The University of California

Retirement Plan

Annual Financial Report

2008–2009

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Plan Financial Reporting and Oversight

Assistant Vice President—Financial Management **John Plotts**

University Counsel

Barbara A. Clark

Plan Actuary

The Segal Company

Independent Plan Auditor

PricewaterhouseCoopers LLP

Requests for Information

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

University of California-Office of the President-Human Resource Dept.
P.O. Box 24570
Oakland, CA 94623-1570

The University of California Retirement System

Retirement Plan

UCRS Plan Administration • Year Ended June 30, 2009

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, 2009, and includes audited financial statements. Significant statistics relating to the Plan and its membership base as of the 2008–2009 fiscal year-end are as follows:

Net assets	**$32.3 billion**
Net investment loss	**$7.9 billion**
Benefit payments (excluding member withdrawals and lump sum cashouts)	**$1.6 billion**
Plan administrative and other expenses	**$32.4 million**
ACTIVE PLAN MEMBERSHIP	
Senate Faculty and Non-Faculty Academics	22,518 members
Management/Senior Professional	8,536 members
Professional/Support Staff	84,691 members
Total	**115,745 members**
Average Annual Salary	
Senate Faculty	$113,915
Non-Faculty Academics	$73,967
Management/Senior Professional	$119,499
Professional/Support Staff	$58,778
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	
Total	**54,883 members**

RETIREE MEMBERSHIP	
Faculty	4,721 retirees
Management/Senior Professional	6,829 retirees
Professional/Support Staff	31,419 retirees
Total	**42,969 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	$68,352
Management/Senior Professional	$46,452
Professional/Support Staff	$27,684
Survivor/Beneficiary	6,527 recipients
Disabled	2,157 recipients

Plan Overview and Administration

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 that is the actuarial equivalent present value of their lifetime retirement income.

At June 30, 2009, active UCRP members included 115,745 employees at the University's ten campuses, five medical centers, one Department of Energy national laboratory, and Hastings College of the Law.

The Vice President—Human Resources Dept. (VP–HR) of the University of California carries out administrative duties delegated by the President for the day-to-day management and operation of the Plan including conducting policy research, implementing changes to the Plan and 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

Year	Event
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 non-academic 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) Cost-of-Living Adjustments (COLAs) applied to retirement, survivor and disability benefits.
1976	Social Security coverage offered to UCRP members.
1990-1993	Employer/employee UCRP contributions gradually suspended.
1990-1994	Offered a total of three early retirement incentive programs to UCRP members and one to UC members of CalPERS.
1992-1994	Made a total of five Capital Accumulation Provision (CAP) allocations in behalf of eligible members.
2001-2002	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.
2002-2003	Made two additional Capital Accumulation Provision (CAP II) allocations in behalf of eligible members.
2005-2006	Transferred management of the Los Alamos National Laboratory (LANL) to the Los Alamos National Security, LLC (LANS)
2006-2007	Expanded Plan distribution and rollover provisions to offer additional options made available by the Pension Protection Act of 2006.
2007-2008	Allowed rollover of eligible distributions to Roth IRAs, as provided for by the Pension Protection Act of 2006.

Changes in the Plan

The following Plan changes occurred during fiscal year 2008-2009. These changes were mandated by legislation or recommended by the President of the University and approved by The Regents of the University of California (The Regents). All currently effective Plan provisions are contained in the Plan document.

DATE	CHANGE
July 2008	Added a one-year extension of the existing Staff and Academic Reduction in Time (START) program for employees who participated in the program at any time during the July 1, 2004 through June 30, 2005 fiscal year. In addition, participation in the program during the one-year extension period ending June 30, 2006 was extended to those locations not participating in the program as of June 30, 2005, that demonstrated a need to achieve salary savings because of new budget reductions.
September 2008	Adopted a new UCRP contribution policy, including a three-year amortization period for any initial surplus. The new contribution policy was effective with the July 1, 2008 actuarial valuation and determined recommended total contributions based on the Plan's Normal Cost adjusted amortizations of any surplus or under-funding, starting with the Plan Year beginning July 1, 2009.
November 2008	Designated the President as the Plan Administrator with authority to delegate administrative duties with regard to the management and operation of the University of California Retirement System (UCRS) plans to a position at the level of Vice President or higher level.
January 2009	Defined the Normal Retirement Age (NRA) as age 50 with a minimum of five years of Service Credit for Safety Members and as age 60 with a minimum of five years of Service Credit for all other Members. NRA replaces Normal Retirement Date, which was defined as the age of 60 with five years of Service Credit for all Members. This change allows the Plan language to conform to the revised policy on the reemployment of retired employees.
March 2009	Accommodated a modification to the START Program to lowering the minimum allowable reduction in time percentage from ten percent to five percent. The intent in lowering the minimum allowable reduction in time percentage to five percent was to encourage more members to participate in the program, which would provide additional salary savings for the University.
May 2009	Allowed active UCRP Members to take advantage of recent IRC changes that provide for more payment alternatives for Service Credit buybacks than previously allowed. The changes are designed to be substantially cost-neutral to UCRP.

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[1]	Inactive Members/ Others[1, 2]	TOTAL[3]
2009	113,112	2,180	417	26	115,745	54,883	**170,628**
2008	111,245	2,556	411	21	114,242	64,566	**178,808**
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**

1 The changes in active and inactive membership during fiscal years 2008 and 2007 include the results of elections made by LLNS and LANL employees, respectively, who either retired, became inactive, or accepted employment with LLNS and LANS, respectively, and joined its defined benefit pension plan.

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

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

Contribution Policy

Historically, The Regents' contribution policy has been to establish annual contributions as a percentage of payroll by using the entry age normal actuarial funding method.

In July 2008, The Regents approved a new contribution policy that determines recommended total contributions based on the Plan's Normal Cost adjusted by an amortization of any surplus (over-funding) or deficit (underfunding), with contributions starting for the Plan Year beginning July 1, 2009.

Each year The Regents will determine the actual total contributions and the split between Member contributions and University Contributions based on the recommended total contributions and various other factors.

The recommended total contribution determined by this policy for the 2009-2010 Plan Year is based on a three-year amortization period for surplus as of July 1, 2008.

This recommended total contribution rate applies to the non-laboratory segment of UCRP (e.g., campuses, medical centers and Hastings College of Law). Contributions for the laboratories are subject to the terms of the University's contracts with the Department of Energy.

The recommended total contribution rates as of July 1, 2008 are based on all of the Plan data, the actuarial assumptions, and the Plan provisions adopted at the time of preparation of the actuarial valuation. They include all changes affecting future costs, adopted benefit changes, actuarial gains and losses, and changes in the actuarial assumptions.

UCRP FUNDING STATUS

Plan Year Beginning July 1	Actuarial Value of Assets in Excess of Actuarial Accrued Liability(1) ($ in billions)
2008	$ 1.3
2007	2.0
2006	1.7
2005	3.8
2004	6.3
2003	8.5
2002	11.5
2001	13.1
2000	13.0
1999	9.9

(1) The Actuarial Value of Assets is determined using an Adjusted Market Value Method. The Actuarial Accrued Liability 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 $1.6 billion in retirement, disability, and preretirement survivor benefits to 51,653 members and their beneficiaries during fiscal year 2008-2009. 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

Year Ended June 30	($ in thousands)			
	Retirement	Disability	Death & Survivor	TOTAL[1]
2009	$1,517,717	$35,984	$39,949	**$1,593,650**
2008	1,403,778	36,098	39,624	**1,479,500**
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**

[1] *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[1]
2009	42,969	2,157	1,659	6,527	**51,653**
2008	41,584	2,218	1,964	6,369	**50,171**
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**

[1] *Does not include Deceased Members.*

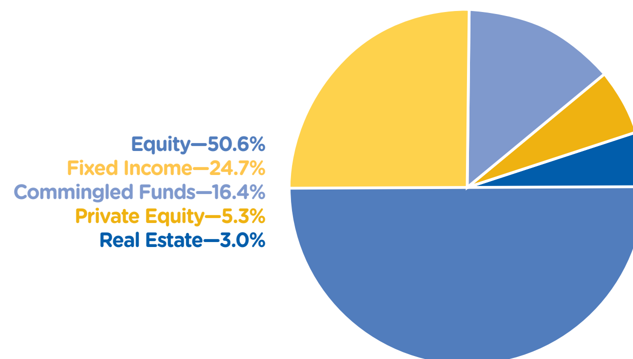
Investments

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 based on the employer's promise rather than the contributions or plan assets available to pay the benefits.

