

***The University of Texas Investment
Management Company***



***Presentation Materials
Board of Directors Meeting***

Part I

January 18, 2005

**UTIMCO BOARD OF DIRECTORS
MEETING AGENDA
January 18, 2005**

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

Time		Item #	Agenda Item
Begin	End		
9:30 a.m.	9:35 a.m.	1	Call to Order/Consideration of Minutes of November 15, 2004 Meeting*
9:35 a.m.	10:15 a.m.	2	Endowment and Operating Funds Update: <ul style="list-style-type: none"> - Asset Allocation, Risk and Performance - Liquidity Profile - Report on Derivative Applications - Currency Overlay - The Put-Spread Collar - 2004 In Review; 2005 In Prospect
10:15 a.m.	10:30 a.m.	3	Discussion and Consideration of UTIMCO Audited Financial Statements and Audit Report*
10:30 a.m.	11:00 a.m.	4	Presentation of 2004 Annual Report
11:00 a.m.	11:45 a.m.		Executive Session: Pursuant to 551.071, Texas Government Code, the Board of Directors may convene in executive session for consultation with attorney regarding disclosure of portfolio company information, including contemplated litigation regarding same. Reconvene into Open Session
11:45 a.m.	12:15 p.m.	5	Information Regarding Management Fees
12:15 p.m.	1:00 p.m.		Lunch
1:00 p.m.	3:00 p.m.	6	Discussion and Consideration of New Fund Options for UT System Operating Capital: <ul style="list-style-type: none"> - Background - Asset Allocation Recommendations*, ** - Transition Issues - Proposed Budget*, ** - Investment Policy Statements*, ** - Amendments to Investment Management Services Agreement*, ** - Amendments to Derivative Investment Policy* - Liquidity Policy* - Swap Agreement*
3:00 p.m.	3:15 p.m.	7	Presentation of New Web-Based Transaction Environment for Operating Funds
3:15 p.m.	3:30 p.m.	8	Presentation of New Web-Based Workshop to Assist Chief Business Officers (CBOs) in Asset Allocation Decisions
3:30 p.m.			Adjournment

*Action by resolution required; ** Action required by UT System Board of Regents

Next Scheduled Meeting: March 31, 2004

Section 1

RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the meeting of the Board of Directors held on **November 15, 2004** be, and are 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 9:39 a.m. on the **15th day of November 2004**, at the offices of the Corporation, Suite 1700, 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. The audio portion of the meeting was electronically recorded.

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

Woody L. Hunt, Chairman
John W. Barnhill, Jr.
Clint D. Carlson
Rita C. Clements
J. Philip Ferguson
I. Craig Hester
R. H. (Steve) Stevens, Jr.
Charles W. Tate

thus, constituting a majority and quorum of the Board. Chancellor Mark G. Yudof was not present at the meeting. Also, attending the meeting were R. D. Burck, Advisory Director; Scott Caven, UT System Regent; 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; Bill Edwards, Managing Director of Information Technology; Larry Goldsmith, Managing Director of Public Markets; Andrea Reed, Risk Manager; Sara McMahon and Trey Thompson, Co-Managing Directors – Non-Marketable Alternative Investments of the Corporation; several staff members of the Corporation; Jerry Turner and Miriam Burke, legal counsel for the Corporation; Philip Aldridge, Jerry Modjeski, Charlie Chaffin, and Brandon Duck of U. T. System Administration; Bruce Myers of Cambridge Associates; and Michael Sebastian of EnnisKnupp. Mr. Hunt called the meeting to order at 9:39 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 September 29, 2004. 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
September 29, 2004 be and are hereby, approved.

Executive Session

Mr. Hunt, at 9:41 a.m., announced that, “the Board of Directors of The University of Texas Investment Management Company having been duly convened in Open Session and notice of this meeting having been duly given, I hereby announce the convening of a closed meeting as an Executive Session of the Board, for the purpose of deliberations regarding leasing space for Corporation offices; consultation with attorney about contemplated litigation regarding disclosure of portfolio company information; and deliberating personnel compensation matters for corporation employees. This Executive Session meeting of the Board is authorized by Texas Government Code, Section 551.072 (Leasing Space); Section 551.071 (Contemplated Litigation) and Section 551.074 (Personnel Matters). The time is now 9:41 a.m.”

In Executive Session, the Board discussed matters regarding leasing space for Corporation offices, contemplated litigation regarding disclosure of portfolio company information, and personnel compensation matters. No action was taken and no vote was called for or taken by the Board.

Reconvene in Open Session

The Board reconvened at 11:10 a.m. in open session and Mr. Hunt announced that, “the Open Session of the Board of Directors of The University of Texas Investment Management Company is now reconvened. The time is now 11:10 a.m. During the Executive Session, the Board discussed matters regarding leasing space for Corporation offices, contemplated litigation regarding disclosure of portfolio company information, and personnel compensation matters, but did not take any votes.”

Approval of Proposed Investments

Mr. Hunt asked Mr. Hester to report as Chairman of the Liquidity Committee regarding proposed investments for the Marketable Alternative program. Mr. Hester stated that the Liquidity Committee met on October 25, 2004 and also before the Board meeting on November 15, 2004, and considered the impact upon the Liquidity Profiles of the PUF and GEF resulting from proposed investments. The Liquidity Committee approved an increase in the pro forma illiquid allocation to approximately 21.7%, which would result from Board approval of the investments. Also proposed was a Public Markets initial investment to use PUF and GEF assets to acquire up to a \$50 million combined institutional investment interest with IronBridge Capital Management, LLC. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

Eminence Fund, Ltd.

WHEREAS, the Board has reviewed the Corporation’s Investment Recommendation to use PUF and GEF assets to acquire \$50 million in shares (the “Investment”) in Eminence Fund, Ltd.; 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 Recommendation dated November 8, 2004, for Eminence Fund, Ltd. 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 Eminence Fund, Ltd.; 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.

OCM Emerging Markets (Cayman) Fund, Ltd.

WHEREAS, the Board has reviewed the Corporation's Investment Recommendation to use PUF and GEF assets to acquire \$30 million in shares (the "Investment") in OCM Emerging Markets (Cayman) Fund, Ltd.; 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 Recommendation dated November 8, 2004, for OCM Emerging Markets (Cayman) Fund, Ltd. 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 OCM Emerging Markets (Cayman) Fund, Ltd.; 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.

And for Public Markets Investments:

WHEREAS, the Board has reviewed the Corporation's Investment Recommendation to use PUF and GEF assets to acquire up to a \$50 million combined institutional investment interest (the "Investment") in IronBridge Capital Management's Micro-Cap portfolio; 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 November 8, 2004 for IronBridge Capital Management Micro-Cap portfolio 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, in the amount of the capital commitment to IronBridge Capital Management Micro-Cap portfolio; 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.

At this time, Mr. Goldsmith gave an executive review of Blakeney Management -Emerging Markets Equities Investment of \$40 million made in October 2004, as a follow-up to the Option to Review election requested by a Director. Mr. Goldsmith answered the Directors' questions.

Asset Allocation, Risk and Performance

Mr. Hunt asked Mr. Boldt to report on the Corporation's asset allocation, risk and performance. Mr. Boldt began by discussing the Market Exposure chart that shows market exposure and deviations from policy targets within tactical policy ranges. Mr. Boldt asked Sara McMahon and Trey Thompson to comment on the private investments and venture capital areas. Mr. Boldt continued by discussing relative risk analysis, the peer universe and value added. The latest performance information was presented. Mr. Boldt also reported Cumulative Value Added under the Corporation's management for the period ended October 31, 2004 as provided by handouts. The net performance for the one-month period ended October 31, 2004, for the PUF and the GEF were 1.87%, and 1.93%, respectively, versus benchmark returns of 1.66% for each fund. The net performance for one-year ended October 31, 2004, for the PUF and GEF were 13.88% and 13.91%, respectively, versus benchmark returns of 12.66% for each fund. The Short Intermediate Term Fund's (SITF) performance was 0.27% versus benchmark return of .31% for the one-month period, and was 2.08% versus benchmark return of 1.88% for the one-year period ended October 31, 2004. Performance for the Short Term Fund (STF) was 0.14% versus 0.13% for its benchmark for the one-month period, and was 1.15% versus benchmark return of 1.16% for the one-year period ended October 31, 2004. Also presented was a manager history performance summary, statistics on liquidity, and total derivatives by type and application. Mr. Boldt, Ms. McMahon, and Mr. Thompson answered the Directors' questions.

CORE Fund Update

Mr. Boldt gave a verbal update on the CORE Fund. The CORE Fund is an alternative portfolio that is being designed to replace two of the current operating funds that are available to the chief business officers (CBO's) at each institution and give them a higher return opportunity and a much more diverse portfolio. This design has been under development for some time. The Staff has been working with the CBO's and addressing their specific concerns regarding liquidity and daily cash flow issues. More detailed information will be presented to the Board at the January meeting. Mr. Boldt and Mr. Myers answered the Directors' questions.

Limited Partner Performance Issues

Mr. Boldt discussed a study that was done at Harvard University and referenced a white paper by Mr. Lerner and associates regarding the drivers behind the variance in private equity performance across different categories of institutions. Mr. Boldt answered the Directors' questions.

Expense Summary

Mr. Boldt then handed out an Expense Summary that provided Corporation expenses, direct fund expenses, and partnership and mutual fund expenses. Mr. Boldt explained that the Corporation is following standard industry practice and that every performance number presented to the Board by the Corporation's Staff has always been net of these expenses. Cambridge and EnnisKnupp have been asked to provide a review and analysis of fees paid. The results of this review will be presented upon completion.

Resolutions from Executive Session

Mr. Hunt asked that resolutions related to items discussed during the Executive Session to be handed out. Mr. Hunt read each one and upon motion duly made and seconded, the following resolutions were unanimously adopted:

Lease Agreement:

WHEREAS, The University of Texas Investment Management Company ("UTIMCO") currently leases office space for its executive and administrative offices in the Bank One Tower in Austin, Texas pursuant to an Office Lease with Crescent Real Estate Funding VIII, L.P. which expires on January 31, 2006; and

WHEREAS, UTIMCO must negotiate and enter into a new lease agreement to secure office space for its executive and administrative offices on the expiration of the existing lease.

NOW, THEREFORE, IT IS:

RESOLVED, that the President and CEO of UTIMCO is authorized and directed by the Board of Directors of UTIMCO to negotiate and enter into an office lease agreement on behalf of UTIMCO for executive and general administrative offices in Austin, Texas, ("Lease Agreement") on such terms that may be in the best interests of the UTIMCO as determined by such officer of UTIMCO;

FURTHER RESOLVED, that the Board of Directors affirms and ratifies any actions of the President and CEO of UTIMCO with regard to the Lease Agreement taken prior to the date of this Resolution; and

FURTHER RESOLVED, that the President and CEO is authorized by the Board of Directors to negotiate and enter into on behalf of UTIMCO any modifications of and documents ancillary to the Lease Agreement and to take whatever action as may be necessary or in the best interests of UTIMCO as such officer of UTIMCO may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of this Resolution and to perform the obligations of UTIMCO under the Lease Agreement and any instruments referred to therein and/or executed in connection therewith.

Compensation Program Awards:

WHEREAS, the UTIMCO Compensation Program, formerly known as the UTIMCO Performance Compensation Plan (the "Plan"), was amended and restated in its entirety, effective as of September 1, 2004 (the "Restatement Effective Date"); and

WHEREAS, in connection with the restatement of the Plan, the U. T. Board of Regents (the "Regents") resolved on September 28, 2004, that the UTIMCO Board of Directors ("UTIMCO Board") calculate the performance compensation awards for Fiscal Year 2004 under the terms of the Plan as those terms existed prior to the Restatement Effective Date, exercising the full discretion permitted the UTIMCO Board under the pre-restated Plan in such calculation; provided, however, that the total performance compensation awards for all Plan participants for Fiscal Year 2004 is not to exceed \$2.25 million; and

WHEREAS, pursuant to the authority vested in the UTIMCO Board by the pre-restated Plan, the UTIMCO Board has full discretionary authority to calculate the performance compensation awards under the pre-restated Plan; and

WHEREAS, the President has initially calculated the performance compensation awards under the pre-restated Plan for Fiscal Year 2004 for all Plan participants (excluding the President); and

WHEREAS, the UTIMCO Board has reviewed and approves of such initial calculations and has determined that such calculations, when added to the proposed calculation of the performance compensation award for the President for Fiscal Year 2004, do not exceed \$2.25 million in compliance with the Regents' directive;

NOW, THEREFORE, BE IT:

RESOLVED, that pursuant to the directive from the Regents issued on September 28, 2004, and the discretion vested in the UTIMCO Board under the terms of the Plan as those terms existed for the pre-September 1, 2004 period, the UTIMCO Board hereby approves the performance compensation awards for Fiscal Year 2004 for the Plan participants (excluding the President), as those awards were initially calculated and presented by the President, in the aggregate amount of \$1,600,007.

Compensation Program Award for President:

WHEREAS, the UTIMCO Compensation Program, formerly known as the UTIMCO Performance Compensation Plan (the "Plan"), was amended and restated in its entirety, effective as of September 1, 2004 (the "Restatement Effective Date"); and

WHEREAS, in connection with the restatement of the Plan, the U. T. Board of Regents (the "Regents") resolved on September 28, 2004, that the UTIMCO Board of Directors ("UTIMCO Board") calculate the performance compensation awards for Fiscal Year 2004 under the terms of the Plan as those terms existed prior to the Restatement Effective Date, exercising the full discretion permitted the

UTIMCO Board under the pre-restated Plan in such calculation; provided, however, that the total performance compensation awards for all Plan participants for Fiscal Year 2004 is not to exceed \$2.25 million; and

WHEREAS, pursuant to the authority vested in the UTIMCO Board by the pre-restated Plan, the UTIMCO Board has full discretionary authority to calculate the performance compensation awards under the pre-restated Plan; and

WHEREAS, the UTIMCO Board has calculated the performance compensation award under the pre-restated Plan for the President for Fiscal Year 2004; and

WHEREAS, the UTIMCO Board has determined that such calculation, when added to the initial calculations of the performance compensation awards for the Plan participants excluding the President for Fiscal Year 2004, does not exceed \$2.25 million in compliance with the Regents' directive;

NOW, THEREFORE, BE IT:

RESOLVED, that pursuant to the directive from the Regents issued on September 28, 2004, and the discretion vested in the UTIMCO Board under the terms of the Plan as those terms existed for the pre-September 1, 2004 period, the UTIMCO Board hereby approves the performance compensation award for Fiscal Year 2004 for the President in the amount of \$649,993.

New Legislation Affecting Compensation Program

Mr. Hunt asked Ms. Burke of Vinson and Elkins to provide an explanation of the new legislation behind the proposed resolution affecting the Compensation Program. Ms. Burke and Mr. Turner answered the Directors' questions. Upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, the UTIMCO Compensation Program, formerly known as the UTIMCO Performance Compensation Plan (the "Plan"), was amended and restated in its entirety, effective as of September 1, 2004 (the "Restatement Effective Date"); and

WHEREAS, on October 11, 2004, Congress passed the American Jobs Creation Act of 2004 (the "Act"), which adds a new provision to the Internal Revenue Code, effective January 1, 2005, that significantly affects nonqualified deferred compensation plans; and

WHEREAS, the Plan is a nonqualified deferred compensation plan that is affected by the Act; and

WHEREAS, pursuant to the Act, the Internal Revenue Service ("IRS") is mandated to provide guidance within 60 days from enactment of the Act clarifying

many issues raised by the new legislation, including guidance providing a limited time period during which affected plans may be amended to comply with the new rules; and

WHEREAS, at this time it is not clear exactly what changes to the Plan will be necessitated by the new law, and such changes will not be known until the IRS guidance is issued; however it is anticipated that the Plan will have to be modified in certain respects to comply with the new law once the IRS guidance is issued; and

WHEREAS, pursuant to section 7.2 of the Plan, the UTIMCO Board has the right in its discretion to amend the Plan or any portion thereof from time to time; and

WHEREAS, the UTIMCO Board wishes to delegate authority to the Chairman of the UTIMCO Board to make any changes to the Plan that are necessitated or advisable as a result of the Act so that such changes may be made promptly upon issuance of the IRS guidance;

NOW, THEREFORE, BE IT:

RESOLVED, that the Chairman of the UTIMCO Board is hereby authorized and directed to make any changes to the Plan necessitated by, or advisable on account of, the American Jobs Creation Act of 2004 and to perform all such acts and things, to execute all documents and instruments, and to take any and all other steps as he may deem necessary, advisable, convenient, or proper to effectuate the same and to comply with all applicable provisions of all applicable law, and any and all such actions heretofore taken shall be, and they hereby are, ratified and approved.

Public Markets Investments Program

Mr. Hunt turned the meeting over to Mr. Boldt and Mr. Goldsmith for a presentation on the Corporation's Public Markets Investments program. This presentation was part two of an overview of the Public Markets Investments program. The primary focus of this presentation was to provide the Staff's perspective on leadership thinking in the debate of active vs. passive management. Mr. Boldt, Mr. Goldsmith and Mr. Myers answered the Directors' questions.

The meeting was recessed at 12:40 p.m.

The Board of the Corporation reconvened in an open meeting at the same meeting location at 1:35 p.m.

Audit and Ethics Committee Report

After reconvening, Mr. Hunt turned the meeting over to Mr. Stevens, Chairman of the Audit and Ethics Committee. Mr. Stevens reported that the Audit and Ethics Committee had met on November 1, 2004, to approve the audited financial statements of the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Short Intermediate Term Fund, and the Statement of Performance Statistics. The Audit and Ethics Committee approved the financial statements as presented. Mr. Richter of Ernst and Young gave a report to the Audit and Ethics Committee and was very complimentary of the Staff. The audit reports have been reviewed and approved by the UT System Board of Regents. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the separate annual financial statements and audit reports for the Permanent University Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, The University of Texas System General Endowment Fund, and The University of Texas System Short Intermediate Term Fund, each for the fiscal years ended August 31, 2004, and August 31, 2003, and the Statement of Investment Performance Statistics for the year ended August 31, 2004, be and are hereby approved in the form as presented to the Board.

Committee Appointments

Mr. Hunt brought up the next item to come before the Board, which was designation of committee members and chair designations for the Audit and Ethics Committee, Compensation Committee and the Liquidity Committee. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

BE IT RESOLVED, that John W. Barnhill, I. Craig Hester and R. H. (Steve) Stevens, Jr. are hereby designated as the Audit and Ethics Committee of the Board of Directors, approved by the Board of Regents at their meeting held on November 4-5, 2004, to serve until their successor has been chosen and qualified, or until such their earlier death, resignation or removal; and

FURTHER RESOLVED, that R. H. (Steve) Stevens, Jr. is hereby designated the Chair of the Audit and Ethics Committee and shall preside at its meetings; and

FURTHER RESOLVED, that Clint D. Carlson, J. Philip Ferguson and Charles W. Tate are hereby designated as the Compensation Committee of the Board of Directors to serve until their successor has been chosen and qualified, or until such their earlier death, resignation or removal; and

FURTHER RESOLVED, that J. Philip Ferguson is hereby designated the Chair of the Compensation Committee and shall preside at its meetings; and

FURTHER RESOLVED, that Rita C. Clements, I. Craig Hester and Woody L. Hunt are hereby designated as the Liquidity Committee of the Board of Directors to

serve until their successor has been chosen and qualified, or until such their earlier death, resignation or removal; and

FURTHER RESOLVED, that I. Craig Hester is hereby designated the Chair of the Liquidity Committee and shall preside at its meetings.

Delegation of Authority Policy

Mr. Hunt asked Mr. Boldt to present the proposed Delegation of Authority Policy, amended with regard to best practices, delegation of authority to Staff, best use of Directors' time, and the Working Group's recommendations. Mr. Hunt gave a history of the Delegation of Authority Policy and the Board discussed the proposed changes with Mr. Hunt, Mr. Boldt, Mr. Myers and Mr. Turner answering the Directors' questions. Upon motion duly made and seconded, the following resolution to approve the revised Delegation of Authority, subject to changes made by Mr. Turner, was unanimously adopted:

RESOLVED, that the revised Delegation of Authority Policy be, and is hereby approved in the form as presented to the Board, subject to changes made by Mr. Turner.

The final version of the Delegation of Authority Policy is attached to these minutes.

Current State of Competitiveness

Mr. Hunt asked Mr. Boldt to give his presentation on the Current State of Competitiveness. Mr. Boldt handed out a copy of his presentation and a chart showing peer group asset allocations. Mr. Boldt and Mr. Hunt answered the Directors' questions.

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

Secretary: _____
Joan Moeller

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

The University of Texas Investment Management Company
Delegation of Authority Policy

Effective Date of Policy: November 15, 2004

Date Approved by UTIMCO Board: November 15, 2004

Supersedes: Delegation of Authority Policy approved by the UTIMCO Board on April 25, 2003

Purpose:

The purpose of the Delegation of Authority Policy is to provide a clear delineation of responsibilities of the UTIMCO Board of Directors and the UTIMCO staff. Section 66.08 (d) of the Texas Education Code provides that UTIMCO's duties to the U. T. System Board of Regents with respect to the management of investment funds shall be governed by a contract between the two parties. UTIMCO provides various investment management services to the U. T. System Board as more fully described in the Investment Management Services Agreement by and between the U. T. System Board and UTIMCO. The UTIMCO Board is responsible for management and investment oversight of UTIMCO. The UTIMCO Board recommends amendments to the Investment Policies for approval by the U. T. System Board. The UTIMCO Board is responsible for overseeing the investment process to execute the established Investment Policies. However, in order to enhance the competitiveness of the investment process, improve management and operational efficiency, and in order to define and concentrate accountability for performance, certain duties and responsibilities are delegated by the UTIMCO Board to UTIMCO Management. This Policy Statement defines the delegation of authority in the two primary areas of UTIMCO operations:

- (1) Management, Operations, and Finance; and
- (2) Investments.

Objective:

By clearly defining the limits of delegated authority of UTIMCO Management, this Policy Statement enhances operational efficiency and timeliness in decision making, thereby enhancing competitiveness, as well as establishing a framework for the evaluation of UTIMCO Management in the assigned tasks.

Scope:

This Policy applies to all matters under UTIMCO control. The only delegations of authority granted by the UTIMCO Board are enumerated in this Policy and any authority not specifically granted in this Policy is retained by the UTIMCO Board acting as agent for the U. T. Board of Regents, provided that nothing contained in this Policy Statement is intended to, or shall, limit any delegation of authority otherwise set forth in the UTIMCO Bylaws, the Investment Management Services Agreement, any Committee Charter, any Investment Policy, or any formal policy adopted by the UTIMCO Board.

Authority Delegated to UTIMCO Management:

The primary functions of the UTIMCO Board are to formulate, revise, implement and conduct ongoing oversight of the policies it has established for UTIMCO. The duties and responsibilities of the UTIMCO Board are enumerated in the UTIMCO Bylaws, Articles of Incorporation, Committee Charters, Investment Management Services Agreement, and in UTIMCO policies. In order to more efficiently execute its responsibilities, the UTIMCO Board has delegated the authority to implement

The University of Texas Investment Management Company Delegation of Authority Policy

UTIMCO policies to UTIMCO Management in two primary areas: Management, Operational, and Financial Authority, and Investment Authority.

Management, Operational, and Financial Authority: Final authority for the functions listed below rests with the UTIMCO Board:

- Administration, Accounting and Financial Management;
- Systems Technology Management;
- Personnel Management;
- Compliance;
- Client Relations and Reporting; and
- Public Relations.

However, the UTIMCO Board hereby delegates authority to UTIMCO Management in each functional area as specified below:

Administration, Accounting and Financial Management: The UTIMCO Board hereby delegates all day to day operational decisions to UTIMCO Management. This delegation includes, but is not limited to, all administrative decisions regarding the management of endowment and operating funds as well as all administrative and financial decisions associated with the operation of the UTIMCO organization. This delegation includes the authority to execute all contracts and agreements, subject to the limitations defined below.

Systems Technology Management: The UTIMCO Board hereby delegates all decisions regarding the operation and management of all systems technology assets to UTIMCO management. This delegation includes the authority to execute all contracts and agreements, subject to the limitations defined below.

Personnel Management: The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer all personnel management decisions regarding positions included in approved UTIMCO operating budgets, and grants authority to the Chief Executive Officer to add non-budgeted personnel as necessary on an emergency basis, subject to review in the following budget cycle, provided that the addition of any non-budgeted personnel shall be promptly reported to the UTIMCO Board. All compensation decisions for officers of UTIMCO are excluded from this delegation.

Compliance: The UTIMCO Board hereby delegates all compliance operations to UTIMCO management, while retaining all oversight functions as specified in UTIMCO policies.

Client Relations and Reporting: The UTIMCO Board hereby delegates all client relations and reporting decisions to UTIMCO management.

Public Relations: The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer all decisions regarding public relations issues, except for those issues that are reserved for decisions by the UTIMCO Vice Chairman for Policy.

The University of Texas Investment Management Company
Delegation of Authority Policy

In addition, in order to facilitate the execution of the authority granted above, the UTIMCO Board hereby delegates the following specific duties and responsibilities to UTIMCO Management:

- **Contracts:** The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to execute on the behalf of UTIMCO all contracts, leases, or other commercial arrangements (except investment management agency contracts, partnership agreements, investment consultant agreements and agreements with independent auditors) for a total obligation of \$1 million or less during the contract term, provided that notice of any such contracts, leases, or other commercial arrangements shall be promptly reported to the UTIMCO Board.

Investment Authority: The UTIMCO Board hereby delegates the following specific duties and responsibilities to UTIMCO Management:

- **Tactical Asset Allocation:** Without limitations of timing, procedures, or vehicles utilized, decisions regarding tactical asset allocation within the ranges established in Investment Policy Statements, including rebalancing portfolio weights to Policy Target Weights or actively deviating from Policy Weights as market conditions dictate, are hereby delegated to the UTIMCO Chief Executive Officer, as long as any decisions do not violate established Investment Policies.
- **Risk Management:** The UTIMCO Board hereby delegates all decisions regarding the design and operation of any risk management system to UTIMCO management.
- **New Investment Vehicle and Manager Selection:** The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to commit UT System funds to new relationships with internal or external investment managers or to new mandates with external investment managers already under existing relationships with UTIMCO, and the accompanying authority to negotiate and execute agency and partnership agreements as necessary, subject only to the following limitations:
 - **Public Markets Investments:** Any new commitments exceeding (i)(a) \$200 million for an individual external manager or (b) 20% of the total assets under management in a specific investment mandate by an external manager or (ii) \$100 million for a particular internal management application will require approval under the process defined in Appendix A.
 - **Marketable Alternatives Investments:** Any new commitments exceeding (i) \$100 million or (ii) 20% of the total assets of the same investment vehicle will require approval under the process defined in Appendix A and an opinion from the external UTIMCO consultant shall be required for any marketable alternative investment managed by a manager not otherwise managing marketable alternative investments for UTIMCO. Otherwise, the decision as to whether an opinion regarding the new investment from the external UTIMCO consultant is necessary is delegated to the UTIMCO Chief Executive Officer.

The University of Texas Investment Management Company
Delegation of Authority Policy

- Non-Marketable Alternatives Investments: Any new commitments exceeding (i) \$50 million or (ii) 20% of the total assets of the same investment vehicle will require approval under the process defined in Appendix A and an opinion from the external UTIMCO consultant shall be required for any non-marketable alternative investment managed by a manager not otherwise managing non-marketable alternative investments for UTIMCO. Otherwise, the decision as to whether an opinion regarding the new investment from the external UTIMCO consultant is necessary is delegated to the UTIMCO Chief Executive Officer. All new commitments to direct, non-marketable investments will require approval under the process defined in Appendix A.
 - Other Investments: Any investments in asset categories not currently defined in the Policy Portfolio must receive specific UTIMCO Board approval regardless of size.
 - Any commitment that would otherwise be permitted under this delegation, but which violates any UTIMCO Policy, is not permitted.
 - The UTIMCO Chief Executive Officer will promptly notify the UTIMCO Board regarding all decisions made under this delegated authority.
- Changing Allocations of Investment Funds Among Existing Internal and External Managers and Partnerships: The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to increase or decrease investments or commitments to existing internal or external investment managers, and the accompanying authority to renegotiate existing agency and partnership agreements as necessary, subject only to the following limitations:
 - Public Markets Investments: Any changes to existing funds under management by any individual external manager exceeding \$200 million or by internal management in a particular application exceeding \$100 million, or which increases the total assets managed to more than \$400 million with an individual external manager or to more than (i) \$400 million or (ii) 20% of the total assets in a specific investment mandate at an external manager responsible for more than one UTIMCO mandate, will require approval under the process defined in Appendix A.
 - Marketable Alternatives Investments: Any changes to existing funds under management exceeding \$100 million, or which increase the total assets managed to more than \$200 million with an individual manager or to more than 20% of the total assets in a specific investment mandate at a manager responsible for more than one UTIMCO mandate, will require approval under the process defined in Appendix A.
 - Non-Marketable Alternatives Investments: Any changes to existing funds under management exceeding \$50 million in an existing partnership or direct investment, or which increase the total UTIMCO investment in a single partnership or direct investment to more than (i)

**The University of Texas Investment Management Company
Delegation of Authority Policy**

- \$100 million or (ii) 20% of the total assets of the same investment vehicle, will require approval under the process defined in Appendix A.
 - Any change that would otherwise be permitted under this delegation, but which violates any UTIMCO Policy, is not permitted.
 - The UTIMCO Chief Executive Officer will promptly notify the UTIMCO Board regarding all decisions made under this delegated authority.
- **Manager and Partnership Monitoring and Termination:** The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer all decisions regarding monitoring and termination of existing internal or external investment managers.
- **Internal Investment Management:** The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer all decisions associated with the direct management of assets by UTIMCO staff.
- **Management of UTIMCO's External Investment Consultant:** The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to direct the day-to-day work product of the UTIMCO consultant, provided that the UTIMCO consultant shall continue to have primary reporting responsibility to the UTIMCO Board.
- **Management of UTIMCO's External Counsel:** The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to direct the day-to-day work product of the UTIMCO external counsel, provided that the UTIMCO external counsel shall continue to have primary reporting responsibility to the UTIMCO Board.

Documentation and Controls:

All UTIMCO Management decisions made under this Delegation of Authority Policy will be monitored by UTIMCO's Chief Compliance Officer. Any exceptions to this Policy will be reported to the Chief Executive Officer immediately. The CEO will develop a remedy to the exception, if possible, and report the exception and the remedy to the UTIMCO Board promptly.

Reporting:

The Chief Compliance Officer will provide a list of any exceptions to this policy on at least an annual basis to the Audit and Ethics Committee of the UTIMCO Board.

**The University of Texas Investment Management Company
Delegation of Authority Policy**

**Appendix A
Investment Vehicle and Manager Selection**

Except for the specific terms of delegation defined in this Policy, the UTIMCO Board shall be responsible for the selection of internal and external portfolio managers and partnerships to invest assets managed for the U.T. Board of Regents.

The process for new manager or partnership selection shall include the following steps:

1. Extensive due diligence by UTIMCO staff, and in some cases by the UTIMCO consultant.
2. Preparation of a complete due diligence report that will be considered by the UTIMCO Chief Executive Officer. Changes or updates to the due diligence report may be made as a result of the CIO review.
3. At the discretion of the UTIMCO Chief Executive Officer, a due diligence report by the UTIMCO external consultant may be required.
4. In cases in which the investment decision has been delegated to the UTIMCO Chief Executive Officer under this Policy, a Certificate of Compliance will be sent to each UTIMCO Board member with an executive summary of the due diligence report prepared by the UTIMCO Staff and external consultant (if required by the CEO).
5. In cases in which delegation is not permitted under this Policy, a Certificate of Compliance will be sent to each UTIMCO Board member with the complete due diligence report prepared by the UTIMCO Staff and external consultant (if required by the CEO). The Certificate of Compliance will have a checkbox to allow any UTIMCO Director to request a complete review of the investment at a subsequent Board meeting prior to making the investment, and two checkboxes to delegate the decision to UTIMCO Management, with or without a subsequent presentation of the investment at a future UTIMCO Board meeting.
 - a. If any Director has requested Board review, staff will provide a complete presentation, which may include a representative of the proposed manager or partnership, at the next UTIMCO Board meeting. If after hearing the presentation, a majority of Directors do not feel the investment is appropriate, the investment will not be made.
 - b. If no Director has requested a prior Board Review, the investment will be negotiated by staff and assets will be invested.

Section 2

Agenda Item
UTIMCO Board Meeting
January 18, 2005

Agenda Item: Endowment and Operating Funds Update

Developed By: UTIMCO Staff

Presented By: Boldt; Goldsmith

Type of Item: Information Item, No action required

Description: This agenda item presents both regularly reported information and new information in the following areas:

- Asset allocation, risk, and performance
- Liquidity Profile
- Report on Derivative Applications
- Currency Overlay
- The Put-Spread Collar
- 2004 in Review; 2005 in Prospect

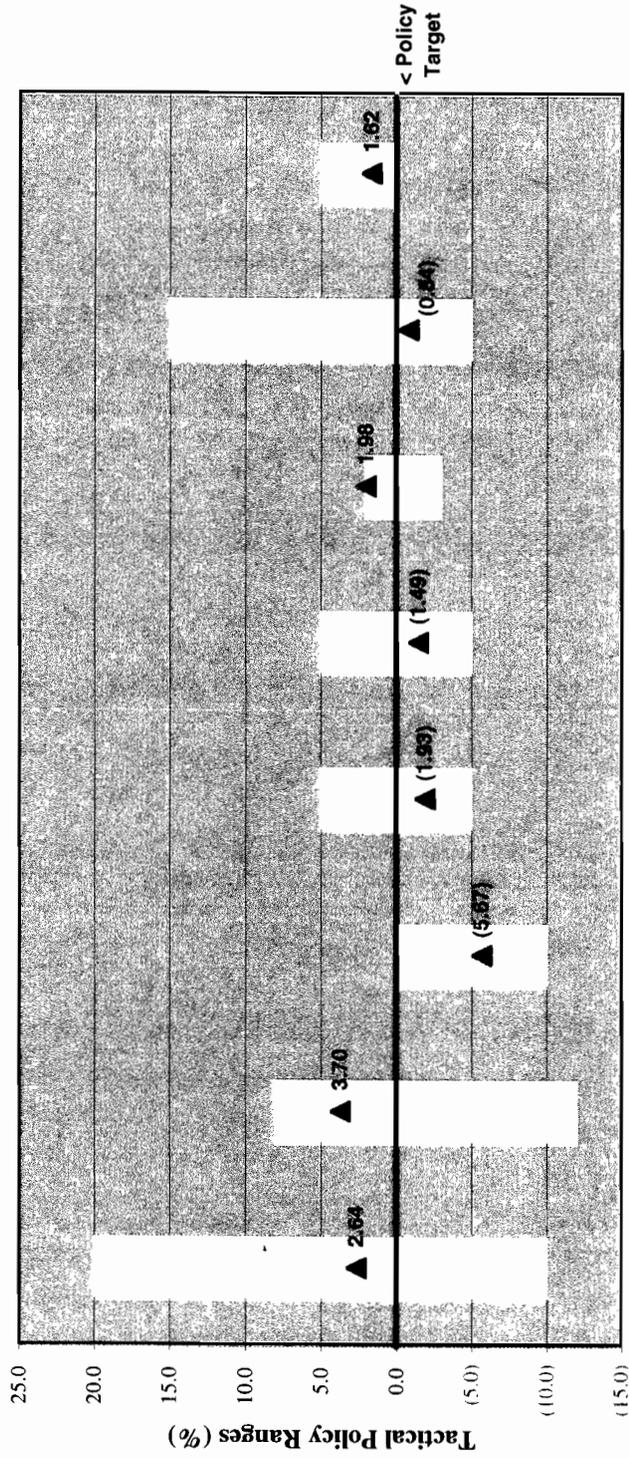
Recommendation: None

Discussion: In addition to the regularly reported items on asset allocation, risk, performance, liquidity, and derivatives exposure, this agenda item includes information on two new applications in the endowment portfolios: currency overlay management and the recently implemented put-spread collar to protect the US equity portfolio.

Reference: GEF and PUF Investment Policies; Derivative Investment Policy; Liquidity Policy

**Permanent University Fund
Market Exposure
November 30, 2004**

Deviations From Policy Targets Within Tactical Policy Ranges

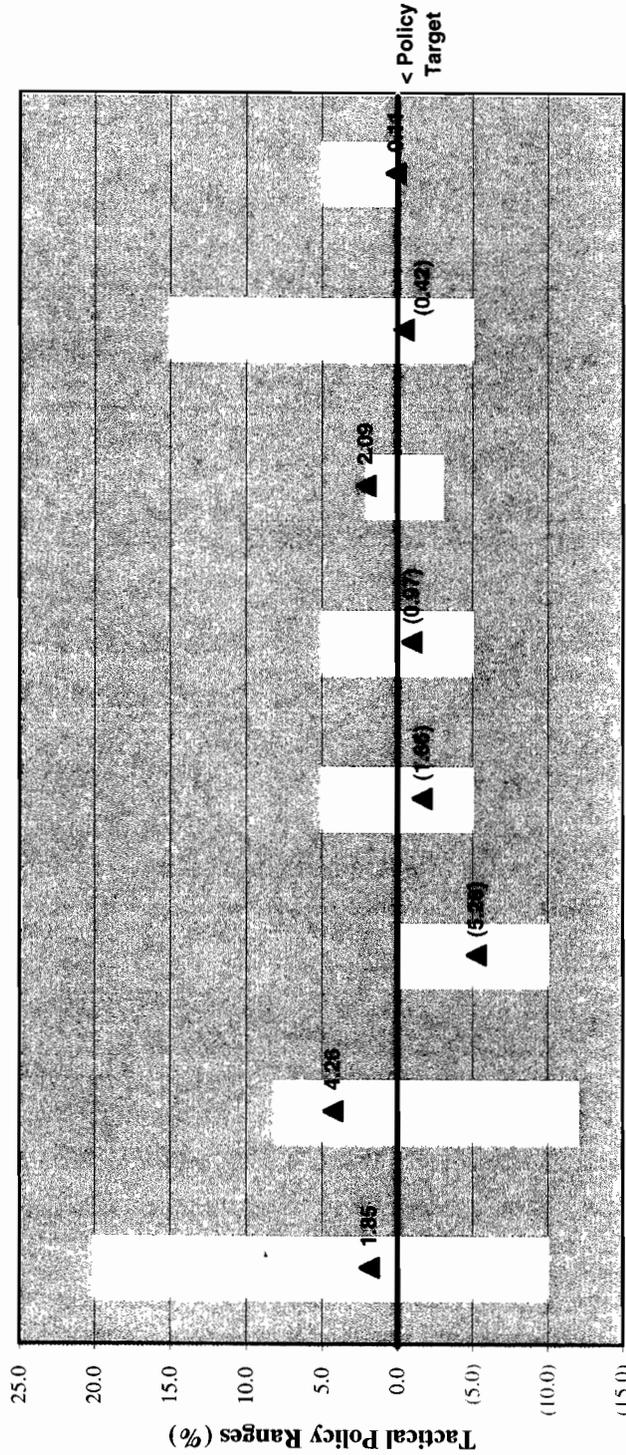


	US Public Equity	International Public Equity	Private Capital	Equity Hedge Funds	Absolute Return Hedge Funds	Commodities	Fixed Income	Cash
Actual	27.64%	20.70%	9.33%	8.07%	13.51%	4.98%	14.16%	1.62%
Policy Target	25.00%	17.00%	15.00%	10.00%	15.00%	3.00%	15.00%	0.00%
Deviation	2.64%	3.70%	-5.67%	-1.93%	-1.49%	1.98%	-0.84%	1.62%
Deviation in Dollars (\$m)	228.22	319.65	(490.06)	(166.62)	(129.20)	171.04	(73.06)	140.03



**General Endowment Fund
Market Exposure
November 30, 2004**

Deviations From Policy Targets Within Tactical Policy Ranges

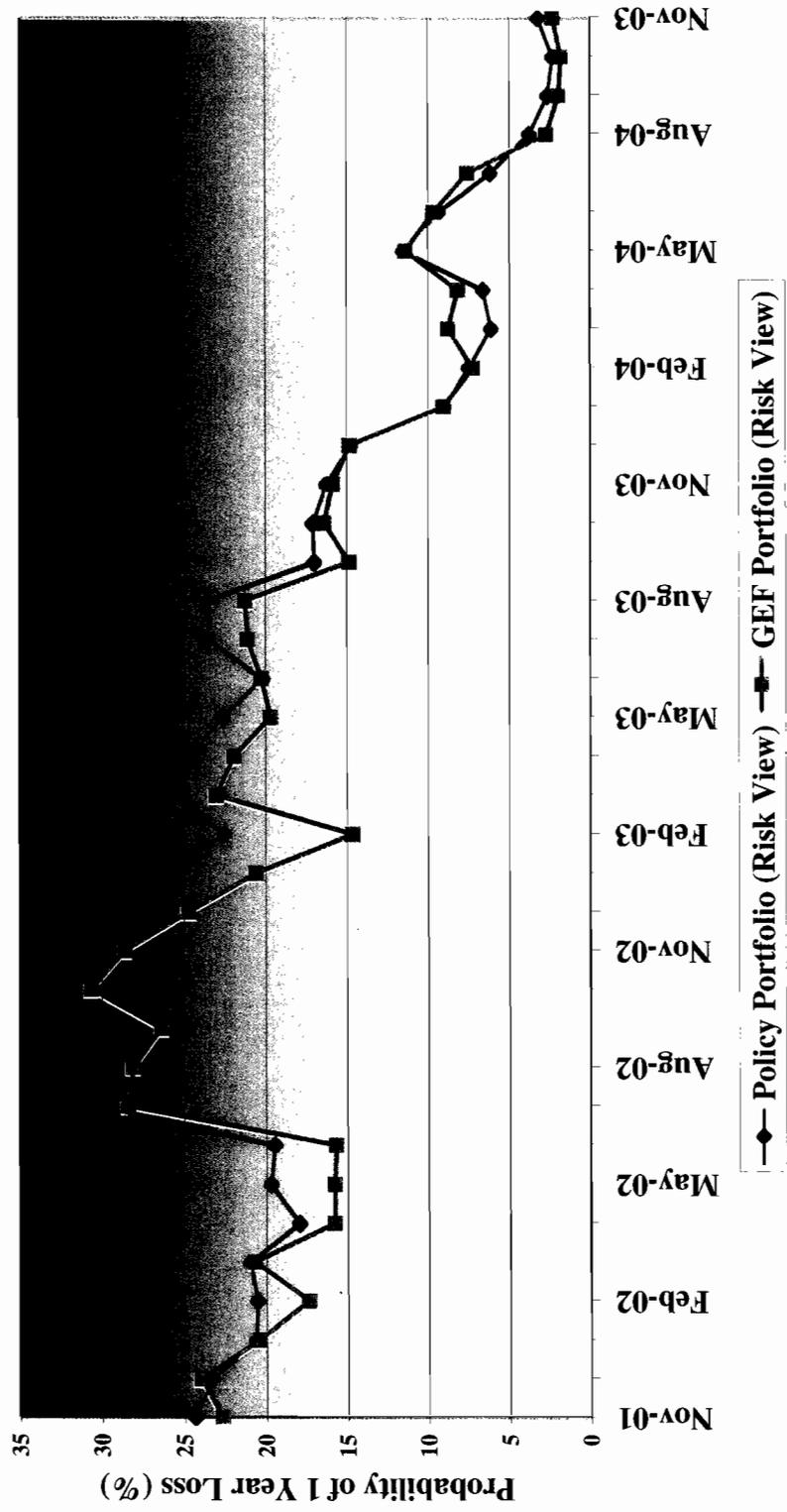


	US Public Equity	International Public Equity	Private Capital	Equity Hedge Funds	Absolute Return Funds	Commodities	Fixed Income	Cash
Actual	26.85%	21.26%	9.74%	8.34%	14.03%	5.09%	14.58%	0.11%
Policy Target	25.00%	17.00%	15.00%	10.00%	15.00%	3.00%	15.00%	0.00%
Deviation	1.85%	4.26%	(5.26%)	(1.66%)	(0.97%)	2.09%	(0.42%)	0.11%

Deviation in Dollars (\$m) 83.32 191.86 (236.89) (74.76) (43.69) 94.13 (18.92) 4.95



Relative Risk Analysis 1 Year Horizon



UTIMCO Performance Summary
November 30, 2004

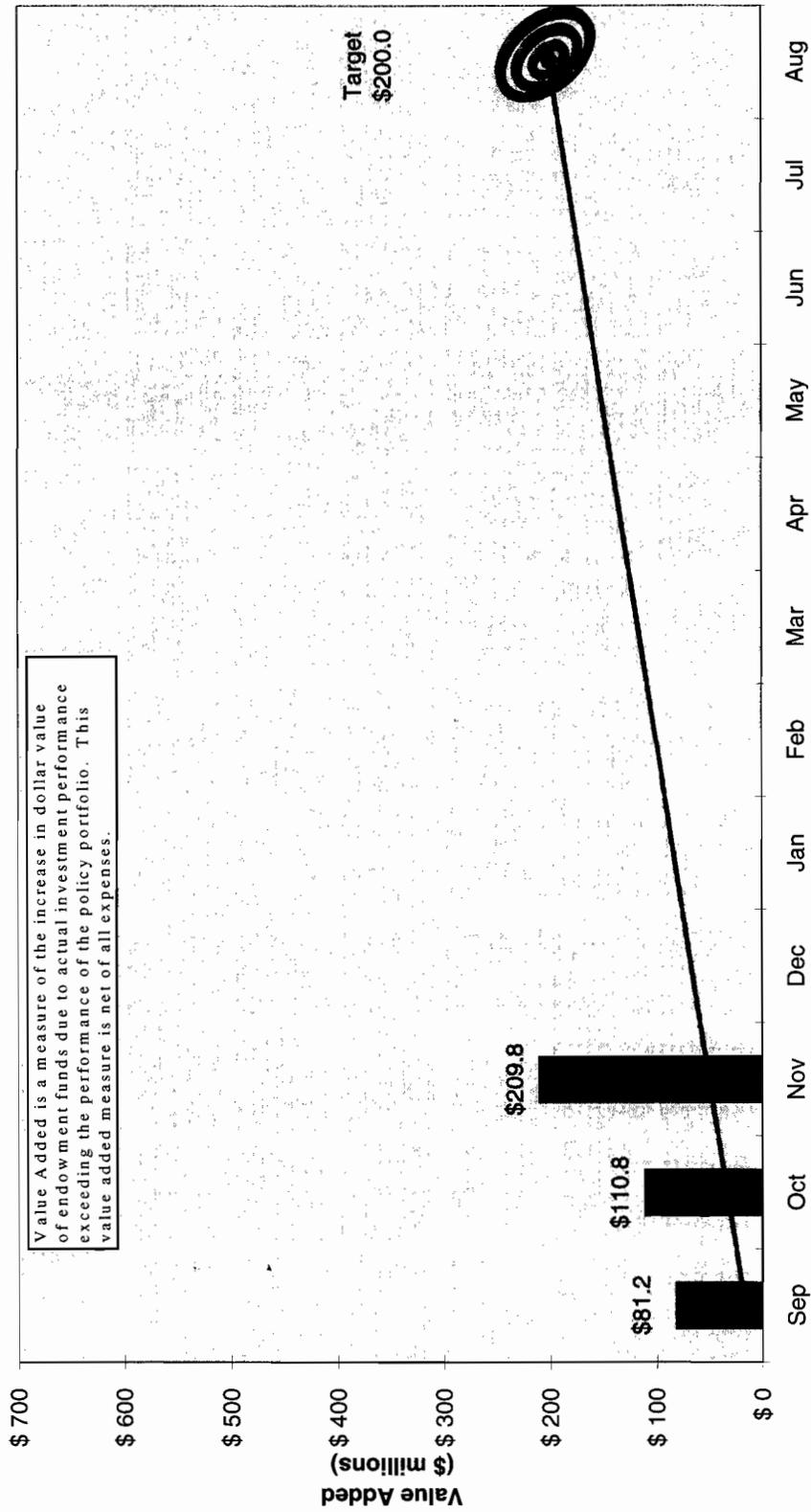
	Net Asset Value 11/30/2004 (in Millions)	Periods Ended November 30, 2004 (Returns for Periods Longer Than One Year are Annualized)										
		One Month	Fiscal Year To Date	Three Months	Six Months	Calendar Year To Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
ENDOWMENT FUNDS												
Permanent University Fund	\$ 8,648.2	3.06	7.23	7.23	8.03	11.51	15.41	17.36	9.24	5.62	5.56	10.57
General Endowment Fund		3.15	7.39	7.39	8.10	11.42	15.37	17.76	9.51	N/A	N/A	N/A
Permanent Health Fund	864.7	3.15	7.36	7.36	8.09	11.33	15.25	17.61	9.38	6.15	5.40	N/A
Long Term Fund	3,639.0	3.15	7.36	7.36	8.09	11.33	15.24	17.65	9.43	5.95	6.01	11.33
Separately Invested Funds	199.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	13,351.2											
OPERATING FUNDS												
Short Term Fund	2,454.8	0.15	0.41	0.41	0.72	1.14	1.22	1.19	1.44	2.24	3.06	4.32
Short Intermediate Term Fund	1,199.0	(0.05)	0.34	0.34	1.52	1.51	1.95	2.16	2.20	3.60	4.39	5.53
Institutional Index Funds:												
BGI US Bond Index Fund		(0.81)	0.31	0.31	3.84	3.42	4.46	4.96	5.71	7.09	7.49	N/A
BGI Equity Index Fund	138.8	4.04	6.77	6.77	5.70	7.25	12.87	14.01	2.78	(1.20)	(1.80)	N/A
Total Operating Funds	3,792.6											
Total Investments	\$ 17,143.8											
BENCHMARKS (1)												
Permanent University Fund: Policy Portfolio		2.34	5.58	5.58	7.09	10.75	13.98	12.63	6.06	3.33	4.58	11.53
General Endowment Fund: Policy Portfolio		2.34	5.58	5.58	7.09	10.75	13.98	12.63	6.06	3.39	4.40	11.45
Short Term Fund: 90 Day Treasury Bills Average Yield		0.14	0.39	0.39	0.70	1.11	1.21	1.19	1.40	2.25	3.00	4.17
Short Intermediate Term Fund: Composite (3/93-7/04) and Merrill Lynch 1-3 Year Treasury Index (8/04-current)		(0.50)	(0.28)	(0.28)	0.92	0.81	1.37	1.90	2.93	4.47	5.00	5.73
Institutional Bond Index Fund: Lehman Brothers Aggregate Bond Index		(0.80)	0.31	0.31	3.82	3.39	4.44	4.81	5.65	7.00	7.41	7.70
Institutional Equity Index Fund: S&P 500		4.05	6.78	6.78	5.68	7.23	12.86	13.97	2.74	(1.23)	(1.83)	11.86
VALUE ADDED (2)												
Permanent University Fund												(0.95)
General Endowment Fund										N/A	N/A	N/A
Permanent Health Fund												N/A
Long Term Fund												(0.12)
Short Term Fund								0.00	(0.01)	(0.01)	(0.61)	(0.21)
Short Intermediate Term Fund									(0.73)	(0.87)	(0.61)	N/A
Institutional Bond Index Fund		(0.01)										N/A
Institutional Equity Index Fund		(0.01)	(0.01)	(0.01)								N/A

(1) - Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct errors in benchmark construction and calculation. Results were restated for all periods beginning June, 1993. The complete details of the restatement as well as prior Policy Portfolio returns are available upon request.

