The University of Texas Investment Management Company

Presentation Materials
Board of Directors Meeting

January 13, 2004

Notice of Open Meeting of the
Board of Directors of
The University of Texas Investment
Management Company

January 13, 2004

UTIMCO
221 W. 6th Street, Suite 1700
Austin, Texas

<u>Open Meeting Agenda</u>

Convene at 10:00 a.m.

Open Session:
Call to Order/Consideration of Minutes of December 4, 2003 Meeting*

Consideration of Proposed Investments*

Endowment and Operating Funds Update

Watch List Update

Presentation of 2003 Annual Report

Discussion of UTIMCO Staff's Response to Board of Regents' Resolution

Recess for Lunch

Reconvene in Open Session:
Consideration of UTIMCO Audited Financial Statements*

Report from the Compensation Committee
- Consideration of Compensation Committee Report*

Adjournment

* Action by resolution required

Posted: January 9, 2004
By: The University of Texas Investment Management Company

TAB 1

Resolution No. 1

RESOLVED, that the minutes of the meeting of the Board of Directors held on **December 4, 2003** be, and is hereby, approved.

MINUTES OF THE MEETING OF
THE BOARD OF DIRECTORS OF
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting at 3:02 p.m. on the **4th day of December 2003**, by means of conference telephone enabling all persons participating in the meeting to hear each other, at the offices of the Corporation, Town Lake Conference Room, 221 West 6th Street, Austin, Texas, 78701 said meeting having been called by the Chairman, Woody L. Hunt, with notice provided to each member in accordance with the Bylaws.

Participating in the meeting were the following members of the Board:

Woody L. Hunt, Chairman
J. Luther King, Jr., Vice-Chairman
Susan M. Byrne
Rita C. Clements
J. Philip Ferguson
I. Craig Hester

thus, constituting a majority and quorum of the Board. Directors Mark G. Yudof, James Huffines and R. H. (Steve) Stevens, Jr. were not present at the meeting. Also, attending the meeting were R. D. Burck, Advisory Director; Bob Boldt, President, Chief Executive Officer and Chief Investment Officer of the Corporation; Joan Moeller, Secretary and Treasurer of the Corporation; Christy Wallace, Assistant Secretary of the Corporation; Cathy Iberg, Managing Director – Marketable Alternative Investments and Deputy CIO; Andrea Reed, Risk Manager; Sara McMahon and Trey Thompson, Managing Directors – Non-Marketable Alternative Investments of the Corporation; Bill Edwards – Managing Director Information Technology; Jerry Turner, legal counsel for the Corporation; Bruce Myers of Cambridge Associates; Philip Aldridge, Charlie Chaffin, Jerry Modjeski, Michael Warden, and Sandra Neidhart of U. T. System Administration; and Steven Voss and Michael Sebastian of EnnisKnupp. Mr. Hunt called the meeting to order at 3:02 p.m. Copies of materials supporting the Board meeting agenda were previously furnished to each Director or distributed at the meeting.

Minutes

The first matter to come before the Board was approval of the minutes of the meeting of the Board of Directors held on November 20, 2003. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the minutes of the meeting of the Board of Directors held on November 20, 2003 be, and are hereby, approved.

Liquidity Policy

Mr. Hunt asked Mr. Boldt to discuss the proposed amendments to the Liquidity Policy. The Liquidity Policy was being amended to change the liquidity risk measurement from four categories to two: liquid and illiquid. The definitions for the liquid and illiquid categories were also changed. After a short discussion, an additional change in the definition of illiquidity and use of swaps, derivatives and other third party arrangements to create liquidity were requested by the Board. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the Liquidity Policy, in the form submitted to the Board with the revisions approved at this meeting, be, and is hereby, approved; and
>
> RESOLVED, FURTHER, that the President and the Secretary of the Corporation be and they are hereby authorized and directed to revise the Liquidity Policy to accomplish the purpose of the foregoing resolution.

The Liquidity Policy so approved is attached to these minutes.

Investment Policy Statements

Mr. Hunt asked Mr. Boldt to present the proposed changes to the Investment Policy Statements. The amendments to the policy statements were to clarify provisions and definitions related to asset allocation and asset allocation policy. The policies have been updated to reflect the earning of an annual average real return of 5.1% and to clarify selection and termination of unaffiliated investment managers of the PUF and GEF. Mr. Boldt and Mr. Myers answered the Directors' questions on the policy amendments and benchmarks. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the amendments to the Investment Policy Statements for the Permanent University Fund, the U. T. System General Endowment Fund, the Permanent Health Fund, and the U. T. System Long Term Fund as presented be, and are hereby, approved, subject to approval by the U. T. System Board of Regents.

Compensation Committee Report

Mr. King, Chairman of the Compensation Committee, reported that the Committee met on December 1, 2003. At the Committee meeting, Mr. King reported that they continued to make progress by reviewing documents prepared by Mercer Human Resources Consulting and discussing with Bruce Myers of Cambridge regarding benchmarks as related to the compensation guidelines for the Fiscal Year 2003-2004. No action was taken at the meeting.

Mr. Hunt thanked the members of the Compensation Committee for their commitment and hard work over the past several months.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 3:55 p.m.

Secretary: ______________________
Joan Moeller

Approved: ________________________ Date: ____________
Woody L. Hunt
Chairman, Board of Directors of
The University of Texas Investment
Management Company

The University of Texas Investment Management Company
Liquidity Policy

Effective Date of Policy: December 19, 2003
Date Approved by UTIMCO Board: December 4, 2003

Purpose:

The purpose of the Liquidity Policy is to establish limits on the overall liquidity profile of investments in the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter referred to as the Funds. For the purposes of this policy, "liquidity" is defined as a measure of the ability of an investment position to be converted into a cash position. The established liquidity profile limits will act in conjunction with, but do not supercede, the Investment Policies established by The University of Texas Investment Management Company (UTIMCO) Board and approved by the U. T. Board of Regents.

Objective:

The objective of the Liquidity Policy is to control the element of total risk exposure of the Funds stemming from the uncertainties associated with the ability to convert longer term investments to cash to meet immediate needs or to change investment strategy, and to the potential cost of that conversion. This element of total risk is referred to as "Liquidity Risk" in this Policy.

Scope:

This Policy applies to all PUF and GEF investments made by UTIMCO, both by internal and by external managers. Policy implementation will be managed at the aggregate UTIMCO level and will not be a responsibility of individual internal or external managers managing a portion of the aggregate assets.

Definition of Liquidity Risk:

Liquidity Risk is defined as that element of total risk resulting from the uncertainty associated with both the cost and time period necessary to convert existing investment positions to cash (or cash equivalents). Liquidity risk can result in lower than expected returns and reduced opportunity to make changes in investment positions to respond to changes in capital market conditions. Modern finance theory asserts that liquidity risk is a systematic risk factor that is incorporated into asset prices such that future longer-term returns will be higher for assets with higher liquidity risk, although that may not be the case in the short term.

Liquidity Risk Measurement-The Liquidity Profile:

Capital market theory does not provide a precise technique to measure liquidity risk. For the purposes of this Liquidity Policy, potential liquidity risk will be defined and monitored by measuring the aggregate liquidity profile of the Funds. All individual investments within the Funds will be segregated into two categories:

- **Liquid:** Investments that could be converted to cash within a period of one day to three months in an orderly market at a discount of 10% or less.

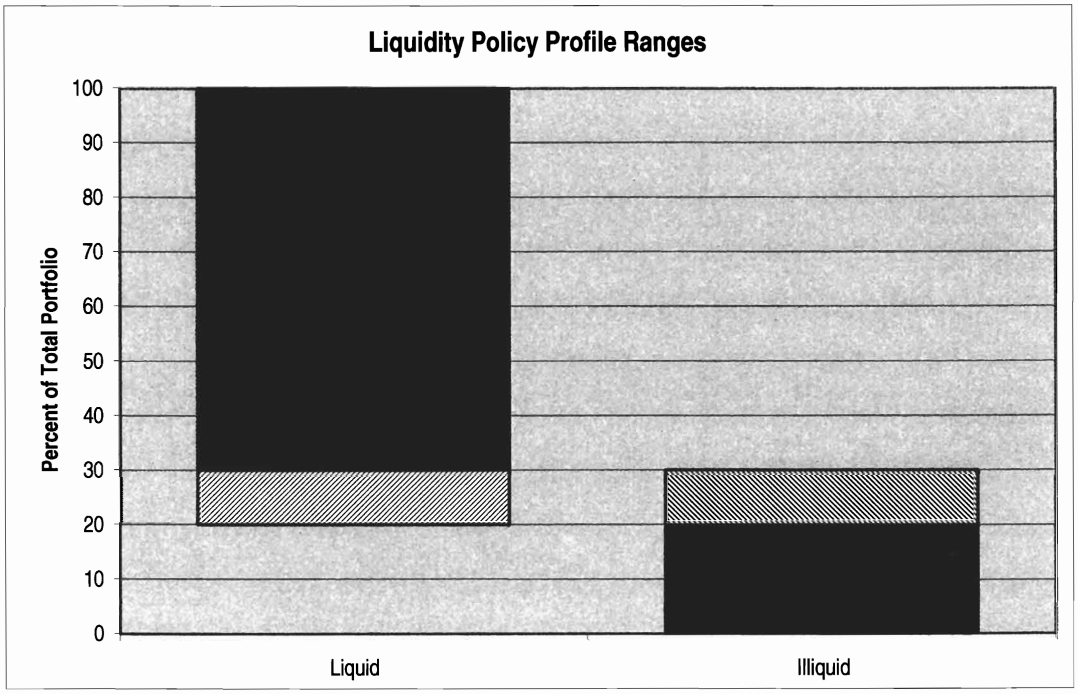
- **Illiquid:** Investments that could be converted to cash in an orderly market over a period of more than three months or in a shorter period of time by accepting a discount of more than 10%.

The measurements necessary to segregate all investments into one of the two categories assume normally functioning capital markets and cash market transactions. In addition, swaps, derivatives, or other third party arrangements to create liquidity may be considered in determining the appropriate liquidity category for each investment upon approval of the UTIMCO Board or Board designated subcommittee.

The result of this liquidity risk measurement process will be a liquidity profile for the Funds which indicates the percentage of the total portfolio assets within each liquidity category. This Liquidity Policy defines the acceptable range of percentage of total assets within each liquidity category, specifies "trigger zones" requiring special review by UTIMCO staff and Board, and specifies the method of monitoring and presenting actual versus policy liquidity profiles.

Liquidity Policy Profile:

The current Liquidity Policy Profile ranges and trigger zones are defined by the chart below:



The green bar indicates the Policy range for investments categorized as "Liquid" by the definition presented earlier. The red bar indicates the Policy range for investments categorized as "Illiquid" by earlier definition. The shaded sections of the green and red bars indicate trigger zones requiring special action by the UTIMCO Board or a Board designated subcommittee. For example, the allowable range for "Illiquid" investments is 0% to 30% of the total portfolio, however, any investments made in the 20% to 30% range of total portfolio assets require special prior approval by the UTIMCO Board or subcommittee.

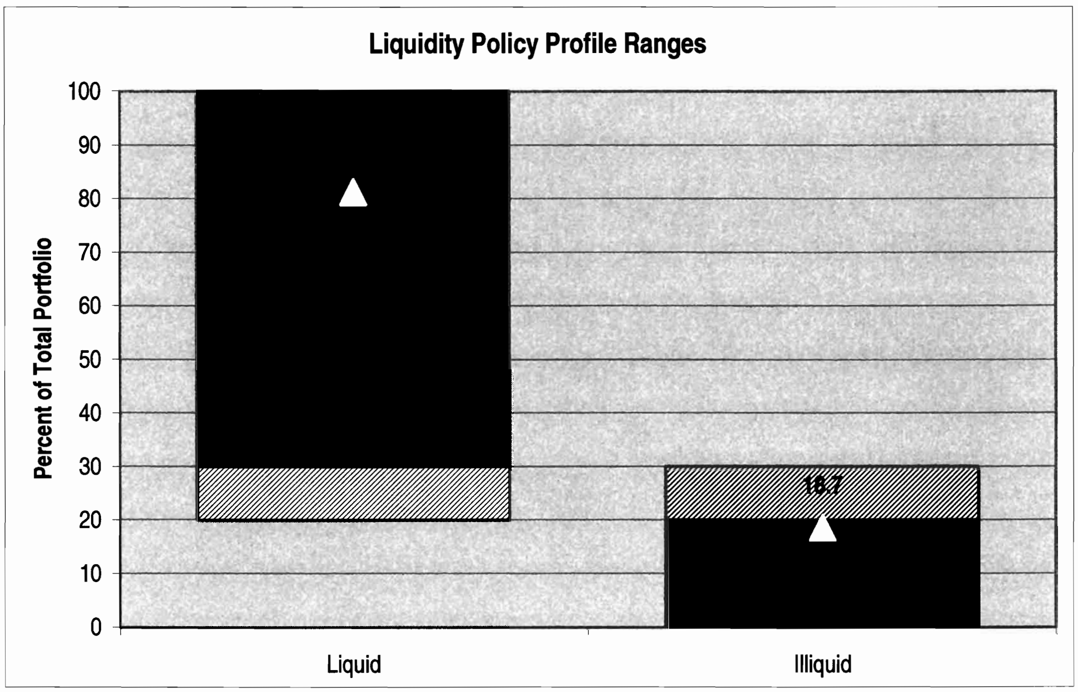
Documentation and Controls:

Managing Directors responsible for each asset class are responsible for determining the liquidity category for each investment in that class. These classifications will be reviewed by the Risk Manager and must receive final approval from the Chief Investment Officer. Classifications and weights within each liquidity category will be updated and reported on a monthly basis. All new investments considered will be categorized by liquidity category and a statement regarding the effect on overall liquidity of the addition of the new investment must be an element of the due diligence process and will be a part of all recommendation reports to the UTIMCO Board.

As additional safeguards, trigger zones have been established as indicated above to trigger required review and action by the UTIMCO Board in the event any investment action would cause any liquidity measure to enter any of the designated trigger zones, or in the event market actions caused measures to move into trigger zones. In addition, any proposed investment actions which would change any single liquidity category percentage by 10% or more would also require UTIMCO Board review and action prior to the change. Any actual positions in any trigger zones or outside the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board the circumstances of the deviation from Policy and the remedy to the situation.

Reporting:

The actual Liquidity Profile of the Funds and compliance with the Liquidity Policy will be reported to the UTIMCO Board on at least a quarterly basis. Any exception to the Policy and actions taken to remedy the exception will be reported promptly. An example of the method of reporting is shown below where the yellow points and number labels indicate current actual exposure levels within each Liquidity Policy Range (numbers shown are examples only). For example, in this illustration the current exposure to "Liquid" investments is 81.3%, while exposure to "Illiquid" investments is 18.7% and both are within their respective allowable policy ranges and not in defined trigger zones.

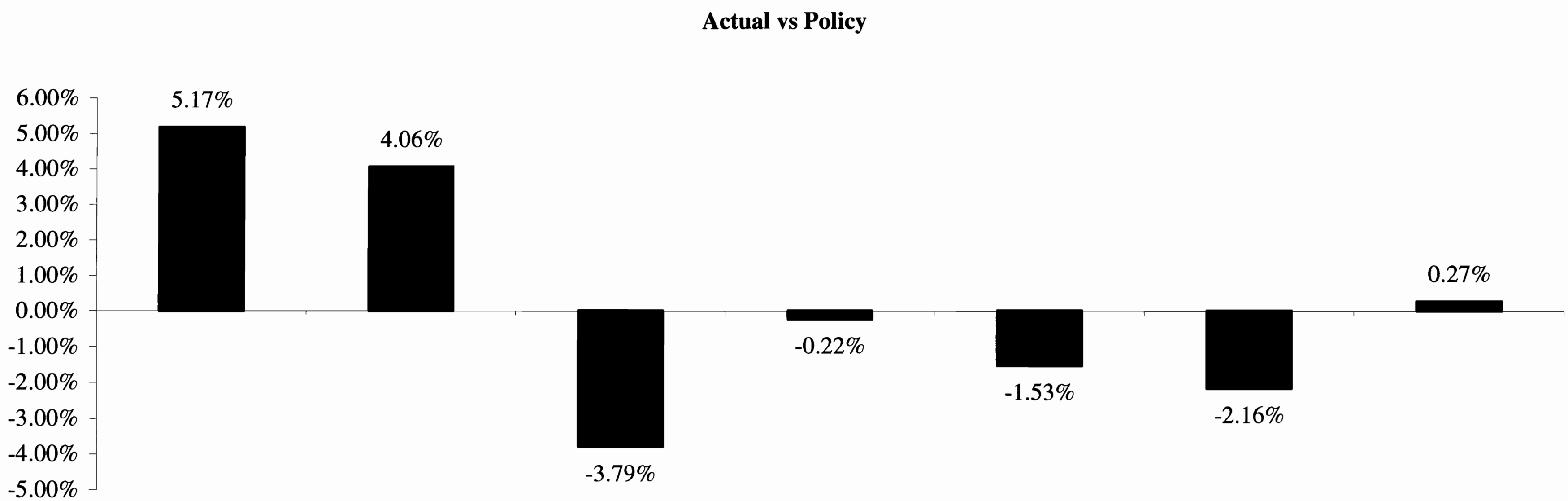


TAB 2

Resolutions to be handed out at the meeting if action is required.

TAB 3

Permanent University Fund
Asset Allocation
November 30, 2003

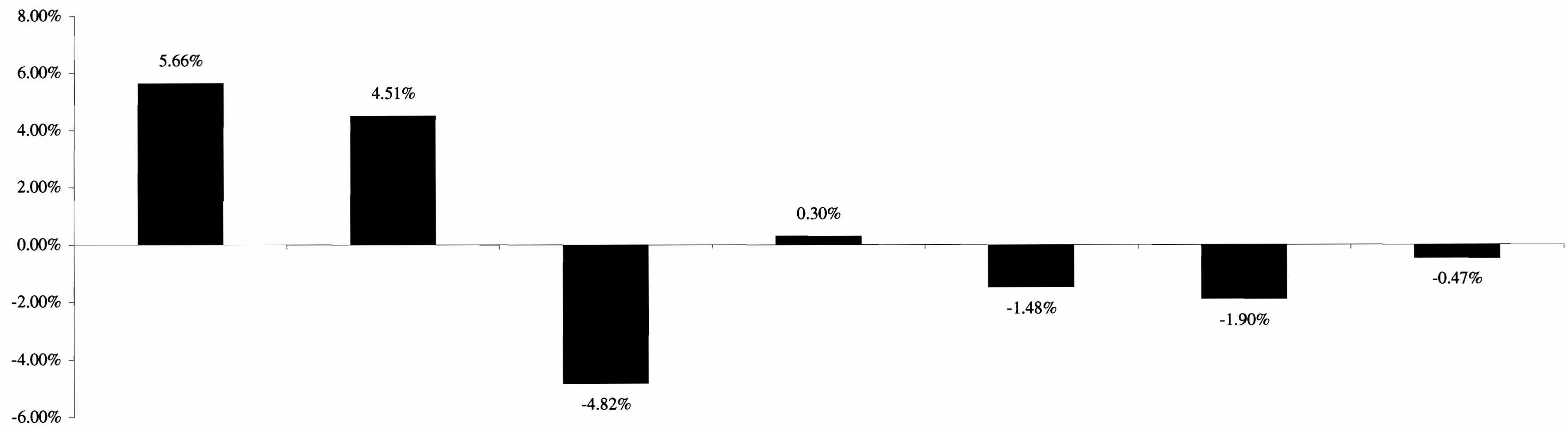


	Domestic Public Equity	International Public Equity	Private Capital	Absolute Return	Inflation Hedging	Fixed Income	Cash & Cash Equivalents
Actual	36.17%	23.06%	11.21%	9.78%	8.47%	12.84%	0.27%
Neutral Policy	31.00%	19.00%	15.00%	10.00%	10.00%	15.00%	0.00%
Over/Under	5.17%	4.06%	-3.79%	-0.22%	-1.53%	-2.16%	0.27%

Cash & Cash Equivalents have been adjusted for the 12/1/03 distribution of 87,008,395.

