

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



Presentation Materials

Board of Directors Meeting

January 26, 2010

**UTIMCO BOARD OF DIRECTORS
MEETING AGENDA
January 26, 2010**

UTIMCO
401 Congress Avenue, Suite 2800
Austin, Texas

| Time | Item # | Agenda Item |
|---------------------------|-------------------------|---|
| Begin 9:00 a.m. | End 9:05 a.m. | 1 |
| | | Convene in Open Session: Call to Order/Discussion and Appropriate Action Related to Minutes of November 20, 2009 Meeting* |
| 9:05 a.m. | 9:10 a.m. | 2 |
| | | Discussion and Appropriate Action Related to Corporate Resolutions: - Colleen McHugh Appreciation Resolution* - Designation of Annual Meeting of the UTIMCO Board* |
| 9:10 a.m. | 10:30 a.m. | 3 |
| | | Report on Investment Risk |
| 10:30 a.m. | 11:30 a.m. | 4 |
| | | Endowment and Operating Funds Update Report |
| 11:30 a.m. | 12:30 p.m. | Recess for Briefing Session pursuant to Texas Education Code Section 66.08 (h)(2) related to Investments |
| 12:30 p.m. | 1:15 p.m. | Lunch |
| 1:15 p.m. | 1:45 p.m. | 5 |
| | | Reconvene into Open Session: Discussion of Investment Environment |
| 1:45 p.m. | 2:15 p.m. | 6 |
| | | Report on and Discussion and Appropriate Action related to Items from Risk Committee: - Use of Derivative Investments by External Managers Operating Under an Agency Agreement* - Increase Delegated Authority for Investment Managers* |
| 2:15 p.m. | 2:30 p.m. | 7 |
| | | Report on and Discussion and Appropriate Action related to Items from Audit and Ethics Committee: - Audit of UTIMCO Financial Statements* |
| 2:30 p.m. | 2:45 p.m. | 8 |
| | | Discussion and Appropriate Action related to Cambridge Contract Renewal* |
| 2:45 p.m. | 3:00 p.m. | 9 |
| | | UTIMCO Organization Update |
| 3:00 p.m. | | Adjourn |

*Action by resolution required

| |
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| Next Scheduled Meeting: April 15, 2010 (Annual Meeting) |
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TAB 1

RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the meeting of the Board of Directors held on **November 20, 2009**, be, and are hereby, approved.

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

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting at 10:33 a.m. on the **20th day of November 2009**, at the offices of the Corporation, Suite 2800, 401 Congress Avenue, Austin, Texas, said meeting having been called by the Chairman, Erle Nye, 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:

Erle Nye, Chairman
J. Philip Ferguson, Vice Chairman
Francisco G. Cigarroa, M.D, Vice Chairman for Policy
Clint Carlson
Paul Foster
Printice Gary
Janiece M. Longoria
Ardon E. Moore

Charles Tate attended the meeting by means of conference telephone enabling all persons participating in the meeting to hear each other. Accordingly, a majority and quorum of the Board was in attendance. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; Cathy Iberg, President and Deputy CIO; Joan Moeller, Secretary and Treasurer; Christy Wallace, Assistant Secretary; Cecilia Gonzalez, internal General Counsel and Chief Compliance Officer; Lindel Eakman, Managing Director - Private Markets; Bill Edwards, Managing Director - Information Technology; Bob Schau, Senior Director - Real Estate Investments; Uzi Yoeli, Senior Director - Portfolio Risk Management; Russ Kampfe, Senior Portfolio Manager - Fixed Income Investments; Ryan Ruebsahm, Director - Marketable Alternative Investments; Scott Bigham, Associate - Private Markets Investments; Harland Doak, Portfolio Manager - Fixed Income Investments; and other Staff members. Other attendees were Keith Brown of the McCombs School of Business at UT Austin; Jerry Turner and Bob Jewell of Andrews Kurth LLP; Charlie Chaffin, Jim Phillips, William Huang, Miles Ragland and Roger Starkey of the UT System Administration; Bruce Myers of Cambridge Associates; Tom Wagner of Deloitte & Touche LLP; and Greg Anderson of Texas A&M University System. Mr. Nye called the meeting to order at 10:33 a.m.

Mr. Nye introduced Mr. Printice Gary, as a newly appointed Regental Director for the Board.

At 10:34 a.m. the open meeting of the Board recessed into a Briefing Session pursuant to Texas Education Code Section 66.08 (h)(2) related to Investments.

The open meeting of the Board reconvened in open session at 12:10 p.m.

Minutes

The first matter to come before the Board in open session was the approval of the minutes of the meeting of the Board of Directors held on October 6, 2009. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

RESOLVED, that the minutes of the meeting of the Board of Directors held on **October 6, 2009**, be, and are hereby, approved.

Committee Assignments

Mr. Nye recommended approval of the following Corporation committee assignments, with the appointment of the Member to the Audit and Ethics Committee subject to further approval by the U. T. System Board of Regents in accordance with Section 66.08 of the *Texas Government Code*. Upon motion duly made and seconded, the following resolution was unanimously adopted:

BE IT RESOLVED, that the following Directors of the Corporation are hereby designated as the Policy Committee of the Board of Directors:

Ardon E. Moore
Janiece M. Longoria
Printice L. Gary

to serve until the expiration of their term, or until their successor has been chosen and qualified, or until their earlier death, resignation or removal; and

FURTHER RESOLVED, that Janiece M. Longoria is hereby designated the Chair of the Policy Committee and shall preside at its meetings.

BE IT RESOLVED, that Director Printice L. Gary is hereby designated as a member of the Audit and Ethics Committee, subject to approval by the Board of Regents, to serve until the expiration of his term, or until his successor has been chosen and qualified, or until his earlier death, resignation or removal.

Mr. Nye asked Chancellor Cigarroa to give a report to the Board as its principal client. Dr. Cigarroa expressed gratitude for the Board on behalf of the UT System and stressed the importance of the work of the Corporation. He stated that UTIMCO, by managing the most precious resources of the UT System, allows the 15 institutions an opportunity to recruit some of the best faculty and help to make sure the institutions remain the most attractive higher education options not only for the current students but also the generations to come.

Endowment and Operating Funds Update

Mr. Nye asked Mr. Zimmerman to present the Corporation's endowment and operating funds update. Mr. Zimmerman handed out the Corporation's Performance Summary as of October 31, 2009. He began with the net asset value and performance numbers as of October 31, 2009. The Corporation had \$21.0 billion of assets under management at the end of October 31, 2009. Of the \$21.0 billion, \$10.0 billion was in the

Permanent University Fund (PUF), \$5.7 billion in the General Endowment Fund (GEF), \$1.5 billion in the Short Term Fund (STF) and \$3.8 billion in the Intermediate Term Fund's (ITF). The net performance for the one-month period ended October 31, 2009, for the PUF was 1.09% and for the GEF was 1.09%, versus benchmark returns of 0.08% for each fund. The net performance for the one year ended October 31, 2009, for the PUF and GEF were 10.91% and 10.67%, respectively, versus benchmark returns of 9.75% for each fund. The ITF's performance was 0.49% versus its benchmark return of -0.15% for the one-month period, and 19.32% versus its benchmark return of 18.40% for the one year ended October 31, 2009. Performance for the STF was 0.02% versus 0.02% for its benchmark return for the one-month period, and was 0.80% versus a benchmark return of 0.30% for the one year ended October 31, 2009. Mr. Zimmerman presented actual versus benchmark results, portfolio policy ranges and policy targets. Mr. Zimmerman asked each Staff member responsible for the specific areas in the Asset Allocation portfolio to provide a review for the Board. Mr. Kampfe began by discussing Investment Grade Fixed Income. Mr. Zimmerman, Mr. Kampfe and Mr. Doak presented performance, the pipeline, and discussed tail-risk hedging, including inflation insurance, gold, and ISDA's/Derivative Procedures, and answered the Directors' questions. Mr. Zimmerman asked Mr. Ruebsahm and Mr. Bigham to continue by discussing information on Credit-Related Fixed Income. Mr. Schau presented Real Estate manager profiles, private portfolio composition, and an overview of target markets and strategy going forward. The Natural Resources Portfolio discussion was led by Mr. Warner. He introduced the Natural Resources staff and discussed the value chain, geographic and sector exposure and gave a portfolio roadmap moving forward to June 30, 2010. Mr. Warner and Mr. McCarroll answered the Director's questions. Ms. Iberg introduced the Public Markets Investments Staff and Mr. Newcomb and Ms. Hopper presented the More Correlated and Constrained public equity assets, manager changes, and a projected active manager portfolio. Ms. Iberg, Mr. Ruebsahm and Mr. Powers gave a performance update on the Less Correlated & Constrained (LCC) Portfolio, an overview of changes to the LCC portfolio and presented a manager genealogy of the portfolio. Mr. Zimmerman asked Mr. Eakman to discuss the Private Investments portfolio. He explained the fund valuation process, secondary market activities and a commitment plan for fiscal year 2010. Mr. Zimmerman and Mr. Eakman answered the Directors' questions.

Organizational Update

Mr. Nye asked Mr. Zimmerman to give the Board an update on the organization. Mr. Zimmerman introduced the analysts on staff. He also updated and summarized Staff projects and reported on Staff's communication skills regarding various foreign languages.

Executive Session

Mr. Nye, at 2:19 p.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 for the purpose of considering individual personnel compensation matters including Report of Compensation Committee Regarding Performance Incentive Awards for UTIMCO Compensation Program Participants for the Performance Period ended June 30, 2009. This Executive Session meeting of the Board is authorized by *Texas Government Code* Section 551.074 (*Personnel Matters*). The date is November 20, 2009, and the time is now 2:19 p.m." Attendees other than the Board members, Bruce Zimmerman, Cecilia Gonzalez, Keith Brown, Jerry Turner, and Bob Jewell left the meeting at this time.

Reconvene in Open Session

The Board reconvened at 2:43 p.m. in open session and Mr. Nye announced that, "The Open Session of the Board of Directors of The University of Texas Investment Management Company is now reconvened. The date is November 20, 2009, and the time is now 2:43 p.m. During the Executive Session, the Board considered individual personnel compensation matters including Report of Compensation Committee Regarding Performance Incentive Awards for UTIMCO Compensation Program Participants for the Performance Period ended June 30, 2009, but no action was taken nor decisions made, and no vote was called for or had by the Board in Executive Session."

Compensation Committee Report

Mr. Nye asked Mr. Ferguson to recommend resolutions on behalf of the Compensation Committee. Mr. Ferguson explained that the first resolution was to recommend approval by the Board of amendments to Appendix B of UTIMCO Compensation Program (UTIMCO Peer Group). Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

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 (UTIMCO Peer Group) 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, 2009.

Mr. Ferguson recommended, on behalf of the Committee, the next three resolutions as a group. The first resolution was a recommendation to accept letter agreements received from each of five members of Corporation's Senior Staff pursuant to which each individual offered to voluntarily defer an additional 44.1% of his/her Performance Incentive Award for the Performance Period ended June 30, 2009 (which voluntarily deferment is in addition to the mandatory 30% deferment required by the Plan). He stated that this action by the Senior Staff was a real objective indicator of the Staff and the Committee and the Board appreciated their actions. The second resolution was a recommendation to approve the total aggregate amount of \$2,802,558 in Performance Incentive Awards for all Participants for the 2008/2009 Performance Period (excluding the CEO), 30% (\$840,767) deferred pursuant to the Plan and 44.1% (\$551,605) deferred by the five members of the Corporation's Senior Staff pursuant to the letter agreements, resulting in a total deferment of \$1,392,372. The third recommendation from the Compensation Committee was the CEO's Performance Incentive Award for the 2008/2009 Performance Period in the amount of \$576,234 (representing a reduction of 45.1% from the CEO's Performance Incentive Award for the 2007/2008 Performance Period); 30% (\$172,870) deferred pursuant to the Plan and 44.1% (\$254,119) deferred

pursuant to the letter agreement signed by Mr. Zimmerman in April, resulting in a total deferment of \$426,989. Upon motion duly made and seconded, the following resolutions were unanimously adopted by the Board:

First Resolution:

WHEREAS, the Board has reviewed the recommendation of the Compensation Committee regarding the letter agreements received from each of five members of Corporation's Senior Staff pursuant to which each individual offered to voluntarily defer an additional 44.1% of any Performance Incentive Award for the Performance Period ended June 30, 2009 (which voluntary deferment is in addition to the mandatory 30% deferment required by the UTIMCO Compensation Program (the "Plan")) and wishes to document approval of such letter agreements.

NOW, THEREFORE, be it:

RESOLVED, that the letter agreements received from each of five members of Corporation's Senior Staff pursuant to which each individual offered to voluntarily defer an additional 44.1% of his/her Performance Incentive Award for the Performance Period ended June 30, 2009 (which voluntarily deferment is in addition to the mandatory 30% deferment required by the Plan) are hereby approved.

Second Resolution:

WHEREAS, Section 5.5(d) of the UTIMCO Compensation Program (the "Plan") provides that, at the end of each "Performance Period," the Compensation Committee will approve, subject to further approval of the UTIMCO Board, the "Performance Incentive Award" of each Participant based upon a determination of the level of achievement of such Participant against his or her "Performance Goals" for such Performance Period; and

WHEREAS, in recognition of the negative absolute investment returns on Total Endowment Assets during the 2008/2009 Performance Period, each of five members of the Corporation's Senior Staff has voluntarily agreed (collectively, the "Agreements") to defer an additional 44.1% of any Performance Incentive Award earned during such Performance Period, which voluntary deferment is in addition to the mandatory 30% deferment required by the Plan; and

WHEREAS, in accordance with Section 5.5(d) of the Plan, the Compensation Committee has determined the level of achievement by each Participant in the Plan during the 2008/2009 Performance Period of his or her Performance Incentive Goals for such Performance 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 such Participant for such Performance Period in accordance with the calculation methodology set forth in Appendix A of the Plan; and

WHEREAS, Section 5.5(f) of the Plan provides that the Compensation Committee will review all calculations of Performance Incentive Awards, make any changes it deems appropriate, and submit its recommendation 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 2008/2009 Performance Period, made changes it deemed appropriate, approved such Performance Incentive Awards, and recommended that the Board approve the same.

NOW, THEREFORE, be it:

RESOLVED, that the Performance Incentive Awards for all Participants for the 2008/2009 Performance Period (excluding the CEO) in the total aggregate amount of \$2,802,558.00 are hereby approved; and be it further

RESOLVED, that of the total aggregate amount of \$2,802,558.00 in Performance Incentive Awards for all Participants for the 2008/2009 Performance Period (excluding the CEO), 30% (\$840,767.40) will be deferred pursuant to the Plan and 44.1% (\$551,604.99) will be deferred by the five members of the Corporation's Senior Staff pursuant to the Agreements, resulting in a total deferment of \$1,392,372.39.

Third Resolution:

WHEREAS, Section 5.5(d) of the UTIMCO Compensation Program (the "Plan") provides that, at the end of each "Performance Period," the Board will approve the "Performance Incentive Award" of the CEO based upon a determination of the level of achievement of the CEO with respect to his or her "Performance Goals" for such Performance Period; and

WHEREAS, pursuant to the Plan, the Board approved a Performance Incentive Award for the CEO in the total amount of \$1,050,000 for the 2007/2008 Performance Period, 30% of which (\$315,000) was deferred over a three-year period in accordance with the Plan; and

WHEREAS, the Compensation Committee has reviewed and approved the actual performance of the CEO during the 2008/2009 Performance Period and has submitted its recommendation to the Board for approval; and

WHEREAS, the Board has reviewed the actual performance of the CEO during the 2008/2009 Performance Period and has compared such actual performance relative to each Performance Goal category for the CEO against his corresponding Performance Goal for such Performance Period; and

WHEREAS, in recognition of the negative absolute investment returns on Total Endowment Assets during the 2008/2009 Performance Period, the CEO has voluntarily agreed (the "Agreement") to defer an additional 44.1% of any Performance Incentive Award earned during such Performance Period, which

voluntary deferment is in addition to the mandatory 30% deferment required by the Plan.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the CEO's Performance Incentive Award for the 2008/2009 Performance Period in the amount of \$576,234.00 (representing a reduction of 45.1% from the CEO's Performance Incentive Award for the 2007/2008 Performance Period); and be it further

RESOLVED, that of the CEO's \$576,234.00 Performance Incentive Award for the 2008/2009 Performance Period, 30% (\$172,870.20) will be deferred pursuant to the Plan and 44.1% (\$254,119.19) will be deferred pursuant to the Agreement, resulting in a total deferment of \$426,989.39.

Audit and Ethics Committee Report

Mr. Nye asked Mr. Foster to give a report on behalf of the Audit and Ethics Committee. Mr. Foster reported that the Committee met on November 5, 2009 and heard a report from Mr. Wagner regarding Deloitte & Touche LLP's Financial Statement Audit Results and Communications and the audited financial statements of the PUF, GEF, PHF, LTF, ITF (collectively, the "Funds"), and the Statement of Performance Statistics for the year ended August 31, 2009. The Committee also heard a report from the UT System Audit office and received a report on other ethics and compliance activities from staff. The Committee met again earlier in the day, prior to the Board meeting, to approve the CEO's recommendation of the performance incentive award for the performance period ending June 30, 2009, for the General Counsel and Chief Compliance Officer and submit its recommendation, jointly with the CEO, to the Compensation Committee. Mr. Foster asked Mr. Wagner to give a brief summary of the audit of the financial statements of the Funds. Mr. Wagner presented Deloitte & Touche LLP's Financial Statement Audit Results and Communications and highlights related to the audit. Mr. Foster recommended, on behalf of the Committee, the following resolution. Upon motion duly made and seconded, the resolution was unanimously adopted by the Board:

RESOLVED, that Deloitte & Touche 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, 2009, be, and is 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, The University of Texas System General Endowment Fund, and The University of Texas System Intermediate Term Fund each for the fiscal years ended August 31, 2009, and August 31, 2008, and the Statement of Investment Performance Statistics for the year ended August 31, 2009, be, and are hereby approved in the form as presented to the Board.

Risk Committee Report

Mr. Nye asked Mr. Tate to give a report from the Risk Committee. Mr. Tate reported that the Risk Committee met on November 5, 2009. No action items were submitted to the Board on behalf of the Risk Committee at this meeting. At its last meeting, the Committee approved the categorization of nine new investment mandates and discussion of two mandates that are currently being watched for re-categorization. The Committee also received a presentation related to the development of the Derivative Investments Controls and Processes document by Corporation staff and ongoing review of ISDA agreements. Mr. Tate asked Mr. Zimmerman to quickly summarize the review and scope of the Derivative Investments Controls and Processes document. Mr. Zimmerman said Ms. Moeller led the effort, which involved almost all of the investment staff. The resulting document provides detailed steps for Staff to follow to comply with the Derivative Investment Policy and strengthens internal controls to ensure derivative risks are identified, measured appropriately, properly controlled, and reported. Mr. Tate reported that Staff also led a review of the ISDA agreements. He asked Mr. Zimmerman to summarize the review. Mr. Zimmerman stated that Mr. Warner, Mr. Yoeli and Ms. Wagner led the efforts, with assistance of the UT System Finance Office, of a very detailed study of new and existing counterparties to ensure that the Corporation's ISDA agreements contain terms as favorable as those contained in the UT System ISDA agreements. Mr. Tate gave a summary of the review and discussion of compliance reporting. Mr. Zimmerman and Ms. Gonzalez answered the Directors' questions.

2010 Meeting Schedule

Mr. Nye presented the Corporation's Board and Committee Meetings Schedule of 2010.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 3:15 p.m.

Secretary: _____
Joan Moeller

Approved: _____ Date: _____
Erle Nye
Chairman, Board of Directors of
The University of Texas Investment
Management Company

Appendix B

UTIMCO Peer Group

- Columbia University
- Cornell University
- Emory University
- Harvard University
- Massachusetts Institute of Technology
- Northwestern University
- Princeton University
- Rice University
- Stanford University
- The Duke Endowment
- University of California
- University of Chicago
- University of Michigan
- University of Notre Dame
- University of Pennsylvania
- University of Virginia Investment Management Company
- Vanderbilt University
- Washington University in St. Louis
- Yale University

Source: Cambridge Associates. Represents endowment funds (excluding the Total Endowment Assets) with more than 10 full-time employee positions, allocations to alternative assets in excess of 40%, and with assets greater than \$2.5 billion, all to be determined as of the last day of each fiscal year end June 2007, 2008, 2009.

TAB 2

Agenda Item
UTIMCO Board of Directors Meeting
January 26, 2010

Agenda Item: Discussion and Appropriate Action Related to Corporate Resolutions: Colleen McHugh Appreciation Resolution and Designation of Annual Meeting of the UTIMCO Board

Developed By: Staff

Presented By: Nye

Type of Item: Action required by UTIMCO Board

Description: Chairman Nye will acknowledge Ms. McHugh's service as a UTIMCO Board member. He will also designate the annual meeting of the Board of Directors of the Corporation.

Recommendation: Chairman Nye will recommend approval of the Colleen McHugh Appreciation Resolution and designation of the annual meeting.

Reference: None

RESOLUTION RELATED TO ANNUAL MEETING

RESOLVED, that the Annual Meeting of the Board of Directors will be held on April 15, 2010, in Austin, Texas.

TAB 3

Agenda Item
UTIMCO Board of Directors Meeting
January 26, 2010

Agenda Item: Report on Investment Risk

Developed By: Yoeli, Wagner, Zimmerman

Presented By: Yoeli, Zimmerman

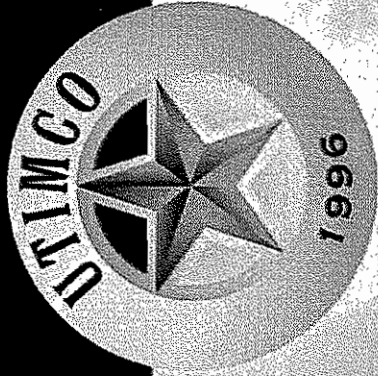
Type of Item: Information Item

Description: Staff will present an overview of investment risks. The discussion will cover the following types of risks:

- Portfolio-level risks, including a discussion on returns and volatility, correlations and diversification, leverage (derivatives), and liquidity risk
- Manager-level risks and the tools to mitigate them
- Additional risks, including government and political risks, and behavioral risks

Recommendation: None

Reference: Investment Risk presentation



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Investment Risk

January 26, 2010



Agenda

- Definition of risk
- Portfolio-level risks
 - Returns and Volatility
 - Correlations and Diversification
 - Leverage (Derivatives)
 - Liquidity
- Manager-level risks (Beta vs Alpha)
 - Fiduciary
 - Investment Guidelines
 - Legal Vehicles
- Additional risks
 - Government/Political
 - Behavioral



Definitions

Standard

- Webster's dictionary: Possibility of loss or injury
- Roget's thesaurus: Gamble, Hazard, Speculate

Investment Risk Management

- More things could happen than will happen
- However, the future is more than a whim of the gods
- The ability to define what may happen in the future and to choose among alternatives
- "Science" of Risk Management
 - Hindu-Arabic Numbering System
 - Renaissance: Probability Theory
 - 1952 Markowitz: Effects of Volatility and Diversification on Expected Returns

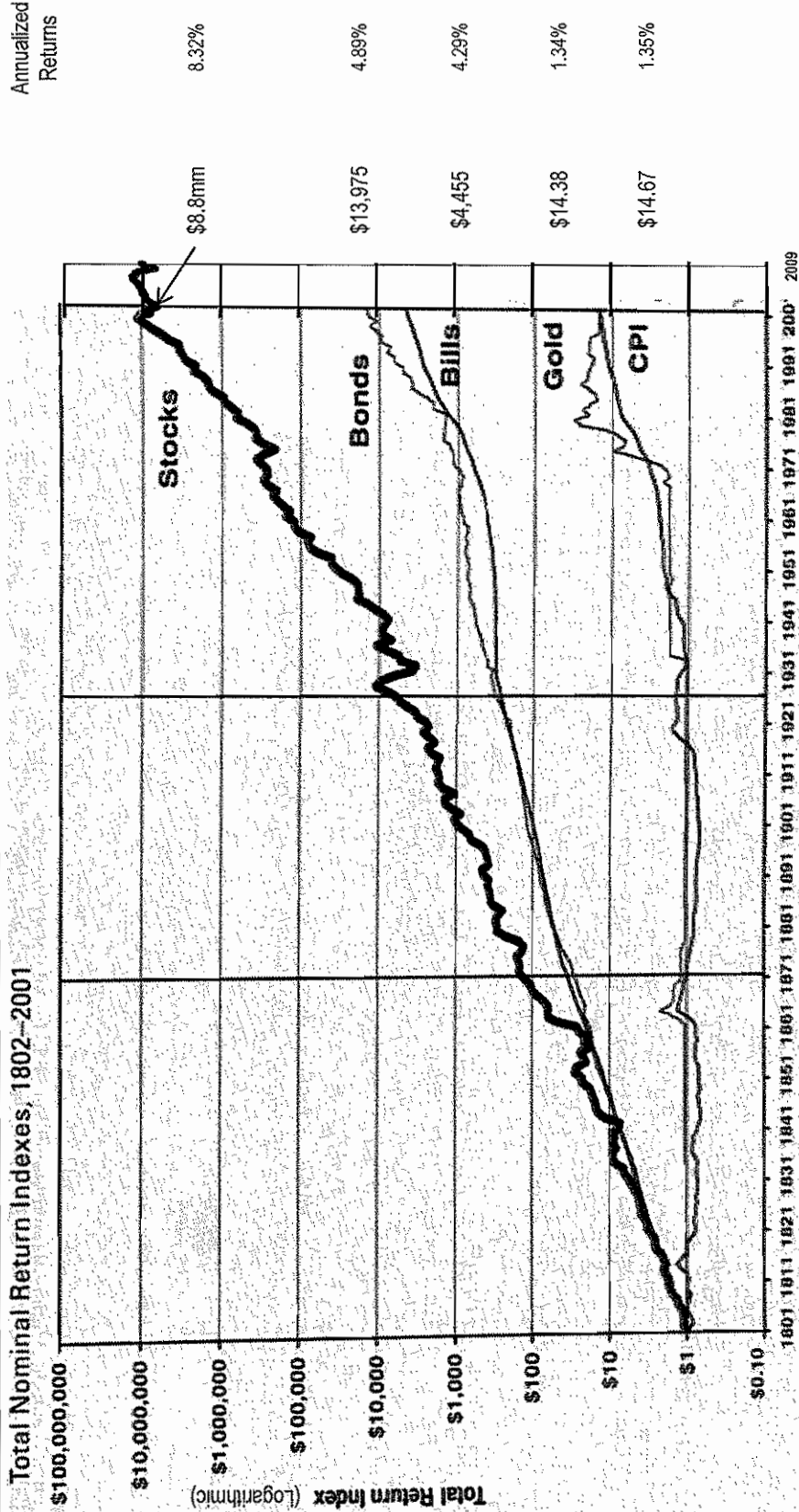


Portfolio-level Returns and Volatility



Stocks, Bonds, Cash & Inflation Returns

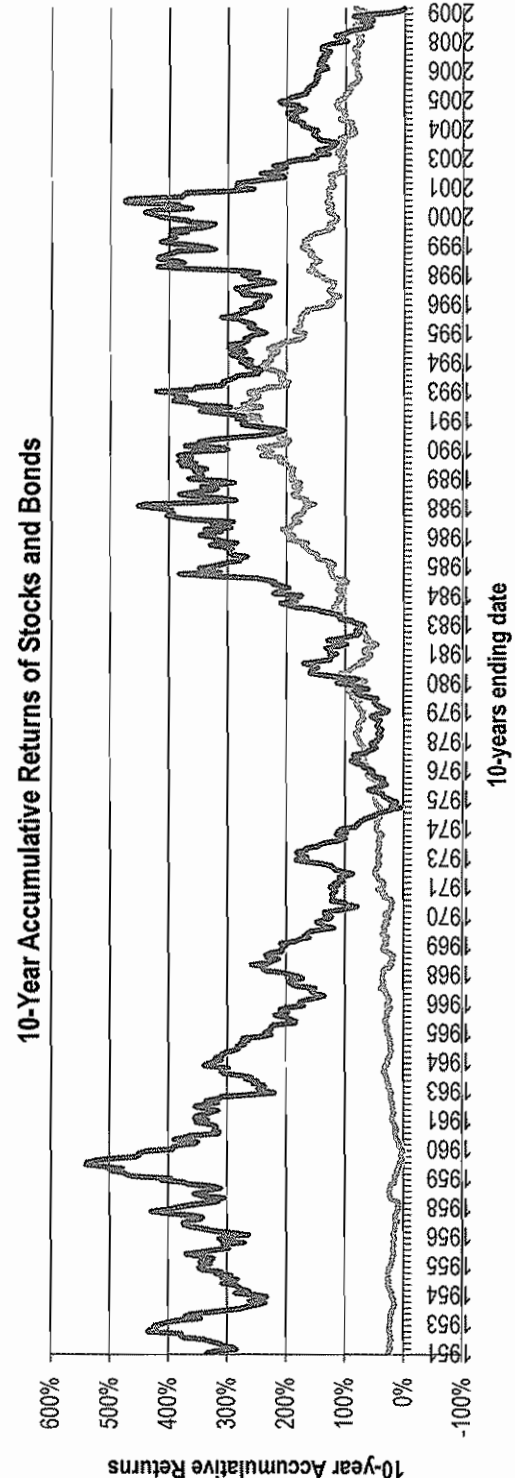
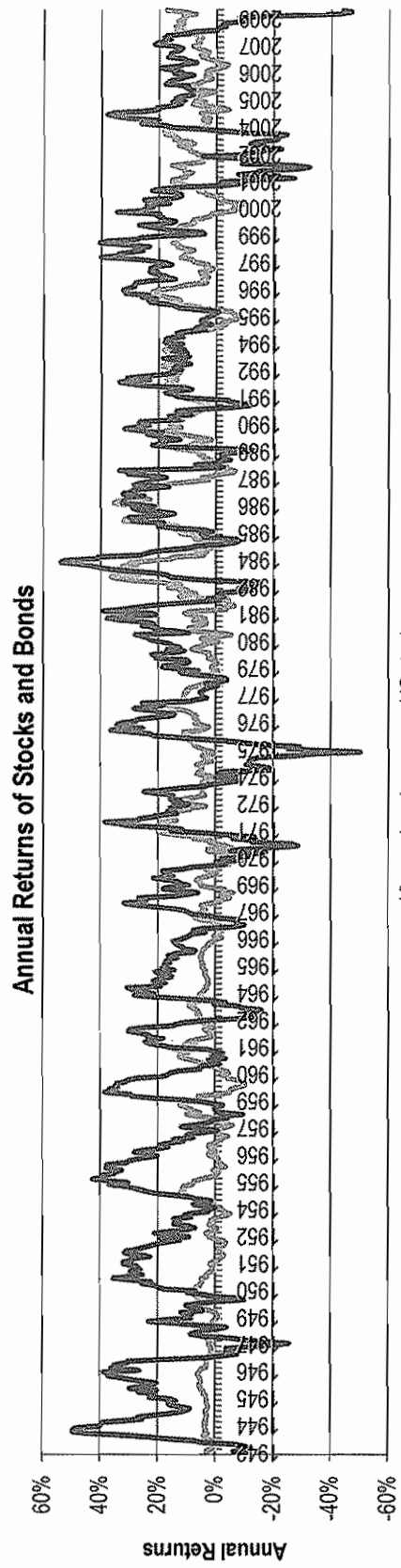
Total Nominal Return Indexes, 1802-2001