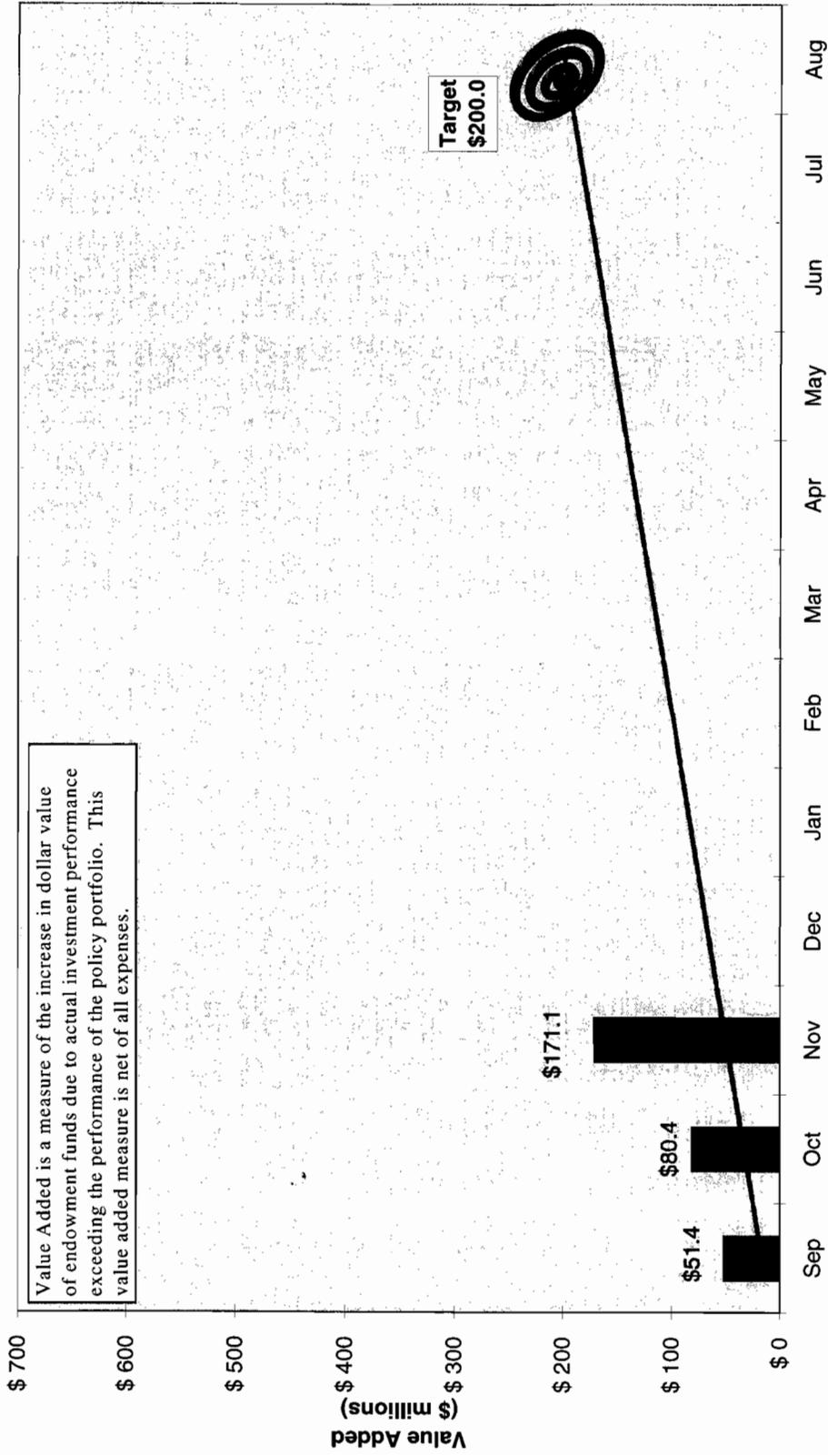
(2) - Value added is a measure of the difference between actual returns and benchmark or policy portfolio returns for each period shown. Value added is a result of the active management decisions made by the UTIMCO staff and external managers.



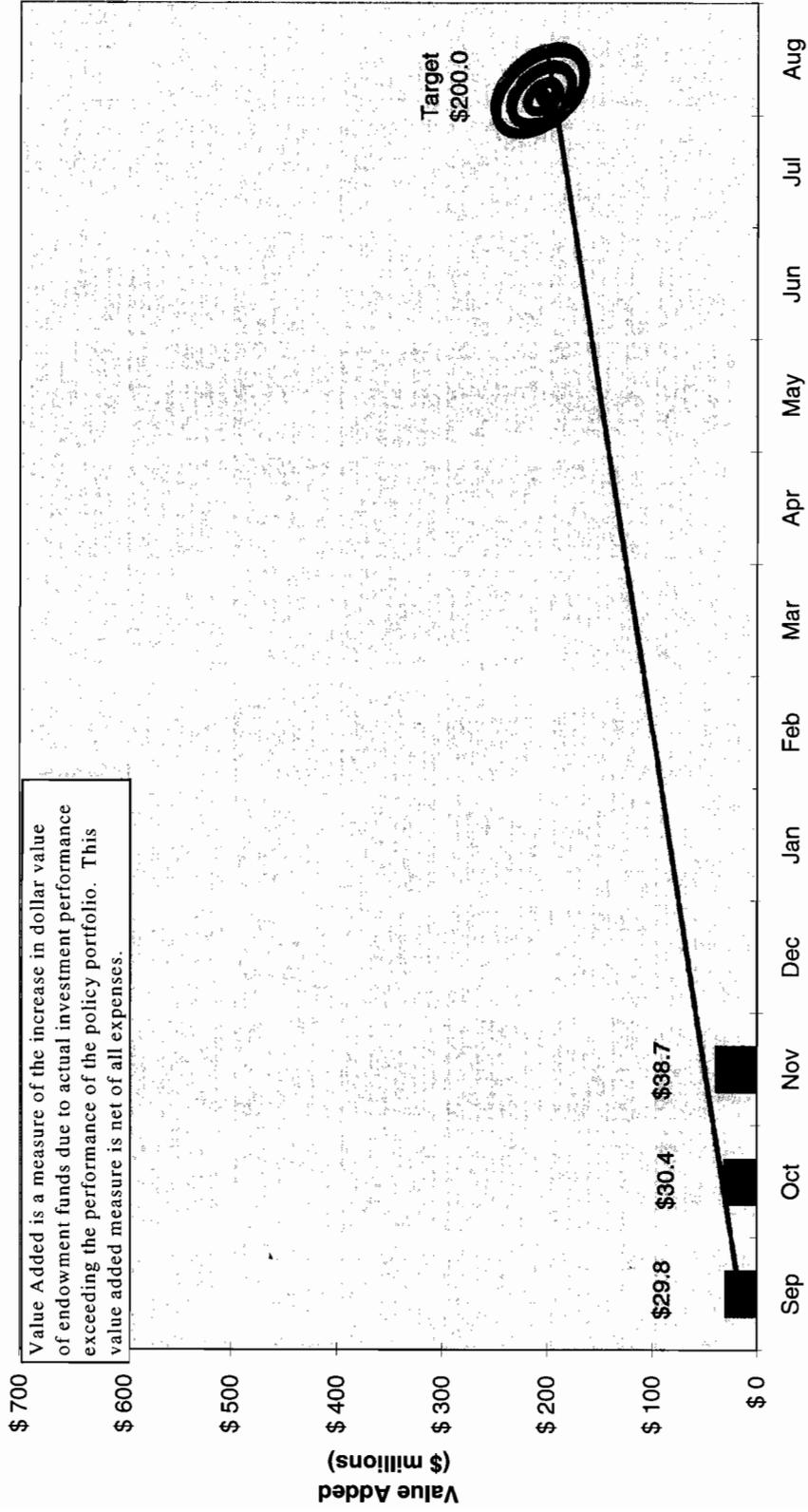
Cumulative Value Added In Endowment Funds 2004-2005 Fiscal Year



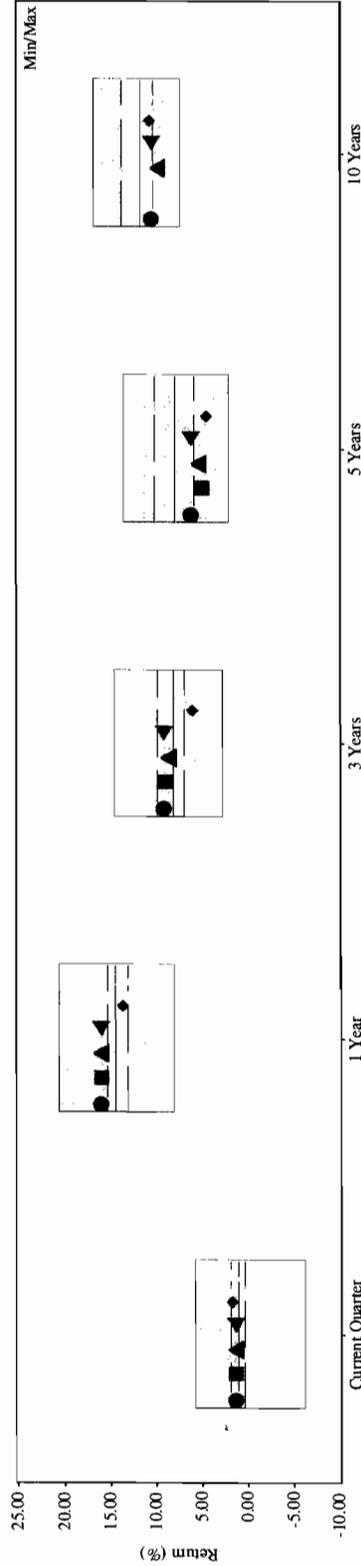
Cumulative Value Added in Marketable Securities in Endowment Funds 2004-2005 Fiscal Year



Cumulative Value Added In Non-Marketable Securities In Endowment Funds 2004-2005 Fiscal Year



UTIMCO ENDOWMENT FUNDS vs. Cambridge Billion \$ Funds Universe Periods Ended September 30, 2004 Quartile

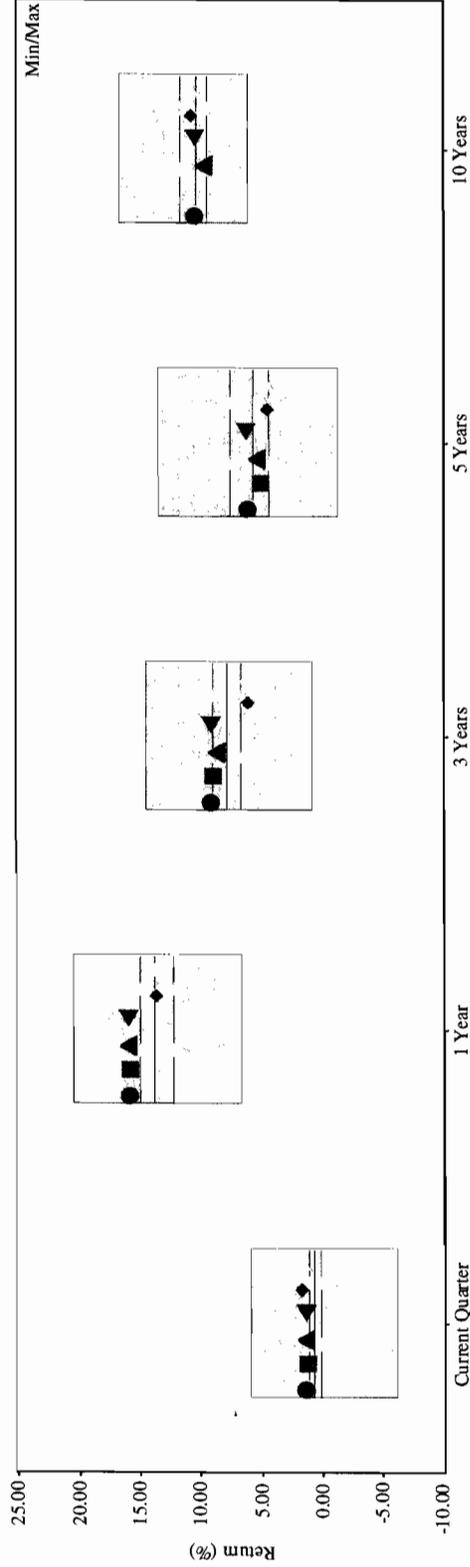


	Current Quarter	1 Year	3 Years	5 Years	10 Years
	Return	Return	Return	Return	Return
	(% tile)	(% tile)	(% tile)	(% tile)	(% tile)
Maximum	5.95	20.56	14.62	13.52	16.77
25th Percentile	1.95	15.34	9.84	10.21	13.82
Median	1.14	14.42	8.10	7.96	11.64
75th Percentile	0.37	13.13	6.84	5.92	10.28
Minimum	- 6.01	8.21	2.88	2.24	7.65
# of Portfolios	35	35	35	35	31
● UTIMCO LTF-Net of Fees	1.52	16.10	9.27	6.31	10.64
■ UTIMCO PHE-Net of Fees	1.52	16.10	9.21	5.22	---
▲ UTIMCO PUF-Net of Fees	1.58	16.13	8.82	5.52	82
◄ UTIMCO GEF-Net of Fees	1.54	16.24	9.34	6.37	10.67
◆ Policy Portfolio GEF	1.88	13.83	6.28	4.65	10.92
Policy Portfolio PUF	1.88	13.83	6.28	4.90	11.01
					72
					73
					78
					78
					67
					81
					78

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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 September 30, 2004 was 35.

**UTIMCO ENDOWMENT FUNDS vs.
Total Cambridge Universe
Periods Ended September 30, 2004
Quartile**



	Current Quarter	1 Year	3 Years	5 Years	10 Years
	Return	Return	Return	Return	Return
	(% tile)	(% tile)	(% tile)	(% tile)	(% tile)
Maximum	5.95	20.56	14.62	13.52	16.77
25th Percentile	1.21	14.96	8.97	7.51	11.62
Median	0.79	13.78	7.80	5.68	10.28
75th Percentile	0.16	12.27	6.72	4.34	9.40
Minimum	- 6.01	6.86	0.94	- 1.20	6.21
# of Portfolios	134	131	129	125	100
● UTIMCO LTF-Net of Fees	1.52	16.10	9.27	6.31	10.64
■ UTIMCO PHF-Net of Fees	1.52	16.10	9.21	5.22	---
▲ UTIMCO PUF-Net of Fees	1.58	16.13	8.82	5.52	9.96
▼ UTIMCO GEF-Net of Fees	1.54	16.24	9.34	6.37	10.67
◆ Policy Portfolio GEF	1.88	13.83	6.28	4.65	10.92
Policy Portfolio PUF	1.88	13.83	6.28	4.90	11.01

The Cambridge Universe consists of all College and Universities that report quarterly returns to Cambridge Associates, Inc. The number of Colleges and Universities reporting as of September 30, 2004 was 134.

**Permanent University Fund
Performance Attribution**

	Asset Allocation		Return		Total Attribution (1)
	November 30, 2004		One Month Ended November 30, 2004		
	Neutral	Weighted Exposure	Benchmark	PUF	
Cash and Cash Equivalents	0.0%	1.6%	0.14%	0.15%	-0.02%
U.S. Equities	25.0%	27.6%	4.66%	4.98%	0.16%
Global Equities	17.0%	20.7%	6.94%	6.29%	0.03%
Equity Hedge Funds	10.0%	8.1%	0.47%	0.11%	0.00%
Absolute Return Hedge Funds	15.0%	13.5%	0.39%	2.80%	0.35%
Commodities	3.0%	5.0%	-4.74%	-3.68%	-0.11%
Fixed Income	15.0%	14.2%	-0.61%	0.62%	0.19%
Total Marketable Securities	85.0%	90.7%	2.61%	3.26%	0.60%
Private Capital	15.0%	9.3%	0.79%	1.18%	0.12%
Total Fund	100.0%	100.0%	2.34% (2)	3.06%	0.72%

- (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		Total Attribution to
	November 30, 2004		Fiscal Year to Date November 30, 2004		
	Neutral	Market Exposure	Benchmark	PUF	
Cash and Cash Equivalents	0.0%	1.6%	0.39%	0.41%	-0.06%
U.S. Equities	25.0%	27.6%	8.45%	9.17%	0.26%
Global Equities	17.0%	20.7%	14.22%	11.56%	-0.23%
Equity Hedge Funds	10.0%	8.1%	1.40%	3.65%	0.27%
Absolute Return Hedge Funds	15.0%	13.5%	1.15%	4.99%	0.60%
Commodities	3.0%	5.0%	11.34%	10.24%	0.03%
Fixed Income	15.0%	14.2%	0.52%	2.39%	0.30%
Total Marketable Securities	85.0%	90.7%	6.14%	7.41%	1.17%
Private Capital	15.0%	9.3%	2.40%	5.44%	0.48%
Total Fund	100.0%	100.0%	5.58% (2) (3)	7.23%	1.65%

(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		Total Attribution (1)
	November 30, 2004		Calendar Year to Date November 30, 2004		
	Neutral	Asset Allocation	Benchmark	PUF	
Cash and Cash Equivalents	0.0%	1.6%	1.11%	1.14%	-0.15%
U.S. Equities	25.0%	27.6%	12.10%	12.52%	0.10%
Global Equities	17.0%	20.7%	16.36%	12.84%	-0.59%
Equity Hedge Funds	10.0%	8.1%	4.88%	8.10%	0.42%
Absolute Return Hedge Funds	15.0%	13.5%	3.93%	10.62%	0.99%
Commodities	3.0%	5.0%	29.13%	21.38%	-0.19%
Fixed Income	15.0%	14.2%	4.47%	5.52%	0.29%
Total Marketable Securities	85.0%	90.7%	9.94%	10.94%	0.87%
Private Capital	15.0%	9.3%	15.25%	16.28%	-0.11%
Total Fund	100.0%	100.0%	10.75% (2)	11.51%	0.76%

- (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		Total Attribution (1)
	November 30, 2004		Year Ended November 30, 2004		
	Neutral	Market Exposure	Benchmark	PUF	
Cash and Cash Equivalents	0.0%	1.6%	1.21%	1.22%	-0.09%
U.S. Equities	25.0%	27.6%	17.13%	16.14%	-0.21%
Global Equities	17.0%	20.7%	25.25%	20.45%	-0.42%
Equity Hedge Funds	10.0%	8.1%	5.33%	9.43%	0.61%
Absolute Return Hedge Funds	15.0%	13.5%	4.29%	12.42%	1.16%
Commodities	3.0%	5.0%	32.79%	25.84%	-0.12%
Fixed Income	15.0%	14.2%	5.65%	7.78%	0.52%
Total Marketable Securities	85.0%	90.7%	13.56%	15.20%	1.45%
Private Capital	15.0%	9.3%	16.16%	17.22%	-0.02%
Total Fund	100.0%	100.0%	13.98% (2) (3)	15.41%	1.43%

- (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.
(3) Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct errors in benchmark construction and calculation. Results were restated for all periods beginning June, 1993. The complete details of the restatement as well as prior Policy Portfolio returns are available upon request.



**General Endowment Fund
Performance Attribution**

	Asset Allocation		Return		
	November 30, 2004		One Month Ended November 30, 2004		Total Attribution (1)
	Neutral	Market Exposure	Benchmark	GEF	
Cash and Cash Equivalents	0.0%	0.1%	0.14%	0.15%	-0.02%
U.S. Equities	25.0%	26.9%	4.66%	4.99%	0.12%
Global Equities	17.0%	21.3%	6.94%	6.40%	0.06%
Equity Hedge Funds	10.0%	8.3%	0.47%	0.05%	0.00%
Absolute Return Hedge Funds	15.0%	14.0%	0.39%	2.85%	0.37%
Commodities	3.0%	5.1%	-4.74%	-3.71%	-0.12%
Fixed Income	15.0%	14.6%	-0.61%	0.68%	0.21%
Total Marketable Securities	85.0%	90.3%	2.61%	3.28%	0.62%
Private Capital	15.0%	9.7%	0.79%	1.94%	0.19%
Total Fund	100.0%	100.0%	2.34% (2)	3.15%	0.81%

(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		Total Attribution (1)
	November 30, 2004		Fiscal Year to Date November 30, 2004		
	Neutral	Market Exposure	Benchmark	GEF	
Cash and Cash Equivalents	0.0%	0.1%	0.39%	0.41%	-0.03%
U.S. Equities	25.0%	26.9%	8.45%	9.21%	0.24%
Global Equities	17.0%	21.3%	14.22%	11.90%	-0.15%
Equity Hedge Funds	10.0%	8.3%	1.40%	3.65%	0.26%
Absolute Return Hedge Funds	15.0%	14.0%	1.15%	5.06%	0.61%
Commodities	3.0%	5.1%	11.34%	10.31%	0.03%
Fixed Income	15.0%	14.6%	0.52%	2.56%	0.32%
Total Marketable Securities	85.0%	90.3%	6.14%	7.54%	1.28%
Private Capital	15.0%	9.7%	2.40%	6.01%	0.53%
Total Fund	100.0%	100.0%	5.58% (2) (3)	7.39%	1.81%

- (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		Total Attribution (1)
	November 30, 2004		Calendar Year to Date November 30, 2004		
	Neutral	Market Exposure	Benchmark	GEF	
Cash and Cash Equivalents	0.0%	0.1%	1.11%	1.14%	-0.10%
U.S. Equities	25.0%	26.9%	12.10%	12.35%	0.06%
Global Equities	17.0%	21.3%	16.36%	13.11%	-0.46%
Equity Hedge Funds	10.0%	8.3%	4.88%	8.16%	0.38%
Absolute Return Hedge Funds	15.0%	14.0%	3.93%	10.67%	0.98%
Commodities	3.0%	5.1%	29.13%	21.71%	-0.19%
Fixed Income	15.0%	14.6%	4.47%	5.58%	0.29%
Total Marketable Securities	85.0%	90.3%	9.94%	10.99%	0.96%
Private Capital	15.0%	9.7%	15.25%	15.25%	-0.29%
Total Fund	100.0%	100.0%	10.75% (2)	11.42%	0.67%

(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		Total Attribution (%)
	November 30, 2004		Year Ended November 30, 2004		
	Neutral	Market Exposure	Benchmark	GEF	
Cash and Cash Equivalents	0.0%	0.1%	1.21%	1.22%	-0.08%
U.S. Equities	25.0%	26.9%	17.13%	15.94%	-0.18%
Global Equities	17.0%	21.3%	25.25%	20.78%	-0.29%
Equity Hedge Funds	10.0%	8.3%	5.33%	9.48%	0.57%
Absolute Return Hedge Funds	15.0%	14.0%	4.29%	12.47%	1.14%
Commodities	3.0%	5.1%	32.79%	26.22%	-0.12%
Fixed Income	15.0%	14.6%	5.65%	7.87%	0.53%
Total Marketable Securities	85.0%	90.3%	13.56%	15.27%	1.57%
Private Capital	15.0%	9.7%	16.16%	16.23%	-0.18%
Total Fund	100.0%	100.0%	13.98% (2) (3)	15.37%	1.39%

- (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.
(3) Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct errors in benchmark construction and calculation. Results were restated for all periods beginning June, 1993. The complete details of the restatement as well as prior Policy Portfolio returns are available upon request.





Public Markets Managers
Investment Performance Detail Summary
Periods Ended November 30, 2004

UTIMCO Manager Rating:

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

Public Equities: Domestic Equities: Foreign Management: vs. S&P 500 Index	Periods Ended November 30, 2004 (Returns for Periods Longer Than One Year are Annualized)										Manager	Inception Date		
	One Month	Three Months	Six Months	One Year	Three Years	Five Years	Seven Years	Ten Years	From Inception to November 30, 2004 (Returns for Periods Longer Than One Year are Annualized)					
NET OF FEES PERFORMANCE:														
Public Equities:														
Domestic Equities:														
Foreign Management:														
vs. S&P 500 Index														
BGI S&P 400 Midcap	69.5	4.04	6.77	5.65	12.82	2.75	11.98	4.65	11.98			N/A	February 1993	
vs. S&P 500 Index	(0.01)	(0.01)	(0.01)	(0.01)	(0.03)									
BGI S&P 400 Midcap	41.5	5.95	11.01	7.95	13.88	10.96	9.99	11.62	15.84					December 1992
vs. S&P 500 Index	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)									
S&P 100 Index Exchange Traded Funds	112.8	3.82	4.77	3.82	4.77									August 2004
vs. S&P 100 Index	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)									
S&P 500 Index Futures	412.9	4.04	6.84	5.82	12.40	1.59								March 2001
vs. S&P 500 Index	(0.01)	(0.01)	(0.01)	(0.01)	(0.46)	(1.15)								(0.47)
Large Cap Technology Exchange Traded Funds	36.2	5.93	14.33	7.14										June 2004
vs. Russell 3000	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)									(0.47)
Semiconductor Index Funds	4.9	0.48	10.85	(16.29)										April 2004
vs. Russell 3000	(4.17)	(22.71)												(15.37)
Energy Sector Index - Exchange Traded Funds	18.3	6.85	17.36											August 2004
vs. Russell 3000														
Dow Jones - Exchange Traded Funds and Futures	134.3	4.57	3.08	3.26	8.40									November 2003
vs. Dow Jones Industrial Average	(0.00)	(0.00)	(0.00)	(0.22)	(0.44)									(0.96)
Dow Jones Select Dividend - Exchange Traded Funds	24.2	4.62	8.22											August 2004
vs. Russell 3000	(0.05)													
Global 100 Index ETF (Funded November 2004)	46.2													November 2004
vs. Russell 3000														
Russell 2000 Exchange Traded Funds and Futures	134.7	9.53	16.89	14.54										February 2004
vs. Russell 2000														
Active Management:														
BGI Russell 2000 Alpha Tilt	197.3	7.98	15.75	12.02	15.58									February 2002
vs. Russell 2000	(0.09)	(0.26)	(0.16)	(1.08)										
BGI Russell 3000 Alpha Tilt	261.8	4.55	9.03	6.52	12.61									August 2003
vs. Russell 3000	(0.10)	(0.10)	(0.10)	(0.43)										(0.24)
Davis Hamilton Investors	54.3	5.13	11.38	6.79	8.18	0.75								January 1994
vs. Russell Mid Cap Effective 8/04 (S&P 500 1/94 - 7/04)	(0.96)	(1.18)	(4.63)	(0.82)	(5.82)									(1.87)
GSAM - Large Cap	150.7	5.66	8.34	4.73	13.42	4.05								April 1998
vs. S&P 500 Index		(0.95)	(1.51)			(1.21)								(0.06)
GSAM - Small Cap	89.5	8.80	14.05	10.35	12.75	13.35								April 1998
vs. Russell 2000	(1.11)	(1.97)	(1.83)	(4.51)										7.30
John Lewis & Co.	133.5	5.45												September 2004
vs. Russell 1000														
MBA Investments	0.7	3.61	6.96	2.19	6.72	0.91								November 1995
vs. S&P 500 Index	(0.43)	(1.11)	(3.49)	(6.13)	(5.98)	(5.70)								(6.63)
Fennmann Leff - Mid Cap	118.6	7.46	15.53											August 2004
vs. Russell Mid Cap														
Fennmann Leff - Small Cap	257.1	10.27	16.49	16.88	32.17	12.73								January 1994
vs. Russell 2000														
Relational Investors	131.2	3.76												September 2004
vs. S&P 500 Index	(0.29)													
Ironbridge (Funded November 2004)	52.3													November 2004
vs. Russell 2000														
State Street Research Hedge	40.1	14.35	29.33											July 2004
vs. Russell 2000														
State Street Research Small Cap	32.5	13.02	29.37	30.18										June 2004
vs. Russell 2000														
TCW MultiCap	101.2	6.29	14.58	2.36										February 2004
vs. Russell 3000				(4.06)										(4.67)
TCW Mid Value	25.6	5.15	10.83	1.61										April 2004
vs. Russell Mid Cap	(0.94)	(0.94)	(0.94)	(0.48)										(0.38)
TCW Small Value	35.8	8.23	12.42	1.26										April 2004
vs. Russell 2000	(0.44)	(0.44)	(0.44)	(0.92)										(0.94)
Value Act Capital	106.4	2.28	7.59	11.84	20.25									August 2003
vs. Russell 2000	(0.39)	(0.42)	(0.34)											(7.71)
Westport Small Cap Value	110.0	8.98												October 2004
vs. Russell 2000														



**Public Markets Managers
Investment Performance Detail Summary
Periods Ended November 30, 2004**

UTIMCO Manager Rating:	NET ON FEES PERFORMANCE (continued)	Assets Under Management (\$ Millions)	Periods Ended November 30, 2004 (Returns for Periods Longer Than One Year are Annualized)						From Inception to November 30, 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
●	positive	716.6	5.26	13.41	28.24	37.57	26.32	24.15	12.76	18.47	15.67	April 1993
○	neutral to slightly positive	-	4.06	6.49	4.02	-	-	-	-	-	0.32	January 2004
○	neutral (strange to be reviewed)	-	(8.64)	(14.27)	(11.91)	-	-	-	-	-	(7.81)	January 2004
○	neutral to slightly negative	-	-	-	-	-	-	-	-	-	-	-
○	negative	-	-	-	-	-	-	-	-	-	-	-
●	REITS:	537.9	6.86	13.40	12.65	24.39	10.90	0.11	5.05	6.14	7.13	April 1993
●	REITS - Greg Cox	-	-	-	-	-	-	-	-	-	-	-
●	vs. Dow Jones Wilshire Real Estate Securities	-	-	-	-	-	-	-	-	-	-	-
●	Domestic Equities Spread Trades:	153.8	9.04	18.82	22.37	29.37	-	-	-	-	20.63	February 2002
●	Long Large Cap (\$837.4 Million In Notional)	-	(0.22)	-	-	-	-	-	-	-	(0.15)	-
●	Short Small Cap (\$494.8 Million In Notional)	-	-	-	-	-	-	-	-	-	-	-
●	International Equities:	284.9	6.71	13.17	12.63	24.20	-	-	-	-	30.10	August 2003
●	Passive Management:	41.7	(0.12)	(0.19)	-	-	-	-	-	-	(0.06)	October 2004
●	BGI EAFE International Fund	-	(4.77)	-	-	-	-	-	-	-	(4.77)	-
●	vs. MSCI EAFE Net	-	-	-	-	-	-	-	-	-	-	-
●	BGI Emerging Markets Structured Fund	106.6	6.22	12.77	12.34	29.89	18.03	1.31	4.40	-	3.67	December 1996
●	vs. MSCI Emerging Markets Free	-	(1.61)	(2.87)	(1.87)	(0.40)	(2.57)	(5.82)	(4.30)	-	(2.64)	-
●	Active Management:	527.1	5.12	7.16	6.93	21.30	-	-	-	-	15.65	November 2003
●	BGI International Alpha Tills	-	(1.71)	(6.20)	(5.65)	-	-	-	-	-	-	-
●	vs. MSCI EAFE Net	-	-	-	-	-	-	-	-	-	-	-
●	Blakeney Management	220.7	6.67	13.89	17.73	39.21	-	-	-	-	38.38	October 2003
●	vs. MSCI Emerging Markets Free	-	(1.17)	(1.11)	-	-	-	-	-	-	-	-
●	Capital Guardian Trust Small Cap International	72.2	11.00	27.98	30.26	-	-	-	-	-	18.37	March 2004
●	vs. Citigroup Extended Market Index World ex U.S.	-	-	-	-	-	-	-	-	-	-	-
●	Globalflex Canada	78.6	4.88	4.35	7.78	-	-	-	-	-	1.03	March 2004
●	vs. Nobilit Burns Small Cap Canada	-	(0.37)	(0.88)	-	-	-	-	-	-	-	-
●	Globalflex Japan	287.7	7.54	12.45	10.14	23.39	9.80	(0.93)	-	-	2.62	April 1998
●	vs. Russell/Nomura Mid Small Cap Index	-	(0.91)	(2.44)	(0.81)	(0.72)	(0.85)	-	-	-	(0.17)	-
●	GSAM - Structured International Equity	261.3	7.64	16.55	21.04	30.42	25.42	7.08	6.43	-	4.89	January 1996
●	vs. MSCI EAFE Net	-	(1.62)	(1.79)	(0.63)	-	-	-	-	-	-	-
●	Franklin Templeton	87.5	7.38	12.89	9.97	21.29	9.69	-	-	-	(3.24)	August 2000
●	vs. MSCI Emerging Markets Free	-	(0.47)	(2.91)	(2.91)	(0.85)	-	-	-	-	(2.88)	-
●	Oechle	52.9	-	-	-	-	-	-	-	-	-	November 2004
●	vs. MSCI EAFE Net	-	-	-	-	-	-	-	-	-	-	-
●	State Street Research Global (Funded November 2004)	35.5	0.14	0.40	0.70	-	-	-	-	-	0.70	May 2004
●	vs. MSCI All Country World Free ex U.S.	-	-	-	-	-	-	-	-	-	-	-
●	International Liquidity	-	-	-	-	-	-	-	-	-	-	-
●	vs. 90 Day Treasury Bills Average Yield	-	-	-	-	-	-	-	-	-	-	-
●	International Equity Options	-	-	-	-	-	-	-	-	-	-	-
●	Hedge Funds:	100.2	(0.50)	0.97	8.20	-	-	-	-	-	11.30	January 2004
●	Blue Ridge	-	(0.97)	(0.43)	-	-	-	-	-	-	-	-
●	vs. 90 Day Treasury Bills Average Yield + 4%	-	-	-	-	-	-	-	-	-	-	-
●	Brahman II	26.8	0.05	6.24	-	-	-	-	-	-	7.01	August 2004
●	vs. 90 Day Treasury Bills Average Yield + 4%	-	(0.41)	-	-	-	-	-	-	-	-	-
●	Eminence	58.7	4.12	5.82	8.19	15.35	-	-	-	-	13.31	July 2003
●	vs. 90 Day Treasury Bills Average Yield + 4%	-	-	-	-	-	-	-	-	-	-	-
●	Indus Asia Pacific	27.9	3.06	9.14	11.03	11.37	-	-	-	-	11.37	December 2003
●	vs. 90 Day Treasury Bills Average Yield + 4%	-	-	-	-	-	-	-	-	-	-	-
●	Indus Japan	22.6	0.77	1.15	4.24	12.60	-	-	-	-	12.60	December 2003
●	vs. 90 Day Treasury Bills Average Yield + 4%	-	(0.25)	-	-	-	-	-	-	-	-	-
●	Maverick Fund	526.9	(1.24)	3.61	3.60	10.82	5.57	11.04	-	-	11.34	August 1998
●	vs. 90 Day Treasury Bills Average Yield + 4%	-	(1.71)	-	-	-	-	-	-	-	-	-
●	Millgate International	10.4	4.36	-	-	-	-	-	-	-	4.57	October 2004
●	vs. 90 Day Treasury Bills Average Yield + 4%	-	-	-	-	-	-	-	-	-	-	-
●	OCM Emerging Markets Fund	83.5	(0.14)	0.35	2.68	9.38	-	-	-	-	8.92	January 2002
●	vs. 90 Day Treasury Bills Average Yield + 4%	-	(0.61)	(1.04)	(0.05)	-	-	-	-	-	-	-
●	SG Partners	50.1	2.50	7.02	(1.99)	(2.28)	-	-	-	-	0.32	September 2003
●	vs. 90 Day Treasury Bills Average Yield + 4%	-	-	-	(4.72)	(7.61)	-	-	-	-	(4.99)	-
●	Sines Overseas	73.1	1.26	2.80	1.09	3.79	-	-	-	-	5.20	May 2003
●	vs. 90 Day Treasury Bills Average Yield + 4%	-	-	-	(1.64)	(1.54)	-	-	-	-	(0.10)	-
●	Standard Pacific Capital Offshore Fund	52.9	3.14	7.20	7.62	11.19	-	-	-	-	3.18	February 2003
●	vs. 90 Day Treasury Bills Average Yield + 4%	-	-	-	-	-	-	-	-	-	(2.13)	-
●	Seafirst	40.7	1.76	-	-	-	-	-	-	-	1.76	November 2004
●	vs. 90 Day Treasury Bills Average Yield + 4%	-	-	-	-	-	-	-	-	-	-	-



Public Markets Managers
Investment Performance Detail Summary
Periods Ended November 30, 2004

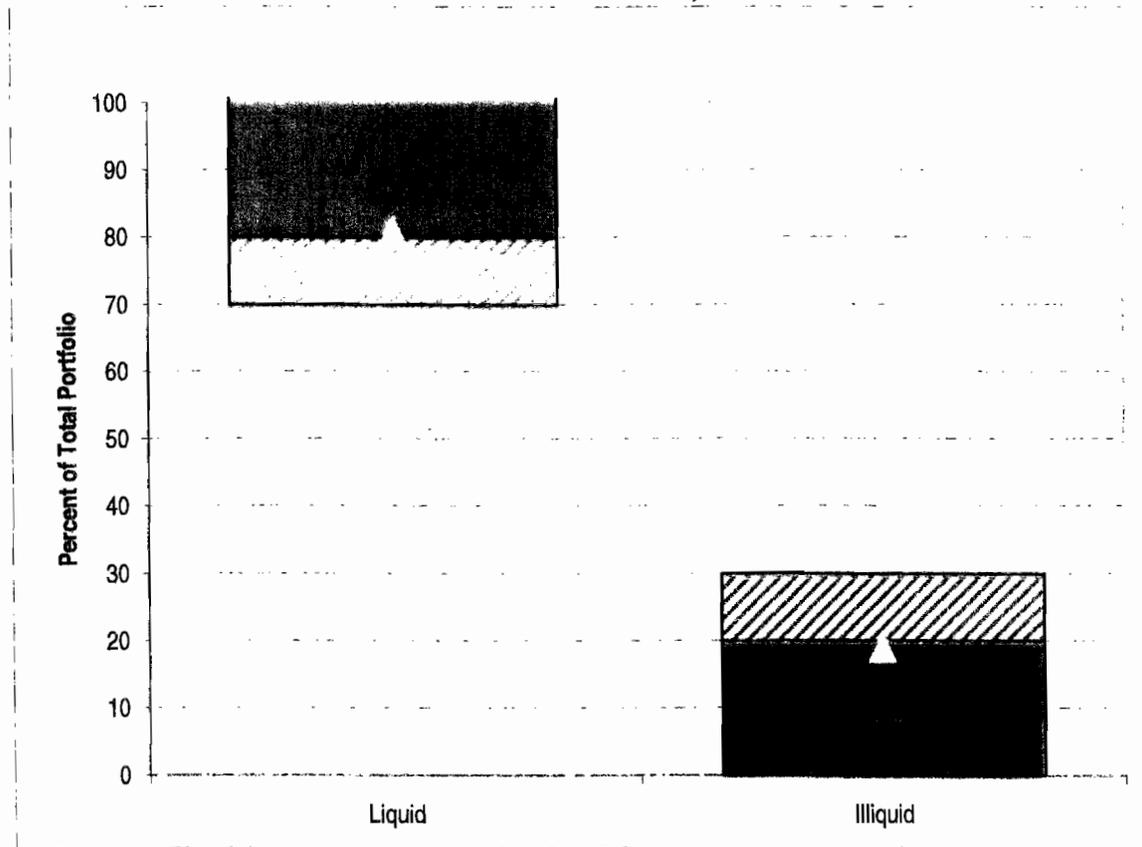
UTIMCO Manager Rating:

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

Assets Under Management (\$ Millions)	Periods Ended November 30, 2004 (Returns for Periods Longer Than One Year are Annualized)						From Inception to November 30, 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)										
Absolute Returns:										
●	39.2	3.15	1.68	2.27	-	-	-	-	(2.05) (5.30)	March 2004
●	254.4	0.55	1.86	3.19	-	-	-	-	3.53	May 2004
●	46.2	5.55	11.40	14.11	-	-	-	-	15.52	March 2004
●	393.2	4.29	7.63	8.21	15.35	14.94	14.51	-	14.04	August 1998
●	21.8	(0.45) (0.84)	(0.96) (2.10)	1.56 (0.66)	9.24	-	-	-	9.24	December 2003
●	35.2	0.60	-	-	-	-	-	-	0.60	November 2004
●	104.9	2.41	4.09	-	-	-	-	-	4.96	August 2004
●	445.3	4.00	6.60	8.12	16.63	14.60	15.61	-	14.11	August 1998
●	202.6	1.42	2.85	3.45	7.74	-	-	-	10.99	February 2003
●	256.5	2.22	3.90	4.41	8.61	4.46	-	-	7.23	September 2000
○	430.4	(4.77) (0.84)	11.71	10.44	40.01	-	-	-	28.92	June 2002
●	229.7	(1.60)	7.81	6.24	-	-	-	-	17.47	January 2004
●	232.3	(0.68)	0.53	3.91	4.55	5.54	-	-	6.53	February 2001
●	274.2	(0.05)	0.64	2.96	3.94	3.98	-	-	6.60	February 2000
●	506.5	(0.34)	0.59	3.43	4.23	4.84	-	-	7.28	-
●	29.5	1.49	6.63	17.72	-	-	-	-	17.72	May 2004
●	747.6	2.01	4.90	7.18	10.94	11.19	9.63	-	8.16	March 1998
●	315.5	(0.41) (0.17)	0.95	-	-	-	-	-	4.00	July 2004
●	262.1	0.08	1.38	-	-	-	-	-	1.38	August 2004
●	-	-	-	-	-	-	-	-	-	-
Commodities:										
○	-	(4.77) (0.84)	11.71	10.44	40.01	-	-	-	28.92	June 2002
●	229.7	(1.60)	7.81	6.24	-	-	-	-	17.47	January 2004
●	232.3	(0.68)	0.53	3.91	4.55	5.54	-	-	6.53	February 2001
●	274.2	(0.05)	0.64	2.96	3.94	3.98	-	-	6.60	February 2000
●	506.5	(0.34)	0.59	3.43	4.23	4.84	-	-	7.28	-
●	29.5	1.49	6.63	17.72	-	-	-	-	17.72	May 2004
●	747.6	2.01	4.90	7.18	10.94	11.19	9.63	-	8.16	March 1998
●	315.5	(0.41) (0.17)	0.95	-	-	-	-	-	4.00	July 2004
●	262.1	0.08	1.38	-	-	-	-	-	1.38	August 2004
●	-	-	-	-	-	-	-	-	-	-
Fixed Income:										
○	430.4	(4.77) (0.84)	11.71	10.44	40.01	-	-	-	28.92	June 2002
●	229.7	(1.60)	7.81	6.24	-	-	-	-	17.47	January 2004
●	232.3	(0.68)	0.53	3.91	4.55	5.54	-	-	6.53	February 2001
●	274.2	(0.05)	0.64	2.96	3.94	3.98	-	-	6.60	February 2000
●	506.5	(0.34)	0.59	3.43	4.23	4.84	-	-	7.28	-
●	29.5	1.49	6.63	17.72	-	-	-	-	17.72	May 2004
●	747.6	2.01	4.90	7.18	10.94	11.19	9.63	-	8.16	March 1998
●	315.5	(0.41) (0.17)	0.95	-	-	-	-	-	4.00	July 2004
●	262.1	0.08	1.38	-	-	-	-	-	1.38	August 2004
●	-	-	-	-	-	-	-	-	-	-
Treasury Inflation Protection Securities (TIPS):										
○	430.4	(4.77) (0.84)	11.71	10.44	40.01	-	-	-	28.92	June 2002
●	229.7	(1.60)	7.81	6.24	-	-	-	-	17.47	January 2004
●	232.3	(0.68)	0.53	3.91	4.55	5.54	-	-	6.53	February 2001
●	274.2	(0.05)	0.64	2.96	3.94	3.98	-	-	6.60	February 2000
●	506.5	(0.34)	0.59	3.43	4.23	4.84	-	-	7.28	-
●	29.5	1.49	6.63	17.72	-	-	-	-	17.72	May 2004
●	747.6	2.01	4.90	7.18	10.94	11.19	9.63	-	8.16	March 1998
●	315.5	(0.41) (0.17)	0.95	-	-	-	-	-	4.00	July 2004
●	262.1	0.08	1.38	-	-	-	-	-	1.38	August 2004
●	-	-	-	-	-	-	-	-	-	-

Combined Liquidity Profile

November 30, 2004



Current:

	11/30/2004		10/31/2004	
	Market Value	Percent	Market Value	Percent
Liquid	10,784,398,370.03	80.7	10,422,873,786.05	80.5
Illiquid	2,576,641,361.22	19.3	2,530,475,014.65	19.5
	<u>13,361,039,731.25</u>	<u>100.0</u>	<u>12,953,348,800.70</u>	<u>100.0</u>

Approved but not yet invested illiquid marketable investments:

	11/30/2004		10/31/2004	
	Market Value	Percent	Market Value	Percent
Liquid	10,599,398,370.03	79.3	10,317,873,786.05	79.7
Illiquid	2,761,641,361.22	20.7	2,635,475,014.65	20.3
	<u>13,361,039,731.25</u>	<u>100.0</u>	<u>12,953,348,800.70</u>	<u>100.0</u>

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%.

