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*The University of Texas
Investment Management
Company*



*Presentation Materials
Board of Directors Meeting*

December 10, 1998

UTIMCO

BOARD OF DIRECTORS MEETING

December 10, 1998

AGENDA

12:30 p.m. - 12:35 p.m. Call to Order/Approval of Minutes of October 22, 1998 Meeting (Tab 1)*

12:35 p.m. - 1:45 p.m. **Funds Review**

Permanent University Fund (Tab 2)

Long Term Fund (Tab 3)

Operating Funds (Tab 4)

- STF/SITF Investment Alternatives

Approval of PUF, LTF, and SIA Investment Policies (Tab 5)*

Public Markets (Tab 6)

1:45 p.m. - 2:15 p.m. Portfolio Evaluations

2:15 p.m. - 2:30 p.m. [Break]

Private Markets (Tab 7)*

2:30 p.m. - 3:15 p.m. Approval of Commitment to City Truck Holdings, Inc.

3:15 p.m. - 4:00 p.m. Approval of Commitment to Terastor Corporation

Other (Tab 8)

4:00 p.m. - 4:30 p.m. Report of Audit and Ethics Committee

Open Records Status

Employee Private Investment Program

Executive Session - Director Candidates

4:30 p.m. Adjournment

* Requires action by resolution.

Next Scheduled Meeting: Tuesday, February 25, 1999

For consideration by the Board of Directors of The University of Texas Investment Management Company (the "Board") - December 10, 1998

Resolution No. 1

RESOLVED, that the minutes of the Meeting of the Board of Directors held on October 22, 1998 be and are hereby approved.

Resolution No. 2

RESOLVED, that the amendments to the Permanent University Fund, Long Term Fund, and Separately Invested Funds be and are hereby approved.

Resolution No. 3

WHEREAS, the Board has reviewed a Direct Co-Investment Executive Summary prepared by the Corporation's management recommending that the Corporation enter into a stock purchase agreement, (the "Agreement"), to invest up to \$25 million of PUF and LTF funds to purchase preferred and common stock of City Truck Holdings, Inc.; and

WHEREAS, the Corporation has determined that the Agreement 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 City Truck Holdings, Inc. Direct Co-Investment Executive Summary dated December 10, 1998 be approved; and be it further

RESOLVED, that the President 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 Agreement as may be necessary or in the best interests of this Corporation; and be it further

RESOLVED, that the President, 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 Agreement), 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 Agreement and the instruments referred to therein.

Resolution No. 4

WHEREAS, the Board has reviewed an Direct Co-Investment Executive Summary prepared by the Corporation's management recommending that the Corporation enter into a stock purchase agreement, (the "Agreement") to invest up to \$8 million of PUF and LTF funds to purchase preferred stock of Terastor Corporation; and

WHEREAS, the Corporation has determined that the Agreement 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 Terastor Corporation Direct Co-Investment Executive Summary dated December 10, 1998 be approved; and be it further

RESOLVED, that the President 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 Agreement as may be necessary or in the best interests of this Corporation; and be it further

RESOLVED, that the President, 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 Agreement), 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 Agreement and the instruments referred to therein.

**MINUTES OF 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 a special meeting on the 22nd day of October, 1998 in the Regents Boardroom, 9th floor, 201 W. Seventh St., Austin, Texas, 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
Robert H. Allen
Susan M. Byrne
William H. Cunningham
J. Luther King, Jr.
Tom Loeffler
A. W. Riter, Jr.

thus, constituting a majority and quorum of the Board of Directors. Director Homer Luther was absent. Also participating in the meeting were Thomas G. Ricks, President of the Corporation; Cathy Iberg, Secretary of the Corporation; Dave Russ and Austin Long of Corporation management ("Management"); and Kyle Fox, Vinson & Elkins, legal counsel for the Corporation. The meeting was called to order at 10:35 a.m.

Minutes

The first item to come before the Board of Directors was approval of the minutes of the meeting of the Board of Directors held on August 20, 1998, copies of which had previously been furnished to each Director. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the minutes of the Meeting of the Board of Directors held on August 20, 1998 be and are hereby approved in the form presented.

Performance Review

The next item presented to the Board of Directors was a report on performance, copies of which were previously furnished to each Director. Mr. Ricks presented a comparison of the PUF and LTF (the "Funds") returns against the Frank Russell Co. universe of \$1 billion funds, the Cambridge Associates universe of endowments and the UTIMCO neutrally weighted policy portfolio for the current quarter, one year, two years, three years and five years ended June 30, 1998. Mr. Ricks also presented performance for the two operating funds; the Short Intermediate

Term Fund and the Short Term Fund against their respective benchmarks for periods ended August 31, 1998. Mr. Ricks then responded to questions from Directors concerning the performance reports.

PUF Income Management Program

The next item to come before the Board of Directors was a presentation by Mr. Ricks of projected PUF income through 2005 and a proposal to adopt an income management program that would produce a constant \$260 million payout over the next five years. The proposal was motivated by the fact that, in the current low interest rate environment, PUF income was projected to fall significantly from \$260 million earned for the year ended August 31, 1998 to \$251.4 million projected for the year ended August 31, 1999 and take until 2004 to grow back to the 1998 income level of \$260 million.

To bridge the five- year projected income trough, management proposed a two-part income management program consisting of a slight 2% rebalancing to a 60% equity, 40% fixed income asset allocation and deployment of a \$300 million money market equitization futures program approved at the August 20, 1998 meeting. Mr. Ricks stated that the money market equitization futures program was initiated earlier in the week with the purchase of \$150 million of S&P 500 Index futures contracts. The program was implemented at the \$150 million level in order to adjust for lower interest since the date of the projections.

Mr. Ricks answered the Directors questions and, upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the income management program to generate a \$260 million base level of annual PUF income be approved as presented by the staff.

Cambridge Associates Review of PUF Constitutional Spending Policy

Mr. Ricks then presented a summary of a review by Cambridge Associates of the PUF constitutional-spending policy, copies of which were previously furnished to each Director. In arriving at its conclusion, Cambridge Associates recognized the dependence on PUF payout to pay annual debt service on PUF bonds and the relative importance of stability of payout versus preservation of spending power. It recommended adoption of a constant growth spending policy that would increase current PUF payout at the rate of inflation, subject to a floor of 4% and a ceiling of 6% of the PUF's average market value. Stability of payout would be ensured with the stipulation that in the event that the normal increase would exceed the 6% ceiling, payout would be frozen at the prior year's level or gradually reduced. Mr. Ricks responded to questions from Directors and concluded by stating that the Cambridge review confirmed the merit of converting from the income based spending policy required by the constitution.

Risk Management Program

The next item was a presentation by Mr. Ricks concerning the Corporation's risk management program. He reviewed the elements of the program and introduced two presentations to follow; first, quantitative risk measurement techniques to measure and control portfolio risks, and

second, verification by external entities that benchmark the Corporation against other funds. Mr. Ricks then turned the presentation over to Mr. Russ to discuss one quantitative tool: Value at Risk modeling.

Value at Risk Presentation

Mr. Russ presented the concepts of "value at risk" or VAR and return at risk or RAR. He explained that VAR in dollars is simply the RAR times the dollar value of the portfolio under study. As an example, Mr. Russ then presented VAR calculations for the Long Term Fund's U.S. Domestic Equities relative to the S&P 500 Index. Mr. Russ defined VAR as the dollar amount that could be lost (or more) within a year with a 5% probability or a 1 in 20 chance.

Mr. Russ then presented a chart to further explain the risk measurement concept. Mr. Russ then presented the actual performance of this portfolio for the month of August 1998. With the addition of the Alternative Equities – Marketable investments replacing S&P 500 Index and S&P Midcap exposure, the portfolio actually outperformed the S&P 500 Index by 12 basis points. A modest improvement, but well within the predicted range. Discussion among Board members followed with Mr. Russ and Mr. Ricks both emphasizing that VAR is another tool for managing risk along with tracking error or active risk, standard deviation, and risk-adjusted returns measurement. Mr. Ricks described the process as developing a mosaic for understanding the entire risk management process in the context of creating performance returns.

S/ITF Risk Evaluation by Standard & Poor's Corporation

Mr. Ricks next briefed the Board of Directors regarding a recent evaluation by Standard & Poor's of the credit and market risk of the S/ITF. S&P's conclusion was that the S/ITF would be rated between the two highest credit quality categories, i.e., between AAA and AA for credit risk. The Fund would also be rated between the two highest market risk categories, i.e. between S1 and S2 for market risk. S&P also listed certain enhancements to the Corporation's practices and policies. In general, S&P recommended greater specificity and restrictions in the investment guidelines governing the S/ITF in addition to the Corporation forming a centralized investment and credit committee structure. Mr. Ricks reported that S&P's recommendations were being implemented with the result that he expected a final credit rating of AA Af. In response to questions from the Directors, Mr. Ricks also reported that Corporation was less emphatic about receiving an S1 market risk rating since it would push the S/ITF too closely to the STF.

Amendments to S/ITF and STF Investment Policies

The Board of Directors next considered proposed amendments to the investment policy statements for the S/ITF and STF, copies of which had previously been furnished to each Director and are attached to these minutes. The proposed amendments were based upon the recommendations of S&P. Management answered the Directors questions and, upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the amendments to the Short/Intermediate Term Fund and Short Term Fund Investment Policies be and are hereby approved in the forms presented.

Stock and Bond Index Investment Options for Operating Funds

The next item was discussion of investment alternatives other than the S/ITF and STF for the U.T. System operating funds. Mr. Ricks reported that the operating funds of the U.T. System components (including U.T. System Administration) amounted to roughly \$2.5 billion. These funds were invested either in the S/ITF at \$1.8 billion or the STF at \$650 million. Mr. Ricks stated that it was not unusual for large universities to invest a portion of those operating funds in excess of annual operating cycle requirements with their longer term endowment funds. A similar strategy to enhance investment return might make sense for certain health components as well as U.T. Austin with large operating funds balances. During discussion, the Board agreed that U.T. System Administration and component institutions should analyze the composition of their operating funds to determine each institution's capacity to absorb the risks of a long-term investment program. Mr. Ricks stated that given the fact that component institutions valued liquidity, use of longer term fixed income and equity index funds might be more appropriate than the LTF which was not managed to provide short term liquidity.

Implementation of the Alternative Equities - Marketable Program

The next item presented to the Board of Directors was a review of the Alternative Marketable Equity (AME) Program in the value at risk framework as well as the actual performance of the portfolio for August 1998. Copies of the materials were previously furnished to each Director. Mr. Russ reported that the program behaved as anticipated by reducing actual losses and risk due to its low correlation to the S&P 500 Index or other equity indices relative to the S&P 500 Index. For the month of August, the S&P 500 Index was down by 14.5% while the AME portfolios as a whole were down 5.2% for a net value-added of 9.30%.

He also reported that none of the AME managers were leveraged as of September 30, 1998 or since the Corporation hired them. Discussion then ensued between the Board and Management regarding the recent problems in the "hedge" fund industry and the use of excessive leverage.

Approval of Commitment to Austin Venture Partners VI, L.P

At this point, Craig Nickels and Charles Preston of Corporation management entered the meeting room. The next matter to come before the Board of Directors was a discussion regarding a proposed investment in Austin Venture Partners VI, L.P. Mr. Long reviewed a Short Form Due Diligence Review & Recommendation dated October 22, 1998 describing the proposed investment, copies of which had previously been furnished to each Director. The Directors discussed the proposed investment and upon motion duly made and seconded, the following resolutions were adopted with all Directors voting for approval.

WHEREAS, the Board has reviewed a Short Form Due Diligence Review and Recommendation prepared by the Corporation's management recommending that the Corporation enter into an investment agreement (the "Agreement") with AV Partners VI, L.P. to invest up to \$20 million of PUF and LTF assets in Austin Venture Partners VI, L.P.;

WHEREAS, the Corporation has determined that the Agreement 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 Short Form Due Diligence Review and Recommendation dated October 22, 1998 for Austin Venture Partners VI, L.P. be approved; and be it further

RESOLVED, that the President and any Managing Director or Vice President of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to Austin Venture Partners VI, L.P.; and be it further

RESOLVED, that the President, any Managing Director or Vice President, 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 Agreement), 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 Agreement and the instruments referred to therein.

Internet Based Endowment Reporting System

The next item to come before the Board of Directors was a presentation by Cathy Iberg on the Corporation's Web Based ("Internet") Endowment Reporting, copies of which were previously distributed to the Directors. Ms. Iberg explained to the Board that the Corporation is making available, via secured Internet access, approximately 5,000 individual endowment reports for the component institutions for the year ended August 31, 1998. Ms. Iberg demonstrated the endowment reporting system and answered the Director's questions. Ms. Iberg also informed the Directors on future Internet reporting objectives.

Y2K Report

The next item to come before the Board of Directors was a presentation by Cathy Iberg on the Corporation's Year 2000 (Y2K) status, copies of which were previously distributed to the Directors. Ms. Iberg reviewed a Y2K Risk Matrix with the Directors, which identified the importance and the current status of the software, and service providers for the Corporation on Y2K issues. Ms. Iberg reviewed the previous Y2K status as last presented to the Directors and the current status regarding the Corporation's Y2K issues. She also reviewed with the Directors the follow-up steps that the Corporation needs to complete in order to be Y2K compliant. In conclusion, Ms. Iberg stated that the key service providers are taking steps to insure Y2K compliance by the end of the first quarter of 1999, the Corporation's controlled processes will be

compliant by January 1999, and the external investment manager review on Y2K will be completed by December 31, 1998. Ms. Iberg then answered the Directors questions.

Executive Session

At this point, Messrs. Long, Nickels, Preston and Russ and Ms. Iberg left the meeting room.

Mr. Ricks then briefed the Board on a concept to allow private equity portfolio managers to invest a portion of their annual bonus compensation side by side with the PUF and the LTF. The Board's consensus was that such a program would better align the interests of the portfolio managers with those of the funds and condition the ultimate realization of a bonus with the performance of the portfolio itself. Discussion ensued concerning optional participation, employee eligibility and potential regulatory requirements. The Board instructed Mr. Ricks to examine the concept further and to report his findings at the next meeting.

The Board next considered appointment of the Corporation's officers. Upon motion duly made and seconded, the following resolutions were adopted with all Directors voting for approval:

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

<u>Name</u>	<u>Office or Offices</u>
Thomas O. Hicks	Chairman
Thomas G. Ricks	President and Chief Executive Officer
Austin M. Long	Managing Director
David H. Russ	Managing Director
Cathy A. Iberg	Managing Director, Treasurer and Secretary

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 3:5 p.m.

