



Revised

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Board Meeting: 8/10-11/2005  
U. T. Medical Branch - Galveston

WEDNESDAY, AUGUST 10

### BOARD MEETING

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*Chairman Huffines*
- B. CONSIDER AGENDA ITEMS
- a. **U. T. System Board of Regents: Approval of Chairman's recommended appointment of Regent Robert B. Rowling as Chairman of the Finance and Planning Committee (Regents' Rules and Regulations, Series 10402, related to appointment of Committee Chairmen)** 1
- b. **U. T. System Board of Regents: Resolution of appreciation to The Sealy & Smith Foundation**
- C. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551
1. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – Section 551.071
- a. **U. T. Austin: Discussion of legal issues related to proposed The University of Texas Professional Education and Conference Center** 9:05 a.m.  
*Mr. Burgdorf*
- b. **U. T. System and U. T. Dallas: Discussion and appropriate action regarding proposed settlement in *Carl B. Collins and Farzin Davanloo v. The Gillette Company*** *Mr. Burgdorf*
2. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees – Section 551.074
- U. T. System: Discussion and appropriate action 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, Counsel and Secretary, and Director of Audits), and U. T. System employees and related personnel aspects of the operating budget for the year ending August 31, 2006** 9:30 a.m.  
*Chairman Huffines*  
*Chancellor Yudof*
3. Discussion related to the purchase, exchange, lease, or value of real property - Section 551.072

D. RECESS FOR GROUNDBREAKING FOR GALVESTON NATIONAL LABORATORY	12:00 p.m.
E. RECONVENE IN EXECUTIVE SESSION FOR DISCUSSION (Working Lunch)	12:30 p.m.
F. RECONVENE IN OPEN SESSION AND CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEMS AND RECESS	1:25 p.m. <i>approximately</i>
<b>COMMITTEE MEETINGS</b>	1:30 – 5:45 p.m.
Health Affairs Committee	1:30 p.m.
Academic Affairs Committee	2:30 p.m.
Finance and Planning Committee	3:45 p.m.
Facilities Planning and Construction Committee	4:45 p.m.

**THURSDAY, AUGUST 11**

**COMMITTEE MEETINGS**

Audit, Compliance, and Management Review Committee

8:00 a.m. - 10:00 a.m.

8:00 a.m.

Student, Faculty, and Staff Campus Life Committee

9:00 a.m.

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4. <b>U. T. System: Adoption of the six-year Capital Improvement Program (CIP) for Fiscal Years 2006-2011, approval of Capital Budget for Fiscal Year 2006-2007, redesignation of previously approved projects in the CIP, reduction of previously appropriated funds for repair and rehabilitation projects deleted or decreased in scope; appropriation of additional funds for previously approved projects with increased total project costs; appropriation of funds for new repair and rehabilitation projects initiated in the Capital Budget; and approval of the use of Revenue Financing System parity debt for repair and rehabilitation projects initiated in the Capital Budget for which revenue financing system bonds are identified as a funding source, resolution regarding parity debt, make finding of fact, and authorize expenditure for Founders Renovation project at U. T. Dallas</b>	10:05 a.m. <b>Action</b> <i>Dr. Kelley</i> <i>Mr. Aldridge</i>	6
5. <b>U. T. System: Approval of the nonpersonnel aspects of the operating budgets for the fiscal year ending August 31, 2006, and approval of Permanent University Fund Bond Proceeds allocation for Library, Equipment, Repair and Rehabilitation Projects</b>	10:20 a.m. <b>Action</b> <i>Chancellor Yudof</i>	9
6. <b>U. T. System Board of Regents: Report on Centralization of Operating Funds</b>	10:35 a.m. <b>Report/Discussion</b> <i>Dr. Kelley</i>	11

	<b>Board Meeting</b>	<b>Page</b>
7. U. T. System Board of Regents: Approval of proposed Annual Budget and Management Fee Schedule for The University of Texas Investment Management Company (UTIMCO) and related actions	10:45 a.m. <b>Action</b> <i>Dr. Kelley</i> <i>Mr. Boldt</i>	12
8. U. T. System Board of Regents: Approval of revised Investment Management Services Agreement with The University of Texas Investment Management Company (UTIMCO) and approval of distribution of reserves to investment accounts	11:00 a.m. <b>Action</b> <i>Dr. Kelley</i> <i>Mr. Boldt</i>	14
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11. U. T. System Board of Regents: Discussion of revised disclosure regarding restatement of investment performance against benchmarks	11:35 a.m. <b>Discussion</b> <i>Dr. Kelley</i>	18
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J. RECESS FOR MEETINGS OF THE STANDING COMMITTEES	12:15 p.m.	
K. RECONVENE AS COMMITTEE OF THE WHOLE AND RECESS TO EXECUTIVE SESSION PURSUANT TO <i>TEXAS GOVERNMENT CODE, CHAPTER 551</i>	1:00 p.m. <i>approximately</i>	
1. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – Section 551.071		
a. U. T. Austin: Discussion and appropriate action regarding legal issues related to Declaration of Trust with Texas Student Publications, Inc.	1:00 p.m. <i>Mr. Burgdorf</i>	

**b. U. T. System: Discussion of legal issues related to Los Alamos National Laboratory**

- 2. Discussion related to the purchase, exchange, lease, or value of real property - Section 551.072
- 3. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees – Section 551.074
- L. RECONVENE IN OPEN SESSION AND CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEMS *1:50 p.m.*
- M. ADJOURN *2:00 p.m. approximately*

WEDNESDAY, AUGUST 10

- A. CONVENE IN OPEN SESSION
  
- B. CONSIDER AGENDA ITEM

**U. T. System Board of Regents: Approval of Chairman's recommended appointment of Regent Robert B. Rowling as Chairman of the Finance and Planning Committee (Regents' Rules and Regulations, Series 10402, related to appointment of Committee Chairmen)**

RECOMMENDATION

Chairman Huffines recommends the appointment of Regent Robert B. Rowling as Chairman of the Finance and Planning Committee pursuant to the Regents' *Rules and Regulations*, Series 10402, related to appointment of Committee Chairmen.

- C. RECESS TO EXECUTIVE SESSION PURSUANT TO *TEXAS GOVERNMENT CODE*, CHAPTER 551 (See Meeting of the Board Table of Contents Page i)
  
- D. RECESS FOR GROUNDBREAKING FOR GALVESTON NATIONAL LABORATORY
  
- E. RECONVENE IN EXECUTIVE SESSION FOR DISCUSSION (Working Lunch)
  
- F. RECONVENE IN OPEN SESSION AND CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEMS AND RECESS

**COMMITTEE MEETINGS (1:30 – 5:45 p.m.)**

Health Affairs Committee (1:30 p.m.)

Academic Affairs Committee (2:30 p.m.)

Finance and Planning Committee (3:45 p.m.)

Facilities Planning and Construction Committee (4:45 p.m.)

THURSDAY, AUGUST 11

**COMMITTEE MEETINGS** (8:00 - 10:00 a.m.)

Audit, Compliance, and Management Review Committee (8:00 a.m.)

Student, Faculty, and Staff Campus Life Committee (9:00 a.m.)

G. RECONVENE MEETING OF THE BOARD IN OPEN SESSION

H. APPROVAL OF MINUTES

I. CONSIDER AGENDA ITEMS

1. **U. T. System Board of Regents: Amendments to the Regents' Rules and Regulations, Series 10403, regarding public testimony during open meetings**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Counsel and Secretary to the Board and the Vice Chancellor and General Counsel that the Regents' *Rules and Regulations*, Series 10403, Section 6 be amended as set forth in congressional style below to comply with Senate Bill 511 passed during the 79th Regular Texas Legislative Session concerning the issue of public testimony during open meetings:

**2. Rule and Regulation**

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Sec. 6 ~~Request to Appear Before the Board or a Committee~~ Provide Public Testimony on an Agenda Item. ~~Except upon invitation of the Board of Regents, the Chairman of the Board, the appropriate Committee Chairman, the Chancellor, or a designated Committee liaison, no person shall appear before the Board or any committee thereof unless that person files a written request explaining the purpose of such appearance with the Counsel and Secretary to the Board at least three days before the date of such appearance and unless the Chairman of the Board, the appropriate Committee Chairman, or at least three members of the Board approve the request. It is understood, however, that the president of an institution and/or the president or chair of the student, staff, or faculty governance organization(s) may appear without prior notice or request before the Board or any committee whenever the matter under consideration directly affects the institution represented by such person. Persons requesting to appear must identify the subject of their remarks, which must be directly related to a matter on the Agenda for consideration by the Board. Whenever time~~

~~and other circumstances permit, the person making the request shall first consult with the president, or his or her delegate, of such institution regarding the purpose of the appearance prior to the meeting of the Board or committee. Members of the public are allowed to present written and oral testimony, for a reasonable amount of time as determined by the Chairman of the Board, on any topic listed on the agenda for a Committee or Board meeting that is open to the public. Testimony on topics not listed on the agenda will not be allowed. Members of the public wishing to present testimony shall provide their name and the agenda topic they wish to address to the Counsel and Secretary to the Board at least 24 hours in advance of the meeting. Insofar as possible, any person who provides oral testimony appears before the Board shall provide a written statement of the substance of such person's testimony presentation to the Board, and such written statement shall be delivered to the Counsel and Secretary to the Board in sufficient time for copies to be distributed to the Regents prior to the meeting. Any person appearing before the Board or a committee shall be subject to restrictions on time, place, and manner as may be prescribed by the Chairman or a majority of the Board or by the Chairman or a majority of a committee. The Board shall consider the public testimony presented to the Board on an issue before making a decision on the issue. The Chairman or a majority of the Board may prescribe sanctions against any person exceeding established time, place, or manner limits or speaking on a topic not relevant to the agenda topic. Those sanctions may include the refusal to allow such person to speak again to the Board or committees of the Board for up to one year.~~

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### BACKGROUND INFORMATION

Senate Bill 511 (which adds Section 51.355 to the *Texas Education Code*) requires the governing board of a university system to adopt a policy that allows the public to present, for a reasonable amount of time and for any item on the agenda, both written and oral testimony at a regular meeting of the board by October 1, 2005. Senate Bill 511 also requires that the governing board consider the public testimony before making a decision on the issue.

Current Regents' *Rules and Regulations* at Series 10403, Section 6 contain the procedures necessary for a person to appear before the Board of Regents. While the intent of the current procedures was to provide a method for individuals to present public testimony, the procedures contain certain provisions that are more restrictive than what is intended by Senate Bill 511. The proposed amendments will align the Regents' *Rules and Regulations* with Senate Bill 511.



2. **U. T. System Board of Regents: Amendments to the Regents' Rules and Regulations, Series 30201, Section 9.4 (Military Duty)**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Counsel and Secretary to the Board and the Vice Chancellor and General Counsel that the Regents' *Rules and Regulations*, Series 30201, Section 9.4, regarding military duty, be amended as set forth below in congressional style:

**2. Rule and Regulation**

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Sec. 9 Military Duty. . .

9.4 In accordance with *Texas Government Code* Section 661.9041, the Chancellor or president of an institution shall grant sufficient emergency leave as differential pay to a state employee on unpaid military leave if the employee's military gross pay is less than the employee's state gross pay. The combination of emergency leave and military pay may not exceed the employee's actual state gross pay.

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BACKGROUND INFORMATION

The proposed amendment to the Regents' *Rules and Regulations*, Series 30201, Section 9.4 is needed to conform with a recent amendment to *Texas Government Code* Section 661.9041. That Section relates to the pay differential (emergency leave) that a state agency must pay to a state employee on unpaid military leave. Under prior law, state agencies used the military gross pay of an employee for purposes of calculating the pay differential, which was the employee's state gross pay minus military gross pay. Under the new legislation, combat zone pay, hardship pay, and family separation pay are excluded from military pay in arriving at the differential amount. Accordingly, the Regents' *Rules and Regulations* are proposed to be amended to delete reference to military "gross" pay.

3. **U. T. System Board of Regents: Amendments to the Regents' Rules and Regulations, Series 80201, Sections 2 and 3 (Disposal of U. T. System Property)**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Counsel and Secretary to the Board and the Vice Chancellor and General Counsel that the Regents' *Rules and Regulations*, Series 80201, Sections 2 and 3, regarding disposal of U. T. System property, be amended as set forth below in congressional style:

**2. Rule and Regulation**

...

Sec. 2 Transfer to Public School. If the chief business officer ~~shall~~ determines that the equipment is not needed for any department, that it is not ~~practical~~ practicable to store the equipment for possible future use, and that the equipment can be used for instructional purposes, it shall be made available to a public school, ~~or~~ school district, or an assistance organization designated by the school district, at a price or for other consideration agreeable to the U. T. System and the public school, ~~or~~ school district, or the assistance organization in accordance with *Texas Government Code* Section 2175.304(b) before disposing of the property in another manner. Preference must be given to a public school or school district or to an assistance organization designated by the school district before disposing of the property in another manner. If more than one public school, school district, or assistance organization seeks to acquire the same equipment on substantially the same terms, the preferences stated in *Texas Government Code* Section 2175.304(c) shall govern the disposition. The instructional equipment may be transferred to the public school or school district for such consideration, or for no consideration, as the chief business officer determines appropriate. Any surplus or salvage property not otherwise disposed of under this Section and having no resale value may be donated to an assistance organization, as defined by *Texas Government Code* Section 2175.001(1).

Sec. 3 Disposal of Information Technology Equipment. Surplus or salvage of information technology equipment, as defined by *Texas Government Code* Section 2054.003(3)(A), that is not transferred to a public school, school district, or an assistance organization designated by the school district as provided in Section 2 above or that is not disposed of under other law must be offered next and at no charge to a school district, an open-enrollment charter school, or the Texas Department of Criminal Justice in accordance with *Texas Government Code* Chapter 2175, Subchapter C.

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## BACKGROUND INFORMATION

The proposed amendments to the Regents' *Rules and Regulations*, Series 80201, Sections 2 and 3 are needed to conform with a recent amendment to *Texas Government Code* Section 2175.304 authorizing an institution of higher education to donate to an assistance organization any surplus or salvage property having no resale value and not otherwise disposed of under that statute, which allows direct transfer of materials or equipment usable for instructional purposes to a public school, a school district, or an assistance organization designated by a school district.

4. **U. T. System: Adoption of the six-year Capital Improvement Program (CIP) for Fiscal Years 2006-2011, approval of Capital Budget for Fiscal Year 2006-2007, redesignation of previously approved projects in the CIP, reduction of previously appropriated funds for repair and rehabilitation projects deleted or decreased in scope; appropriation of additional funds for previously approved projects with increased total project costs; appropriation of funds for new repair and rehabilitation projects initiated in the Capital Budget; and approval of the use of Revenue Financing System parity debt for repair and rehabilitation projects initiated in the Capital Budget for which revenue financing system bonds are identified as a funding source, resolution regarding parity debt, make finding of fact, and authorize expenditure for Founders Renovation project at U. T. Dallas**

## RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, and the Executive Vice Chancellor for Business Affairs, that the U. T. System Board of Regents

- a. adopt the U. T. System Capital Improvement Program for Fiscal Years 2006-2011 as set forth in the Summary of Projects (Attachment 1 on Pages 8.1 – 8.8);
- b. approve the Capital Budget for Fiscal Years 2006-2007 as set forth in the Summary of Projects (Attachment 1 on Pages 8.1 – 8.8);
- c. approve the redesignation of projects previously approved in the CIP as set forth in Attachment 2 on Page 8.9;
- d. reduce previously appropriated funds in an aggregate amount of \$21,800,000 for repair and rehabilitation projects deleted or decreased in scope in the FY 2006-2007 Capital Budget as reflected in the Deleted or Reduced Appropriations column in Attachment 3 on Pages 8.10 – 8.12;
- e. appropriate additional funding with increased total project costs for previously approved repair and rehabilitation projects in an aggregate

amount of \$46,345,000 as reflected in the FY 2006-2007 Capital Budget as set forth in the Additional Appropriations column in Attachment 3 on Pages 8.10 – 8.12;

- f. appropriate funding in an aggregate amount of \$251,150,005 for new repair and rehabilitation projects initiated in the FY 2006-2007 Capital Budget as reflected in the Appropriations for Projects Initiated in the Capital Budget column in Attachment 3 on Pages 8.10 – 8.12;
- g. appropriate additional funding from Revenue Financing System Bond Proceeds for previously approved project in an aggregate amount of \$4,000,000 for the Center for Brain Health project at U. T. Dallas in Attachment 4 on Page 8.13;
- h. approve the use of \$119,900,000 Revenue Financing System Parity Debt for certain construction and repair and rehabilitation projects in the FY 2006-2007 Capital Budget for which Revenue Financing System Bond Proceeds have been identified as all or a portion of the funding for the U. T. System institutions as set forth in Attachment 4 on Page 8.13;
- i. make the "finding of fact" determinations regarding the ability to repay debt and satisfy financial obligations with respect to the issuance of \$119,900,000 of Parity Debt described in Attachment 4 pursuant to Section 5 of the Master Resolution as a condition to the issuance of additional Revenue Financing System Parity Debt; and
- j. appropriate funding and authorize expenditure of \$3,310,000 from Permanent University Fund Bond Proceeds for the Founders Renovation at U. T. Dallas.

### BACKGROUND INFORMATION

The CIP is a six-year projection of major repair and rehabilitation and new construction projects to be implemented and funded from institutions and U. T. System-wide revenue sources. Projects included in the CIP correspond to the highest priority needs identified in the long-range strategic planning process and institutional capital renewal plans as determined by the Facilities Renewal Model presented to the Facilities Planning and Construction Committee of the U. T. System Board of Regents on July 1, 2002. Future projects listed in the CIP are for consideration when funding has been secured.

Adoption of the CIP authorizes U. T. System Administration and the institutional administration to expend up to 3% of the preliminary project cost to develop the formal Project Building Program document, select the Project Architect, and develop preliminary project plans. These funds will be appropriated by the institution initially but may be reimbursed from project funds after design development approval and appropriation of project funds by the U. T. System Board of Regents.

The Capital Budget is the first two years of the six-year CIP. Approval of the Capital Budget authorizes and appropriates funding amounts and sources for identified major repair and rehabilitation projects that are not architecturally or historically significant. Authorization of these projects and appropriation of these funds allow these projects to be presented to the Associate Vice Chancellor for Facilities Planning and Construction for design development plan approval and authorization for expenditure of funds and subsequent execution of the project by the administrative staff without returning to the U. T. System Board of Regents for further approvals. The U. T. System Board of Regents approves the design development plans for all major projects other than repair and rehabilitation projects that are not architecturally or historically significant.

The redesignation of projects in the CIP has been requested by the institutions to more accurately reflect the work to be accomplished.

The proposed CIP will be the subject of a presentation by Associate Vice Chancellor for Finance Philip Aldridge on August 11, 2005. (The PowerPoint presentation begins on Page 8.14 – 8.20.) The presentation will identify the economic impact of the proposed projects.

