

Financial Statements
and Independent Auditors' Report
The University of Texas System
Intermediate Term Fund

Years Ended August 31, 2009 and 2008

The University of Texas System Intermediate Term Fund

Financial Statements

Years Ended August 31, 2009 and 2008

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Independent Auditors' Report

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

We have audited the accompanying Statements of Fiduciary Net Assets of The University of Texas System Intermediate Term Fund (the "Fund"), as of August 31, 2009 and August 31, 2008, and the related Statements of Changes in Fiduciary Net Assets for the years then ended. These financial statements are the responsibility of The University of Texas Investment Management Company ("UTIMCO" or "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 the Fund'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 statements presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Fund are intended only to present the financial position of the Fund and do not purport to, and do not, present the financial positions of UTIMCO or The University of Texas System as of August 31, 2009 or August 31, 2008, and the changes in their financial positions for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2, the financial statements include investments valued at \$836,227,571 (23.4% of net assets) and \$983,441,607 (25.4% of net assets) as of August 31, 2009 and August 31, 2008, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on procedures performed by management which use information provided by the fund managers or the general partners.

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

Management' discussion and analysis on pages 3 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 information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statement of the Fund. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of management. The supplemental schedules as of and for the years ended August 31, 2009 and August 31, 2008, have been subjected to the audit procedures applied by us (with 2006, 2005, and 2004 being subject to audit procedures by other auditors) in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

October 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of The University of Texas System Intermediate Term Fund's (Fund) financial performance provides an overview of its activities for the year ended August 31, 2009. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund, created February 1, 2006, is an internal University of Texas System (UT System) pooled investment fund for the investment of operating funds and other intermediate and long-term funds held by the UT System institutions and UT System Administration. The Fund was created to improve the efficiency of operating funds management and to improve investment returns on UT System operating reserves. The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has 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 Fund's financial statements based upon currently known facts, decisions or conditions.

Financial Highlights

- The Fund's net fiduciary assets, after contributions, withdrawals, and distributions decreased by \$303.2 million from \$3,874.8 million to \$3,571.6 million or by approximately 7.8% for the year ended August 31, 2009. The change in net fiduciary assets from year to year is mainly attributable to the following:
 1. Net participant contributions to the Fund were \$72.8 million for the year ended August 31, 2009, compared to \$303.8 million for the year ended August 31, 2008.
 2. The Fund posted a net investment loss of 7.07%, calculated using the Modified Dietz Method as described by the CFA Institute, for the fiscal year ended August 31, 2009. The ITF's investments in hedge funds, real estate, natural resources, and developed country and emerging markets equities were negative contributors to the 2009 return, while investment grade and credit-related fixed income were positive contributors to the 2009 return. For the year ended August 31, 2008, the fund posted a net investment loss of 0.71%. Investments in investment grade fixed income and natural resources were the positive contributors to the 2008 return.
 3. The Fund's distribution rate was 3.0% per year, or .25% per month, for the fiscal year ended August 31, 2009 and 2008. Distributions from the Fund were \$98.0 million for the year ended August 31, 2009 compared to the \$118.6 million distributed for the year ended August 31, 2008.

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Use of Financial Statements and Notes

The Fund's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Two financial statements are typically required under GASB: the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.

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

Statements of Fiduciary Net Assets

The Statements of Fiduciary Net Assets present assets, liabilities, and net assets of the Fund as of the end of the fiscal year. These statements, along with all of the Fund's financial statements, are prepared using the accrual basis of accounting, whereby Fund investment income is recognized when earned and Fund expenses are recognized when incurred.

The Fund invests in a broad mix of investments and is actively managed to its benchmark, the Policy Portfolio. The Policy Portfolio is the index or benchmark for the intermediate term funds that UTIMCO manages. The return of the Policy Portfolio is the sum of the weighted benchmark returns for each asset class. UTIMCO allocates the Fund's assets to internally and externally managed portfolios in accordance with approved asset allocation policies, and attempts to preserve the purchasing power of Fund assets by earning a compound annualized return over rolling three year-periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index plus 3%. In doing so, UTIMCO increases the operating resources available to the UT System institutions which invest in the Fund.

The following summarizes the Statements of Fiduciary Net Assets (in millions):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets			
Investments, at Fair Value	\$ 3,597.2	\$ 4,221.0	\$ 4,097.3
Other Assets	213.7	381.8	875.9
Total Assets	<u>3,810.9</u>	<u>4,602.8</u>	<u>4,973.2</u>
Total Liabilities	239.3	728.0	1,252.6
Net Assets Held in Trust	<u>\$ 3,571.6</u>	<u>\$ 3,874.8</u>	<u>\$ 3,720.6</u>

Statements of Changes in Fiduciary Net Assets

Changes in fiduciary net assets as presented on the Statements of Changes in Fiduciary Net Assets are based on activity of the Fund. The purpose of these statements is to present additions to the Fund resulting from net investment income and participant contributions and to present deductions from the Fund resulting from participant withdrawals and distributions.

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The net decrease in appreciation of investments of the Fund was \$344.6 million during the year ended August 31, 2009 compared to the net decrease in appreciation of investments of \$119.6 million for the fiscal year ended August 31, 2008. Investment expenses totaled \$14.6 million, \$23.5 million and \$37.5 million respectively, for the years ended August 31, 2009, 2008 and 2007.

Distributions to participants totaled \$98.0 million, \$118.6 million and \$104.0 million, respectively, for the years ended August 31, 2009, 2008 and 2007. Cash distributions are paid monthly based on a 3% annual distribution rate.

The following summarizes the Statements of Changes in Fiduciary Net Assets (in millions) for the years ended August 31, 2009, 2008 and 2007:

	2009	2008	2007
Investment Income (Loss)	\$ (263.3)	\$ (7.4)	\$ 377.4
Less Investment Expenses	(14.6)	(23.5)	(37.5)
Net Investment Income (Loss)	<u>(277.9)</u>	<u>(30.9)</u>	<u>339.9</u>
Participant Contributions	251.2	1,639.1	664.6
Total Additions	<u>(26.7)</u>	<u>1,608.2</u>	<u>1,004.5</u>
UT System Oversight Fee	0.1	0.1	-
Participant Withdrawals	178.4	1,335.3	228.7
Participant Distributions	98.0	118.6	104.0
Total Deductions	<u>276.5</u>	<u>1,454.0</u>	<u>332.7</u>
Change in Fiduciary Net Assets	(303.2)	154.2	671.8
Net Assets Held in Trust, Beginning of Period	3,874.8	3,720.6	3,048.8
Net Assets Held in Trust, End of Period	<u>\$ 3,571.6</u>	<u>\$ 3,874.8</u>	<u>\$ 3,720.6</u>

Contacting UTIMCO

The above financial highlights are designed to provide a general overview of the Fund's investment 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.

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Statements of Fiduciary Net Assets

August 31, 2009 and 2008

(Dollars in thousands, except for per unit amount)

Assets	<u>2009</u>	<u>2008</u>
Investments, at Fair Value:		
Equity Securities	\$ 452,114	\$ 456,834
Preferred Stock	2,848	-
Debt Securities	966,881	1,223,124
Convertible Securities	-	80
Investment Funds	1,738,964	2,039,336
Purchased Options	8,599	2,151
Cash and Cash Equivalents	427,769	499,446
Total Investments	<u>3,597,175</u>	<u>4,220,971</u>
Collateral for Securities Loaned, at Fair Value	108,451	257,325
Deposit with Brokers for Derivative Contracts	28,530	22,410
Swaps, at Fair Value	2,471	4,132
Unrealized Gains on Foreign Currency Exchange Contracts	4,107	2,800
Receivables:		
Investment Securities Sold	57,993	82,573
Accrued Income	12,114	12,564
Other	52	-
Total Receivables	<u>70,159</u>	<u>95,137</u>
Total Assets	<u>3,810,893</u>	<u>4,602,775</u>
Liabilities		
Payable upon Return of Securities Loaned	108,451	257,325
Payable to Brokers for Collateral Held	10,068	-
Options Written, at Fair Value	136	3,007
Swaps, at Fair Value	1,391	17,861
Unrealized Losses on Foreign Currency Exchange Contracts	3,478	5,259
Payables:		
Investment Securities Purchased	100,271	426,298
Distributions Payable	8,767	9,884
Other	6,764	8,334
Total Payables	<u>115,802</u>	<u>444,516</u>
Total Liabilities	<u>239,326</u>	<u>727,968</u>
Net Assets Held in Trust (37,725,083 Units and 36,918,134 Units, respectively)	<u>\$ 3,571,567</u>	<u>\$ 3,874,807</u>
Net Asset Value Held in Trust Per Unit	<u>\$ 94.674</u>	<u>\$ 104.957</u>

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

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Statements of Changes in Fiduciary Net Assets

Years Ended August 31, 2009 and 2008

(in thousands)

Additions	<u>2009</u>	<u>2008</u>
Investment Income:		
Net Decrease in Investments	\$ (344,592)	\$ (119,585)
Interest	56,504	72,391
Dividends	23,064	26,283
Securities Lending Income	1,654	13,435
Other	12	52
Total Investment Loss	<u>(263,358)</u>	<u>(7,424)</u>
Less Investment Expenses:		
Investment Management	9,690	8,453
UTIMCO Management Fee	2,858	2,543
Securities Lending Fees	881	11,384
Custodial Fees and Expenses	742	597
Accounting	169	179
Analytical and Risk Measurement Fees	114	129
Consulting Fees	85	105
Legal	40	52
Other	5	5
Total Investment Expenses	<u>14,584</u>	<u>23,447</u>
Net Investment Loss	<u>(277,942)</u>	<u>(30,871)</u>
Participant Contributions	<u>251,201</u>	<u>1,639,069</u>
Total Additions	<u>(26,741)</u>	<u>1,608,198</u>
Deductions		
Administrative Expenses:		
UT System Oversight Fee	82	61
Participant Withdrawals	178,424	1,335,307
Participant Distributions	<u>97,993</u>	<u>118,580</u>
Total Deductions	<u>276,499</u>	<u>1,453,948</u>
Change in Fiduciary Net Assets	(303,240)	154,250
Net Assets Held in Trust, Beginning of Period	<u>3,874,807</u>	<u>3,720,557</u>
Net Assets Held in Trust, End of Period	<u><u>\$ 3,571,567</u></u>	<u><u>\$ 3,874,807</u></u>

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

Note 1 – Organization and Basis of Presentation

The University of Texas System Intermediate Term Fund (Fund) is a pooled fund established for the collective investment of operating funds and other short and intermediate term funds held by the 15 University of Texas System (UT System) institutions and UT System Administration. The Fund was established February 1, 2006, by the Board of Regents of UT System (UT Board). Fiduciary responsibility for the Fund rests with the UT Board. The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an Investment Management Services Agreement with the UT Board.