Secretary: _____

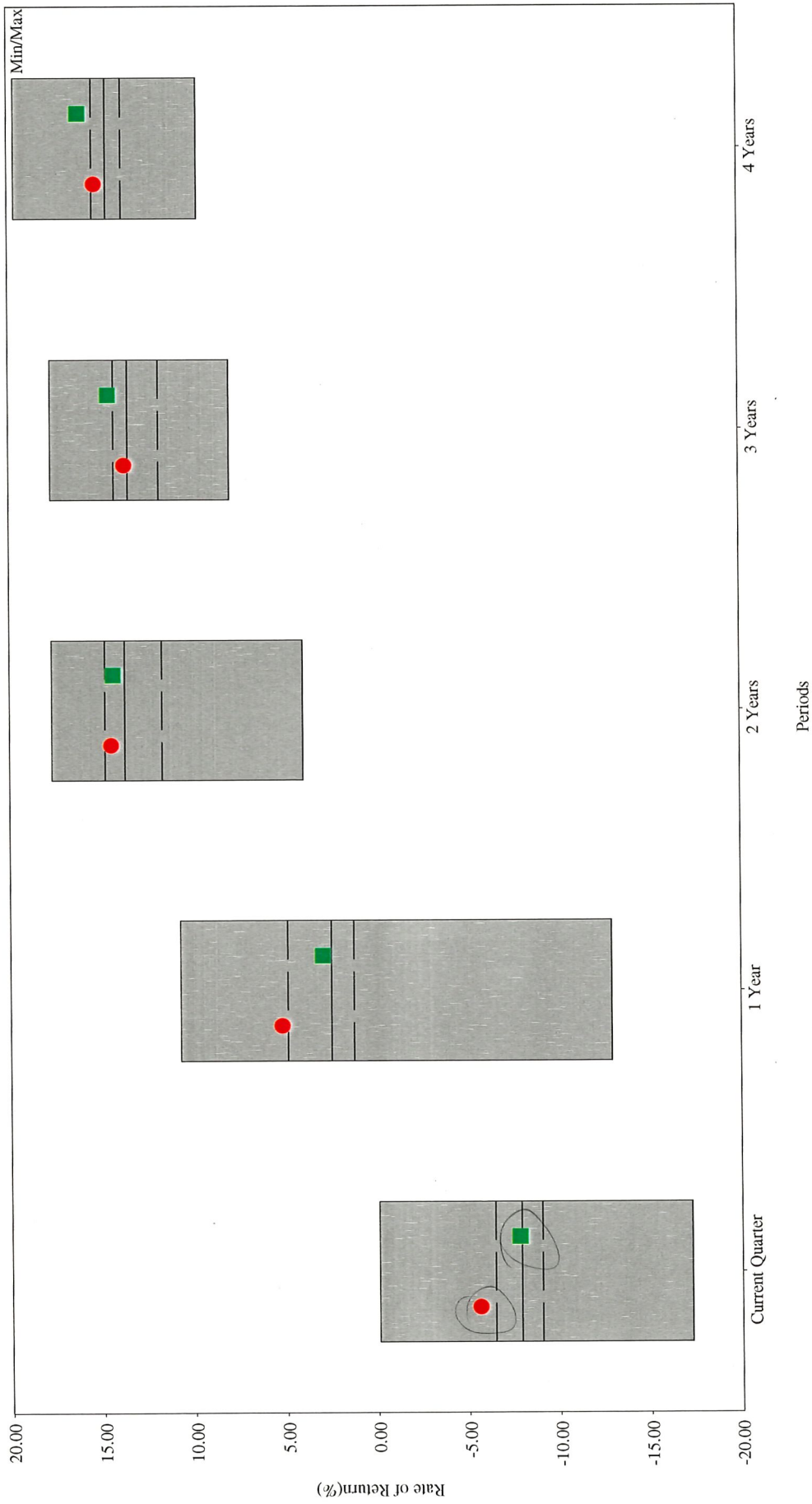
APPROVED:

Chairman: _____

TOTAL BILLION DOLLAR FUNDS - CORPORATE

Ending Wednesday, September 30, 1998

Quartile



● TOTAL FUND - PUF

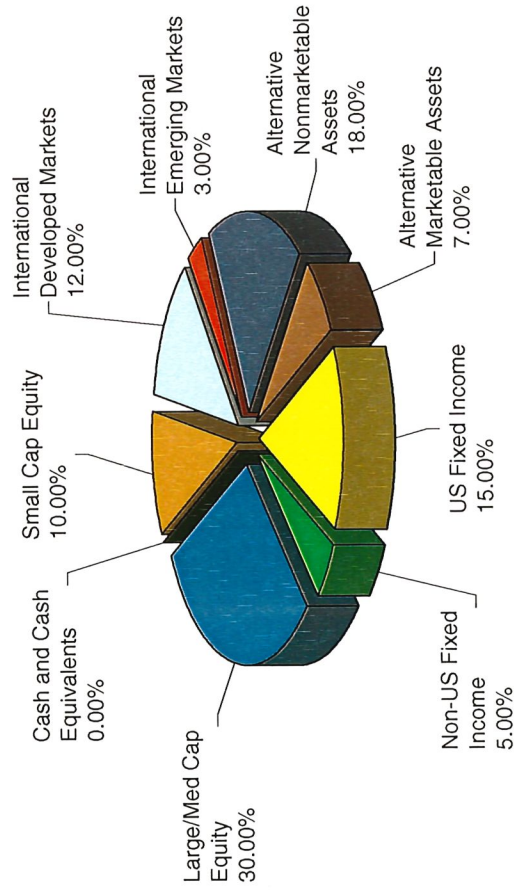
■ POLICY - NEUTRAL

UTIMCO

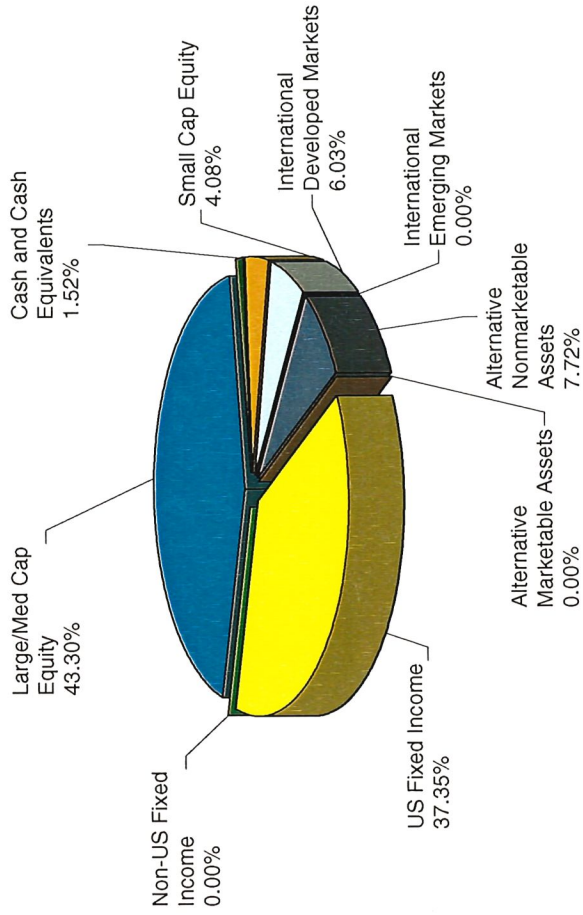
PERMANENT UNIVERSITY FUND

ASSET ALLOCATION
SEPTEMBER 30, 1998

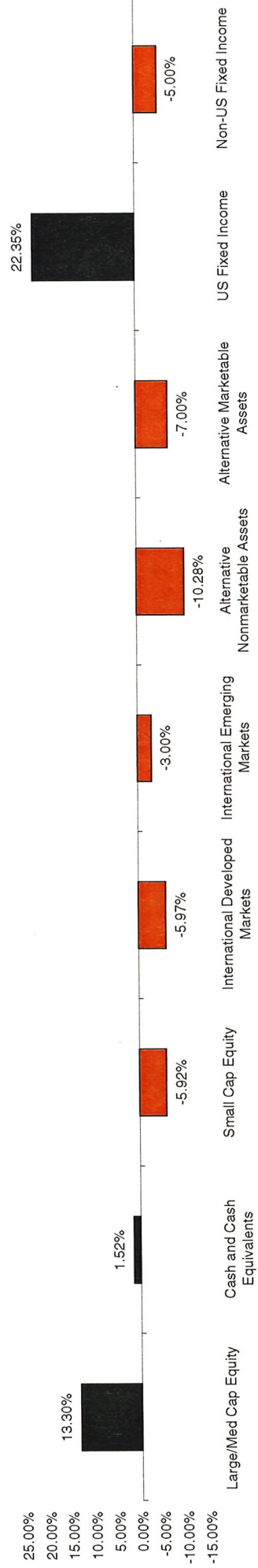
POLICY



ACTUAL



POLICY VS ACTUAL



**PERMANENT UNIVERSITY FUND
INVESTMENT INCOME**

	Actual				Projected as of 6/30/98						
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Interest Income	\$ 190.0	\$ 186.2	\$ 185.6	\$ 173.9	\$ 168.3	\$ 165.8	\$ 162.8	\$ 159.8	\$ 154.1	\$ 151.8	\$ 150.9
Dividend Income	58.7	66.1	77.8	82.2	81.2	85.2	89.9	95.0	100.8	106.8	112.9
Other	0.8	1.3	1.8	3.9	1.9	1.4	1.4	1.4	1.4	1.3	1.4
Total	\$ 249.5	\$ 253.6	\$ 265.2	\$ 260.0	\$ 251.4	\$ 252.4	\$ 254.1	\$ 256.2	\$ 256.3	\$ 259.9	\$ 265.2
Base Year 1998 Income				260.0	260.0	260.0	260.0	260.0	260.0	260.0	260.0
Income Surplus (Deficit)				(8.6)	(7.6)	(5.9)	(3.8)	(3.7)	(3.7)		
Income Supplement				4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Rebalance 2% to 60/40				4.1	3.1	1.4	-0.7	-0.8	-0.8		
Money Market/Stock Index Futures				8.6	7.6	5.9	3.8	3.7	3.7		

**\$150MM Money Market Equitization Trade
Performance**

Inception (10/20/98) through 11/30/98 - 40 days period

	S&P 500 Index		
	Futures	Cash	Difference
Price Return	8.78%	9.37%	-0.59%
Div/Coupon Return	0.57%	0.20%	0.37%
Total Return	9.35%	9.57%	-0.22%
Price Return	\$13,170,000	\$14,055,000	(\$885,000)
Div/Coupon Return	\$855,000	\$300,000	\$555,000
Total Return	\$14,025,000	\$14,355,000	(\$330,000)

Div/Coupon Return Annualized:

\$4,940,853

vs
4.1 projected

PERMANENT UNIVERSITY FUND

ASSET ALLOCATION

December 10, 1998



U T I M C O

Asset Allocation

- *Conventional optimization method to maximize return/risk trade-off doesn't work*
- *mean variance optimization uses total return*
- *constitution requires that optimization analysis incorporate a minimum yield payout*
- *income production constrains maximization of total return over the long run*
- *asset allocation is derived from income production*
- *what is optimal trade off between income return and total return?*

Objectives



- *stability of threshold level income*
- *income growth*

Performance Measurement

- *Effectiveness of total return vs. a neutrally weighted portfolio is limited*
 - *actual asset allocation and total return is driven by income production*
 - *doesn't segregate performance at the income level*
 - *need to measure the growth in value of UT/A&M's income based cash flow*
 - *calculate PV of future cash flows*
- *asset allocation decision should increase cash flow and value of UT/A&M's "shares"*

Projected Cash Flow to UT/A&M

	1999	2000	2001	2002	2003	2004	2005
Beg. Base Portfolio Income	260.00	251.40	252.40	254.10	256.20	256.30	259.90
Growth in Base Portfolio Income:							
Fixed Income Portfolio	(5.60)	(2.50)	(3.00)	(3.00)	(5.70)	(2.30)	(0.90)
Equity Portfolio	(2.05)	4.56	5.73	6.11	6.78	6.85	7.13
Income on PUF Lands Contributions	1.0	1.1	1.0	1.0	1.0	1.0	0.9
Total Income Return	251.4	252.4	254.1	256.2	256.3	259.9	265.2

Components of Growth in Cash Flow

	1999	2000	2001	2002	2003	2004	2005
Fixed Income: Coupon Interest	-3.2%	-1.5%	-1.8%	-1.8%	-3.6%	-1.5%	-0.6%
Equity: Dividends	-1.2%	4.9%	5.5%	5.7%	6.1%	6.0%	5.7%
Total Portfolio Income	-3.3%	0.4%	0.7%	0.8%	0.0%	1.4%	2.0%

PV of 5 Years Future Cash Flows

	1999	2000	2001
(millions)			
PV @10% (w/o income mgmt.)	\$953.0	\$956.8	\$963.2
PV @10% (w/ income mgmt. @ \$260MM)	\$985.6	\$985.6	\$985.6

