

FILE

*The University of Texas Investment
Management Company*



*Presentation Materials
Board of Directors Meeting*

April 17, 1996

**UTIMCO
BOARD OF DIRECTORS MEETING**

April 17, 1996

AGENDA

- 8:00 a. m. **Call to Order/Approval of Minutes of February 22, 1996 Meeting (Tab 1)**
- 8:05 - 8:15 **Funds Summary (Tab 2)**
- Quarterly Investment Review**
- 8:15 - 9:00 **Fixed Income (Tab 3)**
- Background
 - Permanent University Fund
 - Long Term Fund
 - Short/Intermediate Term Fund
 - Short Term Fund
- 9:00 - 10:15 **Equities (Tab 4)**
- Background
 - Permanent University Fund
 - Long Term Fund
 - Equity Manager Presentations
 - Kempner Capital Management, Galveston, TX
 - Austin, Calvert and Flavin, San Antonio, TX
 - Emerging Markets - Templeton Investment Counselors
- 10:15 - 10:30 **Break**
- 10:30 - 12:00 **Private Investments (Tab 5)**
- Background
 - Permanent University Fund
 - Long Term Fund
 - Approval of Commitments
 - Thayer Equity Investors III, L.P. (Presentation by General Partner)
 - Wand Equity Partners, II, L.P. (Presentation by General Partner)
- 12:00 - 12:30 **UTIMCO (Tab 6)**
- Financial Report - March 1996
 - Approval of FY96-97 Budget Parameters
 - Approval of Board Meeting Dates
- 12:30 noon **Adjournment/Lunch**

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

The Board of Directors of The University of Texas Investment Management Company (the "Corporation") convened in special meeting on the 22nd day of February, 1996, by means of conference telephone enabling all persons participating in the meeting to hear each other, said meeting having been called by the Chairman with notice provided to each Director in accordance with the Bylaws. Participating in the meeting were the following members of the Board of Directors:

Thomas O. Hicks, Chairman
William H. Cunningham
Donald L. Evans
Tom Loeffler

thus constituting a majority and quorum of the Board of Directors. Also participating in the meeting was Thomas G. Ricks, President of the Corporation. Mr. Hicks called the meeting to order at 4:30 p.m.

Approval of Minutes

The first matter to come before the Board of Directors was approval of the minutes of the organizational meeting of the Board of Directors held on November 20, 1995 and of the special meeting of the Board of Directors held on January 18, 1996, copies of which had previously been furnished to each Director. By motion duly made, seconded and carried by a unanimous vote, the Board of Directors duly approved the minutes of such meetings.

Investment Management Services Agreement

The Board of Directors next considered approving an Investment Management Services Agreement between the Corporation and the Board of Regents (the "Board of Regents") of The University of Texas System (the "System"), a copy of which had previously been approved by the Board of Regents and furnished to each Director. By motion duly made, seconded and carried by a unanimous vote, the Board of Directors adopted the following resolution:

RESOLVED, that the form of Investment Management Services Agreement between the Corporation and the Board of Regents, a copy of which was presented to the Board of Directors, is hereby authorized and approved and the President of the Corporation is hereby authorized and directed to execute and deliver such Agreement, on behalf of the Corporation, with such changes therein as the said

President may approve, such approval to be conclusively evidenced by such execution thereof.

Investment Policies

The Board of Directors next considered adoption of investment policies previously approved by the Board of Regents and furnished to each Director. By motion duly made, seconded and carried by a unanimous vote, the Board of Directors adopted the following resolution:

RESOLVED, that the investment policies for the Permanent University Fund, the Long Term Fund, the Separately Invested Funds, the Short/Intermediate Term Fund and the Short Term Fund are hereby adopted and shall be attached to the Investment Management Services Agreement between the Corporation and the Board of Regents, as Exhibit A.

Assignment of Contracts

The Board of Directors next considered accepting the assignment by the Board of Regents of all investment management, brokerage, custodian and other contracts for investment management services and assuming all of the rights and obligations of the System and the Board of Regents thereunder. By motion duly made, seconded and carried by a unanimous vote, the Board of Directors adopted the following resolution:

RESOLVED, that the Corporation, as successor to the functions of the Office of Asset Management of The University of Texas System, hereby accepts the assignment by the Board of Regents of all investment management, brokerage, custodian and other contracts for investment management services and assumes all of the rights and obligations of the System and the Board of Regents thereunder, and that the proper officers of the Corporation are authorized to execute any necessary or appropriate documents or forms in connection with such assignment and assumption.

Code of Ethics

The Board of Directors next considered adoption of a code of ethics previously approved by the Board of Regents and furnished to each Director. By motion duly made, seconded and carried by a unanimous vote, the Board of Directors adopted the following resolution:

RESOLVED, that the attached Standards of Employee Conduct is hereby adopted as the Code of Ethics of the Corporation and shall be attached to the Investment Management Services Agreement between the Corporation and the Board of Regents, as Exhibit G.

Vice Presidents

The Board of Directors next considered the establishment of the office of Vice President of the Corporation and the appointment of certain individuals to that office. By motion duly made, seconded and carried by unanimous vote, the Board of Directors adopted the following resolution:

RESOLVED, that the Corporation shall have one or more Vice Presidents elected or appointed from time to time by the Board of Directors. Subject to the control of the Board of Directors and the supervision of the President, each Vice President shall be responsible for the business and operations of the Corporation assigned to such Vice President by the Board of Directors or the President and shall have all such powers as may be reasonably incident to such responsibilities, including the authority to perform such acts and deeds as may be necessary or appropriate, in the judgment of such officer, to carry out such responsibilities.

Further, by motion duly made, seconded and carried by unanimous vote, the Board of Directors elected the following individuals Vice Presidents of the Corporation to serve from March 1, 1996 until the next succeeding annual meeting of the Board of Directors at which officers are elected

Austin M. Long, III	:	Vice President for Private Investments
Robert W. Holland	:	Vice President for Fixed Income Investments
Cathy A. Iberg	:	Vice President for Investment Operations

Budget for 1996

The Board of Directors next considered adoption of an operating budget for the remainder of Fiscal Year 1996. Mr. Ricks presented a proposed budget covering all operating expenses, including, without limitation, salaries, benefits and performance compensation, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll and other general services expenses, travel, insurance, capital expenditures, and other miscellaneous expenses. After discussion, by motion duly made, seconded and carried by a unanimous vote, the Board of Directors approved the budget for the remainder of Fiscal Year 1996, attached hereto.

Lease and Service Agreements

The Board of Directors next considered approving an office lease agreement, a furniture lease agreement, an information systems services agreement and other services agreement, each between the Corporation and the Board of Regents. By motion duly made, seconded and carried by a unanimous vote, the Board of Directors adopted the following resolution:

RESOLVED, that the President of the Corporation is hereby authorized and directed to negotiate, execute and deliver, on behalf of the Corporation, an office

lease agreement, a furniture lease agreement, an information systems services agreement and other services agreement, each between the Corporation and the Board of Regents.

New Directors

The Board next considered recommending individuals for appointment by the Board of Regents as Directors of the Corporation. Mr. Hicks reminded the Directors that the Board of Regents of The Texas A&M University System had submitted the name of Regent Robert H. Allen as their sole nominee. Further, Mr. Hicks reminded the Directors of the interviews with potential Directors conducted during the special meeting of the Board of Directors held on January 18, 1996. After discussion, by motion duly made, seconded and carried by unanimous vote, the Board of Directors recommended the following slate of Directors for appointment by the Board of Regents, subject to replacement of the Interim Directors (indicated below) by the Board of Regents based upon recommendations for replacement by the Board of Directors following additional interviews of candidates, and, subject to appointment by the Board of Regents, set the following terms for each Director:

<u>Name</u>	<u>Term Expiration</u>
Donald L. Evans (Regent)	February 1, 1997
Thomas O. Hicks (Regent)	February 1, 1997
Tom Loeffler (Regent)	February 1, 1997
William H. Cunningham (Chancellor)	—
Arthur H. Dilly (Interim Director)	February 1, 1997
R.D. Burck (Interim Director)	February 1, 1998
Susan M. Byrne (Director)	February 1, 1998
Robert H. Allen (A&M Regent)	February 1, 1999
Richard W. Fisher (Director)	February 1, 1999

Audit and Ethics Committee

The Board next considered the creation of an audit and ethics committee and the appointment of the members of that committee. By motion duly made, seconded and carried by unanimous vote, the Board of Directors adopted the following resolution:

RESOLVED, that there is hereby created an audit and ethics committee consisting of three members of the Board of Directors, which committee shall be

charged with responsibility for oversight of the financial procedures of the Corporation and compliance with the Corporation's Code of Ethics.

Further, by motion duly made, seconded and carried by unanimous vote, the Board of Directors appointed the following Chairman and members of the audit and ethics committee, subject, however, to approval by the Board of Regents:

Donald L. Evans, Chairman
Susan M. Byrne
Robert H. Allen

Adjournment

There being no further business to come before the Board of Directors, the meeting was adjourned.

Secretary

APPROVED:

President

Assets Under Management

All Funds

U.T. Funds

PUF

Total

PUF

Separate Funds

Pooled Funds

PUF



Time Horizon	Long 5-30 years	Long 5-30 years	Short/Inter 1-5 yrs.	Short 0-120 days	Short-Long 0-30 years
Objectives					
Liquidity	X	X	XX	XXX	Various
Income	XX	X	XX	X	Various
Safety of Principal	XX	XX	XX	XXX	Various
Growth of Income	XXX	XXX	XX	-	Various
Growth of Principal	XXX	XXX	XX	-	Various

Asset Allocation

Cash equivalents	0%	7%	15%	100%	Various
Fixed Income	49%	32%	85%	0%	Various
Equities	46%	55%	0%	0%	Various
Alternative Assets	5%	6%	0%	0%	Various

Market Value

February 29, 1996	5,280.7	1,694.9	1,266.8	593.5	170.7	3,725.9	9,006.6
November 30, 1995	5,153.7	1,628.5	1,232.9	358.0	170.8	3,390.2	8,543.9
August 31, 1995	4,958.5	1,549.7	1,123.7	526.2	300.9	3,500.5	8,459.0
August 31, 1994	4,428.0	1,214.4	945.3	322.0	516.5	2,998.2	7,426.2
August 31, 1993	4,470.9	1,119.0	696.1	194.5	823.0	2,832.6	7,303.5
August 31, 1992	4,145.4	949.3	0.0	181.5	1,559.5	2,690.3	6,835.7
August 31, 1991	3,930.7	763.7	0.0	243.4	1,382.4	2,389.5	6,320.2

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
PERFORMANCE SUMMARY
FEBRUARY 29, 1996