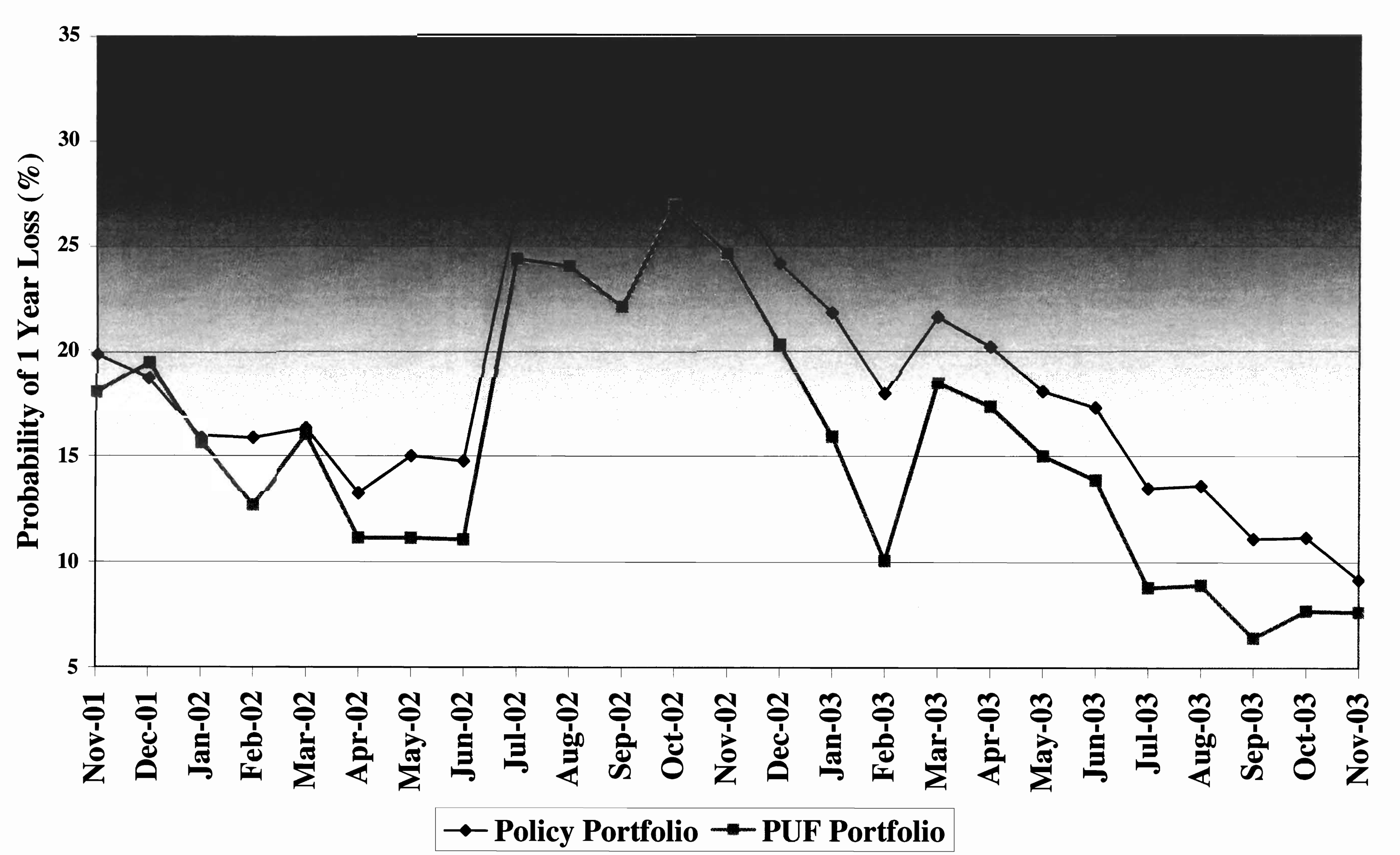
General Endowment Fund
Asset Allocation
November 30, 2003

Actual vs Policy

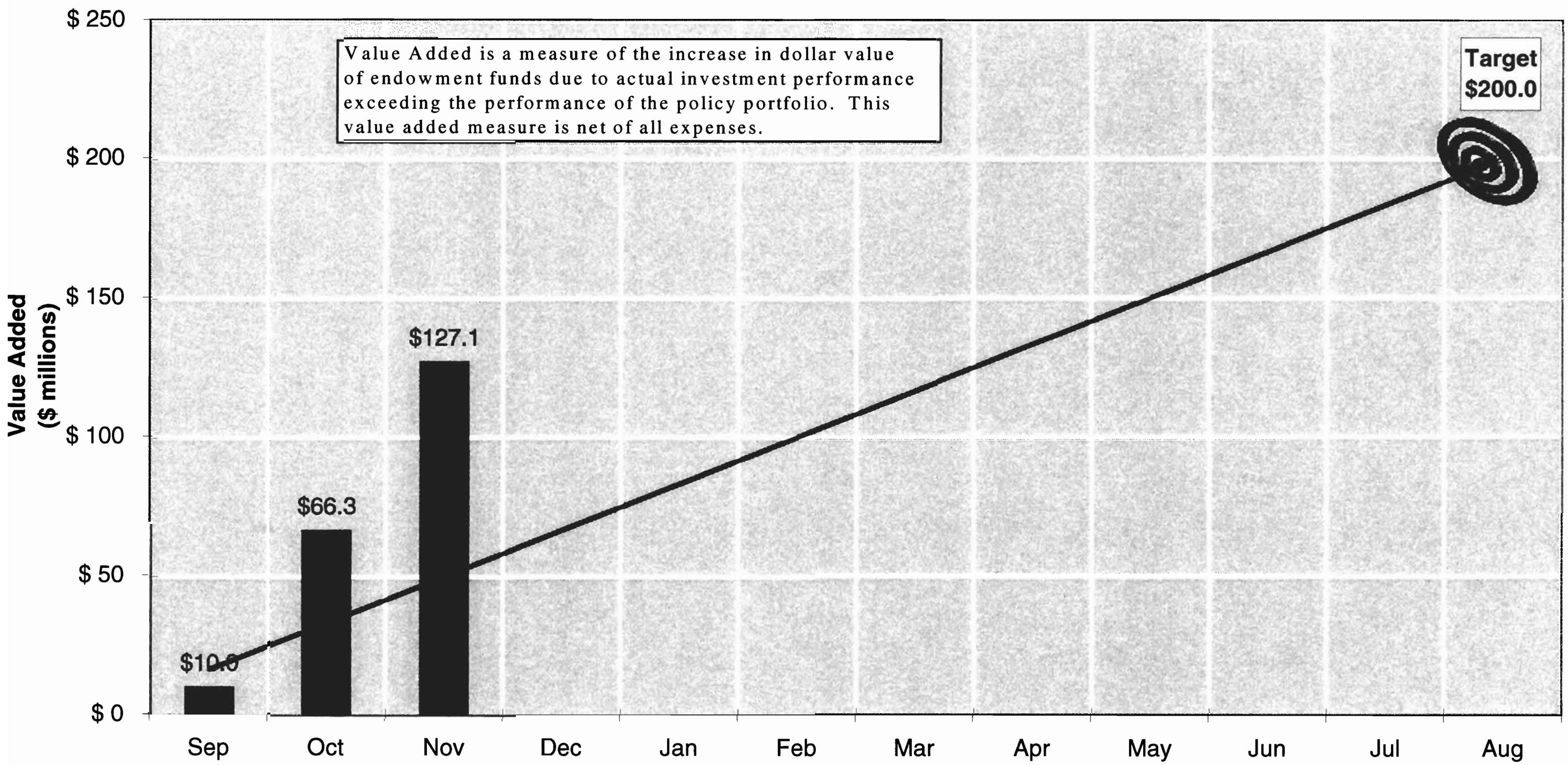


	Domestic Public Equity	International Public Equity	Private Capital	Absolute Return	Inflation Hedging	Fixed Income	Cash & Cash Equivalents
Actual	36.66%	23.51%	10.18%	10.30%	8.52%	13.10%	-0.47%
Neutral Policy	31.00%	19.00%	15.00%	10.00%	10.00%	15.00%	0.00%
Over/Under	5.66%	4.51%	-4.82%	0.30%	-1.48%	-1.90%	-0.47%

Relative Risk Analysis 1 Year Horizon



Cummulative Value Added in Marketable Securities in Endowment Funds
2003-2004 Fiscal Year



UTIMCO Performance Summary

	Net Asset Value 11/30/2003 (in Millions)	Periods Ended November 30, 2003 (Returns for Periods Longer Than One Year are Annualized)					
ENDOWMENT FUNDS		One Month	Three Months	One Year	Three Years	Five Years	Ten Years
Permanent University Fund	$ 7,655.1	1.68	6.60	19.34	2.54	4.55	9.07
General Endowment Fund		1.84	6.83	20.19	N/A	N/A	N/A
Permanent Health Fund	785.6	1.81	6.76	20.01	3.28	N/A	N/A
Long Term Fund	3,167.0	1.81	6.76	20.10	3.03	6.26	9.82
Separately Invested Funds	172.9	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	**11,780.6**						
OPERATING FUNDS							
Short Term Fund	1,778.3	0.08	0.25	1.16	2.58	3.86	4.61
Short Intermediate Term Fund	1,366.5	0.08	0.88	2.37	4.16	4.41	5.41
Institutional Index Funds:							
BGI US Debt Index Fund	53.1	0.26	1.96	5.45	7.99	N/A	N/A
BGI Equity Index Fund	225.9	0.88	5.46	15.16	(5.48)	N/A	N/A
Total Operating Funds	**3,423.8**						
Total Investments	**$ 15,204.4**						
BENCHMARKS							
Endowment Funds: Endowment Policy Portfolio		1.36	6.14	17.81	2.47	5.08	10.39
Short Term Fund: 90 Day Treasury Bills Average Yield		0.08	0.26	1.17	2.59	3.72	4.46
Short Intermediate Term Fund: Composite of Government Agencies and Treasuries		0.00	0.64	2.43	5.52	5.40	5.68
Institutional Debt Index Fund: Lehman Brothers Aggregate Bond Index		0.24	1.93	5.18	7.87	6.47	6.90
Institutional Equity Index Fund: Standards & Poor's 500 Index (S&P 500)		0.88	5.45	15.09	(5.52)	(0.47)	10.63
Other Indices:							
U.S. Equity Markets: Wilshire 5000 Index		1.40	6.40	19.01	(3.32)	0.79	10.30
International Equity Markets: Morgan Stanley Capital International EAFE Index		2.22	11.94	24.22	(4.21)	(0.78)	4.41

Permanent University Fund
Performance Attribution

	Asset Allocation		Return		
			Three Months Ended November 30, 2003		
	Neutral	November 30, 2003	Benchmark	PUF	Total Attribution (1)
Cash and Cash Equivalents	**0.0%**	**0.8%**	**0.26%**	**0.25%**	**-0.08%**
Domestic Public Equities	**31.0%**	**36.3%**	**6.40%**	**6.82%**	**0.15%**
Passive Management	11.0%	14.6%	6.40%	7.83%	0.13%
Active Management	10.0%	12.7%	6.40%	7.94%	0.28%
Hedge & Structured Active Management	10.0%	9.0%	6.40%	3.53%	-0.26%
International Public Equities	**19.0%**	**22.8%**	**11.85%**	**10.67%**	**-0.20%**
Passive Management	6.5%	7.3%	11.85%	11.62%	0.00%
Active Management	7.5%	14.6%	11.85%	10.86%	0.19%
Hedge & Structured Active Management	5.0%	0.9%	11.85%	1.48%	-0.39%
Absolute Return	**10.0%**	**9.7%**	**1.27%**	**5.57%**	**0.52%**
Inflation Hedging	**10.0%**	**8.4%**	**3.87%**	**8.76%**	**0.51%**
Fixed Income	**15.0%**	**12.7%**	**1.75%**	**4.07%**	**0.44%**
Total Marketable Securities	**85.0%**	**90.7%**	**5.90%**	**7.24%**	**1.34%**
Private Capital (2)	**15.0%**	**11.1%**	**7.44%**	**1.67%**	
Total	**100.0%**	**101.8%**	**6.14%** (3)	**6.60%**	

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.
(2) Private Capital has been excluded from attribution analysis.
(3) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.

Permanent University Fund
Performance Attribution

	Asset Allocation		Return		
			Year Ended November 30, 2003		
	Neutral	November 30, 2003	Benchmark	PUF	Total Attribution (1)
Cash and Cash Equivalents	**0.0%**	**0.8%**	**1.17%**	**1.16%**	**-0.15%**
Domestic Public Equities	**31.0%**	**36.3%**	**19.01%**	**19.59%**	**0.41%**
Passive Management	11.0%	14.6%	19.01%	21.06%	0.47%
Active Management	10.0%	12.7%	19.01%	26.88%	1.03%
Hedge & Structured Active Management	10.0%	9.0%	19.01%	8.33%	-1.09%
International Public Equities	**19.0%**	**22.8%**	**27.13%**	**29.25%**	**0.45%**
Passive Management	6.5%	7.3%	27.13%	28.27%	0.25%
Active Management	7.5%	14.6%	27.13%	32.97%	0.98%
Hedge & Structured Active Management	5.0%	0.9%	27.13%	2.94%	-0.78%
Absolute Return	**10.0%**	**9.7%**	**5.27%**	**23.74%**	**2.00%**
Inflation Hedging	**10.0%**	**8.4%**	**19.07%**	**36.05%**	**1.55%**
Fixed Income	**15.0%**	**12.7%**	**4.56%**	**9.89%**	**1.47%**
Total Marketable Securities	**85.0%**	**90.7%**	**16.74%**	**22.47%**	**5.73%**
Private Capital (2)	**15.0%**	**11.1%**	**23.75%**	**-0.49%**	
Total	**100.0%**	**101.8%**	**17.81%** (3)	**19.34%**	

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.
(2) Private Capital has been excluded from attribution analysis.
(3) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.

General Endowment Fund
Performance Attribution

	Asset Allocation		Return		
			Three Months Ended November 30, 2003		
	Neutral	November 30, 2003	Benchmark	GEF	Total Attribution (1)
Cash and Cash Equivalents	**0.0%**	**-0.5%**	**0.26%**	**0.25%**	**-0.03%**
Domestic Public Equities	**31.0%**	**36.7%**	**6.40%**	**6.71%**	**0.14%**
Passive Management	11.0%	14.4%	6.40%	7.35%	0.16%
Active Management	10.0%	12.9%	6.40%	7.84%	0.25%
Hedge & Structured Active Management	10.0%	9.4%	6.40%	3.47%	-0.27%
International Public Equities	**19.0%**	**23.5%**	**11.85%**	**10.82%**	**-0.15%**
Passive Management	6.5%	8.1%	11.85%	11.64%	0.05%
Active Management	7.5%	14.5%	11.85%	11.02%	0.20%
Hedge & Structured Active Management	5.0%	0.9%	11.85%	1.48%	-0.40%
Absolute Return	**10.0%**	**10.3%**	**1.27%**	**5.59%**	**0.52%**
Inflation Hedging	**10.0%**	**8.5%**	**3.87%**	**8.67%**	**0.49%**
Fixed Income	**15.0%**	**13.1%**	**1.75%**	**4.22%**	**0.49%**
Total Marketable Securities	**85.0%**	**91.6%**	**5.90%**	**7.36%**	**1.46%**
Private Capital (2)	**15.0%**	**10.2%**	**7.44%**	**2.27%**	
Total	**100.0%**	**101.8%**	**6.14%** (3)	**6.83%**	

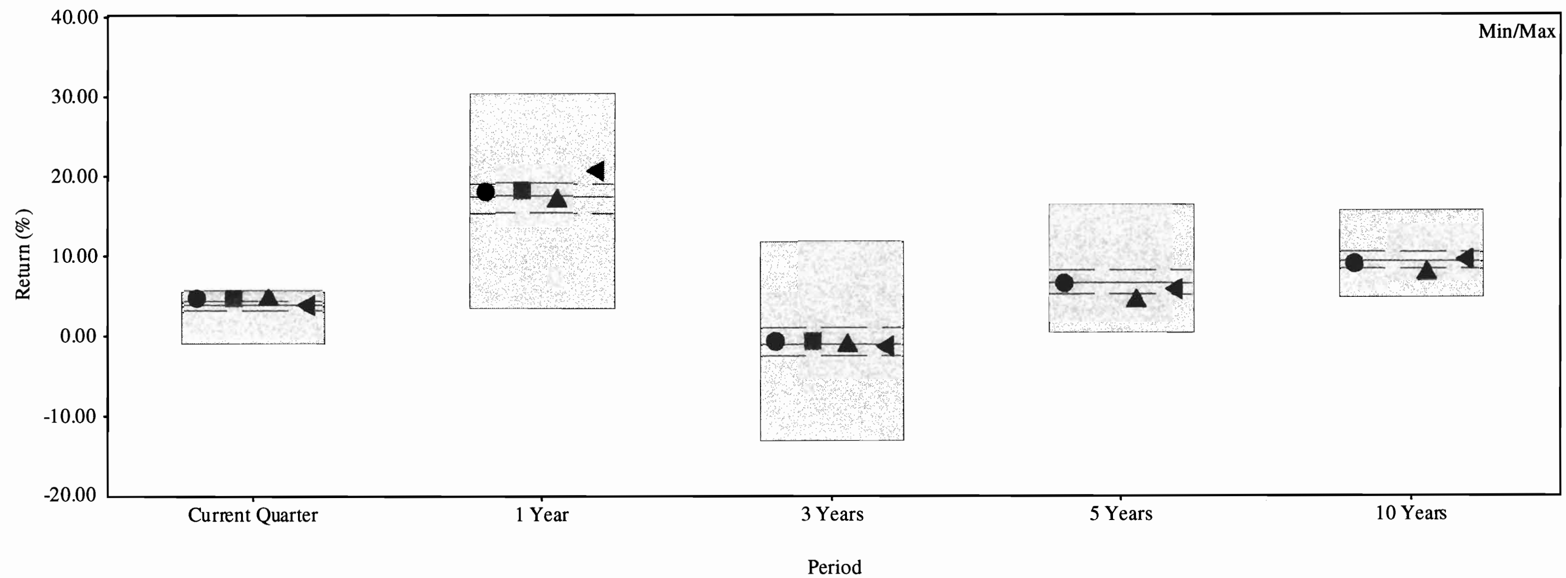
(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.
(2) Private Capital has been excluded from attribution analysis.
(3) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.

General Endowment Fund
Performance Attribution

	Asset Allocation		Return		
			Year Ended November 30, 2003		
	Neutral	November 30, 2003	Benchmark	GEF	Total Attribution (1)
Cash and Cash Equivalents	**0.0%**	**-0.5%**	**1.17%**	**1.16%**	**-0.09%**
Domestic Public Equities	**31.0%**	**36.7%**	**19.01%**	**19.61%**	**0.43%**
Passive Management	11.0%	14.4%	19.01%	20.57%	0.34%
Active Management	10.0%	12.9%	19.01%	27.44%	1.24%
Hedge & Structured Active Management	10.0%	9.4%	19.01%	8.19%	-1.15%
International Public Equities	**19.0%**	**23.5%**	**27.13%**	**29.44%**	**0.61%**
Passive Management	6.5%	8.1%	27.13%	28.33%	0.33%
Active Management	7.5%	14.5%	27.13%	33.37%	1.05%
Hedge & Structured Active Management	5.0%	0.9%	27.13%	2.94%	-0.77%
Absolute Return	**10.0%**	**10.3%**	**5.27%**	**23.78%**	**2.04%**
Inflation Hedging	**10.0%**	**8.5%**	**19.07%**	**35.91%**	**1.54%**
Fixed Income	**15.0%**	**13.1%**	**4.56%**	**10.38%**	**1.71%**
Total Marketable Securities	**85.0%**	**91.6%**	**16.74%**	**22.98%**	**6.24%**
Private Capital (2)	**15.0%**	**10.2%**	**23.75%**	**-0.59%**	
Total	**100.0%**	**101.8%**	**17.81%** (3)	**20.19%**	

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.
(2) Private Capital has been excluded from attribution analysis.
(3) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.

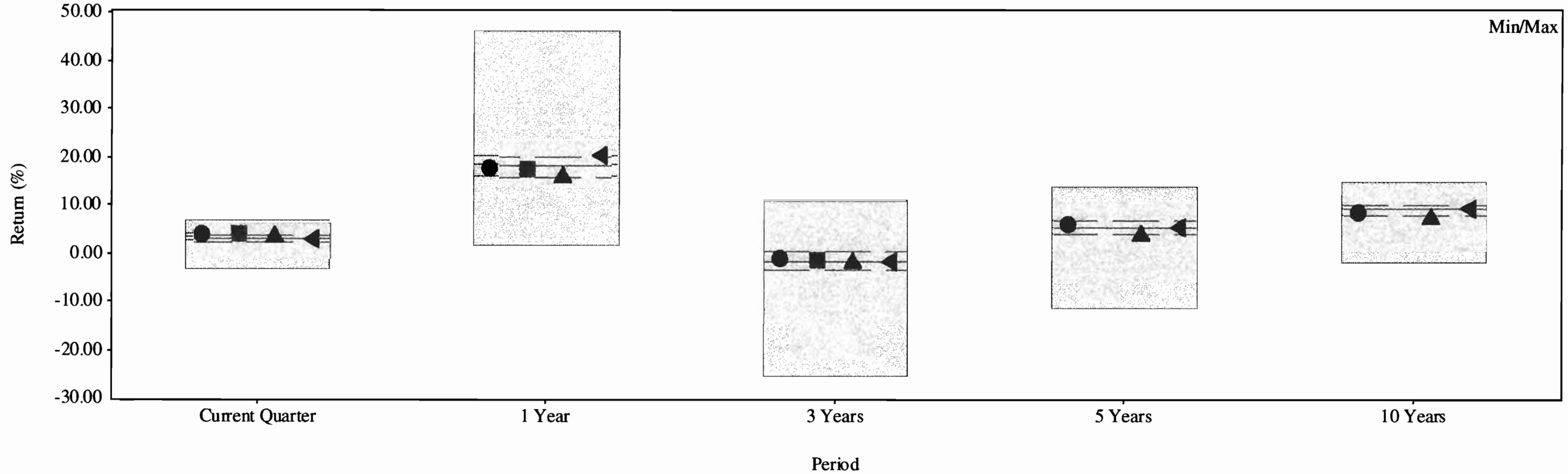
UTIMCO ENDOWMENT FUNDS vs.
Cambridge Universe
Periods Ended September 30, 2003
Quartile



	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)
Maximum	5.68		30.50		11.81		16.63		15.92	
25th Percentile	4.10		19.15		0.98		8.23		10.57	
Median	3.62		17.52		- 1.31		6.57		9.20	
75th Percentile	2.98		15.40		- 2.71		5.01		8.37	
Minimum	- 0.74		3.76		- 12.90		0.60		5.00	
# of Portfolios	135		135		135		130		99	
● **LTF-Net of Fees**	4.83	9	18.40	36	- 0.46	42	6.66	49	9.20	51
■ **PHF-Net of Fees**	4.87	8	18.31	36	- 0.59	42	---	---	---	---
▲ **PUF-Net of Fees**	5.00	5	17.36	52	- 0.82	45	4.75	78	8.48	71
◀ **Endowment Policy Portfolio**	3.90	36	20.90	10	- 1.10	47	6.12	59	9.81	37

The Cambridge Universe consists of all College and Universities that report quarterly returns to Cambridge Associates, Inc. The number of Colleges and Universities reporting as of September 30, 2003 was 135.

UTIMCO ENDOWMENTS FUNDS vs.
FOUNDATIONS AND ENDOWMENTS UNIVERSE
Periods Ended September 30, 2003



	Current Quarter Return	(% tile)	1 Year Return	(% tile)	3 Years Return	(% tile)	5 Years Return	(% tile)	10 Years Return	(% tile)
Maximum	6.88		46.30		11.31		14.00		14.94	
25th Percentile	4.08		20.28		0.61		7.05		10.14	
Median	3.40		18.48		- 1.34		5.48		9.33	
75th Percentile	2.67		16.04		- 3.23		4.30		8.06	
Minimum	- 2.77		2.10		- 24.75		- 11.00		- 1.55	
# of Portfolios	142		136		125		104		68	
● **LTF-Net of Fees**	4.83	11	18.40	52	- 0.46	39	6.66	35	9.20	57
■ **PHF-Net of Fees**	4.87	10	18.31	53	- 0.59	39	---	---	---	---
▲ **PUF-Net of Fees**	5.00	10	17.36	65	- 0.82	42	4.75	67	8.48	72
◀ **Endowment Policy Portfolio**	3.90	31	20.90	24	- 1.10	46	6.12	41	9.81	34

Universe Source: (c) Russell/Mellon Analytical Services

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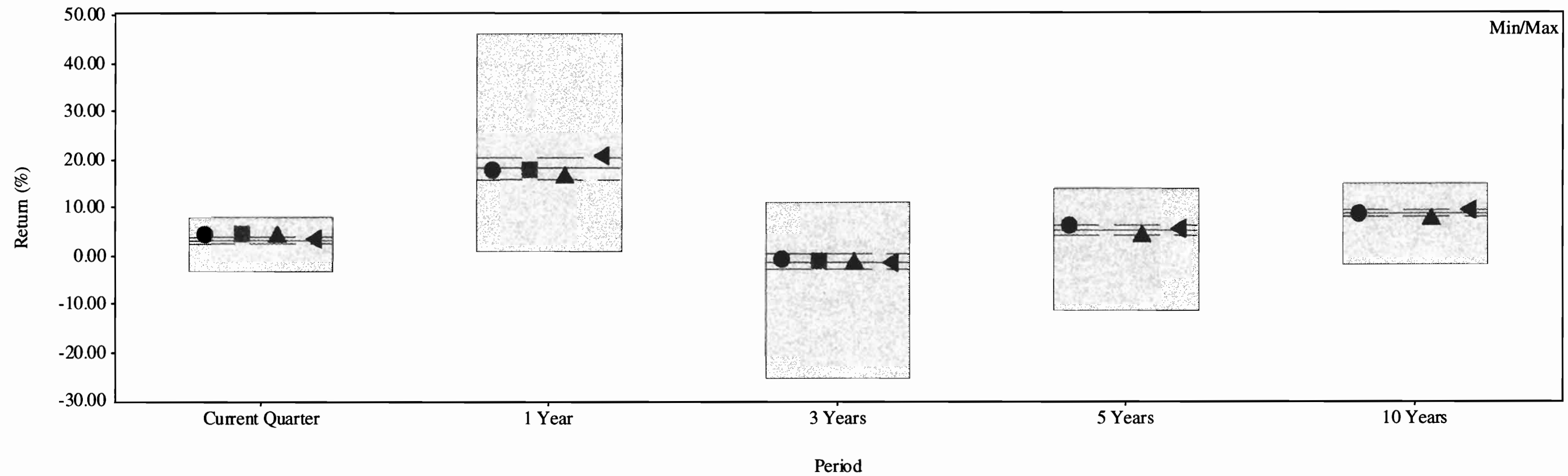
The Foundations and Endowments Universe consists of all the assets of foundation and endowment plans of Russell/Mellon Clients. The number of funds in the universe as of September 30, 2003 was 142.

