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the Creation of Value

2009 Annual Report



UTIMCO

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Company Profile

The University of Texas Investment Management Company (UTIMCO) is a 501(c)(3) investment management corporation whose sole purpose is the management of investment assets under the fiduciary care of the Board of Regents of The University of Texas System. Created in March 1996, UTIMCO is the first external investment corporation formed by a public university system. It invests endowment and operating funds in excess of \$15 billion, including the Permanent University Fund, the Permanent Health Fund, the Long Term Fund, the Short Term Fund and the Short Intermediate Term Fund, among other funds. UTIMCO is governed by a nine-member Board of Directors appointed by the UT System Board. The UTIMCO Board of Directors includes three members of the UT System Board, the Chancellor of The University of Texas System, and five outside investment professionals.

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in excess of \$15 Billion

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Endowment Funds

Net Asset Value (in millions) as of August 31,

Permanent University Fund (\$8,452.3 million)

The Permanent University Fund (PUF) is a state endowment fund contributing to the support of 18 institutions and 6 agencies of The University of Texas System and The Texas A&M University System.

Permanent Health Fund (\$1,016.6 million)

The Permanent Health Fund (PHF) is an internal UT System mutual fund for the pooled investment of state endowment funds for health-related institutions of higher education, created August 30, 1999, with proceeds from state tobacco litigation.

Long Term Fund (\$3,136.2 million)

The UT System Long Term Fund (LTF) is an internal UT System mutual fund for the pooled investment of 5,372 privately raised endowments and other long-term funds of the 15 component institutions of the UT System.

Separately Invested Funds (\$200.1 million)

The UT System Separately Invested Funds (SIFs) consist of approximately 105 privately raised endowments and charitable trusts where the nature of the underlying asset or donor restrictions preclude investment in the LTF.

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Funds at a Glance

The bar charts present a comprehensive view of the growth in value of the funds managed by UTIMCO. As of August 31, 2000, the value of these funds equaled \$15.5 billion.



Operating Funds

Net Asset Value (in millions) as of August 31,

Short Term Fund (\$810.6 million)

The UT System Short Term Fund (STF) is a money market mutual fund consisting of the working capital and other operating fund balances held by UT System institutions with an investment horizon of less than one year.