The Chief Investment Officer has primary responsibility for investing the Plan's assets consistent with policies established by The Regents. The Regents has 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

UCRP is a balanced investment fund of $32.7 billion in total investments. $16.6 billion of the investment portfolio is invested in domestic and foreign equities. The $1.7 billion private equity segment includes $706 million in venture capital, $1.0 billion in buyout funds, and $9 million international private equity and $3 million in common stock distributions. Another $8.0 billion is invested in fixed income securities, of which $2.6 billion is in high-quality government, and $5.4 billion is invested in corporate, foreign and mortgage-backed bonds and commercial paper, and $37.1 million in foreign currency denominated government and corporate issues. The fund also includes allocations of $5.4 billion commingled funds comprised of $1.9 billion in absolute return funds, $623.6 million in domestic equity funds, $1.7 billion in non-U.S. equity funds, $56.5 million in private and public real estate investment trusts, and $1.3 billion in money market funds. In addition, the fund holds $980.4 million in institutional private real estate 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, 2009	1-Year	5-Year	10-Year
UCRP Total Fund *Policy Benchmark*[1]	(18.81) *(18.86)*	1.43 *1.39*	2.30 *1.77*
U.S. Equity Portfolio *Policy Benchmark*[2]	(26.82) *(26.82)*	(2.36) *(2.03)*	(1.96) *(1.80)*
Non-U.S. Equity-Developed *Policy Benchmark*[3]	(30.87) *(31.69)*	3.05 *2.78*	n/a *n/a*
Non-U.S. Equity-Emerging Markets *Policy Benchmark*[4]	(29.45) *(28.07)*	13.82 *14.72*	8.89 *8.81*
Global Equity *Policy Benchmark*[5]	(26.86) *(27.08)*	n/a *n/a*	n/a *n/a*
Core Fixed Income Portfolio *Policy Benchmark*[6]	7.14 7.34	5.49 5.90	6.64 6.82
High Yield Bond Portfolio *Policy Benchmark*[7]	(4.35) *(3.63)*	n/a *n/a*	n/a *n/a*
Emerging Market Debt Portfolio *Policy Benchmark*[8]	3.15 *3.95*	n/a *n/a*	n/a *n/a*
TIPS Portfolio *Policy Benchmark*[9]	(0.24) *(1.11)*	5.26 *4.94*	n/a *n/a*
Private Equity Portfolio[10]	(20.75)	11.54	12.78
Absolute Return[11]	(13.00)	n/a	n/a
Public Real Estate[12]	(19.41)	n/a	n/a
Private Real Estate[12]	(40.36)	n/a	n/a
Policy Benchmark[12]	*(37.52)*	*n/a*	*n/a*

Current Policy Benchmarks:

Asset Class	Benchmark	Component Percentage of Total Fund
(1) Total Fund	Combination of benchmarks stated below.	100.0% (see components below)
(2) U.S. Equity	Russell 3000 Tobacco Free (TF) Index	32.0% -actual wt (PE)-actual wt (RE)-actual wt (AR)
(3) Non-U.S. Equity-Developed	MSCI World ex-US (Net Dividends) TF	22.0%
(4) Emerging Market Equity	MSCI Emerging Market (Net Dividends)	4.0%
(5) Global Equity	MSCI All Country World Index Net - IMI - TF	2.0%
(6) US Core Fixed Income	Citigroup Large Pension Fund (LPF)	12.0%
(7) High Yield Debt	Merrill Lynch High Yield Cash Pay Index	2.5%
(8) Emerging Market Debt	J.P. Morgan Emerging Market Bond Index Global Diversified (as of February 1, 2009)	2.5%
(9) TIPS	Barclays Capital TIPS	8.0%
(10) Private Equity	Actual Private Equity Returns	6.0%
(11) Absolute Return	50% HFRX Absolute Return Index + 50% HFRX Market Directional Index	23.5%
(12) Real Estate (Public and Private)	Public: 50% times the FTSE EPRA NAREIT US Index plus 50% times the FTSE EPRA NAREIT Global ex-US Index and Private: Open End = NCREIF Funds Index-Open End Diversifi ed Core Equity (lagged 3 months); Closed end=Actual Closed End Return	5.0%

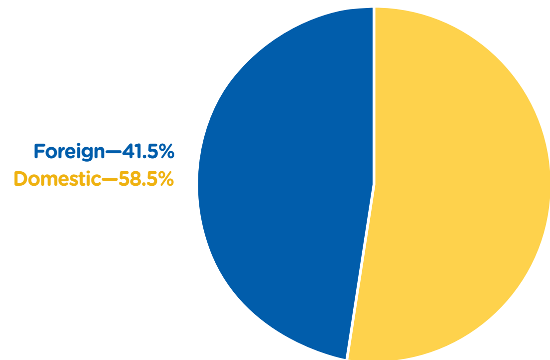
Equity Portfolio

Quality and Diversification

The Equity Portfolio is diversified among multiple strategic economic sectors within passive and actively managed accounts. The Equity Portfolio represents 50.6 percent (or $16.6 billion) of the total Fund and is diversified among domestic and non-U.S. equity securities.

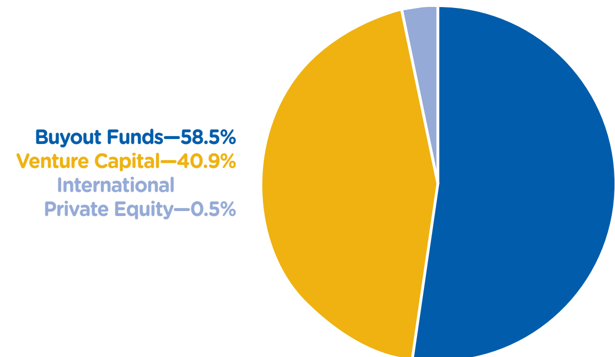
The asset mix within the Equity Portfolio as of June 30, 2009, is 58.5 percent domestic equity and 41.5 percent non-U.S. equity.

The non-U.S. equity developed sector ($7.1 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.



Private Equity Segment

The private equity segment ($1.7 billion) is invested in venture capital partnerships, buyout funds and international private equity. The private equity segment includes $706 million in venture capital, $1.0 billion in buyout funds, and $9 million international private equity and $3 million in common stock distributions.

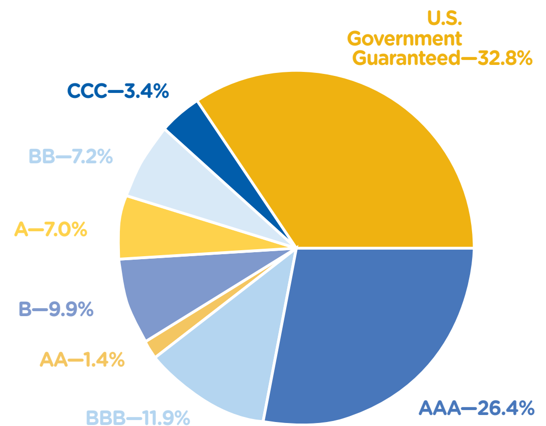


Fixed Income Portfolio

The fixed income portfolio accounts for 24.7 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, 2009, was 5.8, and the weighted average quality rating was AA.

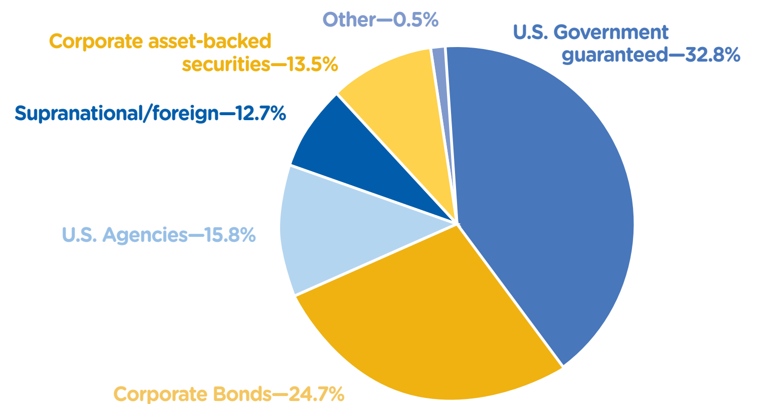
Quality*

Approximately 32.8 percent of the core fixed income portfolio consists of U.S. government-guaranteed securities, and 46.4 percent of the portfolio consists of high quality corporate issues rated investment grade or better, 20.3 percent in mortgage-backed securities with the remaining 0.5 percent in foreign currency denominated securities. The quality of the holdings is illustrated at right.



Diversification

The fixed income portfolio investments are 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 (UCRP or the Plan) financial statements better understand the Plan's financial position and operating activities for the fiscal year ended June 30, 2009, with selected comparative information for the years ended June 30, 2008 and June 30, 2007. This discussion should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2007, 2008, 2009, etc.) in this discussion refer to the fiscal years ended June 30.