**The University of Texas System**  
**FY 2006-2011 Capital Improvement Program**  
**Major Construction Projects Summary**

Attachment 1

	<b>CIP Project Cost Total</b>	<b>FY 2006-2007 Proj. Exp. Total</b>
<b><u>Academic Institutions</u></b>		
<b><u>The University of Texas at Arlington</u></b>		
<i>Institutionally Managed</i>		
Clock and Bell Tower	\$ 1,500,000	1,154,662
Energy Performance Contract	15,000,000	9,944,445
<b>Subtotal Inst Mgd</b>	<b>\$ 16,500,000</b>	<b>11,099,107</b>
<i>OFPC Managed</i>		
Activities Building Renovation and Expansion - Phase 1	\$ 16,370,005	566,192
Chemistry and Physics Building	43,472,945	17,675,864
<b>Subtotal OFPC Mgd</b>	<b>\$ 59,842,950</b>	<b>18,242,056</b>
<b>Subtotal U. T. Arlington</b>	<b>\$ 76,342,950</b>	<b>29,341,163</b>
<b><u>The University of Texas at Austin</u></b>		
<i>Institutionally Managed</i>		
Painter Hall - Mechanical System Upgrades	\$ 4,000,000	3,680,000
<b>Subtotal Inst Mgd</b>	<b>\$ 4,000,000</b>	<b>3,680,000</b>
<i>OFPC Managed</i>		
Almetris Duren Residence Hall	\$ 50,000,000	41,689,189
Applied Research Lab Expansion - Phase II	2,500,000	2,036,539
Benedict/Mezes/Batts Renovation - Phase I and II	48,000,000	17,181,845
Biomedical Engineering Building	55,100,000	18,647,795
Child Development Center	3,605,000	1,337,012
College of Communication Building-New	32,000,000	198,388
Darrell K Royal - Texas Memorial Stadium Fire and Life Safety/Improvement Planning	10,000,000	9,101,903
Elementary Charter School Permanent Facility	4,500,000	3,074,772

	<b>CIP Project Cost Total</b>	<b>FY 2006-2007 Proj. Exp. Total</b>
Garrison Hall Renovations	\$ 10,400,000	1,539,309
Gregory Gymnasium Aquatics Complex	15,290,000	5,567,236
Hogg Auditorium Renovation	15,000,000	569,246
Imaging Research Center	5,500,000	3,304,825
Institute for Geophysics and Advanced Computing Center	20,444,000	18,207,012
Jack S. Blanton Museum of Art - Phase I and II	83,500,000	35,201,192
Jamail Texas Swim Center Renovation - Phase I and Phase II	5,300,000	993,328
LBJ Plaza Renovation/Lady Bird Johnson Center	30,000,000	4,863,141
Library Storage Facility	4,800,000	13,084
Marine Science Institute Wetlands Education Center	5,000,000	4,261,654
Nano Science and Technology Building	39,100,000	29,950,600
Nueces Garage	20,500,000	3,440,676
Performing Arts Center Infrastructure Upgrades - Phase I and II	14,700,000	1,585,915
Pharmacy Building Renovation - Phase I	250,000	7,312
Renovations to Disch-Falk Field	18,000,000	2,730,994
School of Nursing Addition	4,000,000	3,420,373
Speedway Mall North of 21st Street and East Mall/East Mall Fountain, Plaza	12,000,000	9,661,065
The University of Texas Professional Education and Conference Center	84,000,000	23,540,163
	<b>Subtotal OFPC Mgd</b>	<b>242,124,568</b>
	<b>Subtotal U. T. Austin</b>	<b>245,804,568</b>

### **The University of Texas at Dallas**

#### ***Institutionally Managed***

Waterview Science and Technology Center	\$ 2,950,000	1,943,772
	<b>Subtotal Inst Mgd</b>	<b>1,943,772</b>

#### ***OFPC Managed***

Center for Brain Health	\$ 13,925,000	11,608,743
Founders Renovation	27,293,750	20,736,499
Natural Science and Engineering Research Building	85,000,000	62,518,116
	<b>Subtotal OFPC Mgd</b>	<b>94,863,358</b>

	<b>CIP Project Cost Total</b>	<b>FY 2006-2007 Proj. Exp. Total</b>
<b>Subtotal U. T. Dallas</b>	\$ <b>129,168,750</b>	<b>96,807,130</b>

### **The University of Texas at El Paso**

#### ***Institutionally Managed***

Campus Energy Performance Project	\$ 4,700,000	3,235,913
Campus Police Relocation	1,700,000	1,321,629
Kelly Hall Renovation of 3 Floors - Phase 2	2,286,000	1,999,753
Renovation of Former Academic Services Building	900,000	802,623
Union West Renovations - 2nd Floor	1,000,000	910,719
<b>Subtotal Inst Mgd</b>	<b>\$ 10,586,000</b>	<b>8,270,637</b>

#### ***OFPC Managed***

Biosciences Facility	\$ 30,500,000	15,930,068
Parking Garage	23,500,000	21,398,266
<b>Subtotal OFPC Mgd</b>	<b>\$ 54,000,000</b>	<b>37,328,334</b>
<b>Subtotal U. T. El Paso</b>	<b>\$ 64,586,000</b>	<b>45,598,971</b>

### **The University of Texas - Pan American**

#### ***Institutionally Managed***

Administrative Offices Renovation	\$ 5,657,000	2,151,312
Child Development Center	1,594,000	1,250,442
<b>Subtotal Inst Mgd</b>	<b>\$ 7,251,000</b>	<b>3,401,754</b>

#### ***OFPC Managed***

Administration Annex	\$ 7,000,000	1,310,229
Animal Research Facility	5,000,000	3,289,474
Business Administration Addition and Renovation	6,000,000	732,509
Chill Water Extension	625,000	575,000
Multi-Function Classroom Building	5,000,000	1,915,361
New Chiller	1,200,000	1,104,000
Social and Behavioral Sciences Renovation	6,430,000	0
Student Health Clinic	1,300,000	192,887



	<b>CIP Project Cost Total</b>	<b>FY 2006-2007 Proj. Exp. Total</b>
Student Housing Phase II	\$ 12,500,000	345,109
Wellness and Recreation Sports Center	26,000,000	14,107,627
<b>Subtotal OFPC Mgd</b>	<b>\$ 71,055,000</b>	<b>23,572,196</b>
<b>Subtotal U. T. Pan American</b>	<b>\$ 78,306,000</b>	<b>26,973,950</b>
 <b><u>The University of Texas of the Permian Basin</u></b>		
<i>OFPC Managed</i>		
Mesa Building Improvements/Gymnasium Renovations, Phase I	\$ 9,350,000	5,339,657
<b>Subtotal OFPC Mgd</b>	<b>\$ 9,350,000</b>	<b>5,339,657</b>
<b>Subtotal U. T. Permian Basin</b>	<b>\$ 9,350,000</b>	<b>5,339,657</b>
 <b><u>The University of Texas at San Antonio</u></b>		
<i>Institutionally Managed</i>		
Campus Roadway and Parking Improvements	\$ 4,100,000	1,432,118
Recreation and Athletic Facilities	1,900,000	585,200
<b>Subtotal Inst Mgd</b>	<b>\$ 6,000,000</b>	<b>2,017,318</b>
<i>OFPC Managed</i>		
Downtown Campus Cladding Repairs	\$ 850,000	0
Laurel Village at UTSA	35,620,000	156,490
Monterey Building Renovations	2,700,000	1,369,880
Recreation and Wellness Facilities, Phase II	42,000,000	3,832,366
Thermal Energy Plant No. 2/Garage	25,900,000	21,833,000
University Center Expansion, Phase III	25,200,000	23,417,811
<b>Subtotal OFPC Mgd</b>	<b>\$ 132,270,000</b>	<b>50,609,547</b>
<b>Subtotal U. T. San Antonio</b>	<b>\$ 138,270,000</b>	<b>52,626,865</b>
 <b><u>The University of Texas at Tyler</u></b>		
<i>OFPC Managed</i>		
Student Resident Home II	\$ 1,900,000	1,030,630
University Center Renovation/Expansion (Phase I)	11,000,000	1,772,050

	<b>CIP Project Cost Total</b>	<b>FY 2006-2007 Proj. Exp. Total</b>
William R. "Bill" Ratliff Engineering and Science Complex	\$ 34,850,000	17,137,824
<b>Subtotal OFPC Mgd</b>	<b>\$ 47,750,000</b>	<b>19,940,504</b>
<b>Subtotal U. T. Tyler</b>	<b>\$ 47,750,000</b>	<b>19,940,504</b>

<b>Total Academic Institutions</b>	<b>\$ 1,141,262,700</b>	<b>522,432,808</b>
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**Health Institutions**

**The University of Texas Southwestern Medical Center at Dallas**

***Institutionally Managed***

Ambulatory Clinic Building and Parking Garage	\$ 62,400,000	49,695,911
Hazardous Waste Handling Facility	2,800,000	1,125,613
<b>Subtotal Inst Mgd</b>	<b>\$ 65,200,000</b>	<b>50,821,524</b>

***OFPC Managed***

Laboratory Research and Support Building	\$ 25,000,000	12,057,588
North Campus Phase 4	307,600,000	106,413,949
<b>Subtotal OFPC Mgd</b>	<b>\$ 332,600,000</b>	<b>118,471,537</b>
<b>Subtotal U. T. S.M.C. Dallas</b>	<b>\$ 397,800,000</b>	<b>169,293,061</b>

**The University of Texas Medical Branch at Galveston**

***Institutionally Managed***

Basic Science Renovation	\$ 6,000,000	2,445,825
Laboratory Buildout	4,130,000	1,498,150
Library Facilities Upgrade	7,900,000	4,332,251
Rebecca Sealy Hospital Renovation	9,850,000	404,264
TDCJ Hospital Cladding Restoration	6,560,000	41,073
<b>Subtotal Inst Mgd</b>	<b>\$ 34,440,000</b>	<b>8,721,563</b>

***OFPC Managed***

1108 Strand Renovation	\$ 9,800,000	3,994,846
Clinic Facility (League City)	30,000,000	2,530,388

	<b>CIP Project Cost Total</b>	<b>FY 2006-2007 Proj. Exp. Total</b>
Galveston National Laboratory	\$ 167,090,673	59,984,888
Jennie Sealy Hospital Replacement	250,000,000	19,563,954
Research Facilities Expansion	77,180,000	39,492,104
Student Housing	18,780,000	1,203,831
University Plaza Development	27,360,254	14,258,442
<b>Subtotal OFPC Mgd</b>	<b>\$ 580,210,927</b>	<b>141,028,453</b>
<b>Subtotal U. T. M.B. Galveston</b>	<b>\$ 614,650,927</b>	<b>149,750,016</b>

**The University of Texas Health Science Center at Houston**

***Institutionally Managed***

Expansion of School of Health Information Sciences	\$ 3,000,000	1,264,592
Repair of the Medical School Building, Phase I	60,000,000	21,278,644
<b>Subtotal Inst Mgd</b>	<b>\$ 63,000,000</b>	<b>22,543,236</b>

***OFPC Managed***

Campus Parking Garage, Phase I, South Campus	\$ 7,500,000	6,543,232
Fayez S. Sarofim Research Building	120,000,000	48,508,029
Medical School Building - Perimeter Berm	10,000,000	6,788,537
Mental Sciences Institute - Replacement Facility	22,500,000	17,114,584
Replacement Research Facility	80,530,000	70,977,629
<b>Subtotal OFPC Mgd</b>	<b>\$ 240,530,000</b>	<b>149,932,011</b>
<b>Subtotal U. T. H.S.C. Houston</b>	<b>\$ 303,530,000</b>	<b>172,475,247</b>

**The University of Texas Health Science Center at San Antonio**

***OFPC Managed***

Cancer Research Institute	\$ 18,000,000	10,686,575
Emergency , Fire and Safety Initiative, Phase I	9,000,000	7,030,800
Medical Arts Research Center (Ambulatory Clinic)	95,000,000	17,035,089
Teaching/Learning Lab - Laredo	12,700,000	8,176,201
Teaching/Learning Lab, RAHC Harlingen	25,500,000	21,077,308
<b>Subtotal OFPC Mgd</b>	<b>\$ 160,200,000</b>	<b>64,005,973</b>

	<b>CIP Project Cost Total</b>	<b>FY 2006-2007 Proj. Exp. Total</b>
<b>Subtotal U. T. H.S.C. San Antonio</b>	<b>\$ 160,200,000</b>	<b>64,005,973</b>

**The University of Texas M. D. Anderson Cancer Center**

***Institutionally Managed***

Administrative Support Building Phase I	\$ 60,000,000	9,237,931
Administrative Support Building Phase II	40,000,000	0
Alkek HVAC Redundancy	13,200,000	12,144,000
American Disabilities Act Upgrades	18,400,000	5,102,492
Backfill Phase III	91,600,000	44,140,591
Basic Science Research Building Two	185,000,000	377,551
Basic Science Research Building Two Parking Garage	24,000,000	0
Basic Science Research Building Two Utility Connections	2,500,000	2,210,484
Bates-Freeman Office Conversion	14,700,000	0
Braeswood Parking Garage	26,000,000	16,833,834
Brain Suite	2,800,000	2,010,465
Elevator Modernizations	3,000,000	1,860,465
Emergency Generator Plant	12,000,000	0
Energy Management Projects Phase II	15,500,000	5,055,000
Exterior Cladding Main Campus	10,000,000	1,483,746
Faculty Center Tower	145,000,000	89,026,677
FEMA 404 Projects	38,400,000	16,984,131
FEMA 406 Projects	12,700,000	1,907,865
FHB Maintenance and Renovation	6,700,000	3,675,695
HMB Demolition	10,000,000	19,305
Library Expansion	2,500,000	980,959
Lutheran Pavilion Patient Tower Refurbishment	27,000,000	9,594,059
Mid-Campus Central Parking Facility	24,000,000	2,415,000
Mid-Campus Infrastructure	16,600,000	15,157,039
MSI Building Demolition	3,000,000	102,278
New Patient Care Facilities and Parking - (Part A)	98,600,000	70,429
New Patient Care Facilities and Parking - (Part B)	201,400,000	0

	<b>CIP Project Cost Total</b>	<b>FY 2006-2007 Proj. Exp. Total</b>
Patient Care Life Safety Code Improvements	\$ 7,200,000	6,624,000
Redevelopment - Phase I	56,000,000	10,930,433
Research Lab Renovations	25,000,000	13,720,986
Roof Replacement Gimbel, Bates Freeman, Anderson Center, New Clark	4,000,000	1,695,570
Rotary House International Phase III	21,000,000	949,565
Smithville Facility Strategic Plan	30,300,000	4,687,135
South Campus Vivarium Facility	25,000,000	22,357,143
UT Research Park Building 3	55,000,000	24,080,032
UT Research Park Building 4	70,000,000	8,710,695
UT Research Park Garage 2	8,000,000	7,017,705
UT Research Park Garage 3	8,400,000	0
UT Research Park Infrastructure Improvements	20,000,000	14,333,333
UTRP Utilities and Central Maintenance Facilities	30,000,000	11,009,894

**Subtotal Inst Mgd \$ 1,464,500,000 366,506,487**

**OFPC Managed**

Bastrop Facility Strategic Plan	\$ 21,000,000	17,042,899
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**Subtotal OFPC Mgd \$ 21,000,000 17,042,899**

**Subtotal U. T. M. D. A.C.C. \$ 1,485,500,000 383,549,386**

**The University of Texas Health Center at Tyler**

**OFPC Managed**

Health Clinic	\$ 3,500,000	2,749,225
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**Subtotal OFPC Mgd \$ 3,500,000 2,749,225**

**Subtotal U. T. H.C. Tyler \$ 3,500,000 2,749,225**

<b>Total Health Institutions</b>	<b>\$ 2,965,180,927</b>	<b>941,822,908</b>
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<b>Total Major Construction Projects</b>	<b>\$ 4,106,443,627</b>	<b>1,464,255,716</b>
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**THE UNIVERSITY OF TEXAS SYSTEM  
FY 2006-2011 Capital Improvement Program**

Attachment 2

**PROJECTS REDESIGNATED IN THIS CIP**

<b>Institution</b>	<b>Previously Approved Project Name</b>	<b>Redesignated Project Name</b>
<u>UT Austin</u>	Hotel and Conference Center Performing Arts Center Infrastructure Upgrades - Phase I and Performing Arts Center Infrastructure Upgrades Phase II combined Stadium Fire and Life Safety/Improvement Planning	The University of Texas Professional Education and Conference Center Performing Arts Center Infrastructure Upgrades - Phase I and II Darrell K Royal-Texas Memorial Stadium - Fire and Life Safety/Improvement Planning
<u>UT Dallas</u>	Founders/Founders Annex/Berkner Renovation	Founders Renovation Separated into two projects listed as Parking Garage project and Bookstore project
<u>UT El Paso</u>	Parking Garage and Bookstore	
<u>UT Pan American</u>	Health and Kinesiology Physiology/Recreation Center	Wellness and Recreation Sports Center
<u>UT San Antonio</u>	North/South Connector Road	Campus Roadway and Parking Improvements
<u>UTSWMCD</u>	Ambulatory Surgical Center	Ambulatory Clinic Building and Parking Garage
<u>UTMB</u>	Laboratory Buildout 4th Floor Building 021	Laboratory Buildout
<u>UTHSCH</u>	Campus Parking Garage, Phase I	Campus Parking Garage, Phase I, South Campus
<u>UTMDACC</u>	Faculty Center Two Faculty Center Two Parking Garage Redevelopment	Faculty Center Tower Faculty Center Tower Parking Garage Redevelopment - Phase I
<u>UTHC Tyler</u>	The Riter Center for Advanced Medicine	The Riter Center for Advanced Medicine Phase I

**The University of Texas System**  
**Fiscal Years 2006-2007 Capital Budget Repair and Rehabilitation Projects**

Attachment 3

	Previously Approved Projects			New Projects	Total Projects
	Current Appropriations	Deleted or Reduced Appropriations	Additional Appropriations	Appropriations For Projects Initiated in the Capital Budget	Capital Budget Total Project Costs
<b><u>UT Arlington</u></b>					
Activities Building Renovation and Expansion-Phase I				16,370,005	16,370,005
Energy Performance Contract (IM)				15,000,000	15,000,000
Subtotal				31,370,005	31,370,005
<b><u>UT Austin</u></b>					
Benedict/Mezes/Batts Renovation - Phase I	48,000,000				48,000,000
Garrison Hall Renovations				10,400,000	10,400,000
Hogg Auditorium Renovation	15,000,000				15,000,000
Jamail Texas Swim Center Renovation - Phase I and Phase II	5,300,000				5,300,000
LBJ Plaza Renovation/Lady Bird Johnson Center				30,000,000	30,000,000
Painter Hall - Mechanical System Upgrades (IM)				4,000,000	4,000,000
Performing Arts Center Infrastructure Upgrades - Phase I and II				14,700,000	14,700,000
Pharmacy Building Renovation - Phase I	250,000				250,000
Renovations to Disch Falk Field				18,000,000	18,000,000
School of Nursing				4,000,000	4,000,000
Speedway Mall North of 21st St. & East Mall/East Mall Fountain				12,000,000	12,000,000
Darrell K Royal-Texas Memorial Stadium Fire and Life Safety/Improvement Planning				10,000,000	10,000,000
Subtotal	68,550,000			103,100,000	171,650,000
<b><u>UT Dallas</u></b>					
Center for Brain Health	5,000,000		8,925,000		13,925,000
Founders Renovation	27,293,750				27,293,750
Waterview Science and Technology Center (IM)	2,950,000				2,950,000
Subtotal	35,243,750		8,925,000		44,168,750
<b><u>UT El Paso</u></b>					
Campus Energy Performance Project (IM)	4,700,000				4,700,000
Campus Police Relocation (IM)	5,000,000	(3,300,000)			1,700,000
Kelly Hall Renovation of 3 Floors - Phase 2 (IM)	2,286,000				2,286,000
Renovation of Former Academic Services Building (IM)				900,000	900,000
Union West Renovations - 2nd Floor (IM)				1,000,000	1,000,000
Subtotal	11,986,000	(3,300,000)		1,900,000	10,586,000
<b><u>UT Pan American</u></b>					
Administrative Offices Renovation (IM)	5,037,000		620,000		5,657,000
Social and Behavioral Sciences Renovation				6,430,000	6,430,000
Subtotal	5,037,000		620,000	6,430,000	12,087,000
<b><u>UT Permian Basin</u></b>					

8.10

**The University of Texas System  
Fiscal Years 2006-2007 Capital Budget Repair and Rehabilitation Projects**

Attachment 3

	Previously Approved Projects			New Projects	Total Projects
	Current Appropriations	Deleted or Reduced Appropriations	Additional Appropriations	Appropriations For Projects Initiated in the Capital Budget	Capital Budget Total Project Costs
Mesa Building Improvements/Gymnasium Renovations, Phase I	9,350,000				9,350,000
Subtotal	9,350,000				9,350,000
<b><u>UT San Antonio</u></b>					
Downtown Campus Cladding Repairs				850,000	850,000
Monterey Building Renovation				2,700,000	2,700,000
Subtotal				3,550,000	3,550,000
<b><u>UT Tyler</u></b>					
University Center Renovations/Expansion				11,000,000	11,000,000
				11,000,000	11,000,000
<b><u>UTMB Galveston</u></b>					
1108 Strand Renovation				9,800,000	9,800,000
Basic Science Renovation (IM)				6,000,000	6,000,000
Library Facilities Upgrade (IM)				7,900,000	7,900,000
Rebecca Sealy Hospital Renovation (IM)	9,850,000				9,850,000
Research Facilities Expansion	77,180,000				77,180,000
TDCJ Hospital Cladding Restoration (IM)	6,560,000				6,560,000
Subtotal	93,590,000			23,700,000	117,290,000
<b><u>UT HSC Houston</u></b>					
Expansion of School of Health Information Sciences (IM)	3,000,000				3,000,000
Medical School Building - Perimeter Berm	10,000,000				10,000,000
Repair of the Medical School Building, Phase I (IM)	60,000,000				60,000,000
Subtotal	73,000,000				73,000,000
<b><u>UTHSC San Antonio</u></b>					
Emergency , Fire and Safety Initiative, Phase I	9,000,000				9,000,000
Subtotal	9,000,000				9,000,000
<b><u>UTMDACC</u></b>					
Alkek HVAC Redundancy (IM)				13,200,000	13,200,000
American Disabilities Act Upgrades (IM)	6,000,000		12,400,000		18,400,000
Backfill Phase III (IM)	74,500,000		17,100,000		91,600,000
Bates-Freeman Office Conversion (IM)				14,700,000	14,700,000
Brain Suite (IM)	2,800,000				2,800,000
Elevator Modernizations (IM)	3,000,000				3,000,000
Energy Management Projects Phase II (IM)	15,500,000				15,500,000
Exterior Cladding Main Campus (IM)				10,000,000	10,000,000
FEMA 404 Projects (IM)	37,300,000		1,100,000		38,400,000
FEMA 406 Projects (IM)	12,000,000		700,000		12,700,000
FHB Maintenance and Renovation (IM)	6,700,000				6,700,000

8.11



**The University of Texas System**  
**Fiscal Years 2006-2007 Capital Budget Repair and Rehabilitation Projects**

Attachment 3

	Previously Approved Projects			New Projects	Total Projects
	Current Appropriations	Deleted or Reduced Appropriations	Additional Appropriations	Appropriations For Projects Initiated in the Capital Budget	Capital Budget Total Project Costs
HMB Demolition	10,000,000				10,000,000
Library Expansion (IM)	7,000,000	(4,500,000)			2,500,000
Lutheran Pavilion Patient Tower Refurbishment (IM)	21,500,000		5,500,000		27,000,000
MSI Demolition	3,000,000				3,000,000
Patient Care Life Safety Code Improvements (IM)				7,200,000	7,200,000
Redevelopment-Phase I (IM)	70,000,000	(14,000,000)			56,000,000
Research Lab Renovations (IM)	25,000,000				25,000,000
Roof Replacement Gimbel, Bates Freeman, Anderson Center, New Clark(IM)	4,000,000				4,000,000
South Campus Vivarium Facility (IM)				25,000,000	25,000,000
Subtotal	298,300,000	(18,500,000)	36,800,000	70,100,000	386,700,000
<b>Totals</b>	<b>604,056,750</b>	<b>(21,800,000)</b>	<b>46,345,000</b>	<b>251,150,005</b>	<b>879,751,755</b>

\* (IM) - Institutionally Managed

8.12

Approval of Revenue Financing System Debt  
For Certain Construction and Repair and Rehabilitation Projects in the FY 2006-2011 Capital Improvement Program

Component	Project	Type 1/	Total Project Cost	Amount of RFS or TRB	Type of Debt	Component DSC 2/
U. T. Arlington	Activities Building Renovation and Expansion - Phase 1	R&R	16,370,000	16,370,000	RFS	
	Energy Performance Contract	R&R	15,000,000	15,000,000	RFS	
U. T. Austin	Garrison Hall Renovations	R&R	10,400,000	10,400,000	RFS	
	Performing Arts Center Infrastructure Upgrades - Phase I and II	R&R	14,700,000	14,200,000	RFS	
	Renovations to Disch-Falk Field	R&R	18,000,000	11,000,000	RFS	
	Stadium Fire & Life Safety/Improvement Planning	R&R	10,000,000	10,000,000	RFS	
U. T. Dallas	Center for Brain Health	R&R	13,925,000	4,000,000	RFS	
U. T. El Paso	Renovation of Former Academic Services Building	R&R	900,000	900,000	RFS	
	Union West Renovations - 2nd Floor	R&R	1,000,000	1,000,000	RFS	
U. T. Pan American	Social and Behavioral Sciences Renovation	R&R	6,430,000	6,430,000	RFS	
U. T. San Antonio	Downtown Campus Cladding Repairs	R&R	850,000	850,000	RFS	
U. T. Tyler	University Center Renovation/Expansion Phase I	R&R	11,000,000	11,000,000	RFS	
U. T. Medical Branch - Galveston	1108 Strand Renovation	R&R	9,800,000	9,800,000	RFS	
	Basic Science Renovation	R&R	6,000,000	6,000,000	RFS	
	Library Facilities Upgrade	R&R	7,900,000	2,950,000	RFS	
<b>Total</b>			<b>142,275,000</b>	<b>119,900,000</b>		

1/ IM = Institutionally Managed; R&R = Repair and Rehabilitation; INC = Increase in RFS Debt.