UTIMCO ENDOWMENTS FUNDS vs.
ALL FUNDS UNIVERSE
Periods Ended September 30, 2003



	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)
Maximum	8.03		46.30		11.31		14.00		14.94	
25th Percentile	3.88		20.21		0.44		6.29		9.51	
Median	3.22		18.19		- 1.36		5.29		8.72	
75th Percentile	2.41		15.92		- 2.98		4.36		8.00	
Minimum	- 2.77		1.38		- 24.75		- 11.00		- 1.55	
# of Portfolios	534		521		476		427		316	
● **LTF-Net of Fees**	4.83	7	18.40	49	- 0.46	39	6.66	19	9.20	36
■ **PHF-Net of Fees**	4.87	7	18.31	50	- 0.59	40	---	---	---	---
▲ **PUF-Net of Fees**	5.00	6	17.36	61	- 0.82	43	4.75	67	8.48	63
◀ **Endowment Policy Portfolio**	3.90	25	20.90	23	- 1.10	46	6.12	30	9.81	18

Universe Source: (c) Russell/Mellon Analytical Services

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The All Funds Universe consists of all corporate, foundation and endowment, and public plans of Russell/Mellon clients. The number of funds in this universe as of September 30, 2003 was 534.

DERIVATIVE APPLICATIONS
November 30, 2003
(Managed by UTIMCO internal management)

U.S. Equity Applications: Select Index Futures and Index-derived ETF's (Exchange Traded Funds)

The purpose of investing in the below proposed vehicles is to adjust or tilt certain fundamental and definable exposures of the U.S. equity asset class in a highly efficient and cost-effective manner. Each of these proposed investments could be accomplished by engaging active management. However, by judiciously employing these passive instruments, UTIMCO will be able to effect size, sector and beta adjustments, in a manner consistent with improving the potential value added of the asset class in general at a much lower cost. The futures are fully collateralized by an underlying cash investment portfolio (the AAA-rated STIF) and are unlevered.

Exposure[1]	Rationale	Vehicle[2]
S&P 500 Index	Large Cap Equity Market Exposure	Futures or ETFs
S&P 400 Index	Mid Cap Equity Market Exposure	Futures or ETFs
Russell 2000 Index	Small Cap Exposure	Futures or ETFs
NASDAQ 100 Index	Beta or Technology Exposure	Futures or ETFs
Semiconductor Index	Beta or Semiconductor Industry Exposure	ETFs
Energy Sector Index	Energy Exposure	ETFs
Healthcare Sector Index	Healthcare Exposure	ETFs
Financial Sector Index	Financial Exposure	ETFs
S&P 100 Index	Tilt Size Exposure	ETFs

[1] *Multiple derivatives often exist for ETFs replicating the same underlying index exposure.*
[2] *Exchange-Traded Funds are exchange-traded single shares that represent ownership in an underlying index or basket of securities.*

Total exposure in S&P 500 Index futures as of November 30, 2003 was $322.9 million, which makes up 2.8% of the endowment funds.
Total exposure in S&P 400 Index futures as of November 30, 2003 was $163.6 million, which makes up 1.4% of the endowment funds.
Total exposure in Russell 2000 Index futures as of November 30, 2003 was $152.7 million, which makes up 1.3% of the endowment funds.
Total investment in Energy Sector Index ETF's as of November 30, 2003 was $1.3 million, which makes up .01% of the endowment funds.
Total investment in Dow Jones ETF's as of November 30, 2003 was $243.5 million, which makes up 2.1% of the endowment funds.

In November 2003, the endowment funds wrote 5% "out of the money" Russell 2000 call options (average strike price of $569.88), with a notional value of $100 million, to hedge a portion of our risk in the U.S. Equity asset class. Total premium received was $2 million. These options expire in February 2004.

Non U.S. Equity Applications: Select Index, Regional and Country Derivative Instruments

The purpose of investing in the below proposed vehicles is to adjust or tilt certain fundamental and definable exposures of the International Equity asset class in a highly efficient, flexible and cost-effective manner. Some, but not all, of these proposed investments could be accomplished by engaging in active management. However, by judiciously employing these passive instruments, UTIMCO will be able to effect developed vs. emerging, regional, and country exposure adjustments with greater facility, and, in a manner consistent with improving the potential value added of the asset class in general, while at a much lower cost. The futures are fully collateralized by an underlying cash investment portfolio (the AAA-rated STIF) and are unlevered.

Exposures	Rationale	Vehicles
MSCI EAFE Index	Standard Index Exposure	ETFs/Futures
MSCI Emerging Markets Index	Standard Index Exposure	ETFs/Futures
MSCI Regions	Tilt Regional Exposure to non-U.S. Equities	ETFs/Futures/OTC Trades
MSCI Countries	Tilt Country Exposure to non-U.S. Equities	ETFs/Futures/OTC Trades

Total investment in Non U.S. MSCI ETF's as of November 30, 2003 was $45.4 million, which makes up .4% of the endowment funds.

Structured Active Management Applications

The purpose of this application is to use derivatives and cash, along with hedge funds, to obtain an overall risk exposure equivalent to that of a traditional active management portfolio. Combining passive market exposure with hedge fund investments and cash through Structured Active Management will provide the Funds with an active investment alternative within the U.S. Domestic Active Management asset class sub-category. The futures overlay a position consisting of both hedge investments and cash.

The amount that can be invested in this structured active management application is 5% of the total endowment portfolios.

Total exposure in S&P 500 Equity index futures as of November 30, 2003 was $221.3 million, which makes up 1.9% of the endowment funds.

GSCI Futures

The asset allocation for endowments includes 5% to 15% for Inflation Hedging assets.

Inflation Hedging assets include

- Private Real Estate
- Public Real Estate (REITs)
- Goldman Sachs Commodity Index
- Treasury Inflation Protected Notes (TIPS)
- Timberland

The Goldman Sachs Commodity Index (GSCI) is purchasable in the form of commodity futures (GSCI futures). The GSCI futures are fully collateralized by an underlying cash investment portfolio (the AAA-rated STIF) and are unlevered. They are highly liquid since they are traded daily on the CME.

Total exposure in GSCI futures as of November 30, 2003 was $152.6 million, which makes up 1.3% of the endowment funds.

SUMMARY OF DERIVATIVE APPLICATIONS

Futures Exposure ($ millions)

			Percentage Of Endowment Funds
Collateralized by Cash			
S&P 500 Index	$	322.9	2.8 %
S&P 400 Index		163.6	1.4
Russell 2000 Index		152.7	1.3
GSCI		152.6	1.3
Collateralized by Hedge Funds and Cash			
S&P 500 Index		221.3	1.9
Total Internally Managed Futures	**$**	**1,013.1**	**8.7** %

Exchange Traded Funds (ETF's) ($ millions)

			Percentage Of Endowment Funds
Energy Sector	$	1.3	0.01 %
Dow Jones		243.5	2.10
Non U.S. MSCI		45.4	0.39
Total Internally Managed ETF's	**$**	**290.2**	**2.50** %

Options Notional Value ($ millions)

Russell 2000 Index call options	$	100.0	0.9 %

Public Markets Managers
Investment Performance Detail Summary
November 30, 2003

UTIMCO Manager Rating:

	positive
	neutral to slightly positive
	neutral (strategy to be reviewed)
	neutral to slightly negative
	negative

	Assets Under Management ($ Millions)	Periods Ended November 30, 2003 (Returns for Periods Longer Than One Year are Annualized) One Month	Three Months	One Year	Three Years	Five Years	Seven Years	Ten Years	From Inception to November 30, 2003 (Returns for Periods Longer Than One Year are Annualized) Manager	Benchmark	Inception Date
Public Equities:											
Domestic Equities:											
Passive Management:											
BGI S&P 500	**225.2**	0.88	5.45	15.14	(5.48)	(0.45)	6.61	10.76	N/A		February 1993
vs. S&P 500 Index		**0.00**	**(0.01)**	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			
BGI S&P 400 Midcap	**609.6**	3.48	9.62	27.90	6.91	11.42	13.44	14.39	N/A		December 1992
vs. S&P 400 Midcap Index		**0.00**	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			
S&P 400 Midcap Futures	**163.7**	3.42	-	-	-	-	-	-	11.22	11.31	October 2003
vs. S&P 400 Midcap Index		**(0.06)**	-	-	-	-	-	-	**(0.09)**		
Cash Equitization - S&P 500 Index Futures	**283.2**	0.57	5.01	14.49	-	-	-	-	(4.77)	(4.08)	March 2001
vs. S&P 500 Index		**(0.31)**	**(0.44)**	**(0.60)**	-	-	-	-	**(0.69)**		
Energy Sector Index - Exchange Traded Funds	**1.3**	1.51	-	-	-	-	-	-	2.23	0.26	August 2003
vs. 90 Day Treasury Bills Average Yield		[illegible]	-	-	-	-	-	-	[illegible]		
Dow Jones - Exchange Traded Funds (Funded 11/03)	**82.3**	(0.48)	-	-	-	-	-	-	(0.48)	0.08	November 2003
vs. Dow Jones Industrial Average		**(0.56)**	-	-	-	-	-	-	**(0.56)**		
Russell 2000 Futures	**157.6**	3.46	10.30	-	-	-	-	-	15.34	15.22	July 2003
vs. Russell 2000		**(0.09)**	[illegible]	-	-	-	-	-	[illegible]		
Active Management:											
BGI Russell 2000 Alpha Tilt	**323.4**	4.44	11.25	37.76	-	-	-	-	11.05	8.42	February 2002
vs. Russell 2000		[illegible]	[illegible]	[illegible]	-	-	-	-	[illegible]		
BGI Russell 3000 Alpha Tilts	**335.2**	1.50	-	-	-	-	-	-	6.47	6.35	August 2003
vs. Russell 3000		[illegible]	-	-	-	-	-	-			
Cordillera	**186.4**	2.25	7.68	35.84	(5.79)	9.77	9.21	-	10.35	5.43	January 1994
vs. Russell 2000 Growth		**(1.01)**	**(1.67)**	**(1.84)**	**(5.57)**	[illegible]	[illegible]	-	[illegible]		
Cordillera Opportunistic	**28.8**	4.86	-	-	-	-	-	-	15.33	12.24	October 2003
vs. Russell 2000		[illegible]	-	-	-	-	-	-	[illegible]		
Davis Hamilton Jackson	**71.3**	0.42	3.29	10.66	(7.34)	0.34	7.89	-	9.59	10.59	January 1994
vs. S&P 500 Index		**(0.46)**	**(2.17)**	**(4.43)**	**(1.82)**	[illegible]	[illegible]	-	**(1.00)**		
GSAM- Large Cap	**135.9**	1.35	6.82	18.28	(4.18)	0.46	-	-	0.57	0.73	April 1998
vs. S&P 500 Index		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	**(0.16)**		
GSAM - Small Cap	**117.1**	4.78	12.50	38.42	12.27	10.13	-	-	5.43	3.64	April 1998
vs. Russell 2000		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]		
MBA Investments	**0.6**	2.70	4.38	16.98	(8.90)	(4.46)	0.22	-	2.59	9.28	November 1995
MBA vs. S&P 500 Index		[illegible]	**(1.07)**	[illegible]	**(3.38)**	**(3.99)**	**(6.26)**	-	**(6.69)**		
Schroder	**292.6**	2.41	7.08	27.17	7.41	8.75	9.42	10.78	10.87	9.33	January 1994
vs. Russell 2000		**(1.14)**	**(3.09)**	**(9.12)**	**(1.09)**	[illegible]	[illegible]	[illegible]	[illegible]		
Value Act Capital	**56.8**	(1.40)	(0.39)	-	-	-	-	-	3.23	15.22	August 2003
vs. Russell 2000		**(4.95)**	**(10.57)**	-	-	-	-	-	**(11.99)**		
Hedge and Structured Active Management:											
BGI Global Market Neutral Fund	**182.3**	0.76	6.78	-	-	-	-	-	25.37	25.56	January 2003
vs. S&P 500 Index		**(0.12)**	[illegible]	-	-	-	-	-	**(0.19)**		
Hedge Funds Overlay ($221.4 Million Notional)	**12.7**	0.80	-	-	-	-	-	-	0.80	0.88	November 2003
vs. S&P 500 Index		**(0.08)**	-	-	-	-	-	-	**(0.08)**		
Hedge Funds:											
Eminence	**31.1**	2.57	5.53	-	-	-	-	-	3.48	2.09	June 2003
vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	-	-	-	-	-	[illegible]		
Maverick Fund	**475.5**	1.64	2.37	5.42	6.66	14.16	-	-	11.44	8.02	August 1998
vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	**(0.11)**	[illegible]	-	-	[illegible]		
SG Partners	**51.3**	0.32	2.74	-	-	-	-	-	2.74	1.27	August 2003
vs. 90 Day Treasury Bills Average Yield + 4%		**(0.10)**	[illegible]	-	-	-	-	-	[illegible]		
Sirios Overseas	**52.1**	(0.78)	0.78	-	-	-	-	-	4.39	3.01	May 2003
vs. 90 Day Treasury Bills Average Yield + 4%		**(1.20)**	**(0.48)**	-	-	-	-	-	[illegible]		
Standard Pacific Capital Offshores Fund	**47.6**	0.70	2.15	-	-	-	-	-	(4.76)	4.35	February 2003
vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	-	-	-	-	-	**(9.11)**		

Public Markets Managers
Investment Performance Detail Summary
November 30, 2003

UTIMCO Manager Rating:

	positive
	neutral to slightly positive
	neutral (strategy to be reviewed)
	neutral to slightly negative
	negative

NET OF FEES PERFORMANCE (continued)

	Assets Under Management ($ Millions)	Periods Ended November 30, 2003 (Returns for Periods Longer Than One Year are Annualized) One Month	Three Months	One Year	Three Years	Five Years	Seven Years	Ten Years	From Inception to November 30, 2003 (Returns for Periods Longer Than One Year are Annualized) Manager	Benchmark	Inception Date
International Equities:											
Passive Management:											
BGI EAFE International Fund	502.0	2.24	11.97	24.51	(3.71)	(0.89)	2.42	5.06	5.64	5.10	April 1993
vs. MSCI EAFE Net		[illegible]	[illegible]	[illegible]	[illegible]	(0.11)	[illegible]	[illegible]	[illegible]		
BGI Emerging Markets Structured Fund	375.6	1.09	11.17	42.47	-	-	-	-	16.11	13.49	February 2002
vs. MSCI Emerging Markets Free		[illegible]	[illegible]	[illegible]	-	-	-	-	[illegible]		
Active Management:											
BGI International Alpha Tilts	229.0	1.94	11.86	-	-	-	-	-	11.86	11.94	August 2003
vs. MSCI EAFE Net		(0.28)	(0.08)	-	-	-	-	-	(0.08)		
Capital Guardian EAFE	174.0	1.39	10.85	21.47	(3.60)	-	-	-	(6.67)	(6.73)	August 2000
vs. MSCI EAFE Net		(0.84)	(1.09)	(2.76)	[illegible]	-	-	-	[illegible]		
Capital Guardian Emerging	281.6	(0.24)	9.18	37.19	7.90	-	-	-	(1.85)	(0.63)	August 2000
vs. MSCI Emerging Markets Free		(1.27)	(0.89)	[illegible]	(0.29)	-	-	-	(1.22)		
Capital Guardian Trust Small Cap International	208.0	0.59	11.51	45.04	(1.90)	2.48	0.38	-	0.38	1.57	December 1996
vs. MSCI EAFE Net		(1.63)	(0.43)	[illegible]	[illegible]	[illegible]	(1.19)	-	(1.19)		
EAFE - Exchange Traded Funds (Funded 11/03)	45.4	-	-	-	-	-	-	-	-	-	November 2003
vs. MSCI EAFE Net		-	-	-	-	-	-	-	-		
Globeflex	76.7	2.13	-	-	-	-	-	-	2.13	2.22	October 2003
vs. MSCI EAFE Net		(0.09)	-	-	-	-	-	-	(0.09)		
GSAM - Structured International Equity	158.0	1.67	12.96	24.06	(4.96)	(0.48)	-	-	(0.66)	(0.58)	April 1998
vs. MSCI EAFE Net		(0.55)	[illegible]	(0.16)	(0.75)	[illegible]	-	-	(0.08)		
Franklin Templeton	323.3	2.04	13.21	39.42	13.33	7.33	1.23	-	2.04	(1.30)	January 1996
vs. MSCI Emerging Markets Free		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]		
Watch List Oechsle	117.9	0.30	10.22	26.47	(7.21)	-	-	-	(9.58)	(6.73)	August 2000
vs. MSCI EAFE Net		(1.92)	(1.72)	[illegible]	(3.00)	-	-	-	(2.85)		
Hedge Funds:											
Arrowstreet Capital	35.0	(0.57)	0.65	-	-	-	-	-	(11.98)	2.57	May 2003
90 Day Treasury Bills Average Yield + 4%		(0.99)	(0.62)	-	-	-	-	-	(14.53)		
OCM Emerging Markets Fund	69.1	0.48	1.91	9.09	-	-	-	-	8.68	5.61	January 2002
90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	-	-	-	-	[illegible]		
Absolute Return:											
Farallon Capital Offshore Investors	341.5	2.03	5.56	24.97	13.71	15.38	-	-	13.80	8.02	August 1998
vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]		
Perry Partners International	381.4	2.84	6.66	22.05	14.28	16.21	-	-	13.65	8.02	August 1998
vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]		
Protégé Partners Fund	188.4	0.87	3.31	-	-	-	-	-	11.39	3.92	February 2003
vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	-	-	-	-	-	[illegible]		
Satellite Fund	236.2	1.69	5.43	29.28	5.78	-	-	-	6.81	7.08	September 2000
vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	(0.99)	-	-	-	(0.27)		

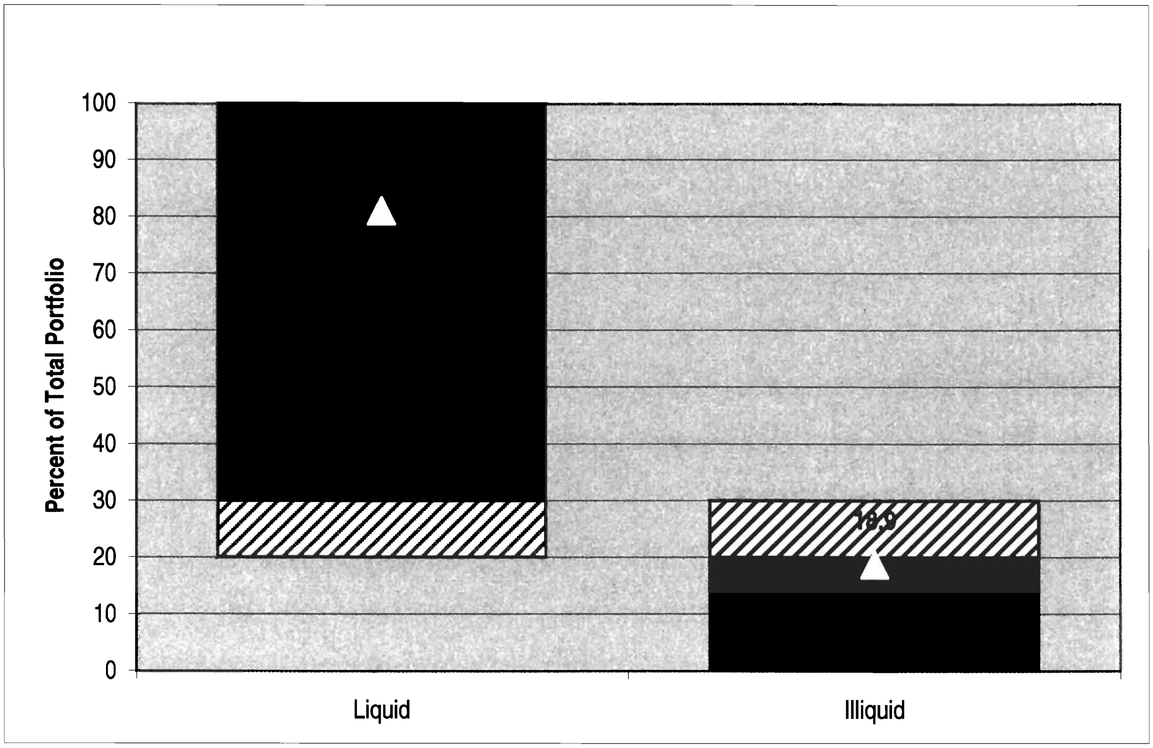
Public Markets Managers
Investment Performance Detail Summary
November 30, 2003

UTIMCO Manager Rating:

	positive
	neutral to slightly positive
	neutral (strategy to be reviewed)
	neutral to slightly negative
	negative

	Assets Under Management ($ Millions)	Periods Ended November 30, 2003 (Returns for Periods Longer Than One Year are Annualized)							From Inception to November 30, 2003 (Returns for Periods Longer Than One Year are Annualized)		
		One Month	Three Months	One Year	Three Years	Five Years	Seven Years	Ten Years	Manager	Benchmark	Inception Date
NET OF FEES PERFORMANCE (continued)											
Inflation Hedging:											
Goldman Sachs Commodity Index	**152.7**	2.38	0.44	22.67	-	-	-	-	22.01	21.00	June 2002
vs. Goldman Sachs Commodity Index - 100 bps		[illegible]	[illegible]	[illegible]	-	-	-	-	[illegible]		
REITS - Greg Cox	**824.9**	4.94	10.41	38.11	19.29	14.54	13.11	15.02	13.80	10.40	April 1993
vs. Wilshire Real Estate Securities		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Fixed Income:											
Internal - Harland Doak	**304.2**	0.50	3.09	9.06	-	-	-	-	7.24	8.62	February 2001
vs. Credit Related Composite Index		[illegible]	[illegible]	**(0.11)**	-	-	-	-	**(1.38)**		
Internal - Russ Kampfe	**300.6**	0.22	1.35	3.48	5.80	-	-	-	7.31	8.76	February 2000
vs. Lehman Brothers Aggregate Bond Index		**(0.01)**	**(0.59)**	**(1.71)**	**(2.07)**	-	-	-	**(1.46)**		
Total Internally Managed Fixed Income	**604.8**	0.36	2.23	6.12	6.78	-	-	-	8.09	8.76	
vs. Lehman Brothers Aggregate Bond Index		[illegible]	[illegible]	[illegible]	**(1.08)**	-	-	-	**(0.67)**		
PIMCO Fixed Income	**808.5**	1.30	5.67	14.00	10.98	7.36	-	-	7.69	6.87	March 1998
vs. Lehman Brothers Aggregate Bond Index		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]		
GSAM Global Asset Allocation Overlay	**121.1**	(0.55)	5.92	20.16	(1.70)	4.18	-	-	(2.00)		April 1998

PUF Liquidity Profile
November 30, 2003



Current

	11/30/2003 Market Value	11/30/2003 Percent	10/31/2003 Market Value	10/31/2003 Percent
Liquid	6,225,582,251.53	81.1	6,174,296,873.42	81.3
Illiquid	1,447,038,113.09	18.9	1,422,040,749.74	18.7
	7,672,620,364.62	100.0	7,596,337,623.16	100.0

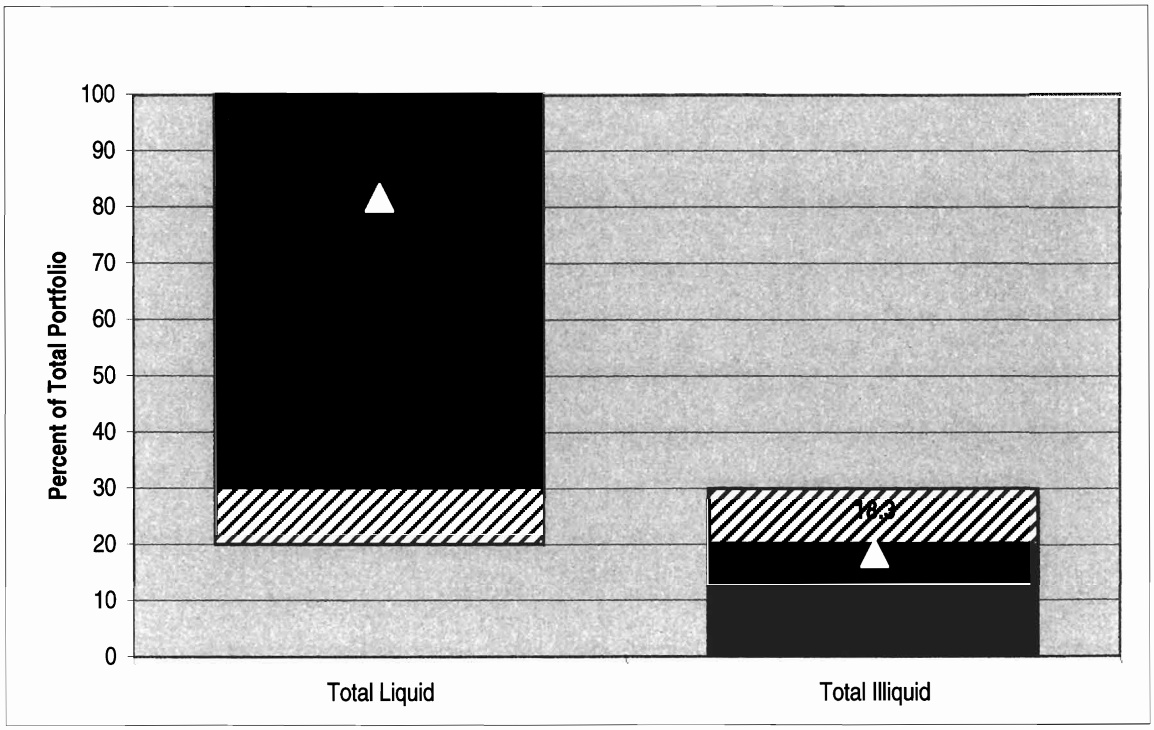
Approved but not yet invested illiquid marketable investments:

	11/30/2003 Market Value	11/30/2003 Percent	10/31/2003 Market Value	10/31/2003 Percent
Liquid	6,155,232,251.53	80.2	6,174,296,873.42	81.3
Illiquid	1,517,388,113.09	19.8	1,422,040,749.74	18.7
	7,672,620,364.62	100.0	7,596,337,623.16	100.0

Liquid: Investments that could be converted to cash within a period of 1 day to 3 months in an orderly market at a discount of 10% or less.