Source : Jeremy Siegel, "Stocks for the Long Run." June 2002, McGraw-Hill

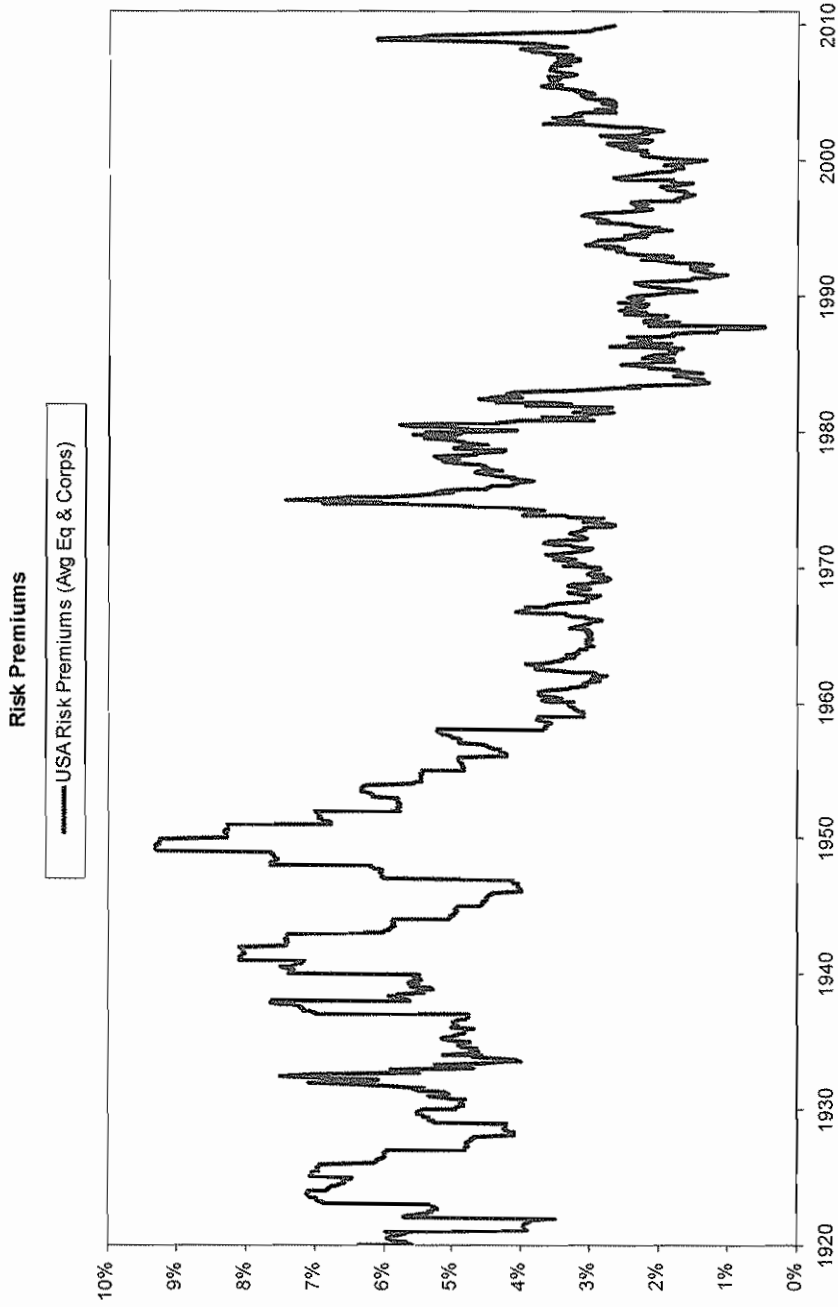


Market





Risk Premiums in Longer Term Perspective

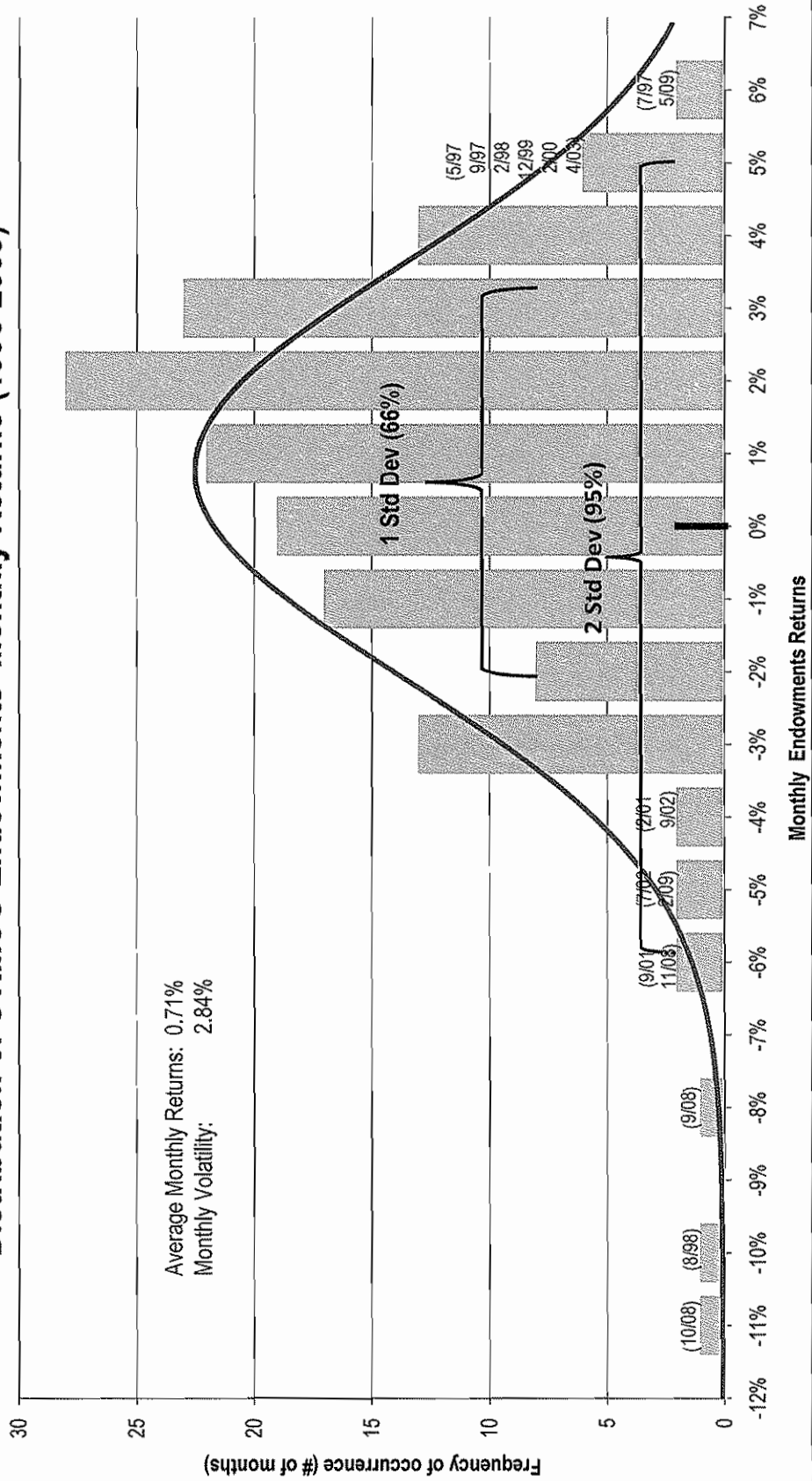


Source: Global Financial Data Inc. and Bridgewater Analysis.



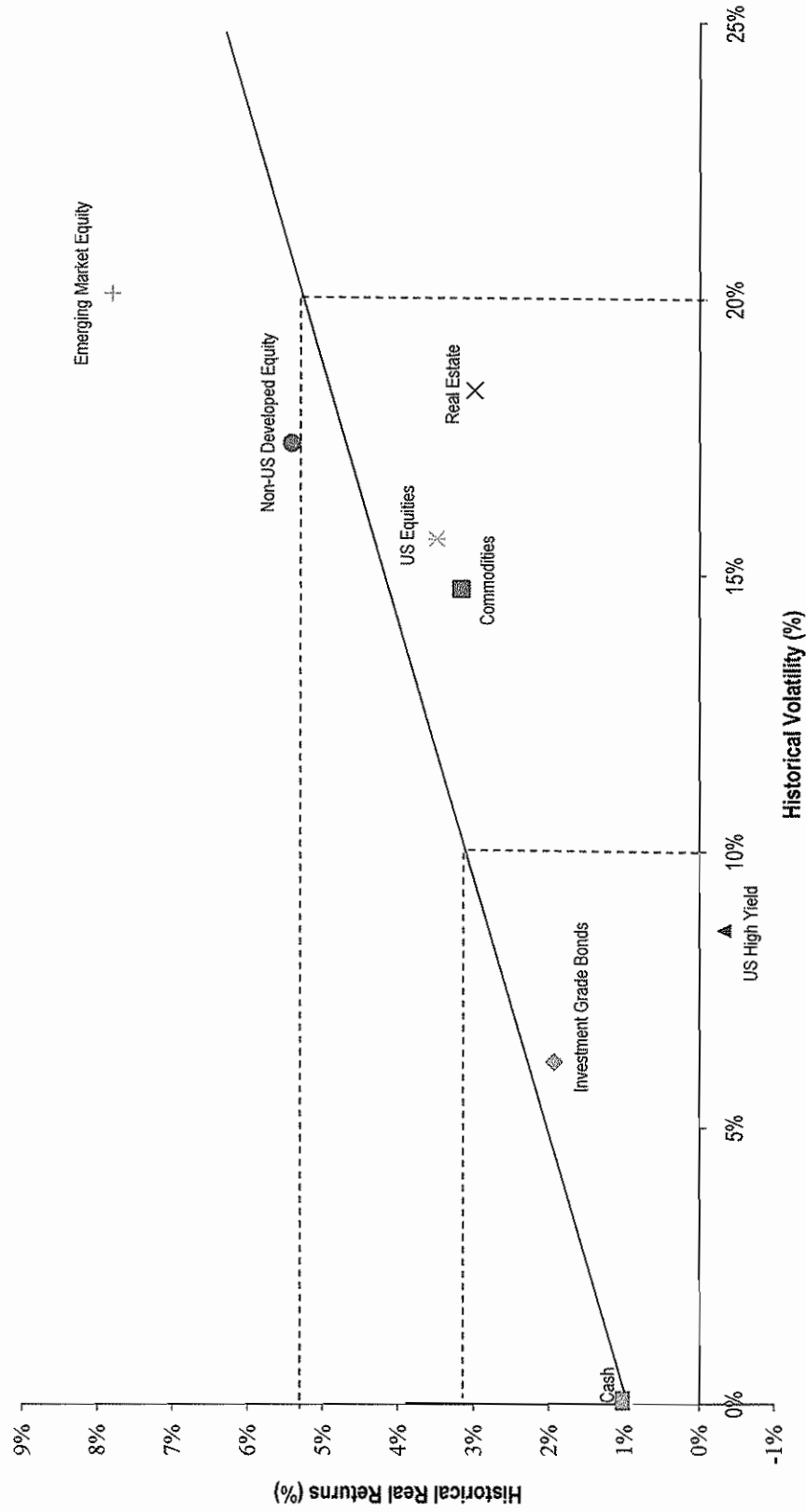
Volatility

Distribution of UTIMCO Endowments' Monthly Returns (1996-2009)





Historical Asset Class Returns (1970 - 2009)





Risk/Return Measurements

- Return/Volatility
 - Return/Downside Risk

Sharpe Ratio

Actual Return – Risk Free Rate
Volatility

Information Ratio

Actual Return – Benchmark Return
Volatility(Actual vs Benchmark)



Risk \neq Return

- Investors expect returns on risky assets to exceed returns on safe assets. Why else take risk?
- A risky asset might end up under-performing a safe asset, even over long periods
 - For example, if stocks were virtually guaranteed to outperform bonds in the long-term, there shouldn't be any takers for long-term bonds
 - This is what makes a risky asset risky
 - The size of the “risk premium” should relate to the probability and severity of the possible under-performance, and to the risk aversion



Portfolio-level Correlations and Diversification



Correlations and Diversification

- From 1941, US stocks annualized returns were 11.51%, with annualized volatility of 14.63%
- 10-year US bonds annualized returns were 5.68%. Volatility was 6.91% and correlation to stocks was 0.13
- 90-day T-bills annualized returns were 4.61% with 0.99% volatility. Correlation to stocks was zero, and correlation to 10-year bonds was 0.25

Portfolios generating 8.5% returns

- 56% stocks, 2% bonds, 42% T-bills: 8.22%volatility
- 50% stocks, 41% bonds, 9% T-bills: 8.19% volatility
- 53% stocks, 22% bonds, 25% T-bills: 8.10%volatility



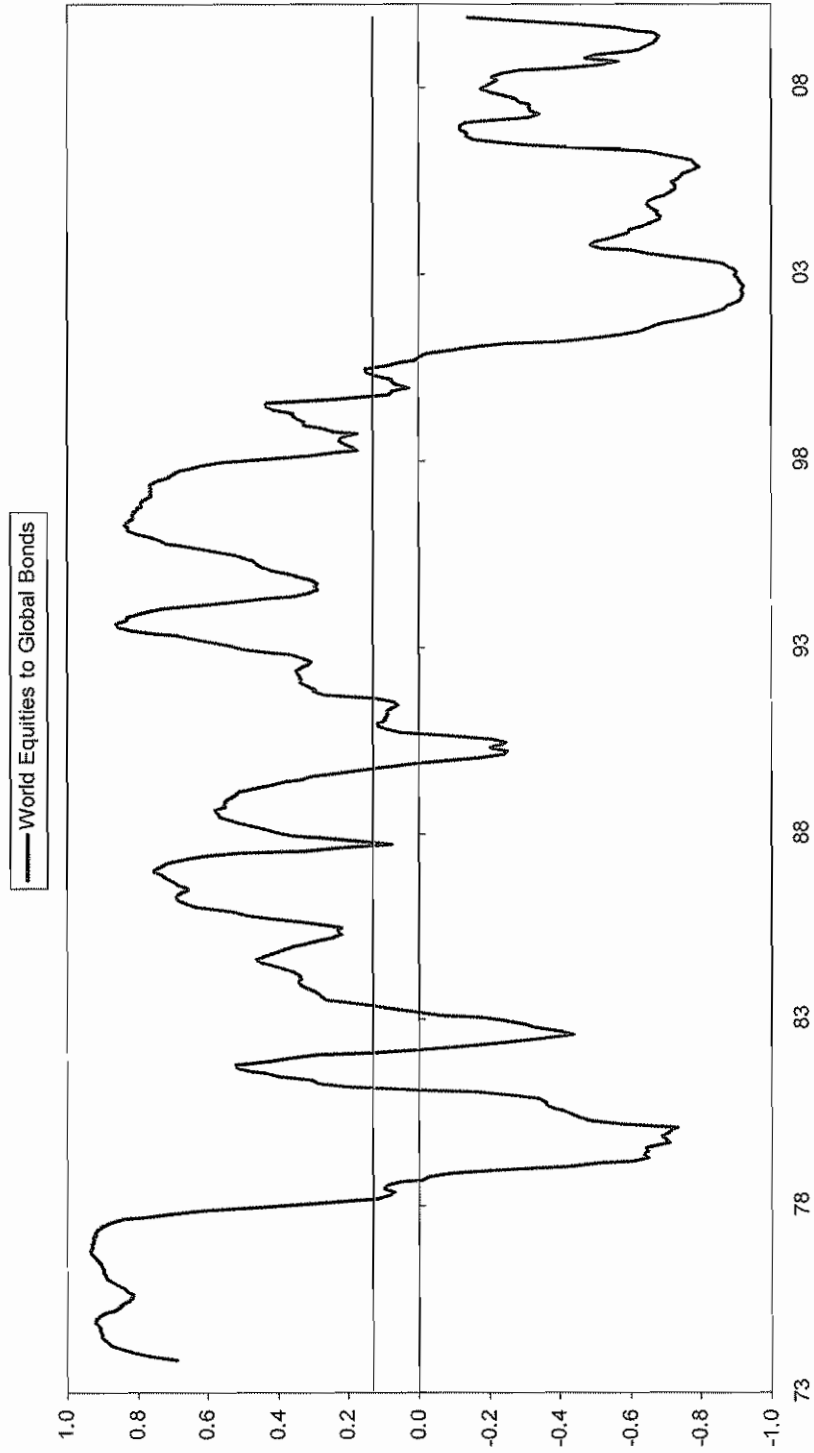
Correlations (1970 - 2009)

| | US Inv Grade Bonds | US High Yield | Real Estate | Commodities | US Equities | Developed Equities | Emerging Markets |
|--------------------|--------------------------|------------------|----------------|-------------|----------------|-----------------------|---------------------|
| US Inv Grade Bonds | 1.00 | | | | | | |
| US High Yield | 0.78 | 1.00 | | | | | |
| Real Estate | 0.17 | 0.44 | 1.00 | | | | |
| Commodities | (0.05) | 0.03 | 0.15 | 1.00 | | | |
| US Equities | 0.18 | 0.38 | 0.59 | 0.11 | 1.00 | | |
| Developed Equities | 0.12 | 0.31 | 0.45 | 0.17 | 0.62 | 1.00 | |
| Emerging Markets | (0.00) | 0.22 | 0.43 | 0.41 | 0.63 | 0.57 | 1.00 |



Correlations Can Shift Drastically

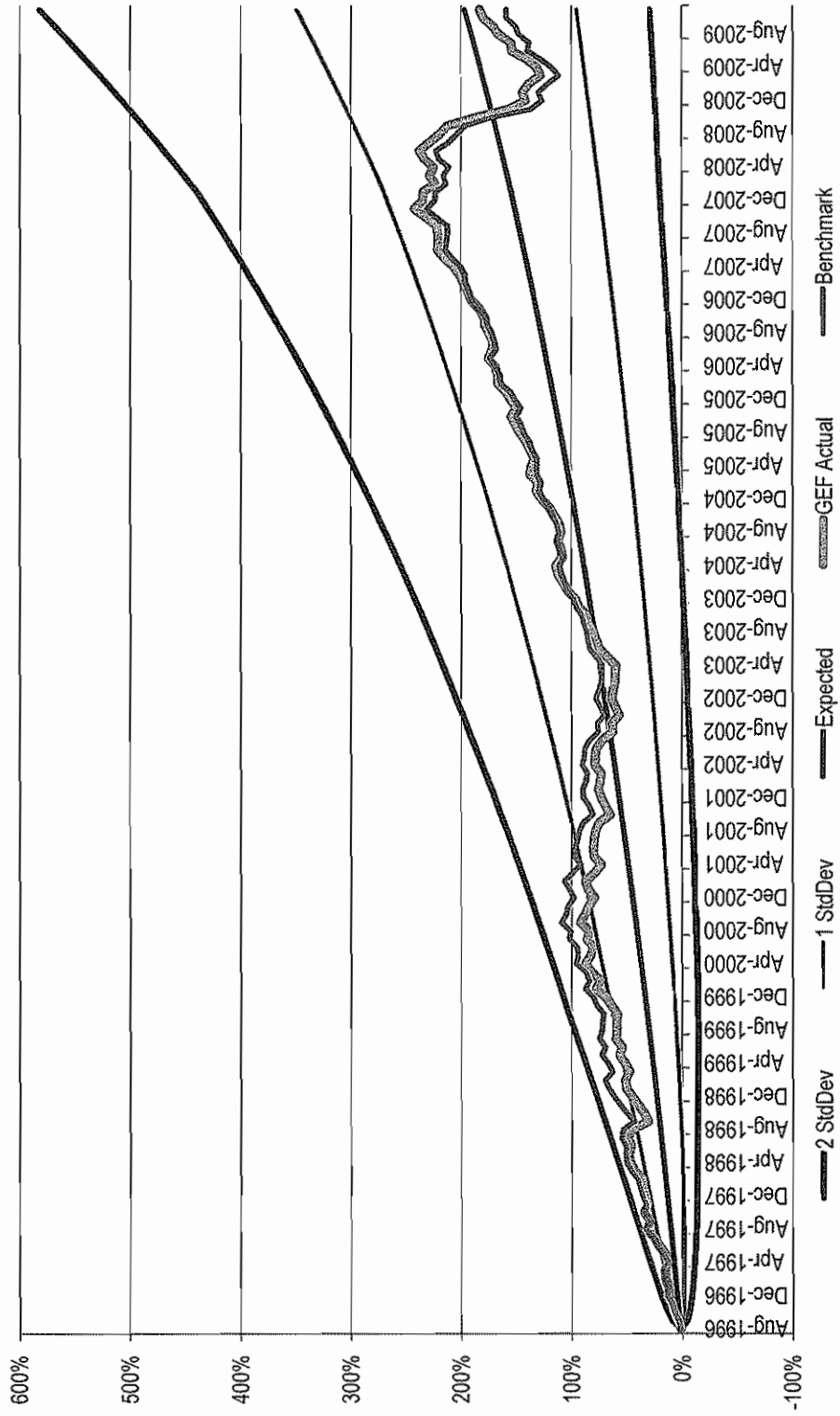
Rolling 3 Year Correlation vs Long-Term Average



Source: Bridgewater Associates

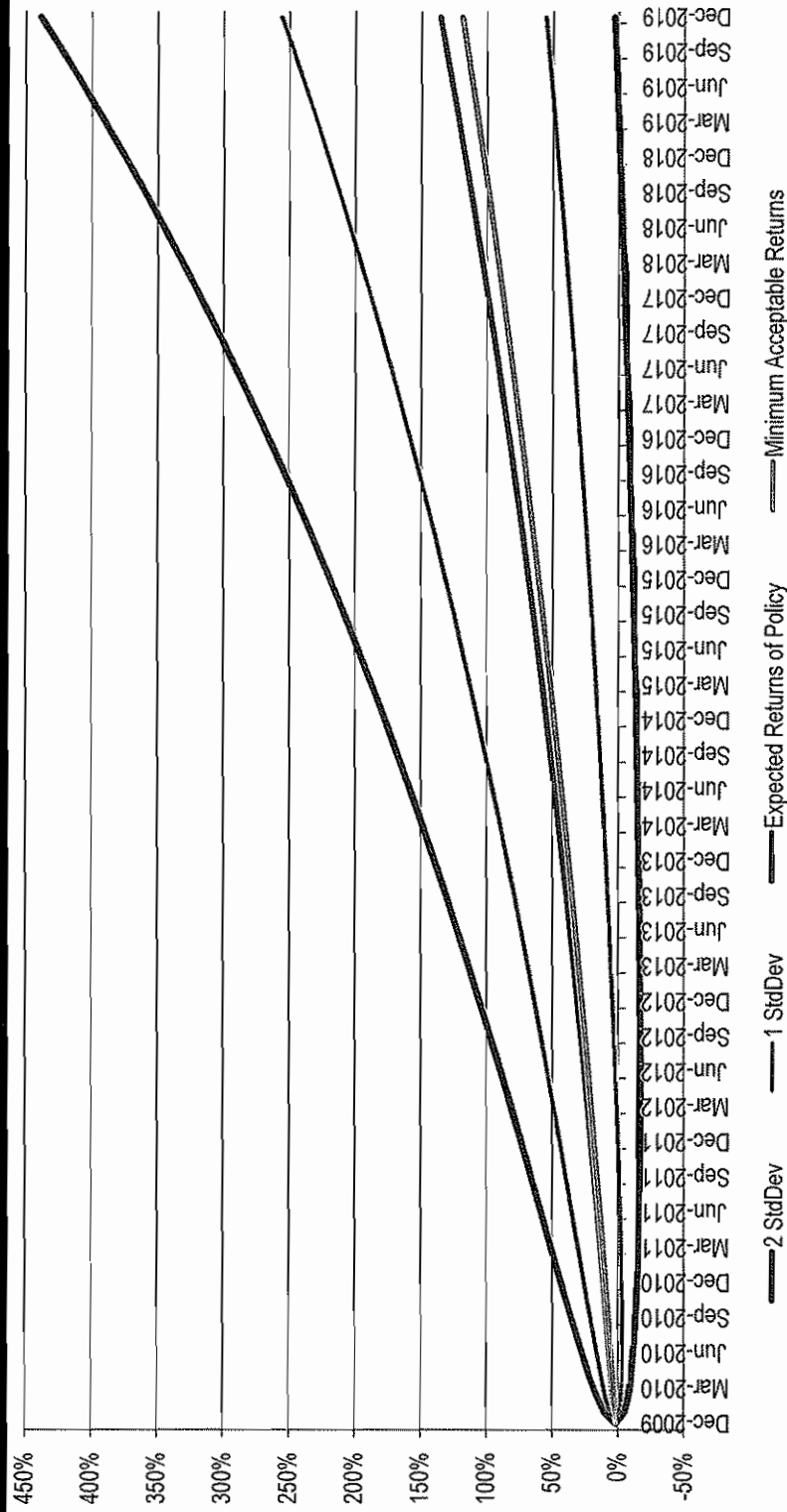


GEF Returns vs Projections





Current Endowment Return Projections



- 43% probability of not meeting the 8.1% MAR over an entire decade
- 14% probability of making less than cash over an entire decade
- 2% probability of losing money over an entire decade



Leverage (Derivatives)



Leverage

- Debt acts as a “lever” to potential outcomes
 - Can enhance returns
 - Can increase potential for loss
- Debt service ability is critical: “Live to see another day”
- Derivatives pose risk if they utilize leverage and/or pose an open-ended loss threat
 - Some derivatives are inherently levered



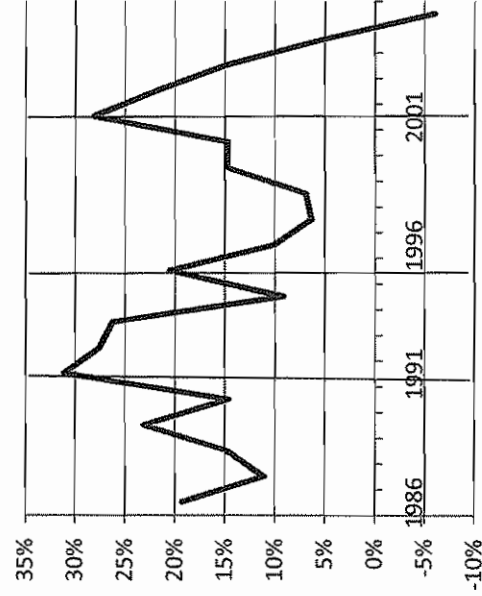
Liquidity



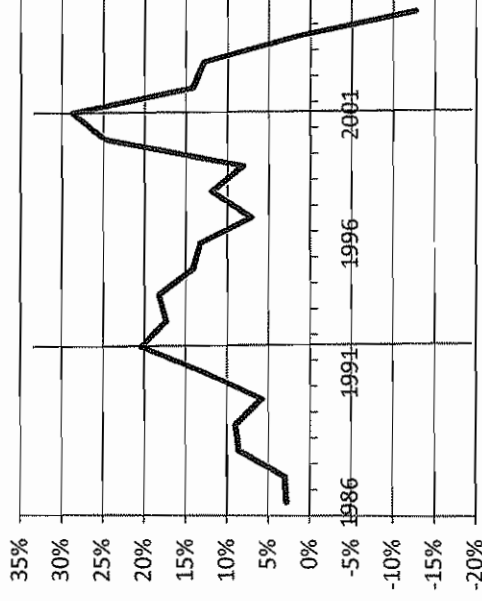
Liquidity

- UT System Credit Rating
- Investment Management: Opportunity Cost
 - Ability to raise cash as needed
 - Avoidance of selling assets at cyclical troughs

Buyouts
(5-7 year cycle)



Real Estate
(10 year cycle)





Obligations

- Distributions
 - Set by Board of Regents based on UTIMCO Board recommendations
 - Smoothing Methodology
 - % vs minimum \$ Methodology
- Unfunded Commitments
 - Scenario Projections
- Portfolio-level Leverage through the use of Derivatives



Manager-level Risks



Market (Beta) and Manager (Alpha) Risk/Return

- **Market Risk (Beta)**
 - Beta is inexpensive, i.e. Indexes/ETFs
 - Systemic risk

- **Manager Risk (Alpha)**
 - Manager outperformance versus the market
 - Skill-based performance
 - Idiosyncratic risk (Diversified)

Correlation of EM managers with EM index

| | |
|----------|-------|
| Rexiter | 99.7% |
| BGI EMSI | 99.5% |
| Lazard | 99.0% |
| Blakeney | 79.4% |

Correlation of EM managers' excess returns (alpha)

| | Rexiter | BGI EMSI | Lazard | Blakeney |
|----------|---------|----------|--------|----------|
| Rexiter | 1 | -0.16 | 0.21 | 0.27 |
| BGI EMSI | | 1 | -0.08 | 0.32 |
| Lazard | | | 1 | -0.04 |
| Blakeney | | | | 1 |



UTIMCO Managers

Manager Count as of November 30, 2009

| | Number of Managers | | | Total |
|-------------------------------|--------------------|-----------|------------|------------|
| | MCC | LCC | PI | |
| Investment Grade Fixed Income | 4 | 1 | 0 | 5 |
| Credit Related Fixed Income | 3 | 9 | 16 | 28 |
| Real Estate | 6 | 1 | 7 | 14 |
| Natural Resources | 3 | 1 | 8 | 12 |
| Developed Equity | 12 | 24 | 62 | 98 |
| Emerging Equity | 9 | 5 | 12 | 26 |
| Total | 37 | 41 | 105 | 183 |

- Additional Counterparties: Brokerage, Custodian, Reporting, Accounting, Risk Provider, Security Lending, Information Technology Providers



- Due Diligence
- Monitoring



Manager-level Risks: Investment Guidelines and Legal Vehicles



Investment Guidelines and Legal Vehicles

- Investment Guidelines
 - Must do
 - Can do
 - Cannot do
- Legal Vehicles
 - Comingled Funds
 - Partnership Agreement
 - Separate Account
 - Agency Agreement
- Legal Domiciles
- Accounting Standards



Additional Risks



Governmental / Political

- Rule of Law
 - Democracy
 - Separation of Powers
 - Checks and Balances
 - Property / Capital Rights
 - Civil Liberties
 - Freedom of the Press
- Political Risk
 - Rules change
 - Rulers change



Behavioral Risk

- Propensity to overestimate our own knowledge, ability and expertise
- Selectively editing our memories of past decisions and results
- Attributing success to ourselves, failure to the environment (“unlucky”)
- “Anchoring” (overrating the importance of recent information and extrapolating present trends)
- Herding
- Illusion of control: the believe that if things go wrong, we will be able to sort them out
- When uncertainty explodes, our sense of control evaporates, and our outlook, always foggy at best, becomes impenetrable. This “shock” leads to risk aversion.
- Agency issues



Conclusions

- Risk Management is critical, daunting and continuous
- Lots of Risks
- Quantitative Tools Available and Useful
- Skill matters
- Partners, Guidelines and Structures are all extremely important

TAB 4



Funds Update

| | <u>Page</u> |
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| •Returns | 2 |
| •Assets | 9 |
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| •Investment Activity | 38 |
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Returns



UTIMCO Performance Summary November 30, 2009

| | Net Asset Value 11/30/2009 (in Millions) | Periods Ended November 30, 2009 (Returns for Periods Longer Than One Year are Annualized) | | | | | | | | | |
|-------------------------------------|---|--|--------------|--------------|--------------|------------------|----------------|----------------|----------------|--------|--------|
| | | Short Term | | Year to Date | | Historic Returns | | | | | |
| | | 1 Mo | 3 Mos | Fiscal | Calendar | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs | 10 Yrs | 10 Yrs |
| ENDOWMENT FUNDS | | | | | | | | | | | |
| Permanent University Fund | \$10,341 | 3.03% | 7.57% | 7.57% | 19.72% | 21.04% | (0.02%) | 5.15% | 5.35% | | |
| General Endowment Fund | | 2.99 | 7.52 | 7.52 | 19.57 | 20.88 | 0.09 | 5.20 | N/A | | |
| Permanent Health Fund | 895 | 3.08 | 7.53 | 7.53 | 19.48 | 20.74 | 0.00 | 5.12 | N/A | | |
| Long Term Fund | 4,833 | 3.08 | 7.53 | 7.53 | 19.47 | 20.74 | 0.00 | 5.13 | 5.57 | | |
| Separately Invested Funds | 111 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | | |
| Total Endowment Funds | 16,180 | | | | | | | | | | |
| OPERATING FUNDS | | | | | | | | | | | |
| Short Term Fund | 1,639 | 0.02 | 0.06 | 0.06 | 0.51 | 0.64 | 3.08 | 3.44 | 3.25 | | |
| Intermediate Term Fund | 3,928 | 2.86 | 6.90 | 6.90 | 22.84 | 26.85 | 1.44 | N/A | N/A | | |
| Total Operating Funds | 5,567 | | | | | | | | | | |
| Total Investments | \$21,747 | | | | | | | | | | |
| VALUE ADDED (Percent) | | | | | | | | | | | |
| Permanent University Fund | | 0.78% | 1.95% | 1.95% | 4.35% | 3.93% | 2.99% | 1.83% | 1.41% | | |
| General Endowment Fund | | 0.74 | 1.90 | 1.90 | 4.20 | 3.77 | 3.10 | 1.88 | N/A | | |
| Short Term Fund | | 0.01 | - | - | 0.31 | 0.44 | 0.53 | 0.38 | 0.22 | | |
| Intermediate Term Fund | | 0.39 | 1.24 | 1.24 | 1.61 | 1.30 | 2.52 | N/A | N/A | | |
| VALUE ADDED (\$ IN MILLIONS) | | | | | | | | | | | |
| Permanent University Fund | | \$77 | \$187 | \$187 | \$378 | \$337 | \$916 | \$886 | \$1,340 | | |
| General Endowment Fund | | 41 | 103 | 103 | 205 | 181 | 529 | 506 | N/A | | |
| Intermediate Term Fund | | 15 | 45 | 45 | 51 | 40 | 273 | N/A | N/A | | |
| Total Value Added | | \$133 | \$335 | \$335 | \$634 | \$558 | \$1,718 | \$1,392 | \$1,340 | | |

(1) - Benchmark returns for the PUF, GEF/LTF, and ITF have been restated for certain prior periods. Details of the restatements and previous policy portfolio benchmark history may be found at www.UTIMCO.org

(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.

