The University of Texas Investment Management Company

Presentation Materials
Part 1

Board of Directors Meeting

July 21, 2005

UTIMCO BOARD OF DIRECTORS
MEETING AGENDA
July 21, 2005

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

Time Begin	Time End	Item #	Agenda Item
			Open Session:
9:30 a.m.	9:35 a.m.	1	Call to Order/Consideration of Minutes of June 16, 2005 Meeting*
9:35 a.m.	9:40 a.m.	2	Corporate Resolutions: - Appointment of UTIMCO Board Officers* - Committee Assignment*
9:40 a.m.	10:00 a.m.	3	Endowment and Operating Funds Update: - Asset Allocation, Risk and Performance - Liquidity Profile - Report of Derivative Applications
10:00 a.m.	10:45 a.m.	4	Discussion and Consideration of Operating Funds Investment Vehicles
10:45 a.m.	11:00 a.m.		Break
11:00 a.m.	11:35 a.m.	5	Discussion and Consideration of UTIMCO 2005/2006 Budget*, **
11:35 a.m.	11:45 a.m.	6	GlobeFlex International Update/ Microcap Proposal*
11:45 a.m.	12:15 p.m.	7	Benchmark Report: - Cambridge Associates
12:15 p.m.	1:15 p.m.		**Lunch**
1:15 p.m.	1:45 p.m.	8	Discussion of West Texas Lands Integration
1:45 p.m.	2:15 p.m.	9	Discussion and Consideration of Proposed Changes to Corporate Documents: - Code of Ethics*,** - Investment Policy Statements*, ** - Liquidity Policy*, ** and Charter of the Risk Committee * - Derivative Policy* - Investment Management Services Agreement*, **
2:15 p.m.	2:45 p.m.	10	Report from Risk Committee: - Consideration of Risk Committee Report* Report from Compensation Committee: **Executive Session** Pursuant to 551.074, Texas Government Code, the Board of Directors may convene in Executive Session to consider the compensation committee report. **Reconvene into Open Session** - Consideration of Compensation Committee Report*
2:45 p.m.	3:30 p.m.	11	Discussion of Investment Environment and Opportunities
3:30 p.m.			Adjournment

* Action by resolution required
**Resolution requires further approval from the U. T. System Board of Regents

Next Scheduled Meeting: September 22, 2005

TAB 1

RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the meetings of the Board of Directors held on **June 16, 2005 and July 8, 2005,** 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 10:05 a.m. on the **16th day of June 2005**, by means of conference telephone enabling all persons participating in the meeting to hear each other, 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
H. Scott Caven, Jr., Vice Chairman
Clint D. Carlson
J. Philip Ferguson
Erle Nye
Robert B. Rowling
Charles W. Tate

thus, constituting a majority and quorum of the Board. Director Mark G. Yudof was not present at the meeting. Also attending the meeting were Cyndi Krier, 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; Cathy Iberg, Managing Director – Marketable Alternative Investments and Deputy CIO; 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, legal counsel for the Corporation; Keith Brown of the McCombs School of Business at UT Austin; Scott Kelley, Philip Aldridge, Amy Barrett, Charlie Chaffin, and Cathy Swain of UT System Administration; Bruce Myers of Cambridge Associates; and Michael Sebastian of EnnisKnupp. Mr. Hunt called the meeting to order at 10:05 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 May 19, 2005. 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 May 19, 2005, be, and are hereby, approved.

Committee Assignment

Mr. Hunt stated that the next item to come before the Board was designation of committee members and chair designation for the Risk Committee. Mr. Hunt requested that the proposed resolution be amended to remove Director Ferguson from the Committee since Mr. Ferguson was serving as Chair of the Compensation Committee. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> BE IT RESOLVED, that, H. Scott Caven, Jr., Woody L. Hunt and Charles W. Tate are hereby designated as the Risk Committee of the Board of Directors to serve until the expiration of their term, or until their successor has been chosen and qualified, or until such their earlier death, resignation or removal; and
>
> FURTHER RESOLVED, that H. Scott Caven, Jr. is hereby designated the Chair of the Risk Committee and shall preside at its meetings.

Asset Allocation Policy

Mr. Hunt asked Mr. Boldt to begin the discussion and consideration of the 2005 Asset Allocation Policy. Mr. Boldt discussed the highlights of the Board's review process over the past several months. He discussed the outcome of the Directors' votes on decision factors at the last meeting and highlighted changes from this year's vote versus the last asset allocation review. He presented a recommended 2005 Asset Allocation Policy providing tactical value added, targets, ranges, and actual benchmarks. Mr. Boldt detailed the few proposed changes to the asset allocation and Mr. Hunt provided a historical perspective of the last asset allocation review. Discussion continued regarding asset allocation, targets and benchmarks. Mr. Boldt, Dr. Brown, Mr. Goldsmith, Mr. Myers and Mr. Sebastian answered the Directors' questions. At this point, Director Nye left the meeting. Mr. Boldt then proposed policy portfolio targets, ranges and benchmarks for approval, with the exception of benchmarks for hedge funds, commodities and fixed income, which will be discussed and considered at the next meeting pending a review from Cambridge Associates. Mr. Boldt stated that the 2005 Asset Allocation Policy would be put forth for discussion at the July 8 Joint Board of Regents/Board of Directors meeting, pending final approval of the benchmarks to be considered by the Directors at their meeting on July 21, 2005, with recommendation of final approval by the UT System Board of Regents at their meeting to be held in August 2005. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the Policy Portfolio Targets, Ranges and Benchmarks, with the exception of benchmarks for hedge funds, commodities and fixed income, be approved and adopted by this Corporation's Board of Directors, subject to approval by The University of Texas System Board of Regents.

The 2005 Asset Allocation Policy so approved is attached to these minutes.

UT System Investment Performance Reporting Error Correction Policy

Mr. Hunt recommended approval of The University of Texas System Investment Performance Reporting Error Correction Policy which addresses situations where errors are discovered and will formalize the process when corrections to reported performance data must be made. This policy applies to all types of errors in presentation of actual and benchmark investment performance reporting for fund portfolios (endowment and operating), asset classes, and third party investment manager portfolios. With no further discussion, upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that The University of Texas System Investment Performance Reporting Error Correction Policy, in the form submitted, be approved and adopted by this Corporation's Board of Directors, subject to approval by The University of Texas System Board of Regents.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 11:30 a.m.

Secretary: ________________________
Joan Moeller

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

MINUTES OF THE MEETING OF JOINT MEETING BETWEEN THE UNIVERSITY OF TEXAS SYSTEM BOARD OF REGENTS AND THE BOARD OF DIRECTORS OF THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

The first annual joint meeting between The University of Texas System Board of Regents and the Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting at 10:54 a.m. on the **8th day of July 2005**, at 201 West 7th Street, Austin, Texas, 78701, said meeting having been called by both Chairmen, James R. Huffines and Woody L. Hunt, with notice provided to each member in accordance with the Bylaws. The meeting was electronically recorded by UT System.

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

Woody L. Hunt, Chairman
H. Scott Caven, Jr., Vice Chairman
Mark G. Yudof, Vice Chairman for Policy
Clint D. Carlson
Erle Nye
Robert B. Rowling
Charles W. Tate

thus, constituting a majority and quorum of the Board. Director J. Philip Ferguson was not present at the meeting. Also attending the meeting were UT System Regents; Bob Boldt, President, Chief Executive Officer and Chief Investment Officer of the Corporation; Joan Moeller, Secretary and Treasurer of the Corporation; Christy Wallace, Assistant Secretary of the Corporation; 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; Greg Lee, Manager – Finance and Administration; several staff members of the Corporation; Jerry Turner, legal counsel for the Corporation; Keith Brown of the McCombs School of Business at UT Austin; numerous staff members from UT System Administration; Ricky Richter of Ernst and Young; Bruce Myers, Matthew Lincoln, Hamilton Lee and Shannon Thomas of Cambridge Associates; and Stephen Voss and Michael Sebastian of EnnisKnupp. Mr. Huffines and Mr. Hunt called the meeting to order at 10:54 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each Director or distributed at the meeting.

Organization

Mr. Hunt gave a historical background of the Corporation since its formation in 1996. He provided biographical information on the independent board members of the Corporation. He also presented resolutions of appreciation to Regent Barnhill and Regent Clements for their past service on the UTIMCO Board of Directors. He then asked Mr. Boldt to provide a current chart regarding the Corporation's competiveness factor against peer organizations. Mr. Boldt also presented the Corporation's organization structure, its mission statement, and strategic objectives. Mr. Boldt included information regarding the future returns environment and how the asset allocation has changed over the past ten years and introduced the management team of the Corporation.

Asset Allocation

Mr. Michael Sebastian of Ennis Knupp presented a Discussion of Asset Allocation. Following Mr. Sebastian, Mr. Bruce Myers of Cambridge Associates provided an Asset Allocation Review. Mr. Myers answered the Board of Regents' questions. Mr. Hunt asked Mr. Boldt to present an overview of the Asset Allocation Policy Review Process that the Board had followed over the past few months. Mr. Boldt then provided the 2005 Asset Allocation Policy recommended by the Board, including targets, ranges and benchmarks for approval, with the exception of benchmarks for hedge funds, commodities and fixed income, which will be discussed and considered pending a review from Cambridge Associates. Mr. Boldt stated that the 2005 Asset Allocation Policy would be put forth for final approval of the benchmarks to be considered by the Board at its next meeting on July 21, 2005, with recommendation of final approval by The UT System Board of Regents at their meeting to be held in August 2005. Mr. Boldt answered the Regents' questions.

Mr. Huffines closed by summarizing the positive changes that have been made from the working group suggestions and thanked both boards for attending the meeting and acknowledged that they made history by being part of the first joint meeting of The UT System Board of Regents and the Corporation's Board of Directors.

There being no further business to come before the Board of Directors, the joint meeting was adjourned at approximately 12:25 p.m.

Secretary: ______________________
Joan Moeller

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

TAB 2

RESOLUTION RELATED TO CORPORATION OFFICER

RESOLVED, that the following person is hereby appointed to the respective office of the Corporation set forth opposite their name, to serve until the next Annual Meeting of the Corporation or until their resignation or removal.

Name	Office or Offices
H. Scott Caven, Jr.	Chairman

RESOLUTION RELATED TO CORPORATION OFFICER

RESOLVED, that the following person is hereby appointed to the respective office of the Corporation set forth opposite their name, to serve until the next Annual Meeting of the Corporation or until their resignation or removal.

Name	Office or Offices
Woody L. Hunt	Vice-Chairman

RESOLUTION RELATED TO COMMITTEE ASSIGNMENTS

BE IT RESOLVED, that Charles W. Tate is hereby designated as the Chair of the Risk Committee and shall preside at its meetings. H. Scott Caven, Jr., Woody L. Hunt and Charles W. Tate will remain as the Risk Committee of the Board of Directors to serve until the expiration of their term, or until their successor has been chosen and qualified, or until such their earlier death, resignation or removal; and

FURTHER RESOLVED, that Clint D. Carlson, J. Philip Ferguson, and Robert B. Rowling are hereby designated as the Compensation Committee of the Board of Directors to serve until the expiration of their term, or 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.

TAB 3

Agenda Item
UTIMCO Board of Directors Meeting
July 21, 2005

Agenda Item: Reports on Asset Allocation, Risk, and Performance

Developed By: Moeller, Hill

Presented By: Boldt

Type of Item: Information Item

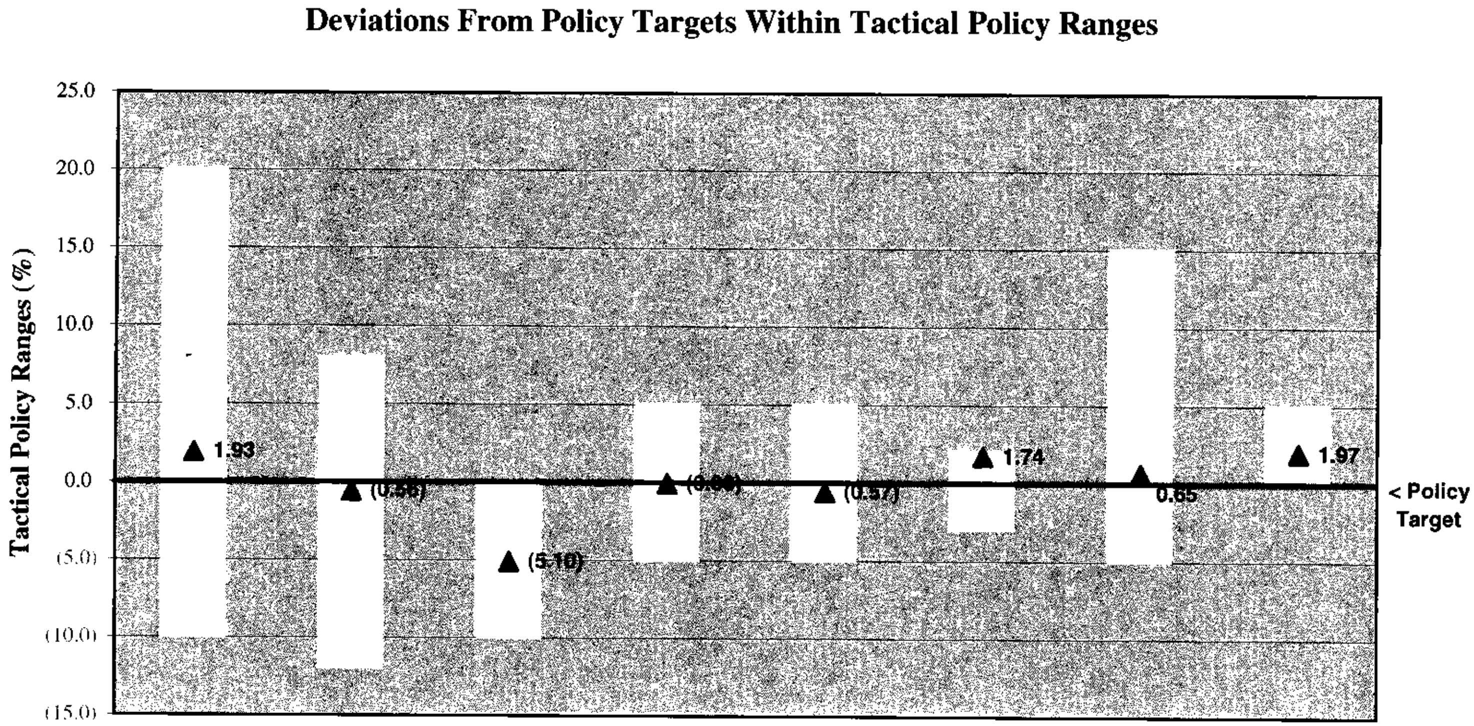
Description: The reports presented are for the periods ended May 31, 2005. (Except as noted.)

Discussion: There have been no changes in the manager status notations on the Public Markets Managers Investment Performance Detail from the prior report.

Recommendation: No action required.

Reference: Market Exposure; UTIMCO Performance Summary; Fiscal Year Cumulative Value Added in Endowment Funds; Fiscal Year Cumulative Value Added in Marketable Securities; Fiscal Year Cumulative Value Added in Non-Marketable Securities; Cumulative Value Added in Endowment Funds Since September 2002; Performance Attribution; UTIMCO Endowment Funds vs. Cambridge Associates Colleges and Universities Greater Than One Billion Dollars Funds Universe; UTIMCO Endowment Funds vs. Cambridge Associates College and University Universe; Public Markets Managers Investment Performance Detail; Relative Risk Analysis

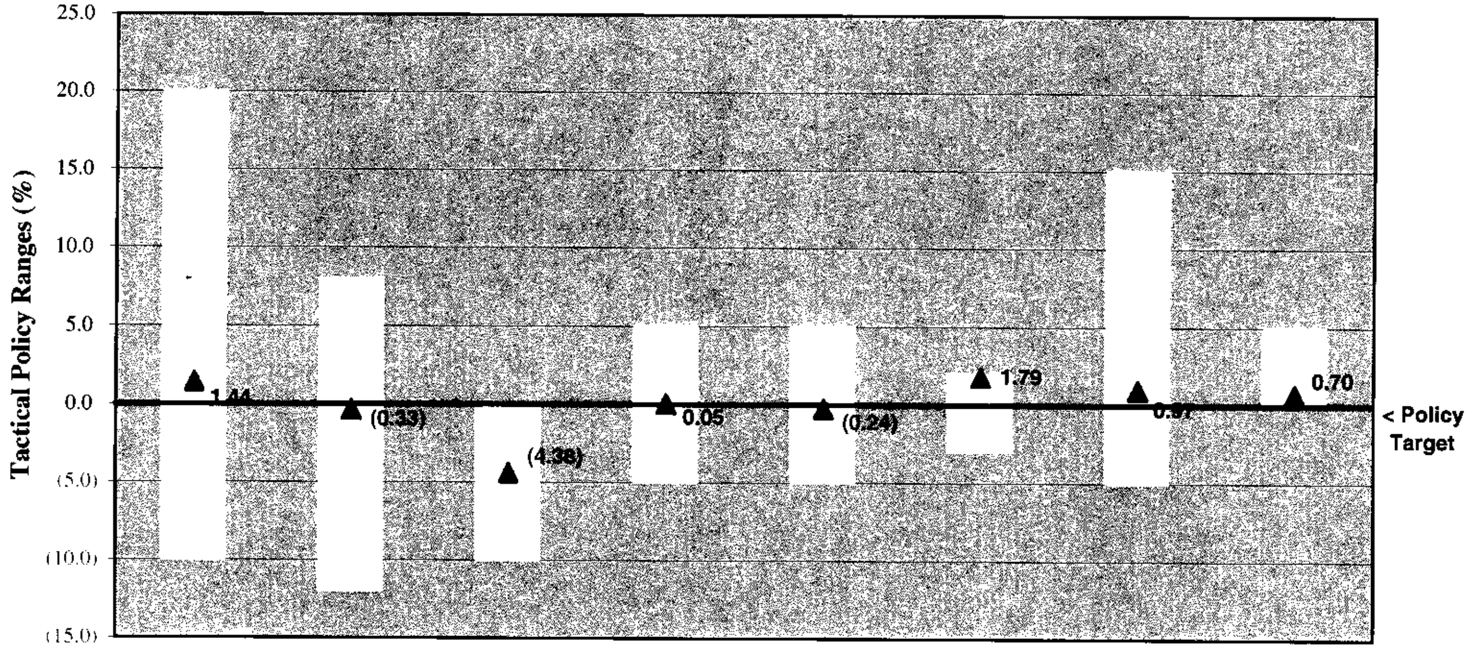
Permanent University Fund
Market Exposure
May 31, 2005



	US Public Equity	International Public Equity	Private Capital	Equity Hedge Funds	Absolute Return Hedge Funds	Commodities	Fixed Income	Cash
Actual	26.93%	16.44%	9.90%	9.94%	14.43%	4.74%	15.65%	1.97%
Policy Target	25.00%	17.00%	15.00%	10.00%	15.00%	3.00%	15.00%	0.00%
Deviation	1.93%	-0.56%	-5.10%	-0.06%	-0.57%	1.74%	0.65%	1.97%
Deviation in Dollars ($m)	171.77	(49.84)	(453.89)	(5.34)	(50.73)	154.86	57.85	175.32

General Endowment Fund
Market Exposure
May 31, 2005

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	26.44%	16.67%	10.62%	10.05%	14.76%	4.79%	15.97%	0.70%
Policy Target	25.00%	17.00%	15.00%	10.00%	15.00%	3.00%	15.00%	0.00%
Deviation	1.44%	-0.33%	-4.38%	0.05%	-0.24%	1.79%	0.97%	0.70%
Deviation in Dollars ($m)	67.39	(15.44)	(204.96)	2.34	(11.23)	83.76	45.39	32.75

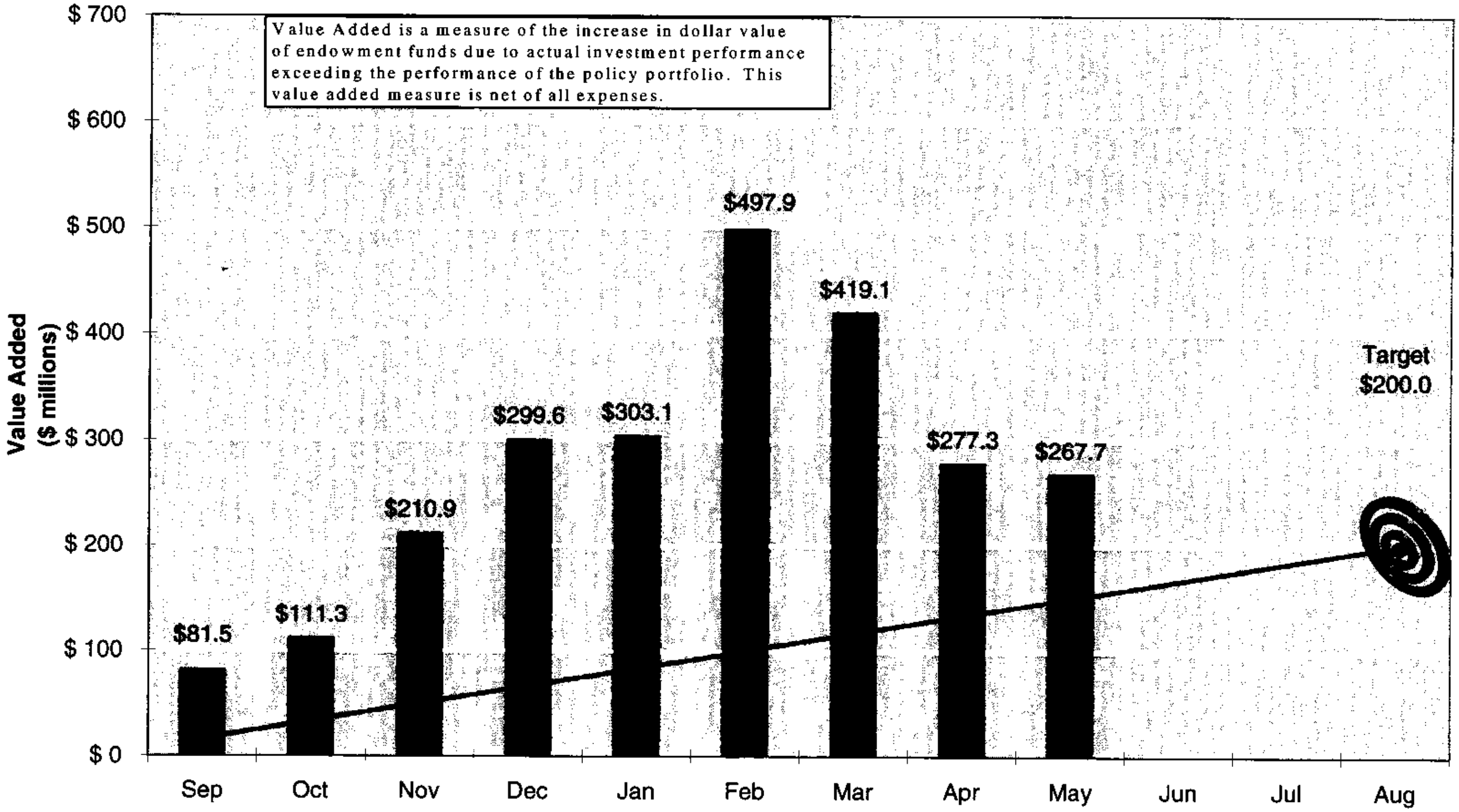
UTIMCO Performance Summary
May 31, 2005

	Net Asset Value 5/31/2005 (in Millions)	Periods Ended May 31, 2005 (Returns for Periods Longer Than One Year are Annualized)										
		One Month	Three Months	Calendar Year To Date	Six Months	Fiscal Year To Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
ENDOWMENT FUNDS												
Permanent University Fund	$ 8,899.8	1.73	0.14	2.49	4.97	12.56	13.41	16.67	10.00	6.79	5.47	9.76
General Endowment Fund		1.72	0.09	2.44	4.89	12.65	13.38	16.76	10.20	7.18	N/A	N/A
Permanent Health Fund	887.2	1.73	0.04	2.39	4.83	12.55	13.31	16.60	10.08	7.05	5.53	N/A
Long Term Fund	3,792.4	1.73	0.04	2.38	4.84	12.55	13.32	16.61	10.11	7.09	5.61	10.46
Separately Invested Funds	208.3	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	**13,787.7**											
OPERATING FUNDS												
Short Term Fund	2,328.4	0.25	0.70	1.06	1.23	1.66	1.97	1.49	1.51	1.84	2.71	4.14
Short Intermediate Term Fund	1,202.0	0.43	0.98	1.09	1.39	1.73	2.93	1.96	2.24	2.81	4.33	5.11
Institutional Index Funds:												
BGI US Bond Index Fund	-	1.09	1.91	1.95	2.90	3.22	6.85	3.19	5.97	6.50	7.81	N/A
BGI Equity Index Fund	265.3	3.20	(0.53)	(0.91)	2.49	9.43	8.32	13.21	5.66	0.41	(1.88)	N/A
Total Operating Funds	**3,795.7**											
Total Investments	**$ 17,583.4**											
BENCHMARKS (1)												
Permanent University Fund: Policy Portfolio		1.84	1.89	2.77	4.59	10.41	11.98	13.31	7.84	4.55	3.85	10.48
General Endowment Fund: Policy Portfolio		1.84	1.89	2.77	4.59	10.41	11.98	13.31	7.84	4.55	3.75	10.37
Short Term Fund: 90 Day Treasury Bills Average Yield		0.26	0.73	1.06	1.28	1.67	1.99	1.52	1.52	1.84	2.66	4.00
Short Intermediate Term Fund: Composite (3/93-7/04) and		0.38	0.95	0.68	0.89	0.61	1.82	1.10	2.65	3.52	4.77	5.19
Institutional Bond Index Fund: Lehman Brothers Aggregate Bond Index		1.08	1.92	1.96	2.90	3.21	6.82	3.13	5.87	6.42	7.73	6.85
Institutional Equity Index Fund: Standards & Poor's 500 Index (S&P 500)		3.18	(0.57)	(0.95)	2.42	9.36	8.24	13.17	5.60	0.36	(1.93)	10.18
VALUE ADDED (2)												
Permanent University Fund		(0.11)	(1.75)	(0.29)								(0.72)
General Endowment Fund		(0.12)	(1.80)	(0.34)							N/A	N/A
Permanent Health Fund		(0.11)	(1.85)	(0.39)								N/A
Long Term Fund		(0.11)	(1.85)	(0.39)								
Short Term Fund		(0.01)	(0.03)	0.00	(0.04)	(0.02)	(0.02)	(0.03)	(0.02)	0.00		
Short Intermediate Term Fund									(0.41)	(0.71)	(0.44)	(0.09)
Institutional Bond Index Fund			(0.01)	(0.01)	0.00							N/A
Institutional Equity Index Fund												N/A

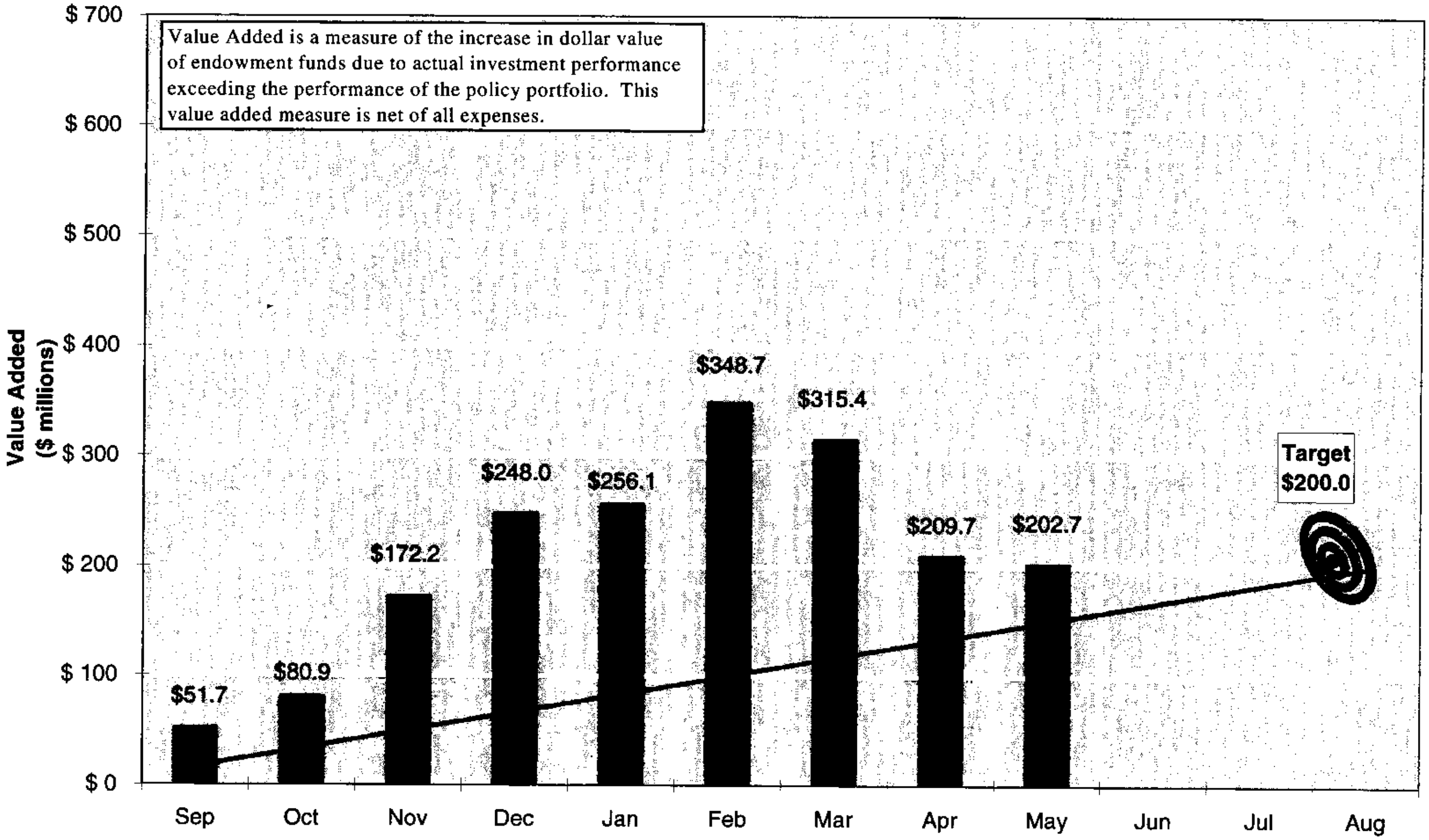
(1) - Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct errors in benchmark construction and calculation. Results were restated for all periods beginning June, 1993. The complete details of the restatement as well as prior Policy Portfolio returns are available upon request.

(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.

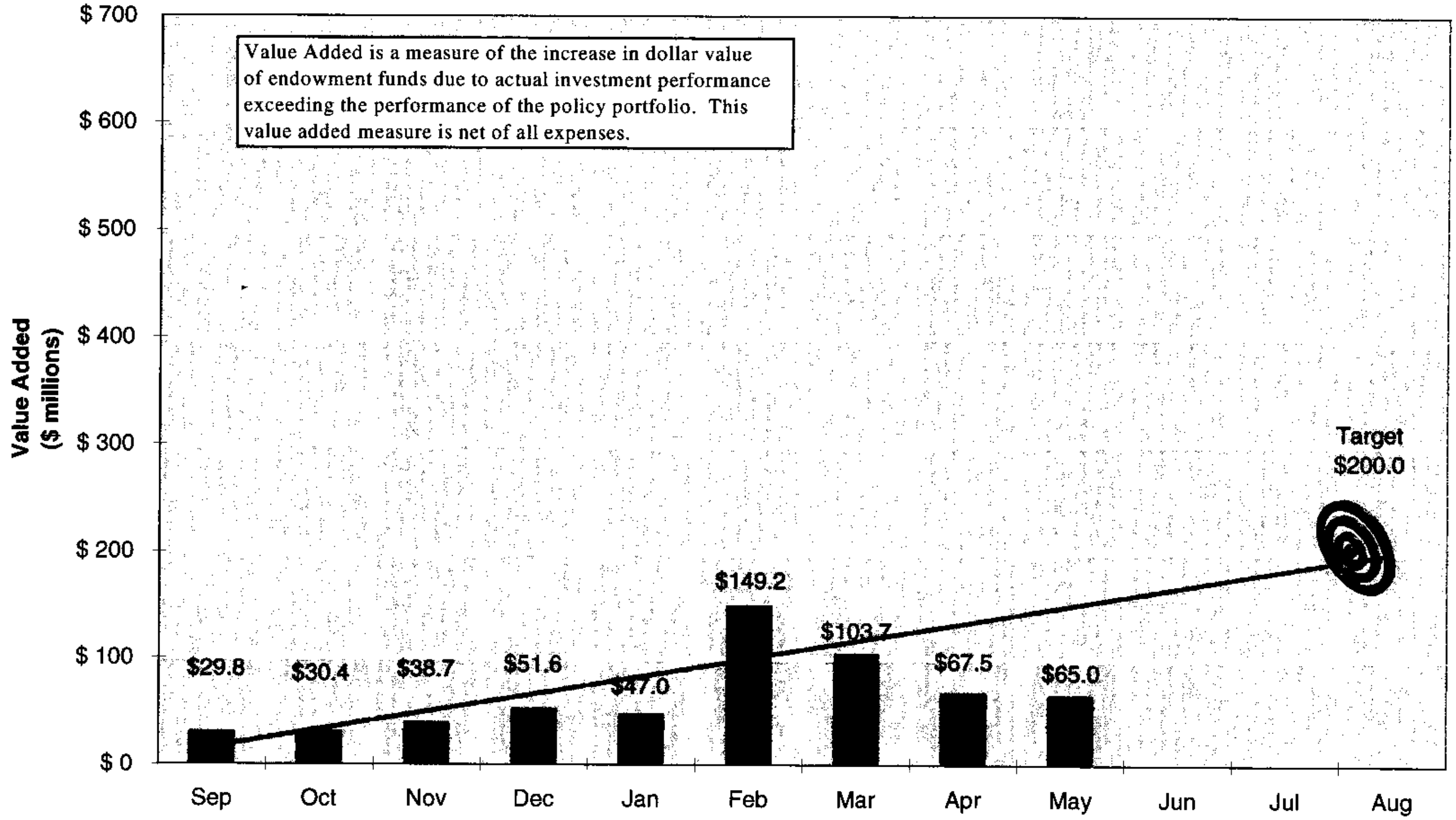
Cumulative Value Added In Endowment Funds
2004-2005 Fiscal Year



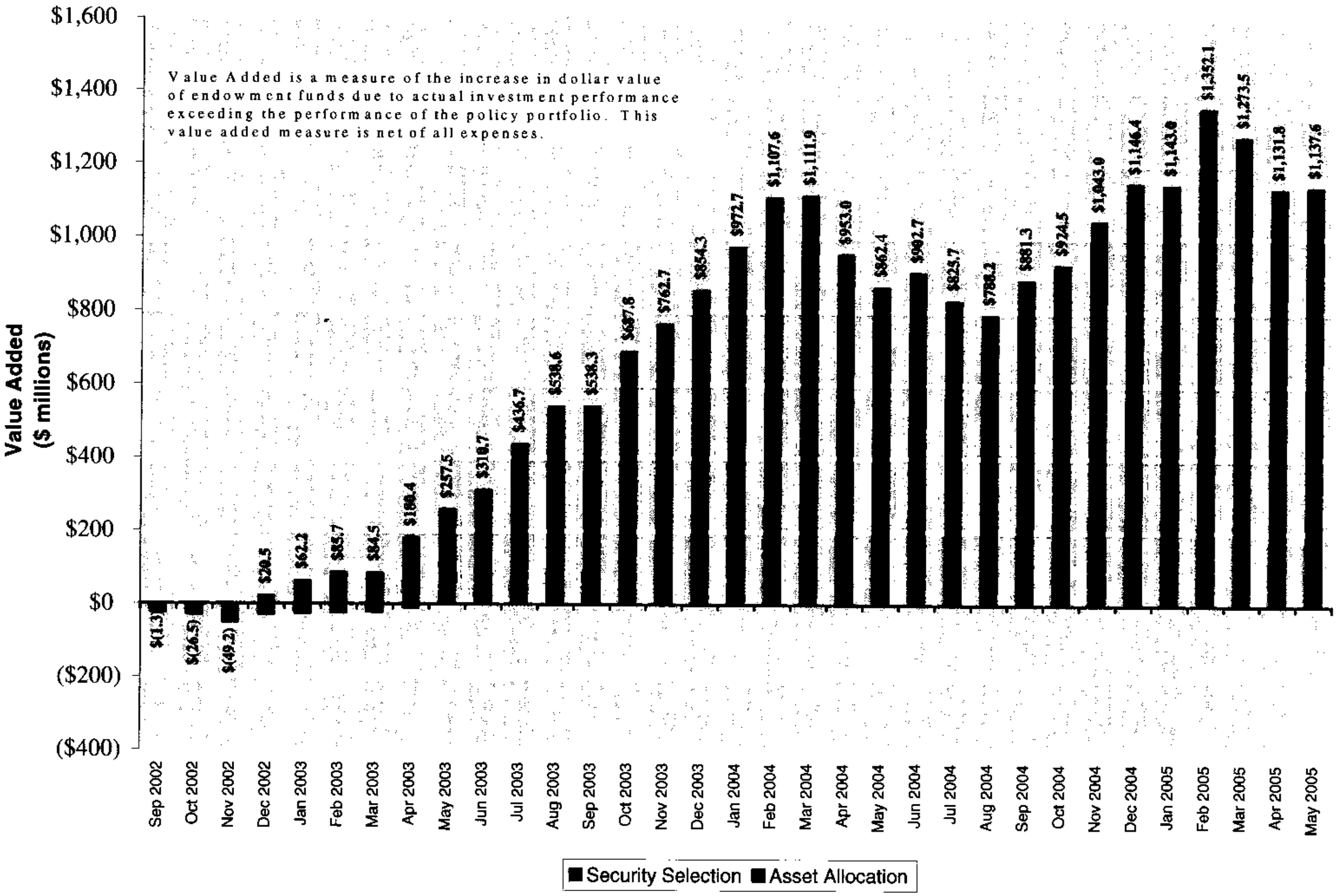
Cumulative Value Added in Marketable Securities in Endowment Funds
2004-2005 Fiscal Year



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



VALUE ADDED: ENDOWMENT FUNDS
SINCE SEPTEMBER 1, 2002



Permanent University Fund
Performance Attribution

	Asset Allocation			Return				
		May 31, 2005		One Month Ended May 31, 2005				
	Neutral	Asset Allocation	Market Exposure	Benchmark	PUF	Asset Allocation Effect	Security Selection Effect	Total Attribution (1)
Cash and Cash Equivalents	0.0%	2.0%	2.0%	0.26%	0.25%	-0.02%	0.00%	-0.02%
U.S. Equities	25.0%	26.9%	26.9%	3.69%	4.07%	0.02%	0.09%	0.11%
Global Equities	17.0%	16.4%	16.4%	0.53%	0.71%	-0.02%	0.03%	0.01%
Equity Hedge Funds	10.0%	10.0%	10.0%	0.59%	0.68%	0.00%	0.01%	0.01%
Absolute Return Hedge Funds	15.0%	14.4%	14.4%	0.51%	0.59%	0.00%	0.01%	0.01%
Commodities	3.0%	4.7%	4.7%	-0.82%	-0.38%	-0.04%	0.01%	-0.03%
Fixed Income	15.0%	15.7%	15.7%	0.95%	0.48%	0.00%	-0.07%	-0.07%
Total Marketable Securities	85.0%	90.1%	90.1%	1.49%	1.54%	-0.06%	0.08%	0.02%
Private Capital	15.0%	9.9%	9.9%	3.82%	3.46%	-0.08%	-0.05%	-0.13%
Total Fund	100.0%	100.0%	100.0%	1.84% (2)	1.73%	-0.14%	0.03%	-0.11%

(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				
	May 31, 2005			Three Months Ended May 31, 2005				
	Neutral	Asset Allocation	Market Exposure	Benchmark	PUF	Asset Allocation Effect	Security Selection Effect	Total Attribution (1)
Cash and Cash Equivalents	0.0%	2.0%	2.0%	0.73%	0.70%	-0.04%	0.00%	-0.04%
U.S. Equities	25.0%	26.9%	26.9%	1.29%	1.59%	0.00%	0.08%	0.08%
Global Equities	17.0%	16.4%	16.4%	-4.74%	-4.12%	-0.21%	0.11%	-0.10%
Equity Hedge Funds	10.0%	10.0%	10.0%	1.74%	-0.15%	0.01%	-0.19%	-0.18%
Absolute Return Hedge Funds	15.0%	14.4%	14.4%	1.48%	0.19%	0.00%	-0.20%	-0.20%
Commodities	3.0%	4.7%	4.7%	-3.22%	-1.70%	-0.09%	0.04%	-0.05%
Fixed Income	15.0%	15.7%	15.7%	2.18%	1.79%	-0.01%	-0.06%	-0.07%
Total Marketable Securities	85.0%	90.1%	90.1%	0.19%	-0.32%	-0.34%	-0.22%	-0.56%
Private Capital	15.0%	9.9%	9.9%	11.90%	4.51%	-0.13%	-1.06%	-1.19%
Total Fund	100.0%	100.0%	100.0%	1.89% (2)	0.14%	-0.47%	-1.28%	-1.75%

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

Permanent University Fund
Performance Attribution

	Asset Allocation			Return				
		May 31, 2005		Calendar Year to Date May 31, 2005				
	Neutral	Asset Allocation	Market Exposure	Benchmark	PUF	Asset Allocation Effect	Security Selection Effect	Total Attribution (1)
Cash and Cash Equivalents	0.0%	2.0%	2.0%	1.06%	1.06%	0.00%	0.00%	0.00%
U.S. Equities	25.0%	26.9%	26.9%	-0.22%	0.51%	-0.02%	0.18%	0.16%
Global Equities	17.0%	16.4%	16.4%	-1.80%	0.28%	-0.07%	0.36%	0.29%
Equity Hedge Funds	10.0%	10.0%	10.0%	2.75%	1.53%	-0.02%	-0.12%	-0.14%
Absolute Return Hedge Funds	15.0%	14.4%	14.4%	2.33%	1.83%	-0.01%	-0.08%	-0.09%
Commodities	3.0%	4.7%	4.7%	9.59%	8.73%	0.07%	-0.04%	0.03%
Fixed Income	15.0%	15.7%	15.7%	2.06%	1.77%	-0.01%	-0.05%	-0.06%
Total Marketable Securities	85.0%	90.1%	90.1%	1.09%	1.38%	-0.06%	0.25%	0.19%
Private Capital	15.0%	9.9%	9.9%	12.64%	13.30%	-0.56%	0.09%	-0.47%
Total Fund	100.0%	100.0%	100.0%	2.77% (2)	2.49%	-0.62%	0.34%	-0.28%

(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				
		May 31, 2005		Fiscal Year to Date May 31, 2005		Asset	Security	
		Asset	Market			Allocation	Selection	Total
	Neutral	Allocation	Exposure	Benchmark	PUF	Effect	Effect	Attribution (1)
Cash and Cash Equivalents	0.0%	2.0%	2.0%	1.67%	1.66%	-0.06%	0.00%	-0.06%
U.S. Equities	25.0%	26.9%	26.9%	12.48%	13.84%	0.12%	0.35%	0.47%
Global Equities	17.0%	16.4%	16.4%	16.91%	16.34%	0.25%	-0.10%	0.15%
Equity Hedge Funds	10.0%	10.0%	10.0%	4.76%	8.32%	0.00%	0.37%	0.37%
Absolute Return Hedge Funds	15.0%	14.4%	14.4%	3.98%	9.66%	-0.02%	0.88%	0.86%
Commodities	3.0%	4.7%	4.7%	9.73%	10.56%	-0.06%	-0.01%	-0.07%
Fixed Income	15.0%	15.7%	15.7%	3.82%	5.52%	0.00%	0.26%	0.26%
Total Marketable Securities	85.0%	90.1%	90.1%	9.45%	11.66%	0.23%	1.75%	1.98%
Private Capital	15.0%	9.9%	9.9%	15.73%	21.07%	-0.58%	0.75%	0.17%
Total Fund	100.0%	100.0%	100.0%	10.41% (2)	12.56%	-0.35%	2.50%	2.15%

(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				
		May 31, 2005		Year Ended May 31, 2005				
	Neutral	Asset Allocation	Market Exposure	Benchmark	PUF	Asset Allocation Effect	Security Selection Effect	Total Attribution (1)
Cash and Cash Equivalents	0.0%	2.0%	2.0%	1.99%	1.97%	-0.12%	0.00%	-0.12%
U.S. Equities	25.0%	26.9%	26.9%	13.74%	14.44%	0.07%	0.21%	0.28%
Global Equities	17.0%	16.4%	16.4%	16.80%	16.40%	0.18%	-0.08%	0.10%
Equity Hedge Funds	10.0%	10.0%	10.0%	6.13%	9.00%	0.01%	0.30%	0.31%
Absolute Return Hedge Funds	15.0%	14.4%	14.4%	5.08%	10.73%	0.00%	0.87%	0.87%
Commodities	3.0%	4.7%	4.7%	8.03%	8.12%	-0.11%	-0.04%	-0.15%
Fixed Income	15.0%	15.7%	15.7%	7.52%	8.59%	-0.01%	0.16%	0.15%
Total Marketable Securities	85.0%	90.1%	90.1%	10.83%	12.47%	0.02%	1.42%	1.44%
Private Capital	15.0%	9.9%	9.9%	18.39%	22.32%	-0.56%	0.55%	-0.01%
Total Fund	100.0%	100.0%	100.0%	11.98% (2)	13.41%	-0.54%	1.97%	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.