Illiquid: Investments that could be converted to cash in a orderly market over a period of more than 3 months or in a shorter period of time by accepting a discount of more than 10%.

GEF Liquidity Profile
November 30, 2003



Current

	11/30/2003		10/31/2003	
	Market Value	Percent	Market Value	Percent
Liquid	3,236,924,725.64	81.7	3,262,218,153.60	82.2
Illiquid	726,564,478.20	18.3	705,156,507.26	17.8
	3,963,489,203.84	100.0	3,967,374,660.86	100.0

Approved but not yet invested illiquid marketable investments:

	11/30/2003		10/31/2003	
	Market Value	Percent	Market Value	Percent
Liquid	3,198,774,725.64	80.7	3,262,218,153.60	82.2
Illiquid	764,714,478.20	19.3	705,156,507.26	17.8
	3,963,489,203.84	100.0	3,967,374,660.86	100.0

Liquid: Investments that could be converted to cash within a period of 1 day to 3 months in an orderly market at a discount of 10% or less.
Illiquid: Investments that could be converted to cash in a orderly market over a period of more than 3 months or in a shorter period of time by accepting a discount of more than 10%.

TAB 4

Agenda Item
UTIMCO Board of Directors Meeting
January 13, 2004

Agenda Item: Manager Watch List Update – Public Markets

Developed By: Goldsmith

Presented By: Goldsmith

Type of Item: Status and Remedy Timeline for Resolution

Description: Public Markets presently has two investment managers on the Watch List. Capital Guardian – designation effective January, 2004, and Oechsle – designation effective November, 2002. This agenda item seeks to update the Board on the status of these managers and to provide insight into the proposed timeline for issue resolution.

Recommendation: No action required.

Discussion:

Capital Guardian:
Investment Mandates: EAFE, International Small Cap, and Emerging Markets totaling $648.6 M - representing 5.6% of the Endowments' exposure as of November 30, 2003.

Capital Guardian was placed on the Watch List in early January 2004 for reasons which include poor near and long-term performance across their product line, a continued lack of insight into the competitive advantage or value-added benefits of their process, and for repeated difficulty in liquidating UT assets and executing UTIMCO instructions. Since 1996, the UT Endowments have paid nearly $6 million in total fees to Capital Guardian for their three assignments. Aggregate results over that period have continually trailed that of their benchmarks and peers.

Oechsle:
Investment Mandate: EAFE totaling $117.9M - representing 1.02% of the Endowments' exposure as of November 30, 2003.

Oechsle was placed on the Watch List effective November 2002 for performance reasons. Upon the arrival of the MD Public Markets in May, it was decided to retain Oechsle, at least temporarily, given that their higher beta and growth-oriented positioning was consistent with UTIMCO's overall post-Iraq War macro-economic investment thesis during 2003. This decision has proven near term profitable as Oechsle has added over 600 bps. versus their EAFE benchmark from the June through November 2003 period. Oechsle's issues today relate to the depth and strength of their research process and its ability to generate long-term competitive returns.

Reference: PUF and LTF Investment Policies; Delegation of Authority Policy

Investment Manager Watch List
(Capital Guardian and Oechsle International)

A. Investment Manager Selection and Termination Guidelines

Establishment:

- Delegation of Authority approved by the UTIMCO Board of Directors on April 25, 2003.
- Delegation of Manager and Partnership Monitoring and Termination *(from Appendix B)*.

Excerpts (1-4 of 6) from Appendix B:

UTIMCO Management shall be responsible for monitoring and, when necessary, termination of internal and external portfolio managers and partnerships investing U.T. System assets.

Although terminations of investment managers or partners are expected to be rare, such actions may be necessary from time to time to preserve System assets. The general procedure for terminations shall be:

1. A manager committing any of the following actions will be terminated immediately:
   i. Fraud
   ii. Significant violation of investment policy or key terms of the advisory agreement with UTIMCO
   iii. Unethical acts
   iv. Significant violation of a specific portfolio mandate

2. A manager violating any of the conditions below will be notified that he is being placed on a Watch List indicating enhanced scrutiny:
   i. Failure to achieve performance targets over an appropriate period of time
   ii. Significant change in portfolio composition or style of management
   iii. Risk levels significantly higher or lower than agreement
   iv. Significant changes in the manager's organizational structure
   v. Turnover in key investment personnel
   vi. Unsustainable growth in assets under management
   vii. Significant failure in client service or reporting
   viii. Evidence of consistent operational or administrative errors.

3. Watch List notification will be in written form and will specify the reasons for Watch List designation. The written notification will require a written response from the manager setting out a specific timetable over which the problems will be cured. As part of the enhanced scrutiny of the Watch List designation, UTIMCO staff will make at least one on-site visit.

4. If the manager cannot cure the problems or fails to meet the timeline established by his response to the Watch List notification, UTIMCO staff will terminate the relationship with UTIMCO and plan an orderly succession of the assets.

B. <u>Watch List Reporting:</u>

Managers on the watch list are reported each fiscal quarter in UTIMCO's quarterly investment report. This report is mailed to UTIMCO Board of Directors and the U. T. System Board of Regents. The report is completed for the periods ended November 30, February 28, May 31, and August 31 of each year.

C. <u>Watch List Update (Capital Guardian)</u>

<u>Investment Mandates</u>: EAFE, International Small Cap, and Emerging Markets totaling $648.6 M - representing 5.6% of the Endowments' exposure as of November 30, 2003.

Background:
Capital Guardian was hired December 1996 for an International Small Cap mandate. Additional mandates to EAFE and Emerging Markets were made in August 2000. Cap Guardian's process, begun in 1957, divides each portfolio's assets into 10 managed segments – consisting of 9 dedicated portfolio managers and a 10th segment consisting of 18 research analysts. Each segment is run individually, focusing on a bottom-up stock selection approach flowing from independent research. Cap Guardian is independently owned, employs over 200 research analysts globally, and conducts 95% of all research internally.

Capital Guardian's management team and organization have been very stable over time.

As of September 30, 2003 Capital Guardian's institutional assets under management totaled $128,744 M across 975 clients. This included $66,959 M in EAFE, $1,851 in International Small Cap, and $1,554 M in Emerging Markets mandates.

In total, Capital Guardian manages over $600 billion in assets, employing over 6,000 people.

For additional background details, please reference the attached letter.

Justification for watch list:
Please reference attached letter.

Status:
Please reference attached letter.

D. Watch List Update (Oechsle International)

Investment Mandate: EAFE totaling $117.9M - representing 1.02% of the Endowments' exposure as of November 30, 2003.

Background:
Oechsle International was hired in August of 2000 and was placed on the Watch List in November of 2002 for performance-related reasons. Oechsle is managed by four individuals – all involved in portfolio management, research or administration. Currently, 64% of Oechsle is internally owned with 36% owned by Fleet Overseas Asset Management and 1% by Hellman & Friedman.

Oechsle currently employs 60 investment professionals and manages $12,311 M across 116 account relationships. Total firm assets reached a peak of $19,054 M in 1999. The organization lost 16 and 15 accounts, respectively, in 2002/2003 while gaining 9 and 6 accounts, respectively, over the same period.

The UT Endowments are invested in Oechsle's Select fund (commencement date 1994 with 12 other clients) which includes 30-40 stocks with a high average turnover of 200% per annum. The team's investment approach was originally developed at Putnam in the late 1970s. Oechsle's investment philosophy is that fundamentals drive returns and they use a strictly qualitative approach to drive their process forward. By using a combination of both bottom-up and top-down analyses, Oechsle seeks to identify and exploit pricing inefficiencies across countries, currencies, industries/sectors, and ultimately individual securities. Their target investment time horizon is one to two years. Their strategy is to identify undervalued growth stocks and/or earnings growth stories that the market has not fully recognized. This means that they will often-times be very "early" in investments that the marketplace has not yet recognized as a new or renewed growth story.

Oechsle's Select fund operates as essentially a best-ideas all-cap portfolio.

Justification for watch list:
Oechsle's original designation on the Watch List was fueled by their disappointing performance results. Since their hire in August of 2000, Oechsle's inception-to-date results through November 2003 continue to trail their EAFE benchmark by 2.95% per annum. While year-to-date 2003 results are somewhat encouraging – (31.37% vs. 29.07% for the EAFE Index) – this has been insufficient to compensate for the results from August of 2000 to December 2002.

Since his hire in May of 2003, the MD of Public Markets has conducted meetings/conference calls with Oechsle on June 17, July 31, August 29, October 7, November 7 and December 8 to review their investment process and to specifically evaluate their stock selection capabilities. In addition, the MD Public Markets held a conference call with Cambridge Associates on June 22 to solicit their viewpoint on Oechsle.

Investment Manager Watch List

(Capital Guardian and Oechsle International)

Status:

Staff remains unconvinced that Oechsle has the depth of research and focus necessary to provide the long-term value-added necessary for the retention of a Public Markets equity manager. Additionally, Staff feels that the macro-economic conditions have changed enough to no longer justify a continued allocation predominately based on a liquidity driven, high growth, high beta stock environment. An additional on-site visit has been scheduled with Oechsle at the end of January and at that time a final decision on retention will rendered and communicated to the Board.

January 5, 2004

Mr. George L. Romine, Jr.
Capital Guardian Trust Company
3000 K. Street, NW, Suite 230
Washington, D.C. 20007-5140

Dear George:

As per my message last week, this letter is written confirmation that Capital Guardian is being placed on UTIMCO's Watchlist. I've outlined below the reasons for this designation, all of which are of great concern however, some are of a more distressing nature that I need immediately remedied.

Specifically, the reasons for the Watchlist classification are as follows:

1. Past performance and lack of insight into prospects for future improvement
2. Difficulty in executing specific withdrawal requests
3. Specific non-performance of withdrawal transaction
4. Highly intensive oversight necessary from UTIMCO given institutional expectations

As you know, since our first formal meeting on June 3 (less than one full month after my hire), I've been open about UTIMCO's very progressive return goals for the UT Endowments. One of which is that I am under a mandate to produce "long only" active managers who can deliver long-term annualized results in excess of 300 basis points per annum. If this can't be accomplished, then we would prefer to evaluate taking one of our "absolute return" managers and creating an EAFE (other pertinent benchmark) overlay to produce such results.

In addition, given our efforts to position ourselves as a premier endowment globally, it has never been more vitally important that all of our investment managers engage their mandates with insight, precision and results. While I have great respect for the Capital Guardian organization, as we have worked together in other capacities previously, I have not seen what I need to see from Cap Guardian to give me the confidence to retain our collective mandates.

In addition, Cap Guardian represents what I consider to be the only active manager we have in our developed International equity stable at present. With two mandates in that space, and almost $650 million under management for the UT Endowments, the hurdle is high and I believe, fairly so.

Here is where I specifically need to see improvement over the next 90 day, or earlier, period:

1. Performance and Specific Insight into Cap Guardian Process and its Competitive Advantage

   a. EAFE Portfolio –
      - The EAFE portfolio's inception with UTIMCO was August, 2000.
      - Since that period, the annualized excess performance from Cap Guardian versus the EAFE benchmark has been .05%.
      - Of greater import is the fact that the results been so tightly aligned to the index on a month by month basis. A three year tracking error of 4.2% vs. the benchmark and an R^2 of .96 are characteristics I would normally associate with an enhanced index manager, not an active manager.
      - As another example, as of August, 31, 2003, 157 out of the 182 stocks held in our portfolio (or 86%) were in the EAFE index. I really would expect a higher degree of active stock selection outside of the index for a true active management mandate.
      - Finally, Cap Guardian's three year results versus peers in the International area remain in the bottom quartile. Even nearer term results have risen no higher than third quartile when measured against Nelson's database of International managers.

   b. Non-U.S. Small Cap –
      - The Non-U.S. Small Cap portfolio's inception with UTIMCO was December, 1996.
      - Since that period, the performance of this portfolio has trailed the Citigroup World ex-U.S. Extended Markets Index (EMI) by 2.47% per year. (I am aware that Cap Guardian prefers, and we have agreed, to calculate the performance-based fee using the Citigroup World ex-U.S. under $1.2 billion Index. The EMI was used here as it is more readily available to UTIMCO via its software evaluation package and represents essentially the same measurement for evaluating value-added.)
      - Of greater import is the fact that results seem to occur predominantly during higher beta periods in the market. For example, 1999 and 2003 have been the standout periods of performance, with underperformance occurring in 1998, 2000, 2001, and 2002. Again, as with the EAFE mandate, I don't see the value-added via stock selection, but from other systematic market factors such as beta – which we can get exposure to via low cost indices.

c. Emerging Markets –
   - The Emerging Market portfolio's inception with UTIMCO was August, 2000.
   - Since that period, the performance of this portfolio has trailed the MSCI Emerging Markets Free Index by 3.70% per annum.

d. The Process – As we have an extensive history together, I was already well aware of the multiple portfolio manager construct of Cap Guardian. We discussed this extensively as early as June and I have repeatedly stated that a portfolio construction scheme - which doles out portions of the portfolio, in relatively fixed sizes, among 8-10 different managers - obfuscates my view of the process. While I think this is a very smart business concept, it is not, in my opinion, an effective investment management construct. Specifically, I have no way of deciphering the true talent behind the stock picking process, and, given this approach I am of the belief – which I think is validated by the performance results – that I at best get an Enhanced Index result, and at worst, UTIMCO's portfolios lag repeatedly.

   I believe that there are talented managers out in the International investment space (and some probably reside at Cap Guardian) and that my responsibility, on behalf of the UT Endowments, is to find and secure that talent. My concern has been heightened by comments from Cap Guardian that the reason that this "committee" exists is to keep one individual from selecting a stock that would torpedo the whole portfolio. As I have stated before, I am uncomfortable with that philosophy. If Cap Guardian truly believed in the talent of their organization, they would have a different point of view. UTIMCO wants an active management process where our long only managers are "trying to win", not "trying not to lose".

   In addition, since many of the portfolio managers on your team have been together for over 20 years, I find it inconceivable that having worked so closely, for so long, that there wouldn't be periods of time where individual managers of this "committee" were given bigger weights in deference to their respectively talented colleagues during certain definable market cycles. Again, since this doesn't occur, I'm left feeling that Cap Guardian's primary goal is to not take risk, which to UTIMCO, means no meaningful long term reward.

<u>What I Need to See</u>:

To this point, I have held on to the Cap Guardian mandates for several reasons.

- The first reason being that during the liquidity fueled growth rally since my hire, that this fed into the more growth-oriented tilt that Cap Guardian had been steadfastly maintaining for the last several years.

- The second is that mandates such as International Small Cap and Emerging Markets were specific "bets" we wished to have in our portfolios compared to our overall International benchmark.
- Third, was that the relative expense of moving assets from active managers (in large amounts) is substantial.

Please note that as of our last calculation in June, UTIMCO had paid Cap Guardian over $5.7 million in fees over the life of all of our mandates. With the cumulative results of all portfolios falling well short of the benchmarks in question, this remains wholly unacceptable. I have tried to handle this in part, in the interim, by the adoption of our performance fee arrangement several months ago which more closely aligned Cap Guardian's pay to its future results.

What I need to see, as we start the new year is not only fundamental results from the portfolios versus their respective benchmarks, but insight into the stock picking process that I have yet to see from the numerous meetings/phone calls (4) we had in 2003.

Unless there is some way for me to assess the raw talent and stock picking facility and execution of your team of portfolio managers, I cannot attest to the value-added construct of Cap Guardian and cannot continue to support these mandates. At this time, the Cap Guardian process remains obscured behind a veil of multiple portfolio managers with little to no insight into their investment prowess. This is despite meetings and calls that have occurred in June, September, November and December to try and overcome this barrier.

2. Difficulty in Executing Specific Withdrawal Requests. This primarily relates to Non-U.S. Small Cap and Emerging Markets Funds.

Non-U.S. Small Cap

- In September 2003, UTIMCO informed Cap Guardian that we would like to make a $50 million withdrawal from the Non-U.S. Small Cap Funds. We went through several rounds of communication where Cap Guardian insisted that we couldn't withdraw this amount of capital from this fund without creating a separate liquidation account so as to not penalize the other commingled fund holders. This was even though there were no specific dollar thresholds ever mentioned in our contract, nor were any of UTIMCO's previous contributions (some in excess of this dollar amount) ever subject to special arrangements going in to the fund.

- In documentation submitted to UTIMCO, Cap Guardian claimed the need to liquidate via a separate vehicle was due to the lack of a pending contribution to this fund by another client and that the amount of the withdrawal would represent 10% of the commingled fund. (It should be noted that UTIMCO had made several inquiries related to moving the Endowments' assets to a separate account but were routinely discouraged from doing this in the spirit of the efficiencies and cost savings afforded by the commingled fund structure.)

- In an effort to respond to this situation, UTIMCO agreed, as an accommodation, to fund this withdrawal in smaller increments over three months – even skipping December, which was per Cap Guardian's request.

Emerging Markets

- Policy for Cap Guardian's Emerging Markets Fund is for withdrawal requests to be made one month in advance of such need. When other high quality investment managers allow for daily withdrawal of emerging markets assets, this policy is antiquated – especially when the Endowments have $280 million (as of December 31, 2003) in this mandate. I view this is too close to "illiquid" in the public markets domain.

What I need to see

Starting immediately, I need to see a semblance of institutional transaction facility on the part of Cap Guardian. I don't feel that the UT Endowments should have to accommodate the portfolio manager in requesting a withdrawal of assets. Cap Guardian, for all intents and purposes, seems to subscribe to what I term the Hotel California policy – where one can "check out any time you like, but you can never leave."

3. Specific Non-performance of Withdrawal Transaction. In December, UTIMCO made a request of Cap Guardian for a $75 million withdrawal from our EAFE portfolios to both rebalance and fund other manager applications. In both specific oral and written instructions, UTIMCO made efforts to give significant lead time to Cap Guardian to gauge the possibility of this request by year end. UTIMCO's request was for Cap Guardian to advise on their ability to provide cash by December 30, 2003.

   Per your voice mail to me, your portfolio control area informed our operations area that if we wanted to make a withdrawal by year end, then it would be best to have a letter of instruction to Cap Guardian by the 18th - which we did. At no time was there a discussion that the Funds would be available before, or at any other time, other than on the 30th.

   On December 19, I informed you of a potential "no cost" cross via a third party made possible by a transition manager and requested Cap Guardian await further instruction as no notification of any potential trading had been given to UTIMCO. At the time, per your voice mail to me, you were unaware (and so were we) that the trade had already occurred. All we knew at that time was merely that Cap Guardian could accommodate this request by December 30.

On Monday, December 22, UTIMCO was notified unexpectedly that Cap Guardian had already placed the trades and that cash was available. UTIMCO then had to go into the market unexpectedly, and buy U.S. Equity Futures contracts to obtain immediate market exposure.

As we have discussed in numerous phone conversations since this event, I believe this transaction was a violation of both the spirit and letter of UTIMCO's request. UTIMCO has a definitive policy of remaining fully invested and the "advise" statement of the instruction is part and parcel of that transaction request. Here is the exact text of the message to Cap Guardian:

```
This is to confirm our phone conversation.  We wish to make the
following withdrawals from our EAFE accounts:

$49,500,000.00 PUF account
$25,500,000.00 GEF account

Please advise whether this cash will be available Dec. 30 or Dec 31.
and I will have our custodian transfer the money out accordingly.
```

I still believe that Cap Guardian should be responsible for the transaction and market impact cost of this trade. In addition, I also feel (but have not requested) that any loss due to the lack of market exposure (or differential between EAFE and Dow Futures exposure) during this interim period where the cash was exposed to a different index than our standard International exposure should be the responsibility of Cap Guardian.

Additionally, I know, per your voice message to me, that per all of the pending holidays overseas, that Cap Guardian acted conscientiously to trade our portfolio with an eye on minimizing costs to UTIMCO. However, I have requested via our operations group and am requesting again from you, a summary of the trades that took place so that we can evaluate here the costs associated with this transaction.

<u>What I need to see</u>
I need to see the detail of this transaction at present.