The activities of the Fund are accounted for as a fiduciary fund. The financial statements of the Fund use an economic resources management focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of cash flows. The Fund is subject to the pronouncements of the Governmental Accounting Standards Board (GASB).

The annual combined financial statements of UT System are prepared in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements and include information related to the Fund. The accompanying financial statements may differ in presentation from the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

Note 2 – Significant Accounting Policies

(A) **Security Valuation** -- Investments with readily determinable fair values are primarily valued on the basis of market valuations provided by independent pricing services.

Fixed income securities held directly by the Fund are valued based upon prices supplied by FT Interactive Data and other major fixed income pricing services, external broker quotes and internal pricing matrices.

Equity security market values are based on the New York Stock Exchange composite closing prices, if available. If not available, the market value is based on the closing price on the primary exchange on which the security is traded (if a closing price is not available, the average of the last reported bid and ask price is used).

Hedge funds, developed country equity, emerging markets equity and fixed income investment funds and certain other investment funds are fair valued by management based on net asset value information provided by the investment manager as well as consideration of any other information provided by the investment manager or other sources.

The statements of fiduciary net assets include investments valued at \$836,227,571 (23.4% of net assets) and \$983,441,607 (25.4% of net assets) as of August 31, 2009, and August 31, 2008, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values, as described above.

Securities held by the Fund in index funds and exchange traded funds are generally valued as follows:

Long and short stock positions traded on security exchanges are valued at closing market prices on the valuation date.

Long and short stock positions traded on the over-the-counter market are valued at the last reported bid price, except for National Market System OTC stocks, which are valued at their closing market prices.

Fixed income securities are valued based upon bid quotations obtained from major market makers or security exchanges.

Investments in registered U.S. mutual funds are being valued at their respective net asset value per share amounts.

(B) ***Foreign Currency Translation*** -- The accounting records of the Fund are maintained in U.S. dollars. Investments in securities are valued at the daily rates of exchange on the valuation date. Purchases and sales of securities of foreign entities and the related income receipts and expense payments are translated into U.S. dollars at the exchange rate on the dates of the transactions. The Fund does not isolate that portion of the results of the change in fiduciary net assets resulting from changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net increase in investments.

(C) ***Investment Income*** -- Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income is recorded net of foreign taxes where recovery of such taxes is not assured. For the years ended August 31, 2009 and 2008, interest and dividend withholding in the amounts of \$442,212 and \$378,896 have been netted against dividend and interest income. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Interest expense amounts paid on certain derivative settlements are netted against interest income in the statements of changes in fiduciary net assets. Premiums and discounts on bonds are not amortized.

(D) ***Security Transactions*** -- Security transactions are recorded on a trade date basis. Gains and losses on securities sold are determined on the basis of average cost.

(E) ***Distributions to Participants*** -- Cash distributions to participants are paid monthly based on a percentage rate established by the UT Board. For the fiscal years ended August 31, 2009 and 2008 the annual distribution rate was 3.0%.

(F) ***Fund Valuation*** -- Valuation of the Fund's units occurs on a monthly basis. Unit values are determined by dividing the value of the Fund's net assets by the number of units outstanding on the valuation date.

(G) ***Purchases and Redemption of Units*** -- Unit purchases and redemptions occur on the first business day of each month. The value of participating units, upon admission to the Fund, is based upon the market value of net assets held as of the monthly valuation date. Redemptions from the Fund will also be made at the market value price per unit at the monthly valuation date at the time of

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Notes to Financial Statements (cont.)

the redemption. There are no transaction costs incurred by participants for the purchase or redemption of units.

(H) ***Participants' Net Assets*** -- All participants in the Fund have a proportionate interest in the Fund's net assets.

(I) ***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.

(J) ***Derivative Instruments*** -- Derivative securities are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities, or currencies. The Fund from time to time uses various derivative instruments, as allowed under UT Board approved derivative investment policy guidelines, and by guidelines established in contracts with external investment managers. Derivative instruments included under these policies and contracts include futures, forwards, swaps and all forms of options. Futures contracts are valued at closing market prices on the valuation date. Written options and swaps are valued by using broker quotes, or using models with primarily externally verifiable model inputs. Derivative instruments in the Fund are used to achieve the following objectives:

- implement investment strategies in a low cost and efficient manner,
- alter the Fund's market (systematic) exposure without trading the underlying market securities through purchases or short sales, or both, of appropriate derivatives,
- construct portfolios with risk and return characteristics that could not be created with market securities,
- hedge and control risks, or
- facilitate transition trading.

Through the use of derivative instruments, the complex risks that are bound together in traditional investments can be separated and managed independently. The primary intent of the Fund's investment in derivative instruments is to hedge its risk or to implement investment strategies more effectively and at a lower cost than would be possible in the cash market.

Options Written -- When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Fund on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the Fund has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Fund. The Fund as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the

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Notes to Financial Statements (cont.)

written option. Options are marked to market on a daily basis, and are included as a liability on the statement of fiduciary net assets.

Swaps -- The Fund invests in certain types of swaps to increase or decrease its exposure to long-term interest rates and to certain commodity and equity sector returns. Swaps are agreements between two parties to exchange periodic payments on the notional value of the contract multiplied by a stated fixed interest rate versus a stated floating interest rate, or on a commodity or equity sector return versus a specified cost per contract. Swaps are marked to market on a daily basis, and are included at fair value on the statements of fiduciary net assets. Cash flows may occur when a swap is opened, when it resets, if or when it is prematurely terminated by both parties to the agreement, and when it reaches maturity. The frequency of the resets is defined by the term sheet of the particular swap agreement, and varies from instrument to instrument. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net assets. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

Futures Contracts -- The Fund enters into futures contracts to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. Upon entering into a futures contract, initial margin deposit requirements are satisfied by the segregation of specific securities as collateral for the account of the broker (the Fund's agent in acquiring the futures position). During the period the futures positions are open, the contracts are marked to market daily; that is, they are valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss is referred to as the daily variation margin which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts, and is included as an other receivable or other payable on the statement of fiduciary net assets. The Fund executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the managers' various trading and credit monitoring techniques.

Foreign Currency Contracts -- The Fund enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward foreign currency contract, the Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily and the Fund's net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the statements of fiduciary net assets. Realized and unrealized gains and losses are included in the statement of changes in fiduciary net assets. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net assets. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

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Notes to Financial Statements (cont.)

(K) ***Securities Sold Short*** -- The Fund may sell securities it does not own in anticipation of a decline in the fair value of that security, or as a means to adjust the duration of certain fixed income portfolios. When the Fund sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale and provide collateral for its obligation to deliver the security upon conclusion of the sale. There were no securities sold short as of August 31, 2009 and 2008.

(L) ***Cash and Cash Equivalents*** -- Cash and Cash Equivalents consist of money market investments, foreign currencies and other overnight funds. A portion of the Fund's cash and cash equivalents are maintained to support the notional value of derivative contracts held (see Notes 6, 7 and 8). Cash and cash equivalents are an integral part of the Fund's investment activities, and as such are included in the investments balance on the statements of fiduciary net assets.

(M) ***Recently Issued Accounting Standards*** -- In June 2008, the GASB issued GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." GASB No. 53 is intended to improve the reporting information about derivative instruments in financial statements. This statement specifically requires that most derivative instruments be measured at fair value in financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting, and is effective for periods beginning after June 15, 2009. Management is currently assessing the impact of the implementation of GASB No. 53 on the Fund's financial statements.

Note 3 – Investment Risk

The investment risk disclosure that follows relates to the Fund's investments before securities lending transactions and the investment of cash collateral. Disclosures relating to securities lending are provided in Note 4. Risk disclosures relating to the Fund's investments in hedge funds and public market funds are discussed in Note 5.

(A) *Credit Risk*

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). During the year ended August 31, 2008, the Fund's investment policy was amended to remove requirements regarding investment ratings. The amendments were effective

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Notes to Financial Statements (cont.)

March 1, 2008. Prior to the amendments, the policy limited investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better, by Standard & Poor's Corporation, or BBB- or better, by Fitch Investors Service at the time of acquisition. This requirement did not apply to investment managers that were authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating at August 31, 2009 and 2008:

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Notes to Financial Statements (cont.)