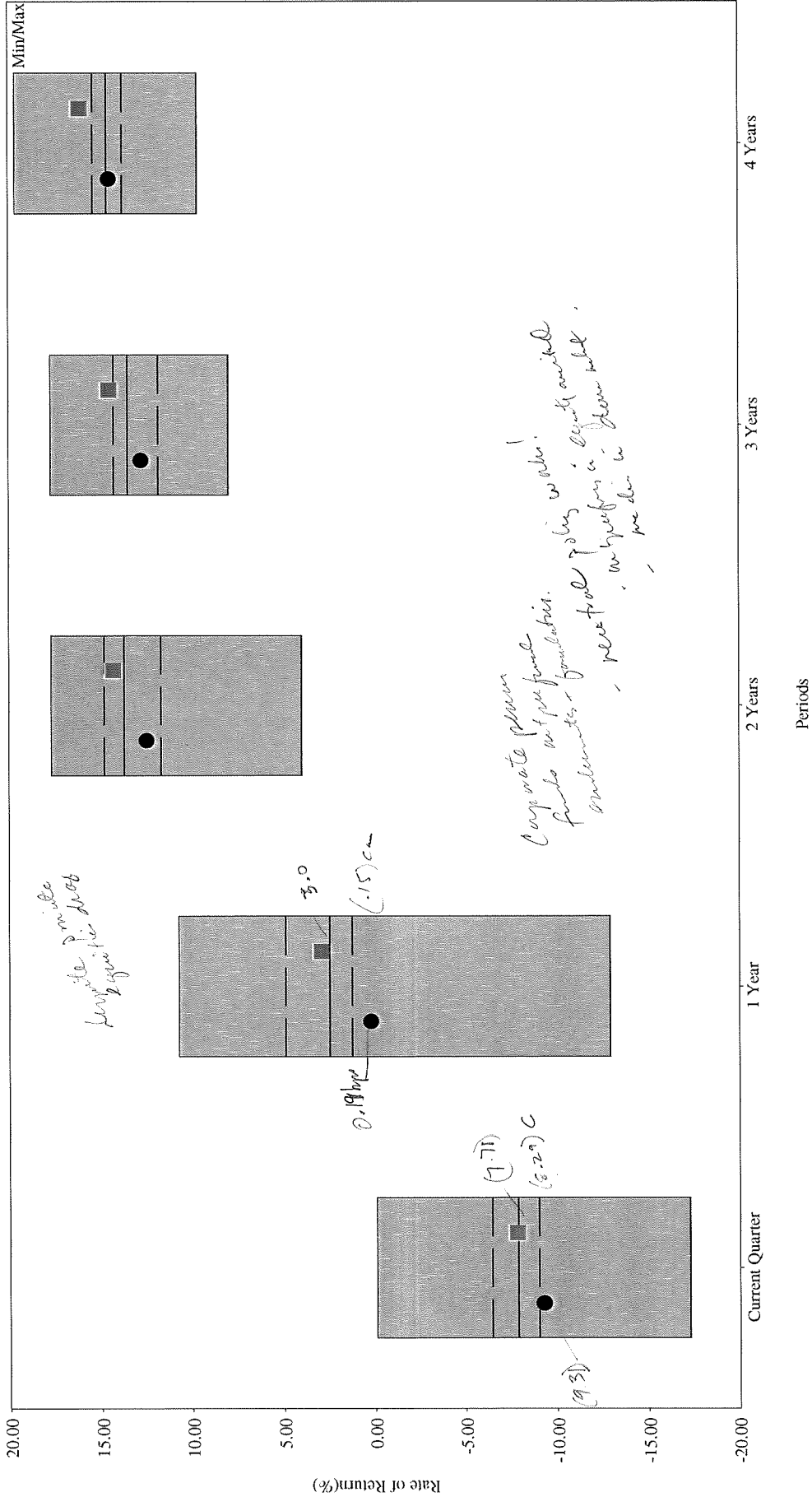
Objective # 3: Maximize Net Cash Flow

	1999	2000	2001	2002	2003	2004	2005
Income	\$260.0	\$260.0	\$260.0	\$260.0	\$260.0	\$259.9	\$265.2
Investment Expenses	5.7	6.1	6.4	6.9	7.3	7.8	8.3
Net Investment Income	\$254.3	\$253.9	\$253.6	\$253.1	\$252.7	\$252.1	\$256.9
Expense Ratio	2.2%	2.3%	2.5%	2.7%	2.8%	3.0%	3.1%
PV UT/A&M Interest (gross)	\$985.6	\$985.6	\$985.6	\$985.6			
PV UT/A&M Interest (net)	\$964.0	\$962.5	\$961.3				

- *Implications: internal management and indexation*

TOTAL BILLION DOLLAR FUNDS - CORPORATE
Ending Wednesday, September 30, 1998
Quartile

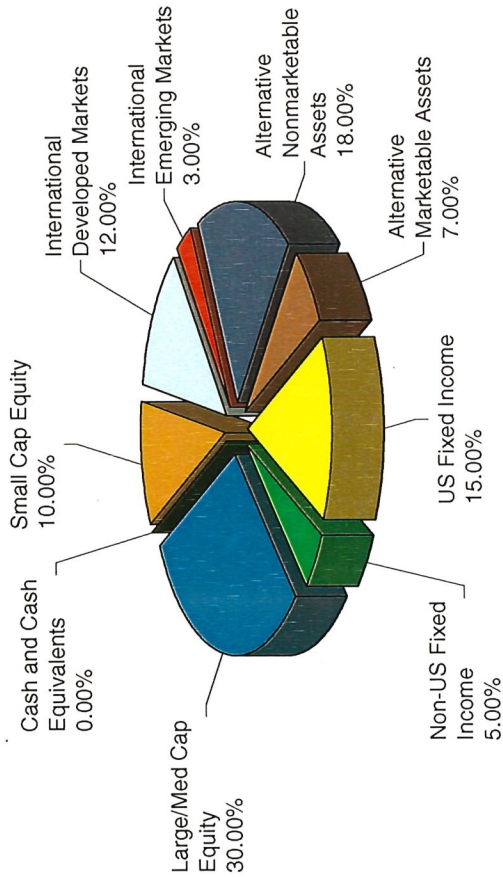
Charbonnet 10/6



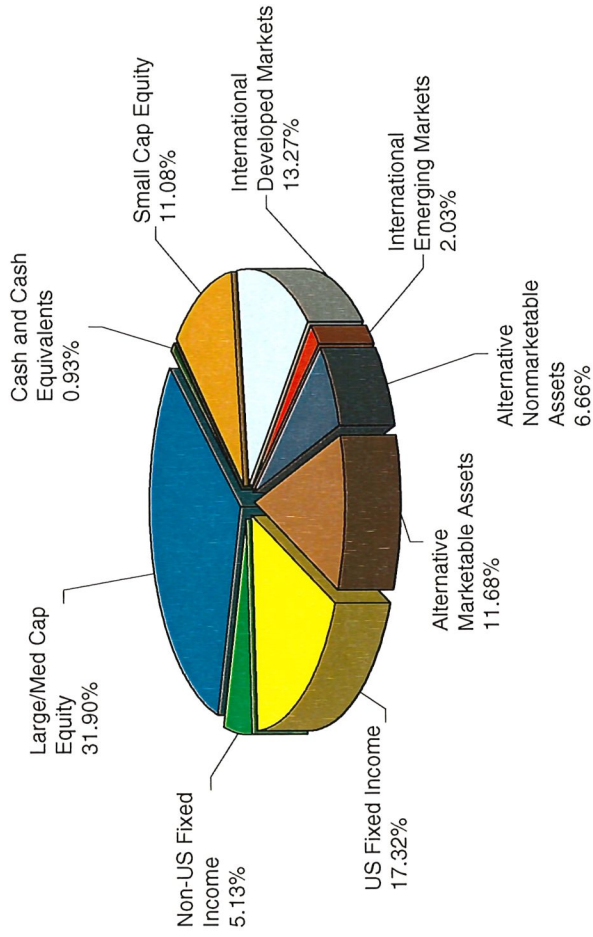
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LONG TERM FUND ASSET ALLOCATION SEPTEMBER 30, 1998

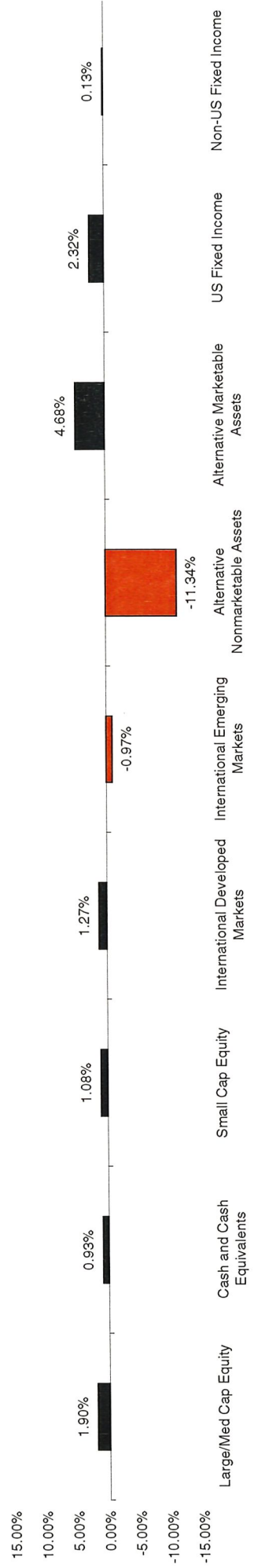
POLICY



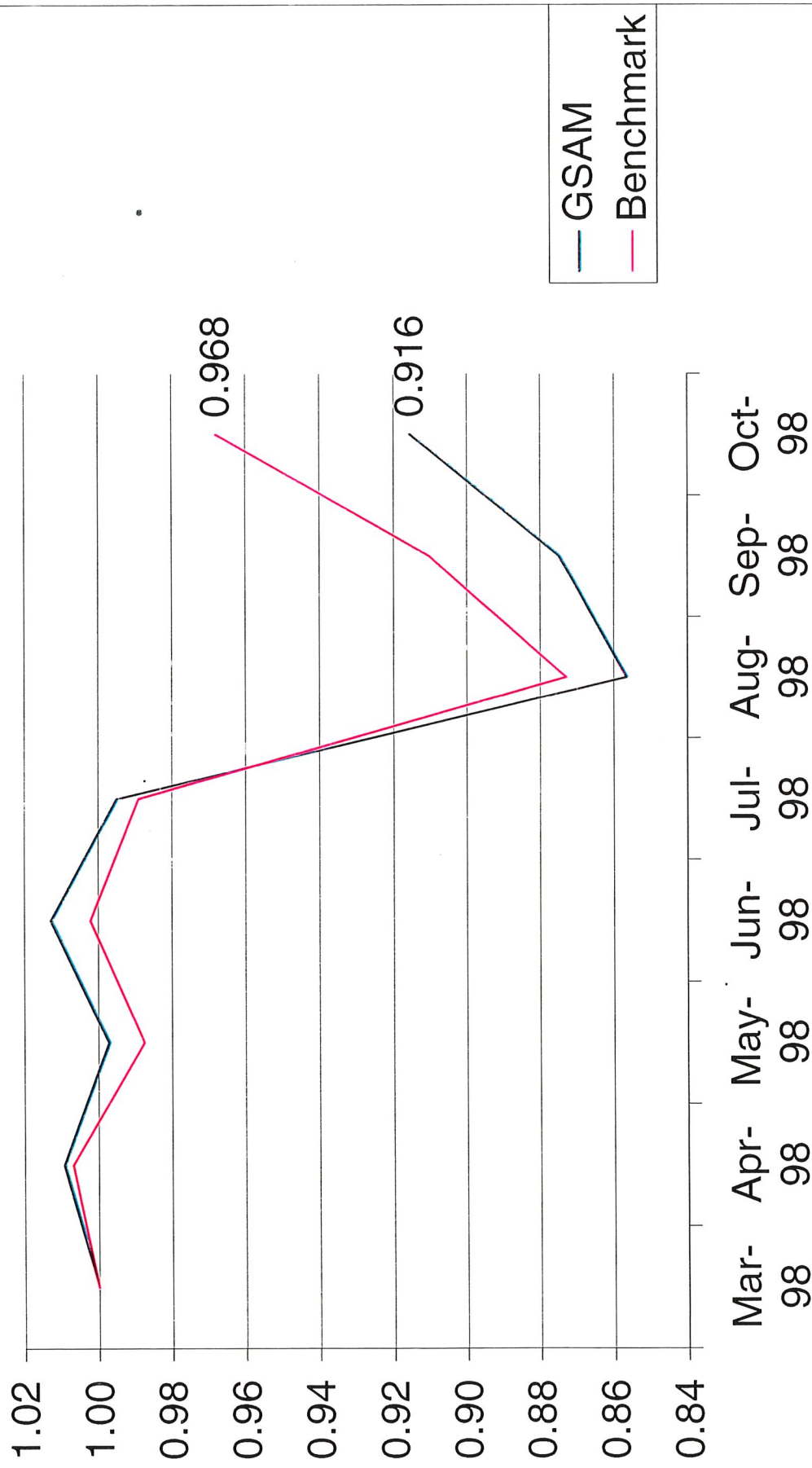
ACTUAL



POLICY VS ACTUAL



GSAM Cumulative Return



THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
UTIMCO VS. GSAM
OCTOBER 31, 1998

Seven Months Ended October 31, 1998

	UTIMCO		GSAM		Total Fund	
	Asset Allocation (80%)		Asset Allocation (20%)		Asset Allocation (100%)	
Equities:						
Domestic Equities:						
Large Cap	24.6	(2.18)	8.4	(5.04)	33.0	(3.07)
S&P 500 Index		0.61		0.61		0.61
Small Cap	8.2	(22.68)	2.7	(21.57)	10.9	(22.41)
Russell 2000		(20.77)		(20.77)		(20.77)
International Equities:						
Developed Markets	9.5	(6.08)	3.4	(6.05)	12.9	(6.06)
Financial Times Actuaries World ex U.S.		(6.56)		(6.56)		(6.56)
Emerging Markets	1.6	(27.31)	0.6	(33.67)	2.2	(29.18)
MSCI Emerging Markets		(35.46)		(35.46)		(35.46)
Fixed Income:						
Domestic	13.7	7.08	4.1	5.30	17.8	6.66
Lehman Brothers Aggregate		6.10		6.10		6.10
International	4.1	11.77	-	N/A	4.1	11.77
Salomon Non-U.S. WGBI Unhedged		16.47		16.47		16.47
GSAM Global Asset Allocation Overlay	-	N/A	0.6	(36.69)	0.6	(36.69)
Total Public Securities	61.7	(4.21)	19.8	(8.54)	81.5	(5.34)
Composite Benchmark - Public Securities		(2.74)		(2.74)		(2.74)
Other Assets:						
Cash and Cash Equivalents	0.7	N/A	-	N/A	0.7	N/A
Alternative Equities:						
Marketable	11.1	N/A	-	N/A	11.1	N/A
Consumer Price Index + 8%		5.92		N/A		5.92
Nonmarketable	6.7	9.05	-	N/A	6.7	9.05
S&P 500 Index + 5%		3.58		N/A		3.58
Total Fund	80.2	(3.90)	19.8	(8.54)	100.0	(4.84)
Composite Benchmark - Total Fund		(0.95)		(2.74)		(0.95)