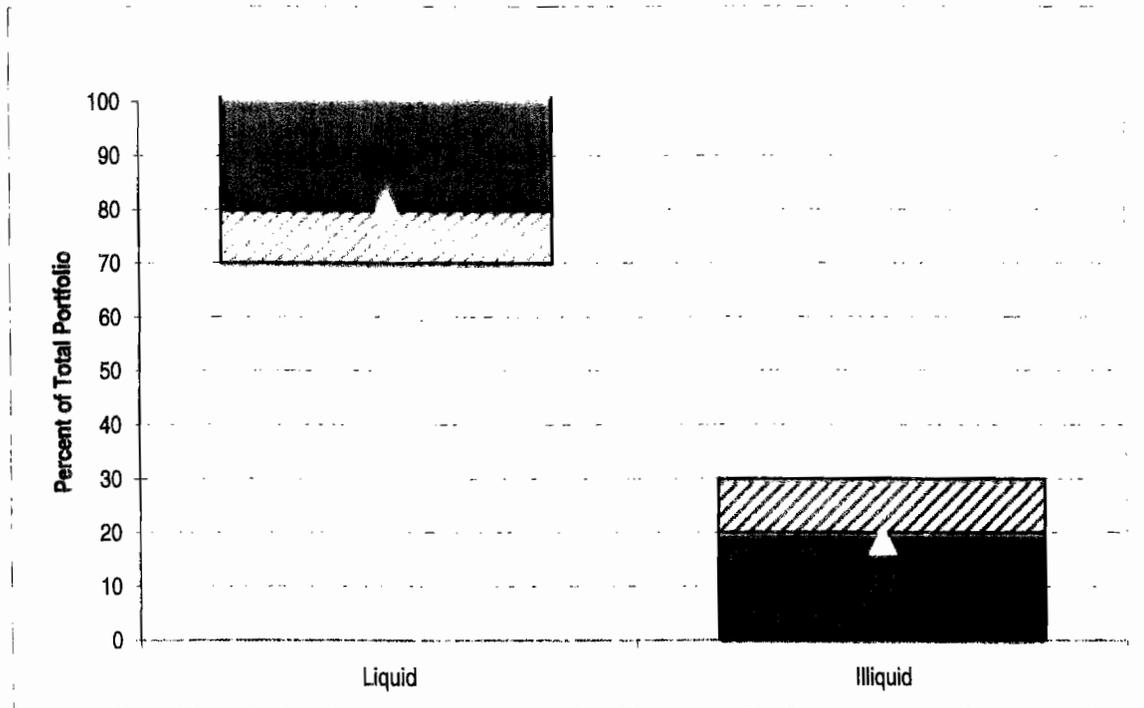
I, Andy V. R..., as Risk Manager, certify that I have reviewed the liquidity categories provided by the Managing Directors and concur with the classifications.

I, Open M..., 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.

I, ..., as President of UTIMCO, certify that I have reviewed the liquidity categories, classifications by Managing Directors and the method of calculating statistics presented in this report and concur with the information presented.

PUF Liquidity Profile

November 30, 2004



Current

	11/30/2004		10/31/2004	
	Market Value	Percent	Market Value	Percent
Liquid	7,118,994,651.91	81.0	6,820,871,087.14	80.5
Illiquid	1,672,476,840.57	19.0	1,648,307,620.89	19.5
	<u>8,791,471,492.48</u>	<u>100.0</u>	<u>8,469,178,708.03</u>	<u>100.0</u>

Approved but not yet invested illiquid marketable investments:

	11/30/2004		10/31/2004	
	Market Value	Percent	Market Value	Percent
Liquid	6,994,944,651.91	79.6	6,752,621,087.14	79.7
Illiquid	1,796,526,840.57	20.4	1,716,557,620.89	20.3
	<u>8,791,471,492.48</u>	<u>100.0</u>	<u>8,469,178,708.03</u>	<u>100.0</u>

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%.

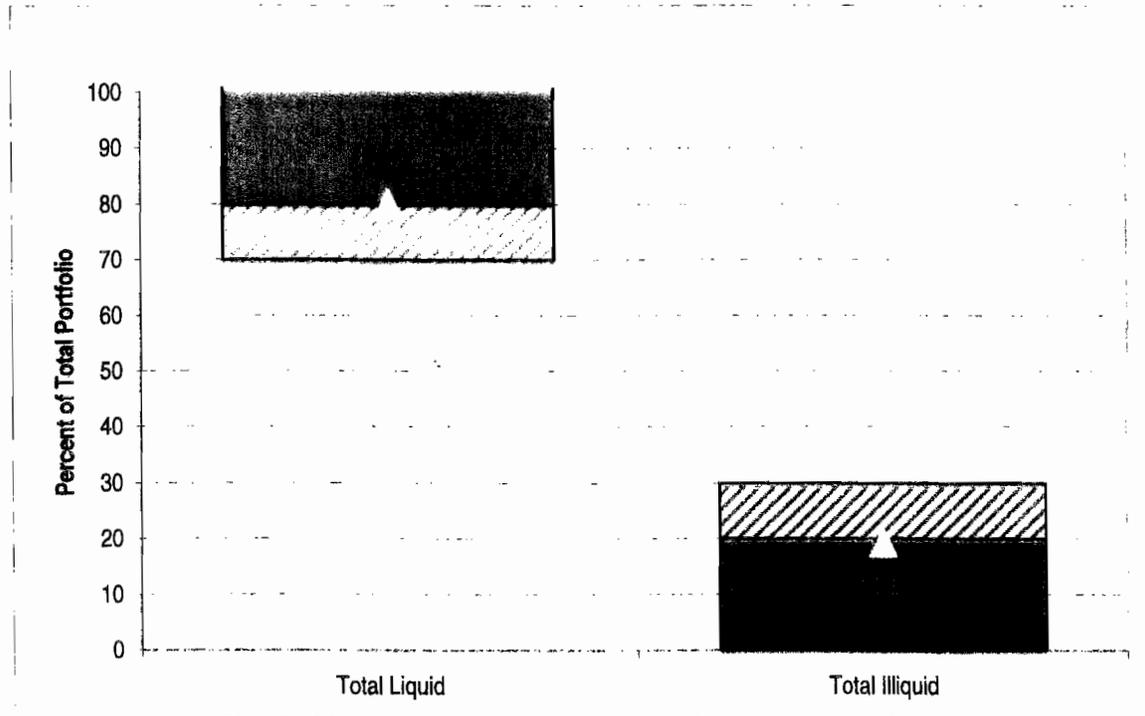
I, Bob V. RO, as Risk Manager, certify that I have reviewed the liquidity categories provided by the Managing Directors and concur with the classifications.

I, Joe Mall, 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.

I, Shirley, as President of UTIMCO, certify that I have reviewed the liquidity categories, classifications by Managing Directors and the method of calculating statistics presented in this report and concur with the information presented.

GEF Liquidity Profile

November 30, 2004



Current

	11/30/2004		10/31/2004	
	Market Value	Percent	Market Value	Percent
Liquid	3,665,403,718.12	80.2	3,602,002,698.91	80.3
Illiquid	904,164,520.65	19.8	882,167,393.76	19.7
	<u>4,569,568,238.77</u>	<u>100.0</u>	<u>4,484,170,092.67</u>	<u>100.0</u>

Approved but not yet invested illiquid marketable investments:

	11/30/2004		10/31/2004	
	Market Value	Percent	Market Value	Percent
Liquid	3,604,453,718.12	78.9	3,565,252,698.91	79.5
Illiquid	965,114,520.65	21.1	918,917,393.76	20.5
	<u>4,569,568,238.77</u>	<u>100.0</u>	<u>4,484,170,092.67</u>	<u>100.0</u>

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

I, [Signature], 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.

I, [Signature], as President of UTIMCO, certify that I have reviewed the liquidity categories, classifications by Managing Directors and the method of calculating statistics presented in this report and concur with the information presented.

Liquidity Profile for GEF and PUF

November 30, 2004

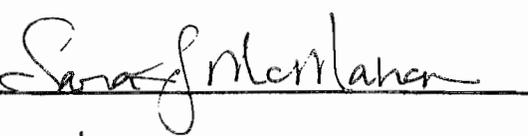
I certify that I have reviewed the report and supporting documentation covered by the period listed above and concur with the liquidity classifications of the investments that I have for which I have responsibility.

 Larry Goldsmith, Managing Director - Public Markets

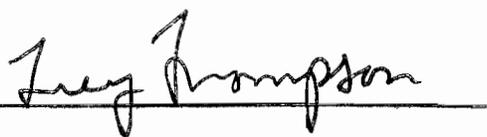
January 3, 2005 Date

 Cathy Iberg, Managing Director - Marketable Alternatives

1/10/05 Date

 Sara McMahon, Managing Director - Non-Marketable Alternatives

1-3-05 Date

 Trey Thompson, Managing Director - Non-Marketable Alternatives

1-3-05 Date

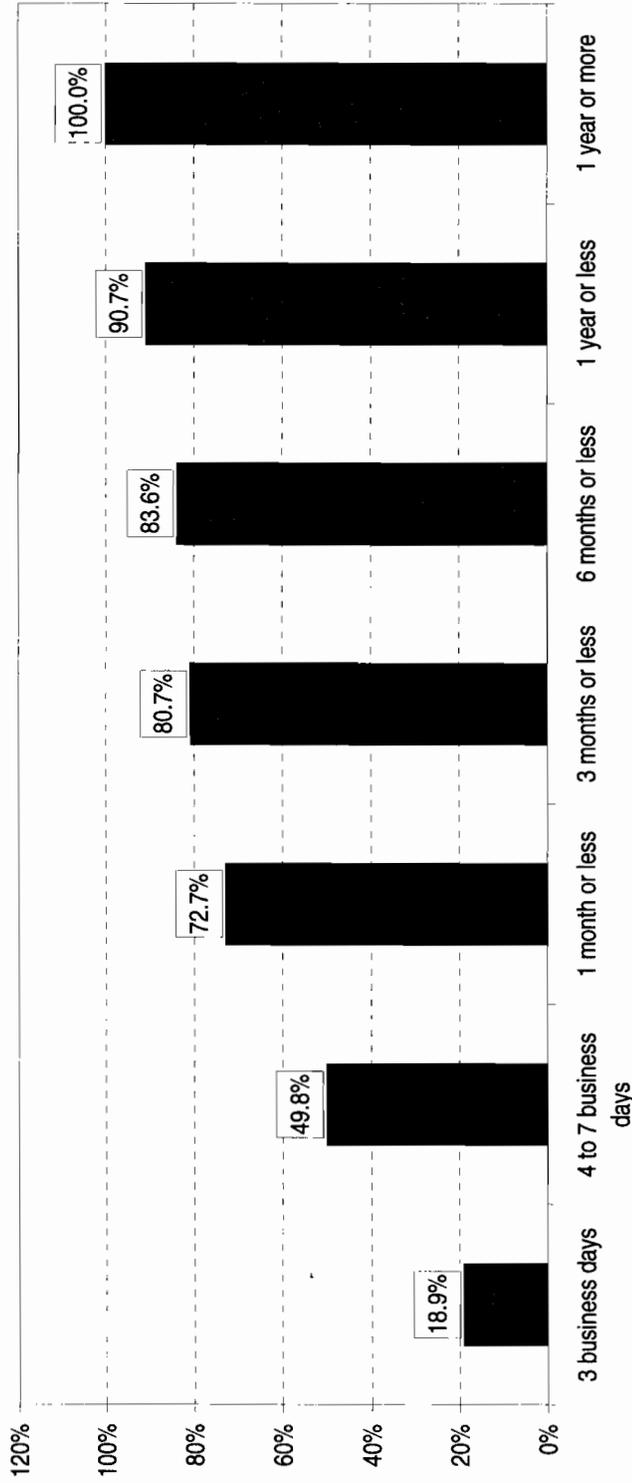
**Illiquid investments approved/delegated or funded from last report to UTIMCO Board
through current report date
October 31, 2004 through November 30, 2004**

	Board Approved/ Delegated	Committed Amount		Funded Amount	
		PUF	GEF	PUF	GEF
Private Equity investments					
Union Square Ventures 2004	Sept 2004	\$ 17,500,000.00	\$ 7,500,000.00	\$ 682,500.00	\$ 292,500.00
Marketable Alternative investments					
Eminence Fund	Nov 2004	\$ 33,500,000.00	\$ 16,500,000.00	\$ -	\$ -
OCM Emerging Markets	Nov 2004	\$ 20,100,000.00	\$ 9,900,000.00	\$ -	\$ -

Change in investment's liquidity classification

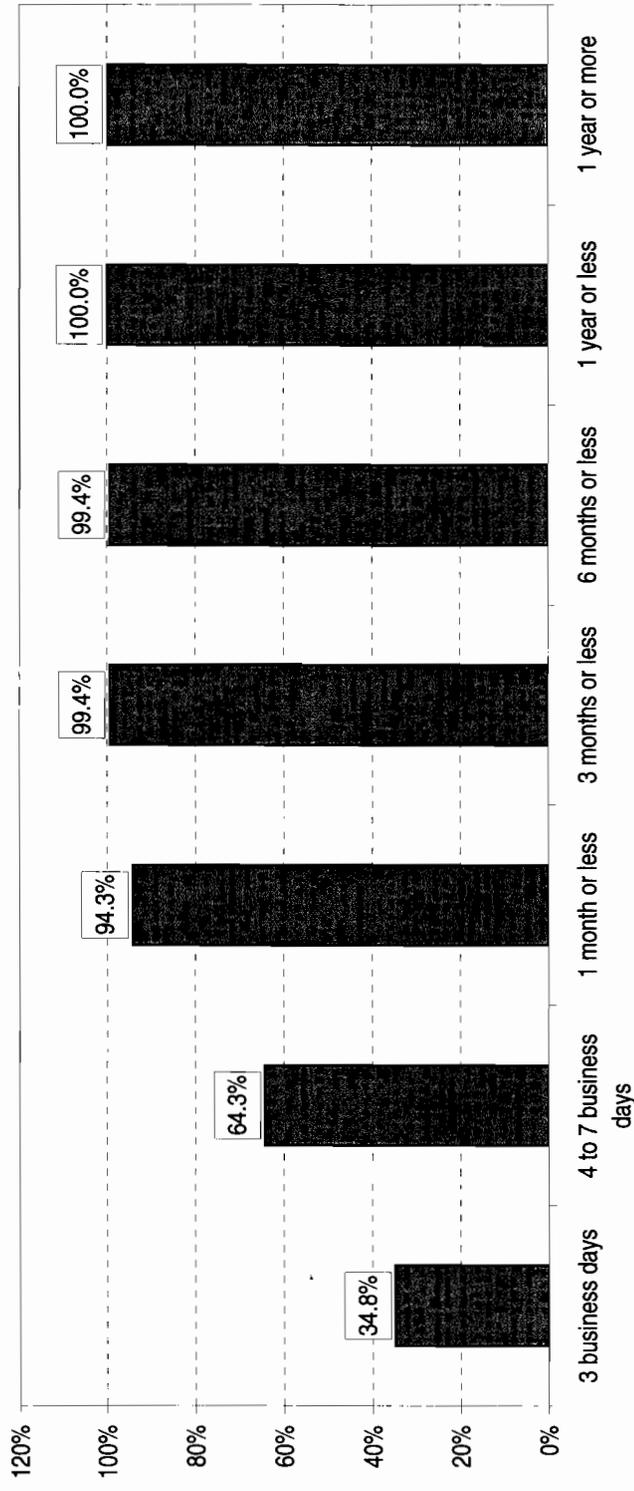
None

UT Endowments (PUF & GEF) Actual Liquidity Classification
as of November 30, 2004



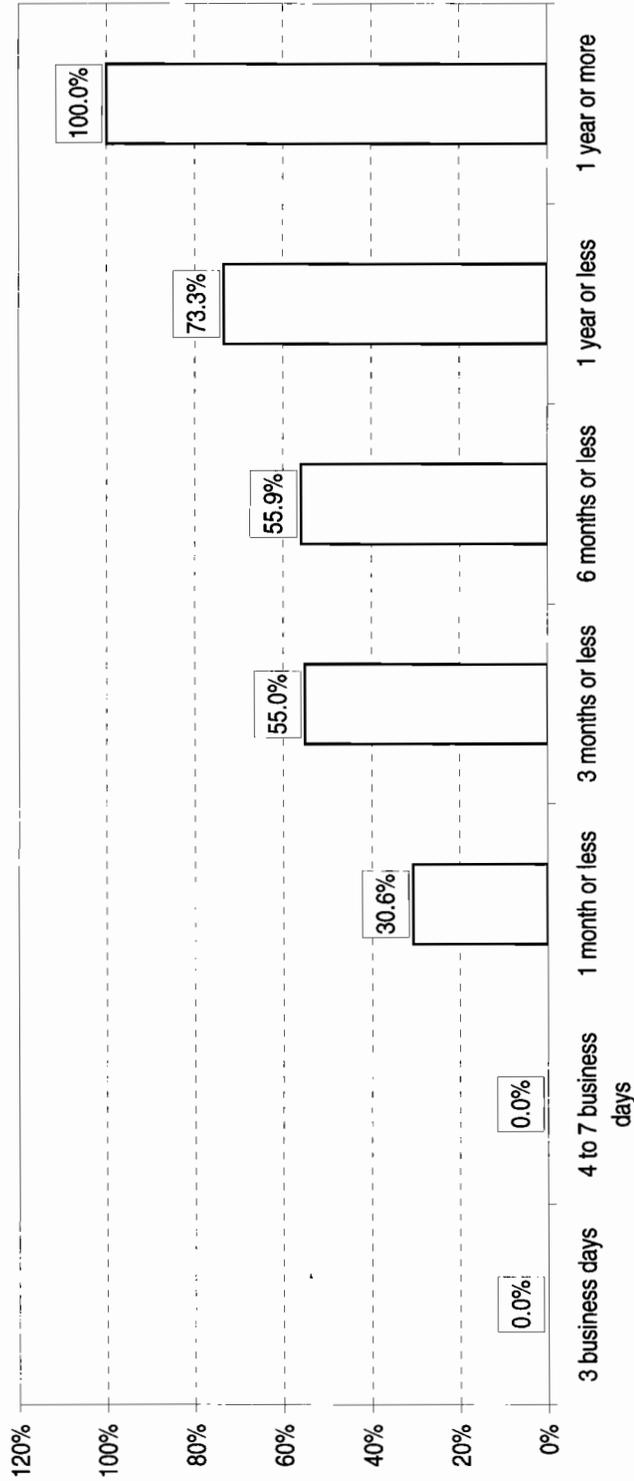
Classification Period	Assets	%	Cumulative Assets	%
Liquid:				
3 business days	2,526,406,877	18.9%	2,526,406,877	18.9%
4 to 7 business days	4,133,483,768	30.9%	6,659,890,645	49.8%
1 month or less	3,048,588,029	22.8%	9,708,478,674	72.7%
3 months or less	1,075,919,696	8.1%	10,784,398,370	80.7%
6 months or less	390,086,822	2.9%	11,174,485,192	83.6%
1 year or less	947,816,616	7.1%	12,122,301,808	90.7%
1 year or more	1,238,737,924	9.3%	13,361,039,731	100.0%
	13,361,039,731	100.0%		
Illiquid:				

Domestic Equities, International Equities and Fixed Income Actual Liquidity Classification
as of November 30, 2004



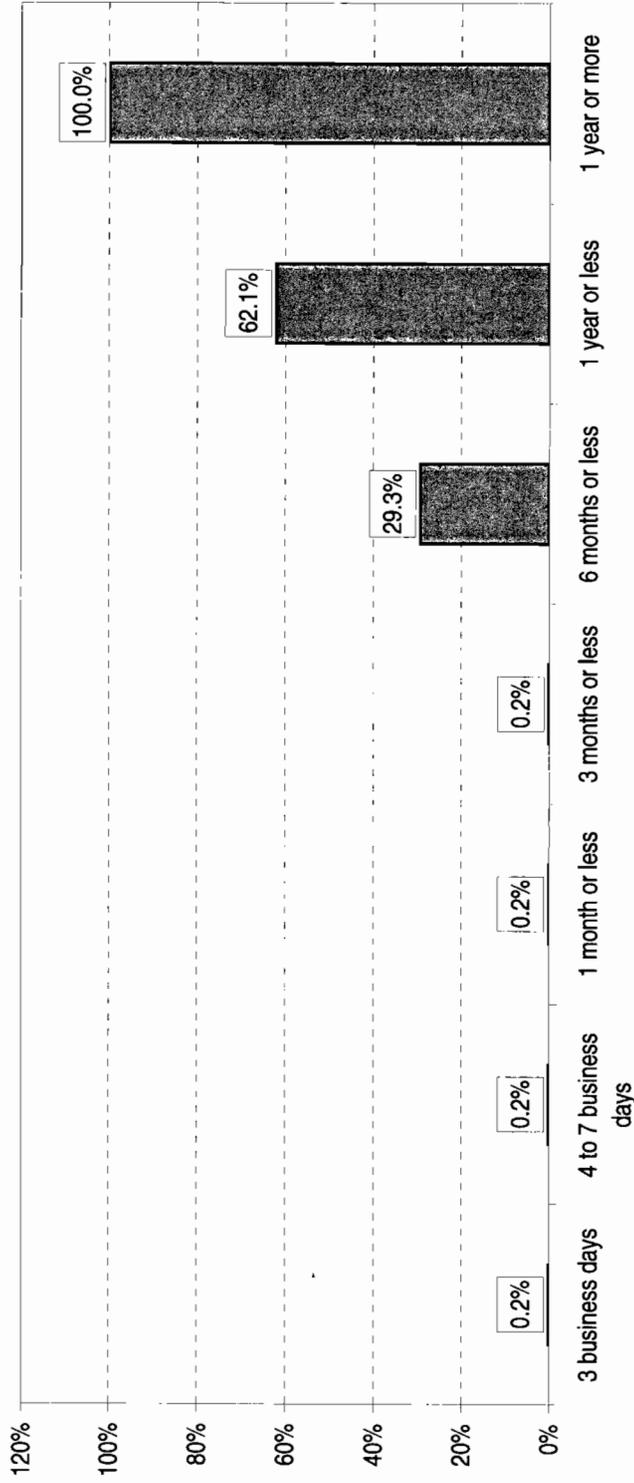
Classification Period	Assets	%	Cumulative Assets	%
Liquid:				
3 business days	2,524,268,584	34.8%	2,524,268,584	34.8%
4 to 7 business days	2,136,918,582	29.5%	4,661,187,165	64.3%
1 month or less	2,168,165,859	29.9%	6,829,353,024	94.3%
3 months or less	376,027,386	5.2%	7,205,380,410	99.4%
Illiquid:				
6 months or less	0	0.0%	7,205,380,410	99.4%
1 year or less	40,081,178	0.6%	7,245,461,588	100.0%
1 year or more	0	0.0%	<u>7,245,461,588</u>	100.0%
	7,245,461,588	100.0%		

Marketable Alternatives Actual Liquidity Classification
as of November 30, 2004



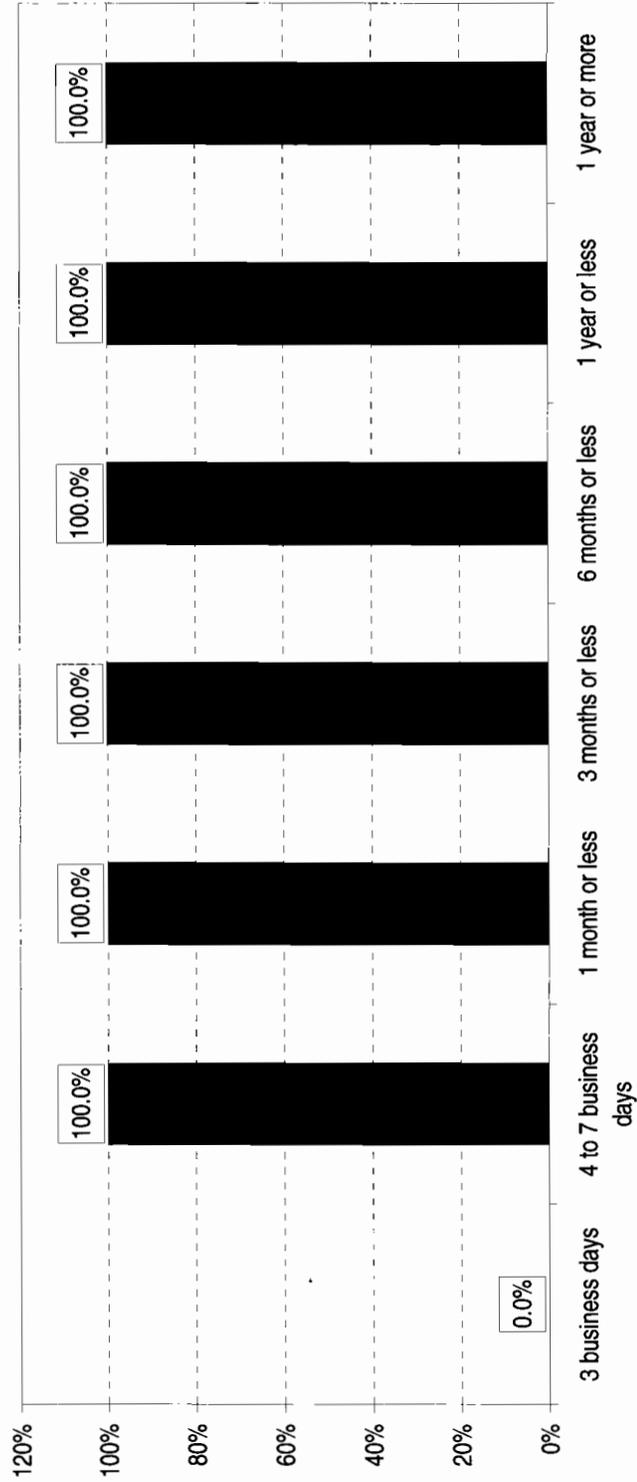
<u>Classification Period</u>	<u>Assets</u>	<u>%</u>	<u>Cumulative Assets</u>	<u>%</u>
Liquid:				
3 business days	0	0.0%	0	0.0%
4 to 7 business days	0	0.0%	0	0.0%
1 month or less	880,422,171	30.6%	880,422,171	30.6%
3 months or less	699,892,310	24.4%	1,580,314,480	55.0%
6 months or less	26,751,696	0.9%	1,607,066,177	55.9%
1 year or less	499,139,640	17.4%	2,106,205,816	73.3%
1 year or more	<u>767,076,699</u>	<u>26.7%</u>	<u>2,873,282,515</u>	<u>100.0%</u>
	2,873,282,515	100.0%		
Illiquid:				
6 months or less	26,751,696	0.9%	1,607,066,177	55.9%
1 year or less	499,139,640	17.4%	2,106,205,816	73.3%
1 year or more	<u>767,076,699</u>	<u>26.7%</u>	<u>2,873,282,515</u>	<u>100.0%</u>
	2,873,282,515	100.0%		

Non-Marketable Alternatives Actual Liquidity Classification
as of November 30, 2004



Classification Period	Assets	%	Cumulative Assets	%
Liquid:				
3 business days	2,138,294	0.2%	2,138,294	0.2%
4 to 7 business days	0	0.0%	2,138,294	0.2%
1 month or less	0	0.0%	2,138,294	0.2%
3 months or less	0	0.0%	2,138,294	0.2%
Illiquid:				
6 months or less	363,335,125	29.2%	365,473,419	29.3%
1 year or less	408,595,799	32.8%	774,069,218	62.1%
1 year or more	<u>471,661,225</u>	37.9%	<u>1,245,730,443</u>	100.0%
	<u>1,245,730,443</u>	100.0%		

Inflation Hedging Actual Liquidity Classification
as of November 30, 2004



<u>Classification Period</u>	<u>Assets</u>	<u>%</u>	<u>Cumulative Assets</u>	<u>%</u>
Liquid:				
3 business days	0	0.0%	0	0.0%
4 to 7 business days	1,996,565,186	100.0%	1,996,565,186	100.0%
1 month or less	0	0.0%	1,996,565,186	100.0%
3 months or less	0	0.0%	1,996,565,186	100.0%
6 months or less	0	0.0%	1,996,565,186	100.0%
1 year or less	0	0.0%	1,996,565,186	100.0%
1 year or more	0	0.0%	1,996,565,186	100.0%
	1,996,565,186	100.0%		
Illiquid:				
6 months or less	0	0.0%	1,996,565,186	100.0%
1 year or less	0	0.0%	1,996,565,186	100.0%
1 year or more	0	0.0%	1,996,565,186	100.0%

TOTAL INTERNAL DERIVATIVES (FUTURES, ETFs and OPTIONS) BY TYPE as of December 31, 2004

	Gross Exposure	Net Exposure	Gross Exposure % of Endowment Funds	Comment
US EQUITY DERIVATIVES				
1) Index Exposure				
S&P 500 Futures	220,286,550		1.64%	Large cap exposure
S&P 100 ETFs	81,622,907		0.61%	Large cap exposure
S&P 100 ETFs	75,565,007		0.56%	Concentrated large cap exposure
S&P 100 Global ETFs	32,680,977		0.24%	Concentrated global large cap exposure
Dow Jones Futures	93,573,920		0.70%	Large cap exposure (w/ minimal Financials)
Russell 2000 ETFs	53,216,860		0.40%	Small cap exposure
NASDAQ 100 Index Futures	24,427,500		0.18%	Large cap technology exposure
NASDAQ ETFs	12,863,831		0.10%	Large cap technology exposure
GSCI Futures	390,415,463		2.91%	Commodity exposure
Total Index Exposure	984,653,014		7.34%	
2) Active Tilts				
Internet Architecture ETFs	10,024,550		0.07%	Large cap technology exposure
DJ Technology ETFs	7,521,331		0.06%	Large cap technology exposure
Global Energy ETFs	4,699,449		0.04%	Large cap global energy exposure
Russell 2000 Options - OTM put options (Short)	(50,000,000)		0.37%	Small cap exposure
Total Active Tilts	72,245,330	(27,754,670)	0.54%	
3) Hedging / Risk Reduction				
S&P 500 Futures	856,265,350		6.38%	Large cap exposure
MidCap 400 EIMini Futures (Short)	(132,348,060)		0.99%	Hedge mid cap exposure
Russell 2000 Mini Index Futures (Short)	(781,399,200)		5.83%	Hedge small cap exposure
Costless Put Spread Collar - Total Notional Exposure Value	1,150,000,000		8.57%	Hedge Domestic Equity Portfolio exposure
Total Hedging / Risk Reduction	2,920,012,610	1,092,518,090	21.77%	
TOTAL US DERIVATIVES	3,976,910,954	2,049,416,434	29.65%	
INTERNATIONAL EQUITY DERIVATIVES				
1) Index Exposure				
MSCI EAFE ETFs	25,351,550		0.19%	EAFE exposure
2) Active Tilts				
Nikkei 225 - OTM put options (Short)	(25,000,000)		0.19%	Japanese large cap equity exposure
3) Hedging / Risk Reduction - neutralizing country/region underweightings				
Euro Stoxx Futures	86,552,690		0.65%	Eurozone large cap equity exposure
FTSE 100 Futures	158,516,496		1.18%	United Kingdom large cap equity exposure
TOPIX Index Futures	90,371,088		0.67%	Japanese large cap equity exposure
NIKKEI 225 Index Futures	66,771,544		0.50%	Japanese large cap equity exposure
S&P/ITSE 60 INDEX Futures	86,300,246		0.64%	Canadian equity exposure
Total Hedging / Risk Reduction	488,512,064	488,512,064	3.64%	
TOTAL INTERNATIONAL DERIVATIVES	538,863,614	488,863,614	4.02%	
Total	4,515,774,568	2,538,280,048	33.66%	Less than 50% of Endowment Funds

TOTAL INTERNAL DERIVATIVES (FUTURES, ETFs and OPTIONS) BY TYPE as of December 31, 2004

	Gross Exposure	Net Exposure	Gross Exposure % of Endowment Funds	Comment
S&P 500 Futures	1,076,551,900		8.03%	Large cap exposure
S&P 500 ETFs	<u>81,622,907</u>	1,158,174,807	0.61%	Large cap exposure
S&P 100 ETFs	75,565,007	75,565,007	0.56%	Concentrated large cap exposure
S&P 100 Global ETFs	32,680,977	32,680,977	0.24%	Concentrated global large cap exposure
Dow Jones Futures	93,573,920	93,573,920	0.70%	Large cap exposure (w/ minimal Financials)
MidCap 400 EMini Futures (Short)	(132,348,060)	(132,348,060)	0.99%	Hedge mid cap exposure
Russell 2000 Mini Index Futures (Short)	(781,399,200)		5.83%	Hedge small cap exposure
Russell 2000 ETFs	<u>53,216,860</u>	(728,182,341)	0.40%	Small cap exposure
NASDAQ 100 Index Futures	24,427,500		0.18%	Large cap technology exposure
NASDAQ ETFs	<u>12,863,831</u>	37,291,331	0.10%	Large cap technology exposure
Internet Architecture ETFs	10,024,550	10,024,550	0.07%	Large cap technology exposure
DJ Technology ETFs	7,521,331	7,521,331	0.06%	Large cap technology exposure
Global Energy ETFs	4,699,449	4,699,449	0.04%	Large cap global energy exposure
MSCI EAFE ETFs	25,351,550	25,351,550	0.19%	EAFE exposure
Euro Stoxx Futures	86,552,690	86,552,690	0.65%	Eurozone large cap equity exposure
FTSE 100 Futures	158,516,496	158,516,496	1.18%	United Kingdom large cap equity exposure
TOPIX Index Futures	90,371,088	90,371,088	0.67%	Japanese large cap equity exposure
NIKKEI 225 Index Futures	66,771,544	66,771,544	0.50%	Japanese large cap equity exposure
S&P/TSX 60 INDEX Futures	86,300,246	86,300,246	0.64%	Canadian equity exposure
GSCI Futures	390,415,463	390,415,463	2.91%	Commodity exposure
Nikkei 225 - OTM put options (Short)	(25,000,000)	(25,000,000)	0.19%	Japanese large cap equity exposure
Russell 2000 Options - OTM put options (Short)	(50,000,000)	(50,000,000)	0.37%	Small cap exposure
Costless Put Spread Collar - Total Notional Exposure Value	1,150,000,000	1,150,000,000	8.57%	Hedge Domestic Equity Portfolio exposure
Total	<u><u>4,515,774,568</u></u>	<u><u>2,538,280,048</u></u>	<u><u>33.66%</u></u>	
			Less than 50%	
			of Endowment	
			Funds	



**THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY**

UTIMCO Public Markets Investments

Currency Overlay

January 2005



Currency Overlay Overview

- As a U.S.-based investor, the Endowments' International equity returns can be broken down into two components:



Currency Overlay Overview

- As a U.S.-based investor, the Endowments' International equity returns can be broken down into two components:
 - 1) Company / security return



Currency Overlay Overview

- As a U.S.-based investor, the Endowments' International equity returns can be broken down into two components:
 - 1) Company / security return
 - 2) Currency return, when translated back to U.S. dollars



Currency Overlay Overview

- Single stock example:
 - For a U.S. dollar-based investor, Toyota Motor Company had a Total Return of 20.6% in 2004:

1) Equity return:	+16.0%
2) Currency return:	<u>+4.6%</u>
	+20.6%



Currency Overlay Overview

- The same exercise can be applied at the country level:
 - For a U.S. dollar-based investor, the Japanese equity market had a Total Return of 14.3% in 2004:

1) Equity return:	+9.7%
2) Currency return:	<u>+4.6%</u>
	+14.3%



Currency Overlay Overview

- Finally, the same exercise can be applied to an Index:

EAFE without Currency Overlay - 2004 Results						
Country	Country/ Currency Weight in Index %	Equity Return % (Local Currency)	Currency Return % (in USD)	Total Return %	Weighted Total Return in Index %	
United Kingdom	25.0%	7.7%	7.2%	15.0%	3.7%	
Japan	21.9%	9.7%	4.6%	14.3%	3.1%	
France	9.4%	7.9%	7.8%	15.7%	1.5%	
Germany	7.0%	6.1%	7.8%	13.9%	1.0%	
Switzerland	6.8%	4.6%	8.8%	13.4%	0.9%	
Australia	5.1%	21.7%	4.0%	25.8%	1.3%	
Netherlands	4.8%	1.3%	7.8%	9.0%	0.4%	
Italy	4.3%	19.3%	7.8%	27.1%	1.2%	
Spain	4.1%	16.4%	7.8%	24.2%	1.0%	
Sweden	2.5%	23.7%	8.3%	32.0%	0.8%	
Hong Kong	1.7%	20.9%	-0.1%	20.8%	0.4%	
Finland	1.4%	-3.6%	7.8%	4.2%	0.1%	
Belgium	1.3%	29.5%	7.8%	37.3%	0.5%	
Ireland	0.9%	29.1%	7.8%	36.9%	0.3%	
Singapore	0.8%	14.2%	4.0%	18.3%	0.1%	
Denmark	0.8%	19.4%	7.9%	27.2%	0.2%	
Norway	0.6%	36.2%	9.8%	46.1%	0.3%	
Greece	0.6%	31.1%	7.8%	38.8%	0.2%	
Austria	0.4%	57.0%	7.8%	64.8%	0.2%	
Portugal	0.4%	13.1%	7.8%	20.8%	0.1%	
New Zealand	0.2%	18.0%	10.0%	28.0%	0.1%	
Total	100.0%				17.4%	



Currency Overlay Overview

- Currency Overlay:
 - A skilled active manager, using futures and forwards contracts, could cost effectively adjust the relative currency positioning of the various country constituents of the EAFE Index independent of the underlying investment in the actual security.
 - The EAFE-based equity return is not impacted by the currency overlay.



Currency Overlay Overview

- Presently, the UT Endowments have \$2.7B in International equity assets
 - Of the approximately 85% in EAFE-based assets, 74% represent an unmanaged currency position relative to the US dollar – it simply floats with the % weight invested in each security’s country of domicile.
 - These Indexed EAFE-based assets represent a zero PVA equity return opportunity.
 - Adding the currency overlay enables a skilled manager to adjust the relative currency weights of the EAFE Index and create a PVA investment from a passive index.



EAFE Results Without Currency Overlay - 2004

EAFE without Currency Overlay - 2004 Results				
Country	Country/ Currency Weight in Index %	Equity Return % (Local Currency)	Currency Return % (in USD)	Weighted Total Return in Index %
United Kingdom	25.0%	7.7%	7.2%	3.7%
Japan	21.9%	9.7%	4.6%	3.1%
France	9.4%	7.9%	7.8%	1.5%
Germany	7.0%	6.1%	7.8%	1.0%
Switzerland	6.8%	-4.6%	8.8%	0.9%
Australia	5.1%	21.7%	4.0%	1.3%
Netherlands	4.8%	1.3%	7.8%	0.4%
Italy	4.3%	19.3%	7.8%	1.2%
Spain	4.1%	16.4%	7.8%	1.0%
Sweden	2.5%	23.7%	8.3%	0.8%
Hong Kong	1.7%	20.9%	-0.1%	0.4%
Finland	1.4%	-3.6%	7.8%	0.1%
Belgium	1.3%	29.5%	7.8%	0.5%
Ireland	0.9%	29.1%	7.8%	0.3%
Singapore	0.8%	14.2%	4.0%	0.1%
Denmark	0.8%	19.4%	7.9%	0.2%
Norway	0.6%	36.2%	9.8%	0.3%
Greece	0.6%	31.1%	7.8%	0.2%
Austria	0.4%	57.0%	7.8%	0.2%
Portugal	0.4%	13.1%	7.8%	0.1%
New Zealand	0.2%	18.0%	10.0%	0.1%
Canada	0.0%		7.9%	0.0%
China	0.0%		0.0%	0.0%
Czech Republic	0.0%		15.0%	0.0%
Hungary	0.0%		14.8%	0.0%
South Korea	0.0%		15.1%	0.0%
Mexico	0.0%		0.8%	0.0%
Poland	0.0%		25.0%	0.0%
Taiwan	0.0%		7.1%	0.0%
South Africa	0.0%		18.5%	0.0%
United States	0.0%		0.0%	0.0%
Total	100.0%			17.4%

Currency	Currency Weight in Index %	Currency Return % (in USD)
Euro	34.5%	7.8%
Pound Sterling	25.0%	7.2%
Yen	21.9%	4.6%
Total	81.4%	



• Most large EAFE-based currencies significantly appreciated vs. the USD in 2004.

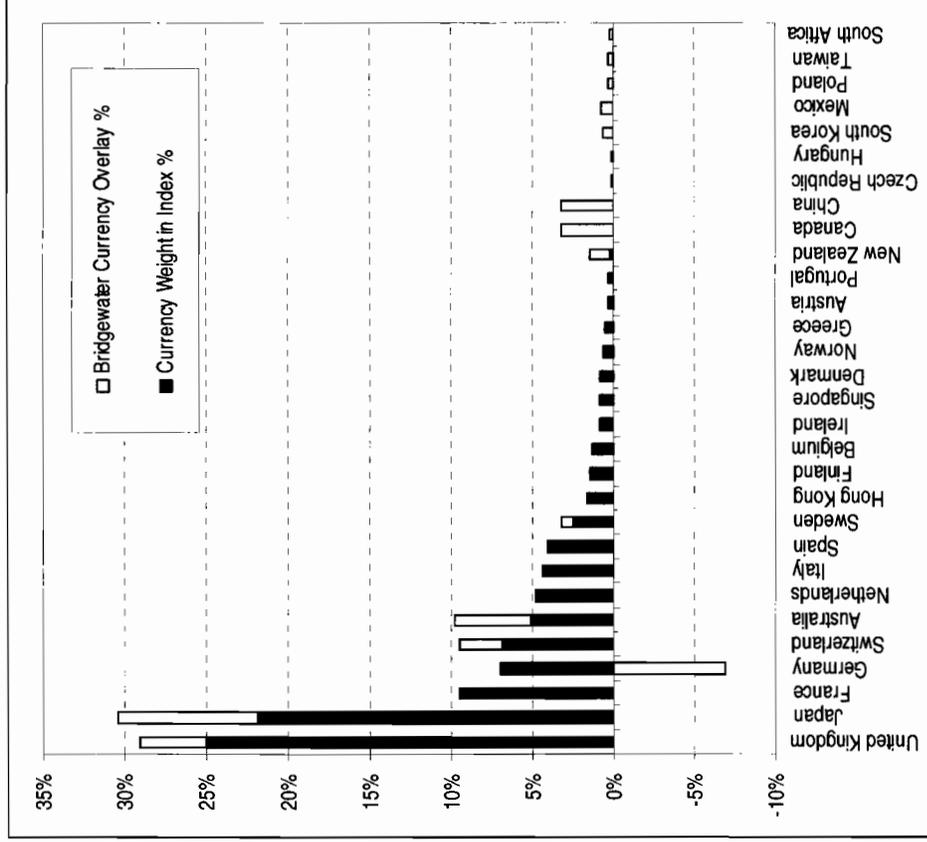
• Staff believes a wider opportunity set, constructively managed, provides PVA.





EAFE Results With Currency Overlay - 2004

EAFE with Currency Overlay - 2004 Results					
Country	Currency Weight in Index %	Bridgewater Currency Overlay %	Total Currency Exposure %	Currency Return % (vs USD)	Total Return in Index %
United Kingdom	25.0%	4.1%	29.1%	7.2%	4.1%
Japan	21.9%	8.6%	30.4%	4.6%	3.3%
France	9.4%	0.0%	9.4%	7.8%	1.5%
Germany	7.0%	-6.9%	0.1%	7.8%	0.5%
Switzerland	6.8%	-2.6%	9.5%	8.8%	0.9%
Australia	5.1%	4.7%	9.7%	4.0%	1.5%
Netherlands	4.8%	0.0%	4.8%	7.8%	0.4%
Italy	4.3%	0.0%	4.3%	7.8%	1.2%
Spain	4.1%	0.0%	4.1%	7.8%	1.0%
Sweden	2.5%	0.7%	3.3%	8.3%	0.8%
Hong Kong	1.7%	0.0%	1.7%	-0.1%	0.4%
Finland	1.4%	0.0%	1.4%	7.8%	0.1%
Belgium	1.3%	0.0%	1.3%	7.8%	0.5%
Ireland	0.9%	0.0%	0.9%	7.8%	0.3%
Singapore	0.8%	0.0%	0.8%	4.0%	0.1%
Denmark	0.8%	0.0%	0.8%	7.9%	0.2%
Norway	0.6%	0.0%	0.6%	9.8%	0.3%
Greece	0.6%	0.0%	0.6%	7.8%	0.2%
Austria	0.4%	0.0%	0.4%	7.8%	0.2%
Portugal	0.4%	0.0%	0.4%	7.8%	0.1%
New Zealand	0.2%	1.2%	1.4%	10.0%	0.5%
Canada	0.0%	3.3%	3.3%	7.9%	0.3%
China	0.0%	3.2%	3.2%	0.0%	0.1%
Czech Republic	0.0%	0.1%	0.1%	15.0%	0.0%
Hungary	0.0%	0.1%	0.1%	14.8%	0.0%
South Korea	0.0%	0.6%	0.6%	15.1%	0.2%
Mexico	0.0%	0.8%	0.8%	0.8%	0.1%
Poland	0.0%	0.3%	0.3%	25.0%	0.1%
Taiwan	0.0%	0.3%	0.3%	7.1%	0.0%
South Africa	0.0%	0.2%	0.2%	18.5%	0.1%
United States	0.0%	-23.8%	-23.8%	0.0%	0.0%
Total	100.0%	0.0%	100.0%	0.0%	18.9%



18.9% - 17.4% = 1.5% value added



**THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY**

UTIMCO Public Markets Investments

Costless Put Spread Collar

January 2005



Goals

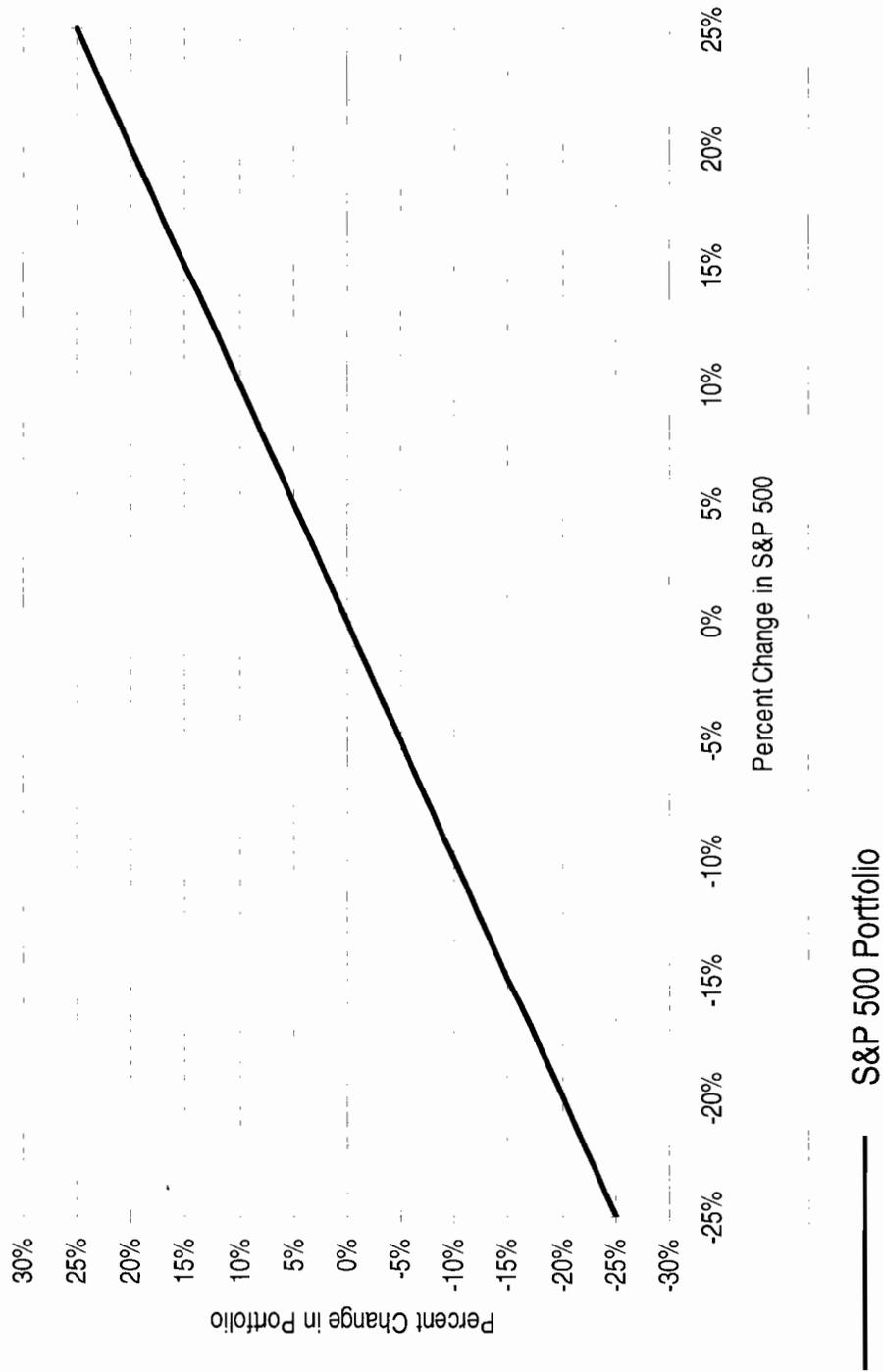
At Year End 2004, UTIMCO staff initiated a trading strategy to accomplish the following over the coming year:

- Protect the Domestic Equity Portfolio from a potential market decline.
- Participate in a meaningful market advance.
- Engage at levels that are costless.



