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The University of Texas Investment Management Company

UTIMCO
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Presentation Materials Board of Directors Meeting

September 18, 2002

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UTIMCO BOARD OF DIRECTORS
MEETING AGENDA

September 18, 2002

Crescent Court Hotel
400 Crescent Court, Salons A&B
Dallas, Texas

Time: Begin	Time: End	Agenda Item
10:00 a.m.	10:10 a.m.	**Briefing Session for Non-Marketable Alternative Investments** Inverness Partners II Discussion
10:10 a.m.	10:30 a.m.	**Open Session**: Call to Order/Approval of Minutes of June 18, 2002 Meeting* Approval of Corporate Resolutions: - Appointment of Advisory Director* - Resolution of Appreciation* - Designation of Managing Directors* - Inverness Partners II*
10:30 a.m.	10:50 a.m.	**Convene into Executive Session** Pursuant to Section 551.074, Texas Government Code, the Board of Directors may convene in Executive Session for the purpose of deliberating personnel compensation. - Report of Compensation Committee
10:50 a.m.	10:55 a.m.	**Reconvene into Open Session** - Action in response to Compensation Committee report*
10:55 a.m.	12:10 p.m.	Strategy Discussion on Asset Allocation - Bob Boldt and Bruce Myers, Cambridge Associates LLC - Approval of Investment Policy Statements*
12:10 p.m.	2:00 p.m.	Working Lunch: Presentation by Paul S. Maco, Vinson & Elkins - Sarbanes – Oxley Act Presentation by Jerry Turner, Vinson & Elkins - Responsibility of Directors Discussion of Role of UTIMCO Directors and Delegation of Authority
2:00 p.m.	2:15 p.m.	Fund Performance/Manager Performance History
2:15 p.m.	2:45 p.m.	Presentation by Brian Kriftcher, Satellite Asset Management
2:45 p.m	4:00 p.m.	Discussion of UTIMCO Disclosure Policies **Convene into Executive Session** Pursuant to Section 551.071, Texas Government Code, the Board of Directors may convene in Executive Session to consult with its attorney **regarding compliance with partnership agreements**
4:00 p.m.		**Reconvene into Open Session** Adjournment

* Action by resolution required

Next Scheduled Meeting: October 31, 2002

Inverness Partners II, L.P.

CATEGORY: Private Equity - US

FUND SIZE: $225,000,000; Expected first close ($175,000,000): July 31, 2002

TOTAL CURRENT UTIMCO EXPOSURE AFTER FIRST CLOSING: $44,033,582

TOTAL CURRENT AND PROPOSED EXPOSURE AFTER FINAL CLOSE: $59,033,582

INVESTMENT UPDATE

- In July 2002, the UTIMCO private markets staff circulated compliance certificates to Board members as part of UTIMCO's participation in the first closing of Inverness Partners II, L.P. (the "Fund"). At that time, the staff notified the Board that its approval of UTIMCO's $25 million initial commitment to the Fund was not required, but that approval for an additional commitment of $15 million as part of the final closing of the Fund would be required, pursuant to UTIMCO's current delegation of authority, which requires Board approval for commitments in excess of 0.25% of the endowment's 8/30/01 value, or roughly $28 million.
- For the reasons highlighted below, the staff continues to support a total commitment of $40 million to the Fund, and asks the Board to approve the additional $15 million commitment at the upcoming Board meeting.

INVESTMENT RATIONALE

- As highlighted below, UTIMCO's commitment to Inverness/Phoenix Partners, L.P. (1998 commitment) has resulted in top quartile returns through mid-July, 2002.

Relative Performance of Inverness/Phoenix Partners, L.P.	
	IRR
Fund I Unadjusted IRR (as of 7/15/02)	19.22%
Fund I Adjusted IRR* (as of 7/15/02)	11.37%
Cambridge 1998 Pooled Mean (as of 3/31/02)	-0.42%
Cambridge 1998 Median (as of 3/31/02)	1.51%
Cambridge 1998 Top Quartile Benchmark (as of 3/31/02)	8.41%

* Adjusted by the staff to reflect a decrease in market value of a public holding in Trico Marine that occurred in the interim period between the 3/31/02 and 6/30/02 financial statement dates.

- The Inverness team has worked together for over a decade and will continue to employ a disciplined approach to investing the endowments' funds in businesses which are currently undervalued by the financial marketplace.
- An additional commitment of $15 million to Inverness Partners II, L.P. is consistent with the staff's goal of allocating commitments to managers that are expected to deliver top quartile returns to the endowments. While historical returns are no guarantee for future success, the staff believes that the Inverness team is well positioned to build on its successful track record.
- For additional information regarding UTIMCO's commitment to the Fund, please review the investment recommendations prepared by staff and by Cambridge that the staff distributed to the Board in July, 2002. If you wish to receive additional copies of those recommendations, please contact Christy Wallace at 512-225-1628.

Inverness Partners II, L.P.

CATEGORY: Private Equity - US

FUND SIZE: $225,000,000; Expected first close ($175,000,000): July 31, 2002

TOTAL CURRENT UTIMCO EXPOSURE: $21,583,674

TOTAL CURRENT AND PROPOSED EXPOSURE AFTER FIRST CLOSE: $46,583,674

TOTAL CURRENT AND PROPOSED EXPOSURE AFTER FINAL CLOSE: $61,583,674

UTIMCO DELEGATION OF AUTHORITY:

(i) Total current and proposed exposure as a percentage of the endowment's value as of 8/30/01 must not be greater than 1.00%. Assuming UTIMCO committed $40 million to Inverness Partners II, L.P. (the "Fund" or "Fund II"), Inverness/Phoenix Partners L.P. ("Fund I") and Fund II would collectively represent 0.55% of the endowment's 8/30/01 value.

(ii) New commitments as a percentage of the endowment's value as of 8/30/01 must not be greater than 0.25%. Assuming UTIMCO commits $40 million to Fund II, this Fund would represent 0.36% of the endowment's 8/30/01 value. As such, a $40 million commitment would require Board approval. In an effort to secure a position in the Fund, the private markets team recommends committing $25 million to the Fund as part of a first closing, which is expected to occur by July 31, 2002 (prior to the next UTIMCO Board meeting). At the upcoming UTIMCO Board meeting, the private markets team will request approval for an additional $15 million in commitments to the Fund, which would bring the total UTIMCO commitments to Fund II to $40 million, a figure that mirrors UTIMCO's 1998 commitment to Fund I.

Conclusion: Board action not required for the initial commitment of $25 million. However, the team will need the Board's approval to commit an additional $15 million to the Fund as part of a final closing, which is expected to occur in September of 2002.

CAMBRIDGE ASSOCIATES LLC: Cambridge prepared a memorandum dated June 24, 2002 to recommend an investment of up to $40,000,000 in Inverness Partners II, L.P. (see attached).

BACKGROUND: Inverness Capital Management ("Inverness" or the "Firm") is seeking $225 million in commitments for its second fund, Inverness Partners II, L.P. The Fund's Principals, W. McComb Dunwoody, Robert N. Sheehy, Jr., and James C. Comis III, will continue to pursue transactions in troubled companies in out-of-favor industries, an investment strategy that has generated solid returns for the Principals and their Limited Partners in Fund I (see returns analysis below).

The three Principals and one associate are responsible for investing, managing, and monitoring the Firm's funds. The Principals may choose to add a junior partner during the life of the Fund, but Limited Partners should expect very little change in the management of the Firm or the Fund over the next several years. The team performs its investment and monitoring activities out of two offices: one in Greenwich, CT, and the other in New York City. Mr. Dunwoody works out of the Greenwich office while the rest of the team works out of the New York City office.

Mr. Dunwoody formed the predecessor to Inverness in the mid-1980s when he founded The Inverness Group, which later became DJS/Inverness. Mr. Dunwoody first worked with Mr. Sheehy and Mr. Comis in 1987 and 1990, respectively, when the two were associates with the DJS/Inverness. The three partners worked together until 1990, when Mr. Sheehy left DJS/Inverness to work for PennCorp Financial Group, a DJS/Inverness portfolio company. In 1996, Mr. Sheehy rejoined the team. Two years later, the three partners formed Inverness Management and raised Inverness/Phoenix. Phoenix Duff & Phelps Corporation acted as lead investor for Fund I. As noted, UTIMCO committed $40 million to Fund I.

STRATEGY: The Fund will invest in the common stock or debt of troubled companies in out-of-favor industries. Target companies will typically generate between $10 and $50 million in EBITDA. The Fund's portfolio will consist of 4-6 investments and, as such, will be highly concentrated. The Principals will structure investments to earn expected gross returns in excess of 30%.

The Principals will identify a select number of out-of-favor industries and then analyze them to understand the dynamics that have contributed to their downturn. In general, the Firm attempts to identify industries where the value of invested capital has been significantly impaired due to a decline in industry demand or excess investment in the industry. In the past, the Principals have targeted the following industries: movie theaters, aviation services, and oil services. Once the Principals have identified an attractive industry, they will then target specific companies within that industry to generate potential investment opportunities. The Principals target companies that will experience cash flow improvements through organic growth or through the disposition of non-strategic assets.

The Firm's overriding philosophy is to maintain a conservative, comprehensive, and focused approach to investing. Accordingly, the Principals will follow an industry for several years, and typically make only one investment per year. As a result, the Principals will likely use the full five year investment period to invest Fund commitments. The benefit of this approach is that the Firm seeks opportunities that allow the Principals to exercise significant influence over the investment on an ongoing basis. One of the Principals will typically have a Board seat and will work with management to create value for the Fund's investment. The Principals have closely managed the investments in Fund I and have exited half of the investments in the portfolio in less than three years.

INVESTMENT HISTORY: The table below highlights the value of the UT endowments' holdings in Fund I as of July 15, 2002. The figures reflect realized investments in PennCorp Financial Group and AMC Entertainment, Inc. The figures also reflect holdings in ICON Health & Fitness, Trico Marine Services, and Kellstrum Industries (closed in July 2002). The Fund values its investments in ICON Health & Fitness and Kellstrum Industries at cost, but values its investment in Trico Marine using the closing market price of the stock as of the date of the financial statements. The current value figure in the table below reflects a stock price of $8.77 for Trico as of 3/31/02 (most recent financial statement date).

Summary of UTIMCO's Holdings in Inverness/Phoenix Partners, L.P.[A]						
(7/15/02)	Committed	Drawn	Distributed	Current Value	IRR	Multiple
Fund I	$40,000,000	$39,524,601	$30,710,880	$21,102,750	19.22%	1.31x

A) Calculated using March 31, 2002 financial statements and interim cash flows through July 15, 2002. Includes recent investment in Kellstrum Industries.

The value of Trico's common stock has dropped from $8.77 per share on March 31, 2002 to $5.21 per share as of July 15, 2002. Using this updated figure to recalculate the financial performance of Fund I, one discovers that the Fund's IRR and value multiple have dropped in recent months as a result of the decrease in Trico's share price. The updated performance figures are included in the table below.

Updated Summary of UTIMCO's Holdings in Inverness/Phoenix Partners, L.P.[A]						
(7/15/02)	Committed	Drawn	Distributed	Current Value	IRR	Multiple
Fund I	$40,000,000	$39,524,601	$30,710,880	$15,514,301	11.37%	1.17x

A) Calculated using March 31, 2002 financial statements, but adjusted to reflect the decrease in Trico's stock price from March 31, 2002 to July 15, 2002. Includes recent investment in Kellstrum Industries.

Clearly, Fund I has suffered in the past few months as a result of the decline in Trico's market value. During this same period (3/31/02 to 7/15/01), the Dow Jones Industrial Average has decreased in value by 16%. Trico provides support boats to oil and gas developers in the Gulf of Mexico, North Sea, West Africa, and Latin America and has certainly been affected by the reduction in drilling activity in the last year. However, the company may be poised for an increase in value that would be attributable to an increase in drilling activity in its core markets. With a net book value of roughly $8 per share, the company appears undervalued at its current price of $5.21 per share. The Fund will continue to hold its investment in Trico until the Principals can achieve an exit at a higher valuation.

While the unadjusted and adjusted return figures posted above may not appear to be exceptional on an absolute basis, a comparison of those returns to the Cambridge benchmarks suggests otherwise (see table below). Even on an adjusted basis (reflecting the decrease in value at Trico), the Fund has generated returns that are higher than Cambridge's top quartile benchmark of 8.4%.

Relative Performance of Inverness/Phoenix Partners, L.P.	
(figures are net to limited partners)	IRR
Fund I Unadjusted IRR (as of 7/15/02)	19.22%
Fund I Adjusted IRR (as of 7/15/02)	11.37%
Cambridge 1998 Pooled Mean (as of 3/31/02)	-0.42%
Cambridge 1998 Median (as of 3/31/02)	1.51%
Cambridge 1998 Top Quartile Benchmark (as of 3/31/02)	8.41%

INVESTMENT SUMMARIES

The section below summarizes the Principals investment activity in Fund I and attempts to provide the reader with a sense for how the Principals will target specific industries and troubled companies within those industries for investment opportunities.

PennCorp Financial Group

Fund I made its first investment in the fall of 1998, when it purchased 1.0 million shares of PennCorp Financial Group, Inc.'s ("PennCorp") publicly-traded convertible preferred stock (the "Preferred") at an average price of $12.01 per share. PennCorp was a life insurance holding company and its Preferred had a liquidation preference of $50 per share and a dividend of approximately $3.40 per share. At the time of the Fund I's purchase, PennCorp was in the process of reorganizing its operations and subsequently sold several of its operating subsidiaries to reduce debt. With two insurance subsidiaries remaining, Inverness led a restructuring of the company through bankruptcy, exchanging the Preferred into common stock, canceling the old common stock, and purchasing with other investors a total of $47.5 million of new common stock at $12.50 per share. The company was renamed Southwestern Life Holdings, Inc. ("SWLH"). Inverness believed that its investments in SWLH would appreciate significantly if the company could write higher levels of new business.

Inverness believed that SWLH's new business production was significantly below potential due to its A.M. Best rating of "B+", as well as the highly publicized financial difficulties of the parent company. Through the restructuring, SWLH reduced its debt-to-total-capital ratio from approximately 57% to approximately 35%, while maintaining high levels of capital at its insurance subsidiaries. Inverness believed that with this capitalization, SWLH would be able to improve its A.M. Best rating to A- within a reasonable time-frame. Inverness believed that such an upgrade would allow the company to produce higher levels of new business.

On April 27, 2001, SWLH entered into a definitive agreement to be sold to Swiss Re Life & Health America Holding Company, for $18.50 per share, in an all-cash transaction, which closed on June 15, 2001 and resulted in a 1.5x multiple of investment and an IRR of 24.0%.

Inverness/Phoenix Partners L.P. (Fund I) Gross Performance							
Valuation Date	**Investment**	**Quantity**	**Unit Cost**	**Investment at Cost (a)**	**Unit Price**	**Investment Value (b)**	**Gain/(Loss)**
Unrealized Investments							
7/15/2002	Trico Marine	6,636,149	$6.25	$41,475,931	$5.21 (c)	$35,237,951	($6,237,980)
7/15/2002	ICON Health	-	-	$1,933,269	-	$1,933,269	-
	Total Unrealized Investments			**$43,409,201**		**$37,171,220**	**($6,237,980)**
Realized Investments							
1/8/2001	Trico Marine	308,155	$6.25	$1,925,969	$16.85	$5,190,882	$3,264,913
2/1/2001	AMC (c)		-			$2,447,507	$2,447,507
3/15/2001	AMC (c)		-			$2,284,278	$2,248,278
5/1/2001	AMC	12,082,933	47%	$5,726,941	88%	$10,582,065	$4,855,124
5/14/2001	AMC	28,999,039	48%	$13,989,668	89%	$25,730,337	$11,740,669
5/21/2001	AMC	11,599,616	47%	$5,500,740	89%	$10,371,345	$4,870,605
6/20/2001	AMC	28,757,380	47%	$13,651,755	935	$26,709,528	$13,057,773
6/20/2001	SW Life	2,450,293	$12.54	$30,717,926	$18.50	$45,330,421	$14,612,495
7/30/2001	AMC	18,177,564	50%	$9,065,797	94%	$17,018,218	$7,952,421
	Total Realized Investments			**$80,578,796**		**$145,664,581**	**$65,085,785**
	Total All Investments			**$123,987,996**		**$182,835,801**	**$58,847,805**

(a) AMC investment at cost includes accrued interest of $1,011,133. Table does not reflect 7/02 investment in Kellstrum Industries.

(b) AMC investment value includes accrued interest of $2,574,950 received, and interest income received in February and March of 2001, of $4,731,785.

(c) Trico's shares closed at $5.21 on July 15, 2002.

Trico Marine Services, Inc.

Fund I made its second investment, a purchase of common stock of Trico Marine Services, Inc. ("Trico"), in April/June of 1999 in a transaction designed to reduce the Company's leverage. Trico is a publicly-traded company, which operates a fleet of offshore supply vessels that provide marine support services to the oil and natural gas industry, primarily in the Gulf of Mexico, North Sea and South America. Together with a $5 million direct investment by Phoenix Home Life Insurance Company, Inc. and a side fund of management professionals, Fund I acquired 8.0 million common shares at $6.25 per share in a private transaction, making Inverness the largest shareholder with approximately 28% of the outstanding shares. The proceeds were used to reduce and refinance the company's bank credit facilities.

Inverness believed that the prices of oil and natural gas were likely to return to significantly higher levels in the near future and that Trico's cash flow and market value were likely to improve. Fund I sold 308,155 shares at an average price of $16.85 per share in November 2000. As discussed, the market value of Fund I's investment is Trico is currently below Fund I's cost.

ICON Health & Fitness

In September 1999, Fund I invested $1.9 million of equity into the recapitalization of ICON Health & Fitness ("ICON"), a Bain Capital portfolio company. ICON is the leading manufacturer of home fitness equipment in the U.S. The company's products include treadmills, ellipticals, exercise bicycles, stair steppers, rowers, and home gyms. Bain had sponsored a leveraged recapitalization of ICON in 1994, and the company subsequently encountered financial difficulties, which led to this restructuring.

Inverness was invited to invest in the restructuring by Bain, and the investment was in the form of a membership interest in an LLC formed by Bain to invest in the common stock of ICON. Inverness believed that it was investing in ICON at a reasonable valuation and that ICON had the potential to improve its cash flow significantly. Since the time of the investment, ICON's EBITDA has increased from $42 million to $72 million (12 months ending 12/29/01). The Principals continue to hold this investment at cost.

AMC Entertainment, Inc.

In September/October 2000, Fund I acquired $100 million face value of AMC Entertainment Inc.'s ("AMC") 9.5% subordinated notes (the "Notes") in market purchases for aggregate consideration of $47.9 million, which included $1.0 million of accrued interest. The effective purchase price of these securities provided a current yield in excess of 20%. AMC is one of the leading movie theater operators in the U.S., with over 180 locations and more than 2,800 screens, the majority of which are located in the U.S. Inverness had monitored the movie exhibition industry since the late 1980s and had followed AMC with particular interest since 1991, when Peter Brown, a former employee of Inverness, joined AMC as its CFO (Mr. Brown became the CEO in 1999).

At the time of the investment, all of the large theater operators were experiencing severe financial difficulties as a result of a significant amount of excess capacity that was created during the previous several years. During that period, all of the large theater operators invested heavily in the construction of "megaplex theaters" and financed this expansion almost entirely with debt. Additionally, the weak summer 2000 movie season exacerbated the financial difficulties of the industry, which worsened the leverage problems of all of the major exhibitors. At the time of its investment, Inverness believed that a restructuring of AMC was highly likely in the near future and that such a restructuring would result in Inverness acquiring an effective controlling equity position in AMC at a price less than five times EBITDA. In the event that AMC was able to avoid a restructuring, the IRR (to a 10 year average maturity) on the Notes based on the average price paid by Inverness was approximately 25%.

On April 20, 2001, AMC announced that it had sold $250 million of convertible preferred stock to Apollo Management, L.P. and its affiliates, and that it intended to use the proceeds to reduce indebtedness under its senior credit facility. As a result of this equity issuance, the price of the bonds increased to $85, making it unlikely that AMC would be required to seek a debt for equity exchange for the foreseeable future. Therefore, Inverness decided to commence liquidating the Notes. Inverness sold all of the Notes between April and July of 2001, which resulted in a 2.0x return on investment and a 290% IRR.