**SHORT/INTERMEDIATE TERM FUND AND SHORT TERM FUND
PERFORMANCE SUMMARY
OCTOBER 31, 1998**

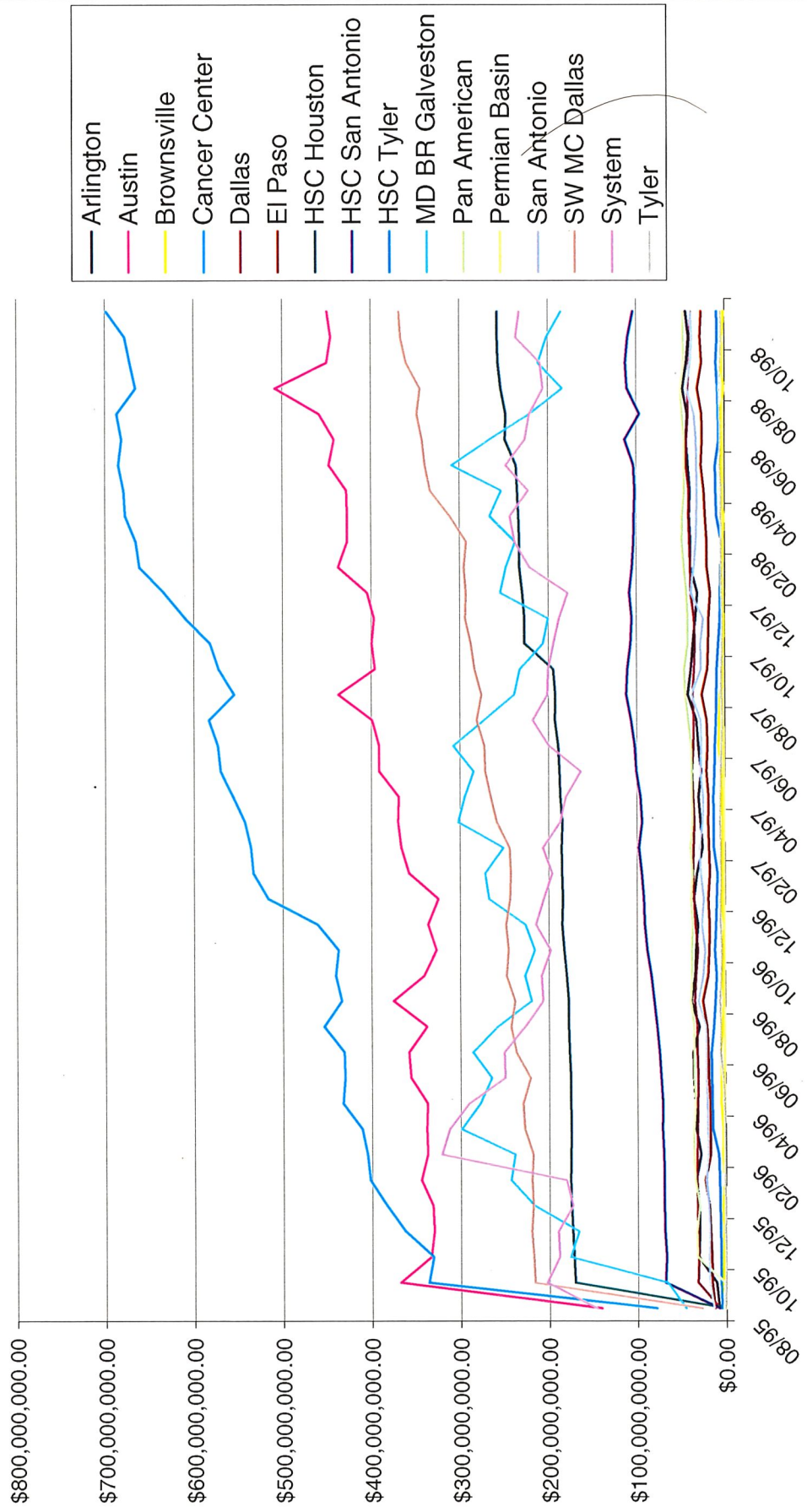
	Net Asset Value (in millions)	Periods Ended October 31, 1998							Fiscal Year To Date		Calendar Year To Date	
		One Month	Three Months	Six Months	One Year	Two Years	Three Years	Five Years	Seven Years	Two Months Ended October 31, 1998	Ten Months Ended October 31, 1998	
Short/Intermediate Term Fund	1,836.4	0.3	3.5	5.2	8.8	8.2	7.6	6.4	-	1.7	7.7	
Composite Index		0.4	2.9	4.5	7.5	7.0	6.6	6.0	-	1.7	6.5	
Common Fund - Intermediate Cash Fund		-	2.6	4.3	7.4	N/A ¹	7.0	6.2	N/A ¹	1.3	6.4	
Short Term Fund	1,438.8	0.5	1.4	2.8	5.7	5.7	5.6	5.3	-	0.9	4.7	
Dreyfus Institutional Preferred Money Market Treasury Bill	1,438.8	0.5	1.4	2.8	5.7	-	-	-	-	0.9	4.7	
IBC Institutional Money Market Funds		0.4	1.4	2.7	5.3	5.4	5.4	5.2	4.8	0.9	4.5	
Common Fund - Short Term Fund		0.4	1.3	2.7	5.4	5.5	5.7	5.6	-	0.9	4.5	
		0.4	1.3	2.8	5.5	N/A ¹	5.5	5.3	N/A ¹	0.9	4.6	
Consumer Price Index		0.2	0.5	0.9	1.5	1.8	2.2	2.4	2.6	0.4	1.7	

1 - Not Available

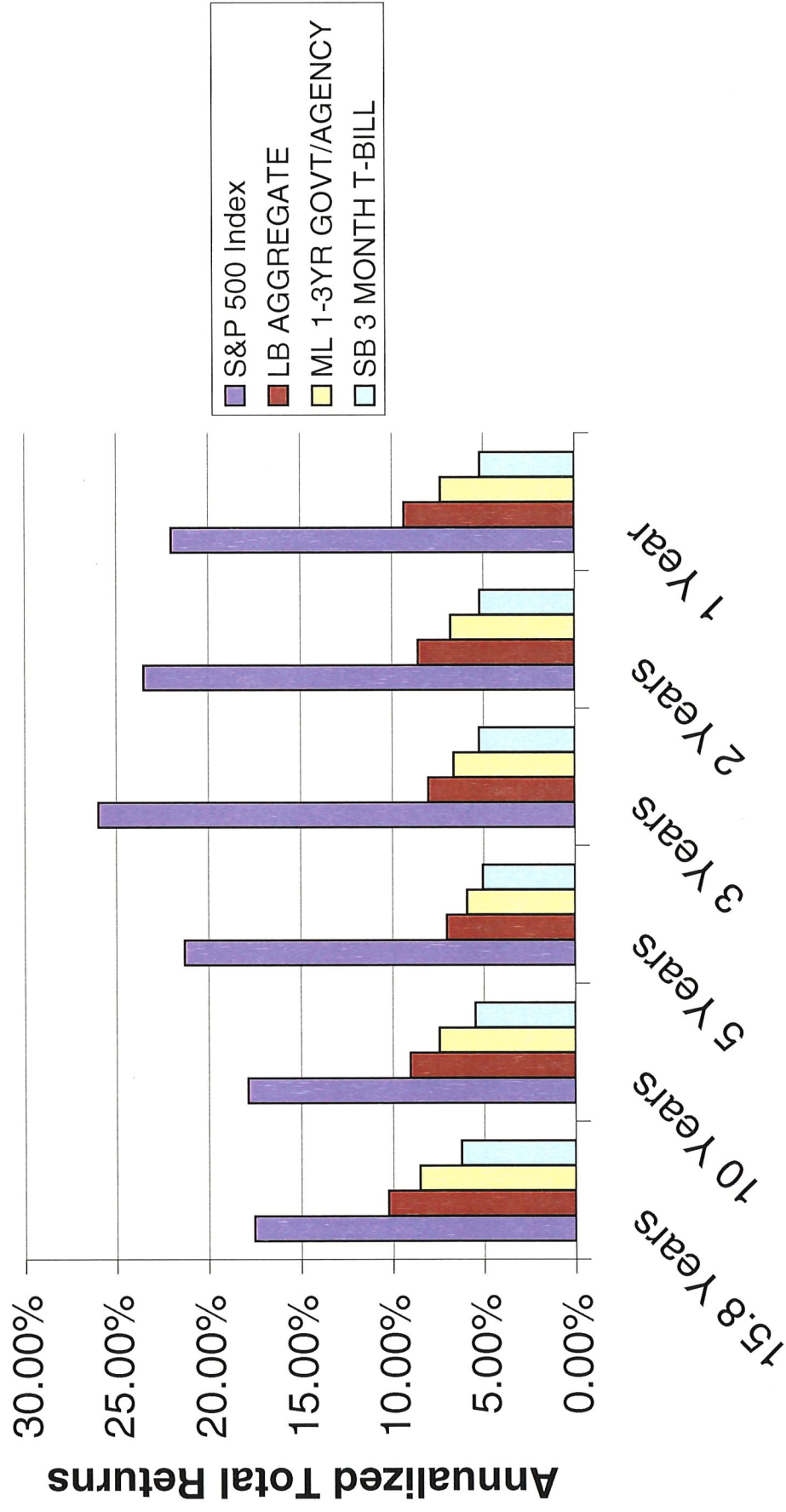
**U. T. SYSTEM
OPERATING FUNDS
November 30, 1998**

COMPONENT	SHORT	SHORT/	DEBT	EQUITY	TOTAL
	TERM	INTERMEDIATE			
	FUND	TERM FUND	FUND	FUND	FUND
U. T. SYSTEM ADMINISTRATION	166.9	65.2	-	-	232.1
U. T. ARLINGTON	26.9	16.8	-	-	43.7
U. T. AUSTIN	199.3	250.2	-	-	449.5
U. T. DALLAS	4.9	33.4	-	-	38.3
U. T. EL PASO	14.6	11.3	-	-	25.9
U. T. PAN AMERICAN	5.3	41.2	-	-	46.5
U. T. BROWNSVILLE	0.9	-	-	-	0.9
U. T. PERMIAN BASIN	1.7	0.8	-	-	2.5
U. T. SAN ANTONIO	17.4	21.2	-	-	38.6
U. T. TYLER	5.1	0.3	-	-	5.4
U. T. SOUTHWESTERN MEDICAL CENTER	58.2	309.9	-	-	368.1
U. T. M. B. GALVESTON	55.3	130.4	-	-	185.7
U. T. H. S. C. HOUSTON	15.3	128.7	-	-	144.0
U. T. H. S. C. SAN ANTONIO	3.8	99.9	-	-	103.7
U. T. M.D. ANDERSON CANCER CENTER	23.7	675.9	-	-	699.6
U. T. H. C. TYLER	8.1	1.1	-	-	9.2
UTIMCO (Medical Liability Fund)	-	59.6	-	-	59.6
TOTAL	607.4	1,845.9	-	-	2,453.3

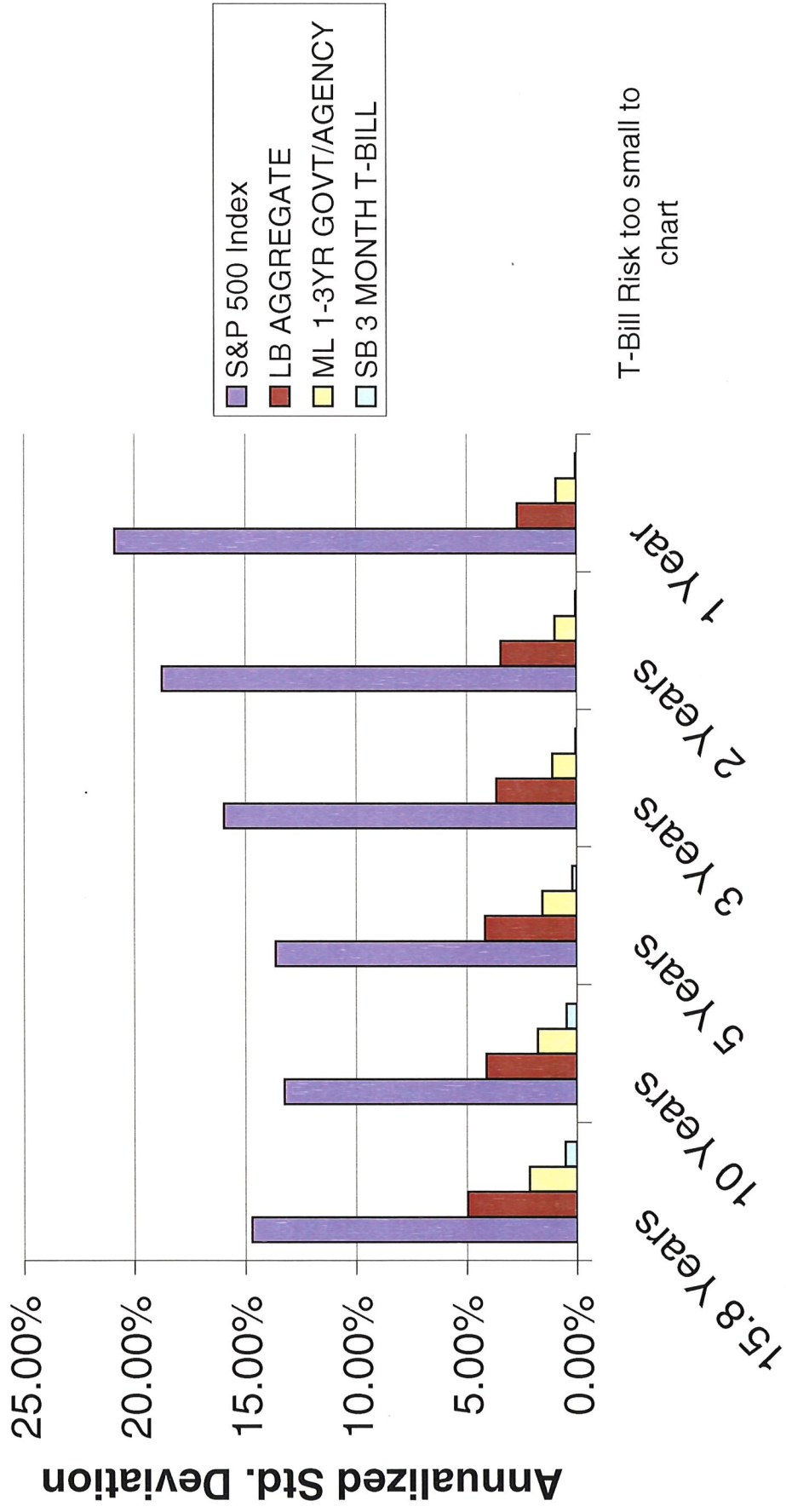
Component Balances STF + SITF Total \$ 2.5 Billion



