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UNIVERSITY OF CALIFORNIA

The University of California Retirement Plan

Annual Financial Report
2006–2007

The University of California Retirement System

Retirement Plan

UCRS Plan Administration

Year Ended June 30, 2007

Summary Statement

This report contains information about the University of California Retirement Plan (UCRP or the Plan) as of and for the fiscal year ended June 30, 2007, and includes audited financial statements. Significant statistics relating to the Plan and its membership base as of the 2006–2007 fiscal year end are as follows:

Net assets	$48.1	billion
Net investment income	$7.9	billion
Monthly benefit payments (excluding member withdrawals and lump sum cashouts)	$1.3	billion
Plan administrative and other expenses	$38.9	million

Active Plan Membership

Senate Faculty and Non-Faculty Academics	22,090	members
Management/Senior Professional	7,631	members
Professional/Support Staff	89,164	members
Total	118,885	members
• Average annual salary		
Senate Faculty	$103,890	
Non-Faculty Academics	$66,826	
Management/Senior Professional	$112,608	
Professional/Support Staff	$57,326	
• Average age		
Senate Faculty	50	years
Non-Faculty Academics	44	years
Management/Senior Professional	49	years
Professional/Support Staff	43	years

Inactive Plan Membership/Other*

Inactive Plan Membership/Other*	59,056	members

Retiree Membership

Faculty	4,392	retirees
Management/Senior Professional	5,431	retirees
Professional/Support Staff	29,438	retirees
Total	39,261	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	$63,528	
Management/Senior Professional	$47,616	
Professional/Support Staff	$25,116	
Survivor/Beneficiary	6,152	recipients
Disabled	2,269	recipients

** Includes terminated nonvested members eligible for a refund of Plan accumulations or Capital Accumulation Provision (CAP) balance and members who transferred to the LANS defined benefit plan and are eligible for a CAP payment from UCRP.*

Plan Overview and Administration

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

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

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

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

At June 30, 2007, active UCRP members included 118,885 employees at the University's 10 campuses, five medical centers, two Department of Energy national laboratories, and Hastings College of the Law.

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

Plan Progression

1904	Provided commercial annuities equal to two-thirds salary for faculty aged 70 or older with 20 years of service.
1924	Pension and Retiring Annuities System (PRAS) pension plan introduced for faculty and high ranking administrators.
1937	Pension plan coverage established for nonacademic employees through CalPERS.
1961	PRAS terminated due to insolvency and UCRP established to provide retirement, disability, and preretirement survivor benefits to all University career employees.
1971	Annual 2 percent (maximum) COLAs applied to retirement, survivor and disability benefits.
1976	Social Security coverage offered to UCRP members.
1990-93	Employer/employee UCRP contributions gradually suspended.
1990-94	Offered a total of three early retirement incentive programs to UCRP members and one to UC members of CalPERS.
1992-94	Made a total of five Capital Accumulation 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	Transferred management of the Los Alamos National Laboratory (LANL) to the Los Alamos National Security, LLC (LANS)
2006-07	Expanded Plan distribution and rollover provisions to offer additional options made available by the Pension Protection Act of 2006.

Changes in the Plan

The following Plan changes occurred during fiscal year 2006-2007. 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
January 2007	Expanded distribution and rollover provisions as provided for in the Pension Protection Act of 2006 to allow tax-free rollovers from a qualified plan of a deceased individual to an eligible retirement plan of a designated non-spouse beneficiary. (Previously, those rollovers were permitted only if the designated beneficiary was the spouse.) Expanded rollover opportunities for after-tax amounts.
February 2007	Updated service credit buyback rules to modify payment policies so that eligible Lawrence Livermore National Laboratory (LLNL) employees would not be disadvantaged by the transition of LLNL to the Lawrence Livermore National Security, LLC (LLNS).
March 2007	Revised Plan benefit calculation methods for University ladder-rank faculty who, while on approved leave without pay from the University, work under affiliation agreements with either of two private agencies, the Howard Hughes Medical Institute or the Ludwig Institute for Cancer Research. This revision makes the benefit calculation methods similar to the Plan's current methods for members eligible for reciprocity with CalPERS and applies only to eligible faculty who retire, become disabled, or die on or after March 1, 2007. Affected locations will fund the increase for the past and future Plan liability associated with this revision so that it is cost neutral to the Plan.
April 2007	Transferred approximately $1.4 billion in Plan net assets to the LANS successor defined benefit pension plan representing the pension benefit assets and liabilities associated with the approximately 6,500 LANL employees who accepted employment with LANS.

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*****
2007*	115,254	3,179	432	20	118,885	59,056	177,941
2006	117,917	3,941	425	34	122,317	52,548	174,865
2005	118,756	5,419	418	49	124,642	47,123	171,765
2004	117,100	6,165	399	53	123,717	39,874	163,591
2003	113,913	6,982	400	56	121,351	31,262	152,613
2002	109,708	7,614	398	56	117,776	25,198	142,974
2001	101,261	8,127	396	64	109,848	23,278	133,126
2000	94,361	8,558	393	70	103,382	21,950	125,332
1999	88,723	8,923	395	82	98,123	22,109	120,232
1998	83,490	9,388	401	84	93,363	21,998	115,361

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

** *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.

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

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

UCRP Funding Status

($ in millions)

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

(a) The Actuarial Value of Assets (AVA) is determined using an Adjusted Market Value Method. The Actuarial Accrued Liability (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 $1,332.4 million in retirement, disability, and preretirement survivor benefits to 47,682 members and their beneficiaries during fiscal year 2006-2007. 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*
2007	$1,260,092	$35,815	$36,487	$1,332,394
2006	1,106,711	34,771	34,338	1,175,820
2005	984,816	33,434	33,254	1,051,504
2004	877,696	31,900	30,731	940,327
2003	794,861	29,311	28,534	852,706
2002	730,115	27,132	26,475	783,722
2001	657,105	25,414	24,600	707,119
2000	614,302	22,974	22,869	660,145
1999	583,133	20,047	21,141	624,321
1998	557,669	17,115	20,707	595,491

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

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

UCRP Benefit Recipients

Year Ended June 30	Retired Members	Disabled Members	Deceased Members	Survivors	Total*
2007	39,261	2,269	1,817	6,152	47,682
2006	37,289	2,269	1,686	5,884	45,442
2005	33,590	2,225	1,774	5,662	41,477
2004	32,072	2,194	1,781	5,472	39,738
2003	30,655	2,129	1,603	5,083	37,867
2002	29,247	2,096	589	4,822	36,165
2001	27,991	2,032	753	4,661	34,684
2000	26,879	1,927	503	3,964	32,770
1999	25,639	1,713	648	3,890	31,242
1998	25,075	1,517	647	3,754	30,346

**Does not include Deceased Members.*

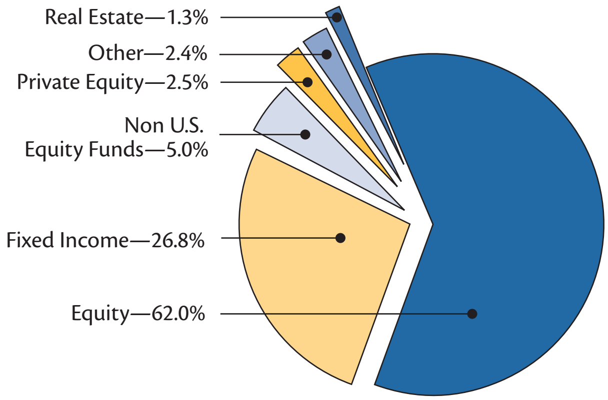
Investments

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

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



Asset Allocation

Total Fund. UCRP is a balanced investment fund of $48.8 billion in total investments. $30.3 billion of the investment portfolio is invested in domestic and foreign equities. The $1.2 billion private equity segment includes $535 million in venture capital, $652 million in buyout funds, and $43 million international private equity. Another $13.1 billion is invested in fixed income securities, of which $11.2 billion is in high-quality government, corporate, foreign and mortgage-backed bonds and commercial paper. The fund also includes allocations of $2.4 billion commingled funds of emerging market stocks, $317.4 million in domestic equity funds, $633.0 million in real estate, $322.2 million in cash equivalents, and $528.8 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, 2007

