

Meeting No. 1,035

THE MINUTES OF THE BOARD OF REGENTS  
OF  
THE UNIVERSITY OF TEXAS SYSTEM

Pages 1 - 43

July 24, 2008

Austin, Texas

MEETING NO. 1,035

THURSDAY, JULY 24, 2008.--The members of the Board of Regents of The University of Texas System convened this meeting at 9:10 a.m. on Thursday, July 24, 2008, in the Board Room, Ninth Floor, Ashbel Smith Hall, 201 West Seventh Street, Austin, Texas, with the following participation:

ATTENDANCE.--

Present  
Chairman Caven, presiding  
Vice Chairman Huffines  
Vice Chairman Rowling  
Regent Barnhill  
Regent Dannenbaum  
Regent Dower  
Regent Foster  
Regent Gary  
Regent McHugh

Absent  
Regent Longoria

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Chairman Caven called the meeting to order.

WELCOME TO REGENT BENJAMIN L. DOWER.--Chairman Caven welcomed Regent Benjamin L. Dower (Student Regent) to his first regularly scheduled Board meeting.

[On May 9, 2008, Governor Rick Perry named Mr. Benjamin L. Dower, a student at The University of Texas at Dallas, as Student Regent to the Board of Regents of The University of Texas System for a term beginning June 1, 2008, and ending on May 31, 2009.]

CONVENE JOINT MEETING: BOARD OF REGENTS AND THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY (UTIMCO) BOARD OF DIRECTORS.--At 9:10 a.m., in accordance with a notice being duly posted with the Secretary of State and there being a quorum of both Boards present, Chairman Caven and Vice Chairman Rowling, Chairman of the Board of Directors of The University of Texas Investment Management Company (UTIMCO), convened the annual joint meeting of The University of Texas System Board of Regents and the UTIMCO Board of Directors.

1. U. T. System Board of Regents: Introduction and welcome to The University of Texas Investment Management Company (UTIMCO) Board of Directors

Chairman Caven and Vice Chairman Rowling, Chairman of the Board of Directors of The University of Texas Investment Management Company (UTIMCO), welcomed the following members of the UTIMCO Board and staff.

UTIMCO Directors

Chairman Robert B. Rowling  
Vice Chairman J. Philip Ferguson  
Vice Chairman for Policy, Chancellor Kenneth I. Shine  
Mr. Clint D. Carlson (did not attend)  
Mr. Paul Foster  
Ms. Colleen McHugh  
Mr. Ardon E. Moore  
Mr. Erle Nye  
Mr. Charles W. Tate

U. T. System Staff

Mr. Philip Aldridge, Associate Vice Chancellor for Finance  
Mr. William Huang, Senior Financial Analyst  
Mr. Barry Burgdorf, Vice Chancellor and General Counsel  
Mr. James Phillips, Senior Attorney, Office of General Counsel  
Ms. Karen Lundquist, Attorney, Office of General Counsel  
Ms. Francie Frederick, General Counsel to the Board of Regents  
Mr. Charles Chaffin, Director of Internal Audit  
Ms. Moshmee Kalamkar, Audit Supervisor  
Mr. Anthony de Bruyn, Director of Public Affairs

UTIMCO Management

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer  
Ms. Cathy Iberg, President and Deputy Chief Investment Officer  
Ms. Cecilia Gonzalez, General Counsel and Chief Compliance Officer  
Mr. Lindel Eakman, Managing Director - Private Markets Investments  
Mr. Bill Edwards, Managing Director - Information Technology  
Ms. Joan Moeller, Managing Director - Accounting, Finance, and Administration  
Mr. Ryan Ruebsahm, Director - Marketable Alternative Investments  
Mr. Robert Schau, Director - Real Estate Investments  
Mr. Mark Shoberg, Director - Private Markets Investments  
Mr. Mark Warner, Director - Natural Resources Investments  
Mr. Uzi Yoeli, Director - Portfolio Risk Management  
Ms. Christy Wallace - Executive Assistant

UTIMCO Board Advisors and Consultants

Mr. Greg Anderson, Associate Vice Chancellor and Treasurer, The Texas A&M University System

Dr. Keith Brown, Advisor to the Chairman, Fayez Sarofim Fellow and Professor of Finance, Red McCombs School of Business, The University of Texas at Austin

Mr. Jerry Turner, Counsel, Vinson & Elkins LLP

Mr. Bruce Myers, Investment Consultant, Cambridge Associates LLC

Mr. Tom Wagner, Audit Partner, Deloitte & Touche LLP (did not attend)

Ms. Nanci Hibschan, Mercer (did not attend)

2. U. T. System Board of Regents: Report on legal issues -- Annual update on fiduciary responsibilities; Master Investment Management Services Agreement (IMSA); Board of Regents' Expectations of The University of Texas Investment Management Company (UTIMCO) Directors

Vice Chancellor and General Counsel Barry Burgdorf discussed fiduciary responsibilities of Regents and The University of Texas Investment Management Company (UTIMCO) Directors. The Board of Regents' Expectations of UTIMCO Directors follows on Pages 4 - 8, which served as background information for this discussion.

UTIMCO General Counsel Cecilia Gonzalez was available to discuss the current Master Investment Management Services Agreement (IMSA).

Note from the Assistant Secretary to the Board of Regents:

Some amendments to the Code of Ethics approved by the Board of Regents on August 14, 2008, impacted the document titled "Expectations of UTIMCO Directors." Needed revisions are reflected in the document attached.

## **U. T. System Board of Regents Expectations for Appointees to the UTIMCO BOARD OF DIRECTORS**

### **Overview of UTIMCO**

The University of Texas Investment Management Company (“UTIMCO”), a Texas nonprofit corporation qualified as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code, was created for the sole purpose of managing the investment of funds under the control and management of the Board of Regents of The University of Texas System pursuant to authorization provided in Section 66.08 of the *Texas Education Code* (the “UTIMCO statute”). UTIMCO manages more than \$23.7 billion in total assets, comprised of approximately \$18.4 billion in endowment funds, including the Permanent University Fund (“PUF”), Permanent Health Fund (“PHF”), Long Term Fund (“LTF”), and Separately Invested Funds, and more than \$5.3 billion in centralized operating funds.