Financial Highlights

- The net assets held in trust for pension benefits at June 30, 2009, are $32.3 billion compared to $42.0 billion at June 30, 2008 and $48.1 billion at June 30, 2007. 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 decreased by $9.8 billion or 23.2 percent in 2009 compared to a decrease of $6.1 billion or 12.6 percent in 2008 and an increase of $4.7 billion or 10.9 percent in 2007.
- The Plan's total investment rate of return was (18.8) percent in 2009 compared to (5.7) percent in 2008 and 18.8 percent in 2007.
- During 2008, $1.6 billion in Plan net assets were transferred to the LLNS defined benefit pension plan. During 2007, $1.4 billion in Plan net assets were transferred to the LANS defined benefit pension plan.
- As of July 1, 2008, the date of the most recent actuarial valuation, the Plan's funded ratio was 103.0 percent, compared to 104.8 percent at July 1, 2007 and 104.1 percent at July 1, 2006. For July 1, 2008, this indicates that, for every dollar of actuarial accrued liability, assets of $1.03 are available to cover such obligations as compared to $1.05 at July 1, 2007 and $1.04 at July 1, 2006.

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, 2009 and 2008. 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 LLNS, and administrative expenses 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 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 University contributions and by investment income. The Plan's net assets held in trust for benefits as of June 30, 2009 amounted to $32.3 billion compared to $42.0 billion at June 30, 2008, for a decrease of $9.7 billion or 23.2 percent. The Plan's net assets held in trust for benefits as of June 30, 2008 amounted to $42.0 billion compared to $48.1 billion at June 30, 2007 for an decrease of $6.1 billion or 12.6 percent.

FIDUCIARY NET ASSETS

	($ in thousands)		
June 30	2009	2008	2007
Assets			
Investments (including Short-Term Investment Pool)	$32,709,694	$42,092,691	$48,835,961
Investment of securities lending collateral	6,596,311	7,985,216	12,641,611
Receivables	818,983	742,520	214,694
Total Assets	**40,124,988**	**50,820,427**	**61,692,266**
Liabilities			
Payable for securities purchased, member withdrawals, refunds and other payables	1,246,622	768,495	944,662
Collateral held for securities lending	6,619,824	8,028,770	12,642,256
Total Liabilities	**7,866,446**	**8,797,265**	**13,586,918**
Net Assets Held in Trust for Pension Benefits	**$32,258,542**	**$42,023,162**	**$48,105,348**

CHANGES IN FIDUCIARY NET ASSETS

	($ in thousands)		
Year Ended June 30	2009	2008	2007
(Reductions) Additions			
University contributions	$ 454	$ 2,657	$ 23,934
Member contributions	1,300	1,391	1,406
Investment (loss) income	(7,910,150)	(2,599,489)	7,909,821
Other	5,246	5,700	6,119
Total (Reductions) Additions	**(7,903,150)**	**(2,589,741)**	**7,941,280**
Deductions			
Retirement, cost-of-living adjustments, lump sum cashouts, survivor, disability, and death payments	1,750,223	1,791,989	1,624,953
Member withdrawals	78,794	96,690	89,829
Administrative and other expenses	32,453	36,557	38,914
Transfer of plan net assets	–	1,567,209	1,444,460
Total Deductions	**1,861,470**	**3,492,445**	**3,198,156**
(Decrease) Increase in Net Assets Held in Trust for Pension Benefits	**(9,764,620)**	**(6,082,186)**	**4,743,124**
Net Assets Held in Trust for Pension Benefits			
Beginning of Year	42,023,162	48,105,348	43,362,224
End of Year	**$32,258,542**	**$42,023,162**	**$48,105,348**

The Plan's total fund investment rate of return was (18.8) percent in 2009, (5.7) percent in 2008 and 18.8 percent in 2007, compared to the Plan's total fund policy benchmark returns of (18.9) percent, (4.7) percent, and 18.0 percent, respectively.

Additions to or reductions from the Plan's net assets held in trust for benefits include contributions and investment income or loss. In 2009 net reductions were $7.9 billion compared to reductions of $2.6 billion in 2008 and additions of $7.9 billion in 2007. Net reductions in 2009 reflect significantly lower net investment income earned by the Plan as a result of the net depreciation in the fair value of investments.

Member and University contributions during 2009 amounted to $1.7 million, compared to $4.0 million in 2008 and $25.3 million in 2007, primarily for service credit buybacks. Contributions in 2007 also included $17.4 million on behalf of LANL members under an agreement between the University and the Department of Energy (DOE). The DOE reimburses the University for contributions made under the agreement.

The Plan recognized a net investment loss of $7.9 billion during 2009, compared to a net investment loss of $2.6 billion in 2008 and net investment income of $7.9 billion in 2007. The investment losses in 2009 and 2008 were due primarily to adverse conditions in the global financial markets over the last two years resulting in negative returns across all equity portfolios of the investment pool. The gains in 2007 were due primarily to positive returns in the equity portfolio.

During 2009, $1.7 billion in retirement benefit payments were made from the Plan to retired members and survivors, and disabled members, compared to $1.8 billion made in 2008 and $1.6 billion made in 2007. Member withdrawals from the Plan totaled $78.8 million in 2009 compared to $96.7 million in 2008 and $89.8 million in 2007. Administrative expenses of $32.4 million were paid from the Plan in 2009 compared to $36.6 million in 2008 and $38.9 million in 2007.

Investments

At June 30, 2009, the Plan held $18.3 billion in domestic equity, non-U.S. and private equity securities, compared to $25.2 billion at June 30, 2008 and $31.5 billion at June 30, 2007.

The domestic equity portfolio return was (26.8) percent in 2009, (14.3) percent in 2008 and 19.7 percent in 2007, compared to the Plan's domestic equity policy benchmark returns of (26.8) percent, (12.8) percent, and 19.9 percent, respectively. The non-U.S. equity (developed countries) portfolio return was (30.9) percent in 2009, (9.3) percent in 2008, and 27.7 percent in 2007, compared to the Plan's non-U.S. equity policy benchmark returns of (31.7) percent, (8.9) percent, and 26.9 percent, respectively. The non-U.S. equity (emerging market countries) portfolio return was (29.5) percent in 2009, 1.5 percent in 2008 and 48.2 percent in 2007, compared to the benchmark returns of (28.1) percent, 4.6 percent, and 45.0 percent, respectively.

The private equity portfolio return was (20.8) percent in 2009, 7.2 percent in 2008, and 19.9 percent in 2007, respectively.

At June 30, 2009, the Plan held $5.8 billion in U.S. government (excluding the TIPS portfolio), other U.S. dollar-denominated and non-U.S. fixed income securities compared to $9.8 billion at June 30, 2008 and $10.2 billion at June 30, 2007.

The core fixed income portfolio (excluding TIPS) earned a total return of 7.1 percent in 2009, 5.3 percent in 2008 and 6.9 percent in 2007, compared to the Plan's fixed income policy benchmark returns of 7.3 percent, 8.2 percent, and 6.5 percent, respectively.

At June 30, 2009, the Plan held $2.3 billion in TIPS, compared to $2.5 billion at June 30, 2008 and $2.9 billion at June 30, 2007. The TIPS portfolio earned a total return of (0.2) percent in 2009, 15.7 percent in 2008 and 4.0 percent in 2007, compared to the Plan's TIPS policy benchmark returns of (1.1) percent, 15.1 percent, and 4.0 percent, respectively.

At June 30, 2009, the Plan also held $980 million in institutional private real estate investments compared to $1.1 billion in 2008 and $633.1 million in 2007. The private real estate portfolio earned a total return of (40.4) percent in 2009 compared to 5.6 percent in 2008 and 11.6 percent in 2007, compared to policy benchmark returns of (37.5) percent, 8.0 percent, and 16.6 percent, respectively.

Transfer of Plan Net Assets

During 2008, the Plan transferred $1.6 billion in Plan net assets representing assets and liabilities attributable to the Plan's benefits of the approximately 3,900 LLNL employees who accepted employment with LLNS as the successor contractor to the University for the management of the LLNL.

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 $43.8 billion at July 1, 2008 compared to $43.4 billion at July 1, 2007 and $42.0 billion at July 1, 2006. The actuarial accrued liability was $42.6 billion at July 1, 2008 compared to $41.4 billion at July 1, 2007 and $40.3 billion at July 1, 2006. The Plan's actuarial surplus was $1.3 billion at July 1, 2008 compared to $2.0 billion at July 1, 2007 and $1.7 billion at July 1, 2006. The funded percentage at July 1, 2008, was 103.0 percent compared to 104.8 percent at July 1, 2007 and 104.1 percent at July 1, 2006. An analysis of the funding progress and University contributions and a discussion of actuarial assumptions and methods is set forth in the required supplementary information section of the financial statements.

While all assets of the Plan are available to pay any member's benefits, assets and liabilities for the campus and medical center segment of the Plan are internally tracked separately from the DOE national laboratory segment of the Plan. As of July 1, 2008, the funded ratio for the campus and medical center segment was 103.4 percent compared to 105.2 percent as of July 1, 2007. For the DOE national laboratory segment, as of July 1, 2008 the funded ratio was 101.3 percent compared to 103.5 percent as of July 1, 2007. The DOE has a continuing obligation to the University to provide contributions to pay Plan benefits to laboratory segment retirees.