General Endowment Fund
Performance Attribution

	Asset Allocation			Return				
		May 31, 2005		One Month Ended May 31, 2005				
	Neutral	Asset Allocation	Market Exposure	Benchmark	GEF	Asset Allocation Effect	Security Selection Effect	Total Attribution (1)
Cash and Cash Equivalents	0.0%	0.7%	0.7%	0.26%	0.25%	-0.01%	0.00%	-0.01%
U.S. Equities	25.0%	26.4%	26.4%	3.69%	4.08%	0.00%	0.10%	0.10%
Global Equities	17.0%	16.7%	16.7%	0.53%	0.75%	-0.03%	0.04%	0.01%
Equity Hedge Funds	10.0%	10.0%	10.0%	0.59%	0.70%	0.00%	0.01%	0.01%
Absolute Return Hedge Funds	15.0%	14.8%	14.8%	0.51%	0.61%	0.00%	0.02%	0.02%
Commodities	3.0%	4.8%	4.8%	-0.82%	-0.40%	-0.04%	0.01%	-0.03%
Fixed Income	15.0%	16.0%	16.0%	0.95%	0.44%	-0.01%	-0.08%	-0.09%
Total Marketable Securities	85.0%	89.4%	89.4%	1.49%	1.53%	-0.09%	0.10%	0.01%
Private Capital	15.0%	10.6%	10.6%	3.82%	3.39%	-0.07%	-0.06%	-0.13%
Total Fund	100.0%	100.0%	100.0%	1.84% (2)	1.72%	-0.16%	0.04%	-0.12%

(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				
		May 31, 2005		Three Months Ended May 31, 2005				
	Neutral	Asset Allocation	Market Exposure	Benchmark	GEF	Asset Allocation Effect	Security Selection Effect	Total Attribution (1)
Cash and Cash Equivalents	0.0%	0.7%	0.7%	0.73%	0.70%	-0.01%	0.00%	-0.01%
U.S. Equities	25.0%	26.4%	26.4%	1.29%	1.60%	-0.01%	0.08%	0.07%
Global Equities	17.0%	16.7%	16.7%	-4.74%	-4.15%	-0.21%	0.10%	-0.11%
Equity Hedge Funds	10.0%	10.0%	10.0%	1.74%	-0.09%	0.00%	-0.18%	-0.18%
Absolute Return Hedge Funds	15.0%	14.8%	14.8%	1.48%	0.20%	-0.01%	-0.19%	-0.20%
Commodities	3.0%	4.8%	4.8%	-3.22%	-1.71%	-0.09%	0.04%	-0.05%
Fixed Income	15.0%	16.0%	16.0%	2.18%	1.72%	-0.01%	-0.07%	-0.08%
Total Marketable Securities	85.0%	89.4%	89.4%	0.19%	-0.34%	-0.34%	-0.22%	-0.56%
Private Capital	15.0%	10.6%	10.6%	11.90%	3.97%	-0.10%	-1.14%	-1.24%
Total Fund	100.0%	100.0%	100.0%	1.89% (2)	0.09%	-0.44%	-1.36%	-1.80%

(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				
		May 31, 2005		Calendar Year to Date May 31, 2005				
	Neutral	Asset Allocation	Market Exposure	Benchmark	GEF	Asset Allocation Effect	Security Selection Effect	Total Attribution (1)
Cash and Cash Equivalents	0.0%	0.7%	0.7%	1.06%	1.06%	-0.01%	0.00%	-0.01%
U.S. Equities	25.0%	26.4%	26.4%	-0.22%	0.51%	-0.02%	0.18%	0.16%
Global Equities	17.0%	16.7%	16.7%	-1.80%	0.29%	-0.06%	0.37%	0.31%
Equity Hedge Funds	10.0%	10.0%	10.0%	2.75%	1.50%	-0.01%	-0.13%	-0.14%
Absolute Return Hedge Funds	15.0%	14.8%	14.8%	2.33%	1.84%	-0.01%	-0.08%	-0.09%
Commodities	3.0%	4.8%	4.8%	9.59%	8.78%	0.07%	-0.04%	0.03%
Fixed Income	15.0%	16.0%	16.0%	2.06%	1.69%	-0.01%	-0.06%	-0.07%
Total Marketable Securities	85.0%	89.4%	89.4%	1.09%	1.36%	-0.05%	0.24%	0.19%
Private Capital	15.0%	10.6%	10.6%	12.64%	12.47%	-0.49%	-0.03%	-0.52%
Total Fund	100.0%	100.0%	100.0%	2.77% (2)	2.44%	-0.54%	0.21%	-0.33%

(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				
		May 31, 2005		Fiscal Year to Date May 31, 2005				
	Neutral	Asset Allocation	Market Exposure	Benchmark	GEF	Asset Allocation Effect	Security Selection Effect	Total Attribution (1)
Cash and Cash Equivalents	0.0%	0.7%	0.7%	1.67%	1.66%	-0.07%	0.00%	-0.07%
U.S. Equities	25.0%	26.4%	26.4%	12.48%	13.87%	0.06%	0.36%	0.42%
Global Equities	17.0%	16.7%	16.7%	16.91%	16.76%	0.27%	-0.03%	0.24%
Equity Hedge Funds	10.0%	10.0%	10.0%	4.76%	8.33%	0.01%	0.37%	0.38%
Absolute Return Hedge Funds	15.0%	14.8%	14.8%	3.98%	9.78%	-0.01%	0.90%	0.89%
Commodities	3.0%	4.8%	4.8%	9.73%	10.59%	-0.06%	-0.01%	-0.07%
Fixed Income	15.0%	16.0%	16.0%	3.82%	5.54%	0.00%	0.27%	0.27%
Total Marketable Securities	85.0%	89.4%	89.4%	9.45%	11.74%	0.20%	1.86%	2.06%
Private Capital	15.0%	10.6%	10.6%	15.73%	20.86%	-0.53%	0.71%	0.18%
Total Fund	100.0%	100.0%	100.0%	10.41% (2)	12.65%	-0.33%	2.57%	2.24%

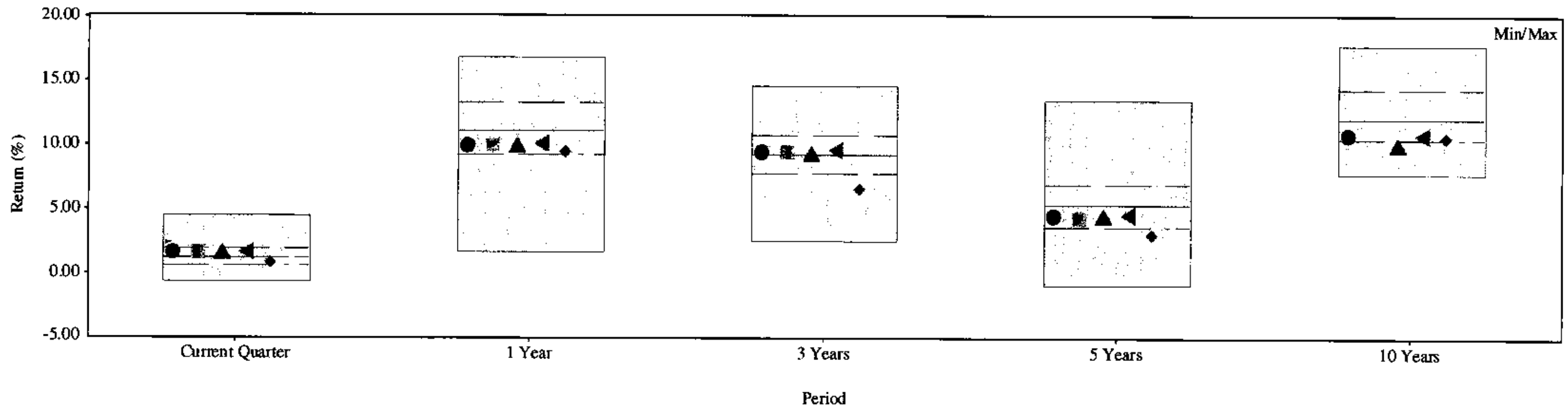
(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.
(2) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum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

General Endowment Fund
Performance Attribution

	Asset Allocation			Return				
		May 31, 2005		Year Ended May 31, 2005				
	Neutral	Asset Allocation	Market Exposure	Benchmark	GEF	Asset Allocation Effect	Security Selection Effect	Total Attribution (1)
Cash and Cash Equivalents	0.0%	0.7%	0.7%	1.99%	1.97%	-0.12%	0.00%	-0.12%
U.S. Equities	25.0%	26.4%	26.4%	13.74%	14.38%	0.05%	0.20%	0.25%
Global Equities	17.0%	16.7%	16.7%	16.80%	16.82%	0.20%	-0.01%	0.19%
Equity Hedge Funds	10.0%	10.0%	10.0%	6.13%	8.99%	0.01%	0.30%	0.31%
Absolute Return Hedge Funds	15.0%	14.8%	14.8%	5.08%	10.85%	0.00%	0.89%	0.89%
Commodities	3.0%	4.8%	4.8%	8.03%	8.17%	-0.13%	-0.04%	-0.17%
Fixed Income	15.0%	16.0%	16.0%	7.52%	8.43%	-0.01%	0.13%	0.12%
Total Marketable Securities	85.0%	89.4%	89.4%	10.83%	12.50%	0.00%	1.47%	1.47%
Private Capital	15.0%	10.6%	10.6%	18.39%	21.37%	-0.48%	0.41%	-0.07%
Total Fund	100.0%	100.0%	100.0%	11.98% (2)	13.38%	-0.48%	1.88%	1.40%

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

UTIMCO ENDOWMENT FUNDS vs.
Cambridge Billion $ Funds Universe
Periods Ended Thursday, March 31, 2005
Quartile



	Current Quarter Return	(% tile)	1 Year Return	(% tile)	3 Years Return	(% tile)	5 Years Return	(% tile)	10 Years Return	(% tile)
Maximum	4.45		16.83		14.70		13.58		17.84	
25th Percentile	1.95		13.31		10.77		6.91		14.37	
Median	1.20		11.09		9.30		5.35		12.08	
75th Percentile	0.52		9.27		7.81		3.62		10.46	
Minimum	- 0.55		1.81		2.67		- 0.82		7.89	
# of Portfolios	37		37		37		37		34	
● **UTIMCO LTF-Net of Fees**	1.75	35	10.16	72	9.64	45	4.66	64	10.99	69
■ **UTIMCO PHF-Net of Fees**	1.75	35	10.16	72	9.61	45	4.48	69	---	---
▲ **UTIMCO PUF-Net of Fees**	1.76	35	10.12	74	9.51	45	4.60	64	10.30	83
◀ **UTIMCO GEF-Net of Fees**	1.78	32	10.22	69	9.73	43	4.72	61	11.02	66
◆ **Policy Portfolio GEF**	0.89	58	9.70	74	6.76	90	3.13	82	10.79	69
Policy Portfolio PUF	0.89	58	9.70	74	6.76	90	3.38	79	10.93	69

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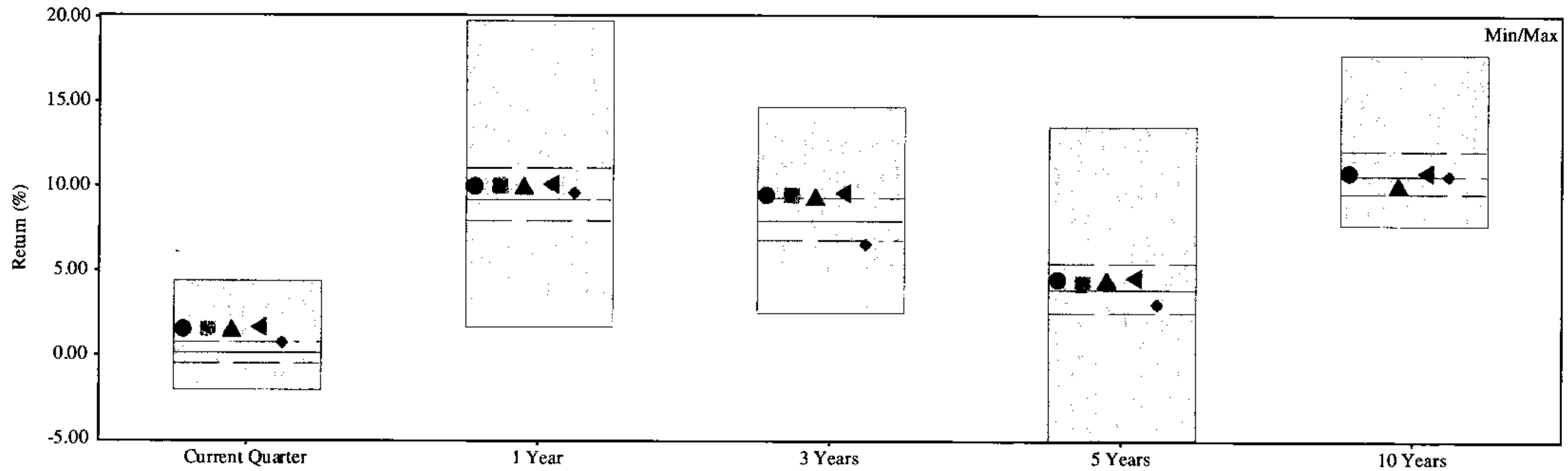
The Cambridge Billion $ Funds Universe consists of the College and Universities with endowment assets greater than one billion dollars that report quarterly to Cambridge Associates, Inc.
The number of Colleges and Universities with endowment assets greater than one billion dollars reporting as of March 31, 2005 was 37.

UTIMCO ENDOWMENT FUNDS vs.
Total Cambridge Universe
Periods Ended Thursday, March 31, 2005
Quartile



	Current Quarter Return	(% tile)	1 Year Return	(% tile)	3 Years Return	(% tile)	5 Years Return	(% tile)	10 Years Return	(% tile)
Maximum	4.45		19.83		14.70		13.58		17.84	
25th Percentile	0.83		11.07		9.32		5.45		12.12	
Median	0.14		9.21		8.01		3.86		10.66	
75th Percentile	- 0.49		7.92		6.86		2.58		9.66	
Minimum	- 1.95		1.81		2.67		- 4.90		7.89	
# of Portfolios	130		129		128		126		104	
● UTIMCO LTF-Net of Fees	1.75	12	10.16	40	9.64	23	4.66	38	10.99	45
■ UTIMCO PHF-Net of Fees	1.75	12	10.16	40	9.61	23	4.48	45	---	---
▲ UTIMCO PUF-Net of Fees	1.76	12	10.12	40	9.51	23	4.60	39	10.30	61
◀ UTIMCO GEF-Net of Fees	1.78	11	10.22	39	9.73	22	4.72	38	11.02	44
◆ Policy Portfolio GEF	0.89	26	9.70	45	6.76	77	3.13	66	10.79	49
Policy Portfolio PUF	0.89	26	9.70	45	6.76	77	3.38	61	10.93	45

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 March 31, 2005 was 130.

Public Markets Managers
Investment Performance Detail Summary
May 31, 2005

Key for Manager Status:
- **Concern**
- **Significant Concern; Watch List**
- **Near Termination**

Key For Areas of Concern:
1) **Performance**
2) **Personnel Changes**
3) **Strategy Drift**
4) **Operational or Administrative Issues**
5) **No Longer Fit UTIMCO Strategy**

Areas of Concern		Assets Under Management ($ Millions)	Periods Ended May 31, 2005 (Returns for Periods Longer Than One Year are Annualized) One Month	Three Months	Six Months	Fiscal Year To Date	One Year	Three Years	Five Years	Seven Years	Ten Years	Since Inception	Inception Date
	NET OF FEES PERFORMANCE:												
	Public Equities:												
	Domestic Equities:												
	Passive Management:												
	BGI S&P 500	**71.2**	3.19	(0.54)	2.48	9.42	8.27	5.63	(1.89)	2.95	10.31	N/A	February 1993
	vs. S&P 500 Index		0.01	0.03	0.06	0.06	0.03	0.04	0.03				
	BGI S&P 400 Midcap	**43.9**	6.03	0.78	5.73	17.37	14.14	9.56	8.39	10.69	14.95	N/A	December 1992
	vs. S&P 400 Midcap Index		0.00	0.01	(0.02)			0.07	0.07	0.07	0.09		
	S&P 100 Index Exchange Traded Funds	**85.3**	2.40	(1.48)	2.40	7.28	-	-	-	-	-	7.28	August 2004
	vs. S&P 100 Index		0.05	(0.26)	0.08		-	-	-	-	-		
	S&P 500 Index Futures	**289.7**	3.19	(0.55)	2.41	9.41	8.36	4.65	-	-	-	0.15	March 2001
	vs. S&P 500 Index		0.00	0.02	(0.01)	0.05		(0.95)	-	-	-	(0.57)	
	Large Cap Technology Exchange Traded Funds	**74.0**	8.50	0.78	(2.95)	10.96	3.97	-	-	-	-	3.97	June 2004
	vs. Russell 3000				(5.79)	(0.11)	(5.46)	-	-	-	-	(5.46)	
	Dow Jones - Exchange Traded Funds and Futures	**52.8**	3.47	(1.90)	2.07	5.21	5.39	-	-	-	-	6.27	November 2003
	vs. Dow Jones Industrial Average							-	-	-	-	(0.26)	
	Global 100 Index Exchange Traded Funds	**111.4**	1.86	(2.38)	2.13	-	-	-	-	-	-	2.13	November 2004
	vs. Russell 3000		(1.93)	(2.20)	(0.71)	-	-	-	-	-	-	(0.71)	
	Health Care Exchange Traded Funds	**24.9**	(0.31)	-	-	-	-	-	-	-	-	(0.31)	April 2005
	vs. Russell 3000		(4.10)	-	-	-	-	-	-	-	-	(4.10)	
	Small Cap Exchange Traded Funds and Futures	**56.7**	6.38	(1.32)	(0.26)	16.59	14.25	-	-	-	-	9.36	February 2004
	vs. Russell 2000		(0.16)					-	-	-	-		
	Active Management:												
	BGI Russell 2000 Alpha Tilt	**195.5**	6.41	(2.57)	(1.15)	14.42	10.73	10.28	-	-	-	10.26	February 2002
	vs. Russell 2000		(0.14)	(0.14)					-	-	-		
	BGI Russell 3000 Alpha Tilt	**273.3**	4.17	0.35	4.29	13.71	11.09	-	-	-	-	13.62	August 2003
	vs. Russell 3000							-	-	-	-		
1	**Davis Hamilton Jackson**	**50.6**	5.28	(1.75)	2.15	13.77	9.09	3.24	(4.11)	3.42	10.25	9.23	**January 1994**
	vs. Russell Mid Cap Effective 8/04 (S&P 500 1/94 - 7/04)			(2.41)	(3.35)	(4.98)	(8.47)	(5.30)	(3.82)	(0.60)	(0.83)	(2.10)	
1,5	**GSAM- Large Cap**	**151.5**	3.17	(1.22)	(0.31)	8.00	4.40	5.31	(1.61)	2.22	-	2.19	**April 1998**
	vs. S&P 500 Index		(0.01)	(0.65)	(2.74)	(1.37)	(3.83)	(0.28)		(0.58)	-	(0.44)	
1,5	**GSAM - Small Cap**	**70.8**	4.64	(1.42)	(0.04)	14.01	10.31	9.20	9.04	6.87	-	6.03	**April 1998**
	vs. Russell 2000		(1.91)					(0.33)			-		
	John Levin & Co.	**149.6**	2.02	(1.21)	0.89	-	-	-	-	-	-	8.26	September 2004
	vs. Russell 1000		(1.52)	(1.24)	(2.42)	-	-	-	-	-	-	(1.21)	
	MBA Investments	**0.7**	4.09	1.26	5.35	12.69	7.66	4.87	(7.40)	(1.78)	-	3.43	November 1995
	vs. S&P 500 Index						(0.58)	(0.73)	(5.48)	(4.58)	-	(5.98)	
	Forstmann Leff - Mid Cap	**116.8**	6.41	0.23	7.06	23.68	-	-	-	-	-	23.68	August 2004
	vs. Russell Mid Cap			(0.42)			-	-	-	-	-		
	Forstmann Leff - Small Cap	**246.6**	5.23	(1.66)	3.55	20.62	21.03	11.95	12.07	8.86	13.31	12.43	January 1994
	vs. Russell 2000		(1.32)										
	Relational Investors	**216.9**	4.66	1.42	6.77	-	-	-	-	-	-	13.17	September 2004
	vs. S&P 500 Index					-	-	-	-	-	-		
	Ironbridge	**45.5**	5.82	(9.96)	(13.07)	-	-	-	-	-	-	(13.07)	November 2004
	vs. Russell 2000		(0.72)	(7.53)	(10.96)	-	-	-	-	-	-	(10.96)	
	State Street Research Hedge	**45.9**	3.19	(7.67)	1.86	31.73	-	-	-	-	-	28.46	July 2004
	vs. Russell 2000		(3.35)	(5.24)			-	-	-	-	-		
	State Street Research Small Cap	**41.1**	4.10	(5.18)	7.96	39.67	-	-	-	-	-	39.38	June 2004
	vs. Russell 2000		(2.45)	(2.75)			-	-	-	-	-		

Public Markets Managers
Investment Performance Detail Summary
May 31, 2005

Key for Manager Status:
- **Concern**
- **Significant Concern; Watch List**
- **Near Termination**

Key For Areas of Concern:
1) **Performance**
2) **Personnel Changes**
3) **Strategy Drift**
4) **Operational or Administrative Issues**
5) **No Longer Fit UTIMCO Strategy**

Areas of Concern		Assets Under Management ($ Millions)	Periods Ended May 31, 2005 (Returns for Periods Longer Than One Year are Annualized) One Month	Three Months	Six Months	Fiscal Year To Date	One Year	Three Years	Five Years	Seven Years	Ten Years	Since Inception	Inception Date
	NET OF FEES PERFORMANCE (continued)												
	TCW MultiCap	**142.1**	7.07	(0.54)	1.35	16.13	3.74	-	-	-	-	1.93	February 2004
	vs. Russell 3000			(0.35)	(1.48)		(5.69)	-	-	-	-	(4.66)	
	TCW Mid Value	**26.6**	5.14	(0.01)	3.59	14.81	5.26	-	-	-	-	8.51	April 2004
	vs. Russell Mid Cap			(0.66)	(1.92)	3.94	(11.95)	-	-	-	-	(9.92)	
	TCW Small Value	**34.6**	6.66	(4.91)	(3.76)	8.19	(2.55)	-	-	-	-	0.11	April 2004
	vs. Russell 2000			(2.48)	(1.66)	(5.38)	(12.37)	-	-	-	-	(10.53)	
	Value Act Capital	**144.5**	8.30	3.25	6.68	14.78	19.31	-	-	-	-	16.56	August 2003
	vs. Russell 2000							-	-	-	-	0.08	
	Westport Small Cap Value	**159.9**	4.59	0.75	0.46	-	-	-	-	-	-	9.49	October 2004
	vs. Russell 2000		(1.96)			-	-	-	-	-	-		
	REITS:												
	REITS - Greg Cox	**721.0**	3.31	7.98	7.14	21.50	37.40	24.19	22.21	14.12	18.01	15.63	April 1993
	vs. Dow Jones Wilshire Real Estate Securities		0.01										
	International Equities:												
	Passive Management:												
	BGI EAFE International Fund	**348.4**	0.07	(4.64)	1.93	15.59	14.83	10.31	0.32	2.77	5.78	7.00	April 1993
	vs. MSCI EAFE Net		0.02							(0.11)			
	BGI Emerging Markets Structured Fund	**139.5**	3.21	(6.58)	6.67	26.75	30.53	20.22	-	-	-	19.58	February 2002
	vs. MSCI Emerging Markets with Net Dividends		(0.27)	(0.63)	(0.76)	(0.37)	0.01		-	-	-	(0.11)	
	Active Management:												
	BGI International Alpha Tilts	**256.6**	0.56	(3.70)	4.02	17.72	17.15	-	-	-	-	23.42	August 2003
	vs. MSCI EAFE Net							-	-	-	-		
	BGI Unequitized Global Markets (Funded May 2005)	**30.1**	-	-	-	-	-	-	-	-	-	-	May 2005
	vs. 90 Day Treasury Bills Average Yield + 3%		-	-	-	-	-	-	-	-	-	-	
	Blakeney Management	**62.6**	2.33	8.73	21.71	-	-	-	-	-	-	27.18	October 2004
	vs. MSCI Emerging Markets with Net Dividends		(1.15)			-	-	-	-	-	-		
	Bridgewater Currency Overlay	**-0.4**	(0.21)	(0.11)	-	-	-	-	-	-	-	0.01	January 2005
	Currency Overlay Strategy		-	-	-	-	-	-	-	-	-	-	
1,5	Capital Guardian Trust Small Cap International	**66.7**	0.11	(3.09)	8.34	22.17	21.70	17.67	0.90	3.80	-	4.43	December 1996
	vs. Citigroup Extended Market Index World ex U.S.		(0.51)	[illegible]	[illegible]	[illegible]	(0.33)	(0.58)	(7.40)	(3.28)	-	(2.22)	
	Cundill Canada	**23.6**	1.92	(5.81)	-	-	-	-	-	-	-	(5.64)	January 2005
	vs. S&P/TSX Capped Composite Index		(0.83)	(3.69)	-	-	-	-	-	-	-	(9.55)	
	Cundill EAFE	**48.7**	(0.96)	(4.05)	-	-	-	-	-	-	-	(2.10)	January 2005
	vs. MSCI EAFE Net		(1.01)		-	-	-	-	-	-	-	(1.46)	
	Cundill Japan	**64.2**	(1.26)	(3.51)	-	-	-	-	-	-	-	(0.04)	January 2005
	vs. TOPIX				-	-	-	-	-	-	-		
	Dalton Japan (Funded May 2005)	**50.5**	-	-	-	-	-	-	-	-	-	-	May 2005
	vs. TOPIX		-	-	-	-	-	-	-	-	-	-	
	International Futures and Exchange Traded Funds	**312.8**	0.82	(3.27)	2.33	9.70	9.47	-	-	-	-	15.53	November 2003
	vs. MSCI EAFE Net					(5.72)	(5.15)	-	-	-	-	(1.40)	
	Globeflex	**204.5**	0.75	(4.15)	8.37	23.43	27.59	-	-	-	-	31.39	October 2003
	vs. Citigroup Extended Market Index World ex U.S.							-	-	-	-		
	Globeflex Canadian	**65.3**	2.94	(7.98)	4.10	33.23	35.61	-	-	-	-	19.60	March 2004
	vs. Nesbitt Burns Small Cap Canada							-	-	-	-		
	Globeflex Japan	**87.5**	(1.57)	(3.48)	4.75	9.31	12.90	-	-	-	-	4.98	March 2004
	vs. Russell/Nomura Mid-Small Cap Index							-	-	-	-		
1,5	GSAM - Structured International Equity	**236.7**	(0.38)	(6.51)	1.77	14.45	12.10	10.11	(1.12)	2.23	-	2.69	April 1998
	vs. MSCI EAFE Net		(0.43)	(1.75)	(0.04)	(0.97)	(2.52)	0.04	(1.07)	(0.65)	-	(0.16)	

Public Markets Managers
Investment Performance Detail Summary
May 31, 2005

Key for Manager Status:
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Significant Concern; Watch List
Near Termination

Key For Areas of Concern:
1) Performance
2) Personnel Changes
3) Strategy Drift
4) Operational or Administrative Issues
5) No Longer Fit UTIMCO Strategy

Periods Ended May 31, 2005 (Returns for Periods Longer Than One Year are Annualized)

Areas of Concern		Assets Under Management ($ Millions)	One Month	Three Months	Six Months	Fiscal Year To Date	One Year	Three Years	Five Years	Seven Years	Ten Years	Since Inception	Inception Date
	NET OF FEES PERFORMANCE (continued)												
	Franklin Templeton	138.6	3.98	(4.10)	7.45	25.23	30.05	21.14	10.88	9.34	-	5.42	January 1996
	vs. MSCI Emerging Markets with Net Dividends				0.01	(1.89)	(0.47)				-		
	JMBO Fund	29.9	0.26	-	-	-	-	-	-	-	-	0.26	April 2005
	vs. MSCI Japan			-	-	-	-	-	-	-	-		
	State Street Research Global	76.4	3.12	(2.54)	13.18	-	-	-	-	-	-	13.18	November 2004
	vs. MSCI All Country World ex U.S. with Net Dividends					-	-	-	-	-	-		
	Hedge Funds:												
	Blue Ridge	183.7	(1.88)	(3.05)	5.51	6.54	14.17	-	-	-	-	12.02	January 2004
	vs. 90 Day Treasury Bills Average Yield + 4%		(2.47)	(4.78)				-	-	-	-		
	Brahman II	52.1	(0.79)	(1.28)	1.05	7.36	-	-	-	-	-	8.13	August 2004
	vs. 90 Day Treasury Bills Average Yield + 4%		(1.38)	(3.02)	(2.26)		-	-	-	-	-		
	Eminence	88.4	0.61	(0.19)	7.09	13.32	15.86	-	-	-	-	13.66	July 2003
	vs. 90 Day Treasury Bills Average Yield + 4%		0.01	(1.92)				-	-	-	-		
	Everglades	40.1	1.61	1.25	-	-	-	-	-	-	-	0.20	January 2005
	vs. 90 Day Treasury Bills Average Yield + 4%			(0.48)	-	-	-	-	-	-	-	(2.55)	
	Indus Asia Pacific	29.0	0.98	(2.59)	4.28	13.82	15.78	-	-	-	-	10.49	December 2003
	vs. 90 Day Treasury Bills Average Yield + 4%			(4.33)				-	-	-	-		
	Indus Japan	23.9	(1.70)	(0.11)	6.02	7.23	10.51	-	-	-	-	12.53	December 2003
	vs. 90 Day Treasury Bills Average Yield + 4%		(2.29)	(1.84)				-	-	-	-		
	Maverick Fund	505.2	1.50	1.40	5.35	9.15	9.14	6.49	9.84	-	-	11.31	August 1998
	vs. 90 Day Treasury Bills Average Yield + 4%			(0.33)						-	-		
	Millgate International	24.1	(5.19)	(6.03)	(5.69)	-	-	-	-	-	-	(1.38)	October 2004
	vs. 90 Day Treasury Bills Average Yield + 4%		(5.78)	(7.76)	(9.00)	-	-	-	-	-	-	(5.66)	
	Moon Capital	80.1	0.19	-	-	-	-	-	-	-	-	0.09	April 2005
	vs. 90 Day Treasury Bills Average Yield + 4%		(0.41)	-	-	-	-	-	-	-	-	(1.07)	
	OCM Emerging Markets Fund	85.5	1.07	(0.89)	2.27	2.63	5.01	6.97	-	-	-	8.28	January 2002
	vs. 90 Day Treasury Bills Average Yield + 4%			(2.62)	(1.04)	(2.13)	(1.13)		-	-	-		
	SG Partners	49.1	7.68	0.67	(2.22)	4.64	(4.17)	-	-	-	-	(1.05)	September 2003
	vs. 90 Day Treasury Bills Average Yield + 4%			(1.06)	(5.54)	(0.12)	(10.30)	-	-	-	-	(6.77)	
1	Sirios Overseas	75.2	1.43	(0.92)	2.85	5.73	3.97	-	-	-	-	5.34	May 2003
	vs. 90 Day Treasury Bills Average Yield + 4%			(2.66)	(0.46)		(2.17)	-	-	-	-	(0.30)	
2	Standard Pacific Capital Offshore Fund	52.9	(1.67)	(1.62)	(0.18)	7.01	7.43	-	-	-	-	2.41	February 2003
	vs. 90 Day Treasury Bills Average Yield + 4%		(2.26)	(3.36)	(3.49)			-	-	-	-	(3.20)	
	Steadfast	65.8	1.97	1.12	11.53	-	-	-	-	-	-	13.49	November 2004
	vs. 90 Day Treasury Bills Average Yield + 4%			(0.62)		-	-	-	-	-	-		
	Absolute Return:												
	AQR Offshore	40.1	0.47	(0.51)	2.43	4.16	4.76	-	-	-	-	0.26	March 2004
	vs. 90 Day Treasury Bills Average Yield + 3%		(0.04)	(2.00)	(0.37)		(0.32)	-	-	-	-	(4.62)	
	BGI Unequitized Global Markets	231.0	0.09	0.40	1.13	3.01	4.36	-	-	-	-	4.33	May 2004
	vs. 90 Day Treasury Bills Average Yield + 3%		(0.42)	(1.09)	(1.67)	(0.97)	(0.72)	-	-	-	-	(0.68)	
	Bridgewater Pure Alpha	98.7	(1.09)	(0.91)	2.45	14.12	16.90	-	-	-	-	14.43	March 2004
	vs. 90 Day Treasury Bills Average Yield + 3%		(1.60)	(2.39)	(0.35)			-	-	-	-		
	Farallon Capital Offshore Investors	416.9	1.06	0.36	6.01	14.10	14.71	14.28	13.80	-	-	13.92	August 1998
	vs. 90 Day Treasury Bills Average Yield + 3%			(1.13)						-	-		
	Indus Event Driven	37.8	(0.17)	1.16	4.27	3.28	5.90	-	-	-	-	9.07	December 2003
	vs. 90 Day Treasury Bills Average Yield + 3%		(0.68)	(0.32)		(0.70)		-	-	-	-		

Public Markets Managers
Investment Performance Detail Summary
May 31, 2005

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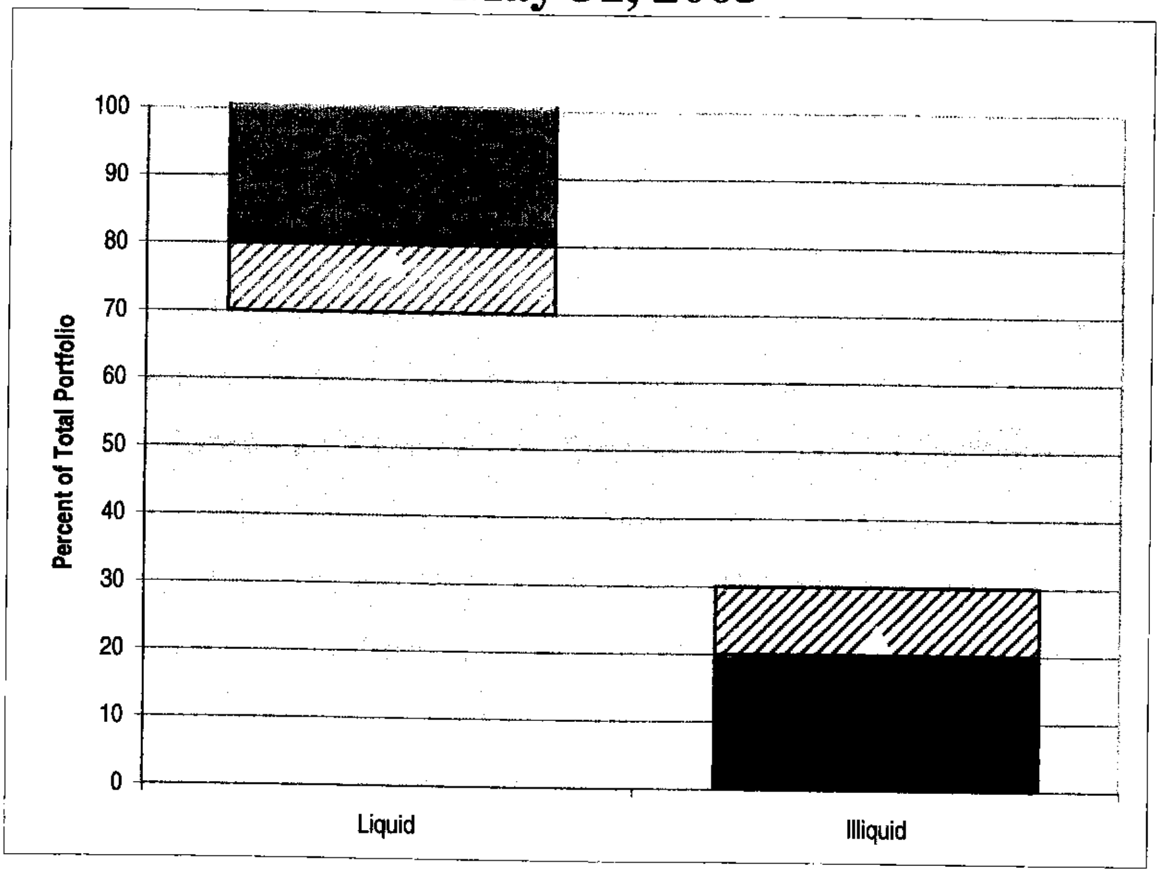
Periods Ended May 31, 2005
(Returns for Periods Longer Than One Year are Annualized)

Areas of Concern		Assets Under Management ($ Millions)	One Month	Three Months	Six Months	Fiscal Year To Date	One Year	Three Years	Five Years	Seven Years	Ten Years	Since Inception	Inception Date
	NET OF FEES PERFORMANCE (continued)												
	K Capital	36.4	(3.24)	0.02	3.31	-	-	-	-	-	-	3.93	November 2004
	vs. 90 Day Treasury Bills Average Yield + 3%		(3.75)	(1.46)		-	-	-	-	-	-		
	OZ Europe	5.0	0.51	-	-	-	-	-	-	-	-	(0.35)	April 2005
	vs. 90 Day Treasury Bills Average Yield + 3%		0.00	-	-	-	-	-	-	-	-	(1.34)	
	OZ Overseas Fund	108.9	(0.04)	0.03	3.76	8.00	-	-	-	-	-	8.91	August 2004
	vs. 90 Day Treasury Bills Average Yield + 3%		(0.55)	(1.46)			-	-	-	-	-		
	Perry Partners International	481.6	0.84	1.38	8.10	15.23	16.87	15.46	15.08	-	-	14.31	August 1998
	vs. 90 Day Treasury Bills Average Yield + 3%			(0.11)						-	-		
	Protégé Partners Fund	206.8	0.81	(0.86)	2.41	5.32	5.94	-	-	-	-	9.60	February 2003
	vs. 90 Day Treasury Bills Average Yield + 3%			(2.35)	(0.39)			-	-	-	-		
	Satellite Fund	260.6	1.01	(1.32)	1.58	5.54	6.05	3.58	-	-	-	6.79	September 2000
	vs. 90 Day Treasury Bills Average Yield + 3%			(2.80)	(1.22)			(1.03)	-	-	-		
	TPG-Axon	50.4	2.18	1.39	-	-	-	-	-	-	-	0.25	February 2005
	vs. 90 Day Treasury Bills Average Yield + 3%			(0.09)	-	-	-	-	-	-	-	(1.65)	
	Commodities:												
	Goldman Sachs Commodity Index	416.1	(0.17)	(1.32)	0.46	12.22	10.94	23.76	-	-	-	23.76	June 2002
	vs. Goldman Sachs Commodity Index - 100 bps								-	-	-		
	PIMCO Real Return	230.5	(0.70)	(2.32)	0.01	7.83	6.25	-	-	-	-	12.85	January 2004
	vs. Dow Jones AIG + 1-10 Year TIPS		(0.10)	(0.33)	(0.53)	(0.61)	(0.35)	-	-	-	-	(0.45)	
	Fixed Income:												
	Internal - Harland Doak	114.2	1.13	1.87	3.25	3.80	7.29	6.09	-	-	-	6.54	February 2001
	vs. Credit Related Composite Index		(0.21)				(0.13)	(1.23)	-	-	-	(0.89)	
	Internal - Russ Kampfe	406.1	0.80	1.49	2.42	3.08	5.46	4.00	6.33	-	-	6.44	February 2000
	vs. Lehman Brothers Aggregate Bond Index		(0.29)	(0.44)	(0.47)	(0.14)	(1.36)	(1.87)	(1.40)	-	-	(1.23)	
	Total Internally Managed Fixed Income	520.2	0.86	1.56	2.73	3.33	6.25	5.06	7.05	-	-	7.12	
	vs. Lehman Brothers Aggregate Bond Index		(0.23)	(0.36)	(0.17)		(0.58)	(0.81)	(0.68)	-	-	(0.55)	
	GMO Emerging Debt Fund	32.2	3.63	3.25	9.11	16.34	28.44	-	-	-	-	28.44	May 2004
	vs. JP Morgan Emerging Bond Index Global							-	-	-	-		
	PIMCO Fixed Income	764.9	(0.27)	0.90	1.86	6.85	9.18	10.85	10.03	7.98	-	7.85	March 1998
	vs. PIMCO Composite Benchmark		(0.09)	0.07	0.01						-		
	Reams Core Plus (Funded May 2005)	200.0	-	-	-	-	-	-	-	-	-	-	May 2005
	vs. Lehman Brothers Aggregate Bond Index		-	-	-	-	-	-	-	-	-	-	
	Treasury Inflation Protection Securities (TIPS):												
	Internal TIPS	228.1	0.69	2.70	4.03	5.02	-	-	-	-	-	8.19	July 2004
	vs. Lehman Brothers US TIPS Index		0.01	(0.00)	(0.02)	(0.03)	-	-	-	-	-		
	PIMCO TIPS	293.9	0.72	2.86	4.03	5.47	-	-	-	-	-	5.47	August 2004
	vs. Lehman Brothers US TIPS Index		0.04		(0.03)		-	-	-	-	-		
	Reams TIPS (Funded May 2005)	100.2	-	-	-	-	-	-	-	-	-	-	May 2005
	vs. Lehman Brothers US TIPS Index		-	-	-	-	-	-	-	-	-	-	

Liquidity Profile

Combined Liquidity Profile
May 31, 2005



Current:

	5/31/2005 Market Value	Percent	4/30/2005 Market Value	Percent
Liquid	10,563,576,926.46	77.5	10,638,959,377.58	78.1
Illiquid	3,068,529,820.49	22.5	2,989,362,341.87	21.9
	13,632,106,746.95	100.0	13,628,321,719.45	100.0

Approved but not yet invested illiquid marketable investments:

	5/31/2005 Market Value	Percent	4/30/2005 Market Value	Percent
Liquid	10,563,576,926.46	77.5	10,608,959,377.58	77.8
Illiquid	3,068,529,820.49	22.5	3,019,362,341.87	22.2
	13,632,106,746.95	100.0	13,628,321,719.45	100.0

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

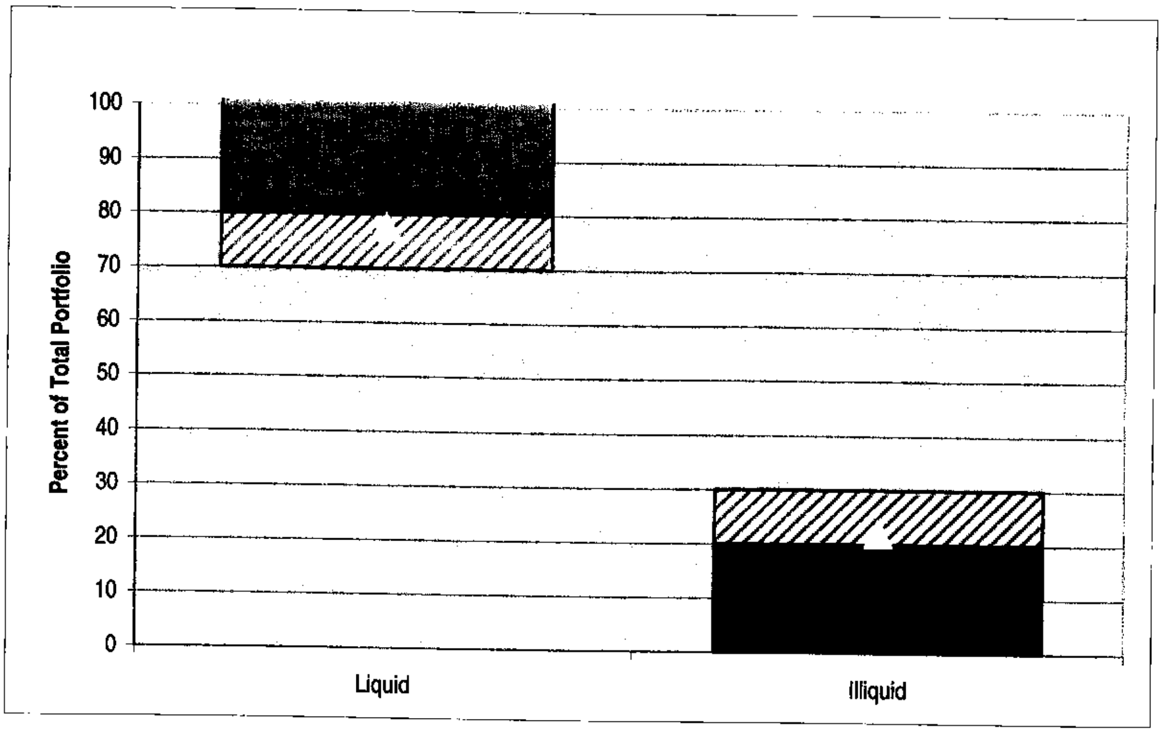
Illiquid: Investments that could be converted to cash in a orderly market over a period of more than 3 months or in a shorter period of time by accepting a discount of more than 10%.

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

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

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
May 31, 2005



Current

	5/31/2005 Market Value	Percent	4/30/2005 Market Value	Percent
Liquid	6,947,437,913.08	77.8	6,945,853,772.45	78.2
Illiquid	1,984,195,836.37	22.2	1,934,129,326.31	21.8
	8,931,633,749.45	100.0	8,879,983,098.76	100.0

Approved but not yet invested illiquid marketable investments:

	5/31/2005 Market Value	Percent	4/30/2005 Market Value	Percent
Liquid	6,947,437,913.08	77.8	6,926,353,772.45	78.0
Illiquid	1,984,195,836.37	22.2	1,953,629,326.31	22.0
	8,931,633,749.45	100.0	8,879,983,098.76	100.0

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

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

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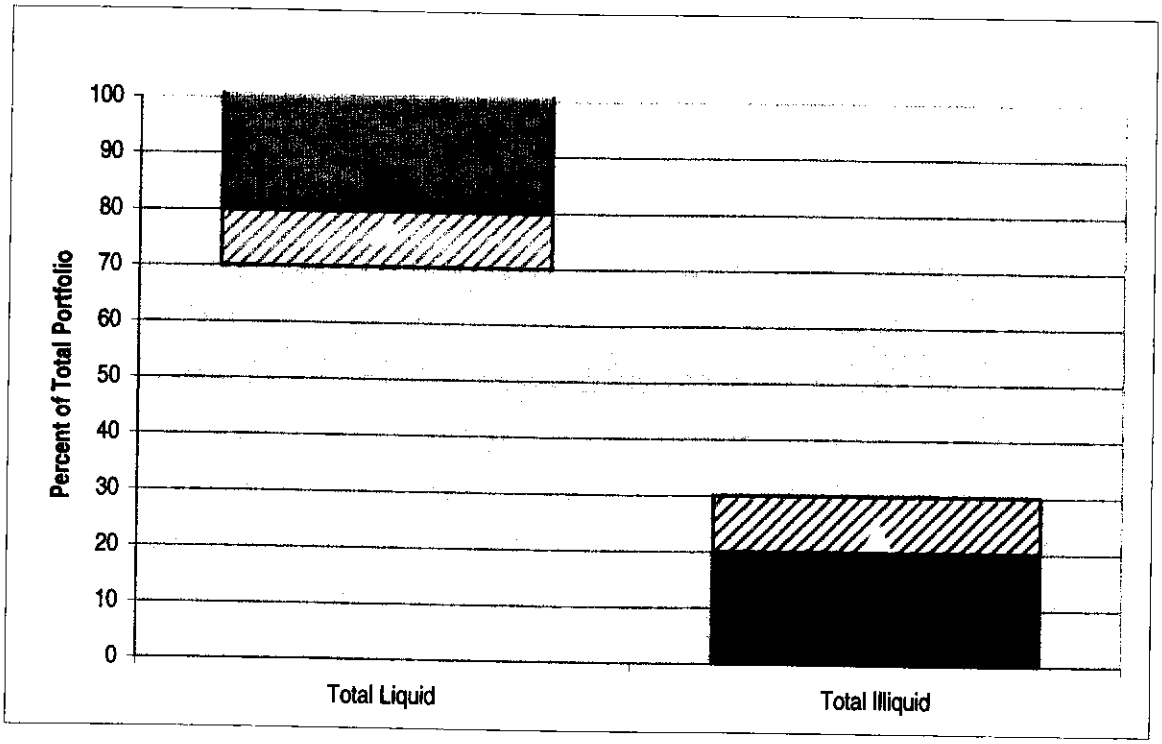
I, ______________, as Chief Compliance Officer and MD of Accounting, Finance and Administration, certify that I have verified that the Managing Directors' liquidity classifications have been accurately reported and that the percentage calculations are accurate.

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.

GEF Liquidity Profile
May 31, 2005



Current

	5/31/2005		4/30/2005	
	Market Value	Percent	Market Value	Percent
Liquid	3,616,139,013.38	76.9	3,693,105,605.13	77.8
Illiquid	1,084,333,984.12	23.1	1,055,233,015.56	22.2
	4,700,472,997.50	100.0	4,748,338,620.69	100.0

Approved but not yet invested illiquid marketable investments:

	5/31/2005		4/30/2005	
	Market Value	Percent	Market Value	Percent
Liquid	3,616,139,013.38	76.9	3,682,605,605.13	77.6
Illiquid	1,084,333,984.12	23.1	1,065,733,015.56	22.4
	4,700,472,997.50	100.0	4,748,338,620.69	100.0

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

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

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

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

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.