	1-year	5-year	10-year
UCRP Total Fund	**18.83%**	**11.14%**	**8.40%**
Policy Benchmark(1)	18.01%	10.72%	8.34%
U.S. Equity Portfolio	**19.72%**	**11.31%**	**6.97%**
Policy Benchmark(2)	19.90%	11.40%	7.64%
Non-U.S. Equity-Developed	**27.71%**	**18.16%**	**n/a**
Policy Benchmark(3)	26.94%	17.83%	n/a
Non-U.S. Equity-Emerging Markets	**48.23%**	**30.90%**	**10.67%**
Policy Benchmark(4)	44.99%	30.32%	9.26%
Core Fixed Income Portfolio	**6.93%**	**5.91%**	**7.42%**
Policy Benchmark(5)	6.47%	5.52%	6.93%
High Yield Bond Portfolio	**11.56%**	**n/a**	**n/a**
Policy Benchmark(6)	11.60%	n/a	n/a
Non-U.S. Fixed Income Portfolio	**2.25%**	**n/a**	**n/a**
Policy Benchmark(7)	2.20%	n/a	n/a
Emerging Market Debt Portfolio	**12.77%**	**n/a**	**n/a**
Policy Benchmark (8)	11.94%	n/a	n/a
TIPS Portfolio	**4.02%**	**6.13%**	**n/a**
Policy Benchmark(9)	3.99%	6.04%	**n/a**
Private Equity Portfolio(10)	**19.91%**	**13.56%**	**22.90%**
Real Estate	**20.92%**	**n/a**	**n/a**
Policy Benchmark(11)	16.59%	n/a	n/a

Current Policy Benchmarks:

Asset Class	***Benchmark***	***Component Percentage of Total Fund***
(1) Total Fund	*Combination of benchmarks stated below.*	*100% (See 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

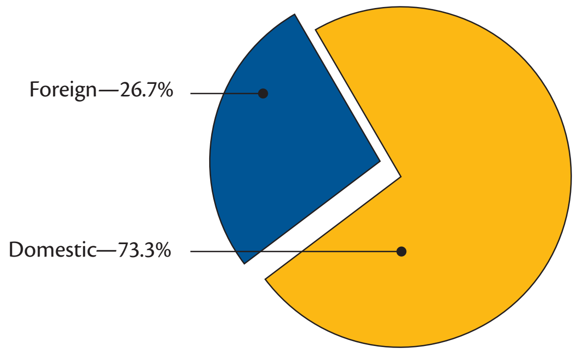
Quality and Diversification

The equity portfolio is diversified among multiple strategic economic sectors within passive and actively managed accounts. The Equity Portfolio represents 62.0 percent (or $30.3 billion) of the total Fund and is diversified among domestic and non-U.S. equity securities.

The asset mix within the equity portfolio as of June 30, 2007, is 73.3 percent domestic equity and 26.7 percent non-U.S. equity.

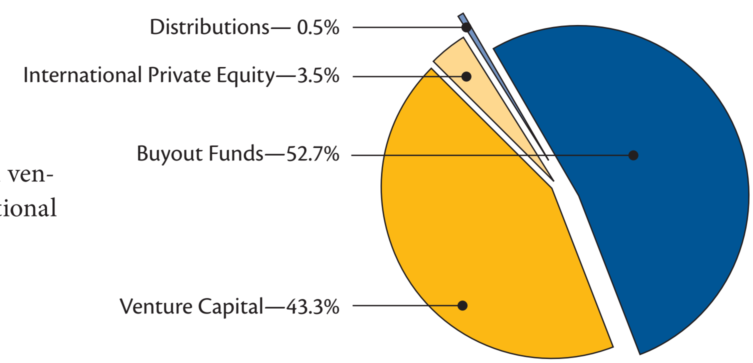
The non-U.S. equity developed sector ($8.9 billion) is invested primarily in an EAFE-based international index fund portfolio. The remainder of the sector is managed by various independent international investment advisors.

Equity Portfolio Asset Allocation



Private Equity Sector

The private equity sector ($1.2 billion) is invested in venture capital partnerships, buyout funds and international private equity.

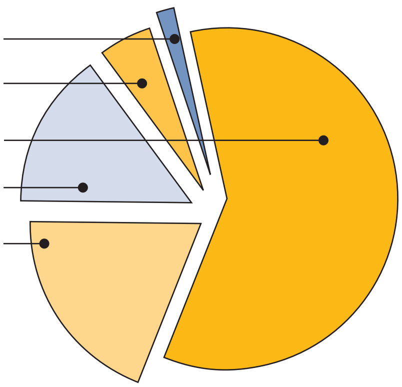


Fixed Income Portfolio

The fixed income portfolio accounts for 26.8 percent of the total Fund (excluding investments of cash collateral) and is invested primarily in high-quality, call-protected, global bonds. The effective duration of the fixed income portfolio as of June 30, 2007, was 7.6, and the weighted average quality rating was AA.

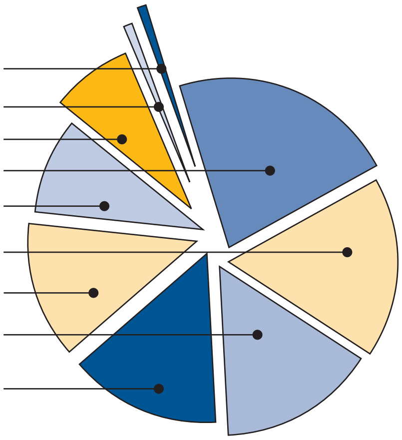
Quality*

Approximately 32.5 percent of the core fixed income portfolio consists of U.S. government-guaranteed securities, and 56.8 percent of the portfolio consists of U.S. government agency and high quality corporate issues rated investment grade or better. The quality of the holdings is illustrated at right.



Diversification

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



* Credit Ratings

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

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

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

UCRP Management's Discussion & Analysis (Unaudited)

The objective of Management's Discussion and Analysis is to help readers of the University of California Retirement Plan (the Plan) financial statements better understand the Plan's financial position and operating activities for the fiscal year ended June 30, 2007, with selected comparative information for the years ended June 30, 2006 and June 30, 2005. 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, 2007, are $48.1 billion compared to $43.4 billion at June 30, 2006 and $41.9 billion at June 30, 2005. 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 $4.7 billion or 10.9 percent in 2007 compared to an increase of $1.5 billion or 3.6 percent in 2006 and $2.7 billion or 6.8 percent in 2005.
- The Plan's total investment rate of return was 18.8 percent in 2007 compared to 7.1 percent in 2006 and 10.3 percent in 2005.
- During 2007, $1.4 billion in Plan net assets were transferred to LANS defined benefit pension plan.
- As of June 30, 2007, the date of the most recent actuarial valuation, the Plan's funded ratio was 104.8 percent, compared to 104.1 percent at June 30, 2006 and 110.3 percent at June 30, 2005. For June 30, 2007, this indicates that, for every dollar of actuarial accrued liability, assets of $1.05 are available to cover such obligations as compared to $1.04 at June 30, 2006 and $1.10 at June 30, 2005.