Investment Type	August 31,		Rating
	2009	2008	
Investments:			
U.S. Government Guaranteed	\$ 105,542,384	\$ 345,407,853	Exempt from Disclosure
U.S. Government Non-Guaranteed:			
U.S. Agency	2,400,876	2,187,702	AAA
U.S. Agency Asset Backed	195,217,582	270,556,782	AAA
U.S. Agency Commercial Paper	599,567	-	AAA
Total U.S. Government Non-Guaranteed	198,218,025	272,744,484	
Total U.S. Government	303,760,409	618,152,337	
Corporate Obligations:			
Domestic	61,687,119	110,521,234	AAA
Domestic	20,898,635	47,854,816	AA
Domestic	94,719,617	95,302,619	A
Domestic	80,066,952	51,842,738	BAA/BBB
Domestic	11,903,679	1,780,097	BA/BB
Domestic	12,569,368	3,116,029	B
Domestic	36,994,005	-	CAA/CCC
Domestic	11,841,118	-	CC
Domestic	2,962,341	-	C
Domestic	305,097	-	D
Domestic	-	952,912	P
Domestic	555,000	-	Not Rated
Commercial Paper	-	4,160,414	A
Commercial Paper	-	13,696,365	P
Certificates of Deposit	-	2,099,572	AA
Foreign	57,914,494	33,767,587	AAA
Foreign	13,716,676	18,796,353	AA
Foreign	18,847,717	19,753,635	A
Foreign	16,064,201	19,338,680	BAA/BBB
Foreign	347,282	-	BA/BB
Foreign	979,258	-	B
Foreign	252,000	-	CAA/CCC
Foreign	310,650	308,496	Not Rated
Total Corporate Obligations	442,935,209	423,291,547	
Foreign Government and Provincial Obligations	137,809,537	82,747,063	AAA
Foreign Government and Provincial Obligations	15,355,843	58,110,184	AA
Foreign Government and Provincial Obligations	31,913,822	19,738,280	A
Foreign Government and Provincial Obligations	10,842,330	5,930,091	BAA/BBB
Foreign Government and Provincial Obligations	19,890,506	7,956,948	BA/BB
Total Foreign Government and Provincial Obligations	215,812,038	174,482,566	
Other Debt Securities	-	951,440	AAA
Other Debt Securities	2,853,571	2,741,459	AA
Other Debt Securities	186,021	6,657	A
Other Debt Securities	1,333,791	1,675,744	BAA/BBB
Other Debt Securities	-	1,822,682	Not Rated
Total Other Debt Securities	4,373,383	7,197,982	
Total Debt Securities	\$ 966,881,039	\$ 1,223,124,432	
Other Investment Funds - Debt	\$ 1,191,716	\$ -	AAA
Other Investment Funds - Debt	380,390,786	350,673,389	AA
Other Investment Funds - Debt	-	-	A
Other Investment Funds - Debt	19,901,216	1,304,616	B
Total Other Investment Funds - Debt	\$ 401,483,718	\$ 351,978,005	
Cash and Cash Equivalents - Money Market Funds	\$ 427,769,227	\$ 499,445,935	AAA
Net Deposit with (from) Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 11,014,171	\$ 10,237,030	Exempt from Disclosure
Cash	7,447,494	12,173,384	Exempt from Disclosure
Total Net Deposit with (from) Brokers for Derivative Contracts	\$ 18,461,665	\$ 22,410,414	

(B) Concentrations of Credit Risk

The Fund's investment policy statement contains the limitation that no more than 5% of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. The Fund does not hold any direct investments in any one issuer of corporate or municipal bonds that is 5% or more of the market value of the Fund's domestic fixed income investments.

(C) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the Fund's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2009 and 2008, the Fund does not have any deposits or investments that are exposed to custodial credit risk.

(D) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. Interest rate risk inherent in the Fund is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the Fund's investments to changes in interest rates. The Fund has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the Fund's modified duration by investment type at August 31, 2009 and 2008:

**THE UNIVERSITY OF TEXAS SYSTEM
INTERMEDIATE TERM FUND**

Notes to Financial Statements (cont.)

Investment Type	August 31,			
	2009		2008	
	Value	Modified Duration	Value	Modified Duration
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 82,599,581	9.46	\$ 58,658,282	5.12
U.S. Treasury Strips	2,304,480	2.00	2,297,975	3.00
U.S. Treasury Bills	1,598,555	0.50	13,861,849	0.07
U.S. Treasury Inflation Protected	6,151,028	3.55	237,420,184	8.48
U.S. Agency Asset Backed	12,888,740	1.69	33,169,563	3.60
Total U.S. Government Guaranteed	<u>105,542,384</u>	7.87	<u>345,407,853</u>	7.06
U.S. Government Non-Guaranteed:				
U.S. Agency	2,400,876	0.12	-	-
U.S. Agency Asset Backed	195,217,582	3.49	270,556,782	5.82
U.S. Agency Commercial Paper	599,567	0.35	2,187,702	0.02
Total U.S. Government Non-Guaranteed	<u>198,218,025</u>	3.44	<u>272,744,484</u>	5.77
Total U.S. Government	<u>303,760,409</u>	4.98	<u>618,152,337</u>	6.49
Corporate Obligations:				
Domestic	334,502,931	5.35	311,370,445	4.61
Commercial Paper	-	-	17,856,779	0.10
Certificates of Deposit	-	-	2,099,572	0.86
Foreign	108,432,278	4.56	91,964,751	5.46
Total Corporate Obligations	<u>442,935,209</u>	5.16	<u>423,291,547</u>	4.59
Foreign Government and Provincial Obligations	<u>215,812,038</u>	6.08	<u>174,482,566</u>	8.28
Other Debt Securities	<u>4,373,383</u>	10.48	<u>7,197,982</u>	7.25
Total Debt Securities	<u>966,881,039</u>	5.33	<u>1,223,124,432</u>	6.09
Other Investment Funds - Debt	<u>401,483,718</u>	5.88	<u>351,978,005</u>	5.75
Cash and Cash Equivalents:				
Money Market Funds	<u>427,769,227</u>	0.08	<u>499,445,935</u>	0.08
Total	<u>\$ 1,796,133,984</u>	4.20	<u>\$ 2,074,548,372</u>	4.59
Net Deposit with (from) Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 11,014,171	0.84	\$ 10,237,030	0.16
Cash	<u>7,447,494</u>	-	<u>12,173,384</u>	-
Total Net Deposit with (from) Brokers for Derivative Contracts	<u>\$ 18,461,665</u>	0.50	<u>\$ 22,410,414</u>	0.07

(E) Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes

In accordance with the Fund's investment policy statement, the Fund may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The Fund also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2009 and 2008, the Fund's investments include the following investments that are highly sensitive to interest rate changes:

THE UNIVERSITY OF TEXAS SYSTEM
INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$193,832,212 and \$135,399,523 as of August 31, 2009 and 2008, respectively.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$135,053,677 and \$243,932,262 as of August 31, 2009 and 2008, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. These securities amounted to \$37,649,878 and \$48,980,412 as of August 31, 2009 and 2008, respectively.

Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. These securities amounted to \$110,217 as of August 31, 2008. There were no step up notes held at August 31, 2009.

(F) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the Fund's non-U.S. dollar investments. As of August 31, 2009, there are no limitations on investments in non-U.S. denominated bonds or common stocks in relation to the Fund's total fixed income and developed country equity exposures in the Fund's investment policy statement. The Fund's investment policy statement was amended during the year ended August 31, 2008, to remove limitations on investments in non-U.S. denominated bonds. The amendments became effective March 1, 2008. Prior to the amendment, the policy statement limited investments in non-U.S. denominated bonds to 50% of the Fund's total fixed income exposure.

One of the Fund's external managers employs an investment strategy in which they hedge their long non-U.S. investment positions back to the U.S. dollar by utilizing currency transactions in amounts equal to the long investment position. In the following table the negative amounts shown for the Danish Krone, Euro, Hong Kong Dollar, Swiss Franc, and the UK Pound in the cash and cash equivalents section reflect this strategy. The negative amounts offset long positions presented in the foreign common stock section.

Classification between domestic common stock and foreign common stock in the supplemental schedule, Comparison Summary of Investments, is based on the country of domicile of the issuer, not the currency in which the security is traded. The following table summarizes the Fund's exposure to non-U.S. dollar investments at August 31, 2009 and 2008:

THE UNIVERSITY OF TEXAS SYSTEM
INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2009	2008
Domestic Common Stock:		
Canadian Dollar	\$ 73,980	\$ -
UK Pound	-	397,156
Total Domestic Common Stock	<u>73,980</u>	<u>397,156</u>
Foreign Common Stock:		
Australian Dollar	11,301,653	6,977,317
Brazilian Real	1,676,311	-
Canadian Dollar	6,805,921	11,305,968
Czech Koruna	125,264	-
Danish Krone	792,222	155,450
Egyptian Pound	737,831	-
Euro	49,069,573	25,701,551
Hong Kong Dollar	41,029,154	29,011,949
Hungarian Forint	433,764	-
Indonesian Rupian	1,275,366	-
Israeli Shekel	95,680	-
Japanese Yen	27,548,583	39,012,047
Malaysian Ringgit	1,167,874	-
Mexican Peso	1,110,551	-
Moroccan Dirham	109,523	-
Norwegian Kroner	133,303	1,246,257
Pakistani Rupee	252,677	-
Philippine Peso	731,399	642,635
Polish Zloty	380,659	-
Singapore Dollar	6,360,745	7,085,507
South African Rand	2,428,258	-
South Korean Won	4,586,458	-
Swedish Krona	936,501	2,430,251
Swiss Franc	10,189,341	585,141
Thai Baht	2,537,461	1,006,654
Turkish Lira	836,946	-
UK Pound	25,127,636	32,862,528
Total Foreign Common Stock	<u>197,780,654</u>	<u>158,023,255</u>
Other Equity Securities:		
Canadian Dollar	-	19
Foreign Preferred Stocks		
Brazilian Real	<u>2,184,399</u>	<u>-</u>
Foreign Government and Provincial Obligations:		
Australian Dollar	28,403,258	9,303,853
Brazilian Real	11,034,732	5,174,546
Canadian Dollar	15,690,497	7,061,127
Euro	53,717,167	41,779,111
Indonesian Rupian	8,855,774	2,782,402
Japanese Yen	5,888,083	57,440,920
Malaysian Ringgit	14,221,738	7,805,854
Mexican Peso	10,842,330	5,930,091
New Zealand Dollar	10,680,499	4,531,962
Norwegian Kroner	7,557,524	-
Polish Zloty	11,677,463	6,206,100
Singapore Dollar	-	2,485,857
South African Rand	4,217,399	5,047,882
Swedish Krona	15,219,473	3,004,596
UK Pound	17,110,720	15,259,001
Total Foreign Government and Provincial Obligations	<u>215,116,657</u>	<u>173,813,302</u>
Corporate Obligations:		
Australian Dollar	14,945,413	4,633,176
Canadian Dollar	4,426,710	3,018,867
Danish Krone	50,742	2,067,480
Euro	34,576,185	32,587,531
Hong Kong Dollar	310,650	308,496
Icelandic Krona	-	2,281,371
Japanese Yen	566,236	3,313,806
UK Pound	5,423,252	5,076,086
Total Corporate Obligations	<u>60,299,188</u>	<u>53,286,813</u>

