset-backed securities | 15 | 15 |
| Certificates of deposit/time deposits | 26 | 25 |
| Supranational/foreign | 38 | 27 |
| **Commingled funds:** | | |
| Money market funds: Not rated | – | 1 |

Investment of cash collateral may include various asset-backed securities, structured notes and variable rate securities that are considered to be highly sensitive to changes in interest rates.

At June 30, 2011 and 2010, the fair value of investments that are consider to be highly sensitive to changes in interest rates is as follows:

| | ($ in thousands) | |
|---|---|---|
| | 2011 | 2010 |
| Variable rate securities | $ 152,416 | $621,189 |
| Other asset-backed securities | 601,644 | 301,360 |

### *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.

### *Foreign Currency Risk*

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

## NOTE 4 — Derivative Financial Instruments

The Plans may use derivatives including futures, foreign currency exchange contracts, options, forward contracts, stock rights and warrants as a substitute for investment in equity and fixed income securities, to reduce the effect of fluctuating foreign currencies on foreign currency-denominated investments, or to limit its exposure of variable rate bonds to changes in market interest rates.

The Plans enter 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 Plans are 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 Plans agree to receive from, or pay to, the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. 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. The settlement amount at the end of each day for each of the contracts, or variation margin, is included in investments and represents the fair value of the contracts.

Forward contracts are similar to futures contracts, although they are not exchange-traded. Foreign currency exchange contracts are forward contracts used to hedge against foreign currency exchange rate risks on non-U.S. dollar denominated investment securities and to increase or decrease exposure to various foreign currencies.

An option contract gives the Plans 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 Plans are limited to the premium originally paid for covered options. The Plans record 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. None of the Plans held any option contracts at June 30, 2011 or 2010.

INVESTMENT DERIVATIVES *($ in thousands)*

| Category | Notional Amount | | Fair Value-Positive (Negative) | | | Changes In Fair Value | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | Classification | 2011 | 2010 | Classification | 2011 | 2010 |
| Futures contracts: | | | | | | | | |
| Domestic equity futures: | | | | | | | | |
| Long positions | 223,298 | 39,149 | Investment | $ 430 | $(258) | Net appreciation | $ 12,930 | $ 5,514 |
| Foreign equity futures: | | | | | | | | |
| Long positions | 15,825 | 11,859 | Investment | 212 | (66) | Net appreciation | 1,168 | 608 |
| **Futures contracts, net** | | | | **642** | **(324)** | | **14,098** | **6,122** |
| Stock rights/warrants | – | – | Investment | 36 | – | Net depreciation | (117) | – |
| **Total investment derivatives** | | | | **$678** | **$(324)** | | **$ 13,981** | **$6,122** |

## NOTE 5 — Plan Termination

The Regents expects to continue the Plans indefinitely, but reserves the right to amend or discontinue the Plans at any time by Regental action. The rights of all affected participants to the value of their accounts are nonforfeitable at all times.

The benefits of the Plans 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.

UNIVERSITY OF CALIFORNIA

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*Vice Chairman, Committee on Governance;*
*Member of Committee on Compensation; Oversight of the DOE Laboratories*

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*Chairman, Committee on Governance; Vice Chairman of Committee on Finance*
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*Member of Committees on Educational Policy and Long Range Planning;*
*Oversight of the DOE Laboratories*

Mark G. Yudof
*University President and Plan Administrator*

## INVESTMENT MANAGEMENT | Chief Investment Office

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*Chief Investment Officer and Vice President, Investments and Acting Treasurer*

Melvin L. Stanton
*Associate Chief Investment Officer, Investments and Chief Operating Officer*

Susan Rossi
*Communications Director*

## PLAN ADMINISTRATION | Office of the President

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*Plan Administration Oversight and Executive Vice President, Business Operations*

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*Director, HR Benefits Information Systems, Benefits Programs and Strategy,*
*Human Resources Department*

Joe Lewis
*Director, Retirement Administration Service Center, Human Resources Department*

David L. Olson
*Director, Benefit Plan Accounting, CFO Division, Financial Accounting*

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*Plan Actuary*

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*Independent Plan Auditor*

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Requests for Information: *This financial report is designed to provide The Regents, Plans' retirees and others with a general overview of the Plans' financial positions and results. Questions concerning this report should be addressed to:*

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Human Resources Department
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