Overview of the Financial Statements

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

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

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

The Statements of Changes in Fiduciary Net Assets present information showing how the Plan's net assets held in trust for pension benefits changed during the years ended June 30, 2007 and 2006. It reflects contributions along with investment income (or losses) during the period from investing and securities lending activities. Deductions for retirement benefits, withdrawals, cost-of-living adjustments, lump sum cashouts, survivor, disability and death benefits, transfer of plan net assets to LANS, 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, 2007 amounted to $48.1 billion compared to $43.4 billion at June 30, 2006, for an increase of $4.7 billion or 10.9 percent. 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.

Additions to the Plan's net assets held in trust for benefits include contributions and investment income or loss. In 2007 net additions were $4.7 billion compared to $1.5 billion in 2006 and $2.7 billion in 2005. Net additions reflect significantly higher net investment income earned by the Plan. Member and employer contributions during 2007 amounted to $25.3 million (including a contribution of $17.4 million on behalf of LANL members under a recent agreement between the University and the Department of Energy (DOE)), compared to $1.8 million in 2006 and $2.4 million in 2005, primarily for service credit buybacks and other transfers.

The Plan recognized net investment income of $7.9 billion during 2007, compared to $3.0 billion in 2006 and $4.0 billion in 2005. The higher investment income in 2007 was due primarily to positive returns in the equity portfolios. The gains in 2006 were due primarily to the core fixed income portfolio, and the 2005 gains were due primarily to a recovery in the domestic and foreign equity markets.

Fiduciary Net Assets

($ in thousands)

June 30	2007	2006	2005
Assets			
Receivables	$ 214,694	$ 502,907	$ 323,243
Investments (including Short-Term Investment Pool)	48,835,961	44,199,460	42,440,204
Investment of securities lending collateral	12,641,611	10,445,933	7,901,277
Total Assets	**61,692,266**	**55,148,300**	**50,664,724**
Liabilities			
Payable for securities purchased, member withdrawals, refunds and other payables	944,662	1,339,177	907,754
Collateral held for securities lending	12,642,256	10,446,899	7,899,470
Total Liabilities	**13,586,918**	**11,786,076**	**8,807,224**
Net Assets Held in Trust for Pension Benefits	**$48,105,348**	**$43,362,224**	**$41,857,500**

Changes in Fiduciary Net Assets

($ in thousands)

Year Ended June 30	2007	2006	2005
Additions			
Employer contributions	$ 23,934	$ 13	$ 737
Member contributions	1,406	1,746	1,653
Investment Income	7,909,821	2,971,154	3,976,051
Other	6,119	6,506	6,865
Total Additions	**7,941,280**	**2,979,419**	**3,985,306**
Deductions			
Retirement, cost-of-living adjustments, lump sum cashouts, survivor, disability, and death payments	1,624,953	1,369,819	1,223,648
Member withdrawals	89,829	70,865	70,560
Administrative and other expenses	38,914	34,011	21,258
Transfer of plan net assets	1,444,460	-	-
Total Deductions	**3,198,156**	**1,474,695**	**1,315,466**
Increase in Net Assets Held in Trust for Pension Benefits	**$ 4,743,124**	**$ 1,504,724**	**$ 2,669,840**

Investments

At June 30, 2007, the Plan held $31.5 billion in domestic equity, non-U.S. and private equity securities, compared to $29.2 billion at June 30, 2006 and $27.5 billion at June 30, 2005.

The domestic equity portfolio return was 19.7 percent in 2007, 9.3 percent in 2006 and 8.1 percent in 2005, compared to the Plan's domestic equity policy benchmark returns of 19.9 percent, 9.4 percent, and 7.8 percent, respectively.

The non-U.S. equity (developed countries) portfolio return was 27.7 percent in 2007, 26.5 percent in 2006, and 16.6 percent in 2005, compared to the Plan's non-U.S. equity policy benchmark returns of 26.9 percent, 26.9 percent, and 16.5 percent, respectively.

The non-U.S. equity (emerging market countries) portfolio return was 48.2 percent in 2007, and 31.3 percent in 2006, compared to the benchmark returns of 45.0 percent and 35.5 percent, respectively.

The private equity portfolio return was 19.9 percent in 2007, 16.1 percent in 2006, and 46.0 percent in 2005, respectively.

At June 30, 2007, the Plan held $10.2 billion in U.S. government (excluding the TIPS portfolio), other U.S. dollar-denominated and non-U.S. fixed income securities compared to $9.9 billion at June 30, 2006 and $11.6 billion at June 30, 2005.

The core fixed income portfolio (excluding TIPS) earned a total return of 6.9 percent in 2007, (2.7) percent in 2006 and 11.4 percent in 2005, compared to the Plan's fixed income policy benchmark returns of 6.5 percent, (3.4) percent, and 11.5 percent, respectively.

At June 30, 2007, the Plan held $2.9 billion in TIPS, compared to $2.7 billion at June 30, 2006 and $2.5 billion at June 30, 2005. The TIPS portfolio earned a total return of 4.0 percent in 2007, (1.6) percent in 2006 and 9.4 percent in 2005, compared to the Plan's TIPS policy benchmark returns of 4.0 percent, (1.6) percent, and 9.3 percent, respectively.

At June 30, 2007, the Plan also held $633.1 million in institutional real estate investments compared to $230.0 in 2006 and $62.6 million in 2005. The real estate portfolio earned a total return of 11.6 percent in 2007 compared to 17.6 in 2006 and 4.8 percent during the fourth quarter of the fiscal year ended June 30, 2005, compared to policy benchmark returns of 16.6 percent, 20.2 percent, and 3.5 percent, respectively.

The Plan's total fund investment rate of return was 18.8 percent in 2007, 7.1 percent in 2006 and 10.3 percent in 2005, compared to the Plan's total fund policy benchmark returns of 18.0 percent, 6.8 percent, and 14.1 percent, respectively.

Transfer of Plan Net Assets

During 2007 the Plan transferred $1.4 billion in Plan net assets representing assets and liabilities attributable to the Plan's benefits of the approximately 6,500 LANL employees who accepted employment with LANS as the successor contractor to the University for the management of the LANL.

Funded Status

The Plan's actuarial value of assets available for benefits was $43.4 billion at June 30, 2007 compared to $42.0 billion at June 30, 2006 and $41.1 billion at June 30, 2005. The actuarial accrued liability was $41.4 billion at June 30, 2007 compared to $40.3 billion at June 30, 2006 and $37.3 billion at June 30, 2005. The Plan's actuarial surplus was $2.0 billion at June 30, 2007 compared to $1.7 billion at June 30, 2006 and $3.8 billion at June 30, 2005. The funded percentage at June 30, 2007, was 104.8 percent compared to 104.1 percent at June 30, 2006 and 110.3 percent at June 30, 2005. An analysis of the funding progress and employer contributions and a discussion of actuarial assumptions and methods is set forth in the required supplementary information section of the financial statements.