	Periods Ended February 29, 1996						
	Three Months	Six Months	One Year	Two Years	Three Years	Five Years	Seven Years
Permanent University Fund	3.4	8.5	23.0	12.8	11.9	11.5	11.3
Long Term Fund	4.0	8.7	22.6	12.8	11.5	12.0	11.2
Fixed Income-Internal(1)	0.0	4.6	14.3	8.0	7.5	10.2	10.7
Equities-Fayez Sarofim(2)	6.8	18.8	38.2	23.5	16.8	-	-
Equities-Holland Timmins(2)	4.9	13.5	23.0	17.0	10.5	-	-
Equities-Austin Calvert(2)	5.0	11.0	26.5	16.9	13.4	-	-
Equities-Kempner(2)	5.2	9.8	23.5	15.6	11.9	-	-
Equities-Greg Cox(2)	9.2	17.6	33.8	17.2	15.3	-	-
Equities-Wells Fargo S&P(2)	6.4	15.7	34.9	20.4	16.3	-	-
Equities-Wells Fargo Mid Cap(3)	4.7	9.2	29.5	14.9	15.7	-	-
Equities-HUB Managers(4)	1.1	3.0	31.0	14.8	-	-	-
Equities-Bankers Trust(4)	10.4	-	-	-	-	-	-
Equities-MBA Investments(2)	4.3	-	-	-	-	-	-
Equities-Artisan Partners(5)	4.9	-	-	-	-	-	-
Equities-Schroder Wertheim(5)	7.6	8.1	27.7	12.3	-	-	-
Total Domestic Equities	6.1	13.3	31.1	17.8	14.7	13.5	11.7
International Equities-Boatmen's(6)	4.7	7.0	17.9	5.4	-	-	-
Total Equities	5.8	12.5	29.7	16.3	13.9	13.0	11.4
Private Investments(7)	8.9	4.7	34.7	24.0	25.7	-	-
Short Intermediate Term Fund(8)	1.0	3.2	7.7	5.3	4.7	-	-
Short Term Fund(9)	1.4	2.8	6.8	5.3	4.5	4.2	-

Index Benchmarks:	Three Months	Six Months	One Year	Two Years	Three Years	Five Years	Seven Years
1. Salomon Broad Bond Index	0.3	4.2	12.3	6.9	6.5	8.9	9.9
2. S&P 500 Index	6.4	15.3	34.7	20.3	16.2	15.0	15.5
3. S&P Mid Cap Index	4.6	9.0	29.2	14.6	14.8	16.6	17.2
4. Wilshire Small Cap Growth Index	4.6	6.3	34.2	16.2	19.3	19.2	15.1
5. Wilshire Small Cap Value Index	3.2	9.7	24.8	14.1	11.7	20.0	14.6
6. World ex U.S. Index	4.8	6.9	17.3	5.6	15.6	6.7	4.1
7. S&P 500 Index +5%	11.4	20.3	39.7	25.3	21.2	20.0	20.5
8. Composite Index	1.2	3.5	8.5	5.9	5.1	-	-
9. Donoghue's Institutional Average	1.3	2.7	5.6	5.0	4.3	4.3	-
10. Consumer Price Index	0.8	1.2	2.5	2.7	2.5	2.7	3.5

**THE UNIVERSITY OF TEXAS SYSTEM
FUNDS BY ASSET ALLOCATION AND MANAGERS
TOTAL FUNDS**

STYLE	INT/EXT	ASSET CLASS	PUF	LTF	S/ITF	STF	SIA	TOTAL	%
		Fixed Income	2,465.6	517.4	1,266.8	593.5	148.2	4,991.5	55%
		Equities	2,537.9	1,067.3	-	-	14.7	3,619.9	40%
		Private Investments	277.2	110.2	-	-	7.8	395.2	4%
		Total	5,280.7	1,694.9	1,266.8	593.5	170.7	9,006.6	100%

Fixed Income Portfolio Management

Background

Fixed Income - Background

- *Original focus on endowment portfolios*
 - *Investment strategy dictated by:*
 - *Legal restrictions*
 - *Board spending policy*
 - *Buy and hold strategy*
-

Fixed Income - Background (cont.)

- *PUF total return prohibition is a major problem*
 - *emphasis on generation of current income*
 - *stability and growth of PUF income is unmanageable*
 - *UMIFA authorized total return for LTF*
 - *fund converted to total return basis in 1995*
 - *payout now exceeding income*
-

Fixed Income - Background (cont.)

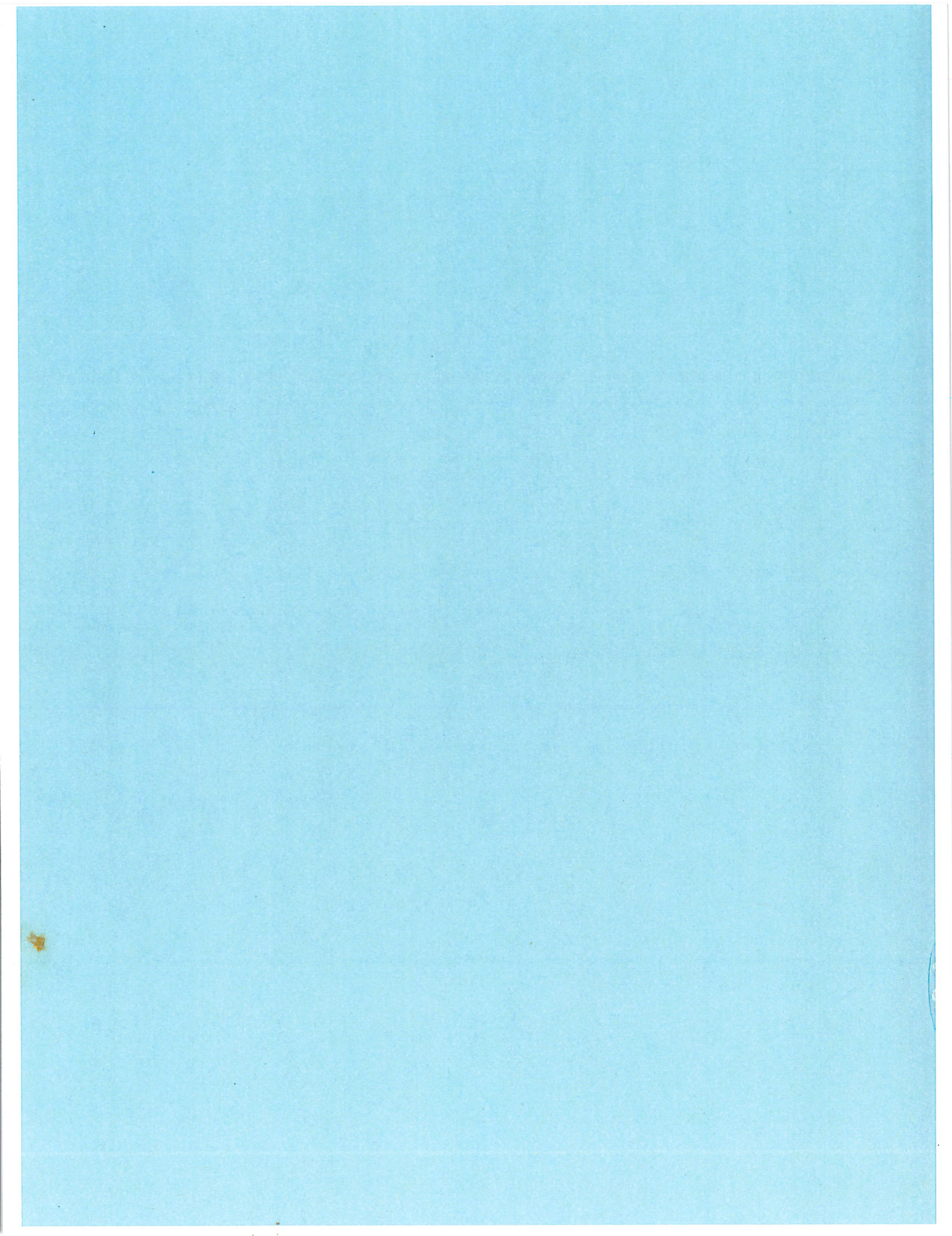
- *Revised asset allocation reduced emphasis on fixed income to 20% -30%*
- *Role redefined to that of deflation hedge*
- *International exposure added for LTF*
- *PUF and LTF runoff being recycled*

Fixed Income - Background (cont.)

- *Management of U.T. System operating funds initiated in 1988*
- *money market fund - 1988*
- *short/intermediate term fund - 1993*

**THE UNIVERSITY OF TEXAS SYSTEM
FUNDS BY ASSET ALLOCATION AND MANAGERS
FIXED INCOME
2/29/96**

STYLE	INT/EXT	MANAGER	PUF	LTF	S/ITF	STF	SIA	TOTAL	%
Long Term	Internal	Holland	2,459.5	516.5	-	-	49.6	3,025.6	61%
Long Term	External	Leavell	-	-	-	-	0.1	0.1	0%
Long Term	External	SMR/Moody National Bank	-	-	-	-	4.6	4.6	0%
Short/Intermediate	Internal	Kampfe	-	-	1,266.8	-	-	1,266.8	25%
Short/Intermediate	Internal	Kampfe/UT Components	-	-	-	593.5	67.6	67.6	1%
Liquidity	External	Fin. Square (Goldman Sachs)	6.1	0.9	-	-	26.3	33.3	12%
Liquidity	Internal	Holland	-	-	-	-	-	-	1%
		Total	2,465.6	517.4	1,266.8	593.5	148.2	4,991.5	100%
	Internal		2,465.6	517.4	1,266.8	-	143.5	4,393.3	88%
	External		-	-	-	593.5	4.7	598.2	12%



PERMANENT UNIVERSITY FUND
FIXED INCOME PORTFOLIO
PURCHASES AND SALES ACTIVITY
FISCAL YEAR 1996
(\$ Millions)

	<u>1st Quarter</u>		<u>2nd Quarter</u>	
	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>
Purchases	\$49.6	7.25%	\$21.8	6.59%
Sales	0.0	0.00%	0.0	0.00%
Redemptions	(4.3)	10.09%	(14.8)	8.50%
Mortgage Payments	(9.4)	9.61%	(12.0)	9.43%
Maturities	(20.0)	9.13%	(26.0)	8.16%
Net Purchases (Sales)	\$15.9		(\$31.0)	
Realized Gains (Losses)	\$0.3		\$0.9	

PUF
FIXED INCOME ACTIVITY

08-Apr-96

---2nd Quarter (95-96) To Date---

(Trade Date Basis)

BONDS BOUGHT:

<u>Rating</u>	<u>Par(000)</u>	<u>Description</u>	<u>Yield</u>	<u>Cost</u>
A3/A	5,000	Texas Instruments Inc 6.125 - 2/06	6.220	4,965,000
Baa2/BBB	1,000	Legg Mason , Inc 6.50 - 2/06	6.565	995,280
A3/A	5,000	Central Louisiana Elec Co 6.53 - 3/07	6.577	4,981,050
A1/A	2,440	Ford Motor Credit Co. 6.75 - 8/08	6.805	2,428,752
A1/A	3,500	Air Products & Chemical 6.25 - 2/11	6.388	3,453,765
Aaa/AAA	3,000	Federal Home Loan Bank 6.535 - 12/14	6.535	3,000,000
A3/A	2,000	Equitable Life Assurance 7.70 - 12/15	7.718	1,996,240
			6.589	\$21,820,087
	\$21,940			

BONDS REDEEMED / SOLD:

<u>Rating</u>	<u>Par(000)</u>	<u>Description</u>	<u>Book Yield</u>	<u>Yld @ Sales Px</u>	<u>Proceeds</u>	<u>Gain/Loss</u>
AAA/AAA	141	Conn Bank & Trust 8.05 - 1/98 R	8.05		141,000	0
A3/A	2,193	Portland General Electric 7.75 - 11/02 R	9.08		2,228,307	185,432
Aaa/AAA	90	Patriot IV Shipping Corp 8.05 - 12/04 R	8.05		90,000	0
A2	200	Texas Public Fin Auth 9.00 - 12/06 R	9.00		200,000	0
Baa2/BBB	7,750	Commonwealth Edison 8.25 - 12/07 R	8.34		7,976,300	277,692
AAA/AAA	4,000	Southern Bell Tel & Tel 8.125 - 5/17 R	8.50		4,148,000	295,982
			8.496		\$14,783,607	759,106
	\$14,374					