Typical S&P 500 Portfolio - Full Exposure

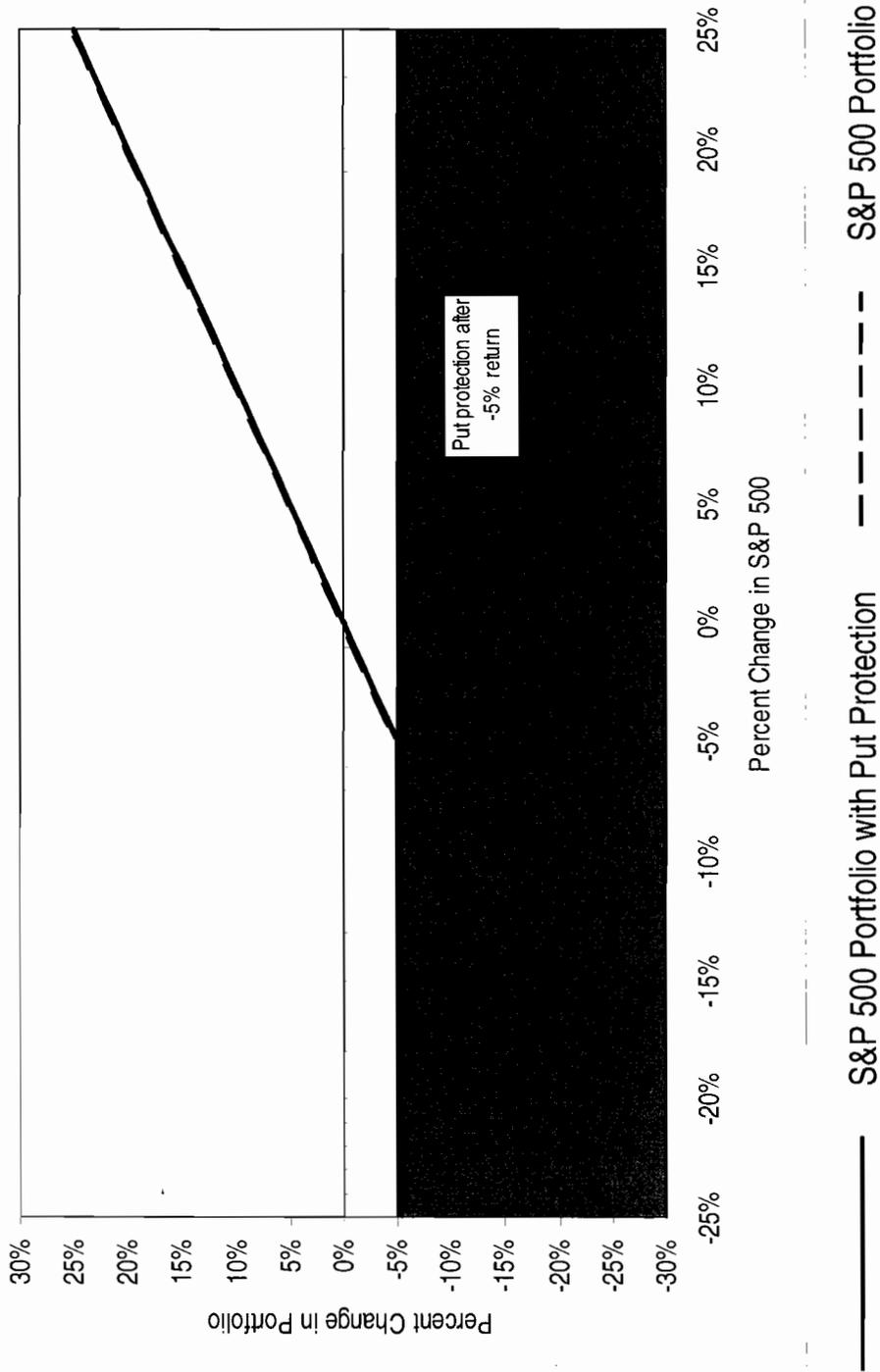
S&P 500 Portfolio





Acquire Downside Protection – Buy a Put

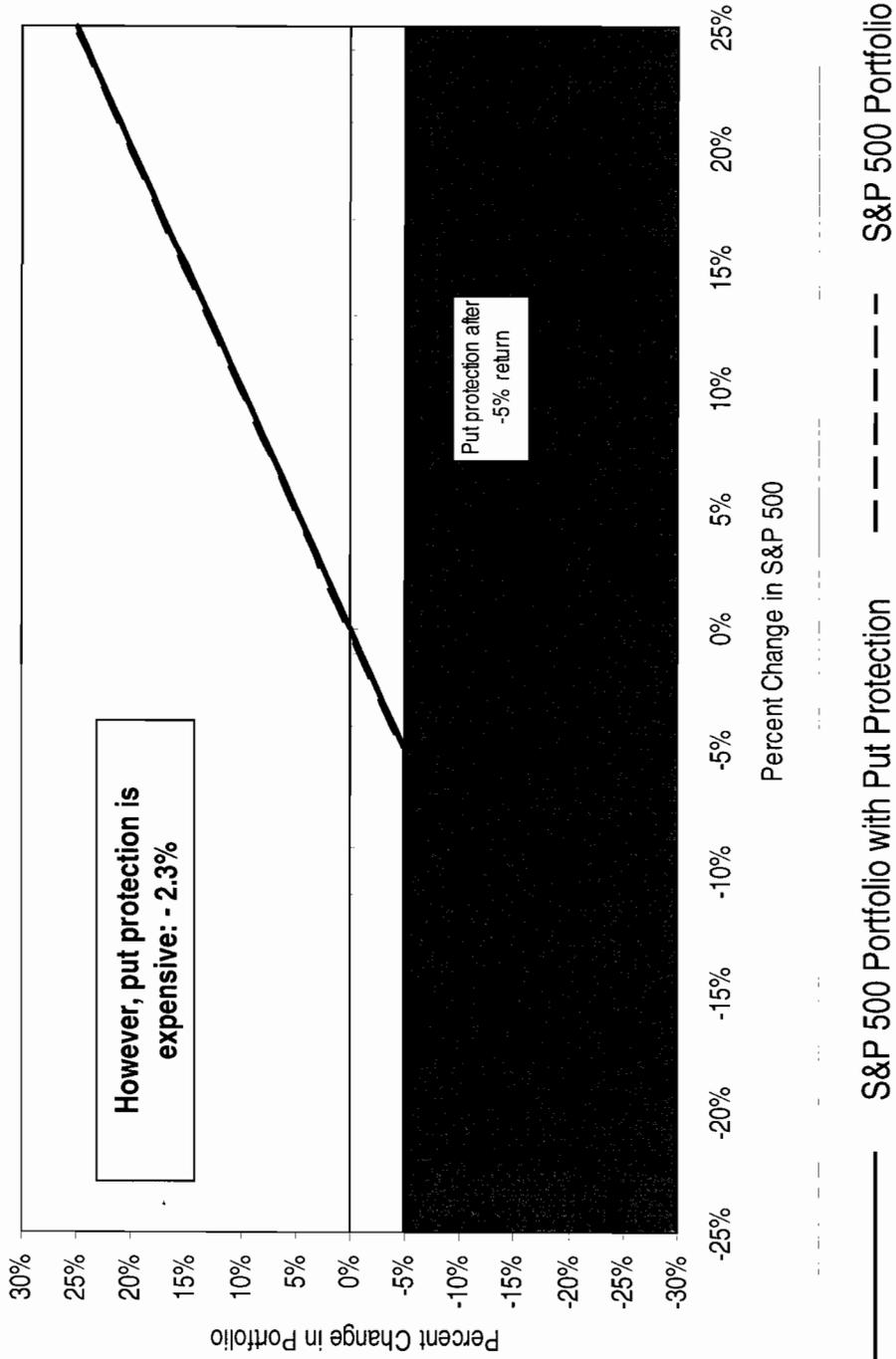
S&P 500 Portfolio Put Protection





Acquire Downside Protection – Buy a Put

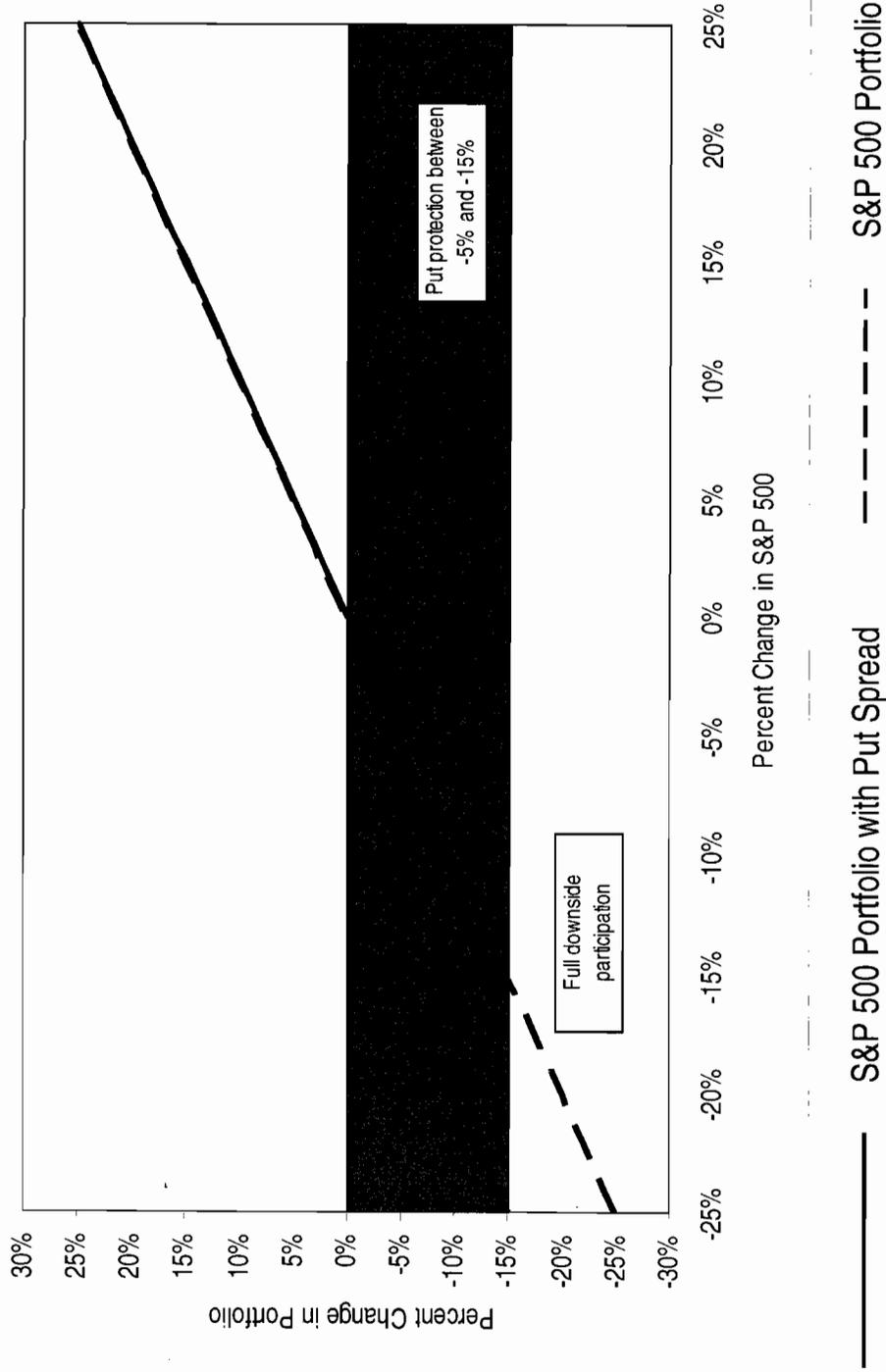
S&P 500 Portfolio Put Protection





Reduce Cost: Limit Protection

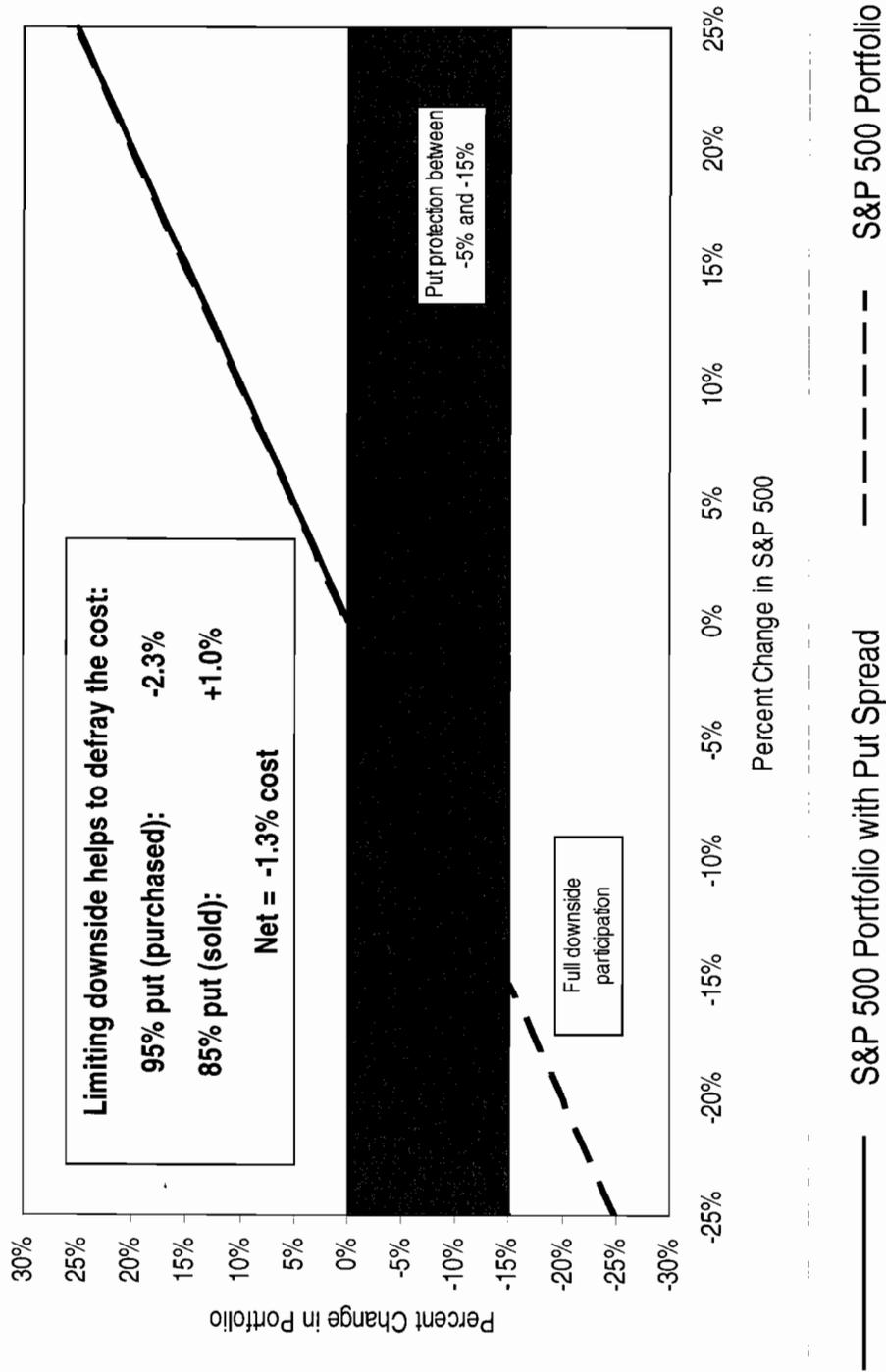
S&P 500 Portfolio with Put Spread





Reduce Cost: Limit Protection

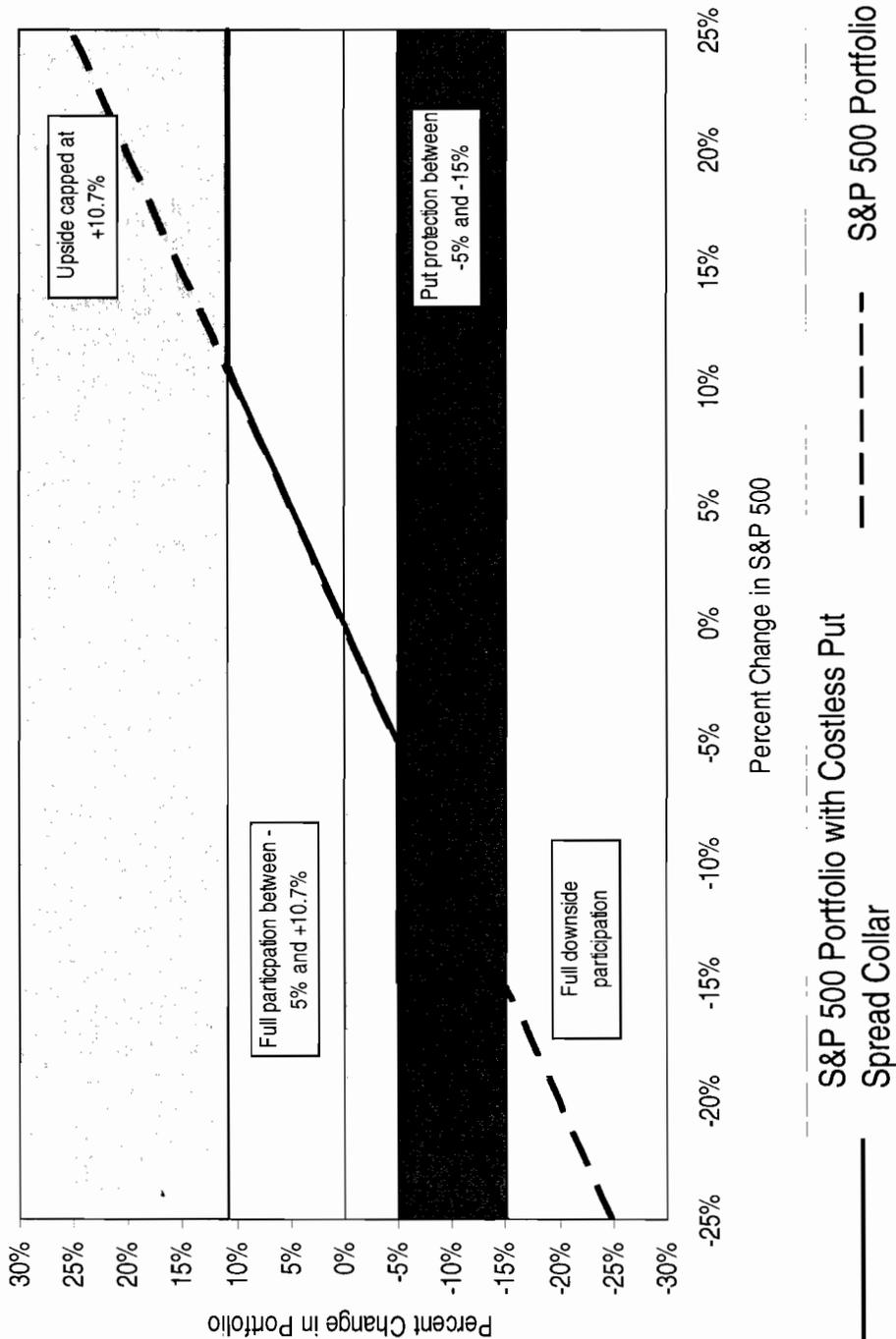
S&P 500 Portfolio with Put Spread





Make Costless: Sell a Call

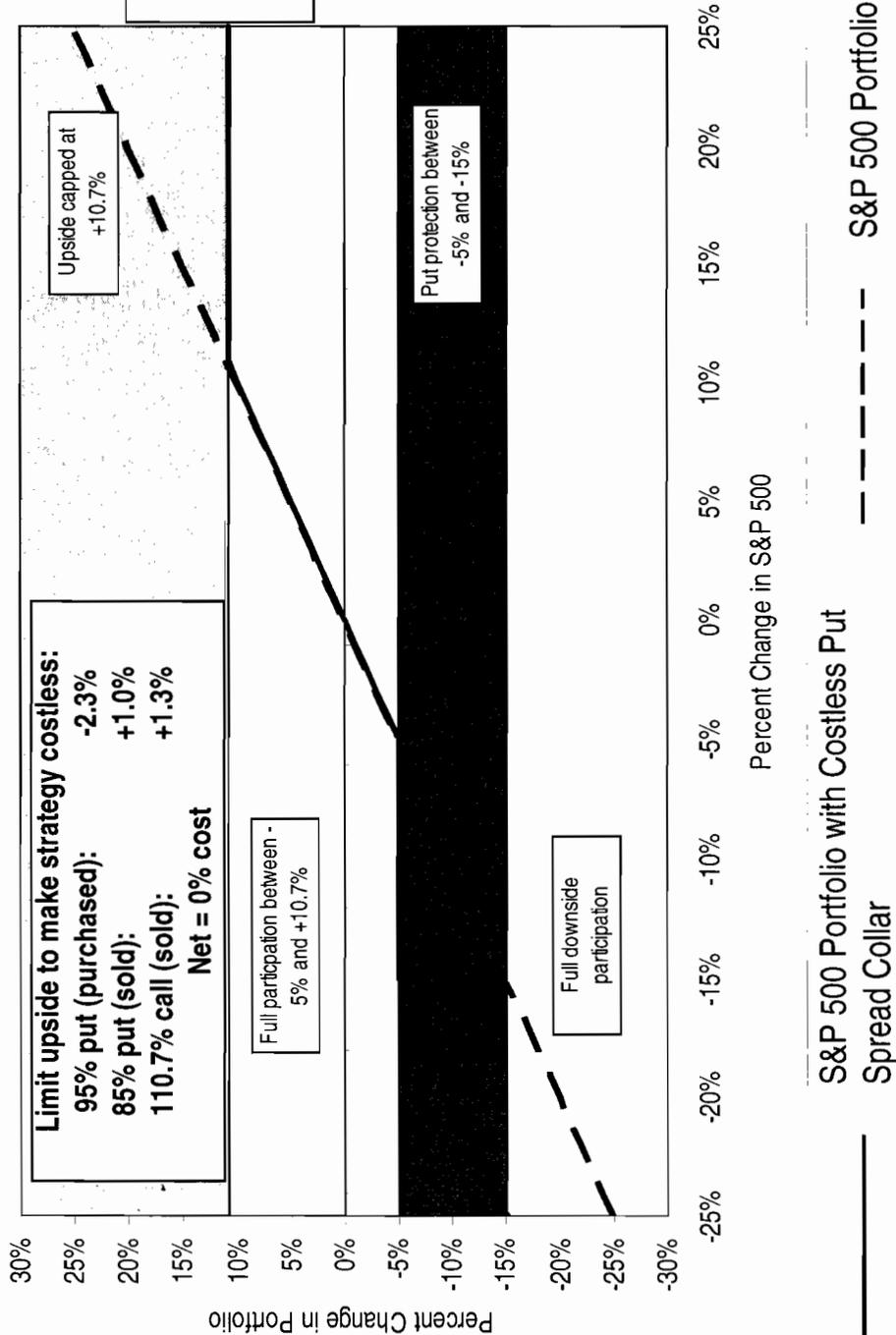
S&P 500 Portfolio with Costless Put Spread Collar





Make Costless: Sell a Call

S&P 500 Portfolio with Costless Put Spread Collar





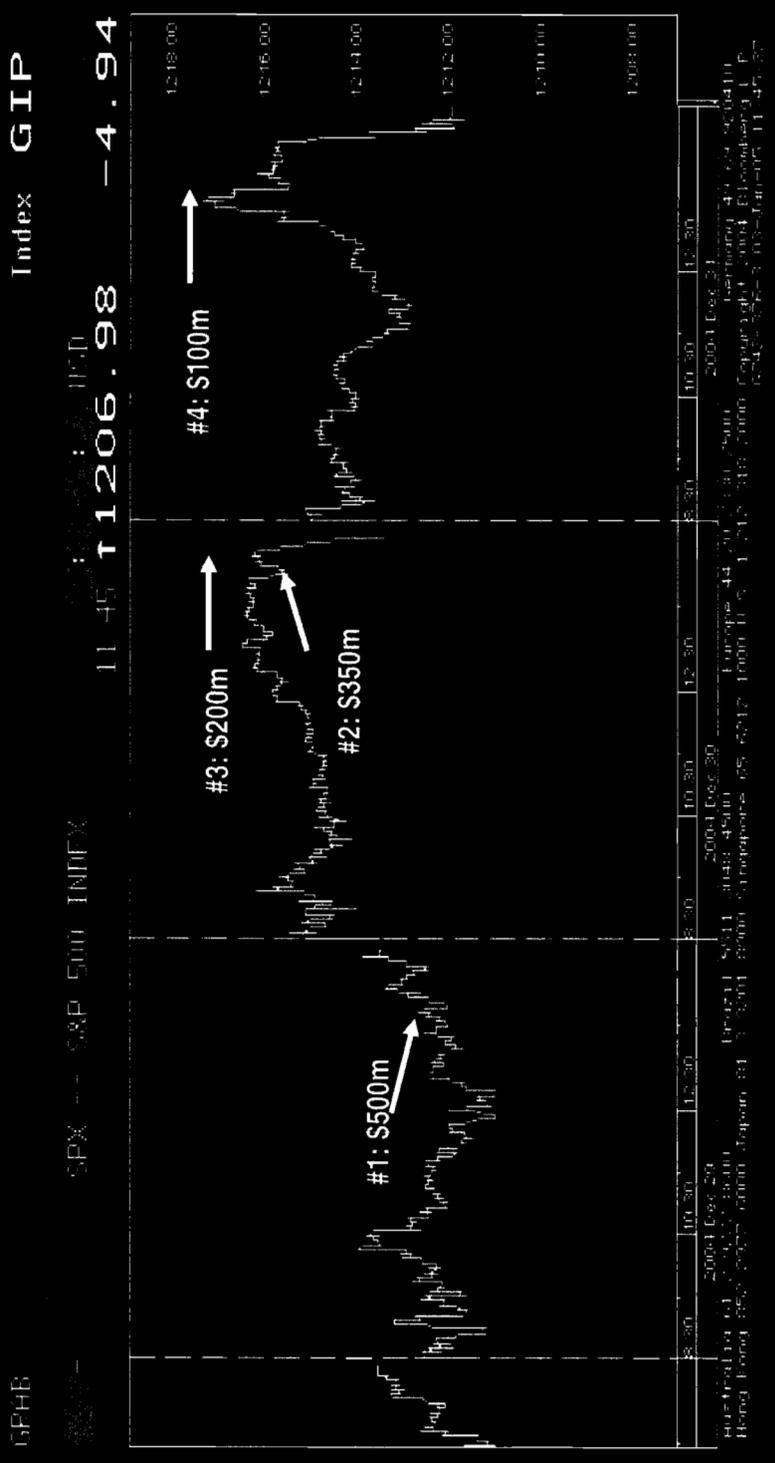
Goals - Revisited

In structuring this trade, UTIMCO staff identified 3 goals it wished to accomplish:

- Protect the Domestic Equity Portfolio from a potential market decline.
 - Domestic Equity Portfolio is protected from a -5% to a -15% market sell-off
- Participate in a meaningful market advance.
 - Fully participate in an equity advance in excess of the long-term average stock return and the UTIMCO Policy Portfolio return
- Engage at levels that are costless.
 - The Costless Put Spread Collar



UTIMCO Implementation



Trade Summary

Notional value \$ 1,150,000,000

Average index level execution (S&P 500): 1214.68

Average strike price on call (short): 1344.7

Average strike price on 95% put (long): 1153.95

Average strike price on 85% call (short): 1032.48

Expiration: January 20, 2006 S&P 500 Index 2004 year ending level: 1211.92

Index Summary

Average Index level over trading period 1212.61

Staff Value Added \$ 1,963,121

January 20, 2006 S&P 500 Index 2004 year ending level: 1211.92

**2004 in Review;
2005 in Prospect**

TO BE
PRESENTED AT THE MEETING

Section 3

Agenda Item
UTIMCO Board of Directors Meeting
January 18, 2005

Agenda Item: Report on Audit of UTIMCO Financial Statements

Developed By: Moeller

Presented By: Moeller

Type of Item: Approval by UTIMCO Board of the UTIMCO Annual Financial Statements and Audit Report

Discussion: The financial statements were audited by Ernst & Young, LLP. Ernst & Young issued an unqualified opinion on the August 31, 2004 financial statements. A copy of Ernst & Young's Audit Results and Communications Letter are also included.

Reference: UTIMCO Financial Statements and Audit Results & Communications Letter

RESOLUTION RELATED TO FINANCIAL STATEMENTS

RESOLVED, that the annual financial statements and audit report for the Corporation for the years ended August 31, 2004, and August 31, 2003 be, and are hereby approved in the form as presented to the Board.

Financial Statements

The University of Texas Investment Management Company

For the Years ended August 31, 2004 and 2003

Report of Independent Auditors

The Board of Directors
The University of Texas Investment Management Company

We have audited the accompanying statements of financial position of The University of Texas Investment Management Company (UTIMCO) as of August 31, 2004 and 2003 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of UTIMCO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UTIMCO as of August 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

October 8, 2004, except for Note 8 as to which
the date is December 6, 2004

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Financial Statements

Statements of Financial Position

August 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets		
Cash and cash equivalents	\$ 6,682,363	\$ 4,572,179
Dividends receivable	12,207	13,739
Investments	7,257,863	7,084,224
Prepaid expenses and other assets	382,625	350,617
Property and equipment, net of accumulated depreciation of \$1,147,376 and \$896,680, respectively	<u>427,019</u>	<u>549,439</u>
Total assets	<u>\$ 14,762,077</u>	<u>\$ 12,570,198</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ <u>2,605,500</u>	\$ <u>1,546,150</u>
Total liabilities	2,605,500	1,546,150
Net Assets:		
Unrestricted	<u>\$ 12,156,577</u>	<u>\$ 11,024,048</u>
Total liabilities and net assets	<u>\$ 14,762,077</u>	<u>\$ 12,570,198</u>

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Financial Statements

Statements of Activities

For the years ended August 31, 2004 and 2003

Changes in unrestricted net assets:

	<u>2004</u>	<u>2003</u>
Revenue		
Management fee	\$ 9,519,273	\$ 9,610,001
Interest	69,854	82,318
Dividends	165,418	173,681
Net unrealized gains/(losses) on investments	6,689	(75,717)
Miscellaneous	<u>65</u>	<u>124</u>
Total revenue	9,761,299	9,790,407
Expenses		
Salaries	5,459,620	4,191,226
Employee benefits	540,332	420,988
Payroll taxes	206,777	195,076
General operating	993,653	902,842
Depreciation and amortization	261,894	286,176
Lease	599,047	606,013
Professional fees	304,972	769,698
Insurance	258,678	234,069
Loss on disposal of equipment	<u>3,797</u>	<u>-</u>
Total expenses	8,628,770	7,606,088
 Increase in unrestricted net assets from operations	 1,132,529	 2,184,319
 Net assets at beginning of period	 <u>11,024,048</u>	 <u>8,839,729</u>
Net assets at end of period	<u>\$ 12,156,577</u>	<u>\$ 11,024,048</u>

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Financial Statements

Statements of Cash Flows

For the years ended August 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Increase in unrestricted net assets from operations	\$ 1,132,529	\$ 2,184,319
Adjustments to reconcile changes in unrestricted net assets from operations to net cash provided by operating activities:		
Depreciation	261,894	286,176
Net unrealized (gains)/losses on investments	(6,689)	75,717
(Gain)/Loss on Disposal of Equipment	3,797	848
Change in assets and liabilities:		
(Increase)/Decrease in dividends receivable	1,532	(13,739)
(Increase) in prepaid expenses and other assets	(32,008)	(29,460)
Increase in accounts payable and accrued expenses	<u>1,059,350</u>	<u>1,082,793</u>
Net cash provided by operating activities	<u>2,420,405</u>	<u>3,586,654</u>
Cash flows used for investing activities:		
Purchase of property and equipment	(152,271)	(126,573)
Proceeds from sale of equipment	9,000	1,788
Purchase of investments	<u>(166,950)</u>	<u>(7,159,941)</u>
Net cash used for investing activities	<u>(310,221)</u>	<u>(7,284,726)</u>
Net change in cash and cash equivalents	2,110,184	(3,698,072)
Cash and cash equivalents at beginning of period	<u>4,572,179</u>	<u>8,270,251</u>
Cash and cash equivalents at end of period	<u>\$ 6,682,363</u>	<u>\$ 4,572,179</u>
Supplemental schedule of non-cash investing and financing activities:		
None		

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements

Note 1 - Organization

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

Note 2 - Significant Accounting Policies

Property, equipment and depreciation

As part of UTIMCO's organization, certain equipment was received from The University of Texas System. This equipment was stated at fair value at the time of receipt. Property and equipment acquired after inception consists of office furniture, office equipment, software, and leasehold improvements and is stated at cost. Depreciation and amortization is computed using the straight-line method over the useful lives of the assets. The following is a schedule of the property and equipment at August 31, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Office furniture	\$ 349,709	\$ 344,150
Office equipment	805,129	700,369
Software	192,371	174,790
Leasehold improvements	<u>227,186</u>	<u>226,810</u>
Total property and equipment	1,574,395	1,446,119
Less accumulated depreciation	<u>(1,147,376)</u>	<u>(896,680)</u>
Net property and equipment	<u>\$ 427,019</u>	<u>\$ 549,439</u>

Income taxes

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

Cash and cash equivalents

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements (cont'd)

Prepaid expenses and other assets

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

Investments

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Note 3 - Related Party Transactions

a) Investment Management Services Agreement - The Investment Management Services Agreement has appointed UTIMCO as the Board of Regents' investment manager with complete authority to act for the Board in the investment of all funds. The amount of the management fee for the years ended August 31, 2004 and 2003 were \$9,519,273 and \$9,602,501, respectively. This represents fees for the following:

	<u>2004</u>	<u>2003</u>
Permanent University Fund	\$ 5,360,677	\$ 5,187,122
The University of Texas System Long Term Fund	2,997,722	3,135,100
Permanent Health Fund	621,526	676,877
The University of Texas System Short Intermediate Term Fund	<u>539,348</u>	<u>603,402</u>
	<u>\$ 9,519,273</u>	<u>\$ 9,602,501</u>

b) UTIMCO contracts for internet and mainframe connection services with The University of Texas System and The University of Texas at Austin. The expense for these services for the years ended August 31, 2004 and 2003 were \$13,416 and \$14,976, respectively.

Note 4 - Investments

UTIMCO has invested funds in The University of Texas System Short Intermediate Term Fund (SITF). The SITF invests in high grade fixed income obligations. The SITF carries an AAA_f credit quality rating and a bond fund volatility rating of S₂ from Standard & Poor's, Inc. The investment's

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements (cont'd)

cost and market value at August 31, 2004 were \$7,326,891 and \$7,257,863, respectively. The investment's cost and market value at August 31, 2003 were \$7,159,941 and \$7,084,224, respectively. Dividends receivable from the fund for the years ended August 31, 2004 and 2003 were \$12,207 and \$13,739, respectively.

Note 5 - Deferred Revenue

UTIMCO assesses on or before the first day of The University of Texas System's fiscal quarter one-fourth of the annual management fee. The fee is deferred and is ratably credited to revenue monthly. For the years ended August 31, 2004 and 2003, there was no deferred revenue.

Note 6 - 403(b) Plan

Effective March 1, 1996, UTIMCO established a tax-sheltered annuity arrangement, which provides retirement benefits for its employees by contributing to a custodial account invested in mutual funds. The employer matches 8.5% of gross compensation on behalf of an employee. Employees are required to contribute 6.5% of their total gross compensation to receive the company match. Employer contributions for the years ended August 31, 2004 and 2003 were \$280,400 and \$219,898, respectively.

Note 7 - Lease Expense

UTIMCO leases office space and parking from an unrelated landlord. The 60-month lease commenced January 15, 2001 and expires January 15, 2006. The minimum rental commitment is \$33,923 per month. Additionally, UTIMCO is responsible to the landlord for its share of operating expenses related to the rental property. The lease expense and operating expenses paid were \$415,224 and \$177,559, respectively, for the year ended August 31, 2004, and \$410,119 and \$193,306, respectively, for the year ended August 31, 2003. The following is a schedule by years of the future minimum lease payments under the lease term:

Years ending August 31,	
2005	407,076
2006	<u>152,654</u>
	<u>\$ 559,730</u>

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements (cont'd)

Note 8 - Subsequent Event

On December 6, 2004, UTIMCO rebated \$4 million back to the UT Investment Funds as required by the Investment Management Services Agreement between UTIMCO and the UT System Board of Regents. The rebate was returned to the funds in the amounts detailed below:

Permanent University Fund	\$ 2,390,343
Long Term Fund	1,246,673
Permanent Health Fund	169,581
Short Intermediate Term Fund	<u>193,403</u>
Total Rebate	<u>\$ 4,000,000</u>

ASSURANCE AND ADVISORY
BUSINESS SERVICES

OCTOBER 8, 2004



ERNST & YOUNG
Quality In Everything We Do

**The University of Texas Investment
Management Company**

Audit Results and Communications

Report to the Audit and Ethics Committee

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

We are pleased to present the results of our audit of the financial statements of the University of Texas Investment Management Company (the "Company") for the year ended August 31, 2004.

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

- Required Communications
- Report on Internal Control

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

We appreciate this opportunity to serve you.

Very truly yours,

Ernst & Young LLP

Contents

2004 Audit Results	
Required Communications.....	1
Report on Internal Control	4

2004 Audit Results

Required Communications

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

Area	Comments
Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)	
The financial statements are the responsibility of management. Our audits were designed in accordance with auditing standards generally accepted in the United States and provide for reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. As a part of our audit, we obtained an understanding of internal control sufficient to plan our audits and to determine the nature, timing, and extent of testing performed.	We issued an unqualified opinion on the August 31, 2004 consolidated financial statements.
Significant Accounting Policies	
	There are no changes in accounting policies during fiscal year 2004 that impacted the Company's financial statement balances.

Auditors' Judgments About the Quality of Accounting Principles

Accounting principles selected by management are of good quality, are acceptable, and have been consistently applied under accounting principles generally accepted in the United States. UTIMCO's financial statements and disclosures are complete in all material respects.

Management Judgments and Accounting Estimates

The preparation of the financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations.

Estimates in the 2004 financial statements did not require significant management judgment.

Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas

None noted.

Audit Adjustments

There were no audit adjustments proposed by us during the current audit.

There were no unadjusted audit differences accumulated by us during the current audit and pertaining to the latest period presented.

Fraud and Illegal Acts

Management has asserted to us that there are no known cases of fraud or illegal acts.

Material Weaknesses in Internal Control

None noted.

Other Information in Documents Containing Audited Financial Statements

The audited financial statements are not included in any other documents.

Disagreements with Management on Financial Accounting and Reporting Matters

None occurred during the course of our audit.

Serious Difficulties Encountered in Performing the Audit

None occurred during the course of our audit.

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention as the Company's auditor.

Consultation with Other Accountants

We are not aware of any consultations by management with other accountants.

Other Matters

None noted.

Report on Internal Control

Audit and Ethics Committee
University of Texas Investment Management Company

In planning and performing our audit of the financial statements of the University of Texas Investment Management Company for the year ended August 31, 2004, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

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

Ernst & Young LLP

October 8, 2004

Section 4

Agenda Item
UTIMCO Board of Directors Meeting
January 18, 2005

Agenda Item: Annual Report and related reports for the year ended August 31, 2004

Developed By: Moeller

Presented By: Moeller

Type of Item: Information item

Discussion: This is the second year of the new reporting format that includes separate reports for the UTIMCO Annual Report, PUF, LTF, FAQ, and separate "stories" for each institution as well as a disc with the audited financial statements. As in 2003, UTIMCO staff worked with an advisory group consisting of development staff from several UT System institutions to improve upon the reporting. New this year is a glossary, "Frequently Used Terms", a request of the advisory group which was included in the FAQ booklet. We also expanded the investment commentary sections.

We believe the success of the new format is demonstrated by the increase in the orders for the reports. We printed 8,000 copies of the reports this year, compared with 6,500 in 2003. In 2002, only 3,000 copies were printed.

We also received positive feedback from the institutions, especially UT Austin. We were able to deliver 3,250 reports to UT Austin by the first week of December. This was three to four weeks ahead of last year for delivery of the reports. In order to achieve earlier delivery dates, we began the annual report process in June and it was a team effort with all of the senior management staff involved in the theme and design process as well as contributing certain sections to the reports. In addition, several members of the UTIMCO staff were involved with preparation of the written materials and graphs, proofreading, and mail out of the reports.

The annual reports are also available on-line on UTIMCO's website under UTIMCO Publications. Individual feature stories published in the prior annual reports over the past six years are available on-line as well.

Reference: UTIMCO Annual Report, PUF Annual Report, LTF Annual Report, Frequently Asked Questions Report, a feature story from 14 components, a PUF feature story provided by Texas A&M, and disc with Audited financial statements.

Section 5

Agenda Item
UTIMCO Board Meeting
January 18, 2005

Agenda Item: Information Regarding Management Fees

Developed By: Moeller; Boldt

Presented By: Boldt

Type of Item: Information Item; No Action Required

Description: This agenda item presents important information regarding fees and expenses paid by UTIMCO to external private equity, hedge fund, and mutual fund managers. An analysis of these fees by Ennis Knupp is provided. Finally, a letter from Ernst & Young indicates that our method of disclosing these fees is consistent with accounting principles and standard industry practice.

Recommendation: None

Discussion: As you know, there has been some criticism from external sources regarding the way we account for fees and expenses in our private equity, hedge fund, other partnerships, and mutual fund investments. The purpose of this presentation is to provide complete information to the UTIMCO Board on the levels of fees paid in prior years and to indicate how we plan to track and report these fees in the future. We will also present evidence from an analysis by Ennis Knupp, commissioned by UT System, that the fees paid in prior years compare very favorably to our peers. In fact, our net returns, on which we base all peer comparisons and compensation decisions, include expenses that are excluded from return calculations by most of our peers. Finally, as an additional measure of comfort, a letter from Ernst & Young indicates that our treatment of these fees both currently and in the past has been completely consistent with all accounting standards and industry practice.

Reference: None

UTIMCO Expense Summary

	Year					
	1999	2000	2001	2002	2003	2004
UTIMCO Services Expenses (1)	\$ 5,079,734	\$ 4,656,180	\$ 4,508,611	\$ 4,966,657	\$ 7,606,088	\$ 8,628,770
Direct Fund Expenses (1)	\$ 8,201,570	\$ 17,553,676	\$ 16,534,341	\$ 20,102,705	\$ 16,048,173	\$ 25,506,242
Partnership and Mutual fund Expenses (2)						
Non-Marketable Investments:						
Management Fees	20,476,239	26,492,740	30,467,057	35,979,879	32,119,585	32,119,585
Total Non-Marketable	\$ 20,476,239	\$ 26,492,740	\$ 30,467,057	\$ 35,979,879	\$ 32,119,585	
Marketable Alternative Investments:						
Management Fees	1,885,712	6,860,192	10,080,512	11,811,604	16,363,377	
Performance Fees	11,739,465	42,626,483	26,045,730	12,002,955	44,008,027	
Total Marketable	\$ 13,625,177	\$ 49,486,675	\$ 36,126,242	\$ 23,814,559	\$ 60,371,404	
Mutual Fund Investments:						
Management Fees	620,510	1,666,367	2,693,809	2,763,903	4,154,352	
Total Mutual Fund	620,510	1,666,367	2,693,809	2,763,903	4,154,352	
Total Partnership and Mutual Fund Expenses	\$ 34,721,926	\$ 77,645,782	\$ 69,287,108	\$ 62,558,341	\$ 96,645,341	
Total Expenses	\$ 48,003,230	\$ 99,855,638	\$ 90,330,060	\$ 87,627,703	\$ 120,299,602	\$ 34,135,012

Notes: (1) Expenses shown are for the July 1 through August 31 Fiscal Year.

(2) Expenses shown are for the calendar year.

November 28, 2004

The University of Texas Investment Management Company (UTIMCO)
Attn: Bob Boldt
221 West 6th Street, Suite 1700
Austin, Texas 78701

Dear Mr. Boldt:

At your request, this letter has been prepared to describe the external reporting disclosure requirements for investment management fees that are incurred by the investment funds (UT investment funds) managed by The University of Texas Investment Management Company (UTIMCO). The UT investment funds invest in a variety of types of investments such as common stocks, bonds, derivatives, hedge funds and private equity funds. The investments are made at the direction or advice of investment managers either employed by UTIMCO or by external investment managers. In connection with arrangements with the investment managers or investment advisors, the UT investment funds incur a variety of management or advisory fees. The management and advisory fees may be asset-based (fee determined based upon the amount of investment made or the return on investment) or nonasset-based (fee is not determined based upon the amount of investment made or the return on investment). Some examples of investment management and advisory fees incurred by the UT investment funds are as follows:

- Fees are charged by UTIMCO for its investment management and advisory services performed for the UT investment funds.
- Fees are charged by external managers for investment management and advisory services.
- Fixed fees may be charged by the general partners of the private equity funds in which the investment funds are limited partners. Additionally, the general partner may receive an incentive fee based upon the performance of the investments within the private equity fund.

The internal investment management fees charged by UTIMCO, which are approved by the UTIMCO Board of Directors, are disclosed separately as an expense of the UT investment funds. External investment management and advisory fees are reported by the UT investment funds in two forms. For external managers hired by the UT investment funds through separate advisory or similar agreements where the fees are incurred and paid by the UT investment funds, the fees are separately disclosed in the UT investment funds' financial statements as an expense. For external managers hired by the UT investment funds by entering into a partnership agreement, or through the purchases of shares of stock in the investment entity (hedge funds and mutual funds), the

Mr. Bob Boldt
UTIMCO

November 28, 2004
Page 2

investment management fees are incurred and paid by the partnership, hedge fund or mutual fund entity and are disclosed net of investment income in the UT investment funds' financial statements and are therefore not included in the UT investment funds' financial statements as a separate expense item. Reporting investment management fees net of investment income is standard industry practice for investments in partnerships, hedge funds, and mutual funds. The UT investment funds have, in all material respects, complied with generally accepted accounting principles (GAAP) as specified by the Governmental Accounting Standards Board (GASB) in reporting external manager fees. Pursuant to GASB Statement 25, although expenses, either individually or in the aggregate, are seldom material to net assets or to changes in net assets, expenses such as investment advisory (management) fees are commonly reported separately when disclosing the components of net investment income. However, GASB Statement 25 also recognizes that it may not be possible or cost-beneficial to separate certain investment expenses, including investment management fees, from the related investment income in which case separate disclosure of such expenses is not required. The Statement allows the exercise of professional judgment with respect to how those types of expenses should be reported.

In those instances where the external manager or advisor reports the investment income or return net of the related management or advisory fee, which typically occurs for the hedge fund and private equity fund investments, UTIMCO does generally obtain audited financial statements for the hedge fund or private equity fund. Such audited financial statements will often disclose the management or advisory fees charged to the hedge fund or private equity fund in total but not the proportionate amount of management or advisory fee charged to individual investors or limited partners such as the UT investment funds. In such instances, it is appropriate for the UT investment funds under GASB to disclose investment income from the hedge fund or private equity fund net of the related management or advisory fee.

In summary, the UT investment funds have, in all material respects, properly accounted for and disclosed the fees it pays to external managers in accordance with GAAP.

If you have any questions, please do not hesitate to call me.