2/ Component Debt Service Coverage ("DSC") is net revenue divided by debt service. TRB DSC is based on the U. T. System's combined financial forecast.



# Capital Improvement Program FY 2006 - 2011

The University of Texas System  
Board of Regents

August 11, 2005

## Capital Improvement Program

### Overview

- CIP Includes:
  - New Construction of \$1 million or greater
  - Repair and Renovation of \$2 million or greater
  - Any project with Board-authorized debt
- Adopt the FY 2006 - 2011 CIP
  - Allows up to 3% to be spent on CIP projects for programming and Design Development
  - Authorizes Institutional Management of those projects so designated
- Approve the Capital Budget (FY 2006 and 2007)
  - New Construction and architecturally or historically significant Repair and Rehabilitation projects will be presented to Board (at later date) for Design Development approval with request for appropriation of funds.
  - Funds for Repair and Rehabilitation projects are appropriated. Associate Vice Chancellor for Facilities Planning and Construction will approve Design Development (unless institutionally managed).
- Adjust appropriations for previously appropriated projects
- Appropriate funds for Repair and Rehabilitation and Institutionally- Managed projects initiated in the Capital Budget
- Approve new request for Revenue Financing System Bonds for Repair and Rehabilitation project in the Capital Budget

## Capital Improvement Program

FY 2006-2011 Capital Improvement Program Summary

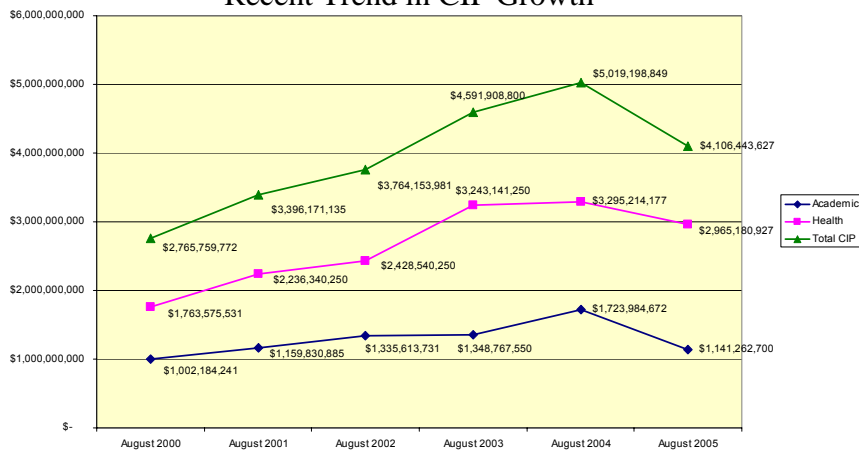
**136 Projects totaling \$4.11 Billion**

Current CIP (2004-2009)	\$5,019,984,849
Net Changes to Existing Projects	191,635,000
Completed Projects	(1,803,811,227)
Removed Projects	(179,140,000)
New Projects Added	877,775,005
<b>New CIP (2006-2011)</b>	<b>\$4,106,443,627</b>

## Capital Improvement Program

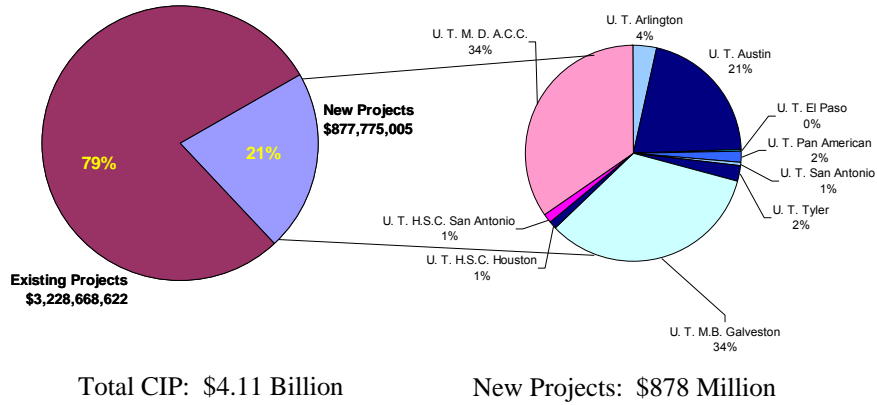
FY 2006-2011 Capital Improvement Program Summary

Recent Trend in CIP Growth

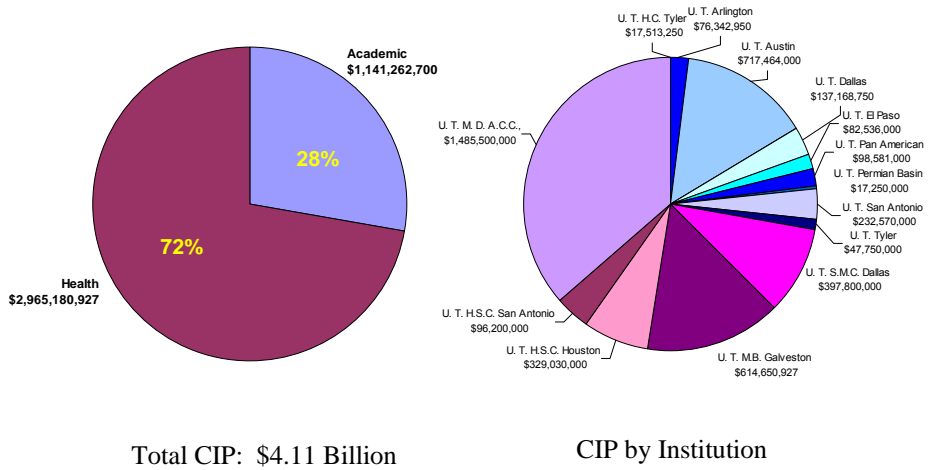


## Capital Improvement Program FY 2006-2011 Capital Improvement Program Summary

136 Projects totaling \$4.11 Billion

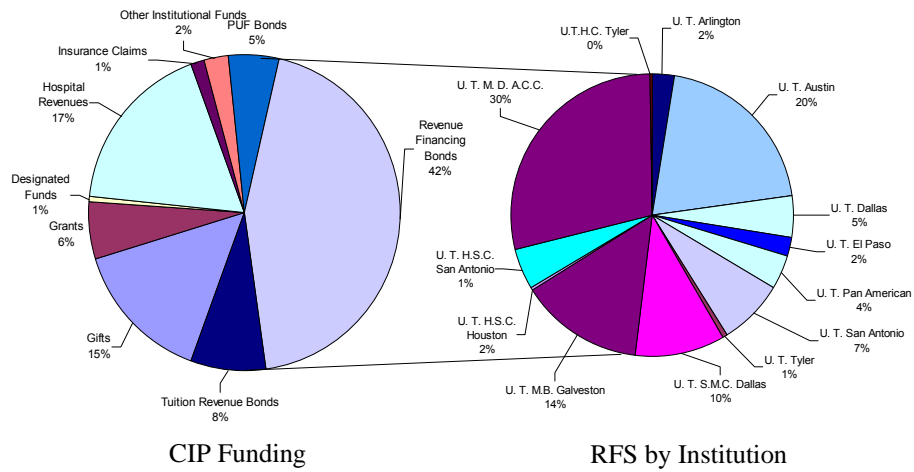


## Capital Improvement Program FY 2006-2011 Capital Improvement Program Summary



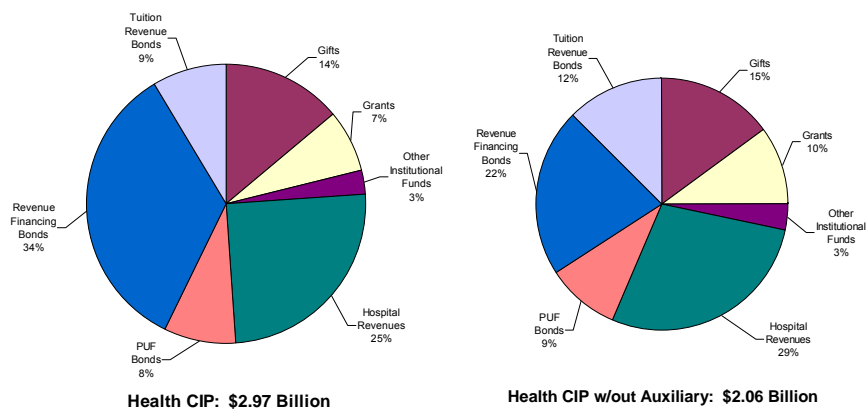
## Capital Improvement Program

### FY 2006-2011 Capital Improvement Program Summary



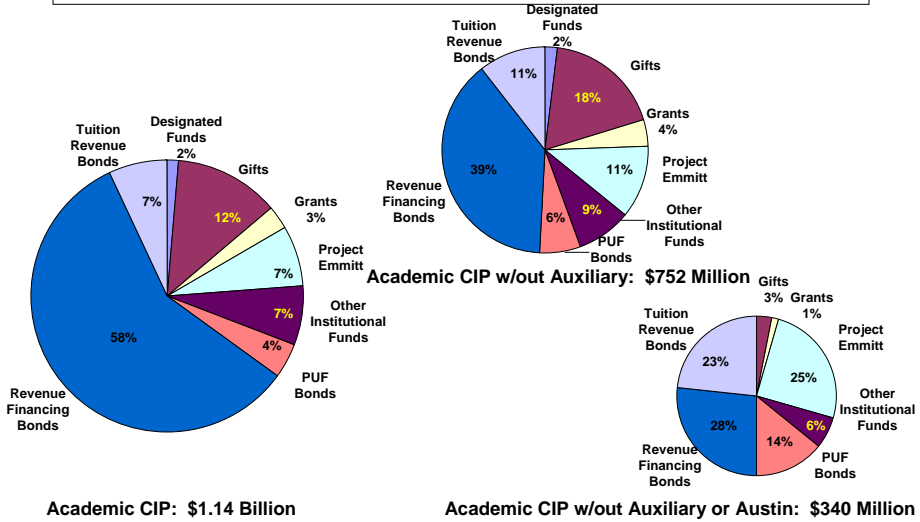
## Capital Improvement Program

### FY 2006-2011 Capital Improvement Program Summary



## Capital Improvement Program

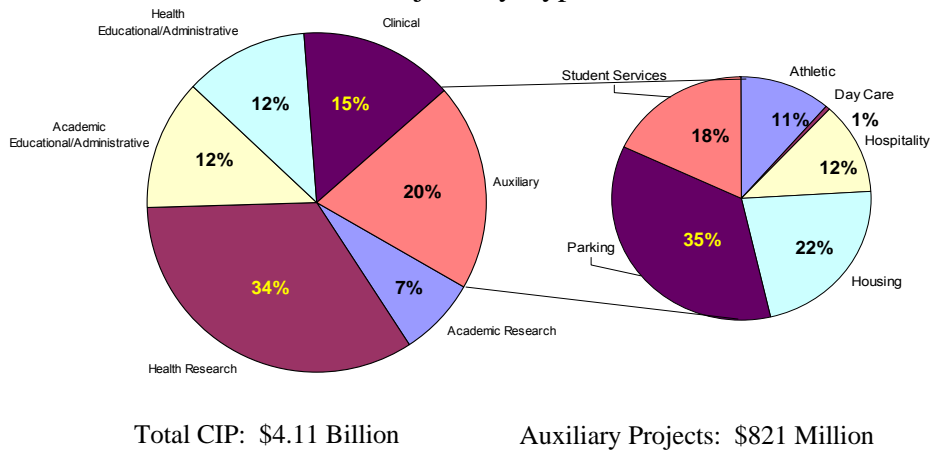
### FY 2006-2011 Capital Improvement Program Summary



## Capital Improvement Program

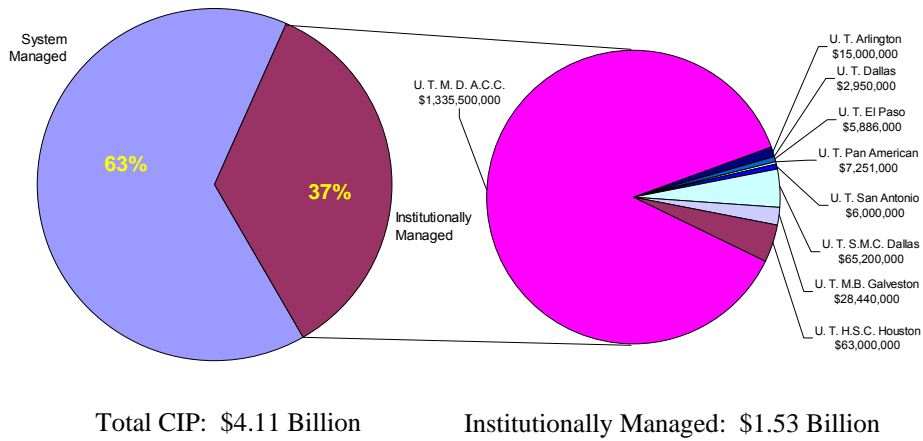
### FY 2006-2011 Capital Improvement Program Summary

#### Projects by Type



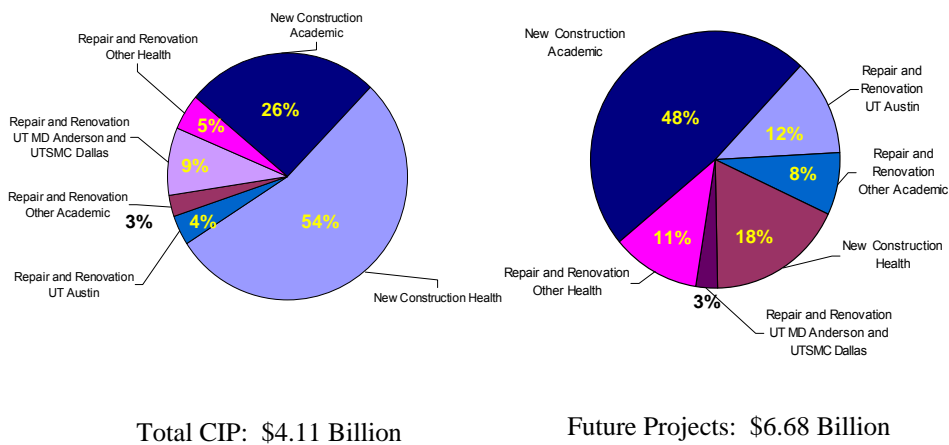
## Capital Improvement Program

### FY 2006-2011 Capital Improvement Program Summary



## Capital Improvement Program

### FY 2006-2011 Capital Improvement Program Summary





## Capital Improvement Program

### Estimated Economic Impact of CIP

▪ Total CIP:	\$ 4.11 Billion
▪ Construction Economic Impact:	\$ 7.39 Billion
▪ 10-Year Earnings Economic Impact:	\$10.19 Billion
<b>Total 10-Year Estimated Economic Impact:</b>	<b>\$17.58 Billion</b>

## Capital Improvement Program

### Recap of Requested Actions of the Board

- Adopt the FY 2006 - 2011 CIP
- Approve the Capital Budget
- Adjust appropriations for previously appropriated projects
- Appropriate funds for Repair and Renovation and Institutionally-Managed projects initiated in the Capital Budget
- Approve new request for Revenue Financing System Bonds for Repair and Rehabilitation project in the Capital Budget

5. **U. T. System: Approval of the nonpersonnel aspects of the operating budgets for the fiscal year ending August 31, 2006, and approval of Permanent University Fund Bond Proceeds allocation for Library, Equipment, Repair and Rehabilitation Projects**

RECOMMENDATION

The Chancellor, with the concurrence of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the presidents of the U. T. System institutions, recommends that the nonpersonnel aspects of the U. T. System Operating Budgets for the fiscal year ending August 31, 2006, including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans, be approved.

It is further recommended that the Chancellor be authorized to make editorial corrections therein and that subsequent adjustments be reported to the U. T. System Board of Regents through the docket.

It is requested that Permanent University Fund Bond Proceeds in the amount of \$70,000,000 be appropriated to the institutions to fund Library, Equipment, Repair and Rehabilitation (LERR) Projects for Fiscal Year 2006. Of the \$70,000,000, it is requested that \$40,000,000 be appropriated directly to U. T. System institutions. This would authorize the purchase of approved equipment items and library materials and to contract for repair and rehabilitation projects following standard purchasing and contracting procedures within approved dollar limits. Substitute equipment purchases or repair and rehabilitation projects are to receive prior approval by the Chancellor, the appropriate Executive Vice Chancellor and, where required, the U. T. System Board of Regents. Transfers by U. T. System Administration of allocated funds to institutional control or to vendors will coincide with vendor payment requirements. Final approval of specific repair and rehabilitation projects will be in accordance with procedures for construction projects established by the U. T. System Board of Regents.

Of the remaining \$30,000,000, it is requested that \$15,000,000 be appropriated to provide additional funding to build and enhance research infrastructure to attract and retain the best qualified faculty known as the Science and Technology Acquisition and Retention (STARs) Program. Through a competitive proposal process determined by U. T. System Administration, funds will be distributed to the seven academic institutions for recruiting top researchers. It is requested that \$10,000,000 be appropriated to provide funds to substantially strengthen programs within the U. T. Health Science Center - Houston School of Public Health; its four regional campuses: Brownsville, Dallas, El Paso, and San Antonio; and a potential campus at U. T. Austin. It is further requested that the remaining \$5,000,000 will be used to provide for equipment and renovations related to the recruitment and retention of faculty at U. T. Schools of Nursing and support of improved instruction and research in these institutions. More information on these three important initiatives is provided on Pages 10.1 – 10.3.

It is further recommended that LERR appropriations not expended or obligated by contract or purchase order within six months after the close of Fiscal Year 2006 are to be available for future System-wide reallocation unless specific authorization to continue obligating the funds is given by the appropriate Executive Vice Chancellor upon recommendation of the president of the institution.

### BACKGROUND INFORMATION

A supplemental volume of the budget materials titled "Operating Budget Summaries and Reserve Allocations for Library, Equipment, Repair and Rehabilitation" is enclosed in the back pocket of this Agenda Book.

See the Executive Session item related to the personnel aspects of the U. T. System Operating Budgets (Item C.2 on Table of Contents Page i for Meeting of the Board).

The appropriation of Permanent University Fund Bond Proceeds will be presented in the Fiscal Year 2006 LERR Budget. This is the third and final year that U. T. Dallas will be appropriated \$10,000,000 of these funds for equipping a Natural Science and Engineering Research Building and Technology Accelerator built in connection with an economic development effort with the State of Texas and Texas Instruments. U. T. Dallas will not participate in the allocation of remaining funds. The allocation of these LERR funds to the U. T. System institutions was developed from prioritized lists of projects submitted by the institutions and reviewed by U. T. System Administration staff.

As required by the Available University Fund (AUF) Spending Policy, a forecast of revenues and expenses of the AUF for seven years, including the above allocation has been prepared and is provided on Page 40.4. The additional appropriation of Permanent University Fund Bond Proceeds for this allocation is within the policy as shown in the forecast.

## **Science and Technology Acquisition and Retention (STARs) Program**

For Fiscal Year 2006 Chancellor Yudof and the Executive Vice Chancellor for Academic Affairs recommend a \$15 million allocation from Library, Equipment, Repair and Renovation (LERR) funds in support of recruiting high-caliber scientists and engineers to U. T. academic institutions. Last fiscal year a one time allocation of \$60 million was set aside to help attain and retain the best qualified faculty at both health and academic institutions. The \$60 million appropriated last fiscal year was in addition to the LERR funding that U. T. System annually expends on LERR projects. This second year request of \$15 million for STARs at academic institutions is also above the amount typically set-aside for LERR projects. Funds made available for Fiscal Year 2006 will again be used for start-up and retention packages in science and engineering fields. The recruitment of high-caliber scientists and engineers to U. T. institutions is a high priority and the additional LERR funding will be used to help build the infrastructure for the additional faculty.