VARIOUS MTGE-BACKED PAYMENTS & PREPAYMENTS:

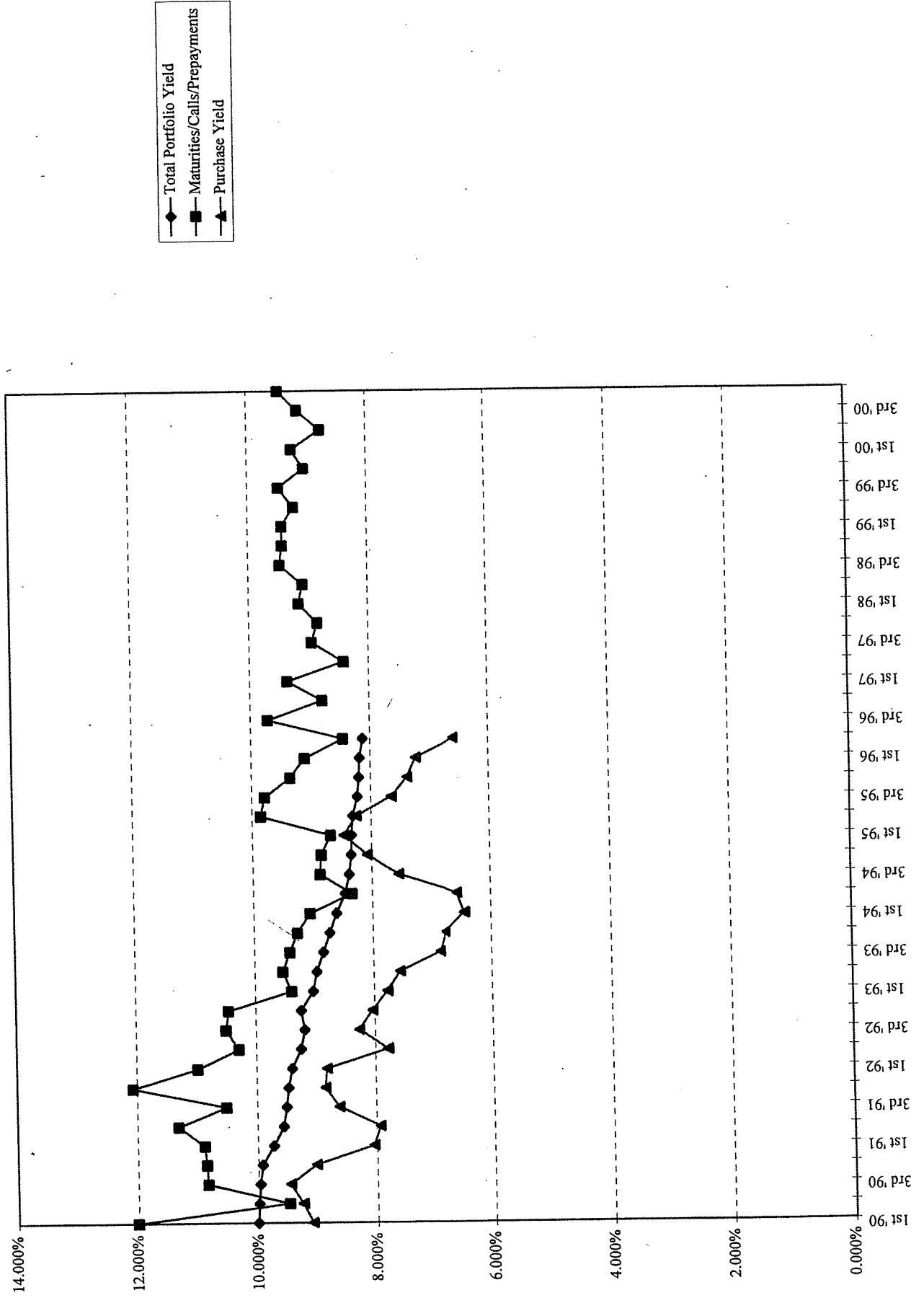
-- -- \$10,073,606 ** --

R=Redemption

T=Tender

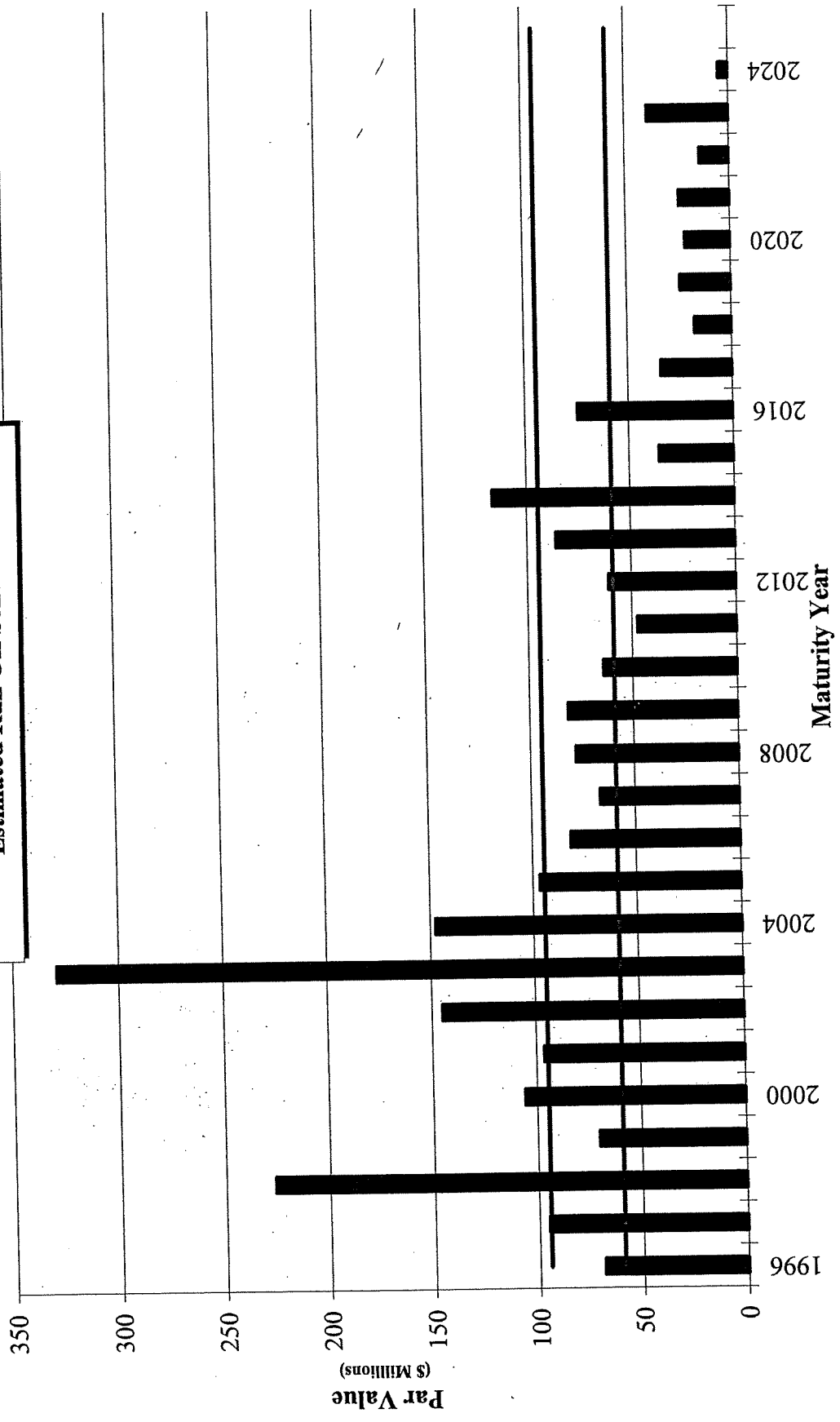
**=Approximate figures

PUF Fixed Income Portfolio Runoff vs. Reinvestment Rates



Permanent University Fund

Estimated Run Off Schedule



Par Value
 4% of Portfolio
 2.5% of Portfolio

**PERMANENT UNIVERSITY FUND
FIXED INCOME PORTFOLIO
COMPOSITION BY SECTOR**

As of February 29, 1996
(\$ millions)

<u>Sector</u>	<u>Amount</u>	<u>Portfolio %</u>
U. S. Treasuries/Govt. Gtd.	\$408	17.2%
U. S. Govt. Agencies	\$98	4.1%
Mortgage Backed	\$370	15.5% ^{27%}
Municipal	\$96	4.1%
Foreign	\$96	4.1%
Corporates (ex CMOs)	<u>\$1,306</u>	<u>55.0%</u>
Total	\$2,374	100.0%

**PERMANENT UNIVERSITY FUND
FIXED INCOME PORTFOLIO
COMPOSITION BY RATING (MOODY'S)**

**As of February 29, 1996
(\$ millions)**

Rating Category	Amount	Portfolio Percentage
Investment Grade		
Aaa	\$1,002.2 (1)	42.2%
Aa	\$255.3	10.7%
A	\$899.7	37.9%
Baa	\$205.8	8.7%
Below Investment Grade		
Ba	\$8.7	0.4%
B	\$2.0	0.1%
TOTALS	\$2,373.7	100.0%