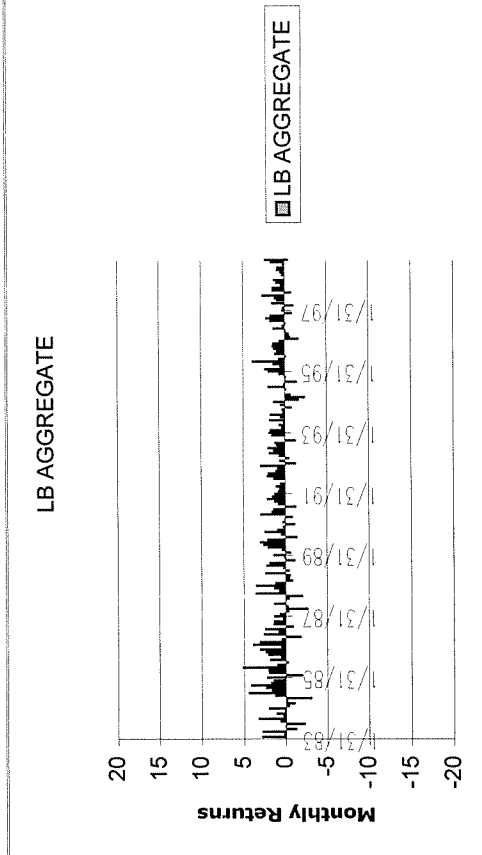
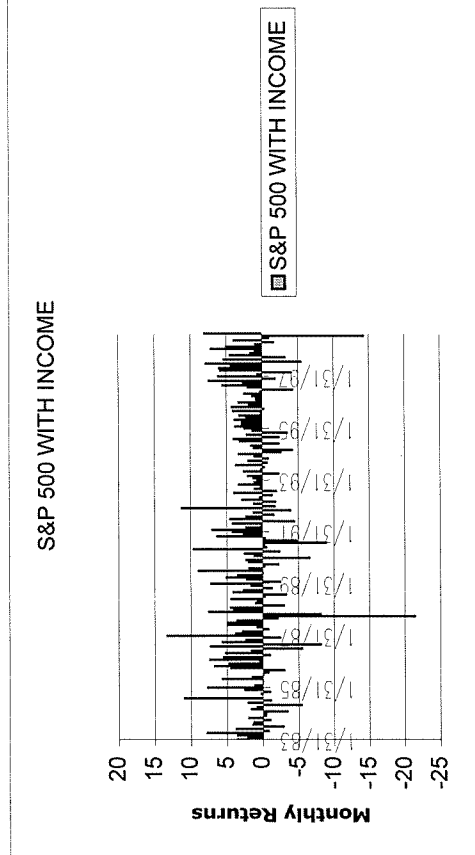
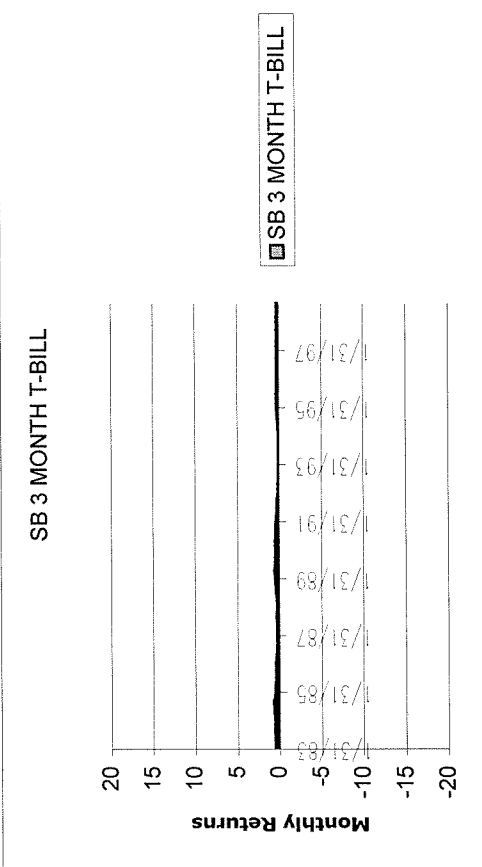
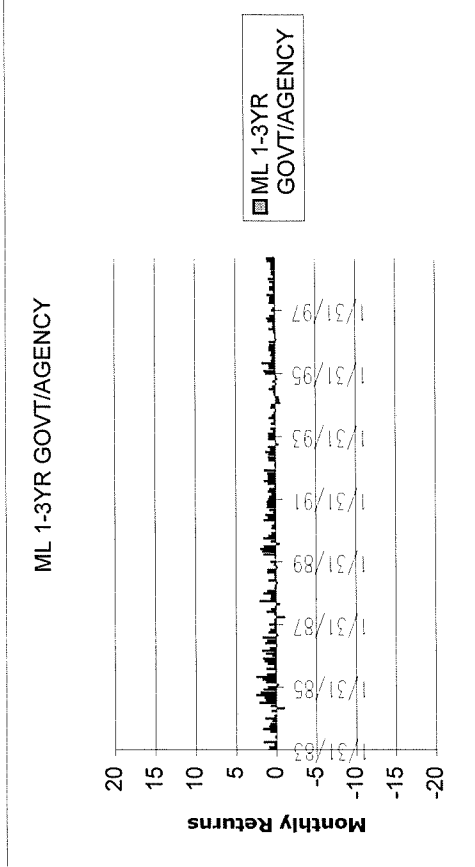
Comparison of Historic Trailing Returns Year Ending 10/1998



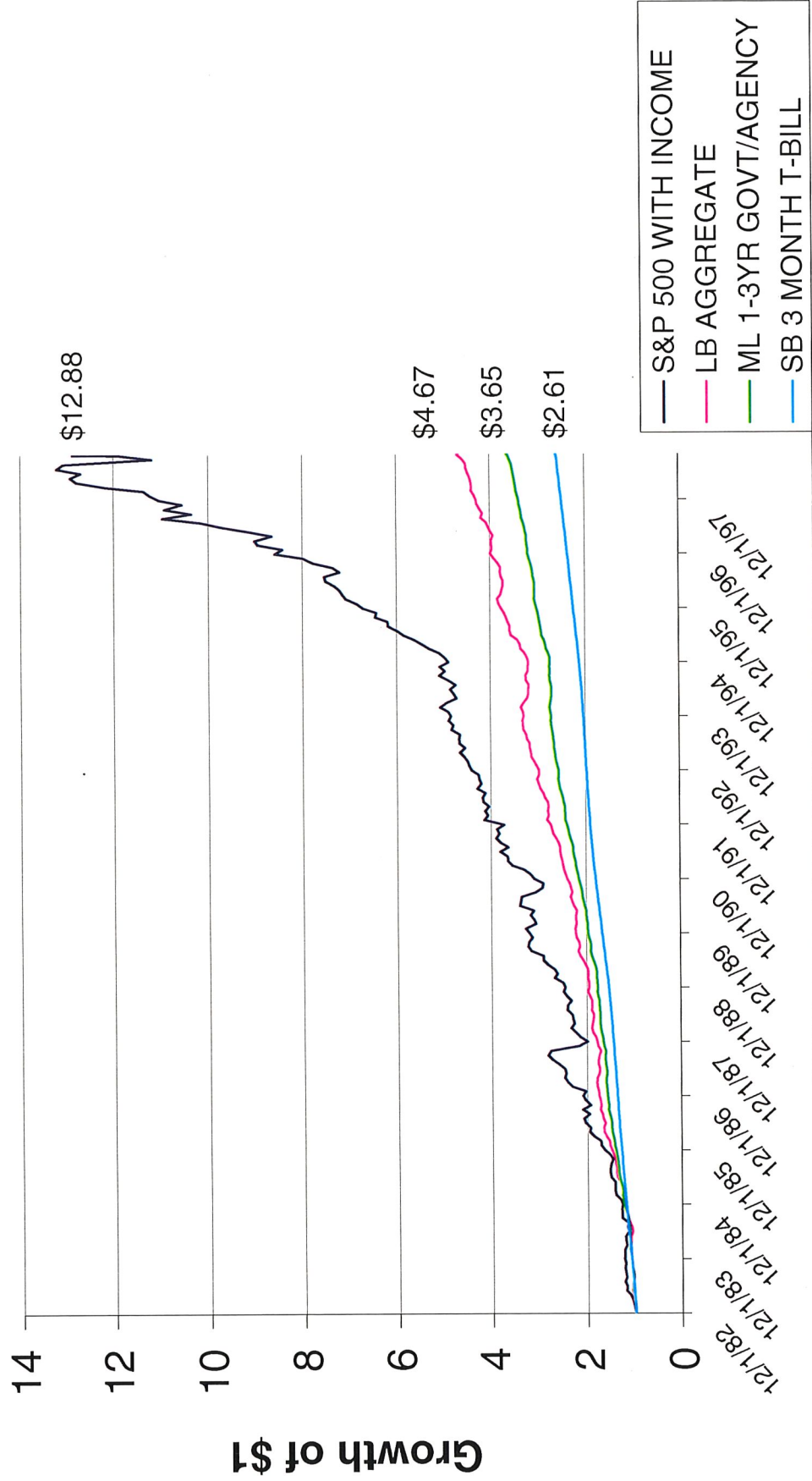
Comparison of Annualized Risk Year Ending 10/1998



T-Bill Risk too small to chart



Cumulative Return History 1/1983 to 10/1998



**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 and the realized and unrealized gains earned from Fund investments. The Constitution also requires the distribution of all PUF investment income to the AUF to be expended for certain authorized purposes.

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

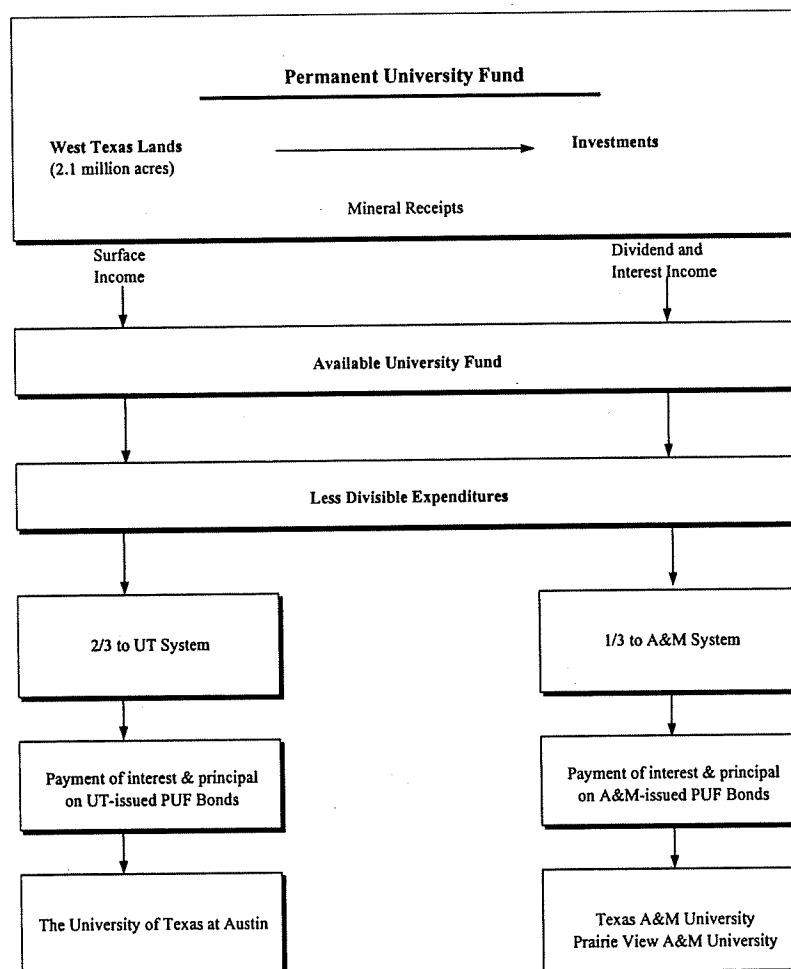
First, expenses incurred in the administration of PUF Lands and Investments. Resolutions adopted by the U. T. Board of Regents (the "U. T. Board") require that administrative expenses of the PUF be restricted to a minimum consistent with prudent business judgment. Second, following a 2/3rds and 1/3rd allocation of distributed PUF income (net of administrative expenses) 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 (the "TAMUS Board") to issue bonds payable from their respective interests in distributed PUF income 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 PUF net income for each System covers projected debt service at least 1.5 times.

Third, 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 distribution of income and expenditures from the PUF to the AUF is depicted below in Exhibit 1:

Exhibit 1



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 person investment standard. This standard requires that the U. T. Board, in making investments, shall exercise the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital.

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.

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.

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.

Fund Investment Objectives

The primary investment objective shall be to preserve the purchasing power of Fund assets and annual distributions 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 objective is to generate a fund return in excess of the Policy Portfolio benchmark 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 asset allocation policy targets.

The U. T. Board recognizes that achievement of Fund investment objectives is substantially hindered by the inability to make distributions on a total return basis and current distribution rates in excess of long-term equilibrium levels.

Asset Allocation

Asset allocation is the primary determinant of investment performance 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:

1. 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.
2. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund income. Such bonds should be high quality, and intermediate to long-term maturity with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction.
3. 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. As such, equities represent the best chance of preserving the purchasing power of the Fund.
4. Alternative Equities - generally consist of alternative marketable investments and alternative non-marketable investments. Alternative equity investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative equity 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 equity investments shall be controlled with extensive due diligence and diversification.

Alternative Marketable Equities -

These investments are broadly defined to include hedge funds, arbitrage and special situation funds, high yield bonds, distressed debt, market neutral, commodities and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. As such, they offer faster drawdown of committed capital and earlier realization potential than alternative non-marketable investments. Alternative marketable investments may be made through partnerships, but they will generally provide investors with liquidity at least annually.

Alternative Non-Marketable Investments -

These investments are held either through 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.

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. 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.

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, and alternative equity investments of 50% to 90%. The allocation to Fixed Income should therefore not exceed 50% of the Fund.

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 an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the Fund. 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. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

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.
- The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to; a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) to facilitate trading; c) to reduce transaction costs; d) to seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) to index or to hedge risks associated with Fund investments; or f) to adjust the market exposure of the asset allocation, including long and short strategies; provided that: i) no leverage is employed in the implementation of such Derivative purchases or sales, ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii) 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. 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, 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, cap, floor, 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.

In the event that there are no Derivative Securities traded on a particular market index such as MSCI EAFE, the Fund may utilize a composite of other Derivative Security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected Derivative Securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

UTIMCO shall minimize the risk that a party will default on its payment obligation under a Derivative Security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the Fund will not be able to meet its obligation to the counterparty by investing the Fund in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

The Fund may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.

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 must be approved by the chief investment officer.
- Deposits of the Texas State Treasury.