Very truly yours,

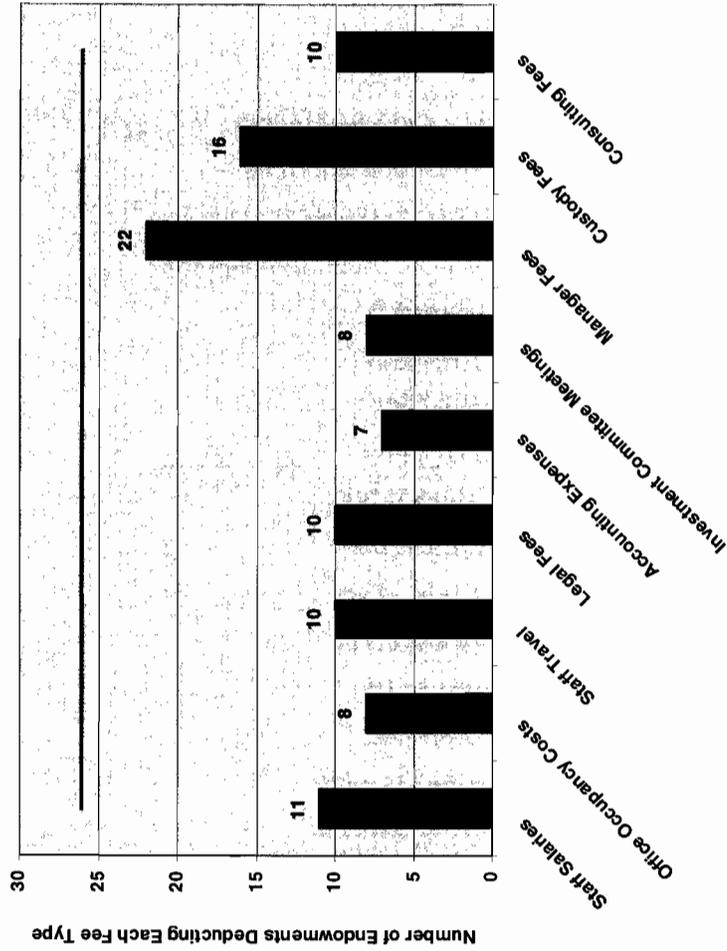


Ricky L. Richter
Partner



Significant Differences in Net Fee Calculations Methods Create Comparison Issues

Net Return Calculation Practices
at the Largest Endowments



■ Expenses Categorized Under UTIMCO Services ■ Expenses Categorized Under Direct Expenses

UTIMCO Deducts ALL These Fees in Calculating Net Returns

January, 2005

***The University of Texas Investment
Management Company***



***Presentation Materials
Board of Directors Meeting***

Part II

January 18, 2005

Section 6

Agenda Item
UTIMCO Board Meeting
January 18, 2005

- Agenda Item:** Discussion and Consideration of New Fund Options for UT System Operating Capital
- Developed By:** UTIMCO Staff
- Presented By:** Boldt; Reed; Iberg; Goldsmith
- Type of Item:** Action Item; Action by Resolution will be required
- Description:** This agenda item presents the case for instituting several new Fund options for UT System operating capital. This item is composed of the following parts:
- Background
 - Asset Allocation Recommendations
 - Transition Issues
 - Proposed Budget
 - Investment Policy Statements
 - Amendments to the Investment Management Services Agreement
 - Amendments to the Derivative Investment Policy
 - Liquidity Policy
 - Swap Agreement
- Recommendation:** Staff recommends adoption of all recommended asset allocation policies, investment policies, the proposed revised budget, all recommended amendments to the Investment Management Services Agreement, Derivative Policy, Liquidity Policy, and adoption of the recommended Swap Agreement.
- Discussion:** Operating funds have become a significant part of the total UT System balance sheet. As these funds have grown, Chief Business Officers have become increasingly conservative in the manner in which the funds are invested. The current set of Fund options and decision making process results in a "bank reserves" problem that causes significant opportunity loss for the UT System. The new proposed alternatives should result in significantly higher returns at somewhat higher risk levels. The new transaction environment should result in increased efficiency, security, reliability, and customer satisfaction. The new web-based asset allocation workshop proposed should assist the CBO's in decision making and result in better informed decisions.
- Reference:** Investment Management Services Agreement; Derivative Investment Policy; GEF Investment Policy; Liquidity Policy; 2004-2005 UTIMCO Budget

**RESOLUTION RELATED TO
ASSET ALLOCATION**

RESOLVED, that the recommended Asset Allocation for the CORE Fund and Balanced Fund as presented be, and is hereby approved, subject to approval by the U. T. System Board of Regents.



**THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY**

New Fund Options for Operating Funds Management

January, 2005



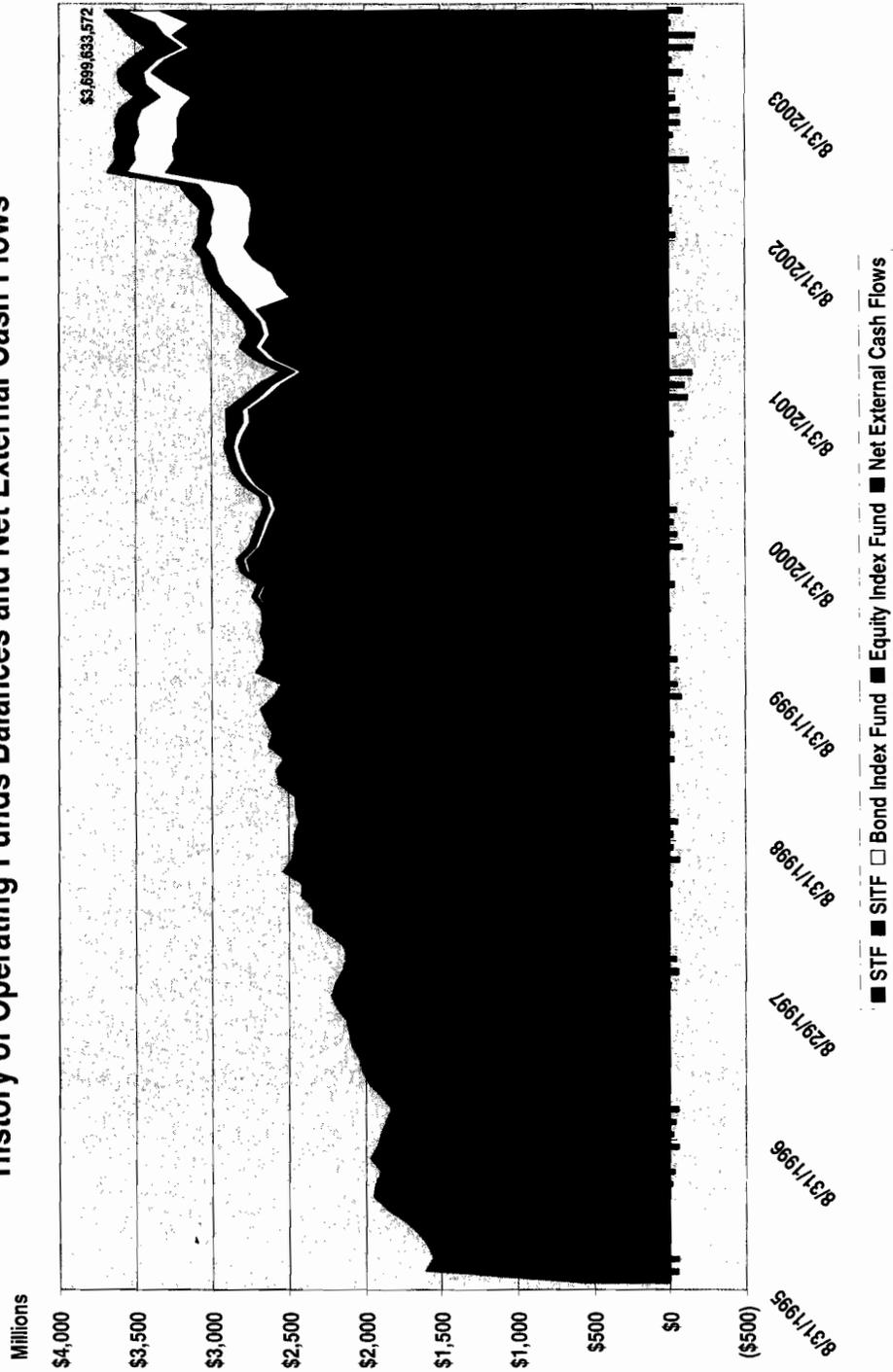
Current Status of Operating Funds

- ◆ 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

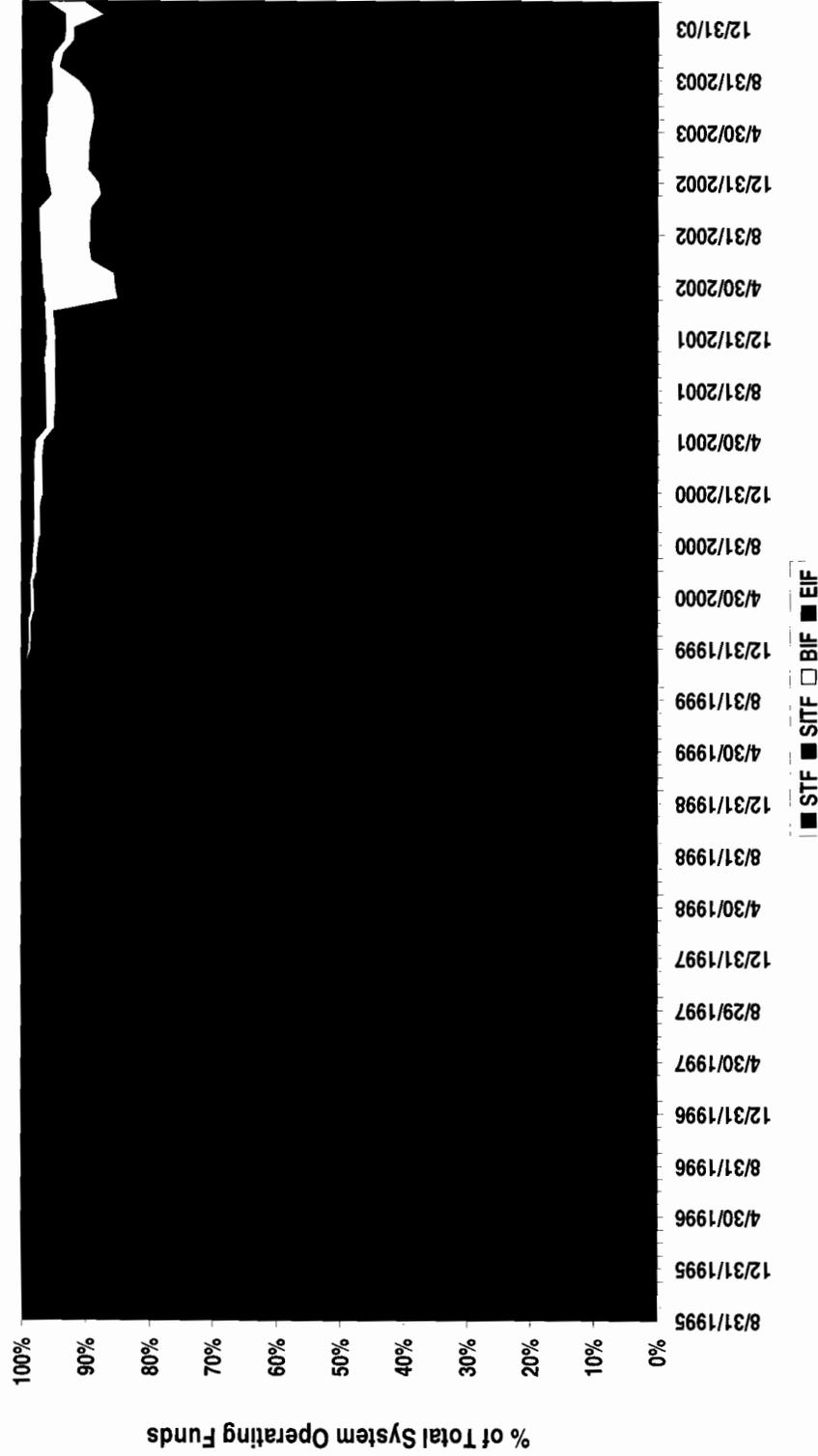
History of Operating Funds Balances and Net External Cash Flows





Changes in Operating Funds Asset Allocation

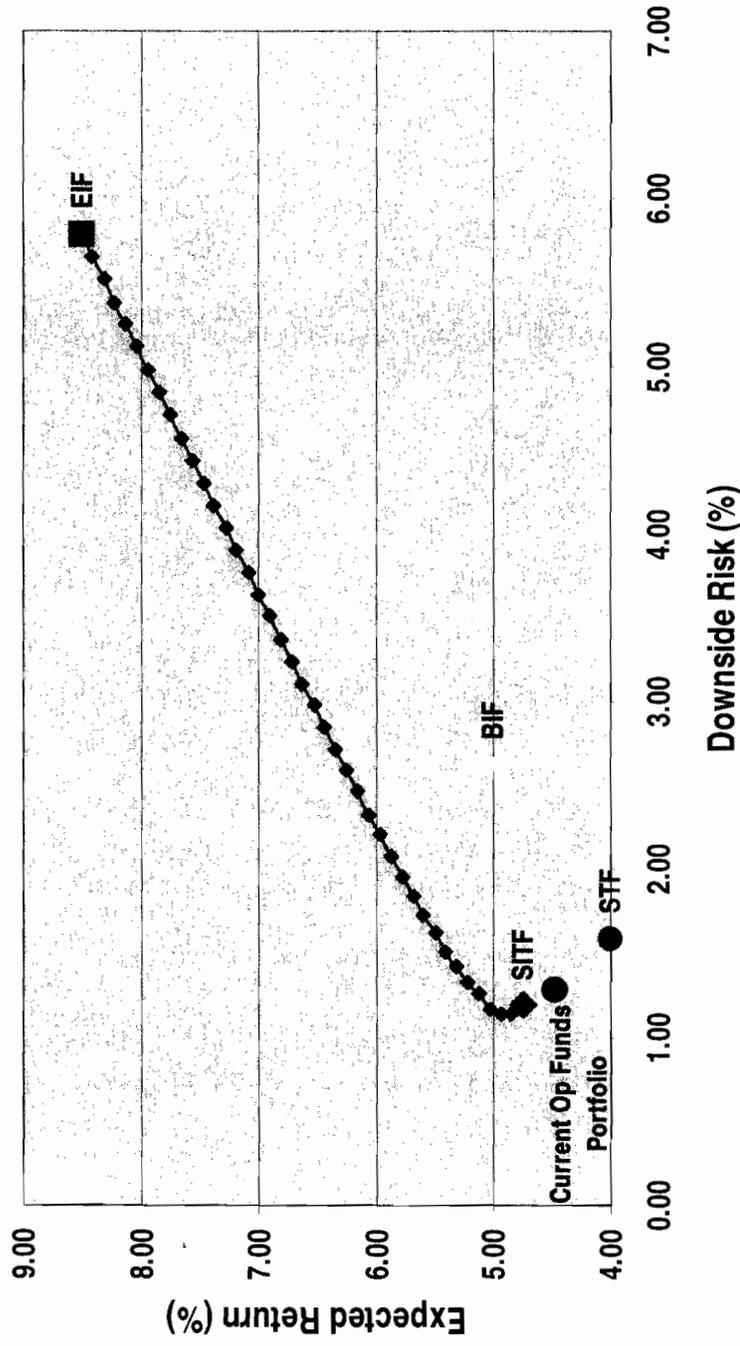
Operating Funds Historical Asset Allocation





The Investment Toolbox With Current Operating Funds Alternatives

Current Operating Funds Management Tool Set



- 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 ...



Daily Liquidity Analysis

Analysis of Daily Cash Flows From Operating Funds 12/31/2000 to 9/30/2004

Institution	Current Balance (\$)	Number of Withdrawals (as a % of Fund Balance)				Maximum Withdrawal Information		
		-5%	-10%	-15%	Percent of Fund Balance	Date	Amount (\$)	
Austin	769,308,018	5	0	0	-7%	11/1/2002	-44,825,000	
MD Anderson	612,917,052	4	0	0	-10%	8/24/2004	-60,917,096	
Southwestern Medical Center at Dallas	508,359,900	1	0	0	-7%	12/1/2003	-34,486,688	
UT System Administration	484,457,633	10	1	0	-12%	8/30/2001	-32,468,509	
Medical Branch Galveston	292,615,623	42	1	1	-25%	8/24/2004	-63,079,573	
Health Science Center Houston	165,097,141	18	0	0	-8%	8/16/2004	-15,625,031	
Health Science Center San Antonio	159,944,799	1	0	0	-5%	4/3/2001	-6,300,000	
Arlington	104,367,121	21	8	0	-13%	9/3/2003	-12,958,027	
Dallas	101,244,135	19	8	0	-15%	3/3/2003	-7,950,000	
San Antonio	93,199,273	26	5	3	-25%	9/3/2003	-15,855,000	
Pan American	55,593,322	8	0	0	-10%	2/7/2002	-5,859,071	
El Paso	43,901,541	62	24	6	-19%	1/25/2001	-6,390,000	
UTIMCO	42,607,887	5	5	4	-70%	8/13/2003	-46,000,000	
Brownsville	25,753,168	79	45	27	-52%	3/19/2001	-4,322,975	
Health Center Tyler	22,822,309	107	65	42	-58%	8/24/2004	-11,958,182	
Tyler	13,058,079	23	2	0	-11%	11/4/2002	-1,398,655	
Permian Basin	6,671,159	34	14	2	-19%	7/2/2004	-1,200,679	
Total	3,501,918,160	0	0	0	-4%	8/24/2004	-132,891,043	



Cumulative 5 Day Liquidity Analysis

Analysis of 5 Day Cash Flows From Operating Funds 12/31/2000 to 9/30/2004

Institution	Current Balance (\$)	Number of Cumulative 5 Business Day 5% Withdrawals				
		Monday	Tuesday	Wednesday	Thursday	Friday
Austin	769,308,018	7	6	4	1	1
MD Anderson	612,917,052	4	6	8	4	1
Southwestern Medical Center at Dallas	508,359,900	5	3	3	2	2
UT System Administration	484,457,633	21	23	19	23	19
Medical Branch Galveston	292,615,623	36	36	35	40	34
Health Science Center Houston	165,097,141	17	15	15	17	17
Health Science Center San Antonio	159,944,799	6	4	7	7	4
Arlington	104,367,121	17	20	19	11	16
Dallas	101,244,135	6	11	8	6	7
San Antonio	93,199,273	29	32	25	23	31
Pan American	55,593,322	14	14	13	10	12
El Paso	43,901,541	36	45	37	37	41
UTIMCO	42,607,887	4	4	4	4	4
Brownsville	25,753,168	44	47	45	49	44
Health Center Tyler	22,822,309	48	45	45	46	43
Tyler	13,058,079	17	19	17	18	21
Permian Basin	6,671,159	23	20	22	30	31
Total	3,501,918,160	0	1	0	0	0



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 Have 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



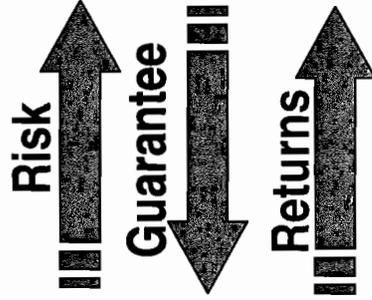
Possible Solutions

- ◆ Remove Discretionary Authority for Operating Funds Investment from CBO's and Place in System Finance
- ◆ Offer 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 Guarantee and CORE Plus Funds for Operating Funds
 - The Balanced Fund for More Permanent Funds



The CORE Funds Takes Advantage of a Perfect Internal Swap

U T System



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 Guarantee Fund
<ul style="list-style-type: none">✓ Daily Liquidity✓ Guaranteed Return Equal to Cash Return Plus Fixed Margin✓ Guaranteed Preservation of Principal

CORE Plus Fund
<ul style="list-style-type: none">✓ Monthly Liquidity✓ Nominal Return of CORE Fund Without the Guarantee✓ Principal at Risk

Balanced Fund
<ul style="list-style-type: none">✓ Monthly Liquidity✓ Efficient Return From Rich Asset Mix✓ Principal at Risk

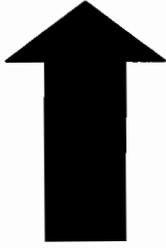


The Solution

- ◆ CBO's Would be Offered the CORE Guarantee Fund:
 - Guaranteed Return of Cash + a Constant Percent (0.5% 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

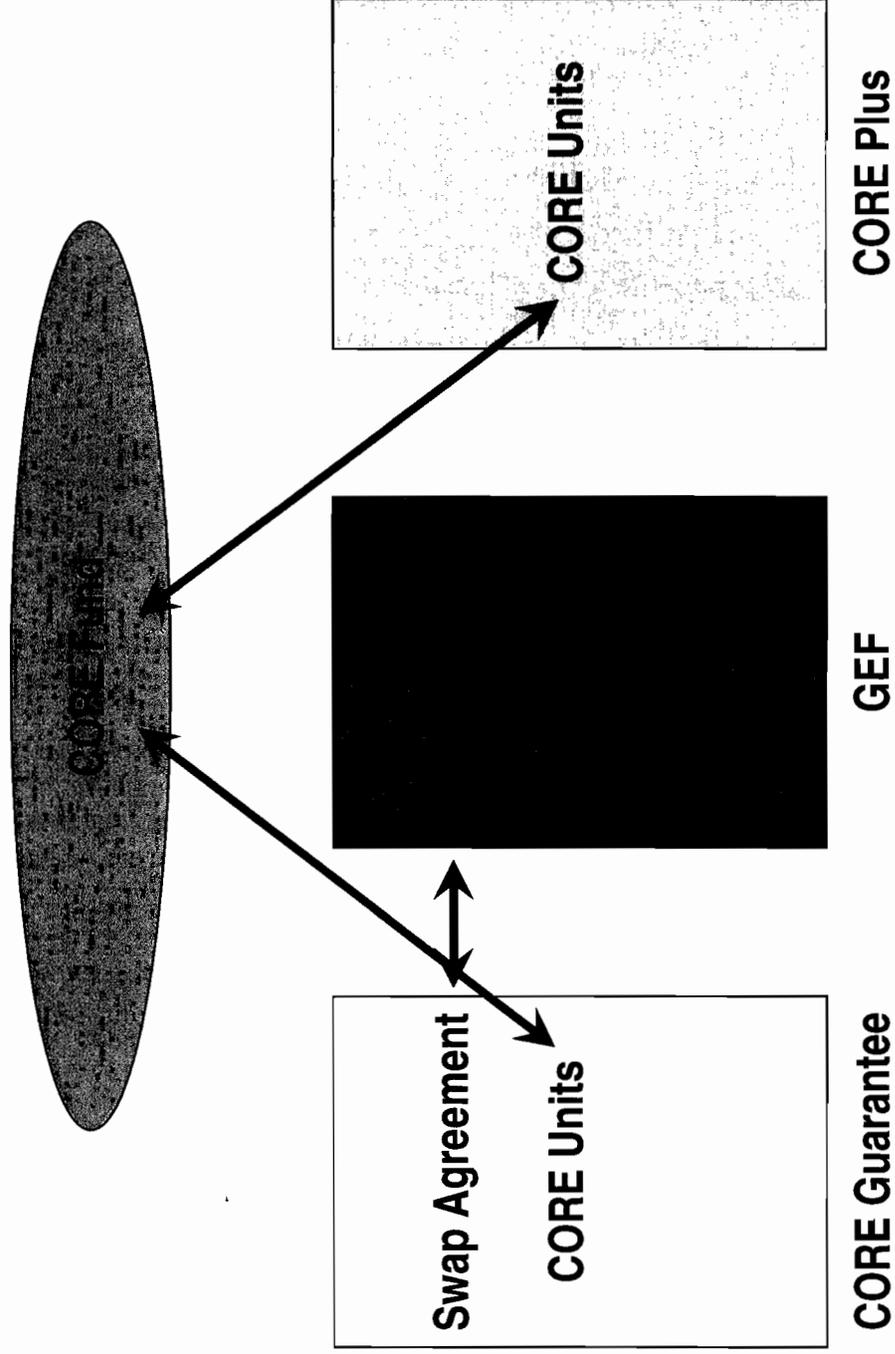


Changes in Operating Fund Offerings





Overall Structure of CORE Funds





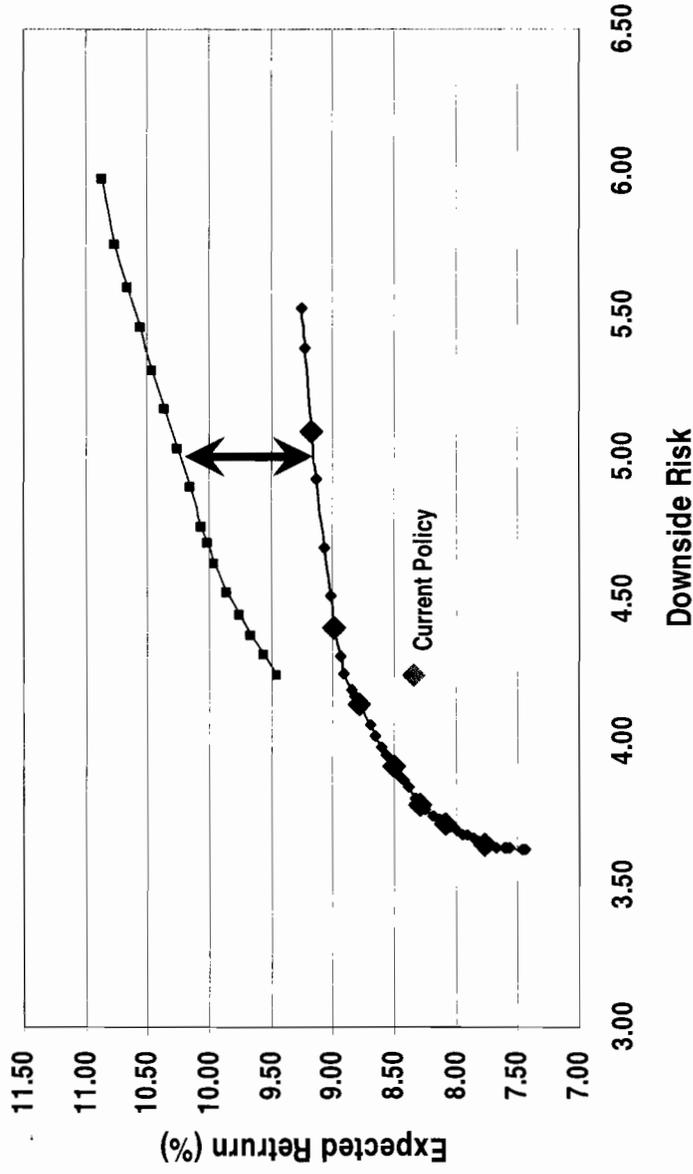
The Economic Realities of the Swap Arrangement

- ◆ GEF borrows capital from the CORE Guarantee Fund and agrees to pay CORE Guarantee unit holders a floating rate equal to the 90 day T-bill rate plus the Margin
- ◆ The GEF then invests the borrowed funds in CORE Fund units, with the objective of pocketing the differential between the CORE Fund return and the payment of the CORE Guarantee
- ◆ The swap arrangement effectively levers the GEF, making higher expected returns at higher levels of risk possible
- ◆ The leverage enables a return and risk position for the GEF that is not feasible without this arrangement



The Portfolio Effect of Adding the CORE Guarantee to the GEF

Adding Leverage With the CORE Guarantee Position
Substantially Changes the GEF Reward / Risk Profile





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: GEF +
CORE – Guarantee Liability

Step-by-step Process

Select small candidate set for
further analysis

Use additional expected
return and risk measures to
make final selection

*This “surplus optimization” process ties
assets directly to the “liability” the
assets are intended to offset; in this
case the “liability” is the CORE
Guarantee*



Assumptions and Constraints for CORE Portfolio

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 12.5%	7.00%	7.50%
Directional Hedge Funds	Max 12.5%	8.00%	11.00%
Venture Capital	Exclude	14.00%	30.00%
Private Equity	Exclude	11.50%	20.00%
REITS	Max 20%	7.50%	15.00%
Commodities		5.00%	18.00%
TIPS		5.25%	6.00%
Global Bonds	Min 10%	5.25%	6.00%
Cash	Min 5%	4.00%	1.00%



CORE Candidate Portfolios Asset Mix

Asset Allocations and Statistics for Candidate CORE Portfolios

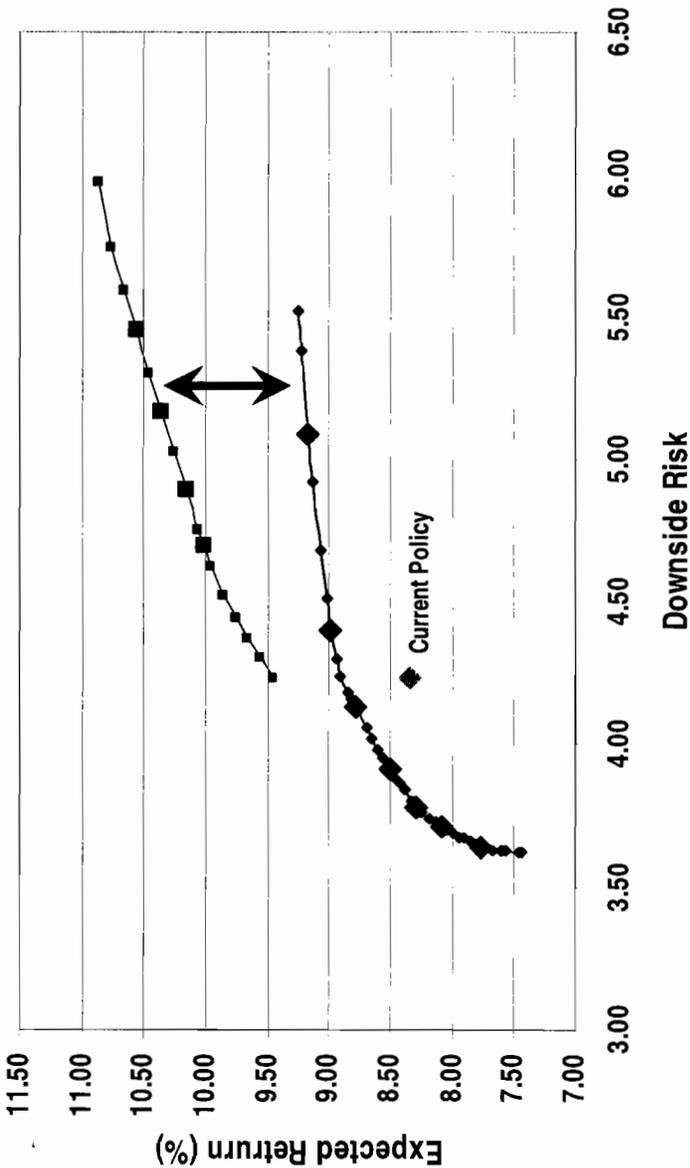
Asset Categories	Portfolio 6	Portfolio 8	Portfolio 10	Portfolio 12
US Equities	4.0%	10.0%	18.0%	26.0%
International Equities	0.0%	0.0%	0.0%	0.0%
Emerging Markets Equities	5.0%	5.0%	5.0%	5.0%
Absolute Return Hedge Funds	12.5%	12.5%	12.5%	12.5%
Directional Hedge Funds	12.5%	12.5%	12.5%	12.5%
REITS	20.0%	20.0%	20.0%	20.0%
Commodities	0.0%	0.0%	0.0%	0.0%
TIPS	31.0%	25.0%	17.0%	9.0%
Fixed Income	10.0%	10.0%	10.0%	10.0%
Cash	5.0%	5.0%	5.0%	5.0%
Statistics	Portfolio 6	Portfolio 8	Portfolio 10	Portfolio 12
CORE Only:				
Expected Return	6.20%	6.81%	7.07%	7.33%
Standard Deviation	5.86%	6.44%	7.39%	8.46%
Downside Deviation (3 Yr)	1.38%	1.54%	1.81%	2.12%
Median Return Surplus Over Margin	1.69%	1.93%	2.25%	2.56%
Low 90th Return Surplus Over Surplus (monthly)	-1.61%	-1.80%	-2.09%	-2.41%
GEF:				
Expected Return of GEF plus CORE Guarantee	10.01%	10.16%	10.36%	10.56%
Expected Return of GEF Only	8.36%	8.36%	8.36%	8.36%
Standard Deviation of GEF plus CORE Guarantee	13.83%	14.50%	15.40%	16.33%
Standard Deviation of GEF Only	10.19%	10.19%	10.19%	10.19%
Low 90th Return of GEF plus CORE Guarantee (monthly)	-4.37%	-4.63%	-4.94%	-5.26%
Low 90th Return of GEF Only (monthly)	-3.13%	-3.13%	-3.13%	-3.13%
Value Added:				
Probability of Negative Value Added: 1 month	45.8%	45.7%	45.7%	45.7%
Probability of Negative Value Added: 1 year	39.5%	39.3%	39.5%	39.7%
Probability of Negative Value Added: 3 years	31.2%	31.4%	31.9%	32.4%
Probability of Negative Value Added: 5 years	26.2%	26.5%	26.9%	27.8%
Median 5 Year Value Added (\$ millions) to GEF	\$345	\$381	\$423	\$465
Low 90th 5 Year Value Added to GEF	(\$319)	(\$355)	(\$420)	(\$505)
High 10th 5 Year Value Added to GEF	\$1,179	\$1,311	\$1,503	\$1,710
Median 5 Year Value Added to CBO's from Guarantee	\$107	\$107	\$107	\$107
Median 5 Year Value Added to UT System	\$452	\$488	\$530	\$572
Low 90th 5 Year Value Added to UT System	(\$212)	(\$248)	(\$313)	(\$398)
High 10th 5 Year Value Added to UT System	\$1,286	\$1,418	\$1,610	\$1,817

Assumes: Margin of 50 bps.



The Candidate CORE Portfolios

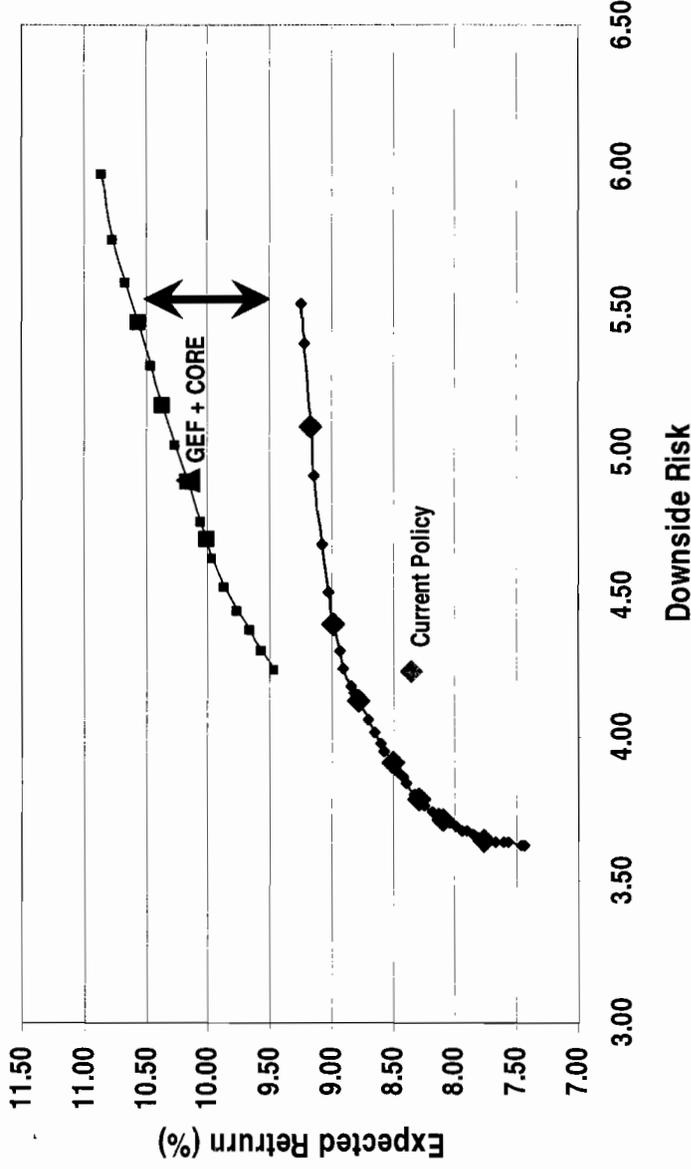
The Candidate CORE Portfolios on the Enhanced Opportunity Frontier





The Expected Effect of the Payoff to Providing the CORE Guarantee on GEF Returns

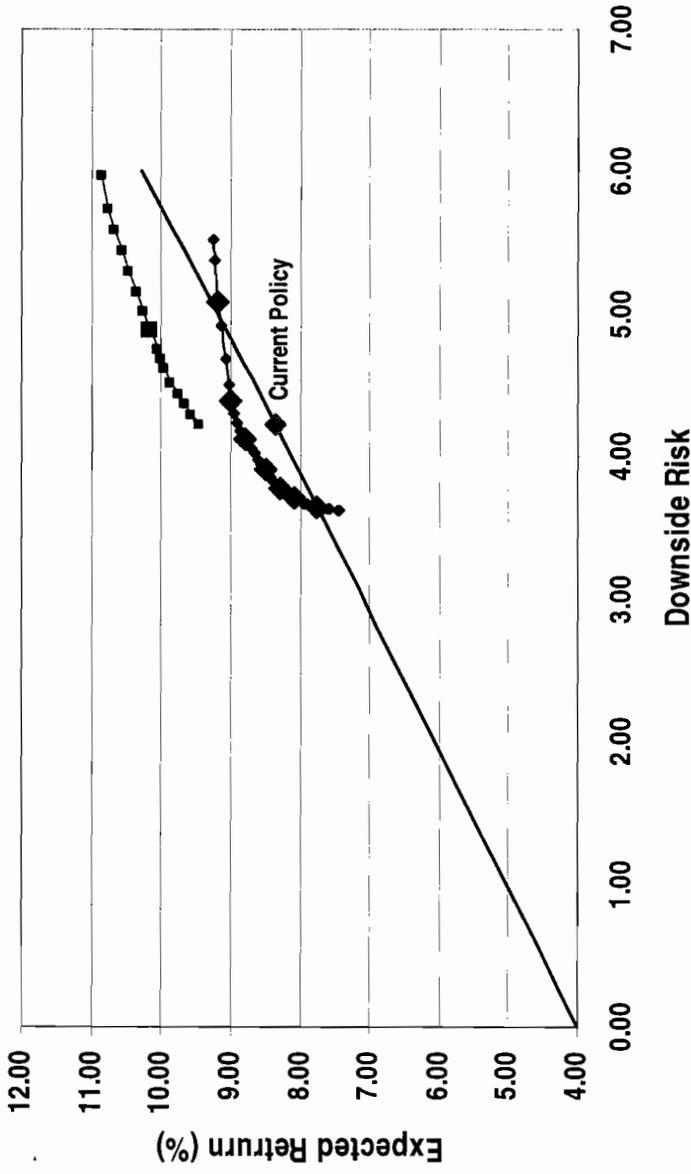
The Recommended CORE Portfolio Will Substantially Improve GEF Returns





The CORE Fund Swap Creates a Very Efficient Combined GEF + CORE Guarantee Portfolio

The CORE Fund Swap is More Efficient Than Levering
the Current Policy Portfolio





The GEF – CORE Guarantee Swap Allows the GEF to Avoid Infeasible Portfolios

- ◆ In order for the GEF to have the same expected return as it does with the CORE Guarantee Swap, the policy portfolio allocation would need to be what many people would call impractical or infeasible as indicated in the following table (based on assumptions and procedures used in the asset allocation review completed last year):

Asset Categories	Required Targets	Current Actual Targets
US Equities	0.0%	20.0%
International Equities	0.0%	10.0%
Emerging Markets Equities	12.0%	7.0%
Absolute Return Hedge Funds	4.0%	15.0%
Directional Hedge Funds	9.0%	10.0%
Venture Capital	22.0%	6.0%
Private Equity	18.0%	9.0%
REITS	2.0%	5.0%
Private Real Estate	18.0%	0.0%
Commodities	0.0%	3.0%
Timber	7.0%	0.0%
Oil & Gas	8.0%	0.0%
TIPS	0.0%	5.0%
Fixed Income	0.0%	10.0%
Cash	0.0%	0.0%



Recommended Asset Allocation Policy for the CORE Fund

CORE Fund Asset Allocation Policy (% of Portfolio)			
Asset Categories	Policy Target	Policy Range	Benchmark
US Equities	10.0%	-10% to 20%	Russell 3000 Index
International Equities	0.0%	0% to 15%	MSCI EAFE Index
Emerging Markets Equities	5.0%	0% to 10%	MSCI Emerging Markets Index
Absolute Return Hedge Funds	12.5%	5% to 20%	90 Day T-bills + 3%
Directional Hedge Funds	12.5%	5% to 20%	90 Day T-bills + 4%
REITS	20.0%	0% to 25%	Dow Jones Wilshire Real Estate Securities Index
Commodities	0.0%	0% to 5%	GSCI minus 1.00%
TIPS	25.0%	5% to 30%	Lehman Brothers US TIPS Index
Fixed Income	10.0%	5% to 20%	Lehman Brothers Aggregate Bond Index
Cash	5.0%	5% to 15%	90 Day T-bills

Expected Annual Return	6.81%
3 Year Downside Deviation	1.54%
Standard Deviation	6.44%



Preferred Allocation is Not Currently Feasible

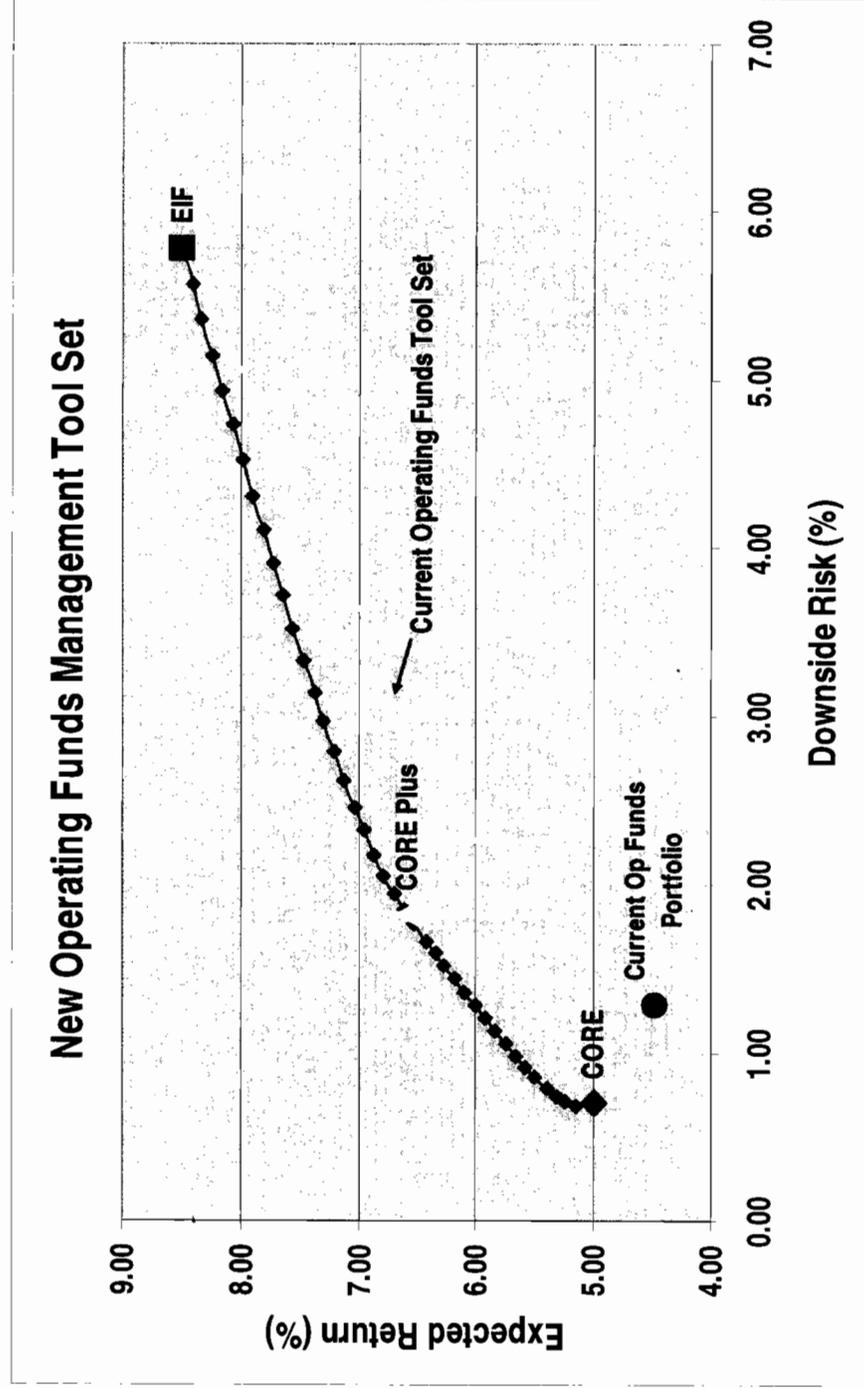
CORE Fund Asset Allocation Policy (% of Portfolio)

Asset Categories	Policy Target	Policy Range	Benchmark
US Equities	5.0%	-10% to 20%	Russell 3000 Index
International Equities	0.0%	0% to 15%	MSCI EAFE Index
Emerging Markets Equities	5.0%	0% to 10%	MSCI Emerging Markets Index
Absolute Return Hedge Funds	20.0%	10% to 25%	90 Day T-bills + 3%
Directional Hedge Funds	20.0%	10% to 25%	90 Day T-bills + 4%
REITS	20.0%	0% to 25%	Dow Jones Wilshire Real Estate Securities Index
Commodities	0.0%	0% to 5%	GSCI minus 1.00%
TIPS	15.0%	5% to 30%	Lehman Brothers US TIPS Index
Fixed Income	10.0%	5% to 20%	Lehman Brothers Aggregate Bond Index
Cash	5.0%	5% to 15%	90 Day T-bills

Expected Annual Return	6.89%
3 Year Downside Deviation	1.53%
Standard Deviation	6.45%

