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Committee Meeting: 5/9/2007

Board Meeting: 5/10/2007
Austin, Texas

Robert B. Rowling, Chairman
John W. Barnhill, Jr.
H. Scott Caven, Jr.
Cyndi Taylor Krier
Colleen McHugh

	Committee Meeting	Board Meeting	Page
Convene	<i>1:15 p.m.</i> <i>Chairman Rowling</i>		
1. U. T. System: Discussion and appropriate action related to approval of <i>Docket No. 130</i>	<i>1:15 p.m.</i> Discussion, Action if needed <i>Dr. Kelley</i>		55
2. U. T. System: Approval of the Fiscal Year 2008 Budget Preparation Policies and Calendar for budget operations	<i>1:20 p.m.</i> Action <i>Mr. Wallace</i>	Action	55
3. U. T. System: Key Financial Indicators Report and Monthly Financial Report	<i>1:25 p.m.</i> Report <i>Dr. Kelley</i>	Not on Agenda	59
4. U. T. System: Shared Services Initiative Report	<i>1:40 p.m.</i> Report <i>Dr. Kelley</i>	Not on Agenda	68
5. U. T. System Board of Regents: Investment Reports for the fiscal quarter ended February 28, 2007, and The University of Texas Investment Management Company (UTIMCO) Performance Summary Report	<i>2:00 p.m.</i> Report <i>Ms. Iberg</i>	Report	70
6. U. T. System Board of Regents: Approval of annual distributions from the Permanent University Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund	<i>2:05 p.m.</i> Action <i>Ms. Iberg</i>	Action	76
Adjourn	<i>2:15 p.m.</i>		

1. **U. T. System: Discussion and appropriate action related to approval of Docket No. 130**

RECOMMENDATION

It is recommended that *Docket No. 130*, beginning on Page Docket - 1, be approved. The Docket is printed on green paper following the Docket tab at the back of the Supplemental Materials (Volume 2) of the Agenda Book.

It is also recommended that the Board confirm that authority to execute contracts, documents, or instruments approved therein has been delegated to appropriate officials of the respective institution involved.

2. **U. T. System: Approval of the Fiscal Year 2008 Budget Preparation Policies and Calendar for budget operations**

RECOMMENDATION

With the concurrence of the Interim Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and the Executive Vice Chancellor for Health Affairs, the Chancellor recommends that the U. T. System Board of Regents approve the Budget Preparation Policies and Calendar for use in preparing the Fiscal Year 2008 Operating Budget for the U. T. System as set out below:

U. T. System Fiscal Year 2008 Budget Preparation Policies

General Guidelines - The regulations and directives that will be included in the General Appropriations Act enacted by the 80th Texas Legislature serve as the basis for these guidelines and policies. In preparing the draft of the Fiscal Year 2008 Operating Budget, the president of each institution should adhere to guidelines and policies as detailed below and as included in the General Appropriations Act. Following legislative approval of the General Appropriations Act, the Chancellor will issue detailed instructions regarding the implementation of those regulations and directives into the institutional budget process.

Overall budget totals, including reasonable reserves, must be limited to the funds available for the year from General Revenue Appropriations, Estimates of Educational and General Income, and limited use of institutional unappropriated balances.

Salary Guidelines - Recommendations regarding salary policy are subject to the following directives:

1. Salaries Proportional by Fund - Unless otherwise restricted, payment for salaries, wages, and benefits paid from appropriated funds, including local funds and educational and general funds as defined in *Texas Education Code* Section 51.009 (a) and (c), shall be proportional to the source of funds.
2. Merit Increases and Promotions - Subject to available resources and resolution of any major salary inequities, institutions should give priority to implementing merit salary increases for faculty and staff.

Merit increases or advances in rank for faculty are to be on the basis of teaching effectiveness, research, and public service.

Merit increases or promotions for administrative and professional staff and classified staff are to be based on evaluation of performance in areas appropriate to work assignments.

To be eligible for a merit increase, administrative and professional staff and classified staff must have been employed by the institution for at least six consecutive months ending August 31, 2007, and at least six months must have elapsed since the employee's last merit salary increase.

3. Other Increases - Equity adjustments, competitive offers, and increases to accomplish contractual commitments may also be granted in this budget and should also consider merit where appropriate, subject to available resources. Subject to guidance issued by the Chancellor, such increases should be noted and explained in the supplemental data accompanying the budget.
4. New Positions - Subject to available resources, new administrative and professional staff, classified staff, and faculty positions are to be requested only when justified by workloads or to meet needs for developing new programs.
5. Reporting - The Chancellor will issue guidance on reporting of salary changes and amounts. It is expected that required reports will encompass high-ranking and highly compensated staff along with those staff receiving significant changes in compensation.

Staff Benefits Guidelines - Recommendations regarding the State contribution for employee staff benefits such as group insurance premiums, teacher retirement, and optional retirement are subject to legislative determination via the General Appropriations Act. Upon approval of this legislation, the Chancellor will issue instructions regarding the implementation of the benefits into the budget process.

Other Employee Benefits - Employer contributions to the self-insured Unemployment Compensation Fund are based on an actuarial study. Workers' Compensation Insurance rates are experience-rated for each institution. Appropriate instructions will be issued regarding the implementation of Unemployment Compensation Fund and Workers' Compensation Insurance Benefits.

Other Operating Expenses Guidelines - Increases in Maintenance, Operation, Equipment, and Travel are to be justified by expanded workloads, for developing new programs, or for correcting past deferrals or deficiencies.

Budget Reductions and Limitations - The General Appropriations Act may contain provisions requiring budget reductions and budget restrictions. Upon approval of this legislation, instructions will be issued regarding the implementation of any of these reductions and limitations into the budgeting process.

BACKGROUND INFORMATION

The U. T. System FY 2008 Budget Preparation Policies will be consistent with the regulations and directives included in the General Appropriations Act to be enacted by the 80th Texas Legislature. As written, this policy provides general direction to the U. T. System institutions and may be modified as necessary to conform to the legislation, as finally passed.



THE UNIVERSITY OF TEXAS SYSTEM
FY 2008 OPERATING BUDGET CALENDAR

May 10, 2007	U. T. System Board of Regents takes appropriate action on budget policies
June 1 - 8, 2007	Major goals, priorities, and resource allocation hearings with U. T. System Administration
June 25, 2007	Draft budget documents due to U. T. System
July 2, 2007	High-ranking and highly compensated salary reports due to U. T. System
July 2 - 6, 2007	Technical budget review with U. T. System
July 12, 2007	U. T. System Board of Regents to review Presidents and Executive Officers compensation
July 23, 2007	Final budget documents due to U. T. System
August 9, 2007	Operating Budget Summaries mailed to the U. T. System Board of Regents
August 15, 2007	Salary change report due to U. T. System Administration
August 23, 2007	U. T. System Board of Regents approves Operating Budget and Presidents and Executive Officers compensation

3. **U. T. System: Key Financial Indicators Report and Monthly Financial Report**

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report, as set forth on Pages 60 - 67 that follow, and the March Monthly Financial Report (MFR), as set forth on Pages 84 - 108 of the Supplemental Materials (Volume 2) of the Agenda Book. The reports represent the consolidated and individual operating results of the U. T. System institutions.

REPORT

The Key Financial Indicators Report compares the System-wide quarterly results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from 2003 through February 2007. Ratios requiring balance sheet data are provided for Fiscal Year 2002 through Fiscal Year 2006.

The MFR is provided as support for the Key Financial Indicators. The MFR includes the detailed numbers behind the System-wide graphs as well as detail for each individual institution as of March 2007.

