



AGENDA for Meeting of the U. T. System Board of Regents

Thursday, July 24, 2008
Board Room, 9th Floor, Ashbel Smith Hall
Austin, Texas

Note: Meetings on July 23 will consist of the U. T. System Board of Regents' Special Compensation Committee in the morning followed by a UTIMCO Board meeting in the afternoon.

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A. CONVENE JOINT MEETING: BOARD OF REGENTS AND UTIMCO BOARD OF DIRECTORS	9:00 a.m. <i>Chairman Caven</i> <i>Chairman Rowling</i>	
1. Introductions	9:00 a.m. <i>Chairman Caven</i> <i>Chairman Rowling</i>	1
2. Report on legal issues: Annual update on fiduciary responsibilities; Master Investment Management Services Agreement (IMSA); Board of Regents' Expectations of UTIMCO Directors	9:05 a.m. Report <i>Mr. Burgdorf</i> <i>Ms. Gonzalez</i>	2
3. Reports on UTIMCO Board operations and committees Board Officers, Key Employees, Delegation of Authority, Standing Committee Reports: <ul style="list-style-type: none"> • Audit and Ethics Committee • Risk Committee • Policy Committee • Compensation Committee 	9:15 a.m. Report <i>Chairman Rowling</i> <i>Mr. Nye</i> <i>Mr. Tate</i> <i>Ms. McHugh</i> <i>Mr. Ferguson</i>	8
4. Report on investment objectives and performance from UTIMCO Board investment consultant	9:45 a.m. Report <i>Mr. Bruce Myers,</i> <i>Cambridge</i> <i>Associates</i> <i>Mr. Zimmerman</i>	10
5. UTIMCO Update: Report on UTIMCO organization and activities	10:00 a.m. Report <i>Mr. Zimmerman</i>	32a
6. Report on UTIMCO Fiscal Year 2009 budget and fees, and U. T. System Office of Finance review	10:15 a.m. Report <i>Dr. Kelley</i> <i>Mr. Zimmerman</i>	42
7. Update regarding centralization of operating funds	10:30 a.m. Report <i>Dr. Kelley</i>	70

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8.	Discussion of U. T. System financial resources and assets managed by UTIMCO	10:35 a.m. Report <i>Dr. Kelley</i> 77
9.	Report on investment strategy	10:55 a.m. Report <i>Mr. Zimmerman</i> 96
B.	ADJOURN JOINT MEETING	11:25 a.m.
C.	RECONVENE MEETING OF THE BOARD OF REGENTS IN OPEN SESSION	
10.	U. T. Medical Branch – Galveston: Resolution to honor the heroism of the late Mr. Roger Winslow Stone, a longtime employee	11:30 a.m. Action <i>Dr. Shine</i> <i>Mr. Michael Shriener, U. T. Medical Branch – Galveston</i> 119
D.	RECESS TO EXECUTIVE SESSION IN ACCORDANCE WITH TEXAS GOVERNMENT CODE, CHAPTER 551 (working lunch)	11:40 a.m.
	1. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees – Section 551.074	
	a. U. T. San Antonio: Consideration of recommendation of hearing tribunal regarding faculty member	11:45 a.m.
	b. U. T. System: Discussion of individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of U. T. System and institutional employees including employees covered by Regents' Rules and Regulations, Series 20204, regarding compensation for highly compensated employees	
	c. U. T. System: Discussion regarding individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents (academic and health institutions), U. T. System Administration officers (Executive Vice Chancellors and Vice Chancellors), other officers reporting directly to the Board (Chancellor, Chancellor ad interim, General Counsel to the Board, and Chief Audit Executive), and U. T. System and institutional employees and related personnel aspects of the operating budget for the year ending August 31, 2009	
	d. U. T. System: Discussion of individual personnel matters relating to Chancellor search	

- 2. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – Section 551.071
 - U. T. System Board of Regents: Discussion with Counsel on pending legal issues** *Mr. Burgdorf*
- 3. Negotiated Contracts for Prospective Gifts or Donations – Section 551.073
 - a. **U. T. M. D. Anderson Cancer Center: Discussion and appropriate action related to a proposed negotiated gift** *Dr. Safady
Mr. Burgdorf*
 - b. **U. T. Health Science Center – Houston: Discussion and appropriate action related to a proposed negotiated gift** *Dr. Safady
Mr. Burgdorf*
- E. RECONVENE IN OPEN SESSION TO CONSIDER ACTION ON EXECUTIVE SESSION ITEMS, IF ANY *3:00 p.m.*
- F. CONSIDER AGENDA ITEMS (continued)
- 11. **U. T. System Board of Regents: Approval of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) recommendations for amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, and the Long Term Fund** *3:05
Action
Mr. Zimmerman* **120**
- 12. **U. T. Health Science Center – San Antonio: Recreation and Wellness Center - Request for approval of design development; appropriation of funds and authorization of expenditure; approval of evaluation of alternative energy economic feasibility; and resolution regarding parity debt (Final Approval)** *3:12 p.m.
Action
Mr. O'Donnell* **127**
- 13. **U. T. Health Science Center – San Antonio: Authorization to lease a shell building containing approximately 37,000 square feet and approximately 8,000 square feet of adjoining land, all within an approximately 1.25-acre site located on Merton Minter Drive, on the institution's Long Campus, being a part of Block 6, N. C. B. 12816, Oak Hills Park, Unit 1, in the Manuel Tejada Survey No. 89, San Antonio, Bexar County, Texas, to Spectrum Clubs, Inc., a California corporation, or a subsidiary thereof, for the finish-out, equipping, and operation of a recreation and wellness center to serve the student body, faculty, and staff of the institution and the general public** *3:15 p.m.
Action
President Cigarroa
Ms. Mayne* **129**

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| 14. | U. T. Austin: Authorization to enter into a license with Sprint Spectrum Realty Company, L. P., a Delaware limited partnership, to permit the licensee to place telecommunications facilities on the roof of the Art Building and Museum on the U. T. Austin campus at 2301 San Jacinto Boulevard, Austin, Travis County, Texas, for provision of telecommunications services to the campus | 3:18 p.m.
Action
<i>President Powers</i>
<i>Ms. Mayne</i> | 134 |
| 15. | U. T. M. D. Anderson Cancer Center: Authorization to purchase approximately 81,579 square feet of unimproved land located at 7301-7313 Almeda Road, also known as Lots 1 through 12 and certain alleys, Block 8, Institute Place Subdivision, and the northern portion of Virginia Avenue right-of-way, all in Houston, Harris County, Texas, from Institute Place Partners, Ltd., a Texas limited partnership, for a purchase price not to exceed fair market value as established by independent appraisals for future use for campus administrative and support functions | 3:21 p.m.
Action
<i>President Mendelsohn</i>
<i>Ms. Mayne</i> | 137 |
| 16. | U. T. M. D. Anderson Cancer Center: Authorization to grant licenses to CenterPoint Energy Houston Electric L. L. C., a Texas limited liability company, to permit the licensee to place electrical distribution facilities on portions of the campus to serve campus facilities and facilitate land acquisitions | 3:24 p.m.
Action
<i>President Mendelsohn</i>
<i>Ms. Mayne</i> | 140 |
| 17. | U. T. System: Approval to fund the Research Partnership with Sandia National Laboratories | 3:27 p.m.
Action
<i>Dr. McDowell</i> | 141 |
| 18. | U. T. Austin: Request for approval to name an area of the north end zone of the Darrell K Royal - Texas Memorial Stadium as the Red McCombs Red Zone | 3:30 p.m.
Action
<i>President Powers</i>
<i>Dr. Safady</i> | 142 |
| 19. | U. T. Austin: Approval of honorific naming of the Veterans Memorial Plaza at the Darrell K Royal - Texas Memorial Stadium as the Frank Denius Veterans Memorial Plaza | 3:33 p.m.
Action
<i>President Powers</i>
<i>Dr. Safady</i> | 143 |
| 20. | U. T. System Board of Regents: Report from Chairman on Governor's Higher Education Summit | 4:20 p.m.
Report
<i>Chairman Caven</i> | 144 |
| 21. | U. T. System: Approval to negotiate and execute a contract to hedge the price and sell a portion of the future oil and gas royalty production from the University Lands | 4:25 p.m.
Action
<i>Dr. Kelley</i> | 144 |
| G. | ADJOURN | 4:30 p.m. | |

A. CONVENE JOINT MEETING: BOARD OF REGENTS AND UTIMCO BOARD OF DIRECTORS

1. **U. T. System Board of Regents: Introductions**

U. T. Board Chairman Caven and UTIMCO Board Chairman Rowling will introduce:

UTIMCO Directors

Chairman Robert B. Rowling
Vice-Chairman J. Philip Ferguson
Vice-Chairman for Policy, Chancellor Kenneth I. Shine
Mr. Clint D. Carlson (not attending)
Mr. Paul Foster
Ms. Colleen McHugh
Mr. Ardon E. Moore
Mr. Erle Nye
Mr. Charles W. Tate

Staff and consultants attending are:

U. T. System Staff

Mr. Philip Aldridge, Associate Vice Chancellor for Finance
Mr. William Huang, Senior Financial Analyst
Mr. Barry Burgdorf, Vice Chancellor and General Counsel
Mr. James Phillips, Senior Attorney, Office of General Counsel
Ms. Karen Lundquist, Attorney, Office of General Counsel
Ms. Francie Frederick, General Counsel to the Board of Regents
Mr. Charles Chaffin, Director of Internal Audit
Ms. Moshmee Kalamkar, Audit Supervisor
Mr. Anthony de Bruyn, Director of Public Affairs

UTIMCO Management

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer
Ms. Cathy Iberg, President and Deputy Chief Investment Officer
Ms. Cecilia Gonzalez, General Counsel and Chief Compliance Officer
Mr. Lindel Eakman, Managing Director - Private Markets Investments
Mr. Bill Edwards, Managing Director - Information Technology
Ms. Joan Moeller, Managing Director - Accounting, Finance, and Administration
Mr. Ryan Ruebsahm, Director - Marketable Alternative Investments
Mr. Robert Schau, Director - Real Estate Investments
Mr. Mark Shoberg, Director - Private Markets Investments
Mr. Mark Warner, Director - Natural Resources Investments
Mr. Uzi Yoeli, Director - Portfolio Risk Management

**U. T. System Board of Regents
Expectations for Appointees to the
UTIMCO BOARD OF DIRECTORS**

Overview of UTIMCO

The University of Texas Investment Management Company (“UTIMCO”), a Texas nonprofit corporation qualified as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code, was created for the sole purpose of managing the investment of funds under the control and management of the Board of Regents of The University of Texas System pursuant to authorization provided in Section 66.08 of the *Texas Education Code* (the “UTIMCO statute”). UTIMCO manages more than \$23.7 billion in total assets, comprised of approximately \$18.4 billion in endowment funds, including the Permanent University Fund (“PUF”), Permanent Health Fund (“PHF”), Long Term Fund (“LTF”), and Separately Invested Funds, and more than \$5.3 billion in centralized operating funds.

The corporate activities of UTIMCO are managed by its Board of Directors (the “UTIMCO Board”), subject to the Master Investment Management Services Agreement (“IMSA”) between UTIMCO and the Board of Regents, the applicable provisions of the Board of Regents’ *Rules and Regulations*, the UTIMCO statute, UTIMCO’s Articles of Incorporation and Bylaws, and other applicable law.

The Chancellor of the U. T. System serves as the Vice Chairman for Policy.

- The Chancellor is charged by the UTIMCO Bylaws with coordination of responsibilities, including the appropriate resolution of policy issues, assigned to UTIMCO and to the U. T. System by the Regents’ *Rules* to ensure implementation of UTIMCO’s performance of core investment duties.
- The IMSA between the U. T. System Board of Regents and UTIMCO provides that unless otherwise provided in writing by the U. T. Board, “UTIMCO shall look to the Chancellor to provide primary oversight and management concerning relations with the media, legal issues that implicate policies of the U. T. Board other than the Investment Policies, public disclosure of information and intergovernmental relations. Except for the foregoing matters, the UTIMCO Board of Directors and the CEO of UTIMCO shall be responsible for making all decisions necessary to implement the Investment Policies. The CEO of UTIMCO shall confer with the Chancellor on the above-mentioned matters where the Chancellor has primary oversight and management and on other matters that may implicate broader policies of the U. T. Board.”
- The Regents’ *Rules*, Series 20101 and Series 70401 provide additional detail on these duties.

Qualifications and Terms

Pursuant to the UTIMCO statute, the UTIMCO Board consists of nine (9) members. The Chancellor of the U. T. System serves as a Director. The other members of the UTIMCO Board are appointed by the Board of Regents and must include at least three (3) current members of the Board of Regents and one person selected by the Board of Regents from a list of candidates with substantial expertise in investments submitted by the Board of Regents of the Texas A&M University System. Pursuant to the UTIMCO bylaws approved by the Board of Regents, the

three (3) Regental Directors serve two-year terms that expire on the first day of April of each odd-numbered year, and the external Directors serve three-year staggered terms that expire on the first day of April of the appropriate year. No external Director may serve more than three (3) full three-year terms. Any UTIMCO Director may be removed as a Director by the Board of Regents with or without cause and at any time.

Operations and Resources

The UTIMCO Board has delegated primary responsibility for certain functions to key chartered Board Committees:

1. Audit and Ethics Committee (Appointments approved by the Board of Regents)
2. Compensation Committee
3. Policy Committee
4. Risk Committee

U. T. System Administration staff provide oversight through the Office of Business Affairs, including the Office of Finance; the Office of General Counsel; Internal Audit; the System-wide Compliance Officer; and the General Counsel to the Board of Regents. UTIMCO Directors also have the benefit of professional independent consultants, including:

1. Investment consultants (Cambridge Associates);
2. Outside legal counsel (Vinson & Elkins);
3. Compensation consultants (Mercer Human Resources Group);
4. External auditors (Deloitte & Touche LLP);
5. Dr. Keith Brown, Professor of Finance at U. T. Austin, Advisor to the Chairman of the UTIMCO Board; and
6. Risk consultant (Gifford Fong Associates).

Duties and Responsibilities

By statute and charter, as a fiduciary under the IMSA, UTIMCO is dedicated to the sole purpose of investing funds under the management and control of the Board of Regents. In practice, the fiduciary duties of UTIMCO Directors are focused on the fulfillment of the Board of Regents' investment policy directives. As Directors of a nonprofit corporation, UTIMCO Directors' fiduciary duties also include:

1. Duty of care in prudently managing the corporation's investment management and other affairs;
2. Duty of loyalty, requiring the avoidance of conflicts of interest; and
3. Duty to avoid conduct that exceeds the chartered powers of the corporation.

Investment Management Responsibilities: The Board of Regents is the ultimate fiduciary responsible for all matters relating to the investment of the funds under its control, in accordance with the "prudent investor" standard of care established by the Texas Constitution, Texas Education Code, and other applicable law. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would

acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.

The Board of Regents delegates to UTIMCO as its fiduciary, under the management of the UTIMCO Board, authority to act for the Board of Regents in the investment of those funds, subject to limitations and restrictions articulated through the IMSA; the Board of Regents' investment policies; and other applicable laws, rules, and agreements. The UTIMCO Board's investment management authority, thus derived, includes the following investment management responsibilities:

- Review of the U. T. Board's current Investment Policies for each Fund at least annually by June 1 of each year. Such review shall include distribution (spending) guidelines, long-term investment return expectations and expected risk levels, asset allocation targets and ranges for each eligible asset class, expected returns for each asset class and fund, designated performance benchmarks for each asset class and such other matters as the U. T. Board or its staff designees may request.
- After UTIMCO completes its assessment, UTIMCO must forward any recommended changes to U. T. System staff for review and appropriate action.
- Oversee the investment management process pursuant to the Investment Policies. Such oversight shall include without limitation the development of an investment outlook based on global economic and capital market forecasts, the rebalancing of allocations to each asset class within ranges in response to changes in the investment outlook, and the selection of a combination of portfolio managers to construct portfolios designed to generate the expected returns of each asset class.
- Monitor and report on investment performance for each of the Funds. With respect to all Funds other than the Separately Invested Funds (“SIFs”), such responsibilities shall include the calculation and evaluation of investment returns for each asset class and individual Fund portfolio against approved benchmarks over various periods of time, and the periodic review of performance benchmarks. With respect to all Funds, such responsibilities shall also include the reporting of investment performance of such specific Funds as may be requested by the U. T. Board, and the reporting to regulatory agencies and others regarding investments under management to the extent required by applicable law.
- Develop and implement a risk management system to measure and monitor overall portfolio derivative exposure, risk levels, liquidity, and leverage.
- Monitor and enforce compliance with all investment and other policies and applicable law.
- Monitor termination of external managers in accordance with Delegation of Authority Policy and investment policies.

Some investment management responsibilities delegated to UTIMCO, including but not limited to the following, are expressly subject to Board of Regents approval:

- Analyze and recommend investment strategies for U. T. System funds managed by UTIMCO, including asset allocation targets, ranges, and performance benchmarks for each asset class (Exhibit A of the Fund Investment Policy Statements).

- Consider and recommend investments not covered by investment policy statements.
- Select one or more Custodians, each of which shall be approved by the U. T. Board, which shall also enter into or approve each agreement with the Custodian(s).
- Select, engage, and evaluate External Auditor(s) for the funds.
- Review and propose amendments to Board of Regents' policies related to the investment management of the U. T. System funds, including (not limited to):
 1. Investment Policy Statements for all U. T. System funds.
 2. Distribution (spending) guidelines, rates, and amounts as required.
 3. Liquidity Policy.
 4. Derivative Policy.

Corporate Governance Responsibilities: The UTIMCO Board manages the activities of the corporation, providing the primary governance and oversight of the CEO, other professionals employed by UTIMCO, and outside investment managers with whom funds have been invested. Management oversight responsibilities of the UTIMCO Board or UTIMCO Board Committees include the following:

- Monitor actual staffing, operating, and capital expenditures relative to approved budgets.
- Monitor compliance with the Delegation of Authority policy.
- Consider and approve actions outside the authority delegated to the CEO as required.
- Select, engage, and evaluate UTIMCO's outside counsel, custodian(s), external auditor(s) for the corporation, investment consultant(s) and risk consultant(s).
- Ensure compliance with UTIMCO's Code of Ethics, including conflict of interest policies and applicable law.
- Develop and administer a compensation plan, consistent with current regulations for determining reasonable compensation, to attract and retain high caliber investment professionals and support staff. With the exception of changes to the appendices, the Compensation Plan is subject to approval by the Board of Regents.
- Appoint, supervise, evaluate and compensate UTIMCO's CEO.
- Evaluate investment results against incentive compensation plan performance objectives; approve and recommend bonus compensation for UTIMCO's officers.
- Review and approve committee charters.
- Assure establishment and implementation of legally compliant and administratively effective personnel policies.
- Oversee implementation of accounting principles, policies, internal financial controls, and reporting in the spirit of the Sarbanes-Oxley Act.
- Oversee implementation of public disclosures in compliance with the Texas Public Information Act and other applicable law, in collaboration with the Chancellor/Vice Chairman for Policy.

Some corporate management responsibilities of the UTIMCO Board, including but not limited to the following, are expressly subject to approval by the Board of Regents:

- Review and approve the proposed annual UTIMCO operating and capital budgets, including incentive compensation, capital expenditures, and management fee allocations.
- Review, approve, and recommend key governance documents such as the Articles of Incorporation, Bylaws, and Code of Ethics.

- Approval of Performance Incentive Awards that will result in an increase of 5% or more of the total performance incentive awards calculated to the approved Performance Incentive Plan contained in the UTIMCO Compensation Program.

Prohibited Transactions -- Conflicts of Interest

The *UTIMCO Code of Ethics* (“Code”) details, among other things, prohibitions on transactions between UTIMCO and entities controlled by UTIMCO Directors, as required by the UTIMCO statute and supplementing the general requirements under the Texas Non-Profit Corporation Act. Amendments to the Code are expressly subject to Board of Regents’ approval.

The Code prohibits any transaction or agreement between UTIMCO and any investment fund or account managed by a UTIMCO Director as a fiduciary or agent for compensation. The Code prohibits agreements or transactions between UTIMCO and a business entity controlled by a UTIMCO Director or in which a UTIMCO Director owns five percent or more of the fair market value of the assets or of the voting stock or from which the director received more than five percent of his or her gross income for the preceding calendar year.

The Code prohibits a UTIMCO Director from investing in the private investments of a business entity in which UTIMCO contemporaneously owns a private investment. The Code also prohibits UTIMCO from investing in the private investments of a business entity in which a UTIMCO Director contemporaneously owns a private investment; provided, however, that a limited exception is available where the UTIMCO Director’s private investment was acquired before the date the director assumed a position on the UTIMCO Board. For this purpose, “private investment” means any debt or equity interest that is not publicly traded, including a private investment in a public company.

Application of the Texas Public Information Act

UTIMCO and its officers, directors and employees are subject to the provisions of the Texas Public Information Act. Corporate documents, correspondence, and emails are subject to public inspection and duplication, unless specifically excepted from disclosure under the Act.

Meeting Requirements

UTIMCO Directors are expected to attend all regularly scheduled Board meetings which are typically held approximately every two months. In addition, special Board meetings may be scheduled from time to time with prior notice. The Texas Open Meetings Act applies to the UTIMCO Board, requiring that all deliberations of a quorum of the Board take place in open meetings after advance notice of the meeting is posted as required by the Act. Committee meetings are held as needed to address specific items within the Committee charters.

3. U. T. System Board of Regents: Reports on The University of Texas Investment Management Company (UTIMCO) Board operations and committees

University of Texas Investment Management Company (UTIMCO) Chairman Rowling will outline the UTIMCO Board Committee structure. Four Board committees assume primary responsibility for overseeing certain aspects of UTIMCO operations. The chairs of the UTIMCO Board committees will describe the roles of their committees as follows:

- Audit and Ethics Committee, Chairman Erle Nye
- Risk Committee, Chairman Charles W. Tate
- Policy Committee, Chairman Colleen McHugh
- Compensation Committee, Chairman J. Phillip Ferguson

REPORT

The purposes of these four committees, as set forth in their respective charters, are outlined below.

Audit and Ethics Committee Charter Purpose:

The primary purpose of the Committee is to assist the UTIMCO Board in monitoring the financial and compliance functions of the Corporation and the investment funds managed on behalf of The University of Texas System Board of Regents (the "U. T. Board") to assure the balance, transparency, and integrity of published financial information. Specifically, the Committee is to assist the Board in monitoring:

- The integrity of the financial reporting process, the system of internal controls, the audit process, and the process for monitoring compliance with laws and regulations;
- The independence and performance of the Corporation's Chief Compliance Officer;
- The independence and performance of the Corporation's independent auditors;
- The independence and performance of the independent auditors selected by the U. T. Board to audit the investment funds managed by UTIMCO on their behalf;
- Internal audit functions performed by the U. T. System Audit Office;
- The Corporation's audit policies, ethics programs, and adherence to regulatory requirements; and
- The Corporation's enterprise risk management.

The Committee is responsible for maintaining free and open communication as well as effective working relationships among the Committee members, the Chief Compliance Officer, independent external auditors, U. T. System's internal auditors, and management of the Corporation. To perform his or her role effectively, each Committee member will need to develop and maintain his or her skills and knowledge, including an understanding of the Committee's responsibilities and of the Corporation's activities, operations, and risks.

The Committee will take all appropriate actions to set the overall tone at the Corporation for quality financial reporting, sound risk practices, and ethical behavior.

Risk Committee Charter Purpose:

The primary purpose of the Committee is to provide oversight and monitor:

- Investment risk management and compliance;
- The integrity of risk management procedures and controls;
- The integrity of risk models and modeling processes; and
- Liquidity of the Permanent University Fund (PUF), the General Endowment Fund (GEF), and the Intermediate Term Fund (ITF).

Policy Committee Charter Purpose:

The primary purpose of the Committee is to provide oversight and to monitor:

- The development and amendment of UTIMCO Board Policies and Corporate Documents;
- Recommendations concerning the development and amendment of investment-related policies of the U. T. Board related to the management of funds under the control and management of the U. T. Board; and
- Recommendations concerning the amendment of the Master Investment Management Services Agreement, Code of Ethics, and Bylaws.

Compensation Committee Charter Purpose:

The primary purpose of the Committee is to provide oversight of the compensation system for officers and employees of the Corporation. The Committee has the following duties and responsibilities:

- Recommend to the Board the base salary and performance compensation award of the CEO;
- Approve base salaries of all officers (except the CEO) of the Corporation;

- Recommend to the Board the Performance Compensation Plan and any amendments thereto and the eligible employees; and
- Approve the Performance Compensation Plan awards for eligible employees except the CEO.

4. **U. T. System Board of Regents: Report on Investment Objectives and Performance for the University of Texas Investment Management Company (UTIMCO)**

REPORT

Mr. Bruce Myers, Cambridge Associates, will report on the investment objectives and performance of funds managed by the University of Texas Management Company (UTIMCO) including objectives, performance, policy portfolios, benchmark and asset allocation, using the PowerPoint presentation set forth on Pages 11 - 26.

In addition, Mr. Bruce Zimmerman will report on current UTIMCO performance through the fiscal quarter ending May 31, 2008 set forth on Pages 27 – 32.

Discussion on Investment Objectives and Performance



July 2008

Definitions

- PUF: The Permanent University Fund established by the Texas State Constitution for the benefit of the University of Texas and Texas A&M
- GEF: The General Endowment Fund which is composed of:
 - LTF: The Long Term Fund, the permanent endowment of the University of Texas
 - PHF: The Permanent Health Fund
- STF: The Short Term Fund, a money market fund managed for preservation of principal and liquidity
- ITF: The Intermediate Term Fund, a broadly diversified portfolio designed to produce a return of at least 3% plus the rate of inflation (CPI-U)

Current Investment Objectives

- “The primary objective for each fund [the PUF and the GEF] shall be to preserve the purchasing power of fund assets and annual distributions by earning an average real return over ten-year periods or longer at least equal to the target distribution rate of such funds plus the annual expected expense.”
- “The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark and the median return of the universe of the college and university endowments with assets greater than \$1.0 billion as reported by Cambridge Associates.” [Amended this year to institutions with assets greater than \$2.5 billion]

PUF Targets, Ranges, and Performance Objectives

As of May 31, 2008

Asset Class	May 31, 2008	May 31, 2008			vs. Target
	ACTUAL	Min	Target	Max	
Investment Grade Fixed Income	14.3%	8.8%	12.5%	18.8%	1.8%
Credit-Related Fixed Income	5.5%	0.0%	3.8%	8.8%	1.7%
Real Estate	6.1%	2.8%	5.5%	8.3%	0.6%
Natural Resources	7.0%	3.5%	7.0%	10.5%	0.0%
Developed Country Equity	53.4%	50.0%	57.5%	65.0%	-4.1%
Emerging Markets Equity	15.5%	8.8%	13.7%	18.8%	1.8%
TOTAL	101.8%		100.0%		1.8%
<u>Investment Types</u>					
More Correlated & Constrained	55.8%	48.8%	56.0%	62.5%	-0.2%
Less Correlated & Constrained	30.5%	26.3%	31.5%	36.3%	-1.0%
Private Investments	15.5%	8.5%	12.5%	16.5%	3.0%
TOTAL	101.8%		100.0%		1.8%

GEF Targets, Ranges, and Performance Objectives

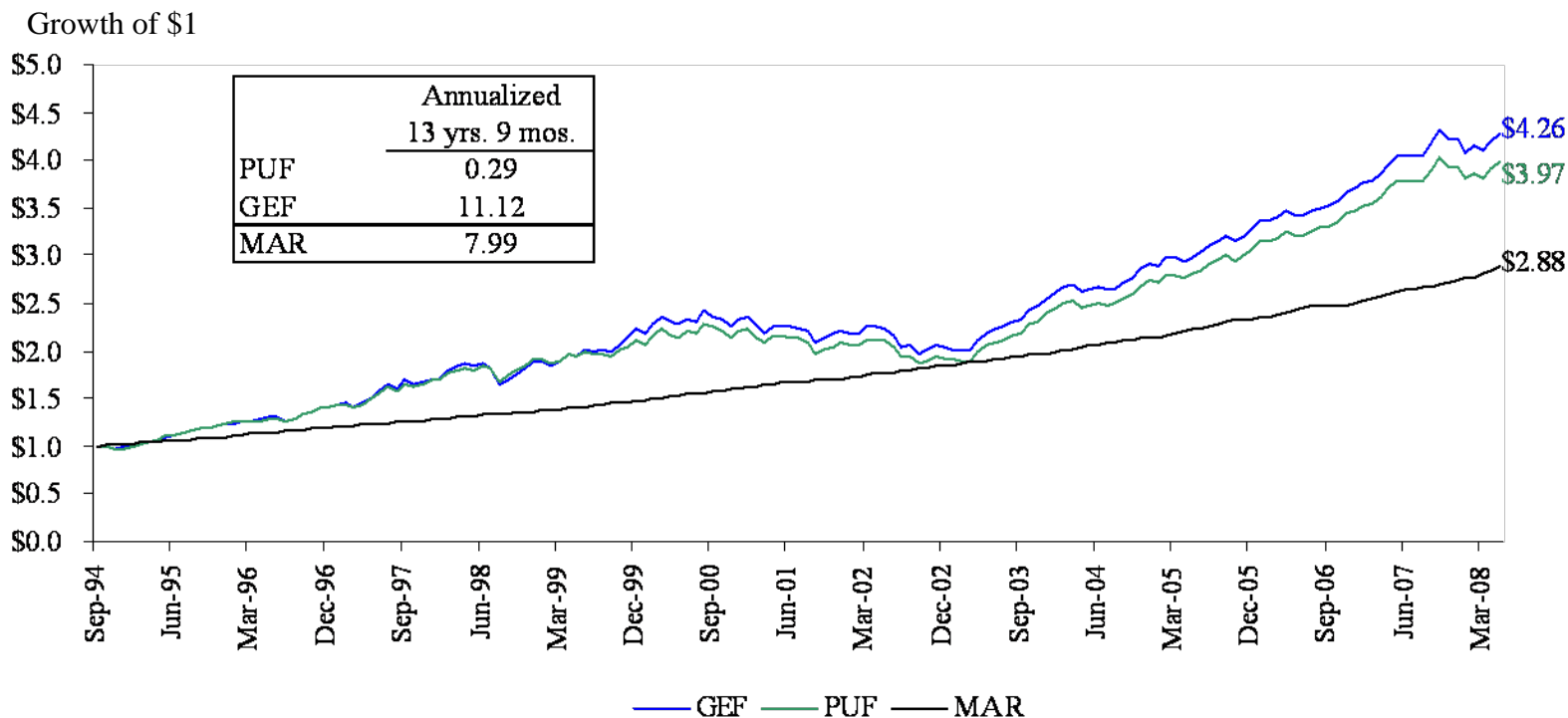
As of May 31, 2008

Asset Class	May 31, 2008	May 31, 2008			vs. Target
	ACTUAL	Min	Target	Max	
Investment Grade Fixed Income	12.8%	8.8%	12.5%	18.8%	0.3%
Credit-Related Fixed Income	5.5%	0.0%	3.8%	8.8%	1.7%
Real Estate	6.1%	2.8%	5.5%	8.3%	0.6%
Natural Resources	7.1%	3.5%	7.0%	10.5%	0.1%
Developed Country Equity	54.4%	50.0%	57.5%	65.0%	-3.1%
Emerging Markets Equity	15.8%	8.8%	13.7%	18.8%	2.1%
TOTAL	101.7%		100.0%		1.7%
<u>Investment Types</u>					
More Correlated & Constrained	55.0%	48.8%	56.0%	62.5%	-1.0%
Less Correlated & Constrained	31.0%	26.3%	31.5%	36.3%	-0.5%
Private Investments	15.7%	8.5%	12.5%	16.5%	3.2%
TOTAL	101.7%		100.0%		1.7%

Performance Summary: PUF & GEF

- Since 1994, performance of the PUF and the GEF has enhanced purchasing power, outperforming the stated goal of earning the rate of distributions, plus expenses, plus inflation.
- While the 10+ year performance of the PUF trails its Policy Portfolio Benchmark, this underperformance is due primarily to underperformance in the 1999-2003 time frame. The 10+ year performance of the GEF has now pulled ahead of its Policy Portfolio Benchmark.
- Performance (measured on a rolling five-year basis) relative to college and university peers lags the peer universe prior to 2005. For rolling five year periods ending in 2005, 2006 and 2007 the PUF and GEF modestly outperformed. Returns for the 4.25 year period ending 3/31/08 show the PUF and GEF trailing.

