A world of possibilities

The University of California Retirement Plan

Annual Financial Report
2005–2006

University of California
It starts here

The distinctive mission of the University is to serve society as a center of higher learning, providing long-term societal benefits through transmitting advanced knowledge, discovering new knowledge, and functioning as an active working repository of organized knowledge. That obligati

Education • Research • Public Service • Education • Research • Public Service • Education • Research • Public Service • Education • Research • Public Service • Education • Res

Berkeley • Davis • Irvine • Los Angeles • Merced • Riverside • San Diego • San Francisco • Santa Barbara • Santa Cruz

The University of California Retirement System

Retirement Plan

UCRS Plan Administration

Year Ended June 30, 2006

Summary Statement

This report contains information about the University of California Retirement (Plan) as of and for the fiscal year ended June 30, 2006, and includes audited financial statements. Significant statistics relating to the Plan and its membership base as of the 2005–2006 fiscal year end are as follows:

Net assets	$43.4	billion
Net investment income	$3.0	billion
Benefit payments (excluding member withdrawals and lump sum cashouts)	$1.2	billion
Plan administrative and other expenses	$34.0	million

Active Plan Membership

Senate Faculty and Non-Faculty Academics	22,212	members
Management/Senior Professional	8,383	members
Professional/Support Staff	91,722	members
Total	122,317	members
• Average annual salary		
Senate Faculty	$100,716	
Non-Faculty Academics	$62,530	
Management/Senior Professional	$109,021	
Professional/Support Staff	$56,062	
• Average age		
Senate Faculty	50	years
Non-Faculty Academics	43	years
Management/Senior Professional	49	years
Professional/Support Staff	43	years

Inactive Plan Membership/Other*

52,548 members

Retiree Membership

Faculty	4,251	retirees
Management/Senior Professional	5,073	retirees
Professional/Support Staff	27,965	retirees
Total	37,289	retirees
• Average retirement age		
Faculty	63	years
Management/Senior Professional	60	years
Professional/Support Staff	59	years
• Average service credit at retirement		
Faculty	26	years
Management/Senior Professional	22	years
Professional/Support Staff	20	years
• Average annual UCRP income		
Faculty	$61,764	
Management/Senior Professional	$45,612	
Professional/Support Staff	$23,880	
Survivor/Beneficiary	5,884	recipients
Disabled	2,269	recipients

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

Plan Overview and Administration

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

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

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

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

At June 30, 2006, active UCRP members included 122,317 employees at the University's 10 campuses, five medical centers, three Department of Energy laboratories, and Hastings College of the Law. (For reporting purposes, LANL employees are included in active Plan membership information as of June 30, 2006.)

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

Plan Progression

1904	Provided commercial annuities equal to two-thirds salary for faculty aged 70 or older with 20 years of service.
1924	Pension and Retiring Annuities System (PRAS) pension plan introduced for faculty and high ranking administrators.
1937	Pension plan coverage established for nonacademic employees through CalPERS.
1961	PRAS terminated due to insolvency and UCRP established to provide retirement, disability, and preretirement survivor benefits to all University career employees.
1971	Annual 2 percent (maximum) COLAs applied to retirement, survivor and disability benefits.
1976	Social Security coverage offered to UCRP members.
1990-93	Employer/employee UCRP contributions gradually suspended.
1990-94	Offered a total of three early retirement incentive programs to UCRP members and one to UC members of CalPERS.
1992-94	Made a total of five Capital Accumulation Provision (CAP) allocations in behalf of eligible members.
2001-02	Modified membership eligibility to include employees who work 1,000 hours in a 12-month period and increased UCRP age factors to enhance retirement benefits.
2002-03	Made two additional Capital Accumulation Provision (CAP II) allocations in behalf of eligible members.
2005-06	Management of the Los Alamos National Laboratory transferred to the Los Alamos National Security, LLC.

Changes in the Plan

The following Plan changes occurred during fiscal year 2005-2006. These changes were mandated by legislation or recommended by the President of the University and approved by the Regents. All currently effective Plan provisions are contained in the Plan document.

Date	Change
July 2005	Extended the existing Staff and Academic Reduction in Time (START) program (established on a temporary basis effective July 1, 2003) by one year for employees who participated in the program at any time during the 2004—2005 fiscal year.
January 2006	Streamlined UCRP service credit buyback payment policies so that eligible Los Alamos National Laboratory (LANL) employees would not be disadvantaged by the transition of LANL to the Los Alamos National Security, LLC (LANS).
June 2006	Clarified fiduciary responsibilities of the Plan Administrator, the Office of the Treasurer, and the Regents with respect to UCRP administration and investments. The Plan Administrator, the Associate Vice President-Human Resources and Benefits, has primary authority for administrative functions of UCRP; the Office of the Treasurer has primary authority for implementing investment policy for UCRP; and the Regents and its respective Committees continue to determine investment policy and retain broad oversight responsibility for investment and administrative functions.
June 2006	Permitted active LANL members to voluntarily transfer their accrued UCRP benefits and service credit to the LANS defined benefit plan, thereby waiving rights to future UCRP benefits, with the exception of the Capital Accumulation Provision (CAP), which will remain in UCRP until the members leave LANS employment.

Membership

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

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

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

Plan Membership

	Active Membership						
Year Ended June 30	With Social Security	Without Social Security	Safety Members	Tier Two Members	Total Active	Inactive Members/ Other*	Total**
2006	117,917	3,941	425	34	122,317	52,548	174,865
2005	118,756	5,419	418	49	124,642	47,123	171,765
2004	117,100	6,165	399	53	123,717	39,874	163,591
2003	113,913	6,982	400	56	121,351	31,262	152,613
2002	109,708	7,614	398	56	117,776	25,198	142,974
2001	101,261	8,127	396	64	109,848	23,278	133,126
2000	94,361	8,558	393	70	103,382	21,950	125,332
1999	88,723	8,923	395	82	98,123	22,109	120,232
1998	83,490	9,388	401	84	93,363	21,998	115,361
1997	83,100	9,820	395	89	93,404	28,778	122,182

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

** *Excludes UCRP benefit recipients, as accounted for in the table on page 7.*

Funding Policy

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

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

- A targeted funding level of 100 percent over the long term;
- University and member contributions at rates necessary to maintain that level within a range of 95 to 110 percent;
- A multi-year contribution strategy under which contribution rates will increase gradually over time to 16 percent of covered earnings, based on UCRP's current normal cost; and
- The resumption of UCRP contributions effective July 2007, subject to available funding, completion of the budget process and collective bargaining, as applicable.

UCRP Funding Status

($ in millions)

Plan Year Beginning July 1	(a) Actuarial Value of Assets in Excess of Actuarial Accrued Liability
2006	$ 1,670.8
2005	3,832.5
2004	6,258.9
2003	8,474.5
2002	11,549.2
2001	13,103.3
2000	12,959.0
1999	9,929.8
1998	6,515.7
1997	3,593.9

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

Plan Benefits

The Plan paid approximately $1,175.8 million in retirement, disability, and preretirement survivor benefits to 45,442 members and their beneficiaries during fiscal year 2005-2006. Retirement payments include cost-of-living adjustments and exclude lump sum cashouts. Payments to survivors include basic death payments. The table below reflects total benefits paid in each category over the past 10 years.

UCRP Benefit Payments

($ in thousands)

Year Ended June 30	Retirement	Disability	Death & Survivor	Total*
2006	$1,106,711	$34,771	$34,338	$1,175,820
2005	984,816	33,434	33,254	1,051,504
2004	877,696	31,900	30,731	940,327
2003	794,861	29,311	28,534	852,706
2002	730,115	27,132	26,475	783,722
2001	657,105	25,414	24,600	707,119
2000	614,302	22,974	22,869	660,145
1999	583,133	20,047	21,141	624,321
1998	557,669	17,115	20,707	595,491
1997	538,125	14,882	19,495	572,502

** Does not include member withdrawals and lump sum cashouts.*

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

UCRP Benefit Recipients

Year Ended June 30	Retired Members	Disabled Members	Deceased Members	Survivors	Total*
2006	37,289	2,269	1,686	5,884	45,442
2005	33,590	2,225	1,774	5,662	41,477
2004	32,072	2,194	1,781	5,472	39,738
2003	30,655	2,129	1,603	5,083	37,867
2002	29,247	2,096	589	4,822	36,165
2001	27,991	2,032	753	4,661	34,684
2000	26,879	1,927	503	3,964	32,770
1999	25,639	1,713	648	3,890	31,242
1998	25,075	1,517	647	3,754	30,346
1997	24,780	1,338	643	3,541	29,659

**Does not include Deceased Members.*

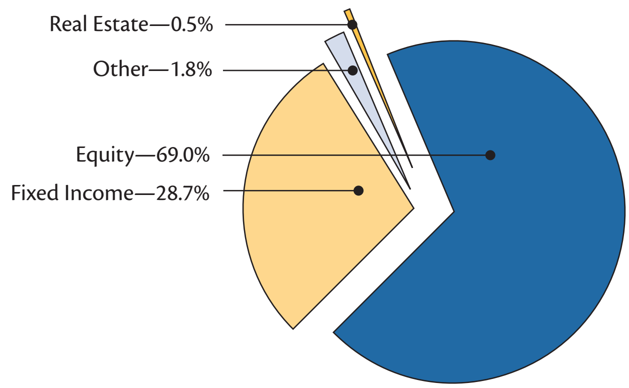
Investments

Investment Management

In a defined benefit plan such as UCRP, the employer/plan sponsor has a contractual obligation to pay benefit obligations, with or without the necessary assets segregated in a trust fund. The employer bears the mortality and investment risk because members' benefits are not based on contributions or Plan assets.