THE UNIVERSITY OF TEXAS SYSTEM



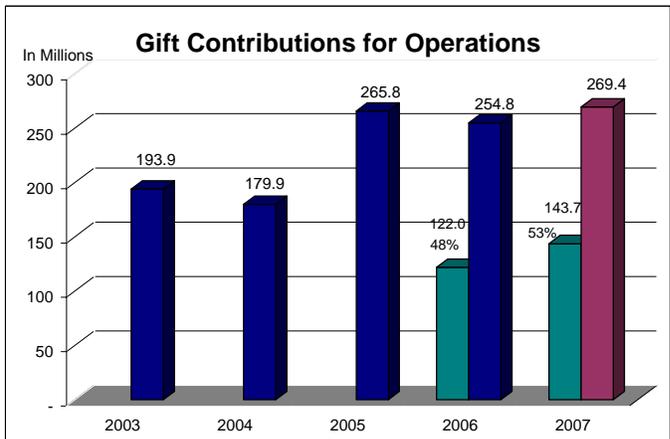
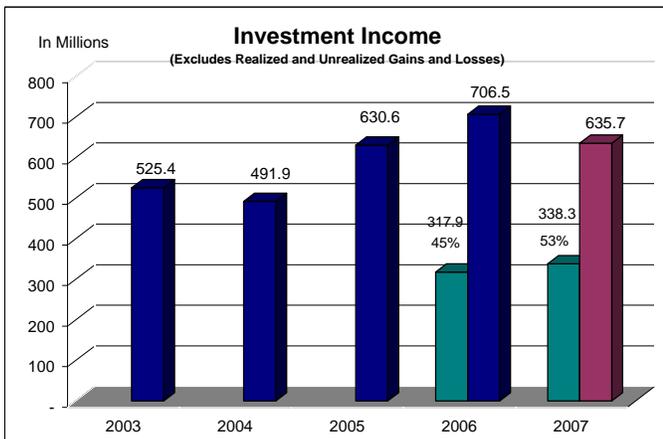
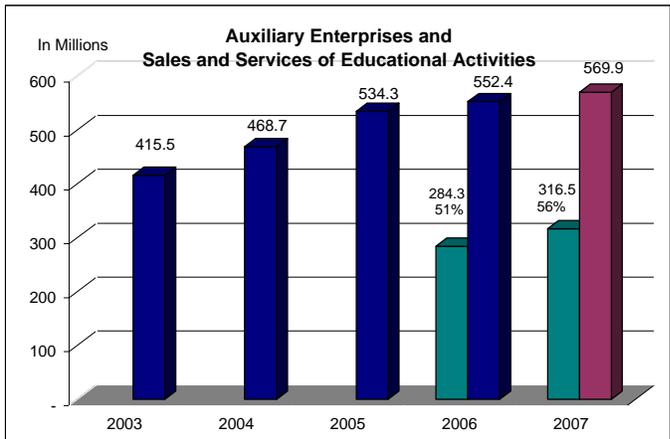
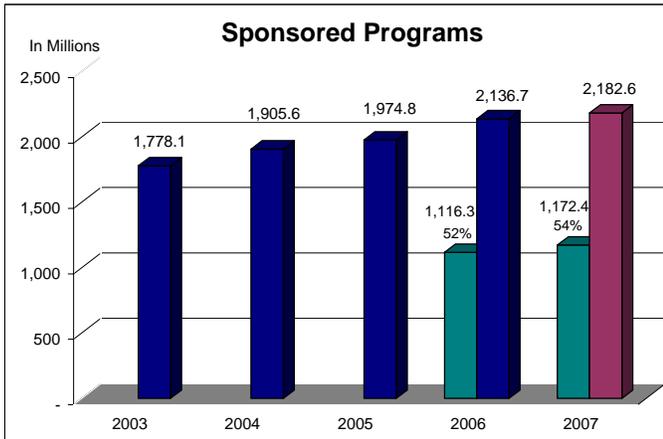
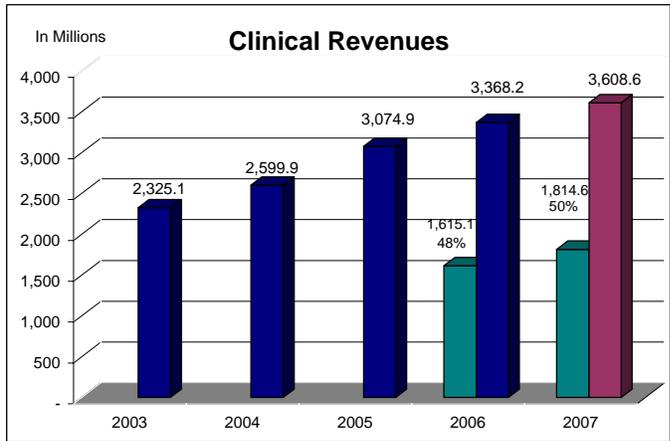
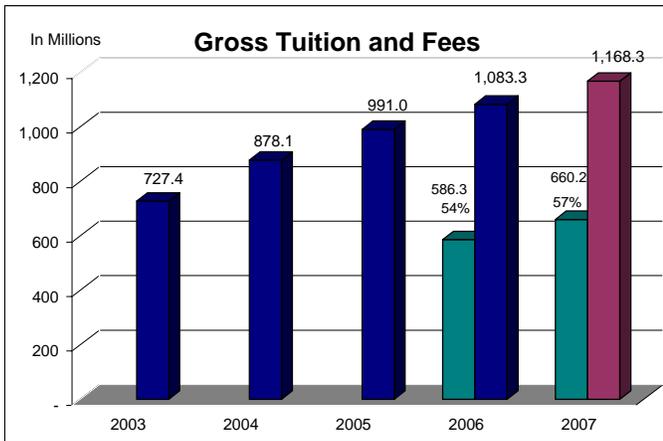
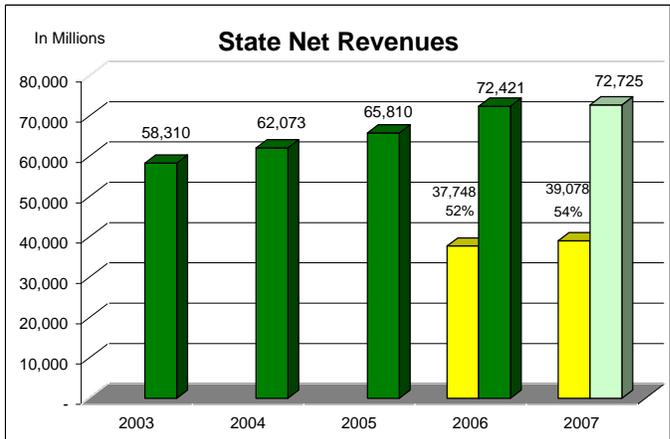
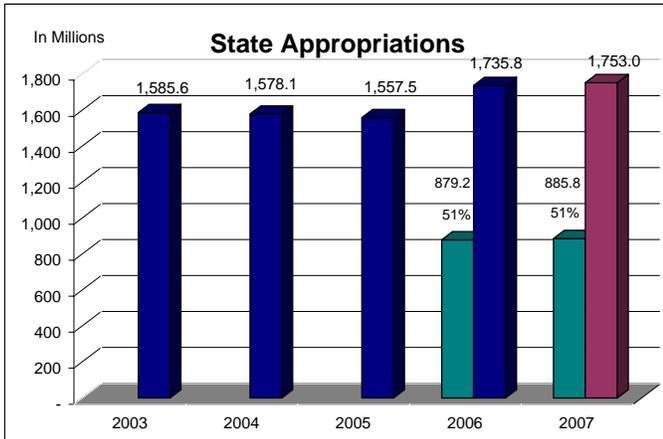
QUARTERLY KEY FINANCIAL INDICATORS REPORT

2ND QUARTER FY 2007

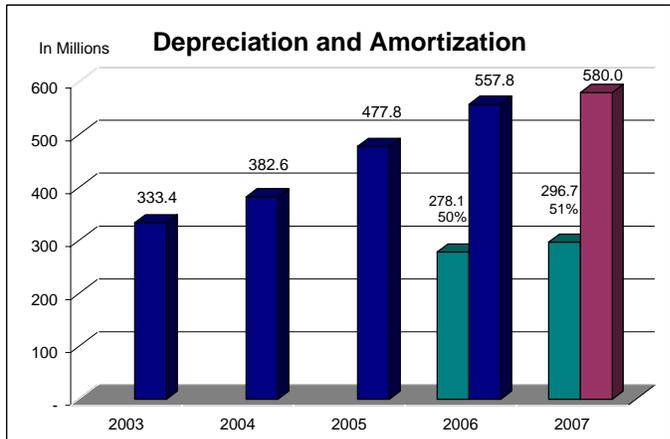
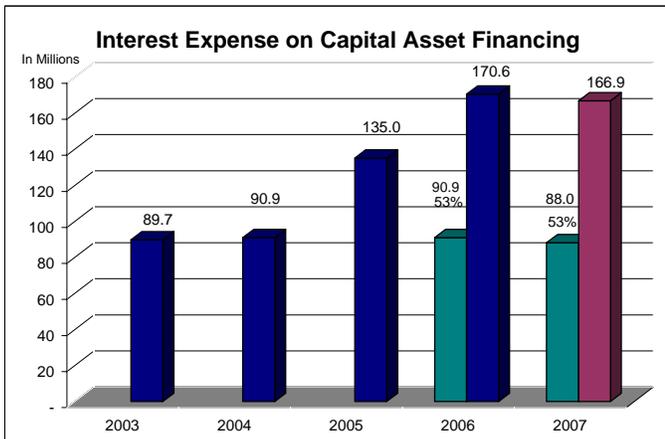
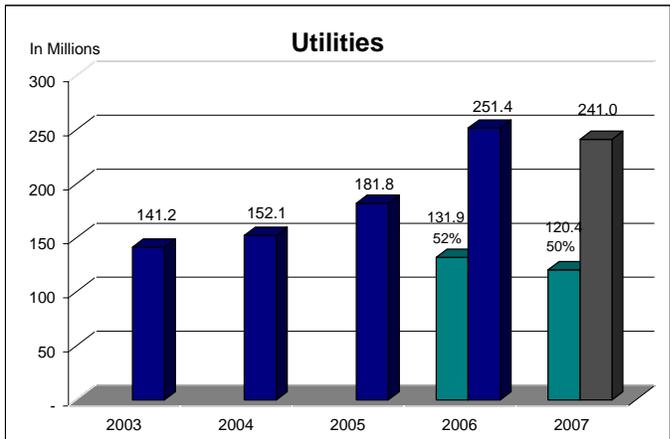
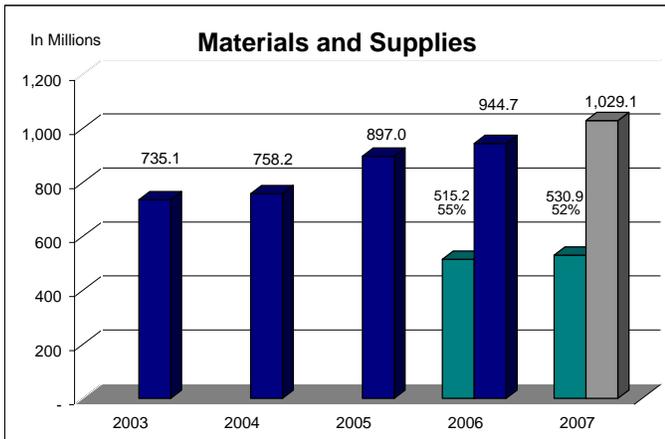
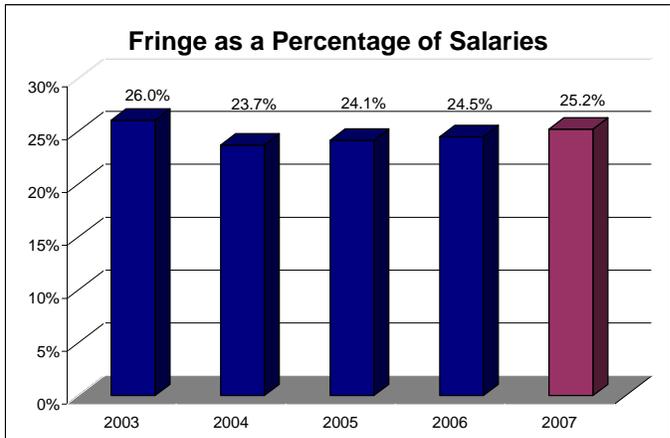
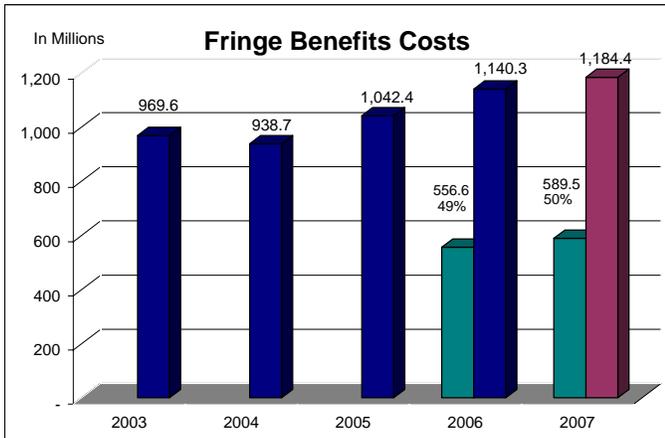
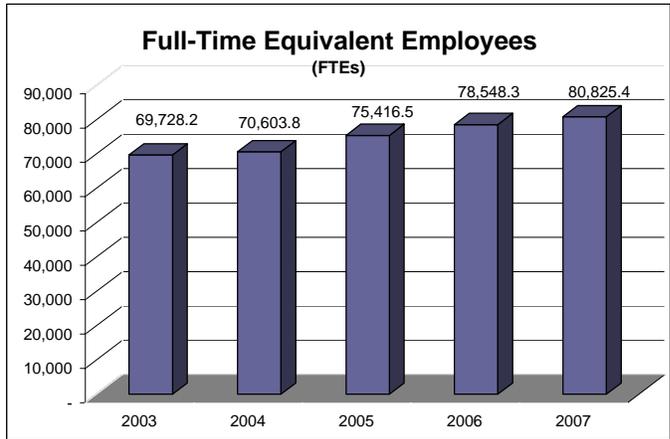
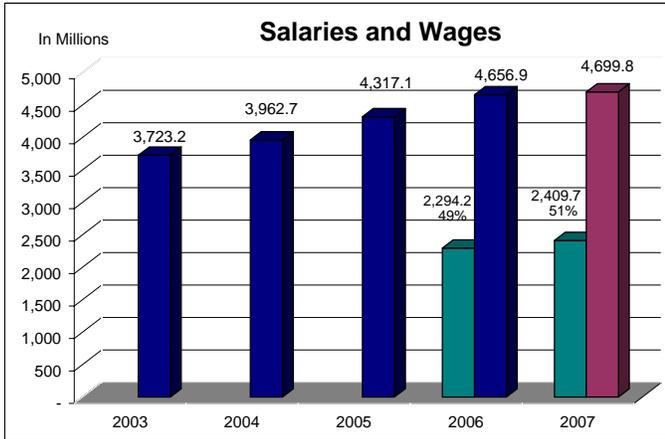
KEY