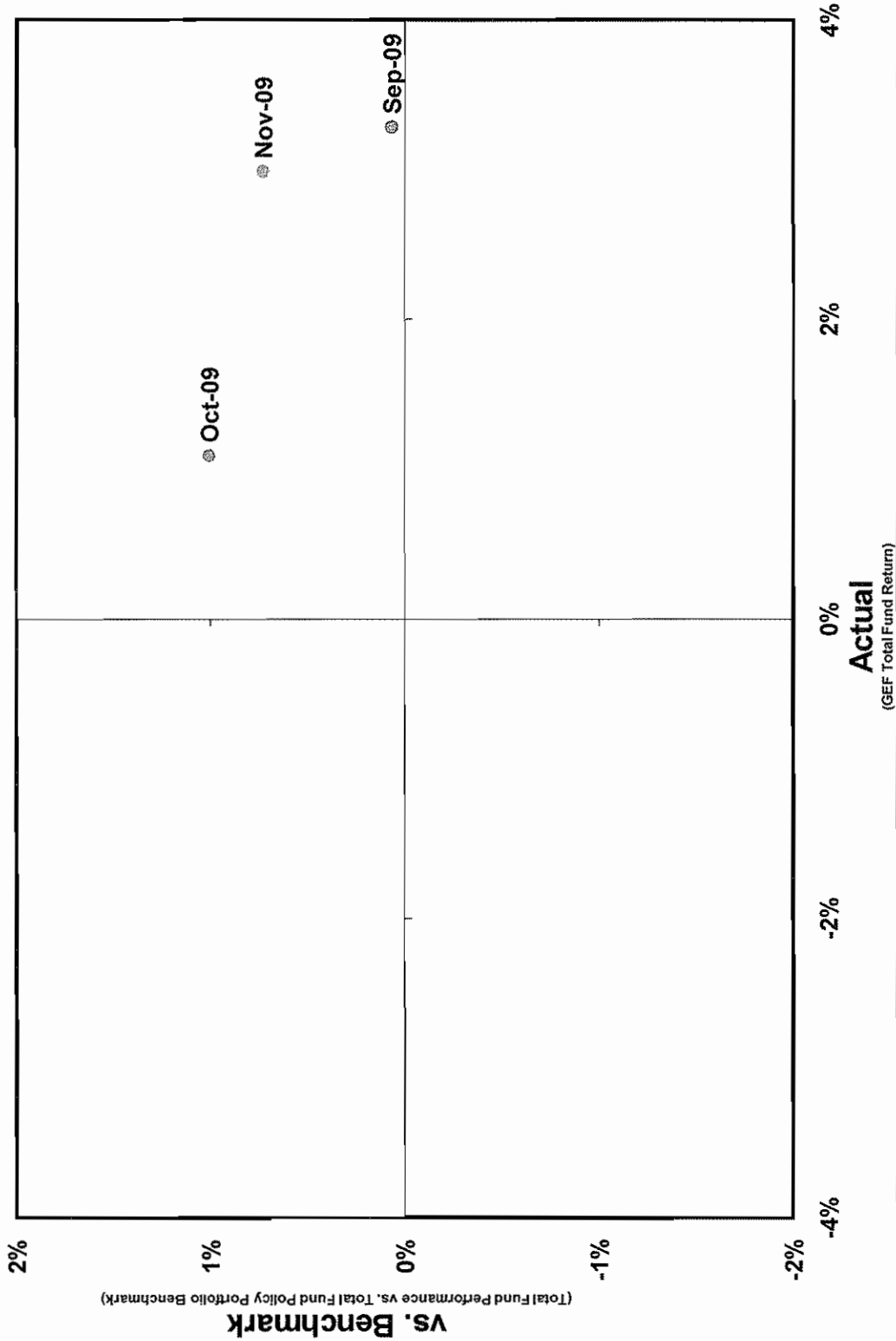


Performance During Last 3 and 11 Months

| | 3 Months Ended November 2009 | Calendar Year 11 Months Ended November 2009 |
|-----------------------|---------------------------------|---|
| BarCap Global Agg | 5.2% | 11.1% |
| BarCap TIPS | 6.2% | 13.9% |
| BarCap High Yield | 9.5% | 56.3% |
| Global REITs | 6.4% | 33.4% |
| DJ-UBS | 8.6% | 16.6% |
| Oil Spot | 10.5% | 73.3% |
| Natural Gas | 84.2% | -21.5% |
| Copper | 6.9% | 126.1% |
| S&P 500 | 7.9% | 24.1% |
| Nasdaq 100 | 8.8% | 45.9% |
| EAFE | 4.6% | 29.9% |
| FTSE 100 | 6.4% | 17.1% |
| DJ Euro Stoxx 50 | 5.2% | 22.7% |
| Topix | -6.5% | 4.8% |
| MSCI Emerging Markets | 13.9% | 71.7% |
| Brazil Index | 27.0% | 124.9% |
| China Index | 24.1% | 61.9% |
| India Index | 13.4% | 83.5% |
| Russia Index | 28.9% | 117.6% |
| GEF | 7.5% | 19.6% |
| ITF | 6.9% | 22.8% |

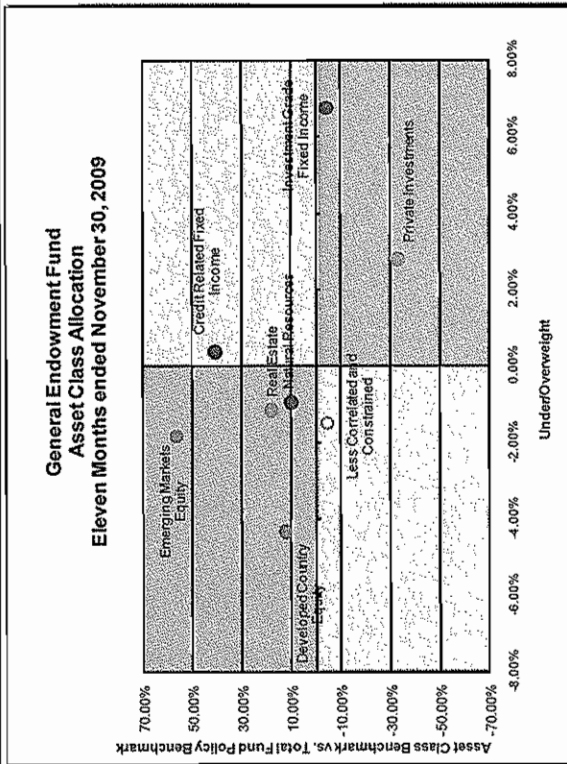


Actual and "vs. Benchmark" Returns by Month Fiscal Year 2010 (GEF)

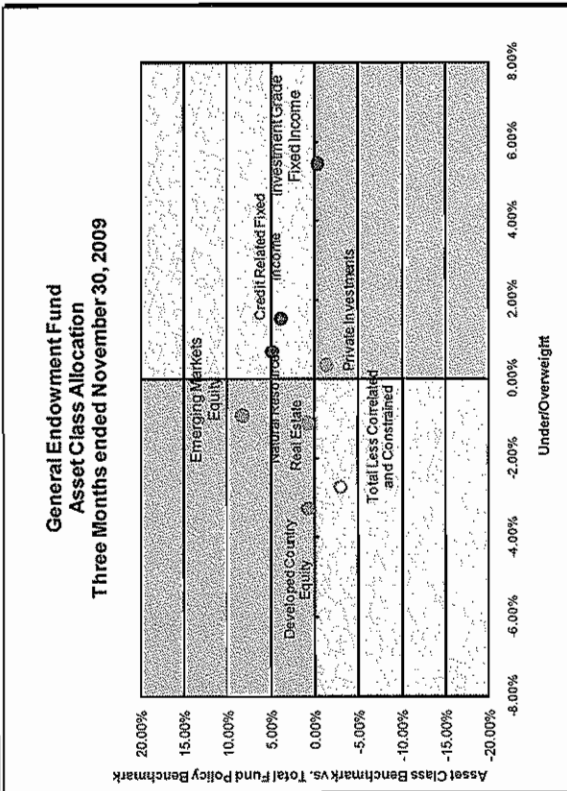




Tactical Asset Allocation



| | Actual Returns | Benchmark Returns | Impact on Over/(Under) Performance (bps) |
|---|----------------|-------------------|--|
| Less Correlated and Constrained | 17.60% | 10.77% | 9 |
| Subtotal | | | 9 |
| Natural Resources | 36.75% | 25.57% | (4) |
| Credit Related Fixed Income | 33.94% | 56.26% | (5) |
| Real Estate | 35.22% | 33.43% | (26) |
| Investment Grade Fixed Income | 13.67% | 11.11% | (35) |
| Developed Country Equity | 26.49% | 27.70% | (47) |
| Emerging Markets Equity | 58.87% | 71.72% | (96) |
| Subtotal | | | (213) |
| Total Fund excluding Private Investments | | | (204) |
| Private Investments | 1.02% | -17.51% | (70) |
| Total Fund | 19.57% | 15.37% | (214) |



| | Actual Returns | Benchmark Returns | Impact on Over/(Under) Performance (bps) |
|---|----------------|-------------------|--|
| Less Correlated and Constrained | 6.00% | 2.61% | 8 |
| Credit Related Fixed Income | 12.49% | 9.45% | 5 |
| Natural Resources | 13.77% | 10.52% | 5 |
| Subtotal | | | 18 |
| Real Estate | 6.80% | 6.42% | (1) |
| Investment Grade Fixed Income | 4.50% | 5.23% | (2) |
| Developed Country Equity | 6.30% | 6.31% | (5) |
| Emerging Markets Equity | 12.89% | 13.90% | (8) |
| Subtotal | | | (16) |
| Total Fund excluding Private Investments | | | 2 |
| Private Investments | 7.41% | 4.17% | 22 |
| Total Fund | 7.52% | 5.62% | 24 |



Active Management Value Added Periods Ended November 30, 2009 (GEF)

| | 3 Months (bps) | Manager (Alpha) |
|--|-------------------|---|
| Less Correlated | 117 | Penta Asia L/S (21.03), Penta Asia (15.86), Bridgewater Pure Alpha II (10.86) |
| Natural Resources | 17 | Gold Futures (2.30), Blackrock Global Mining (.94), Blackrock Global (.46) |
| Credit Related Fixed Income | 2 | Watershed II (1.30), Watershed I (1.14), Angelo Gordon (.34) |
| Real Estate | 2 | Credit Suisse (.32), Cohen & Steers (.21), Cohen & Steers Global (.18) |
| Developed Country Equity | 1 | Value Act (1.20), Wellington (.41), Australia ETF (.14) |
| Subtotal | 139 | |
| Investment Grade Fixed Income | (3) | Total Internal Fixed Income (.68), Liquidity (.43), Brandywine (.16) |
| Emerging Markets Equity | (10) | Blakeney (1.15), Lazard (.73), BGI EIMI (.52) |
| Subtotal | (13) | |
| Total Fund excluding Private Investments | 126 | |
| Private Investments | 55 | |
| Total Fund | 181 | |

| | 11 Months (bps) | Manager (Alpha) |
|--|-----------------------|---|
| Less Correlated | 211 | Centerbridge Credit Partners (29.16), Penta Asia L/S (17.09), Silverpoint (14.75) |
| Natural Resources | 56 | Blackrock Global (4.72), Blackrock Small Cap (3.17), Natural Resources Equity Swap (1.81) |
| Investment Grade Fixed Income | 21 | PIMCO Fixed (2.36), Brandywine (1.32), Internal Investment Grade Credit (.50) |
| Real Estate | 13 | MS REITS (2.55), European Investors (2.53), BGI ex-US Real Estate (.94) |
| Subtotal | 301 | |
| Developed Country Equity | (19) | S&P 500 Futures (3.46), Japan Futures (2.51), International Developed Futures (.82) |
| Credit Related Fixed Income | (23) | Watershed I (18.59) |
| Emerging Markets Equity | (100) | Blakeney (8.42), BGI EIMI (1.49) |
| Subtotal | (142) | |
| Total Fund excluding Private Investments | 159 | |
| Private Investments | 437 | |
| Total Fund | 596 | |



Value-Add Analysis

| | FY05 | FY06 | FY07 | FY08 | FY09 | FY05-09 | 1QFY10 |
|----------------------------|--------------|---------------|---------------|---------------|---------------|---------------|--------------|
| MCC | | | | | | | |
| Tactical | 0.43% | -0.54% | 0.14% | 0.82% | 0.29% | 0.23% | -0.03% |
| Active | 0.42% | -0.81% | -0.74% | -0.19% | -1.68% | -0.62% | 0.13% |
| TOTAL | 0.85% | -1.35% | -0.60% | 0.63% | -1.39% | -0.39% | 0.10% |
| LCC | | | | | | | |
| Tactical | -0.01% | 0.07% | -0.02% | -0.09% | 0.04% | 0.00% | 0.02% |
| Active | 2.09% | 0.86% | 2.63% | 2.02% | 1.68% | 1.89% | 1.11% |
| TOTAL | 2.08% | 0.93% | 2.61% | 1.93% | 1.71% | 1.88% | 1.12% |
| Private Investments | | | | | | | |
| Tactical | -0.68% | -0.42% | -0.69% | 0.14% | 0.35% | -0.27% | 0.18% |
| Active | 1.51% | -0.57% | 1.20% | -0.59% | 1.54% | 0.62% | 0.51% |
| TOTAL | 0.83% | -0.99% | 0.51% | -0.45% | 1.88% | 0.36% | 0.68% |
| Overall GEF | | | | | | | |
| Tactical | -0.26% | -0.89% | -0.57% | 0.87% | 0.67% | -0.04% | 0.17% |
| Active | 4.02% | -0.52% | 3.09% | 1.24% | 1.53% | 1.89% | 1.74% |
| TOTAL | 3.76% | -1.41% | 2.52% | 2.11% | 2.20% | 1.86% | 1.90% |



Assets



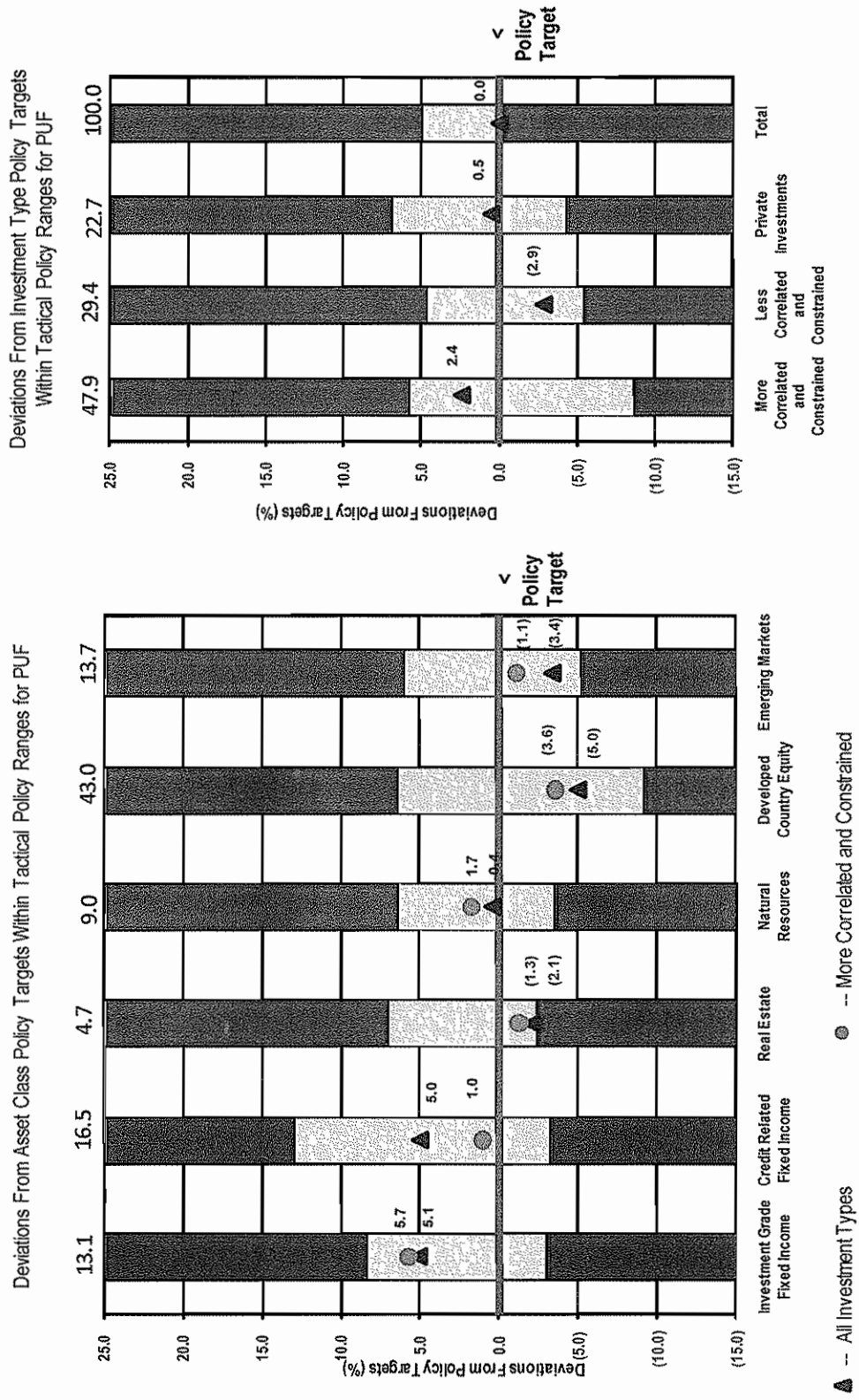
Combined PUF and GEF Asset Allocation as of November 30, 2009 (in millions)

| Asset Group | Asset Class | More Correlated and Constrained | | Less Correlated and Constrained | | Private Investments | | Grand Total | |
|---------------------------|-------------------|---------------------------------|--------------|---------------------------------|--------------|---------------------|--------------|------------------|---------------|
| | | \$ | % | \$ | % | \$ | % | \$ | % |
| Fixed Income | Investment Grade | \$ 1,736 | 10.8% | \$ 235 | 1.5% | \$ - | 0.0% | \$ 1,971 | 12.3% |
| | Credit-Related | 288 | 1.8% | 1,174 | 7.3% | 1,230 | 7.7% | 2,692 | 16.8% |
| Fixed Income Total | | 2,024 | 12.6% | 1,409 | 8.8% | 1,230 | 7.7% | 4,663 | 29.1% |
| Real Assets | Real Estate | \$ 587 | 3.6% | \$ 67 | 0.4% | \$ 91 | 0.6% | 745 | 4.6% |
| | Natural Resources | 1,179 | 7.3% | 16 | 0.1% | 274 | 1.7% | 1,469 | 9.1% |
| Real Assets Total | | 1,766 | 10.9% | 83 | 0.5% | 365 | 2.3% | 2,214 | 13.7% |
| Equity | Developed Country | \$ 2,238 | 13.9% | \$ 2,881 | 17.9% | \$ 1,829 | 11.4% | 6,948 | 43.2% |
| | Emerging Markets | 1,586 | 9.9% | 406 | 2.5% | 250 | 1.6% | 2,242 | 14.0% |
| Equity Total | | 3,824 | 23.8% | 3,287 | 20.4% | 2,079 | 13.0% | 9,190 | 57.2% |
| Grand Total | | \$ 7,614 | 47.3% | \$ 4,779 | 29.7% | \$ 3,674 | 23.0% | \$ 16,067 | 100.0% |

The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.



PUF Asset Allocation as of November 30, 2009

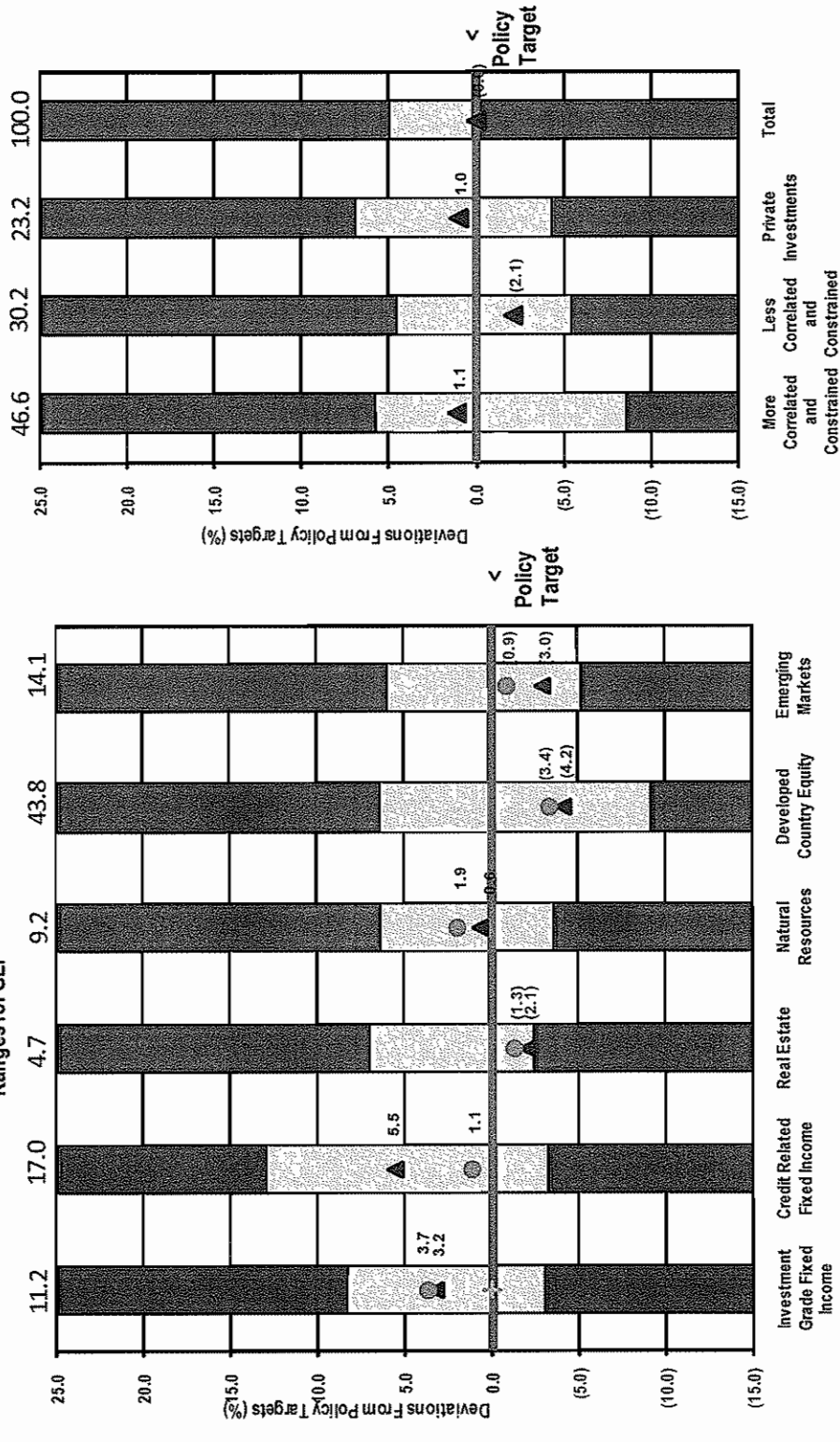




GEF Asset Allocation as of November 30, 2009

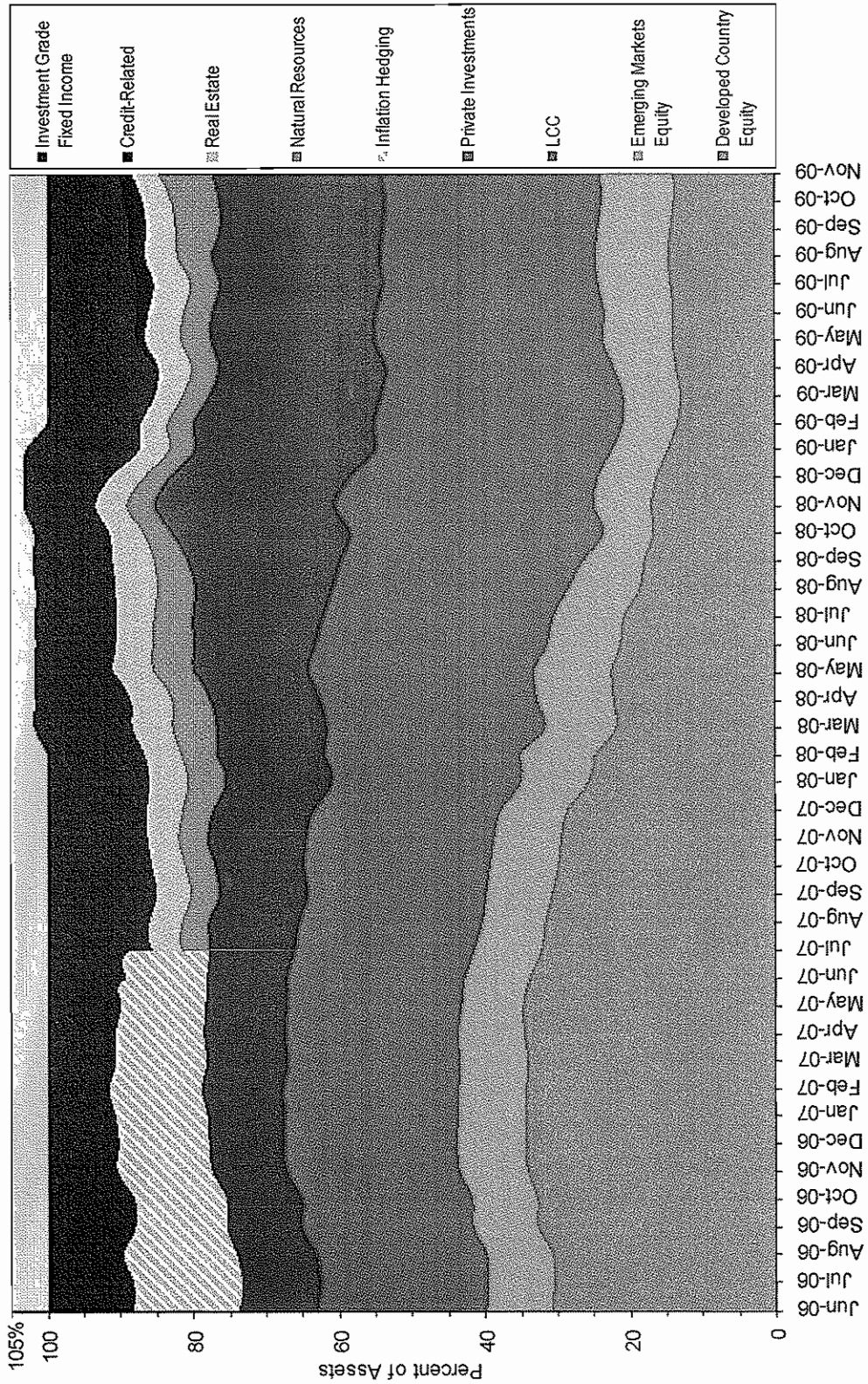
Deviations From Investment Type Policy Targets Within Tactical Policy Ranges for GEF

Deviations From Asset Class Policy Targets Within Tactical Policy Ranges for GEF



▲ -- All Investment Types
● -- More Correlated and Constrained

Asset Allocation Over Time (GEF)





LCC Investment Policy Categorizations vs. "Look Thru" Exposures (11/30/09)

