# The University of Texas Investment Management Company

# Presentation Materials

# Board of Directors Meeting

## November 9, 2006

# UTIMCO BOARD OF DIRECTORS
# MEETING AGENDA
# November 9, 2006

Four Seasons Hotel
1300 Lamar
Houston, Texas

| Time Begin | Time End | Item # | Agenda Item |
|---|---|---|---|
| 9:30 a.m. | 10:00 a.m. | | **Briefing Session:**<br>- Private Markets Investments<br>- Marketable Alternative Investments |
| 10:00 a.m. | 10:05 a.m. | | **Open Session:** |
| | | 1 | Call to Order/Consideration of Minutes of September 22, 2006 Meeting* |
| 10:05 a.m. | 10:15 a.m. | 2 | Discussion and Consideration of Proposed Investment:<br>- Private Markets Investments*<br>- Marketable Alternative Investments* |
| 10:15 a.m. | 11:30 a.m. | 3 | Endowment and Operating Funds Update Report |
| 11:30 a.m. | 12:30 p.m. | 4 | **Executive Session:**<br>Pursuant to 551.074, Texas Government Code, the Board of Directors may convene in Executive Session to Consider Individual Personnel Compensation Matters.<br>**Reconvene into Open Session**<br>- Consideration of Amendments to Appendix B of UTIMCO Compensation Program (UTIMCO Peer Group)*<br>- Consideration of Personnel Performance Incentive Awards* |
| 12:30 p.m. | 1:30 p.m. | | **Lunch** |
| 1:30 p.m. | 2:15 p.m. | 5 | Report and Consideration of Items from Risk Committee* |
| 2:15 p.m. | 3:00 p.m. | 6 | Report and Consideration of Items from Audit and Ethics Committee* |
| 3:00 p.m. | | | Adjournment |

* Action by resolution required

Members of the Board may attend the meeting by telephone conference call pursuant to Tex. Educ. Code Ann. § 66.08(h)(2)(B). The telephone conference will be audible to the public at the meeting location specified in this notice during each part of the meeting that is required to be open to the public.

**Next Scheduled Meeting: January 25, 2007**

**TAB 1**

# RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the meeting of the Board of Directors held on **September 22, 2006,** be, and are hereby, approved.

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

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting at 9:10 a.m. on the **22nd day of September, 2006**, at the offices of the Corporation, Suite 2800, 401 Congress Avenue, Austin, Texas, 78701, said meeting having been called to order by the Chairman, H. Scott Caven, Jr., 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:

H. Scott Caven, Jr., Chairman
Robert B. Rowling, Vice Chairman
Clint D. Carlson
J. Philip Ferguson
Colleen McHugh
Ardon E. Moore
Charles W. Tate

thus, constituting a majority and quorum of the Board. Director Mark G. Yudof, Vice Chairman for Policy, joined the meeting during executive session. Director Erle Nye participated by means of conference telephone enabling all persons participating in the meeting to hear each other. Also attending the meeting was Cathy Iberg, Interim President and CEO and Managing Director – Marketable Alternative Investments; 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; Trey Thompson, Managing Director – Non-Marketable Alternative Investments; various staff members of the Corporation; Jerry Turner, legal counsel for the Corporation; Keith Brown of the McCombs School of Business at UT Austin; Ricky Richter of Ernst & Young; Barry Burgdorf, Scott Kelley, Philip Aldridge, Amy Barrett, William Huang, and Cathy Swain of UT System Administration; Bruce Myers and Hamilton Lee of Cambridge Associates. Mr. Caven called the meeting to order at 9:10 a.m.

## Minutes

The first matter to come before the Board was approval of the minutes of the meetings of the Board of Directors held on July 13, 2006, July 25, 2006, and August 25, 2006. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the minutes of the meetings of the Board of Directors held on July 13, 2006, July 25, 2006, and August 25, 2006, be, and are hereby, approved.

## Executive Session

Mr. Caven, at 9:12 a.m., announced that, "The Board of Directors of The University of Texas Investment Management Company having been duly convened in Open Session and notice of this meeting having been duly given, I hereby announce the convening of a closed meeting as an Executive Session to consult with General Counsel and to deliberate individual personnel matters, including resignation of Chief Executive Officer, appointment of interim Chief Executive Officer, search for new Chief Executive Officer, report of Compensation Committee regarding individual personnel compensation and evaluation matters.

This Executive Session meeting of the Committee is authorized by Texas Government Code Section 551.071 (Consultation with Attorney on Legal Matters) and Section 551.074 (Personnel Matters).

The time is now 9:12 a.m. and the date is September 22, 2006."

## Reconvene in Open Session

The Board reconvened at 10:44 a.m., in open session and Mr. Caven announced that, "the Open Session of the Board of Directors of The University of Texas Investment Management Company is now reconvened. The time is now 10:44 a.m. During the Executive Session, the Board consulted with General Counsel and deliberated individual personnel matters, including resignation of Chief Executive Officer, appointment of interim Chief Executive Officer, search for new Chief Executive Officer, report of Compensation Committee regarding individual personnel compensation and evaluation matters, but did not take any final action or votes."

## Corporate Resolutions

Mr. Caven continued by recommending a resolution to ratify and approve Bob Boldt's resignation as President, CEO and CIO, confirmation of Cathy Iberg as Interim President, CEO and CIO and appointment of an Board Advisory Search Committee. Mr. Carlson requested that the last sentence of the proposed resolution be changed to allow the Advisory Search Committee to recommend the engagement of the executive search firm. Upon motion duly made and seconded, the following resolution, as amended, was unanimously adopted:

> RESOLVED, that the resignation, as of September 1, 2006, of Bob Boldt as the President, Chief Executive Officer and Chief Investment Officer of the Corporation on the terms recommended by the Chairman of the Board of Directors, be, and is hereby, ratified and approved; and be it further
>
> RESOLVED, that the appointment as of September 1, 2006 of Cathy Iberg as the Interim President, Chief Executive Officer and Chief Investment Officer of the Corporation be, and is hereby, approved; and be it further
>
> RESOLVED, that the appointment of a President and Chief Executive Officer

Advisory Search Committee ("Search Committee"), composed of the following individuals:
Clint Carlson, Chairman
J. Philip Ferguson
Robert B. Rowling
be, and is hereby, approved; and be it further

RESOLVED, that the Search Committee shall function in an advisory role to compile a list of one or more candidates considered qualified and suitable for consideration by the Board of Directors for appointment to the position of President, Chief Executive Officer and Chief Investment Officer of the Corporation; provided that the Search Committee shall have no authority or responsibility to establish or recommend compensation for such officer; and be it further

RESOLVED, that the Search Committee may also, at its discretion, recommend the engagement of an executive search firm to assist it in the performance of its functions hereunder.

**Report from Compensation Committee**

Mr. Caven asked Mr. Ferguson, Committee Chair, to give a report of the Compensation Committee. The Compensation Committee met previously on September 15, 2006 and September 21, 2006. Mr. Ferguson reported that the Compensation Committee recommended that the Board, as required by the Corporation's Compensation Program, confirm eligible positions and proposed participants for the 2006/2007 performance period. Upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, Section 5.3(a) of the UTIMCO Compensation Program (the "Plan") provides that, in order to become a "Participant" in the Plan for a Performance Period, a UTIMCO employee must be (1) employed in a position designated by the Board of Directors of UTIMCO (the "Board") as an "Eligible Position" for that Performance Period and (2) selected by the Board as a Participant for that Performance Period; and

WHEREAS, the Compensation Committee of the Board has recommended the "Eligible Positions" and individuals who may become Participants for the 2006/2007 Performance Period set forth on Exhibit 1 attached hereto; and

WHEREAS, the Board has reviewed Exhibit 1 and wishes to designated the "Eligible Positions" and select the individuals who may become Participants for the 2006/2007 Performance Period;

NOW, THEREFORE, be it:

RESOLVED, that the Eligible Positions and the individuals set forth on Exhibit 1 attached hereto are hereby designated as "Eligible Positions" for and "Participants" in the Plan for the 2006/2007 Performance Period, effective as of July 1, 2006, except as any other date is specified for any such Eligible Position or Participant on such Exhibit 1.

Mr. Ferguson continued with recommendation from the Compensation Committee to approve the Performance Goals for the Managing Director, Marketable Alternatives and Deputy Chief Investment Officer. Upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, Section 5.4(c) of the UTIMCO Compensation Program (the "Plan") provides that the Board of Directors of UTIMCO (the "Board") will determine the "Performance Goals" of the President/CEO for each Performance Period; and

WHEREAS, as of September 1, 2006, the President and CEO of UTIMCO terminated employment with UTIMCO, and currently there is no person holding the position of President/CEO, and the Managing Director, Marketable Alternatives Investments, Deputy Chief Investment Officer ("MD, Marketable Alternatives") has agreed to undertake to fulfill certain of the responsibilities of the President/CEO position in addition to her responsibilities as MD, Marketable Alternatives until the President/CEO position is filled and for a three-month transition period thereafter; and

WHEREAS, the Performance Goals for the MD, Marketable Alternatives have been modified to take into account those additional responsibilities; and

WHEREAS, the Compensation Committee of the Board (the "Committee") has determined that, because of the increased responsibilities of the MD, Marketable Alternatives that would otherwise be responsibilities of the President/CEO, the Board rather than the Committee should approve the 2006/2007 Performance Goals for the MD, Marketable Alternatives; and

WHEREAS, the Committee has reviewed the proposed Performance Goals for the MD, Marketable Alternatives for the 2006/2007 Performance Period and has recommended that the Board approve the same;

NOW, THEREFORE, be it:

RESOLVED, that the Performance Goals for the MD, Marketable Alternatives for the 2006/2007 Performance Period as set forth on Exhibit 2 attached hereto (for her Entity and Asset Class Performance Goals) and the individual Performance Goals document as presented to the Committee (for her Individual Performance Goal) are hereby approved, effective as of July 1, 2006.

Continuing, Mr. Ferguson reported that the Compensation Committee recommended that the Board approve the Performance Incentive Award Opportunity for the Managing Director, Marketable Alternatives Investments and Deputy Chief Investment Officer. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

WHEREAS, Section 5.4(d) of the UTIMCO Compensation Program (the "Plan") provides that the Compensation Committee (the "Committee") of the Board of Directors of UTIMCO (the "Board") will approve the weightings of the Performance Goals for each Eligible Position for each Performance Period, subject to approval by the Board; and

WHEREAS, Section 5.5(a) of the Plan provides that the Committee will determine the "Incentive Award Opportunity," including a threshold, target, and maximum award, for each Performance Goal for each Participant for each Performance Period, subject to approval by the Board; and

WHEREAS, the weightings and the Incentive Award Opportunities for the 2006/2007 Performance Period have previously been determined by the Committee and approved by the Board; and

WHEREAS, as of September 1, 2006, the President and CEO of UTIMCO terminated employment with UTIMCO and currently there is no person holding the position of President/CEO, and the Managing Director, Marketable Alternatives Investments, Deputy Chief Investment Officer ("MD, Marketable Alternatives") has agreed to undertake to fulfill certain of the responsibilities of the President/CEO position in addition to her responsibilities as MD, Marketable Alternatives until the President/CEO position is filled and for a three-month transition period thereafter; and

WHEREAS, the Committee has recommended that, notwithstanding the alteration of duties of the MD, Marketable Alternatives pending selection of a new President and CEO and for a three-month transition period thereafter, the 2006/2007 "Performance Incentive Award" of the MD, Marketable Alternatives shall be determined under the previously approved terms of the Plan for the Eligible Position of the MD, Marketable Alternatives and not for the Eligible Position of President and CEO;

NOW, THEREFORE, be it:

RESOLVED, that, notwithstanding the alteration of duties of the MD, Marketable Alternatives pending selection of a new President and CEO and for a three-month transition period thereafter, the Board hereby approves and confirms that the previously approved weightings for the Performance Goals of the MD, Marketable Alternatives (40% Entity Performance, 40% Asset Class Performance, and 20% Individual Performance) and previously approved percentages of base salary for determining the 2006/2007 Incentive Award Opportunities (and the 2006/2007 Performance Incentive Award) for the MD, Marketable Alternatives (18% for Threshold level achievement, 90% for Target level achievement, and 190% for Maximum level achievement) shall remain the same, as indicated on Exhibit 3 attached hereto; and

RESOLVED, that, the Board hereby determines that, in accordance with the terms of the Plan, for purposes of determining the 2006/2007 Performance Incentive Award for the MD, Marketable Alternatives, the base salary of the MD, Marketable Alternatives shall include the actual base salary she earned during the 2006/2007 Performance Period, including any increased base salary earned in connection with her agreement to undertake to fulfill certain of the responsibilities of the President/CEO position, notwithstanding that the initial projected Award Incentive Opportunities for the MD, Marketable Alternatives may have been based only on her base salary as MD, Marketable Alternatives unadjusted for any such increased responsibilities.

Mr. Ferguson also reported that the Compensation Committee recommended a revised approval of transition compensation adjustments and a retention incentive plan for several participants. Upon motion duly made and seconded, the following resolution was unanimously adopted:

WHEREAS, effective as of September 1, 2006, the President and CEO terminated employment with UTIMCO, and currently there is no person holding the position of President and CEO; and

WHEREAS, the Managing Director, Marketable Alternatives Investments, Deputy Chief Investment Officer ("MD, Marketable Alternatives") has agreed to undertake to act as Interim President and CEO and to fulfill certain of the responsibilities of the President/CEO position in addition to her responsibilities as MD, Marketable Alternatives until the President and CEO position is filled and for a three-month transition period thereafter, and the duties of certain other employees of UTIMCO have been, or are expected to be, increased on account of the absence of a President and CEO; and

WHEREAS, in connection with the departure of the President and CEO and necessary reallocation of duties during the interim period during which a replacement is sought and for a three-month transition period thereafter, the Compensation Committee (the "Committee") of the Board of Directors of UTIMCO (the "Board") has recommended that the Board temporarily adjust the base salary of the MD, Marketable Alternatives, provide transition bonuses to certain UTIMCO employees, and establish a retention incentive plan for certain UTIMCO employees;

NOW, THEREFORE, be it:

RESOLVED, that the base salary of the MD, Marketable Alternatives is hereby adjusted as scheduled and set forth on Exhibit 4 attached hereto, effective as of September 1, 2006, assuming and contingent on her continued employment with UTIMCO; and

RESOLVED, that a transition bonus is hereby provided to the Managing Director, Public Markets as scheduled and set forth on Exhibit 4 attached hereto, effective as of September 1, 2006, assuming and contingent on his continued employment with UTIMCO; and

RESOLVED, that a transition bonus is hereby provided to the Managing Director, Private Capital as scheduled and set forth on Exhibit 4 attached hereto, effective as of September 1, 2006, assuming and contingent on his continued employment with UTIMCO; and

RESOLVED, that the "UTIMCO Retention Incentive Plan," as the material terms are summarized on Exhibit 5 attached hereto, is hereby approved and adopted, effective as of September 1, 2006, and the participants in such Retention Incentive Plan shall be Cathy Iberg, Larry Goldsmith, Trey Thompson, Joan Moeller, Bill Edwards, and Andrea Reed; and

RESOLVED, that it is hereby expressly provided that, (1) because the additional salary provided to the MD, Marketable Alternatives is an increase in her "base salary," there will be a concomitant increase in any Performance Incentive Award under the Performance Incentive Plan (the "Plan") to which the MD, Marketable Alternatives may be entitled under the terms of the Plan, which, if awarded, is based on a percentage of a participant's base salary, and such additional salary will be included in base salary for purposes of the MD, Marketable Alternatives' retention bonus under the Retention Incentive Plan, and (2) because the transition bonuses provided to the Managing Director, Public Markets and to the Managing Director, Private Capital and the retention bonuses provided to the specified employees under the Retention Plan are not payments of base salary, any Performance Incentive Awards under the Plan to which those employees may be entitled under the terms of the Plan will not be increased by reason of any such bonus, and any such bonus will not be considered as base salary of those employees for purposes of the Retention Incentive Plan or any other UTIMCO employee benefit plan, program, or arrangement except as may otherwise be expressly provided in such plan, program, or arrangement; and

RESOLVED, that the Chairman of the Board shall be and hereby is authorized and directed to (1) do and perform all such acts and things, (2) prepare and execute the UTIMCO Retention Incentive Plan and any other relevant documents and instruments, (3) make any changes to the Retention Incentive Plan to the extent such changes do not materially alter the terms of the Retention Incentive Plan as summarized on Exhibit 5 attached hereto, and (4) take any and all other steps as he may deem necessary, advisable, convenient, or proper to effectuate the same, to accomplish the purposes of the foregoing resolutions, and/or to comply with all applicable provisions of all related documents and all applicable law, and any and all such actions heretofore or thereafter taken shall be, and they hereby are, ratified and approved.

Mr. Ferguson, for the Compensation Committee, proposed a recommendation of the level of achievement of the former President and CEO's 2005/2006 individual performance goals. There was discussion regarding interpretation of the Corporation's Compensation Plan ("Plan"). Mr. Caven suggested that at a future meeting the Compensation Committee review the Plan with the Board to better clarify all aspects of the Plan. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> WHEREAS, Section 5.5(d) of the UTIMCO Compensation Program (the "Plan") provides that, at the end of each Performance Period, the Board of Directors of UTIMCO (the "Board") will determine the level of achievement of the President and CEO with respect to his Performance Goals for such Performance Period; and
>
> WHEREAS, the President and CEO has submitted to the Compensation Committee (the "Committee") of the Board a report documenting the President and CEO's opinion of his actual performance during the 2005/2006 Performance Period relative to his Individual Performance Goal for such Performance Period; and
>
> WHEREAS, the Committee reviewed the report of the President and CEO relating to the actual performance of the President and CEO during the 2005/2006 Performance Period, compared all such documentation of such actual performance relative to the Individual Performance Goal of the President and CEO for such Performance Period, and determined that the President and CEO achieved the level of his Individual Performance Goal for the 2005/2006 Performance Period set forth on Exhibit 6 attached hereto and recommended that such determination be adopted by the Board; and
>
> WHEREAS, the Board has reviewed all documentation relating to the actual performance of the President and CEO during the 2005/2006 Performance Period, compared all such documentation of such actual performance relative to the Individual Performance Goal of the President and CEO for such Performance Period, and reviewed the Committee's determination of the level of achievement of the President and CEO's Individual Performance Goal for the 2005/2006 Performance Period;
>
> NOW, THEREFORE, be it:
>
> RESOLVED, that the Board hereby determines that the President and CEO has achieved the level of his Individual Performance Goal for the 2005/2006 Performance Period set forth on Exhibit 6 attached hereto.

**Endowment and Operating Funds Update**

Mr. Caven asked Ms. Iberg to present the Corporation's endowment and operating funds update. Ms. Iberg began by discussing performance information for June 30, 2006. She also presented July 31, 2006 and August 31, 2006 information. She reviewed portfolio policy ranges and policy targets, and then presented the Market Exposure chart showing market exposure and deviations from policy targets within tactical policy ranges. The net performance for the one-month period ended July 31, 2006, for the PUF was 1.18% and for the GEF was 1.16%, versus benchmark returns of 0.85% for each fund. The net performance for the one-year period ended July 31, 2006, for the PUF and GEF were 11.65% and 11.53%, respectively, versus benchmark returns of 11.92% for each fund. The Intermediate Term Fund's (ITF) performance was 1.17% versus its benchmark return of 1.06% for the one-month period, and was 2.03% versus its benchmark return of 1.70% for the six-month period ended July 31, 2006. Performance for the Short Term Fund (STF) was 0.45% versus 0.42% for its benchmark for the one-month period, and was 4.41% versus a benchmark return of 4.18% for the one-year period ended July 31, 2006.

The net performance for the one-month period ended August 31, 2006, for the PUF was 1.31% and for the GEF was 1.33%, versus benchmark returns of 1.50% for each fund. The net performance for the one-year period ended August 31, 2006, for the PUF and GEF were 11.17% and 11.10%, respectively, versus benchmark returns of 12.51% for each fund. The Intermediate Term Fund's (ITF) performance was 1.37% versus its benchmark return of 1.34% for the one-month period, and was 3.54% versus its benchmark return of 3.14% for the six-month period ended August 31, 2006. Performance for the Short Term Fund (STF) was 0.45% versus 0.44% for its benchmark for the one-month period, and was 4.58% versus a benchmark return of 4.34% for the one-year period ended August 31, 2006. Ms. Iberg continued by reporting Cumulative Value Added under the Corporation's management for periods ended July 31, 2006 and August 31, 2006. Also presented was information on performance attribution, liquidity, risk dashboard, the Comprehensive Derivative Report, and actions taken under the Delegation of Authority. Mr. Goldsmith gave an update on the Intermediate Term Fund. Ms. Iberg, Mr. Goldsmith and Mr. Thompson answered the Directors' questions.

**Presentations by Investment Areas**

Ms. Iberg stated that there would be presentations from the three Managing Directors in each of the investment areas. Mr. Caven asked that the Managing Directors also note during their presentation any specific moves and tactical changes taken over the past year.

Mr. Goldsmith began with an overview of the public markets investments overview and assets under management. He discussed the US equity sector exposure, market capitalization exposure and the market environment. Also presented and discussed was an overview of international equity allocation, global sector allocation, fixed income, REITs and commodities. Mr. Goldsmith answered the Directors' questions.

Mr. Thompson continued by giving a private markets presentation including a portfolio update, commitment strategy, performance update and market observations. Mr. Thompson and Ms. Reed answered the Directors' questions.

The meeting was recessed at 1:00 p.m. The Board of the Corporation reconvened in an open meeting at the same meeting location at 2:10 p.m. Mr. Yudof left the meeting at this time.

Ms. Iberg gave a presentation of the Marketable Alternative Investment area. She discussed the trends in the hedge fund industry, the marketable alternatives program and the team's near term plans, and explained the due diligence process. Ms. Iberg, Mr. Goldsmith and Ms. Reed answered the Directors' questions.

Mr. Caven asked that the Staff work closely with Mr. Tate and the Risk Committee when focusing on asset classification issues going forward. Mr. Carlson left the meeting at this time.

## Investment Consultant

Mr. Caven continued the meeting by addressing the recommendation of Cambridge Associates as investment consultant for the Corporation. Mr. Myers and Mr. Lee left the meeting at this time. Ms. Iberg summarized the request for proposal process that the Staff used to recommend retaining Cambridge Associates to provide consulting services to the Board and Staff. Ms. Iberg and Ms. Moeller answered the Directors' questions. Mr. Ferguson requested that going forward, the Board and Staff should jointly review the request for proposal responses. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the Board approve the selection of Cambridge Associates as investment consultant for the Corporation.

Mr. Myers and Mr. Lee returned to the meeting and Mr. Tuner was excused at this time.

## Legal Counsel

Mr. Caven asked Ms. Moeller to review the process of the request for information from law firms interested in providing legal services to the Corporation. The Staff recommended retaining Vinson & Elkins as legal counsel. During discussion, Mr. Rowling stated that he felt strongly that the Corporation could benefit from having in-house counsel and suggested that the Staff consider this in the near future. Ms. Iberg and Ms. Moeller answered the Directors' questions. Upon motion duly made and seconded, the following resolution was unanimously adopted, with Ms. McHugh recusing herself from voting on this recommendation due to the fact that her son is associated with Vinson & Elkins:

> RESOLVED, that the Board approve the selection of Vinson & Elkins, LLP as legal counsel for the Corporation.

Mr. Turner returned to the meeting at this time.

## Risk Consultant Selection

Mr. Caven asked Mr. Tate to update the Board on the process of selection of a risk consultant. Mr. Tate, as Risk Committee Chairman, spoke for the Risk Committee and Staff and explained plans for a Risk Committee meeting within the month to review findings of the Request for Proposal from five candidates. The Committee will then interview finalists and bring a recommendation to the Board at the next meeting.

## Budget Adjustment

Mr. Caven referred to Ms. Moeller to explain the final agenda item. Ms. Moeller stated that the Board approved UTIMCO's 2006/2007 budget at its meeting on July 13, 2006. Staff is requesting a one-time increase of $668,570 in the UTIMCO services budget due to costs associated with the resignation of the

President and CEO and subsequent search and hire of a new President and CEO. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

> RESOLVED, that the $668,570 increase to the Corporation's Operating Budget for the period September 1, 2006 through August 31, 2007 be, and is hereby approved; and further
>
> RESOLVED, that the Corporation's Amended Operating Budget of $57,359,907 and the Fee Request, for the period September 1, 2006 through August 31, 2007, be and are hereby approved, subject to approval by the U. T. System Board of Regents.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 3:05 p.m.

Secretary: ______________________
Joan Moeller

Approved: ________________________ Date: ____________
H. Scott Caven, Jr.
Chairman, Board of Directors of
The University of Texas Investment
Management Company

# Exhibit 1
## Designation of Eligible Positions and Plan Participants in the 2006/2007 Performance Period

| ELIGIBLE POSITION | PARTICIPANTS |
|---|---|
| ***Investment Professionals*** | |
| President and CEO | unfilled |
| MD, Marketable Alternative Investments and Deputy CIO | Cathy Iberg |
| Risk Manager | Andrea Reed |
| MD, Public Markets Invest. | Larry Goldsmith |
| MD, Private Markets (formerly Non-Marketable Alt Inv) | Trey Thompson |
| Sr. Portfolio Mgr., Fixed Income Invest. | Russ Kampfe |
| Portfolio Manager, Fixed Income Invest. | Harland Doak |
| Director, Public Markets | Tushar Shah |
| Director, Private Markets (formerly Non-Marketable Alt Inv) | Lindel Eakman |
| Director, Risk Management | Uzi Yoeli |
| Associate, Public Markets | Laura Patrick |
| Associate, Marketable Alternative | Glenn Stotts |
| Associate, Marketable Alternative | Ryan Ruebsahm |
| Associate, Private Markets (formerly Non-Marketable Alt Inv) | Mark Shoberg |
| Associate, Private Markets (formerly Non-Marketable Alt Inv) | Zac McCarroll* |
| Associate, Risk Management | Kathleen Wagner |
| Analyst, Public Markets | Russell Mollen |
| Analyst, Marketable Alternative | Eric Dooley |
| Analyst, Private Markets (formerly Non-Marketable Alt Inv) | Scott Bigham |
| ***Operations/Support Professionals*** | |
| MD, Accounting, Finance & Admin. | Joan Moeller |
| MD, Information Technology | Bill Edwards |
| Manager, Finance & Administration | Melynda Carter** |
| Manager, Investment Reporting | Gary Hill |
| Manager, Portfolio Accounting & Ops. | Debbie Childers |

Participants are eligible as of July 1, 2006 unless otherwise notated

*eligible August 15, 2006
**eligible October 10, 2006

## Exhibit 2

## APPENDIX D

| Asset Class | Benchmark | Policy Portfolio Weights: Total Endowment (% of Portfolio) | Policy Portfolio Weights: ITF (% of Portfolio) | Performance Standards: Threshold | Performance Standards: Target | Performance Standards: Maximum |
|---|---|---|---|---|---|---|
| Entity: Peer Group (Total Endowment Funds) | Peer group (Endowments w/>$1 B | n/a | n/a | 40th %ile | 60th %ile | 75th %ile |
| Entity: Benchmark (Intermediate Term Fund) | Policy Portfolio | n/a | n/a | +0 bps | +32.5 bps | +65 bps |
| US Public Equity | Russell 3000 Index | 20% | 15% | +0 bps | +31 bps | +62 bps |
| Non-US Developed Equity | MSCI EAFE Index with net dividends | 10% | 5% | +0 bps | +37.5 bps | +75 bps |
| Emerging Markets Equity | MSCI Emerging Markets Index with net dividends | 7% | 5% | +0 bps | +75 bps | +150 bps |
| Directional Hedge Funds | MSCI Investable Hedge Fund Index | 10% | 12.5% | +0 bps | +65 bps | +130 bps |
| Absolute Return Hedge Funds | MSCI Investable Hedge Fund Index | 15% | 12.5% | +0 bps | +50 bps | +100 bps |
| Private Equity | Custom Benchmark Created from Venture Economics Database | 11% | 0% | +0 bps | +103.5 bps | +207 bps |
| Venture Capital | Custom Benchmark Created from Venture Economics Database | 4% | 0% | +0 bps | +103.5 bps | +207 bps |
| REITS | Dow Jones Wilshire Real Estate Securities Index | 5% | 10% | +0 bps | +37.5 bps | +75 bps |
| Commodities | Combination index: 66.7% Goldman Sachs Commodity Index minus .5% plus 33.3% DJ-AIG Commodity Index | 3% | 5% | +0 bps | +17.5 bps | +35 bps |
| TIPS | Lehman Brothers US TIPS Index | 5% | 10% | +0 bps | +2.5 bps | +5 bps |
| Fixed Income | Lehman Brothers Aggregate Bond Index | 10% | 25% | +0 bps | +12.5 bps | +25 bps |
| Cash | 90 day t-bills | 0% | 0% | +0 bps | +0 bps | +0 bps |

## Exhibit 3

### Appendix C
### Eligible Positions, Weights, and Incentive Award Opportunities for each Eligible Positions
### (for the performance Periods Beginning After June 30, 2006)

| | Weighting | | | Incentive Award Opportunity (% of Salary) | | | |
|---|---|---|---|---|---|---|---|
| Eligible Position | Entity | Asset Class | Individual | < Threshold | Threshold | Target | Maximum |
| *Investment Professionals* | | | | | | | |
| President, CEO & CIO | 70% | 0% | 30% | 0% | 20% | 100% | 200% |
| Deputy CIO & MD of Marketable Alt. Invest. | 40% | 40% | 20% | 0% | 18% | 90% | 190% |
| Risk Manager | 70% | 0% | 30% | 0% | 18% | 90% | 190% |
| MD, Public Markets Invest. | 20% | 60% | 20% | 0% | 18% | 90% | 190% |
| MD, Inflation Hedging Assets | 20% | 60% | 20% | 0% | 18% | 90% | 190% |
| MD, Non-Marketable Alt Inv | 30% | 50% | 20% | 0% | 18% | 90% | 190% |
| Sr. Portfolio Mgr., Fixed Income Invest. | 20% | 60% | 20% | 0% | 10% | 50% | 140% |
| Portfolio Manager, Fixed Income Invest. | 20% | 60% | 20% | 0% | 10% | 50% | 140% |
| Director, Public Markets | 20% | 60% | 20% | 0% | 8% | 40% | 80% |
| Director, Marketable Alternative | 20% | 60% | 20% | 0% | 8% | 40% | 80% |
| Director, Inflation Hedging Assets | 20% | 60% | 20% | 0% | 8% | 40% | 80% |
| Director, Non-Marketable Alternative | 20% | 60% | 20% | 0% | 8% | 40% | 80% |
| Director, Risk Management | 70% | 0% | 30% | 0% | 8% | 40% | 80% |
| Associate, Public Markets | 20% | 60% | 20% | 0% | 6% | 30% | 70% |
| Associate, Marketable Alternative | 20% | 60% | 20% | 0% | 6% | 30% | 70% |
| Associate, Inflation Hedging Assets | 20% | 60% | 20% | 0% | 6% | 30% | 70% |
| Associate, Non-Marketable Alternative | 20% | 20% | 60% | 0% | 6% | 30% | 70% |
| Associate, Risk Management | 70% | 0% | 30% | 0% | 6% | 30% | 70% |
| Analyst, Public Markets | 20% | 60% | 20% | 0% | 6% | 30% | 50% |
| Analyst, Marketable Alternative | 20% | 60% | 20% | 0% | 6% | 30% | 50% |
| Analyst, Inflation Hedging Assets | 20% | 60% | 20% | 0% | 6% | 30% | 50% |
| Analyst, Non-Marketable Alternative | 20% | 20% | 60% | 0% | 6% | 30% | 50% |
| Analyst, Risk Management | 70% | 0% | 30% | 0% | 6% | 30% | 50% |
| *Operations/Support Professionals* | | | | | | | |
| MD, Accounting, Finance & Admin. | 20% | 0% | 80% | 0% | 10% | 50% | 140% |
| MD, Information Technology | 20% | 0% | 80% | 0% | 10% | 50% | 140% |
| Manager, Finance & Administration | 20% | 0% | 80% | 0% | 8% | 40% | 80% |
| Manager, Investment Reporting | 20% | 0% | 80% | 0% | 8% | 40% | 80% |
| Manager, Portfolio Accounting & Ops. | 20% | 0% | 80% | 0% | 8% | 40% | 80% |
| Manager, Client Services | 20% | 0% | 80% | 0% | 8% | 40% | 80% |

# EXHIBIT 4
# TRANSITION COMPENSATION ADJUSTMENTS

**Adjusted Base Salary (Contingent on Continued Employment with UTIMCO) For: Managing Director, Marketable Alternatives Investments, Deputy Chief Investment Officer**

| Period of Base Salary | Base Salary |
|---|---|
| 9/1/06 through end of month during which a new President and CEO commences employment with UTIMCO (or an existing employee of UTIMCO assumes the position of President and CEO) | $43,750 per month ($525,000 annualized) |
| For three full months beginning with the month immediately following the month during which a new President and CEO commences employment with UTIMCO (or an existing employee of UTIMCO assumes the position of President and CEO) | $43,750 per month ($525,000 annualized) |
| Beginning with the fourth month immediately following the month during which a new President and CEO commences employment with UTIMCO (or an existing employee of UTIMCO assumes the position of President and CEO) | $25,000 per month ($300,000 annualized) (or, if after 8/31/07, any increased amount determined by the Compensation Committee) |

**Transition Bonus (Contingent on Continued Employment with UTIMCO) For: Managing Director, Public Markets and Managing Director, Private Capital**

| Months of Transition Bonus | Transition Bonus |
|---|---|
| For each month beginning with September 2006 and ending with the third month following the month during which a new President and CEO commences employment with UTIMCO (or an existing employee of UTIMCO assumes the position of President and CEO) | $10,000 per month |

## EXHIBIT 5
## RETENTION INCENTIVE PLAN

**PARTICIPANTS**

Cathy Iberg
Larry Goldsmith
Trey Thompson
Andrea Reed
Joan Moeller
Bill Edwards

**RETENTION BONUS**

For Iberg: Lump sum payment of 25% of total base salary (exclusive of Performance Incentive Plan awards and all other special or incentive compensation) paid to her for services performed during the "Retention Period" (9/1/06 through 8/31/07), less applicable withholdings

For Goldsmith, Thompson, Reed, Moeller, and Edwards: Lump sum payment of 25% of annualized base salary (exclusive of Performance Incentive Plan awards, transition bonuses, any other bonus, and all other special or incentive compensation) in effect on 9/1/06, less applicable withholdings

**DATE PAID**

As soon as administratively practicable after September 1, 2007

**CONDITIONS**

- Continuous employment with UTIMCO from 9/1/06 through 9/1/07
- Must not have accepted other employment prior to 9/1/07
- Must not have actively sought other employment prior to 9/1/07

**INVOLUNTARY TERMINATION OF EMPLOYMENT WITHOUT CAUSE**

- Prorated Retention Bonus for each full month of employment during Retention Period
- Prorated Retention Bonus amount offset by any severance amount received under employment agreement or other UTIMCO severance plan, policy, or arrangement
- Conditions: Execution of Release; must not have accepted or actively sought employment prior to termination date; must not be termination for "cause" (as defined below)
- "Cause" means a determination by the Board in its sole discretion that a participant has (i) violated any securities law or any other law, rule, or regulation; (ii) engaged in substandard performance of his UTIMCO employment position; or (iii) engaged in willful misconduct that reflects negatively on the public image of UTIMCO or The University of Texas System.