These investment summaries demonstrate how the Principals intend to execute their investment strategy of targeting companies in out-of-favor industries at reasonable valuations. The Principals and the private markets team believe the current economic environment will provide the Fund with ample opportunities for attractive investments.

KEY TERMS: Noteworthy terms include the following:

(i) *Reasonable Management Fee-* The Management Fee is equal to 2% of commitments during the five-year Commitment Period and 2% of net commitments (commitments minus distributions minus permanent write-downs) thereafter. The 2% figure is at the top end of the range for management fees, in general, but is reasonable given the small size of the Fund.

(ii) *Management Fee Offset-* The Management Company will apply 100% of any Breakup Fees, 100% of any Transaction Fees, and 100% of any Monitoring Fees to reduce the Management Fees. The industry standard is between 50% and 100% for these Fees.

(iii) *Preferred Return to Limited Partners-* Slightly higher than normal at 10%.

(iv) *General Partner Co-Investment Obligation-* The General Partners will contribute $10 million to the Fund, or roughly 4.4% of the total commitments. This contribution level is higher than the industry standard of 1% and underscores the General Partners' commitment to and confidence in the Fund's strategy.

(v) *Clawback-* The General Partner has an obligation that is similar to the clawback obligations found in most partnership agreements. Additionally, unless waived by a majority of the Advisory Board, the General Partner must place 25% of its carried interest distributions (excluding tax distributions) into an escrow account as security to satisfy the clawback obligation. For the Limited Partners, this provision is superior to the industry standard. The members of the General Partner also agree to be severally obligated for the clawback in the event the General Partner fails to perform, and the following persons are also severally obligated for the clawback: James C. Comis, III (42.5%), W. McComb Dunwoody (42.5%) and Robert N. Sheehy, Jr. (15%).

(vi) *Key Man Provision-* If either W. McComb Dunwoody or James C. Comis III. ceases to be active in the Partnership's affairs, then Limited Partners holding at least 50% of the Partnership interests can elect to suspend future capital calls, expect capital calls for pending investments. The Fund I Limited Partnership Agreement listed only Mr. Dunwoody as a Key Person.

(vii) *Advisory Board-* The Fund will have an Advisory Board that will consist of between 5 and 7 members appointed by the General Partner from among the Limited Partners. UTIMCO will receive Advisory Board representation as part of its commitment to the Fund.

INVESTOR GROUP: Fund III expects to raise approximately $225 million in capital. A sample of the committed institutional investor group is as follows:

Corporations/Governments/Funds of Funds	Endowments
Goldman Sachs Asset Management GE Capital PPM America Phoenix Home Life Sumitomo Corporation of America	None

Of the investors in Fund I, only Prudential Insurance, CIBC Capital, and JMI Investments have declined to commit capital to Fund II. Prudential is no longer making private equity investments and CIBC has not committed because that institution did not see any deal flow from its original commitment. As of July 22, 2002, JMI Investments had not decided whether to commit to Fund II. The heavy concentration of financial institutions in the Limited Partner pool reflects the fact that the General Partners did not use a placement agent for either Fund I or Fund II, and highlights the General Partners' strong contacts and relationships within the financial community.

CONCERNS: In addition to the normal risks associated with private equity investing (illiquidity, long holding periods, etc.), the private markets team acknowledges that a commitment to the Fund will subject the endowments to the following additional risks:

(i) *Lack of Management Depth-* Although the Principals are talented and have worked together for a number of years and have, the performance of the Fund will be dependent upon the activities of only three key individuals. The Key Person provision will allow Limited Partners to suspend investment activity if either Mr. Dunwoody or Mr. Comis are no longer involved in the activities of the Partnership, but this provision does not entirely reduce the risk associated with the small team.

(ii) *Lack of Diversification-* Unlike most private equity partnerships which build portfolios with 10 or more investments, the Fund will likely invest in only 4-6 businesses. As such, the performance of one investment can have a significant impact on the overall returns for the Fund. For Limited Partners that do not have a diversified portfolio of private equity investments, this lack of diversification could represent a significant threat. However, for more diversified investors like UTIMCO, this focused approach could actually be viewed as a positive, since the Principals will be able to focus their efforts on a smaller number of investments.

(iii) *Possible Competition for Deal Flow-* While the Principals are unlikely to participate in auctions to acquire businesses, they may encounter additional competition for deals as a result of the influx of capital into the "distressed" arena. The private markets team expects the Principals to maintain their pricing discipline in the future, and believes the Principal's ability to avoid over-priced transactions in Fund I will be a good indicator of future pricing discipline. Additionally, the General Partners' contribution of $10 million to the Fund should enhance the General Partners' pricing discipline further.

CONCLUSION: Based upon Cambridge Associates' due diligence and recommendation and UTIMCO's independent review of the transaction, the UTIMCO staff recommends a commitment of up to $40 million to Inverness Partners II, L.P. This commitment will allow the endowment funds to maintain and enhance a relationship with a cohesive and proven private equity firm.

Approved:

Trey Thompson Trey Thompson

Bob Boldt

C | A

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MEMORANDUM

TO:	Bob L. Boldt, CFA President, CEO & CIO Cathy Iberg CEO UTIMCO
FROM:	Astrid M. Noltemy Jennifer A. Urdan
DATE:	June 24, 2002
RE:	Inverness Partners II, L.P.

RECOMMENDATION

Cambridge Associates recommends that UTIMCO invest up to $40.0 million in Inverness Partners II, L.P. subject to the negotiation and approval of final terms of the Partnership. Inverness Partners II represents an opportunity for UTIMCO to continue its relationship with this experienced and disciplined team.

SUMMARY

Inverness Capital Management ("Inverness" or the "Firm") is raising its second private equity partnership, Inverness Partners II, L.P. (the "Fund"), seeking $225 million in commitments. The Fund is being raised to continue the investment strategy developed in the Firm's prior partnership. The Firm has generated top quartile returns on its investments through a disciplined and focused approach centered on industry research, company analysis, and an ability to provide stability to troubled companies.

ORGANIZATION AND MANAGEMENT

Inverness is managed by W. McComb Dunwoody, James C. Comis III, and Robert N. Sheehy, Jr. (collectively, the "Principals"). The three Principals maintain all of the responsibilities of investing, managing, and monitoring the Firm's funds along with one associate. The small and cohesive team will likely remain unchanged during the life of the Fund, although the Principals will consider hiring an additional professional at a junior partner level. The team is located in the Firm's two offices in Greenwich, CT and New York City. Mr. Dunwoody works out of the Firm's Greenwich Connecticut office and the remainder of the investment professionals mainly work out of the Firm's primary office in New York City.

FUNDRAISING

The Firm expects to hold an initial closing in July of 2002 on approximately $175 million. A final closing is targeted for September of 2002 on a total of $225 million.

INVESTMENT STRATEGY

The Fund will make investments in troubled companies in out-of-favor industries. Investments will take the form of debt and/or equity and will be made in public and private companies with $10 million to $50 million of EBITDA. The Fund's portfolio will be highly concentrated and will be invested across multiple industries.

The Firm's overriding philosophy is to maintain a conservative, comprehensive, and focused approach to investing. Accordingly, the Principals follow an industry for years and concentrate on making one investment in one industry per year. As a result, it is probable that the Fund will take its full five year commitment period to invest the Fund. The benefit of this approach is that the Firm seeks opportunities where it can closely monitor an investment, gain a board seat, work with management, and become a majority investor. As a consequence, the Principals have closely managed Fund I portfolio companies through transition and have exited half of the portfolio in less than three years.

INVESTMENT PERFORMANCE

Fund	Inception Year	Fund Size (mm)	Paid-In (mm)	NAV (mm)	Paid-Out (mm)	Net IRR	CA Mean[2]	CA Median[2]
Inverness/Phoenix Partners LP[1]	1998	$176.0	$150.4	$66.7	$151.8	19.5%	0.0%	1.8%

Performance Notes:
[1] Returns are net of management fees and carried interest, as of 3/31/02, as calculated by Cambridge Associates, LLC.
[2] Benchmarks are net to Limited Partners, as of December 31, 2001, as calculated by Cambridge Associates LLC.

In January 1998, Inverness formed its first and only fund, Inverness/Phoenix Partners LP ("Fund I") with $176 million of committed capital. Through the first quarter of 2002, the fund invested $150.4 million and distributed $151.8 million. According to Cambridge Associates, Fund I produced a net internal rate of return ("IRR") of 19.4% through the same period. This performance places the fund significantly above Cambridge Associates' fourth quarter 2001 top quartile benchmark of 6.8%. Fund I has made a total of four investments and has realized two, which have returned a total of $133.2 million on $78.5 million of invested capital.

COMPETITIVE ADVANTAGES

- **Experienced and Cohesive Team:** The Principals have all worked together at Inverness for the last six years. Over this time, the Principals successfully assimilated work styles, personalities, and contributions to form a cohesive and stable team that will benefit the Fund.

- **Investment Strategy:** By maintaining strict discipline and seeking to make only one investment per year, the Firm is able to intensively concentrate on one sector and one investment at a time. The Fund's focused strategy provides the team with the time necessary to evaluate, enter, and work through complex transactions that other private equity firms may be less willing to engage in. Consequently, the Fund should witness considerably less competition for deals than other private equity firms.

- **Performance:** Inverness' first fund has produced top quartile returns and has returned significantly more capital than other funds of its vintage year. Fund I has returned 1.0x invested capital compared to 0.2x for 1998 vintage year funds.

- **Capacity:** The Firm currently manages only two investments, Trico Marine and ICON Health & Fitness. In addition to these two transactions, Fund I will make only one additional investment. As a result of these limited responsibilities, the Principals will have considerable capacity available to work on Fund deals.

ISSUES FOR CONSIDERATION

- **Portfolio Concentration:** Fund I will consist of five deals. Consequently, one investment can materially impact the Fund's entire performance. To mitigate these factors, the Principals seek companies in which they can sell assets upon purchase and can immediately improve cash flow. Also, by maintaining a slow and conservative investment approach, the Principals are able to identify, monitor, and address company issues quickly. This focus should help relieve, but not eliminate, the Fund's significant concentration risk. However, also as the result of this concentration, one or two significant returns can drive superior returns.

- **Abbreviated Track Record:** The Firm's track record, although top quartile, is limited. The Firm has made only four investments and realized two in its prior fund. With such a small track record, it is difficult to confirm Inverness' ability to consistently reproduce top quartile returns. It is important to note, however, that references consistently highlighted the team's discipline and demonstrated added value as investors.

CONCLUSION

The Fund provides investors with the ability to partner with a cohesive and stable team that maintains a disciplined approach to investing. The partner's focused strategy and top quartile performance should mitigate some of the risks of a concentrated portfolio and a limited track record.

TERMS OF THE OFFERING

Minimum Commitment:	$5 million.
General Partner's Commitment:	$10 million.
Investment Period:	Five years.
Takedown:	Subscriptions will be taken down with a minimum of 10 days' written notice.
Distributions:	Carried interest will be distributed 80% to limited partners and 20% to the General Partner based on committed capital after a preferred return of 10% per annum.
General Partner Clawback:	Yes.
Limited Partner Clawback:	No.
Fee:	The General Partner will receive an annual management fee equal to 2.0% of funded capital.
Life of Partnership:	10 years, subject to three one-year extensions at the discretion of the General Partner.
Key Man Clause:	No.
Projected Closing:	The Fund expects to hold an expected interim closing on June 30, 2002 on $175 million. The Fund will expect to hold a final closing on September 30, 2002 on $225 million.

Biographies of Key Investment Professionals:

James C. Comis III

Experience	Inverness Management LLC, Managing Director, 1990-Present DJS/Inverness, Associate, 1989-1990 Prudential-Bache Capital Funding, M & A Analyst, 1986-1989
Education	B.S.B.A., Georgetown University

W. McComb Dunwoody

Experience	Inverness Management LLC, Managing Director 1990- Present DJS/Inverness, President, 1988-1990 The Inverness Group, President, 1981-1988 First City National Bank, Senior Vice President, 1975-1981 Donaldson, Lufkin & Jenrette, Vice President, 1973-1975 The First Boston Corporation, Assistant Vice President, 1968-1973
Education	B.B.A., University of Texas

Robert N. Sheehy, Jr.

Experience	Inverness Management LLC, Managing Director, 1996- Present PennCorp Financial Group, Inc., Vice President, 1990-1992 DJS/Inverness, Vice President, 1987-1990
Education	B.A., Swarthmore College M.P.P.M., Yale University

No part of this report is intended as a recommendation of any firm or any security. Factual information contained herein about investment firms and their returns which has not been independently verified has generally been collected from the firms themselves through the mail. We can neither assure nor accept responsibility for accuracy, but substantial legal liability may apply to misrepresentations of results delivered through the mail.

Resolution No. 1

RESOLVED, that the minutes of the meeting of the Board of Directors held on **June 18, 2002**, be and are hereby approved.

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

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting on the **18th day of June, 2002**, in Salons A&B of the Crescent Court Hotel, 400 Crescent Court, Dallas, Texas, 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
Rita C. Clements
Woody L. Hunt
John D. McStay
R. H. (Steve) Stevens, Jr.

thus, constituting a majority and quorum of the Board. Directors Susan M. Byrne and L. Lowry Mays were not present at the meeting. Also, participating in the meeting were 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; Jerry Turner, legal counsel for the Corporation; and Bruce Myers of Cambridge Associates. Mr. Riter called the meeting to order at 10:00 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 April 22, 2002. Mr. McStay asked that the minutes include revised language to reflect his request that for each period that performance is reported, the Corporation also include percentile rankings against appropriate peer groups and an updated report on the Corporation's ratings of the alternative nonmarketable managers. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the minutes of the Annual Meeting of the Board of Directors held on April 22, 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.

Powers and Authority of Managing Director

The next item presented to the Board was a recommendation, subject to the control of the Board of Directors and the supervision of the President, to give each Managing Director certain powers and authority. Ms. Iberg will maintain her Managing Director title. Upon motion duly made and seconded the Directors adopted the following resolution:

> RESOLVED, that subject to the control of the Board of Directors and the supervision of the President, each Managing Director shall be responsible for the business and operations of this Corporation assigned to such Managing Director by the Board of Directors or the President and shall have all such powers and authority as may be reasonably incident to such responsibilities, including the authority to agree upon and execute all leases, contracts, agreements, evidences of indebtedness, certificates, instruments and other documents in the name or on behalf of this Corporation, acting on its own behalf or in its capacity as investment manager under that certain Management Services Agreement dated effective March 1, 1996 between this corporation and the Board of Regents of The University of Texas System, as in effect, amended, restated or replaced, from time to time, and each Managing Director shall have such other powers and duties as may be assigned to such person from time to time by the Board of Directors.

Asset Allocation Review

At this time, Mr. Riter turned the meeting over to Mr. Boldt to discuss asset allocation. Mr. Boldt reviewed the Permanent University Fund (PUF) and the General Endowment Fund (GEF) asset allocation as of May 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 May 31, 2002. The net performance for the three-month period ended May 31, 2002, for the PUF and the GEF were 2.47%, and 2.61%, respectively. The net performance for fiscal year-to-date ended May 31, 2002, for the PUF and GEF were 0.71% and 1.40%, respectively, versus a benchmark of 2.95%. The Short Intermediate Term Fund's (SITF) performance was 0.63% versus a benchmark of 0.93% for the three-month period ended May 31, 2002. Performance for the Short Term Fund (STF) was 0.50% versus 0.49% for its benchmark for the three-month period ended May 31, 2002. There was a discussion of benchmarks at this time, and Mrs. Clements requested that benchmark breakdowns by market be included on future reports. Also reviewed were the PUF's and the GEF's performance attribution for the three-month and one-year periods ended May 31, 2002. After the report, Mr. Boldt answered the Director's questions.

Distribution Policies

The next item presented to the Board of Directors was a discussion of PUF and LTF Distribution Policies. After describing the differences between the PUF and LTF payout rates and policies, Mr. Boldt answered the Directors' questions and stated that the recommended 2003 annual distribution rates would remain the same as were approved at the February 19, 2002 Board of Directors' meeting, subject to approval by The University of Texas System Board of Regents.

Future Course of UTIMCO

Mr. Riter asked Mr. Boldt to make his presentation on the future course of the Corporation. Mr. Boldt described various aspects of the competitive spectrum, potential value-added opportunities and a proposed new organizational structure within the Corporation. Mr. Boldt answered the Directors' questions. Mr. Hunt asked Mr. Myers to comment on Mr. Boldt's presentation and Mr. Myers stated that Cambridge Associates is very supportive of the proposal.

Report of Audit and Ethics Committee

Mr. Hunt reported on the Corporation's Audit and Ethics Committee meeting held on June 5, 2002. The Committee approved the minutes of the Audit and Ethics Committee meeting held on November 5, 2001. Ms. Iberg presented the financial statements for the Corporation for the period ended April 30, 2002. She also reported on the Statements of Activities and Statements of Cash Flows for the Corporation, as well as the Supplemental Schedules. She noted that the Corporation tracks direct expenses to each of the funds, which is beneficial should the Corporation rebate a portion of its management fee to the investment funds as it did last year. The Corporation's goal is to have a capital reserve equal to one-year of investment fees. There were no significant financial statement items to report. The Audit and Ethics Committee members approved the appointment of Deloitte & Touche, LLP as the independent auditor subject to approval by the Corporation's Board at this meeting. Ms. Iberg updated the Committee on the Corporation's compliance, reporting, and outstanding audit issues. There were no items of significance to report. Mr. Hunt answered the Directors' questions. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> 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.

This concluded Mr. Hunt's report of the Audit and Ethics Committee meeting.

Fee Request

Mr. Boldt discussed the approaching review of the asset allocation policy and other changes to be made, and presented the Annual Fee and Allocation Schedule for the fiscal year ending August 31, 2002. Upon motion duly made and seconded, the following resolution was unanimously adopted:

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

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately at 2:00 p.m.

Assistant Secretary: ____________________________
Christy W. Wallace

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

Resolution No. 2

WHEREAS, the Board of Directors of The University of Texas Investment Management Company greatly appreciate the experience, judgment and insight that Mr. R.D. Burck provided during his term as Chancellor of The University of Texas System and *ex-officio* Director of the Corporation; and

WHEREAS, the Board of Directors desires to have continued access to the advice and counsel of Mr. Burck;

NOW, THEREFORE, be it:

RESOLVED, that the Board of Directors hereby appoints Mr. Burck to serve as Advisory Director to the Corporation for a term ending [April 1, 2003]; and be it

FURTHER RESOLVED, that while Mr. Burck shall not be entitled to vote on any matters coming before the Board of Directors, it is the desire of the Board of Directors that Mr. Burck attend all Board meetings and participate fully in all discussions and briefings incident to such meetings; and be it

FINALLY RESOLVED, that Mr. Burck shall not be entitled to receive any fees or compensation for his service as an Advisory Director to the Corporation, other than reimbursement for expenses incurred in attending Board meetings.

Resolution No. 3

To be distributed at the meeting

Resolution No. 4

RESOLVED, that the following persons are hereby appointed as Managing Directors of the Corporation, to serve until their resignation or removal.

Cathy Iberg	Managing Director - Marketable Alternative Investments and Deputy Chief Investment Officer
Sara McMahon	Co-Managing Director – Non-Marketable Alternative Investments
Trey Thompson	Co-Managing Director – Non-Marketable Alternative Investments
Joan Moeller	Managing Director – Accounting, Finance and Administration
Bill Edwards	Managing Director– Information Technology Services

Resolution No. 5

WHEREAS, the Board has reviewed Investment Recommendations prepared by the Corporation and the Corporation's private equity advisor, Cambridge Associates LLC, recommending that the Corporation invest with Beacon Capital Partners up to an additional $15 million of Permanent University Fund (PUF) and General Endowment Fund (GEF) assets in **Inverness Partners II LP** (the "Investment"); and

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

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed Investment as described in the Investment Recommendations dated July 16, 2002 and June 24, 2002, for **Inverness Partners II LP** be approved; and be it further

RESOLVED, that the President and CEO, and any Managing Director of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions of the proposed investment as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to **Inverness Partners II LP;** and be it further

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

Resolution No. 6

RESOLVED, that the amendments to the Investment Policy Statements for the Permanent University Fund and the General Endowment Fund as presented be and are hereby approved; and

BE IT FURTHER RESOLVED, that the amended Investment Policy Statements be recommended for approval at the U. T. Board of Regents meeting on November 12-13, 2002.

