April 1, 2004

Via Courier

MEMORANDUM

TO: The University of Texas Investment Management Company - Board of Directors

Woody L. Hunt, Chairman
J. Luther King, Jr., Vice-Chairman
Mark G. Yudof, Vice-Chairman for Policy
Susan M. Byrne
Rita C. Clements
J. Philip Ferguson
I. Craig Hester
James R. Huffines
R. H. (Steve) Stevens, Jr.
R. D. Burck, Advisory Director

FROM: Bob Boldt

SUBJECT: UTIMCO Board of Directors Meeting – **Thursday, April 8, 2004**

Enclosed please find the agenda and presentation materials for the upcoming board meeting. The items on the agenda are as follows:

1) Discussion and consideration of a proposed public markets investment,
2) Endowment and Operating Funds update,
3) Consideration of several Corporate resolutions
4) Discussion of Core Fund Strategy
5) UTIMCO Working Group report from Philip Aldridge of UT System
6) Update on venture capital opportunities
7) Approval of recommended PUF distribution amount and the PHF and LTF payout rates
8) Restatement of Endowment Policy Portfolios Returns
9) Report from the Liquidity Committee, and
10) Report from the Audit and Ethics Committee.

The **Open Meeting of the Board** will begin at **10:00 a.m.** and is scheduled to **adjourn at approximately 3:30 p.m.** The meeting will be held in the **Town Lake Conference Room** of **UTIMCO, Bank One Tower, 221 W. Sixth Street, Suite 1700, Austin, Texas.**

Continental breakfast will be served. We will recess the meeting briefly to have lunch at The Headliners Club. Parking is available in the Bank One parking garage. Upon receipt of your parking ticket, the front desk receptionist will validate your parking.

The office phone number is (512) 225-1600 and the fax number is (512) 225-1660. Please let Christy Wallace at (512) 225-1628 know of any special travel plans or other needs during the day.

cc: Chairman Miller, UT System Board of Regents
Regent Caven, UT System Board of Regents
Regent Barnhill, UT System Board of Regents (w/o encl.)
Regent Craven, UT System Board of Regents (w/o encl.)
Regent Estrada, UT System Board of Regents (w/o encl.)
Regent Krier, UT System Board of Regents (w/o encl.)
Francie Frederick, Office of the Board of Regents
Jerry Turner, Vinson & Elkins
Bruce Myers, Cambridge Associates
John De La Garza, Jr., UT System Community Relations (w/o encl.)
Philip Aldridge, UT System Office of Business Affairs
Jerry Modjeski, UT System Office of Finance
Charlie Chaffin, UT System Office of Internal Audit
Michael Warden, UT System Office of Public Affairs
Michael Sebastian, EnnisKnupp Associates
Greg Anderson, Texas A&M University System (2)

The University of Texas Investment Management Company

UTIMCO

Presentation Materials
Board of Directors Meeting

April 8, 2004

UTIMCO BOARD OF DIRECTORS
MEETING AGENDA

April 8, 2004

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

Time Begin	Time End	Item #	Agenda Item
			Open Session:
10:00 a.m.	10:05 a.m.	1	Call to Order/Consideration of Minutes of January 13, 2004 Meeting*
10:05 a.m.	10:20 a.m.	2	Discussion and Consideration of Proposed Public Markets Investment*
10:20 a.m.	10:35 a.m.	3	Endowment and Operating Funds Update - Performance and Asset Allocation - Liquidity Profile - Report of Derivative Applications - Annual External Consultant Report
10:35 a.m.	10:45 a.m.	4	Corporate Resolutions: - Resolution of Appreciation* - Election of UTIMCO Officers* - Designation of Key Employees* - Designation of Advisory Director* - Approval of External Board Service*
10:45 a.m.	11:45 a.m.	5	Discussion of Core Fund Strategy
11:45 a.m.	12:15 p.m.		UTIMCO Working Group Presentation (Philip Aldridge)
12:15 p.m.	1:15 p.m.		**Recess for Lunch**
			Reconvene in Open Session:
1:15 p.m.	2:00 p.m.		Continuation of Discussion of Core Fund Strategy
2:00 p.m.	2:30 p.m.	6	Update on Venture Capital Opportunities
2:30 p.m.	2:45 p.m.	7	Approval of Recommended PUF Distribution Amount and the PHF and LTF Payout Rates*
2:45 p.m.	3:15 p.m.	8	Restatement of Endowment Policy Portfolios Returns
3:15 p.m.	3:30 p.m.	9	Report from Committees - Consideration of Liquidity Committee Report* - Consideration of Audit and Ethics Committee Report*
3:30 p.m.			Adjournment

* Action by resolution required

Next Scheduled Meeting: May 26, 2004

TAB 1

Resolution No. 1

RESOLVED, that the minutes of the meeting of the Board of Directors held on **January 13, 2004** 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 10:00 a.m. on the **13th day of January 2004**, in 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
Mark G. Yudof, Vice-Chairman for Policy
Rita C. Clements
J. Philip Ferguson
I. Craig Hester
James R. Huffines
R. H. (Steve) Stevens, Jr.

thus, constituting a majority and quorum of the Board. Director Susan M. Byrne was not present at the meeting. Also, attending the meeting were R. D. Burck, Advisory Director; Scott Caven and Cyndi Krier, U. T. System Regents; 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; Larry Goldsmith, Managing Director of Public Markets; Andrea Reed, Risk Manager; Sara McMahon and Trey Thompson, Managing Directors – Non-Marketable Alternative Investments of the Corporation; Bill Edwards – Managing Director Information Technology; Greg Lee, Manager of Finance and Administration; Lindel Eakman, Associate – Non-Marketable Alternative Investments; Jerry Turner, legal counsel for the Corporation; Philip Aldridge, Charlie Chaffin, Sandra Neidhart, Jerry Modjeski, and Michael Warden of U. T. System Administration; Bruce Myers of Cambridge Associates; Greg Smith of Mercer Human Resource Consulting; and Steven Voss of EnnisKnupp. Mr. Hunt called the meeting to order at 10:00 a.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 December 4, 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 December 4, 2003 be, and are hereby, approved.

Endowment and Operating Funds Update

Mr. Hunt asked Mr. Boldt to give an endowment and operating funds update. The latest performance information was presented. Mr. Boldt reported value added under the Corporation's management for the period ended November 30, 2003. He provided a handout that listed the tactical decisions, made during March 2003 – December 2003 time period, which assisted in creating value added while keeping risk tightly controlled. The net performance for the one month period ended November 30, 2003, for the PUF and the GEF were 1.68%, and 1.84%, respectively. The net performance for one year ended November 30, 2003, for the PUF and GEF were 19.34% and 20.19%, respectively. The Short Intermediate Term Fund's (SITF) performance was 0.08% versus benchmark return of 0.00% for the one-month period ended November 30, 2003. Performance for the Short Term Fund (STF) was 0.08% versus 0.08% for its benchmark for the one-month period ended November 30, 2003. Also reviewed were manager history performance summary and a liquidity profile as of November 30, 2003.

Compensation Committee Report

Mr. Hunt asked Mr. King, Chairman of the Compensation Committee, to lead the discussion on the proposed Compensation Plan. Mr. King reported that the Committee has had numerous meetings discussing the specifics of the Compensation Plan. They have reviewed documents prepared by Mercer Human Resources Consulting and discussed benchmarks as related to the compensation guidelines for the Plan for the Fiscal Year 2003-2004 with Bruce Myers of Cambridge. At their last meeting of the Compensation Committee held on December 19, 2003, the Committee recommended that the proposed Compensation Plan be presented to the Board of Directors, with the Board of Directors to determine the effective date of the Plan. Mr. Boldt recommended that the effective date of the Plan be set as Sept. 1, 2003. After discussion and the Directors' questions being answered by Mr. Hunt, Mr. King, Mr. Boldt, Mr. Smith of Mercer and Mr. Myers of Cambridge, upon motion duly made and seconded, the following resolution, with the added clause to make it subject to approval by the Board of Regents, was adopted by a vote of six ayes and two nos, with Director Yudof and Director Huffines voting against the proposed plan:

> RESOLVED, that the Compensation Plan, as recommended by the Compensation Committee, with an effective date of September 1, 2003, is hereby approved in the form submitted to the Corporation's Board of Directors, subject to approval by the U. T. System Board of Regents.

The meeting was recessed at 12:26 p.m.

The Board of the Corporation reconvened in an open meeting at 1:30 p.m. Director Yudof, Mr. Caven and Mr. Burck left the meeting during the recess.

UTIMCO Annual Financial Statements and Audit Report

Chairman Woody L. Hunt called the meeting to order at 1:30 p.m. He asked Ms. Moeller to present the UTIMCO Annual Financial Statements and Audit Report. The financial statements were audited by Ernst & Young, LLP. Ernst & Young offered an unqualified opinion on the August 31, 2003 financial statements. Director Stevens, Chairman of the Audit and Ethics Committee, stated that he had met with Ricky Richter of Ernst & Young and that there were no audit adjustments. Upon motion duly made and seconded, the following resolution was unanimously adopted:

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.

Mr. Hunt thanked Mr. Stevens for his professional leadership of the Audit and Ethics Committee.

Annual Report

The next item on the agenda was the Annual Report. Mr. Boldt thanked Ms. Moeller and her staff for their hard work on the report. As a result of an earlier Corporation Customer Survey, an advisory board had been formed with component representatives to assist with new direction for the Annual Report. The committee recommended a more modular approach to the report to benefit all components. The new look and the many customized options of the report have been very well received.

Manager Watch List Update

As the last item on the agenda, Mr. Hunt asked Mr. Goldsmith to give an update on the manager Watch List for Public Markets. The report provided an update to the Board on the status of two managers on the Watch List and provided insight into the proposed timeline for issue resolution.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 2:07 p.m.

Secretary: ________________________
Joan Moeller

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

TAB 2

Resolution No. 2

WHEREAS, the Board has reviewed the Corporation's Investment Recommendation to use PUF and GEF assets to acquire up to a $100 million institutional investment interest (the "Investment") in **GMO's Emerging Country Debt Fund**; and

WHEREAS, the Corporation has determined that the Investment does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Investment Memorandum dated March 10, 2004 for **GMO's Emerging Country Debt Fund** be approved; and be it further

RESOLVED, that the President and CEO, and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to **GMO's Emerging Country Debt Fund**; and be it further

RESOLVED, that the President and CEO, any Managing Director, and the Secretary of this Corporation be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Investment), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Investment and the instruments referred to therein.

Agenda Item
UTIMCO Board of Directors Meeting
April 8, 2004

Agenda Item: Approval of Investment in GMO Emerging Country Debt Fund

Developed By: Goldsmith

Presented By: Goldsmith

Type of Item: Action Item

Description: GMO has successfully invested in the Emerging Markets Debt sub-asset class since 1994. During this period, they have grown their assets to nearly $2 billion by delivering to their clients a first-quartile return 767 bps/annum over the J.P. Morgan Emerging Markets Bond Index Global (EMBIG). The proposed investment vehicle is a 10 year old institutional mutual fund offering daily liquidity.

Recommendation: Approve an Investment of up to $100 million in the GMO Emerging Country Debt Fund.

Discussion: GMO's value-added process is built from a bottom-up, value-driven strategy that focuses on issue selection and creative capital preservation. Their goal is to take advantage of less marketable, higher yielding discounted debt that offer attractive fundamental characteristics – yet are typically eschewed by their competitors for a lack of mainstream investment appeal (benchmark-related attractiveness).

UTIMCO staff is aware that the current investment environment for Emerging Markets debt <u>may</u> not be as rewarding as per recent post-crisis periods. To reduce potential risk, Staff has considered that:

a. GMO's process has been time-tested through the difficult mid-late 1990's Asia and Long Term Capital Management crises. They are attuned to capital preservation as part of their investment process.

b. An initial $50 million investment is a prudent initial allocation, raising the Endowments' fixed income exposure to this sub-asset class to a modest 5.2%, or $72 million of $1.38 b in total fixed income.

c. Diversifying away from PIMCO's large Endowment exposure is sound judgment from an organizational risk perspective and reduces volatility away from current <u>developed global</u> bond/currency exposures.

Reference: PUF and LTF Investment Policies; Delegation of Authority Policy; Executive Summary; Detailed Investment Memorandum

UTIMCO

THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

GMO Emerging Country Debt Fund

Executive Review

Competitive Advantages: Emg. Debt & GMO

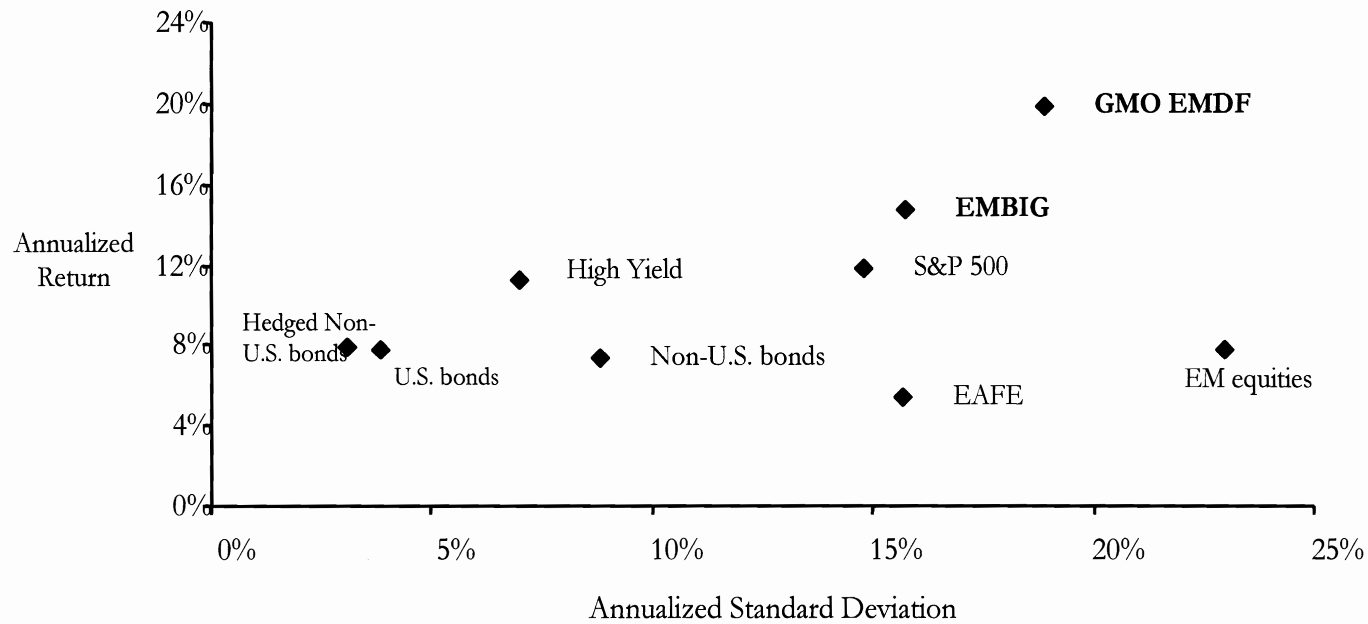
- High PVA Space – Beta *(May 1994 – December 2003)*
  - EMBIG 649 bps./annum outperformance vs. the Lehman Aggregate

- Experienced Management Team
  - Over 10 years of dedicated GMO team experience

- High PVA Space – Alpha: First Quartile Record *(May 1994 – December 2003)*
  - GMO EMDF 767 bps./annum outperformance vs. the JP Morgan EMBIG

Competitive Advantages: Emg. Debt & GMO

Risk and Return January 1991 through December 2003



EMBIG = *J.P. Morgan Emerging Markets Bond Index Global*

Competitive Advantage: Diversification

- Diversifies Endowment Fixed Income Exposure
  - *Both Return-wise……..*

Correlation of Monthly Returns February 2000 to December 2003					
	Internal	PIMCO Combined	GMO EMDF	LB Aggregate	PIMCO Emerging
Internal [1]	1.000				
PIMCO	0.794	1.000			
GMO EMDF	**0.309**	**0.181**	1.000		
LB Aggregate	0.918	0.837	**0.237**	1.000	
PIMCO Emerging	0.304	**0.175**	0.896	**0.204**	1.000

1) Internal is the actual performance of the Internal Fixed Income team.

Correlation of Alpha of GMO to PIMCO Emerging = .393

Competitive Advantage: Diversification

- Diversifies Endowment Fixed Income Exposure
  - *And Organization-wise……..*

PROFORMA FIXED INCOME ALLOCATIONS
(in Millions) as of February 29, 2004

Proposed Total GMO Investment = $50 m
$40 million reallocated from PIMCO, $10 million reallocated from Internal

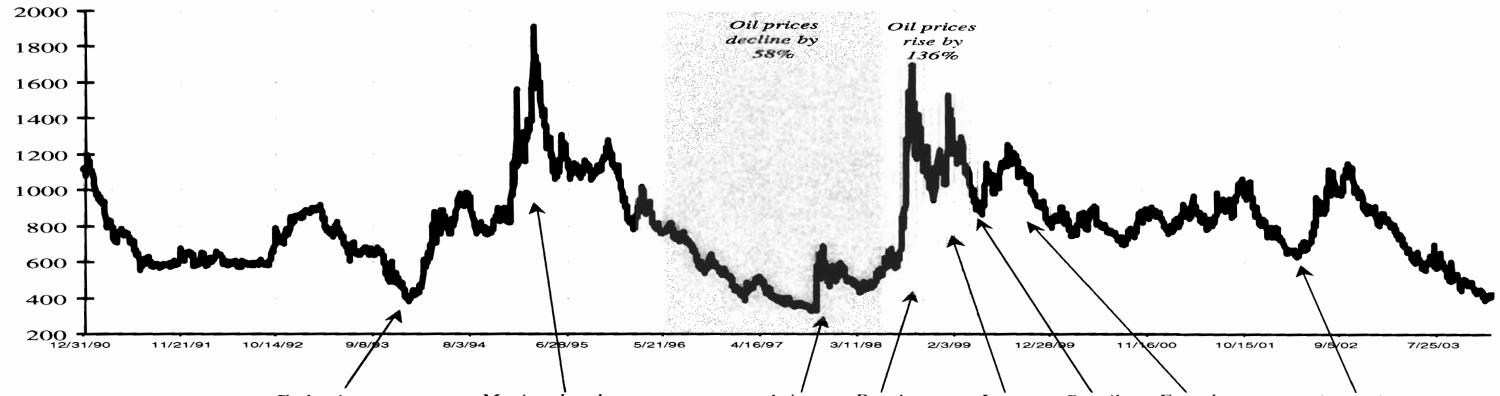
	Domestic %					
External:	Governments $	Mortgages %	Corporates %	Int'l Developed %	Emerging Mkt %	
Pimco	9.8%	8.5%	1.8%	34.2%	1.6%	55.9%
GMO	0.0%	0.0%	0.0%	0.0%	3.6%	3.6%
Internal	8.0%	14.7%	17.8%	0.0%	0.0%	40.5%
Total	**17.8%**	**23.2%**	**19.7%**	**34.2%**	**5.2%**	**100.0%**

Risk Control

- Spreads Have Contracted Since Mid-Late '90s Events…….
  - GMO is Capital Preservation Sensitive
    - Lived through the Asia and LTCM crises
    - Opportunistic users of credit protection instruments (Default Swaps/Options)

J.P. Morgan Emerging Markets Bond Index

Sovereign Credit Spread Over Comparable Duration Treasuries
December 31, 1990 to January 30, 2004

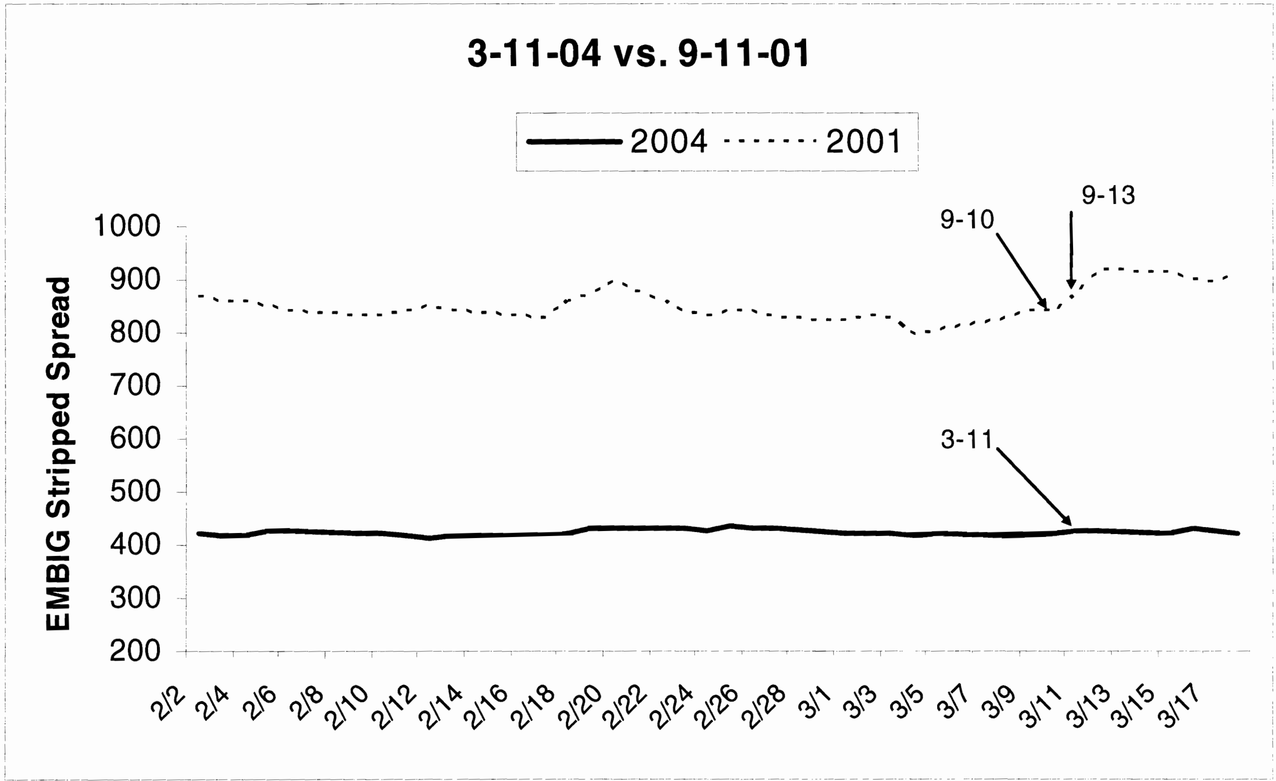


***Note:** The historical spread displayed in this graph has shifted from the EMBI to EMBI+ Brady in July 2002.*

Source: J.P. Morgan, GMO

Risk Awareness

- ….Yet Have Recently Proven More Resilient to External Market Shocks



Summary/Implementation

- Emerging Debt and GMO Represent Value Added Beta, Alpha, and Diversifying Opportunities for the Endowments

- Manager has Closed this Mandate to New Clients. Final Opportunity to Engage this Manager

- UTIMCO to Deploy only $50 million of $100 Million Commitment at Present. Opportunistically Deploy Additional Capital as Risk/Reward Profile of this Sub-asset Class Improves

TAB 3

Agenda Item
UTIMCO Board of Directors Meeting
April 8, 2004

Agenda Item: Reports on Performance and Asset Allocation

Developed By: Moeller, Hill

Presented By: Boldt

Type of Item: Information Item

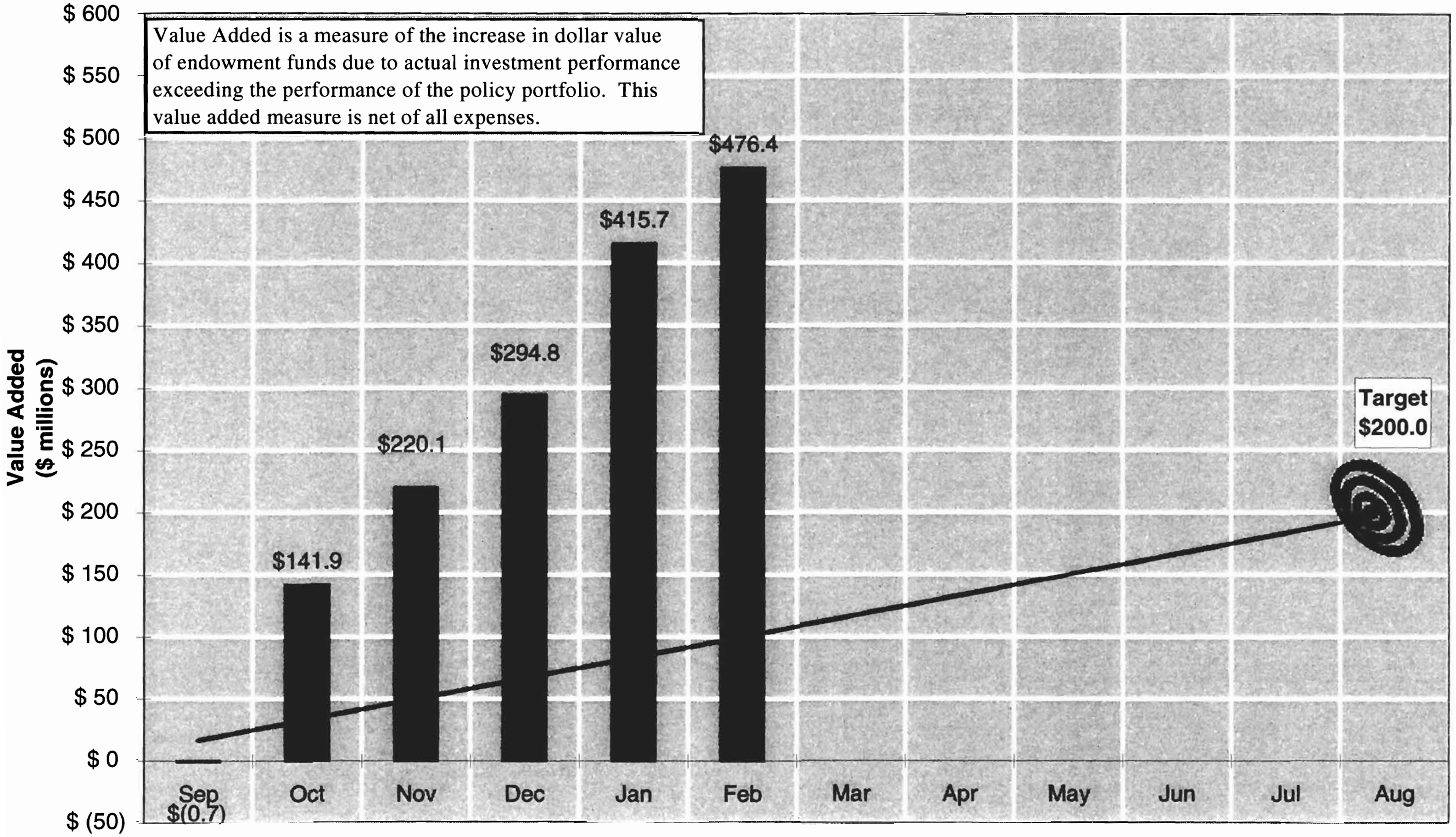
Description: The reports presented are for the periods ended February 29, 2004.

Recommendation: No recommendation required.

Discussion: The reports are being presented with the proposed restatement of the Endowment Policy Portfolios or benchmarks. The proposed restatement will be discussed during today's UTIMCO Board meeting and may be found under Item #8. Staff has also added a comparison of asset allocation and market exposure to the performance attributions. Market exposure reports the effect of derivatives to obtain market exposure.

Reference: Cumulative value added in Marketable Securities; UTIMCO Performance Summary; Performance Attribution; UTIMCO Endowment Funds vs. Cambridge Billion $ Universe; UTIMCO Endowment Funds vs. Total Cambridge Universe; Public Markets Managers Investment Performance Detail; Market Exposure; Relative Risk Analysis

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



UTIMCO Performance Summary

	Net Asset Value 2/29/2004 (in Millions)	Periods Ended February 29, 2004 (Returns for Periods Longer Than One Year are Annualized)						
		One Month	Three Months	Six Months	One Year	Three Years	Five Years	Ten Years
ENDOWMENT FUNDS								
Permanent University Fund	$ 8,218.9	2.49	8.34	15.49	31.74	5.29	6.05	9.74
General Endowment Fund		2.33	8.22	15.61	32.56	5.89	N/A	N/A
Permanent Health Fund	840.0	2.31	8.15	15.45	32.31	5.74	N/A	N/A
Long Term Fund	3,404.6	2.31	8.14	15.45	32.38	5.81	7.56	10.44
Separately Invested Funds	184.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	**12,648.4**							
OPERATING FUNDS								
Short Term Fund	2,231.3	0.08	0.25	0.50	1.08	2.15	3.65	4.56
Short Intermediate Term Fund	1,106.2	0.50	1.20	2.09	2.43	3.54	4.66	5.47
Institutional Index Funds:								
BGI US Debt Index Fund	231.0	1.09	2.94	4.96	4.76	7.46	N/A	N/A
BGI Equity Index Fund	131.1	1.39	8.66	14.58	38.58	(1.01)	N/A	N/A
Total Operating Funds	**3,699.6**							
Total Investments	**$ 16,348.0**							
BENCHMARKS								
General Endowment Fund: Policy Portfolio		1.43	5.71	10.86	21.58	1.75	5.39	10.47
Permanent University Fund: Policy Portfolio		1.43	5.71	10.86	21.58	1.70	5.16	10.50
Short Term Fund: 90 Day Treasury Bills Average Yield		0.07	0.25	0.51	1.12	2.14	3.56	4.40
Short Intermediate Term Fund: Composite of Government Agencies and Treasuries		0.52	1.33	1.99	2.26	4.91	5.60	5.78
Institutional Debt Index Fund: Lehman Brothers Aggregate Bond Index		1.08	2.93	4.92	4.54	7.35	7.25	7.19
Institutional Equity Index Fund: Standards & Poor's 500 Index (S&P 500)		1.39	8.67	14.59	38.52	(1.04)	(0.12)	11.36
Other Indices:								
U.S. Equity Markets: Wilshire 5000 Index		1.46	8.38	15.32	42.49	0.79	1.18	10.90
International Equity Markets: Morgan Stanley Capital International EAFE Index		2.31	11.86	25.22	53.58	0.89	1.23	4.03

UTIMCO

Permanent University Fund
Performance Attribution

	Asset Allocation			Return		
		February 29, 2004		Three Months Ended February 29, 2004		
	Neutral	Asset Allocation	Market Exposure	Benchmark	PUF	Total Attribution (1)
Cash and Cash Equivalents	**0.0%**	**0.0%**	**-1.6%**	**0.25%**	**0.25%**	**0.06%**
Domestic Public Equities	**24.3%**	**29.8%**	**31.4%**	**8.38%**	**7.53%**	**0.03%**
Passive Management	11.0%	13.8%	13.8%	8.38%	7.06%	-0.12%
Active Management	10.0%	14.1%	14.1%	8.38%	7.98%	0.04%
Hedge & Structured Active Management	3.3%	1.9%	3.5%	8.38%	11.69%	0.11%
International Public Equities	**15.7%**	**21.8%**	**21.8%**	**12.14%**	**13.30%**	**0.69%**
Passive Management	6.5%	8.7%	8.7%	12.14%	14.00%	0.22%
Active Management	7.5%	13.1%	13.1%	12.14%	13.73%	0.58%
Hedge & Structured Active Management	1.7%	0.0%	0.0%	12.14%	0.00%	-0.11%
Directional Hedge Funds	**10.0%**	**7.6%**	**7.6%**	**1.27%**	**4.73%**	**0.42%**
Absolute Return Hedge Funds	**10.0%**	**9.6%**	**9.6%**	**1.27%**	**5.10%**	**0.40%**
Inflation Hedging	**10.0%**	**9.5%**	**9.5%**	**7.55%**	**10.11%**	**0.19%**
Fixed Income	**15.0%**	**11.0%**	**11.0%**	**2.94%**	**3.92%**	**0.21%**
Total Marketable Securities	**85.0%**	**89.3%**	**89.3%**	**6.31% (2)**	**8.48%**	**2.00%**
Private Capital	**15.0%**	**10.7%**	**10.7%**	**2.39%**	**7.31%**	**0.63%**
Total Fund	**100.0%**	**100.0%**	**100.0%**	**5.71% (2)**	**8.34%**	**2.63%**

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.