Performance Relative to Minimum Acceptable Return¹

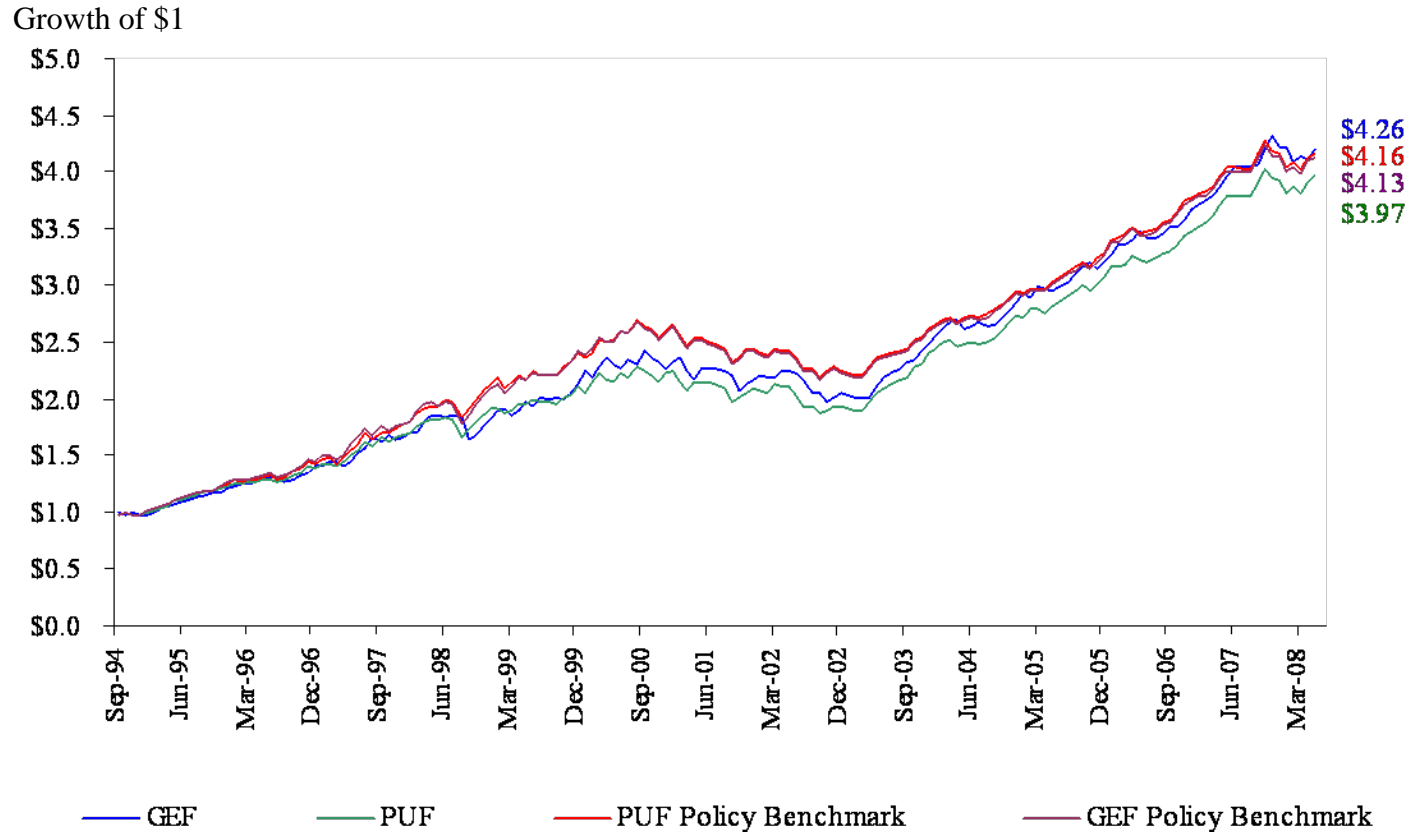


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Objective: Preserve the purchasing power of fund assets and annual distributions by earning an average annual return over rolling ten-year periods or longer at least equal to the target distribution rate of such funds plus the annual expected expense.

¹ The “MAR” as defined by the University of Texas System Investment Policy Statement is 5.1% plus an assumed rate of inflation of 3.0%, for a total of 8.1%. This target was derived by adding the current target distribution rate for the endowment (4.75%) to the annual expected expense (0.35%). 5.1% represents a real annual return target; this report de-annualizes that number to a monthly basis and adds monthly CPI-U data to account for inflation.

Performance Relative to Policy Portfolio Benchmark²

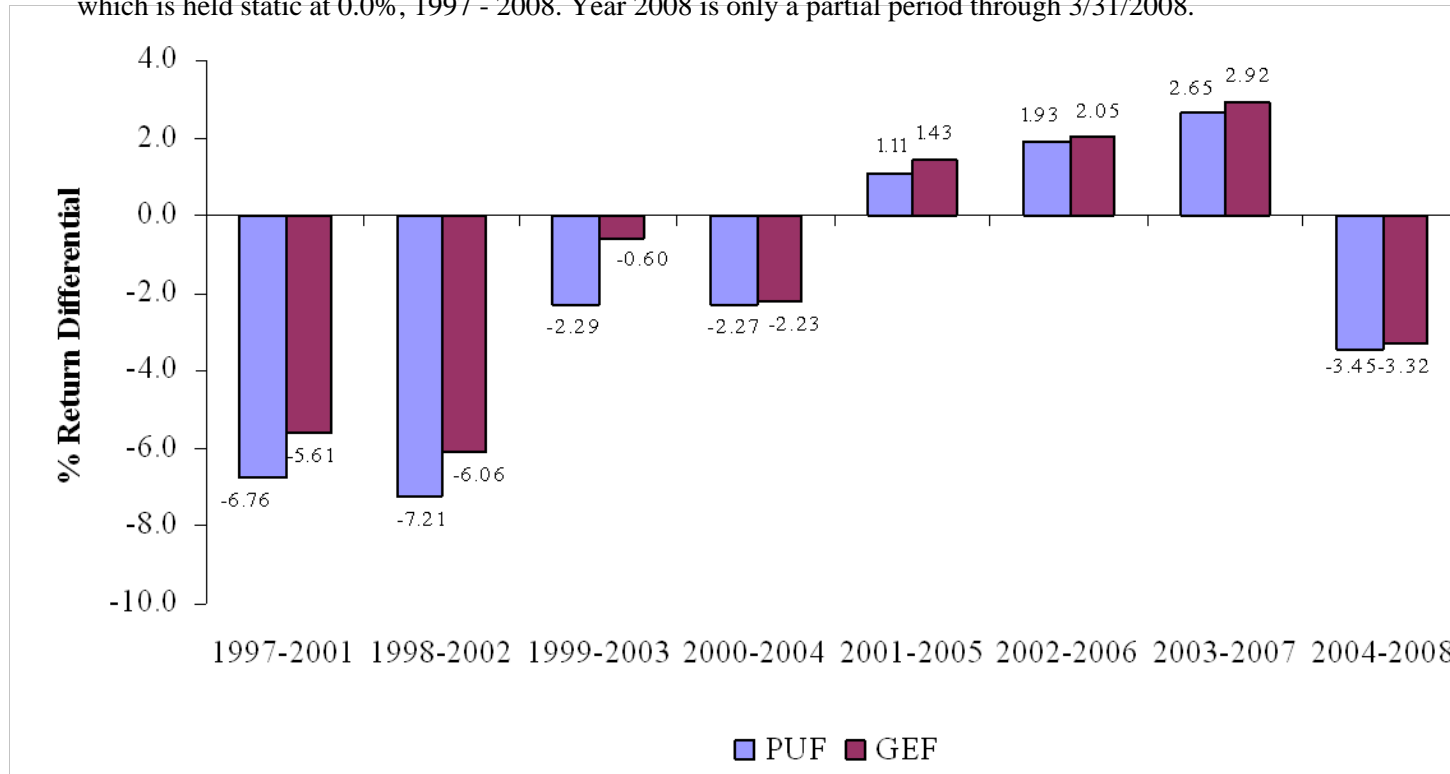


Objective: Generate a fund return in excess of the Policy Portfolio benchmark over rolling five year periods or longer.

² The “Policy Portfolio Benchmarks” are the composition of asset class targets in the asset allocation investment policy statement, changed over time with approval of the BOR. Policy Portfolio performance is the composite performance of benchmarks for the asset class targets. In January of 2004, UTIMCO restated historical policy returns based on newly approved policy targets. The Policy Portfolio presented in the report reflects this restatement.

Five-Year Rolling PUF/GEF AACR Performance Relative to Cambridge Five-Year Rolling AACR Performance for University Endowments > \$1 Billion³

PUF/GEF rolling 5-yr. performance relative to the Benchmark (5-yr. rolling AACR for CA University Endowments > \$1B) which is held static at 0.0%, 1997 - 2008. Year 2008 is only a partial period through 3/31/2008.

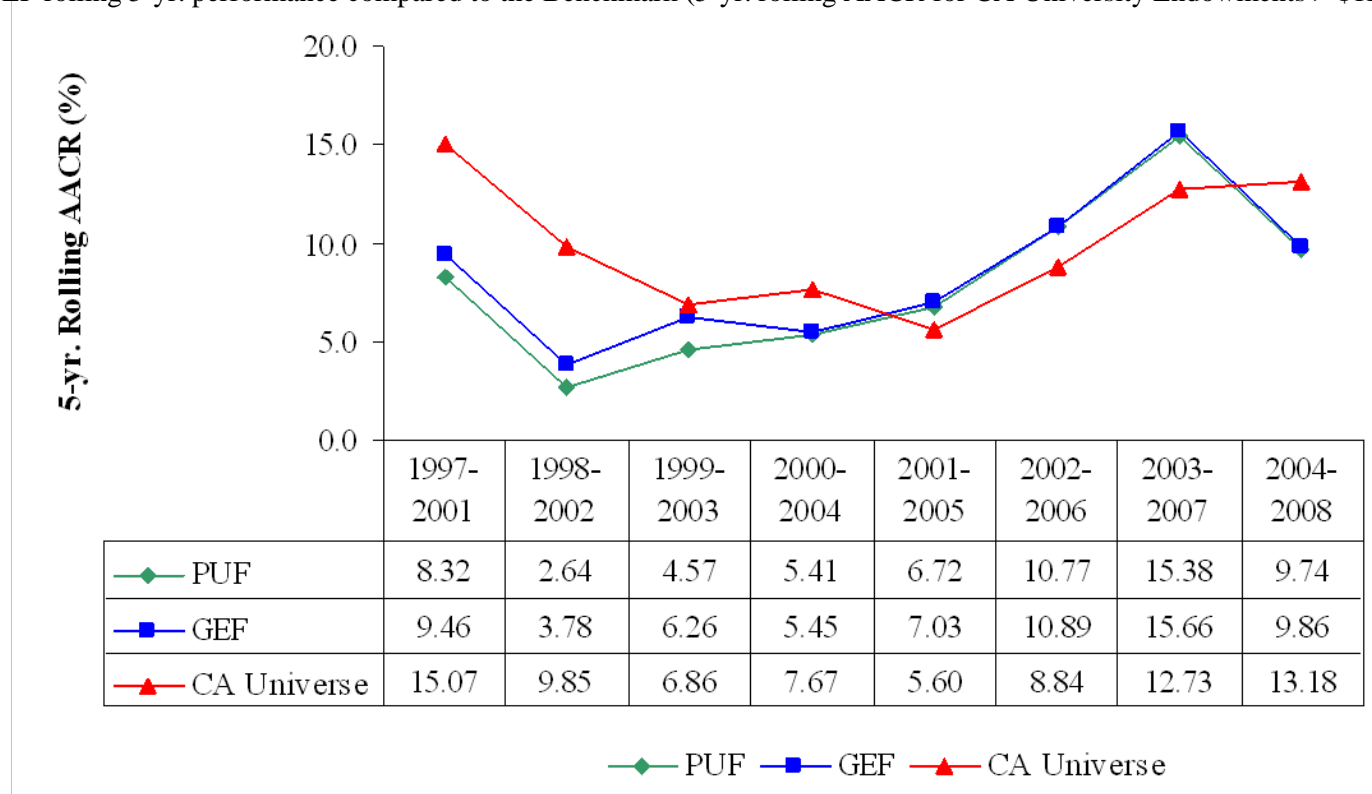


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³ The 5-yr. Average Annual Compound Return “AACR” is calculated by first assessing CA College and University Endowments over \$1B at the end of each year 1997-2007 and for the three month period 1/31/2008-3/31/2008. The mean return for each yearly universe is then calculated. Institutions that did not report performance, even if they are over \$1B at that time, are not included. The mean returns for each yearly universe are then used to calculate rolling 5-yr. Average Annual Compound Returns. Medians are not used due to reporting complications and non-static universes.

Five-Year Rolling PUF/GEF AACR Performance Compared to Cambridge Five-Year Rolling AACR Performance for University Endowments > \$1 Billion⁴

PUF/GEF rolling 5-yr. performance compared to the Benchmark (5-yr. rolling AACR for CA University Endowments > \$1B), 1997 – 2008.



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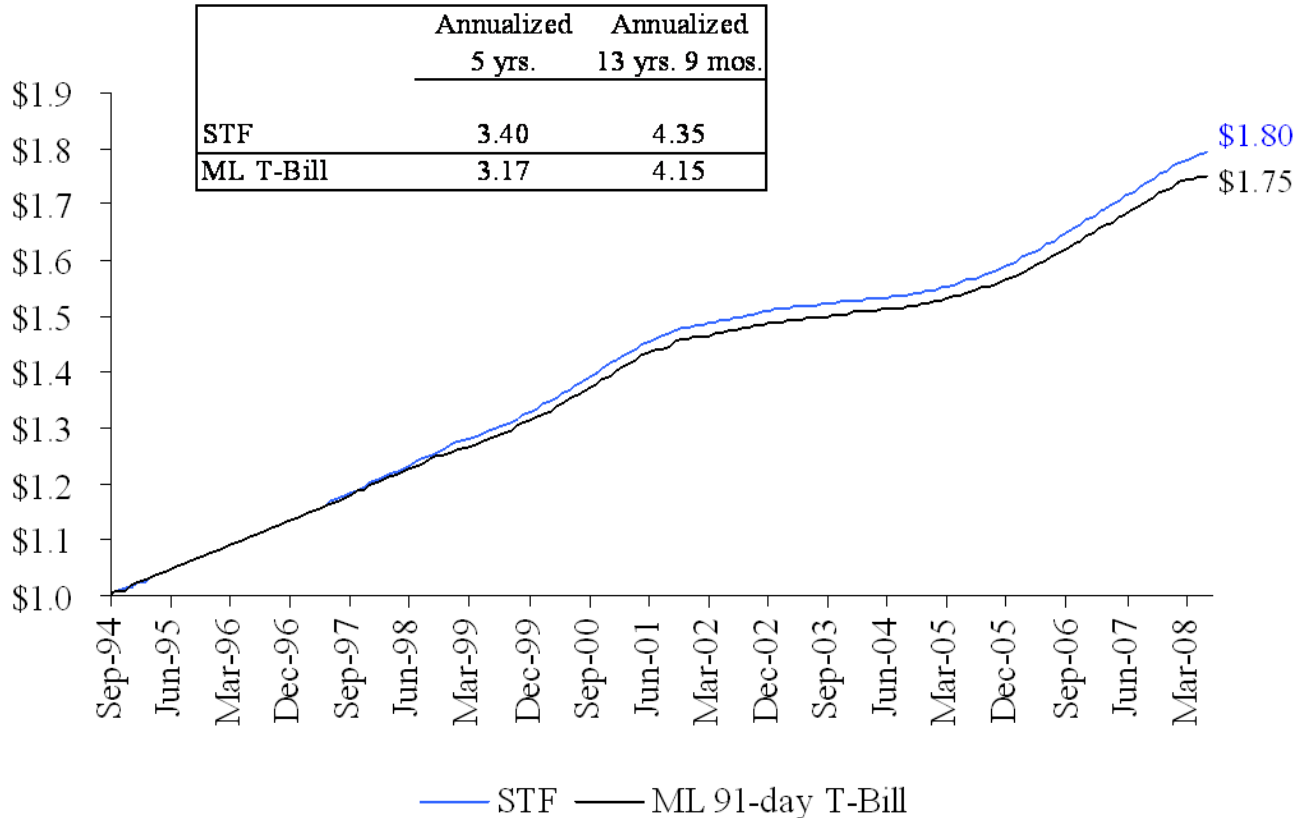
⁴ The 5-yr. Average Annual Compound Return “AACR” is calculated by first assessing CA College and University Endowments over \$1B at the end of each year 1997-2007 and for the three month period 1/31/2008-3/31/2008. The mean return for each yearly universe is then calculated. Institutions that did not report performance, even if they are over \$1B at that time, are not included. The mean returns for each yearly universe are then used to calculate rolling 5-yr. Average Annual Compound Returns. Medians are not used due to reporting complications and non-static universes.

Performance Summary: STF and SITF/ITF

- Performance for the STF has modestly exceeded its benchmark.
- Since its inception in 2006, the ITF has outperformed both its primary objective of CPI plus 3% as well as its secondary objective of outperforming its Policy Benchmark.
- In the most recent quarter and trailing 12 months periods, the ITF has outperformed the Policy Benchmark, but not achieved the primary objective of earning CPI-U plus 3%.

STF Performance Relative to Benchmark

Growth of \$1



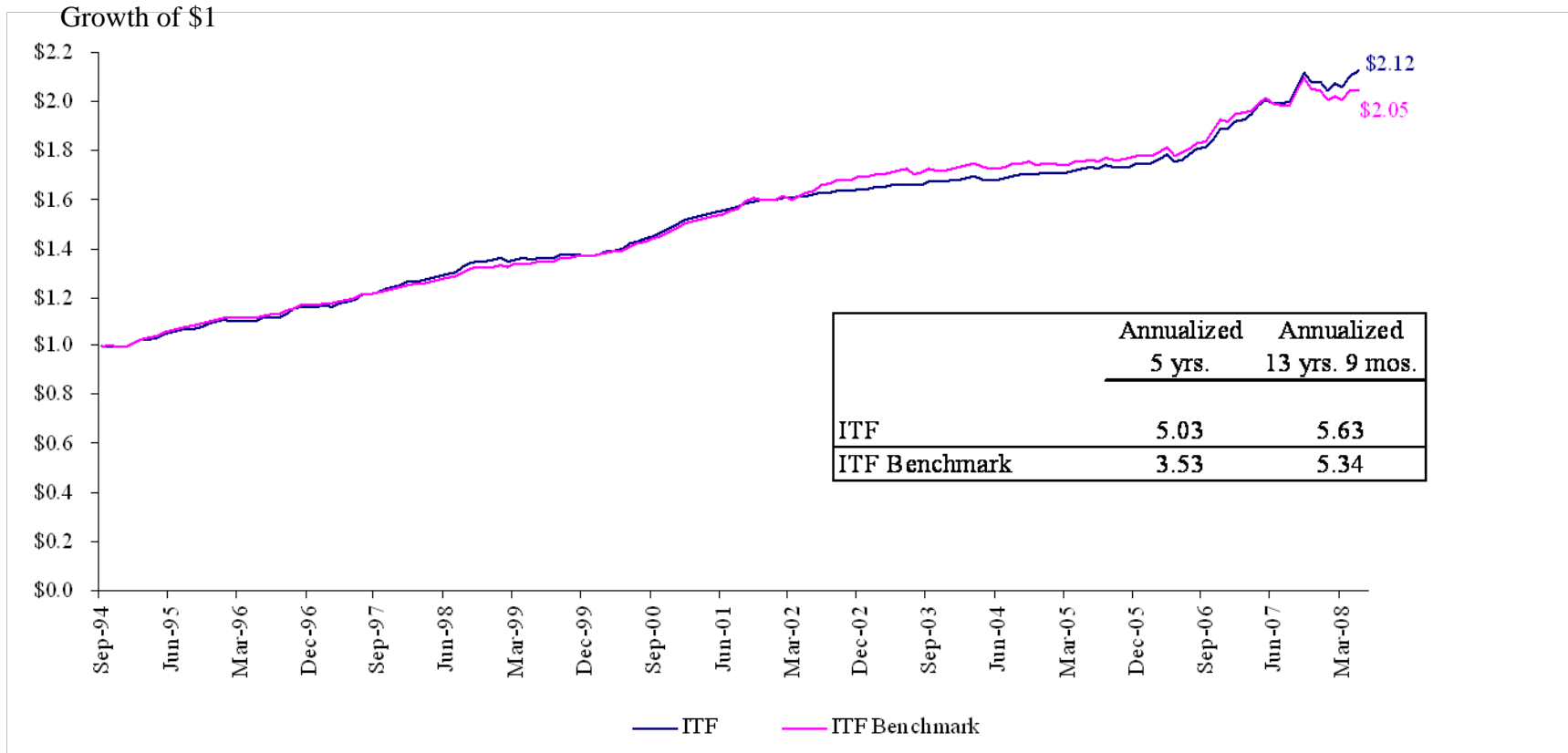
Objective: Maximize current income consistent with the absolute preservation of capital and maintenance of adequate STF liquidity. The STF shall seek to maintain a new asset value of \$1.00.

ITF Targets, Ranges, and Performance Objectives

As of May 31, 2008

Asset Class	May 31, 2008	May 31, 2008			vs. Target
	ACTUAL	Min	Target	Max	
Investment Grade Fixed Income	36.6%	20.0%	38.0%	55.0%	-1.4%
Credit-Related Fixed Income	1.3%	0.0%	2.5%	5.0%	-1.2%
Real Estate	10.3%	5.0%	11.0%	15.0%	-0.7%
Natural Resources	5.9%	0.0%	6.5%	10.0%	-0.6%
Developed Country Equity	37.3%	22.5%	33.0%	52.5%	4.3%
Emerging Markets Equity	8.6%	0.0%	9.0%	12.5%	-0.4%
TOTAL	100.0%		<u>100.0%</u>		<u>0.0%</u>
<u>Investment Types</u>					
More Correlated & Constrained	75.1%	70.0%	75.0%	80.0%	0.1%
Less Correlated & Constrained	24.9%	20.0%	25.0%	30.0%	-0.1%
TOTAL	100.0%		<u>100.0%</u>		<u>0.0%</u>

ITF Performance Relative to ITF Benchmark⁵



ITF Primary Objective: Preserve the purchasing power of ITF assets by earning a compound annualized return over rolling three-year periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index (CPI-U) plus 3%.

⁵ The SITF ended 1/31/2006, and the ITF began 2/1/2006.

ITF Performance Relative to ITF Historical Policy⁶

	Calendar Year			Since Inception
	Three Months	To Date	One Year	
Intermediate Term Fund	2.52	1.97	5.83	8.71
ITF Policy Portfolio	1.22	0.05	1.71	6.20
CPI-U +3%	3.03	4.33	7.18	6.87

ITF Primary Objective: Preserve the purchasing power of ITF assets by earning a compound annualized return over rolling three-year periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index (CPI-U) plus 3%.

ITF Secondary Objective: Generate a return, net of all direct and allocated expenses, in excess of the approved Policy Portfolio benchmark over rolling three-year periods.

⁶The ITF replaced the SITF as of 2/01/2006.

Conclusions About Past Performance

- System funds have shown strong performance when measured in absolute terms or against the objective of preserving the purchasing power of the assets and the distributions from those assets.
- Performance relative to the Policy Portfolio and to other large educational endowments has been less robust, but has improved significantly in recent years. For the first time in a number of years, the long term performance of the GEF now exceeds its Policy Portfolio Benchmark.

UTIMCO Performance Summary

May 31, 2008

	Net Asset Value 5/31/2008 (in Millions)	Periods Ended May 31, 2008 (Returns for Periods Longer Than One Year are Annualized)							
		Short Term		Year to Date		Historic Returns			
		1 Mo	3 Mos	Calendar	Fiscal	1 Yr	3 Yrs	5 Yrs	10 Yrs
ENDOWMENT FUNDS									
Permanent University Fund	\$ 12,246	1.50	2.78	0.91	4.64	4.82	12.29	14.02	8.19
General Endowment Fund		1.44	2.85	1.01	4.90	5.25	12.52	14.20	N/A
Permanent Health Fund	1,121	1.40	2.76	0.98	4.83	5.11	12.42	14.08	N/A
Long Term Fund	5,710	1.40	2.76	0.97	4.83	5.11	12.43	14.09	8.72
Separately Invested Funds	161	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	19,238								
OPERATING FUNDS									
Short Term Fund	1,749	0.25	0.80	1.52	3.27	4.65	4.69	3.40	3.86
Intermediate Term Fund	4,130	0.93	2.52	1.97	6.21	5.83	N/A	N/A	N/A
Total Operating Funds	5,879								
Total Investments	\$ 25,117								
VALUE ADDED									
Permanent University Fund		0.70	0.71	1.07	1.38	1.95	1.15	2.02	0.21
General Endowment Fund		0.64	0.78	1.17	1.64	2.38	1.38	2.20	N/A
Short Term Fund		0.22	0.43	0.50	0.80	0.80	0.40	0.23	0.21
Intermediate Term Fund		0.82	1.30	1.92	3.28	4.12	N/A	N/A	N/A
VALUE ADDED (\$ IN MILLIONS)									
Permanent University Fund		84	85	130	162	244	366	1,176	N/A
General Endowment Fund		43	52	80	108	164	242	686	N/A
Intermediate Term Fund		34	52	77	125	171	N/A	N/A	N/A

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**UT SYSTEM ENDOWMENT FUNDS vs.
Cambridge Billion \$ Funds Universe
Periods Ended March 31, 2008**

	Quarter Ended		Quarter Ended		Quarter Ended		9 Months Ended		1 Year annualized		3 Years Annualized		5 Years Annualized		10 Years Annualized	
	March 31, 2008		December 31, 2007		September 30, 2007		March 31, 2008		Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)
	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)
Maximum	-0.82		5.10		5.77		6.07		12.97		17.52		19.68		15.63	
25th Percentile	-2.72		1.57		3.45		1.92		9.74		14.14		16.38		11.06	
Median	-3.75		0.78		2.88		-0.54		6.11		11.98		15.18		9.15	
75th Percentile	-4.75		-0.02		2.12		1.97		3.56		10.70		13.84		7.49	
Minimum	-9.00		-3.41		-1.32		-10.21		-5.37		6.62		11.73		2.80	
# of Portfolios	45		47		47		45		45		45		45		43	
28 PUF - Net of Fees	-3.12	40	0.54	57	3.37	30	0.68	39	5.57	59	11.04	64	14.99	61	7.76	73
GEF - Net of Fees	-2.93	35	0.70	55	3.52	25	1.19	30	6.11	53	11.28	61	15.29	48	8.30	60
Policy Portfolio	-3.71	48	0.16	69	2.96	48	-0.70	54	3.72	74	10.48	83	12.71	90	7.64	73

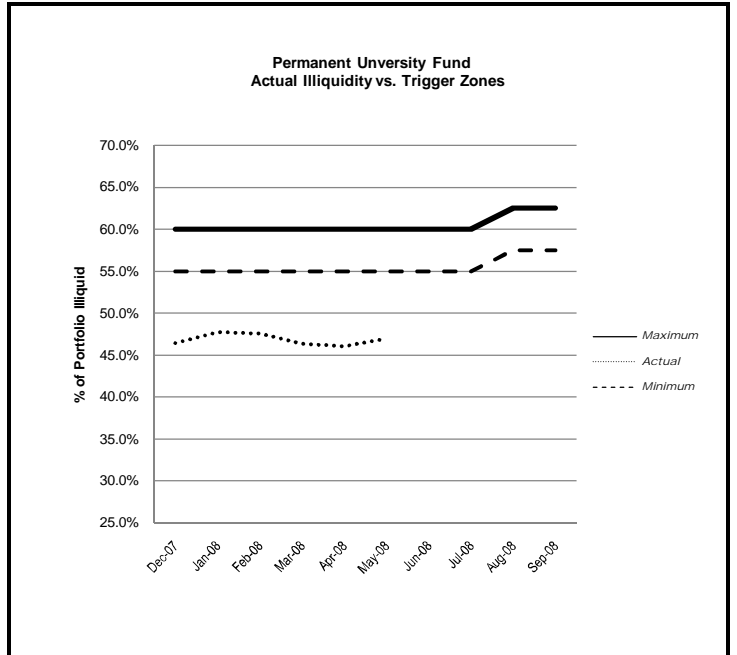
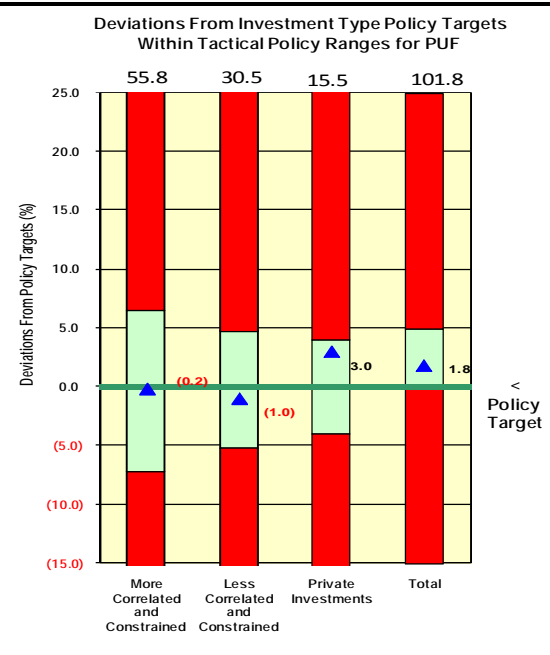
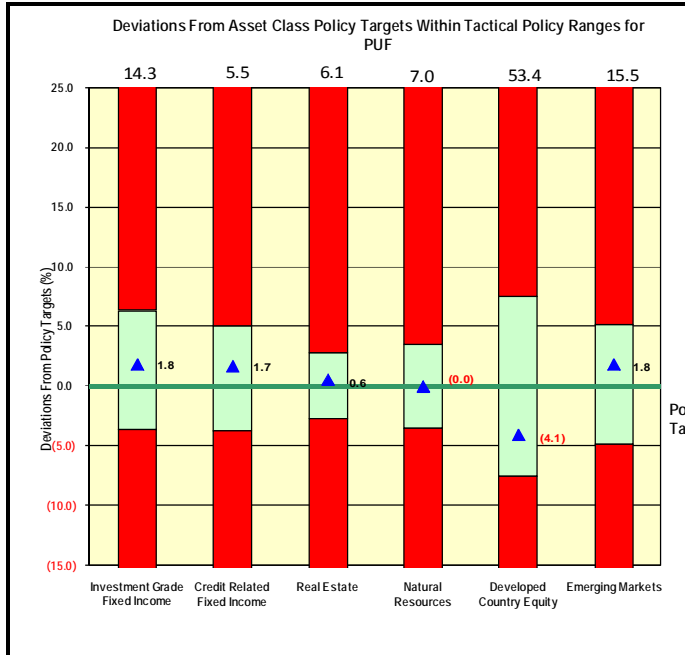
The Cambridge Billion \$ Funds Universe consists of the College and Universities with endowment assets greater than one billion dollars that report quarterly to Cambridge Associates, Inc. The number of Colleges and Universities with endowment assets greater than one billion dollars reporting as of March 31, 2008 was 45.