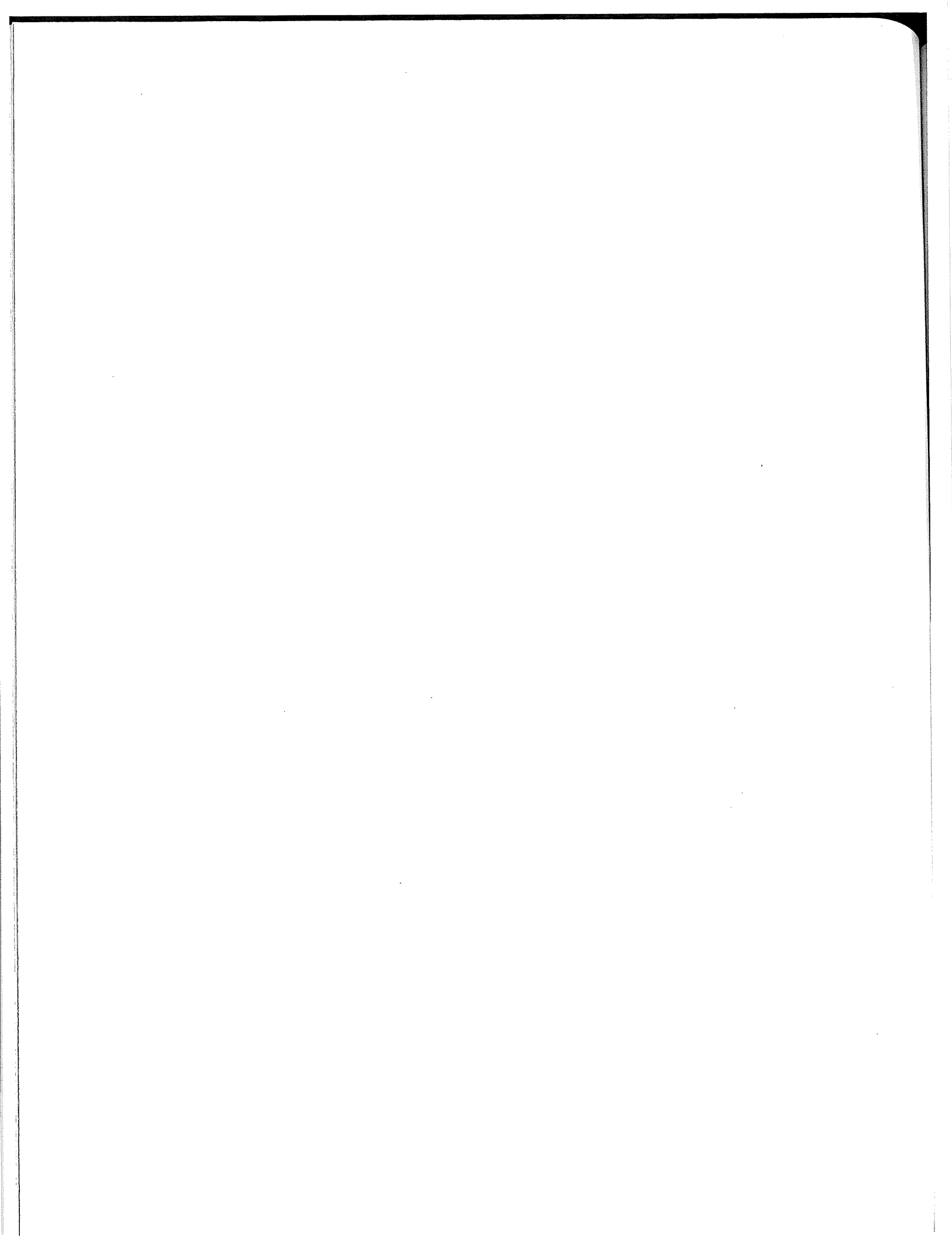
(1) Includes \$309.4 non-rated U. S. Govt. Gtd. and Agency Obligations

Avg. Portfolio Quality: Aa2

Below Investment Grade					
<u>2 Q 96</u>	<u>1 Q 96</u>	<u>4 Q 95</u>	<u>3 Q 95</u>		
Amount	Amount	Amount	Amount	%	%
\$10.7	\$11.6	\$11.6	\$11.6	0.5%	0.5%
			\$11.6		0.5%

LONG TERM FUND
FIXED INCOME PORTFOLIO
PURCHASES AND SALES ACTIVITY
FISCAL YEAR 1996
(\$ Millions)

	<u>1st Quarter</u>		<u>2nd Quarter</u>	
	<u>Amount</u>	<u>Book Yield</u>	<u>Amount</u>	<u>Book Yield</u>
Purchases	\$0.0	0.00%	\$0.0	0.00%
Sales	0.0	0.00%	0.0	0.00%
Redemptions	(1.5)	9.00%	(4.4)	8.79%
Mortgage Payments & Prepayments	(10.1)	9.61%	(3.0)	9.46%
Maturities	(2.6)	10.05%	(1.0)	9.25%
Net Purchases (Sales)	(\$14.2)		(\$8.4)	
Realized Gains (Losses)	\$0.0		\$0.1	



10-Apr-96

LTF
FIXED INCOME ACTIVITY

2nd QUARTER (95-96)

(Trade Date Basis)

BONDS BOUGHT:

<u>Rating</u>	<u>Par(000)</u>	<u>Description</u>	<u>Yield</u>	<u>Cost</u>
	<u>\$0</u>		<u>#DIV/0!</u>	<u>\$0</u>

BONDS REDEEMED / SOLD:

<u>Rating</u>	<u>Par(000)</u>	<u>Description</u>	<u>Book Yield</u>	<u>Yld @ Sales Px</u>	<u>Proceeds</u>	<u>Gain/Loss</u>
A3/A	791	Portland General Electric 7.75 - 11/02 R	9.08		803,735	66,885
A2	50	Texas Public Fin Auth 9.00 - 12/06 R	9.00		50,000	0
Baa2/BBB	2,000	Commonwealth Edison 8.25 - 12/07 R	8.34		2,058,400	72,109
AAA/AAA	1,000	Southern Bell Tel & Tel 8.125 - 5/17 R	8.50		1,037,000	73,996
	<u>\$3,841</u>		<u>8.536</u>	<u>0.000</u>	<u>\$3,949,135</u>	<u>\$212,990</u>

VARIOUS MTGE-BACKED PAYMENTS & PREPAYMENTS: -- -- \$2,551,622 **

R=Redemption
 T=Tender
 **=Approximate figures

**LONG TERM FUND
FIXED INCOME PORTFOLIO
COMPOSITION BY SECTOR**

**As of February 29, 1996
(\$ millions)**

<u>Sector</u>	<u>Amount</u>	<u>Portfolio %</u>
U. S. Treasuries/Govt. Gtd.	\$50	10.5%
U. S. Govt. Agencies	\$6	1.3%
Mortgage Backed	\$86	18.2%
Municipal	\$20	4.2%
Foreign	\$25	5.3%
Corporates (ex CMOs)	<u>\$287</u>	<u>60.5%</u>
TOTAL	\$474	100.0%

**LONG TERM FUND
FIXED INCOME PORTFOLIO
COMPOSITION BY RATING (MOODY'S)**

**As of February 29, 1996
(\$ millions)**

Rating Category	<u>Amount</u>	<u>Portfolio Percentage</u>
Investment Grade		
Aaa	\$161.7 (1)	34.1%
Aa	\$37.6	7.9%
A	\$220.1	46.4%
Baa	\$44.8	9.5%
Below Investment Grade		
Ba	\$9.0	1.9%
B	\$1.0	0.2%
Total	<u>\$474.2</u>	<u>100.0%</u>

(1) Includes \$79.2 non-rated U. S. Govt. Agency Obligations

Below Investment Grade					
	<u>2 Q 96</u>	<u>1 Q 96</u>	<u>4 Q 95</u>	<u>3 Q 95</u>	
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>%</u>
	\$10.0	2.1%	\$11.0	2.3%	2.2%
			\$11.0	2.2%	2.2%

**LONG TERM FUND
FIXED INCOME PORTFOLIO
MATURITY SCHEDULE
As of February 29, 1996
(\$ millions)**

Fiscal Year	Scheduled Maturities	Est. Payments Mortgage Backed	Total Par	Yield	Portfolio %
1996	\$0.7	\$9.7	\$10.4	8.80%	2.2%
1997	\$9.8	\$14.7	\$24.5	8.58%	5.2%
1998	\$18.6	\$10.5	\$29.1	9.07%	6.1%
1999	\$20.8	\$5.1	\$25.9	8.43%	5.5%
2000	\$21.2	\$6.3	\$27.5	9.44%	5.8%
2001-2005	\$150.6	\$22.0	\$172.6	8.08%	36.4%
2006-2010	\$64.3	\$12.8	\$77.1	7.49%	16.3%
2011-2015	\$61.7	\$3.4	\$65.1	8.11%	13.7%
2016-2020	\$10.0	\$1.1	\$11.1	7.66%	2.3%
2021-2025	\$29.8	\$0.1	\$29.9	8.22%	6.3%
2026+	\$1.0	\$0.0	\$1.0	8.01%	0.2%
Total	\$388.5	\$85.7	\$474.2		100.0%

Weighted Average Life of Bond Portfolio (excl. Mtge-Backed): 10.5 years

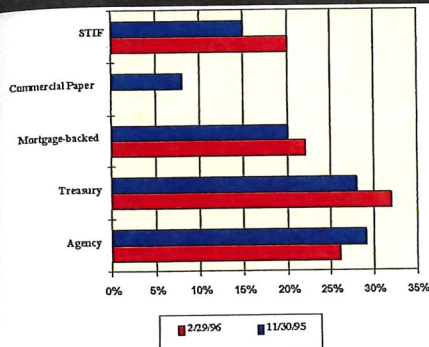
Weighted Average Life of Lehman Govt/Corp Index: 9.6 years

Weighted Average Life of Lehman Aggregate Index: 8.6 years

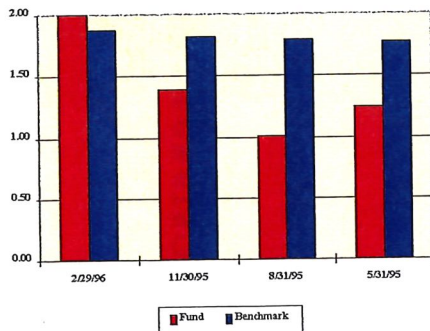


Short/Intermediate Term Fund Second Quarter Commentary

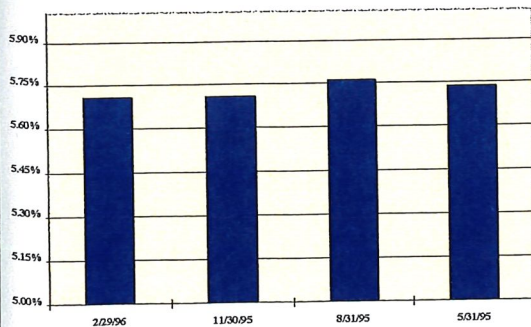
Composition by Sector



Average Modified Duration



Average Distribution Yield



General Comments

During the quarter, the Fund received net contributions of \$39.8 million vs \$94.4 million for the previous quarter. Income earned and distributed increased by \$1.1 million to \$17.9 million. The Fund also generated a net realized gain of \$4.2 million and an increase in net unrealized losses of \$10.1 million. Ending market value was \$1,266.8 million (\$9.8399 per unit) vs \$1,232.9 million (\$9.8853 per unit) for the previous quarter.

As of quarter end, the Fund maintained a 5.69% yield to maturity and an estimated average maturity/runoff of 2.55 years. Total investment return for the quarter was 0.96% unannualized versus 1.23% for the composite benchmark.

Portfolio Manager Comments

The Fund entered the quarter with a slightly bullish outlook and a modified duration nearly equivalent to the benchmark. Small net purchases of US Treasuries in the 8-8.5 year maturity range were made over the quarter, avoiding exposure to the 2-3 year maturity range which had priced in approximately 125 basis points of Federal Reserve easing. This brought the S/ITF to a modestly greater interest rate risk exposure to the benchmark. Unfortunately, a steepening yield curve for much of the quarter caused the Fund to underperform the benchmark.

At this date, the Fund continues to have a slightly bullish outlook. However, if the bond market shows some ability to stabilize and inflation indicators do not flash distinctly higher readings, I will become considerably more bullish and look upon the current rise in rates to be a significant opportunity to buy securities. Given that the majority of easing priced into the market has been removed, the S/ITF would likely invest in the 3-5 year area and lessen its barbelled structure. Given current market indicators, the Federal Reserve must still be looked upon as having an easing bias with a worst case scenario or neutrality. The economy must have more than a weather and government induced bounce before this view can change.

Performance Summary as of February 29, 1996

	3 Mos.	6 Mos.	1 Year	Since Inception
Short Intermediate Term Fund	0.96%	3.18%	7.65%	4.74%
Benchmark	1.23%	3.45%	8.52%	5.14%

All returns greater than one year are annualized.