The corporate activities of UTIMCO are managed by its Board of Directors (the “UTIMCO Board”), subject to the Master Investment Management Services Agreement (“IMSA”) between UTIMCO and the Board of Regents, the applicable provisions of the Board of Regents’ *Rules and Regulations*, the UTIMCO statute, UTIMCO’s Articles of Incorporation and Bylaws, and other applicable law.

The Chancellor of the U. T. System serves as the Vice Chairman for Policy.

- The Chancellor is charged by the UTIMCO Bylaws with coordination of responsibilities, including the appropriate resolution of policy issues, assigned to UTIMCO and to the U. T. System by the Regents’ *Rules* to ensure implementation of UTIMCO’s performance of core investment duties.
- The IMSA between the U. T. System Board of Regents and UTIMCO provides that unless otherwise provided in writing by the U. T. Board, “UTIMCO shall look to the Chancellor to provide primary oversight and management concerning relations with the media, legal issues that implicate policies of the U. T. Board other than the Investment Policies, public disclosure of information and intergovernmental relations. Except for the foregoing matters, the UTIMCO Board of Directors and the CEO of UTIMCO shall be responsible for making all decisions necessary to implement the Investment Policies. The CEO of UTIMCO shall confer with the Chancellor on the above-mentioned matters where the Chancellor has primary oversight and management and on other matters that may implicate broader policies of the U. T. Board.”
- The Regents’ *Rules*, Rule 20101 and Rule 70401 provide additional detail on these duties.

### **Qualifications and Terms**

Pursuant to the UTIMCO statute, the UTIMCO Board consists of nine (9) members. The Chancellor of the U. T. System serves as a Director. The other members of the UTIMCO Board are appointed by the Board of Regents and must include at least three (3) current members of the Board of Regents and one person selected by the Board of Regents from a list of candidates with substantial expertise in investments submitted by the Board of Regents of The Texas A&M University System. Pursuant to the UTIMCO bylaws approved by the Board of Regents, the

three (3) Regental Directors serve two-year terms that expire on the first day of April of each odd-numbered year, and the external Directors serve three-year staggered terms that expire on the first day of April of the appropriate year. No external Director may serve more than three (3) full three-year terms. Any UTIMCO Director may be removed as a Director by the Board of Regents with or without cause and at any time.

### **Operations and Resources**

The UTIMCO Board has delegated primary responsibility for certain functions to key chartered Board Committees:

1. Audit and Ethics Committee (Appointments approved by the Board of Regents)
2. Compensation Committee
3. Policy Committee
4. Risk Committee

U. T. System Administration staff provide oversight through the Office of Business Affairs, including the Office of Finance; the Office of General Counsel; Internal Audit; the System-wide Compliance Officer; and the General Counsel to the Board of Regents. UTIMCO Directors also have the benefit of professional independent consultants, including:

1. Investment consultants (Cambridge Associates);
2. Outside legal counsel (Vinson & Elkins);
3. Compensation consultants (Mercer);
4. External auditors (Deloitte & Touche LLP);
5. Dr. Keith Brown, Professor of Finance at U. T. Austin, Advisor to the Chairman of the UTIMCO Board.

### **Duties and Responsibilities**

By statute and charter, as a fiduciary under the IMSA, UTIMCO is dedicated to the sole purpose of investing funds under the management and control of the Board of Regents. In practice, the fiduciary duties of UTIMCO Directors are focused on the fulfillment of the Board of Regents' investment policy directives. As Directors of a nonprofit corporation, UTIMCO Directors' fiduciary duties also include:

1. Duty of care in prudently managing the corporation's investment management and other affairs;
2. Duty of loyalty, requiring the avoidance of conflicts of interest; and
3. Duty to avoid conduct that exceeds the chartered powers of the corporation.

**Investment Management Responsibilities:** The Board of Regents is the ultimate fiduciary responsible for all matters relating to the investment of the funds under its control, in accordance with the "prudent investor" standard of care established by the Texas Constitution, Texas Education Code, and other applicable law. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would

acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.

The Board of Regents delegates to UTIMCO as its fiduciary, under the management of the UTIMCO Board, authority to act for the Board of Regents in the investment of those funds, subject to limitations and restrictions articulated through the IMSA; the Board of Regents' investment policies; and other applicable laws, rules, and agreements. The UTIMCO Board's investment management authority, thus derived, includes the following investment management responsibilities:

- Review of the U. T. Board's current Investment Policies for each Fund at least annually. Such review shall include distribution (spending) guidelines, long-term investment return expectations and expected risk levels, Asset Class and Investment Type allocation targets and ranges, expected returns for each Asset Class and Investment Type and fund, designated performance benchmarks for each Asset Class and Investment Type and such other matters as the U. T. Board or its staff designees may request.
- After UTIMCO completes its assessment, UTIMCO must forward any recommended changes to U. T. System staff for review and appropriate action.
- Oversee the investment management process pursuant to the Investment Policies. Such oversight shall include without limitation the development of an investment outlook based on global economic and capital market forecasts, the rebalancing of allocations to each Asset Class and Investment Type within ranges in response to changes in the investment outlook, and the selection of a combination of portfolio managers to construct portfolios designed to generate the expected returns of each Asset Class and Investment Type.
- Monitor and report on investment performance for each of the Funds. With respect to all Funds other than the Separately Invested Funds (“SIFs”), such responsibilities shall include the calculation and evaluation of investment returns for each Asset Class and Investment Type and individual Fund portfolio against approved benchmarks over various periods of time, and the periodic review of performance benchmarks. With respect to all Funds, such responsibilities shall also include the reporting of investment performance of such specific Funds as may be requested by the U. T. Board, and the reporting to regulatory agencies and others regarding investments under management to the extent required by applicable law.
- Develop and implement a risk management system to measure and monitor overall portfolio derivative exposure, risk levels, liquidity, and leverage.
- Monitor and enforce compliance with all investment and other policies and applicable law.
- Monitor termination of external managers in accordance with Delegation of Authority Policy and investment policies.