(2) 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		
		February 29, 2004		Six Months Ended February 29, 2004		
	Neutral	Asset Allocation	Market Exposure	Benchmark	PUF	Total Attribution (1)
Cash and Cash Equivalents	**0.0%**	**0.0%**	**-1.6%**	**0.51%**	**0.50%**	**0.02%**
Domestic Public Equities	**24.3%**	**29.8%**	**31.4%**	**15.32%**	**14.86%**	**0.52%**
Passive Management	11.0%	13.8%	13.8%	15.32%	15.44%	0.03%
Active Management	10.0%	14.1%	14.1%	15.32%	16.56%	0.38%
Hedge & Structured Active Management	3.3%	1.9%	3.5%	15.32%	20.10%	0.11%
International Public Equities	**15.7%**	**21.8%**	**21.8%**	**25.43%**	**25.39%**	**0.84%**
Passive Management	6.5%	8.7%	8.7%	25.43%	27.25%	0.25%
Active Management	7.5%	13.1%	13.1%	25.43%	26.08%	0.87%
Hedge & Structured Active Management	1.7%	0.0%	0.0%	25.43%	0.00%	-0.28%
Directional Hedge Funds	**10.0%**	**7.6%**	**7.6%**	**2.55%**	**7.10%**	**0.65%**
Absolute Return Hedge Funds	**10.0%**	**9.6%**	**9.6%**	**2.55%**	**10.96%**	**0.88%**
Inflation Hedging	**10.0%**	**9.5%**	**9.5%**	**11.71%**	**19.75%**	**0.66%**
Fixed Income	**15.0%**	**11.0%**	**11.0%**	**4.74%**	**8.15%**	**0.60%**
Total Marketable Securities	**85.0%**	**89.3%**	**89.3%**	**11.71%** (2)	**16.34%**	**4.17%**
Private Capital	**15.0%**	**10.7%**	**10.7%**	**6.17%**	**9.10%**	**0.46%**
Total Fund	**100.0%**	**100.0%**	**100.0%**	**10.86%** (2)	**15.49%**	**4.63%**

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.
(2) 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		
		February 29, 2004		Three Months Ended February 29, 2004		
	Neutral	Asset Allocation	Market Exposure	Benchmark	GEF	Total Attribution (1)
Cash and Cash Equivalents	**0.0%**	**-0.2%**	**-1.9%**	**0.25%**	**0.25%**	**0.02%**
Domestic Public Equities	**24.3%**	**28.6%**	**30.3%**	**8.38%**	**7.52%**	**0.04%**
Passive Management	11.0%	12.5%	12.5%	8.38%	7.10%	-0.11%
Active Management	10.0%	14.3%	14.3%	8.38%	7.88%	0.04%
Hedge & Structured Active Management	3.3%	1.8%	3.5%	8.38%	11.71%	0.11%
International Public Equities	**15.7%**	**22.2%**	**22.2%**	**12.14%**	**13.35%**	**0.71%**
Passive Management	6.5%	8.7%	8.7%	12.14%	13.71%	0.22%
Active Management	7.5%	13.5%	13.5%	12.14%	13.96%	0.60%
Hedge & Structured Active Management	1.7%	0.0%	0.0%	12.14%	0.00%	-0.11%
Directional Hedge Funds	**10.0%**	**8.0%**	**8.0%**	**1.27%**	**4.76%**	**0.42%**
Absolute Return Hedge Funds	**10.0%**	**10.2%**	**10.2%**	**1.27%**	**5.08%**	**0.39%**
Inflation Hedging	**10.0%**	**9.7%**	**9.7%**	**7.55%**	**10.20%**	**0.22%**
Fixed Income	**15.0%**	**11.4%**	**11.4%**	**2.94%**	**3.85%**	**0.20%**
Total Marketable Securities	**85.0%**	**89.9%**	**89.9%**	**6.31%** (2)	**8.49%**	**2.00%**
Private Capital	**15.0%**	**10.1%**	**10.1%**	**2.39%**	**5.84%**	**0.51%**
Total Fund	**100.0%**	**100.0%**	**100.0%**	**5.71%** (2)	**8.22%**	**2.51%**

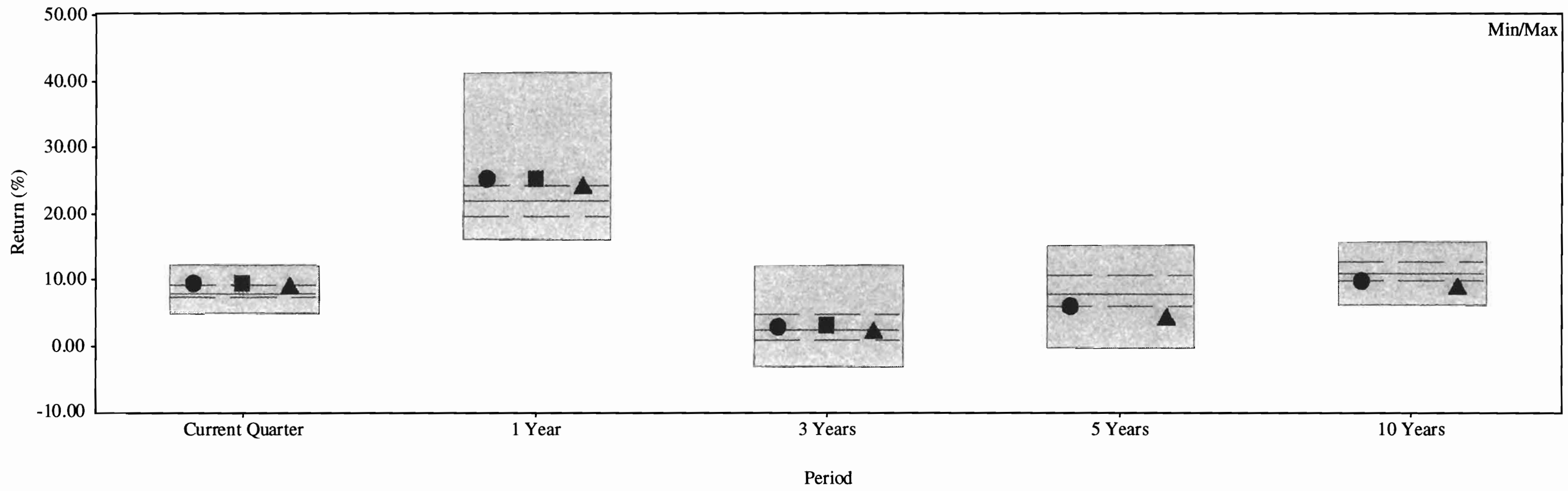
(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.
(2) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum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

General Endowment Fund
Performance Attribution

	Asset Allocation			Return		
		February 29, 2004		Six Months Ended February 29, 2004		
	Neutral	Asset Allocation	Market Exposure	Benchmark	GEF	Total Attribution (1)
Cash and Cash Equivalents	**0.0%**	**-0.2%**	**-1.9%**	**0.51%**	**0.50%**	**0.01%**
Domestic Public Equities	**24.3%**	**28.6%**	**30.3%**	**15.32%**	**14.73%**	**0.57%**
Passive Management	11.0%	12.5%	12.5%	15.32%	14.97%	0.09%
Active Management	10.0%	14.3%	14.3%	15.32%	16.34%	0.38%
Hedge & Structured Active Management	3.3%	1.8%	3.5%	15.32%	20.14%	0.10%
International Public Equities	**15.7%**	**22.2%**	**22.2%**	**25.43%**	**25.62%**	**1.00%**
Passive Management	6.5%	8.7%	8.7%	25.43%	26.95%	0.31%
Active Management	7.5%	13.5%	13.5%	25.43%	26.52%	0.93%
Hedge & Structured Active Management	1.7%	0.0%	0.0%	25.43%	0.00%	-0.24%
Directional Hedge Funds	**10.0%**	**8.0%**	**8.0%**	**2.55%**	**7.14%**	**0.63%**
Absolute Return Hedge Funds	**10.0%**	**10.2%**	**10.2%**	**2.55%**	**10.95%**	**0.87%**
Inflation Hedging	**10.0%**	**9.7%**	**9.7%**	**11.71%**	**19.76%**	**0.67%**
Fixed Income	**15.0%**	**11.4%**	**11.4%**	**4.74%**	**8.24%**	**0.61%**
Total Marketable Securities	**85.0%**	**89.9%**	**89.9%**	**11.71%** (2)	**16.47%**	**4.36%**
Private Capital	**15.0%**	**10.1%**	**10.1%**	**6.17%**	**8.24%**	**0.39%**
Total Fund	**100.0%**	**100.0%**	**100.0%**	**10.86%** (2)	**15.61%**	**4.75%**

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.
(2) 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 Billion $ Funds Universe
Periods Ended December 31, 2003
Quartile



	Current Quarter Return	(% tile)	1 Year Return	(% tile)	3 Years Return	(% tile)	5 Years Return	(% tile)	10 Years Return	(% tile)
Maximum	12.30		41.23		12.23		15.38		15.82	
25th Percentile	9.22		24.15		4.77		10.54		12.60	
Median	7.85		21.72		2.24		7.76		10.93	
75th Percentile	7.18		19.37		0.87		6.02		9.93	
Minimum	5.19		16.24		- 2.81		0.12		6.49	
# of Portfolios	35		35		35		35		29	
● **UTIMCO LTF-Net of Fees**	9.61	17	25.40	20	3.16	45	6.22	70	10.04	74
■ **UTIMCO PHF-Net of Fees**	9.61	17	25.34	20	3.32	42	---	---	---	---
▲ **UTIMCO PUF-Net of Fees**	9.34	23	24.49	25	2.60	45	4.57	89	9.29	94

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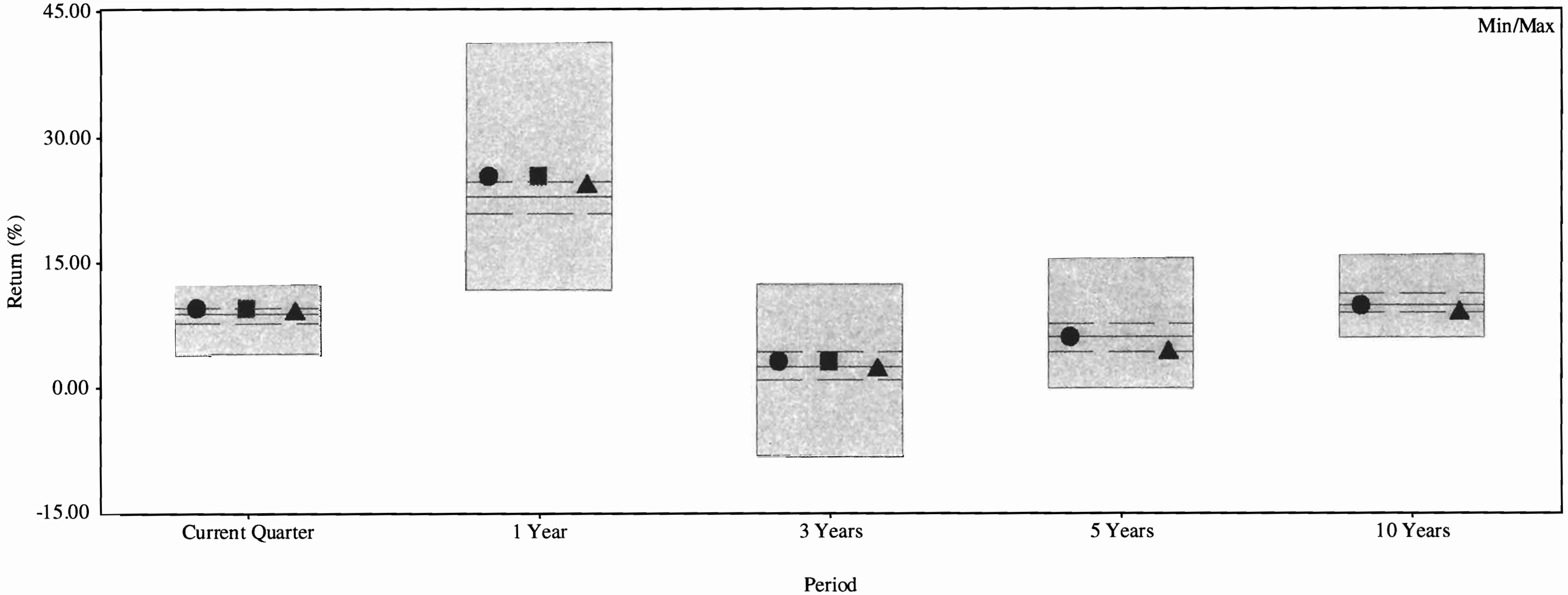
The Cambridge Billion $ Funds Universe consists of the College and Universities with endowment assets greater than one billion dollars that report quarterly to Cambridge Associates, Inc.

The number of Colleges and Universities with endowment assets greater than one billion dollars reporting as of December 31, 2003 was 35.

UTIMCO ENDOWMENT FUNDS vs.
Total Cambridge Universe
Periods Ended December 31, 2003
Quartile



	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)
Maximum	12.30		41.23		12.23		15.38		15.82	
25th Percentile	9.39		24.56		4.06		7.43		11.12	
Median	8.59		22.62		2.29		5.96		9.84	
75th Percentile	7.59		20.55		0.81		4.19		8.92	
Minimum	4.08		11.85		- 8.03		0.11		6.19	
# of Portfolios	138		137		137		134		100	
● **UTIMCO LTF-Net of Fees**	9.61	18	25.40	21	3.16	37	6.22	43	10.04	45
■ **UTIMCO PHF-Net of Fees**	9.61	18	25.34	21	3.32	32	---	---	---	---
▲ **UTIMCO PUF-Net of Fees**	9.34	28	24.49	27	2.60	44	4.57	72	9.29	65

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 December 31, 2003 was 138.

Public Markets Managers
Investment Performance Detail Summary
February 29, 2004

UTIMCO Manager Rating:

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

	Assets Under Management ($ Millions)	Periods Ended February 29, 2004 (Returns for Periods Longer Than One Year are Annualized) One Month	Three Months	Six Months	One Year	Three Years	Five Years	Seven Years	Ten Years	From Inception to February 29, 2004 (Returns for Periods Longer Than One Year are Annualized) Manager	Inception Date
NET OF FEES PERFORMANCE:											
Public Equities:											
Domestic Equities:											
Passive Management:											
BGI S&P 500	**244.9**	1.39	8.66	14.58	38.57	(1.00)	(0.10)	7.14	11.48	N/A	February 1993
vs. S&P 500 Index		**0.00**	**0.00**	**(0.01)**	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
BGI S&P 400 Midcap	**375.6**	2.40	6.38	16.62	49.70	7.80	12.34	13.96	14.48	N/A	December 1992
vs. S&P 400 Midcap Index		**0.00**	**0.00**	[illegible]	**(0.02)**	[illegible]	[illegible]	[illegible]	[illegible]		
S&P 400 Midcap Futures	**29.2**	2.28	5.85	-	-	-	-	-	-	17.72	October 2003
vs. S&P 400 Midcap Index		**(0.12)**	**(0.54)**	-	-	-	-	-	-	**(0.70)**	
Cash Equitization - S&P 500 Index Futures	**475.8**	1.28	8.24	13.66	37.15	(1.83)	-	-	-	(1.83)	March 2001
vs. S&P 500 Index		**(0.11)**	**(0.43)**	**(0.93)**	**(1.37)**	**(0.79)**	-	-	-	**(0.79)**	
Energy Sector Index - Exchange Traded Funds	**0.9**	4.22	16.86	19.47	-	-	-	-	-	19.47	August 2003
vs. 90 Day Treasury Bills Average Yield		[illegible]	[illegible]	[illegible]	-	-	-	-	-	[illegible]	
Dow Jones - Exchange Traded Funds and Futures	**535.2**	1.08	8.37	-	-	-	-	-	-	7.85	November 2003
vs. Dow Jones Industrial Average		**(0.06)**	**(0.37)**	-	-	-	-	-	-	**(0.97)**	
Active Management:											
BGI Russell 2000 Alpha Tilt	**291.8**	1.24	7.12	19.17	63.11	-	-	-	-	13.35	February 2002
vs. Russell 2000		[illegible]	**(0.29)**	[illegible]	**(1.30)**	-	-	-	-	[illegible]	
BGI Russell 3000 Alpha Tilt	**300.1**	1.61	8.57	15.59	-	-	-	-	-	15.59	August 2003
vs. Russell 3000		[illegible]	[illegible]	[illegible]	-	-	-	-	-	[illegible]	
Cordillera	**152.8**	(0.31)	1.90	9.72	61.31	(3.82)	8.95	9.66	10.19	10.28	January 1994
vs. Russell 2000 Growth		**(0.16)**	**(3.66)**	**(5.70)**	**(3.55)**	**(5.77)**	[illegible]	[illegible]	[illegible]	[illegible]	
Cordillera Opportunistic	**30.2**	4.97	4.53	-	-	-	-	-	-	20.55	October 2003
vs. Russell 2000		[illegible]	**(2.89)**	-	-	-	-	-	-	**(0.02)**	
Davis Hamilton Jackson	**41.2**	0.28	4.10	7.52	26.86	(3.55)	(0.71)	8.17	9.99	9.78	January 1994
vs. S&P 500 Index		**(1.11)**	**(4.56)**	**(7.07)**	**(11.66)**	**(2.51)**	**(0.59)**	[illegible]	**(1.37)**	**(1.44)**	
GSAM- Large Cap	**236.0**	2.02	9.52	16.98	41.26	0.33	0.69	-	-	2.10	April 1998
vs. S&P 500 Index		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	**(0.02)**	
GSAM - Small Cap	**221.9**	0.18	8.53	22.09	65.71	12.10	12.31	-	-	6.66	April 1998
vs. Russell 2000		**(0.71)**	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]	
MBA Investments	**0.6**	1.68	5.04	9.64	34.04	(3.94)	(5.74)	0.77	-	3.11	November 1995
MBA vs. S&P 500 Index		[illegible]	**(3.63)**	**(4.95)**	**(4.48)**	**(2.90)**	**(5.62)**	**(6.24)**	-	**(6.96)**	
Schroder	**324.5**	2.88	12.73	20.71	51.51	7.30	14.06	10.15	11.85	11.90	January 1994
vs. Russell 2000		[illegible]	[illegible]	[illegible]	**(12.90)**	**(1.42)**	[illegible]	[illegible]	[illegible]	[illegible]	
TCW MicCap (Funded 2/04)	**101.2**	1.16	-	-	-	-	-	-	-	1.16	February 2004
vs. Russell 3000		**(0.19)**	-	-	-	-	-	-	-	**(0.19)**	
Value Act Capital	**59.5**	(1.18)	4.75	4.34	-	-	-	-	-	8.14	August 2003
vs. Russell 2000		**(2.07)**	**(2.66)**	**(14.00)**	-	-	-	-	-	**(15.63)**	
Hedge and Structured Active Management:											
BGI Global Market Neutral Fund	**200.9**	2.20	10.27	17.74	39.51	-	-	-	-	34.84	January 2003
vs. S&P 500 Index		[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	[illegible]	
Hedge Funds:											
Hedge Funds Overlay ($239.6 Million Notional)	**31.2**	1.31	8.37	-	-	-	-	-	-	9.23	November 2003
vs. S&P 500 Index		**(0.08)**	**(0.30)**	-	-	-	-	-	-	**(0.39)**	
Blue Ridge	**90.6**	1.60	-	-	-	-	-	-	-	0.69	January 2004
vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	-	-	-	-	-	-	-	**(0.15)**	
Eminence	**53.3**	1.50	4.72	10.52	-	-	-	-	-	8.36	July 2003
vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	-	-	-	-	-	[illegible]	
Maverick Fund	**501.6**	2.19	5.50	8.00	12.21	6.50	14.08	-	-	11.97	August 1998
vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]	
SG Partners	**53.5**	0.91	4.26	7.12	-	-	-	-	-	7.12	September 2003
vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	-	-	-	-	-	[illegible]	
Sirios Overseas	**54.2**	0.62	3.90	4.72	-	-	-	-	-	8.47	May 2003
vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	-	-	-	-	-	[illegible]	
Standard Pacific Capital Offshores Fund	**49.7**	0.80	4.21	6.45	(0.35)	-	-	-	-	(0.69)	February 2003
vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	**(5.58)**	-	-	-	-	**(5.92)**	
Domestic Equities Spread Trades:											
Long Large Cap ($500.1 Million In Notional)		(1.65)	-	-	-	-	-	-	-	(1.65)	January 2004
Short Small Cap ($-503.1 Million In Notional)		0.72	-	-	-	-	-	-	-	0.72	January 2004

Public Markets Managers
Investment Performance Detail Summary
February 29, 2004

UTIMCO Manager Rating:

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

		Assets Under Management ($ Millions)	Periods Ended February 29, 2004 (Returns for Periods Longer Than One Year are Annualized)								From Inception to February 29, 2004 (Returns for Periods Longer Than One Year are Annualized)	
			One Month	Three Months	Six Months	One Year	Three Years	Five Years	Seven Years	Ten Years	Manager	Inception Date
	NET OF FEES PERFORMANCE (continued)											
	International Equities:											
	Passive Management:											
	BGI EAFE International Fund	540.9	2.37	11.92	25.31	53.90	1.40	1.25	4.49	4.80	6.61	April 1993
	vs. MSCI EAFE Net		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
	BGI Emerging Markets Structured Fund	487.5	4.85	16.54	29.55	75.15	-	-	-	-	22.74	February 2002
	vs. MSCI Emerging Markets Free		[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	(0.26)	
	Active Management:											
	BGI International Alpha Tilts	255.8	1.73	11.72	24.97	-	-	-	-	-	24.97	August 2003
	vs. MSCI EAFE Net		(0.58)	(0.14)	(0.25)	-	-	-	-	-	(0.25)	
Terminated 2/04	Capital Guardian EAFE	111.2	1.85	9.27	21.12	48.46	1.48	-	-	-	(3.87)	August 2000
	vs. MSCI EAFE Net		(0.46)	(2.59)	(4.09)	(5.12)	[illegible]	-	-	-	(0.57)	
Terminated 2/04	Capital Guardian Emerging	139.4	2.86	15.18	25.75	69.19	11.18	-	-	-	2.24	August 2000
	vs. MSCI Emerging Markets Free		(1.75)	(1.00)	(2.80)	(5.56)	(2.82)	-	-	-	(3.84)	
Watch List	Capital Guardian Trust Small Cap International	203.7	2.56	13.42	26.48	71.71	3.85	6.00	2.23	-	2.13	December 1996
	vs. Citigroup Extended Market Index World ex U.S.		(0.60)	[illegible]	(2.60)	[illegible]	(5.90)	(1.75)	(3.23)	-	(2.44)	
	EAFE - Exchange Traded Funds	53.1	2.11	10.74	-	-	-	-	-	-	10.74	November 2003
	vs. MSCI EAFE Net		(0.20)	(1.12)	-	-	-	-	-	-	(1.12)	
	Globeflex	117.7	5.39	17.18	-	-	-	-	-	-	19.67	October 2003
	vs. Citigroup Extended Market Index World ex U.S.		[illegible]	[illegible]	-	-	-	-	-	-	[illegible]	
	GSAM - Structured International Equity	232.8	2.23	14.77	29.64	58.87	1.38	1.44	-	-	1.71	April 1998
	vs. MSCI EAFE Net		(0.08)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]	
	Franklin Templeton	477.6	3.69	15.70	30.99	66.69	15.86	12.29	1.47	-	3.81	January 1996
	vs. MSCI Emerging Markets Free		(0.92)	(0.48)	[illegible]	(8.06)	[illegible]	(0.26)	[illegible]	-	[illegible]	
Watch List	Oechsle	113.6	2.45	11.74	23.17	56.73	(2.17)	-	-	-	(6.08)	August 2000
	vs. MSCI EAFE Net		[illegible]	(0.12)	(2.05)	[illegible]	(3.06)	-	-	-	(2.78)	
	Hedge Funds:											
	Arrowstreet Capital	36.3	1.80	3.35	4.02	-	-	-	-	-	(9.03)	May 2003
	90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	-	-	-	-	-	(12.88)	
	Indus Asia Pacific	26.5	1.68	5.93	-	-	-	-	-	-	5.93	January 2004
	90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	-	-	-	-	-	-	[illegible]	
	Indus Japan	20.5	1.86	2.50	-	-	-	-	-	-	2.50	January 2004
	90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	-	-	-	-	-	-	[illegible]	
	OCM Emerging Markets Fund	80.7	0.92	5.56	7.58	11.37	-	-	-	-	10.37	January 2002
	90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	[illegible]	
	Absolute Return:											
	Farallon Capital Offshore Investors	359.0	0.98	5.28	11.14	27.04	14.20	15.89	-	-	14.19	August 1998
	vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]	
	Indus Event Driven	20.4	0.63	2.00	-	-	-	-	-	-	2.00	August 1998
	vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	-	-	-	-	-	-	[illegible]	
	Perry Partners International	404.2	1.52	5.89	12.94	24.09	13.19	16.31	-	-	14.16	August 1998
	vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]	
	Protégé Partners Fund	197.1	1.52	4.64	8.11	16.56	-	-	-	-	16.56	February 2003
	vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	[illegible]	-	-	-	-	[illegible]	
	Satellite Fund	245.7	0.91	4.03	9.69	28.71	5.39	-	-	-	7.52	September 2000
	vs. 90 Day Treasury Bills Average Yield + 4%		[illegible]	[illegible]	[illegible]	[illegible]	(0.91)	-	-	-	[illegible]	

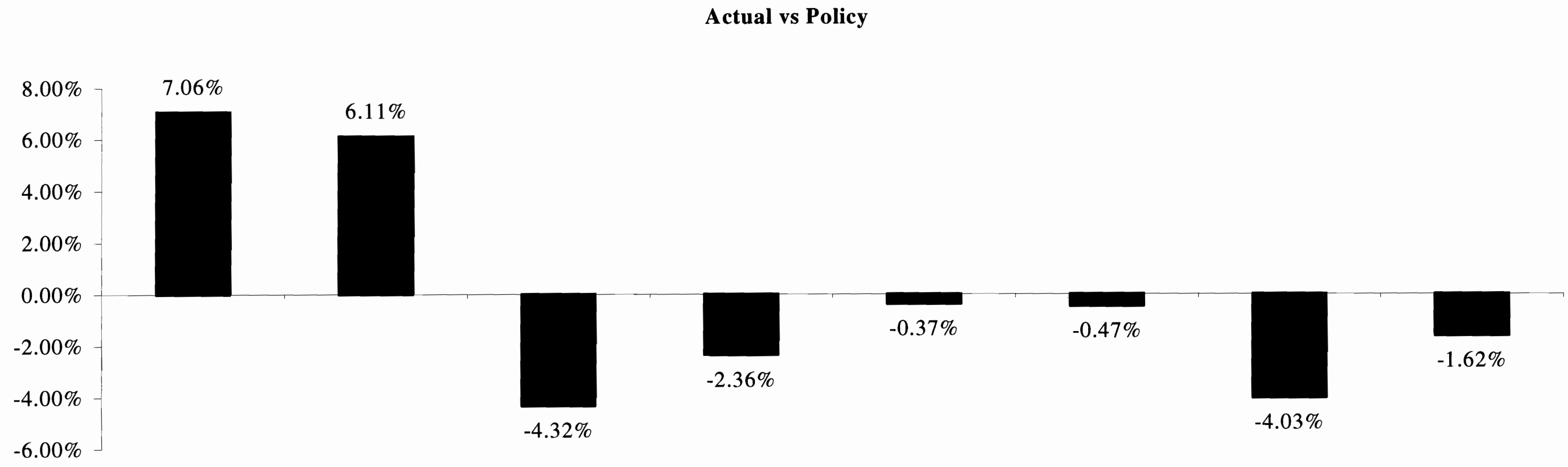
Public Markets Managers
Investment Performance Detail Summary
February 29, 2004

UTIMCO Manager Rating:

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

	Assets Under Management ($ Millions)	Periods Ended February 29, 2004 (Returns for Periods Longer Than One Year are Annualized) One Month	Three Months	Six Months	One Year	Three Years	Five Years	Seven Years	Ten Years	From Inception to February 29, 2004 (Returns for Periods Longer Than One Year are Annualized) Manager	Inception Date
NET OF FEES PERFORMANCE (continued)											
Inflation Hedging:											
Goldman Sachs Commodity Index	**173.5**	7.19	15.06	15.56	7.42	-	-	-	-	28.49	June 2002
vs. Goldman Sachs Commodity Index - 100 bps		(0.14)	[illegible]	[illegible]	[illegible]	-	-	-	-	[illegible]	
PIMCO Real Return (Funded during 1/04)	**211.6**	8.61	-	-	-	-	-	-	-	8.61	January 2004
vs. Goldman Sachs Commodity Index		[illegible]	-	-	-	-	-	-	-	[illegible]	
REITS - Greg Cox	**809.0**	1.88	8.73	20.04	48.65	20.99	17.55	12.42	14.23	14.34	April 1993
vs. Wilshire Real Estate Securities		(0.16)	(0.49)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Fixed Income:											
Internal - Harland Doak	288.7	1.16	3.18	6.38	7.41	7.53	-	-	-	7.73	February 2001
vs. Credit Related Composite Index		(0.07)	(0.15)	[illegible]	[illegible]	(1.46)	-	-	-	(1.32)	
Internal - Russ Kampfe	282.3	0.97	2.34	3.72	3.96	5.17	-	-	-	7.45	February 2000
vs. Lehman Brothers Aggregate Bond Index		(0.12)	(0.59)	(1.20)	(0.58)	(2.18)	-	-	-	(1.52)	
Total Internally Managed Fixed Income	**571.0**	1.07	2.77	5.06	5.71	6.28	-	-	-	8.30	
vs. Lehman Brothers Aggregate Bond Index		(0.01)	(0.16)	[illegible]	[illegible]	(1.07)	-	-	-	(0.68)	
PIMCO Fixed Income	**813.7**	1.17	4.64	10.58	12.05	10.96	8.55	-	-	8.17	March 1998
vs. Lehman Brothers Global Aggregate Index		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]	

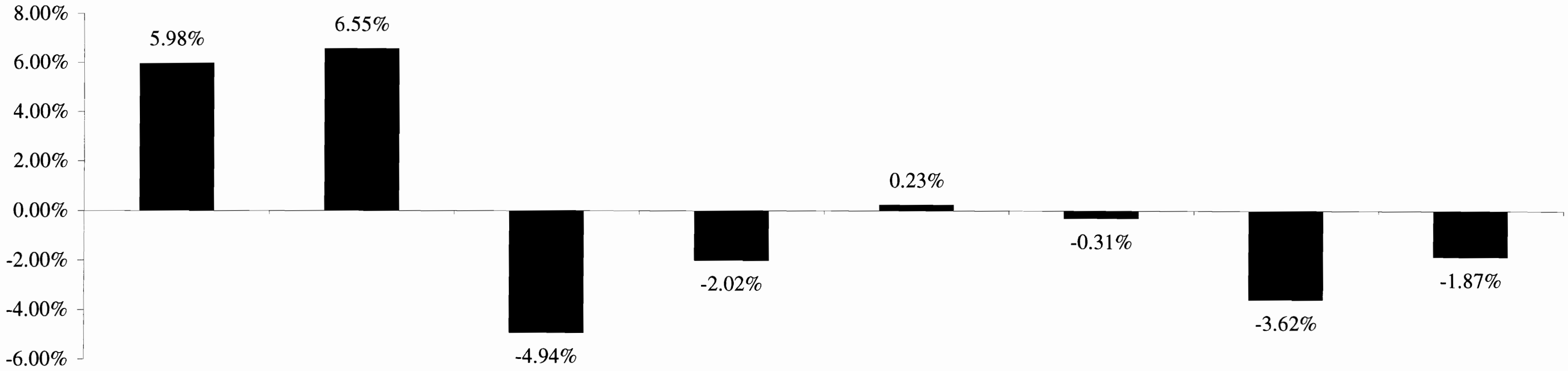
Permanent University Fund
Market Exposure
February 29, 2004



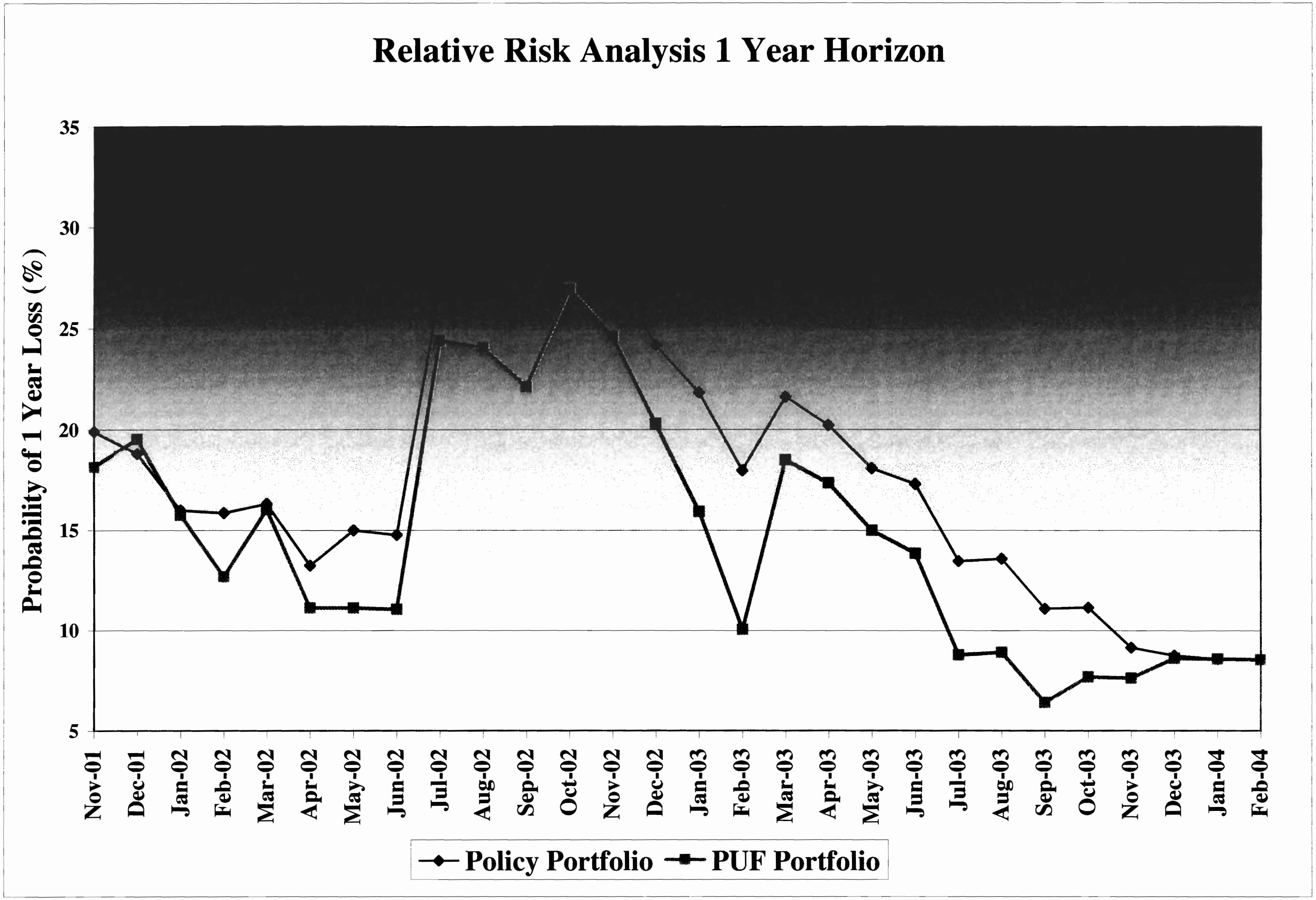
	Domestic Public Equity	International Public Equity	Private Capital	Directional Hedge Funds	Absolute Return Hedge Funds	Inflation Hedging	Fixed Income	Cash & Cash Equivalents
Actual	31.39%	21.78%	10.68%	7.64%	9.63%	9.53%	10.97%	-1.62%
Neutral Policy	24.33%	15.67%	15.00%	10.00%	10.00%	10.00%	15.00%	0.00%
Over/Under	7.06%	6.11%	-4.32%	-2.36%	-0.37%	-0.47%	-4.03%	-1.62%

General Endowment Fund
Market Exposure
February 29, 2004

Actual vs Policy



	Domestic Public Equity	International Public Equity	Private Capital	Directional Hedge Funds	Absolute Return Hedge Funds	Inflation Hedging	Fixed Income	Cash & Cash Equivalents
Actual	30.31%	22.22%	10.06%	7.98%	10.23%	9.69%	11.38%	-1.87%
Neutral Policy	24.33%	15.67%	15.00%	10.00%	10.00%	10.00%	15.00%	0.00%
Over/Under	5.98%	6.55%	-4.94%	-2.02%	0.23%	-0.31%	-3.62%	-1.87%


Relative Risk Analysis 1 Year Horizon
Probability of 1 Year Loss (%)
35
30
25
20
15
10
5
Nov-01
Dec-01
Jan-02
Feb-02
Mar-02
Apr-02
May-02
Jun-02
Jul-02
Aug-02
Sep-02
Oct-02
Nov-02
Dec-02
Jan-03
Feb-03
Mar-03
Apr-03
May-03
Jun-03
Jul-03
Aug-03
Sep-03
Oct-03
Nov-03
Dec-03
Jan-04
Feb-04
Policy Portfolio
PUF Portfolio

Agenda Item
UTIMCO Board of Directors Meeting
April 8, 2004

Agenda Item: Reports on PUF and GEF Liquidity Profiles

Developed By: Moeller

Presented By: Boldt

Type of Item: Information Item

Description: The reports presented are for the periods ended February 29, 2004. Pursuant to the Liquidity Policy, 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. The Funds are in compliance with the policy.