I. PERMANENT UNIVERSITY FUND Investment Reports for Periods Ended May 31, 2008

Prepared in accordance with *Texas Education Code Sec. 51.0032*

Summary of Capital Flows			
(\$ millions)	Fiscal Year Ended August 31, 2007	Quarter Ended May 31, 2008	Fiscal Year to Date Ended May 31, 2008
Beginning Net Assets	\$ 10,313.4	\$ 11,905.8	\$ 11,742.8
PUF Lands Receipts	272.8	131.2	301.9
Investment Return	1,639.8	341.1	583.6
Expenses	(82.5)	(19.9)	(45.6)
Distributions to AUF	(400.7)	(112.2)	(336.7)
Ending Net Assets	<u>\$ 11,742.8</u>	<u>\$ 12,246.0</u>	<u>\$ 12,246.0</u>

	Returns		Fiscal Year to Date		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	6.21%	6.64%	-0.22%	-0.09%	-0.31%
Credit-Related	N/A	3.99%	0.02%	-0.06%	-0.04%
Real Estate	-4.96%	-10.55%	0.02%	0.31%	0.33%
Natural Resources	39.15%	34.75%	0.67%	0.20%	0.87%
Developed Country	-3.10%	-2.01%	0.03%	-0.41%	-0.38%
Emerging Markets	12.61%	12.79%	0.07%	-0.10%	-0.03%
Total More Correlated and Constrained	4.25%	3.33%	0.59%	-0.15%	0.44%
Less Correlated and Constrained					
	7.19%	-1.11%	-0.10%	2.42%	2.32%
Private Investments					
	2.33%	12.15%	-0.05%	-1.33%	-1.38%
Total	4.64%	3.26%	0.44%	0.94%	1.38%



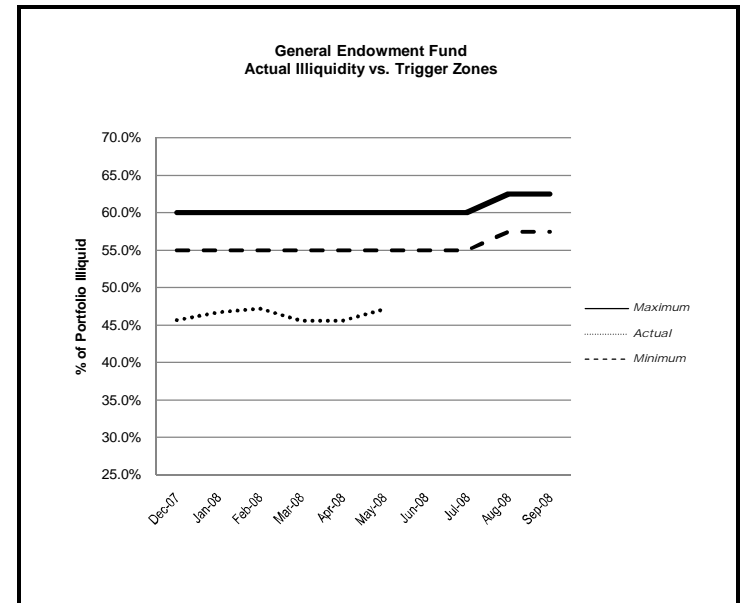
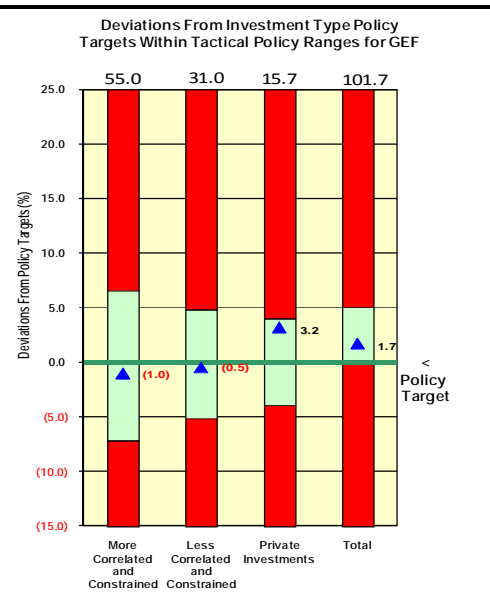
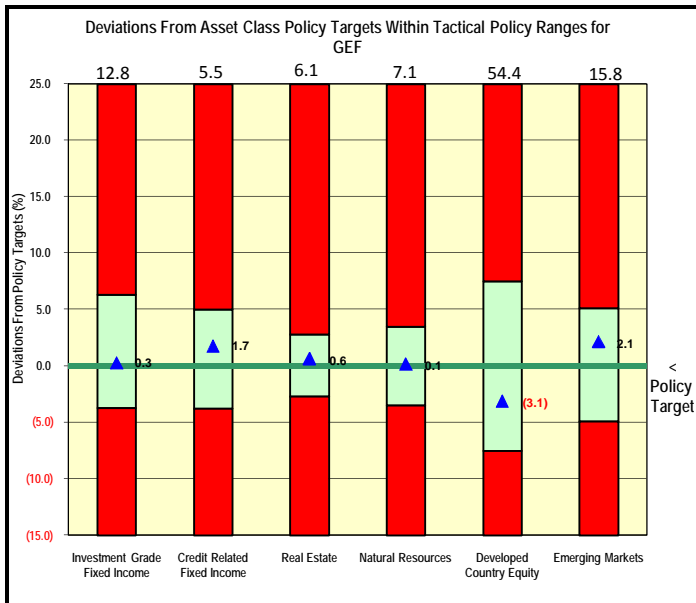
II. GENERAL ENDOWMENT FUND Investment Reports for Periods Ended May 31, 2008

Prepared in accordance with *Texas Education Code Sec. 51.0032*

<u>Summary of Capital Flows</u>			
(\$ millions)	Fiscal Year Ended August 31, 2007	Quarter Ended May 31, 2008	Fiscal Year to Date Ended May 31, 2008
Beginning Net Assets	\$ 5,427.8	\$ 6,598.9	\$ 6,433.1
Contributions	360.7	125.2	285.6
Withdrawals	(6.2)	(14.9)	(15.7)
Distributions	(239.6)	(65.4)	(193.0)
Investment Return	928.5	196.1	340.5
Expenses	(38.1)	(9.0)	(19.6)
Ending Net Assets	<u>\$ 6,433.1</u>	<u>\$ 6,830.9</u>	<u>\$ 6,830.9</u>

	Returns		Fiscal Year to Date		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	6.35%	6.64%	-0.18%	-0.08%	-0.26%
Credit-Related	N/A	3.99%	0.03%	-0.06%	-0.03%
Real Estate	-4.88%	-10.55%	0.04%	0.33%	0.37%
Natural Resources	38.37%	34.75%	0.61%	0.16%	0.77%
Developed Country	-3.04%	-2.01%	0.05%	-0.39%	-0.34%
Emerging Markets	12.48%	12.79%	0.08%	-0.12%	-0.04%
Total More Correlated and Constrained	4.37%	3.33%	0.63%	-0.16%	0.47%
Less Correlated and Constrained					
	7.20%	-1.11%	-0.05%	2.39%	2.34%
Private Investments					
	3.66%	12.15%	-0.05%	-1.12%	-1.17%
Total	4.90%	3.26%	0.53%	1.11%	1.64%

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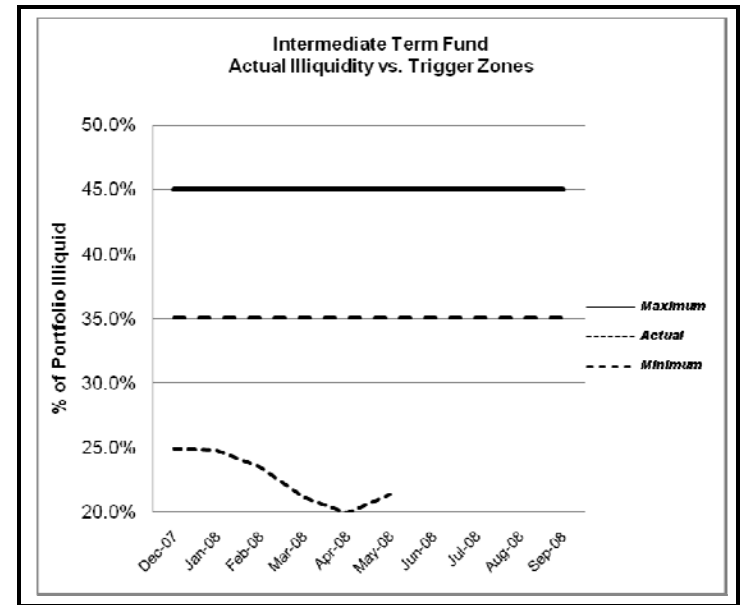
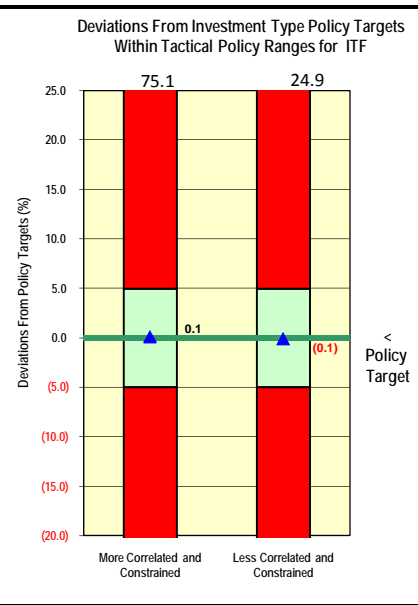
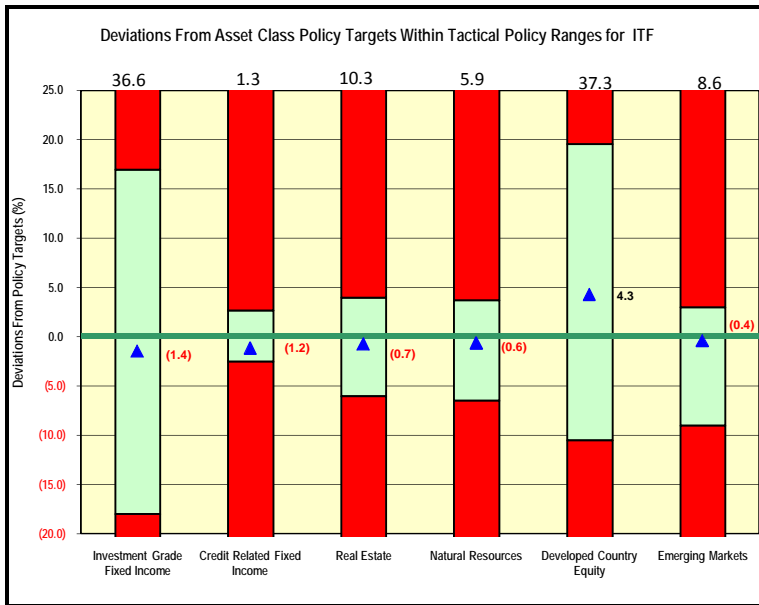


III. INTERMEDIATE TERM FUND Investment Reports for Periods Ended May 31, 2008

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
(\$ millions)	Fiscal Year Ended August 31, 2007	Quarter Ended May 31, 2008	Fiscal Year to Date Ended May 31, 2008
Beginning Net Assets	\$ 3,048.8	\$ 3,936.9	\$ 3,720.6
Contributions	664.6	213.4	1,449.3
Withdrawals	(228.6)	(88.1)	(1,189.9)
Distributions	(104.0)	(30.2)	(88.3)
Investment Return	377.4	106.4	259.0
Expenses	(37.6)	(8.9)	(21.2)
Ending Net Assets	<u>\$ 3,720.6</u>	<u>\$ 4,129.5</u>	<u>\$ 4,129.5</u>

	Returns		Fiscal Year to Date Value Added		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	7.09%	6.35%	-0.09%	0.22%	0.13%
Credit-Related	N/A	3.99%	0.03%	-0.08%	-0.05%
Real Estate	-5.19%	-10.55%	-0.01%	0.61%	0.60%
Natural Resources	40.82%	34.75%	0.31%	0.23%	0.54%
Developed Country	-3.32%	-2.38%	0.29%	-0.20%	0.09%
Emerging Markets	10.72%	12.80%	-0.09%	-0.12%	-0.21%
Total More Correlated and Constrained	5.74%	4.28%	0.44%	0.66%	1.10%
Less Correlated and Constrained					
	7.52%	-1.11%	-0.05%	2.23%	2.18%
Private Investments					
	0.00%	0.00%	0.00%	0.00%	0.00%
Total	6.21%	2.93%	0.39%	2.89%	3.28%



IV. SEPARATELY INVESTED ASSETS
Summary Investment Report at May 31, 2008
 Report prepared in accordance with *Texas Education Code Sec. 51.0032*

ASSET TYPES	(\$ thousands)															
	CURRENT PURPOSE		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		TOTAL EXCLUDING OPERATING FUNDS		OPERATING FUNDS (SHORT TERM FUND)		TOTAL	
	DESIGNATED															
Cash & Equivalents:	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>	<u>BOOK</u>	<u>MARKET</u>
Beginning value 02/29/08	1,978	1,978	2,708	2,708	87,785	87,785	6,812	6,812	5,859	5,859	105,142	105,142	1,389,745	1,389,745	1,494,887	1,494,887
Increase/(Decrease)	481	481	(369)	(369)	(51,504)	(51,504)	(4,379)	(4,379)	3,408	3,408	(52,363)	(52,363)	359,041	359,041	306,678	306,678
Ending value 05/31/08	2,459	2,459	2,339	2,339	36,281	36,281	2,433	2,433	9,267	9,267	52,779	52,779	1,748,786	1,748,786	1,801,565	1,801,565
Debt Securities:																
Beginning value 02/29/08	-	-	264	249	12,668	13,570	13,798	14,514	-	-	26,730	28,333	-	-	26,730	28,333
Increase/(Decrease)	-	-	-	(5)	62	(157)	(2,090)	(2,423)	-	-	(2,028)	(2,585)	-	-	(2,028)	(2,585)
Ending value 05/31/08	-	-	264	244	12,730	13,413	11,708	12,091	-	-	24,702	25,748	-	-	24,702	25,748
Equity Securities:																
Beginning value 02/29/08	24	2,605	443	417	33,524	35,641	18,482	19,465	-	-	52,473	58,128	-	-	52,473	58,128
Increase/(Decrease)	(6)	(10)	(15)	(15)	913	2,497	6,877	7,000	-	-	7,769	9,472	-	-	7,769	9,472
Ending value 05/31/08	18	2,595	428	402	34,437	38,138	25,359	26,465	-	-	60,242	67,600	-	-	60,242	67,600
Other:																
Beginning value 02/29/08	-	-	280	280	8	8	305	129	90	90	683	507	-	-	683	507
Increase/(Decrease)	-	-	12,654	12,654	(7)	(7)	(1)	1	1,739	1,739	14,385	14,387	-	-	14,385	14,387
Ending value 05/31/08	-	-	12,934	12,934	1	1	304	130	1,829	1,829	15,068	14,894	-	-	15,068	14,894
Total Assets:																
Beginning value 02/29/08	2,002	4,583	3,695	3,654	133,985	137,004	39,397	40,920	5,949	5,949	185,028	192,110	1,389,745	1,389,745	1,574,773	1,581,855
Increase/(Decrease)	475	471	12,270	12,265	(50,536)	(49,171)	407	199	5,147	5,147	(32,237)	(31,089)	359,041	359,041	326,804	327,952
Ending value 05/31/08	2,477	5,054	15,965	15,919	83,449	87,833	39,804	41,119	11,096	11,096	152,791	161,021	1,748,786	1,748,786	1,901,577	1,909,807

Details of individual assets by account furnished upon request.

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5. **U. T. System Board of Regents: Report on The University of Texas Investment Management Company (UTIMCO) organization and activities**

REPORT

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of The University of Texas Investment Management Company (UTIMCO), will report on the UTIMCO organization, investments, control and support, and Fiscal Year 2009 priorities set forth on Pages 33 – 41.



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

UTIMCO Update

Joint Meeting of
The University of Texas System Board of Regents and
UTIMCO Board of Directors
July 24, 2008

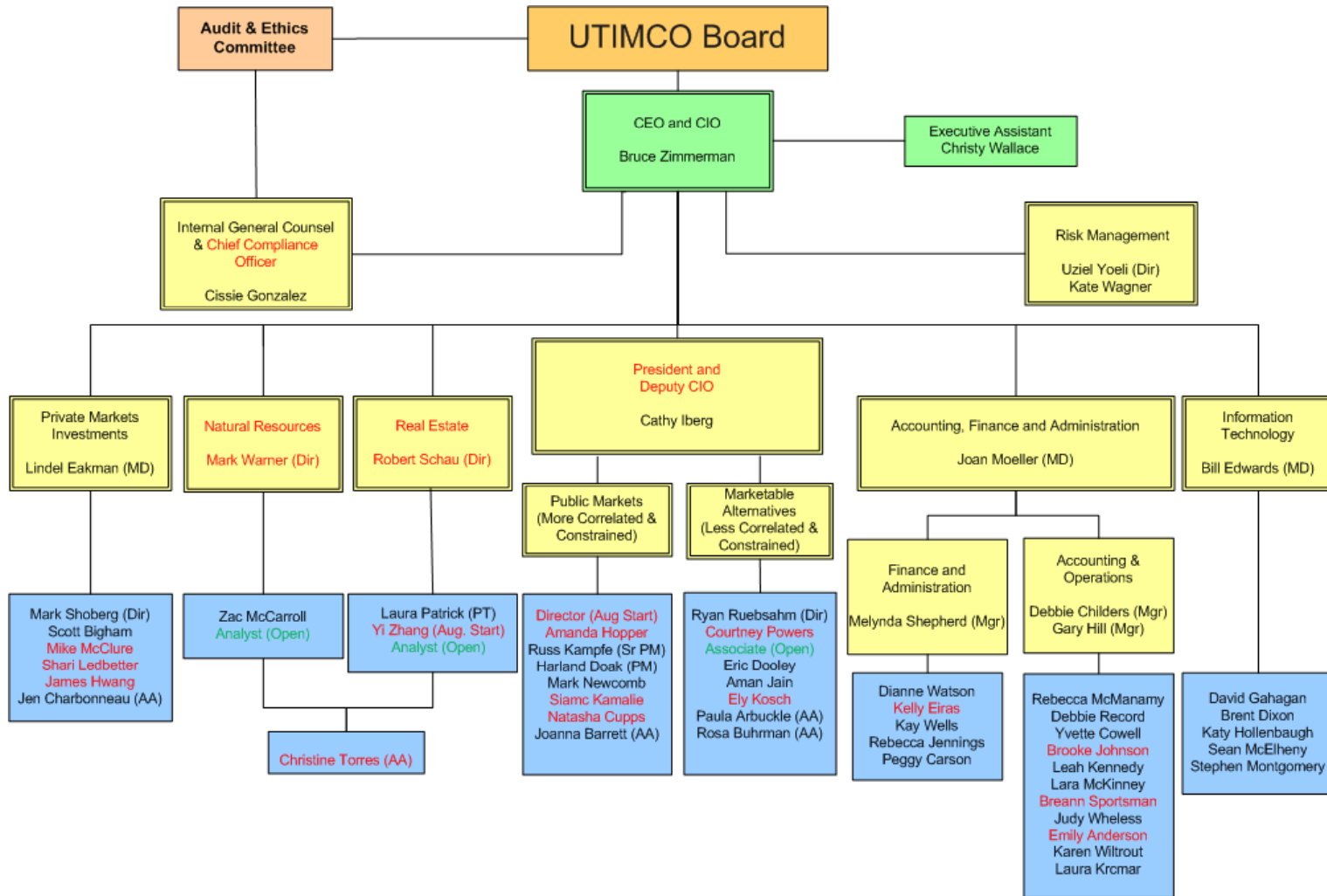


UTIMCO Update

- Staffing
- Investments
 - Investment Committee
 - Monitoring and Redemptions
 - Investments
- Travel
- Controls and Support
- FY09 Priorities



UTIMCO Organizational Structure



35



Investment Committee

- Membership
 - CIO and Deputy CIO
 - Investment Related Directors and MD's
 - Risk Management
 - Compliance
- Meets approximately every other week
- Analyzes Tactical Positioning
- Review/Gates Investment Pipeline
- Projects
 - Contact Management
 - Diligence/Investment Memo Best Practices



Portfolio Monitoring and Significant Redemptions

Fiscal Year to Date, May 2008

EXISTING MANAGER MONITORING: Number of Meetings/Calls						
Public Markets	Marketable Alternatives	Private Investments	Real Estate	Natural Resources	Total	
94	121	180	37	25	457	

SIGNIFICANT REDEMPTIONS

	More Correlated and Constrained		Less Correlated and Constrained		Private Investments	Total
Investment Grade Fixed Income	GIA	(\$271)	AQR	(\$40)		
	PIMCO	(\$302)	Bridgewater	(\$116)		
	Reams	(\$543)				(\$1,272)
Credit Related FI						
Real Estate	Cohen & Steers	(\$675)				(\$675)
Natural Resources	PIMCO	(\$308)				
	GSCI	(\$782)				(\$1,090)
Developed Country Equity	Relational	(\$100)				
	BGI	(\$780)	Satellite	(\$90)		
	GSAM	(\$256)	AG Realty	(\$25)	Secondary Sale	(\$168)
	Dalton	(\$55)				
	TCW	(\$269)	BGI	(\$50)		\$1,793
Emerging Market Equity	Landsdowne	(\$100)	Oaktree	(\$58)		
	Templeton	(\$170)	Indus Event	(\$42)		
	Dalton	(\$56)	EMSO	(\$56)		(\$482)
Total		(\$4,667)		(\$477)	(\$168)	(\$5,312)



Significant Investments

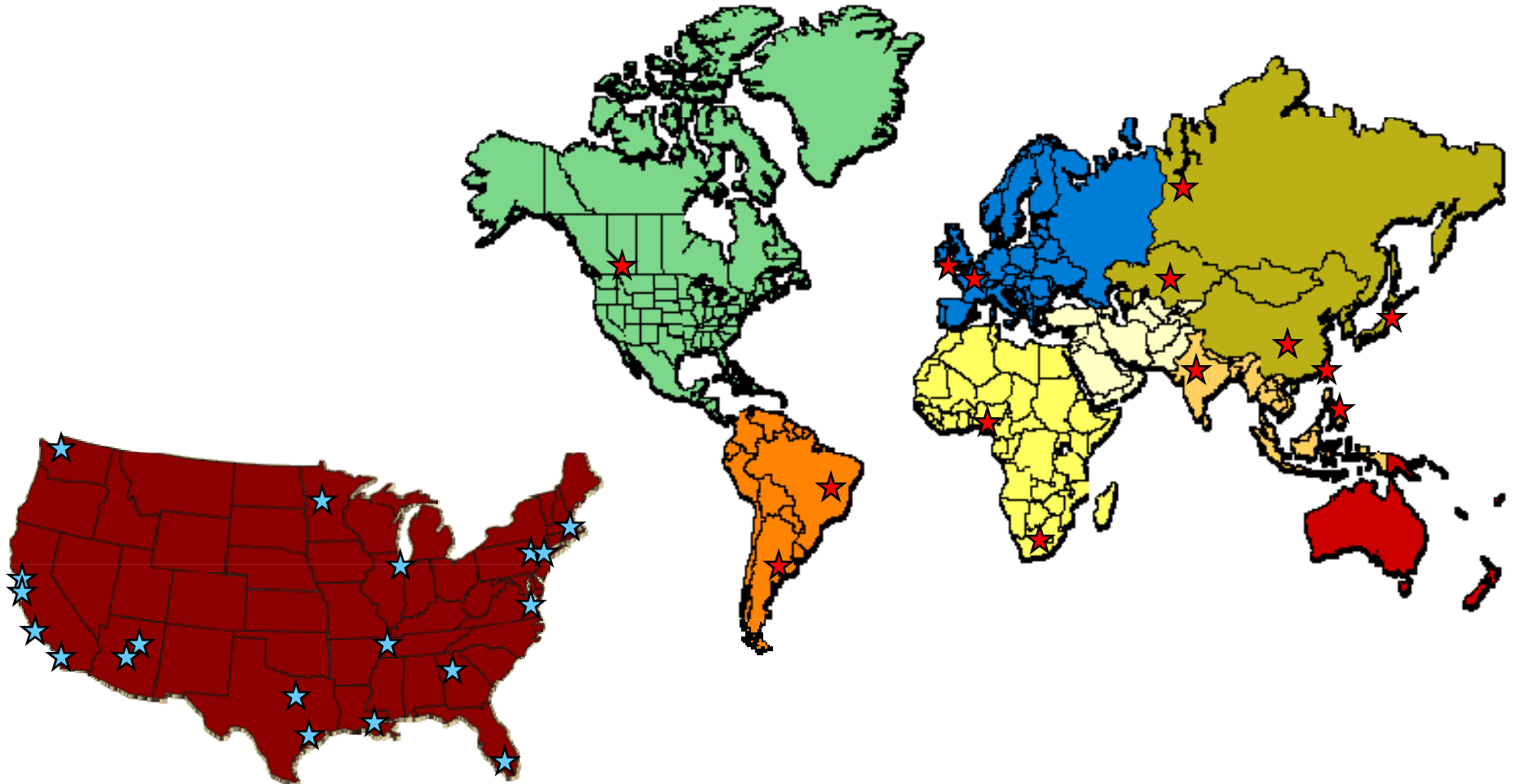
Fiscal Year to Date, May 2008

	More Correlated and Constrained		Less Correlated and Constrained		Private Investments	Total
Investment Grade FI	Brandywine	\$400	Bridgewater	\$75		
			Park Central	\$65		540
Credit Related Fixed Income			Silverpoint	\$25	Oaktree Loan Fund	\$250
			Centerbridge	\$100	HIG Bayside	\$100
			Baupost	\$200	Varde	\$100
					Avenue Spcl Sits	\$75
					Carval	\$50
					GSO	\$50
						950
Real Estate	European Inv	\$285	GEM	\$50	Five Mile	\$50
	CSFB	\$200			Morgan Stanley Spcl	\$50
	C&S Global	\$290			Northwood	\$50
					Shorenstein	\$50
					Trophy	\$55
						1,080
Natural Resources	Gresham	\$304	McVean	\$50	Natural Gas Partners	\$50
					SCF	\$41
						445
Developed Country Equity	Levin Large Cap	\$50	ESL	\$100	TPG Star	\$100
	Blavin	\$30	Coghill	\$50	TPG	\$100
			TPG-Axon	\$40	Warburg Pincus	\$75
			Westfield	\$50	CVC Europe	\$51
			Eton Park	\$25	MSouth	\$50
			Fox Point	\$25	TCV	\$50
			Landsdowne	\$25	Foundry	\$40
					Union Square	\$25
					Invention II	\$50
						936
Emerging Market Equity	Lazard	\$200	Penta	\$60	Ashmore	\$100
	Prosperity	\$50			Emerald Hill	\$60
	Quorum	\$50			Invention Dvlpmnt Fund	\$50
					Baring Asia	\$50
					New Margin	\$50
					Gobi	\$25
						695
Total		\$1,859		\$940	\$1,847	\$4,646



Travel

39





Controls and Support

- Risk Management
 - Updated Investment and Related Policies
 - Enhanced Reporting
 - Participation in Investment Committee and Portfolio Reviews
- Compliance
 - Updated Investment and Related Policies
 - Ongoing Compliance Program
 - Participation in Investment Committee
- Operations, Accounting
 - External Audit
 - Internal Audit
 - Revised Reporting ("Grid")
- Technology
 - Information Security
 - MARS



FY 09 Priorities

- Optimize Staff Contribution
- Continue to Enhance the Investment Process
- Continue to Enhance Risk Measurement and Reporting
- Expense Management
- Make Great Investments

6. **U. T. System Board of Regents: Report on The University of Texas Investment Management Company (UTIMCO) Fiscal Year 2009 budget and fees, and U. T. System Office of Finance review**

REPORT

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of The University of Texas Investment Management Company (UTIMCO), will discuss the preliminary UTIMCO Annual Budget for Fiscal Year 2009 using the attachment on Pages 43 - 56.

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will provide a review of the UTIMCO budget including an analysis of budget trends using the attachment on Pages 57 - 69.

The UTIMCO Board will seek approval of the budget at the U. T. System Board of Regents' August 2008 meeting.



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

UTIMCO Board of Directors and UT System Board of Regents' Meeting

Budget Review

July 24, 2008



Summary

	FY 2008 Budget	FY 2008 Forecast	FY 2009 Budget	Increase/(Decrease) \$	%
UTIMCO Personnel	\$11,457	\$10,322	\$12,489	\$2,167	21%
UTIMCO Other	<u>3,912</u>	<u>3,680</u>	<u>4,055</u>	<u>375</u>	10%
Total UTIMCO	15,369	14,002	16,544	2,542	18%
Other, Non-Investment Manager	<u>6,511</u>	<u>5,920</u>	<u>6,042</u>	<u>122</u>	2%
Total Non-Investment Manager	21,880	19,922	22,586	2,664	13%
Investment Manager - Invoiced	<u>42,715</u>	<u>41,455</u>	<u>44,203</u>	<u>2,748</u>	7%
Total	<u>\$64,595</u>	<u>\$61,377</u>	<u>\$66,789</u>	<u>\$5,412</u>	9%



UTIMCO Personnel

	FY 2008 Budget	FY 2008 Forecast	FY 2009 Budget	Increase/(Decrease) \$	Increase/(Decrease) %
Salaries	\$6,011	\$5,396	\$6,956	\$1,560	29%
Bonus	3,258	3,343	3,566	223	7%
Benefits	1,177	954	1,293	339	36%
Taxes	418	333	478	145	43%
Hiring	440	124	50	(74)	-60%
Subscriptions, Memberships, Dues, Education	153	171	146	(25)	-14%
Total	<u>\$11,457</u>	<u>\$10,322</u>	<u>\$12,489</u>	<u>\$2,167</u>	21%



Staffing Trends

	<u>FY 06</u>	<u>FY 09</u>	<u>Change</u>
CEO	2	3	1.0
Marketable Alternatives	7	8	1.0
Public Markets	9	8	(1.0)
Private Investments	7	7	0
Real Assets ("Inflation Hedging")	3	7.5	4.5
Risk Management	3	2	(1.0)
Legal/Compliance	0	1	1.0
Operations, Accounting, Finance and Technology	<u>27</u>	<u>26</u>	<u>(1.0)</u>
Total	<u>58</u>	<u>62.5</u>	<u>4.5</u>
Assets Under Management (Billions)	\$20.4	\$26.5	\$6.1
Assets per Employee (Millions)	\$350	\$424	\$74
Average Salary	\$94K	\$110K	5.5%/yr



Personnel

<u>Salaries</u>		
	FY 08 Forecast	\$5,396
	Increase to Reflect Current "Run Rate" ¹	<u>757</u>
		6,153
	Open Positions	200
	Salary Increases Related to Promotions	135
	Salary Increases (7.6%)	<u>468</u>
		<u>\$6,956</u>
<u>Bonus</u>		
	FY08 Forecast	\$3,343
	Impact of change between 08 forecast & 09 bonus accrual assumption	(534)
	Net reductions in Award Opportunities	(144)
	Increase in 30% Prior Year Deferral	284
	Increase due to Additional Staff	269
	Increase due to Salary Increases	<u>348</u>
	FY09 Budget	<u>\$3,566</u>

¹Includes Public Markets Director and Real Estate Associate



UTIMCO Other

	FY 2008 Budget	FY 2008 Forecast	FY 2009 Budget	Increase/(Decrease) \$	Increase/(Decrease) %
Travel & Meetings	\$463	\$567	\$859	\$292	52%
Online, Data, Contract Services	772	654	743	89	14%
Lease	943	950	983	33	3%
Depreciation	608	537	612	75	14%
Insurance	252	240	236	(4)	-2%
Office Expenses	334	367	362	(5)	-1%
Professional Services	542	365	259	(106)	-29%
Total	\$3,912	\$3,680	\$4,055	\$375	10%



Other UTIMCO Direct Expense

Travel*

"Traveling" Staff	FY08	FY09
International Trips/Staff	10	18
Total International/Trips	2.8	2.7
Cost/International Trip	28	48
Total International Travel Costs	<u>\$11</u>	<u>\$12</u>
	<u>\$310</u>	<u>\$575</u>
Domestic Trips		
Cost/Domestic Trips	200	225
Total Domestic Travel Costs	\$1	\$1
Total Travel Costs	<u>\$200</u>	<u>\$225</u>
	<u>\$510</u>	<u>\$800</u>

*Excludes Board of Director-related Travel / \$58 in FY08 and \$60 in FY09

Online Services/Subscriptions/Memberships/Education

- Bloomberg: reduced 2 terminals
- Maintained Internal Fixed Income Services and General Market Information Services
- New Real Estate and Natural Resources Services

Lease/Depreciation

- Increase space on 27th Floor
- Re-stack of 28th Floor



Other, Non-Investment Manager Expense

	FY 2008 Budget	FY 2008 Forecast	FY 2009 Budget	Increase/(Decrease) \$	Increase/(Decrease) %
Custodian	\$1,536	\$1,672	\$1,725	\$54	3%
Measurement & Analytics	1,530	1,366	1,327	(40)	-3%
Consultants	1,325	737	951	214	29%
Investment-related Legal	1,160	1,160	1,115	(45)	-4%
Audit	754	830	776	(54)	-6%
Printing	195	153	139	(14)	-9%
Other	<u>10</u>	<u>3</u>	<u>10</u>	<u>7</u>	<u>233%</u>
Total	<u>\$6,511</u>	<u>\$5,920</u>	<u>\$6,042</u>	<u>\$122</u>	<u>2%</u>



Non-Investment Manager Expense

Consultants

- Risk Management
- Albourne
- Cambridge

Legal

	<u># Deals</u>	<u>Legal Cost/Deal</u>	<u>Total</u>
MCC	15	\$15.0	\$225
LCC	8	12.5	100
Real Estate	11	15.0	165
Natural Resources	10	17.5	175
Private - Emerging	8	20.0	160
Private - Developed	<u>19</u>	<u>10.0</u>	<u>190</u>
	<u>71</u>	\$14.0	1,015
Background Checks			<u>100</u>
Total			<u>\$1,115</u>



Investment Manager - Invoiced

	FY 2008 Budget	FY 2008 Forecast	FY 2009 Budget	Increase/(Decrease) \$	%
Management Fees	\$18,989	\$22,138	\$23,897	\$1,759	8%
Performance Fees	<u>23,726</u>	<u>19,317</u>	<u>20,306</u>	<u>989</u>	5%
Total	<u>\$42,715</u>	<u>\$41,455</u>	<u>\$44,203</u>	<u>\$2,748</u>	7%



Capital Budget

Ongoing and Expansion

- One-time build out complete
- Ongoing increases from \$189K FY08 Forecast to \$220K FY 09 Budget

Technology

- Replace Development Server (\$45), Mainframe Server (\$45) and Three Regular Servers (\$35)
- Ongoing Staff Equipment Replacements (\$35)
- Obtain Information Security Software (\$35)



Capital Budget

UTIMCO Services Capital Expenditures Budget for FY 2009, 2008 & 2007

	2009		2008 (Forecast)		2007	
	Budget	Budget	Actual	Variance	Budget	Variance
Ongoing:						
Computer Server Replacements and Related Software Licenses	\$ 124,500	\$ 30,000	\$ 75,672	\$ (45,672)	\$ 75,000	\$ 29,937
Staff Equipment	43,000	86,000	45,823	40,177	31,000	32,700
Security Enhancements	35,000	33,000	25,130	7,870	6,000	4,012
Software License Upgrades, Additions	-	20,000	20,000	-	10,000	4,622
Office	17,500	25,000	22,500	2,500	45,000	11,599
	<u>\$ 220,000</u>	<u>\$ 194,000</u>	<u>\$ 189,125</u>	<u>\$ 4,875</u>	<u>\$ 167,000</u>	<u>\$ 82,870</u>
						<u>\$ 84,130</u>
Expansion:			<i>Estimated</i>			
Phones and Related Equipment	\$ -	\$ 8,000	\$ 10,000	\$ (2,000)	\$ -	\$ -
Office Equipment	-	38,970	45,000	(6,030)	-	-
Computer Related Equipment	-	25,000	25,000	-	-	-
Furniture & Fixtures	-	89,599	145,000	(55,401)	-	-
Leasehold Improvements	-	173,415	375,000	(201,585)	-	-
Allowance for buildout	-	(173,415)	(173,415)	-	-	-
	<u>\$ -</u>	<u>\$ 161,569</u>	<u>\$ 426,585</u>	<u>\$ (265,016)</u>	<u>\$ -</u>	<u>\$ -</u>
Total Capital Expenditures	<u>\$ 220,000</u>	<u>\$ 355,569</u>	<u>\$ 615,710</u>	<u>\$ (260,141)</u>	<u>\$ 167,000</u>	<u>\$ 82,870</u>
						<u>\$ 84,130</u>



Fee Schedule

UTIMCO Fee and Direct Budgeted Investment Expenses Annual Fee and Allocation Schedule For the fiscal year ending August 31, 2009

Proposed Budget	Fund Name						Separate Funds	Total
	PUF	PHF	LTF	PHF LTF	ITF	STF		
Market Value 2/29/08 (\$ millions)	11,905.8	1,101.4	5,497.3	6,598.7 (2)	3,936.9	1389.7	192.1	24,023.2
UTIMCO Services	8,134,921 49.17%	910,209 5.50%	4,640,564 28.05%	2,858,015 17.28%				16,543,709 100.00%
Direct Expenses of the Fund								
External Management Fees	11,537,694	0	0	6,575,811	5,783,817	N/A (1)		23,897,322
External Management Fees - Performance Based	10,799,187	0	0	5,904,320	3,601,975			20,305,482
Other Direct Costs	2,822,512	34,357	149,628	1,882,173	1,153,354			6,042,024
Total Direct Expenses of the Fund	25,159,393	34,357	149,628	14,362,304	10,539,146	0	0	50,244,828
TOTAL	33,294,314	944,566	4,790,192	14,362,304	13,397,161	N/A (1)	0	66,788,537
Percentage of Market Value								
UTIMCO Services	0.068%	0.083%	0.084%	0.000%	0.073%	0.000%	0.000%	0.069%
Direct Expenses of the Fund	0.211%	0.003%	0.003%	0.218%	0.268%	0.000%	0.000%	0.209%
TOTAL	0.279%	0.086%	0.087%	0.218%	0.341%	0.000%	0.000%	0.278%

FY 2008 Budgeted Costs	0.301%	0.089%	0.092%	0.236%	0.332%	0.000%	0.000%	0.293%
Change	-0.022%	-0.003%	-0.005%	-0.018%	0.009%	0.000%	0.000%	-0.015%
FY 2008 Allocation Ratio	49.068%	5.890%	28.499%	0.000%	16.543%	0.000%	0.000%	-0.015%
Change	0.104%	-0.388%	-0.449%	0.000%	0.733%	0.000%	0.000%	

(1) Income is net of fees
(2) Pooled Fund for the collective investment of the PHF and LTF



Reserve Analysis

Projected Cash Reserves at August 31, 2008:

Cash	\$10,433,043
Prepaid Expenses	473,174
Less: Accounts Payable, Accrued Liabilities (Includes bonuses & earnings payable)	<u>(4,654,720)</u>

Expected Cash Reserves at August 31, 2008

\$6,251,497

2009 Proposed Operating Budget 16,543,709
Applicable Percentage 25%

\$ 4,135,927

2009 Proposed Capital Expenditures 220,000

220,000

Required Cash Reserves at August 31, 2008

\$4,355,927

Balance Available for Distribution

\$1,895,570

Recommendation: Reserves Not Required to Rebate back to the UT Investment Funds

Fiscal Year 2009

UTIMCO BUDGET REVIEW

**The University of Texas System
Office of Finance**

Prepared by:

**Philip Aldridge – Associate Vice Chancellor for Finance
William Huang – Treasury Manager**

July 9, 2008

Fiscal Year 2009 UTIMCO BUDGET REVIEW

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Fiscal Year 2009 UTIMCO BUDGET REVIEW

I. Executive Summary

This report supports the U. T. System Board of Regents' efforts to determine whether investment management costs for funds under its control are "reasonable and appropriate," as required by the Texas Uniform Prudent Management of Investment Funds Act (UPMIFA).