Some investment management responsibilities delegated to UTIMCO, including but not limited to the following, are expressly subject to Board of Regents approval:

- Analyze and recommend investment strategies for U. T. System funds managed by UTIMCO, including Asset Class and Investment Type allocation targets, ranges, and performance benchmarks for each Asset Class and Investment Type (Exhibit A of the Fund Investment Policy Statements).

- Consider and recommend investments not covered by investment policy statements.
- Select one or more Custodians, each of which shall be approved by the U. T. Board, which shall also enter into or approve each agreement with the Custodian(s).
- Select, engage, and evaluate External Auditor(s) for the funds.
- Review and propose amendments to Board of Regents' policies related to the investment management of the U. T. System funds, including (not limited to):
  1. Investment Policy Statements for all U. T. System funds.
  2. Distribution (spending) guidelines, rates, and amounts as required.
  3. Liquidity Policy.
  4. Derivative Policy.

**Corporate Governance Responsibilities:** The UTIMCO Board manages the activities of the corporation, providing the primary governance and oversight of the CEO and Chief Investment Officer, other professionals employed by UTIMCO, and outside investment managers with whom funds have been invested. Management oversight responsibilities of the UTIMCO Board or UTIMCO Board Committees include the following:

- Monitor actual staffing, operating, and capital expenditures relative to approved budgets.
- Monitor compliance with the Delegation of Authority policy.
- Consider and approve actions outside the authority delegated to the CEO as required.
- Select, engage, and evaluate UTIMCO's outside counsel, custodian(s), external auditor(s) for the corporation, investment consultant(s) and risk consultant(s).
- Ensure compliance with UTIMCO's Code of Ethics, including conflict of interest policies and applicable law.
- Develop and administer a compensation plan, consistent with current regulations for determining reasonable compensation, to attract and retain high caliber investment professionals and support staff. With the exception of changes to the appendices, the Compensation Plan is subject to approval by the Board of Regents.
- Appoint, supervise, evaluate and compensate UTIMCO's CEO.
- Evaluate investment results against incentive compensation plan performance objectives; approve and recommend incentive compensation for UTIMCO's officers and other compensation plan participants.
- Review and approve committee charters.
- Assure establishment and implementation of legally compliant and administratively effective personnel policies.
- Oversee implementation of accounting principles, policies, internal financial controls, and reporting in the spirit of the Sarbanes-Oxley Act.
- Oversee implementation of public disclosures in compliance with the Texas Public Information Act and other applicable law, in collaboration with the Chancellor/Vice Chairman for Policy.

Some corporate management responsibilities of the UTIMCO Board, including but not limited to the following, are expressly subject to approval by the Board of Regents:

- Review and approve the proposed annual UTIMCO operating and capital budgets, including incentive compensation, capital expenditures, and management fee allocations.



- Review, approve, and recommend key governance documents such as the Articles of Incorporation, Bylaws, and Code of Ethics.
- Approval of Performance Incentive Awards that will result in an increase of 5% or more of the total performance incentive awards calculated to the approved Performance Incentive Plan contained in the UTIMCO Compensation Program.

### **Prohibited Transactions -- Conflicts of Interest**

The *UTIMCO Code of Ethics* (“Code”) details, among other things, prohibitions on transactions between UTIMCO and entities controlled by UTIMCO Directors, as required by the UTIMCO statute and supplementing the general requirements under the Texas Non-Profit Corporation Act. Amendments to the Code are expressly subject to Board of Regents’ approval.

The Code prohibits any transaction or agreement between UTIMCO and any investment fund or account managed by a UTIMCO Director as a fiduciary or agent for compensation. The Code prohibits agreements or transactions between UTIMCO and a business entity controlled by a UTIMCO Director or in which a UTIMCO Director owns five percent or more of the fair market value of the assets or of the voting stock or from which the UTIMCO Director received more than five percent of his or her gross income for the preceding calendar year.

The Code prohibits a UTIMCO Director from investing in the private investments of a business entity in which UTIMCO contemporaneously owns a private investment if after the investment the UTIMCO Director’s investment constitutes a pecuniary interest (i.e., ownership of five percent or more of the fair market value of the assets or of the voting stock or from which the UTIMCO Director received more than five percent of his or her gross income for the preceding calendar year). The Code also prohibits UTIMCO from investing in the private investments of a business entity in which a UTIMCO Director contemporaneously owns a private investment if the UTIMCO Director’s interest constitutes a pecuniary interest. For this purpose, “private investment” means any debt or equity interest that is not publicly traded, including a private investment in a public company.

### **Application of the Texas Public Information Act**

UTIMCO and its officers, directors and employees are subject to the provisions of the Texas Public Information Act. Corporate documents, correspondence, and emails are subject to public inspection and duplication, unless specifically excepted from disclosure under the Act.

### **Meeting Requirements**

UTIMCO Directors are expected to attend all regularly scheduled Board meetings which are typically held approximately every three months. In addition, special Board meetings may be scheduled from time to time with prior notice. The Texas Open Meetings Act applies to the UTIMCO Board, requiring that all deliberations of a quorum of the Board take place in open meetings after advance notice of the meeting is posted as required by the Act. Committee meetings are held as needed to address specific items within the Committee charters.

3. U. T. System Board of Regents: Reports on The University of Texas Investment Management Company (UTIMCO) Board operations and committees

Vice Chairman Rowling, Chairman of The University of Texas Investment Management Company (UTIMCO) Board of Directors, introduced the UTIMCO Board Committee Chairs for remarks.

- Audit and Ethics Committee, Chair Erle Nye

Mr. Nye introduced members of the Committee and he introduced Ms. Cecilia Gonzalez, UTIMCO's General Counsel and Chief Compliance Officer. Mr. Nye reviewed the role of the Committee as set out in the Agenda materials and described meetings held during the past year. He explained that the U. T. System Board hires auditors of the funds while the UTIMCO Board hires the auditor of the UTIMCO corporate books. He said the Committee works closely with The University of Texas System Audit Office and outside internal audit help was hired to conduct specific audits. He mentioned this Committee reviews changes proposed to the UTIMCO Code of Ethics and the Committee conducts self-assessments.

UTIMCO Chairman Rowling reported that a compliance certificate is sent to UTIMCO directors in advance of investing and Chief Compliance Officer Gonzalez monitors these matters.