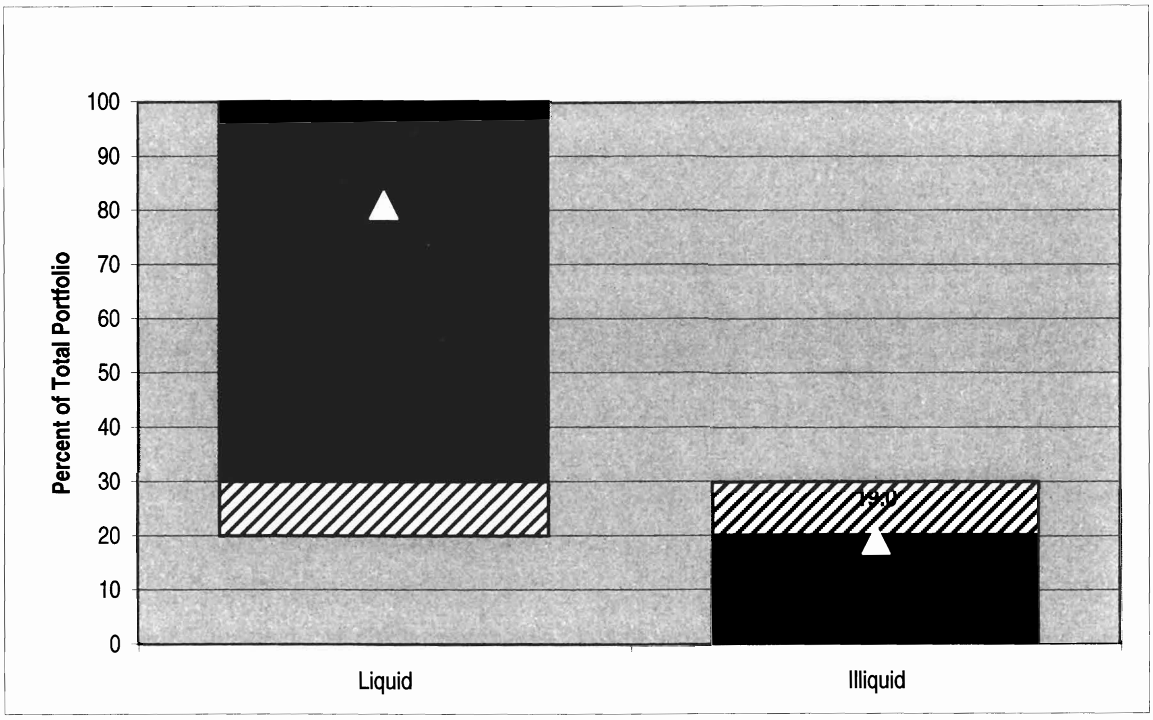
Recommendation: No recommendation required.

Discussion: The Liquidity Committee reviewed the reports at its March 23, 2004, committee meeting. The Liquidity Committee has requested additional steps be taken in regards to the report.

- Managing Directors should provide evidence that they concur with the classification between liquid and illiquid which will be maintained as part of the file copy of the liquidity report
- Risk Manager should certify on the actual liquidity report her review of and agreement with the liquidity classifications and the Chief Compliance Officer should certify her review that the liquidity classifications have been accurately reported and that the percentage calculations are accurate.
- Staff should prepare a report of the illiquid investments that UTIMCO Board has approved or delegated since the last report of the UTIMCO Board and any changes to an investment's liquidity classification (requested by Chairman of Liquidity Committee.)
- Liquidity should be provided monthly in the President's newsletter.

Reference: PUF Liquidity Profile
GEF Liquidity Profile
Liquidity Policy

PUF Liquidity Profile
February 29, 2004



Current

	2/29/2004		1/31/2004	
	Market Value	Percent	Market Value	Percent
Liquid	6,725,156,854.58	81.0	6,510,352,532.16	81.1
Illiquid	1,572,984,960.66	19.0	1,521,559,258.78	18.9
	8,298,141,815.24	100.0	7,672,620,364.62	100.0

Approved but not yet invested illiquid marketable investments:

	2/29/2004		1/31/2004	
	Market Value	Percent	Market Value	Percent
Liquid	6,725,156,854.58	81.0	6,510,352,532.16	81.1
Illiquid	1,572,984,960.66	19.0	1,521,559,258.78	18.9
	8,298,141,815.24	100.0	8,031,911,790.94	100.0

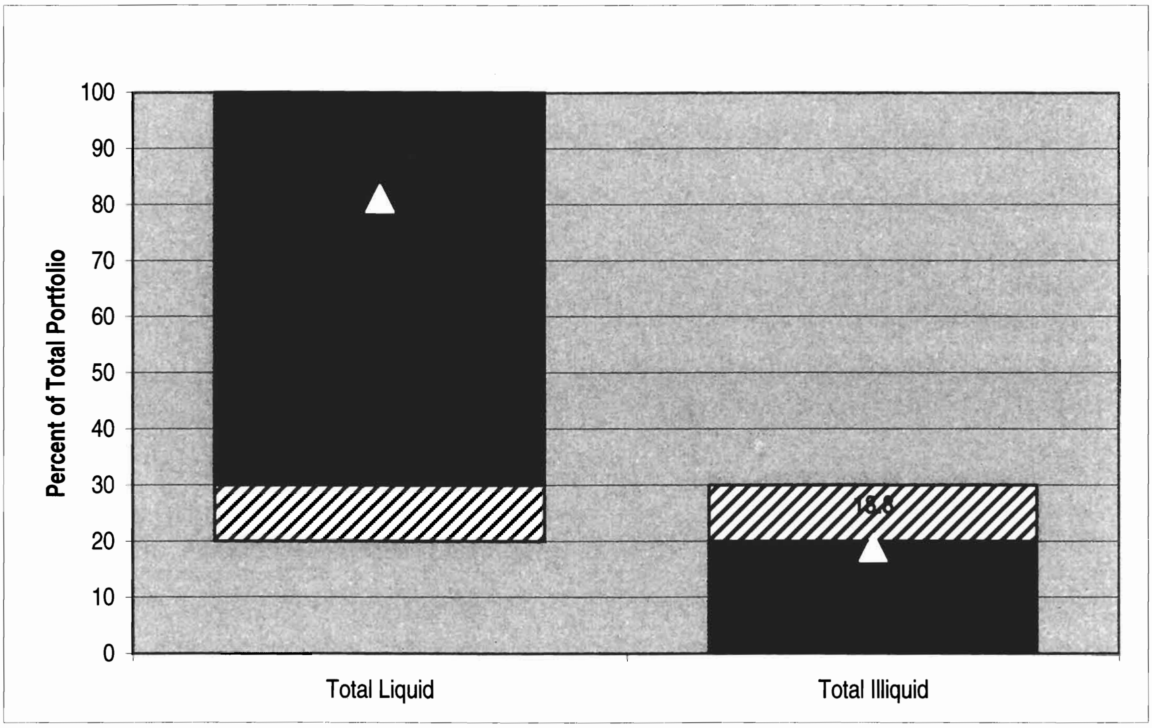
Liquid: Investments that could be converted to cash within a period of 1 day to 3 months in an orderly market at a discount of 10% or less.

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%.

I, ________, as Risk Manager, certify that I have reviewed the liquidity categories provided by the Managing Directors and concur with the classifications.

I, ________, as Chief Compliance Officer and MD of Accounting, Finance and Administration, certify that I have verified that the Managing Directors ' liquidity classifications have been accurately reported and that the percentage calculations are accurate.

GEF Liquidity Profile
February 29, 2004



Current

	2/29/2004 Market Value	2/29/2004 Percent	1/31/2004 Market Value	1/31/2004 Percent
Liquid	3,453,677,764.39	81.2	3,438,800,085.90	81.6
Illiquid	801,106,578.12	18.8	776,077,655.33	18.4
	4,254,784,342.51	100.0	4,214,877,741.23	100.0

Approved but not yet invested illiquid marketable investments:

	2/29/2004 Market Value	2/29/2004 Percent	1/31/2004 Market Value	1/31/2004 Percent
Liquid	3,453,677,764.39	81.2	3,438,800,085.90	81.6
Illiquid	801,106,578.12	18.8	776,077,655.33	18.4
	4,254,784,342.51	100.0	4,214,877,741.23	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%.

I, ______________, as Risk Manager, certify that I have reviewed the liquidity categories provided by the Managing Directors and concur with the classifications.

I, ______________, as Chief Compliance Officer and MD of Accounting, Finance and Administration, certify that I have verified that the Managing Directors ' liquidity classifications have been accurately reported and that the percentage calculations are accurate.

Illiquid investments approved or funded since November 30, 2003

Private Equity investments	Board Approved	Committed Amount PUF	Committed Amount GEF	Funded Amount PUF	Funded Amount GEF
ARCH Venture Fund VI, L.P.	1/13/2004	$16,500,000.00	$13,500,000.00	$ 249,855.77	$ 204,427.45
TCV V, L.P.	Dec 2003	$16,500,000.00	$13,500,000.00	$ -	$ -
TPG Partners IV, L.P.	11/20/2003	$11,000,000.00	$ 9,000,000.00	$ 1,013,405.00	$ 829,277.00

Marketable Alternative investments	Board Approved	Committed Amount PUF	Committed Amount GEF	Funded Amount PUF	Funded Amount GEF
Blue Ridge Offshore Limited Partnership	11/20/2003	$66,000,000.00	$34,000,000.00	$59,400,000.00	$30,600,000.00
OCM Emerging	May 2003	$16,500,000.00	$ 8,500,000.00	$ 4,950,000.00	$ 2,550,000.00

Change in investment's liquidity classification since November 30, 2003

None

Agenda Item
UTIMCO Board of Directors Meeting
April 8, 2004

Agenda Item: Report on Derivative Applications

Developed By: Moeller

Presented By: Boldt

Type of Item: Information Item

Description: The reports presented are for the periods ended February 29, 2004. Pursuant to the Derivative Investment Policy, UTIMCO staff will make a comprehensive report of all internal derivative applications to the UTIMCO Board on at least a quarterly basis.

Recommendation: No recommendation required.

Discussion: The PUF and GEF have total internal futures exposure of $1,240.0 million or 9.9% of the endowment funds. The PUF and GEF have total exchange traded funds of $276.3 million or 2.21% of the endowment funds.

Reference: Report on Derivative Applications
Derivative Investment Policy

DERIVATIVE APPLICATIONS
February 29, 2004
(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 February 29, 2004 was $477.3 million, which makes up 3.8% of the endowment funds.
Total exposure in S&P 400 Index futures as of February 29, 2004 was $29.2 million, which makes up .2% of the endowment funds.
Total exposure in Dow Jones futures as of February 29, 2004 was $323.5 million, which makes up 2.6% of the endowment funds.
Total investment in Russell 2000 ETF's as of February 29, 2004 was $1.2 million, which makes up .01% of the endowment funds.
Total investment in Dow Jones ETF's as of February 29, 2004 was $222.0 million, which makes up 1.8% of the endowment funds.

During January and February 2004, the endowment funds invested in a dollar-neutral spread trade to lower the beta and benchmark risk of the Domestic Equity portfolio. As of February 29, 2004, the marked-to-market exposure of this trade was long $500.1 million in a combination of Dow and S&P 500 futures, and short $503.1 million in Russell 2000 futures. This trade has cost effectively rebalanced the Domestic Equity portfolio closer to its benchmark size/volatility composition.

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 February 29, 2004 was $53.1 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 February 29, 2004 was $239.5 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 February 29, 2004 was $173.5 million, which makes up 1.4% of the endowment funds.

SUMMARY OF DERIVATIVE APPLICATIONS

Futures Exposure ($ millions)

		Percentage Of Endowment Funds
Collateralized by Cash		
S&P 500 Index	$ 477.3	3.8 %
S&P 400 Index	29.2	0.2
Dow Jones	323.5	2.6
GSCI	173.5	1.4
Collateralized by Hedge Funds and Cash		
S&P 500 Index	239.5	1.9
Spread Trade		
Small cap futures	(503.1)	(4.0)
Large/Mid cap futures	500.1	4.0
Total Internally Managed Futures	**$ 1,240.0**	**9.9** %

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

		Percentage Of Endowment Funds
Russell 2000	$ 1.2	0.01 %
Dow Jones	222.0	1.80
Non U.S. MSCI	53.1	0.40
Total Internally Managed ETF's	**$ 276.3**	**2.21** %

Agenda Item
UTIMCO Board of Directors Meeting
April 8, 2004

Agenda Item: Report on the External Investment Consultant

Developed By: Boldt, Iberg, McMahon, Thompson, Moeller, Goldsmith, Reed

Presented By: Boldt

Type of Item: Item required to be reported to the UTIMCO Board.

Description: The Comprehensive Report on External Investment Consultant is being submitted to satisfy the requirement of Appendix C, "Selection and Management of Investment Consultant" in the Delegation of Authority Policy. Appendix C requires that "UTIMCO Management shall present, on at least an annual basis, a comprehensive report to the UTIMCO Board on the current scope of work of the external consultant." The report submitted covers the period of March 1, 2003 to February 29, 2004. The investment consultant is Cambridge Associates, Inc.

Discussion: During its September 26, 2000 board meeting, the UTIMCO Board approved the selection of Cambridge Associates to serve as a non-discretionary advisor with respect to Alternative Assets – Non Marketable investments on the terms presented to the Board and authorized management to enter into an Investment Advisory Agreement with Cambridge Associates, Inc.

Cambridge Associates has served as an investment consultant for several years prior to being awarded the Investment Advisory contract. The funds have paid an annual participation fee which covered the full range of information services and research as well as consulting time. It also included full access to the web based internet services. In addition, the endowment funds paid Cambridge Associates for a variety of services, including benchmark review, hedge fund manager search, international equity manager search, manager search assistance, spending analysis, miscellaneous requests, discussion on private equity group, spending policy memorandum, preparation of endowment exhibits, investment research, data request of endowment returns, asset allocation review, asset allocation study, asset allocation presentation, and alternative assets study.

In November 2002, the two year investment advisory agreement expired. A new agreement with Cambridge was signed to provide investment information and consulting services to UTIMCO. Cambridge was not hired as a non-discretionary investment advisor as in the prior two-year contract. The agreement was for one year. In FY 2004, the existing agreement was renewed effective December 1, 2003. The services are being provided for an Annual Fee of $900,000.

Reference: Annual Comprehensive Report on External Investment Consultant

Annual Comprehensive Report on External Investment Consultant

The services provided in the contract cover the following three areas:

- General Consulting Services
- Non Marketable Alternative Asset Consulting Services
- Marketable Alternative Investment Consulting Services

General Consulting Services

Per contract:

- Access via the CA consulting team and in many instances CA's web site to proprietary databases on capital markets, investment managers and partnerships, and comparative peer performance; quarterly and annually surveys of investment and financial data.

- A variety of research reports and working papers on investment and financial issues

- A comprehensive asset allocation review including a presentation to the Board

- Attendance at up to eight (8) investment advisory meetings per year to discuss investment strategy, asset allocation, performance, market environment and investment manager selections.

Report on services provided:

- Responded to questions regarding:
  - Expenses
  - Net of Performance Calculations
  - Futures Overlay Accounting
  - Underwater Endowments

- Provided Periodic Updates of Cambridge's Reporting Institutions' Data
  - Quarterly Investment Return and Asset Allocation (hardcopy, via website and excel)
  - Annual Investment Return, Asset Allocation, Endowment size, spending rates and investment manager information
  - Annual updates to charts reflecting the impact of spending on future market values and future spending

- Consulting services on policy benchmark recalculations including phase-in strategies and appropriateness of methodology used

- Comprehensive asset allocation review. Provided existing Cambridge research to assist in Asset Allocation Process. Also helped in the development of 5-7 yr returns and risk assumptions as part of the asset allocation process. Assisted Risk Manager with asset class parameter estimates

- Review of institutions managing operating funds with hedge funds for Risk Manager

- Due diligence reports or insights on particular public managers. Namely Oechsle and Capital Guardian.

- Broader market support on benchmarks, such as Canadian Small Cap

- Bruce Myers attended seven UTIMCO Board meetings

- Bruce Myers attended four compensation committee meetings to assist with discussions on benchmarks. Provided the Committee with view of appropriate market benchmarks and ranges of value added to be used in the compensation plan

- Bruce Myers attended the Finance and Planning Committee Meeting and Board of Regents meeting in Brownsville to comment on benchmarks chosen and comment on need of compensation plan.

- Prepared a paper (60 pages with exhibits) on Asset Allocation and Performance for Institutions Greater than $1 billion at request of Regent Caven

- Cambridge Associates provides many publications as a part of their services. A listing of the 2003 publications is attached as Exhibit A.

Non Marketable Alternative Asset Consulting Services

Per contract:

- Upon request, a comprehensive review of Client's non-marketable alternative investment assets program including an analysis of existing fund performance
- Preparation of quarterly forward calendars of non-marketable alternative investment opportunities
- Each quarter CA will provide the Client with its proprietary US Venture Capital and Private Equity benchmarks statistics to be used for individual manager evaluation
- Up to twelve due diligence memos and recommendations providing summaries of references, highlights of competitive advantages, and other issues for consideration. The provision of more than 12 due diligence memos and/or recommendations during the contract year will be "Additional Services" and provided upon request at CA's standard fee.
- Attendance at up to twenty in-person meetings (time but not travel expenses) and/or participation in conference calls with Client to discuss non-marketable investment strategy, the market environment, and potential fund opportunities. Additionally, CA may be asked to address Client's concerns regarding potential limited partnership investments. Such reasonable requirements may include additional reference calls or attendance at additional meetings with potential partners.
- Subject to the License terms and conditions in Exhibit II, access to CA's web-based software program Private Equity Benchmark Calculator for creating customized benchmarks specifying multiple filter criteria, such as asset sector, vintage year, and industry focus, region and stage.

Report on services provided:

General Consulting Services

- *Conference Calls and In-Person Meetings*: The Non-Marketable Alternatives ("NMA") team has periodic conference calls with the Cambridge Associates consulting staff (Astrid Noltemy, Jennifer Urdan and several associates and analysts) to discuss the market environment, potential fund opportunities, and investment strategy. During the past twelve months, the team had 10 conference calls with the Cambridge staff. The team also held one (1) full-day meeting with the Cambridge staff at UTIMCO.

- *Investment Recommendations*: Cambridge Associates provides a written recommendation for each new deal the NMA team presents to the CIO and Board of Directors. The recommendations provide summaries of references, highlights of competitive advantages, and other issues for consideration.

- *Due Diligence Reports*: In addition to recommendations on new funds, the NMA team will from time to time ask Cambridge Associates to provide a complete due diligence memorandum on a proposed investment. Due diligence memoranda provide more detail on the fund and supplement the internal due diligence memorandum prepared by the NMA team.

- *Annual Partnership Meeting Attendance*: Cambridge will have representatives attend annual partnership meetings if members from the NMA team cannot attend. A summary and commentary of the meeting is provided to the team.

- *Data and Analytical Tools*: The NMA team has access to Cambridge data and online analytical tools, including the Private Equity Benchmark Calculator, the CPP System, quarterly US Venture Capital and Private Equity benchmark statistics, research reports and market commentary. A brief description of each of these information services is listed below.

    - Private Equity Benchmark Calculator: Customized benchmarks that specify multiple filter criteria, such as asset sector, vintage year, industry focus, region and state.
    - CPP System: Cambridge maintains UTIMCO's portfolio information within its CPP or Cambridge Private Portfolio System (CPP), allowing UTIMCO to access online data and analysis about the portfolio.
    - US Venture Capital and Private Equity Benchmark Statistics: Quarterly valuation and return information on venture capital, private equity, mezzanine, non-US private equity and oil and gas partnerships.
    - Research Reports: In-depth research and analysis on asset classes, sectors and strategies. Examples of research reports received over the last twelve months include "US Venture Capital Investing 2003", "Reversal of Fortune: The Effect of the Market Decline on the Budgets of Endowed Institutions", and "Where Are We Now and What to Do About It".
    - Market Commentary: Cambridge viewpoints on various market segments and events. Examples of market commentary received over the last twelve months include – "Money For Nothing: The Global Liquidity Binge", "Investing in China: Not Yet", and "Why Has Value So Consistently Outperformed Growth?"

Services Provided During the Last Twelve Months

As illustrated below, Cambridge conducted 11 conference calls/meetings with the NMA staff, provided eight investment recommendations, six due diligence reports and six annual meeting summaries (refer to **Exhibit B** for a detailed list of reports provided). In addition, the team had frequent email and phone exchanges with various Cambridge consultants that are not included in the numbers shown below.

Cambridge Associates Services Non-Marketable Alternative Investments *March 1, 2003- February 29, 2004*	
Type of Service	**Number of Reports/Meetings**
Conference Call/ In-Person Meeting	11
Investment Recommendations	8
Due Diligence Memoranda	6
Annual Meeting Summaries	6

Marketable Alternative Asset Consulting Services

Per contract:

- A comprehensive review of Client's marketable alternative investment assets including an analysis of existing programs and funds, a program risk assessment, and recommended changes in program structure and allocation.
- Attendance at up to fourteen in-person meetings (time but not travel expenses) and/or participation in conference calls to discuss marketable alternative investment strategy, the market environment, and potential investment opportunities. Additionally, CA may be asked to address Client's concerns regarding potential marketable alternative investments. Such reasonable requirements may include additional reference calls or attendance at additional meetings with potential partners.
- Up to ten due diligence memos and recommendations that provide summaries of references, highlights of competitive advantages, and other issues for consideration. The provision of more than 10 due diligence memos and/or recommendations during the contract year will be "Additional Services" and provided upon request at CA's standard fee.

Report on services provided:

General Consulting Services

- Marketable Alternatives accesses the Cambridge consulting team (more specifically, Ken Minklei at Cambridge) to obtain additional information and knowledge of investment managers. In addition, Marketable Alternatives utilizes the Cambridge Associates database of hedge fund managers (as presented on the CA website) for informational purposes.
- Review of existing program-Cambridge reviewed the existing program last year (5 managers). All the managers that were selected to date have been supported by Cambridge. UTIMCO maintains a contact database and monitors potential candidates that would complement the existing Marketable Alternatives program. This information is communicated to Cambridge during our conference calls and other meetings with Cambridge.
- The Marketable Alternatives team has held numerous calls and/or visits with Cambridge Associates (most specifically, Ken Minklei). The table below lists the pre-set calls and/or visits the Marketable Alternatives team has had with Cambridge Associates. In addition to the calls noted below, UTIMCO has made several visits to the Boston office to discuss the program. It should be noted that Cambridge is utilized as an additional due diligence source regarding potential managers.

Date	Purpose of Meeting
April 21-24, 2003	New York trip, where Ken Minklei attended some of the meetings with hedge fund managers
August 28, 2003	In-person meeting with Bruce Myers to discuss Marketable Alternatives' plan and current exposures
October 2, 2003	Conference call with Ken Minklei to discuss potential hedge fund managers
January 6, 2004	Conference call with Ken Minklei to discuss potential hedge fund managers and Marketable Alternatives' plan
February 25, 2004	Conference call with Ken Minklei to discuss potential hedge fund managers and Marketable Alternatives' plan

- Cambridge Associates has provided Marketable Alternatives with due diligence memorandums (as shown in the table on the following page), which serve to supplement the internal due diligence memorandums prepared by the Marketable Alternatives team. Although these reports are not required by the UTIMCO Board, during the term of the present contract UTIMCO will routinely seek write-ups for managers with which Cambridge has an on-going relationship. Longer term, UTIMCO expects to utilize Cambridge's database and conduct periodic informal conversations with Cambridge concerning potential and existing managers. The table below lists the hedge funds on which Cambridge has conducted due diligence and provided a Recommendation Memorandum for the specified time period.

Funding Date	Fund
May 1, 2003	Sirios Overseas Fund
June 1, 2003	Arrowstreet Global Opportunities Fund
July 1, 2003	Eminence Fund
September 1, 2003	SG Partners
December 1, 2003	Indus Funds (Japan, Asia Pacific, and Event Driven)
March 1, 2004	AQR Absolute Return Offshore Fund
March 1, 2004	Bridgewater Pure Alpha Fund

- For each Investment Recommendation, Cambridge comments on the following areas: organizational history, investment strategy, distinctive strengths, concerns, performance, risk management, and recommendations.

Exhibit A

Publications provided by Cambridge Associates

1. Analysis of College and University Investment Pool Returns
2. Comparative Asset Allocations & Total Return – Colleges & Universities
3. Comparative Asset Allocations & Total Return – Non-Taxable Portfolios Over $1 Billion
4. Comparative Debt Issuance Practices
5. European Market Comment
6. European Private Equity Investing
7. Event Arbitrage
8. Fixed Income Investing
9. Freshman Financial Aid and Admissions
10. Global Market Comment
11. Indian Private Equity
12. Investing in Listed Chinese Equities
13. Investment Office Comparative Compensation Analysis
14. Manager Hiring & Firing
15. Market Updates – Returns & Valuations (Monthly)
16. Reversal of Fortune – The Effect of the Market Decline on Budgets of Endowed Institutions
17. Policy Portfolios, Tactical Asset Allocation
18. Private Equity Index & Benchmarks (12/31/03)
19. Socially Responsible Investing
20. Student Charges – Academic Year 2002-2003
21. Student Charges – Academic Year 2003-2004
22. Underwater Endowments
23. US Bank Custody
24. US Distressed Company Investing
25. US Equity Managers (Ex-Small-Cap)
26. US Equity Managers (Ex-Small-Cap) – Executive Summary
27. US Fixed Income Managers
28. US Fixed Income Managers – Executive Summary
29. US High Yields Bonds
30. US Historical Capital Market Valuations
31. US Manager Update
32. US Market Comment
33. US Real Estate & REIT Investing
34. US Small-Cap Equity Managers
35. US Small-Cap Equity Managers – Executive Summary
36. Where Are We Now and What Do We Do About It?

Exhibit B

Cambridge Associates Services Provided for NMA

March 1, 2003- February 29, 2004

Date Closed	Date Written	Description of Service	Fund (if applicable)
3/19/2003		Due Diligence Report	Lighthouse Capital Partners V, L.P.
9/29/2003	8/1/2003	Due Diligence Report	MatlinPatterson Global Opportunities Partners II, L.P.
11/20/2003	10/1/2003	Due Diligence Report	TPG Partners IV, L.P.
2/17/2004	8/1/2003	Due Diligence Report	Arch Venture Fund VI
N/A	8/1/2003	Due Diligence Report	Doughty Hanson & Co. VI, L.P.
N/A		Due Diligence Report	Shoreview
Total =	**6**		
3/19/2003	12/2/2002	Recommendation	Lighthouse Capital Partners V, L.P.
3/31/2003	3/17/2003	Recommendation	B IV Capital Partners, L.P.
6/27/2003	6/2/2003	Recommendation	SCF V, L.P.
9/29/2003	7/22/2003	Recommendation	MatlinPatterson Global Opportunities Partners II, L.P.
10/9/2003	9/16/2003	Recommendation	PTV Sciences, L.P.
11/20/2003	10/13/2003	Recommendation	ArcLight Energy Partners II, L.P.
11/20/2003	11/7/2003	Recommendation	TPG Partners IV, L.P.
12/10/2003	11/24/2003	Recommendation	TCV V, L.P.
2/17/2004	1/5/2004	Recommendation	Arch Venture Fund VI
Total =	**8**		
1/10/2003		Conference Call	
1/27/2003		Conference Call	
2/24/2003		Conference Call	
3/20/2003		Conference Call	
4/8/2003		Conference Call	
4/23/2003		Conference Call	
5/6/2003		Conference Call	
6/9/2003		Conference Call	
7/17/2003		Conference Call	
8/25/2003		Conference Call	
11/12/2003		Conference Call	
2/2/2004		Conference Call	
3/8/2004		Conference Call	
Total =	**13**		
10/28/2003		All Day Meeting at UTIMCO	
Total =	**1**		

TAB 4

Resolution No. 3

(Resolution of Appreciation – to be presented at the meeting)

Resolution No. 4

RESOLVED, that the following persons are hereby appointed to the respective office or offices of the Corporation set forth opposite their names, to serve until the next Annual Meeting of the Corporation or until their resignation or removal.