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2009	2008
Other Debt Securities:		
Hong Kong Dollar	-	884,844
Total Other Debt Securities	-	884,844
Purchased Options:		
Euro	628,182	76,901
Indian Rupee	454,372	-
Swiss Franc	518,633	-
Total Purchased Options	1,601,187	76,901
Cash and Cash Equivalents:		
Australian Dollar	429,685	245,688
Brazilian Real	26,309	-
Canadian Dollar	281,378	242,393
Czech Koruna	28,704	-
Danish Krone	(787,219)	152,976
Euro	(30,134,061)	716,133
Hong Kong Dollar	(1,410,611)	63,913
Hungarian Forint	8,537	1,110
Indonesian Rupian	5,544	-
Israeli Shekel	4,507	-
Japanese Yen	233,138	520,670
Malaysian Ringgit	4,763	-
Mexican Peso	3,173	5,235
Moroccan Dirham	5,156	-
New Zealand Dollar	611	820
Norwegian Kroner	115	3,193
Philippine Peso	1,515	-
Polish Zloty	15	-
Singapore Dollar	406	24,551
South African Rand	1,416	-
South Korean Won	3,805	-
Swedish Krona	1,116	774
Swiss Franc	(10,888,994)	35,207
Thai Baht	5,275	-
Turkish Lira	26	-
UK Pound	(3,140,059)	426,658
Total Cash and Cash Equivalents	(45,315,750)	2,439,321
Total	\$ 431,740,315	\$ 388,921,611

Note 4 – Securities Lending

The Fund loans securities to certain brokers who pay the Fund negotiated lenders' fees. These fees are included in investment income and related expenses are included in investment expenses. The Fund receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The value of securities loaned and the value of collateral held are as follows at August 31, 2009 and 2008.

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INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Securities on Loan	2009 Value	2008 Value	Type of Collateral	2009 Value of Collateral	2008 Value of Collateral
U.S. Government	\$ 43,571,924	\$144,944,040	Cash	\$ 44,459,170	\$148,265,155
Foreign Government	6,384,850	3,075,366	Cash	6,786,002	3,279,103
Corporate Bonds	6,474,727	1,441,123	Cash	6,627,340	1,474,000
Common Stock	48,782,750	100,329,284	Cash	50,578,938	104,306,530
Total	\$105,214,251	\$249,789,813	Total	\$108,451,450	\$257,324,788
U.S. Government	\$ -	\$ 6,196,809	Non-Cash	\$ -	\$ 6,440,250
Common Stock	-	2,567,848	Non-Cash	-	2,668,725
Total	\$ -	\$ 8,764,657	Total	\$ -	\$ 9,108,975

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the Fund, the PUF, the General Endowment Fund, and other UT Board accounts that participate in securities lending activities. The pool is managed in accordance with investment guidelines established in the securities lending contract between the Fund and its securities lending agent. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20%. Lending income is earned if the returns on those investments exceed the rebate paid to borrowers of the securities. The income remaining after the borrower rebates is then shared with the lending agent on a contractually negotiated split. If the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, the payment of the shortfall to the borrower would come from the Fund and the securities lending agent in the same proportion as the split of income.

The Fund's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity is shown in the following table.

Description	August 31,					
	2009			2008		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
		No Rating			No Rating	
Repurchase Agreements	\$ 71,922,058	Available	1	\$ 116,794,274	Available	2
Commercial Paper	19,148,028	P	44	108,532,791	P	23
Floating Rate Notes	1,986,745	AAA		6,537,277	AAA	
Floating Rate Notes	7,018,774	AA		19,545,164	AA	
Total Floating Rate Notes	9,005,519		21	26,082,441		9
Fixed Rate Notes	-		-	2,169,739	AAA	13
Certificates of Deposit	8,520,840	P	68	5,856,028	P	36
Other Receivables/Payables	(144,995)	Not Rated	-	(2,110,485)	Not Rated	-
Total Collateral Pool Investment	\$ 108,451,450		16	\$ 257,324,788		13

Collateral pool investments are uninsured, and are held by the securities lending agent, in its name, on behalf of the Fund, except for the investments in repurchase agreements which are held in the securities lending agent's name by a third party custodian not affiliated with the Fund or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk because the pool investments are not held by counterparties to the lending transactions or the counterparties' trust department or agent.

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Cash collateral is recorded as an asset with an equal and offsetting liability to return the collateral on the statements of fiduciary net assets. Pool investments are valued at amortized cost which is indicative of fair value. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, the Fund has authorized the securities lending agent to seize the collateral held. The collateral is then used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities cannot be replaced. If the collateral is insufficient to replace the securities, the securities lending agent has indemnified the Fund from any loss due to borrower default.

As of August 31, 2009 and 2008, the Fund had no credit risk exposure to borrowers because the amounts the Fund owed to borrowers exceeded the amounts the borrowers owed the Fund.

There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the years ended August 31, 2009 and 2008.

Note 5 – Investment Funds

Investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds at August 31, 2009 and 2008, is summarized in the following table as they are classified within the asset mix of the Fund.

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

	August 31,	
	2009	2008
Investment Funds:		
Hedge Funds:		
Developed Country Equity	\$ 500,951,896	\$ 658,206,896
Credit Related Fixed Income	212,843,090	85,422,701
Emerging Market Equity	69,141,472	141,082,506
Investment Grade Fixed Income	40,268,232	60,413,058
Real Estate	8,810,971	7,592,909
Natural Resources	4,211,910	30,723,537
Total Hedge Funds	<u>836,227,571</u>	<u>983,441,607</u>
Public Markets:		
Developed Country Equity		
Private Placements	145,265,740	217,251,472
Index Funds	93,729,859	179,167,586
Exchange Traded Funds	21,754,448	71,284,702
Total Developed Country Equity	<u>260,750,047</u>	<u>467,703,760</u>
Emerging Markets:		
Private Placements	88,661,598	99,986,605
Exchange Traded Funds	67,738,779	11,665,392
Index Funds	30,263,177	50,743,249
Total Emerging Markets	<u>186,663,554</u>	<u>162,395,246</u>
Real Estate:		
Index Funds	53,838,936	46,147,043
Exchange Traded Funds	-	27,670,132
Total Real Estate	<u>53,838,936</u>	<u>73,817,175</u>
Fixed Income:		
Index Funds	400,292,002	350,673,389
Publicly Traded Mutual Funds	1,191,716	1,304,616
Total Fixed Income	<u>401,483,718</u>	<u>351,978,005</u>
Total Public Markets	<u>902,736,255</u>	<u>1,055,894,186</u>
Total Investment Funds	<u>\$ 1,738,963,826</u>	<u>\$ 2,039,335,793</u>

The Fund invests in hedge funds through unit interests in investment pools established in the name of the UT Board. Amounts presented in the Fund's financial statements and related note disclosures represent the Fund's pro-rata share of these investment pool assets. The hedge fund pools are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. Included in emerging market equity under hedge funds is an August 31, 2009 investment in the amount of \$4,010,000 to the emerging market equity pool which was not invested in the underlying hedge fund pool investment until September 1, 2009. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed \$98,077,673 of future funding to various hedge fund investments as of August 31, 2009 of which the Fund's pro-rata portion is \$15,707,841.

Certain of the hedge fund pools' investments were held through limited liability companies (LLCs), of which UTIMCO was the sole managing member. These investments were managed by an external investment manager under management agreements between the LLCs and the external manager. These management agreements were terminated during the year ended August 31, 2009. The external manager employed a strategy utilizing leveraged commodity futures and options. As of August 31, 2008, the Fund's pro-rata share of these investments included \$7,373,265 of cash and cash

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

equivalents, options on commodity futures with a fair value of \$3,233, net of liabilities for margin in the amount of \$181,793 related to the outstanding futures contracts.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the Fund. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. There are certain risks associated with these investments, some of which are investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios.

Hedge funds and public market funds include investments in private placement vehicles that are subject to risk which could result in the loss of invested capital. The risks include the following:

- *Non-regulation risk* -- Some of the Fund's general partners and investment managers are not registered with the Securities and Exchange Commission or other domestic or international regulators, and therefore are not subject to regulatory controls.
- *Key personnel risk* -- The success of certain funds is substantially dependent on key investment managers and the loss of those individuals may adversely impact the fund's performance.
- *Liquidity risk* -- Many of the Fund's investment funds may impose lockup periods which would cause the Fund to incur penalties to redeem its units or prevent the Fund from redeeming its shares until a certain period of time has elapsed.
- *Limited transparency* -- As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.
- *Investment strategy risk* -- These funds often employ sophisticated investment strategies and may use leverage which could result in the loss of invested capital.

Investments in hedge funds and public market funds are also subject to the investment risks discussed in Note 3, including custodial credit risk and foreign currency risk. Fixed income investments held by these funds would also be subject to credit risk and interest rate risk; moreover, they may invest in securities whose fair values would be sensitive to changes in interest rates.

Note 6 – Written Options

During the year, the Fund wrote call options on Treasury note futures, commodity, domestic and international equities and equity indexes and exchange traded funds. Transactions in call options written during the period ended August 31, 2009, were as follows:

	<u>Contracts</u>	<u>Premiums Received</u>
Call Options Outstanding at August 31, 2008	34,352	\$ 2,728,889
Options Written	277,301,100	2,761,686
Options Expired	(3,112,330)	(418,177)
Options terminated in closing purchase transactions	(274,223,122)	(5,072,398)
Call Options Outstanding at August 31, 2009	<u><u>-</u></u>	<u><u>\$ -</u></u>

THE UNIVERSITY OF TEXAS SYSTEM
INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

There were no call options outstanding as of August 31, 2009. The Fund recognized losses of \$5,319,939 on call options written for the period ended August 31, 2009.

During the year ended August 31, 2008, the Fund wrote call options on Treasury note, commodity, and domestic and international equity index and exchange traded fund futures. Transactions in call options written during the period ended August 31, 2008, were as follows:

	Contracts	Premiums Received
Call Options Outstanding at August 31, 2007	226,404	\$ 2,300,948
Options Written	166,843	4,095,385
Options Expired	(347,854)	(1,131,479)
Options terminated in closing purchase transactions	(11,041)	(2,535,965)
Call Options Outstanding at August 31, 2008	<u>34,352</u>	<u>\$ 2,728,889</u>

As of August 31, 2008, an amount of \$2,806,194 is included on the statements of fiduciary net assets as options written, at fair value. The Fund recognized losses of \$5,246,818 on call options written for the period ended August 31, 2008.