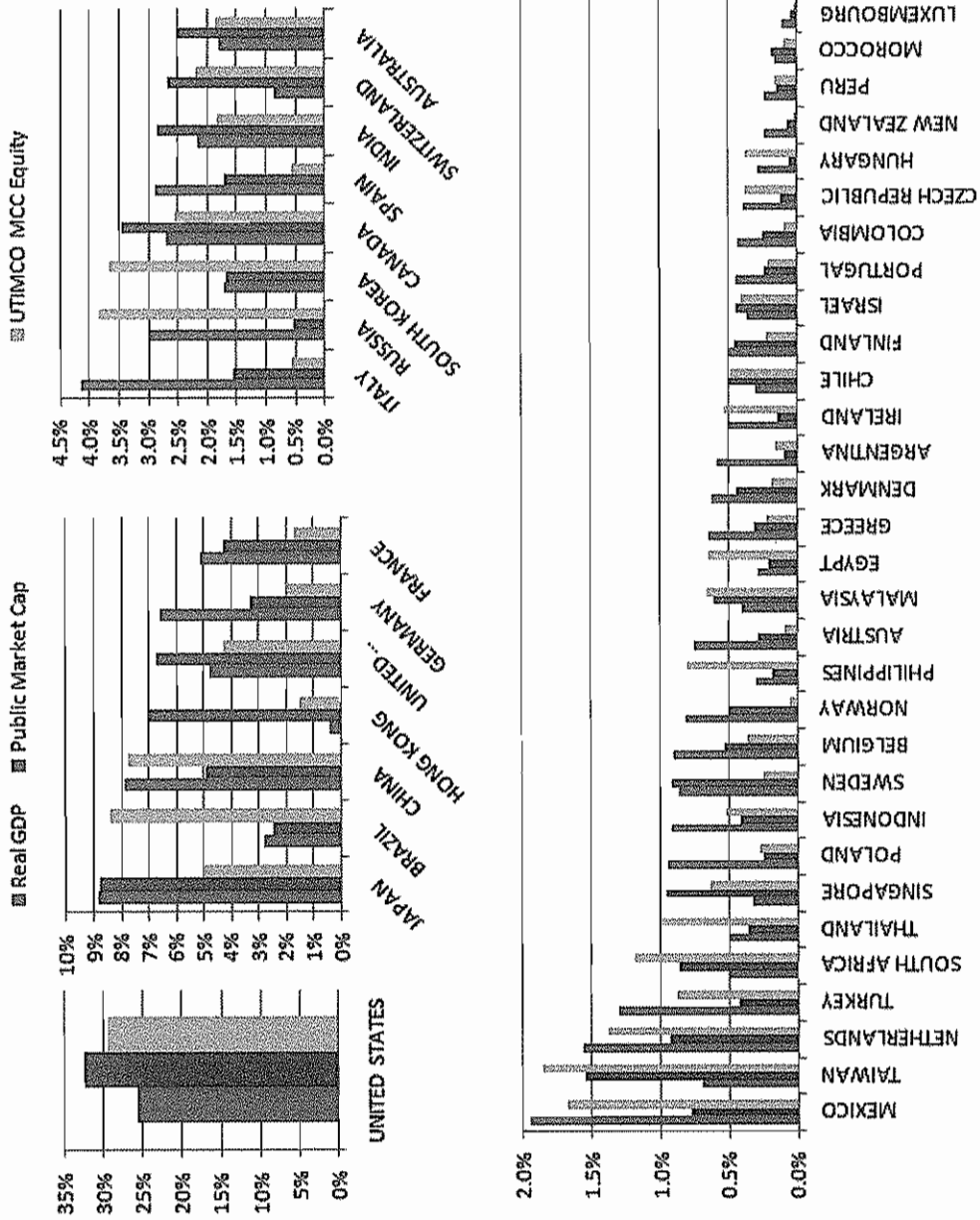
| Exposure Methodology Comparison | | | |
|--|--------------|--------------|-------------|
| | Policy | Look-Through | Difference |
| Investment Grade Fixed Income | 1.4% | 2.5% | 1.0% |
| Credit-Related Fixed Income | 7.2% | 7.6% | 0.4% |
| Real Estate | 0.4% | 0.3% | -0.1% |
| Natural Resources | 0.1% | 0.4% | 0.3% |
| Developed Country Equity | 17.6% | 15.1% | -2.6% |
| Emerging Markets Equity | 2.5% | 3.3% | 0.9% |
| Less Correlated & Constrained | 29.2% | 29.2% | 0.0% |

| UTIMCO FY Target Comparison | | | |
|-----------------------------|--------------|--------------|--------------|
| Current per | 8/31/10 | Target | Difference |
| Policy | | | |
| | 1.4% | 2.0% | -0.6% |
| | 7.2% | 3.2% | 4.0% |
| | 0.4% | 0.0% | 0.4% |
| | 0.1% | 1.0% | -0.9% |
| | 17.6% | 20.6% | -3.0% |
| | 2.5% | 4.2% | -1.7% |
| | 29.2% | 30.9% | -1.7% |

| Asset Classification | Hedge Fund Strategy | | | | | | | | | | | | | | | |
|--------------------------|------------------------------|-----------------------|------------|----------------------------------|-------------------------------|----------------|-------------|-------------|---------------|----------------------------|-----------------------|------------------|---------------------------|--------------------------|-----------------------------|-----------|
| | Fixed Income (ex distressed) | Convertible Arbitrage | Currencies | Other Relative Value & Arbitrage | Investment Grade Fixed Income | Credit Related | Real Estate | Commodities | US Long/Short | Developed Int'l Long/Short | Equity Market Neutral | Merger Arbitrage | Privates & Restructurings | Developed Country Equity | Emerging Markets Long/Short | Total LCC |
| Fixed Income | 0.5% | - | 0.6% | 0.0% | 1.0% | - | - | 0.3% | 0.1% | 0.1% | - | - | - | 0.1% | - | 1.4% |
| Credit-Related | 0.0% | 0.1% | 0.0% | 0.0% | 0.2% | 5.6% | - | - | 0.6% | 0.3% | - | 0.1% | 0.5% | 1.4% | 0.0% | 7.2% |
| Real Estate | - | - | - | - | - | 0.1% | 0.3% | - | - | - | - | - | - | - | - | 0.4% |
| Natural Resources | - | - | - | - | - | - | - | - | - | - | - | - | - | 0.1% | - | 0.1% |
| Developed Country Equity | 0.1% | 0.7% | - | 0.3% | 1.1% | 1.7% | - | 0.1% | 8.2% | 3.2% | 0.0% | 0.3% | 1.2% | 13.0% | 1.6% | 17.6% |
| Emerging Markets | - | - | 0.2% | 0.4% | 0.2% | 0.2% | - | 0.0% | 0.1% | 0.2% | - | - | 0.1% | 0.4% | 1.7% | 2.5% |
| Total LCC | 0.6% | 0.8% | 0.7% | 0.4% | 2.5% | 7.8% | 0.3% | 0.4% | 9.0% | 3.8% | 0.0% | 0.4% | 1.9% | 15.1% | 3.3% | 29.2% |
| Gross Leverage | 22.82 | 2.29 | 8.22 | 1.57 | 9.14 | 1.12 | 1.57 | 1.68 | 1.95 | 2.18 | 0.00 | 1.38 | 1.13 | 1.89 | 1.50 | 2.26 |
| Net Leverage | -7.12 | 0.16 | 3.28 | 0.43 | -0.73 | 0.79 | 0.20 | 1.33 | 0.48 | 0.24 | 0.00 | 0.75 | 1.05 | 0.50 | 0.50 | 0.48 |



Country Exposure



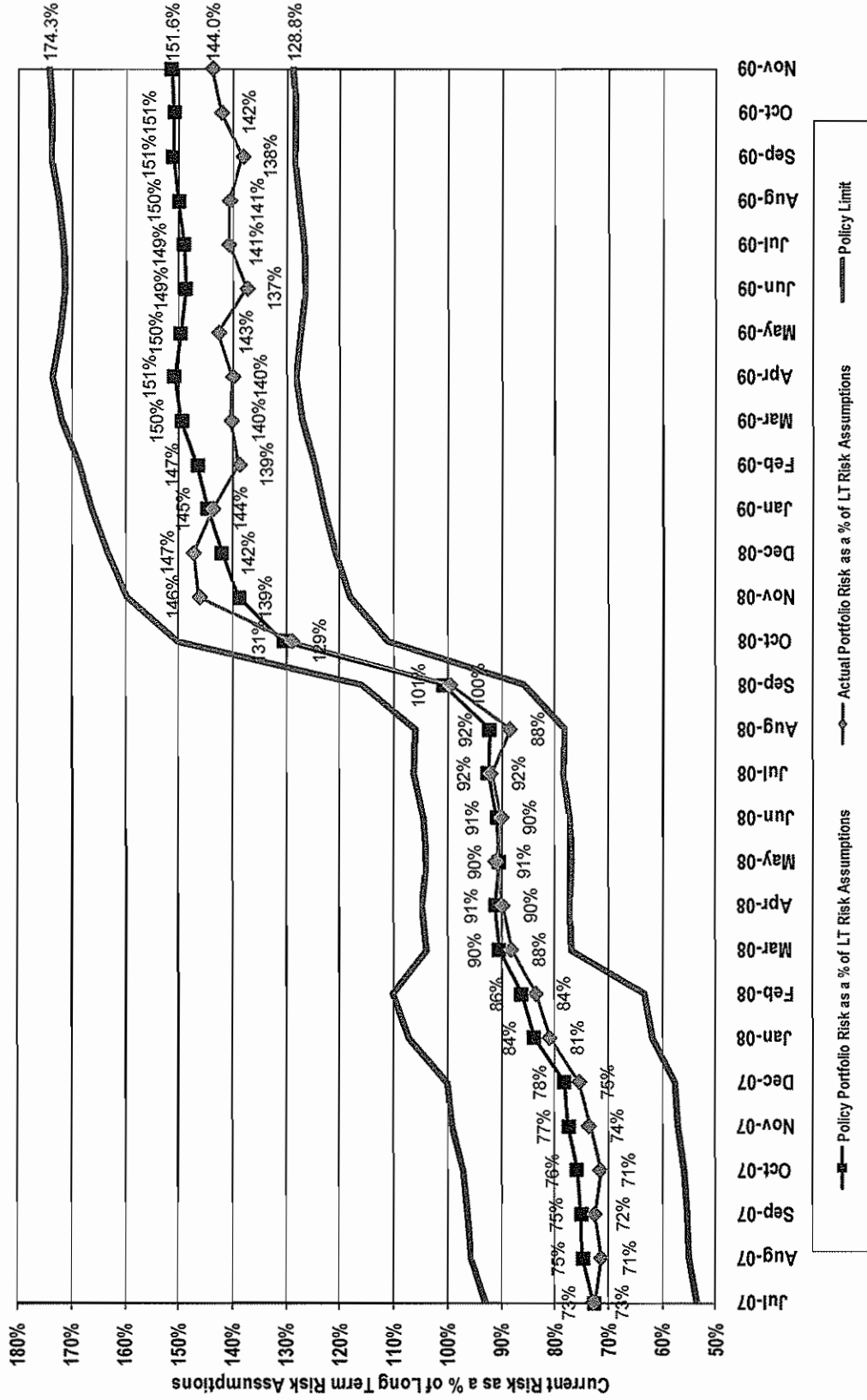
Sources:
 •Real GDP from IMF 2008
 •Public Market Cap from Bloomberg 2009
 •UTIMCO Equity as of November 30, 2009



Risk Analytics



Current Risk Environment of GEF (Based on Downside Risk; LT assumption = 8.8%)





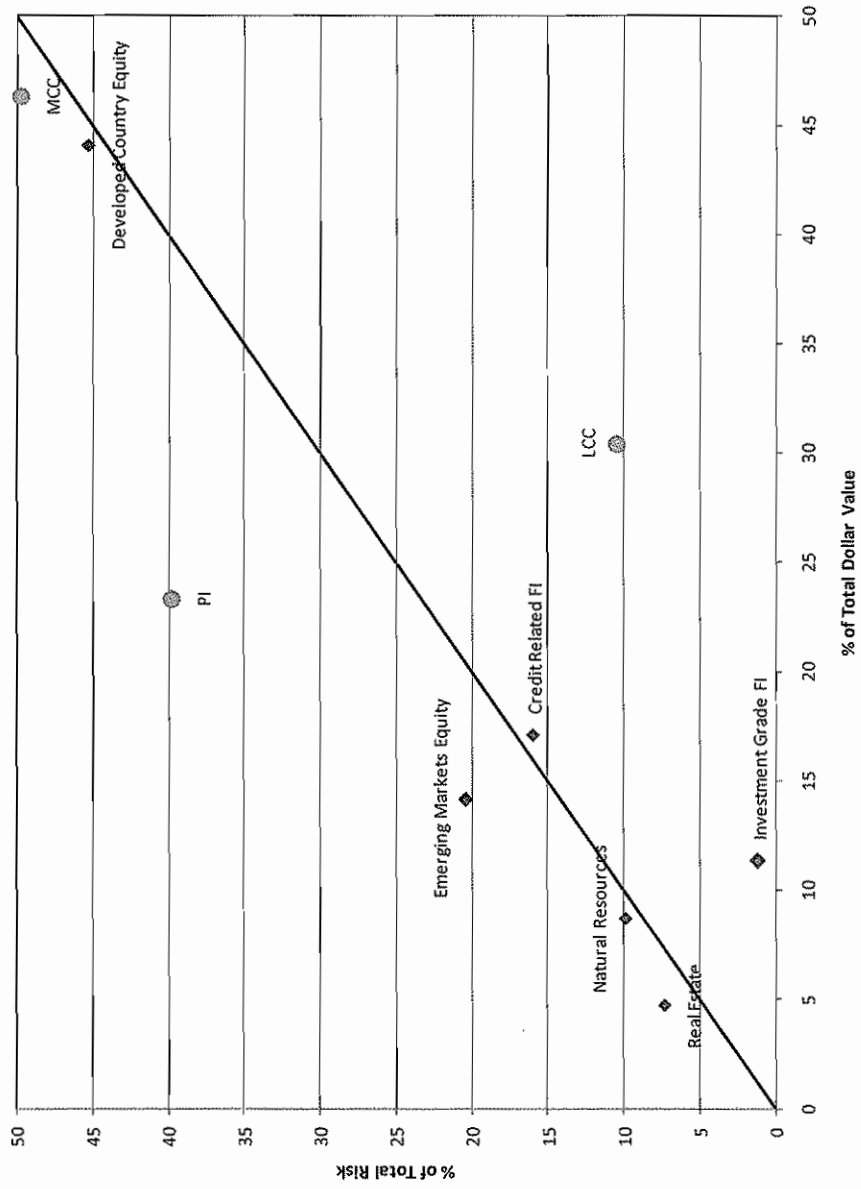
Portfolio Sharpe and Information Ratios

Periods Ending November 30, 2009

| | Three Months | One Year | Three Years | Five Years | Ten Years |
|------------------------------------|--------------|-------------|--------------|-------------|-------------|
| Actual Returns | 7.52 | 20.88 | 0.09 | 5.20 | 5.57 |
| Risk-free Returns | 0.06 | 0.20 | 2.55 | 3.06 | 3.03 |
| Actual Volatility | 2.06 | 9.90 | 12.07 | 9.93 | 9.56 |
| Portfolio Sharpe Ratio | 3.62 | 2.09 | -0.20 | 0.22 | 0.27 |
| | | | | | |
| Policy Returns | 5.62 | 17.11 | -3.01 | 3.32 | 3.84 |
| Policy Volatility | 2.41 | 10.74 | 12.67 | 10.37 | 9.22 |
| Tracking Error | 0.35 | 3.71 | 2.90 | 2.60 | 2.75 |
| Portfolio Information Ratio | 5.49 | 1.02 | 1.07 | 0.72 | 0.63 |



Dollar Allocations Compared to Downside Risk Allocation - GEF



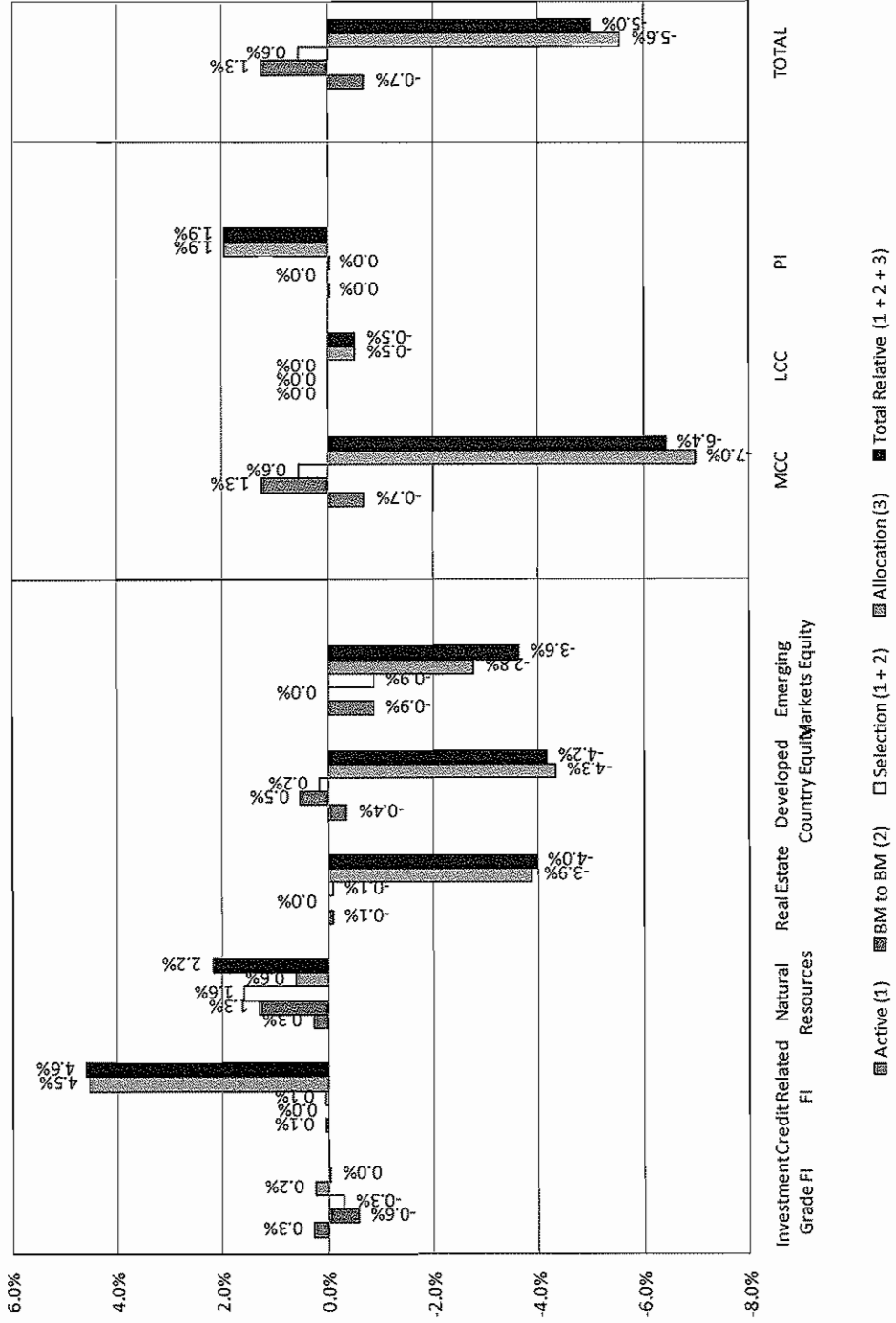


GEF Marginal Risk Contribution

| | MCC | LCC | PI | TOTAL |
|-------------------------------|-------------|-------------|-------------|-------------|
| Investment Grade Fixed Income | 0.07 | -0.01 | | 0.06 |
| Credit-Related Fixed Income | 0.04 | 0.50 | 0.53 | 0.47 |
| Natural Resources | 0.93 | 0.16 | 2.30 | 1.18 |
| Real Estate | 1.69 | 0.13 | 4.13 | 1.85 |
| Developed Country Equity | 1.37 | 0.30 | 2.08 | 1.11 |
| Emerging Markets Equity | 1.69 | 0.46 | 3.47 | 1.66 |
| TOTAL | 1.06 | 0.35 | 1.72 | 1.00 |

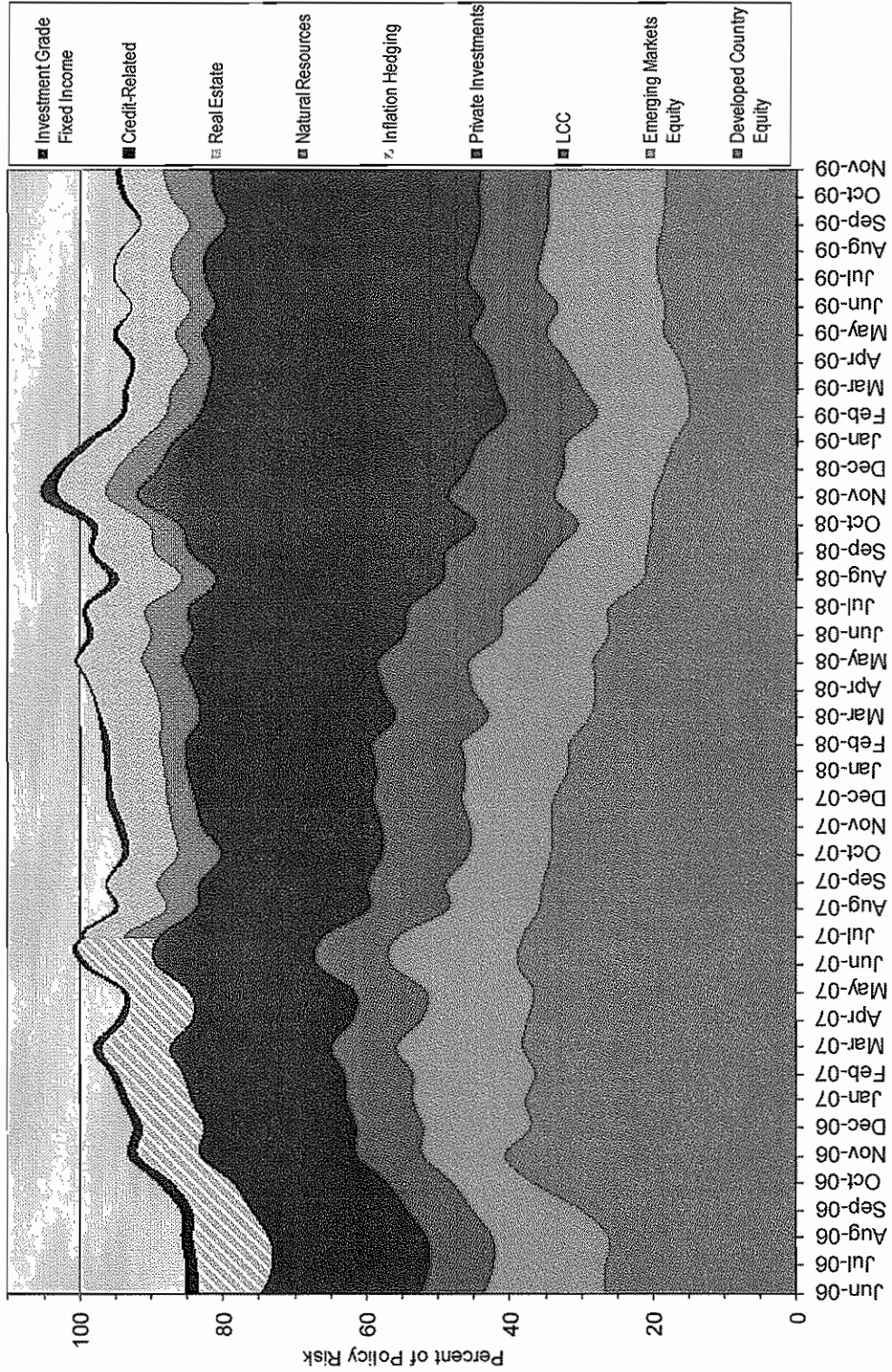


GEF 4-Way Risk Decomposition as of 11/30/2009





Risk Allocation Over Time (GEF)





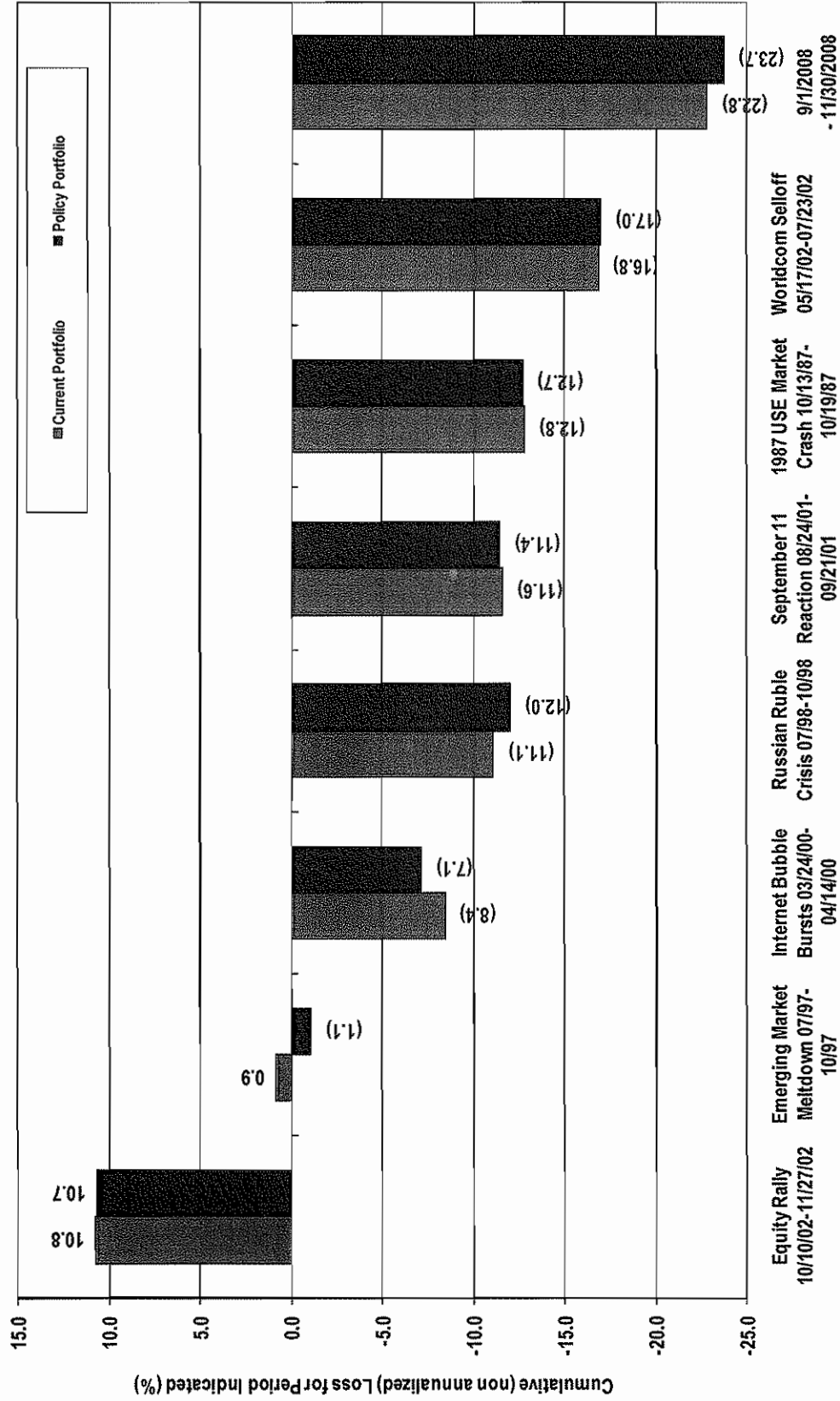
Correlations

Measured as of November 30, 2009

| | Total IGFI | Total Credit | Total RE | Total NatRes | Total DC | Total EM | MCC | LCC | PI | GEF |
|--------------|------------|--------------|----------|--------------|----------|----------|------|------|------|------|
| Total IGFI | 1.00 | 0.51 | 0.70 | 0.72 | 0.81 | 0.79 | 0.84 | 0.73 | 0.39 | 0.84 |
| Total Credit | | 1.00 | 0.59 | 0.70 | 0.68 | 0.61 | 0.61 | 0.68 | 0.80 | 0.73 |
| Total RE | | | 1.00 | 0.63 | 0.80 | 0.83 | 0.91 | 0.50 | 0.47 | 0.85 |
| Total NatRes | | | | 1.00 | 0.85 | 0.84 | 0.84 | 0.86 | 0.37 | 0.88 |
| Total DC | | | | | 1.00 | 0.91 | 0.95 | 0.87 | 0.46 | 0.98 |
| Total EM | | | | | | 1.00 | 0.97 | 0.81 | 0.27 | 0.95 |
| MCC | | | | | | | 1.00 | 0.78 | 0.37 | 0.98 |
| LCC | | | | | | | | 1.00 | 0.29 | 0.86 |
| PI | | | | | | | | | 1.00 | 0.48 |
| GEF | | | | | | | | | | 1.00 |



Hypothetical and Actual Performance of Current GEF Portfolio in Selected Stress Environments