For Fiscal Year 2006, the STARs package of \$15 million will be centrally administered by the U. T. System for start-up or retention packages for tenured faculty of proven quality who are recommended from the campuses by a faculty group that operates above the college level at the nominating university. The STARs package will be competitive. The minimum size for the STARs package will be \$5,000, and requests for \$5,000 to \$50,000 will be determined by the Office of Academic Affairs. Packages above \$50,000 and up to a maximum size of \$500,000 will be vetted at the U. T. System Administration level by a peer review committee chaired by the Executive Vice Chancellor for Academic Affairs. The funds will be available only for laboratory renovation and equipment purchases.

## **Public Health Initiative - Health Institutions**

For Fiscal Year 2006, Chancellor Yudof and the Executive Vice Chancellor for Health Affairs are recommending a \$10 million allocation of LERR funds in support of a major U. T. System Public Health Initiative. Texas must strengthen its public health enterprise. With a rapidly growing population, increasing challenges of hypertension, diabetes, obesity, infectious disease, and rising healthcare costs, it will be critical for the state to provide effective programs that prevent disease and promote health. These are the central missions of public health.

The U. T. System Task Force on Public Health recommended substantial strengthening of programs within the U. T. Health Science Center at Houston School of Public Health, its four regional campuses: Brownsville, Dallas, El Paso and San Antonio; and a potential campus at U. T. Austin. Among the important recommendations of the Task Force were:

1. Regional public health campuses must work in close collaboration with host campuses including joint program development, educational and research efforts, community outreach and faculty recruiting.

2. An integrated long distance learning system must be developed to take full advantage of the talent available at the various campuses to provide education for students (in many cases it is not feasible to have all required disciplines represented by faculty at a given campus).
3. Additional faculty will be required to create critical masses of investigators at regional campuses. The Task Force recommended an increase from an average of 9 faculty on each campus to approximately 15 faculty.
4. Create a range of new degree opportunities for students at all campuses. This would include an undergraduate Bachelor of Public Health degree as well as additional master's and doctoral degrees (a certificate program in public health was recommended by the Task Force and was subsequently approved by the Texas Higher Education Coordinating Board).

In addition to dissemination of the Report on Public Health to all relevant campuses, joint planning groups have evolved at the regional sites. These include representatives from Regional Public Health campus' and the host academic campus. Professor Joseph McCormick of the Public Health Campus at Brownsville has been appointed as Chancellor's Health Fellow in Public Health. He will lead System-wide efforts in strengthening education, research and public policy programs related to prevention.

A commitment of support by the U. T. System for an initiative in public health is a demonstration of strong commitment to important needs in Texas. It would strengthen the argument for similar commitments by other organizations, foundations, state and local government. Significant additional sponsored research funding would be achieved by the addition of outstanding faculty. Indirect cost return from such research would further strengthen the infrastructure for public health. Collaboration between the academic and public health campuses would be facilitated and enhanced. As the Chancellor's Health Fellow Professor McCormick carries out his role, the message in support of public health would be compelling.

The \$10 million in LERR funds being appropriated for the Public Health Initiative will be used for equipment and renovations. Uses would include:

- a. Equipment and renovations required as part of faculty recruitment packages in the various public health campuses. Such recruitments would be carried out jointly with the associated academic or health campus and U. T. Health Science Center at Houston School of Public Health.
- b. Provide equipment and facilities support at Houston for infrastructure of an integrated distance learning program and public health initiatives.
- c. Support purchase of equipment for creation of a coordinated distance learning initiative which will involve all public health campuses and associated academic or medical campuses.
- d. Provide for renovation/completion of facilities to be used at or by regional public health campuses in collaboration with the host campus to enhance coordinated programs, education and recruitments.
- e. Purchase of core equipment such as computers and other analytical tools in support of this public health enterprise.

## **Nursing Support Initiative**

For FY 2006, Chancellor Yudof and the Executive Vice Chancellor for Academic Affairs, and the Executive Vice Chancellor for Health Affairs recommend \$5 million of LERR funds be used to provide for equipment and renovations related to the recruitment and retention of faculty to U. T. Schools of Nursing and support of improved instruction and research in these institutions.

Texas faces a continuing shortage of well-educated nurses. This shortage will be exacerbated further by rapid growth in the state's population and increased rates of retirement by nurses, whose average age has continued to rise over the past two decades. There is a special need for nurses with bachelors and master's degrees including advanced practice nurses. Available data demonstrates that patient mortality in hospitals declines as the average level of nursing training rises.

There is a substantial opportunity to educate more nurses. Approximately 4,200 individuals applied for admission to nursing schools in Texas in 2004 who could not be accommodated. The ratio of applicants to matriculants was approximately thirteen to one at U. T. Health Science Center at Houston School of Nursing. The limiting factor in enrolling these students is the number of faculty. In part these limitations arise from accreditation standards requiring one full-time nursing instructor for every ten nursing students.

Schools of Nursing of the U. T. System have attempted to create innovative programs to increase educational opportunities for nursing students. These include the use of distance instruction, creation of combined programs which can shorten the duration of required education, arrangements with hospital nursing staff to serve as faculty members, and a variety of other strategies.

The recruitment of nursing faculty is limited by the average academic salaries in nursing compared with average nursing salaries elsewhere. As our efforts continue to improve these salary levels, the availability of additional resources for equipment and renovation would be helpful in creating recruiting packages to attract the best candidates to U. T. Schools of Nursing. This includes computer capabilities and research facilities. In addition, equipment for distance learning, mannequins and other devices for nursing instruction, and improved physical facilities for education of nurses would create a more attractive environment for recruiting the best faculty.

6. **U. T. System Board of Regents: Report on Centralization of Operating Funds**

REPORT

Executive Vice Chancellor Kelley will provide a report on the status of the Centralization of Operating Funds, including a proposed timeline for implementation as set forth on Page 11.1.

## Timeline for Centralization of Operating Funds

Step	Responsibility	Completion Date
1. EVC for Business Affairs creates investment advisory group consisting of four Chief Business Officers and two System representatives	U. T. System	May 15, 2005
2. Board of Regents approves Centralization concept	U. T. System	July 8, 2005
3. Board of Regents approves proposed budget for Centralization	UTIMCO and U. T. System	August 11, 2005
4. UTIMCO Board approves Centralization-related policies	UTIMCO	September 22, 2005
5. UTIMCO hires new Manager of Operating Funds to manage Centralized funds	UTIMCO	September 30, 2005
6. U. T. System staff meets with Credit Rating Agencies to confirm debt ratings and discuss liquidity for debt programs	U. T. System	Week of October 3, 2005
7. Board of Regents approves revised liquidity arrangements for debt programs	U. T. System	November 10, 2005
8. Board of Regents approves policies related to Centralization, including: <ul style="list-style-type: none"> <li>• Amendments to Regents' <i>Rules and Regulations</i>, System policies, and Investment Management Services Agreement</li> <li>• Revisions to existing Investment Policy Statements</li> <li>• Creation of new Investment Policy Statements, including asset allocation for new funds</li> <li>• Approval of new Liquidity Policy and new Derivatives Policy for centralized funds</li> </ul>	U. T. System and UTIMCO	November 10, 2005
9. UTIMCO selects and hires external managers, awaiting funding	UTIMCO	November 18, 2005
10. Institutions complete process to: <ul style="list-style-type: none"> <li>• Establish new accounts</li> <li>• Establish procedure to allocate earnings from new fund</li> <li>• Establish accounting entries needed to shift funds</li> <li>• Establish reconciliation process for new funds</li> <li>• Automate Annual Financial Report schedules for FY 2006</li> <li>• Complete training for transition from existing funds to newly created funds</li> </ul>	Institutions, U. T. System, UTIMCO	December 31, 2005
11. Centralized funds are operational	All	January 31, 2006



7. **U. T. System Board of Regents: Approval of proposed Annual Budget and Management Fee Schedule for The University of Texas Investment Management Company (UTIMCO) and related actions**

**RECOMMENDATION**

The University of Texas Investment Management Company (UTIMCO) Board of Directors recommends that the U. T. System Board of Regents approve the proposed Annual Budget as set forth on Page 13.2 and the Annual Fee and Allocation Schedule for the fiscal year ending August 31, 2006, as set forth on Page 13.6.

**BACKGROUND INFORMATION**

A proposed Annual Budget of \$48.6 million for Fiscal Year 2006 was approved by the UTIMCO Board on July 21, 2005. The proposed Budget is an increase of 27.3% from the Fiscal Year 2005 Budget. The Budget includes \$6.8 million for the implementation and management of the centralized operating funds. Excluding the costs for centralization, the proposed Budget is 9.5% greater than the Fiscal Year 2005 Budget (17% more than projected actual Fiscal Year 2005 expenses).

Background materials prepared by UTIMCO President, Chief Executive Officer, and Chief Investment Officer Bob Boldt are on Pages 13.1 – 13.6.

A Budget Report, prepared by the U. T. System Office of Finance and included on Pages 13.7 – 13.18 reviews the proposed Annual Budget. The Executive Summary for the Report is on Page 13.9.

At the July 8, 2005, joint meeting of the UTIMCO Board and the U. T. System Board of Regents, Cambridge Associates presented the UTIMCO Cost Study that was completed earlier this year. Sixteen public and private universities are represented in the study, with data reported for the twelve months ended June 30, 2004. The Cost Study concluded that UTIMCO's combined costs of investment oversight and asset management during that period were below comparable median costs of the university peer group, measured as a percent of each institution's total investment assets.

Projected actual Fiscal Year 2005 oversight costs would place UTIMCO above the Fiscal Year 2004 median for the peer universe and private endowments surveyed by Cambridge, but well below comparable public endowment funds with respect to these components of total costs. Further cost increases in the Fiscal Year 2006 proposed Budget will place UTIMCO closer to the median for public endowment peers.

Cambridge Associates reports that the evidence of diseconomies of scale associated with UTIMCO's active management style is consistent with the data provided by peers in their recent UTIMCO Cost Study. They indicate that greater allocations to alternative assets correspond with higher overall cost structures among peer endowments.

Budget materials prepared by  
UTIMCO

## UTIMCO Budget Analysis and Recommendation

The Investment Management Services Agreement between the U. T. Board of Regents and UTIMCO requires that UTIMCO submit its annual budget and management fee schedule to the Board of Regents for approval. The Total Budget consists of UTIMCO's management fee (the UTIMCO Services Budget) plus the budget for the direct expenses to the Funds, the Direct Funds Budget.

As indicated above, the UTIMCO related budget for management of the endowment and operating funds is comprised of two distinct elements. The "UTIMCO Services Budget" provides for all expenses directly associated with UTIMCO operations including staff compensation and benefits, general operating expenses such as travel and computer equipment, office expenses, and professional fees including general legal and accounting expenses. The "Direct Funds Budget" provides for all expenses directly related to the external management of assets of the endowment and operating funds. These expenses include external management fees, custodian fees, analytical resources expenses, general consulting expenses (Cambridge Associates), and individual investment related legal and accounting expenses. The sum of the UTIMCO Services Budget and the Direct Funds Budget equals the Total Budget for the August 2006 fiscal year. This year there is a new component of the Direct Funds Budget; those expenses directly related to the new investment pools created to manage U.T. System's operating funds.

UTIMCO management has direct control of the UTIMCO Services budget and expenses. The Services budget is developed through a decentralized process with each Managing Director having some level of budgetary responsibility. Actual expense performance relative to the budget is an element of the qualitative performance compensation review for each Managing Director and Manager at UTIMCO.

In contrast, because the Direct Funds expenses are affected significantly by price changes in the capital markets and by the level of activity in external manager accounts operating under full discretion, UTIMCO management has only limited control of the Direct Funds budget and expenses. UTIMCO control is limited to selecting the types of external managers to be hired (active versus passive or partnership versus agency account, for example) and negotiating the best and most advantageous contract terms. Although the performance of actual Direct Fund expenses relative to budget is not a part of qualitative incentive compensation considerations for UTIMCO management, because all Services and Direct Funds expenses reduce the net returns earned by the endowment and operating funds, UTIMCO management has clear incentive to manage Direct costs so as to maximize net investment returns. Note that this does not necessarily mean that attempting to minimize Direct (or Services) costs is the best approach. What is important both to UTIMCO management and the funds is maximizing net returns.

On July 21, 2005, the UTIMCO Board of Directors unanimously approved the proposed 2005-2006 Annual Budget and Management Fee Schedule. These recommended 2005-2006 Fiscal Year UTIMCO Services and Direct Fund budget totals are presented below:

Budget Comparisons	Fiscal Year 2005-2006 Budget	Fiscal Year 2004-2005 Budget	Increase (Decrease)	% Change
<b>UTIMCO Services</b>	\$ 11,434,302	\$ 10,450,615	\$ 983,687	9.41%
<b>Direct Fund Expenses</b>	30,319,406	27,696,238	2,623,168	9.47%
<b>New Operating Funds Direct Expenses</b>	6,792,284	-	-	-
<b>Total Budget</b>	\$ 48,545,992	\$ 38,146,853	\$ 1,399,139	27.26%
<b>As a Percent of Assets Managed</b>	0.277%	0.239%	0.038%	

With this overview of the recommended budgets, the following sections focus on the UTIMCO Services, Direct Funds, and New Operating Funds Investment Options budgets separately.

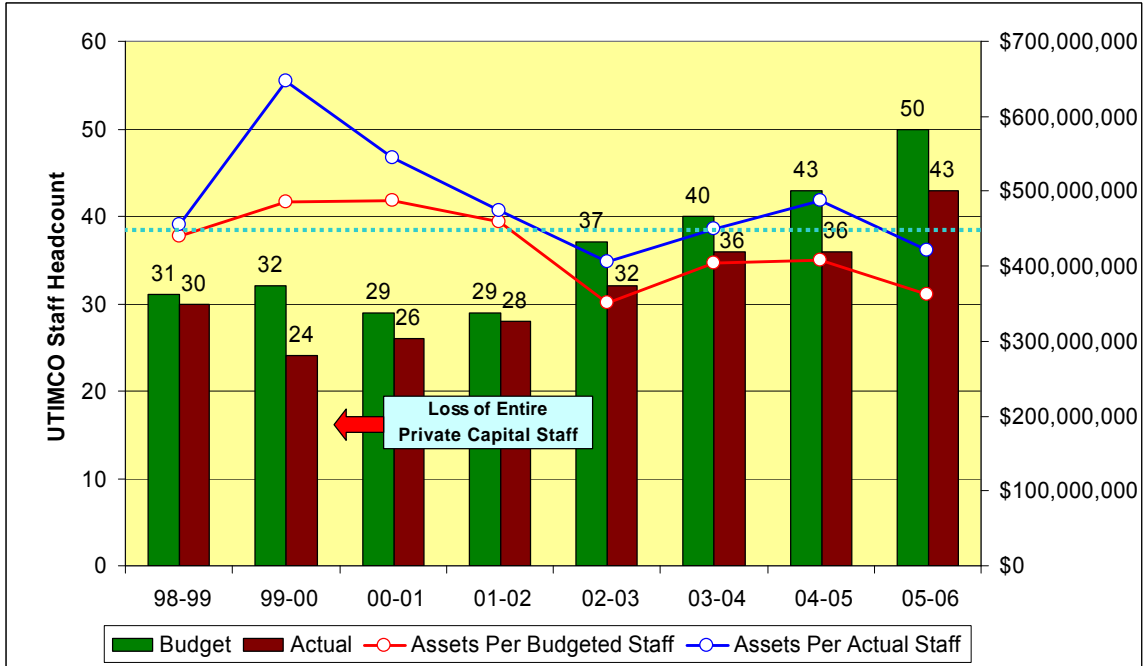
### UTIMCO Services Budget

The primary items affecting the increase in the UTIMCO Services budget are salary increases for existing staff and new additions to the staff.

**Salary Increases for Existing Staff:** UTIMCO's compensation policy is to pay competitive base salaries. Competitive base salaries are defined to be salaries within a plus or minus 20% band centered on the market median salary for a similar position in an endowment fund or investment management organization. We obtain information on market median salaries for upper level accounting and administration and investment positions at UTIMCO from Mercer on a regular basis. Salary levels for other accounting and administrative positions are based on local competition in similar organizations. Overall staff salaries increased by 4.8%; in line with the market data we received from Mercer. On average among the senior staff, base salaries are at 97% of the market median despite the fact that we have a very talented and experienced staff. Most of these staff members should have above median salaries, so it is important to try to continue to move to higher levels which can only be done through above average increases. The Compensation Committee of the UTIMCO Board reviewed and approved the staff salaries included in the budget request.

**New Additions to Staff:** The largest increase to the budget is due to the addition of 5 new positions to the staff; all directly related to managing and implementing the new operating funds investment options. The new positions being recommended are a Manager responsible for the day to day operations of the estimated \$3.8 billion series of new funds, Analyst in Marketable Alternatives to handle the additional workload as significant assets are added to this asset class, Risk Management Analyst to add required staffing to manage and evaluate new risk models and data integrity, and two accounting / operations specialists to manage the accounting and operations for the new series of operating funds investment options.

Although the budgeted headcount has increased substantially since the ebb in 2000, current and projected assets managed per staff are very near the long term average indicated by the dashed line in the figure below:



The increase in staff count from 2000 is due to two factors: first, 2000 was an artificially low starting point, the staff was dangerously thin after the loss of the Private Capital team, necessitating a multimillion dollar payment to Cambridge Associates to monitor existing investments; and second, our current high return potential, specialist structure requires both a more experienced and larger team to monitor the more sophisticated investments we need to make to earn high value added returns. The current year additions are entirely a result of implementing the new operating fund strategies and because of this immediate increase to staff (with no corresponding increase in assets managed), serve to reduce the assets managed per staff.

### Direct Fund Budget

The details of the Direct Fund budget are shown below:


<b>Direct Funds Budget</b>	<b>Fiscal Year 2005-2006 Budget</b>	<b>Fiscal Year 2004-2005 Budget</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
<b>External Management Fees</b>	<b>\$14,712,719</b>	<b>\$15,043,557</b>	<b>(\$330,838)</b>	<b>-2.20%</b>
<b>External Performance Fees</b>	<b>10,391,371</b>	<b>8,460,603</b>	<b>1,930,768</b>	<b>22.82%</b>
<b>Total External Management Fees</b>	<b>\$25,104,090</b>	<b>\$23,504,160</b>	<b>\$1,599,930</b>	<b>6.81%</b>
<b>Custodian Fees</b>	<b>\$1,786,932</b>	<b>\$1,226,918</b>	<b>\$560,014</b>	<b>45.64%</b>
<b>Performance Measurement</b>	<b>505,800</b>	<b>385,900</b>	<b>119,900</b>	<b>31.07%</b>
<b>Analytical Tools</b>	<b>289,570</b>	<b>299,810</b>	<b>(10,240)</b>	<b>-3.42%</b>
<b>Risk Measurement</b>	<b>646,000</b>	<b>575,000</b>	<b>71,000</b>	<b>12.35%</b>
<b>Total Custodian and Analytical Costs</b>	<b>\$3,228,302</b>	<b>\$2,487,628</b>	<b>\$740,674</b>	<b>29.77%</b>
<b>Cambridge Associates Fee</b>	<b>900,000</b>	<b>900,000</b>		
<b>Auditing</b>	<b>176,300</b>	<b>190,300</b>	<b>(14,000)</b>	<b>-7.36%</b>
<b>Controls Assessment (Sarbanes-Oxley)</b>	<b>150,000</b>	<b>95,000</b>	<b>55,000</b>	<b>100.00%</b>
<b>Printing</b>	<b>145,416</b>	<b>120,000</b>	<b>25,416</b>	<b>21.18%</b>
<b>Bank Fees</b>	<b>6,000</b>	<b>9,000</b>	<b>(3,000)</b>	<b>-33.33%</b>
<b>Rating Agency Fees</b>	<b>23,100</b>	<b>23,500</b>	<b>(400)</b>	<b>-1.70%</b>
<b>Legal Fees</b>	<b>540,000</b>	<b>345,750</b>	<b>194,250</b>	<b>56.18%</b>
<b>Background Searches and Other Due Diligence</b>	<b>46,200</b>	<b>20,900</b>	<b>25,300</b>	<b>100.00%</b>
<b>Total Other Expenses</b>	<b>\$1,987,016</b>	<b>\$1,704,450</b>	<b>\$282,566</b>	<b>16.58%</b>
<b>Total Direct Funds Expenses</b>	<b>\$30,319,407</b>	<b>\$27,696,238</b>	<b>\$2,623,169</b>	<b>9.47%</b>
<b>As a Percent of Average Assets</b>	<b>0.173%</b>	<b>0.173%</b>		

As indicated earlier in the overview of the entire budget, the total Direct Funds Budget is expected to expand 9.47% on a dollar basis, but stay at approximately the same level as a percentage of Assets Managed. Other key points to note:

- \$1,599,930 or 61% of the increase is related to estimated increases for external manager fees based upon continued good performance.
- \$740,674 or 28% of the increase is for increased custody, analytical, and other direct costs. Approximately \$250,000 is directly related to moving to “daily valuations” to gain more timely information for risk control and management decisions. The remainder is due to estimated increases in the number of actively managed accounts, transaction costs, and the increased dollar amounts of assets under custody.
- \$282,566 or 11% of the increase is for additional audit fees, costs related to implementation of Sarbanes-Oxley, and legal fees.