	Actual 2002 through 2006 amounts (SOURCE: Annual Financial Reports Fiscal Years 2002, 2003, 2004, 2005 and 2006)
	2007 Budget amounts (SOURCE: Operating Budget Summary 2007)
	Projected 2007 amounts (trend based on the average change of the previous four years of data)
	Monthly Financial Report Year to Date amounts for February 2006 and February 2007
	Annual State Net Revenue Collections for 2002, 2003, 2004, 2005 and 2006 (SOURCE: Texas Revenue History by Source 1978-2006, State Comptroller's Office)
	Year to Date State Net Revenue Collections for February 2006 and February 2007 (SOURCE: State Comptroller's Office)
	Estimated State Revenue Collections for 2007 (SOURCE: Revenue Estimate for the 79th Legislature 3rd Called Session, April 2006, State Comptroller's Office)
	2002, 2003, 2004, 2005 & 2006 Annual Average of FTEs, and Average of 1st & 2nd Quarter 2007 FTEs (SOURCE: State Auditor's Office Quarterly FTE Report)
	Year to Date margin for March 2007 (SOURCE: Monthly Financial Report for March 2007)
	Projected 2007 (SOURCE: Monthly Financial Report Year- End Projections collected March 2007)
	Year to Date margin for March 2006 (SOURCE: Monthly Financial Report for March 2007)
	Target Normalized Rates
	Aaa/Aa1 Median (SOURCE: Moody's)
	A2 Median (SOURCE: Moody's)
	Fair Facilities Condition Index (5% - 10%)
	Good Facilities Condition Index (Exceeds 10%)

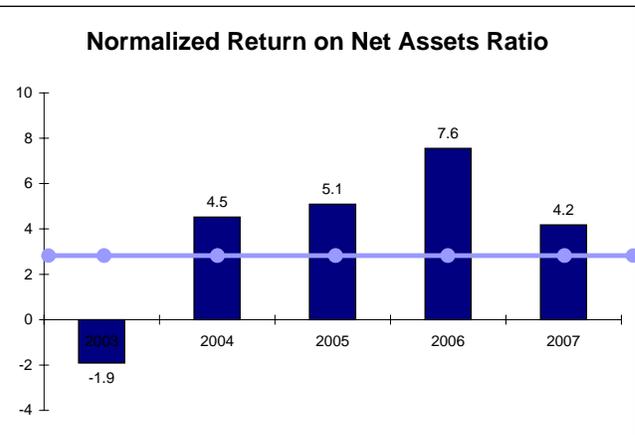
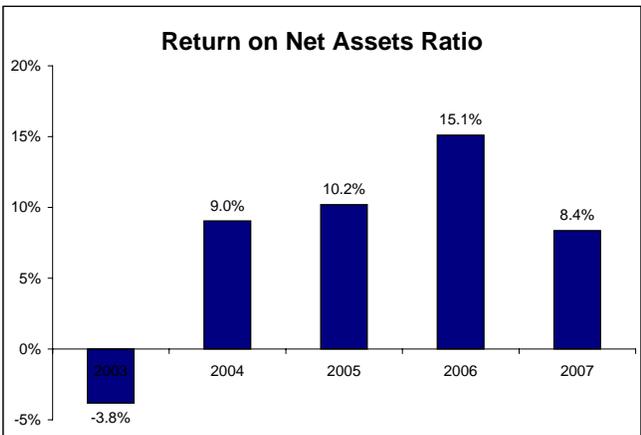
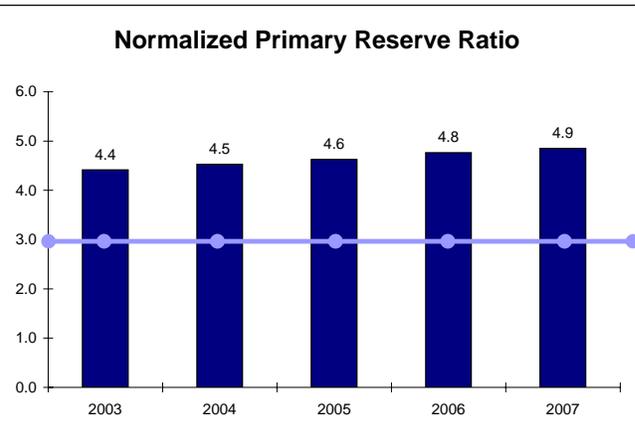
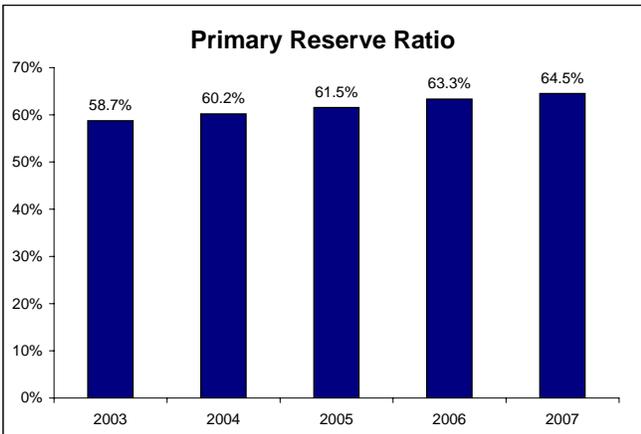
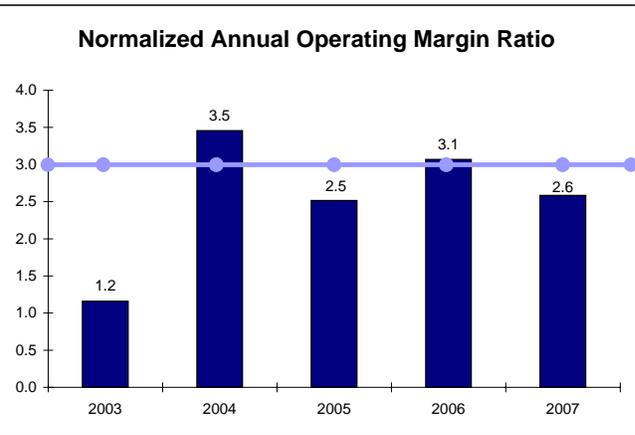
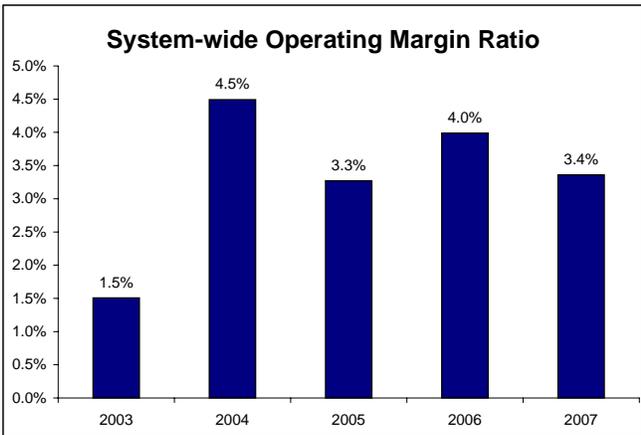
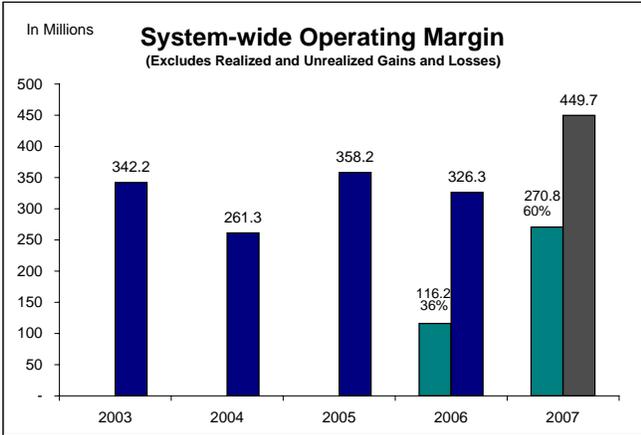
KEY INDICATORS OF REVENUES
ACTUAL 2003 THROUGH 2006
PROJECTED 2007
YEAR TO DATE 2006 AND 2007 FROM FEBRUARY MONTHLY FINANCIAL REPORT