# EXHIBIT 6
# LEVEL OF ACHIEVEMENT OF PRESIDENT AND CEO'S INDIVIDUAL PERFORMANCE GOAL FOR 2005/2006

| Eligible Position | Weighting | | | Incentive Award Opportunity (% of Base Salary) | | | |
|---|---|---|---|---|---|---|---|
| | Entity | Asset | Individual | <Threshold | Threshold | Target | Maximum |
| President/CEO | 70% | 0% | 30% | 0% | 18% | 90% | 180% |

Percentage of Determined Level of Achievement of 2005/2006 Individual Performance Goals (0 to 100%): 80%

# TAB 2

**Agenda Item**
UTIMCO Board of Directors Meeting
November 9, 2006

**Agenda Item:** Discussion and Consideration of Proposed Investment

**Developed By:** Thompson

**Presented By:** Thompson

**Type of Item:** Action Item

**Description:** The Private Markets Investments staff is requesting approval to commit $30,000,000 to Southwest Opportunity Fund I, L.P. The UTIMCO Board has previously been provided the investment recommendation and a Board member requested to discuss this proposed investment with the Board at its next meeting. Trey Thompson will summarize the merits of the investment and field questions from the UTIMCO Board. If approved, the PUF and GEF will invest in the Fund.

**Recommendation:** UTIMCO Staff recommends a $30,000,000 commitment to Southwest Opportunity Fund I, L.P.

**Discussion:** The staff supports making the commitment to Southwest Opportunity Fund, I L.P because it will allow the PUF and GEF to invest with a proven manager that has generated value for the endowments in the past.

**Reference:** Delegation of Authority Policy; Investment Memorandum

# RESOLUTION TO APPROVE INVESTMENT IN SOUTHWEST OPPORTUNITY FUND I, L.P.

WHEREAS, the Board has reviewed the Corporation's Investment Recommendation to use PUF and GEF assets to acquire up to a $30 million combined institutional investment interest (the "Investment") in **Southwest Opportunity Fund I, L.P.**; and

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

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the Investment Memorandum dated October 11, 2006, for **Southwest Opportunity Fund I, L.P.** be approved; and be it further

RESOLVED, that the President and CEO, and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, in the amount of the capital commitment to **Southwest Opportunity Fund I, L.P.**; and be it further

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

**Agenda Item**
UTIMCO Board of Directors Meeting
November 9, 2006

| | |
|---|---|
| **Agenda Item:** | Discussion and Consideration of Proposed Investment |
| **Developed By:** | Iberg |
| **Presented By:** | Iberg |
| **Type of Item:** | Action Item |
| **Description:** | The Marketable Alternatives staff is requesting approval to commit an additional $75,000,000 to Blue Ridge Offshore L.P. UTIMCO has invested with this manager since January 2004 and now has the unique opportunity to increase its investment. Cathy Iberg will summarize the merits of the investment and field questions from the UTIMCO Board. |
| **Recommendation:** | UTIMCO Staff recommends an additional $75,000,000 investment to Blue Ridge Offshore L.P. |
| **Discussion:** | The staff supports making the commitment to Blue Ridge Offshore L.P. because it will allow UTIMCO to invest with a proven manager that has generated value for the endowments in the past. |
| **Reference:** | Delegation of Authority Policy |

# RESOLUTION TO APPROVE INVESTMENT IN BLUE RIDGE OFFSHORE L.P.

WHEREAS, the Board has reviewed the Corporation's Investment Recommendation to use PUF, GEF and ITF assets to invest an additional $75 million investment (the "Investment") in **Blue Ridge Offshore L.P.**; and

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

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in the original Investment Memorandum dated November 10, 2003, for **Blue Ridge Offshore L.P.** be approved; and be it further

RESOLVED, that the President and CEO, and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, in the amount of the capital commitment to **Blue Ridge Offshore L.P.**; and be it further

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

**TAB 3**

**Agenda Item**
UTIMCO Board of Directors Meeting
November 9, 2006

**Agenda Item:** Performance Report

**Developed By:** Moeller, Hill

**Presented By:** Iberg

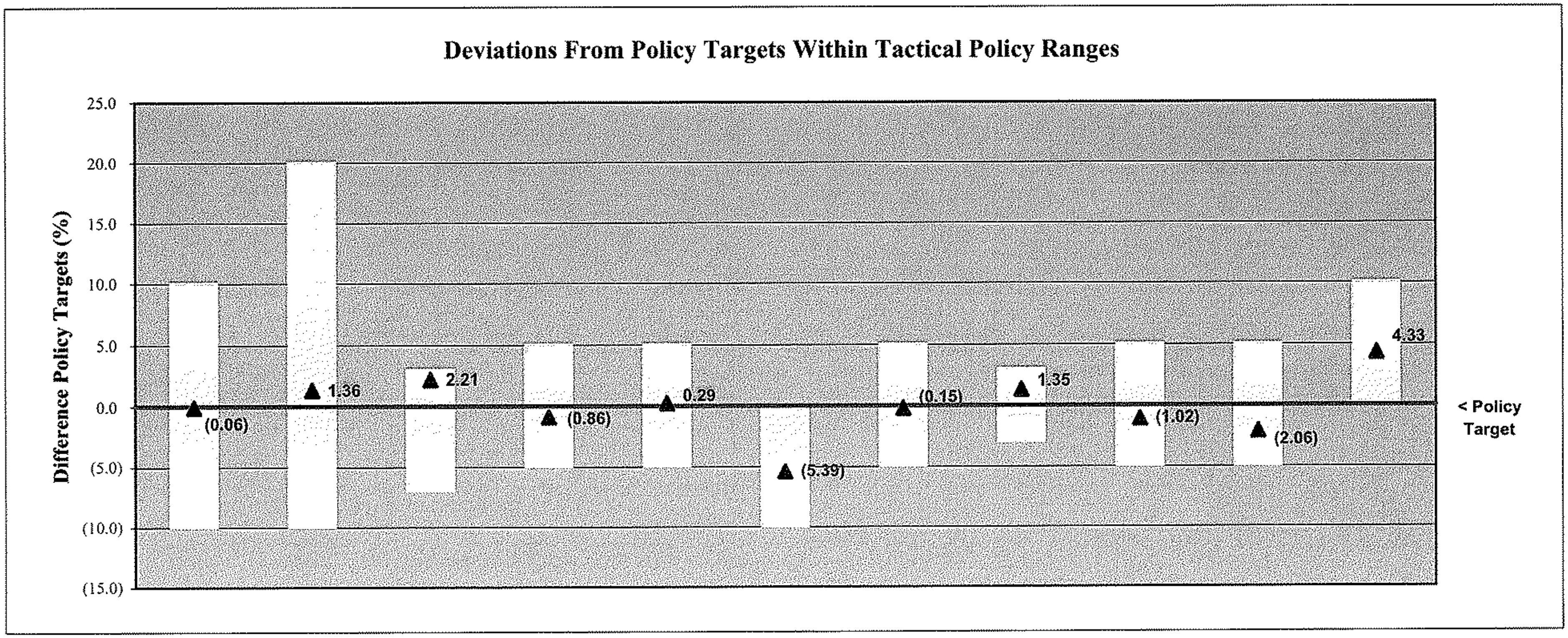
**Type of Item:** Information Item

**Description:** The reports presented are for the periods ended September 30, 2006.

**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; External and Active Internal Public Markets Managers Investment Performance Detail

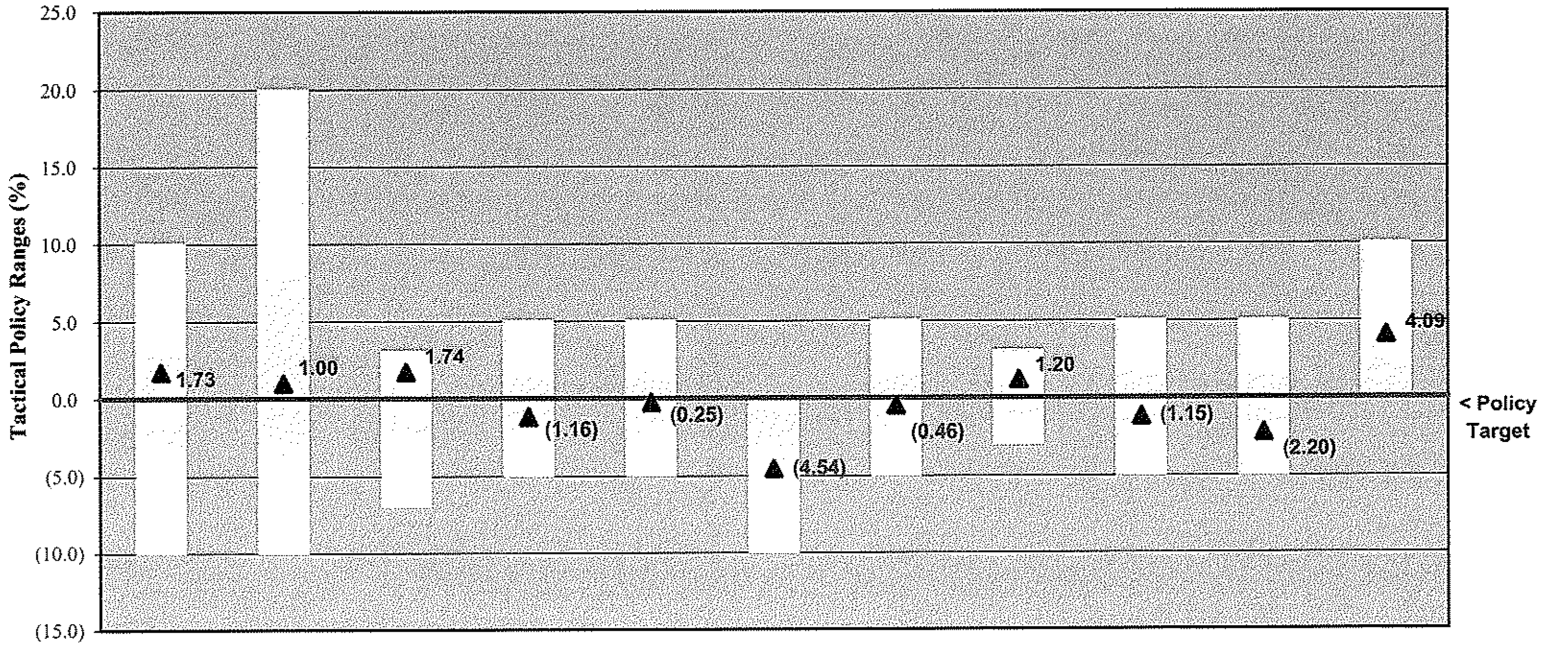
# Permanent University Fund
# Market Exposure
# September 30, 2006




| | U.S. Equities | Non-U.S. Developed Equity | Emerging Markets Equity | Directional Hedge Funds | Absolute Return Hedge Funds | Private Capital | REITS | Commodities | TIPS | Fixed Income | Cash and Cash Equivalents |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Actual | 19.94% | 11.36% | 9.21% | 9.14% | 15.29% | 9.61% | 4.85% | 4.35% | 3.98% | 7.94% | 4.33% |
| Policy Target | 20.00% | 10.00% | 7.00% | 10.00% | 15.00% | 15.00% | 5.00% | 3.00% | 5.00% | 10.00% | 0.00% |
| Deviation | -0.06% | 1.36% | 2.21% | -0.86% | 0.29% | -5.39% | -0.15% | 1.35% | -1.02% | -2.06% | 4.33% |
| Deviation in Dollars ($m) | (6.15) | 139.49 | 226.67 | (88.21) | 29.74 | (552.84) | (15.39) | 138.47 | (104.62) | (211.29) | 444.13 |

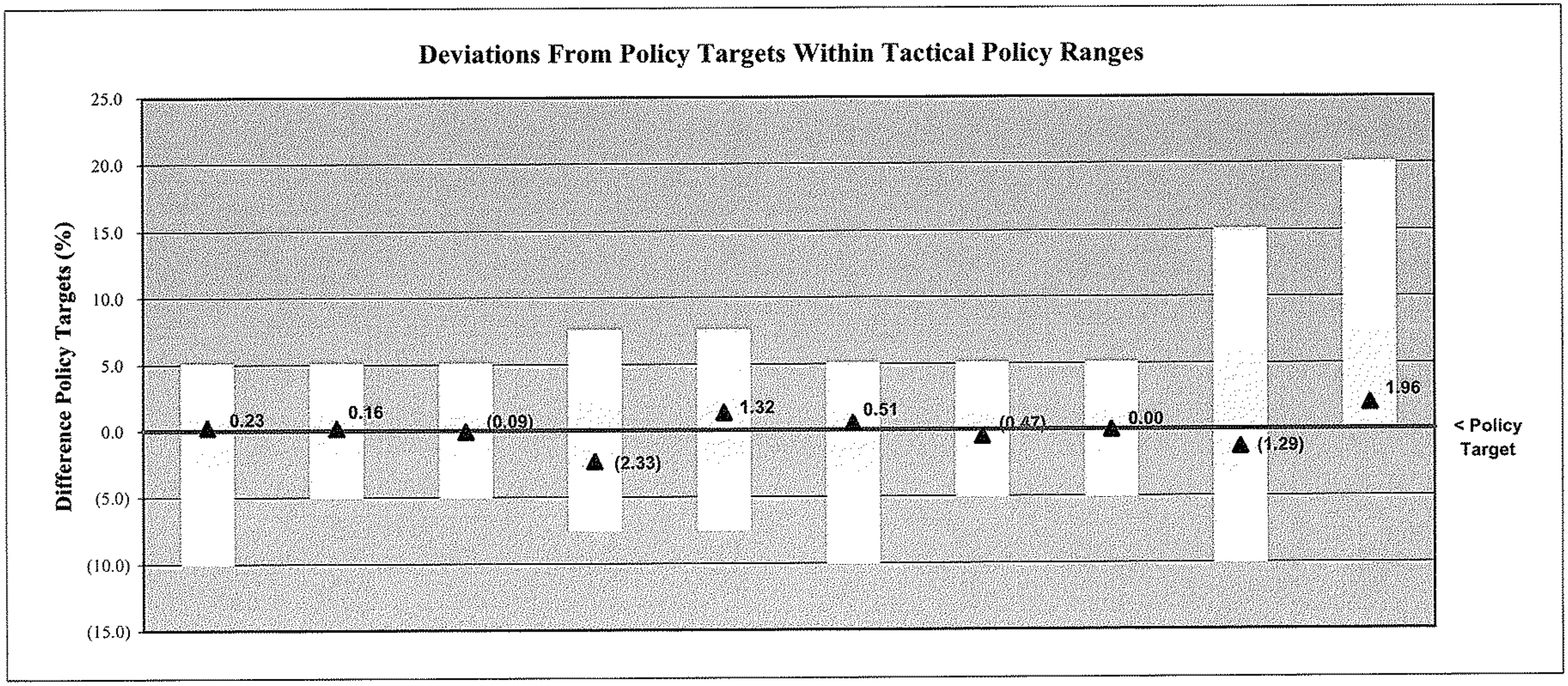
# General Endowment Fund
# Market Exposure
# September 30, 2006

## Deviations From Policy Targets Within Tactical Policy Ranges




| | U.S. Equities | Non-U.S. Developed Equity | Emerging Markets Equity | Directional Hedge Funds | Absolute Return Hedge Funds | Private Capital | REITS | Commodities | TIPS | Fixed Income | Cash and Cash Equivalents |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Actual | 21.73% | 11.00% | 8.74% | 8.84% | 14.75% | 10.46% | 4.54% | 4.20% | 3.85% | 7.80% | 4.09% |
| Policy Target | 20.00% | 10.00% | 7.00% | 10.00% | 15.00% | 15.00% | 5.00% | 3.00% | 5.00% | 10.00% | 0.00% |
| Deviation | 1.73% | 1.00% | 1.74% | -1.16% | -0.25% | -4.54% | -0.46% | 1.20% | -1.15% | -2.20% | 4.09% |
| Deviation in Dollars ($m) | 97.53 | 56.37 | 98.09 | (65.39) | (14.09) | (255.94) | (25.93) | 67.65 | (64.83) | (124.02) | 230.56 |

# Intermediate Term Fund
# Market Exposure
# September 30, 2006




| | U.S. Equities | Non-U.S. Developed Equity | Emerging Markets Equity | Directional Hedge Funds | Absolute Return Hedge Funds | REITS | Commodities | TIPS | Fixed Income | Cash and Cash Equivalents |
|---|---|---|---|---|---|---|---|---|---|---|
| **Actual** | 15.23% | 5.16% | 4.91% | 10.17% | 13.82% | 10.51% | 4.53% | 10.00% | 23.71% | 1.96% |
| **Policy Target** | 15.00% | 5.00% | 5.00% | 12.50% | 12.50% | 10.00% | 5.00% | 10.00% | 25.00% | 0.00% |
| **Deviation** | 0.23% | 0.16% | -0.09% | -2.33% | 1.32% | 0.51% | -0.47% | 0.00% | -1.29% | 1.96% |
| **Deviation in Dollars ($m)** | 7.25 | 5.04 | (2.84) | (73.43) | 41.60 | 16.07 | (14.81) | - | (40.65) | 61.77 |

# UTIMCO Performance Summary

## September 30, 2006

| | Net Asset Value 9/30/2006 (in Millions) | Periods Ended September 30, 2006 (Returns for Periods Longer Than One Year are Annualized) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ENDOWMENT FUNDS** | | One Month | Fiscal Year To Date | Three Months | Six Months | Calendar Year To Date | One Year | Two Years | Three Years | Four Years | Five Years | Ten Years |
| Permanent University Fund | $ 10,256.7 | 0.22 | 0.22 | 2.73 | 3.62 | 7.41 | 9.61 | 13.84 | 14.60 | 15.28 | 10.80 | 9.53 |
| General Endowment Fund | | 0.27 | 0.27 | 2.78 | 3.71 | 7.53 | 9.62 | 13.83 | 14.63 | 15.57 | 11.12 | N/A |
| Permanent Health Fund | 986.4 | 0.27 | 0.27 | 2.81 | 3.70 | 7.54 | 9.57 | 13.74 | 14.52 | 15.46 | 11.00 | N/A |
| Long Term Fund | 4,632.1 | 0.27 | 0.27 | 2.81 | 3.70 | 7.54 | 9.59 | 13.75 | 14.53 | 15.48 | 11.04 | 10.11 |
| Separately Invested Funds | 157.3 | 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** | **16,032.5** | | | | | | | | | | | |
| **OPERATING FUNDS** | | | | | | | | | | | | |
| Short Term Fund | 1,058.0 | 0.44 | 0.44 | 1.34 | 2.58 | 3.70 | 4.73 | 3.69 | 2.82 | 2.43 | 2.37 | 3.98 |
| Intermediate Term Fund | 3,151.5 | 0.26 | 0.26 | 2.82 | 2.94 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| **Total Operating Funds** | **4,209.5** | | | | | | | | | | | |
| **Total Investments** | **$ 20,242.0** | | | | | | | | | | | |
| **BENCHMARKS (1)** | | | | | | | | | | | | |
| Permanent University Fund: Policy Portfolio | | 0.70 | 0.70 | 3.08 | 3.40 | 8.83 | 11.43 | 13.34 | 13.48 | 13.10 | 9.02 | 10.18 |
| General Endowment Fund: Policy Portfolio | | 0.70 | 0.70 | 3.08 | 3.40 | 8.83 | 11.43 | 13.34 | 13.48 | 13.10 | 9.02 | 9.94 |
| Short Term Fund: 90 Day Treasury Bills Average Yield | | 0.46 | 0.46 | 1.33 | 2.50 | 3.55 | 4.50 | 3.56 | 2.73 | 2.38 | 2.30 | 3.81 |
| Intermediate Term Fund: Policy Portfolio | | 0.40 | 0.40 | 2.83 | 2.49 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| **VALUE ADDED (2)** | | | | | | | | | | | | |
| Permanent University Fund | | (0.48) | (0.48) | (0.35) | 0.22 | (1.42) | (1.82) | 0.49 | 1.11 | 2.18 | 1.78 | (0.65) |
| General Endowment Fund | | (0.44) | (0.44) | (0.31) | 0.31 | (1.30) | (1.81) | 0.49 | 1.15 | 2.48 | 2.10 | N/A |
| Permanent Health Fund | | (0.43) | (0.43) | (0.28) | 0.30 | (1.29) | (1.86) | 0.40 | 1.04 | 2.36 | 1.98 | N/A |
| Long Term Fund | | (0.43) | (0.43) | (0.27) | 0.30 | (1.28) | (1.84) | 0.41 | 1.04 | 2.38 | 2.02 | 0.16 |
| Short Term Fund | | (0.02) | (0.02) | 0.02 | 0.08 | 0.15 | 0.23 | 0.13 | 0.08 | 0.05 | 0.07 | 0.17 |
| Intermediate Term Fund | | (0.14) | (0.14) | (0.01) | 0.45 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

(1) - Effective May 6, 2004, benchmark returns for the PUF policy portfolio have been restated for prior periods beginning June 1, 1993 through September 30, 2000 and for the GEF/LTF policy portfolio for prior periods beginning June 1, 1993 through September 30, 2001 to correct the following technical errors in benchmark construction and calculation: (a) to reflect actual asset class target allocations which were in place, or the practical implementation of changes to those policy allocations, and (b) to distinguish between PUF and GEF/LTF historical investment objectives and distribution policies by accurately representing actual asset class allocations during those periods.

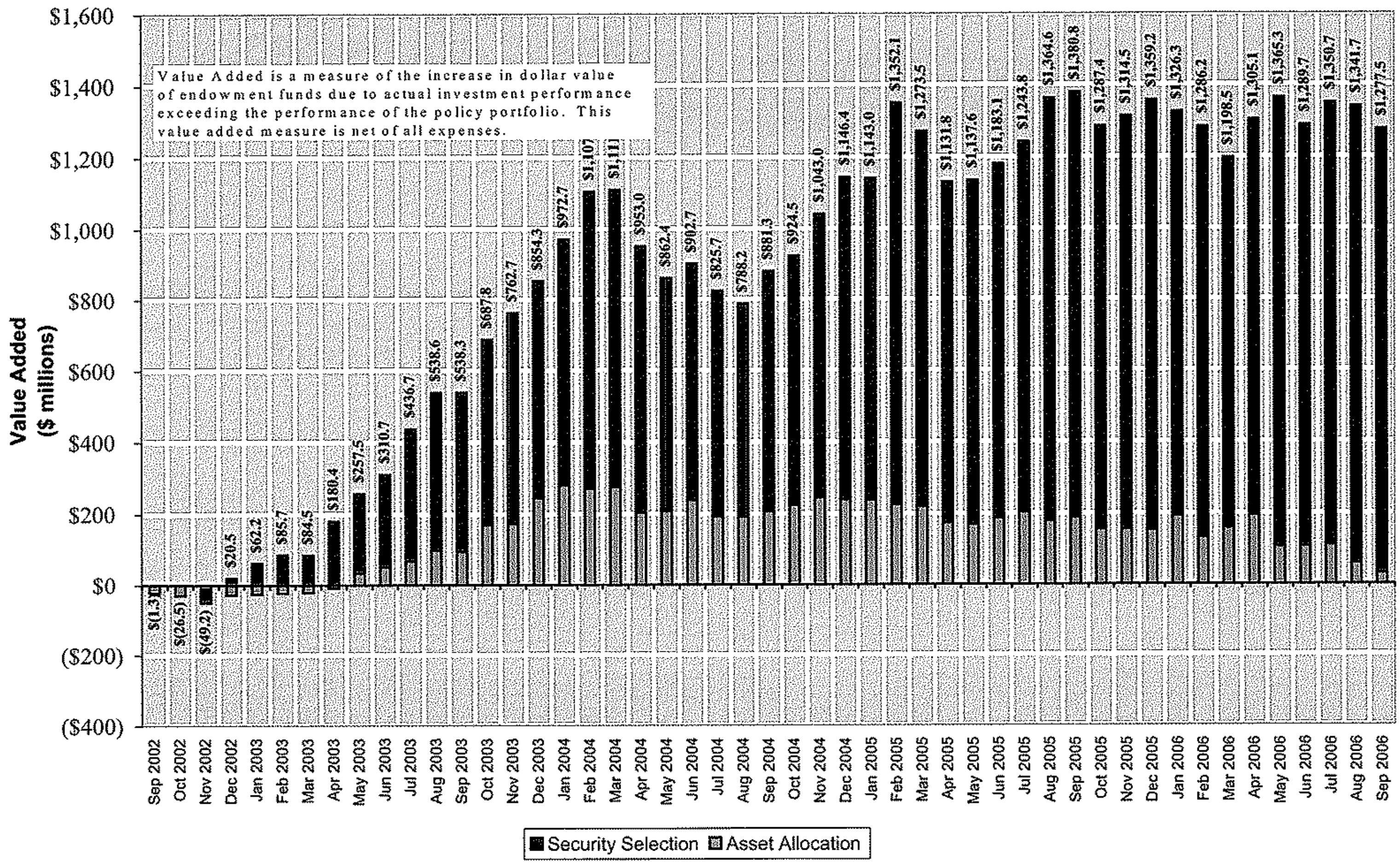
Benchmark returns for the PUF and GEF/LTF policy portfolios were also restated for all prior periods beginning June 1, 1993 through December 31, 2003 to replace various benchmark returns reported previously for the Private Capital asset class. Specifically, the Wilshire 5000 + 4%, the benchmark used prior to January 1, 2004, was replaced with the Venture Economics Periodic IRR Index, a more appropriate benchmark measure for the actual Private Capital portfolio.

Effective August 10, 2006, benchmark returns for the PUF and GEF policy portfolios were also restated for periods beginning January 1, 2006 through April 30, 2006, and for the ITF policy portfolio for periods beginning February 1, 2006 to April 30, 2006, to replace benchmark returns for the Hedge Fund asset class due to integrity concerns regarding existing benchmarks. Specifically, composites of Standard & Poor's investable hedge fund indices were replaced with the MSCI Investable Hedge Fund Index.

Complete details of the restatements and previous policy portfolio benchmark history are documented on the UTIMCO website at www.UTIMCO.org or 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 UTIMCO staff and external managers.

# VALUE ADDED: ENDOWMENT FUNDS SINCE SEPTEMBER 1, 2002



## Permanent University Fund Performance Attribution Analysis
## Fiscal Year to Date
## September 30, 2006

| | Average Asset Allocation | | Return | | | | |
|---|---|---|---|---|---|---|---|
| | PUF | Policy Portfolio | PUF | Policy Benchmark | Asset Allocation Effect (1) | Security Selection Effect (2) | Total Effect |
| **Cash and Cash Equivalents** | **2.93%** | **0.00%** | **0.44%** | **0.46%** | **-0.04%** | **0.00%** | **-0.04%** |
| **U.S. Equities** | **20.35%** | **20.00%** | **2.02%** | **2.24%** | **0.01%** | **-0.04%** | **-0.03%** |
| **Global Equities** | **20.69%** | **17.00%** | **0.14%** | **0.43%** | **-0.01%** | **-0.06%** | **-0.07%** |
| Non-U.S. Equities Developed | 11.59% | 10.00% | -0.93% | 0.15% | -0.02% | -0.11% | -0.13% |
| Emerging Markets | 9.10% | 7.00% | 1.49% | 0.83% | 0.01% | 0.05% | 0.06% |
| **Directional Hedge Funds** | **9.09%** | **10.00%** | **0.49%** | **0.16%** | **0.00%** | **0.03%** | **0.03%** |
| **Absolute Return Hedge Funds** | **15.21%** | **15.00%** | **0.72%** | **0.16%** | **0.00%** | **0.08%** | **0.08%** |
| **Inflation Linked** | **14.13%** | **13.00%** | **-2.59%** | **-1.30%** | **-0.20%** | **-0.04%** | **-0.24%** |
| REITS | 5.27% | 5.00% | 2.18% | 1.89% | 0.00% | 0.01% | 0.01% |
| Commodities | 4.85% | 3.00% | -10.89% | -9.17% | -0.20% | -0.05% | -0.25% |
| TIPS | 4.01% | 5.00% | 0.18% | 0.24% | 0.00% | 0.00% | 0.00% |
| **Fixed Income** | **7.96%** | **10.00%** | **0.65%** | **0.88%** | **0.00%** | **-0.02%** | **-0.02%** |
| **Total Marketable Assets** | **90.36%** | **85.00%** | **0.25%** | **0.57%** | **-0.24%** | **-0.05%** | **-0.29%** |
| **Private Capital** | **9.64%** | **15.00%** | **-0.06%** | **1.48%** | **0.04%** | **-0.23%** | **-0.19%** |
| **Total Fund** | **100.00%** | **100.00%** | **0.22%** | **0.70%** | **-0.20%** | **-0.28%** | **-0.48%** |

(1) Allocation effect measures the impact of decisions to allocate assets differently from the policy benchmark.
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Benchmark Asset Class Return - Total Target Portfolio Return) plus
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

(2) Selection effect measures the impact of selecting securities different from those held in the benchmark.
(Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

All actual performance figures shown are net of all fees and expenses.

## Permanent University Fund Performance Attribution Analysis
## Year Ended
## September 30, 2006

| | Average Asset Allocation | | Return | | Asset Allocation Effect (1) | Security Selection Effect (2) | Total Effect |
|---|---|---|---|---|---|---|---|
| | PUF | Policy Portfolio | PUF | Policy Benchmark | | | |
| **Cash and Cash Equivalents** | **1.17%** | **0.00%** | **4.73%** | **4.50%** | **-0.08%** | **0.00%** | **-0.08%** |
| **U.S. Equities** | **20.54%** | **20.00%** | **8.69%** | **10.22%** | **0.02%** | **-0.30%** | **-0.28%** |
| **Global Equities** | **20.48%** | **17.00%** | **14.43%** | **19.88%** | **-0.05%** | **-0.83%** | **-0.88%** |
| Non-U.S. Equities Developed | 12.44% | 10.00% | 13.68% | 19.16% | 0.10% | -0.51% | -0.41% |
| Emerging Markets | 8.04% | 7.00% | 16.31% | 20.46% | -0.15% | -0.32% | -0.47% |
| **Directional Hedge Funds** | **8.93%** | **10.00%** | **6.13%** | **4.12%** | **0.05%** | **0.21%** | **0.26%** |
| **Absolute Return Hedge Funds** | **15.20%** | **15.00%** | **8.68%** | **4.00%** | **0.01%** | **0.73%** | **0.74%** |
| **Inflation Linked** | **14.49%** | **13.00%** | **4.41%** | **6.94%** | **-0.59%** | **0.08%** | **-0.51%** |
| REITS | 5.27% | 5.00% | 30.11% | 28.26% | 0.03% | 0.07% | 0.10% |
| Commodities | 5.02% | 3.00% | -17.33% | -16.59% | -0.69% | -0.02% | -0.71% |
| TIPS | 4.20% | 5.00% | 2.42% | 1.91% | 0.07% | 0.03% | 0.10% |
| **Fixed Income** | **9.87%** | **10.00%** | **3.99%** | **3.67%** | **-0.03%** | **0.03%** | **0.00%** |
| **Total Marketable Assets** | **90.68%** | **85.00%** | **8.41%** | **9.07%** | **-0.67%** | **-0.08%** | **-0.75%** |
| **Private Capital** | **9.32%** | **15.00%** | **21.92%** | **25.51%** | **-0.62%** | **-0.45%** | **-1.07%** |
| **Total Fund** | **100.00%** | **100.00%** | **9.61%** | **11.43%** | **-1.29%** | **-0.53%** | **-1.82%** |

(1) Allocation effect measures the impact of decisions to allocate assets differently from the policy benchmark.
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Benchmark Asset Class Return - Total Target Portfolio Return) plus
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

(2) Selection effect measures the impact of selecting securities different from those held in the benchmark.
(Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

All actual performance figures shown are net of all fees and expenses.

**Permanent University Fund Performance Attribution Analysis**
**Annualized Since September 1, 2002 to**
**September 30, 2006**

| | Average Asset Allocation | | Return | | Asset Allocation Effect (1) | Security Selection Effect (2) | Total Effect |
|---|---|---|---|---|---|---|---|
| | PUF | Policy Portfolio | PUF | Policy Benchmark | | | |
| Cash and Cash Equivalents | 0.81% | 0.00% | 2.42% | 2.37% | -0.11% | 0.00% | -0.11% |
| U.S. Equities | 26.45% | 23.45% | 14.50% | 14.39% | 0.16% | 0.09% | 0.25% |
| Global Equities | 19.22% | 16.57% | 20.36% | 21.37% | 0.22% | -0.18% | 0.04% |
| Directional Hedge Funds | 7.96% | 10.00% | 7.29% | 5.49% | 0.10% | 0.19% | 0.29% |
| Absolute Return Hedge Funds | 12.12% | 13.37% | 14.18% | 4.88% | -0.09% | 1.16% | 1.07% |
| Inflation Linked | 8.38% | 7.94% | 20.14% | 20.30% | -0.18% | 0.28% | 0.10% |
| Fixed Income | 13.90% | 13.67% | 6.27% | 4.32% | 0.11% | 0.30% | 0.41% |
| GSAM Global Asset Allocation | 0.36% | 0.00% | 0.00% | 0.00% | 0.03% | 0.00% | 0.03% |
| **Total Marketable Assets** | **89.20%** | **85.00%** | **14.17%** | **11.78%** | **0.24%** | **1.84%** | **2.08%** |
| Private Capital | 10.80% | 15.00% | 13.77% | 11.38% | -0.34% | 0.39% | 0.05% |
| **Total Fund** | **100.00%** | **100.00%** | **13.89%** | **11.76%** | **-0.10%** | **2.23%** | **2.13%** |

(1) Allocation effect measures the impact of decisions to allocate assets differently from the policy benchmark.
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Benchmark Asset Class Return - Total Target Portfolio Return) plus
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

(2) Selection effect measures the impact of selecting securities different from those held in the benchmark.
(Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

All actual performance figures shown are net of all fees and expenses.

## General Endowment Fund Performance Attribution Analysis
**Fiscal Year to Date**
**September 30, 2006**

| | Average Asset Allocation | | Return | | Allocation Effect (1) | Selection Effect (2) | Total Effect |
|---|---|---|---|---|---|---|---|
| | GEF | Policy Portfolio | GEF | Policy Benchmark | | | |
| **Cash and Cash Equivalents** | **0.71%** | **0.00%** | **0.44%** | **0.46%** | **0.00%** | **0.00%** | **0.00%** |
| **U.S. Equities** | **21.21%** | **20.00%** | **1.96%** | **2.24%** | **0.03%** | **-0.06%** | **-0.03%** |
| **Global Equities** | **19.95%** | **17.00%** | **0.15%** | **0.43%** | **-0.01%** | **-0.06%** | **-0.07%** |
| Non-U.S. Equities Developed | 11.31% | 10.00% | -0.90% | 0.15% | -0.02% | -0.11% | -0.13% |
| Emerging Markets | 8.64% | 7.00% | 1.51% | 0.83% | 0.01% | 0.05% | 0.06% |
| **Directional Hedge Funds** | **8.80%** | **10.00%** | **0.49%** | **0.16%** | **0.01%** | **0.03%** | **0.04%** |
| **Absolute Return Hedge Funds** | **14.69%** | **15.00%** | **0.72%** | **0.16%** | **0.00%** | **0.08%** | **0.08%** |
| **Inflation Linked** | **14.51%** | **13.00%** | **-2.60%** | **-1.30%** | **-0.20%** | **-0.04%** | **-0.24%** |
| REITS | 4.95% | 5.00% | 2.19% | 1.89% | 0.00% | 0.01% | 0.01% |
| Commodities | 4.68% | 3.00% | -10.82% | -9.17% | -0.20% | -0.05% | -0.25% |
| TIPS | 4.88% | 5.00% | 0.18% | 0.24% | 0.00% | 0.00% | 0.00% |
| **Fixed Income** | **9.63%** | **10.00%** | **0.67%** | **0.88%** | **0.00%** | **-0.02%** | **-0.02%** |
| **Total Marketable Assets** | **89.50%** | **85.00%** | **0.31%** | **0.57%** | **-0.17%** | **-0.07%** | **-0.24%** |
| **Private Capital** | **10.50%** | **15.00%** | **-0.07%** | **1.48%** | **0.04%** | **-0.23%** | **-0.19%** |
| **Total Fund** | **100.00%** | **100.00%** | **0.27%** | **0.70%** | **-0.13%** | **-0.30%** | **-0.43%** |

(1) Allocation effect measures the impact of decisions to allocate assets differently from the policy benchmark.
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Benchmark Asset Class Return - Total Target Portfolio Return) plus
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

(2) Selection effect measures the impact of selecting securities different from those held in the benchmark.
(Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

All actual performance figures shown are net of all fees and expenses.