The Fund also wrote put options on Treasury note futures, domestic and international equities and equity indexes, and exchange traded funds during the year ended August 31, 2009. Transactions in put options written during the period ended August 31, 2009, were as follows:

	Contracts	Premiums Received
Put Options Outstanding at August 31, 2008	26,122	\$ 520,083
Options Written	108,010,057	3,962,527
Options Expired	(4,531,049)	(618,256)
Options terminated in closing purchase transactions	(73,305,130)	(3,601,005)
Put Options Outstanding at August 31, 2009	<u>30,200,000</u>	<u>\$ 263,349</u>

As of August 31, 2009, an amount of \$136,103 is included on the statements of fiduciary net assets as written options at fair value. The Fund recognized gains in the amount of \$3,814,626 on put options written for the year ended August 31, 2009.

The Fund also wrote put options on Treasury note and domestic and international equity index futures during the period ended August 31, 2008. Transactions in put options written during the period ended August 31, 2008, were as follows:

	Contracts	Premiums Received
Put Options Outstanding at August 31, 2007	87,964	\$ 105,887
Options Written	174,243	1,924,396
Options Expired	(196,099)	(705,929)
Options terminated in closing purchase transactions	(39,986)	(804,271)
Put Options Outstanding at August 31, 2008	<u>26,122</u>	<u>\$ 520,083</u>

As of August 31, 2008, an amount of \$200,362 is included on the statements of fiduciary net assets as written options at fair value. The Fund recognized gains in the amount of \$1,133,634 on put options written for the year ended August 31, 2008.

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Notes to Financial Statements (cont.)

Note 7 – Swaps

During the fiscal year ended August 31, 2009 and 2008, the Fund entered into interest rate, credit default, inflation, equity and commodity swap contracts. The following discloses the notional amount (presented in local currency), the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2009:

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2009	
				Assets	Liabilities
Interest Rate					
Australian Dollar					
	4.500%	9,800,000	12/15/2011	\$ -	\$ 105,236
	5.000%	19,500,000	12/15/2011	-	134,521
	6.500%	21,600,000	6/15/2012	51,156	-
UK Pound					
	3.500%	1,000,000	3/17/2015	-	18,141
	3.500%	600,000	5/17/2015	-	10,885
	4.500%	7,600,000	3/17/2020	340,497	-
Canadian Dollar					
	5.750%	1,000,000	12/19/2028	1,569	-
Euro					
	3.400%	16,100,000	9/15/2011	142,614	-
Japanese Yen					
	1.000%	470,000,000	12/16/2010	26,347	-
	1.000%	2,100,000,000	12/16/2014	129,156	-
Swedish Krona					
	4.500%	2,000,000	3/18/2014	24,134	-
				<u>715,473</u>	<u>268,783</u>
Credit Default					
UK Pound					
	0.530%	1,000,000	9/20/2010	-	2,902
Euro					
	2.020%	400,000	3/20/2014	-	23,980
U.S. Dollar					
	0.165%	300,000	3/20/2011	1,147	-
	0.210%	300,000	9/20/2011	412	-
	0.290%	300,000	3/20/2011	-	568
	0.310%	300,000	12/20/2011	712	-
	0.390%	300,000	6/20/2010	603	-
	0.450%	1,000,000	9/20/2014	-	341
	0.450%	1,000,000	6/20/2017	5,754	-
	0.460%	300,000	9/20/2011	11,859	-
	0.460%	300,000	3/20/2012	21,812	-
	0.460%	300,000	12/20/2016	15,981	-
	0.510%	300,000	6/20/2011	1,517	-
	0.510%	800,000	3/20/2018	-	2,970
	0.550%	300,000	9/20/2011	11,272	-
	0.630%	200,000	9/20/2011	-	2,017
	0.740%	700,000	3/20/2018	-	20,885
	0.770%	300,000	3/20/2012	-	3,624
	0.820%	1,000,000	3/20/2018	29,111	-
	0.800%	1,756,800	12/20/2017	75,482	-
	0.850%	600,000	12/20/2009	-	1,530

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Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2009	
				Assets	Liabilities
Credit Default (Continued)					
U.S. Dollar (Continued)					
	0.940%	700,000	9/20/2014	\$ 28,452	\$ -
	0.940%	1,000,000	6/20/2016	-	22,103
	0.950%	1,000,000	12/20/2015	60,267	-
	0.950%	500,000	9/20/2018	-	9,076
	0.990%	1,000,000	9/20/2015	-	31,922
	1.000%	200,000	6/20/2014	-	4,405
	1.000%	400,000	12/20/2016	35,880	-
	1.000%	2,800,000	6/20/2019	22,168	-
	1.030%	2,000,000	3/20/2013	-	34,288
	1.060%	1,000,000	3/20/2018	-	51,255
	1.170%	1,000,000	6/20/2013	4,183	-
	1.290%	200,000	6/20/2011	-	957
	1.320%	1,000,000	3/20/2017	45,728	-
	1.450%	1,000,000	6/20/2013	-	7,167
	1.500%	1,200,000	6/20/2010	-	9,129
	1.500%	2,342,400	6/20/2018	-	13,964
	1.530%	500,000	9/20/2016	-	14,656
	1.540%	1,000,000	12/20/2013	275,045	-
	1.540%	100,000	6/20/2018	-	725
	1.600%	1,000,000	3/20/2013	-	37,836
	1.620%	1,000,000	6/20/2012	217,399	-
	1.720%	300,000	12/20/2013	-	1,389
	1.743%	300,000	6/20/2013	-	5,248
	1.780%	300,000	6/20/2013	-	5,674
	1.820%	200,000	6/20/2013	-	4,086
	2.250%	500,000	3/20/2014	-	25,942
	2.980%	500,000	3/20/2019	-	70,852
	3.460%	600,000	6/20/2017	-	57,095
	4.230%	500,000	12/20/2013	-	62,875
				<u>864,784</u>	<u>529,461</u>
Inflation					
Euro					
	1.948%	600,000	3/15/2012	19,383	-
	1.960%	600,000	3/30/2012	18,757	-
	2.080%	1,900,000	6/15/2012	69,421	-
				<u>107,561</u>	<u>-</u>
Equity					
Euro					
		516,631	8/4/2010	-	5,743
U.S. Dollar					
		38,282,783	11/5/2009	783,466	-
		50,638,817	11/23/2009	-	586,615
				<u>783,466</u>	<u>592,358</u>
Total				\$ 2,471,284	\$ 1,390,602

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Notes to Financial Statements (cont.)

The following discloses the notional amount (presented in local currency), the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2008:

Interest Rate	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008	
				Assets	Liabilities
Australian Dollar					
	6.540%	3,400,000	1/15/2010	\$ -	\$ 28,760
	6.542%	7,500,000	6/15/2017	83,633	-
	7.254%	12,600,000	6/16/2011	92,839	-
	7.254%	3,400,000	6/15/2013	51,984	-
	7.400%	1,200,000	9/15/2009	1,232	-
	7.403%	13,700,000	6/15/2010	-	19,968
	7.540%	33,900,000	3/15/2010	226,992	-
	7.540%	3,100,000	3/15/2012	58,255	-
	7.754%	9,000,000	6/15/2010	77,446	-
UK Pound					
	3.550%	100,000	12/17/2037	-	911
	4.254%	300,000	6/12/2036	-	22,446
	4.496%	5,200,000	12/15/2035	65,593	-
	4.542%	14,200,000	9/15/2017	69,904	-
	4.549%	800,000	12/15/2035	-	57,138
	5.322%	2,300,000	9/14/2009	22,138	-
	5.399%	4,300,000	6/15/2009	46,832	-
	5.402%	18,800,000	3/20/2010	358,857	-
	5.404%	1,800,000	9/15/2010	-	36,054
	5.415%	13,800,000	9/17/2013	-	275,637
	5.422%	5,900,000	9/15/2015	-	145,568
	5.508%	700,000	3/18/2039	-	127,189
Canadian Dollar					
	4.254%	7,100,000	12/20/2013	-	216,526
	4.540%	1,400,000	9/20/2011	-	52,116
	5.421%	1,000,000	6/15/2015	78,092	-
Euro					
	3.754%	24,400,000	6/18/2013	-	1,538,085
	4.400%	22,300,000	9/19/2009	-	607,675
	4.411%	9,000,000	9/19/2012	-	447,546
	4.415%	8,600,000	9/17/2013	-	377,166
	4.541%	15,600,000	3/18/2014	-	100,075
	4.542%	1,700,000	3/18/2016	14,376	-
	5.404%	2,500,000	9/17/2010	9,634	-
	5.506%	4,900,000	9/17/2038	-	371,022
	5.508%	3,700,000	3/18/2039	-	294,035
	6.491%	3,700,000	6/18/2034	-	669,050
Japanese Yen					
	1.398%	400,000,000	3/18/2009	-	1,339
	1.541%	4,130,000,000	6/17/2013	395,700	-
	1.984%	430,000,000	9/27/2016	-	163,270
	2.254%	200,000,000	6/20/2036	36,455	-
	2.430%	1,750,000,000	12/17/2017	-	519,147
	3.498%	190,000,000	6/20/2036	-	244,384
U.S. Dollar					
	4.401%	10,800,000	12/17/2009	91,705	-
	4.403%	38,800,000	6/17/2010	194,966	-
	4.405%	500,000	12/17/2010	4,668	-
	4.416%	47,600,000	12/17/2013	-	308,976
	5.423%	21,700,000	12/18/2015	4,787	-
	5.434%	76,000,000	12/17/2018	-	2,666,612
	5.452%	6,600,000	12/17/2023	-	177,455
	5.465%	1,500,000	6/20/2027	50,959	-
	5.471%	500,000	12/17/2028	-	11,310
	5.507%	24,900,000	12/17/2038	-	562,005
	5.539%	2,000,000	5/21/2009	42,720	-
Mexican Peso					
	8.334%	2,500,000	2/14/2017	-	7,603

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Notes to Financial Statements (cont.)

