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The University of Texas Investment Management Company

U T I M C O

THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Presentation Materials Board of Directors Meeting

June 18, 2002

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UTIMCO BOARD OF DIRECTORS
MEETING AGENDA
June 18, 2002

Crescent Court Hotel
Salons A&B
400 Crescent Court
Dallas, TX 75201

Time		Agenda Item
Begin	**End**	
10:00 a. m.	10:05 a.m.	Open Meeting: Call to Order/Approval of Minutes of April 22, 2002 Meeting *
10:05 a.m.	10:15 a.m.	Asset Allocation/Fund Performance/Manager Performance History
10:15 a. m.	10:45 a.m.	Discussion of PUF, LTF, and PHF Payout Rate Issues
10:45 a.m.	12:00 p.m.	Setting the Future Course for UTIMCO
12:00 p. m.	1:00 p. m.	Lunch served with Continuation of Prior Discussion
1:00 p.m.	1:15 p.m.	Report of Audit and Ethics Committee: Approval of Independent Auditors for August 31, 2002*
1:15 p.m.	1:45 p.m.	Wrap-up Discussion; Defining the Next Steps
1:45 p.m.	2:00 p.m.	Approval of UTIMCO Fee Request (9/1/02 – 8/31/03) *, **

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

Next Scheduled Meeting: August 20, 2002

Resolution No. 1

RESOLVED, that the minutes of the meeting of the Board of Directors held on **April 22, 2002**, be and are hereby approved.

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

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting on the **22nd day of April, 2002**, at the offices of the Corporation, Town Lake Conference Room, 221 West 6th Street, Austin, Texas, 78701, said meeting having been called by the Chairman, A. W. "Dub" Riter, Jr., with notice provided to each member in accordance with the Bylaws.

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

A.W. "Dub" Riter, Jr., Chairman
J. Luther King, Jr., Vice-Chairman
R. D. Burck
Susan M. Byrne
Rita C. Clements
Woody L. Hunt
L. Lowry Mays
John D. McStay
R. H. (Steve) Stevens, Jr.

thus, constituting a majority and quorum of the Board. Also, participating in the meeting was Bob Boldt, President, Chief Executive Officer and Chief Investment Officer of the Corporation; Cathy Iberg, Secretary of the Corporation; Christy Wallace, Assistant Secretary of the Corporation; and Jerry Turner, legal counsel for the Corporation. Mr. Riter called the meeting to order at 10:27 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each Director or distributed at the meeting.

Minutes

The first matter to come before the Board was approval of the minutes of the meeting of the Board of Directors held on February 19, 2002. Mr. McStay asked that the minutes include revised language to reflect his request for a formal process whereby directors could request certain reports from the Corporation staff, and this information then be included in the agenda for the following meeting. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the minutes of the Meeting of the Board of Directors held on February 19, 2002, be and are hereby approved, subject to revision as requested by the Board; and
>
> RESOLVED, FURTHER, that the President and the Secretary of the Corporation be and they are hereby authorized and directed to revise the minutes and to take such other action to accomplish the purposes of the foregoing resolution.

Appointment of Director

The next item presented to the Board was a recommendation to re-appoint Ms. Byrne to the Corporation's Board of Directors. Upon motion duly made and seconded the Directors adopted the following resolution:

> RESOLVED, that the recommendation of Ms. Susan M. Byrne for re-appointment to the UTIMCO Board for a term ending April 1, 2005, subject to approval by the U. T. System Board of Regents at their May 8-9, 2002, meeting, be and is hereby approved.

Compensation Committee

The next two items presented to the Directors were recommendations by Mr. Riter on appointments to the Corporation's Compensation Committee and, subject to the U. T. System Board of Regents' approval, the Audit and Ethics Committee. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

> BE IT RESOLVED, that J. Luther King, Jr., L. Lowry Mays and John D. McStay are hereby designated as the Compensation Committee of the Board of Directors to serve until the expiration of their term, or until their successor has been chosen and qualified, or until their earlier death, resignation or removal; and
>
> FURTHER RESOLVED, that J. Luther King, Jr. is hereby designated the Chair of the Compensation Committee and shall preside at its meetings; and
>
> FURTHER RESOLVED, that Susan M. Byrne, Woody L. Hunt, and R. H. (Steve) Stevens, Jr. are hereby designated as the Audit and Ethics Committee of the Board of Directors, subject to approval by the U. T. System Board of Regents at their May 8-9, 2002, meeting, to serve until the expiration of their term, or until their successor has been chosen and qualified, or until their earlier death, resignation or removal; and
>
> FURTHER RESOLVED, that Woody L. Hunt is hereby designated the Chair of the Audit and Ethics Committee and shall preside at its meetings.

Election of Officers

The next item to come before the Board was the appointment of officers and designation of key employees and plan administrative committee for the Corporation. Upon motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED, that the following persons are hereby appointed to the respective office or offices of the Corporation set forth opposite their names, to serve until the next Annual Meeting of the Corporation or until their resignation or removal:

Name	Office or Offices
A. W. "Dub" Riter, Jr.	Chairman
J. Luther King, Jr.	Vice-Chairman
Bob L. Boldt	President
Cathy A. Iberg	Treasurer and Secretary
Christy W. Wallace	Assistant Secretary

AND RESOLVED, as required by the Corporation's Code of Ethics, the Board hereby designates by position the following key employees of the Corporation:

Bob L. Boldt	President, Chief Executive Officer and Chief Investment Officer
Cathy Iberg	Managing Director
Greg Cox	Portfolio Manager – Equity Investments
J. Russell Kampfe	Senior Portfolio Manager – Fixed Income Investments
Harland B. Doak	Portfolio Manager – Fixed Income Investments
Sara J. Skone	Investment Officer – Private Markets
Trey Thompson	Investment Officer – Private Markets
Joan Moeller	Director of Accounting and Operations
Bill Edwards	Manager – Information Technology Services
Christy Wallace	Office Manager

AND FURTHER RESOLVED, that the following employees be designated as the Plan Administrative Committee, responsible for general administration of 403(b) Tax Sheltered Annuity Plan of the Corporation:

Bob L. Boldt	President, Chief Executive Officer and Chief Investment Officer
Cathy Iberg	Managing Director
Christy Wallace	Office Manager

Approval of Restatement of UTIMCO 403(b) Plan

Next, the Directors reviewed an Amended and Restated UTIMCO 403(b) Tax Sheltered Annuity Plan, copies of which had previously been furnished to each Director. After discussion, upon motion duly made and seconded, the following resolutions were unanimously adopted:

WHEREAS, The University of Texas Investment Management Company ("UTIMCO") established, effective March 1, 1996, the UTIMCO 403(b) Tax Sheltered Annuity Plan (the "Plan") for the benefit of eligible employees; and

WHEREAS, the Plan was amended and restated in its entirety, effective August 1, 1997; and

WHEREAS, pursuant to the terms of the Plan, UTIMCO, by action of the Board of Directors, may amend the Plan at any time; and

WHEREAS, UTIMCO wishes to amend and restate the Plan in its entirety, in the form of the document executed on February 28, 2002, and effective as of January 1, 2002, to take into account changes in the law required or permitted by the Uruguay Round Agreements Act, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, the Internal Revenue Service Restructuring and Reform Act of 1998, and the Community Renewal Relief Act of 2000 and to make certain other changes to the Plan;

NOW, THEREFORE, be it:

RESOLVED, that the restatement of the Plan in the form of the "*UTIMCO 403(b) Tax Sheltered Annuity Plan*" executed on February 28, 2002, a copy of which is attached hereto and which is directed to be marked for identification and filed with the records of UTIMCO, is hereby approved and adopted, effective as of January 1, 2002; and

FINALLY RESOLVED, that the appropriate officers of UTIMCO be, and they hereby are, authorized and directed to do and perform all such acts and things, to execute all documents and instruments, and to take all other steps as they or any of them may deem necessary, advisable, convenient, or proper to effectuate the same and accomplish the purpose of the foregoing resolution, and to comply with all applicable provisions of all related documents and all applicable law, and any and all such actions heretofore taken shall be, and they hereby are, ratified and approved.

Asset Allocation Review

At this time, Mr. Riter turned the meeting over to Mr. Boldt to discuss asset allocation. Mr. Boldt reviewed the PUF and GEF asset allocation as of March 31, 2002, Actual vs. Policy. Mr. Boldt then answered the Directors' questions.

Performance Review

Mr. Boldt continued with reporting on the performance of the assets under the Corporation's management for the periods ended March 31, 2002. The net performance for the three-month period ended March 31, 2002, for the Permanent University Fund (PUF), Permanent Health Fund (PHF) and Long Term Fund (LTF) were 1.80%, 1.78%, and 1.80%, respectively. The net performance for fiscal year-to-date ended March 31, 2002, for the PUF, PHF and LTF were 1.33%, 1.94%, and 2.04%, respectively, versus a benchmark of 3.46%. The Short Intermediate Term Fund's (SITF) performance was 0.42% versus a benchmark of 0.10% for the three-month period ended March 31, 2002. Performance for the Short Term Fund (STF) was 0.51% versus 0.43% for its benchmark for the three-month period ended March 31, 2002. Also reviewed were the PUF's and the General Endowment Fund's (GEF) performance attribution for the three-month period ended March 31, 2002. After the report, Mr. Boldt and Ms. Iberg answered the director's questions.

Investment Manager History

The next item presented to the Board of Directors was an update regarding the performance history of the Corporation's investment managers. Mr. Boldt reviewed the performance summary and answered the Directors' questions.

Current State of UTIMCO

Mr. Riter asked Mr. Boldt to give the Board of Directors an overview of the operations and functions of UTIMCO. Mr. Boldt reported that there are no notable areas of concern in the operations of the Corporation. Mr. Boldt will give a more detailed presentation at the June Board of Directors meeting with respect to future objectives of the Corporation. Mr. Boldt reported on each area of the Corporation: investments, accounting and operations, information technology and communications. Mr. Burck asked that UTIMCO increase communication with each of the component institutions and Mr. Boldt stated that the staff would take a proactive approach via personal visits or video conferencing. After discussion of the overall view of UTIMCO, Mr. Boldt answered the directors' questions. At this time, Ms. Byrne and Mr. Hunt left the meeting.

PIMCO Presentation

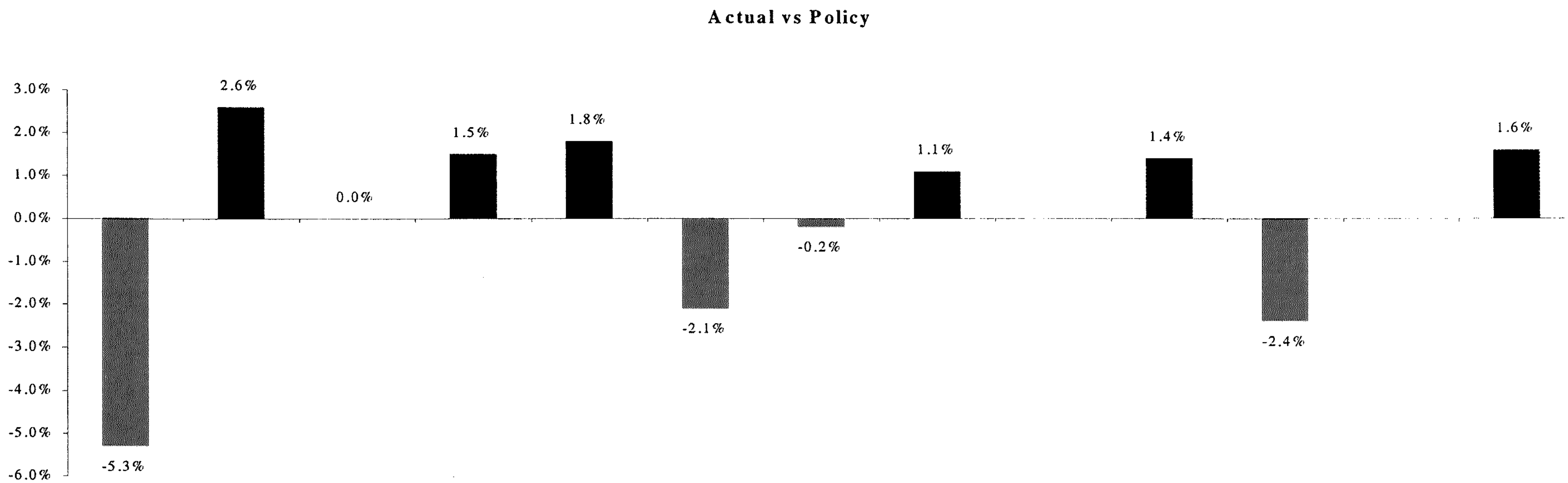
The next item was an introduction by Ms. Iberg of Mr. Steven Goldman, Ms. Kristen Monson and Mr. Brent Holden of PIMCO. Mr. Holden reviewed PIMCO's background, investment team, and history of the PIMCO/UTIMCO relationship. The three team members discussed PIMCO's investment strategy, investment process and economic outlook. They answered the Directors' questions and then Mr. Goldman, Ms. Monson and Mr. Holden left the meeting.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately at 1:40 p.m.

Interim Secretary: ______________________
Christy W. Wallace

Approved: ______________________ Date: ______________
A. W. "Dub" Riter, Jr.
Chairman, Board of Directors of
The University of Texas Investment
Management Company

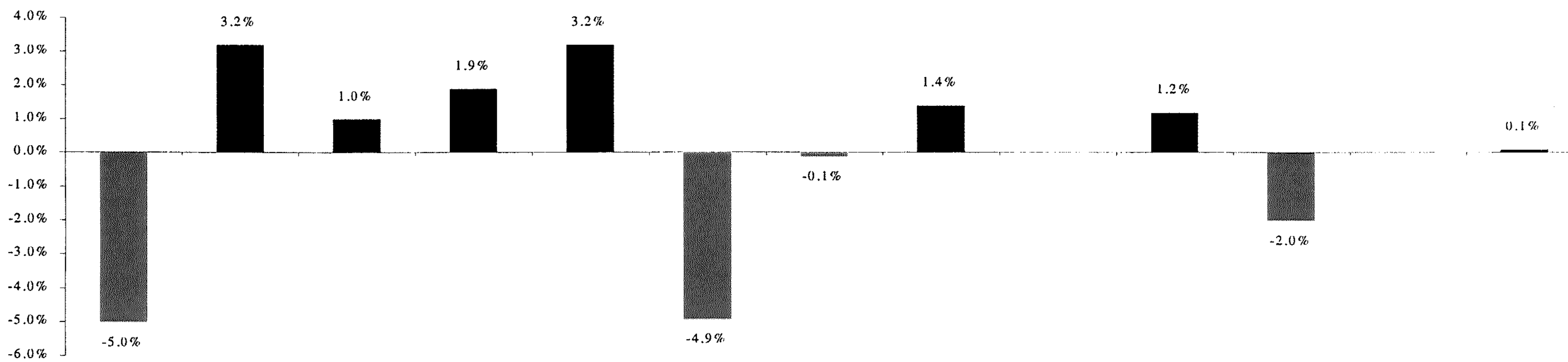
PUF ASSET ALLOCATION
AS OF MAY 31, 2002



	U.S. Large/Medium Capitalization Equities	U.S. Small Capitalization Equities	Non U.S. Equities - Established Markets	Non U.S. Equities - Emerging Markets	Alternative Markets - Marketable	Alternative Markets - Nonmarketable	Inflation Hedging Assets - Goldman Sachs Commodity Index	Inflation Hedging Assets - Real Estate Investment Trusts	Total Equities	U. S. Fixed Income	Non U. S. Fixed Income	Total Fixed Income	Cash & Cash Equivalents
Actual	19.7%	10.1%	12.0%	4.5%	11.8%	12.9%	2.3%	6.1%	79.4%	16.4%	2.6%	19.0%	1.6%
Neutral Policy	25.0%	7.5%	12.0%	3.0%	10.0%	15.0%	2.5%	5.0%	80.0%	15.0%	5.0%	20.0%	0.0%
Over/Under	-5.3%	2.6%	0.0%	1.5%	1.8%	-2.1%	-0.2%	1.1%	-0.6%	1.4%	-2.4%	-1.0%	1.6%