The Regents utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. However, the financial markets, both domestically and internationally, have deteriorated over the past year. The fair value of investments held by the Plan declined subsequent to July 1, 2008. The actuarial value of plan assets also declined. As a result, the funded ratio as of the July 1, 2009 actuarial valuation for the campuses and medical centers and the DOE laboratories is expected to be approximately 94.8 percent.

Looking Forward

The Plan costs are funded by a combination of investment earnings, employee member and employer contributions. Since November 1990, there generally have not been any University contributions to the Plan. In addition, since 1990, the required employee member contributions to the Plan have been suspended. However, contributions are required to be made to the separate Defined Contribution Plan maintained by the University. Effective with the July 1, 2008 actuarial valuation, a new funding policy, including a three-year amortization period for any initial surplus, was adopted for the Plan. The new funding policy determines recommended total contributions based on the Plan's Normal Cost adjusted for any surplus or underfunding, starting in 2010. The University plans to implement a multi-year contribution strategy under which shared employer and employee contribution rates will increase gradually over time. Currently, The Regents have authorized the initial resumption of shared employer and employee contributions to the Plan beginning in April 2010.

Cautionary Note Regarding Forward-Looking Statements

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

Fiduciary Responsibilites

The Vice President, Human Resources, has primary responsibility for Plan administrative functions and the Chief Investment Officer has primary fiduciary responsibility for implementing Plan investment policy. The Regents determines investment policy and retains broad oversight fiduciary responsibility for investment and administrative functions. Under law, the assets can only be used for the exclusive benefit of plan members, retirees and their beneficiaries and for administrative expenses.

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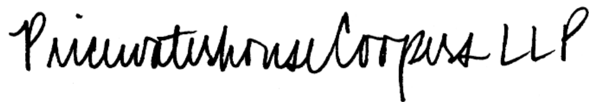
Report of Independent Auditors

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 17 through 34) present fairly, in all material respects, the financial position of the University of California Retirement Plan (the "Plan") at June 30, 2009 and 2008, 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 Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2009 and 2008, 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.



October 14, 2009
San Francisco, California

STATEMENTS OF FIDUCIARY NET ASSETS

	($ in thousands)	
June 30	**2009**	**2008**
Assets		
Investments, at fair value:		
Equity securities:		
Domestic	$ 9,683,943	$ 16,419,941
Foreign	6,882,882	7,006,021
Private equities	1,724,786	1,749,766
Fixed income securities:		
U.S. government	2,645,586	3,570,784
Other U.S. dollar-denominated	5,381,882	7,520,899
Foreign	37,077	1,178,339
Commingled funds	5,378,817	3,536,387
Real estate	980,369	1,110,554
Other investments	(5,648)	–
Total Investments	**32,709,694**	**42,092,691**
Investment of Cash Collateral	**6,596,311**	**7,985,216**
Receivables:		
Contributions	59,449	67,394
Interest and dividends	78,275	109,345
Securities sales and other	681,259	565,781
Total Receivables	**818,983**	**742,520**
Total Assets	**40,124,988**	**50,820,427**
Liabilities		
Payable for securities purchased	1,057,760	595,899
Member withdrawals, refunds and other payables	188,862	172,596
Collateral held for securities lending	6,619,824	8,028,770
Total Liabilities	**7,866,446**	**8,797,265**
Net Assets Held in Trust for Pension Benefits*	**$32,258,542**	**$42,023,162**

* *See Required Supplementary Schedule of Funding Progress.*

See accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

	($ in thousands)	
Years Ended June 30	2009	2008
(Reductions) Additions		
Contributions:		
University	$ 454	$ 2,657
Members	1,300	1,391
Total Contributions	1,754	4,048
Investment Income (Loss):		
Net depreciation in fair value of investments	(9,022,624)	(3,996,828)
Interest, dividends, and other investment income	1,036,626	1,325,418
Securities lending income	149,064	512,746
Less securities lending fees and rebates	(73,216)	(440,825)
Total Investment Loss	(7,910,150)	(2,599,489)
Interest Income from Contributions Receivable	5,246	5,700
Total Reductions	(7,903,150)	(2,589,741)
Deductions		
Benefit Payments:		
Retirement payments	1,282,584	1,190,300
Member withdrawals	78,794	96,690
Cost-of-living adjustments	235,134	213,478
Lump sum cashouts	156,572	312,489
Preretirement survivor payments	33,487	32,315
Disability payments	35,984	36,098
Death payments	6,462	7,309
Total Benefit Payments	1,829,017	1,888,679
Expenses:		
Plan administration	31,020	35,357
Other	1,433	1,200
Total Expenses	32,453	36,557
Transfer of Assets to LLNS* Defined Benefit Pension Plan	–	1,567,209
Total Deductions	1,861,470	3,492,445
Decrease in Net Assets Held in Trust for Pension Benefits	(9,764,620)	(6,082,186)
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	42,023,162	48,105,348
End of Year	$32,258,542	$42,023,162

* *See Required Supplementary Schedule of Funding Progress.*

See accompanying Notes to Financial Statements.

Note 1—Description of the Plan and Significant Accounting Policies

General Introduction

The University of California Retirement Plan (UCRP or 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's Lawrence Berkeley National Laboratory, and certain academic employees are eligible for UCRP membership after working 1,000 hours in a 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 covered compensation times age factor times years of service credit. The maximum monthly benefit cannot exceed 100 percent of the employee's highest average plan compensation over a 36-month period, as adjusted for the annual Internal Revenue Code (IRC) §401(a)(17) limit on covered com-pensation. The annual benefit is subject to limitations established by IRC §415. 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 may be granted 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, 2009, active Plan membership consisted of 113,122 members with Social Security, 2,180 members without Social Security, 417 safety members and 26 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 thirty 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 covered compensation times age factor times 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 8.50 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 7.50 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, 2009, Plan membership included 51,653 retirees, beneficiaries, and disabled members currently receiving benefits, 31,215 terminated vested employees entitled to benefits but not yet receiving them, and 23,668 terminated non-vested employees entitled to a refund of their Plan accumulations and/or CAP balances, including the balances for Los Alamos National Laboratory (LANL) and Lawrence Livermore National Laboratory (LLNL) members who transferred their benefits and service credit to the defined benefit pension plans established by Los Alamos National Security (LANS) or LLNS, as applicable, and are eligible for a CAP distribution. Of current active employees, 65,805 are fully vested and 49,940 are non-vested active employees covered by the Plan.

University contributions can be made to the Plan on behalf of all members. The rate of University contributions is established annually pursuant to The Regents' funding policy (see Note 4 on page 33). For LLNL and LANL retirees and inactive members who remain members in the Plan, the DOE has an ongoing financial responsibility to reimburse the University for contributions to the Plan, if needed, to satisfy the liabilities attributable to the benefits of members who previously worked at LLNL and 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 statementsof the Governmental Accounting Standards Board (GASB), and the accrual basis of accounting.

Valuation of Investments

Investments are recorded at fair value. Securities, including derivative investments, are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source.

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

Investments include private equities, absolute return funds and real estate. Private equities include venture capital partnerships, buyout and international funds. Interests in private equity and real estate partnerships are based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts, cash disbursements and securities distributions through June 30. Investments in absolute return partnerships are valued as of May 31, adjusted for cash receipts and cash disbursements through June 30. Interests in certain direct investments in real estate are estimated based upon independent appraisals. The Plan believes the carrying amount of these financial instruments and real estate is a reasonable estimate of fair value at June 30. Because the private equity, real estate and absolute return partnerships, along with direct investments in real estate, are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed. Investments in registered investment companies are valued based upon the reported net asset value of those companies.

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 $31.0 million or 0.10 percent and $35.4 million or 0.08 percent, respectively, of the net assets held in trust for pension benefits for fiscal years 2009 and 2008.

Income Tax Status

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

In a letter to the University dated November 8, 2007, the Internal Revenue Service (IRS) confirmed its determination that the form of the Plan as amended through December 11, 2002 (other than amendments authorized by the Economic Growth and Tax Relief Reconciliation Act of 2001) 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. To the best of tax counsel's knowledge, the Plan has been administered in accordance with its terms and the applicable provisions of the IRC and related regulations thereunder, in all material respects.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimates.

The financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2009 and 2008.

New Accounting Pronouncements

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the Plan's fiscal year beginning July 1, 2009. This Statement requires the Plan to report its derivative instruments at fair value. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferrals in the statement of net assets. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are to be classified as investment derivative instruments. Changes in fair value of those derivative instruments are to be reported as net appreciation or depreciation in the fair value of investments. The University is evaluating the effect that Statement 53 will have on the Plan's financial statements.

Note 2—Investments

The Regents, as the governing board and as trustees, 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 fiduciary responsibility for investing the Plan's assets consistent with the policies established by The Regents. The Regents establishes investment policies for the Plan and has fiduciary responsibility for overseeing the implementation of those policies.

Participation in the Short Term Investment Pool (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. STIP is managed to maximize current earned income. The available cash in the Plan awaiting investment or for administrative expenses is also invested in STIP. Investments authorized by The Regents for STIP include fixed income securities with a maximum maturity of five and one-half years.