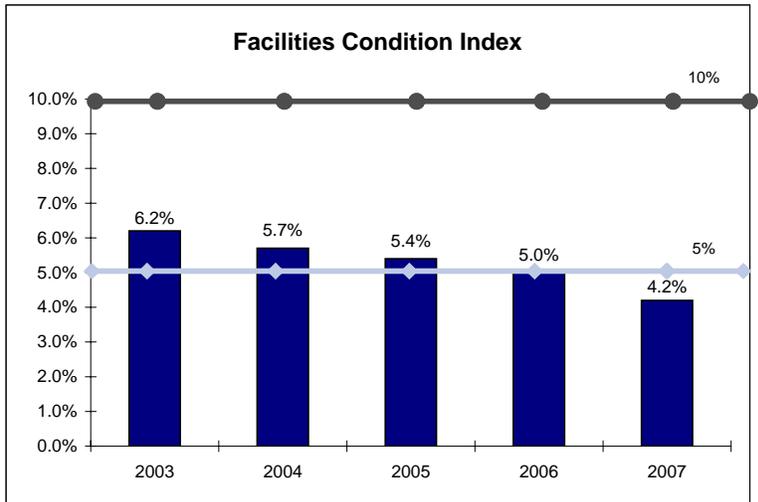
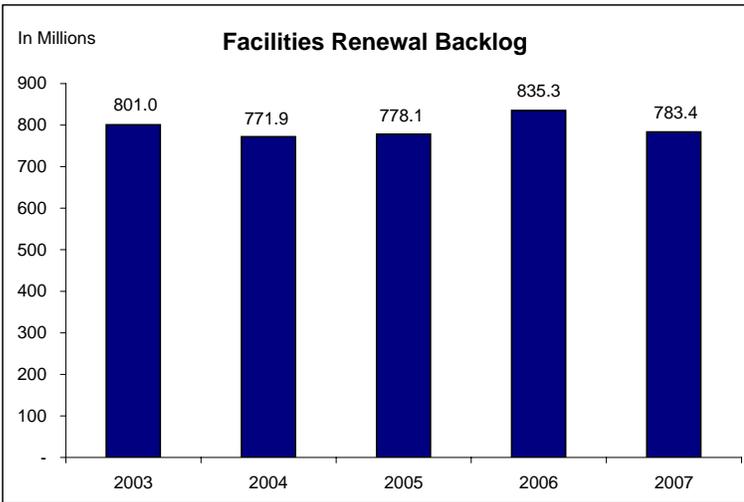
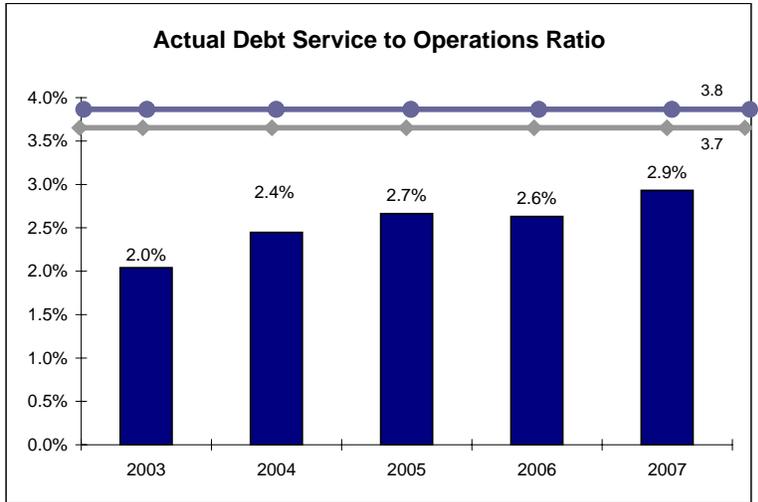
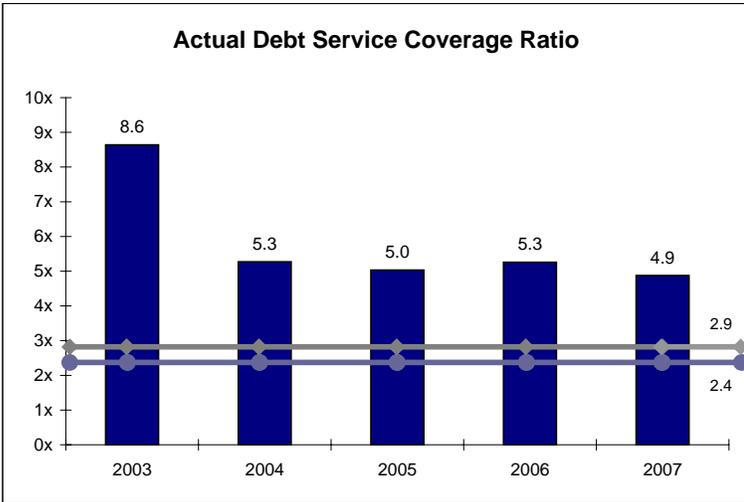
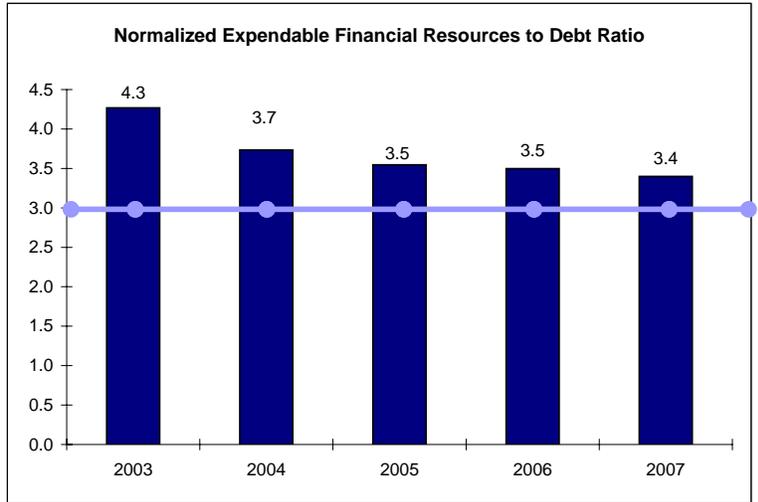
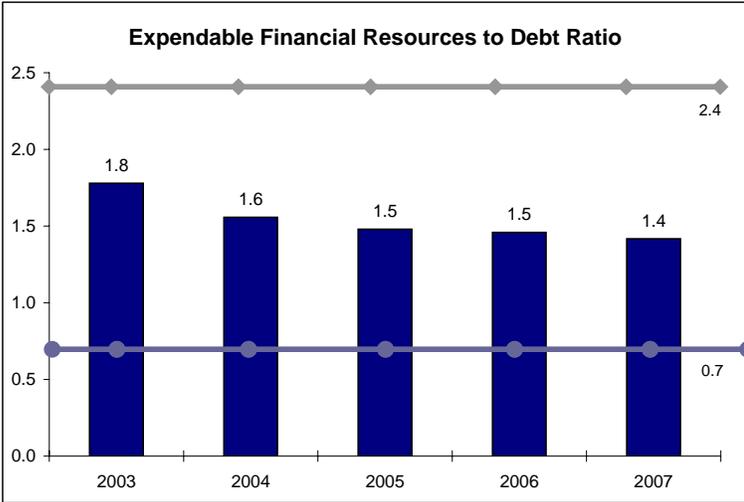
**KEY INDICATORS OF EXPENSES
ACTUAL 2003 THROUGH 2006
PROJECTED 2007
YEAR TO DATE 2006 AND 2007 FROM FEBRUARY MONTHLY FINANCIAL REPORT**



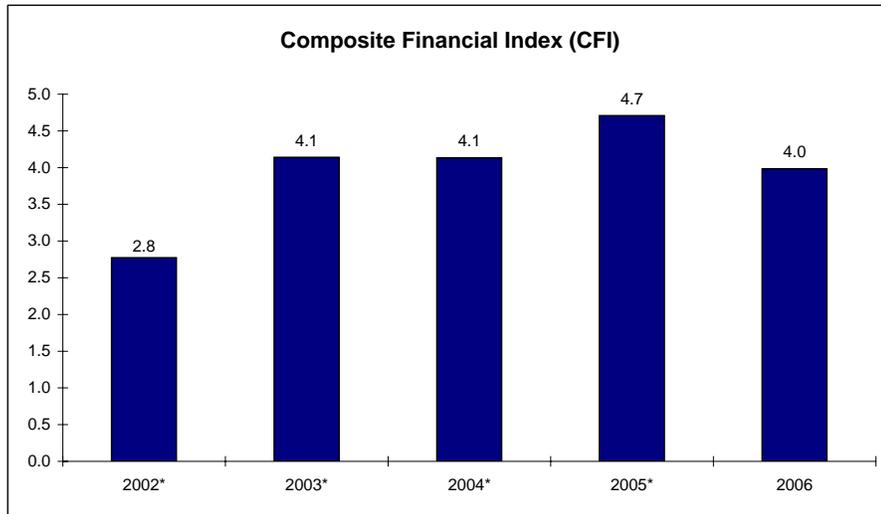
KEY INDICATORS OF RESERVES
ACTUAL 2003 THROUGH 2006
PROJECTED 2007
YEAR TO DATE 2006 AND 2007 FROM FEBRUARY MONTHLY FINANCIAL REPORT



KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY 2002 THROUGH 2006

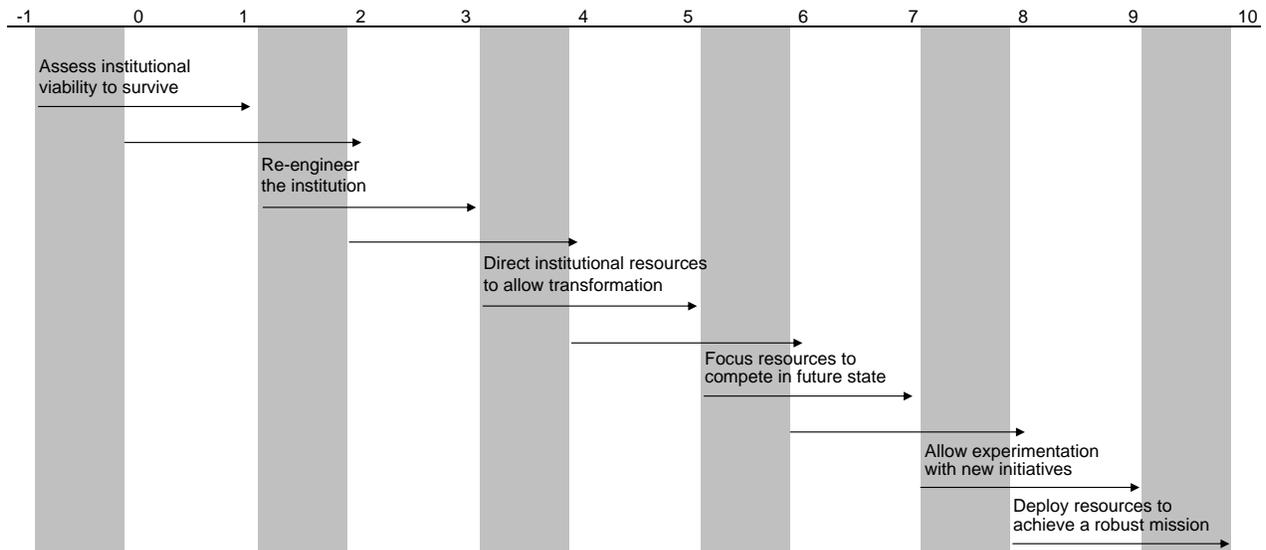


KEY INDICATORS OF FINANCIAL HEALTH 2002 THROUGH 2006



*Restated to reflect appreciation on endowments as restricted expendable net assets as a result of the 2006 external audit. Permanent University Fund Appreciation Restatements are not included above.