GEF ASSET ALLOCATION
AS OF MAY 31, 2002

Actual vs Policy



	U.S. Large/Medium Capitalization Equities	U.S. Small Capitalization Equities	Non U.S. Equities - Established Markets	Non U.S. Equities - Emerging Markets	Alternative Markets - Marketable	Alternative Markets - Nonmarketable	Inflation Hedging Assets - Goldman Sachs Commodity Index	Inflation Hedging Assets - Real Estate Investment Trusts	Total Equities	U. S. Fixed Income	Non U. S. Fixed Income	Total Fixed Income	Cash & Cash Equivalents
Actual	20.0%	10.7%	13.0%	4.9%	13.2%	10.1%	2.4%	6.4%	80.7%	16.2%	3.0%	19.2%	0.1%
Neutral Policy	25.0%	7.5%	12.0%	3.0%	10.0%	15.0%	2.5%	5.0%	80.0%	15.0%	5.0%	20.0%	0.0%
Over/Under	-5.0%	3.2%	1.0%	1.9%	3.2%	-4.9%	-0.1%	1.4%	0.7%	1.2%	-2.0%	-0.8%	0.1%

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UTIMCO ASSETS UNDER MANAGEMENT
NET RETURN PERFORMANCE SUMMARY

ENDOWMENT FUNDS	Net Asset Value 08/31/2001 (in Millions)	Net Asset Value 05/31/2002 (in Millions)		Periods Ended May 31, 2002: Three Months	One Year	Three Years	Five Years	Ten Years	Fiscal Year To Date
Permanent University Fund	$ 7,540.1	$ 7,303.3	(1)	2.47	(2.28)	2.70	7.06	9.59	0.71
General Endowment Fund (2)				2.61	(1.38)	N/A	N/A	N/A	1.40
Permanent Health Fund (2)	881.4	771.6		2.56	(1.55)	N/A	N/A	N/A	1.27
Long Term Fund (2)	2,843.3	2,854.8		2.58	(1.45)	4.83	8.06	10.37	1.37
Separately Invested Funds	182.6	161.0	(3)	N/M	N/M	N/M	N/M	N/M	N/M
Endowment Policy Portfolio (Benchmark)(4)				2.23	0.44	4.55	8.43	11.31	2.95
Endowment Policy Portfolio (Retroactive Benchmark)(5)				2.23	0.44	4.37	7.68	10.18	2.95
Total Endowment Funds	11,447.4	11,090.7							
OPERATING FUNDS									
Short Intermediate Term Fund	1,704.6	1,477.6		0.63	4.52	6.07	6.46	N/A	2.89
Composite Index (Benchmark)				0.93	6.15	6.68	6.45	N/A	3.97
Short Term Fund	843.2	1,128.9		0.50	2.86	4.93	5.18	N/A	1.82
90 Day T-Bill AverageYield (Benchmark)				0.49	2.81	4.78	4.88	N/A	1.84
Institutional Index Funds:									
BGI Equity Index Fund B-Lendable (6)	99.1	94.3		(3.24)	(13.83)	(5.22)	6.14	12.08	(4.85)
BGI US Debt Index Fund B (7)	46.1	348.7		1.10	8.10	7.68	7.64	7.40	4.15
Total Operating Funds	2,693.0	3,049.5							
Total Investments	**$ 14,140.4**	**$ 14,140.2**							

(1) PUF distributed $338.4 million on September 4, 2001, to fund the AUF for the fiscal year end 2002.

(2) As of March 1, 2001 the PHF and LTF invested their respective net asset values into the General Endowment Fund.

(3) Estimated.

(4) The benchmark that the PUF, GEF, PHF and LTF is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the endowment policy portfolio.

(5) The Endowment Policy Portfolio (Retroactive Benchmark) has been restated to include the inflation hedging asset class for all periods presented.

(6) The Equity Index Fund B replicates the returns of the S&P 500 Index.

(7) The US Debt Index Fund B replicates the returns of the Lehman Brothers Aggregate Bond Index.

N/A - Not applicable
N/M - Not meaningful

PERMANENT UNIVERSITY FUND
PERFORMANCE ATTRIBUTION

	Asset Allocation			Return					
		As of May 31,	As of February 28,	Three Months Ended May 31, 2002		Asset	Security		Total
	Neutral	2002	2002	Benchmark	PUF	Allocation (1)	Selection (2)	Interactive (3)	Attribution
Cash	0.0%	1.6%	1.2%	0.49%	-0.53%	-0.03%	0.00%	0.06%	0.03%
Equities:									
U.S. Mid/Large Cap	25.0%	19.7%	22.4%	-3.24%	0.09%	0.23%	0.99%	-0.14%	1.08%
U.S. Small Cap	7.5%	10.1%	10.7%	4.18%	3.47%	0.07%	-0.07%	-0.03%	-0.03%
Non U.S. Established Markets	12.0%	12.0%	11.4%	7.45%	8.46%	-0.06%	0.14%	-0.01%	0.07%
Non U.S. Emerging Markets	3.0%	4.5%	4.4%	4.06%	4.91%	0.03%	0.03%	0.01%	0.07%
Marketable Alternative Equities	10.0%	11.8%	11.5%	2.25%	1.43%	0.00%	-0.10%	-0.01%	-0.11%
Inflation Hedging	7.5%	8.4%	5.8%	3.69%	7.04%	-0.06%	0.29%	-0.04%	0.19%
Fixed Income:									
U.S.	15.0%	16.4%	16.7%	1.10%	1.11%	-0.05%	0.00%	0.01%	-0.04%
Non U.S.	5.0%	2.6%	2.3%	8.12%	8.27%	-0.21%	0.01%	0.00%	-0.20%
Total Marketable Securities	85.0%	87.1%	86.4%	1.92%	2.98%	-0.08%	1.29%	-0.15%	1.06%
Nonmarketable Alternative Equities (4)	15.0%	12.9%	13.6%	4.00%	-0.80%				
Total	100.0%	100.0%	100.0%	2.23%	2.47%				

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

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

(3) The interaction effect measures the combined impact of selection and allocation decisions within the category or asset class.
(Actual Marketable Portfolio Asset Allocation - Target Marketable Portfolio Asset Allocation) X (Marketable Portfolio Asset Class Return - Benchmark Asset Class Return)

(4) Nonmarketable Equities has been excluded from attribution analysis as the benchmark for this asset class is 17% per annum, not market driven, and therefore, measurement of performance attribution is inappropriate.

PERMANENT UNIVERSITY FUND
PERFORMANCE ATTRIBUTION

	Asset Allocation			Return					
		As of May 31,	As of May 31,	Year Ended May 31, 2002					
	Neutral	2002	2001	Benchmark	PUF	Asset Allocation (1)	Security Selection (2)	Interactive (3)	Total Attribution
Cash	0.0%	1.6%	4.7%	2.81%	0.70%	0.26%	0.00%	-0.12%	0.14%
Equities:									
U.S. Mid/Large Cap	25.0%	19.7%	23.0%	-13.83%	-8.08%	0.46%	1.85%	-0.22%	2.09%
U.S. Small Cap	7.5%	10.1%	10.2%	-0.50%	-6.14%	0.08%	-0.52%	-0.24%	-0.68%
Non U.S. Established Markets	12.0%	12.0%	11.5%	-9.60%	-9.79%	0.14%	0.00%	-0.01%	0.13%
Non U.S. Emerging Markets	3.0%	4.5%	3.2%	4.76%	3.96%	0.04%	-0.03%	0.00%	0.01%
Marketable Alternative Equities	10.0%	11.8%	9.4%	10.22%	9.05%	-0.01%	-0.13%	-0.03%	-0.17%
Inflation Hedging	7.5%	8.4%	4.0%	-1.81%	18.26%	-0.10%	1.65%	-0.55%	1.00%
Fixed Income:									
U.S.	15.0%	16.4%	17.1%	8.10%	8.04%	0.38%	-0.02%	0.00%	0.36%
Non U.S.	5.0%	2.6%	2.1%	7.76%	8.69%	-0.38%	0.05%	-0.03%	-0.36%
Total Marketable Securities	85.0%	87.1%	85.2%	-2.30%	0.22%	0.87%	2.85%	-1.20%	2.52%
Nonmarketable Alternative Equities (4)	15.0%	12.9%	14.8%	17.00%	-16.04%				
Total	100.0%	100.0%	100.0%	0.44%	-2.28%				

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

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

(3) The interaction effect measures the combined impact of selection and allocation decisions within the category or asset class.
(Actual Marketable Portfolio Asset Allocation - Target Marketable Portfolio Asset Allocation) X (Marketable Portfolio Asset Class Return - Benchmark Asset Class Return)

(4) Nonmarketable Equities has been excluded from attribution analysis as the benchmark for this asset class is 17% per annum, not market driven, and therefore, measurement of performance attribution is inappropriate.

GENERAL ENDOWMENT FUND
PERFORMANCE ATTRIBUTION

	Asset Allocation			Return					
		As of May 31, 2002	As of February 28, 2002	Three Months Ended May 31, 2002					
	Neutral			Benchmark	GEF	Asset Allocation (1)	Security Selection (2)	Interactive (3)	Total Attribution
Cash	0.0%	0.1%	0.5%	0.49%	0.77%	-0.03%	0.00%	0.06%	0.03%
Equities:									
U.S. Mid/Large Cap	25.0%	20.0%	23.1%	-3.24%	0.25%	0.25%	1.04%	-0.15%	1.14%
U.S. Small Cap	7.5%	10.7%	11.7%	4.18%	3.62%	0.09%	-0.05%	-0.03%	0.01%
Non U.S. Established Markets	12.0%	13.0%	12.0%	7.45%	8.42%	-0.06%	0.13%	-0.01%	0.06%
Non U.S. Emerging Markets	3.0%	4.9%	4.7%	4.06%	4.82%	0.03%	0.03%	0.01%	0.07%
Marketable Alternative Equities	10.0%	13.2%	12.6%	2.25%	1.42%	0.00%	-0.10%	-0.02%	-0.12%
Inflation Hedging	7.5%	8.8%	5.8%	3.69%	7.05%	-0.06%	0.29%	-0.04%	0.19%
Fixed Income:									
U.S.	15.0%	16.2%	16.9%	1.10%	1.05%	-0.04%	-0.02%	0.00%	-0.06%
Non U.S.	5.0%	3.0%	2.6%	8.12%	8.24%	-0.20%	0.01%	0.00%	-0.19%
Total Marketable Securities	85.0%	89.9%	89.9%	1.92%	3.05%	-0.02%	1.33%	-0.18%	1.13%
Nonmarketable Alternative Equities (4)	15.0%	10.1%	10.1%	4.00%	-1.33%				
Total	100.0%	100.0%	100.0%	2.23%	2.61%				

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

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

(3) The interaction effect measures the combined impact of selection and allocation decisions within the category or asset class.
(Actual Marketable Portfolio Asset Allocation - Target Marketable Portfolio Asset Allocation) X (Marketable Portfolio Asset Class Return - Benchmark Asset Class Return)

(4) Nonmarketable Equities has been excluded from attribution analysis as the benchmark for this asset class is 17% per annum, not market driven, and therefore, measurement of performance attribution is inappropriate.

GENERAL ENDOWMENT FUND
PERFORMANCE ATTRIBUTION

	Asset Allocation			Return					
	Neutral	As of May 31, 2002	As of May 31, 2001	Year Ended May 31, 2002 Benchmark	GEF	Asset Allocation (1)	Security Selection (2)	Interactive (3)	Total Attribution
Cash	0.0%	0.1%	2.5%	2.81%	3.46%	0.19%	0.00%	-0.05%	0.14%
Equities:									
U.S. Mid/Large Cap	25.0%	20.0%	25.8%	-13.83%	-7.89%	0.34%	1.91%	-0.22%	2.03%
U.S. Small Cap	7.5%	10.7%	10.6%	-0.50%	-4.68%	0.17%	-0.39%	-0.20%	-0.42%
Non U.S. Established Markets	12.0%	13.0%	12.4%	-9.60%	-9.74%	0.13%	0.00%	-0.02%	0.11%
Non U.S. Emerging Markets	3.0%	4.9%	3.4%	4.76%	3.85%	0.04%	-0.03%	0.00%	0.01%
Marketable Alternative Equities	10.0%	13.2%	10.6%	10.22%	8.95%	0.06%	-0.15%	-0.02%	-0.11%
Inflation Hedging	7.5%	8.8%	4.2%	-1.81%	18.36%	-0.10%	1.66%	-0.58%	0.98%
Fixed Income:									
U.S.	15.0%	16.2%	17.6%	8.10%	7.88%	0.28%	-0.05%	0.01%	0.24%
Non U.S.	5.0%	3.0%	2.3%	7.76%	8.95%	-0.36%	0.06%	-0.04%	-0.34%
Total Marketable Securities	85.0%	89.9%	89.4%	-2.30%	0.34%	0.75%	3.01%	-1.12%	2.64%
Nonmarketable Alternative Equities (4)	15.0%	10.1%	10.6%	17.00%	-15.21%				
Total	100.0%	100.0%	100.0%	0.44%	-1.38%				

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

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

(3) The interaction effect measures the combined impact of selection and allocation decisions within the category or asset class.
(Actual Marketable Portfolio Asset Allocation - Target Marketable Portfolio Asset Allocation) X (Marketable Portfolio Asset Class Return - Benchmark Asset Class Return)

(4) Nonmarketable Equities has been excluded from attribution analysis as the benchmark for this asset class is 17% per annum, not market driven, and therefore, measurement of performance attribution is inappropriate.

INVESTMENT MANAGER HISTORY (1)
PERFORMANCE SUMMARY
May 31, 2002

		Three Months	One Year	Three Years	Five Years	Ten Years	Fiscal Year To Date Nine Months Ended May 31, 2002	From Inception to May 31, 2002 Manager	Benchmark	Inception Date
NET OF FEES PERFORMANCE:										
Equities:										
Domestic Equities:										
Large/Med Cap Equities:										
BGI S&P 500	L	(3.25)	(13.83)	(5.21)	6.29	-	(4.87)	N/A		February 1993
vs. S & P 500 Index		(0.01)	0.00	0.01	0.16	-	(0.02)			
BGI S & P Midcap	P	4.87	2.49	11.38	15.00	-	7.95	N/A		December 1992
vs. S & P Midcap Index		0.02	0.10	0.06	0.07	-	0.07			
Cash Equitization	-	(3.58)	(13.43)	-	-	-	(4.42)	(9.89)	(10.08)	March 2001
vs. S & P 500 Index		(0.34)	0.40	-	-	-	0.44	0.19		
Davis Hamilton Jackson	P	(4.54)	(14.54)	(3.30)	9.02	-	(2.99)	11.45	12.34	January 1994
vs. S & P 500 Index		(1.30)	(0.71)	1.92	2.88	-	1.87	(0.89)		
GSAM	L	(1.71)	(12.42)	(4.63)	-	-	(3.23)	(0.01)	0.55	April 1998
vs. S & P 500 Index		1.54	1.41	0.58	-	-	1.62	(0.56)		
MBA Investments	L	(2.12)	(15.49)	(12.35)	(1.71)	-	(3.39)	2.79	11.18	October 1995
vs. S & P 500 Index		1.12	(1.66)	(7.13)	(7.85)	-	1.46	(8.39)		
S&P 500 Index		(3.24)	(13.83)	(5.22)	6.14	12.08	(4.85)			
S&P Midcap Index		4.85	2.39	11.32	14.93	15.60	7.88			
Small Cap Equities:										
Cordillera	P	1.78	(18.90)	10.63	10.73	-	(6.62)	12.21	4.77	January 1994
vs. Russell 2000 Growth		1.66	(3.08)	15.94	10.29	-	(2.17)	7.44		
Fortaleza	P	1.83	(21.71)	4.81	1.32	-	(10.42)	5.26	4.77	January 1994
vs. Russell 2000 Growth		1.70	(5.88)	10.12	0.88	-	(5.98)	0.49		
ING Pilgrim	L	(5.92)	(35.12)	3.45	7.32	-	(24.07)	9.17	3.24	May 1997
vs. Russell 2000 Growth		(6.04)	(19.30)	8.76	-	-	(19.62)	5.93		
Russell 2000 Growth		0.12	(15.82)	(5.31)	0.44	6.47	(4.45)			
Dalton, Greiner, Hartman, Maher Value 2000	-	4.95	16.07	-	-	-	10.69	16.07	15.42	June 2001
vs. Russell 2000 Value		(2.64)	0.65	-	-	-	(3.21)	0.65		
Dalton, Greiner, Hartman, Maher Ultravalue	-	7.33	(5.48)	-	-	-	(0.71)	(5.48)	15.42	June 2001
vs. Russell 2000 Value		(0.27)	(20.90)	-	-	-	(14.61)	(20.90)		
Pilgrim Baxter Value Investors, Inc.	-	1.08	(3.35)	-	-	-	1.10	(3.35)	15.42	June 2001
vs. Russell 2000 Value		(6.51)	(18.76)	-	-	-	(12.80)	(18.76)		
Russell 2000 Value		7.59	15.42	14.21	11.29	14.70	13.90			
BGI Russell 2000 Alpha Tilt	L	5.09	-	-	-	-	-	3.23	1.33	February 2002
vs. Russell 2000		0.91	-	-	-	-	-	1.90		
GSAM	L	6.60	7.41	9.43	-	-	11.67	3.80	1.64	April 1998
vs. Russell 2000		2.41	7.91	4.48	-	-	6.60	2.17		
Schroder	L	5.99	0.94	12.45	9.39	-	2.26	12.60	13.03	January 1994
vs. Russell 2000		1.81	1.44	7.50	3.00	-	(2.81)	(0.43)		
Russell 2000		4.18	(0.50)	4.95	6.40	10.98	5.07			