**General Endowment Fund Performance Attribution Analysis**
**Year Ended**
**September 30, 2006**

| | Average Asset Allocation | | Return | | Asset Allocation Effect (1) | Security Selection Effect (2) | Total Effect |
|---|---|---|---|---|---|---|---|
| | GEF | Policy Portfolio | GEF | Policy Benchmark | | | |
| **Cash and Cash Equivalents** | **0.73%** | **0.00%** | **4.73%** | **4.50%** | **-0.01%** | **0.00%** | **-0.01%** |
| **U.S. Equities** | **20.30%** | **20.00%** | **8.94%** | **10.22%** | **-0.03%** | **-0.25%** | **-0.28%** |
| **Global Equities** | **20.06%** | **17.00%** | **14.27%** | **19.88%** | **-0.11%** | **-0.86%** | **-0.97%** |
| Non-U.S. Equities Developed | 12.30% | 10.00% | 13.48% | 19.16% | 0.10% | -0.54% | -0.44% |
| Emerging Markets | 7.76% | 7.00% | 16.21% | 20.46% | -0.21% | -0.32% | -0.53% |
| **Directional Hedge Funds** | **8.83%** | **10.00%** | **6.10%** | **4.12%** | **0.05%** | **0.21%** | **0.26%** |
| **Absolute Return Hedge Funds** | **15.38%** | **15.00%** | **8.63%** | **4.00%** | **0.01%** | **0.72%** | **0.73%** |
| **Inflation Linked** | **14.28%** | **13.00%** | **4.19%** | **6.94%** | **-0.59%** | **0.07%** | **-0.52%** |
| REITS | 5.10% | 5.00% | 29.99% | 28.26% | 0.00% | 0.07% | 0.07% |
| Commodities | 4.96% | 3.00% | -17.28% | -16.59% | -0.66% | -0.02% | -0.68% |
| TIPS | 4.22% | 5.00% | 2.40% | 1.91% | 0.07% | 0.02% | 0.09% |
| **Fixed Income** | **10.06%** | **10.00%** | **4.13%** | **3.67%** | **-0.02%** | **0.05%** | **0.03%** |
| **Total Marketable Assets** | **89.64%** | **85.00%** | **8.37%** | **9.07%** | **-0.70%** | **-0.06%** | **-0.76%** |
| **Private Capital** | **10.36%** | **15.00%** | **20.81%** | **25.51%** | **-0.45%** | **-0.60%** | **-1.05%** |
| **Total Fund** | **100.00%** | **100.00%** | **9.62%** | **11.43%** | **-1.15%** | **-0.66%** | **-1.81%** |

(1) Allocation effect measures the impact of decisions to allocate assets differently from the policy benchmark.
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Benchmark Asset Class Return - Total Target Portfolio Return) plus
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

(2) Selection effect measures the impact of selecting securities different from those held in the benchmark.
(Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

All actual performance figures shown are net of all fees and expenses.

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## General Endowment Fund Performance Attribution Analysis
## Annualized Since September 1, 2002 to
## September 30, 2006

| | Average Asset Allocation | | Return | | Asset Allocation Effect (1) | Security Selection Effect (2) | Total Effect |
|---|---|---|---|---|---|---|---|
| | GEF | Policy Portfolio | GEF | Policy Benchmark | | | |
| Cash and Cash Equivalents | 0.59% | 0.00% | 2.42% | 2.37% | -0.08% | 0.00% | -0.08% |
| U.S. Equities | 26.39% | 23.45% | 14.54% | 14.39% | 0.20% | 0.08% | 0.28% |
| Global Equities | 19.41% | 16.57% | 20.42% | 21.37% | 0.36% | -0.27% | 0.09% |
| Directional Hedge Funds | 8.08% | 10.00% | 7.26% | 5.49% | 0.08% | 0.18% | 0.26% |
| Absolute Return Hedge Funds | 12.51% | 13.37% | 14.21% | 4.88% | -0.06% | 1.17% | 1.11% |
| Inflation Linked | 8.37% | 7.94% | 20.17% | 20.30% | -0.16% | 0.28% | 0.12% |
| Fixed Income | 13.87% | 13.67% | 6.43% | 4.32% | 0.13% | 0.32% | 0.45% |
| GSAM Global Asset Allocation | 0.37% | 0.00% | 7.37% | 0.00% | 0.03% | 0.00% | 0.03% |
| **Total Marketable Assets** | **89.59%** | **85.00%** | **14.30%** | **11.78%** | **0.50%** | **1.76%** | **2.26%** |
| Private Capital | 10.41% | 15.00% | 12.79% | 11.38% | -0.15% | 0.23% | 0.08% |
| **Total Fund** | **100.00%** | **100.00%** | **14.10%** | **11.76%** | **0.35%** | **1.99%** | **2.34%** |

(1) Allocation effect measures the impact of decisions to allocate assets differently from the policy benchmark.
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Benchmark Asset Class Return - Total Target Portfolio Return) plus
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

(2) Selection effect measures the impact of selecting securities different from those held in the benchmark.
(Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

All actual performance figures shown are net of all fees and expenses.

## Intermediate Term Fund Performance Attribution Analysis
### Fiscal Year to Date
### September 30, 2006

| | Average Asset Allocation | | Return | | Asset Allocation Effect (1) | Security Selection Effect (2) | Total Effect |
|---|---|---|---|---|---|---|---|
| | ITF | Policy Portfolio | ITF | Policy Benchmark | | | |
| **Cash and Cash Equivalents** | 1.21% | 0.00% | 0.44% | 0.46% | -0.03% | 0.00% | -0.03% |
| **U.S. Equities** | 15.01% | 15.00% | 1.60% | 2.24% | 0.00% | -0.10% | -0.10% |
| **Non-U.S. Equities Developed** | 5.19% | 5.00% | -0.63% | 0.15% | 0.00% | -0.04% | -0.04% |
| **Emerging Markets** | 4.86% | 5.00% | 1.34% | 0.83% | 0.00% | 0.03% | 0.03% |
| **Directional Hedge Funds** | 10.14% | 12.50% | 0.49% | 0.16% | 0.00% | 0.04% | 0.04% |
| **Absolute Return Hedge Funds** | 13.76% | 12.50% | 0.73% | 0.16% | 0.01% | 0.07% | 0.08% |
| **REITS** | 10.33% | 10.00% | 1.93% | 1.88% | 0.00% | 0.00% | 0.00% |
| **Commodities** | 5.07% | 5.00% | -10.64% | -9.17% | -0.01% | -0.07% | -0.08% |
| **TIPS** | 10.00% | 10.00% | 0.27% | 0.24% | 0.00% | 0.00% | 0.00% |
| **Fixed Income** | 24.43% | 25.00% | 0.70% | 0.88% | 0.01% | -0.05% | -0.04% |
| **Total Fund** | 100.00% | 100.00% | 0.26% | 0.40% | -0.02% | -0.12% | -0.14% |

(1) Allocation effect measures the impact of decisions to allocate assets differently from the policy benchmark.
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Benchmark Asset Class Return - Total Target Portfolio Return) plus
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

(2) Selection effect measures the impact of selecting securities different from those held in the benchmark.
(Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

All actual performance figures shown are net of all fees and expenses.

## Intermediate Term Fund Performance Attribution Analysis
## Eight Months Ended September 30, 2006

| | Average Asset Allocation | | Return | | Asset Allocation Effect (1) | Security Selection Effect (2) | Total Effect |
|---|---|---|---|---|---|---|---|
| | ITF | Policy Portfolio | ITF | Policy Benchmark | | | |
| Cash and Cash Equivalents | 0.62% | 0.00% | 3.33% | 3.23% | -0.06% | 0.00% | -0.06% |
| U.S. Equities | 15.04% | 15.00% | 4.43% | 4.53% | 0.00% | -0.02% | -0.02% |
| Non-U.S. Equities Developed | 5.10% | 5.00% | 3.91% | 7.87% | 0.01% | -0.19% | -0.18% |
| Emerging Markets | 5.03% | 5.00% | -0.52% | 1.10% | -0.02% | -0.10% | -0.12% |
| Directional Hedge Funds | 9.98% | 12.50% | 3.15% | 1.27% | -0.02% | 0.24% | 0.22% |
| Absolute Return Hedge Funds | 13.88% | 12.50% | 4.95% | 1.27% | 0.01% | 0.46% | 0.47% |
| REITS | 10.11% | 10.00% | 15.34% | 16.34% | -0.01% | -0.11% | -0.12% |
| Commodities | 5.28% | 5.00% | -13.55% | -11.74% | -0.02% | -0.10% | -0.12% |
| TIPS | 10.13% | 10.00% | 2.41% | 1.81% | -0.02% | 0.06% | 0.04% |
| Fixed Income | 24.83% | 25.00% | 3.52% | 3.05% | -0.01% | 0.12% | 0.11% |
| Total Fund | 100.00% | 100.00% | 3.70% | 3.48% | -0.14% | 0.36% | 0.22% |

(1) Allocation effect measures the impact of decisions to allocate assets differently from the policy benchmark.
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Benchmark Asset Class Return - Total Target Portfolio Return) plus
(Actual Portfolio Asset Allocation - Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

(2) Selection effect measures the impact of selecting securities different from those held in the benchmark.
(Target Portfolio Asset Allocation) X (Portfolio Asset Class Return - Benchmark Asset Class Return)

All actual performance figures shown are net of all fees and expenses.

# External and Active Internal Public Markets Managers
## Investment Performance Detail Summary
## September 30, 2006

| | Assets Under Management ($ Millions) | Periods Ended September 30, 2006 (Returns for Periods Longer Than One Year are Annualized) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | One Month | Fiscal Year To Date | Three Months | Six Months | Calendar Year To Date | One Year | Three Years | Five Years | Ten Years | Since Inception | Inception Date |
| **NET OF FEES PERFORMANCE:** | | | | | | | | | | | | |
| **Public Equities:** | | | | | | | | | | | | |
| **Domestic Equities:** | | | | | | | | | | | | |
| **Active Management:** | | | | | | | | | | | | |
| BGI Russell 3000 Alpha Tilt | 40.6 | 2.59 | 2.59 | 4.48 | 3.01 | - | - | - | - | - | 4.64 | February 2006 |
| vs. Russell 3000 | | 0.35 | 0.35 | (0.16) | 0.44 | - | - | - | - | - | 0.11 | |
| Blavin | 139.0 | 1.48 | 1.48 | 5.31 | 11.84 | - | - | - | - | - | 7.83 | January 2006 |
| vs. S&P 400 Midcap Index | | 0.81 | 0.81 | 6.39 | 16.04 | - | - | - | - | - | 10.46 | |
| MBA Investments | 0.8 | 2.72 | 2.72 | 4.41 | 0.60 | 3.36 | 8.21 | 9.94 | 6.29 | 4.06 | 3.99 | November 1995 |
| vs. S&P 500 Index | | 0.14 | 0.14 | (1.25) | (3.55) | (5.17) | (2.58) | (2.36) | (0.68) | (4.52) | (5.25) | |
| New Mountain (Funded September 2006) | 150.1 | - | - | - | - | - | - | - | - | - | - | September 2006 |
| vs. S&P 500 Index | | - | - | - | - | - | - | - | - | - | - | |
| Relational Investors | 406.7 | 2.74 | 2.74 | 6.33 | 1.21 | 2.94 | 4.63 | - | - | - | 11.95 | September 2004 |
| vs. S&P 500 Index | | 0.17 | 0.17 | 0.66 | (2.93) | (5.59) | (6.16) | - | - | - | 0.43 | |
| Blackrock Hedge | 103.8 | (9.75) | (9.75) | (14.52) | (10.99) | (11.21) | (10.54) | - | - | - | 25.55 | July 2004 |
| vs. Russell 2000 | | (10.58) | (10.58) | (14.96) | (6.39) | (19.90) | (20.47) | - | - | - | 10.68 | |
| Blackrock Small Cap | 78.4 | (7.54) | (7.54) | (16.21) | (12.38) | (4.88) | (5.95) | - | - | - | 31.45 | June 2004 |
| vs. Russell 2000 | | (8.38) | (8.38) | (16.65) | (7.77) | (13.57) | (15.87) | - | - | - | 20.65 | |
| TCW MultiCap 1 | 153.5 | 1.95 | 1.95 | 5.46 | (1.73) | 5.62 | 3.69 | - | - | - | 4.89 | February 2004 |
| vs. Russell 3000 | | (0.29) | (0.29) | 0.81 | (4.30) | (2.40) | (6.53) | - | - | - | (4.07) | |
| TCW MultiCap 2 | 115.4 | 2.27 | 2.27 | 5.92 | (0.79) | - | - | - | - | - | 0.36 | February 2006 |
| vs. Russell 3000 | | 0.03 | 0.03 | 1.28 | (3.36) | - | - | - | - | - | (3.98) | |
| TCW Small Value | 148.2 | 1.91 | 1.91 | 2.11 | (3.85) | 10.09 | 12.90 | - | - | - | 7.39 | April 2004 |
| vs. Russell 2000 | | 1.07 | 1.07 | 1.67 | 0.76 | 1.40 | 2.98 | - | - | - | (5.26) | |
| Value Act Capital | 552.5 | 0.56 | 0.56 | 4.08 | 5.08 | 12.16 | 18.99 | 18.04 | - | - | 18.61 | August 2003 |
| vs. Russell 2000 | | (0.28) | (0.28) | 3.65 | 9.69 | 3.47 | 9.07 | 2.56 | - | - | 3.05 | |
| Westport 1 | 189.4 | 1.80 | 1.80 | (1.96) | (3.44) | 6.66 | 12.67 | - | - | - | 14.52 | October 2004 |
| vs. Russell 2000 | | 0.97 | 0.97 | (2.40) | 1.16 | (2.03) | 2.74 | - | - | - | 1.17 | |
| Westport 2 | 205.9 | 0.04 | 0.04 | 0.19 | (3.41) | - | - | - | - | - | (0.50) | January 2006 |
| vs. Russell 2000 | | (0.79) | (0.79) | (0.25) | 1.20 | - | - | - | - | - | (0.24) | |
| **International Equities:** | | | | | | | | | | | | |
| **Active Management:** | | | | | | | | | | | | |
| Blakeney Management | 104.5 | 9.17 | 9.17 | 13.17 | 14.57 | 29.35 | 37.72 | - | - | - | 41.24 | October 2004 |
| vs. MSCI Emerging Markets with Net Dividends | | 8.33 | 8.33 | 8.29 | 14.24 | 16.96 | 17.27 | - | - | - | 8.35 | |
| Blackrock Global | 119.7 | (9.52) | (9.52) | (19.52) | (14.93) | (2.39) | (3.45) | - | - | - | 27.98 | November 2004 |
| vs. MSCI All Country World ex U.S. with Net Dividends | | (9.56) | (9.56) | (23.40) | (18.81) | (16.32) | (22.34) | - | - | - | 8.50 | |
| Bridgewater Currency Overlay | 0.3 | (0.23) | (0.23) | (0.48) | (0.26) | (0.62) | (0.95) | - | - | - | (1.00) | January 2005 |
| Currency Overlay Strategy | | - | - | - | - | - | - | - | - | - | - | |
| Cundill EAFE | 111.5 | (0.91) | (0.91) | (1.15) | (3.92) | (1.80) | 2.85 | - | - | - | 9.00 | January 2005 |
| vs. MSCI EAFE with Net Dividends | | (1.06) | (1.06) | (5.08) | (8.58) | (16.28) | (16.32) | - | - | - | (9.35) | |
| Cundill Japan | 75.2 | (3.40) | (3.40) | (6.99) | (8.53) | (3.21) | 3.32 | - | - | - | 9.31 | January 2005 |
| vs. TOPIX | | (1.72) | (1.72) | (5.71) | (2.13) | (1.84) | (7.39) | - | - | - | (5.53) | |
| Dalton Japan | 62.6 | 0.50 | 0.50 | 0.14 | (6.33) | 0.05 | 8.68 | - | - | - | 16.37 | May 2005 |
| vs. TOPIX | | 2.17 | 2.17 | 1.43 | 0.07 | 1.42 | (2.03) | - | - | - | (5.78) | |
| Dalton Taiwan | 47.9 | 4.43 | 4.43 | 0.30 | 0.73 | - | - | - | - | - | 1.39 | February 2006 |
| vs. MSCI Emerging Markets with Net Dividends | | 3.60 | 3.60 | (4.58) | 0.39 | - | - | - | - | - | 0.18 | |
| Franklin Templeton | 286.6 | 0.00 | 0.00 | 4.44 | (0.22) | 10.99 | 18.01 | 28.77 | 26.27 | 8.09 | 7.96 | January 1996 |
| vs. MSCI Emerging Markets with Net Dividends | | (0.83) | (0.83) | (0.44) | (0.55) | (1.40) | (2.45) | (1.82) | (2.20) | 0.70 | 0.46 | |
| Franklin Templeton High Alpha | 102.5 | 2.08 | 2.08 | 8.08 | 0.76 | - | - | - | - | - | 0.76 | March 2006 |
| vs. MSCI Emerging Markets with Net Dividends | | 1.25 | 1.25 | 3.20 | 0.43 | - | - | - | - | - | 0.43 | |
| Globeflex | 170.9 | (0.52) | (0.52) | 0.79 | 0.57 | 17.54 | 26.24 | 33.18 | - | - | 34.21 | October 2003 |
| vs. Citigroup Extended Market Index World ex U.S. | | (1.34) | (1.34) | (2.65) | (1.87) | 2.69 | 3.77 | 5.38 | - | - | 8.55 | |

# External and Active Internal Public Markets Managers
## Investment Performance Detail Summary
## September 30, 2006

Periods Ended September 30, 2006 (Returns for Periods Longer Than One Year are Annualized)

| | Assets Under Management ($ Millions) | One Month | Fiscal Year To Date | Three Months | Six Months | Calendar Year To Date | One Year | Three Years | Five Years | Ten Years | Since Inception | Inception Date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **NET OF FEES PERFORMANCE (continued)** | | | | | | | | | | | | |
| Globeflex Canadian | 30.7 | (5.69) | (5.69) | (5.26) | (3.17) | 7.86 | 15.82 | - | - | - | 25.37 | March 2004 |
| vs. Nesbitt Burns Small Cap Canada | | (1.22) | (1.22) | (4.23) | (1.78) | (4.18) | (0.73) | - | - | - | 4.88 | |
| Globeflex Japan | 68.1 | (1.88) | (1.88) | (4.79) | (12.51) | (8.60) | 2.95 | - | - | - | 11.36 | March 2004 |
| vs. Russell/Nomura Mid-Small Cap Index | | (0.60) | (0.60) | (1.78) | (2.35) | (1.60) | (3.30) | - | - | - | 2.75 | |
| Globeflex Microcap | 117.7 | (1.80) | (1.80) | (0.77) | (3.37) | 7.96 | 15.82 | - | - | - | 14.19 | August 2005 |
| vs. MSCI EAFE with Net Dividends | | (1.95) | (1.95) | (4.70) | (8.03) | (6.53) | (3.34) | - | - | - | (8.20) | |
| GSAM - International Flex | 214.1 | 0.22 | 0.22 | 4.31 | 5.74 | - | - | - | - | - | 9.48 | March 2006 |
| vs. MSCI EAFE with Net Dividends | | 0.06 | 0.06 | 0.38 | 1.08 | - | - | - | - | - | 1.38 | |
| JMBO Fund | 58.8 | (1.08) | (1.08) | (3.73) | (6.88) | (6.49) | (2.53) | - | - | - | 1.30 | April 2005 |
| vs. MSCI Japan | | 0.53 | 0.53 | (3.05) | (1.68) | (7.74) | (15.79) | - | - | - | (21.44) | |
| Lansdowne Emerging | 397.4 | 1.82 | 1.82 | 2.82 | (3.11) | 1.30 | - | - | - | - | 1.30 | December 2005 |
| vs. MSCI Emerging Markets with Net Dividends | | 0.99 | 0.99 | (2.06) | (3.44) | (11.09) | - | - | - | - | (11.09) | |
| Lansdowne Europe | 267.0 | 3.93 | 3.93 | 9.11 | (1.24) | - | - | - | - | - | 7.80 | January 2006 |
| vs. Euro Stoxx 600 | | 2.99 | 2.99 | 3.62 | (8.11) | - | - | - | - | - | (3.15) | |
| Lansdowne UK | 48.8 | (1.10) | (1.10) | 0.04 | (2.31) | - | - | - | - | - | (4.71) | April 2006 |
| vs. FTSE All-Share Total Return Index | | (2.68) | (2.68) | (3.61) | (4.06) | - | - | - | - | - | (5.39) | |
| **Inflation Hedging:** | | | | | | | | | | | | |
| **REITS:** | | | | | | | | | | | | |
| Cohen & Steers | 842.1 | 2.14 | 2.14 | 9.42 | 8.95 | 25.71 | 30.22 | - | - | - | 32.61 | October 2005 |
| vs. Dow Jones Wilshire Real Estate Securities | | 0.26 | 0.26 | 0.21 | 1.01 | 1.13 | 1.96 | - | - | - | 1.86 | |
| Morgan Stanley REIT | 188.2 | 2.45 | 2.45 | 6.72 | 6.52 | - | - | - | - | - | 13.79 | February 2006 |
| vs. Dow Jones Wilshire Real Estate Securities | | 0.57 | 0.57 | (2.49) | (1.42) | - | - | - | - | - | (0.06) | |
| **Commodities:** | | | | | | | | | | | | |
| PIMCO Real Return | 278.1 | (11.19) | (11.19) | (14.58) | (6.93) | (11.07) | (15.26) | - | - | - | 6.66 | January 2004 |
| vs. Dow Jones AIG + 1-10 Year TIPS | | 0.21 | 0.21 | 0.42 | 0.71 | 0.88 | 0.43 | - | - | - | 0.05 | |
| **Treasury Inflation Protection Securities (TIPS):** | | | | | | | | | | | | |
| Internal TIPS | 257.8 | 0.45 | 0.45 | 4.17 | 4.57 | 2.29 | 2.35 | - | - | - | 4.77 | July 2004 |
| vs. Lehman Brothers US TIPS Index | | 0.21 | 0.21 | 0.54 | 0.42 | 0.49 | 0.43 | - | - | - | 0.36 | |
| PIMCO TIPS | 352.1 | 0.03 | 0.03 | 3.53 | 4.18 | 2.32 | 1.95 | - | - | - | 3.85 | August 2004 |
| vs. Lehman Brothers US TIPS Index | | (0.21) | (0.21) | (0.11) | 0.03 | 0.52 | 0.04 | - | - | - | 0.30 | |
| Reams TIPS | 330.1 | 0.48 | 0.48 | 4.22 | 4.92 | 2.85 | 3.96 | - | - | - | 3.97 | May 2005 |
| vs. Lehman Brothers US TIPS Index | | 0.24 | 0.24 | 0.59 | 0.77 | 1.05 | 2.05 | - | - | - | 2.20 | |
| **Fixed Income:** | | | | | | | | | | | | |
| Internal - Harland Doak | 136.7 | 1.29 | 1.29 | 5.01 | 4.56 | 3.29 | 3.91 | 3.58 | 4.87 | - | 5.58 | February 2001 |
| vs. Credit Related Composite Index | | 0.21 | 0.21 | 0.64 | 0.50 | 0.28 | 0.39 | 0.13 | (0.84) | - | (0.65) | |
| Internal - Russ Kampfe | 421.0 | 1.05 | 1.05 | 4.13 | 4.02 | 2.94 | 3.75 | 3.28 | 3.70 | - | 5.70 | February 2000 |
| vs. Lehman Brothers Aggregate Bond Index | | 0.17 | 0.17 | 0.33 | 0.29 | (0.11) | 0.08 | (0.10) | (1.11) | - | (0.95) | |
| **Total Internally Managed Fixed Income** | 557.6 | 1.03 | 1.03 | 4.26 | 4.04 | 2.97 | 3.73 | 3.39 | 4.28 | - | 6.21 | |
| vs. Lehman Brothers Aggregate Bond Index | | 0.15 | 0.15 | 0.45 | 0.31 | (0.08) | 0.06 | 0.01 | (0.53) | - | (0.44) | |
| Global Investment Advisors | 197.9 | 0.95 | 0.95 | 3.68 | - | - | - | - | - | - | 3.96 | May 2006 |
| vs. Lehman Brothers Aggregate Bond Index | | 0.07 | 0.07 | (0.13) | - | - | - | - | - | - | (0.07) | |
| GMO Emerging Debt Fund | 12.6 | 0.45 | 0.45 | 6.41 | 4.68 | 8.29 | 10.36 | - | - | - | 19.89 | May 2004 |
| vs. JP Morgan Emerging Bond Index Global | | (0.11) | (0.11) | (0.15) | 0.41 | 2.47 | 2.56 | - | - | - | 5.83 | |
| PIMCO Fixed Income | 725.5 | 0.30 | 0.30 | 2.39 | 4.05 | 4.08 | 4.02 | 5.79 | 7.76 | - | 7.06 | March 1998 |
| vs. PIMCO Composite Benchmark | | 0.09 | 0.09 | (0.12) | (0.28) | 0.17 | 0.39 | 0.74 | 0.59 | - | 0.92 | |
| Reams Core Plus | 492.0 | 1.04 | 1.04 | 4.07 | 4.36 | 3.88 | 4.30 | - | - | - | 3.45 | May 2005 |
| vs. Lehman Brothers Aggregate Bond Index | | 0.16 | 0.16 | 0.26 | 0.63 | 0.82 | 0.63 | - | - | - | 0.81 | |

**Agenda Item**
UTIMCO Board of Directors Meeting
November 9, 2006

**Agenda Item:** Liquidity Profile

**Developed By:** Moeller, Childers

**Presented By:** Iberg

**Type of Item:** Information Item

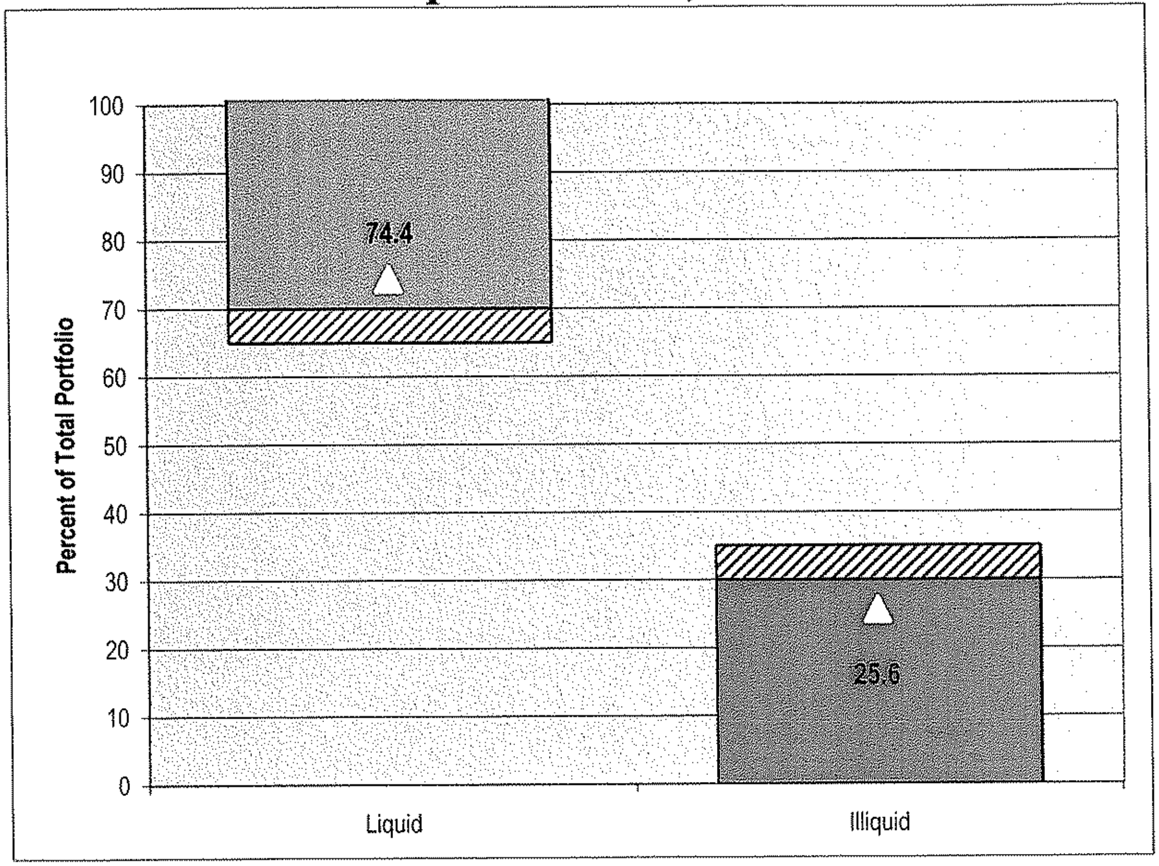
**Description:** The reports presented are for the period ended September 30, 2006.

**Discussion:** As of September 30, 2006 endowment fund assets classified as liquid were 74.4% of the total assets, and those classified as illiquid were 25.6% of total assets. For the ITF, 87.5% of the total assets were classified as liquid, and 12.5% were classified illiquid.

**Recommendation:** No action required.

**Reference:** Combined Liquidity Profile-Endowment Funds, PUF Liquidity Profile, GEF Liquidity Profile, ITF Liquidity Profile, Certification of PUF, GEF and ITF Liquidity Profiles, Illiquid Investments Approved/Delegated or Funded from Last Report to UTIMCO Board, Endowments Actual Liquidity Classification, and ITF Actual Liquidity Classification.

# Combined Liquidity Profile - Endowment Funds
# September 30, 2006




Current:

| | 9/30/2006 Market Value | Percent | 8/31/2006 Market Value | Percent |
|---|---|---|---|---|
| Liquid | 11,966,380,751.79 | 74.4 | 12,209,138,899.13 | 76.0 |
| Illiquid | 4,121,692,206.00 | 25.6 | 3,865,346,650.59 | 24.0 |
| | 16,088,072,957.79 | 100.0 | 16,074,485,549.72 | 100.0 |

Approved but not yet invested illiquid marketable investments:

| | 9/30/2006 Market Value | Percent | 8/31/2006 Market Value | Percent |
|---|---|---|---|---|
| Liquid | 11,966,380,751.79 | 74.4 | 11,926,053,374.32 | 74.2 |
| Illiquid | 4,121,692,206.00 | 25.6 | 4,148,432,175.40 | 25.8 |
| | 16,088,072,957.79 | 100.0 | 16,074,485,549.72 | 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.

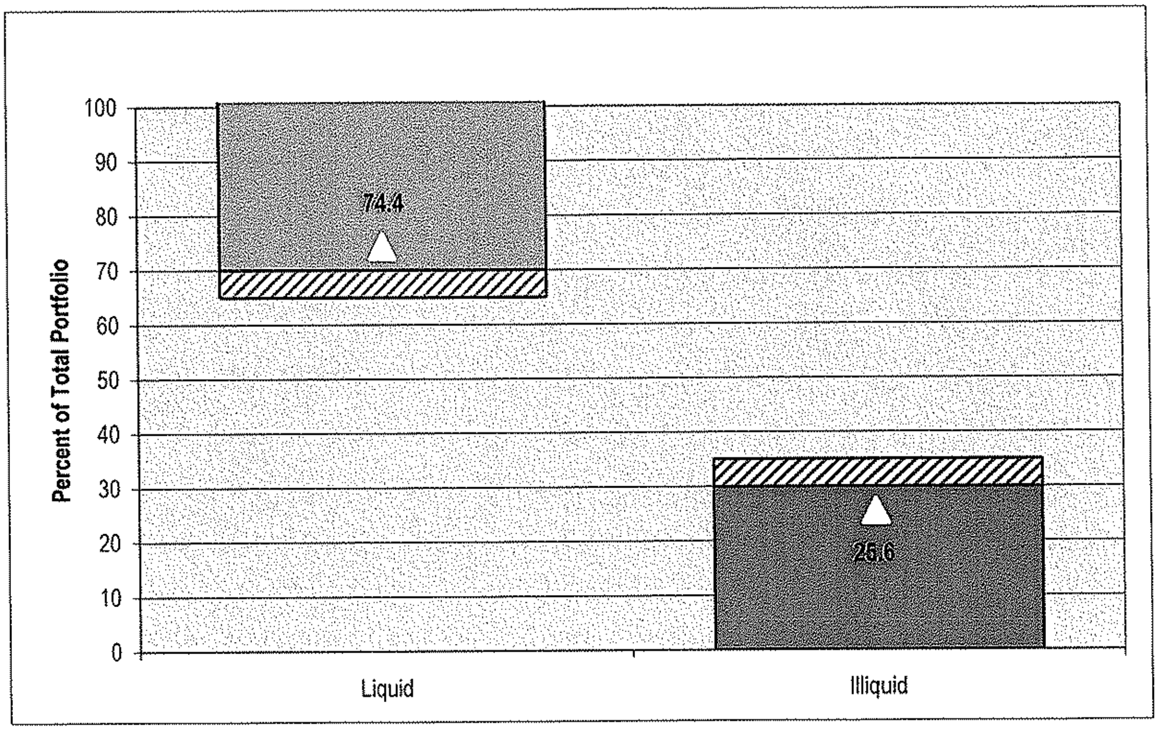
**Illiquid:** Investments that could be converted to cash in a orderly market over a period of more than 3 months or in a shorter period of time by accepting a discount of more than 10%.

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

I, Joan Moeller, 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, Cathy Iberg, as Interim 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
# September 30, 2006




Current:

| | 9/30/2006 Market Value | 9/30/2006 Percent | 8/31/2006 Market Value | 8/31/2006 Percent |
|---|---|---|---|---|
| Liquid | 7,713,157,510.60 | 74.4 | 8,049,919,789.94 | 76.5 |
| Illiquid | 2,647,905,158.87 | 25.6 | 2,471,493,898.65 | 23.5 |
| | 10,361,062,669.47 | 100.0 | 10,521,413,688.59 | 100.0 |

Approved but not yet invested illiquid marketable investments:

| | 9/30/2006 Market Value | 9/30/2006 Percent | 8/31/2006 Market Value | 8/31/2006 Percent |
|---|---|---|---|---|
| Liquid | 7,713,157,510.60 | 74.4 | 7,856,675,399.89 | 74.7 |
| Illiquid | 2,647,905,158.87 | 25.6 | 2,664,738,288.70 | 25.3 |
| | 10,361,062,669.47 | 100.0 | 10,521,413,688.59 | 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.