- Risk Committee, Chair Charles W. Tate

Mr. Tate introduced members of the Committee and reviewed the role of the Committee as set out in the Agenda materials. He described items discussed and approved by the Committee during the past year, such as changes to the investment policy statements, the Derivative Policy, and the Liquidity Policy, delegation of authority, and the adoption of new investment mandate categorization procedures.

Vice Chairman Huffines asked about reporting procedures for situations of noncompliance and Mr. Tate, Mr. Zimmerman, and UTIMCO Chairman Rowling described the process for such reporting through the Risk Committee to the UTIMCO Board.

- Policy Committee, Chair Colleen McHugh

Regent McHugh said the Policy Committee overlaps other committees and focuses on responsibilities to the public. She introduced members of the Committee and summarized the role of the Committee as included in the Agenda materials. Regent McHugh also summarized the activities of

the Committee during the past year, including review of the Investment Management Services Agreement (IMSA), Code of Ethics, Bylaws, internal policies, and the investment policy statements.

- Compensation Committee, Chair J. Phillip Ferguson

Mr. Ferguson also introduced members of the Committee and he reviewed recent activities of the Committee, including addition of new positions, refinement of incentive compensation levels, goals of the Chief Executive Officer (CEO), pay levels, a review of non-cash benefits, and deferred compensation.

4. U. T. System Board of Regents: Report on investment objectives and performance for The University of Texas Investment Management Company (UTIMCO)

Mr. Bruce Myers, Cambridge Associates, LLC, reported on the investment objectives and performance of funds managed by The University of Texas Investment Management Company (UTIMCO) including objectives, performance, policy portfolios, benchmarks, and asset allocation.

In response to a question from Regent Barnhill, Mr. Myers reviewed the 25 peer institutions and compared their policies related to investment risk. In response to remarks by Vice Chairman Huffines that performance has been below the median peers, despite not using leverage on derivatives and increasing illiquidity, Mr. Myers said steps taken in 2003 to increase allocations towards more illiquid assets have led to stronger performance of the Permanent University Fund (PUF) and the General Endowment Fund (GEF), but, he said, the peer institutions were taking even more risks and utilizing leverage. Mr. Zimmerman responded with supporting data, saying illiquidity for private investments is now at about 17.5%, which might increase to about 20-25%. He said top performing endowments are higher, with Yale University and Princeton University at 50%. Mr. Zimmerman spoke about the 90-day liquidity measurement, which other endowments do not consider, and he described the distribution procedure used over the year.

Mr. Nye described the more conservative posture of The University of Texas System, a position he believes will lead UTIMCO to being a top performer. Vice Chairman Huffines asked about the allocation of public real estate in the Intermediate Term Fund (ITF) and Mr. Zimmerman described the liquidity of the ITF. Vice Chairman Rowling said performance relative to peers, as the market has deteriorated, has increased considerably. Regent Gary asked where UTIMCO fits among its peers, and Mr. Myers estimated that UTIMCO falls in the third quartile. In response to a question from Vice Chairman Huffines, Mr. Myers and Mr. Zimmerman said they would send out the asset allocation of UTIMCO's peer universe.

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of UTIMCO, reported on current UTIMCO performance. The UTIMCO Performance Summary Report through the fiscal quarter ending May 31, 2008, is set forth on Page 12.

The Investment Reports for the fiscal quarter ended May 31, 2008, are set forth on Pages 13 – 16, reporting activity for the PUF, GEF, ITF, and Separately Invested Assets investments.

Mr. Zimmerman said losses were experienced in June 2008, and July continues to be a difficult month.

# UTIMCO Performance Summary

May 31, 2008

		Net Asset Value 5/31/2008 (in Millions)	Periods Ended May 31, 2008 (Returns for Periods Longer Than One Year are Annualized)																	
			Short Term		Year to Date		Historic Returns													
			1 Mo	3 Mos	Calendar	Fiscal	1 Yr	3 Yrs	5 Yrs	10 Yrs										
<b>ENDOWMENT FUNDS</b>																				
Permanent University Fund		\$ 12,246	1.50	2.78	0.91	4.64	4.82	12.29	14.02	4.82	12.29	14.02	8.19							
General Endowment Fund			1.44	2.85	1.01	4.90	5.25	12.52	14.20	5.25	12.52	14.20	N/A							
Permanent Health Fund		1,121	1.40	2.76	0.98	4.83	5.11	12.42	14.08	5.11	12.42	14.08	N/A							
Long Term Fund		5,710	1.40	2.76	0.97	4.83	5.11	12.43	14.09	5.11	12.43	14.09	8.72							
Separately Invested Funds		161	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A							
<b>Total Endowment Funds</b>		<b>19,238</b>																		
<b>OPERATING FUNDS</b>																				
Short Term Fund		1,749	0.25	0.80	1.52	3.27	4.65	4.69	3.40	4.65	4.69	3.40	3.86							
Intermediate Term Fund		4,130	0.93	2.52	1.97	6.21	5.83	N/A	N/A	5.83	N/A	N/A	N/A							
<b>Total Operating Funds</b>		<b>5,879</b>																		
<b>Total Investments</b>		<b>\$ 25,117</b>																		
<b>VALUE ADDED</b>																				
Permanent University Fund			0.70	0.71	1.07	1.38	1.95	1.15	2.02	1.95	1.15	2.02	0.21							
General Endowment Fund			0.64	0.78	1.17	1.64	2.38	1.38	2.20	2.38	1.38	2.20	N/A							
Short Term Fund			0.22	0.43	0.50	0.80	0.80	0.40	0.23	0.80	0.40	0.23	0.21							
Intermediate Term Fund			0.82	1.30	1.92	3.28	4.12	N/A	N/A	4.12	N/A	N/A	N/A							
<b>VALUE ADDED (\$ IN MILLIONS)</b>																				
Permanent University Fund			84	85	130	162	244	366	1,176	244	366	1,176	N/A							
General Endowment Fund			43	52	80	108	164	242	686	164	242	686	N/A							
Intermediate Term Fund			34	52	77	125	171	N/A	N/A	171	N/A	N/A	N/A							