- 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 with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or 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.
- ~~[Repurchase Agreements shall be collateralized to 102% of their market value marked to market on a daily basis.~~
- ~~Reverse Repurchase Agreements and their coincident re-investment will be entered into on a matched book basis. The re-investment vehicles for the matched book transactions shall be the same Cash and Cash Equivalent instruments listed above. The rules for trading Repurchase Agreements and Reverse Repurchase Agreements shall follow the Public Securities Association standard industry terms.]~~
- 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 SITF custodian bank. Tri-party collateral arrangements are not permitted.
- Reverse Repurchase Agreements shall be used to fund the liquidity facility for the University of Texas System revenue financing notes.
- 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

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:

- Not less than 50% of the market value of domestic fixed income securities shall be invested in direct obligations of the U. S. Treasury, U. S. government agencies, and U. S. government sponsored entities.
- 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.
- The weighted average maturity of the domestic fixed income portfolio shall be not less than ten years unless approved in advance by the UTIMCO Board.

These guidelines shall not require the sale of any fixed income investments prior to their scheduled maturities unless the credit quality of the fixed income portfolio shall decline below Aa2.

Holdings of eligible fixed income derivative securities shall be limited by the following guidelines:

With prior written approval of the UTIMCO Board, the Portfolio Manager may enter into derivatives transactions utilizing exchange traded fixed income futures contracts or options on fixed income futures contracts; provided that such derivatives transactions are designed to control duration or manage risk.

Such derivatives transactions shall be established on a case by case basis. These contracts shall include, but not be limited to, Ten-Year Treasury Futures, Eurodollar Futures, provided that the futures exchanges are rated AAA or the equivalent as determined by UTIMCO.

Such derivatives shall be priced daily.

Market risk shall be measured in dollar duration equivalent values or in the case of options in delta or percentage of equivalent futures contracts.

For the purpose of this policy, Collateralized Mortgage Obligations (“CMOs”) are considered to be MBS, not derivatives.

Equities

- The Fund shall:
 - 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
 - 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 Equities

Investments in alternative equities may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures) so long as such organizations:

- possess specialized investment skills
- possess full investment discretion subject to the management agreement
- 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 equities 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 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 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 in order to preserve the purchasing power of Fund distributions and underlying assets.

The Texas Constitution requires that all dividends, interest and other income earned from Fund investments be distributed to the AUF. At the same time, the Constitution prohibits the distribution of mineral income contributed to the Fund and any realized and unrealized gains earned on such contributions.

UTIMCO shall be responsible for the establishment of the Fund's asset allocation so as to produce an annual income distribution that balances the needs of current beneficiaries with those of future beneficiaries. The Board explicitly recognizes that the generation of income under the Constitutional provisions governing the Fund is highly dependent upon the level of interest rates over which the UTIMCO Board has no control. It also recognizes that the distribution rate as a percentage of the Fund's assets is above average and that the maintenance of current levels of distributed income reduces the UTIMCO Board's ability to grow income over time.

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.

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. Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation. 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

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 February 11~~[12]~~, 1999~~[8]~~.

*new
w/12/99*

**THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
INVESTMENT POLICY STATEMENT**

Purpose

The Long Term Fund (the "Fund"), succeeded the Common Trust Fund in February, 1995, and was established by the Board of Regents of The University of Texas System (the "Board") as a pooled fund for the collective investment of private endowments and other long-term funds supporting various programs of The University of Texas System. 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 163 of the Property 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 the investment of the Fund. The Fund shall be governed 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 assets in conformity with investment policy.

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.

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.

The funds of a foundation which is structured as a supporting organization described in Section 509(a) of the Internal Revenue Code of 1986, which supports the activities of the U. T. System and its component institutions, may purchase units in the Fund provided that:

- A. the purchase of Fund units by foundation funds is approved by the chief investment officer
- B. all members of the foundation's governing board are also members of the Board
- C. the foundation has the same fiscal year as the Fund
- D. a contract between the Board and the foundation has been executed authorizing investment of foundation funds in the Fund
- E. no officer of such foundation, other than members of the Board, the Chancellor, the chief investment officer or his or her delegate shall have any control over the management of the Fund other than to request purchase and redemption of Fund units.

Fund Investment Objectives

The primary investment objective shall be to preserve the purchasing power of Fund assets and annual distributions 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 investment performance 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:

1. 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.
2. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund income. Such bonds should be high quality, and intermediate to long-term duration with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction.
3. 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.
4. Alternative Equities - generally consist of alternative marketable investments and alternative non-marketable investments. Alternative equity investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative equity 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 equity investments shall be controlled with extensive due diligence and diversification.

Alternative Marketable Equities -

These investments are broadly defined to include hedge funds, arbitrage and special situation funds, high yield bonds, distressed debt, market neutral, commodities and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. As such, they offer faster drawdown of committed capital and earlier realization potential than alternative non-marketable investments. Alternative marketable investments may be made through partnerships, but they will generally provide investors with liquidity at least annually.

Alternative Non-Marketable Investments -

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.

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. 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.

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, and alternative equity investments, of 68% to 90%. The allocation to fixed income investments should therefore not exceed 32% of the Fund.

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 an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the Fund. 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. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

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 may utilize Derivative Securities with the approval of the UTIMCO Board to; a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) to facilitate trading; c) to reduce transaction costs; d) to seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) to index or to hedge risks associated with Fund investments; or f) to adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such Derivative purchases or sales; ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii) 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. 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, 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, cap, floor, 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.

In the event that there are no Derivative Securities traded on a particular market index such as MSCI EAFE, the Fund may utilize a composite of other Derivative Security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected Derivative Securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

UTIMCO shall minimize the risk that a party will default on its payment obligation under a Derivative Security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the Fund will not be able to meet its obligation to the counterparty by investing the Fund in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

The Fund may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.

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 must be approved by the chief investment officer.
- 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 with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury

securities; or 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.

- ~~[Repurchase Agreements shall be collateralized to 102% of their market value marked to market on a daily basis.~~
- ~~Reverse Repurchase Agreements and their coincident re-investment will be entered into on a matched book basis. The re-investment vehicles for the matched book transactions shall be the same Cash and Cash Equivalent instruments listed above. The rules for trading Repurchase Agreements and Reverse Repurchase Agreements shall follow the Public Securities Association standard industry terms.]~~
- 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 LTF 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 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.
- 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.

Holdings of eligible fixed income derivative securities shall be limited by the following guidelines:

With prior written approval of the UTIMCO Board, the Portfolio Manager may enter into derivatives transactions utilizing exchange traded fixed income futures contracts or options on fixed income futures contracts; provided that such derivatives transactions are designed to control duration or manage risk.

Such derivatives transactions shall be established on a case by case basis. These contracts shall include, but shall not be limited to, Ten-Year Treasury Futures, or Treasury Bill Futures, provided that the futures are rated AAA or the equivalent as determined by UTIMCO.

Such derivatives shall be priced daily.

Market risk shall be measured in dollar duration equivalent values or in the case of options in delta or percentage of equivalent futures contracts.

For the purpose of this policy Collateralized Mortgage Obligations ("CMOs") are considered to be MBS, not derivatives.

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

I. 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 Assets

Investments in alternative assets may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures) so long as such organizations:

- II. possess specialized investment skills
- III. possess full investment discretion subject to the management agreement
- IV. are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken
- V. align the interests of the investor group with the management as closely as possible
- VI. charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.

Investments in alternative 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 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 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 in order to preserve the purchasing power of Fund distributions and underlying assets.

Pursuant to the Uniform Management of Institutional Funds Act, a governing board may distribute, for the uses and purposes for which the fund is established, the net realized appreciation in the fair market value of the assets of an endowment fund over the historic dollar value of the fund to the extent prudent under the standard provided by the Act. In addition, income may be distributed for the purposes associated with the endowments/foundations.

UTIMCO shall be responsible for establishing the Fund's distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise established by UTIMCO and approved by the Board or prohibited by the Act, fund distributions shall be based on the following criteria:

The annual unit distribution amount shall be adjusted annually based on the following formula:

- A. Increase the prior year's per unit distribution amount (cents per unit) by the average inflation rate (C.P.I.) for the previous twelve quarters. This will be the per unit distribution amount for the next fiscal year. This amount may be rounded to the nearest \$.0005 per unit.

- B. If the inflationary increase in Step A. results in a distribution rate below 3.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit) the UTIMCO Board, at its sole discretion, may grant an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 4.5%.
- C. If the distribution rate exceeds 5.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit) the UTIMCO Board at its sole discretion, may reduce the per unit distribution amount.

Notwithstanding any of the foregoing provisions, the Board of Regents may approve a per unit distribution amount that, in their judgment, would be more appropriate than the rate calculated by the policy provisions.

Distributions from the Fund to the unitholders shall be made quarterly as soon as practicable on or after the last business day of November, February, May, and August of each fiscal year.

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.

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. Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation. 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 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.

In order to permit complete investment of funds and to avoid fractional units, any purchase amount will be assigned a whole number of units in the Fund based on the appropriate per unit value of the Fund. Any fractional amount of purchase funds which exceeds the market value of the units assigned will be transferred to the Fund but no units shall be issued. 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. If the withdrawal is greater than \$10 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than \$10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the Fund's net asset value, the Board may redeem the requested units in installments and on a pro-rata basis over a reasonable period of time that takes into consideration the best interests of all Fund unitholders. Withdrawals from the Fund shall be at the market value price per unit determined for the period of the withdrawal except as follows: withdrawals to correct administrative errors shall be calculated at the per unit value at the time the error occurred. To be considered an administrative error, the contribution shall have been invested in the Fund for a period less than or equal to one year determined from the date of the contribution to the Fund. This provision does not apply to transfer of units between endowment unitholders.

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 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 February 11 [~~12~~], 1999~~9~~[8].

PUF & LTF Public Markets Performance Review

December 10, 1998



PUF Public Markets

- Large Cap Domestic Equity Underperforming
 - Mainly due to Internal Large Cap Value Fund & REIT Portfolio
 - Fayed Sarofim and Davis Hamilton Jackson ahead of S&P 500 Index
 - Internal Large Capital Growth trails S&P 500 Growth Index by minus 540 bps Calendar YTD, but ahead of S&P 500 Index by plus 370 bps
 - BGI S&P 500 and Midcap funds match benchmarks
- Small Cap Domestic Equity Underperforming: Entire Sector Down
 - Individual Manager Effect:
 - Cordillera, Fortaleza, and Paradigm behind Russell 2000 Growth
 - Schroders large underperformance and weight pulling down sector
- International Large Equity Outperforming
 - Mostly due to Country Allocation
- Fixed Income: Outperforming
 - Mostly due to high quality, higher coupon bonds in portfolio
 - Asset Allocation to Bonds of ~ 36% helped PUF through rough third quarter for Equities

LTF Public Markets

- Large Cap Domestic Equity Underperforming
 - Mostly due to GSAM and Internal Large Cap Value Fund
 - Fayed Sarofim Ahead of Index
 - MBA Fund Tiny but trailing 1 Year: 1.5% v. 22% for Index
 - Small Cap Domestic Equity Underperforming: Entire Sector Down
 - Individual Manager Effect:
 - Northstar/Strong and Rosenberg Relative Outperformance trailing 1 year
 - Artisan and Schroders large underperformance pulling down sector
 - International Large Equity Outperforming
 - Mostly due to Country Allocation
 - Capital Guardian Small Cap Intl. Underperforming, negative trailing 1 year
 - Emerging Markets: Sector Down
 - Templeton (Mobius) Outperforming on the downside
-

LTF Public Markets

- Domestic Fixed Income: Outperforming
 - Mostly due to PIMCO and UTIMCO-internal
 - PIMCO ahead of Index by 100 bps last six months
- International Fixed Income: Underperforming
 - Sector up 14% last six months, PIMCO + 8.9%
- Alternative Marketable Equity: Too Early for Judgment
 - Perry and Farallon > Index (CPI + 8%)
 - Maverick and RIEM < Index to 10/98
 - Farallon, Maverick, Perry, RIEM all positive for 11/98

Long Term Fund and Permanent University Fund
Small Capitalization Managers
Risk and Return Review

December 10, 1998



Portfolio Characteristics

- The Domestic Small Capital Portfolio Risk has Increased in most UTIMCO Small Capital Portfolios as measured by Return-at-Risk (RAR), Value-at-Risk (RAR), and Active Risk or Tracking Error (TE) Prospectively and throughout the Calendar YTD.
- The next page illustrates the Risk Trends in the Small Cap Portfolios at year end 1997 and month end October 1998.
- The Focus is on the Current Year and Current (10/98) Profile
- Risk Metrics have been Distilled to the following Summary Values:

UTIMCO Small Capital Managers Risk Profiles

FUND	Manager	Benchmark	12/31/97				10/31/98								
			Market Value (\$MM)	RAR	VAR (\$MM)	TE	Beta	Market Value (\$MM)	RAR	VAR (\$MM)	TE	Beta	YTD TR	YTD BM	ALPHA
LTF	NORTHSTAR	R 2000 GROWTH	\$74.62	10.93%	\$8.16	6.81%	1.11	\$59.55	12.59%	\$7.50	7.92%	1.12	-12.70%	-13.80%	1.10%
LTF	ARTISAN	R 2000 VALUE	\$60.12	11.21%	\$6.74	7.10%	1.07	\$39.58	14.07%	\$5.57	8.86%	1.08	-20.60%	-11.70%	-8.90%
LTF	SCHRODER	R 2000 VALUE	\$65.35	9.93%	\$6.49	6.28%	1.03	\$47.07	14.17%	\$6.67	8.99%	1.08	-12.10%	-11.70%	-0.40%
LTF	GSAM (4/98)	R 2000	\$51.35	5.48%	\$2.81	3.37%	0.98	\$63.35	3.24%	\$2.05	1.96%	0.99	N/A		
LTF	RIEM	R 2000	\$51.03	5.37%	\$2.74	3.26%	0.96	\$44.21	6.90%	\$3.05	4.24%	0.87	-11.70%	-12.80%	1.10%
PUF	CORDILLERA	R 2000 GROWTH	\$30.36	11.02%	\$3.34	6.90%	0.98	\$25.46	14.62%	\$3.72	9.10%	1.05	-19.00%	-13.80%	-5.20%
PUF	FORTALEZA	R 2000 GROWTH	\$37.51	10.45%	\$3.92	6.49%	1.02	\$33.47	13.70%	\$4.59	8.47%	1.02	-13.90%	-13.80%	-0.10%
PUF	PARADIGM	R 2000 GROWTH	\$24.65	5.61%	\$1.38	3.44%	0.99	\$21.29	6.95%	\$1.46	4.31%	0.99	-13.30%	-13.80%	0.50%
(Essentially a Closet Indexer/Mimics Mutual Fund Managers)															
PUF	SCHRODER	R 2000 VALUE	\$250.40	9.74%	\$24.39	6.18%	1.02	\$217.56	14.27%	\$31.04	9.02%	1.08	-11.70%	-11.70%	0.00%
PUF	DAVIS	S&P 500	\$55.24	8.50%	\$4.69	5.26%	1.07	\$67.06	6.07%	\$4.07	3.75%	0.98	20.30%	14.60%	6.70%
(Revised Benchmark: 2/3 S&P 500 and 1/3 S&P Midcap)															
Indicates INCREASED Risk															
Indicates LOW or REDUCED Risk															



Observations

- Davis Hamilton Jackson is NOT a Small Capital Manager, in agreement with DHJ management we have altered their benchmark to their actual style: 2/3 S&P 500 Index & 1/3 S&P Midcap.
- Measured against the S&P 500 Index *and* the S&P Midcap DHJ has had excellent Performance and Risk Profiles. In the past DHJ has been categorized as a Small Capital manager, skewing the PUF consolidated results.
- We are reporting Risk and Return for the PUF Small Cap Managers individually. We will no longer consolidate their Risk and Return values -- this distorts the performance due to DHJ's actual behavior.
- Fortaleza has been performing like an index manager with some Asset Selection Skill, however that skill is erased by unintended Risk bets in the various BARRA Risk categories.
- Paradigm is simply a Russell 2000 Growth Indexer who mimics other managers by "optimizing" their portfolio holdings.