SHORT/INTERMEDIATE TERM FUND SUMMARY REPORT

(\$ millions)

	Actual FY94-95	Actual		
		Fiscal Year 1995-96		Total
		1st Qtr	2nd Qtr	
Beginning Net Assets	\$ 945.3	\$ 1,129.5	\$ 1,232.9	\$ 1,129.5
Contributions	221.9	99.2	58.8	158.0
Investment Return	68.7	25.8	12.0	37.8
Expenses	(0.2)	-	-	-
Distributions of Income	(60.0)	(16.8)	(17.9)	(34.7)
Withdrawals	(46.2)	(4.8)	(19.0)	(23.8)
Ending Net Assets	\$ 1,129.5	\$ 1,232.9	\$ 1,266.8	\$ 1,266.8
Net Asset Value per Unit	\$ 9.8111	\$ 9.8853	\$ 9.8399	
No. of Units (End of Period)	115,124,921	124,720,233	128,742,273	

(1) Unannualized

SHORT/INTERMEDIATE TERM FUND
SCHEDULE OF DISPOSITIONS AND ACQUISITIONS
(Excluding Commercial Paper)
12/1/95 THROUGH 02/29/96

	Coupon	Maturity	Disposition/ Acquisition Date	Par Value	Book Value	Sales Proceeds	Gain/Loss	Book Yield
DISPOSITIONS:								
U S TREASURY NOTES	7.875%	02/15/96	01/09/96	\$ 30,600,000.00	\$ 30,659,318.80	\$ 30,671,718.75	\$ 12,399.95	5.63%
U S TREASURY NOTES	5.750%	08/15/03	01/12/96	97,000,000.00	94,314,188.75	98,480,468.75	4,166,280.00	6.21%
FEDERAL NATL MTG ASSN DEB	7.600%	01/10/97	01/25/96	20,035,000.00	20,525,726.47	20,486,188.20	(39,538.27)	4.83%
FHLMC MULTICLASS MTG P/C1573PB	4.750%	01/15/07	VARIOUS	8,861,675.50	8,854,775.16	8,861,675.50	6,900.34	4.76%
FHLMC MULTICLASS MTG P/C1617PB	4.550%	01/15/08	VARIOUS	1,130,700.00	1,097,415.70	1,130,700.00	33,284.30	4.88%
FHLMC MULTICLASS MTG P/C 16 PB	4.750%	10/25/06	VARIOUS	8,436,960.00	8,405,189.45	8,436,960.00	31,770.55	4.80%
FHLMC GROUP #L7-3378	5.500%	11/1/00	VARIOUS	354,643.10	347,748.91	354,643.10	6,894.19	5.97%
FHLMC MULTICLASS MTG PC 1559VB	4.800%	12/15/06	VARIOUS	7,089,793.26	7,087,840.48	7,089,793.26	1,952.78	4.80%
				\$ 173,508,771.86	\$ 171,292,203.72	\$ 175,512,147.56	\$ 4,219,943.84	5.74%
ACQUISITIONS:								
FNMA GTD REMIC P/T CTF 94-27PC	5.000%	03/25/12	12/06/95	10,000,000.00	9,853,125.00			5.13%
FHLMC MULTICLASS MTG P/C 1687C	5.250%	11/15/05	12/15/95	17,000,000.00	16,845,273.44			5.37%
FNMA GTD REMIC P/T CTF93-121PC	5.250%	06/25/11	01/02/96	29,800,000.00	29,595,125.00			5.32%
U S TREASURY NOTES	7.250%	05/15/04	VARIOUS	56,000,000.00	61,564,062.50			5.74%
U S TREASURY NOTES	6.500%	05/15/05	VARIOUS	122,000,000.00	129,216,875.00			5.67%
				\$ 234,800,000.00	\$ 247,074,460.94			5.60%

**SHORT/INTERMEDIATE TERM FUND
SCHEDULE OF INVESTMENTS
FEBRUARY 29, 1996**

Description	Coupon	Maturity	Book Value	Market Value
<u>STIF</u>				
FIDELITY MONEY MARKET FUND			\$ 253,955,793.84	\$ 253,955,793.84
<u>MORTGAGE-BACKED CMOS</u>				
FHLMC MULTICLASS MTG PC 1559VB	4.800	12/15/06	697,053.96	695,717.11
FHLMC MULTICLASS MTG P/C 16 PB	4.750	10/25/06	16,199,239.98	16,168,451.73
FHLMC MULTICLASS MTG P/C1573PB	4.750	01/15/07	5,489,140.58	5,481,323.53
FHLMC MULTICLASS MTG P/C1617PB	4.550	01/15/08	13,463,028.30	13,812,851.95
FHLMC MULTICLASS MTG P/C 1639PC	5.750	01/15/04	12,298,381.77	12,282,963.94
FHLMC MULTICLASS MTG P/C1659PD	5.500	07/15/04	16,117,748.00	16,119,017.18
FHLMC MULTICLASS MTG P/C 1687C	5.250	11/15/05	16,847,597.95	16,866,040.00
FNMA GTD REMIC P/T CTF 93-63PD	5.750	12/25/02	17,327,000.00	17,213,161.61
FNMA GTD REMIC P/T CTF 93-58-D	5.500	09/25/15	28,901,390.66	28,710,000.00
FNMA GTD REMIC P/T CTF 93-82-B	5.500	11/25/10	25,698,440.40	25,632,712.00
FNMA GTD REMIC P/T CTF 93-94-D	5.700	05/25/16	13,740,492.08	13,651,284.68
FNMA GTD REMIC P/T CTF93-121PC	5.250	06/25/11	29,596,333.94	29,576,500.00
FNMA GTD REMIC P/T CTF 93-119D	5.650	07/25/16	20,937,914.53	20,816,250.00
FNMA GTD REMIC P/T CTF 94-27PC	5.000	03/25/12	9,854,407.55	9,889,063.00
GOVERNMENT NATL MTG ASSN 95-7	7.500	11/16/19	15,240,390.38	15,665,725.28
TOTAL MORTGAGED-BACKED CMO			242,408,560.08	242,581,062.01
<u>MORTGAGE-BACKED PASS THROUGH</u>				
FHLMC GROUP #L7-3378	5.500	11/01/00	30,040,922.27	30,243,207.32
TOTAL MORTGAGED-BACKED			272,449,482.35	272,824,269.33
<u>TREASURY</u>				
U S TREASURY NOTES	8.250	07/15/98	19,934,930.08	20,145,890.00
U S TREASURY NOTES	7.250	05/15/04	83,291,630.51	81,533,560.00
U S TREASURY NOTES	6.500	05/15/05	129,189,099.51	124,859,680.00
U S TREASURY NOTES	8.000	10/15/96	46,950,143.28	47,074,136.00
U S TREASURY NOTES	8.625	08/15/97	1,290,667.92	1,286,112.60
U S TREASURY NOTES	5.875	02/15/04	69,301,398.50	69,125,000.00
U S TREASURY NOTES	8.500	04/15/97	46,800,917.32	46,525,950.00
U S TREASURY NOTES	6.125	07/31/96	9,996,570.64	10,039,100.00
TOTAL TREASURY			406,755,357.76	400,589,428.60
<u>AGENCY</u>				
FED FARM CR BKS CONS SYSTEMWD	6.750	05/26/98	54,921,126.01	55,189,200.00
FED FARM CR BKS CONS SYS MTN	6.610	04/12/96	42,000,000.00	42,071,400.00
FEDERAL HOME LN MTG CORP DEBS	6.770	05/20/98	18,450,000.00	18,510,516.00
FEDERAL NATL MTG ASSN DEB	8.625	09/10/96	34,101,605.90	34,060,120.00
FNMA STRIPS INT 8.040% DEBS	0.000	10/10/01	34,970,288.66	34,755,046.25
FNMA STRIPS INT 7.94% DEBS	0.000	11/22/01	12,719,748.09	12,684,953.40
FNMA STRIPS INT 7.89% DEBS	0.000	03/09/02	63,975,328.70	63,650,355.30
FEDERAL NATL MTG ASSN MTN	6.490	06/10/98	39,980,665.98	40,112,000.00
GOVERNMENT TR CTFS CPN CL 2-D	9.250	11/15/96	5,749,370.39	5,679,024.88
GOVERNMENT TR CTFS CURRENT 3-B	8.550	11/15/97	7,892,067.63	7,889,778.05
GOVERNMENT TR G CTF CL G-2	8.000	05/15/98	11,409,869.07	11,289,563.90
ISRAEL ST US GOVT GTD NT CL 1B	4.375	03/15/96	4,999,846.49	4,998,400.00
TOTAL AGENCY			331,169,916.92	330,890,357.78
TOTAL INVESTMENTS			\$ 1,264,330,550.87	\$ 1,258,259,849.55

Short Term Fund

Second Quarter Summary

General Comments

During the quarter, total investments of the Prime Obligations Fund increased from \$4.4 billion to \$6.0 billion. During this same period, the investment of operating funds maintained by U.T. System components in the Fund increased from \$358.0 million to \$593.5 million. Endowment and trust funds also invested in the Prime Obligations Fund (reported as cash and equivalents under the Long Term Fund or Separately Invested Funds) declined from \$266.8 million to \$126.3 million resulting in a combined U.T. System total of \$719.8 million. As of quarter end, total U.T. System balances represented 12.0% of the Prime Obligations Fund's investments.

The Fund's yield continued to decline during the quarter closing at 5.51% versus 5.71% for the previous quarter end. The Fund outperformed the Donoghue's Average of institutional only money funds generating a yield of 5.51% versus 5.33% for the quarter.

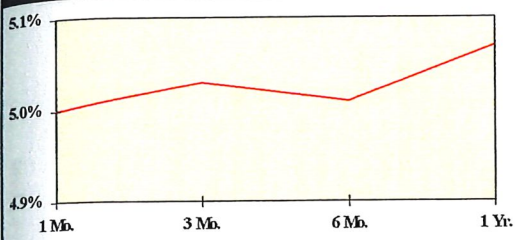
The Fund reported no investment policy changes during the quarter.

Portfolio Manager Comments

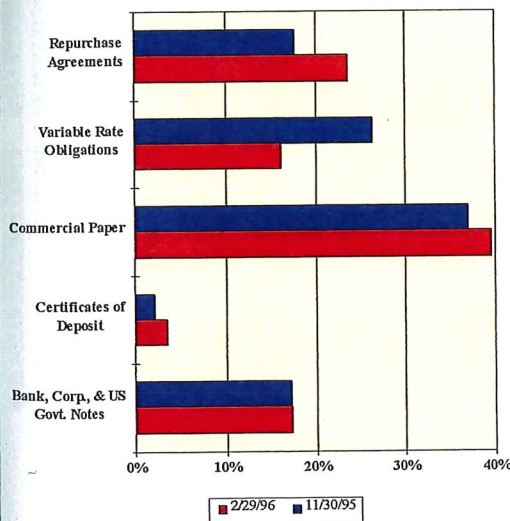
Recent economic news suggests that the risk of a recession has faded. While officials are likely to cut the federal funds rate by 25 basis points by midyear, the previous market expectation of 50-75 basis points in rate reductions has proven to be overly optimistic.