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

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



Asset Allocation

Total Fund. UCRP is a balanced investment fund of $44.2 billion in total investments, comprised of $29.2 billion of the investment portfolio invested in domestic equity, foreign common stocks and private equity (including $817.4 million in venture capital, buyout funds and international private equity). Another $12.7 billion is invested in fixed income securities, of which $12.6 billion is in high-quality government, corporate, foreign and mortgage-backed bonds, and commercial paper. The fund also includes allocations of $1.1 billion commingled funds of emerging market stocks, $148.8 million in domestic equity funds, $230.0 million in real estate, $372.6 million in cash equivalents, and $459.5 million in equitized market neutral investments.

Proxy Voting Policy

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

Historical Investment Performance

Annualized Rates of Return at June 30, 2006

	1-year	5-year	10-year
UCRP Total Fund	**7.10%**	**5.34%**	**9.04%**
Policy Benchmark(1)	6.84%	5.41%	9.00%
U.S. Equity Portfolio	**9.30%**	**2.33%**	**7.74%**
Policy Benchmark(2)	9.44%	3.41%	8.90%
Non-U.S. Equity-Developed	**26.50%**	**10.26%**	**n/a**
Policy Benchmark(3)	26.89%	10.40%	n/a
Non-U.S. Equity-Emerging Markets	**31.33%**	**20.34%**	**8.84%**
Policy Benchmark(4)	35.47%	21.30%	6.55%
Core Fixed Income Portfolio	**-2.71%**	**6.41%**	**8.49%**
Policy Benchmark(5)	-3.43%	5.98%	7.21%
High Yield Bond Portfolio(a)	**n/a**	**n/a**	**n/a**
Policy Benchmark(6)	n/a	n/a	n/a
Non-U.S. Fixed Income Portfolio(a)	**n/a**	**n/a**	**n/a**
Policy Benchmark(7)	n/a	n/a	n/a
Emerging Market Debt Portfolio(a)	**n/a**	**n/a**	**n/a**
Policy Benchmark (8)	n/a	n/a	n/a
TIPS Portfolio	**-1.59%**	**n/a**	**n/a**
Policy Benchmark(9)	-1.64%	n/a	n/a
Private Equity Portfolio(10)	**16.05%**	**6.03%**	**23.90%**
Real Estate	**17.56%**	**n/a**	**n/a**
Policy Benchmark(11)	20.19%	n/a	n/a

(a) High Yield Bond, Non-U.S. Fixed Income and Emerging Market Debt asset classes have less than a year's performance.

Current Policy Benchmarks:

Asset Class	*Benchmark*	*Component Percentage of Total Fund*
(1) Total Fund	*Combination of benchmarks stated below.*	*100% (See below.)*
(2) U.S. Equity	*Russell 3000 Tobacco Free Index*	*51%—actual weight (P.E.)- 0.6 x actual weight (R.E.)*
(3) Non-U.S. Equity-Developed	*MSCI World ex-US (Net Dividends) Tobacco Free*	*18%*
(4) Non-U.S. Equity-Emerging Mkts	*MSCI Emerging Market (Net Dividends)*	*3%*
(5) Core Fixed Income	*Citigroup Large Pension Fund*	*13%—0.4 x actual weight (R.E.)*
(6) High Yield Bond	*Merrill Lynch High Yield Cash Pay Index*	*3%*
(7) Non-U.S. Fixed Income	*Citigroup World Government Bond Index ex-US*	*3%*
(8) Emerging Market Debt	*JP Morgan Emerging Market Bond Plus Index*	*3%*
(9) TIPS	*Lehman Brothers TIPS*	*6%*
(10) Private Equity	*Actual Private Equity Returns*	*actual weight*
(11) Real Estate	*Public: Dow Jones-Wilshire; REIT/Private: NCREIF Property Index*	*actual weight*

Equity Portfolio

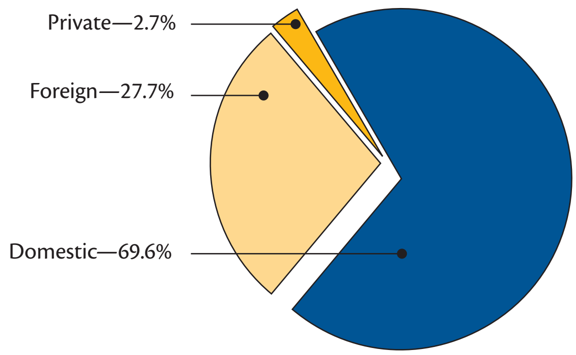
Quality and Diversification

The equity portfolio is diversified among multiple strategic economic sectors as illustrated at right. The Equity Portfolio represents 69.0 percent (or $30.5 billion) of the total Fund and is diversified among domestic, non-U.S. and private equity securities.

The asset mix within the equity portfolio as of June 30, 2006, is 69.6 percent domestic equity, 27.7 percent non-U.S. equity, and 2.7 percent private equity.

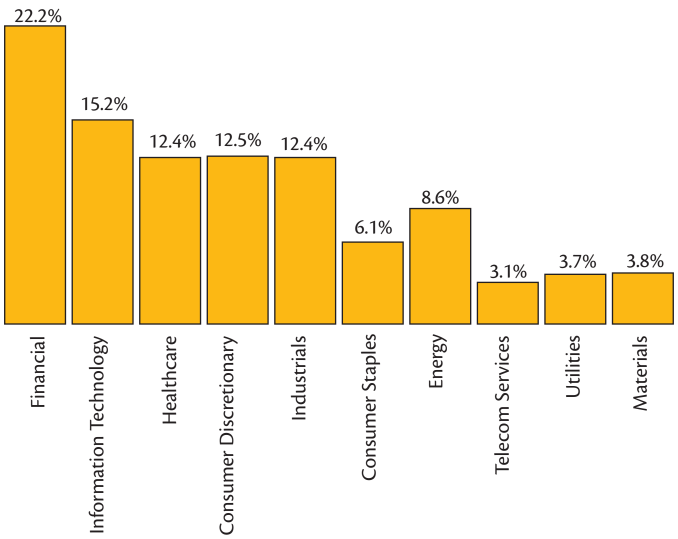
The Non-U.S. equity developed sector ($8.6 billion) is invested primarily in an EAFE-based international index fund portfolio ($5.2 billion). The remainder of the sector ($3.4 billion) is managed by various independent international investment advisors.

Equity Portfolio Asset Allocation



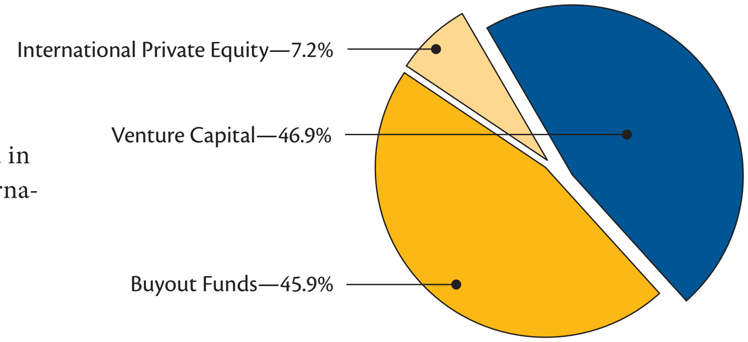
Domestic Portfolio Diversification by Economic Sector

The domestic equity sector ($21.1 billion) is invested primarily in the Russell 3000 Index Fund portfolio ($12.1 billion). The remainder of the sector ($9.0 billion) is managed by various independent investment advisors.



Private Equity Sector

The private equity sector ($817.4 million) is invested in venture capital partnerships, buyout funds and international private equity.

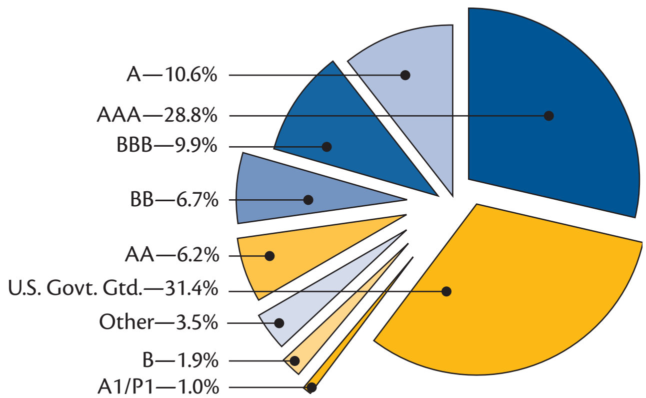


Fixed Income Portfolio

The fixed income portfolio accounts for 28.7 percent of the total Fund (excluding investments of cash collateral) and is invested primarily in high-quality, call-protected, global bonds. The current yield of the fixed income portfolio as of June 30, 2006, was 6.0 percent, and the weighted average quality rating was AA.

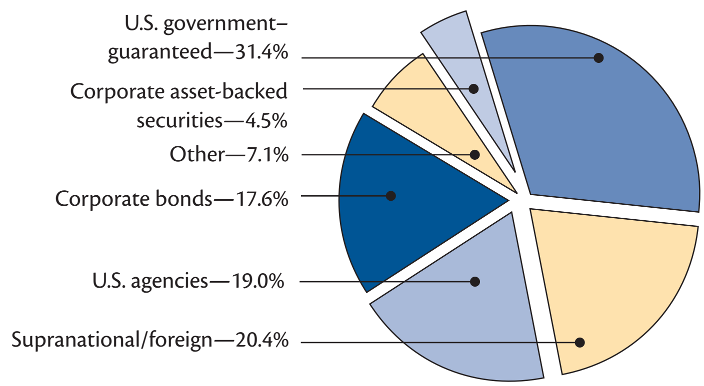
Quality*

Approximately 31.4 percent of the core fixed income portfolio consists of U.S. government-guaranteed securities, and 35.0 percent of the portfolio consists of U.S. government agency and high quality corporate issues rated AAA or AA, the two highest rankings assigned by Standard and Poor's. The quality of the holdings is illustrated at right.