Resolution No. 7

RESOLVED, that the 2003 Base Salary (for the period September 1, 2002 through August 31, 2003) and 2002 Performance Compensation Award, if deemed appropriate, for the Corporation's President as recommended by the Compensation Committee be and is hereby approved.

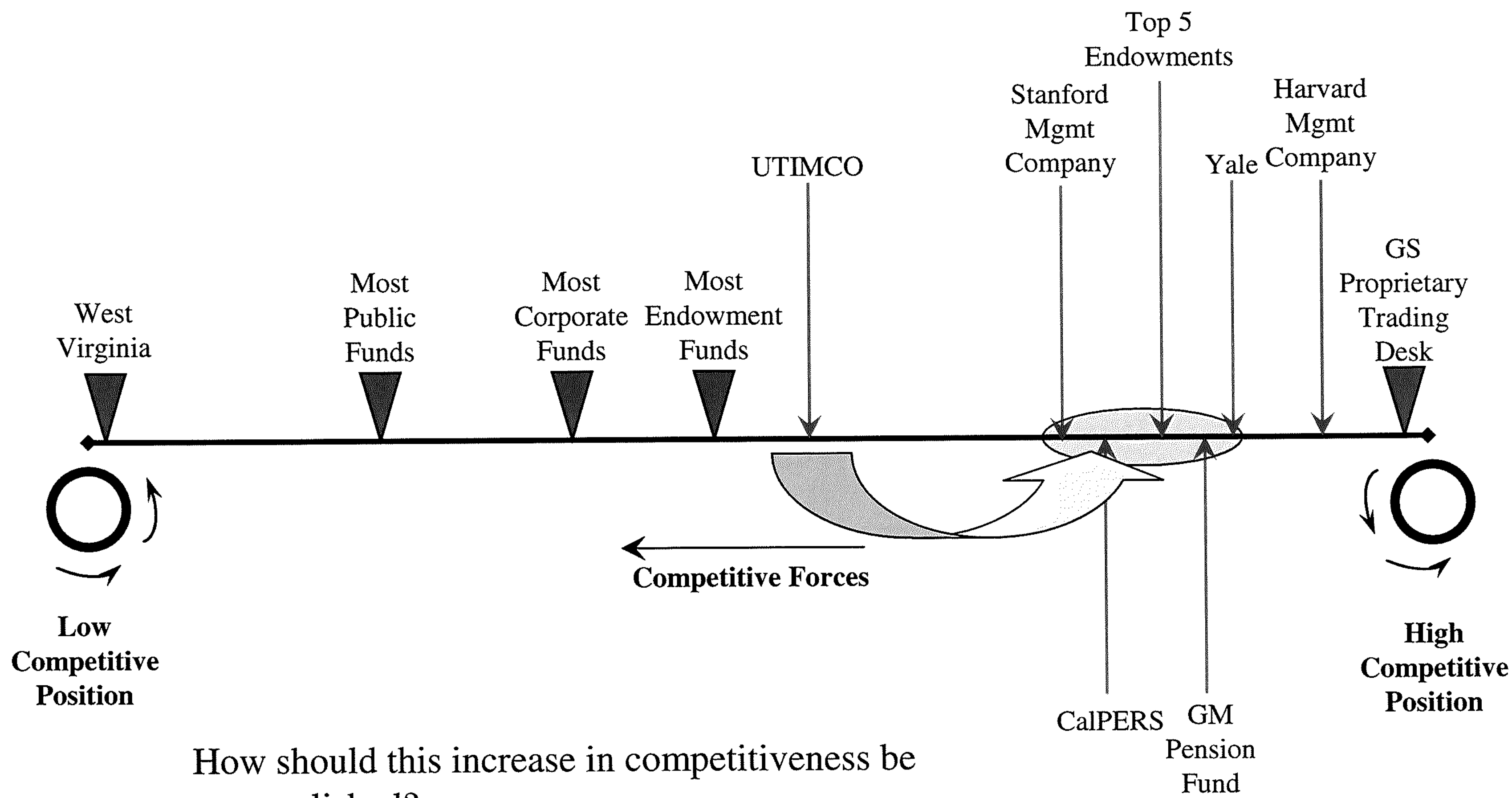
Asset Allocation
Review and Recommendations

UTIMCO

THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

September 2002

Target Competitiveness Level for UTIMCO



How should this increase in competitiveness be accomplished?

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 ....

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.

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.

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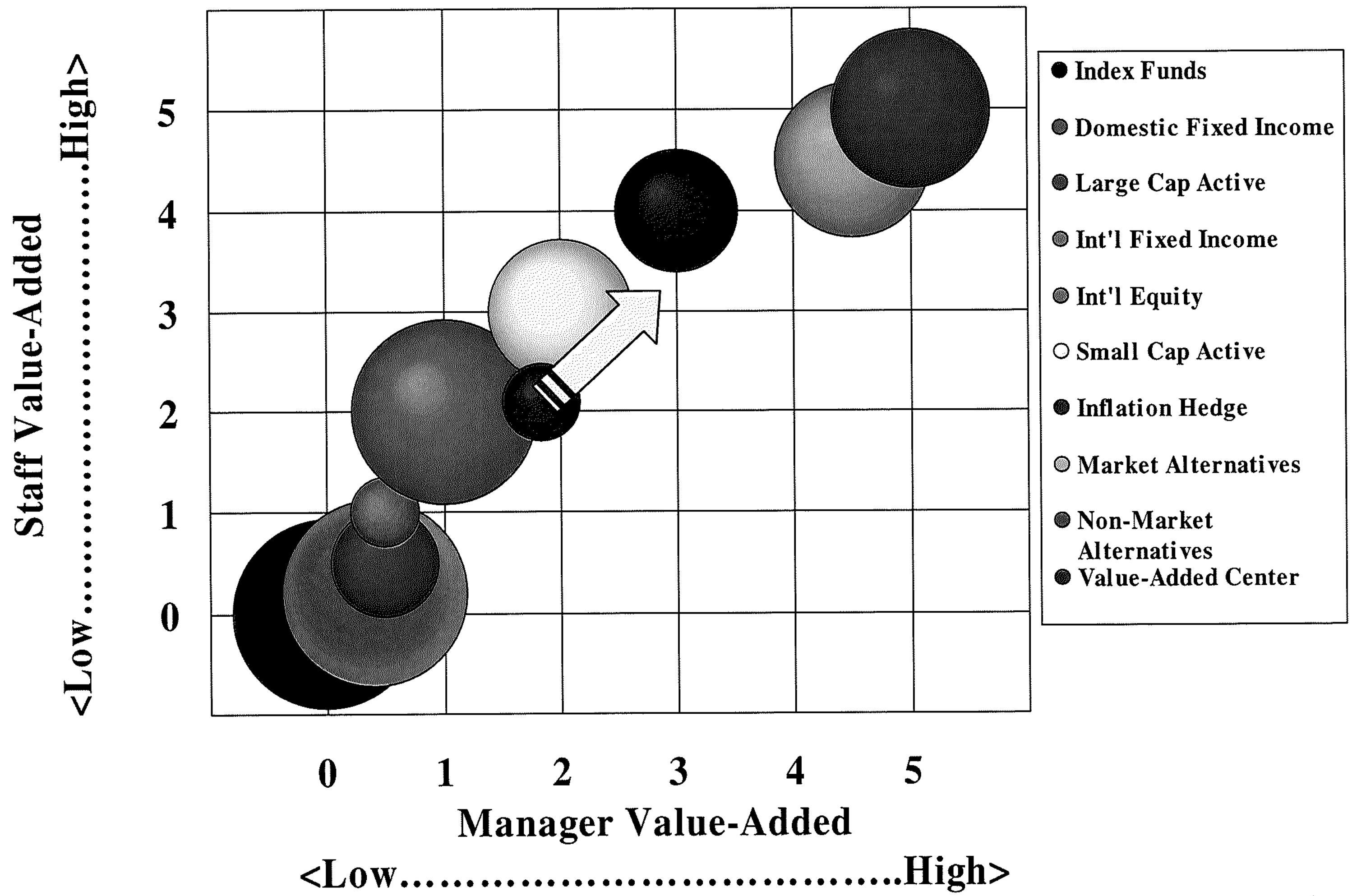
PVA in the Current UTIMCO Portfolio Structure



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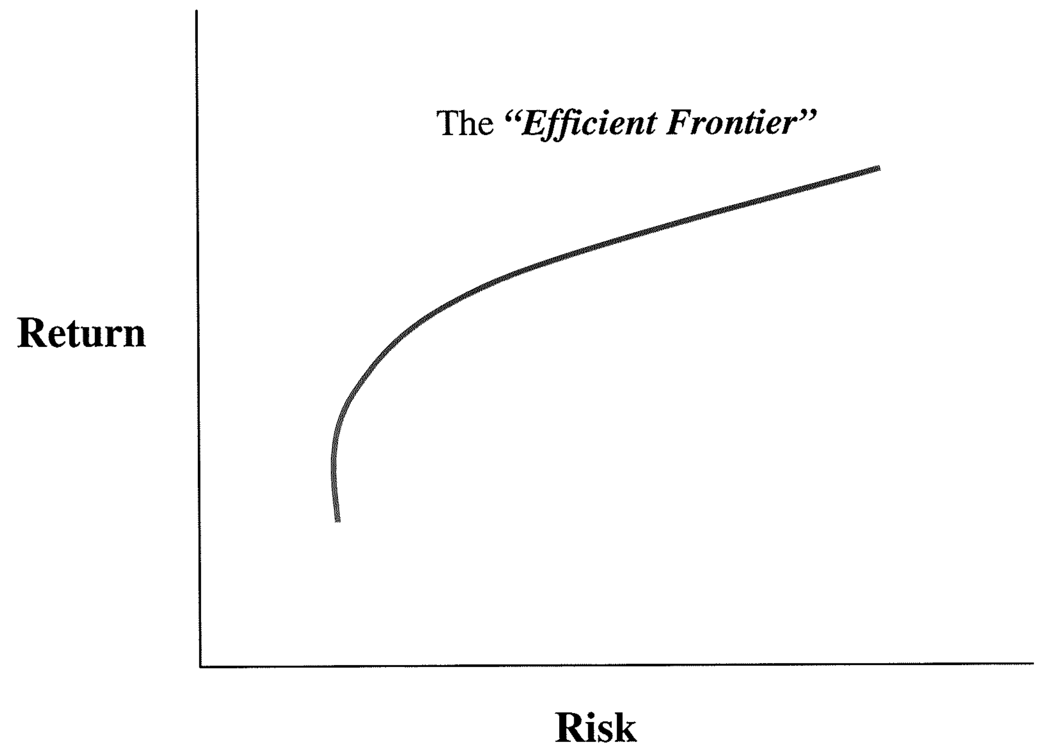
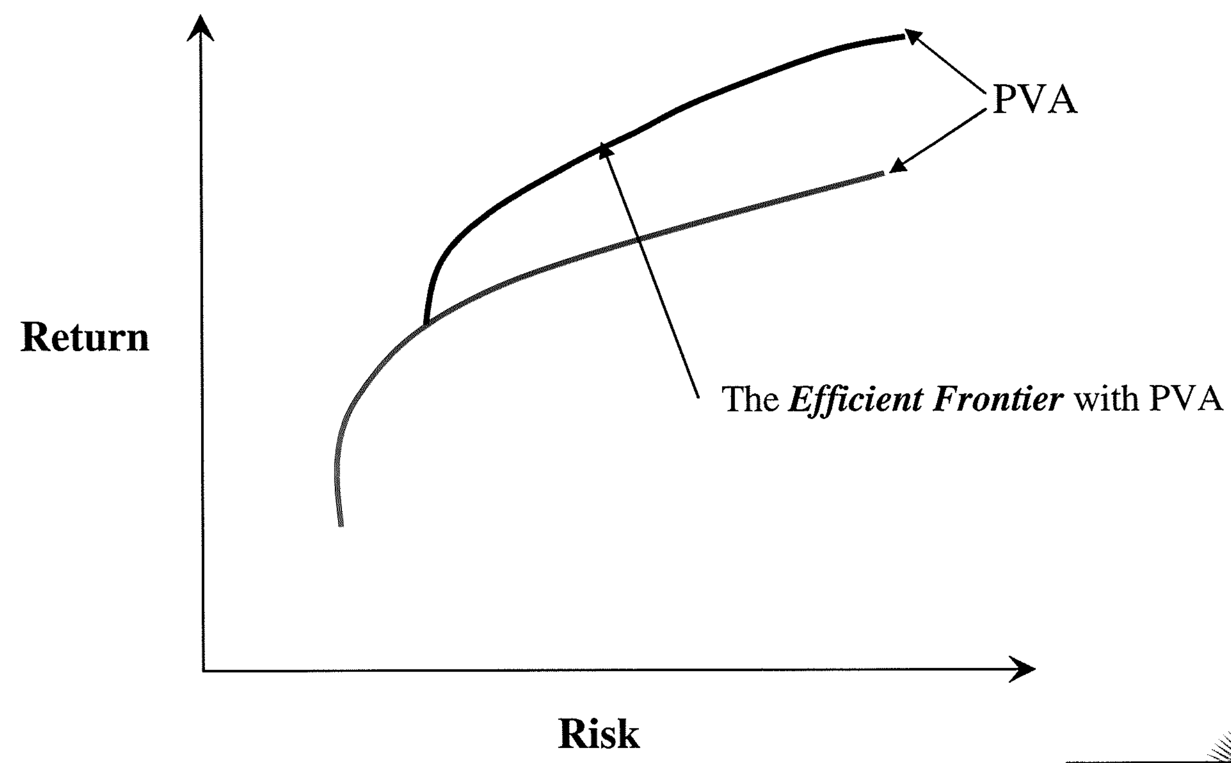
Return Opportunities in Financial Markets



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



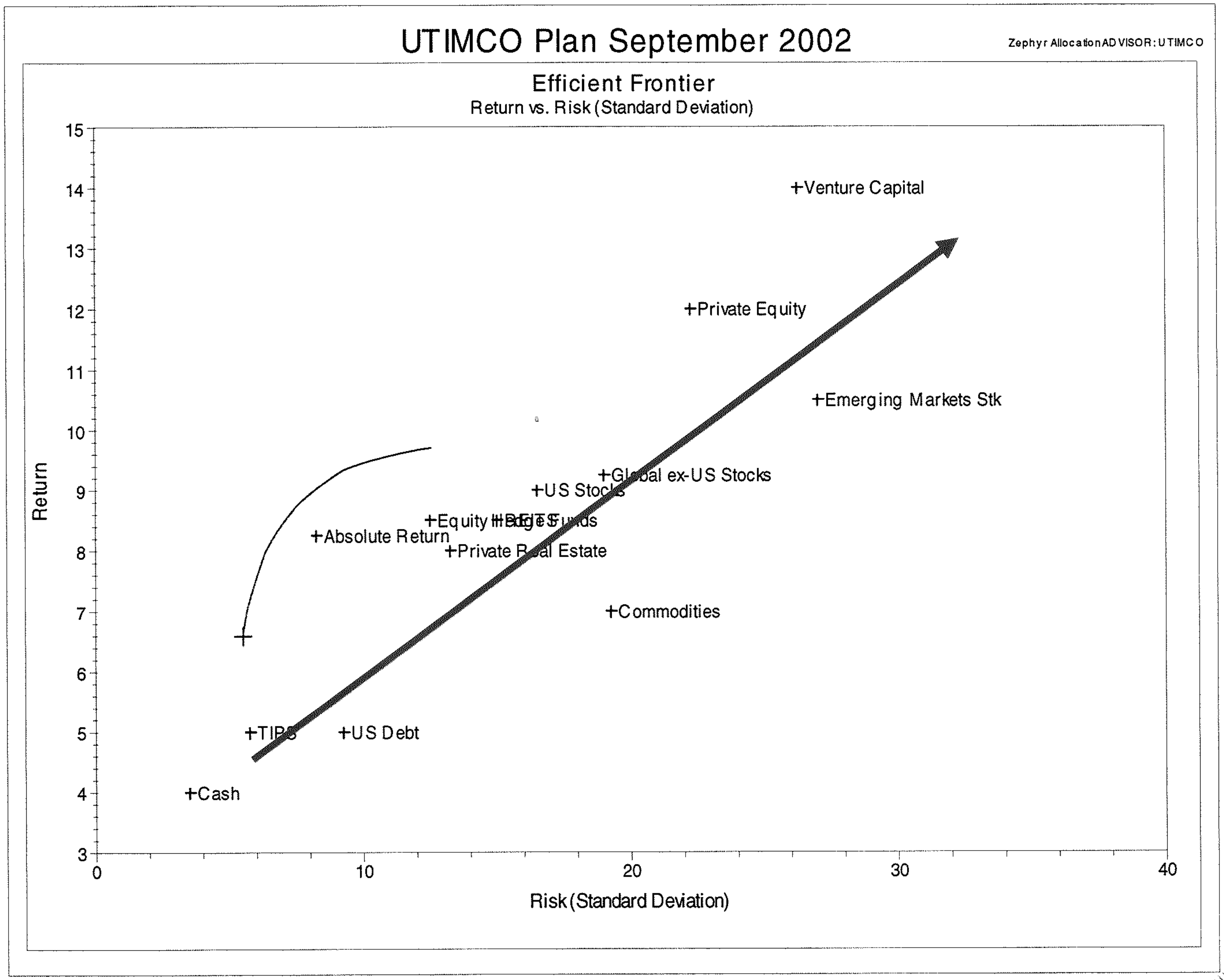
Return and Risk Assumptions

	Nominal Compound Annual Return (%)		
	Long Term 30 Year Horizon	Next 5 to 7 Years	Expected Risk (% Standard Deviation)
US Equity	9.00	7.50	16.50
Global non US Equity	9.25	7.50	19.00
Emerging Markets Equity	10.50	9.50	27.00
Absolute Return Hedge Funds	8.25	7.00	8.25
Equity Hedge Funds	8.50	7.50	12.50
Venture Capital	14.00	10.50	26.25
Private Equity	12.00	9.00	22.25
REITs	8.50	7.00	15.00
Private Real Estate	8.00	7.00	13.25
Commodities	7.00	6.00	19.25
US Bonds	6.00	5.50	9.25
TIPS	5.00	4.50	5.75
Cash	4.00	3.50	3.50