INVESTMENT MANAGER HISTORY (1)
PERFORMANCE SUMMARY
May 31, 2002

		Three Months	One Year	Three Years	Five Years	Ten Years	Fiscal Year To Date Nine Months Ended May 31, 2002	From Inception to May 31, 2002 Manager	Benchmark	Inception Date
NET OF FEES PERFORMANCE (continued)										
International Equities:										
Established Markets:										
BGI EAFE International Fund	L	7.87	(8.78)	(4.18)	1.04	-	(0.66)	5.94	5.34	April 1993
vs. MSCI EAFE Net		0.41	0.82	0.12	0.71	-	0.84	0.59		
Capital Guardian Trust Small Cap International	L	13.18	(10.82)	(2.95)	(3.07)	-	3.43	(2.15)	1.02	December 1996
vs. MSCI EAFE Net		5.73	(1.22)	1.35	(3.40)	-	4.93	(3.18)		
Capital Guardian EAFE	L	6.88	(9.53)	-	-	-	(0.09)	(14.41)	(14.42)	August 2000
vs. MSCI EAFE Net		(0.57)	0.07	-	-	-	1.41	0.02		
GSAM	L	4.93	(11.84)	(4.82)	-	-	(2.78)	(2.33)	(2.04)	April 1998
vs. MSCI EAFE Net		(2.52)	(2.24)	(0.52)	-	-	(1.28)	(0.29)		
Oechsle	L	5.22	(11.47)	-	-	-	(1.01)	(18.24)	(14.42)	August 2000
vs. MSCI EAFE Net		(2.23)	(1.87)	-	-	-	0.49	(3.82)		
MSCI EAFE Net		7.45	(9.60)	(4.30)	0.33	5.31	(1.50)			
Emerging Markets:										
BGI Emerging Markets Structured Fund	L	4.48	-	-	-	-	-	4.45	5.65	February 2002
vs. MSCI Emerging Markets		0.42	-	-	-	-	-	(1.21)		
Capital Guardian Emerging	L	3.92	2.74	-	-	-	16.25	(12.04)	(10.23)	August 2000
vs. MSCI Emerging Markets		(0.14)	(2.02)	-	-	-	0.12	(1.81)		
Franklin Templeton	L	8.83	7.28	(2.84)	(6.14)	-	14.04	(1.21)	(4.28)	January 1996
vs. MSCI Emerging Markets		4.77	2.52	(0.45)	1.92	-	(2.10)	3.06		
GSAM	L	4.56	7.87	4.51	-	-	18.32	(1.49)	(5.38)	April 1998
vs. MSCI Emerging Markets		0.50	3.11	6.90	-	-	2.18	3.89		
MSCI Emerging Markets		4.06	4.76	(2.39)	(8.06)	0.17	16.14			
Alternative Equities:										
Marketable:										
Farallon Capital Offshore Investors	L	4.12	11.71	14.68	-	-	8.22	13.64	12.32	August 1998
vs. 90 Day Treasury Bill + 7%		1.87	1.49	2.36	-	-	0.92	1.32		
Maverick Fund	L	(0.96)	7.11	16.52	-	-	0.67	15.24	12.32	August 1998
vs. 90 Day Treasury Bill + 7%		(3.21)	(3.11)	4.20	-	-	(6.63)	2.92		
OCM Emerging Markets Fund	L	3.20	-	-	-	-	-	7.20	3.74	January 2002
vs. 90 Day Treasury Bill + 7%		0.95	-	-	-	-	-	3.46		
Perry Partners International	L	2.49	7.57	15.52	-	-	5.86	13.42	12.32	August 1998
vs. 90 Day Treasury Bill + 7%		0.24	(2.65)	3.20	-	-	(1.44)	1.10		
Satellite Fund	L	1.19	11.00	-	-	-	6.70	12.54	11.72	September 2000
vs. 90 Day Treasury Bill + 7%		(1.06)	0.78	-	-	-	(0.60)	0.82		
90 Day Treasury Bill + 7%		2.25	10.22	12.32	12.43	12.31	7.30			
Nonmarketable	L	**(1.33)**	**(15.21)**	**6.24**	**14.02**	**16.85**	(13.39)	N/A		December 1982
vs. Benchmark (17%)		(5.33)	(32.21)	(10.76)	(2.98)	(0.15)	(25.89)			
Benchmark (17%)		4.00	17.00	17.00	17.00	17.00	12.50			
Inflation Hedging:										
REITS - Greg Cox (2)	P	8.38	19.83	12.65	10.02	-	11.43	12.96	9.95	April 1993
vs. NAREIT		0.04	0.07	0.08	1.64	-	0.08	3.01		
GSCI Index - 100bps		9.30	(18.72)	11.89	(2.76)	1.29	(13.20)			
NAREIT		8.34	19.76	12.57	8.38	-	11.35			

INVESTMENT MANAGER HISTORY (1)
PERFORMANCE SUMMARY
May 31, 2002

		Three Months	One Year	Three Years	Five Years	Ten Years	Fiscal Year To Date Nine Months Ended May 31, 2002	From Inception to May 31, 2002 Manager	Benchmark	Inception Date
NET OF FEES PERFORMANCE (continued)										
Fixed Income:										
Domestic Fixed Income:										
Fixed Income - Harland Doak	L	0.73	7.88	-	-	-	3.48	7.56	7.67	February 2001
vs. Credit Related Fixed Income Composite		(0.21)	(0.26)	-	-	-	(0.05)	(0.11)		
Fixed Income - Russ Kampfe	L	1.14	6.90	-	-	-	4.03	9.66	10.03	February 2000
vs. Lehman Brothers Aggregate		0.05	(1.20)	-	-	-	(0.12)	(0.36)		
Total Internally Managed Fixed Income	L	0.98	7.09	-	-	-	3.79	9.81	10.03	
vs. Lehman Brothers Aggregate		(0.11)	(1.01)	-	-	-	(0.35)	(0.21)		
GSAM	L	1.07	8.27	7.77	-	-	4.06	6.98	6.93	April 1998
vs. Lehman Brothers Aggregate		(0.03)	0.17	0.09	-	-	(0.08)	0.05		
GSAM High Yield	-	3.73	2.42	-	-	-	3.57	2.89	7.02	March 2001
vs. Lehman Brothers Aggregate		2.64	(5.68)	-	-	-	(0.58)	(4.12)		
PIMCO	L	1.04	8.98	8.52	-	-	4.83	7.65	6.88	March 1998
vs. Lehman Brothers Aggregate		(0.06)	0.88	0.84	-	-	0.69	0.77		
Lehman Brothers Aggregate		1.10	8.10	7.68	7.64	7.40	4.15			
Credit Related Fixed Income Composite		0.94	8.14	-	-	-	3.53			
International Fixed Income:										
PIMCO	L	8.24	8.95	0.81	-	-	2.00	1.16	1.96	March 1998
vs. Salomon Non-U.S. WGBI Unhedged		0.11	1.19	0.43	-	-	0.10	(0.80)		
Salomon Non-U.S. WGBI Unhedged		8.12	7.76	0.38	2.10	5.38	1.90			
GSAM Global Asset Allocation Overlay	L	7.68	(6.21)	8.31	-	-	(1.33)	(2.51)		April 1998

(1) The purpose of this report is to retain manager performance history after the LTF contributed its securities to the General Endowment Fund (GEF). Beginning March 1, 2001, the manager history reported is that of the GEF. Before March 1, 2001, history was obtained from either the LTF or the PUF depending upon the fund with the longest history for each manager. The P (PUF) or L (LTF) notations above indicate which fund the history was obtained.

(2) Inception of REIT portfolio for performance purposes is March 1993. Prior to December 1999 the REIT portfolio was classified as part of the Large Cap asset class. The history shown here combines all returns from March 1993 to the present for the periods reported.

A Discussion of PUF and LTF Distribution Policies

UTIMCO

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

June 2002

Key Questions Regarding Distribution Policies

Two Key Questions Regarding Distribution Policies:

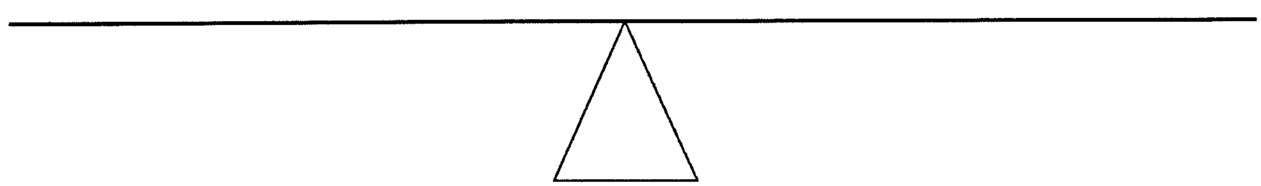
- Why are the Payout Rates and Payout Policies Different for the PUF and the LTF (and PHF)?
- What effect will lowered capital market returns expectations have on future PUF Distribution Rates?

Balancing Competing Needs

Needs of Donors and Underwriters:
- Confidence in Management of Assets
- Fairness in Spending Policy
- Preservation of the Gift in Perpetuity

Needs of Current Beneficiaries:
- Current Income
- Maintain PP of Income
- Stability of Income

Needs of Future Beneficiaries:
- Future Real Income
- Maintain PP of Endowment Assets



Distribution Policy
Investment Policy

All investment and distribution policy decisions involve tradeoffs between these competing needs and objectives. Effective decisions achieve "Generational Equity"

Distribution Policy and Investment Policy Balance Needs

Needs of Donors and Underwriters:
- Confidence in Management of Assets
- Fairness in Spending Policy
- Preservation of the Gift in Perpetuity

Needs of Current Beneficiaries:
- Current Income
- Maintain PP of Income
- Stability of Income

Needs of Future Beneficiaries:
- Future Real Income
- Maintain PP of Endowment Assets

"Constant Growth" Spending Policy	Distribution Policy	**"Percent of Assets" Spending Policy**
Conservative Asset Mix **Stable Returns** **High Current Income**	Investment Policy	**Aggressive Asset Mix** **High Expected Long Term Returns** **High Short Term Volatility** **Low Current Income**

Two Forms of Distribution Policies

Two Distinct Forms of Spending or Distribution Policies

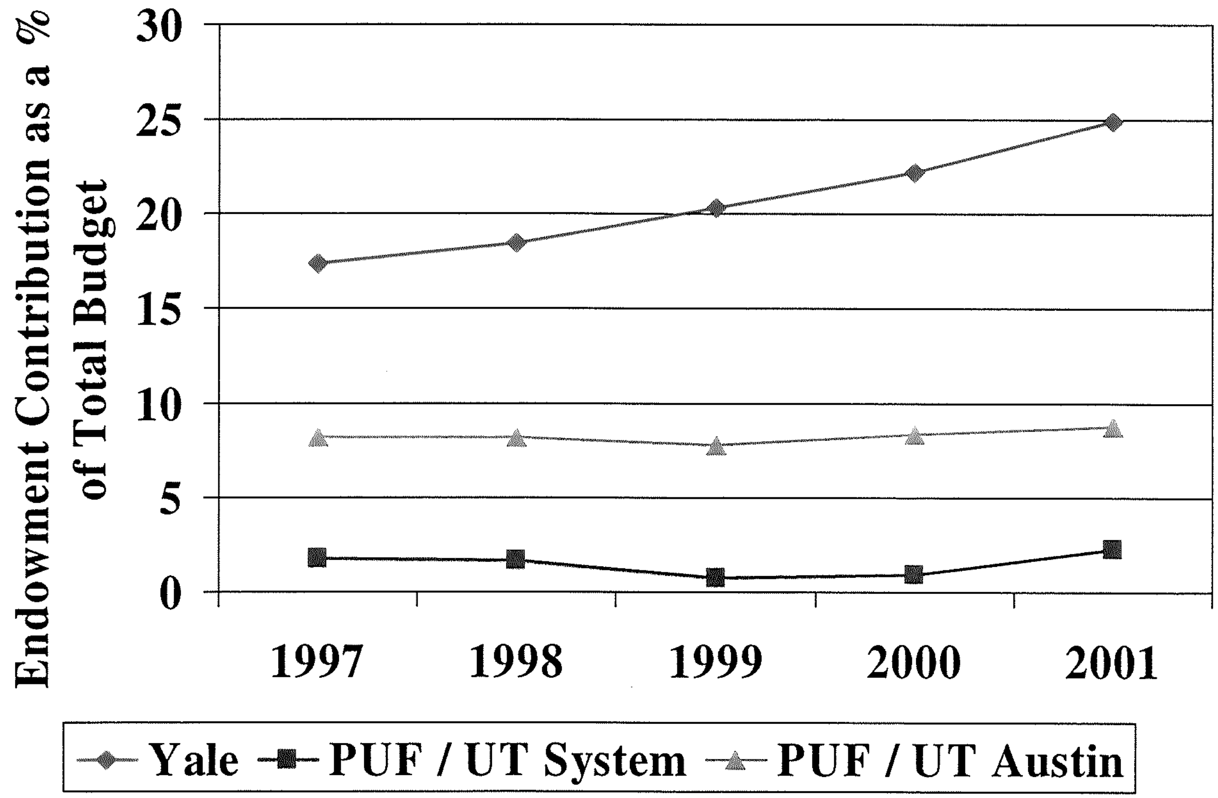
"Constant Growth" Spending Policy

- Spending increased at the rate of inflation (or at the inflation rate plus a constant amount)
- Provides a stable stream of "real" dollars to beneficiary, but
- All the volatility in financial markets is transferred to the value of the endowment, leading to potentially large declines in real value of the corpus of the Funds.
- Best for Endowments in which the current distribution is large relative to the total budget, and where maintenance of short term purchasing power is the key objective.
- The current LTF and PHF Distribution Policies

"Percent of Assets" Spending Policy

- Spending in each year is set at a fixed percentage of Fund assets
- Provided the payout rate is set properly at or below the real return of Fund assets, the PP of the Fund corpus is maintained, but
- All the volatility in financial markets is transferred to the annual distributions, leading to potentially high volatility and frequent episodes of loss of either nominal or real PP (or both) from year to year.
- Best for Endowments in which the current distribution is small relative to the total budget, and where long term growth of the Fund is the key objective.
- The current PUF Distribution Policy

The Importance of Distributions to the Total Budget



- Although there is wide variation across the 5000+ individual endowments in the LTF, in many cases the annual distribution from the LTF is the sole or major element of support for the beneficiary

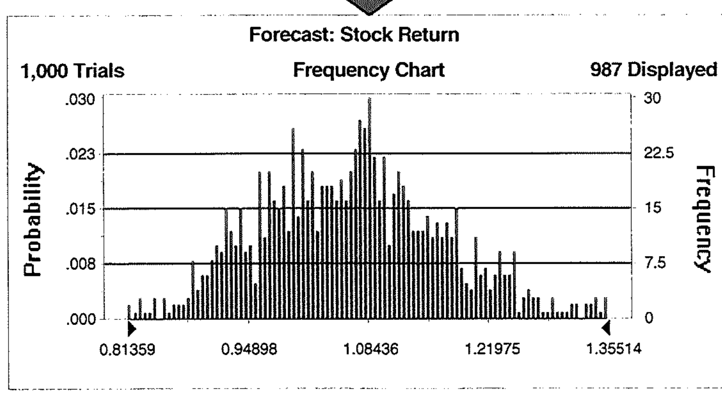
A Model to Preview Decision Variables

Distribution Policy:
- Spending Rate Calculation Method
- Spending Limits
- Inflation Measure

Capital Market Assumptions:
- Expected Returns
- Variability in Returns
- Correlations in Returns
- Inflation

Monte Carlo Simulation Model

Investment Policy:
- Asset Selection
- Asset Mix
- Active vs Passive



Provides a Preview of Decision Variables in 1000 Possible 25 Year "Futures"

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

The PUF Distribution Policy

Article VII, Section 18 of the Texas Constitution requires that the distributions to the AUF from the PUF be determined by the U.T. Board of Regents in a manner to:

> *"Provide the AUF with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of PUF investments and annual distributions to the AUF."*

However, there are 3 tests which limit the Regent's discretion in setting the annual PUF distributions ....