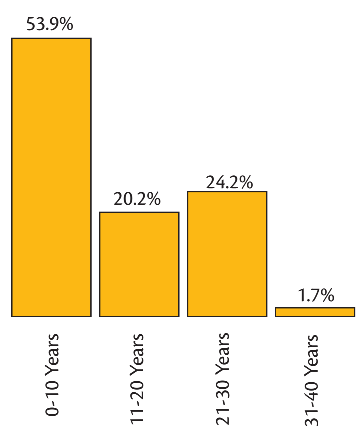
Diversification

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



Maturity Structure

The weighted duration of the fixed income portfolio is approximately 7.5 years and the weighted average maturity is approximately 12.8 years.



* Credit Ratings

U.S. Treasury Obligations:

Guaranteed by the full faith and credit of the United States and rated AAA by Standard & Poor's.

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

AAA: Prime, maximum safety. Extremely strong capacity to pay principal and interest.
AA: High grade, high quality. Very strong capacity to pay principal and interest.
A: Upper medium investment grade. Strong capacity to pay principal and interest.
A1/P1: A1 is the highest short-term rating category assigned by S&P, while P1 is the highest short-term rating category for Moody's Investor Service on commercial paper and bankers acceptances. Securities that have been assigned both an A1 and a P1 rating are considered to be of high credit quality.
BBB: Medium investment grade. Adequate capacity to pay principal and interest.
BB: Speculative characteristics. Exposure to adverse conditions could impair current ability to pay principal and interest. B: Low grade, speculative. financial situation varies noticeably.

UCRP Management's Discussion & Analysis (Unaudited)

The objective of Management's Discussion and Analysis is to help readers of the University of California Retirement Plan (the Plan) financial statements better understand the Plan's financial position and operating activities for the fiscal year ended June 30, 2006, with selected comparative information for the years ended June 30, 2005 and June 30, 2004. This discussion should be read in conjunction with the financial statements and the notes to the financial statements.

Financial Highlights

- The net assets held in trust for pension benefits at June 30, 2006, are $43.4 billion compared to $41.9 billion at June 30, 2005 and $39.2 billion at June 30, 2004. The net assets are available to meet the Plan's ongoing obligations to Plan members, retirees and their beneficiaries.
- The net assets of the Plan increased by $1.5 billion or 3.6 percent in 2006 compared to an increase of $2.7 billion or 6.8 percent in 2005 and $3.9 billion or 11.0 percent in 2004.
- The Plan's total investment rate of return was 7.1 percent in 2006 compared to 10.3 percent in 2005 and 14.3 percent in 2004.
- As of June 30, 2006, the date of the most recent actuarial valuation, the Plan's funded ratio was 104.1 percent, compared to 110.3 percent at June 30, 2005 and 117.9 percent at June 30, 2004. For June 30, 2006, this indicates that for every dollar of actuarial accrued liability assets of $1.04 are available to cover such obligations as compared to $1.10 at June 30, 2005 and $1.18 at June 30, 2004.

Overview of the Financial Statements

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

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

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

The Statements of Changes in Fiduciary Net Assets presents information showing how the Plan's net assets held in trust for pension benefits changed during the years ended June 30, 2006 and 2005. It reflects contributions along with investment income (or losses) during the period from investing and securities lending activities. Deductions for retirement benefits, withdrawals, cost-of-living adjustments, lump sum cashouts, survivor, disability, death benefits and administrative expenses are also presented.

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

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

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

Financial Analysis

The Plan provides retirement benefits to University of California employees. Plan benefits are funded by member and employer contributions and by investment income. The Plan's net assets held in trust for benefits as of June 30, 2006 amounted to $43.4 billion compared to $41.9 billion at June 30, 2005, for an increase of $1.5 billion or 3.6 percent. The Plan's net assets held in trust for benefits as of June 30, 2005 amounted to $41.9 billion compared to $39.2 billion at June 30, 2004 for an increase of $2.7 billion or 6.8 percent.

Additions to the Plan's net assets held in trust for benefits include contributions and investment income or loss. In 2006 net additions were $1.5 billion compared to $2.7 billion in 2005 and $3.9 billion in 2004. The lower net additions reflect lower net investment income earned by the Plan. Member and employer contributions during 2006 amounted to $1.8 million compared to $2.4 million in 2005 and $2.5 million in 2004, primarily for service credit buybacks and other transfers.

The Plan recognized net investment income of $3.0 billion during 2006, compared to $4.0 billion in 2005 and $5.0 billion in 2004. The lower investment income in 2006 was due primarily to negative returns in the core fixed income and Treasury Inflation Protected Securities (TIPS) portfolios. The gains in 2005 and 2004 were due primarily to a recovery in the domestic and foreign equity markets.

Fiduciary Net Assets

($ in thousands)

June 30	2006	2005	2004
Assets			
Receivables	$ 502,907	$ 323,243	$ 399,409
Investments (including Short-Term Investment Pool)	44,199,460	42,440,204	39,063,379
Investment of securities lending collateral	10,445,933	7,901,277	6,237,691
Total Assets	**55,148,300**	**50,664,724**	**45,700,479**
Liabilities			
Payable for securities purchased, member withdrawals, refunds and other payables	1,339,177	907,754	274,330
Collateral held for securities lending	10,446,899	7,899,470	6,238,489
Total Liabilities	**11,786,076**	**8,807,224**	**6,512,819**
Net Assets Held in Trust for Pension Benefits	**$43,362,224**	**$41,857,500**	**$ 39,187,660**

Changes in Fiduciary Net Assets

($ in thousands)

Year Ended June 30	2006	2005	2004
Additions			
Employer contributions	$ 13	$ 737	$ 5,150
Member contributions	1,746	1,653	2,503
Investment Income	2,971,154	3,976,051	4,991,468
Other	6,506	6,865	7,196
Total Additions	**2,979,419**	**3,985,306**	**5,006,317**
Deductions			
Retirement, cost-of-living adjustments, lump sum cashouts, survivor, disability, and death payments	1,369,819	1,223,648	1,064,180
Member withdrawals	70,865	70,560	57,236
Administrative and other expenses	34,011	21,258	24,053
Total Deductions	**1,474,695**	**1,315,466**	**1,145,469**
Increase in Net Assets Held in Trust for Pension Benefits	**$ 1,504,724**	**$ 2,669,840**	**$ 3,860,848**

Investments

At June 30, 2006, the Plan held $29.2 billion in domestic equity, non-U.S. and private equity securities, compared to $27.5 billion at June 30, 2005 and $26.0 billion at June 30, 2004.

The domestic equity portfolio return was 9.3 percent in 2006, 8.1 percent in 2005 and 20.4 percent in 2004, compared to the Plan's domestic equity policy benchmark returns of 9.4 percent, 7.8 percent, and 20.5 percent, respectively.

The non-U.S. equity (developed countries) portfolio return was 26.5 percent in 2006, 16.6 percent in 2005, and 32.4 percent in 2004, compared to the Plan's non-U.S. equity policy benchmark returns of 26.9 percent, 16.5 percent, and 32.0 percent, respectively.

The non-U.S. equity (emerging market countries) portfolio return was 31.3 percent in 2006 compared to the benchmark return of 35.5 percent.

The private equity portfolio return was 16.1 percent in 2006, 46.0 percent in 2005, and 18.4 percent in 2004, compared to the Plan's private equity policy benchmark returns of 4.4 percent, 12.2 percent, and 18.4 percent, respectively.

At June 30, 2006, the Plan held $9.9 billion in U.S. government (excluding the TIPS portfolio), other U.S. dollar-denominated and non-U.S. fixed income securities compared to $11.6 billion at June 30, 2005 and $10.4 billion at June 30, 2004.

The core fixed income portfolio (excluding TIPS) earned a total return of (2.7) percent in 2006, 11.4 percent in 2005 and (0.8) percent in 2004, compared to the Plan's fixed income policy benchmark returns of (3.4) percent, 11.5 percent, and (0.8) percent, respectively.

At June 30, 2006, the Plan held $2.7 billion in TIPS, compared to $2.5 billion at June 30, 2005 and $2.5 billion at June 30, 2004. The TIPS portfolio earned a total return of (1.6) percent in 2006, 9.4 percent in 2005 and 3.9 percent in 2004, compared to the Plan's TIPS policy benchmark returns of (1.6) percent, 9.3 percent, and 3.9 percent, respectively.

At June 30, 2006, the Plan also held $230.0 million in institutional real estate investments compared to $62.6 million in 2005 and none in 2004. The real estate portfolio earned a total return of 17.6 percent in 2006 and 4.8 percent during the fourth quarter of the fiscal year ended June 30, 2005, compared to policy benchmarks returns of 20.2 percent and 3.5 percent, respectively.

The Plan's total fund investment rate of return was 7.1 percent in 2006, 10.3 percent in 2005 and 14.3 percent in 2004, compared to the Plan's total fund policy benchmark returns of 6.8 percent, 14.1 percent, and 5.4 percent, respectively.

Funded Status

The Plan's actuarial value of assets available for benefits was $42.0 billion at June 30, 2006 compared to $41.1 billion at June 30, 2005 and $41.3 billion at June 30, 2004. The actuarial accrued liability was $40.3 billion at June 30, 2006 compared to $37.3 billion at June 30, 2005 and $35.0 billion at June 30, 2004. The Plan's actuarial surplus was $1.7 billion at June 30, 2006 compared to $3.8 billion at June 30, 2005 and $6.3 billion at June 30, 2004. The funded percentage at June 30, 2006, was 104.1 percent compared to 110.3 percent at June 30, 2005 and 117.9 percent in June 30, 2004.

An analysis of the funding progress and employer contributions and a discussion of actuarial assumptions and methods is set forth in the required supplementary information section of the financial statements.