Liquidity Profile for GEF and PUF

May 31, 2005

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

June 27, 2005 Date

Cathy Iberg Cathy Iberg, Managing Director - Marketable Alternatives

6-30-05 Date

Sara J. McMahon Sara McMahon, Managing Director - Non-Marketable Alternatives

7-6-05 Date

Trey Thompson Trey Thompson, Managing Director - Non-Marketable Alternatives

6-27-05 Date

K:\Files\Reports\Monthly\Liquidity\ 200505EndowmentLiquidityChartsPreliml.xls Signoff 6/27/2005 9:41 AM

Illiquid investments approved/delegated or funded from last report to UTIMCO Board through current report date
May 1, 2005 through May 31, 2005

Private Equity investments	Board Approved/ Delegated	Committed Amount		Funded Amount	
		PUF	GEF	PUF	GEF
Morgenthaler Partners VIII, L.P.	May 2005	$ 17,500,000.00	$ 7,500,000.00	$ -	$ -

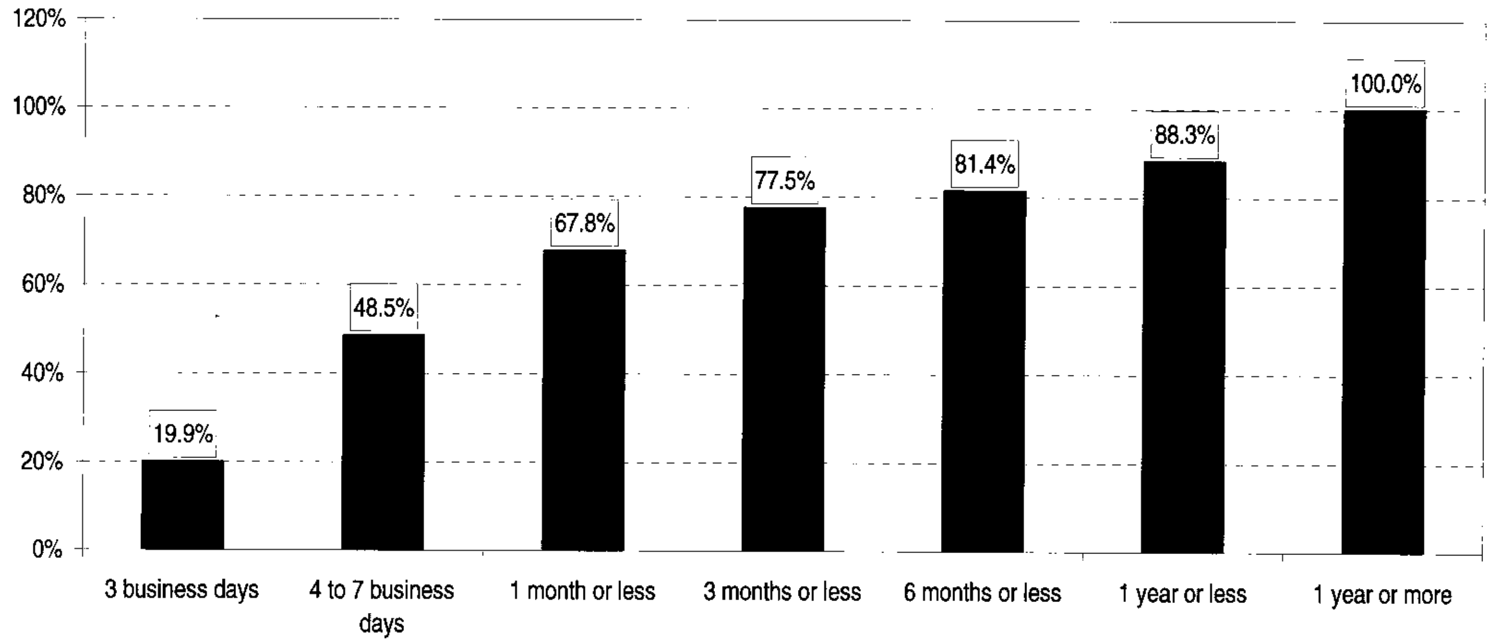
Marketable Alternative investments					
Moon Capital	March 2005	$ 19,500,000.00	$ 10,500,000.00	$ 19,500,000.00	$ 10,500,000.00

Public Markets

Change in investment's liquidity classification

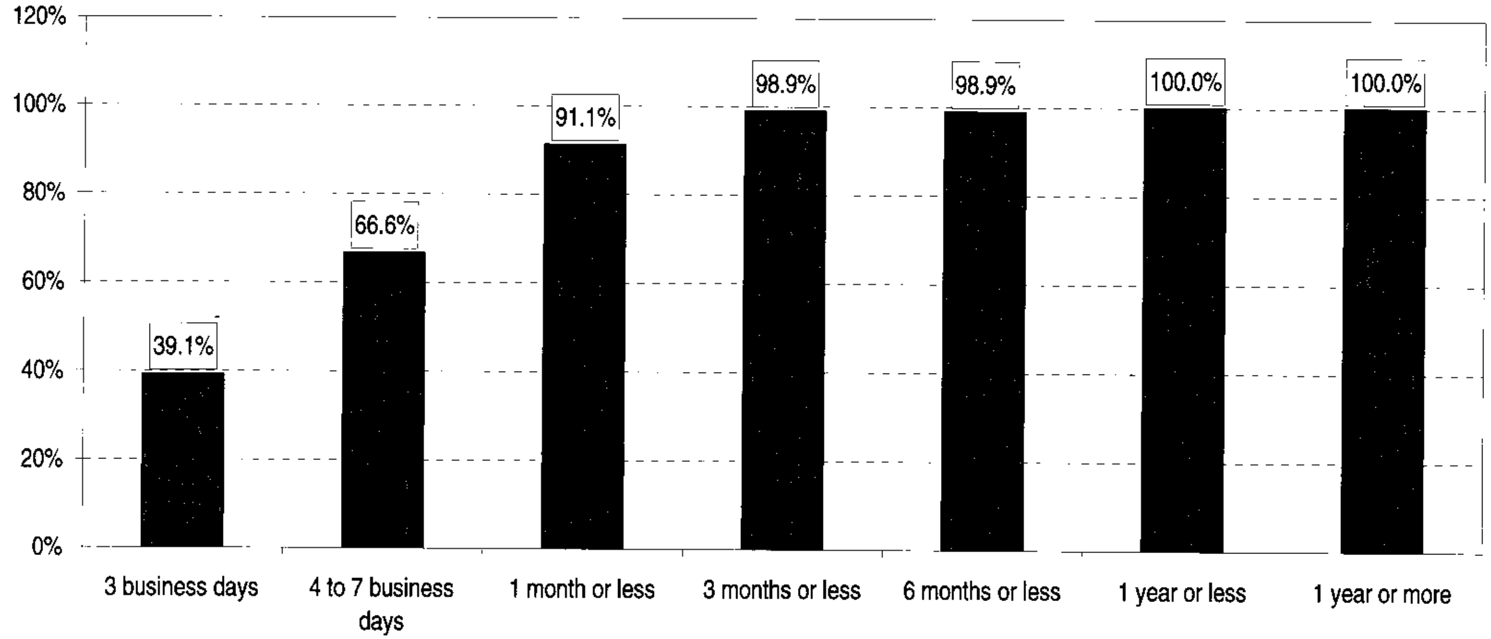
None

UT Endowments (PUF & GEF) Actual Liquidity Classification
as of May 31, 2005

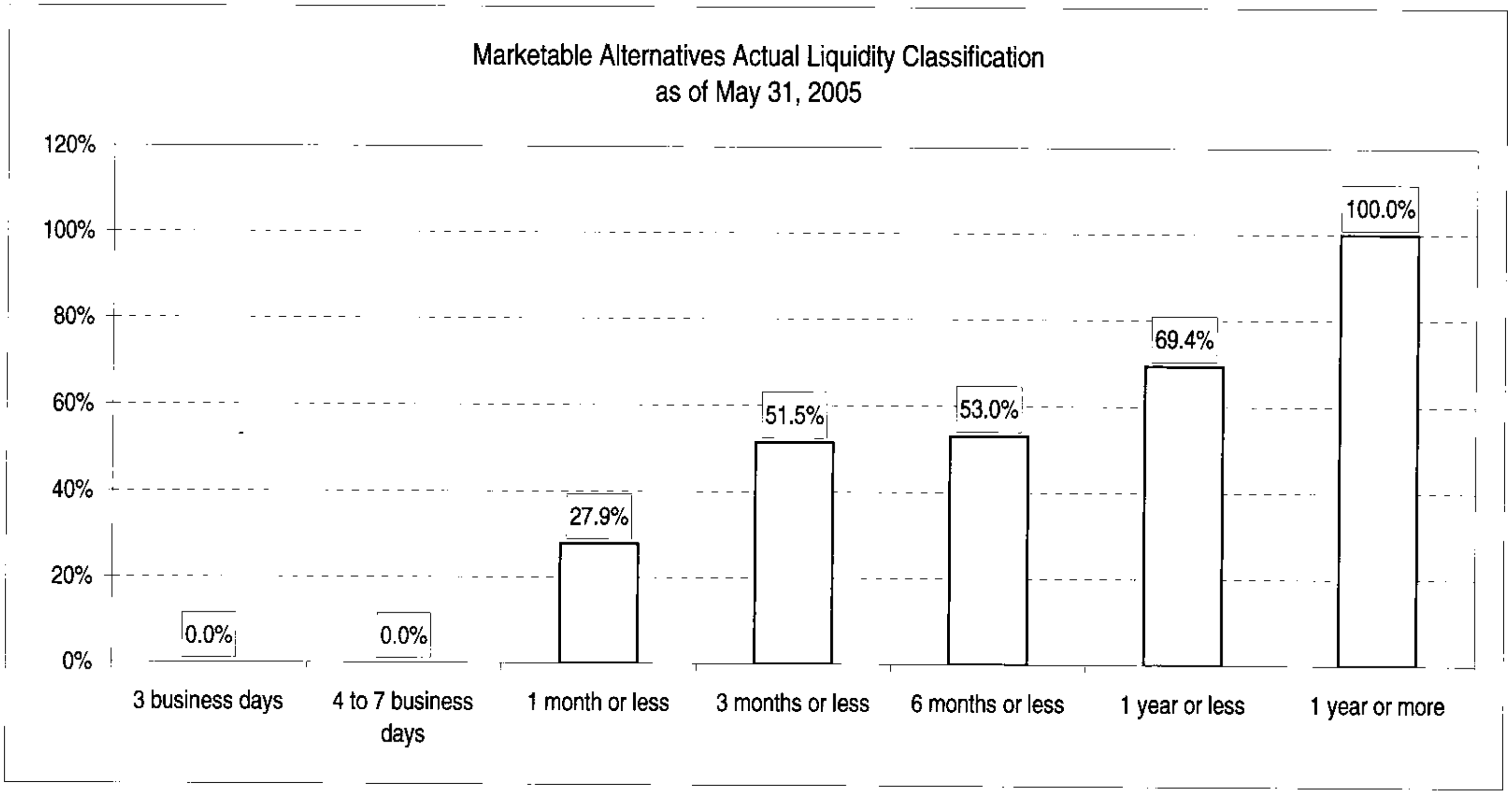


	Classification Period	Assets	%	Cumulative Assets	%
Liquid:	3 business days	2,717,649,543	19.9%	2,717,649,543	19.9%
	4 to 7 business days	3,888,589,970	28.5%	6,606,239,512	48.5%
	1 month or less	2,630,731,856	19.3%	9,236,971,368	67.8%
	3 months or less	1,326,605,558	9.7%	10,563,576,926	77.5%
Illiquid:	6 months or less	529,953,001	3.9%	11,093,529,928	81.4%
	1 year or less	938,027,488	6.9%	12,031,557,415	88.3%
	1 year or more	1,600,549,332	11.7%	13,632,106,747	100.0%
		13,632,106,747	100.0%		

Domestic Equities, International Equities and Fixed Income Actual Liquidity Classification
as of May 31, 2005

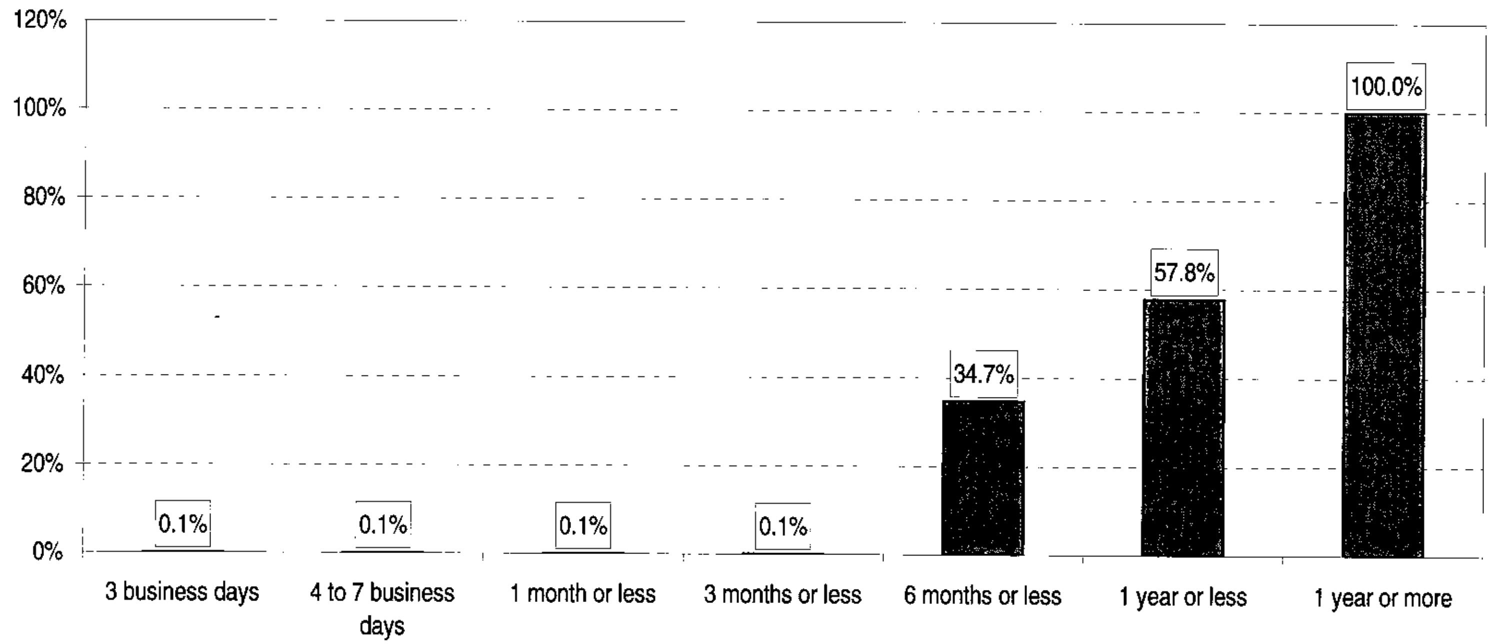


	Classification Period	Assets	%	Cumulative Assets	%
Liquid:	3 business days	2,716,837,911	39.1%	2,716,837,911	39.1%
	4 to 7 business days	1,907,806,771	27.5%	4,624,644,682	66.6%
	1 month or less	1,702,848,796	24.5%	6,327,493,478	91.1%
	3 months or less	540,696,277	7.8%	6,868,189,754	98.9%
Illiquid:	6 months or less	0	0.0%	6,868,189,754	98.9%
	1 year or less	75,791,726	1.1%	6,943,981,480	100.0%
	1 year or more	0	0.0%	6,943,981,480	100.0%
		6,943,981,480	100.0%		

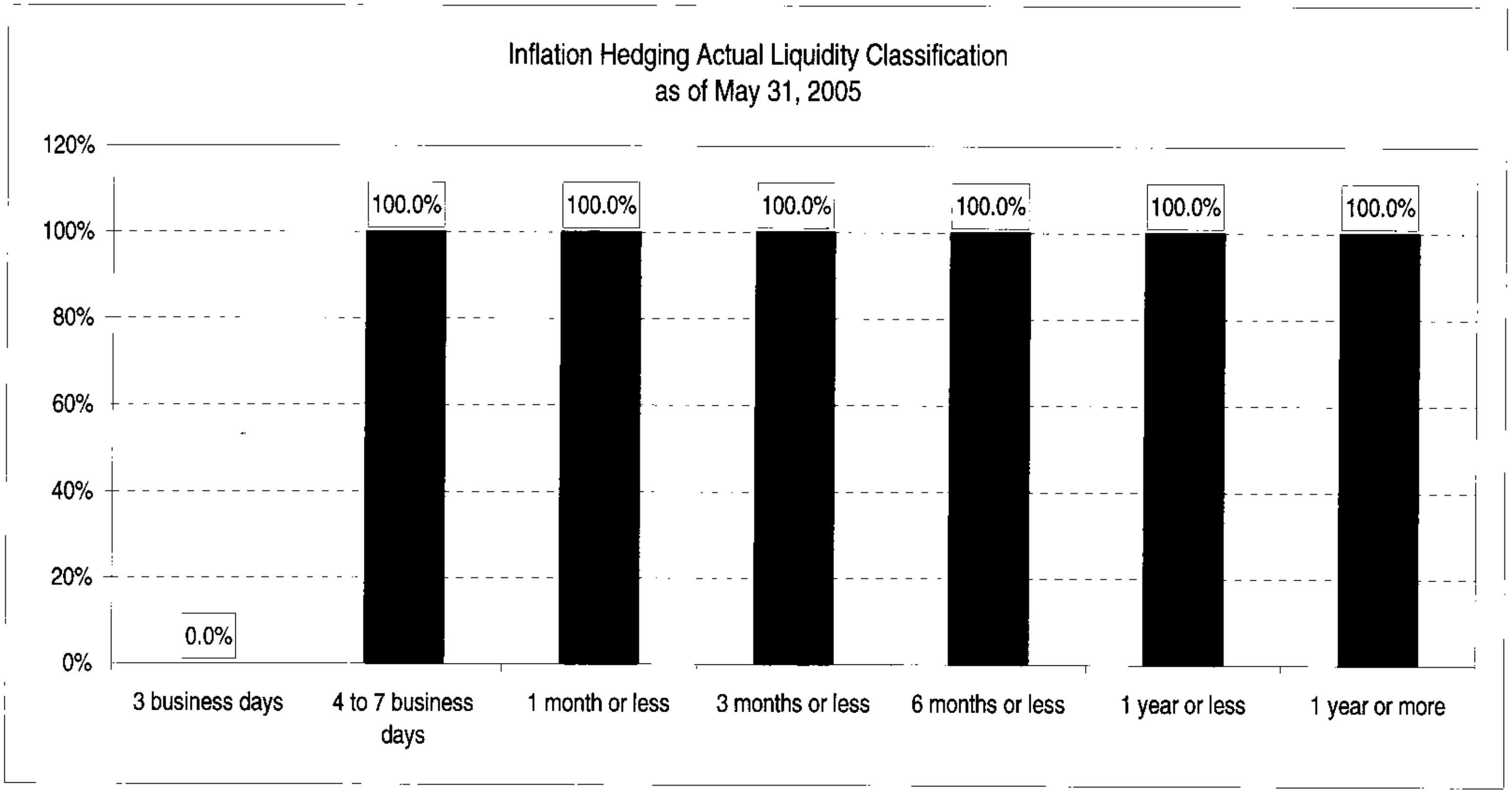


	Classification Period	Assets	%	Cumulative Assets	%
Liquid:	3 business days	0	0.0%	0	0.0%
	4 to 7 business days	0	0.0%	0	0.0%
	1 month or less	927,883,060	27.9%	927,883,060	27.9%
	3 months or less	785,909,282	23.6%	1,713,792,341	51.5%
Illiquid:	6 months or less	52,129,094	1.6%	1,765,921,435	53.0%
	1 year or less	544,430,314	16.4%	2,310,351,749	69.4%
	1 year or more	1,018,792,479	30.6%	3,329,144,228	100.0%
		3,329,144,228	100.0%		

Non-Marketable Alternatives Actual Liquidity Classification
as of May 31, 2005



	Classification Period	Assets	%	Cumulative Assets	%
Liquid:	3 business days	811,632	0.1%	811,632	0.1%
	4 to 7 business days	0	0.0%	811,632	0.1%
	1 month or less	0	0.0%	811,632	0.1%
	3 months or less	0	0.0%	811,632	0.1%
Illiquid:	6 months or less	477,823,908	34.7%	478,635,540	34.7%
	1 year or less	317,805,447	23.1%	796,440,987	57.8%
	1 year or more	581,756,853	42.2%	1,378,197,840	100.0%
		1,378,197,840	100.0%		



	Classification Period	Assets	%	Cumulative Assets	%
Liquid:	3 business days	0	0.0%	0	0.0%
	4 to 7 business days	1,980,783,199	100.0%	1,980,783,199	100.0%
	1 month or less	0	0.0%	1,980,783,199	100.0%
	3 months or less	0	0.0%	1,980,783,199	100.0%
Illiquid:	6 months or less	0	0.0%	1,980,783,199	100.0%
	1 year or less	0	0.0%	1,980,783,199	100.0%
	1 year or more	0	0.0%	1,980,783,199	100.0%
		1,980,783,199	100.0%		

Derivatives

TOTAL INTERNAL DERIVATIVES (FUTURES, FORWARDS, ETFs and OPTIONS) BY TYPE as of May 31, 2005

	Gross Exposure	Net Exposure	Gross Exposure % of Endowment Funds	Comment
S&P 500 Futures	1,149,675,275	1,149,675,275	8.47%	Large cap exposure
S&P 500 ETFs	39,841,203	39,841,203	0.29%	Large cap exposure
S&P 100 ETFs	85,296,232	85,296,232	0.63%	Concentrated large cap exposure
S&P 100 Global ETFs	110,522,480	110,522,480	0.81%	Concentrated global large cap exposure
Dow Jones Futures	52,609,600	52,609,600	0.39%	Large cap exposure (w/ minimal Financials)
MidCap 400 EMini Futures (Short)	(135,379,160)	(135,379,160)	1.00%	Reduce mid cap exposure
Russell 2000 Mini Index Futures (Short)	(794,341,640)	(794,341,640)	5.85%	Reduce small cap exposure
Russell 2000 ETFs	55,124,126	55,124,126	0.41%	Small cap exposure
NASDAQ 100 Index Futures	37,698,000	37,698,000	0.28%	Large cap technology exposure
NASDAQ ETFs	12,273,984	12,273,984	0.09%	Large cap technology exposure
DJ Technology ETFs	23,435,286	23,435,286	0.17%	Large cap technology exposure
Pharmaceutical HOLDRs ETFs	24,804,960	24,804,960	0.18%	Large cap healthcare exposure
Euro Stoxx Futures	86,418,300	86,418,300	0.64%	Eurozone large cap equity exposure
Euro currency Forwards	52,380,646	52,380,646	0.39%	Euro currency exposure
FTSE 100 Futures	125,212,393	125,212,393	0.92%	United Kingdom large cap equity exposure
British Pound Forwards	144,013,320	144,013,320	1.06%	British Pound currency exposure
TOPIX Index Futures	43,531,106	43,531,106	0.32%	Japanese large cap equity exposure
NIKKEI 225 Index Futures	48,477,292	48,477,292	0.36%	Japanese large cap equity exposure
Japanese Yen Forwards	103,190,693	103,190,693	0.76%	Japanese Yen currency exposure
GSCI Futures	411,695,900	411,695,900	3.03%	Commodity exposure
Nikkei 225 - OTM put options (Short)	(25,000,000)	(25,000,000)	0.18%	Increase Japanese large cap equity exposure
Nikkei 225 - OTM call options (Short)	(25,000,000)	(25,000,000)	0.18%	Reduce Japanese large cap equity exposure
Russell 2000 Options - OTM call options (Short)	(50,000,000)	(50,000,000)	0.37%	Reduce small cap exposure
Oil Service HOLDRs - OTM call options (Short)	(10,000,000)	(10,000,000)	0.07%	Reduce large cap oil service industry exposure
Oil Service HOLDRs - OTM put options (Short)	(10,000,000)	(10,000,000)	0.07%	Increase large cap oil service industry exposure
US Financial Sector - ATM call options (Short)	(3,056,000)	(3,056,000)	0.02%	US large cap financials exposure
GSCI Excess Return Index - OTM call options (Short)	(200,000,000)	(200,000,000)	1.47%	Reduce commodity exposure
Large Cap Tech Basket - ATM call spread	10,000,000	10,000,000	0.07%	US large cap technology exposure
Costless Put Spread Collar - Total Notional Exposure Value	1,350,000,000	1,350,000,000	9.94%	Hedge Domestic Equity Portfolio exposure
Total	**5,218,977,596**	**2,713,423,996**	**38.42%**	
			Less than 50% of Endowment Funds	

Exposure by Type

	Gross Exposure		Net Exposure	
ETFs	351,298,271	*6.7%*	351,298,271	*12.9%*
Futures	2,885,038,666	*55.3%*	1,025,597,066	*37.8%*
Forwards	299,584,659	*5.7%*	299,584,659	*11.0%*
Options	1,683,056,000	*32.3%*	1,036,944,000	*38.3%*
Total	**5,218,977,596**	***100.0%***	**2,713,423,996**	***100.0%***

TOTAL INTERNAL DERIVATIVES (FUTURES, FORWARDS, ETFs and OPTIONS) BY TYPE as of May 31, 2005

	Gross Exposure	Net Exposure	Gross Exposure % of Endowment Funds	Comment
US EQUITY DERIVATIVES				
1) Index Exposure				
S&P 500 Futures	249,190,700	249,190,700	1.84%	Large cap exposure
S&P 500 ETFs	39,841,203	39,841,203	0.29%	Large cap exposure
S&P 100 ETFs	85,296,232	85,296,232	0.63%	Concentrated large cap exposure
Dow Jones Futures	52,609,600	52,609,600	0.39%	Large cap exposure (w/ minimal Financials)
Russell 2000 ETFs	55,124,126	55,124,126	0.41%	Small cap exposure
GSCI Futures	411,695,900	411,695,900	3.03%	Commodity exposure
Total Index Exposure	**893,757,762**	**893,757,762**	**6.59%**	
2) Active Tilts				
S&P 100 Global ETFs	110,522,480	110,522,480	0.81%	Concentrated global large cap exposure
NASDAQ 100 Index Futures	37,698,000	37,698,000	0.28%	Large cap technology exposure
Pharmaceutical HOLDRs ETFs	24,804,960	24,804,960	0.18%	Large cap healthcare exposure
DJ Technology ETFs	23,435,286	23,435,286	0.17%	Large cap technology exposure
NASDAQ ETFs	12,273,984	12,273,984	0.09%	Large cap technology exposure
Large Cap Tech Basket - ATM call spread	10,000,000	10,000,000	0.07%	Large cap technology exposure
US Financial Sector - ATM call options (Short)	(3,056,000)	(3,056,000)	0.02%	Reduce US large cap financials exposure
Total Active Tilts	**221,790,709**	**215,678,709**	**1.62%**	
3) Hedging / Risk Reduction				
S&P 500 Futures	900,484,575	900,484,575	6.63%	Increase large cap exposure [1]
MidCap 400 EMini Futures (Short)	(135,379,160)	(135,379,160)	1.00%	Reduce mid cap exposure [1]
Russell 2000 Mini Index Futures (Short)	(794,341,640)	(794,341,640)	5.85%	Reduce small cap exposure [1]
Russell 2000 Options - OTM call options (Short)	(50,000,000)	(50,000,000)	0.37%	Reduce small cap exposure
GSCI Excess Return Index - OTM call options (Short)	(200,000,000)	(200,000,000)	1.47%	Reduce commodity exposure
Oil Service HOLDRs - OTM call options (Short)	(10,000,000)	(10,000,000)	0.07%	Reduce large cap oil service industry exposure
Oil Service HOLDRs - OTM put options (Short)	(10,000,000)	(10,000,000)	0.07%	Increase large cap oil service industry exposure
Costless Put Spread Collar - Total Notional Exposure Value	1,350,000,000	1,350,000,000	9.94%	Hedge Domestic Equity Portfolio exposure
Total Hedging / Risk Reduction	**3,450,205,375**	**1,050,763,775**	**25.40%**	
TOTAL US DERIVATIVES	**4,565,753,846**	**2,160,200,246**	**33.61%**	
INTERNATIONAL EQUITY DERIVATIVES				
1) Index Exposure				
Total Index Exposure				
2) Active Tilts				
Total Active Tilts				
3) Hedging / Risk Reduction - neutralizing country/region underweightings				
Nikkei 225 - OTM put options (Short)	(25,000,000)	(25,000,000)	0.18%	Increase Japanese large cap equity exposure
Nikkei 225 - OTM call options (Short)	(25,000,000)	(25,000,000)	0.18%	Reduce Japanese large cap equity exposure
Euro Stoxx Futures	86,418,300	86,418,300	0.64%	Eurozone large cap equity exposure
Euro currency Forwards	52,380,646	52,380,646	0.39%	Euro currency exposure
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British Pound Forwards	144,013,320	144,013,320	1.06%	British Pound currency exposure
TOPIX Index Futures	43,531,106	43,531,106	0.32%	Japanese large cap equity exposure
NIKKEI 225 Index Futures	48,477,292	48,477,292	0.36%	Japanese large cap equity exposure
Japanese Yen Forwards	103,190,693	103,190,693	0.76%	Japanese Yen currency exposure
Total Hedging / Risk Reduction	**653,223,750**	**553,223,750**	**4.81%**	
TOTAL INTERNATIONAL DERIVATIVES	**653,223,750**	**553,223,750**	**4.81%**	
Total	**5,218,977,596**	**2,713,423,996**	**38.42%** Less than 50% of Endowment Funds	

1) Components of the Spread Trade

TAB 4

Agenda Item
UTIMCO Board of Directors Meeting
July 21, 2005

Agenda Item: Discussion and Consideration of Operating Funds Investment Vehicles

Developed By: UTIMCO Staff

Presented By: Boldt

Type of Item: Action Required by UTIMCO Board; Action Required by Board of Regents

Description: This agenda item presents Staff recommendations for the creation of several new Funds for the management of operating and endowment fund reserves and collateral for derivatives positions.

Recommendation: UTIMCO staff recommends approval of the structure and asset allocations of the proposed Reserve Fund, Reserve Plus Fund, and Balanced Fund to manage UT System operating and endowment assets.

Discussion: The Board of Regents, at its July 8, 2005 meeting, authorized the centralization of management of the UT System operating reserves. In order to maximize the advantage of this change, a new set of Fund options for operating reserves are required. Using the same long term asset return, risk, and correlation assumptions employed in the recently completed asset allocation review for the endowment funds, we have created a set of proposed Funds for the management of System operating funds. These new Funds should significantly increase the returns from the operating reserves. Two new aggregate accounts, similar in construct to the General Endowment Fund, the Operating Reserve Fund (OR) and the Long Term Reserve Fund (LTR), will hold units in three new investment pools, the Reserve Fund, the Reserve Plus Fund, and the Balanced Fund. The OR will hold Reserve Fund units only, while the LTR will hold units of the Reserve Fund, the Reserve Plus Fund, and the Balanced Fund. The asset allocation decision for the LTR will be the responsibility of UT System. Asset allocation decisions for the Reserve Fund, Reserve Plus Fund, and the Balanced Fund will be the responsibility of the UTIMCO Board and the Board of Regents.

In order to minimize expenses and take advantage of the attractive return/risk characteristics of the Reserve Plus Fund, the Reserve and Reserve Plus Funds would also be used as cash reserves and as collateral for derivatives positions in the endowment funds.

Reference: Investment Policies for: Operating Reserve Fund, Long Term Reserve Fund, Reserve Fund, Reserve Plus Fund, Balanced Fund, PUF, LTF; Delegation of Authority Policy; Liquidity Policy

UTIMCO

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

New Fund Options for Operating Funds Management

July, 2005

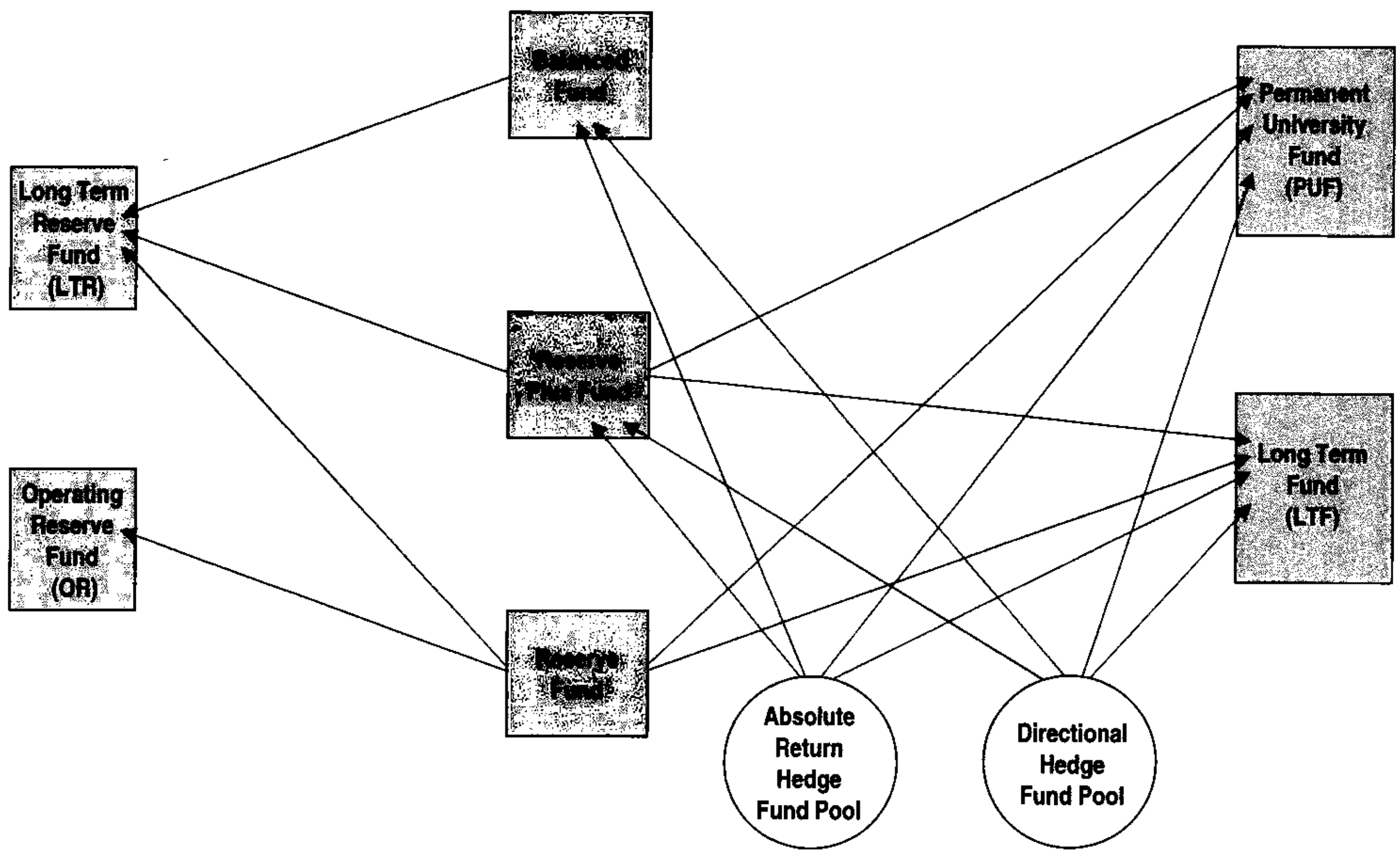
Current Status of Operating Funds

- 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

A New Approach for Operating and Endowment Funds Management

- The Board of Regents has approved the centralized approach to operating funds management.
- The new Funds recommended will be used to invest both operating assets and endowment assets.
- The new Funds will be managed by UTIMCO, but asset allocation decisions in the UT System operating accounts will be determined by UT System staff.

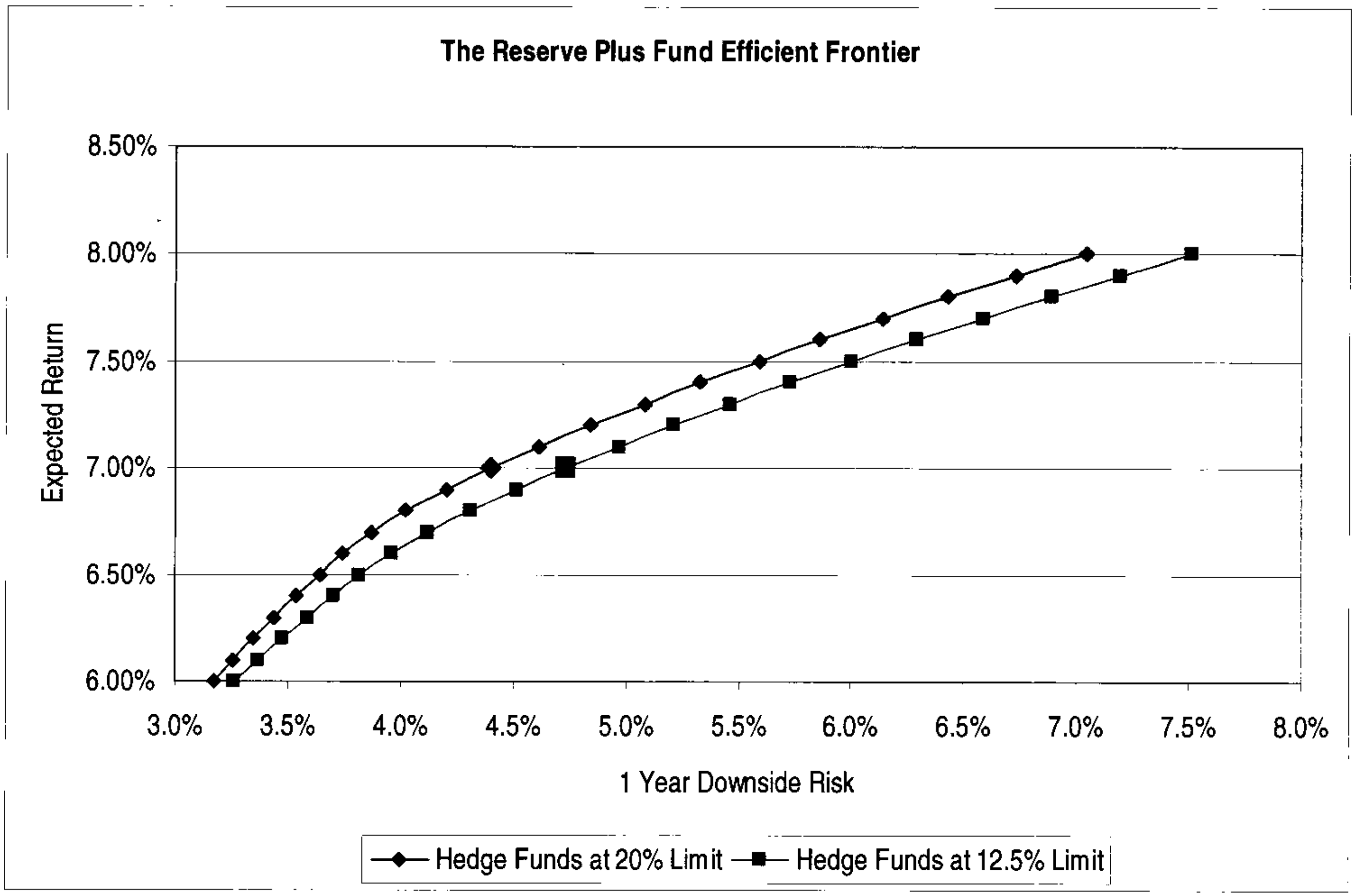
An Overview of the Integration of Operating Funds and Endowment Funds



Assumptions and Constraints for Reserve Plus Portfolio

Asset Categories	Constraints	Expected Return	Standard Deviation
US Equities		8.50%	17.00%
Developed International Equities		8.50%	19.00%
Emerging Markets Equities	Max 15%	10.50%	26.00%
Absolute Return Hedge Funds	Max 12.5%	7.00%	7.50%
Directional Hedge Funds	Max 12.5%	8.00%	10.00%
Venture Capital	Exclude	14.00%	30.00%
Private Equity	Exclude	11.50%	24.00%
REITs	Max 10%	7.50%	15.00%
Commodities	Max 10%	6.00%	18.00%
TIPS		5.50%	6.00%
Fixed Income	Min 10%	5.75%	6.00%
Cash		4.00%	1.00%

Reserve Plus Fund Portfolio Alternatives



Reserve Plus Portfolio Candidates

Reserve Plus	1	3	5	7	9	11	13	15	17	19	21
USE	0.0%	0.0%	0.0%	2.0%	5.0%	7.8%	10.5%	14.3%	20.9%	27.5%	34.2%
GE	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EM	1.8%	2.8%	4.0%	6.5%	8.6%	10.9%	13.3%	15.0%	15.0%	15.0%	15.0%
AR	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
EHF	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
VC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PE	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
REITS	9.4%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
COM	2.1%	2.6%	3.1%	3.6%	4.0%	4.2%	4.4%	4.3%	4.5%	4.7%	5.0%
O&G	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TIPS	19.9%	22.7%	25.8%	20.4%	14.2%	8.0%	1.4%	0.0%	0.0%	0.0%	0.0%
BND	22.8%	26.9%	31.2%	32.6%	33.2%	34.1%	35.5%	31.4%	24.6%	17.7%	10.9%
CA	19.1%	10.0%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Exp Ret	6.00%	6.20%	6.40%	6.60%	6.80%	7.00%	7.20%	7.40%	7.60%	7.80%	8.00%
Vol	4.3%	4.8%	5.3%	5.8%	6.4%	7.1%	7.9%	8.7%	9.7%	10.6%	11.6%
1 yr DR	3.3%	3.5%	3.7%	4.0%	4.3%	4.7%	5.2%	5.7%	6.3%	6.9%	7.5%

Recommended Asset Allocation Policy for the Reserve Plus Fund

Reserve Plus Fund	Targets From Optimization (Portfolio #11)	Recommended Targets	Recommended Ranges	Recommended Benchmarks
US Equities	7.8	10.0	0 to 20	Russell 3000 Index
Developed International Equities	0.0	5.0	0 to 20	MSCI EAFE Index with net dividends
Emerging Markets Equities	10.9	10.0	0 to 20	MSCI Emerging Markets Index with net dividends
Absolute Return Hedge Funds	12.5	12.5	5 to 20	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index
Directional Hedge Funds	12.5	12.5	5 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
REITs	10.0	10.0	0 to 20	Wilshire Associates Real Estate Securities Index
Commodities	4.2	5.0	0 to 10	GSCI Index minus 1%
TIPS	8.0	10.0	0 to 20	Lehman Brothers US TIPS Index
Fixed Income	34.1	25.0	15 to 40	Lehman Brothers Aggregate Index
Cash	0.0	0.0	0 to 20	91 Day T-Bills

Expected Return	7.00%	7.18%
1 Year Downside Risk	4.7%	5.2%
95% 1 Year VaR	-5.5%	-6.4%
Probability of 1 Year Return <CPI +3%	46.1%	45.8%
Probability of 1 Year Return <-10%	1.0%	1.7%
Probability of 3 Year Return <0%	6.2%	7.9%
Illiquidity	17.6%	17.5%

Preferred Allocation is Not Currently Feasible

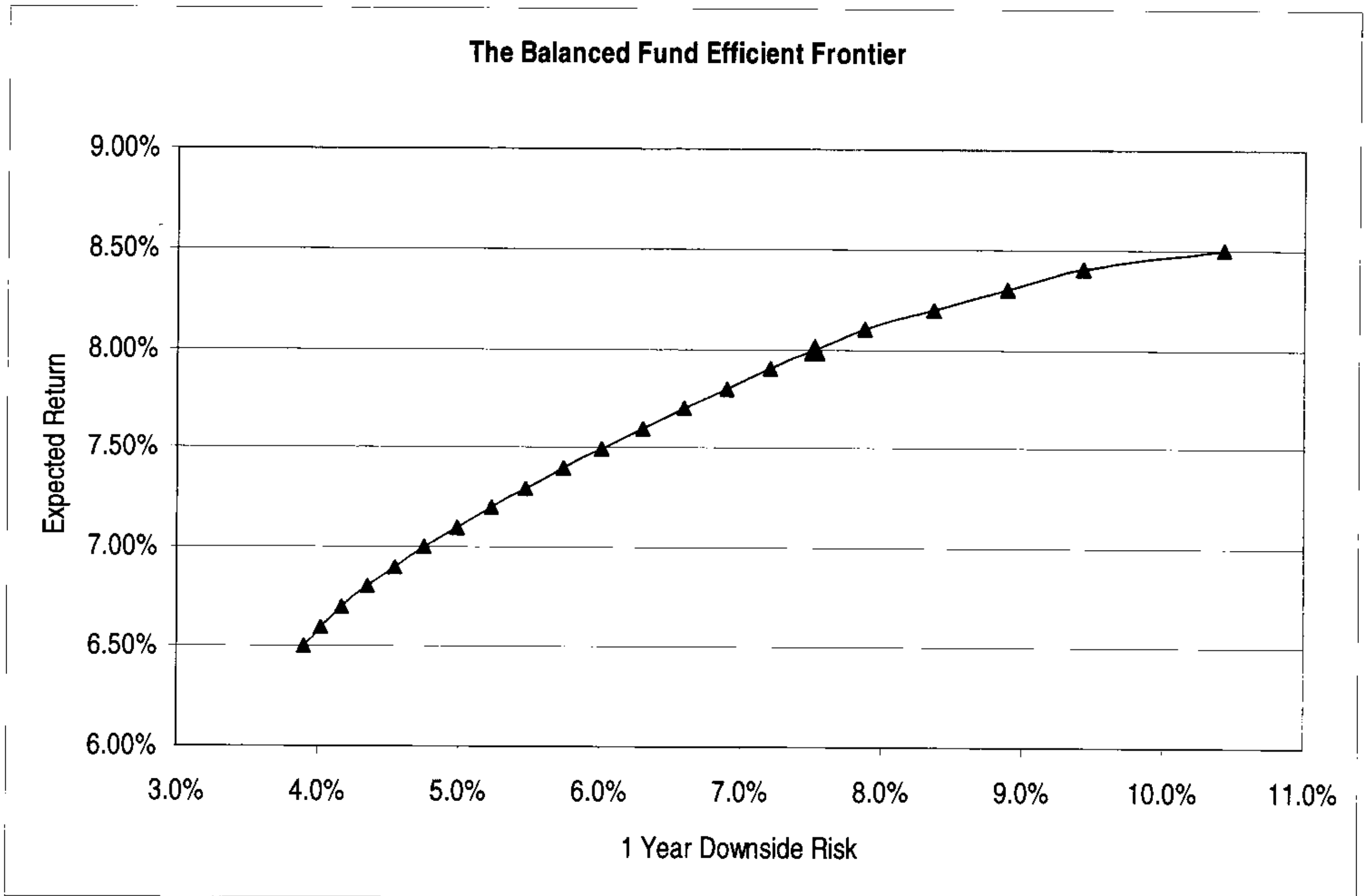
Reserve Plus Fund	Currently Infeasible Optimization Targets	Targets From Optimization (Portfolio #11)	Recommended Targets	Recommended Ranges	Recommended Benchmarks
US Equities	3.8	7.8	10.0	0 to 20	Russell 3000 Index
Developed International Equities	0.0	0.0	5.0	0 to 20	MSCI EAFE Index with net dividends
Emerging Markets Equities	7.5	10.9	10.0	0 to 20	MSCI Emerging Markets Index with net dividends
Absolute Return Hedge Funds	20.0	12.5	12.5	5 to 20	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index
Directional Hedge Funds	20.0	12.5	12.5	5 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
REITs	10.0	10.0	10.0	0 to 20	Wilshire Associates Real Estate Securities Index
Commodities	2.6	4.2	5.0	0 to 10	GSCI Index minus 1%
TIPS	7.4	8.0	10.0	0 to 20	Lehman Brothers US TIPS Index
Fixed Income	28.8	34.1	25.0	15 to 40	Lehman Brothers Aggregate Index
Cash	0.0	0.0	0.0	0 to 20	91 Day T-Bills

Expected Return	7.00%	7.00%	7.18%
1 Year Downside Risk	4.4%	4.7%	5.2%
95% 1 Year VaR	-2.2%	-5.5%	-6.4%
Probability of 1 Year Return <CPI +3%	45.8%	46.1%	45.8%
Probability of 1 Year Return <-10%	0.6%	1.0%	1.7%
Probability of 3 Year Return <0%	4.8%	6.2%	7.9%
Illiquidity	26.0%	17.6%	17.5%

Assumptions and Constraints for Balanced Fund

Asset Categories	Constraints	Expected Return	Standard Deviation
US Equities		8.50%	17.00%
Developed International Equities		8.50%	19.00%
Emerging Markets Equities	Max 15%	10.50%	26.00%
Absolute Return Hedge Funds	Max 15%	7.00%	7.50%
Directional Hedge Funds	Max 10%	8.00%	10.00%
Venture Capital	Exclude	14.00%	30.00%
Private Equity	Exclude	11.50%	24.00%
REITs	Max 15%	7.50%	15.00%
Commodities	Max 10%	6.00%	18.00%
TIPS		5.50%	6.00%
Fixed Income	Min 10%	5.75%	6.00%
Cash		4.00%	1.00%