Correlation Assumptions

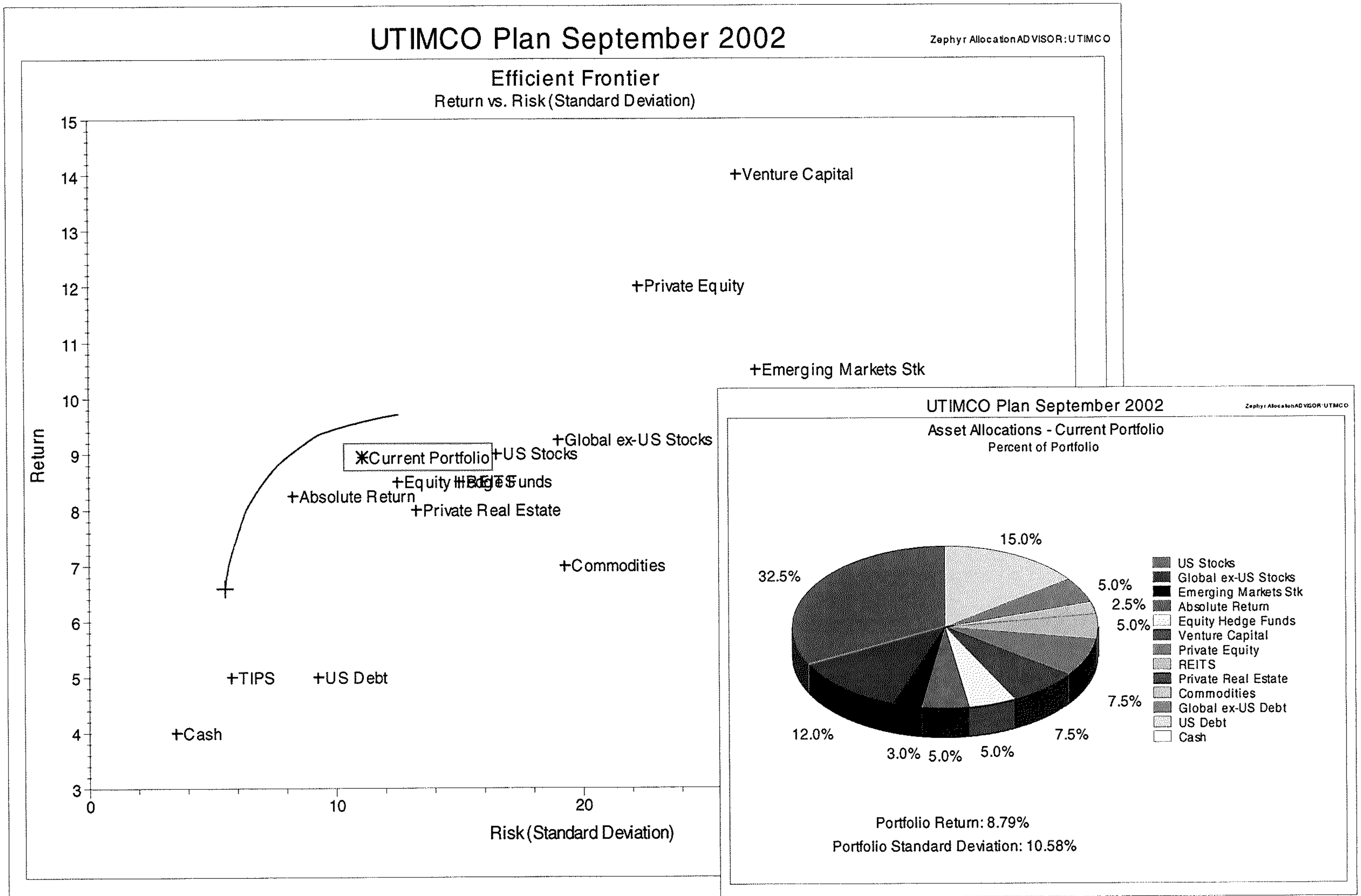
	US Equity	Global non US Equity	Emerging Markets Equity	Absolute Return Hedge Funds	Equity Hedge Funds	Venture Capital	Private Equity	REITs	Private Real Estate	Commodities	US Bonds	TIPS	Cash
US Equity	1.00												
Global non US Equity	0.52	1.00											
Emerging Markets Equity	0.08	0.28	1.00										
Absolute Return Hedge Funds	0.25	0.20	0.15	1.00									
Equity Hedge Funds	0.30	0.27	0.30	0.25	1.00								
Venture Capital	0.54	-0.03	-0.13	0.15	0.25	1.00							
Private Equity	0.40	0.10	0.06	0.20	0.25	0.84	1.00						
REITs	0.59	0.35	0.46	0.20	0.25	0.52	0.72	1.00					
Private Real Estate	0.29	0.33	-0.47	0.06	0.07	-0.02	0.19	0.10	1.00				
Commodities	-0.35	-0.22	0.09	-0.11	-0.31	0.12	-0.02	-0.32	0.10	1.00			
US Bonds	0.57	0.22	0.26	0.50	0.40	0.02	0.23	0.27	-0.01	-0.20	1.00		
TIPS	0.12	0.12	-0.13	0.54	0.02	-0.31	-0.04	0.20	0.38	0.35	0.30	1.00	
Cash	0.12	0.12	-0.13	0.54	0.02	-0.31	-0.04	0.20	0.38	0.35	0.30	1.00	1.00

The Risk Return Tradeoff



THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

The Current Allocation Policy



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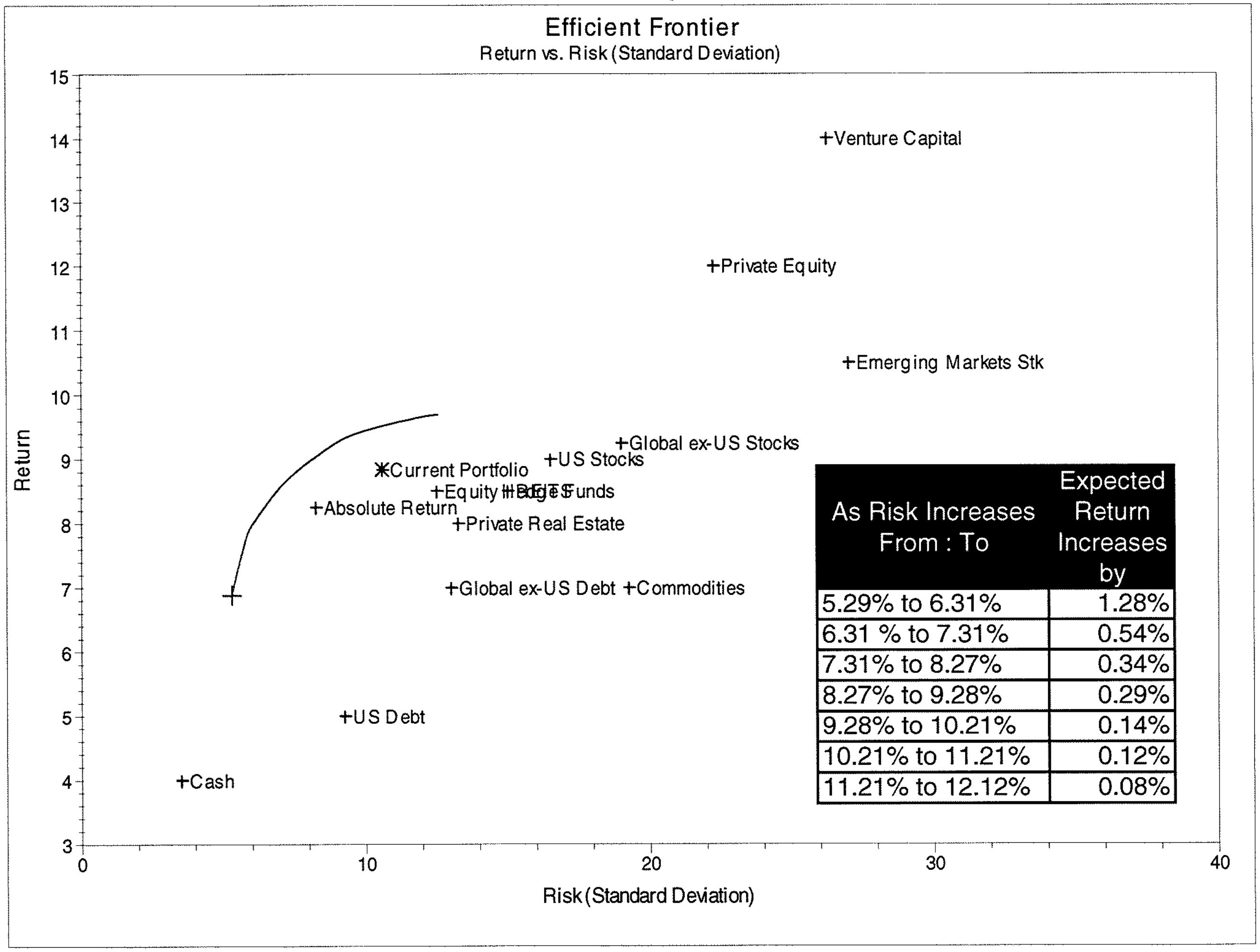
Flat Efficient Frontier at Higher Risk Levels

UTIMCO Plan September 2002

Zephyr AllocationADVISOR: UTIMCO



As Risk Increases From : To	Expected Return Increases by
5.29% to 6.31%	1.28%
6.31 % to 7.31%	0.54%
7.31% to 8.27%	0.34%
8.27% to 9.28%	0.29%
9.28% to 10.21%	0.14%
10.21% to 11.21%	0.12%
11.21% to 12.12%	0.08%

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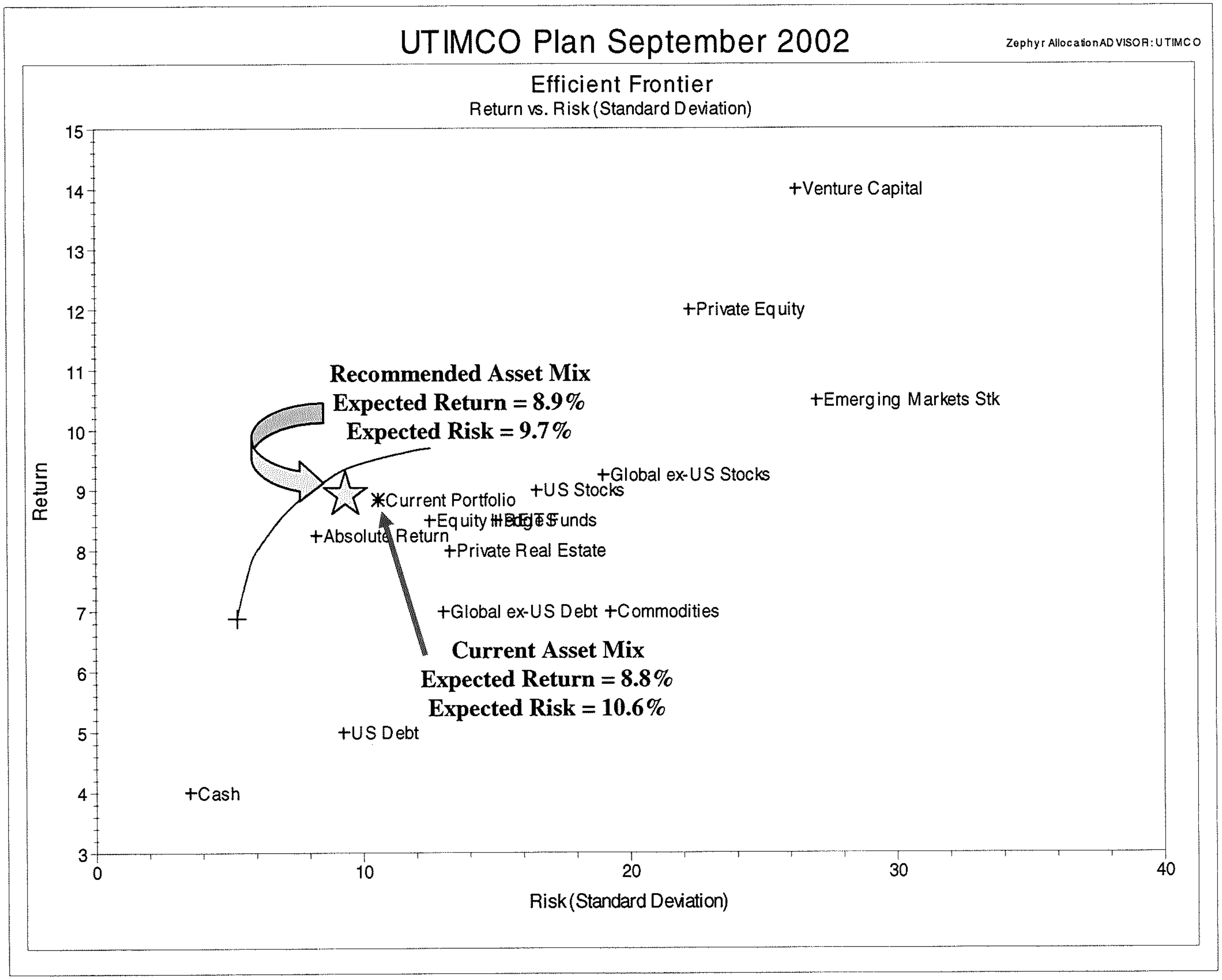
Factors Affecting Allocation Decisions

Asset Category	Tactical View	PVA	Recommended Change
US Equity	Negative	Low	Reduce
Global non US Equity	Neutral	High	Maintain
Emerging Markets	Positive	Very High	Maintain
Absolute Return	Neutral	Very High	Increase
Equity Hedge Funds	Neutral	Very High	Increase
Venture Capital	Neutral / Negative	Very High	Maintain
Private Equity	Neutral	Very High	Maintain
REIT's	Neutral / Positive	High	Reduce
Real Estate	Positive	High	Increase
Commodities	Neutral / Positive	Low	Maintain
US Bonds	Neutral / Negative	Very Low	Maintain, change emphasis
Global ex US Bonds	Neutral / Positive	Low	Opportunistic

Improving the Policy Allocation



Functional View Of Recommended Allocation Policy

Function	Asset Category	Implementation Strategies	Current Target	Recommended Target
Drivers of Return	Domestic Public Equity		32.50%	31.00%
		Passive Management		
		Active Management		
		Hedge and Alpha Transport		
	International Public Equity		15.00%	19.00%
		Passive Developed and Emerging		
		Active Developed and Emerging		
		Hedge and Alpha Transport		
	Private Capital		15.00%	15.00%
		Venture Capital		
		Private Equity		
		Private Debt		
		Opportunistic Special Situations		
	Subtotal for Drivers of Return:		62.50%	65.00%
Risk Reduction	Absolute Return		6.00%	10.00%
		Market Neutral Hedge Funds		
	Inflation Hedge		7.50%	10.00%
		Financial Exposure to Commodities (GSCI futures)		
		Oil & Gas, Timber and other Physical Commodities		
		Public Real Estate (REITs)		
		Private Real Estate		
		TIPS		
	Deflation Hedge		0.00%	10.00%
		US Government Bonds and Agencies		
	Opportunistic Fixed Income		20.00%	5.00%
		Domestic Public Debt (Investment Grade)		
		High Yield Bonds (Below Investment Grade)		
		International Developed Markets Public Debt		
		Emerging Markets Public Debt		
		Hedge and Alpha Transport		
	Cash & Equivalents		0.00%	0.00%
		Money Markets		
	Subtotal for Risk Reducers:		33.50%	35.00%
Total:			96.00%	100.00%

Current Asset Allocation Policy lists Hedged Equity as a separate asset class at a 4% target weight; the recommended policy considers hedged equity to be an implementation strategy which may be employed up to 10% of assets.

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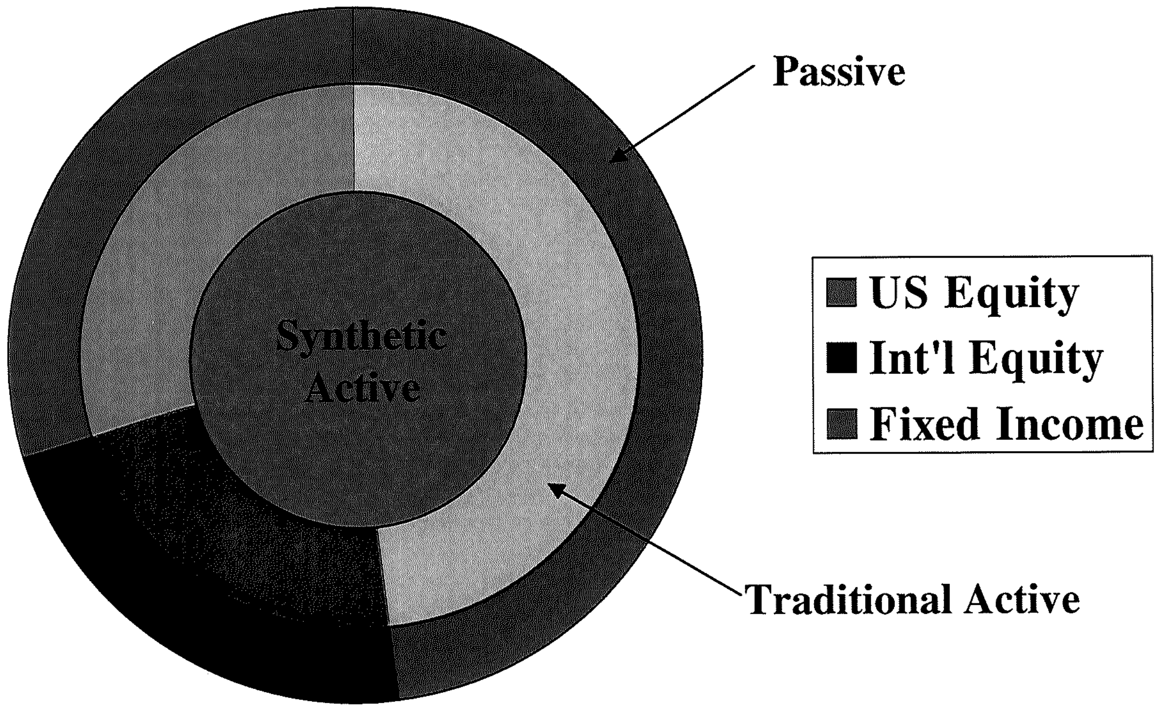
Value-Added in Public Markets with Alpha Transport

Public Markets Investments:



Expected Returns, Risks, and Policy Ranges

Function	Asset Category	Implementation Strategies	Expected Nominal Return	Expected Risk	Target Allocation	Range	Investment Policy Benchmark
Drivers of Return	Domestic Public Equity		9.00%	16.50%	31.00%	25% to 45%	Wilshire 5000 Index
		Passive Management					
		Active Management					
		Hedge and Alpha Transport					
	International Public Equity		9.75%	21.00%	19.00%	10% to 30%	MSCI - ACW Free ex US
		Passive Developed and Emerging					
		Active Developed and Emerging					
		Hedge and Alpha Transport					
	Private Capital		13.00%	24.50%	15.00%	10% to 20%	Wilshire 5000 Index + 4%
		Venture Capital					
		Private Equity					
		Private Debt					
		Opportunistic Special Situations					
	Subtotal for Drivers of Return:				65.00%	50% to 80%	Sum of Target Weighted Benchmarks
Risk Reduction	Absolute Return		8.25%	8.25%	10.00%	5% to 15%	Treasury Bills + 4%
		Market Neutral Hedge Funds					
	Inflation Hedge		7.15%	9.25%	10.00%	5% to 15%	Custom Inflation Hedge Benchmark (1)
		Financial Exposure to Commodities (GSCI futures)					
		Oil & Gas, Timber and other Physical Commodities					
		Public Real Estate (REITs)					
		Private Real Estate					
		TIPS					
	Deflation Hedge		5.50%	9.25%	10.00%	5% to 15%	Lehman Brothers Government Bond Index
		US Government Bonds and Agencies					
	Opportunistic Fixed Income		6.50%	11.75%	5.00%	2.5% to 15%	Lehman Brothers Aggregate ex US Govt
		Domestic Public Debt (Investment Grade)					
		High Yield Bonds (Below Investment Grade)					
		International Developed Markets Public Debt					
		Emerging Markets Public Debt					
		Hedge and Alpha Transport					
	Cash & Equivalents		4.00%	3.50%	0.00%	0% to 5%	91 day Treasury Bills
		Money Markets					
	Subtotal for Risk Reducers:				35.00%	20% to 50%	Sum of Target Weighted Benchmarks
Total:			8.90%	9.70%	100.00%		Sum of Target Weighted Benchmarks

UTIMCO
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

A Scenario View of Diversification

Asset Categories	Scenarios						
	"Normal" Economy and Markets	Unexpected Burst of Inflation (6 months to 3 Years)	Systematic Inflation (3 to 10 Years)	Hyper Inflation (3 to 5 Years)	Event Induced Short Term Deflation (6 months to 3 Years)	Global Deflation (3 to 10 Years)	Armageddon Scenario: Chaotic Markets with Deflation (3 to 5 Years)
Domestic Public Equity	3	-2	3	-2	-4	-3	-5
International Public Equity	3	-1	3	-2	-4	-3	-5
Private Capital	5	3	5	-3	-3	-4	-5
Venture Capital							
Buyouts/Recaps							
Private Debt							
Opportunistic							
Absolute Return	2	2	3	3	2	1	0
Opportunistic Fixed Income	2	-1	1	-2	1	2	1
DomesticCorporate, Mortgages, Other							
International Public Fixed Income							
Inflation Hedge	2	3	4	5	-2	-3	-4
GSCI (Financial Instruments)							
Private Real Estate							
REITS							
Oil & Gas (Physical Commodities)							
TIPS							
Deflation Hedge	1	-1	1	-1	3	4	5
US Government and Agency Debt							
Cash	-1	1	1	2	1	0	1

Absolute performance of each asset category: Scale is -5 (very poorly) to +5 (very well)