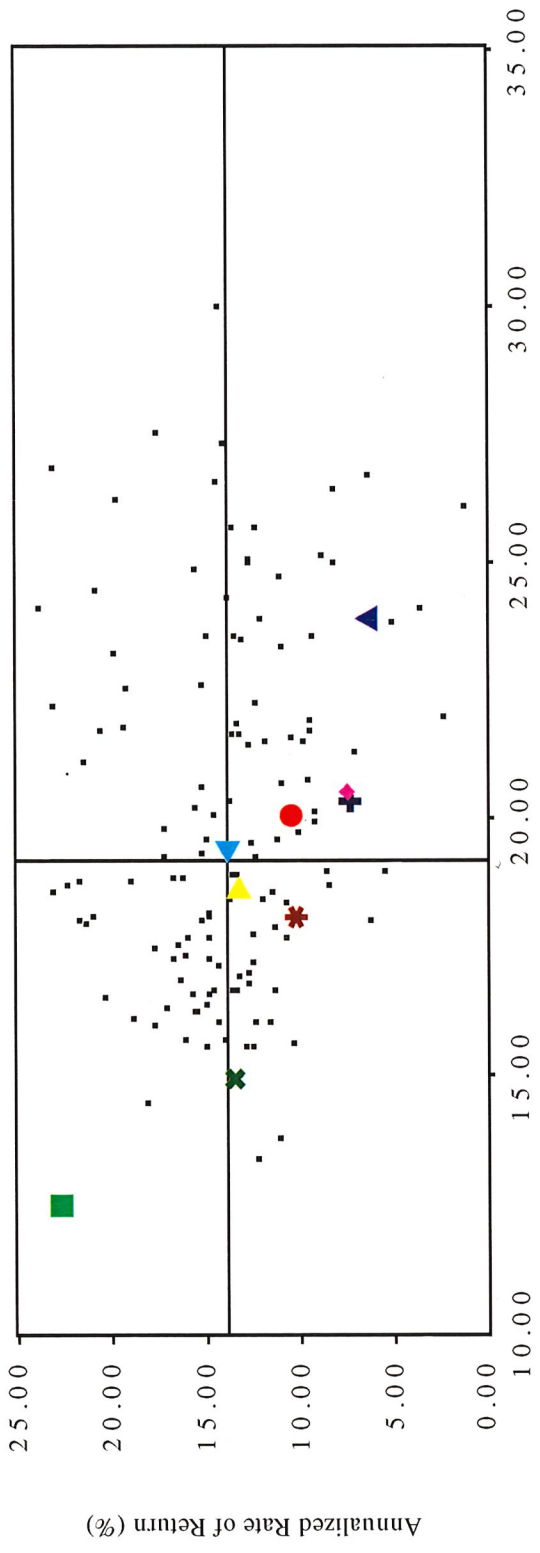
All PUF Small Capital Managers

SMALL CAPITALIZATION ACCOUNTS

4 Years Ending Wednesday, September 30, 1998

Risk/Return Scatter

130 Portfolios



Annualized Standard Deviation

- | | |
|---|--|
| <ul style="list-style-type: none"> ● CORDILLERA - PUF ▲ FORTALEZA - PUF ◆ PARADIGM - PUF * R2000 EQ WTD ⊕ R2000 GROWTH | <ul style="list-style-type: none"> ■ DAVISHAMILTON - PUF ▼ HUB MANAGERS - PUF ▲ SCHRODER WERTH - PUF * R2000 VALUE |
|---|--|

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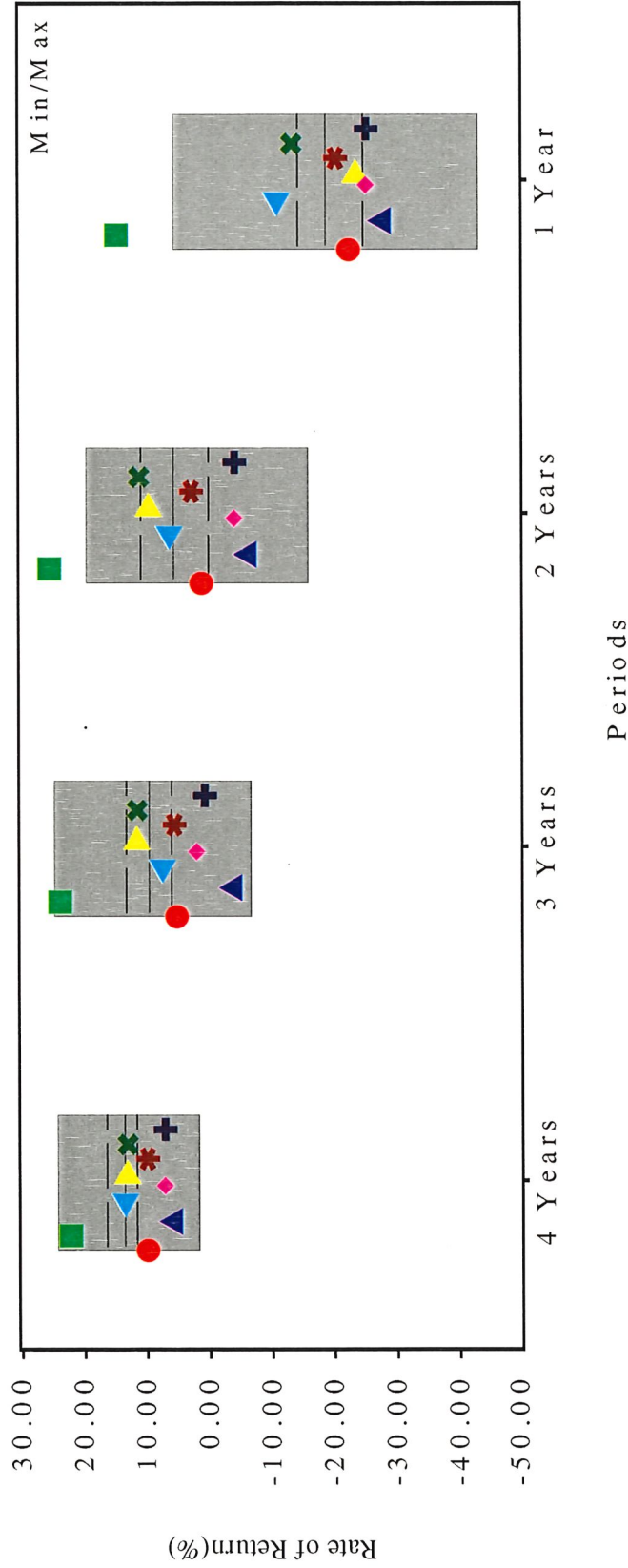


All PUF Small Capital Managers

SMALL CAPITALIZATION ACCOUNTS

Ending Wednesday, September 30, 1998

Quartile

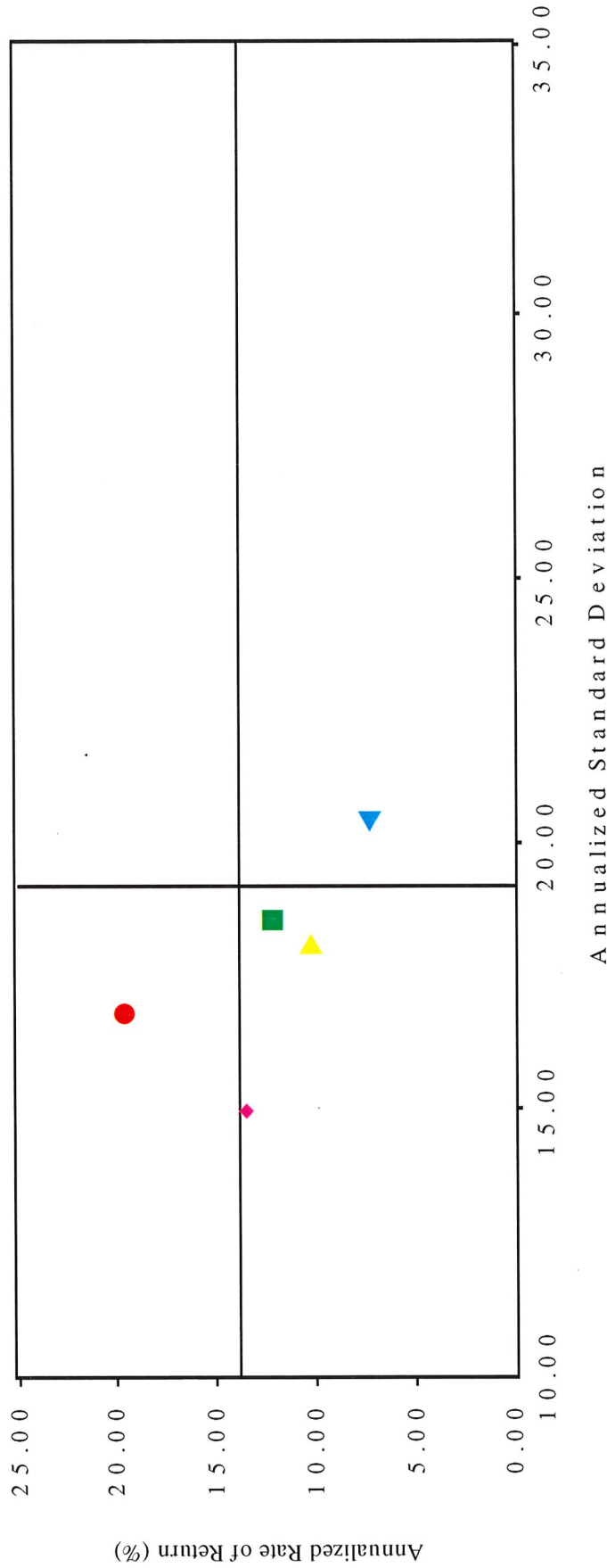


- CORDILLERA - PUF
 - ▲ FORTALEZA - PUF
 - ◆ PARADIGM - PUF
 - * R2000 EQ WTD
 - ⊕ R2000 GROWTH
-
- DAVIS HAMILTON - PUF
 - ▼ HUB MANAGERS - PUF
 - ▲ SCHRODER WERTH - PUF
 - ✕ R2000 VALUE



SMALL CAPITALIZATION ACCOUNTS
4 Years Ending Wednesday, September 30, 1998
Risk/Return Scatter

LTF Small Capital Managers



- RIEM Historical
- ▲ ARTISAN PTNRS - LTF
- ◆ R2000 VALUE
- * BANKERS/STRONG/NORTHSTAR
- SCHRODER WERTH - LTF
- ▲ R2000 GROWTH
- ▲ R2000 EQWTD

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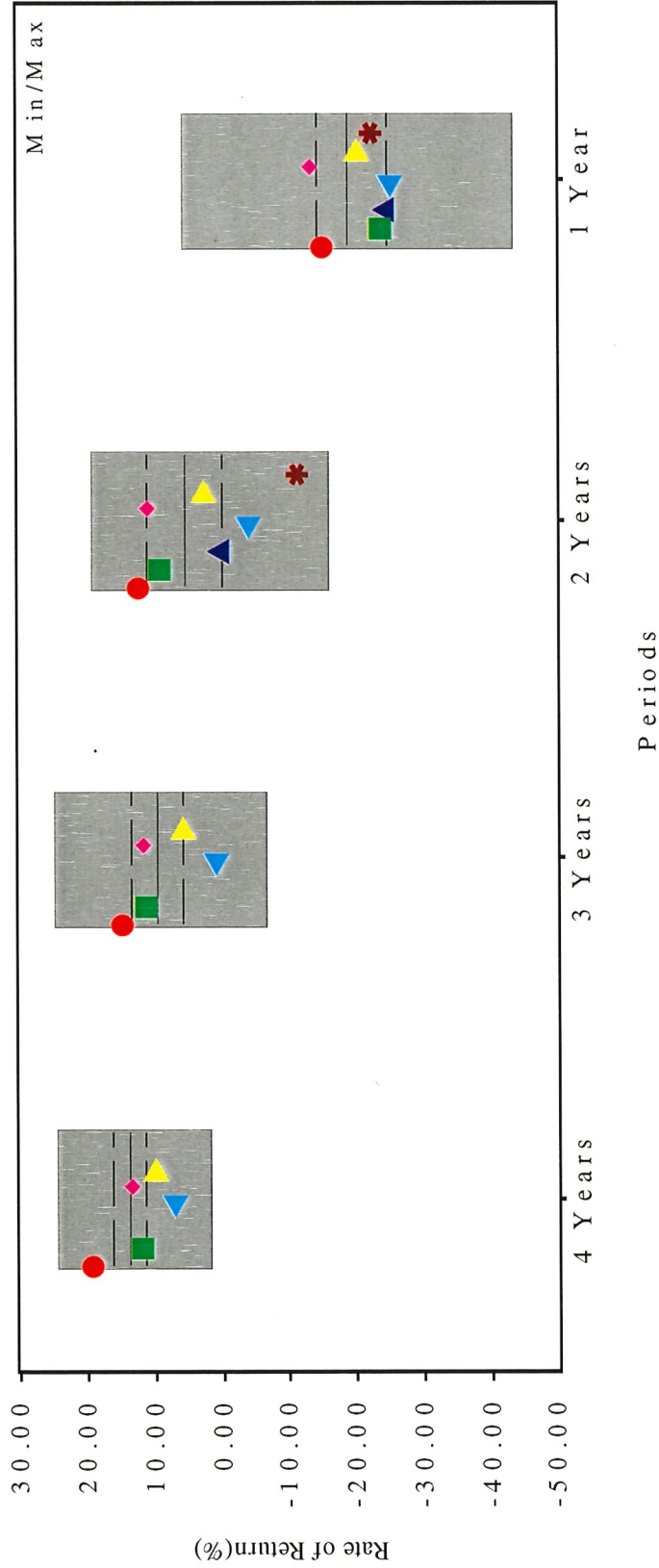