Balanced Fund Portfolio Alternatives



Balanced Fund Portfolio Alternatives

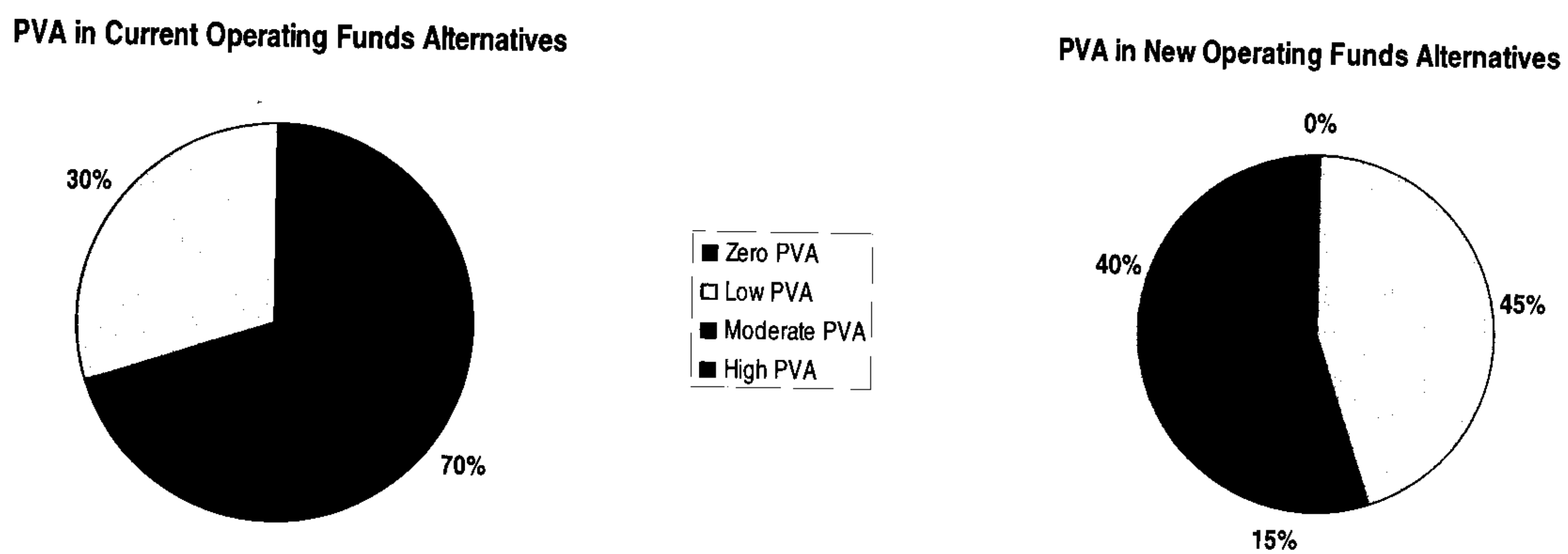
Balanced Fund	1	4	7	10	13	16	19	20	21
USE	1.5%	4.5%	7.7%	11.9%	21.8%	32.0%	50.4%	55.6%	66.2%
GE	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.2%	4.4%	8.8%
EM	4.5%	8.0%	11.5%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
AR	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	5.1%	0.0%	0.0%
EHF	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	0.0%
VC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PE	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
REITS	11.6%	13.4%	15.0%	15.0%	15.0%	15.0%	7.3%	5.0%	0.0%
COM	4.4%	4.4%	4.2%	3.6%	4.0%	3.0%	0.0%	0.0%	0.0%
O&G	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TIPS	4.0%	2.2%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
BND	49.0%	42.5%	35.8%	29.5%	19.2%	10.0%	10.0%	10.0%	10.0%
CA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Exp Ret	6.50%	6.80%	7.10%	7.40%	7.70%	8.00%	8.30%	8.40%	8.50%
Vol	5.6%	6.4%	7.5%	8.7%	10.1%	11.7%	13.8%	14.6%	16.1%
1 yr DR	3.9%	4.4%	5.0%	5.7%	6.6%	7.5%	8.9%	9.4%	10.4%

Recommended Asset Allocation Policy for the Balanced Fund

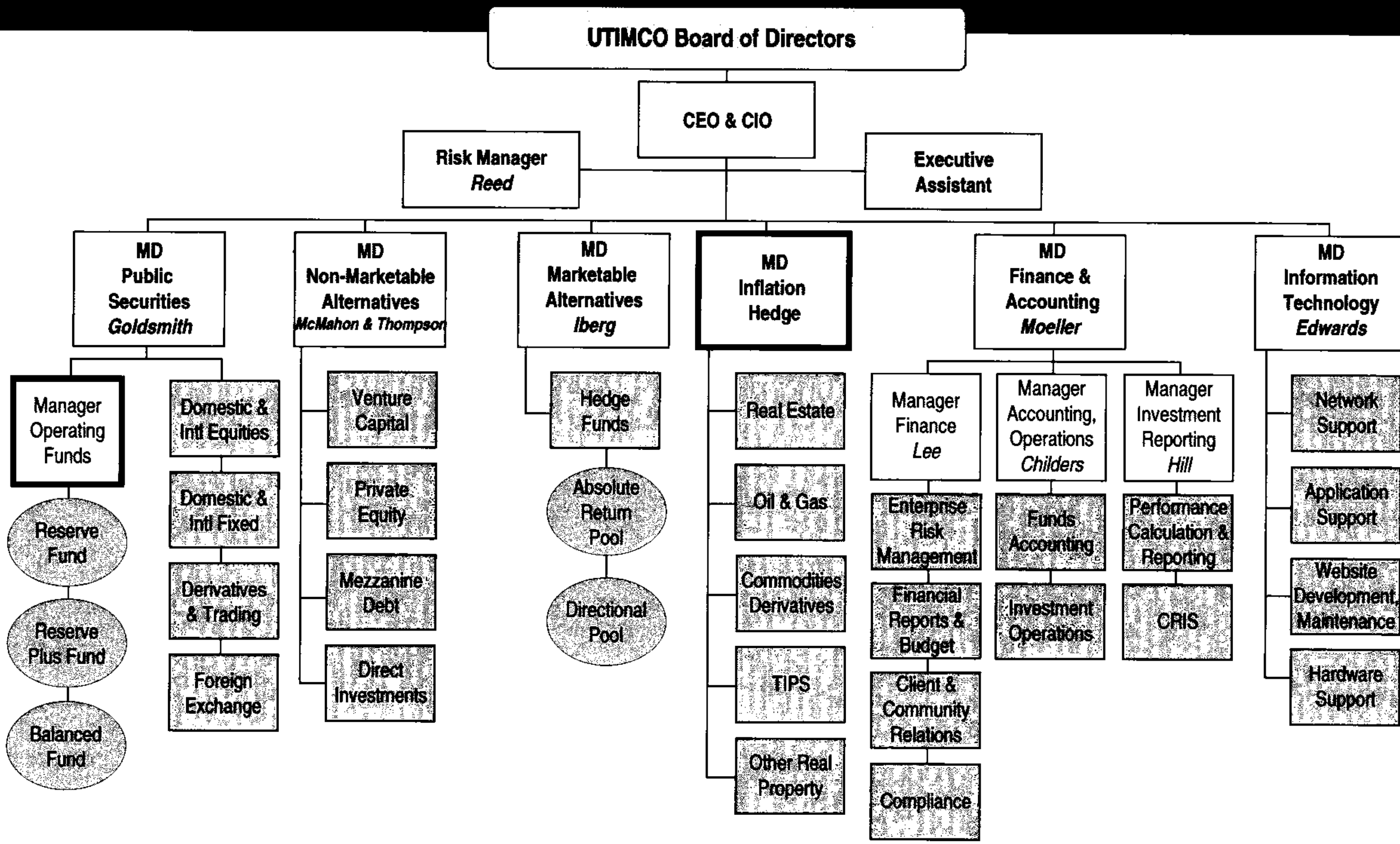
Balanced Fund	Targets From Optimization (Portfolio #16)	Recommended Targets	Recommended Ranges	Recommended Benchmarks
US Equities	32.0	30.0	20 to 40	Russell 3000 Index
Developed International Equities	0.0	5.0	0 to 20	MSCI EAFE Index with net dividends
Emerging Markets Equities	15.0	10.0	0 to 20	MSCI Emerging Markets Index with net dividends
Absolute Return Hedge Funds	15.0	15.0	5 to 20	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index
Directional Hedge Funds	10.0	10.0	5 to 15	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
REITs	15.0	10.0	0 to 20	Wilshire Associates Real Estate Securities Index
Commodities	3.0	5.0	0 to 10	GSCI Index minus 1%
TIPS	0.0	5.0	0 to 15	Lehman Brothers US TIPS Index
Fixed Income	10.0	10.0	0 to 25	Lehman Brothers Aggregate Index
Cash	0.0	0.0	0 to 10	91 Day T-Bills

Expected Return	8.00%	7.75%
1 Year Downside Risk	7.5%	6.9%
95% 1 Year VaR	-11.5%	-10.4%
Probability of 1 Year Return <CPI + 4%	48.2%	48.9%
Probability of 1 Year Return <-10%	6.9%	5.5%
Probability of 3 Year Return <0%	15.1%	13.4%
Illiquidity	17.9%	17.8%

An Added Benefit of Recommendations: Enhanced PVA



UTIMCO Organizational Structure



July, 2005

Implementation Timeline

Activity	Completion Date	Responsibility
BOR Approval of Centralization Concept	8-Jul-05	BOR, UT System
Determine Operational Specifics of Each New Fund	15-Jul-05	UTIMCO/Team
Determine Fund Structures	12-Jul-05	UTIMCO/Inv
Determine Asset Allocation Recommendations	12-Jul-05	UTIMCO/Inv
Develop all new Policies and changes to existing Policies to accommodate new Funds	12-Jul-05	UTIMCO/Admin
Update IMSA as necessary to accommodate new Funds	12-Jul-05	UTIMCO/Admin
Develop Budget Recommendations to accommodate new Funds	12-Jul-05	UTIMCO/Admin
UTIMCO Board Approval of asset allocation, policies, IMSA, and budget	21-Jul-05	UTIMCO Board
Prepare all presentation materials for BOR Meeting	27-Jul-05	UTIMCO/Team
BOR approval of asset allocation, policies, IMSA, and budget	11-Aug-05	BOR
Determine initial allocation across new Funds	1-Sep-05	UT System, UTIMCO
Unitize hedge fund pools	1-Sep-05	UTIMCO/Admin
Manager, Operating Funds is hired	30-Sep-05	UTIMCO/Team
Portfolio management staff develops systems and procedures for new Funds	30-Sep-05	UTIMCO/Inv
IT staff develops and tests new Funds interfaces	30-Sep-05	UTIMCO/IT
Evaluate all current managers as candidates for new Funds	30-Sep-05	UTIMCO/Inv
Determine new hedge fund managers	30-Sep-05	UTIMCO/Inv
Amend current manager contracts as necessary	14-Oct-05	UTIMCO/Inv
All internal and External reporting procedures established	14-Oct-05	UTIMCO/Inv/Admin
UTIMCO Board approves all manager selections (if necessary)	14-Oct-05	UTIMCO Board
All new managers selected and under contract, awaiting funding	18-Nov-05	UTIMCO/Inv
Determine final allocations across new Funds	18-Nov-05	UT System, UTIMCO
Medical liability committee determines how to invest SITF balances in new Funds	18-Nov-05	?
Establish final unit values for STF, SITF, and Institutional Funds for transfer	30-Nov-05	UTIMCO/Admin
Assets transferred from STF, SITF, and Institutional Funds to new Funds	1-Dec-05	UTIMCO/Admin
New Funds operational	1-Dec-05	UTIMCO/Team

Activity Duration (Weeks Ending): Prior, 24-Jun, 1-Jul, 8-Jul, 15-Jul, 22-Jul, 29-Jul, 5-Aug, 12-Aug, 19-Aug, 26-Aug, 2-Sep, 9-Sep, 16-Sep, 23-Sep, 30-Sep, 7-Oct, 14-Oct, 21-Oct, 28-Oct, 4-Nov, 11-Nov, 18-Nov, 25-Nov, 2-Dec

Indicates Time-Critical Activity

Transition Issues

- It will take some time for us to establish hedge fund positions that will total approximately $700 million. 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 plan to use the Dreyfus money market fund initially in the Reserve Fund. We will decide later if we want to close out the Dreyfus money market fund and manage the Reserve Fund 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.

TAB 5

Agenda Item
UTIMCO Board of Directors Meeting
July 21, 2005

Agenda Item:	Discussion and Consideration of UTIMCO 2005/2006 Budget
Developed By:	Lee, Moeller, Boldt
Presented By:	Lee
Type of Item:	Action required by UTIMCO Board; Action required by Board of Regents
Description:	This agenda item presents the recommended UTIMCO 2005/2006 Operating Budget and Fee Schedule for UTIMCO Board approval. In addition, analyses of historical and projected cash reserves as well as a comprehensive overview of all operating and investment expenses are included.
Recommendation:	UTIMCO staff recommends that the UTIMCO 2005/2006 Operating Budget and Fee Schedule be approved as presented.
Discussion:	UTIMCO staff recommends a total operating budget of $48,545,992 for the 2005/2006 fiscal year, a 27.3% increase over the prior year. However, the primary reason for the large increase in total budget is the $6,792,284 budgeted for the new operating funds. A complete analysis of all elements of the budget and the reasons for all changes are included in the analysis. In addition, an analysis of our cash reserves is included. Finally, summary results from the most recent Cambridge Associates cost study are included.
Reference:	UTIMCO 2004/2005 Operating Budget

RESOLUTION RELATED TO BUDGET

RESOLVED, that the Corporation's Budget and Fee Request for the period September 1, 2005 through August 31, 2006 be, and is hereby approved, subject to approval by the U. T. System Board of Regents.

UTIMCO

The University of Texas Investment Management Company

2005-2006 Proposed Operating Budget and Fee Schedule

July, 2005

Guiding Principles

- Continue decentralized budget process consistent with the specialist organizational structure. Managing Directors and Managers have budget responsibility, final budget decisions are still made by CEO.

- Complete transition of organizational structure; modifying where necessary to complement the new CORE Funds.

- Add staff and resources necessary to efficiently and effectively manage the operations of the new CORE Funds.

- Continue to maintain favorable relative cost comparisons for UTIMCO costs using Cambridge Associates Cost-Study data.

Process & Timeline Overview

Apr 25th	Completed February Financial Statements & Year End Projections
May 3rd	Distribute Budget Packet and Detailed Instructions to Managing Directors
May 10th	Budget Worksheets due back from CEO and Managing Directors
May 12th	Initial Draft of Comprehensive Budget to CEO
May 19th	Compensation Committee & Board Approval of Salaries
May 23-27	CEO Detailed Budget Review
May 31st	Draft Budget to UT System
June 22nd	Initial Comments Back from UT System
July 14th	Budget Documents included in UTIMCO Board Packet
July 21st	Budget Review and Approval by UTIMCO Board
Aug 10-11	Budget Review and Approval by UT Board of Regents

Operating Budget Overview

Budget Overview

	Proposed Budget 8/31/06	Actual Budget 8/31/05	Increase (Decrease)	%
UTIMCO Services	11,434,302	10,450,615	983,687	9.41%
Direct Costs to Funds	30,319,406	27,696,238	2,623,168	9.47%
New Core Fund - Direct Expenses	6,792,284	-	6,792,284	
Total Proposed Budget	$ 48,545,992	$ 38,146,853	$ 10,399,139	27.26%
As a Percent of Assets Managed	0.277%	0.239%	0.038%	

2004 - 2006 Operating Budgets

The University of Texas Investment Management Company

	8/31/04 Budget	8/31/04 Actual	8/31/05 Budget	8/31/05 Projected	8/31/06 Budget	% Change from 2005 Budget
UTIMCO Services						
Salaries and Wages + vac	4,141,188	3,773,961	4,780,040	4,326,359	5,463,555	14%
Bonus Compensation + int.	1,867,266	1,858,653	1,704,253	1,751,742	1,778,784	4%
Total Compensation	6,008,455	5,632,614	6,484,293	6,078,101	7,242,340	12%
Total Payroll taxes	270,688	206,777	293,831	291,698	345,516	18%
403(b) Contributions	320,423	280,400	360,425	321,291	415,102	15%
Group Health,Dental,AD&D,Life,GroupLTD	322,430	259,932	437,787	427,847	531,078	21%
Employee Benefit Services	6,000	4,984	6,000	5,419	6,000	0%
Employee Benefits	648,854	545,316	804,212	754,557	952,180	18%
On-Line Data & Contract Services	558,000	598,504	636,729	621,424	769,836	21%
Recruiting and Relocation Expenses	25,000	2,513	141,000	66,221	171,000	21%
Travel	187,000	136,855	255,000	221,756	300,488	18%
Phone Equipment and Charges	72,000	45,660	46,000	49,619	42,750	-7%
Computer & Office Supplies	86,450	58,934	87,640	83,202	73,250	-16%
Employee Education	56,500	20,244	54,700	43,279	51,410	-6%
Repairs/Maintenance	43,500	45,576	48,600	53,642	62,850	29%
BOD Meetings	49,050	17,541	40,750	32,244	37,500	-8%
Other Operating Expenses	23,500	57,082	21,500	51,695	55,370	158%
Total General Operating	1,101,000	984,909	1,331,919	1,223,082	1,564,454	17%
Total Lease Expense	623,010	599,047	592,510	645,179	307,212	-48%
Investment Consultants	50,000	0	0	0	0	0%
Legal Expenses	200,000	183,102	175,000	461,567	175,000	0%
Compensation Consultant	25,000	108,397	25,000	39,500	25,000	0%
Accounting fees	10,000	12,910	9,500	40,000	25,000	163%
Total Professional Fees	285,000	304,409	209,500	541,067	225,000	7%
Property/Liability Package	18,282	16,657	17,500	17,049	15,700	-14%
Umbrella Policy	7,812	7,521	8,250	7,593	6,000	-23%
Workers Compensation	16,722	18,227	17,500	17,974	11,600	-31%
Business Auto	200	186	100	639	800	300%
Commercial Bonding Policy	46,926	42,879	45,000	42,350	44,000	-6%
Prof. and D&O Liability	190,582	173,208	190,000	185,000	183,600	-4%
Total Insurance	280,524	258,678	278,350	270,605	261,700	-6%
Depreciation of Equipment	294,243	261,894	456,000	280,576	535,900	18%
Total UTIMCO Services	$ 9,511,773	$ 8,793,644	$ 10,450,615	$ 10,084,864	$ 11,434,302	9.41%
		718,128		Est. 365,751		
Direct Costs to Funds						
External Management Fees	9,525,099	12,715,126	15,043,557	13,278,224	14,712,719	-2%
External Mgt. Fees-Performance Fees	8,423,640	9,165,879	8,460,603	13,298,292	10,391,371	23%
External Management Fees	17,948,739	21,881,005	23,504,160	26,576,516	25,104,090	7%
Custodian Fees and other direct costs	1,156,830	1,043,993	1,226,918	1,536,676	1,786,932	46%
Performance Measurement	400,000	463,238	385,900	500,478	505,800	31%
Analytical Tools		218,172	299,810	267,017	289,570	
Risk Measurement	403,000	120,000	575,000	371,667	646,000	12%
Custodian and Analytical Costs	1,959,830	1,845,403	2,487,628	2,675,838	3,228,302	30%
Cambridge Fees	901,170	900,000	900,000	900,000	900,000	0%
Auditing	184,500	205,000	190,300	191,309	178,300	-7%
Consulting	0		0		0	0%
Controls Assessment (Sarbanes Oxley)			95,000	30,000	150,000	58%
Printing	87,700	111,431	120,000	132,196	145,418	21%
Bank fees	9,000	12,036	9,000	8,234	6,000	-33%
Rating agency fees	22,000	22,008	23,500	22,322	23,100	-2%
Legal Fees	250,000	517,868	345,750	938,381	540,000	56%
Background Searches & Other		11,490	20,900	25,412	45,200	121%
Other Directs Total	1,454,370	1,779,833	1,704,450	2,247,854	1,987,016	17%
Total Direct Costs to Funds	21,362,739	25,506,242	27,696,238	31,500,208	30,319,407	9.47%
		(4,143,503)		(3,803,970)		
Total for Recurring Operations	30,874,512	34,299,886	38,146,853	41,585,072	41,753,709	9.46%
		(3,425,374)		(3,438,219)		
As a Percent of Assets Managed	0.239%	0.266%	0.239%	0.260%	0.238%	-0.001%
New Core/Ops Fund Expenses						
External Manager Fees					5,708,281	
Custodian Fees					569,243	
Performance Measurement					115,369	
Risk Measurement					157,121	
Cambridge Fees					200,000	
Auditing					37,820	
Controls Assessment (Sox)					(13,500)	
Printing					5,250	
Rating Agency Fees					(23,100)	
Legal Fees					15,000	
Background Searches & Other					21,000	
Total Core/Ops Fund Expenses					6,792,284	
Grand Total					48,545,992	
As a Percent of Assets Managed					0.277%	

Key Points – UTIMCO Services Budget

- Overall Budget Increase of $983,687 or 9.41%.
- This part of the UTIMCO Budget represents .065% of Assets Under Management; an increase of .001% over the 2004-2005 approved budget.
- $514,934 or 52% of the increase is directly related to new staff positions (5) needed to manage and account for the new CORE Funds.
- $442,767 or 45% of the increase is for personnel related costs for existing staff. Overall staff salaries increased 4.8%. Other minor increases are for insurance and employee benefits.
- $25,986 or 3% of the increase is related to minor increases in other operating costs.

Key Points – Direct Funds Budget

- Overall Budget Increase of 9.47% or $2,623,169.
- This part of the UTIMCO Budget represents .173% of Assets Under Management, the same level as the 2004-2005 approved budget.
- $1,599,930 or 61% of the increase is related to estimated increases for external manager fees based upon continued good performance.
- $740,674 or 28% of the increase is for increased custody, analytical, and other direct costs. Approximately $250,000 is directly related to moving to "daily valuations." The remainder is due to estimated increases in the number of actively managed accounts, transaction costs, and the increased dollar amounts of assets under custody.
- $282,565 or 11% of the increase is for additional audit fees, costs related to implementation of Sarbanes-Oxley, and legal fees.

Overview – New CORE Funds Budget

	CORE Fund Budget Overview
New Core/Ops Fund Expenses	
External Manager Fees	5,708,281
Custodian Fees	569,243
Performance Measurement	115,369
Risk Measurement	157,121
Cambridge Fees	200,000
Auditing	37,620
Controls Assessment (Sox)	(13,500)
Printing	5,250
Rating Agency Fees	(23,100)
Legal Fees	15,000
Background Searches & Other	21,000
Total Core/Ops Fund Expenses	6,792,284

New Positions – Related to Core Fund

Manager of Core Fund Investments - Responsible for oversight & management of the CORE Fund investments, totaling an estimated $3.8 billion. This position will help organize, research, build, implement and maintain the investment vehicles necessary to provide for the long-term growth and viability of these investment assets.

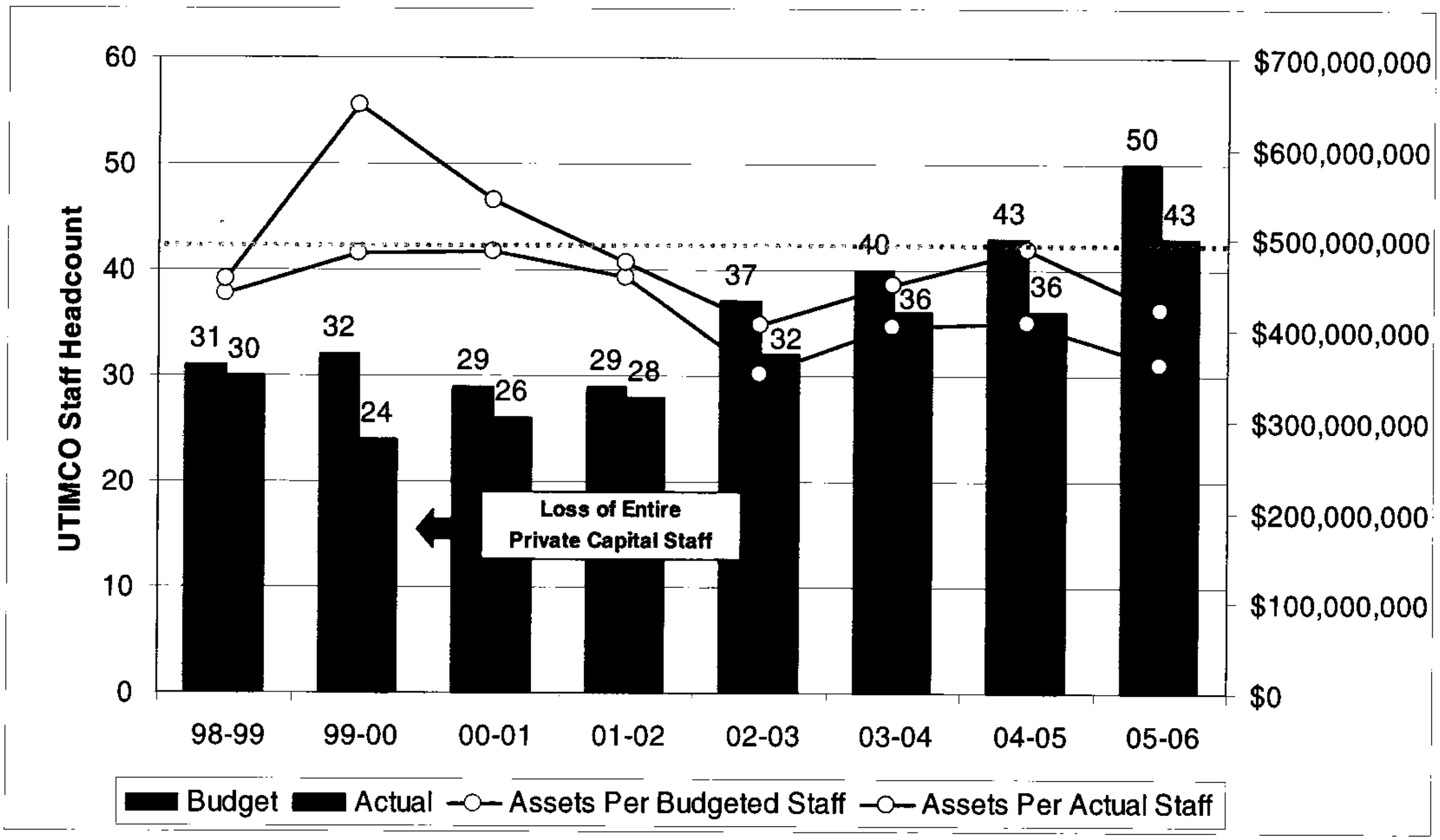
Core Fund Analyst – Marketable Alternatives - Will handle the additional workload in Marketable Alternatives resulting from the significant additional assets being invested in this asset class.

Risk Management Analyst – Reports to the UTIMCO Risk Manager. Responsibilities include the development and review of risk management reports, evaluation of security risk models, development and preparation of periodic market & portfolio performance reports, management of data feeds to the UTIMCO external risk system.

Operating Funds Sr Accountant/Operations Specialist - Will assist the current managers in supervising the work of the portfolio accounting and operations areas as the department undertakes addition responsibilities related to the new operating funds, pooling of certain asset classes, and establishment of underlying investment funds.

Accounting/Operations Associate - Responsible for the day-to-day responsibilities associated with the accounting and activities related to the new operating funds. Will share in the duties related to pooling of certain asset classes and establishment of underlying investment funds.

Staff Headcount



Cash Reserves – Prior Years

- It has been the general policy to maintain a reserve at UTIMCO equal to approximately the UTIMCO Services Budget.
- The reserve has been accumulated over time through careful management of the UTIMCO budget to produce year end surpluses which were added to the reserve.
- This reserve is intended to insulate the funds from emergency needs. One area of concern is Directors' & Officers' liability; our coverage begins at $500,000 caps at $10 million. Any losses outside these limits would be covered by the reserve.
- Staff performance compensation is budgeted at 50% of the maximum that could be earned. The additional potential exposure if maximum bonuses are earned is $1,468,289.
- Last year UTIMCO rebated $4 million back to the funds. After this rebate was made, cash reserves were reduced to 70% of the approved budget:

Reserves at 8-31-2004	11,346,933
Rebate to Investment Funds (Dec 2004)	-4,000,000
Adjusted Reserves @ 8-31-2004	7,346,933
2005 Operating Budget	10,450,615
2004 Reserves as a Percent of Approved Budget	70%

Projected Cash Reserves – Current Year

Cash & Cash Equivalents @ 5-31-05	3,450,849
Investments @ 5-31-05	7,365,443
	10,816,292
Less: Accounts Payable and Accrued Expenses	(2,316,399)
Cash Reserves @ 5-31-05	**8,499,893**
Plus:	
Estimated Budget Surplus - June, July & August	51,329
Return of Bank One Lease Deposit	89,954
Less: Remaining Current Year IT Purchases	(18,250)
Less 1st Qtr 2006 Payments:	
2005-2006 Planned IT Purchases	(366,000)
Leasehold Improvements	(595,000)
Estimated Furniture Costs	(485,000)
Phone, Audio Visual, and Cabling	(160,000)
Estimated Moving Costs	(45,000)
Projected Reserves @ 8-31-2005	**6,971,926**
2005-2006 Proposed Operating Budget	11,434,302
Projected Reserves as a Percent of Proposed Budget	60.97%

UTIMCO 2005 – 2006
Proposed Fee Schedule

Proposed Budget	Fund Name						Separate Funds	Ops Funds	Total
	PUF	PHF	LTF	GEF (PHF LTF)	S/ITF	STF		Ops	
Market Value 2/28/05 ($ millions)	**8,832.2**	**896.5**	**3,795.3**	4,691.8 (3)	**1,206.4**	**2388.2**	**213.0**	**3,594.6** (4)	**17,547.8**
UTIMCO Services(1)	**5,591,136**	**704,817**	**3,259,091**		**196,943**			**1,682,317**	**11,434,302**
Direct Expenses of the Fund									
External Management Fees	9,692,367	0	0	5,020,351		N/A (2)		5,708,281	20,421,000
External Management Fees - Performance Based	7,441,918	0	0	2,949,453					10,391,371
Other Direct Costs	2,719,717	14,910	143,128	2,205,988	131,575			1,084,003	6,299,320
Total Direct Expenses of the Fund	19,854,002	14,910	143,128	10,175,792	131,575		0	6,792,284	37,111,691
TOTAL	**25,445,138**	**719,727**	**3,402,219**	**10,175,792**	**328,518**	N/A (2)	**0**	**8,474,601**	**48,545,992**
Percentage of Market Value									
UTIMCO Services	0.063%	0.079%	0.086%	0.000%	0.016%	0.000%	0.000%	0.047%	0.065%
Direct Expenses of the Fund	0.225%	0.002%	0.004%	0.217%	0.011%	0.000%	0.000%	0.189%	0.211%
TOTAL	**0.288%**	**0.080%**	**0.090%**	**0.217%**	**0.027%**	**0.000%**	**0.000%**	**0.236%**	**0.277%**

2005 Costs by Comparison	**0.285%**	**0.084%**	**0.106%**	**0.232%**	**0.055%**	**0.000%**	**0.000%**	n/a	**0.239%**
							Cost Differential		**0.038%**

Summary of Cost Component Changes:

Increase for Recurring UTIMCO Operating Costs	0.000%
New Core Fund Expenses Included in the UTIMCO Services Budget	0.001%
Increase to On-Going Direct Fund Expenses	0.010%
Increase for New Direct Core Fund Expenses	0.027%
	0.038%

Current Cost Comparisons

Results of the latest UTIMCO Cost Study, completed by Cambridge Associates in May, 2005:

- UTIMCO's total investment costs were **below** the median of the full peer group by 23%, the public university sub-group by 13%, and the private university sub-group by 31%.
- UTIMCO's total oversight costs were **below** the median of the full peer group by 8%, the public university sub-group by 25%, and the private university sub-group by 8%.
- UTIMCO's total external asset management fees were **equal to** the median of the full peer group, 18% above the median of the public university sub-group, and 25% below the median of the private university sub-group.
- The proposed 2006 Budget remains near the 2004 median of each of these respective peer groups.

FY 2006
UTIMCO PROPOSED BUDGET REVIEW

The University of Texas System
Office of Finance

Prepared by:

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July 14, 2005

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FY 2006 UTIMCO PROPOSED BUDGET
U. T. System Office of Finance -- Staff Review

I. EXECUTIVE SUMMARY

U. T. System Investment Oversight Staff reviewed the UTIMCO proposed FY06 budget, including UTIMCO Services and Direct Costs to Funds. Table 1 compares the proposed FY06 budget to FY05 budgeted and projected expenses. Exhibit A provides a more detailed comparison.

Table 1
UTIMCO FY05 Projected Actual and FY06 Budget Summary ($000's)

	FY05		FY06			
	Budget	Projected Actual*	Budget	Dollar Increase	% Increase vs FY05 Budget	% Increase vs FY05 Actual
UTIMCO Services	$10,451	$10,085	$11,434	$1,349	9%	13%
Direct Costs to Funds	$27,696	$31,500	$37,110	$5,610	34%	18%
Total Budget	$38,147	$41,585	$48,543	$6,959	27%	17%

*Based on actual expenses through May 31, 2005.

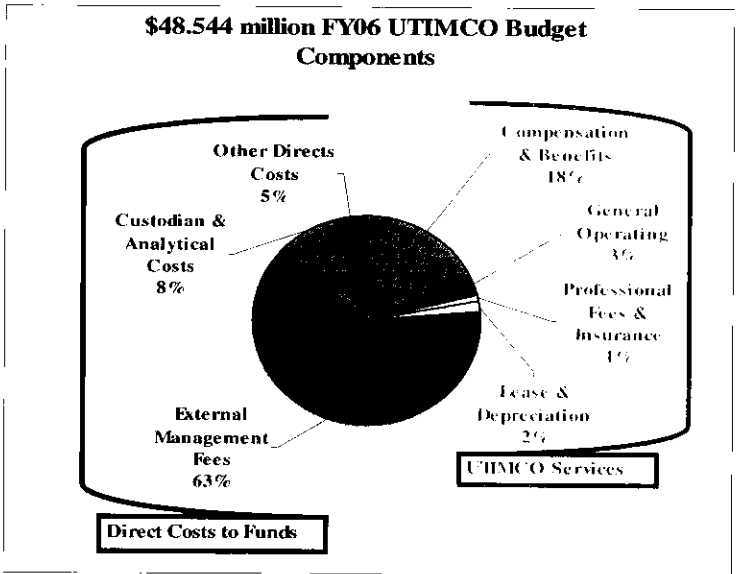
FY05 Projected Actual Expenses are forecast by UTIMCO to be 9% over budget, based on actual YTD expenses through May 31, 2005. While UTIMCO Services expenses are under budget overall (primarily due to budgeted but unfilled positions), Direct Costs to Funds are projected to be over budget 14%:
- External Management Fees overall are projected to exceed the budget by more than $3 million due to higher performance fees paid for better than budgeted performance.
- Custody and Analytical Costs charged to the funds are nearly $0.2 million over budget.
- Total Legal Fees of $1.4 million are projected to be nearly $0.9 million (170%) over budget.

FY06 Proposed Budget of nearly a 17% increase from FY05 projected actual expenses represents a 27% increase from the FY05 budget.
- Implementation of centralized management of operating funds will phase in active management of approximately $3 billion in an asset mix that is more complex and costly than the current funds, impacting both UTIMCO Services and Direct Costs to Funds. Exhibit B lists expenses budgeted for centralized management of operating funds.
- Custody, Performance Measurement, and Risk Management expenses increase significantly, reflecting expanded services for monitoring portfolios, internal derivative exposures, and externally managed hedge fund positions.

Capital expenditures totaling approximately $1.7 million are proposed to fund relocation costs and anticipated technology upgrades. These estimates, listed in Exhibit D, are reflected as a budgeted $255k increase over FY05 projected actual depreciation expense.

Observations and Recommendations: UTIMCO management and staff were very collaborative in providing information for this review and openly shared their budget process with U. T. System staff; however, new information and significant changes to previously provided information, still forthcoming at this writing, make it very difficult to conclude the analysis within the time frame available for Board decision making. Recommendations listed below are discussed in Section VI starting on page 6.
1. **Review Legal Services Costs** which are 150% over budget in FY05.
2. **Analyze Proposed Capital Expenditures,** which appear to be unjustifiably high.
3. **Distribute $4 million in Surplus Reserves** back to the U. T. System Funds.
4. **Analyze Total Investment Management Costs and Related Performance Benefits** to validate costs that are escalating much faster than the growth in assets.

II. FY06 BUDGET OVERVIEW



UTIMCO retains external managers for approximately three quarters of the $17.5 billion in assets managed (as of 5/31/05, including operating funds). External Management Fees paid directly dominate the total budget (63%). Direct Costs to Funds also include custody, analytical, and other direct costs. Personnel-related costs are the largest single component of the UTIMCO Services operating budget, which accounts for 24% of the total.

Table 2 below shows the trend of increasing Direct Costs to Funds and UTIMCO Services costs as a percent of total funds under management (including operating funds) since FY01 relative to growth in funds managed and staffing. Exhibit C documents in more detail the five-year expense trend from FY02 through FY06. The average funds managed is calculated as the sum of beginning and ending year assets divided by two for FY 2001-2004. The average is estimated for FY05 using May 31, 2005 ending values, and budgeted for FY06 assuming an 8% average increase. We understand that these expenses, paid directly by the funds, comprise the .35% of funds managed "expense factor" targeted in the investment policy statement goals.

Table 2
UTIMCO Trends Summary

	Actual				Projected	Budget
	FY01	**FY02**	**FY03**	**FY04**	**FY05**	**FY06**
UTIMCO Services & Direct Costs to Funds $millions	$21	$25	$24	$34	$42	$49
Total Average Funds Managed $ millions*	$14,836	$13,716	$14,034	$15,470	$16,711	$18,132
% Change in Total Funds Managed		-8%	2%	10%	8%	8%
UTIMCO Direct Costs % of Total Funds Managed	0.14%	0.18%	0.17%	0.22%	0.25%	0.27%
Number of Active Employees at UTIMCO	28	29	37	38	42	52
Assets managed per Employee $ millions	$530	$473	$379	$407	$398	$349

* Total average funds managed were calculated for FY's 2001-2004 using beginning and ending FY totals as of August 31 and dividing by two.

The effects of the shift to greater emphasis on alternative assets, performance based management fees, and competitive incentive compensation for UTIMCO personnel are apparent in the increasing costs as a percent of funds managed. Active management of the centralized operating funds will predictably result in higher percentage costs in FY06. While these components of the expense factor remain below the .35% target, justification for this escalating cost structure requires further analysis in conjunction with UTIMCO Staff and consultants to validate corresponding performance benefits.

Although UTIMCO does not budget for third party fees and expenses that are netted against reported asset values for investments in externally managed partnerships, mutual funds, and hedge funds, investment performance is reported net of all costs including these fees and expenses. As of May 31, 2005, assets managed externally with values and performance reported net of fees and expenses totaled nearly $5 billion, or 28% of the total U. T. System assets managed by UTIMCO.

III. UTIMCO Cost Study Update

Cambridge Associates reports that the evidence of diseconomies of scale associated with UTIMCO's active management style is consistent with the data provided by peers in their recent UTIMCO Cost Study. They indicate that greater emphasis on alternative assets corresponds with higher overall cost structures among peer endowments.

Table 3 compares updated UTIMCO expense estimates to the peer group surveyed for the Cambridge Cost Study completed May 5, 2005, based on peer data for the twelve months ending June 30, 2004, as a reference. The numbers in the table represent basis points, or hundredths of a percent of Total Assets. Operating funds are included in Total Assets Under management for comparability reasons. Projected actual FY05 results place UTIMCO above the FY04 median for the peer universe and private endowments surveyed, but well below comparable public endowment funds with respect to these components of total costs. Further cost increases proposed in the FY06 budget place UTIMCO closer to the FY04 median for public endowment peers.

Table 3
Cambridge Associates -- UTIMCO Cost Study Updated
(Basis points of Total Funds Managed)

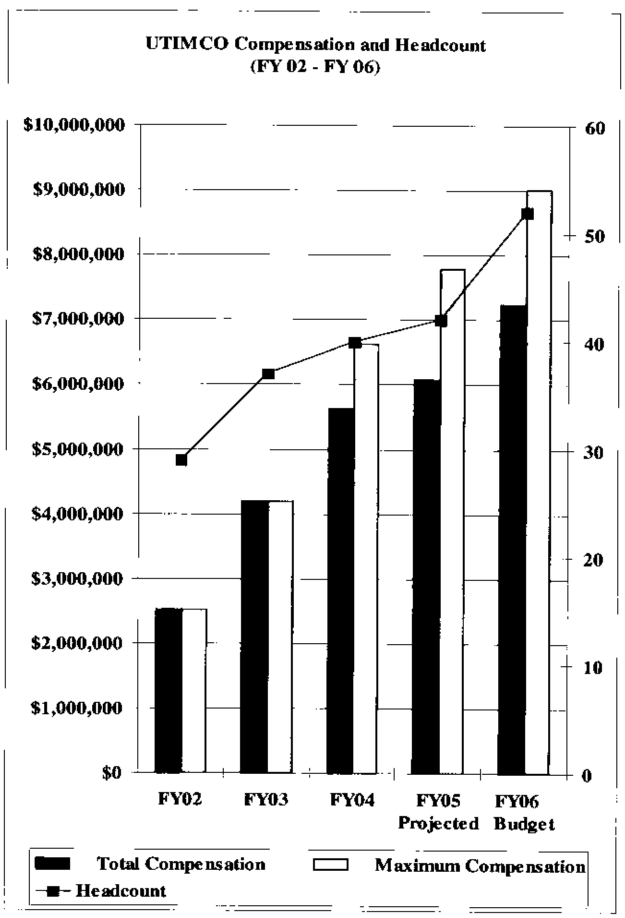
	Investment Supervision Costs		Custody	Legal	Accounting/ Audit	Total Over-sight
	Internal	External				
UTIMCO:						
FY04 Actual	4.68	.97	.69	.33	.31	6.97
FY05 Projected	4.73	1.34	.92	.56	.44	7.98
FY06 Proposed Budget	4.84	1.68	1.30	.31	.44	8.56
Cambridge Cost Study FY04 Medians:						
Total Universe	5.29	1.06	1.64	0.26	0.43	7.60
Private	5.35	0.53	1.25	0.26	0.30	7.56
Public	4.74	1.20	2.07	0.25	0.53	9.28

IV. UTIMCO SERVICES

Compensation: More than 74% of the UTIMCO Services budget (18% of the total budget) is directly related to personnel (including employee benefits). Trends in staffing, Total Compensation, and Maximum Compensation (i.e., 100% potential bonus) are charted on page 4 as "UTIMCO Compensation and Headcount – FY02-FY06." Total compensation since FY02 has significantly outpaced both growth in managed assets and the increase in number of employees. UTIMCO staff has grown 79% from 29 in FY02 to a budgeted 52 in FY06, while Funds managed increased 36%; funds managed per employee declined from $473k to an estimated $349k in FY06; Total Compensation grew 187%; and maximum potential compensation increased 257% (Table 2 above).

This staffing trend and apparent diseconomies of scale further illustrate the greater management intensity of the shifting emphasis toward alternative investments. As centralized operating funds are absorbed and fully invested, staff and management will be challenged to improve economies of scale in managing these U. T. System assets.

Salaries and Wages are projected to be more than $0.4 million (6%) under budget in FY05 because of four budgeted unfilled positions. The FY06 budget proposes nearly 19% increases in Salaries and Bonuses to $7 million from a projected actual $6 million in FY05. Approximately 40% of the increase is due to the proposed addition of five employees to help manage the centralization of the operating funds. A list and description of these new positions is included in Exhibit B. Three of the four currently budgeted open positions will also be filled to contribute to management of the centralized operating funds in FY06. A proposed nearly 5% average base salary increase for existing employees compares to 3% anticipated average salary increases for System Administration staff.



Bonuses actually paid for FY04 performance were 64% of the maximum potential bonus for all eligible employees (including open positions). In FY05 UTIMCO budgeted for 50% payout of maximum bonuses for all eligible employees, including open positions. Bonus Compensation for FY05 is forecast to be $50k over budget, with an estimated 56% payout of total maximum potential bonuses for current employees participating in the plan. This estimate could change significantly, depending on final performance results through June 30, 2005, which are not fully reported until sometime in the fall. FY06 bonuses are again budgeted based on an estimated payout of 50% of maximum potential for all eligible budgeted positions.

Employee Benefits budgeted for FY06 are held at 18% of proposed total compensation, which is significantly lower than the U. T. System Administration average of approximately 30% because of higher average compensation levels at UTIMCO. Employee Benefit costs are expected to be under budget in FY05 by -$52k due to open budgeted positions. While UTIMCO pays a portion of the cost of employee group health, dental, life, short term disability, and long term disability insurances, most of the cost increase in FY05 was absorbed by employees. The Company's share of Employee Benefits costs is budgeted to increase 26% to $952k in FY06.

General Operating Expenses of $1.2 million projected for FY05 are approximately -8% under budget. The FY06 budget proposes a 28% increase to $1.6 million, with increases in most categories of expenses of Recruiting and Relocation expenses, On-Line Data Services, Subscriptions, Repairs and Maintenance, Travel, and Other Contract Services.

Office Relocation: Lease Expense in FY05 is projected to exceed the budgeted amount by 9%. UTIMCO's move to larger space in the Frost Bank Tower, budgeted for rental concessions to reduce lease expense starting in the middle of this fiscal year, was delayed until October 2005. Rent concessions at the beginning of the new lease will reduce FY06 lease payments to approximately half of FY05 projected actual levels. From an accrual standpoint, these savings will be spread over the 11-year initial term of the lease.

Capital Expenditures: Estimated capital costs of approximately $1.7 million, summarized in Exhibit D, are reflected in the $255k increase in depreciation expense budgeted for FY06. These costs include technology updates as well as costs associated with the office relocation. Please refer to the discussion included with the recommendation regarding these proposed expenditures in Section VI on page 5.

Professional Fees in total are estimated to be $541k in FY05, an increase of 158% above the budgeted amount of $210k. Legal expenses in particular increased from a budgeted $175k to an estimated $461k. Total Professional Fees are budgeted to decrease 54% to a proposed $225k in FY06, assuming that disclosure issues are largely resolved with new legislation that clarifies investment disclosure requirements. We recommend further review of legal services, especially when viewed in combination with legal fees charged directly to the funds.

V. DIRECT COSTS TO FUNDS

Direct Costs to Funds are budgeted to increase 18% in FY06 to $37.1 million. Management of Centralized Operating Funds, to begin phasing in effective December 1, 2005, is projected to add approximately $6.8 million of Direct Costs ($7.3 million total budgeted costs – See Exhibit B). Direct external management fees for centralized operating funds are budgeted based on a preliminary asset allocation that must be finalized and approved by the UTIMCO Board and Board of Regents.

External Management Fees represent approximately 83% of Direct Costs to Funds. In FY05, these fees are projected to be nearly $27 million, 13% over a budgeted $23.5 million. While direct base asset management fees are forecast to be approximately -$1.8 million under budget, performance fees are expected to be roughly $4.8 million (57% over budget). Meanwhile, UTIMCO reports performance this fiscal year well in excess of investment policy targeted returns, and consistently in the top quartile of the Cambridge Associates peer group.

FY06 External Management Fees, budgeted at nearly $31 million, represent approximately .18% of $17.5 billion in total funds currently managed (including operating funds) at May 31, 2005. This budget assumes conservative performance results in FY06, and may be understated. Recall that partnership, hedge fund, and mutual fund fees and expenses that are netted from reported investment results are not budgeted.

Custody and Analytical Costs in FY05 are projected to increase 8% from a budgeted $2.5 million to an estimated $2.7 million. Increase funds under management and number of accounts, expanded services, and a change from monthly to daily valuations account for increases in FY05 and budgeted for the full year FY06. Risk management expenses charged to the funds in FY05 are expected to be -35% (-$200k) under budget due to delays implementing the new risk management system. Risk Measurement budget increases 116% to a proposed $803k in FY06 in anticipation of full implementation of the risk management system, with risk management software and service contracts now in place.

Controls Assessment expenses in FY05 were budgeted for full implementation of Sarbanes Oxley (SOX). In fact, compliance procedures for UTIMCO corporate and the PUF are being implemented, with Financial Statement Certification targeted for October 2006. Related expenses estimated at $30k this fiscal year to fund U. T. System Audit Office expenses are below the budgeted $95k, but the FY06 budget expects these costs to increase to nearly $137k for full SOX implementation for all audited funds.

Legal Fees charged directly to the funds in FY05 are projected to be approximately 171% over budget at $0.9 million. This increase is attributed to new private capital investments and disclosure issues for private equities and hedge funds. The FY06 budget contemplates that legal expenses will decline by more than one third to approximately $0.6k with resolution of disclosure requirements; however, in view of these unanticipated increases, we recommend further review of legal services as discussed in Section VI.