Fiduciary Responsibilities

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

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

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 ìPlanî) at June 30, 2007 and 2006, and the changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Planís 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, 2007 and 2006, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 16, 2007
San Francisco, California

Financial Statements

Statements of Fiduciary Net Assets

($ in thousands)

June 30	2007	2006
Assets		
Investments, at fair value:		
Equity securities:		
Domestic	$22,189,384	$21,067,038
Foreign	8,091,698	7,292,456
Private equities	1,229,465	817,396
Fixed income securities:		
U.S. government	4,251,945	4,093,533
Other U.S. dollar-denominated	7,427,366	7,176,700
Foreign	1,398,340	1,394,092
Short-Term Investment Pool	179,436	18,992
Commingled funds	2,906,403	1,649,809
Real estate	633,081	229,968
Equitized market neutral investments	528,843	459,476
Total Investments	48,835,961	44,199,460
Investment of cash collateral	12,641,611	10,445,933
Receivables:		
Contributions	92,540	74,022
Interest and dividends	114,509	139,546
Securities sales and other	7,645	289,339
Total Receivables	214,694	502,907
Total Assets	**61,692,266**	**55,148,300**
Liabilities		
Payable for securities purchased	900,010	1,302,132
Member withdrawals, refunds and other payables	44,652	37,045
Collateral held for securities lending	12,642,256	10,446,899
Total Liabilities	**13,586,918**	**11,786,076**
Net Assets Held in Trust for Pension Benefits*	**$48,105,348**	**$43,362,224**

**See Required Supplementary Schedule of Funding Progress.*

Statements of Changes in Fiduciary Net Assets

($ in thousands)

Years Ended June 30	**2007**	**2006**
Additions (Reductions)		
Contributions:		
Employer	$ 23,934	$ 13
Members	1,406	1,746
Total Contributions	25,340	1,759
Investment Income:		
Net appreciation in fair value of investments	6,616,576	1,698,374
Interest, dividends, and other investment income	1,266,051	1,253,783
Securities lending income	741,547	453,281
Less investment expenses	(714,353)	(434,284)
Total Investment Income	7,909,821	2,971,154
Interest Income from Contributions Receivable	6,119	6,506
Total Additions	**7,941,280**	**2,979,419**
Deductions		
Benefit Payments:		
Retirement payments	1,066,342	930,530
Member withdrawals	89,829	70,865
Cost-of-living adjustments	193,751	176,181
Lump sum cashouts	292,556	193,999
Preretirement survivor payments	29,480	27,758
Disability payments	35,816	34,771
Death payments	7,008	6,580
Total Benefit Payments	1,714,782	1,440,684
Expenses:		
Plan administration	37,801	32,883
Other	1,113	1,128
Total Expenses	38,914	34,011
Transfer of plan net assets	1,444,460	–
Total Deductions	**3,198,156**	**1,474,695**
Increase in Net Assets Held in Trust for Pension Benefits	**4,743,124**	**1,504,724**
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	43,362,224	41,857,500
End of Year	**$48,105,348**	**$43,362,224**

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 Lawrence Livermore National Laboratory and the Lawrence Berkeley National Laboratory, and certain academic employees may become eligible for UCRP membership after working 1,000 hours in a rolling, continuous 12-month period.

Generally, five years of service are required for entitlement to Plan benefits. The amount of the monthly pension benefit is determined under the basic formula of 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) are made to monthly benefits according to a specified formula based on the Consumer Price Index (CPI). 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, 2007, active Plan membership consisted of 115,254 members with Social Security, 3,179 members without Social Security, 432 safety members and 20 Tier Two members.

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

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

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

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

At June 30, 2007, Plan membership included 47,682 retirees, beneficiaries, and disabled members currently receiving benefits, 26,776 terminated vested employees entitled to benefits but not yet receiving them, and 32,280 terminated non-vested employees entitled to a refund of their Plan accumulations and/or CAP balance including members that transferred to the LANS defined benefit pension plan and are eligible for a CAP balance. Of current active employees, 67,966 are fully vested and 50,919 are non-vested active employees covered by the Plan.

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

Basis of Accounting

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

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 private equity and real estate partnerships are based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts, cash disbursements and securities distributions through June 30. Investments in absolute return partnerships are valued as of May 31, adjusted for cash receipts and cash disbursements through June 30. The Plan believes the carrying amount of these financial instruments is a reasonable estimate of fair value at June 30. Because the private equity, real estate and absolute return 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. Private equities include venture capital partnerships, buyout and international funds. Investments in registered investment companies are valued based upon the reported net asset value of those companies.

Accounting for Investments

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

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

Administrative Expenses

Administrative expenses are incurred in connection with the operation of the Plan for items such as staff salaries and benefits, investment management, information systems, leased space, supplies and equipment, and professional services rendered by the Plan actuary, legal counsel, and independent auditor. Total Plan administrative expenses, which are paid from Plan assets, represent approximately $37.8 million or 0.08 percent and $32.9 million or 0.08 percent, respectively, of the net assets held in trust for pension benefits for fiscal years 2007 and 2006.

Income Tax Status

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

In a letter to the University dated 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 delayed issuing its determination on the Plan until Congress took action on the ambiguities surrounding the treatment of cash benefit formulas such as the supplemental CAP benefit provided under the Plan. Many of those ambiguities were resolved with the passage of the Pension Protection Act of 2006, and the IRS has informed the University that it resumed its review of the Plan and will issue its determination.

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.

New Accounting Pronouncements

GASB Statement No. 50, *Pension Disclosures*, was adopted during the year ended June 30, 2007. Statement No. 50 enhances information disclosed in notes to financial statements or presented as required supplementary information by plans that provide pension benefits. Statement No. 50 had no effect on the Plan's net assets or changes in the Plan's net assets for the years ended June 30, 2007 or 2006.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of 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. Significant estimates in the Plan's financial statements include the valuation of not readily marketable securities for which there is no current market value.

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, 2007 and 2006.

Note 2—Investments

The Regents, as the governing Board, is responsible for the oversight of the Plan's investments and establishes investment policy, which is carried out by the Chief Investment Officer.

The Chief Investment Officer has primary responsibility for investing the Plan's assets consistent with the policies established by the Regents. The Regents establishes investment policies for the Plan and had responsibility for overseeing the implementation of those 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, buyouts and international funds. The University's investment portfolios may include certain foreign currency–denominated equity securities.

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

Composition of Investments

The composition of investments, by investment type, at June 30, 2007 and 2006 is as follows:

	($ in thousands)	
June 30	**2007**	**2006**
Investment Type		
Equity securities:		
Domestic	$22,189,384	$21,067,038
Foreign	8,091,698	7,292,456
Equity securities	30,281,082	28,359,494
Fixed income securities:		
U.S. government-guaranteed:		
U.S. Treasury bills, notes and bonds	42,977	140,011
U.S. Treasury strips	1,332,502	1,221,723
U.S. TIPS	2,864,305	2,719,001
U.S. government-backed securities	12,161	12,798
U.S. government-guaranteed	4,251,945	4,093,533
Other U.S. dollar-denominated:		
Corporate bonds	2,736,502	2,218,924
Commercial paper	337,647	568,171
U.S. agencies	832,915	1,101,529
U.S. agencies asset-backed securities	1,290,906	1,365,393
Corporate asset-backed securities	848,697	587,587
Supranational/foreign	1,380,699	1,329,166
Equitized market neutral investments	-	5,930
Other U.S. dollar-denominated	7,427,366	7,176,700
Foreign currency-denominated:		
Government/sovereign	1,314,611	1,325,283
Corporate	83,729	68,809
Foreign currency-denominated	1,398,340	1,394,092
Commingled funds:		
U.S. equity funds	317,402	148,772
Non-U.S. equity funds	2,446,242	1,147,414
Money market funds*	322,195	372,615
Commingled funds	3,085,839	1,668,801
Private equity	1,229,465	817,396
Real Estate	633,081	229,968
Equitized market neutral investments	528,843	459,476
Total Investments	**$48,835,961**	**$44,199,460**

** Includes investment of $179,436* and *$18,992 in the Short Term Investment Pool as of June 30, 2007 and 2006, respectively.*

Net Appreciation in Fair Value of Investments

The components of the net appreciation of investments are as follows:

	($ in thousands) 2007	2006
Unrealized Appreciation		
Net Unrealized Appreciation	$4,635,674	$ 670,090
Realized Gains		
Sales of securities	1,980,902	1,028,284
Net Appreciation	$6,616,576	$1,698,374

Investment Risk Factors

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

Credit Risk

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

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

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

The Plan's trustee recognizes that credit risk is appropriate in a balanced investment pool such as the Plan, by virtue of the benchmark chosen for the fixed income portion of the pool. That fixed income benchmark, the Citigroup Large Pension Fund Index and Lehman Aggregate Index, is comprised of approximately 30 percent high grade corporate bonds and 30 to 35 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 35 to 40 percent are government-issued bonds. Credit risk in the Plan is managed primarily by diversifying across issuers, and portfolio guidelines mandate that no more than 10 percent of the market value of fixed income may be invested in issues with 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, 2007 and 2006 is as follows:

($ in thousands)

June 30	2007	2006
Investment Type		
Fixed income securities:		
U.S. government-guaranteed	$4,251,945	$4,093,533
Other U.S. dollar-denominated:		
AAA	3,040,131	3,141,022
AA	214,208	135,465
A	693,374	1,257,943
BBB	1,316,639	1,284,747
BB	889,739	875,706
B	931,395	252,449
CCC	4,233	34,506
CC	-	794
D	-	69,828
A1/P1/F1	337,647	124,239
Foreign currency-denominated:		
AAA	-	596,879
AA	1,314,611	669,442
A	25,824	127,675
BBB	25,527	-
B	32,378	-
Not rated	-	96
Commingled funds/Money market: Not rated	322,195	372,615

Custodial Credit Risk

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

Concentration of Credit Risk

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

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

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

Interest Rate Risk

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

Interest rate risk for the STIP is managed by constraining the maturity of all individual securities to be less than 5½. 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), 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, 2007 and 2006 are as follows:

	(in years)	
June 30	**2007**	**2006**
Investment Type		
Fixed income securities:		
U.S. government guaranteed:		
U.S. Treasury bills, notes and bonds	1.4	2.6
U.S. Treasury strips	12.2	12.4
U.S. TIPS	5.4	5.1
U.S. government-backed securities	6.3	6.6
Other U.S. dollar-denominated:		
Corporate bonds	7.3	7.8
U.S. agencies	3.8	3.6
U.S. agencies asset-backed securities	5.4	4.6
Corporate asset-backed securities	1.8	9.4
Supranational/foreign	7.1	6.8
Other	-	13.5
Foreign currency-denominated:		
Government/sovereign	6.3	6.2
Corporate	10.0	12.7
Commingled funds:		
Money market funds	1.2	1.1

The Plan considers the effective duration for commercial paper, mortgage loans, insurance contracts and money market funds, with the exception of the STIP, 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, 2007 and 2006, the fair values of such investments are as follows:

($ in thousands)

	2007	2006
Mortgage-backed securities	$2,091,086	$1,505,830
Collateralized mortgage obligations	48,517	447,151
Callable bonds	1,165,869	388,053
Variable rate securities	30,898	-
Total	$3,336,370	$2,341,034

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 the payment of either interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments.

Other Asset-Backed Securities

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

Variable Rate Securities

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

Callable Bonds

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

At June 30, 2007 and 2006, the effective durations are as follows:

(in years)

	2007	2006
Mortgage-backed securities	3.9	6.7
Collateralized mortgage obligations	5.9	3.8
Callable bonds	4.8	5.5
Variable rate securities	2.6	-

Foreign Currency Risk

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

At June 30, 2007 and 2006, the U.S. dollar-denominated balances organized by currency denominations and investment type are as follows:

($ in thousands)

	2007	2006
Equity securities:		
Euro	$ 2,774,310	$ 2,278,359
British Pound	1,725,421	1,647,690
Japanese Yen	1,522,423	1,591,138
Swiss Franc	557,099	502,194
Canadian Dollar	479,915	442,505
Australian Dollar	409,589	331,550
Hong Kong Dollar	168,591	151,787
Swedish Krona	179,200	136,096
Singapore Dollar	87,854	67,513
Norwegian Krone	71,450	56,065
Danish Krone	55,655	43,495
South Korean Won	20,452	16,043
New Zealand Dollar	15,472	8,822
Thailand Baht	8,547	5,931
South African Rand	7,105	8,639
Other	8,615	4,628
Subtotal	8,091,698	7,292,455
Fixed income securities:		
Euro	701,342	657,968
Japanese Yen	448,145	485,715
British Pound	100,204	91,941
Canadian Dollar	84,637	100,857
Polish Zloty	13,362	8,327
Danish Krone	12,132	11,857
Swiss Franc	11,904	11,479
Swedish Krona	11,646	13,523
Australian Dollar	5,660	4,948
Singapore Dollar	4,977	4,232
Norwegian Krone	4,331	3,245
Subtotal	1,398,340	1,394,092
Commingled Funds:		
Various currency denominations		
Non-U.S. equity funds	2,446,242	1,147,414
Total exposure to foreign currency risk	**$11,936,280**	**$ 9,833,961**

Futures, Forward Contracts, Options and Swaps

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

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

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

An option contract gives the Plan the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a nonrefundable fee (the premium). The maximum loss to the Plan is limited to the premium originally paid for covered options. The Plan records premiums paid for the purchase of these options in the statement of fiduciary net assets as an investment which is subsequently adjusted to reflect the fair value of the options, with unrealized gains and losses included in the statement of changes in fiduciary net assets. The Plan did not hold any option contracts at June 30, 2007 or 2006.

A swap is a contractual agreement entered into between the Plan and a counter party under which each agrees to exchange periodic fixed or variable payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The payments correspond to an equity index, interest rate or currency. The Plan records interest rate swaps entered into for investment purposes at fair value, with unrealized gains and losses included in the statement of changes in fiduciary net assets. The Plan did not hold any interest rate swap contracts at June 30, 2007 or 2006.

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

Note 3—Securities Lending

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

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

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

Cash collateral received from the borrower is invested by lending agents, as agents for the Plan, in investment pools in the name of the Plan, with guidelines approved by the Plan. These investments are shown as investment of cash collateral in the statement of fiduciary net assets. At June 30, 2007 and 2006, 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 fiduciary net assets. Securities collateral received from the borrower is held in an investment pool by the Plan's custodial bank.

At June 30, 2007, 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, 2007 and 2006 are as follows:

	($ in thousands)	
Securities Lent	**2007**	**2006**
For cash collateral:		
Equity securities:		
Domestic	$ 4,704,141	$ 3,713,143
International	2,130,022	1,766,732
Fixed income securities:		
U.S. government	3,746,269	3,409,103
Other U.S. dollar-denominated	1,381,178	1,327,728
Foreign currency-denominated	353,751	-
Lent for Cash Collateral	**12,315,361**	**10,216,706**
For securities collateral:		
Equity securities:		
Domestic	95,946	12,462
International	113,709	71,415
Fixed income securities:		
U.S. government	250,180	416,653
Other U.S. dollar-denominated	594	9,479
Foreign currency-denominated	7,418	-
Lent for Securities Collateral	**467,847**	**510,009**
Total Securities Lent	**$12,783,208**	**$10,726,715**
Collateral Received		
Cash	12,642,256	10,446,899
Securities	558,697	538,094
Total Collateral Received	**$13,200,953**	**$10,984,993**
Investment of Cash Collateral		
Fixed income securities:		
Other U.S. dollar-denominated:		
Corporate bonds	1,949,896	1,977,798
Commercial paper	2,241,125	731,049
Repurchase agreements	3,963,163	5,026,377
Corporate asset-backed securities	1,734,312	1,219,708
Certificates of deposit/time deposits	1,682,560	1,239,707
Supranational/foreign	1,027,647	280,885
Commingled funds/money market funds	26,762	1,656
Other assets, net	16,146	(31,247)
Total Investment of Cash Collateral	**$12,641,611**	**$10,445,933**