SMALL CAPITALIZATION ACCOUNTS

Ending Wednesday, September 30, 1998

Quartile

LTF Small Capital Managers



- RIEM Historical
- ▲ ARTISAN PTNRS - LTF
- ◆ R2000 VALUE
- * BANKERS/STRONG/NORTHSTAR
- SCHRODER WERTH - LTF
- ▼ R2000 GROWTH
- ▲ R2000 EQ WTD

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Further Observations

- The Following Managers have Inferior Asset Selection Skills and confirming Negative Information Ratios :
 - Artisan, Cordillera, Schroders
 - Increasing Risk: All Managers
 - Except GSAM with substantially lowered risk
 - RIEM still maintains a comparatively low risk profile
 - The Following Managers have Superior Asset Selection Skills and Risk Management Skills:
 - Rosenberg Institutional Equity Management (RIEM), Goldman Sachs Asset Management (GSAM), & Northstar/Strong (Recently)
 - The Managers who have the most Risk-controlled process are GSAM and RIEM.
-

**PLEASE REFER TO DUE DILIGENCE
MEMORANDUMS
(BOUND SEPARATELY)**

OUTLINE OF REPORT OF THE AUDIT AND ETHICS COMMITTEE

- The Audit and Ethics Committee met on October 30th by conference call
 - Committee members present were Bob Allen and myself with Susan Byrne absent
 - Also present were Tom Ricks and Cathy Iberg, Jerry Turner from V&E, Bill Strange from Deloitte & Touche as well as Charles Chaffin and Sandra Brown from the UT System Office of Internal Audits.

- There were four items of business at the meeting. The Committee
 - First, approved the minutes of the May 19, 1998 meeting
 - Second, we heard a report from the UTIMCO Ethics Committee. The internal committee had reviewed two items since May: the advance clearance of trades by an employee and the rejection of a proposed purchase of stock by the internal REIT portfolio manager in Presidio Golf Trust, an entity in which Hicks Muse held an interest.
 - Third, the Committee heard a 3 – part presentation from Deloitte and Touche.
 - The first part was the presentation of D&T's Required Communications to the Audit Committee which reviewed the auditor's responsibilities under the auditing standards as well as other disclosure items.
 - The second part was the presentation of the firm's Management Report. D&T reported no material weaknesses regarding internal control or its operations which deserved management's attention.
 - The third part was D&T's presentation of the financial statements and audit reports for the
 - Permanent University Fund, Long Term Fund, and Short/Intermediate Fund for the year ended August 31, 1998, and,
 - for the Corporation itself for the period of January 1, 1997 through December 31, 1997 and for the short period of January 1, 1998 through August 31, 1998.
 - The Committee reviewed and approved each financial statement and audit report (which were all clean)
 - Directors should have received copies of each fund's annual report in late November.

Finally, the Committee met privately with Bill Strange who stated that management had been very cooperative throughout the audit process and that he had no concerns to express privately to the Committee.

Also, subsequent to the meeting, the Committee also received D&T's audit report of performance calculations for the fiscal year. Their opinion was that the statement of investment performance statistics presented fairly the investment performance of the funds.

TPIA Update:	Requestor	Original Request	Information Requested	Action taken	AG #/OR #	Status
1	Lyndell Hull	8/8/96	Investor owned utilities in Texas	8/8/96 - sent requested information 8/23/96; UTIMCO sent part of requested information; 8/23/96 & 8/28/96 - UTS sent AG request excepting Cambridge Assoc. study; 11/6/96 favorable ruling by AG	n/a AG ID#101777-96 OR96-2039	closed closed
2	Bryan/College Station Eagle	8/13/96	PUF, AUF, and related investments - including minutes, goals, board members, etc.			closed
3	Damon Withrow/Tx Senate	9/12/96	Electric utility investments	9/12/96 - sent requested information 4/25/97 letter to Roser-sent info not excepted to AAS, 4/25/97, 5/1/97 letter to AG, 8/7/97 favorable ruling received by AG	n/a AG ID#107132-97 OR97-1776	closed closed
4	Austin American Statesman	4/16/97	Minutes, D&T Audit, private investments, etc.	7/10/97 - letter only sent to Lisson giving UTS address, etc.; 7/10/97 - letter to AG; 8/18/97 sent Lisson unexcepted information; 8/18/97 - letter to AG; 9/30/97 favorable ruling by AG	AG ID#109008-97 OR97-2201	closed
5	Initiate	6/30/97	Broad range of information on UTIMCO	8/5/97 - letter to Riggs asking for qualification of request, 8/8/97 sent requested information	n/a	closed
6	Jennifer S. Riggs	7/25/97	1996 PUF common stock and income trades			closed
7	Dallas Morning News	10/9/97	UTS & UTIMCO responses to 1996 audit, admin. fees, and quasi-endowment program	10/22/97 - sent records on admin. fees and quasi-endowment, 10/27/97 - UTS sent information requested, 10/22/97 - UTS letter to AG requesting audit working papers be withheld, 10/22/97 - UTIMCO letter to AG requesting audit working papers be withheld, 12/1/97 - favorable ruling (UTIMCO) received by AG, 1/16/98 - favorable ruling (UTS) received by AG	AG ID#111706 OR97-2802	closed
8	Austin American Statesman	1/12/98	Specific information relating to fees paid to managers, donations with matching funds, Quasi-Endowment.	1/21/98 - Sent information, UTS address; 1/22/98 sent additional information to AAS; 1/22/98-letter to AG requesting exception of fee information, 3/30/98 received favorable ruling from AG	AG ID#113934-98 OR98-0828	closed
9	Rise Montrell	1/23/98	Allocations of brokerage commissions; called and requested bio sheet on BODs	2/2/98 - Sent requested information; 2/5/98 faxed information-second request	n/a	closed
10	Initiate	1/23/98 (Sent to C. Chaffin at UTS)	Audits, evaluations, investigations made by or for IC2/C2e & Asset Management functions	UTS	UTS	closed
11	Austin American Statesman	3/16/98 (sent to UTS)	Salary information for UTIMCO	3/23/98 - Sent requested information 4/13/98 - Letter to Lisson requesting all UTIMCO requests be sent to UTIMCO. 4/29/98 - Letter sent requesting clarification. 4/29/98 - Letter sent to AG's office; 5/6/98 - Letter to AG's office. 7/9/98 - OR decision specifying what information to withhold	n/a AG ID#116697-98 OR98-1636	closed closed
12	Initiate	3/30/98 (sent to H. Reasoner of V&E);	All information relating to UTIMCO.			closed
13	The Texas Observer	4/2/98 (sent to UTS)	Salary memo to Dr. Cunningham from T. Ricks	4/8/98 - UTS sent requested information	n/a	closed

TPIA Update: Requestor	Original Request	Information Requested	Action taken	AG #/OR #	Status
14 Initiate	4/15/98 Second request to UTIMCO	Previously requested info including BB personnel file and agreement.	4/29/98 - Sent Lisson letter informing that BB information to be held until AG ruling; 7/24/98 - BB personnel information sent to Lisson after AG ruling received withholding one section for further clarification from AG; 7/24/98 - letter to AG requesting reconsideration on 98-1636; 10/7/98 - ruling from AG received; 10/9/98 - remainder of info. sent to Lisson; 5/5/98 - Letter to AG's office requesting OR Decision. 5/6/98 - Sent letter to Lisson. 6/30/98 - OR98-1563 response from AG. 5/6/98 - Sent letter to Lisson; 5/6/98 - Letter sent to AG's office. 5/13/98 - Letter sent to Lisson. 5/13/98 - Letter sent to AG's office. 7/24/98 OR98-1755 provided opinion. 7/29/98 - Letter sent to Lisson.	AG ID#116697-98/OR98-1636 & AG ID#118702	closed
15 Initiate	4/21/98	Austin Ventures	5/27/98 - Sent response with infor. requested. 5/28/98 - Attempt to contact her.	AG ID#116829 OR98-1563	closed
16 Initiate	4/22/98	Alternative Investments and alternative illiquid investing.	6/15/98 - Sent information requested 6/15/98 - Sent letter with listing asking to choose specific ones. 7/7/98 - Enclosed copies of topics selected.	AG ID#116872 OR98-1755	closed
17 Brenckman	5/13/98	UTIMCO/IAC, OAM and AMC members with specific indiv. and companies.	Date - Some information sent, 6/18/98 letter sent to AG's office by Giddings of OGC.	UTS	closed
18 Initiate	6/4/98 (sent to A. Long)	UTIMCO officers and staff phone #'s with private equity responsibilities.	6/11/98 - Sent info. Requested	n/a	closed
19 Initiate	6/4/98 (sent to A. Long)	Presentations made/articles written by staff on private equity.	No response required. 7/14/98 - Sent letter requesting further clarification. 7/23/98 copy to R. D. at V&E- per counsel advice, no response required	n/a	closed
20 Brenckman	6/4/98 (sent to R D Burck)	91-98 corresp. & records relating to AMC and IAC members, Hicks, Ricks & Long.	7/16/98 - Sent info requested 7/22/98 - Sent letter to Lisson - asking him to narrow request; 8/7/98 - sent non-accepted information requested; 8/7/98 - sent letter to AG requesting opinion; 8/14/98 sent letter to AG requesting exception to confidential documents	AG ID#119056-98	AG ruling pending
21 Brenckman	6/4/98	Additional information on Sony investments.	7/13/98 - Sent info requested	n/a	closed
22 Initiate	7/8/98 (sent to AG Morales)	Complaint of lack of info sent.	7/7/98 - Sent info requested	n/a	closed
23 Initiate	7/8/98 (sent to A Long); 7/23/98 response received	"non-accepted" communication- Austin Ventures.	7/7/98 - Sent info requested	n/a	closed
24 Initiate	7/8/98 (sent to C Preston)	IRC 6104 - UTIMCO's form 1023/1024, all 990's and related info.	7/7/98 - Sent info requested	n/a	closed
25 Initiate	7/8/98 (Sent to Morales, cc to Tom Ricks); 7/25/98 Response sent to TR's home address	Initiate and/or Lisson Crescent Real Estate Equities, FS Equity & Marcus Cable	7/7/98 - Sent info requested	n/a	closed
26 Houston Chronicle	7/13/98 (via telephone)		7/7/98 - Sent letter. No response to second letter.	n/a	closed
27 Initiate	7/1/98; 7/9/98 response; 7/24/98; 8/6/98	Austin Technology Incubator. 2nd letter asked to "please check again".		n/a	closed

TPIA Update:	Requestor	Original Request	Information Requested	Action taken	AG #/OR #	Status
28	Initiate	7/27/98	Alternatives program-shredder/visitor logs, minutes & tapes of all proceedings Handwritten notes on copies of 8/7/98 letters, requesting copy of AG opinion request	8/7/98 - sent letter to Lisson with info requested, informing him to contact UT System for prior 1996 records. 8/13/98 - faxed info requested; 8/19/98 - mailed hard copy as per request	n/a n/a	closed closed
29	Initiate	8/11/98		9/10/98 - email requesting payment of \$46.50 (.10/copy) for information requested; 9/15/98 Letter to AG requesting exception for altern. program information. 9/28/98 - copy of letter to AG; 10/5/98 - check for \$46.00 arrived from Initiate and information was sent, 12/4/98 - received favorable ruling from AG 10/2/98 - sent letter to Ratcliffe; 10/2/98 - sent letter to AG 10/12/98 - sent letter to Ratcliffe; 10/15/98 - sent letter to AG 10/2/98 - sent Private Investment information 10/21/98 - sent info requested 10/15/98 - sent Lisson information requested	AG ID#120100-98 OR98-2917 AG ID#120696-98 AG ID#121005-98	closed AG ruling pending AG ruling pending closed closed closed
30	Initiate	8/31/1998; 9/22/98 (w/ various emails in between)	Alternative program returns, T. Ricks info List of items regarding private investments	10/21/98 - letter sent to AG by Giddings at UTS	UTS	UTS
31	Houston Chronicle	9/17/98	Boykin, Silverleaf, Tuboscope, Univision	10/15/98 - sent info requested	n/a	closed
32	Houston Chronicle	10/2/98	n/a	10/21/98 - Informed him to contact UT System	n/a	closed
33	Initiate	10/2/98 Correspondence	Hedge Fund exposure	10/28/98 - sent info requested	n/a	closed
34	Initiate	10/5/98-10/8/98	Venture Forum Conference-C. Nickels	10/28/98 - sent info requested except for private investment info; 10/28/98 - letter to AG requesting ruling-keeping priv. inv. info. confidential.	AG ID#121439-98	AG ruling pending
35	Initiate	10/8/98	U. T. "investment committee", private investments - prior to UTIMCO	11/4/98 - sent letter stating that UTIMCO has no documents relating to his e-mail requests.	n/a	closed
36	Houston Chronicle	10/7-8/98-JTS	Response to Chron. of Higher Ed. article	11/17/98 - sent Lisson info on AE-Marketable from board presentations; 11/17/98 - letter to AG requesting ruling on confidentiality of individual fund information.	AG ID#121991-98	AG ruling pending
37	Initiate	10/14/98	Washington Hackett, EMT	11/17/98 - sent info requested	n/a	closed
38	Christian Washington	10/20/98	Communication w/Cof HE, upcoming presentation of C. Nickels	11/17/98 - letter sent giving website address for current LTF Annual Report	n/a	closed
39	Initiate	10/20/98	Board minutes, recusals, private investment information			
40	Houston Chronicle	10/20/98	Info on communications, documents, etc. w/ C. Preston and UTIMCO and V&E files on Michigan Strategic Fund.			
41	Initiate	10/27/98	Alternative Equities - Marketable benchmarks			
42	Initiate	11/3/98	UTIMCO Board Member information			
43	Initiate	11/9/98	Specific trades, priv. Investments, travel			
44	Houston Chronicle	11/12/98	LTF Annual Report request			
45	Initiate	11/13/98				