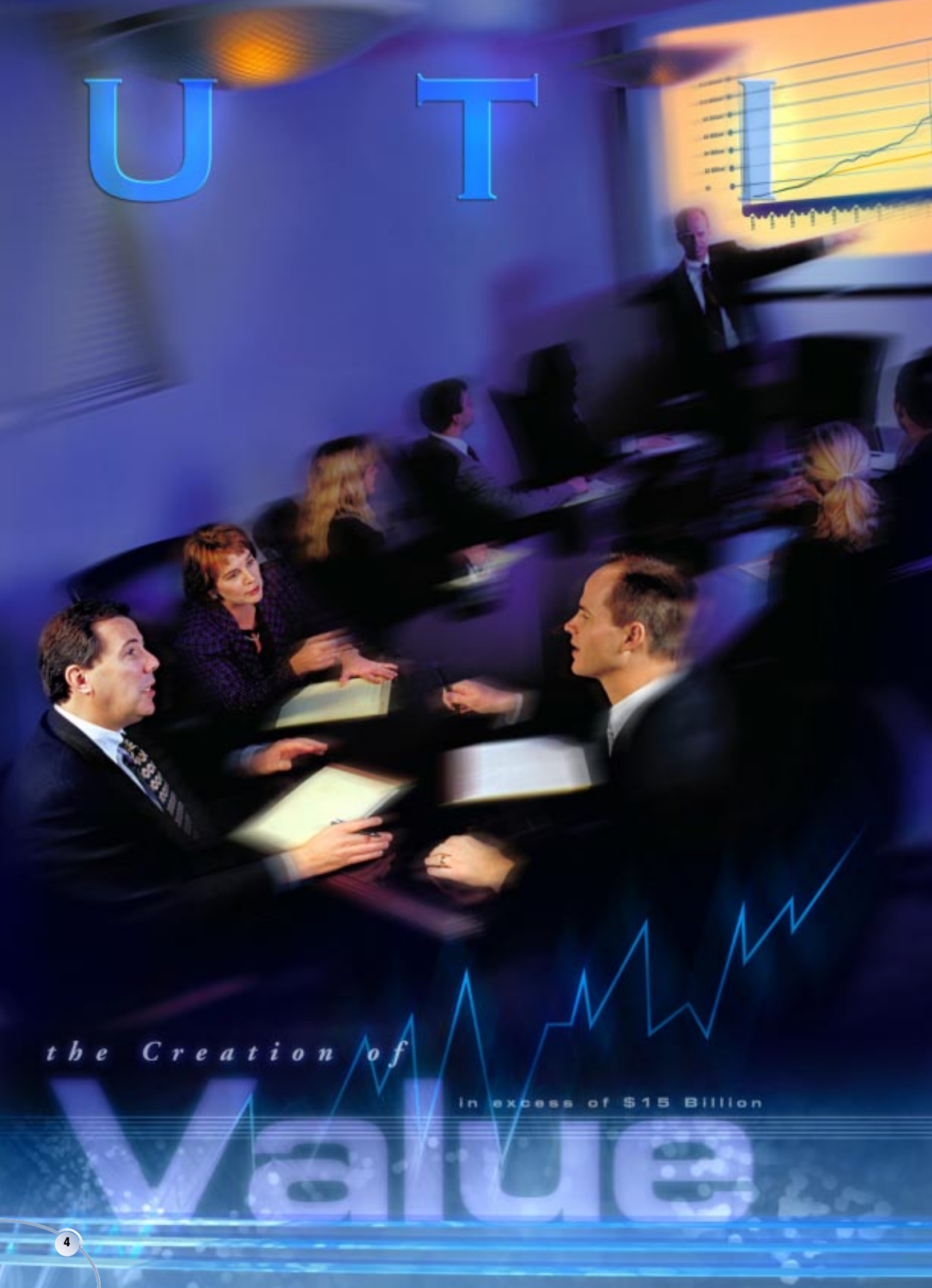
Short Intermediate Term Fund (\$1,844.4 million)

The UT System Short Intermediate Term Fund (SITF) is an internal UT System mutual fund for the pooled investment of the operating funds held by UT System institutions with an investment horizon between one and five years.

Institutional Index Funds (\$71.0 million)

The Institutional Index Funds (IIFs) consist of a U.S. debt index fund and a U.S. equity index fund for the investment of UT System institutions' permanent working capital and long-term capital reserves.

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Letter from the President

I am pleased to report that fiscal year 2000 was UTIMCO's most successful year to date. The Company was able to see the results of several actions taken over the last four years. Of particular note was the maturation of its private equity program. Since 1996, the Company has committed \$1.5 billion to venture capital, buyout and mezzanine investments as part of its plan to increase exposure to this asset class to 15% of endowment assets. Recent returns for private equities have been unprecedented, outperforming the returns of public equities by a considerable margin. Also contributing to the Company's success was the more recent adoption of an inflation hedging asset class. This action was taken to further diversify endowment assets and to capture returns associated with the value of hard assets. UTIMCO's decision was handsomely rewarded as returns during the year for commodity futures and REITs also exceeded returns generated by traditional equity and fixed income investments.

Among the year's highlights were:

Endowment returns in excess of benchmark returns

Net returns for the three endowment funds managed by UTIMCO, the Long Term Fund, the Permanent University Fund and the Permanent Health Fund, were 20.59%, 16.53%, and 16.09%, respectively, versus 14.81% for the policy portfolio. UTIMCO also performed well against other foundations and endowment funds as measured by Russell Mellon.