Fiduciary Responsibilities

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

Requests for Information

This financial report is designed to provide the Regents, Plan members, retirees and others with a general overview of the Plan's financial posture and to account for the money it receives. Questions concerning any of the information in this report or requests for additional financial information should be addressed to:

University of California
Office of the President–HR/Benefits Dept.
Financial Services and Plan Disbursements
300 Lakeside Drive, Suite 600
Oakland, CA 94612
website address: http://atyourservice.ucop.edu

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Three Embarcadero Center
San Francisco CA 94111-4004
Telephone (415) 498 5000
Facsimile (415) 498 7100

Report of Independent Auditors

To The Regents of the University of California:

In our opinion, the accompanying statements of fiduciary net assets and the related statements of changes in fiduciary net assets (presented on pages 16 through 34) present fairly, in all material respects, the financial position of the University of California Retirement Plan (the Plan) at June 30, 2006 and 2005, and the changes in fiduciary net assets for the years ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2006 and 2005, 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

September 22, 2006
San Francisco, California

Financial Statements

Statements of Fiduciary Net Assets

($ in thousands)

June 30	2006	2005
Assets		
Investments, at fair value:		
Equity securities:		
Domestic	$21,067,038	$23,925,664
Foreign	7,292,456	2,945,658
Private	817,396	607,451
Fixed income securities:		
U.S. government	4,093,533	4,799,795
Other U.S. dollar-denominated	7,176,700	9,237,946
Foreign	1,394,092	74,037
Short-Term Investment Pool	18,992	234,848
Commingled funds	1,649,809	552,200
Real estate	229,968	62,605
Equitized market neutral investments	459,476	-
Total Investments	44,199,460	42,440,204
Investment of cash collateral	10,445,933	7,901,277
Receivables:		
Contributions	74,022	80,427
Interest and dividends	139,546	124,314
Securities sales and other	289,339	118,502
Total Receivables	502,907	323,243
Total Assets	**55,148,300**	**50,664,724**
Liabilities		
Payable for securities purchased	1,302,132	781,247
Member withdrawals, refunds and other payables	37,045	126,507
Collateral held for securities lending	10,446,899	7,899,470
Total Liabilities	11,786,076	**8,807,224**
Net Assets Held in Trust for Pension Benefits*	**$43,362,224**	**$41,857,500**

**See Required Supplementary Schedule of Funding Progress.*

Financial Statements

Statements of Changes in Fiduciary Net Assets

($ in thousands)

Years Ended June 30	2006	2005
Additions (Reductions)		
Contributions:		
Employer	$ 13	$ 737
Members	1,746	1,653
Total Contributions	1,759	2,390
Investment Income:		
Net appreciation in fair value of investments	1,698,374	2,793,168
Interest, dividends, and other investment income	1,253,783	1,171,547
Securities lending income	453,281	163,975
Less investment expenses	(434,284)	(152,639)
Total Investment Income	2,971,154	3,976,051
Interest Income from Contributions Receivable	6,506	6,865
Total Additions	**$ 2,979,419**	**$ 3,985,306**
Deductions		
Benefit Payments:		
Retirement payments	930,530	823,891
Member withdrawals	70,865	70,560
Cost-of-living adjustments	176,181	160,925
Lump sum cashouts	193,999	172,144
Preretirement survivor payments	27,758	26,366
Disability payments	34,771	33,434
Death payments	6,580	6,888
Total Benefit Payments	1,440,684	1,294,208
Expenses:		
Plan administration	32,883	20,184
Other	1,128	1,074
Total Expenses	34,011	21,258
Total Deductions	**1,474,695**	**1,315,466**
Increase in Net Assets Held in Trust for Pension Benefits	**1,504,724**	**2,669,840**
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	41,857,500	39,187,660
End of Year	**$43,362,224**	**$41,857,500**

See accompanying Notes to Financial Statements.

Note 1—Description of the Plan and Significant Accounting Policies

General Introduction

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

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

Generally, five years of service are required for entitlement to Plan benefits. The amount of the pension benefit is determined under the basic formula of salary rate, age and years of service credit. The maximum monthly benefit is 100 percent of the employee's highest average compensation over a 36-month period, adjusted for annual Internal Revenue Code (IRC) §401(a)(17) and §415 limitations. Annual cost-of-living adjustments (COLAs) on retirement benefits are tied to the Consumer Price Index (CPI), according to and limited by a specified formula. Ad hoc COLAs are subject to funding availability.

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

The Plan includes four membership classifications: members with Social Security, members without Social Security, safety members (police and firefighters), and Tier Two members. At June 30, 2006, active Plan membership consisted of 117,917 members with Social Security, 3,941 members without Social Security, 425 safety members and 34 Tier Two members.

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

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

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

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

At June 30, 2006, Plan membership also included 45,442 retirees, beneficiaries, and disabled members currently receiving benefits, 25,570 terminated vested employees entitled to benefits but not yet receiving them, and 26,978 terminated non-vested employees entitled to a refund of their Plan accumulations and/or CAP balance. Of current active employees, 69,478 are fully vested and 52,839 are non-vested active employees covered by the Plan.

Employer contributions can be made to the Plan in behalf of all members subject to the full funding policy. The rate of employer contributions is established annually pursuant to the Regents' funding policy (see Note 4 on page 32) as a percentage of covered wages, recommended and certified by an enrolled, independent actuary, and approved by the Regents, the Plan's Trustees.

Basis of Accounting

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

Valuation of Investments

Investments for the Plan are primarily recorded at fair value. Generally, 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. 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. Interests in venture capital 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. The carrying amount of these financial instruments is considered to be a reasonable estimate of fair value. Because the venture capital partnerships 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. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value.

Accounting for Investments

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

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

Administrative Expenses

Administrative expenses are incurred in connection with the operation of the Plan for items such as staff salaries and benefits, investment management, information systems, leased space, supplies and equipment, and professional services rendered by the Plan actuary, legal counsel, and independent auditor. Total Plan administrative expenses, which are paid from Plan assets, represent approximately $32.9 million or 0.08 percent and $20.2 million or 0.05 percent, respectively, of the net assets held in trust for pension benefits for fiscal years 2006 and 2005.

Income Tax Status

In a letter to the University dated January 9, 1997, the Internal Revenue Service (IRS) confirmed its determination that the form of the Plan met the requirements for qualification under IRC §401(a). Since then, the Plan has been amended to comply with subsequent tax acts and state laws and to make certain design changes recommended by the President of the University and approved by the Regents. Tax counsel for the Plan is not aware of any existing circumstances related to such amendments that indicate a failure to comply with the relevant requirements of the IRC in any material respect.

A request for a determination that the form of the Plan, as amended through 2000, meets qualification requirements is currently pending before the IRS. The IRS informed the University that it viewed the Capital Accumulation Provision (CAP) in UCRP as a form of cash balance plan and, therefore, it needed to delay further action until uncertainties regarding cash balance formulas were resolved by Congress. At a September 2006 conference in

Washington D.C. for benefits practitioners, IRS officials stated that, due to the recent changes brought about by the Pension Protection Act of 2006, the IRS plans to start moving on pending determination letter requests for cash balance plans.

To the best of tax counsel's knowledge, the Plan has been administered in accordance with its terms and the applicable provisions of the IRC and related regulations thereunder, in all material respects.

Use of Estimates in the Preparation of Financial Statements

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

The financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2006 and 2005.

Note 2—Investments

The Office of the Treasurer has primary responsibility for investing the Plan's assets consistent with the policies established by the Regents. The Regents establish investment policy for the Plan and have responsibility for overseeing the implementation of their investment policies.

These investments are blended with the Short Term Investment Pool (STIP) and the Plan's investment pool managed by the Treasurer, or are separately invested.

Participation in the STIP maximizes the returns on short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities. The available cash in the Plan awaiting investment or for administrative expenses is also invested in the STIP.

Investments authorized by the Regents for the STIP include fixed income securities with a maximum maturity of five and one-half years.

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

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

The composition of investments, by investment type, at June 30, 2006 and 2005 is as follows:

Composition of Investments

($ in thousands)

June 30	2006	2005
Investment Type		
Equity securities:		
Domestic	$ 21,067,038	$ 23,925,664
Foreign	7,292,456	2,945,658
Equity securities	28,359,494	26,871,322
Fixed income securities:		
U.S. government-guaranteed:		
U.S. Treasury bills, notes and bonds	140,011	380,446
U.S. Treasury strips	1,221,723	1,853,637
U.S. TIPS	2,719,001	2,481,757
U.S. government-backed securities	12,798	14,580
U.S. government-backed asset-backed securities	-	69,375
U.S. government-guaranteed:	4,093,533	4,799,795
Other U.S. dollar-denominated		
Corporate bonds	2,218,924	2,607,305
Commercial paper	568,171	729,628
U.S. agencies	1,101,529	2,084,580
U.S. agencies asset-backed securities	1,365,393	2,659,855
Corporate asset-backed securities	587,587	472,760
Supranational/foreign	1,329,166	676,900
Equitized Market Neutral Investments	5,930	6,918
Other U.S. dollar-denominated:	7,176,700	9,237,946
Foreign currency denominated:		
Government/sovereign	1,325,283	-
Corporate	68,809	74,037
Foreign currency denominated:	1,394,092	74,037
Commingled funds:		
U.S. equity funds	148,772	-
Non-U.S. equity funds	1,147,414	552,200
Money market funds*	372,615	234,848
Commingled funds:	1,668,801	787,048
Private equity:	817,396	607,451
Real Estate:	229,968	62,605
Equitized market neutral investments	459,476	-
Total Investments	**$44,199,460**	**$42,440,204**

** Includes investment of $18,992 in Short-Term Investment Pool as of June 30, 2006.*

The components of the net appreciation (depreciation) of investments are as follows:

Net Appreciation (Depreciation) in Fair Value of Investments

($ in thousands)

	2006	2005
Unrealized Appreciation (Depreciation)		
Equity and private equity securities*	$ 1,458,305	$ 1,381,122
Fixed income securities	(894,470)	504,600
Commingled funds	95,909	87,478
Investment of cash collateral	(2,772)	2,604
Real Estate	13,118	1,967
Net Unrealized Appreciation	670,090	1,977,771
Realized Gains		
Sales of securities	1,028,284	815,397
Net Appreciation	$ 1,698,374	$ 2,793,168

** Includes $64.3 million of net appreciation and $29.1 million of net depreciation in estimated fair value of investments related to private equity securities for the years ended June 30, 2006 and 2005, respectively.*

Investment Risk Factors

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

Credit Risk

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

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

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

The Plan recognizes that credit risk is appropriate in a balanced investment pool such as the Plan, by virtue of the benchmark chosen for the fixed income portion of the pool. That fixed income benchmark, the Citigroup Large Pension Fund Index and Lehman Aggregate Index, respectively, is comprised of approximately 30 percent high grade corporate bonds and 32 to 35 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 35 to 40 percent are government-issued bonds. Credit risk in the Plan is managed primarily by diversifying across issuers, and portfolio guidelines mandate that no more than 10 percent of the market value of fixed income may be invested in issues with credit rating below investment grade. Further, the weighted average credit rating must be A or higher.