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, 2007 and 2006 are as follows:

($ in thousands)

	2007	2006
Securities lending income	$741,547	$453,281
Securities lending fees and rebates	(714,353)	(434,284)
Securities lending income, net	$ 27,194	$ 18,997

Investment Risk Factors

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

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

Credit Risk

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

The credit risk profile for fixed or variable income securities associated with the investment of cash collateral at June 30, 2007 and 2006 is as follows:

($ in thousands)

	2007	2006
Fixed or variable income securities:		
Other U.S. dollar-denominated:		
AAA	$1,892,504	$1,314,515
AA	554,919	1,099,760
A	1,219,082	838,002
BBB	60,359	-
A1+	3,711,968	-
A1/P1/F1	4,145,765	1,846,180
Not rated	1,036,767	5,377,067
Commingled/Money market funds	26,810	1,656
Other assets, net: Not rated	16,175	(31,246)

Custodial Credit Risk

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

Concentration of Credit Risk

The Plan's investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pools restricts investments in any single issuer of corporate debt securities, time deposits, certificates of deposit, bankers acceptances and money market funds to no more than five percent of the portfolio value.

Interest Rate Risk

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

At June 30, 2007 and 2006, the weighted average maturity expressed in days outstanding for asset-backed securities was 56 days and 16 days, respectively; 26 days and 40 days, respectively, for variable-rate investments.

The weighted average maturity expressed in days outstanding for fixed or variable income securities associated with the investment of cash collateral at June 30, 2007 and 2006 is as follows:

	(in days)	
Investment type	**2007**	**2006**
Fixed income securities:		
Other U.S. dollar-denominated:		
Corporate bonds	75	43
Commercial paper	141	149
Repurchase agreements	2	3
U.S. agencies	67	16
Corporate asset-backed securities	-	62
Certificates of deposit/time deposits	84	-
Supranational/foreign	60	34
Commingled/Money market funds	2	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, 2007 and 2006, the fair value of investments that are considered to be highly sensitive to changes in interest rates is as follows:

	($ in thousands)	
Investment type	**2007**	**2006**
Other asset-backed securities	$1,737,435	$1,254,557
Variable-rate investments	1,987,677	2,423,356

Foreign Currency Risk

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

Note 4—Contributions and Reserves

Actuarially Determined Contribution Requirements and Contributions Made

The Regents' funding policy provides for actuarially determined periodic University and employee contributions at rates reasonably expected to maintain the Plan on an actuarially sound basis. Employee contributions are subject to collective bargaining. In addition, the DOE may be required to make contributions related to LANL members. The contribution rate is determined using the entry age normal actuarial funding method. The entry age normal funding method has been utilized since 1975 as the fundamental basis for the valuation of retirement benefits. Under this method, the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit 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, 2007 and 2006.

As of June 30, 2007 and 2006, the difference between the net assets held in trust for pension benefits presented in the Statements of Fiduciary Net Assets and the net assets allocated to fund the actuarial accrued liability (shown on page 37) is as follows:

($ in millions)

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

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

Member Assessment*

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

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

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

At June 30, 2007 and 2006, member accumulations of current employees, including allocated investment income, in the Plan amounted to approximately $496.6 million and $498.0 million, respectively.

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

Accumulated Plan benefits are those future benefit payments that are attributable under the Plan's provisions to the service employees have rendered. Accumulated Plan benefits include benefits expected to be paid to (a) retired or terminated members or their beneficiaries, (b) beneficiaries of deceased members and (c) present 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, 2007 and 2006.

Note 5—Contributions Receivable

Contributions receivable includes $68.9 million and $74.0 million at June 30, 2007 and 2006, respectively, related to agreements between the State of California (the State) and the University on behalf of the Plan. In 1984, the State agreed to pay the University for contributions due to the Plan of $66.5 million in 30 annual installments of approximately $5.9 million, including interest at 8 percent, based on the discount rate used in the 1984 actuarial valuation. Similarly, in fiscal year 1990, the State agreed to pay the University for contributions due to the Plan of $57.2 million in 30 annual installments of approximately $5.3 million, including interest at 8.46 percent, based on the discount rate used in the 1990 actuarial valuation.

Under a recent agreement between the University and the DOE, contribution of $17.4 million is receivable from the DOE on behalf of LANL members.

Note 6—Plan Termination

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

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

Note 7—Contingency

On September 30, 2007, the University's contract to operate and manage the Lawrence Livermore National Laboratory (LLNL) for the National Nuclear Security Administration of the Department of Energy (DOE) expired. The DOE awarded the contract to a separate legal entity, Lawrence Livermore National Security, LLC (LLNS), which assumed management of LLNL on October 1, 2007. LLNS is a joint venture between the University and private industry members to operate and manage LLNL.

The Plan assets and liabilities attributable to certain transitioning employees who elect employment with LLNS are expected to be transferred to a pension plan maintained by LLNS 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 the LLNS pension plan is dependent on future elections to be made by the approximately 7,300 active members currently working at LLNL and the outcome of 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)
2007	$43,434.0	$41,436.6	$ 1,997.4	104.8%	$7,612.7	26.2%
2006	41,972.5	40,301.7	1,670.8	104.1	8,259.0	20.2
2005	41,084.9	37,252.4	3,832.5	110.3	8,149.6	47.0
2004	41,293.1	35,034.2	6,258.9	117.9	7,835.2	79.9
2003	41,429.3	32,954.8	8,474.5	125.7	7,733.8	109.6
2002	41,648.8	30,099.6	11,549.2	138.4	7,226.5	159.8

The June 30, 2007 information includes changes in actuarial assumptions that decreased the June 30, 2007 actuarial accrued liability by $535 million. A change in an actuarial method for projecting covered payroll is also included. Covered payroll is now reduced to anticipate members who leave active status during the year. This decreased the June 30, 2007 annual covered payroll by $814 million.

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

Required Schedule of Employer and Employee Contributions

The rates for employer contributions as a percentage of covered payroll are determined annually pursuant to the Regents' funding policy and based on recommendations of the consulting actuary. In addition, the DOE may be required to make contributions related to Los Alamos National Laboratory (LANL) members. As a result of the funded status of the Plan, during the years ended June 30, 2007 and 2006, the Plan had no employer contributions other than $17.4 million to support the funded status of the segment to which assets and liabilities of LANL members are allocated for the year ended June 30, 2007.

Employee contributions may also be required to be made to the Plan. The rate of employee contributions as a percentage of covered payroll is determined annually pursuant to the Regents' funding policy, based on recommendations of the consulting actuary and subject to collective bargaining. During the years ended June 30, 2007 and 2006, the Plan had no required employee contributions.

Note to Required Supplementary Information

Actuarial Information

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

Additional Trend Information

Valuation Date As of July 1	**2007**	**2006**
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level percent open	Level percent open
Remaining amortization period	1.58 years	1.32 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return*	7.50%	7.50%
Projected salary increases*	4.35-7.00%	4.50-6.50%
Cost-of-living adjustments	2.00%	2.00%

**Includes inflation assumption at 3.50% for fiscal year 2007 and 4.00% for 2006.*

Note: Beginning with the July 1, 2004 valuation, the projected salary increases were 2.00% lower for the period July 1, 2004 through June 30, 2007 due to University budget considerations.