The report reviews UTIMCO's proposed **\$67 million FY09 budget**. The UTIMCO budget consists of **UTIMCO Services** (corporate) and **Direct Costs to (U. T. System) Funds** (third party management and performance fees paid directly by UTIMCO and costs related to custody, consulting, corporate legal, audit, and risk measurement).

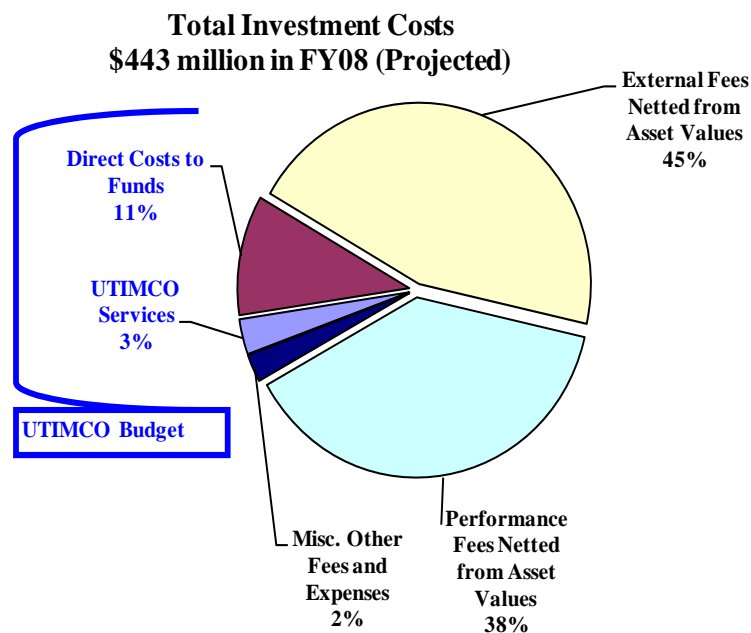
The report also reviews the FY09 budget in the context of Total Investment Costs, which consist primarily of external management fees that are paid by the fund managers and not directly by UTIMCO. The **projected Total Investment Costs for FY08 are \$443 million**, inclusive of the UTIMCO Services costs and Direct Costs to Funds.

Highlights:

- **Total Investment Costs FY04-FY08:** Total costs, dominated by external management and performance fees, have increased significantly as a percentage of average assets under management (AUM) from 1.01% in FY04 to 1.81% in FY08 (projected).
- **UTIMCO Budget for FY09:** The FY09 budget is \$67 million, a 9% increase from the current projection for FY08 and a 3% increase from the FY08 budget.
- **Compensation:** Salaries for FY09 are budgeted to increase \$1.6 million (29%) from FY08 projections. About two-thirds of the increase reflects staff hired during FY08 and four new budgeted positions for FY09; the balance represents an overall 9.8% average salary increase for existing staff (including promotions). Bonuses for FY09 are budgeted to increase \$223k (7%) from FY08 projections due to an increase in salaries, offset somewhat by net reductions in maximum bonus potential for certain employees.
- **Travel:** Travel expenses for FY09 are budgeted at \$800k, a 57% increase over FY08 projections and a 352% increase when compared to FY07 expenses. The increase in travel expenses is due to the need for increased investment due diligence by UTIMCO staff and a move towards more international investments.
- **Lease Expenses:** Lease expenses are continuing to increase as a result of rising operating expenses and the addition of 3,153 square feet of leased space to accommodate growth in personnel.
- **Audit and Legal:** Audit fees are expected to stabilize in FY09 but are still significantly higher than FY07 and prior years due to the change in audit firms and additional time required to audit valuations of alternative investments. Although direct legal fees are budgeted to decrease in FY09, legal expenses will be the third largest cost components of the Direct Costs to Funds portion of the budget.
- **UTIMCO Reserves:** UTIMCO staff projects UTIMCO's available cash reserves to be \$1.9 million at fiscal year-end. We concur with UTIMCO staff in recommending that no cash reserves be distributed back to the funds at this time. This will be reviewed again one year from now.

II. Total Investment Costs

UTIMCO's Total Investment Costs include all items in the UTIMCO budget plus external management fees paid directly by the funds and netted from asset values.



Based on FY08 projections, the pie chart shows that UTIMCO Services and Direct Costs to Funds (i.e., UTIMCO's budget) represent only 14% of the \$443 million in Total Investment Costs. External Fees and Performance Fees that are netted from asset values for partnerships, hedge funds and mutual funds are not budgeted since they are not paid directly by the funds. These expenses for FY08 are projected to be 83% of total investment costs. Other Fees and Expenses (2% of total costs) include education, endowment compliance and investment oversight expenses.

Table 1 below shows the trend of Total Investment Costs as a percentage of average AUM from **1.01% in FY04 to 1.81% in FY08 (projected)**.

Table 1
Total Investment Costs Summary Trend FY04-FY08 (\$ millions)

	FY04	FY05	FY06	FY07	Projected FY08	FY08 % of Total Costs
UTIMCO Services	8.6	10.2	11.3	12.1	14.0	3%
Direct Costs to Funds	25.5	33.8	52.3	40.1	47.4	11%
External Fees Netted from Asset Values	62.5	76.5	115.2	157.9	200.1	45%
Performance Fees Netted from Asset Values	56.9	90.5	81.6	227.3	170.1	38%
Miscellaneous Other Fees and Expenses	3.0	3.8	4.4	5.0	11.0	2%
Total Investment Costs	156.6	214.8	264.7	442.3	442.6	100%
Total % of Average Assets Under Management *	1.01%	1.25%	1.37%	2.01%	1.81%	

* The values shown for FY08 are based on UTIMCO projections.

III. UTIMCO Budget Analysis and Trends

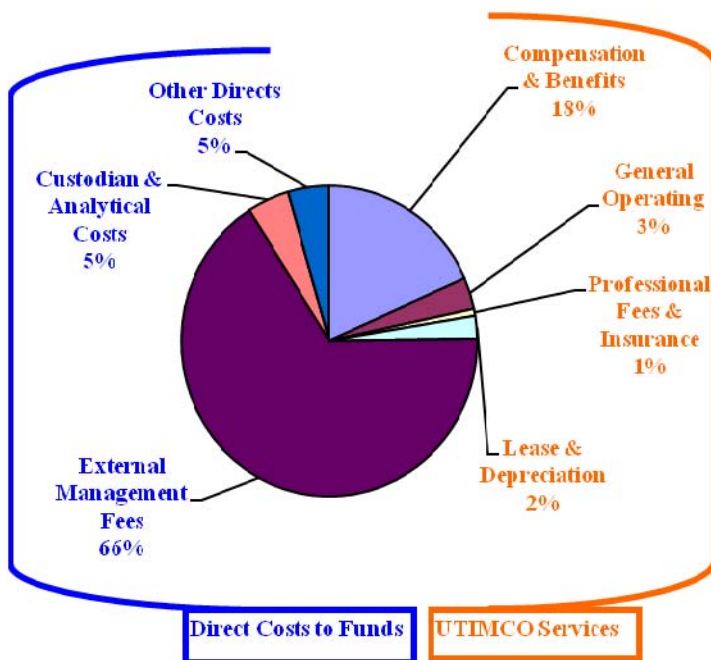
UTIMCO proposes a budget for FY09 (excluding capital expenditures) of **\$67 million**. Table 2 shows the trend of UTIMCO Services and Direct Costs to Funds budgeted costs as a percent of average AUM since FY04 from **0.22% in FY04 to 0.27% in FY09 (budget)**.

Table 2
UTIMCO Budget Trend FY04-FY09 (\$ millions)

	Actual				Projected	Budget
	FY04	FY05	FY06	FY07	FY08	FY09
Average Total Assets Under Management (AUM) *	15,470	17,245	19,372	21,965	24,497	24,497
% Change in AUM	10%	11%	12%	13%	12%	0%
UTIMCO Services	8.8	10.2	11.3	12.1	14.0	16.5
% Change in UTIMCO Services	16%	16%	11%	7%	16%	18%
UTIMCO Services % of AUM	0.06%	0.06%	0.06%	0.05%	0.06%	0.07%
Direct Costs to Funds	25.5	33.8	52.3	40.1	47.4	50.2
% Change in Direct Costs to Funds	59%	33%	55%	-23%	18%	6%
Direct Costs to Funds % of AUM	0.16%	0.20%	0.27%	0.18%	0.19%	0.21%
Total Budgeted Costs	34.3	44.0	63.6	52.1	61.4	66.8
% Change in Total Budgeted Costs	45%	28%	44%	-18%	18%	9%
Total Budgeted Costs % of AUM	0.22%	0.26%	0.33%	0.24%	0.25%	0.27%

* The values shown for FY08 and FY09 are based on UTIMCO projections.

FY 2009 UTIMCO Budget Components
\$66.8 million



The pie chart to the left shows the breakdown of the UTIMCO budget. UTIMCO Services fees represent 24% of the total budget, with Compensation & Benefits being the largest component. Direct Costs to Funds include External Management Fees (including performance fees) paid directly, Custodian & Analytical Costs and Other Direct Costs. External Management Fees dominate the total budget at 66%. UTIMCO retains external managers for 87% of the \$25.1 billion in operating and endowment funds (as of May 31, 2008). UTIMCO staff manages the remaining 13% of assets in addition to a large internal derivatives portfolio.

Table 3 compares the UTIMCO budget for FY08 and FY09. Refer to Exhibits A and B for a detailed budget comparison and budget trend for FY04-FY09.

**Table 3
UTIMCO FY08 Projected Actual and FY09 Budget Overview**

	FY08				FY09			
	\$ Budget	Projected \$ Actual	\$ Change vs FY08 Budget	% Change vs FY08 Budget	\$ Budget	\$ Change vs FY08 Projected	% Change vs FY08 Projected	% Change vs FY08 Budget
UTIMCO Services	15,369,829	14,001,978	(1,367,851)	-8.9%	16,543,706	2,541,728	18.2%	7.6%
Direct Costs to Funds	49,225,813	47,375,572	(1,850,241)	-3.8%	50,244,829	2,869,257	6.1%	2.1%
Total Budget	64,595,642	61,377,549	(3,218,092)	-5.0%	66,788,535	5,410,985	8.8%	3.4%

FY08 Forecast versus Budget: UTIMCO staff projects actual FY08 costs will be \$61.4 million, \$3.2 million (5.0%) below the total FY08 budget of \$64.6 million.

- UTIMCO Services corporate expenses are projected to be under budget by \$1.4 million (8.9%)
 - Salaries, largely driven by open positions filled during the year, is the largest contributor to budget savings at \$615k under budget.
 - Additional savings arise from employee benefits, recruiting and relocation expenses and corporate legal expenses.
- Direct Costs to Funds overall are projected to be under budget by \$1.9 million (3.8%).
 - External management fees are estimated to be \$3.1 million (17%) over budget while performance fees are anticipated to be \$4.4 million (19%) under budget in FY08.
 - Consultant Fees are projected at \$588k (44%) below budget.
- Capital Expenditures are forecasted to be \$260k (73%) over budget, primarily a result of the build-out of additional lease space.

FY09 Proposed Budget: The proposed \$66.8 million UTIMCO budget (excluding capital expenditures) for FY09 is 8.8% higher than FY08 projected actual expenses (3.4% higher than FY08 budget).

- UTIMCO Services for FY09 at \$16.5 million is an increase of 18.2% over FY08 projected actual costs, primarily due to increases in personnel-related costs and travel expenses.
- Direct Costs to Funds at \$50.2 million are budgeted to increase 6.1% over actual costs forecast for FY08, mainly due to expected increases in external management and consultant fees.
- Capital Expenditures of \$220k are primarily for information technology upgrades.

IV. UTIMCO Services

For FY09, total personnel-related expenses including employee benefits account for 71% of the UTIMCO Services budget (18% of the total budget). Trends in staffing and total compensation in relation to assets are shown in Table 4 on the next page. Highlights from Table 4 include:

- UTIMCO staff has grown 64% from FY04 to FY08, while assets increased 58% in the same period.
- Staffing is projected at 59 employees for fiscal year-end 2008 and budgeted at 63 employees for FY09, a 7% increase.
- Assets Under Management (AUM) per employee decreased 3% from FY04 to FY08.
- Total compensation increased 55% in the aggregate since FY04, a 12% annualized rate.
- Average total compensation per employee decreased 5% since FY04 to \$148k in FY08.
- Budgeted salaries increase 29% in FY09; bonuses increase 7%; and total compensation is budgeted to increase 20%.

Table 4
UTIMCO Compensation and Headcount FY04-FY09

	FY04 Actual	FY05 Actual	FY06 Actual	FY07 Actual	FY08 Projected	Growth Rate Since FY04	Growth Rate (annualized)	FY09 Budget	FY09 % Increase from FY08
Employees (as of year-end)	36	43	41	47	59	64%	13%	63	7%
Average Total AUM (\$Millions)	15,470	17,245	19,372	21,965	24,497	58%	12%	24,497	0%
Average AUM/Employee (\$Millions)	430	401	472	467	415	-3%	-1%	389	-6%
Salaries and Wages	3,773,961	4,203,100	4,492,078	4,908,821	5,396,428	43%	9%	6,956,038	29%
Bonus Compensation	1,858,653	2,094,447	2,164,963	2,082,700	3,343,289	80%	16%	3,566,109	7%
Total Compensation	5,632,614	6,297,547	6,657,040	6,991,521	8,739,718	55%	12%	10,522,147	20%
Total Compensation per Employee	156,462	146,455	162,367	148,756	148,131	-5%	-1%	167,018	13%
Bonus as % of Salaries and Wages	49%	50%	48%	42%	62%			51%	
Bonus as % of Total Compensation	33%	33%	33%	30%	38%			34%	

Staffing: In FY08 the budget was based on staffing of 58 employees; actual staffing is projected to be 59 employees at fiscal year-end 2008. The FY09 budget adds four new positions to bring staffing to 63 employees by fiscal year-end.

Personnel-related Expenses:

- **Salaries and Wages** are projected to be approximately \$615k (10%) under budget in FY08 because of positions being filled at various times during the fiscal year and will increase to \$7.0 million in FY09. One-third of the budgeted increase in salaries of \$1.6 million (29%) reflects current staffing levels (i.e., open positions filled during FY08); the remaining increases are for new FY09 positions and raises for existing staff. Raises for existing staff (including promotions) represents a **9.8% overall salary increase** comprised as follows:
 - Base salary increases averaging **12%** for Compensation Plan participants (i.e., management).
 - Base salary increases averaging **7%** for non-participants in the Compensation Plan.
- **Bonus compensation** for FY08 based on performance year-to-date (including deferred bonuses earned in prior years and related income) is forecast at \$3.3 million, 3% over budget. The FY09 budget of **\$3.6 million** in bonus compensation is **7% higher** than projected FY08 bonuses. The proposed bonus compensation is based on Compensation Plan participants earning 70% of the maximum incentive award. The FY09 budget also includes deferred bonuses earned by employees in prior years and funds for a discretionary bonus pool of up to 15% of salaries for employees who are not participants in the Compensation Plan.
- **Employee Benefits** are expected to be under budget in FY08 by \$223k (19%). Employee Benefits costs are budgeted to increase 36% to \$1.3 million in FY09, reflecting increased staffing. Employee Benefits budgeted for FY09 are 18% of proposed base salaries. UTIMCO pays a portion of the cost of employee group health, dental, life, short term disability, and long term disability insurance, and contributes on behalf of participating employees to a 403(b) retirement savings plan.

General Operating Expenses are forecast to be 12% below budget for FY08 at \$1.9 million, mainly from a reduction in recruiting and relocation expenses. The FY09 budget proposes a 15% increase, primarily due to increases in travel, on-line data and contract services. Travel is budgeted at \$800k, an increase of 57% over FY08 projections. The increase in travel expenses is due to greater levels of investment due diligence by UTIMCO staff and an increase in international investing.

Lease Expenses: Table 5 show that lease expenses have continued to increase annually:

- UTIMCO’s move during FY06 resulted in a 70% increase in office space to accommodate long-term staffing growth.
- Per the lease terms, UTIMCO added 3,153 square feet of space in FY08.
- Operating Expenses (pass through expenses to tenants) have increased significantly in recent years due to rising utilities expenses and ad valorem taxes.

Total lease expenses in FY08 are projected to be at \$950k (1%) over budget and include an amortization of “deferred rent credit” (14 months of “free rent” plus leasehold improvements). FY09 **budgeted lease expenses of \$983k** include a (\$171k) amortization. Pass through operating expenses have increased 68% on a square foot basis since 2005 and is now about equal to base rent on a per square foot basis. UTIMCO staff is continuing to review actual and projected operating expenses with the landlord.

**Table 5
UTIMCO Lease Expenses**

	FY05 Actual	FY06 Actual	FY07 Actual	FY08 Projected	FY09 Budget
Property Lease	362,010	613,560	462,722	499,823	518,373
Operating Expenses	171,789	83,294	362,755	496,454	531,552
Parking Expenses	62,362	77,342	94,805	97,975	99,300
Other Expenses	4,432	5,166	5,671	4,486	4,644
Amortization (Deferred Rent Credit)	0	(124,076)	(148,891)	(148,891)	(171,000)
Total Lease Expenses (net)	600,593	655,286	777,062	949,846	982,869

Professional Fees are expected to be \$365k in FY08, 33% lower than budgeted. Reduced legal expenses and compensation consultant fees account for a majority of the difference. This trend will continue in FY09 as the proposed budget for Professional Fees are \$259k, a decrease of 29%. A chart in the Direct Costs to Funds section of this report shows the trend for legal expenses since FY04.

V. UTIMCO Capital Expenditures

The trend for Capital Expenditures for FY07-FY09 is summarized in Table 6. In FY08, total expenditures on a net basis are forecasted to be \$616k, 73% over budget, primarily due to the costs associated with the expansion of an additional 3,153 square feet of office space. A budget of \$220k is requested for FY09. The majority of the FY09 budget (\$203k) is for ongoing technology and software upgrades. The remaining \$18k is for office equipment and other fixtures.

**Table 6
UTIMCO Capital Expenditures**

	Budget FY07	Actual FY07	Variance	Budget FY08	Projected FY08	Variance	Budget FY09	Variance vs Projected FY08
Ongoing: Technology and Software Upgrades	122,000	71,271	-42%	169,000	166,625	-1%	202,500	22%
Ongoing: Office Equipment and Fixtures	45,000	11,599	-74%	25,000	22,500	-10%	17,500	-22%
Expansion: Technology and Software Upgrades	-	-	N/A	33,000	35,000	6%	-	-100%
Expansion: Office Equipment and Fixtures	-	-	N/A	128,569	190,000	48%	-	-100%
Expansion: Leasehold Improvements (net)	-	-	N/A	-	201,585	N/A	-	-100%
Total Capital Expenditures (net)	167,000	82,870	-50%	355,569	615,710	73%	220,000	-64%

VI. Direct Costs to Funds

Direct Costs to Funds for FY08 are projected at \$47.4 million or 4% below a budgeted \$49.2 million. The FY09 budget increases 6% to \$50.2 million from projected FY08 costs.

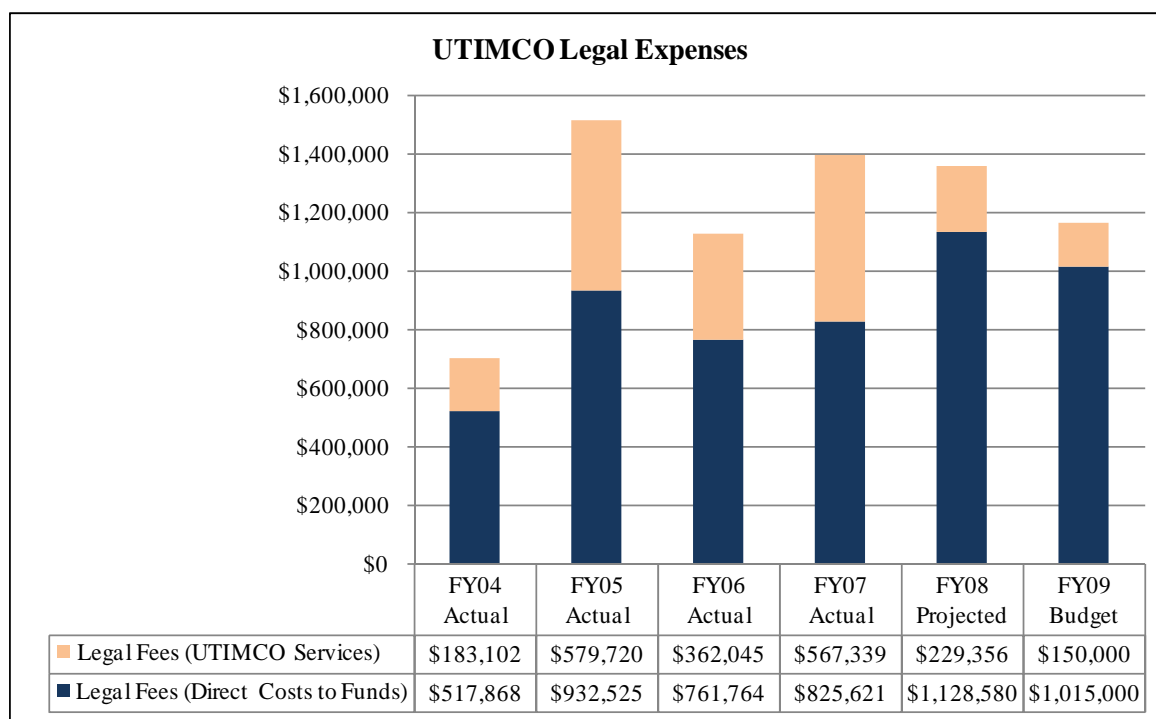
External Management and Performance Fees paid to external managers continue to remain the highest component of the overall budget. These fees, projected at \$41.5 million in FY08 (3% below budget) and budgeted at \$44.2 million, represent 88% of Direct Costs to Funds budget in FY09 and 65% of total budget. Although UTIMCO staff estimates external management and performance fees in detail using each manager's fee structure and current asset base, these fees are very difficult to forecast and budget due to the uncertainty of individual manager performance.

Custodian and Analytical Costs: Custodian fees have continued to increase in FY08 mainly due to increasing assets and are forecast at \$1.7 million, 9% over budget. The FY09 budgeted amount for these expenses will increase 3% over FY08 levels. Performance measurement expenses paid in FY08 are projected to be 10% below budget at \$482k and are budgeted to increase 5% to \$506k in FY09.

Risk Measurement: Risk measurement expenses charged to the funds are expected to be 13% under budget for FY08 and further reduced by 7% to a budgeted \$483k in FY09.

Auditing expenses in FY08 of \$830k funded external auditors and U. T. System Audit Office fees. Audit expenses are budgeted at \$776k for FY09, a decrease of 7%. Although decreasing in FY09, audit expenses have increased overall due to the change in external auditors starting in FY08 and additional time required to audit valuations of alternative investments.

Legal: The chart below shows the trend in UTIMCO Services (corporate) legal fees and direct legal expenses charged to the funds since FY04. Legal fees paid directly by the funds in FY08 are projected to be \$1.1 million (3% over budget). Direct legal fees are budgeted for FY09 at \$1.0 million, a 10% decrease.



VII. UTIMCO Services Fee and Direct Expenses Allocation

Table 7 shows the proposed allocation of UTIMCO Services Fees for FY09, including estimates of direct costs for each of the funds. Note that the UTIMCO Services Fee is charged to the PHF and the LTF, not to the GEF where they are pooled; direct costs, on the other hand, are charged to the GEF. The total budgeted expense as a percent of 2/28/08 market values for each fund is shown at the bottom of the table.

The **\$16.5 million UTIMCO Services Fee** to be allocated to U. T. System funds is an 8% increase over the FY08 fee. The FY09 UTIMCO Services Fee is 0.069% of \$24.0 billion in total market value of assets (as of 2/28/08). This compares to the FY08 UTIMCO Services Fee of 0.070% of \$22.0 billion in total market value of assets (as of 2/28/07).

Direct Expenses of the Funds: UTIMCO staff estimates external manager fees by individual manager and fund. Alternative investments funds (hedge funds and private capital) net fees and expenses from reported asset values, so these expenses are not paid directly by the funds. Although the ITF does not have an allocation to private capital, the fund does have an allocation to hedge funds that is comparable to the endowment funds; therefore, the proportion of external management and performance fees paid directly by the ITF (as opposed to being netted from asset values) is slightly higher than for the other funds (0.268% of market value versus 0.211% for the PUF and 0.218% for the GEF).

Table 7
UTIMCO Services Fee and Direct Expenses – Proposed Allocation

	Fund Name						Separate Funds (SIF)	Total
	PUF	PHF	LTF	GEF ⁽²⁾	ITF	STF ⁽¹⁾		
Market Value 2/28/08 (\$ millions)	11,906	1,101	5,497	6,599	3,937	1,390	192	24,023
Percent of Total Market Value as of 2/28/07	49.6%	4.6%	22.9%	27.5%	16.4%	5.8%	0.8%	100%
FY08 UTIMCO Services Fee Allocation Ratio	49.1%	5.9%	28.5%	34.4%	16.5%	0.0%	0.0%	100%
Proposed FY09 UTIMCO Services Fee Allocation Ratio	49.2%	5.5%	28.1%	33.6%	17.3%	0.0%	0.0%	100%
FY08 UTIMCO Services Fee Allocation	7,541,715	905,220	4,380,276		2,542,618			15,369,829
Proposed FY09 UTIMCO Services Fee (Budget)	8,134,921	910,210	4,640,564		2,858,015			16,543,710
Direct Expenses of the Funds Budgeted for FY09								
External Management Fees (Base Management Fees)	11,537,694	0	0	6,575,811	5,783,817	N/A ⁽¹⁾		23,897,322
External Management Fees (Performance Based Fees)	10,799,187	0	0	5,904,320	3,601,975			20,305,482
Other Direct Costs	2,822,511	34,356	149,628	1,882,174	1,153,354			6,042,024
Total Direct Expenses of the Funds	25,159,393	34,356	149,628	14,362,306	10,539,146			50,244,829
TOTAL	33,294,314	944,566	4,790,192	14,362,306	13,397,161	N/A ⁽¹⁾	0	66,788,539
Percent of Total Budgeted Expenses	49.9%	1.4%	7.2%	21.5%	20.1%	0.0%	0.0%	100.0%
Budgeted Expenses as Percent of 02/28/08 Market Value ⁽³⁾								
UTIMCO Services Fee	0.068%	0.083%	0.084%	0.000%	0.073%	0.000%	0.000%	0.069%
Direct Expenses	0.211%	0.003%	0.003%	0.218%	0.268%	0.000%	0.000%	0.209%
TOTAL Budgeted Costs	0.280%	0.086%	0.087%	0.218%	0.340%	0.000%	0.000%	0.278%

(1) Money Market Fund Income is net of fees and direct expenses.

(2) Pooled Fund for the collective investment of the PHF and LTF.

(3) Total UTIMCO Services Fee of 0.069% compares to 0.070% of \$22.0 billion mid-year FY07 AUM; PHF and LTF include GEF expenses.