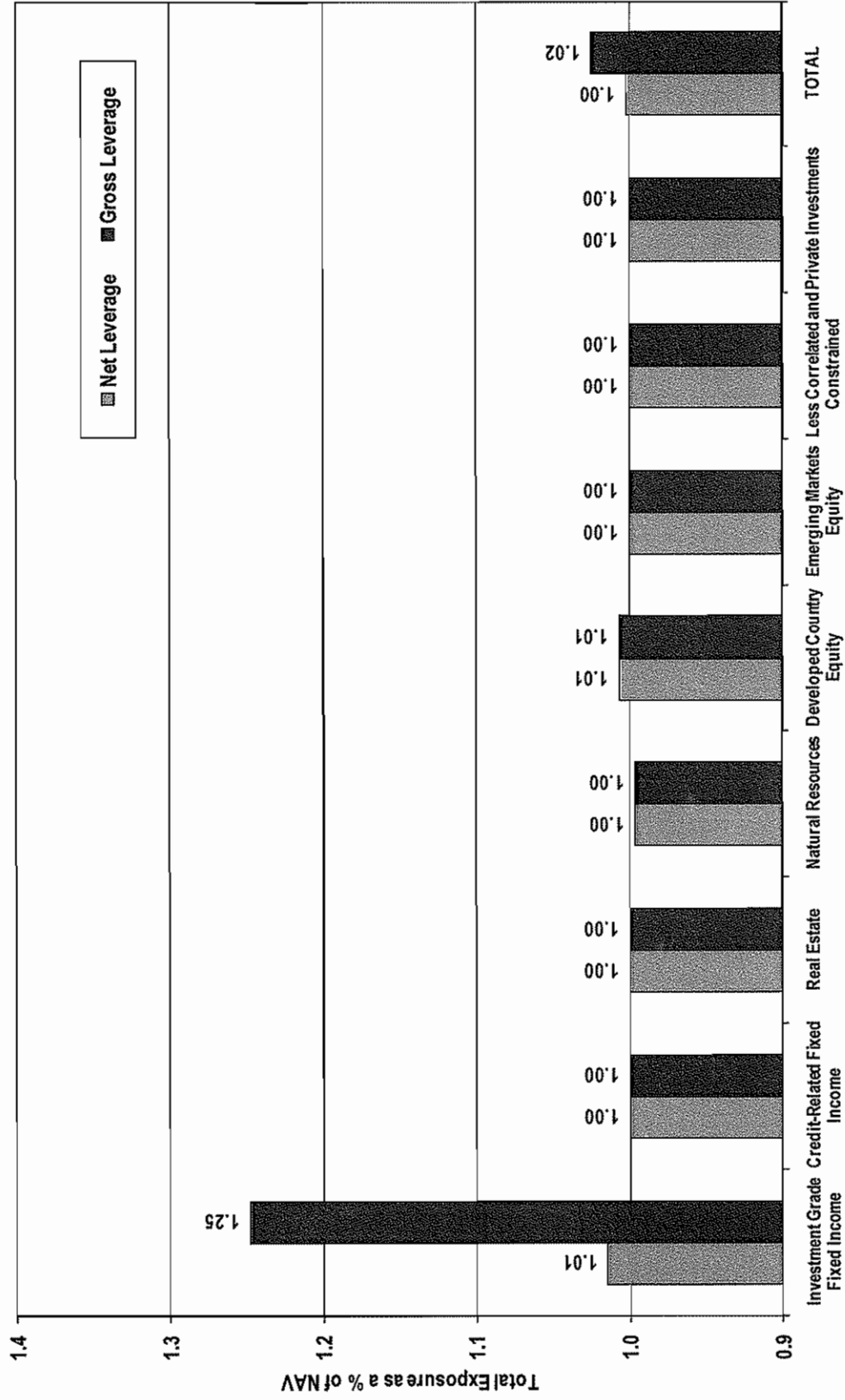


Leverage

- Derivatives
- Counterparty Risk



Net and Gross Leverage of GEF as of November 30, 2009





Comprehensive Derivative Report

November 30, 2009

INTERNAL MANAGERS

| <u>Manager</u> | <u>Derivative Strategy</u> | <u>Net Notional Value (\$ millions)</u> | <u>Activity from previous report (8/31/2009) (\$ millions)</u> |
|--------------------------------------|--|---|--|
| <u>Natural Resources</u> | | | |
| NR Swap | Long Natural Resource Equity / Short Libor | \$ 168 | - |
| Gold Futures | Long Gold futures | 410 | 410 |
| <u>Developed Country Equity</u> | | | |
| S&P 500 Futures | Long S&P 500 futures | 340 | (20) |
| S&P 500 Sw ap | Long S&P 500 exposure | - | (172) |
| <u>Non-US Developed Equity</u> | | | |
| Japan Futures | Long Topix Index futures | 113 | (7) |
| <u>Investment Grade Fixed Income</u> | | | |
| Inflation hedge | Long caplets on the 5y10y CMS and on the 7y10y CMS (Constant Maturity Sw ap) | 4,000 | - |
| Total Internal Managers | | \$ 5,031 | |



Comprehensive Derivative Report

November 30, 2009

EXTERNAL MANAGERS

| Manager | Derivative Strategy | Net Notional Value (\$ millions) |
|--|---|----------------------------------|
| <u>Natural Resources</u> Gresham | Long Exchange-traded commodity futures | \$ 570 |
| <u>Non-US Developed Equity</u> Lansdowne Europe | Purchased options on single name shares or a basket of shares | 2 |
| | OTC sw aps to replicate long exposure to an underlying index or commodity, or contracts for differences (CFDs) on single name shares or a basket of shares. | 10 |
| Wellington | Purchased options on single name shares | 6 |
| <u>Non-US Emerging Equity</u> Dynamo | Written index call options to increase portfolio income or written/purchased index put options to hedge portfolio | 9 |
| <u>Investment Grade Fixed Income</u> Brandywine | Currency forwards used to hedge foreign currency exposure | 41 |
| FIMCO Global Bonds | Currency forwards used to underwrite eight the US dollar | 130 |
| | Long US and Non-US futures used to overwrite eight duration in Eurozone | 5 |
| | Long futures used to overwrite eight front end of US and UK yield curves | - |
| | Receive Interest rate sw aps used to overwrite eight duration in the Eurozone and underwrite eight intermediate portion of the Japanese yield curve | 87 |
| | Pay interest rate sw aps used to overwrite eight duration in the Eurozone and underwrite eight intermediate portion of the Japanese yield curve | - |
| | Interest rate sw aps used to overwrite eight front end of US and UK yield curves | 21 |
| | Short/Written credit default sw aps used to overwrite eight credit risk | 5 |
| | Long/Purchased credit default sw aps used to underwrite eight credit risk | (80) |
| | Written options used to increase portfolio yield | (140) |
| | Purchased options used to increase portfolio yield | - |
| | Total External Managers | <u>\$ 666</u> |
| | GRAND TOTAL | \$ 5,697 |



Comprehensive Report on Derivative Investments November 30, 2009

Internal Managers

| Derivative Investment (account name) | PUF/GEF | Purpose of Investment |
|--------------------------------------|-------------|--|
| S&P 500 / Topix Futures | PUF/GEF | Replicate Index exposure by Utilizing Futures and Cash (Cash Equitization), possibly without committing capital (i.e. creating financial leverage) |
| | ITF | Replicate Index exposure by Utilizing Futures and Cash (Cash Equitization) |
| Gold Futures | PUF/GEF/ITF | Use derivatives to gain market (systematic) exposure without trading the physical commodity |
| NR Swaps | PUF/GEF/ITF | Use derivatives in order for Funds to gain market (systematic) exposure without trading the underlying cash market securities or the physical commodities and add value over the index by taking advantage of the borrow rate. |
| Inflation hedge | PUF/GEF/ITF | Purchase options on forward 10 year swap rates to generate an "insurance" payoff if rates rise significantly in response to inflation expectations - downside limited to premium paid |

External Managers Under Agency Agreement

| | PUF/GEF/ITF | Primary Use of Derivatives |
|-------------------------------|-------------|--|
| Brandywine | PUF/GEF/ITF | Hedge undesirable foreign currency exposure and/or gain desirable short term fixed income and FX exposure |
| Dynamo | PUF/GEF/ITF | May invest in listed and OTC swaps and other equity and fixed income instruments, CFDs, MBS, currencies and commodities for the purpose of replicating long exposure and for hedging purposes |
| Gresham | PUF/GEF/ITF | Use derivatives to gain market (systematic) exposure without trading the physical commodity |
| Lansdowne | PUF/GEF/ITF | Currency forwards used to hedge non-USD exposure; may invest in swaps or CFDs to replicate long equity exposure; may purchase options to obtain efficient market exposure |
| PIMCO Global Bonds | PUF/GEF/ITF | 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 |
| Wellington Management Company | PUF/GEF/ITF | May invest in currency forward contracts, fully collateralized futures, options and swaps to reduce risk or provide efficient investment exposure |



OTC Derivative Counterparty Report

November 30, 2009

\$ millions

| Counterparty | S & P Counterparty Rating | Mark-to-Market Owed by Broker | Mark-to-Market Owed by UTIMCO | Total Mark-to-Market | Percentage of Total Funds | Notional Value |
|----------------------------|---------------------------|-------------------------------|-------------------------------|----------------------|---------------------------|----------------|
| BARCLAYS | A+ | \$ 12.2 | \$ (1.9) | \$ 10.3 | 0.05% | \$ 1,589 |
| J P MORGAN, CHASE | A+ | 3.6 | 0.0 | 3.6 | 0.02% | 91 |
| HSBC BK USA, NEW YORK | AA- | 3.5 | - | 3.5 | 0.02% | 118 |
| MORGAN STANLEY | A | 2.5 | (4.7) | (2.2) | -0.01% | 1,158 |
| DEUTSCHE BANK AG | A+ | 2.5 | 0.1 | 2.6 | 0.01% | 13 |
| BNP PARIBAS | AA | 1.1 | (0.5) | 0.6 | 0.00% | 96 |
| GOLDMAN SACHS | A | 0.8 | (0.3) | 0.5 | 0.00% | 1,677 |
| ROYAL BANK OF SCOTLAND PLC | A | 0.6 | - | 0.6 | 0.00% | 59 |
| UBS A G, ZURICH | A+ | 0.5 | (0.1) | 0.4 | 0.00% | 63 |
| CITIBANK NY | A | 0.4 | (3.8) | (3.4) | -0.02% | 137 |
| BANK OF AMERICA | A | 0.4 | (0.3) | 0.1 | 0.00% | 46 |
| MERRILL LYNCH | A | 0.1 | (0.1) | - | 0.00% | 11 |
| CHASE MANHATTAN | A+ | 0.1 | - | 0.1 | 0.00% | 3 |
| UBS AG, STAMFORD | A+ | - | - | - | 0.00% | 5 |
| WACHOVIA BANK | AA | - | - | - | 0.00% | 1 |
| CREDIT SUISSE FIRST | A | - | - | - | 0.00% | 1 |
| Grand Total | | \$ 28.3 | \$ (11.6) | \$ 16.7 | 0.08% | \$ 5,066 |



OTC Derivative Counterparty Report by Counterparty and Manager November 30, 2009

\$ millions

| Counterparty | Manager | S & P Counterparty Rating | Mark-to-Market Owed by Broker | Mark-to-Market Owed by UTMCO | Total Mark-to-Market | Percentage of Total Funds | Notional Value |
|---------------------------------------|--------------------|---------------------------|-------------------------------|------------------------------|----------------------|---------------------------|----------------|
| INTERNALLY MANAGED | | | | | | | |
| BARCLAYS | INFLATION HEDGE | A+ | \$ 13.0 | \$ - | 13.0 | 0.06% | \$ 1,500 |
| BARCLAYS Total | | | 13.0 | - | 13.0 | 0.06% | 1,500 |
| GOLDMAN SACHS | INFLATION HEDGE | A | 0.6 | - | 0.6 | 0.00% | 1,500 |
| GOLDMAN SACHS Total | | | 0.6 | - | 0.6 | 0.00% | 1,500 |
| MORGAN STANLEY | NR EQUITY SWAP | A | - | 0.5 | 0.5 | 0.00% | 168 |
| MORGAN STANLEY | INFLATION HEDGE | A | 1.8 | (3.2) | (1.4) | 0.01% | 1,000 |
| MORGAN STANLEY Total | | | 1.8 | (2.7) | (0.9) | -0.01% | 1,168 |
| Grand Total Internally Managed | | | 16.4 | (2.7) | 12.7 | 0.06% | 4,168 |
| | | | | | | | |
| BANK OF AMERICA | PIMCO FIXED INCOME | A | 0.4 | (0.3) | 0.1 | 0.00% | 46 |
| BANK OF AMERICA Total | | | 0.4 | (0.3) | 0.1 | 0.00% | 46 |
| | | | | | | | |
| BARCLAYS | BRANDYWINE GLOBAL | A+ | 0.1 | (0.8) | (0.7) | 0.00% | 50 |
| BARCLAYS | PIMCO FIXED INCOME | A+ | (0.9) | (1.1) | (2.0) | -0.01% | 39 |
| BARCLAYS Total | | | (0.8) | (1.9) | (2.7) | -0.01% | 89 |
| BNP PARIBAS | PIMCO FIXED INCOME | AA | 1.1 | (0.5) | 0.6 | 0.00% | 96 |
| BNP PARIBAS Total | | | 1.1 | (0.6) | 0.5 | 0.00% | 96 |
| CHASE MANHATTAN | PIMCO FIXED INCOME | A+ | 0.1 | - | 0.1 | 0.00% | 3 |
| CHASE MANHATTAN Total | | | 0.1 | - | 0.1 | 0.00% | 3 |
| | | | | | | | |
| CITIBANK NY | BRANDYWINE GLOBAL | A | - | (3.4) | (3.4) | -0.02% | 79 |
| CITIBANK NY | PIMCO FIXED INCOME | A | 0.4 | (0.4) | - | 0.00% | 58 |
| CITIBANK NY Total | | | 0.4 | (3.8) | (3.4) | -0.02% | 137 |
| CREDIT SUISSE FIRST | PIMCO FIXED INCOME | A | - | - | - | 0.00% | 1 |
| CREDIT SUISSE FIRST Total | | | - | - | - | 0.00% | 1 |
| | | | | | | | |
| DEUTSCHE BANK AG | PIMCO FIXED INCOME | A+ | 0.1 | 0.1 | 0.2 | 0.00% | 11 |
| DEUTSCHE BANK AG | WELLINGTON SPCE | A+ | 2.4 | - | 2.4 | 0.01% | 2 |
| DEUTSCHE BANK AG Total | | | 2.5 | 0.1 | 2.6 | 0.01% | 13 |
| GOLDMAN SACHS | PIMCO FIXED INCOME | A | 0.2 | (0.1) | 0.1 | 0.00% | 29 |
| GOLDMAN SACHS | LANSDOWNE/GOLDMAN | A | - | (0.2) | (0.2) | 0.00% | 3 |
| GOLDMAN SACHS Total | | | 0.2 | (0.3) | (0.1) | 0.00% | 32 |



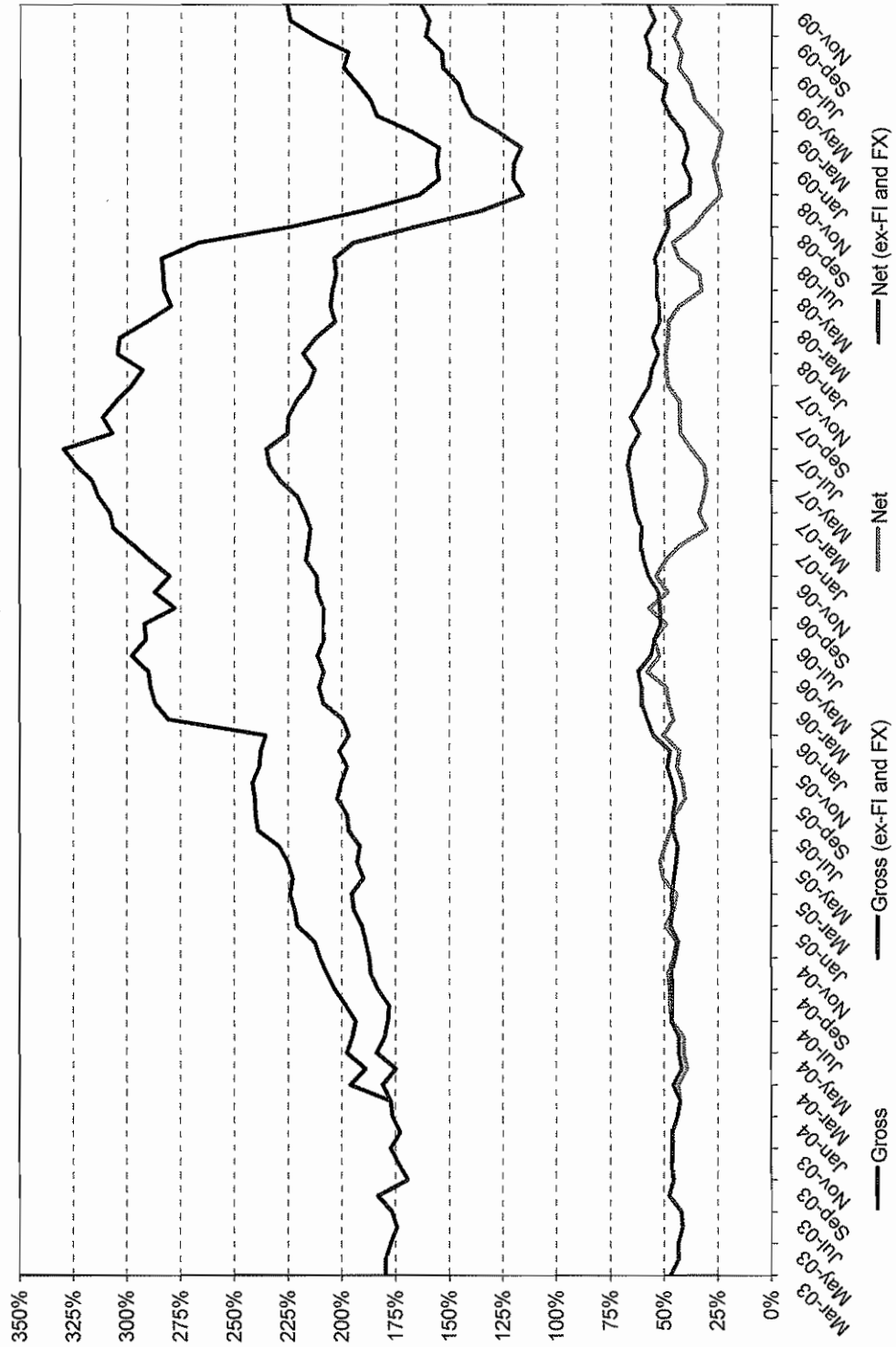
OTC Derivative Counterparty Report by Counterparty and Manager November 30, 2009

| | | | | | | | \$ millions | | |
|---------------------------------------|----------------------|---------------------------|----------------------------------|-------------------------------------|--------------------------|------------------------------|----------------|--|--|
| Counterparty | Manager | S & P Counterparty Rating | Mark-to-Market Owed by Broker | Mark-to- Market Owed by UTMCO | Total Mark-to- Market | Percentage of Total Funds | Notional Value | | |
| HSBC BK USA, NEW YORK | BRANDYWINE GLOBAL | AA- | 3.1 | - | 3.1 | 0.02% | 92 | | |
| HSBC BK USA, NEW YORK | PIMCO FIXED INCOME | AA- | 0.1 | - | 0.1 | 0.00% | 26 | | |
| HSBC BK USA, NEW YORK | WELLINGTON SPC E | AA- | 0.3 | - | 0.3 | 0.00% | 0 | | |
| HSBC BK USA, NEW YORK | | | 3.5 | - | 3.5 | 0.02% | 118 | | |
| Total | | | | | | | | | |
| J P MORGAN, CHASE | PIMCO FIXED INCOME | A+ | 0.7 | - | 0.7 | 0.00% | 89 | | |
| J P MORGAN, CHASE | WELLINGTON SPC E | A+ | 2.9 | - | 2.9 | 0.01% | 3 | | |
| J P MORGAN, CHASE Total | | | 3.6 | - | 3.6 | 0.02% | 91 | | |
| MERRILL LYNCH | PIMCO FIXED INCOME | A | 0.1 | (0.1) | - | 0.00% | 11 | | |
| MERRILL LYNCH Total | | | 0.1 | (0.1) | - | 0.00% | 11 | | |
| MORGAN STANLEY | PIMCO FIXED INCOME | A | 0.3 | (1.8) | (1.5) | 0.00% | 113 | | |
| MORGAN STANLEY | LANSDOWNE/GOLDMAN | A | - | (0.1) | (0.1) | 0.00% | 6 | | |
| MORGAN STANLEY | LANSDOWNE EUROPE SIA | A | 0.4 | (0.1) | 0.3 | 0.00% | 17 | | |
| MORGAN STANLEY Total | | | 0.7 | (2.0) | (1.3) | 0.00% | 136 | | |
| ROYAL BANK OF SCOTLAND PLC | PIMCO FIXED INCOME | A | 0.6 | - | 0.6 | 0.00% | 59 | | |
| ROYAL BANK OF SCOTLAND PLC Total | | | 0.6 | - | 0.6 | 0.00% | 59 | | |
| UBS A G, ZURICH | PIMCO FIXED INCOME | A+ | 0.5 | (0.1) | 0.4 | 0.00% | 63 | | |
| UBS A G, ZURICH Total | | | 0.5 | (0.1) | 0.4 | 0.00% | 63 | | |
| UBS AG, STAMFORD | PIMCO FIXED INCOME | A+ | - | - | - | 0.00% | 5 | | |
| UBS AG, STAMFORD Total | | | - | - | - | 0.00% | 5 | | |
| WACHOVIA BANK | PIMCO FIXED INCOME | AA | - | - | - | 0.00% | 1 | | |
| WACHOVIA BANK Total | | | - | - | - | 0.00% | 1 | | |
| Grand Total Externally Managed | | | 12.9 | (8.9) | 4.0 | 0.02% | 898 | | |
| GRAND TOTAL - ALL MANAGERS | | | 28.3 \$ | (11.6) \$ | 16.7 | 0.08% \$ | 5,066 | | |



LCC Leverage

Total Portfolio Exposures



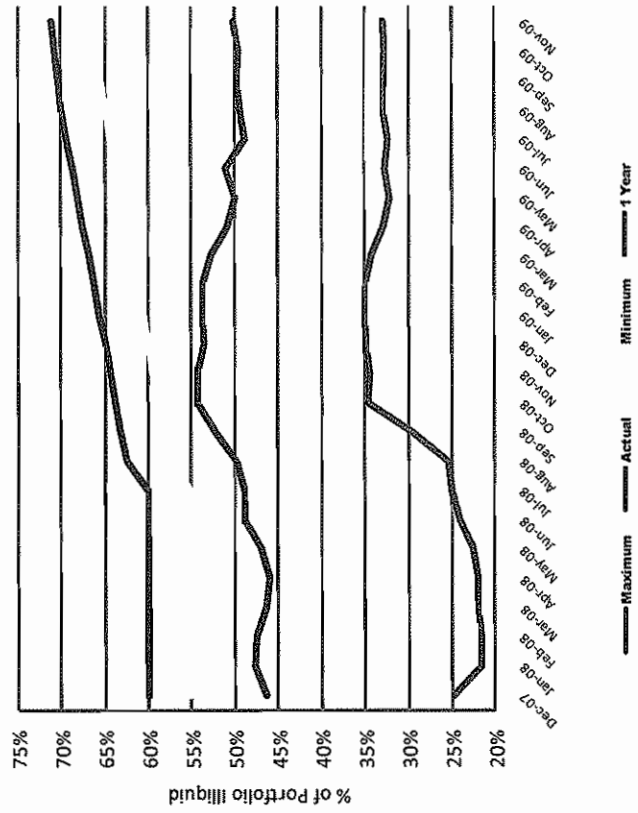


Liquidity



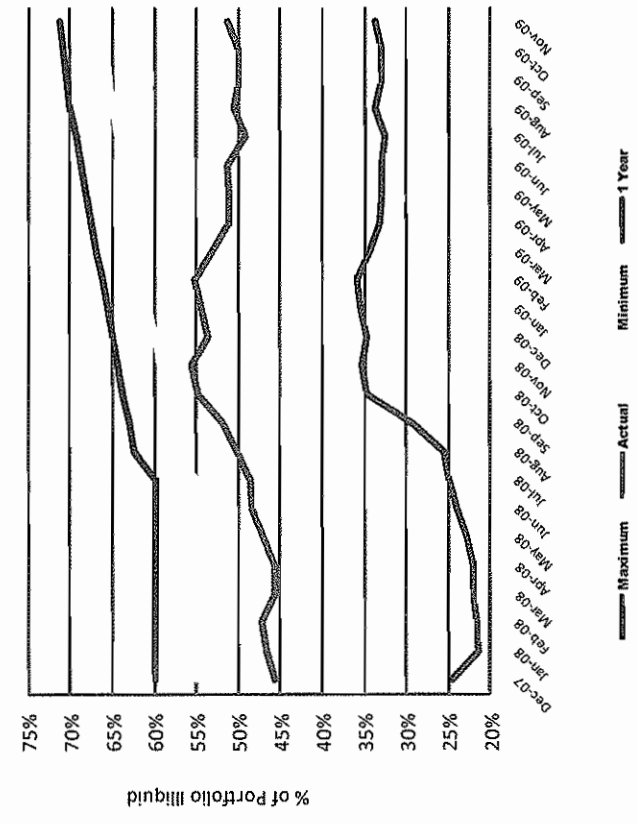
Endowment Fund Liquidity

Permanent University Fund
Actual Illiquidity vs. Trigger Zones



Three Month Liquidity \$ 5,148 million One Year Liquidity \$ 6,924 million

General Endowment Fund
Actual Illiquidity vs. Trigger Zones

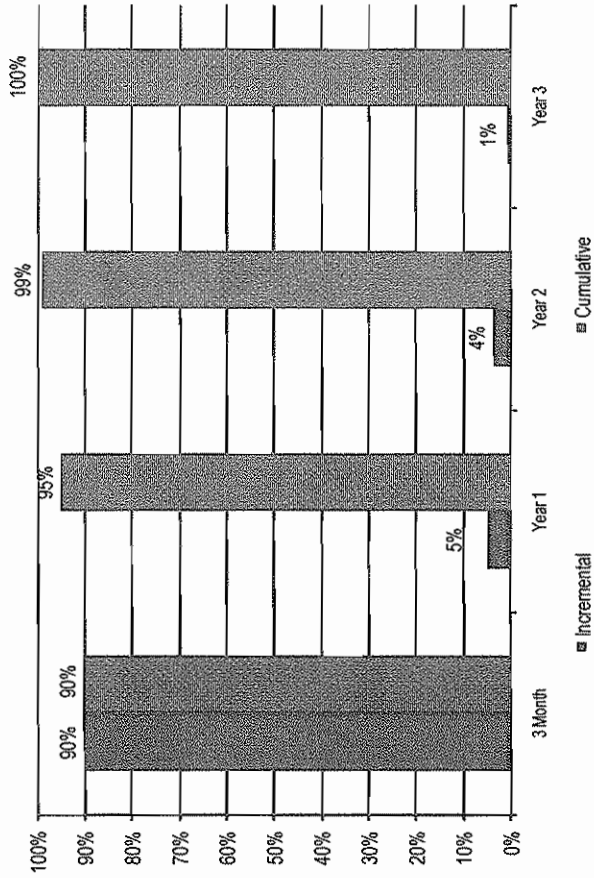


Three Month Liquidity \$ 2,787 million One Year Liquidity \$ 3,793 million



Estimated Run-Off Liquidity* As of November 30, 2009

MCC



LCC



*Actual point in time liquidity varies from "smoothed" Policy Liquidity methodology



Unfunded Commitments As of November 30, 2009

| Asset Class | Unfunded Commitment | Unfunded Commitment as % of Total Endowments |
|--|--------------------------|--|
| PRIVATE INVESTMENTS | | |
| TRADING | 5,250,000 | 0.0% |
| CONTROL | 119,280,901 | 0.7% |
| OPPORTUNISTIC | 100,921,571 | 0.6% |
| CREDIT-RELATED FIXED INCOME | \$ 225,452,472 | 1.3% |
| REAL ESTATE | 235,528,460 | 1.5% |
| NATURAL RESOURCES | 347,205,799 | 2.1% |
| BUYOUT | 737,216,095 | 4.6% |
| VENTURE CAPITAL | 395,370,468 | 2.5% |
| GROWTH/OPPORTUNISTIC | 161,630,721 | 1.0% |
| DEVELOPED MARKETS EQUITY | 1,294,217,284 | 8.1% |
| EMERGING MARKETS EQUITY | 313,462,210 | 2.0% |
| TOTAL PRIVATE INVESTMENTS | \$ 2,415,866,225 | 15.0% |
| LESS CORRELATED AND CONSTRAINED | | |
| INVESTMENT GRADE FIXED INCOME | \$ - | 0.0% |
| CREDIT-RELATED FIXED INCOME | 34,089,707 | 0.2% |
| REAL ESTATE | - | 0.0% |
| NATURAL RESOURCES | - | 0.0% |
| DEVELOPED MARKETS EQUITY | - | 0.0% |
| EMERGING MARKETS EQUITY | 12,745,569 | 0.1% |
| TOTAL LESS CORRELATED AND CONSTRAINED | \$ 46,835,276 | 0.3% |
| GRAND TOTAL PI AND LCC | \$ 2,462,701,501 | 15.3% |
| TOTAL ENDOWMENTS HOLDINGS | \$ 16,066,772,040 | |
| MAXIMUM AMOUNT OF UNFUNDED COMMITMENTS ALLOWED PER LIQUIDITY POLICY | | 28.1% |



Investment Activity



Report on Investment Transactions Made Under the Delegation of Authority Fiscal Quarter ended November 30, 2009

| | Redemptions (\$ millions) | | | Investments / Commitments (\$ millions) | | | Illiquid | |
|--------------------------------------|------------------------------|-----|---------|--|-----|-----|----------|---------|
| | MCC | LCC | Private | Total | MCC | LCC | | Private |
| Investment Grade Fixed Income | | | | | | | | |
| PIMCO | 75 | - | - | 75 | - | - | - | - |
| BGI Global Agg Bond Fund | 39 | - | - | 39 | - | - | - | - |
| | 114 | - | - | 114 | - | - | - | - |
| Credit-Related Fixed Income | | | | | | | | |
| BGI High Yield Bond Fund | 114 | - | - | 114 | - | - | - | - |
| Watershed RMBS | 32 | - | - | 32 | - | - | - | - |
| Satellite | - | 23 | - | 23 | - | - | - | - |
| Angelo Gordon CMBS | - | - | - | - | 25 | - | - | 25 |
| Silver Point | - | - | - | - | - | 25 | - | 25 |
| | 146 | 23 | - | 169 | 25 | 25 | - | 50 |
| Real Estate | | | | | | | | |
| BGI non-US Real Estate Fund | 114 | - | - | 114 | - | - | - | - |
| Cohen & Steers | 35 | - | - | 35 | - | - | - | - |
| Credit Suisse | 33 | - | - | 33 | - | - | - | - |
| Morgan Stanley | 23 | - | - | 23 | - | - | - | - |
| European Investors | 12 | - | - | 12 | - | - | - | - |
| Security Capital | 11 | - | - | 11 | - | - | - | - |
| GEM Realty | - | - | - | - | - | 25 | - | 25 |
| | 228 | - | - | 228 | - | 25 | - | 25 |
| Natural Resources | | | | | | | | |
| Gresham | - | - | - | - | 93 | - | - | 93 |
| Energy Opportunities | - | - | - | - | 60 | - | - | 60 |
| | - | - | - | - | 153 | - | - | 153 |
| | | | | | | | | Yes |
| | | | | | | | | No |
| | | | | | | | | No |



Report on Investment Transactions Made Under the Delegation of Authority Fiscal Quarter ended November 30, 2009

| | Redemptions (\$ millions) | | | Investments / Commitments (\$ millions) | | | Illiquid | | |
|---------------------------------|------------------------------|-----|---------|--|-----|-----|----------|---------|-------|
| | MCC | LCC | Private | Total | MCC | LCC | | Private | Total |
| | | | | | | | | | |
| Developed Country Equity | | | | | | | | | |
| Westport | 76 | - | - | 76 | - | - | - | - | No |
| BGI EAFE | 50 | - | - | 50 | - | - | - | - | No |
| Levin Utilities | 40 | - | - | 40 | - | - | - | - | No |
| Shepherd Investments (Stark) | - | 10 | - | 10 | - | - | - | - | Yes |
| Rock Creek | - | 3 | - | 3 | - | - | - | - | No |
| FCOI II | - | 2 | - | 2 | - | - | - | - | Yes |
| Viking Long Fund III | - | - | - | - | 100 | - | - | 100 | No |
| Stelliam Offshore Long Fund | - | - | - | - | 100 | - | - | 100 | No |
| Owl Creek | - | - | - | - | - | 90 | - | 90 | Yes |
| Viking Global III | - | - | - | - | - | 75 | - | 75 | No |
| Cadian | - | - | - | - | - | 25 | - | 25 | Yes |
| Criterion | - | - | - | - | - | 20 | - | 20 | Yes |
| Eminence | - | - | - | - | - | 20 | - | 20 | Yes |
| Steadfast | - | - | - | - | - | 15 | - | 15 | Yes |
| | 166 | 15 | - | 181 | 200 | 245 | - | 445 | |