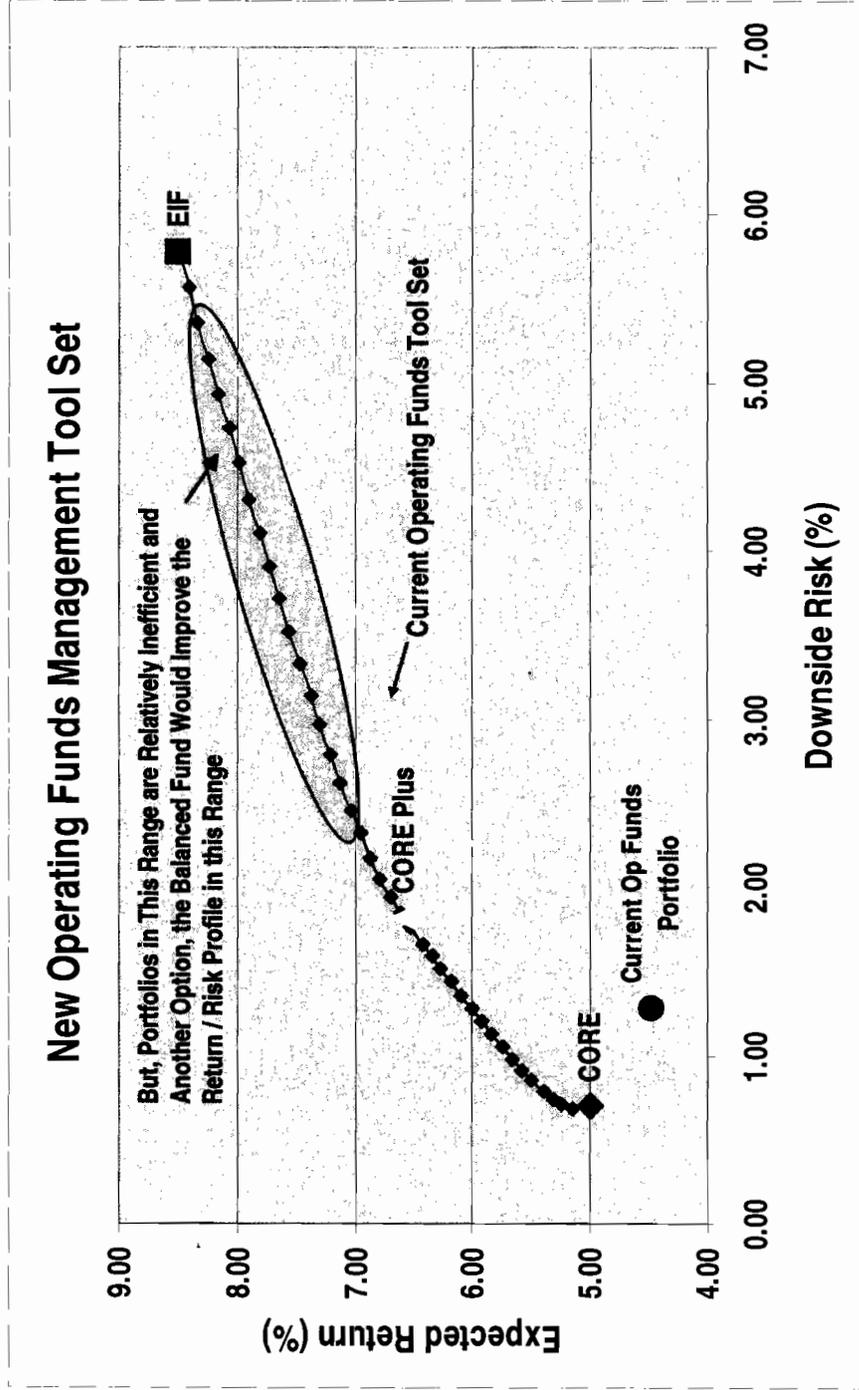


CBO Investment Toolbox With New Funds



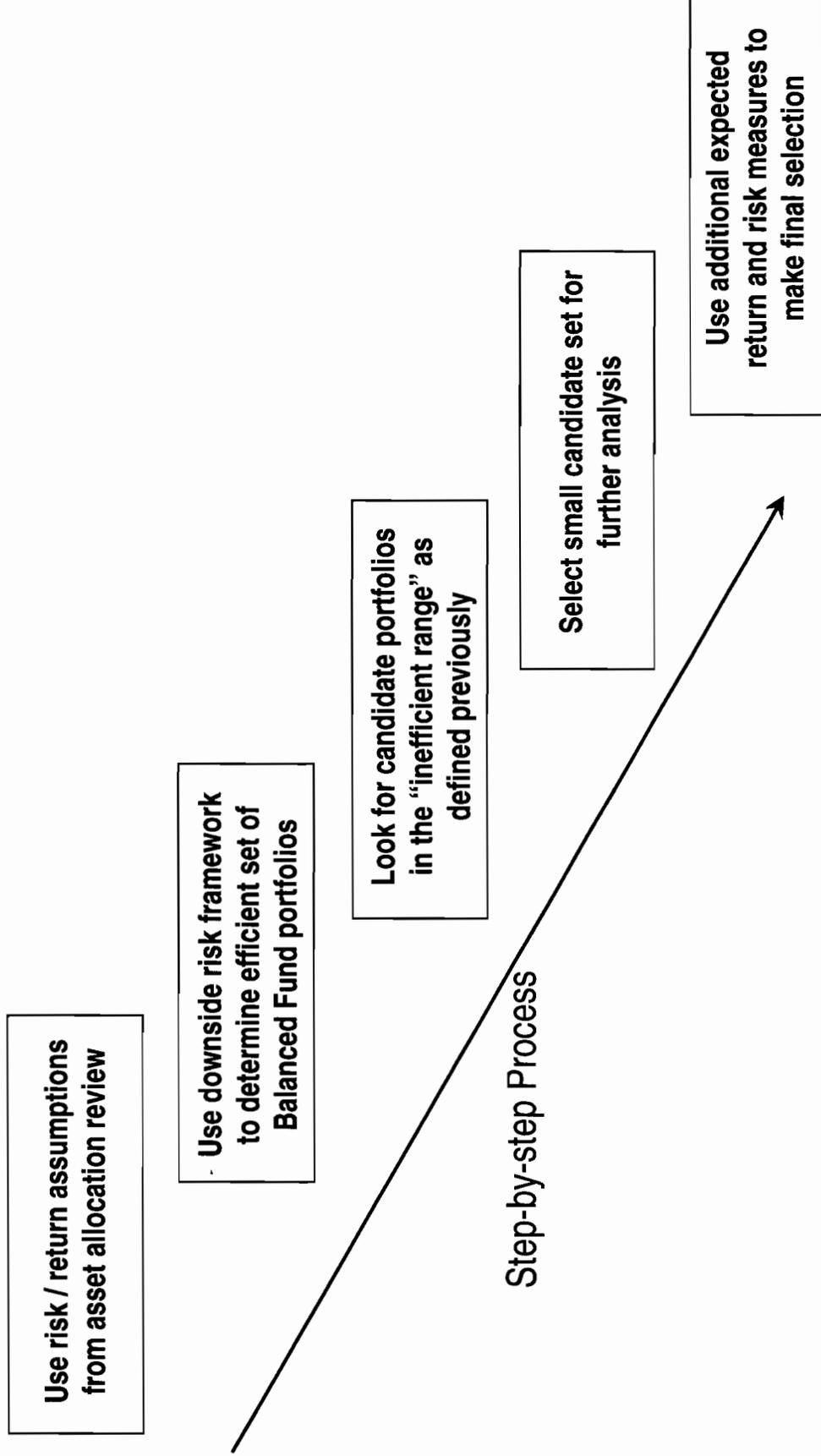


CBO Investment Toolbox With New Funds





Process to Develop Balanced Fund Portfolios



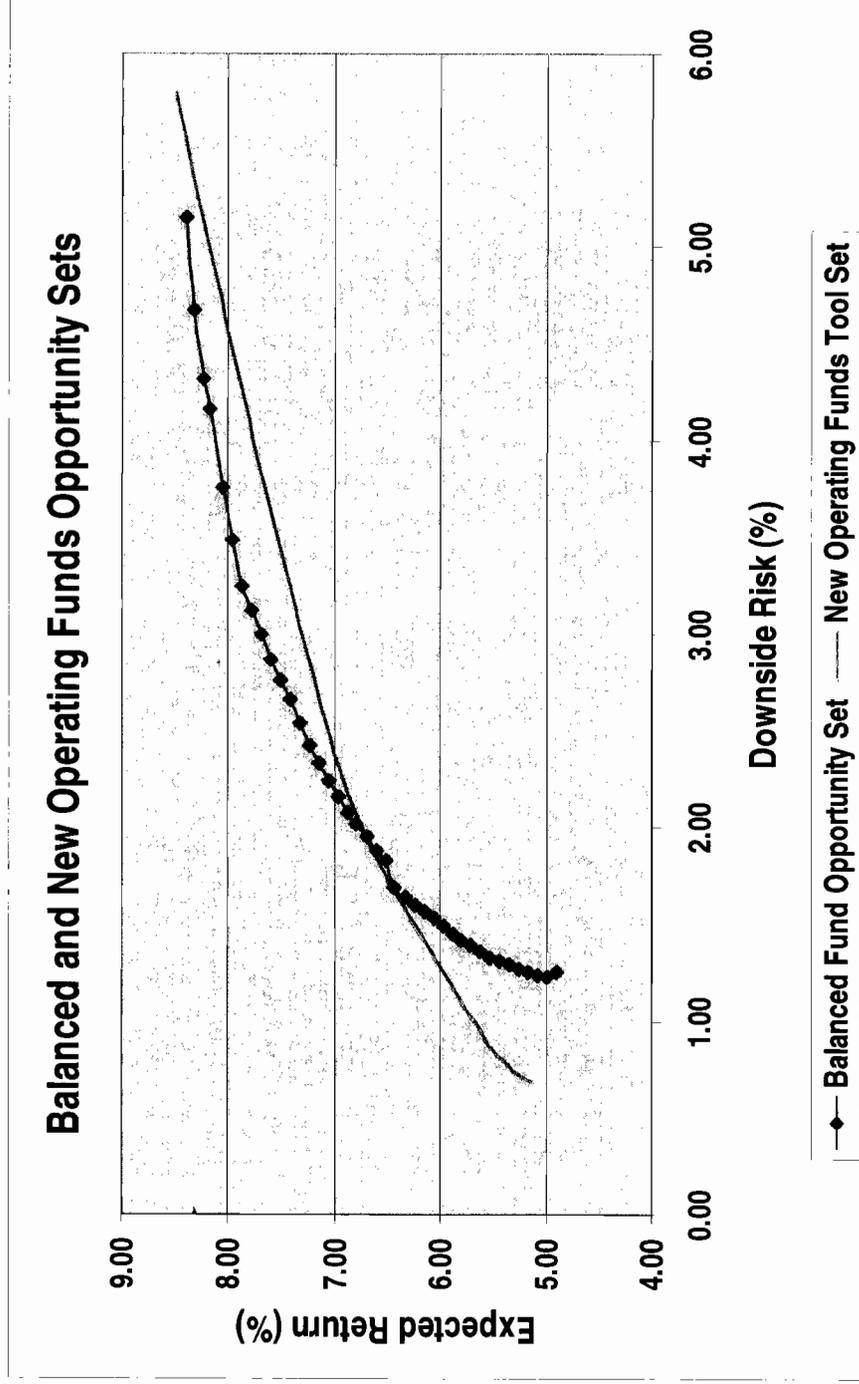


Assumptions and Constraints for Balanced Fund

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		5.25%	6.00%
Global Bonds	Min 10%	5.25%	6.00%
Cash		4.00%	1.00%



Process to Develop Balanced Fund





Balanced Fund Portfolio Candidates

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		5.25%	6.00%	6	5	5	4	3	2	2	1	0	
Global Bonds	Min 10%	5.25%	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%	7.84%	7.87%	7.96%	8.05%	8.17%	8.23%	8.32%	
Standard Deviation>				9.41%	9.79%	10.24%	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%	



Recommended Asset Allocation Policy for the Balanced Fund

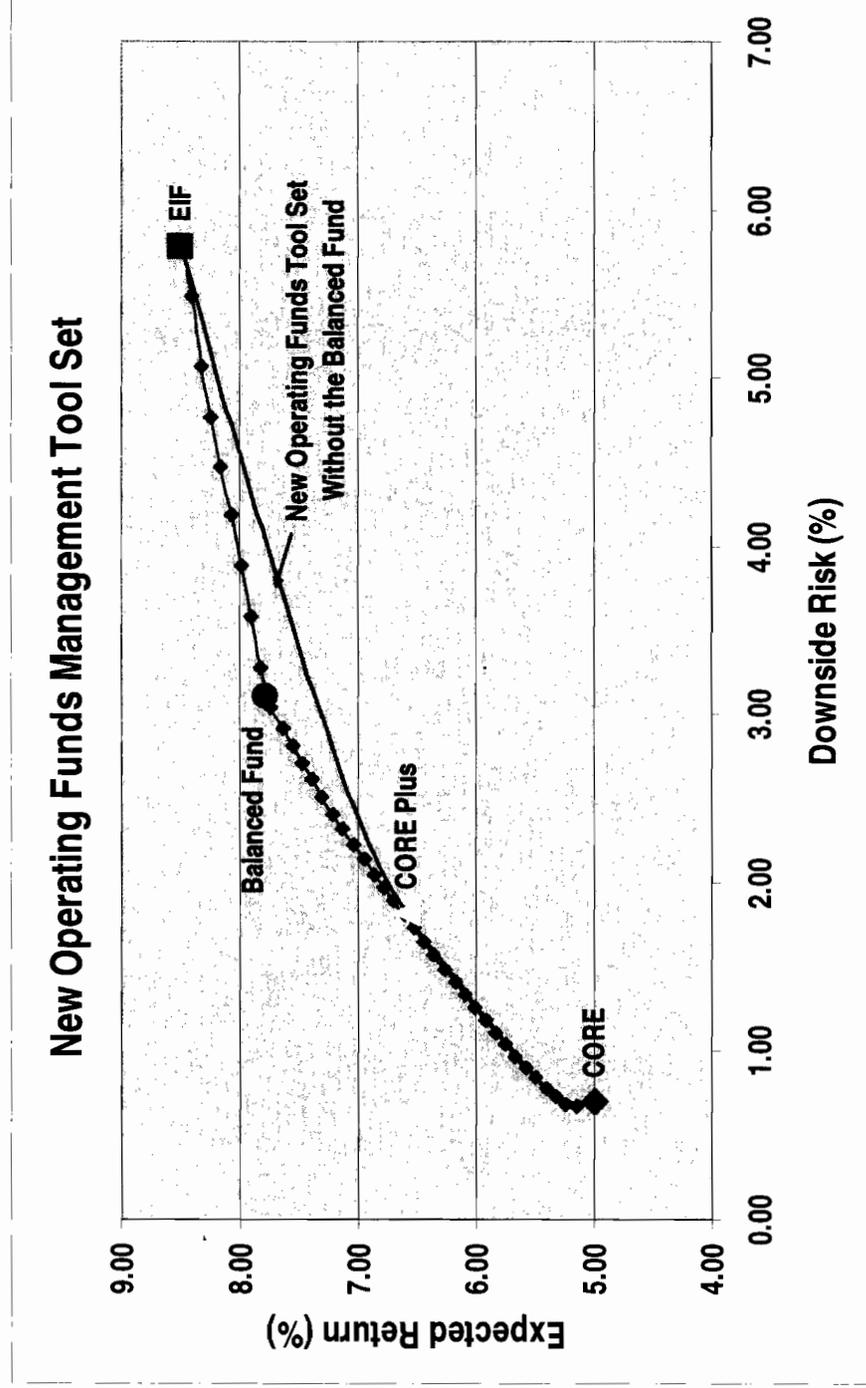
Balanced Fund Asset Allocation Policy (% of Portfolio)

Asset Categories	Policy Target	Policy Range	Benchmark
US Equities	30.0%	10% to 50%	Russell 3000 Index
International Equities	5.0%	0% to 15%	MSCI EAFE Index
Emerging Markets Equities	10.0%	0% to 15%	MSCI Emerging Markets Index
Absolute Return Hedge Funds	15.0%	0% to 20%	90 Day T-bills + 3%
Directional Hedge Funds	10.0%	0% to 15%	90 Day T-bills + 4%
REITS	15.0%	0% to 20%	Dow Jones Wilshire Real Estate Securities Index
Commodities	0.0%	0% to 5%	GSCI minus 1.00%
TIPS	5.0%	0% to 15%	Lehman Brothers US TIPS Index
Fixed Income	10.0%	0% to 20%	Lehman Brothers Aggregate Bond Index
Cash	0.0%	0% to 10%	90 Day T-bills

Expected Annual Return	7.84%
3 Year Downside Deviation	2.71%
Standard Deviation	10.24%

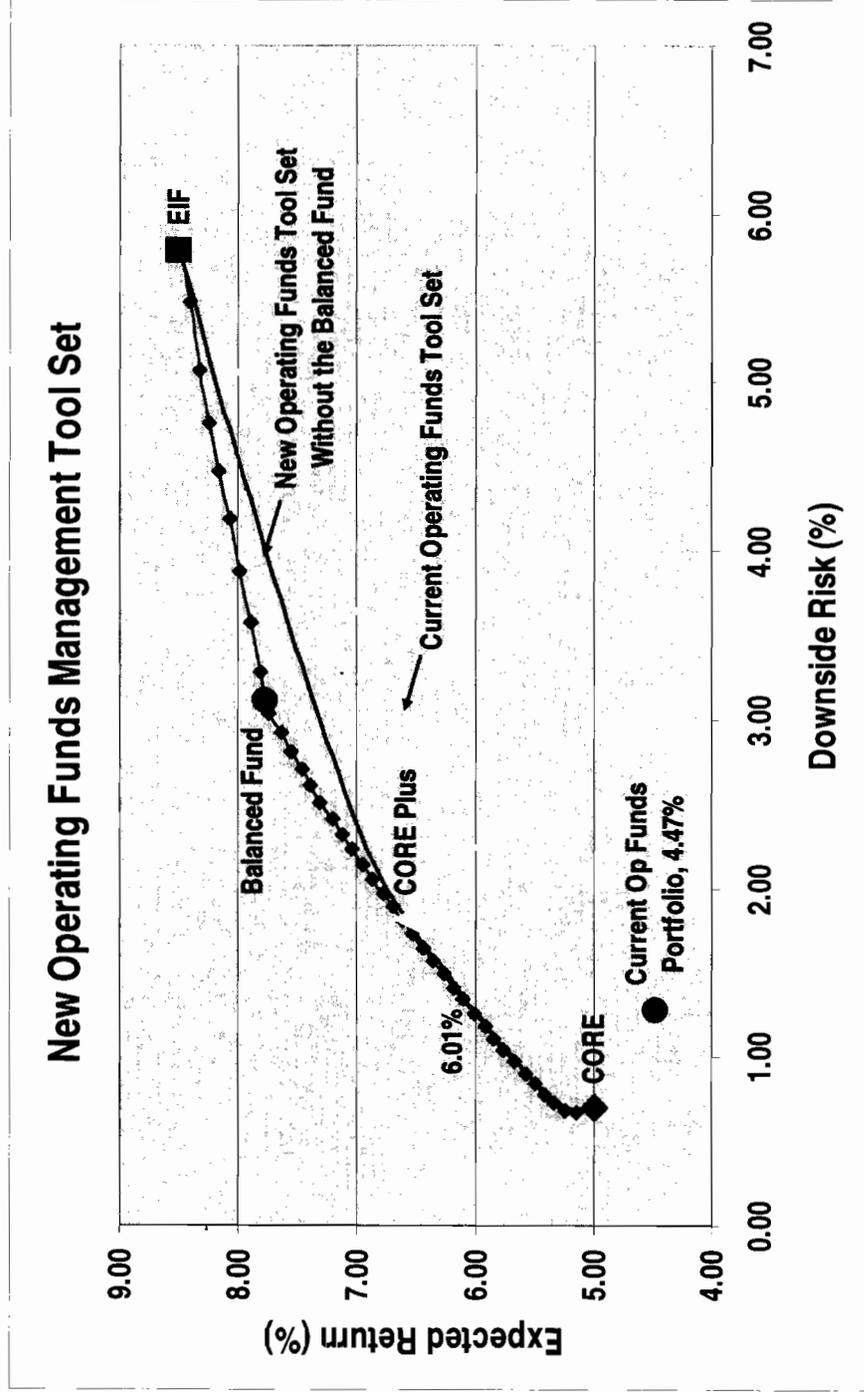


Adding the Balanced Fund Improves the CBO Operating Funds Tool Set





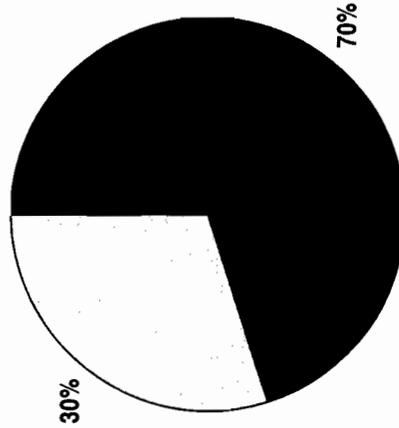
The Complete New Operating Funds Management Tool Set



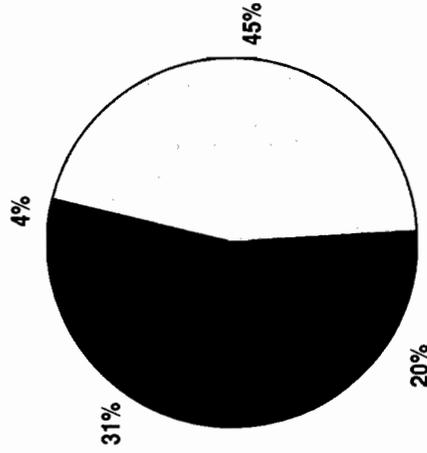


An Added Benefit Not Included in Any Projections: Enhanced PVA

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 approximately \$1.0 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.
- ◆ 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, with total value added of more than \$100 million annually
- ◆ 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 Asset Allocation Review for the GEF

RESOLUTION RELATED TO OPERATING FUNDS BUDGET

RESOLVED, that the UTIMCO Services and Direct Funds Budget for the period September 1, 2004 through August 31, 2005, be amended to include the incremental costs associated with the new Operating Funds and is hereby approved, subject to approval by the U. T. System Board of Regents.

**Operating Funds Analysis and Recommendation
Amended UTIMCO Services and Direct Funds Budget
2004/2005 Partial Fiscal Year**

Recommendation

UTIMCO management recommends that the UTIMCO Board approve the amended UTIMCO Services' and Direct Funds' budgets, and the allocation of those budgeted amounts across the Funds, as indicated in Appendix 1. The UTIMCO Services and Direct Funds Budget approved by the UTIMCO Board (July 2004) and the UT System Board of Regents (September 2004) is impacted by additional costs associated with investing the CORE funds as well as certain costs of the PUF, GEF, and SITF which become unnecessary because of the CORE's implementation. Following is a summary of the current approved budget and the Proposed Amended Budget:

Budgeted Items	Fiscal Year 2004-2005 Approved Budget	Incremental Costs Related to CORE Activities (5 months)	Cost Savings to the SITF, GEF, and PUF	Fiscal Year 2004-2005 Proposed Amended Budget
UTIMCO Services	\$ 10,450,615	\$ 332,270		\$ 10,782,885
Direct Fund	27,696,239	5,961,656	(106,414)	33,551,480
Total	\$ 38,146,854	\$ 6,293,926	\$ (106,414)	\$ 44,334,365

There are two main funds that comprise the new operating funds alternatives, the Core Fund and the Balanced Fund. The Core Fund works as the master fund for the Core Guarantee and Core Plus. Staff is estimating that four additional employees will be needed to handle the extra activities associated with these Funds. Although these new funds will require extra costs during their start up, UTIMCO believes that over the long-term economies of scale will be achieved for all of the Funds under management. The extra costs associated with the start-up of these funds include the design, production and testing of the Institution System and travel costs associated with the training of the UT System institutions' personnel. In addition, professional fees will be incurred related to policies, agreements, research related to constitutional issues, and other legal matters.

The following table highlights the proposed incremental costs of the UTIMCO Services Budget:

Summary of Proposed Adjustments 2004-2005 UTIMCO Services Budget	
Approved UTIMCO Services Budget for 2004-2005	\$10,450,615
Increases for:	
Expenses associated with 4 new staff positions	219,447
On-line Data Services	41,281
Professional Fees	37,000
Equipment Purchases	11,042
Travel	23,500
Total Proposed Budget Increases	332,270
Proposed UTIMCO Services Budget for 2004-2005	\$10,782,885

The four new staff positions include a Core Fund Manager, 2 Analysts, and a Senior Accountant. Additional expenses include software subscriptions, legal and professional fees, travel associate with training of UT Institution personnel, and equipment purchases.

The Direct Funds Budget is expected to increase for the items summarized in the table below. External Management Fees directly associated with the more sophisticated Core Fund strategy (as compared to the Short Intermediate Term Fund) represent the majority of proposed incremental costs. However, Custodial and Analytical Costs will also increase, as will Other Direct Costs (such as legal fees) required in the initial year the funds are established. In addition, there will be cost reductions for custodial fees within the SITF (because it will only be in operation part of the year), cost reductions for both the PUF and GEF because the new funds will be absorbing their respective share of the costs for analytical tools and risk measurement systems.

Summary of Proposed Adjustments 2004-2005 Direct Funds Budget	
Approved Direct Funds Budget for 2004-2005	\$27,696,239
Increases for:	
External Management Fees	4,759,625
Custodian and Analytical Costs	729,156
Other Direct Costs	472,875
Total Proposed Increases	5,961,656
Decreases for:	
Reduced Costs for the SITF	(53,279)
Reduced Costs for the PUF	(26,567)
Reduced Costs for the GEF	(26,568)
Total Proposed Decreases	(106,414)
Proposed Direct Funds Budget for 2004-2005	\$33,551,480

UTIMCO Budget (\$)
Amended Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2005

	The Permanent University Fund (PUF)	The Permanent Health Fund (PHF)	The University of Texas System Long Term Fund (LTF)	General Endowment Fund (GEF)	The Core Funds (CORE)	The University of Texas System Short Term Fund (STF)	Separately Invested Endowments and Charitable Trust Accounts	Total
UTIMCO Management Fee (1) (includes all operating expenses associated with the general management of the Funds)	5,641,744	671,723	3,307,734		750,340	411,345		10,782,885
Direct Expenses of the Fund:								
External Management Fees	9,874,557			5,169,000	4,759,625			19,803,182
External Management Fees-Performance	5,561,919			2,898,684				8,460,603
Other Direct Costs	2,139,672	22,050	112,450	1,742,119	1,202,031	69,372		5,287,694
Total Direct Expenses of the Fund	17,576,149	22,050	112,450	9,809,803	5,961,656	69,372	0	33,551,480
TOTAL UTIMCO Budget for the fiscal year ending August 31, 2005	23,217,892	693,773	3,420,184	9,809,803	6,711,996	480,717	0	44,334,365
Market Value of Funds Managed by UTIMCO as of 2/28/04 (\$ millions)	8,218.9	840.0	3,404.6	4,244.6 (3)	3,337.5 (4)	1,106.2	2,231.3 (2)	15,985.9
Percentage of Market Value								
UTIMCO Services	0.069%	0.080%	0.097%	0.000%	0.022%	0.037%	0.000%	0.067%
Direct Expenses of the Fund	0.214%	0.003%	0.003%	0.231%	0.179%	0.006%	0.000%	0.210%
TOTAL	0.282%	0.083%	0.100%	0.231%	0.201%	0.043%	0.000%	0.277%

(1) Allocation Ratio: First 7 Months: PUF-56%, PHF-7%, LTF-32%, STIF-5%
 Last 5 Months: PUF-48%, PHF-6%, LTF-27%, CORE-16%, STIF-3%

(2) Interest income is net of fees and is not budgeted

(3) Pooled fund for the collective investment of the PHF and LTF

(4) Assumes the April 1, 2005 investment of the STIF and STF into the CORE Funds.

(5) The CORE Funds consist of two funds, the Core Fund and the Balanced Fund. The actual

contributions to each fund by UT System institutions will determine the actual allocation of

expenses to each fund.

**Total
Proposed
Budget**

Direct Costs

External Managem	19,803,182
External Mgt. Fees	8,460,603
External Manag	28,263,785
Custodian Fees an	1,677,594
Performance Meas	465,640
Analytical Tools	346,001
Risk Measurement	696,528
Custodian and /	3,132,628
Cambridge Fees	1,000,000
Auditing	210,300
Controls Assessm	101,450
Printing	150,000
Bank fees	9,000
Rating agency fee	23,500
Legal Fees	595,750
Background Searc	78,775
Other Directs T	2,155,067
Total Direct Costs	33,551,480
Grand Total	44,334,365

RESOLUTION RELATED TO INVESTMENT POLICY STATEMENTS

RESOLVED, that the Proposed Investment Policy Statements for the CORE Fund, CORE Guarantee Fund, CORE Plus Fund, Balanced Fund, Equity Fund and amendments to the General Endowment Fund Investment Policy Statement as presented be, and are hereby, approved, subject to approval by the U. T. System Board of Regents.

**THE UNIVERSITY OF TEXAS SYSTEM
CORE FUND
INVESTMENT POLICY STATEMENT**

Purpose and Structure

The University of Texas System CORE Fund (CORE) was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System institutions and System Administration.

CORE Organization

The CORE functions as a mutual fund in which each eligible account purchases and redeems CORE units as provided herein. The ownership of CORE assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

CORE Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the CORE.

Ultimate fiduciary responsibility for the CORE rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company

("UTIMCO"), the CORE shall be managed by UTIMCO, which shall a) recommend investment policy for the CORE, b) recommend specific asset allocation targets, ranges and performance benchmarks consistent with CORE objectives, and c) monitor CORE performance against CORE objectives. UTIMCO shall invest the CORE assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

CORE Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of CORE assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase CORE Units

No account shall be eligible to purchase units of the CORE unless it is under the sole control, with full discretion as to investments, by the Board of Regents and/or UTIMCO.

Any account whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the CORE.

Currently, the CORE Guarantee Fund (CORE Guarantee) and the CORE Plus Fund (CORE Plus) purchase units in the CORE.

CORE Investment Objectives

The investment objective shall be to earn a long-term investment return consistent with the CORE's investment policy. The CORE assets are expected to earn a long-term return in excess of the cash return plus the Margin guaranteed to participants in the CORE Guarantee.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. Specific asset allocation positions may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable.

CORE assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

- A. U.S. Equities - U.S. equities represent ownership in U.S. companies that are traded in public markets. U.S. equities include common stocks and derivatives based on common stocks, including warrants, rights, options, exchange traded funds, and futures. In addition, derivative applications approved by the UTIMCO Board that serve as a U.S. equity substitute will be classified as U.S. equity. U.S. equities provide both current income and capital gains.
- B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established and emerging markets. Derivatives including warrants, rights, options, exchange traded funds, and futures are also included if the underlying assets are Global ex U.S. equities. In addition, derivative applications approved by the UTIMCO Board that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global ex U.S. equities provide both current income and capital gains.
- C. Hedge Funds – Hedge funds are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable.

Directional Hedge Funds – Directional hedge fund investments primarily include U.S. and international long/short equity and other types of hedge fund strategies that exploit profits from security selection and market exposure. However, unlike the absolute return hedge funds, directional hedge funds exhibit higher volatility and correlation to equity, currency, commodities or fixed income markets. These strategies may also include fund of hedge fund investments. Directional hedge fund investments are made through private placement agreements.

Absolute Return Hedge Funds – Absolute return hedge fund investments primarily include arbitrage, event driven, hedged equity, fixed income and other global hedged market strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities

markets. Event driven strategies attempt to exploit discreet events such as bankruptcies, mergers, and takeovers. These strategies are expected to exhibit a lower risk profile when compared to directional hedge fund investments. Absolute return hedge funds may include fund of hedge fund investments and multi-strategy hedge funds. Absolute return hedge fund investments are made through private placement agreements.

- D. REITS – REITS are real estate investment trusts. REITS own, and in most cases operate, income producing real estate.
- E. Commodities – Commodities include natural resource investments including oil and gas interests and other hard assets. These investments may be held through partnerships, derivative investments, or direct investments.
- F. TIPS – TIPS are treasury inflation protected securities which are marketable securities with a return linked to the inflation rate. In constructing diversified TIPS portfolios, securities classified as traditional fixed income may be utilized by outside investment managers.
- G. Traditional Fixed Income – Traditional fixed income investments include debt issued by the U.S. Treasury, various government agencies and domestic and foreign corporations. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications approved by the UTIMCO Board that serve as a fixed income substitute will be classified as traditional fixed income.
- F. Cash & Cash Equivalents – Cash & cash equivalents consist of money markets, foreign currencies, enhanced cash products, and other overnight funds that have not been allocated to a specific asset class.

Performance Measurement

The investment performance of the CORE will be measured by the CORE's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the CORE, as indicated in Exhibit A.

Investment Guidelines

The CORE must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.
- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of CORE assets in such liquid investment fund.
- No securities may be purchased or held which jeopardize the CORE's tax exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- The CORE's investments in warrants shall not exceed more than 5% of the CORE's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The CORE may utilize derivative securities to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a derivative security is priced more attractively than the underlying security; e) index or hedge risks associated with CORE investments; or f) adjust the market exposure of the asset allocation, including long and short strategies and other strategies provided that the CORE's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board. The Derivative Investment Policy shall serve the purpose of defining the permitted applications under which derivative securities can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Internal short-term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by UTIMCO's chief investment officer.
- The CORE's custodian late deposit interest bearing liquid investment fund.
- Enhanced cash products.

- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).

- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.

- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
 - Eligible Collateral Securities for Repurchase Agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a Repurchase Agreement may be from one day to two weeks.
 - The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.
 - All collateral shall be delivered to the CORE custodian bank. Tri-party collateral arrangements are not permitted.

- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U.S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific subsectors: 1) Government securities: Treasury and Agency; 2) Corporate securities: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; 4) Asset-backed securities; 5) Taxable Municipal securities; and 6) Commercial Mortgage-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.
- U. S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.
- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

Non-U.S. Fixed Income

- Not more than 50% of the CORE's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.

- Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U. S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.
- Not more than 15% of the CORE's fixed income portfolio may be invested in emerging market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The CORE shall:

- A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market
- B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the chief investment officer.

CORE Accounting

The fiscal year of the CORE shall begin on September 1st and end on August 31st. Market value of the CORE shall be maintained on an accrual basis in compliance with Government Accounting Standards Board Statements, Financial Accounting Standards Board Statements, or industry guidelines, whichever is applicable. The CORE's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of CORE Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all CORE net assets and the net asset value per unit of the CORE. Valuation of CORE assets shall be based on the books and records of the custodian for the valuation date.

The fair market value of the CORE's net assets shall include all related receivables and payables of the CORE on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of CORE Units

The CORE participants may purchase units based on the following:

- 1) The CORE Guarantee may purchase units on each business day upon payment of cash to the CORE.
- 2) The CORE Plus may purchase units on the first business day of each month upon payment of cash to the CORE.

Redemption of CORE Units

The CORE participants may redeem units based on the following:

- 1) The CORE Guarantee may redeem units on each business day and the redemption proceeds shall be paid in cash on the same day.
- 2) The CORE Plus may redeem CORE units on a monthly basis. The unit redemption shall be paid in cash as soon as practicable after the month end valuation date of the CORE. Redemptions from the CORE shall be at the market price per unit determined for the period of the withdrawal.

Securities Lending

The CORE may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the CORE shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

Investor Responsibility

As a shareholder, the CORE has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the CORE. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the CORE solely in the interest of CORE unitholders and shall not invest the CORE so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable. Any changes made to the Margin set by the Board of Regents regarding the CORE guarantee may result in the necessity for the UTIMCO Board to modify asset allocation.

Effective Date

The effective date of this policy shall be _____.

EXHIBIT A

CORE FUND

SPECIFIC ASSET ALLOCATION TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

The Policy Targets and Ranges will be presented during the meeting.

Asset Category	Percent of Policy (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities			Russell 3000 Index
Non-US Developed Equity			MSCI EAFE
Emerging Markets Equities			MSCI EM
Absolute Return Hedge Funds			90 Day T-Bills + 3%
Equity Hedge Funds			90 Day T-Bills + 4%
REITS			Dow Jones Wilshire Real Estate Securities Index
Commodities			GSCI minus 1%
TIPS			Lehman Brothers US TIPS Index
Traditional Fixed Income			Lehman Brothers Aggregate Bond Index
Cash			90 Day T-Bills

Expected Annual Return (%)	
3 yr Downside Deviation (%)	
Standard Deviation (%)	

THE UNIVERSITY OF TEXAS SYSTEM CORE GUARANTEE FUND INVESTMENT POLICY STATEMENT

Purpose and Structure

The University of Texas System CORE Guarantee Fund (CORE Guarantee) was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System institutions and System Administration that ensure the unitholders receive a cash return plus a Margin. The cash return credited is the 90-day Treasury bill and the incremental Margin, as recommended by the UTIMCO Board and approved by the Board of Regents. To ensure the CORE Guarantee unit holder a cash return plus a Margin, the CORE Guarantee will enter into a swap transaction (SWAP) with the General Endowment Fund (GEF) on the basis of the principal terms set forth in Exhibit A. The funds are invested in The University of Texas System CORE Fund (CORE.)

CORE Guarantee Organization

The CORE Guarantee functions like a mutual fund in which each eligible account purchases and redeems CORE Guarantee units as provided herein. The ownership of CORE Guarantee assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

CORE Guarantee Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the CORE Guarantee.

Ultimate fiduciary responsibility for the CORE Guarantee rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the CORE Guarantee shall be managed by UTIMCO. UTIMCO shall invest the CORE Guarantee assets in conformity with this Policy Statement and will monitor CORE Guarantee performance relative to established objectives. All changes to this Policy Statement or the exhibit to this Policy Statement are subject to approval by the Board of Regents.

CORE Guarantee Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of CORE Guarantee assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase CORE Guarantee Units

No account shall be eligible to purchase units of the CORE Guarantee unless it is under the sole control, with full discretion as to investments, of the Board of Regents and/or UTIMCO.

Any account whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the CORE Guarantee.

The funds of a foundation which is structured as a supporting organization described in Section 509(a) of the Internal Revenue Code of 1986 which supports the activities of the U. T. System and its component institutions, may purchase units in the CORE Guarantee provided that:

- A. the purchase of CORE Guarantee units by foundation funds is approved by the UTIMCO chief investment officer;
- B. all members of the foundation's governing board are also members of the Board of Regents;

- C. the foundation has the same fiscal year as the CORE Guarantee; and
- D. a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the CORE Guarantee.

CORE Guarantee Investment Objectives

The primary investment objective shall be to provide a cash return plus a Margin to the unit holders. The cash return credited is the 90-day Treasury bill and the Margin as recommended by the UTIMCO Board and approved by the Board of Regents. The SWAP is the means by which the primary investment objective is to be achieved.

Asset Allocation and Policy

CORE Guarantee assets shall be allocated among the following investments:

- A. Cash & Cash Equivalents – Cash & cash equivalents consist of money markets, foreign currencies, and enhanced cash products, and other overnight funds. Cash & cash equivalents will act as a conduit to facilitate the activity of the unit holders and the SWAP and it is not expected to be held by the CORE Guarantee as an investment strategy.
- B. U.T. System CORE Fund (CORE) – See the current CORE Investment Policy Statement.
- C. SWAP Transaction – To enhance investment returns consistent with the Investment objectives set forth above, the CORE Guarantee will enter into the SWAP with the GEF on the basis of the principal terms set forth on Exhibit A. UTIMCO shall be responsible for implementing and monitoring the SWAP.

Performance Measurement

The investment performance of the CORE Guarantee will be measured by the CORE Guarantee's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board. Such measurement will occur at least monthly.

Investment Guidelines

The CORE Guarantee must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for the CORE shall be as stated in the CORE Investment Policy Statement.
- No securities may be purchased or held which jeopardize the CORE Guarantee's tax exempt status.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Eligible investments within the "Cash and Cash Equivalents" category of the CORE Investment Policy Statement

CORE Guarantee Accounting

The fiscal year of the CORE Guarantee shall begin on September 1st and end on August 31st. Market value of the CORE Guarantee shall be maintained on an accrual basis in compliance with Government Accounting Standards Board Statements, Financial Accounting Standards Board Statements, or industry guidelines, whichever is applicable. The CORE Guarantee's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets and Distributions

As of the close of business on the last business day of each month, UTIMCO shall determine the CORE Guarantee's net asset value. Valuation of Core Guarantee assets shall be based on the books and records of the custodian for the valuation date. The fair market value of the CORE Guarantee's net assets shall include the SWAP, all related receivables and payables of the CORE Guarantee on the valuation date.

The CORE Guarantee participants' net asset value per unit shall be equal to \$1.00. No appreciation or depreciation will occur in the CORE Guarantee's unit value. Therefore, the value of a participant's investment is the amount originally contributed (including dividends reinvested, as provided below) less any redemptions plus the guaranteed return under the SWAP. The guaranteed return on the investment is a cash return plus a Margin. The cash return credited is the 90-day Treasury bill and the Margin, as recommended by the UTIMCO Board and approved by the Board of Regents. The GEF, as the counterparty in the Swap Agreement with the CORE Guarantee, receives or contributes the difference

between the return of the CORE and the guaranteed return as more fully enumerated in Exhibit A.

The guaranteed return is compounded monthly and the dividend is distributed to the unit holders as soon as practicable after the last day of each month and is automatically reinvested. The guaranteed return is calculated daily based on each participant's investment balance to compensate for daily participant activity.

Purchase of CORE Guarantee Units

Purchase of CORE Guarantee units may be made on each business day upon payment of cash to the CORE Guarantee, at \$1.00 per unit of the CORE Guarantee.

Redemption of CORE Guarantee Units

Redemption of units may be made on each business day at \$1.00 per unit. For redemptions greater than \$25 million but less than \$50 million, notification of five business days is required. Notification of ten business days is required for redemptions in excess of \$50 million. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the CORE Guarantee's net asset value, the CORE Guarantee may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the best interests of all CORE Guarantee unit holders. The required notification shall be given to designated UTIMCO staff members.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the CORE Guarantee solely in the interest of CORE Guarantee unit holders and shall not invest the CORE Guarantee so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable. Any amendment, however, to the provision regarding the Margin may result in the necessity for the UTIMCO Board to modify asset allocation and the Swap Agreement.

Effective Date

The effective date of this policy shall be _____.

EXHIBIT A

SUMMARY OF PRINCIPAL TERMS

SWAP AGREEMENT

Counterparties:	CORE Guarantee Fund (CORE Guarantee) and General Endowment Fund ("GEF")
Structure:	The CORE Guarantee will enter into a swap transaction with the GEF (the "Swap" or "Transaction"). On a monthly basis, the GEF will pay to the CORE Guarantee a short-term floating-rate cash return (Base Index) plus a Margin (together, the "Guaranteed Return"). Concurrently, the CORE Guarantee will pay to the GEF the total return during the preceding month on all CORE Guarantee investments.
Base Index:	90 day T-Bills
Margin:	As determined by the UT Board of Regents from time-to-time
CORE Guarantee Excess Return:	Total Return of CORE Guarantee investments in excess of the Guaranteed Return. This return will vary based on the performance of the investments held by the CORE Guarantee.
Valuation:	The Transaction will be valued as of the last business day of each month. The GEF and the CORE Guarantee will treat the Swap as an asset and will increase or reduce the net asset value for each fund. The cash flows associated with the Swap will be netted against each other when calculating the value.
True-Up:	The cash value of the Swap will be settled every month between the CORE Guarantee and the GEF.
Effective Date:	Simultaneously with the creation of the CORE Guarantee.
Termination:	The Swap may be terminated by the UT Board of Regents at any time.

**THE UNIVERSITY OF TEXAS SYSTEM
CORE PLUS FUND
INVESTMENT POLICY STATEMENT**

Purpose and Structure

The University of Texas System CORE Plus Fund (CORE Plus) was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System institutions and System Administration. The funds are invested in The University of Texas System CORE Fund (CORE) and earn the investment return of the CORE's underlying assets.

CORE Plus Organization

The CORE Plus functions like a mutual fund in which each eligible account purchases and redeems CORE PLUS units as provided herein. The ownership of CORE Plus assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

CORE Plus Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the CORE Plus.

Ultimate fiduciary responsibility for the CORE Plus rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the CORE Plus shall be managed by UTIMCO. UTIMCO shall invest the CORE Plus assets in conformity with this Policy Statement and will monitor CORE Plus performance relative to established objectives. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

CORE Plus Administration

UTIMCO or its agent shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of CORE Plus assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase CORE Plus Units

No account shall be eligible to purchase units of the CORE Plus unless it is under the sole control, with full discretion as to investments, of the Board of Regents and/or UTIMCO.

Any account whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the CORE Plus.

The funds of a foundation which is structured as a supporting organization described in Section 509(a) of the Internal Revenue Code of 1986 which supports the activities of the U. T. System and its component institutions, may purchase units in the CORE Plus provided that:

- A. the purchase of CORE Plus units by foundation funds is approved by UTIMCO's chief investment officer;
- B. all members of the foundation's governing board are also members of the Board of Regents;
- C. the foundation has the same fiscal year as the CORE Plus; and
- D. a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the CORE Plus.

CORE Plus Investment Objectives

The investment objective shall be to earn a long-term investment return consistent with the CORE's investment policy. The CORE assets are expected to earn a long-term return in excess of the return guaranteed to participants in the CORE Guarantee Fund.

Asset Allocation and Policy

CORE Plus assets shall be allocated among the following investments:

- A. Cash & Cash Equivalents – Cash & cash equivalents consist of money markets, foreign currencies, enhanced cash products, and other overnight funds. Cash & cash equivalents will act as a conduit to facilitate the activity of the unit holders and it is not expected to be held by the CORE Plus as an investment strategy.
- B. U.T. System CORE Fund (CORE) – See the current CORE Investment Policy Statement.

Performance Measurement

The investment performance of the CORE Plus will be measured by the CORE Plus's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board. Such measurement will occur at least monthly.

Investment Guidelines

The CORE Plus must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for the CORE shall be as stated in the CORE Investment Policy Statement.
- No securities may be purchased or held which jeopardize the CORE Plus's tax exempt status.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Eligible investments within the “Cash and Cash Equivalents” category of the CORE Investment Policy Statement

CORE Plus Accounting

The fiscal year of the CORE Plus shall begin on September 1st and end on August 31st. Market value of the CORE Plus shall be maintained on an accrual basis in compliance with Government Accounting Standards Board Statements, Financial Accounting Standards Board Statements, or industry guidelines, whichever is applicable. The CORE Plus’s financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets and Distributions

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all CORE Plus net assets and the net asset value per unit of the CORE Plus. Such valuation of CORE Plus assets shall be based on the bank trust custody agreement in effect at the date of valuation.

The fair market value of the CORE Plus’s net assets shall include all related receivables and payables of the CORE Plus on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive. The CORE Plus unit holders shall not receive monthly distributions. Their proportion share of the CORE assets appreciation/depreciation is retained in the net asset value per unit.

Purchase of CORE Plus Units

Purchase of CORE Plus units may be made on the first business day of each month upon payment of cash to the CORE Plus, at the net asset value per unit of the CORE Plus as of the most recently month valuation date.

Each fund whose monies are invested in the CORE Plus shall own an undivided interest in the CORE Plus in the proportion that the number of units invested therein bears to the total number of all units comprising the CORE Plus.

Redemption of CORE Plus Units

Redemption of CORE Plus units shall be paid in cash as soon as practicable after the monthly valuation date of the CORE Plus. If the withdrawal is greater than \$25 million and less than \$50 million, advance notice of 5 business days shall be

required prior to the monthly valuation date. If the withdrawal is greater than \$50 million, advance notice of 10 business days shall be required prior to the monthly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the CORE Plus's net asset value, the CORE Plus may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the best interests of all CORE Plus unitholders. Redemptions from the CORE Plus shall be at the market value price per unit determined for the period of the redemption. The required notification shall be given to designated UTIMCO staff members.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the CORE Plus solely in the interest of CORE Plus unit holders and shall not invest the CORE Plus so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be _____ .

**THE UNIVERSITY OF TEXAS SYSTEM
BALANCED FUND
INVESTMENT POLICY STATEMENT**

Purpose and Structure

The University of Texas System Balanced Fund (BAL) was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System institutions and System Administration. The purpose of the BAL is to provide a fund for the investment of the operating funds which are long-term or semi-permanent in nature.

BAL Organization

The BAL functions like a mutual fund in which each eligible account purchases and redeems BAL units as provided herein. The ownership of BAL assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

BAL Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the BAL.

Ultimate fiduciary responsibility for the BAL rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the BAL shall be managed by UTIMCO, which shall a) recommend investment policy for the BAL, b) recommend specific asset allocation targets, ranges and performance benchmarks consistent with BAL objectives, and c) monitor BAL performance against BAL objectives. UTIMCO shall invest the BAL assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

BAL Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of BAL assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase BAL Units

No account shall be eligible to purchase units of the BAL unless it is under the sole control, with full discretion as to investments, by the Board of Regents and/or UTIMCO.

Any account whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the BAL.

The funds of a foundation which is structured as a supporting organization described in Section 509(a) of the Internal Revenue Code of 1986 which supports the activities of the U. T. System and its component institutions, may purchase units in the BAL provided that:

- A. the purchase of BAL units by foundation funds is approved by UTIMCO's chief investment officer;
- B. all members of the foundation's governing board are also members of the Board of Regents;

- C. the foundation has the same fiscal year as the BAL; and
- D. a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the BAL.

BAL Investment Objectives

The investment objectives shall be to generate a fund return in excess of the BAL's policy portfolio benchmark.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. Specific asset allocation positions may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook.

BAL assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

- A. U.S. Equities - U.S. equities represent ownership in U.S. companies that are traded in public markets. U.S. equities include common stocks and derivatives based on common stocks including warrants, rights, options, exchange traded funds, and futures. In addition, derivative applications approved by the UTIMCO Board that serve as a U.S. equity substitute will be classified as U.S. equity. U.S. equities provide both current income and capital gains.
- B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established and emerging markets. Derivatives including warrants, rights, options, exchange traded funds, and futures are also included if the underlying assets are Global ex U.S. equities. In addition, derivative applications approved by the UTIMCO Board that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global ex U.S. equities provide both current income and capital gains.
- C. Hedge Funds – Hedge funds are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable.

Directional Hedge Funds – Directional hedge fund investments primarily include U.S. and international long/short equity and other types of hedge fund

strategies that exploit profits from security selection and market exposure. However, unlike the absolute return hedge funds, directional hedge funds exhibit higher volatility and correlation to equity, currency, commodities or fixed income markets. These strategies may also include fund of hedge fund investments. Directional hedge fund investments are made through private placement agreements.

Absolute Return Hedge Funds – Absolute return hedge fund investments primarily include arbitrage, event driven, hedged equity, fixed income and other global hedged market strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discreet events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include fund of hedge fund investments and multi-strategy hedge funds. Absolute return hedge fund investments are made through private placement agreements.

- D. REITS – REITS are real estate investment trusts. REITS own, and in most cases operate, income producing real estate.
- E. Commodities – Commodities include natural resource investments including oil and gas interests and other hard assets. These investments may be held through partnerships, derivative investments, or direct investments.
- F. TIPS – TIPS are treasury inflation protected securities which are marketable securities with a return linked to the inflation rate. In constructing diversified TIPS portfolios, securities classified as traditional fixed income may be utilized by outside investment managers.
- G. Traditional Fixed Income – Traditional fixed income investments include debt issued by the U. S. Treasury, various government agencies and domestic and foreign corporations. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, Derivative Applications approved by the UTIMCO Board that serve as a fixed income substitute will be classified as traditional fixed income.
- F. Cash & Cash Equivalents – Cash & cash equivalents consist of money markets, foreign currencies, enhanced cash products, and other overnight funds that have not been allocated to a specific asset class.

Performance Measurement

The investment performance of the BAL will be measured by the BAL's custodian, an unaffiliated organization, with recognized expertise in this field and reporting

responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the BAL, as indicated in Exhibit A.

Investment Guidelines

The BAL must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.
- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's investment officer prior to investment of BAL assets in such liquid investment fund.
- No securities may be purchased or held which jeopardize the BAL's tax exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- The BAL's investments in warrants shall not exceed more than 5% of the BAL's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The BAL may utilize derivative securities to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a derivative security is priced more attractively than the underlying security; e) index or hedge risks associated with BAL investments; or f) adjust the market exposure of the asset allocation, including long and short strategies and other strategies provided that the BAL's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board. The Derivative Investment Policy shall serve the purpose of defining the permitted applications under which derivative securities can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. The objective of the

Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Internal short-term pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by UTIMCO's chief investment officer.
- The BAL's custodian late deposit interest bearing liquid investment fund.
- Enhanced cash product.
- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
 - Eligible Collateral Securities for Repurchase Agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a Repurchase Agreement may be from one day to two weeks.
 - The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.