During the past month the short-term LIBOR yield curve became more fairly priced as it shifted from a negatively sloped to a flat curve. The commercial paper funds continue to be structured in anticipation of lower rates in the near term. However, recent economic indications have shown the possibility of slightly renewed economic strength. Therefore we will continue to be cautious and participate selectively in investments that yield more than a near term projected Fed Funds target rate of 5%. We plan to keep the range of funds' maturities between 45 and 65 days and will extend this range as the timing of the next ease becomes more imminent, or lower the range if economic strength becomes more apparent.

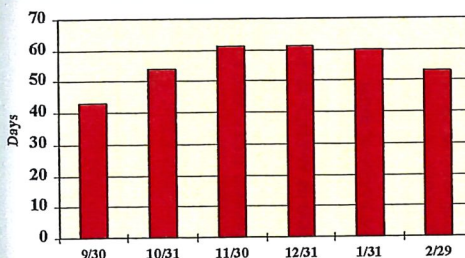
Treasury Bond Equivalent Yield Curve



Composition by Asset Class



Weighted Average Maturity



Performance Summary as of February 29, 1996

	1 Mos.	3 Mos.	6 Mos.	1 Year	5 Year
Short Term Fund	5.31%	5.51%	5.61%	5.78%	4.19%
3-Year Treasury Bills	4.89%	5.05%	5.22%	5.42%	4.39%
Donoghue's Institutional-Only Average	5.25%	5.33%	5.40%	5.58%	4.35%

All returns for periods less than one year are annualized.

Equities Management

Portfolio History

Portfolio History - Background

- *Pre-1985*
 - *100% internally managed*
 - *100% actively managed*
 - *U.S. large cap*
 - *1985 Restructuring*
 - *allocated 30% to 7 external managers*
 - *100% actively managed*
-

Portfolio History (cont.)

- 1993 Reorganization
 - increased diversification
 - introduced indexation (50%)
 - created two internal active portfolios (20%)
 - maintained external active portfolios(30%)
 - majority of managers terminated
 - established minority (HUB) manager program
 - reduced portfolio management expenses by 25%
-

Portfolio History (cont.)

- *1996 Evaluation/Reorganization II*
 - *recruit VP Equities*
 - *evaluate global equities approach*
 - *evaluate efficiency of established markets*
 - *increase operating efficiency through consolidation of portfolios*
-

**THE UNIVERSITY OF TEXAS SYSTEM
FUNDS BY ASSET ALLOCATION AND MANAGERS
EQUITIES
2/29/96**

STYLE	INT/EXT	MANAGER	PUF	LTF	S/ITF	STF	SIA	TOTAL	%
Large Cap Growth	External	Fayez Sarofim & Co.	126.6	24.2	-	-	-	150.8	4%
Large Cap Growth	Internal	Timmins/Hopkins	262.1	102.6	-	-	3.3	368.0	10%
Large Cap Growth	External	Austin Calvert & Flavin	114.1	30.1	-	-	-	144.2	4%
Growth & Income	Internal	Cox/Penn	307.6	105.7	-	-	-	413.3	11%
Growth & Income	External	Kempner Capital Mgmt.	105.8	28.4	-	-	-	134.2	4%
S&P500 Index	External	WF/Nikko	660.3	321.3	-	-	-	981.6	27%
S&P MidCap Index	External	WF/Nikko	455.9	166.5	-	-	-	622.4	17%
Small Cap Value	External	Schroder Wertheim	107.7	25.3	-	-	-	133.0	4%
Small Cap Value	External	Artisan Partners	-	42.9	-	-	-	42.9	1%
Small Cap Growth	External	Apodaca Johnston (HUB)	27.7	6.8	-	-	-	34.5	1%
Small Cap Growth	External	Paradigm (HUB)	15.3	3.4	-	-	-	18.7	1%
Small Cap Growth	External	Davis Hamilton Jackson (HUB)	28.1	6.7	-	-	-	34.8	1%
Small Cap Growth	External	Fortaleza (HUB)	25.0	6.0	-	-	-	31.0	1%
Small Cap Growth	External	Cordillera (HUB)	16.3	3.9	-	-	-	20.2	1%
Small Cap Growth	External	Banker's Trust	-	44.2	-	-	-	44.2	1%
Small Cap Growth	External	WF/ Nikko	285.4	129.0	-	-	-	414.4	11%
Intl. - EAFE Index	External	Franklin Templeton	-	19.8	-	-	-	19.8	1%
Emerging Markets	External	MBA Investment Fund	-	0.5	-	-	-	0.5	0%
Misc. Equities	External	Fidelity Fund	-	-	-	-	3.9	3.9	0%
Growth & Income	External	Leavell	-	-	-	-	0.6	0.6	0%
Misc. Equities	External	Moody National	-	-	-	-	6.9	6.9	0%
Large Cap Growth	External	Total	2,537.9	1,067.3	-	-	14.7	3,619.9	100%
External	External		1,968.2	859.0	-	-	11.4	2,838.6	78%
Internal	Internal		569.7	208.3	-	-	3.3	781.3	22%
Active	Active		1,136.3	450.5	-	-	14.7	1,601.5	44%
Passive	Passive		1,401.6	616.8	-	-	-	2,018.4	56%

**Kempner Capital Management
U. S. National Bank Building
22nd & Market St., 12th floor
Galveston, TX 80209
409/765-6671**

Founded: 1981

Employee Ownership: 80% Harris L. Kempner
20% H. Kempner Trust Assoc.

Assets Under Management: \$1.7 billion
Discretionary \$672 million
Tax-exempt \$537 million
Non-Discretionary \$1.0 billion

Company Characteristics: Out of favor companies - misunderstood
Strong management

Portfolio Characteristics: above market yield, below market P/E

Portfolio Distribution: bottom-up

Number of Companies: 25-35 (universe of 100 companies closely followed)

Cash Holdings: residual of the process, build up during peaks and deplete during declines.

Ave. Annual Turnover: < 46%

Research: Primary: Internal & Street
Sources: Bloomberg, Holt Value,
ISI Research, First call

Portfolio Managers: Harris L. Kempner R. Patrick Rowles
1981 - present 1987 - present

Austin Calvert & Flavin
112 E. Pecan Street, Suite 3900
San Antonio, TX 78205
(210) 224-8241

Founded: 1981

Employee Ownership: 100% of firm

Assets Under Management: \$1.2 billion
 Tax Exempt \$ 800 million
 Equity Only \$ 400 million
 Balanced \$ 400 million

Company Characteristics: Historical and prospective earnings growth > P/E ratio.
 Attractive enterprise value to operating cash flow ratio.
 Discounted free cash flow.

Portfolio Structure: Top down analysis determines investment climate.
 Bottom-up security selection.

Portfolio Characteristics: versus S&P: P/E =, P/B =, Price to free cash flow <,
 P/E to growth ratio >

Portfolio Distribution: maximum: issues 5% at cost; industries 20% of portfolio at cost.

Number of Companies: 35 - 50 (Universe of 100 companies closely watched)

Cash Holdings: residual based on market valuation. never exceed 30%

Ave. Annual Turnover: 30% - 80%

Research: Primary: Analysts and principals
 On-site company visits
 Internally generated research
 Secondary: Wall Steet analysts and research are used for information.
 Sources: Bloomberg, Compustat, Zacks, CDA/Investnet

Key Investment Personnel: Edward H. Austin, Jr. 30 yrs. experience
 Jonathan C. Calvert 40 yrs. experience
 Harry M. Flavin 25 yrs. experience
 Kirk W. Lobb 17 yrs. experience
 Marilou M. Long 12 yrs. experience

**LONG TERM FUND
ASSET ALLOCATION**

	<u>Current Allocation</u>	<u>Target Allocation</u>
EQUITIES		
Common Equities		
Domestic		
Large/Mid Cap	46%	25%
Small Cap	<u>8%</u>	<u>10%</u>
	54%	35%
International		
Large/Mid Cap	8%	8%
Small Cap	0%	4%
Emerging Markets	1%	3%
	9%	15%
 Total	 63%	 50%
 Alternative Assets		
Liquid	0%	10%
Illiquid	<u>6%</u>	<u>10%</u>
	6%	20%
 Inflation Hedging Assets	 <u>0%</u>	 <u>10%</u>
 FIXED INCOME		
Domestic	31%	15%
International	<u>0%</u>	<u>5%</u>
TOTAL FIXED INCOME	31%	20%
 CASH EQUIVALENTS	 0%	 0%
 TOTAL LTF	<hr/> 100%	<hr/> 100%

**LONG TERM FUND
EMERGING MARKETS
PROPOSED FUNDING**
(\$millions)

	Emerging <u>Markets</u>
LTF Market Value	1,694.9
Current Allocations (%)	1.2%
Current Allocations (\$)	\$19.8
Target Allocations (%)	3.0%
Target Allocations (\$)	\$50.8
Incremental Exposure	\$31.0

TEMPLETON INVESTMENT COUNSEL
Emerging Markets
 500 E. Broward Boulevard, Suite 2100
 Fort Lauderdale, FL 33394
 (305)527-7500

Philosophy: Emerging Markets
Tax-Exempt Product Accounts (12/31/94): 4
Tax-Exempt Product Assets (12/31/94): \$148 mm
Total Product Assets (12/31/94): \$5,759 mm
Total Firm Assets (12/31/94): \$41,979 mm

New Business Contact: James R. Wood (305)527-7500

Organization: Independent Investment Counsel; founded in 1979; SEC registered.

Parent/Affiliate: Templeton Worldwide, Inc.

Investment Approach: The firm employs bottom-up fundamental analysis in its search for undervalued securities within the emerging markets. The firm defines "emerging markets" as those that represent less than 2% of the MSCI World Index and fall within the low to middle per capita income range as defined by the World Bank. Companies that derive over 50% of their revenues from emerging market countries are also closely reviewed. Proprietary research of over 2,000 companies is used to identify undervalued stocks. A portfolio is constructed with approximately 100 names in 20 to 25 liquid emerging market countries which have strong operating earnings estimates. A stock is sold if it reaches a target price, its fundamentals deteriorate, the company no longer qualifies as an emerging market, a better opportunity arises, or if significant political changes take place.

Research: The firm relies on in-house research and company visits supplemented by "Street" sources.

Investment Results:

Annual Total Returns (%)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Templeton Investment Counsel	---	---	-15.6	29.2	47.0	2.2	78.5	9.4	97.2	-9.1	-6.6
IFC Emerging Markets Composite Index	27.7	12.8	13.6	58.2	54.7	-29.9	17.6	0.3	67.3	-0.6	-12.9
MSCI Emerging Markets Free Index	---	---	---	34.9	59.2	-13.8	56.0	9.1	71.3	-8.7	-12.7
<u>Manager Medians</u> Emerging Markets	---	---	-15.6	32.9	50.2	2.0	59.2	10.1	71.5	-8.9	-13.5

Average Annual Compound Returns - Through 12/31/94 (%)

	10YR	9YR	8YR	7YR	6YR	5YR	4YR	3YR	2YR
Templeton Investment Counsel	---	---	24.4	31.5	31.9	29.0	36.8	25.2	33.9
IFC Emerging Markets Composite Index	18.6	17.6	18.3	18.9	13.4	6.6	18.4	18.6	29.0
MSCI Emerging Markets Free Index	---	---	---	25.6	24.1	18.1	27.7	19.5	25.1
<u>Manager Medians</u> Emerging Markets	---	---	32.9	32.8	31.9	25.5	28.4	22.0	26.7

Performance Notes: Performance represents the closed-end mutual fund; Templeton Emerging Markets Fund. Returns include return on cash reserves and are net of management fees.