Investments authorized by The Regents for the Plan's investment pools 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 Plan'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 and absolute return strategies are authorized for the Plan. Absolute return strategies may incorporate short sales, plus derivative positions to implement or hedge an investment position.

The composition of investments, by investment type, at June 30, 2009 and 2008 is as follows:

COMPOSITION OF INVESTMENTS

	($ in thousands)	
June 30	2009	2008
Equity securities:		
Domestic	$ 9,683,943	$ 16,419,941
Foreign	6,882,882	7,006,021
Equity Securities	**16,566,825**	**23,425,962**
Fixed income securities:		
U.S. government-guaranteed:		
U.S. Treasury bills, notes and bonds	322,091	–
U.S. Treasury strips	29,645	1,098,477
U.S. TIPS	2,282,549	2,459,943
U.S. government-backed securities	11,301	12,364
U.S. Government-Guaranteed	**2,645,586**	**3,570,784**
Other U.S. dollar-denominated:		
Corporate bonds	1,988,837	2,766,803
Commercial paper	–	89,588
U.S. agencies	732,453	891,133
U.S. agencies asset-backed securities	552,657	959,279
Corporate asset-backed securities	1,086,896	1,369,484
Supranational/foreign	1,021,039	1,444,612
Other U.S. Dollar-Denominated	**5,381,882**	**7,520,899**
Foreign currency-denominated:		
Government/sovereign	–	1,125,748
Corporate	37,077	52,591
Foreign Currency-Denominated	**37,077**	**1,178,339**
Commingled funds:		
Absolute Return	1,895,618	648,683
U.S. equity funds	595,876	285,012,
Non-U.S. equity funds	1,681,224	2,259,199
Money market funds*	1,206,099	343,493
Commingled Funds*	**5,378,817**	**3,536,387**
Private equity	**1,724,786**	**1,749,766**
Real Estate	**980,369**	**1,110,554**
Other investments	**(5,648)**	**–**
Total Investments	**$32,709,694**	**$42,092,691**

* *Includes investment of $229,916 and $306,828 in the Short Term Investment Pool as of June 30, 2009 and 2008, respectively.*

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates. Alternative investment strategies and their underlying assets and rights are also subject to an array of economic and market vagaries that can limit or erode value.

Credit Risk

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

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 STIP must be A or better, and commercial paper must be rated at least A-1, P-1, or F-1.

Credit risk is appropriate in balanced investment pools such as the Plan by virtue of the benchmark chosen for the fixed income portion of the pool.

The fixed income benchmarks for the Plan, the Citigroup Large Pension Fund Index and the Barclays Capital U.S. Aggregate Bond Index, respectively, are comprised of approximately 30 percent high grade corporate bonds and 30-35 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 35-40 percent is government-issued bonds.

Credit risk in the Plan is managed primarily by diversifying across issuers. In addition, portfolio guidelines for the Plan mandate that no more than 10 percent of the market value of fixed income securities may be invested in issues with a credit rating below investment grade. Further, the weighted average credit rating must be A or higher.

In addition, the investment policy for the Plan allows for dedicated allocations to non-investment grade and emerging market bonds, investment in which entails credit, default and/or sovereign risk. The credit risk profile for fixed income securities at June 30, 2009 and 2008 is as follows:

	($ in thousands)	
	2009	**2008**
Fixed or variable income securities:		
U.S. government-guaranteed	$2,645,586	$3,570,784
Other U.S. denominated:		
AAA	2,128,853	3,259,864
AA	112,770	170,433
A	560,937	824,743
BBB	963,787	1,506,687
BB	579,811	636,480
B	757,975	958,315
CCC	276,597	2,979
A1/P1/F1	–	89,588
Not rated	1,152	71,810
Foreign currency denominated:		
AA	–	1,125,748
A	–	5,946
B	37,077	46,645
Commingled funds: Money market funds: Not rated	1,206,099	343,493

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 Plan 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 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.

There are no investments in issuers other than U.S. government guaranteed securities that represent five percent or more of the total investments at June 30, 2009 or 2008.

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 five and one-half years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to 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 Barclays Capital U.S. Aggregate Bond Index), plus or minus 20 percent. These portfolio guidelines constrain the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark. There are similar restrictions for the high-yield and emerging market debt portfolios relative to their benchmarks.

The effective duration for fixed and variable income securities at June 30, 2009 and 2008 are as follows:

	(in years)	
	2009	2008
Fixed or variable income securities:		
U.S. government-guaranteed:		
U.S. Treasury bills, notes and bonds	4.9	–
U.S. Treasury strips	21.0	11.7
U.S. TIPS	5.1	5.3
U.S. government-backed securities	6.0	6.3
Other U.S dollar-denominated:		
Corporate bonds	5.8	7.8
U.S. agencies	6.0	4.4
U.S. agencies asset-backed securities	4.8	4.6
Corporate asset-backed securities	6.5	4.1
Supranational/foreign	6.9	7.2
Foreign currency dominated:		
Government/sovereign	–	6.6
Corporate	4.1	6.1
Commingled funds:		
STIP, other money market funds	1.7	1.2

The money market funds consist of underlying securities that are of a short-term, liquid nature.

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, 2009 and 2008, the fair values of such investments are as follows:

	($ in thousands)	
	2009	2008
Mortgage-backed securities	$ 1,370,886	$1,771,346
Collateralized mortgage obligations	204,189	41,633
Variable rate securities	24,973	66,412
Callable bonds	768,436	1,066,471
Other asset-backed securities	65,571	24,183
Total	**$2,434,055**	**$2,970,046**

Mortgage-Backed Securities

These securities are issued by Fannie Mae, Ginnie Mae and Freddie Mac and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized Mortgage Obligations

Collateralized mortgage obligations (CMOs) generate a return based upon 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. In a rising interest rate environment, the opposite is true.

Other Asset-Backed Securities

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

Variable Rate Securities

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

Callable Bonds

Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The 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, 2009 and 2008, the effective durations are as follows:

	(in years)	
	2009	2008
Mortgage-backed securities	6.8	5.0
Collateralized mortgage obligations	2.4	5.2
Variable rate securities	1.8	5.2
Callable bonds	4.3	4.4
Other asset-backed securities	0.7	4.0

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, 2009 and 2008, the U.S. dollar-denominated balances organized by currency denominations and investment type are as follows:

	($ in thousands)	
	2009	2008
Equity securities:		
Euro	$ 2,117,856	$ 2,392,175
Japanese Yen	1,455,372	1,318,872
British Pound	1,278,938	1,333,996
Canadian Dollar	541,042	540,797
Swiss Franc	500,841	488,007
Australian Dollar	414,675	388,049
Hong Kong Dollar	201,144	154,806
Swedish Krona	132,812	127,444
Singapore Dollar	100,852	88,456
Danish Krone	53,956	60,799
Norwegian Krone	45,438	61,939
South Korean Won	9,751	13,532
South African Rand	6,103	8,639
New Zealand Dollar	5,679	4,762
Thailand Baht	3,632	10,617
Other	14,791	13,131
Subtotal	6,882,882	7,006,021
Fixed income securities:		
Euro	36,675	609,937
Japanese Yen	–	400,358
British Pound	402	81,620
Canadian Dollar	–	31,316
Polish Zlotyl	–	11,977
Danish Krone	–	9,094
Swedish Krona	–	8,225
Swiss Franc	–	8,161
Malaysian Ringgit	–	5,086
Australian Dollar	–	4,811
Singapore Dollar	–	4,338
Norwegian Krone	–	3,416
Subtotal	37,077	1,178,339
Non-U.S. equity funds*	1,681,224	2,259,199
Private equity*	16,386	20,114
Real estate*	59,801	–
Total exposure to foreign currency risk	$8,677,370	$10,463,673

** In various currency denominations*

Alternative Investment Strategies

Alternative investments are defined as marketable alternatives (hedge funds), limited partnerships, private equity and venture capital funds. Alternative investments include ownership interests in a wide variety of vehicles including partnerships and corporations that may be domiciled in the United States or off-shore. Generally, there is little or no regulation of these investment vehicles by the Securities and Exchange Commission or the applicable state agencies. Managers of these investments employ a wide variety of strategies and have areas of concentration including absolute return, venture capital or early stage investing, private equity or later stage investing and the underlying investments may be leveraged to enhance the total investment return. Each asset class has guidelines and policies regarding the use of leverage. Such underlying investments may include financial assets such as marketable securities, non-marketable securities, derivatives and other synthetic and structured investments as well as tangible and intangible assets. Generally, these alternative investments do not have a ready market and ownership interests in these investment vehicles may not be traded without the approval of the general partner or fund management. These investments are subject to the risks generally associated with equities and fixed income instruments with additional risks due to leverage and the lack of a ready market for acquisition or disposition of ownership interests.

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. Futures contracts are marked to market daily; that is, they are valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker the next day for the amount of the previous day's mark to market. The amount that is settled in cash with the broker the next day is the carrying and fair value of the futures contracts that was included in the statement ofthe 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, 2009 or 2008.