	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008	
				Assets	Liabilities
Interest Rate (Continued)					
Brazilian Real					
	10.115%	500,000	1/2/2012	\$ -	\$ 27,236
	10.575%	3,400,000	1/2/2012	-	153,224
	10.684%	3,000,000	1/2/2012	-	129,674
	12.544%	1,900,000	1/2/2012	-	25,484
	14.765%	200,000	1/2/2012	2,134	-
				<u>2,081,901</u>	<u>10,384,686</u>
Commodity					
U.S. Dollar					
	DJAIG	15,691,874	10/5/2008	-	456,277
	DJAIG	13,536,667	10/28/2008	-	993,112
	DJAIG	28,435,637	11/26/2008	-	567,379
	DJAIG	17,116,887	1/5/2009	-	634,530
				<u>-</u>	<u>2,651,298</u>
Credit Default					
UK Pound					
	0.214%	100,000	6/20/2012	1,109	-
	0.235%	100,000	6/20/2012	3,033	-
	0.254%	100,000	6/20/2012	11,520	-
	0.294%	100,000	6/20/2012	3,265	-
	0.365%	100,000	6/20/2012	1,299	-
	0.344%	200,000	6/20/2012	-	11,504
Euro					
	0.235%	100,000	6/20/2012	-	140
	0.254%	100,000	6/20/2012	-	149
	0.294%	100,000	6/20/2012	-	173
	0.365%	100,000	6/20/2012	-	218
	0.454%	1,800,000	9/20/2012	67,253	-
	0.464%	1,400,000	9/20/2012	38,201	-
	0.474%	2,300,000	9/20/2012	172,190	-
	0.494%	1,400,000	9/20/2012	23,087	-
	0.534%	500,000	9/20/2010	2,265	-
	0.614%	100,000	5/20/2012	-	233
	0.741%	2,800,000	12/20/2012	117,311	-
	0.854%	2,700,000	12/20/2016	179,251	-
	1.484%	400,000	3/20/2013	7,089	-
	1.754%	6,800,000	6/20/2018	-	592,190
	2.941%	400,000	6/20/2013	-	34,238
U.S. Dollar					
	0.054%	300,000	9/20/2009	160	-
	0.073%	1,400,000	9/20/2008	31	-
	0.085%	440,000	12/13/2049	-	45,772
	0.115%	500,000	5/25/2046	-	164,942
	0.124%	100,000	6/20/2012	881	-
	0.135%	300,000	3/20/2015	3,814	-
	0.144%	300,000	3/20/2011	530	-
	0.165%	300,000	3/20/2011	7,821	-
	0.174%	700,000	6/20/2010	114,826	-
	0.184%	300,000	3/20/2012	1,658	-
	0.214%	300,000	9/20/2011	2,018	-
	0.214%	-	6/20/2012	-	36
	0.224%	300,000	9/20/2009	94	-
	0.233%	300,000	6/20/2009	3,587	-
	0.274%	8,600,000	3/20/2013	-	28,943
	0.294%	300,000	6/20/2011	5,498	-
	0.314%	300,000	12/20/2011	8,883	-
	0.324%	200,000	6/20/2010	1,671	-
	0.354%	200,000	9/20/2011	846	-
	0.394%	300,000	6/20/2010	1,598	-
	0.395%	300,000	9/20/2011	40,186	-
	0.435%	2,600,000	3/20/2013	10,153	-
	0.441%	300,000	6/20/2014	11,493	-
	0.453%	1,000,000	1/20/2009	-	120

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Notes to Financial Statements (cont.)

	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008	
				Assets	Liabilities
Credit Default (Continued)					
U.S. Dollar (Continued)					
	0.454%	1,000,000	9/20/2014	\$ 723	\$ -
	0.454%	1,000,000	6/20/2017	5,134	-
	0.455%	400,000	6/20/2012	-	1,588
	0.464%	300,000	9/20/2011	24,308	-
	0.464%	300,000	3/20/2012	23,098	-
	0.464%	300,000	12/20/2016	19,529	-
	0.474%	1,500,000	3/20/2013	8,171	-
	0.493%	500,000	2/20/2009	-	326
	0.514%	300,000	6/20/2011	7,718	-
	0.514%	800,000	3/20/2018	1,521	-
	0.514%	1,000,000	6/20/2018	26,086	-
	0.524%	200,000	6/20/2012	-	1,284
	0.534%	500,000	9/20/2010	-	1,423
	0.553%	2,000,000	12/20/2008	3,693	-
	0.554%	300,000	9/20/2011	23,524	-
	0.574%	700,000	12/20/2017	27,261	-
	0.614%	100,000	5/20/2012	1,171	-
	0.633%	600,000	12/20/2008	693	-
	0.641%	5,800,000	12/20/2012	195,946	-
	0.642%	100,000	6/20/2017	3,576	-
	0.664%	100,000	9/20/2012	-	9,497
	0.708%	700,000	12/20/2012	8,040	-
	0.724%	100,000	9/20/2012	-	1,260
	0.724%	4,300,000	12/20/2012	51,659	-
	0.741%	200,000	6/20/2012	-	31,422
	0.741%	100,000	9/20/2012	-	9,357
	0.744%	700,000	3/20/2018	7,710	-
	0.754%	600,000	12/20/2017	-	10,082
	0.758%	700,000	12/20/2012	9,518	-
	0.774%	300,000	3/20/2012	-	2,611
	0.824%	200,000	5/20/2012	-	14,599
	0.824%	1,000,000	3/20/2018	23,676	-
	0.843%	1,900,000	12/20/2017	79,294	-
	0.854%	600,000	12/20/2009	-	1,164
	0.944%	700,000	9/20/2014	28,715	-
	0.944%	1,000,000	6/20/2016	-	19,781
	0.954%	1,000,000	12/20/2015	-	10,920
	0.984%	600,000	9/20/2013	-	1,374
	0.994%	1,000,000	9/20/2015	-	20,919
	1.034%	2,000,000	3/20/2013	-	3,083
	1.034%	1,300,000	9/20/2018	19,128	-
	1.054%	1,200,000	3/20/2013	-	12,870
	1.064%	1,000,000	3/20/2018	-	26,337
	1.174%	1,000,000	6/20/2013	-	4,902
	1.254%	800,000	6/20/2013	6,105	-
	1.294%	200,000	6/20/2011	1,807	-
	1.323%	400,000	12/20/2008	1,076	-
	1.324%	1,000,000	3/20/2017	23,553	-
	1.333%	800,000	12/20/2008	2,194	-
	1.353%	700,000	12/20/2008	1,976	-
	1.374%	100,000	6/20/2018	-	29
	1.434%	1,000,000	6/20/2018	67,727	-
	1.454%	1,000,000	6/20/2013	7,371	-
	1.474%	500,000	6/20/2018	-	3,900
	1.524%	200,000	6/20/2013	-	861
	1.534%	500,000	9/20/2016	-	13,907
	1.540%	1,200,000	6/20/2010	-	35,817
	1.541%	800,000	6/20/2013	19,715	-
	1.543%	4,300,000	6/20/2018	-	59,358
	1.544%	1,000,000	12/20/2013	101,439	-
	1.544%	100,000	6/20/2018	-	2,280
	1.554%	21,900,000	6/20/2013	-	184,859

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Notes to Financial Statements (cont.)

	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008	
				Assets	Liabilities
Credit Default (Continued)					
U.S. Dollar (Continued)					
	1.574%	1,500,000	3/20/2013	\$ -	\$ 49,959
	1.624%	1,000,000	6/20/2012	96,382	-
	1.683%	300,000	4/20/2009	2,548	-
	1.713%	300,000	4/20/2009	2,598	-
	1.784%	100,000	12/20/2012	-	2,973
	1.839%	700,000	12/20/2008	589	-
	1.843%	800,000	9/20/2018	16,895	-
	1.954%	1,300,000	3/20/2013	-	80,474
	2.141%	75,000	9/20/2013	-	1,596
	2.754%	2,376,000	6/20/2012	223,916	-
	3.053%	200,000	3/20/2009	-	2,426
	3.054%	100,000	9/20/2012	-	35,470
	3.239%	500,000	12/20/2008	-	1,754
	3.739%	400,000	3/20/2009	-	2,911
	3.841%	100,000	9/20/2012	-	25,439
	4.339%	200,000	3/20/2009	-	560
	4.854%	100,000	9/20/2012	31,387	-
	5.239%	600,000	9/20/2008	-	4,631
	5.441%	300,000	9/20/2012	-	90,419
	5.454%	300,000	9/20/2012	-	90,079
	7.411%	100,000	9/20/2012	-	26,511
				<u>2,049,791</u>	<u>1,779,670</u>
Inflation					
UK Pound					
	3.183%	700,000	12/19/2017	-	72,483
	3.254%	400,000	12/14/2017	-	35,440
	3.444%	100,000	9/10/2027	-	16,639
Euro					
	1.944%	900,000	4/10/2012	-	37,188
	1.948%	800,000	3/15/2012	-	32,117
	1.954%	100,000	3/30/2012	-	4,128
	1.955%	200,000	3/28/2012	-	8,137
	1.964%	600,000	3/30/2012	-	25,245
	1.984%	100,000	4/30/2012	-	4,238
	1.988%	800,000	12/15/2011	-	26,130
	2.028%	300,000	10/15/2011	-	6,715
	2.044%	2,000,000	2/21/2011	-	33,394
	2.084%	1,900,000	6/15/2012	-	70,391
	2.095%	700,000	10/15/2011	-	12,245
	2.275%	300,000	10/15/2016	-	4,747
	2.353%	300,000	10/15/2016	-	4,540
	2.354%	300,000	10/15/2016	-	4,747
				<u>-</u>	<u>398,524</u>
Equity					
U.S. Dollar					
	Developed	25,164,575	3/16/2009	-	2,647,173
				<u>-</u>	<u>2,647,173</u>
Total				\$ 4,131,692	\$ 17,861,351

Note 8 – Futures Contracts

During the years ended August 31, 2009 and 2008, the asset classes that used futures included domestic and foreign equities, domestic and foreign debt, and commodities. The Fund had \$28,529,967 and \$22,410,414 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2009 and 2008, respectively. Short futures were used by internal managers and may be used by a limited number of external managers of the Fund to hedge the Fund's interest rate or country risk associated with security positions. The amount of net realized losses on the futures contracts was \$51,533,224 for the year ended August 31, 2009. The amount of net realized gains on the futures contracts was \$16,230,384 for the year ended August 31, 2008.