Limits on PUF Distribution Policy

Test Number 1:

The amount of PUF distributions in a year ***must*** at least equal the amount needed to pay any principle and interest due in that fiscal year on PUF bonds and notes outstanding.

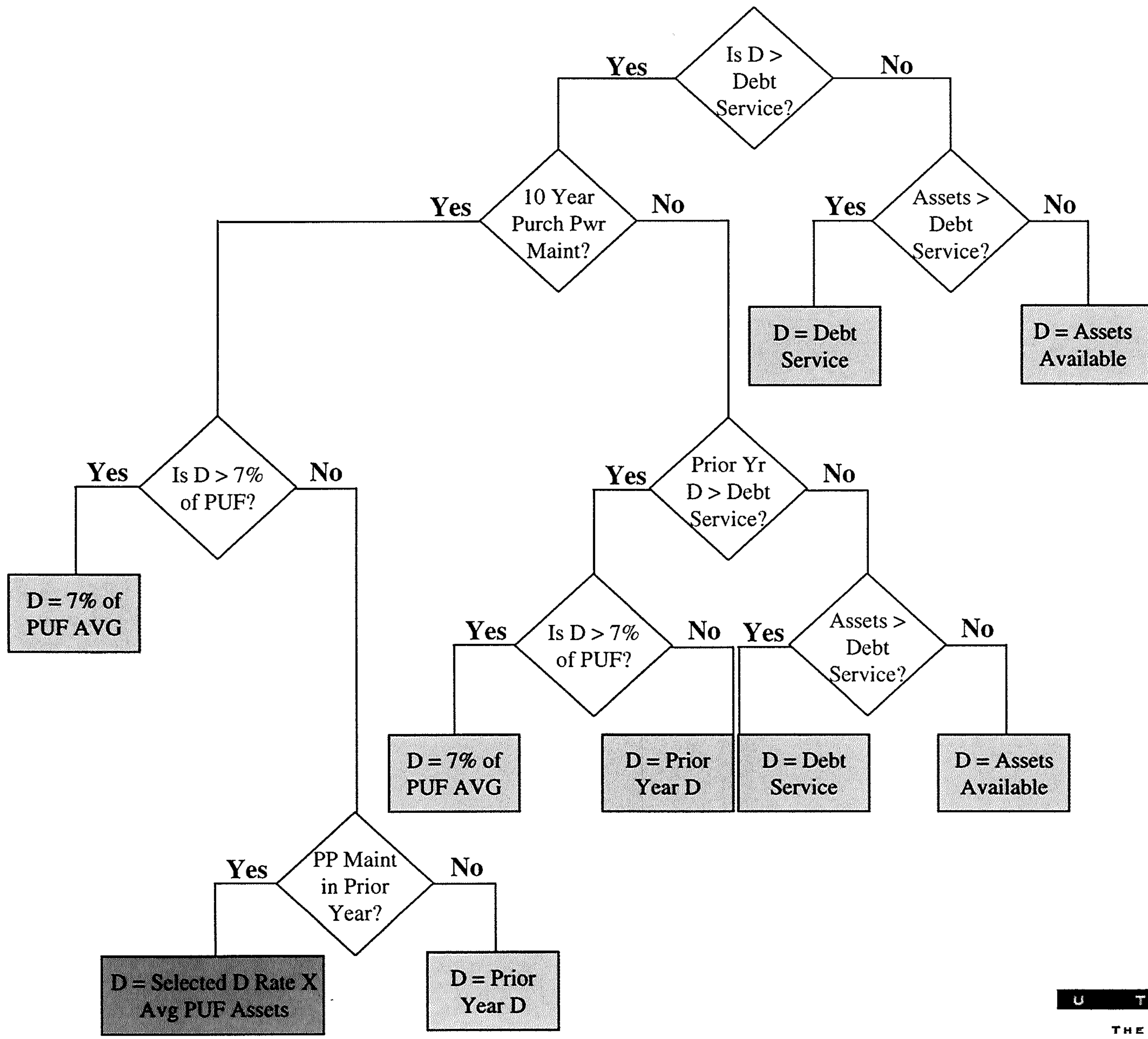
Test Number 2:

The Regents ***may not*** increase annual PUF distributions in any year in which the purchasing power of PUF investments ***has not*** been preserved over the prior 10 year rolling period (except as necessary to pay PUF bond and note debt service).

Test Number 3:

The annual PUF distribution ***may not*** exceed 7% of the average market value of PUF assets over the prior 3 year period (except as necessary to pay PUF bond and note debt service).

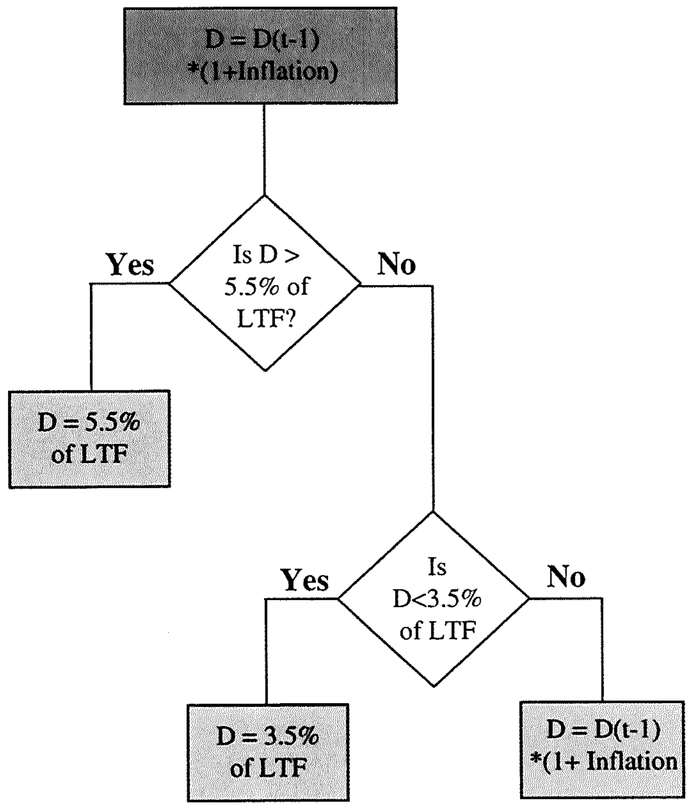
What the PUF Policy Looks Like to a Computer



The LTF and PHF Distribution Policy

The spending formulas specified in the LTF and PHF Investment Policies call for annual distributions which increase at the rate of inflation. However, these annual distributions must be within a range of from 3.5% to 5.5% of the average market value of LTF and PHF assets, as measured by each Fund's respective trailing 12 fiscal quarter average asset value.

What the LTF Policy Looks Like to a Computer



The Future Look of Selected Decision Variables

Using Cambridge Associates Capital Market Assumptions	PUF Payout Rate (%)							
	3.50	4.00	4.50	4.75	5.00	5.25	5.50	6.00
Probability of a Decline in Real Value of PUF (%)								
Any 3 Year Period	31	34	36	38	39	41	43	45
Any 5 Year Period	24	29	33	36	37	38	42	47
Any 10 Year Period	18	21	27	29	33	36	39	46
Probability of 20% or Greater Decline in Real Value of PUF (%)								
Any 3 Year Period	3	3	5	5	6	7	7	8
Any 5 Year Period	4	6	8	9	10	11	13	15
Any 10 Year Period	5	7	11	12	13	15	17	20
Probability of a Decline in Real Spending (%)								
Any 1 Year Period	37	40	44	46	49	51	54	57
Any 3 Year Period	30	35	39	41	44	46	49	54
Any 5 Year Period	25	29	33	36	39	43	44	49
Probability of a 10% or Greater Decline in Real Spending (%)								
Any 1 Year Period	0	0	0	0	0	0	1	1
Any 3 Year Period	7	9	12	13	14	15	19	23
Any 5 Year Period	14	17	21	22	25	28	29	33
Probability of a 20% or Greater Decline in Real Spending (%)								
Any 1 Year Period	0	0	0	0	0	0	0	0
Any 3 Year Period	0	0	1	0	1	1	2	3
Any 5 Year Period	1	1	1	2	2	3	5	8
Probability of a Decline in Nominal Spending (%)								
Any 1 Year Period	6	7	8	8	9	10	11	13
Any 3 Year Period	4	5	6	6	7	8	10	15
% of 25 Year Periods in Which Payout Ceiling was Reached in 5 or More Years	0	0	0	0	0	0	0	4
% of 25 Year Periods in Rolling PPP was Not Maintained in 5 or More Years	30	37	44	48	52	57	62	70
Median Total Payout over 25 Years ($ millions)>	15,443	16,444	17,298	17,580	17,883	18,128	18,316	18,643
Median Total Payout over 10 Years ($ millions)>	3,578	3,998	4,399	4,589	4,779	4,967	5,139	5,493

Changing Expectations for Long Term Returns

Long Term Capital Market Assumptions

	Cambridge Associates		Morgan Stanley	
	Real (%)	Nominal (%)	Real (%)	Nominal (%)
US Equities	6.75	10.25	2.90	5.40
Global ex-US Equities	7.25	10.75	5.00	7.50
Emerging Markets Equities	10.50	14.00	9.40	11.90
Absolute Return Hedge Funds	5.25	8.75	4.75	7.25
Other Hedge Funds	5.50	9.00	6.00	8.50
REITS	7.75	11.25	5.50	8.00
Commodities	6.25	9.75	5.50	8.00
US Fixed Income	3.75	7.25	3.20	5.70
Global ex-US Fixed Income	4.00	7.50	3.00	5.50
Venture Capital	11.75	15.25	8.50	11.00
Private Equity	9.75	13.25	8.50	11.00
Inflation	3.50		2.50	

Changes in Decision Variables in a Less Bright Future

Decision Variables	4.00% CA*	4.00% MS**	4.50% CA	4.50% MS	4.75% CA	4.75% MS	5.00% CA	5.00% MS	5.25% CA	5.25% MS	5.50% CA	5.50% MS
PUF Payout Level												
Probability of a Decline in Real Value of PUF (%)												
Any 5 Year Period	29	48	33	54	36	56	37	59	38	61	42	63
Probability of 20% or Greater Decline in Real Value of PUF (%)												
Any 5 Year Period	6	16	8	20	9	21	10	23	11	24	13	26
Probability of a Decline in Real Spending (%)												
Any 1 Year Period	40	61	44	66	46	70	49	72	51	74	54	76
Probability of a 10% or Greater Decline in Real Spending (%)												
Any 3 Year Period	9	18	12	23	13	23	14	28	15	30	19	32
Probability of a Decline in Nominal Spending (%)												
Any 1 Year Period	7	8	8	8	8	10	9	10	10	12	11	14
Median Total Payout over 10 Years ($ millions)>	3,998	3,612	4,399	3,980	4,589	4,159	4,779	4,335	4,967	4,508	5,139	4,678

CA* = Cambridge Associates Capital Market Assumptions
MS** = Morgan Stanley Capital Market Assumptions

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Decision Variables for the LTF

Using Cambridge Associates Capital Market Assumptions	Upper Payout Bound (Lower Bound Set at 3.5%)				
	5.5	6.0	6.5	7.0	8.0
Probability of a Decline in Real Value of LTF (%)					
Any 3 Year Period	35	35	35	36	36
Any 5 Year Period	29	29	31	31	32
Any 10 Year Period	24	25	26	26	27
Probability of 20% or Greater Decline in Real Value of LTF (%)					
Any 3 Year Period	4	4	4	5	6
Any 5 Year Period	7	8	8	9	9
Any 10 Year Period	9	11	11	12	12
Probability of a Decline in Real Spending (%)					
Any 1 Year Period	30	31	28	31	29
Any 3 Year Period	24	24	27	25	25
Any 5 Year Period	20	20	24	20	15
Probability of a 10% or Greater Decline in Real Spending (%)					
Any 1 Year Period	0	0	0	0	0
Any 3 Year Period	3	3	2	3	3
Any 5 Year Period	5	5	4	4	4
Probability of a 20% or Greater Decline in Real Spending (%)					
Any 1 Year Period	0	0	0	0	0
Any 3 Year Period	1	1	1	1	1
Any 5 Year Period	2	1	2	2	2
Probability of a Decline in Nominal Spending (%)					
Any 1 Year Period	2	2	3	3	2
Any 3 Year Period	3	3	3	3	3
% of 25 Year Periods in Which Payout Ceiling was Reached in 5 or More Years	14	11	9	8	5
% of 25 Year Periods in Which Payout Floor was Reached in 5 or More Years	61	60	59	59	59
Median Payout Rate (%)	4.0	4.0	4.0	4.0	4.0
Median Total Payout over 25 Years>	5,876	5,876	5,882	5,882	5,882
Median Total Payout over 10 Years>	1,546	1,547	1,548	1,548	1,549

Diminished Returns Impact LTF Decision Variables

For Current LTF Payout Policy:

Decision Variables		Cambridge Associates	Morgan Stanley
Probability of a Decline in Real Value of LTF (%)	Any 5 Year Period	29	55
Probability of 20% or Greater Decline in Real Value of LTF (%)	Any 5 Year Period	7	19
Probability of a Decline in Real Spending (%)	Any 1 Year Period	30	54
Probability of a 10% or Greater Decline in Real Spending (%)	Any 3 Year Period	3	15
Probability of a Decline in Nominal Spending (%)	Any 1 Year Period	2	15
	Median Total Payout over 10 Years ($ millions)>	1,546	1,532

Source of Asset Assumptions: Cambridge Associates; Morgan Stanley

The Relative Impact of Diminished Expectations

Decision Variables	PUF at 4.75% Payout		LTF at Current Policy	
	CA*	MS**	CA	MS
Probability of a Decline in Real Value of PUF (%)				
Any 5 Year Period	36	56	29	55
Probability of 20% or Greater Decline in Real Value of PUF (%)				
Any 5 Year Period	9	21	7	19
Probability of a Decline in Real Spending (%)				
Any 1 Year Period	46	70	30	54
Probability of a 10% or Greater Decline in Real Spending (%)				
Any 3 Year Period	13	23	3	15
Probability of a Decline in Nominal Spending (%)				
Any 1 Year Period	8	10	2	15
Median Total Payout over 10 Years ($ millions)>	4,589	4,159	1,546	1,532

CA* = Cambridge Associates Capital Market Assumptions
MS** = Morgan Stanley Capital Market Assumptions

Observations Regarding the Key Questions

- Changing the PUF Distribution rate to 4.75% from 4.5% has little negative effect on the decision variables,

- However, under the less sanguine return expectations, a 4.75% distribution rate could significantly increase the possibilities of an adverse event.

- Because of the differences in the relative importance of distributions to the total budget for PUF and LTF beneficiaries, the differences in distribution policies seem appropriate. At the assumed real returns and inflation rates in the simulation model, the median payout rate under the LTF policy is below the target rate in the PUF policy.

Setting the Future Course for UTIMCO

UTIMCO

THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

June 2002

A Key Issue

"Recognizing the efficiency of the public markets, and recognizing our very large absolute dollars to be invested, is it probable that we (the staff, the directors, etc.) can select positive alpha managers that will add value above the appropriate benchmarks after all fees and costs? As we know, looking at the markets over a very long period of time, history does not provide encouragement to us on this point. A very candid discussion on this important philosophical position is particularly timely."