Name	Office or Offices
Woody L. Hunt	Chairman
Open	***Vice-Chairman***
Mark G. Yudof	Vice-Chairman for Policy
Bob Boldt	President
Cathy Iberg	Managing Director
Bill Edwards	Managing Director
Larry Goldsmith	Managing Director
Sara McMahon	Managing Director
Joan Moeller	Managing Director, Treasurer and Secretary
Andrea Reed	Risk Manager
Trey Thompson	Managing Director
Christy Wallace	Assistant Secretary

Resolution No. 5

RESOLVED, as required by the Corporation's Code of Ethics the Board shall designate, by position, key employees of the Corporation.

Bob Boldt	President, Chief Executive Officer and Chief Investment Officer
Cathy Iberg	Managing Director - Marketable Alternative Investments/Deputy CIO
Bill Edwards	Managing Director - Information Technology
Larry Goldsmith	Managing Director – Public Markets Investments
Sara McMahon	Managing Director - Non-Marketable Alternative Investments
Joan Moeller	Managing Director - Accounting, Finance and Administration
Andrea Reed	Risk Manager
Trey Thompson	Managing Director - Non-Marketable Alternative Investments
Greg Cox	Portfolio Manager - Equity Investments
Russ Kampfe	Senior Portfolio Manager - Fixed Income Investments
Harland Doak	Portfolio Manager - Fixed Income Investments
Debbie Childers	Manager of Portfolio Accounting and Operations
Gary Hill	Manager of Investment Reporting
Greg Lee	Manager - Finance and Administration
Christy Wallace	Executive Assistant

Resolution No. 6

RESOLVED, that the Board of Directors hereby reappoints Mr. R. D. Burck to serve as Advisory Director to the Corporation for a term ending April 1, 2005; and be it

FURTHER RESOLVED, that while Mr. Burck shall not be entitled to vote on any matters coming before the Board of Directors, it is the desire of the Board of Directors that Mr. Burck attend all Board meetings and participate fully in all discussions and briefings incident to such meetings; and be it

FINALLY RESOLVED, that Mr. Burck shall not be entitled to receive any fees or compensation for his service as an Advisory Director to the Corporation, other than reimbursement for expenses incurred in attending Board meetings.

Resolution No. 7

RESOLVED, that the Board of Directors hereby approves External Board Service for Mr. Bob L. Boldt, President of the Corporation, on the Board of Directors of The Endowment Fund, L.P.; and be it

FURTHER RESOLVED, that all External Board activity will be on personal time, with no investment or marketing responsibilities as a member of the External Board and will not give rise to conflicts of interest; and be it

FINALLY RESOLVED, that this External Board Service will meet all requirements of the Code of Ethics Policy and the Investment Management Services Agreement for the Corporation applicable to external, for-compensation board service.

Agenda Item
UTIMCO Board of Directors Meeting
April 8, 2004

Agenda Item: Approval of External Board Service

Developed By: Boldt

Presented By: Boldt

Type of Item: Action Required by UTIMCO Board

Description: My verbal agreement with the UTIMCO Board and the UTIMCO Ethics Policy require that I get UTIMCO Board approval to serve on a for-profit entity board for compensation. The purpose of this agenda item is to get UTIMCO Board approval to serve on the board of directors of The Endowment Fund, L.P., a registered investment company (under The Investment Company Act of 1940), that offers investment services to individuals and smaller institutions.

Recommendation: Approval recommended.

Discussion: My verbal agreement with the UTIMCO Board during recruitment was that I would be allowed to serve on external boards with approval from the UTIMCO Board. The UTIMCO Ethics Policy, in the sections highlighted below, sets forth several general ethical principles which must be met in connection with this recommendation:

I.A. (2) Directors and employees may not: accept other employment or engage in a business or professional activity that the director or employee might reasonably expect would require or induce the director or employee to disclose confidential information acquired by reason of his or her position at UTIMCO

I.A. (3) Directors and employees may not: accept other employment or compensation that could reasonably be expected to impair the director's or employee's independence of judgment in the performance of his or her duties for UTIMCO.

I.D. …. Directors and employees should avoid personal, employment, or business relationships that create conflicts of interest.

I.E. Directors and employees may not use their relationship with UTIMCO to seek or obtain personal gain beyond agreed compensation and/or any properly authorized expense reimbursement. This should not be interpreted to forbid the use of UTIMCO as a reference or the communication to others of the fact that a relationship with UTIMCO exists, provided that no misrepresentation is involved.

III.A.(1) UTIMCO and UTIMCO entities may not enter into an agreement or transaction with a director or employee acting in other than an official capacity on behalf of UTIMCO.

III.A. (2) UTIMCO and UTIMCO entities may not enter into an agreement or transaction with a director entity, employee entity or business entity (including an investment fund) in which a director or employee has any pecuniary interest.

Agenda Item
UTIMCO Board of Directors Meeting
April 8, 2004

III.A. (4) UTIMCO and UTIMCO entities may not enter into an agreement or transaction with an investment fund or account managed by a director, director entity, employee, or employee entity as a fiduciary or agent for compensation.

III.D. (1) No employee or employee entity may engage in outside employment, business, or other activities which detract from the ability to fulfill the full-time responsibilities to UTIMCO. …. Any outside employment by the President must be approved in advance by the Board.

I have been asked to serve on the Board of Directors of The Endowment Fund, L.P. (TEF), an investment vehicle created to deliver the same type of expertise and sophistication of major university endowments to wealthy individuals and smaller institutions. TEF was formed in April 2003 by Salient Partners, a Houston, Texas based investment advisory firm with approximately $1.2 billion in assets under management, and MWY Consulting, an organization owned by Mark Yusko, the current CEO of the University of North Carolina Investment Management Company. In May, 2003, Sanders Morris Harris Group, Inc., the largest independent investment banking and brokerage firm in the southwest, acquired a 50% interest in Salient Partners. The TEF currently has approximately $125 million under management from wealthy individual investors. Other individuals to be included on the Board are Scott Wise, Vice President for Investments at Rice University, Mark Yusko, and Scott Schwinger, Senior Vice President and CFO of the Houston Texans.

I would have no investment or marketing responsibilities as a member of the TEF Board, and no personal contact with clients. All Board activity would be conducted on personal time, and will consist primarily of four Board meetings per year in Houston, Texas. My compensation will include an annual fee of $15,000 plus $500 for each Board meeting attended, plus reimbursement of all expenses.

UTIMCO has never had any business relationship with Salient Partners, MWY Consulting, or Sanders Morris Harris Group, Inc. Any future business relationship would be precluded by my TEF Board membership.

This Board service meets all of the requirements for external, for-compensation board service set forth in the Code of Ethics and the Investment Management Services Agreement. All activities will take place on personal time, and there are no conflicts of interest. My contact with Mark Yusko and Scott Wise will enhance my knowledge of the activities of other major endowment funds, which should be of additional benefit to UTIMCO.

Reference: UTIMCO Ethics Policy; Investment Management Services Agreement

TAB 5

Agenda Item
UTIMCO Board of Directors Meeting
April 8, 2004

Agenda Item: Discussion of CORE Fund Strategy

Developed By: Boldt, Reed, Tiu

Presented By: Boldt, Reed

Type of Item: Information and Discussion Item

Description: This agenda item presents research completed by staff on new investment options for System operating funds currently invested in the Short Term Fund, the Short Intermediate Term Fund, the Bond Index Fund, and the Equity Index Fund. The new investment options include the CORE Fund, the CORE Plus Fund, and the Balanced Fund. This item presents the projected gains from implementing the new Funds, discusses transition and strategic issues with the new alternatives, and presents advantages and disadvantages.

Recommendation: None

Discussion: Operating funds, now totaling more than $3.6 billion, are the third largest asset of the UT System. With asset allocation decisions under the control of CBO's throughout the UT System, the funds are invested in several Funds provided by UTIMCO. However, the current allocation process, and the nature of the Funds currently being offered, result in a severe underutilization of this important pool of System capital. The best solution to this problem appears to be the substitution of the CORE Fund, the CORE Plus Fund, the Balanced Fund, and the Equity Index Fund for the current Fund offerings. The new funds would significantly enhance the expected returns and PVA of the funds while maintaining allocation and risk control at the CBO level. The new Funds would be invested in a much broader array of assets than the current operating funds options. Disadvantages include the fact that this is a unique approach, that there would be a relatively high percentage of less liquid assets compared to today's portfolios, and that implementation would require a "transfer pricing" decision which would effectively allocate the return advantages of the approach between the General Endowment Fund and the System operating funds. The new options could be implemented over a three to six month period.

Reference: GEF Investment Policy

UTIMCO

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

A New Strategy for Operating Funds Management

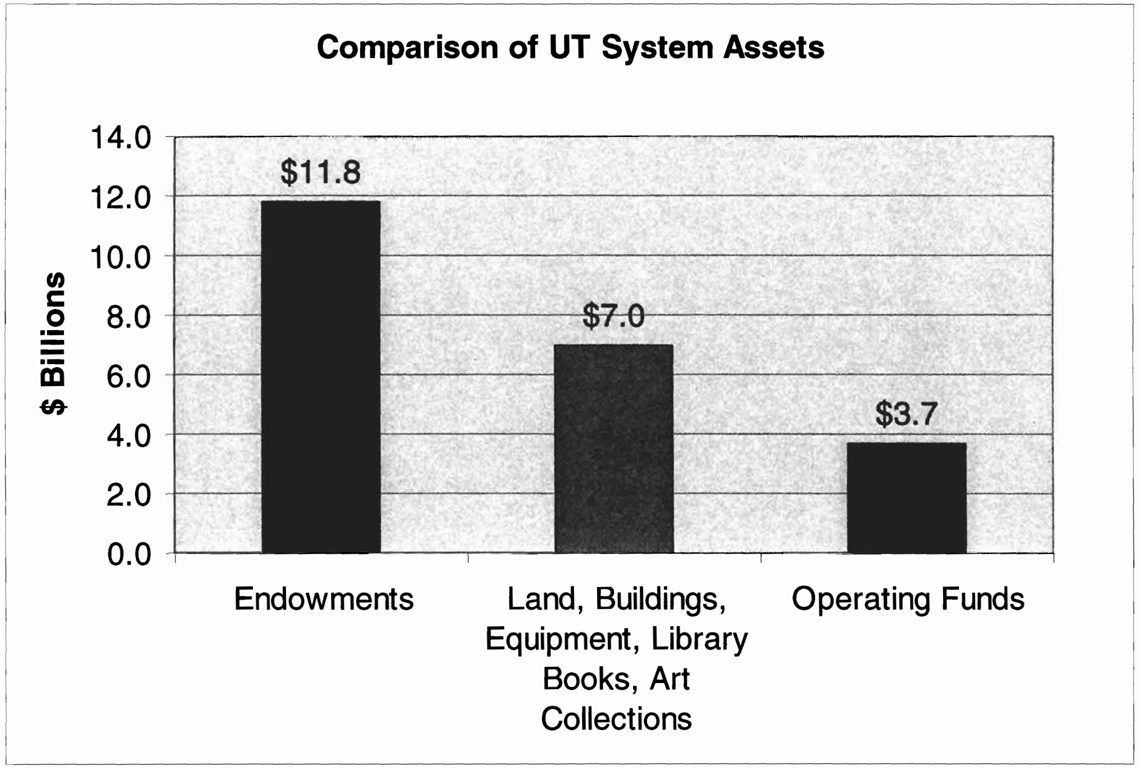
Bob L. Boldt

Andrea Reed

Cristian Tiu

April, 2004

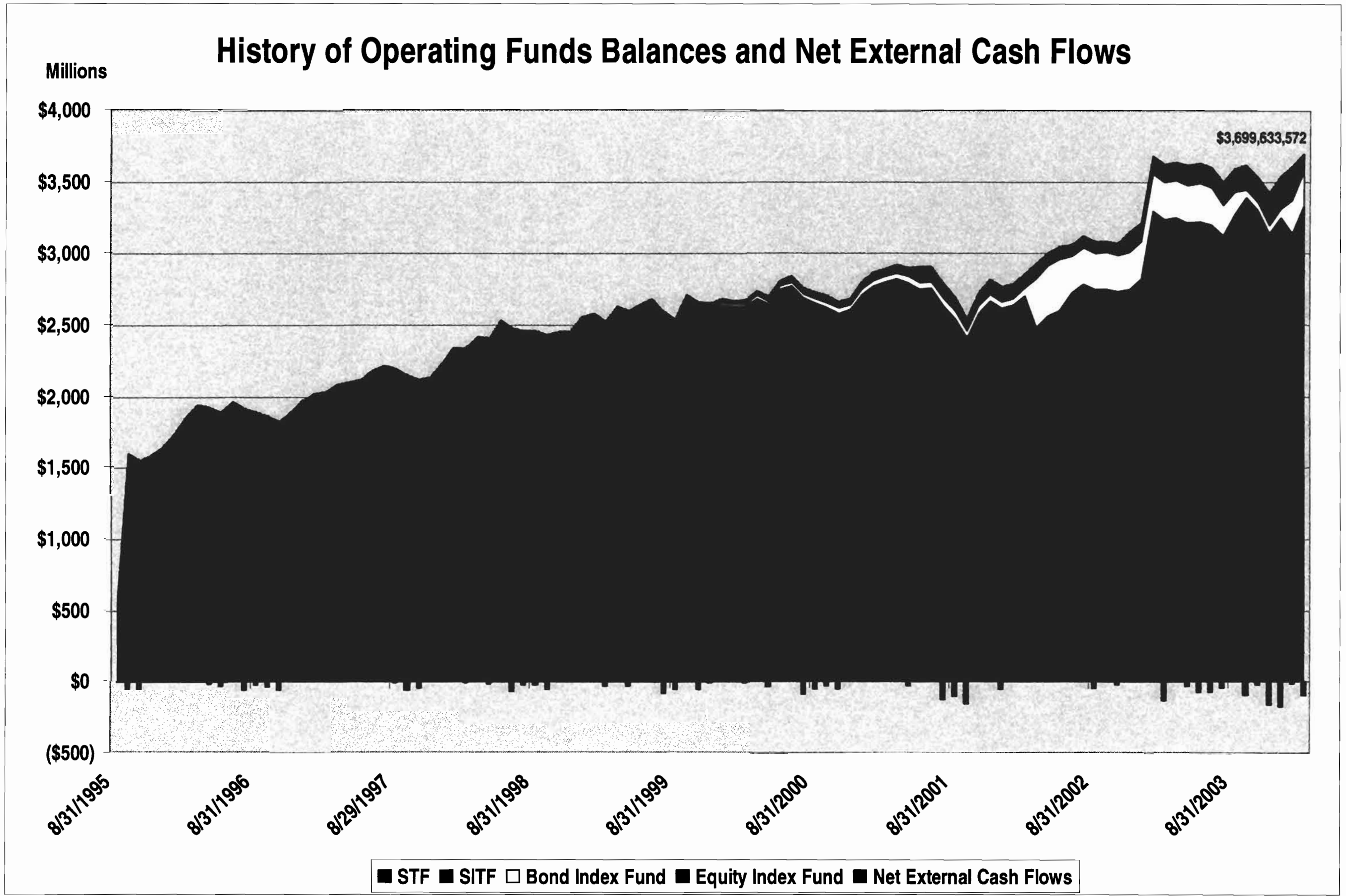
The Asset Side of the UT System Balance Sheet



Current Status of Operating Funds

- Operating Funds Currently Total Approximately $3.7 Billion
- Chief Business Officers Have Full Discretion to Make Operating Funds Allocation Decisions
- Currently CBO's Choose From Four Options:
  - Short Term Fund (Money Market Fund Managed by Dreyfus)
  - Short Intermediate Term Fund (Fund with Longer Average Maturity Managed by UTIMCO)
  - Bond Index Fund (Lehman Brothers Aggregate Fund Managed by BGI)
  - Equity Index Fund (S&P 500 Fund Managed by BGI)
- Transfers Between the Funds for "Market Timing" Purposes are Discouraged by UT System

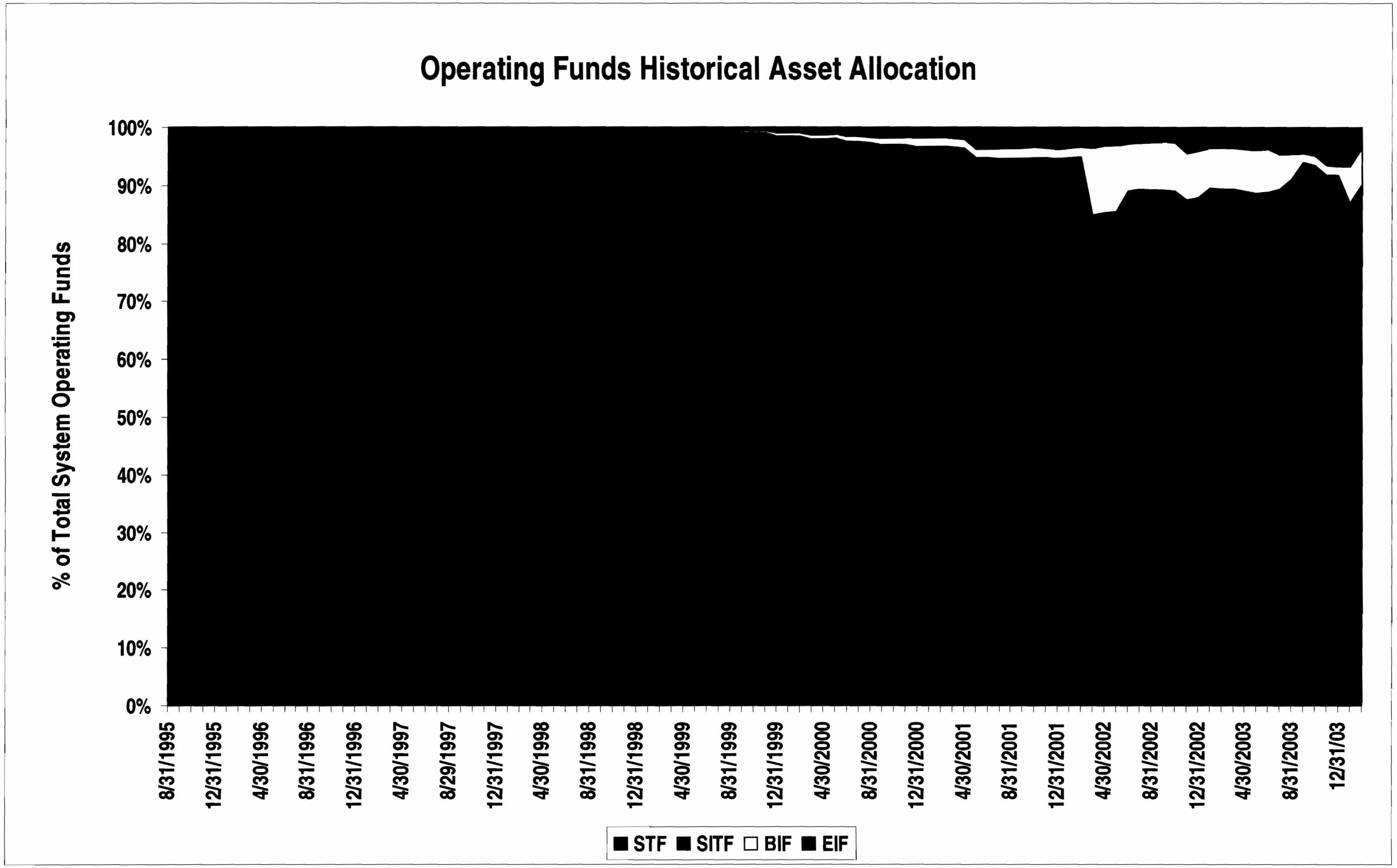
Operating Funds Balances & Flows



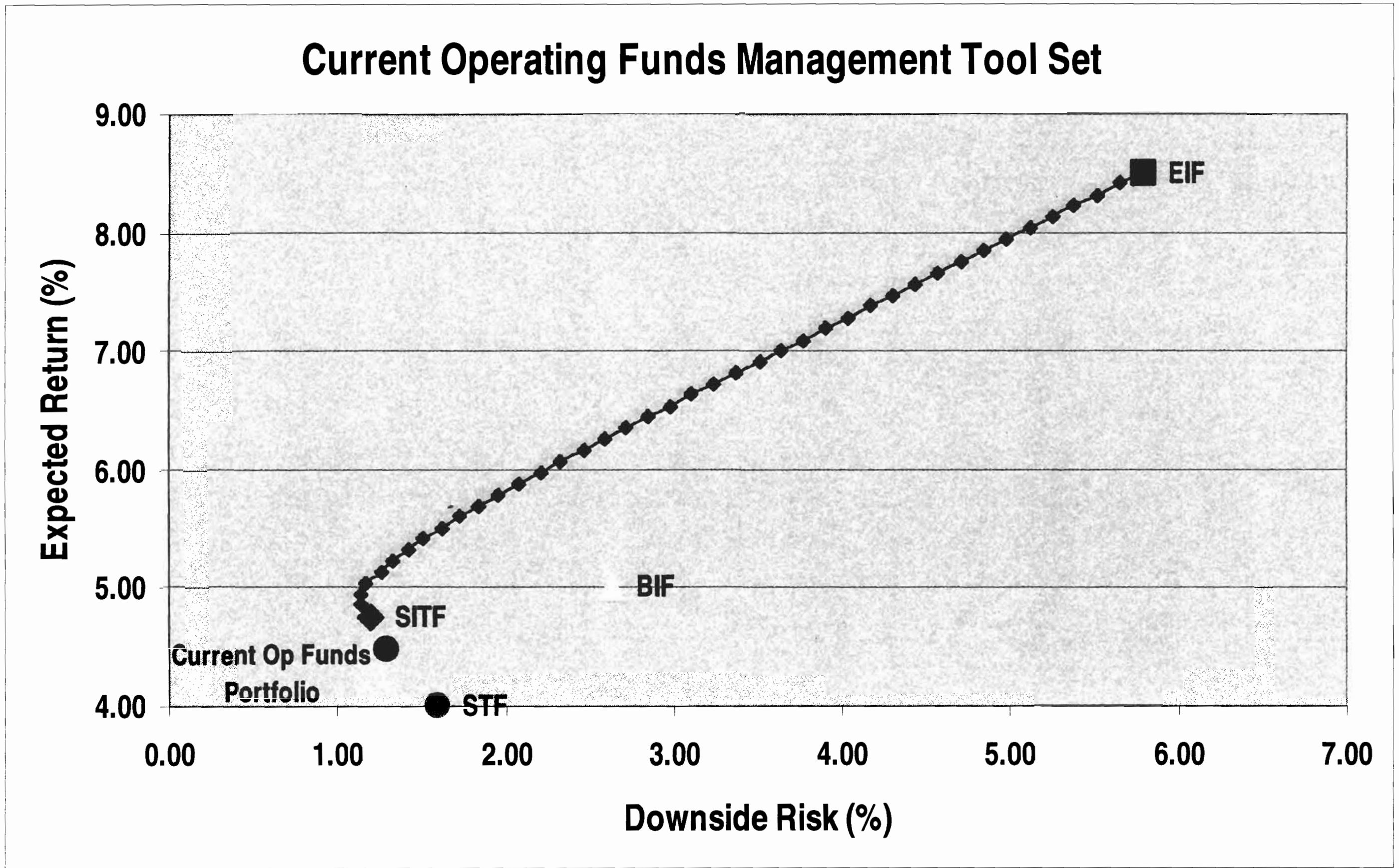
Statistics on Withdrawals

Summary Statistics on Net Withdrawals from Operating Funds Accounts	Percent of Total Operating Funds	Operating Funds as a Multiple of Flows
Maximum Withdrawal	5.0%	20.0x
Average Withdrawal	1.1%	90.9x
Months with Withdrawals	43	N/A
Percent of Months with Withdrawals	41.7%	N/A

Changes in Operating Funds Asset Allocation



The Investment Toolbox With Current Operating Funds Alternatives



- This analysis assumes the CBO's have the ability and the inclination to separate permanent funds from operating funds and to move assets in response to market conditions …

What Can We Conclude?

- Operating Funds have become a significant part of the balance sheet of the U T System
- The portion of total operating reserves invested in the Short Term Fund has increased substantially over the past 3 years
- Although invested like cash reserves, most of the funds appear to be “permanent” reserves
- The actual need for liquidity appears to be far lower than the perceived need
- Because liquidity has a cost, investment returns from the Operating Funds are lower than they could be because of excess liquidity
- There appears to be significant opportunity to improve returns

The Problem

- Chief Business Officers are Highly Risk Averse
  - Accounting Conventions and Covenants on Some Funds Require Avoidance of Losses
  - The Risk/Reward Tradeoff for Aggressive Management of Operating Funds is Poor
  - Many CBO's are Very Uncomfortable Attempting Timely Allocation Decisions and Such Moves are Discouraged by UT System
- Some Amount of the Operating Funds are Actually "Permanent Funds" With Characteristics More Similar to Endowment Funds Than Operating Funds
- Decisions Regarding the Appropriate Level of Liquidity Reserves Which may be Correct at the Component Level are Clearly Sub-Optimal at the System Level (The "Bank Reserves" Problem)
- The Result is Severe Under-Utilization of a Very Large System Asset

Possible Solutions

- Remove Discretionary Authority for Operating Funds Investment from CBO's and Place in System Finance
- Offer Additional Traditional Investment Alternatives for CBO's and Encourage More Aggressive Asset Allocation Decision Making
- Offer a Creative Alternative Which Leaves Control in Hands of CBO's but Solves the Problems of the Current Situation … Create Three New Fund Alternatives:
    - CORE and CORE Plus Funds for Operating Funds
    - The Balanced Fund for Permanent Funds

The CORE Fund Takes Advantage of a Perfect Internal Swap

U T System

CBO's
- ✓ Highly Risk Averse
- ✓ Short Term Time Horizon
- ✓ Must Avoid Losses
- ✓ Lower Return Sensitivity

Risk →

← **Guarantee**

Returns →

Endowment Funds
- ✓ Risk Tolerant
- ✓ Long Term Time Horizon
- ✓ Can Sustain Losses
- ✓ Higher Return Sensitivity

The Innovative Solution

Offer CBO's Three New Fund Alternatives:

CORE Fund

- ✓ Daily Liquidity
- ✓ Guaranteed Return Equal to Cash Return Plus Fixed Margin
- ✓ Guaranteed Preservation of Principal

CORE Plus Fund

- ✓ Monthly Liquidity
- ✓ Nominal Return of CORE Fund Without the Guarantee
- ✓ Principal at Risk

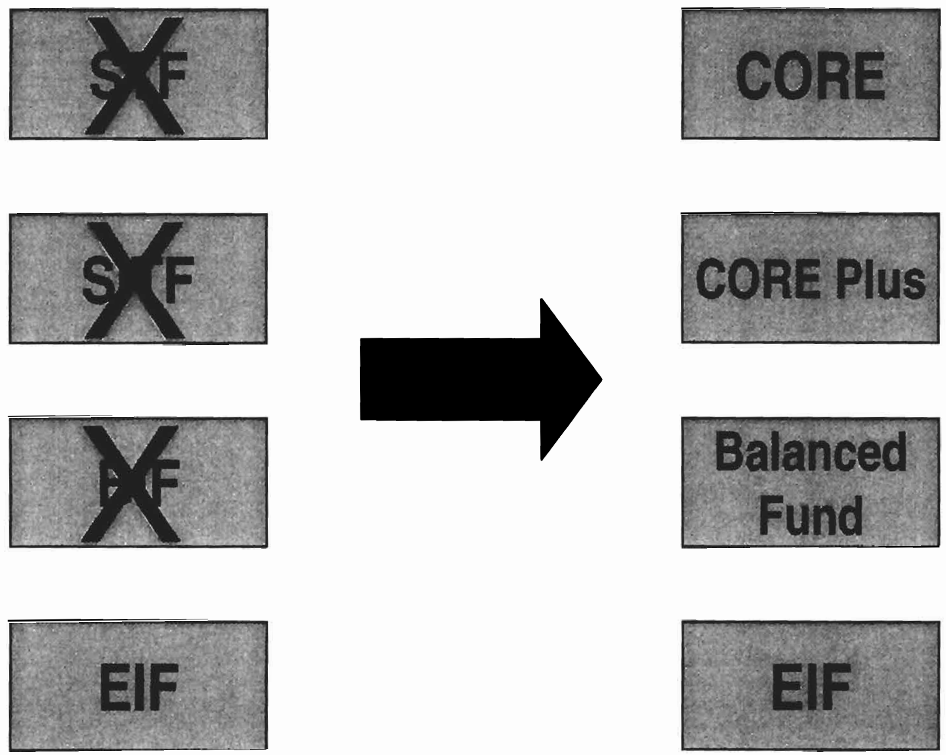
Balanced Fund

- ✓ Monthly Liquidity
- ✓ Efficient Return From Rich Asset Mix
- ✓ Principal at Risk

The Solution

- CBO's Would be Offered the CORE Fund:
  - Guaranteed Return of Cash + a Constant Percent (1.0% for Example)
  - Daily Liquidity
  - Guaranteed Preservation of Principle
- Endowment Funds Would Receive all Returns Above Cash + Guarantee Amount Without any Capital Investment
- Would be Accomplished via a Swap Agreement Between the Operating Funds Account and the Endowment Funds
- CBO's Would Also be Offered a CORE Plus Fund Without the Guaranteed Return and a "Balanced Fund" Option for More Permanent Operating Funds
- The Net Benefit to the U T System Could be $100 million PER YEAR or More .....