VI. OBSERVATIONS AND RECOMMENDATIONS

1. **Review Legal Services Costs:** The UTIMCO cost study identified legal expenses as above peer medians based on data for the 12 months ended June 30, 2004, and management's projection of FY05 total legal fees has increased nearly 50% since the UTIMCO Board reviewed the legal services contract in March. This suggests that a review of legal services costs should be undertaken.
2. **Analyze Proposed Capital Expenditures:** Capital expenditures proposed in connection with the office relocation (summarized in Exhibit D) are provided with little supporting documentation. Build out for UTIMCO occupancy of 28,000 square feet of office space on two floors is budgeted to cost roughly $786,000; furniture costs of approximately $486,000 average nearly $10,000 per employee; and moving costs estimated at $45,000 average more than $1,000 per employee. We understand that these cost estimates are significantly higher than were projected last year, and it's not clear that they are complete or final. Provision for disposition of nearly $0.5 million in furnishings in the Bank One Tower is also not resolved. Further support for this capital request is needed.
3. **Distribute $4 million of Surplus Reserves:** Table 4 summarizes the analysis supporting the recommended cash distribution from the nearly $9 million UTIMCO corporate reserves as of May 31, 2005, back to the U. T. System Funds per Investment Management Services Agreement formula based upon relative percentage of net assets that each fund represents of the total managed by UTIMCO. This distribution will leave nearly $5 million in reserves to fund one quarter of the proposed FY06 UTIMCO Services budget, payables, up to 100% bonus for eligible employees, and capital purchases planned in FY06. Contingency allowances in addition to the nearly $250,000 illustrated in Table 4 are built into the operating budget, estimated capital expenditures, and bonus payout expectations.

Table 4
UTIMCO Distribution Analysis

Assets at May 31, 2005:		
Cash Reserves		3,450,849
Investments		7,365,443
Pre-Paid Expenses		471,420
Accounts Payable		(2,316,399)
Subtotal Reserves	**$**	**8,971,313**
Adjusted for:		
UTIMCO Services Budget Surplus Forecast, Balance of FY05		51,329
Return of Bank One Lease Deposit		89,954
One Quarter of FY06 Proposed UTIMCO Services Budget		(2,858,576)
Capital Expenditures Proposed, Net of $535,900 FY06 Budgeted Depreciation Expense		(1,146,552)
*Additional allowance for up to 100% FY06 Bonus less Incremental Deferral		(860,095)
Net Reserves Available to Distribute to Funds	**$**	**4,247,373**

*Allowance includes an additional 44% earn-out of maximum potential bonus (56% Bonus Budgeted for FY05), less deferral of payout of approximately 1/3 of the additional amount.

4. **Analyze Total Investment Management Costs and Related Performance Benefits:** The escalating trend of UTIMCO's total investment management costs, the shift in portfolio composition to greater emphasis on alternative asset classes, and under-budgeting of external performance management fees suggest that total costs should continue to be monitored closely relative to performance. The justification for the escalating cost structure requires an analysis of "value added" from active management to validate the benefits of efficient ("top down") strategic and tactical asset allocation and competitive ("bottom up") manager and asset selection.

   The UTIMCO Cost Study completed by Cambridge Associates last spring provides a baseline of peer management costs as a percent of total funds managed. Although the study did not estimate external manager performance fees for the peer group surveyed, UTIMCO has provided what we believe to be reliable estimates of these fees over time. With the Cost Study as a reference point, we recommend an analysis of total investment costs relative to investment performance, to be performed in conjunction with UTIMCO staff and consultants and presented to the Board of Regents.

EXHIBIT A

UTIMCO Operating Expenses FY05 - FY06

	FY05 Budget	FY05 Projected	% Change v FY05	FY06 Budget**	Change from FY05 Projected	
UTIMCO Services (Including Centralized Operating Funds)					**$**	**%**
Salaries and Wages + vac	4,780,040	4,326,359	-9%	5,463,555	1,137,196	26%
Bonus Compensation + int.	1,704,253	1,751,742	3%	1,778,784	27,042	2%
Total Compensation	6,484,293	6,078,101	-6%	7,242,340	1,164,239	19%
Total Payroll taxes	293,831	291,698	-1%	345,516	53,818	18%
Employee Benefits	804,212	754,557	-6%	952,180	197,623	26%
Total General Operating	1,331,919	1,223,082	-8%	1,564,454	341,372	28%
Total Lease Expense	592,510	645,179	9%	307,212	(337,967)	-52%
Legal Expenses	175,000	461,567	164%	175,000	(286,567)	-62%
Compensation Consultant	25,000	39,500	58%	25,000	(14,500)	-37%
Accounting fees	9,500	40,000	321%	25,000	(15,000)	-38%
Total Professional Fees	209,500	541,067	158%	225,000	(316,067)	-58%
Total Insurance	278,350	270,605	-3%	261,700	(8,905)	-3%
Depreciation of Equipment	456,000	280,576	-38%	535,900	255,324	91%
Total UTIMCO Services	**$ 10,450,615**	**$ 10,084,865**	**-3%**	**$ 11,434,302**	**1,349,437**	**13%**
Direct Costs to Funds (Including Centralized Operating Funds)						
External Mgt. Fees - Direct	15,043,557	13,278,224	-12%	14,712,719	1,434,495	11%
External Mgt. Fees - Centralized Operating Funds				5,706,281		
External Mgt. Performance Fees	8,460,603	13,298,292	57%	10,391,371	(2,906,921)	-22%
External Mgt Fees Paid Directly	23,504,160	26,576,516	13%	30,810,371	4,233,855	16%
Custodian Fees and other direct costs	1,226,918	1,536,676	25%	2,356,175	819,499	53%
Performance Measurement	385,900	500,478	30%	621,169	120,691	24%
Analytical Tools	299,810	267,018	-11%	289,570	22,553	8%
Risk Measurement	575,000	371,667	-35%	803,121	431,454	116%
Custodian and Analytical Costs	2,487,628	2,675,838	8%	4,070,035	1,394,197	52%
Cambridge Fees	900,000	900,000	0%	1,100,000	200,000	22%
Auditing	190,300	191,309	1%	213,920	22,611	12%
Consulting	0			0	0	
Controls Assessment (SOX)	95,000	30,000	-68%	136,500	106,500	355%
Printing	120,000	132,196	10%	150,666	18,470	14%
Bank fees	9,000	8,234	-9%	6,000	(2,234)	-27%
Rating agency fees	23,500	22,322	-5%	0	(22,322)	-100%
Legal Fees	345,750	938,381	171%	555,000	(383,381)	-41%
Background Searches & Other	20,900	25,412	22%	67,200	41,788	164%
Other Directs Total	1,704,450	2,247,854	32%	2,229,286	(18,568)	-1%
Total Direct Costs to Funds	**27,696,238**	**31,500,208**	**14%**	**37,109,691**	**5,609,483**	**18%**
Total for Recurring Operations	**$ 38,146,853**	**$ 41,585,073**	**9%**	**$ 48,543,993**	**$ 6,958,920**	**17%**

* Actual expenses as of 5/31/05

** Includes Centralized Operating Funds Expenses

EXHIBIT B

Centralized Operating Fund Expenses

Centralized Fund Positions:	
*Client Services Manager**	
Manager Core Fund Investments	
Risk Management Associate	
Core Fund Analyst	
Operating Funds Sr. Accountant	
Operations Associate	
Subtotal UTIMCO Services Salaries	**$ 470,833**
Direct Costs to Funds:	
External Manager Fees	5,706,281
Custodian Fees	569,243
Performance Measurement	115,369
Risk Measurement	157,121
Cambridge Fees	200,000
Auditing	37,620
Printing	5,250
Legal Fees	15,000
Background Searches & Other	21,000
Subtotal Direct Costs to Funds	**$ 6,826,884**
Cost Savings from Centralization of Operating Funds, reflected in Direct Costs to Funds Budget:	
Controls Assessment (SOX)	(13,500)
Rating Agency Fees	(23,100)
Subtotal Total Cost Savings	(36,600)
Total Budgeted Centralized Operating Fund Estimated Expenses (Direct costs to Funds + Centralized Fund Positions)	**$ 7,261,117**
Assets associated with Centralized Operating Funds	**$3.7 billion**
As a Percent of Assets Managed	**.20%**
Budgeted/authorized but Unfilled Positions at 6/30/05:	
MD Inflation Hedging	
Sr Associate (Non Marketable Alternatives)	
Analyst (Public Markets)	
Analyst (Inflation Hedging)	
Total Salaries	**$ 305,000**

**Client Service Manager position is budgeted currently but not filled pending approval of Centralized Operating Funds*

EXHIBIT C

UTIMCO Operating Expenses FY02 - FY06

	FY02	FY03	FY04	FY05			FY06	Change from FY05 Projected	
	Actual	Actual	Actual	Budget	Projected	% +/-	Proposed Budget**	$	%
UTIMCO Services Direct Costs to Funds (Including Centralized Operating Funds)									
Salaries and Wages + vac	2,287,533	3,102,883	3,773,961	4,780,040	4,326,359	-9%	5,463,555	1,137,196	26%
Bonus Compensation + int.	239,622	1,089,333	1,858,653	1,704,253	1,751,742	3%	1,778,784	27,042	2%
Total Compensation	2,527,155	4,192,216	5,632,614	6,484,293	6,078,101	-6%	7,242,340	1,164,239	19%
Total Payroll taxes	145,492	195,076	206,777	293,831	291,698	-1%	345,516	53,818	18%
Employee Benefits	314,450	425,478	545,316	804,212	754,556	-6%	952,180	197,624	26%
Total General Operating	656,291	1,112,169	984,909	1,331,919	1,223,082	-8%	1,564,454	341,372	28%
Total Lease Expense	604,683	606,013	599,047	592,510	645,179	9%	307,212	(337,967)	-52%
Legal Expenses	242,533	500,823	183,102	175,000	461,567	164%	175,000	(286,567)	-62%
Compensation Consultant		45,200	108,397	25,000	39,500	58%	25,000	(14,500)	-37%
Accounting fees	6,630	6,870	12,910	9,500	40,000	321%	25,000	(15,000)	-38%
Total Professional Fees	249,358	554,893	304,409	209,500	541,067	158%	225,000	(316,067)	-58%
Total Insurance	197,535	234,068	258,678	278,350	270,605	-3%	261,700	(8,905)	-3%
Depreciation of Equipment	271,692	286,176	261,894	456,000	280,576	-38%	535,900	255,324	91%
Total UTIMCO Services	**4,966,655**	**7,606,089**	**8,793,644**	**10,450,615**	**10,084,864**	**-3%**	**11,434,302**	**1,349,438**	**13%**
Direct Costs to Funds Direct Costs to Funds (Including Centralized Operating Funds)									
External Mgt. Fees - Centralized Operating Funds							5,706,281	5,706,281	100%
External Mgt. Fees - Direct	10,968,493	10,699,801	12,715,126	15,043,557	13,278,224	-12%	14,712,719	1,434,495	11%
External Mgt. Performance Fees	3,899,937	4,467,459	9,165,879	8,460,603	13,298,292	57%	10,391,371	(2,906,921)	-22%
External Mgt Fees Paid Directly	14,868,430	12,314,265	21,881,005	23,504,160	26,576,516	13%	30,810,371	4,233,855	16%
Custodian Fees and other direct costs	1,179,087	1,351,899	1,043,993	1,226,918	1,536,676	25%	2,356,175	819,499	53%
Performance Measurement	231,413	261,625	463,238	385,900	500,478	30%	621,169	120,691	24%
Analytical Tools			218,172	299,810	267,018	-11%	289,570	22,553	8%
Risk Measurement	361,460	335,172	120,000	575,000	371,667	-35%	803,121	431,454	116%
Custodian and Analytical Costs	1,771,960	1,948,696	1,845,403	2,487,628	2,675,838	8%	4,070,035	1,394,197	52%
Cambridge Fees	2,797,487	1,477,800	900,000	900,000	900,000	0%	1,100,000	200,000	22%
Auditing	158,371	168,202	205,000	190,300	191,309	1%	213,920	22,611	12%
Controls Assessment (SOX)				95,000	30,000	-68%	136,500	106,500	355%
Printing	91,246	99,583	111,431	120,000	132,196	10%	150,666	18,470	14%
Bank fees	7,289	7,605	12,036	9,000	8,234	-9%	6,000	(2,234)	-27%
Rating agency fees	21,876	21,508	22,008	23,500	22,322	-5%	0	(22,322)	-100%
Legal Fees	267,880	343,849	517,868	345,750	938,381	171%	555,000	(383,381)	-41%
Background Searches & Other	51,387	1,540	11,490	20,900	25,412	22%	67,200	41,788	164%
Other Direct Costs Total	3,395,536	2,120,087	1,779,833	1,704,450	2,247,854	32%	2,229,286	(18,568)	-1%
Total Direct Costs to Funds	**20,102,705**	**16,048,173**	**25,506,242**	**27,696,238**	**31,500,208**	**14%**	**37,109,691**	**5,609,483**	**18%**
Total for Recurring Operations	25,069,360	23,654,262	34,299,886	38,146,853	41,585,073	9%	48,543,993	6,958,920	17%

* Actual expenses as of 5/31/05

** Includes Centralized Operating Funds Expenses

EXHIBIT D

FY06 Capital Budget: Moving and IT Costs

Relocation Costs	
Construction Costs	$ 420,582
Soft Costs (Engineering, Permits, and Structural)	119,870
Estimated Furniture Costs	485,000
Moving Costs	45,000
Project Management Costs	54,000
Project Contingency	192,000
Subtotal Relocation	$ 1,316,452
Planned Technology Upgrades[2]	$ 366,000
Total Capital Purchases	**$ 1,682,452**

[2]**Information Technology Capital Investments:**

One Time Upgrades	**Cost**	**Annual Depreciation**
Cisco Wifi	11,000	2,200
Altigen Replacement and Upgrade to Latest version.	25,000	5,000
APC Racks and UPS	55,000	11,000
Cisco Routers	120,000	24,000
Annual On-going Needs		
Desktop / Laptop Rotation	60,000	12,000
Software	20,000	4,000
Other Purchases		
Blackberry Server and Software	15,000	3,000
Phase II - SAN Environment	60,000	12,000
Total Information Technology Request	**$ 366,000**	**$ 73,200**

TAB 6

Agenda Item
UTIMCO Board of Directors Meeting
July 21, 2005

Agenda Item: Presentation of a proposed commitment to GlobeFlex Capital's Microcap mandate

Developed By: Goldsmith

Presented By: Goldsmith

Type of Item: Possible Action Item During Open Session

Description: International Microcap Investment and Investment Ceiling Increase

Recommendation: UTIMCO Staff recommends a $50 million commitment to GlobeFlex Capital's Microcap mandate and an allocation ceiling increase to $450 million across all GlobeFlex mandates.

Discussion: UTIMCO staff believes:

- that a $50 million initial allocation to GlobeFlex Capital's Microcap mandate provides not only a significant PVA return opportunity for the Endowments, but also a substantial 'step-up' in the exploration of inefficient equity investment spaces overseas,

- that GlobeFlex's superior combination of proprietary research capability and systematic process, coupled with their reasoned philosophical content and seasoned portfolio judgment are the best way to increase the Endowments' allocations to this area – generating important return and delivering needed asset diversification,

- that this proposal represents a rare investment opportunity for the UT Endowments in the micro cap asset space, and

- that GlobeFlex's historical track record for stock selection within all of its international small cap disciplines supports an increase in allocation to accomplish the UT Endowments' competitive return/risk goals.

Reference: Investment Memorandum

GlobeFlex Capital L.P.
Investment Recommendation
Executive Summary

UTIMCO Responsibility	Investment Description	Asset Category	Current/Pro Forma Exposure in Asset Category	Liquidity Profile	Existing Exposure	Proposed Investment	Total Proposed and Existing Exposure	Actual/Pro Forma Total Illiquidity
PM	International Microcap	International Equities	16.4% / 16.4%	Liquid	$0	$50,000,000	$50,000,000	N/A

INVESTMENT SUMMARY

UTIMCO Public Markets staff, in searching for high PVA International Equity opportunities, commissioned a review of an international microcap (market capitalizations of $500m or less) mandate on behalf of the UT Endowments.

When compared against both:

1. the traditionally large cap dominated MSCI All Country World ex US (ACW ex US) and EAFE benchmarks,
2. and, index-oriented emerging markets managers,

staff believes that this area represents a more attractive, and under-utilized, alpha opportunity.

- GlobeFlex Capital, an incumbent small capitalization International Equity manager is being recommended to undertake this mandate after their review of their historical stock selection within this capitalization range over the last 5 years.

- At present, GlobeFlex manages three International small cap mandates on behalf of the UT Endowments:

Mandate	Inception Date	Current Assets
International Small	10/9/2003	$ 211,000,000
Canada	3/8/2004	68,000,000
Japan	3/30/2004	88,000,000
Total		**$ 367,000,000**

Performance in each of these accounts has been excellent, with each mandate to-date outperforming its representative benchmark.

GlobeFlex continues to represents a prime opportunity for UTIMCO to invest with a growing, but proven and accomplished investment team, who are:

- Instituting a long-standing disciplined process capitalizing on the inefficiencies in this investment space.
- Converting such inefficiencies into a strong and impressive track record of benchmark outperformance.
- Perhaps the only established investment teams accepting new capital in this investment subset.
- Owners of a proprietary database of stock analyst estimates providing a significant competitive advantage.
- Committing a substantial portion of all senior partners' net worth to this endeavor.
- Being compensated directly based on their investment success.
- Providing this specialized mandate <u>exclusively</u> for UTIMCO.

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GlobeFlex's results evidence a consistent value-added approach to this space. For their International Small Cap product, their performance relative to their peer group has been a top quartile performer, over both the 3 year and a 5 year period, while their information ratio (returns / active risk employed) has held a top decile ranking over both the 3 year and 5 year periods.

RECOMMENDATION

- UTIMCO staff recommends:

  - increasing the approved capital level with GlobeFlex Capital to $450 million (in aggregate across any current/future approved International GlobeFlex mandates – which may change due to intra-asset class preferences/rebalancing), and,

  - the initial funding of an International Microcap mandate at a $50 million allocation.

  This new investment would represent 2.2% of the current International equity allocation.

- At $450 million, GlobeFlex will represent 20% of the current balance of International Equities. While understandably significant, GlobeFlex represents crucial, and still largely undiscovered talent in the area of small cap International Equities investing. Given their 15+ year database record of analyst earnings results, their ability to historically assess their track record in this capitalization space, and the proposed exclusivity of this arrangement with the UT Endowments, staff believes strongly that this recommendation will provide long-term high PVA results.

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GlobeFlex Capital L.P.
Investment Recommendation

UTIMCO Responsibility	Investment Description	Asset Category	Current/Pro Forma Exposure in Asset Category	Liquidity Profile	Existing Exposure	Proposed Investment	Total Proposed and Existing Exposure	Actual/Pro Forma Total Illiquidity
PM	International Microcap	International Equities	16.4% / 16.4%	Liquid	$0	$50,000,000	$50,000,000	N/A

UTIMCO Public Markets staff, in searching for high PVA International Equity opportunities, commissioned a review of an international microcap (market capitalizations of $500m or less) mandate on behalf of the UT Endowments.

When compared against both:

1. the traditionally large cap dominated MSCI All Country World ex US (ACW ex US) and EAFE benchmarks,
2. and, index-oriented emerging markets managers,

Staff believes that this area represents a more attractive, and under-utilized, alpha opportunity.

- GlobeFlex Capital, an incumbent small capitalization International Equity manager is being recommended to undertake this mandate after their review of their historical stock selection within this capitalization range over the last 5 years.

- At present, GlobeFlex manages three International small cap mandates on behalf of the UT Endowments:

Mandate	Inception Date	UTIMCO Assets with GlobeFlex	Other Client Assets 2003	Other Client Assets Present
International Small	10/9/2003	$ 211,000,000	$ 2,000,000	$ 533,000,000
Canada	3/8/2004	68,000,000	0	119,000,000
Japan	3/30/2004	88,000,000	0	-
Total		**$ 367,000,000**	**$ 2,000,000**	**$ 652,000,000**

Performance in each of these accounts has been excellent, with each mandate to-date outperforming its representative benchmark.

GlobeFlex continues to represents a prime opportunity for UTIMCO to invest with a growing, but proven and accomplished investment team, who are:'

- Instituting a long-standing disciplined process capitalizing on the inefficiencies in this investment space.
- Converting such inefficiencies into a strong and impressive track record of benchmark outperformance.
- Perhaps the only established investment teams accepting new capital in this investment subset.
- Owners of a proprietary database of stock analyst estimates providing a significant competitive advantage.
- Committing a substantial portion of all senior partners' net worth to this endeavor.
- Being compensated directly based on their investment success.
- Providing this specialized mandate exclusively for UTIMCO.

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GlobeFlex's results, so far, evidence a consistent value-added approach to this space. For their International Small Cap product, their performance relative to their peer group has been a top quartile performer, over both the 3 year and a 5 year period, while their information ratio (returns / active risk employed) has held a top decile ranking over both the 3 year and 5 year periods.

INVESTMENT RATIONALE

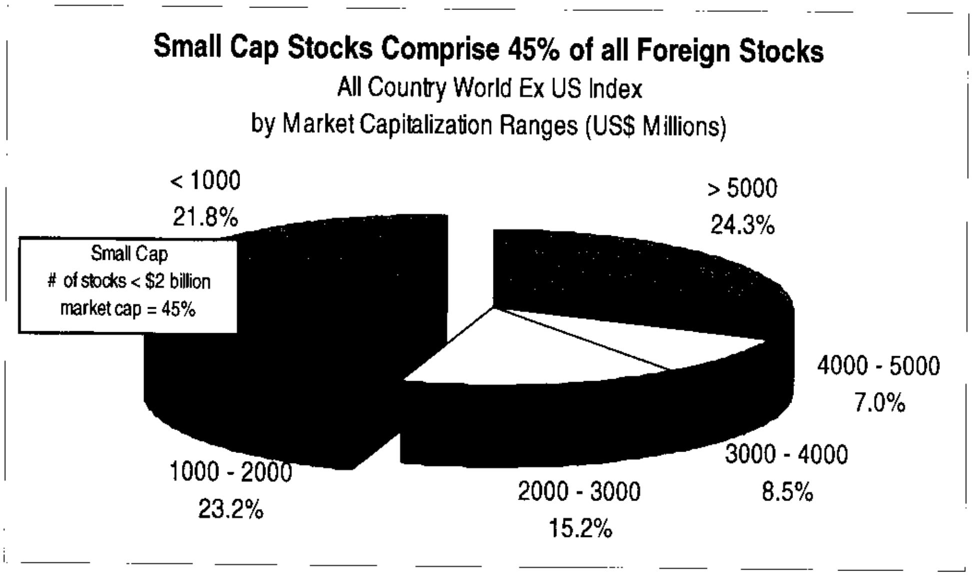
To substantively improve the long-term return potential of the International Equity Asset class through the engagement of a proven management team:

- That is engaged in a disciplined, fundamentally driven, security selection process in a high PVA asset area.
- That has an extensive proprietary investment model providing a competitive advantage versus its peers.
- That is experienced, focused, proven and monetarily aligned with UTIMCO in the singular pursuit of microcap cap International equity performance results.
- Has a history of generating consistent and superior returns in the small cap asset class comparing favorably to both benchmarks and peers. Managing a microcap portfolio is a natural extension of GlobeFlex's current investment process, as the current International Small mandate has held approximately a 14% weighting in the microcap space.

INTERNATIONAL EQUITY SMALL CAP ASSET CLASS SUPPORT

UTIMCO believes that the International equity small cap subset (which includes microcap equities) remains a highly attractive allocation both broadly, and, specifically, relative to the standard ACWIxUS and EAFE performance benchmarks. Staff believes that International Micro-cap assets represent the purest opportunistic subset of that investment space.

- As outlined below, International small cap equities provide a ready made opportunity set for high PVA investing. By contrast, the MSCI EAFE Index, comprising the largest market cap and most liquid International equity names, has 54% of its market value in its top 100 stocks. Since most EAFE mandates don't stray too far from the Index's constituencies, small cap International must be approached via a separate and distinct allocation in order to gain favorable value-added results.



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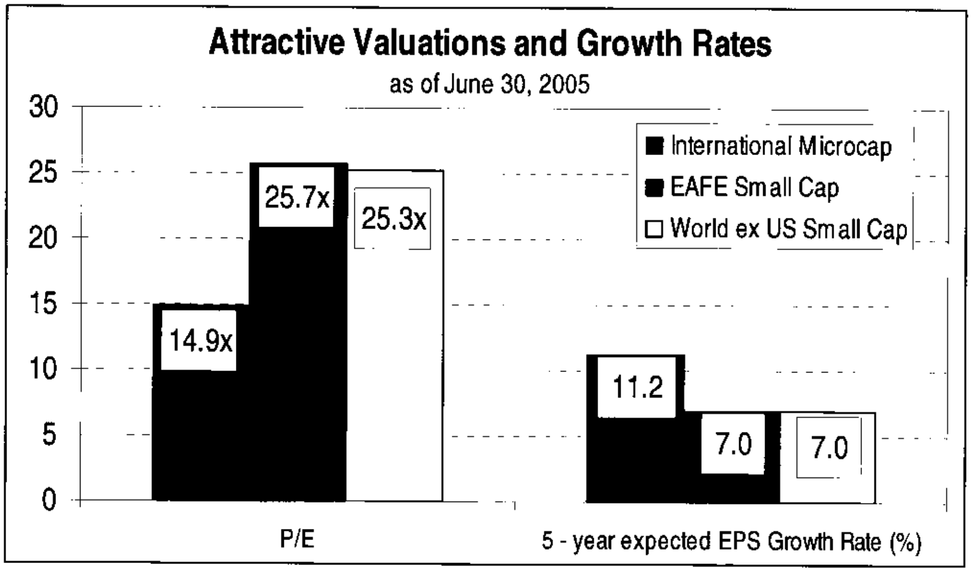
- In addition, as presented below, International small cap stocks offer a combination of compelling relative value fundamentals and growth opportunities - as compared to peer capitalization ranges abroad. Also, given the expansive universe of such issues, engaged active managers should be able to better exploit this relatively inefficient market space for the benefit of the UT Endowments.



As seen below, an allocation to smaller capitalization International stocks continues to provide historical evidence of diversification benefits versus both established and emerging global equity asset classes. <u>More specific to this recommendation is the dramatic difference in correlation between Micro-Cap assets and Emerging Markets</u>. While Emerging Markets are routinely touted as a diversified and opportunistic return tour de force in the International Equity space, managers' steadfast dedication to the Index means less diversification than one can potentially earn going into the smallest capitalization regions of the developed International equity markets.

Improved Risk Diversification Through Low Correlation with Other Asset Classes

Correlations Relative to All Country World ex US for periods ending March 31, 2005				
	Last 2 years	Last 3 years	Last 4 years	Last 5 years
Globeflex International Microcap	**0.53**	**0.75**	**0.68**	**0.67**
Globeflex International Small	0.93	0.95	0.94	0.95
Citigroup: EMI World ex US	0.96	0.97	0.97	0.98
MSCI EAFE	1.00	1.00	1.00	1.00
MSCI Emerging Markets	**0.89**	**0.93**	**0.90**	**0.89**

- A further diversification benefit of the International microcap space, is the inability of hedge funds to short these stocks – in Emerging Markets, it is possible for hedge funds to borrow large cap names, making the space much more volatile, particularly in recent periods.

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GLOBEFLEX KEY VALUE-ADDED SUMMARY

GlobeFlex's investment value-added for the Endowments falls into four specific areas:

1. **EXPERIENCE.** Prior to founding GlobeFlex, Bob Anslow built the first systematic process for International investing at the highly respected Nicholas-Applegate Capital Management organization in San Diego. As Director of their six-person Systematic and Global Portfolio Management/Research Group, Bob was responsible for the investment of $6 billion in U.S. and international assets for nearly eight years. This success brought widespread acceptance of systematic investing within what was then a traditional management firm. When he departed to found GlobeFlex, nearly half of Nicholas-Applegate's assets were managed systematically. Bob has over 20 years of dedicated experience to the art and science of systematic investing.

2. **PROPRIETARY SYSTEMS.** GlobeFlex has created its own proprietary software platform to keep track of financial information on over 7,000 international companies. Part of this system - tracking detailed analyst estimate information abroad - goes back nearly 15 years, providing a huge information advantage when compared against GlobeFlex's peer network who are just developing their systems capabilities. Having this advantage is extremely helpful in micro, small and mid cap stocks where fundamental change is more dynamic and there are literally thousands of investment opportunities to consider. In International small cap equity investing in particular, information comes at a premium as these stocks remain under-researched and are often inefficiently priced. GlobeFlex's advantage is that the depth of their small cap company information incorporates as much data as others now track for an average large cap company.

3. **EXTENDED RESEARCH NETWORK** In 1999 GlobeFlex established their Virtual Investment Team (VIT). This Team at GlobeFlex is a group of three highly experienced research partners around the country, who confer weekly and meet quarterly with the on-site core investment team. GlobeFlex has created the "virtual team" concept to advance their commitment to original research, in order to more directly deliver superior results to their clients. GlobeFlex requires that each partner make a full-time commitment to the firm, yet supports their geographic flexibility and research independence. In formalizing this structure, GlobeFlex can attract a more desirable group of independent thinkers.

4. **TRACK RECORD OF SUPERIOR RETURNS AND NEEDED STYLE/MANAGER DIVERSIFICATION.** As outlined below, GlobeFlex's results demonstrate historical reliability in this space:

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Periods ending 03/31/2005
Annualized Returns(%)

	Latest Qtr.	1yr	3yrs	5yrs	7yrs	10yrs
GlobeFlex International Small Cap	**4.3**	**26.7**	**30.1**	**16.8**	**13.3**	**12.0**
S&P/Citigroup World ex US EMI	3.7	22.1	21.5	7.1	7.9	7.4
MSCI EAFE Small Cap Index	3.8	18.9	21.7	7	6.4	3.4
Global ex U.S. Small Company Median	3.9	23.4	22.1	4.4	12.3	11.5

Return Statistics

Measured Against the S&P/Citigroup World ex US EMI	R2	Alpha	Beta	Information Ratio	Tracking Error
Five Years	0.95	9.41	0.83	1.80	5.40
Ten Years	0.89	4.56	0.93	0.75	6.13

Measured Against the MSCI EAFE Small Cap Index	R2	Alpha	Beta	Information Ratio	Tracking Error
Five Years	0.93	9.56	0.81	1.54	6.36
Ten Years	0.90	7.98	0.85	1.35	6.44

1) Cambridge Associates' Universe of Global ex US Small Company Managers

Note on Benchmark: The S&P/Citigroup BMI (Broad Market Index) covers 50 countries around the world and contains 8,500+ companies with a market cap of $100 million or greater. The PMI (Primary Market Index) and the EMI (Extended Market Index) divide the BMI by relative-size on a country by country basis. The PMI contains the largest 80% by market cap, while the EMI contain the smallest 20%. The proposed benchmark for the International Microcap mandate is the BMI below $500m market cap to ensure that all international stocks, below $500m, are included in the benchmark.

GlobeFlex's Total Returns Compared to Benchmark (actual results for UTIMCO accounts):

Mandate	Return since Inception	Benchmark return	Estimated Value Added[1]
International Small	59.9%	46.3%	$ 19,417,667
Canada	24.7%	13.9%	4,677,958
Japan	9.9%	1.6%	3,879,906
Total			**$ 27,975,531**

1) Based on weighted average asset balance; gross of performance fees

The estimated performance fee payable to GlobeFlex is $2.8m, or 1.2% of the weighted average assets under management (based on the current level of outperformance). This results in a 10.8% net return, above the respective benchmarks.

When applying UTIMCO's credit earned from the revenue share agreement (estimated to be $1m), the total performance fee is reduced to .80% over the weighted average assets under management and results in an 11.25% net value added return.

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GLOBEFLEX ORGANIZATION OVERVIEW

HISTORY:

GlobeFlex Capital, L.P., is an independent, employee-owned equity manager with both domestic and international expertise. They were founded in April 1994 by Marina Marrelli and Bob Anslow as a California limited partnership. Upon founding, eight percent of the firm was sold to outside (silent) investors to properly capitalize GlobeFlex; employees hold 92% of the firm. There are 8 employee owners, comprising all senior professionals and all portfolio managers, with Marina and Bob retaining controlling interest.

Bob Anslow originally created the International Small Cap Equity strategy at Nicholas-Applegate in 1990. At its peak, he managed $100 million in dedicated International Small Cap Equity assets.

ORGANIZATION:

In creating GlobeFlex, Anslow and Marrelli hand-picked a team of investment professionals, most of whom had worked together for years. The stability of their shared experience and common goals took GlobeFlex quickly through the startup phase to reach $1 billion under management within three years.

- GlobeFlex currently has 16 employees. *(Biographies and Organizational chart can be found in the Appendix)*
- Given GlobeFlex's experience and systematic approach to this investment space, their research breadth through their Virtual Investment Team, their focus on small and mid cap investing specifically, and the level of current assets under management, it is UTIMCO's opinion that they are sufficiently staffed to continue to succeed at this time.
- All professional staff at GlobeFlex are compensated by base salary, annual incentive bonuses tied to performance, and, for partners, equity ownership in the firm. All members of the portfolio management team are partners. Aside from base salaries, the majority of their compensation is in the form of equity distributions; they are directly tied to the success of the investment products and the firm in general.

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ASSETS UNDER MANAGEMENT:

The history of GlobeFlex's total assets under management over the last seven years is as follows:

Year	Total Firm Assets Gross	Total Firm Assets Net UT Endowments
6/30/2005	$1,500 M	$1133 M
2004	$846 M	$453 M
2003	$418 M	$318 M
2002	$240 M	0
2001	$665 M	0
2000	$762 M	0
1999	$1,163 M	0
1998	$1,180 M	0

Please note that $45 M of UT Endowment withdrawals were made in 2005.

- GlobeFlex had a dramatic drop in assets from 1999 - 2002, due in large part to a reallocation away from their U.S. small cap product to other outside mandates.
- GlobeFlex's recent growth in assets can in large part be attributed to assets in International Small Cap. When UTIMCO hired GlobeFlex to manage an International Small Cap mandate in 2003, they had $2 million under management in that strategy. Since then, International Small Cap assets have grown to $533 million, net of the UT Endowments investment.

FIRM CAPACITY / MANAGING GROWTH

- At present, there are no limitations placed on the capacity or potential growth of GlobeFlex as an organization. GlobeFlex's founders, having left Nicholas-Applegate, are well aware that capping asset sizes in small cap mandates is a necessity for performance effectiveness and organizational longevity. In addition, staff feels comfortable that GlobeFlex intends to remain independent and to not dilute their International Small cap expertise with distractions into other investment categories such as hedge funds or emerging markets endeavors.
- GlobeFlex will be closing their International Small Cap Equity assets at $1.5 billion. At present, GlobeFlex manages $774 million in International Small Cap assets.
- GlobeFlex has agreed to manage the microcap portfolio exclusively for UTIMCO – they estimate, that they have the ability to manage up to $200 million in this space.

GLOBEFLEX PHILOSOPHICAL OVERVIEW

GlobeFlex's investment process focuses on individual stock selection from a bottom-up, country-specific perspective. Within each country, their strategy utilizes mainly growth, but some valuation criteria to evaluate a stock's relative attractiveness. They look for under-followed micro cap companies exhibiting earnings and cash flow acceleration at a point where that future growth potential is not yet fully reflected in their stock prices.

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Within each country, GlobeFlex's strategy utilizes mainly growth, but some valuation criteria to evaluate a stock's relative attractiveness. In substance, GlobeFlex functions as a growth manager who pays a good deal of attention to valuation. There is no specified bias towards any industry or particular type of company. Rather, the approach is geared to identify "successful" companies with the best return opportunities within each country.

All of GlobeFlex's investment decisions are based on an internal research process. They are not dependent upon external or secondary sources to interpret and pass along the information. GlobeFlex's investment disciplines are structured to be objective and to be applied on a consistent basis to the small (micro included) and mid cap universe of stocks within each country. This ensures timely decision-making and attempts to remove the negative effects of the "human emotion" element which may dominate during periods of extreme market volatility and uncertainty.

GLOBEFLEX PROCESS OVERVIEW

GlobeFlex's process flows as follows:

- GlobeFlex evaluates more than 1,580 international small/microcap stocks in developed markets – a true competitive edge. They select stocks where there is a near term fundamental change in operating earnings and the underlying free cash flow. The key is the early recognition of change relative to other investors. Their experience and seasoning in this segment of the market gives them a high degree of confidence in the country specific investment disciplines they have developed.

- Operating earnings/cash flow acceleration is based upon their appraisal of a company's near term profitability pattern. Their trend analysis combines both actual reported earnings and expectation earnings estimates, and is adjusted to each country's particular financial reporting requirements. Companies whose short-term earnings begin to exceed expectations lead to superior relative stock performance.

- Relative valuation measures are utilized to determine how under/overvalued an individual company is within its country's universe. The valuation measures they use include price to book, price to earnings, price to sales, price to cash flow, and price to dividends or yield. To evaluate the stocks within each country, they select the specific measures of equity value which best suit that country's particular accounting standards and reporting requirements. GlobeFlex employs a blend of quantitative and qualitative techniques in both selecting stocks and building portfolios. For example, in countries using reserve accounting and accelerated depreciation such as Japan and Germany, more "top line" measures such as balance sheet (P/B) and free cash flow valuation provide the best financial ratios, rather than measures focusing on after tax net income (P/E).

- In addition, the comparative valuation level of each company is further enhanced by adjusting for economic sector effects. This adjustment levels the playing field across economic sectors so, for example, a retail stock can be compared directly to a drug company or a utility.

- Relative strength is then used as a confirmation tool. GlobeFlex follows the premise that the mere identification of outstanding fundamentals will not lead to superior relative performance until other investors reach the same conclusion about the company. The relative strength of a stock addresses the important issue of timeliness. An oscillator, which is based on the notion of short-term price reversal, is used as a trading tool to ensure purchase candidates are not overbought at the time of purchase.

- GlobeFlex's process consistently generates a portfolio of stocks which reflect superior long-term growth potential at attractive valuation levels, where near term profitability continues to exceed investor expectations.

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- Because they are bottom-up stock pickers, GlobeFlex's country allocation strategy is essentially benchmark neutral, constructed around each client's benchmark. GlobeFlex incorporates no active currency strategies and will hedge only if instructed to do so by a client.

- Initial security positions average between 0.3% to 1.5% of the portfolio, and individual positions are limited to a maximum of 2.5%. GlobeFlex's broad portfolios typically average 100 -150 securities with annual turnover approximating 120%. It is anticipated that the proposed Micro Cap mandate will contain approximately 125 securities to provide adequate diversification. Please note that in more select mandates, such as Japan and Canada, GlobeFlex will hold more concentrated portfolios of 60-80 securities.

- Portfolios are well-diversified across sectors and industries. Specifically, sector weights are +/- 5% relative to the Citigroup BMI (Broad Market Index) ex-US index below $500 million.

- Current holdings are sold when they are no longer expected to outperform the market, as measured by a drop in relative ranking. Their process consistently generates a portfolio of stocks which reflect superior long-term growth potential at attractive valuation levels, while near term profitability continues to exceed investor expectations.

- Due to the lower liquidity levels in the microcap space, GlobeFlex estimates it would take 5 to 6 days to fully trade positions, with an expected transaction cost of 350 bps. This is approximately 2 days longer and 100 bps higher than the International Small portfolio.

RESEARCH/PORTFOLIO MANAGEMENT/TRADING/OPERATIONS IMPLEMENTATION

One of GlobeFlex's key strengths is that they have designed an internal, interactive research platform that is extensive in terms of its ability to look at stock selection information. Their dedicated systems analyze thousands of stocks across ten global databases on a continuous basis going back over ten years; with information on International small cap stocks that rivals competitors' databases on large cap companies. This platform enables GlobeFlex to have a value-added advantage in realistically evaluating, implementing, and testing the functionality of their disciplines as the world really was, giving them the ability to disentangle anomalies and zero in on reliable sources of alpha.

GlobeFlex also believes it's one thing to have a lot of stock specific data, and another to know how to evaluate and analyze this information consistently over time and use it to produce real world performance returns. As a firm, they have taken great care to integrate the human thought process into a consistent systematic process. The development of their specific criteria, therefore, is a direct result of their own extensive experience in the systematic application of investment strategies for institutional equity management firms. This is what they call their "practitioner's perspective", which can be described as information not from a quantitative or mathematical perspective, but very much from a portfolio manager's perspective.

Finally, GlobeFlex has taken efforts to develop, in conjunction with a leading financial technology firm, a seamless integration among their research, portfolio management, trading, and operations platforms. The architecture utilized is flexible and scalable so that they may benefit from advances in technology as they occur over time.

In viewing their operation and the seamless integration of their systems – which have been in a constant stay of renewal and upgrade over the years, UTIMCO believes that GlobeFlex has the systems wherewithal, in addition to a solid portfolio managers' perspective, to build a successfully performing, long-term International microcap equity portfolio for the Endowments.

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Current portfolio

Outlined below are the top 5 security holdings that GlobeFlex would include in a microcap portfolio, followed by a country and sector breakdown:

Company	% Weight
Mitsui Soko Co	1.5
Bloomsbury Publishing	1.5
Ulster Television	1.5
Nitto Kohki Co.	1.5
Vidrala SA	1.5
Total	**7.5**

Countries	Globeflex Micro Cap Portfolio	BMI <$500 Million Benchmark	Difference
Australia	7.7%	5.7%	2.0%
Japan	32.2%	30.2%	2.0%
Greece	3.5%	1.5%	2.0%
Canada	13.4%	11.7%	1.7%
Sweden	3.7%	2.3%	1.4%
France	3.9%	3.0%	0.9%
Spain	2.1%	1.4%	0.7%
New Zealand	1.5%	0.9%	0.6%
Hong Kong	3.6%	3.2%	0.4%
Singapore	2.4%	2.1%	0.3%
Germany	3.1%	3.0%	0.1%
Iceland	0.0%	0.3%	-0.3%
Portugal	0.0%	0.3%	-0.3%
Austria	0.0%	0.4%	-0.4%
Slovenia	0.0%	0.4%	-0.4%
Ireland	0.0%	0.4%	-0.4%
Switzerland	2.7%	3.1%	-0.5%
Italy	1.4%	2.0%	-0.5%
Finland	1.2%	1.8%	-0.6%
Norway	0.7%	1.3%	-0.6%
Netherlands	1.5%	2.1%	-0.6%
Denmark	0.3%	1.3%	-1.0%
Belgium	0.5%	1.4%	-1.0%
United Kingdom	13.6%	15.6%	-2.0%
South Korea	0.0%	4.7%	-4.7%
Total	**100.0%**	**100.0%**	**0.0%**

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Sectors	Globeflex Micro Cap Portfolio	BMI <$500 Million Benchmark	Difference
Energy	7.8%	4.3%	3.5%
Materials	14.3%	11.8%	2.4%
Consumer Staples	8.1%	5.8%	2.3%
Information Technology	16.7%	15.8%	0.9%
Telecommunication Services	0.7%	0.6%	0.1%
Financials	13.3%	13.6%	-0.3%
Utilities	0.3%	1.0%	-0.7%
Industrials	20.7%	22.8%	-2.1%
Consumer Discretionary	14.3%	17.8%	-3.5%
Health Care	2.8%	6.5%	-3.7%
Total	**100.0%**	**100.0%**	**0.0%**

	UTIMCO Micro Cap Portfolio	BMI <$500 Million Benchmark	EMI
$ Weighted Median Mkt Cap	319.5	333.15	1.75 B
EPS Growth - 5 year	11.2%	5.5	7.1
Current Year Growth	23.5%	11.5	10.6
Earnings Surprise	68.3%	64.2%	66.9%
P/E Current Year	14.9	15.5	16.0
P/E Next Year	13.0	13.4	14.0

As shown in the table above, the proposed Microcap portfolio possesses stronger growth prospects when compared to its benchmarks, and trades at more attractive valuation levels.

UTIMCO INVESTMENT PROCESS / PERFORMANCE-BASED FEES / REVENUE SHARE

UTIMCO's Managing Director of Public Markets (Larry Goldsmith) has a longstanding professional working knowledge of GlobeFlex going all the way back to the mid 1990s.

Through nearly a decade of contact with the organization, staff feels it has an excellent understanding of GlobeFlex. They represent a group of exceptionally bright, independent, highly-skilled and disciplined investors that tackle specific asset areas, in a predominantly quantitative and systematic way. GlobeFlex's historical weakness – poor marketing – has worked to-date to the Endowments' favor. The firm's small asset base has enabled a focused mindset on product performance and execution, and was paramount in UTIMCO negotiating beneficial performance fee and revenue sharing arrangements on behalf of the Endowments.

It is worth noting, that due to the revenue sharing arrangements negotiated with GlobeFlex, the Endowments will earn over $750,000 in royalties in 2005 - and (assuming current asset levels remain constant) – over $1 million in additional royalties per year through at least 2009 – with some continuing possibly to 2011. This annual payment exceeds the entire aggregate salary of the UTIMCO Public Markets staff. While not finalized at this time, staff is confident that the proposed mandate will take on a performance-based fee arrangement of like-kind to those already

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under agreement with GlobeFlex. In addition, should UTIMCO release the exclusivity agreement on the Micro-Cap mandate, a revenue share provision, similar to prior GlobeFlex agreements, will be applicable as well.

Over the past two years GlobeFlex has worked at upgrading their trading and analytical systems and has added staff where necessary to bolster their growing asset base. It is obvious that recent performance has worked at improving their visibility to the sponsor community; however, a recent visit to their offices in June, 2005, revealed that they remain attentive to their main goal – execution of alpha-generating results.

As a result of the long-term familiarity with the firm's principals, a strong conviction in their detailed, systematic, and proven process, their excellent performance, and highly favorable terms negotiated for the Endowments, UTIMCO staff believes that expanding GlobeFlex's mandate to include International Microcap investments will work to enhance the Potential Value Added (PVA) capability of the International Equity asset class.

CONCLUSION/RECOMMENDATION

UTIMCO staff believes that a $50 million initial allocation to GlobeFlex Capital's Microcap International equity mandate provides not only a significant PVA return opportunity for the Endowments, but also a substantial step up in the exploration of inefficient equity investment spaces overseas. UTIMCO believes that GlobeFlex's superior combination of proprietary research capability and systematic process, coupled with their reasoned philosophical content and seasoned portfolio judgment are the best way to increase the Endowment's allocation to this area – generating important return and delivering needed asset diversification. UTIMCO staff believes that this proposal represents a rare investment opportunity for the UT Endowments in this asset space and encourages the approval of the proposed investment recommendation.

Approved:

Bob Boldt

Larry Goldsmith

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Appendix
Key Personnel Responsible For Fund Management

Robert J. Anslow, Jr., - Managing Partner and Co-Founder, Chief Investment Officer.
Prior to founding GlobeFlex, Bob built the first systematic process for international investing at Nicholas-Applegate Capital Management. As Partner and Director of the six-person Systematic and Global Portfolio Management/Research Group, Bob was responsible for the investment of $6 billion in U.S. and international assets for nearly eight years. Bob was previously responsible for systematic portfolio management and research processes at two major investment institutions: the California Public Employee's Retirement System (CalPERS) and BayBanks Investment Management of Boston. He received his B.S. degree in Economics from the University of the Pacific.

Marina L. Marrelli, - Managing Partner and Co-Founder, CEO, Client Services & Marketing Director.
Marina has been helping clients to define investment needs and structure investment portfolios for 18 years. Her work with institutional investors began at Nicholas-Applegate in 1986. As Vice President and Head of International Marketing, Marina built and directed client service activities in Europe, South America and Asia, including the launching and ongoing support of all offshore funds. Her business career began in the publishing industry, where she was Managing Editor at Harcourt Brace Jovanovich for several years. Marina earned her M.S. degree from the University of Edinburgh and B.A. degrees in both English and Philosophy from the University of California, San Diego.

Brian C. Gemmer, -Partner, Portfolio Management/Research.
Brian joined the GlobeFlex investment team in November 1999, backed with qualitative and quantitative analytic skills required to contribute to the team's original research and portfolio management work. Brian has a sell-side investment banking background from two years as a corporate finance analyst for Nationsbanc Montgomery Securities, the major San Francisco-based investment bank, where he ranked as #1 analyst in his class. Brian's undergraduate studies culminated in a dual concentration in finance and operations/information management. Brian graduated magna cum laude with a B.S. degree in Economics from The Wharton School at the University of Pennsylvania.