Setting The Future Course

- UTIMCO operates in an intensely competitive environment

- As is always the case in competitive environments, it is critical to understand an organization's current relative competitive position and the competitive position necessary to achieve the organization's goals

- The most important strategic decision facing UTIMCO is what position we ***elect*** to take on the Competitive Spectrum

- Our decisions on competitive position will drive other decisions:
    - Asset Allocation
    - Active vs Passive Management
    - Payout Policies
    - Organizational Structure
    - Compensation Structure

The Competitive Spectrum

- Unfortunately, in the financial markets it is not possible to select our competitors. It is always best to assume very capable competition, even if that turns out to not be the case.
- It is best to think of the competitive environment as a spectrum, the Competitive Spectrum,
- Each position on the Spectrum is defined by a set of Competitive Metrics such as those shown in the following tables ....

Competitiveness Metrics

	Competitiveness Metrics	UTIMCO	Harvard	Yale	Stanford	Princeton	UC System	Michigan
	Total Asset Size ($ millions)	$11,124	$17,951	$10,632	$8,014	$8,359	$4,791	$3,614
1	Has a dedicated investment staff? (ie is there a separate senior investment officer(s) and a senior financial officer(s))	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2	Level of delegation by Board or Investment Committee? (1= little delegation, Board involved in all tactical decisions; 10= substantial delegation, Board involved only in highest level strategic decisions and management oversight)	7	10	10	9	7	8	6
3	Level of specialization of investment staff members (1= no specialization 10= very narrow specialization with dedicated staff member(s) for each asset category)	4	9	8	8	5	8	3
4	Has in-house management of assets (1= no in-house management at all; 10= more than 50% managed internally in sophisticated strategies or with direct private equity)	5	9	2	6	2	5	1
5	Level of sophistication in asset exposure(1= investments in 5 or less of the asset categories defined by Cambridge; 10= investment in all of the asset categories defined by Cambridge)	6	9	7	7	6	8	5
6	Is there an investment performance-related compensation plan in place for staff members?	Yes	Yes	Yes	Yes	Yes	Yes	No
7	Do senior investment professionals have significant private sector investment experience at senior levels?	No	Yes	Yes	Yes	No	Yes	No
8	Level of in-house trading capability (1= no in-house trading capability; 10= capability in sophisticated asset categories including futures, options, exotic fixed income, etc)	5	10	2	8	2	5	2

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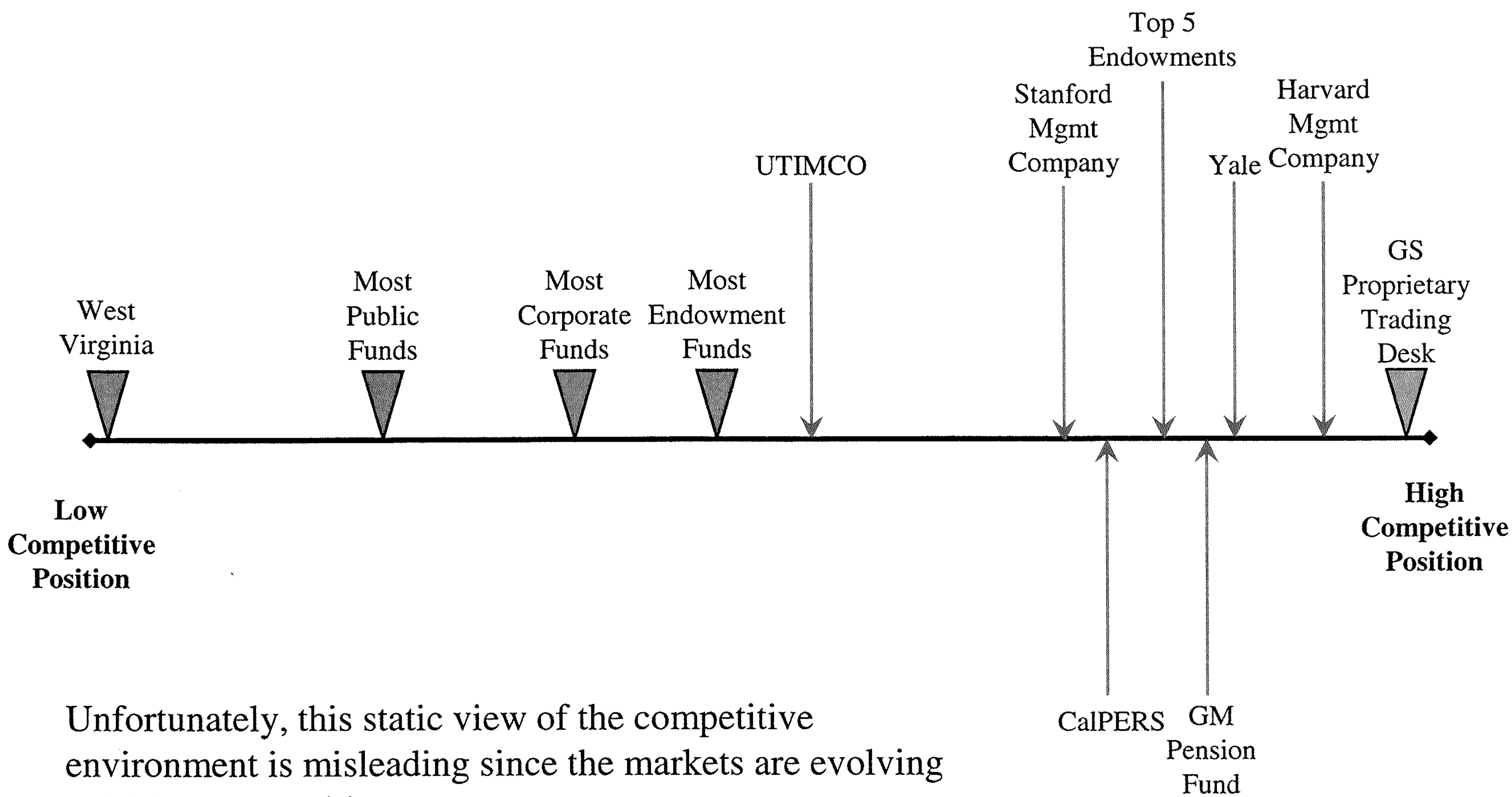
Competitiveness Metrics

	Competitiveness Metrics	UTIMCO	Harvard	Yale	Stanford	Princeton	UC System	Michigan
	Total Asset Size ($ millions)	$11,124	$17,951	$10,632	$8,014	$8,359	$4,791	$3,614
10	Is leverage used in internal investment program?	No	Yes	No	No	No	No	No
11	Are sophisticated asset category exposures (private equity, venture capital, real estate, hedge funds) accomplished through direct selection of external managers or through funds-of-funds?	Direct	Internal & Direct	Direct	Direct	Direct	Direct	FOF
12	Is a risk management or risk budgeting system employed to make investment decisions? (ie not simply to report risk positions after the fact)	No	Yes	Yes	Yes	Yes	No	No
13	Does the organization have a dedicated risk manager?	No	Yes	No	No	No	No	No
15	Level of sophistication of risk management system software (1= very basic spreadsheet analysis; 10= dedicated risk management software by recognized risk analytics software vendor)	4	10	3	3	3	3	N/A
16	Are futures or options traded internally for cash equitization purposes?	Yes	Yes	No	Yes	No	No	No
17	Are futures or options traded internally for tactical asset allocation purposes?	No	Yes	No	Yes	No	No	No
18	Are futures or options traded internally for risk management or hedging purposes?	No	Yes	No	No	No	No	No
19	Are foreign exchange trades made internally for currency overlay or other hedging purposes?	No	Yes	No	No	No	No	No
20	Level of primary consultant involvement (1= strategic or asset allocation involvement, some special projects on an ad-hoc basis; 10= extensive strategic and tactical involvement, acts in daily staff role in certain instances)	1	1	1	2	1	9	2

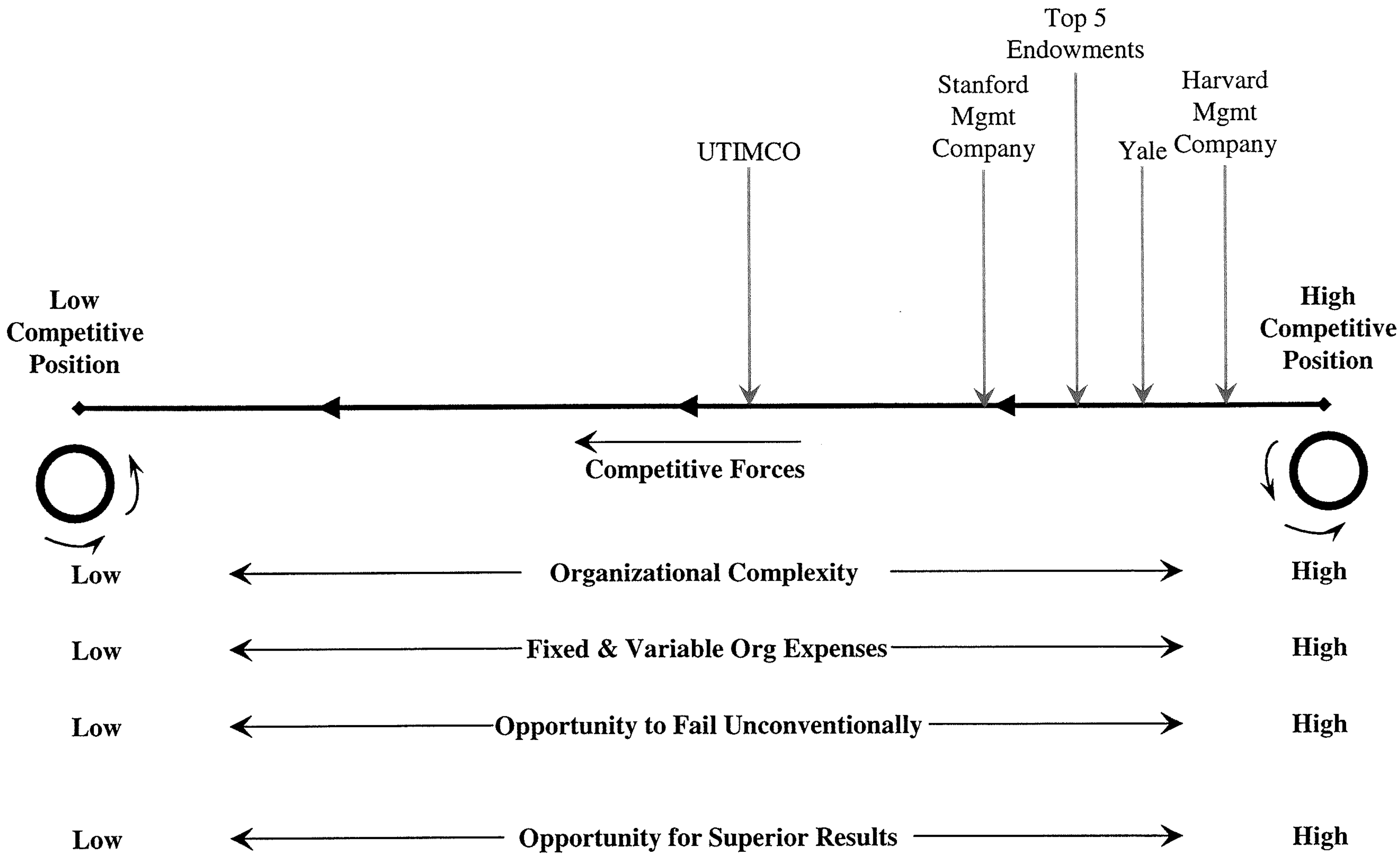
We can use these (and other) metrics to define relative positions on the Competitiveness Spectrum ...

The Competitiveness Spectrum



Unfortunately, this static view of the competitive environment is misleading since the markets are evolving to higher competitive states ....

The Competitiveness Spectrum



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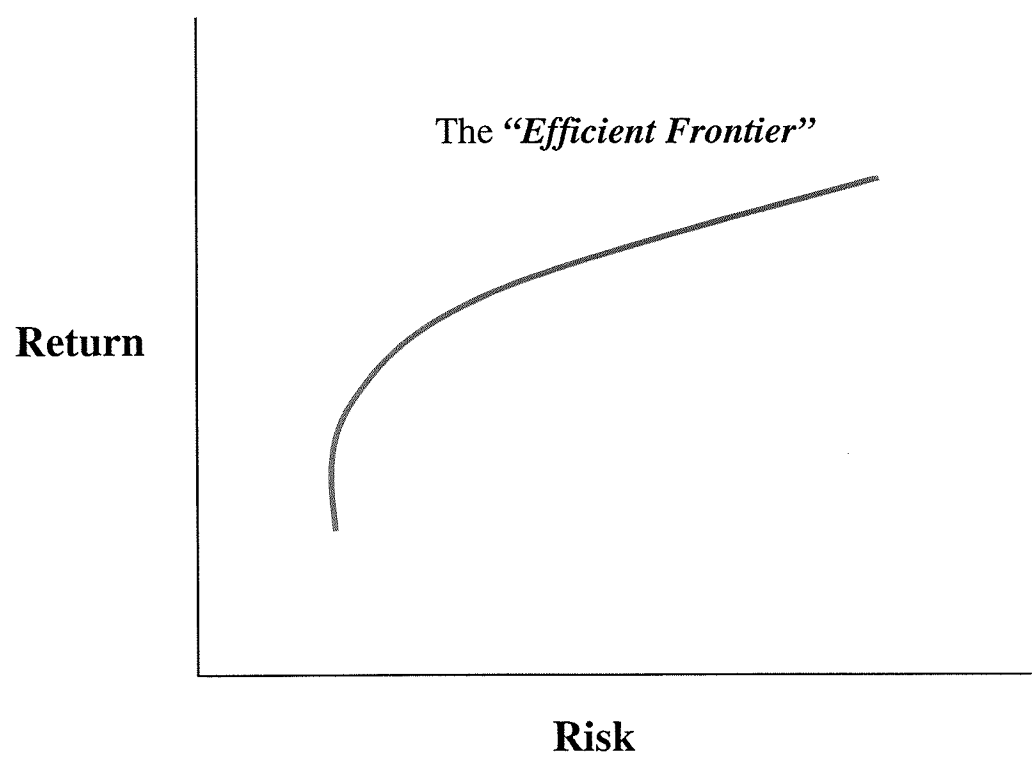
Advantages of Competitive Position

- Why do organizations seek high competitive positions despite the added complexity, higher costs, and increased political risks?
  - Highly competitive organizations have access to a broader range of asset alternatives,
  - Highly competitive organizations have staff skills to respond to changes in the market environment,
  - Highly competitive organizations have the ability to make use of effective active management techniques,
  - Highly competitive organizations have effective risk control mechanisms which permit a more aggressive investment approach while protecting assets from negative surprises.

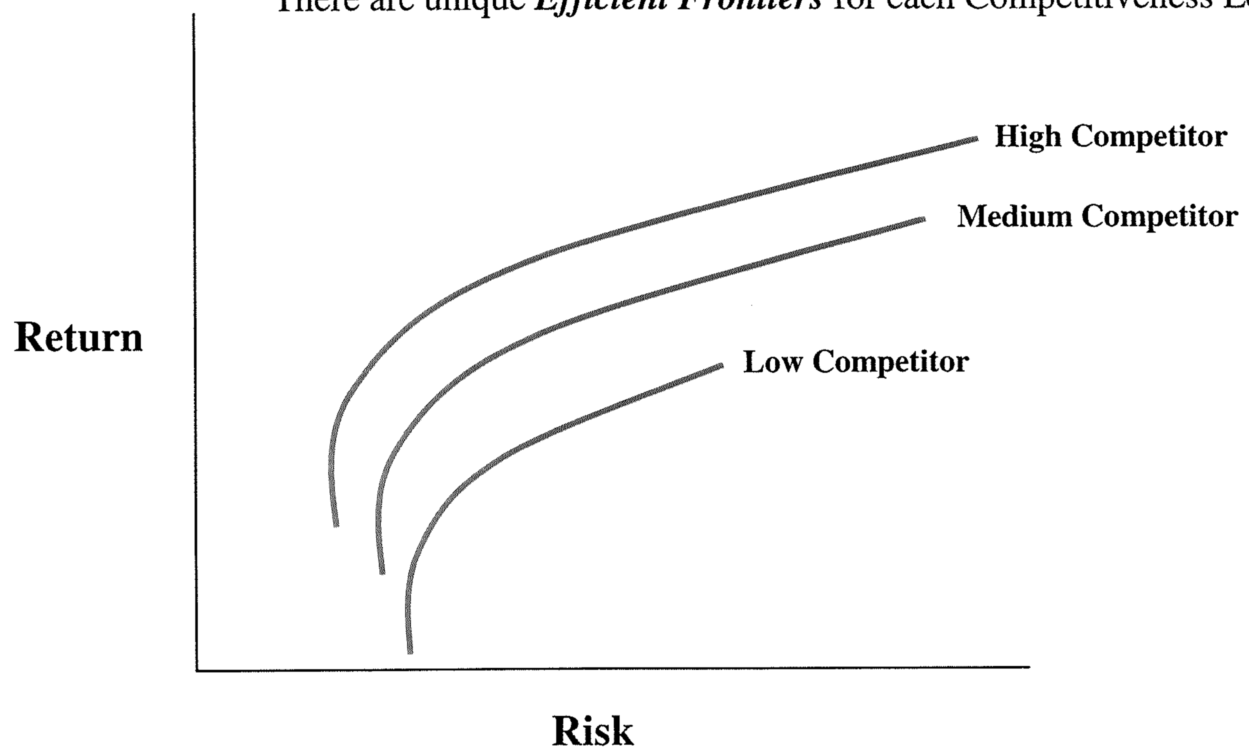
- In sum, these advantages provide the opportunity for higher returns at all risk levels ...