- All collateral shall be delivered to the BAL custodian bank. Tri-party collateral arrangements are not permitted.
- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific subindices: 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; 4) Asset-backed securities; 5) Taxable Municipal securities; and 6) Commercial Mortgage-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.
- U. S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.
- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

Non-U.S. Fixed Income

- Not more than 50% of the BAL's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.
- Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U. S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.
- Not more than 15% of the BAL's fixed income portfolio may be invested in emerging market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The BAL shall:

- A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market
- B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by UTIMCO's chief investment officer.

BAL Accounting

The fiscal year of the BAL shall begin on September 1st and end on August 31st. Market value of the BAL shall be maintained on an accrual basis in compliance with Government Accounting Standards Board Statements, Financial Accounting Standards Board Statements, or industry guidelines, whichever is applicable. The BAL's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all BAL net assets and the net asset value per unit of the BAL. Valuation of BAL assets shall be based on the books and records of the custodian for the valuation date.

The fair market value of the BAL's net assets shall include all related receivables and payables of the BAL on the valuation date and the value of each unit thereof

shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of BAL Units

Purchase of BAL units may be made on the first business day of each month upon payment of cash to the BAL, at the net asset value per unit of the BAL as of the prior month valuation date.

Each fund whose monies are invested in the BAL shall own an undivided interest in the BAL in the proportion that the number of units invested therein bears to the total number of all units comprising the BAL.

Redemption of BAL Units

Redemption of BAL units shall be paid in cash as soon as practicable after the monthly valuation date of the BAL. If the withdrawal is greater than \$25 million and less than \$50 million, advance notice of 5 business days shall be required prior to the monthly valuation date. If the withdrawal is greater than \$50 million, advance notice of ten business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the BAL's net asset value, the BAL may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the best interests of all BAL unitholders. Redemptions from the BAL shall be at the market value price per unit determined for the period of the redemption.

Securities Lending

The BAL may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the BAL shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

Investor Responsibility

As a shareholder, the BAL has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as the economic benefit of the BAL. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the BAL solely in the interest of BAL unitholders and shall not invest the BAL so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be _____.

BALANCED FUND

SPECIFIC ASSET ALLOCATION TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

The Policy Targets and Ranges will be presented during the meeting.

Asset Category	Percent of Policy (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities			Russell 3000 Index
Non-US Developed Equity			MSCI EAFE
Emerging Markets Equities			MSCI EM
Absolute Return Hedge Funds			90 Day T-Bills + 3%
Equity Hedge Funds			90 Day T-Bills + 4%
REITS			Dow Jones Wilshire Real Estate Securities Index
Commodities			GSCI minus 1%
TIPS			Lehman Brothers US TIPS Index
Traditional Fixed Income			Lehman Brothers Aggregate Bond Index
Cash			90 Day T-Bills

Expected Annual Return (%)	
Downside Deviation (%)	
Standard Deviation (%)	

THE UNIVERSITY OF TEXAS SYSTEM EQUITY FUND INVESTMENT POLICY STATEMENT

Purpose and Structure

The University of Texas System Equity Fund (the "Equity Fund") was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a fund for the collective investment of certain institutional funds which represent long-term capital reserves where the achievement of replacement cost and preservation of purchasing power are significant objectives.

Equity Fund Organization

The Equity Fund functions like a mutual fund in which each eligible account purchases and redeems Equity Fund units as provided herein. The ownership of Equity Fund assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

Equity Fund Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the Equity Fund.

Ultimate fiduciary responsibility for the Equity Fund rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the Equity Fund shall be managed by UTIMCO. UTIMCO shall invest the Equity Fund assets in conformity with this Policy Statement and will monitor Equity Fund performance relative to established objectives. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

Equity Fund Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of Equity Fund assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase Equity Fund Units

No account shall be eligible to purchase units of the Equity Fund unless it is under the sole control, with full discretion as to investments, of the Board of Regents and/or UTIMCO.

Any account whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the Equity Fund.

The funds of a foundation which is structured as a supporting organization described in Section 509(a) of the Internal Revenue Code of 1986 which supports the activities of the U. T. System and its component institutions, may purchase units in the Equity Fund provided that:

- A. the purchase of Equity Fund units by foundation funds is approved by the UTIMCO chief investment officer;
- B. all members of the foundation's governing board are also members of the Board of Regents;
- C. the foundation has the same fiscal year as the Equity Fund; and
- D. a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the Equity Fund.

Equity Fund Investment Objectives

The Equity Fund's investment objective is to earn a total return (price appreciation plus dividends) equal to the S&P 500 Index minus fund expenses at similar levels of total risk.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. Equity Fund assets shall be allocated among the following investments.

- A. Cash & Cash Equivalents – Cash & equivalents consist of money markets, foreign currencies, enhanced cash products, and other overnight funds that have not been allocated to a specific asset class.
- B. Equity – Stocks which comprise the S&P 500 index and applicable derivatives as outlined in the Derivative Policy which comprise the S&P 500 index.

Performance Measurement

The investment performance of the Equity Fund will be measured by the Equity Fund's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board. Such measurement will occur at least monthly.

Investment Guidelines

The Equity Fund must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.
 - All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority to invest in foreign currency denominated securities.

- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's chief investment officer prior to investment of Equity Fund assets in such liquid investment fund.
- No securities may be purchased or held which jeopardize the Equity Fund's tax exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The Equity Fund's investments in warrants shall not exceed more than 5% of the Equity Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The Equity Fund may utilize derivative securities to: a) simulate the purchase or sale of an underlying market index while retaining a cash and cash equivalent cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a derivative security is priced more attractively than the underlying security; e) index or hedge risks associated with investments; or f) adjust the market exposure of the asset allocation, including long and short strategies and other strategies provided that the Equity Fund's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board. The Derivative Investment Policy shall serve the purpose of defining the permitted applications under which derivative securities can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Internal short-term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by UTIMCO's chief investment officer.
- The Equity Fund's custodian late deposit interest bearing liquid investment fund.
- Enhanced cash product.

Accounting

The fiscal year of the Equity Fund shall begin on September 1st and end on August 31st. Market value of the shall be maintained on an accrual basis in compliance with Government Accounting Standards Board Statements, Financial Accounting Standards Board Statements, or industry guidelines, whichever is applicable. The Equity Fund financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets and Distributions

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all Equity Fund net assets and the net asset value per unit of the Equity Fund. Valuation of Equity Fund assets shall be based on the books and records of the custodian for the valuation date.

The fair market value of the Equity Fund's net assets shall include all related receivables and payables of the Equity Fund on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of Equity Fund Units

Purchase of Equity Fund units may be made on the first business day of any month upon payment of cash to the Equity Fund, at the net asset value per unit of the Equity Fund as of the most recent month-end valuation date.

Each account whose monies are invested in the Equity Fund shall own an undivided interest in the Equity Fund in the proportion that the number of units invested therein bears to the total number of all units comprising the Equity Fund.

Redemption of Equity Fund Units

Redemption of Equity Fund units shall be paid in cash as soon as practicable after the monthly valuation date of the Equity Fund.

Securities Lending

The Equity Fund may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the Equity Fund shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the Equity Fund has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Equity Fund. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Equity Fund solely in the interest of Equity Fund unit holders and shall not invest the Equity Fund so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be _____.

EXHIBIT A

**EQUITY FUND ASSET ALLOCATION
POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES**

	Neutral Allocation	Range	
Equity (including derivative instruments)	100.0%	0% - 100%	S&P 500 Index
Cash and cash equivalents	0.0%	0% - 100%	90 day T-Bills

Expected Annual Return (%)	8.5%
1 yr Downside Deviation%	10.2%
Standard Deviation (%)	17.0%

**THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND
INVESTMENT POLICY STATEMENT**

Purpose

The General Endowment Fund (the "GEF"), established by the Board of Regents of The University of Texas System (the "Board of Regents") March 1, 2001, is a pooled fund for the collective investment of certain long-term funds under the control and management of the Board of Regents. The GEF provides for greater diversification of investments than would be possible if each account were managed separately.

GEF Organization

The GEF functions like a mutual fund in which each eligible fund purchases and redeems GEF units as provided herein. The ownership of GEF assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

GEF Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the GEF.

Ultimate fiduciary responsibility for the GEF rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the GEF shall be managed by UTIMCO, which shall

a) recommend investment policy for the GEF, b) recommend specific asset allocation targets, ranges, and performance benchmarks consistent with GEF objectives, and c) monitor GEF performance against GEF objectives. UTIMCO shall invest the GEF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

GEF Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of GEF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase GEF Units

No fund shall be eligible to purchase units of the GEF unless it is under the sole control, with full discretion as to investments, of the Board of Regents and/or UTIMCO.

Any fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the GEF.

Currently, the Long Term Fund (the "LTF") and the Permanent Health Fund (the "PHF") purchase units in the GEF.

GEF Investment Objectives

The GEF and the PUF are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund assets by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund (in case of the GEF, the target distribution rate of the LTF and the PHF) plus the annual expected expense. The current 5.1% target was derived by adding the PUF's current target distribution rate of 4.75% plus an annual expected expense of .35%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. The GEF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower

returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark and the median return of the universe of the college and university endowments with assets greater than \$1 billion as reported by Cambridge Associates over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect GEF's asset allocation policy targets.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. Specific asset allocation positions may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable.

GEF assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

- A. U.S. Equities - U.S. equities represent ownership in U.S. companies that are traded in public markets:

Traditional U.S. Equities – Traditional U.S. equities include common stocks and derivatives based on common stocks, including warrants, rights, options, exchange traded funds, and futures. In addition, derivative applications approved by the UTIMCO Board that serve as a U.S. equity substitute will be classified as traditional U.S. equity. Traditional U.S. equities provide both current income and capital gains.

REITS – REITS are real estate investment trusts and are classified as U.S. equities for purposes of this Policy Statement. REITS own, and in most cases operate, income producing real estate.

- B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established and emerging markets. Derivatives including warrants, rights, options, exchange traded funds, and futures are also included if the underlying assets are Global ex U.S. equities. In addition, derivative applications approved by the UTIMCO Board that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global ex U.S. equities provide both current income and capital gains.

- C. Hedge Funds – Hedge funds are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable.

Equity Hedge Funds – Equity hedge fund investments include U.S. and international long/short equity strategies. These strategies attempt to exploit profits from stock selection skills by taking long and short positions in various equity securities. These strategies may also include fund of hedge fund investments. Equity hedge fund investments are made through private placement agreements.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage and event driven strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discreet events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements.

- D. Private Capital - Private Capital investments include the illiquid debt and equity securities of private or publicly-traded companies. Private Capital investments consist of two sub-asset class categories: Venture Capital and Private Equity.

Venture Capital – Venture Capital investments consist of investments in companies, both U.S. and non-U.S., that are in the early stages of development. Venture capital investments are held either through limited partnerships or as direct ownership interests.

Private Equity – Private Equity investments consist of investments in the equity securities of private businesses, both U.S. and non-U.S., that are considered to be in the post-start-up phase and that are profitable and generating income. Private Equity investments are held either through limited partnerships or as direct ownership interests. The Private Equity category also includes mezzanine and opportunistic investments. Mezzanine investments consist of investments in funds that make subordinated debt or minority equity investments in private companies. Opportunistic investments are limited to illiquid assets and may include distressed debt or secondary private equity partnerships. Mezzanine and opportunistic investments are held through limited partnerships or as direct ownership interests.

- E. Commodities – Commodities include natural resource investments including oil and gas interests and other hard assets. These investments may be held through partnerships, derivative investments, or direct investments.

- F. Fixed Income – Fixed income investments include debt (whether U.S. or foreign) issued by Governments, various government enterprises, and agencies and domestic and foreign corporations.

Traditional Fixed Income - The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications approved by the UTIMCO Board that serve as a fixed income substitute will be classified as traditional fixed income.

TIPS - TIPS are treasury inflation protected securities which are marketable securities with a return linked to the inflation rate. In constructing diversified TIPS portfolios, securities classified as traditional fixed income can be utilized by outside investment managers.

- G. Cash and Cash Equivalents – Cash and cash equivalents consist of money market funds, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

- H. SWAP Transaction – To enhance investment returns consistent with the Investment Objectives set forth above, the GEF will enter into a swap transaction (SWAP) with the CORE Guarantee Fund on the basis of the principal terms set forth on Exhibit B. UTIMCO shall be responsible for implementing and monitoring the SWAP.

Performance Measurement

The investment performance of the GEF will be measured by the GEF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the GEF, as indicated in Exhibit A.

Investment Guidelines

The GEF must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, and limited partnerships managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.

- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's chief investment officer prior to investment of GEF assets in such liquid investment fund.
- No securities may be purchased or held which jeopardize the GEF's tax exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The GEF's investments in warrants shall not exceed more than 5% of the GEF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The GEF may utilize derivative securities to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a derivative security is priced more attractively than the underlying security; e) index or to hedge risks associated with GEF investments; or f) adjust the market exposure of the asset allocation, including long and short strategies and other strategies provided that the GEF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board. The Derivative Investment Policy shall serve the purpose of defining the permitted applications under which derivative securities can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Internal short-term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by UTIMCO's chief investment officer.
- The GEF's custodian late deposit interest bearing liquid investment fund.
- Commercial paper rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' acceptances guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
 - Eligible collateral securities for repurchase agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a repurchase agreement may be from one day to two weeks.
 - The value of all collateral shall be maintained at 102% of the notional value of the repurchase agreement, valued daily.
 - All collateral shall be delivered to the GEF custodian bank. Tri-party collateral arrangements are not permitted.
- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the GEF's fixed income assets.
- Overnight repurchase agreements may not exceed 25% of the GEF's fixed income assets.
- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as reverse repurchase

agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U.S. Treasury, U.S. Government-Sponsored Enterprises, or U.S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:

Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific subsectors: 1) Government securities: Treasury and Agency; 2) Corporate securities: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; 4) Asset-backed securities; 5) Taxable Municipal securities; and 6) Commercial Mortgage-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- or better, by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

Non-U.S. Fixed Income

- Not more than 50% of the GEF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.

- Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.
- Not more than 15% of the GEF's fixed income portfolio may be invested in emerging market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The GEF shall:

- A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market
- B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by UTIMCO's chief investment officer.

GEF Accounting

The fiscal year of the GEF shall begin on September 1st and end on August 31st. Market value of the GEF shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's chief investment officer and reported to the UTIMCO Board of Directors. The GEF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all GEF net assets and the net asset value per unit of the GEF. Valuation of GEF assets shall be based on the books and records of the custodian for the valuation date. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

The fair market value of the GEF's net assets shall include all related receivables and payables of the GEF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of GEF Units

Purchase of GEF units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the GEF or contribution of assets approved by UTIMCO's chief investment officer, at the net asset value per unit of the GEF as of the most recent quarterly valuation date. Each fund whose monies are invested in the GEF shall own an undivided interest in the GEF in the proportion that the number of units invested therein bears to the total number of all units comprising the GEF.

Redemption of GEF Units

Redemption of GEF units shall be paid in cash as soon as practicable after the quarterly valuation date of the GEF. Withdrawals from the GEF shall be at the market value price per unit determined for the period of the withdrawal.

Securities Lending

The GEF may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the GEF shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the GEF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the GEF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the GEF solely in the interest of GEF unitholders and shall not invest the GEF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend this Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be August 12, 2004, except for Exhibit A which was effective January 1, 2004.

EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities:	25.0	15 to 45	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	
Private Equity	9.0	5 to 15	
Total Private Capital	15.0	5 to 15	Venture Economics' Periodic IRR Index
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income:	15.0	10 to 30	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

EXHIBIT B

SUMMARY OF PRINCIPAL TERMS
SWAP AGREEMENT

<u>Counterparties:</u>	<u>CORE Guarantee Fund ("CORE Guarantee") and General Endowment Fund ("GEF")</u>
<u>Structure:</u>	<u>The CORE Guarantee will enter into a swap transaction with the GEF (the "Swap" or "Transaction"). On a monthly basis, the GEF will pay to the CORE Guarantee a short-term floating-rate cash return (Base Index) plus a Margin (together, the "Guaranteed Return"). Concurrently, the CORE Guarantee will pay to the GEF the total return during the preceding month on all CORE Guarantee investments.</u>
<u>Base Index:</u>	<u>90 day T-Bills</u>
<u>Margin:</u>	<u>As determined by the UT Board of Regents from time-to-time.</u>
<u>CORE Guarantee Excess Return:</u>	<u>Total Return of CORE Guarantee investments in excess of the Guaranteed Return. This return will vary based on the performance of the investments held by the Core Guarantee.</u>
<u>Valuation:</u>	<u>The Transaction will be valued as of the last business day of each month. The GEF and the CORE Guarantee will treat the Swap as an asset and will increase or reduce the net asset value for each fund. The cash flows associated with the Swap will be netted against each other when calculating the value.</u>
<u>True-Up:</u>	<u>The cash value of the Swap will be settled every month between the CORE Guarantee and the GEF.</u>
<u>Effective Date:</u>	<u>Simultaneously with the creation of the CORE Guarantee.</u>
<u>Termination:</u>	<u>The Swap may be terminated by the UT Board of Regents at any time.</u>

**RESOLUTION RELATED TO INVESTMENT MANAGEMENT
SERVICES AGREEMENT**

RESOLVED, that the amendments to the Investment Management Services Agreement as presented be, and are hereby approved, subject to approval by the U. T. System Board of Regents.

INVESTMENT MANAGEMENT SERVICES AGREEMENT

This Investment Management Services Agreement (this "Agreement") by and between the Board of Regents (the "U. T. Board") of The University of Texas System (the "U. T. System") and The University of Texas Investment Management Company ("UTIMCO"), a Texas nonprofit corporation, is effective August 12, 2004 ~~August 12, 2004~~ (the "Effective Date"), and supersedes all earlier agreements by and between the U. T. Board and UTIMCO, effective August 12, 2004 ~~November 16, 2000~~.

RECITALS

WHEREAS, the U. T. Board, pursuant to the Constitution and statutes of the State of Texas, is responsible for the investment of the Permanent University Fund, the local and institutional funds of the U. T. System and the funds of various trusts and foundations for which it serves as trustee, all of which funds are under the control and management of the U. T. Board;

WHEREAS, Section 66.08, Texas Education Code, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit corporation for the corporation to invest funds under the control and management of the U. T. Board, as designated by the U. T. Board;

WHEREAS, UTIMCO has been organized under the laws of the State of Texas, including the Texas Non-Profit Corporation Act, Tex. Rev. Civ. Stat. Ann. art. 1396-1.01 et seq., for the express purpose of investing funds under the control and management of the U. T. Board, as designated by the U. T. Board, in accordance with the laws of the State of Texas;

WHEREAS, the U. T. Board desires to continue an Agreement with UTIMCO for UTIMCO to invest certain designated funds under the control and management of the U. T. Board;

WHEREAS, UTIMCO desires to enter into this Agreement with the U. T. Board and to invest certain designated funds under the control and management of the U. T. Board; and

WHEREAS, all conditions precedent to the execution and delivery of this Agreement have been fully satisfied and fulfilled, including, without limitations, the conditions established by Section 66.08, Texas Education Code, as amended.

NOW THEREFORE, for and in consideration of the premises and the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

Section 1. Definitions.

Accounts shall mean those funds for which the U. T. Board has responsibility, namely (a) the Permanent University Fund, excluding PUF Lands, (b) the Permanent Health Fund, (c) the U. T. Board Accounts and (d) the U. T. Board Trust Accounts.

Available University Fund or AUF shall mean the fund that consists of the distributions made to it from the total return on all investment assets of the Permanent University Fund, including the net income attributable to the surface of PUF Lands, all as provided by Article VII, Section 18 of the Texas Constitution.

Affiliate shall mean an entity directly or indirectly controlling, controlled by, or under common control with UTIMCO, including an entity with whom UTIMCO has an express or implied agreement regarding the direct or indirect purchase of investments by each from the other.

Balanced Fund shall mean a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by the U.T. System Components and System Administration (other than certain long-term funds, including the Permanent University Fund, Permanent Health Fund, General Endowment Fund, and Long Term Fund). The purpose of the Balanced Fund is to provide a fund for the investment of the operating funds which are long-term or semi-permanent in nature.

Cash Reserves shall mean cash on hand plus investments less accounts payable.

Claims shall mean all claims, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action, or impleader) any Indemnified Party and all requests or demands for indemnification made by any third party upon any Indemnified Party, even if groundless, false or fraudulent, so long as the claim, lawsuit, cause of action, other legal action or proceeding, request or demand is alleged or determined, directly or indirectly, to arise out of, result from, relate to or be based upon, in whole or in part, the duties, activities, acts or omissions of any person arising under this Agreement.

CORE Fund or CORE shall mean a pooled fund for the collective investment of operating funds and other short and intermediate funds held by U.T. System components and System Administration (other than certain long-term funds, including the Permanent University Fund, Permanent Health Fund, General Endowment Fund, and Long Term Fund). The CORE Guarantee Fund and the CORE Plus Fund may invest in the CORE as authorized by the U.T. Board in each fund's investment policy statement.

CORE Guarantee Fund shall mean a pooled fund for the collective investment of operating funds and other short and intermediate funds held by U.T. System components and System Administration (other than certain long-term funds, including the Permanent University Fund, Permanent Health Fund, General Endowment Fund, and Long Term Fund) that ensure the unit holders a cash return plus a Margin. The funds are invested in the CORE Fund.

CORE Plus Fund shall mean the pooled fund for the collective investment of operating funds and other short and intermediate funds held by U.T. System components and System Administration (other than certain long-term funds, including the Permanent University Fund, Permanent Health Fund, General Endowment Fund, and Long Term Fund). The funds are invested in the CORE Fund and earn the return of the CORE Fund's underlying assets.

Custodian or **Custodians** shall mean a commercial bank, trust company or other entity selected by UTIMCO to hold and safekeep physical securities representing investment assets of any Account and to perform the other functions listed in Section 5 hereof.

Equity Fund shall mean a pooled fund for the collective investment of certain funds held by U.T. System Components and System Administration (other than certain long-term funds including the Permanent University Fund, Permanent Health Fund, General Endowment Fund, and Long Term Fund) which represent long-term capital reserves where achievement of replacement cost and preservation of purchasing power are significant objectives as authorized in the investment policy statement.

General Endowment Fund or **GEF** shall mean the pooled fund for the collective investment of long-term funds under the control and management of the U. T. Board. The PUF, PHF, LTF or other long-term funds may invest in the GEF as authorized by the U. T. Board in each fund's investment policy statement.

Indemnified Parties shall mean UTIMCO and any of its officers, directors, employees and agents.

Investment Policies shall mean the written investment policies determined and approved by the U. T. Board relating to the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Separately Invested Funds, CORE Fund, CORE Guarantee Fund, CORE Plus Fund, Balanced Fund, Equity Fund, Short Intermediate Term Fund and the Short Term Fund. Amendments may be presented by UTIMCO to the U. T. Board for review and approval.

Long Term Fund or **LTF** shall mean the long-term pooled investment fund previously established by the U. T. Board for the collective investment of all endowment and other long-term funds of component institutions of the U. T. System.

Losses shall mean losses, costs, damages, expenses, judgments and liabilities of whatever nature (including, but not limited to, attorneys', accountants' and other professionals' fees, litigation and court costs and expenses, amounts paid in settlement, amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other person under any arrangement providing for indemnification of that person) directly or indirectly resulting from, arising out of or relating to one or more Claims.

Permanent Health Fund or **PHF** shall mean collectively the permanent funds for health-related institutions established pursuant to Chapter 63, Texas Education Code, for which the U. T. Board is an administrator.

Permanent University Fund or **PUF** shall mean the constitutional fund known by that name and established pursuant to Article VII, Section 11 of the Texas Constitution.

Permanent University Fund Lands or **PUF Lands** shall mean approximately 2.1 million acres of land located in 19 Texas counties, primarily in West Texas, and constituting a part of the Permanent University Fund.

Separately Invested Funds or **SIFs** shall mean U. T. System Funds or U. T. Board Trust accounts which, by election of the U. T. Board or by requirement of the trust indenture or donative instrument, are invested separately and apart from other U. T. System Funds and the PUF.

Short Intermediate Term Fund or **SITF** shall mean the short intermediate term pooled investment fund previously established by the U. T. Board for the collective investment of funds (other than endowment and other long-term funds, including the Permanent University Fund) of the component institutions of the U. T. System.

Short Term Fund or **STF** shall mean the money market mutual fund or funds approved by UTIMCO from time to time as an investment for U. T. System Funds.

U. T. Board Accounts shall mean the investment assets of the General Endowment Fund and U. T. System Funds.

U. T. Board Trust Accounts shall mean the assets of charitable remainder trusts, foundations and other separately invested funds for which the U. T. Board serves as trustee on behalf of itself and other co-beneficiaries.

U. T. System Funds shall mean all funds under the control and management of the U. T. Board, other than the Permanent University Fund, the Permanent Health Fund and the U. T. Board Trust Accounts.

Section 2. Delegation of Investment Authority; Retention of Policy Setting Authority.

The U. T. Board hereby appoints UTIMCO as its investment manager with complete authority to act for the Board in the investment of the Accounts, subject, however, to such limitations and restrictions as are set forth in the Investment Policies. UTIMCO shall furnish the U. T. Board with continuous investment management services and shall invest and reinvest the assets of the Accounts in such ways and at such times as are consistent with the Investment Policies and Section 4 hereof. UTIMCO shall be responsible for overall management of the U. T. Board's investment affairs as covered by this Agreement and shall manage each Account as a discretionary account.

The U. T. Board, as ultimate fiduciary for the Accounts, retains policy setting authority. Unless otherwise provided in writing by the U. T. Board, UTIMCO shall look to the Chancellor to provide primary oversight and management concerning matters other than the core investment duties delegated above, including relations with the media, legal issues (such as public disclosure of information), intergovernmental relations, and policy issues other than those associated with investment allocation and/or return. The Board of UTIMCO and the President of UTIMCO shall be responsible for implementing the investment policy of the U. T. Board and performing those core investment duties delegated above. It shall be the responsibility of the President of UTIMCO to inform the Chancellor of unresolved policy issues not governed by the Investment Policies immediately so that appropriate oversight and management can be provided by the Chancellor. UTIMCO hereby agrees to abide by such oversight and management decisions made by the Chancellor.

The UTIMCO President shall consult with the Chairman and the Vice Chairmen of the UTIMCO Board, including the Chancellor as Vice Chairman for Policy, on the draft agenda for meetings of the UTIMCO Board at least two (2) weeks prior to each regular UTIMCO Board meeting.

Section 3. Description of Investment Management Services.

During the term of this Agreement, UTIMCO shall provide the following services in conjunction with the investment of the Accounts:

- a) **Investment Policies:**
UTIMCO shall review current investment policies for each Account, including policies concerning Asset Allocation, Liquidity, and Derivatives, at least annually by June 1 of each year. Such review shall include distribution (spending) guidelines, long-term investment return expectations and expected risk levels, asset allocation targets and ranges for each eligible asset class, expected returns for each asset class and fund, and designated performance benchmarks for each asset class. After UTIMCO completes its assessment, it shall forward any recommended changes to U. T. System staff for review prior to being submitted to the U. T. Board for discussion during an annual Joint Meeting between the U. T. Board and the UTIMCO Board of Directors.
- b) **Investment Management:**

UTIMCO shall oversee the investment management process. Such oversight shall include the development of an investment outlook based on global economic and capital market forecasts, the rebalancing of allocations to each asset class within ranges in response to changes in the investment outlook, and the selection of a combination of portfolio managers to construct portfolios designed to generate the expected returns of each asset class.

c) **Investment Performance:**

UTIMCO shall monitor and report on investment performance for the PUF, PHF and U. T. Board accounts. Such responsibilities shall include the calculation and evaluation of performance of asset classes and individual portfolios, against established benchmarks over various periods of time, the periodic review of performance benchmarks, the reporting of investment performance of Separately Invested Assets and U. T. Board Trust Accounts as requested by the U. T. Board, and the reporting to regulatory agencies and others regarding investments under management to the extent required by applicable law.

d) **Operations:**

UTIMCO shall execute such operational responsibilities as the purchase and sale of investments, the settlement of all trades (to the extent such trades are not settled by the Custodian or brokers), the accounting for all transactions at the portfolio level in accordance with generally accepted accounting principles, the preparation and delivery of periodic financial reports on all funds, and the maintenance of complete books and records (internally or through contract with the designated Custodian for the assets under management) reflecting transactions and balances of the Accounts.

e) **Maintenance of and Access to Books and Records:**

UTIMCO shall maintain the books and records for each Account on the basis of a fiscal year ending August 31st (or such other fiscal year as the U. T. Board may establish from time to time), and shall keep full separate records of all transactions with respect to each Account.

The books and records of the Accounts and any and all records concerning UTIMCO and UTIMCO's operations shall be available during normal business hours for inspection by an authorized representative of U. T. System. UTIMCO shall provide full audit access to any and all information concerning the operations of UTIMCO, including information necessary to review UTIMCO expenditures for compliance and reasonableness with the approved budget, to auditors representing the U. T. Board or the State Auditor.

f) **Reporting:**

In connection with the annual audited financial statements of UTIMCO, effective with the August 31, 2004 financial statements, the chief executive officer and the chief financial officer of UTIMCO shall provide certifications similar to those required by Section 302 of the Sarbanes-Oxley Act of 2002, Corporate Responsibility for Financial Reports. UTIMCO will follow the U. T. System compliance guidelines as outlined in the Action Plan to Enhance Institutional

Compliance, as may be amended, including providing the U. T. Board or its designee with quarterly compliance reports.

g) **Disclosure of Information:**

The U. T. Board is committed to a policy of full and fair disclosure to the public. As part of that commitment with respect to private investments in the Accounts, the following information shall be disclosed to the public with respect to such private investments (“private investment information”): the name and purpose of each private investment entity; the names of the individual principals managing such private investment; the amount invested by UTIMCO in such private investments; the investment returns for such private investment, including internal rates of return; and remaining value information. UTIMCO shall make no private investment with an entity unless the U. T. Board and UTIMCO has clear and unequivocal authority to disclose to the public the private investment information, described immediately above, relating to such investment.

Before UTIMCO declines to disclose any information it has collected, assembled or maintained in its role as investment manager for the U. T. Board that is requested under the Texas Public Information Act, the President of UTIMCO shall consult with the U. T. System Vice Chancellor and General Counsel. UTIMCO shall disclose the information unless the Vice Chancellor and General Counsel, after consultation with the Chancellor, approves a Public Information Act request to the Attorney General of Texas.

h) **Other Services:**

UTIMCO shall perform other investment management services including but not limited to 1) attending meetings of the U. T. Board and making such reports as the U. T. Board may request from time to time, 2) attending an annual Joint Meeting between the UTIMCO Board of Directors and the U. T. System Board of Regents as referenced in Article III, Section 7 of the UTIMCO Bylaws, 3) rendering services to managers of private equity investments in which UTIMCO has decided to invest, 4) attending meetings of governing bodies of companies in which UTIMCO’s managed Accounts have invested, 5) voting of securities (or proxies with respect thereto) held as investments of the Accounts according to written policies of the U. T. Board; 6) providing U. T. System component institutions with annual endowment reports reflecting, among other things, changes in the investment value of such component's endowment and distributions made to such component to support the activities for which the endowment was established; 7) providing charitable trust administration services such as portfolio management, annual tax return preparation, annual trust reporting to donors and remittance of quarterly distributions; providing annual reporting of investment transactions and balances and distributing funds to authorized beneficiaries on foundation accounts; 8) effecting distributions directly or through the Custodian to U. T. System component institutions or other named beneficiaries from the Accounts; 9) supporting and maintaining on-line account information system for endowment accounts; and 10) any other services necessary to provide investment management of the Accounts.

Section 4. Investment Manager as Fiduciary; Training and Education.

UTIMCO acknowledges that it will be acting as a fiduciary with respect to managing the investments of the Accounts subject to the Investment Policies and applicable law. The U. T. Board recognizes that all individual investment transactions involve a variety of significant potential risks, including, without limitation, market risk, liquidity risk, credit risk, cash flow risk, operational risk and counterparty risk, although taken as a whole these transactions are also expected to manage risk. The U. T. Board agrees that (i) UTIMCO will not be liable for any losses incurred in the Accounts as a result of investments made pursuant to the Investment Policies, and (ii) UTIMCO will not be liable for actions of co-fiduciaries. The U. T. Board also acknowledges that UTIMCO shall not be liable for, and, to the fullest extent authorized by the Constitution and laws of the State of Texas, agrees to hold UTIMCO harmless from the consequences of any action taken or omitted to be taken by the U. T. System or any of its employees or agents prior to March 1, 1996.

UTIMCO agrees to provide training and education to members of the UTIMCO Board of Directors to assure that all duties required of directors under the Texas Non-Profit Corporation Act and that matters related to legal and fiduciary responsibilities of the Directors, including current regulations for determining reasonable compensation, are outlined and discussed fully.

Section 5. Custody of Assets.

UTIMCO shall use custodians for safekeeping, settlement of security purchases, sales, collection of income and other duties as more fully described in the existing custody agreement between UTIMCO and the Custodian, which agreement, together with the U. T. Board's rights, duties and obligations thereunder, has been assigned to UTIMCO. In addition, UTIMCO may from time to time use a brokerage firm to settle security sales on behalf of the U. T. Board and may invest in a regulated mutual fund, externally managed commingled funds, or other investments in which assets are held outside of the bank custody relationship. Any physical certificates not held in safekeeping with a Custodian shall be held in safekeeping at a local bank as designated by UTIMCO.

Section 6. Use of Unaffiliated Investment Managers.

UTIMCO shall be entitled to use unaffiliated investment advisors to invest all or part of the Accounts and to perform other duties.

Section 7. Investment Management Fees; Direct Expenses.

For services performed hereunder, UTIMCO shall be compensated in the amounts and in the manner set forth below:

a) **Annual Budget and Management Fee:**

UTIMCO shall submit to the U. T. Board its proposed annual budget for the following fiscal year (an "Annual Budget") within the time frame specified by the U. T. Board for other annual budget submissions. The Annual Budget shall include all estimated expenses associated with the management of the Accounts. The Annual Budget shall also include an annual UTIMCO management fee (an "Annual UTIMCO Management Fee") which shall include all operating expenses associated with the general management of the Accounts, including, without limitation, reasonable salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services expenses, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations hereunder.

At the same time that UTIMCO submits its Annual Budget, it shall also submit to the U. T. Board an allocation formula for charging the Annual Budget to the Accounts. Items proposed in the Annual Budget and the allocation formula may be approved, disapproved, or approved with modification by the U. T. Board. Any such Budget item or formula allocation that is disapproved or approved with modification may be promptly reviewed and revised by UTIMCO and resubmitted to the U. T. Board for additional consideration.

On or before the first day of each fiscal quarter, UTIMCO shall be entitled to charge each Account with its allocable share (determined in accordance with the allocation formula then in effect) of one-fourth of the amount of the Annual UTIMCO Management Fee to pay UTIMCO's operating expenses for the succeeding fiscal quarter. UTIMCO may, with the approval of the U. T. Board, revise the Annual UTIMCO Management Fee and allocation formula at any time during a fiscal year. Any statements for partial quarters at the beginning or end of this Agreement shall be prorated to reflect the actual time services were rendered during such partial quarters.

UTIMCO is hereby authorized to pay from each Account direct expenses incurred for portfolio management, custodian, auditing, and other services which are performed by external vendors specifically for each Account.

b) **Directors Fees:**

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Account assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and considered a part of UTIMCO's fee income and reflected in the Budget.

Furthermore, UTIMCO Board approval of UTIMCO management's services as directors of investee companies shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's services as directors of investee companies.

c) **Fees for Services Rendered:**

Members of UTIMCO management may perform services for which UTIMCO receives a fee ("Service Fees") from investment promoters or investee companies in consideration of the UTIMCO staff's private investment activities and/or investment origination activities. Such Service Fees shall be considered additional fee income to UTIMCO. UTIMCO may also receive commitment fees, standby fees and other similar fees ("Capital Fees") accruing or inuring to the capital invested on behalf of the Accounts managed by UTIMCO. Such Capital Fees shall be credited to the Accounts from which such investments are funded.

d) **Miscellaneous Fees:**

UTIMCO management may perform specialized services for accounts that are separately invested for which UTIMCO receives a fee from the account. These fees primarily relate to maintenance of computer programs for the separately invested accounts. Such Miscellaneous Fees shall be considered additional fee income to UTIMCO and reflected in the Budget.

e) **Cash Reserves:**

Surplus Cash Reserves are defined as Cash Reserves on the last day of the fiscal year in excess of $\frac{1}{4}$ of the upcoming fiscal year's projected operating budget. Within 90 days after the end of Fiscal Year 2004, UTIMCO will distribute \$4 million of the Surplus Cash Reserves back to the Accounts, which generated the surplus in the same proportion that the Accounts contributed to the Cash Reserves. In future fiscal years, the U. T. Board may direct UTIMCO to make additional distributions to the Accounts from Surplus Cash Reserves.

Section 8. Brokerage Commissions.

The U. T. Board acknowledges and agrees that the investment management fees provided for in Section 7 are in addition to any compensation that may be due to a broker or dealer in effecting and executing transactions on behalf of UTIMCO. UTIMCO is hereby authorized and empowered, with full discretion, to issue instructions in accordance with the Investment Policies to such unaffiliated brokerage firms as may be selected by UTIMCO for the execution of orders for the purchase, sale, exchange and general investment of the Accounts; provided that UTIMCO shall not select a brokerage firm that is an Affiliate of UTIMCO. All orders for Account transactions shall be placed in such markets and through such brokers as UTIMCO determines will offer the most favorable price, execution and commission cost of each order. The U. T. Board acknowledges and agrees that UTIMCO, from time to time and in accordance with applicable law, may pay commissions to brokers that are higher than those that might be obtainable elsewhere in order to obtain from such brokers research and other services expected to enhance the long-term value of the Accounts.

Section 9. Valuation of Account Assets.

The valuation of the account shall be determined in accordance with the Investment Policies approved by the U. T. Board for the account.

Section 10. Representations and Warranties of Parties.

U. T. Board.

- A. The U. T. Board (a) is duly established and validly existing under the laws of the State of Texas and is an agency of the State of Texas, (b) has all power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.
- B. The execution, delivery and performance by the U. T. Board of this Agreement have been duly authorized by all necessary action and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which the U. T. Board is a party or by which it or any of its property is bound.
- C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will be necessary for the valid execution, delivery or performance by the U. T. Board of this Agreement.
- D. This Agreement constitutes a valid and binding agreement of the U. T. Board.
- E. There is no action, suit or proceeding pending or, to the knowledge of the U. T. Board, threatened against or affecting the U. T. Board or the U. T. System, or relating to this Agreement, in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of the U. T. Board to enter into, and perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.
- F. The U. T. Board has approved:
 - (1) the Articles of Incorporation and Bylaws of UTIMCO;
 - (2) the Investment Policies;
 - (3) the Audit and Ethics committee of UTIMCO; and
 - (4) the Code of Ethics of UTIMCO.
- G. The U. T. Board has been provided with the opportunity to ask questions of, and it has received answers thereto satisfactory to it from, UTIMCO and its representatives regarding this Agreement and has obtained all additional

information requested by it of UTIMCO and its representatives prior to entering into this Agreement.

UTIMCO.

- A. UTIMCO (a) is duly organized and validly existing as a Texas nonprofit corporation under the laws of the State of Texas, particularly the Texas Nonprofit Corporation Act, Tex. Rev. Civ. Stat. Ann. art. 1396-1.01 et seq., (b) has all corporate power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.
- B. The execution, delivery and performance by UTIMCO of this Agreement have been duly authorized by all necessary action by UTIMCO and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which UTIMCO is a party or by which it or any of its property is bound.
- C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will be necessary for the valid execution, delivery or performance by UTIMCO of this Agreement.
- D. This Agreement constitutes a valid and binding agreement of UTIMCO.
- E. There is no action, suit or proceeding pending or, to the knowledge of UTIMCO, threatened against or affecting UTIMCO, or relating to this Agreement in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of UTIMCO to enter into, and to perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.

Section 11. Compliance with Bylaws, Policies, Regulations and Financial Disclosure Requirements.

In the performance of this Agreement, UTIMCO's Directors, Officers, and Employees shall abide by the following policies:

- a) UTIMCO Code of Ethics as approved by the U. T. Board
- b) UTIMCO Bylaws as approved by the U. T. Board
- c) All UTIMCO policies
- d) Applicable portions of Regents' Rules and Regulations.

Financial advisors and service providers as defined in Texas Government Code Section 2263.002 shall comply with the disclosure requirements contained in Texas Government Code Section 2263.005.

Section 12. UTIMCO's Open Meeting Policy.

Except as otherwise provided in Section 66.08, Texas Education Code, UTIMCO shall comply with all applicable provisions of the Texas Open Meetings Act, Chapter 551 of the Texas Government Code.

Section 13. Prohibition Against Service to Other Clients.

In accordance with Section 66.08, Texas Education Code, UTIMCO shall not engage in any business other than managing the Accounts under this Agreement.

Section 14. Investment Company Act and State Securities Act.

The parties to this agreement acknowledge that UTIMCO shall not be required to register as an "investment company" under Title 15 United States Code Section 80a-8 (the Investment Company Act of 1940), as amended, and Tex. Rev. Civ. Stat. Ann. art. 581-1 et seq. (The Securities Act).

Section 15. Termination.

The U. T. Board may terminate this Agreement at any time by written notice to UTIMCO, effective immediately upon receipt of such notice by UTIMCO, subject to reasonable allowance for settlement of pending trades. UTIMCO may terminate this Agreement upon ninety (90) days' written notice to the U. T. Board. There shall be no penalty for termination; however, UTIMCO shall be entitled to all management fees, compensation, and benefits earned prior to termination.

Section 16. Amendments.

No amendment hereto shall be effective unless executed in the same manner as this Agreement.

Section 17. Notices.

All notices or communications hereunder shall be in writing and shall not be effective until hand delivered and receipted to the other party, or sent by overnight delivery, or sent by United States Certified or Registered Mail, postage prepaid, to the addressed party. The following are the designated addresses for such notices or communications and may only be changed by communication in the manner required by this paragraph:

To U. T. Board:
Board of Regents of The University of Texas System
Attn: Counsel and Secretary
201 West Seventh Street, Suite 820

Austin, Texas 78701
Tel. (512) 499-4402
Fax. (512) 499-4425

To UTIMCO:

The University of Texas Investment Management Company
Attn: President and CEO
221 West Sixth St., Suite 1700
Austin, Texas 78701
Tel. (512) 225-1600
Fax. (512) 225-1660

Section 18. Non-Assignability.

No Assignment of this Agreement by UTIMCO shall be made without having obtained the prior written consent of the U. T. Board nor is the Agreement assignable by the U. T. Board.

Section 19. No Waiver of Breach.

A waiver of a breach of any provision of this Agreement shall not constitute a waiver of any subsequent breach of that provision or a breach of any provision hereof. Failure of either party to enforce at any time or from time to time any provision of this Agreement shall not be construed as a waiver thereof.

Section 20. Indemnification.

a) **Agreements to Indemnify:**

To the fullest extent authorized by the Constitution and laws of the State of Texas, the U. T. Board shall indemnify and hold harmless each of the Indemnified Parties against any and all Losses, including Losses resulting from the negligence of the Indemnified Party claiming indemnification; provided, however, the U. T. Board shall not be obligated to indemnify an Indemnified Party against Losses to the extent such Losses are caused by (i) an act or omission that involves intentional misconduct or a knowing violation of law by the Indemnified Party claiming indemnification, (ii) a transaction from which the Indemnified Party claiming indemnification received an improper benefit, (iii) an act or omission for which the liability of the Indemnified Party claiming indemnification is expressly provided by an applicable statute, or (iv) an act or omission constituting gross negligence by the Indemnified Party claiming indemnification; provided further that indemnification payments by the U. T. Board shall be paid from the same sources as the Annual Fee pursuant to Section 7.

b) **Reimbursement:**

Each Indemnified Party shall reimburse the U. T. Board for payments made by the U. T. Board pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any insurance with respect to any Loss. At the request and expense of the U. T. Board, each Indemnified Party shall have the duty to claim any such insurance proceeds and such Indemnified Party shall

assign its rights to such proceeds, to the extent of such required reimbursement, to the U. T. Board.

c) **Notice:**

In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the U. T. Board, such Indemnified Party shall promptly notify the U. T. Board in writing; provided, however, that any failure so to notify shall not relieve the U. T. Board of its obligations under this Section.

d) **Defense:**

The U. T. Board shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the U. T. Board, in writing, (ii) the U. T. Board has failed to assume the defense and to employ counsel, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the U. T. Board, and such Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the U. T. Board (in which case, if such Indemnified Party notifies the U. T. Board in writing that it elects to employ separate counsel at the U. T. Board's expense, the U. T. Board shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the U. T. Board shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by such Indemnified Parties).

e) **Cooperation; Settlement:**

Each Indemnified Party shall use reasonable efforts to cooperate with the U. T. Board in the defense of any action or Claim. The U. T. Board shall not be liable for any settlement of any action or Claim without its consent but, if any such action or Claim is settled with the consent of the U. T. Board or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the U. T. Board shall indemnify and hold harmless the Indemnified Parties from and against any Loss by reason of such settlement or judgment as provided in Subsection (a) of this Section.

f) **Survival; Right to Enforce:**

The provisions of this Section shall survive the termination of this Agreement, and the obligations of the U. T. Board hereunder shall apply to Losses or Claims whether asserted prior to or after the termination of this Agreement. In the event of failure by the U. T. Board to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and

observance of any obligation, agreement or covenant of the U. T. Board under this Section.

Section 21. Claims By and Against Managed Funds.

UTIMCO is authorized and empowered to seek, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands due, payable, or belonging, or that may become due, payable, or belonging to the PUF or the U. T. Board from any person or persons as a result of any investment transaction and to execute any and all necessary or proper receipts, releases, and discharges therefor and any other instruments as may be necessary or appropriate from time to time relating to the handling, management, control, and disposition of any investment.

The authority granted in this Section does not include the authority to institute litigation on behalf of the U. T. Board or to settle contested claims or litigation that may result in UTIMCO receiving less than full value for the claim or the payment of damages or awards. The settlement of any contested claim or litigation for less than full value requires the prior approval of the U. T. System Vice Chancellor and General Counsel and appropriate System officials, as set out in the Regents' Rules and Regulations.

Section 22. Communications.

UTIMCO and U. T. System will assure that communications are clear and timely. UTIMCO will provide notice of actions taken in meetings of the UTIMCO Board and committees to members of the U. T. Board through the Office of the Board of Regents. U. T. will provide notice of actions taken by the U. T. Board related to UTIMCO issues to members of the UTIMCO Board of Directors through the President and CEO of UTIMCO.

Section 23. Authority to Purchase, Exchange, and Sell Securities.

UTIMCO may purchase, exchange, and sell, for and on behalf of the Permanent University Fund or the U. T. Board, any and all securities of any description whatever and from any source, including gifts and bequests, registered in the name of the PUF or the U. T. Board, or in any other form of registration of such securities held for the account of the PUF or the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, external investment managers appointed by UTIMCO may purchase, sell, or exchange securities, pursuant to written agreement with UTIMCO.

Section 24. Authority to Assign and Transfer Securities.

UTIMCO may assign and transfer any and all securities of any description whatever and from any source, including gifts and bequests, and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any securities registered in the name of the PUF or the U. T. Board, or in any other form of registration of such securities held for the account of the PUF or the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or

foundations managed and controlled by said U. T. Board. In addition, custodian banks appointed by UTIMCO may assign and transfer securities and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any security owned by the U. T. Board.

Section 25. Governing Law.

This Agreement and all matters arising under it shall be governed by the Constitution and laws of the State of Texas. Venue for any action brought by any party hereto concerning the subject matter of this Investment Management Services Agreement shall be in Travis County, Texas.

**BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM**

Date: _____

By _____
James R. Huffines
Chairman

**THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY**

Date: _____

By _____
Woody L. Hunt
Chairman

RESOLUTION RELATED TO DERIVATIVE INVESTMENT POLICY

RESOLVED, that amendments to the Derivative Investment Policy be, and are hereby approved in the form submitted to the Corporation's Board of Directors.

The University of Texas Investment Management Company

Derivative Investment Policy

Effective Date of Policy: ~~January 18, 2005~~ July 15, 2004

Date Approved by UTIMCO Board: ~~January 18, 2005~~ July 15, 2004

Purpose:

The purpose of the Derivative Investment Policy is to enumerate the applications, documentation and limitations for investment in derivative securities in the Permanent University Fund (PUF), and the General Endowment Fund (GEF), the Core Fund (CORE), the Balanced Fund (BAL) and the Equity Fund, hereinafter referred to as the Funds. The Board of Regents approved investment policy guidelines for the Funds allow for investment in derivative securities provided that their use is in compliance with UTIMCO's Board approved Derivative Investment Policy. This Derivative Investment Policy supplements the Investment Policy Statement for the Funds.