Other Supplementary Information

The total actuarial accrued liability of the Plan, calculated using the entry age normal cost method, was $41.4 billion and $40.3 billion at June 30, 2007 and 2006, respectively. This liability is then compared against the actuarial value of Plan assets to determine the annual required contribution to fund the Plan. The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate.

Actuarial Accrued Liability

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

Other Supplementary Information

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

Revenues by Source

($ in thousands)

Year Ended June 30	Member Contributions	Employer Contributions	Investment & Other Income*	Total
2007	$ 1,406	$23,934	$3,280,266	$3,305,606
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

Expenses by Type

($ in thousands)

Year Ended June 30	Benefits**	Administrative & Other Expenses	Member Withdrawals, Transfers & Other Activity	Total
2007	$1,624,953	$ 38,914	$1,534,286***	$3,198,153
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

* *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 including CAP distributions.*

*** *Includes $1.4 billion in Plan net assets transferred to LANS successor pension plan.*

Management's Discussion & Analysis (Unaudited)

The objective of Management's Discussion and Analysis is to help readers of the University of California PERS Voluntary Early Retirement Incentive Program (the PERS Plus 5 Plan) financial statements better understand the PERS Plus 5 Plan's financial position and operating activities for the fiscal year ended June 30, 2007, with selected comparative information for the years ended June 30, 2006 and 2005. This discussion should be read in conjunction with the financial statements and the notes to the financial statements.

Financial Highlights

- The net assets of the PERS Plus 5 Plan at June 30, 2007, are $86.1 million compared to $77.8 million at June 30, 2006 and $77.8 million at June 30, 2005. The net assets are available to meet the Plan's ongoing obligations to Plan retirees and their beneficiaries.
- The net assets of the PERS Plus 5 Plan increased by $8.3 million, or 10.7 percent, compared to an increase of $57 thousand in 2006, or 0.1 percent, and an increase of $2.0 million in 2005, or 2.7 percent.
- The PERS Plus 5 Plan's total investment rate of return was 18.0 percent in 2007 compared to 7.2 percent in 2006 and 10.3 percent in 2005.
- As of June 30, 2007, the date of the most recent actuarial valuation, the PERS Plus 5 Plan's funded ratio was 209.2 percent compared to 177.4 percent at June 30, 2006 and 169.8 percent at June 30, 2005. For June 30, 2007, this indicates that for every dollar of actuarial accrued liability, assets of $2.09 are available to cover such obligations compared to $1.77 at June 30, 2006 and $1.70 at June 30, 2005.

Overview of the Financial Statements

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

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

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

The Statement of Changes in Fiduciary Net Assets present information showing how the PERS Plus 5 Plan's net assets held in trust for pension benefits changed during the years ended June 30, 2007 and 2006. 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 provide additional information that is essential to a full understanding of the data provided in the financial statements.

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

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

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

Financial Analysis

The PERS Plus 5 Plan provide 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, 2007, amounted to $86.1 million compared to $77.8 million at June 30, 2006 and $77.8 million at June 30, 2005. Additions to the Plan's net assets held in trust for benefits include investment income or loss. There were no employer contributions during the 2005-2007 fiscal years. The Plan recognized a net investment gain of $13.6 million compared to $5.4 million in 2006 and $7.5 million in 2005. The increase in investment income in 2007 was due primarily to higher total returns in the equity portfolio. 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 gain in 2005 was due primarily to a recovery in the domestic and foreign equity markets.

Fiduciary Net Assets

June 30	2007	2006	2005
		($ in thousands)	
Net assets At Fair Value	$86,149	$77,830	$77,773
Net Assets Held in Trust for Pension Benefits	**$86,149**	**$77,830**	**$77,773**

Changes in Fiduciary Net Assets

Years Ended June 30	2007	2006	2005
		($ in thousands)	
Additions			
Investment income	$ 13,618	$ 5,429	$7,525
Total Additions	**13,618**	**5,429**	**7,525**
Deductions			
Retirement payments and other expenses	5,299	5,482	5,491
Total Deductions	**5,299**	**5,482**	**5,491**
Increase in Net Assets Held in Trust for Pension Benefits	**$ 8,319**	**$ 57**	**$2,034**

Retirement benefit payments and other expenses were the only deductions from the PERS Plus 5 Plan's net assets held in trust for benefits. For 2007, deductions remained steady at $5.3 million, compared to $5.4 million in 2006 and $5.5 million in 2005.

Investments

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

Funded Status

At June 30, 2007, the PERS Plus 5 Plan's actuarial value of assets available for benefits was $88.6 million, compared to $77.8 million at June 30, 2006 and $77.8 million at June 30, 2005. The actuarial accrued liability was $42.3 million compared to $43.9 million at June 30, 2006 and $45.8 million at June 30, 2005. The Plan's total surplus was $46.2 million, compared to $34.0 million at June 30, 2006 and $32.0 million at June 30, 2005.

Fiduciary Responsibilities

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

Requests for Information

This financial report is designed to provide the Regents, PERS Plus 5 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

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 51) present fairly, in all material respects, the financial position of the University of California PERS Voluntary Early Retirement Incentive Program Plan (the ìPlanî) at June 30, 2007 and 2006, and the changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Planís 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, 2007 and 2006, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 16, 2007
San Francisco, California

Financial Statements

Statements of Fiduciary Net Assets

($ in thousands)

June 30	2007	2006
Assets		
Assets at Fair Value	$ 87,827	$ 77,892
Investment of cash collateral	22,738	-
Total Assets	**110,565**	**77,892**
Liabilities		
Other liabilities	1,677	62
Collateral held for securities lending	22,739	-
Total Liabilities	**24,416**	**62**
Net Assets Held in Trust for Pension Benefits	**$ 86,149**	**$ 77,830**

Statements of Changes in Fiduciary Net Assets

($ in thousands)

Years Ended June 30	2007	2006
Additions		
Net Investment Income	$ 13,618	$ 5,429
Deductions		
Retirement Payments	5,291	5,364
Administrative Expenses	8	8
Total Deductions	5,299	5,482
Increase in Net Assets Held in Trust for Pension Benefits	**8,319**	**57**
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	77,830	77,773
End of Year	**$ 86,149**	**$ 77,830**

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

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

Basis of Accounting

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

Valuation of Investments

The assets of the PERS Plus 5 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 private equity investments 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 private equity investments 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 PERS Plus 5 Plan's statement of changes in net assets.

Administrative Expenses

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

Income Tax Status

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

New Accounting Pronouncements

GASB Statement No. 50, *Pension Disclosures*, was adopted during the year ended June 30, 2007. Statement No. 50 enhances information disclosed in notes to financial statements or presented as required supplementary information by plans that provide pension benefits. Statement No. 50 had no effect on the Plan's net assets or changes in the PERS Plus 5 Plan's net assets for the years ended June 30, 2007 or 2006.

Use of Estimates in the Preparation of Financial Statements

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

The financial statements of the PERS Plus 5 Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2007 and 2006.

Note 2–Investments

The PERS Plus 5 Plan's investments of $87.6 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 PERS Plus 5 Plan's investment pool awaiting investment or for administrative expenses is also invested in the University of California Short Term Investment Pool (STIP). Investments authorized by the Regents for the STIP include fixed income securities with a maximum maturity of 5½ years. The total investment return, representing income plus net appreciation on investments, was 18.0 percent and 7.2 percent, respectively, for the years ended June 30, 2007 and 2006.