Return Opportunities in Financial Markets



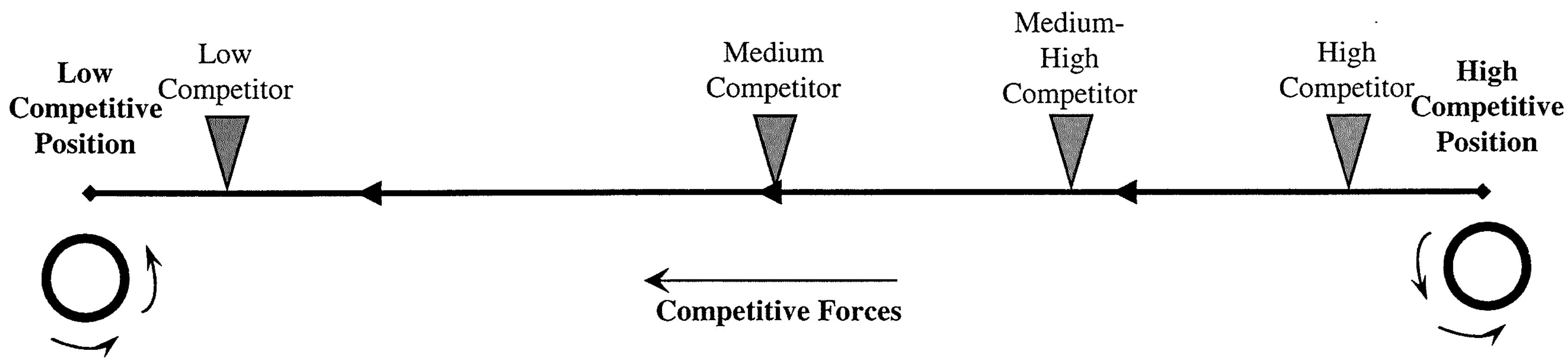
Unique Efficient Frontiers for Each Competitive Level

There are unique ***Efficient Frontiers*** for each Competitiveness Level



This means that more competitive organizations can expect to earn higher returns at the same level of risk than lesser competitors ....

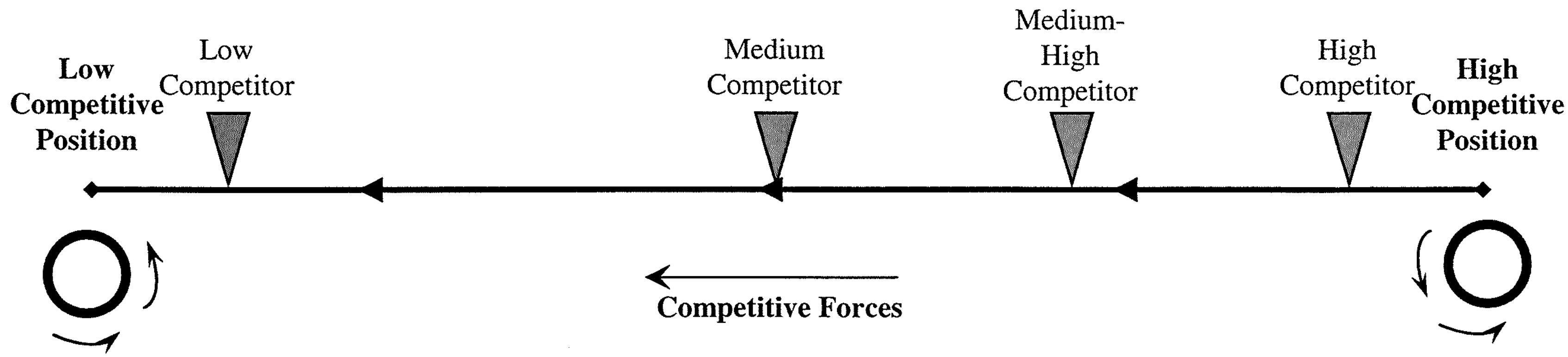
The Payoff to Increased Competitiveness



Annual Return Advantage Over Low Competitor

Assets Managed	Low Competitor	Medium Competitor	Medium-High Competitor	High Competitor
$10 billion	N/A	$180,000,000	$340,000,000	$500,000,000
$1 billion	N/A	$18,000,000	$34,000,000	$50,000,000
$100 million	N/A	$1,800,000	$3,400,000	$5,000,000
$10 million	N/A	$180,000	$340,000	$500,000

The Cost of Competing Beyond Capabilities



Actual Competitive Ability	Competing at This Level: Low Competitor	Medium Competitor	Medium-High Competitor	High Competitor
Low Competitor	$0	($50,000,000)	($200,000,000)	($400,000,000)
Medium Competitor		$0	($70,000,000)	($270,000,000)
Medium-High Competitor			$0	($100,000,000)
High Competitor				$0

Assumes $10 billion under management

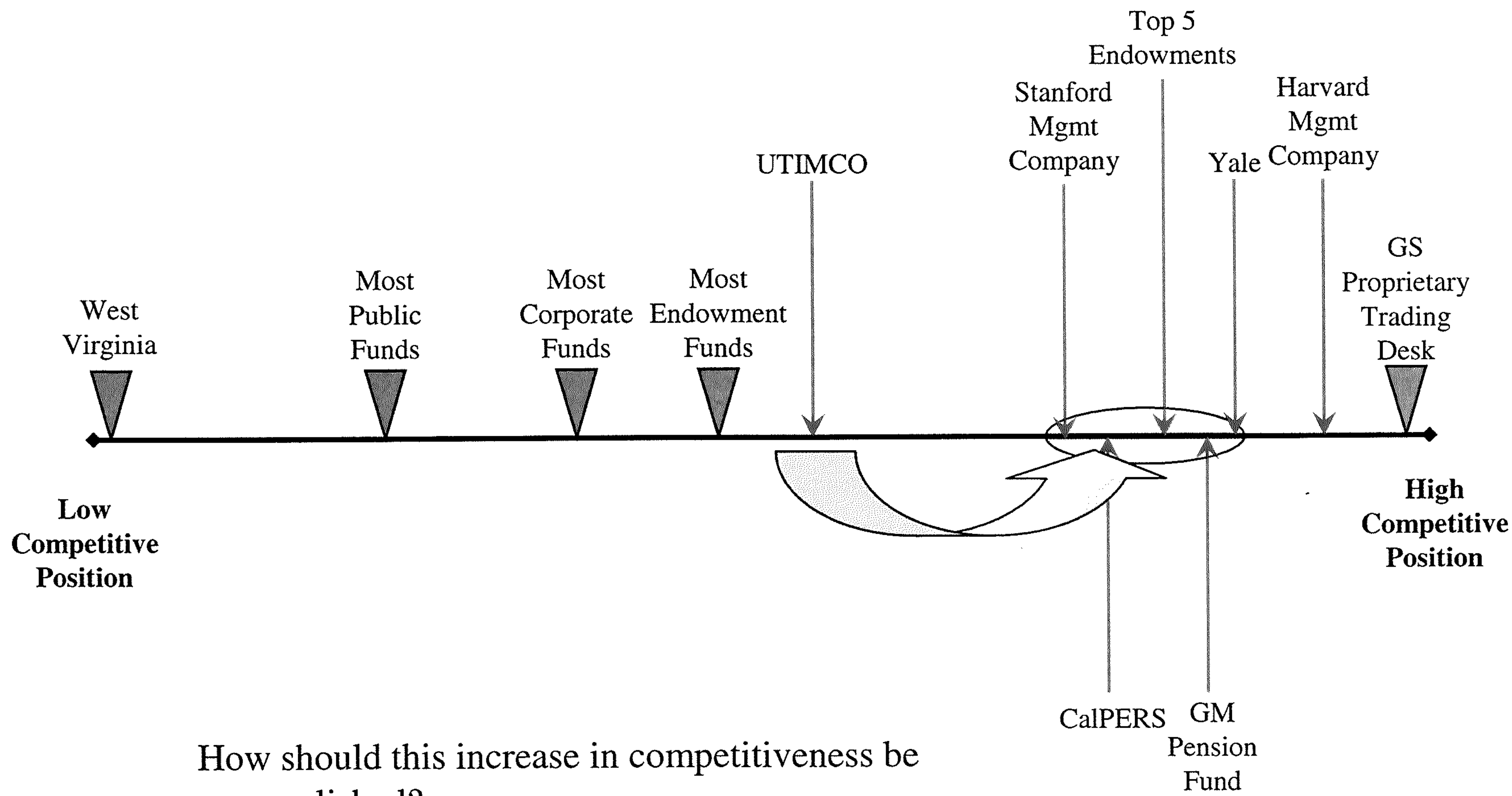
UTIMCO's Position on the Competitive Spectrum

- With the difficult political work of establishing a separate organization complete, UTIMCO is positioned to make significant competitive advances,

- But recent conditions at UTIMCO have resulted in a slight slippage in competitive position,

- To realize the full potential of our structure and achieve the kinds of financial rewards the System will need to help meet its aggressive long term goals, we need to move up the Competitive Spectrum ....

Target Competitiveness Level for UTIMCO



How should this increase in competitiveness be accomplished?

Options for Highly Competitive Organizations

- The best strategy is to build the value-added structure best suited to the scale and mission of the particular organization,

- There is a wide range of options for High Competitors including the Harvard and Yale options:
  - Harvard makes extensive use of internal active management in all asset classes, uses leverage, and has a highly complex organizational structure,
  - Yale uses carefully selected active management strategies executed by external managers, uses internal management very selectively, and has a relatively simple organizational structure.

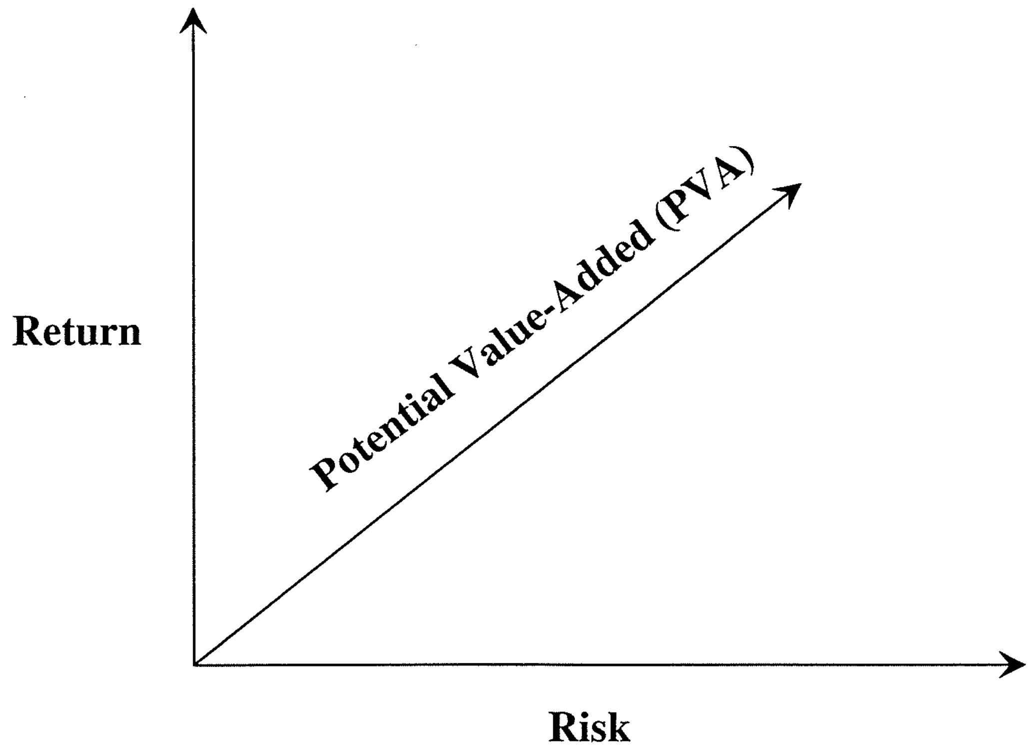
- I believe the best structure for UTIMCO is a modified version of the Yale approach ...

The Best Option for UTIMCO

- The most appropriate approach for UTIMCO is to:
  - Focus on those asset classes and markets where we can add value,
  - Find and retain the best external managers to invest the bulk of UTIMCO assets,
  - Supplement external managers with internal management in specific niches with specific objectives,
  - Create a very solid risk management and risk budgeting platform as the backbone for the entire investment process,
  - Use creative strategies to overcome the disadvantages of size,
  - Create a specialist organizational structure to implement the strategy.

- The foundation of the approach is value-added ....

A Third Dimension of Asset Class Analysis



This is an important enhancement to traditional asset class analysis because asset categories vary widely in PVA ....

Focus on High PVA Opportunities

- Potential Value-Added (PVA) is the opportunity to increase returns beyond those generally available in an asset class through active management,

- PVA takes two forms:
  - PVA by an active manager is the result of effective security selection usually based on extensive research and analysis skills,
  - PVA by staff can result from a wide range of sources including skill in manager selection, term negotiations, manager monitoring, responses to periodic special opportunities in the markets, and risk control.

- Our objective at UTIMCO will be to focus on high PVA opportunities, developing the skills necessary to earn attractive returns.