Staff:

Analysts: 6 Portfolio Managers/Analysts: 34 Portfolio Managers: 6

Biographies of Key Personnel:

Allan Lam

Equity Analyst

BA, Rutgers University

Mark Mobius

Managing Director

PhD, Massachusetts Institute of Technology
MBA, BA, Boston University
International Investment Trust Company Limited, President
Vickers da Costa, Director
Independent Consultant, Hong Kong

Tom Wu

Equity Analyst

MBA, University of Oregon
BA, University of Hong Kong
Vickers da Costa, Investment Analyst and Assistant Manager

TEMPLETON INVESTMENT COUNSEL
Emerging Markets

Fee Schedule:

Separate Account:

1.250% of assets.
Fee excludes custody.

Mutual Fund:

Templeton Emerging Markets Fund:
Expense Ratio:
1.600% of assets.
Fee includes custody.

Minimum Account Size:

\$25 mm

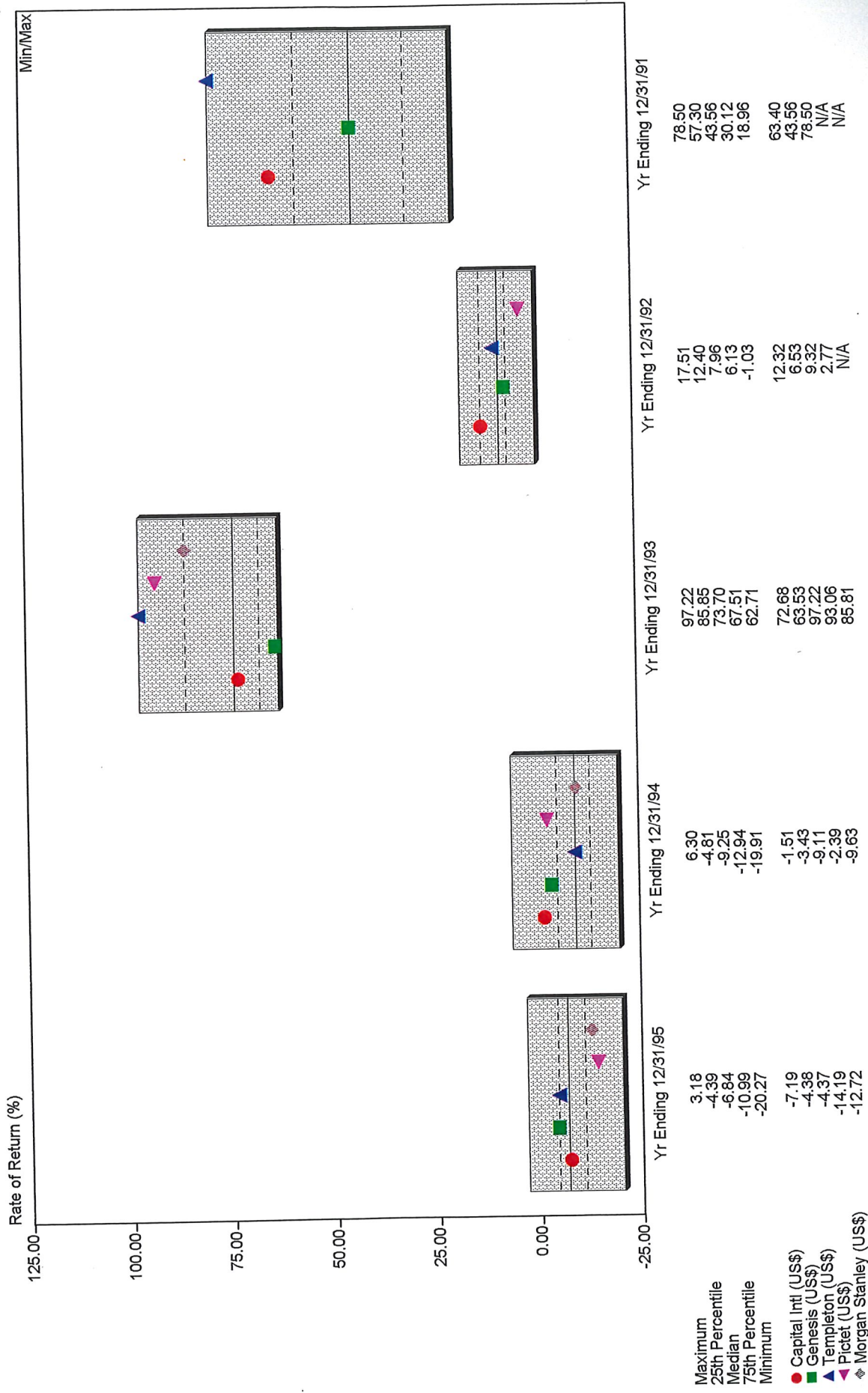
\$1 mm

Representative Clients:

American Bible Society
Asian Development Bank
Household International
Indonesia Development Bank
Kettering Foundation
Ontario Municipal Employees Retirement System

EMERGING MARKETS EQUITY PORTFOLIOS (US\$)

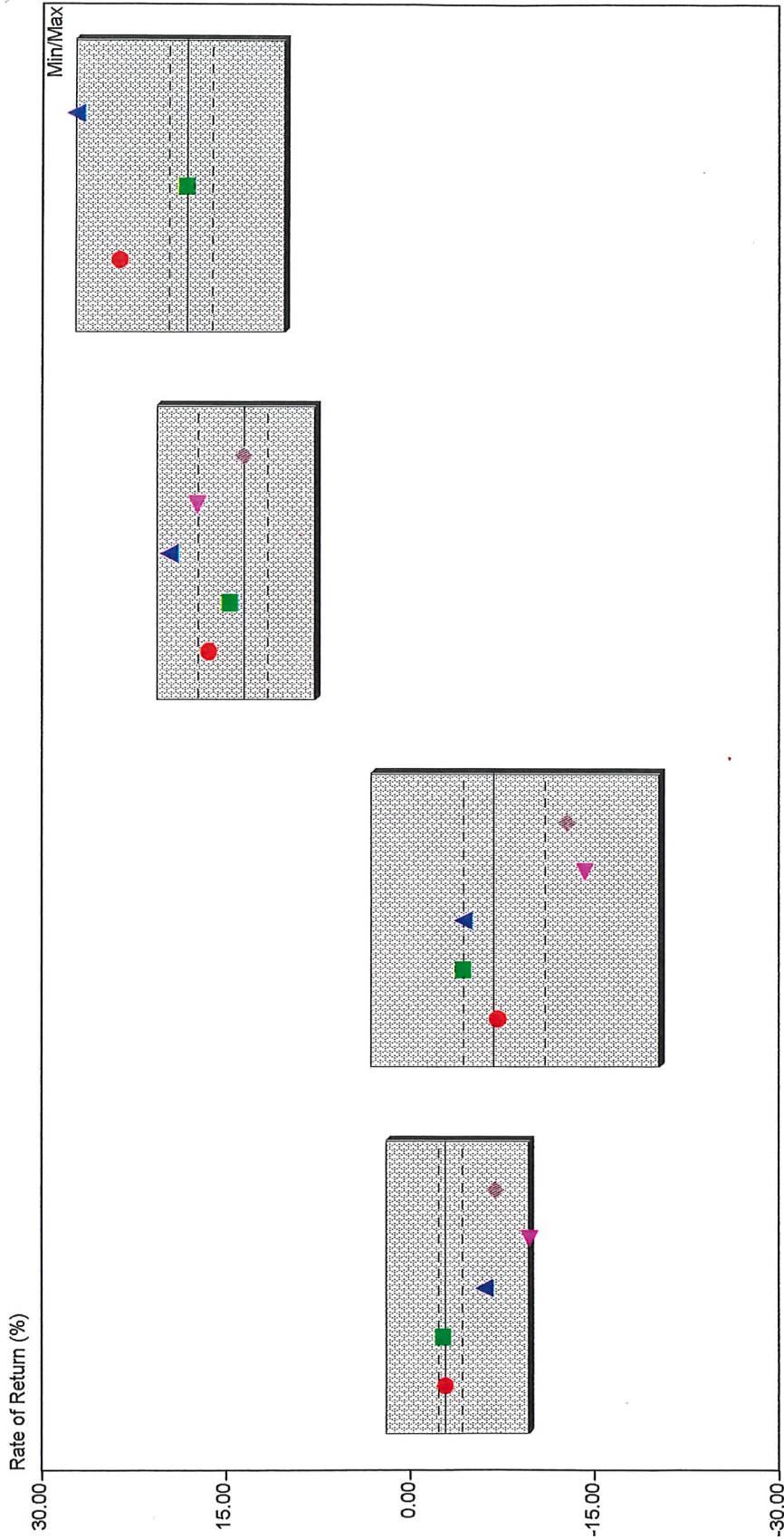
Ending December 31, 1995



Universe source: © Frank Russell Company

EMERGING MARKETS EQUITY PORTFOLIOS (US\$)