Potential Shortfall Over the Next 5 to 7 Years

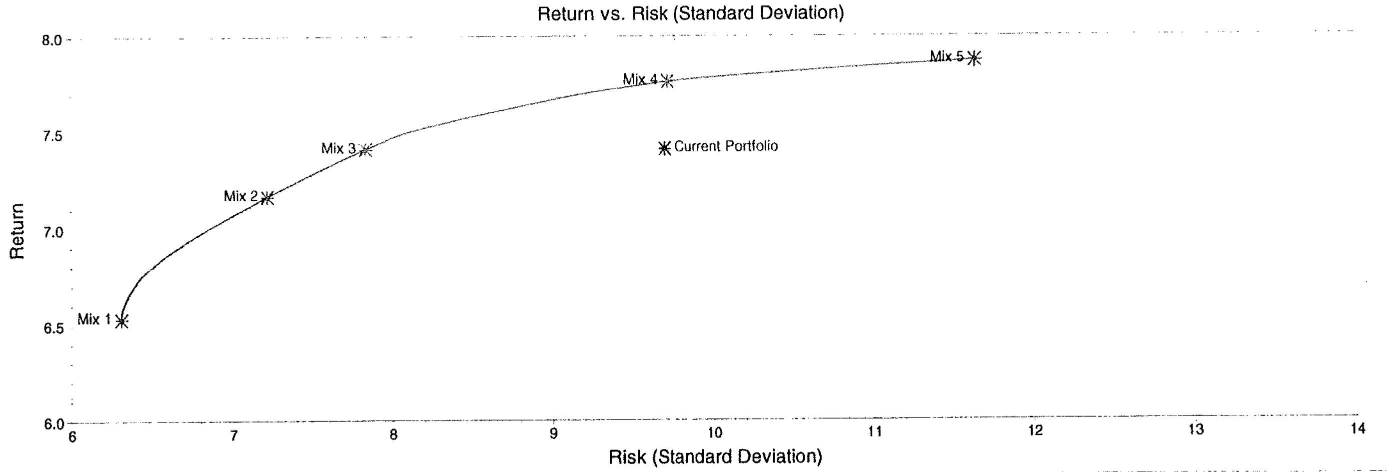
Function	Asset Category	Implementation Strategies	Expected Annual Return over 30 Year Horizon	Expected Annual Return over 5 to 7 Year Horizon
Drivers of Return	Domestic Public Equity		9.00%	7.50%
		Passive Management		
		Active Management		
		Hedge and Alpha Transport		
	International Public Equity		9.75%	7.50%
		Passive Developed and Emerging		
		Active Developed and Emerging		
		Hedge and Alpha Transport		
	Private Capital		13.00%	9.75%
		Venture Capital		
		Private Equity		
		Private Debt		
		Opportunistic Special Situations		
Risk Reduction	Absolute Return		8.25%	7.00%
		Market Neutral Hedge Funds		
	Inflation Hedge		7.15%	6.15%
		Financial Exposure to Commodities (GSCI futures)		
		Oil & Gas, Timber and other Physical Commodities		
		Public Real Estate (REITs)		
		Private Real Estate		
		TIPS		
	Deflation Hedge		5.50%	5.50%
		US Government Bonds and Agencies		
	Opportunistic Fixed Income		6.50%	7.00%
		Domestic Public Debt (Investment Grade)		
		High Yield Bonds (Below Investment Grade)		
		International Developed Markets Public Debt		
		Emerging Markets Public Debt		
		Hedge and Alpha Transport		
	Cash & Equivalents		4.00%	3.50%
		Money Markets		
Total:			8.90%	7.40%
Target Return to Maintain Payout Objectives:			8.00%	8.00%

U T I M C O
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

UTIMCO Plan 5 to 7 Year View

Efficient Frontier

Return vs. Risk (Standard Deviation)



Portfolio Statistics

Target Return: 8.00% - 7 Year Time Horizon - 95% of Projected Return Distribution

	Current Portfolio	Active Portfolio	Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
			Portfolio Allocations				
Asset Allocations							
US Stocks	25.0%	20.7%	20.0%	20.0%	20.0%	20.0%	20.7%
Global ex-US Stocks	12.0%	28.3%	0.0%	1.5%	4.9%	7.4%	28.3%
Emerging Markets Stk	3.0%	6.0%	2.3%	6.0%	6.0%	6.0%	6.0%
Absolute Return	10.0%	0.0%	15.0%	15.0%	15.0%	14.1%	0.0%
Equity Hedge Funds	10.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Venture Capital	7.5%	10.0%	0.0%	7.7%	10.0%	10.0%	10.0%
Private Equity	7.5%	10.0%	0.0%	0.0%	0.0%	10.0%	10.0%
REITS	2.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Private Real Estate	2.5%	0.0%	7.5%	7.5%	7.5%	7.5%	0.0%
Commodities	2.5%	0.0%	10.0%	10.0%	10.0%	0.0%	0.0%
US Debt	15.0%	10.0%	15.2%	10.0%	10.0%	10.0%	10.0%
TIPS	2.5%	0.0%	15.0%	7.4%	1.6%	0.0%	0.0%
Turnover							
Total Turnover		29.3%	35.2%	30.5%	28.0%	22.1%	29.3%
			Portfolio Statistics				
Expected Return (Annualized)							
One Year	7.4%	7.9%	6.5%	7.2%	7.4%	7.8%	7.9%
Time Horizon	7.0%	7.3%	6.4%	7.0%	7.2%	7.4%	7.3%
Expected Risk							
One Year	9.7%	11.6%	6.3%	7.2%	7.8%	9.7%	11.6%
Time Horizon	3.6%	4.4%	2.4%	2.7%	3.0%	3.6%	4.4%
Best Case Return (Annualized)							
One Year	27.6%	32.4%	19.4%	22.0%	23.6%	28.0%	32.4%
Time Horizon	14.4%	16.1%	11.1%	12.4%	13.1%	14.7%	16.1%
Worst Case Return (Annualized)							
One Year	-10.3%	-13.1%	-5.3%	-6.3%	-7.1%	-10.0%	-13.1%
Time Horizon	0.1%	-1.0%	1.8%	1.7%	1.5%	0.4%	-1.0%
Probability of Target Return							
One Year	45.8%	47.4%	39.7%	44.1%	45.6%	47.2%	47.4%
Time Horizon	39.0%	43.2%	24.5%	34.7%	38.4%	42.7%	43.2%
Probability of Negative Return							
One Year	22.7%	25.8%	14.9%	16.0%	17.2%	21.6%	25.8%
Time Horizon	2.4%	4.3%	0.3%	0.4%	0.6%	1.9%	4.3%
			Tracking to Market Benchmark				
Benchmark Tracking							
R-Squared	78%	79%	77%	75%	76%	73%	79%
Tracking Error	7.40%	7.08%	8.46%	8.29%	7.90%	8.11%	7.08%

Advantages of the Recommended Allocation

- Maintains expected return while lowering risk levels slightly,
- Offers greater chance for value added by staff and managers through the expected challenges of the intermediate term,
- The enhanced PVA of the recommended mix and the flexibility of the ranges around the targets are likely to provide the necessary return margin to enable us to reach return targets over the next 5 to 7 years.

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THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND
INVESTMENT POLICY STATEMENT

Purpose

The Permanent University Fund (the "Fund") is a public endowment contributing to the support of institutions of The University of Texas System (other than The University of Texas-Pan American and The University of Texas at Brownsville) and institutions of The Texas A&M University System (other than Texas A&M University-Corpus Christi, Texas A&M International University, Texas A&M University-Kingsville, West Texas A&M University, Texas A&M University-Commerce, Texas A&M University-Texarkana, and Baylor College of Dentistry).

Fund Organization

The Permanent University Fund was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the Permanent University Fund were completed in 1883 with the contribution of an additional one million acres of land. Today, the Permanent University Fund contains 2,109,190 acres of land (the "PUF Lands") located in 24 counties primarily in West Texas.

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, in the form of surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested in securities. Surface income, as a renewable source of income, is distributed to the Available University Fund (the "AUF"), as received.

The Constitution prohibits the distribution and expenditure of mineral income contributed to the Fund. The Constitution also requires that all surface income and investment distributions paid to the AUF be expended for certain authorized purposes.

The expenditure of the AUF is subject to a prescribed order of priority:

First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and Texas A&M University System, respectively, expenditures for debt service on PUF bonds. Article VII of the Texas Constitution authorizes the U. T. Board and the Texas A&M University System Board (the "TAMUS Board") to issue bonds payable

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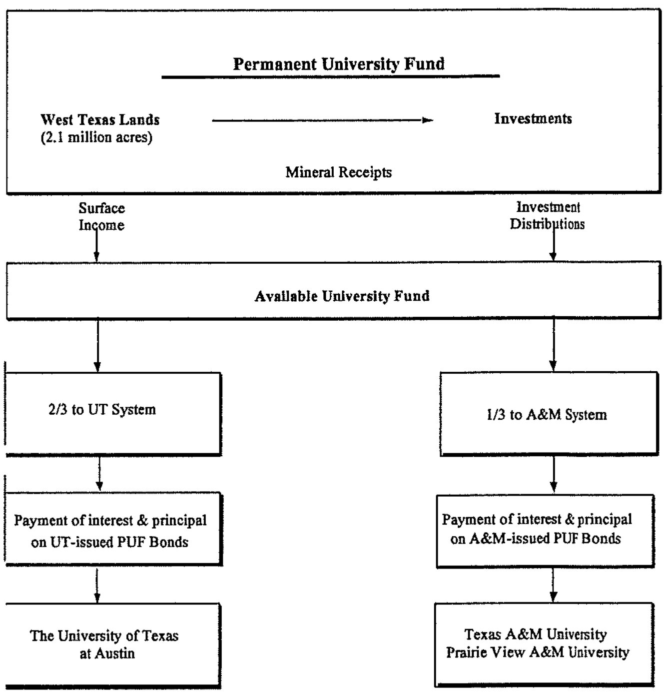
from their respective interests in AUF receipts to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes secured by each System's interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUF parity obligations unless the projected interest in AUF receipts for each System covers projected debt service at least 1.5 times.

Second, expenditures to fund a) excellence programs specifically at U. T. Austin, Texas A&M University and Prairie View A&M University and b) the administration of the university systems.

The payment of surface income and investment distributions from the PUF to the AUF and the associated expenditures is depicted below in Exhibit 1:

Exhibit 1



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Fund Management

Article VII of the Texas Constitution assigns fiduciary responsibility for managing and investing the Fund to the U. T. Board. Article VII authorizes the U. T. Board, subject to procedures and restrictions it establishes, to invest the Fund in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent investment standard. This standard provides that the U. T. Board, in making investments, may acquire, exchange sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.

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Ultimate fiduciary responsibility for the Fund rests with the Board. Section 66.08 of the Texas Education Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in investment of the PUF. The Fund shall be managed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the Fund, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with Fund objectives, and c) monitor Fund performance against Fund objectives. UTIMCO shall invest the Fund's assets in conformity with investment policy.

UTIMCO may select and terminate unaffiliated investment managers subject to UTIMCO's Board approved Delegation of Authority Guidelines. These guidelines are intended to ensure that the appropriate managers are retained to pursue a defined investment strategy within the Fund's portfolio structure and to define the general conditions under which a portfolio manager may be place on a watch list or terminated. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

Deleted: Unaffiliated investment managers may be hired by UTIMCO to improve the Fund's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

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Fund Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of Fund assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

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strategies whereby *the majority of the* underlying securities are traded on public exchanges or are otherwise readily marketable. *These investments shall be used as implementation strategies within the Absolute Return, Domestic and International Public Equity asset types.* Alternative marketable investments may be made directly by UTIMCO or through *investments in* partnerships *or corporate vehicles.* Alternative marketable investments made through partnerships *or corporate vehicles have various redemption options.*

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E Alternative Non-marketable Investments - Alternative Non-marketable investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative nonmarketable investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative nonmarketable investments shall be controlled with extensive due diligence and diversification. These investments are held either through limited partnership or as direct ownership interests. They include special equity, mezzanine venture capital, and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity.

F Inflation Hedging Assets - generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. They include direct real estate, REITs, oil and gas interests, commodities, inflation-linked bonds, timberland and other hard assets. These investments may be held through limited partnership, other commingled funds or as direct ownership interests.

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Asset Allocation Policy

The asset allocation policy and ranges herein recognize that the Fund's return/risk profile can be enhanced by diversifying the Fund's investments across different types of assets whose returns are not closely correlated. *Asset allocation policies have become increasingly complex requiring the need to disclose the function or purpose of an asset type within the Fund's investment portfolio, in addition to disclosing the underlying implementation strategies within each asset type.* The targets and ranges seek to protect the Fund against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.

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The long-term asset allocation policy for the Fund must recognize that the 5.5% real return objective requires a high allocation to broadly defined equities, including domestic, international stocks, alternative investments, and inflation hedging assets of 65% to 90%. The allocation to deflation hedging *and other* fixed Income should therefore not exceed 35% of the Fund.

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The Board delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for large and small capitalization U. S. stocks, established and emerging market international stocks, marketable and non-marketable alternative equity investments, and other asset classes as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the U. T. Board.

Performance Measurement

The investment performance of the Fund will be measured by *the Fund's custodian*, and compared against the stated investment benchmarks of the Fund.

Deleted: an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board

Deleted: Such measurement will occur at least annually, and evaluate the results of the total Fund, major classes of investment assets, and individual portfolios.

Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law. Investment guidelines include the following:

General

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.

- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.

- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of Fund assets in such liquid investment fund.

- No securities may be purchased or held which would jeopardize the Fund's tax-exempt status.

- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

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- The Fund's investments in warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.

- The Fund may utilize Derivative Securities *to:* a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies *and other strategies provided that the Fund's use of derivatives complies with the UTIMCO Board approved Derivatives Policy. The Derivatives Policy shall serve the purpose of defining the permitted applications under which derivative securities can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. The objective of the Derivatives Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.*

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include internal short term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by the chief investment officer.

- Deposits of the Texas State Treasury.

- The Fund's custodian late deposit interest bearing liquid investment fund.

- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).

- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.

- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the

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Deleted: leverage is not employed in the implementation of such Derivative purchases or sales. Leverage occurs when the notional value of the futures contracts exceeds the value of cash assets allocated to those contracts by more than 2%. The cash assets allocated to futures contracts is the sum of the value of the initial margin deposit, the daily variation margin and dedicated cash balances. This prohibition against leverage shall not apply where cash is received within 1 business day following the day the leverage occurs. UTIMCO's Derivative Guidelines shall be used to monitor compliance with this policy. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, and the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.¶

Deleted: <#>Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, option, and other applicable contracts. .
¶
UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Fund and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Fund's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivat ... [1]

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Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

- Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.

- Eligible Collateral Securities for Repurchase Agreements are limited to U. S. Treasury securities and U. S. Government Agency securities with a maturity of not more than 10 years.

- The maturity for a Repurchase Agreement may be from one day to two weeks.

- The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.

- All collateral shall be delivered to the PUF custodian bank. Tri-party collateral arrangements are not permitted.

- The aggregate amount of Repurchase Agreements with maturities greater than seven calendar days may not exceed 10% of the Fund's fixed income assets.

- Overnight Repurchase Agreements may not exceed 25% of the Fund's fixed income assets.

- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:

- **Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-indices 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and**

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FNMA; and 4) Asset-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

- U. S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

Non-U. S. Fixed Income

- Not more than 35% of the Fund's fixed income portfolio may be invested in non-U. S. dollar bonds. Not more than 15% of the Fund's fixed income portfolio may be invested in bonds denominated in any one currency.

- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.

- Not more than 7.5% of the Fund's fixed income portfolio may be invested in Emerging Market debt.

- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The Fund shall:

A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market

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B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the chief investment officer.

Alternative Investments and Inflation Hedging Assets

Investments in alternative assets and inflation hedging assets may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures).

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore, UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.

Fund Distributions

The Fund shall balance the needs and interests of present beneficiaries with those of the future. Fund spending policy objectives shall be to:

A. provide a predictable, stable stream of distributions over time

B. ensure that the inflation adjusted value of distributions is maintained over the long-term

C. ensure that the inflation adjusted value of Fund assets after distributions is maintained over the long-term.

The goal is for the Fund's average spending rate over time not to exceed the Fund's average annual investment return after inflation and expenses in order to preserve the purchasing power of Fund distributions and underlying assets.

The Texas Constitution states that "The amount of any distributions to the available university fund shall be determined by the board of regents of The University of Texas System in a manner intended to provide the available university fund with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of permanent university fund investments and annual distributions to the available university fund. The amount distributed to the available university fund in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on bonds and notes issued under this section. If the purchasing power of permanent university fund investments for any rolling 10-year period is not preserved, the board may not increase annual

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<#>possess specialized investment skills¶
¶
B. . possess full investment discretion subject to the management agreement¶
¶
. . C. . are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken¶
¶
<#>align the interests of the investor group with the management as closely as possible¶
¶
<#>charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated. .
¶
Investments in alternative nonmarketable assets and inflation hedging assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the Fund has invested prior to the co-investment or in transactions sponsored by investment firms well known to UTIMCO management, provided that such direct investments shall not exceed 25% of the market value of the alternative nonmarketable assets portfolio or the inflation hedging assets portfolio at the time of the direct investment. .
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distributions to the available university fund until the purchasing power of the permanent university fund investments is restored, except as necessary to pay the principal and interest due and owing on bonds and notes issued under this section. An annual distribution made by the board to the available university fund during any fiscal year may not exceed an amount equal to seven percent of the average net fair market value of permanent university fund investment assets as determined by the board, except as necessary to pay any principal and interest due and owing on bonds issued under this section. The expenses of managing permanent university fund land and investments shall be paid by the permanent university fund."

Annually, the U. T. Board of Regents will approve a distribution amount to the AUF.

In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the U. T. Board in May of each year an amount to be distributed to the AUF during the next fiscal year. UTIMCO's recommendation on the annual distribution shall be an amount equal to 4.75% of the trailing twelve quarter average of the net asset value of the Fund for the quarter ending February of each year.

Following approval of the distribution amount, distributions from the Fund to the AUF may be quarterly or annually at the discretion of UTIMCO Management.

Fund Accounting

The fiscal year of the Fund shall begin on September 1st and end on August 31st. Market value of the Fund shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, industry guidelines, and state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board of Directors. The Fund's financial statements shall be audited each year by an independent accounting firm selected by UTIMCO's Board.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all Fund net assets. Valuation of Fund assets shall be based on the books and records of the custodian for the valuation date. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

The fair market value of the Fund's net assets shall include all related receivables and payables of the Fund on the valuation. Such valuation shall be final and conclusive.

Securities Lending

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The Fund may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of securities by the Fund shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate. The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the Fund has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Fund. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Fund solely in the interest of Fund unitholders and shall not invest the Fund so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be *November 13, 2002*.

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Exhibit A: Expected Return and Risk, Neutral Allocations, Ranges and Performance Objectives for the amended policy effective November 13, 2002.

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Click here for PUF Specific Asset Allocation, Expected Return and Risk, Neutral Allocations, Ranges and Performance Objectives.xls

Exhibit B: Expected Return and Risk, Neutral Allocations, Ranges and Performance Objectives for the policy effective prior to November 13, 2002.

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Exhibit A

ENDOWMENT FUNDS

(5 to 7 Year Time Horizon)

EXPECTED RETURN AND RISK, NEUTRAL ALLOCATIONS, RANGES AND PERFORMANCE OBJECTIVES

Functional Purpose	Asset Type	Implementation Strategy	Expected Nominal Return	Expected Risk	Neutral Allocation	Range	Investment Policy Benchmark Return
Drivers of Return	***Domestic Public Equity***		7.50%	15.70%	31.25%	25%-50%	Wilshire 5000
		Passive Long					
		Active Long					
		Hedge and Alpha Transport Strategies					
	International Public Equity		7.50%	19.00%	18.75%	10%-30%	MSCI-ACW Free ex US
		Passive Long					
		Active Long					
		Hedge and Alpha Transport Strategies					
	Private Capital		9.75%	24.25%	15.00%	10% -20%	Wilshire 5000 +(composite (1))
		Venture Capital					
		Private Equity					
		Private Debt					
		Opportunistic					
	Subtotal- Drivers of Return				65.00%	50%-80%	(Sum of Target Weighted Benchmarks)
Risk Reducing Assets	***Absolute Return***		7.00%	8.25%	10.00%	5%-15%	Tbills +4%
		Market Neutral Hedge Funds (Debt & Equity)					
	Inflation Hedge		6.15%	9.25%	10.00%	5%-15%	(25% GSCI -100 bps) +(25% tips) +(50% Composite (2))
		Financial exposure to Commodities (GSCI)					
		Oil and Gas, Timber and Other Physical Commodities					
		Real Estate					
		REITS					
		TIPS					
	OpportunisticFixed Income		6.50%	11.75%	5.00%	2.5%-15%	Lehman Brothers Aggregate Bond Index (ex- US Governments)
		Domestic Corporate, Mortgages, and Other Public Debt (Investment Grade)					
		High Yield Bonds (Below Investment Grade)					
		International Developed Markets Debt					
		Emerging Markets					
	Deflation Hedge	US Government Bonds and Agencies	5.50%	9.25%	10.00%	7.5%-20%	Lehman Brothers Government Bond Index
	Cash	Money Market Equivalents	3.50%	3.50%	0.00%	0%-5%	91 day T-Bills Ave. Yield
	Subtotal-Risk Reducing Assets				35.00%		(Sum of Target Weighted Benchmarks)
	Total		7.40%	10.10%	100.00%		(Sum of Target Weighted Benchmarks)
		Expected Nominal Return			7.40%		
		Expected Risk			10.10%		
		Return/Risk Ratio			0.73		

Composite (1) [5% (weighted average venture/total private capital)+3% (weighted average private capital(excluding venture)/total private capital]

Composite (2) 50% is weighted between the NCREIF and WARESI indexes based on the NAV's of Private Real Estate and REITS

Risk is defined in annualized standard deviation terms.