### **Direct Funds Budget – New Operating Funds Investment Options**

The estimated direct expenses of implementing and managing the new operating funds options are the final component of the total UTIMCO Budget. External manager fees of \$5,708,281 represent the majority (84%) of these estimated costs. The associated custody fees (\$569,243) comprise 8.3% of the total expenses. The additional details of these expenses are shown on the next page.

	<h2>New Operating Funds Budget Overview</h2>
<b>New Operating Funds Expenses</b>	
External Manager Fees	5,708,281
Custodian Fees	569,243
Performance Measurement	115,369
Risk Measurement	157,121
Cambridge Fees	200,000
Auditing	37,620
Controls Assessment (Sox)	(13,500)
Printing	5,250
Rating Agency Fees	(23,100)
Legal Fees	15,000
Background Searches & Other	21,000
<b>Total Operating Funds Expenses</b>	<b>6,792,284</b>

### Allocation of Expenses Across Funds

The final step in the budgeting process is to equitably allocate the budgeted expenses across the Funds. The UTIMCO Services budget has traditionally been allocated on the basis of a combination of relative asset value of the Funds and total staff time dedicated to the management of each Fund. Budgeted expenses for 2005-2006 were allocated as follows: Permanent University Fund 48%, Long Term Fund 29%, Permanent Health Fund 6%, Short Intermediate Term Fund 2%, and the new operating funds options 15%. These allocations are very similar to prior fiscal year allocations.

Direct Funds expenses are charged to each fund on the basis of costs actually incurred. Only those Direct costs associated solely with the PHF, LTF, SITF, or the operating funds are charged against those Funds.



**UTIMCO Budget**  
**Annual Fee and Allocation Schedule**  
**For the fiscal year ending August 31, 2006**

	The Permanent University Fund (PUF)	The Permanent Health Fund (PHF)	The University of Texas System Long Term Fund (LTF)	General Endowment Fund (GEF)	The University of Texas System Short Intermediate Term Fund (SITF)	Short Term Fund (STF)	Institutional Index Funds (IIF)	Separately Invested Funds (SIF)	New Operating Funds	Total
<b>UTIMCO Management Fee</b> (1) (includes all operating expenses associated with the general management of the Funds)	5,591,136	704,817	3,259,091		196,943				1,682,317	11,434,302
<b>Direct Expenses of the Fund</b>										
External Management Fees	9,692,367	0	0	5,020,351		N/A (2)			5,708,281	20,421,000
External Management Fees - Performance Based	7,441,918	0	0	2,949,453						10,391,371
Other Direct Costs	2,719,717	14,910	143,128	2,205,988	131,575				1,084,003	6,299,320
<b>Total Direct Expenses of the Fund</b>	19,854,002	14,910	143,128	10,175,792	131,575		0	0	6,792,284	37,111,691
<b>TOTAL</b>	<b>25,445,138</b>	<b>719,727</b>	<b>3,402,219</b>	<b>10,175,792</b>	<b>328,518</b>	N/A (2)	<b>0</b>	<b>0</b>	<b>8,474,601</b>	<b>48,545,992</b>
<b>Market Value 2/28/05 (\$ millions)</b>	<b>8,832.2</b>	<b>896.5</b>	<b>3,795.3</b>	<b>4,691.8</b> (3)	<b>1,206.4</b>	<b>2,388.2</b>	<b>215.4</b>	<b>213.0</b>	<b>3,810.0</b> (4)	<b>17,547.0</b>
<b>Percentage of Market Value</b>										
UTIMCO Services	0.063%	0.079%	0.086%	0.000%	0.016%	0.000%	0.000%	0.000%	0.044%	0.065%
Direct Expenses of the Fund	0.225%	0.002%	0.004%	0.217%	0.011%	0.000%	0.000%	0.000%	0.178%	0.211%
<b>TOTAL</b>	<b>0.288%</b>	<b>0.080%</b>	<b>0.090%</b>	<b>0.217%</b>	<b>0.027%</b>	<b>0.000%</b>	<b>0.000%</b>	<b>0.000%</b>	<b>0.222%</b>	<b>0.277%</b>

(1) Allocation Ratio: PUF-48%,Health Fund-6%,LTF-29%, SITF-2%, Ops-15%

(2) Income is net of fees

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

(4) This Ops Fund is anticipated to include the balances of the STF, SITF and IIF.

(amounts may not foot due to rounding adjustments)

Budget review prepared by  
the Office of Finance

*July 25, 2005*

**FY 2006 UTIMCO PROPOSED BUDGET  
U. T. System Office of Finance -- Staff Review**

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

**Prepared by:**

**Cathy Swain – Director of Investment Oversight  
Jerry Modjeski – Senior Financial Analyst**

**July 25 2005**

**FY 2006 UTIMCO PROPOSED BUDGET  
U. T. System Office of Finance -- Staff Review**

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**FY 2006 UTIMCO PROPOSED BUDGET  
U. T. System Office of Finance -- Staff Review**

**I. EXECUTIVE SUMMARY**

U. T. System Investment Oversight Staff reviewed the UTIMCO proposed FY06 budget, including UTIMCO Services and Direct Costs to Funds. Table 1 compares the proposed FY06 budget to FY05 budgeted and projected expenses. Exhibit A provides a more detailed comparison.

**Table 1  
UTIMCO FY05 Projected Actual and FY06 Budget Summary (\$000's)**

	FY05		FY06			
	Budget	Projected Actual*	Budget	Dollar Increase	% Increase vs FY05 Budget	% Increase vs FY05 Actual
<b>UTIMCO Services</b>	\$10,451	\$10,085	\$11,434	\$1,349	9%	13%
<b>Direct Costs to Funds</b>	\$27,696	\$31,500	\$37,110	\$5,610	34%	18%
<b>Total Budget</b>	\$38,147	\$41,585	\$48,543	\$6,959	27%	17%

\*Based on actual expenses through May 31, 2005.

**FY05 Projected Actual Expenses** are forecast by UTIMCO to be 9% over budget, based on actual YTD expenses through May 31, 2005. While UTIMCO Services expenses are under budget overall (primarily due to budgeted but unfilled positions), Direct Costs to Funds are projected to be over budget 14%:

- External Management Fees overall are projected to exceed the budget by more than \$3 million due to higher performance fees paid for better than budgeted performance.
- Custody and Analytical Costs charged to the funds are nearly \$0.2 million over budget.
- Total Legal Fees of \$1.4 million are projected to be nearly \$0.9 million (170%) over budget.

**FY06 Proposed Budget** of nearly a 17% increase from FY05 projected actual expenses represents a 27% increase from the FY05 budget.

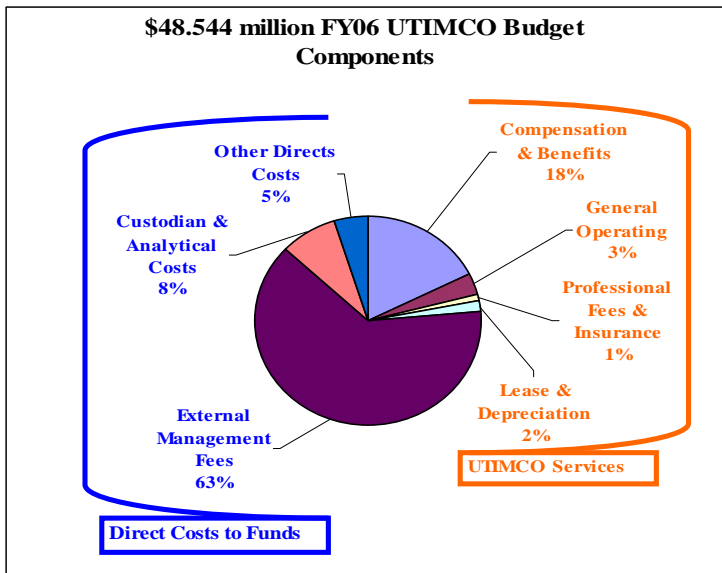
- Implementation of centralized management of operating funds will phase in active management of approximately \$3 billion in an asset mix that is more complex and costly than the current funds, impacting both UTIMCO Services and Direct Costs to Funds. Exhibit B itemizes approximately \$7 million of direct expenses budgeted for centralized management of operating funds.
- Custody, Performance Measurement, and Risk Management expenses continue to increase significantly, reflecting expanded services for monitoring portfolios, internal derivative exposures, and externally managed hedge fund positions.

**Capital expenditures** totaling approximately \$1.7 million are proposed to fund relocation costs and anticipated technology upgrades. These estimates, listed in Exhibit D, are reflected as a budgeted \$255k increase over FY05 projected actual depreciation expense.

**Observations and Recommendations:** UTIMCO staff has been very open and collaborative in sharing information for this review, and responsive to critical analysis. Changing data, however, have made it very difficult to conclude the analysis within the time frame available for Board decision making. We hope that Finance Department feedback was constructive, and that in future years, UTIMCO staff will comply with the IMSA requirement to finalize the budget no later than June 1. Recommendations listed below are also discussed in Section VI starting on page 5.

1. **Analyze Proposed Capital Expenditures**, which appear to be unjustifiably high.
2. **Distribute \$4 million in Surplus Reserves** back to the U. T. System Funds.
3. **Analyze Total Investment Management Costs and Related Performance Benefits** to validate costs that are escalating much faster than the growth in assets.

II. FY06 BUDGET OVERVIEW



UTIMCO retains external managers for approximately three quarters of the \$17.5 billion in assets managed (as of 5/31/05, including operating funds). External Management Fees paid directly dominate the total budget (63%). Direct Costs to Funds also include custody, analytical, and other direct costs. Personnel-related costs are the largest single component of the UTIMCO Services operating budget, which accounts for 24% of the total.

Table 2 below shows the trend of increasing Direct Costs to Funds and UTIMCO Services costs as a percent of total funds under management (including operating funds) since FY01 relative to growth in funds managed and staffing. Exhibit C documents

in more detail the five-year expense trend from FY02 through FY06. We understand that these expenses, paid directly by the funds and estimated to average .25% in FY05, compare to the “expense factor” targeted in the investment policy statement goals at .35% of funds managed.

**Table 2**  
**UTIMCO Trends Summary**

	Actual				Projected	Budget
	FY01	FY02	FY03	FY04	FY05	FY06
UTIMCO Services & Direct Costs to Funds \$millions	\$21	\$25	\$24	\$34	\$42	\$49
Total Average Funds Managed \$ millions*	\$14,836	\$13,716	\$14,034	\$15,470	\$16,711	\$18,132
% Change in Total Funds Managed		-8%	2%	10%	8%	8%
UTIMCO Direct Costs % of Total Funds Managed	0.14%	0.18%	0.17%	0.22%	0.25%	0.27%
Number of Active Employees at UTIMCO	28	29	37	38	42	52
Assets managed per Employee \$ millions	\$530	\$473	\$379	\$407	\$398	\$349

\* Total average funds managed were calculated for FY's 2001-2004 using beginning and ending FY totals as of August 31 and dividing by two. The average is estimated for FY05 using May 31, 2005 ending values, and budgeted for FY06 assuming an 8% increase in total average assets.

The effects of the shift to greater emphasis on alternative assets, performance based management fees, and competitive incentive compensation for UTIMCO personnel are apparent in the increasing costs as a percent of funds managed. Active management of the centralized operating funds will predictably result in higher percentage costs in FY06. While these components of the expense factor remain below the .35% target, justification for this escalating cost structure requires further analysis in conjunction with UTIMCO Staff and consultants to validate corresponding performance benefits.

Although UTIMCO does not budget for third party fees and expenses that are netted against reported asset values for investments in externally managed partnerships, mutual funds, and hedge funds, investment performance is reported net of all costs including these fees and expenses. As of May 31, 2005, assets managed externally with values and performance reported net of fees and expenses totaled nearly \$5 billion, or 28% of the total U. T. System assets managed by UTIMCO.

**III. UTIMCO Cost Study Update**

Cambridge Associates reports that the evidence of diseconomies of scale associated with UTIMCO’s active management style is consistent with the data provided by peers in their recent UTIMCO Cost Study. They indicate that greater emphasis on alternative assets corresponds with higher overall cost structures among peer endowments.

Table 3 compares updated UTIMCO expense estimates to the peer group surveyed for the Cambridge Cost Study completed May 5, 2005, based on peer data for the twelve months ending June 30, 2004, as a reference. The numbers in the table represent basis points, or hundredths of a percent of Total Assets. Operating funds are included in Total Assets Under management for comparability reasons. Projected actual FY05 oversight costs, as defined in the Cost Study, place UTIMCO above the FY04 median for the peer universe and private endowments surveyed, but well below comparable public endowment funds with respect to these components of total costs. Further cost increases proposed in the FY06 budget place UTIMCO closer to the FY04 median for public endowment peers.

**Table 3**  
**Cambridge Associates**  
**UTIMCO Cost Study Updated**  
**(Basis points of Total Funds Managed)**

	Investment Supervision Costs		Custody	Legal	Accounting/ Audit	Total Oversight
	Internal	External				
<b>UTIMCO:</b>						
<b>FY04 Actual</b>	4.68	.97	.69	.33	.31	6.97
<b>FY05 Projected</b>	4.73	1.34	.92	.56	.44	7.98
<b>FY06 Proposed Budget</b>	4.84	1.68	1.30	.31	.44	8.56
<b>Cambridge Cost Study FY04 Medians:</b>						
<b>Total Universe</b>	5.29	1.06	1.64	0.26	0.43	7.60
<b>Private</b>	5.35	0.53	1.25	0.26	0.30	7.56
<b>Public</b>	4.74	1.20	2.07	0.25	0.53	9.28

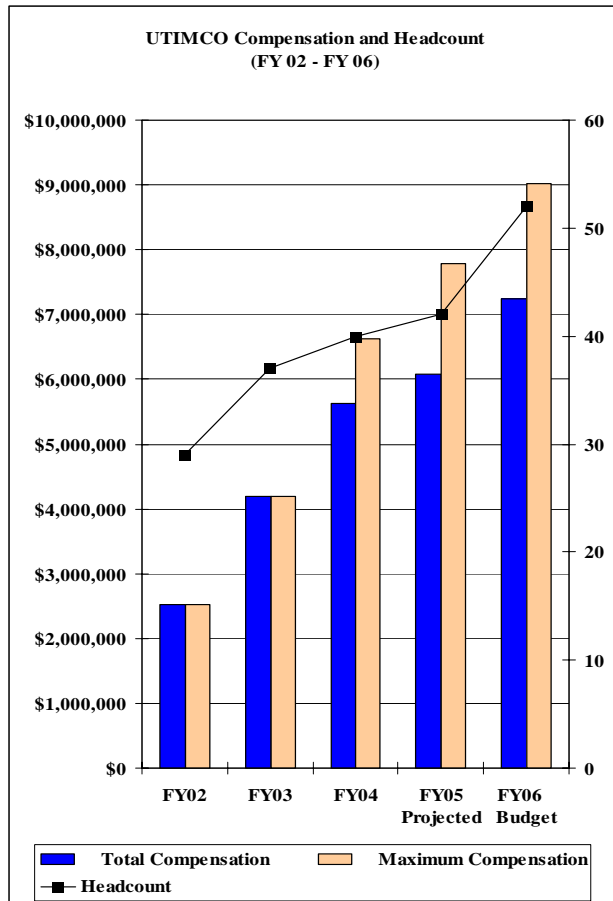
**IV. UTIMCO SERVICES**

**Compensation:** More than 74% of the UTIMCO Services budget (18% of the total budget) is directly related to personnel (including employee benefits). Trends in staffing, Total Compensation, and Maximum Compensation (i.e., 100% potential bonus) are charted on page 4 as “UTIMCO Compensation and Headcount – FY02-FY06.” Total compensation since FY02 has significantly outpaced both growth in managed assets and the increase in number of employees. UTIMCO staff has grown 79% from 29 in FY02 to a budgeted 52 in FY06, while Funds managed increased 36%; funds managed per employee declined from \$473k to an estimated \$349k in FY06; Total Compensation grew 187%; and maximum potential compensation increased 257% (Table 2 above).

This staffing trend and apparent diseconomies of scale further illustrate the greater management intensity of the shifting emphasis toward alternative investments. As centralized operating funds are absorbed and fully invested, staff and management will be challenged to improve economies of scale in managing these U. T. System assets.

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**Salaries and Wages** are projected to be more than \$0.4 million (6%) under budget in FY05 because of four budgeted unfilled positions. The FY06 budget proposes nearly 19% increases in Salaries and Bonuses from a projected actual \$6 million in FY05 to \$7 million. Approximately 40% of the increase is due to the proposed addition of five employees to help manage the centralization of the operating funds. A list and description of these new positions is included in Exhibit B. Three of the four currently budgeted open positions will also be filled to contribute to management of the centralized operating funds in FY06. A proposed nearly 5% average base salary increase for existing employees compares to 3% anticipated average salary increases for System Administration staff.



**Bonuses** actually paid for FY04 performance were 64% of the maximum potential bonus for all eligible employees (including open positions). In FY05 UTIMCO budgeted for 50% payout of maximum bonuses for all eligible employees, including open positions. Bonus Compensation for FY05 is forecast to be \$50k over budget, with an estimated 56% payout of total maximum potential bonuses for current employees participating in the plan. This estimate could change significantly, depending on final performance results through June 30, 2005, which are not fully reported until sometime in the fall. FY06 bonuses are again budgeted based on an estimated payout of 50% of maximum potential for all eligible budgeted positions.

**Employee Benefits** budgeted for FY06 are held at 18% of proposed total compensation, which is significantly lower than the U. T. System Administration average of approximately 30% because of higher average compensation levels at UTIMCO. Employee Benefit costs are expected to be under budget in FY05 by -\$52k due to open budgeted positions. While UTIMCO pays a portion of the cost of employee group health, dental, life, short term disability, and long term disability insurances, most of the cost increase in FY05 was absorbed by employees. The Company's share of Employee

Benefits costs is budgeted to increase 26% to \$952k in FY06.

**General Operating Expenses** of \$1.2 million projected for FY05 are approximately -8% under budget. The FY06 budget proposes a 28% increase to \$1.6 million, with increases in Recruiting and Relocation expenses, On-Line Data Services, Subscriptions, Repairs and Maintenance, Travel, and Other Contract Services.

**Office Relocation:** Lease Expense in FY05 is projected to exceed the budgeted amount by 9%. UTIMCO's move to larger space in the Frost Bank Tower, budgeted for rental concessions to reduce lease expense starting in the middle of this fiscal year, was delayed until October 2005. Rent concessions at the beginning of the new lease will reduce FY06 lease payments to approximately half of FY05 projected actual levels. From an accrual standpoint, these savings will be spread over the 11-year initial term of the lease.

**Capital Expenditures:** Estimated capital costs of approximately \$1.7 million, summarized in Exhibit D, are reflected in the \$255k increase in depreciation expense budgeted for FY06. These costs include technology updates as well as costs associated with the office relocation. Please refer to the discussion included with the recommendation regarding these proposed expenditures in Section VI on page 5.



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**Professional Fees** in total are estimated to be \$541k in FY05, an increase of 158% above the budgeted amount of \$210k. Legal expenses in particular increased from a budgeted \$175k to an estimated \$461k. Total Professional Fees are budgeted to decrease 54% to a proposed \$225k in FY06, assuming that disclosure issues are largely resolved with new legislation that clarifies investment disclosure requirements.

## V. DIRECT COSTS TO FUNDS

Direct Costs to Funds are budgeted to increase 18% in FY06 to \$37.1 million. Management of Centralized Operating Funds, to begin phasing in effective December 1, 2005, is projected to add approximately \$6.8 million of Direct Costs (\$7.3 million total budgeted costs – See Exhibit B). Direct external management fees for centralized operating funds are budgeted based on a preliminary asset allocation that must be finalized and approved by the UTIMCO Board and Board of Regents.

**External Management Fees** represent approximately 83% of Direct Costs to Funds. In FY05, these fees are projected to be nearly \$27 million, 13% over a budgeted \$23.5 million. While direct base asset management fees are forecast to be approximately -\$1.8 million under budget, performance fees are expected to be roughly \$4.8 million (57% over budget). Meanwhile, UTIMCO reports performance this fiscal year in excess of investment policy portfolio targeted returns.

FY06 External Management Fees, budgeted at nearly \$31 million, represent approximately .18% of \$17.5 billion in total funds currently managed (including operating funds) at May 31, 2005. This budget assumes conservative performance results in FY06, and may be understated. Partnership, hedge fund, and mutual fund fees and expenses that are netted from reported investment results are not budgeted.

**Custody and Analytical Costs** in FY05 are projected to increase 8% from a budgeted \$2.5 million to an estimated \$2.7 million. Increased funds under management and number of accounts, expanded services, and a change from monthly to daily valuations account for increases in FY05 and budgeted for the full year FY06. Risk management expenses charged to the funds in FY05 are expected to be -35% (-\$200k) under budget due to delays implementing the new risk management system. Risk Measurement budget increases 116% to a proposed \$803k in FY06 in anticipation of full implementation of the risk management system, with risk management software and service contracts now in place.

**Controls Assessment** expenses in FY05 were budgeted for full implementation of Sarbanes Oxley (SOX). In fact, compliance procedures for UTIMCO corporate and the PUF are being implemented, with Financial Statement Certification targeted for October 2006. Related expenses estimated at \$30k this fiscal year to fund U. T. System Audit Office expenses are below the budgeted \$95k, but the FY06 budget expects these costs to increase to nearly \$137k for full SOX implementation for all audited funds.

**Legal Fees** charged directly to the funds in FY05 are projected to be approximately 171% over budget at \$0.9 million. This increase is attributed to new private capital investments and disclosure issues for private equities and hedge funds. The FY06 budget contemplates that legal expenses will decline by more than one third to approximately \$0.6k with resolution of disclosure requirements.

