

A Note about UC's Core Funds in this Current Turbulent Market

Recent credit market and insurance market conditions have raised concerns about investments, including those within the UC Core Funds. The Treasurer's Office, which oversees the UC Core Funds, continues to monitor these funds and notes the following:

The UC ICC Fund does not own insurance company contracts with AIG. The Office continues to feel that the Fund is currently protected, as only financially strong institutions are selected and are actively monitored.

Like many other institutional investors in the U.S. and abroad, the University's UC Savings Fund has investments in Fannie Mae senior debentures. These bonds have traditionally offered the advantages of a AAA rating, very good liquidity, and a material yield advantage over comparable maturity U.S. Treasuries. Despite the turmoil in the financial markets, the senior debentures in the Savings Fund have maintained their value, and the Office of the Treasurer is highly confident that they will continue to do so.

Due to ongoing stress in the housing and mortgage markets, the U.S. Treasury and the Federal Housing Finance Agency (FHFA) announced on September 7, 2008, a four-part plan to support the debt and primary mission of the Government-Sponsored Enterprises (GSEs). The main feature of this plan is that the FHFA would take over as conservator of Fannie Mae and Freddie Mac. The purpose of this move is to:

- o Preserve the companies' assets
- o Place them in a sound and solvent condition
- o Insure that their business is conducted without interruption

In effect, as stated by the FHFA, this is a strong backing for their senior, subordinated, and Mortgage-backed Securities debt.

The Treasurer's Office supports the efforts of the U.S. Treasury and the Federal Reserve to calm the mortgage market and continues to believe that holding GSE debt—and the UC Savings Fund's policies and strategies—are appropriate, given the Fund's objectives.

The UC Bond Fund is a diversified pool of fixed-income securities, including U.S. government, mortgage-backed, and corporate bond securities. Although the fund had modest exposures to Lehman Brothers and AIG debt, the benefits of diversification mitigated the impact on the overall fund. In the worst period for credit markets in history, the value of the Bond Fund has declined just over 1% since the fiscal year end, broadly in line with its benchmark – the Lehman Aggregate Bond Index.

The policies of all Funds managed by the Treasurer have been reviewed and approved by the Regents Committee on Investments.