EXHIBIT A


 THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY	UTIMCO Operating Expenses/Budgets FY08-FY09								
	8/31/2008		Change from 2008 Budget		8/31/2009		Change from 2008 Projected		Change from 2008 Budget
	Budget	Projected	\$	%	Budget	\$	%	%	
UTIMCO Services									
Salaries and Wages + Vacation	6,011,318	5,396,428	(614,890)	-10.2%	6,956,034	1,559,606	28.9%	15.7%	
Bonus Compensation + Interest	3,258,381	3,343,289	84,908	2.6%	3,566,109	222,820	6.7%	9.4%	
Total Compensation	9,269,699	8,739,718	(529,981)	-5.7%	10,522,143	1,782,425	20.4%	13.5%	
Total Payroll taxes	418,017	333,040	(84,977)	-20.3%	477,538	144,498	43.4%	14.2%	
403(b) Contributions	461,748	416,341	(45,407)	-9.8%	533,877	117,536	28.2%	15.6%	
Group Health, Dental, AD&D, Life, LTD	715,326	510,086	(205,240)	-28.7%	722,935	212,849	41.7%	1.1%	
Employee Benefits	1,177,074	926,427	(250,647)	-21.3%	1,256,812	330,385	35.7%	6.8%	
On-Line Data & Contract Services	881,304	800,783	(80,521)	-9.1%	858,446	57,663	7.2%	-2.6%	
Recruiting and Relocation Expenses	440,004	123,814	(316,190)	-71.9%	50,000	(73,814)	-59.6%	-88.6%	
Travel	396,070	509,089	113,019	28.5%	800,000	290,911	57.1%	102.0%	
Phone and Telecommunications	48,600	63,962	15,362	31.6%	73,224	9,262	14.5%	50.7%	
Computer & Office Supplies	128,472	138,304	9,832	7.7%	110,664	(27,640)	-20.0%	-13.9%	
Employee Education	35,200	20,902	(14,298)	-40.6%	25,200	4,298	20.6%	-28.4%	
Repairs/Maintenance	114,000	163,612	49,612	43.5%	187,800	24,188	14.8%	64.7%	
BOD Meetings	57,000	49,976	(7,024)	-12.3%	51,000	1,024	2.0%	-10.5%	
Other Operating Expenses	60,440	34,372	(26,068)	-43.1%	41,230	6,858	20.0%	-31.8%	
Total General Operating	2,161,090	1,904,814	(256,276)	-11.9%	2,197,565	292,750	15.4%	1.7%	
Total Lease Expense	943,041	949,846	6,805	0.7%	982,869	33,023	3.5%	4.2%	
Invest., Hiring & Board Consultants	30,000	30,000	0	0.0%	30,000	0	0.0%	0.0%	
Legal Expenses	360,000	229,356	(130,644)	-36.3%	150,000	(79,356)	-34.6%	-58.3%	
Compensation Consultant	120,000	55,600	(64,400)	-53.7%	12,500	(43,100)	-77.5%	-89.6%	
Accounting fees	31,500	49,845	18,345	58.2%	66,000	16,155	32.4%	109.5%	
Total Professional Fees	541,500	364,801	(176,699)	-32.6%	258,500	(106,301)	-29.1%	-52.3%	
Property/Liability Package	18,407	15,100	(3,307)	-18.0%	12,240	(2,860)	-18.9%	-33.5%	
Umbrella Policy	5,636	4,977	(659)	-11.7%	4,500	(477)	-9.6%	-20.2%	
Workers Compensation	16,725	15,472	(1,253)	-7.5%	14,700	(772)	-5.0%	-12.1%	
Business Auto	810	811	1	0.1%	840	29	3.6%	3.7%	
Commercial Bonding Policy	41,922	39,785	(2,137)	-5.1%	39,000	(785)	-2.0%	-7.0%	
Prof., D&O & Emp. Practices Liability	168,408	164,300	(4,108)	-2.4%	165,000	700	0.4%	-2.0%	
Total Insurance	251,908	240,445	(11,463)	-4.6%	236,280	(4,165)	-1.7%	-6.2%	
Depreciation of Equipment	607,500	542,887	(64,613)	-10.6%	612,000	69,113	12.7%	0.7%	
Total UTIMCO Services	15,369,829	14,001,978	(1,367,851)	-8.9%	16,543,706	2,541,728	18.2%	7.6%	
Direct Costs to Funds									
External Management Fees	18,989,226	22,137,773	3,148,548	16.6%	23,897,322	1,759,549	7.9%	25.8%	
External Mgt. Fees-Performance Fees	23,726,012	19,317,542	(4,408,470)	-18.6%	20,305,482	987,941	5.1%	-14.4%	
External Management Fees	42,715,238	41,455,315	(1,259,923)	-2.9%	44,202,805	2,747,490	6.6%	3.5%	
Custodian Fees and Other Direct Costs	1,536,375	1,671,693	135,317	8.8%	1,725,261	53,569	3.2%	12.3%	
Performance Measurement	536,700	482,115	(54,584)	-10.2%	505,724	23,609	4.9%	-5.8%	
Analytical Tools	400,000	367,085	(32,915)	-8.2%	337,860	(29,225)	-8.0%	-15.5%	
Risk Measurement	593,500	516,986	(76,514)	-12.9%	483,000	(33,986)	-6.6%	-18.6%	
Custodian and Analytical Costs	3,066,575	3,037,879	(28,696)	-0.9%	3,051,846	13,967	0.5%	-0.5%	
Consultant Fees	1,325,000	736,653	(588,347)	-44.4%	950,500	213,847	29.0%	-28.3%	
Auditing	754,000	829,939	75,939	10.1%	776,000	(53,939)	-6.5%	2.9%	
Controls Assessment (Sarbanes-Oxley)	0	0	0	N/A	0	0	N/A	N/A	
Printing	195,000	152,720	(42,280)	-21.7%	138,678	(14,042)	-9.2%	-28.9%	
Legal Fees	1,100,000	1,128,580	28,580	2.6%	1,015,000	(113,580)	-10.1%	-7.7%	
Background Searches & Other	70,000	34,486	(35,514)	-50.7%	110,000	75,514	219.0%	57.1%	
Other Direct Costs Total	3,444,000	2,882,378	(561,622)	-16.3%	2,990,178	107,800	3.7%	-13.2%	
Total Direct Costs to Funds	49,225,813	47,375,572	(1,850,241)	-3.8%	50,244,829	2,869,257	6.1%	2.1%	
Total Costs	64,595,642	61,377,549	(3,218,092)	-5.0%	66,788,535	5,410,985	8.8%	3.4%	

EXHIBIT B


	UTIMCO Operating Expenses/Budgets FY04-FY09					
	8/31/2004	8/31/2005	8/31/2006	8/31/2007	8/31/2008	8/31/2009
	Actual	Actual	Actual	Actual	Projected	Budget
UTIMCO Services						
Salaries and Wages + Vacation	3,773,961	4,203,100	4,492,078	4,908,821	5,396,428	6,956,034
Bonus Compensation + Interest	1,858,653	2,094,447	2,164,963	2,082,700	3,343,289	3,566,109
Total Compensation	5,632,614	6,297,547	6,657,040	6,991,521	8,739,718	10,522,143
Total Payroll taxes	206,777	313,637	312,023	337,117	333,040	477,538
403(b) Contributions	280,400	304,359	327,724	329,083	416,341	533,877
Group Health, Dental, AD&D, Life, LTD	259,932	315,457	406,756	420,593	510,086	722,935
Employee Benefits	540,332	619,816	734,480	749,676	926,427	1,256,812
On-Line Data & Contract Services	598,504	677,346	811,883	840,578	800,783	858,446
Recruiting and Relocation Expenses	2,513	35,600	216,927	400,617	123,814	50,000
Travel	138,855	170,069	205,965	176,929	509,089	800,000
Phone Equipment and Charges	45,660	39,340	46,965	43,743	63,962	73,224
Computer & Office Supplies	58,934	68,431	143,372	67,733	138,304	110,664
Employee Education	20,244	21,814	13,728	16,817	20,902	25,200
Repairs/Maintenance	45,576	56,434	85,412	109,592	163,612	187,800
BOD Meetings	17,541	27,552	52,375	49,711	49,976	51,000
Other Operating Expenses	62,066	52,306	106,401	42,205	34,372	41,230
Total General Operating	989,893	1,148,892	1,683,029	1,747,924	1,904,814	2,197,565
Total Lease Expense	599,047	600,593	655,286	777,062	949,846	982,869
Invest., Hiring & Board Consultants	0	17,500	20,175	25,124	30,000	30,000
Legal Expenses	183,102	579,720	362,045	567,339	229,356	150,000
Compensation Consultant	108,397	33,650	95,920	13,100	55,600	12,500
Accounting fees	12,910	30,135	54,106	38,980	49,845	66,000
Total Professional Fees	304,409	661,005	532,246	644,542	364,801	258,500
Property/Liability Package	16,657	28,797	22,993	18,685	15,100	12,240
Umbrella Policy	7,521	6,720	5,500	5,500	4,977	4,500
Workers Compensation	18,227	17,419	13,109	20,132	15,472	14,700
Business Auto	186	469	756	779	811	840
Commercial Bonding Policy	42,879	28,849	27,752	40,900	39,785	39,000
Prof., D&O & Emp. Practices Liability	173,208	171,959	150,525	164,300	164,300	165,000
Total Insurance	258,678	254,213	220,634	250,295	240,445	236,280
Depreciation of Equipment	261,894	272,836	504,637	564,076	542,887	612,000
Total UTIMCO Services	8,793,644	10,168,539	11,299,376	12,062,213	14,001,978	16,543,706
Direct Costs to Funds						
External Management Fees	12,715,126	14,217,736	17,815,353	16,413,106	22,137,773	23,897,322
External Mgt. Fees-Performance Fees	9,165,879	14,898,389	29,648,938	18,010,650	19,317,542	20,305,482
External Management Fees	21,881,005	29,116,125	47,464,291	34,423,756	41,455,315	44,202,805
Custodian Fees and Other Direct Costs	1,043,993	1,506,759	1,634,942	1,531,924	1,671,693	1,725,261
Performance Measurement	463,238	487,976	484,660	453,612	482,115	505,724
Analytical Tools	218,172	284,050	338,630	644,597	367,085	337,860
Risk Measurement	120,000	267,500	276,000	372,990	516,986	483,000
Custodian and Analytical Costs	1,845,403	2,546,285	2,734,232	3,003,123	3,037,879	3,051,846
Consultant Fees	900,000	900,000	852,000	1,289,394	736,653	950,500
Auditing	205,000	158,309	177,944	204,550	829,939	776,000
Controls Assessment (Sarbanes-Oxley)	0	0	97,110	109,750	0	0
Printing	111,431	132,196	163,790	178,155	152,720	138,678
Legal Fees	517,868	932,525	761,764	825,621	1,128,580	1,015,000
Background Searches & Other	45,534	50,805	59,147	24,747	34,486	110,000
Other Direct Costs Total	1,779,833	2,173,835	2,111,755	2,632,217	2,882,378	2,990,178
Total Direct Costs to Funds	25,506,241	33,836,245	52,310,278	40,059,096	47,375,572	50,244,829
Total Costs	34,299,885	44,004,784	63,609,654	52,121,309	61,377,549	66,788,535

EXHIBIT C

UTIMCO Reserve Analysis at August 31, 2008

Projected Cash Reserves at August 31, 2008		
Cash		10,433,043
Prepaid Expenses		473,174
Less: Accounts Payable		(4,654,720)
(Includes bonuses & earnings payable)		
Expected Cash Reserves at August 31, 2008		\$ 6,251,497
2009 Proposed Operating Budget	16,543,709	
Applicable Percentage	25%	4,135,927
2009 Proposed Capital Expenditures	220,000	220,000
Required Cash Reserves at August 31, 2008		\$ 4,355,927
Balance Available for Distribution		\$ 1,895,570
Recommended Distribution		\$ -

7. **U. T. System: Update regarding centralization of operating funds**

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will provide an update on the centralization of U. T. System operating funds, which was implemented on February 1, 2006. The presentation, as set forth on Pages 71 - 76, will provide a brief overview of centralization and detail the value added from centralization through May 31, 2008.

Update on Centralization of U. T. System Operating Funds

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Board of Regents'
Meeting

Dr. Scott Kelley

July 24, 2008



Centralization of U. T. System Operating Funds

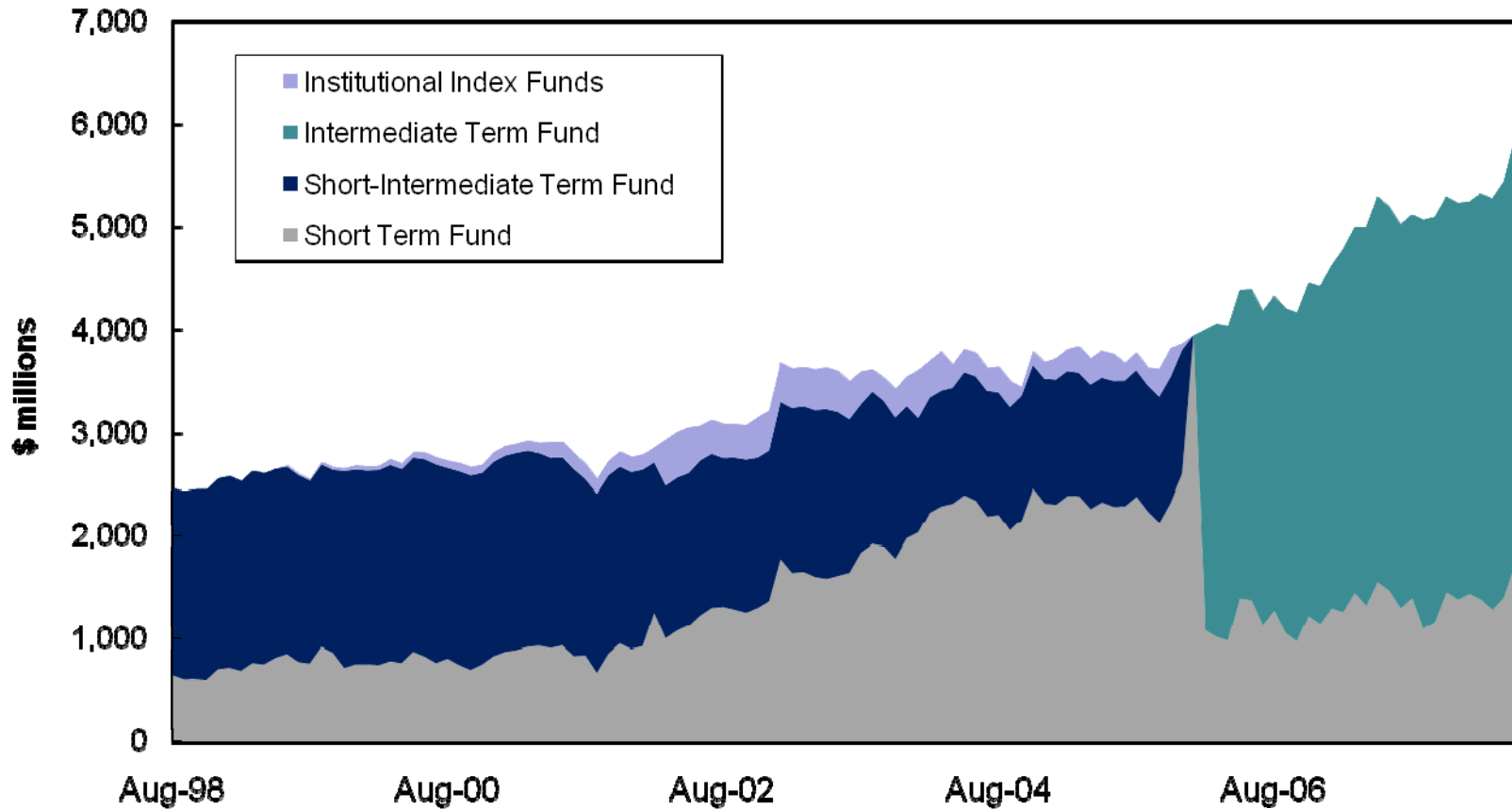
- The centralization of operating funds was approved by the U. T. System Board of Regents on July 8, 2005.
- On February 1, 2006, all U. T. System operating funds were consolidated into the Short Term Fund (STF) and the newly created Intermediate Term Fund (ITF).
- By U. T. System policy, U. T. institutions were required to invest 15% in the STF and 85% in the ITF.
- Effective September 1, 2007, the policy was changed to require a target investment of 10% in the STF and 90% in the ITF.



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U. T. System Operating Funds have increased 139% since August 1998

U. T. System Monthly Operating Balances by Funds



Prepared by the U. T. System Office of Finance



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Short Term Fund Liquidity Analysis February 1, 2006 to May 31, 2008

Institution (\$ millions)	Average		Low		High	
	STF Balance		STF Balance		STF Balance	
U. T. Arlington	\$ 22.8	14%	\$ (4.5)	-2%	\$ 69.6	34%
U. T. Austin	169.8	17%	62.6	7%	365.0	30%
U. T. Brownsville	6.1	22%	(2.2)	-7%	23.6	61%
U. T. Dallas	15.2	12%	2.2	2%	36.8	27%
U. T. El Paso	13.4	18%	(0.6)	-1%	47.2	53%
U. T. Pan American	9.4	16%	0.8	2%	33.8	42%
U. T. Permian Basin	5.1	49%	1.0	7%	12.1	79%
U. T. San Antonio	23.8	14%	0.1	0%	80.0	45%
74 U. T. Tyler	5.7	19%	1.0	3%	16.1	39%
U. T. Southwestern Medical Center - Dallas	104.0	16%	41.8	6%	167.1	25%
U. T. Medical Branch - Galveston	89.6	27%	(6.9)	-3%	231.6	53%
U. T. Health Science Center - Houston	43.3	17%	14.1	6%	86.8	34%
U. T. Health Science Center - San Antonio	26.2	13%	8.0	4%	55.4	24%
U. T. M. D. Anderson Cancer Center	143.2	17%	34.9	4%	255.0	28%
U. T. Health Science Center - Tyler	10.9	58%	1.3	5%	20.6	100%
U. T. System (Aggregate) ⁽¹⁾	\$ 1,220.7	26%	\$ 848.1	20%	\$ 1,748.8	32%
U. T. System (excluding debt related funds) ⁽²⁾	\$ 724.1	17%	\$ 476.6	12%	\$ 1,077.8	22%

(1) Institutions must maintain a minimum of \$5 million in the STF at the beginning of each month and have a current financial condition rating of "Watch" or better to invest in the ITF.

(2) All debt proceeds and other debt-related accounts must be invested in the STF pursuant to Board policy.



Operating Funds Performance Through May 31, 2008

	FY 2008 YTD ⁽¹⁾ (9 Months)	Since ITF Inception ⁽¹⁾ (28 Months)
Operating Funds		
Short Term Fund	3.27%	4.97%
Intermediate Term Fund	6.21%	8.71%
Benchmarks		
Short Term Fund: 90 Day Treasury Bills Average Yield	2.47%	4.53%
Intermediate Term Fund: Policy Portfolio	2.93%	6.20%
Net Return Above Benchmark ⁽²⁾		
Short Term Fund	0.80%	0.47%
Intermediate Term Fund	3.28%	2.72%

⁽¹⁾ Returns for FY2008 YTD (9 months) are not annualized. Returns since ITF inception (28 months) are annualized.

⁽²⁾ Net Return Above Benchmark is a measure of the difference between actual returns and benchmark or policy portfolio returns for each period shown.



Value Added from Centralization Through May 31, 2008

Institution	FY 2008 YTD (9 Months)	Since ITF Inception (28 Months)
U. T. Arlington	\$ 5,738,726	\$ 13,370,078
U. T. Austin	26,089,586	71,412,497
U. T. Brownsville	519,713	1,746,774
U. T. Dallas	1,587,798	7,791,467
U. T. El Paso	1,444,148	4,616,765
U. T. Pan American	879,502	3,509,230
U. T. Permian Basin	293,969	559,499
U. T. San Antonio	4,505,978	12,348,374
U. T. Tyler	971,069	2,363,530
U. T. Southwestern Medical Center - Dallas	15,860,160	37,646,598
U. T. Medical Branch - Galveston	5,009,101	17,438,957
U. T. Health Science Center - Houston	4,592,008	15,977,133
U. T. Health Science Center - San Antonio	2,869,639	12,715,934
U. T. M. D. Anderson Cancer Center	35,821,039	56,712,214
U. T. Health Science Center - Tyler	585,726	593,321
Subtotal Value Added - U.T. System Institutions	\$ 106,768,162	\$ 258,802,371
Value Added U. T. System Administration	4,472,320	21,458,762
Total Value Added ⁽¹⁾	\$ 111,240,482	\$ 280,261,133

⁽¹⁾ Value added is the actual dollar return for the operating funds in excess of the proxy returns that would have been earned based on allocations as of August 31, 2005.

8. **U. T. System Board of Regents: Discussion of U. T. System financial resources and assets managed by The University of Texas Investment Management Company (UTIMCO)**

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the importance of investment assets in the context of the U. T. System's overall financial resources. The presentation, set forth on Pages 78 - 95, provides an overview of the U. T. System's assets, liabilities, revenues, and expenditures, and the role that UTIMCO-managed assets play in supporting the financial condition of the U. T. System.

Discussion of U. T. System Financial Resources

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Board of Regents'
Meeting

Dr. Scott Kelley
July 24, 2008



Executive Summary

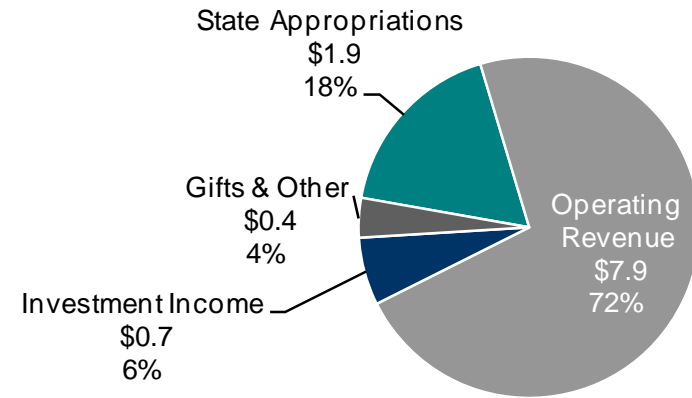
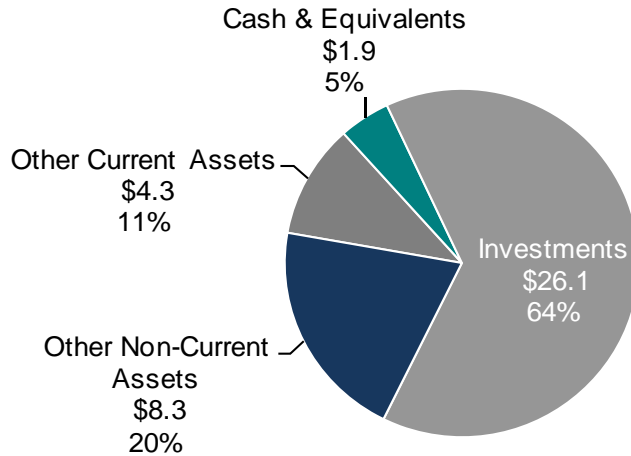
- The U. T. System is one of three public higher education debt issuers rated AAA/Aaa by the major credit rating agencies
- This rating has been maintained despite rapid growth in debt outstanding and capital expenditures
- The strength of the U. T. System is its balance sheet with \$41 billion of assets and \$28 billion of net assets as of 8/31/07
- Exclusive of investment income and capital gains, the U. T. System is essentially a break-even operation



U. T. System Assets and Budgeted Revenue

FYE 2007 Assets: \$40.6 billion

FY 2008 Budgeted Revenue: \$10.9 billion

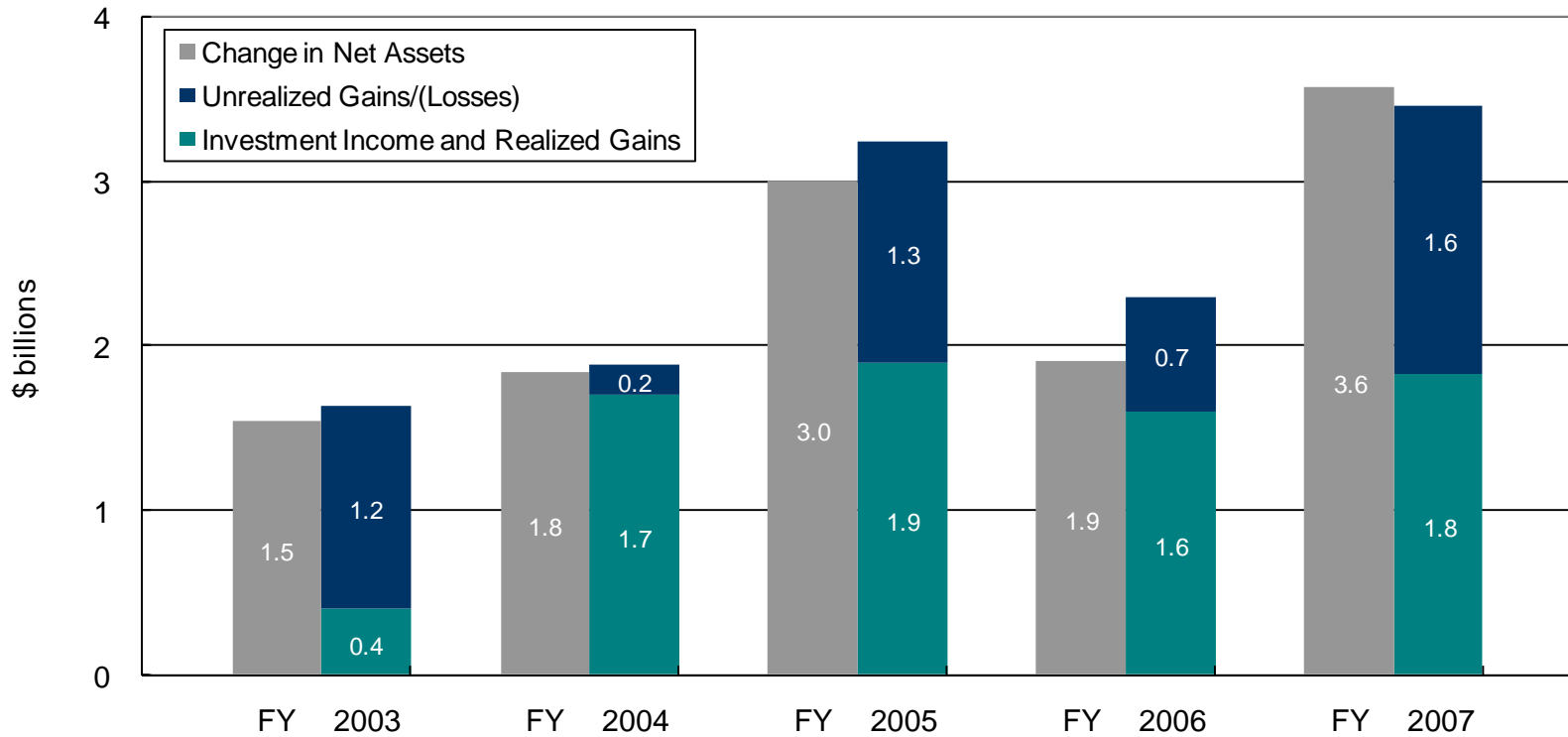


Investments and Cash represent about 70% of U. T. System's total assets and virtually all of its net assets.

Nevertheless, Investment Income represents only 6% of FY 2008 budgeted revenue.



Growth in Net Assets



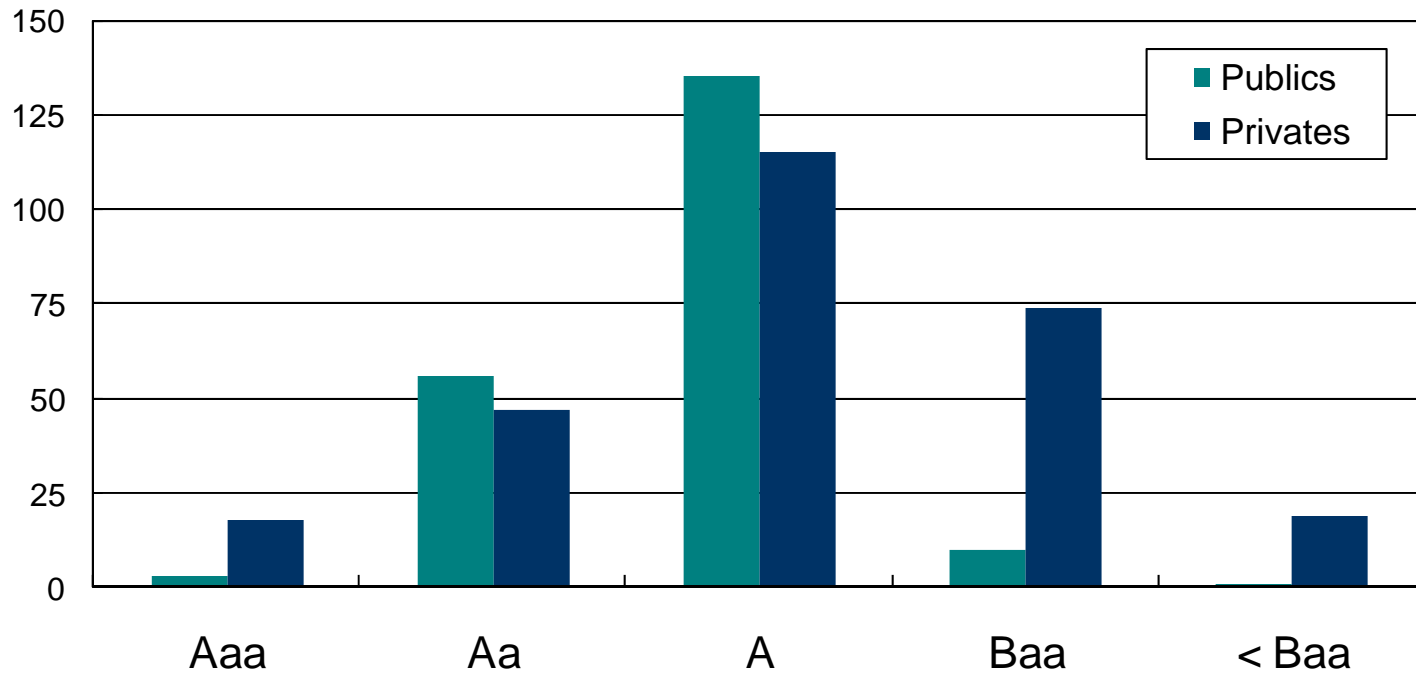
NOTE: Net Assets = Total Assets less Total Liabilities (i.e., book equity).



The U. T. System is Strong

- Only three public higher education issuers are rated Aaa by Moody's: U. T. System, University of Michigan, and University of Virginia

Higher Education Ratings

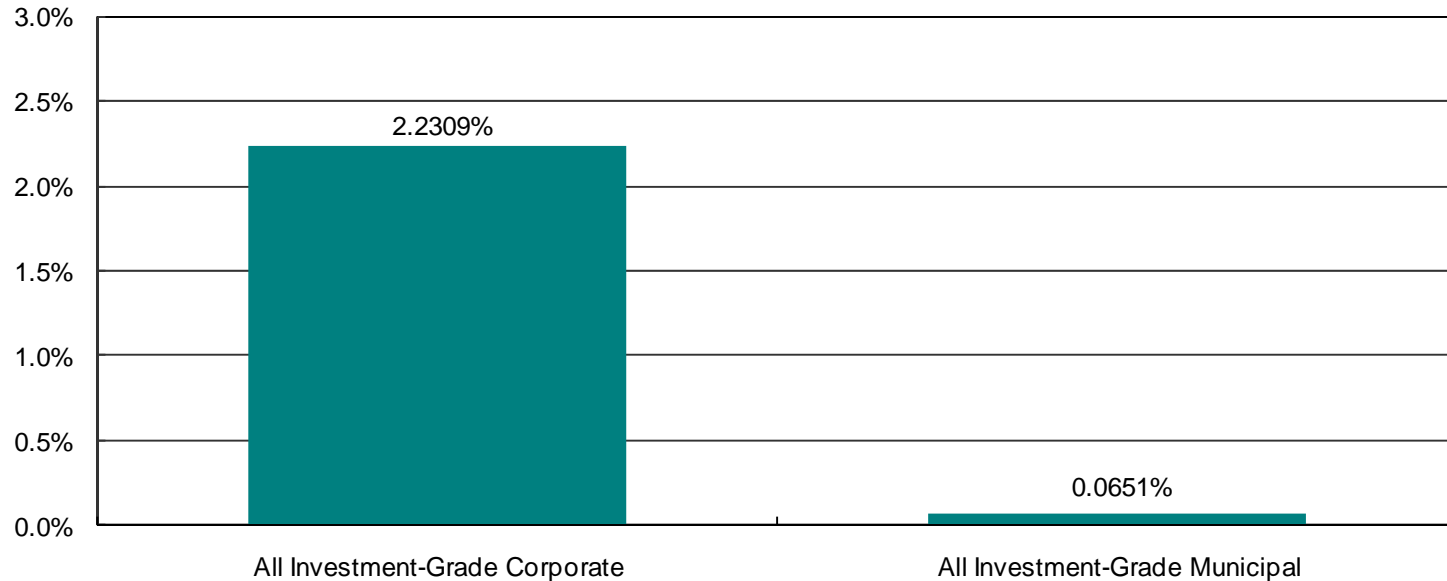


Source: *Moody's 2008 Higher Education Outlook*, January 2008



Default Rates for Investment Grade Bonds

Default Rates of Investment-Grade Bonds Rated by Moody's



The credit rating agencies have finally embraced the fact that the credit quality of municipal issuers is far superior to equivalent-rated corporate credits. This may help sustain the U. T. System's Aaa rating.