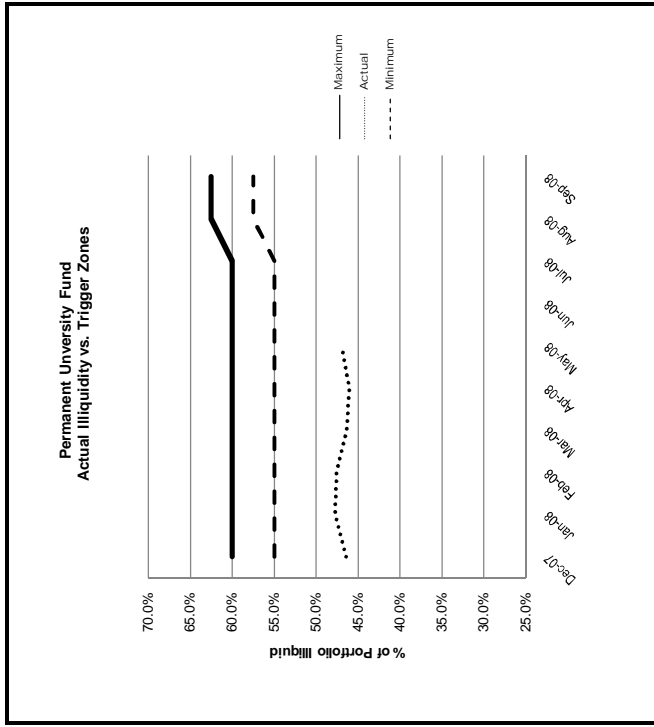
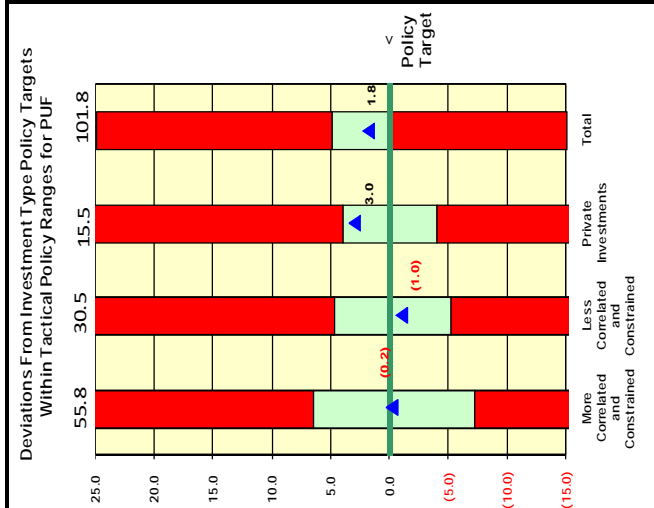
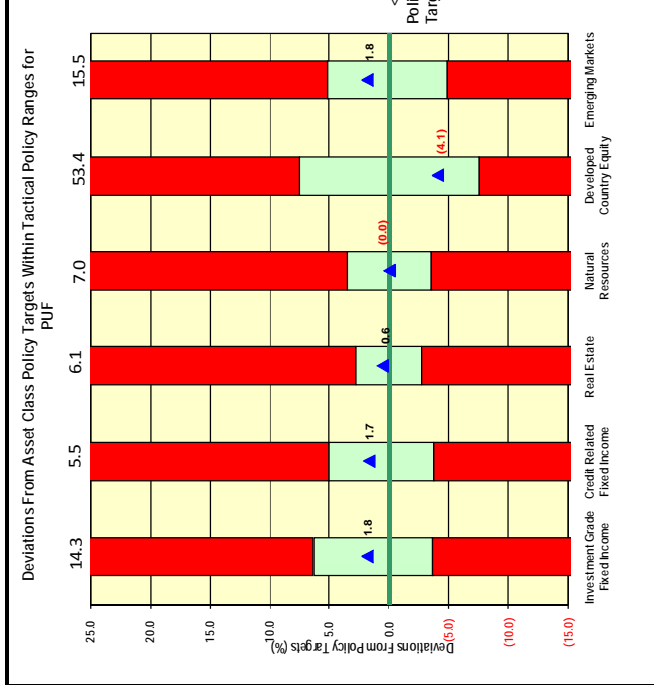
# I. PERMANENT UNIVERSITY FUND

## Investment Reports for Periods Ended May 31, 2008

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows		
	Fiscal Year Ended August 31, 2007	Fiscal Year Ended May 31, 2008
(\$ millions)		
Beginning Net Assets	\$ 10,313.4	\$ 11,905.8
PUF Lands Receipts	272.8	131.2
Investment Return	1,639.8	341.1
Expenses	(82.5)	(19.9)
Distributions to AUF	(400.7)	(112.2)
Ending Net Assets	\$ 11,742.8	\$ 12,246.0

	Fiscal Year to Date		
	Returns		Value Added
	Portfolio	Policy Benchmark	From Asset Allocation Selection
<b>More Correlated and Constrained:</b>			
Investment Grade	6.21%	6.64%	-0.09%
Credit-Related	N/A	3.99%	-0.06%
Real Estate	-4.96%	-10.55%	0.31%
Natural Resources	39.15%	34.75%	0.20%
Developed Country	-3.10%	-2.01%	-0.41%
Emerging Markets	12.61%	12.79%	-0.10%
<b>Total More Correlated and Constrained</b>	<b>4.25%</b>	<b>3.33%</b>	<b>-0.15%</b>
<b>Less Correlated and Constrained</b>			
Private Investments	7.19%	-1.11%	2.42%
<b>Total</b>	<b>2.33%</b>	<b>12.15%</b>	<b>-1.33%</b>
	<b>4.64%</b>	<b>3.26%</b>	<b>0.94%</b>
			<b>1.38%</b>