## VI. OBSERVATIONS AND RECOMMENDATIONS

1. **Analyze Proposed Capital Expenditures:** Capital expenditures proposed in connection with the office relocation (summarized in Exhibit D) are provided with little supporting documentation. Build out for UTIMCO occupancy of 28,000 square feet of office space on two floors is budgeted to cost roughly \$786,000; furniture costs of approximately \$486,000 average nearly \$10,000 per employee; and moving costs estimated at \$45,000 average more than \$1,000 per employee. We understand that these cost estimates are significantly higher than were projected last year, and it's not clear that they are complete

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or final. Provision for disposition of nearly \$0.5 million in furnishings in the Bank One Tower is also not resolved. Further support for this capital request is needed.

2. **Distribute \$4 million of Surplus Reserves:** Table 4 summarizes the analysis supporting the recommended cash distribution from the nearly \$9 million UTIMCO corporate reserves as of May 31, 2005, back to the U. T. System Funds per Investment Management Services Agreement formula based upon relative percentage of net assets that each fund represents of the total managed by UTIMCO. This distribution will leave nearly \$5 million in reserves to fund one quarter of the proposed FY06 UTIMCO Services budget (\$2.9 million), payables, up to 100% bonus for eligible employees, and capital purchases proposed in FY06. Contingency allowances in addition to the nearly \$250,000 illustrated in Table 4 are built into the operating budget, estimated capital expenditures, and bonus payout expectations.

**Table 4**  
**UTIMCO Distribution Analysis**


<b>Assets at May 31, 2005:</b>	
Cash Reserves	3,450,849
Investments	7,365,443
Pre-Paid Expenses	471,420
Accounts Payable	<u>(2,316,399)</u>
<b>Subtotal Reserves</b>	<b><u>\$ 8,971,313</u></b>
 <b>Adjusted for:</b>	
UTIMCO Services Budget Surplus Forecast, Balance of FY05	51,329
Return of Bank One Lease Deposit	89,954
One Quarter of FY06 Proposed UTIMCO Services Budget	<u>(2,858,576)</u>
Capital Expenditures Proposed, Net of \$535,900 FY06 Budgeted Depreciation Expense	<u>(1,146,552)</u>
*Additional allowance for up to 100% FY06 Bonus less Incremental Deferral	<u>(860,095)</u>
<b>Net Reserves Available to Distribute to Funds</b>	<b><u>\$ 4,247,373</u></b>

*\*Allowance includes an additional 44% earn-out of maximum potential bonus (56% Bonus Budgeted for FY05), less deferral of payout of approximately 1/3 of the additional amount.*

3. **Analyze Total Investment Management Costs and Related Performance Benefits:** The escalating trend of UTIMCO’s total investment management costs, the shift in portfolio composition to greater emphasis on alternative asset classes, and under-budgeting of external performance management fees suggest that total costs should continue to be monitored closely relative to performance. The justification for the escalating cost structure requires an analysis of “value added” from active management to validate the benefits of efficient (“top down”) strategic and tactical asset allocation and competitive (“bottom up”) manager and asset selection.

The UTIMCO Cost Study completed by Cambridge Associates last spring provides a baseline of peer management costs as a percent of total funds managed. Although the study did not estimate external manager performance fees for the peer group surveyed, UTIMCO has provided what we believe to be reliable estimates of these fees over time. With the Cost Study as a reference point, we recommend an analysis of total investment costs relative to investment performance, to be performed in conjunction with UTIMCO staff and consultants and presented to the Board of Regents.

**EXHIBIT A**

	<b>UTIMCO Operating Expenses FY05 - FY06</b>					
	<b>FY05 Budget</b>	<b>FY05 Projected</b>	<b>% Change v FY05</b>	<b>FY06 Budget**</b>	<b>Change from FY05 Projected</b>	
					<b>\$</b>	<b>%</b>
<b>UTIMCO Services (Including Centralized Operating Funds)</b>						
Salaries and Wages + vac	4,780,040	4,326,359	-9%	5,463,555	1,137,196	26%
Bonus Compensation + int.	1,704,253	1,751,742	3%	1,778,784	27,042	2%
<b>Total Compensation</b>	<b>6,484,293</b>	<b>6,078,101</b>	<b>-6%</b>	<b>7,242,340</b>	<b>1,164,239</b>	<b>19%</b>
Total Payroll taxes	293,831	291,698	-1%	345,516	53,818	18%
Employee Benefits	804,212	754,557	-6%	952,180	197,623	26%
<b>Total General Operating</b>	<b>1,331,919</b>	<b>1,223,082</b>	<b>-8%</b>	<b>1,564,454</b>	<b>341,372</b>	<b>28%</b>
Total Lease Expense	592,510	645,179	9%	307,212	(337,967)	-52%
Legal Expenses	175,000	461,567	164%	175,000	(286,567)	-62%
Compensation Consultant	25,000	39,500	58%	25,000	(14,500)	-37%
Accounting fees	9,500	40,000	321%	25,000	(15,000)	-38%
<b>Total Professional Fees</b>	<b>209,500</b>	<b>541,067</b>	<b>158%</b>	<b>225,000</b>	<b>(316,067)</b>	<b>-58%</b>
<b>Total Insurance</b>	<b>278,350</b>	<b>270,605</b>	<b>-3%</b>	<b>261,700</b>	<b>(8,905)</b>	<b>-3%</b>
Depreciation of Equipment	456,000	280,576	-38%	535,900	255,324	91%
<b>Total UTIMCO Services</b>	<b>\$ 10,450,615</b>	<b>\$ 10,084,865</b>	<b>-3%</b>	<b>\$ 11,434,302</b>	<b>1,349,437</b>	<b>13%</b>
<b>Direct Costs to Funds (Including Centralized Operating Funds)</b>						
External Mgt. Fees - Direct	15,043,557	13,278,224	-12%	14,712,719	1,434,495	11%
External Mgt. Fees - Centralized Operating Funds				5,706,281		
External Mgt. Performance Fees	8,460,603	13,298,292	57%	10,391,371	(2,906,921)	-22%
<b>External Mgt Fees Paid Directly</b>	<b>23,504,160</b>	<b>26,576,516</b>	<b>13%</b>	<b>30,810,371</b>	<b>4,233,855</b>	<b>16%</b>
Custodian Fees and other direct costs	1,226,918	1,536,676	25%	2,356,175	819,499	53%
Performance Measurement	385,900	500,478	30%	621,169	120,691	24%
Analytical Tools	299,810	267,018	-11%	289,570	22,553	8%
Risk Measurement	575,000	371,667	-35%	803,121	431,454	116%
<b>Custodian and Analytical Costs</b>	<b>2,487,628</b>	<b>2,675,838</b>	<b>8%</b>	<b>4,070,035</b>	<b>1,394,197</b>	<b>52%</b>
Cambridge Fees	900,000	900,000	0%	1,100,000	200,000	22%
Auditing	190,300	191,309	1%	213,920	22,611	12%
Consulting	0			0	0	
Controls Assessment (SOX)	95,000	30,000	-68%	136,500	106,500	355%
Printing	120,000	132,196	10%	150,666	18,470	14%
Bank fees	9,000	8,234	-9%	6,000	(2,234)	-27%
Rating agency fees	23,500	22,322	-5%	0	(22,322)	-100%
Legal Fees	345,750	938,381	171%	555,000	(383,381)	-41%
Background Searches & Other	20,900	25,412	22%	67,200	41,788	164%
<b>Other Directs Total</b>	<b>1,704,450</b>	<b>2,247,854</b>	<b>32%</b>	<b>2,229,286</b>	<b>(18,568)</b>	<b>-1%</b>
<b>Total Direct Costs to Funds</b>	<b>27,696,238</b>	<b>31,500,208</b>	<b>14%</b>	<b>37,109,691</b>	<b>5,609,483</b>	<b>18%</b>
<b>Total for Recurring Operations</b>	<b>\$ 38,146,853</b>	<b>\$ 41,585,073</b>	<b>9%</b>	<b>\$ 48,543,993</b>	<b>\$ 6,958,920</b>	<b>17%</b>

\* Actual expenses as of 5/31/05

\*\* Includes Centralized Operating Funds Expenses


**EXHIBIT B**

**Centralized Operating Fund Expenses**

<b>Centralized Fund Positions:</b>	
<i>Client Services Manager*</i>	
<i>Manager Core Fund Investments</i>	
<i>Risk Management Associate</i>	
<i>Core Fund Analyst</i>	
<i>Operating Funds Sr. Accountant</i>	
<i>Operations Associate</i>	
<b>Subtotal UTIMCO Services Salaries</b>	<b>\$ 470,833</b>
<b>Direct Costs to Funds:</b>	
<b>External Manager Fees</b>	5,706,281
<b>Custodian Fees</b>	569,243
<b>Performance Measurement</b>	115,369
<b>Risk Measurement</b>	157,121
<b>Cambridge Fees</b>	200,000
<b>Auditing</b>	37,620
<b>Printing</b>	5,250
<b>Legal Fees</b>	15,000
<b>Background Searches &amp; Other</b>	21,000
<b>Subtotal Direct Costs to Funds</b>	<b>\$ 6,826,884</b>
<b>Cost Savings from Centralization of Operating Funds, reflected in Direct Costs to Funds Budget:</b>	
<b>Controls Assessment (SOX)</b>	<b>(13,500)</b>
<b>Rating Agency Fees</b>	<b>(23,100)</b>
<b>Subtotal Total Cost Savings</b>	<b>(36,600)</b>
<b>Total Budgeted Centralized Operating Fund Estimated Expenses (Direct costs to Funds + Centralized Fund Positions)</b>	<b>\$ 7,261,117</b>
<b>Assets associated with Centralized Operating Funds</b>	<b>\$3.7 billion</b>
<b>As a Percent of Assets Managed</b>	<b>.20%</b>
<b>Budgeted/authorized but Unfilled Positions at 6/30/05:</b>	
<i>MD Inflation Hedging</i>	
<i>Sr Associate (Non Marketable Alternatives)</i>	
<i>Analyst (Public Markets)</i>	
<i>Analyst (Inflation Hedging)</i>	
<b>Total Salaries</b>	<b>\$ 305,000</b>

*\*Client Service Manager position is budgeted currently but not filled pending approval of Centralized Operating Funds*

**EXHIBIT C**

	<b>UTIMCO Operating Expenses FY02 - FY06</b>									
	FY02	FY03	FY04	FY05			FY06	Change from FY05		
	Actual	Actual	Actual	Budget	Projected	% +/-	Proposed Budget**	\$	%	
<b>UTIMCO Services Direct Costs to Funds (Including Centralized Operating Funds)</b>										
Salaries and Wages + vac	2,287,533	3,102,883	3,773,961	4,780,040	4,326,359	-9%	5,463,555	1,137,196	26%	
Bonus Compensation + int.	239,622	1,089,333	1,858,653	1,704,253	1,751,742	3%	1,778,784	27,042	2%	
<b>Total Compensation</b>	<b>2,527,155</b>	<b>4,192,216</b>	<b>5,632,614</b>	<b>6,484,293</b>	<b>6,078,101</b>	<b>-6%</b>	<b>7,242,340</b>	<b>1,164,239</b>	<b>19%</b>	
Total Payroll taxes	145,492	195,076	206,777	293,831	291,698	-1%	345,516	53,818	18%	
Employee Benefits	314,450	425,478	545,316	804,212	754,556	-6%	952,180	197,624	26%	
<b>Total General Operating</b>	<b>656,291</b>	<b>1,112,169</b>	<b>984,909</b>	<b>1,331,919</b>	<b>1,223,082</b>	<b>-8%</b>	<b>1,564,454</b>	<b>341,372</b>	<b>28%</b>	
Total Lease Expense	604,683	606,013	599,047	592,510	645,179	9%	307,212	(337,967)	-52%	
Legal Expenses	242,533	500,823	183,102	175,000	461,567	164%	175,000	(286,567)	-62%	
Compensation Consultant		45,200	108,397	25,000	39,500	58%	25,000	(14,500)	-37%	
Accounting fees	6,630	6,870	12,910	9,500	40,000	321%	25,000	(15,000)	-38%	
<b>Total Professional Fees</b>	<b>249,358</b>	<b>554,893</b>	<b>304,409</b>	<b>209,500</b>	<b>541,067</b>	<b>158%</b>	<b>225,000</b>	<b>(316,067)</b>	<b>-58%</b>	
<b>Total Insurance</b>	<b>197,535</b>	<b>234,068</b>	<b>258,678</b>	<b>278,350</b>	<b>270,605</b>	<b>-3%</b>	<b>261,700</b>	<b>(8,905)</b>	<b>-3%</b>	
Depreciation of Equipment	271,692	286,176	261,894	456,000	280,576	-38%	535,900	255,324	91%	
<b>Total UTIMCO Services</b>	<b>4,966,655</b>	<b>7,606,089</b>	<b>8,793,644</b>	<b>10,450,615</b>	<b>10,084,864</b>	<b>-3%</b>	<b>11,434,302</b>	<b>1,349,438</b>	<b>13%</b>	
<b>Direct Costs to Funds Direct Costs to Funds (Including Centralized Operating Funds)</b>										
External Mgt. Fees - Centralized Operating Funds							5,706,281	5,706,281	100%	
External Mgt. Fees - Direct	10,968,493	10,699,801	12,715,126	15,043,557	13,278,224	-12%	14,712,719	1,434,495	11%	
External Mgt. Performance Fees	3,899,937	4,467,459	9,165,879	8,460,603	13,298,292	57%	10,391,371	(2,906,921)	-22%	
<b>External Mgt Fees Paid Directly</b>	<b>14,868,430</b>	<b>12,314,265</b>	<b>21,881,005</b>	<b>23,504,160</b>	<b>26,576,516</b>	<b>13%</b>	<b>30,810,371</b>	<b>4,233,855</b>	<b>16%</b>	
Custodian Fees and other direct costs	1,179,087	1,351,899	1,043,993	1,226,918	1,536,676	25%	2,356,175	819,499	53%	
Performance Measurement	231,413	261,625	463,238	385,900	500,478	30%	621,169	120,691	24%	
Analytical Tools			218,172	299,810	267,018	-11%	289,570	22,553	8%	
Risk Measurement	361,460	335,172	120,000	575,000	371,667	-35%	803,121	431,454	116%	
<b>Custodian and Analytical Costs</b>	<b>1,771,960</b>	<b>1,948,696</b>	<b>1,845,403</b>	<b>2,487,628</b>	<b>2,675,838</b>	<b>8%</b>	<b>4,070,035</b>	<b>1,394,197</b>	<b>52%</b>	
Cambridge Fees	2,797,487	1,477,800	900,000	900,000	900,000	0%	1,100,000	200,000	22%	
Auditing	158,371	168,202	205,000	190,300	191,309	1%	213,920	22,611	12%	
Controls Assessment (SOX)				95,000	30,000	-68%	136,500	106,500	355%	
Printing	91,246	99,583	111,431	120,000	132,196	10%	150,666	18,470	14%	
Bank fees	7,289	7,605	12,036	9,000	8,234	-9%	6,000	(2,234)	-27%	
Rating agency fees	21,876	21,508	22,008	23,500	22,322	-5%	0	(22,322)	-100%	
Legal Fees	267,880	343,849	517,868	345,750	938,381	171%	555,000	(383,381)	-41%	
Background Searches & Other	51,387	1,540	11,490	20,900	25,412	22%	67,200	41,788	164%	
<b>Other Direct Costs Total</b>	<b>3,395,536</b>	<b>2,120,087</b>	<b>1,779,833</b>	<b>1,704,450</b>	<b>2,247,854</b>	<b>32%</b>	<b>2,229,286</b>	<b>(18,568)</b>	<b>-1%</b>	
<b>Total Direct Costs to Funds</b>	<b>20,102,705</b>	<b>16,048,173</b>	<b>25,506,242</b>	<b>27,696,238</b>	<b>31,500,208</b>	<b>14%</b>	<b>37,109,691</b>	<b>5,609,483</b>	<b>18%</b>	
<b>Total for Recurring Operations</b>	<b>25,069,360</b>	<b>23,654,262</b>	<b>34,299,886</b>	<b>38,146,853</b>	<b>41,585,073</b>	<b>9%</b>	<b>48,543,993</b>	<b>6,958,920</b>	<b>17%</b>	

\* Actual expenses as of 5/31/05  
 \*\* Includes Centralized Operating Funds Expenses

**EXHIBIT D**

**FY06 Capital Budget: Moving and IT Costs**

**Relocation Costs**

Construction Costs	\$ 420,582
Soft Costs (Engineering, Permits, and Structural)	119,870
Estimated Furniture Costs	485,000
Moving Costs	45,000
Project Management Costs	54,000
Project Contingency	<u>192,000</u>

Subtotal Relocation \$ 1,316,452

Planned Technology Upgrades<sup>2</sup> \$ 366,000

**Total Capital Purchases \$ 1,682,452**

**<sup>2</sup>Information Technology Capital Investments:**

<b>One Time Upgrades</b>	<b>Cost</b>	<b>Annual Depreciation</b>
Cisco Wifi	11,000	2,200
Altigen Replacement and Upgrade to Latest version.	25,000	5,000
APC Racks and UPS	55,000	11,000
Cisco Routers	120,000	24,000
<b>Annual On-going Needs</b>		
Desktop / Laptop Rotation	60,000	12,000
Software	20,000	4,000
<b>Other Purchases</b>		
Blackberry Server and Software	15,000	3,000
Phase II - SAN Environment	60,000	12,000
<b>Total Information Technology Request .....</b>	<b>\$ 366,000</b>	<b>\$ 73,200</b>

8. **U. T. System Board of Regents: Approval of revised Investment Management Services Agreement with The University of Texas Investment Management Company (UTIMCO) and approval of distribution of reserves to investment accounts**

**RECOMMENDATION**

The Chancellor, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel recommend that the U. T. System Board of Regents approve the revised Investment Management Services Agreement to be effective September 1, 2005, as set forth on Pages 14.1 - 14.17.

The Chancellor and the Executive Vice Chancellor for Business Affairs also recommend that the Board of Regents direct UTIMCO to distribute \$4.0 million of Surplus Cash Reserves back to the investment accounts in the same proportion that the accounts contributed to Cash Reserves, as provided for in the Investment Management Services Agreement.

**BACKGROUND INFORMATION**

The Investment Management Services Agreement has been revised to (a) conform to new Sections 552.0225 and 552.143 of the *Texas Government Code* regarding Right of Access to Investment Information and Confidentiality of Certain Investment Information; (b) make certain revisions to the provisions regarding distribution of surplus UTIMCO Cash Reserves to the investment accounts; (c) make other housekeeping changes.

The proposed changes were reviewed by UTIMCO's outside legal counsel, Vinson & Elkins; U. T. System's outside counsel, Baker Botts, LLP; and the Office of General Counsel of the U. T. System. The revised agreement, if approved, will be submitted to the UTIMCO Board of Directors for approval.

Analysis supporting the recommended distribution is included in the Office of Finance staff review of the UTIMCO proposed budget as shown in Table 4 on Page 13.14.

## **INVESTMENT MANAGEMENT SERVICES AGREEMENT**

This Investment Management Services Agreement (this "Agreement") by and between the Board of Regents (the "U. T. Board") of The University of Texas System (the "U. T. System") and The University of Texas Investment Management Company ("UTIMCO"), a Texas nonprofit corporation, is effective September 1, 2005~~August 12, 2004~~ (the "Effective Date"), and supersedes all earlier agreements by and between the U. T. Board and UTIMCO regarding the subject matter hereof, ~~effective November 16, 2000.~~

### **RECITALS**

WHEREAS, the U. T. Board, pursuant to the Constitution and statutes of the State of Texas, is responsible for the investment of the Permanent University Fund, the local and institutional funds of the U. T. System and the funds of various trusts and foundations for which it serves as trustee, all of which funds are under the control and management of the U. T. Board;

WHEREAS, Section 66.08, *Texas Education Code*, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit corporation for the corporation to invest funds under the control and management of the U. T. Board, as designated by the U. T. Board;

WHEREAS, UTIMCO has been organized under the laws of the State of Texas, including the Texas Non-Profit Corporation Act, Tex. Rev. Civ. Stat. Ann. art. 1396-1.01 *et seq.*, for the express purpose of investing funds under the control and management of the U. T. Board, as designated by the U. T. Board, in accordance with the laws of the State of Texas;

WHEREAS, the U. T. Board desires to continue an Agreement with UTIMCO for UTIMCO to invest certain designated funds under the control and management of the U. T. Board;

WHEREAS, UTIMCO desires to enter into this Agreement with the U. T. Board and to invest certain designated funds under the control and management of the U. T. Board; and

WHEREAS, all conditions precedent to the execution and delivery of this Agreement have been fully satisfied and fulfilled, including, without limitations, the conditions established by Section 66.08, *Texas Education Code*, as amended.

NOW THEREFORE, for and in consideration of the premises and the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:



## AGREEMENT

### **Section 1. Definitions.**

**Accounts** shall mean those funds for which the U. T. Board has responsibility, namely (a) the Permanent University Fund, excluding PUF Lands, (b) the Permanent Health Fund, (c) the U. T. Board Accounts and (d) the U. T. Board Trust Accounts.

**Available University Fund** or **AUF** shall mean the fund that consists of the distributions made to it from the total return on all investment assets of the Permanent University Fund, including the net income attributable to the surface of PUF Lands, all as provided by Article VII, Section 18 of the Texas Constitution.

**Affiliate** shall mean an entity directly or indirectly controlling, controlled by, or under common control with UTIMCO, including an entity with whom UTIMCO has an express or implied agreement regarding the direct or indirect purchase of investments by each from the other.