The credit risk profile for fixed income securities at June 30, 2006 and 2005 is as follows:

($ in thousands)

June 30	2006	2005
Investment Type		
Fixed income securities:		
U.S. government-guaranteed	$4,093,533	$4,799,795
Other U.S. dollar-denominated:		
AAA	3,141,022	5,454,331
AA	135,465	135,533
A	1,257,943	1,038,978
BBB	1,284,747	1,475,506
BB	875,706	403,970
B	252,449	-
CC	794	-
CCC	34,506	-
D	69,828	-
A1/P1	124,239	729,628
Not rated	-	-
Foreign currency denominated:		
AAA	596,879	-
AA	669,442	-
A	127,675	67,779
Not rated	96	6,258
Commingled funds/Money market: Not rated	372,615	234,848

Custodial Credit Risk

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

Concentration of Credit Risk

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

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

Investment guidelines addressing concentration of credit risk related to the investment-grade fixed income portion of the Plan portfolio include a limit of no more than 3 percent of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to the STIP. For high-yield and emerging market debt, the corresponding limit is 5 percent.

Investments in issuers that represent 5 percent or more of total investments at June 30, 2006 and 2005 are as follows:

($ in thousands)

Issuer	2006	2005
Federal National Mortgage Association	—	$3,218,611

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 (1 percentage point) change in the level of interest rates. It is not a measure of time. Interest rate risk for the STIP is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to the maturity structure of the liabilities, that is, the liquidity demands of the investors. The nature and maturity of individual securities in the STIP allow for the use of weighted average maturity as an effective risk management tool, rather than the more complex measure, effective duration. Portfolio guidelines for the fixed income portion of the Plan limit weighted average effective duration to the effective duration of the benchmarks (Citigroup Large Pension Fund Index and Lehman Aggregate Index, respectively), plus or minus 20 percent. This constrains the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark.

The effective duration for fixed and variable income securities at June 30, 2006 and 2005 are as follows:

(in years)

June 30	2006	2005
Investment Type		
Fixed income securities:		
U.S. government guaranteed		
U.S. Treasury bills, notes and bonds	2.6	4.6
U.S. Treasury strips	12.4	14.0
U.S. TIPS	5.1	4.4
U.S. government-backed securities	6.6	6.9
U.S. government-backed asset-backed securities	4.6	2.8
Other U.S. dollar-denominated:		
Corporate bonds	7.8	9.3
U.S. agencies	3.6	4.0
U.S. agencies asset-backed securities	4.6	2.3
Corporate asset-backed securities	9.4	1.7
Certificates of deposit/time deposits	-	-
Supranational/foreign	6.8	8.5
Other	13.5	14.8
Foreign currency denominated:		
Government/sovereign	6.2	-
Corporate	12.7	13.1

The Plan considers the effective duration for mortgage loans, insurance contracts and money market funds to be zero. 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, 2006 and 2005, the fair value of such investments are as follows:

($ in thousands)

	2006	2005
Mortgage-backed securities	$1,505,830	$3,107,701
Collateralized mortgage obligations	447,151	94,289
Callable bonds	388,053	800,595
Total	$2,341,034	$4,002,585

Mortgage-Backed Securities

These securities are issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Association (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.

Other Asset-Backed Securities

Other asset-backed securities also generate a return based upon either the payment of 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.

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 University 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, 2006 and 2005, the effective durations are as follows:

(in years)

	2006	2005
Mortgage-backed securities	6.7	1.8
Collateralized mortgage obligations	3.8	3.5
Callable bonds	5.5	4.2

Foreign Currency Risk

The University's strategic asset allocation policy for the Plan includes allocations to non-U.S. equities and non-dollar-denominated bonds. The benchmarks for these investments are not hedged; therefore, foreign currency risk is an essential part of the investment strategies. Portfolio guidelines for U.S. investment-grade fixed income securities also allow exposure to non-U.S. dollar-denominated bonds up to 10 percent of the total portfolio market value.

Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the University's investment policies, such instruments are not permitted for speculative use or to create leverage. Similar limits on foreign exchange exposure apply to the high-yield debt and emerging market debt portfolios (10 percent and 20 percent, respectively).

At June 30, 2006 and 2005, the U.S. dollar balances organized by currency denominations and investment type are as follows:

	($ in thousands)	
	2006	**2005**
Equity securities:		
Euro	$2,278,359	$1,237,544
British Pound	1,647,690	352,541
Japanese Yen	1,591,138	252,606
Swiss Franc	502,194	118,064
Canadian Dollar	442,505	39,831
Australian Dollar	331,550	131,326
Hong Kong Dollar	151,787	55,538
Swedish Krona	136,096	128,364
Singapore Dollar	67,513	386,803
Norwegian Krone	56,065	71,177
Danish Krone	43,495	116,765
South Korean Won	16,043	-
New Zealand Dollar	8,822	41,082
South African Rand	8,639	7,529
Thailand Baht	5,931	3,138
Other	4,628	3,350
Subtotal	7,292,455	2,945,658
Fixed income securities:		
Euro	657,968	-
British Pound	91,941	-
Japanese Yen	485,715	-
Swiss Franc	11,479	-
Canadian Dollar	100,857	-
Australian Dollar	4,948	74,037
Swedish Krona	13,523	-
Singapore Dollar	4,232	-
Danish Krone	11,857	-
Norwegian Krone	3,245	-
Polish Zloty	8,327	-
Subtotal	1,394,092	74,037
Commingled Funds:		
Various currency denominations		
Non-U.S. equity funds	1,147,414	552,200
Total exposure to foreign currency risk	**$9,833,961**	**$3,571,895**

Futures, Forward Contracts, Options and Swaps

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

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

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

An option contract gives the Plan the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a nonrefundable fee (the "premium"). The maximum loss to the Plan is limited to the premium originally paid for covered options. The Plan records premiums paid for the purchase of these options in the statement of 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 revenues, expenses and changes in net assets. The Plan did not hold any option contracts at June 30, 2006 or June 30, 2005.

A swap is a contractual agreement entered into between the Plan and a counterparty under which each agrees to exchange periodic fixed or variable payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The payments correspond to an equity index, interest rate or currency. The Plan records interest rate swaps entered into for investment purposes at fair value, with unrealized gains and losses included in the statement of revenues, expenses and changes in net assets. The Plan did not hold any interest rate swap contracts at June 30, 2006 or June 30, 2005.

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

Note 3—Securities Lending

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

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

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

Cash collateral received from the borrower is invested by lending agents, as agents for the Plan, in investment pools in the name of the Plan, with guidelines approved by the Plan. These investments are shown as investment of cash collateral in the statement of net assets. At June 30, 2006 and 2005, the securities in these pools had a weighted average maturity of 32 and 30 days, respectively. The Plan records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. Securities collateral received from the borrower is held in an investment pool by the Plan's custodial bank.

At June 30, 2006, the Plan had no exposure to borrowers because the amounts the Plan owed the borrowers exceeded the amounts the borrowers owed the Plan. The Plan is fully indemnified by its lending agents against any losses incurred as a result of borrower default.

Securities lending transactions at June 30, 2006 and 2005 are as follows: *($ in thousands)*

Securities Lent	2006	2005
For cash collateral:		
Equity securities:		
Domestic	$ 3,713,143	$ 1,539,332
International	1,766,732	537,223
Fixed income securities:		
U.S. government	3,409,103	4,279,268
Other U.S. dollar-denominated	1,327,728	1,369,357
Lent for Cash Collateral	**10,216,706**	**7,725,180**
For securities collateral:		
Equity securities:		
Domestic	12,462	58,995
International	71,415	12,436
Fixed income securities:		
U.S. government	416,653	396,530
Other U.S.dollar-denominated	9,479	158,372
Lent for Securities Collateral	510,009	**626,333**
Total Securities Lent	**$10,726,715**	**8,351,513**
Collateral Received		
Cash	10,446,899	7,899,470
Securities	538,094	645,656
Total collateral received	**$10,984,993**	**8,545,126**
Investment of Cash Collateral		
Fixed income securities:		
Other U.S. dollar-denominated:		
Corporate bonds	1,977,798	1,564,090
Commercial paper	731,049	466,399
Repurchase agreements	5,026,377	1,399,183
U.S. agencies	-	-
Corporate asset-backed securities	1,219,708	1,132,524
Certificates of deposit/time deposits	1,239,707	2,803,314
Supranational/foreign	280,885	531,267
Commingled funds/money market funds	1,656	-
Other assets, net	(31,246)	4,500
Total investment of cash collateral	**$10,445,934**	**$7,901,277**

The Plan earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to pay a fee and rebate to the borrower. The Plan receives the net investment income. The securities lending income and fees and rebates for the years ended June 30, 2006 and 2005 are as follows:

Securities Lending Income

($ in thousands)

	2006	2005
Securities lending income	$453,281	$163,975
Securities lending fees and rebates	(434,284)	(152,639)
Securities lending investment income, net	$18,997	$11,336

Investment Risk Factors

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

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

Credit Risk

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

The credit risk profile for fixed or variable income securities associated with the investment of cash collateral at June 30, 2006 and 2005 is as follows:

Credit Risk

($ in thousands)

	2006	2005
Investment type		
Fixed income securities:		
Other U.S. dollar-denominated:		
AAA	$1,314,515	$1,223,060
AA	1,099,760	1,420,983
A	838,002	624,190
A1/P1	1,846,180	4,628,544
Not rated	5,377,067	-
Commingled/Money market funds:	1,656	-
Other assets, net: Not rated	(31,246)	4,500

Custodial Credit Risk

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

Concentration of Credit Risk

The Plan's investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pools 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 5 percent of the portfolio value.