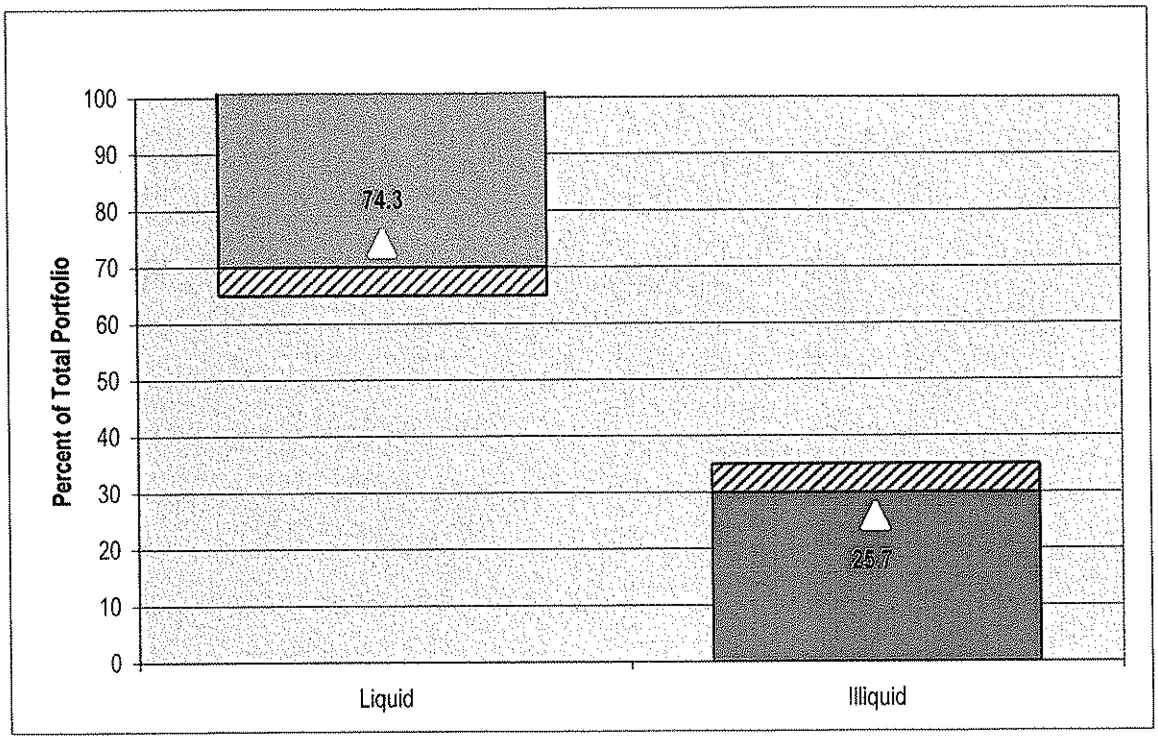
**Illiquid:** Investments that could be converted to cash in a orderly market over a period of more than 3 months or in a shorter period of time by accepting a discount of more than 10%.

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 Interim 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
# September 30, 2006




Current:

| | 9/30/2006 Market Value | Percent | 8/31/2006 Market Value | Percent |
|---|---|---|---|---|
| Liquid | 4,253,223,241.19 | 74.3 | 4,159,219,109.19 | 74.9 |
| Illiquid | 1,473,787,047.13 | 25.7 | 1,393,852,751.94 | 25.1 |
| | 5,727,010,288.32 | 100.0 | 5,553,071,861.13 | 100.0 |

Approved but not yet invested illiquid marketable investments:

| | 9/30/2006 Market Value | Percent | 8/31/2006 Market Value | Percent |
|---|---|---|---|---|
| Liquid | 4,253,223,241.19 | 74.3 | 4,069,377,974.43 | 73.3 |
| Illiquid | 1,473,787,047.13 | 25.7 | 1,483,693,886.70 | 26.7 |
| | 5,727,010,288.32 | 100.0 | 5,553,071,861.13 | 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.

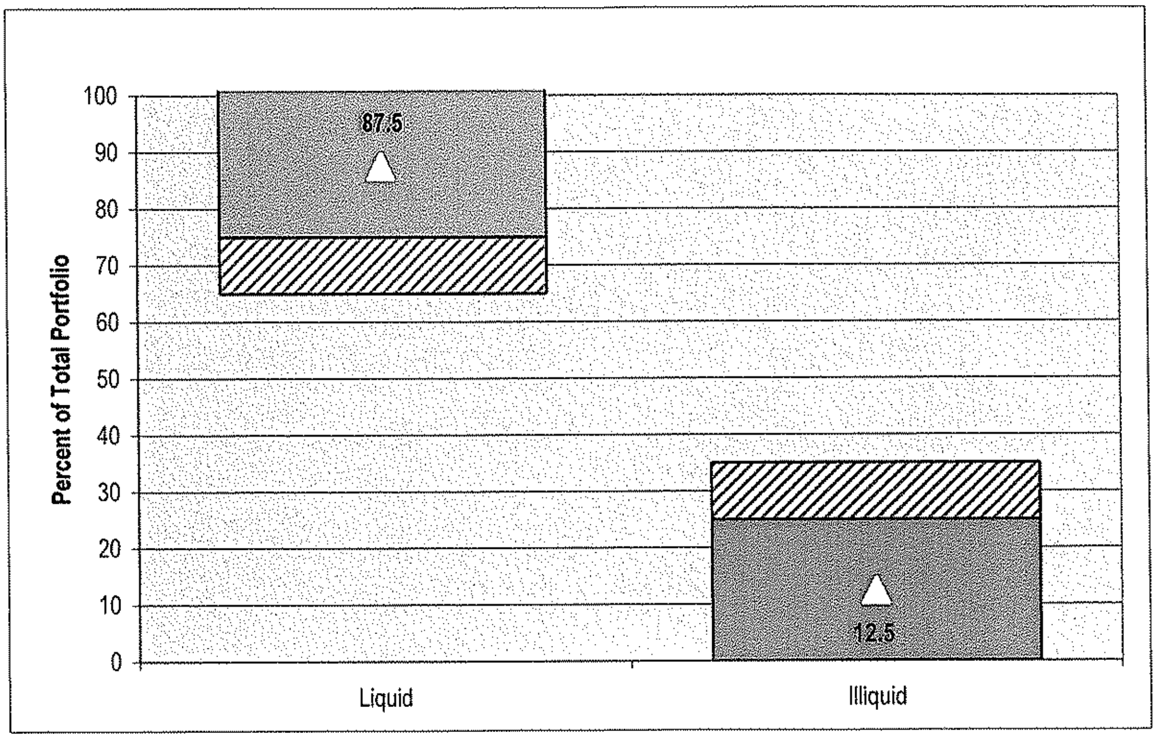
**Illiquid:** Investments that could be converted to cash in a orderly market over a period of more than 3 months or in a shorter period of time by accepting a discount of more than 10%.

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

I, Joan Moeller, 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, Cathy Iberg, as Interim 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.

# ITF Liquidity Profile
# September 30, 2006




Current:

| | 9/30/2006 | | 8/31/2006 | |
|---|---|---|---|---|
| | Market Value | Percent | Market Value | Percent |
| Liquid | 2,975,359,062.84 | 87.5 | 2,892,952,601.05 | 88.4 |
| Illiquid | 423,927,875.35 | 12.5 | 378,616,155.77 | 11.6 |
| | 3,399,286,938.19 | 100.0 | 3,271,568,756.82 | 100.0 |

Approved but not yet invested illiquid marketable investments:

| | 9/30/2006 | | 8/31/2006 | |
|---|---|---|---|---|
| | Market Value | Percent | Market Value | Percent |
| Liquid | 2,975,359,062.84 | 87.5 | 2,851,038,125.86 | 87.1 |
| Illiquid | 423,927,875.35 | 12.5 | 420,530,630.96 | 12.9 |
| | 3,399,286,938.19 | 100.0 | 3,271,568,756.82 | 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 Interim 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 PUF, GEF and ITF**

**September 30, 2006**

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

10/20/06 Date

______________________ Cathy Iberg, Managing Director - Marketable Alternatives

10/26/2006 Date

______________________ Trey Thompson, Managing Director - Non-Marketable Alternatives

10-26-06 Date

# Illiquid investments approved/delegated or funded from last report to UTIMCO Board through current report date
## August 1 - September 30, 2006

| Private Equity investments | Board Approved/ Delegated | Committed Amount PUF | Committed Amount GEF | Committed Amount ITF | Funded Amount PUF | Funded Amount GEF | Funded Amount ITF |
|---|---|---|---|---|---|---|---|
| Avenue Asia Special Situations Fund IV, L.P. | 8/15/2006 | $ 28,000,000.00 | $ 12,000,000.00 | $ - | $ - | $ - | $ - |
| 3i Europartners Va LP* | 8/17/2006 | $ 44,891,000.00 | $ 19,239,000.00 | $ - | $ - | $ - | $ - |

*Euro denominated commitments to Non US funds are converted to US dollars using the exchange rate in effect on the closing date.

| Public Markets | | | | | | | |
|---|---|---|---|---|---|---|---|
| New Mountain | 9/15/2006 | $ 84,500,000.00 | $ 45,500,000.00 | $ 20,000,000.00 | $ 84,500,000.00 | $ 45,500,000.00 | $ 20,000,000.00 |

| Marketable Alternative investments | | Hedge Fund Pool Committed Amount | Hedge Fund Pool Funded Amount |
|---|---|---|---|
| Black River | 8/1/2006 | $ 75,000,000.00 | $ 75,000,000.00 |
| Spinnaker | 9/1/2006 | $ 100,000,000.00 | $100,000,000.00 |
| OZ Europe | 9/1/2006 | $ 25,000,000.00 | $ 25,000,000.00 |
| OZ Asia | 9/1/2006 | $ 25,000,000.00 | $ 25,000,000.00 |
| Brahman II | 9/1/2006 | $ 25,000,000.00 | $ 25,000,000.00 |

## Change in investment's liquidity classification

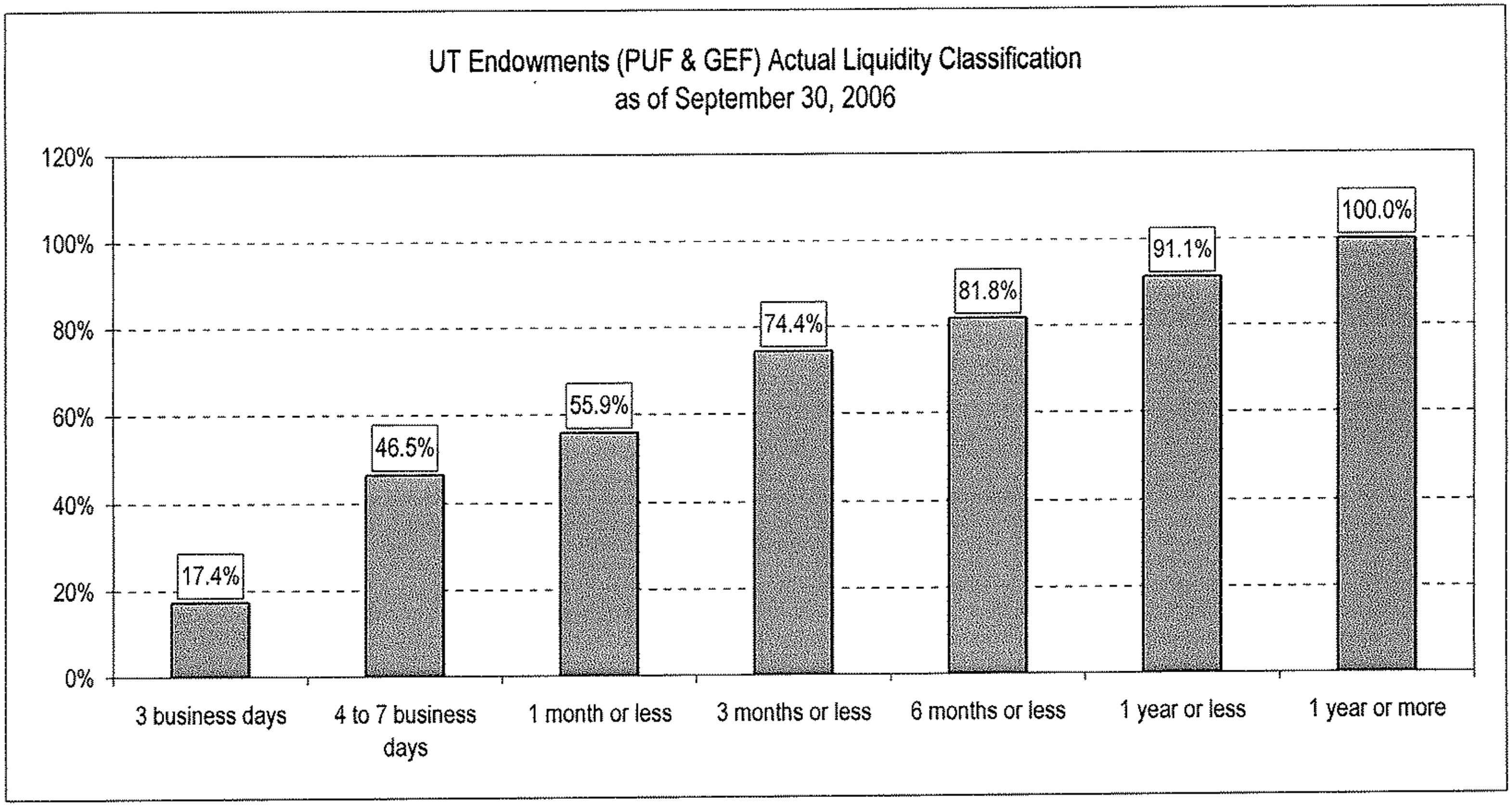
**Public Markets**

Black Rock (formerly State Street Research) fund changed from Illiquid to Liquid due to lock up period expiring.

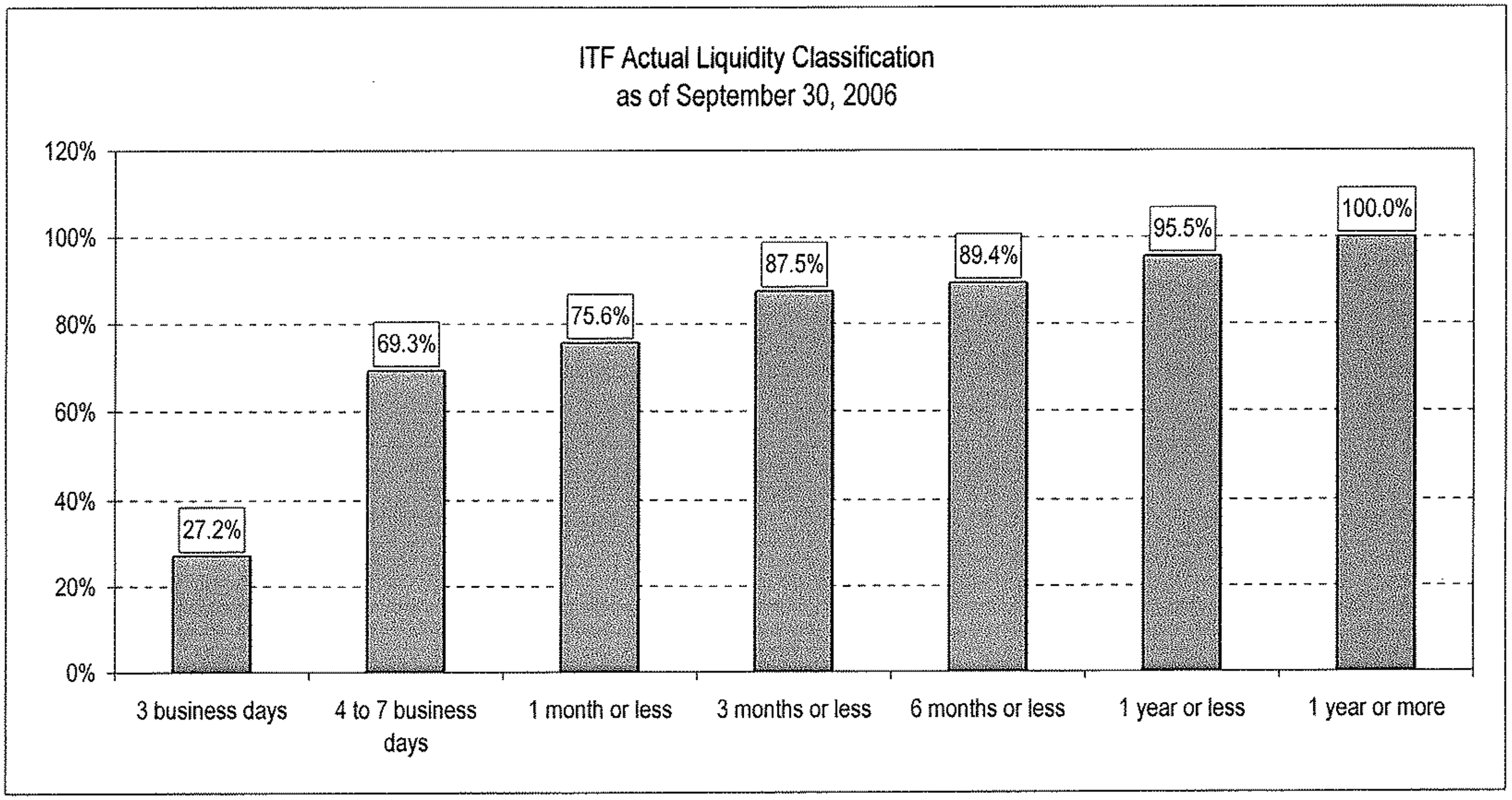
PUF and GEF's Dalton JMBO fund changed from Illiquid to Liquid after 1-year anniversary when early redemption fee became 10%. ITF's investment remains Illiquid.

**Marketable Alternative investments**

Parkcentral changed from Illiquid to Liquid due to step-down of tiered early redemption fee to < 10% prior to expiration of lock-up period.




| | Classification Period | Assets | % | Cumulative Assets | % |
|---|---|---|---|---|---|
| Liquid: | 3 business days | 2,797,156,207 | 17.4% | 2,797,156,207 | 17.4% |
| | 4 to 7 business days | 4,690,713,301 | 29.2% | 7,487,869,508 | 46.5% |
| | 1 month or less | 1,508,983,481 | 9.4% | 8,996,852,989 | 55.9% |
| | 3 months or less | 2,969,527,762 | 18.5% | 11,966,380,752 | 74.4% |
| Illiquid: | 6 months or less | 1,186,383,882 | 7.4% | 13,152,764,634 | 81.8% |
| | 1 year or less | 1,509,340,462 | 9.4% | 14,662,105,096 | 91.1% |
| | 1 year or more | 1,425,967,862 | 8.9% | 16,088,072,958 | 100.0% |
| | | 16,088,072,958 | 100.0% | | |




| | Classification Period | Assets | % | Cumulative Assets | % |
|---|---|---|---|---|---|
| Liquid: | 3 business days | 924,311,166 | 27.2% | 924,311,166 | 27.2% |
| | 4 to 7 business days | 1,430,384,948 | 42.1% | 2,354,696,114 | 69.3% |
| | 1 month or less | 216,557,932 | 6.4% | 2,571,254,046 | 75.6% |
| | 3 months or less | 404,105,017 | 11.9% | 2,975,359,063 | 87.5% |
| Illiquid: | 6 months or less | 63,055,277 | 1.9% | 3,038,414,340 | 89.4% |
| | 1 year or less | 209,054,187 | 6.1% | 3,247,468,527 | 95.5% |
| | 1 year or more | 151,818,411 | 4.5% | 3,399,286,938 | 100.0% |
| | | 3,399,286,938 | 100.0% | | |

**Agenda Item**
UTIMCO Board Meeting
November 9, 2006

**Agenda Item:** Discussion of Risk Dashboard

**Developed By:** Iberg, Reed

**Presented By:** Iberg, Reed

**Type of Item:** Information Item

**Description:** UTIMCO has developed a set of standardized charts and graphs that will be provided to the Board on a monthly basis presenting a comprehensive risk analysis of the Endowment Funds. UTIMCO has now included the analysis for the ITF.

For this Board Meeting we will present the Risk Dashboard for September 2006.

**Discussion:** The role of the Dashboard is to give Board Members a comprehensive view of risk as it relates to the Endowment Funds and ITF. We consider this an evolving document and welcome all requests for additional analyses or revisions of the ones provided.

**Recommendation:** None

**Reference:** None

## Investment Risk Summary 1

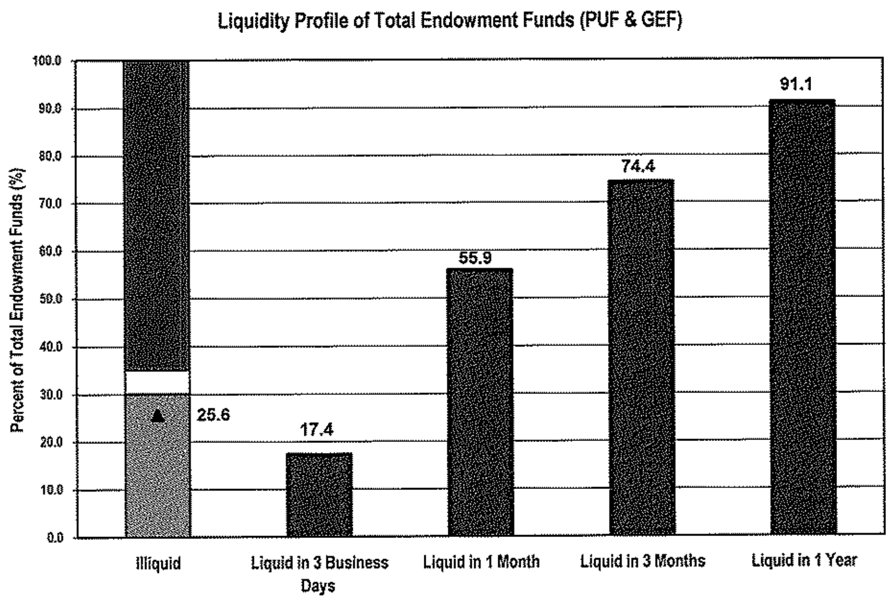
| | |
|---|---|
| Net Leverage | 1.00 |
| Gross Leverage | 1.22 |

| | |
|---|---|
| Risk Capacity Utilization Versus Policy Portfolio | 86% |
| Change Since Last Report | ⇔ |

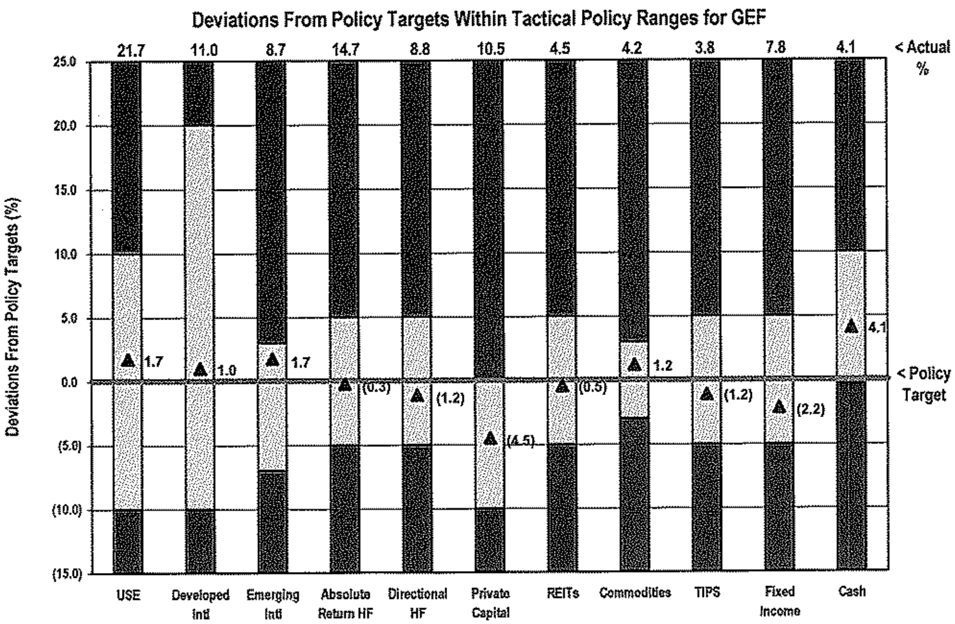
| | |
|---|---|
| Risk Level of Policy Portfolio Relative to Long Term Assumptions | 78% |
| Change Since Last Report | ⇧ |

| | |
|---|---|
| Risk Level of Actual Portfolios Relative to Long Term Assumptions | 67% |
| Change Since Last Report | ⇧ |

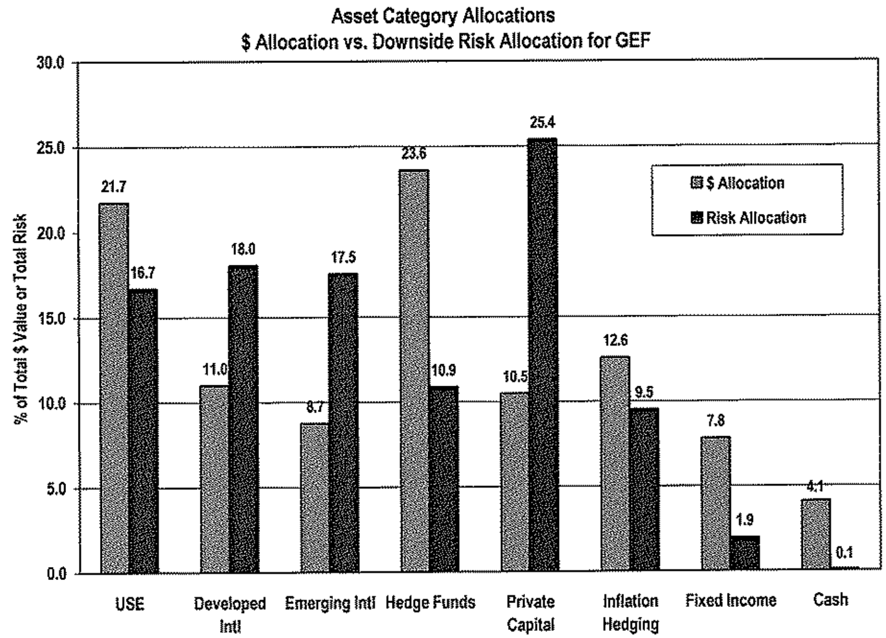
## Liquidity Risk Summary 2




## Dollar Allocations and Tactical Policy Ranges 3

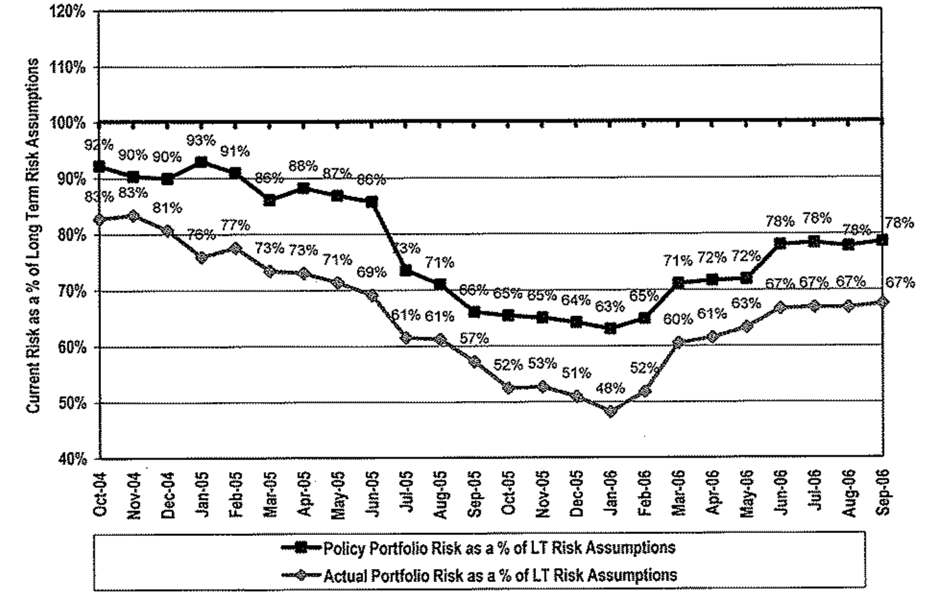



## Dollar Allocations Compared to Risk Allocations 4



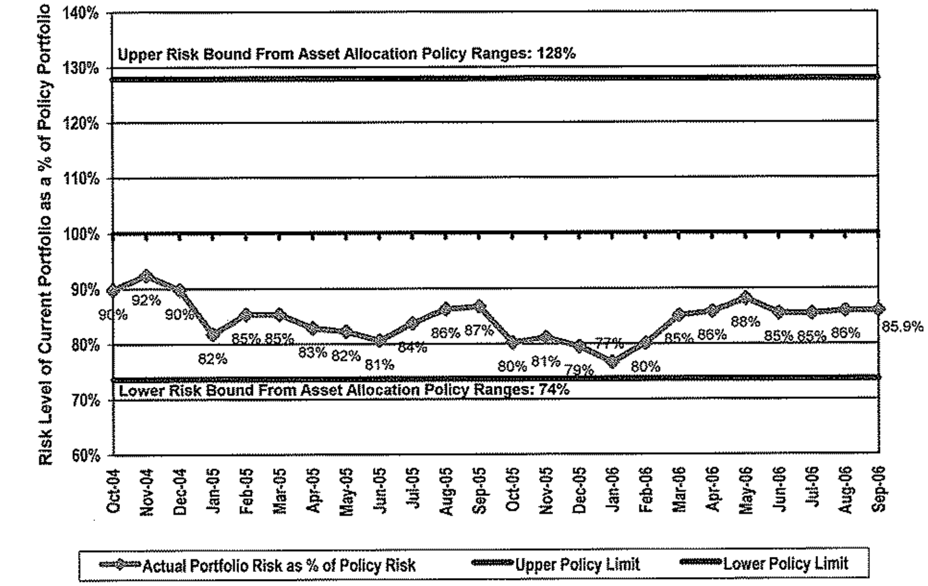
## Current Market Risk Environment 5

Current Risk Environment
(Based on Downside Risk of GEF)



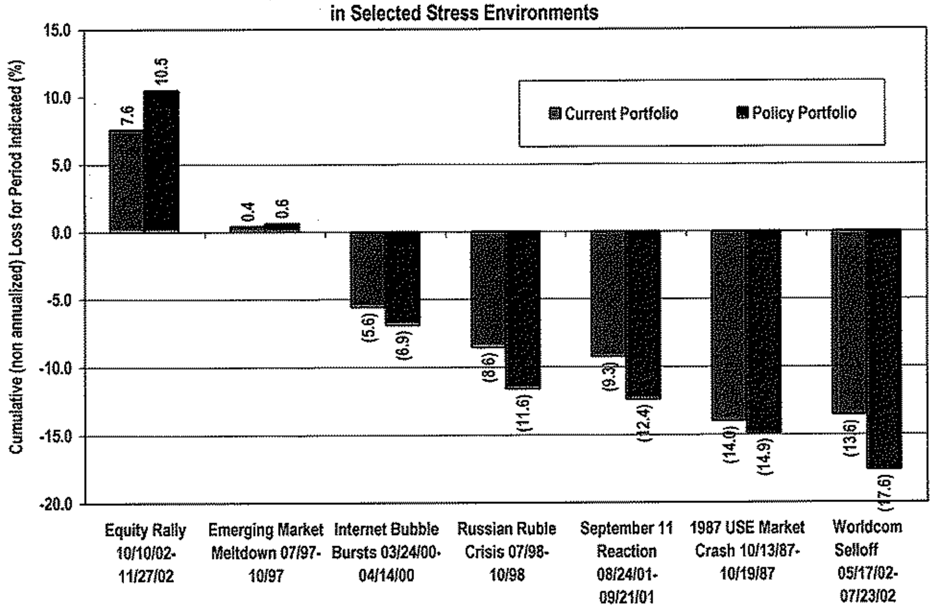

## Risk Capacity Utilization and Risk Policy Limits 6

Risk Capacity Utilization
(Based on Downside Risk of GEF)



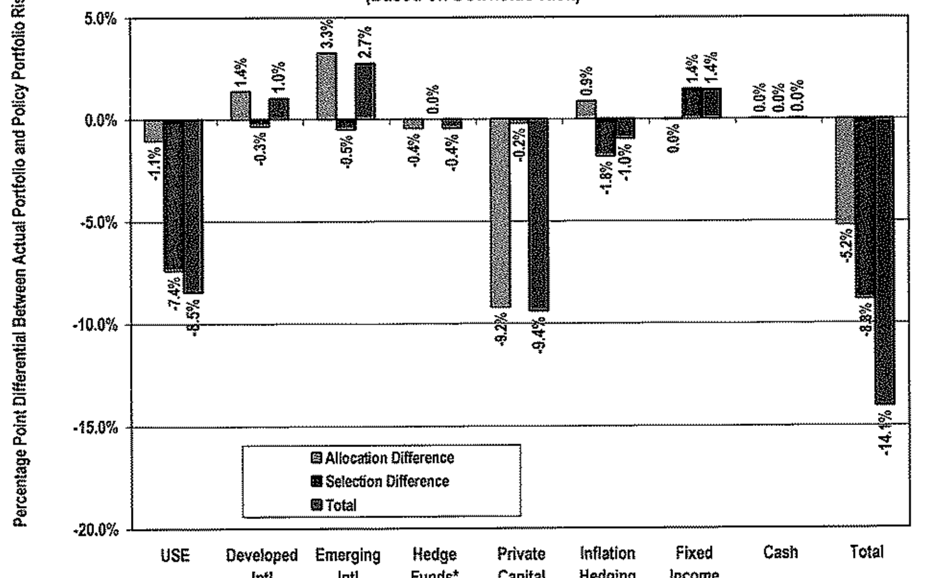

## Scenario Stress Tests 7

Hypothetical Performance of Current GEF Portfolio
in Selected Stress Environments




## Sources of Risk Differences Versus Policy 8

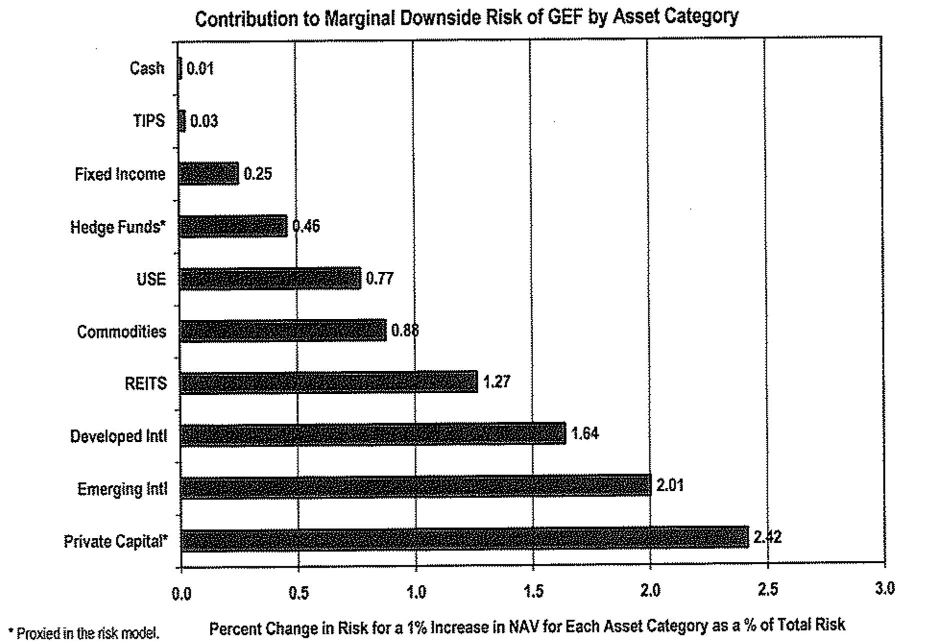
Sources of Differences Between Current Portfolio Risk and Policy Portfolio Risk for GEF
(Based on Downside Risk)




* Proxied in the risk model.