**Cash Reserves** shall mean cash on hand plus investments, plus prepaid expenses, less accounts payable, less other liabilities.

**Claims** shall mean all claims, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action, or impleader) any Indemnified Party and all requests or demands for indemnification made by any third party upon any Indemnified Party, even if groundless, false or fraudulent, so long as the claim, lawsuit, cause of action, other legal action or proceeding, request or demand is alleged or determined, directly or indirectly, to arise out of, result from, relate to or be based upon, in whole or in part, the duties, activities, acts or omissions of any person arising under this Agreement.

**Custodian** or **Custodians** shall mean a commercial bank, trust company or other entity selected by UTIMCO to hold and safekeep physical securities representing investment assets of any Account and to perform the other functions listed in Section 5 hereof.

**General Endowment Fund** or **GEF** shall mean the pooled fund for the collective investment of long-term funds under the control and management of the U. T. Board. The PUF, PHF, LTF or other long-term funds may invest in the GEF as authorized by the U. T. Board in each fund's investment policy statement.

**Indemnified Parties** shall mean UTIMCO and any of its officers, directors, employees and agents.

**Investment Policies** shall mean the written investment policies determined and approved by the U. T. Board relating to the Permanent University Fund, General

Endowment Fund, Permanent Health Fund, Long Term Fund, Separately Invested Funds, Short Intermediate Term Fund and the Short Term Fund. Amendments may be presented by UTIMCO to the U. T. Board for review and approval.

**Long Term Fund** or **LTF** shall mean the long-term pooled investment fund previously established by the U. T. Board for the collective investment of all endowment and other long-term funds of ~~component~~—institutions of the U. T. System.

**Losses** shall mean losses, costs, damages, expenses, judgments and liabilities of whatever nature (including, but not limited to, attorneys', accountants' and other professionals' fees, litigation and court costs and expenses, amounts paid in settlement, amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other person under any arrangement providing for indemnification of that person) directly or indirectly resulting from, arising out of or relating to one or more Claims.

**Permanent Health Fund** or **PHF** shall mean collectively the permanent funds for health-related institutions established pursuant to Chapter 63, *Texas Education Code*, for which the U. T. Board is an administrator.

**Permanent University Fund** or **PUF** shall mean the constitutional fund known by that name and established pursuant to Article VII, Section 11 of the Texas Constitution.

**Permanent University Fund Lands** or **PUF Lands** shall mean approximately 2.1 million acres of land located in 19 Texas counties, primarily in West Texas, and constituting a part of the Permanent University Fund.

**Separately Invested Funds** or **SIFs** shall mean U. T. System Funds or U. T. Board Trust accounts which, by election of the U. T. Board or by requirement of the trust indenture or donative instrument, are invested separately and apart from other U. T. System Funds and the PUF.

**Short Intermediate Term Fund** or **SITF** shall mean the short intermediate term pooled investment fund previously established by the U. T. Board for the collective investment of funds (other than endowment and other long-term funds, including the Permanent University Fund) of the ~~component~~—institutions of the U. T. System.

**Short Term Fund** or **STF** shall mean the money market mutual fund or funds approved by UTIMCO from time to time as an investment for U. T. System Funds.

**Surplus Cash Reserves** shall mean Cash Reserves on the last day of the fiscal year in excess of twenty-five percent (25%) of the upcoming fiscal year's projected operating budget plus approved capital expenditures budgeted for the upcoming fiscal year.

**U. T. Board Accounts** shall mean the investment assets of the General Endowment Fund and U. T. System Funds.

**U. T. Board Trust Accounts** shall mean the assets of charitable remainder trusts, foundations and other separately invested funds for which the U. T. Board serves as trustee on behalf of itself and other co-beneficiaries.

**U. T. System Funds** shall mean all funds under the control and management of the U. T. Board, other than the Permanent University Fund, the Permanent Health Fund and the U. T. Board Trust Accounts.

## **Section 2. Delegation of Investment Authority; Retention of Policy Setting Authority.**

The U. T. Board hereby appoints UTIMCO as its investment manager with complete authority to act for the Board in the investment of the Accounts, subject, however, to such limitations and restrictions as are set forth in the Investment Policies. UTIMCO shall furnish the U. T. Board with continuous investment management services and shall invest and reinvest the assets of the Accounts in such ways and at such times as are consistent with the Investment Policies and Section 4 hereof. UTIMCO shall be responsible for overall management of the U. T. Board's investment affairs as covered by this Agreement and shall manage each Account as a discretionary account.

The U. T. Board, as ultimate fiduciary for the Accounts, retains policy setting authority. Unless otherwise provided in writing by the U. T. Board, UTIMCO shall look to the Chancellor to provide primary oversight and management concerning matters other than the core investment duties delegated above, including relations with the media, legal issues (such as public disclosure of information), intergovernmental relations, ~~and policy issues other than those associated with investment allocation and/or return, and other matters arising out of UTIMCO's activities as investment manager under this Agreement that implicate policies of the U. T. Board other than investment policy.~~ The Board of UTIMCO and the President of UTIMCO shall be responsible for implementing the investment policy of the U. T. Board and performing those core investment duties delegated above. It shall be the responsibility of the President of UTIMCO to inform the Chancellor of unresolved policy issues not governed by the Investment Policies immediately so that appropriate oversight and management can be provided by the Chancellor. UTIMCO hereby agrees to abide by such oversight and management decisions made by the Chancellor.

The UTIMCO President shall consult with the Chairman and the Vice Chairmen of the UTIMCO Board, including the Chancellor as Vice Chairman for Policy, on the draft agenda for meetings of the UTIMCO Board at least two (2) weeks prior to each regular UTIMCO Board meeting.

## **Section 3. Description of Investment Management Services.**

During the term of this Agreement, UTIMCO shall provide the following services in conjunction with the investment of the Accounts:

- a) **Investment Policies:**  
UTIMCO shall review current investment policies for each Account, including without limitation policies concerning Asset Allocation, Liquidity, Proxy Voting, and Derivatives, 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, and designated performance benchmarks for each asset class. After UTIMCO completes its assessment, it shall forward any recommended changes to U. T. System staff with adequate time for review prior to being submitted to the U. T. Board for review and approval.~~for discussion during an annual Joint Meeting between the U. T. Board and the UTIMCO Board of Directors.~~
- b) **Investment Management:**  
UTIMCO shall oversee the investment management process. Such oversight shall include 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.
- c) **Investment Performance:**  
UTIMCO shall monitor and report on investment performance for the PUF, PHF and U. T. Board accounts. Such responsibilities shall include the calculation and evaluation of performance of asset classes and individual portfolios, against established benchmarks over various periods of time, the periodic review of performance benchmarks, the reporting of investment performance of Separately Invested Assets and U. T. Board Trust Accounts as 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.
- d) **Operations:**  
UTIMCO shall execute such operational responsibilities as the purchase and sale of investments, the settlement of all trades (to the extent such trades are not settled by the Custodian or brokers), the accounting for all transactions at the portfolio level in accordance with generally accepted accounting principles, the preparation and delivery of periodic financial reports on all funds, and the maintenance of complete books and records (internally or through contract with the designated Custodian for the assets under management) reflecting transactions and balances of the Accounts.
- e) **Maintenance of and Access to Books and Records:**  
UTIMCO shall maintain the books and records for each Account on the basis of a fiscal year ending August 31st (or such other fiscal year as the U. T. Board may establish from time to time), and shall keep full separate records of all transactions with respect to each Account.

The books and records of the Accounts and any and all records concerning UTIMCO and UTIMCO's operations shall be available during normal business hours for inspection by an authorized representative of U. T. System. UTIMCO shall provide full audit access to any and all information concerning the operations of UTIMCO, including information necessary to review UTIMCO expenditures for compliance and reasonableness with the approved budget, to auditors representing the U. T. Board or the State Auditor.

f) **Reporting:**

In connection with the annual audited financial statements of UTIMCO, effective with the August 31, 2004 financial statements, the chief executive officer and the chief financial officer of UTIMCO shall provide certifications similar to those required by Section 302 of the Sarbanes-Oxley Act of 2002, Corporate Responsibility for Financial Reports. UTIMCO will follow the U. T. System compliance guidelines as outlined in the Action Plan to Enhance Institutional Compliance, as may be amended, including providing the U. T. Board or its designee with quarterly compliance reports.

g) **Disclosure of Information:**

The U. T. Board is committed to a policy of full and fair disclosure to the public. As part of that commitment with respect to private investments in the Accounts, ~~the following information shall be disclosed~~ UTIMCO shall disclose to the public with respect to such private investments all information required to be disclosed pursuant to Section 552.0225 of the Texas Government Code regarding "Right of Access to Investment Information" ("private investment information"). ~~the name and purpose of each private investment entity; the names of the individual principals managing such private investment; the amount invested by UTIMCO in such private investments; the investment returns for such private investment, including internal rates of return; and remaining value information.~~ UTIMCO shall make no private investment with an entity unless the U. T. Board and UTIMCO has have clear and unequivocal authority to disclose to the public the private investment information, described immediately above, relating to such investment.

Before UTIMCO declines to disclose any information it has collected, assembled or maintained in its role as investment manager for the U. T. Board that is requested under the Texas Public Information Act, the President of UTIMCO shall ~~consult with~~ notify the U. T. System Vice Chancellor and General Counsel and solicit his or her input to the process. UTIMCO shall disclose the information unless it is confidential and excepted as provided in Section 552.143 of the Texas Government Code regarding "Confidentiality of Certain Investment Information" or the Vice Chancellor and General Counsel, after consultation with the Chancellor, approves a Public Information Act request to the Attorney General of Texas. In addition, the U.T. Board reserves the right and authority, in its sole discretion, to disclose, or direct the disclosure of, any information at any time, to the extent such disclosure would not result in a violation of applicable law or breach or result in a default under any agreement binding upon UTIMCO or the U. T. Board.

h) **Other Services:**

UTIMCO shall perform other investment management services including but not limited to 1) attending meetings of the U. T. Board and making such reports as the U. T. Board may request from time to time, 2) attending an annual Joint Meeting between the UTIMCO Board of Directors and the U. T. System Board of Regents as referenced in Article III, Section 7 of the UTIMCO Bylaws, 3) rendering services to managers of private equity investments in which UTIMCO has decided to invest, 4) attending meetings of governing bodies of companies in which UTIMCO's managed Accounts have invested, 5) voting of securities (or proxies with respect thereto) held as investments of the Accounts according to written policies of the U. T. Board; 6) providing U. T. System ~~component~~—institutions with annual endowment reports reflecting, among other things, changes in the investment value of such ~~component~~ institution's endowment and distributions made to such ~~component~~ institution to support the activities for which the endowment was established; 7) providing charitable trust administration services such as portfolio management, annual tax return preparation, annual trust reporting to donors and remittance of quarterly distributions; providing annual reporting of investment transactions and balances and distributing funds to authorized beneficiaries on foundation accounts; 8) effecting distributions directly or through the Custodian to U. T. System ~~component~~—institutions or other named beneficiaries from the Accounts; 9) supporting and maintaining on-line account information system for endowment accounts; and 10) any other services necessary to provide investment management of the Accounts.

**Section 4. Investment Manager as Fiduciary; Training and Education.**

UTIMCO acknowledges that it will be acting as a fiduciary with respect to managing the investments of the Accounts subject to the Investment Policies and applicable law. The U. T. Board recognizes that all individual investment transactions involve a variety of significant potential risks, including, without limitation, market risk, liquidity risk, credit risk, cash flow risk, operational risk and counterparty risk, although taken as a whole these transactions are also expected to manage risk. The U. T. Board agrees that (i) UTIMCO will not be liable for any losses incurred in the Accounts as a result of investments made pursuant to the Investment Policies, and (ii) UTIMCO will not be liable for actions of co-fiduciaries. The U. T. Board also acknowledges that UTIMCO shall not be liable for, and, to the fullest extent authorized by the Constitution and laws of the State of Texas, agrees to hold UTIMCO harmless from the consequences of any action taken or omitted to be taken by the U. T. System or any of its employees or agents prior to March 1, 1996.

UTIMCO agrees to provide training and education to members of the UTIMCO Board of Directors to assure that all duties required of directors under the Texas Non-Profit Corporation Act and that matters related to legal and fiduciary responsibilities of the Directors, including current regulations for determining reasonable compensation, are outlined and discussed fully.

## **Section 5. Custody of Assets.**

UTIMCO shall use custodians for safekeeping, settlement of security purchases, sales, collection of income and other duties as more fully described in the existing custody agreement between UTIMCO and the Custodian, which agreement, together with the U. T. Board's rights, duties and obligations thereunder, has been assigned to UTIMCO. In addition, UTIMCO may from time to time use a brokerage firm to settle security sales on behalf of the U. T. Board and may invest in a regulated mutual fund, externally managed commingled funds, or other investments in which assets are held outside of the bank custody relationship. Any physical certificates not held in safekeeping with a Custodian shall be held in safekeeping at a local bank as designated by UTIMCO.

## **Section 6. Use of Unaffiliated Investment Managers.**

UTIMCO shall be entitled to use unaffiliated investment advisors to invest all or part of the Accounts and to perform other duties.

## **Section 7. Investment Management Fees; Direct Expenses.**

For services performed hereunder, UTIMCO shall be compensated in the amounts and in the manner set forth below:

### **a) Annual Budget and Management Fee:**

UTIMCO shall submit to the U. T. Board its proposed annual budget for the following fiscal year (an "Annual Budget") within the time frame specified by the U. T. Board for other annual budget submissions. The Annual Budget shall include all estimated expenses associated with the management of the Accounts. The Annual Budget shall also include an annual UTIMCO management fee (an "Annual UTIMCO Management Fee") which shall include all operating expenses associated with the general management of the Accounts, including, without limitation, reasonable salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services expenses, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations hereunder.

At the same time that UTIMCO submits its Annual Budget, it shall also submit to the U. T. Board an allocation formula for charging the Annual Budget to the Accounts. Items proposed in the Annual Budget and the allocation formula may be approved, disapproved, or approved with modification by the U. T. Board. Any such Budget item or formula allocation that is disapproved or approved with modification may be promptly reviewed and revised by UTIMCO and resubmitted to the U. T. Board for additional consideration.

On or before the first day of each fiscal quarter, UTIMCO shall be entitled to charge each Account with its allocable share (determined in accordance with the

allocation formula then in effect) of one-fourth of the amount of the Annual UTIMCO Management Fee to pay UTIMCO's operating expenses for the succeeding fiscal quarter. UTIMCO may, with the approval of the U. T. Board, revise the Annual UTIMCO Management Fee and allocation formula at any time during a fiscal year. Any statements for partial quarters at the beginning or end of this Agreement shall be prorated to reflect the actual time services were rendered during such partial quarters.

UTIMCO is hereby authorized to pay from each Account direct expenses incurred for portfolio management, custodian, auditing, and other services which are performed by external vendors specifically for each Account.

b) **Directors Fees:**

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Account assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and considered a part of UTIMCO's fee income and reflected in the Budget. Furthermore, UTIMCO Board approval of UTIMCO management's services as directors of investee companies shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's services as directors of investee companies.

c) **Fees for Services Rendered:**

Members of UTIMCO management may perform services for which UTIMCO receives a fee ("Service Fees") from investment promoters or investee companies in consideration of the UTIMCO staff's private investment activities and/or investment origination activities. Such Service Fees shall be considered additional fee income to UTIMCO. UTIMCO may also receive commitment fees, standby fees and other similar fees ("Capital Fees") accruing or inuring to the capital invested on behalf of the Accounts managed by UTIMCO. Such Capital Fees shall be credited to the Accounts from which such investments are funded.

d) **Miscellaneous Fees:**

UTIMCO management may perform specialized services for accounts that are separately invested for which UTIMCO receives a fee from the account. These fees primarily relate to maintenance of computer programs for the separately invested accounts. Such Miscellaneous Fees shall be considered additional fee income to UTIMCO and reflected in the Budget.

e) **Cash Reserves:-**

~~Surplus Cash Reserves are defined as Cash Reserves on the last day of the fiscal year in excess of 1/4 of the upcoming fiscal year's projected operating budget. Within 90 days after the end of each fiscal year-2004, UTIMCO will distribute back to the Accounts which generated the surplus \$4 million that portion of the Surplus Cash Reserves as may be directed by the U. T. Board, in its sole discretion, from time to time. back to the Accounts, which generated the surplus~~



Such distribution back to the Accounts shall be in the same proportion that the Accounts contributed to the Cash Reserves. In future fiscal years, the U. T. Board may direct UTIMCO to make additional distributions to the Accounts from Surplus Cash Reserves.

#### **Section 8. Brokerage Commissions.**

The U. T. Board acknowledges and agrees that the investment management fees provided for in Section 7 are in addition to any compensation that may be due to a broker or dealer in effecting and executing transactions on behalf of UTIMCO. UTIMCO is hereby authorized and empowered, with full discretion, to issue instructions in accordance with the Investment Policies to such unaffiliated brokerage firms as may be selected by UTIMCO for the execution of orders for the purchase, sale, exchange and general investment of the Accounts; provided that UTIMCO shall not select a brokerage firm that is an Affiliate of UTIMCO. All orders for Account transactions shall be placed in such markets and through such brokers as UTIMCO determines will offer the most favorable price, execution and commission cost of each order. The U. T. Board acknowledges and agrees that UTIMCO, from time to time and in accordance with applicable law, may pay commissions to brokers that are higher than those that might be obtainable elsewhere in order to obtain from such brokers research and other services expected to enhance the long-term value of the Accounts.

#### **Section 9. Valuation of Account Assets.**

The valuation of the account shall be determined in accordance with the Investment Policies approved by the U. T. Board for the account.

#### **Section 10. Representations and Warranties of Parties.**

##### **U. T. Board.**

- A. The U. T. Board (a) is duly established and validly existing under the laws of the State of Texas and is an agency of the State of Texas, (b) has all power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.
- B. The execution, delivery and performance by the U. T. Board of this Agreement have been duly authorized by all necessary action and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which the U. T. Board is a party or by which it or any of its property is bound.
- C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will

be necessary for the valid execution, delivery or performance by the U. T. Board of this Agreement.

- D. This Agreement constitutes a valid and binding agreement of the U. T. Board.
- E. There is no action, suit or proceeding pending or, to the knowledge of the U. T. Board, threatened against or affecting the U. T. Board or the U. T. System, or relating to this Agreement, in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of the U. T. Board to enter into, and perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.
- F. The U. T. Board has approved:
  - (1) the Articles of Incorporation and Bylaws of UTIMCO;
  - (2) the Investment Policies;
  - (3) the Audit and Ethics committee of UTIMCO; and
  - (4) the Code of Ethics of UTIMCO.
- G. The U. T. Board has been provided with the opportunity to ask questions of, and it has received answers thereto satisfactory to it from, UTIMCO and its representatives regarding this Agreement and has obtained all additional information requested by it of UTIMCO and its representatives prior to entering into this Agreement.

#### **UTIMCO.**

- A. UTIMCO (a) is duly organized and validly existing as a Texas nonprofit corporation under the laws of the State of Texas, particularly the Texas Nonprofit Corporation Act, Tex. Rev. Civ. Stat. Ann. art. 1396-1.01 *et seq.*, (b) has all corporate power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.
- B. The execution, delivery and performance by UTIMCO of this Agreement have been duly authorized by all necessary action by UTIMCO and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which UTIMCO is a party or by which it or any of its property is bound.
- C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will

be necessary for the valid execution, delivery or performance by UTIMCO of this Agreement.

- D. This Agreement constitutes a valid and binding agreement of UTIMCO.
- E. There is no action, suit or proceeding pending or, to the knowledge of UTIMCO, threatened against or affecting UTIMCO, or relating to this Agreement in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of UTIMCO to enter into, and to perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.

**Section 11. Compliance with Bylaws, Policies, Regulations and Financial Disclosure Requirements.**

In the performance of this Agreement, UTIMCO's Directors, Officers, and Employees shall abide by the following policies:

- a) UTIMCO Code of Ethics as approved by the U. T. Board
- b) UTIMCO Bylaws as approved by the U. T. Board
- c) All UTIMCO policies
- d) Applicable portions of Regents' *Rules and Regulations*.

Financial advisors and service providers as defined in *Texas Government Code* Section 2263.002 shall comply with the disclosure requirements contained in *Texas Government Code* Section 2263.005.

**Section 12. UTIMCO's Open Meeting Policy.**

Except as otherwise provided in Section 66.08, *Texas Education Code*, UTIMCO shall comply with all applicable provisions of the Texas Open Meetings Act, Chapter 551 of the *Texas Government Code*.

**Section 13. Prohibition Against Service to Other Clients.**

In accordance with Section 66.08, *Texas Education Code*, UTIMCO shall not engage in any business other than managing the Accounts under this Agreement.

**Section 14. Investment Company Act and State Securities Act.**

The parties to this agreement acknowledge that UTIMCO shall not be required to register as an "investment company" under Title 15 *United States Code* Section 80a-8 (the Investment Company Act of 1940), as amended, and Tex. Rev. Civ. Stat. Ann. art. 581-1 *et seq.* (The Securities Act).

**Section 15. Termination.**

The U. T. Board may terminate this Agreement at any time by written notice to UTIMCO, effective immediately upon receipt of such notice by UTIMCO, subject to reasonable allowance for settlement of pending trades. UTIMCO may terminate this Agreement upon ninety (90) days' written notice to the U. T. Board. There shall be no penalty for termination; however, UTIMCO shall be entitled to all management fees, compensation, and benefits earned prior to the effective date of termination.

**Section 16. Amendments.**

No amendment hereto shall be effective unless executed in the same manner as this Agreement.