Ending December 31, 1995

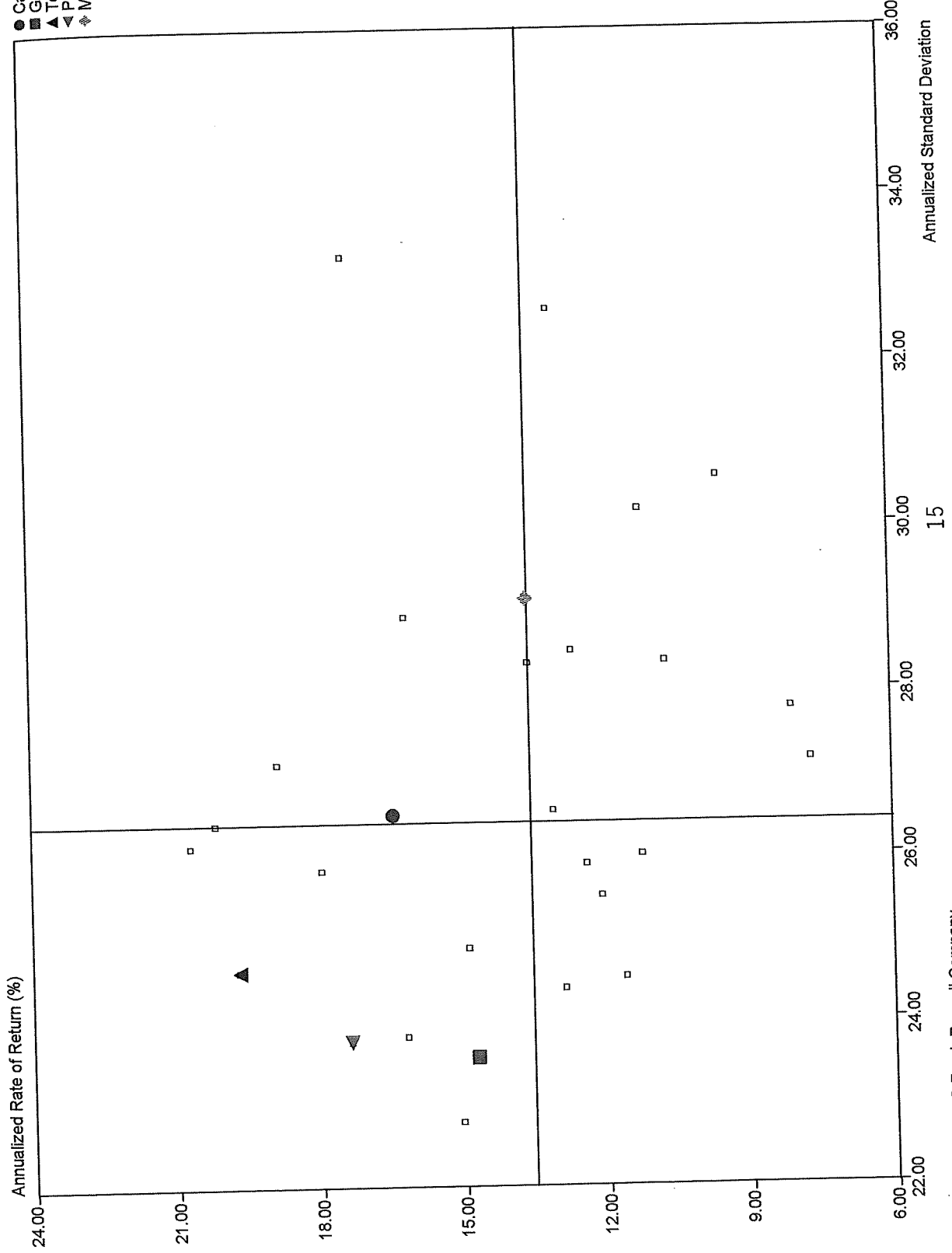


	Current Quarter	1 Year	3 Years	5 Years
Maximum	1.94	3.18	20.67	27.31
25th Percentile	-2.30	-4.39	17.30	19.68
Median	-2.89	-6.84	13.56	18.20
75th Percentile	-4.30	-10.99	11.60	16.15
Minimum	-9.75	-20.27	7.68	10.21
Capital Intl (US\$)	-2.88	-7.19	16.43	23.71
Genesis (US\$)	-2.71	-4.38	14.73	18.22
Templeton (US\$)	-6.10	-4.37	19.68	27.31
Pictet (US\$)	-9.75	-14.19	17.38	N/A
Morgan Stanley (US\$)	-6.98	-12.72	13.59	N/A

EMERGING MARKETS EQUITY PORTFOLIOS (US\$)

3 Years Ending December 31, 1995

- Capital Intl (US\$)
- Genesis (US\$)
- ▲ Templeton (US\$)
- ◄ Pictet (US\$)
- ◆ Morgan Stanley (US\$)



27 Portfolios

Universe source: © Frank Russell Company

GLOBAL ASSET CLASS PERFORMANCE
Calendar Year

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996 Q1</u>
S&P 500 Index	10.1%	1.3%	37.6%	5.4%
EAFE Index	29.2%	-2.0%	9.5%	2.9%
Emerging Markets Free Index	69.9%	-7.9%	-7.0%	5.8%

Private Investments

Background

Cambridge Associates

Andy

Portfolio History

- LTF program initiated in 1986
 - 10% Allocation - \$42.1M
- PUF program initiated in 1989
 - 11/88 Constitutional Amendment authorizing prudent person standard
 - 10% Allocation - \$20.0M

Portfolio History (cont.)

- Program suspended mid FY 1992 by

Chairman BOR

- Reasons

*Comp up in commitments - 31 investment
+ only 10% on direct investments in LTF
J curve*

- Portfolio Status

*54mm LTF. 100 Prof
5.7% 2.4%*

- Result

» out of market for 2.5 years

» portfolio in net liquidation

- Rtn of capital > demand.

↳ LTF: 5.7%

↳ will eventually be fundamentally more guided

Portfolio History (cont.)

- Program resurrected - 5 year plan approved
by AMC beginning FY 1995
with the budget
value 5% E/F, 4% Put
Capital to be generated - 220 million
- 10% allocation reaffirmed
- commit \$1.1 billion to reach \$800 million
target allocation by 8/99
Proposed E/F
- » '95:\$285; '96:\$265; '97:\$220; '98:\$173; '99:\$126
- target sub-allocations:
 - » 65/25/10 % buy-outs/mezzanine/venture capital

1995 Actual vs Plan

- » commitments: \$287MM vs \$280MM to 17 funds
- » drawdowns: \$41MM vs. \$79MM
- » undrawn commitments: \$290MM vs \$239MM.
- » FYE Value: \$277MM vs \$269MM
- » exposure:
 - PUF 4.2% vs. 4.6%
 - LTF 3.4% vs. 3.9%
- » performance:
 - PUF vs. S&P Index +5% : 19.5% vs 12.9%
 - LTF vs. S&P Index +5% : 13.4% vs 18.1%

- 20 funds
- 6 direct
- 8 distributed share
428

1996 YTD Actual vs Plan

- » commitments: \$49MM vs \$267MM to 9 funds
- » drawdowns: \$33MM vs. \$142MM
- » undrawn commitments: \$239MM vs. \$290MM
- » FYE Value: \$327MM vs \$441MM
- » exposure:
 - PUF 4.9% vs. 7.3%
 - LTF 4.2% vs. 5.2%
- » performance:
 - PUF vs. S&P Index +5% : 20.2% vs 19.4%
 - LTF vs. S&P Index +5% : 13.3% vs 19.0%

Projected Activity - Balance FY1996

- Commit \$100MM
 - Thayer Equity Investors III, L.P. - \$20MM*
 - Wand Partners L.P. - \$30MM*
 - Commitment #13
 - Commitment # 14

* Scheduled for Board approval April 17, 1996

Private Investments - Issues

- Inadequate Staffing
- Implementation Direct Co-Investment Program
- Execution of LTF Inflation Hedging Investment Strategy
- Resolution of State Auditor Recommendations
 - Independent Determination of Prudence of Private Investments for PUF
 - Accounting Treatment of Partnership Fees and Carried Interest
 - Compliance with Investment Policy

Private Investments - Issues (cont.)

- Upgrade of P.I. Portfolio Management System
- Portfolio Returns Will Decline in Short Run

The University of Texas Investment Management Company

Balance Sheet

March 31, 1996

(unaudited)

Assets

Current Assets

Cash	\$ 1,333,384
Prepaid expenses	282,665
Total current assets	<u>1,616,049</u>
Fixed assets, at cost, net of accumulated depreciation of \$10,696	629,743
Organizational costs, net of accumulated amortization of \$811	47,880
Total assets	<u><u>\$ 2,293,672</u></u>

Liabilities and Fund Balance

Current liabilities

Accounts payable and accrued expenses	\$ 34,944
Deferred income	921,767
Total current liabilities	<u>956,711</u>
Fund balance	1,336,961
Total liabilities and fund balance	<u><u>\$ 2,293,672</u></u>

The University of Texas Investment Management Company

Statement of Revenue, Expenses and Changes in Fund Balance

For the period from inception (March 1, 1996) through March 31, 1996

(unaudited)

Revenue

Management Fee	\$	460,884
Director Fees		2,000
Total Revenue		<u>462,884</u>

Expenses

Salaries		151,854
Employee benefits		18,586
Payroll taxes		16,309
General Operating		17,448
Depreciation and Amortization		11,507
Lease		17,884
Professional fees		0
Insurance		23,335
Total expenses		<u>256,923</u>
Excess of revenue over expenses	\$	<u>205,961</u>
Fund balance at inception		0
Capital Contribution		1,131,000
Fund balance, end of period	\$	<u><u>1,336,961</u></u>

The University of Texas Investment Management Company

Statement of Cash Flows

For the period from inception (March 1, 1996) through March 31, 1996

(unaudited)

Cash flows from operating activities:

Excess of revenues over expenses	\$ 205,961
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:	
Depreciation and amortization	11,507
Change in assets and liabilities:	
Increase in prepaid expenses	(282,665)
Increase in accounts payable and accrued expenses	34,944
Increase in deferred income	921,767
Total adjustments	<u>685,553</u>
Net cash provided by operating activities	<u>891,514</u>

Cash flows from investing activities:

Purchase of equipment	(9,439)
Payment of organizational costs	<u>(48,691)</u>
Net cash expended for investing activities	<u>(58,130)</u>

Cash flows from financing activities:

Proceeds for working capital reserve	<u>500,000</u>
Net cash provided by financing activities	<u>500,000</u>

Net increase in cash and cash equivalents 1,333,384

Cash and cash equivalents:

At inception	-
End of period	<u><u>\$ 1,333,384</u></u>

Supplemental schedule of noncash investing and financing activities:

In conjunction with the organization of the Company, the Company received equipment of \$631,000 from The University of Texas System.

1996 Annual Fee and Allocation Schedule

PUF	U.T. Funds				Total
	LTF	S/ITF	STF	Separate Funds	
4,958.5	1,549.7	1,123.7	526.2	181.9	8,340.0

Market Value 2/29/96 (\$ millions)

Projected Expenses					
UTIMCO Services	2,028,788	2,169,759	332,055	0	4,530,602
Ext. Port. Mgmt. Fees	2,997,736	2,640,838	0	947,160	6,585,734
Ext. Port. Mgmt. Fees Reserve (15%)	449,660	0	0	0	449,660
Custodian Fees	305,000	214,021	47,675	2,746	569,442
Performance Compensation	0	0	0	0	338,937
TOTAL	5,781,184	5,024,618	379,730	947,160	12,474,375

Percentage of Market Value					
UTIMCO Services	0.041%	0.140%	0.030%	0.000%	0.054%
Ext. Port. Mgmt. Fees	0.060%	0.170%	0.000%	0.180%	0.079%
Ext. Port. Mgmt. Fees Reserve (15%)	0.009%	0.000%	0.000%	0.000%	0.005%
Custodian Fees	0.006%	0.014%	0.004%	0.002%	0.007%
Performance Compensation	0.000%	0.000%	0.000%	0.000%	0.004%
TOTAL	0.117%	0.324%	0.034%	0.180%	0.150%

1997 Annual Fee and Allocation Schedule

PUF	U.T. Funds			Separate Funds	Q-EIE	Total
	LTF	S/ITF	STF			
5,280.7	1,694.9	1,266.8	593.5	170.7		9,006.6
Market Value 2/29/96 (\$ millions)						
Projected Expenses						
UTIMCO Services(1)	2,127,872	2,284,382	344,417	0	0	4,757,147
Ext. Port. Mgmt. Fees	3,231,621	2,032,165	1,068,300	0	0	6,332,086
Ext. Port. Mgmt. Fees Reserve (15%)	484,743	0	0	0	0	484,743
Custodian Fees	258,363	217,465	64,591	2,500	0	542,919
Performance Compensation	0	0	0	0	355,884	355,884
TOTAL	6,102,599	4,534,012	1,068,300	2,500	355,884	12,472,779
Percentage of Market Value						
UTIMCO Services	0.046%	0.135%	0.027%	0.000%	n/a	0.053%
Ext. Port. Mgmt. Fees	0.061%	0.120%	0.000%	0.180%	0.000%	0.070%
Ext. Port. Mgmt. Fees Reserve (15%)	0.009%	0.000%	0.000%	0.000%	0.000%	0.005%
Custodian Fees	0.005%	0.013%	0.005%	0.000%	0.001%	0.006%
Performance Compensation	0.000%	0.000%	0.000%	0.000%	0.000%	0.004%
TOTAL	0.116%	0.268%	0.032%	0.180%	0.001%	0.138%

(1) Allocation Ratio: PUF-44.73%, LTF-48.02%, S/ITF-7.24%