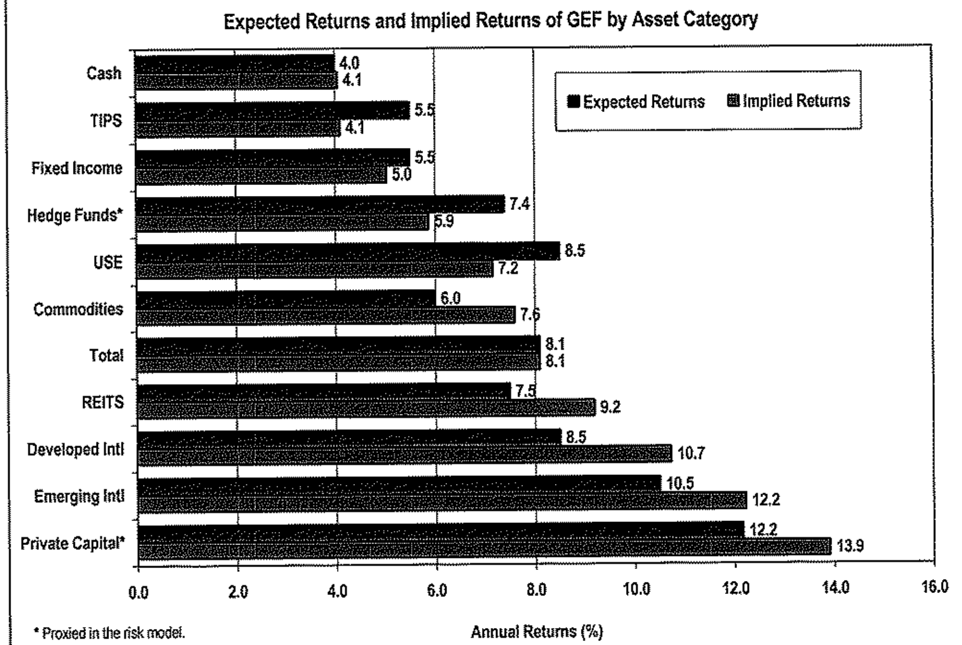
**UTIMCO Confidential** | **UTIMCO Risk Dashboard for the GEF** | **Data Through September 30, 2006**

## Marginal Risk Contributions of Each Asset Category (9)



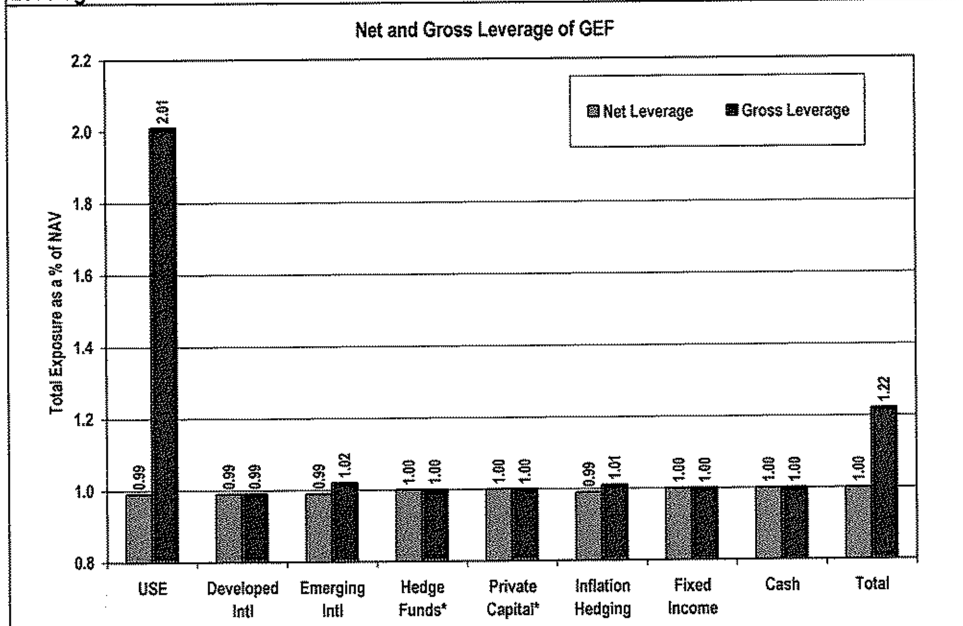

* Proxied in the risk model.

## Long Term Expected Returns vs. Implied Returns by Asset Category (10)



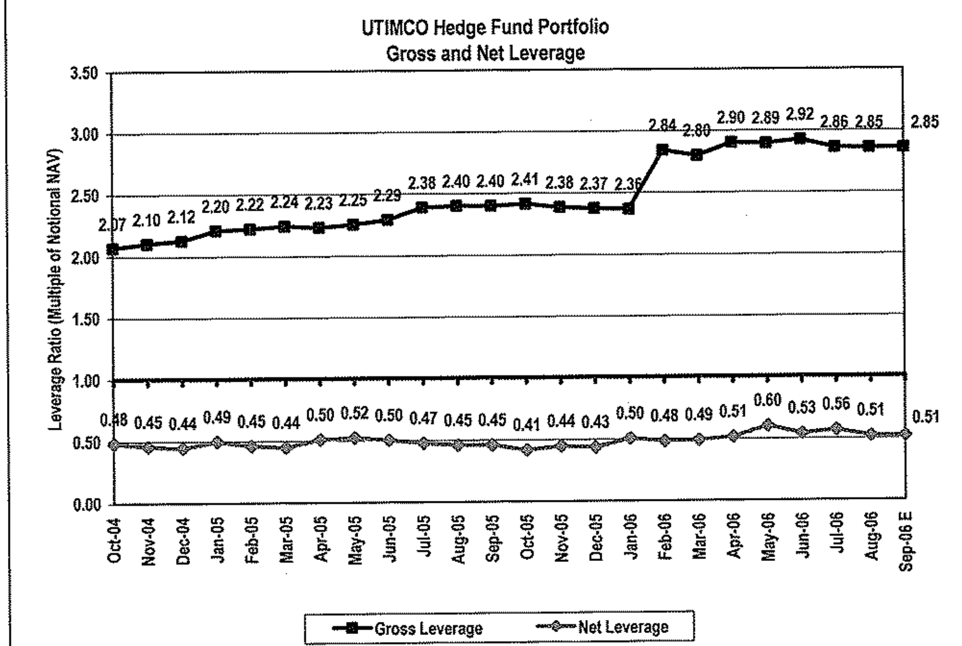

* Proxied in the risk model.

## Leverage (11)




* Proxied in the risk model. See leverage statistics for hedge funds in box 12.

## Hedge Fund Leverage (12)



# UTIMCO Risk Dashboard for the ITF

Data Through September 30, 2006

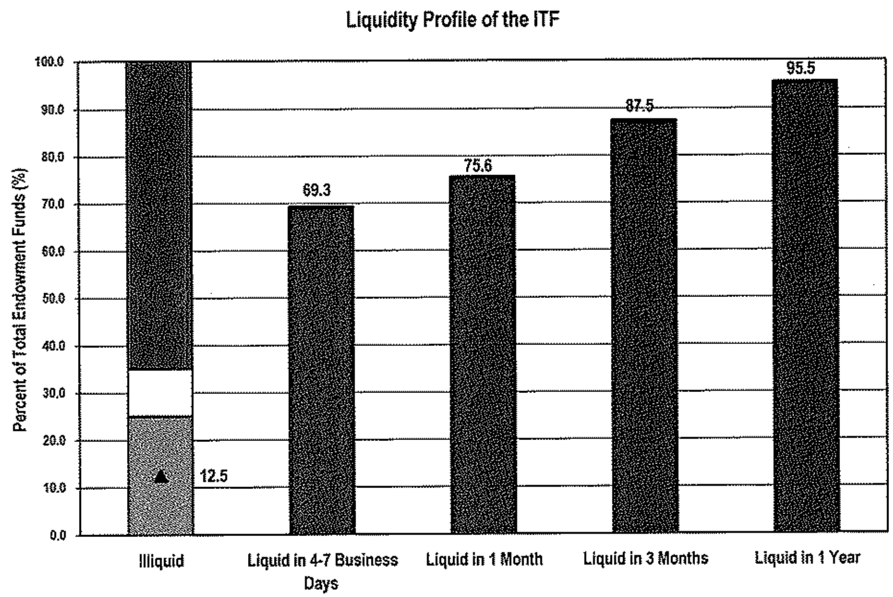
## Investment Risk Summary

1

| | |
|---|---|
| Net Leverage | 1.00 |
| Gross Leverage | 1.08 |
| Risk Capacity Utilization Versus Policy Portfolio | 97% |
| Change Since Last Report | |
| Risk Level of Policy Portfolio Relative to Long Term Assumptions | 77% |
| Change Since Last Report | |
| Risk Level of Actual Portfolios Relative to Long Term Assumptions | 75% |
| Change Since Last Report | |

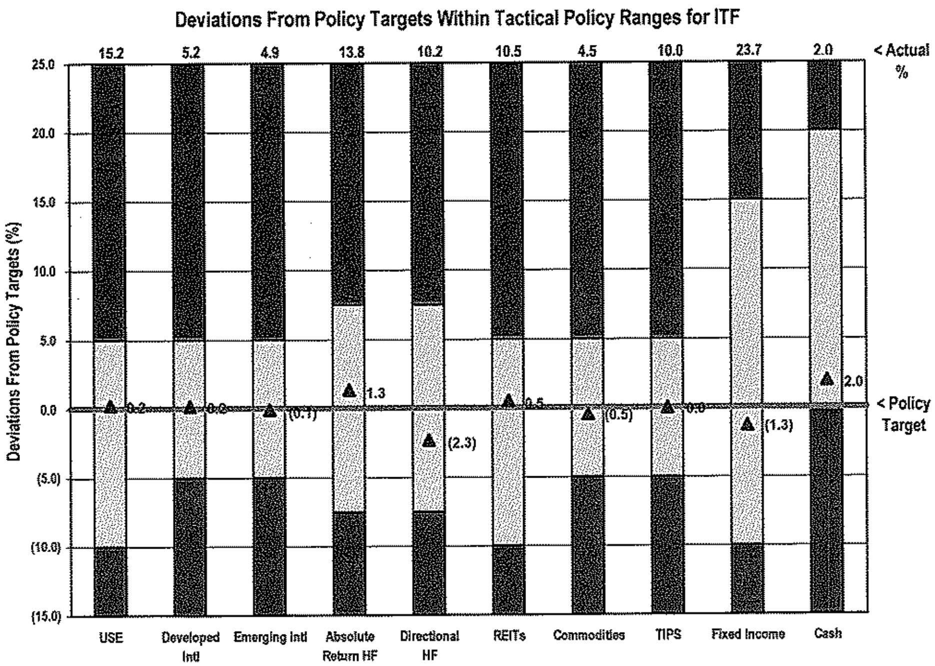
## Liquidity Risk Summary

2



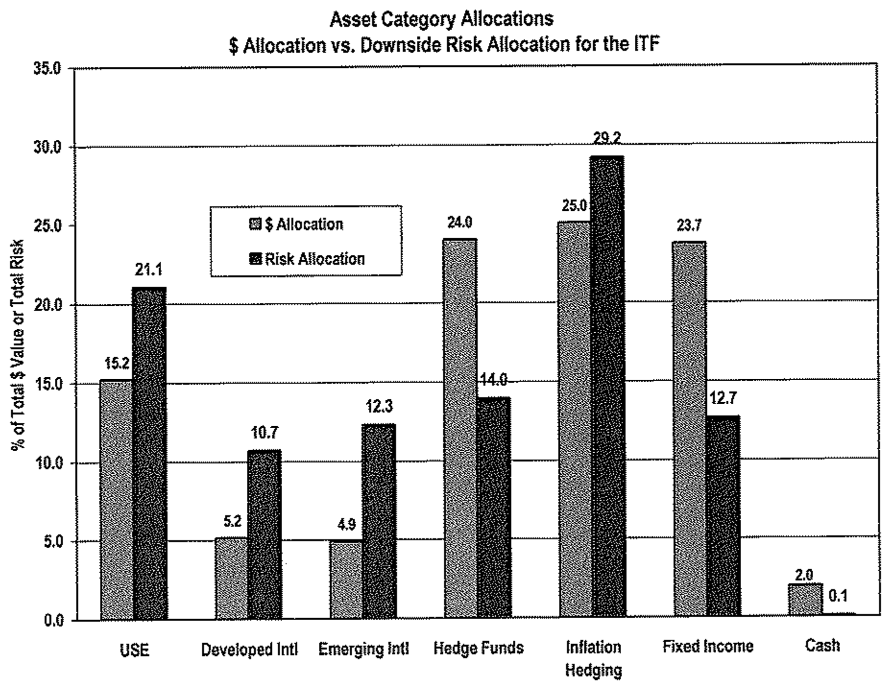

## Dollar Allocations and Tactical Policy Ranges

3



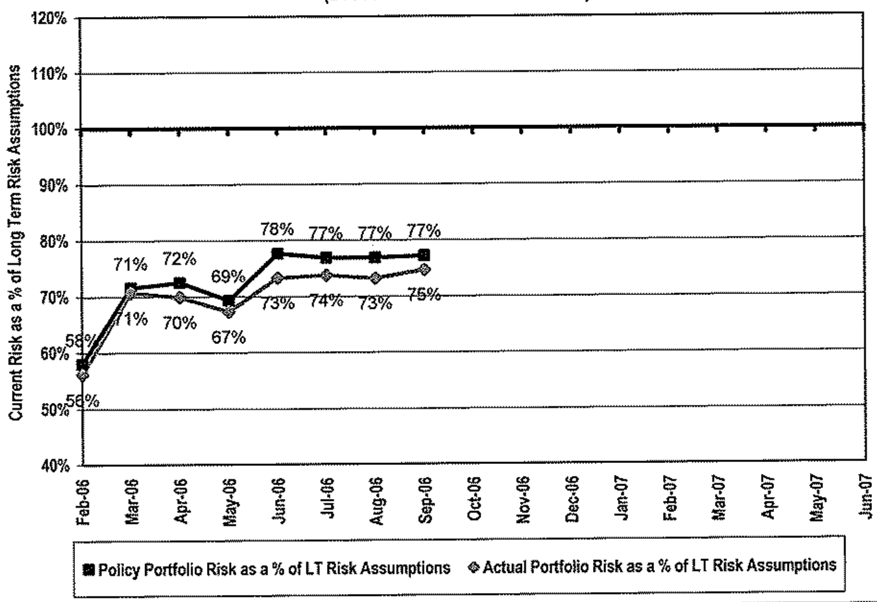

## Dollar Allocations Compared to Risk Allocations

4



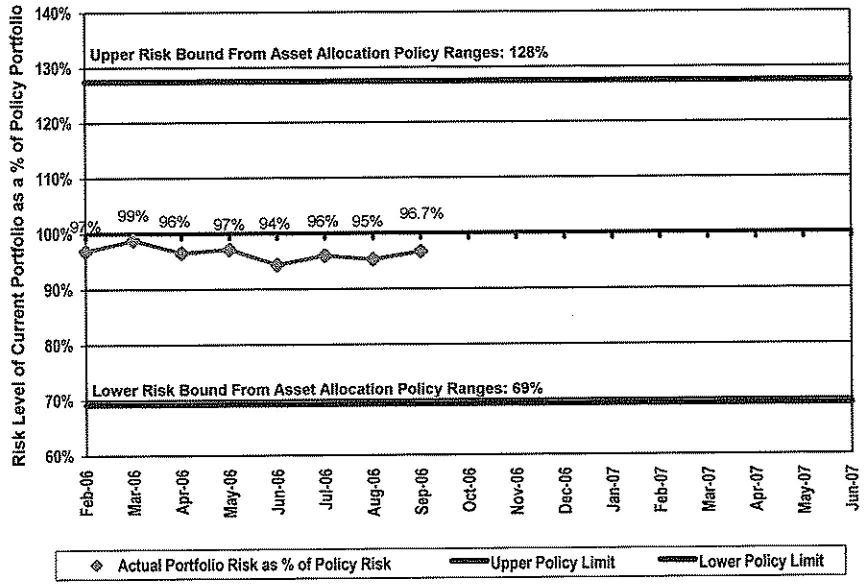
## Current Market Risk Environment 5

Current Risk Environment
(Based on Downside Risk of ITF)



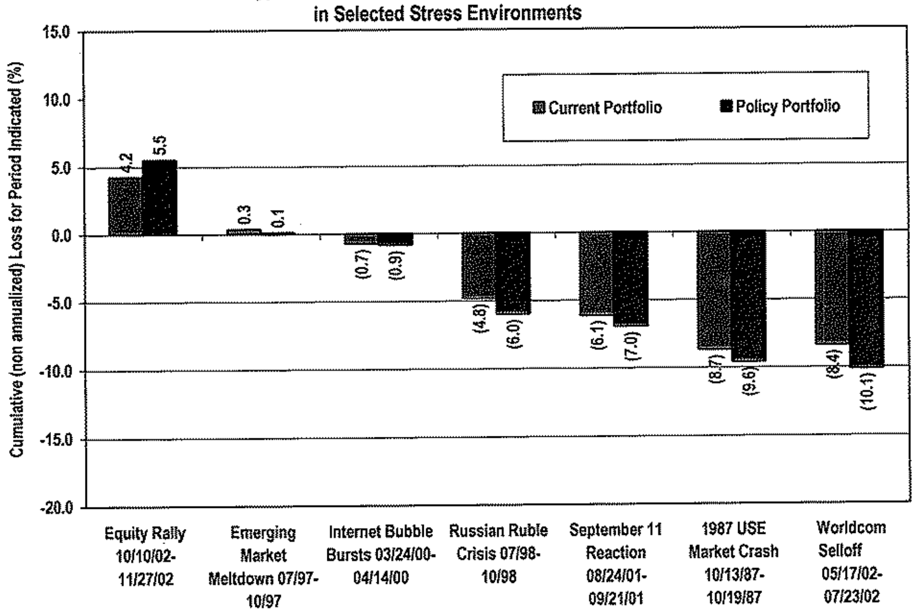

## Risk Capacity Utilization and Risk Policy Limits 6

Risk Capacity Utilization
(Based on Downside Risk of ITF)



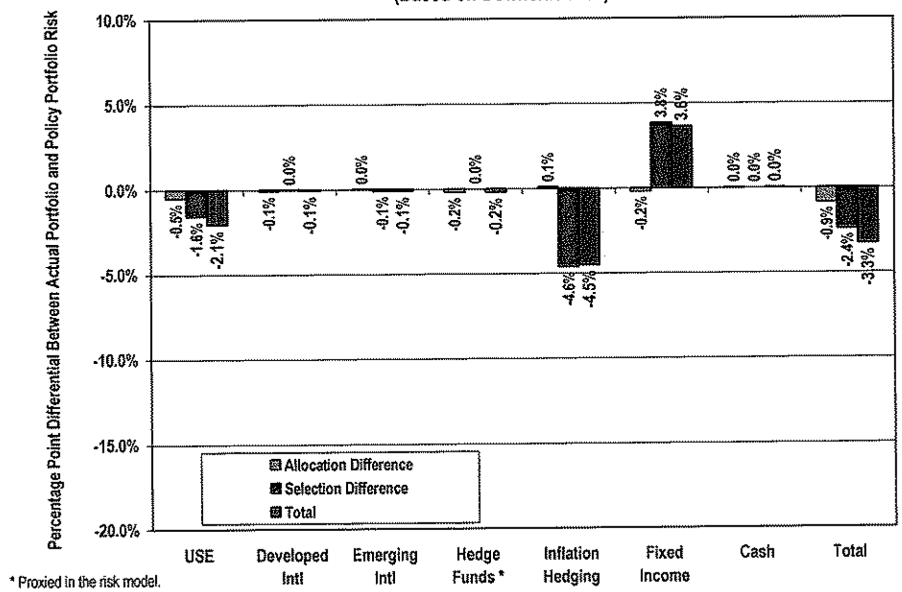

## Scenario Stress Tests 7

Hypothetical Performance of Current ITF Portfolio
in Selected Stress Environments



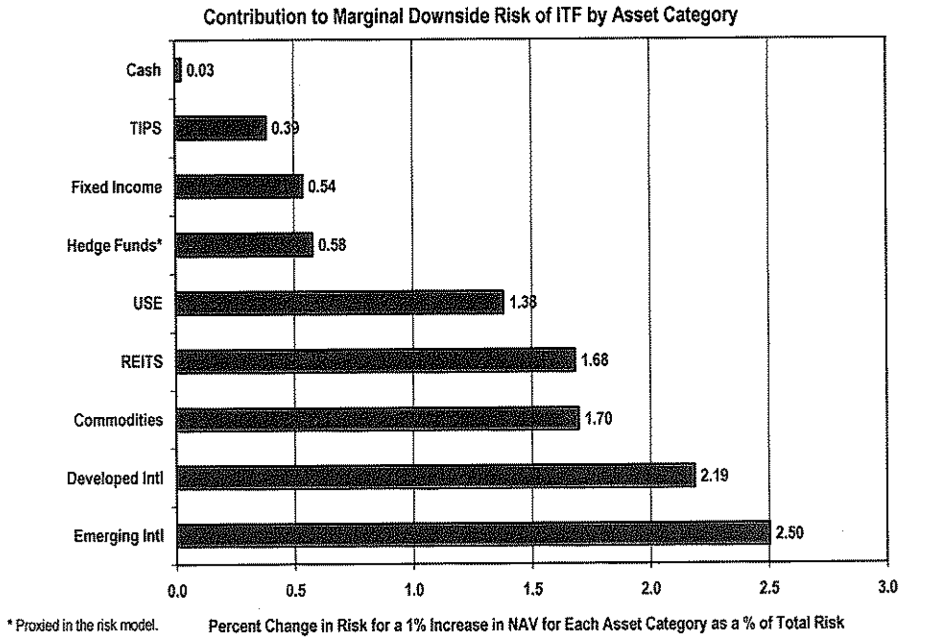

## Sources of Risk Differences Versus Policy 8

Sources of Differences between Current Portfolio Risk and Policy Portfolio Risk for ITF
(Based on Downside Risk)



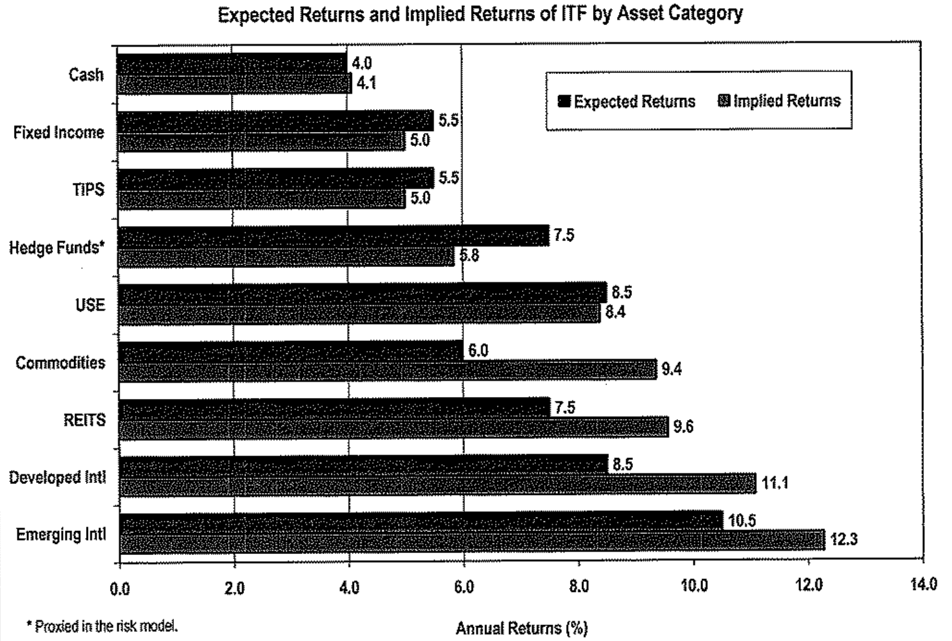

* Proxied in the risk model.

## Marginal Risk Contributions of Each Asset Category 9



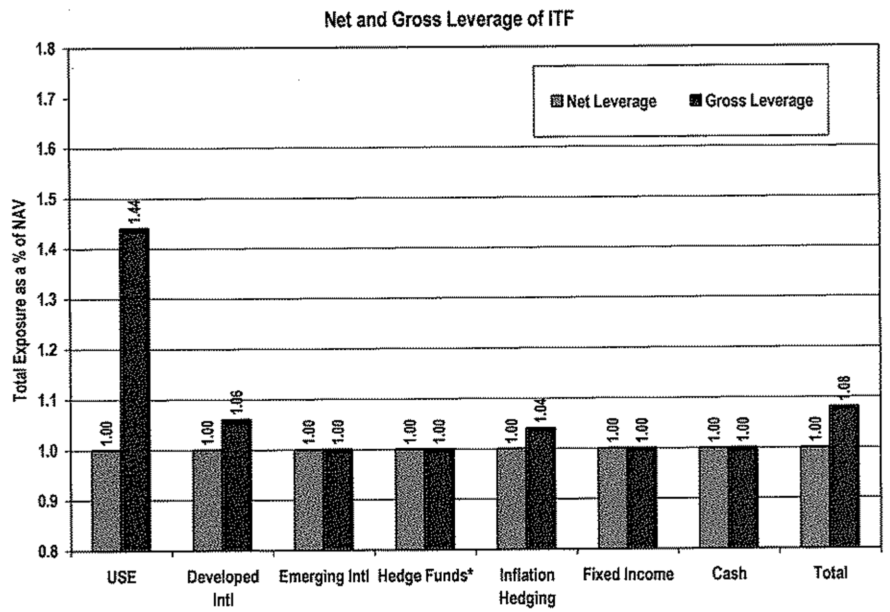

* Proxied in the risk model.

## Long Term Expected Returns vs. Implied Returns by Asset Category 10



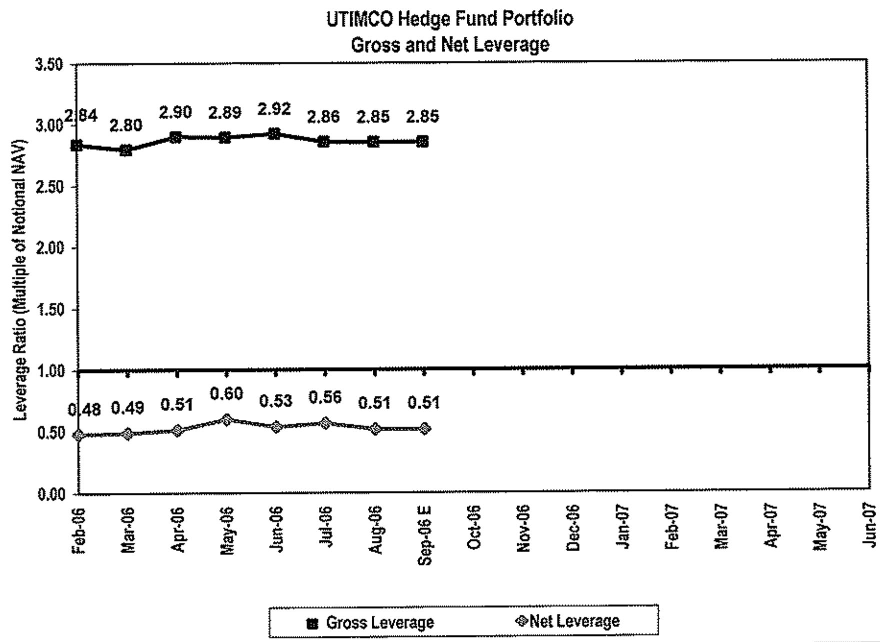

* Proxied in the risk model.

## Leverage 11




* Proxied in the risk model. See leverage statistics for hedge funds in box 12.

## Hedge Fund Leverage 12



**Agenda Item**
UTIMCO Board of Directors Meeting
November 9, 2006

**Agenda Item:** Comprehensive Derivative Report

**Developed By:** Goldsmith, Shah, Childers, Reed

**Presented By:** Iberg

**Type of Item:** Information Item

**Description:** The Derivative Investment Policy ("Policy") requires that UTIMCO provide a comprehensive report of all approved derivative applications for both internal managers and external managers under agency agreements and also provide a comprehensive report of all outstanding derivatives positions established by internal managers and external managers under agency agreements. Staff has also prepared a report on counterparties. The reports presented are for the period ended September 30, 2006.

**Discussion:** As of September 30, 2006, net mark-to-market values of derivatives (internal and external) was negative $55.4 million.

The mark-to-market value of over-the-counter options was negative $65.3 million. While $71.4 million was owed to counterparties by the PUF, GEF and ITF (Funds), $6.1 million was owed by counterparties to the Funds. This $6.1 million owed to the Funds represents the Funds' counterparty risk. There were no counterparties with exposure to the Funds in excess of 1% of the Funds' value.

**Recommendation:** No action required.

**Reference:** Comprehensive Derivatives Report; Comprehensive Report on Approved Derivative Applications; and Derivatives Counterparty Report.

# Comprehensive Derivative Report as of September 30, 2006

| Manager | Derivative Type | Mark-to-Market OTC | Mark-to-Market Exchange Traded | Mark-to-Market Total Derivatives | Net Notional Value on Futures | Gross Notional Value on Futures | Delta Equivalent on Options |
|---|---|---|---|---|---|---|---|
| **INTERNAL MANAGERS** | | | | | | | |
| Canadian No Cost Collar | **Currency Forwards** | $ (6,338.00) | $ - | $ (6,338.00) | $ - | $ - | $ - |
| Canadian No Cost Collar | **Purchased Option** | 68,613.50 | - | 68,613.50 | - | - | (19,153.03) |
| Canadian No Cost Collar | **Written Option** | (1,519,418.28) | - | (1,519,418.28) | - | - | (33,926,736.17) |
| Developed Markets Futures | **Currency Forwards** | (1,321,511.15) | - | (1,321,511.15) | - | - | - |
| Developed Markets Futures | **Futures** | - | (447,741.90) | (447,741.90) | 373,281,140.85 | 373,281,140.85 | - |
| Developed Mkts Structured Swaps | **Currency Forwards** | (102,415.42) | - | (102,415.42) | - | - | - |
| Developed Mkts Structured Swaps | **SWAPS** | (1,627,220.37) | - | (1,627,220.37) | - | - | 183,269,527.20 |
| Dow Jones Futures | **Futures** | - | (144,870.00) | (144,870.00) | 80,010,690.00 | 80,010,690.00 | - |
| Emerging Cash | **Written Option** | (1,127,656.07) | - | (1,127,656.07) | - | - | 6,057,001.00 |
| Emerging Markets Proxy | **Currency Forwards** | (112,984.88) | - | (112,984.88) | - | - | - |
| Emerging Markets Proxy | **Futures** | - | (26,467.44) | (26,467.44) | 42,133,396.86 | 82,838,156.86 | - |
| Emerging Markets Proxy | **SWAPS** | (2,171,170.43) | - | (2,171,170.43) | - | - | 47,011,604.60 |
| Emerging Mkts No Cost Collar | **Purchased Option** | 9,218,478.03 | - | 9,218,478.03 | - | - | (30,004,260.91) |
| Emerging Mkts No Cost Collar | **Written Option** | (16,101,305.11) | - | (16,101,305.11) | - | - | (44,441,043.54) |
| Emerging Structured Swaps | **SWAPS** | (12,160,705.79) | - | (12,160,705.79) | - | - | 458,090,077.92 |
| European No Cost Collar | **Purchased Option** | 1,201,992.54 | - | 1,201,992.54 | - | - | (5,120,374.07) |
| European No Cost Collar | **Written Option** | (2,239,431.69) | - | (2,239,431.69) | - | - | (16,457,754.70) |
| Goldman Sachs Commodity Index | **Futures** | - | 1,737,050.00 | 1,737,050.00 | 530,792,850.00 | 530,792,850.00 | - |
| GSCI Cash | **Written Option** | (4,007,949.00) | - | (4,007,949.00) | - | - | 22,845,116.51 |
| International Spread Trade | **Futures** | - | 20,447.23 | 20,447.23 | 68,591.58 | 9,771,993.18 | - |
| Japan No Cost Collar | **Purchased Option** | 427,945.72 | - | 427,945.72 | - | - | (6,642,758.57) |
| Japan No Cost Collar | **Written Option** | (261,039.31) | - | (261,039.31) | - | - | (1,073,644.17) |
| Large Cap Tech Options | **Written Option** | (2,308,500.00) | - | (2,308,500.00) | - | - | (32,201,016.71) |
| NASDAQ Futures | **Futures** | - | (6,750.00) | (6,750.00) | 5,013,750.00 | 5,013,750.00 | - |
| Private Markets | **Currency Forwards** | (8,867.21) | - | (8,867.21) | - | - | - |
| REIT Cash | **Written Option** | (232,190.95) | - | (232,190.95) | - | - | 9,947.95 |
| S&P 500 Futures | **Futures** | - | (491,625.00) | (491,625.00) | 348,122,250.00 | 348,122,250.00 | - |
| Structured Active Management Application - US Equities | **Futures** | - | (569,050.00) | (569,050.00) | 402,947,300.00 | 402,947,300.00 | - |
| US Equity Small Cap/Large Cap Spread Trade | **Futures** | - | 11,048,545.00 | 11,048,545.00 | 24,353,860.00 | 3,828,199,040.00 | - |