Investment Risk Factors

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

Credit Risk

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

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

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

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

Custodial Credit Risk

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

Concentration of Credit Risk

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

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

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

Interest Rate Risk

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

Interest rate risk for the STIP is managed by constraining the maturity of all individual securities to be less than 5½ years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to the maturity structure of the liabilities, that is, the liquidity demands of the investors. 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 PERS Plus 5 Plan limit weighted average effective duration to the effective duration of the benchmarks (Citigroup Large Pension Fund Index and Lehman Aggregate Index), plus or minus 20 percent. This constrains the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark.

The effective duration for fixed and variable income securities at June 30, 2007 and 2006 are as follows:

	(in years)	
June 30	**2007**	**2006**
Investment Type		
Fixed income securities:		
U.S. government-guaranteed:		
U.S. Treasury bills, notes and bonds	1.4	13.4
U.S. Treasury strips	12.2	12.5
U.S. TIPS	5.4	5.1
U.S. government-backed securities	-	-
Other U.S. dollar-denominated:		
Corporate bonds	7.3	7.8
U.S. agencies	3.8	3.6
U.S. agencies asset-backed securities	5.4	4.6
Corporate asset-backed securities	1.8	9.2
Supranational/foreign	7.1	6.8
Other	-	13.5
Foreign currency-denominated:		
Government/sovereign	6.3	6.2
Corporate	10.0	12.7
Commingled funds:		
Money market funds	1.2	1.1

The PERS Plus 5 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 the payment of either interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments.

Other Asset-Backed Securities

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

Variable Rate Securities

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

Callable Bonds

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

At June 30, 2007 and 2006, the effective durations are as follows:

	(in years)	
	2007	**2006**
Mortgage-backed securities	3.9	6.7
Collateralized mortgage obligations	5.9	3.8
Variable rate securities	2.6	-
Callable bonds	4.8	5.5

Foreign Currency Risk

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

Futures, Forward Contracts, Options and Swaps

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

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

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

An option contract gives the PERS Plus 5 Plan the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a non-refundable fee (the premium). The maximum loss to the Plan is limited to the premium originally paid for covered options. The Plan records premiums paid for the purchase of these options in the statement of fiduciary net assets as an investment which is subsequently adjusted to reflect the fair value of the options, with unrealized gains and losses included in the statement of changes in fiduciary net assets. The Plan did not hold any option contracts at June 30, 2007 or 2006.

A swap is a contractual agreement entered into between the PERS Plus 5 Plan and a counter party under which each agrees to exchange periodic fixed or variable payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The payments correspond to an equity index, interest rate or currency. The Plan records interest rate swaps entered into for investment purposes at fair value, with unrealized gains and losses included in the statement of changes in fiduciary net assets. The Plan did not hold any interest rate swap contracts at June 30, 2007 or 2006.

The PERS Plus 5 Plan could be exposed to risk if the counter party to the contracts was unable to meet the terms of the contracts. Counter party credit risk is limited to a receivable due to the variation margin in futures contracts, or to the ability of the counter party 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 counter party credit risk in all derivative contracts that are not exchange-traded through counter party credit evaluations and approvals, counter party credit limits and exposure monitoring procedures undertaken by the Chief Investment Officer.

Note 3—Securities Lending

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

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

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

Cash collateral received from the borrower is invested by lending agents, as agents for the Plan, in investment pools in the name of the Plan, with guidelines approved by the Plan. At June 30, 2007 and 2006, 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 fiduciary net assets. Securities collateral received from the borrower is held in an investment pool by the Plan's custodial bank.

At June 30, 2007, 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, 2007 and 2006 are as follows:

	($ in thousands)	
Securities Lent	**2007**	**2006***
For cash collateral:		
Equity securities:		
Domestic	$ 8,461	$ -
International	3,831	-
Fixed income securities:		
U.S. government	6,738	-
Other U.S. dollar-denominated	2,484	-
Foreign currency-denominated	636	-
Lent for Cash Collateral	**22,150**	**-**
For securities collateral:		
Equity securities:		
Domestic	173	-
International	205	-
Fixed income securities:		
U.S. government	450	-
Other U.S. dollar-denominated	1	-
Foreign currency-denominated	13	-
Lent for Securities Collateral	**842**	**-**
Total Securities Lent	**$22,992**	**$ -**
Collateral Received		
Cash	22,739	-
Securities	1,005	-
Total Collateral Received	**$23,744**	**$ -**
Investment of Cash Collateral		
Fixed income securities:		
Other U.S. dollar-denominated:		
Corporate bonds	3,508	-
Commercial paper	4,031	-
Repurchase agreements	7,129	-
Corporate asset-backed securities	3,119	-
Certificates of deposit/time deposits	3,026	-
Supranational/foreign	1,848	-
Commingled funds/money market funds	48	-
Other assets, net	29	-
Total Investment of Cash Collateral	**$22,738**	**$ -**

** There were no securities lending transactions at June 30, 2006.*

Investment Risk Factors

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

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

Credit Risk

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

Custodial Credit Risk

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

Concentration of Credit Risk

The PERS Plus 5 Plan's investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pools restricts investments in any single issuer of corporate debt securities, time deposits, certificates of deposit, bankers acceptances and money market funds to no more than five percent of the portfolio value.

Interest Rate Risk

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

At June 30, 2007 and 2006, the weighted average maturity expressed in days outstanding for asset-backed securities was 56 days and 16 days, respectively; 26 days and 40 days, respectively, for variable-rate investments.

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

The weighted average maturity expressed in days outstanding for fixed or variable income securities associated with the investment of cash collateral at June 30, 2007 and 2006 is as follows:

	(in days)	
Investment type	**2007**	**2006**
Fixed income securities:		
Other U.S. dollar-denominated:		
Corporate bonds	75	43
Commercial paper	141	149
Repurchase agreements	2	3
Corporate asset-backed securities	67	16
Certificates of deposit/time deposits	84	62
Supranational/foreign	60	34
Commingled/Money market funds:	2	3

Foreign Currency Risk

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

Note 4–Contributions and Reserves

Actuarially Determined Contribution Requirements and Contributions

The Regents' funding policy provides for actuarially determined contributions to be made by the University. As of June 30, 2007 and 2006, the PERS Plus 5 Plan was fully funded and no annual contributions were required.

Note 5–Plan Termination

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

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

Required Supplementary Information

Actuarial Information

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

Required Supplementary Schedule of Funding Progress for the Past Six Years

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)
2007	$ 86,149	$ 42,346**	$ 43,803	203.4%
2006	77,830	43,877**	33,953	177.4%
2005	77,773	45,804**	31,969	169.8%
2004	75,738	47,482**	28,256	159.5%
2003	71,451	49,319**	22,132	144.9%
2002	72,756	51,021	21,735	142.6%

** Reported at fair value.*

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

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

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

Required Schedule of Employer Contributions

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

Note to Required Supplementary Information

Actuarial Information

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

Additional Trend Information

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

** Includes inflation assumption at 3.5% for fiscal year 2007 and 4.0% for 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 PERS Plus 5 Plan will continue in operation. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated Plan benefits.

Other Supplementary Information

The total net assets available in excess of the total actuarial accrued liability (AAL) of the PERS Plus 5 Plan based on the measure of the AAL, which uses the unit credit basis, as appears in the actuarial valuation, was approximately $43.8 million at June 30, 2007, and $34.0 million at June 30, 2006, as follows:

Actuarial Accrued Liability

(in millions)

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

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

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Assistant Vice President	John Plotts

University Counsel

Barbara A. Clark

Plan Actuary

The Segal Company

Independent Plan Auditor

PricewaterhouseCoopers LLP

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

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University of California
Financial Management
1111 Franklin Street, 10th Floor
Oakland, CA 94607-5200