A swap is a contractual agreement entered into between the Plan and a counterparty under which each agrees to exchange periodic fixed or variable payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The payments correspond to an equity index, interest rate or currency. The Plan records interest rate swaps entered into for investment purposes at fair value, with unrealized gains and losses included in the statement of changes in fiduciary net assets. The Plan did not hold any interest rate swap contracts at June 30, 2009 or 2008.

The Plan could be exposed to risk if the counterparty to the contracts was unable to meet the terms of the contracts. Counterparty credit risk is limited to a receivable due to the variation margin in futures contracts, or to the ability of the counterparty to meet the terms of an option contract that the Plan may exercise. Either risk is remote for exchange-traded contracts. Additional risk may arise from futures contracts traded in non-U.S. markets as the foreign futures contracts are cleared on, and subject to, the rules of foreign boards of trade. In addition, funds provided for foreign futures contracts may not be afforded the same protection as funds received in respect of U.S. transactions. The Plan's trustee seeks to control counterparty credit risk in all derivative contracts that are not exchange-traded through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures undertaken by the 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, 2009 and 2008, the securities in these pools had a weighted average maturity of 37 and 27 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, 2009, the Plan had little exposure to borrowers because the amounts the Plan owed the borrowers were substantially the same as 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, 2009 and 2008 are as follows:

	($ in thousands)	
	2009	**2008**
Securities Lent		
For cash collateral:		
Equity securities:		
Domestic	$2,347,658	$2,240,955
Foreign	1,512,959	1,101,826
Fixed income securities:		
U.S. government	1,936,657	3,026,440
Other U.S. dollar-denominated	572,601	1,419,003
Foreign currency-denominated	–	7,729
Lent for Cash Collateral	**6,369,876**	**7,795,953**
For securities collateral:		
Equity securities:		
Domestic	86,107	68,565
Foreign	116,282	217,551
Fixed income securities:		
U.S. government	32,780	521,747
Other U.S. dollar-denominated	47,360	11,210
Foreign currency-denominated	14,283	6,180
Lent for Securities Collateral	**296,811**	**825,251**
Total Securities Lent	**$ 6,666,687**	**$8,621,204**
Collateral Received		
Cash	$ 6,619,824	$8,028,770
Securities	304,643	857,047
Total Collateral Received	**$ 6,924,467**	**$8,885,817**
Investment of Cash Received		
Fixed or variable income securities:		
Other U.S. dollar-denominated:		
Corporate bonds	$ 701,366	$1,791,423
Commercial paper	297,373	22,629
Repurchase agreements	774,223	1,611,655
Corporate asset-backed securities	1,518,233	2,243,574
Certificates of deposit/time deposits	3,267,472	1,819,044
Supranational/foreign	182,000	427,039
Commingled funds: Money market funds: Not rated	269,757	67,818
Other assets (liabilities), net [1]	(414,114)	2,034
Total Investment of Cash Collateral	**$6,596,311**	**$7,985,216**

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

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, 2009 and 2008 are as follows:

	($ in thousands)	
	2009	2008
Securities lending income	$149,064	$512,746
Securities lending fees and rebates	(73,216)	(440,825)
Securities lending income, net	**$ 75,848**	**$ 71,921**

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 and commingled funds associated with the investment of cash collateral at June 30, 2009 and 2008 is as follows:

	($ in thousands)	
	2009	2008
Fixed or variable income securities		
Other U.S. dollar-denominated:		
AAA	$1,438,907	$2,585,232
AA	512,579	1,434,100
A	454,357	545,981
BBB	19,509	54,973
BB	28,143	–
A1/P1/F1	4,287,173	3,166,952
Not rated		128,126
Commingled funds:		
Money market funds: Not rated	269,757	67,818
Other assets (liabilities), net: Not rated(1)	(414,114)	2,034

(1) Other assets (liabilities), net is comprised of pending settlements of cash collateral investments.

Custodial Credit Risk

Cash collateral received for securities lent is invested in pools by the 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. As of June 30, 2009 and 2008, the concentration of credit risk is as follows:

	($ in thousands)	
	2009	**2008**
J.P. Morgan Chase	$ 479,242	$609,333
Bank of America	368,837	–
BNP Paribas	389,549	–
Lehman Brothers	–	413,522

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.

The weighted average maturity expressed in days outstanding for fixed or variable income securities associated with the investment of cash collateral at June 30, 2009 and 2008 is as follows:

	2009	**2008**
Fixed or variable income securities		
Other U.S. dollar-denominated:		
Corporate bonds	43	48
Commercial paper	70	35
Repurchase agreements	1	1
Corporate asset-backed securities	23	39
Certificates of deposit/time deposits	50	38
Supranational/foreign	34	83
Commingled funds: Money market funds: Not rated	1	1

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, 2009 and 2008, the fair value of investments that are considered to be highly sensitive to changes in interest rates is as follows:

	($ in thousands)	
	2009	**2008**
Asset-backed securities	$1,518,233	$2,247,672
Variable-rate investments	883,366	2,107,523

At June 30, 2009 and 2008, the weighted average maturity expressed in days outstanding for asset-backed securities was 23 days and 58 days, respectively; 41 days and 22 days, respectively, for variable-rate investments.

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' contribution policy provides for actuarially determined contributions at rates reasonably expected to maintain the Plan on an actuarially sound basis. The Regents determine the portion of the total contribution to be made by the University and by the employees. Employee contributions are subject to collective bargaining. In addition, the DOE may be required to reimburse the University for contributions to cover the benefits liabilities of LLNL and LANL retirees. The contribution rate is determined using the entry age normal actuarial funding method. 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).

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.

As of July 1, 2008, the date of the latest actuarial valuation, and July 1, 2007, 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 38) is as follows:

	($ in millions)	
Valuation Date as of July 1	2008	2007
Net assets held in trust for pension benefits	$42,023.1	$48,105.3
Difference*	1,817.2	(4,671.3)
Net assets allocated to fund the actuarial accrued liability	**$43,840.3**	**$43,434.0**

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

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

MEMBER ASSESSMENT*					
	Members Without Social Security	Members With Social Security		Safety Members	
Effective:		Below Wage Base	Above Wage Base		Monthly Reduction
7/01/93	3.0%	2.0%	4.0%	3.0%	$19
11/01/90	4.5	2.0	4.0	8.0	19
6/30/90	6.0	2.0	4.0	8.0	19

** The entire member assessment was directed to the Defined Contribution Plan during fiscal years 2007-2008 and 2008-2009.*

At June 30, 2009 and 2008, member accumulations of active employees, including allocated investment income, in the Plan amounted to approximately $355.1 million and $376.7 million, respectively.

Each year The Regents approves total contributions and the split between Member Contributions and University Contributions based on the contribution policy and various other factors, including the availability of funds, the impact of employee contributions on the competitiveness of the University's total renumeration package, and collective bargaining. Contributions, if any, are credited as a percentage of covered University pay. The contributions under the contribution policy are intended to accumulate sufficient assets to fund the actuarial liability under the entry age normal cost method.

Note 5—Contributions Receivable

Contributions receivable includes $57.3 million and $63.3 million at June 30, 2009 and 2008, 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 8.00 percent, based on the discount rate used in the 1984 actuarial valuation. Similarly, in fiscal year 1990, the state agreed to pay the University for contributions due to the Plan of $57.2 million in 30 annual installments of approximately $5.3 million, including interest at 8.46 percent, based on the discount rate used in the 1990 actuarial valuation.

Note 6—Plan Termination

The Regents 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 of any members. 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.

Required Supplementary Information

Actuarial Information

Analysis of dollar amounts of the actuarial value of assets, actuarial accrued liability, and actuarial value of assets less than or 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

Valuation Date As of July 1 ($ in millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability	(3) Actuarial Surplus	(4) Total Funded Ration (1)÷(2)	(5) Annual Covered Payroll	(6) Actuarial Surplus as a Percentage of Annual Covered Payroll (3)÷(5)
2008	$43,840.3	$42,576.8	$1,263.5	103.0%	$7,468.9	16.9%
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

* *The July 1, 2007 information includes changes in actuarial assumptions that decreased the July 1, 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 July 1, 2007 annual covered payroll by $814 million.*

The Regents utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. However, the financial markets, both domestically and internationally, have deteriorated over the past year. The fair value of investments held by the Plan declined subsequent to July 1, 2008. The actuarial value of plan assets also declined. As a result, the funded ratio as of the July 1, 2009 actuarial valuation for the Plan is approximately 94.8 percent.

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 University and Employee Contributions

The Regents' contribution policy provides for actuarially determined contributions at rates reasonably expected to maintain the plan on an actuarially sound basis. The Regents determines the portion of the total contribution to be made by the University and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements. During the years ended June 30, 2009 and 2008, there were no required University or employee contributions other than for service credit buybacks.