# Comprehensive Derivative Report as of September 30, 2006

| Manager | Derivative Type | Mark-to-Market OTC | Mark-to-Market Exchange Traded | Mark-to-Market Total Derivatives | Net Notional Value on Futures | Gross Notional Value on Futures | Delta Equivalent on Options |
|---|---|---|---|---|---|---|---|
| US No Cost Collar | Purchased Option | 57,546,489.00 | - | 57,546,489.00 | - | - | (203,256,893.44) |
| US No Cost Collar | Written Option | (84,461,904.01) | - | (84,461,904.01) | - | - | (402,559,577.63) |
| **EXTERNAL MANAGERS** | | | | | - | - | |
| Blackrock | Currency Forwards | (82.69) | - | (82.69) | - | - | - |
| Blackrock | Purchased Option | - | 1,007,410.32 | 1,007,410.32 | - | - | - |
| Bridgewater Currency Overlay | Currency Forwards | (3,041,699.18) | - | (3,041,699.18) | - | - | - |
| Globeflex | Currency Forwards | 25.35 | - | 25.35 | - | - | - |
| Goldman Sachs Asset Management | Currency Forwards | (134,729.00) | - | (134,729.00) | - | - | - |
| Goldman Sachs Asset Management | Futures | - | - | - | 27,823,165.19 | 27,823,165.19 | - |
| Morgan Stanley REITs | Currency Forwards | 614.33 | - | 614.33 | - | - | - |
| PIMCO Global Bonds | Currency Forwards | (1,229,159.91) | - | (1,229,159.91) | - | - | - |
| PIMCO Global Bonds | Futures | - | (456,129.11) | (456,129.11) | 601,493,319.75 | 620,495,777.55 | - |
| PIMCO Global Bonds | Purchased Option | - | 4,668,172.62 | 4,668,172.62 | - | - | - |
| PIMCO Global Bonds | SWAPS | (5,834,786.29) | - | (5,834,786.29) | - | - | - |
| PIMCO Global Bonds | Written Option | - | (6,020,848.28) | (6,020,848.28) | - | - | - |
| PIMCO Real Return | Currency Forwards | (82,629.87) | - | (82,629.87) | - | - | - |
| PIMCO Real Return | Futures | - | (25,872.48) | (25,872.48) | 73,427,031.75 | 98,032,375.50 | - |
| PIMCO Real Return | Purchased Option | - | 112,014.00 | 112,014.00 | - | - | - |
| PIMCO Real Return | SWAPS | 6,107,138.00 | - | 6,107,138.00 | - | - | - |
| PIMCO Real Return | Written Option | - | (280,137.02) | (280,137.02) | - | - | - |
| PIMCO TIPS | Currency Forwards | (94,892.64) | - | (94,892.64) | - | - | - |
| PIMCO TIPS | Futures | - | (29,231.25) | (29,231.25) | 82,964,243.75 | 122,763,837.50 | - |
| PIMCO TIPS | Purchased Option | - | 144,018.00 | 144,018.00 | - | - | - |
| PIMCO TIPS | SWAPS | 330,492.08 | - | 330,492.08 | - | - | - |
| PIMCO TIPS | Written Option | - | (353,874.38) | (353,874.38) | - | - | - |
| | Grand Total | $ (65,286,798.70) | $ 9,885,060.31 | $ (55,401,738.39) | $ 2,592,431,589.72 | $ 6,530,092,326.61 | $ (58,419,937.78) |
| | Internal Managers | $ (61,307,088.88) | $ 11,119,537.89 | $ (50,187,550.99) | $ 1,806,723,829.28 | $ 5,660,977,170.88 | $ (58,419,937.78) |
| | External Managers | (3,979,709.82) | (1,234,477.58) | (5,214,187.40) | 785,707,760.44 | 869,115,155.73 | - |
| | GRAND TOTAL | $ (65,286,798.70) | $ 9,885,060.31 | $ (55,401,738.39) | $ 2,592,431,589.72 | $ 6,530,092,326.61 | $ (58,419,937.78) |
| | Currency Forwards | $ (6,134,670.27) | $ - | $ (6,134,670.27) | $ - | $ - | $ - |
| | Futures | - | 10,608,305.05 | 10,608,305.05 | 2,592,431,589.72 | 6,530,092,326.61 | - |
| | Purchased Options | 68,463,518.79 | 5,931,614.94 | 74,395,133.73 | - | - | (245,043,440.02) |
| | Swaps/Structured Swaps | (15,356,252.80) | - | (15,356,252.80) | - | - | 688,371,209.72 |
| | Written Options | (112,259,394.42) | (6,654,859.68) | (118,914,254.10) | - | - | (501,747,707.48) |
| | GRAND TOTAL | $ (65,286,798.70) | $ 9,885,060.31 | $ (55,401,738.39) | $ 2,592,431,589.72 | $ 6,530,092,326.61 | $ (58,419,937.78) |

# Comprehensive Report on Approved Derivative Applications as of September 30, 2006
## Internal Management

**Internal Managers**

| Derivative Application (account name) | Purpose of Application |
|---|---|
| S&P 500 Futures / Russell 2000 Futures / Nasdaq 100 Futures / Dow Jones Futures / Emerging Markets Proxy using Futures / FTSE Index / DJ Eurostoxx 50 / Goldman Sachs Commodity Index (GSCI) | Replicate Index exposure by Utilizing Futures and Cash (Cash Equitization) |
| US Equity Small Cap/Large Cap Spread Trade | To alter the Funds market (systematic) exposure without trading the underlying cash market securities through purchases and short sales of appropriate derivatives. Reduce small cap exposure and increase large cap exposure. |
| International Spread Trade | To alter the Funds market (systematic) exposure without trading the underlying cash market securities through purchases and short sales of appropriate derivatives. Reduce Canadian exposure and increase UK exposure. |
| US No Cost Collar | 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 and short sales of appropriate derivatives. |
| US Small Cap Options - IWM and Russell 2000 | 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 and short sales of appropriate derivatives. |
| US Nasdaq Options - QQQQ | 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 and short sales of appropriate derivatives. |
| Developed Markets Options - FTSE Index (UK), EWJ (Japan) | 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 and short sales of appropriate derivatives. |
| Canadian No Cost Collar | 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 and short sales of appropriate derivatives. |
| Japan No Cost Collar (Nikkei) | 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 and short sales of appropriate derivatives. |
| European No Cost Collar (Eurostoxx 50) | 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 and short sales of appropriate derivatives. |
| Emerging Mkts No Cost Collar | 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 and short sales of appropriate derivatives. |
| Structured Active Management Application - U.S. Equities | Use derivatives and cash, along with hedge funds, to obtain an overall risk exposure equivalent to that of a traditional active management portfolio within the Developed Markets portfolio. |

# Comprehensive Report on Approved Derivative Applications as of September 30, 2006
## Internal Management

**Internal Managers (continued)**

| Derivative Application (account name) | Purpose of Application |
|---|---|
| Emerging Structured Swaps | Use derivatives to construct a portfolio with a risk and return profile that could not be constructed using cash market securities. |
| Developed Mkts Structured Swaps - TOPIX | Use derivatives to construct a portfolio with a risk and return profile that could not be constructed using cash market securities. |
| Oil Service ETFs put and call options (Energy Sector) | To hedge and control risks so that the Funds' risk/return profile is more closely aligned with the Funds' targeted risk/return profile through short sales of appropriate derivatives. |
| Goldman Sachs Commodity Index put options (GSCI) | 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 and short sales of appropriate derivatives. |
| Emerging Markets Index put options | 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 and short sales of appropriate derivatives. |
| US REITS put option | 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 and short sales of appropriate derivatives. |

# Comprehensive Report on Approved Derivative Applications as of September 30, 2006
## External Management

| External Managers Under Agency Agreeement | Primary Use of Derivatives |
|---|---|
| Blackrock (formerly State Street Research) | Short sales limited to 5%, able to use stock and index options, buy and sell puts/calls, forwards, futures (within our max loss provision) |
| Bridgewater | Permitted to use currency spot and forward contracts, currency futures, options on currency forwards or futures (within our max loss provision) |
| Cundill | Futures, currency forwards and short sales up to 5% are allowed (within our max loss provision) Write covered calls; sell puts to gain better entry points. |
| Dalton | Short sales of equity index options, protective puts, futures and forwards are allowed within our max loss provision. |
| Goldman Sachs Asset Management | Equity futures, currency forwards and short sales are allowed within a tightly controlled structure which targets a net equity exposure equivalent to that of the underlying benchmark. |
| Globeflex | May invest in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index. |
| Morgan Stanley REITs | May invest in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index. |
| PIMCO Global Bonds | May invest in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies. |
| PIMCO Real Return | May use forward purchase and sale contracts, futures (including Commodity Futures, Commodity Index Futures, and Exchange Traded Swaps Futures), and Options (including commodity options) |
| PIMCO TIPS | May use forward purchase and sale contracts, futures (including Commodity Futures, Commodity Index Futures, and Exchange Traded Swaps Futures), and Options (including commodity options) |
| Reams | May use futures, forwards, options and fixed income securities linked to foreign interest rates. |

# Derivative Counterparty Report as of September 30, 2006

| Counterparty | S&P Counterparty Rating | Mark-to-Market | Percentage of Total Funds |
|---|---|---|---|
| ABN AMRO | AA- | $ (142,434.54) | 0.00% |
| AIG FINANCIAL PRODUCTS CORP | AA | 2,550,826.51 | 0.01% |
| AUSTRALIA & NZ BANK LTD | AA- | (13,535.28) | 0.00% |
| BANK OF AMERICA | AA- | (295,648.72) | 0.00% |
| BARCLAYS | AA | (5,727,098.55) | -0.03% |
| BEAR STEARNS | AA- | (25,327,997.31) | -0.13% |
| BNP PARIBAS | AA | 13,313.79 | 0.00% |
| CALYON FINANCIAL, LONDON | AA- | (703.77) | 0.00% |
| CHASE MANHATTAN | AA- | 50,987.22 | 0.00% |
| CITIBANK NY | AA+ | (1,986,403.72) | -0.01% |
| CREDIT AGRICOLE, LONDON | AA- | 10,528.46 | 0.00% |
| CREDIT SUISSE FIRST | AA- | 59,324.17 | 0.00% |
| CS FIRST BOSTON GBL FOREIGN EXCH | A+ | (77,062.84) | 0.00% |
| DEUTSCHE BANK AG | AA- | (330,030.84) | 0.00% |
| GOLDMAN SACHS | AA- | (28,892,768.13) | -0.15% |
| HSBC BK USA, NEW YORK | AA | (379,987.21) | 0.00% |
| J P MORGAN, CHASE | A+ | 3,467,338.45 | 0.02% |
| LEHMAN BROTHERS | AA- | (1,187,427.22) | -0.01% |
| M L INTL BANK LTD, LONDON | AAA | 457.54 | 0.00% |
| MELLON BANK | AA- | (8,949.98) | 0.00% |
| MERRILL LYNCH | AA- | 4,515.00 | 0.00% |
| MERRILL LYNCH INTL BANK LTD, NY | AAA | (206,500.50) | 0.00% |
| MORGAN STANLEY | AA- | (6,027,380.89) | -0.03% |
| NATIONAL AUSTRALIA BANK LIMITED | AA- | (59,954.33) | 0.00% |
| ROYAL BANK OF CANADA | AA- | (24,302.41) | 0.00% |
| ROYAL BANK OF SCOTLAND PLC | AA | (201,031.66) | 0.00% |
| STATE ST BOSTON CAPITAL MKT | AA | (58,374.70) | 0.00% |
| UBS AG, STAMFORD | AA+ | (408,168.58) | 0.00% |
| WESTPAC BANKING CORP, SYDNEY | AA- | (88,328.66) | 0.00% |
| Grand Total | | $ (65,286,798.70) | -0.34% |

| | |
|---|---|
| PUF, GEF and ITF owe to Counterparty | $ (71,444,089.84) |
| Counterparty owes to PUF, GEF and ITF | 6,157,291.14 |
| | $ (65,286,798.70) |

| | |
|---|---|
| PUF NAV | $ 10,256,721,721.00 |
| GEF NAV | 5,637,410,402.00 |
| ITF NAV | 3,151,477,005.00 |
| Total NAV | $ 19,045,609,128.00 |

**Agenda Item**
UTIMCO Board of Directors Meeting
November 9, 2006

**Agenda Item:** Report on Actions taken under the Delegation of Authority

**Developed by:** Staff

**Presented by:** Iberg

**Type of Item:** Information item

**Description:** The Delegation of Authority delegates to the CEO the authority to execute on the behalf of UTIMCO all contracts, leases, or other commercial arrangements (except investment management agency contracts, partnership agreements, investment consultant agreements and agreements with independent auditors) for a total obligation of $1 million or less. The Delegation of Authority requires staff to report contracts, leases, or other commercial arrangements executed by the CEO with a total obligation of $1 million or less.

The Delegation of Authority also requires that the CEO notify the UTIMCO Board at its regularly scheduled Board meetings regarding all decisions made under the delegated authority related to new manager selection and increases in investments or commitments to existing managers.

**Recommendation:** None

**Discussion:** Staff has prepared the reports to update the UTIMCO Board on (1) Manager activity, and (2) new and renewal of existing contracts, leases and other commercial arrangements.

**Reference:** Manager Activity Taken Under the Delegation of Authority; New Contracts and Existing Contract Renewals, Leases, and Other Commercial Arrangements.

## Report on Manager Activity
## Taken Under the Delegation of Authority
## September 2, 2006 through October 27, 2006

| | Date | Amounts: PUF | GEF | ITF | Total | | Description |
|---|---|---|---|---|---|---|---|
| **US Equities** | | | | | | | |
| Domestic Spread Trade | Various | (427,327,830.00) | (231,114,620.00) | (19,112,090.00) | (677,554,540.00) | 1 | Decrease exposure in spread trade |
| New Mountain | 9/15/2006 | 84,500,000.00 | 45,500,000.00 | 20,000,000.00 | 150,000,000.00 | | Funding new manager |
| S&P 500 futures | 9/15/2006 | (67,939,701.00) | (11,656,321.25) | (16,319,849.75) | (95,915,872.00) | | Sell futures to help fund new manager |
| TCW Small Value | Various | 9,750,000.00 | 5,250,000.00 | - | 15,000,000.00 | | Additional funding to manager |
| Blavin | 10/2/2006 | 9,000,000.00 | 4,846,154.00 | 4,153,846.00 | 18,000,000.00 | | Additional funding to manager |
| Hedge Fund Pool & Cash collateral | 10/11/2006 | 121,000,000.00 | 55,000,000.00 | - | 176,000,000.00 | 1 | Increase overlay |
| S&P 500 futures | 10/10/2006 | 42,144,568.20 | - | - | 42,144,568.20 | | Reallocate to futures from various cash sources |
| S&P 500 futures | 10/18/2006 | 32,010,458.18 | - | - | 32,010,458.18 | | Reallocate to futures from various manager withdrawals |
| S&P 500 futures | 10/20/2006 | 8,937,656.00 | - | - | 8,937,656.00 | | Reallocate to futures from various manager withdrawals |
| Energy Sector Options | 9/12/2006 | 16,250,000.00 | 8,750,000.00 | - | 25,000,000.00 | 1 | Bought OIH Calls - to cover existing position |
| Energy Sector Options | 9/19/2006 | 16,250,000.00 | 8,750,000.00 | - | 25,000,000.00 | 1 | Bought OIH Straddle to Close |
| Energy Sector Options | 9/26/2006 | 16,250,000.00 | 8,750,000.00 | - | 25,000,000.00 | 1 | Bought OIH Puts - to cover existing position |
| Energy Sector Options | 10/4/2006 | (16,250,000.00) | (8,750,000.00) | - | (25,000,000.00) | 1 | Sold OIH Puts to open |
| Energy Sector Options | 10/5/2006 | 16,250,000.00 | 8,750,000.00 | - | 25,000,000.00 | 1 | Bought OIH Puts - to cover existing position |
| Energy Sector Options | 10/25/2006 | (16,250,000.00) | (8,750,000.00) | - | (25,000,000.00) | 1 | Sold OIH Straddle to Open |
| Energy Sector Options | 10/26/2006 | (16,250,000.00) | (8,750,000.00) | - | (25,000,000.00) | 1 | Sold OIH Straddle to Open |
| No Cost Collar trades | 9/19/2006 | (32,500,000.00) | (17,500,000.00) | - | (50,000,000.00) | 1 | Closed RTY No Cost Collar position |
| | | | | | | | |
| **Global ex US Equities** | | | | | | | |
| **Non-US Developed Equity** | | | | | | | |
| Cundill EAFE | 10/2/2006 | (7,800,000.00) | (4,200,000.00) | - | (12,000,000.00) | | Partial withdrawal from manager to reallocate to cash |
| Lansdowne UK | 10/2/2006 | (31,748,825.10) | (17,095,521.50) | - | (48,844,346.60) | | Transfer investment to Marketable Alternatives |
| Int'l Equity Options - FTSE | # 10/3/2006 | (6,500,000.00) | (3,500,000.00) | | (10,000,000.00) | | Sold UKX Puts to open |
| | | | | | | | |
| **Emerging Markets Equity** | | | | | | | |
| Templeton | 10/10/2006 | (11,000,000.00) | - | - | (11,000,000.00) | | Partial withdrawal from manager to reallocate to S&P futures |
| | | | | | | | |
| **Inflation Linked** | | | | | | | |
| Internal TIPS | 9/19/2006 | (45,500,000.00) | (24,500,000.00) | - | (70,000,000.00) | | Partial withdrawal from manager to reallocate to cash |
| Morgan Stanley REITs | 9/21/2006 | (9,750,000.00) | (5,250,000.00) | - | (15,000,000.00) | | Partial withdrawal from manager to reallocate to cash |
| Cohen & Steers | Various | (97,500,000.00) | (52,500,000.00) | - | (150,000,000.00) | | Partial withdrawal from manager to reallocate to cash |
| Pimco TIPS | 9/29/2006 | (45,500,000.00) | (24,500,000.00) | - | (70,000,000.00) | | Partial withdrawal from manager to reallocate to cash |
| Reams TIPS | 9/29/2006 | (16,250,000.00) | (8,750,000.00) | - | (25,000,000.00) | | Partial withdrawal from manager to reallocate to cash |
| Cohen & Steers | 10/17/2006 | (32,000,000.00) | - | - | (32,000,000.00) | | Partial withdrawal from manager to reallocate to S&P futures |
| Pimco Real Return | 10/20/2006 | (9,000,000.00) | - | - | (9,000,000.00) | | Partial withdrawal from manager to reallocate to S&P futures |
| | | | | | | | |
| **Fixed Income** | | | | | | | |
| Internal Fixed Income | 9/20/2006 | (48,604,000.00) | (27,083,000.00) | - | (75,687,000.00) | | Partial withdrawal from manager to reallocate to cash |
| Credit Related Fixed Income | 9/20/2006 | (17,277,727.11) | (7,052,349.18) | - | (24,330,076.29) | | Partial withdrawal from manager to reallocate to cash |
| Pimco Fixed Income | 9/29/2006 | (65,000,000.00) | (35,000,000.00) | - | (100,000,000.00) | | Partial withdrawal from manager to reallocate to cash |
| Pimco PARS | 9/29/2006 | (66,416,427.81) | (35,762,691.90) | - | (102,179,119.71) | | Complete withdrawal to cash |
| Pimco PARS | 9/29/2006 | - | - | (40,871,647.88) | (40,871,647.88) | | Complete withdrawal to reallocate to other mandates |
| Global Investment Advisors | 10/2/2006 | - | - | 20,000,000.00 | 20,000,000.00 | | Additional funding to manager from PARS reallocation |
| Pimco Fixed Income | 10/5/2006 | - | - | 20,871,647.88 | 20,871,647.88 | | Additional funding to manager from PARS reallocation |
| Internal Fixed Income | 10/25/2006 | (8,300,000.00) | - | - | (8,300,000.00) | | Partial withdrawal from manager to reallocate to S&P futures |
| Credit Related Fixed Income | 10/25/2006 | (2,700,000.00) | - | - | (2,700,000.00) | | Partial withdrawal from manager to reallocate to S&P futures |

**Report on Manager Activity**
**Taken Under the Delegation of Authority**
**September 2, 2006 through October 27, 2006**

| | | Amounts | | | | |
|---|---|---|---|---|---|---|
| | **Date** | **PUF** | **GEF** | **ITF** | **Total** | **Description** |
| **Marketable Alternatives** | | | | | | |
| Indus Japan | 10/2/2006 | | | | 25,000,000.00 | Additional funding to manager |
| Westfield | 10/2/2006 | | | | 20,000,000.00 | Additional funding to manager |
| Satellite | 10/2/2006 | | | | (10,500,000.00) | Partial withdrawal from manager |
| Lansdowne UK | 10/2/2006 | | | | 48,844,346.60 | Transfer investment from Global ex US Equities |

| | Committed Amount | | |
|---|---|---|---|
| **Private Capital** | **PUF** | **GEF** | **Total** |
| No commitments made | | | |

**1 Trades fall under the Derivative Investment Policy. Amounts shown represent Notional Value.**

**Report on**

**New Contracts and Existing Contract Renewals, Leases, and Other Commercial Arrangements**

**For June 24, 2006 through October 27, 2006**

**(Total Obligation per Agreement less than $1 million)**

| Agreement | Purpose | Contract Term | Annual Amount |
|---|---|---|---|
| Financial CAD Corporation | Software used to value derivatives and produce models for risk analysis. | 7/12/2006 to 7/14/2007 | $1,800 |
| Investment Technology | Asset Allocation Program | 8/12/2006 to 8/11/2007 | $10,000 |
| Tremont TASS | Marketable Alternative Database and Capital Flows Report | Renewed for 7/06 to 6/07 | $5,330 |
| Ned Davis Research Services | Institutional investment advisory and research firm which provides information and research on changing financial markets | 12/1/2006 through 2/28/2007 | $40,000 |
| Simplex Grinnell (TYCO) | Fire suppression system testing | 9/1/2006 through 8/31/2009 | $2,158 |
| Credit Sights | Provide independent qualitative and quantitative credit research for corporate bond investing | 9/1/2006 to 9/1/2007 | $50,000 |
| Lowry on Demand | Technical analysis of equity market flows | 9/4/2006 to 9/4/2007 | $12,000 |

Services that renew via invoice on a monthly or quarterly basis:

| | | | |
|---|---|---|---|
| Bloomberg | All-in-one investment platform for trading, analysis and information | Renews quarterly via invoice and may be canceled at any time | $235,887 |
| American Stock exchange | Used to access stock prices and related news | Monthly invoice | $2,536 |
| International Fund Services | Risk System | Quarterly invoice – fees increased as accounts are added | $496,000 |
| Factset Research Systems | Analytical tool for performance | Monthly invoice | $285,210 |

| | | | |
|---|---|---|---|
| New York Stock Exchange | Used to access stock prices and related news | Monthly invoice | $2,865 |
| Options Pricing Report | Used to access option prices and related news | Quarterly invoice | $1,161 |
| Thomson Venture Economics | Venture capital and private equity benchmarks and other industry data | Monthly invoice | $18,000 |
| Thompson Financial (Worldscope) | Provide information for Factset | Renews quarterly via invoice (renewed 2/28/2006) | $27,000 |
| Trade Web | Primary quotation and trading system for U.S. Treasury, Agency, Mortgage and Corporate debt securities | Monthly invoice | $19,800 |
| Market Axess | Competitive quotation and trading system for corporate securities | Quarterly invoice | $1,800 |
| Bourse de Montreal | Real time quotations of Canadian equity futures | Monthly invoice | $2,400 |

**Agenda Item**
UTIMCO Board of Directors Meeting
November 9, 2006

**Agenda Item:** Investment Write Down

**Developed By:** Staff

**Presented By:** Iberg

**Type of Item:** Action Item

**Description:** The report represents the write down of investments due to permanent impairment in value.

**Discussion:** The UTIMCO Valuation Criteria for Alternative Assets policy states that investments determined to be permanently impaired in value shall, after the written approval of the President, be written down to a $1 or entirely written off, and ratified by the Corporations' board.

The Private Market staff has determined that the Songbird investment, and related securities, has been permanently impaired in value and recommend they be written down to $1. The Interim President approved the write downs. This report reflects that the PUF recognized a loss of $13.9 million and the GEF recognized a loss of $12.7 million.

**Recommendation:** Staff recommends ratification of the write downs.

**Reference:** UTIMCO Valuation Policy for Alternative Assets

## RESOLUTION RELATED TO INVESTMENT WRITE DOWN

RESOLVED, that Songbird and Medsite be written down to $1.00 as of August 31, 2006, and are hereby, approved in the form submitted to the Board.

# UTIMCO
## Write Off/Write Down of Alternative Investments - Private Markets
## For the Year ended August 31, 2006

| Fund | Investment Description | Market Value 8/31/2005 | Market Value 8/31/2006 | Loss Reported for the year 8/31/2006 | Date | Explanation | Book Value Written Off |
|---|---|---|---|---|---|---|---|
| PUF | Songbird Hearing, Inc. | $ 4,006,525 | $ - | $ (4,006,525) | Aug-06 | Permanent Impairment | $ (13,872,141) |
| | Medsite Inc. | $ 4,882 | $ 1 | $ (4,881) | Aug-06 | Permanent Impairment | $ (4,881) |
| | | $ 4,011,407 | $ 1 | $ (4,011,406) | | | $ (13,877,022) |
| GEF | Songbird Hearing, Inc. | $ 4,896,336 | $ - | $ (4,896,336) | Aug-06 | Permanent Impairment | $ (12,708,540) |
| | Medsite Inc. | $ 697 | $ 1 | $ (696) | Aug-06 | Permanent Impairment | $ (696) |
| | | $ 4,897,033 | $ 1 | $ (4,897,032) | | | $ (12,709,236) |

**Agenda Item**
UTIMCO Board of Directors Meeting
November 9, 2006

**Agenda Item:** Securities Lending Overview

**Developed By:** Goldsmith

**Presented By:** Goldsmith

**Type of Item:** Information Item

**Description:** The purpose of this presentation is to provide a brief overview of Securities Lending and its current role within UTIMCO's portfolios. The presentation will address the purpose, mechanics, risks, and safeguards of the Securities Lending practice, and will compare UTIMCO's policies to those of the industry. It will also provide statistics related to the amount and type of securities on loan within UTIMCO portfolios and the historical revenues generated by the practice.

**Recommendation:** None

**Discussion:** Securities Lending is a temporary exchange of lendable securities for acceptable collateral between a lender and an "approved" borrower through an agent. It allows UTIMCO to earn additional return on idle assets, while giving the borrower use of the security to facilitate trading. As a lender, UTIMCO retains economic exposure, the right to sell/trade at will, all dividends/interest and other distributions, and the ability to recall the stock at any time. Moreover, lending should not interfere with the portfolio management process. In addition, the risk of financial loss to UTIMCO portfolios is minimal due to Mellon's contractual agreement to indemnify UTIMCO against all cases of borrower default, UTIMCO's extremely conservative collateral pool guidelines, and Mellon's experience and operational proficiency in the practice.

Securities on loan at any one time represent a relatively small percentage of the total assets of the PUF, GEF, ITF, and Separately Invested Accounts. At 9/30/06 securities on loan represented 10.8% of total assets.

**Reference:** Securities Lending Overview Presentation

UTIMCO 1996

THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

# Securities Lending Overview

November 2006

# What is Securities Lending?

- Securities Lending is a temporary exchange of lendable securities for acceptable collateral between a lender and an "approved" borrower through an agent.
- All loans are initially collateralized at 102% or 105% of the loaned securities' market value and daily margin payments maintain the appropriate collateral value.
- Cash is the predominate form of collateral, though letters of credit and other securities are also used.
- The lender earns incremental revenue; the borrower has use of the security to facilitate trading.
- Lending should not interfere with the portfolio management process.

# Securities Lending Participants

## Who lends and why?

**Types of Lenders**

- State & Local Governments
- Foundations & Endowments
- Insurance Companies
- Money Managers
- Corporations
- Mutual Funds
- Central Banks
- Wealthy Individuals

**Why Lend?**

- To offset custody fees
- To offset other administrative expenses
- To earn additional return on idle assets

# Securities Lending Participants

## Who borrows and why?

| Types of Borrowers* | Why Borrow? |
| --- | --- |
| Brokers | Avoid Delivery Fails |
| Dealers | Cover Short Sales |
| Banks | Trading/Dividend/Tax Arbitrage |

** Brokers, dealers, and banks are usually acting on behalf of other market participants, which include the list of lenders on the previous page.*

# What securities are in demand?

<u>US Government Securities</u>

- US Treasury Notes and Bonds
- US Treasury Bills
- Agency Debentures
- Mortgage Backed Securities

<u>Other Securities</u>

- Corporate Bonds - US & International
- Equities - US & International

<u>Non-Lendable Securities</u>

- Commingled funds, real estate, physically held items, Muni's ,CP, cash & cash equivalents

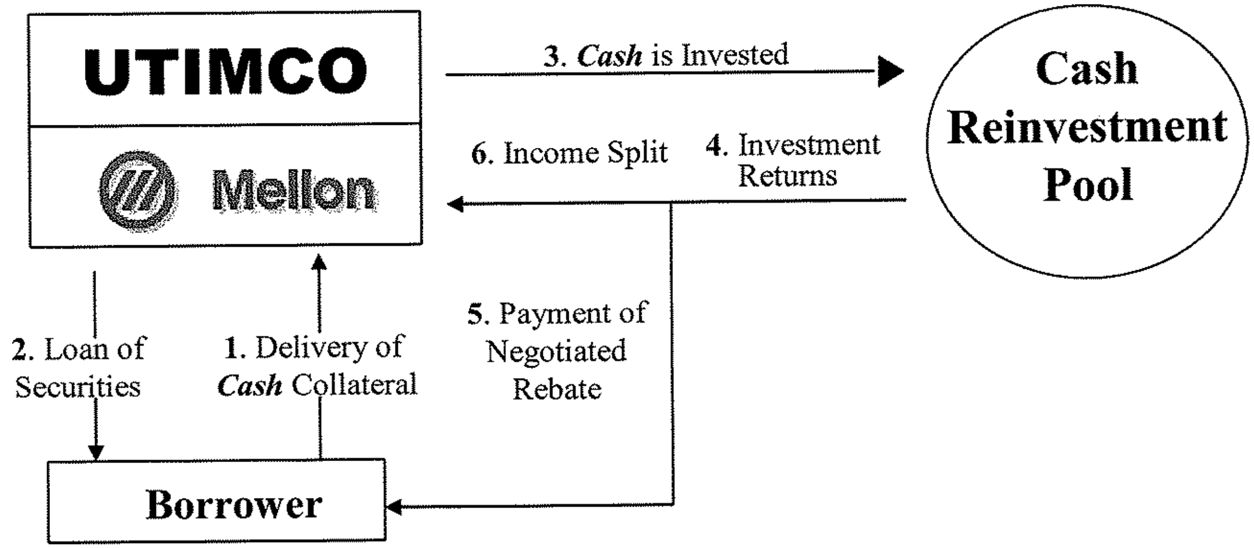
*<u>NOTE:</u> Securities which are in shorter supply or higher demand (i.e. emerging market equities) will generate greater revenue for the Lender in the form of a lower rebate owed to the Borrower at the end of loan period.*

# What are your rights as a Lender?

- Beneficial owner (Lender) retains ownership:
  - ✓ Economic exposure
  - ✓ Right to sell/trade at will
  - ✓ All dividends/interest and other distributions
  - ✓ Corporate Action rights
  - ✓ Ability to recall stock (satisfy proxy)
- Beneficial owner forfeits voting rights over proxy date for assets on loan

# Securities Lending Transaction

1. Borrower delivers cash collateral to UTIMCO.
2. Lending Agent (Mellon) lends securities to Borrower.
3. The cash is invested according to UTIMCO's approved investment guidelines set forth in the Securities Lending Agreement.
4. A yield is earned from the cash collateral investments.
5. A negotiated rebate (cost of funds) is paid to Borrower from the yield.
6. The remaining income is split between UTIMCO and Mellon (70%/30% split).



# Securities Lending Transaction

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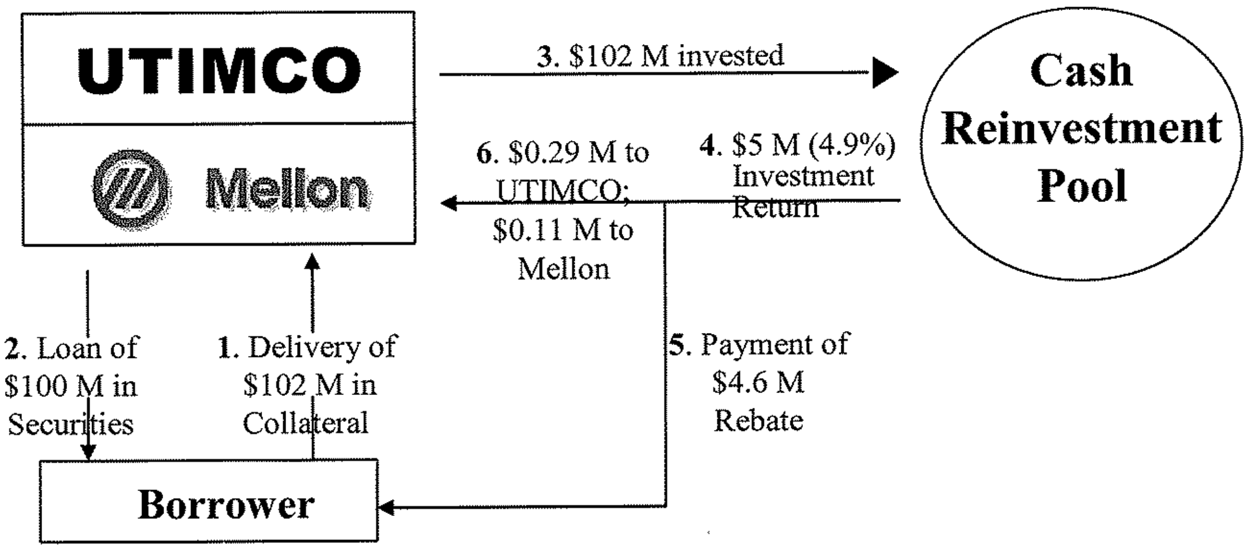


# How Is Revenue Generated?

- The difference between the **YIELD** received on the investment of cash collateral and the **REBATE** paid out to the Borrower is the **SPREAD.**
- The spread times the dollar amount of the loan is the **GROSS REVENUE.**
- A fee share arrangement between UTIMCO & Mellon is applied to the gross revenue.

- Alternatively, a **FEE** is a flat basis point payment paid by the borrower based on the value of the securities borrowed.
- This fee is also the gross revenue that is then split.

***Cash Loan***
Yield 4.90%
Rebate(4.50%)
**Spread** 0.40%

***Non-Cash Loan***
Yield N/A%
Rebate N/A%
**FEE** 0.40%

# Securities Lending Risks

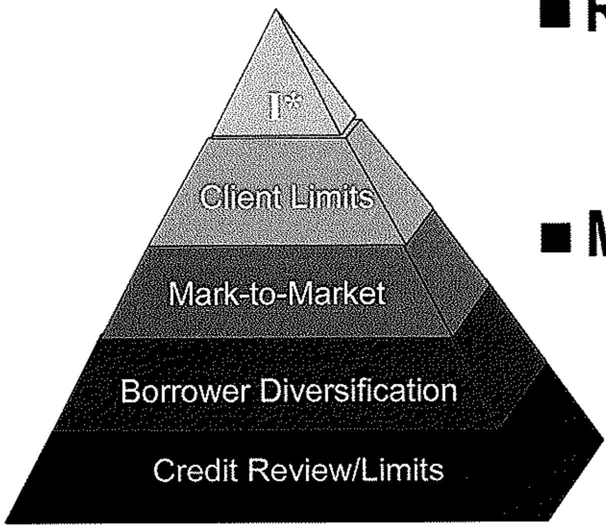
## What are the risks?

→ **Borrower Risk**

→ **Investment Risk**

→ **Operational Risk**

# Borrower Risk




* Indemnification by Mellon

- **Risk:** Borrower fails to return lender's security, bankruptcy/insolvency
- **Mellon's controls to mitigate borrower risk:**
  - ✓ Comprehensive borrower credit review/credit limits
  - ✓ Diversification of loans among many borrowers
  - ✓ Daily marks-to-market to ensure full collateralization
  - ✓ Approved borrowers can be limited at client's discretion
  - ✓ Mellon indemnifies UTIMCO against borrower default → No financial impact to UTIMCO.

# Investment Risk

- **Risk:** The cash investment vehicle underperforms the rebate owed, or principal loss occurs
- **Mitigants:**
  - ✓ UTIMCO's extremely conservative investment guidelines
  - ✓ Mellon - Onsite Portfolio Management team
  - ✓ Mellon – Portfolio Analytics team
  - ✓ Mellon - Automated Trading & Compliance System
    - Hard coding of investment guidelines allowing compliance at point of entry
  - ✓ Mellon – 5 Oversight Committees & Independent Audit Function

# Investment Risk

- UTIMCO's collateral guidelines are **far more conservative** than the industry standard. UTIMCO's **key objective** for the cash collateral pool is **safety of principal.**

| Collateral Pool Guidelines | UTIMCO | Typical Pool |
|---|---|---|
| Credit Quality | Minimum of AA3/Aa- | Minimum of A3/A- |
| Industry Concentration Limit | 15% | None |
| Maturity of Individual Securities | Fixed Rate $\leq$ 12 mo.<br>Floating Rate $\leq$ 12 mo. | Fixed Rate $\leq$ 13 mo.<br>Floating Rate $\leq$ 36 mo. |
| Dollar Weighted Portfolio Maturity | Not to exceed 60 days | Not to exceed 90 days |

# Investment Risk

- UTIMCO guidelines also preclude the following investments:

  1. Complex derivative or structured securities, including swaps, futures, options, inverse floating rate notes, and defined range floating rate notes.
  2. Any investment which could acquire a negative coupon or whose return of principal is linked to any set methodology for any reason.
  3. Unsecured broker/dealer obligations and pass through mortgage-backed securities or stripped mortgages.
  4. Corporate Repurchase Agreements.