4. Highly intensive oversight necessary from UTIMCO given institutional expectations. I have, much to my dismay, had to spend an inordinate amount of time with Cap Guardian issues since my arrival at UTIMCO. I think that many of these issues could have been avoided if Cap Guardian would submit to the spirit and letter of the instructions and requests UTIMCO has provided. I have come to the conclusion that the detail that UTIMCO expects from performance attribution, insight into processes, and execution of delivered mandates is above

Cap Guardian's capacity. Clearly, the events that have occurred are not what I would expect from an institutional manager if I was going to invest in them today.

What I need to see

I need to see a change in focus from Cap Guardian. I feel that when I communicate with Cap Guardian that I am always on the defensive having to justify our requests and that UTIMCO is being "humored" by Cap Guardian in its efforts on behalf of the UT Endowments. I have made efforts to be accommodative where possible to Cap Guardian's insistence on such issues as our Non-U.S. Small Cap withdrawal. However, when we then make a withdrawal, and I then hear from Cap Guardian that our asset levels may no longer support the performance fee arrangement we came to just two months ago – I am left wondering.......

As I have made clear on many occasions, I am not interested in seeing the UT Endowments spend any money on fees to an investment manager if they cannot perform. In addition, I don't feel that my time and our operations and accounting group's time needs to be spent babysitting details from one of the pre-eminent institutional equity management organizations in terms of size.

George, if we can come to a way to overcome the issues above, I will gladly retain Cap Guardian as a manager for the UT Endowments. I am willing to come to your offices, and think I should, interview every portfolio manager on our account – if that is possible, reasonable, and beneficial to this cause.

If, for whatever reason, you feel that my requirements are too demanding or insurmountable, I would appreciate your advisement (in advance) on this issue so that I can plan an alternative course of action related to the funding of these mandates.

I look forward to improving our situation and working with you towards a mutually beneficial solution as we enter 2004.

Sincerely,

Larry Goldsmith
Managing Director – Public Markets Investments

Cc: B. Boldt

TAB 5

Resolution No. 2

RESOLVED, that the annual financial statements and audit report for the Corporation for the years ended August 31, 2003, and August 31, 2002 be, and are hereby approved in the form as presented to the Board.

Agenda Item
UTIMCO Board of Directors Meeting
January 13, 2004

Agenda Item:	Report on Audit of UTIMCO Financial Statements
Developed By:	Moeller
Presented By:	Moeller
Type of Item:	Approval by UTIMCO Board of the UTIMCO Annual Financial Statements and Audit Report
Discussion:	The financial statements were audited by Ernst & Young, LLP. Ernst & Young issued an unqualified opinion on the August 31, 2003 financial statements. A copy of Ernst & Young's Audit Results and Communications Letter is also included.
Reference:	UTIMCO Financial Statements and Audit Results & Communications Letter

ASSURANCE AND ADVISORY BUSINESS SERVICES

OCTOBER 15, 2003

ERNST & YOUNG

Quality In Everything We Do

The University of Texas Investment Management Company

Audit Results and Communications

Report to the Audit and Ethics Committee

ERNST & YOUNG

Ernst & Young LLP

The Audit and Ethics Committee
The University of Texas Investment Management Company

We are pleased to present the results of our audit of the financial statements of the University of Texas Investment Management Company (the Company) for the year ended August 31, 2003.

This report to the Audit and Ethics Committee is organized into the following sections:

- Required Communications, and
- Report on Internal Control.

We received the full support and assistance of Company's personnel. This report is intended solely for the information and use of the Audit and Ethics Committee and management of the Company and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate this opportunity to meet with you.

Very truly yours,

Ernst + Young LLP

2003 Audit Results

Required Communications

Statement on Auditing Standards No. 61 and other professional standards require the auditor to provide the Audit and Ethics Committee with additional information regarding the scope and results of the audit that may assist the Audit and Ethics Committee in overseeing management's financial reporting and disclosure process. Below we summarize these required communications.

Area	Comments
Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)	
The financial statements are the responsibility of management. Our audits were designed in accordance with auditing standards generally accepted in the United States and provide for reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. As a part of our audit, we obtained an understanding of internal control sufficient to plan our audits and to determine the nature, timing, and extent of testing performed.	We issued an unqualified opinion on the August 31, 2003 financial statements.
Significant Accounting Policies	There are no changes in accounting policies during fiscal year 2003 that impacted the Company's financial statement balances.

Area	Comments
Auditors' Judgments About the Quality of Accounting Principles	Accounting principles selected by management are of good quality, are acceptable, and have been consistently applied under accounting principles generally accepted in the United States. The organization's financial statements and disclosures are complete in all material respects.
Management Judgments and Accounting Estimates The preparation of the financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations.	Estimates in the 2003 financial statements did not require significant management judgment.
Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas	None noted.
Audit Adjustments	There were no audit adjustments proposed by us during the current audit. There were no unadjusted audit differences accumulated by us during the current audit and pertaining to the latest period presented.
Fraud and Illegal Acts	Management has asserted to us that there are no known cases of fraud or illegal acts. We did not note any instances of fraud during the course of our audit.
Material Weaknesses in Internal Control	None noted.
Other Information in Documents Containing Audited Financial Statements	The audited financial statements are not included in any other documents.
Disagreements with Management on Financial Accounting and Reporting Matters	None occurred during the course of our audit.

Area	Comments
Serious Difficulties Encountered in Performing the Audit	None occurred during the course of our audit.
Major Issues Discussed with Management Prior to Retention	No major issues were discussed with management prior to our retention as the Company's auditor.
Consultation with Other Accountants	We are not aware of any consultations by management with other accountants.
Other Matters	None noted.

ERNST & YOUNG

Report on Internal Control

Audit and Ethics Committee
University of Texas Investment Management Company

In planning and performing our audit of the financial statements of the University of Texas Investment Management Company for the year ended August 31, 2003, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the use of the Audit and Ethics Committee and management of the Company. We would be pleased to discuss any comments you may have on these or other issues.

Ernst + Young LLP

October 15, 2003

ERNST & YOUNG LLP www.ey.com

Financial Statements

The University of Texas Investment Management Company

For the years ended August 31, 2003 and 2002

ERNST & YOUNG

Ernst & Young LLP
Suite 1400
700 Lavaca
Austin, Texas 78701

Phone: (512) 478-9881
Fax: (512) 473-3499
www.ey.com

Report of Independent Auditors

The Board of Directors
The University of Texas Investment Management Company

We have audited the accompanying statement of financial position of The University of Texas Investment Management Company (UTIMCO) as of August 31, 2003 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of UTIMCO's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of UTIMCO for the year ended August 31, 2002 were audited by other auditors whose report dated October 18, 2002 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UTIMCO as of August 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

October 15, 2003

Statements of Financial Position

August 31, 2003 and 2002

	2003	2002
Assets		
Cash and cash equivalents	$ 4,572,179	$ 8,270,251
Dividends receivable	13,739	-
Investments	7,084,224	-
Prepaid expenses and other assets	350,617	321,157
Property and equipment, net of accumulated depreciation of $896,680 and $670,313, respectively	549,439	711,678
Total assets	$ 12,570,198	$ 9,303,086
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 1,546,150	$ 463,357
Unrestricted Net Assets	11,024,048	8,839,729
Total liabilities and net assets	$ 12,570,198	$ 9,303,086

The accompanying notes are an integral part of these financial statements.

Statements of Activities

For the years ended August 31, 2003 and 2002

Changes in unrestricted net assets:

	2003	2002
Revenue		
Management fee	$ 9,610,001	$ 6,705,776
Interest	82,318	176,913
Dividends	173,681	-
Net unrealized losses on investments	(75,717)	-
Miscellaneous	124	1,542
Total revenue	9,790,407	6,884,231
Expenses		
Salaries	4,191,226	2,526,949
Employee benefits	420,988	306,600
Payroll taxes	195,076	145,492
General operating	902,842	607,417
Depreciation and amortization	286,176	271,692
Lease	606,013	604,683
Professional fees	769,698	306,289
Insurance	234,069	197,535
Total expenses	7,606,088	4,966,657
Increase in unrestricted net assets from operations	2,184,319	1,917,574
Net assets at beginning of period	8,839,729	6,922,155
Net assets at end of period	$ 11,024,048	$ 8,839,729

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows
For the years ended August 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Increase in unrestricted net assets from operations	$ 2,184,319	$ 1,917,574
Adjustments to reconcile changes in unrestricted net assets from operations to net cash provided by operating activities:		
Depreciation	286,176	271,692
Net unrealized losses on investments	75,717	-
Loss/(Gain) on disposal of equipment	848	(1,472)
Change in assets and liabilities:		
Increase in dividends receivable	(13,739)	-
Increase in prepaid expenses and other assets	(29,460)	(37,869)
Increase in accounts payable and accrued expenses	1,082,793	222,857
Net cash provided by operating activities	3,586,654	2,372,782
Cash flows used for investing activities:		
Purchase of property and equipment	(126,573)	(158,306)
Proceeds from sale of equipment	1,788	1,725
Purchase of Investments	(7,159,941)	-
Net cash used for investing activities	(7,284,726)	(156,581)
Net (Decrease)/Increase in cash and cash equivalents	(3,698,072)	2,216,201
Cash and cash equivalents at beginning of period	8,270,251	6,054,050
Cash and cash equivalents at end of period	$ 4,572,179	$ 8,270,251

Supplemental schedule of non-cash investing and financing activities:
None

The accompanying notes are an integral part of these financial statements.

Note 1 - Organization

The University of Texas Investment Management Company (UTIMCO) is a not-for-profit corporation organized to invest funds under the control and management of the Board of Regents (Board) of The University of Texas System. UTIMCO commenced business on March 1, 1996. The financial statements of UTIMCO have been prepared on the accrual basis of accounting. The significant accounting policies are described in Note 2.

Note 2 - Significant Accounting Policies

Property, equipment and depreciation

As part of UTIMCO's organization, certain equipment was received from The University of Texas System. This equipment was stated at fair value at the time of receipt. Property and equipment acquired after inception consists of office furniture, office equipment, software, and leasehold improvements and is stated at cost. Depreciation and amortization is computed using the straight-line method over the useful lives of the assets. The following is a schedule of the property and equipment at August 31, 2003 and 2002.

	2003	2002
Office furniture	$ 344,150	$ 320,053
Office equipment	700,369	658,943
Software	174,790	185,976
Leasehold improvements	226,810	217,019
Total property and equipment	1,446,119	1,381,991
Less accumulated depreciation	(896,680)	(670,313)
Net property and equipment	$ 549,439	$ 711,678

Income taxes

The exclusive purposes for which UTIMCO is organized and is to be operated are charitable and educational within the meaning of section 501(c)(3) of the Internal Revenue Service Code, and therefore UTIMCO is not subject to federal income taxes on normal operations. UTIMCO may, however, incur federal income taxes on unrelated business income.

Cash and cash equivalents

For purposes of the statements of cash flows, UTIMCO considers highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. UTIMCO invests excess cash in an interest-bearing money market account.

Prepaid expenses and other assets

Prepaid expenses consist of expenses paid in advance for insurance and various services. The prepaid expenses will be ratably expensed over the period to which they relate. In addition, other assets include a deposit of $89,954 with UTIMCO's landlord. This deposit and any interest earned on it will be returned to UTIMCO at the end of the lease period.

Investments

Investments are carried at market, and realized and unrealized gains and losses are reflected in the statement of activities.

Use of Estimates

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 expenses during the reporting period. Actual results could differ from these estimates.

Note 3 - Related Party Transactions

a) Investment Management Services Agreement - The Investment Management Services Agreement has appointed UTIMCO as the Board of Regents' investment manager with complete authority to act for the Board in the investment of all funds. The amount of the management fee for the years ended August 31, 2003 and 2002 were $9,602,501 and $6,698,276, respectively. This represents fees for the following:

	2003	2002
Permanent University Fund	$5,187,122	$3,274,506
The University of Texas System Long Term Fund	3,135,100	2,285,475
Permanent Health Fund	676,877	558,026
The University of Texas System Short Intermediate Term Fund	603,402	580,269
	$9,602,501	$6,698,276

b) UTIMCO contracts for internet and mainframe connection services with The University of Texas System and The University of Texas at Austin. The expense for these services for the years ended August 31, 2003 and 2002 were $14,976 and $18,126, respectively.

Note 4 - Investments

UTIMCO has invested funds in The University of Texas System Short Intermediate Term Fund (SITF). The SITF invests in high grade fixed income obligations. The SITF carries an AAA_f credit quality rating and a bond fund volatility rating of S_2 from Standard & Poor's, Inc. The investment's cost for the year ended August 31, 2003 was $7,159,941. The investment's market value for the year ended August 31, 2003 was $7,084,224. There were no investments for the year ended August 31, 2002. At August 31, 2003, dividends receivable from the fund were $13,739.

Note 5 - Deferred Revenue

UTIMCO assesses on or before the first day of The University of Texas System's fiscal quarter one-fourth of the annual management fee. The fee is deferred and is ratably credited to revenue monthly. For the years ended August 31, 2003 and 2002, there was no deferred revenue.

Note 6 - 403(b) Plan

Effective March 1, 1996, UTIMCO established a tax-sheltered annuity arrangement, which provides retirement benefits for its employees by contributing to a custodial account invested in mutual funds. The employer matches 8.5% of gross compensation on behalf of an employee. Employees are required to contribute 6.5% of their total gross compensation to receive the company match. Employer contributions for the years ended August 31, 2003 and 2002 were $219,898 and $156,515, respectively.

Note 7 – Lease Expense

UTIMCO leases office space and parking from an unrelated landlord. The 60-month lease commenced January 15, 2001 and expires January 15, 2006. The minimum rental commitment is $33,923 per month. Additionally, UTIMCO is responsible to the landlord for its share of operating expenses related to the rental property. The lease expense and operating expenses paid were $410,119 and $193,306, respectively, for the year ended August 31, 2003, and $407,070 and $194,554, respectively, for the year ended August 31, 2002. The following is a schedule by years of the future minimum lease payments under the lease term:

Years ending August 31,	
2004	$ 407,076
2005	407,076
2006	152,654
	$ 966,806

UTIMCO has a deposit of $89,954 with the landlord. This deposit and any interest earned on it will be returned to UTIMCO at the end of the lease period.

TAB 6

In our efforts to maximize investment returns for the endowments managed by UTIMCO for the University of Texas and for Texas A&M University, I believe that the enclosed Compensation Plan represents an important step forward.

If our objective is to achieve superior investment returns in a competitive environment, we must have a competitive compensation system. I believe that competitive returns are very important for the University of Texas, Texas A&M University, their faculty and students as well as the citizens of Texas, if we hope to maintain a high level of quality education. Consequently, I believe that the enclosed Compensation Plan represents a very important part of our efforts and the Compensation Committee has recommended that the Plan be sent to the UTIMCO Board for their review. I am prepared to recommend that the UTIMCO Board approve the Plan in order that it be sent to the Board of Regents for their review.

Please review the attached material and contact me should you have any questions you would like to discuss prior to the UTIMCO Board Meeting.

J. Luther King, Jr.
Chair, Compensation Committee
The University of Texas Investment Management Company

Resolution No. 3

RESOLVED, that the Compensation Plan, as recommended by the Compensation Committee, is hereby approved in the form submitted to the Corporation's Board of Directors.

THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

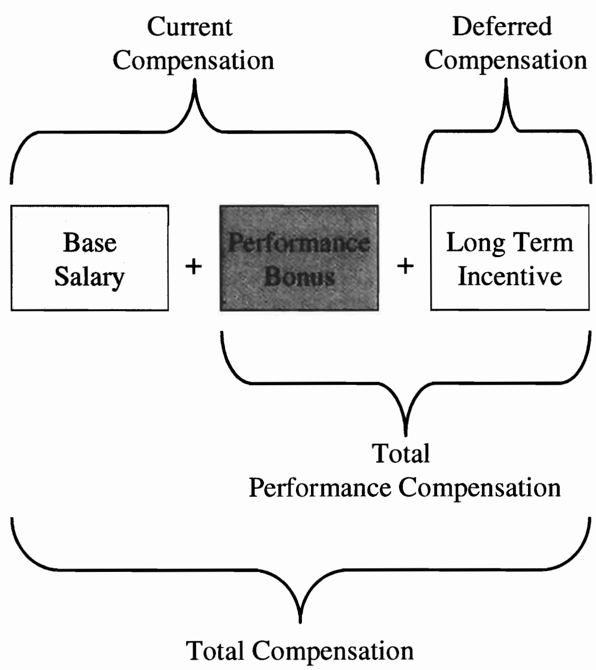
COMPENSATION PLAN

The UTIMCO Compensation Plan (the "Plan") is intended to provide a means whereby key employees may develop a sense of commitment and personal involvement in the investment performance of the assets for which UTIMCO has been delegated investment responsibility. The objectives of the Plan are to attract and retain key employees of outstanding competence and ability, to encourage such employees to remain with and devote their best efforts to the business of UTIMCO, and to reward such employees for outstanding performance, thereby advancing the interests of UTIMCO and the Board of Regents of The University of Texas System.

This Plan document consists of the following sections:

PLAN STRUCTURE

The UTIMCO Compensation Plan consists of three parts as defined below:



Base Salary

UTIMCO aspires to attract and retain high caliber employees from nationally recognized peer institutions and the investment management community in general. UTIMCO Base Salaries should be "competitive" nationally, meaning they should be targeted at the blended median of the endowment and investment management industry base salary levels. An individual's Base Salary at UTIMCO is based on three factors:

1. The blended median base salary rate for positions of similar job content in the national marketplace;
2. the employee's level of experience, education, knowledge, and skills; and
3. the employee's responsibilities and regular performance results.

Base Salaries are specifically <u>not</u> based on seniority or tenure at UTIMCO, but are based solely on the experience, skill, and success factors listed above.

Base Salaries are administered through the use of a base salary range structure. The base salary range structure for a particular position at UTIMCO is defined by the national market median salary for a position with similar job content, level of responsibility, and function as the particular position, with the base salary "target" set at the national market median salary for the position, within a range from 10% below the base salary "target" as the salary range minimum, to 20% above the "target" base salary as the salary range maximum.

Base Salary ranges for each position will be adjusted annually to correct for overall changes in market compensation. These adjustment factors will be obtained from a qualified compensation consultant selected by UTIMCO management. A comprehensive review of market compensation levels for all management positions will be conducted on at least a tri-annual basis using data provided by a qualified compensation consultant selected by UTIMCO management.

Individual Base Salaries will be reviewed at least annually, and will be set within the appropriate base salary range on the basis of each participant's career experience level, education, knowledge, skills, as well as the individual's current responsibilities and performance relative to the market standards for the particular position.

In the event that an individual either exceeds or does not meet all of the market criteria for a particular position as defined above, a Base Salary may be temporarily set for that individual that is outside the base salary range for that particular position.

Performance Bonus

This Plan establishes criteria through which Performance Compensation Awards may be determined for each Eligible Employee in the Plan. The Plan also establishes the portion of Total Performance Compensation that will be paid for each Performance Period as the Performance Bonus. The Performance Bonus will be calculated as a multiple of Base Salary, and the Performance Bonus multiple will vary across the Eligible Employees in the Plan on the basis of each Employee's performance during the Plan Year. Performance Bonus awards, if any, are paid in full at the conclusion of each Performance Period.

Long Term Incentive

Plan criteria establish the portion of Total Performance Compensation that will be designated as Long Term Incentive compensation. In order to encourage Eligible Employees to remain at UTIMCO, the Long Term Incentive portion of Total Performance Compensation will be deferred over a period specified in the Deferral and Vesting Provisions of the Plan section of this Plan document. In addition, in order to better align the longer term interests of Eligible Employees with those of UTIMCO, the Long Term Incentive awards will increase (or decrease) at the rate of return of the General Endowment Fund during the deferral period. After Long Term Incentive awards are fully vested, they may continue to remain in the Plan and earn the return of the General Endowment Fund at the option of the Eligible Employee.

Total Performance Compensation

UTIMCO aspires to attract and retain high caliber employees from nationally recognized peer institutions and the investment management community in general. In order to achieve this objective, Total Performance Compensation Award possibilities will be set so that at maximum performance level, an Eligible Employee's Total Compensation, which is the combination of Base Salary and Total Performance Compensation, will be at the 75th percentile level in a national salary survey for a position with similar job content (where 100th percentile equals the highest compensation level), level of responsibility, and function as the particular position.

PLAN ADMINISTRATION

Effective Date

The Effective Date of this Compensation Plan is September 1, 2003. *(This Plan was written assuming a September 1, 2003 effective date. If any later date is set by the UTIMCO Board, some modifications may be necessary to the Transition section of this Plan)*

Authority and Responsibilities

The Plan is administered by the UTIMCO Board and the Compensation Committee of the UTIMCO Board. The Board has sole authority to:

1) Establish the conditions for the determination and payment of compensation by establishing the provisions of this Compensation Plan;

2) Select the Eligible Employees who are to be granted Performance Compensation Awards under the Plan;

3) Subject to the terms of the Plan, determine the amount and timing of distributions under the Plan; and

4) Establish the Base Salary and Total Performance Compensation for the Chief Executive Officer.

The UTIMCO Board has delegated the following authority to the Compensation Committee of the UTIMCO Board:

1) Establish Base Salaries for all UTIMCO officers except the Chief Executive Officer; and

2) Establish the amounts of Total Performance Compensation for all Eligible Employees except the Chief Executive Officer.

The Board shall interpret the Plan and may from time to time adopt such rules and regulations, consistent with the provisions of the Plan, that it may deem advisable to carry out the Plan. All decisions made by the Board in selecting the Eligible Employees who shall be paid Performance Compensation Awards and the amount thereof and in construing the provisions of the Plan or the terms of any Performance Compensation Awards are final and binding on all Eligible Employees.

Eligibility

The persons who shall receive Performance Compensation Awards shall be such Eligible Employees as the Board shall select. Except as provided in the General Conditions section of this Plan document, such employees must be employed by UTIMCO on the last day of a Performance Period, and must have been recommended by the President and CEO and the Compensation Committee to receive Performance Compensation Awards.

Any Eligible Employee who begins employment with UTIMCO during a Performance Period shall be eligible to earn Performance Compensation Awards for that Performance Period provided that the Eligible Employee's employment begins prior to the first day of the tenth month of the Performance Period. In the event an Eligible Employee's employment begins during a Performance Period, any Performance Compensation Award shall be pro rated as provided in the Technical Details: Calculating Performance Compensation section of this Plan document.

Duration, Amendment, and Termination

The Board shall have the right in its discretion to amend the Plan from time to time, to terminate it entirely or to direct the discontinuance of Performance Compensation Awards, either temporarily or permanently. However, no amendment, discontinuance or termination of the Plan shall operate to annul a Performance Compensation Award during any unexpired Performance Period unless otherwise provided by the terms of this Plan. The term of the Plan shall be from its Effective Date until terminated by the Board.

Authorizing Performance Compensation Awards

Within 120 days following the end of a Performance Period, the Board shall award Performance Compensation Awards to such Eligible Employees whom it determines, in its sole discretion, to have met or exceeded the performance benchmarks for the Performance Period established for each such Eligible Employee. The Board has the right to adjust Performance Compensation Awards in any amount and on any basis as determined by the Board in its discretion in order to recognize particular circumstances which may have affected the achievement of performance during the Performance Period.

Following the award of Performance Compensation Awards, the Board shall promptly notify each Eligible Employee who has been awarded Performance Compensation Awards under the Plan as to the amount of such award, and the terms, provisions, conditions, and limitations of such award. Performance Compensation Award payments shall be excluded from computation of employee benefits and shall be subject to withholding taxes.