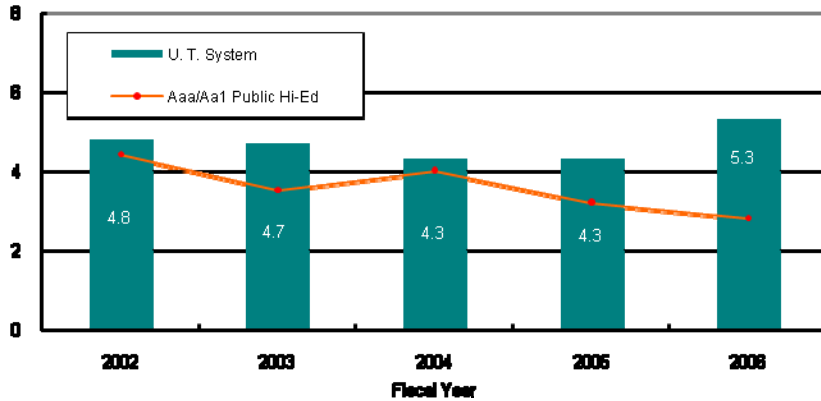
Source: Moody's *Special Comment*, June 2006 – "Mapping of Moody's U.S. Municipal Bond Rating Scale to Moody's Corporate Rating Scale and Assignment of Corporate Equivalent Ratings to Municipal Obligations"



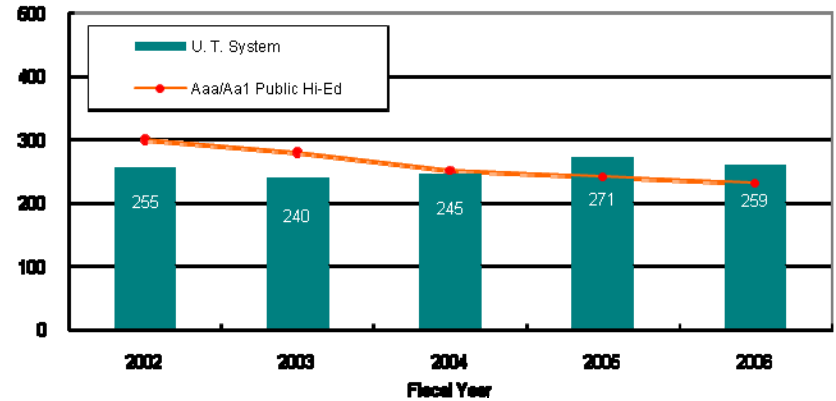
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U. T. System's Credit Ratios Versus Peers

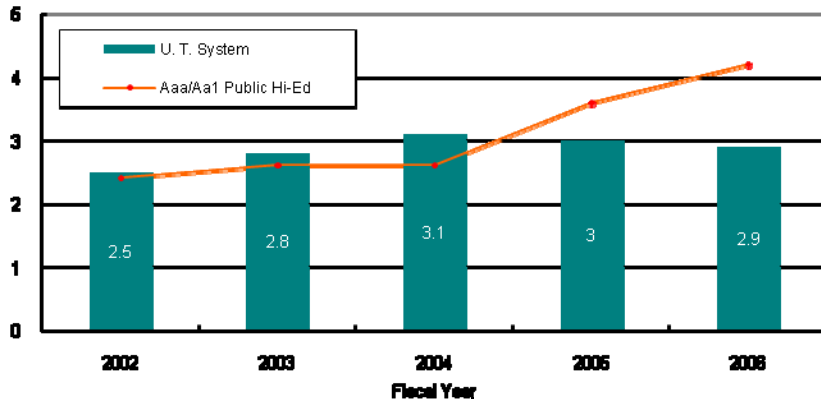
Debt Service Coverage (x)



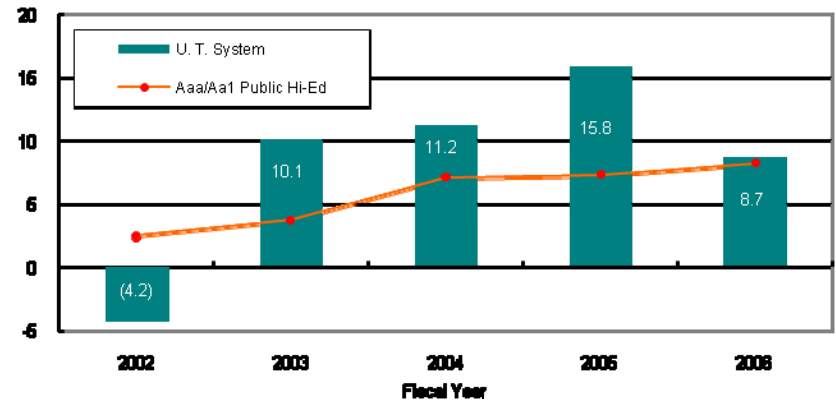
Expendable Resources-to-Debt (%)



Debt Service-to-Operations (%)



Return on Net Assets (%)



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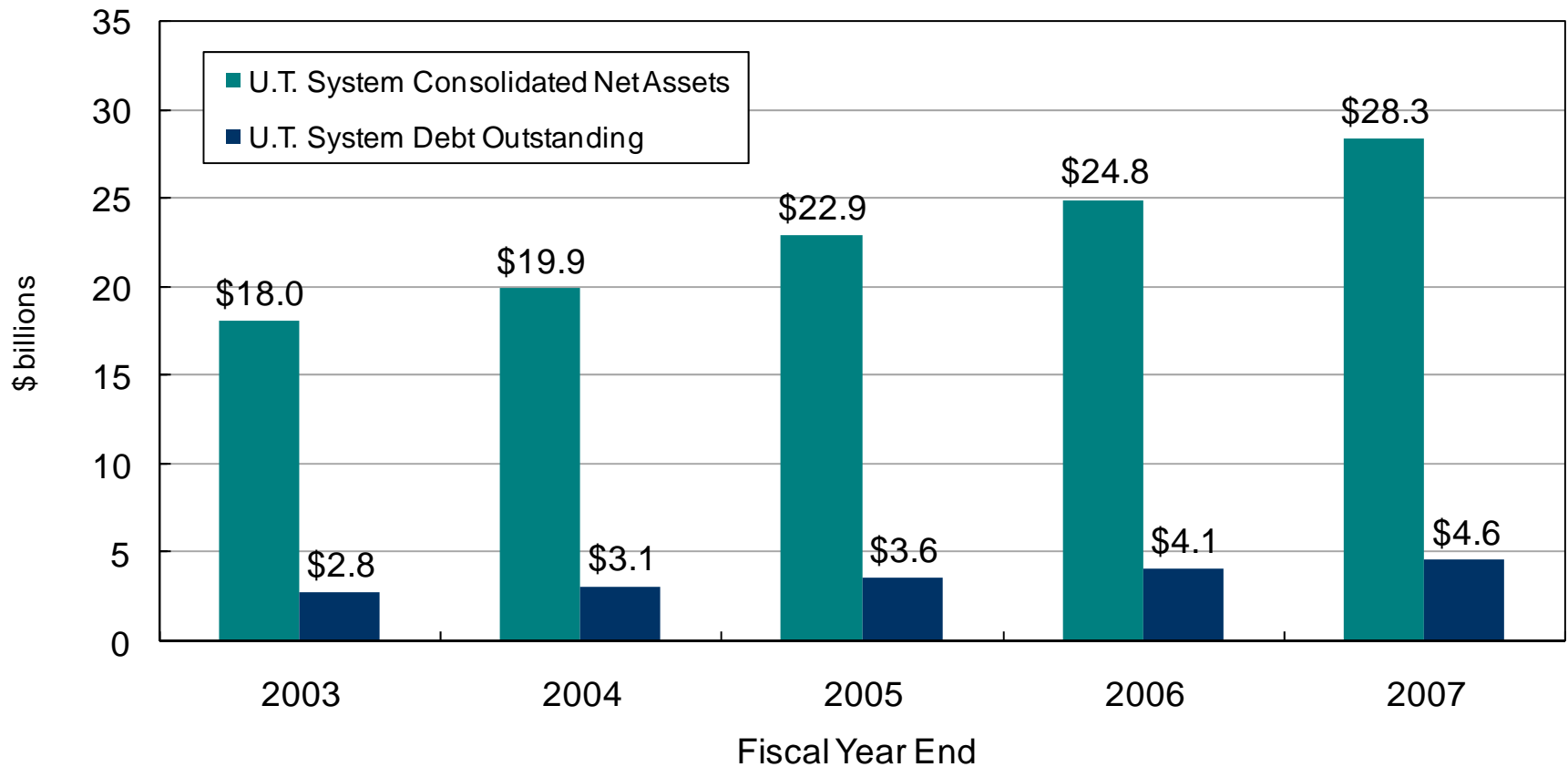
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U. T. System Credit Strengths

- The U. T. System's Aaa credit profile is supported by a number of key factors:
- *Strong balance sheet*
 - *Substantial liquidity to support variable rate debt programs*
 - *Good operating performance in recent years*
 - *Diversified revenue sources*
 - *Growing enrollment and research funding*
 - *Strong private sector support*
 - *Strong management team (per rating agencies)*



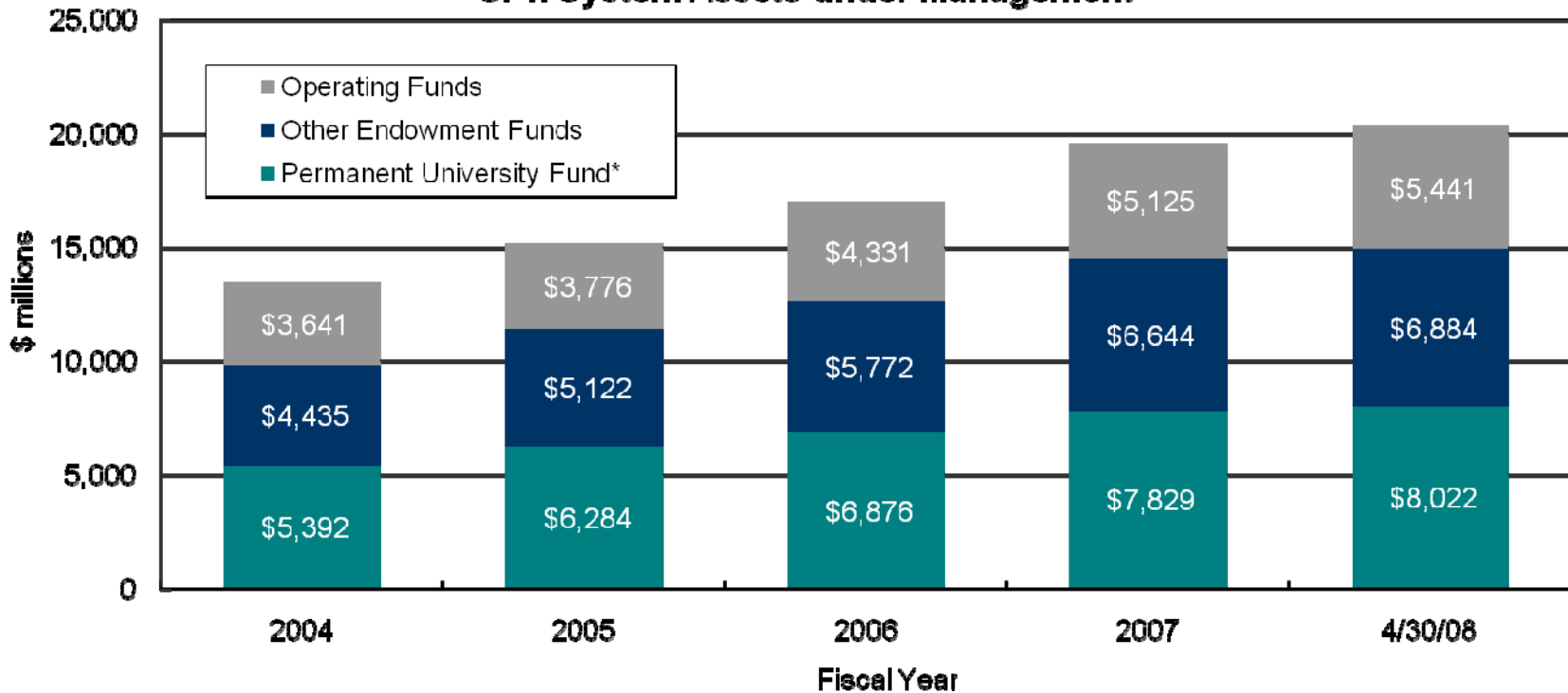
Strong Balance Sheet





Growing Investment Assets

U. T. System Assets under Management



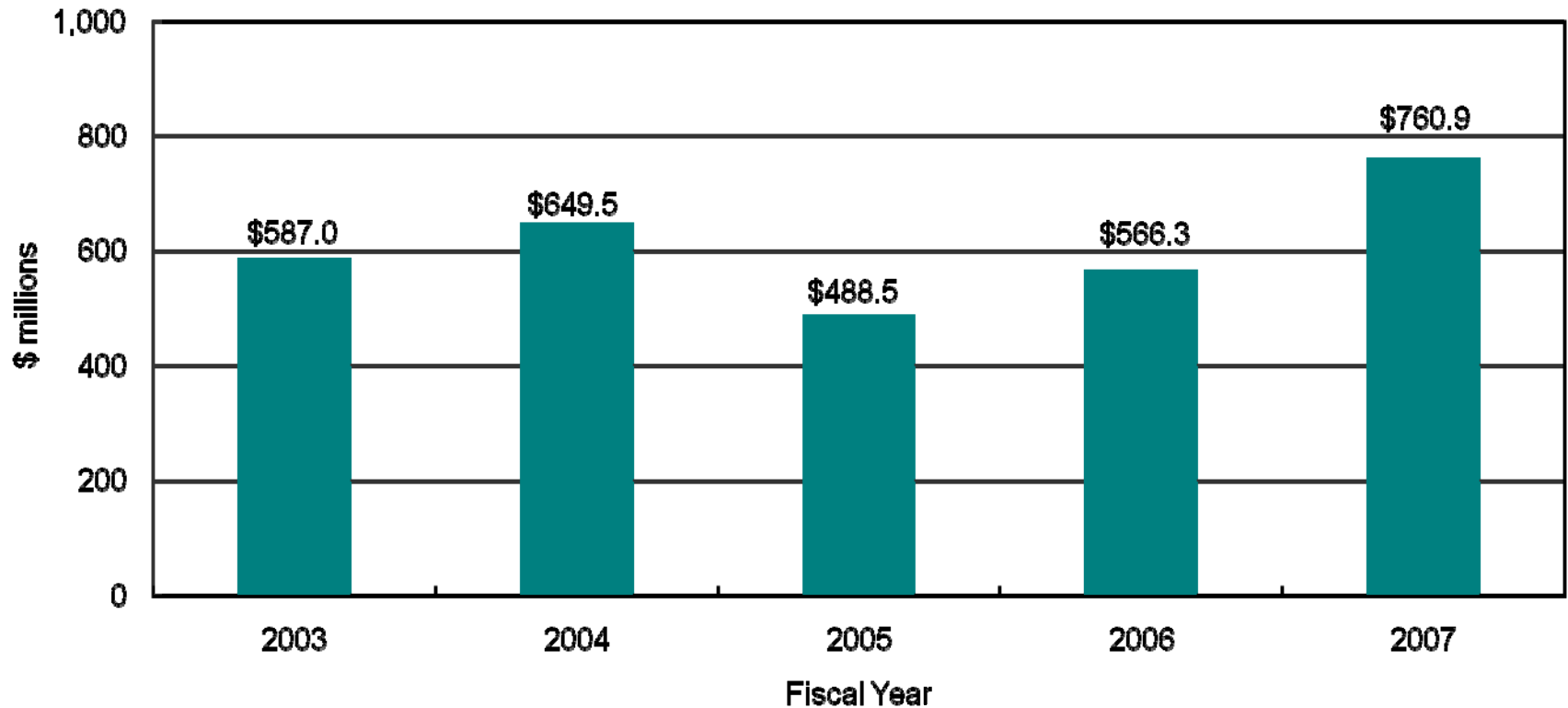
*Represents U. T. System's two-thirds share of the PUF.



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Consistent Donor Support

Private Sector Support





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Rating Agency Perspective

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Moody's Investors Service Global Credit Research
 New Issue
 21 MAR 2008

New Issue: University of Texas System, TX

CORRECTION TO TEXT, MARCH 21, 2008 RELEASE: MOODY'S AFFIRMS Aaa/VMG1 RATING ON THE UNIVERSITY OF TEXAS SYSTEM'S PERMANENT UNIVERSITY FUND FLEXIBLE RATE NOTE PROGRAM IN CONJUNCTION WITH \$150 MILLION NOTE ISSUANCE, RATING OUTLOOK REMAINS STABLE

SYSTEM WILL HAVE \$1.4 BILLION OF PUF DEBT OUTSTANDING FOLLOWING THIS ISSUE, ALONG WITH \$3.9 BILLION OF REVENUE FINANCING SYSTEM DEBT

Board of Regents of the University of Texas System
 Higher Education
 TX

Moody's Rating
 ISSUE RATING
 Permanent University Fund Flexible Rate Notes, Series A Aaa/VMG 1
 Sale Amount \$150,000,000
 Expected Sale Date 03/29/08
 Rating Description Public University Revenue

Moody's Outlook: Stable

Opinion
 NEW YORK, Mar 21, 2008 -- Correction to name of governing board, to Board of Regents of The University of Texas System. Revised release follows.

Moody's Investors Service has affirmed its Aaa/VMG 1 ratings on The University of Texas System's Permanent University Fund (PUF) Flexible Rate Note Program, Series A in conjunction with a \$150 million issuance under the program. The program is sized at \$400 million, and \$250 million is currently outstanding. With this issue, the authorized program size will be fully utilized. The notes will be issued in the Flexible Rate Period and have a final maturity of May 15, 2030. In addition to the PUF Notes, the System has outstanding \$965 million in PUF Bonds, all in the fixed rate mode. The System also issues under its Revenue Financing System (RFS) program. RFS debt totals \$3.9 billion, of which \$2.4 billion is in the fixed rate mode (rated Aaa), \$1.1 billion is in the weekly variable rate demand bond mode (rated Aaa/VMG1), and \$902 million is commercial paper (rated P-1). The outlook on the RFS long-term debt ratings is stable.

USE OF PROCEEDS: The note program is used as an interim financing vehicle for the University.

LEGAL SECURITY: Lien on the System's interest in the Available University Fund (AUF), which consists of distributions from the Permanent University Fund. The lien securing the PUF notes is subordinate to the lien that secures the System's PUF bonds, of which \$965 million are currently outstanding. Nevertheless, the Texas Constitution requires the Board of Regents to distribute from the PUF to the AUF amounts sufficient to pay debt service on all PUF debt, which provides for coverage of the obligations under both liens. The Permanent University Fund is a constitutionally established endowment fund for the benefit of both The University of Texas System (Aaa revenue bond rating) and The Texas A&M University System (Aa1 revenue bond rating). The University of Texas System receives two-thirds of the investment income derived from the fund, which flows into the AUF and is then available to pay debt service. The Texas A&M University System receives one-third of the investment income, which it pledges to its own issuance of Permanent University Fund debt. After payment of debt service on bonds secured by each System's interest in the Fund, the remaining income is available to fund academic excellence programs at certain institutions.

DEBT-RELATED DERIVATIVE INSTRUMENTS: The System actively uses derivative instruments but no swaps are related to the current transaction. The System has ISDA master swap agreements in place for use with Permanent University Fund debt.

STRENGTHS

“(MARCH 2008)...SOPHISTICATED DEBT AND INVESTMENT MANAGEMENT AND OVERSIGHT...Moody's believes that The University of Texas System's sophisticated debt and investment management strategies also enhance bondholder security. On the debt side, a dedicated debt and treasury staff oversees the System's debt program for both the PUF and for the Revenue Financing System. This staff actively monitors the University's debt portfolio and strategy, including the use of derivative instruments.”



U. T. System Credit Challenges

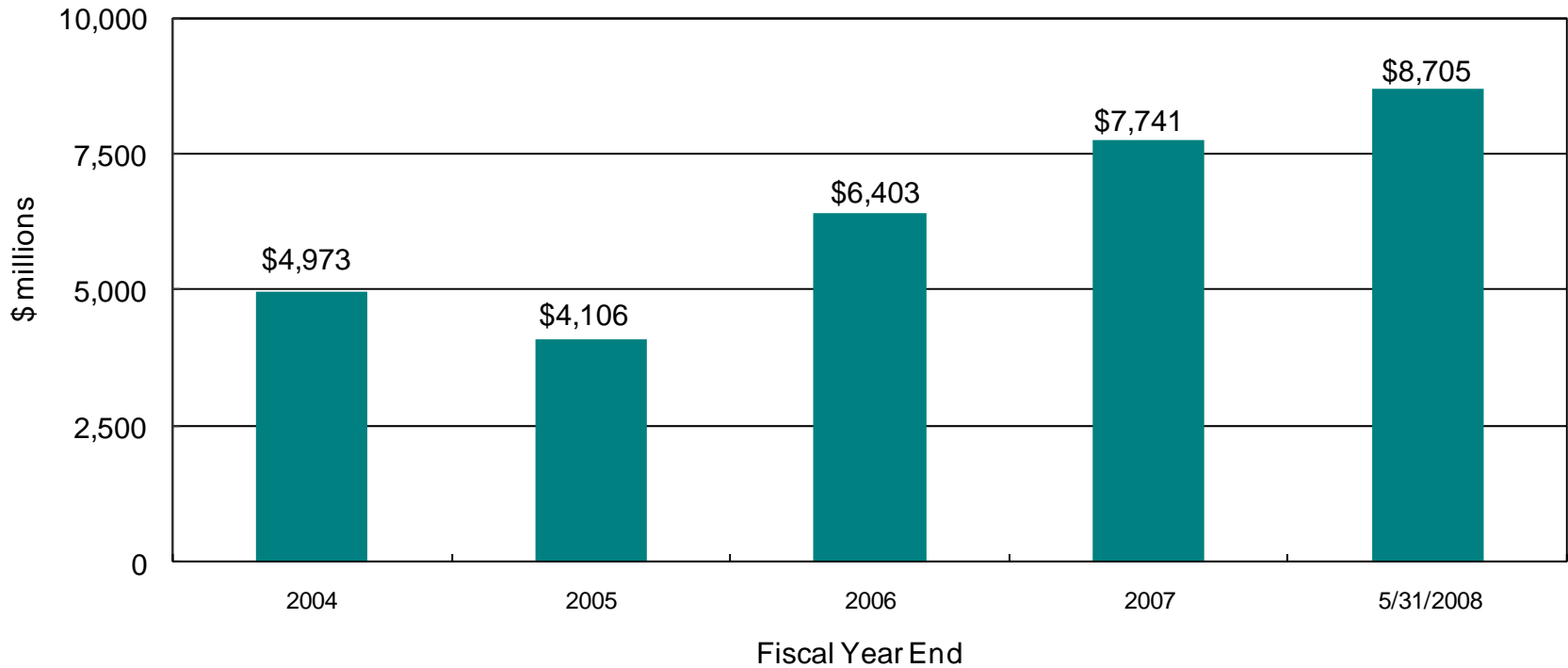
- In general, the U. T. System's credit profile has been supported by variables that are not sustainable, such as strong investment gains, low interest rates, and high oil and gas prices

- The rating agencies have recently cited more specific challenges:
 - *Large scale capital program and associated borrowing needs*
 - *Relatively complex operations requiring skillful management, particularly in the areas of health care and research*
 - *Ongoing need for sophisticated investment management and oversight, given a complex investment portfolio*
 - *Continued willingness and ability of the State of Texas to fund higher education, particularly TRB debt service*



Growing CIP

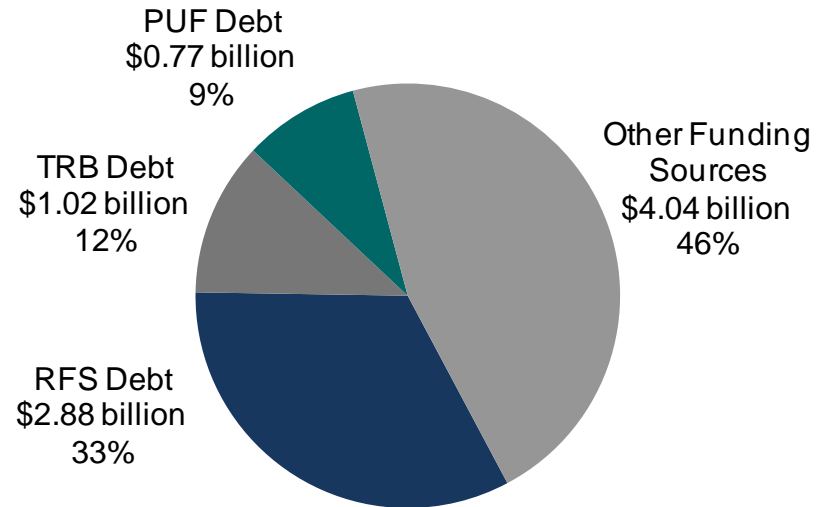
U. T. System Capital Improvement Program (Six-Year Plan)





CIP by Source of Funds

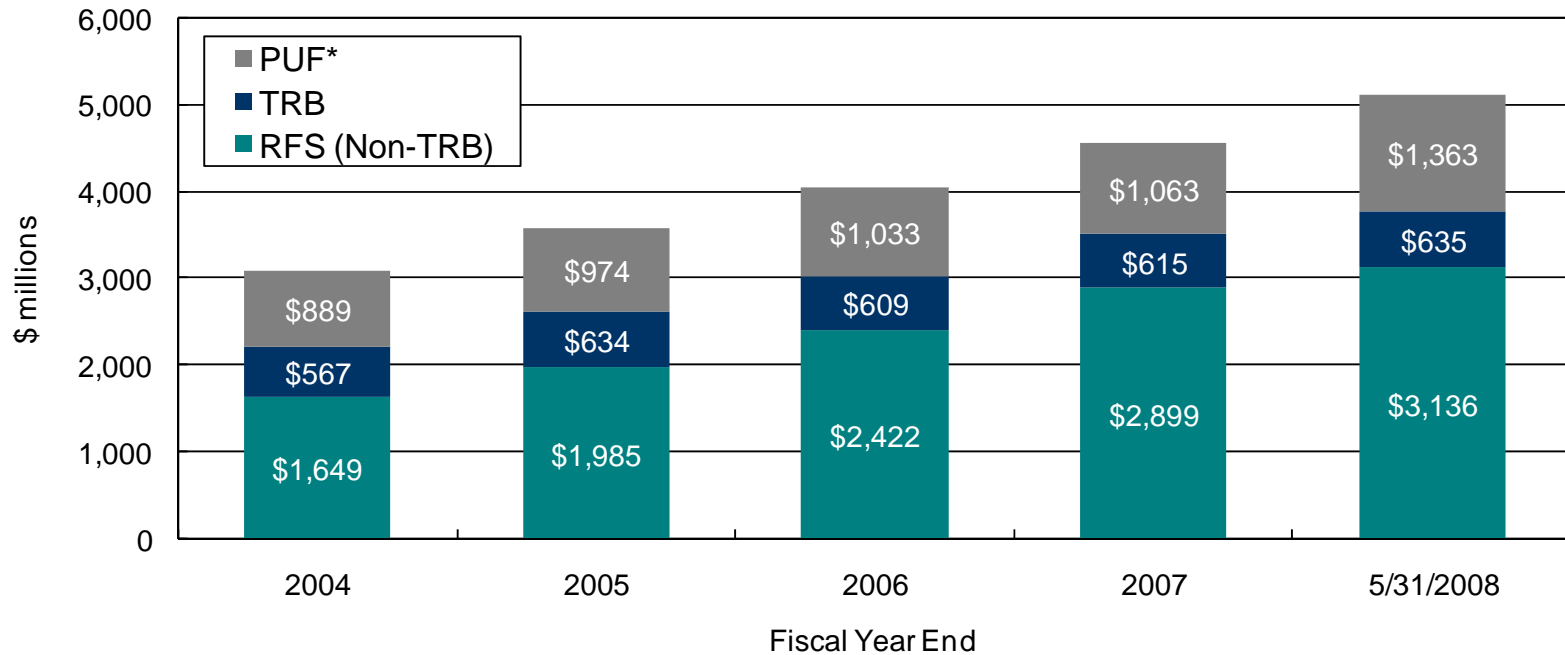
\$8.7 billion CIP as of May 31, 2008



Debt represents
54% of the funding
in the six-year CIP



U. T. System Debt Outstanding



* The total as of 5/31/2008 excludes \$708 million of PUF debt that has been authorized by the BOR for specific capital projects, but has not yet been issued.



PUF Growth

The Permanent University Fund Analysis of Change in the Value of the PUF

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(\$ millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Beg. Market Value of Investment Assets	6,738.3	7,244.8	8,087.9	9,426.7	10,313.4
Contribution from PUF Lands	102.0	146.7	193.1	214.9	272.8
Realized Gains on Sales of Securities	(40.0)	731.8	811.3	522.5	614.4
Unrealized Gains on Securities Held	678.8	168.1	487.3	322.9	754.6
Investment Income, Net of Expenses	128.7	144.5	188.3	183.7	188.3
Distributions to the AUF	(363.0)	(348.0)	(341.2)	(357.3)	(400.7)
End. Market Value of Investment Assets	7,244.8	8,087.9	9,426.7	10,313.4	11,742.8



PUF Debt Capacity

- Art. VII, Sec. 18 of the Texas Constitution limits the amount of PUF debt that can be issued by the U. T. System Board of Regents to an aggregate amount not to exceed 20% of the cost value of PUF investments (exclusive of real estate)

PUF Book Value as of May 31, 2008	10,827,869,922
U. T. Constitutional Debt Limit (20% of PUF Book Value)	2,165,573,984
U. T. PUF Debt Outstanding as of May 31, 2008	(1,362,625,000)
Less: Net U. T. PUF Debt Approved-but-Unissued at May 31, 2008	(707,696,282)
Plus: Unexpended PUF Proceeds at May 31, 2008	224,733,098
Remaining Constitutional U. T. PUF Debt Capacity	319,985,800

9. **U. T. System Board of Regents: Report on investment strategy**

REPORT

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of The University of Texas Investment Management Company (UTIMCO), will report on investment strategy in anticipation of bringing potential changes to the investment policies to the U. T. System Board of Regents at the August 2008 meeting, using the PowerPoint presentation set forth on Pages 97 – 118.



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Investment Strategy Review

2008



CONTEXT

- UTIMCO Investment Policies require an annual review by the UTIMCO Board of Directors and the UT System Board of Regents
- During the summer/fall of 2007 a fundamental review of the Investment Policies resulted in a number of new strategic initiatives. Staff recommended a multiyear transition period in order to implement the new strategic initiatives.
- The objective of this year's investment strategy review is to:
 - 1) assess the portfolio's current position in relation to the initial multiyear plan and recent/expected market conditions, and
 - 2) recommend "mid-course corrections" to the originally proposed multiyear implementation plan as well as to recommend targets and ranges for FY 2011.



From Board of Regents' Meeting - December 2007 as Initially Reviewed by Board of Regents on October 2007

Investment Strategy Highlights

- Increased allocation to Less Correlated and Constrained Mandates (28% of total assets increasing to 33% of total assets)
- Greater exposure to Emerging Markets
- Pursuit of broad range of natural resources investments
- Gradual increase in Private Investments (Projected 12% of total assets in February 2008 increasing to 17.5% in July 2010)
 - Private Real Estate Equity Fund Investments
 - Natural Resources, Emerging Market and Distressed/Opportunistic Strategies
- Illiquidity increased, but liquidity remains ample



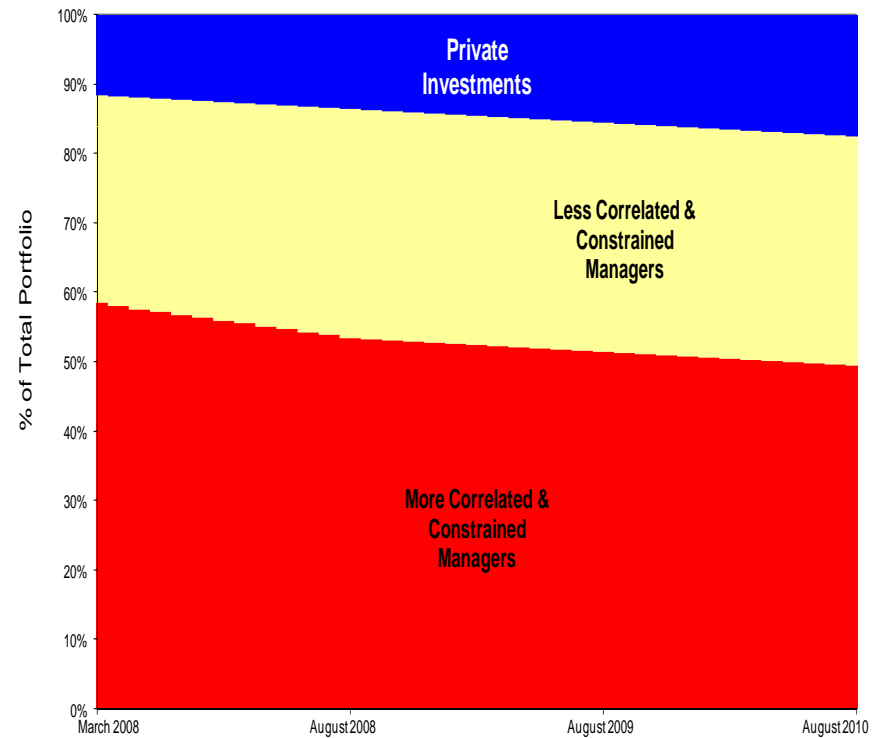
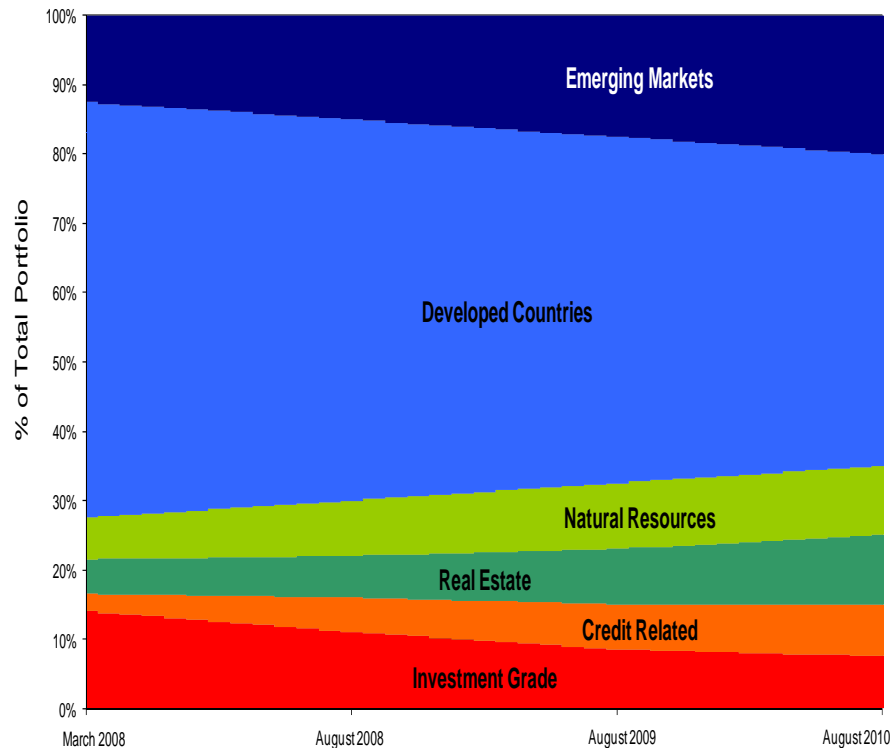
From Board of Regents' Meeting - December 2007 as Initially Reviewed by Board of Regents on October 2007

Asset Class and Investment Type Allocation

By Asset Class

By Investment Type

100





Asset Class and Investment Type Targets, Ranges, and Performance Objectives

Permanent University Fund as of May 31, 2008

Asset Class	May 31, 2008	Fiscal Year ending August 31, 2008			vs. Target
	ACTUAL	Min	Target	Max	
Investment Grade Fixed Income	14.3%	7.5%	11.0%	17.5%	3.3%
Credit-Related Fixed Income	5.5%	0.0%	5.0%	12.5%	0.5%
Real Estate	6.1%	3.0%	6.0%	9.0%	0.1%
Natural Resources	7.0%	4.0%	8.0%	12.0%	-1.0%
Developed Country Equity	53.4%	47.5%	55.0%	62.5%	-1.6%
Emerging Markets Equity	15.5%	10.0%	15.0%	20.0%	0.5%
TOTAL	101.8%		100.0%		1.8%
<u>Investment Types</u>					
More Correlated & Constrained	55.8%	47.5%	53.5%	60.0%	2.3%
Less Correlated & Constrained	30.5%	27.5%	33.0%	37.5%	-2.5%
Private Investments	15.5%	9.5%	13.5%	17.5%	2.0%
TOTAL	101.8%		100.0%		1.8%

101



Permanent University Fund as of May 31, 2008

(in millions)

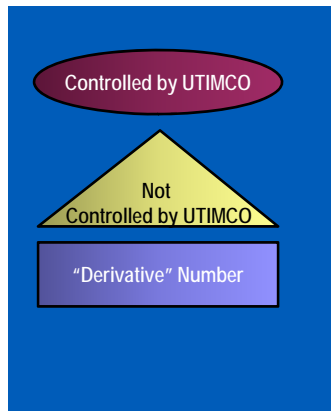
Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments		Grand Total	
		\$	%	\$	%	\$	%	\$	%
Fixed Income	Investment Grade	1,515	12.4%	237	1.9%	-	0.0%	1,752	14.3%
	Credit-Related	-	0.0%	205	1.7%	468	3.8%	673	5.5%
Fixed Income Total		1,515	12.4%	442	3.6%	468	3.8%	2,425	19.8%
Real Assets	Real Estate	670	5.5%	28	0.2%	42	0.4%	740	6.1%
	Natural Resources	659	5.3%	65	0.6%	130	1.1%	854	7.0%
Real Assets Total		1,329	10.8%	93	0.8%	172	1.5%	1,594	13.1%
Equity	Developed Country	2,715	22.3%	2,657	21.7%	1,159	9.4%	6,531	53.4%
	Emerging Markets	1,269	10.3%	537	4.4%	97	0.8%	1,903	15.5%
Equity Total		3,984	32.6%	3,194	26.1%	1,256	10.2%	8,434	68.9%
Grand Total		\$ 6,828	55.8%	\$ 3,729	30.5%	\$ 1,896	15.5%	\$ 12,453	101.8%

The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.