Andrew Mark, Partner, - Portfolio Management/Research/Trading.
Andrew joined GlobeFlex shortly after its inception and works closely with Cherrie St. Germain, Brian Gemmer and Bob Anslow on the fully integrated functions of portfolio management, risk analysis, research and trade execution. While earning his M.B.A. in Finance with a specialty in investment theory from San Diego State University Graduate School of Business, Andrew interned at Marathon Asset Management. He also holds a B.S. degree in Business Administration from San Diego State University.

Cherrie L. St. Germain, - Partner and Co-Founder, Portfolio Management/Research/Trading.
Cherrie employs her 18 years of portfolio management and research experience to direct portfolio implementation of all client portfolios, including new cash investment. She also works on the development and engineering of GlobeFlex's systematic approaches. Cherrie, Bob, Medy and Marina also worked closely together for many years while at Nicholas-Applegate, where she was Vice President and Senior U.S. Portfolio Manager. There she implemented over $5 billion in systematic domestic equities. From 1986 to 1987, she handled research and operations responsibilities at Connecticut Investment Management, Inc.

John C. Philson, Research Specialist, -
John Philson has 25 years of experience developing, implementing and enhancing complex decision support systems for the investment industry. He previously served in systems positions with Fidelity, Bank of Boston, Cresap, Citicorp, Marine Midland Bank and Index Systems. John earned an M.B.A. degree in Finance from the Columbia Graduate School of Business, and a B.A. in Music from Colby College.

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Robert B. Olson, CFA - Research Specialist
Bob has over 20 years of practical investment experience, spanning the roles of plan sponsor, portfolio manager, and stock research specialist. Following a B.S. degree in Management with high honors from the U.S. Coast Guard Academy, Bob earned an M.B.A. in Finance from The Wharton School at the University of Pennsylvania. He is a Chartered Financial Analyst and a member of the Association for Investment Management and Research

John B. Guerard, Jr. - Research Specialist
John brings years of experience from the world of financial model building with work over a broad range of global investment universes. John earned his Ph.D. in Finance from the University of Texas at Austin in 1980 after earning his M.S.I.M from Georgia Institute of Technology and M.A. in Economics from the University of Virginia. His focus on the fields of economics and finance began at Duke University from which he graduated cum laude in 1975. Since 1985, he has taught in MBA programs at Lehigh, NYU and Rutgers. John is currently an adjunct faculty member at the University of Pennsylvania, teaching Corporate Finance and R&D Management and Corporate Financial Policy in the Wharton Executive Masters in Technology Management program.
Pamela M. Farrell – Associate, Client Service/Marketing
Pam Farrell joined GlobeFlex in October 2004 as the point person for data communications to pension consultants, prospects and clients. Working with Marina Marrelli and the marketing/client service team, she responds to RFPs, questionnaires and analytic requests, providing clear, proof-based communications.
Pam left Alliance Bernstein in 2002 to make the move to San Diego, where she joined Pacific Corporate Group LLC, a private equity investment management firm. There she led the internal marketing effort, writing RFP's, designing all graphics and collateral projects, handling consultant data requests and producing presentations and other marketing/research publications.
Pam's B.A. was earned at Colgate University, where she graduated magna cum laude with high honors in History. She earned an extended studies certificate from San Diego State University in Marketing.

Laima M. Tumas
Operations Technology Specialist
Laima brings the invaluable perspective and extensive knowledge of a 25-year veteran in the institutional investment field. Her career began in 1981 with an immersion in performance analysis. She then went on to a 9-year role at Roxbury Capital Management, rising to Treasurer and Managing Director-Operations of the firm. Her internal responsibilities were broad, including AIMR-compliant reporting and full coordination of portfolio systems technology and accounting. She subsequently established a private consulting practice that took her inside many investment firms in multiple capacities. Through a range of projects involving systems conversions, employee training and the interim management of daily operations, she gained insight on best practices within money management organizations. Laima holds a B.A. degree in psychology from California State University, Northridge, and took post-graduate courses at University of Southern California prior to establishing her investment operations consulting practice in 1996.

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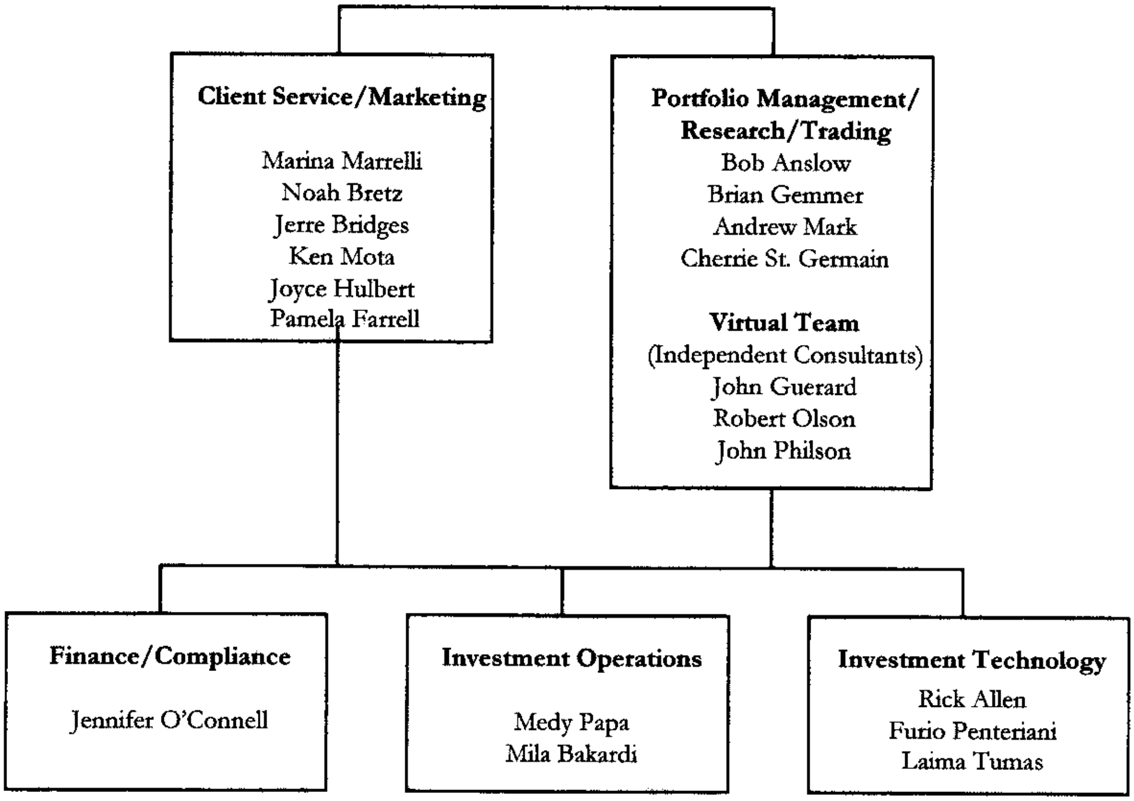

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TAB 7

Agenda Item
UTIMCO Board of Directors Meeting
July 21, 2005

Agenda Item:	Benchmark Report from Cambridge Associates
Developed By:	Cambridge Associates
Presented By:	Myers
Type of Item:	Information Item
Description:	This agenda item presents an analysis of benchmark alternatives for the Absolute Return Hedge Fund, Directional Hedge Fund, Commodities, and Fixed Income asset categories of the UTIMCO Policy Portfolio.
Recommendation:	Cambridge recommendations are included in the attached report. Staff recommendations were presented at the June 16, 2005 UTIMCO Board meeting and are attached for reference (benchmarks under review are highlighted in orange on the following page).
Discussion:	The UTIMCO Board approved a new asset allocation policy at the June 16, 2005 meeting, subject to additional review of four asset category benchmarks. The benchmarks recommended by UTIMCO staff for Absolute Return Hedge Funds, Directional Hedge Funds, Commodities, and Fixed Income were questioned by Cambridge Associates and UTIMCO Board members. Chairman Hunt directed Cambridge to review these benchmarks and report back to the Board with recommendations. Staff has reviewed and maintains its original recommendations.
Reference:	Attached material from Cambridge Associates and UTIMCO staff; material included with June 16, 2005 UTIMCO Board meeting material; Asset Allocation Review 2005 Notebook

Agenda Item
UTIMCO Board of Directors Meeting
July 21, 2005

UTIMCO Board Approved Asset Allocation Policy

Recommended 2005 Asset Allocation Policy	Percent of Portfolio (%)		
Asset Category	**Policy Targets**	**Policy Ranges**	**Benchmark**
US Equities	**20.0**	**10 to 30**	Russell 3000 Index
Global ex US Equities	**17.0**	**10 to 30**	
Non-US Developed Equity	10.0	0 to 30	MSCI EAFE Index with net dividends
Emerging Markets Equity	7.0	0 to 10	MSCI Emerging Markets Index with net dividends
Hedge Funds	**25.0**	**15 to 30**	
Directional Hedge Funds	10.0	5 to 15	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	15.0	10 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
Private Capital	**15.0**	**5 to 20**	Venture Economics' Periodic IRR Index
Venture Capital	4.0	0 to 8	
Private Equity	11.0	5 to 15	
Inflation Linked	**13.0**	**5 to 20**	
REITS	5.0	0 to 10	Wilshire Associates Real Estate Securities Index
Commodities	3.0	0 to 6	GSCI Index minus 1%
TIPS	5.0	0 to 10	Lehman Brothers US TIPS Index
Fixed Income	**10.0**	**5 to 15**	Lehman Brothers Aggregate Index
Cash	**0.0**	**0 to 10**	91 Day T-Bills

Expected Return>	8.34%
1 Year Downside Risk>	7.6%
Standard Deviation>	10.8%
95% 1 Year VaR>	-13.8%
Illiquidity>	32.4%

Benchmarks subject to additional review by Cambridge Associates

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MEMORANDUM

TO: UTIMCO Board

FROM: Bruce Myers
Hamilton Lee

DATE: July 14, 2005

RE: Benchmarks for Marketable Alternative Assets Program

RECOMMENDATION

We have reviewed the analysis prepared by UTIMCO staff, as well as data provided by Standard and Poor's regarding their Hedge Fund Indexes and concur with the use of those benchmarks, as proposed by staff, for UTIMCO's marketable alternative asset program. As recommended by staff, the total marketable alternative assets program would be benchmarked against a blend of 20% S&P Arbitrage Index, 60% S&P Event Driven Index, and 20% S&P Directional Tactical Index. The Absolute Return portion of the Marketable Alternatives program would be benchmarked against a two-thirds/one-third blend of the Event Driven and Arbitrage Indexes while the Equity Hedge portion of the program would be benchmarked against a 50/50 blend of the Event Driven and Directional Tactical indexes.

RATIONALE

Our support for these indexes is based on our review of staff analysis and a thorough review of the construction methodology and performance data provided by Standard and Poor's. We have also independently calculated the risk, returns and correlations of the indexes, as shown on he attached exhibits. As noted by staff, these indexes have the benefit of being rigorously constructed, transparent and investable, all of which are characteristics of sound benchmarks. Additionally, the proposed blends of the three major S&P index components seem to fit well with the underlying pattern of returns of the UTIMCO program. The attached exhibits show data on the S&P Hedge Fund Indexes, other potential benchmarks, and the actual performance of the UTIMCO Program. Return and Standard Deviation are shown on the first two pages, while a correlation table is included on the third. The S&P Indexes are clearly superior to the CSFB and HFR Indexes, which are the other commonly, used hedge Fund indexes. Our manager medians have a reasonable correlation to UNTIMCO program returns, but are not investable.

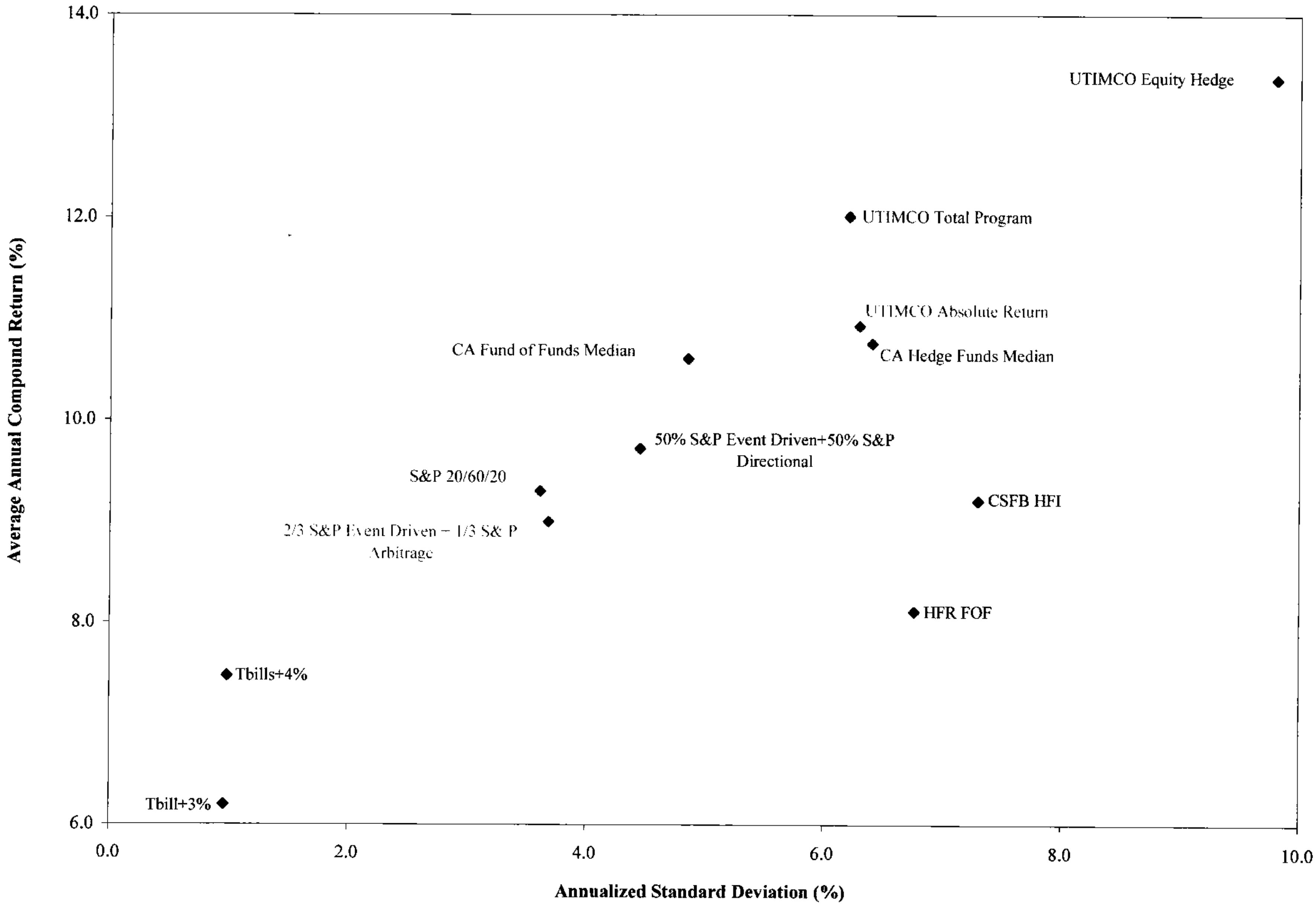
UTIMCO

MARKETABLE ALTERNATIVES BENCHMARKING

RISK/RETURN ANALYSIS

October 1, 1998 through March 31, 2005

6.5 Years



Manager(s)	Annualized Average Annual Compound Return	Standard Deviation	Sharpe Ratio[1]
UTIMCO Total Program	12.0	6.2	1.37
S&P 20/60/20	9.3	3.6	1.63
UTIMCO Absolute Return	10.9	6.3	1.20
2/3 S&P Event Driven + 1/3 S&P Arbitrage	9.0	3.7	1.52
UTIMCO Equity Hedge	13.4	9.8	1.02
50% S&P Event Driven+50% S&P Directional	9.7	4.5	1.42
CSFB HFI	9.2	7.3	0.82
HFR Fund of Funds	8.1	6.8	0.73
Equal Weighted B/M	8.9	3.4	1.65
Tbill+3%	6.2	1.0	3.01
Tbills+4%	7.5	1.0	4.15
S&P Hedge Fund PF Index	8.9	3.4	1.63
S&P Arbitrage PF Index	7.3	4.1	0.99
S&P Event Driven PF Index	9.8	4.7	1.36
S&P Directional / Tactical PF Index	9.5	6.5	0.96
CA Hedge Funds Median	10.8	6.4	1.15
CA General Arbitrage Median	9.9	2.8	2.27
CA Fund of Funds Median	10.6	4.9	1.47

[1]Sharpe Ratio: To calculate this number, subtract the average T-bill return (risk free return) from the manager's average return then divide by the manager's standard deviation. The amount of return over the risk free rate that can be expected for each unit of risk accepted.

UTIMCO
MARKETABLE ALTERNATIVES BENCHMARKING
CORRELATION MATRIX
October 1, 1998 through March 31, 2005
6.5 Years

	Current Portfolio			Indices							CA Medians			
	UTIMCO Total Program	UTIMCO Absolute Return	UTIMCO Equity Hedge	CSFB HFI	HFR Fund of Funds	Tbill+3%	Tbills+4%	S&P 20/60/20	2/3 S&P Event Driven + 1/3 S&P Arbitrage	50% S&P Event Driven+50% S&P Directional	CA Hedge Funds Median	CA General Arbitrage Median	CA Fund of Funds Median	CA U.S. Long/Short Median
UTIMCO Total Program	1.00													
UTIMCO Absolute Return	0.78	1.00												
UTIMCO Equity Hedge	0.78	0.22	1.00											
CSFB HFI	0.57	0.25	0.59	1.00										
HFR Fund of Funds	0.50	0.21	0.54	0.92	1.00									
Tbill+3%	0.23	-0.02	0.44	0.05	0.15	1.00								
Tbills+4%	0.21	0.01	0.38	-0.01	0.07	0.98	1.00							
S&P 20/60/20	0.66	0.57	0.48	0.48	0.63	0.38	0.37	1.00						
2/3 S&P Event Driven + 1/3 S&P Arbitrage	0.56	0.58	0.32	0.39	0.52	0.37	0.36	0.92	1.00					
50% S&P Event Driven+50% S&P Directional	0.65	0.44	0.58	0.50	0.62	0.30	0.30	0.88	0.63	1.00				
CA Hedge Funds Median	0.68	0.34	0.71	0.85	0.90	0.30	0.23	0.70	0.58	0.70	1.00			
CA General Arbitrage Median	0.34	0.30	0.27	0.22	0.42	0.67	0.67	0.79	0.82	0.59	0.45	1.00		
CA Fund of Funds Median	0.64	0.33	0.67	0.82	0.91	0.47	0.40	0.79	0.69	0.75	0.93	0.65	1.00	
CA U.S. Long/Short Median	0.70	0.42	0.65	0.77	0.84	0.19	0.12	0.67	0.55	0.67	0.97	0.35	0.84	1.00

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MEMORANDUM

TO: UTIMCO Board

FROM: Bruce Myers
Hamilton Lee

DATE: July 11, 2005

RE: Inflation Hedging Benchmark

Recommendation

We recommend using a blend of one-third Dow Jones-AIG Commodities Index and two-thirds Goldman Sachs Commodities Index less 50 basis points. This split roughly corresponds to the weighting of the PIMCO Commodity Real Return Fund (which has the DJ/AIG Index as its benchmark) and GSCI futures contracts in the UTIMCO portfolio.

Rationale

UTIMCO's current benchmark, the Goldman Sachs Commodities Index minus 100 basis points, was instituted when the entire portfolio consisted of futures contracts against the GSCI. At the time, counterparties for the GSCI futures contracts were fewer, and the subtraction of 100 basis points was intended to reflect the transaction costs of rolling those contracts over during the course of the year. However, since the portfolio was created, increased liquidity in the GSCI has lowered transaction costs and current estimates of transactional "friction" tend to be closer to 50 basis points. Additionally, in the past few years a number of actively managed products have emerged which are designed, in some fashion, to generate the return that comes with an allocation to commodities. The PIMCO account is an example, and funds such as PIMCO's tend to be benchmarked without a deduction for frictional costs. As long as a significant portion of UTIMCO's commodities exposure is based on rolling the GSCI, some allowance should arguably by made for the frictional costs in that area, but it should be lowered to 50 basis points.

Recently, UTIMCO diversified the commodities portfolio to include PIMCO's Commodity Real Return product, which attempts to provide the returns of the Dow Jones-AIG Commodities Index using derivatives collateralized with TIPS and other fixed income instruments. The composition of the DJ-AIG Index differs significantly from that of the GSCI, most notably in the weighting to energy (36% for the DJ-AIG vs. 75% for the GSCI. As a result, the use of the DJ/AIG benchmark could be viewed as a method of reducing exposure to the energy complex in light of the West Texas mineral interest exposure.

Attached to this memo are two exhibits. The first shows the characteristics of commonly used commodities indexes, while the second shows the results of a recent survey we undertook with regard to commodities benchmarks. Of the 21 institutions that responded, 8 used the DJ/AIG Index, 5 used the GSCI, and the remaining 8 used some sort of s custom benchmark or blend.

UTIMCO
CHARACTERISTICS OF MAJOR COMMODITY INDICES
As of March 31, 2005

	Standard & Poor's Commodity Index (SPCI)	Dow Jones-AIG Commodity Index (DJ-AIGCI)	Cap-Weighted Goldman Sachs Commodity Index (GSCI)	Lite Energy Goldman Sachs Commodity Index (GSCI Lite)	Equal-Weighted Goldman Sachs Commodity Index (GSCI)*	Rogers International Commodity Index (RICI)
Energy	49%	36%	75%	43%	25%	44%
Livestock	7%	9%	6%	13%	25%	3%
Crops	37%	30%	11%	25%		32%
Industrial Metals	4%	18%	7%	16%	25%	14%
Precious Metals	4%	7%	2%	4%	25%	7%
Number of Contracts	17	19	24	24	NA	35
Weighting	U.S. Commercial Open Interest	Liquidity and Production	World Production Quantity	World Production Quantity	Equal-Weighted by Sector	World Consumption Patterns
Weighting Changes	Annually Dollar Weight	Annually Dollar Weight	Annually Dollar Weight	Annually Dollar Weight	NA	Annually Dollar Weight
Rebalancing	Constantly	Annually	None	None	None	Monthly
Returns						
Price	Yes	Yes	Yes	Yes	Yes	Yes
Roll Yield	Yes	Yes	Yes	Yes	Yes	Yes
Collateral Yield	Yes	Yes	Yes	Yes	Yes	Yes
Return Series Inception Date	January 1, 1970	January 1, 1991	January 1, 1970	January 1, 1970	January 1, 1970	January 1, 1984

* Index used by Wellington Commodities Fund in Real Assets product.

Sources: Dow Jones & Company, Inc., The Goldman Sachs Group, Inc., Rogers Raw Materials, and Standard & Poor's.

Notes: All weightings except for Standard and Poor's Commodity Index, are calculated using arithmetic averages. In contrast, the weighting for the Standard and Poor's Commodity Index (SPCI) is calculated using geometric averages. SPCI data from January 1, 1970 through December 31, 1987 use the 2 year average of Total Open Interest, data from January 1, 1988 to the present use the 2 year average of Commercial Open Interest. Numbers may not total due to rounding.

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PRELIMINARY

UTIMCO
COMMODITIES BENCHMARKS USED BY PEER INSTITUTIONS

Institution	Commodities Benchmarks
1	DJAIGTR Commodity Index
2	DJAIGTR Commodity Index
3	Goldman Sachs Commodities Index
4	DJAIGTR Commodity Index
5	Goldman Sachs Commodities Index
6	Goldman Sachs Commodities Index
7	DJAIGTR Commodity Index
8	DJAIGTR Commodity Index
9	DJAIG Commodities Index
10	Goldman Sachs Commodities Index
11	Goldman Sachs Commodities Index less 100 basis points
12	Wilshire 5000 Energy, 40% MSCI World Energy, 25% Lehman US TIPs, 15% MSCI Real Estate, 20% Goldman Sachs Commodity
13	S&P 500; S&P 500 Energy; Wilshire 5000 Modified Energy
14	50% Goldman Sachs Commodities Index, 50% DJ AIG
15	Mount Lucas Management Index
16	40% MSCI World Energy, 25% Lehman US TIPs, 15% MSCI World Real Estate, 20% Goldman Sachs Commodity Index
17	DJAIGTR Commodity Index
18	Bridgewater Real Assets (Custom benchmark)
19	Wellington Diversified Inflation Hedge Benchmark
20	DJAIGTR Commodity Index
21	Wilshire 5000 Energy

Participating Institutions

Institution
Amherst College
Brown University
Annie E. Casey Foundation
Christensen Fund
Claremont McKenna College
Goucher College
Groton School
College of the Holy Cross
University of Louisville Foundation
University of Miami
National University
University and Community College System of Nevada
Northeastern University
Oregon Health and Science University Foundation
Providence College
Soka University of America
University of the South
Surdna Foundation
UTIMCO
University of Toronto
Wellesley College

C | A

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MEMORANDUM

TO: UTIMCO Board

FROM: Bruce Myers
Hamilton Lee

DATE: July 14, 2005

RE: Fixed Income Benchmark

Recommendation

We recommend that UTIMCO change its fixed income benchmark from the Lehman Brothers Aggregate Index to the Lehman Brothers Government Index. The differences in these two benchmarks is set out in the accompanying exhibit, but the key difference is the lack of corporate or mortgage pass-through debt in the Government Index. In connection with this change in benchmark, we also recommend that applicable policy statements be amended to state that a minimum of 5% of the total fund be held at all times in U.S. Treasury, Government Agency, or highly rated developed country Sovereign Debt obligations. Such a restriction would enable staff to invest fixed income assets beyond the 5% minimum in corporate, mortgage or other debt obligations. The current limit on non-dollar credits (half of the fixed income allocation) should be kept as well.

Rationale

Most institutions seek to keep a small reserve of high quality, non-callable debt to be used as a source of payout in extremely adverse economic times. Given the (appropriately) small allocation to fixed income in the UTIMCO portfolio, it is important that there be a minimum amount of high quality non-callable bonds retained in the portfolio at all times. Should marketable equities fall dramatically as part of a severe economic contraction, high quality Treasury and Sovereign debt is likely to rally. A high quality bond allocation of as little as 5% could (depending on the severity of the equity decline and the strength of the bond rally) be a source of founds for System payout for perhaps as long as two or three years. In the absence of such reserves, equities may need to be sold at fire-sale prices, or desirable hedge-fund allocations drawn down in order to meet payout. While some amount of return is undoubtedly given up for holding this high quality bond reserve, it is, in our opinion, a reasonable trade off for the protection it brings.

Please note the following aspects of our recommendation:

- The Lehman Government Bond Index has only a slightly longer duration than the Aggregate (4.8 years versus 4.1). Thus, a significant amount of interest rate risk is not being added.

- Staff retains some flexibility under the new benchmark: fixed income beyond the 5% level could be held in mortgage-backed or other non-government obligations, and up to half of the fixed income component may be held in non-dollar bonds.

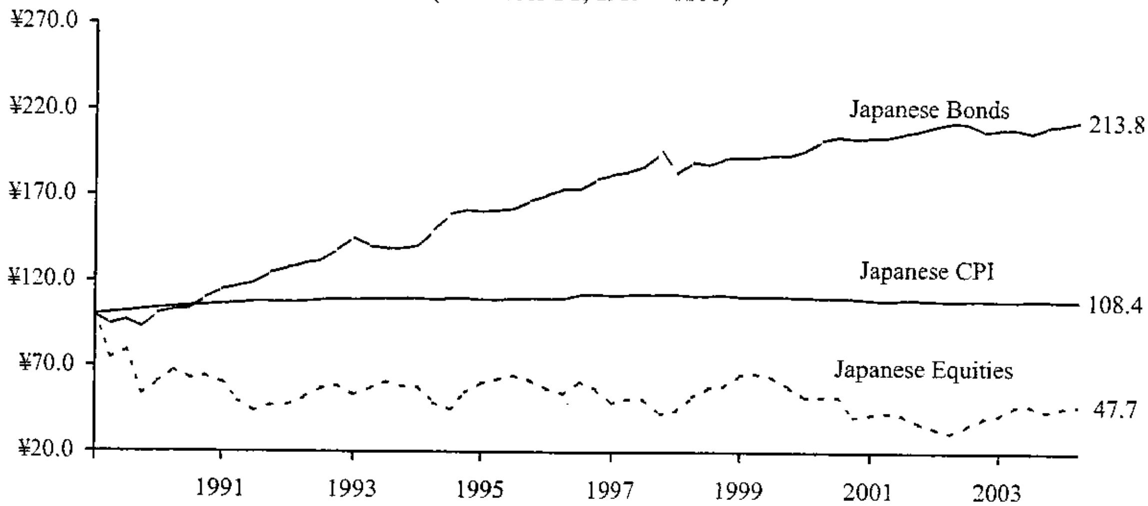
- Additionally, non-dollar highly rated Sovereign Debt should be counted toward the 5% minimum for deflation protecting bonds.

Other Considerations

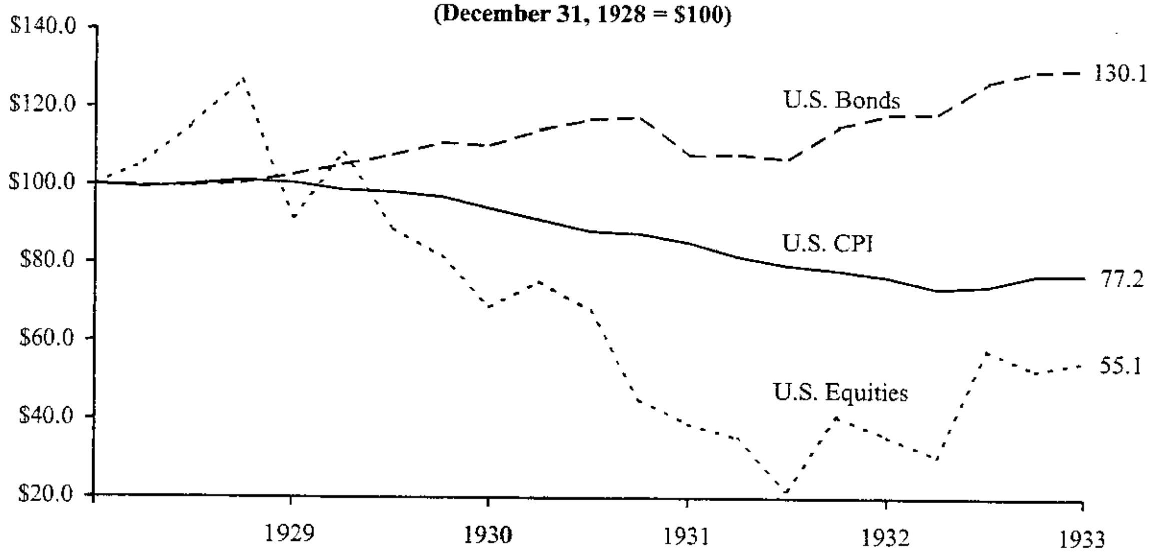
We do recognize that changing the benchmark to the Lehman Government Index may reduce the opportunity set for UTIMCO staff to add value through manager selection or internal management. Compensation guidelines should be reviewed to determine if this change in benchmark would have adverse and unintended impact on staff compensation. If so, adjustments should be made to the compensation program.

ASSET RETURNS IN A DEFLATIONARY SLUMP

Cumulative Wealth of Japanese Equities, Bonds and Consumer Prices
January 1, 1990 - March 31, 2005
(December 31, 1989 = ¥100)



Cumulative Wealth of U.S. Equities, Bonds and Consumer Prices
January 1, 1929 - December 31, 1933
(December 31, 1928 = $100)



Sources: Citigroup Global Markets, Morgan Stanley Capital International, Standard & Poor's, and Thomson Datastream. MSCI data provided "as is " without any express or implied warranties.

Notes: Japanese bonds are represented by J.P. Morgan Japan Government Bond Index (in Yen), Japanese equities by Morgan Stanley Capital International Japan Index (in Yen), U.S. bonds data are provided by Citigroup and U.S. equities by Standard & Poors. Japanese returns are quarterly. U.S. returns are quarterly.

389q

STANDARD & POOR'S

S&P Hedge Fund Index

Balancing Investability and Representation

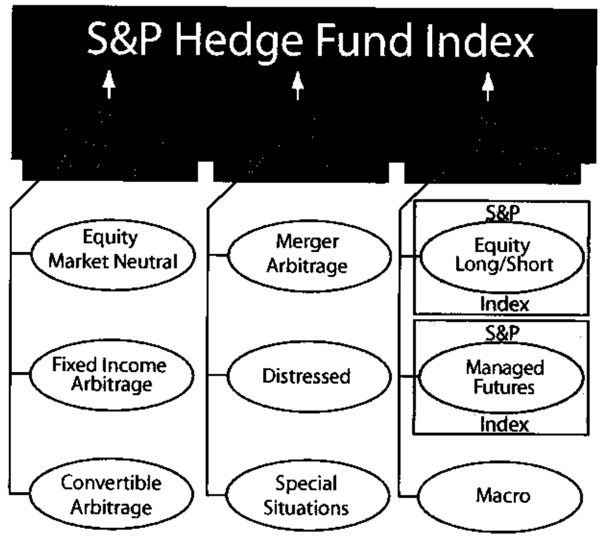
A hallmark of Standard & Poor's index construction is to both adequately represent the respective market as well as provide that the underlying constituents are liquid and investable. In developing the S&P Hedge Fund Index (S&P HFI), Standard & Poor's consulted with outside experts, extensively analyzed hedge fund databases, and reviewed academic literature to determine that 30-40 hedge funds is an optimal number to closely, yet efficiently, represent the hedge fund universe.

The composition of the S&P HFI is based on a rigorous and well-documented methodology that entails both quantitative and qualitative screens. The index currently has 41 constituents and is divided into three styles, for three sub-indices. Each of these is further divided into three strategies. These nine strategies are weighted equally, although the number of funds in each may vary. This is consistent with the objective of creating a representative index reflecting the range of strategies open to hedge fund investors that diversifies both hedge fund strategy risk and manager risk over time. Furthermore, an equally-weighted index avoids the tendency to favor funds attracting flows of capital chasing recent results.

A Rigorous Fund Selection Process

Standard & Poor's extensively analyzes a universe of selected hedge fund databases and other industry sources and assesses potential candidates based on a defined set of criteria. Only funds with sufficient assets and tenure within the nine strategies are considered. These funds are screened quantitatively using a series of correlation-based analyses to mitigate self-reporting bias and confirm that each fund exhibits behavior conforming to its particular strategy.

To provide for investability, prospective constituent funds are reviewed for their willingness to participate in the index, provide the necessary transparency, and guarantee investment capacity.



Furthermore, each fund undergoes an extensive due diligence process by Albourne Partners Limited, a leading hedge fund consultant, to determine whether it appears that it has sufficient risk and operating controls, is strategy conforming and has a high-quality fund management team.

KEY BENEFITS

- Diversifying - Tends to have a low correlation to equity and bond market indices, but a high correlation to existing hedge fund indices
- Representative - Represents the core hedge fund universe through an equal weighting of nine major hedge fund strategies
- Investable - At inclusion, index constituents allocate a minimum capacity of $100 million
- Standardized - Provides a consistent approach in terms of due diligence and valuation
- Timely - Priced on a daily basis via managed accounts run by index constituents
- Transparent- Index constituents, daily pricing, changes, and methodology publicly available

For further information on the S&P Hedge Fund Index series, please contact:

Email: index_services@standardandpoors.com

Phone:
New York: +1 212 438 2046
Frankfurt: +49 6192 968 311
Hong Kong: +852 2532 8083
London: +44 20 7176 8388
Madrid +34 91 1803232
Milan +39 02 72111245
Paris: +33 1 4075 7791
Sydney: +61 2 9255 9874
Tokyo: +81 3 4550 8568
Toronto: +1 416 507 4104

For more information, please visit our website: **www.sp-hedgefundindex.com**

Standard & Poor's commenced calculating values of the S&P HFI in October 2002, the S&P MFI in January 2003, and S&P ELSI in April 2004. The S&P Hedge Fund Pro Forma Indices returns are derived by Standard & Poor's from data received from the fund companies themselves to the extent available back to January 1998 for the S&P HFI and S&P MFI and April 1999 for S&P ELSI. Standard & Poor's can not verify the validity or accuracy of this data and does not recommend any investment or other decision based on their results or on any other index calculation. The funds included were constituents of the S&P HFI as of September 2002, or the S&P MFI as of December 2002, or of S&P ELSI as of March 2004. Past performance is not necessarily indicative of future results. Not reviewed or approved by the NASD.

May 31, 2005

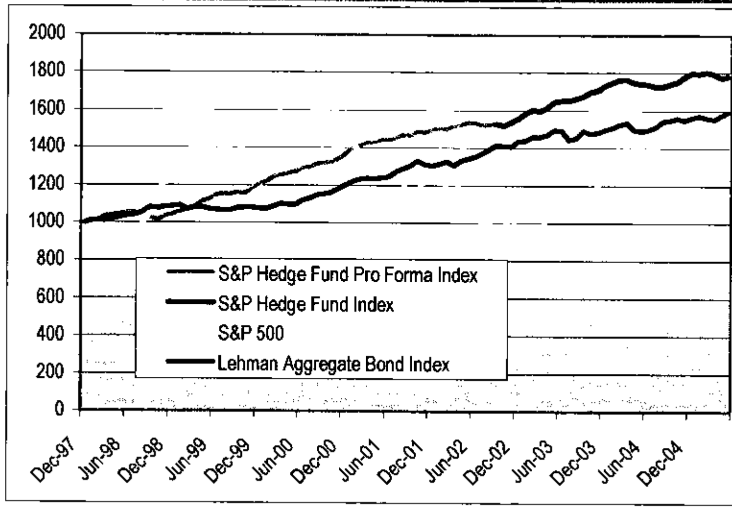
Daily Indicative S&P HFI Series Return Summary (as of May 31, 2005)

Index	MTD	QTD	YTD	ITD[1,2,3]
S&P Hedge Fund Index	0.29%	(0.57%)	(0.76%)	16.37%
S&P Arbitrage Index	(0.22%)	(0.83%)	(0.75%)	4.71%
S&P Event-Driven Index	0.12%	(0.37%)	0.81%	27.51%
S&P Dir./Tactical Index	1.00%	(0.49%)	(2.34%)	17.30%
S&P Managed Futures Index	2.43%	(4.23%)	(10.17%)	2.27%
S&P Equity Long/Short Index	0.87%	(1.08%)	(0.81%)	0.91%
S&P ELSI US	1.47%	(0.52%)	(0.94%)	3.14%
S&P ELSI Global Ex-US	0.27%	(1.64%)	(0.76%)	(1.41%)

1 = Inception (09/30/02) to Date for S&P HFI and three sub-indices.
2 = Inception (12/31/02) to Date for S&P MFI.
3 = Inception (03/31/2004) to Date for S&P ELSI and two sub-indices.

A daily update of this Index Return Summary is on www.sp-hedgefundindex.com, as well as pro forma returns, methodology, announcements, and constituents.

Cumulative Returns of S&P HFI and Pro Forma Index with S&P 500 and Lehman Agg.



Finalized Returns of S&P HFI and Pro Forma Index

Actual | Pro Forma

	Jan %	Feb %	Mar %	Apr %	May %	Jun %	Jul %	Aug %	Sep %	Oct %	Nov %	Dec %	Year %
2005	(0.18)	0.40	(0.54)	(1.03)	0.33								(1.03)
2004	0.92	0.96	0.04	(0.96)	(0.35)	(0.28)	(0.66)	0.18	0.57	0.65	1.76	1.08	3.95
2003	1.76	1.09	(0.34)	1.22	1.82	0.47	(0.04)	0.68	0.68	1.40	0.44	1.44	11.12
2002	0.56	(0.32)	1.13	0.49	0.87	(0.20)	(0.90)	0.29	0.25	(0.48)	1.13	1.29	4.14
2001	2.42	0.70	1.19	0.24	0.82	0.15	0.43	1.32	(0.29)	1.46	(0.32)	0.89	9.36
2000	1.27	1.97	0.79	0.73	0.73	1.52	0.31	1.41	0.34	0.34	1.29	2.03	13.48
1999	1.32	1.06	1.10	2.83	1.06	1.92	0.91	(0.28)	0.78	(0.46)	2.06	2.11	15.35
1998	0.78	1.21	1.75	0.21	1.01	0.45	(0.22)	(2.09)	(0.32)	(1.37)	2.03	1.04	4.49

S&P HFI and Pro Forma Statistics

Annualized	*Actual* Oct-02 to May-05	*Pro Forma* Jan-98 to Sep-02
Return	5.91%	9.34%
Std. Deviation	2.80%	3.21%
Sharpe Ratio (3.5%)	0.84	1.29
Sortino Ratio (3.5%)	1.43	2.27

Profit/Loss (Jan 1998 - May 2005)

Consecutive Profitable Periods

Run-Up	Start	End
27.11%	Nov-99	Aug-01
14.06%	Nov-98	Jul-99
6.76%	Aug-03	Mar-04

Drawdown Analysis

Drawdown	Peak	Valley
(3.95%)	Jun-98	Oct-98
(2.24%)	Mar-04	Jul-04
(1.57%)	Feb-05	Apr-05

S&P HFI Constituent Manager Descriptives*

	Median	Average
Assets ($ mil)	700	1378
Tenure (years)	8.9	10.1
Staff (FT Equivalent)	35	47

**Pertains only to each manager's assets and tenure in the relevant S&P HFI strategy. As of February, 2005*

Correlations to Other Asset Classes and Similar Indices (January 1998 - May 2005)

	S&P Hedge Fund Index	*S&P Arbitrage Index*	*S&P Event-Driven Index*	*S&P Directional/ Tactical Index*	*S&P Managed Futures Index*	*S&P Equity Long/Short Index*	*S&P 500*	*S&P SmallCap 600*	*Lehman Aggregate Bond Index*	*Merrill High Yield Master II*	*CSFB/ Tremont Investable Index*	*HRFX Equal Wght Strategies Index*	*MSCI Hedge Invest Index*	*Dow Jones Hedge Fund BPI-AX*
S&P Hedge Fund Index	1.00													
S&P Arbitrage Index	0.52	1.00												
S&P Event-Driven Index	0.73	0.29	1.00											
S&P Directional/ Tactical Index	0.68	-0.08	0.17	1.00										
S&P Managed Futures Index	0.32	-0.06	-0.28	0.77	1.00									
S&P Equity Long/Short Index	0.67	0.08	0.65	0.51	0.06	1.00								
S&P 500	0.28	-0.09	0.55	0.06	-0.30	0.55	1.00							
S&P SmallCap 600	0.48	0.00	0.65	0.26	-0.16	0.72	0.73	1.00						
Lehman Aggregate Bond Index	0.10	0.01	-0.16	0.26	0.36	-0.15	-0.22	-0.18	1.00					
Merrill High Yield Master II	0.49	0.24	0.68	0.08	-0.23	0.37	0.48	0.53	0.08	1.00				
CSFB/Tremont Investable Index	0.83	0.17	0.53	0.73	0.50	0.60	0.10	0.45	0.34	0.38	1.00			
HRFX Equal Wght Strategies Index	0.94	0.20	0.88	0.86	0.62	0.81	0.74	0.64	0.25	0.64	0.90	1.00		
MSCI Hedge Invest Index	0.83	0.44	0.47	0.63	0.43	0.54	0.10	0.33	0.26	0.20	0.64	0.93	1.00	
Dow Jones Hedge Fund BPI-AX	0.81	0.56	0.89	0.62	0.47	0.78	0.68	0.58	-0.18	0.53	0.77	0.86	0.82	1.00

The University of Texas Investment Management Company

Presentation Materials
Part 2

Board of Directors Meeting

July 21, 2005

TAB 8

Agenda Item
UTIMCO Board of Directors Meeting
July 21, 2005

Agenda Item: Discussion of West Texas Lands Integration

Developed By: Boldt

Presented By: Boldt

Type of Item: Information Item

Description: This agenda item will present issues for further discussion regarding the integration of the West Texas Lands into endowment investment decision making.

Recommendation: None

Discussion: During the 2005 Asset Allocation Review, the issue of the integration of the West Texas Lands oil & gas operations into the asset allocation process for the PUF was introduced. We elected to maintain the current treatment of West Texas Lands proceeds, which is to essentially treat those proceeds as annual gifts. However, there are compelling reasons to take a more expansive view of how this asset could be best utilized to generate higher returns for the PUF. The purpose of this agenda item is to continue the discussion of possibilities for Lands integration into the PUF, and possibly the GEF, investment decision making. Staff will present the information it has compiled and contribute to a discussion of possible future courses of action.

Reference: UTIMCO 2005 Asset Allocation Review

TAB 9

Agenda Item
UTIMCO Board of Directors Meeting
July 21, 2005

Agenda Item: Discussion and Consideration of Policies and Corporate Documents

Developed By: Staff

Presented By: Boldt

Type of Item: Action Required by UTIMCO Board; Action Required by Board of Regents

Description: The following describes the policies and corporate documents enclosed for UTIMCO Board action and further approval by Board of Regents:

- Proposed amendments to the Code of Ethics
- Proposed amendments to the Permanent University Fund (PUF), General Endowment Fund (GEF), and Short Term Fund (STF) investment policy statements
- Investment policy statements for the new Funds established for the centralized investing of the Operating Funds; Operating Reserve Fund (ORF), Long Term Reserve Fund (LTR), Reserve Plus Fund (RPF), and the Balanced Fund (BAL).
- Proposed amendments to the Liquidity Policy
- Proposed changes to the Investment Management Services Agreement

The following describes the policy and corporate document enclosed for UTIMCO Board action:

- Proposed amendments to the Derivative Policy
- Charter of the Risk Committee

Recommendation: UTIMCO staff recommends approval of all noted amendments to the Code of Ethics, investment policy statements, Investment Management Services Agreement, Derivative Policy, Liquidity Policy, and Charter of the Risk Committee. Staff also recommends approval of proposed investment policy statements. The Risk Committee recommends approval of the Liquidity Policy and Charter of the Risk Committee.

Discussion: The Code of Ethics was reviewed by the Audit Committee at its May 19, 2005 meeting and proposed amendments were approved. An additional amendment has been added to the Code of Ethics related to referral of investment opportunities (page 5). Language was adopted from the Board of Regents' Rules and Regulations.

The investment policy statements are required to be reviewed annually. The PUF, GEF, and STF have proposed changes related to this review and the adoption of the new asset allocation.

Agenda Item
UTIMCO Board of Directors Meeting
July 21, 2005

The ORF, LTR, RPF, and BAL investment policy statements have been prepared based on the information presented in the "New Fund Options for Operating Funds Management" presentation.

The Derivative Policy has been amended to include the RPF and BAL as well as to clarify certain other points.

The Liquidity Policy and Charter of the Risk Committee will have been discussed by the Risk Committee at its July 21st meeting. The Liquidity Policy and the Charter of the Risk Committee have been amended to add the RPF and BAL. The Liquidity Policy's liquidity thresholds are also being amended for the PUF and GEF.

The Investment Management Services Agreement has been amended to add the proposed new Funds related to the centralizing of operating funds. In addition, other amendments are proposed for clarification.

Reference: Code of Ethics; Investment Policy Statements for the PUF, GEF, STF, ORF, LTR, RFP, and BAL; Liquidity Policy; Derivative Policy; Charter of the Risk Committee; Investment Management Services Agreement

RESOLUTIONS

RESOLUTION RELATED TO CODE OF ETHICS

RESOLVED, that the amendments to the Code of Ethics as presented be, and are hereby, approved subject to approval by the U. T. System Board of Regents.

RESOLUTION RELATED TO INVESTMENT POLICY STATEMENTS

RESOLVED, that amendments to the Investment Policy Statements of the Permanent University Fund, the General Endowment Fund, and the Short Term Fund and the Proposed Investment Policy Statements for the Operating Reserve Fund, Long Term Reserve Fund, Reserve Plus Fund, and the Balanced Fund as presented be, and are hereby, approved, subject to approval by the U. T. System Board of Regents; and be it further

RESOLVED, that the foregoing resolution supersedes so much of the resolution of the Board adopted on January 18, 2005, that approved amendments to the Investment Policy Statements of the General Endowment Fund and the Balanced Fund are rescinded; and be it further

RESOLVED, that the resolutions of the Board adopted on January 18, 2005, are rescinded for Investment Policy Statements for the proposed CORE Fund, the proposed Core Guarantee Fund, the proposed CORE Plus Fund, the proposed Equity Fund, a proposed Liquidity Policy for the CORE Fund and Balanced Fund, and a proposed Swap Agreement.