Asset Categories with Low to Moderate PVA

Low PVA:

Annual Returns (%)	US Equity	International Equity	US Fixed Income
First Quartile	16.60	16.10	12.40
Median	15.50	14.90	11.30
Third Quartile	14.90	14.00	10.30
Selection Advantage>	1.10	1.20	1.10
Selection Mistake>	(0.60)	(0.90)	(1.00)
Time Period	1980-1997	1980-1997	1980-1997
Sources>	PIPER	PIPER	PIPER

Medium PVA:

Annual Returns (%)	International Fixed Income	Real Estate
First Quartile	N/A	9.90
Median	N/A	7.80
Third Quartile	N/A	5.90
Selection Advantage>	2.90	2.10
Selection Mistake>	(1.90)	(1.90)
Time Period	1980-1997	1980-1997
Sources>	Cambridge Associates	Institutional Property Consultants (IPC)

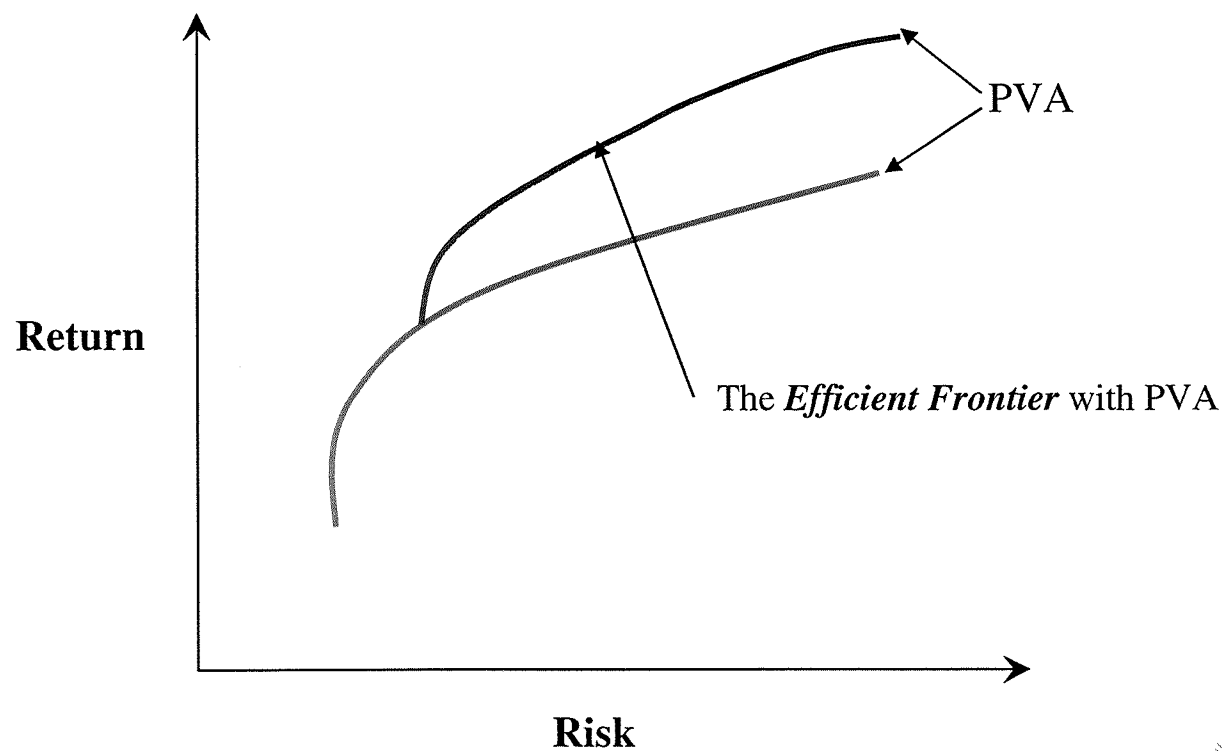
Asset Categories with High PVA

High PVA:

Annual Returns (%)	Small Cap US Equity	Leveraged Buyouts	Venture Capital	Mezzanine Finance	Hedge Funds	US Equity
First Quartile	19.98	23.80	17.10	17.1	N/A	16.60
Median	14.35	13.20	8.10	11.7	N/A	15.50
Third Quartile	8.25	1.10	0.60	7.4	N/A	14.90
Selection Advantage>	5.63	10.60	9.00	5.40	9.50	1.10
Selection Mistake>	(6.10)	(12.10)	(7.50)	(4.30)	(8.90)	(0.60)
Time Period	1980-1997	1980-1997	1980-1997	1980-1997	1980-1997	1980-1997
Sources>	PIPER	Venture Economics	Venture Economics	Venture Economics	Cambridge Associates	PIPER

Enhanced Opportunities with PVA

- By considering both traditional risk and return measures and PVA in making asset allocation decisions, a highly competitive organization can improve the efficiency of the set of assets available for strategic allocation decisions



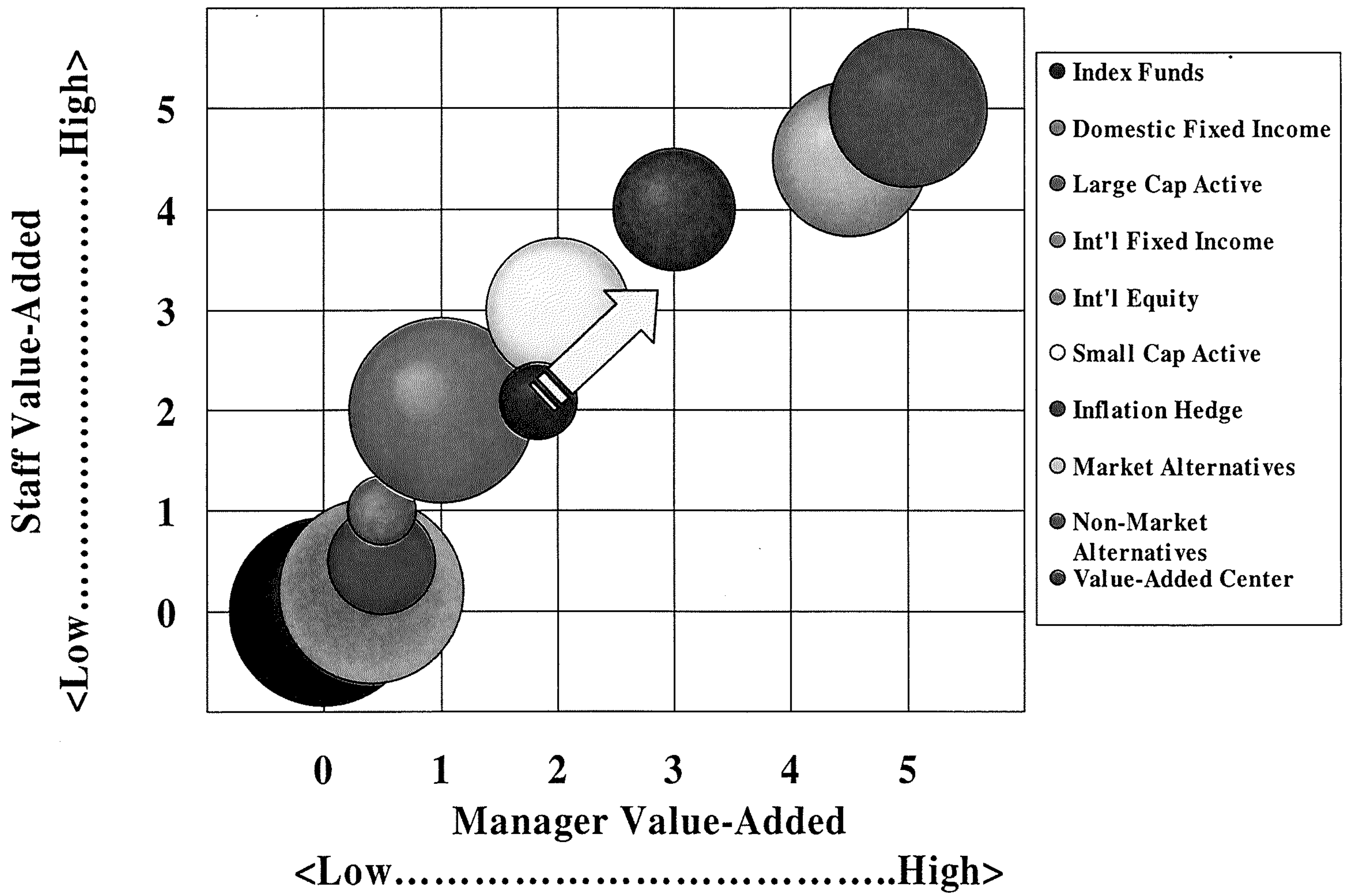
Effective Organizations Focus on PVA

- Effective organizations focus limited resources on those activities most likely to add value, asset allocation and high PVA asset classes, while minimizing allocations and activities in low PVA categories,

- The important point is that even highly effective organizations will have some exposure to low PVA asset categories for diversification purposes, but the focus of the organization will be on adding value in higher PVA categories,

- How does the current UTIMCO structure look on a PVA scale?

PVA in the Current UTIMCO Portfolio Structure



Improving UTIMCO's Value-Added Center

- The most direct way we will increase PVA is by increasing allocation and focus on high PVA asset categories where we will:
  - Be more proactive in sourcing investments rather than waiting for opportunities to come to us,
  - Increase our skills in partner evaluation so that we can identify younger, more aggressive firms before they become well known,
  - Become a "partner of choice" in premier venture and private equity firms,
  - Be more active in advisory committees, especially in troubled partnerships; find ways to cut our losses in bad situations,
  - Do side-by-side direct investments with existing partners only where we are comfortable that we have an investment edge,
  - Our objective is to have only top quartile partners.

Improving UTIMCO's Value-Added Center

- In mid PVA asset categories our approach will be to:
  - Focus on smaller, younger, more entrepreneurial firms to manage small cap public market assets,
  - Use our manager evaluation skills to focus only on firms with great potential,
  - Be ready to cut our losses quickly when we have made a selection error,
  - Take advantage of sophisticated risk management and style management tools to build and maintain manager teams,
  - Use risk budgeting to determine manager mix and to set return targets for individual managers,
  - Be prepared to assist the younger firms as necessary as they grow; be prepared to move on to new smaller firms as growth begins to impair value-added potential.

Improving UTIMCO's Value-Added Center

- In low PVA asset categories our approach will be to:
  - Reduce or eliminate allocations to large cap active equity managers and domestic external active fixed income managers where PVA is minimal,
  - Use passive management where necessary to maintain asset exposure, but only after eliminating higher value-added possibilities,
  - Focus our internal management efforts on niche asset categories presenting a specific opportunity or meeting a specific need in our asset allocation framework,
  - The most dramatic improvement here will come from our use of "alpha transfer" techniques as a substitute for traditional active management.

Increasing PVA with Alpha Transport Techniques

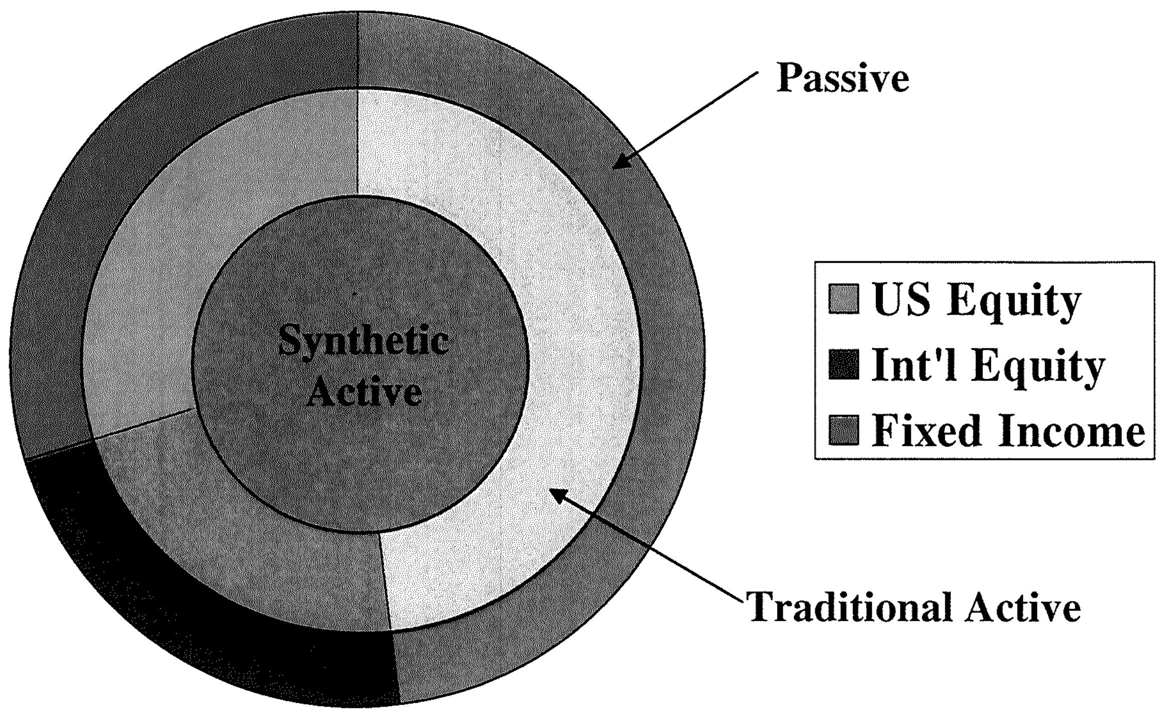
- Alpha Transport techniques can be used to transform the value-added from a pure alpha generation management approach such as a hedge fund to a "synthetic" active management approach by adding asset class exposure using cash and financial futures.

- Alpha Transport techniques are being used successfully by several sophisticated endowment and pension plans to produce returns well above those typically earned from traditional active management.

- We will use a combination of focused traditional active management, passive management, and creative alpha transport techniques to increase the PVA of our public markets portfolios.

Value-Added in Public Markets Demands Creativity

Public Markets Investments:

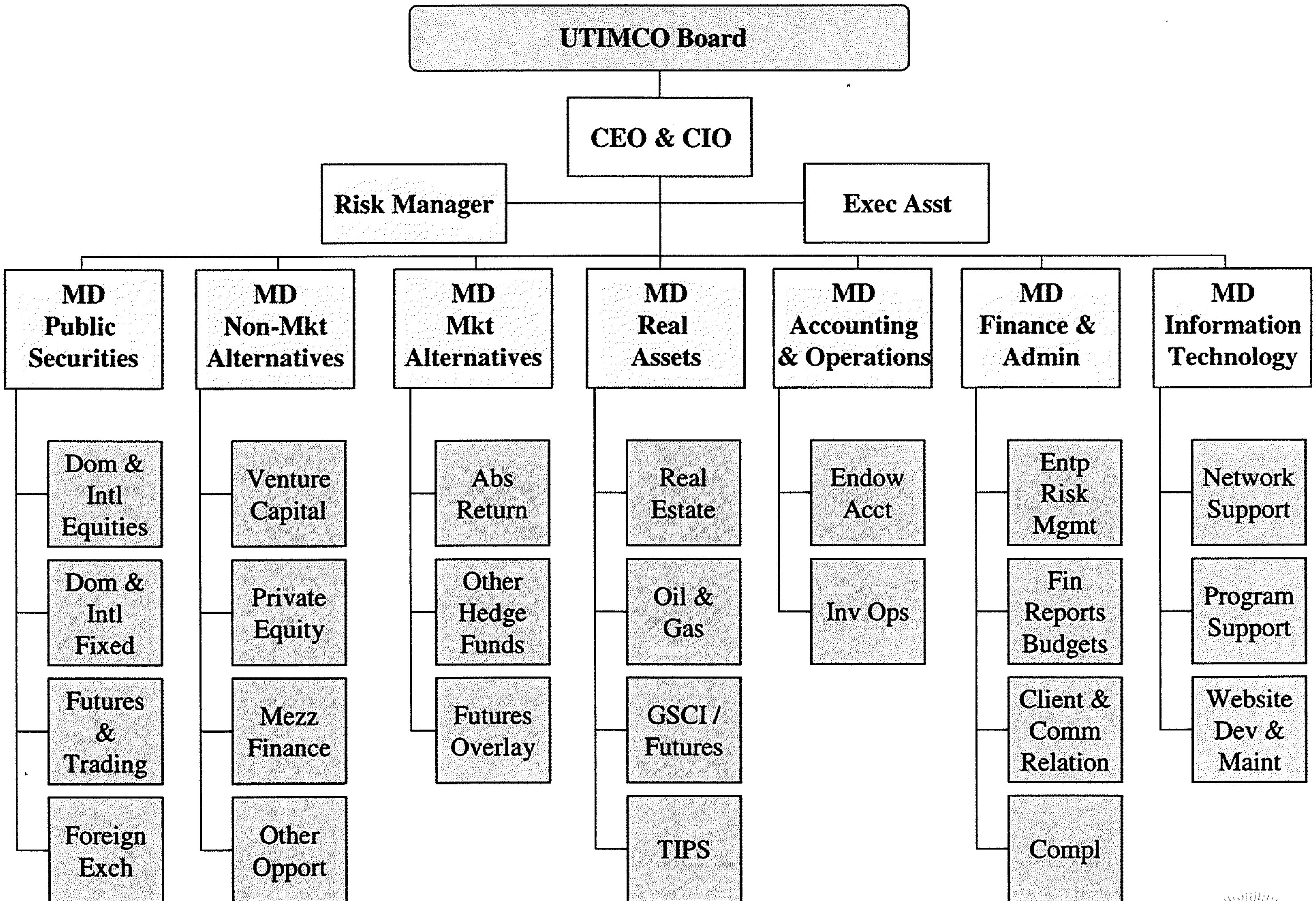


Required Skills to Implement High PVA Strategy

- To implement this high PVA strategy, we will need to build or acquire skills in the following key areas:
  - Risk management and risk budgeting
  - Active manager / partner selection and monitoring
  - Strategic asset allocation and tactical rebalancing
  - Derivatives management
  - Alpha Transport management techniques
  - Skills in more exotic asset categories such as hedge funds and inflation hedge assets

- The most effective organizational structure to implement these skills is ….

The Organizational Structure for Target Competitiveness



Expenses Associated with New Structure

- This new organizational structure will require:
  - Seven new Managing Director positions and Six other professional positions at the manager and analyst levels. Some of these positions will be filled with current UTIMCO staff. Executive search assistance will be required to fill some positions.
  - The increased staffing, along with increased administrative support, recruitment expenses, travel, office space, and other overhead will require a $2.9 million increase in the 2002-2003 budget. This increase will be offset by an associated drop in Cambridge fees (fees currently being paid for Private Equity, as those duties are assumed by staff). The resultant net increase in expenses is $1.4 million, a 4.2% increase over the current year (see details in Appendix A).
  - We will need to revamp the incentive compensation structure to acquire and retain the necessary talent.