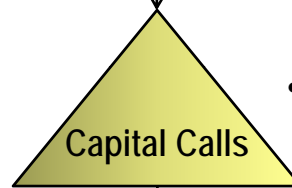
Private Market Investments

% of Total Endowment: The Math

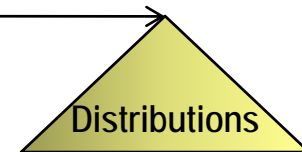
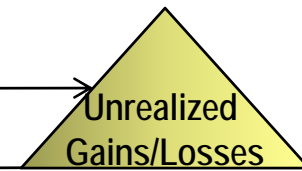


- "Hung" bridge loan opportunities
- Faster than anticipated start of private real estate program

- Particularly strong in distressed/opportunistic funds



- Attempted 2% sale produced only 1% sale



- Slowed due to seizure in credit markets and fall in public equity markets





MARKET CONDITIONS

Recent

- Seizure in credit market liquidity; noneconomic sellers
- Slowed US economic growth; return of distressed opportunities
- Risk-revaluation resulting in more attractive purchase prices (e.g., real estate)
- Continued emergence of developing economies; strain on natural resources

Expected

- Cyclical opportunities in distressed investing, particularly real estate-related debt
- Continued, though slowed, emerging market economic growth
- Attractive time to acquire assets at attractive values, although cautious pacing is prudent



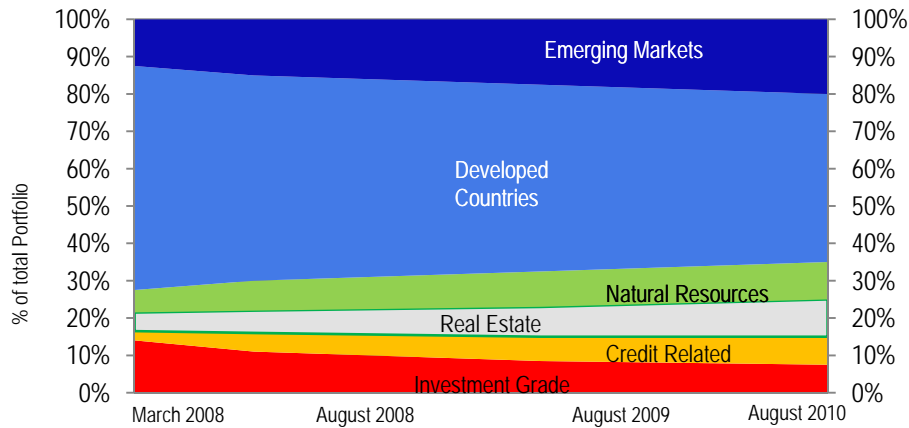
“Mid-Course Correction” Highlights

- Reset Private Investment targets to reflect results of secondary sale, capital call/distribution cycle, and credit-related opportunities
- Wider ranges for Private Investments in recognition of “derivative” nature of returns
- Increase credit-related targets to reflect cyclical opportunity (as captured by MCC and LCC managers and private investments)
- Reset real estate private investment target to reflect accelerated launch and attractive market opportunities
- Rebalance developed/developing economies public equity to:
 - 1) maintain overall asset class balance given higher LCC emerging market exposure
 - 2) maintain risk exposures in light of higher credit-related private investments

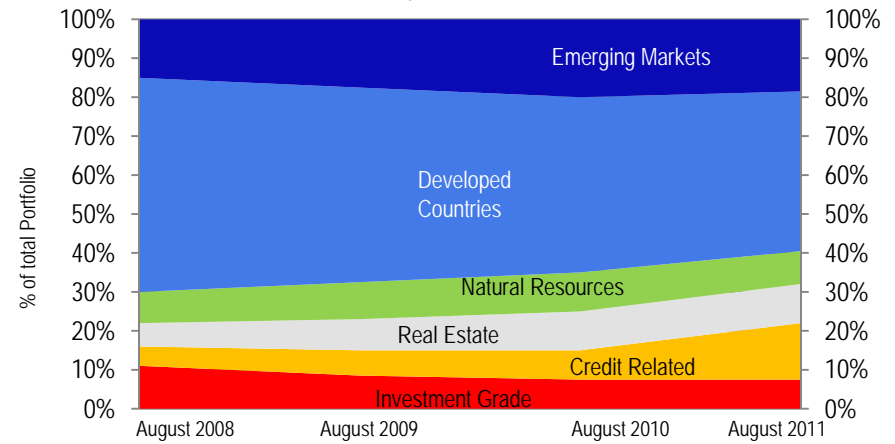


Fall 2007 Plan vs. Summer 2008 Plan

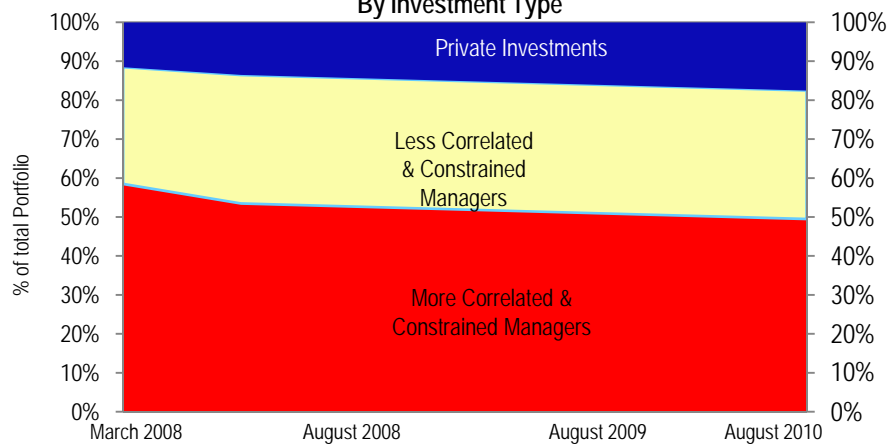
Fall 2007
By Asset Class



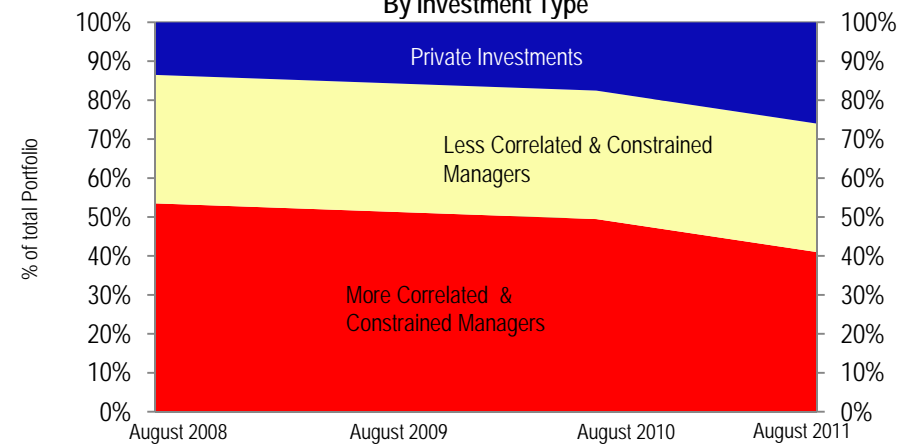
Summer 2008
By Asset Class



By Investment Type



By Investment Type





ASSET ALLOCATION

FALL 07 PLAN

FYE 09	MCC			LCC			Private Investments			Total		
	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max
Investment Grade		6.5%			2.0%			0.0%		5.0%	8.5%	15.0%
Credit-Related		1.5%			2.5%			2.5%		1.5%	6.5%	14.0%
Real Estate		6.5%			0.5%			1.0%		5.0%	8.0%	11.0%
Natural Resources		6.0%			1.5%			2.0%		5.0%	9.5%	13.0%
Developed Countries		18.0%			23.5%			8.5%		42.5%	50.0%	57.5%
Emerging Markets		13.0%			3.0%			1.5%		12.5%	17.5%	22.5%
Total	45.0%	51.5%	60.0%	27.5%	33.0%	37.5%	10.0%	15.5%	20.0%	100.0%	105.0%	

SUMMER 08 PLAN

FYE 09	MCC			LCC			Private Investments			Total		
	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max
Investment Grade		5.5%			2.0%			0.0%		5.0%	7.5%	15.0%
Credit-Related		1.0%			6.0%			6.5%		10.0%	13.5%	17.5%
Real Estate		5.5%			0.0%			2.0%		5.0%	7.5%	15.0%
Natural Resources		5.5%			1.5%			1.5%		5.0%	8.5%	15.0%
Developed Countries		17.0%			18.5%			11.0%		40.0%	46.5%	52.5%
Emerging Markets		10.0%			5.0%			1.5%		12.5%	16.5%	22.5%
Total	37.5%	44.5%	50.0%	27.5%	33.0%	37.5%	18.0%	22.5%	28.0%	100.0%	105.0%	

FYE 10	MCC			LCC			Private Investments			Total		
	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max
Investment Grade		4.5%			3.0%			0.0%		2.5%	7.5%	15.0%
Credit-Related		2.0%			3.0%			2.5%		2.5%	7.5%	15.0%
Real Estate		7.0%			1.0%			2.0%		5.0%	10.0%	15.0%
Natural Resources		6.0%			2.0%			2.0%		5.0%	10.0%	15.0%
Developed Countries		16.0%			21.0%			8.0%		37.5%	45.0%	52.5%
Emerging Markets		14.0%			3.0%			3.0%		15.0%	20.0%	25.0%
Total	42.5%	49.5%	57.5%	27.5%	33.0%	37.5%	12.5%	17.5%	22.5%	100.0%		

FYE 10	MCC			LCC			Private Investments			Total		
	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max
Investment Grade		5.5%			2.0%			0.0%		5.0%	7.5%	15.0%
Credit-Related		1.0%			6.0%			7.5%		10.0%	14.5%	20.0%
Real Estate		5.0%			0.0%			3.0%		5.0%	8.0%	15.0%
Natural Resources		4.5%			2.5%			2.5%		5.0%	9.5%	15.0%
Developed Countries		15.5%			17.5%			10.0%		37.5%	43.0%	50.0%
Emerging Markets		10.0%			5.0%			2.5%		12.5%	17.5%	22.5%
Total	35.0%	41.5%	47.5%	27.5%	33.0%	37.5%	21.0%	25.5%	31.0%	100.0%	105.0%	

FYE 11	MCC			LCC			Private Investments			Total		
	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max
Investment Grade		5.5%			2.0%			0.0%		5.0%	7.5%	15.0%
Credit-Related		2.0%			6.0%			6.5%		10.0%	14.5%	20.0%
Real Estate		4.5%			0.0%			4.0%		5.0%	8.5%	15.0%
Natural Resources		4.0%			3.0%			3.0%		5.0%	10.0%	15.0%
Developed Countries		14.5%			17.0%			9.5%		37.5%	41.0%	47.5%
Emerging Markets		10.5%			5.0%			3.0%		12.5%	18.5%	22.5%
Total	35.0%	41.0%	47.5%	27.5%	33.0%	37.5%	21.0%	26.0%	33.0%	100.0%	105.0%	



Revised Asset Allocation Performance Projections

	<u>FYE08</u>	<u>FYE09</u>		<u>FYE10</u>		<u>FYE11</u>
		<u>Original</u>	<u>Revised</u>	<u>Original</u>	<u>Revised</u>	
Return	9.46%	9.60%	9.72%	9.87%	9.90%	9.87%
Downside Risk	8.68%	8.74%	8.84%	8.75%	8.80%	8.75%
Volatility	13.21%	13.39%	13.62%	13.59%	13.72%	13.63%
Portfolio Sharpe Ratio	0.41	0.42	0.42	0.43	0.43	0.43



Endowment Investment Flows

Change¹

	Projected Assets FYE 08	FYE 09	FYE 10	FYE 11
Investment Grade Fixed Income	\$2,375	(\$850)	\$100	\$125
Credit-related Fixed Income	1,350	1,400	400	225
Real Estate	1,150	400	225	250
Natural Resources	1,425	300	350	275
Developed Country Equity	10,150	(700)	(100)	200
Emerging Markets Equity	2,975	400	450	500
	\$19,425	\$950	\$1,425	\$1,575
More Correlated & Constrained	10,150	(1,100)	0	525
Less Correlated & Constrained	6,050	675	475	525
Private Investments	3,225	1,375	950	525
	\$19,425	\$950	\$1,425	\$1,575

¹Assumes 7% Endowment Growth (10% Investment Returns + 2% Contributions – 5% Distributions)



Endowment Investment Flows – No Growth

Change¹

	Projected Assets FYE 08	FYE 09	FYE 10	FYE 11
Investment Grade Fixed Income	\$2,375	(\$950)	\$0	\$0
Credit-related Fixed Income	1,350	1,200	200	0
Real Estate	1,150	275	100	100
Natural Resources	1,425	200	200	100
Developed Country Equity	10,150	(1,300)	(700)	(400)
Emerging Markets Equity	2,975	175	200	200
	\$19,425	(\$425)	\$0	\$0
More Correlated & Constrained	\$10,150	(\$1,700)	(\$550)	(\$100)
Less Correlated & Constrained	6,050	225	0	0
Private Investments	3,225	1,050	550	100
	\$19,425	(\$425)	\$0	\$0

¹Assumes 7% Endowment Growth (10% Investment Returns + 2% Contributions – 5% Distributions)



Private Market Investments: Commitments by Vintage Year

	2006	2007	2008 (Projected)	2009 (Projected)	2010 (Projected)	2011 (Projected)
Credit-Related	\$95	\$265	\$825	\$600	\$350	\$350
Natural Resources	50	40	195	350	350	350
Real Estate	0	0	405	550	550	550
Buyout	687	680	500	400	400	400
Venture Capital	<u>191</u>	<u>115</u>	<u>210</u>	<u>125</u>	<u>125</u>	<u>125</u>
Total Developed Country	878	795	710	525	525	525
Emerging Markets	0	50	335	300	300	300
TOTAL	\$1,023	\$1,150	\$2,470	\$2,325	\$2,075	\$2,075

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Private Market Investments: MV of Investments

	2006	2007	2008 (Projected)	2009 (Projected)	2010 (Projected)	2011 (Projected)
Credit-Related	\$166	\$287	\$830	\$1,325	\$1,625	\$1,500
Natural Resources	153	182	200	300	550	700
Real Estate	0	0	95	400	650	925
Buyout	902	1,274	1,500	1,650	1,625	1,625
Venture Capital	<u>332</u>	<u>423</u>	<u>475</u>	<u>575</u>	<u>600</u>	<u>600</u>
Total Developed Country	1,234	1,697	1,975	2,225	2,225	2,225
Emerging Markets	17	24	200	300	550	700
TOTAL	\$1,570	\$2,190	\$3,300	\$4,550	\$5,600	\$6,050

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Marketable Securities Exposures¹

	MCC				LCC			
	FYE 08 Projected	FYE 09 Target	FYE 10 Target	FYE 11 Target	FYE 08 Projected	FYE 09 Target	FYE 10 Target	FYE 11 Target
Investment Grade Fixed Income	\$2,000	\$1,125	\$1,200	\$1,275	\$375	\$400	\$425	\$450
Credit-related Fixed Income	0	200	225	475	500	1,225	1,300	1,400
Real Estate	1,000	1,125	1,075	1,050	50	50	50	50
Natural Resources	1,000	1,125	975	925	200	300	550	700
Developed Country Equity	4,200	3,450	3,400	3,400	4,100	3,750	3,775	3,950
Emerging Markets Equity	1,950	2,025	2,175	2,450	825	1,000	1,100	1,175
TOTAL	\$10,150	\$9,050	\$9,050	\$9,575	\$6,050	\$6,725	\$7,200	\$7,725

¹Assumes 7% Endowment Growth (10% Investment Returns + 2% Contributions – 5% Distributions)



Credit-Related Fixed Income

	Current			FYE 09 Projected		
	# of Mgrs	Policy	"Look Through"	# of Mgrs	Policy	"Look Through"
<u>MCC</u>	0	0.0%	0.0%	2	1.0%	1.0%
<u>LCC</u> • <u>Reclassifications</u> (Perry, Eton Park, AG Super Fund)	7	1.6%	3.7%	11	6.0%	7.5%
• <u>Increased/New Funding</u> (Centerbridge, Baupost, Farallon Side Car, Owl Creek)						
<u>Private Investments</u> • \$668 (3.5%) unfunded commitments • \$600 (3.1%) projected new commitments	<u>8*</u>	<u>3.8%</u>	<u>3.8%</u>	<u>11*</u>	<u>6.5%</u>	<u>6.5%</u>
TOTAL	<u>15</u>	<u>5.5%</u>	<u>7.5%</u>	<u>23</u>	<u>13.5%</u>	<u>15.0%</u>

*Plus 5 "non-core" relationships totaling 0.4% of portfolio

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Fall 2007 Plan vs. Summer 2008 Plan

- MCC Natural Resources
 - Original: AIG Index
 - Revised: 50% AIG Index
50% MSCI World Natural Resources Index
- Real Estate Private Investments
 - Original: None
 - Revised: Custom NACREIF

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FYE 2008		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Lehman Brothers Global Agg			11.0%
	Credit-Related	Lehman Brothers Global High-Yield			5.0%
Real Assets	Real Estate	NAREIT Equity Index			6.0%
	Natural Resources	DJ-AIG Commodity Index Total Return			8.0%
Equity	Developed Country	MSCI World Index with Net Dividends			55.0%
	Emerging Markets	MSCI EM Index with Net Dividends			15.0%
Total		53.5%	33.0%	13.5%	100.0%

MSCI Investable Hedge Fund Index
 Venture Economics Customer Index

FYE 2008		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Lehman Brothers Global Agg			11.0%
	Credit-Related	Lehman Brothers Global High-Yield			5.0%
Real Assets	Real Estate	FTSE EPRA/ NAREIT Global Index		Custom NACREIF	6.0%
	Natural Resources	50% DJ-AIG Commodity Index Total Return 50% MSCI World Natural Resources Index			8.0%
Equity	Developed Country	MSCI World Index with Net Dividends			55.0%
	Emerging Markets	MSCI EM Index with Net Dividends			15.0%
Total		53.5%	33.0%	13.5%	100.0%

MSCI Investable Hedge Fund Index
 Venture Economics Customer Index



Liquidity and Unfunded Commitments

Projected Liquidity	3 Month Liquidity (FYE)				One Year Liquidity (FYE)			
	<u>08</u>	<u>09</u>	<u>10</u>	<u>11</u>	<u>08</u>	<u>09</u>	<u>10</u>	<u>11</u>
MCC								
% of Portfolio	52%	45%	42%	41%	52%	45%	42%	41%
% Liquidity	<u>80%</u>	<u>70%</u>	<u>65%</u>	<u>60%</u>	<u>90%</u>	<u>80%</u>	<u>75%</u>	<u>70%</u>
Liquidity	41%	32%	27%	25%	47%	36%	32%	29%
LCC								
% of Portfolio	31%	33%	33%	33%	31%	33%	33%	33%
% Liquidity	<u>30%</u>	<u>25%</u>	<u>20%</u>	<u>20%</u>	<u>75%</u>	<u>70%</u>	<u>65%</u>	<u>65%</u>
Liquidity	9%	8%	7%	7%	24%	22%	22%	22%
Private								
% of Portfolio	17%	22%	25%	26%	17%	22%	26%	26%
% Liquidity	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>
Liquidity	0%	0%	0%	0%	2%	2%	3%	3%
Total Liquidity	<u>50%</u>	<u>40%</u>	<u>34%</u>	<u>32%</u>	<u>73%</u>	<u>60%</u>	<u>57%</u>	<u>54%</u>
Current Policy								
"Trigger"	43%	40%	37%					
Limit	38%	35%	32%					
Recommended Policy								
"Trigger"		35%	30%	28%				
Limit		30%	25%	23%				



Unfunded Commitments

	FYE 08	FYE 09	FYE 10	FYE 11
Projected	22.3%	24.7%	24.9%	20.9%
Current Policy Limit	22.5%	27.5%	32.5%	
Recommended Policy Limit	25.0%	27.5%	32.5%	32.5%

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Intermediate Term Fund (ITF)

- Staff continues to recommend no change to the Intermediate Term Fund Investment Strategy, as was the case during the summer/fall 2007 review
- As a result of aligning the ITF with the PUF and GEF “Grids” some changes did result, including:
 - Broadening (benchmarking) Investment Grade Fixed Income to a global, from a US-only, perspective
 - Updated allocation of the LCC portfolio across Asset Classes
 - Adjusting the Natural Resources benchmark to a 50/50 AIG Index/MSCI World Natural Resources Index

- B. ADJOURN JOINT MEETING
- C. RECONVENE MEETING OF THE BOARD OF REGENTS IN OPEN SESSION
- 10. **U. T. Medical Branch - Galveston: Resolution to honor the heroism of the late Mr. Roger Winslow Stone, a longtime employee**

RECOMMENDATION

It is recommended that the Board of Regents of The University of Texas System adopt the following resolution in recognition of Mr. Roger Winslow Stone, a 28-year employee of The University of Texas Medical Branch at Galveston who embodied the University's service mission by continually striving to improve the lives of others, both professionally and in his private life.

RESOLUTION

WHEREAS, Roger Winslow Stone joined The University of Texas Medical Branch at Galveston in July 1980, shortly after earning a Bachelor of Science degree in biomedical photography;

WHEREAS, Mr. Stone dedicated his professional life to creating a positive environment for co-workers, students, and patients, first as a biomedical photographer and in subsequent roles as distribution manager, process systems coordinator, and logistics program manager;

WHEREAS, Mr. Stone took it upon himself to help The University of Texas Medical Branch at Galveston address the transportation needs of its workforce by coordinating the institution's commuter van pool and by driving a commuter van himself;

WHEREAS, Mr. Stone brought beauty into the lives of others through his fine art photography and the publication of a book on public gardens of the East Coast, coauthored with his mother, Doris Lacy Stone;

WHEREAS, Mr. Stone exemplified work-life balance by being a devoted husband to Linda, his wife of 17 years, and active father to his two children, Eric and Elizabeth;

WHEREAS, Mr. Stone was a dedicated brother to Valerie Stone and caring uncle to Lacy Shannon and Caitlyn O'Connor;

WHEREAS, Mr. Stone, an experienced mariner, served as a mentor to other young people through his work as an assistant coach and safety officer for the Texas A&M University at Galveston sailing team;

WHEREAS, Mr. Stone, during Texas Race Week in 2007, displayed heroism and altruism when he and his crew abandoned their own race ambitions to save the crew of another sailboat in distress; and

WHEREAS, Mr. Stone's last act as a safety officer was to save the lives of two Texas A&M University students who were caught below-decks when their sailboat capsized during the 2008 Regatta de Amigos, at the cost of his own life.

THEREFORE, BE IT RESOLVED that The University of Texas System Board of Regents formally acknowledges and commends Mr. Stone's exemplary life of service and supports memorializing his life by further resolving that The University of Texas Medical Branch at Galveston will place a recognition plaque on a bench directly facing the Gulf of Mexico at the University's Ninth Street Circle, so that Mr. Stone's name will be an integral part of an area used daily by commuters to the campus; and

That The University of Texas Medical Branch at Galveston will establish the Roger Winslow Stone Hero Award to be given to other University employees who perpetuate his memory by demonstrating extraordinary courage and self-sacrifice in service to others; and

BE IT ALSO RESOLVED that an official copy of this resolution will be provided to Mrs. Linda Stone as an expression of deep gratitude for the life of Mr. Roger Winslow Stone.

11. **U. T. System Board of Regents: Approval of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) recommendations for amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, and the Long Term Fund**

RECOMMENDATION

The Chancellor ad interim 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 the U. T. System Board of Regents approve proposed amendments to the following Investment Policy Statements as set forth on the referenced pages.

- a. Exhibit A, Permanent University Fund (PUF) (See Page 123)
- b. Exhibit A, General Endowment Fund (GEF) (See Page 124)
- c. Exhibit B, Permanent Health Fund (PHF) (See Page 125)
- d. Exhibit B, Long Term Fund (LTF) (See Page 126)

BACKGROUND INFORMATION

Section 3(a) of the Investment Management Services Agreement approved February 7, 2008, between the Board of Regents of The University of Texas System and UTIMCO requires UTIMCO to review the Investment Policies of the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund (collectively the "Funds") at least annually and recommend any changes of such Investment Policies for approval by the U. T. Board. The review includes distribution (spending) guidelines, long-term investment return expectations and expected risk levels, Asset Class and Investment Type allocation targets and ranges, expected returns for each Asset Class and Investment Type and Fund, designated performance benchmarks for each Asset Class and Investment Type and such other matters as the U. T. Board or its staff designees may request. After UTIMCO completes its assessment, UTIMCO staff shall forward any recommended changes to U. T. System staff for review and appropriate action. The amended PUF, GEF, PHF, LTF, and ITF (the "Funds") Investment Policy Statements were last approved by the UTIMCO Board on November 29, 2007, and the U. T. Board on December 6, 2007.

UTIMCO will present its recommended changes for fiscal years ending 2009, 2010, and 2011, at the Board of Regents' meeting scheduled for August 13-14, 2008. Mid-course corrections to Exhibits A to the Investment Policy Statements for the PUF and GEF and Exhibits B in the PHF and LTF Investment Policy Statements, for the fiscal year ending August 31, 2008, are presented here, to be effective July 24, 2008.

Due to the steep decline in public equity markets, the potential is increasing for the ratio of Private Investments over Total Endowment Assets to exceed the upper limit (17.5%) established in the Investment Policy Statements effective March 1, 2008. The ratio of Private Investments over Total Endowment Assets as of June 30, 2008, is 16.79% for the PUF and 16.71% for the GEF, compared to a June 30, 2008 maximum range of 16.8% for each. Because this ratio is very dependent on overall fund performance, it is impossible to establish with any certainty what the ratio will be at the end of July or August. UTIMCO Staff has determined and the UTIMCO Board agrees that it would be imprudent to attempt to enter the secondary market to sell down a portion of existing private investments during this period, which is the only direct lever available to reduce this ratio. Additionally, the UTIMCO Board has determined that disrupting UTIMCO's Private Investments commitment program is inadvisable, particularly given that it would

not impact the ratio in the short term as well as the variable nature of the ratio. Therefore, in order to remain in compliance with the Investment Policy Statements, the UTIMCO Board recommends that the Private Investments maximum range be increased to 20%, effective July 24, 2008.