Emerging Markets Equity

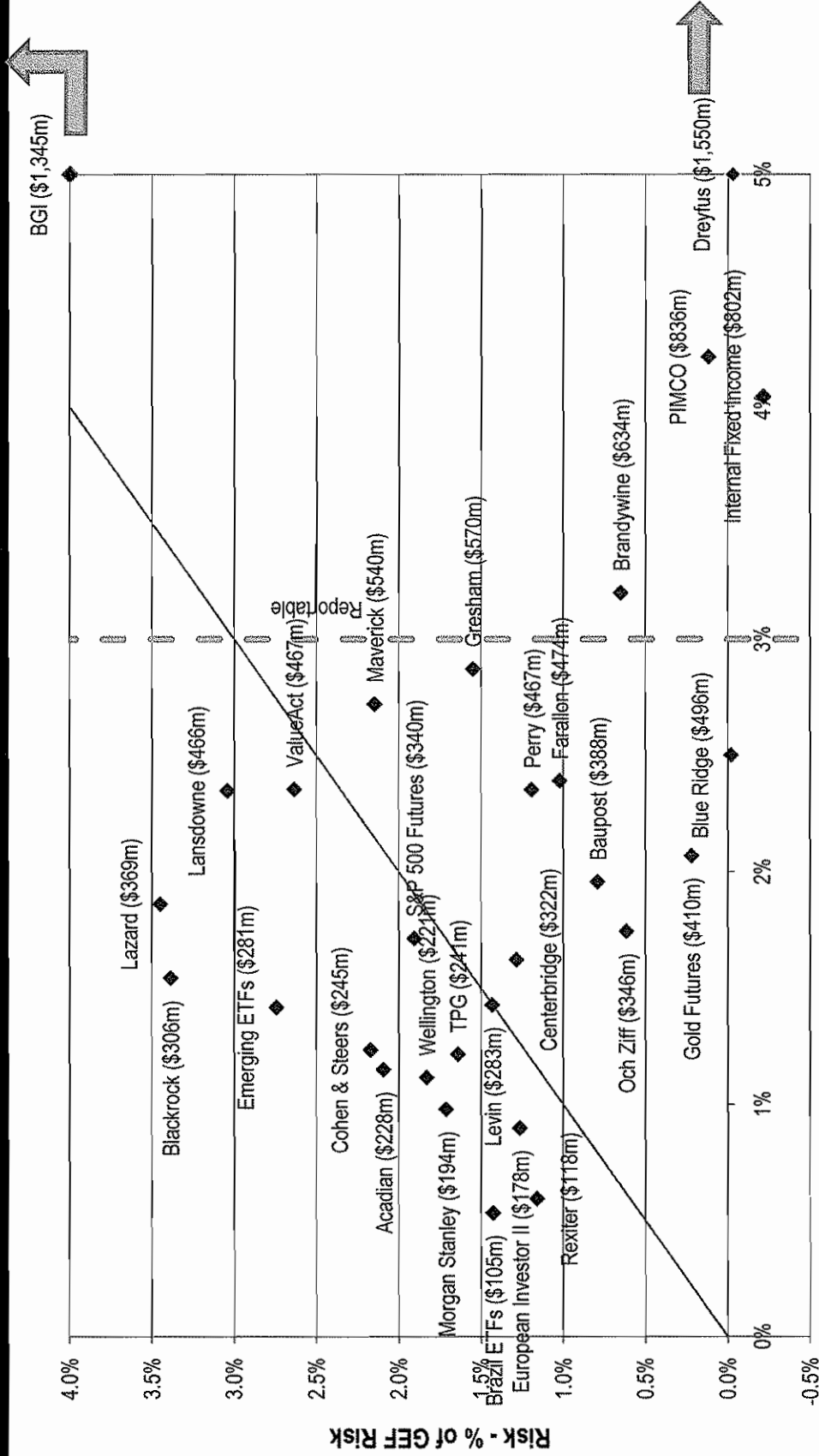
| | | | | | | | | | | |
|-------------------------------|--------|-------|------|--------|--------|--------|------|--------|---|-----|
| BGI EMSI | 50 | - | - | 50 | - | - | - | - | - | Yes |
| Hillhouse Gaoling Feeder Fund | - | - | - | - | 75 | - | - | 75 | - | Yes |
| Valiant | - | - | - | - | - | 25 | - | 25 | - | Yes |
| | 50 | - | - | 50 | 75 | 25 | - | 100 | - | |
| | \$ 704 | \$ 38 | \$ - | \$ 742 | \$ 453 | \$ 320 | \$ - | \$ 773 | | |



Manager Exposure



Largest Mandates: Risk and Dollar Allocations



Assets - % of total NAV

Mandates with at least 1.5% of total assets, or at least 1.16% of Risk



Manager Exposures over 3% and 5% November 30, 2009

Managers with exposure >3% relative to total Funds (excluding ITF for Private Investments)

| <u>Manager Name</u> | <u>Investment Amount</u> | <u>%-age</u> |
|--|------------------------------|--------------|
| <u>More Correlated and Constrained</u> | | |
| Pimco | 835,844,999 | 4.18% |
| Internal Fixed Income | 801,995,015 | 4.01% |
| Brandywine | 634,481,926 | 3.17% |

Less Correlated and Constrained
None

Private Investments
None

Managers with exposure >5% relative to total Funds (excluding ITF for Private Investments)

| <u>Manager Name</u> | <u>Investment Amount</u> | <u>%-age</u> |
|---------------------|------------------------------|--------------|
| | | |

None



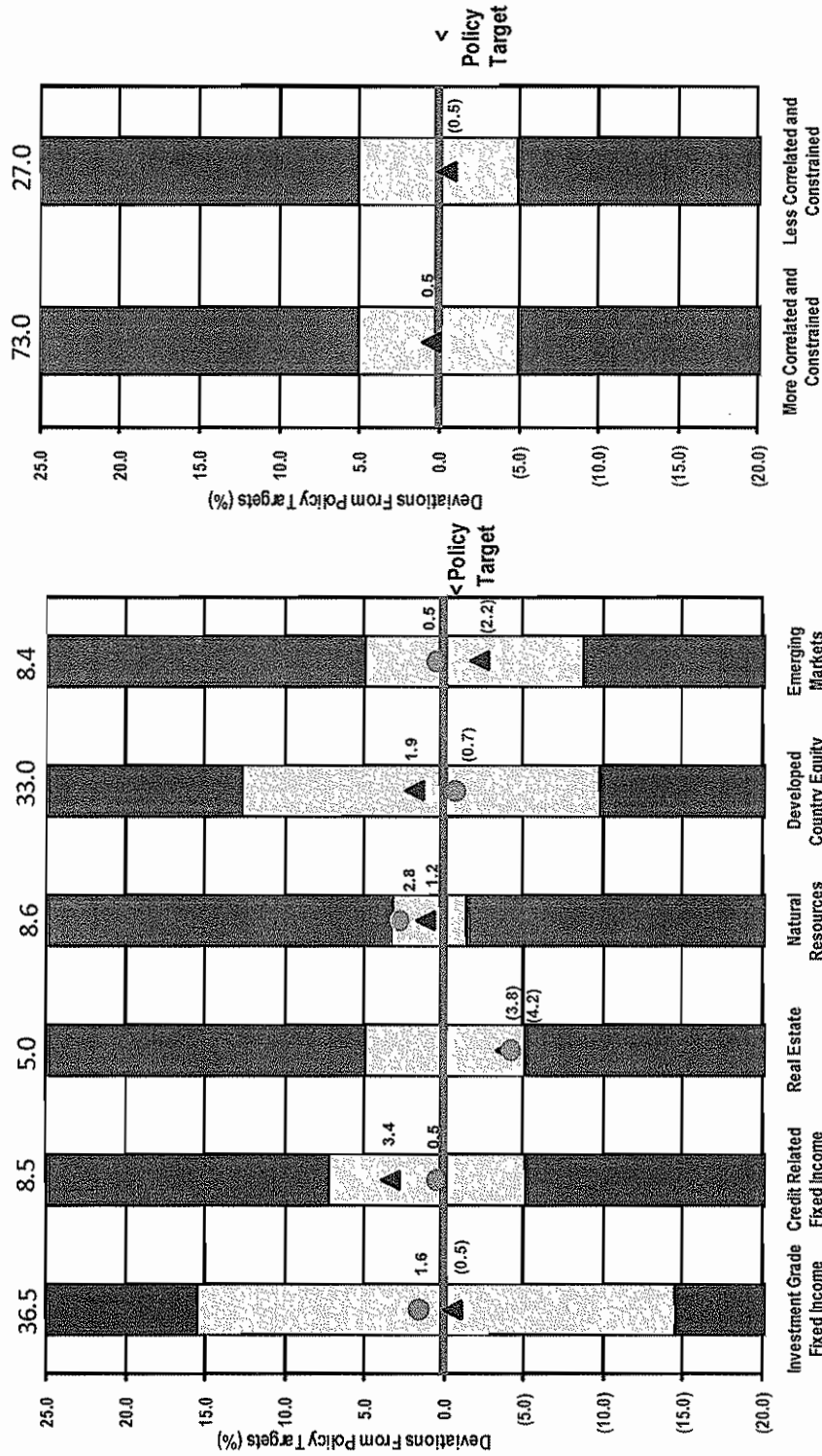
ITF



ITF Asset Allocation as of November 30, 2009

Deviations From Investment Type Policy Targets Within Tactical Policy Ranges for ITF

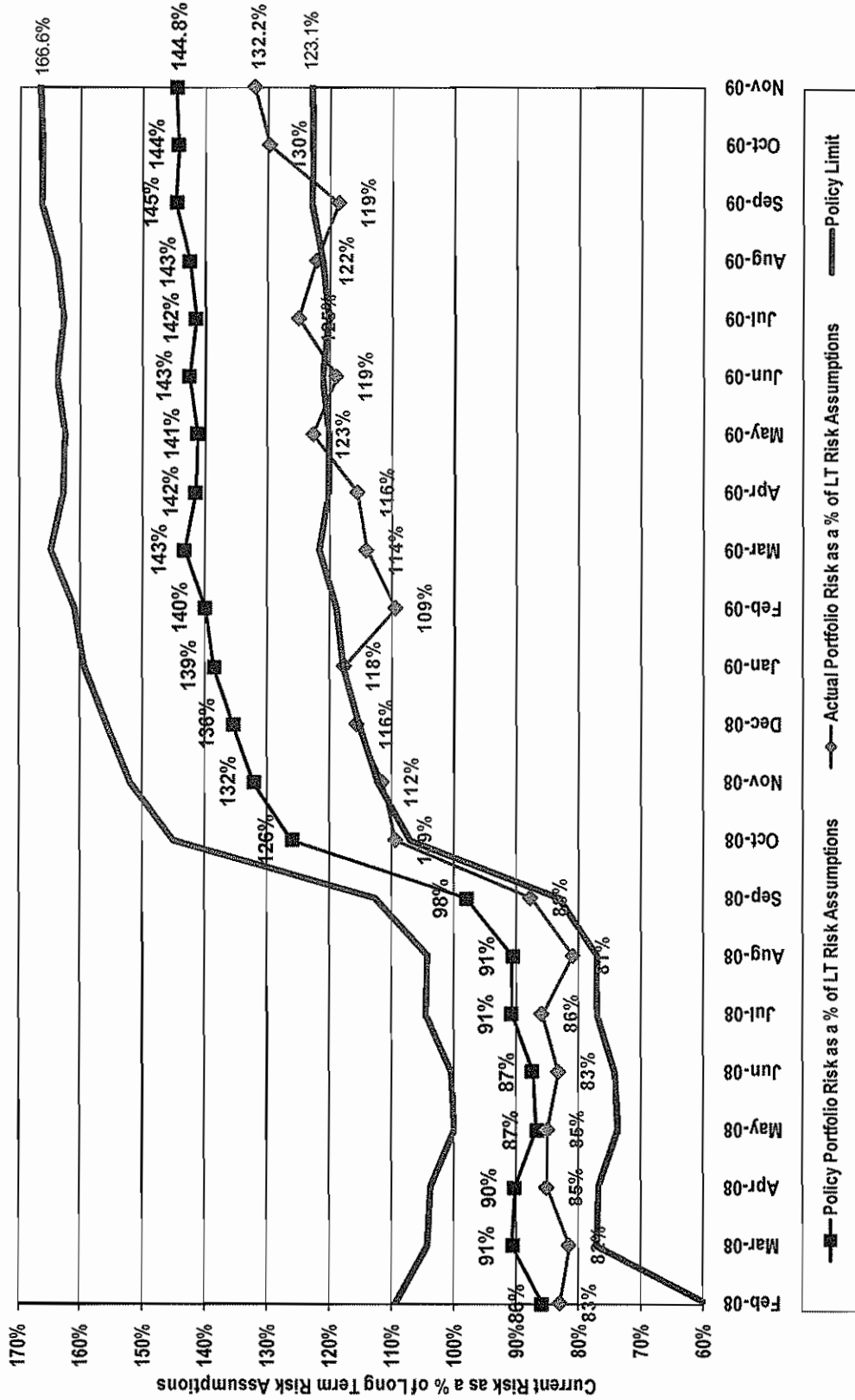
Deviations From Asset Class Policy Targets Within Tactical Policy Ranges for ITF



▲ -- All Investment Types ● -- More Correlated and Constrained

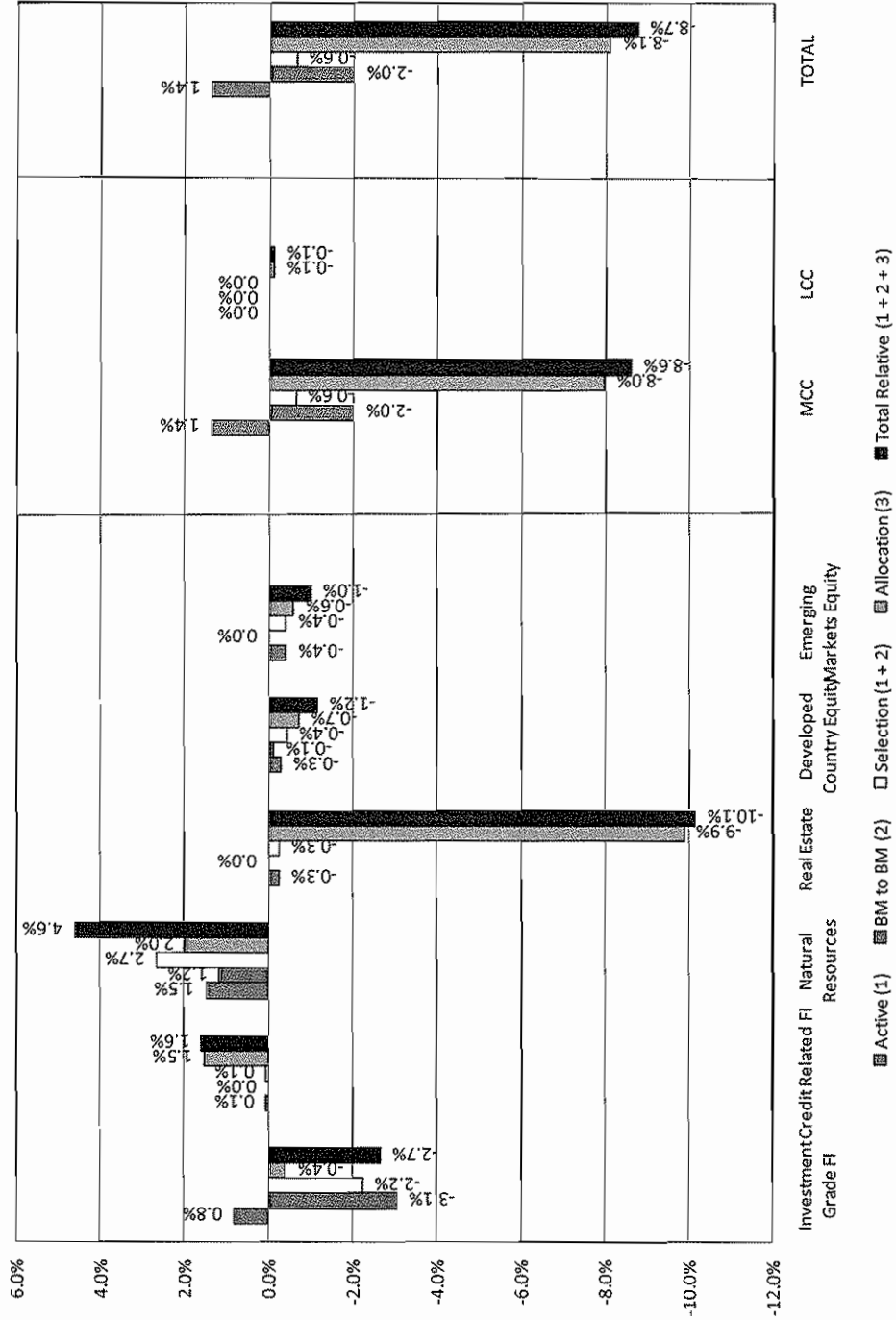


Current Risk Environment of ITF (Based on Downside Risk; LT assumption = 6.1%)



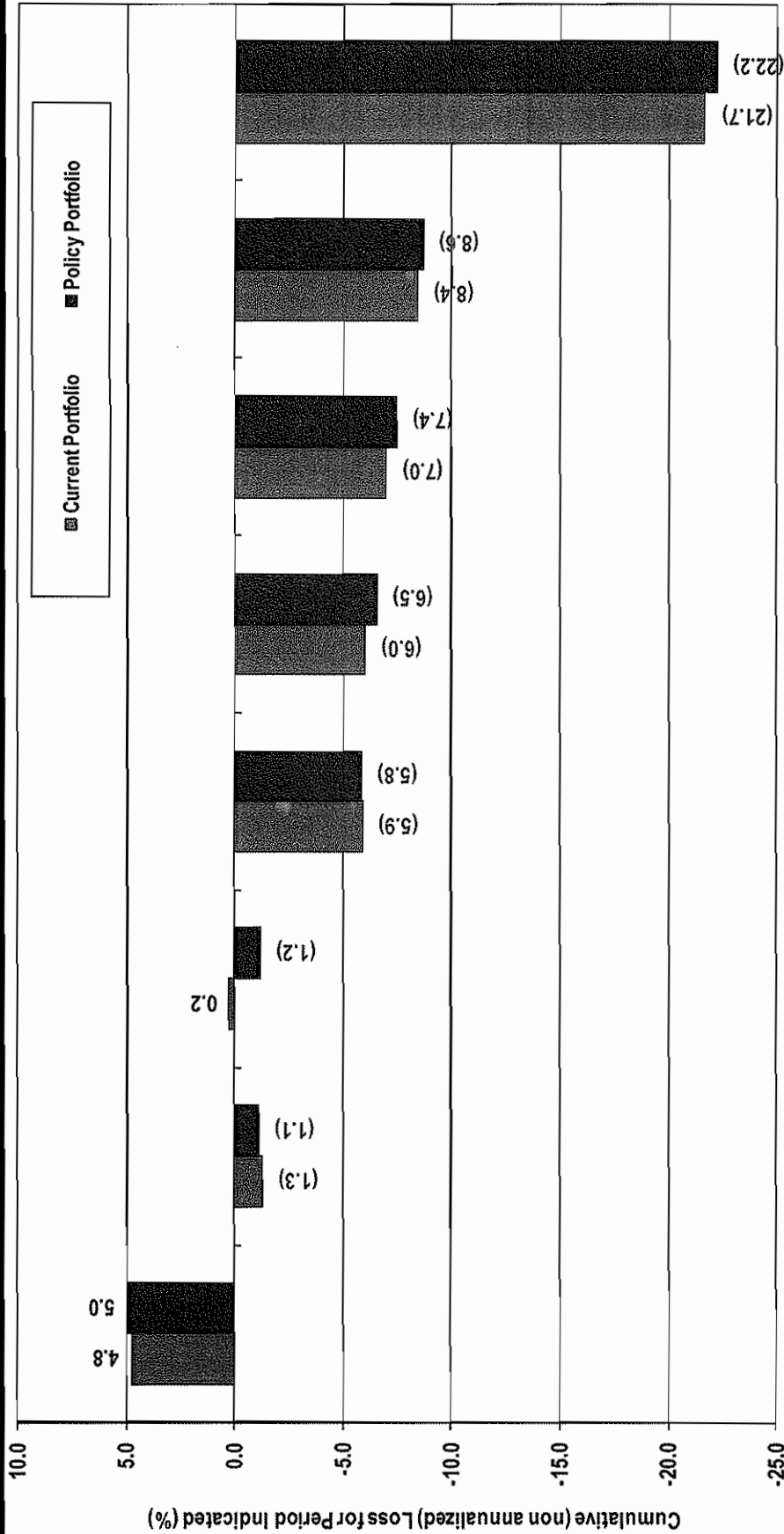


ITF 4-Way Risk Decomposition as of 11/30/2009





Hypothetical and Actual Performance of Current ITF Portfolio in Selected Stress Environments

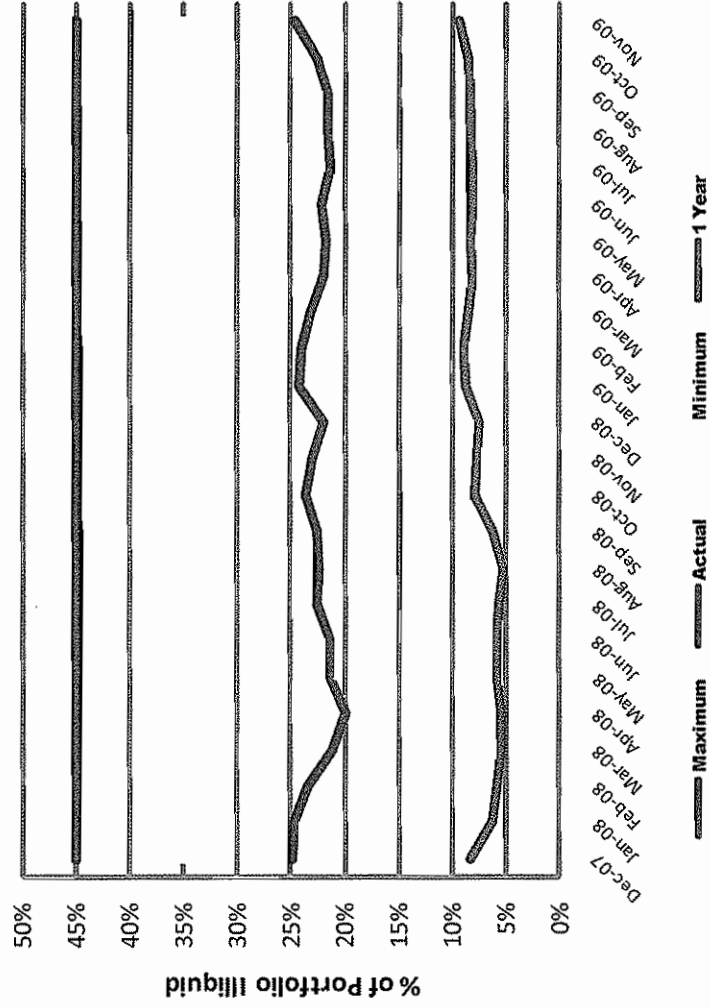


Equity Rally 10/10/02-11/27/02 Internet Bubble Bursts 03/24/00-04/14/00 Emerging Market Meltdown 07/97-10/97 1987 Market Crash 10/13/87-10/19/87 September 11 Reaction 08/24/01-09/21/01 Russian Ruble Crisis 07/98-10/98 Worldcom Selloff 05/17/02-07/23/02 9/11/2008-11/30/2008



ITF Liquidity

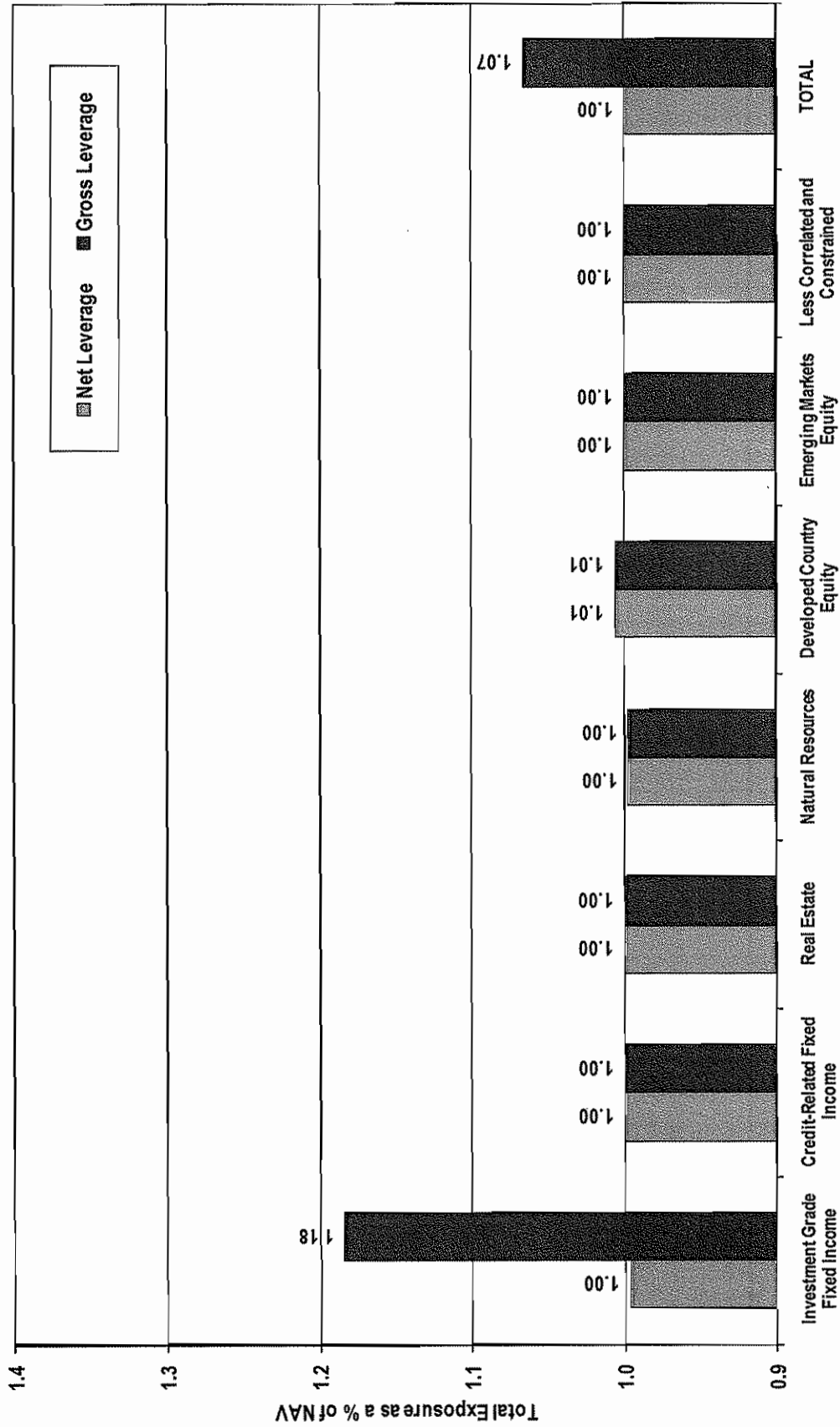
Intermediate Term Fund Actual Illiquidity vs. Trigger Zones



Three Month Liquidity \$ 2,960 million One Year Liquidity \$ 3,560 million



Net and Gross Leverage of ITF as of November 30, 2009





Investment Team Highlights



Tail Risk Hedging – as of 1/5/10

- Inflation Insurance

| <u>Investment</u> | <u>Notional</u> | <u>Avg. Strike</u> | <u>Original Cost</u> | <u>Total P/L</u> |
|-------------------|-----------------|--------------------|----------------------|------------------|
| 5&7 Yr options | \$4.0B | 5.77% | \$21.4MM | \$12.6MM |
| On 10 Yr CMS | | | (1.9 bps/Annum) | |

Rates

- Gold (Natural Resources)

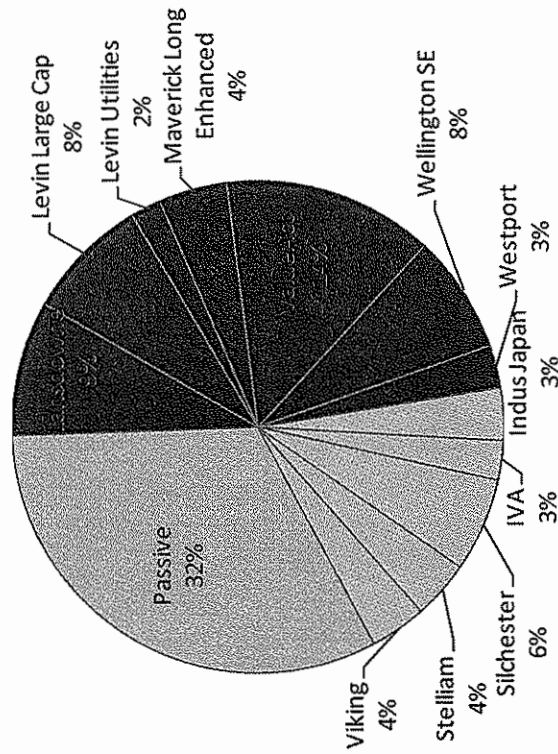
| <u>Investment</u> | <u>Notional</u> | <u>Avg. Cost</u> | <u>Original Cost</u> | <u>Total P/L</u> |
|-------------------|-----------------|------------------|----------------------|------------------|
| COMEX | \$388MM | \$1,034/ounce | \$359MM | \$29.5MM |
| Future | | | | |



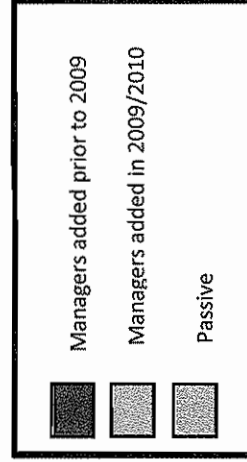
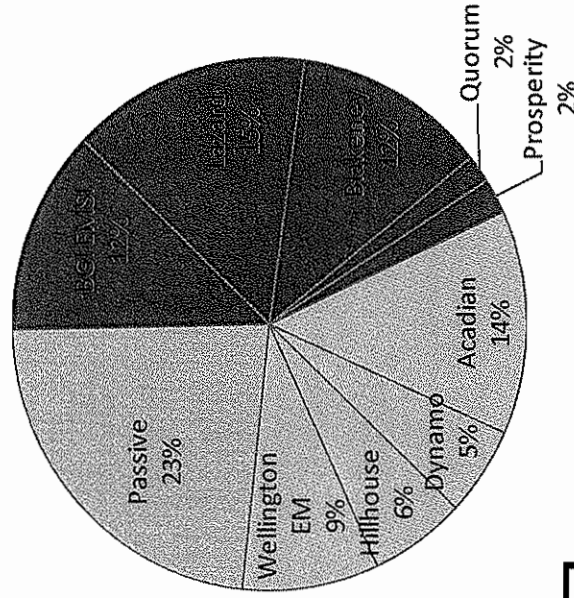
Public Equity Manager Sizing