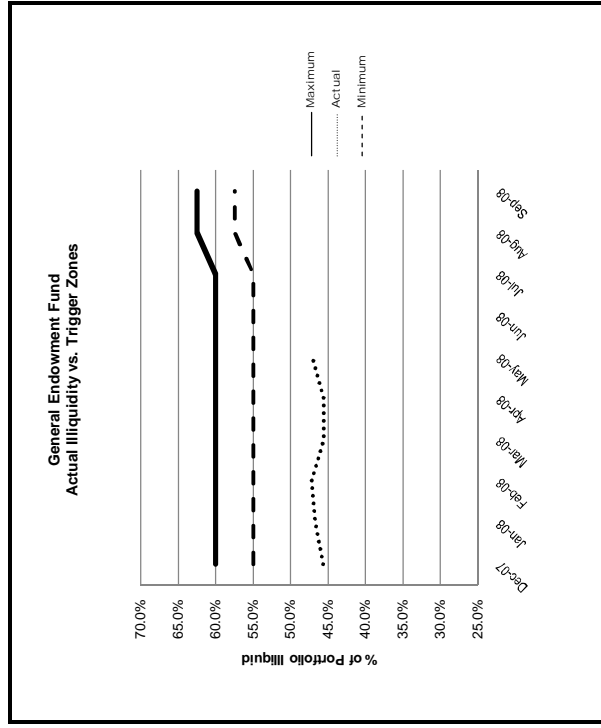
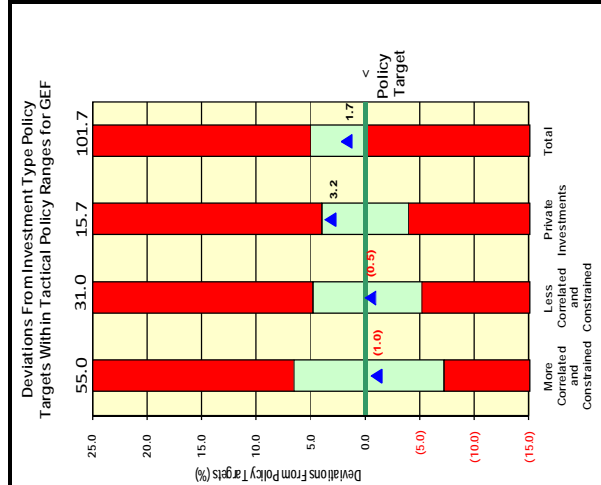
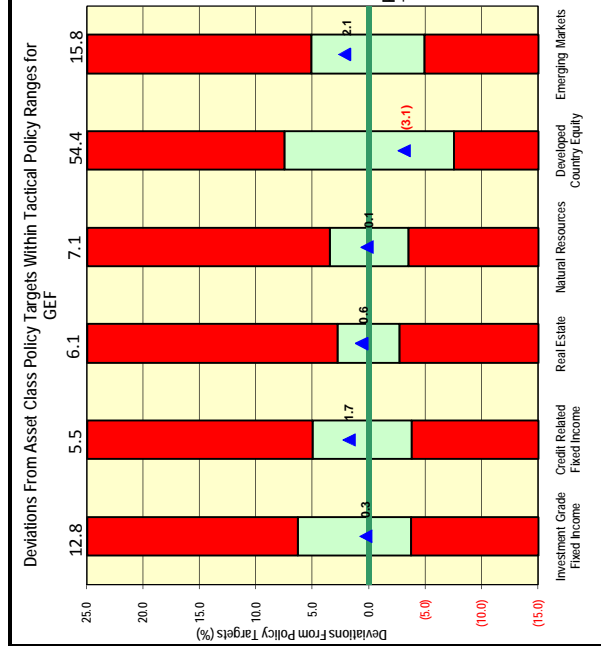


## II. GENERAL ENDOWMENT FUND Investment Reports for Periods Ended May 31, 2008

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows		
	Fiscal Year Ended August 31, 2007	Fiscal Year to Date Ended May 31, 2008
Beginning Net Assets (\$ millions)	\$ 5,427.8	\$ 6,433.1
Contributions	360.7	285.6
Withdrawals	(6.2)	(15.7)
Distributions	(239.6)	(193.0)
Investment Return	928.5	340.5
Expenses	(38.1)	(19.6)
Ending Net Assets	\$ 6,433.1	\$ 6,830.9

	Fiscal Year to Date		
	Returns		Value Added
	Portfolio	Policy Benchmark	From Asset Allocation From Security Selection
<b>More Correlated and Constrained:</b>			
Investment Grade	6.35%	6.64%	-0.18%
Credit-Related	N/A	3.99%	-0.06%
Real Estate	-4.88%	-10.65%	0.33%
Natural Resources	38.37%	34.75%	0.16%
Developed Country	-3.04%	-2.01%	-0.39%
Emerging Markets	12.48%	12.79%	-0.12%
<b>Total More Correlated and Constrained</b>	<b>4.37%</b>	<b>3.33%</b>	<b>-0.16%</b>
<b>Less Correlated and Constrained</b>	<b>7.20%</b>	<b>-1.11%</b>	<b>2.39%</b>
<b>Private Investments</b>	<b>3.66%</b>	<b>12.15%</b>	<b>-1.12%</b>
<b>Total</b>	<b>4.90%</b>	<b>3.26%</b>	<b>1.11%</b>
			<b>1.64%</b>