RESOLUTION RELATED TO LIQUIDITY POLICY

RESOLVED, that the amendments to the Liquidity Policy as presented be, and are hereby, approved subject to approval by the U. T. System Board of Regents.

RESOLUTION RELATED TO THE CHARTER OF THE RISK COMMITTEE

RESOLVED, that the amendments to the Charter of the Risk Committee be, and are hereby, approved in the form submitted to the Corporation's Board of Directors.

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; and be it further

RESOLVED, that the resolution of the Board adopted on January 18, 2005, is rescinded for the Derivative Investment Policy.

RESOLUTION RELATED TO THE 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; and be it

FURTHER RESOLVED, that the resolution of the Board adopted on January 18, 2005, is rescinded for the Investment Management Services Agreement.

Code of Ethics

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

CODE OF ETHICS

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

CODE OF ETHICS

TABLE OF CONTENTS

Adopted: January 5, 2000
Amended: July 21, 2005~~June 26, 2003~~
Approved by the Board of Regents August 11, 2005~~August 7, 2003~~

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

CODE OF ETHICS

General Principles

~~This Code of Ethics sets forth the basic principles and guidelines for directors and employees~~ The Board of Regents of The University of Texas System has ultimate fiduciary responsibility for causing the funds within its investment authority (the "Accounts") to be managed in accordance with the prudent investor standard. This standard allows the Accounts to be invested in such investments 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 the assets of the fund rather than a single investment." (Article VII, Section 116, Texas Constitution.) ~~Investment Management Company ("UTIMCO"). In addition to strict compliance with legal requirements, all directors and employees are expected to be guided by the basic principles of honesty and fairness in the conduct of UTIMCO's affairs and to comply with the policies contained in this Code. It is the policy of UTIMCO that a director or employee may not have a direct or indirect interest, including financial and other interests, or engage in a business transaction or professional activity, or incur any obligation of any nature that is in conflict with the proper discharge of the director's or employee's duties in the interests of UTIMCO.~~ Pursuant to an Investment Management Services Agreement (as amended, the "Agreement"), between the Board of Regents ~~of~~ and The University of Texas ~~System and~~ Investment Management Company ("UTIMCO"), the Board of Regents has appointed UTIMCO as its investment manager with respect to ~~those funds for which the Board of Regents has investment responsibility (the "Accounts")~~ the Accounts. ~~Pursuant to~~ In the Agreement, UTIMCO has acknowledged that it will be acting as a fiduciary ~~with respect to managing the investment of the Accounts. Accordingly, all directors and employees must develop an awareness of and respond to UTIMCO's obligations to the Board of Regents of The University of Texas System.~~ and will manage the investments of the Accounts pursuant to the policies of the Board of Regents, which include the prudent investor standard. Accordingly, each of the Board of Regents and UTIMCO has a fiduciary interest in assuring that the directors and employees of UTIMCO possess the requisite knowledge, skill and experience to manage the Accounts in accordance with the prudent investor standard.

This Code of Ethics sets forth the basic principles and guidelines governing the conduct of the directors and employees of UTIMCO. This Code assumes that many of UTIMCO's directors and employees will be active investors, either individually or on behalf of others, in the same asset categories as the Accounts. Without seeking to disqualify such directors and employees from service to UTIMCO, this Code holds all directors and employees to high standards of conduct consistent with their special relationship of trust, confidence and responsibility to UTIMCO. In addition to strict compliance with legal requirements, all directors and employees are expected to be guided by the basic principles of loyalty, prudence, honesty and fairness in their conduct of UTIMCO's affairs.

Specific Policy Statement

Although the general principles outlined above shall apply in the conduct of all UTIMCO activities, UTIMCO's directors and employees are also bound by the following specific policies.

Definitions

In this Code the following definitions apply unless the context requires otherwise:

(1) "Audit and Ethics Committee of the Board" means a standing committee of the Board under the UTIMCO bylaws.

(2) "Board" means the Board of Directors of UTIMCO.

(3) "Chief Compliance Officer" means the person designated from time to time as the Chairman of the Employee Ethics and Compliance Committee.

(4) "Code" means this Code of Ethics.

(5) "Director" means a member of the Board of UTIMCO. For purposes of Article III.B hereof, "director" includes the spouse, minor children and other dependent relatives of a member of the Board of UTIMCO.

(6) "Director entity" means an investment fund or other entity controlled by a director of UTIMCO. For purposes of the foregoing, a director shall be deemed to control an investment fund or other entity if his or her management role with or investment in such fund or entity enables the director to direct the operating or financial decisions of such fund or entity. In the absence of any management role for the director, where the terms of his or her investment did not give the director the legal right to direct the operating or financial decisions of such fund or entity and where the director does not attempt to direct such decisions, the fund or entity shall be presumed not to be a "director entity."

(7) "Employee" means a person working for UTIMCO in an employer-employee relationship. For purposes of Article III.D (2) and (3) hereof, "employee" includes the spouse, minor children and other dependent relatives of an employee of UTIMCO.

(8) "Employee entity" means an investment fund or other entity controlled by an employee of UTIMCO. For purposes of the foregoing, an employee shall be deemed to control an investment fund or other entity if his or her management role with or investment in such fund or entity enables the employee to direct the operating or financial decisions of such fund or entity. In the absence of any management role for the employee, where the terms of his or her investment did not give the employee the legal right to direct the operating or financial decisions of such fund or entity and where the employee does not attempt to direct such decisions, the fund or entity shall be presumed not to be an "employee entity."

(9) "General Counsel" means the lawyer or firm of lawyers designated from time to time as the General Counsel of UTIMCO; provided that when the General Counsel is a firm of

lawyers, one principal within that firm shall be identified to receive all written and oral communications hereunder.

(10) "Key employee" means an employee who has been designated by the Board as one who exercises significant decision-making authority by virtue of the position he or she holds with UTIMCO.

(11) "Personal securities transactions" means (1) transactions for a director's or employee's own account, including IRA's, and (2) transactions for an account in which a director or employee has indirect beneficial ownership, unless the director or employee has no direct or indirect influence or control over the account.

A director or employee has "indirect beneficial ownership" of an account if (i) the director or employee has a beneficial interest (such as a trust of which he or she is an income or principal beneficiary) or (ii) the director's or employee's family (including husband, wife, minor children or other dependent relatives) has a beneficial interest. A person has a "beneficial interest" in an account if the person: (i) is an income or principal beneficiary or other equity owner of the account or (ii) receives compensation for managing the account for the benefit of people other than such person or his or her family.

(12) "Private investment" means any debt obligation or equity interest that is not a publicly traded security, including a "private investment" in a publicly traded company.

(13) "Publicly traded company" means a business entity with a class of securities that consists of publicly traded securities.

(14) "Publicly traded securities" means securities of a class that is listed on a national securities exchange or quoted on the NASDAQ national market system in the United States or that is publicly traded on any foreign stock exchange or other foreign market.

(15) "Relative" means a person related in the third degree by consanguinity (blood relative) or the second degree by affinity (marriage) determined in accordance with Texas Government Code Sections 573.021-025. Examples of relatives within the third degree by consanguinity are a child, grandchild, great-grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece or nephew. A person adopted into a family is considered a relative on the same basis as a natural born family member.

Examples of a relative within the second degree by affinity are a spouse, any person related to the spouse within the second degree by consanguinity, or any spouse of such person. A person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.

(16) "UTIMCO" means The University of Texas Investment Management Company.

(17) "UTIMCO entity" means an investment fund or other entity controlled by UTIMCO. For purposes of the foregoing, UTIMCO shall be deemed to control an investment fund or other entity if UTIMCO's management role (which may be exercised through agents, directors, or employees) with or investment in such fund or entity enables UTIMCO to

direct the operating or financial decisions of such fund or entity. In the absence of any management role for UTIMCO, where the terms of its investment did not give UTIMCO the legal right to direct the operating or financial decisions of such fund or entity and where UTIMCO does not attempt to direct such decisions, the fund or entity shall be presumed not to be a "UTIMCO entity."

(18) "U. T. Board" means the Board of Regents of The University of Texas System.

I. General Standards

The following general ethical principles apply to directors and employees:

A. Directors and employees may not:

(1) accept or solicit any gift, favor, or service that might reasonably tend to influence the director or employee in the discharge of his or her duties for UTIMCO or that the director or employee knows or should know is being offered with the intent to influence the director's or employee's conduct on behalf of UTIMCO;

(2) accept other employment or engage in a business or professional activity that the director or employee might reasonably expect would require or induce the director or employee to disclose confidential information acquired by reason of his or her position with UTIMCO;

(3) accept other employment or compensation that could reasonably be expected to impair the director's or employee's independence of judgment in the performance of his or her duties for UTIMCO;

(4) make personal investments that could reasonably be expected to create a substantial conflict between the director's or employee's private interest and the interests of UTIMCO; or

(5) intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised the director's or employee's authority or performed the director's or employee's duties at UTIMCO in favor of another.

B. Directors and employees must also comply with all applicable laws. They should specifically be knowledgeable of <u>Texas Education Code</u> Section 66.08 (Permanent University Fund - Composition, Investment, and Use - Investment Management).

C. Directors and employees must be honest in the exercise of their duties and must not take actions which will discredit UTIMCO.

D. Directors and employees should be loyal to the interests of UTIMCO to the extent that such loyalty is not in conflict with other duties which legally have priority. Directors and employees should avoid personal, employment, or business relationships that create conflicts of interest. Should directors or employees become aware of any conflict of interest, they have an affirmative duty to disclose and to cure the conflict in a manner provided for in this Code.

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

F. Directors and employees should avoid all appearance of conflict of interest pertaining to UTIMCO's investment opportunities. Referral of information related to investment opportunities outside of a posted open meeting of the Board must be made directly to the President and CEO without endorsement of the merits of the potential investment and with full disclosure concerning whether the investment opportunity involves any potential economic benefit to the individual making the referral or to a Relative of the individual making the referral. Referrals will be accepted with the understanding that decisions on individual investments are at the discretion of the Board and staff. Should staff ultimately recommend to the Board an investment that was the subject of a direct referral from a Director or employee or from a Regent, officer or employee of The University of Texas System staff shall disclose the source of the referral and whether such referral involves any potential economic benefit to the individual making the referral or to a Relative of the individual making the referral.

II. Conflict of Interest

A. *Definition:* A conflict of interest exists for a director or employee whenever the director or employee has a personal or private commercial or business relationship that could reasonably be expected to diminish the director's or employee's independence of judgment in the performance of the director's or employee's responsibilities to UTIMCO. For example, a person's independence of judgment is diminished when the person is in a position to take action or not take action with respect to UTIMCO or its business and such act or failure to act is or reasonably appears to be influenced by considerations of personal gain or benefit rather than motivated by the interests of UTIMCO.

It shall not be considered a conflict solely because a director or employee has an investment in the stock of a publicly traded company which is owned, purchased, sold, or otherwise dealt with by UTIMCO; provided that the affected person's interest in the stock of the publicly traded company is not more than 5% of any class and the person is not a director or officer of the publicly traded company.

B. *Duty to Cure:* Directors and employees who become aware, or reasonably should have become aware, of a conflict of interest have a duty to cure it. A person normally cures a conflict of interest by promptly eliminating it. If a director or employee may prudently withdraw from action on a particular matter in which a conflict exists, he or she may cure the conflict in that manner provided that:

(1) the person may be and is effectively separated from influencing the action taken;

(2) the action may properly be taken by others;

(3) the nature of the conflict is not such that the person must regularly and consistently withdraw from decisions which are normally his or her responsibility with respect to UTIMCO; and

(4) the conflict is not a prohibited transaction resulting from a director having a pecuniary interest in a business entity as described in III. (A) below.

Directors must disclose any conflicts of interest regarding matters which are before the Board, absent themselves from any relevant deliberations, and not vote on the matter. Employees must disclose any conflicts of interest and refrain from giving advice or making decisions about matters affected by the conflict unless the Board, after consultation with the General Counsel, expressly waives this prohibition. The Board will decide whether to waive any disclosed conflict of interest at an official meeting. To assist it in deciding whether to grant waivers, the Board may develop criteria for determining the kinds of relationships that do not constitute material conflicts. Any waiver of a conflict of interest, including the reasons supporting the waiver, must be included in the minutes of the meeting. Records of all waivers granted with the supporting reasons will be maintained by the Chief Compliance Officer.

A person who cannot or does not wish to eliminate or cure the conflict of interest must terminate his or her relationship with UTIMCO as quickly as responsibly and legally possible.

C. *Duty to Disclose:* Directors must disclose conflicts of interest in writing to the General Counsel prior to the Board meeting. If disclosure is made at a Board meeting, the minutes of the meeting must include the disclosure of the conflict.

Employees must promptly disclose conflicts of interest in writing to the Chief Compliance Officer through the UTIMCO conflict of interest disclosure statement. The Chief Compliance Officer will report to the Audit and Ethics Committee of the Board regarding the conflict of interest disclosure statements which he or she receives. Should a person with a duty to disclose conflicts have reasonable cause to believe disclosure to the Chief Compliance Officer will be ineffective, the person should disclose the conflict to the Audit and Ethics Committee of the Board. Disclosure to the Audit and Ethics Committee of the Board is accomplished through written disclosure to the Chairman of the Committee, whose address may be obtained from the UTIMCO Office Manager. Whether disclosure is to the Chief Compliance Officer or the Audit and Ethics Committee of the Board, a copy of the disclosure statement should be provided to the employee's supervisor unless the person with the conflict of interest believes that such disclosure would be detrimental to the resolution of the conflict.

III. Prohibited Transactions and Interests

A. *UTIMCO:* Agreements or Transactions. UTIMCO and UTIMCO entities may not enter into an agreement or transaction with:

(1) a director or employee acting in other than an official capacity on behalf of UTIMCO;

(2) a director entity, employee entity or other business entity (including an investment fund) in which a director or employee has any pecuniary interest;

(3) a former director or employee, an investment fund or other entity controlled by a former director or employee (with control being determined in the manner specified in the definition of "director entity" above), or a business entity in which a former director or employee has a pecuniary interest, on or before the first anniversary of the date the person ceased to be a director or employee; or

(4) an investment fund or account (other than the Accounts) managed by a director, director entity, employee or employee entity as a fiduciary or agent for compensation.

Except as provided below, a person shall be deemed to have a pecuniary interest in a business entity if the person:

(i) owns five percent or more of the voting stock or shares of the business entity; or

(ii) owns five percent or more of the fair market value of the business entity; or

(iii) received more than five percent of his or her gross income for the preceding calendar year from the business entity;

provided that any private investment by a person in a business entity (including an investment fund, but excluding a publicly traded company) controlled by such person shall constitute a pecuniary interest in that business entity. For purposes of the foregoing, control of a business entity shall be determined in the manner specified in the definition of "director entity" above.

Investments. Without limiting the foregoing, UTIMCO and UTIMCO entities will implement procedures and safeguards to insure that none of the Accounts is invested in the publicly traded securities of a publicly traded company in which a director, director entity, employee or employee entity has any pecuniary interest (as described above). Further, UTIMCO and UTIMCO entities may not (i) invest in the private investments of a business entity if a director, director entity, employee or employee entity then owns a private investment in the same business entity or (ii) co-invest with a director, director entity, employee or employee entity in the private investments of the same business entity; provided that the foregoing shall not prohibit UTIMCO or a UTIMCO entity from (x) investing in the private investments of a business entity in which a director, a director entity, an employee or an employee entity then owns a private investment (not giving rise to a pecuniary interest (as described above)) acquired prior to the related person's appointment as a director or employment as an employee or (y) co-investing with a director, a director entity, an employee or an employee entity in the private investments of a business entity described in clause (x) above where such co-investment by the director, director entity, employee or employee entity is necessary in order to protect or prevent dilution of such person's investment (not giving rise to a pecuniary interest (as described above)) in the business entity.

Prior to consideration by the Board of an agreement or transaction with a business entity or investment in a business entity, each director and key employee shall certify that he or she does not have any pecuniary interest in the associated business entity.

B. *Directors:* Directors and director entities may buy or sell a publicly traded security of an issuer which is held by UTIMCO but may not engage in a personal securities transaction when the directors have actual knowledge that UTIMCO is trading such securities. UTIMCO is trading securities of an issuer when a buy/sell order has been placed by a UTIMCO internal portfolio manager for execution. Further, directors and director entities may not (i) invest in the private investments of a business entity if UTIMCO, a UTIMCO entity, an employee or an employee entity then owns a private investment in the same business entity or (ii) co-invest with UTIMCO, a UTIMCO entity, an employee or an employee entity in the private investments of the same business entity; provided that the foregoing shall not prohibit a director or a director entity from co-investing with UTIMCO, a UTIMCO entity, an employee or an employee entity in the private investments of a business entity in which the related director owns a private investment acquired prior to such person's appointment as a director where such co-investment by the director or director entity is necessary in order to protect or prevent dilution of such person's investment (not giving rise to a pecuniary interest (as described above)) in the business entity.

C. *Directors and Employees:* No director or employee may:

(1) participate in a matter before UTIMCO which involves a business, contract, property or investment held by such person if it is reasonably foreseeable that UTIMCO action on the matter would confer a benefit to such person by or through the business, contract, property or investment;

(2) have stock or other ownership or profit sharing interest in any brokerage firms or consultants selected by such director or employee for UTIMCO business if such director or employee (i) has the discretion to direct trading, and therefore the discretion to select brokerage firms, or (ii) the discretion to select consultants; provided that directors shall not direct trades or exercise discretion over the selection of brokerage firms;

[This restriction applies to stock or other ownership or profit sharing interests held by a director's or employee's spouse. This restriction also applies to stock held for a director's or employee's own account or an account in which he or she has a beneficial interest (unless the director or employee has no direct or indirect influence or control over the account). For this purpose, a director's or employee's own account or an account over which he or she has a beneficial interest includes accounts involving immediate family members (spouse, minor children, or other dependent relatives). However, this restriction shall not prohibit the ownership of stock in a company that may own stock in such entities, provided such entities are not the dominant or primary business of the parent company.]

(3) recommend or cause discretionary UTIMCO business to be transacted with or for the benefit of a relative;

(4) under any circumstances accept offers by reason of their position with UTIMCO to trade in any security or other investment on terms more favorable than available to the general investing public;

(5) borrow from investment managers, outside service providers, professional advisors or consultants, banks or other financial institutions with which UTIMCO has a business relationship, unless such entities are normally engaged in such lending in the usual course of their business, and then only on customary terms offered to others under similar circumstances to finance proper and usual activities;

(6) represent any person in any action or proceeding before or involving the interests of UTIMCO except as a duly authorized representative or agent of UTIMCO;

(7) use UTIMCO information, resources, or facilities, nor use information or resources paid for by UTIMCO, for personal gain or the gain of anyone other than UTIMCO. This prohibition means that directors and employees may not use information paid for by UTIMCO to assist or benefit private clients of the directors or employees; or

(8) take action personally or on behalf of UTIMCO which will result in a reasonably foreseeable conflict of interest. Should there be action which a director or employee believes to be in the best interest of UTIMCO but which could foreseeably result in a conflict of interest, the director or employee must disclose such fact to the Chief Compliance Officer prior to taking such action.

D. *Employees:* No employee or employee entity may:

(1) engage in outside employment, business, or other activities which detract from the ability to fulfill the full-time responsibilities to UTIMCO;

(Key employees must obtain advance written approval from the President for any outside employment or business, including service as director, officer, or investment consultant or manager for another person or entity. Any outside employment by the President must be approved in advance by the Board.

Employees, with the prior approval of the Board, may serve as directors of companies in which UTIMCO has directly invested Account assets. In such event, any and all compensation paid to employees for their services as directors shall be endorsed to UTIMCO and applied against UTIMCO's fees. Furthermore, Board approval of any employee's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to the employee's service as a director of the investee company.)

(2) engage in a personal securities transaction without obtaining preclearance for each such transaction with the Chief Compliance Officer; or

[The Chief Compliance Officer shall verify that no buy/sell order has been placed by a UTIMCO internal manager for securities of the same class. If such a buy/sell order has been placed, no employee may conduct a personal securities transaction for such securities until one trading day after the buy/sell order has been completed or canceled. Preclearances will be documented by the Chief Compliance Officer in a personal securities transaction log for each employee, which will provide a record of all requests and approvals or denials of preclearances for personal securities transactions. Preclearance for personal securities transactions is effective for one trading day only.

An employee who engages in personal securities transaction must also provide transactional disclosure for each such transaction. Transactional disclosure forms must be completed for all personal securities transactions and given to the Chief Compliance Officer within ten calendar days of the trade date. The transactional disclosure form must contain the following information: name and amount of the security involved, date and nature of the transaction, price at which the transaction was effected, and name of the broker through whom the transaction was effected.

The preclearance and transactional disclosure requirements for personal securities transactions apply only to equity or equity-related transactions, including stocks, convertibles, preferreds, options on securities, warrants, rights, etc., for domestic and foreign securities, whether publicly traded or privately placed. The preclearance and transactional disclosure requirements do not apply to bonds (with the exception of convertible bonds), mutual funds, co-mingled trust funds, financial futures, and options on futures.]

(3) (a) invest in the private investments of a business entity if UTIMCO, a UTIMCO entity, a director or a director entity then owns a private

investment in the same business entity or (b) a co-invest with UTIMCO, a UTIMCO entity, a director or director entity in the private investments of the same business entity; provided that the foregoing shall not prohibit an employee or an employee entity from co-investing with UTIMCO, a UTIMCO entity, a director or a director entity in the private investments of a business entity in which the related employee owns a private investment acquired prior to such person's employment as an employee where such co-investment by the employee or employee entity is necessary in order to protect or prevent dilution of such person's investment (not giving rise to a pecuniary interest (as described above)) in the business entity.

E. *Former Directors and Employees:* A former director or employee may not make any communication to or appearance before a present director or employee before the first anniversary, in the case of former employees, and the second anniversary, in the case of former directors, of the date the former director or employee ceased to be a director or employee if the communication is made (a) with the intent to influence and (b) on behalf of any person in connection with any matter on which the former director or employee seeks action by UTIMCO.

If a director or employee knowingly communicates with a former director or employee in violation of this prohibition, the director or employee will be subject to disciplinary action including, with respect to a director, removal from serving as a director of UTIMCO.

IV. Confidential Information

A. Directors and employees may not disclose confidential information, except when duly authorized personnel determine such disclosure is either permitted or required by law. Confidential information must be used by directors and employees for UTIMCO purposes and not for their own personal gain or for the gain of third parties.

B. Information derived from a relationship with UTIMCO which might reflect favorably or adversely upon the value of any investment or contemplated investment may not be used by directors and employees in any manner for the purpose of personal advantage or to provide advantage to others.

V. Nepotism

A. UTIMCO may not employ a person who is a relative of a director. This does not prevent the continued employment of a person who has already been working for UTIMCO for thirty consecutive days prior to the date of the related director's appointment.

B. UTIMCO may not employ a person who is a relative of (1) a key employee, (2) a consultant, or (3) any owners, directors, or officers of consultants. This does not prohibit the continued employment of a person who has already been working for UTIMCO for thirty consecutive days at the time of the selection of a new key employee or consultant. Nor does this prevent the continued employment of persons who have been working for UTIMCO for thirty days prior to becoming relatives.

C. No employee may exercise discretionary authority to hire, evaluate or promote a relative. No employee may supervise a relative, either directly or indirectly. As used herein, "supervise" means to oversee with the powers of direction and decision-making the implementation of one's own or another's intentions. Supervision normally involves assigning duties, overseeing and evaluating work, and approving leave.

VI. Decision-Making Based on Merit

UTIMCO business transactions are to be based on professional integrity and competence, financial merit and benefit to UTIMCO and, whenever required or prudent, on a competitive basis. Directors and employees may not base any UTIMCO business decisions on family or personal relationships.

VII. Observance of UTIMCO Controls and Policies

Directors and employees will observe the accounting and operating controls established by law and UTIMCO policies, including restrictions and prohibitions on the use of UTIMCO property for personal or other non-UTIMCO purposes.

VIII. Gifts and Entertainment

A. A director or employee is prohibited from soliciting or accepting a gift because of or through use of the employee's or director's position with UTIMCO if the gift is from a person other than an employee or a director and the employee or director knows or should have known that the gift would not have been solicited, offered, or given had the employee or director not held his or her position as an employee or director. This prohibition applies not only to gifts solicited or given for the personal benefit of the director or employee but also to gifts to third parties.

B. The prohibitions in this article do not apply to the following gifts, provided that acceptance of such gifts violates no law:

(1) gifts given on special occasions between employees and/or directors;

(2) books, pamphlets, articles or other such materials which contain information directly related to the job duties of an employee or director and are accepted by the employee or director on behalf of UTIMCO for use in performing his or her job duties;

(3) gifts from relatives of employees or directors which are based solely on a personal relationship between the director or employee and his or her relative;

(4) business meals and receptions when the donor or a representative of the donor is present;

(5) ground transportation in connection with business meetings, meals, or receptions;

(6) seminar or conference fees when the seminar relates to the director's or employee's job duties and is sponsored by UTIMCO's consultants or agents, prospective consultants or agents, or persons or entities whose interests may be affected by UTIMCO;

(7) items with a value of less than $50, excluding cash or negotiable instruments, and other gifts of nominal value. Examples of gifts of nominal value are (a) modest items of food and refreshments on infrequent occasions and (b) unsolicited advertising or promotional material such as plaques, certificates, trophies, paperweights, calendars, note pads, pencils, and other items of nominal intrinsic value.

C. Attendance by directors or employees at seminars or conferences sponsored and paid for by UTIMCO's consultants or agents, prospective consultants or agents, or persons or entities whose interests may be affected by UTIMCO that involve entertainment or recreation may in some cases be in the best interest of UTIMCO.

Employees must obtain specific written approval of their attendance at such events from the President or Chief Compliance Officer. Approval may be withheld for elaborate entertainment events such as ski trips, hunting trips, or stays at expensive resorts.

D. Under no circumstances may directors or employees accept a gift if the source of the gift is not identified or if the director or employee knows or has reason to know that the gift is being offered through an intermediary.

E. If a prohibited gift is received by a director or employee, he or she should return the gift to its source. If that is not possible or feasible, the gift should be donated to charity.

IX. Compliance with Professional Standards

UTIMCO representatives who are members of professional organizations which promulgate standards of conduct, such as the Association for Investment Management and Research, must comply with those standards.

X. Financial Disclosure

A. Directors and employees must file financial disclosure statements with the Chief Compliance Officer, and for directors who file disclosure statements with the Texas Ethics Commission, in the form prescribed by law for such disclosure statements.

B. Directors and employees must file their financial disclosure statements within 30 days of their date of appointment or employment and by January 31st of each year. The President may postpone a filing deadline for not more than 60 days on written request or for an additional period for good cause, as determined by the Chairman of the Board. A financial disclosure statement must be maintained by UTIMCO for at least five years after the date of its filing.

XI. Key Employees

A. The Board shall designate by position with UTIMCO the employees who exercise significant decision-making authority. By virtue of their position with UTIMCO, these persons are "key employees".

B. Employees designated as key employees must acknowledge their key employee status in writing through the annual ethics compliance statement.

C. Requirements of this Code which are specifically applicable to key employees are the following:

(1) disciplinary action disclosure; and

(2) advance approval of outside employment, including service as a director, officer, investment consultant, or manager for another person or entity.

XII. Ethics Training and Advice

A. The President will appoint an Employee Ethics Committee composed of UTIMCO personnel which will have responsibility for:

(1) providing ethics training for UTIMCO personnel; and

(2) issuing opinions on the proper interpretation of this Code.

B. Employees may file a written request with the Employee Ethics and Compliance Committee for an opinion on the proper interpretation of this Code and may rely upon that opinion with respect to compliance with the Code.

C. The Chairman of the Employee Ethics and Compliance Committee will be the Chief Compliance Officer.

XIII. Compliance and Enforcement

A. The Board will enforce this Code with respect to employees through the President, who is responsible for its implementation with respect to employees.

B. The full range of disciplinary options under UTIMCO personnel policies and practices may be used with respect to employees who violate this Code, up to and including termination.

C. The Board is responsible for the enforcement of this Code with respect to violations by individual directors through resolutions of reprimand, censure, or other appropriate parliamentary measures, including requests for resignation.

D. Directors with knowledge of a violation of this Code must report such violation to the General Counsel. Employees with knowledge of a violation of this Code must report such violation to the Chief Compliance Officer or to a member of the Audit and Ethics Committee of the Board. No retaliatory action will be taken against the reporting person for any such report involving another person made in good faith.

E. Within sixty days of their employment or appointment, employees and directors must sign and date financial disclosure and ethics compliance statements that they have received and read this Code, that they will comply with its provisions, that it is their duty to report any acts by other directors or employees when they have knowledge of violations of this Code, and, for employees, that adherence to this Code is a condition of their employment. The statement will also include a disclosure of any conflicts of interest or violations of the Code of which they are aware and a reminder that they are required to update their statements if a change in circumstances occurs which would require reporting under this Code. Persons employed by UTIMCO on the date of adoption of this Code must sign and date the statement within thirty days of the adoption of this Code. The signed statements will be maintained in the employee's personnel file. Persons serving as directors on the date of the adoption of this Code must also sign the financial disclosure and ethics compliance statement within forty-five days of the adoption of this Code.

F. Directors and employees, including acting or interim employees, must sign and date financial disclosure and ethics compliance statements as described above each year. The annual financial disclosure and ethics compliance statements must be submitted to the Chief Compliance Officer by January 31. Any person who is a director or employee on December 31 of any year must file an annual financial disclosure and ethics compliance statement for that year. Directors' financial disclosure and ethics compliance statements will be maintained by the Chief Compliance Officer.

G. Directors and key employees must also file disciplinary action disclosure statements setting forth any proceedings, actions, or hearings by any professional organization or other entity involving the director or key employee. Disciplinary action disclosure statements must be submitted to the Chief Compliance Officer by January 31 of the first year of designation as a director or key employee or, for those persons already serving as directors or designated as key employees on the effective date of this Code, on January 31 following the effective date. Disciplinary action disclosure statements must be promptly updated if any action occurs which would cause a director's or a key employee's answers to change.

H. The custodian for open records purposes of the disclosure statements required under this Code is the Chief Compliance Officer.

I. The President will notify the Audit and Ethics Committee of the Board in writing by February 15 of each year of the following:

(1) any approval given for outside employment by key employees, including the nature of the employment; and

(2) any disciplinary action disclosed by directors or key employees.

UTIMCO

Employee
Ethics and Compliance Committee

Bob L. Boldt
Bill Edwards
Larry Goldsmith
Cathy A. Iberg
Greg Lee
Sara McMahon
Joan Moeller
Andrea Reed
Trey Thompson
Christy Wallace

UTIMCO

List of Key Employees

Bob Boldt
Debbie Childers
Greg Cox
Harland Doak
Bill Edwards
Larry Goldsmith
Gary Hill
Russ Kampfe
Cathy Iberg
Greg Lee
Sara McMahon
Joan Moeller
Andrea Reed
Trey Thompson
Christy Wallace

PUF

THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND
INVESTMENT POLICY STATEMENT

Purpose

The Permanent University Fund (the "PUF") is a public endowment contributing to the support of institutions of The University of Texas System (other than The University of Texas - Pan American and The University of Texas at Brownsville) and institutions of The Texas A&M University System (other than Texas A&M University-Corpus Christi, Texas A&M International University, Texas A&M University-Kingsville, West Texas A&M University, Texas A&M University-Commerce, Texas A&M University-Texarkana, and Baylor College of Dentistry).

PUF Organization

The PUF was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the PUF were completed in 1883 with the contribution of an additional one million acres of land. Today, the PUF contains 2,109,190 acres of land (the "PUF Lands") located in 19 counties primarily in West Texas.

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, primarily from surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested pursuant to this Policy Statement. Surface income, as a renewable source of income, is distributed to the Available University Fund (the "AUF"), as received. The Constitution also requires that all surface income and investment distributions paid to the AUF be expended for certain authorized purposes.

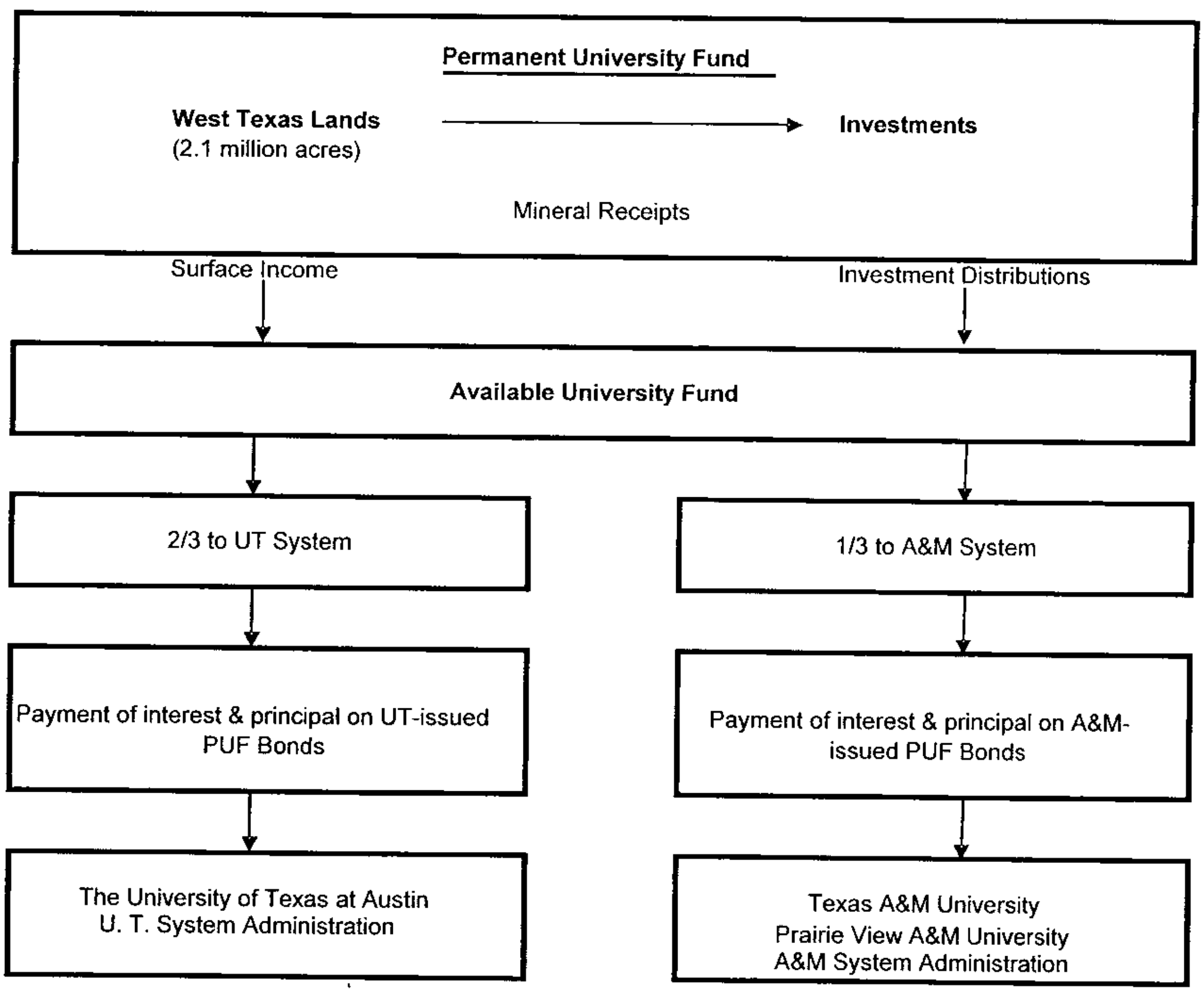
The expenditure of the AUF is subject to a prescribed order of priority:

First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and the A&M System, respectively, expenditures for debt service on PUF bonds. Article VII of the Texas Constitution authorizes the Board of Regents and the Texas A&M University System Board of Regents (the "TAMUS Board") to issue bonds payable from their respective interests in AUF receipts to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes secured by each System's interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUF parity obligations unless the interest of the related System in AUF receipts during the preceding fiscal year covers projected debt service on all PUF Bonds of that System by at least 1.5 times.

Second, expenditures to fund a) excellence programs specifically at U. T. Austin, Texas A&M University and Prairie View A&M University and b) the administration of the university Systems.

The payment of surface income and investment distributions from the PUF to the AUF and the associated expenditures is depicted below in Exhibit 1:

Exhibit 1



PUF Management

Article VII, Section 11b of the Texas Constitution assigns fiduciary responsibility for managing and investing the PUF to the Board of Regents. Article VII, Section 11b authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investments 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.

Ultimate fiduciary responsibility for the PUF rests with the Board of Regents. Section 66.08 of the 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 PUF shall be managed by UTIMCO, which shall a) recommend investment policy for the PUF, b) recommend specific asset allocation targets, ranges and performance benchmarks consistent with PUF objectives, and c) monitor PUF performance against PUF objectives. UTIMCO shall invest the PUF's 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 Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

PUF 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 PUF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

PUF Investment Objectives

The PUF and the General Endowment Fund (the "GEF") are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund assets and annual distributions 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 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 PUF'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~~ maintained by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect PUF'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.

PUF 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, exchange traded funds, 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. Global mandates that include a majority of U.S. equities will be included in U.S. equities. ~~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 (non-U.S. developed) and emerging markets. Global ex U.S. equities include common stocks, exchange traded funds, and ~~D~~derivatives based on common stocks, 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 mandates that include a majority of Global ex U.S. equities will be included in Global ex U.S. equities. Global ex U.S. equities provide both current income and capital gains.

Non-U.S. Developed Equity – Non-U.S. developed equities represent ownership in companies domiciled in developed economies (countries) included in the MSCI All – Country World Equity Index – excluding those classified as part of the MSCI Emerging Markets Equity Index. These securities are typically constituents of countries in Europe, the Americas (North/Latin/South) and the Far East with high per-capita income, mature capital markets, and stable governments. The benchmark for this asset category will be the MSCI EAFE Index, with net dividends.

Emerging Markets Equity – Emerging markets equities represent ownership in companies domiciled in emerging economies as defined by the current composition of the MSCI Emerging Markets Equity Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Equity Index qualification status (either through financial or qualitative measures). The benchmark for this asset category will be the MSCI Emerging Markets Equity Index, with net dividends.

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~~Directional Hedge Funds – ~~Equity~~Directional hedge fund investments include U.S. and international long/short equity or fixed income strategies and other such strategies that exhibit directional market characteristics using commodities, currencies, derivatives, or other global market instruments. These strategies attempt to exploit profits from security~~stock~~ selection skills by taking long and short positions in various ~~equity~~ securities. These strategies may also include fund of hedge fund investments. ~~Equity~~Directional hedge fund investments are made through private placement agreements. Directional hedge fund investments may be held in an internally managed commingled fund.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage, ~~and~~ event driven strategies and other relative value 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 discrete ~~discreet~~ events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include multi-strategy managers and fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements. Absolute return hedge fund investments may be held in an internally managed commingled fund.

D. Private Capital - Private ~~C~~capital investments include the illiquid debt and equity securities of private or publicly-traded companies. Private ~~C~~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 ~~C~~capital investments are held either through limited partnerships or as direct ownership interests.

Private Equity – Private ~~E~~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 ~~E~~equity investments are held either through limited partnerships or as direct ownership interests. The Private ~~E~~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. Inflation Linked – Inflation linked investments are intended to provide some degree of inflation protection and generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. Inflation linked investments include: ~~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.~~

REITS – REITS are real estate investment trusts that may be held as either trust certificates, derivative investments, or exchange traded funds. REITS own, and in most cases operate, income producing real estate.

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

TIPS - TIPS are inflation protected securities with a return linked to the inflation rate. For diversification purposes, TIPS may include non-U.S. inflation protected fixed income securities as well as nominal fixed income securities.

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 may~~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 internal and external pooled investment funds, ~~money market funds,~~ deposits of the Texas State Treasury, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

Performance Measurement

The investment performance of the PUF will be measured by the PUF'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 PUF, as indicated in Exhibit A.

Investment Guidelines

The PUF 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 PUF assets in such liquid investment fund.

- No securities may be purchased or held which would jeopardize the PUF'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 PUF's investments in warrants shall not exceed more than 5% of the PUF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.

- The PUF may utilize derivatives ~~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 PUF investments; or f) adjust the market exposure of the asset allocation, including the use of long and short strategies and other such strategies provided that the PUF'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 derivatives ~~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.
- Deposits of the Texas State Treasury.
- The PUF's custodian late deposit interest bearing liquid investment fund.
- Municipal short-term securities
- 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 PUF 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 PUF's fixed income assets.

- Overnight repurchase agreements may not exceed 25% of the PUF's fixed income assets.

- Mortgage Backed Securities (MBS) ~~D~~dollar ~~R~~rolls shall be executed as matched book transactions in the same manner as reverse repurchase agreements above. As above, the rules for trading MBS ~~D~~dollar ~~R~~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 securities within the component~~s~~ categories of the Lehman Brothers Aggregate Bond Index (LBAGG).~~:~~ These component categories include 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.

- 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 PUF custodian bank. Tri-party collateral arrangements are not permitted.

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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 securities within the ~~components~~ categories of the Lehman Brothers Aggregate Bond Index (LBAGG). These component categories include 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 PUF'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 50% of the PUF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.

  - Not more than 15% of the PUF'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 PUF 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, or

- ~~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.

PUF Distributions

The PUF shall balance the needs and interests of present beneficiaries with those of the future. PUF spending policy objectives shall be to:

- ~~A.~~ provide a predictable, stable stream of distributions over time;
- ~~B.~~ ensure that the inflation adjusted value of distributions is maintained over the long term; and
- ~~C.~~ ensure that the inflation adjusted value of PUF assets after distributions is maintained over rolling 10-year periods.

The goal is for the PUF's average spending rate over time not to exceed the PUF's average annual investment return after inflation and expenses in order to preserve the purchasing power of PUF distributions and underlying assets.

The Texas Constitution states that "The amount of any distributions to the available university fund shall be determined by the board of regents of The University of Texas System in a manner intended to provide the available university fund with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of permanent university fund investments and annual distributions to the available university fund. The amount distributed to the available university fund in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on bonds and notes issued under this section. If the purchasing power of permanent university fund investments for any rolling 10-year period is not preserved, the board may not increase annual distributions to the available university fund until the purchasing power of the permanent university fund investments is restored, except as necessary to pay the principal and interest due and owing on bonds and notes issued under this section. An annual distribution made by the board to the available university fund during any fiscal year may not exceed an amount equal to seven percent of the average net fair market value of permanent university fund investment assets as determined by the board, except as necessary to pay any principal and interest due and owing on bonds issued under this section. The expenses of managing permanent university fund land and investments shall be paid by the permanent university fund."

Annually, the Board of Regents will approve a distribution amount to the AUF.

In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the Board of Regents in May of each year an amount to be distributed to the AUF during the next fiscal year. UTIMCO's recommendation on the annual distribution shall be an amount equal to 4.75% of the trailing twelve quarter average of the net asset value of the PUF for the quarter ending February of each year.

Following approval of the distribution amount, distributions from the PUF to the AUF may be quarterly or annually at the discretion of UTIMCO Management.

PUF Accounting

The fiscal year of the PUF shall begin on September 1st and end on August 31st. Market value of the PUF 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 PUF'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 PUF net assets. Valuation of PUF assets shall be based on the books and records of the custodian for the valuation date. The final determination of PUF net assets for a month end close shall normally be completed within five business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

The fair market value of the PUF's net assets shall include all related receivables and payables of the PUF on the valuation. Such valuation shall be final and conclusive.

Securities Lending

The PUF 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 PUF 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 PUF 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 PUF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the PUF solely in the interest of the U. T. System and the A&M System and shall not invest the PUF 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~~August 11, 2005, except for Exhibit A. ~~which was effective January 1, 2004~~. Effective date for Exhibit A shall be no later than November 1, 2005. The selection of the date shall be determined by UTIMCO's Chief Investment Officer and notification shall occur prior to the effective date.

CURRENT EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

	Percent of Portfolio (%)		
Asset Category	**Policy Targets**	**Policy Ranges**	**Benchmarks**
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**

PROPOSED EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

	Percent of Portfolio (%)		
Asset Category	**Policy Targets**	**Policy Ranges**	**Benchmarks**
US Equities	**20.0**	**10 to 30**	Russell 3000 Index
Global ex US Equities	**17.0**	**10 to 30**	
Non-US Developed Equity	10.0	0 to 30	MSCI EAFE Index with net dividends
Emerging Markets Equity	7.0	0 to 10	MSCI Emerging Markets Index with net dividends
Hedge Funds	**25.0**	**15 to 30**	
Directional Hedge Funds	10.0	5 to 15	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	15.0	10 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
Private Capital	**15.0**	**5 to 20**	Venture Economics' Periodic IRR Index
Venture Capital	4.0	0 to 8	
Private Equity	11.0	5 to 15	
Inflation Linked	**13.0**	**5 to 20**	
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Commodities	3.0	0 to 6	GSCI minus 1%
TIPS	5.0	0 to 10	Lehman Brothers US TIPS Index
Fixed Income:	**10.0**	**5 to 15**	Lehman Brothers Aggregate Bond Index
Cash	**0.0**	**0 to 10**	90 Day T-Bills

Expected Annual Return (%)	**8.34**
1 yr Downside Deviation (%)	**-7.6**
Standard Deviation (%)	**10.8**

GEF

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 Policy 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 maintained~~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, exchange traded funds, 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. Global mandates that include a majority of U.S. equities will be included in U.S. equities. ~~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 (non U.S. developed) and emerging markets. Global ex U.S. equities include common stocks, exchange traded funds, and ~~D~~derivatives based on common stock, -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 mandates that include a majority of Global ex U.S. equities will be included in Global ex U.S. equities. Global ex U.S. equities provide both current income and capital gains.

Non-U.S. Developed Equity – Non-U.S. developed equities represent ownership in companies domiciled in developed economies (countries) included in the MSCI All – Country World Equity Index – excluding those classified as part of the MSCI Emerging Markets Equity Index. These securities are typically constituents of countries in Europe, the Americas (North/Latin/South) and the Far East with high per-capita income, mature capital markets, and stable governments. The benchmark for this asset category will be the MSCI EAFE Index, with net dividends.

Emerging Markets Equity – Emerging markets equities represent ownership in companies domiciled in emerging economies as defined by the current composition of the MSCI Emerging Markets Equity Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Equity Index qualification status (either through financial or qualitative measures). The benchmark for this asset category will be the MSCI Emerging Markets Equity Index, with net dividends.

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~~Directional Hedge Funds – ~~Equity~~ Directional hedge fund investments include U.S. and international long/short equity or fixed income strategies and other such strategies that exhibit directional market characteristics using commodities, currencies, derivatives, or other global market instruments. These strategies attempt to exploit profits from security~~stock~~ selection skills by taking long and short positions in various ~~equity~~ securities. These strategies may also include fund of hedge fund investments. ~~Equity~~Directional hedge fund investments are made through private placement agreements. Directional hedge fund investments may be held in an internally managed commingled fund.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage, ~~and~~ event driven strategies and other relative value 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 discrete~~discreet~~ events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include multi-strategy managers and fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements. Absolute return hedge fund investments may be held in an internally managed commingled fund.

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

Venture Capital – Venture ~~C~~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 ~~E~~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 ~~E~~equity investments are held either through limited partnerships or as direct ownership interests. The Private ~~E~~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. ~~E.~~ Inflation Linked – Inflation linked investments are intended to provide some degree of inflation protection and generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. Inflation linked investments include: ~~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.~~

REITS – REITS are real estate investment trusts that may be held as either trust certificates, derivative investments, or exchange traded funds. REITS own, and in most cases operate, income producing real estate.

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

TIPS - TIPS are inflation protected securities with a return linked to the inflation rate. For diversification purposes, TIPS may include non-U.S.

inflation protected fixed income securities as well as nominal fixed income securities.

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 may~~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 internal and external pooled investment funds, ~~money market funds,~~ cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

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 derivatives ~~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 the use of long and short strategies and other such 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 derivatives ~~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.

- Municipal short-term securities.