EXHIBIT A
PERMANENT UNIVERSITY FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE MARCH 1, 2008-JULY 24, 2008

POLICY PORTFOLIO	March 1, 2008			FYE 2008			FYE 2009			FYE 2010		
	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max
<u>Asset Classes</u>												
Investment Grade Fixed Income	10.0%	14.0%	20.0%	7.5%	11.0%	17.5%	5.0%	8.5%	15.0%	2.5%	7.5%	15.0%
Credit-Related Fixed Income	0.0%	2.5%	5.0%	0.0%	5.0%	12.5%	1.5%	6.5%	14.0%	2.5%	7.5%	15.0%
Real Estate	2.5%	5.0%	7.5%	3.0%	6.0%	9.0%	5.0%	8.0%	11.0%	5.0%	10.0%	15.0%
Natural Resources	3.0%	6.0%	9.0%	4.0%	8.0%	12.0%	5.0%	9.5%	13.0%	5.0%	10.0%	15.0%
Developed Country Equity	52.5%	60.0%	67.5%	47.5%	55.0%	62.5%	42.5%	50.0%	57.5%	37.5%	45.0%	52.5%
Emerging Markets Equity	7.5%	12.5%	17.5%	10.0%	15.0%	20.0%	12.5%	17.5%	22.5%	15.0%	20.0%	25.0%
<u>Investment Types</u>												
More Correlated & Constrained Investments	50.0%	58.5%	65.0%	47.5%	53.5%	60.0%	45.0%	51.5%	60.0%	42.5%	49.5%	57.5%
Less Correlated & Constrained Investments	25.0%	30.0%	35.0%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%
Private Investments	7.5%	11.5%	15.5%	9.5%	13.5%	17.5% 20.0	10.0%	15.5%	20.0%	12.5%	17.5%	22.5%

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Lehman Brothers Global Aggregate Index	11.0%	8.5%	6.5%	4.5%
Lehman Brothers Global High-Yield Index	1.5%	1.5%	1.5%	2.0%
NAREIT Equity Index	5.0%	5.5%	6.5%	7.0%
Dow Jones-AIG Commodity Index Total	4.0%	5.0%	6.0%	6.0%
MSCI World Index with net dividends	27.5%	22.0%	18.0%	16.0%
MSCI Emerging Markets with net dividends	9.5%	11.0%	13.0%	14.0%
MSCI Investable Hedge Fund Index	30.0%	33.0%	33.0%	33.0%
Venture Economics Custom Index	11.5%	13.5%	15.5%	17.5%

POLICY/TARGET RETURN/RISKS	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Expected Annual Return (Benchmarks)	8.34%	8.47%	8.62%	8.75%
Expected Target Annual Return (Active)	9.31%	9.46%	9.65%	9.81%
One Year Downside Deviation	8.52%	8.56%	8.70%	8.90%
Risk Bounds				
Lower: 1 Year Downside Deviation	85%	85%	85%	85%
Upper: 1 Year Downside Deviation	115%	115%	115%	115%

EXHIBIT A
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE MARCH 1, 2008-JULY 24, 2008

POLICY PORTFOLIO	March 1, 2008			FYE 2008			FYE 2009			FYE 2010		
	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max
<u>Asset Classes</u>												
Investment Grade Fixed Income	10.0%	14.0%	20.0%	7.5%	11.0%	17.5%	5.0%	8.5%	15.0%	2.5%	7.5%	15.0%
Credit-Related Fixed Income	0.0%	2.5%	5.0%	0.0%	5.0%	12.5%	1.5%	6.5%	14.0%	2.5%	7.5%	15.0%
Real Estate	2.5%	5.0%	7.5%	3.0%	6.0%	9.0%	5.0%	8.0%	11.0%	5.0%	10.0%	15.0%
Natural Resources	3.0%	6.0%	9.0%	4.0%	8.0%	12.0%	5.0%	9.5%	13.0%	5.0%	10.0%	15.0%
Developed Country Equity	52.5%	60.0%	67.5%	47.5%	55.0%	62.5%	42.5%	50.0%	57.5%	37.5%	45.0%	52.5%
Emerging Markets Equity	7.5%	12.5%	17.5%	10.0%	15.0%	20.0%	12.5%	17.5%	22.5%	15.0%	20.0%	25.0%
<u>Investment Types</u>												
More Correlated & Constrained	50.0%	58.5%	65.0%	47.5%	53.5%	60.0%	45.0%	51.5%	60.0%	42.5%	49.5%	57.5%
Less Correlated & Constrained	25.0%	30.0%	35.0%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%
Private Investments	7.5%	11.5%	15.5%	9.5%	13.5%	17.5% 20.0%	10.0%	15.5%	20.0%	12.5%	17.5%	22.5%

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Lehman Brothers Global Aggregate Index	11.0%	8.5%	6.5%	4.5%
Lehman Brothers Global High-Yield Index	1.5%	1.5%	1.5%	2.0%
NAREIT Equity Index	5.0%	5.5%	6.5%	7.0%
Dow Jones-AIG Commodity Index Total	4.0%	5.0%	6.0%	6.0%
MSCI World Index with net dividends	27.5%	22.0%	18.0%	16.0%
MSCI Emerging Markets with net dividends	9.5%	11.0%	13.0%	14.0%
MSCI Investable Hedge Fund Index	30.0%	33.0%	33.0%	33.0%
Venture Economics Custom Index	11.5%	13.5%	15.5%	17.5%

POLICY/TARGET RETURN/RISKS	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Expected Annual Return (Benchmarks)	8.34%	8.47%	8.62%	8.75%
Expected Target Annual Return (Active)	9.31%	9.46%	9.65%	9.81%
One Year Downside Deviation	8.52%	8.56%	8.70%	8.90%
Risk Bounds				
Lower: 1 Year Downside Deviation	85%	85%	85%	85%
Upper: 1 Year Downside Deviation	115%	115%	115%	115%

Permanent Health Fund Investment Policy (continued)

EXHIBIT B
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~MARCH 1, 2008~~ JULY 24, 2008

POLICY PORTFOLIO	March 1, 2008			FYE 2008			FYE 2009			FYE 2010		
	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max
<u>Asset Classes</u>												
Investment Grade Fixed Income	10.0%	14.0%	20.0%	7.5%	11.0%	17.5%	5.0%	8.5%	15.0%	2.5%	7.5%	15.0%
Credit-Related Fixed Income	0.0%	2.5%	5.0%	0.0%	5.0%	12.5%	1.5%	6.5%	14.0%	2.5%	7.5%	15.0%
Real Estate	2.5%	5.0%	7.5%	3.0%	6.0%	9.0%	5.0%	8.0%	11.0%	5.0%	10.0%	15.0%
Natural Resources	3.0%	6.0%	9.0%	4.0%	8.0%	12.0%	5.0%	9.5%	13.0%	5.0%	10.0%	15.0%
Developed Country Equity	52.5%	60.0%	67.5%	47.5%	55.0%	62.5%	42.5%	50.0%	57.5%	37.5%	45.0%	52.5%
Emerging Markets Equity	7.5%	12.5%	17.5%	10.0%	15.0%	20.0%	12.5%	17.5%	22.5%	15.0%	20.0%	25.0%
<u>Investment Types</u>												
More Correlated & Constrained Investments	50.0%	58.5%	65.0%	47.5%	53.5%	60.0%	45.0%	51.5%	60.0%	42.5%	49.5%	57.5%
Less Correlated & Constrained Investments	25.0%	30.0%	35.0%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%
Private Investments	7.5%	11.5%	15.5%	9.5%	13.5%	17.5% 20.0%	10.0%	15.5%	20.0%	12.5%	17.5%	22.5%

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Lehman Brothers Global Aggregate Index	11.0%	8.5%	6.5%	4.5%
Lehman Brothers Global High-Yield Index	1.5%	1.5%	1.5%	2.0%
NAREIT Equity Index	5.0%	5.5%	6.5%	7.0%
Dow Jones-AIG Commodity Index Total Return	4.0%	5.0%	6.0%	6.0%
MSCI World Index with net dividends	27.5%	22.0%	18.0%	16.0%
MSCI Emerging Markets with net dividends	9.5%	11.0%	13.0%	14.0%
MSCI Investable Hedge Fund Index	30.0%	33.0%	33.0%	33.0%
Venture Economics Custom Index	11.5%	13.5%	15.5%	17.5%

POLICY/TARGET RETURN/RISKS	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Expected Annual Return (Benchmarks)	8.34%	8.47%	8.62%	8.75%
Expected Target Annual Return (Active)	9.31%	9.46%	9.65%	9.81%
One Year Downside Deviation	8.52%	8.56%	8.70%	8.90%
Risk Bounds				
Lower: 1 Year Downside Deviation	85%	85%	85%	85%
Upper: 1 Year Downside Deviation	115%	115%	115%	115%

Long Term Fund Investment Policy Statement (continued)

EXHIBIT B
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE MARCH 1, 2008-JULY 24, 2008

POLICY PORTFOLIO	March 1, 2008			FYE 2008			FYE 2009			FYE 2010		
	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max
<u>Asset Classes</u>												
Investment Grade Fixed Income	10.0%	14.0%	20.0%	7.5%	11.0%	17.5%	5.0%	8.5%	15.0%	2.5%	7.5%	15.0%
Credit-Related Fixed Income	0.0%	2.5%	5.0%	0.0%	5.0%	12.5%	1.5%	6.5%	14.0%	2.5%	7.5%	15.0%
Real Estate	2.5%	5.0%	7.5%	3.0%	6.0%	9.0%	5.0%	8.0%	11.0%	5.0%	10.0%	15.0%
Natural Resources	3.0%	6.0%	9.0%	4.0%	8.0%	12.0%	5.0%	9.5%	13.0%	5.0%	10.0%	15.0%
Developed Country Equity	52.5%	60.0%	67.5%	47.5%	55.0%	62.5%	42.5%	50.0%	57.5%	37.5%	45.0%	52.5%
Emerging Markets Equity	7.5%	12.5%	17.5%	10.0%	15.0%	20.0%	12.5%	17.5%	22.5%	15.0%	20.0%	25.0%
<u>Investment Types</u>												
More Correlated & Constrained Investments	50.0%	58.5%	65.0%	47.5%	53.5%	60.0%	45.0%	51.5%	60.0%	42.5%	49.5%	57.5%
Less Correlated & Constrained Investments	25.0%	30.0%	35.0%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%
Private Investments	7.5%	11.5%	15.5%	9.5%	13.5%	17.5% 20.0%	10.0%	15.5%	20.0%	12.5%	17.5%	22.5%

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Lehman Brothers Global Aggregate Index	11.0%	8.5%	6.5%	4.5%
Lehman Brothers Global High-Yield Index	1.5%	1.5%	1.5%	2.0%
NAREIT Equity Index	5.0%	5.5%	6.5%	7.0%
Dow Jones-AIG Commodity Index Total	4.0%	5.0%	6.0%	6.0%
MSCI World Index with net dividends	27.5%	22.0%	18.0%	16.0%
MSCI Emerging Markets with net dividends	9.5%	11.0%	13.0%	14.0%
MSCI Investable Hedge Fund Index	30.0%	33.0%	33.0%	33.0%
Venture Economics Custom Index	11.5%	13.5%	15.5%	17.5%

POLICY/TARGET RETURN/RISKS	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Expected Annual Return (Benchmarks)	8.34%	8.47%	8.62%	8.75%
Expected Target Annual Return (Active)	9.31%	9.46%	9.65%	9.81%
One Year Downside Deviation	8.52%	8.56%	8.70%	8.90%
Risk Bounds				
Lower: 1 Year Downside Deviation	85%	85%	85%	85%
Upper: 1 Year Downside Deviation	115%	115%	115%	115%

12. U. T. Health Science Center - San Antonio: Recreation and Wellness Center - Request for approval of design development; appropriation of funds and authorization of expenditure; approval of evaluation of alternative energy economic feasibility; and resolution regarding parity debt (Final Approval)

RECOMMENDATION

Dr. Kenneth I. Shine, in his roles as Chancellor ad interim and Executive Vice Chancellor for Health Affairs, concurs with the Executive Vice Chancellor for Business Affairs and President Cigarroa that the U. T. System Board of Regents approve the recommendations for the Recreation and Wellness Center project at The University of Texas Health Science Center at San Antonio as follows:

Project No.: 402-403
Institutional Managed: Yes No
Project Delivery Method: Design/Build

Substantial Completion Date: March 2009

Total Project Cost:

<u>Source</u>	<u>Current</u>
Revenue Financing System Bond Proceeds	\$5,500,000

Investment Metrics:

- Project will increase exercise space for students by more than 29,000 square feet by 2009.
- Project will provide exercise space for approximately 2,800 students and additional 1,200 faculty and staff in the Medical Center by 2009.

- a. approve design development plans;
- b. appropriate funds and authorize expenditure of funds;
- c. approve the evaluation of alternative energy economic feasibility; and
- d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System; and

- U. T. Health Science Center - San Antonio, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$5,500,000.

BACKGROUND INFORMATION

Debt Service

The \$5,500,000 in Revenue Financing System debt will be repaid from revenue generated by the project. Annual debt service on the \$5,500,000 Revenue Financing System debt is expected to be \$400,000. The institution's debt service coverage is expected to average 1.7 times over FY 2009-2014.

Previous Board Actions

On May 15, 2008, the project was included in the Capital Improvement Program (CIP) with a total project cost of \$5,500,000 with funding from Revenue Financing System Bond Proceeds and authorized for institutional management.

Project Description

The project will house a new recreation and wellness facility of approximately 37,000 gross square feet (gsf) located on the main campus. The center will include space for workout rooms, cardiovascular and weight training, an outdoor pool, and gymnasium. The facility will be open 24 hours a day, seven days a week to accommodate the various schedules of students, faculty, and staff. This project will build the shell and finish out the gymnasium. The facility operator will complete the interior finish-out and construct an outdoor pool.

U. T. Health Science Center - San Antonio students are in need of adequate exercise and recreation facilities. This project will construct a center to accommodate the students providing space for fitness classes and intramurals, and a casual gathering space for the students (see Item 13 on Page 129).

Basis of Design

The planned building life expectancy includes the following elements:

- Enclosure: 30-35 years
- Building Systems: 10-15 years
- Interior Construction: 10-15 years

The interior and exterior appearance and finish are consistent with similar private sector facilities.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building or an addition to an existing building. Therefore, the Project Architect prepared a renewable energy evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

13. **U. T. Health Science Center - San Antonio: Authorization to lease a shell building containing approximately 37,000 square feet and approximately 8,000 square feet of adjoining land, all within an approximately 1.25-acre site located on Merton Minter Drive, on the institution's Long Campus, being a part of Block 6, N. C. B. 12816, Oak Hills Park, Unit 1, in the Manuel Tejada Survey No. 89, San Antonio, Bexar County, Texas, to Spectrum Clubs, Inc., a California corporation, or a subsidiary thereof, for the finish-out, equipping, and operation of a recreation and wellness center to serve the student body, faculty, and staff of the institution and the general public**

RECOMMENDATION

Dr. Kenneth I. Shine, in his roles as Chancellor ad interim and Executive Vice Chancellor for Health Affairs, concurs in the recommendation of the Executive Vice Chancellor for Business Affairs and President Cigarroa that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. Health Science Center - San Antonio, to

- a. lease a shell building containing approximately 37,000 square feet and approximately 8,000 square feet of adjoining land, all within an approximately 1.25-acre site located on Merton Minter Drive, on the institution's Long Campus, being a part of Block 6, N. C. B. 12816, Oak Hills Park, Unit 1, in the Manuel Tejada Survey No. 89, San Antonio, Bexar County, Texas, to Spectrum Clubs, Inc., a California corporation, or a subsidiary thereof ("Spectrum"), for the finish-out, equipping, and operation of a recreation and wellness center to serve the student body, faculty, and staff of the institution and the general public (see Item 12 on Page 127); and
- b. authorize the Executive Director of Real Estate to execute all documents, instruments, and other agreements, subject to approval of all such documents as to legal form by the Office of General Counsel, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

U. T. Health Science Center - San Antonio has selected Spectrum through a request for proposal (RFP) process to finish out, equip, and operate the institution's proposed recreation and wellness center. The center will be located on the Long Campus in a vacant portion of the current recreation area between the tennis courts and the track.

U. T. Health Science Center - San Antonio will construct an approximately 37,000 square foot shell building and will finish out the gymnasium. Spectrum will finish out the remaining interior of the recreation and wellness center, build an outdoor pool next to the facility, equip the center with free weights and exercise equipment, operate the center 24 hours a day, seven days a week, and provide personal trainers.

U. T. Health Science Center - San Antonio proposes to lease the shell facility and land to Spectrum for a term of 15 years, plus a period of up to three months to complete the finish-out and equip the facility. In addition, it is anticipated that the tenant will have two five-year renewal options. Spectrum will also have the use for its employees of 50 existing parking spaces on the institution's campus. During the lease term, Spectrum will provide memberships to the institution's student body, and offer discounted memberships to the institution's faculty and staff. The current schedule indicates that Spectrum can complete the finish-out work by May 2009. Students will, however, have the use of Spectrum's other San Antonio area facilities beginning September 2008.

Rent paid by Spectrum will increase for each renewal option. U. T. Health Science Center - San Antonio will pay a fee per student to Spectrum for all of the students to be members of the club; increases to this fee, both during the primary term as well as for the renewal term(s) if exercised, are under negotiation. Rental and fee details are included in the transaction summary on Page 131.

An on-site recreation and wellness center has been a top priority for the students at U. T. Health Science Center - San Antonio for many years. The center's location will complement the institution's existing recreational facilities. U. T. Health Science Center - San Antonio has determined that obtaining a vendor to finish out, equip, and operate the center will provide the highest level of function and service for the cost. The institution's students are estimated to initially comprise about one-half of the center's estimated membership capacity of 6,000; to the extent there is capacity, U. T. Health Science Center - San Antonio staff and faculty, as well as the general public, expected to primarily consist of individuals affiliated with institutions located in the San Antonio Medical Center, may purchase memberships.

Spectrum will finish out the facility at its own expense and will operate the center at all times and at its own expense. The lease will give U. T. Health Science Center - San Antonio the right to approve the plans and specifications of the proposed improvements and will limit the use of the property to a recreation and wellness center facility. The lease will also contain operating requirements and provisions that require the tenant to provide insurance and to indemnify the landlord for matters arising from the tenant's use or occupancy of or activities on the premises.

The terms and conditions of the proposed lease are specified in the transaction summary below:

Transaction Summary

Institution: U. T. Health Science Center - San Antonio

Type of Transaction: Lease of shell building and adjoining ground

Tenant: Spectrum Clubs, Inc., a California corporation, or a subsidiary thereof

Total Area: An approximately 37,000 square foot shell building, with approximately 8,000 square feet of adjoining land, located on a site containing approximately 1.25 acres

Landlord Improvements: Landlord will construct the shell building for the wellness and recreation center, including a finished-out gymnasium, at an estimated total project cost of \$5,500,000; Landlord will also provide parking for 50 Tenant employees; the shell building was added to the Capital Improvement Program (CIP) by the Board on May 15, 2008, and will be funded using Revenue Financing System Bond Proceeds

Tenant Improvements: Tenant will finish out, at its cost, the interior of the shell facility, except for the gymnasium, and construct an outdoor pool with a walled enclosure; Tenant will also equip the center with free weights and up-to-date fitness and exercise equipment

Location: South side of Merton Minter Drive, northeast of Babcock Road, on the U. T. Health Science Center - San Antonio Long Campus, being a part of Block 6, N. C. B. 12816, Oak Hills Park, Unit 1, in the Manuel Tejada survey No. 89, San Antonio, Bexar County, Texas (see map on Page 133)

Rent: Rent during the initial term will be \$43,041 monthly (\$516,492 or \$13.96 per square foot annually); rent during the initial option term will be \$52,080 monthly (\$624,955 or \$16.89 per square foot annually), and for the subsequent option term will be \$57,288 monthly (\$687,451 or \$18.58 per square foot annually); Tenant will pay all operating expenses, including taxes, and will at its cost maintain all of the improvements, including the shell building; Tenant will maintain and replace fitness and exercise equipment throughout the term of the lease

Membership Fees: U. T. Health Science Center - San Antonio students will be offered membership in the center at an initial fee of \$40 per student per month with a guaranteed minimum of 2,520 memberships; payment by the institution to Spectrum of the student membership fee will begin in September 2008 and it is anticipated that there may be periodic increases of this fee during the term of the lease and its renewal period; student membership fees will be funded from a student fee that has been approved through a student referendum; increases in fees, if any, would be subject to student and other required approvals

Tenant Services: Tenant will operate the recreation and wellness center in accordance with operating requirements in the lease 24 hours a day, seven days a week, except for designated holidays; Tenant will provide exercise equipment, fitness classes, and personal trainers; Tenant will provide memberships to the institution's students permitting access to Tenant's San Antonio area health clubs beginning in September 2008 through the commencement of the lease

Appraised Value: \$38,542 monthly (\$462,500 or \$12.50 per square foot annually) initial fair market rental (Richard Dugger, MAI, CRE, Dugger, Canaday, Grafe, Inc., June 4, 2008)

Lease Term: 15 years plus initial design, permitting, and construction period not to exceed three months, and two five-year renewal options

Uses: Recreation and wellness center



Subject Property

**UTHSCSA
North
Campus**

**UTHSCSA
Long
Campus**

Oak Hills
Country Club

Crossroads
Mall

14. **U. T. Austin: Authorization to enter into a license with Sprint Spectrum Realty Company, L. P., a Delaware limited partnership, to permit the licensee to place telecommunications facilities on the roof of the Art Building and Museum on the U. T. Austin campus at 2301 San Jacinto Boulevard, Austin, Travis County, Texas, for provision of telecommunications services to the campus**

RECOMMENDATION

The Chancellor ad interim concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Powers that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. Austin, to

- a. enter into a license with Sprint Spectrum Realty Company, L. P., a Delaware limited partnership, to permit the licensee to place telecommunications cell tower and related facilities on the roof of the Art Building and Museum on the U. T. Austin campus at 2301 San Jacinto Boulevard, Austin, Travis County, Texas, for the provision of telecommunications services to the campus; and
- b. authorize the Executive Director of Real Estate to execute the license agreement and such other related documents, subject to approval of all such documents as to legal form by the Office of General Counsel, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

U. T. Austin intends to provide telecommunications services to the campus by a distributed antennae system (DAS), but the DAS is not expected to be functioning until the first quarter of 2009. Until the DAS begins functioning, this license will aid in the provision of telecommunications services to campus visitors, students, faculty, staff, and administration.

Sprint Spectrum Realty Company, L. P., has a lease for these telecommunications facilities that terminates on July 31, 2008. This license will permit these facilities to continue to provide services until the earlier of August 31, 2009, or the DAS begins functioning.

The terms and conditions of the proposed license agreement are specified in the transaction summary on Page 135.

Transaction Summary

Institution: U. T. Austin

Type of Transaction: License Agreement

Total Area: Roof of Art Building and Museum

Improvements: Telecommunications cell tower and related facilities

Location: Art Building and Museum, 2301 San Jacinto Boulevard, Austin, Travis County, Texas (see map on the following page)

Licensee: Sprint Spectrum Realty Company, L. P., a Delaware limited partnership

License Fee: \$1,500 per month plus operating expenses

Permitted Use: Location and operation of telecommunications equipment

15. **U. T. M. D. Anderson Cancer Center: Authorization to purchase approximately 81,579 square feet of unimproved land located at 7301-7313 Almeda Road, also known as Lots 1 through 12 and certain alleys, Block 8, Institute Place Subdivision, and the northern portion of Virginia Avenue right-of-way, all in Houston, Harris County, Texas, from Institute Place Partners, Ltd., a Texas limited partnership, for a purchase price not to exceed fair market value as established by independent appraisals for future use for campus administrative and support functions**

RECOMMENDATION

Dr. Kenneth I. Shine, in his roles as Chancellor ad interim and Executive Vice Chancellor for Health Affairs, concurs in the recommendation of the Executive Vice Chancellor for Business Affairs and President Mendelsohn that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. M. D. Anderson Cancer Center, to

- a. purchase approximately 81,579 square feet of unimproved land located at 7301-7313 Almeda Road, also known as Lots 1 through 12 and certain alleys, Block 8, Institute Place Subdivision, and the northern portion of Virginia Avenue right-of-way, all in Houston, Harris County, Texas, from Institute Place Partners, Ltd., a Texas limited partnership, for a purchase price not to exceed fair market value as established by independent appraisals, plus all due diligence expenses, closing costs, and other costs and expenses to complete the acquisition of the property as deemed necessary or advisable by the Executive Director of Real Estate for future use for campus administrative and support functions; and
- b. authorize the Executive Director of Real Estate to execute all documents, instruments, and other agreements, subject to approval of all such documents as to legal form by the Office of General Counsel, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

Acquisition of the subject property is part of the land assemblage being undertaken by U. T. M. D. Anderson Cancer Center to accommodate the relocation of important but noncritical functions that will allow greater use of core facilities in the heart of the Texas Medical Center for patient treatment and research.

The subject property is presently unimproved and is located at the intersection of Almeda Road and Corder Street in Houston, Texas. The site is directly across the railroad tracks from a 28.8008-acre tract that was approved for U. T. M. D. Anderson Cancer Center's acquisition by the Board on February 8, 2007.

U. T. M. D. Anderson Cancer Center has concluded that the main campus in the Texas Medical Center and the south campus should be reserved for use for research and critical patient care functions. Accordingly, many administrative and support activities currently in the main and south campuses most likely will be relocated to the area in which the subject property and adjacent tracts are located to allow expansion of the research and patient care functions on the main and south campuses.

The acquisition will be funded with Local Hospital Margins. The terms and conditions of the proposed purchase are specified in the transaction summary below:

Transaction Summary

Institution:	U. T. M. D. Anderson Cancer Center
Type of Transaction:	Purchase
Total Area:	Approximately 81,579 square feet
Improvements:	None
Location:	Corner of Almeda Road and Corder Street at 7301-7313 Almeda Road, also known as Lots 1 through 12 and certain alleys, Block 8, Institute Place Subdivision, and the northern portion of Virginia Avenue right-of-way, all in Houston, Harris County, Texas (see map on the following page)
Seller:	Institute Place Partners, Ltd., a Texas limited partnership
Purchase Price:	Not to exceed fair market value as established by independent appraisals
Appraised Value:	\$50 per square foot (Edward B. Schulz & Co., April 30, 2008, as updated by letter dated May 29, 2008); \$52.50 per square foot (Lewis Realty Advisors, June 2, 2008)
Source of Funds:	Local Hospital Margins
Intended Use:	Administrative and support functions

16. **U. T. M. D. Anderson Cancer Center: Authorization to grant licenses to CenterPoint Energy Houston Electric L. L. C., a Texas limited liability company, to permit the licensee to place electrical distribution facilities on portions of the campus to serve campus facilities and facilitate land acquisitions**

RECOMMENDATION

Dr. Kenneth I. Shine, in his roles as Chancellor ad interim and Executive Vice Chancellor for Health Affairs, concurs in the recommendation of Executive Vice Chancellor for Business Affairs and President Mendelsohn that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. M. D. Anderson Cancer Center, to

- a. enter into licenses with CenterPoint Energy Houston Electric L. L. C., a Texas limited liability company, to permit the licensee to place electrical distribution facilities on portions of the campus to serve campus facilities and facilitate land acquisitions; and
- b. authorize the Executive Director of Real Estate to execute the license agreements and such other related documents, subject to approval of all such documents as to legal form by the Office of General Counsel, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

Authorization to enter into four license agreements as described below is being sought so that U. T. M. D. Anderson Cancer Center campus acquisition and construction projects may proceed on schedule:

- a. To enter into a temporary license with CenterPoint Energy Houston Electric L. L. C. (CenterPoint), to permit the licensee to keep electrical distribution facilities until no longer needed on certain existing streets and alleys of the Institute Addition, Houston, Harris County, Texas. In accordance with an authorization approved by the Board of Regents on February 7, 2008, the streets and alleys will be acquired by U. T. M. D. Anderson Cancer Center from the City of Houston in exchange for the right-of-way of the proposed Bertner Avenue extension in U. T. M. D. Anderson Cancer Center's Mid-campus area. This license is a precondition to closing the exchange transaction, which is expected by the parties to close prior to the August 2008 Board of Regents' meeting.
- b. To enter into a license with CenterPoint to permit the licensee to place electrical distribution facilities at the north and south ends of the proposed extension of Bertner Avenue in U. T. M. D. Anderson Cancer Center's

Mid-campus area. The license will cover an area east of the proposed Bertner Avenue between Braes Bayou and Braeswood Boulevard, and an area northeast of the intersection of Bertner Avenue and Old Spanish Trail in Houston, Harris County, Texas. This license is related to the land exchange transaction between the City of Houston and U. T. M. D. Anderson Cancer Center approved by the Board of Regents on February 7, 2008, and which is expected by the parties to close prior to the August 2008 Board of Regents' meeting.

- c. To enter into a license with CenterPoint to permit the licensee to place electrical distribution facilities at 1881 East Road, Houston, Harris County, Texas, to provide for permanent electrical service to the Center for Advanced Biomedical Imaging Research facility, now under construction. Due to the size and complexity of the facility's systems, only basic shell construction work can be completed using temporary power. Without permanent electrical service, construction of the facility will stop, leading to delays, cost increases, and service disruptions.
- d. To enter into a license with CenterPoint to permit the licensee to place electrical distribution facilities at 3000 Pawnee, Houston, Harris County, Texas, to provide for upgraded permanent electrical service for the Pawnee Building to permit the expansion of offices for the relocation of campus operations personnel. Without upgraded permanent electrical services, relocation of these personnel will be delayed, leading to cost increases and service disruptions.

17. U. T. System: Approval to fund the Research Partnership with Sandia National Laboratories

RECOMMENDATION

Dr. Kenneth I. Shine, in his roles as Chancellor ad interim and Executive Vice Chancellor for Health Affairs, concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and the Vice Chancellor for Research and Technology Transfer that \$1,250,000 of Available University Funds (AUF) be appropriated to U. T. Austin to support four core research programs for collaborative "grand challenge" projects to be completed jointly by students and faculty at U. T. Austin and Sandia National Laboratories (SNL). A corresponding reduction of the remaining \$1,250,000 of Permanent University Fund (PUF) bonding authority approved by the Board on November 16, 2006, under the Regents' Research Scholars Program will close the program.

BACKGROUND INFORMATION

The total cost to seed the U. T. System/SNL collaboration program is \$1,875,000 of which the Board approved \$625,000 of Intermediate Term Fund (ITF) proceeds on May 15, 2008, for U. T. Medical Branch - Galveston. The remaining \$1,250,000 for the program at U. T. Austin was to be funded from the Regents' Research Scholars Program previously approved by the Board on November 16, 2006. However, the costs related to the Austin research are operational in nature and PUF Bond Proceeds, the funding source of the Regents' Research Scholars Program, are limited to capital expenditures. As a result, \$1,250,000 of AUF is being requested and the remaining PUF bonding authority previously approved for the Regents' Research Scholars Program will lapse, closing out that program.

This investment in the partnership between U. T. System and SNL will have a significant long-term return both with respect to strengthening the partnership and to multiplying external funding of the core research areas.

18. **U. T. Austin: Request for approval to name an area of the north end zone of the Darrell K Royal - Texas Memorial Stadium as the Red McCombs Red Zone**

RECOMMENDATION

The Chancellor ad interim concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Vice Chancellor for External Relations, and President Powers that the U. T. System Board of Regents approve the naming of the north end zone of the Darrell K Royal - Texas Memorial Stadium as the Red McCombs Red Zone in recognition of a \$6 million pledge from B. J. (Red) McCombs to support the construction of the new north end zone.

BACKGROUND INFORMATION

The north end renovation of Darrell K Royal - Texas Memorial Stadium is the largest part of a multimillion dollar stadium project scheduled for completion in August 2008. The two-year project will result in 47 suites, 2,000 club seats, 2,000 additional chair-back seats in the lower deck, and the ability to accommodate 10,000 more fans in regular seating. With this stadium renovation, the new capacity will reach 96,000. In recognition of a \$6 million gift commitment from B. J. (Red) McCombs of San Antonio, Texas, directed to the construction of the new north end zone, the central area in the north end zone will be designated as the Red McCombs Red Zone.

Trademark counsel for U. T. Austin has issued an opinion that U. T. Austin's proposed use, as described above, of the mark "Red Zone" will not violate any other party's

trademark rights provided that U. T. Austin receives permission from the University of Wisconsin, which uses the mark "Red Zone" in association with Camp Randall Stadium.

Red McCombs' philanthropy to The University of Texas has been extraordinary. In 1997, he made the largest donation ever to women's athletics at The University of Texas at Austin, funding a new women's softball complex. In May 2000, he gave \$50 million to the U. T. Austin Business School, the largest single donation in U. T. Austin's history. To acknowledge his generosity, on May 11, 2000, the Board renamed the College of Business Administration and Graduate School of Business as the Red McCombs School of Business. The proposed naming is consistent with the Regents' *Rules and Regulations*, Rule 80307, relating to the naming of facilities because of the continuing generous support of Red McCombs for The University of Texas at Austin.

19. U. T. Austin: Approval of honorific naming of the Veterans Memorial Plaza at the Darrell K Royal - Texas Memorial Stadium as the Frank Denius Veterans Memorial Plaza

RECOMMENDATION

The Chancellor ad interim concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Vice Chancellor for External Relations, and President Powers that the U. T. System Board of Regents approve the naming of the Veterans Memorial Plaza at the Darrell K Royal - Texas Memorial Stadium as the Frank Denius Veterans Memorial Plaza to recognize the significant contributions of Mr. Denius to U. T. Austin, to U. T. Athletics, and to the United States of America as a World War II veteran.

BACKGROUND INFORMATION

Texas Memorial Stadium was dedicated in 1924 to Texas veterans who served in World War I. A north end was added to the stadium two years later. In August 1996, the Board approved the renaming of the stadium as the Darrell K Royal - Texas Memorial Stadium. In November 2000, recognition plaques were added saluting those who served in all wars and conflicts in which U.S. Armed Forces were involved since World War I.

In November 2006, the Board approved a \$149.9 million expansion plan for the north end (later increased to \$179 million). Included in the project was a new veterans memorial plaza scheduled for completion in August 2008. The new outdoor plaza at the northwest corner will be a memorial to veterans and will rededicate the bronze plaque that originally commemorated World War I veterans in the old north end zone. The plaza will also include a bronze statue of "The Doughboy" made possible through the generous contribution from the Cain Foundation and Mr. Denius.

Mr. Frank Denius has a long and distinguished record of service to Texas higher education, to U. T. Austin, and to U. T. Athletics. He is a distinguished alumnus of U. T. Austin, recipient of the Santa Rita Award bestowed by the U. T. System Board of Regents on November 16, 2006, and serves as chairman of the Darrell K Royal - Texas Memorial Stadium Veterans Committee. Mr. Denius is one of the 10 most decorated World War II veterans in America. The proposed dedication of this Veterans Memorial Plaza to Mr. Frank Denius will honor his meritorious service to U. T. Austin and to his country. The proposed naming is consistent with the Regents' *Rules and Regulations*, Rule 80307, relating to the honorific naming of facilities.

20. U. T. System Board of Regents: Report from Chairman on Governor's Higher Education Summit

REPORT

Chairman Caven will report briefly on follow-up to the Governor's Higher Education Summit held in Austin, Texas, on May 21, 2008.

21. U. T. System: Approval to negotiate and execute a contract to hedge the price and sell a portion of the future oil and gas royalty production from the University Lands

RECOMMENDATION

The Chancellor ad interim concurs in the recommendation of the Executive Vice Chancellor for Business Affairs and the Vice Chancellor and General Counsel that the Board approve proceeding with the negotiation and execution of a contract with one or more counterparties, selected through a competitive process, to hedge the price and sell a portion of the future oil and gas royalty production from the University Lands and authorize the Executive Vice Chancellor for Business Affairs to act on the Board's behalf.

BACKGROUND INFORMATION

The Permanent University Fund University Lands encompass 2.1 million acres of surface and mineral interests in 19 counties in West Texas. Royalty production net to the U. T. System in Fiscal Year 2007 totaled 1.8 million barrels of oil and 14.7 billion cubic feet of natural gas. Total oil and gas royalty income in Fiscal Year 2007 was \$210.8 million and is expected to exceed \$350 million in Fiscal Year 2008. Recently, oil prices reached an all-time record in excess of \$140 per barrel and natural gas prices were more than \$13 per thousand cubic feet.

The Executive Vice Chancellor for Business Affairs will report to the Board on the terms of any contractual arrangements.