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2009, for futures contracts:

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INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2009		Carrying and Fair Value at August 31, 2009	
			Long	Short	Assets	Liabilities
Domestic Fixed Income						
U.S. 10 Year Treasury Notes	29	Dec-09	\$ 3,399,344	\$ -	\$ 9,965	\$ -
			<u>3,399,344</u>	<u>-</u>	<u>9,965</u>	<u>-</u>
Domestic Equity						
S&P 500 Index	339	Sep-09	86,419,575	-	-	652,575
			<u>86,419,575</u>	<u>-</u>	<u>-</u>	<u>652,575</u>
Commodities						
Aluminum Hg	50	Oct-09	2,357,500	-	-	-
Aluminum Hg	74	Jan-11	3,722,200	-	-	-
Brent Crude Oil	23	Oct-09	1,601,950	-	-	-
Coffee 'C'	41	Dec-09	1,880,363	-	-	-
Coffee 'C'	9	May-10	428,962	-	-	-
Copper	133	Dec-09	9,398,112	-	-	-
Copper	8	May-10	565,400	-	-	-
Corn	178	Dec-09	2,934,775	-	-	-
Corn	20	Mar-10	342,500	-	-	-
Cotton No 2	66	Dec-09	1,971,420	-	-	-
Crude Oil	55	Dec-09	3,925,900	-	-	-
Crude Oil	58	Mar-10	4,244,440	-	-	-
Crude Oil	64	Feb-11	4,929,280	-	-	-
Gasoline RBOB	31	Oct-09	2,356,490	-	-	-
Gasoline RBOB	26	Nov-09	1,967,566	-	-	-
Gold 100 Oz	68	Dec-09	6,483,800	-	-	-
Heating Oil	38	Oct-10	3,263,820	-	-	-
Lean Hogs	68	Oct-09	1,309,680	-	-	-
Live Cattle	43	Apr-10	1,540,690	-	-	-
Live Cattle	45	Jun-10	1,545,300	-	-	-
Natural Gas	83	Nov-09	3,318,340	-	-	-
Natural Gas	21	Apr-11	1,308,300	-	-	-
Natural Gas	21	Aug-11	1,351,350	-	-	-
Nickel	21	Sep-09	2,402,190	-	-	-
Nickel	7	Feb-11	785,442	-	-	-
Silver	38	Dec-09	2,835,370	-	-	-
Soybean	111	Nov-09	5,436,225	-	-	-
Soybean Oil	96	Dec-09	2,050,560	-	-	-
Sugar #11 World	32	Mar-10	925,389	-	-	-
Sugar #11 World	69	May-10	1,870,176	-	-	-
Sugar #11 World	61	Jul-10	1,537,883	-	-	-
Wheat	106	Mar-10	2,746,725	-	-	-
Wheat	3	Jul-10	81,525	-	-	-
Zinc	69	Sep-10	3,303,375	-	-	-
			<u>86,722,998</u>	<u>-</u>	<u>-</u>	<u>-</u>
Foreign Fixed Income						
3 Month Euro Euribor	19	Sep-10	6,696,517	-	2,704	-
3 Month Euro Euribor	39	Dec-10	13,699,310	-	5,543	-
90 Day Euro Dollar	112	Jun-10	27,693,400	-	11,200	-
90 Day Sterling Libor	101	Sep-10	20,150,297	-	4,097	-
90 Day Sterling Libor	3	Dec-10	595,468	-	122	-
90 Day Sterling Libor	10	Mar-11	1,975,929	-	405	-
			<u>70,810,921</u>	<u>-</u>	<u>24,071</u>	<u>-</u>
Foreign Equity						
TOPIX Index	235	Sep-09	24,370,184	-	-	205,042
			<u>24,370,184</u>	<u>-</u>	<u>-</u>	<u>205,042</u>
Total			<u>\$ 271,723,022</u>	<u>\$ -</u>	<u>\$ 34,036</u>	<u>\$ 857,617</u>

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

The following discloses the name, number of contracts, notional value, and the carrying and fair values at August 31, 2008, for futures contracts:

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2008		Carrying and Fair Value at August 31, 2008	
			Long	Short	Assets	Liabilities
Domestic Fixed Income						
U.S. 5 Year Treasury Notes	5	Dec-08	\$ 559,687	\$ -	\$ -	\$ -
U.S. 10 Year Treasury Notes	88	Sep-08	10,268,500	-	-	12,375
U.S. 10 Year Treasury Notes	23	Dec-08	-	2,656,500	4,312	-
U.S. 10 Year Treasury Notes	1	Dec-08	115,500	-	-	188
U.S. Treasury Bond	82	Dec-08	9,619,625	-	-	49,969
			<u>20,563,312</u>	<u>2,656,500</u>	<u>4,312</u>	<u>62,532</u>
Domestic Equity						
Russell 2000 Index Mini	612	Sep-08	-	45,281,880	312,120	-
S&P 500 Index	502	Sep-08	160,966,300	-	-	1,945,250
			<u>160,966,300</u>	<u>45,281,880</u>	<u>312,120</u>	<u>1,945,250</u>
Commodities						
Aluminum Hg	76	Jan-09	5,210,750	-	-	-
Brent Crude Oil	31	Jun-09	3,688,380	-	-	-
Brent Crude Oil	4	Aug-09	477,760	-	-	-
Cattle Feeder	21	Jan-09	1,149,750	-	-	-
Cocoa	3	Mar-09	86,520	-	-	-
Cocoa	7	May-09	200,760	-	-	-
Coffee 'C'	14	Dec-08	765,188	-	-	-
Copper	40	Dec-08	6,883,050	-	-	-
Corn	112	Dec-08	3,276,000	-	-	-
Cotton No 2	15	Jul-09	587,325	-	-	-
Crude Oil	7	Jun-09	822,010	-	-	-
Crude Oil	98	Jul-09	11,513,040	-	-	-
Gas Oil	25	May-09	2,677,500	-	-	-
Gasoline RBOB	31	Oct-08	3,716,168	-	-	-
Gold 100 Oz	34	Dec-08	2,839,680	-	-	-
Heating Oil	18	May-09	2,463,728	-	-	-
Lean Hogs	83	Oct-08	2,271,710	-	-	-
Live Cattle	114	Jun-09	4,758,360	-	-	-
Natural Gas	12	Oct-08	953,160	-	-	-
Natural Gas	28	Apr-09	2,385,040	-	-	-
Natural Gas	4	May-09	341,120	-	-	-
Nickel	16	Jan-09	1,945,440	-	-	-
Palladium	3	Dec-08	92,040	-	-	-
Platinum	6	Oct-08	446,940	-	-	-
Silver	9	Dec-08	616,815	-	-	-
Soybean	45	Nov-08	2,979,000	-	-	-
Soybean Meal	28	Oct-08	1,003,520	-	-	-
Sugar #11 World	56	Jul-09	930,765	-	-	-
Wheat	34	Dec-08	1,362,125	-	-	-
Wheat	46	Jul-09	1,971,900	-	-	-
Zinc	32	Jan-09	1,456,400	-	-	-
			<u>69,871,944</u>	<u>-</u>	<u>-</u>	<u>-</u>
Foreign Fixed Income						
3 Month Euro Euribor	28	Dec-08	9,784,279	-	1,017	-
3 Month Euro Euribor	55	Mar-09	19,275,801	-	-	23
3 Month Euro Euribor	30	Jun-09	10,533,949	-	6,939	-
90 Day Bank Acceptance	20	Dec-08	-	4,583,196	-	2,800
90 Day Euro Dollar	49	Dec-08	11,885,562	-	-	-
90 Day Euro Dollar	115	Mar-09	27,899,000	-	-	4,313
90 Day Euro Dollar	135	Jun-09	32,708,813	-	-	5,063
90 Day Euro Dollar	89	Sep-09	21,517,975	-	-	4,450
90 Day Euro Dollar	175	Dec-09	42,188,125	-	-	6,563
90 Day Euro Dollar	139	Mar-10	33,438,188	-	-	1,738
90 Day Euro Dollar	14	Jun-10	3,360,700	-	175	-

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2008		Carrying and Fair Value at August 31, 2008	
			Long	Short	Assets	Liabilities
Foreign Fixed Income (Continued)						
90 Day Sterling Libor	4	Mar-09	\$ -	\$ 864,689	\$ -	\$ 176
90 Day Sterling Libor	4	Jun-09	-	866,513	-	267
90 Day Sterling Libor	1	Jun-09	216,628	-	100	-
Australian 3 Year Bond	158	Sep-08	-	12,838,847	16,688	-
Canada 10 Year Bond	1	Dec-08	112,714	-	19	-
Japan 10 Year Bond	14	Sep-08	-	17,850,084	-	20,437
Japan 10 Year Bond	2	Sep-08	2,550,012	-	2,205	-
Japan 10 Year Bond	1	Dec-08	-	1,273,071	-	16,652
Euro-Bobl	267	Sep-08	-	42,528,488	56,529	-
Euro-Bund	68	Sep-08	-	11,428,900	-	24,300
Euro-Schatz	172	Sep-08	26,126,696	-	-	2,585
			<u>241,598,442</u>	<u>92,233,788</u>	<u>83,672</u>	<u>89,367</u>
Foreign Equity						
FTSE 100 Index	105	Sep-08	10,817,711	-	77,118	-
TOPIX Index	73	Sep-08	8,445,197	-	213,705	-
			<u>19,262,908</u>	<u>-</u>	<u>290,823</u>	<u>-</u>
Total			<u>\$ 512,262,906</u>	<u>\$ 140,172,168</u>	<u>\$ 690,927</u>	<u>\$ 2,097,149</u>

Note 9 – Foreign Currency Exchange Contracts

The following table summarizes by currency the contractual amounts of the Fund's foreign currency exchange contracts at August 31, 2009 and 2008. Foreign currency amounts are translated at exchange rates as of August 31, 2009 and 2008. The "Net Buy" amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the "Net Sell" amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies.