Interest Rate Risk

The nature of individual securities in the collateral pools allow for the use of weighted average maturity as an effective risk management measure. The Plan's investment policy with respect to the interest rate risk associated with the investment of cash collateral in the separately managed collateral pools 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.

At June 30, 2006 and 2005, the weighted average maturity expressed in days outstanding for asset-backed securities was 16 days and 34 days, respectively; 40 days and 46 days for variable-rate investments, respectively.

The weighted average maturity expressed in days outstanding for fixed or variable income securities associated with the investment of cash collateral at June 30, 2006 and 2005 is as follows:

	(in days)	
Investment type	2006	2005
Fixed income securities:-		
Other U.S. dollar-denominated:		
Corporate bonds	43	50
Commercial paper	149	23
Repurchase agreements	3	1
U.S. agencies	16	-
Corporate asset-backed securities	62	35
Certificates of deposit/time deposits	-	37
Supranational/foreign	34	26
Commingled/Money market funds:	3	-

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

At June 30, 2006 and 2005, the fair value of investments that are considered to be highly sensitive to changes in interest rates is as follows:

Investment type	*($ in thousands)*	
	2006	**2005**
Other asset-backed securities	$1,254,557	$1,159,633
Variable rate investments	2,423,356	2,007,677

Foreign Currency Risk

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

Note 4—Contributions and Reserves

Actuarially Determined Contribution Requirements and Contributions Made

The Regents' funding policy provides for actuarially determined periodic University and employee contributions at rates reasonably expected to maintain the Plan on an actuarially sound basis. The contribution rate is determined using the entry age normal actuarial funding method. The entry age normal funding method has been utilized since 1975 as the fundamental basis for the valuation of retirement benefits. Under this method, the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age(s).

The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability. Under this method, the actuarial gains (losses), as they occur, reduce (increase) the unfunded actuarial accrued liability. Under the current funding policy, the Plan is fully funded at June 30, 2006 and 2005.

As of June 30, 2006 and 2005, the difference between the net assets held in trust for pension benefits presented in the Statements of Fiduciary Net Assets and the net assets allocated to fund the actuarial accrued liability (shown on page 37) was as follows:

($ in millions)

	2006	**2005**
Net Assets Held in Trust for Pension Benefits	$43,362.2	$41,857.5
Difference between smoothed market value, used for the actuarial valuation, and fair value, used for financial statement presentation	(1,389.7)	(772.6)
Net assets allocated to fund the actuarial accrued liability	$41,972.5	$41,084.9

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

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

Member Assessment*

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

**The entire member assessment was directed to the Defined Contribution Plan during fiscal year 2005-2006.*

At June 30, 2006 and 2005, member accumulations of current employees, including allocated investment income, in the Plan amounted to approximately $498.0 million and $631.8 million, respectively.

The annually determined rates for employer contributions as a percentage of payroll are based on recommendations of the consulting actuary and in conformance with the full funding definitions set forth in IRC §412. Employer contributions, if any, are credited as a percentage of covered University pay. The recommended employer contributions when combined with member contributions are intended to accumulate sufficient assets to fund the actuarial accrued liability under the entry age normal cost method in order to pay accumulated Plan benefits to vested members.

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

Accumulated Plan benefits are based on members' compensation histories and years of service rendered as of the valuation date of June 30, 2006 and 2005.

Note 5—Contributions Receivable

Contributions receivable includes $74.0 million and $78.8 million at June 30, 2006 and 2005, respectively, related to agreements with the State of California (the State) and the University on behalf of the Plan. In 1984, the State agreed to pay the University for contributions due to the Plan of $66.5 million in 30 annual installments of approximately $5.9 million, including interest at 8 percent, based on the discount rate used in the 1984 actuarial valuation. Similarly, in fiscal year 1990, the State agreed to pay the University for contributions due to the Plan of $57.2 million in 30 annual installments of approximately $5.3 million, including interest at 8.46 percent, based on the discount rate used in the 1990 actuarial valuation.

Note 6—Plan Termination

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

Once all liabilities have been satisfied, any excess assets shall revert to the Regents. The benefits of the Plan are not insured by the Pension Benefit Guaranty Corporation, a federal insurance agency established under Title IV of the Employee Retirement Income Security Act of 1974.

Note 7—Contingency

In conjunction with the selection of Los Alamos National Security, LLC (LANS) as the successor contractor to the University for the management of the Los Alamos National Laboratory (LANL) effective June 1, 2006, the assets and liabilities attributable to the Plan's benefits of the approximately 6,500 LANL employees who accepted employment with LANS and elected to participate in the defined benefit plan established by LANS are expected to be transferred to the LANS plan at a future date provided all required and advisable regulatory rulings and approvals are obtained. For reporting purposes, these transitioning employees are included as active members in the Plan membership information as of June 30, 2006. The actuarial accrued liability associated with the transitioning employees who will not be retained in the Plan is estimated to be approximately $1.4 billion. The amount of the assets to be retained in the Plan for LANL members who have retired or are inactive, and the amount of the assets that may be transferred to the LANS plan for the transitioning employees who elected to participate in the LANS plan, is not currently known. The amounts will depend on the assumptions used and future discussions with the United States Department of Energy (DOE). As a result, the supplementary schedule of funding progress as of June 30, 2006 includes both assets and liabilities for members who have elected to transfer to the LANS plan.

The current University contract to manage the Lawrence Livermore National Laboratory for the National Nuclear Security Administration of the DOE is scheduled to expire on September 30, 2007. The federal government is currently conducting a competition for a successor contractor. The DOE anticipates that a decision will be made in February or March of calendar year 2007 and that the new contract will become effective October 1, 2007.

The Plan assets and liabilities attributable to certain transitioning employees who elect employment with the successor contractor are expected to be transferred to a successor pension plan at a future date provided all required and advisable regulatory rulings and approvals are obtained.

The amount of Plan assets and liabilities that may be transferred to a successor pension plan is unknown. It is dependent on future elections to be made by the approximately 7,500 active members currently working at the Lawrence Livermore National Laboratory, the assumptions used and future discussions with the DOE.

Required Supplementary Information

Actuarial Information

Analysis of dollar amounts of the actuarial value of assets, actuarial accrued liability, and actuarial value of assets in excess of the actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the funding status on a going-concern basis. Analysis of this percentage over time indicates whether a plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in the unfunded actuarial accrued liability or assets in excess of the actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability or surplus as a percentage of annual covered payroll generally adjusts for the effects of inflation and aids in the analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the greater this percentage, the stronger the plan.

Required Supplementary Schedule of Funding Progress for the Past Six Years

Years Ended June 30 *($ in millions)*

Actuarial Valuation Date	**(1) Actuarial Value of Assets**	**(2) Actuarial Accrued Liability**	**(3) Actuarial Surplus**	**(4) Total Funded Ratio (1)÷(2)**	**(5) Annual Covered Payroll**	**(6) Actuarial Surplus as a Percentage of Annual Covered Payroll (3)÷(5)**
2006	$41,972.5	$40,301.7	$1,670.8	104.1%	$8,259.0	20.2%
2005	41,084.9	37,252.4	3,832.5	110.3	8,149.6	47.0
2004	41,293.1	35,034.2	6,258.9	117.9	7,835.2	79.9
2003	41,429.3	32,954.8	8,474.5	125.7	7,733.8	109.6
2002	41,648.8	30,099.6	11,549.2	138.4	7,226.5	159.8
2001	40,554.5	27,451.2	13,103.3	147.7	6,539.2	200.4

Required Schedule of Employer Contributions

Since 1991, the University has not been required to make employer contributions to the Plan due to the fully funded status of the Plan.

Note to Required Supplementary Information

Actuarial Information

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

Additional Trend Information

Valuation Date As of June 30	**2006**	**2005**
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level percent open	Level percent open
Remaining amortization period	1 year	3 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return*	7.50%	7.50%
Projected salary increases*	4.5-6.5%	4.5-6.5%
Cost-of-living adjustments	2.00%	2.00%

**Includes inflation assumption at 4% for fiscal years 2006 and 2005.*

Note: The projected salary increase assumption will be 2.0 percent lower (i.e., 2.5-4.5%) for the period July 1, 2004, through June 30, 2007.

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

Other Supplementary Information

The total actuarial accrued liability of the Plan, calculated using the entry age normal cost method, was $40.3 billion and $37.3 billion at June 30, 2006 and 2005, respectively. This liability is then compared against the actuarial value of Plan assets to determine the annual required contribution to fund the Plan.