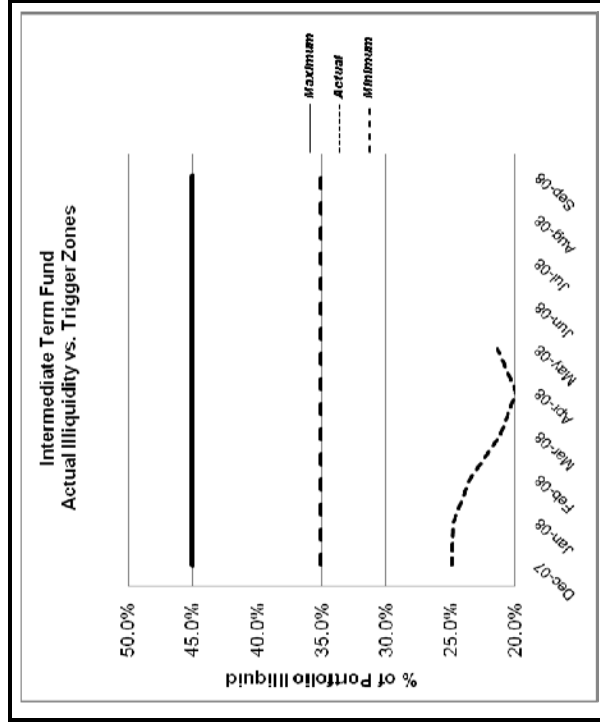
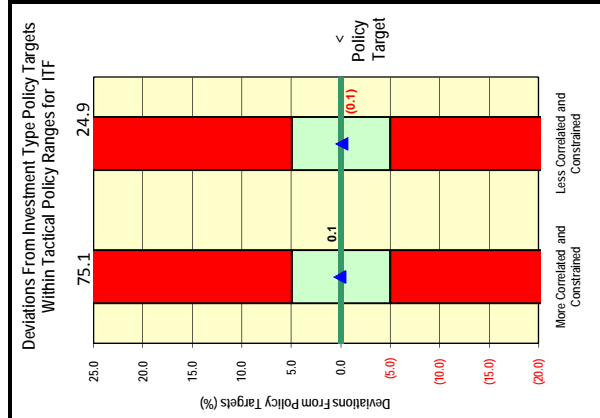
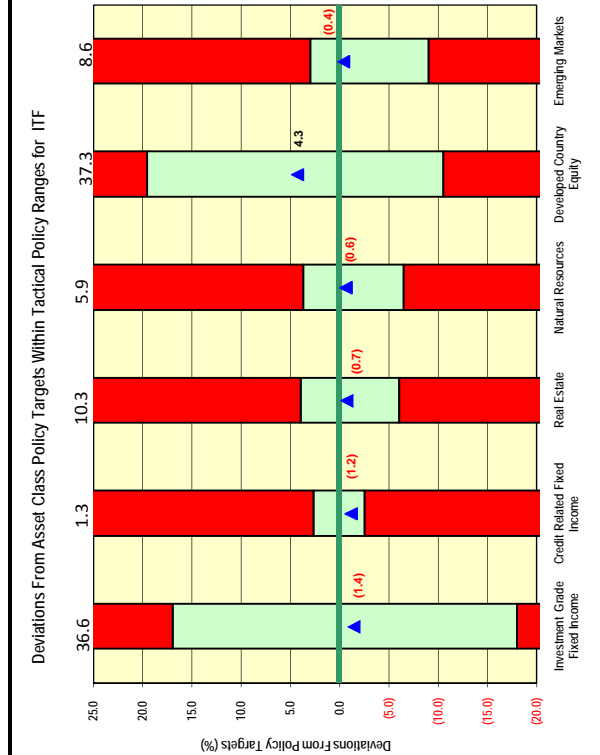


### III. INTERMEDIATE TERM FUND Investment Reports for Periods Ended May 31, 2008

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
	Fiscal Year Ended August 31, 2007	Quarter Ended May 31, 2008	Fiscal Year to Date Ended May 31, 2008
Beginning Net Assets (\$ millions)	\$ 3,048.8	\$ 3,936.9	\$ 3,720.6
Contributions	664.6	213.4	1,449.3
Withdrawals	(228.6)	(88.1)	(1,189.9)
Distributions	(104.0)	(30.2)	(88.3)
Investment Return	377.4	106.4	259.0
Expenses	(37.6)	(8.9)	(21.2)
Ending Net Assets	\$ 3,720.6	\$ 4,129.5	\$ 4,129.5

	Fiscal Year to Date		
	Returns	From Asset Allocation	From Security Selection
<b>More Correlated and Constrained:</b>			
Investment Grade	7.09%	-0.09%	0.22%
Credit-Related	N/A	0.03%	-0.08%
Real Estate	-5.19%	-0.01%	0.61%
Natural Resources	40.82%	0.31%	0.23%
Developed Country	-3.32%	0.29%	-0.20%
Emerging Markets	10.72%	-0.09%	-0.12%
<b>Total More Correlated and Constrained</b>	<b>5.74%</b>	<b>0.44%</b>	<b>0.66%</b>
<b>Less Correlated and Constrained</b>			
Private Investments	0.00%	0.00%	0.00%
<b>Total</b>	<b>6.21%</b>	<b>0.39%</b>	<b>2.89%</b>
			<b>3.28%</b>





**IV. SEPARATELY INVESTED ASSETS**  
**Summary Investment Report at May 31, 2008**  
 Report prepared in accordance with Texas Education Code Sec. 51.0032

ASSET TYPES	(\$ thousands)																
	CURRENT PURPOSE DESIGNATED		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		TOTAL EXCLUDING OPERATING FUNDS		OPERATING FUNDS (SHORT TERM FUND)		TOTAL		
	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	
<b>Cash &amp; Equivalents:</b>																	
Beginning value 02/29/08	1,978	1,978	2,708	2,708	87,785	87,785	6,812	6,812	5,859	5,859	105,142	105,142	1,389,745	1,389,745	1,494,887	1,494,887	
Increase/(Decrease)	481	481	(369)	(369)	(51,504)	(51,504)	(4,379)	(4,379)	3,408	3,408	(52,363)	(52,363)	359,041	359,041	306,678	306,678	
Ending value 05/31/08	2,459	2,459	2,339	2,339	36,281	36,281	2,433	2,433	9,267	9,267	52,779	52,779	1,748,786	1,748,786	1,801,565	1,801,565	
<b>Debt Securities:</b>																	
Beginning value 02/29/08	-	-	264	249	12,668	13,570	13,798	14,514	-	-	26,730	28,333	-	-	26,730	28,333	
Increase/(Decrease)	-	-	-	(6)	62	(157)	(2,090)	(2,423)	-	-	(2,028)	(2,585)	-	-	(2,028)	(2,585)	
Ending value 05/31/08	-	-	264	244	12,730	13,413	11,708	12,091	-	-	24,702	25,748	-	-	24,702	25,748	
<b>Equity Securities:</b>																	
Beginning value 02/29/08	24	2,605	443	417	33,524	35,641	18,482	19,465	-	-	52,473	58,128	-	-	52,473	58,128	
Increase/(Decrease)	(6)	(10)	(15)	(15)	913	2,497	6,877	7,000	-	-	7,769	9,472	-	-	7,769	9,472	
Ending value 05/31/08	18	2,595	428	402	34,437	38,138	25,359	26,465	-	-	60,242	67,600	-	-	60,242	67,600	
<b>Other:</b>																	
Beginning value 02/29/08	-	-	280	280	8	8	305	129	90	90	683	507	-	-	683	507	
Increase/(Decrease)	-	-	12,654	12,654	(7)	(7)	(1)	1	1,739	1,739	14,385	14,387	-	-	14,385	14,387	
Ending value 05/31/08	-	-	12,934	12,934	1	1	304	130	1,829	1,829	15,068	14,894	-	-	15,068	14,894	
<b>Total Assets:</b>																	
Beginning value 02/29/08	2,002	4,583	3,695	3,654	133,985	137,004	39,397	40,920	5,949	5,949	185,028	192,110	1,389,745	1,389,745	1,574,773	1,581,855	
Increase/(Decrease)	475	471	12,270	12,265	(50,536)	(49,171)	407	199	5,147	5,147	(32,237)	(31,089)	359,041	359,041	326,804	327,952	
Ending value 05/31/08	2,477	5,054	15,965	15,919	83,449	87,833	39,804	41,119	11,096	11,096	152,791	161,021	1,748,786	1,748,786	1,901,577	1,909,807	