Changes in Operating Fund Offerings



Process to Develop CORE Portfolios

Use risk / return assumptions from asset allocation review

Use downside risk framework to determine efficient set of CORE portfolios

Establish risk / reward tradeoff of combined CORE + GEF

Select small candidate set for further analysis

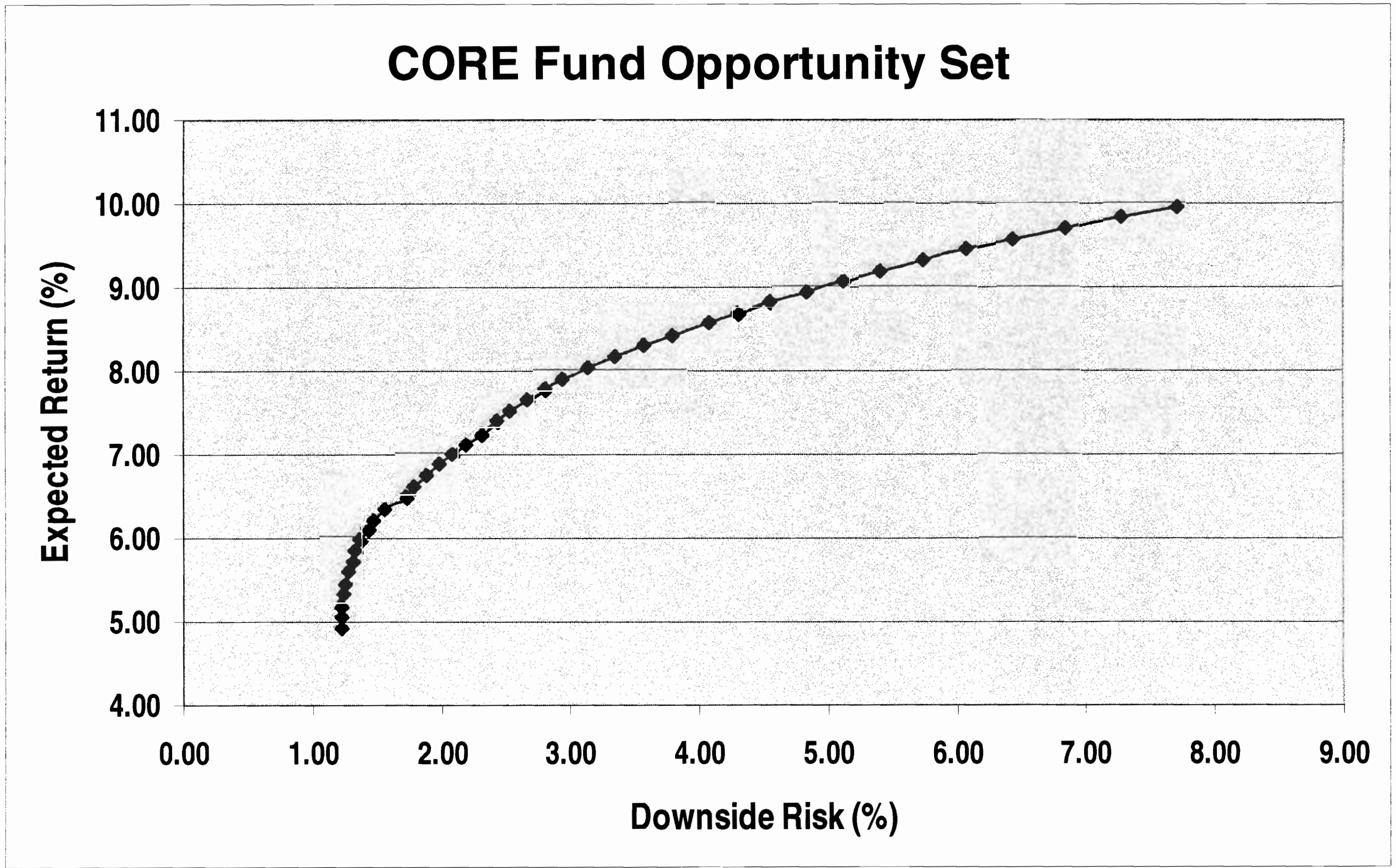
Use additional expected return and risk measures to make final selection

Step-by-step Process

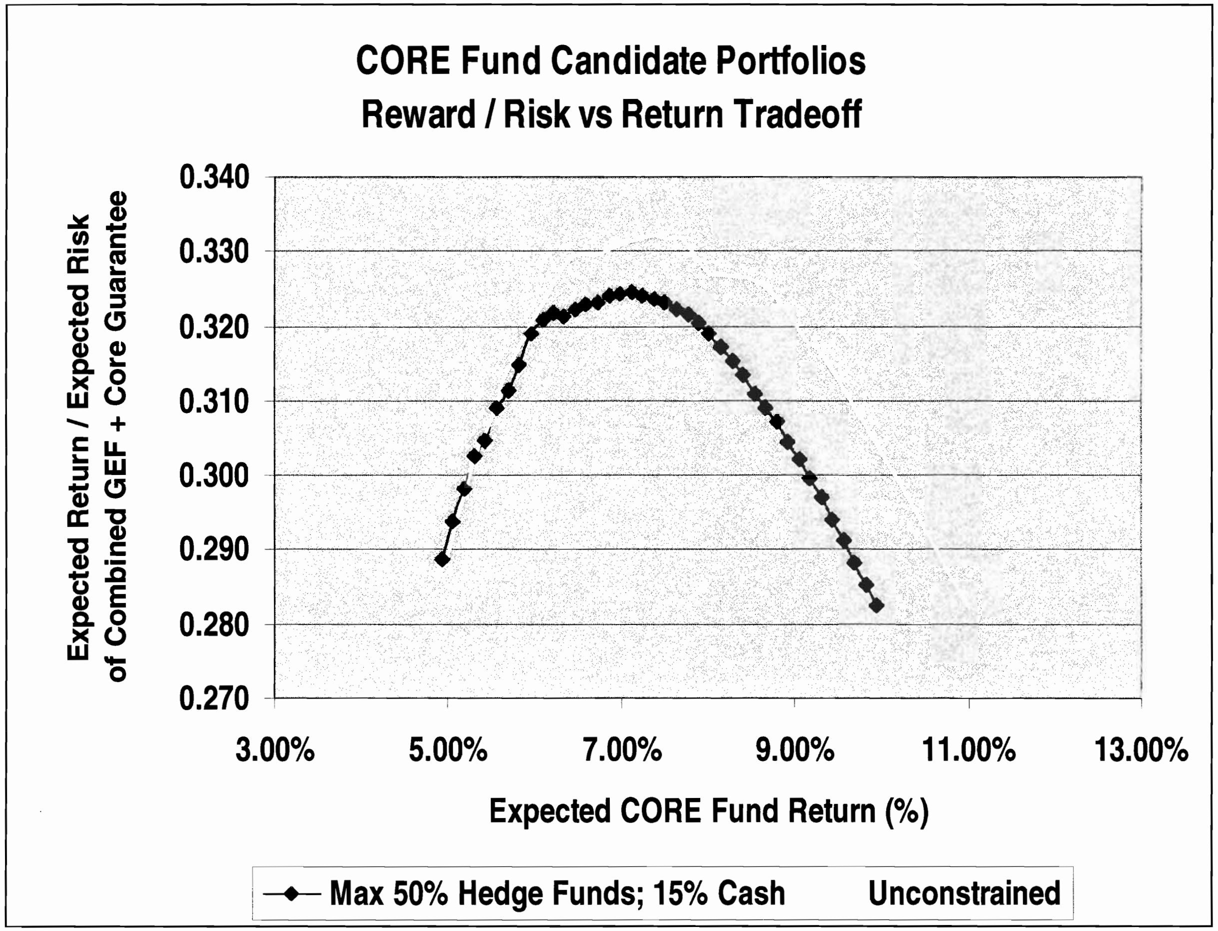
Assumptions and Constraints for CORE Portfolios

Asset Categories	Constraints	Expected Return	Standard Deviation
US Equities		8.50%	17.00%
International Equities		8.50%	19.00%
Emerging Markets Equities		11.00%	26.00%
Absolute Return Hedge Funds	Max 50%	7.00%	7.50%
Directional Hedge Funds	Max 50%	8.00%	11.00%
Venture Capital	Exclude	14.00%	30.00%
Private Equity	Exclude	11.50%	20.00%
REITS		7.50%	15.00%
Commodities		5.00%	18.00%
TIPS		5.50%	6.00%
Global Bonds		5.00%	6.00%
Cash	Min 15%	4.00%	1.00%

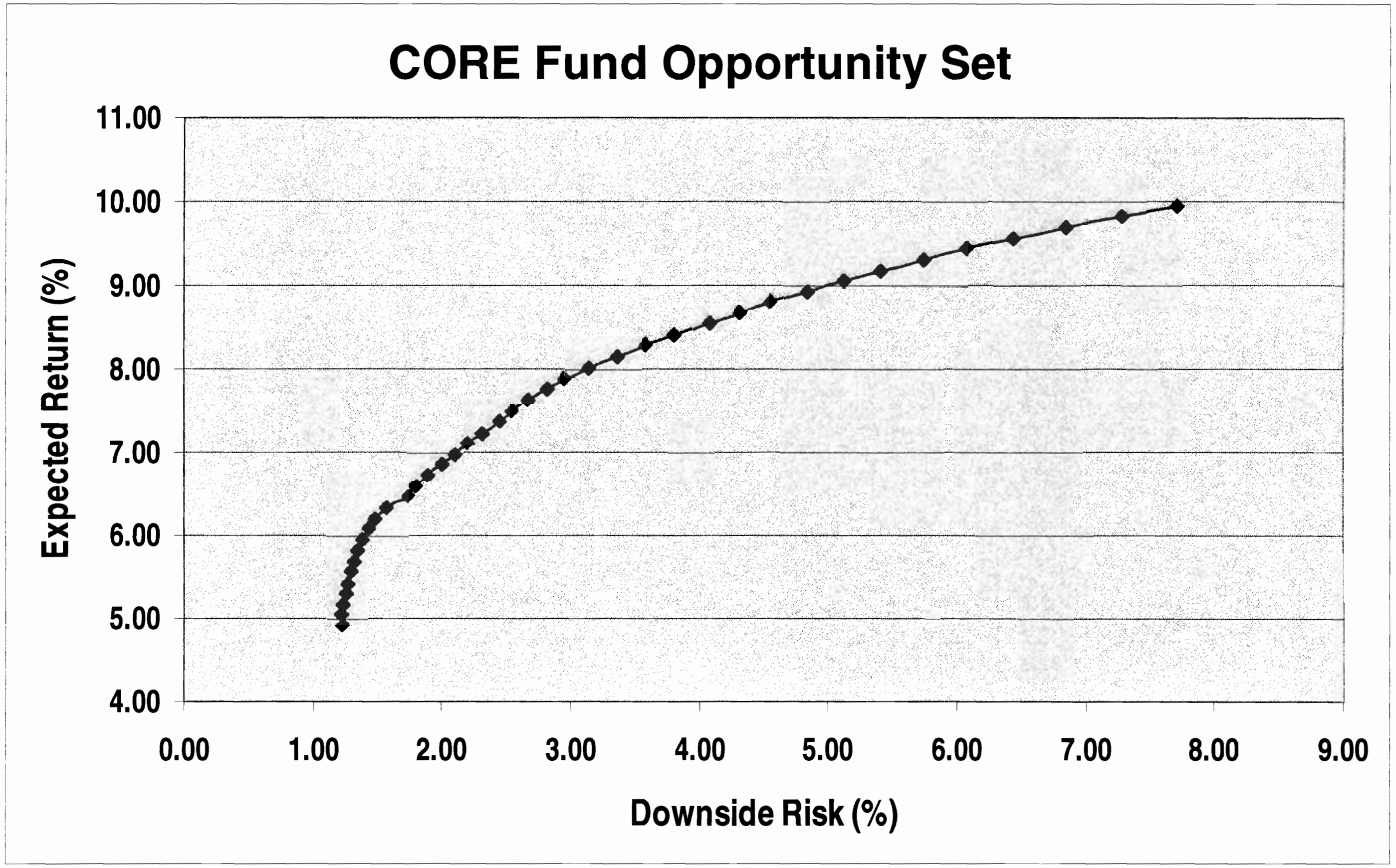
Process to Develop CORE Portfolios



Process to Develop CORE Portfolios



Process to Develop CORE Portfolios



CORE Candidate Portfolios Asset Mix

CORE Fund Candidate Portfolio Set				Optimal Asset Allocations (% of Portfolio) for Portfolios on the Efficient Frontier											
Asset Categories	Constraints	Expected Return	Standard Deviation	Portfolio 9	Portfolio 10	Portfolio 11	Portfolio 12	Portfolio 13	Portfolio 14	Portfolio 15	Portfolio 16	Portfolio 17	Portfolio 18	Portfolio 19	Portfolio 20
US Equities		8.50%	17.00%	0	0	0	0	0	0	1	1	1	1	1	1
International Equities		8.50%	19.00%	0	0	0	0	0	0	0	0	0	0	0	0
Emerging Markets Equities		11.00%	26.00%	5	4	4	5	6	7	8	8	9	10	11	12
Absolute Return Hedge Funds	Max 50%	7.00%	7.50%	30	33	32	24	25	25	25	25	25	22	18	13
Directional Hedge Funds	Max 50%	8.00%	11.00%	4	9	12	17	18	19	20	21	22	24	27	31
Venture Capital	Exclude	14.00%	30.00%	0	0	0	0	0	0	0	0	0	0	0	0
Private Equity	Exclude	11.50%	20.00%	0	0	0	0	0	0	0	0	0	0	0	0
REITS		7.50%	15.00%	1	0	2	6	8	9	11	13	15	18	20	23
Commodities		5.00%	18.00%	2	1	2	1	1	1	1	1	1	1	0	0
TIPS		5.50%	6.00%	13	18	11	9	8	8	7	7	6	4	3	1
Global Bonds		5.00%	6.00%	30	20	22	22	18	16	12	9	6	5	5	4
Cash	Min 15%	4.00%	1.00%	15	15	15	16	16	15	15	15	15	15	15	15
Expected Return>				5.96%	6.09%	6.21%	6.34%	6.48%	6.59%	6.73%	6.86%	6.99%	7.11%	7.24%	7.39%
Standard Deviation>				2.36%	2.54%	2.69%	2.89%	3.10%	3.28%	3.50%	3.72%	3.94%	4.18%	4.43%	4.71%
Downside Deviation>				1.38%	1.43%	1.47%	1.56%	1.73%	1.80%	1.89%	1.99%	2.09%	2.19%	2.31%	2.44%
GEF + CORE Return/Risk Ratio>				0.3358	0.3378	0.3433	0.3403	0.3387	0.3366	0.3354	0.3407	0.3348	0.3297	0.3164	0.1092
Median 5 Year Total Value Added ($Millions)>				361.4	387.5	402.9	425.3	456.2	480.8	506.4	523.4	544.6	558.4	574.8	598.6
Low 10th Percentile 5 Year Value Added ($millions)>				(83.0)	(104.2)	(100.8)	(121.7)	(136.2)	(147.2)	(187.4)	(204.5)	(231.7)	(260.5)	(291.0)	(312.4)
Ratio of Median VA to 10th Percentile VA>				4.35	3.72	4.00	3.49	3.35	3.27	2.70	2.56	2.35	2.14	1.98	1.92
Incremental Median VA / Incremental 10th Percentile VA				1.12	1.23	4.53	1.07	2.13	2.24	0.64	0.99	0.78	0.48	0.54	1.11
Worst Case 5 Year Value Added ($millions)>				(690.5)	(742.6)	(831.2)	(968.2)	(1,100.9)	(1,190.3)	(1,320.2)	(1,384.3)	(1,488.4)	(1,590.9)	(1,665.8)	(1,767.3)

Expected Net Benefit of Implementing CORE Portfolio

	5 Year Cumulative Total Value Added to UT System From CORE Investment versus Current STF and SITF Operating Funds ($ millions)											
Simulation Results	**Portfolio 9**	**Portfolio 10**	**Portfolio 11**	**Portfolio 12**	**Portfolio 13**	**Portfolio 14**	**Portfolio 15**	**Portfolio 16**	**Portfolio 17**	**Portfolio 18**	**Portfolio 19**	**Portfolio 20**
High 10th Percentile	$829.2	$906.9	$955.0	$1,035.3	$1,103.0	**$1,174.2**	$1,297.6	$1,364.6	$1,465.1	$1,567.9	$1,636.2	$1,736.1
High 25th Percentile	604.6	657.2	696.8	745.5	806.0	**855.5**	933.7	978.0	1,048.4	1,090.5	1,142.4	1,217.8
Median	361.4	387.5	402.9	425.3	456.2	**480.8**	506.4	523.4	544.6	558.4	574.8	598.6
Low 25th Percentile	114.6	120.9	121.5	116.2	123.5	**129.5**	120.7	108.4	107.6	103.1	94.6	88.1
Low 10th Percentile	(83.0)	(104.2)	(100.8)	(121.7)	(136.2)	**(147.2)**	(187.4)	(204.5)	(231.7)	(260.5)	(291.0)	(312.4)
Lowest Simulation Observation	(690.5)	(742.6)	(831.2)	(968.2)	(1,100.9)	**(1,190.3)**	(1,320.2)	(1,384.3)	(1,488.4)	(1,590.9)	(1,665.8)	(1,767.3)
Probability of Negative Value Added	15.4%	15.1%	15.7%	17.0%	17.6%	**18.1%**	19.4%	19.6%	20.5%	20.9%	21.5%	21.9%

- These net benefit numbers are based on the current balance of the STF and SITF operating funds at the current allocation between STF and SITF
- These numbers include both the benefit to the operating funds in terms of higher guaranteed returns and to the GEF in terms of additional returns as payment for the guarantee

Expected Net Benefit of Implementing CORE Portfolio by Recipient

For the Selected CORE Portfolio Allocation	5 Year Net Benefit To ($ millions)		
Simulation Results	**Operating Funds**	**GEF**	**Total UT System**
High 10th Percentile	$151.2	$1,023.0	$1,174.2
High 25th Percentile	149.2	706.3	855.5
Median	146.8	334.0	480.8
Low 25th Percentile	144.8	(15.3)	129.5
Low 10th Percentile	143.0	(290.2)	(147.2)
Lowest Simulation Observation	137.7	(1,328.0)	(1,190.3)

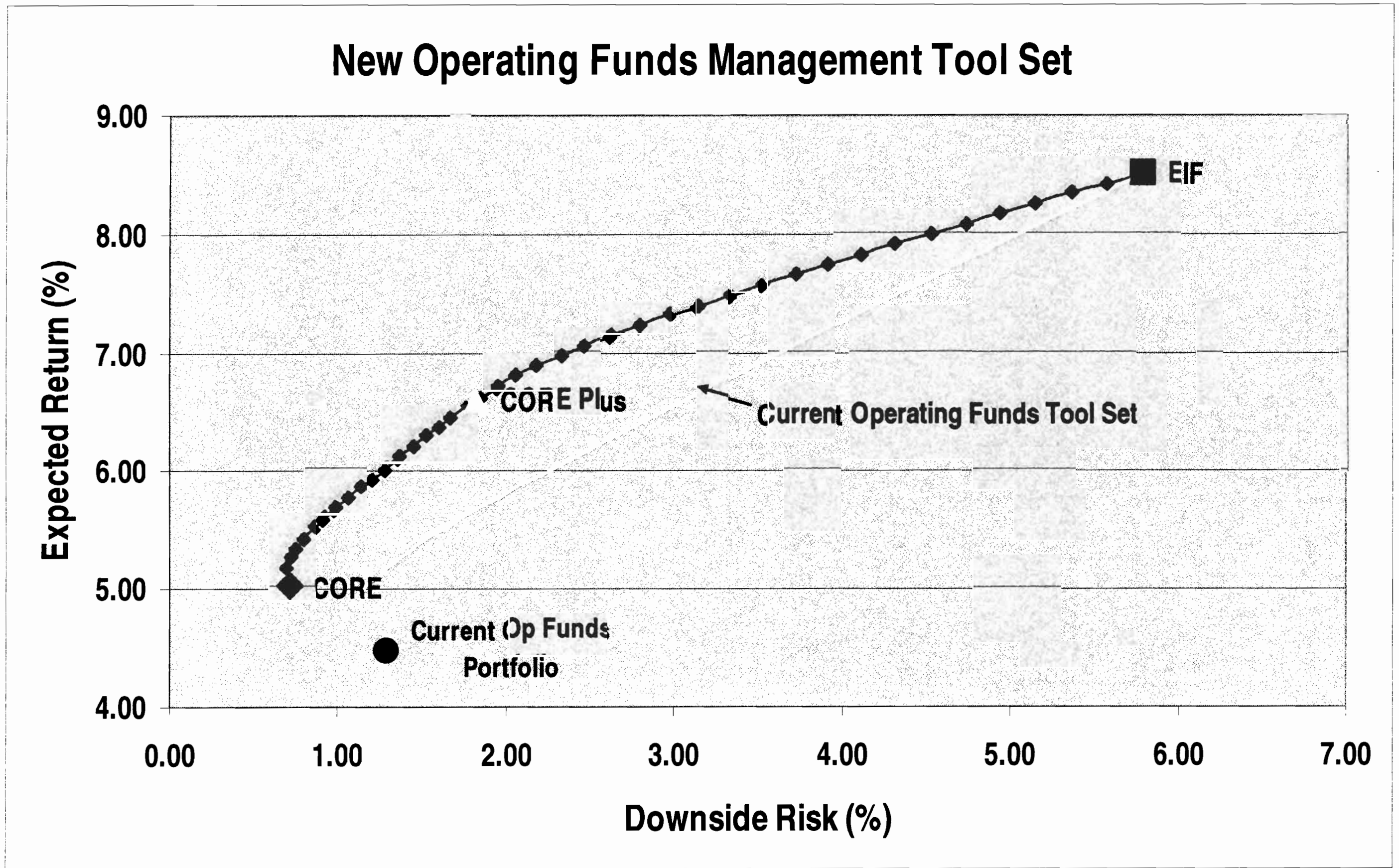
- This assumes a Cash + 1% Guarantee for the CORE Fund and all assets currently invested in the STF and SITF ($3.140 billion) are invested in the CORE Fund (ie CORE Plus has $0)
- These numbers are for Portfolio 14 as shown on the previous slides
- The actual results this strategy would have achieved over the past five years are much higher than the median projected result shown above …

Benefit of Implementing CORE Portfolio using Actual Historical Results

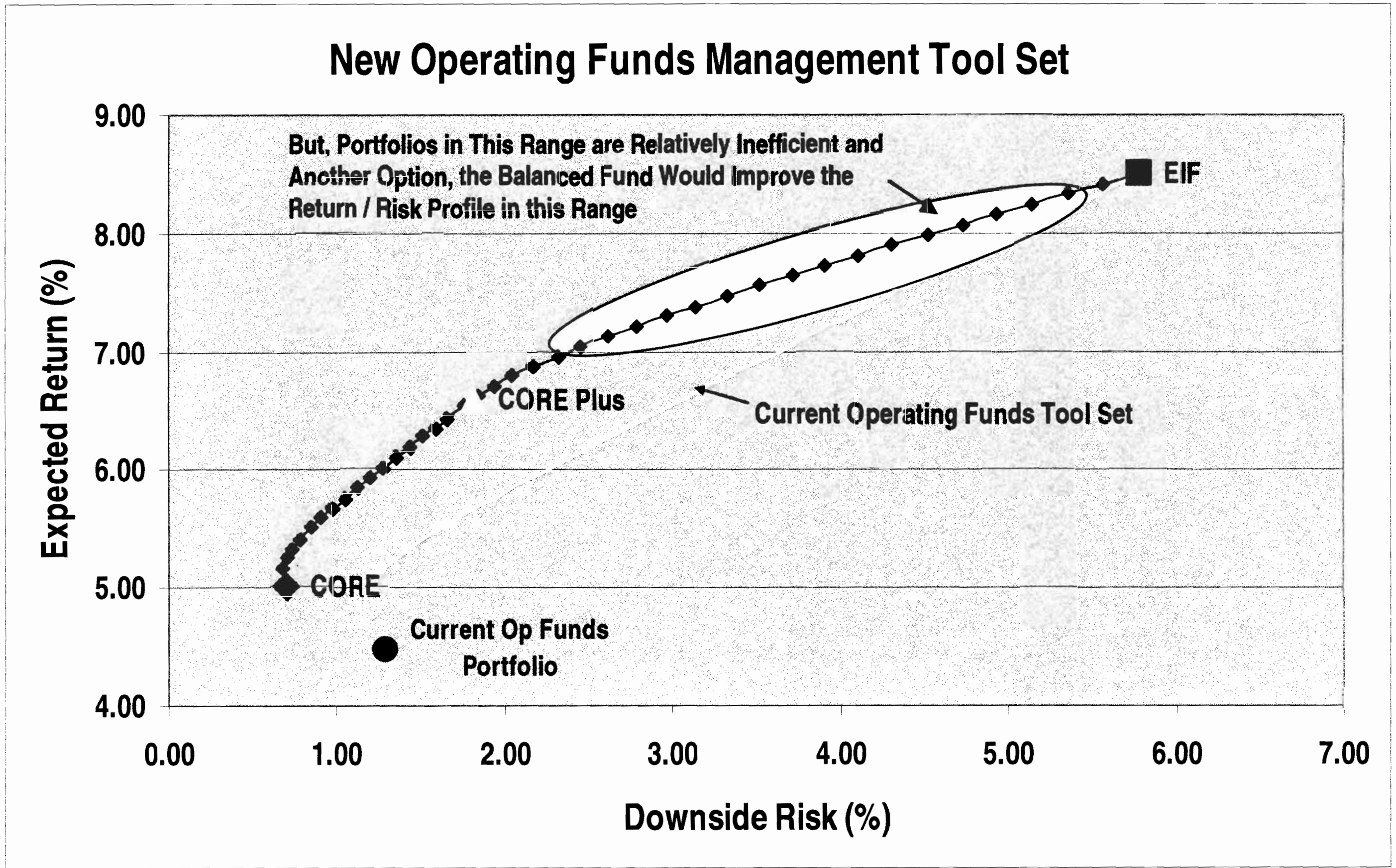
- Had the CORE strategy using the Portfolio 14 asset allocation been implemented in the operating funds five years ago, and had the CORE funds earned the actual results achieved by other UTIMCO actual portfolios in each asset category, the net benefit would have been:

1999 to 2003 Net Benefit To ($ millions)		
Operating Funds	GEF	Total UT System
$170.0	$1,436.3	$1,606.3

CBO Investment Toolbox With New Funds



CBO Investment Toolbox With New Funds



Process to Develop Balanced Fund Portfolios

Use risk / return assumptions from asset allocation review

Use downside risk framework to determine efficient set of Balanced Fund portfolios

Look for candidate portfolios in the "inefficient range" as defined previously

Select small candidate set for further analysis

Use additional expected return and risk measures to make final selection

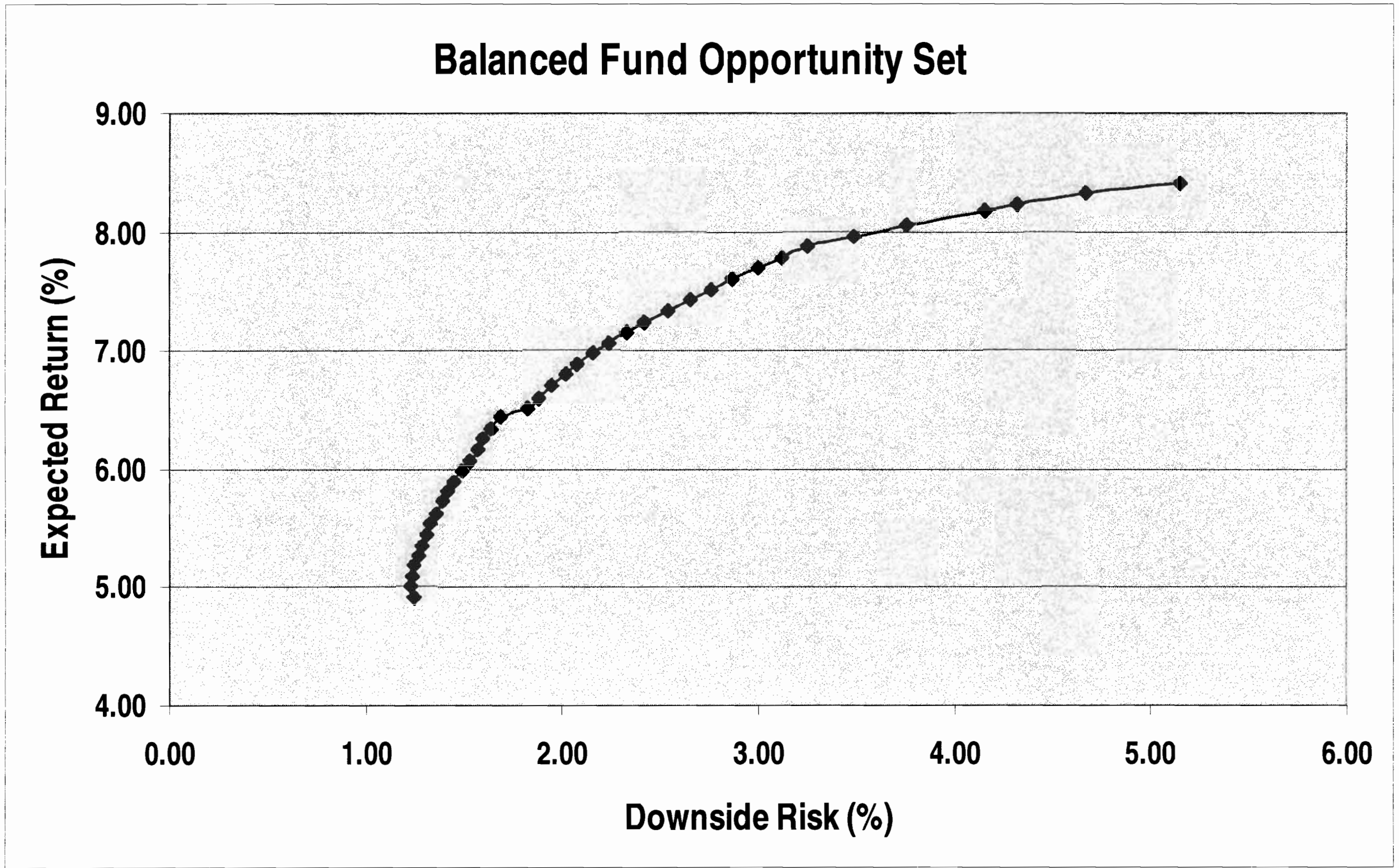
Step-by-step Process

Assumptions and Constraints for Balanced Fund

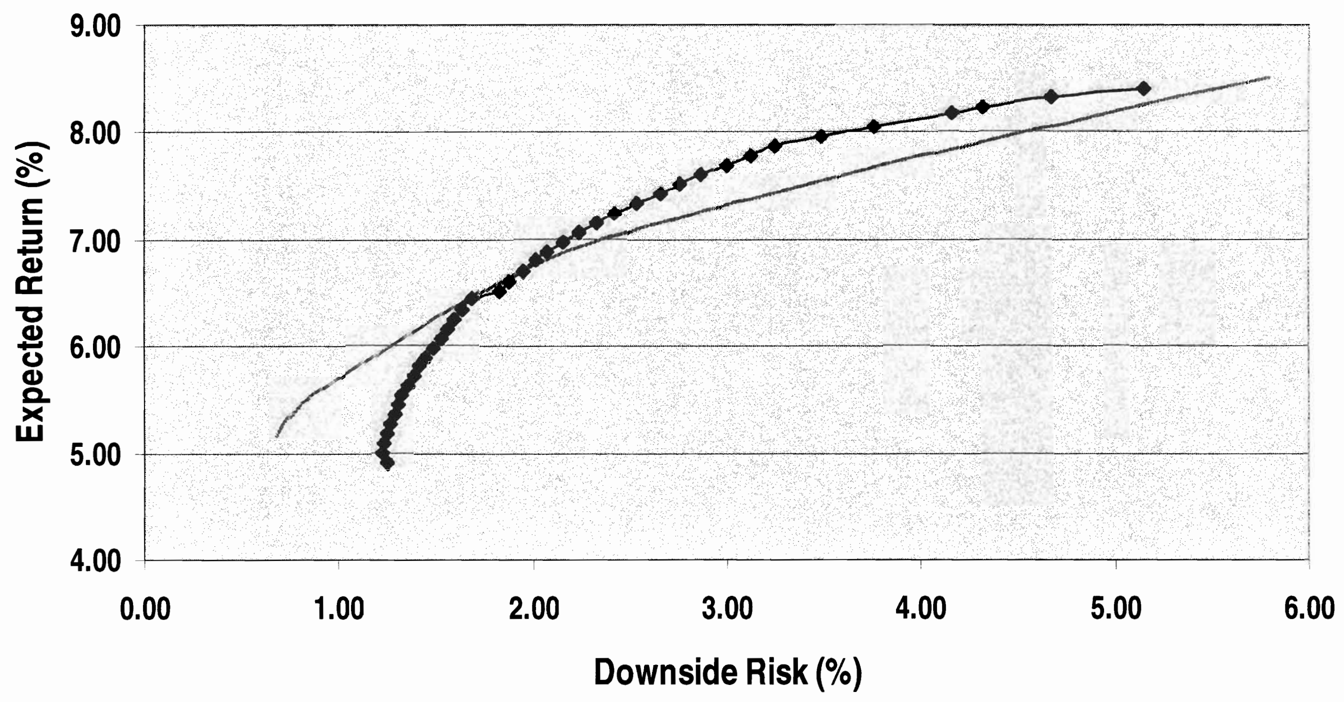
Balanced Fund Candidate Portfolio Set

Asset Categories	Constraints	Expected Return	Standard Deviation
US Equities		8.50%	17.00%
International Equities		8.50%	19.00%
Emerging Markets Equities	Max 10%	11.00%	26.00%
Absolute Return Hedge Funds	Max 15%	7.00%	7.50%
Directional Hedge Funds	Max 10%	8.00%	11.00%
Venture Capital	Exclude	14.00%	30.00%
Private Equity	Exclude	11.50%	20.00%
REITS	Max 15%	7.50%	15.00%
Commodities	Max 5%	5.00%	18.00%
TIPS		5.50%	6.00%
Global Bonds	Min 10%	5.00%	6.00%
Cash		4.00%	1.00%