- 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) ~~D~~dollar ~~R~~rolls shall be executed as matched book transactions in the same manner as reverse repurchase agreements above. As above, the rules for trading MBS ~~D~~dollar ~~R~~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 securities within the component~~s~~ categories of the Lehman Brothers Aggregate Bond Index (LBAGG).~~:~~ These component categories include 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 50% of the GEF's fixed income portfolio may be invested in non-U.S. dollar denominated 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, or

- ~~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. The final determination of GEF net assets for a month end close shall normally be completed within five business days but determination may be longer under certain circumstances. 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~~at the time 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~~ August 11, 2005, except for Exhibit A. ~~which was effective January 1, 2004.~~ The effective date for Exhibit A shall be no later than November 1, 2005. The selection of the date shall be determined by UTIMCO's Chief Investment Officer and notification shall occur prior to the effective date.

CURRENT EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

	Percent of Portfolio (%)		
Asset Category	**Policy Targets**	**Policy Ranges**	**Benchmarks**
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**

PROPOSED EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

	Percent of Portfolio (%)		
Asset Category	**Policy Targets**	**Policy Ranges**	**Benchmarks**
US Equities	**20.0**	**10 to 30**	Russell 3000 Index
Global ex US Equities	**17.0**	**10 to 30**	
Non-US Developed Equity	10.0	0 to 30	MSCI EAFE Index with net dividends
Emerging Markets Equity	7.0	0 to 10	MSCI Emerging Markets Index with net dividends
Hedge Funds	**25.0**	**15 to 30**	
Directional Hedge Funds	10.0	5 to 15	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	15.0	10 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
Private Capital	**15.0**	**5 to 20**	Venture Economics' Periodic IRR Index
Venture Capital	4.0	0 to 8	
Private Equity	11.0	5 to 15	
Inflation Linked	**13.0**	**5 to 20**	
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Commodities	3.0	0 to 6	GSCI minus 1%
TIPS	5.0	0 to 10	Lehman Brothers US TIPS Index
Fixed Income:	**10.0**	**5 to 15**	Lehman Brothers Aggregate Bond Index
Cash	**0.0**	**0 to 10**	90 Day T-Bills

Expected Annual Return (%)	**8.34**
1 yr Downside Deviation (%)	**-7.6**
Standard Deviation (%)	**10.8**

STF

THE UNIVERSITY OF TEXAS SYSTEM
SHORT TERM FUND
INVESTMENT POLICY STATEMENT

Purpose

The Short Term Fund (the "STF") 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 component institutions and System Administration with an investment horizon less than one year.

STF Organization

The STF functions like a mutual fund in which each eligible account purchases and redeems STF units as provided herein. The ownership of STF 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.

STF 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 STF.

Ultimate fiduciary responsibility for the STF 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 STF shall be managed by UTIMCO, which shall: a) recommend investment policy for the STF, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with STF objectives, and c) monitor STF performance against STF objectives. UTIMCO shall invest the STF assets in conformity with this Policy Statement.

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.

STF 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 STF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase STF Units

No account shall be eligible to purchase units of the STF 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 STF.

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 STF provided that a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the STF.~~:~~

~~A. the purchase of STF 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 STF;~~

~~D. a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the STF; and~~

~~E. no officer of such foundation, other than members of the Board of Regents, the Chancellor, UTIMCO's chief investment officer or his or her delegate shall have any control over the management of the STF other than to request purchase and redemption of STF units.~~

STF Investment Objectives

The primary investment objective shall be to maximize current income consistent with the absolute preservation of capital and maintenance of adequate STF liquidity. The STF shall seek to maintain a net asset value of $1.00.

Achievement of this objective shall be defined as a fund return in excess of the average gross return of the median manager of an approved universe of institutional only money market funds.

Asset Allocation

Asset allocation is the primary determinant of investment performance and subject to the asset allocation ranges specified herein is the responsibility of UTIMCO. Specific asset allocation targets may be changed from time to time based on the economic and investment outlook.

STF assets shall be allocated to the following broad asset class:

Cash and Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.

Performance Measurement

The investment performance of the STF will be measured by an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the performance benchmarks of the STF. Such measurement will occur at least quarterly.

Investment Guidelines

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

Investment guidelines include the following:

General

- All investments will be U.S. dollar denominated assets.

- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of STF assets in such liquid investment fund.

- No securities may be purchased or held which would jeopardize the STF'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 STF may utilize derivative securities with the approval of the UTIMCO Board 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) to index or to hedge risks associated with STF investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such derivative purchases or sales; ii) no more than 5% of STF assets are required as an initial margin deposit for such contacts; and iii) the STF's investments in warrants shall not exceed more than 5% of the STF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.~~

- ~~Such derivative securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.~~

- ~~UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the STF and the prices of derivative security investments by investing in only those contracts whose behavior is expected to resemble that of the STF's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a derivative security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. Derivative securities purchased or sold over the counter may not represent more than 15% of the net assets of the STF.~~

- ~~In the event that there are no derivative securities traded on a particular market index, the STF may utilize a composite of other derivative security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce~~

~~any tracking error from the low correlation of the selected derivative securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.~~

- ~~UTIMCO shall minimize the risk that a party will default on its payment obligation under a derivative security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the STF will not be able to meet its obligation to the counterparty by investing the STF in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.~~

~~Eligible Investments~~

~~The weighted average maturity of the portfolio shall not be more than 60 days. Individual securities shall have a remaining maturity not longer than 397 days. The maturity of a portfolio security shall be deemed to be the period remaining (calculated from the trade date or such other date on which the STF's interest in the security is subject to market action) until the date noted on the face of the security as the date on which the principal amount must be paid, or in the case of a security called for redemption, the date on which the redemption payment must be made, except that: a) a variable rate security, the principal amount of which is scheduled on the face of the security to be paid in 397 days or less, shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate; b) a variable rate security that is subject to a demand feature shall be deemed to have a maturity equal to the longer of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand; c) a floating rate security that is subject to a demand feature shall be deemed to have a maturity equal to the period remaining until the principal amount can be recovered through demand; d) a repurchase agreement shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur, or, where no date is specified, but the agreement is subject to a demand, the notice period applicable to a demand for the repurchase of the securities. A demand feature shall mean a put that entitles the holder to receive the principal amount of the underlying security or securities and that may be exercised either at any time on no more than 30 days notice or at specified intervals not exceeding 397 days and upon no more than 30 days notice.~~

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.

- Commercial paper, negotiable certificates of deposit, and Bankers' Acceptances must be rated at least A-1 by Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc.

- Floating rate securities, if they meet the single security duration criteria and are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e., a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment; inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters.

- 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 STF 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 STF's total assets.

  - Overnight repurchase agreements may not exceed 50% of the STF's total assets.

~~Fixed Income~~
~~Holdings of eligible fixed income derivative securities shall be limited by the following guidelines:~~

- ~~With prior written approval of the UTIMCO Board, the Portfolio Manager may enter into derivatives transactions utilizing exchange traded fixed income futures contracts or options on fixed income futures contracts, provided that such derivatives transactions are designed to control duration or manage risk.~~

- ~~Such derivatives transactions shall be established on a case by case basis. These contracts shall include but shall not be limited to Fed Fund Futures, Eurodollar Futures, or Treasury Bill Futures, provided that the futures exchanges are rated AAA or the equivalent as determined by UTIMCO.~~

- ~~Such derivatives shall be priced daily.~~

- ~~Market risk shall be measured in dollar duration equivalent values or, in the case of options, in delta or percentage of equivalent futures contracts.~~

- ~~For the purpose of this policy Collateralized Mortgage Obligations ("CMOs") are considered to be Mortgage Backed Securities ("MBS"), not derivatives.~~

STF Distributions

Distributions of income from the STF to the unitholders shall be made as soon as practicable on or after the last day of each month.

STF Accounting

The fiscal year of the STF shall begin on September 1st and end on August 31st. Market value of the STF 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.

Valuation of Assets

All investments are stated at amortized cost, which in most cases approximates the market value of securities. The objective of the fund is to maintain a stable $1.00 net asset value; however, the $1.00 net asset value is neither~~not~~ guaranteed nor insured by UTIMCO.

The STF's net assets shall include all related receivables and payables of the STF 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 STF Units

Purchase of STF units may be made on each business day upon payment of cash to the STF or contribution of assets approved by UTIMCO's chief investment officer, at the net asset value~~$1.00~~ per unit of the STF as of the most recent valuation date.

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

Redemption of STF Units

Redemption of units may be made on each business day at the net asset value~~$1.00~~ per unit.

Securities Lending

The STF may not participate in a securities lending contract with a bank or nonbank security lending agent.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the STF solely in the interest of STF unitholders and shall not invest the STF 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 ~~August 12, 2004~~August 11, 2005.

ORF

THE UNIVERSITY OF TEXAS SYSTEM
OPERATING RESERVE FUND
INVESTMENT POLICY STATEMENT

Purpose and Structure

The University of Texas System Operating Reserve Fund (the "ORF") 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 or intermediate term funds held by U. T. System institutions and System Administration.

ORF Organization

The ORF functions like a mutual fund in which each eligible account purchases and redeems ORF units as provided herein. The ownership of ORF 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.

ORF 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 ORF.

Ultimate fiduciary responsibility for the ORF 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 ORF shall be managed by UTIMCO. UTIMCO shall invest the ORF assets in conformity with this Policy Statement. All changes to this Policy Statement are subject to approval by the Board of Regents.

ORF 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 ORF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase ORF Units

No account shall be eligible to purchase units of the ORF 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 ORF.

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 ORF provided that a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the ORF.

ORF Investment Objectives

The investment objective shall be to maximize current income consistent with the absolute preservation of capital and maintenance of adequate liquidity.

Asset Allocation and Policy

ORF assets shall be invested in the Short Term Fund.

Performance Measurement

The investment performance of the ORF will be measured by the ORF'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 ORF must be invested at all times in strict compliance with applicable law. The ORF may invest only in units of the Short Term Fund.

ORF Distributions

Distributions of income from the ORF to the unitholders shall be made as soon as practicable on or after the last day of each month.

ORF Accounting

The fiscal year of the ORF shall begin on September 1st and end on August 31st. Market value of the ORF 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 ORF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets and Distributions

The ORF units will be valued in accordance with the policy established by the Short Term Fund.

The ORF's net assets shall include all related receivables and payables of the ORF 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 ORF Units

In accordance with the policy established by the Short Term Fund, purchase of ORF units may be made on each business day upon payment of cash to the ORF at the net asset value per unit of the ORF as of the most recent valuation date.

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

Redemption of ORF Units

In accordance with the policy established by the Short Term Fund, redemption of units may be made on each business day at the net asset value of the ORF.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the ORF solely in the interest of ORF unit holders and shall not invest the ORF 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 August 11, 2005.

LTR

THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM RESERVE FUND
INVESTMENT POLICY STATEMENT

Purpose and Structure

The University of Texas System Long Term Reserve Fund (the "LTR") 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 intermediate and long-term funds held by U. T. System institutions and System Administration.

LTR Organization

The LTR functions like a mutual fund in which each eligible account purchases and redeems LTR units as provided herein. The ownership of LTR 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.

LTR 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 LTR.

Ultimate fiduciary responsibility for the LTR 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 LTR shall be managed by UTIMCO. UTIMCO shall invest the LTR assets in conformity with this Policy Statement and will monitor LTR performance relative to established objectives. All changes to this Policy Statement are subject to approval by the Board of Regents.

LTR 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 LTR assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase LTR Units

No account shall be eligible to purchase units of the LTR 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 LTR.

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 LTR provided that a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the LTR.

LTR Investment Objectives

The investment objective shall be to earn annual returns over inflation (as measured by the Consumer Price Index) plus 3%, as measured over rolling five-year rolling periods.

Asset Allocation and Policy

Asset allocation will be determined by U.T. System staff and shall be allocated among the following funds:

A. Short Term Fund (STF) – See the current STF Investment Policy.
B. U.T. System Reserve Plus Fund (RPF) – See the current RPF Investment Policy Statement.
C. U.T. System Balanced Fund (Balanced) – See the current Balanced Investment Policy Statement.

U.T. System staff will notify UTIMCO staff of the initial asset allocation at least fifteen business days prior to initial funding. Thereafter, for asset allocation changes in excess of $200 million, U.T. System staff will notify UTIMCO staff five business days prior to the planned change. Asset allocation rebalances shall occur at month end.

Performance Measurement

The investment performance of the LTR will be measured by the LTR'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 LTR must be invested at all times in strict compliance with applicable law. The LTR must be invested in the STF, RPF and/or Balanced.

LTR Accounting

The fiscal year of the LTR shall begin on September 1st and end on August 31st. Market value of the LTR 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 LTR'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 LTR net assets and the net asset value per unit of the LTR. The final determination of LTR net assets for a month end close shall normally be completed within six business days but determination may be longer under certain circumstances. Such valuation of LTR assets shall be based on the bank trust custody agreement in effect at the date of valuation.

The fair market value of the LTR's net assets shall include all related receivables and payables of the LTR 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 LTR unit holders shall not receive monthly distributions. Their proportionate share of the LTR assets appreciation/depreciation is retained in the net asset value per unit.

Purchase of LTR Units

Purchase of LTR units may be made on the first business day of each month upon payment of cash to the LTR, at the net asset value per unit of the LTR as of the most recent monthly valuation date. Such purchase commitments are binding.

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

Redemption of LTR Units

Redemption of LTR units shall be paid in cash as soon as practicable after the monthly valuation date of the LTR. Redemptions from the LTR shall be at the market value price per unit determined at the time of the redemption. Such redemption commitments are binding. The required notification shall be given to designated UTIMCO staff members. Any redemption in excess of $100 million shall require five business days notification prior to withdrawal.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the LTR solely in the interest of LTR unit holders and shall not invest the LTR 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 August 11, 2005.

RPF

THE UNIVERSITY OF TEXAS SYSTEM
RESERVE PLUS FUND
INVESTMENT POLICY STATEMENT

Purpose and Structure

The University of Texas System Reserve Plus Fund (the "RPF") 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 intermediate and long-term funds held by U. T. System institutions and System Administration. In addition, the Permanent University Fund (the "PUF") and The University of Texas System General Endowment Fund (the "GEF") may purchase units of the RPF.

RPF Organization

The RPF functions as a mutual fund in which each eligible account purchases and redeems RPF units as provided herein. The ownership of RPF 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.

RPF Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest 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 RPF.

Ultimate fiduciary responsibility for the RPF 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 RPF shall be managed by UTIMCO, which shall a) recommend investment policy for the RPF, b) recommend specific asset allocation targets, ranges and performance benchmarks consistent with RPF objectives, and c) monitor RPF performance against RPF objectives. UTIMCO shall invest the RPF 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 Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

RPF 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 RPF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase RPF Units

No account shall be eligible to purchase units of the RPF 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 RPF.

Currently, The University of Texas System Long Term Reserve (the "LTR"), PUF, and GEF purchase units in the RPF.

RPF Investment Objectives

The investment objective shall be to earn annual returns over inflation (as measured by the Consumer Price Index) plus 3%, as measured over five-year rolling periods.

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.

RPF 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, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, and futures. In addition, derivative applications that serve as a U.S. equity substitute will be classified as traditional U.S. equity. Global mandates that include a majority of U.S. equities will be included in U.S. equities. 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 (non-U.S. developed) and emerging markets. Global ex U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, and futures. In addition, derivative applications that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global mandates that include a majority of Global ex U.S. equities will be included in Global ex U.S. equities. Global ex U.S. equities provide both current income and capital gains.

Non-U.S. Developed Equity – Non-U.S. developed equities represent ownership in companies domiciled in developed economies (countries) included in the MSCI All – Country World Equity Index – excluding those classified as part of the MSCI Emerging Markets Equity Index. These securities are typically constituents of countries in Europe, the Americas (North/Latin/South) and the Far East with high per-capita income, mature capital markets, and stable governments. The benchmark for this asset category will be the MSCI EAFE Index, with net dividends.

Emerging Markets Equity – Emerging markets equities represent ownership in companies domiciled in emerging economies as defined by the current composition of the MSCI Emerging Markets Equity Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Equity Index qualification status (either through financial or qualitative measures). The benchmark for this asset category will be the MSCI Emerging Markets Equity Index, with net dividends.

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 include U.S. and international long/short equity or fixed income strategies and other such strategies that exhibit directional market characteristics using commodities, currencies, derivatives, or other global market instruments. These strategies attempt to exploit profits from security selection skills by taking long and short positions in various securities. These strategies may also include fund of hedge fund investments. Directional hedge fund investments are made through private placement agreements. Directional hedge fund investments may be held in an internally managed commingled fund.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage, event driven strategies and other relative value 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 discrete events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include multi-strategy managers and fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements. Absolute return hedge fund investments may be held in an internally managed commingled fund.

D. Inflation Linked – Inflation linked investments are intended to provide some degree of inflation protection and generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. Inflation linked investments include:

REITS – REITS are real estate investment trusts that may be held as either trust certificates, derivative investments, or exchange traded funds. REITS own, and in most cases operate, income producing real estate.

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

TIPS - TIPS are inflation protected securities with a return linked to the inflation rate. For diversification purposes, TIPS may include non-U.S. inflation protected fixed income securities as well as nominal fixed income securities.

E. 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. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications that serve as a fixed income substitute may be classified as fixed income.

F. Cash and Cash Equivalents – Cash and cash equivalents consist of internal and external pooled investment funds, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

Performance Measurement

The investment performance of the RPF will be measured by the RPF'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 RPF, as indicated in Exhibit A.

Investment Guidelines

The RPF 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 RPF assets in such liquid investment fund.

- No securities may be purchased or held which would jeopardize the RPF's tax-exempt status.

- The RPF's investments in warrants shall not exceed more than 5% of the RPF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.

- The RPF may utilize derivatives to: a) simulate the purchase or sale of an underlying market index; 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) hedge risks associated with RPF investments; or f) adjust the market exposure of the asset allocation, including the use of long and short strategies and other such strategies provided that the RPF'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 permitted applications under which derivatives 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.

<u>Cash and Cash Equivalents</u>

Holdings of cash and cash equivalents may include the following:

- Internal pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by UTIMCO's chief investment officer.

- RPF's custodian late deposit interest bearing liquid investment fund.

- Municipal short-term securities.

- 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.

- 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 RPF 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 RPF's fixed income assets.

  - Overnight repurchase agreements may not exceed 25% of the RPF'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.

<u>Fixed Income</u>

<u>Domestic Fixed Income</u>

Permissible securities for investment include the securities within the component categories of the Lehman Brothers Aggregate Bond Index (LBAGG). These component categories include 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

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 50% of the RPF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.

- Not more than 15% of the RPF's fixed income portfolio may be invested in emerging market debt.

- International currency exposure may be hedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The RPF shall:

- 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, or
- hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the chief investment officer.

RPF Accounting

The fiscal year of the RPF shall begin on September 1st and end on August 31st. Market value of the RPF 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 RPF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of RPF Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all RPF net assets and the net asset value per unit of the RPF. The final determination of RPF net assets for a month end close shall normally be completed within five business days but determination may be longer under certain circumstances. Valuation of RPF assets shall be based on the books and records of the custodian for the valuation date.

The fair market value of the RPF's net assets shall include all related receivables and payables of the RPF 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 RPF Units

The RPF participants may purchase units on the first business day of each month upon payment of cash to the RPF, at the net asset value per unit of the RPF as of the prior month valuation date. Such purchase commitments are binding.

Redemption of RPF Units

The RPF participants may redeem RPF 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 RPF. Redemptions from the RPF shall be at the market price per unit determined at the time of the withdrawal. Such redemption commitments are binding.

Securities Lending

The RPF 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 RPF 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 RPF 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 RPF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the RPF solely in the interest of RPF unitholders and shall not invest the RPF 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 August 11, 2005, except for Exhibit A. Adherence to the policy targets and ranges may not be effective during the first six months after initial funding (expected December 1, 2005.) The selection of the effective date of Exhibit A shall be determined by UTIMCO's Chief Investment Officer and notification shall occur prior to the effective date.

EXHIBIT A

RESERVE PLUS FUND

POLICY TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

	Percent of Policy (%)		
Asset Category	**Policy Targets**	**Policy Ranges**	**Benchmarks**
US Equities	10.0	0 to 20	Russell 3000 Index
Non-US Developed Equity	5.0	0 to 20	MSCI EAFE Index with net dividends
Emerging Markets Equities	10.0	0 to 20	MSCI Emerging Markets Index with net dividends
Directional Hedge Funds	12.5	5 to 20	Combination index: 50% S&P Event-Driven Hedge Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	12.5	5 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
REITS	10.0	0 to 20	Dow Jones Wilshire Real Estate Securities Index
Commodities	5.0	0 to 10	GSCI minus 1%
TIPS	10.0	0 to 20	Lehman Brothers US TIPS Index
Fixed Income	25.0	15 to 40	Lehman Brothers Aggregate Bond Index
Cash	0.0	0 to 20	90 Day T-Bills

Expected Annual Return (%)	7.18
1 yr Downside Deviation (%)	-5.2
Standard Deviation (%)	7.9

BAL

THE UNIVERSITY OF TEXAS SYSTEM
BALANCED FUND
INVESTMENT POLICY STATEMENT

Purpose and Structure

The University of Texas System Balanced Fund (the "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 intermediate and long-term funds held by U. T. System institutions and System Administration.

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 Authority Policy 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.

Currently, The University of Texas System Long Term Reserve Fund (the "LTR") purchases units in the BAL.

BAL Investment Objectives

The investment objective shall be to earn annual returns over inflation (as measured by the Consumer Price Index) plus 4%, as measured over five-year rolling periods.

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.

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, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, and futures. In addition, derivative applications that serve as a U.S. equity substitute will be classified as traditional U.S. equity. Global mandates that include a majority of U.S. equities will be included in U.S. equities. 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 (non-U.S. developed) and emerging markets. Global ex U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, and futures. In addition, derivative applications that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global mandates that include a majority of Global ex U.S. equities will be included in Global ex U.S. equities. Global ex U.S. equities provide both current income and capital gains.

Non-U.S. Developed Equity – Non-U.S. developed equities represent ownership in companies domiciled in developed economies (countries) included in the MSCI All – Country World Equity Index – excluding those classified as part of the MSCI Emerging Markets Equity Index. These securities are typically constituents of countries in Europe, the Americas (North/Latin/South) and the Far East with high per-capita income, mature capital markets, and stable governments. The benchmark for this asset category will be the MSCI EAFE Index, with net dividends.

Emerging Markets Equity – Emerging markets equities represent ownership in companies domiciled in emerging economies as defined by the current composition of the MSCI Emerging Markets Equity Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Equity Index qualification status (either through financial or qualitative measures). The benchmark for this asset category will be the MSCI Emerging Markets Equity Index, with net dividends.

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 include U.S. and international long/short equity or fixed income strategies and other such strategies that exhibit directional market characteristics using commodities, currencies, derivatives, or other global market instruments. These strategies attempt to exploit profits from security selection skills by taking long and short positions in various securities. These strategies may also include fund of hedge fund investments. Directional hedge fund investments are made through private placement agreements. Directional hedge fund investments may be held in an internally managed commingled fund.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage, event driven strategies and other relative value 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 discrete events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include multi-strategy managers and fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements. Absolute return hedge fund investments may be held in an internally managed commingled fund.

D. Inflation Linked – Inflation linked investments are intended to provide some degree of inflation protection and generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. Inflation linked investments include:

REITS – REITS are real estate investment trusts that may be held as either trust certificates, derivative investments, or exchange traded funds. REITS own, and in most cases operate, income producing real estate.

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

TIPS - TIPS are inflation protected securities with a return linked to the inflation rate. For diversification purposes, TIPS may include non-U.S. inflation protected fixed income securities as well as nominal fixed income securities.

E. 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. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications that serve as a fixed income substitute may be classified as fixed income.

F. Cash and Cash Equivalents – Cash and cash equivalents consist of internal and external pooled investment funds, cash in foreign currencies, 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, 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 CORE assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the BAL's tax-exempt status.

- 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 derivatives: a) simulate the purchase or sale of an underlying market index; 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) hedge risks associated with BAL investments; or f) adjust the market exposure of the asset allocation, including the use of long and short strategies and other such 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 permitted applications under which derivatives 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.

<u>Cash and Cash Equivalents</u>

Holdings of cash and cash equivalents may include the following:

- Internal pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by UTIMCO's chief investment officer.

- BAL's custodian late deposit interest bearing liquid investment fund.

- Municipal short-term securities.

- 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.

- 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 BAL 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 BAL's fixed income assets.
- Overnight repurchase agreements may not exceed 25% of the BAL'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

Permissible securities for investment include securities within the component categories of the Lehman Brothers Aggregate Bond Index (LBAGG). These component categories include 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

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 50% of the BAL's fixed income portfolio may be invested in non-U.S. dollar denominated 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 at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The BAL shall:

- 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, or

- hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the 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. The final determination of BAL net assets for a month end close shall normally be completed within five business days but determination may be longer under certain circumstances. 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. Such purchase commitments are binding.

Redemption of BAL Units

The BAL participants may redeem BAL 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 BAL. Redemptions from the BAL shall be at the market price per unit determined at the time of the withdrawal. Such redemption commitments are binding.

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.

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 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 August 11, 2005, except for Exhibit A. Adherence to the policy targets and ranges may not be effective during the first six months after initial funding (expected December 1, 2005.) The selection of the effective date of Exhibit A shall be determined by UTIMCO's Chief Investment Officer and notification shall occur prior to the effective date.

BALANCED FUND

POLICY TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

	Percent of Policy (%)		
Asset Category	**Policy Targets**	**Policy Ranges**	**Benchmarks**
US Equities	30.0	20 to 40	Russell 3000 Index
Non-US Developed Equity	5.0	0 to 20	MSCI EAFE Index with net dividends
Emerging Markets Equities	10.0	0 to 20	MSCI Emerging Markets Index with net dividends
Directional Hedge Funds	10.0	5 to 15	Combination index: 50% S&P Event-Driven Hedge Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	15.0	5 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
REITS	10.0	0 to 20	Dow Jones Wilshire Real Estate Securities Index
Commodities	5.0	0 to 10	GSCI minus 1%
TIPS	5.0	0 to 15	Lehman Brothers US TIPS Index
Fixed Income	10.0	0 to 25	Lehman Brothers Aggregate Bond Index
Cash	0.0	0 to 10	90 Day T-Bills

Expected Annual Return (%)	7.75
1 yr Downside Deviation (%)	-6.9
Standard Deviation (%)	10.6

Liquidity Policy

The University of Texas Investment Management Company
Liquidity Policy

Effective Date of Policy: August 11, 2005~~November 5, 2004~~
Original Effective Date of Policy: August 7, 2003

Purpose:

The purpose of this Liquidity Policy is to establish limits on the overall liquidity profile of investments in (1) the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter collectively referred to as the Endowment Funds and, (2) the Reserve Plus Fund (RPF) and the Balanced Fund (Balanced). 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 Endowment Funds and RPF and Balanced 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 PUF, ~~and~~ GEF, RPF, and Balanced 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 Endowment Funds and RPF and Balanced. All individual investments within the Endowment Funds and RPF and Balanced 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%.

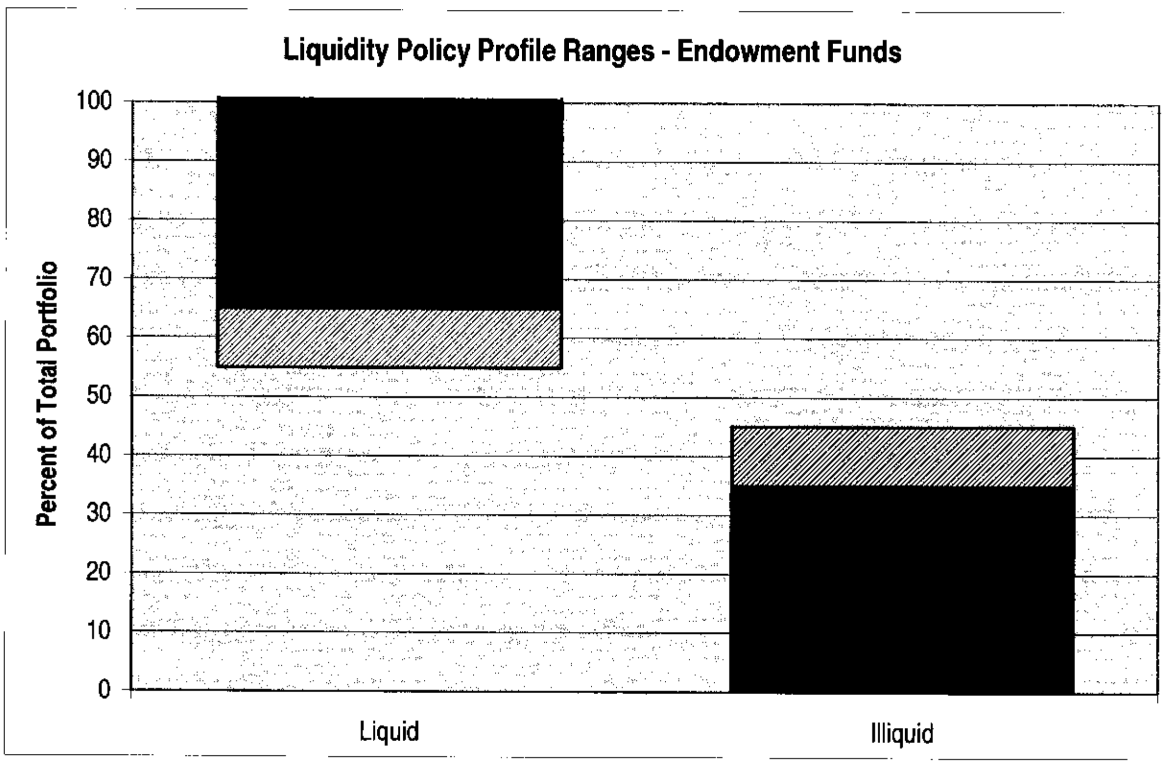
The measurements necessary to segregate all investments into one of the two categories assume normally functioning capital markets and cash market transactions. In addition, swaps, derivatives, or other third party arrangements to alter the status of an investment classified as illiquid may be considered, with the prior approval of the UTIMCO Board or the Risk~~Liquidity~~ Committee[1], in determining the appropriate liquidity category for each investment.

The result of this liquidity risk measurement process will be a liquidity profile for the Endowment Funds and the RPF and Balanced 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:

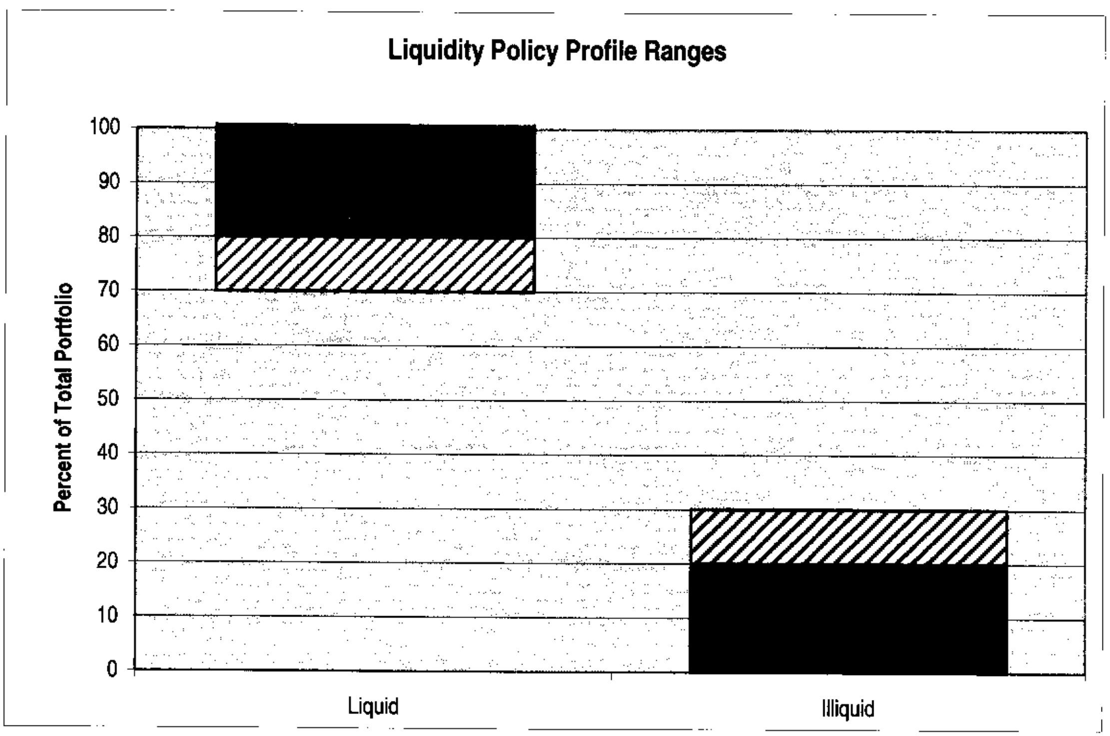
The current Liquidity Policy Profile ranges and trigger zones for the Endowment Funds are defined by the chart below:

PROPOSED



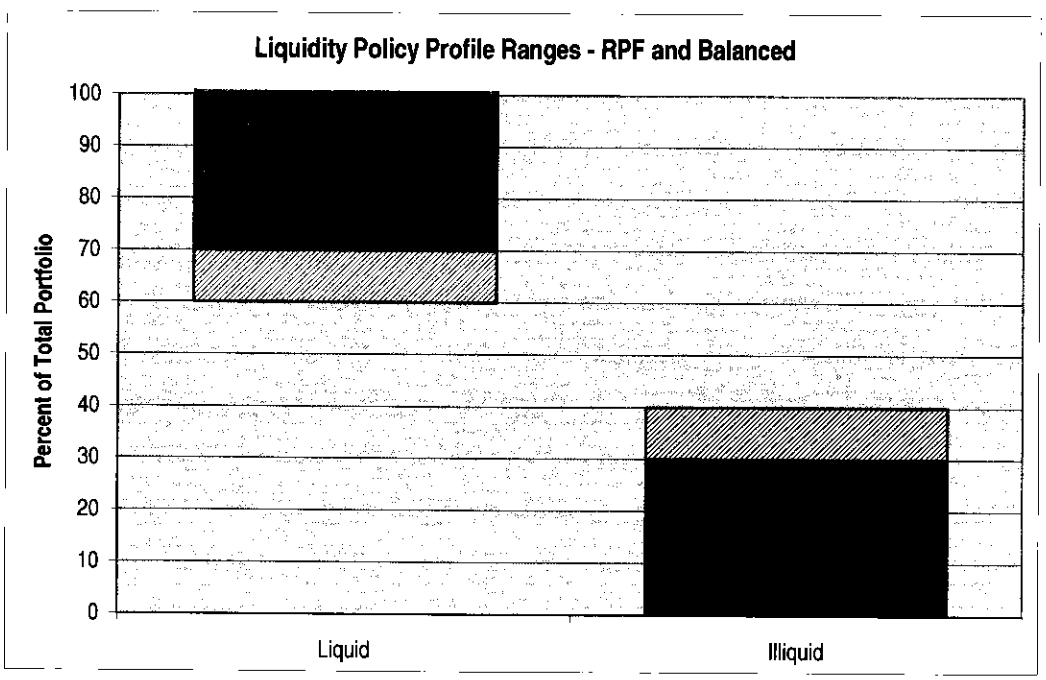
[1] The Risk~~Liquidity~~ Committee (formerly, the Liquidity Committee) was appointed by the UTIMCO Board of Directors and is subject to a Risk~~Liquidity~~ Committee Charter first approved by the UTIMCO Board of Directors on April 8, 2004. The Risk~~Liquidity~~ Committee consists of at least three members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

CURRENT



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 Risk~~Liquidity~~ Committee. For example, the allowable range for illiquid investments is 0% to ~~30~~45% of the total portfolio for the Endowment Funds. However, any illiquid investments made in the ~~20~~35% to ~~30~~45% trigger zone require prior approval by the Risk~~Liquidity~~ Committee or the UTIMCO Board. Risk~~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.

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



The allowable range for illiquid investments is 0% to 40% of the total portfolio for the RPF and Balanced. However, any illiquid investments made in the 30% to 40% trigger zone require prior approval by the Risk Committee or the UTIMCO Board. Risk 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.

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.

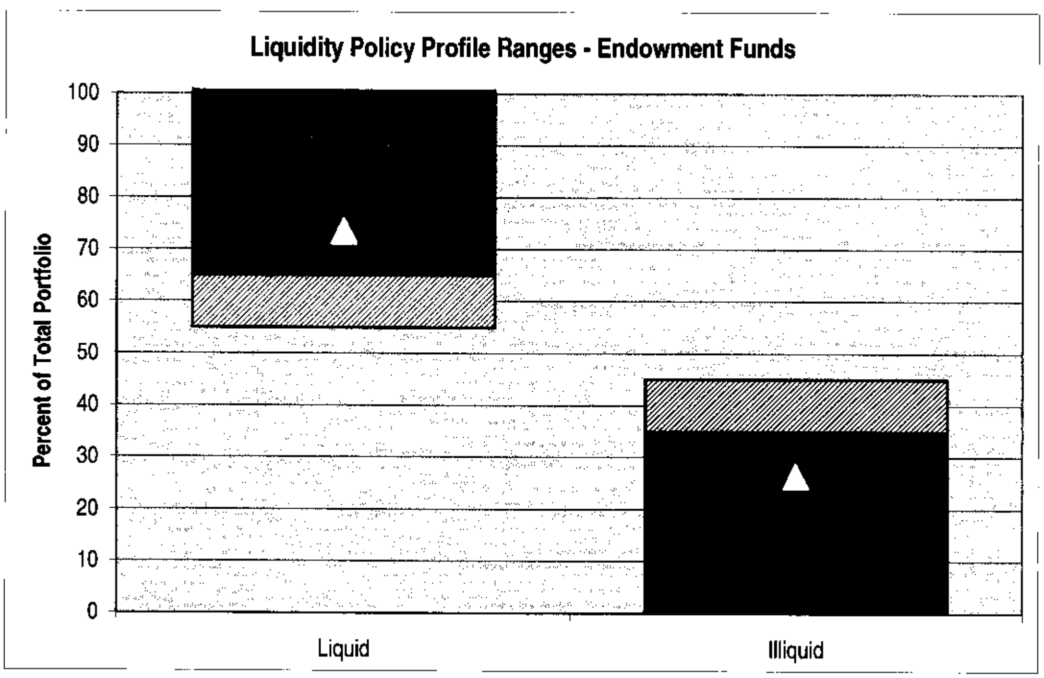
As additional safeguards, trigger zones have been established as indicated above to trigger required review and action by the UTIMCO Board or the ~~Liquidity~~Risk Committee in the event any investment action would cause the actual investment position in illiquid investments to enter the designated trigger 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~~any of the PUF, ~~or~~ the GEF, the RPF, or the Balanced by 10% or more of the total asset value of such ~~either F~~fund would also require review and action by the UTIMCO Board or the Risk~~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 Risk~~Liquidity~~ Committee the circumstances of the deviation from Policy and the remedy to the situation.

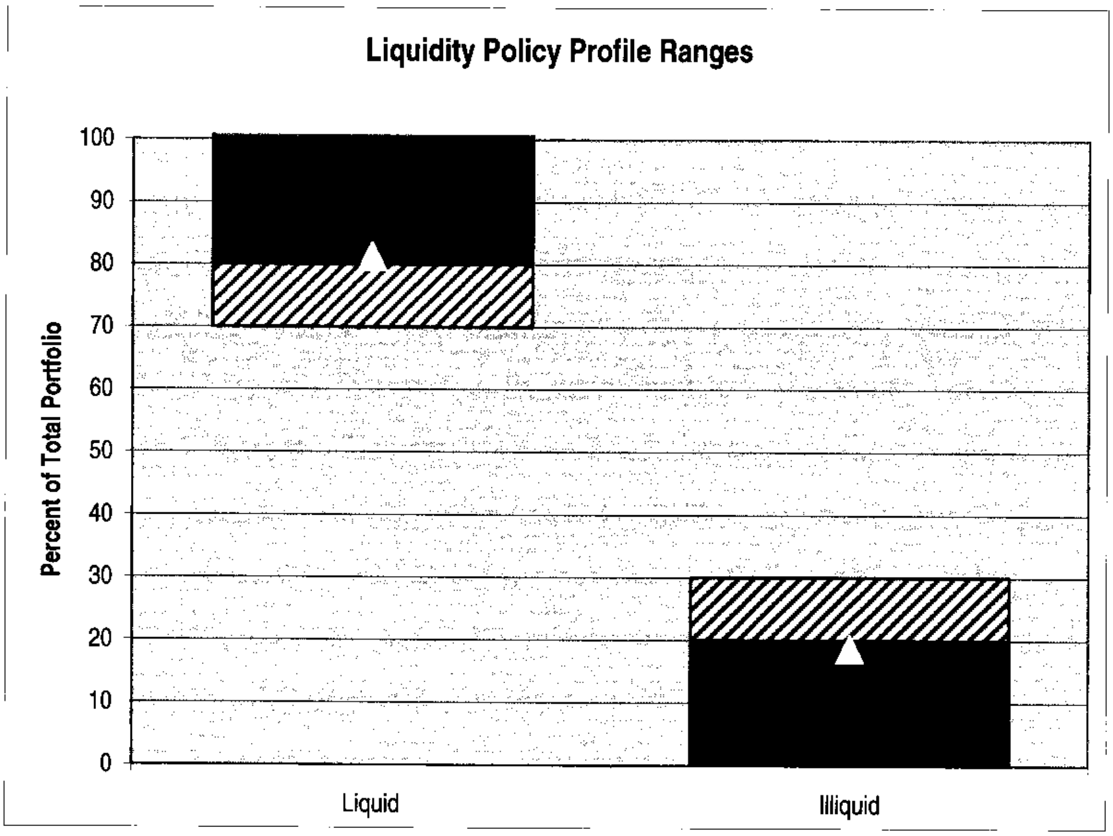
Reporting:

The actual liquidity profiles of the Endowment Funds and the RPF and Balanced, 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 for the Endowment Funds (numbers shown are examples only). For example, in this illustration the current exposure to "liquid" investments is ~~81.3~~73.5%, while exposure to "illiquid" investments is ~~18.7~~26.5% and both are within their respective allowable policy ranges and not in defined trigger zones.

PROPOSED



CURRENT


Liquidity Policy Profile Ranges
Percent of Total Portfolio
100
90
80
70
60
50
40
30
20
10
0
Liquid
Illiquid

Risk Charter

The University of Texas Investment Management Company

Charter of the Risk Committee

Background

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") established a Liquidity Committee on November 20, 2003. The name of the Liquidity Committee was changed to the Risk Committee (the "Committee") on May 19, 2005 to reflect the expanded responsibilities of the Committee. This Charter, originally adopted by the Board on April 8, 2004, and revised on September 29, 2004, ~~and~~ May 19, 2005 and July 21, 2005, sets forth the responsibilities of the Committee.

Purpose

The primary purpose of the Committee is to provide oversight and monitor 1) liquidity of the Permanent University Fund (PUF), ~~and~~ the General Endowment Fund (GEF), the Reserve Plus Fund (RPF), and the Balanced Fund (BAL)- in accordance with the Corporation's Liquidity Policy, originally approved by the Board on June 26, 2003, and originally effective August 7, 2003; and 2) investment risk management in the PUF, ~~and~~ GEF, RPF, BAL and Long Term Reserve (LTR).

Composition

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

Meetings; Quorum; Etc.

The Corporation's Bylaws state that any committee created by the Board, including the Committee, shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of the Committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next succeeding meeting. At every meeting of the Committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the Committee's rules or procedures or the

Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of the Committee, who may replace any absent or disqualified member of the Committee. In the absence or disqualification of a member of the Committee, the member or members present at any meeting of the Committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

Duties and Responsibilities

Investment Risk Management: The Board has delegated the following duties and responsibilities to the Committee related to the oversight and monitoring of investment risk:

- The Committee will monitor actual risk levels in the PUF, ~~and~~ GEF, RPF, BAL and LTR to assess whether current risk levels are within the bounds established by the Asset Allocation Policy adopted by the UT Board of Regents;
- The Committee will monitor trends and changes in actual risk levels in the PUF, ~~and~~ GEF, RPF, BAL and LTR and report any significant changes to the Board; and
- The Committee will monitor the investment risk models, tools, and procedures used by Corporation staff for completeness and efficacy.

The Committee's duties are in investment risk management only and are not intended to duplicate the enterprise risk management duties of the Audit and Ethics Committee.

Liquidity: The UTIMCO Board has delegated the following duties and responsibilities to the Committee related to the oversight and monitoring of liquidity:

- The Committee must review and recommend for consideration to the Board any new investment that would cause the allocation for illiquid investments in ~~either~~ the PUF, ~~or~~ GEF, RPF or BAL to exceed the lower illiquidity limit specified in the Liquidity Policy for the respective Fund's total portfolio.

- The Committee must review and approve, before any such action or actions are taken, any proposed changes in allocations among existing investments that would cause the allocation for illiquid investments in ~~either~~ the PUF, ~~or~~ GEF, RPF or BAL to exceed the lower illiquidity limit specified in the liquidity policy for the respective ~~f~~Fund's total portfolio.

- The Committee must review and approve, before any such action or actions are taken, any proposed investment action or actions that would increase the actual investment position in illiquid investments in ~~either~~ the PUF, ~~or~~ GEF, RPF or BAL by 10% or more of a Fund's total asset value.

- In the event that market actions cause actual investment positions in illiquid investments to exceed the upper illiquidity limit established by the Liquidity Policy or to move into the "trigger zone" defined as the allocation range between the lower and upper illiquidity limits established by the Liquidity Policy, the Committee must review and approve the Chief Investment Officer's proposed remedy or strategy for complying with the required allocation range for liquid and illiquid investments before any such actions are taken.

- The Committee must approve the use of swaps, derivatives, or other third party arrangements to alter the liquidity status of any investment classified as illiquid.

Committee review of new investments in the illiquid trigger zone will supplement, rather than replace, the procedures established by the Board for the approval of new investments.

Derivative Policy

The University of Texas Investment Management Company
Derivative Investment Policy

Effective Date of Policy: July 21, 2005 ~~July 15, 2004~~
Date Approved by UTIMCO Board: July 21, 2005~~July 15, 2004~~

Purpose:

The purpose of the Derivative Investment Policy is to enumerate the applications, documentation and limitations for investment in derivatives ~~securities~~ in the Permanent University Fund (PUF), ~~and~~ the General Endowment Fund (GEF), the Reserve Plus Fund (RPF), and the Balanced Fund (BAL), hereinafter referred to as the Funds. The Board of Regents approved investment policy guidelines for the Funds allow for investment in derivatives ~~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 derivatives ~~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)

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

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 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.

IMSA

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 11, 2005~~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 or ***BAL*** shall mean the balanced pooled investment fund for the collective investment of operating funds and other intermediate and long-term funds held by U. T. System institutions and U.T. System administration.

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.

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.

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, Operating Reserve Fund, Long Term Reserve Fund, Reserve Plus Fund, Balanced 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.

Long Term Reserve Fund or ***LTR*** shall mean the long term reserve pooled investment fund for the collective investment of operating funds and other intermediate and long term funds held by U.T. System components and U.T. System administration.

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.

Operating Reserve Fund or ***ORF*** shall mean the operating reserve pooled investment fund for the collective investment of operating funds and other short and intermediate term funds held by U.T. System components and U.T. System administration.

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.

Reserve Plus Fund or ***RPF*** shall mean the reserve plus pooled investment fund for the collective investment of operating funds and other intermediate and long-term funds held by U. T. System institutions and U.T. System administration. In addition, the Permanent University Fund and General Endowment Fund may invest in the CORE.

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), and 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, UTIMCO shall fully comply with the disclosure requirements as specified in Senate Bill 121, as passed during the 79th Texas Legislative Session, effective June 18, 2005.~~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) <u>**Annual Budget and Management Fee**</u>:
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 ¼ 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

TAB 10

Compensation Committee Report

To be
Presented at the Meeting

Risk Committee Report

To be
Presented at the Meeting

TAB 11

Agenda Item
UTIMCO Board of Directors Meeting
July 21, 2005

Agenda Item: Discussion of Investment Environment and Opportunities

Developed By: Boldt

Presented By: Boldt

Type of Item: Information Item

Description: This agenda item will present an opportunity for UTIMCO Board and staff to discuss the current investment environment and areas of particular investment interest

Recommendation: None

Discussion: We hope that this will be an open-ended discussion of the potential investment opportunities Board members see in the current environment. We plan to focus on questions such as: "...where is capital scarce today and thus future returns likely to be high?", "...what current structural trends in the investment industry offer opportunity for endowment funds?", or "...what are the top 5 asset categories in terms of our confidence in earning attractive returns over the next 1 to 3 years?".

Reference: None