The neutral policy portfolio is the sum of the neutrally weighted benchmark returns.

Exhibit B

ENDOWMENT FUNDS

(current asset allocation policy)

EXPECTED RETURN AND RISK, NEUTRAL ALLOCATIONS, RANGES AND PERFORMANCE OBJECTIVES

		Expected Return	Expected Risk	Neutral Allocation	Range	Benchmark Return
Conventional Equities	U.S. Stocks	9.25%	18.50%	**25.0%**	10%-40%	S&P 500 Index
Conventional Equities	U.S. Small Cap Stocks	10.25%	21.25%	**7.5%**	5%-15%	Russell 2000 Index
				32.5%		
Conventional Equities	Global ex-U.S. Stocks	9.75%	20.75%	**12.0%**	5%-20%	MSCI EAFE Index (net)
Conventional Equities	Emerging Markets Equity	13.00%	30.00%	**3.0%**	0%-10%	MSCI-Emerging Mkts. Free
				15.0%		
Alt. Eq. - Non-Marketable	Venture Capital	14.25%	15.75%	**7.5%**	2.5%-10%	17.00%
Alt. Eq. - Non-Marketable	Private Equity	12.25%	9.50%	**7.5%**	2.5%-15%	17.00%
				15.0%		
Alt. Eq. - Marketable	Absolute Return	7.75%	9.25%	**3.0%**	2.5%-10%	91-Day T-Bills +7%
Alt. Eq. - Marketable	Equity Hedge Funds	8.00%	14.00%	**7.0%**	2.5%-15%	91-Day T-Bills +7%
				10.0%		
Inflation Hedging	Commodities (GSCI)	8.75%	19.25%	**2.5%**	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	Oil and Gas	11.00%	27.00%	**0.0%**	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	Real Estate	9.00%	14.50%	**5.0%**	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	TIPS	6.50%	2.50%	**0.0%**	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	Timberland	8.50%	9.25%	**0.0%**	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
				7.5%		
Deflation Hedging	High Yield Bonds	8.50%	13.25%	**0.0%**	0%-7%	Lehman Brothers Aggregate
Deflation Hedging	Global ex U.S. Bonds	6.50%	13.00%	**5.0%**	0%-7%	Salomon Non-U.S. WGBI Unhedged
				5.0%		
Deflation Hedging	U.S. Bonds	6.25%	9.25%	**15.0%**	10%-25%	Lehman Brothers Aggregate
				15.0%		
Deflation Hedging	Cash	3.75%	3.50%	**0.0%**	0%-5%	91 day T-Bills Ave. Yield

Expected Nominal Return	**9.35%**
Expected Risk	**10.44%**
Return/Risk Ratio	**0.90**

The rebalancing of Fund assets to achieve the neutral allocations shall be subject to the funding of alternative investments.
Risk is defined in annualized standard deviation terms.
The neutral policy portfolio is the sum of the neutrally weighted benchmark returns.

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND
INVESTMENT POLICY STATEMENT

Purpose

The General Endowment Fund (the "Fund"), established by the Board of Regents of The University of Texas System (the "Board") to be effective on March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the Board. The Fund provides for greater diversification of investments than would be possible if each account were managed separately.

Fund Organization

The Fund is organized as a mutual fund in which each eligible account purchases and redeems Fund units as provided herein. The ownership of Fund assets shall at all times be vested in the Board. Such assets shall be deemed to be held by the Board, as a fiduciary, regardless of the name in which the assets may be registered.

Fund Management

Ultimate fiduciary responsibility for the Fund rests with the Board. Section 66.08, Texas Education Code, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit Corporation to invest funds under the control and management of the U. T. Board.

The Fund shall be governed through The University of Texas Investment Management Company ("UTIMCO"), a nonprofit Corporation organized for the express purpose of investing funds under the control and management of the Board. UTIMCO shall a) recommend investment policy for the Fund, b) determine specific asset allocation targets, ranges, and performance benchmarks consistent with Fund objectives, and c) monitor Fund performance against Fund objectives. UTIMCO shall invest the Fund assets in conformity with investment policy.

UTIMCO may select and terminate unaffiliated investment managers subject to UTIMCO's Board approved Delegation of Authority Guidelines. These guidelines are intended to ensure that the appropriate managers are retained to pursue a defined investment strategy within the Fund's portfolio structure and to define the general conditions under which a portfolio manager may be place on a watch list or terminated. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

Deleted: Unaffiliated investment managers may be hired by UTIMCO to improve the Fund's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines. ¶
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Fund Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of Fund assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase Fund Units

No fund shall be eligible to purchase units of the Fund unless it is under the sole control, with full discretion as to investments, by the Board and/or UTIMCO.

Any fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the Fund.

Fund Investment Objectives

The primary investment objective shall be to preserve the purchasing power of Fund assets by earning an average annual total return after inflation of 5.5% over rolling ten year periods or longer. The Fund's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives are to generate a fund return in excess of the Policy Portfolio benchmark and the average median return of the universe of the college and university endowments as reported annually by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect Fund's asset allocation policy targets.

Asset Allocation

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified herein, is the responsibility of UTIMCO. Specific asset allocation targets may be changed from time to time based on the economic and investment outlook. Fund assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

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A. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.

B. Fixed Income Investments - Intermediate to long term investment grade bonds offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund income. Below investment grade bonds including high yield bonds usually behave more like equities than high-quality bonds such as Treasuries. In the recovery phase of the market such bonds frequently outperform high-quality bonds.

C. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Fund.

D. Alternative Marketable Investments -

*T*hese investments are broadly defined to include hedge funds, arbitrage and special situation funds, distressed debt, market neutral, and other non-traditional investment strategies *whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily* marketable. *These investments shall be used as implementation strategies within the Absolute Return, Domestic and International Public Equity asset types.* Alternative marketable investments may be made directly by UTIMCO or through *investments in* partnerships *or corporate vehicles.* Alternative marketable investments made through partnerships *or corporate vehicles have various redemption options.*

E- Alternative Nonmarketable Investments -

Alternative Nonmarketable investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative nonmarketable investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the

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Deleted: If these investments are made through partnerships they offer faster drawdown of committed capital and earlier realization potential than alternative nonmarketable investments.

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quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative nonmarketable investments shall be controlled with extensive due diligence and diversification. These investments are held through either limited partnership or as direct ownership interests. They include special equity, mezzanine venture capital, oil and gas, real estate and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity. They also generally require an extended period of time to achieve targeted investment levels.

F. Inflation Hedging Assets – generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. They include direct real estate, REITs, oil and gas interests, commodities, inflation-linked bonds, timberland and other hard assets. These investments may be held through limited partnership, other commingled funds or as direct ownership interests.

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Asset Allocation Policy

The asset allocation policy and ranges herein recognize that the Fund's return/risk profile can be enhanced by diversifying the Fund's investments across different types of assets whose returns are not closely correlated. *Asset allocation policies have become increasingly complex requiring the need to disclose the function or purpose of an asset type within the Fund's investment portfolio, in addition to disclosing the underlying implementation strategies within each asset type.* The targets and ranges seek to protect the Fund against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.

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The long-term asset allocation policy for the Fund must recognize that the 5.5% real return objective requires a high allocation to broadly defined equities, including domestic, international stocks, alternative investments, and inflation hedging assets of 65% to 90%. The allocation to deflation hedging *and other* fixed Income should therefore not exceed 35% of the Fund.

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The Board delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for large and small capitalization U. S. stocks, established and emerging market international stocks, marketable and non-marketable alternative equity investments, and other asset classes as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the U. T. Board.

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Performance Measurement

The investment performance of the Fund will be measured by *the Fund's custodian* and compared against the stated investment benchmarks of the Fund.

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Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.
- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of Fund assets in such liquid investment fund.
- No securities may be purchased or held which jeopardize the Fund's tax exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The Fund's investments in warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.

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- The Fund may utilize Derivative Securities *to:* a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies *and other strategies provided that the Fund's use of derivatives complies with the UTIMCO Board approved Derivatives Policy. The Derivatives Policy shall serve the purpose of defining the permitted applications under which derivative securities can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. The objective of the Derivatives Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.*

Cash and Cash Equivalents

- Holdings of cash and cash equivalents may include internal short-term pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by the chief investment officer.
- The Fund's custodian late deposit interest bearing liquid investment fund.
- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.

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Deleted: ; provided that leverage is not employed in the implementation of such Derivative purchases or sales. Leverage occurs when the notional value of the futures contracts exceeds the value of cash assets allocated to those contracts by more than 2%. The cash assets allocated to futures contracts is the sum of the value of the initial margin deposit, the daily variation margin and dedicated cash balances. This prohibition against leverage shall not apply where cash is received within 1 business day following the day the leverage occurs. UTIMCO's Derivatives Guidelines shall be used to monitor compliance with this policy. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, and the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.¶
¶
<#>Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, option, and other applicable contracts.¶
¶
UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Fund and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Fund's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Fund. ¶ ... [1]

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- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

  - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.

  - Eligible Collateral Securities for Repurchase Agreements are limited to U. S. Treasury securities and U. S. Government Agency securities with a maturity of not more than 10 years.

  - The maturity for a Repurchase Agreement may be from one day to two weeks.

  - The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.

  - All collateral shall be delivered to the GEF custodian bank. Tri-party collateral arrangements are not permitted.

- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the Fund's fixed income assets.

- Overnight Repurchase Agreements may not exceed 25% of the Fund's fixed income assets.

- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

<u>Fixed Income</u>

<u>Domestic Fixed Income</u>

Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-

Deleted: K:\Groups\Admin\Policies\2-01GEF.doc backed securities. These sectors are divided into more specific sub-indices 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; and 4) Asset-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

- U. S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

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- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

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Non-U. S. Fixed Income

- Not more than 35% of the Fund's fixed income portfolio may be invested in non-U. S. dollar bonds. Not more than 15% of the Fund's fixed income portfolio may be invested in bonds denominated in any one currency.
- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U. S. Fixed Income Portfolio.
- Not more than 7.5% of the Fund's fixed income portfolio may be invested in Emerging Market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

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Equities

The Fund shall:

A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market

B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the chief investment officer.

Alternative Investments and Inflation Hedging Assets

Investments in alternative assets and inflation hedging assets may be made through management contracts with unaffiliated organizations. (including but not limited to limited partnerships, trusts, and joint ventures).

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¶
A. . possess specialized investment skills¶
¶
B. . possess full investment discretion subject to the management agreement¶
¶
C. . are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken¶
¶
D. . align the interests of the investor group with the management as closely as possible¶
¶
. E. . charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated. .
¶
Investments in alternative nonmarketable assets and inflation hedging assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the Fund has invested prior to the co-investment or in transactions sponsored by investment firms well known to UTIMCO management, provided that such direct investments shall not exceed 25% of the market value of the alternative nonmarketable assets portfolio or the inflation hedging assets portfolio at the time of the direct investment. .

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore, UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.

Fund Accounting

The fiscal year of the Fund shall begin on September 1st and end on August 31st. Market value of the Fund shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board of Directors. The Fund's financial statements shall be audited each year by an independent accounting firm selected by UTIMCO's Board.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all Fund net assets and the net asset value per unit of the Fund. Valuation of Fund assets shall be based on the books and records of the custodian for the valuation date. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

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The fair market value of the Fund's net assets shall include all related receivables and payables of the Fund on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of Fund Units

Purchase of Fund units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the Fund or contribution of assets approved by the chief investment officer, at the net asset value per unit of the Fund as of the most recent quarterly valuation date. Each fund whose monies are invested in the Fund shall own an undivided interest in the Fund in the proportion that the number of units invested therein bears to the total number of all units comprising the Fund.

Redemption of Fund Units

Redemption of Units shall be paid in cash as soon as practicable after the quarterly valuation date of the Fund. Withdrawals from the Fund shall be at the market value price per unit determined for the period of the withdrawal.

Securities Lending

The Fund may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of securities by the Fund shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time-to-time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the Fund has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Fund. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Fund solely in the interest of Fund unitholders and shall not invest the Fund so as to achieve temporal

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benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be *November 13, 2002.*

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Exhibit A: Expected Return and Risk, Neutral Allocations, Ranges and Performance Objectives for the amended policy effective November 13, 2002.

Exhibit B: Expected Return and Risk, Neutral Allocations, Ranges and Performance Objectives for the policy effective prior to November 13, 2002.

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Click here for GEF Specific Asset Allocation, Expected Return and Risk, Neutral Allocations, Ranges and Performance Objectives.xls

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Exhibit A

ENDOWMENT FUNDS
(5 to 7 Year Time Horizon)
EXPECTED RETURN AND RISK, NEUTRAL ALLOCATIONS, RANGES AND PERFORMANCE OBJECTIVES

Functional Purpose	Asset Type	Implementation Strategy	Expected Nominal Return	Expected Risk	Neutral Allocation	Range	Investment Policy Benchmark Return
Drivers of Return	*Domestic Public Equity*		7.50%	15.70%	31.25%	25%-50%	Wilshire 5000
		Passive Long					
		Active Long					
		Hedge and Alpha Transport Strategies					
	International Public Equity		7.50%	19.00%	18.75%	10%-30%	MSCI-ACW Free ex US
		Passive Long					
		Active Long					
		Hedge and Alpha Transport Strategies					
	Private Capital		9.75%	24.25%	15.00%	10% -20%	Wilshire 5000 +(composite (1))
		Venture Capital					
		Private Equity					
		Private Debt					
		Opportunistic					
	Subtotal- Drivers of Return				65.00%	50%-80%	(Sum of Target Weighted Benchmarks)
Risk Reducing Assets	*Absolute Return*		7.00%	8.25%	10.00%	5%-15%	Tbills +4%
		Market Neutral Hedge Funds (Debt & Equity)					
	Inflation Hedge		6.15%	9.25%	10.00%	5%-15%	(25% GSCI -100 bps) +(25% tips) +(50% Composite (2))
		Financial exposure to Commodities (GSCI)					
		Oil and Gas. Timber and Other Physical Commodities					
		Real Estate					
		REITS					
		TIPS					
	OpportunisticFixed Income		6.50%	11.75%	5.00%	2.5%-15%	Lehman Brothers Aggregate Bond Index (ex- US Governments)
		Domestic Corporate. Mortgages. and Other Public Debt (Investment Grade)					
		High Yield Bonds (Below Investment Grade)					
		International Developed Markets Debt					
		Emerging Markets					
	Deflation Hedge	US Government Bonds and Agencies	5.50%	9.25%	10.00%	7.5%-20%	Lehman Brothers Government Bond Index
	Cash	Money Market Equivalents	3.50%	3.50%	0.00%	0%-5%	91 day T-Bills Ave. Yield
	Subtotal-Risk Reducing Assets				35.00%		(Sum of Target Weighted Benchmarks)
	Total		7.40%	10.10%	100.00%		(Sum of Target Weighted Benchmarks)
		Expected Nominal Return			7.40%		
		Expected Risk			10.10%		
		Return/Risk Ratio			0.73		

Composite (1) [5% (weighted average venture/total private capital)+3% (weighted average private capital(excluding venture)/total private capital]

Composite (2) 50% is weighted between the NCREIF and WARESI indexes based on the NAV's of Private Real Estate and REITS

Risk is defined in annualized standard deviation terms.

The neutral policy portfolio is the sum of the neutrally weighted benchmark returns.

Exhibit B

ENDOWMENT FUNDS
(current asset allocation policy)
EXPECTED RETURN AND RISK, NEUTRAL ALLOCATIONS, RANGES AND PERFORMANCE OBJECTIVES

		Expected Return	Expected Risk	Neutral Allocation	Range	Benchmark Return
Conventional Equities	U.S. Stocks	9.25%	18.50%	**25.0%**	10%-40%	S&P 500 Index
Conventional Equities	U.S. Small Cap Stocks	10.25%	21.25%	**7.5%**	5%-15%	Russell 2000 Index
				32.5%		
Conventional Equities	Global ex-U.S. Stocks	9.75%	20.75%	**12.0%**	5%-20%	MSCI EAFE Index (net)
Conventional Equities	Emerging Markets Equity	13.00%	30.00%	**3.0%**	0%-10%	MSCI-Emerging Mkts. Free
				15.0%		
Alt. Eq. - Non-Marketable	Venture Capital	14.25%	15.75%	**7.5%**	2.5%-10%	17.00%
Alt. Eq. - Non-Marketable	Private Equity	12.25%	9.50%	**7.5%**	2.5%-15%	17.00%
				15.0%		
Alt. Eq. - Marketable	Absolute Return	7.75%	9.25%	**3.0%**	2.5%-10%	91-Day T-Bills +7%
Alt. Eq. - Marketable	Equity Hedge Funds	8.00%	14.00%	**7.0%**	2.5%-15%	91-Day T-Bills +7%
				10.0%		
Inflation Hedging	Commodities (GSCI)	8.75%	19.25%	**2.5%**	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	Oil and Gas	11.00%	27.00%	**0.0%**	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	Real Estate	9.00%	14.50%	**5.0%**	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	TIPS	6.50%	2.50%	**0.0%**	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	Timberland	8.50%	9.25%	**0.0%**	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
				7.5%		
Deflation Hedging	High Yield Bonds	8.50%	13.25%	**0.0%**	0%-7%	Lehman Brothers Aggregate
Deflation Hedging	Global ex U.S. Bonds	6.50%	13.00%	**5.0%**	0%-7%	Salomon Non-U.S. WGBI Unhedged
				5.0%		
Deflation Hedging	U.S. Bonds	6.25%	9.25%	**15.0%**	10%-25%	Lehman Brothers Aggregate
				15.0%		
Deflation Hedging	Cash	3.75%	3.50%	**0.0%**	0%-5%	91 day T-Bills Ave. Yield

Expected Nominal Return	**9.35%**
Expected Risk	**10.44%**
Return/Risk Ratio	**0.90**

The rebalancing of Fund assets to achieve the neutral allocations shall be subject to the funding of alternative investments.
Risk is defined in annualized standard deviation terms.
The neutral policy portfolio is the sum of the neutrally weighted benchmark returns.