Process to Develop Balanced Fund



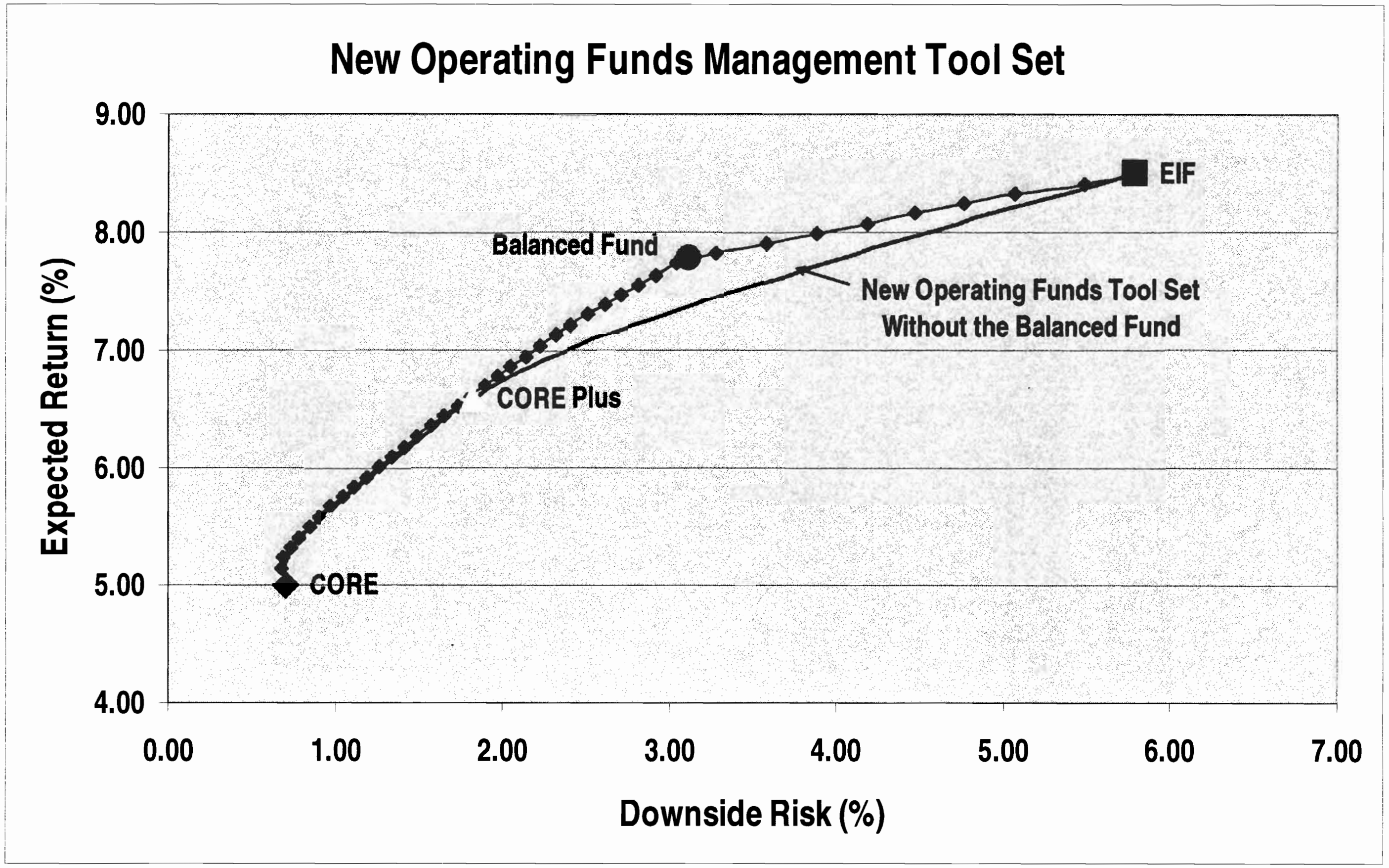
Process to Develop Balanced Fund



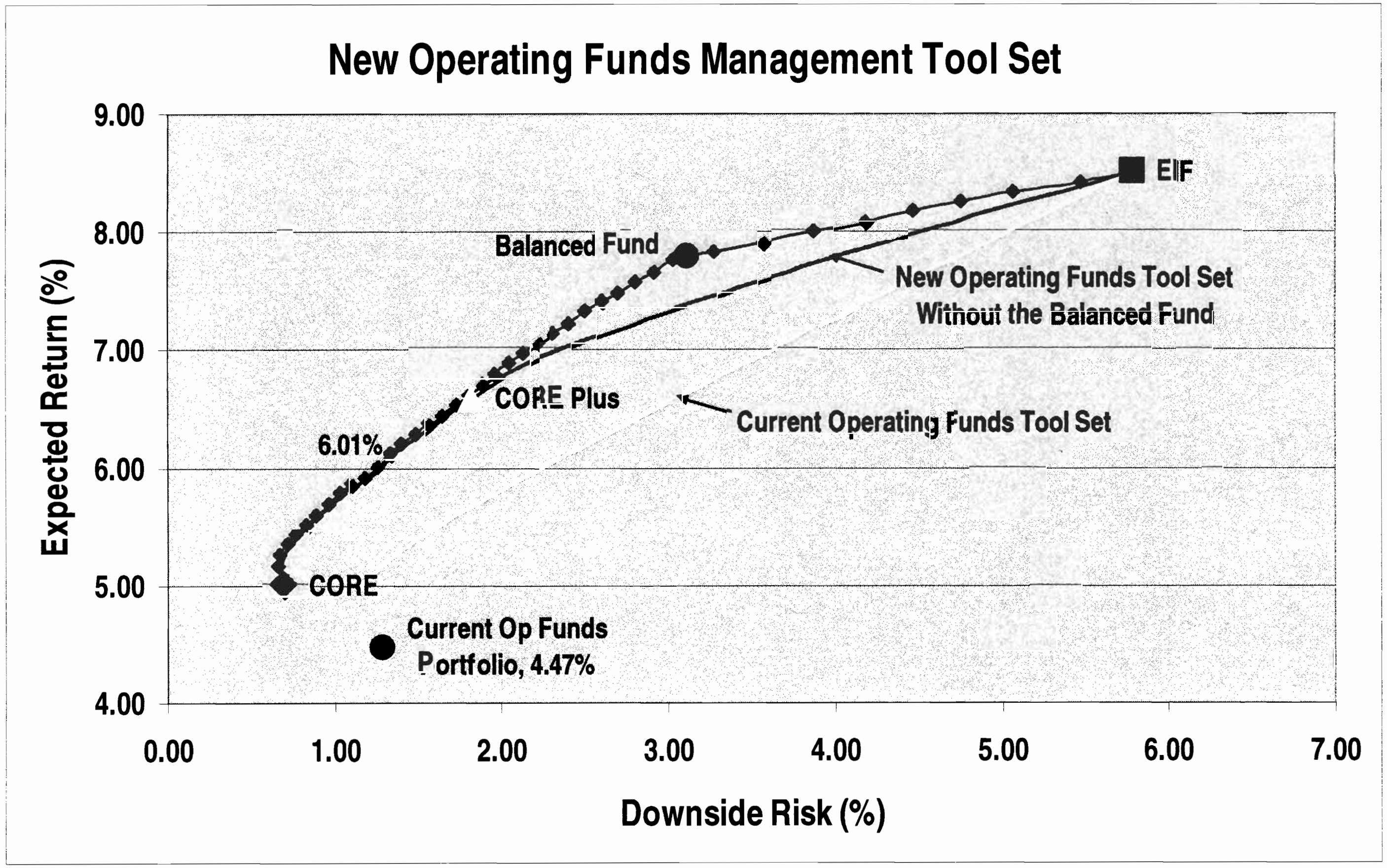
Balanced Fund Portfolio Asset Mix

Balanced Fund Candidate Portfolio Set				Optimal Asset Allocations (% of Portfolio) for Portfolios on the Efficient Frontier								
Asset Categories	Constraints	Expected Return	Standard Deviation	Portfolio 31	Portfolio 32	Portfolio 33	Portfolio 34	Portfolio 35	Portfolio 36	Portfolio 37	Portfolio 38	Portfolio 39
US Equities		8.50%	17.00%	24	28	31	35	33	31	29	42	61
International Equities		8.50%	19.00%	4	4	3	2	11	19	29	22	11
Emerging Markets Equities	Max 10%	11.00%	26.00%	10	10	10	10	10	10	10	10	10
Absolute Return Hedge Funds	Max 15%	7.00%	7.50%	15	15	15	15	12	9	5	3	2
Directional Hedge Funds	Max 10%	8.00%	11.00%	10	9	9	9	9	10	10	8	4
Venture Capital	Exclude	14.00%	30.00%	0	0	0	0	0	0	0	0	0
Private Equity	Exclude	11.50%	20.00%	0	0	0	0	0	0	0	0	0
REITS	Max 15%	7.50%	15.00%	15	15	15	15	12	9	5	4	2
Commodities	Max 5%	5.00%	18.00%	0	0	0	0	0	0	0	0	0
TIPS		5.50%	6.00%	6	5	5	4	3	2	2	1	0
Global Bonds	Min 10%	5.00%	6.00%	16	14	12	10	10	10	10	10	10
Cash		4.00%	1.00%	0	0	0	0	0	0	0	0	0
Expected Return>				7.60%	7.69%	7.78%	7.87%	7.96%	8.05%	8.17%	8.23%	8.32%
Standard Deviation>				9.41%	9.79%	10.17%	10.60%	11.28%	12.02%	13.11%	13.51%	14.36%
Downside Deviation>				2.87%	3.00%	3.12%	3.25%	3.49%	3.76%	4.16%	4.32%	4.67%
Incremental Expected Return / Incremental Standard Deviation>				0.2360	0.2362	0.2362	0.2078	0.1332	0.1208	0.1100	0.1506	0.1060
Incremental Expected Return / Incremental Downside Deviation>				0.6818	0.6923	0.7500	0.6923	0.3750	0.3333	0.3000	0.3750	0.2571

Adding the Balanced Fund Improves the CBO Operating Funds Tool Set



The Complete New Operating Funds Management Tool Set

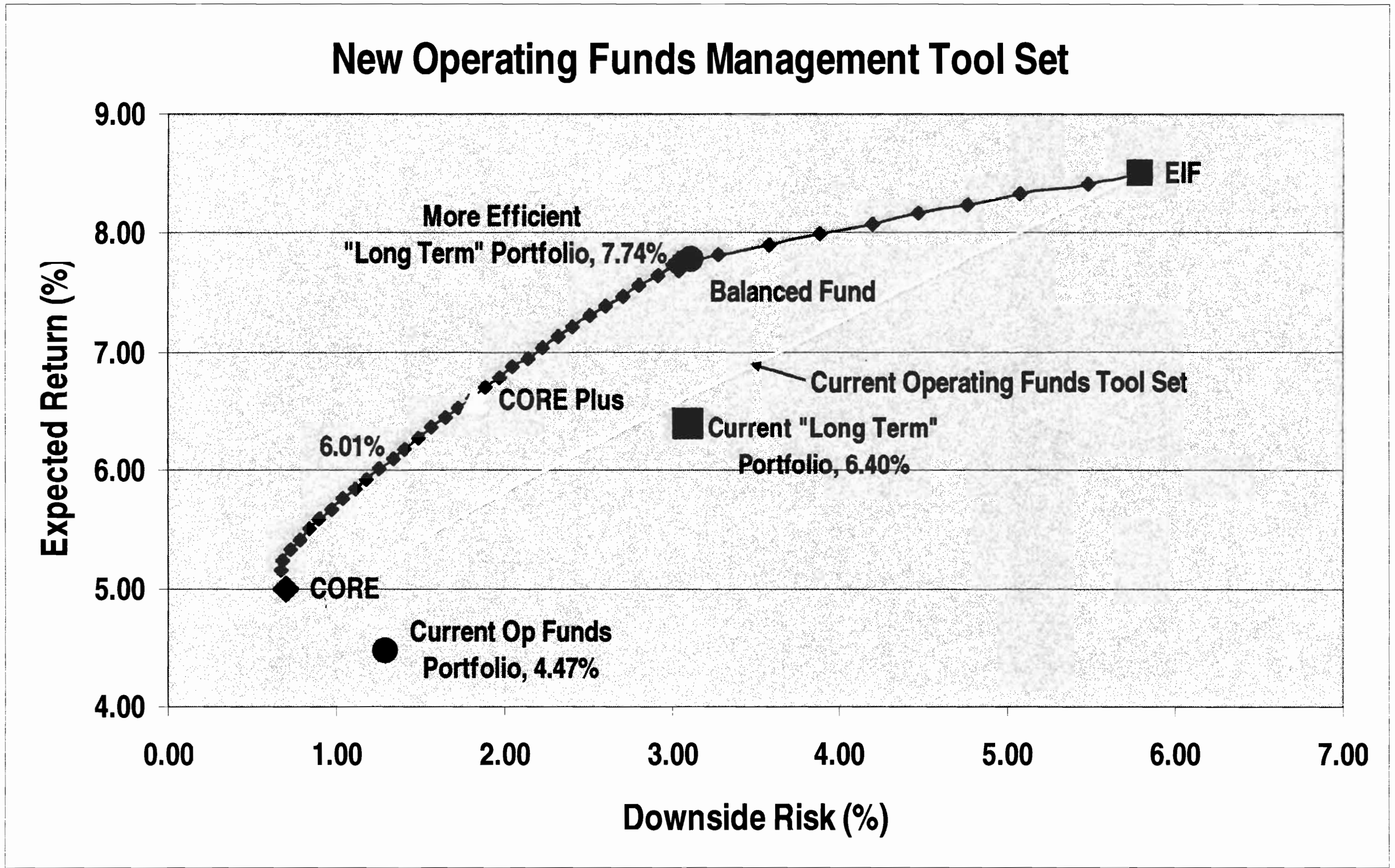


Expected Net Benefit of Implementing Balanced Portfolio

For the Selected Balanced Portfolio Allocation	
Simulation Results	**5 Year Net Benefit To The Operating Funds ($ millions)**
High 10th Percentile	$144.1
High 25th Percentile	96.1
Median	37.9
Low 25th Percentile	(11.5)
Low 10th Percentile	(57.7)
Lowest Simulation Observation	(299.4)
Past 5 Year Actual	$154.7

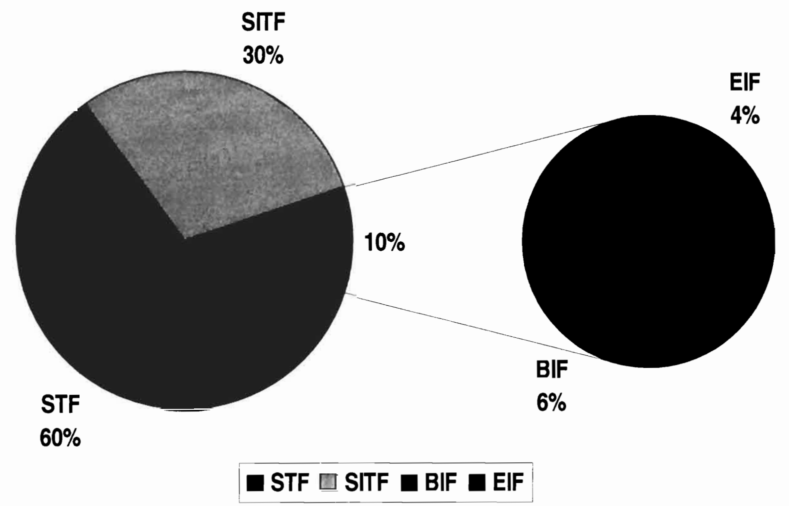
- These numbers are for Portfolio 33 as shown on the previous slides,
- Calculated benefits assume all funds currently invested in the BIF and EIF ($466.7 million) would be invested in the Balanced Fund,
- The actual results this strategy would have achieved over the past five years are much higher than the median projected result as shown above.

Making the Best Use of the New Operating Funds Management Tool Set

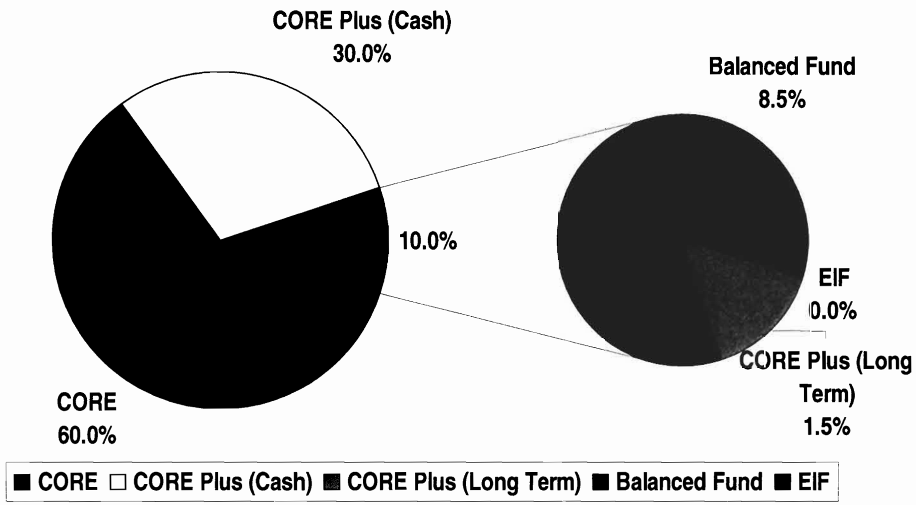


Improving the Efficiency of the Total Operating Funds Portfolio

Current Operating Funds Asset Allocation



New Allocation With New Tool Set



Expected Combined Net Benefit of Implementing The New Operating Funds Tool Set

For the New Tool Set at Current Allocations	5 Year Net Benefit To ($ millions)		
Simulation Results	Operating Funds	GEF	Total UT System
High 10th Percentile	$629.6	$739.3	$1,367.5
High 25th Percentile	474.5	510.4	993.6
Median	294.5	238.7	534.3
Low 25th Percentile	132.2	(12.6)	125.2
Low 10th Percentile	13.3	(213.1)	(207.7)
Lowest Simulation Observation	(443.2)	(960.8)	(1,404.0)

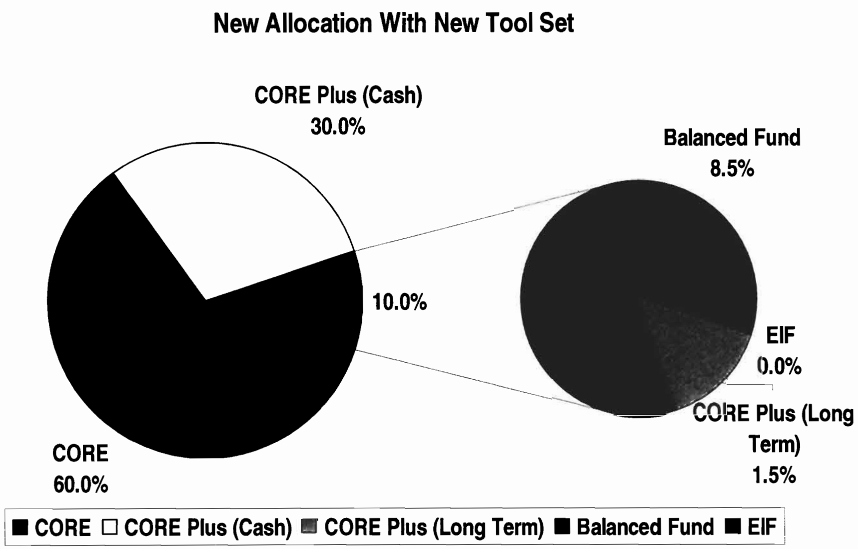
- These benefits assume initial investment of $3.607 billion, with new fund allocations as indicated, calculated relative to the existing fund offerings and allocations,
- The actual benefits this strategy would have achieved over the past five years are much higher than the median projected result shown above ...

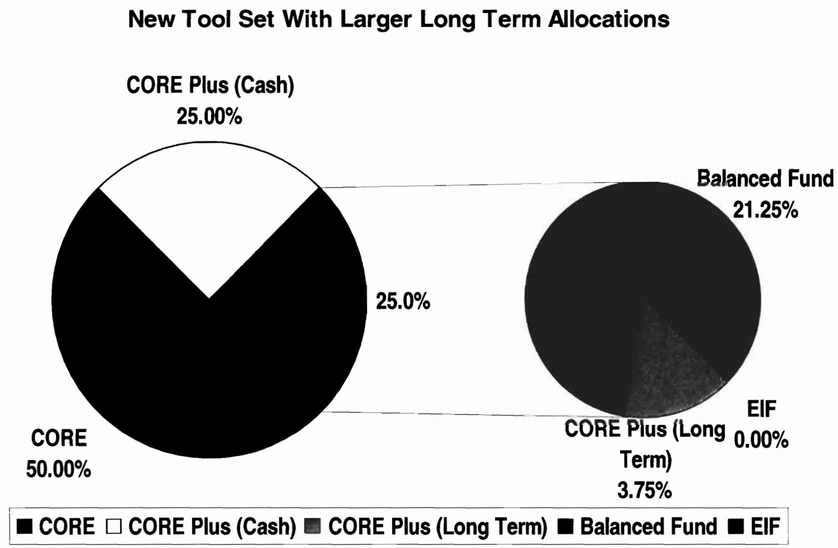
Benefit of Implementing New Tool Set Using Actual Historical Results

- Had the total operating funds portfolio been invested in the CORE, CORE Plus, Balanced Fund, and Equity Index Fund in the proportions indicated, and had the funds earned the actual results achieved by other UTIMCO actual portfolios in each asset category, the net benefit would have been:

1999 to 2003 Net Benefit To ($ millions)		
Operating Funds	**GEF**	**Total UT System**
$748.2	$1,032.5	$1,780.8

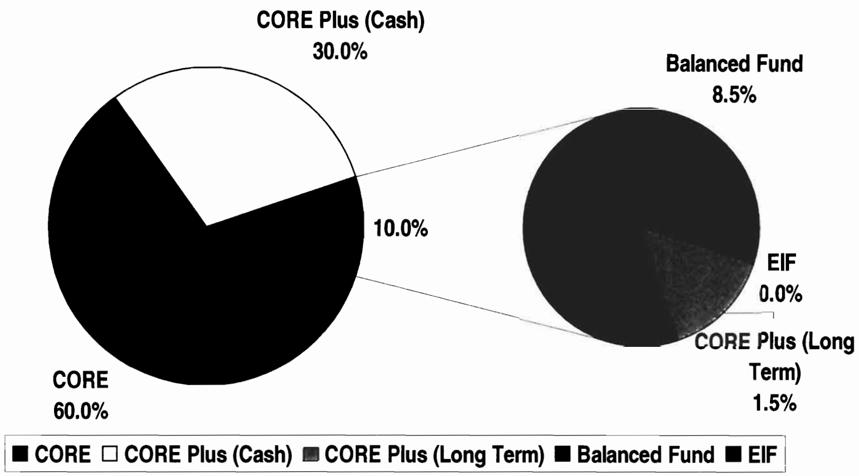
One Final Improvement





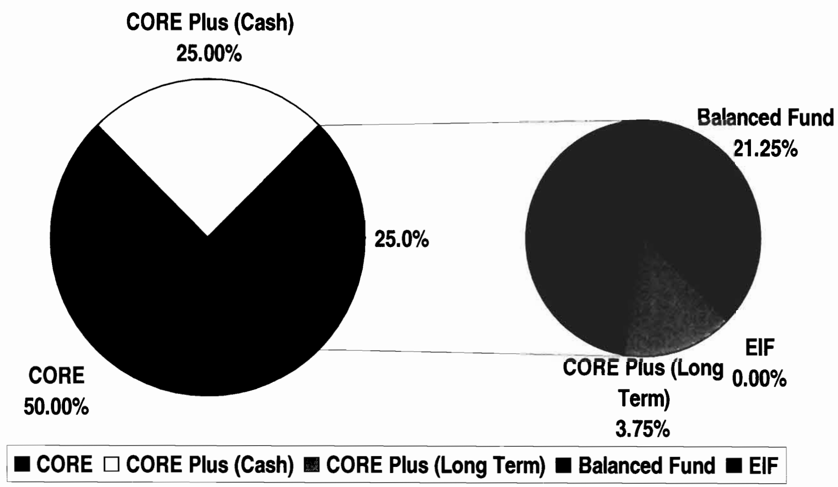
Expected Benefit of Final Improvement

New Allocation With New Tool Set



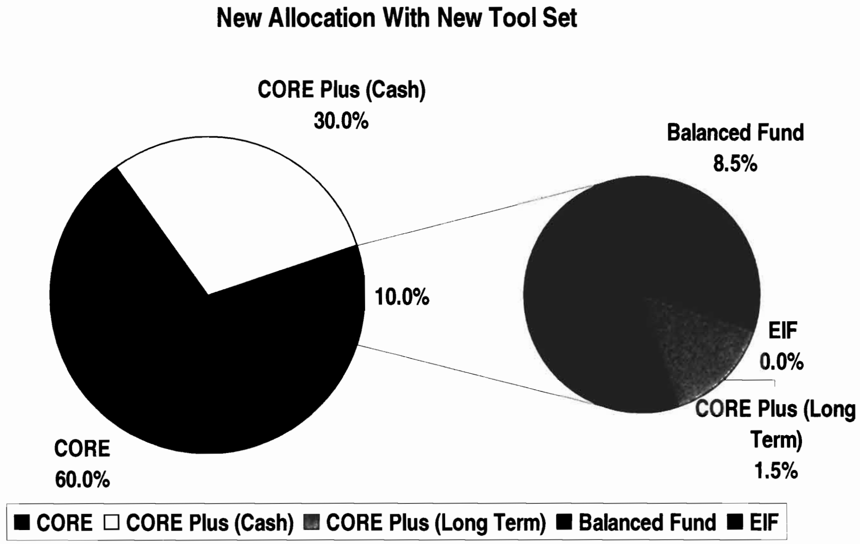
For the New Tool Set at Current Allocations	5 Year Net Benefit To ($ millions)		
Simulation Results	Operating Funds	GEF	Total UT System
High 10th Percentile	$629.6	$739.3	$1,311.0
High 25th Percentile	474.5	510.4	952.6
Median	294.5	238.7	512.2
Low 25th Percentile	132.2	(12.6)	120.0
Low 10th Percentile	13.3	(213.1)	(199.1)
Lowest Simulation Observation	(443.2)	(960.8)	(1,346.1)

New Tool Set With Larger Long Term Allocations

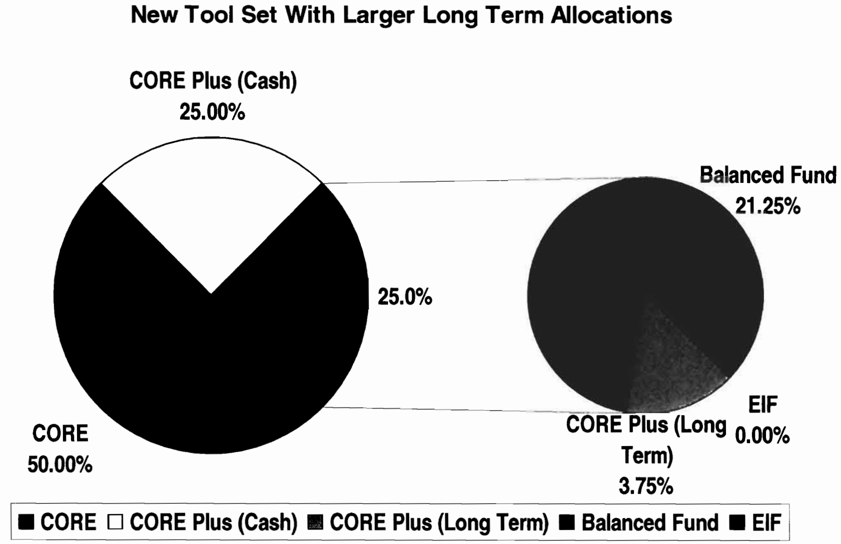


For the New Tool Set at Revised Allocations	5 Year Net Benefit To ($ millions)		
Simulation Results	Operating Funds	GEF	Total UT System
High 10th Percentile	$842.6	$590.7	$1,446.0
High 25th Percentile	603.5	407.8	1,018.9
Median	344.5	190.7	537.2
Low 25th Percentile	114.5	(10.0)	104.7
Low 10th Percentile	(53.0)	(170.3)	(225.7)
Lowest Simulation Observation	(669.3)	(767.6)	(1,436.9)

Benefit of Final Improvement Using Historical Data



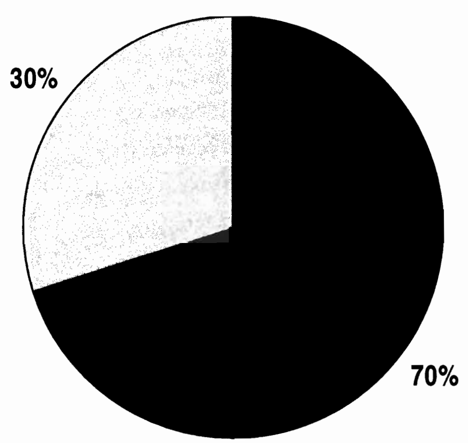
1999 to 2003 Net Benefit To ($ millions)		
Operating Funds	GEF	Total UT System
$748.2	$1,032.5	$1,707.3

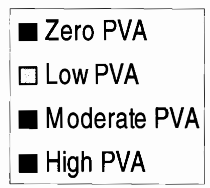


1999 to 2003 Net Benefit To ($ millions)		
Operating Funds	GEF	Total UT System
$863.2	$860.4	$1,723.7

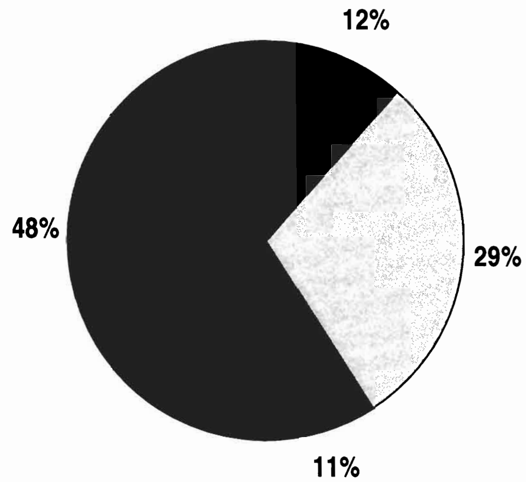
An Added Benefit Not Included in Any Projections: Enhanced PVA

PVA in Current Operating Funds Alternatives





PVA in New Operating Funds Alternatives



Transition Issues

- It will take some time for us to establish hedge fund positions which will total $1.4 billion. We may need to consider the use of hedge funds of funds at least temporarily to get sufficient capacity.
- We may use index fund or derivatives positions in US and International equities initially in order to get exposure until we can get the active manager lineup we want.
- We may need to phase in the guarantee over the first year while we are building the CORE portfolio.
- We will need to decide if we want to close out the Dreyfus money market fund and manage the cash portion of the portfolio internally.
- We will need to have discussions with the rating agencies to make sure that they do not have any issues that might affect our bond ratings.
- This is a tricky part of the market cycle to implement this approach. An unfortunate "event" right out of the gate could undermine confidence.