Potential Payoff

- The value-added through a highly competitive approach might be able to offset the effects of a more difficult future investment environment ....

For PUF at 4.75% Payout

Decision Variables	Cambridge Associates	Morgan Stanley	Morgan Stanley with High PVA
Probability of a Decline in Real Value of PUF (%)			
Any 5 Year Period	36	56	36
Probability of 20% or Greater Decline in Real Value of PUF (%)			
Any 5 Year Period	9	21	9
Probability of a Decline in Real Spending (%)			
Any 1 Year Period	46	70	48
Probability of a 10% or Greater Decline in Real Spending (%)			
Any 3 Year Period	13	23	13
Probability of a Decline in Nominal Spending (%)			
Any 1 Year Period	8	10	9
Median Total Payout over 10 Years ($ millions)>	4,589	4,159	4,558

The Payoff From the New Structure

- Within 3 Years:
  - Produce $200 million in annual value-added return after all UTIMCO expenses versus the return available from a mid-competitor portfolio. In a less favorable market environment where the expected total return of our current asset mix might decline from $1.1 billion to $800 million per year, this value-added would be very significant.
  - Be generally recognized as among the top five best-managed endowment funds in the United States,
  - Be recognized as a leader and innovator in the endowment community,
  - Achieve very high satisfaction ratings from UT System Components and other constituents of UTIMCO.

Evidence This Approach Has Worked

- For the 10 year period ending June 30, 2001, Harvard Management Company added more than $7 billion in value relative to its composite benchmarks,

- With a structure very similar to the one anticipated for UTIMCO, Yale achieved an annualized 18.3% return over the ten year period ending June 30, 2001, adding more than $5 billion relative to its composite benchmark, and placing it in the top 1% of all large institutional investors.

Appendix A

UTIMCO
Reconciliation of 2002 budget to 2003

Projected Expenses

UTIMCO Services-2002 budget	**$ 6,698,276**	
Increase(Decrease) to Budget:		
Compensation- Regular	1,151,000	($169,850 base increase, $216,978 internal promotions, $759,525 Positions added to Budget, $4,647 Vacation accrual)
Performance Compensation	1,013,805	(Addition of senior level positions)
Payroll Taxes	61,722	(due to above)
Employee benefits	171,663	(due to above)
General Operating Expenses	410,700	(recruiting expenses, travel and seminars)
Lease Expense	10,010	(operating expenses)
Professional fees	50,000	(consulting)
Insurance-general	30,718	(renewal)
Depreciation	4,608	(furniture and leaseholds)
Total Increase(Decrease) to Budget:	2,904,225	
UTIMCO Services-2003 budget	**$ 9,602,501**	
Increase over Prior Year Budget-UTIMCO fees	**43.4%**	
Direct Expenses of the Fund- 2002 Budget	**$ 25,270,571**	
Increase(Decrease) to Budget:		
External Management Fees	(72,397)	(reduction in valuation of equity portfolios,management fees are asset based)
Custodian and Analytical Fees	(18,380)	(Savings due to consolidation of PHF and LTF to GEF, reduced asset size)
Cambridge Associates	(1,831,237)	(new contract)
Other direct costs	368,973	(legal costs and direct investment consulting)
Total Increase(Decrease) to Budget:	(1,553,041)	
Direct Expenses of the Fund- 2003 Budget	**$ 23,717,531**	
Increase over Prior Year Budget-Direct Expenses	**-6.1%**	
Total Budget for 2003	$ 33,320,031	
Total Increase over Prior Year Budget	**4.2%**	

(amounts may not foot due to rounding adjustments)

UTIMCO Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2002

Proposed Budget	Fund Name						Separate Funds	Total
	PUF	PHF	LTF	GEF (PHF LTF)	S/ITF	STF		
Market Value 2/28/01 ($ millions)	**7,686.9**	**922.5**	**2,918.1**	**3,840.6**	**1,909.3**	**892**	**272.4**	**14,601.2**
UTIMCO Services(1)	**3,274,506**	**558,026**	**2,285,475**		**580,269**			**6,698,276**
Direct Expenses of the Fund								
External Management Fees	8,474,148	0		4,314,168		N/A (2)		12,788,316
External Management Fees - Performance Based	4,619,509	0		2,780,603				7,400,111
Other Direct Costs	2,717,816	17,593	58,385	2,151,907	131,442		5,000	5,082,144
Total Direct Expenses of the Fund	15,811,473	17,593	58,385	9,246,677	131,442		5,000	25,270,571
TOTAL	**19,085,979**	**575,619**	**2,343,861**	**9,246,677**	**711,711**	N/A (2)	**5,000**	**31,968,847**
Percentage of Market Value								
UTIMCO Services	0.043%	0.060%	0.078%	0.000%	0.030%	0.000%	0.000%	0.046%
Direct Expenses of the Fund	0.206%	0.002%	0.002%	0.241%	0.007%	0.000%	0.002%	0.173%
TOTAL	**0.248%**	**0.062%**	**0.080%**	**0.241%**	**0.037%**	**0.000%**	**0.002%**	**0.219%**

(1) Allocation Ratio: PUF-49%,Health Fund-8%,LTF-34%, SITF-9%

(2) Income is net of fees

(amounts may not foot due to rounding adjustments)

UTIMCO Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2003

Proposed Budget	Fund Name						Separate Funds	Total
	PUF	PHF	LTF	GEF (PHF LTF)	S/ITF	STF		
Market Value 2/28/02 ($ millions)	**7,114.0**	**848.7**	**2,784.6**	**3,633.3**	**1,451.9**	**1257.1**	**171.9**	**13,628.2**
UTIMCO Services(1)	**5,187,122**	**676,877**	**3,135,100**		**603,402**			**9,602,501**
Direct Expenses of the Fund								
External Management Fees	8,703,690	0		4,640,801		N/A (2)		13,344,491
External Management Fees - Performance Based	4,597,210	0		2,174,330				6,771,540
Other Direct Costs	2,082,812	21,700	54,270	1,320,868	116,850		5,000	3,601,500
Total Direct Expenses of the Fund	15,383,711	21,700	54,270	8,135,999	116,850		5,000	23,717,531
TOTAL	**20,570,833**	**698,577**	**3,189,370**	**8,135,999**	**720,252**	N/A (2)	**5,000**	**33,320,031**
Percentage of Market Value								
UTIMCO Services	0.073%	0.080%	0.113%	0.000%	0.042%	0.000%	0.000%	0.070%
Direct Expenses of the Fund	0.216%	0.003%	0.002%	0.224%	0.008%	0.000%	0.003%	0.174%
TOTAL	**0.289%**	**0.082%**	**0.115%**	**0.224%**	**0.050%**	**0.000%**	**0.003%**	**0.244%**

(1) Allocation Ratio: PUF-54%,Health Fund-7%,LTF-34%, SITF-5%

(2) Income is net of fees

(amounts may not foot due to rounding adjustments)

Resolution No. 2

RESOLVED, that the firm of Deloitte & Touche, LLP be and is hereby appointed as the independent auditor of the Corporation for the year ended August 31, 2002, and further

RESOLVED, that the firm of Deloitte & Touche, LLP be and is hereby appointed as the independent auditor of the financial statements of the Permanent University Fund, Permanent Health Fund, Long Term Fund, General Endowment Fund, and Short Intermediate Term Fund for the fiscal year ended August 31, 2002.

Suite 2000
333 Clay Street
Houston, Texas 77002-4196

Tel: (713) 982-2000
Fax: (713) 982-2001
www.us.deloitte.com

Deloitte & Touche

May 13, 2002

Ms. Cathy Iberg
The University of Texas Investment Management Company
Austin, Texas

Dear Ms. Iberg:

Deloitte & Touche LLP ("D&T") is pleased to serve as independent accountants and auditors for The University of Texas Investment Management Company, The University of Texas System Long Term Fund, The University of Texas System Short Intermediate Term Fund, The University of Texas System General Endowment Fund, the Permanent Health Fund, and the Permanent University Fund (collectively, "UTIMCO and the Funds"). Mr. William O. Strange will be responsible for the services that we perform for the UTIMCO and the Funds. He will be assisted by Mr. Eric Rothe, Assurance & Advisory Senior Manager. Mr. Strange will, as he considers necessary, call on other individuals with specialized knowledge, either in this office or elsewhere in our firm, to assist in the performance of our services.

While auditing and reporting on UTIMCO and the Funds' annual financial statements for the year ending August 31, 2002, is the service that we are to provide under this engagement letter, we would also be pleased to assist UTIMCO and the Funds on issues as they arise throughout the year. Hence, we hope that UTIMCO and the Funds will call Mr. Strange whenever management believes he can be of assistance.

We will perform this engagement subject to the terms and conditions set forth herein.

Audit of Financial Statements

Our audit of UTIMCO and the Funds' financial statements for the year ending August 31, 2002, will be conducted in accordance with auditing standards generally accepted in the United States of America (hereinafter referred to as "generally accepted auditing standards").

We will plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. However, because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement. Therefore, an audit conducted in accordance with generally accepted auditing standards is designed to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. An audit is not designed to detect error or fraud that is immaterial to the financial statements.

An audit includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify reportable conditions.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The objective of our audit is the expression of an opinion on the fairness of the presentation of UTIMCO and the Funds' financial statements in conformity with accounting principles generally accepted in the United States of America (hereinafter referred to as "generally accepted accounting principles"), in all material respects. Our ability to express an opinion, and the wording of our opinion, will, of course, be dependent on the facts and circumstances at the date of our report. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of this engagement. If we are unable to complete our audit or if our auditors' report requires modification, the reasons therefor will be discussed with UTIMCO and the Funds' management and the Audit Committee.

Management's Responsibility

The financial statements are the responsibility of UTIMCO and the Funds' management. In this regard, management has the responsibility for, among other things, (1) establishing and maintaining effective internal control over financial reporting, (2) identifying and ensuring that UTIMCO and the Funds comply with the laws and regulations applicable to its activities, (3) properly recording transactions in the accounting records, (4) adjusting the financial statements to correct material misstatements, (5) making appropriate accounting estimates, (6) safeguarding assets, (7) the overall accuracy of the financial statements and their conformity with generally accepted accounting principles, and (8) making all financial records and related information available to us.

We will make specific inquiries of UTIMCO and the Funds' management about the representations embodied in the financial statements. As part of our audit procedures, we will request that management provide us with a representation letter acknowledging management's responsibility for the preparation of the financial statements and affirming management's belief that the effects of any uncorrected financial statement misstatements aggregated by us during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We will also request that management confirm certain representations made to us during our audit. The responses to those inquiries and related written representations of management required by generally accepted auditing standards are part of the evidential matter that we will rely on as auditors in forming our opinion on UTIMCO and the Funds' financial statements. Because of the importance of management's representations, UTIMCO and the Funds agree to release and indemnify D&T and its personnel from all claims, liabilities, and expenses relating to our services under this engagement letter attributable to any misrepresentation by management.

If UTIMCO and the Funds intend to publish or otherwise reproduce in any document our report on UTIMCO and the Funds' financial statements, or otherwise make reference to D&T in a document that contains other information in addition to the audited financial statements (e.g., in a periodic filing with a regulator, in a debt or equity offering circular, or in a private placement memorandum), thereby associating D&T with such document, UTIMCO and the Funds agree that management will provide us with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of our report, or the reference to D&T, in such document before the document is printed and distributed. The inclusion or incorporation by reference of our report in any such document would constitute the reissuance of our report. UTIMCO and the Funds also agree that management will notify us and obtain our approval prior to including our report on an electronic site.

Our engagement to perform the services described above does not constitute our agreement to be associated with any such documents published or reproduced by or on behalf of UTIMCO and the Funds. Any request by UTIMCO and the Funds to reissue our report, to consent to its inclusion or incorporation by reference in an offering or other document, or to agree to its inclusion on an electronic site will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any services that would need to be performed in connection with any such request; fees for such services (and their scope) would be subject to our mutual agreement at such time as we are engaged to perform the services and would be described in a separate engagement letter.

Other Communications Arising From the Audit

In connection with the planning and the performance of our audit, generally accepted auditing standards require that certain matters be communicated to the Audit Committee. We will report directly to the Audit Committee any fraud of which we become aware that involves senior management, and any fraud (whether caused by senior management or other employees) of which we become aware that causes a material misstatement of the financial statements. We will report to senior management any fraud perpetrated by lower level employees of which we become aware that does not cause a material misstatement of the financial statements; however, we will not report such matters directly to the Audit Committee, unless otherwise directed by the Audit Committee.

We will inform the appropriate level of management of UTIMCO and the Funds and determine that the Audit Committee is adequately informed with respect to illegal acts that have been detected or have otherwise come to our attention in the course of our audit, unless the illegal act is clearly inconsequential.

We will also report directly to UTIMCO and the Funds' management and the Audit Committee matters coming to our attention during the course of our audit that we believe are reportable conditions. Reportable conditions are significant deficiencies in the design or operation of internal control that could adversely affect UTIMCO and the Funds' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

In addition, we will communicate to the Audit Committee, or determine that the Audit Committee is informed, about certain other matters related to the conduct of our audit, including, when applicable:

- Our responsibility as auditors under generally accepted auditing standards
- Significant accounting policies
- Management judgments and accounting estimates
- Audit adjustments
- Other information in documents containing audited financial statements
- Disagreements with management
- Consultation by management with other accountants on significant matters
- Difficulties encountered in performing the audit
- Major issues discussed with management prior to our retention as auditors.

We may also have other comments for management on matters we have observed and possible ways to improve the efficiency of UTIMCO and the Funds' operations or other recommendations concerning internal control.

With respect to these other communications, it is our practice to discuss all comments, if appropriate, with the level of management responsible for the matters, prior to their communication to senior management and/or the Audit Committee.

Coordination of the Audit

We will plan the performance of our audit in accordance with the following timetable:

Audit Performance Schedule:	
Planning and internal control testwork	July 2002
Final field work	September/October 2002
Audit Communications:	
Report on audit of financial statements	October 2002
Reportable conditions, if any	October 2002
Other management comments	October 2002

Assistance to be supplied by your personnel, including preparation of schedules and analyses of accounts, will be described in a separate attachment. Timely completion of your personnel's work will facilitate the completion of our audit by the targeted completion dates. We will notify you promptly of any circumstances we encounter that could significantly change the targeted completion dates.

Fees

We estimate that our total fees for this audit will be the following, plus expenses (e.g., travel, typing, telephone).

Permanent University Fund	$ 40,000
The University of Texas System General Endowment Fund	31,000
The University of Texas System Short Intermediate Term Fund	8,200
The University of Texas System Long Term Fund	5,000
Permanent Health Fund	5,000
UTIMCO	6,100
Investment Performance Statistics	4,300
	$ 99,600

Invoices will be sent according to the timing of our work, and payments are due upon receipt. Expenses will be billed in addition to the fee. Expenses will be stated separately on the invoices.

The estimate of our fees is based on certain assumptions. We will notify you promptly of any circumstances we encounter that could significantly affect our estimate and discuss with you any additional fees, as necessary. Additional services provided beyond the described scope of services will be billed separately.

* * * * * * *

If the above terms are acceptable to UTIMCO and the Funds and the services outlined are in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Yours truly,

Deloitte & Touche LLP

Accepted and agreed to by
UTIMCO and the Funds

By:______________________________

Title:______________________________

Date:______________________________

The Next Steps

UTIMCO

THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

June 2002

The Next Steps

- Prepare a comprehensive Asset Allocation Policy review using the new PVA framework,
- Engage an executive search firm to assist in evaluating internal staff and initiate searches for new positions as necessary,
- Evaluate all current portfolio positions as well as external and internal managers in the PVA framework; begin to make changes as necessary.
- Redesign the incentive compensation structure for presentation to the UTIMCO Compensation Committee.

Resolution No. 3

RESOLVED, that the Fee Request for the period September 1, 2002 through August 31, 2003 be and is hereby approved.

UTIMCO Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2003

Proposed Budget	Fund Name						Separate Funds	Total
	PUF	PHF	LTF	GEF (PHF LTF)	S/ITF	STF		
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