# Operational Risk

- **Risk:** Interest or dividends are not posted, delivery fails, failure to adequately mark-to-market, etc.
- **Mitigants:**
  - ✓ Operationally proficient lending agent (Mellon)
  - ✓ Delivery vs. payment settlement in US markets
  - ✓ Pre-delivery of collateral in international markets
  - ✓ Real-time interface with custody system
  - ✓ Fully automated and integrated systems for pricing & marking to market
  - ✓ Timely recall or reallocation of securities to satisfy sales settlement

# UTIMCO Securities on Loan as of 9/30/06*

| UTIMCO | Dollar Amount | % of Total Available for Lending | % of Total Assets |
|---|---|---|---|
| Total Securities on Loan | $1.72 billion | 33.9% | 10.8% |
| Total Available for Lending | $5.09 billion | | 31.8% |
| Total Assets | $16.03 billion | | |

** Represents total across PUF, GEF, ITF, and Separately Invested Accounts.*

- Total securities on loan at 9/30/06 represented only 33.9% of the total securities available for lending at the time and 10.8% of total assets.

# UTIMCO Securities on Loan by Type*

| Security Type | Amount on Loan at 9/30/06 | % of Total on Loan |
|---|---|---|
| US T-Bonds | $135,564,447 | 7.9% |
| US T-Notes | $ 229,718,210 | 13.3% |
| US T-Strips | $332,809 | 0.0% |
| US T-Bills | $248,200 | 0.0% |
| Agencies | $83,345,673 | 4.8% |
| Sovereigns | $20,176,902 | 1.2% |
| Corporates | $44,709,333 | 2.6% |
| TIPS | $727,563,828 | 42.2% |
| Equities | $481,991,453 | 28.0% |
| **TOTAL** | **$1,723,650,856** | **100.0%** |

** Represents total across PUF, GEF, ITF, and Separately Invested Accounts.*

# UTIMCO Earnings from Securities Lending

| Fiscal Year | Gross Collateral Pool Earnings* | Rebate Fees Paid | Fees Paid to Mellon (30%) | Net UTIMCO Earnings |
|---|---|---|---|---|
| 2002 | $4,861,731 | ($3,575,590) | ($385,806) | $900,335 |
| 2003 | $4,003,555 | ($2,807,697) | ($358,718) | $837,140 |
| 2004 | $5,454,231 | ($3,706,304) | ($524,320) | $1,223,606 |
| 2005 | $34,603,584 | ($30,043,632) | ($1,367,897) | $3,192,055 |
| 2006 | $77,033,463 | ($71,323,631) | ($1,712,824) | $3,997,008 |

| Fiscal Year | Ave. Yield on Cash Collateral** | Average Rebate Rate | Average Spread |
|---|---|---|---|
| 2002 | 2.17% | 1.61% | 0.56% |
| 2003 | 1.35% | 0.96% | 0.39% |
| 2004 | 1.12% | 0.78% | 0.34% |
| 2005 | 2.56% | 2.24% | 0.32% |
| 2006 | 4.53% | 4.20% | 0.33% |

** Chart represents earnings across PUF, GEF, ITF, and Separately Invested Accounts.*
*** Average Yields and Rebate Rates represent weighted averages for the PUF only.*

**TAB 4**

**Agenda Item**
UTIMCO Board of Directors Meeting
November 9, 2006

**Agenda Item:** Consideration of Compensation Committee Report

**Developed By:** Iberg, Moeller

**Presented By:** Ferguson

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

**Discussion:** The Compensation Committee (the "Committee") will meet on November 6, 2006 to approve the performance compensation awards under the UTIMCO Compensation Program for all eligible employees except the former President and Chief Executive Officer. The Committee and UTIMCO Board previously determined the level of achievement of the former President's qualitative goals during their prior meetings in September. The Committee will review the entity portion of the performance compensation award of the former President and Chief Executive Officer and will recommend to the UTIMCO Board a total proposed award for the former President and CEO. Cambridge Associates has certified the peer universe performance data and a copy of the memorandum from Bruce Myers and Hamilton Lee is attached.

The Committee will also review the peer group for the 2006/2007 Compensation Program as determined by Cambridge Associates. An additional eight endowments have been added to the Peer Group for 2006/2007 consisting of Boston College, Indiana University and Foundation, Pennsylvania State University, Pomona College, Swarthmore College, University of Illinois and Foundation, University of Richmond, and Yeshiva University.

UTIMCO staff will forward supporting materials to the Board members for Executive Session discussion.

**Recommendation:** The Committee recommends that the UTIMCO Board approve the 2005/2006 performance compensation award totals, the performance compensation award proposed for the former President and CEO of UTIMCO, and the peer group for the 2006/2007 Plan Year.

**Reference:** Certification of Peer Universe Performance Data memorandum; Compensation Plan Universe (2006/2007 Peer Group)

# RESOLUTION RELATED TO THE FORMER PRESIDENT AND CEO'S 2005/2006 PERFORMANCE INCENTIVE AWARD

WHEREAS, Section 5.5(d) of the UTIMCO Compensation Program (the "Plan") provides that, at the end of each "Performance Period," the Board will determine the level of achievement of the President and CEO with respect to his "Performance Goals" for such Performance Period; and

WHEREAS, the Board has reviewed the actual performance of the former President and CEO during the Performance Period and has compared such actual performance relative to each Performance Goal category for the President and CEO against his corresponding Performance Goal for such Performance Period;

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the former President and CEO's Performance Incentive Award for the 2005/2006 Performance Period in the amount of $________.

# RESOLUTION RELATED TO 2005/2006 PERFORMANCE INCENTIVE AWARDS

WHEREAS, in accordance with Section 5.5(d) of the UTIMCO Compensation Program (the "Plan"), the Compensation Committee has determined each Participant's level of achievement of his or her "Performance Goals" for the 2005/2006 Performance Period, except the level of achievement of the President and CEO with respect to his Performance Goals for such period; and

WHEREAS, Sections 5.5(e) and 5.5(f) of the Plan provide that, based on the percentage achieved of each Participant's Performance Goals for a Performance Period, a "Performance Incentive Award" will be calculated for each Participant for such Performance Period in accordance with the calculation methodology set forth in Appendix A of the Plan; and

WHEREAS, Sections 5.5(e) and 5.5(g) of the Plan provide that the Compensation Committee will review all Performance Incentive Award for all Participants who have met or exceeded their performance benchmarks for such Performance Period and submit its recommendations to the Board for approval; and

WHEREAS, the Compensation Committee has reviewed the Performance Incentive Awards for all Participants who have met or exceeded their performance benchmarks for the 2005/2006 Performance Period, approved such Performance Incentive Awards, and recommended that the Board approve the same; and

NOW, THEREFORE, be it:

RESOLVED, that the Performance Incentive Awards for the Participants (including the former President and CEO) for the 2005/2006 Performance Period in the total amount of $____________ are hereby approved.

# RESOLUTION RELATED TO PEER GROUP

WHEREAS, Section 8.14 of the UTIMCO Compensation Program (the "Plan") provides that the "Peer Group" will be updated annually at the beginning of each Performance Period, and Appendix B will be amended accordingly; and

WHEREAS, Section 7.2 of the Plan provides that the Board has the right to amend the Plan or any portion thereof from time to time; and

WHEREAS, the Board wishes to amend Appendix B to conform to the updated Peer Group;

NOW, THEREFORE, be it:

RESOLVED, that the updated and amended Appendix B (UTIMCO Peer Group), a copy of which is attached hereto, is hereby adopted and approved as part of the Plan to replace the current Appendix B, effective as of July 1, 2006.

## Institutions with Market Values Greater Than $1 Billion

As of June 30, 2004, 2005 and 2006
Based on NACUBO Studies

1 Boston College
2 Brown University
3 California Institute of Technology
4 Case Western Reserve University
5 Columbia University
6 Cornell University
7 Dartmouth College
8 Duke University
9 Emory University
10 Grinnell College
11 Indiana University and Foundation
12 Johns Hopkins University
13 Massachusetts Institute of Technology
14 New York University
15 Northwestern University
16 Ohio State University and Foundation
17 Pennsylvania State University
18 Pomona College
19 Princeton University
20 Purdue University
21 Rice University
22 Stanford University
23 Swarthmore College
24 The Rockefeller University
25 The Texas A&M University System and
26 UNC at Chapel Hill and Foundations
27 University of California
28 University of Chicago
29 University of Illinois and Foundation
30 University of Michigan
31 University of Minnesota and Foundation
32 University of Notre Dame
33 University of Pennsylvania
34 University of Pittsburgh
35 University of Richmond
36 University of Rochester
37 University of Southern California
38 University of Virginia
39 University of Washington
40 Vanderbilt University
41 Washington University
42 Wellesley College
43 Williams College
44 Yeshiva University

C | A

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# MEMORANDUM

TO: H. Scott Caven, Jr. Chairman
The University of Texas Investment Management Company

FROM: Bruce Myers
Hamilton Lee

DATE: November 2, 2006

RE: Certification of Peer Universe Performance Data

Over the past few weeks we have assembled the performance numbers for fiscal year 2004, 2005, and 2006 for the 36 institutions which comprise the UTIMCO peer group universe for UTIMCO Compensation Plan purposes. (The names of those 36 institutions are provided below). The results were as follows:

| | 1 yr | | 2 yr | | 3 yr | |
|---|---|---|---|---|---|---|
| | **Return** | **(% ile)** | **Return** | **(% ile)** | **Return** | **(% ile)** |
| Maximum | 22.96 | | 20.24 | | 19.54 | |
| 25th percentile | 17.54 | | 16.56 | | 17.28 | |
| Median | 14.38 | | 14.54 | | 15.13 | |
| 75th percentile | 13.15 | | 12.17 | | 13.52 | |
| Minimum | 9.29 | | 7.94 | | 10.12 | |
| # of portfolios | 36 | | 36 | | 36 | |
| UT System Total Endowment Funds | 12.9 | 79% | 13.2 | 64% | 15.4% | 44% |

Thirty-four of the institutions represented above reported performance information directly to Cambridge Associates. For the two institutions in the peer group who did not report quarterly performance directly to Cambridge (Ohio State and the University of Rochester) we independently verified the return performance by contacting finance staff at those institutions. We would also like to note that in this year's study, Texas A&M performance has been calculated by using composite performance from both the Foundation and System Endowment Funds.

**The Peer Group**

An institution was included in the peer group universe if it reported, for three consecutive fiscal years, endowment assets of greater than $1 Billion. Harvard and Yale were excluded from the universe. For fiscal year 2006 those institutions were:

Brown University
California Institute of Technology
Case Western Reserve University
Columbia University
Cornell University
Dartmouth College
Duke University
Emory University
Grinnell College
Johns Hopkins University
Massachusetts Institute of Technology
New York University
Northwestern University
Ohio State University and Foundation
Princeton University
Purdue University
Rice University
Sanford University
Texas A&M University System and Foundations
The Rockefeller University
UNC at Chapel Hill and Foundations
University of California
University of Chicago
University of Michigan
University of Minnesota and Foundation
University of Notre Dame
University of Pennsylvania
University of Pittsburgh
University of Rochester
University of Southern California
University of Virginia Investment Mgmt. Company
University of Washington
Vanderbilt University
Washington University (St. Louis)
Wellesley College
Williams College

We are happy to answer any questions about our process and/or the calculation of this year's return performance.

Cc: Joan Moeller, Managing Director for Accounting, Finance and Administration

**TAB 5**

**Agenda Item**
UTIMCO Board of Directors Meeting
November 9, 2006

**Agenda Item:** Selection of Risk Consultant

**Developed By:** Reed

**Presented By:** Reed

**Type of Item:** Action item: Action required by UTIMCO Board

**Description:** The Risk Committee will bring forth to the UTIMCO Board a recommendation to approve the hiring of a Risk Consultant for UTIMCO.

**Recommendation:** The Risk Committee recommends that UTIMCO Board approve the hiring of Gifford Fong Associates as the UTIMCO Risk Consultant.

**Discussion:** In May 2006 the UTIMCO Board and Risk Committee made the decision to hire a consultant to review UTIMCO's risk management activities and provide on-going advice to the Committee, UTIMCO Board and UTIMCO Staff. On August 1st, Staff issued a Request for Proposal to five candidates. In early September, 4 of the 5 candidates responded with proposals. UTIMCO Staff reviewed the proposals and discussed their findings at a meeting of the Risk Committee on October 4th. At that meeting, two finalists were selected, Gifford Fong Associates and Strategic Investment Solutions (SIS). UTIMCO Staff then invited the candidates to each give a presentation to the Risk Committee on October 27th. After the finalists' presentations at the October 27th meeting, the Risk Committee passed a resolution to recommend that the UTIMCO Board hire Gifford Fong as UTIMCO's Risk Consultant.

**Reference:** None

# RESOLUTION RELATED TO SELECTION OF RISK CONSULTANT

RESOLVED, that as recommended by the Risk Committee, the UTIMCO Board approves the selection of Gifford Fong Associates as the Risk Consultant for the Corporation and directs staff to negotiate the contract with so mentioned Consultant.

**Agenda Item**
UTIMCO Board of Directors Meeting
November 9, 2006

**Agenda Item:** Discussion and consideration of recommended process and criteria for inclusion of certain new marketable alternative investment mandates within the public markets portfolio (Equity and Fixed Income Asset Classes).

**Developed By:** Iberg

**Presented By:** Iberg/Risk Committee

**Type of Item:** Action Item; Action required by UTIMCO Board

**Description:** The Risk Committee will bring forth a recommendation for a process, based on a set of criteria, that will guide the inclusion (or exclusion) of certain new marketable alternative investment mandates within the public markets portfolio.

**Recommendation:** The Risk Committee recommends approval of the process and criteria, as presented in the Discussion section below, to be used in the determination of whether certain new marketable alternative investment mandates shall be included in the public markets portfolio (Equity and Fixed Income Asset Classes).

**Discussion:** With the gaining popularity of marketable alternative investments over the last few years, particularly hedge funds, classifying such investments within an institution's asset allocation policy has become increasingly challenging as the risk return profile of a particular mandate may be more in line with "equity" or "fixed income" and less in line with "hedge funds" when examining the mandate's profile. A prior effort to develop a clear definition that distinguishes hedge funds from other public market mandates did not lead to a satisfactory solution. In order for this distinction to be less arbitrary, UTIMCO Staff, in conjunction with the Risk Committee, developed a set of criteria, as set forth below, to distinguish hedge funds from other public markets mandates.

Upon approval of this Agenda item by the UTIMCO Board, the Risk Committee must approve the inclusion of certain new alternative investment mandates in the public markets portfolio, and will use the criteria as guidelines in its decision-making process.

- Leverage: Gross leverage shall not exceed 160%.
- Transparency: Monthly holdings data shall be provided to UTIMCO's independent risk provider, International Fund Services (IFS).
- Liquidity/Lock-ups: Lock-ups are allowable; however, future mandates that are illiquid (mandates that (i) can not be liquidated in 90 days, or (ii) can be liquidated, but at a discount of greater than 10%) will be considered only after reserving illiquid capacity for expected funding of future private equity and hedge fund mandates.

- Benchmark for Performance Compensation: Performance fee shall be determined based upon a minimum investment return (a hurdle rate) or relevant public market benchmark.
- Internal Compliance Review: Criteria must be reviewed by UTIMCO's internal compliance and risk teams prior to issuance of the investment recommendation to the Board's Risk Committee.
- Single Market Exposure: In most cases, the manager will have 80% of its portfolio invested in a single market.

**Reference:** Memo dated 10/11/2006 from Cathy Iberg to Chairman Scott Caven in reference to Asset Class Divisions - Recommendation for Classification.

## RESOLUTION RELATED TO ASSET CLASS DIVISIONS - RECOMMENDATION FOR CLASSIFICATION

RESOLVED, that as recommended by the Risk Committee, the process and criteria for inclusion of certain new marketable alternative investment mandates within the public markets portfolio (Equity and Fixed Income Asset Classes) in the form as presented in the Discussion section of the Agenda item, be, and are hereby approved.

To: Scott Caven
From: Cathy Iberg
Date: October 11, 2006
Re: Asset Class Divisions-Recommendation for Classification

The purpose of this memo is to address the classification of boutique marketable investment mandates within the public market (equity and fixed income) and hedge fund asset class divisions of the Board of Regents investment policy. As used herein, a "boutique marketable investment mandate" means an active investment mandate made through a limited liability vehicle (such as a limited partnership), which allows the manager to use some leverage, provides for some lock-up period and provides for performance fees that are greater than those typically paid to long-only managers under agency agreements. There are two parts to this memo. The first part addresses the recommended process and criteria for classifying new boutique marketable investment mandates, and the second addresses characteristics of existing mandates currently classified within the public market portfolios. Please note that UTIMCO is not recommending a change in the classification of the existing boutique marketable investment mandates listed below and their disclosure is intended to be for informational purposes.

With the gaining popularity of marketable alternative investments over the last few years, particularly hedge funds, classifying such investments within an institution's asset allocation policy has become increasingly challenging as the risk/return profile of a particular mandate may be more in line with "equity" or "fixed income" and less in line with "hedge funds" when examining the mandate's profile. A clear definition to distinguish hedge funds from other public market mandates has not led to a satisfactory solution. In order for this distinction to be less arbitrary we have developed a set of criteria and a recommended process to be utilized prior to making an investment in a boutique marketable investment mandate.

The recommended criteria and process for new manager mandates is detailed on the following page. I have discussed the criteria and process with Bruce Myers at Cambridge Associates and believe them to be consistent with his memo dated June 13, 2006 to Larry Goldsmith (Exhibit I). In addition, for your reference, I have provided excerpts of the PUF Investment Policy Statement (Exhibit II and Exhibit II A), and a letter dated August 21, 2006 from Vinson & Elkins to Laura Patrick (Exhibit III), which examines the restrictions on the use of leverage and shorting of equity securities by mutual funds registered under the Investment Company Act of 1940 (the "40 Act Funds"). We have incorporated these restrictions into our recommended criteria outlined below. The excerpt from the PUF Investment Policy Statement highlights the provision that investments shall be allocated among broad asset classes based on "their individual return/risk characteristics and relationships to other asset classes." The criteria incorporate characteristics to clarify some of the subjectivity inherent in that statement.

**Recommended Criteria and Process for inclusion of new boutique marketable investment mandates within the public markets portfolio (Equity and Fixed Income Asset Classes):**

- Leverage: Gross leverage shall not exceed 160%.
- Transparency: Monthly holdings data shall be provided to UTIMCO's independent risk provider, International Fund Services (IFS).
- Liquidity/Lock-ups: Lock-ups are allowable; however, future mandates that are illiquid (> than 90 days to liquidate or at a discount greater than 10%) will be considered only after reserving illiquid capacity for expected fundings for future private equity and hedge fund mandates.
- Benchmark for Performance Compensation: Performance fee shall be determined based upon a minimum investment return (a hurdle rate) or relevant public market benchmark.
- Internal Compliance Review: Criteria must be reviewed by UTIMCO's internal compliance and risk teams prior to issuance of the investment recommendation to the Board's Risk Committee.
- Risk Committee: Investment recommendation must be approved by UTIMCO's Risk Committee.

The restrictions governing "'40 Act Funds" (not hedge funds) were used as a guide in determining the maximum gross leverage of 160%. The performance benchmark is important since hedge fund mandates typically pay performance fees based upon a zero performance hurdle.

The Risk Committee of the Board shall be utilized to vet boutique marketable investment mandates against the foregoing criteria to determine the appropriateness of their inclusion in the public market asset classes. As previously discussed, overly rigid standards which serve to eliminate professional judgment would constrain UTIMCO's ability to be competitive in an ever-changing investment environment. The qualifications of our Board in vetting "non-traditional" types of investment mandates provides UTIMCO with a tool that allows us to be competitive with our peers. One of UTIMCO's advantages is the expertise of our board members and, as fiduciaries to the Board of Regents, they should be utilized in providing guidance to this very important matter.

**Characteristics of existing boutique marketable investment mandates classified within the public market portfolios:**

The second part of this memo highlights the characteristics of existing boutique marketable investment mandates currently classified within the public market portfolios. The purpose of this exercise is to provide the Board with complete transparency as to the characteristics of these mandates. As stated previously, we are not recommending any change in their current classification.

Let me offer a few introductory statements. As provided in the comments section for each one of these mandates, it should be noted that modifications to existing agreements have been made or are nearing completion. Terms that could not be changed are primarily performance fee related. You will note that Blackrock, Lansdowne, and the JMBO mandates provide for performance fees that are based on a t-bill or zero hurdle rates, which are further explained below. Please also note that Lansdowne's performance fee arrangement is much more favorable than a typical hedge fund arrangement with a performance fee of 10% versus the standard 20% for hedge funds. I also want to point out that the Lansdowne UK strategy (not listed below) was moved to the hedge fund portfolio on October 1, 2006, coinciding with the required transfer documents. We also terminated the PIMCO Pars investment strategy, which was previously classified within the fixed income portfolio. In our judgment these two mandates exhibited more hedge fund style characteristics. If the Board has any concerns regarding the classification of these remaining mandates, please let us know.

**US Equities:**

- **Blavin & Co. ($ 127M )**

  Asset Class: Domestic Equities
  Benchmark for Performance Measurement: 6% increase in NAV per anum
  Leverage: Borrowing funds and short selling are not intended to be part of strategy.
  Derivatives: Use of derivatives is not intended to be part of strategy.
  Fees: 50 bps annual base fee; 25% per annum over benchmark, measured over a 3 year period.
  Liquidity/Lock-up: Quarterly with 90 days notice.
  Investment Objective: Blavin's investment objective is to minimize risk and to maximize returns over a three to five year time horizon through careful selection and monitoring of a small number of publicly traded securities (generally ten or fewer). Blavin invests with an absolute-return orientation with a focus on the preservation of capital.
  Legal Structure: UTIMCO-only Limited Partnership
  Date of Investment: 2/1/06
  Transparency: UTIMCO receives underlying holdings on a monthly basis.
  Comments: This is a concentrated portfolio of public equity securities and best fits within US Equities.

- **New Mountain ($150M )**

  Asset Class: Domestic Equities
  Benchmark for Performance Measurement: S&P 500 (effective 1/1/07)
  Leverage: Borrowing funds and short selling are prohibited without the consent of UTIMCO.
  Derivatives: May use options, futures, swaps and other derivative instruments.
  Fees: 1.5% annual base fee; 20% of excess over benchmark with loss carryforward. Note: Until 12/31/06, the 20% incentive fee will be paid on all positive profits. S&P 500 benchmark is effective 1/1/07.
  Liquidity/Lock-up: Assets may be withdrawn in whole or in part on 12/31/08 and annually on 12/31 thereafter.
  Investment Objective: New Mountain's mission is to be "best in class" in the new generation of public equity investment managers as measured by returns, control of risk, service to its limited partners and the value it adds to the companies in which it invests. The Fund intends to use intensive fundamental research to identify the securities of a select group of companies which are high in quality and substantially undervalued relative to their projected future free cash flows and future trading prices. To the extent practicable, the Fund will also seek to create additional value at these portfolio companies by working with their management and boards to improve the companies' strategy and operations and by otherwise applying the tools and rights of active and constructive ownership.
  Legal Structure: UTIMCO-only Limited Partnership
  Date of Investment: 9/15/2006

Transparency: IFS receives underlying holdings on a monthly basis. New Mountain will also provide full transparency of positions to UTIMCO with the exception of any positions that are not yet fully built.
Comments: This is a concentrated portfolio of public equity securities and best fits within US Equities.

- **Value Act Capital, Inc. ($ 549.5M )**

  Asset Class: Domestic Equities
  Benchmark for Performance Measurement: 6% increase in NAV
  Leverage: May borrow funds up to 15% of NAV; may engage in short selling.
  Derivatives: May use options, futures, swaps and other derivative instruments.
  Fees: 1% annual base fee; 20% of profits in excess of benchmark subject to a loss carryforward.
  Liquidity/Lock-up: Can be withdrawn annually on 12/31 with 90 days notice.
  Investment Objective: Value Act will seek to achieve returns in excess of 20% per annum on investment capital by making long-term strategic block equity investments in a limited number of small-capitalization public companies.
  Legal Structure: Offshore Fund
  Date of Investment: 8/1/03
  Transparency: UTIMCO receives underlying holdings on a monthly basis.
  Comments: Have not used any leverage or shorting in entire 6 yrs. of fund existence. Value Act via an e-mail to L. Goldsmith has agreed to provide liquidity to UTIMCO at any time upon 90 days notice if required. This is a concentrated portfolio of public equity securities and best fits within US Equities.

- **Relational Investors ($395.8M)**

  Asset Class: Domestic Equities
  Benchmark for Performance Measurement: S&P 500 Index
  Leverage: Borrowing funds and short selling are not permitted.
  Derivatives: May use options, futures, swaps and other derivative instruments.
  Fees: 85 bps annual base fee; 20% of excess over benchmark
  Liquidity/Lock-up: Can withdraw annually on 12/31
  Investment Objective: The long term objective of the Fund is to achieve a cumulative gross rate of return equal to that the S&P 500 Total Return Index plus 8% per year. Relational believes this objective is realistic and achievable given the historical record and experience.
  Legal Structure: UTIMCO-only Limited Partnership
  Date of Investment: 9/30/2004
  Transparency: UTIMCO receives underlying holdings on a monthly basis.
  Comments: This is a concentrated portfolio of public equity securities, an activist strategy and best fits within US Equities.

- **BlackRock Hedged Small Cap ($ 132.5M )**

  Asset Class: Domestic Equities
  Benchmark for Performance Measurement: 3 mo. Treasury bill return

Leverage: Leverage (subject to FRB limits) and shorting are permitted; Individual shorts may not exceed 5% of NAV.
Derivatives: May use options, futures, swaps and other derivative instruments.
Fees: 1% annual base fee; 20% of excess over benchmark.
Liquidity/Lock-up: 50% redeemable with 30 business days notice; 100% with 60 business days notice
Investment Objective: The investment objective of the Fund is to provide maximum total return. The Fund will pursue its objective by investing primary in equity securities of domestic and foreign companies in the energy and natural resources industry.
Legal Structure: Onshore Fund.
Date of Investment: 7/1/2004
Transparency: IFS receives underlying holdings on a monthly basis.
Comments: Blackrock rarely engages in outright shorting of stocks, and instead uses options to hedge. The last time BlackRock shorted an individual stock was in January 2005. BLackrock's return/risk profile is best suited for classification in US equities.

**International Developed Equities:**

- **Dalton JMBO Fund ($ 59.3M )**

Asset Class: International Developed Equities
Benchmark for Performance Measurement: 0% (positive profits)
Leverage: May borrow and engage in short sales.
Derivatives: May use options, futures, swaps and other derivative instruments.
Fees: 1% annual base fee; 20% of profits with loss carryforward
Liquidity/Lock-up: Can redeem before 4/1/08 with a 10% fee, and thereafter with no fee (LIQUID)
Investment Objective: The investment objective of the JBMO Fund is to achieve superior long-term absolute investment returns by taking large (over 5%) "strategic stakes" in asset rich Japanese public companies. The Fund will work to encourage managements to unlock the value of idle assets and to take their businesses private through management buyouts.
Legal Structure: Offshore Fund
Date of Investment: 4/1/2005
Transparency: UTIMCO receives underlying holdings on a monthly basis
Comments: JMBO has held only one individual stock short (intended to hedge industry risk) since the fund inception. This manager invests in Japanese companies and is very concentrated and best fits in the international equity asset class.

- **GSAM EAFE Flex ($ 213.5M )**

Asset Class: International Developed Equities
Benchmark for Performance Measurement: MSCI EAFE Index + 150 bps
Leverage: Gross market exposure targeted at 170%; Short exposure not to exceed 35% of NAV
Derivatives: May use options, futures, swaps and other derivative instruments.
Fees: 35 bps annual base fee; 35% of profits in excess of benchmark
Liquidity/Lock-up: Can terminate at any time upon 7 days notice

Investment Objective: The Fund's investment objective is to achieve attractive returns relative to the MSCI EAFE Index benchmark through capital appreciation and income. In constructing the EAFE Flex Fund, the Investment Managers will typically target 135% long and 35% short with a target beta of 1.0 relative to the MSCI EAFE Index.
Legal Structure: Offshore Fund
Date of Investment: 2/1/2006
Transparency: UTIMCO receives underlying holdings on a monthly basis.
Comments: This strategies return/risk profile is the EAFE index with a targeted beta of 1.

- **Lansdowne European Long Only ($256.9M )**

Asset Class: International Developed Equities
Benchmark for Performance Measurement: 0% (positive profits)
Leverage: May borrow up to 30% of NAV; no short selling.
Derivatives: May use options, futures, swaps and other derivative instruments.
Fees: 1% annual base fee; 10% of profits; 5% for loss carryforward.
Liquidity/Lock-up: Can withdraw at any time upon 90 days notice, subject to 10% fee for withdrawal in the first year and a 3% fee thereafter if the withdrawal does not occur on the first day of any month.
Investment Objective: The Fund's investment objective will be to seek to provide investors with good absolute returns. The Fund will aim to invest primarily in the equity and equity-related securities of European companies which are identified as being undervalued and where it is believed by the Investment Manager that there is potential for both significant creation of value in the underlying company and/or significant potential for revaluation of the equity. The Investment Manager will identify investment opportunities through extensive meetings with company management and its own independent research and analysis. The investment approach is expected to result in relatively concentrated portfolios of positions, but with a focus on maximizing returns relative to risk.
Legal Structure: Offshore Fund
Date of Investment: 1/1/2006
Transparency: IFS receives underlying holdings on a monthly basis.
Comments: The return/risk profile of this strategy is best suited to international developed equity

**Emerging Markets:**

- **Templeton High Value Alpha ($ 100.3M )**

Asset Class: International Emerging Market Equities
Benchmark for Performance Measurement: MSCI Emerging Markets Index
Leverage: Borrowing funds and short selling are not permitted.
Derivatives: May use options, futures, swaps and other derivative instruments.
Fees: 60 bps annual base fee; 20% of excess over benchmark (only with positive profits)
Liquidity/Lock-up: Quarterly liquidity with 30 days notice.
Investment Objective: The Fund will invest in a concentrated portfolio selected to fulfill the Fund's primary objective of maximizing creation of investment alpha over a three-year period using the

Templeton long-term value approach. The Fund's investments will not be subject to liquidity or size constraints, and therefore may invest in companies with a market cap that is smaller than the MSCI EM average, as well as in illiquid stocks with what the Investment Manager believes to be significant potential upside

Legal Structure: UTIMCO-only Limited Partnership

Date of Investment: 3/21/2006

Transparency: UTIMCO receives underlying holdings on a monthly basis.

Comments: Staff has adjusted terms through an executed side letter to the above. This strategy is appropriately classified in public emerging markets.

- **Lansdowne Emerging Markets ($ 390.3M )**

Asset Class: International Emerging Equities

Benchmark for Performance Measurement: 0% (positive profits)

Leverage: Gross market exposure not to exceed 160% of NAV; Shorts sales not to exceed 30% of NAV.

Derivatives: May use options, futures, swaps and other derivative instruments.

Fees: 1% annual base fee; 10% of profits with 5% on loss carryforwards

Liquidity/Lock-up: Can withdraw at any time upon 90 days notice, subject to 10% fee for withdrawal in the first year and a 3% fee thereafter if the withdrawal does not occur on the first day of any month.

Investment Objective: The investment objective of the Partnership will be to seek long-term absolute positive returns through exposure to global emerging markets, in a portfolio principally of equity instruments, along with debt instruments, and foreign exchange and derivatives relating to those instruments, including swaps, futures and options contracts. It is expected that leverage and active trading will be utilized as part of the investment process in achieving this objective.

Legal Structure: UTIMCO-only Limited Partnership

Date of Investment: 12/1/2005

Transparency: UTIMCO receives underlying holdings on a monthly basis

Comments: Staff has adjusted terms verbally and is working on written documentation to the above terms.

- **Dalton Taiwan ($45.9M )**

Asset Class: International Emerging Market Equities

Benchmark for Performance Measurement: 70% Taiwan + 30% MSCI Emerging Markets + 300 bps per anum.

Leverage: Borrowing funds and short selling of individual securities are not permitted.

Derivatives: May use options, futures, swaps and other derivative instruments.

Fees: 20 bps annual base fee; 40% of excess over benchmark (measured after 3 years)

Liquidity/Lock-up: Can withdraw at any time upon 90 days notice.

Investment Objective: The overall objective is to achieve a level of investment return (including both capital appreciation and income) in excess of the combined return of {70% of the MSCI Taiwan Index return (including income) in USD and 30% of the MSCI Emerging Market Index return (including income) in US Dollars}.

Legal Structure: UTIMCO-only Limited Partnership

Date of Investment: 1/1/2006
Transparency: UTIMCO receives underlying holdings on a monthly basis.
Comments: This is a focused Taiwan public market manager and is appropriately classified in the emerging market equity asset class.

- **Blakeney Austin Alpha ($ 95.7M )**

Asset Class: International Emerging Market Equities
Benchmark for Performance Measurement: 8% increase in NAV
Leverage: Borrowing funds and short selling are not permitted.
Derivatives: May use options, futures, swaps and other derivative instruments.
Fees: 1.75% annual base fee; 20% of excess over benchmark.
Liquidity/Lock-up: Monthly liquidity with 90 days notice.
Investment Objective: The investment objective is capital appreciation. The assets will be invested primarily in a managed portfolio of securities of companies listed on the stock markets of non-OECD countries of companies the majority of whose sales or assets are in non-OECD countries. The investment philosophy is based on identifying companies selling below their business value. Investments will be made in what the Investment Manager considers to be "true" emerging markets defined as a market that offers value, growth and inefficiency (which typically goes hand-in-hand with an absence of foreign investors).
Legal Structure: UTIMCO-only Limited Partnership
Date of Investment: 10/1/2004
Transparency: UTIMCO receives underlying holdings on a monthly basis.
Comments: This manager invests primarily in public equities that are not part of the Organization for Economic Co-Operation and Development (OECD) like Turkey and Africa.

# EXHIBIT I

## Cambridge Memo

## PDF Version Attached

C|A

CAMBRIDGE ASSOCIATES LLC

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***Memorandum***

To: Larry Goldsmith

From: Bruce Myers

Date: June 13, 2006

Re: Asset Class Divisions

Let me start by suggesting that we should give the term "hedge fund" an honorable burial, and refrain from using it any more. I strongly suspect that some of the differences of opinion that have surfaced recently are a result of this term, whose meaning is so ambiguous. In an area as diverse as marketable alternative assets (a/k/a hedge funds, but hereafter simply abbreviated MALT) any attempt at division and taxonomy is going to be arbitrary to some degree, but I would like to suggest the following points of division, which are illustrated on the attached chart.