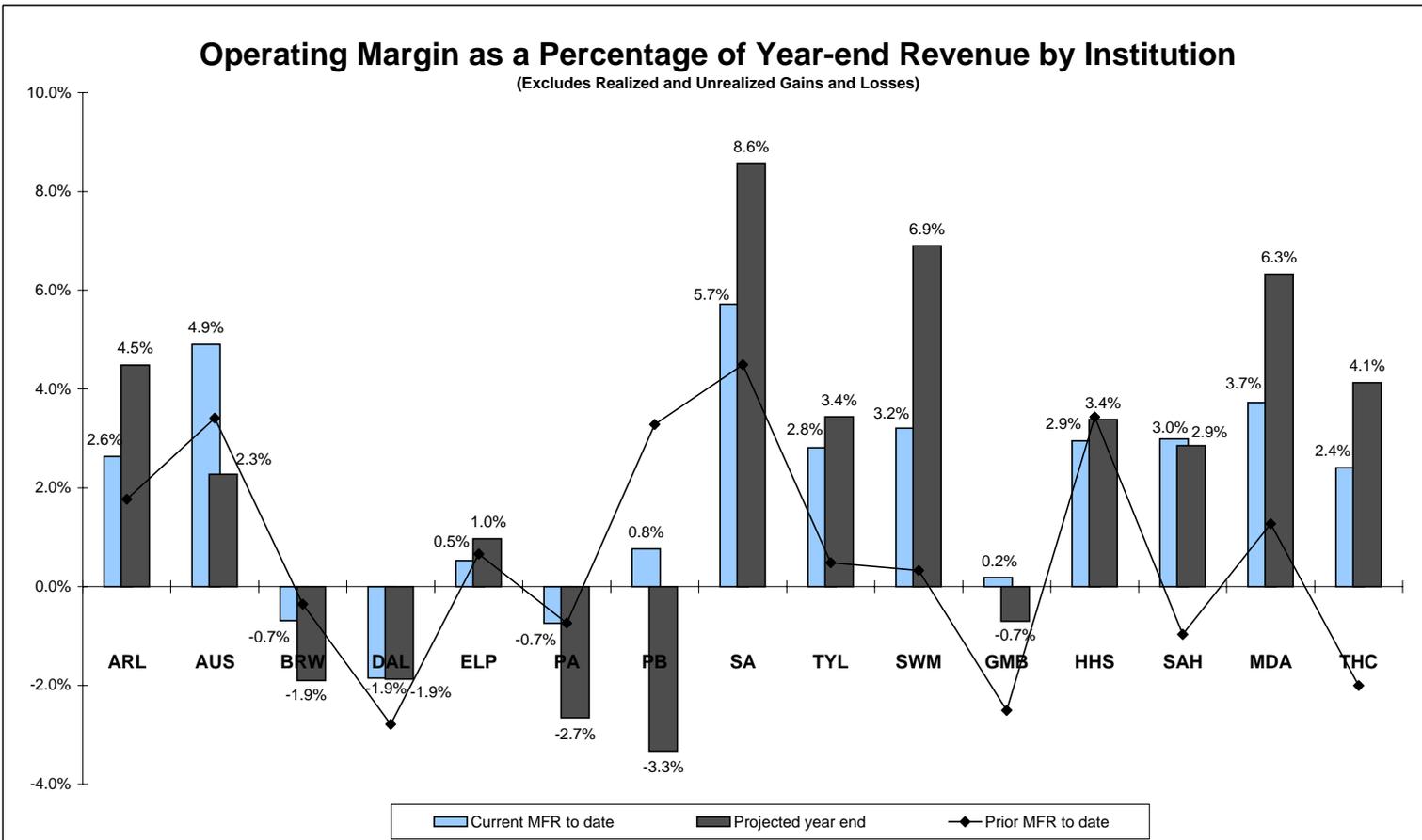
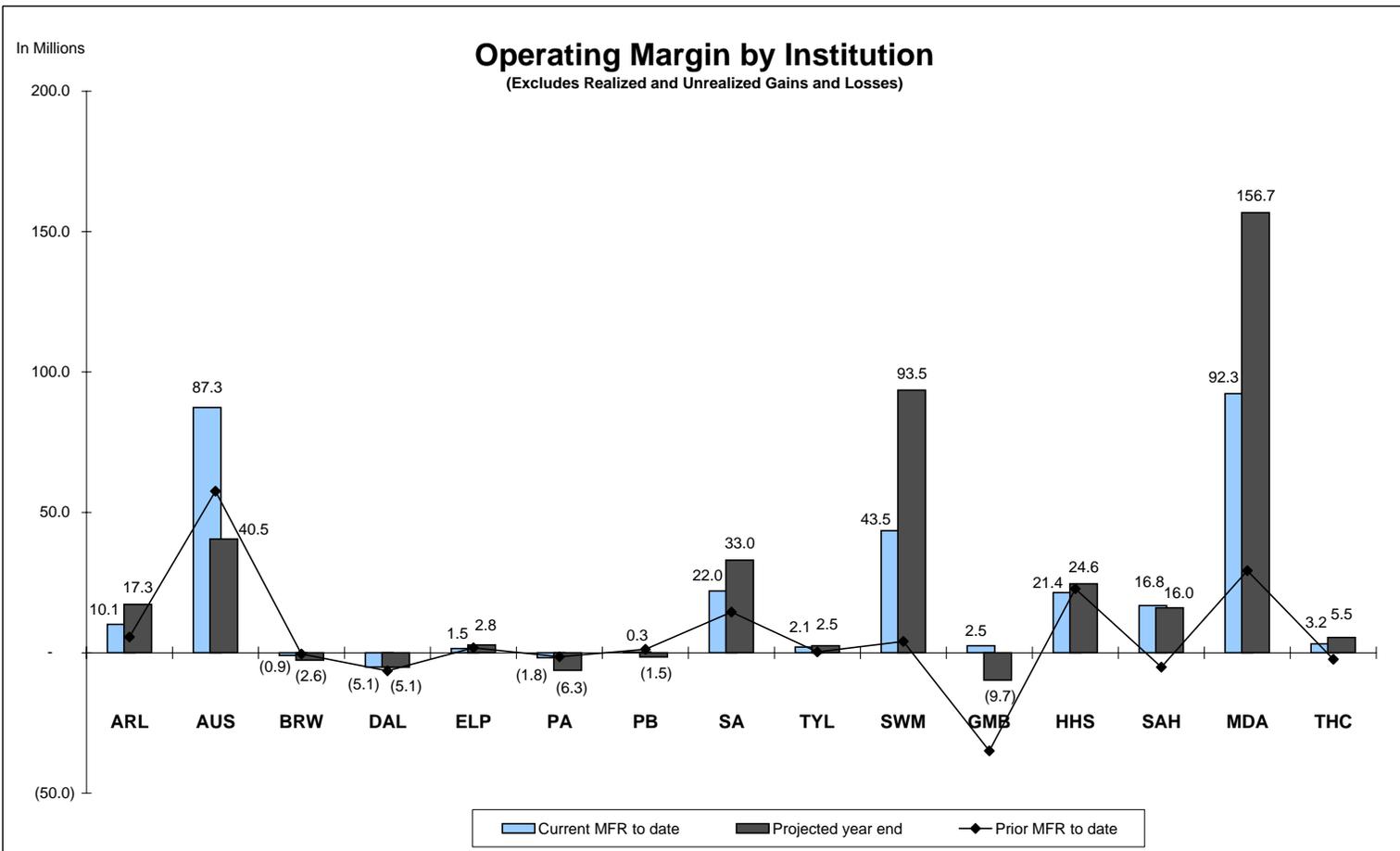
Scale for Charting CFI Performance



KEY INDICATORS OF RESERVES

YEAR TO DATE 2006 AND 2007 FROM MARCH MONTHLY FINANCIAL REPORT

PROJECTED 2007 YEAR-END MARGIN



4. U. T. System: Shared Services Initiative Report

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will report on the Shared Services Initiative using a PowerPoint presentation on Pages 109 - 119 of the Supplemental Materials (Volume 2) of the Agenda Book.

REPORT

The Shared Services Initiative Report consists of five different ongoing projects.

1. Regional Data Centers. On October 4, 2006, the U. T. System Board of Regents approved the funding for the Shared Services Initiative, which included the creation of three Regional Data Centers to be located in Arlington, Austin, and Houston. Since then, the oversight structure has been defined and a Regional Data Centers Executive Board has been selected and holds regular quarterly meetings. The Bylaws for the Executive Board and the individual Regional Data Center Operations Oversight Committees have been approved by the Office of General Counsel and the Executive Board. U. T. Arlington has completed an Engineering Report on funded updates to bring the Arlington Regional Data Center to Tier III status. U. T. M. D. Anderson Cancer Center has completed an Engineering Report for the Houston Regional Data Center as well. Interagency contracts between the U. T. System institutions and U. T. System have been created and are being reviewed as are service level user agreements between customer institutions and the Regional Data Centers.

U. T. Southwestern Medical Center - Dallas was the Arlington Regional Data Center's first customer. Interest in using a Regional Data Center has been expressed by U. T. Austin, U. T. Pan American, U. T. San Antonio, U. T. Tyler, U. T. System, U. T. Medical Branch - Galveston, U. T. Health Science Center - Houston, and U. T. Health Center - Tyler.

2. North Texas Student Information System Pilot Program. In conjunction with the Regional Data Centers, another shared services project that has recently been launched is the North Texas Student Information System. This project will leverage the U. T. Arlington implementation of PeopleSoft student service modules for U. T. Dallas and U. T. Tyler. The oversight structure for the Student Information System implementation has been set. It consists of an Executive Board, chaired by the Executive Vice Chancellor for Business Affairs, and a Steering Committee, chaired by the Director of Enterprise Information System Services. Both groups hold biweekly meetings. The project is scheduled to be operational in

September 2009. The software has been licensed and the hardware has been purchased. The selection of an implementation services provider is underway.

3. Time and Effort Reporting. Another project that will locate in a Regional Data Center is Time and Effort Reporting for accurate and consistent documentation of faculty and staff contracted research efforts. Mr. Richard St. Onge, Assistant Vice Chancellor for Health Affairs, has spearheaded the negotiations with the vendor to determine the scope of its participation in the implementation with the U. T. System institutions and other associated costs, such as hardware.
4. Supply Chain Initiative. Under the leadership of Mr. Richard St. Onge, this project will create a shared services purchasing and strategic sourcing project for the six health institutions. A pilot project was successfully completed, an Executive Committee (chaired by Dr. Kelley) and a Steering Committee were created, and a detailed financial pro-forma has been approved. The shared purchasing operation will be run out of U. T. M. D. Anderson Cancer Center, will be funded with a rebate from the savings generated, and is projected to create savings of \$5 million annually within three years.
5. Regional Technology Transfer Initiative. Institutional executives accepted the charge to think innovatively in their administration of the Board of Regents' portfolio of intellectual property through the creation of a collaborative partnership that will enhance and accelerate U. T. System institutions' efforts in translating research into products and services that will benefit Texas and the world. Through the Regional Technology Transfer Initiative, U. T. Health Science Center - San Antonio, U. T. San Antonio, U. T. Pan American, and U. T. Brownsville have created an alliance that combines two technology transfer offices and provides resources that can be shared across four institutions. In this manner, smaller institutions will gain access to resources, infrastructure, and highly skilled technology transfer personnel of the larger institutions.

Phase 1 of the initiative is complete. U. T. Health Science Center - San Antonio and U. T. San Antonio have jointly hired an Assistant Vice President for Technology Transfer and Director, Office of Technology Ventures, Dr. Kenneth W. Porter, who was previously with the University of Colorado.

5. **U. T. System Board of Regents: Investment Reports for the fiscal quarter ended February 28, 2007, and The University of Texas Investment Management Company (UTIMCO) Performance Summary Report**

REPORT

The Investment Reports for the fiscal quarter ended February 28, 2007, are set forth on Pages 71 - 75.

Item I on Page 71 reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the quarter was 3.30% versus its composite benchmark return of 2.13%. The PUF's net asset value increased by \$298.4 million since the beginning of the quarter to \$11,058.6 million. This change in net asset value includes increases due to contributions from PUF land receipts and net investment return, and the second payment of the annual distribution to the Available University Fund for \$100.1 million.

Item II on Page 72 reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the quarter was 3.50% versus its composite benchmark return of 2.13%. The GEF's net asset value increased during the second quarter of Fiscal Year 2007 to \$5,996.8 million.