Deferral and Vesting Provisions

All payments of Base Salary and any Performance Bonus awards authorized by the Board are to be made as current cash payments and are not subject to any deferral or vesting. Any Long Term Incentive awards authorized by the Board under this Plan will be subject to a three-year vesting schedule (described below) and deferred during this vesting period (the deferral period).

The deferred Long Term Incentive award will vest, and become payable in cash, in three equal installments. Assuming and contingent on continued employment with UTIMCO up to the applicable vesting date (except as later described in the Plan document), one third of the award will be vested and payable at the end of the first Performance Period following the Performance Period for which the award was granted; another third of the award will be vested and payable at the end of the second Performance Period following the Performance Period for which the award was granted; and the final third of the award will be vested and payable at the end of the third Performance Period following the Performance Period for which the award was granted. During the period that the Long Term Incentive award is vesting and deferred, the value of the deferred balance will accrue returns equal to the returns of the General Endowment Fund. The cash payment of the deferred award at the end of year one of the deferral period will be equal to one third (33.3%) of the original Long Term Incentive award plus any returns earned on that amount over the one year deferral period at the rate of return of the General Endowment Fund for that one year period. The cash payment at the end of year two of the deferral period will be equal to one third (33.3%) of the original Long Term Inventive award plus any returns earned on that amount over the two year deferral period at the rate of return of the General Endowment Fund for that two year period. The final payment of the deferred Long Term Incentive award will be made at the end of year three, and will consist of the balance amount (33.4%) of the original award plus any returns earned on that amount over the three year deferral period at the rate of return of the General Endowment Fund for that three year period. This vesting, deferral, and payment procedure will be repeated for any years in which a Long Term Inventive award is authorized by the Board.

All cash payments made under this vesting procedure will be made within 120 days of the end of each respective Performance Period. An Eligible Employee may elect to continue deferral of his vested amounts and not to receive vested amounts as a cash payment, in which case the vested amounts will continue to be credited with (or debited for) the returns of the General Endowment Fund until withdrawn as a cash payment. An Eligible Employee may elect to withdraw any vested amounts at any time. Eligible Employees are responsible for all income tax consequences of vested but not received amounts.

General Conditions

Unless otherwise expressly provided by the Board, any Eligible Employee who voluntarily terminates employment with UTIMCO prior to the termination of a Performance Period in which the Eligible Employee has not reached 60 years of age shall forfeit any and all eligibility to receive payment of Performance Compensation Awards for the current Performance Period, and shall also forfeit any unvested Long Term Incentive balances from prior Performance Periods.

All unvested Long Term Incentive balances for an Eligible Employee will become fully vested at the end of the Performance Period during which that Eligible Employee has reached 60 years of age. Any subsequent Long Term Incentive awards will vest immediately. An Eligible Employee who has reached 60 years of age voluntarily terminating employment with UTIMCO during a Performance Period will forfeit all eligibility to receive Performance Compensation Awards for that Performance Period only.

In the event an Eligible Employee's employment with UTIMCO is terminated involuntarily for any reason other than Cause, as defined in the Definition of Terms section of this Plan, such Eligible Employee's Performance Compensation Award for the current Performance Period, if any, shall be calculated on a prorated basis from the first day of the current Performance Period to the monthly performance measurement date immediately preceding the date of such Eligible Employee's involuntary termination date. In addition, all unvested Long Term Incentive balances from the current and prior Performance Periods will vest immediately. Payment of all amounts due under this provision will be made within 60 days of the involuntary termination date.

In the event a formerly Eligible Employee is determined by the UTIMCO Board to no longer be an Eligible Employee under this Plan, such Eligible Employee's Performance Compensation Award for the current Performance Period, if any, shall be calculated on a prorated basis from the first day of the current Performance Period to the monthly performance measurement date immediately preceding the date such formerly Eligible Employee was determined by the UTIMCO Board to no longer be an Eligible Employee. In addition, all unvested Long Term Incentive balances awarded to that employee in the current and prior Performance Periods will vest immediately.

In the event an Eligible Employee's employment with UTIMCO terminates prior to the termination of a Performance Period by reason of his or her death or disability, as defined in the IRC 22(e)(3), as amended, the Board shall determine such Eligible Employee's Performance Compensation Award, if any, on a prorated basis from the first day of the unexpired Performance Period to the monthly performance measurement date immediately preceding the date of such Eligible Employee's death or disability. In addition, all unvested Long Term Incentive balances from the current and prior Performance Periods will vest immediately. Payments of all amounts due under this provision will be made to the estate or designated beneficiaries of such Eligible

Employee or to such Eligible Employee, as the case may be, within 60 days of the date of termination of employment.

For purposes of this Plan, a leave of absence (paid or unpaid) authorized by UTIMCO shall not be considered a termination of employment.

The Board shall have the discretion and authority to make changes in the administration and terms of the Plan if circumstances outside the control of the Eligible Employees or the Board have occurred during the Performance Period so as to make such adjustment appropriate in the opinion of the Board.

An employee shall be considered to be employed with UTIMCO as long as he or she remains an employee with UTIMCO. Nothing in the adoption of this Plan or the awarding of Performance Compensation Awards shall confer on any employee the right to continued employment with UTIMCO or affect in any way the right of UTIMCO to terminate his or her employment at any time.

Except for the rights of the estate or designated beneficiaries of Eligible Employees to receive payments, as set forth herein, awards under this Plan are non-assignable and nontransferable and are not subject to anticipation, adjustment, alienation, encumbrance, garnishment, attachment or levy of any kind.

The establishment of the Plan or the awarding of Performance Compensation Awards shall not be deemed to create a trust. The Plan shall constitute an unfunded, unsecured liability of UTIMCO to make payments in accordance with the provisions of the Plan, and no Eligible Employee shall have any security or other interest in any assets of UTIMCO or the Board of Regents of The University of Texas System.

Nothing contained in the Plan shall be deemed to give any Eligible Employee, or any personal representative or beneficiary, any interest or title to any specific property of UTIMCO or any right against UTIMCO other than as set forth in the Plan.

Neither the officers of UTIMCO nor the members of the Board shall under any circumstances have any liabilities with respect to the Plan or its administration except for gross and intentional malfeasance. UTIMCO officers and the members of the Board may rely upon opinions of counsel as to all matters.

No portion of the Plan shall be effective at any time when such portion violates an applicable state or federal law, regulation or governmental order or directive, which is subject to sanctions whether direct or indirect.

Any Performance Compensation Award payable under this Plan shall be subject to any deductions required by federal, state, or local law. UTIMCO shall not be obligated to advise an employee of the existence of the tax or the amount, which UTIMCO will be required to withhold.

Transition from Prior Plan

This Plan supercedes the prior plan entitled UTIMCO Performance Compensation Plan for August 31, 2001. The following terms and conditions assure an orderly transition from the prior plan:

1. Time Periods to be Used in Calculating Aggregate UTIMCO Relative Performance: The table below indicates the time periods to be used in calculating rolling 3 year UTIMCO aggregate relative performance during the transition Performance Compensation Periods ending in years 2004, 2005, and 2006.

	Performance Period Ending in Year		
Years in Rolling 3 Year Performance Calculations	**2004**	**2005**	**2006**
Year 1	September 1, 2002 through August 31, 2003	September 1, 2002 through August 31, 2003	July 1, 2003 through June 30, 2004
Year 2	July 1, 2003 through June 30, 2004	July 1, 2003 through June 30, 2004	July 1, 2004 through June 30, 2005
Year 3		July 1, 2004 through June 30, 2005	July 1, 2005 through June 30, 2006

2. Benchmarks and Asset Categories to be Used in Calculating Aggregate UTIMCO Relative Performance: All asset categories shall be included in the aggregate UTIMCO relative performance calculation except the non-marketable asset categories which will be excluded from all aggregate UTIMCO performance calculations in the September 1, 2002 through August 31, 2003 fiscal year. The benchmarks to be used in the UTIMCO aggregate relative performance calculations for all marketable asset categories for the September 1, 2002 through August 31, 2003 fiscal year are defined below:

Asset Category	Policy Portfolio Weights (% of Portfolio)	Benchmarks
U S Equities	**26.0**	**Wilshire 5000 Index**
Global ex US Equities	**14.0**	**MSCI All Country World Index ex US**
All Hedge Funds	**20.0**	**91 Day T-Bills + 4%**
Inflation Hedge	**10.0**	**Combination Benchmark: 25% GSCI minus 100 basis points, plus 25% Lehman Brothers US TIPS Index, plus 25% NCREIF Index, plus 25% Wilshire Associates Real Estate Securities Index**
REITS		Wilshire Assocaites Real Estate Securities Index
Commodities		GSCI - 1%
TIPS		Lehman Brothers US TIPS Index
Fixed Income	**15.0**	**Combination Benchmark: 67% Lehman Brothers Government Bond Index plus 33% Lehman Brothers Aggregate Index ex Government Bonds**
Cash	**0.0**	**91 Day T-Bills**

3. Performance Compensation Periods and Benchmarks for Calculating Individual Quantitative Relative Performance in all Marketable Assets Categories: All available performance history shall be used in calculating individual quantitative relative performance in marketable assets categories. Relative performance calculations for the September 1, 2002 through August 31, 2003 fiscal year shall use the benchmarks defined in paragraph number 2 above. Individual relative performance calculations for performance periods prior to the fiscal year ending August 31, 2003 shall use the benchmarks in place in the particular prior fiscal year.
4. Performance Compensation Periods and Benchmarks for Calculating Individual Quantitative Relative Performance in the Non-Marketable Assets Categories: The first year to be used in calculating Internal Rates of Return (IRR) since inception of UTIMCO non-marketable assets and the benchmark for the non-marketable asset categories shall be the calendar year beginning January 1, 2001. The benchmark to be used in calculating relative performance is the benchmark defined in the Benchmark Definitions, Policy Portfolio Weights, and Relative Performance Targets section of this Plan document.
5. Relative Performance Standards to be Used in Calculating Performance Compensation Awards: For the purposes of calculating Performance Compensation Awards during the transition from the prior plan, the relative performance maximum value added targets for both UTIMCO aggregate and individual quantitative relative performance calculations shall be those targets defined by the Performance Compensation Plan in place during each particular Performance Period.
6. Treatment of Prior Deferred Compensation: All performance compensation deferred under the terms and conditions of the prior Performance Compensation Plan will retain the vesting schedule defined under the prior plan. Amounts deferred under the prior plan will increase or decrease at the rate of the return of the General Endowment Fund over the deferral period. Deferred balances earned under the prior plan will be subject to all terms and conditions for deferred amounts under this Plan except the vesting period.

Record Keeping and Reporting

All records for the Plan shall be maintained by the Managing Director, Accounting, Finance, and Administration at UTIMCO. Relative performance data and calculations shall be reviewed and certified by the UTIMCO general consultant.

UTIMCO will provide all Plan participants with a comprehensive report of the current value of all deferred compensation balances, including a complete vesting schedule of those balances, on at least a quarterly basis.

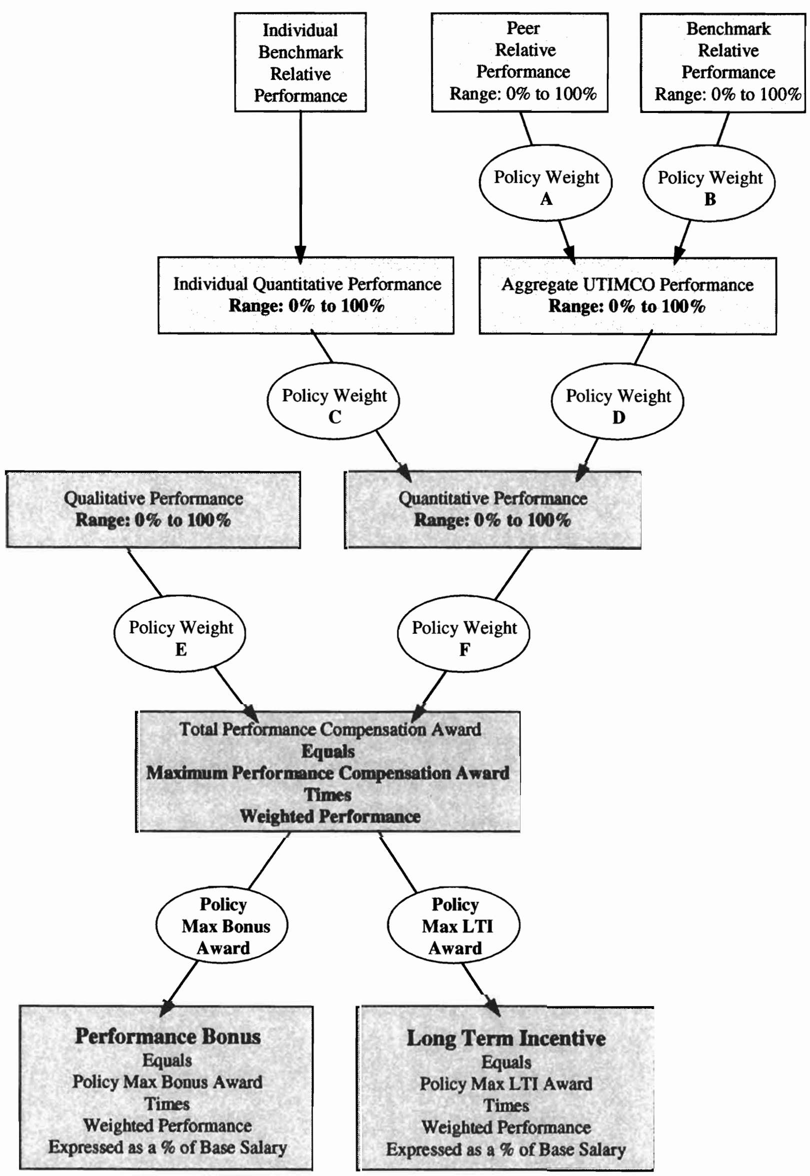
TECHNICAL DETAILS: Calculating Performance Compensation

Performance Period

The Performance Period for this Plan shall be July 1 through June 30.

General Procedure for Calculating Performance Awards

The following diagram provides an overview of the procedure for determining Performance Compensation Awards:



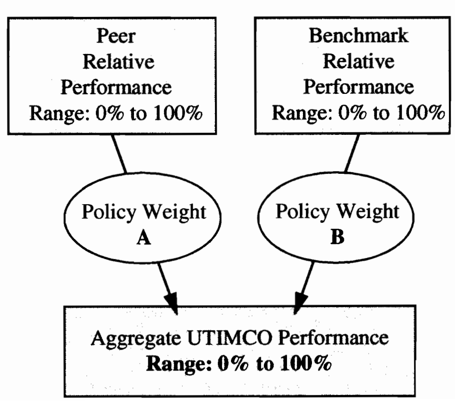
Policy Performance Compensation Ranges

The Total Performance Compensation Award for an Eligible Employee is based on both qualitative and quantitative criteria as indicated by the prior diagram. The range for the Total Performance Compensation Award is from zero to a Maximum Performance Compensation Award, expressed as a percentage of Base Salary for Each Eligible Employee in the Plan. The maximum Total Performance Compensation Award percentage of Base Salary, the policy maximum award for Performance Bonus, the policy maximum award for Long Term Incentive, the policy weights E and F which determine the relative importance of qualitative and quantitative performance factors, and policy weights C and D which determine the relative importance of individual and aggregate UTIMCO quantitative performance factors in determining overall quantitative performance, vary by position as detailed in the following table:

Policy Performance Compensation Ranges	Diagram Policy Weights (%)				Policy Maximum Amounts (% of Base Salary)		
	C	D	E	F			
Position	Individual Quantitative Performance Weight	Aggregate UTIMCO Quantitative Performance Weight	Qualitative Performance Weight	Overall Quantitative Performance Weight	Performance Bonus	Long Term Incentive	Total Performance Compensation
Investment Professionals							
President, CEO, CIO	0	100	20	80	125	55	180
Deputy CIO & MD	50	50	20	80	90	40	130
Risk Manager	0	100	50	50	85	35	120
MD, Public Markets	25	75	20	80	85	35	120
MD, Inflation Hedge	25	75	20	80	85	35	120
MD, Non-Mkt Alternative	25	75	20	80	85	35	120
Portfolio Manager, Equity Inv	25	75	20	80	70	30	100
Sr. Portfolio Manager, Fixed Income	25	75	20	80	70	30	100
Portfolio Manager, Fixed Income	25	75	20	80	70	30	100
Analytical Support	75	25	25	75	35	15	50
Operations/Support Professionals							
MD, Accounting, Finance & Admin	0	100	50	50	85	35	120
MD, Information Technology	0	100	50	50	85	35	120
Manager, Finance & Administration	0	100	50	50	45	15	60
Manager, Investment Reporting	0	100	50	50	45	15	60
Manager, Portfolio Accounting & Operations	0	100	50	50	45	15	60

Calculating Aggregate UTIMCO Quantitative Performance

Aggregate UTIMCO relative performance under this Plan will be based on both performance relative to a peer group defined below as well as performance relative to an established benchmark as defined in the Benchmark Definitions, Policy Portfolio Weights, and Relative Performance Targets section of this Plan. As the diagram below indicates, these two elements of aggregate UTIMCO performance will be weighted by policy weights defined by the Board.



Peer Relative Performance: Peer relative performance will be calculated by determining the percentile rank of the investment performance of the Total Endowment Assets relative to the investment performance of the Endowments Larger Than $1 billion Peer Group developed and maintained by Cambridge Associates. The Endowments Larger Than $1 billion Peer Group shall consist of all endowment funds with total assets equal to $1 billion or more as of July 1st of each Performance Period, excluding Harvard University and Yale University. The peer relative performance score will be calculated on a scale of 0% to 100%. If the Total Endowment Assets relative percentile rank is 50th percentile (with 0 percentile equal to the highest rank; 100the percentile equal to the lowest rank), the peer relative performance score is 0%; if the relative percentile rank is 25th percentile, the score is 100%; if the percentile rank is between the 50th and the 25th percentile, the score is a linear interpolation between 0% and 100%. The Policy Weight (A in the diagram above) to be applied to the peer relative performance score and the time period over which performance results will be compared in the peer comparisons are detailed in the following table:

	Performance Period Ending in Year			
	2004	**2005**	**2006**	**2007 and beyond**
Peer Relative Performance Weight (Policy Weight A)	25%	33%	41%	50%
Time Period of Peer Relative Performance Measurement	1 Year	2 Years	3 Years	3 Years

In all Performance Periods subsequent to 2007, the peer relative performance weight will be 50% and the measurement period will be rolling 3 year periods.

Benchmark Relative Performance: Benchmark relative performance will be calculated by comparing Total Endowment Assets Performance with the performance of the Endowment Policy Benchmark, and the Short Intermediate Term Fund Performance with the SITF Policy Benchmark Performance. Both the endowment assets and the SITF benchmark relative performance scores will be calculated on a scale of 0% to 100%. If Total Endowment Assets Performance is equal to or less than the Endowment Policy Benchmark Performance, the endowment assets benchmark relative score will be 0%; if Total Endowment Assets Performance is equal to or greater than the Endowment Policy Benchmark Performance plus the UTIMCO aggregate Maximum Value Added Target specified in the Benchmark Definitions, Policy Portfolio Weights, and Relative Performance Targets section of this Plan, the score is 100%; if Total Endowment Assets Performance is between the 0% and 100% limits, the score is a linear interpolation between 0% and 100%. The SITF relative performance score will be calculated in a similar manner using the SITF actual performance, the SITF Policy Benchmark Performance and the SITF Maximum Value Added Target. The Total Endowment Assets relative performance score will be weighted 95% and the SITF relative performance score will be weighted 5% to calculate an aggregate Benchmark Relative Performance score. The time period for all performance calculations will be a rolling three year period except during the transition period as defined in the Transition from Prior Plan section of this Plan and except in the case of a new Eligible Employee as defined in the Calculating Rolling 3 Year Returns section of this Plan. The benchmark relative performance weights to be used in calculating aggregate UTIMCO performance are specified in the following table:

	Performance Period Ending in Year			
	2004	**2005**	**2006**	**2007 and beyond**
Benchmark Relative Performance Weight (Policy Weight B)	75%	67%	59%	50%

In all Performance Periods subsequent to 2007, the benchmark relative performance weight will be 50%.

Calculating Individual Quantitative Performance

Individual quantitative benchmark relative performance will be calculated by comparing actual Total Endowment Assets returns earned in the relevant asset category for each Eligible Employee to the benchmark for that particular asset category as defined in the Benchmark Definitions, Policy Portfolio Weights, and Relative Performance Targets section of this Plan. The individual quantitative performance score will be calculated on a scale of 0% to 100%. If the actual endowment funds return in the asset category is equal to or less than the benchmark return for that asset category, the individual quantitative performance score is 0%; if the actual endowment funds return in the asset category is equal to or greater than the benchmark return for that asset category plus the Maximum Value Added Target for that asset category, the score is 100%; if the actual return is between those two limits, the score is a linear interpolation between 0% and 100%. In the event that an Eligible Employee is responsible for more than one asset category, the calculation for each asset category will be completed as described above, and the resultant individual quantitative scores will be weighted by the ending relative asset values of each asset category to produce a weighted average individual quantitative performance score. The time period for calculating all returns will be a rolling 3 year time period except as provided in the Transition from Prior Plan or Calculating Rolling 3 Year Returns sections of this Plan.

Benchmark Definitions, Policy Portfolio Weights, and Relative Performance Targets

The following table provides benchmarks, policy portfolio weights, and Maximum Value Added Targets that will be used in all UTIMCO aggregate and individual quantitative performance calculations:

Asset Category	Policy Portfolio Weights (% of Portfolio)	Benchmarks	Maximum Value Added Target (Basis Points)
U S Equities	**20.0**	**Russell 3000 Index**	62
Global ex US Equities	**17.0**	**MSCI All Country World Index ex US**	105
Equity Hedge Funds	**10.0**	**91 Day T-Bills + 4%**	130
Absolute Return Hedge Funds	**15.0**	**91 Day T-Bills + 3%**	100
Private Capital	**15.0**	**Two- Part, Custom Commitment-Weighted Vintage Year Benchmark Created from Venture Economics Venture Capital and Private Equity Databases.**	210
Venture Capital			225
Private Equity			200
Inflation Hedge	**13.0**	**Combination Benchmark: 24% GSCI minus 100 basis points, plus 38% Lehman Brothers US TIPS Index, plus 38% Wilshire Associates Real Estate Securities Index**	30
REITS		Wilshire Assocaites Real Estate Securities Index	75
Commodities		GSCI - 1%	0
TIPS		Lehman Brothers US TIPS Index	5
Fixed Income	**10.0**	**Lehman Brothers Aggregate Index**	25
Cash	**0.0**	**91 Day T-Bills**	0
Aggregate UTIMCO	**100.0**	**Policy Portfolio Weighted Combination Benchmark**	100
Short Intermediate Term Fund	**n/a**	**Benchmark defined in Short Intermediate Term Fund Investment Policy Statement**	10

The aggregate Maximum Value Added Targets for the private capital and inflation hedge asset categories are weighted averages of the sub components of those asset categories. The benchmark for private capital is a commitment weighted vintage year benchmark constructed of two parts. One part is weighted by the actual partnership commitments made by the current private capital team since 2001. This part of the total benchmark is weighted 75%. The second part of the benchmark is weighted by currently active partnership commitments made since the inception of the private capital program, but not by the current private capital team, which are monitored and managed by the current team. This part of the benchmark is weighted 25%. All benchmark returns are internal rates of return (IRR's). Actual private capital asset category IRR's will be compared to this aggregate custom weighted benchmark.