Actuarial Accrued Liability

($ in millions)

	2006	2005
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$17,964.1	$14,836.2
Current employees:		
Accumulated employee contributions, including allocated investment earnings	498.0	631.8
Employer-financed vested	20,410.3	21,020.9
Employer-financed nonvested	1,429.3	763.5
Total actuarial accrued liability – entry age normal cost basis	40,301.7	37,252.4
Net assets allocated to fund the actuarial accrued liability, at smoothed market value	41,972.5	41,084.9
Actuarial value of assets in excess of actuarial accrued liability – entry age normal cost basis	$ 1,670.8	$ 3,832.5

Other Supplementary Information

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

Revenues by Source

($ in thousands)

Year Ended June 30	Member Contributions	Employer Contributions	Investment & Other Income*	Total
2006	$1,746	$ 13	$2,307,570	$2,309,329
2005	1,653	737	2,005,145	2,007,535
2004	2,503	5,150	5,350,019	5,357,672
2003	7,060	811	2,981,128	2,988,999
2002	2,954	118	2,294,398	2,297,470
2001	4,405	517	8,181,322	8,186,244
2000	3,248	438	5,199,594	5,203,280
1999	2,755	472	4,489,379	4,492,606
1998	3,162	328	3,830,508	3,833,998
1997	2,491	358	2,902,893	2,905,742

Expenses by Type

($ in thousands)

Year Ended June 30	Benefits**	Administrative & Other Expenses	Member Withdrawals, Transfers & Other Activity	Total
2006	$1,369,819	$34,011	$70,865	$1,474,695
2005	1,223,648	21,258	70,560	1,315,466
2004	1,064,180	24,053	57,236	1,145,469
2003	954,887	27,696	32,665	1,015,248
2002	917,747	26,246	26,460	970,453
2001	856,876	23,224	23,881	903,981
2000	793,927	16,520	20,016	830,463
1999	725,543	20,110	17,453	763,106
1998	667,108	13,956	15,319	696,383
1997	622,744	12,517	15,259	650,520

** This includes investment income, net realized gains or losses on the sales of investments, and miscellaneous income net of investment expenses. It does not include unrealized gains or losses in the value of assets.*

***Does not include member withdrawals.*

Management's Discussion & Analysis (Unaudited)

The objective of Management's Discussion and Analysis is to help readers of the University of California PERS Voluntary Early Retirement Incentive Program (the Plan) financial statements better understand the Plan's financial position and operating activities for the fiscal year ended June 30, 2006, with selected comparative information for the years ended June 30, 2005 and 2004. This discussion should be read in conjunction with the financial statements and the notes to the financial statements.

Financial Highlights

- The net assets of the Plan at June 30, 2006, are $77.8 million compared to $77.8 million at June 30, 2005 and $75.7 million at June 30, 2004. The net assets are available to meet the Plan's ongoing obligations to Plan retirees and their beneficiaries.
- The net assets of the Plan increased by $57 thousand, or 0.1 percent, compared to an increase of $2.0 million in 2005, or 2.7 percent, and a increase of $4.3 million in 2004, or 6.0 percent.
- The Plan's total investment rate of return was 7.2 percent in 2006 compared to 10.3 percent in 2005 and 14.3 percent in 2004.
- As of June 30, 2006, the date of the most recent actuarial valuation, the Plan's funded ratio was 177.4 percent compared to 169.8 percent at June 30, 2005 and 159.5 percent at June 30, 2004. For June 30, 2006, this indicates that for every dollar of actuarial accrued liability assets of $1.77 are available to cover such obligations compared to $1.70 at June 30, 2005 and $1.60 at June 30, 2004.

Overview of the Financial Statements

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

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

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

The Statements of Changes in Fiduciary Net Assets presents information showing how the Plan's net assets held in trust for pension benefits changed during the years ended June 30, 2006, and 2005. It reflects investment income (or losses) during the period from investing and securities lending activities. Deductions for retirement benefits are also presented.

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

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

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

The Other Supplementary Information consists of a schedule concerning the actuarial accrued liability of the Plan.

Financial Analysis

The Plan provides retirement benefits to UC-PERS members who elected early retirement under the provisions of the Plan. Plan benefits are funded by employer contributions and by investment income. The Plan's net assets held in trust for benefits at June 30, 2006, amounted to $77.8 million compared to $77.8 million at June 30, 2005 and $75.7 million at June 30, 2004. Additions to the Plan's net assets held in trust for benefits include investment income or loss. There were no employer contributions during the 2004-2006 fiscal years. The Plan recognized a net investment gain of $5.4 million compared to $7.5 million in 2005 and $9.9 million in 2004. The lower investment income in 2006 was due primarily to negative returns in the core fixed income and Treasury Inflation Protected Securities (TIPS) portfolios. The gains in 2005 and 2004 were due primarily to a recovery in the domestic and foreign equity markets.

Retirement benefit payments and other expenses were the only deductions from the Plan's net assets held in trust for benefits. For 2006, deductions remained steady at $5.4 million, compared to $5.5 million in 2005 and $5.6 million in 2004.

Fiduciary Net Assets

($ in thousands)

June 30	2006	2005	2004
Assets At Fair Value	$77,830	$77,773	$75,739
Net Assets Held in Trust for Pension Benefits	**$77,830**	**$77,773**	**$75,739**

Changes in Fiduciary Net Assets

($ in thousands)

Years Ended June 30	2006	2005	2004
Additions			
Investment income	$ 5,429	$7,525	$9,861
Total Additions	**5,429**	**7,525**	**9,861**
Deductions			
Retirement payments and other expenses	5,372	5,491	5,573
Total Deductions	**5,372**	**5,491**	**5,573**
Increase in Net Assets Held in Trust for Pension Benefits	**$ 57**	**$2,034**	**$4,288**

Investments

The assets of the Plan are combined for investment purposes with the assets of the University of California Retirement Plan (UCRP).

Funded Status

The Plan's actuarial value of assets available for benefits was $77.8 million, compared to $77.8 million at June 30, 2005 and $75.7 million at June 30, 2004. The actuarial accrued liability was $43.9 million compared to $45.8 million at June 30, 2005 and $47.5 million at June 30, 2004. The Plan's total surplus was $34.0 million, compared to $32.0 million at June 30, 2005 and $28.2 million at June 30, 2004.

Fiduciary Responsibilities

The Board of Regents of the University of California (the Regents) is a fiduciary of the Plan. Under law, the assets can only be used for the exclusive benefit of Plan retirees and beneficiaries.

Requests for Information

This financial report is designed to provide the Regents, Plan retirees and others with a general overview of the Plan's financial posture. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

University of California
Office of the President-HR/Benefits Department
300 Lakeside Drive, Suite 600
Oakland, CA 94612

PricewaterhouseCoopers LLP
Three Embarcadero Center
San Francisco CA 94111-4004
Telephone (415) 498 5000
Facsimile (415) 498 7100

Report of Independent Auditors

To The Regents of the University of California:

In our opinion, the accompanying statements of fiduciary net assets and the related statements of changes in fiduciary net assets (presented on pages 42 through 50) present fairly, in all material respects, the financial position of the University of California PERS Voluntary Early Retirement Incentive Program Plan (the Plan) at June 30, 2006 and 2005, and the changes in fiduciary net assets for the years ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2006 and 2005, 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

September 22, 2006
San Francisco, California

Statements of Fiduciary Net Assets

($ in thousands)

June 30	2006	2005
Assets at Fair Value	$ 77,892	$ 78,225
Liabilities	62	$452
Net Assets Held in Trust for Pension Benefits	**$ 77,830**	**$77,773**

Statements of Changes in Fiduciary Net Assets

($ in thousands)

Years Ended June 30	2006	2005
Additions		
Investment Income	$ 5,429	$ 7,525
Deductions		
Retirement Payments	5,364	5,482
Administrative Expenses	8	9
Total Deductions	5,482	5,491
Increase in Net Assets Held in Trust for Pension Benefits	**57**	**2,034**
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	77,773	75,739
End of Year	**$77,830**	**$77,773**

See accompanying Notes to Financial Statements.

Note 1—Description of the Plan and Significant Accounting Policies

General Introduction

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

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

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

Basis of Accounting

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

Valuation of Investments

The assets of the Plan are combined for investment purposes with the assets of the UCRP. Accordingly, the assets of the Plan are valued based on a pooled interest of the combined investments. The two plans are separate trusts, and each Plan is accounted for on a separate basis. Investments for the Plan are primarily recorded at fair value. Generally, 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. 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. Interests in venture capital 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. The carrying amount of these financial instruments is considered to be a reasonable estimate of fair value. Because the venture capital partnerships 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.

Accounting for Investments

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned. Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the Plan's statement of changes in net assets.

Administrative Expenses

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

Income Tax Status

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

Use of Estimates in the Preparation of Financial Statements

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

The financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2006 and 2005.

Note 2–Investments

The Plan's investments of $77.8 million are included within the UCRP investment pool, but are accounted for separately. The Regents have the responsibility for the investment of the Plan's assets. The Regents may delegate this authority to the Investment Committee or to an investment manager.

The available cash in the Plan's investment pool awaiting investment or for administrative expenses is also invested in the University of California Short Term Investment Pool (STIP). Investments authorized by the Regents for the STIP include fixed income securities with a maximum maturity of five and one-half years. The total investment return, representing income plus net appreciation on investments, was 7.2 percent and 10.3 percent, respectively, for the years ended June 30, 2006, and 2005.

Investment Risk Factors

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

Credit Risk

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

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

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

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

Custodial Credit Risk

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

Concentration of Credit Risk

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

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

Investment guidelines addressing concentration of credit risk related to the investment-grade fixed income portion of the Plan portfolio include a limit of no more than 3 percent of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S.

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 (1 percentage point) change in the level of interest rates. It is not a measure of time.

Interest rate risk for the STIP is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to the maturity structure of the liabilities, that is, the liquidity demands of the investors. The nature and maturity of individual securities in the STIP allow for the use of weighted average maturity as an effective risk management tool, rather than the more complex measure, effective duration.