Item III on Page 73 reports activity for the Intermediate Term Fund (ITF). The ITF's net investment return for the quarter was 2.07% versus its composite benchmark return of 1.74%. The ITF's net asset value increased \$284.5 million during the second quarter of Fiscal Year 2007 to \$3,519.2 million, due to net contributions (\$241.5 million), distributions (-\$25.2 million), and net investment returns (\$68.2 million).

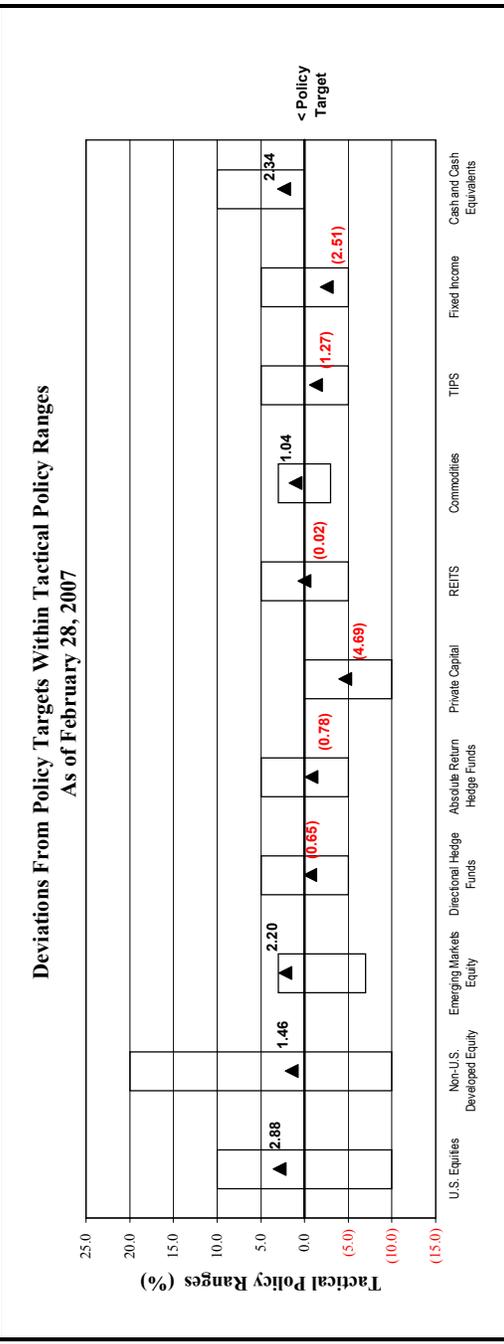
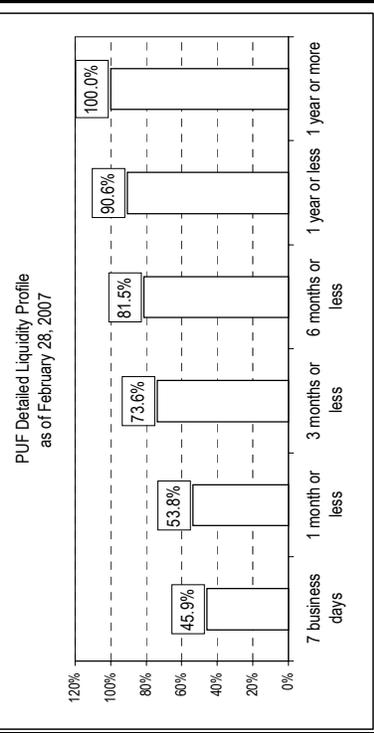
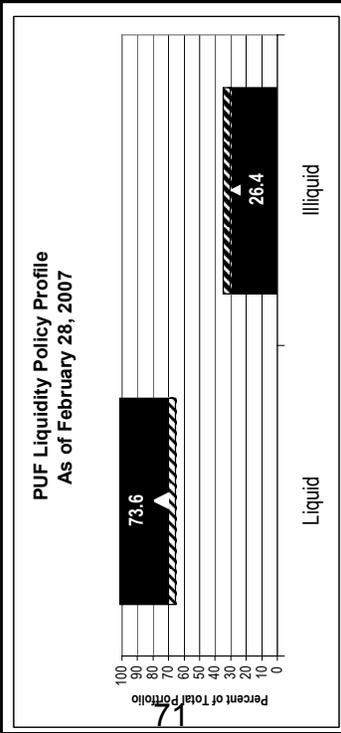
Item IV on Page 74 presents book and market value of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus money market fund, increased by \$68.9 million to \$1,360.8 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$32.4 million versus \$39.5 million at the beginning of the period; equities: \$72.1 million versus \$79.7 million at the beginning of the period; and other investments: \$1.6 million versus \$.1 million at the beginning of the period.

The February 28, 2007, UTIMCO Performance Summary Report is attached on Page 75.

I. PERMANENT UNIVERSITY FUND
Investment Reports for Periods Ended February 28, 2007
 Prepared in accordance with Texas Education Code Sec. 51.0032

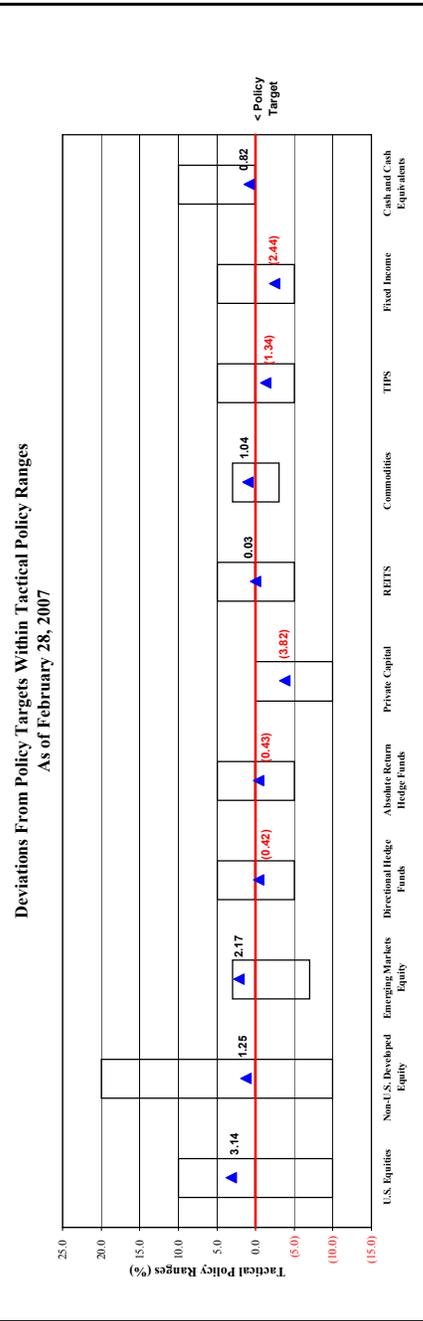
Summary of Capital Flows			
	Fiscal Year Ended August 31, 2006	Quarter Ended February 28, 2007	Fiscal Year Ended August 31, 2007
Beginning Net Assets (\$ millions)	\$ 9,426.7	\$ 10,760.2	\$ 10,313.4
PUF Lands Receipts	214.9	46.8	136.0
Investment Return	1,111.7	369.8	843.3
Expenses	(82.6)	(18.1)	(33.8)
Distributions to AUF	(357.3)	(100.1)	(200.3)
Ending Net Assets	\$ 10,313.4	\$ 11,058.6	\$ 11,058.6

	Returns				Fiscal Year to Date			
	February 28, 2007	Portfolio Exposure	Policy Target	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	2.34%	2.34%	0.00%	2.64%	2.52%	-0.19%	0.00%	-0.19%
U.S. Equities	22.88%	22.88%	20.00%	7.80%	9.77%	-0.03%	-0.40%	-0.43%
Non-U.S. Developed Equity	11.46%	11.46%	10.00%	8.73%	12.17%	0.01%	-0.33%	-0.32%
Emerging Markets Equity	9.20%	9.20%	7.00%	16.27%	16.61%	0.15%	-0.03%	0.12%
Directional Hedge Funds	9.35%	9.35%	10.00%	8.11%	5.62%	0.00%	0.25%	0.25%
Absolute Return Hedge Funds	14.22%	14.22%	15.00%	8.20%	5.62%	-0.01%	0.39%	0.38%
REITS	4.98%	4.98%	5.00%	20.21%	18.48%	-0.03%	0.07%	0.04%
Commodities	4.04%	4.04%	3.00%	-12.82%	-8.22%	-0.36%	-0.15%	-0.51%
TIPS	3.73%	3.73%	5.00%	1.32%	1.11%	0.06%	0.01%	0.07%
Fixed Income	7.49%	7.49%	10.00%	3.66%	3.66%	0.09%	0.00%	0.09%
Total Marketable Securities	89.69%	89.69%	85.00%	7.44%	8.02%	-0.31%	-0.19%	-0.50%
Private Capital	10.31%	10.31%	15.00%	11.73%	4.45%	-0.22%	1.11%	0.89%
Total	100.00%	100.00%	100.00%	7.87%	7.48%	-0.53%	0.92%	0.39%



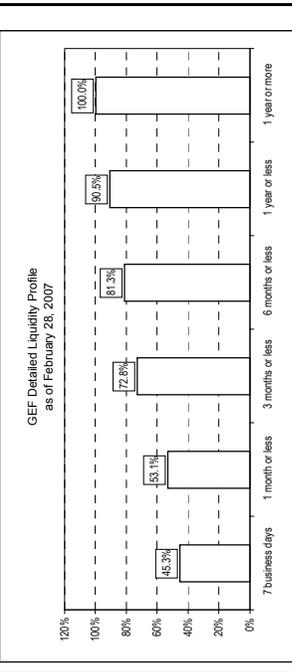
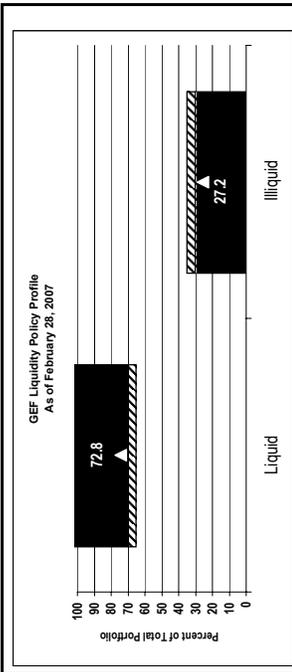
II. GENERAL ENDOWMENT FUND
Investment Reports for Periods Ended February 28, 2007
 Prepared in accordance with Texas Education Code Sec. 51.0032