Strategic Issues

- Unless the PUF is also included in the CORE guarantee swap, the performance of the GEF will differ from the PUF, possibly by a large margin
- Because the CORE guarantee is an exposure the PUF would not have, the policy allocation of the other assets in the GEF should be different than the PUF
- Investing operating funds in the Balanced and CORE funds will reinforce the appearance that these funds are really quasi endowment type funds rather than true operating funds
- The CORE and Balanced Funds should substantially enhance the image of UTIMCO in the eyes of the CBO's, but visibility will be high … any stumbles will be very visible as well

Advantages

- Significantly enhanced returns for a large System asset
- Greater flexibility in investment options for the CBO's
- Allows System to continue CBO control of operating funds while also gaining investment efficiency
- Transfer pricing of return guarantee in the CORE Fund provides flexibility for the Regents
- Will focus attention on the issue of what part of the operating funds are "operating" versus "permanent"
- Significantly enhances PVA opportunities

Disadvantages

- This is a Unique Strategy … We Know of No One Else Taking This Approach
- The Operating Fund Portfolio Would Have “Optics” Problems … Holding Hedge Funds, Commodities (GSCI) Futures, and Equities Positions
- The CORE Fund Portfolio Would Have a Large Percentage of Relatively Illiquid Positions
- “Transfer Pricing” of Swap Terms Offers Flexibility for the Board of Regents, but Also Could Invite Criticism
- We Did Not Include the CORE Fund in the Recently Completed Asset Allocation Review

Current Status

- CBO's are Enthusiastic and Anxious for Better Alternatives
- V&E has Offered an Opinion That a Swap Would Meet Legal Criteria for GEF (PUF is also a Possibility, but no Opinion from V&E)
- Extensive Simulation Work for Determining Asset Allocation has Been Completed
- Operational Details Have been Researched
- Exploratory Work on Assembling a Hedge Fund Lineup is Underway
- We could Have the Funds Operational in 3 to 6 Months

TAB 6

Agenda Item
UTIMCO Board of Directors Meeting
April 8, 2004

Agenda Item:	Update on UTIMCO's venture capital strategy
Developed By:	UTIMCO Staff
Presented By:	McMahon / Thompson
Type of Item:	Information Item
Description:	Presentation and discussion of UTIMCO's strategic efforts to increase exposure to venture capital in order to take advantage of current market opportunities.
Recommendation:	No recommendation required.
Discussion:	Venture capital currently represents 1.5% of the endowments (relative to a 6% target allocation). Given attractive current market fundamentals, the staff is targeting specific strategies to increase the endowments' venture capital exposure closer to the 6% target.
Reference:	None

UTIMCO

The University of Texas Investment Management Company

Update on UTIMCO's Venture Capital Strategy

Efforts to Increase Exposure and Target Top-Tier Firms

April 8, 2004

Presentation Overview

- Target allocations for Non-Marketable Alternatives
- Actual allocations as of 2/29/04
- Current venture capital industry fundamentals
- Competitive landscape for investors like UTIMCO
- Potential tactics for increasing venture exposure
- Conclusions

Target allocations for Non-Marketable Alternatives

- UTIMCO Staff, Board, and the BoR recently affirmed the 15% target allocation for Non-Marketable Alternatives
  - 9% for U.S. and European buyouts, distressed debt, and opportunistic funds
  - 6% for U.S. venture capital
- Allocations are consistent with UTIMCO's focus on value added investing
- Private equity assets provide return and diversification benefits to a large portfolio

Actual allocations as of 2/29/04

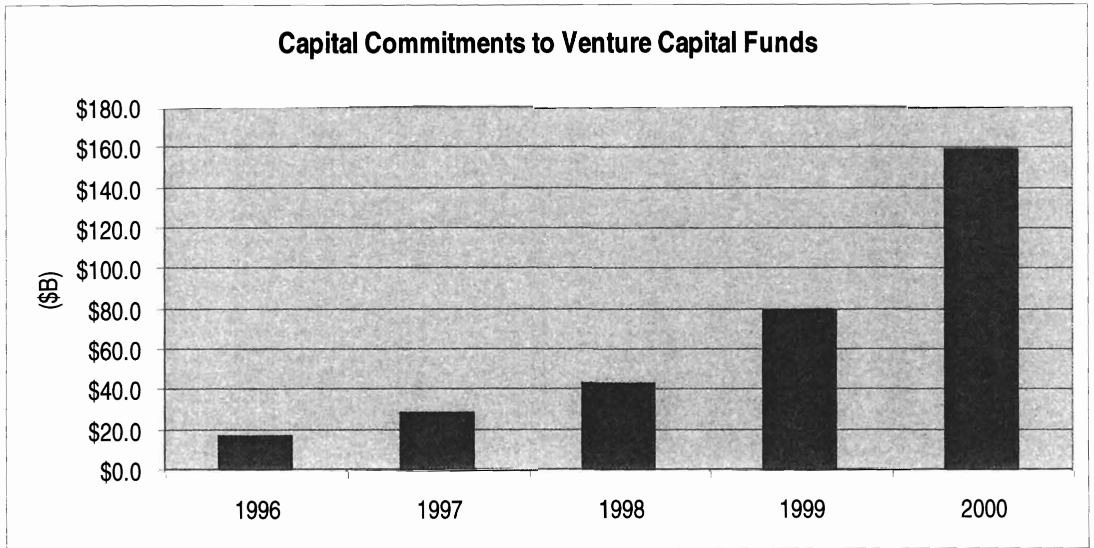
- Endowments have achieved their target private equity allocation, but remain under-allocated to venture capital

($MM)	2/29/04 Actual	Long Term Target	Change
VC Market Value	$173	$748	$575
% of PUF/GEF	1.4%	6.0%	4.0x
PE Market Value	$1,130	$1,122	($8)
% of PUF/GEF	9.1%	9.0%	1.0x

- Conclusion: Staff needs to increase venture exposure to meet targets
  - $254.6 million of unfunded commitments will help bridge the gap, however…
  - Staff will have to make additional commitments to reach 6% target

Current venture capital industry fundamentals

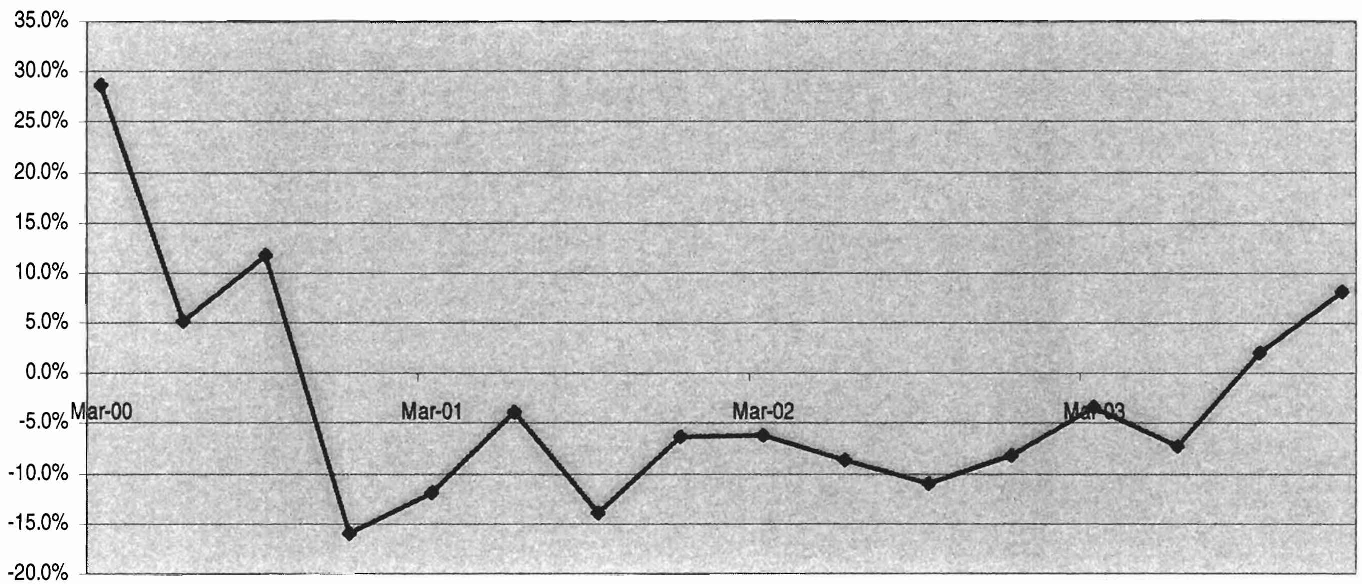
- Venture capital firms generated enormous returns for investors in the late 1990s
  - 1996 median return: 36%
  - 1996 top quartile return: 96%
- These returns attracted significant amounts of new capital to the asset class, reaching a peak of $158 billion in 2000



Current venture capital industry fundamentals

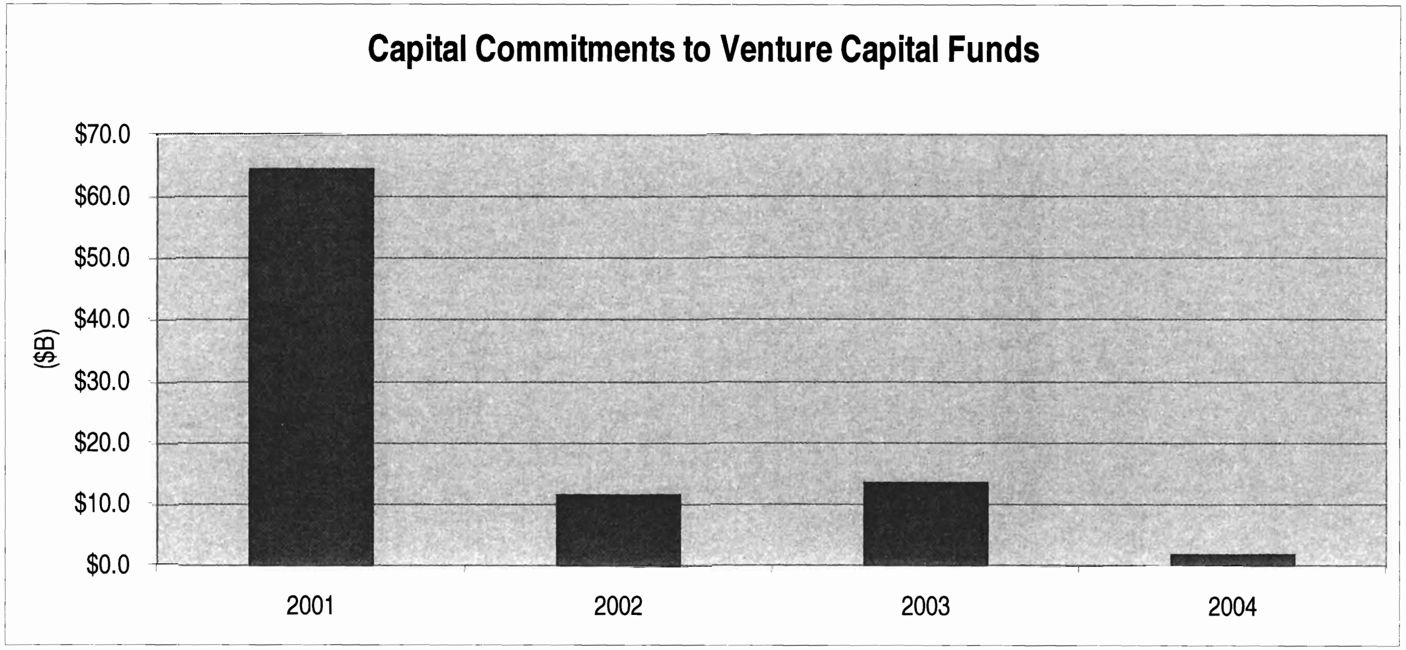
- Then the Bubble Burst

Venture Capital Quarterly IRRs



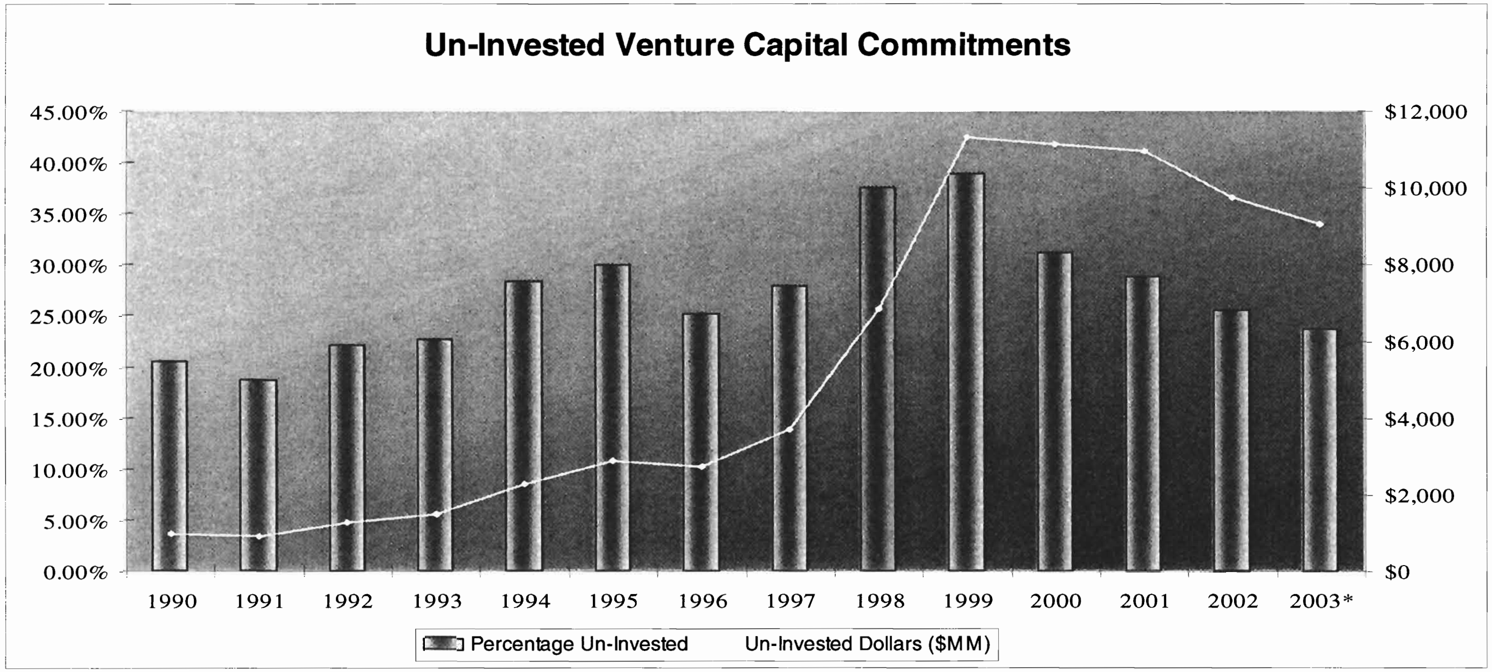
Current venture capital industry fundamentals

- As a result, the venture capital market contracted…



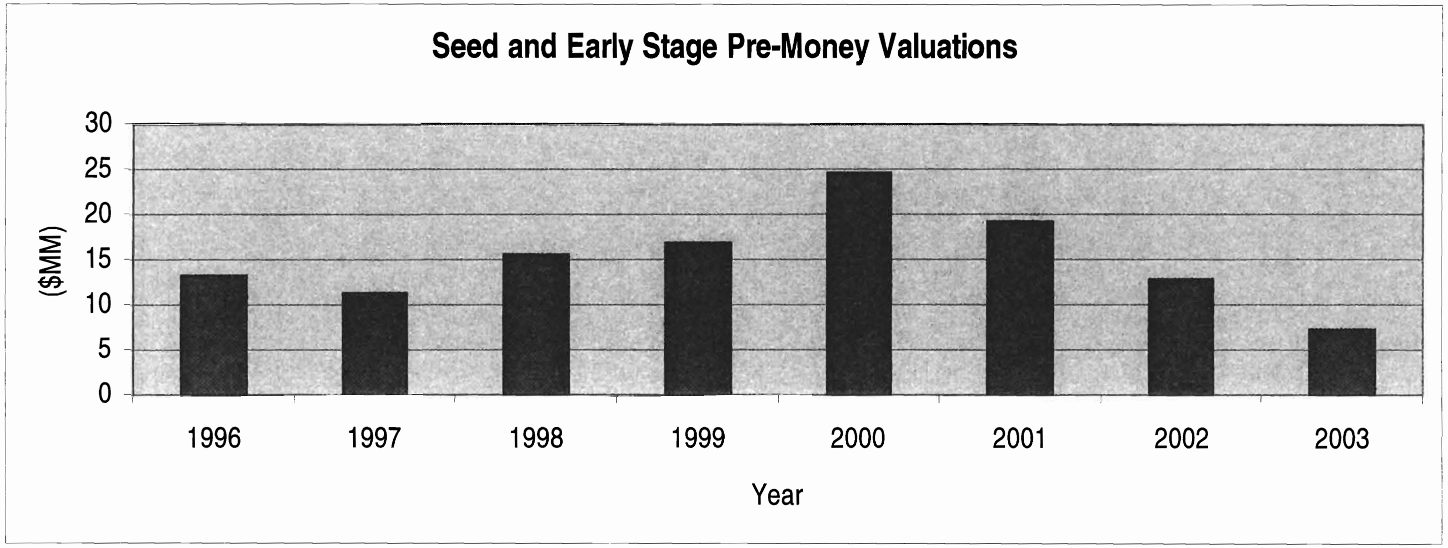
Current venture capital industry fundamentals

- And the capital “overhang” has slowly begun to decrease



Current venture capital industry fundamentals

- Valuations are now at their lowest levels in years

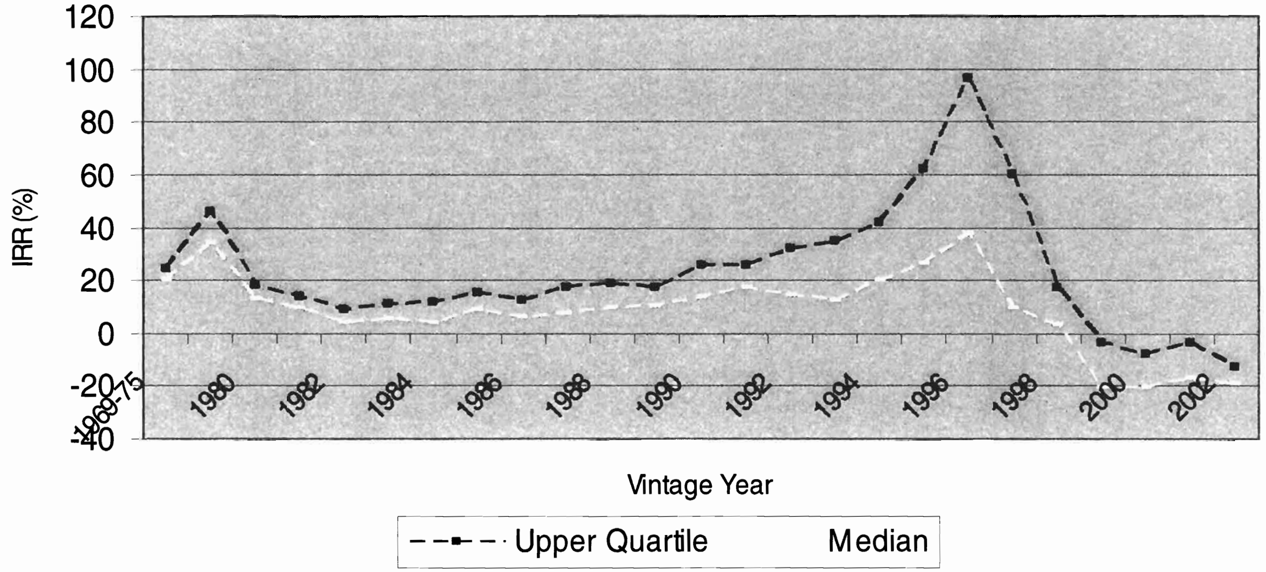


- In summary, the current fundamentals support an increase in exposure to venture capital investments

Competitive landscape for investors like UTIMCO

- To increase venture capital exposure, staff will target funds that can generate top quartile returns

Historical Spread Between Top Quartile and Median IRR



Competitive landscape for investors like UTIMCO

- However, competition for top funds will be intense
  - Fund sizes will shrink
    - Austin Ventures VIII was $1.5 billion…Austin Ventures IX will be $500 million
    - Existing LPs will fight for allocations
    - New LPs will compete for coveted new spots
  - Existing institutional investors are increasing their allocations
    - State pension funds- CalPERS
    - Corporate funds- GM
  - New investors are entering the market
    - State pension funds- Maryland and North Carolina
    - International investors from Europe and Asia

Competitive landscape for investors like UTIMCO

- Disclosure of fund level performance continues to gain acceptance within the VC community, albeit slowly
  - A handful of other LPs are now disclosing
  - GPs are gaining comfort that portfolio company data will not be disclosed
  - However, some funds will likely exclude UTIMCO for FOIA reasons
- Summary:
  - Industry fundamentals support additional venture commitments
  - Competition for top quality firms will be intense
  - To gain exposure to best venture opportunities, staff will have to use creative tactics

Potential tactics for increasing venture exposure

- Primary commitments
- Secondary purchases
- Fund-of-funds commitments
- Swap arrangements

Potential tactics for increasing venture exposure

- Primary commitments
  - Traditional commitments to new venture partnerships
    - $10-$50 million commitments to new or existing relationships
    - Deal flow remains strong- staff sees 80-100 VC opportunities per year
    - Staff is actively marketing UTIMCO to top firms to gain access
    - Opportunity to re-invest with existing relationships
  - Benefits
    - Execution is straightforward
    - Staff and UTIMCO Board are familiar with the process
  - Drawbacks
    - 3-5 year investment cycle provides a gradual increase in VC exposure
    - Competition for top funds is intense

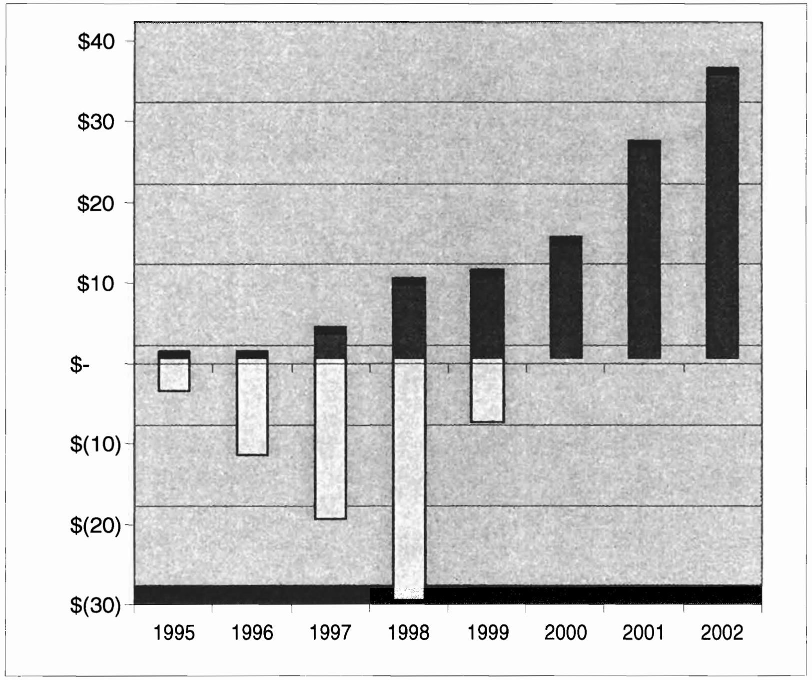
Potential tactics for increasing venture exposure

- Secondary purchases
  - What is a secondary interest?
    - Just another LP interest in an existing VC fund
    - UTIMCO would purchase existing holdings and make future capital calls
    - Sellers include corporations, financial institutions, and HNW individuals
    - Reasons for sales: liquidity needs and portfolio re-balancing
  - Benefits
    - Good visibility into the value of assets being purchased
    - Immediate increase in VC exposure for UT funds
    - Can often purchase LP interests at a discount to NAV
    - Buying mid-way into partnership life cycle can enhance IRR by 200-300 bps
  - Drawbacks
    - Logistical challenges: GP approval of transfer; right of first offers
    - Secondary firms have raised significant capital to exploit secondary opportunities

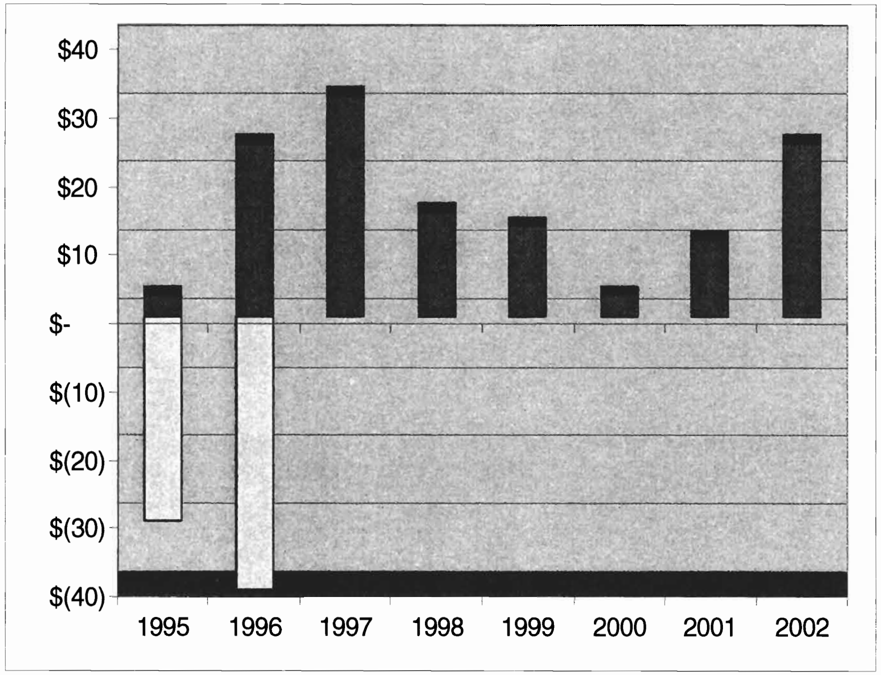
Potential tactics for increasing venture exposure

- Cash flow characteristics of secondary interests

Typical Primary Partnership Interest



Typical Secondary Partnership Interest



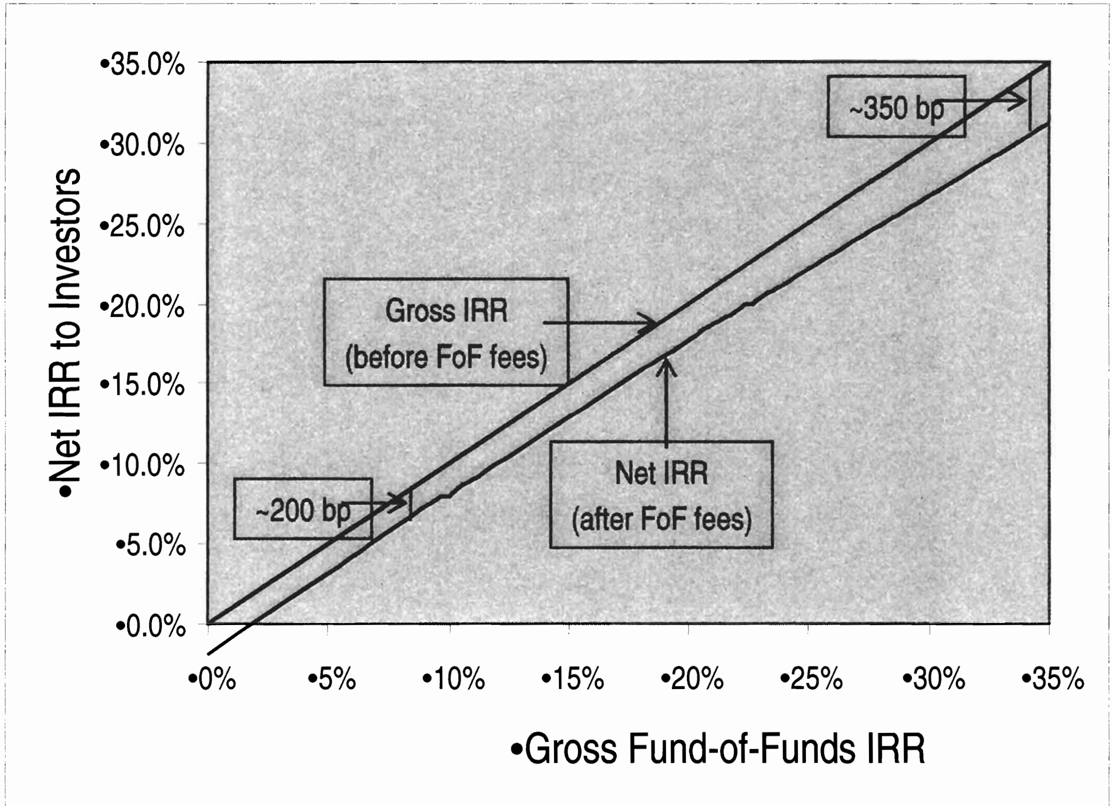
Contributions Distributions

Potential tactics for increasing venture exposure

- Fund-of-funds commitments
  - What is a fund-of-funds?
    - A partnership formed to invest in other partnerships
  - Benefits
    - LPs can gain exposure to top-tier VC firms that they would not otherwise access
    - In some instances, LPs can create a “pre-approved list” of target top-tier firms
    - Fund-of-funds can serve as entry point for future primary access
    - Fund-of-funds can be efficient vehicles for accessing small LP interests
  - Drawbacks
    - Extra layer of management fees- 50-100 basis points
    - Extra layer of carried interest- usually 5% of profits

Potential tactics for increasing venture exposure

- What is the impact of the extra layer of management fee and carried interest on a fund-of-funds' IRR?



Potential tactics for increasing venture exposure

- Swap arrangement
  - What is a swap?
    - Transaction between 2 parties wherein one party would agree to pay the other a venture capital return in exchange for receiving a fixed income return
  - Staff is exploring possibilities with investment banks and other intermediaries
  - Benefits
    - Immediate and quantifiable VC exposure
    - Can be structured for a specific time period (2-3 years instead of 10 years)
    - Potentially a "liquid" vehicle
  - Drawbacks
    - New structure makes it difficult to find the counterparty
    - Counterparty risk
    - Price could be prohibitive

Potential tactics for increasing venture exposure

- Potential Swap Arrangements
  - Total Return Swap
    - UTIMCO enters into a swap with another institution that has a high quality venture capital portfolio
    - UTIMCO pays the counterparty a fixed income return plus a spread
    - The counterparty pays UTIMCO its venture capital portfolio return
    - Issues: Swapped VC portfolio needs to be evaluated; shorter-term swap arrangements less attractive; limited potential counterparties
  - Cash Flow Swap
    - UTIMCO enters into a swap with a counterparty
    - UTIMCO pays the counterparty a fixed income return plus a spread
    - The counterparty pays UTIMCO the return on the Venture Economics Index
    - Issues: Difficult to hedge against the Venture Economics Index

Potential tactics for increasing venture exposure

- Strategy: Employ a combination of tactics to increase exposure

($MM)	**Low End**	**High End**
Existing Unfunded Commitments	$50	$150
Primary Commitments	$150	$300
Secondary Purchases	$0	$50
Fund of Fund Commitments	$0	$100
Swaps	$0	$150
Total	**$200**	**$750**

- Staff will always focus on quality before quantity
  - Will not add exposure solely to achieve 6% target
  - Incentives are tied to achieving returns that out-perform the market

Conclusion

- The dynamics are favorable for venture investors
- Competition for top firms will be fierce
- To increase exposure and do so prudently, staff will have to be creative
- Staff will likely employ a combination of tactics
- Quality before quantity

TAB 7

Resolution No. 8

RESOLVED, that the annual distribution amount for the Permanent University Fund be decreased from $348,033,578 to $341,174,270, for fiscal year 2005, effective with the September 1, 2004 distribution and the distribution rate for the Long Term Fund be increased from $0.2645 per unit to $0.2697 per unit, and the Permanent Health Fund remain at current payout rate of $.047 per unit for fiscal year 2005, effective with the November 30, 2004 distributions.

BE IT FURTHER RESOLVED, that the annual distribution amount for the Permanent University Fund and the distribution rates for the Long Term Fund and Permanent Health Fund be approved and adopted by this Corporation's Board of Directors, subject to approval by The University of Texas System Board of Regents.

Agenda Item
UTIMCO Board of Directors Meeting
April 8, 2004

Agenda Item: Approval of Recommended Permanent University Fund distribution amount and the Permanent Health Fund and the Long Term Fund Payout Rates

Developed By: Moeller, Boldt

Presented By: Boldt

Type of Item: Action Required by UTIMCO Board; Action required by U.T. Board of Regents

Description: Each of the Funds' respective Investment Policy Statement provides the guidelines to calculate the distribution amount or rate and provides the spending policy objectives of the Fund. The recommendations for the distribution amount and payout rates are discussed in the attached Recommendation of Distribution Amount and Rates and are based on the Investment Policy Statements.

Recommendation: UTIMCO staff recommends that the UTIMCO Board approve the following for fiscal year ending August 31, 2005:

1) The distribution from the PUF to the Available University Fund be decreased by 1.97% from $348,033,578 to $341,174,270.
2) The distribution rate for the PHF remain at its current rate per unit of $0.047.
3) The distribution rate for the LTF be increased from $0.2645 per to $0.2697.

Reference: Recommendation of Distribution Amount and Rates
Investment Policy Statements

Recommendation of Distribution Amount and Rates

PUF

The PUF Investment Policy states that the annual distribution from the PUF to the AUF shall be an amount equal to 4.75% of the trailing 12 - quarter average of the net asset value of the Fund for the quarter ending February of each fiscal year. Per this formula, the amount to be distributed from the PUF for Fiscal Year 2004-2005 is $341,174,270 as calculated below:

Quarter Ended		Net Asset Value
5/31/01	$	7,749,573,154
8/31/01		7,540,148,091
11/30/01		7,079,157,437
2/28/02		7,114,025,229
5/31/02		7,303,322,636
8/31/02		6,738,274,515
11/30/02		6,397,124,818
2/28/03		6,299,971,921
5/31/03		6,850,946,583
8/31/03		7,244,827,576
11/30/03		7,655,088,067
02/29/04		8,218,934,425
	$	86,191,394,452
Number of Quarters		12
Average Net Asset Value	$	7,182,616,204
Distribution Percentage		4.75%
FY 2004-05 Distribution	**$**	**341,174,270**

Article VII, Section 18 of the Texas Constitution requires that the amount of distributions to the AUF be determined by the U. T. Board of Regents in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of PUF investments and annual distributions to the AUF. The Constitution further limits the U. T. Board's discretion to set annual PUF distributions to the satisfaction of three tests:

1. The amount of PUF distributions to the AUF in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on PUF bonds and notes. The proposed distribution of $341,174,270 is substantially greater than PUF Bonds Debt Service of $119,050,836 projected for FY 2004-2005.