Calculating Rolling 3 Year Returns

In general, rolling 3 year periods will be used in all quantitative relative performance calculations. There are two exceptions: calculations for new Eligible Employees and the transition period from the prior Plan to this Plan.

Calculations for New Eligible Employees: The table below indicates the weights that will be used in quantitative relative performance calculations for Eligible Employees who have been employed by UTIMCO for less than three (consecutive) years:

	Performance Period				
Year of Performance	**1**	**2**	**3**	**4**	**5**
1	100%	50%	33%		
2		50%	33%	33%	
3			34%	33%	33%
4				34%	33%
5					34%

For example, the table indicates that in the Eligible Employee's second Performance Period calculations, year 1 performance (performance during the first year of employment) would be weighted 50%, and year 2 performance would be weighted 50% in all relative performance calculations. An exception would occur if the actual number of months an employee worked in year 1 was 6 months or less. The performance compensation calculations in Performance Period 1 would be prorated by the number of months the employee had worked during the Performance Period, and all relative performance calculations would be made over the actual months of employment. However, in order to prevent performance over a short time period from having too large an impact on performance compensation calculations over several years, the formulas for weighting year 1 and year 2 in the performance compensation calculations for Performance Period 2 would be:

Weight for performance year 1 = ((Months worked in year 1)/6) x 50%
Weight for performance year 2 = 100% - weight for performance year 1

The formulas for calculating the weights for years 1, 2, and 3 in Performance Period 3 would be:

Weight for performance year 1 = ((Months worked in year 1)/6) x 33%
Weight for performance year 2 = (100% - Weight for performance year 1)/2
Weight for performance year 3 = (100% - Weight for performance year 1)/2

All quantitative relative performance calculations after year 3 are standard 3 year rolling calculations.

Calculations during the Transition Period: The second exception to the standard rolling 3 year methodology is the first three years of this Plan. As detailed in the Transition from Prior Plan section of this Plan, the table below defines the time periods and weights to be used in calculating rolling performance numbers over the first three years of this Plan:

	Performance Period Ending in Year		
Years in Rolling Performance Calculations	**2004**	**2005**	**2006**
September 1, 2002 through August 31, 2003	50%	33%	
July 1, 2003 through June 30, 2004	50%	33%	33%
July 1, 2004 through June 30, 2005		34%	33%
July 1, 2005 through June 30, 2006			34%

DEFINITION OF TERMS

1. **Base Salary –** The element of Total Compensation consisting of regular payments, which is not contingent on specific performance goals.
2. **Board –** The UTIMCO Board of Directors.
3. **Cause (Termination for Cause) –** Shall mean a determination by the Board that the termination is due to gross incompetence, insubordination, violation of any applicable laws or professional rules or regulations, violation of established ethical rules and standards, insanity, or inability to perform professional duties as a result of any professional sanctions or rulings.
4. **Effective Date of Plan** – Shall mean the day upon which all Plan terms become effective. Unless otherwise stated in the Plan, the Effective Date of the Plan is September 1, 2003.
5. **Eligible Employee** – Except as provided in the General Conditions section of this Plan document, an individual employed by UTIMCO on the last day of a Performance Period, who was recommended by the President and CEO and the Compensation Committee to receive Performance Compensation Awards shall be defined as an Eligible Employee.
6. **Endowments Larger than $1 billion Peer Group** – A peer group of endowment funds maintained by Cambridge Associates that is composed of all endowment funds with assets greater than $1 billion at a specific July 1st date. Harvard University and Yale University are excluded from this peer group.
7. **Long Term Incentive –** The element of Total Compensation that is based on specific performance goals that is deferred for future payment.
8. **Performance Bonus –** The element of Total Compensation that is based on specific performance goals and paid as current income at the end of a Performance Period.
9. **Maximum Value Added Target –** The return increment by which actual performance must exceed a particular benchmark for maximum quantitative relative performance awards to be earned.
10. **Performance Compensation Award-** An award of Long Term Incentive and/or Performance Bonus.
11. **Performance Period (Performance Compensation Period)** – Shall mean the time period over which performance results are evaluated for the purpose of making Performance Compensation Awards. Unless otherwise stated in the Plan, this period is July 1 through June 30.
12. **Total Compensation –** The sum of Base Salary and Total Performance Compensation.
13. **Total Endowment Assets –** Shall mean the combination of the Permanent University Fund and the General Endowment Fund, but does not include any other endowment funds monitored by UTIMCO such as the Separately Invested Fund.
14. **Total Performance Compensation –** The sum of Performance Bonus and Long Term Incentive.

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January 6, 2004

Confidential

Mr. J. Luther King, Jr.
Luther King Capital Management
301 Commerce Street
Suite 1600
Fort Worth, TX 76102

Subject: UTIMCO Compensation Plan

Dear Luther:

At your request, Mercer Human Resource Consulting ("Mercer") reviewed the UTIMCO Compensation Plan dated December 23, 2003 which was developed internally by UTIMCO management.

Overall, the design of the Compensation Plan is consistent with Mercer's recommendations outlined in our memo dated November 25, 2003. In particular, Mercer had suggested that UTIMCO adopt the following changes to their compensation program:

- Eliminate the mandatory deferral feature from the Performance Compensation Plan (renamed Performance Bonus in the new plan).
- Implement a long-term incentive plan which would be earned using the same performance standards in the Performance Bonus plan but which would pay out over a three year vesting period. The long-term incentive plan generally delivers 30% of an employee's total incentive opportunity. Although Mercer had recommended that UTIMCO adopt 3-year cliff vesting to facilitate employee retention, the Committee agreed to implement 3-year ratable vesting. Three-year ratable vesting is consistent with typical market practice, employed by nearly half of premier University endowments that defer incentive compensation.
- Allow unvested awards in the long-term incentive plan to earn interest equal to the endowment rate of return.
- Allow employees to keep long-term incentive awards in the Plan following vesting (e.g., awards would continue to earn interest equal to the endowment rate of return).
- Increase maximum incentive opportunities so that maximum total cash compensation (base salary plus maximum total incentive opportunities) would allow UTIMCO program participants to reach the market 75th percentile. Assuming all program participants earn a market median salary (UTIMCO's desired position), the maximum incentive opportunities in the Compensation Plan deliver maximum total cash compensation at 101% of the market

75th percentile, on average. Given current base salary rates, program participants would earn maximum total cash compensation at 94% of the market 75th percentile, on average.

- Measure entity performance relative to both UTIMCO's policy benchmark (decreasing to a 50% weighting by 2007) and a peer group of similar-sized University endowments (increasing to 50% weighting by 2007). The final peer group was recommended by Cambridge Associates in a memo dated November 24, 2003.
- Vary performance standards by asset class (e.g., maximum incentive award would be earned for exceeding benchmark by 105 basis points in international equity and by 25 basis points in fixed income) to reflect each asset class's volatility and the portfolio manager's ability to outperform the benchmark. Asset class performance standards were recommended by Cambridge Associates in a memo dated November 24, 2003.

Although Mercer had not examined the possibility of adding analytical support to the plan, the proposed Compensation Plan adds two senior investment analysts with a maximum total incentive opportunity equal to 50% of salary. Mercer reviewed compensation market data from McLagan Partners' *2002 Investment Management Compensation Survey* and Mercer's *2003 Compensation Survey of Investment Groups Within University Endowments and Foundations.* Adding senior investment analysts to UTIMCO's incentive plan is consistent with typical market practice since two-thirds of premier University endowments and foundations include junior investment staff in their incentive plan. Furthermore, a maximum incentive equal to 50% of salary is consistent with incentive opportunities provided to senior investment analysts with a MBA-degree and more than two years of work experience.

In Mercer's executive compensation evaluation report dated August 13, 2003, we provided market compensation data for all of the positions currently participating in the incentive plan. Furthermore, we provided an overview of the "intermediate sanctions" legislation which affects not-for-profit organizations.

Bob Boldt asked Mercer to review the Board's actions necessary to establish the "rebuttable presumption," an important protective provision under the intermediate sanctions legislation. If the following requirements are satisfied, compensation paid is presumed to be reasonable, unless the IRS proves otherwise on the basis of sufficient contrary evidence. If the following requirements are not met, the burden is on the organization to prove the reasonableness of compensation. Most not-for-profit organizations try to structure their compensation programs and decision-making processes to establish the rebuttable presumption for reasonableness. The following steps are necessary to establishing this presumption:

- The compensation arrangement is approved by the independent members of the board (or a committee comprised entirely of independent directors).
- The Board or Committee obtained and relied upon appropriate data as to comparability, e.g., compensation paid by similarly-situated organizations (both for- and not-for-profit) for positions of similar scope of responsibility.
- The Board or Committee adequately documents the basis for its determination (e.g., the record includes an evaluation of the individual and the basis for determining the compensation to be reasonable).

The independence of the UTIMCO directors and the adequacy of your documentation should be confirmed with counsel.

Mercer's executive compensation evaluation dated August 13, 2003 was conducted in accordance with our firm's standards for reviewing compensation arrangements in tax-exempt organizations under the intermediate sanctions legislation.

Mercer Human Resource Consulting is a compensation, benefits and human resources consulting firm and we certify that we regularly perform compensation valuation studies of this type on an independent fee basis and are qualified to express an opinion on the competitiveness of the suggested program. The competitive market data described in the August 13, 2003 report is intended to be used by the Compensation Committee as "comparability data" under the intermediate sanctions law and the regulations thereunder and to assist the board in making its determination as to the reasonableness of the proposed arrangement.

Luther, we recognize that you and other members of UTIMCO's Compensation Committee have made a significant time investment to develop the proposed Compensation Plan. It has been a pleasure working with you over the past few months. If you have any questions about this memo, please call me at (415) 743-8748 or Greg Smith at (415) 743-8930.

Sincerely,

Diane Doubleday

Diane L. Doubleday

Cc: Bob Boldt, UTIMCO

C | A

CAMBRIDGE ASSOCIATES LLC

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www.cambridgeassociates.com

MEMORANDUM

TO: Luther King, Chairman, Compensation Committee
The University of Texas Investment Management Company

FROM: Bruce Myers

DATE: January 5, 2004

RE: Review of Proposed Compensation Plan

We have been asked to provide our opinion with respect to the revised Compensation Plan ("the plan") that was approved by the Compensation Committee on December 19th., and will be forwarded to the full UTIMCO Board for review and action at their January 13th meeting. It is our opinion that the plan has been appropriately and thoughtfully constructed, and we hope the Board will approve it as submitted.

The overall structure of the plan is the work of Mercer Consulting, a well-respected organization in the field of compensation plan design. As you know, we participated in the final stages of the Compensation Committee's deliberations, and were able to observe the thoughtfulness of the Committee and the careful scrutiny that Mercer's recommended structure received. Mercer's recommendations, based on their survey of leading educational endowments, brings UTIMCO substantially in line with other peer universities and should enable the organization to successfully recruit and retain talented investment professionals.

Our input was sought with respect to market benchmarks as well as the construction of a peer universe of educational endowments. Performance of UTIMCO staff will be measured against one or both of these standards, as specified in the Compensation Plan, in calculating any incentive compensation due. We believe that both the benchmarks and the peer universe approved by the Committee are appropriate for UTIMCO given its asset allocation, staffing and assets under management.

Please do not hesitate to contact us if we can elaborate on our support for the revised plan.

Austin American-Statesman
statesman.com

Big pay for Harvard's money men stirs ire

Bond managers' $35 million paychecks dwarf president's $450,000 salary.

By Steve Bailey
THE BOSTON GLOBE
Monday, December 22, 2003

After turning in an unusually strong performance in the staid world of bonds, two managers of Harvard University's giant endowment stand to make $30 million to $40 million this year.

It hasn't gone unnoticed inside the Harvard community, even delaying the annual reporting of how much the money managers will be paid.

Normally, Harvard Management Co., which oversees the university's $19.3 billion endowment, releases compensation figures in December. But Harvard Management won't announce the data until January as the board of the money management unit discusses how to deal with the fallout from the huge compensation numbers and whether the pay system should be altered, said Jack Meyer, chief executive of Harvard Management.

Compensation for the money managers has drawn scrutiny as far back as 1990, when Harvard Management touched off a storm by reporting that it had paid two managers $1 million each during the previous year.

Meyer, as he has in the past, defended the system, saying it has helped add billions of dollars to Harvard's endowment at a fraction of what the university would have to pay outside managers for similar performance.

"The compensation plan used at Harvard Management is superior to any other system in the investment business," he said.

Meyer would not discuss compensation for individual money managers. But he did confirm that the payouts would be "substantially higher" for some managers than they were in fiscal 2002, when David Mittelman, a U.S. bond manager, was paid a record $17.5 million.

Harvard's managers are paid based on a system that measures their performance against various market benchmarks, as well as on the size of their portfolios. In fiscal 2003, which

Meyer, who has run Harvard Management since 1990, called the alumni letter well meaning, but "dead wrong."

"They are incredibly naive about the real world," Meyer said. "If we restrict pay at Harvard Management to well below market rates, Harvard Management will achieve at best mediocre returns, probably less than mediocre returns because our size is a large disadvan- tage."

But the price of managing Harvard's money keeps going up.

For fiscal 1998, Harvard Management paid its top-earning managers and Meyer $45.4 million, according to its tax filings. Last year that number had risen to $74.6 million for the top five and Meyer.

He said that if Harvard were to move its investment to outside managers as other universities do, the fees would double for comparable results.

The difference, he added, is Harvard would not have to report those fees every year.

Find this article at:
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☐ Check the box to include the list of links referenced in the article.

REAL POLITICS

By Steve Bailey, Globe Columnist, 12/12/2003

What will Harvard president Larry Summers say about paying the nonprofit university's top money managers as much as $40 million for their good work last year?

More than most, Summers should appreciate Harvard Management Co.'s pay-for-performance compensation system, which requires the university's money managers to beat the markets before they are able to make any real money for themselves. After all, Summers made his reputation as a Harvard-educated free-market economist who, among other things, once infamously suggested that shipping polluting industries off to the Third World made good economic sense.

But Summers, the economist and former US Treasury Secretary, is also a man of considerable political skills, and he knows he will have to explain why the world's richest university is paying $30 million to $40 million to its best money managers, even for superb performance that enriches the institution. And he is going to have to do it at a time when he tries to cut costs and look lean and mean as he gears up for a humongous fund-raising drive. Summers, through a spokesman, yesterday declined to comment.

These are, relatively speaking of course, challenging times at Harvard. The university is telling its units that they can expect flat budgets in the next fiscal year. And with employee benefit costs continuing to rise, Harvard is looking at salary squeezes, layoffs, and outsourcing. That makes for an ugly contrast to a handful of money managers taking home tens of millions of dollars. "Greed is good," movie character Gordon Gecko once suggested.

Just below the radar screen, Harvard is quietly cranking up the money-raising machine (again) for a very large campaign to fund Summers's core priorities in undergraduate education, public service (financial aid for students in such low-paying fields as education and religion), science, and, of course, the build-out of the campus-of-the-future in Allston. So when Harvard, cup in hand, goes to the alumni it will have to explain why it needs billions more when Harvard Management is producing the kinds of returns that allow it to pay its best employees $40 million. Inconvenient it is.

Summers's best answer is the one Harvard Management boss Jack Meyer has been giving for years: Harvard Management works. Why would we change it?

In an era when fat executive paychecks are out of style, Summers's challenge will be to explain Maurice Samuels to the Harvard community.

The bond market had a terrific year, and Samuels, who manages Harvard's foreign bond portfolio, had an even better year. A much better year. His portfolio was up an incredible 52 percent last year, almost triple his benchmark. Here is what that meant for Harvard: At the start of fiscal 2003, Samuels managed about 5 percent, or $1 billion, of the university's general investment account. A 52-percent gain means that he added $520 million to the endowment, or $340 million more than if he had produced middle-of-the-road returns.

For that he will receive an obscene paycheck. But it will have cost Harvard far less than hiring an outside hedge fund to produce the same results. Here's the math: First, a hedge fund would take a 1 percent management fee, or $10 million, whether the market went up or down. Then the hedge fund would take 20 percent of the profits, or $104 million of the $520 million. Total cost: roughly $114 million. If Samuels does, in fact, make $40 million for the year, he will have come at a far lower price than a hedge fund.

Summers the free-market economist can understand the logic of it all. It remains to be seen if Summers the politician thinks he can explain it to the constituencies that matter.

Steve Bailey is a Globe columnist. He can be reached at 617-929-2902 or at bailey@globe.com.
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Handout 1/13/04
BOD

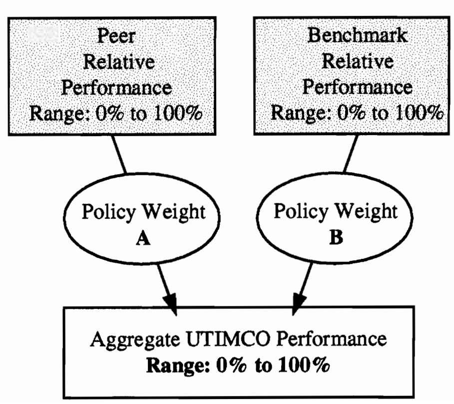
Policy Performance Compensation Ranges

The Total Performance Compensation Award for an Eligible Employee is based on both qualitative and quantitative criteria as indicated by the prior diagram. The range for the Total Performance Compensation Award is from zero to a Maximum Performance Compensation Award, expressed as a percentage of Base Salary for Each Eligible Employee in the Plan. The maximum Total Performance Compensation Award percentage of Base Salary, the policy maximum award for Performance Bonus, the policy maximum award for Long Term Incentive, the policy weights E and F which determine the relative importance of qualitative and quantitative performance factors, and policy weights C and D which determine the relative importance of individual and aggregate UTIMCO quantitative performance factors in determining overall quantitative performance, vary by position as detailed in the following table:

Policy Performance Compensation Ranges	Diagram Policy Weights (%)				Policy Maximum Amounts (% of Base Salary)		
	C	D	E	F			
Position	Individual Quantitative Performance Weight	Aggregate UTIMCO Quantitative Performance Weight	Qualitative Performance Weight	Overall Quantitative Performance Weight	Performance Bonus	Long Term Incentive	Total Performance Compensation
Investment Professionals							
President, CEO, CIO	0	100	20	80	125	55	180
Deputy CIO & MD	50	50	20	80	90	40	130
Risk Manager	0	100	50	50	85	35	120
MD, Public Markets	75	25	20	80	85	35	120
MD, Inflation Hedge	75	25	20	80	85	35	120
MD, Non-Mkt Alternative	75	25	20	80	85	35	120
Portfolio Manager, Equity Inv	75	25	20	80	70	30	100
Sr. Portfolio Manager, Fixed Income	75	25	20	80	70	30	100
Portfolio Manager, Fixed Income	75	25	20	80	70	30	100
Analytical Support	75	25	25	75	35	15	50
Operations/Support Professionals							
MD, Accounting, Finance & Admin	0	100	50	50	85	35	120
MD, Information Technology	0	100	50	50	85	35	120
Manager, Finance & Administration	0	100	50	50	45	15	60
Manager, Investment Reporting	0	100	50	50	45	15	60
Manager, Portfolio Accounting & Operations	0	100	50	50	45	15	60

Calculating Aggregate UTIMCO Quantitative Performance

Aggregate UTIMCO relative performance under this Plan will be based on both performance relative to a peer group defined below as well as performance relative to an established benchmark as defined in the Benchmark Definitions, Policy Portfolio Weights, and Relative Performance Targets section of this Plan. As the diagram below indicates, these two elements of aggregate UTIMCO performance will be weighted by policy weights defined by the Board.



Handout - BOD Meeting
1/13/04

Value Added
Tactical Asset Allocation Decisions
March 2003-December 2003

	PUF	GEF	Total
GSCI to BGI Emerging Structured Tier	21,031,302.79	10,550,206.90	31,581,509.69
Fixed Income (Russ) to S&P Futures	6,570,806.22	3,323,072.32	9,893,878.54
Fixed Income (Harland) to S&P Futures	2,535,222.42	329,791.05	2,865,013.47
Fixed Income (Harland) to S&P Futures	2,799,837.02	2,280,765.96	5,080,602.98
Fixed Income (PIMCO) to S&P Futures	5,721,461.72	1,215,718.83	6,937,180.55
Fixed Income (PIMCO) to S&P Futures	6,292,838.84	5,727,595.10	12,020,433.94
Fixed Income (PIMCO) to S&P Futures	7,544,347.29	-	7,544,347.29
Fixed Income (PIMCO) to S&P Futures	4,665,156.40	1,603,036.71	6,268,193.10
Value Added for March moves	57,160,972.69	25,030,186.88	82,191,159.56

Value Added
Tactical Asset Allocation Decisions
May 2003-December 2003

	PUF	GEF	Total
Domestic Fixed (Russ) to Templeton	6,308,210.78	3,257,252.24	9,565,463.02
Credit Related Fixed (Harland) to Templeton	7,508,023.53	3,895,047.47	11,403,070.99
Equitization of Liquidity Cash	7,146,109.46	2,610,123.21	9,756,232.67
Domestic Fixed (Russ) to BGI Emerging	6,607,798.45	3,376,392.55	9,984,190.99
Credit Related Fixed (Harland) to BGI Emerging	8,099,081.61	4,177,206.66	12,276,288.26
Value Added	35,669,223.82	17,316,022.12	52,985,245.94
Equitization of Midcap sales	2,427,445.84	2,669,139.58	5,096,585.42

Value Added
Tactical Asset Allocation Decisions
July 2003-December 2003

	PUF	GEF	Total
Equitization of Midcap Receivable	(33.46)	(17.24)	(50.70)
Midcap to Emerging Markets Structured	3,924,576.28	1,984,538.76	5,909,115.05
Midcap to Russell 2000 Futures	539,124.08	324,449.60	863,573.69
Duration Adjustment Internal Fixed Income	5,766,925.91	2,547,706.72	8,314,632.64
Cost Savings Trading S&P Futures Active vs. Market Close	316,539.60	163,065.86	479,605.46
Value Added	10,547,132.42	5,019,743.71	15,566,876.13

Value Added
Tactical Asset Allocation Decisions
August 2003-December 2003

	PUF	GEF	Total
Equitization of Uninvested Manager Cash	435,345.77	221,479.68	656,825.45
Energy ETFs	168,539.30	16,013.88	184,553.18
Value Added	603,885.07	237,493.56	841,378.63

Value Added
Tactical Asset Allocation Decisions
October 2003-December 2003

	PUF	GEF	Total
Transfer from Internal Fixed Income to Liquidity	(228,274.98)	-	(228,274.98)
Value Added	(228,274.98)	-	(228,274.98)

Value Added
Tactical Asset Allocation Decisions
November 2003-December 2003

	PUF	GEF	Total
Transfer from PIMCO to Templeton	1,712,149.61	-	1,712,149.61
Transfer from S&P Futures to Dow Jones ETFs	(178,469.65)	(274,207.16)	(452,676.81)
Transfer from Internal Fixed Income to International ETFs	(580,036.31)	(43,824.20)	(623,860.51)
Transfer from Internal Fixed Income to Liquidity	(176,675.87)	-	(176,675.87)
Hedge Fund Overlay	8,431,800.00	4,353,375.00	12,785,175.00
Value Added	9,208,767.78	4,035,343.64	13,244,111.42
Total Value Added Endowments	**115,389,152.63**	**54,307,929.48**	**169,697,082.11**

Short Intermediate Term Fund

	Total
Duration Adjustment Russ Kampfe	9,524,714.49

Handout 1/13/04
BOR

Austin Business Journal - January 12, 2004
http://austin.bizjournals.com/austin/stories/2004/01/12/story5.html

AUSTIN BUSINESS JOURNAL

EXCLUSIVE REPORTS

Arch, UT giving birth to firm

Private equity venture signs deal for UT-backed nanotech startup

Stacey Higginbotham
Austin Business Journal Staff

Arch Venture Partners has financed a nanotechnology deal to launch a startup spawned by the University of Texas' revamped licensing program.