	February 28, 2007				Returns			Value Added		
	Portfolio Exposure	Policy Target	Portfolio	Policy Benchmark	Portfolio	Policy Benchmark	Asset Allocation	From Security Selection	From Asset Allocation	Total
Cash and Cash Equivalents	0.82%	0.00%	2.64%	2.52%	-0.14%			0.00%	-0.14%	-0.14%
U.S. Equities	23.14%	20.00%	7.84%	9.77%	-0.01%			-0.39%	-0.01%	-0.40%
Non-U.S. Developed Equity	11.25%	10.00%	8.68%	12.17%	0.01%			-0.34%	0.01%	-0.33%
Emerging Markets Equity	9.17%	7.00%	16.34%	16.61%	0.14%			-0.02%	0.14%	0.12%
Directional Hedge Funds	9.58%	10.00%	8.12%	5.62%	0.00%			0.25%	0.00%	0.25%
Absolute Return Hedge Funds	14.57%	15.00%	8.21%	5.62%	0.00%			0.39%	0.00%	0.39%
REITs	5.03%	5.00%	20.29%	18.48%	-0.05%			0.08%	-0.05%	0.03%
Commodities	4.04%	3.00%	-12.88%	-8.22%	-0.34%			-0.16%	-0.34%	-0.50%
TIPS	3.66%	5.00%	1.34%	1.11%	0.07%			0.01%	0.07%	0.08%
Fixed Income	7.56%	10.00%	3.69%	3.66%	0.08%			0.00%	0.08%	0.08%
Total Marketable Securities	88.82%	85.00%	7.52%	8.02%	-0.24%			-0.18%	-0.24%	-0.42%
Private Capital	11.18%	15.00%	13.93%	4.45%	-0.30%			1.44%	-0.30%	1.14%
Total	100.00%	100.00%	8.20%	7.48%	-0.54%			1.26%	-0.54%	0.72%



Summary of Capital Flows

	Fiscal Year Ended August 31, 2006	Quarter Ended February 28, 2007	Fiscal Year Ended August 31, 2007
Beginning Net Assets (\$ millions)	\$ 4,926.8	\$ 5,819.9	\$ 5,427.8
Contributions	273.9	33.7	226.8
Withdrawals	(108.0)	(1.6)	(1.9)
Distributions	(220.0)	(59.4)	(118.5)
Investment Return	593.3	212.9	477.7
Expenses	(38.2)	(8.7)	(15.1)
Ending Net Assets	\$ 5,427.8	\$ 5,996.8	\$ 5,996.8



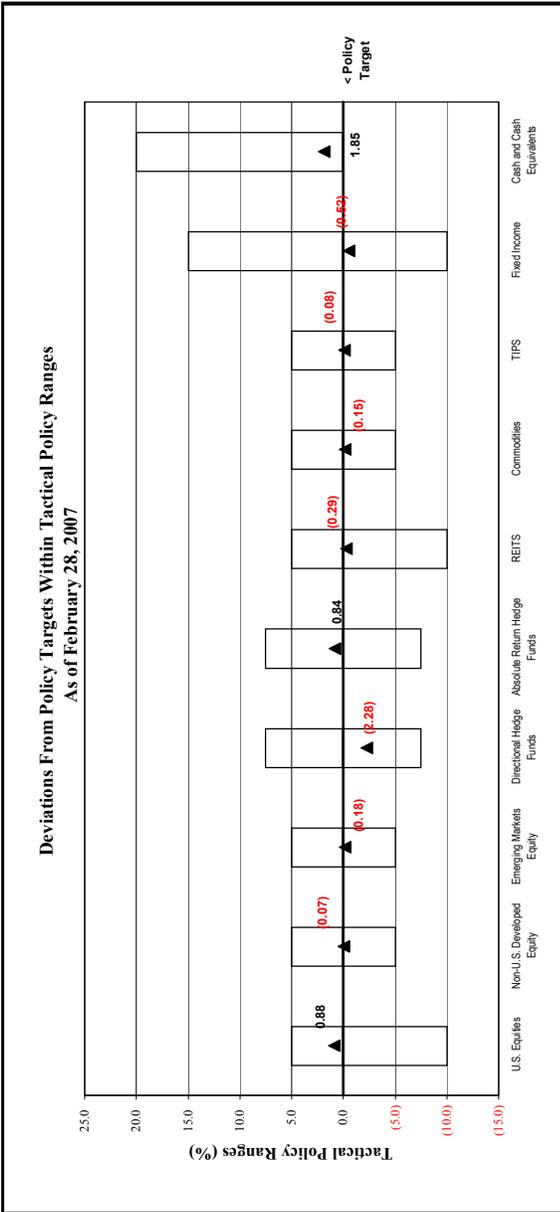
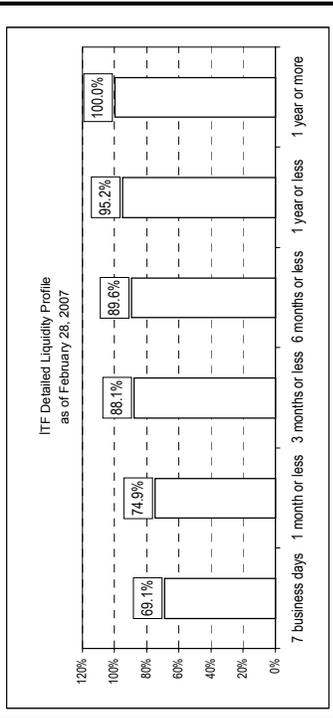
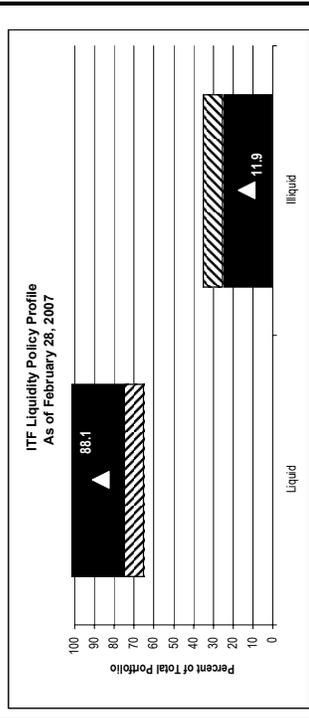
III. INTERMEDIATE TERM FUND

Investment Reports for Periods Ended February 28, 2007

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
(\$ millions)	Fiscal Year Ended	Quarter Ended	Fiscal Year Ended
	August 31, 2006	February 28, 2007	August 31, 2007
Beginning Net Assets	\$ -	\$ 3,234.7	\$ 3,048.8
Contributions	3,112.3	312.9	429.9
Withdrawals	(111.2)	(71.4)	(120.3)
Distributions	(52.7)	(25.2)	(48.9)
Investment Return	115.4	77.8	227.2
Expenses	(15.0)	(9.6)	(17.5)
Ending Net Assets	\$ 3,048.8	\$ 3,519.2	\$ 3,519.2

	Returns				Fiscal Year to Date		
	February 28, 2007	Policy Target	Portfolio	Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	1.85%	0.00%	2.64%	2.52%	-0.06%	0.00%	-0.06%
U.S. Equities	15.88%	15.00%	8.46%	9.77%	-0.01%	-0.20%	-0.21%
Non-U.S. Developed Equity	4.93%	5.00%	10.12%	12.17%	0.01%	-0.10%	-0.09%
Emerging Markets Equity	4.82%	5.00%	15.55%	16.61%	-0.02%	-0.05%	-0.07%
Directional Hedge Funds	10.22%	12.50%	8.13%	5.62%	-0.03%	0.31%	0.28%
Absolute Return Hedge Funds	13.34%	12.50%	8.00%	5.62%	0.01%	0.30%	0.31%
REITs	9.71%	10.00%	18.78%	18.47%	0.01%	0.01%	0.02%
Commodities	4.85%	5.00%	-11.69%	-8.22%	-0.03%	-0.19%	-0.22%
TIPS	9.92%	10.00%	1.34%	1.11%	0.01%	0.02%	0.03%
Fixed Income	24.48%	25.00%	3.57%	3.66%	-0.01%	-0.02%	-0.03%
Total	100.00%	100.00%	6.70%	6.74%	-0.12%	0.08%	-0.04%



IV. SEPARATELY INVESTED ASSETS

Summary Investment Report at February 28, 2007

Report prepared in accordance with Texas Education Code Sec. 51.0032

ASSET TYPES	(\$ thousands)																	
	FUND TYPE																	
	CURRENT PURPOSE DESIGNATED		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		TOTAL EXCLUDING OPERATING FUNDS		OPERATING FUNDS (SHORT TERM FUND)		TOTAL			
BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	
Cash & Equivalents:																		
Beginning value 11/30/06	1,683	1,683	21,743	21,743	31,674	31,674	7,454	7,454	2,645	2,645	65,199	65,199	1,226,750	1,226,750	1,291,949	1,291,949		
Increase/(Decrease)	44	(19,423)	(19,423)	(19,423)	48,259	48,259	(143)	(143)	232	232	28,969	28,969	39,926	39,926	68,895	68,895		
Ending value 02/28/07	1,727	1,727	2,320	2,320	79,933	79,933	7,311	7,311	2,877	2,877	94,168	94,168	1,266,676	1,266,676	1,360,844	1,360,844		
Debt Securities:																		
Beginning value 11/30/06	-	-	263	220	25,281	25,132	13,943	14,143	-	-	39,487	39,495	-	-	39,487	39,495		
Increase/(Decrease)	-	-	-	2	(7,464)	(6,892)	(53)	(179)	-	-	(7,517)	(7,069)	-	-	(7,517)	(7,069)		
Ending value 02/28/07	-	-	263	222	17,817	18,240	13,890	13,964	-	-	31,970	32,426	-	-	31,970	32,426		
Equity Securities:																		
Beginning value 11/30/06	27	8,492	1,995	1,800	36,567	45,060	18,057	24,392	-	-	56,646	79,744	-	-	56,646	79,744		
Increase/(Decrease)	2	(349)	(1,486)	(1,213)	(3,712)	(6,492)	1,455	405	-	-	(3,741)	(7,649)	-	-	(3,741)	(7,649)		
Ending value 02/28/07	29	8,143	509	587	32,855	38,568	19,512	24,797	-	-	52,905	72,095	-	-	52,905	72,095		
Other:																		
Beginning value 11/30/06	-	-	(2)	(2)	9	9	267	105	-	-	274	112	-	-	274	112		
Increase/(Decrease)	-	-	529	529	(5)	(5)	5	11	918	918	1,447	1,453	-	-	1,447	1,453		
Ending value 02/28/07	-	-	527	527	4	4	272	116	918	918	1,721	1,565	-	-	1,721	1,565		
Total Assets:																		
Beginning value 11/30/06	1,710	10,175	23,999	23,761	93,531	101,875	39,721	46,094	2,645	2,645	161,606	184,550	1,226,750	1,226,750	1,388,356	1,411,300		
Increase/(Decrease)	46	(305)	(20,380)	(20,105)	37,078	34,870	1,264	94	1,150	1,150	19,158	15,704	39,926	39,926	59,084	55,630		
Ending value 02/28/07	1,756	9,870	3,619	3,656	130,609	136,745	40,985	46,188	3,795	3,795	180,764	200,254	1,266,676	1,266,676	1,447,440	1,466,930		

Details of individual assets by account furnished upon request.