System		**Debt Service**
U. T.	$	84,167,084
TAMU		34,883,752
Total	$	119,050,836

Sources: U. T. System Office of Finance
Texas A&M University System Office of Treasury Services

2. The U. T. Board may not increase annual PUF distributions to the AUF (except as necessary to pay PUF debt service) if the purchasing power of PUF investments for any rolling 10-year period has not been preserved. As the schedule below indicates, the average annual increase in the rate of growth of the value of PUF investments (net of expenses, inflation, and distributions) for the trailing 10-year period ended February 29, 2004 was 3.86%.

Average Annual	Percent
Rate of Total Return	9.85%
Mineral Interest Receipts	1.25%
Expense Rate	(0.12)% (1)
Inflation Rate	(2.41)%
Distribution Rate	(4.71)%
Net Real Return	**3.86%**

(1) Paid from AUF until 1/01/00

In dollars, the preservation of purchasing power compares the current value of the PUF as of February 29, 2004 with the value of the PUF ten years ago increased by the rate of inflation over the same period. The purchasing power in dollars is $2,534.1 million determined by comparing the PUF's value of $8,218.9 million as of February 29, 2004 with the trailing ten year PUF value of $5,684.8 million.

3. The annual distribution from the PUF to the AUF during any fiscal year made by the U. T. Board may not exceed an amount equal to 7% of the average net fair market value of PUF investment assets as determined by the U. T. Board, (except as necessary to pay PUF bonds debt service). The annual distribution rate calculated using the trailing 12 - quarter average value of the PUF is within the 7% maximum allowable distribution rate.

Value of PUF Investments (1)	Proposed Distribution	Proposed Distribution as a % of Value of PUF Investments	Maximum Allowed Rate
$7,182,616,204	$341,174,270	**4.75%**	7.00%

(1) Source: UTIMCO

LTF AND PHF

The spending policy objectives of the PHF and LTF are to:

A. provide a predictable stable stream of distributions over time;
B. ensure that the inflation adjusted value of the distributions is maintained over the long-term; and
C. ensure that the inflation adjusted value of the assets of the PHF and the LTF, as appropriate, after distributions is maintained over the long-term.

The spending formula under the Long Term Fund (LTF) Investment Policy and the Permanent Health Fund (PHF) Investment Policy increases distributions at the rate of inflation subject to a distribution range of 3.5% to 5.5% of the average market value of the LTF assets and PHF assets for each fund's respective trailing twelve fiscal quarters. The Board of Regents has full authority to alter distributions rates at their sole discretion.

We are recommending a 2.0% increase in the LTF distribution rate from $0.2645 to $0.2697 per unit. The increase is recommended based on the LTF's Investment Policy to increase the distributions by the average rate of inflation for the trailing twelve quarters. The LTF's average distribution rate calculated using the prior twelve quarter average value of the LTF is 5.2%, within the range of 3.5% to 5.5% set forth in the LTF Investment Policy. The increase in the consumer price index for the prior three years as of November 30, 2003, was 2.0%.

We are recommending that the PHF rate of $.047 remain unchanged for fiscal year 2005. The PHF's net asset value of $785.6 million at November 30, 2003 is less than the original PHF contributions of $820.0 million due to difficult financial markets since its inception. As a consequence, the recommendation is to depart from the spending formula and not to increase the PHF rate of $0.047 per unit for fiscal year 2005. The PHF's average distribution rate calculated using the prior twelve quarter average value of the PHF is 5.1%, within the range of 3.5% to 5.5% set forth in the PHF Investment Policy.

TAB 8

Agenda Item
UTIMCO Board of Directors Meeting
April 8, 2004

Agenda Item: Discussion and consideration of Proposed Restatement of Historical Endowment Policy Portfolio Return

Developed By: Moeller, McMahon, Hill

Presented By: Boldt, Moeller, Hill

Type of Item: Information Item

Description: The reasonableness of the Endowment Policy Portfolio (EPP) has been questioned by the State Auditors as well as others. The State Auditors report, *A Report Comparing Texas's Five Largest Long-Term Investment Funds*, issued February 2003, noted that the PUF and LTF usually underperformed when compared with the returns of their policy index. In response in the comment section, Bob Boldt stated that UTIMCO would attempt to deal with the technical benchmark issues which would result in more accurate performance comparisons in the future. Therefore, we have completed a thorough review of the asset class weights and benchmarks used in the establishment of the EPPs. The overall issues were:

- Using the target weights approved by the UTIMCO Board without regard to a phase-in period.
- Establishing the same target weights for the PUF and GEF/LTF without consideration that the PUF was not managed as a total return fund prior to November 1999.
- Appropriateness of the benchmark for Private Capital
- Timing of availability of Venture Economics data to use as the benchmark for Private Capital.

Recommendation: Staff recommends that the UTIMCO Board concur with the restatement of the EPPs and recognize the two separate restated EPPs as the proper benchmark to measure the performance of the PUF and the GEF (LTF and PHF) against, respectively.

Discussion: A detailed analysis of the restatement of the EPPs is attached. Over the past several months, staff has worked to resolve the technical problems related to historical data comprising the EPPs. During this process, staff also determined an acceptable way to use the Venture Economics data.

During the meeting, we will also discuss the new asset allocation approved in December and its phase-in.

Reference: Proposed Restatement of Endowment Policy Portfolios

Restatement of Endowment Policy Portfolios

The Endowment Policy Portfolios (EPPs) are the policy index or benchmarks that the returns of the Permanent University Fund (PUF), the General Endowment Fund (GEF), the Long Term Fund (LTF), and the Permanent Health Fund (PHF) are measured against. Prior to the restatement, all of the Funds were measured against the same EPP. The EPPs are calculated by summing the neutrally weighted index returns. The neutrally weighted index returns are obtained by multiplying the percent weight for the asset class by the benchmark return for the asset class for the various asset classes in the endowment portfolio for the period reported.

The reasonableness of the historical benchmark weights has been questioned by the State Auditors as well as others. The State Auditors report, *A Report Comparing Texas's Five Largest Long-Term Investment Funds*, issued February 2003, noted that the PUF and LTF usually underperformed when compared with the returns of their policy index and briefly discussed the reasons. In response in the comment section, Bob Boldt stated that UTIMCO would attempt to deal with the technical benchmark issues which would result in more accurate performance comparisons in the future. Therefore, we have completed a thorough review of the asset class weights and benchmarks used in the establishment of EPPs. The overall issues with the EPPS were:

- Using the target weights approved by the UTIMCO Board without regard to a phase in period.
- Establishing the same target weights for the PUF and GEF/LTF without consideration that the PUF was not managed as a total return fund prior to November 1999.
- Appropriateness of the benchmark for Private Capital.
- Timing of availability of Venture Economics data to use as the benchmark for Private Capital.

Background:
The EPP return is calculated each month. The EPP return is updated with the actual monthly returns of each of the Board approved benchmarks for the asset classes. However, when the current EPP return was initially calculated in 1997, it used the 1997 approved target rates of the UTIMCO Board approved asset classes and benchmarks as the historical data. The actual monthly returns earned by the indices were used in the EPP. Basically, the historical data for the EPP was back-filled with 1997 targets and the monthly returns earned by the 1997 approved benchmarks. The PUF and LTF used the same back-filled data for the EPP return.

Once the historical data was established for the EPP in 1997, in subsequent periods the EPP was kept up to date with the approved benchmarks and asset class weights as they were changed by the UTIMCO Board and approved as an exhibit to the Investment Policy Statements, except for the Private Capital asset class. As changes were made to the EPP, the EPP was appropriately updated with the actual returns earned by the approved indices. However, when a change occurred in the weight of the target asset class, it was assumed to have happened immediately. There was not a phase in period. For example, if a new asset class for hedge funds with a target weight of 10% was added, the EPP assumed it happened immediately even though it might take several months before the asset class could be added to the Funds' portfolios.

Another issue with the benchmark is the appropriateness of the benchmark used for Private Capital. The current EPP was restated in September 2002 to use the Wilshire 5000 plus 4% as the historic benchmark. In the State Auditor's report, the benchmark was calculated using a benchmark of a flat 17%, which had been the prior standard set by the UTIMCO Board.

Issues:

- Using the target weights approved by the UTIMCO Board without regard to a phase-in period.

Because benchmark changes are reflected immediately in the EPP but actual portfolios change more gradually as investments are made at a measured pace, particularly in the relatively illiquid alternative asset categories, there is often a mismatch between the composition of the benchmark portfolio and actual portfolios, and hence differences in actual versus policy index returns. In periods where the benchmark returns of the illiquid asset category are increasing rapidly relative to other categories in the policy portfolio, the comparison between actual returns and policy portfolio returns will be unrealistically biased in favor of the policy benchmark portfolio return. The combination of these two factors negatively biased return comparisons for both the LTF/GEF and the PUF relative to the policy index.

- Establishing the same target weights for the PUF and GEF/LTF without consideration that the PUF was not managed as a total return fund prior to November 1999.

Before the passage of the constitutional amendment in November 1999, achievement of the PUF's investments objectives was substantially hindered by the inability to make distributions to the Available University Fund on a total return basis. The objective to preserve the purchasing power of the distribution stream subordinated the PUF's allocation among various asset classes to the management of income return. In an environment of low or declining interest rates, a higher than optimal percentage of PUF investment assets were allocated to higher-yielding, fixed income securities in order to maintain distributions on a level-dollar basis.

- Appropriateness of the benchmark for Private Capital.

In the State Auditor's report, the benchmark utilized for Private Capital was an absolute return of 17%. The 17% was established by applying a 400-500 basis point premium to an estimated public markets return of 12%-13%. This static benchmark proved to be problematic given the reality of dynamic public market returns. To improve the benchmark, the Wilshire 5000 plus 4% was implemented in August 2002 to replace the static 17%. Although an improvement over the 17%, the Wilshire 5000 plus 4% is still problematic over shorter periods as a result of the inherent valuation lag between the private markets and the public markets.

During the recently completed Asset Allocation Review process, a new benchmark based on Venture Economics data was approved. The UTIMCO Board approved the use of Venture Economics' Vintage Year Venture Capital Index for the benchmark of Venture Capital and the use of Venture Economics' Vintage year Private Equity Index for Private Equity. At the time of the approval, the UTIMCO Board noted that staff would have to determine the most appropriate way to incorporate the Venture Economics benchmark into the endowment policy portfolio benchmark. The incorporation of Private Capital returns into the overall policy portfolio presents technical challenges due to differences in the methodology used to calculate return. For other asset classes, returns are calculated using the Modified Dietz time-weighted return formula. Because of the nature of cash flows and infrequent valuations, time-weighted return is an inaccurate measure of private capital performance. The standard for measuring private capital performance, Since Inception IRR, cannot be used as part of the endowment policy portfolio benchmark because (i) it is not a time-weighted return measure and (ii) it measures performance over irregular time periods. To resolve this issue, the staff identified Periodic IRR, a measure for private capital performance that approximates a time-weighted return in that it calculates an IRR between two points in time. Venture Economics calculates quarterly Periodic IRR by pooling the cash flows and quarterly valuations from the entire universe of the partnerships it tracks in the combined asset classes. These quarterly returns can be geometrically linked to calculate Periodic IRRs over a longer time period (one year, for example).

Efforts were made to construct custom-weighted Periodic IRR vintage year benchmarks, similar to the custom-weighted Since Inception IRR vintage year benchmark used to measure staff performance for compensation purposes. However, it is not appropriate to measure individual vintage year median returns using Periodic IRR. Quarterly Periodic IRR measures the return resulting from a change in valuation of investments during the quarter plus any cash activity occurring during the quarter. Because many partnerships often hold their investments at cost, the median Periodic IRR for a given vintage is usually 0%. This problem is avoided by pooling the cash flows and valuations of the entire private capital universe and calculating a Periodic IRR on the overall universe. This measure provides the best approximation of asset class performance between two points in time.

While Periodic IRR is not the industry standard for private capital performance, it is the best approximation of time-weighted return for use in the policy portfolio. Since Inception IRR and Periodic IRR provide different insight into performance: the Since Inception IRR benchmark measures staff's ability to select, and allocate capital to, the best funds in a given vintage year. The Periodic IRR benchmark measures the portfolio's performance against the entire universe of alternative non-marketable investments during two specific points in time.

- Timing of availability of Venture Economics data to use as the benchmark for Private Capital.

To incorporate a Private Capital Periodic IRR benchmark into the policy portfolio benchmark, results must be lagged due to the time it takes for Venture Economics to post benchmark results. Final results are available approximately four and one-half months after the quarter-end.

Procedure:

The first part of the process involved rectifying the issue related to using target weights without regard to a phase-in period and the issue of establishing the same target weights for the PUF and GEF/LTF.

The process began with determining the appropriate asset class weights for the PUF and LTF/GEF. Because of the limits placed on PUF and its inability to be managed as a total return fund, we have proposed a different EPP for the PUF in the years prior to the 1999 constitutional amendment.

Step One: Board of Regents and UTIMCO Board minutes and materials were consulted to determine the policy provisions in place through the period under review. We began with 1992. The effective dates of the policies were not always well documented in the earlier years so we used the best information available. Policy weights by asset class for each respective quarterly period were entered into a spreadsheet.

Step Two: Quarterly reports from 1992 through the current period were accumulated to determine actual asset allocations for the PUF and LTF/GEF for the same quarterly periods as the policy allocations. This information was added to the spreadsheet from Step One containing the target allocations. A comparison was made of the actual allocations to the target allocations.

Step Three: When comparing actual allocations to target allocations, we looked at the PUF differently from the LTF/GEF. Based on the fact that the PUF was restrained due to the distribution of income requirement, it seemed reasonable to phase-in the benchmark weights more closely aligned with actual percentage weights of the PUF. By the year 2000, the benchmarks have been completely phased-in. Therefore, the target weights of the approved asset allocation benchmarks are used in the calculation of the EPP. We assumed that once a target allocation had been achieved, such as the Private Capital allocation weight of 15% in the year 2000, that the target weights should continue in the EPP.

The LTF/GEF also could not meet all of its target weights, especially in the Private Capital area. A phase-in plan prepared by Cambridge suggesting a five year phase-in for the Private Capital asset class could not be utilized because the program was frozen by the Board of Regents in 1993 and 1994. Another problem was the percentages jumped around from 10% in 1992 to a high of 18% in December 1997. The LTF/GEF asset allocations were phased in straight-line over time periods that were deemed reasonable to the adjustments to the policy allocations and the time it would take to adjust the actual Fund allocation to reflect those changes.

An issue with Private Capital still exists going forward. Staff has little control over actual percentage invested because the staff cannot predict drawdowns or distributions of capital.

The staff uses forecasting models to determine how much should be committed to the asset class in order to reach the target allocation over time.

Step Four: Once we had determined the appropriate phase-in of the asset class weights, we determined the appropriate benchmark indices to use. Again, we reviewed the approved asset class benchmarks as approved in the Fund policy statements. The benchmarks that were approved were utilized for the periods the policies were effective except for the policies approved in February 1992. We had to make assumptions for 1992 because the approved asset classes did not have benchmarks to compare to. Therefore, for 1992, we used the benchmarks that were assigned for each asset class in the next subsequent investment policy statements approved by the U.T. Board of Regents.

The second part of the process related to the appropriateness of the benchmark for Private Capital and the timing of the availability of Venture Economics data.

Step Five: Because of the inappropriateness of the previous benchmarks for the Private Capital, we have restated with Venture Economics data. However, as discussed above in the issues section, there were two distinct benchmarks approved for Private Equity, a Venture Economics Vintage Year Venture Capital Index for the benchmark of Venture Capital and a Venture Economics Vintage year Private Equity Index for Private Equity. During the process, staff determined that it would be more meaningful to use an aggregate pooled Venture Economics Periodic IRR measure.

Step Six: Because of the delay in the release of the Venture Economics benchmark, the Private Capital benchmark needs to be lagged against the actual portfolio return. The table below outlines how the Venture Economics benchmark will be compared to the Private Capital portfolio, and how it will be used in the calculation of the EPP for the PUF and GEF. This table reflects the status of the proposed Private Capital benchmark which is incorporated in the proposed EPP returns in the Results section below.

Venture Economics has final data available approximately 4 ½ months after the close of any calendar quarter. This results in a data delay of approximately 2 ½ months versus the valuation data of partnerships held in the GEF and PUF. Thus, in order to avoid the necessity of restating previously reported benchmark performance every 3 months as new data arrives from Venture Economics, the actual performance data from the GEF and PUF will be compared to Venture Economics data from a period 3 months <u>prior</u>. Although the data will be permanently out of phase using this procedure, the effects of the phase difference should be small over longer time periods. It is important to note that <u>no data is being omitted</u>, there is simply a timing difference between the actual PUF and GEF data and the benchmark data.

Venture Economics Periodic IRR as of	Estimated Availability of Venture Economics Data	GEF and PUF Private Capital Asset Valuation Date	Partnership Financial Statements Used for GEF and PUF Valuations	Periodic IRR Used as Benchmark
		September 30, 2002		1/3 of June 30, 2002
		October 31, 2002		1/3 of June 30, 2002
June 30, 2002	November 30, 2002	November 30, 2002	September 30, 2002	1/3 of June 30, 2002
		December 31, 2002		1/3 of September 30, 2002
		January 31, 2003		1/3 of September 30, 2002
September 30, 2002	February 15, 2003	February 28, 2003	December 31, 2002	1/3 of September 30, 2002
		March 31, 2003		1/3 of December 31, 2002
		April 30, 2003		1/3 of December 31, 2002
December 31, 2002	May 15, 2003	May 31, 2003	March 31, 2003	1/3 of December 31, 2002
		June 30, 2003		1/3 of March 31, 2003
		July 31, 2003		1/3 of March 31, 2003
March 31, 2003	August 15, 2003	August 31, 2003	June 30, 2003	1/3 of March 31, 2003
		September 30, 2003		1/3 of June 30, 2003
		October 31, 2003		1/3 of June 30, 2003
June 30, 2003	November 15, 2003	November 30, 2003	September 30, 2003	1/3 of June 30, 2003
		December 31, 2004		1/3 of September 30, 2003
		January 31, 2004		1/3 of September 30, 2003
September 30, 2003	February 15, 2004	February 29, 2004	December 31, 2003	1/3 of September 30, 2003

Results:

The following chart reports the results of the proposed restatement of the EPPs compared to actual performance of the Funds:

	Periods Ended February 29, 2004 (Returns for Periods Longer Than One Year are Annualized)						
	One Month	Three Months	Six Months	One Year	Three Years	Five Years	Ten Years
Permanent University Fund	2.49	8.34	15.49	31.74	5.29	6.05	9.74
Permanent University Fund Policy Portfolio	1.43	5.71	10.86	21.58	1.70	5.16	10.50
General Endowment Fund	2.33	8.22	15.61	32.56	5.89	N/A	N/A
Permanent Health Fund	2.31	8.15	15.45	32.31	5.74	N/A	N/A
Long Term Fund	2.31	8.14	15.45	32.38	5.81	7.56	10.44
General Endowment Fund Policy Portfolio	1.43	5.71	10.86	21.58	1.75	5.39	10.47

TAB 9

Resolution No. 9

RESOLVED, that the Charter of the Liquidity Committee be and is hereby approved in the form submitted to the Board.

Agenda Item
UTIMCO Board of Directors Meeting
April 8, 2004

Agenda Item: Consideration of the Charter of the Liquidity Committee ("Committee")

Developed By: Moeller

Presented By: Hester

Type of Item: Action Required by UTIMCO Board

Description: The Charter sets forth the functions, duties and responsibilities of the Liquidity Committee in order for the Committee to assist the Board in providing oversight and monitoring the liquidity of the policy portfolio in accordance with the Liquidity Policy.

Recommendation: The Liquidity Committee approved the Charter on March 23, 2004, and recommends that the UTIMCO Board approve the Charter as presented.

Discussion: The Liquidity Committee was established by the UTIMCO Board at its November 20, 2003 to monitor liquidity of the policy portfolios in accordance with the Liquidity Policy. The Committee held its first meeting March 23, 2004.

Reference: Charter of the Liquidity Committee

The University of Texas Investment Management Company

Charter of the Liquidity Committee

Background

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") established a Liquidity Committee (the "Committee") on November 20, 2003. This Charter, adopted by the Board on *April 8, 2004*, sets forth the responsibilities of the Committee.

Purpose

The primary purpose of the Committee is to provide oversight and monitor liquidity of the policy portfolio in accordance with the Corporation's Liquidity Policy, approved by the Board on December 4, 2003, and effective December 19, 2003. The Board has adopted a Liquidity Policy to establish limits on the overall liquidity profile of investments in the Permanent University Fund (PUF) and the General Endowment Fund (GEF). Liquidity is defined as a measure of the ability of an investment position to be converted into a cash position.

Composition

The Committee shall be composed of at least three members of the Board appointed from time to time by a majority vote of the Board at a meeting at which a quorum is present. A member may be removed with or without cause at any time by a majority vote of the Board. Only members of the Board are eligible to serve on the Committee.

Meetings; Quorum; Etc.

The Corporation's Bylaws state that any committee created by the Board, including the Committee, shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of the Committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next succeeding meeting. At every meeting of the Committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the Committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of the Committee, who may replace any absent or disqualified member of the Committee. In the absence or disqualification of a member of the Committee, the member or members present at any meeting of the Committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

Duties and Responsibilities

The Committee has the following duties and responsibilities:

- The Committee must review and approve, before any such investment or series of investments are made, any investment or series of investments which would cause the allocation for illiquid investments in either the PUF or GEF to exceed 20% of the respective Fund's total portfolio. (Under the Liquidity Policy, the allowable allocation range for illiquid investments is 0% to 30% of a Fund's total portfolio.)

- The Committee must review and approve, before any such action or actions are taken, any proposed investment action or actions which would increase or decrease the overall allocation to any single liquidity category in either the PUF or GEF by 10% or more of a Fund's total portfolio.

- In the event any actual investment positions in illiquid investments are outside the allocation ranges established by the Liquidity Policy (exceed 30% of a Fund's total portfolio) or are within "trigger zones" for such allocation ranges (between 20% to 30% of a Fund's total portfolio), the Committee reviews the Chief Investment Officer's proposed remedy or strategy for complying with the required allocation range for liquid and illiquid investments.

Resolution No. 10

RESOLVED, that the firm of Ernst & Young, LLP be and is hereby appointed as the independent auditor of the Corporation for the year ended August 31, 2004, as submitted by the Audit and Ethics Committee be, and is hereby, approved.

Agenda Item
UTIMCO Board of Directors Meeting
April 8, 2004

Agenda Item:	Consideration of Ernst & Young LLP Engagement Letter to audit and report on the financial statements of UTIMCO for the year ending August 31, 2004.
Developed By:	Moeller
Presented By:	Stevens
Type of Item:	Action Required by UTIMCO Board
Description:	The Audit Charter of the Audit and Ethics Committee ("Committee") sets forth the responsibilities of the Committee and UTIMCO Board with respect to hiring the Corporation's independent auditor. The Committee recommends the appointment of the independent auditor, and the auditor is ultimately accountable to the Committee and the Board. The external auditors for the investment funds managed by UTIMCO are selected by the U.T. Board of Regents.
Recommendation:	The Audit and Ethics Committee approved the Ernst & Young LLP Engagement Letter on April 8, 2004, and recommends that the UTIMCO Board approve the Engagement Letter.
Discussion:	FY 2004 is the second year that Ernst & Young LLP will serve as the Corporation's auditor. The external auditors for the investment funds are hired by U.T. Board of Regents and U.T. System is currently negotiating the contract with Ernst & Young. Estimated fee for UTIMCO's 2004 audit services is $8,925, plus out-of-pocket expenses, and represents an increase of 5% over the prior year fee of $8,500.
Reference:	Ernst & Young LLP Engagement Letter

ERNST & YOUNG

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

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March 22, 2004

The University of Texas Investment Management Company
221 West 6th Street, Suite 700
Austin, TX 78701
Attention: Joan Moeller, Managing Director – Accounting, Finance and Administration

Dear Ms. Moeller:

This will confirm our engagement to audit and report on the financial statements of the University of Texas Investment Management Company (UTIMCO) for the year ending August 31, 2004. The objective of our audit is to express an opinion on the fairness, in all material respects, of the presentation of the financial statements in conformity with accounting principles generally accepted in the United States.

Should conditions not now anticipated preclude us from completing our audit and issuing a report as contemplated by the preceding paragraph, we will advise you and the Audit and Ethics Committee promptly and take such action, as we deem appropriate.

Audit Responsibilities and Limitations

We will conduct our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we obtain reasonable rather than absolute assurance that the financial statements are free of material misstatement whether caused by error or fraud. As you are aware, there are inherent limitations in the audit process, including, for example, selective testing and the possibility that collusion or forgery may preclude the detection of material error, fraud, and illegal acts. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the financial statements.

As part of our audits, we will consider, solely for the purpose of planning our audit and determining the nature, timing, and extent of our audit procedures, the Company's internal control. This consideration will not be sufficient to enable us to provide assurance on internal control or to identify all reportable conditions.

If we determine that there is evidence that fraud may exist, we will bring this matter to the attention of an appropriate level of management. If we become aware of fraud involving senior management or fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements, we will report this matter directly to the Audit and Ethics Committee. We will determine that the Audit and Ethics Committee and appropriate members of management are adequately informed of illegal acts that come to our attention unless they are clearly inconsequential. In addition, we will inform the Audit and Ethics Committee and appropriate members of management of significant audit adjustments and reportable conditions noted during our audit procedures.

In accordance with professional standards, we will communicate certain matters related to the conduct and results of the audit to the Company's Audit and Ethics Committee. Such matters include, when applicable, disagreements with management, whether or not resolved; serious difficulties encountered in performing the audit; the auditor's level of responsibility under professional standards in the United States for the financial statements, for internal control, and for other information in documents containing the audited financial statements; unadjusted audit differences that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole; changes in the Company's significant accounting policies and methods for accounting for significant unusual transactions or for controversial or emerging areas; our judgments about the quality of the Company's accounting principles; our basis for conclusions regarding sensitive accounting estimates; management's consultations, if any, with other accountants; and major issues discussed with management prior to our retention. We also may communicate other opportunities we observe for economies in or improved controls over the Company's operations.

Management's Responsibilities and Representations

The financial statements are the responsibility of the management of the Company, which is also responsible for establishing and maintaining effective internal control, for properly recording transactions in the accounting records, for safeguarding assets, and for the overall fair presentation of the financial statements. Management of the Company also is responsible for identifying and ensuring that the Company complies with the laws and regulations applicable to its activities.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in its representation letter that the effects of any unadjusted audit differences accumulated by us during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for apprising us of the existence of any whistle-blower allegations involving financial improprieties received by management or the Audit and Ethics Committee, and providing full access to these allegations and any internal investigations of them, on a timely basis. Allegations of financial improprieties include allegations of manipulation of financial results by management or employees, misappropriation of assets by management or employees, intentional circumvention of internal controls, inappropriate influence on related party transactions by related parties, intentionally misleading the auditors, or other allegations of illegal acts or fraud.

As required by professional standards in the United States, we will make specific inquiries of management about the representations contained in the financial statements. Professional standards in the United States also require that, at the conclusion of the audit, we obtain representation letters from certain members of management about these matters. The responses to those inquiries, the written representations, and the results of our audit tests comprise the evidential matter we will rely upon in forming an opinion on the financial statements. Management is responsible for providing us with all financial records and related information on a timely basis, and its failure to do so may cause us to delay our report, modify our procedures, or even terminate our engagement.

Fees and Billings

We estimate that our fee for our 2004 audit services will be approximately \$8,925, plus out-of-pocket expenses. In subsequent years, we will provide you with a similar estimate of our fees and expenses prior to the commencement of our audit work. We will submit our invoices as follows: \$4,000 on May 1, 2004 and \$4,925 on October 1, 2004. Payment of them will be due upon receipt.

Our estimated fees and schedule of performance are based upon, among other things, our preliminary review of the Company's records and the representations Company personnel have made to us and are dependent upon the Company's personnel providing the appropriate level of assistance. Should our assumptions with respect to these matters be incorrect or should the condition of the records, degree of cooperation, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we may adjust our fees and planned completion dates. In addition, fees for any special audit-related projects, such as proposed business combinations or research and/or consultation on special business or financial issues, will be billed separately from the audit fee referred to above and may be the subject of written arrangements supplemental to those in this letter.

In the event we are requested or authorized by the Company or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagements for the Company, the Company will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

Other Matters

Without our prior written approval, the Company will not solicit for employment, nor will the Company hire, any current or former partner or any professional employee of Ernst & Young

LLP or any of its affiliated member firms, if such partner or professional employee is or has been involved in the performance of any of the services covered by this letter, at any time during the then current fiscal year of the Company up to and including the date of the audit report for that year, or in the 12 months preceding the audit report date for the immediately preceding fiscal year.

By your signature below, you confirm that the Company, through its Board of Directors, has expressly authorized you to enter into this agreement with us on the Company's behalf.

Any controversy or claim arising out of or relating to services covered by this letter or hereafter provided by us for the Company or at its request (including any such matter involving any parent, subsidiary, affiliate, successor in interest, or agent of the Company or of Ernst & Young LLP, or involving any person or entity for whose benefit the services in question are or were provided), shall be submitted first to voluntary mediation, and if mediation is not successful, then to binding arbitration, in accordance with the dispute resolution procedures set forth in the attachment to this letter. Judgment on any arbitration award may be entered in any court having jurisdiction.

If any portion of this letter is held to be void, invalid, or otherwise unenforceable, in whole or part, the remaining portions of this letter shall remain in effect.

Pursuant to our agreement as reflected in this letter, we will audit and report on the financial statements of the Company for each of its subsequent fiscal years until either the Company or we terminate this agreement.

Ernst & Young

■ Ernst & Young LLP

If these arrangements are acceptable, please sign one copy of this letter and return it to us.

We very much appreciate the opportunity to serve as The University of Texas Investment Management Company's independent auditors and would be pleased to furnish any additional information you may request concerning our responsibilities and functions. We trust that our association will be a long and mutually beneficial one.

Yours very truly,

Ernst + Young LLP

The University of Texas Investment Management Company

By: ______________________
Joan Moeller, Managing Director – Accounting, Finance and Administration

____
Date

ATTACHMENT A

Dispute Resolution Procedures

The following procedures shall be used to resolve any controversy or claim ("dispute") as provided in our engagement letter of March 22, 2004. If any of these provisions are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and binding on the parties to the fullest extent permitted by law.

Mediation

A dispute shall be submitted to mediation by written notice to the other party or parties. The mediator shall be selected by agreement of the parties. If the parties cannot agree on a mediator, a mediator shall be designated by the CPR Institute for Dispute Resolution at the request of a party. Any mediator so designated must be acceptable to all parties.

The mediation shall be conducted as specified by the mediator and agreed upon by the parties. The parties agree to discuss their differences in good faith and to attempt, with facilitation by the mediator, to reach an amicable resolution of the dispute. The mediation shall be treated as a settlement discussion and therefore shall be confidential. The mediator may not testify for either party in any later proceeding relating to the dispute. No recording or transcript shall be made of the mediation proceedings.

Each party shall bear its own costs in the mediation. The fees and expenses of the mediator shall be shared equally by the parties.

Arbitration

If a dispute has not been resolved within 90 days after the written notice beginning the mediation process (or a longer period, if the parties agree to extend the mediation), the mediation shall terminate and the dispute shall be settled by arbitration. The arbitration will be conducted in accordance with the procedures in this document and the Rules for Non-Administered Arbitration of the CPR Institute for Dispute Resolution ("Rules") as in effect on the date of the engagement letter, or such other rules and procedures as the parties may designate by mutual agreement. In the event of a conflict, the provisions of this document will control.

The arbitration will be conducted before a panel of three arbitrators, two of whom are to be designated by the parties from the CPR Panels of Distinguished Neutrals using the screened selection process provided in the Rules. Any issue concerning the extent to which any dispute is subject to arbitration, or concerning the applicability, interpretation, or enforceability of these procedures, including any contention that all or part of these procedures are invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. No potential arbitrator shall be appointed unless he or she has agreed in writing to abide and be bound by these procedures.

The arbitration panel shall have no power to award non-monetary or equitable relief of any sort. It shall also have no power to award (a) damages inconsistent with any applicable agreement between the parties or (b) punitive damages or any other damages not measured by the prevailing party's actual damages; and the parties expressly waive their right to obtain such damages in arbitration or in any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Discovery shall be permitted in connection with the arbitration only to the extent, if any, expressly authorized by the arbitration panel upon a showing of substantial need by the party seeking discovery.

All aspects of the arbitration shall be treated as confidential. The parties and the arbitration panel may disclose the existence, content or results of the arbitration only as provided in the Rules. Before making any such disclosure, a party shall give written notice to all other parties and shall afford such parties a reasonable opportunity to protect their interests.

The result of the arbitration will be binding on the parties, and judgment on the arbitration award may be entered in any court having jurisdiction.