(NAVs as of 12/31/09 with projections through 2/28/10)

Developed Country Equity Managers (\$2.9 billion)



Emerging Markets Equity Managers (\$1.8 billion)





LCC Quarterly Performance Update

1st Fiscal Quarter 2010

Sept 2009 – Nov 2009

LCC Asset Classes (Number of Managers)

| | |
|-----------------------------------|-------|
| Investment Grade Fixed Income (1) | 14.6% |
| Credit Related Fixed Income (9) | 7.4% |
| Natural Resources (1) | 0.1% |
| Real Estate (1) | 2.6% |
| Developed Country Equity (19) | 4.4% |
| Emerging Market Equity (5) | 9.9% |

| | |
|----------------------------|-------------|
| LCC Portfolio | 6.0% |
| Composite Benchmark | 2.6% |
| Difference | 3.4% |

| | |
|---------------------------------|------|
| Global Equities (MSCI AC World) | 7.2% |
| CSFB High Yield | 9.1% |



LCC Leverage

Manager-Level Leverage by Asset Classification (Estimated as of November 30, 2009)

| | <u>Gross</u> | <u>Net</u> |
|----------------------------------|--------------|-------------|
| Investment Grade FI | 899% | 438% |
| Credit Related FI | 115% | 70% |
| Real Estate | 145% | 32% |
| Natural Resources | 100% | 100% |
| Developed Country Equity | 188% | 49% |
| Emerging Markets Equity | 183% | 9% |
| LCC Total (excluding CDS) | 204% | 69% |
| Credit Default Swaps | <u>22%</u> | <u>-22%</u> |
| LCC Total | 226% | 48% |



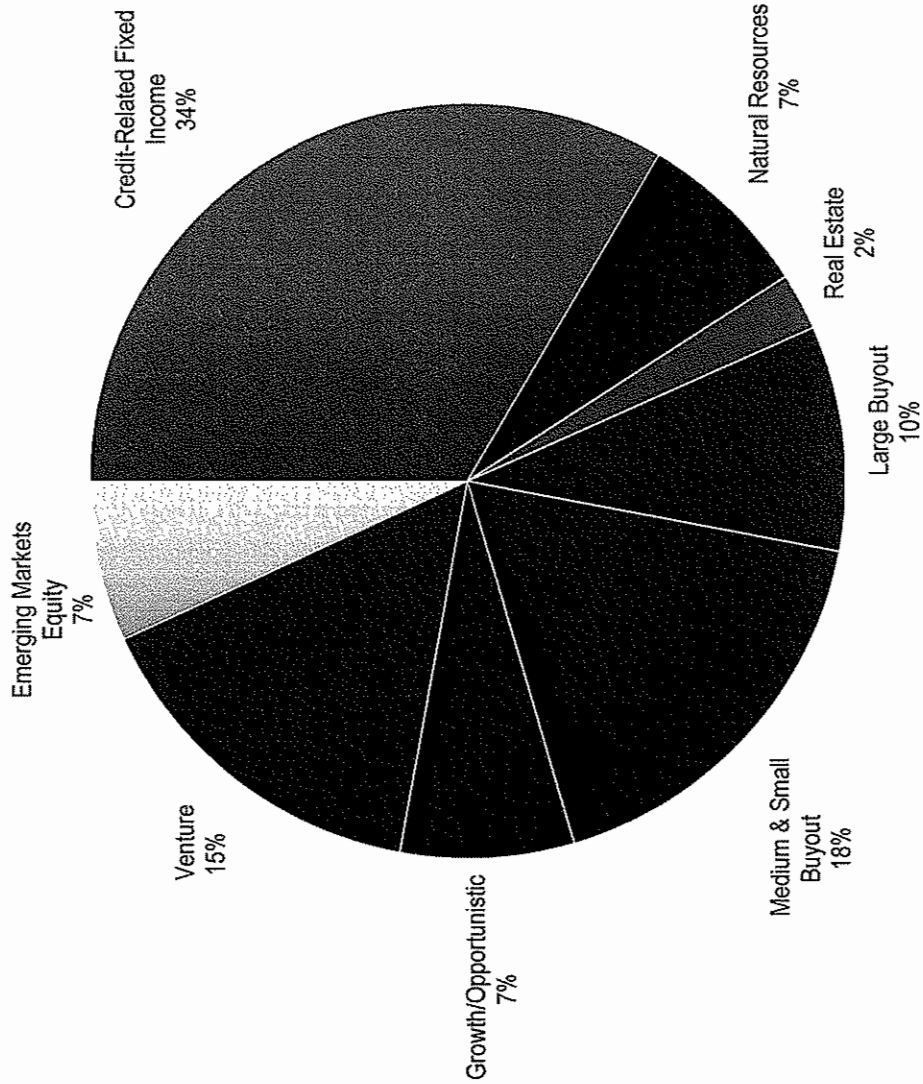
LCC Due Diligence and Terms Update

- A year ago, 7 hedge fund relationships representing \$1.08 billion in assets did not use independent third-party administrators. After ongoing dialogues, only 2 relationships (representing \$466 million) are still evaluating their decision to implement independent administration; however, both undergo annual audits and mid-year agreed-upon-procedure reviews by “big 4” firms.
- Reviewed updated due diligence questionnaire responses and conducted on-site diligence; on-going monitoring process of selected on-site back office visits with UTIMCO’s accounting team
- Negotiated more than \$15 million of potential fee savings via:
 - reduced management and incentive fees
 - implementation of perpetual or modified high-watermarks to replace one year loss carryforwards
 - multi-year incentive fee measurement periods in-line with multi-year rolling lock-up periods (rather than annual)
 - transfers of high-watermarks across funds



Private Investments Diversification

NAV of \$3.7 billion



| Asset Class | Managers | Funds |
|--------------------------|------------|------------|
| Credit-Related Fixed Inc | 16 | 31 |
| Natural Resources | 10 | 22 |
| Real Estate | 7 | 8 |
| Developed Country Equity | 64 | 124 |
| Large Buyout | 6 | 18 |
| Medium & Small Buyout | 26 | 44 |
| Growth/Opportunistic | 5 | 12 |
| Venture | 27 | 50 |
| Emerging Markets Equity | 10 | 13 |
| Total | 107 | 198 |



Private Investments Portfolio Rollforward

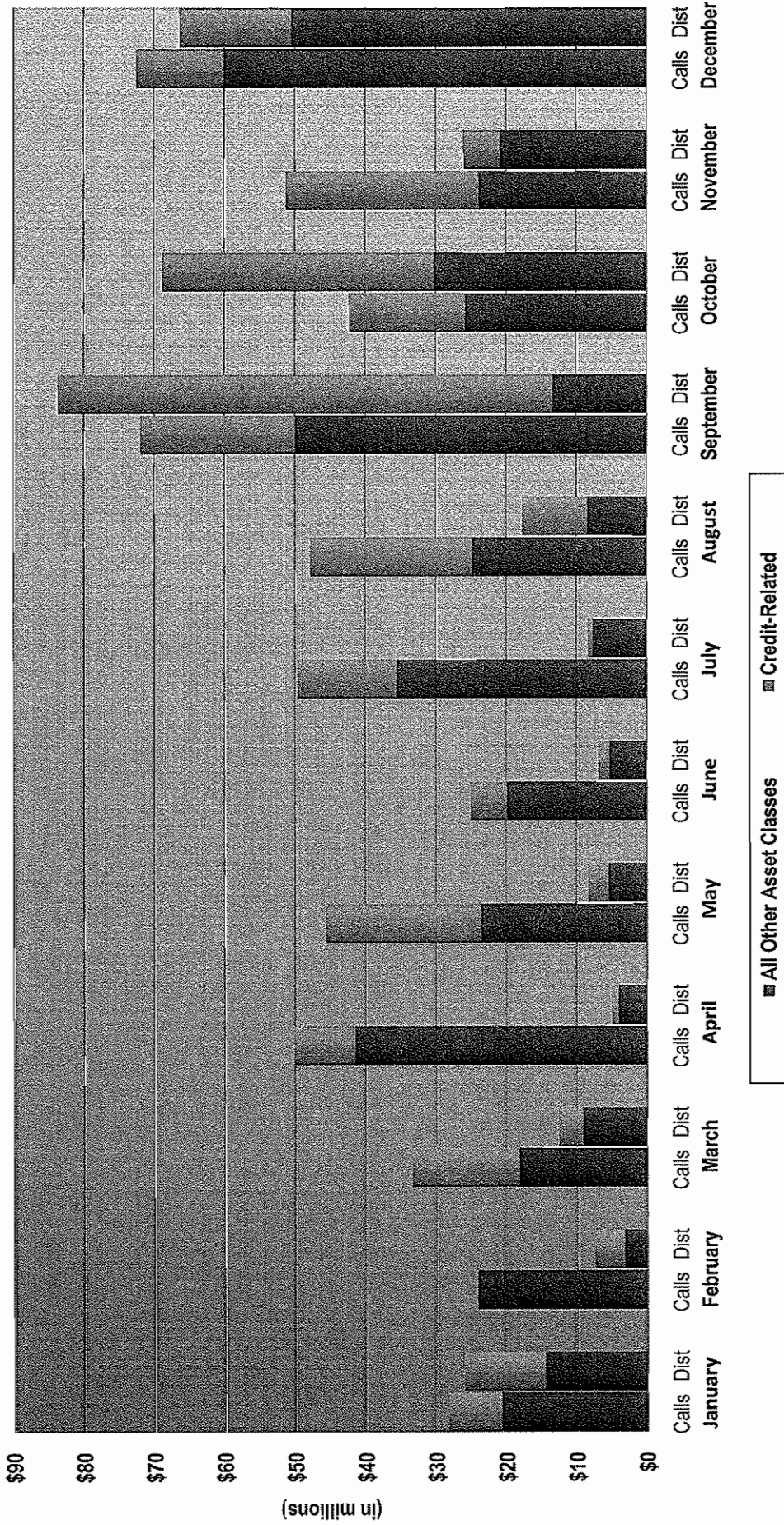
| Asset Class | Fiscal Year 2009 | | | | | |
|---------------------------|------------------|--------------|----------------|-----------------|-----------------|----------------|
| | Beg. Value | Calls | Distributions | Change in Value | | End Value |
| | | | | Amount | % of Beg. Value | |
| Credit-Related Fixed Inc. | \$932 | \$360 | (\$50) | (\$95) | -10% | \$1,147 |
| Real Estate | 74 | 35 | (1) | (24) | -33% | 84 |
| Natural Resources | 250 | 85 | (19) | (56) | -22% | 260 |
| Developed Country Equity | 1,857 | 284 | (85) | (335) | -18% | 1,721 |
| Large Buyout | 417 | 38 | (17) | (118) | -28% | 320 |
| Small/Medium Buyout | 692 | 111 | (45) | (142) | -21% | 615 |
| Growth/Opportunistic | 274 | 47 | (7) | (55) | -20% | 259 |
| Venture | 474 | 89 | (16) | (20) | -4% | 527 |
| Emerging Markets Equity | 200 | 55 | (2) | (32) | -16% | 221 |
| Total | \$3,312 | \$820 | (\$157) | (\$542) | -16% | \$3,433 |

| Asset Class | Fiscal Q1 2010 | | | | | |
|--------------------------|----------------|--------------|----------------|-----------------|-----------------|----------------|
| | Beg Value | Calls | Distributions | Change in Value | | End Value |
| | | | | Amount | % of Beg. Value | |
| Credit-Related Fixed Inc | \$1,147 | \$66 | (\$114) | \$132 | 12% | \$1,230 |
| Real Estate | 84 | 8 | (0) | (1) | -1% | 90 |
| Natural Resources | 260 | 25 | (21) | 9 | 3% | 273 |
| Developed Country Equity | 1,721 | 56 | (36) | 87 | 5% | 1,829 |
| Large Buyout | 320 | 15 | (10) | 29 | 9% | 354 |
| Small/Medium Buyout | 615 | 17 | (10) | 19 | 3% | 641 |
| Growth/Opportunistic | 259 | 4 | (1) | 11 | 4% | 273 |
| Venture | 527 | 20 | (15) | 28 | 5% | 561 |
| Emerging Markets Equity | 221 | 10 | (7) | 26 | 12% | 250 |
| Total | \$3,433 | \$166 | (\$179) | \$253 | 7% | \$3,672 |



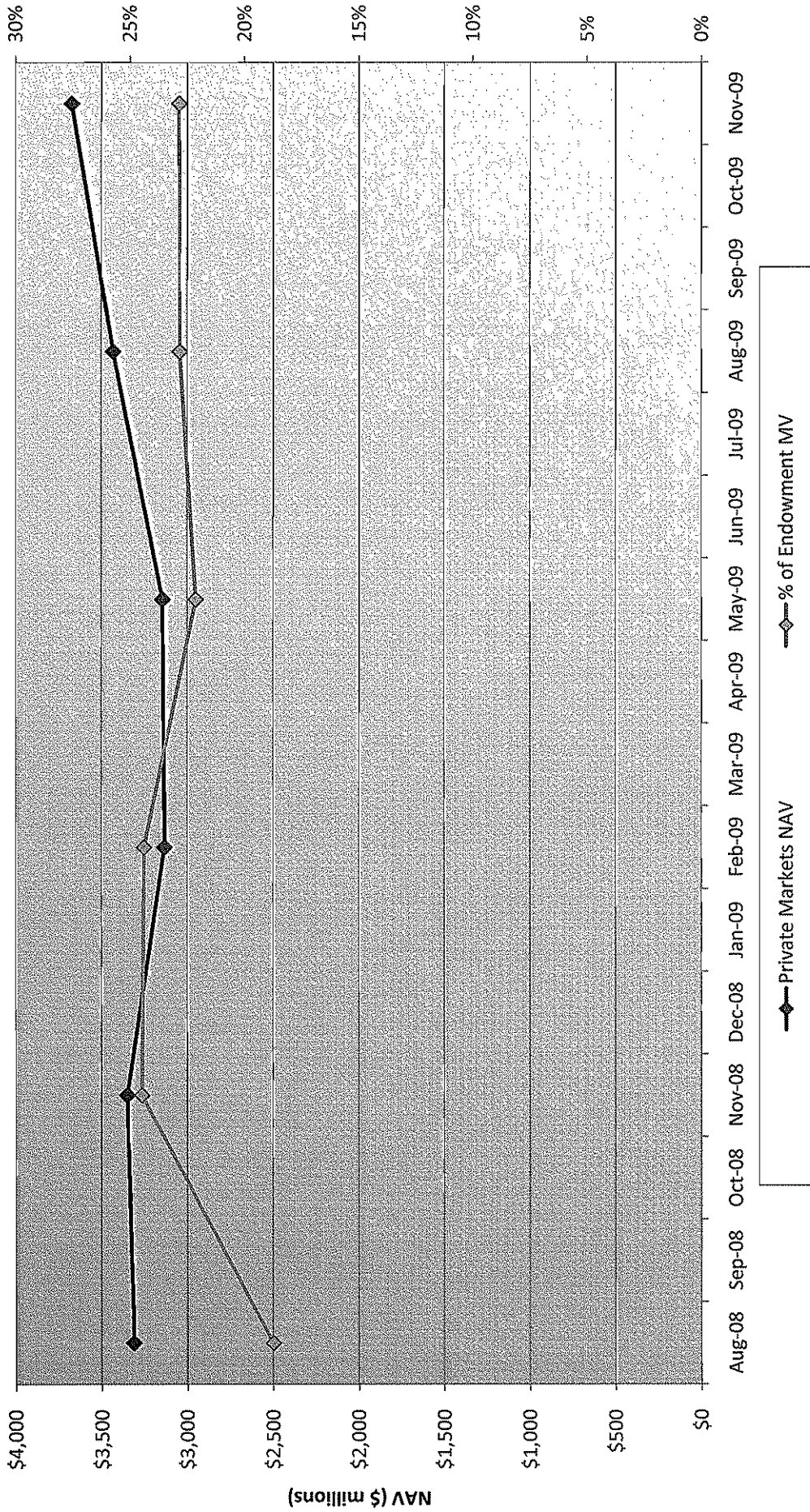
Private Investments Calls & Distributions - CY 2009

Total Calls: \$543M, Total Distributions: \$338M





Private Markets NAV





Contracts Update



Report on New Contracts and Existing Contract Renewals, Leases, and Other Commercial Arrangements For September 26, 2009 through December 31, 2009

(Total Obligation per Agreement greater than \$50,000)

| Agreement | Purpose | Contract Term | Annual Amount |
|---------------|---|----------------------|---------------|
| Credit Sights | Provide independent qualitative and quantitative credit research for corporate bond investing | 9/1/2009 to 9/1/2010 | \$50,000 |

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

| Agreement | Purpose | Contract Term | Annual Amount |
|-----------------------------|--|--|---------------|
| Bloomberg | Portfolio Order Management System | Renews quarterly via invoice | \$100,000 |
| Bloomberg | All-in-one investment platform for trading, analysis and information | Renews quarterly via invoice and may be canceled at any time | \$309,840 |
| International Fund Services | Risk System | Quarterly invoice – fees increased as accounts are added | \$434,000 |
| Factset Research Systems | Analytical tool for performance | Monthly invoice | \$274,140 |
| Albourne LLC | Advisor to Marketable Alternative staff | Monthly invoice | \$400,000 |

TAB 5

Agenda Item
UTIMCO Board of Directors Meeting
January 26, 2010

Agenda Item: Discussion of Investment Environment

Developed By: Zimmerman

Presented By: Zimmerman

Type of Item: Information Item

Description: This agenda item is intended to provide an opportunity for an open-ended discussion on issues, expectations, and opportunities in the current investment environment.

Discussion: Staff hopes to get input from Board members on issues, concerns, and opportunities in the current investment environment.

Recommendation: None

Reference: Combined PUF and GEF Asset Allocation; Illiquid Commitment Activity/Pipeline



Combined PUF and GEF Asset Allocation as of November 30, 2009 (in millions)

| Asset Group | Asset Class | More Correlated and Constrained | | Less Correlated and Constrained | | Private Investments | | Grand Total | |
|---------------------------|-------------------|---------------------------------|--------------|---------------------------------|--------------|---------------------|--------------|------------------|---------------|
| | | \$ | % | \$ | % | \$ | % | \$ | % |
| Fixed Income | Investment Grade | \$ 1,736 | 10.8% | \$ 235 | 1.5% | \$ - | 0.0% | \$ 1,971 | 12.3% |
| | Credit-Related | 288 | 1.8% | 1,174 | 7.3% | 1,230 | 7.7% | 2,692 | 16.8% |
| Fixed Income Total | | 2,024 | 12.6% | 1,409 | 8.8% | 1,230 | 7.7% | 4,663 | 29.1% |
| Real Assets | Real Estate | \$ 587 | 3.6% | \$ 67 | 0.4% | \$ 91 | 0.6% | 745 | 4.6% |
| | Natural Resources | 1,179 | 7.3% | 16 | 0.1% | 274 | 1.7% | 1,469 | 9.1% |
| Real Assets Total | | 1,766 | 10.9% | 83 | 0.5% | 365 | 2.3% | 2,214 | 13.7% |
| Equity | Developed Country | \$ 2,238 | 13.9% | \$ 2,881 | 17.9% | \$ 1,829 | 11.4% | 6,948 | 43.2% |
| | Emerging Markets | 1,586 | 9.9% | 406 | 2.5% | 250 | 1.6% | 2,242 | 14.0% |
| Equity Total | | 3,824 | 23.8% | 3,287 | 20.4% | 2,079 | 13.0% | 9,190 | 57.2% |
| Grand Total | | \$ 7,614 | 47.3% | \$ 4,779 | 29.7% | \$ 3,674 | 23.0% | \$ 16,067 | 100.0% |

The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.



Illiquid Commitment Activity/Pipeline

| Credit-Related | Natural Resources | Real Estate | Developed Country | Equity | Emerging Markets |
|-----------------------|--------------------------|--------------------|--------------------------|---------------|-------------------------|
| Three "Re-ups" | One "Re-up" | Brazil | Technology | S.F. Fund | Africa |
| | Resource Capital* | Asia | Bank | | Indonesia |
| | Encap Midstream* | Core U.S. | | | |
| | Energy Service Fund | Distressed U.S. | | | |

*Committed

TAB 6

Agenda Item
UTIMCO Board of Directors Meeting
January 26, 2010

Agenda Item: Report on and Discussion and Appropriate Actions related to Items from Risk Committee: (1) Use of Derivative Investments by External Managers Operating Under An Agency Agreement and (2) Increase Delegated Authority for Investment Managers

Developed By: Staff

Presented By: Tate

Type of Item: Action Item

Description: The Risk Committee ("Committee") will meet on January 19, 2010. The Committee's agenda includes (1) discussion of performance and risk reporting; (2) review and discussion of compliance reporting; (3) discussion and appropriate action related to categorization of new investment mandates; (4) report on and discussion and appropriate action related to use of Derivative Investments by external managers operating under an agency agreement; and (5) discussion and appropriate action related to increase in delegation of authority limits for specific managers.

With regard to Item 4 above, Staff will report to the Committee the results of the review of compliance with the Derivative Investment Policy effective August 20, 2009 ("Policy") by the external managers operating under an Agency Agreement. In accordance with the Policy, an external manager operating under an Agency Agreement may engage in Derivative Investments only if (i) such manager has been approved to use derivatives by the UTIMCO Chief Investment Officer and (ii) the investments are consistent with the overall investment objectives of the account and in compliance with the Policy. The use of Derivative Investments by an external manager operating under an Agency Agreement will be approved by the UTIMCO Chief Investment Officer only for external managers that (i) demonstrate investment expertise in their use, (ii) have appropriate risk management and valuation policies and procedures, and (iii) effectively monitor and control their use. When the UTIMCO Board approved the amendments to the Policy on July 9, 2009, it also authorized the Corporation's CEO to negotiate with each existing external manager operating under an Agency Agreement that engages in Derivative Investments to ensure its Derivative Investments are in compliance with the Policy. The UTIMCO Board, however, provided that the CEO would be required to seek approval from it to allow the retention of any existing external manager operating under an Agency Agreement that engages in Derivative Investments that is not in compliance with the Policy on the date of the first 2010 regular meeting of the Corporation's Board.

With regard to Item 5 above, Staff will request an increase in delegation of authority limits for specific managers. The Delegation of Authority Policy ("Policy") provides a clear delineation of responsibilities of the UTIMCO Board and the UTIMCO Staff. In the Policy, the UTIMCO Board has delegated the authority to increase investments or commitments to existing internal or external investment

Agenda Item
UTIMCO Board of Directors Meeting
January 26, 2010

managers, within certain limits, to the UTIMCO CEO. UTIMCO Staff has previously requested and received approval from the UTIMCO Board to increase investment limits for certain managers. The CEO reports to the UTIMCO Board at its regularly scheduled Board meetings regarding all decisions made under the delegated authority.

Discussion:

The Committee will review and take appropriate action related to the mandate categorizations prepared by staff for the period beginning October 27, 2009, and ending January 8, 2010. The Mandate Categorization Procedure ("Procedure") requires that all new mandates be categorized by the Managing Directors, and that the Chief Compliance Officer provide the Chief Investment Officer his/her agreement or recommended categorization, after which the Chief Investment Officer will designate the Asset Class and Investment Type and report to the Risk Committee at its next regular meeting for the Committee's approval or re-categorization. The Procedure also requires staff to recommend re-categorizations of any existing mandate if after the initial or annual categorization the Chief Investment Officer, a Managing Director, or the Chief Compliance Officer become aware of a change(s) in the investment characteristics of the mandate that warrant a re-categorization. Staff is requesting that the Committee approve six mandate categorizations and report on two mandates that are currently being watched for re-categorization. The Committee will report to the UTIMCO Board the results of its review of the Investment Mandate Categorizations.

The Committee will review and take appropriate action related to the use of Derivative Investments by external managers operating under an agency agreement. UTIMCO's Risk Management group, led by Uzi Yoeli, documented the use of Derivative Investments by sixteen external managers operating under an Agency Agreement. Nine of the sixteen external managers have been approved by the Chief Investment Officer to use Derivative Investments. Of the nine external managers approved to use Derivative Investments, eight are in compliance with the Policy. One manager, PIMCO, is engaging in Derivative Investments that are not within the delegated authority set forth on Exhibit B of the Policy due to previously negotiated investment guidelines and restrictions contained in its Investment Advisory Agreement effective October 1, 2003, as amended. The Committee will report to the UTIMCO Board the results of its review and action taken related to retention of PIMCO as an existing manager with PIMCO's current guidelines and restrictions on the use of Derivative investments.

The Committee will review and take appropriate action related to the increase in the delegation of authority limits for specific managers. UTIMCO staff has identified seven managers that it would like to increase the investment limits in excess of the limits provided in the Policy and/or previously approved by the UTIMCO Board. The seven managers and requested investment limits are listed on the attached Proposed Increases to Delegation of Authority Limits. These seven managers are either currently above or near the delegated authority limit due to appreciation. UTIMCO staff is requesting the increase in the delegated authority limit so it can have the option to invest additional capital with these

Agenda Item
UTIMCO Board of Directors Meeting
January 26, 2010

managers. UTIMCO staff will discuss with the Committee staff's rationale for increasing the delegated authority limits for specific managers.

Ms. Gonzalez will review the quarterly compliance reports at the Committee meeting.

Recommendation: The Committee requests that the Board take appropriate action related to the retention of PIMCO as an existing external manager operating under an Agency Agreement with the current investment guidelines and restrictions on the use of Derivative Investments contained in the Investment Advisory Agreement effective October 1, 2003, as amended. The Committee also requests that the Board take appropriate action related to an increase in delegation of authority limits for specific managers as set forth in the attached.

Reference: Agency Summary presentation; Proposed Increases to Delegation of Authority Limits

**RESOLUTION RELATED TO RETENTION OF PIMCO
AS AN EXTERNAL MANAGER OPERATING
UNDER AN AGENCY AGREEMENT**

WHEREAS, the UTIMCO Board approved an amendment to the Derivative Investment Policy effective August 20, 2009 ("Policy"); and

WHEREAS, the UTIMCO Board authorized the Corporation's CEO to negotiate with each existing external manager operating under an Agency Agreement that engages in Derivative Investments to ensure its Derivative Investments are in compliance with the Derivative Investment Policy subject to the requirement that the Corporation's CEO must seek approval from the UTIMCO Board to allow the retention of any existing external manager that is not in compliance with the Derivative Investment Policy on the date of the first 2010 regular meeting of the Corporation's Board; and

WHEREAS, Corporation staff has reviewed all of the Corporation's external managers operating under an Agency Agreement that engage in Derivative Investments for compliance with the Policy and determined that one external manager operating under an Agency Agreement (PIMCO) is currently allowed to engage in Derivative Investments that are not within the delegated authority set forth on Exhibit B of the Policy due to previously negotiated investment guidelines and restrictions contained in its Investment Advisory Agreement effective October 1, 2003, as amended; and

WHEREAS, Corporation staff has documented and presented to the Risk Committee its reasons for desiring to retain PIMCO as an external manager; and

WHEREAS, the Risk Committee concurred with the reasons presented by Corporation staff for desiring to retain PIMCO as an external manager and recommended that the Board approve the same; and

WHEREAS, the Board concurs in the recommendation of the Risk Committee and wishes to document its approval of retention of PIMCO as an external manager.

NOW, THEREFORE, BE IT

RESOLVED, that the retention of PIMCO as an existing external manager operating under an Agency Agreement with the current investment guidelines and restrictions on the use of derivatives contained in the Investment Advisory Agreement effective October 1, 2003, as amended, is hereby approved.

**RESOLUTION TO INCREASE INVESTMENT LIMITS FOR CERTAIN
MCC AND LCC INVESTMENTS**

WHEREAS, the Risk Committee concurred with the reasons presented by Corporation staff for desiring to increase the investment limits for certain More Correlated and Constrained Investments and Less Correlated and Constrained Investments and recommended that the Board approve the same; and

WHEREAS, the Board concurs in the recommendation of the Risk Committee and wishes to document its approval to increase the investment limits for those managers.

NOW, THEREFORE, BE IT

RESOLVED, that the proposed new limits to investment mandates for certain More Correlated and Constrained Investments and Less Correlated and Constrained Investments, be, and are hereby approved in the form as submitted to the UTIMCO Board of Directors.



Agency Managers' Adherence with UTIMCO Derivative Policy

- As part of the Derivative Policy adopted by the Board of Regents in August 2009, a review of all agency accounts was required by the first UTIMCO Board meeting of calendar year 2010 to verify adherence to the new policy
- Staff reviewed all 20 agency agreements across 16 managers, and classified them as follows:

| Not permitted to use derivatives | Permitted and within Delegated Authority | | Permitted and beyond Delegated Authority |
|---|--|---|--|
| | Limited use ⁽¹⁾ | Broader use | |
| Angelo Gordon Watershed Cohen & Steers European Investors Inc Security Capital Levin Westport | Morgan Stanley REITs Blackrock Acadian | Brandywine Gresham Lansdowne Europe Wellington Dynamo | PIMCO |

⁽¹⁾ Currency hedging and index exposures



Agency Managers with General Use of Derivatives

- **Brandywine** – fairly wide latitude to use derivatives to manage currencies (delegated authority type #4) and duration (type #5). Currently use only standard FX contracts.
- **Gresham** – all commodities exposure executed, as standard, using fully collateralized futures (type #1)
- **Lansdowne Europe** – can use futures, swaps, contracts for differences (type #1), insurance derivatives (type #3), and FX management (type #4)
- **Wellington** – can use fully collateralized futures (type #1), options (type #3), and FX management (type #4)
- **Dynamo** – can use replicating derivatives (type #1), derivatives that cannot lose more than the cash-market equivalent (type #2), insurance derivatives (type #3), and FX management (type #4)

Delegated Authority Types

1. Replicating
2. Limited Loss
3. Insurance
4. FX
5. Duration and factor management



PIMCO

- PIMCO may use derivatives provided that:
 - They are within the approved **Derivative Applications**⁽¹⁾
 - They do not create leverage, as defined in the agreement (notional is backed by cash or cash equivalents)
 - Over-the-counter (OTC) derivative exposure is limited to 15% of the account
 - Counterparty risk is minimized
 - Investment risk is mitigated by matching liabilities from the derivative with other investments
- The guidelines do not specify or limit the choice of **Derivative Investments**
- In practice
 - PIMCO's choice of Derivative Investments follows very closely, but not perfectly, the delegated Derivative Investments
 - The recourse for PIMCO's counterparties is limited in their ISDAs only to the PIMCO account
 - Our downside risk attribution shows that PIMCO's derivatives are risk reducers (slightly)

⁽¹⁾ Derivative Applications is a term used in the prior and existing Derivative Policy Statements. Derivative Applications generally have broader definitions than Derivative Investments.