UTIMCO Performance Summary

February 28, 2007

	Net Asset Value 2/28/2007 (in Millions)	Periods Ended February 28, 2007 (Returns for Periods Longer Than One Year are Annualized)										
		One Month	Calendar Year To Date	Three Months	Fiscal Year To Date	Six Months	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
ENDOWMENT FUNDS												
Permanent University Fund	\$ 11,058.6	0.97	2.20	3.30	7.87	7.87	12.45	12.58	12.27	16.85	11.54	9.49
General Endowment Fund		1.11	2.37	3.50	8.20	8.20	12.81	12.65	12.34	17.09	11.73	N/A
Permanent Health Fund	1,047.2	1.12	2.37	3.47	8.20	8.20	12.79	12.58	12.28	16.98	11.62	N/A
Long Term Fund	4,949.6	1.11	2.37	3.47	8.20	8.20	12.78	12.59	12.28	17.00	11.65	10.09
Separately Invested Funds	200.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	17,255.7											
OPERATING FUNDS												
Short Term Fund	1,266.7	0.40	0.85	1.30	2.64	2.64	5.24	4.39	3.42	2.83	2.61	3.98
Intermediate Term Fund	3,519.2	0.58	2.00	2.07	6.70	6.70	10.47	N/A	N/A	N/A	N/A	N/A
Total Operating Funds	4,785.9											
Total Investments	\$ 22,041.6											
BENCHMARKS (1)												
Permanent University Fund: Policy Portfolio		0.14	1.32	2.13	7.48	7.48	12.04	13.31	12.41	14.61	9.85	9.98
General Endowment Fund: Policy Portfolio		0.14	1.32	2.13	7.48	7.48	12.04	13.31	12.41	14.61	9.85	9.68
Short Term Fund: 90 Day Treasury Bills Average Yield		0.38	0.79	1.24	2.52	2.52	5.01	4.20	3.29	2.74	2.53	3.80
Intermediate Term Fund: Policy Portfolio		0.39	1.79	1.74	6.74	6.74	10.09	N/A	N/A	N/A	N/A	N/A
VALUE ADDED (2)												
Permanent University Fund		0.84	0.88	1.18	0.39	0.39	0.41	(0.74)	(0.14)	2.24	1.68	(0.49)
General Endowment Fund		0.98	1.05	1.37	0.72	0.72	0.76	(0.66)	(0.07)	2.47	1.87	N/A
Permanent Health Fund		0.98	1.05	1.34	0.72	0.72	0.74	(0.73)	(0.13)	2.37	1.77	N/A
Long Term Fund		0.98	1.04	1.34	0.72	0.72	0.74	(0.73)	(0.13)	2.38	1.80	0.41
Short Term Fund		0.02	0.06	0.06	0.12	0.12	0.23	0.19	0.13	0.09	0.08	0.18
Intermediate Term Fund		0.19	0.21	0.34	(0.04)	(0.04)	0.38	N/A	N/A	N/A	N/A	N/A

(1) - Effective May 6, 2004, benchmark returns for the PUF policy portfolio have been restated for prior periods beginning June 1, 1993 through September 30, 2000 and for the GEF/LTF policy portfolio for prior periods beginning June 1, 1993 through September 30, 2001 to correct the following technical errors in benchmark construction and calculation: (a) to reflect actual asset class target allocations which were in place, or the practical implementation of changes to those policy allocations, and (b) to distinguish between PUF and GEF/LTF historical investment objectives and distribution policies by accurately representing actual asset class allocations during those periods.

Benchmark returns for the PUF and GEF/LTF policy portfolios were also restated for all prior periods beginning June 1, 1993 through December 31, 2003 to replace various benchmark returns reported previously for the Private Capital asset class. Specifically, the Wilshire 5000 + 4%, the benchmark used prior to January 1, 2004, was replaced with the Venture Economics Periodic IRR Index, a more appropriate benchmark measure for the actual Private Capital portfolio.

Effective August 10, 2006, benchmark returns for the PUF and GEF policy portfolios were also restated for periods beginning January 1, 2006 through April 30, 2006, and for the ITF policy portfolio for periods beginning February 1, 2006 to April 30, 2006, to replace benchmark returns for the Hedge Fund asset class due to integrity concerns regarding existing benchmarks. Specifically, composites of Standard & Poor's investable hedge fund indices were replaced with the MSCI Investable Hedge Fund Index.

Complete details of the [restatements](#) and previous policy portfolio benchmark history are documented on the UTIMCO website at www.UTIMCO.org or are available upon request.

(2) - Value added is a measure of the difference between actual returns and benchmark or policy portfolio returns for each period shown. Value added is a result of the active management decisions made by UTIMCO staff and external managers.

6. **U. T. System Board of Regents: Approval of annual distributions from the Permanent University Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund**

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that

- a. the fiscal year distribution from the Permanent University Fund (PUF) to the Available University Fund (AUF) be increased by 12.0% from \$400,685,603 to \$448,942,761 effective September 1, 2007. The distribution is an amount equal to 4.75% of the trailing 12-quarter average of the net asset value of the PUF. The increase in the distribution is a direct result of the increase in the market value of the PUF, as reflected in the trailing 12-quarter average ending February 28, 2007.
- b. the distribution rate for the Permanent Health Fund (PHF) be increased from \$0.0496 per unit to \$0.0511 per unit for Fiscal Year 2008 (effective with November 30, 2007 distribution);
- c. the distribution rate for the U. T. System Long Term Fund (LTF) be increased from \$0.2844 per unit to \$0.2929 per unit for Fiscal Year 2008 (effective with November 30, 2007 distribution); and
- d. the distribution rate for the U. T. System Intermediate Term Fund (ITF) remain at 3.0% per annum (paid monthly) for Fiscal Year 2008.

BACKGROUND INFORMATION

The PUF Investment Policy states that the annual distribution from the PUF to the AUF shall be an amount equal to 4.75% of the trailing 12-quarter average of the net asset value of the PUF for the quarter ending February of each fiscal year. Per this formula, the amount to be distributed from the PUF for Fiscal Year 2007-2008 is \$448,942,761 as calculated below:

<u>Quarter Ended</u>	<u>Net Asset Value</u>
5/31/04	7,997,992,228
8/31/04	8,087,877,618
11/30/04	8,648,150,213
2/28/05	8,832,164,283
5/31/05	8,899,839,516
8/31/05	9,426,742,792
11/30/05	9,564,640,080

2/28/06	9,798,633,228
5/31/06	10,028,861,545
8/31/06	10,313,393,571
11/30/06	10,760,220,191
02/28/07	11,058,603,363
	<u>\$ 113,417,118,628</u>
Number of Quarters	12
Average Net Asset Value	<u>\$ 9,451,426,552</u>
Distribution Percentage	4.75%
FY 2007-08 Distribution	<u><u>\$ 448,942,761</u></u>

Article VII, Section 18 of the Texas Constitution requires that the amount of distributions to the AUF be determined by the U. T. System Board of Regents (U. T. Board) in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of PUF investments and annual distributions to the AUF. The Constitution further limits the U. T. Board's discretion to set annual PUF distributions to the satisfaction of three tests:

1. The amount of PUF distributions to the AUF in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on PUF bonds and notes. The proposed distribution of \$448,942,761 is substantially greater than PUF Bonds Debt Service of \$156,813,277 projected for FY 2007-2008.

System	Debt Service
U. T.	\$ 95,604,861
TAMU	61,208,416
Total	<u>\$ 156,813,277</u>

Sources: U. T. System Office of Finance
Texas A&M University System Office of
Treasury Services

2. The U. T. Board may not increase annual PUF distributions to the AUF (except as necessary to pay PUF debt service) if the purchasing power of PUF investments for any rolling 10-year period has not been preserved. As the schedule below indicates, the average annual increase in the rate of growth of the value of PUF investments (net of expenses, inflation, and distributions) for the trailing 10-year period ended February 28, 2007, was 4.13%, which indicates that the purchasing power test was met.

<u>Average Annual</u>	<u>Percent</u>
Rate of Total Return	9.68%
Mineral Interest Receipts	1.54%
Expense Rate	(0.22)% (1)
Inflation Rate	(2.46)%
Distribution Rate	(4.41)%
Net Real Return	<u>4.13%</u>

(1) The expense rate as shown is a ten-year annualized average and includes all PUF Investment and PUF Land expenses, including the UTIMCO management fee, paid directly by the PUF. Prior to November 29, 1999, expenses related to PUF Investments and PUF Lands were paid from the AUF. Management fees that are netted from asset valuations and are not paid directly by the PUF are not included, as they are a reduction to the Rate of Total Return.

3. The annual distribution from the PUF to the AUF during any fiscal year made by the U. T. Board may not exceed an amount equal to 7% of the average net fair market value of PUF investment assets as determined by the U. T. Board (except as necessary to pay PUF Bonds Debt Service). The annual distribution rate calculated using the trailing 12-quarter average value of the PUF is within the 7% maximum allowable distribution rate.

Value of PUF Investments (1)	Proposed Distribution	Proposed Distribution as a % of Value of PUF Investments	Maximum Allowed Rate
\$9,451,426,552	\$448,942,761	4.75%	7.00%

(1) Source: UTIMCO

The spending policy objectives of the PHF and LTF are to

- a. provide a predictable stable stream of distributions over time;
- b. ensure that the inflation-adjusted value of the distributions is maintained over the long term; and
- c. ensure that the inflation-adjusted value of the assets of the PHF and the LTF, as appropriate after distributions, is maintained over the long term.

The spending formula under the PHF Investment Policy Statement and the LTF Investment Policy Statement increases distributions at the rate of inflation subject to a distribution range of 3.5% to 5.5% of the average market value of the PHF assets and LTF assets for each fund's respective trailing 12 fiscal quarters. The U. T. System Board of Regents has full authority to alter distribution rates at its sole discretion.

The recommended 3.0% increase in the PHF distribution rate of \$0.0496 to \$0.0511 per unit was based on the PHF's Investment Policy Statement to increase the distributions by the average rate of inflation for the trailing 12 quarters. The PHF's distribution rate calculated using the prior 12-quarter average value of the PHF is 4.6%, within the range of 3.5% to 5.5% set forth in the PHF Investment Policy Statement. The recommended distribution rate of \$0.0511 per unit was approved by the UTIMCO Board on April 10, 2007.

The recommended 3.0% increase in the LTF distribution rate from \$0.2844 to \$0.2929 per unit was based on the LTF's Investment Policy Statement to increase the distributions by the average rate of inflation for the trailing 12 quarters.

The LTF's distribution rate calculated using the prior 12-quarter average value of the LTF is 4.7%, within the range of 3.5% to 5.5% set forth in the LTF Investment Policy Statement. The increase in the consumer price index for the prior three years as of November 30, 2006, was 3.0%. The recommended distribution rate of \$0.2929 per unit was approved by the UTIMCO Board on April 10, 2007.

The distribution rate for the ITF was set at 3.0% per annum for Fiscal Year 2007 by the UTIMCO Board and the Board of Regents at their March 30, 2006 and May 11, 2006 meetings, respectively. The recommendation for the rate to remain at 3.0% for Fiscal Year 2008 was approved by the UTIMCO Board on April 10, 2007.