Increased assets under management

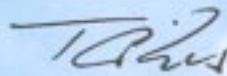
Assets managed by UTIMCO increased by \$1.8 billion to \$15.5 billion.

Increased endowment distributions versus the prior year

Passage of Proposition 17 noted below enabled the UT Board of Regents to increase the annual distribution from the Permanent University Fund by 12.8% to \$297.6 million. Annual distributions per unit from the Long Term Fund increased by 9.5%. Annual distributions per unit from the Permanent Health Fund were increased by 2.2% effective for the 2001 fiscal year.

This year UTIMCO also experienced the departure of one of its original directors, Dr. William H. Cunningham, who resigned his position contemporaneously with his resignation as Chancellor of the UT System. Dr. Cunningham was an early and strong proponent of the investment management company concept embodied by UTIMCO. His wise advice and enthusiasm in guiding UTIMCO through its formative years will be sorely missed. At the same time, UTIMCO is extremely fortunate to have at its disposal three new directors of national stature. Recently joining the UTIMCO Board are Lowry Mays, Chairman/CEO of Clear Channel Communications, Inc., John McStay, Managing Director, John McStay Investment Counsel, and R. D. (Dan) Burck, recently appointed Chancellor of the UT System.

Finally, UTIMCO ended the year with the completion of a long held goal: the restructuring of the PUF to a total return based asset allocation, as enabled by the passage of Proposition 17 in November 1999. Looking forward, UTIMCO must address new challenges. Not the least is the management of long term funds in an environment of increased market volatility and greater competition for investment professionals. With a thoughtful board and committed management, UTIMCO is well positioned to meet these challenges and to add investment value on behalf of its many constituents.



Thomas G. Ricks
President and Chief Executive Officer



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This structure is designed to preserve ultimate regental control of investments for fiduciary purposes and to increase the level of investment expertise in the governance of investments.

The UT Board delegates investment management responsibility to UTIMCO subject to compliance with UT Board approved investment policies. Day-to-day management of funds is further delegated to UTIMCO management, which provides a comprehensive range of investment management services. UTIMCO employees include investment professionals, accountants, information technology specialists, operations and administrative personnel, all of whom work together to provide total investment support.

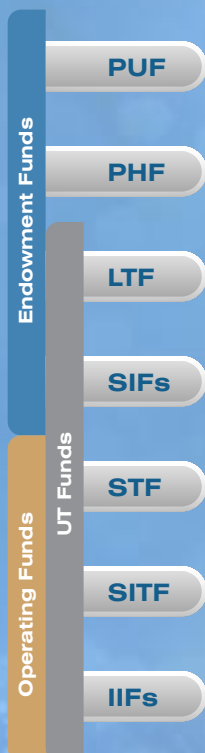
UTIMCO invests the endowment and operating assets designated by the UT Board primarily through internal mutual funds with distinct time horizons and risk adjusted return characteristics.

UTIMCO allocates each endowment or operating fund's assets to internally and externally managed portfolios in accordance with approved asset allocation policies.

UTIMCO Overview

The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds dedicated to the support of higher education. The UT Board is the governing body of The University of Texas System (UT System), a state supported university system consisting of 15 academic and health-related institutions with an enrollment base of approximately 154,000 students. The UT System's general academic institutions enroll one-third of the students at Texas public universities and its health-related institutions enroll two-thirds of the students at Texas public health institutions. Members of the UT Board are officers of the State of Texas and are appointed by the Governor with the advice and consent of the State Senate.

Effective March 1, 1996, the UT Board entered into an Investment Management Services Agreement delegating investment management responsibility for investments to UTIMCO. UTIMCO is a 501(c)(3) investment management corporation dedicated solely to the management of investment assets controlled by the UT Board. It is the first external investment corporation formed by a public university system. A board of directors consisting of three UT System regents, the Chancellor of the UT System, and five outside directors with experience in investment management governs UTIMCO.