UTIMCO ASSETS UNDER MANAGEMENT
NET RETURN PERFORMANCE SUMMARY

	Net Asset Value 8/31/2001 (in Millions)	Net Asset Value 7/31/2002 (in Millions)		Periods Ended July 31, 2002					
ENDOWMENT FUNDS				**Three Months**	**One Year**	**Three Years**	**Five Years**	**Ten Years**	**Fiscal Year To Date**
Permanent University Fund	$ 7,540.1	$ 6,707.8	(1)	(8.72)	(9.34)	(0.55)	3.50	8.40	(7.66)
General Endowment Fund (2)				(9.05)	(8.93)	N/A	N/A	N/A	(7.32)
Permanent Health Fund (2)	881.4	698.6		(9.05)	(9.06)	N/A	N/A	N/A	(7.43)
Long Term Fund (2)	2,843.3	2,608.8		(9.05)	(8.98)	0.71	4.29	9.07	(7.35)
Separately Invested Funds	182.6	139.1		N/M	N/M	N/M	N/M	N/M	N/M
Endowment Policy Portfolio (Benchmark) (3)				(5.90)	(4.53)	1.57	5.69	10.53	(3.18)
Endowment Policy Portfolio (Retroactive Benchmark) (4)				(5.90)	(4.53)	1.45	5.13	9.43	(3.18)
Total Endowment Funds	11,447.4	10,154.3							
OPERATING FUNDS									
Short Intermediate Term Fund	1,704.6	1,485.2		0.92	4.09	6.22	6.07	N/A	3.62
Composite Index (Benchmark)				2.49	6.66	7.20	6.49	N/A	6.03
Short Term Fund	843.2	1,306.0		0.48	2.46	4.75	5.05	N/A	2.13
90 Day T-Bill AverageYield (Benchmark)				0.48	2.48	4.59	4.78	N/A	2.15
Institutional Index Funds:									
BGI Equity Index Fund B-Lendable (5)	99.1	80.8							
BGI US Debt Index Fund B (6)	46.1	251.1							
Total Operating Funds	2,693.0	3,123.1							
Total Investments	**$ 14,140.4**	**$ 13,277.4**							
MARKET INDICES (BENCHMARKS)									
Standards & Poor's 500 Index (S&P 500)				(14.99)	(23.61)	(10.66)	0.45	10.08	(18.51)
Morgan Stanley Capital Inernational Europe, Asia, Far East Index (net) (EAFE)				(12.36)	(16.92)	(10.83)	(3.88)	4.58	(14.76)
Lehman Brothers Aggregate Bond Index (LB Aggregate)				2.95	7.53	8.69	7.26	7.26	6.32

(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) 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.
(4) The Endowment Policy Portfolio (Retroactive Benchmark) has been restated to include the inflation hedging asset class for all periods presented.
(5) The Equity Index Fund B replicates the returns of the S&P 500 Index.
(6) 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 July 31,	As of April 30,	Three Months Ended July 31, 2002					
	Neutral	2002	2002	Benchmark	PUF	Asset Allocation (1)	Security Selection (2)	Interactive (3)	Total Attribution
Cash	0.0%	1.2%	1.2%	0.48%	-0.24%	0.14%	0.00%	-0.09%	0.05%
Equities:									
U.S. Mid/Large Cap	25.0%	19.4%	22.1%	-14.99%	-15.73%	0.60%	-0.23%	0.06%	0.43%
U.S. Small Cap	7.5%	8.8%	11.1%	-22.90%	-24.46%	-0.49%	-0.16%	-0.05%	-0.70%
Non U.S. Established Markets	12.0%	11.4%	11.6%	-12.36%	-11.69%	0.03%	0.10%	-0.01%	0.12%
Non U.S. Emerging Markets	3.0%	4.1%	4.6%	-16.50%	-17.85%	-0.14%	-0.05%	-0.02%	-0.21%
Marketable Alternative Equities	10.0%	11.7%	11.3%	2.24%	-8.91%	0.15%	-1.27%	-0.18%	-1.30%
Inflation Hedging	7.5%	9.1%	6.3%	0.66%	-0.56%	0.12%	-0.11%	-0.05%	-0.04%
Fixed Income:									
U.S.	15.0%	16.2%	16.4%	2.95%	1.24%	0.27%	-0.28%	-0.04%	-0.05%
Non U.S.	5.0%	3.7%	2.3%	10.28%	8.79%	-0.51%	-0.08%	0.04%	-0.55%
Total Marketable Securities	85.0%	85.6%	86.9%	-7.59%	-9.84%	0.17%	-2.08%	-0.34%	-2.25%
Non-Marketable Alternative Equities (4)	15.0%	14.4%	13.1%	4.00%	-1.28%				
Total	100.0%	100.0%	100.0%	-5.90%	-8.72%				

(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) Non-Marketable 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 July 31,	As of July 31,	Year Ended July 31, 2002					
	Neutral	2002	2001	Benchmark	PUF	Asset Allocation (1)	Security Selection (2)	Interactive (3)	Total Attribution
Cash	0.0%	1.2%	5.0%	2.48%	-0.29%	0.25%	0.00%	-0.21%	0.04%
Equities:									
U.S. Mid/Large Cap	25.0%	19.4%	22.7%	-23.61%	-19.17%	0.95%	1.51%	-0.17%	2.29%
U.S. Small Cap	7.5%	8.8%	10.1%	-17.96%	-24.29%	-0.24%	-0.64%	-0.29%	-1.17%
Non U.S. Established Markets	12.0%	11.4%	10.8%	-16.92%	-15.53%	0.12%	0.23%	-0.04%	0.31%
Non U.S. Emerging Markets	3.0%	4.1%	3.0%	-2.34%	-5.69%	-0.07%	-0.11%	-0.02%	-0.20%
Marketable Alternative Equities	10.0%	11.7%	9.7%	9.87%	-3.17%	0.15%	-1.41%	-0.19%	-1.45%
Inflation Hedging	7.5%	9.1%	4.2%	1.60%	13.68%	0.03%	0.91%	-0.37%	0.57%
Fixed Income:									
U.S.	15.0%	16.2%	17.6%	7.53%	5.83%	0.49%	-0.28%	-0.03%	0.18%
Non U.S.	5.0%	3.7%	2.1%	13.53%	12.36%	-0.67%	-0.06%	0.03%	-0.70%
Total Marketable Securities	85.0%	85.6%	85.2%	-7.99%	-8.12%	1.01%	0.15%	-1.29%	-0.13%
Non-Marketable Alternative Equities (4)	15.0%	14.4%	14.8%	17.00%	-15.96%				
Total	100.0%	100.0%	100.0%	-4.53%	-9.34%				

(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) Non-Marketable 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: Three Months Ended July 31, 2002					
	Neutral	As of July 31, 2002	As of April 30, 2002	Benchmark	GEF	Asset Allocation (1)	Security Selection (2)	Interactive (3)	Total Attribution
Cash	0.0%	0.7%	1.0%	0.48%	0.81%	0.13%	0.00%	-0.07%	0.06%
Equities:									
U.S. Mid/Large Cap	25.0%	19.7%	22.6%	-14.99%	-15.76%	0.64%	-0.24%	0.07%	0.47%
U.S. Small Cap	7.5%	9.2%	12.1%	-22.90%	-24.10%	-0.53%	-0.12%	-0.04%	-0.69%
Non U.S. Established Markets	12.0%	11.8%	12.1%	-12.36%	-11.71%	0.03%	0.10%	-0.01%	0.12%
Non U.S. Emerging Markets	3.0%	4.5%	4.8%	-16.50%	-17.91%	-0.17%	-0.05%	-0.03%	-0.25%
Marketable Alternative Equities	10.0%	13.1%	12.3%	2.24%	-8.87%	0.25%	-1.26%	-0.29%	-1.30%
Inflation Hedging	7.5%	9.5%	6.3%	0.66%	-0.57%	0.12%	-0.11%	-0.06%	-0.05%
Fixed Income:									
U.S.	15.0%	15.8%	16.4%	2.95%	1.10%	0.15%	-0.30%	-0.02%	-0.17%
Non U.S.	5.0%	4.2%	2.6%	10.28%	8.71%	-0.46%	-0.08%	0.04%	-0.50%
Total Marketable Securities	85.0%	88.5%	90.2%	-7.59%	-9.90%	0.16%	-2.06%	-0.41%	-2.31%
Non-Marketable Alternative Equities (4)	15.0%	11.5%	9.8%	4.00%	-1.68%				
Total	100.0%	100.0%	100.0%	-5.90%	-9.05%				

(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) Non-Marketable 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 July 31,	As of July 31,	Year Ended July 31, 2002		Asset	Security		Total
	Neutral	2002	2001	Benchmark	GEF	Allocation (1)	Selection (2)	Interactive (3)	Attribution
Cash	0.0%	0.7%	3.3%	2.48%	3.22%	0.23%	0.00%	-0.14%	0.09%
Equities:									
U.S. Mid/Large Cap	25.0%	19.7%	25.3%	-23.61%	-19.01%	0.90%	1.56%	-0.17%	2.29%
U.S. Small Cap	7.5%	9.2%	10.4%	-17.96%	-22.91%	-0.17%	-0.50%	-0.24%	-0.91%
Non U.S. Established Markets	12.0%	11.8%	11.6%	-16.92%	-15.59%	0.13%	0.22%	-0.03%	0.32%
Non U.S. Emerging Markets	3.0%	4.5%	3.2%	-2.34%	-5.83%	-0.09%	-0.12%	-0.03%	-0.24%
Marketable Alternative Equities	10.0%	13.1%	10.9%	9.87%	-3.14%	0.28%	-1.40%	-0.31%	-1.43%
Inflation Hedging	7.5%	9.5%	4.3%	1.60%	13.77%	0.04%	0.92%	-0.40%	0.56%
Fixed Income:									
U.S.	15.0%	15.8%	18.0%	7.53%	5.58%	0.31%	-0.32%	-0.03%	-0.04%
Non U.S.	5.0%	4.2%	2.4%	13.53%	12.41%	-0.61%	-0.06%	0.02%	-0.65%
Total Marketable Securities	85.0%	88.5%	89.4%	-7.99%	-8.00%	1.02%	0.30%	-1.33%	-0.01%
Non-Marketable Alternative Equities (4)	15.0%	11.5%	10.6%	17.00%	-16.93%				
Total	100.0%	100.0%	100.0%	-4.53%	-8.93%				

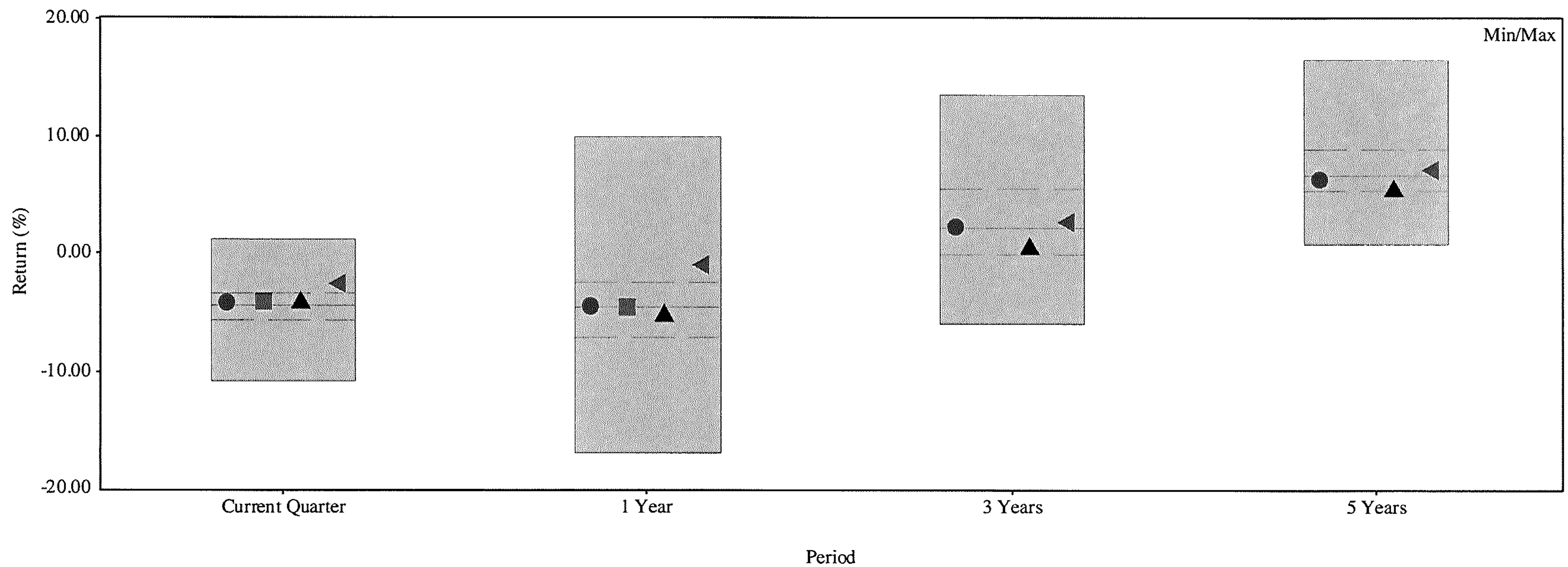
(1) Allocation effect measures the impact of decisions to allocate assets differently from the policy benchmark.
(Actual Marketable Portfolio Asset Allocation - Target Marketable Portfolio Asset Allocation) X (Benchmark Asset Class Return - Total Target Marketable Portfolio Return)

(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)

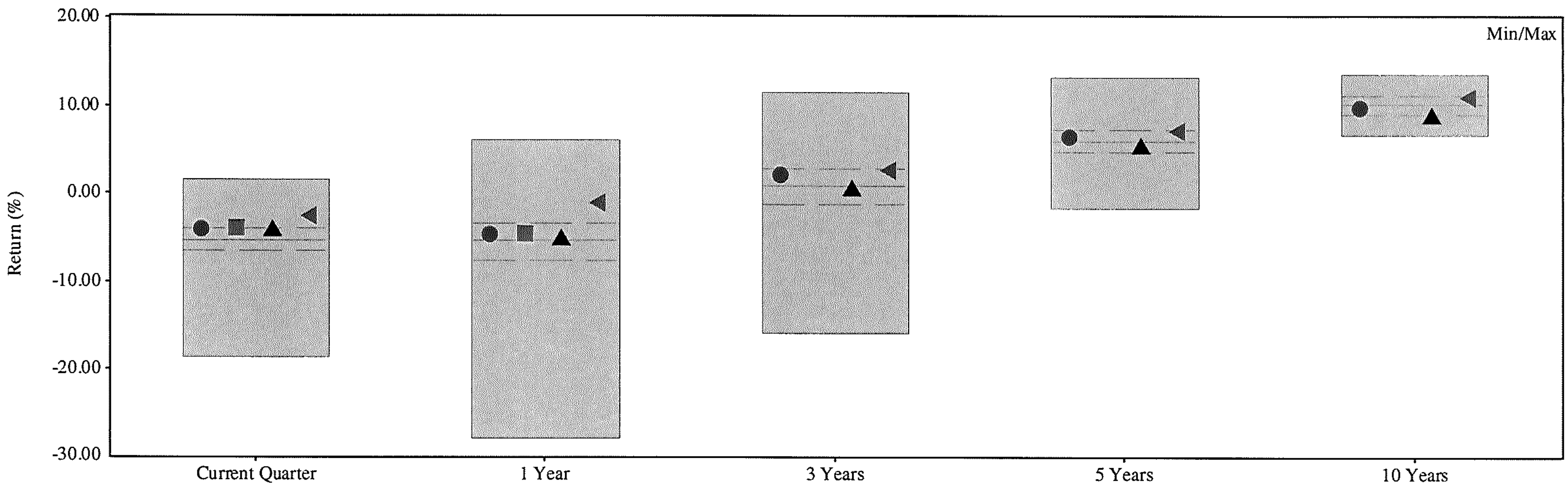
(4) Non-Marketable Equities has been excluded from attribution analysis as the benchmark for this asset class is 17% per annum, not market driven, and therefore, measurement of performance attribution is inappropriate.

UTIMCO ENDOWMENT FUNDS vs.
Cambridge Universe
Periods Ended June 30, 2002
Quartile



	Current Quarter Return	(% tile)	1 Year Return	(% tile)	3 Years Return	(% tile)	5 Years Return	(% tile)
Maximum	1.22		10.07		13.60		16.64	
25th Percentile	- 3.44		- 2.45		5.52		9.02	
Median	- 4.48		- 4.57		2.20		6.66	
75th Percentile	- 5.66		- 7.21		- 0.14		5.30	
Minimum	- 10.61		- 16.81		- 5.74		0.97	
# of Portfolios	130		130		128		122	
● LTF-Net of Fees	- 3.92	34	- 4.34	48	2.45	47	6.62	53
■ PHF-Net of Fees	- 3.91	34	- 4.42	49	---	---	---	---
▲ PUF-Net of Fees	- 3.77	32	- 4.85	52	0.83	66	5.73	69
◄ Policy Portfolio	- 2.54	17	- 0.85	14	2.78	44	7.33	40

UTIMCO ENDOWMENTS FUNDS vs.
TOTAL FUNDS - FOUNDATIONS AND ENDOWMENTS
Periods Ended June 30, 2002
Quartile

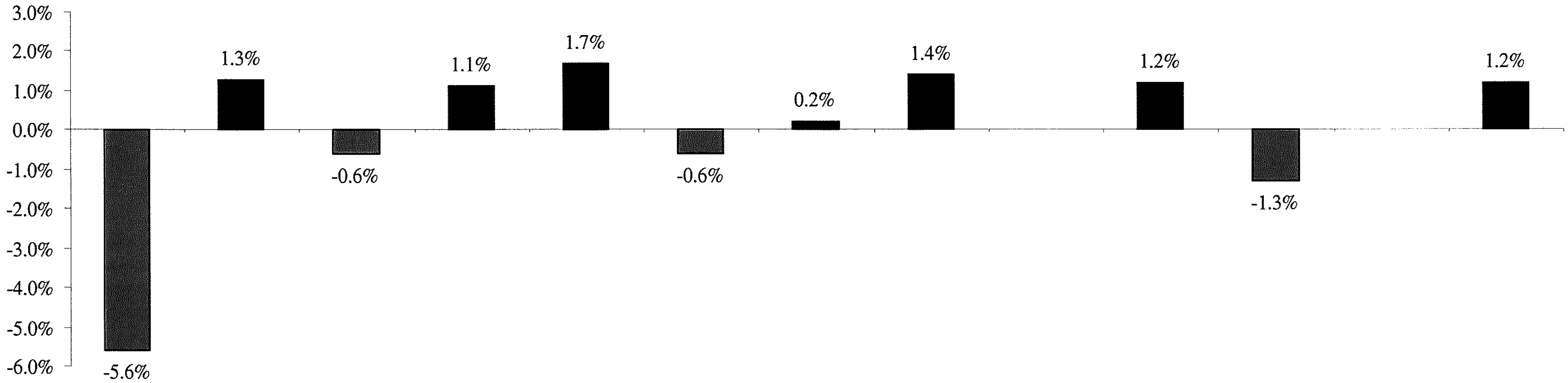


	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)
Maximum	1.53		6.08		11.46		13.36		13.71	
25th Percentile	- 4.02		- 3.35		2.84		7.33		11.09	
Median	- 5.36		- 5.37		0.83		5.92		10.19	
75th Percentile	- 6.54		- 7.76		- 1.35		4.72		9.05	
Minimum	-18.34		-27.73		-15.76		- 1.57		6.79	
# of Portfolios	93		92		73		67		45	
● **LTF-Net of Fees**	- 3.92	24	- 4.34	37	2.45	30	6.62	43	9.94	59
■ **PHF-Net of Fees**	- 3.91	23	- 4.42	37	---	---	---	---	---	---
▲ **PUF-Net of Fees**	- 3.77	22	- 4.85	42	0.83	50	5.73	56	9.26	72
◀ **Policy Portfolio**	- 2.54	10	- 0.85	12	2.78	30	7.33	27	11.20	24

Universe Source: (c) Russell/Mellon Analytical Services

PUF ASSET ALLOCATION
AS OF JULY 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 - Non-Marketable	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	19.4%	8.8%	11.4%	4.1%	11.7%	14.4%	2.7%	6.4%	78.9%	16.2%	3.7%	19.9%	1.2%
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	-5.6%	1.3%	-0.6%	1.1%	1.7%	-0.6%	0.2%	1.4%	-1.1%	1.2%	-1.3%	-0.1%	1.2%