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

The effective duration for fixed and variable income securities at June 30, 2006 and 2005 are as follows:

	(in years)	
June 30	**2006**	**2005**
Investment Type		
Fixed income securities:		
U.S. government-guaranteed:		
U.S. Treasury bills, notes and bonds	13.4	4.6
U.S. Treasury strips	12.5	14.0
U.S. TIPS	5.1	4.4
U.S. government-backed securities	6.6	6.9
U.S. government-backed asset-backed securities	-	2.8
Other U.S. dollar-denominated:		
Corporate bonds	7.8	9.3
U.S. agencies	3.6	4.0
U.S. agencies asset-backed securities	4.6	2.3
Corporate asset-backed securities	9.2	1.7
Certificates of deposit/time deposits	-	-
Supranational/foreign	6.8	8.5
Other	13.5	14.8
Foreign currency denominated:		
Government/sovereign	6.2	-
Corporate	12.7	13.1

The Plan considers the effective duration for mortgage loans, insurance contracts and money market funds to be zero. The money market funds have a constant $1.00 share value due to the short-term, liquid nature of the underlying securities. Investments may also include various mortgage-backed securities, collateralized mortgage obligations, structured notes, variable-rate securities, callable bonds and convertible bonds that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. Although the effective durations of the securities may be low, they are considered to be highly sensitive to changes in interest rates.

Mortgage-Backed Securities

These securities are issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Association (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.

Other Asset-Backed Securities

Other asset-backed securities also generate a return based upon either the payment of 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.

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 University 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, 2006 and 2005, the effective durations are as follows:

(in years)

	2006	2005
Mortgage-backed securities	6.7	1.8
Collateralized mortgage obligations	3.8	3.5
Callable bonds	5.5	4.2

Foreign Currency Risk

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

Futures, Forward Contracts, Options and Swaps

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

The Plan enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed income securities. A futures contract is an agreement between two parties to buy and sell a security or financial index, interest rate or foreign currency at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. Upon entering into such a contract, the Plan is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contract is traded. Pursuant to the contract, the Plan agrees to receive from, or pay to, the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. Since these contracts are settled on a daily basis, with the resulting realized gain or loss included in the statement of revenues, expenses and changes in net assets, there is no fair value for these contracts at the end of the year included in the statement of net assets. Forward contracts are similar to futures, except they are custom contracts and are not exchange-traded. They are the primary instrument used in currency management.

An option contract gives the Plan the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a nonrefundable fee (the "premium"). The maximum loss to the Plan is limited to the premium originally paid for covered options. The Plan records premiums paid for the purchase of these options in the statement of 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 revenues, expenses and changes in net assets. The Plan did not hold any option contracts at June 30, 2006 or June 30, 2005.

A swap is a contractual agreement entered into between the Plan and a counterparty under which each agrees to exchange periodic fixed or variable payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The payments correspond to an equity index, interest rate or currency. The Plan records interest rate swaps entered into for investment purposes at fair value, with unrealized gains and losses included in the statement of revenues, expenses and changes in net assets. The Plan did not hold any interest rate swap contracts at June 30, 2006 or June 30, 2005.

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

Note 3—Securities Lending

The Plan participates in a securities lending program through the UCRP investment portfolio as a means to augment income.

Securities are lent to selected brokerage firms for which collateral received equals or exceeds the fair value of such investments during the period of the loan. Securities loans immediately terminate upon notice by either the University 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 University unless the borrower defaults.

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

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

Cash collateral received from the borrower is invested by lending agents, as agents for the University, in investment pools in the name of the University, with guidelines approved by the University. These investments are shown as investment of cash collateral in the statement of net assets of the UCRP investment portfolio. At June 30, 2006 and 2005, the securities in these pools had a weighted average maturity of 32 and 30 days, respectively. The University records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. Securities collateral received from the borrower is held in an investment pool by the University's custodial bank.

At June 30, 2006, the University had no exposure to borrowers because the amounts the University owed the borrowers exceeded the amounts the borrowers owed the University. The University is fully indemnified by its lending agents against any losses incurred as a result of borrower default.

Investment Risk Factors

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

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

Credit Risk

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

Custodial Credit Risk

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

Concentration of Credit Risk

The Plan's investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pools 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 5 percent of the portfolio value.

Interest Rate Risk

The nature of individual securities in the collateral pools allow for the use of weighted average maturity as an effective risk management measure. The Plan's investment policy with respect to the interest rate risk associated with the investment of cash collateral in the separately managed collateral pools 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.

At June 30, 2006 and 2005, the weighted average maturity expressed in days outstanding for asset-backed securities was 16 days and 34 days, respectively; 40 days and 46 days for variable-rate investments, respectively.

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

The weighted average maturity expressed in days outstanding for fixed or variable income securities associated with the investment of cash collateral at June 30, 2006 and 2005 is as follows:

	(in days)	
Investment type	**2006**	**2005**
Fixed income securities:		
Other U.S. dollar-denominated:		
Corporate bonds	43	50
Commercial paper	149	23
Repurchase agreements	3	-
Corporate asset-backed securities	16	35
Certificates of deposit/time deposits	62	37
Supranational/foreign	34	26
Commingled/Money market funds:	3	-

Foreign Currency Risk

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

Note 4–Contributions and Reserves

Actuarially Determined Contribution Requirements and Contributions

The Regents' funding policy provides for actuarially determined contributions to be made by the University. As of June 30, 2006 and 2005, the Plan was fully funded and no annual contributions were required. Accumulated Plan benefits are those future benefit payments that are attributable under the Plan's provisions to the service employees have rendered. Accumulated Plan benefits include benefits expected to be paid to retired members and their beneficiaries.

Note 5–Plan Termination

The Regents intend and expect to continue the Plan indefinitely, but reserve the right to amend or terminate the Plan at any time provided that any such action shall not lessen the accrued benefits of any participants. In the event that the Plan is terminated, Plan assets shall be applied solely for the benefit of retired members and their beneficiaries until all liabilities of the Plan have been satisfied. In the event Plan assets available for benefits are insufficient to meet its obligations, the Regents' funding policy provides for additional contributions to be made in behalf of Plan members by the University. Once all liabilities have been satisfied, any excess assets shall revert to the Regents. The benefits of the Plan are not insured by the Pension Benefit Guaranty Corporation, a federal insurance agency, as established under Title IV of the Employee Retirement Income Security Act of 1974.

Required Supplementary Information

Actuarial Information

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

Required Supplementary Schedule of Funding Progress for the Past Six Years

Years Ended June 30 *($ in thousands)*

Actuarial Valuation Date	(1) Actuarial Value of Assets*	(2) Actuarial Accrued Liability	(3) Actuarial Surplus	(4) Total Funded Ratio (1)÷(2)
6/30/06	$77,830	$43,877**	$33,953	177.4%
6/30/05	77,773	45,804**	31,969	169.8%
6/30/04	75,738	47,482**	28,256	159.5%
6/30/03	71,451	49,319**	22,132	144.9%
6/30/02	72,756	51,021	21,735	142.6%
6/30/01	84,630	41,032	43,598	206.3%

** Reported at fair value.*

*** Includes present value of administrative expenses equal to 1 percent of actuarial accrued liability.*

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

Required Schedule of Employer Contributions

Since 1996, the University has not been required to make employer contributions to the Plan due to the fully funded status of the Plan.

Note to Required Supplementary Information

Actuarial Information

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

Additional Trend Information

Valuation Date As of June 30	**2006**	**2005**
Actuarial cost method	Unit Credit	Unit Credit
Amortization method	n/a	n/a
Remaining amortization period	n/a	n/a
Asset valuation method	Fair Value	Fair Value
Actuarial assumptions:		
Investment rate of return*	7.50%	7.50%
Projected salary increases	n/a	n/a
Cost-of-living adjustments**	None	None

** Includes inflation assumption at 4% for fiscal year 2005-2006.*
*** A one-time cost-of-living adjustment equal to 25% of retirement income was effective July 1,2002.*

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

Other Supplementary Information

The total net assets available in excess of the total actuarial accrued liability (AAL) of the Plan based on the measure of the AAL, which uses the unit credit basis, as appears in the actuarial valuation, was approximately $34.0 million at June 30, 2006, and $32.0 million at June 30, 2005, as follows:

Actuarial Accrued Liability

(in millions)	**2006**	**2005**
Retirees and beneficiaries currently receiving benefits*	$43.9	$45.8
Total actuarial accrued liability – unit credit basis	43.9	45.8
Net assets allocated to fund the actuarial accrued liability, at fair value	77.8	77.8
Actuarial value of assets in excess of the actuarial accrued liability – unit credit basis	$34.0	$32.0

** Includes present value of administrative expenses equal to 1% of actuarial accrued liability.*

Plan Oversight—University of California Board of Regents

Chairman	Gerald L. Parsky
Vice Chairman	Richard C. Blum
Chair, Committee on Compensation	Judith L. Hopkinson
Chair, Committee on Investments	Paul D. Wachter
University President	Robert C. Dynes

Investment Management—Office of the Treasurer

Chief Investment Officer and Vice President – Investments and Acting Treasurer	Marie N. Berggren
The Assistant Treasurer	Melvin L. Stanton
Communications Director	Susan Rossi

Plan Administration—Human Resources and Benefits

Plan Administrator and Associate Vice President—Human Resources and Benefits	Judith W. Boyette
Plan Policy and Administrative Operations	
Deputy and Executive Director	Judy F. Ackerhalt
Executive Director Policy and Program Design	Randolph R. Scott
Executive Director – Client Relations	Kay Miller
Director – Financial Services and Plan Disbursements	David L. Olson
Director – Information Systems Support	Michael C. Baptista
Associate Director – Communications	Andy Evangelista

University Counsel	Barbara A. Clark
Plan Actuary	The Segal Company
Independent Plan Auditor	PricewaterhouseCoopers LLP

The distinctive mission of the University is to serve society as a center of higher learning, providing long-term societal benefits through transmitting advanced knowledge, discovering new knowledge, and functioning as an active working repository of organized knowledge. That obligation, more specifically,

Education • Research • Public Service • Education • Research • Public Service • Education • Research • Public Service • Education • Research • Public Service • Education • Research

Berkeley • Davis • Irvine • Los Angeles • Merced • Riverside • San Diego • San Francisco • Santa Barbara • Santa Cruz

University of California
Human Resources and Benefits
P.O. Box 24570
Oakland, CA 94623-1570
website: atyourservice.ucop.edu

1021 11/06