Rationale for Approval of Existing PIMCO Derivative Guidelines

- The Derivative Policy was crafted with UTIMCO's internal needs and capabilities in mind, and therefore has a narrow scope with the understanding that some external managers may have different needs and capabilities
- "Non-vanilla" derivatives are an integral part of active fixed income investment management
- PIMCO is an experienced practitioner with world-class risk management and a strong balance sheet. We have been investing with PIMCO for over 10 years
- OTC derivative exposure is limited to 15% of the account. The notional exposure of the derivatives that arguably might not fit Exhibit B of the Derivative Policy is currently 0.1% of all derivatives.
 - Currencies are sometimes hedged by selling currency options rather than simple currency shorts
 - Interest-rate swaps on non-US currencies mix managing duration and currency (each separately allowed)
- UTIMCO has full transparency. Risk Management analyzes the PIMCO account daily, looking for unexpected large moves



PIMCO's Derivative-related Investment Guidelines

- The Accounts may utilize Derivative Securities with the approval of the UTIMCO Board to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) to facilitate trading; c) to reduce transaction costs; d) to seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) to index or to hedge risks associated with Fund investments; or f) to adjust the market exposure of the asset allocation, including long and short strategies; provided that: i) no leverage is employed in the implementation of such Derivative purchases or sales; ii) no more than 5% of Account assets are required as an initial margin deposit for such contracts. Leverage occurs when the notional value of the futures contracts exceeds the value of cash and cash equivalent assets allocated to those contracts. The cash assets allocated to futures contracts is the sum of the value of the initial margin deposit; the daily variation margin dedicated cash balances and cash equivalent securities defined as investment grade securities with a duration of one year or less.
- Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of anyone or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts. PIMCO shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Account.
- In the event that there are no Derivative Securities traded on a particular market index such as MSCI EAFE, the Account may utilize a composite of other Derivative Security contracts to simulate the performance of such index.
- PIMCO shall minimize the risk that a party will default on its payment obligation under a Derivative Security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit.
- PIMCO also shall attempt to mitigate the risk that the Account will not be able to meet its obligation to the counterparty by investing the Account in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.
- The Account may be invested 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 and between foreign currencies and the U. S. dollar.



Proposed Increases to Delegation of Authority Limits

| <u>Mandates</u> | <u>Contributed Capital (Net)</u> | <u>Estimated 1/1/09 Value</u> | <u>Current Delegation Limit</u> | <u>Requested Delegation Limit</u> | <u>Limit % of 11/30/09 Asset Class</u> | <u>Limit % of 11/30/09 UTIMCO</u> | <u>Limit % of 1/1/10 Est. Manager AUM</u> |
|---------------------------------|----------------------------------|-------------------------------|---------------------------------|-----------------------------------|--|-----------------------------------|---|
| <u>MCC:</u> | | | | | | | |
| Internal Fixed Income | N/A | \$788 | \$750 | \$1,000 | 9.5% | 5.0% | N/A |
| <u>LCC:</u> | | | | | | | |
| Baupost | 300 | 396 | 300 | 550 | 9.4% | 2.8% | 2.6% |
| Blue Ridge | 165 | 429 | 375 | 550 | 9.4% | 2.8% | 8.3% |
| Bridgewater | 194 | 299 | 300 | 400 | 6.8% | 2.0% | 0.9% |
| Centerbridge | 225 | 288 | 300 | 425 | 7.3% | 2.1% | 3.9% |
| Och Ziff | 250 | 348 | 300 | 500 | 8.6% | 2.5% | 2.1% |
| <u>Combined LCC/MCC:</u> | | | | | | | |
| Maverick | 145 | 553 | 600 | 650 | 4.0% | 3.3% | 5.8% |

TAB 7

Agenda Item
UTIMCO Board of Directors Meeting
January 26, 2010

- Agenda Item:** Report on and Discussion and Appropriate Action related to Items from Audit and Ethics Committee - Audit of UTIMCO Financial Statements
- Developed By:** Staff
- Presented By:** Foster
- Type of Item:** Action required by UTIMCO Board related to year end audits; information item on other items
- Description:** The Audit and Ethics Committee ("Committee") will meet on January 19, 2010. The Committee's agenda includes (1) the review and consideration of Deloitte & Touche LLP's Financial Statement Audit Results and Communications and Audited Financial Statements for the Corporation; (2) a presentation of the unaudited financial statements for the three months ended November 30, 2009, for the Investment Funds and the Corporation; and (3) an update of other compliance, reporting, and audit issues.
- Discussion:** The UTIMCO financial statements were audited by Deloitte & Touche LLP. Deloitte & Touche LLP issued an unqualified opinion on the August 31, 2009 and 2008 financial statements. Tom Wagner, the engagement partner, is scheduled to present to the Committee the Deloitte & Touche LLP's Audit Results and Communications letter and answer questions related to the financial statements. A copy of the Audit Results and Communications and the audited financial statements are included.
- Routine activities of the Committee will include reviewing the unaudited financial statements for the first quarter for the Funds and UTIMCO Corporation and the quarterly compliance reports.
- Recommendation:** The Committee will request the UTIMCO Board take appropriate action based on the Committee's action from its meeting related to approval of Deloitte and Touche LLP's Financial Statement Audit Results and Communications, and the audited financial statements and audit report for the Corporation.
- Reference:** Audit Results and Communications; Audited financial statements and audit report for the Corporation

December 21, 2009

Mr. Bruce Zimmerman
CEO and Chief Investment Officer
The University of Texas Investment Management Company

The Audit and Ethics Committee of
the Board of Directors of
The University of Texas Investment Management Company
401 Congress Avenue, Suite 2800
Austin, TX 78701

Dear Mr. Zimmerman and Members of the Audit and Ethics Committee of the Board of Directors of The University of Texas Investment Management Company:

We have performed an audit of the financial statements of The University of Texas Investment Management Company (the "Company") as of and for the year ended August 31, 2009, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated December 21, 2009.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Company is responsible.

Our Responsibility Under Generally Accepted Auditing Standards

Our responsibility under auditing standards generally accepted in the United States of America has been described in our engagement letter dated July 24, 2009, a copy of which has been provided to you. As described in that letter, the objective of a financial statement audit conducted in accordance with auditing standards generally accepted in the United States of America is to express an opinion on the fairness of the presentation of the Company's financial statements for the year ended August 31, 2009, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit and Ethics Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Audit and Ethics Committee of their responsibilities.

We considered the Company's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events.

During the year ended August 31, 2009, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

Uncorrected Misstatements

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. There were no uncorrected misstatements or disclosure items passed identified during our audit.

Material Corrected Misstatements

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. There were no material misstatements that were brought to the attention of management as a result of our audit procedures.

Significant Accounting Policies

The Company's significant accounting policies are set forth in Note 2 to the Company's 2009 financial statements. During the year ended August 31, 2009, there were no significant changes in previously adopted accounting policies or their application.

Disagreements With Management

We have not had any disagreements with management related to matters that are material to the Company's 2009 financial statements.

Consultation With Other Accountants

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during the year ended August 31, 2009.

Significant Issues Discussed, or Subject of Correspondence, With Management Prior to our Initial Engagement or Retention

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

Other Significant Issues Discussed, or Subject of Correspondence, With Management

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant issues requiring communication to the Audit and Ethics Committee.

Significant Difficulties Encountered in Performing the Audit

In our judgment, we received the full cooperation of the Company's management and staff and had unrestricted access to the Company's senior management in the performance of our audit.

Management's Representations

We have made specific inquiries of the Company's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Company is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix A, a copy of the representation letter we obtained from management.

* * * * *

This report is intended solely for the information and use of management, the Audit and Ethics Committee of the Board of Directors of The University of Texas Investment Management Company, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Deloitte & Touche LLP

**THE UNIVERSITY OF TEXAS INVESTMENT
MANAGEMENT COMPANY**

FINANCIAL STATEMENTS

For the years ended August 31, 2009 and 2008

The University of Texas Investment Management Company

Financial Statements

For the Years Ended August 31, 2009 and 2008

Contents

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Independent Auditors' Report

The Board of Directors of The University of Texas Investment Management Company

We have audited the accompanying Balance Sheets of The University of Texas Investment Management Company ("UTIMCO"), as of August 31, 2009 and 2008, and the related Statement of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UTIMCO's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of UTIMCO as of August 31, 2009 and 2008, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

December 21, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) **(Unaudited)**

Our discussion and analysis of the financial performance for The University of Texas Investment Management Company (UTIMCO) provides an overview of its activities for the year ended August 31, 2009. This discussion was prepared by UTIMCO management and should be read in conjunction with the UTIMCO financial statements and notes. UTIMCO is a 501(c) (3) investment management corporation whose sole purpose is the management of investment assets that are under the fiduciary care of the Board of Regents of The University of Texas System (UT Board).

Created in March 1996, UTIMCO is the first external investment corporation formed by a public university system. It invests endowment and operating funds in excess of \$20 billion. UTIMCO is governed by a nine-member Board of Directors appointed by the UT System Board of Regents. The UTIMCO Board of Directors includes three members of the UT Board, the Chancellor of The University of Texas System, and five outside investment professionals (including one representative from the Texas A&M University System). The UTIMCO Board and the UT Board have entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

The purpose of the MD&A is to provide an objective and easily readable analysis of the UTIMCO financial statements based upon currently known facts, decisions or conditions.

Financial Highlights

Net assets increased by \$1.5 million from \$9.4 million to \$10.9 million, or approximately 15.9%, for the year ended August 31, 2009. This is compared to an increase of \$2.0 million from \$7.4 million to \$9.4 million, or approximately 27.0%, for the year ended August 31, 2008. The change in net assets from year to year is mainly attributable to budgeted personnel costs which were not incurred and reductions in travel expenditures. The management fees received are based on the expense budget that is approved by the UTIMCO Board and the UT Board. UTIMCO deferred filling budgeted positions and incurring certain international travel costs given the market circumstances of fiscal year 2009.

Use of Financial Statements and Notes

UTIMCO financial statements are prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Three financial statements are typically required under GASB: Statement of Net Assets or Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

The notes to the financial statements contain supplemental information that is essential for the fair presentation of the financial statements.

Balance Sheets

The Balance Sheets present assets, liabilities, and the net assets of UTIMCO as of the end of the fiscal year. These statements have been prepared using the accrual basis of accounting.

The following summarizes the Balance Sheets:

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|-----------------------------|-----------------------------|-----------------------------|
| Assets | | | |
| Cash & Cash Equivalents | \$ 12,618,433 | \$ 10,907,042 | \$ 8,046,839 |
| Other Assets | <u>3,423,832</u> | <u>4,043,880</u> | <u>3,641,367</u> |
| Total Assets | <u>\$ 16,042,265</u> | <u>\$ 14,950,922</u> | <u>\$ 11,688,206</u> |
| Liabilities & Net Assets | | | |
| Accounts Payable & Deferred Compensation Plan Obligations | \$ 3,510,534 | \$ 3,779,637 | \$ 2,409,660 |
| Deferred Rent | 1,576,705 | 1,801,948 | 1,834,112 |
| Unrestricted Net Assets | <u>10,955,026</u> | <u>9,369,337</u> | <u>7,444,434</u> |
| Total Liabilities & Net Assets | <u>\$ 16,042,265</u> | <u>\$ 14,950,922</u> | <u>\$ 11,688,206</u> |

The changes in Balance Sheet components are primarily the result of the following:

- Other Assets decreased by approximately \$620,000 in 2009 as a result of lower pass through legal expenses and related accounts receivable at year end from UT System on the West Texas Lands project. Other Assets increased during fiscal year 2008 by approximately \$403,000 primarily as a result of net increases in property and equipment related to purchases of leasehold improvements, furniture, and computer equipment for UTIMCO's expansion in leased facilities. Additionally, UTIMCO added a deferred compensation program in FY 2008, which caused an increase in both other assets and other accrued expenses.
- Accounts payable and deferred plan obligations decreased by approximately \$269,000 primarily as a result of lower balances due related to the West Texas Lands project at August 31, 2009 versus 2008. Accounts payable and deferred plan obligations increased in 2008 as a result of the increase in personnel and operating expenses associated with the increase in headcount between years from 47 at August 31, 2007 to 59 at August 31, 2008. These costs also include an increase related to the newly implemented deferred compensation plan and an increase in accrued liabilities related to the West Texas Lands project.

Statements of Revenues, Expenses and Changes in Net Assets

The Statements of Revenues, Expenses and Changes in Net Assets are based upon the financial activities of the organization. The purpose of these statements is to present details comprising the revenue, expenses, and changes to net assets for the years reported. The following table summarizes the Statements of Revenues, Expenses and Changes in Net Assets:

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|-------------------------------------|-----------------------------|----------------------------|----------------------------|
| Revenue | | | |
| Management Fees | \$ 16,551,209 | \$ 15,377,329 | \$ 13,948,138 |
| Non-operating Revenues | <u>157,174</u> | <u>424,065</u> | <u>457,335</u> |
| | 16,708,383 | 15,801,394 | 14,405,473 |
| Expenses | | | |
| Salaries & Benefits | 11,253,722 | 9,702,764 | 8,078,314 |
| General Operating | 1,570,137 | 1,952,991 | 1,747,925 |
| Depreciation and Amortization | 588,684 | 548,487 | 565,569 |
| Other | <u>1,710,151</u> | <u>1,672,249</u> | <u>1,671,899</u> |
| | 15,122,694 | 13,876,491 | 12,063,707 |
| Increase in Unrestricted Net Assets | 1,585,689 | 1,924,903 | 2,341,766 |
| Net Assets, Beginning of Year | <u>9,369,337</u> | <u>7,444,434</u> | <u>5,102,668</u> |
| Net Assets, End of Year | <u><u>\$ 10,955,026</u></u> | <u><u>\$ 9,369,337</u></u> | <u><u>\$ 7,444,434</u></u> |

The changes in the Statements of Revenues, Expenses and Changes in Net Assets are primarily the result of the following:

- Management Fees revenue for each year presented are based upon the operating budget and management fee approved in advance each year by both the UTIMCO Board of Directors and the UT System Board of Regents. Revenue fluctuations are the direct result of these approved budgets.
- Salary and Benefit expenses increased as a result of cost of living adjustments in fiscal years 2009 and 2008 and additionally for staff additions and promotions in fiscal year 2008. Staff levels were primarily constant in fiscal year 2009.
- General Operating Expenses decreased in fiscal 2009 primarily as a result of reduced travel expenditures and multiple cost-savings initiatives. For fiscal year 2008, UTIMCO became fully staffed during the course of the year and expenses directly related to filling these vacancies were incurred.

Statements of Cash Flows

The Statements of Cash Flows are presented to identify the cash flows from operating activities and those cash flows used for investing activities. The following table summarizes the Statements of Cash Flows:

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|-----------------------------|-----------------------------|----------------------------|
| Cash Flows from Operating Activities | | | |
| Proceeds from management fees | \$ 16,551,209 | \$ 15,377,329 | \$ 13,955,638 |
| Other proceeds | - | - | 47,646 |
| Payments to and for employees | (11,122,513) | (8,774,723) | (8,098,106) |
| Other payments | <u>(3,740,551)</u> | <u>(3,518,350)</u> | <u>(3,755,640)</u> |
| | 1,688,145 | 3,084,256 | 2,149,538 |
| Cash Flows from (used for) Noncapital, Capital and Investing Activities | | | |
| Purchase of property & equipment, net | (136,174) | (656,081) | (79,865) |
| Interest | <u>159,420</u> | <u>432,028</u> | <u>408,196</u> |
| | <u>23,246</u> | <u>(224,053)</u> | <u>328,331</u> |
| Net Change in Cash & Cash Equivalents | 1,711,391 | 2,860,203 | 2,477,869 |
| Cash & cash equivalents, beginning of year | <u>10,907,042</u> | <u>8,046,839</u> | <u>5,568,970</u> |
| Cash & cash equivalents, end of year | <u><u>\$ 12,618,433</u></u> | <u><u>\$ 10,907,042</u></u> | <u><u>\$ 8,046,839</u></u> |

The changes in the Statements of Cash Flows are primarily the result of the following:

- Payments to and for employees increased in fiscal year 2009 as a result of being fully staffed for the entire fiscal year and the increase in compensation and other personnel expenses that are directly related.
- Purchases of property and equipment increased in fiscal year 2008 as the organization completed the expansion of leased facilities.
- Interest income decreased in 2009 as a direct result of market conditions in the fiscal year.

Contacting UTIMCO

The above financial highlights are designed to provide a general overview of the UTIMCO corporate results and insight into the following financial statements. Additional information may be found on our website and inquiries may be directed to UTIMCO via www.utimco.org.

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Financial Statements

Balance Sheets

August 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 12,618,433 | \$ 10,907,042 |
| Prepaid expenses and other assets | <u>421,723</u> | <u>653,764</u> |
| Total Current Assets | 13,040,156 | 11,560,806 |
| Non-Current Assets: | | |
| Assets of deferred compensation plan | 174,715 | 107,966 |
| Property and equipment, net of accumulated depreciation of \$2,644,771 and \$2,188,223, respectively | <u>2,827,394</u> | <u>3,282,150</u> |
| Total Non-Current Assets | <u>3,002,109</u> | <u>3,390,116</u> |
| Total Assets | <u>\$ 16,042,265</u> | <u>\$ 14,950,922</u> |
| Liabilities and Net Assets | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 2,932,957 | \$ 3,671,671 |
| Current portion - deferred rent | <u>225,244</u> | <u>225,577</u> |
| Total Current Liabilities | 3,158,201 | 3,897,248 |
| Non-Current Liabilities: | | |
| Deferred compensation plan obligations | 174,715 | 107,966 |
| Long-term portion – deferred compensation | 402,862 | - |
| Long-term portion – deferred rent | <u>1,351,461</u> | <u>1,576,371</u> |
| Total Non-Current Liabilities | <u>1,929,038</u> | <u>1,684,337</u> |
| Total Liabilities | 5,087,239 | 5,581,585 |
| Net Assets: | | |
| Unrestricted | <u>10,955,026</u> | <u>9,369,337</u> |
| Total Liabilities and Net Assets | <u>\$ 16,042,265</u> | <u>\$ 14,950,922</u> |

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Financial Statements

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended August 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|----------------------|---------------------|
| Operating Revenues | | |
| Management fee | \$ 16,551,209 | \$ 15,377,329 |
| Total Operating Revenues | 16,551,209 | 15,377,329 |
| Operating Expenses | | |
| Salaries | 9,689,126 | 8,393,626 |
| Employee benefits | 1,114,750 | 914,825 |
| Payroll taxes | 449,846 | 394,313 |
| General operating | 1,570,137 | 1,952,991 |
| Depreciation | 588,684 | 548,487 |
| Lease | 962,184 | 974,920 |
| Professional fees | 507,750 | 455,041 |
| Insurance | <u>240,217</u> | <u>242,288</u> |
| Total Operating Expenses | <u>15,122,694</u> | <u>13,876,491</u> |
| Operating Income | 1,428,515 | 1,500,838 |
| Nonoperating Revenues | | |
| Interest | 159,420 | 432,028 |
| Loss on disposal of equipment | <u>(2,246)</u> | <u>(7,963)</u> |
| Net Nonoperating Revenues | <u>157,174</u> | <u>424,065</u> |
| Increase in Unrestricted Net Assets | 1,585,689 | 1,924,903 |
| Net assets at beginning of year | <u>9,369,337</u> | <u>7,444,434</u> |
| Net assets at end of year | <u>\$ 10,955,026</u> | <u>\$ 9,369,337</u> |

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Financial Statements

Statements of Cash Flows

For the years ended August 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Proceeds from management fees | \$ 16,551,209 | \$ 15,377,329 |
| Receipt from deposits | - | 10,132 |
| Payments to suppliers for goods and services | (2,553,123) | (2,521,399) |
| Payments for facility | (1,187,428) | (1,007,083) |
| Payments to employees, net | (9,491,157) | (7,464,581) |
| Payments for employees | <u>(1,631,356)</u> | <u>(1,310,142)</u> |
| Net cash provided by operating activities | <u>1,688,145</u> | <u>3,084,256</u> |
| Cash flows from investing activities: | | |
| Interest | 159,420 | 432,028 |
| Purchase of property and equipment | <u>(136,174)</u> | <u>(656,081)</u> |
| Net cash provided by/(used in) investing activities | <u>23,246</u> | <u>(224,053)</u> |
| Net Increase in cash and cash equivalents | 1,711,391 | 2,860,203 |
| Cash and cash equivalents at beginning of year | <u>10,907,042</u> | <u>8,046,839</u> |
| Cash and cash equivalents at end of year | <u>\$ 12,618,433</u> | <u>\$ 10,907,042</u> |

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

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
Financial Statements

Statements of Cash Flows, Continued

Reconciliation of operating income to net cash provided by operating activities:

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|---------------------|
| Operating income | \$ 1,428,515 | \$ 1,500,838 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 588,684 | 548,487 |
| Change in assets and liabilities: | | |
| (Increase)/decrease in prepaid expenses and other assets | 232,041 | (194,916) |
| Increase/(decrease) in accounts payable and accrued expenses | (738,714) | 1,262,011 |
| Increase in deferred compensation | 402,862 | - |
| Decrease in deferred rent | <u>(225,243)</u> | <u>(32,164)</u> |
| | | |
| Net cash provided by operating activities | <u>\$ 1,688,145</u> | <u>\$ 3,084,256</u> |

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements

Note 1 - Organization

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

Note 2 - Significant Accounting Policies

Basis of Accounting

The financial statements of UTIMCO are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). UTIMCO applies all applicable GASB pronouncements and Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Cash and cash equivalents

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

Prepaid expenses and other assets

Prepaid expenses consist of expenses paid in advance for insurance and various services. The prepaid expenses will be ratably expensed over the period to which they relate.

Property and equipment, net of accumulated depreciation

Net property and equipment consists of office furniture, office equipment, software, and leasehold improvements and is stated at net book value. Depreciation and amortization is computed using the straight-line method over the useful lives of the assets. The following is a schedule of the property and equipment at August 31, 2009 and 2008.

| | <u>2009</u> | <u>2008</u> |
|-------------------------------|---------------------|---------------------|
| Office furniture | \$ 856,371 | \$ 841,241 |
| Office equipment | 1,144,804 | 1,218,908 |
| Software | 314,331 | 259,100 |
| Leasehold improvements | <u>3,156,659</u> | <u>3,151,124</u> |
| Total property and equipment | 5,472,165 | 5,470,373 |
| Less accumulated depreciation | <u>(2,644,771)</u> | <u>(2,188,223)</u> |
| Net property and equipment | <u>\$ 2,827,394</u> | <u>\$ 3,282,150</u> |

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements

Income taxes

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

Use of Estimates

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

Note 3 - Related Party Transactions

a) Pursuant to a Master Investment Management Services Agreement with UTIMCO, the UT Board has appointed UTIMCO as its investment manager with complete authority to act for the UT Board in the investment of all funds. The amount of the management fees for the periods ended August 31, 2009 and 2008 were \$16,543,709 and \$15,369,829, respectively. This represents fees for the following:

| | <u>2009</u> | <u>2008</u> |
|---|----------------------|----------------------|
| Permanent University Fund | \$ 8,134,921 | \$ 7,541,715 |
| The University of Texas System Long Term Fund | 4,640,564 | 4,380,276 |
| Permanent Health Fund | 910,209 | 905,220 |
| The University of Texas System Intermediate Term Fund | <u>2,858,015</u> | <u>2,542,618</u> |
| | <u>\$ 16,543,709</u> | <u>\$ 15,369,829</u> |

b) UTIMCO contracts for internet and mainframe connection services with The University of Texas System and The University of Texas at Austin. The expense for these services for the periods ended August 31, 2009 and 2008 were \$47,512 and \$44,718, respectively.

c) As of August 31, 2009 and 2008, UTIMCO had pass-through receivables for legal fees due from UT System of approximately \$15,500 and \$236,000, respectively. The fees were incurred by UT System in connection with the West Texas Lands project. The law firms billed UTIMCO for these legal fees, and in turn UTIMCO paid the fees and then subsequently billed UT System for reimbursement.

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Notes to Financial Statements

Note 4 – Deposits and Investments

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, UTIMCO will not be able to recover its deposits. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, UTIMCO will not be able to recover the value of its investment or collateral securities that are in the possession of another party. UTIMCO does not have a deposit policy for custodial credit risk. As of August 31, 2009, the FDIC insures deposits up to \$250,000 and as of August 31, 2008, up to \$100,000. As of August 31, 2009 and 2008, there were no uninsured deposits. Additionally, UTIMCO does not have any investments that are exposed to custodial credit risk.

Note 5 - Deferred Revenue

UTIMCO assesses on or before the first day of The University of Texas System's fiscal quarter one-fourth of the annual management fee. The fee is deferred and is ratably credited to revenue monthly. As of August 31, 2009 and 2008, there was no deferred revenue.

Note 6 – Deferred Compensation

Effective March 1, 1996, UTIMCO established a tax-sheltered annuity arrangement, which provides retirement benefits for its employees by contributing to a custodial account invested in mutual funds. The employer matches 8.5% of gross compensation on behalf of an employee. Employees are required to contribute 6.5% of their total gross compensation to receive the company match. Employer contributions for the periods ended August 31, 2009 and 2008 were \$478,096 and \$404,671, respectively.

Effective December 1, 2007, UTIMCO adopted a deferred compensation plan under Internal Revenue Code Section 457(b) (the Plan). The UTIMCO Plan is an unfunded deferred compensation plan that is established and maintained for a select group of management employees. Participants are determined by the Administrative Plan Committee. Participants are permitted to make tax-deferred contributions to the Plan, but until Plan benefits are paid out, these contributions remain part of UTIMCO's general assets and can be used to satisfy claims of the general unsecured creditors of UTIMCO. The assets and obligations of the Plan are reported on the balance sheets at current values.

Deferred compensation of \$402,862 consists of compensation earned by certain UTIMCO employees under the terms of the UTIMCO Performance Compensation Plan during the year ending August 31, 2009 that has been voluntarily deferred until 2011.

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Note 7 – Lease Expense

Effective September 1, 2005, UTIMCO entered into an eleven year lease for its office space and parking with a third party. Under the terms of the lease, the lease expense and building operating expenses for the first 14 months were provided by the new landlord as a lease incentive, except for specific electricity costs incurred by UTIMCO. The lease expense incentive is recorded as a deferred rent liability as detailed in Note 8.

UTIMCO began paying lease and operating costs related to UTIMCO's current lease effective November 2006. For the periods ended August 31, 2009 and 2008, related operating expenses were \$517,309 and \$525,769, respectively. The net lease expense related to the lease incentive and amortization of the tenant allowance for the periods ending August 31, 2009 and 2008 was \$348,028 and \$349,144, respectively. For the periods ended August 31, 2009 and 2008, parking expense was \$96,847 and \$100,007.

The 132 month lease expires August 31, 2016. Commencing November 1, 2006, the minimum rental commitment was \$43,135 per month through December 31, 2007. The commitment increased to \$47,773 per month effective January 1, 2008, with the increase in rentable space.

The following is a schedule by years of the future minimum lease payments under the lease term:

| Years ending August 31, | |
|-------------------------|--------------------|
| 2010 | \$ 573,272 |
| 2011 | 573,272 |
| 2012 | 573,272 |
| 2013 | 573,272 |
| 2014 | 573,272 |
| Thereafter | <u>1,146,544</u> |
| Total | <u>\$4,012,904</u> |

Note 8 – Deferred Rent

Under the terms of the office lease effective September 1, 2005, the landlord provided UTIMCO with rent holidays and a tenant improvement allowance. The property was placed in service on November 14, 2005. Additional tenant improvement allowance was provided in August 2008 in connection with the expansion. UTIMCO has recorded the rent holidays and tenant improvement allowances as a deferred rent liability.

As of August 31, 2009 and 2008, the total deferred rent was \$1,576,705 and \$1,801,948, respectively. The portion of the deferred rent related to the rent holidays as of August 31, 2009 and 2008 was \$384,295 and \$439,194, respectively. The remaining portion of the deferred rent as of August 31, 2009 and 2008, was \$1,192,410 and \$1,362,754, respectively, and relates to the tenant improvement allowance. UTIMCO was initially provided an

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allowance of \$1,612,985 to be used and applied toward the cost of leasehold improvements in the new space. In August 2008, an additional allowance of \$156,074 was provided in connection with the expansion. The deferred rent is amortized over the term of the lease.

Note 9 – Subsequent Event

On November 25, 2009, UTIMCO rebated \$5 million back to the UT Investment Funds as required by the Investment Management Services Agreement between UTIMCO and the UT System Board of Regents. The rebate was returned to the funds in the amounts detailed below:

| | |
|---|---------------------|
| Permanent University Fund | \$ 2,648,238 |
| The University of Texas System Long Term Fund | 1,393,602 |
| Permanent Health Fund | 311,124 |
| The University of Texas System Intermediate Term Fund | <u>647,036</u> |
| | <u>\$ 5,000,000</u> |

TAB 8

Agenda Item
UTIMCO Board of Directors Meeting
January 26, 2010

Agenda Item: Discussion and Appropriate Action Related to Cambridge Contract Renewal

Developed By: Staff

Presented By: Zimmerman

Type of Item: Action required by UTIMCO Board

Description: In accordance with the Delegation of Authority, the UTIMCO Board executes the investment consultant contract. The UTIMCO Board approved retaining Cambridge Associates as its investment consultant during its September 22, 2006, board meeting. This agenda item renews the contract expiring on November 30, 2009. The renewal contract is for the twelve month period beginning December 1, 2010.

Discussion: Cambridge Associates has served as UTIMCO's consultant since its inception in 1996. Under the terms of the current contract with Cambridge, UTIMCO receives access, via the Cambridge Associates consulting team and Cambridge Associate's web site, to proprietary databases on capital markets, investment managers, and partnerships. UTIMCO also has access to comparative peer performance data and quarterly and annual surveys of investment and financial data. Also included in the contract is 24 hours of consulting time, a variety of research reports and working papers on investment and financial data, and attendance at UTIMCO Board meetings.

The prior Cambridge Associates contract was for \$119,500 annually. Negotiations on the new contract are ongoing. Staff will present to the Board the new contract at its meeting.

Recommendation: Staff recommends the approval of the external investment consultant contract with Cambridge Associates.

Reference: None

TAB 9

Agenda Item
UTIMCO Board of Directors Meeting
January 26, 2010

Agenda Item: UTIMCO Organization Update

Developed By: Zimmerman

Presented By: Zimmerman

Type of Item: Discussion item

Description: Mr. Zimmerman will provide an update on UTIMCO's first quarter fiscal year 2010 actual to budget expenses.

Reference: UTIMCO QRT 1 FY 2010 Actual v Budget



UTIMCO QTR1 FY 2010 Actual v Budget

| UTIMCO YTD Q1 FY 2010 | | Actual | Budget | \$ | % |
|-------------------------------|--|-----------------|-----------------|------------------|-------|
| SUMMARY | | | | | |
| UTIMCO Personnel | | \$2,935 | \$3,013 | \$70 | 2% |
| UTIMCO Other | | <u>1,014</u> | <u>1,006</u> | <u>(8)</u> | -1% |
| Total UTIMCO | | <u>3,949</u> | <u>4,019</u> | <u>70</u> | 2% |
| Other, Non-Investment Manager | | <u>1,665</u> | <u>1,752</u> | <u>87</u> | 5% |
| Total Non-Investment Manager | | <u>5,614</u> | <u>5,771</u> | <u>157</u> | 3% |
| Investment Manager - Invoiced | | <u>15,404</u> | <u>7,187</u> | <u>(8,217)</u> | -114% |
| Total | | <u>\$21,018</u> | <u>\$12,958</u> | <u>(\$8,060)</u> | -62% |