Details of individual assets by account furnished upon request.

5. U. T. System Board of Regents: Report on The University of Texas Investment Management Company (UTIMCO) organization and activities

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of The University of Texas Investment Management Company (UTIMCO), reported on the UTIMCO organization, investments, control and support, and Fiscal Year 2009 priorities.

6. U. T. System Board of Regents: Report on The University of Texas Investment Management Company (UTIMCO) Fiscal Year 2009 budget and fees and U. T. System Office of Finance review

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of The University of Texas Investment Management Company (UTIMCO), discussed the preliminary UTIMCO Annual Budget for Fiscal Year 2009, which will be brought to The University of Texas System Board of Regents' meeting for consideration in August 2008.

Mr. Zimmerman pointed out that Fiscal Year 2008 travel exceeded budget and he said he would be reviewing the Fiscal Year 2009 travel budget. Regent Barnhill asked how many people go on trips and Mr. Zimmerman answered that two or three staff members usually go on a trip and he described the advantages and results of such travel, such as to learn the market better and understand the investment community.

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, commented on the Office of Finance's review of the budget and confirmed that approximately 95% of UTIMCO management costs are for fees. He credited both Boards with releasing cost and fee information as another indication of the level of transparency. Vice Chairman Rowling asked about investment managers' fees and Mr. Zimmerman described procedures used to negotiate fees and efforts to find some savings in the future.

7. U. T. System: Update regarding centralization of operating funds

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, provided an update on the centralization of University of Texas System operating funds, which was implemented on February 1, 2006. His presentation detailed the value added from centralization through May 31, 2008.

8. U. T. System Board of Regents: Discussion of U. T. System financial resources and assets managed by The University of Texas Investment Management Company (UTIMCO)

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, discussed the importance of investment assets in the context of The University of Texas System's overall financial resources. The presentation provided an overview of the U. T. System's assets, liabilities, revenues, and expenditures, and the role that assets managed by The University of Texas Investment Management Company (UTIMCO) play in supporting the financial condition of the U. T. System.

Vice Chairman Huffines asked for clarification of the \$754 million in unrealized gains on securities held as shown on Page 94 of the Agenda Book, asking if the book value is added, would that be the constitutional capacity? Dr. Kelley said the unrealized gains are tracked in conservative ways and the book value continues to grow even in a down market. He expects the constitutional capacity to grow.

Regent Dannenbaum asked about the contingency plan in the case of a significant decrease in book value and Dr. Kelley responded that the bottom line in a downturn market would be cessation of issuing new Permanent University Fund (PUF) debt. Vice Chairman Rowling discussed the significant increase in PUF royalties and the importance of royalties to the U. T. System and to The Texas A&M University System.

9. U. T. System Board of Regents: Report on The University of Texas Investment Management Company (UTIMCO) investment strategy

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of The University of Texas Investment Management Company (UTIMCO), reported on the investment strategy in anticipation of bringing potential changes to the investment policies to The University of Texas System Board of Regents in August 2008.

Mr. Zimmerman spoke about looking, with appropriate caution, for buying opportunities in distressed markets and about resetting private investment targets, widening ranges due to volatility, and increasing credit-related fixed income. He noted that investment programs in natural resources, emerging markets, and real estate are performing well and he spoke about decreasing the liquidity trigger zone in the Liquidity Policy from 40% to 35%.

ADJOURN JOINT MEETING AND CONVENE BOARD OF REGENTS' MEETING.--  
Prior to adjourning the joint meeting, Chairman Caven thanked members of both Boards for their interest and input during the meeting and said he looks forward to next year's meeting and a continued close and productive working relationship throughout the year.

At 11:30 a.m., the joint meeting of The University of Texas System Board of Regents and The University of Texas Investment Management Company (UTIMCO) Board of Directors was adjourned. Chairman Caven announced the U. T. System Board of Regents would reconvene in Open Session to consider the following Agenda Items.

10. U. T. Medical Branch - Galveston: Resolution to honor the heroism of the late Mr. Roger Winslow Stone, a longtime employee

The Board adopted the following resolution in recognition of the late Mr. Roger Winslow Stone, a 28-year employee of The University of Texas Medical Branch at Galveston, who saved the lives of two Texas A&M University students caught below-decks when their sailboat capsized on June 6, 2008, during the 2008 Regatta de Amigos.

Mrs. Linda Stone, Eric Stone, Elizabeth Stone, other family and friends, and Mr. Erle Nye, a member of The Texas A&M University System Board of Regents, were in attendance for the presentation.

RESOLUTION

WHEREAS, Roger Winslow Stone joined The University of Texas Medical Branch at Galveston in July 1980, shortly after earning a Bachelor of Science degree in biomedical photography;

WHEREAS, Mr. Stone dedicated his professional life to creating a positive environment for co-workers, students, and patients, first as a biomedical photographer and in subsequent roles as distribution manager, process systems coordinator, and logistics program manager;

WHEREAS, Mr. Stone took it upon himself to help The University of Texas Medical Branch at Galveston address the transportation needs of its workforce by coordinating the institution's commuter van pool and by driving a commuter van himself;

WHEREAS, Mr. Stone brought beauty into the lives of others through his fine art photography and the publication of a book on public gardens of the East Coast, coauthored with his mother, Doris Lacy Stone;