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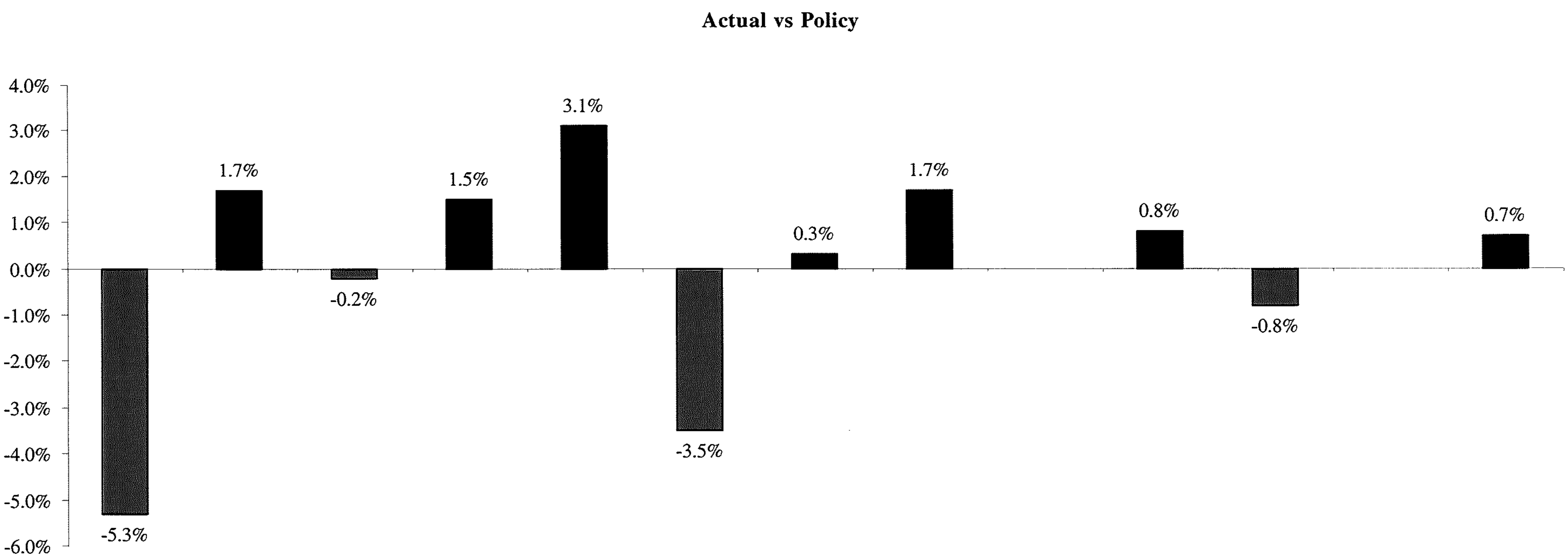
GEF ASSET ALLOCATION
AS OF JULY 31, 2002



	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 - Non-Marketable	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%	9.2%	11.8%	4.5%	13.1%	11.5%	2.8%	6.7%	79.3%	15.8%	4.2%	20.0%	0.7%
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%	1.7%	-0.2%	1.5%	3.1%	-3.5%	0.3%	1.7%	-0.7%	0.8%	-0.8%	0.0%	0.7%

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

Manager outlook:	
	positive
	neutral to slightly positive
	neutral (strategy to be reviewed)
	neutral to slightly negative
	negative

			Periods Ended July 31, 2002					Fiscal Year To Date	Calendar Year To Date	From Inception to July 31, 2002		
			Three Months	One Year	Three Years	Five Years	Ten Years	Eleven Months Ended July 31, 2002	Seven Months Ended July 31, 2002	Manager	Benchmark	Inception Date
	NET OF FEES PERFORMANCE:											
	Equities:											
	Domestic Equities:											
	Large/Med Cap Equities:											
	BGI S&P 500	L	(14.97)	(23.60)	(10.63)	0.61	-	(18.50)	(19.91)	N/A		February 1993
	vs. S & P 500 Index		0.02	0.01	0.02	0.16	-	0.01	0.01			
	BGI S & P Midcap	P	(17.66)	(12.52)	3.93	8.32	-	(9.60)	(12.57)	N/A		December 1992
	vs. S & P Midcap Index		0.05	0.13	0.09	0.08	-	0.11	0.03			
	Cash Equitization	-	(16.58)	(24.49)	-	-	-	(19.49)	(21.46)	(19.18)	(18.38)	March 2001
	vs. S & P 500 Index		(1.59)	(0.88)	-	-	-	(0.98)	(1.55)	(0.80)		
	Davis Hamilton Jackson	P	(14.43)	(20.72)	(8.84)	3.28	-	(15.29)	(17.81)	9.48	10.08	January 1994
	vs. S & P 500 Index		0.56	2.89	1.82	2.83	-	3.22	2.11	(0.60)		
	GSAM	L	(15.49)	(22.57)	(10.40)	-	-	(17.62)	(19.52)	(3.65)	(3.00)	April 1998
	vs. S & P 500 Index		(0.51)	1.04	0.25	-	-	0.90	0.39	(0.65)		
	MBA Investments	L	(13.77)	(20.96)	(17.10)	(6.10)	-	(15.03)	(17.11)	0.78	8.40	October 1995
	vs. S & P 500 Index		1.22	2.65	(6.44)	(6.55)	-	3.48	2.81	(7.62)		
	S&P 500 Index		(14.99)	(23.61)	(10.66)	0.45	10.08	(18.51)	(19.92)			
	S&P Midcap Index		(17.72)	(12.65)	3.84	8.24	13.34	(9.70)	(12.60)			
	Small Cap Equities:											
	Cordillera	P	(25.34)	(32.25)	(2.67)	3.76	-	(27.09)	(30.27)	8.77	1.60	January 1994
	vs. Russell 2000 Growth		1.73	(1.63)	10.95	9.90	-	(1.10)	(0.22)	7.17		
Watch List	Fortaleza	P	(22.55)	(32.40)	(2.82)	(4.89)	-	(27.45)	(28.76)	2.60	1.60	January 1994
	vs. Russell 2000 Growth		4.53	(1.78)	10.80	1.25	-	(1.46)	1.29	1.00		
Watch List	ING Pilgrim	L	(28.78)	(45.33)	(12.06)	(0.23)	-	(41.05)	(38.45)	3.74	(1.77)	May 1997
	vs. Russell 2000 Growth		(1.70)	(14.72)	1.56	5.91	-	(15.06)	(8.40)	5.51		
	Russell 2000 Growth		(27.07)	(30.62)	(13.62)	(6.14)	4.15	(25.99)	(30.05)			
	Dalton, Greiner, Hartman, Maher Value 2000	-	(19.26)	(9.24)	-	-	-	(8.50)	(12.32)	(3.48)	(3.36)	June 2001
	vs. Russell 2000 Value		0.24	(3.73)	-	-	-	(3.33)	(3.64)	(0.12)		
	Dalton, Greiner, Hartman, Maher Ultravalue	-	(30.49)	(31.66)	-	-	-	(29.54)	(31.56)	(28.99)	(3.36)	June 2001
	vs. Russell 2000 Value		(10.99)	(26.16)	-	-	-	(24.37)	(22.89)	(25.63)		
Watch List/	Pilgrim Baxter Value Investors, Inc.	-	(25.93)	(23.25)	-	-	-	(21.65)	(27.36)	(21.94)	(3.36)	June 2001
Terminated	vs. Russell 2000 Value		(6.44)	(17.75)	-	-	-	(16.48)	(18.69)	(18.58)		
	Russell 2000 Value		(19.50)	(5.50)	7.03	5.36	12.57	(5.17)	(8.67)			
	BGI Russell 2000 Alpha Tilt	L	(20.54)	-	-	-	-	-	-	(14.23)	(18.24)	February 2002
	vs. Russell 2000		2.35	-	-	-	-	-	-	4.01		
	GSAM	L	(20.80)	(10.51)	1.27	-	-	(7.88)	(12.87)	(0.85)	(3.34)	April 1998
	vs. Russell 2000		2.09	7.45	4.10	-	-	7.34	6.22	2.49		
	Schroder	L	(25.68)	(22.03)	1.86	1.19	-	(21.73)	(23.62)	8.89	6.43	January 1994
	vs. Russell 2000		(2.78)	(4.07)	4.69	1.03	-	(6.51)	(4.52)	2.46		
	Russell 2000		(22.90)	(17.96)	(2.83)	0.16	8.78	(15.22)	(19.09)			

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

Manager outlook:
positive
neutral to slightly positive
neutral (strategy to be reviewed)
neutral to slightly negative
negative

		Periods Ended July 31, 2002					Fiscal Year To Date	Calendar Year To Date	From Inception to July 31, 2002		
		Three Months	One Year	Three Years	Five Years	Ten Years	Eleven Months Ended July 31, 2002	Seven Months Ended July 31, 2002	Manager	Benchmark	Inception Date
NET OF FEES PERFORMANCE (continued)											
International Equities:											
Established Markets:											
BGI EAFE International Fund	L	(12.00)	(16.20)	(10.45)	(3.46)	-	(13.99)	(10.90)	4.21	3.63	April 1993
vs. MSCI EAFE Net		0.36	0.72	0.38	0.43	-	0.77	0.43	0.58		
Capital Guardian Trust Small Cap International	L	(9.34)	(11.66)	(10.79)	(6.87)	-	(9.49)	(2.93)	(4.37)	(1.55)	December 1996
vs. MSCI EAFE Net		3.03	5.26	0.04	(2.99)	-	5.27	8.41	(2.82)		
Capital Guardian EAFE	L	(13.49)	(17.38)	-	-	-	(14.51)	(12.79)	(19.79)	(19.35)	August 2000
vs. MSCI EAFE Net		(1.13)	(0.47)	-	-	-	0.25	(1.45)	(0.44)		
GSAM	L	(12.80)	(18.07)	(10.88)	-	-	(14.99)	(12.72)	(5.23)	(5.18)	April 1998
vs. MSCI EAFE Net		(0.44)	(1.16)	(0.05)	-	-	(0.24)	(1.39)	(0.05)		
Oechsle	L	(12.50)	(18.17)	-	-	-	(15.06)	(12.47)	(22.98)	(19.35)	August 2000
vs. MSCI EAFE Net		(0.14)	(1.25)	-	-	-	(0.30)	(1.14)	(3.63)		
MSCI EAFE Net		(12.36)	(16.92)	(10.83)	(3.88)	4.58	(14.76)	(11.33)			
Emerging Markets:											
BGI Emerging Markets Structured Fund	L	(15.55)	-	-	-	-	-	-	(10.89)	(10.11)	February 2002
vs. MSCI Emerging Markets		0.95	-	-	-	-	-	-	(0.78)		
Capital Guardian Emerging	L	(20.56)	(8.64)	-	-	-	(4.52)	(10.79)	(19.43)	(16.45)	August 2000
vs. MSCI Emerging Markets		(4.06)	(6.30)	-	-	-	(3.33)	(3.61)	(2.98)		
Franklin Templeton	L	(11.85)	1.54	(8.11)	(9.82)	-	1.17	1.45	(2.96)	(6.49)	January 1996
vs. MSCI Emerging Markets		4.65	3.88	1.73	2.27	-	2.36	8.63	3.53		
GSAM	L	(17.48)	(2.08)	(4.65)	-	-	(1.02)	(7.42)	(5.41)	(8.65)	April 1998
vs. MSCI Emerging Markets		(0.97)	0.26	5.19	-	-	0.17	(0.25)	3.24		
MSCI Emerging Markets		(16.50)	(2.34)	(9.84)	(12.10)	(0.46)	(1.19)	(7.18)			
Alternative Equities:											
Marketable:											
Farallon Capital Offshore Investors	L	(4.48)	4.06	10.94	-	-	2.78	0.55	11.59	11.90	August 1998
vs. 90 Day Treasury Bill + 7%		(6.72)	(5.81)	(1.18)	-	-	(6.10)	(4.71)	(0.31)		
Maverick Fund	L	(6.17)	(2.86)	12.62	-	-	(5.32)	(3.27)	12.81	11.90	August 1998
vs. 90 Day Treasury Bill + 7%		(8.41)	(12.73)	0.50	-	-	(14.20)	(8.53)	0.92		
OCM Emerging Markets Fund	L	0.29	-	-	-	-	-	6.12	6.12	5.26	January 2002
vs. 90 Day Treasury Bill + 7%		(1.95)	-	-	-	-	-	0.86	0.86		
Perry Partners International	L	(3.38)	3.04	12.47	-	-	2.04	0.93	11.79	11.90	August 1998
vs. 90 Day Treasury Bill + 7%		(5.62)	(6.83)	0.35	-	-	(6.84)	(4.33)	(0.11)		
Satellite Fund	L	(28.94)	(23.04)	-	-	-	(24.25)	(26.68)	(6.85)	10.86	September 2000
vs. 90 Day Treasury Bill + 7%		(31.18)	(32.91)	-	-	-	(33.13)	(31.94)	(17.70)		
90 Day Treasury Bill + 7%		2.24	9.87	12.12	12.32	12.26	8.88	5.26			
Non-Marketable	L	**(1.68)**	**(16.93)**	**5.96**	**13.83**	**16.54**	(13.43)	(4.80)	N/A		December 1982
vs. Benchmark (17%)		(5.68)	(33.93)	(11.04)	(3.17)	(0.46)	(28.91)	(14.39)			
Benchmark (17%)		4.00	17.00	17.00	17.00	17.00	15.48	9.59			
Inflation Hedging:											
Goldman Sachs Commodity Index		0.84	-	-	-	-	-	-	0.84	(0.72)	May 2002
vs. Goldman Sachs Commodity Index - 100 bps		1.56	-	-	-	-	-	-	1.56		
REITS - Greg Cox (2)	P	(0.91)	12.99	13.67	6.86	-	8.52	7.76	12.39	9.45	April 1993
vs. NAREIT		0.42	0.61	0.28	0.73	-	0.11	0.03	2.94		
GSCI Index - 100bps		(0.72)	(8.89)	9.82	(1.65)	1.91	(9.67)	14.81			
NAREIT		(1.33)	12.37	13.40	6.13	11.62	8.41	7.73			

Manager outlook:	
	positive
	neutral to slightly positive
	neutral (strategy to be reviewed)
	neutral to slightly negative
	negative

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

		Periods Ended July 31, 2002					Fiscal Year To Date	Calendar Year To Date	From Inception to July 31, 2002		
		Three Months	One Year	Three Years	Five Years	Ten Years	Eleven Months Ended July 31, 2002	Seven Months Ended July 31, 2002	Manager	Benchmark	Inception Date
NET OF FEES PERFORMANCE (continued)											
Fixed Income:											
Domestic Fixed Income:											
Fixed Income - Harland Doak	L	(1.53)	2.06	-	-	-	0.99	(0.55)	4.98	7.17	February 2001
vs. Credit Related Fixed Income Composite		(3.33)	(3.41)	-	-	-	(3.08)	(3.74)	(2.19)		
Fixed Income - Russ Kampfe	L	2.12	6.43	-	-	-	5.60	3.91	9.65	10.23	February 2000
vs. Lehman Brothers Aggregate		(0.83)	(1.10)	-	-	-	(0.71)	(1.14)	(0.58)		
Total Internally Managed Fixed Income	L	0.68	4.66	-	-	-	3.77	2.16	9.12	10.23	
vs. Lehman Brothers Aggregate		(2.27)	(2.87)	-	-	-	(2.55)	(2.89)	(1.11)		
GSAM	L	1.29	5.73	8.25	-	-	4.60	3.43	6.83	7.17	April 1998
vs. Lehman Brothers Aggregate		(1.65)	(1.81)	(0.45)	-	-	(1.71)	(1.61)	(0.33)		
GSAM High Yield	-	(8.70)	(4.32)	-	-	-	(5.31)	(6.15)	(3.73)	7.72	March 2001
vs. Lehman Brothers Aggregate		(11.65)	(11.85)	-	-	-	(11.62)	(11.19)	(11.46)		
PIMCO	L	2.21	7.31	9.29	-	-	6.29	4.89	7.69	7.11	March 1998
vs. Lehman Brothers Aggregate		(0.74)	(0.22)	0.60	-	-	(0.02)	(0.15)	0.58		
Lehman Brothers Aggregate		2.95	7.53	8.69	7.26	7.26	6.32	5.04			
Credit Related Fixed Income Composite		1.80	5.47	-	-	-	4.07	3.19			
International Fixed Income:											
PIMCO	L	8.71	12.41	1.98	-	-	7.11	11.53	2.24	3.35	March 1998
vs. Salomon Non-U.S. WGBI Unhedged		(1.56)	(1.12)	(0.17)	-	-	(1.41)	(0.97)	(1.11)		
Salomon Non-U.S. WGBI Unhedged		10.28	13.53	2.15	3.69	5.39	8.51	12.50			
GSAM Global Asset Allocation Overlay	L	(8.04)	(16.90)	1.82	-	-	(15.86)	(16.86)	(5.93)		April 1998
Consumer Price Index		0.17	1.46	2.61	2.33	2.51	1.46	1.92			

(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.

Manager Watch List - Update

Formal Communication with Board members:

- Quarterly Reporting - Investment Managers placed on the watch list in addition to new hires and manager terminations are formally reported to the Board of Directors and the Board of Regents via the UTIMCO Quarterly Investment Report. This report is distributed or mailed to UTIMCO's Board of Directors and the U. T. System Board of Regents subsequent to the closing of the books and records on a fiscal quarter basis. Fiscal quarter ends are November, February, May, and August.

- 4/16/02 – Memo distributed to UTIMCO Board members in response to John McStay's inquiry regarding UTIMCO's investment manager watch list.

Watch List Update (As of September 13, 2002):

- **JP Morgan –S&P 500 enhanced index funds'(2) manager –**
As of 3/31/02 the endowment funds' exposure to the JP Morgan mandate was $457.8 million. Manager was officially placed on watch list for the February 28th 2002, reporting period. JP Morgan was placed on the watch list for underperformance relative to the S&P 500 benchmark for the one and two year period ending February 28, 2002. Manager continued to underperform relative to the benchmark subsequent to February 28, 2002. Justification for JP Morgan's enhanced index fund mandates when compared to the passive alternative could no longer be supported and the manager was terminated on May 28, 2002. It should be noted that communication between UTIMCO and the manager was ongoing prior to the placement of the manager on the watch list.

Manager	Termination Date	Last Full Performance Period	One Year	Two Years	Three Years	Five Years	Seven Years	Comments
JP Morgan Research Enhanced Index	May 2002	May 2002	(15.26)	(13.15)	N/A	N/A	N/A	Under performance since inception date of April 2000
S & P 500 Index			(13.83)	(12.20)				
JP Morgan Structured Stock Selection	May 2002	May 2002	(16.16)	(13.03)	N/A	N/A	N/A	Under performance since inception date of April 2000
S & P 500 Index			(13.83)	(12.20)				

- **Fortaleza – Small cap growth manager –**
The PUF's investment with Fortaleza was $35.5 million as of 6/30/02. Fortaleza was hired in December of 1993 as a HUB manager. Manager was placed on the watch list for the February 28th 2002, reporting period for below median performance as compared to peers as of December 31, 2001 (Frank Russell Universe). Manager indicated that termination would force Fortaleza out of business. For the three months ended June 30, 2002, manager outperformed small cap growth index by 2.33% but is a below median performer when compared to peers for the one year period ending June 30, 2002. Manager is a median performer for the three year period ended June 30, 2002. Manager has not changed their strategy. Small cap growth has not performed for the last two years. Manager anticipated no changes in the management of the portfolio and completed an investment management questionnaire at UTIMCO's request.

- **ING Pilgrim – small cap growth manager –**
  As of 6/30/02, ING Pilgrim had $93.6 million under management for the PUF and GEF combined. Manager was placed on watch list for below median performance when compared to peers for the 2 year reporting period ended December 31, 2001. (Frank Russell Universe) UTIMCO posed concerns over staff turnover and Mary Lisanti's involvement in the management of the portfolio. UTIMCO requested that ING Pilgrim complete an investment manager questionnaire. Strategy has not changed over time. For the three months ended June 30, 2002, the portfolio has underperformed relative to the Russell 2000 growth index by 1.87%. Stock selection, lack of momentum on the securities selected, overexposure to oil services and computer software provided the largest disparities in return relative to the benchmark. At June 30, 2002, the portfolio is overweighted relative to the 2000 growth index in consumer cyclical by 15% and healthcare by 3%, M. Lisanti's focus. For the period ended June 30, 2002 performance remained below median. UTIMCO will continue to monitor this mandate.

- **Pilgrim Baxter – small cap value manager –**
  As of 6/30/02 Pilgrim Baxter had $94.6 million under management for the PUF and GEF combined. Manager was placed on watch list for substantial underperformance relative to the Russell 2000 Small Cap Value index for the February 28, 2002 reporting period. UTIMCO requested an in-depth attribution analysis and requested that the manager complete an investment manager questionnaire. Pilgrim Baxter in UTIMCO's opinion is more a GARP manager than a true value manager. They have maintained greater exposure than the Russell 2000 index to high growth potential areas such as health care and technology. This strategy has not performed well in the current market environment and will continue to underperform the value index as long as market fear and uncertainty exist. This mandate was intended to serve as a risk diversifier to other small cap managers. It became apparent that the characteristics and strategy employed by this manager were not going to serve the purpose for which the mandate was intended and the manager was terminated in July 2002.

Manager	Termination Date	Last Full Performance Period	One Year	Two Years	Three Years	Five Years	Seven Years	Comments
Pilgrim Baxter Value Investor	July 2002	July 2002	(23.25)	N/A	N/A	N/A	N/A	Under performance
Russell 2000 Value Index			(5.50)					

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SATELLITE ASSET MANAGEMENT

(To Be Distributed at the Meeting)