THE UNIVERSITY OF TEXAS SYSTEM
INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

<u>Currency</u>	<u>Net Buy August 31, 2009</u>	<u>Net Sell August 31, 2009</u>	<u>Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2009</u>	<u>Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2009</u>
Australian Dollar	\$ -	\$ 22,284,912	\$ -	\$ 263,682
Brazilian Real	1,990,612	-	104,478	-
Bulgarian Lev	-	504,965	-	11,736
Canadian Dollar	-	2,682,351	98,368	162,023
Chinese Yuan Renminbi	4,237,205	-	6,470	152,826
Danish Krone	1,025,070	-	24,459	-
Estonia Kroon	-	740,277	-	19,442
Euro	9,598,750	-	499,107	751,378
Hong Kong Dollar	-	290,281	-	6
Hungarian Forint	633	-	45	-
Indian Rupee	14,594	-	17	104
Indonesian Rupiah	-	-	40,071	-
Japanese Yen	18,112,942	-	1,420,747	1,090,898
Malaysian Ringgit	434,227	-	5,856	25
Mexican Peso	631,653	-	60,871	-
New Zealand Dollar	-	2,918,682	486	84,255
Norwegian Kroner	915,961	-	371,301	239,350
Philippines Peso	4,261	-	-	21
Singapore Dollar	404,773	-	4,540	32
South African Rand	531,081	-	100,984	-
South Korean Won	17,403,471	-	135,265	30,342
Swedish Krona	1,515,106	-	698,664	200,976
Taiwan Dollar	1,016,578	-	2,246	2,356
Thailand Baht	455,898	-	4,366	-
Turkish Lira	2,797,728	-	126,053	-
UK Pound	37,532,485	-	402,743	468,255
	<u>\$ 98,623,028</u>	<u>\$ 29,421,468</u>	<u>\$ 4,107,137</u>	<u>\$ 3,477,707</u>

**THE UNIVERSITY OF TEXAS SYSTEM
INTERMEDIATE TERM FUND**

Notes to Financial Statements (cont.)

Currency	Net Buy August 31, 2008	Net Sell August 31, 2008	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2008	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2008
Australian Dollar	\$ -	\$ 4,109,816	\$ 108,666	\$ 53
Brazilian Real	3,050,386	-	440,243	436,261
Canadian Dollar	1,413,236	-	-	10,295
Chinese Yuan Renminbi	7,955,575	-	96,572	313,878
Danish Krone	-	1,081,495	46,029	129
Euro	76,709,639	-	5,654	1,929,768
Hong Kong Dollar	-	21,465	-	9
Hungarian Forint	3,260	-	-	61
Indian Rupee	186,881	-	1,909	157,070
Japanese Yen	50,021,833	-	30,072	513,335
Malaysian Ringgit	4,144,894	-	16,695	430,209
Mexican Peso	985,428	-	52,637	42
New Zealand Dollar	158,798	-	-	14
Norwegian Kroner	349,931	-	-	10,216
Philippines Peso	842,534	-	61	33,145
Polish Zloty	1,386,251	-	442	38,120
Russian Rouble	298,043	-	10,208	10,470
Saudi Arabia Riyal	813,662	-	-	13,338
Singapore Dollar	2,400,871	-	-	38,628
South African Rand	499,403	-	32,530	-
South Korean Won	2,904,178	-	1,801	227,504
Swedish Krona	1,778,784	-	2,705	118,745
Swiss Franc	-	6,042,055	297,726	-
Taiwan Dollar	1,225,069	-	24,668	98,984
Turkish Lira	2,038,793	-	63,214	-
UK Pound	-	7,623,396	1,568,343	878,718
	\$ 159,167,449	\$ 18,878,227	\$ 2,800,175	\$ 5,258,992

Note 10 – Purchase Commitment

UTIMCO, as investment manager of the funds under the control and management of the UT Board, has entered into a security purchase agreement with the UT Board. The agreement commits the funds under management, including the Fund, to purchase up to \$3,666,850,000 in UT System flexible rate notes in the event of a failed remarketing of such notes. The individual funds under management are not committed to a specific amount, rather all of the funds may be required to provide for the amount noted.

Note 11 – Fees and Expenses

The Fund incurs investment management fees from various external managers of the Fund. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.07% to 1.50%. In addition to quarterly investment management fees, the Fund may pay performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers' contracts. The investment management fees presented in the Statements of Changes in Fiduciary Net Assets represent only those paid directly from the Fund, and do not include fees incurred and charged by general partners in private investments, fees charged by mutual fund managers, and fees charged

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice.

UTIMCO assesses the Fund a management fee to cover the costs of managing the Fund and providing day to day operations. The fee assessed for the years ended August 31, 2009 and 2008 were \$2,858,015 and \$2,542,618, respectively.

Custodial fees and expenses are assessed by the financial institution which holds the Fund's assets. Fees are based on the number of accounts, market value of the Fund, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement and on-line communication services per the contractual agreement. Fees incurred for the years ended August 31, 2009 and 2008 were \$741,784 and \$596,878, respectively.

The Fund incurs legal fees associated with the review of investment manager agreements and with due diligence efforts undertaken as part of hiring new investment managers. For the years ended August 31, 2009 and 2008 the fees incurred totaled \$39,954 and \$52,018, respectively.

The Fund is assessed a fee to cover costs associated with UT System personnel in their effort to provide assistance to the UT Board and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. For the years ended August 31, 2009 and 2008, the fees amounted to \$81,950 and \$60,609, respectively.

Analytical and risk measurement fees are also incurred to maintain a sophisticated risk measurement system for the Fund. Fees incurred for the years ended August 31, 2009 and 2008, were \$114,619 and \$129,372, respectively.

The Fund incurs accounting fees for internal and external audit services. For the years ended August 31, 2009 and 2008, fees in the amount of \$168,805 and \$179,249, respectively, were paid by the Fund.

Consulting fees, in the amount of \$85,069 and \$104,873, respectively, for the years ending August 31, 2009 and 2008, were incurred for investment strategy and other investment planning services.

The Fund incurs other expenses related to its operations primarily consisting of fees to perform background checks on potential external investment manager personnel.

THE UNIVERSITY OF TEXAS SYSTEM
INTERMEDIATE TERM FUND
Supplemental Schedules

Comparison Summary of Investments
August 31, 2009 and 2008
(in thousands)

	2009		2008	
	Value	% of Total Investments	Value	% of Total Investments
Equity Securities				
Domestic Common Stock	\$ 212,596	5.91%	\$ 265,998	6.30%
Foreign Common Stock	239,518	6.66%	190,836	4.52%
Total Equity Securities	452,114	12.57%	456,834	10.82%
Preferred Stock				
Domestic Preferred Stock	44	0.00%	-	0.00%
Foreign Preferred Stock	2,804	0.08%	-	0.00%
Total Preferred Stock	2,848	0.08%	-	0.00%
Debt Securities				
U.S. Government Obligations	303,761	8.44%	618,152	14.65%
Corporate Obligations	442,935	12.31%	423,291	10.03%
Foreign Government and Provincial Obligations	215,812	6.00%	174,483	4.13%
Other	4,373	0.12%	7,198	0.17%
Total Debt Securities	966,881	26.87%	1,223,124	28.98%
Purchased Options	8,599	0.24%	2,151	0.05%
Convertible Securities	-	0.00%	80	0.00%
Investment Funds				
Hedge Funds	836,228	23.25%	983,442	23.30%
Developed Country Equity	260,750	7.25%	467,704	11.08%
Emerging Markets	186,663	5.19%	162,395	3.85%
Real Estate	53,839	1.50%	73,817	1.75%
Fixed Income	401,484	11.16%	351,978	8.34%
Total Investment Funds	1,738,964	48.35%	2,039,336	48.32%
Cash and Cash Equivalents				
Money Market Funds Maintained to Back Derivative Contracts	266,264	7.40%	297,351	7.05%
Money Market Funds - Other	161,505	4.49%	202,095	4.78%
Total Cash and Cash Equivalents	427,769	11.89%	499,446	11.83%
Total Investment in Securities	\$ 3,597,175	100.00%	\$ 4,220,971	100.00%

THE UNIVERSITY OF TEXAS SYSTEM
INTERMEDIATE TERM FUND
Supplemental Schedules (cont.)

Financial Highlights

Years Ended August 31, 2009, 2008, 2007 and For the Period from Inception (February 1, 2006) to August 31, 2006

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Selected Per Unit Data				
Net Asset Value, Beginning of Period	\$ 104.957	\$ 108.986	\$ 101.560	\$ 100.000
Income From Investment Operations				
Net Investment Income (A)	1.774	2.510	2.669	1.493
Net Realized and Unrealized Gain (Loss) on Investments	(9.448)	(3.202)	7.943	1.817
Total Income (Loss) from Investment Operations	(7.674)	(0.692)	10.612	3.310
Less Distributions				
From Net Investment Income	(1.774)	(2.510)	(2.669)	(1.493)
From Net Realized Gain	(0.835)	(0.827)	(0.517)	(0.257)
Total Distributions	(2.609)	(3.337)	(3.186)	(1.750)
Net Asset Value, End of Period	\$ 94.674	\$ 104.957	\$ 108.986	\$ 101.560
Ratios and Supplemental Data				
Net Assets, End of Period (in thousands)	\$ 3,571,567	\$ 3,874,807	\$ 3,720,557	\$ 3,048,842
Ratio of Expenses to Average Net Assets	0.44%	0.31%	0.27%	0.18%
Ratio of Net Investment Income to Average Net Assets	1.99%	2.27%	2.54%	1.50%
Ratio of Distributions to Average Net Assets	2.93%	3.04%	3.01%	1.75%

(A) Net investment income is comprised of investment income (excluding the net decrease in investments) and investment expenses as presented on the statements of changes in fiduciary net assets.