***Absolute Return***

As noted on the attached chart, one broad species of MALT funds can correctly (I think) be labeled absolute return. In broad brush these are the funds that come to my mind when Bob Boldt talks about "true hedge funds". They tend to be uncorrelated to either the equity or fixed income markets, frequently involve some species of arbitrage trades, and -- absent the use of significant leverage-- have low volatility and relative modest return expectations. While historically there has been little directional exposure to market movements in these funds, in the past few years greater sensitivity to market movements (beta if you will) has crept in as the spreads in many arbitrage areas have become compressed. Even though many investors would treat the most defensive of these managers as a fixed income substitute, I think there is agreement all around that this is Cathy Iberg's bailiwick, and not a pond you would want permission to fish in.

***Long/Short Funds***

It is in the area of long/short equity funds that I think the disagreements arise. In an attempt to isolate the issue before us, let me suggest the following rough (and absolutely arbitrary) divisions. On the one hand are those long/short MALT funds that have a **low level of exposure to any one market** (for the most part because of the size of the short book although other situations could produce this result). **Multi-market managers** present a different issue, since although they might have a high degree of market exposure, it is stretched across multiple markets (Maverick comes immediately to mind). I would suggest that both of these sub groups be solely Cathy Iberg's domain. In the case of multi-market funds, the constraints of the current asset allocation requirements would make the use of multi-market funds in the Marketable Securities portion of the portfolio a compliance nightmare.

There are also long/short MALT funds that employ **side pockets** for holding private equity or private equity-like investments. This is an area that overlaps with Trey's group, and while not an issue currently before the Board, I mention it to show that yet another facet of asset class convergence. Once again, I would suggest that the use of side pockets would remove a fund from consideration by your group, especially given your longstanding views about lock-ups generally.

Lastly, we come to long/short managers who have **significant directional exposure to a single market.** Said differently, they are managers who tend to be predominantly net long, or can be said to have a high beta when measured against a particular market. A "130/30" fund focused on the US market would be an obvious example, as would be a manager who has traditionally been substantially net long in all markets, but does use some shorting for risk control and alpha enhancement. This is the sub-group where you are likely to overlap with Cathy's group – in fact, if you buy into my classification as I've sketched it out so far, it is the only sub-group where you overlap with Cathy's group. We could do many things at this point, but given that we are in something of a transition period, I would suggest that we develop a mechanism for living with the overlap, rather than trying to parse this sub group even more finely. I propose such a mechanism below.

Before leaving taxonomy, though, we have to touch on **long-only managers** who operate in a partnership structure with incentive fee compensation. As long as these managers provide transparency as to holdings in such a way that the compliance function may proceed unhindered, I see no reason why these managers should not be in your domain and not in Cathy's (or Trey's for that matter since some of these managers end up looking a lot like private equity). Once again, if an occasion should arise where Cathy of Trey would like to include such a manager in their books, the mechanism below could come into play.

### *An Expanded Role for the Risk Committee*

Where there are issues of overlap, I would propose that the Risk Committee (or some other sub-group of the Board) be authorized to review the due diligence of the Managing Director and make a determination. In the case of a long/short MALT manager with significant exposure to a single market, the Committee should consider the following questions:

**What is the degree of leverage being employed?** (I would suggest 160% gross leverage to be the absolute cut off point. This would permit 130/30 funds, but nothing that is more highly levered.

**To which market (or markets) and to what degree is the fund exposed?** In other words, is the fund predominately net long, with some shorting to adjust risk exposure (Larry's group) or does the degree of shorting so alter the risk/return profile that the degree of market exposure is substantially reduced (Cathy's group)?

**To what degree do the fundamental characteristics of the shorts and the longs offset each other?** Two obvious examples of what I'm getting at here. Example One: A manager is 130% long large cap U.S. stocks neutral weighted as to sector and capitalization to the broad market benchmark and 30% short stocks that have the same characteristics. This is clearly a manager for your group. Example Two: A manager is 130% long a concentrated portfolio of small cap value names, heavily weighted toward financials, while 30% short small cap bio tech stocks. Here, although the net market exposures are technically both 100%, in reality the second manager is trading in two different markets, and has levered his bets. It may well be a good investment, but that's a call for Cathy's group I think.

**Does the manager provide transparency needed for the compliance function to proceed?**

**What is the duration of the lock-up?**

**Is the appropriate benchmark a long only marketable securities benchmark? (Larry's Group) Or is the appropriate benchmark either an index of "hedge funds" or an absolute return (T-bills + x%) benchmark? (Cathy's group).**

**Has staff demonstrated that the manager has a superior risk and return profile to either an active manager in the same market or to a market index?**

The answers to all of these questions (and others may propose different or additional questions) are judgment calls of one sort or another. We could set up a mechanistic process ("if the beta is x it's in bucket one, if its y it's in bucket two"), but the fluidity of the market and our own in-process transition make that problematic for me. I would much rather use the talents of the Board members and engage the issue on the fundamentals, and not on the statistics (there's my bias coming through again). At the end of the day I trust the considered judgment of talented and thoughtful Board members more than the output of a regression analysis. Again, my bias.

***Conclusion***

Whether or not my parsing of the MALT universe is right, I am fairly certain that we can draw a box around the overlap area between your group and Cathy Iberg's, and I don't think that box is overwhelmingly large, either. And whether or not these are the right questions for the Risk Committee to be asking, I do think that their judgment in sorting out the items that fall into the box would be very helpful and should give all the UTIMCO constituencies some comfort. If we can all agree on these two concepts, perhaps we've found a path toward resolution.

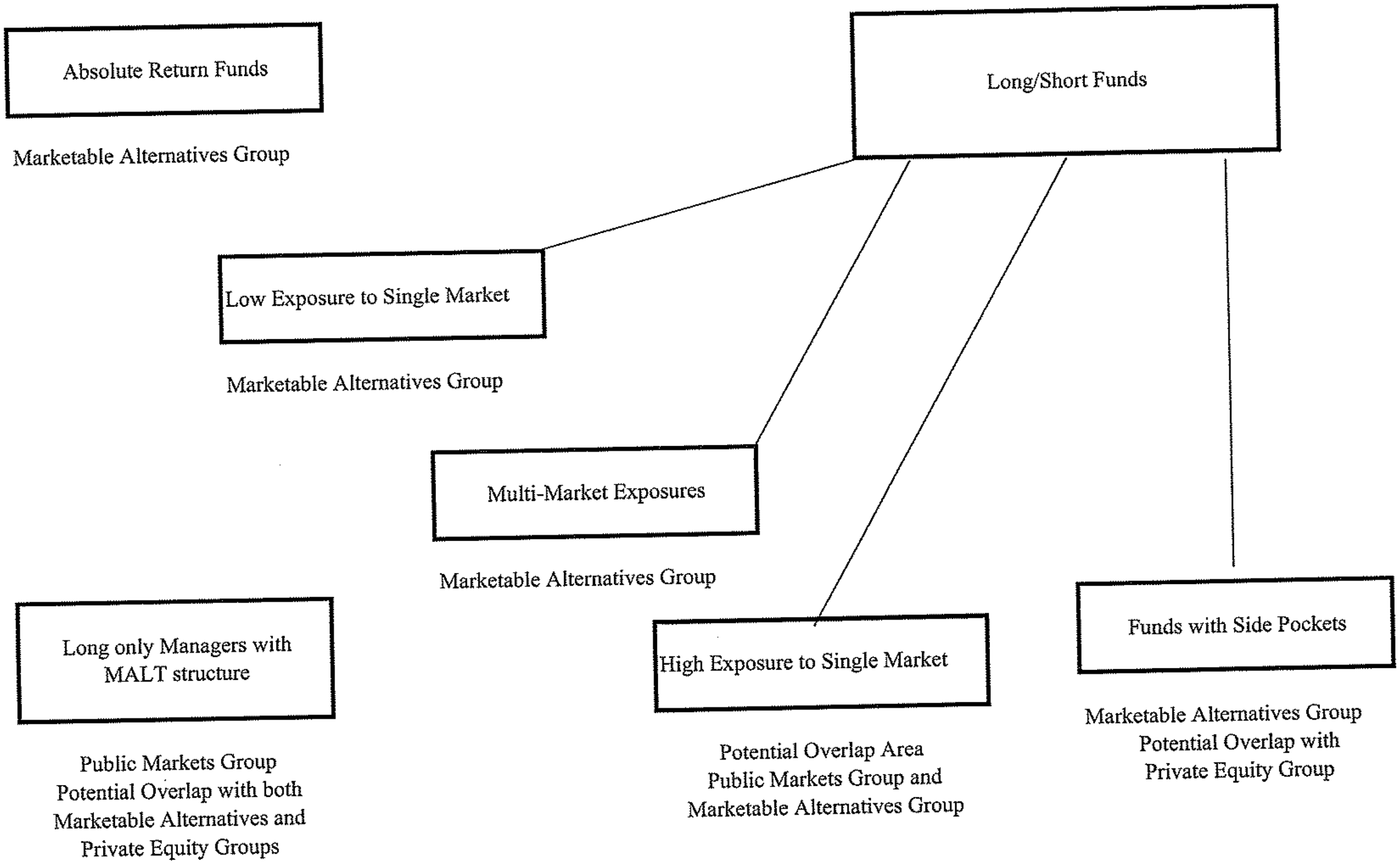
Finally, no matter what the resolution I would hope that there would be no sentiment for reclassifying any of the investments that have to date been booked in Cathy's area or yours. While I do feel that Board involvement in the sorting process going forward would be helpful, I do not think it would be a good use of their time at this point to revisit the classification of existing managers. As we transition to a new way of thinking about asset allocation, some shifting is almost certain to occur, and the proper classification of existing managers can be reviewed at that point.

I addressed this memo to you personally as a follow-up to our good conversation yesterday, but please feel free to distribute this as you see fit within the UTIMCO office. I've also taken the liberty of copying Chairman Caven, but have not distributed it further.

cc: Scott Caven

# UTIMCO

## MALT Classification



# EXHIBIT II

**Excerpt from PUF Investment Policy Statement:**

**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. UTIMCO is responsible for measuring actual asset allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio asset allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific asset allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in asset categories or projected portfolio risk move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the PUF asset values could warrant requesting approval of the UTIMCO Board Chairman for remedial action.

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. 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 internal commingled investment fund managed by UTIMCO.

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 internal commingled investment fund managed by UTIMCO.

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

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

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

E. 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.

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. 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.

G. Cash and Cash Equivalents – Short-term (generally securities with time to maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash, and which are subject to a relatively small risk of changes in value.

# EXHIBIT II A

## PERMANENT UNIVERSITY FUND
## POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

### EFFECTIVE DATE JULY 13, 2006

| Asset Category | Percent of Portfolio (%) Policy Targets | Policy Ranges | Benchmarks |
|---|---|---|---|
| **U.S. Equities** | **20.0** | **10 to 30** | Russell 3000 Index |
| **Global ex U.S. Equities** | **17.0** | **10 to 30** | |
| Non-U.S. 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 27.5** | MSCI Investable Hedge Fund Index* |
| Directional Hedge Funds | 10.0 | 5 to 15 | |
| Absolute Return Hedge Funds | 15.0 | 10 to 20 | |
| **Private Capital** | **15.0** | **5 to 15** | 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 | Combination index: 66.7% GSCI minus .5% plus 33.3% DJ-AIG Commodity Index |
| TIPS | 5.0 | 0 to 10 | Lehman Brothers US TIPS Index |
| **Fixed Income:** | **10.0** | **5 to 15** | Lehman Brothers Aggregate Bond Index |
| **Liquidity Reserve** | **0.0** | **-1 to 10** | 90 Day T-Bills |
| Unencumbered Cash | | | |
| Temporary Cash Imbalance** | | | |
| Net non-trading receivable | | | |

| | |
|---|---|
| Expected Annual Return (%) | 8.34 |
| 1 year Downside Deviation (%) | -7.6 |
| Standard Deviation (%) | 10.8 |

| | % of Target Risk |
|---|---|
| Upper Risk Bound: 1 year Downside Deviation (%) | 128% |
| Lower Risk Bound: 1 year Downside Deviation (%) | 74% |

*Changed with approval of the Board of Regents on August 10, 2006, effective retroactively to January 1, 2006.

** 3 trading days or less

EXHIBIT III

Vinson&Elkins

# Memorandum

Date: August 21, 2006

To: Laura Patrick

From: Vinson & Elkins LLP

Re: Use of Leverage and Short Sales by Mutual Funds Registered Under the Investment Company Act of 1940, as Amended (the "'40 Act").

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**Question Presented**

What are the restrictions on the use of leverage and short sales of equity securities by mutual funds registered under the '40 Act ("'40 Act Funds")[1]?

**Discussion**

- Prior to the last 10 years, '40 Act Funds were practically constrained to a "long-only" investment strategy as a result of a combination of federal income tax regulations, and state securities laws constraints. The Taxpayer Relief Act of 1997 repealed the tax regulations that effectively limited the amount of a '40 Act Fund's income that could result from short sales, and the National Securities Markets Improvements Act of 1996 preempted many state securities law restrictions.
- The use of leverage (loans and purchasing securities on margin) and short sales by '40 Act Funds are governed by:
  - Section 12 of '40 Act – grants the Securities and Exchange Commission (the "SEC") broad authority to regulate short sales by '40 Act Funds, however, to date, the SEC has not used this authority.
  - Section 18 of the '40 Act – prohibits an investment company (including a '40 Act Fund) from issuing "senior securities" (which includes both leverage and short sales) except for:

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1 Mutual funds can also be unregistered funds, and may be either open-end companies or closed-end companies. In this memorandum we only address open-end '40 Act Funds since these are the most commonly recognized mutual funds.

  - borrowing from a bank subject to the requirement of having and maintaining a 300% asset coverage[2];
  - temporary loans (less than 60 days) of up to 5% of the investment company's assets; and
  - short sales that are covered by either (i) liquid assets equal to the current value of the shorted stock in a segregated account or (ii) an equivalent long position in the shorted stock.
- Federal Reserve Regulation T[3] – sets the level of collateral that brokers and dealers must require at the time of taking a new long or short position in a margin account. The required level of pledged collateral varies among long and short positions, but most managers operate on the assumption that the pledged collateral for short sales must be equal to 300% of the current market value of the security sold short if the collateral used is marketable equity securities.
- NASD Rule 2520(c) and New York Stock Exchange ("NYSE") Rule 431 – set the levels of pledged collateral that brokers and dealers regulated by the NASD or NYSE, as applicable, must maintain in a customer's margin account subsequent to taking a new long or short position in the account.

- These collateral and asset coverage requirements theoretically limit '40 Act Funds to a maximum of a "133/33" investment strategy, i.e., 33% of the '40 Act Fund's net equity in short positions, and 133% of its net equity in long positions in marketable equity securities (consisting of the net equity before taking the short positions, all of which collateralizes the short positions, and the reinvestment of the proceeds received from the short positions).
  - Because the short positions are fully collateralized with marketable equity securities, the '40 Act Fund can reinvest the proceeds received from the short positions without having to borrow money from a broker or dealer (which is prohibited by the '40 Act).
- As a result of margin and collateral calls to maintain required levels of pledged collateral due to market fluctuations, a '40 Act Fund is practically limited to investment strategies that have a lower percentage of its net equity in short positions

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2 The '40 Act defines asset coverage as the ratio of the investment company's (x) total assets, excluding liabilities and indebtedness not represented by senior securities, to (y) aggregate amount of indebtedness represented by senior securities.

3 Regulation T regulates the brokers and dealers through whom '40 Act Funds effect short sale transactions.

than the theoretical 33% maximum, such as a "130/30" or "120/20" investment strategy, to ensure that it will not need to liquidate equity holdings to maintain the pledged collateral requirements.

- The historical "long-only constraint" has been relaxed to investment strategies incorporating short sale positions, such as a "120/20" strategy, over the past 10 years as a result of changes in tax laws and securities laws. Despite this relaxation, a 2000 study indicated that while 44% of mutual funds regulated by the '40 Act had the flexibility to short stocks, only 4% actual engaged in short sales. The number of mutual funds engaging in short sales is increasing as legacy restrictions in '40 Act Fund governing documents are removed or relaxed to reflect the changed laws.

**TAB 6**

**Agenda Item**
UTIMCO Board of Directors Meeting
November 9, 2006

**Agenda Item:** Report and Consideration of Items from Audit and Ethics Committee

**Developed By:** Moeller, Hill

**Presented By:** Nye

**Type of Item:** Action required by UTIMCO Board related to year end audits; information item on other items

**Description:** An Audit and Ethics Committee ("Committee") meeting was held on September 27, 2006 and a meeting will be held on November 9, 2006. The Committee's agenda for the November 9, 2006, meeting will include (1) review of Ernst & Young's, LLP Financial Statement Audit Results and Communications; (2) review and consideration of the results of the internal control assessment on the Permanent University Fund ("PUF"), the General Endowment Fund ("GEF"), the Permanent Health Fund ("PHF") and the Long Term Fund ("LTF"); (3) review and approve of the audited financial statements of the PUF, GEF, PHF, LTF, the Intermediate Term Fund ("ITF"), and the Statement of Performance Statistics; (4) review of UT System Internal Audit report; and (5) review of other audit, ethics, and compliance activities.

At its September 27, 2006, meeting, the Committee reviewed interim financial statements as of May 31, 2006, for the investment funds and UTIMCO corporate. U.T. System's internal audit office reported on issued reports, update on internal audit's 2006 audit plan, and considered the audit plan and fee for fiscal year 2007 for internal audit. The Committee also reviewed other audit, ethics, and compliance activities. Ricky Richter reported on auditing marketable alternative investments.

**Discussion:** The financial statements and internal controls were audited by Ernst & Young, LLP. Ricky Richter, coordinating partner, will present to the Committee Ernst & Young's Audit Results and Communications letter as well as answering questions related to the financial statements and internal controls. Ernst & Young issued unqualified opinions on the August 31, 2006 financial statements. The opinions were dated October 27, 2006. A copy of the Audit Results and Communications and the internal control reports for each fund are included. Because of the voluminous nature of the audited financial statements, they are not included in the Board book. However, the complete audited financial statements are available on UTIMCO's website, www.utimco.org.

**Recommendation:** The Committee recommends that the Board approve Ernst & Young's, LLP Financial Statement Audit Results and Communications, the Reports on Internal Control over Financial Reporting, and the audited financial statements and audit reports.

**Reference:** Audit Results and Communications; Reports on Internal Control over Financial Reporting; Audited financial statements and audit reports

# RESOLUTIONS RELATED TO AUDITS OF THE INVESTMENT FUNDS FOR FISCAL YEAR 2006

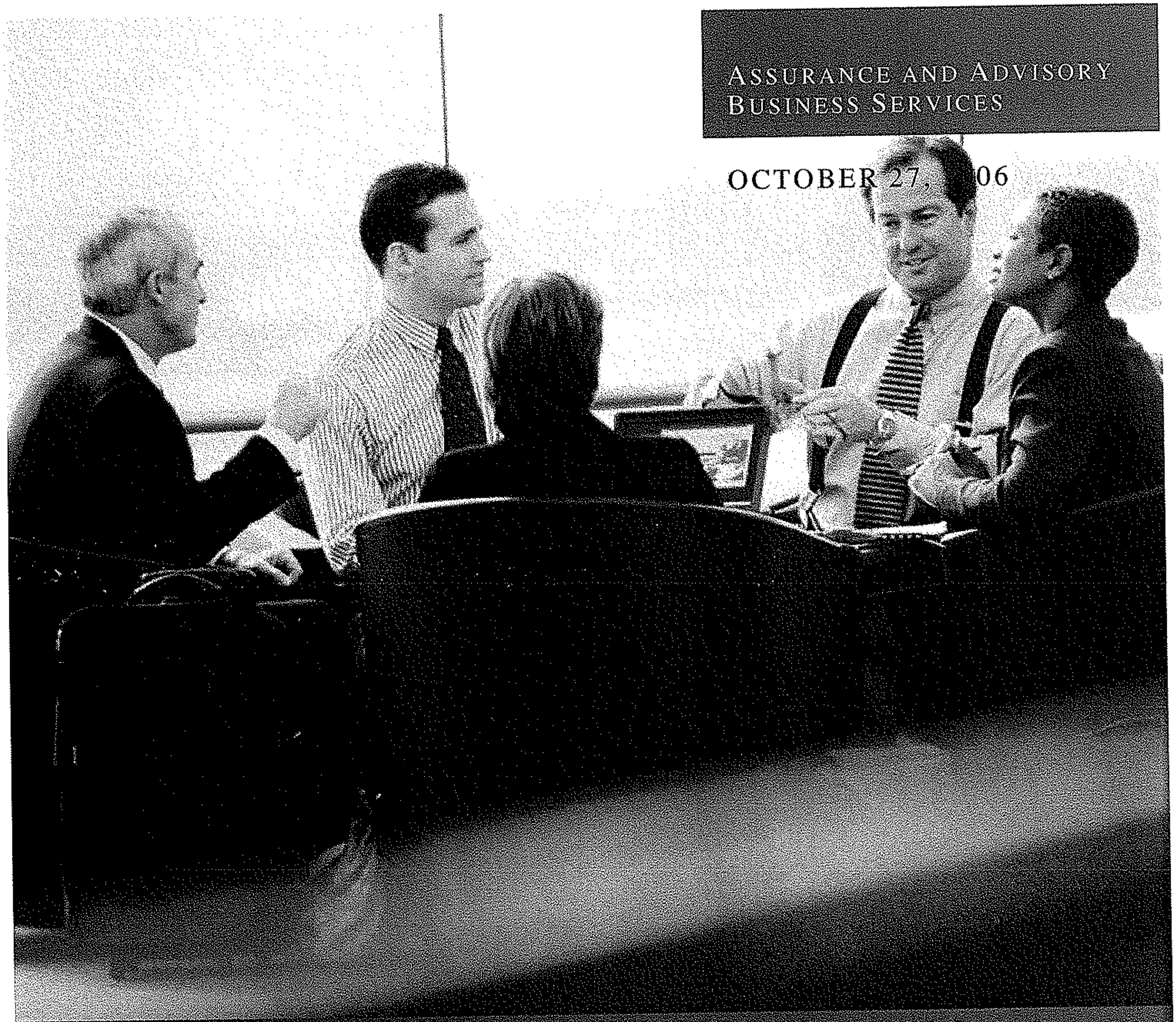
RESOLVED, that Ernst & Young, LLP's Financial Statement Audit Results and Communications on the Investment Funds Under Fiduciary Responsibility of The University of Texas System Board of Regents for the year ended August 31, 2006, be, and is hereby approved in the form as presented to the Board; and further

RESOLVED, that UTIMCO management's assertions on Internal Control over Financial Reporting, and the independent accountant's reports for the Permanent University Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, and The University of Texas System General Endowment Fund for the year ended August 31, 2006, be, and are hereby approved in the form as presented to the Board; and further

RESOLVED, that the separate annual financial statements and audit reports for the Permanent University Fund, the Permanent Health Fund, The University of Texas System Long Term Fund, and The University of Texas System General Endowment Fund each for the fiscal years ended August 31, 2006 and August 31, 2005, The University of Texas System Intermediate Term Fund for the period ending August 31, 2006, and the Statement of Investment Performance Statistics for the year ended August 31, 2006, be, and are hereby approved in the form as presented to the Board.

ASSURANCE AND ADVISORY BUSINESS SERVICES

OCTOBER 27, [illegible]06



ERNST & YOUNG

*Quality In Everything We Do*

# Investment Funds Under Fiduciary Responsibility of The University of Texas System Board of Regents
## Financial Statement Audit Results & Communications

Report to

The Audit Compliance and Management Review Committee of
The University of Texas System Board of Regents
Audit and Ethics Committee of The University of Texas
Investment Management Company

ERNST & YOUNG

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October 27, 2006

The Audit, Compliance and Management Review Committee of The Board of Regents of The University of Texas System

The Audit and Ethics Committee of the Board of Directors of The University of Texas Investment Management Company

Dear Members of the Audit Committee:

We are pleased to present the results of our audit of the financial statements of the following funds (collectively, the "Funds"):

For the year ended August 31, 2006:

- The Permanent University Fund,
- The University of Texas System General Endowment Fund,
- Permanent Health Fund
- The University of Texas System Long Term Fund

For the period from February 1, 2006 (inception) to August 31, 2006:

- The University of Texas System Intermediate Term Fund

This report to the Audit, Compliance and Management Review Committee and the Audit and Ethics Committee is organized into the following sections:

- Required Communications
- Report on Internal Control

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

We appreciate this opportunity to meet with you to discuss the contents of this report and answer any questions you may have about these or any other audit-related matters.

Very truly yours,

Ricky Richter

Ricky Richter

# REQUIRED COMMUNICATIONS

Statement on Auditing Standards No. 61 (as amended), and other professional standards require the auditor to communicate certain matters to the Audit Committee that may assist the Committee in overseeing management's financial reporting and disclosure process. Below we summarize these required communications as they apply to the Funds.

| Area | Comments |
|---|---|
| **Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)**<br>The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. | We have issued unqualified opinions on the financial statements for the year ended August 31, 2006 and on management's assertion on the effectiveness of internal control over financial reporting as of August 31, 2006 for the Permanent University Fund, The University of Texas System General Endowment Fund, the Permanent Health Fund and the University of Texas System Long Term Fund.<br><br>We have issued an unqualified opinion on the financial statements of the University of Texas System Intermediate Term Fund for the period from February 1, 2006 (inception) to August 31, 2006. |
| **Our Judgments About the Quality of the Company's Accounting Principles**<br>We discuss our judgments about the quality, not just the acceptability, of the accounting policies as applied in the Company's financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures. | Accounting principles selected by management are of good quality, are acceptable, and have been consistently applied under accounting principles generally accepted in the United States. The Funds' financial statements and disclosures are complete in all material respects. |
| **Sensitive Accounting Estimates**<br>The preparation of the financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's current judgments.<br>We determine that the Audit Committee is informed about management's process for formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. | Based on our testing, we concluded the Funds' recorded investment values were fairly stated. |
| **The Adoption of, or a Change in an Accounting Principle**<br>We determine that the Audit Committee is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements. | There were no adoptions of or changes in accounting principles. |
| **Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas**<br>We determine that the Audit Committee is informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. | We are not aware of any significant unusual transactions recorded by the Funds or of any significant accounting policies used by the Funds related to controversial or emerging areas for which there is a lack of authoritative guidance. |

| Area | Comments |
|---|---|
| **Significant Audit Adjustments**<br>We provide the Audit Committee with information about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate, have a significant effect on the Company's financial statements. | There were no significant recorded audit adjustments related to 2006 audit. |
| **Unadjusted Audit Differences Considered by Management to Be Immaterial**<br>We inform the Audit Committee about unrecorded audit differences accumulated by us (i.e., adjustments either identified by us or brought to our attention by management) during the current audit and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. | There were no audit differences related to the fiscal year 2006 audit. |
| **Fraud and Illegal Acts**<br>We report to the Audit Committee fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements. | We are not aware of any fraud or illegal acts. |
| **Material Weaknesses in Internal Control**<br>We are required to communicate all material weaknesses in internal control, which may have been identified during the course of our audit. | No material weaknesses were identified. |
| **Disagreements with Management** | None. |
| **Serious Difficulties Encountered in Dealing with Management when Performing the Audit** | None. |
| **Major Issues Discussed with Management in Connection with Initial or Recurring Retention** | None. |
| **Consultation with Other Accountants** | None of which we are aware. |
| **Other Matters** | We recommend that Management hire a full-time associate in its Accounting, Finance and Administration Department whose responsibility includes interaction with the Funds' marketable alternative investments and private markets investments to supplement the Funds' oversight of the existence and valuation of such investments. |
| **Other Information in Documents Containing Audited Financial Statements**<br>Our financial statement audit opinion only relates to the financial statements and the accompanying notes. However, we also review other information such as Management's Discussion and Analysis, for consistency with the audited financial statements. | We believe that Management's Discussion and Analysis is consistent with the audited financial statements. |

# *The University of Texas Investment Management Company*

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# Reports by
# Ernst & Young, L.L.P.
# &
# UTIMCO Management

## *The Permanent University Fund's Internal Control over Financial Reporting*

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# Independent Accountant's Report

We have examined management's assertion, included in the accompanying Report of Management on the Permanent University Fund's Internal Control Over Financial Reporting, that the Permanent University Fund maintained effective internal control over financial reporting as of August 31, 2006, based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Permanent University Fund's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the Permanent University Fund maintained effective internal control over financial reporting as of August 31, 2006, is fairly stated, in all material respects, based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Ernst + Young LLP

October 27, 2006



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**Report by Management**
**The Permanent University Fund's**
**Internal Control over Financial Reporting**

**October 27, 2006**

The University of Texas Investment Management Company (UTIMCO) is responsible for the preparation, integrity, and fair presentation of its published financial statements of the Permanent University Fund (PUF) as of August 31, 2006, and for the twelve months then ended. The financial statements of the PUF have been prepared in accordance with generally accepted accounting principles, and, as such, include some amounts that are based on judgments and estimates of management.

INTERNAL CONTROL OVER FINANCIAL REPORTING

We, as members of management of UTIMCO, are responsible for establishing and maintaining effective internal control over financial reporting as it related to its financial statements presented in conformity with generally accepted accounting principles. Internal control is designed to provide reasonable assurance to PUF management and board of directors regarding the preparation of reliable published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Because of inherent limitations in any internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management has assessed the PUF's internal control over financial reporting as it relates to its financial statements presented in conformity with generally accepted accounting principles as of August 31, 2006. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we assert that the PUF maintained

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effective internal control over financial reporting as it relates to its financial statements presented in conformity with generally accepted accounting as of August 31, 2006, based on the specified criteria outlined in this integrated framework.

The University of Texas Investment Management Company

Cathy Iberg

Cathy Iberg, CPA
Interim President, Chief Executive Officer, and Chief Investment Officer

Joan Moeller

Joan Moeller, CPA
Managing Director-Accounting, Finance, and Administration

# The University of Texas Investment Management Company

# Reports by
# Ernst & Young, L.L.P.
# &
# UTIMCO Management

## The University of Texas System General Endowment Fund's Internal Control over Financial Reporting

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## Independent Accountant's Report

We have examined management's assertion, included in the accompanying Report of Management on The University of Texas General Endowment Fund's Internal Control Over Financial Reporting, that The University of Texas General Endowment Fund maintained effective internal control over financial reporting as of August 31, 2006, based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. The University of Texas General Endowment Fund's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that The University of Texas General Endowment Fund maintained effective internal control over financial reporting as of August 31, 2006, is fairly stated, in all material respects, based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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October 27, 2006



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**Report by Management**
**The University of Texas System General Endowment Fund's**
**Internal Control over Financial Reporting**

**October 27, 2006**

The University of Texas Investment Management Company (UTIMCO) is responsible for the preparation, integrity, and fair presentation of its published financial statements of The University of Texas System General Endowment Fund (GEF) as of August 31, 2006, and for the twelve months then ended. The financial statements of the GEF have been prepared in accordance with generally accepted accounting principles, and, as such, include some amounts that are based on judgments and estimates of management.

INTERNAL CONTROL OVER FINANCIAL REPORTING

We, as members of management of UTIMCO, are responsible for establishing and maintaining effective internal control over financial reporting as it related to its financial statements presented in conformity with generally accepted accounting principles. Internal control is designed to provide reasonable assurance to GEF management and board of directors regarding the preparation of reliable published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Because of inherent limitations in any internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management has assessed the GEF's internal control over financial reporting as it relates to its financial statements presented in conformity with generally accepted accounting principles as of August 31, 2006. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we assert that the GEF maintained

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effective internal control over financial reporting as it relates to its financial statements presented in conformity with generally accepted accounting as of August 31, 2006, based on the specified criteria outlined in this integrated framework.

The University of Texas Investment Management Company

| | |
|---|---|
| Cathy Iberg, CPA | Joan Moeller, CPA |
| Interim President, Chief Executive Officer, and Chief Investment Officer | Managing Director-Accounting, Finance, and Administration |

# *The University of Texas Investment Management Company*

# Reports by
# Ernst & Young, L.L.P.
# &
# UTIMCO Management

## *The University of Texas System Long Term Fund's Internal Control over Financial Reporting*

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## Independent Accountant's Report

We have examined management's assertion, included in the accompanying Report of Management on The University of Texas System Long Term Fund's Internal Control Over Financial Reporting, that The University of Texas System Long Term Fund maintained effective internal control over financial reporting as of August 31, 2006, based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. The University of Texas System Long Term Fund's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that The University of Texas System Long Term Fund maintained effective internal control over financial reporting as of August 31, 2006, is fairly stated, in all material respects, based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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October 27, 2006



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**Report by Management**
**The University of Texas System Long Term Fund's**
**Internal Control over Financial Reporting**

**October 27, 2006**

The University of Texas Investment Management Company (UTIMCO) is responsible for the preparation, integrity, and fair presentation of its published financial statements of The University of Texas System Long Term Fund (LTF) as of August 31, 2006, and for the twelve months then ended. The financial statements of the LTF have been prepared in accordance with generally accepted accounting principles, and, as such, include some amounts that are based on judgments and estimates of management.

INTERNAL CONTROL OVER FINANCIAL REPORTING

We, as members of management of UTIMCO, are responsible for establishing and maintaining effective internal control over financial reporting as it related to its financial statements presented in conformity with generally accepted accounting principles. Internal control is designed to provide reasonable assurance to LTF management and board of directors regarding the preparation of reliable published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Because of inherent limitations in any internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management has assessed the LTF's internal control over financial reporting as it relates to its financial statements presented in conformity with generally accepted accounting principles as of August 31, 2006. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the

Treadway Commission. Based on this assessment, we assert that the LTF maintained effective internal control over financial reporting as it relates to its financial statements presented in conformity with generally accepted accounting as of August 31, 2006, based on the specified criteria outlined in this integrated framework.

The University of Texas Investment Management Company

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Interim President, Chief Executive Officer, and Chief Investment Officer

Joan Moeller

Joan Moeller, CPA
Managing Director-Accounting, Finance, and Administration

# *The University of Texas Investment Management Company*

# Reports by
# Ernst & Young, L.L.P.
# &
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## *The Permanent Health Fund's Internal Control over Financial Reporting*

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## Independent Accountant's Report

We have examined management's assertion, included in the accompanying Report of Management on the Permanent Health Fund's Internal Control Over Financial Reporting, that the Permanent Health Fund maintained effective internal control over financial reporting as of August 31, 2006, based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Permanent Health Fund's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the Permanent Health Fund maintained effective internal control over financial reporting as of August 31, 2006, is fairly stated, in all material respects, based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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October 27, 2006



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**Report by Management**
**The Permanent Health Fund's**
**Internal Control over Financial Reporting**

**October 27, 2006**

The University of Texas Investment Management Company (UTIMCO) is responsible for the preparation, integrity, and fair presentation of its published financial statements of the Permanent Health Fund (PHF) as of August 31, 2006, and for the twelve months then ended. The financial statements of the PHF have been prepared in accordance with generally accepted accounting principles, and, as such, include some amounts that are based on judgments and estimates of management.

INTERNAL CONTROL OVER FINANCIAL REPORTING

We, as members of management of UTIMCO, are responsible for establishing and maintaining effective internal control over financial reporting as it related to its financial statements presented in conformity with generally accepted accounting principles. Internal control is designed to provide reasonable assurance to PHF management and board of directors regarding the preparation of reliable published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Because of inherent limitations in any internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management has assessed the PHF's internal control over financial reporting as it relates to its financial statements presented in conformity with generally accepted accounting principles as of August 31, 2006. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we assert that the PHF maintained

effective internal control over financial reporting as it relates to its financial statements presented in conformity with generally accepted accounting as of August 31, 2006, based on the specified criteria outlined in this integrated framework.

The University of Texas Investment Management Company

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