LBNL is required to make employer and employee contributions in conformity with The Regents' contribution policy. In addition, under certain circumstances the University makes contributions to the UCRP on behalf of LANL and LLNL retirees based upon a contractual arrangement with the DOE designed to maintain the 100 percent funded status of the LANL and LLNL segments within the UCRP, and is reimbursed by the DOE.

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 July 1, 2008 and 2007 actuarial valuations is as follows:

ADDITIONAL TREND INFORMATION

Valuation Date As of July 1	2008	2007
Actuarial cost method	Entry Age Normal Cost	Entry Age Normal Cost
Amortization method	Level percent, Open	Level percent, Open
Remaining amortization period	1.00 years	1.59 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%	4.35-7.00%
Cost-of-living adjustments	2.00%	2.00%

* *Includes inflation assumption at 3.50% for fiscal year 2008.*

Other Supplementary Information

The total actuarial accrued liability of the Plan, calculated using the entry age normal cost method, was $42.6 billion and $41.4 billion at July 1, 2008 and 2007, 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)	
Valuation Date as of July 1	**2008**	**2007**
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$(22,215.0)	$(19,801.4)
Active employees:		
Accumulated employee contributions, including allocated investment earnings	(376.7)	(456.3)
Employer-financed vested	(18,661.0)	(19,887.2)
Employer-financed nonvested	(1,324.1)	(1,291.7)
Total actuarial accrued liability—entry age normal cost basis	**(42,576.8)**	**(41,436.6)**
Net assets allocated to fund the actuarial accrued liability, at smoothed market value	43,840.3	43,434.0
Actuarial value of assets in excess of actuarial accrued liability –entry age normal cost basis	$ 1,263.5	$ 1,997.4

REVENUES BY SOURCE AND EXPENSES BY TYPE FOR THE PAST TEN YEARS

REVENUES BY SOURCE

	($ in thousands)			
Year Ended June 30	Member Contributions	University Contributions	Total Investment (Loss) Income[a]	Total
2009	$ 1,300	$ 454	$(7,904,904)	**$(7,903,150)**
2008	1,391	2,657	(2,593,789)	**(2,589,741)**
2007	1,406	23,934	7,915,940	**7,941,280**
2006	1,746	13	2,977,660	**2,979,419**
2005	1,653	737	3,982,916	**3,985,306**
2004	2,503	5,150	4,998,664	**5,006,317**
2003	7,060	811	1,892,384	**1,900,255**
2002	2,954	118	(3,460,714)	**(3,457,642)**
2001	4,405	517	(2,301,959)	**(2,297,037)**
2000	3,248	438	4,798,389	**4,802,075**

(a) Total investment income (loss) includes net appreciation (depreciation) in fair value of investments, interest, dividends, other investment income, and securities lending income net of lending fees and rebate expenses.

EXPENSES BY TYPE

	($ in thousands)			
Year Ended June 30	Benefits[b]	Administrative & Other Expenses	Member Withdrawals, Transfers & Other Activity	Total
2009	$1,750,223	$32,453	$ 78,794	**$1,861,470**
2008	1,791,989	36,557	1,663,899[c]	**3,492,445**
2007	1,624,953	38,914	1,534,289[d]	**3,198,156**
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**

(b) Does not include member withdrawals including CAP distributions.
(c) Includes $1.57 billion of Plan net assets transferred to LLNS successor pension plan.
(d) Includes $1.44 billion of 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, 2009, with selected comparative information for the years ended June 30, 2008 and 2007. This discussion should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2007, 2008, 2009, etc.) in this discussion refer to the fiscal years ended June 30.

Financial Highlights

- The net assets of the PERS Plus 5 Plan at June 30, 2009, are $56.9 million compared to $76.3 million at June 30, 2008 and $86.1 million at June 30, 2007. 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 decreased by $19.4 million, or 25.4 percent, compared to a decrease of $9.8 million in 2008, or 11.4 percent, and an increase of $8.3 million in 2007, or 10.7 percent.
- The PERS Plus 5 Plan's total investment rate of return was (18.8) percent in 2009 compared to (5.7) percent in 2008 and 18.0 percent in 2007.
- As of July 1, 2008, the date of the most recent actuarial valuation, the PERS Plus 5 Plan's funded ratio was 191.9 percent compared to 203.4 percent at July 1, 2007 and 177.4 percent at July 1, 2006. For July 1, 2008, this indicates that for every dollar of actuarial accrued liability, assets of $1.92 are available to cover such obligations compared to $2.03 at July 1, 2007 and $1.77 at July 1, 2006.

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 Statements 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. They reflect 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 PERS Plus 5 Plan's net assets held in trust for PERS Plus 5 changed during the years ended June 30, 2009 and 2008. They reflect 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 provides retirement benefits to UC-PERS members who elected early retirement under the provisions of the plan. Plan benefits are funded by University contributions and by investment income. The plan's net assets held in trust for benefits at June 30, 2009, amounted to $56.9 million compared to $76.3 million at June 30, 2008 and $86.1 million at June 30, 2007. Additions to the plan's net assets held in trust for benefits include investment income or loss. There were no University contributions during the 2007-2009 fiscal years. The plan recognized a net investment loss of $14.4 million in 2009 compared to a net investment loss of $4.7 million in 2008 and net investment income of $13.6 million in 2007. The investment losses in 2009 and 2008 were due primarily to adverse conditions in the global markets resulting in negative returns across all equity portfolios of the investment pool. The increase in net investment income in 2007 was due primarily to higher total returns in the equity portfolios.

FIDUCIARY NET ASSETS			
	($ in thousands)		
June 30	2009	2008	2007
Total Assets	$56,941	$76,336	$86,149
Net Assets Held in Trust for Pension Benefits	$56,941	$76,336	$86,149

CHANGES IN FIDUCIARY NET ASSETS			
	($ in thousands)		
Year ended June 30	2009	2008	2007
(Reductions) Additions			
Net investment (loss) income	$(14,398)	$(4,692)	$13,618
Total (Reductions) Additions	(14,398)	(4,692)	13,618
Deductions			
Retirement payments and other expenses	4,997	5,121	5,299
Total Deductions	4,997	5,121	5,299
(Decrease) Increase in Net Assets Held in Trust for Pension Benefits	(19,395)	(9,813)	8,319
Net Assets Held in Trust for Pension Benefits			
Beginning of Year	76,336	86,149	77,830
End of Year	$56,941	$76,336	$86,149

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 2009, deductions declined slightly to $5.0 million, compared to $5.1 million in 2008 and $5.3 million in 2007.

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 July 1, 2008, the PERS Plus 5 Plan's actuarial value of assets available for benefits was $76.3 million, compared to $86.1 million at July 1, 2007 and $77.8 million at July 1, 2006. The actuarial accrued liability was $39.8 million compared to $42.3 million at July 1, 2007 and $43.9 million at July 1, 2006. The Plan's total surplus was $36.6 million, compared to $43.8 million at July 1, 2007 and $34.0 million at July 1, 2006.

Fiduciary Responsibilities

The Vice President—Human Resources Department, has primary responsibility for Plan administrative functions and the Chief Investment Officer has primary fiduciary responsibility for implementing Plan investment policy. The Regents determines investment policy and retains broad oversight fiduciary responsibility for investment and administrative functions. Under law, the assets can only be used for the exclusive benefit of plan members, retirees and their beneficiaries and for administrative expenses.

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Report of Independent Auditors

To the Regents of the
University of California

In our opinion, the accompanying statements of fiduciary net assets, the related statements of changes in fiduciary net assets (presented on pages 43 through 52) present fairly, in all material respects, the financial position of the University of California PERS Plus 5 Plan (the "Plan") at June 30, 2009 and 2008, 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 Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets of only that portion of activities that are attributable to the Plan. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2009 and 2008, 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 14, 2009
San Francisco, California

Financial Statements

STATEMENTS OF FIDUCIARY NET ASSETS

	($ in thousands)	
June 30	**2009**	**2008**
Assets		
Investments, at fair value	$58,014	$76,821
Investment of cash collateral	11,679	14,590
Other assets - securities sales and investment income	1,260	1,109
Total Assets	**70,953**	**95,520**
Liabilities		
Payable for securities purchased, and member withdrawals	2,291	1,515
Collateral held for securities lending	11,721	14,669
Total Liabilities	**14,012**	**16,184**
Net Assets Held in Trust for Pension Benefits	**$56,941**	**$76,336**

See accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

	($ in thousands)	
Years Ended June 30	**2009**	**2008**
(Reductions) Additions		
Net Investment loss	($14,398)	($4,692)
Total Reductions	**(14,398)**	**(4,692)**
Deductions		
Retirement payments	4,988	5,114
Administrative expenses	9	7
Total Deductions	**4,997**	**5,121**
Decrease in Net Assets Held in Trust for Pension Benefits	**(19,395)**	(9,813)
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	76,336	86,149
End of Year	**$56,941**	**$76,336**

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

Investments are recorded at fair value. Securities, including derivative investments, are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source.