Objective:

The objective of investing in derivative securities is to facilitate risk management and provide efficiency in the implementation of various investment strategies for the Funds. Through the use of derivatives, the complex risks that are bound together in traditional cash market investments can be separated and managed independently. Derivatives provide the Funds with the most economical means to improve the Funds risk/return profile.

Scope:

This Policy applies to internal management of derivatives at UTIMCO only. Derivatives policies for external managers are established on a case by case basis with each external manager, as described below. This Policy applies to both exchange traded derivatives and over the counter derivative instruments. This Policy shall not be construed to apply to index or other common or commingled funds in which the Funds typically invest. These commingled investment vehicles are governed by separate investment policy statements.

External Managers:

An external investment manager of public market investments employed by UTIMCO may engage in derivative security transactions only if the transactions are consistent with the overall investment objectives of the account. Derivative applications shall be approved only with investment managers that demonstrate investment expertise in their use, and have appropriate risk management policies and procedures to effectively monitor and control their use. Disclosure of permitted derivative applications with external investment managers of public market investments shall be made to UTIMCO's Board prior to investment.

The due diligence process in the selection of managers of alternative marketable equities employed by UTIMCO requires a clear understanding of the managers use of derivatives, particularly as it relates to various risk controls and leverage. UTIMCO will invest in such strategies exclusively through limited partnership agreements, offshore corporations or other legal entities that limit the Funds' exposure to its investment in the strategy. Disclosure of derivative applications with alternative marketable equity managers shall be made to UTIMCO's Board prior to investment.

Definition of Derivatives:

Derivatives are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as a bonds, stocks, commodities, and currencies). For the purposes of this Policy, derivatives shall include futures contracts, forward contracts, exchange traded funds, swaps and all forms of options, but shall not include a broader range of securities including mortgage backed securities, structured notes and convertible bonds. (Refer to attached exhibit for glossary of terms)

The University of Texas Investment Management Company

Derivative Investment Policy

Permitted Derivative Applications:

Derivative applications may be used:

- To implement investment strategies in a low cost and efficient manner;
- To alter the Funds market (systematic) exposure without trading the underlying cash market securities through purchases or short sales, or both, of appropriate derivatives;
- To construct portfolios with risk and return characteristics that could not be created with cash market securities;
- To hedge and control risks so that the Funds' risk/return profile is more closely aligned with the Funds' targeted risk/return profile through purchases or short sales, or both, of appropriate derivatives; or
- To facilitate transition trading.

The primary intent of derivative security transactions should be to hedge risk in portfolios or to implement investment strategies more effectively and at a lower cost than would be possible in the cash market. Only the above derivative applications are permitted until such time as this policy is amended and approved by UTIMCO's Board. The Chief Investment Officer shall recommend and the UTIMCO Board approve any new derivative applications prior to implementation, after fully considering the permissibility, merits, and compliance with all documentation and controls requirements of the application.

Derivative Applications Not Permitted:

Derivative applications shall not be used to invest in asset classes that are not consistent with the Funds policy asset categories, implementation strategies and risk/return characteristics.

Documentation and Controls:

Prior to the implementation of a new derivative application, UTIMCO shall document the purpose, justification, baseline portfolio, derivative application portfolio, risks (including at a minimum modeling, pricing, liquidity and legal risks), the expected increase or reduction in systematic and specific risk resulting from the application, the acceptable criteria for counterparties in over the counter derivative applications, and the procedures in place to monitor and manage the derivative exposure. Internal control procedures to properly account and value the Funds' exposure to the derivative application shall be fully documented. UTIMCO shall establish an appropriate risk management procedure to monitor compliance and will take corrective action if necessary. UTIMCO shall make a comprehensive report of all derivative applications to the UTIMCO Board on at least a quarterly basis.

Limitations:

Leverage is inherent in derivative securities since only a small cash deposit is required to establish a much larger economic impact position. Thus, relative to the cash markets, where in most cases the cash outlay is equal to the asset acquired, derivatives applications offer the possibility of establishing substantially larger market risk exposures with the same amount of cash as a traditional cash market portfolio. Therefore, risk management and control processes must focus on the total risk assumed in a derivatives application, which is the sum of the application-specific risk and the market (systematic) risk established by the derivative application. In order to control and limit the leverage risk, each derivative application must specify a baseline portfolio, and risk measures such as Value at Risk (VAR) will be employed to assure that the total economic impact risk of the derivative application portfolio relative to the baseline portfolio will not exceed 20% of the underlying value of the baseline portfolio. The total relative economic impact risk of each derivative application will be monitored on a daily basis by the most appropriate risk management tools for the particular derivatives application.

As an additional global limitation, the total gross value (without netting counter positions) of all internal derivatives positions shall not exceed 50% of the net asset value of the Funds.

In order to limit the financial risks associated with derivative applications, rigorous counterparty selection criteria and netting agreements shall be required to minimize counterparty risk for over the counter

**The University of Texas Investment Management Company
Derivative Investment Policy**

derivatives. The counterparty must be an investment grade credit and the agreement must be marked to market no less frequently than monthly.

The University of Texas Investment Management Company
Derivative Investment Policy

Derivative Investment Policy Exhibit
Glossary of Terms

Application-specific risk – The portion of total risk in a derivatives application which is due to factors unique to the application as opposed to more systematic, market-related factors. For example, in an option on a specific stock, the risk associated with the specific business results of the company which issued the stock underlying the option would be application-specific risk, as opposed to the overall risk of the stock market which would be Systematic Risk.

Baseline portfolio – The cash-market based portfolio which will serve as the basis for calculating the relative risk level of an equivalent derivatives application.

Cash equivalents – Includes cash, short term fixed income instruments, accruals, variation margin and one day deposits in transit to the account.

Cash market - The physical market for a commodity or financial instrument.

Counterparty - The offsetting party in an exchange agreement.

Derivative application – A definition of the intended use of a derivative-based position such as replication or enhancing index returns, asset allocation or completion fund strategies, and various alpha transport strategies.

Derivative application portfolio – The portfolio including derivative instruments, cash equivalents, and other cash market assets established to replicate a specified baseline portfolio.

Economic exposure - The total effective exposure of a derivative position. The economic exposure is the product of the dollar value of the exposure and the market or systematic risk level of the exposure. A common method of measuring economic exposure is with risk management tools such as “value at risk.”

Exchange traded derivatives - A derivative instrument traded on an established national or international exchange. These instruments “settle” daily in that cash exchanges are made between the exchange and parties to the contracts consistent with the change in price of the instrument. Fulfillment of the contract is guaranteed by the exchange on which the instruments are traded. Examples include S&P 500 futures contracts and Goldman Sachs Commodities Index futures contracts.

Exchange Traded Funds – Exchange listed and traded portfolios of publicly traded securities.

Forward contract - A non-standardized contract for the physical or electronic (through a bookkeeping entry) delivery of a commodity or financial instrument at a specified price at some point in the future.

Futures contract - A standardized contract for either the physical delivery of a commodity or instrument at a specified price at some point in the future, or a financial settlement derived from the change in market price of the commodity or financial instrument during the term of the contract.

Option - An instrument that conveys the right but not the obligation to buy or deliver the subject financial instrument at a specified price, at a specified future date.

Over the counter derivatives - A derivative instrument which result from direct negotiation between a buyer and a counterparty. The terms of such instruments are non-standard and are the result of specific

The University of Texas Investment Management Company Derivative Investment Policy

negotiations. Settlement occurs at the negotiated termination date, although the terms may include interim cash payments under certain conditions. Examples include currency swaps and forward contracts, interest rate swaps, and collars.

Swap - A contract whereby the parties agree to exchange cash flows of defined investment assets in amounts and times specified by the contract.

Systematic risk – The non-diversifiable risks associated with an investment in a particular asset market. For example the financial, political, and other risks associated with a portfolio of common stocks are known as “market” or systematic risks.

Value at risk (VAR) – An established method of measuring economic exposure risk. The measure conveys the maximum potential loss (in dollars or percent of total assets) for a particular investment position, for a particular period of time, for a particular level of confidence.



RESOLUTION RELATED TO LIQUIDITY POLICY

RESOLVED, that the Liquidity Policy for the CORE Fund and Balanced Fund as presented be, and is hereby, approved, subject to approval by the U. T. System Board of Regents.

The University of Texas Investment Management Company Liquidity Policy for the CORE Fund and Balanced Fund

Effective Date of Policy: _____
Date Approved by UTIMCO Board: _____
Dates revised by UTIMCO Board: _____

Purpose:

The purpose of this Liquidity Policy for the CORE Fund and Balanced Fund, (the "Liquidity Policy") is to establish limits on the overall liquidity profile of investments in the Core Fund and Balanced Fund, hereinafter referred to as the Funds. For the purposes of this policy, "liquidity" is defined as a measure of the ability of an investment position to be converted into a cash position. The established liquidity profile limits will act in conjunction with, but do not supercede, the Investment Policies adopted by the U. T. Board of Regents.

Objective:

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

Scope:

This Liquidity Policy applies to all the CORE Fund and Balanced Fund investments made by The University of Texas Investment Management Company (UTIMCO), both by internal and by external managers. Policy implementation will be managed at the aggregate UTIMCO level and will not be a responsibility of individual internal or external managers managing a portion of the aggregate assets.

Definition of Liquidity Risk:

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

Liquidity Risk Measurement-The Liquidity Profile:

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

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

The measurements necessary to segregate all investments into one of the two categories assume normally functioning capital markets and cash market transactions. In addition, swaps, derivatives, or other third party arrangements to alter the status of an investment classified as illiquid may be considered, with the

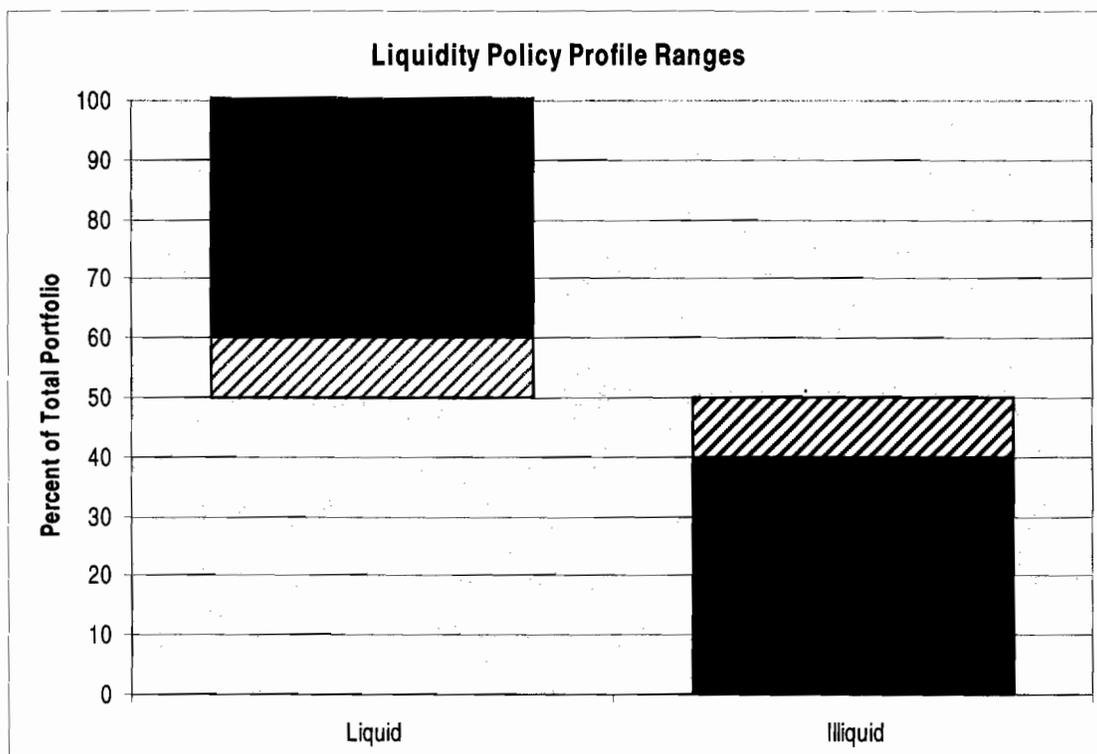
The University of Texas Investment Management Company Liquidity Policy for the CORE Fund and Balanced Fund

prior approval of the UTIMCO Board or the Liquidity Committee¹, in determining the appropriate liquidity category for each investment.

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

Liquidity Policy Profile:

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



The green bar indicates the Policy range for investments categorized as “liquid” by the definition presented earlier. The red bar indicates the Policy range for investments categorized as “illiquid” by earlier definition. The shaded sections of the green and red bars indicate trigger zones requiring special action by the UTIMCO Board or the Liquidity Committee. For example, the allowable range for illiquid investments is 0% to 50% of the total portfolio. However, any illiquid investments made in the 40% to 50% trigger zone requires prior approval by the Liquidity Committee or the UTIMCO Board. Liquidity Committee review of new investments in the illiquid trigger zone will supplement, rather than replace, the procedures established by the UTIMCO Board for the approval of new investments.

¹ The Liquidity Committee was appointed by the UTIMCO Board of Directors and is subject to a Liquidity Committee Charter first approved by the UTIMCO Board of Directors on April 8, 2004. The Liquidity Committee consists of at least three members of the Board and provides oversight and monitoring of the liquidity of the policy portfolio in accordance with this Liquidity Policy.

The University of Texas Investment Management Company Liquidity Policy for the CORE Fund and Balanced Fund

Documentation and Controls:

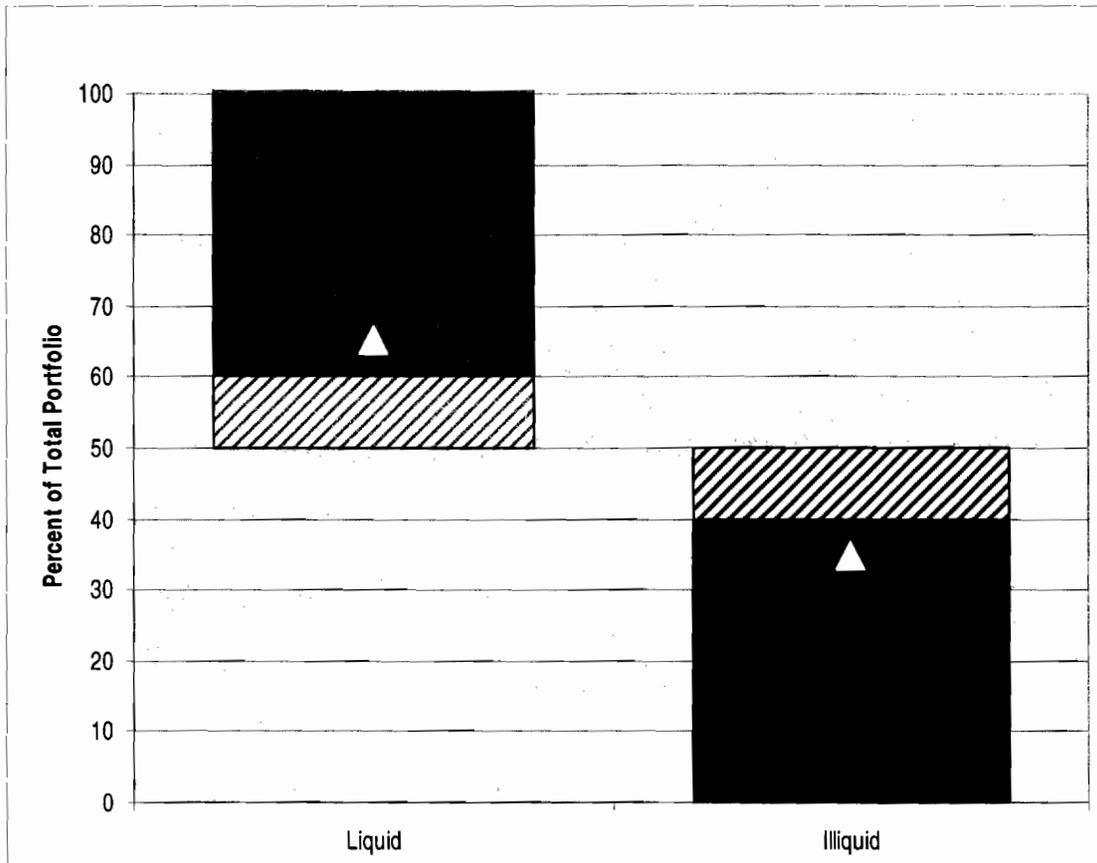
Managing Directors responsible for each asset class are responsible for determining the liquidity category for each investment in that class. These classifications will be reviewed by the Risk Manager and must receive final approval from the Chief Investment Officer. Classifications and weights within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

As additional safeguards, trigger zones have been established as indicated above to trigger required review and action by the UTIMCO Board or the Liquidity Committee in the event any investment action would cause the actual investment position in illiquid investments to enter the designated trigger zone, or in the event market actions caused the actual investment position in illiquid investments to move into trigger zones. In addition, any proposed investment actions which would increase the actual investment position in illiquid investments in either the Core Fund or the Balanced Fund by 10% or more of the total asset value of either Fund would also require review and action by the UTIMCO Board or the Liquidity Committee prior to the change. Any actual positions in any trigger zones or outside the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board and the Liquidity Committee the circumstances of the deviation from Policy and the remedy to the situation.

Reporting:

The actual liquidity profile of the Funds and compliance with this Liquidity Policy will be reported to the UTIMCO Board on at least a quarterly basis. Any exception to this Liquidity Policy and actions taken to remedy the exception will be reported promptly. An example of the method of reporting is shown below where the yellow points and number labels indicate current actual exposure levels within each Liquidity Policy Range (numbers shown are examples only). For example, in this illustration the current exposure to “liquid” investments is 65.2%, while exposure to “illiquid” investments is 34.8% and both are within their respective allowable policy ranges and not in defined trigger zones.

**The University of Texas Investment Management Company
Liquidity Policy for the CORE Fund and Balanced Fund**



RESOLUTION RELATED TO SWAP AGREEMENT

RESOLVED, that Proposed Swap Agreement be, and is hereby approved in the form submitted to the Corporation's Board of Directors.

Confirmation of
Equity Swap Transaction

The purpose of this document (this "Confirmation") is to confirm the terms and conditions of the swap transaction entered into between The University of Texas System General Endowment Fund (the "GEF") and The University of Texas System CORE Guarantee Fund (the "CORE Guarantee" together with the GEF, the "Funds") on the Effective Date specified below (the "Transaction").

1. General Terms. The terms of the particular Transaction to which this Confirmation relates are as follows:

Effective Date:	[]
Termination Date:	[], or the final Payment Date selected by the Board of Regents of The University of Texas System, whichever is later
Equity Amount Payer:	CORE Guarantee
Equity Notional Amount:	The dollars contributed to the CORE Guarantee less redemptions of the CORE Guarantee's participants.
Equity Amount:	An amount in cash equal to the performance of the CORE Guarantee as determined by the custodian of the CORE Guarantee on a monthly basis.
Equity Notional Reset:	The Equity Notional Amount will be increased on the last day of each calendar month by the amount of the Floating Amount attributable to such month.
Floating Amount Payer:	GEF
Notional Amount:	Equity Notional Amount
Floating Amount:	The Floating Rate multiplied by the Notional Amount, valued as set forth below.
Floating Rate:	The 90 day USD TBill Rate plus the Margin, or as otherwise determined by the Board of Regents of The University of Texas System from time to time in accordance with the Investment Policy Statement of the CORE Guarantee.
Margin:	The incremental annualized return rate determined by the Board of Regents. The current margin is ____ bps.
Valuation and Payment:	
Payment Date:	The day which is approximately five Business Days following the last Business Day of each calendar month. Subject to paragraph 3(b), the CORE Guarantee will pay the GEF the Equity Amount for the prior calendar month on each Payment Date and the GEF will pay the CORE Guarantee the Floating Amount on each Payment Date.

Valuation Dates: The Equity Notional Amount will be valued daily on each Business Day. The Equity Amount and the Floating Amount will be valued on the last day of each calendar month; provided that, the Floating Amount on dollars contributed to the CORE Guarantee after the first day of the calendar month will be pro-rated for the number of days such dollars constituted Equity Notional Amount in such month, and a Floating Amount on dollars redeemed from the CORE Guarantee prior to the end of the calendar month will be determined and pro-rated for the number of days such dollars constituted Equity Notional Amount in such month.

Business Day: A day on which UTIMCO is open for business in Austin, Texas.

2. Calculation Agent: UTIMCO

3. Obligations.

(a) **General Conditions.**

(i) Payments will be made as specified in this Confirmation, subject to the provisions herein.

(ii) Payments under this Confirmation will be made on the due date for value on that date in the place of the account specified in this Confirmation, in freely transferable funds and in the manner customary for payments in the required currency.

(iii) Obligations to make payments under Section 3(a)(i) are subject to the condition precedent that no Termination Event has occurred and is continuing and the condition precedent that no Early Termination Date has been designated.

(b) **Netting.** If on any date amounts would otherwise be payable in the same currency by each Fund to the other, then, on such date, each Fund's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one Fund exceeds the aggregate amount that would otherwise have been payable by the other Fund, replaced by an obligation upon the Fund by whom the larger aggregate amount would have been payable to pay to the other Fund the excess of the larger aggregate amount over the smaller aggregate amount.

4. Early Termination

(a) **Right to Terminate.** The Board of Regents of The University of Texas System may elect to terminate this Transaction prior to its final Valuation Date at any time in its sole discretion by serving a notice (a "Termination Notice") of such intention to UTIMCO on or before the desired early termination date (the "Early Termination Date") so designated in such notice, and in that event:

(i) the Early Termination Date shall thereupon be substituted as the final Valuation Date;

(ii) the final Payment Date shall be determined in accordance with the applicable terms set out in this Confirmation; and

(iii) the obligations of the Funds to make any further payments under this Transaction after such final Payment Date (except payments that are due but unpaid as of such date) will cease except for any Unpaid Amounts which will be paid on the final Payment Date. "Unpaid Amounts" means the amounts that became payable (or that would have become payable but for Section 3(a)(iii)) to a Fund under Section 3(a)(i) on or prior to such Early Termination Date and which remain unpaid as at such Early Termination Date

5. Miscellaneous

(a) **Entire Agreement.** This Confirmation, together with the Investment Policy Statements for the Funds, constitutes the entire agreement and understanding of the Funds with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.

(b) **Amendments.** No amendment, modification or waiver in respect of this Confirmation will be effective unless in writing adopted by the UTIMCO Board.

(c) **Survival of Obligations.** The obligations of the Funds under this Confirmation will survive the termination of the Transaction.

(d) **No Waiver of Rights.** A failure or delay in exercising any right, power or privilege in respect of this Confirmation will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise, of that right, power or privilege or the exercise of any other right, power or privilege.

(e) **Headings.** The headings used in this Confirmation are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Confirmation.

6. Governing Law. This Confirmation and all matters arising under it shall be governed by and construed exclusively in accordance with the internal laws of the State of Texas.

This Confirmation was adopted by the Board of Directors of The University of Texas Investment Management Company on _____, 2005.

Section 7

Agenda Item
UTIMCO Board Meeting
January 18, 2005

Agenda Item: Presentation of New Web-Based Transaction Environment for Operating Funds

Developed By: Edwards

Presented By: Edwards

Type of Item: Information Item; No Action Required

Description: This agenda item presents an overview of the new web-based transaction environment being created by the UTIMCO staff to enable Chief Business Officers to effect transactions in the new operating Funds.

Recommendation: None

Discussion: In conjunction with the development of the new operating Fund alternatives, UTIMCO is developing a new internet based transaction system to increase the efficiency, security, and reliability of transfers outside of, and among, the Fund alternatives.

Reference: Current transaction environment



**THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY**

CORE Participant System

Bill Edwards

January 18, 2005



Contents

- Current Environment
- Current Work Flow
- New Work Flow
- New Environment
- Security
- System Features
- Availability
- Status



Current Environment

- 17 Participants
 - All 9 Academic Institutions
 - All 6 Health Institutions
 - UT System
 - UTIMCO



Current Environment

- 7,200 Number of wires in a year
 - 29 Average number of wires per day
 - 112 Largest number of wires in a single day
 - 9 Fewest number of wires in a single day
- ❖ Roughly 99% in the Money Market Fund

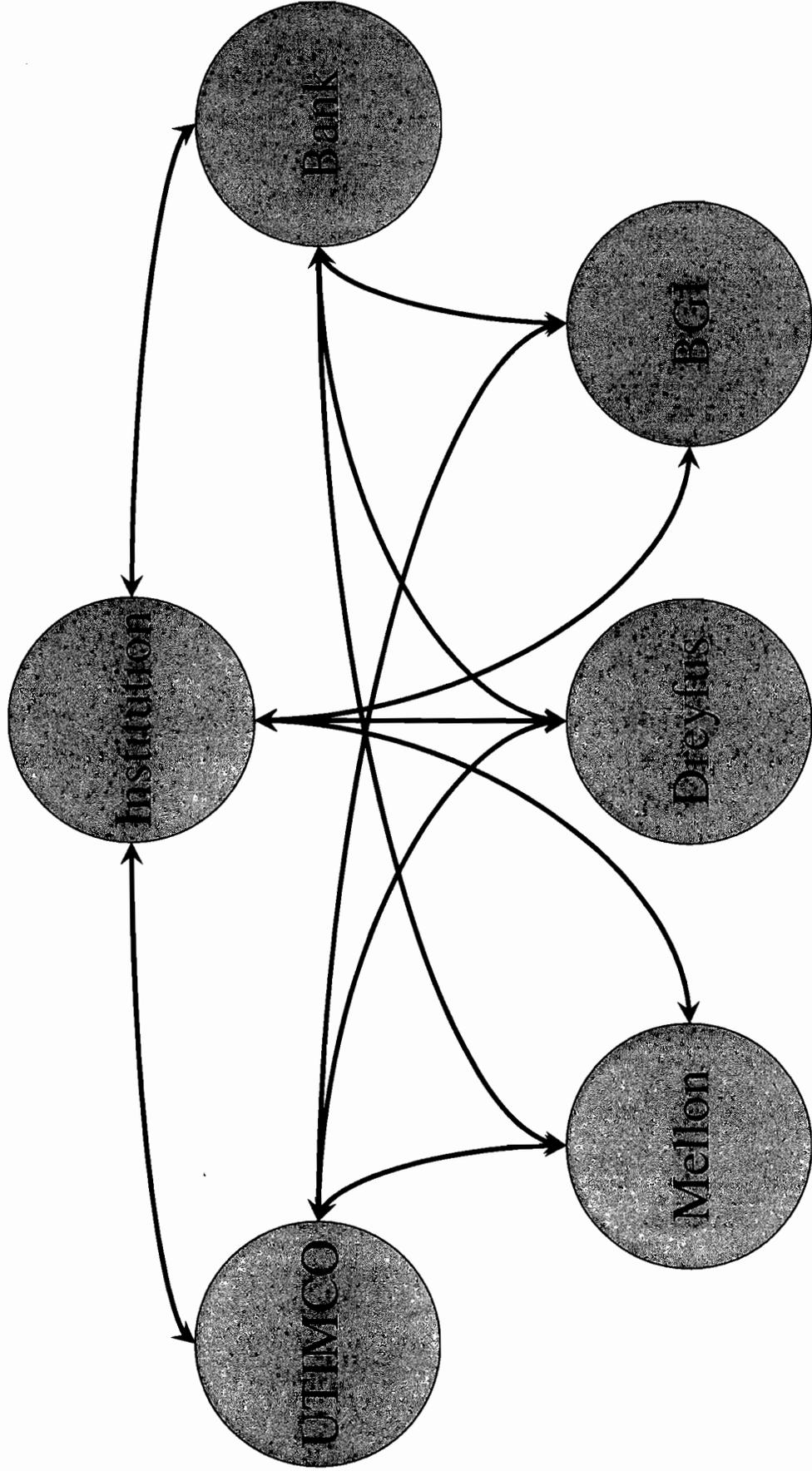


Current Environment

- 4 Different Interfaces
 - Dreyfus Corporation
 - Dreyfus Money Market
 - Mellon Trust Services
 - Short Intermediate Term Fund
 - Barclays Global Investors
 - BGI Bond and Equity Indexes
 - UTIMCO
 - Consolidated Reporting

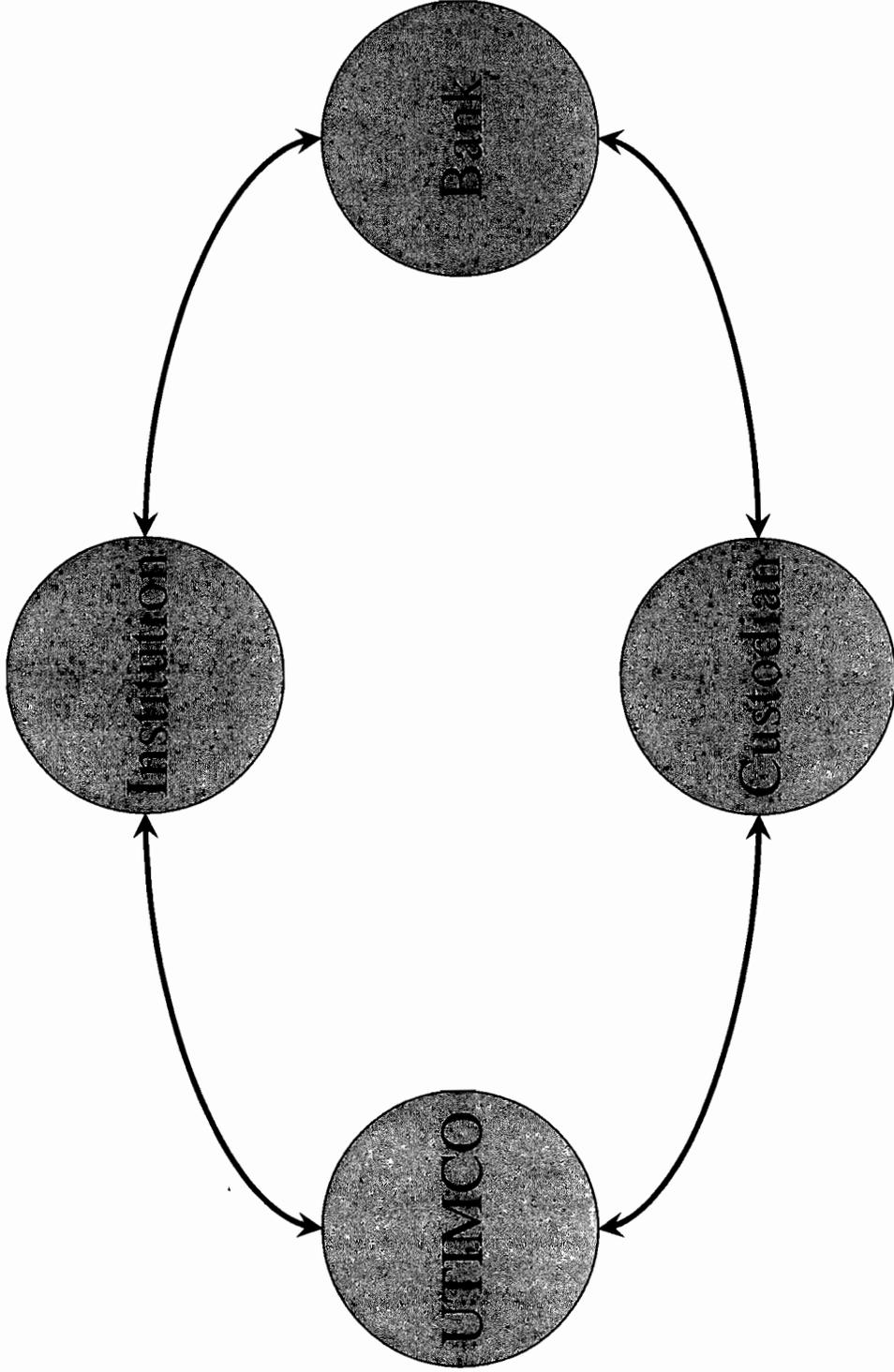


Current Work Flow





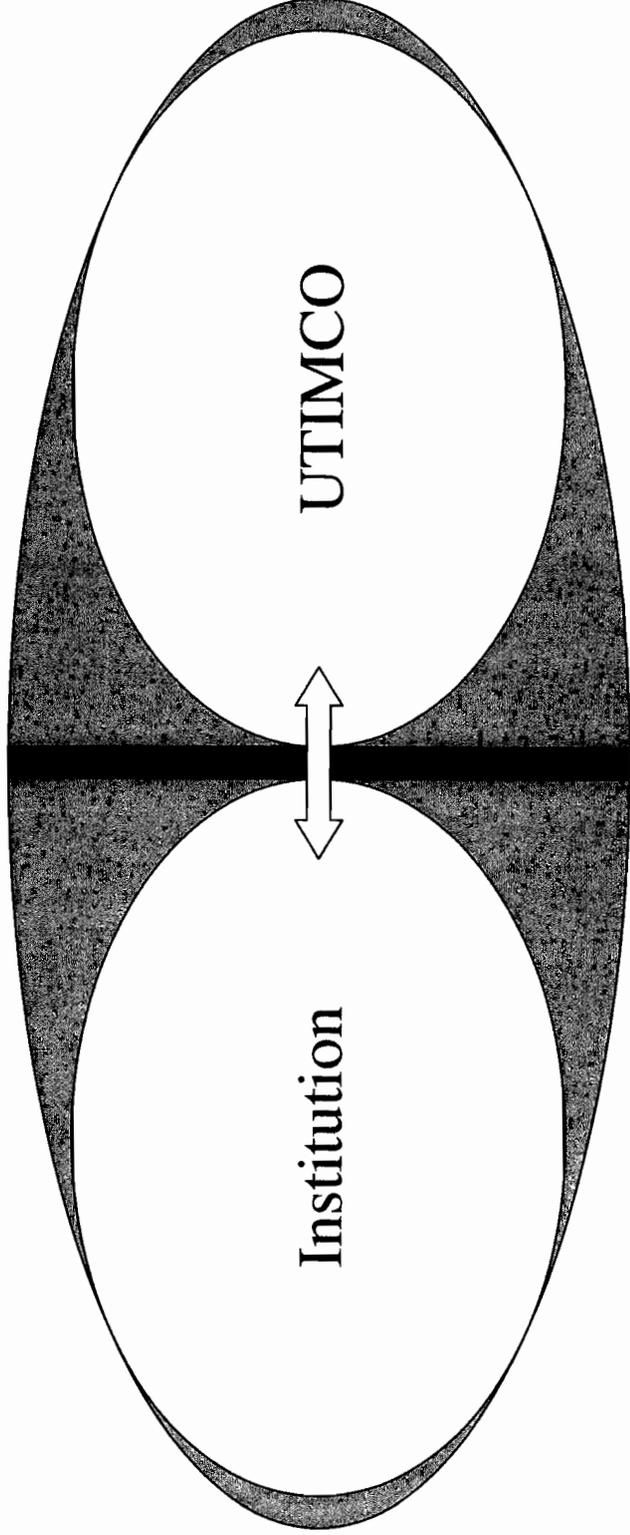
New Work Flow





New Environment

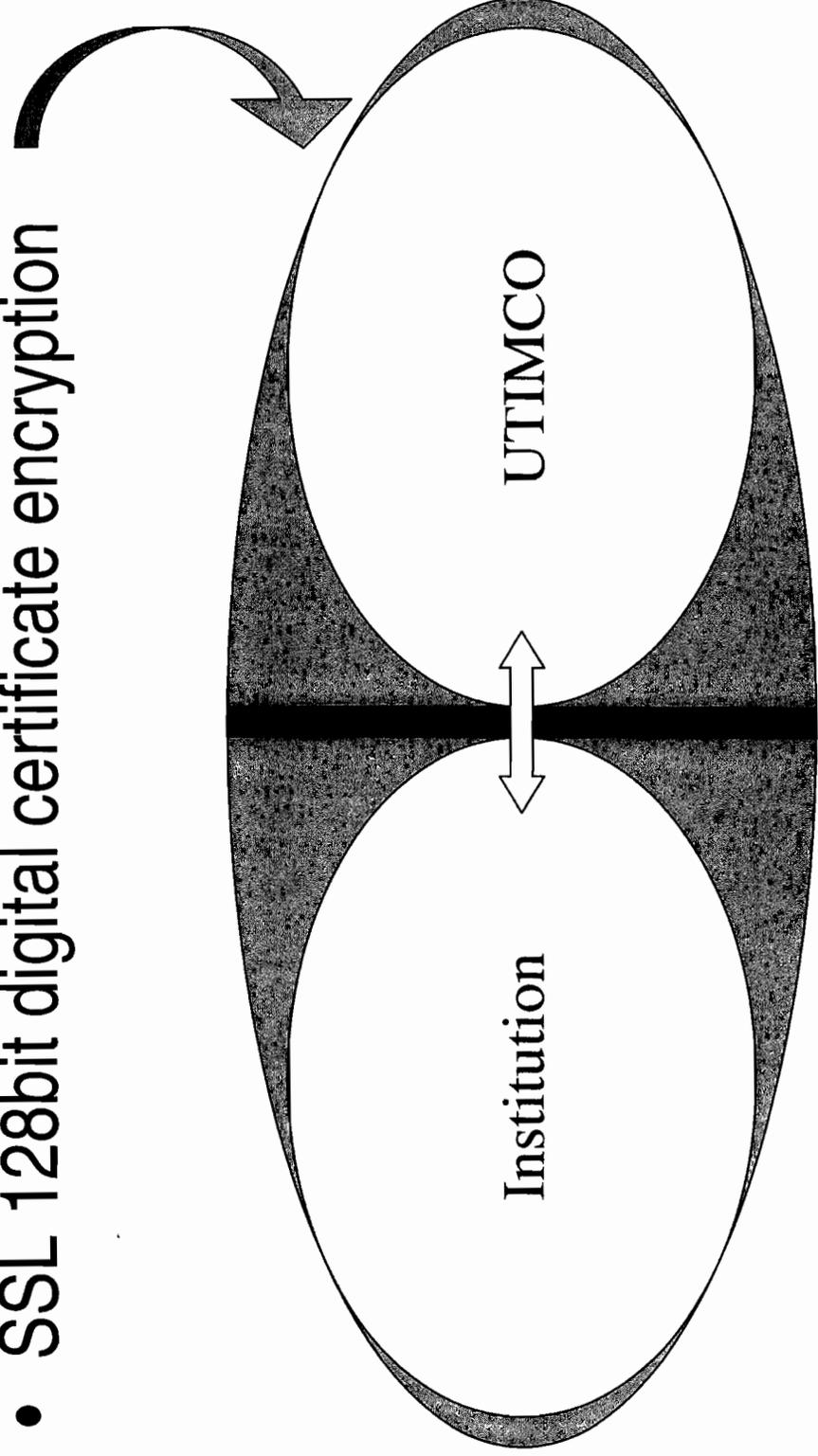
- Same Participants
- Four New Funds
- One Integrated Interface





Security

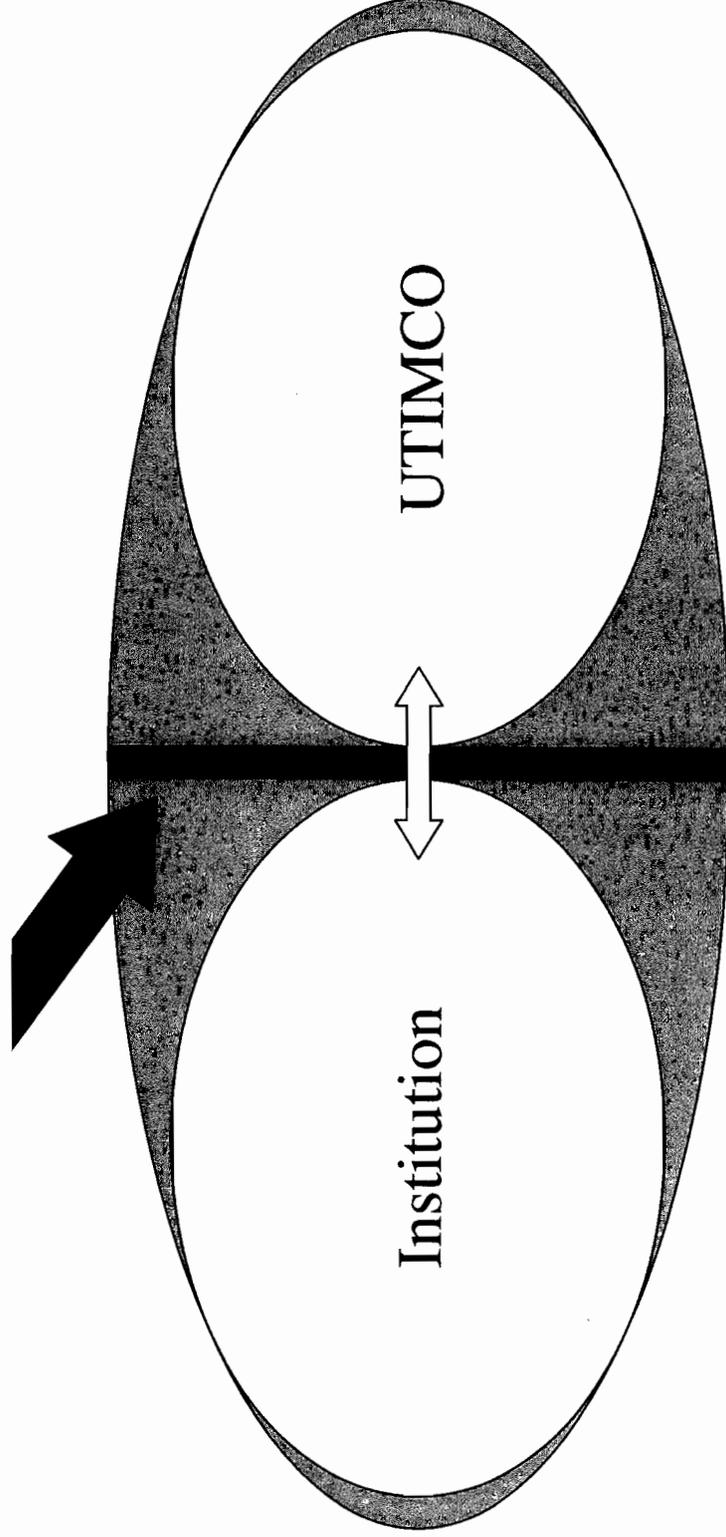
- SSL 128bit digital certificate encryption





Security

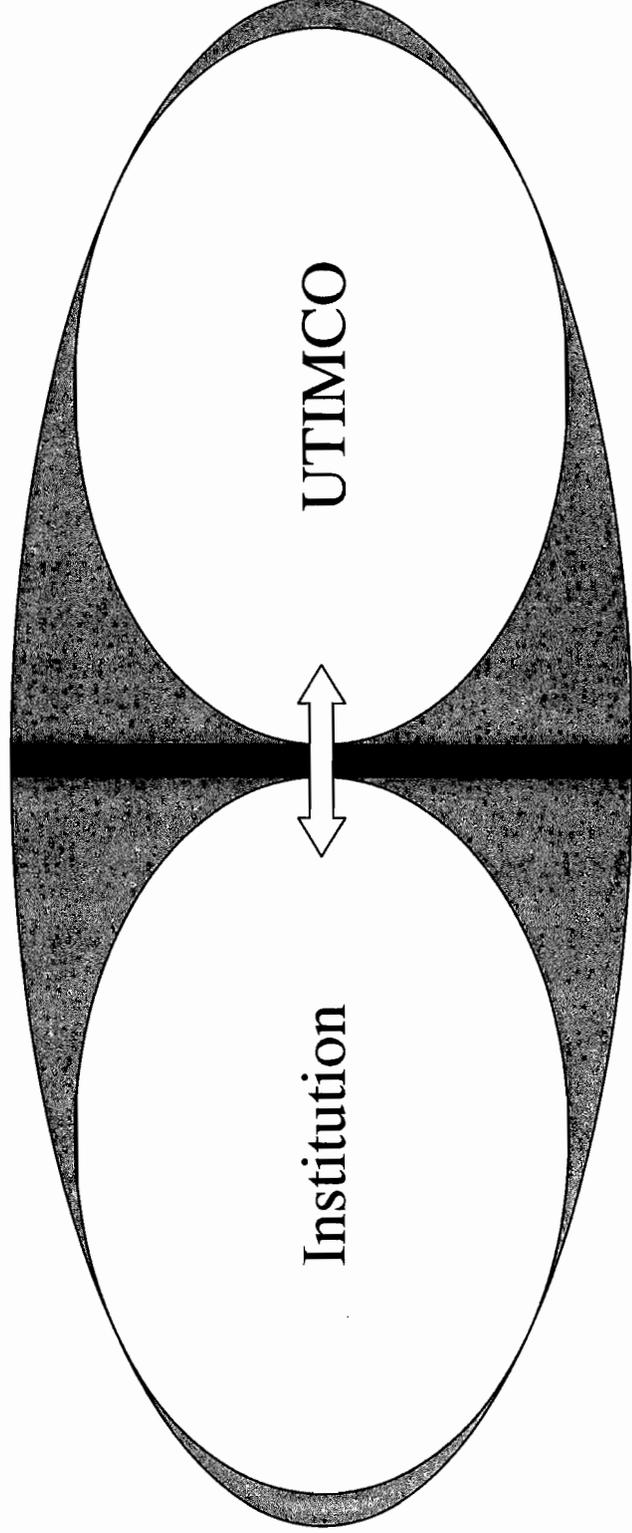
- Servers behind UTIMCO firewall





Security

- All transactions reviewed by UTIMCO





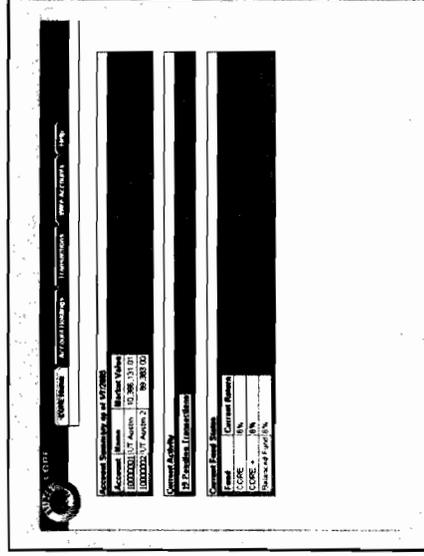
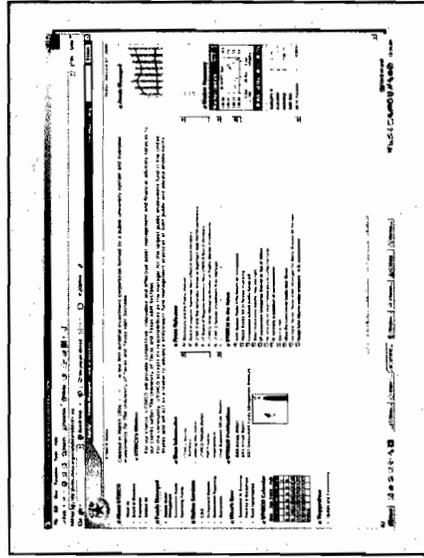
System Features

<ol style="list-style-type: none">1. Fund Exchanges2. Redemptions3. Purchases4. Fed Wire In/Out5. Gains and Losses6. Transaction History7. Balance History8. Multiple Accounts9. Pending Transactions	<ol style="list-style-type: none">10. Transaction Confirmation11. Consolidated Reporting12. Fund Profile Controls13. Account Profile Controls14. Export to Excel
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Availability

- Open 24/7
- Real Time Reporting
- Accessible Via Any Internet Connection





Status – On Schedule

- January – February 2005
 - Remaining 5% of Functionality
 - Review and authorization by UTIMCO accounting
 - Graphic Layout
- March 2005
 - User Training
- April 1, 2005
 - Go Live

Section 8

Agenda Item
UTIMCO Board Meeting
January 18, 2005

Agenda Item: Presentation of New Web-Based Workshop for Asset Allocation Decisions

Developed By: Edwards

Presented By: Edwards, Boldt

Type of Item: Information Item; No Action Required

Description: This agenda item presents an overview of the new web-based workshop environment created by the UTIMCO staff to assist the Chief Business Officers at Component Institutions make asset allocation decisions among the new operating Fund alternatives.

Recommendation: None

Discussion: A consistent theme in our client surveys and face to face discussions with business officers at the Components is the need for more assistance in making asset allocation decisions in operating funds. The objective of this new tool for the business officers is to provide a flexible tool, complete with UTIMCO shorter term return, risk, and correlation assumptions, that the business office staff can use to make asset allocation decisions. By framing the asset allocation decision in metrics that are meaningful to the business officers, we expect better, more informed, decisions which should lead to higher overall returns.

Reference: None

New Web-Based Workshop

TO BE
PRESENTED AT THE MEETING