As if that weren't enough, the private equity firm is nearly done raising its sixth fund. Clinton Bybee, managing partner of Arch, says he can't comment on the fundraising.

However, sources say the firm is close to raising $300 million to $350 million, bringing its total capital under management to more than $1 billion. Chicago-based Arch, which has an office in Austin, invests in local companies such as XDI Innovations Inc., Intelligent Reasoning Systems Inc. and Innovalyte Inc.

Although Bybee says he doesn't know how much Arch will end up investing in Austin, his recent experience with UT means he will look to it for innovative technologies. Arch recently signed a licensing deal with UT to create a startup called Semzyme Inc.

Neil Iscoe, director of UT's Office of Technology Licensing, says the university will receive an equity stake in Semzyme and royalties associated with the patents. The value of the deal wasn't disclosed.

For Iscoe and UT, the deal represents a coup of sorts in nanotechnology research.

In 2002, Angela Belcher, a prominent nanotech researcher, left UT for the Massachusetts Institute of Technology. The loss was a blow to UT's nanotech efforts, but the opportunity to reap economic rewards from Belcher's patents softens it.

"[Belcher] did some seminal research in nanotechnology, and that resulted in some basic patents. She did that work while at UT, and we have the patents," Iscoe says. "Although she's moved to MIT, we are pleased we can work with the patents. This is a real win-win for everyone involved."

UT might see its licensing revenue grow as a result of this deal, but Austin itself won't glean the benefits. Semzyme will be based in Cambridge, Mass., where Belcher and MIT are. Bybee says he would have liked for the company to be based in Austin, but it just didn't make sense with company principal Belcher being in Cambridge.

The deal is one of several licensing and commercialization developments at UT since Iscoe became the technology licensing chief last February. His goal was to make the technology licensing and commercialization process smoother for businesses.

"In business, uncertainty is bad and long-time horizons for contract negotiations aren't good, so we are trying to shorten the time it takes to execute a contract with the university and trying to make it easy to work with us," Iscoe says.

Bybee says UT now is willing to take risks on licensing technology rather than worrying about what could go wrong.

"You can't score unless you take the shots. In order to return money to the university, the licensing office needs to do a lot of shots on goal," Bybee says. "Sometimes the equity is worth a lot and sometimes it's worth zero, but it's really a shots-on-goal game."

Jay Campion, managing partner in the Austin office of early stage venture fund Access Venture Partners LP, says Iscoe has helped cut the amount of time it takes to reach a deal with UT.

"Neil brings a lot of business experience and startup experience and an understanding of how venture capital firms work to the licensing program," Campion says. "It was a very smart hire."

Email Stacey Higginbotham at (shigginbotham@bizjournals.com).

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Handout BOD meeting 1/13/04

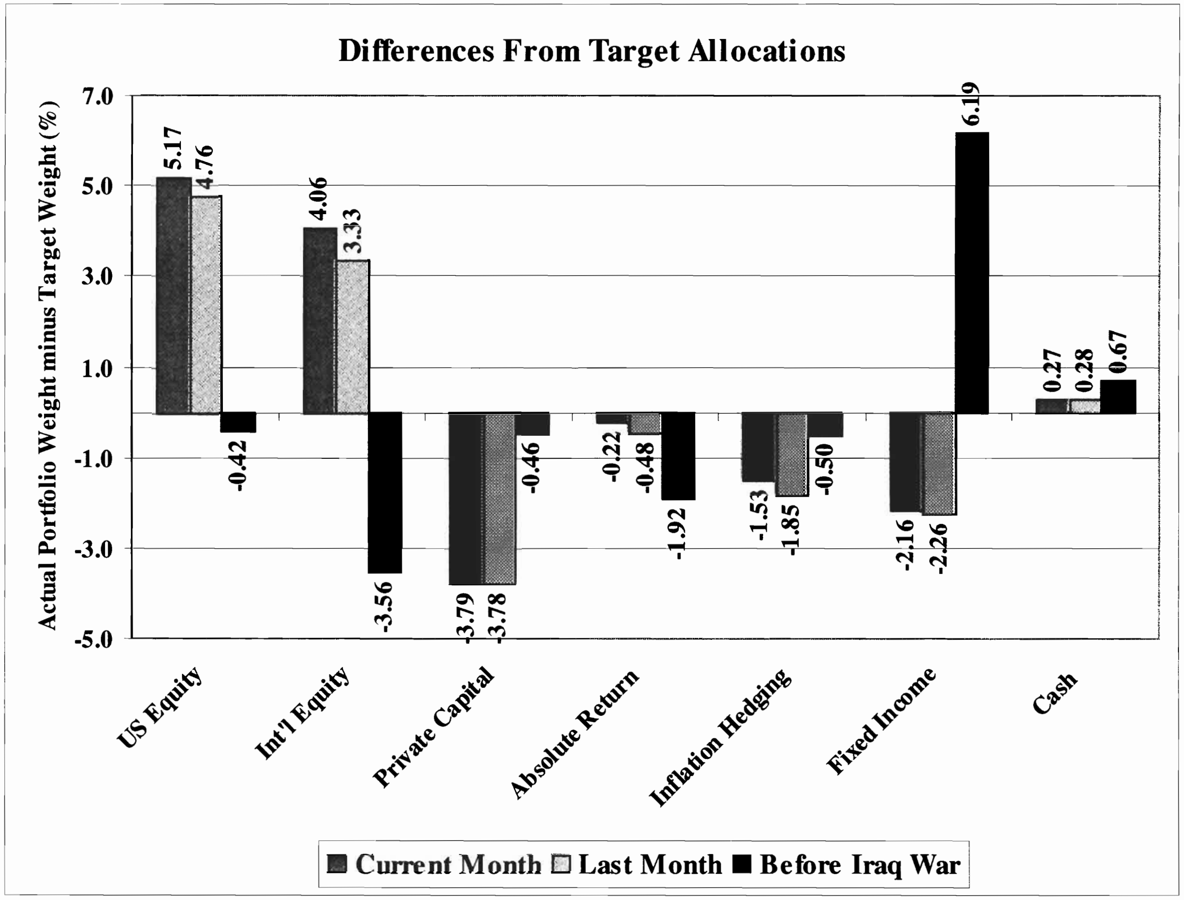
UTIMCO

The University of Texas Investment Management Company

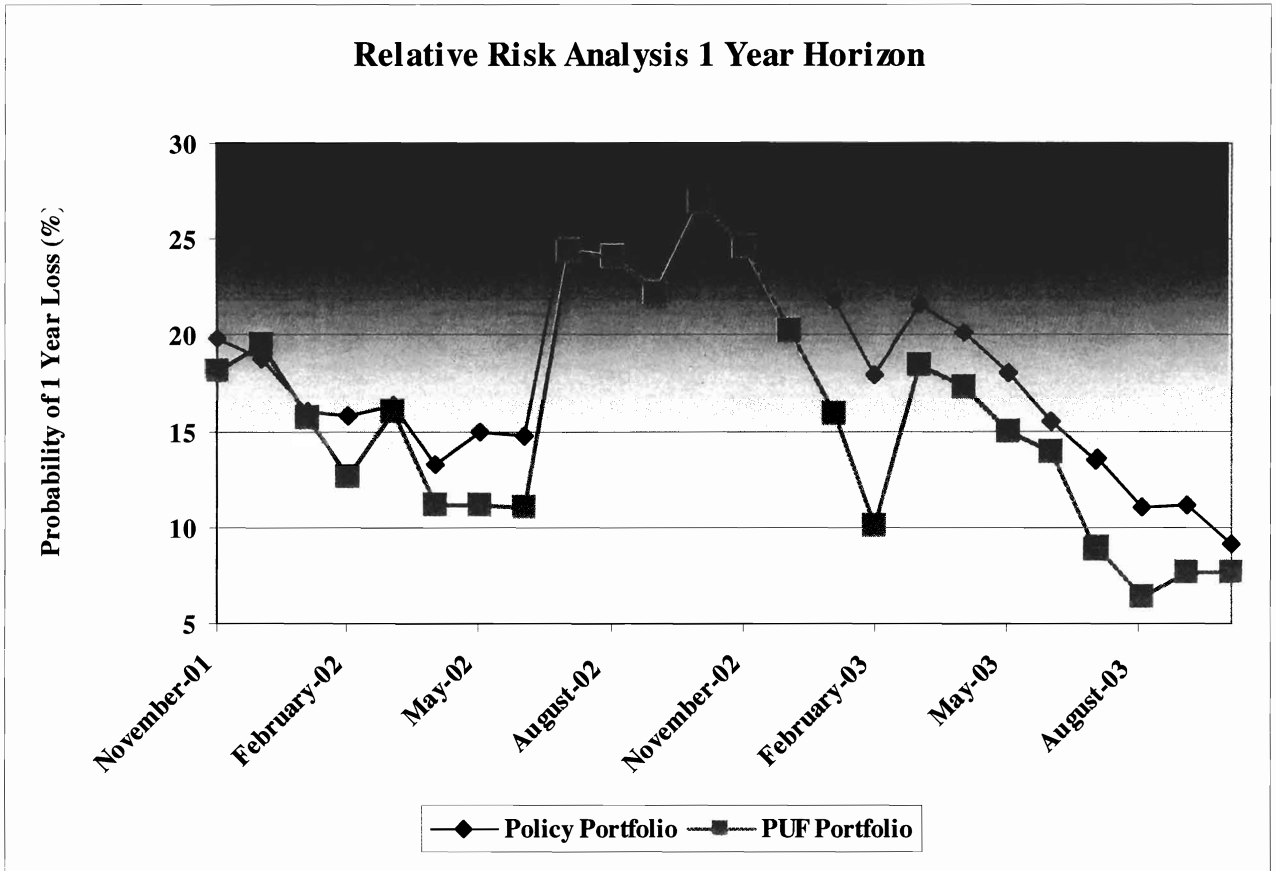
Presentation to UTIMCO Board of Directors

January, 2004

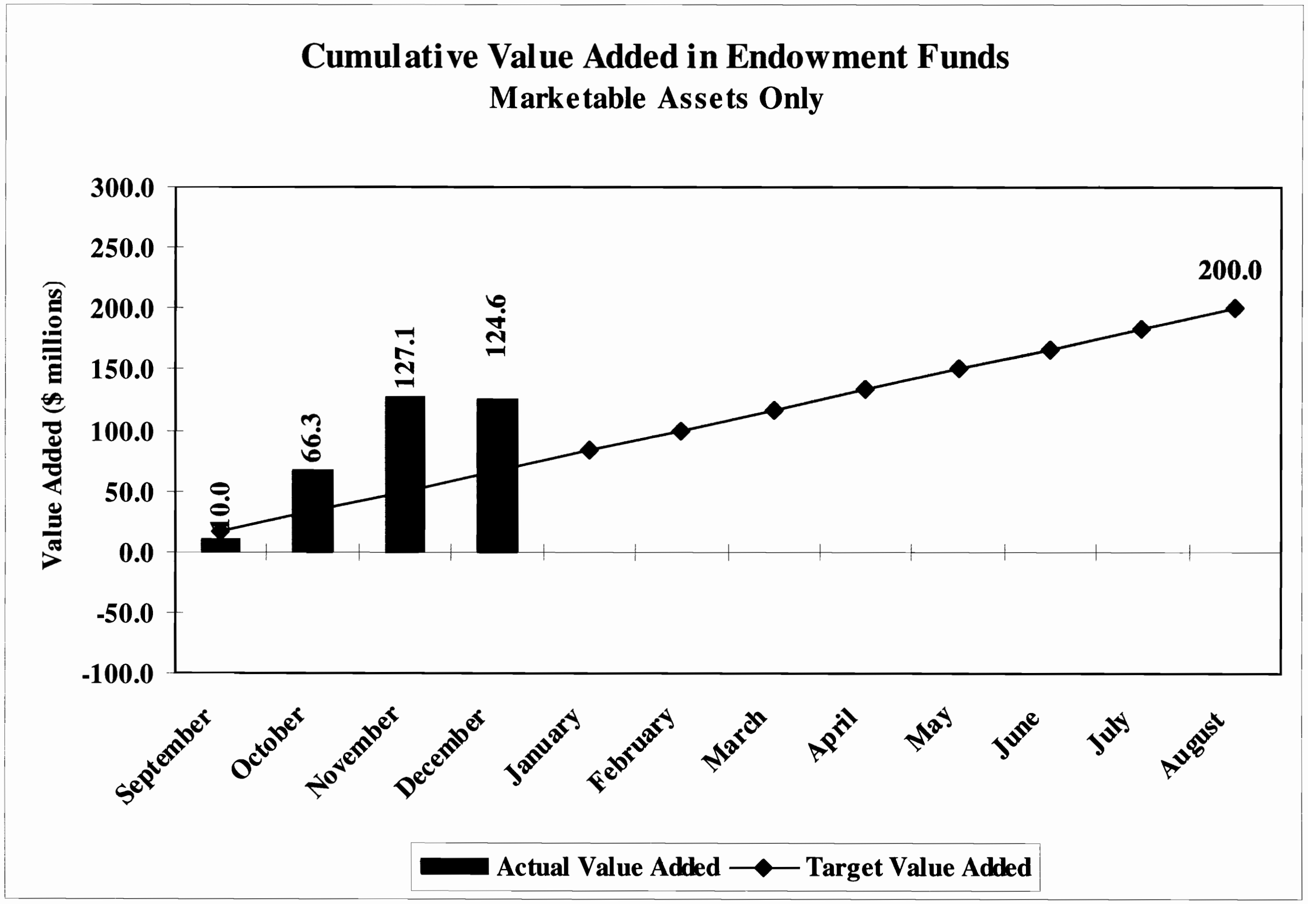
Tactical Changes in Asset Allocation



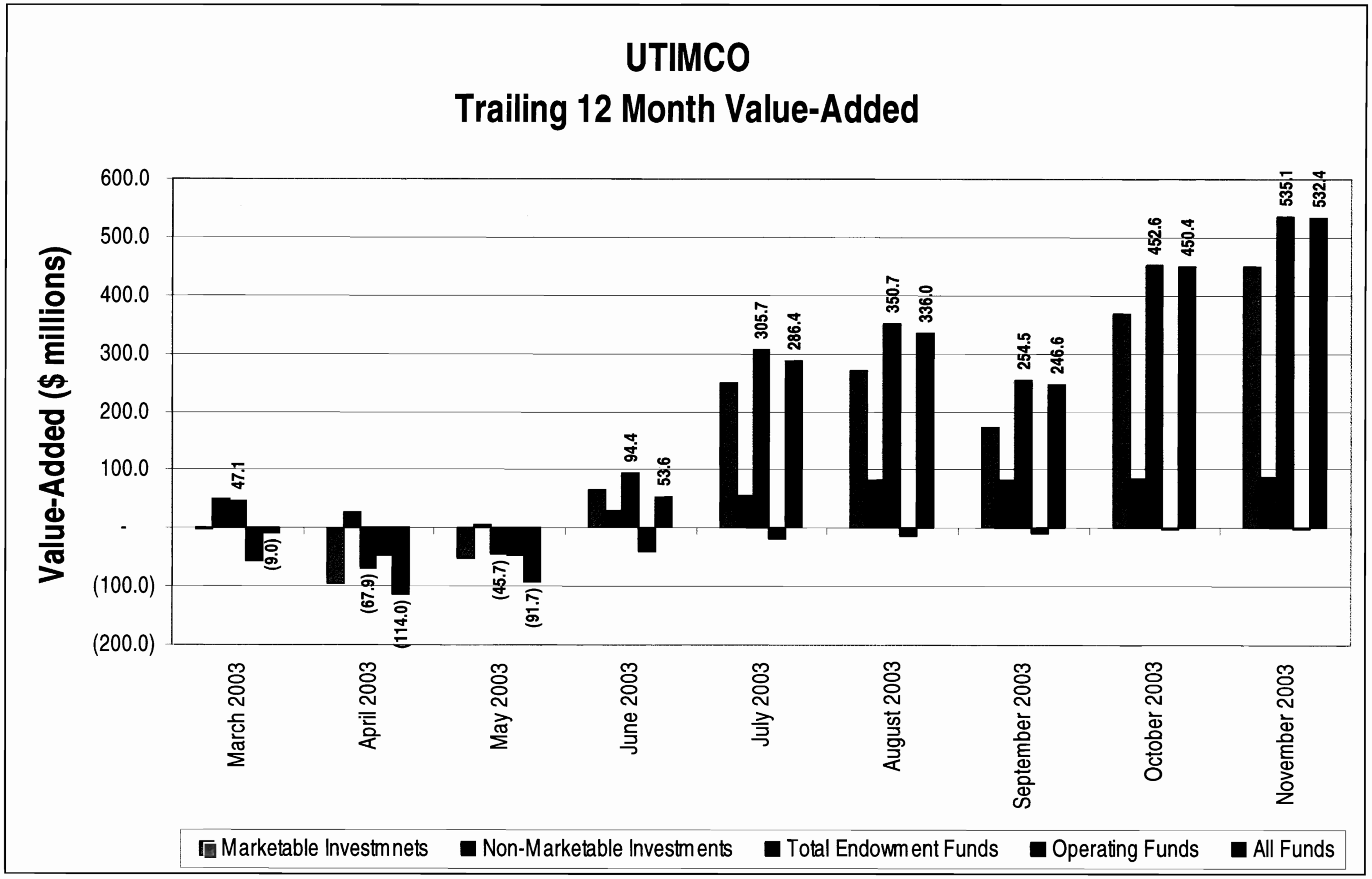
Despite Tactical Moves
Risk Has Remained Tightly Controlled



Value-Added Has Been Strong



Every Segment of Total Funds Has Contributed to Improving Value-Added



Peer-Relative Performance in the PUF is Improving

Permanent University Fund vs.
Cambridge Billion $ Funds

Periods Ended September 30,	One Quarter Percentile Rank	One Year Percentile Rank	Three Year Percentile Rank	Five Year Percentile Rank	Ten Year Percentile Rank
2003	6	35	43	92	97
2002		60	83	92	
2001		46	98	89	
2000		89	89	91	
1999		92	83	78	
1998		18	49	55	
1997		71	65		
1996 *		88	75		
1995		36			
1994		78			

Endowment Funds Managed by UT Office of Asset Management
Endowment Funds Managed by UTIMCO
UTIMCO Managed by Former UT System Personnel
Venture Capital Bubble Missed by UTIMCO Because of Board Restrictions on Investments
Entire UTIMCO Private Capital Team Leaves; UTIMCO relies on Cambridge for Support
Tom Ricks and Dave Russ Leave in April, 2001; UTIMCO Operates with Interim CEO
Boldt Joins UTIMCO, Builds First External Management Team

Peer-Relative Performance in the GEF is Improving

General Endowment Fund vs. Cambridge Billion $ Funds

Periods Ended September 30,	One Quarter Percentile Rank	One Year Percentile Rank	Three Year Percentile Rank	Five Year Percentile Rank	Ten Year Percentile Rank
2003	6	18	38	69	78
2002		52	75	80	
2001		46	80	80	
2000		78	80	82	
1999		78	80	65	
1998		71	67	62	
1997		36	52		
1996 *		82	65		
1995		36			
1994		71			

Endowment Funds Managed by UT Office of Asset Management
Endowment Funds Managed by UTIMCO
UTIMCO Managed by Former UT System Personnel
Venture Capital Bubble Missed by UTIMCO Because of Board Restrictions on Investments
Entire UTIMCO Private Capital Team Leaves; UTIMCO relies on Cambridge for Support
Tom Ricks and Dave Russ Leave in April, 2001; UTIMCO Operates with Interim CEO
Boldt Joins UTIMCO, Builds First External Management Team

UTIMCO

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

A Review of the Sources of PUF Value-Added During Fiscal 2002-2003

Permanent University Fund
Performance Attribution

	Asset Allocation		Return		
			Year Ended August 31, 2003		
	Neutral	August 31, 2003	Benchmark	PUF	Total Attribution (1)
Cash and Cash Equivalents	**0.0%**	**1.7%**	**1.38%**	**1.34%**	**-0.14%**
Domestic Public Equities	**31.0%**	**34.6%**	**14.87%**	**13.77%**	**-0.32%**
Passive Management	11.0%	14.9%	14.87%	14.23%	0.16%
Active Management	10.0%	12.9%	14.87%	20.23%	0.59%
Hedge & Structured Active Management	10.0%	6.8%	14.87%	4.39%	-1.07%
International Public Equities	**19.0%**	**19.2%**	**12.22%**	**16.29%**	**0.89%**
Passive Management	6.5%	6.9%	12.22%	13.61%	0.22%
Active Management	7.5%	11.4%	12.22%	20.04%	0.85%
Hedge & Structured Active Management	5.0%	0.9%	12.22%	1.97%	-0.18%
Absolute Return	**10.0%**	**9.3%**	**5.49%**	**21.28%**	**1.50%**
Inflation Hedging	**10.0%**	**8.1%**	**13.58%**	**22.16%**	**0.74%**
Fixed Income	**15.0%**	**15.4%**	**3.69%**	**6.66%**	**0.89%**
Total Marketable Securities	**85.0%**	**88.3%**	**11.56%**	**15.12%**	**3.56%**
Private Capital (2)	**15.0%**	**11.7%**	**19.46%**	**-6.25%**	
Total	**100.0%**	**100.0%**	**12.77%** (3)	**12.02%**	

A Review of the Sources of GEF Value-Added During Fiscal 2002-2003

General Endowment Fund
Performance Attribution

	Asset Allocation		Return		
			Year Ended August 31, 2003		
	Neutral	August 31, 2003	Benchmark	GEF	Total Attribution (1)
Cash and Cash Equivalents	**0.0%**	**-0.5%** (2)	**1.38%**	**1.34%**	**-0.07%**
Domestic Public Equities	**31.0%**	**35.0%**	**14.87%**	**13.78%**	**-0.33%**
Passive Management	11.0%	14.1%	14.87%	14.52%	0.07%
Active Management	10.0%	13.4%	14.87%	20.04%	0.72%
Hedge & Structured Active Management	10.0%	7.5%	14.87%	4.31%	-1.12%
International Public Equities	**19.0%**	**20.9%**	**12.22%**	**16.26%**	**0.99%**
Passive Management	6.5%	8.0%	12.22%	13.71%	0.26%
Active Management	7.5%	11.9%	12.22%	20.15%	0.90%
Hedge & Structured Active Management	5.0%	1.0%	12.22%	1.97%	-0.17%
Absolute Return	**10.0%**	**10.3%**	**5.49%**	**21.27%**	**1.53%**
Inflation Hedging	**10.0%**	**8.6%**	**13.58%**	**22.14%**	**0.75%**
Fixed Income	**15.0%**	**15.0%**	**3.69%**	**7.05%**	**1.08%**
Total Marketable Securities	**85.0%**	**89.3%**	**11.56%**	**15.51%**	**3.95%**
Private Capital (3)	**15.0%**	**10.7%**	**19.46%**	**-6.59%**	
Total	**100.0%**	**100.0%**	**12.77%** (4)	**12.81%**	