Investments include private equities, absolute return funds and real estate. Private equities include venture capital partnerships, buyout and international funds. Interests in private equity and real estate partnerships are based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts, cash disbursements and securities distributions through June 30. Investments in absolute return partnerships are valued as of May 31, adjusted for cash receipts and cash disbursements through June 30. Interests in certain direct investments in real estate are estimated based upon independent appraisals. The Plan believes the carrying amount of these financial instruments and real estate is a reasonable estimate of fair value at June 30. Because the private equity, real estate and absolute return partnerships, along with direct investments in real estate, are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed. Investments in registered investment companies are valued based upon the reported net asset value of those companies.

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 fiduciary 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 satisfy the qualification requirement 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 IRC and the regulations thereunder, in all material respects.

Use of Estimates in the Preparation of Financial Statements

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

The financial statements of the 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, 2009 and 2008.

New Accounting Pronouncements

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the Plan's fiscal year beginning July 1, 2009. This Statement requires the Plan to report its derivative instruments at fair value. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferrals in the statement of net assets. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are to be classified as investment derivative instruments. Changes in fair value of those derivative instruments are to be reported as net appreciation or depreciation in the fair value of investments. The University is evaluating the effect that Statement 53 will have on the Plan's financial statements.

Note 2–Investments

The PERS Plus 5 Plan's investments of $58.0 million are included within the UCRP investment pool, but are accounted for separately. 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 fiduciary responsibility for investing the Plan's assets consistent with the policies established by The Regents. The Regents establishes investment policies for the Plan and has fiduciary responsibility for overseeing the implementation of those policies.

The available cash in the PERS Plus 5 Plan's investment pool awaiting investment or for administrative expenses is invested in the University of California Short Term Investment Pool (STIP). Investments authorized by The Regents for the STIP include fixed income securities with a maximum maturity of five and one-half years.

The total investment return for the PERS Plus 5 Plan, representing income plus net appreciation or (depreciation) on investments, was (18.8) percent and (5.7) percent, respectively, for the years ended June 30, 2009 and 2008.

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates. Alternative investment strategies and their underlying assets and rights are also subject to an array of economic and market vagaries that can limit or erode value.

Credit Risk

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

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 STIP must be A or better, and commercial paper must be rated at least A-1, F-1, or P-1.

Credit risk is appropriate in a balanced investment pool such as the Plan, by virtue of the benchmarks chosen for the fixed income portion of the pool. The fixed income benchmarks, the Citigroup Large Pension Fund Index and Barclays Capital U.S. Aggregate Bond Index, are 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.

In addition, the investment policy for the Plan allows for dedicated allocations to non-investment grade and emerging market bonds, investment in which entails credit, default and/or sovereign risk.

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 Plan 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 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.

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 Barclays Capital U.S. Aggregate Bond Index), plus or minus 20 percent. These portfolio guidelines constrain the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark. There are similar restrictions for the high-yield and emerging market debt portfolios relative to their benchmarks.

The effective durations for fixed and variable income securities at June 30, 2009 and 2008 are as follows:

	(in years)	
	2009	2008
Fixed or variable income securities:		
U.S. government-guaranteed:		
U.S. Treasury bills, notes and bonds	4.9	–
U.S. Treasury strips	21.0	11.7
U.S. TIPS	5.1	5.3
U.S. government-backed securities	6.0	6.3
Other U.S dollar-denominated:		
Corporate bonds	5.8	7.8
U.S. agencies	6.0	4.4
U.S. agencies asset-backed securities	4.8	4.6
Corporate asset-backed securities	6.5	4.1
Supranational/foreign	6.9	7.2
Foreign currency dominated:		
Government/sovereign	–	6.6
Corporate	4.1	6.1
Commingled funds:		
STIP, other money market funds	1.7	1.2

The money market funds consist of underlying securities that are of a short-term, liquid nature.

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, 2009 and 2008, the fair values of such investments are as follows:

	($ in thousands)	
	2009	2008
Mortgage-backed securities	$ 2,427	$3,225
Collateralized mortgage obligations	362	76
Variable rate securities	44	121
Callable bonds	1,361	1,942
Other asset-backed securities	116	44
Total	**$4,310**	**$5,408**

Mortgage-Backed Securities

These securities are issued by Fannie Mae, Ginnie Mae and Freddie Mac and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized Mortgage Obligations

Collateralized mortgage obligations (CMOs) generate a return based upon 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. In a rising interest rate environment, the opposite is true.

Other Asset-Backed Securities

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

Variable Rate Securities

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

Callable Bonds

Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The 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, 2009 and 2008, the effective durations are as follows:

	(in years)	
	2009	**2008**
Mortgage-backed securities	6.8	5.0
Collateralized mortgage obligations	2.4	5.2
Variable rate securities	1.8	5.2
Callable bonds	4.3	4.4
Other asset-backed securities	0.7	4.0

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).

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, 2009 and 2008, the securities in these pools had a weighted average maturity of 27 and 62 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, 2009, 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, 2009 and 2008 are as follows:

	($ in thousands)	
	2009	**2008**
Securities Lent		
For cash collateral:		
Equity securities:		
Domestic	$ 4,157	$ 4,094
Foreign	2,679	2,013
Fixed income securities:		
U.S. government	3,429	5,530
Other U.S. dollar-denominated	1,014	2,593
Foreign currency-denominated	–	14
Lent for Cash Collateral	11,278	14,244
For securities collateral:		
Equity securities:		
Domestic	152	125
Foreign	206	397
Fixed income securities:		
U.S. government	58	953
Other U.S. dollar-denominated	84	20
Foreign currency-denominated	25	11
Lent for Securities Collateral	526	1,506
Total Securities Lent	$11,804	$15,750
Collateral Received		
Cash	$ 11,721	$ 14,669
Securities	539	1,566
Total Collateral Received	$12,260	$16,235
Investment of Cash Collateral		
Fixed or variable income securities:		
Other U.S. dollar-denominated:		
Corporate bonds	$ 1,241	$ 3,273
Commercial paper	527	41
Repurchase agreements	1,371	2,945
Corporate asset-backed securities	2,688	4,099
Certificates of deposit/time deposits	5,785	3,324
Supranational/foreign	322	780
Commingled funds: Money market funds: Not rated	478	124
Other assets (liabilities), net[1]	(733)	4
Total Investment of Cash Collateral	$11,679	$14,590

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

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, 2009 and 2008 are as follows:

	($ in thousands)	
	2009	**2008**
Securities lending income	$ 268	$925
Securities lending fees and rebates	(132)	(795)
Securities lending income, net	**$136**	**$130**

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.

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. As of June 30, 2009 and 2008, the concentration of credit risk is as follows:

	($ in thousands)	
	2009	**2008**
J.P. Morgan Chase	$ 849	$1,836
Lehman Brothers	–	1,241
Bank of America	653	–
BNP Paribas	690	–

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, 2009 and 2008, the weighted average maturity expressed in days outstanding for asset-backed securities was 23 days and 58 days, respectively; 41 days and 22 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 credit risk profile for fixed or variable income securities associated with the investment of cash collateral at June 30, 2009 and 2008 is as follows:

	($ in thousands)	
	2009	**2008**
Fixed or variable income securities:		
Other U.S. dollar-denominated:		
AAA	$2,547	$4,723
AA	907	2,621
A	804	998
BBB	35	100
BB	50	–
A1/P1/F1	7,591	5,786
Not rated	–	234
Commingled funds:		
Money market funds: Not rated:	478	124
Other assets (liabilites), net: Not rated[1]	(733)	4

[1] *Other assets (liabilities), net is comprised of pending settlements of cash collateral 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, 2009 and 2008 is as follows:

	2009	**2008**
Fixed or variable income securities:		
Other U.S. dollar-denominated:		
Corporate bonds	43	48
Commercial paper	70	35
Repurchase agreements	1	1
Corporate asset-backed securities	23	39
Certificates of deposit/ time deposits	50	38
Supranational/foreign	34	83
Commingled funds: Money market funds: Not rated	1	1

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' contribution policy provides for actuarially determined contributions at rates that maintain the Plan on an actuarially sound basis. As of June 30, 2009 and 2008, 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

Valuation Date As of July 1 ($ in thousands)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability	(3) Actuarial Surplus	(4) Total Funded Ratio (1) (2)
2008	$76,336	$39,777	$36,559	191.9%
2007	86,150	42,346	43,804	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

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 University Contributions

Since 1996, the University has not been required to make 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	2008	2007
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 2008.*

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 $39.8 million at July 1, 2008, and $42.3 million at July 1, 2007, as follows:

ACTUARIAL ACCRUED LIABILITY

	($ in millions)	
Valuation Date as of July 1	**2008**	**2007**
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	($39.8)	($42.3)
Total Actuarial Accrued Liability—Unit Credit Basis	**(39.8)**	**(42.3)**
Net assets allocated to fund the actuarial accrued liability, at fair value	76.3	86.1
Actuarial value of assets in excess of actuarial accrued liability –entry age normal cost basis	$36.5	$43.8

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

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