Addition of Economic Value by Investing for Real Returns

UTIMCO manages over 5,000 endowment funds which were established, beginning in 1876, by the State of Texas, individuals, corporations, and foundations. UTIMCO attempts to supplement the original endowment corpus contributed by these donors by increasing the purchasing power of endowment corpus through time. In so doing, UTIMCO increases the endowment resources available to fund the teaching, research, and health care programs specified by the donor. UTIMCO attempts to achieve this objective by earning real economic returns on its investment of endowment assets.

Respect for Efficient Markets

The established global markets are efficient from a pricing perspective. In other words, market information is immediately factored into the value of closely watched publicly traded corporations. UTIMCO respects the notion of efficient markets and the difficulty for active portfolio managers to consistently outperform market indices like the S&P 500 Index. For this reason, a significant portion of the global market exposure is passively indexed to the market. The risk of underperforming the market is mitigated by simply "buying the market". Indexation provides instantaneous diversification, which reduces overall portfolio risk.



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Pursuit of Inefficient Markets

UTIMCO seeks to enhance long-term returns by investing endowment assets in less efficient markets. These markets are often characterized by complex, illiquid, and mispriced securities where the application of proprietary information and investment strategies can generate premium returns. These securities also serve to reduce the overall risk to total fund asset values through low correlations of returns with those of exchange-traded equities and fixed income investments. UTIMCO pursues market inefficiencies through two major strategies:

Nonmarketable Investments

These strategies consist of investments in special equity, mezzanine, venture capital, oil and gas, real estate, and other investments that are privately held and which are not registered for sale on public exchanges. These investments are held through limited partnerships or as direct ownership interests and are often held for extended periods of time. This program was originated by the UT System in 1981 and has expanded considerably under UTIMCO's management. Over the last 19 years, UT/UTIMCO has invested \$1,808.4 million in nonmarketable investments. The annual IRR (internal rate of return) since inception on the portfolio is 21.44% versus its 17.00% benchmark return. At year-end, nonmarketable investments constituted 12.4% of combined PUF, PHF, and LTF assets.

Marketable Investments

These strategies consist of investments in true hedge funds with low net exposure to market risk, arbitrage and special situation funds, high yield bonds, distressed debt, market neutral, and other non-traditional investment strategies whose underlying securities generally are traded on public exchanges or possess manageable liquidity. These strategies comprised 6.8% of combined PUF, PHF, and LTF assets at fiscal year end.



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Risk Control: Anticipating the Future, Controlling the Outcome

The control of risk is multidimensional. Historical risks and future anticipated risks enter the calculus of measuring the overall portfolio risk. Political risk affects international investing. Market risk and company specific risk are risks that one normally associates with investment portfolios. Other unseen risks can be anticipated from historical market reaction to events. At UTIMCO, the measurement and expectation of risk is essential to portfolio construction and monitoring. UTIMCO uses current industry-recognized risk management techniques such as Value at Risk, or VAR. The risk of each equity and fixed income investment portfolio is measured by VAR analysis. VAR measures the portfolio's predicted maximum loss over a specified future time period within a given confidence interval.

Use of Economies of Scale

UTIMCO incurs expenses associated with strategy and analysis, portfolio management, custody and safekeeping, accounting, and other investment related functions. Fund expenses are paid from fund assets. UTIMCO's control of \$15.5 billion of assets provides for exceptional economies of scale in the management of the investment assets. Fiscal year expenses were 0.16% of average asset value.



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Emphasis on Client Satisfaction

UTIMCO continues to pursue and enhance its Internet-based reporting system using proven technology that reaches its broad base of higher education clients and the public at large.

Among the major reporting services provided by UTIMCO are:

- Secured Internet access for quarterly and annual investment reports utilizing interactive solutions tailored to the individual users' preferences
- Daily online investment information regarding the 5,485 endowment accounts under management
- Annual and quarterly information available to the public via UTIMCO's website: www.utimco.org