**Section 17. Notices.**

All notices or communications hereunder shall be in writing and shall not be effective until hand delivered and receipted to the other party, or sent by overnight delivery, or sent by United States Certified or Registered Mail, postage prepaid, to the addressed party. The following are the designated addresses for such notices or communications and may only be changed by communication in the manner required by this paragraph:

To U. T. Board:

Board of Regents of The University of Texas System  
Attn: Counsel and Secretary  
201 West Seventh Street, Suite 820  
Austin, Texas 78701  
Tel. (512) 499-4402  
Fax. (512) 499-4425

To UTIMCO:

The University of Texas Investment Management Company  
Attn: President and CEO  
221 West Sixth St., Suite 1700  
Austin, Texas 78701  
Tel. (512) 225-1600  
Fax. (512) 225-1660

**Section 18. Non-Assignability.**

No Assignment of this Agreement by UTIMCO shall be made without having obtained the prior written consent of the U. T. Board nor is the Agreement assignable by the U. T. Board.

**Section 19. No Waiver of Breach.**

A waiver of a breach of any provision of this Agreement shall not constitute a waiver of any subsequent breach of that provision or a breach of any provision hereof. Failure of either party to enforce at any time or from time to time any provision of this Agreement shall not be construed as a waiver thereof.

**Section 20. Indemnification.**

a) **Agreements to Indemnify:**

To the fullest extent authorized by the Constitution and laws of the State of Texas, the U. T. Board shall indemnify and hold harmless each of the Indemnified Parties against any and all Losses, including Losses resulting from the negligence of the Indemnified Party claiming indemnification; provided, however, the U. T. Board shall not be obligated to indemnify an Indemnified Party against Losses to the extent such Losses are caused by (i) an act or omission that involves intentional misconduct or a knowing violation of law by the Indemnified Party claiming indemnification, (ii) a transaction from which the Indemnified Party claiming indemnification received an improper benefit, (iii) an act or omission for which the liability of the Indemnified Party claiming indemnification is expressly provided by an applicable statute, or (iv) an act or omission constituting gross negligence by the Indemnified Party claiming indemnification; provided further that indemnification payments by the U. T. Board shall be paid from the same sources as the Annual Fee pursuant to Section 7.

b) **Reimbursement:**

Each Indemnified Party shall reimburse the U. T. Board for payments made by the U. T. Board pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any insurance with respect to any Loss. At the request and expense of the U. T. Board, each Indemnified Party shall have the duty to claim any such insurance proceeds and such Indemnified Party shall assign its rights to such proceeds, to the extent of such required reimbursement, to the U. T. Board.

c) **Notice:**

In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the U. T. Board, such Indemnified Party shall promptly notify the U. T. Board in writing; provided, however, that any failure so to notify shall not relieve the U. T. Board of its obligations under this Section.

d) **Defense:**

The U. T. Board shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of

such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the U. T. Board, in writing, (ii) the U. T. Board has failed to assume the defense and to employ counsel, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the U. T. Board, and such Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the U. T. Board (in which case, if such Indemnified Party notifies the U. T. Board in writing that it elects to employ separate counsel at the U. T. Board's expense, the U. T. Board shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the U. T. Board shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by such Indemnified Parties).

e) **Cooperation; Settlement:**

Each Indemnified Party shall use reasonable efforts to cooperate with the U. T. Board in the defense of any action or Claim. The U. T. Board shall not be liable for any settlement of any action or Claim without its consent but, if any such action or Claim is settled with the consent of the U. T. Board or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the U. T. Board shall indemnify and hold harmless the Indemnified Parties from and against any Loss by reason of such settlement or judgment as provided in Subsection (a) of this Section.

f) **Survival; Right to Enforce:**

The provisions of this Section shall survive the termination of this Agreement, and the obligations of the U. T. Board hereunder shall apply to Losses or Claims whether asserted prior to or after the termination of this Agreement. In the event of failure by the U. T. Board to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the U. T. Board under this Section.

**Section 21. Claims By and Against Managed Funds.**

UTIMCO is authorized and empowered to seek, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands due, payable, or belonging, or that may become due, payable, or belonging to the PUF or the U. T. Board from any person or persons as a result of any investment transaction and to execute any and all necessary or proper receipts, releases, and discharges therefor and any other instruments as may be necessary or appropriate from time to time relating to the handling, management, control, and disposition of any investment.

The authority granted in this Section does not include the authority to institute litigation on behalf of the U. T. Board or to settle contested claims or litigation that may result in UTIMCO receiving less than full value for the claim or the payment of damages or awards. The settlement of any contested claim or litigation for less than full value requires the prior approval of the U. T. System Vice Chancellor and General Counsel and appropriate System officials, as set out in the Regents' *Rules and Regulations*.

#### **Section 22. Communications.**

UTIMCO and U. T. System will assure that communications are clear and timely. UTIMCO will provide notice of actions taken in meetings of the UTIMCO Board and committees to members of the U. T. Board through the Office of the Board of Regents. U. T. will provide notice of actions taken by the U. T. Board related to UTIMCO issues to members of the UTIMCO Board of Directors through the President and CEO of UTIMCO.

#### **Section 23. Authority to Purchase, Exchange, and Sell Securities.**

UTIMCO may purchase, exchange, and sell, for and on behalf of the Permanent University Fund or the U. T. Board, any and all securities of any description whatever and from any source, including gifts and bequests, registered in the name of the PUF or the U. T. Board, or in any other form of registration of such securities held for the account of the PUF or the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, external investment managers appointed by UTIMCO may purchase, sell, or exchange securities, pursuant to written agreement with UTIMCO.

#### **Section 24. Authority to Assign and Transfer Securities.**

UTIMCO may assign and transfer any and all securities of any description whatever and from any source, including gifts and bequests, and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any securities registered in the name of the PUF or the U. T. Board, or in any other form of registration of such securities held for the account of the PUF or the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, custodian banks appointed by UTIMCO may assign and transfer securities and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any security owned by the U. T. Board.

#### **Section 25. Governing Law.**

This Agreement and all matters arising under it shall be governed by the Constitution and laws of the State of Texas. Venue for any action brought by any party hereto concerning the subject matter of this Investment Management Services Agreement shall be in Travis County, Texas.

**BOARD OF REGENTS OF THE  
UNIVERSITY OF TEXAS SYSTEM**

Date: \_\_\_\_\_

By \_\_\_\_\_  
Chairman

**THE UNIVERSITY OF TEXAS  
INVESTMENT MANAGEMENT  
COMPANY**

Date: \_\_\_\_\_

By \_\_\_\_\_  
Chairman



9. **U. T. System Board of Regents: Approval to amend the Permanent University Fund and General Endowment Fund Investment Policy Statements including asset allocation**

**RECOMMENDATION**

The Chancellor and the Executive Vice Chancellor for Business Affairs recommend that the U. T. System Board of Regents approve proposed amendments to the following Investment Policy Statements, including asset allocation, as set forth on the referenced pages:

- a. Permanent University Fund (PUF) (See Pages 16.1 – 16.16)
- b. General Endowment Fund (GEF) (See Pages 16.7 – 16.30)

**BACKGROUND INFORMATION**

Section 3(a) of the Investment Management Services Agreement dated August 12, 2004, between the Board of Regents of the University of Texas System and The University of Texas Investment Management Company (UTIMCO) provides that UTIMCO shall review the investment policies of the assets under its management and recommend any changes of such policies for approval by the U. T. System Board of Regents. No proposed amendments to the Permanent Health Fund, Long Term Fund, Short Intermediate Term Fund, Separately Invested Accounts, and Short Term Fund Investment Policy Statements are being recommended at this time.

The amended Investment Policy Statements for the Permanent University Fund (PUF) and General Endowment Fund (GEF) were approved by the UTIMCO Board on July 21, 2005, provided that certain changes were made. The attached documents incorporate these changes and also add an amendment to require that the Board of Regents review and approve the Derivatives Policy.

Based on the completion of UTIMCO staff's work with Cambridge Associates and other external consultants, the UTIMCO Board recommends the adoption of new asset allocation policy portfolios for the PUF and the GEF. In addition to minor editorial changes, amendments to the PUF and GEF Investment Policy Statements revise the asset allocation, including proposed changes in the policy portfolio asset classifications, targets, ranges, and benchmarks, as summarized below:

- Modify policy ranges to avoid having targets that are at the upper or lower end of a range. (Policy range maximums increase for total hedge funds from 25% to 30%, for private capital from 15% to 20%, and for commodities from 5% to 6%; range minimum for fixed income decreases from 10% to 5%. Targets in each case remain unchanged.)
- Remove REITS from the U. S. Equities asset class and include under new Inflation Linked asset class.

- Provide definitions for Non-U.S. Developed Equity and Emerging Markets Equity, sub-asset classes for Global ex-U.S. Equities.
- Change a sub-asset class of Hedge Funds from Equity Hedge Funds to Directional Hedge Funds. Clarify what is included in this asset class.
- Add Inflation Linked Asset class, which will include REITS, Commodities and TIPS.
- Eliminate TIPS as a sub-asset class of Fixed Income. TIPS will now be included under Inflation Linked assets.
- Edit general investment guidelines related to derivative language.
- Clarify timing of final determination of net asset values at each month end.
- Provide that UTIMCO CEO will determine the effective date for the revised Exhibit A – Policy Targets, Ranges and Performance Objectives, on or before November 1, 2005.
- Adjust policy portfolio targets for venture capital and private equity within the private capital asset class to be more in line with market opportunities. The target total for private capital investments remains unchanged at 15%.
- Modify benchmarks for U.S. Equities (to exclude the REIT component), Global ex U.S. Equities, Hedge Funds, and Commodities.

In accordance with the new Investment Performance Reporting Error Correction Policy, benchmark changes will be reflected in performance reporting on a forward basis only, with disclosure of the change and no restatement of benchmark history.

# THE UNIVERSITY OF TEXAS SYSTEM PERMANENT UNIVERSITY FUND INVESTMENT POLICY STATEMENT

## **Purpose**

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

## **PUF Organization**

The PUF was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the PUF were completed in 1883 with the contribution of an additional one million acres of land. Today, the PUF contains 2,109,190 acres of land (the "PUF Lands") located in 19 counties primarily in West Texas.

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, primarily from surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested pursuant to this Policy Statement. Surface income, as a renewable source of income, is distributed to the Available University Fund (the "AUF"), as received. The Constitution also requires that all surface income and investment distributions paid to the AUF be expended for certain authorized purposes.

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

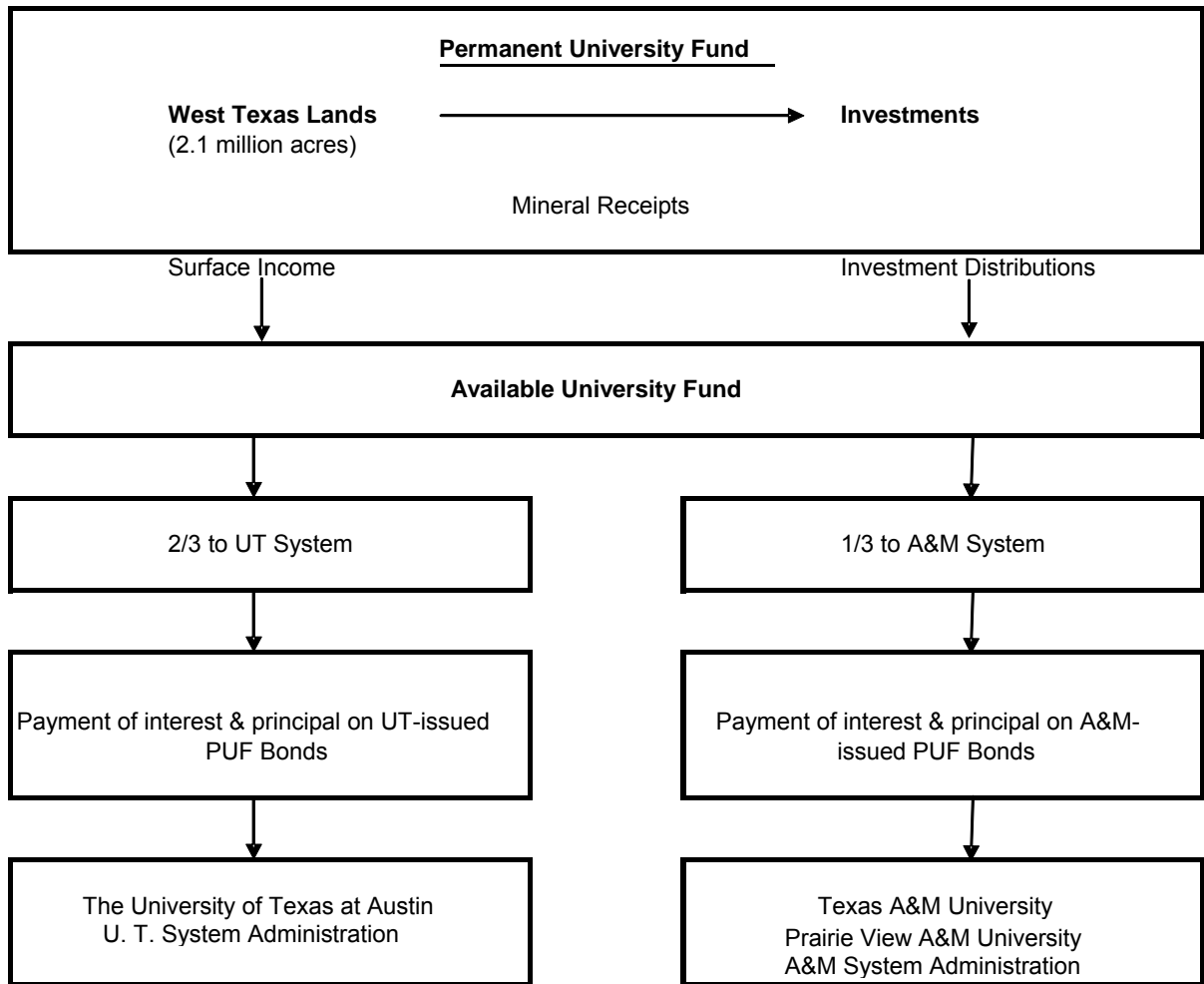
First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and the A&M System, respectively, expenditures for debt service on PUF bonds. Article VII of the Texas Constitution authorizes the Board of Regents and the Texas A&M University System Board of Regents (the "TAMUS Board") to issue bonds payable from their respective interests in AUF receipts to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes secured by each System's interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUF parity obligations unless the interest of the related System in AUF receipts during the

preceding fiscal year covers projected debt service on all PUF Bonds of that System by at least 1.5 times.

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

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

**Exhibit 1**



## **PUF Management**

Article VII, Section 11b of the Texas Constitution assigns fiduciary responsibility for managing and investing the PUF to the Board of Regents. Article VII, Section 11b authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. 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.

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

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the PUF shall be managed by UTIMCO, which shall a) recommend investment policy for the PUF, b) recommend specific asset allocation targets, ranges and performance benchmarks consistent with PUF objectives, and c) monitor PUF performance against PUF objectives. UTIMCO shall invest the PUF's assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges, and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

## **PUF Administration**

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

## **PUF Investment Objectives**

The PUF and the General Endowment Fund (the “GEF”) are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund assets and annual distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund plus the annual expected expense. The current 5.1% target was derived by adding the PUF’s current target distribution rate of 4.75% plus an annual expected expense of .35%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. The PUF’s success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark and the median return of the universe of the college and university endowments with assets greater than \$1 billion as reported by Cambridge Associates over rolling five-year periods or longer. The Policy Portfolio benchmark will be ~~established~~ maintained by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect PUF’s asset allocation policy targets.

### **Asset Allocation and Policy**

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. Specific asset allocation positions may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable.

PUF assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

- A. U.S. Equities – U.S. equities represent ownership in U.S. companies that are traded in public markets. ~~Traditional U.S. Equities~~ – Traditional U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, ~~exchange traded funds~~, and futures. In addition, derivative applications approved by the ~~UTIMCO Board~~ that serve as a U.S. equity substitute will be classified as traditional U.S. equity. Global mandates that include a majority of U.S. equities will be included in U.S. equities. ~~Traditional U.S. equities~~ provide both current income and capital gains.

REITS – REITS are real estate investment trusts and are classified as U.S. equities for purposes of this Policy Statement. ~~REITS own, and in most cases operate, income producing real estate.~~

- B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established (non-U.S. developed) and emerging markets. Global ex U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, exchange traded funds, and futures, are also included if the underlying assets are Global ex U.S. equities. In addition, derivative applications approved by the UTIMCO Board that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global mandates that include a majority of Global ex U.S. equities will be included in Global ex U.S. equities. Global ex U.S. equities provide both current income and capital gains.

Non-U.S. Developed Equity – Non-U.S. developed equities represent ownership in companies domiciled in developed economies (countries) included in the MSCI All – Country World Equity Index – excluding those classified as part of the MSCI Emerging Markets Equity Index. These securities are typically constituents of countries in Europe, the Americas (North/Latin/South) and the Far East with high per-capita income, mature capital markets, and stable governments. The benchmark for this asset category will be the MSCI EAFE Index, with net dividends.

Emerging Markets Equity – Emerging markets equities represent ownership in companies domiciled in emerging economies as defined by the current composition of the MSCI Emerging Markets Equity Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Equity Index qualification status (either through financial or qualitative measures). The benchmark for this asset category will be the MSCI Emerging Markets Equity Index, with net dividends.

- C. Hedge Funds – Hedge funds are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable.

Equity Directional Hedge Funds – Equity Directional hedge fund investments include U.S. and international long/short equity or fixed income strategies and other such strategies that exhibit directional market characteristics using commodities, currencies, derivatives, or other global market instruments. These strategies attempt to exploit profits from security stock selection skills by taking long and short positions in various equity securities. These strategies may also include fund of hedge fund investments. Equity Directional hedge fund investments are made through private placement agreements. Directional hedge fund investments may be held in an internally managed commingled fund.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage, and event driven strategies and other relative value strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discrete events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include multi-strategy managers and fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements. Absolute return hedge fund investments may be held in an internally managed commingled fund.

- D. Private Capital - Private Capital investments include the illiquid debt and equity securities of private or publicly-traded companies. Private Capital investments consist of two sub-asset class categories: Venture Capital and Private Equity.

Venture Capital – Venture capital investments consist of investments in companies, both U.S. and non-U.S. that are in the early stages of development. Venture Capital investments are held either through limited partnerships or as direct ownership interests.

Private Equity – Private Equity investments consist of investments in the equity securities of private businesses, both U.S. and non-U.S., that are considered to be in the post-start-up phase and that are profitable and generating income. Private Equity investments are held either through limited partnerships or as direct ownership interests. The Private Equity category also includes mezzanine and opportunistic investments. Mezzanine investments consist of investments in funds that make subordinated debt or minority equity investments in private companies. Opportunistic investments are limited to illiquid assets and may include distressed debt or secondary private equity partnerships. Mezzanine and opportunistic investments are held through limited partnerships or as direct ownership interests.

- E. Inflation Linked – Inflation linked investments are intended to provide some degree of inflation protection and generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. Inflation linked investments include: Commodities – ~~Commodities include natural resource investments including oil and gas interests and other hard assets. These investments may be held through partnerships, derivative investments or direct investments.~~

REITS – REITS are real estate investment trusts that may be held as either trust certificates, derivative investments, or exchange traded funds. REITS own, and in most cases operate, income producing real estate.



Commodities – Commodities include natural resource investments including oil and gas interests and other hard assets. These investments may be held through partnerships, derivative investments, exchange traded funds or direct investments.

TIPS - TIPS are inflation protected securities with a return linked to the inflation rate. For diversification purposes, TIPS may include non-U.S. inflation protected fixed income securities as well as nominal fixed income securities.

- F. Fixed Income – Fixed income investments include debt (whether U.S. or foreign) issued by Governments, various government enterprises and agencies, and domestic and foreign corporations. ~~Traditional Fixed Income~~—The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications approved by the UTIMCO Board that serve as a fixed income substitute ~~may~~will be classified as ~~traditional~~fixed income.

~~TIPS—TIPS are treasury inflation protected securities which are marketable securities with a return linked to the inflation rate. In constructing diversified TIPS portfolios, securities classified as traditional fixed income can be utilized by outside investment managers.~~

- G. Cash and Cash Equivalents – Cash and cash equivalents consist of internal and external pooled investment funds, money market funds, deposits of the Texas State Treasury, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

## **Performance Measurement**

The investment performance of the PUF will be measured by the PUF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the PUF, as indicated in Exhibit A.

## **Investment Guidelines**

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

Investment guidelines include the following:

### General

- Investment guidelines for index, commingled funds, and limited partnerships managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.
- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's chief investment officer prior to investment of PUF assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the PUF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The PUF's investments in warrants shall not exceed more than 5% of the PUF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The PUF may utilize derivatives ~~securities~~ to: a) simulate the purchase or sale of an underlying market index while retaining a collateral ~~cash~~ balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a derivative security is priced more attractively than the underlying security; e) ~~index or to~~ hedge risks associated with PUF investments; or f) adjust the market exposure of the asset allocation, including the use of long and short strategies and other such strategies provided that the PUF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board and the Board of Regents. The Derivative Investment Policy shall serve the purpose of defining ~~the~~ permitted applications under which derivatives ~~securities~~ can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

### Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Internal ~~short-term~~-pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by UTIMCO's chief investment officer.
- Deposits of the Texas State Treasury.
- The PUF's custodian late deposit interest bearing liquid investment fund.
- Municipal short-term securities
- Commercial paper rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- ~~Bankers' acceptances guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.~~
- Repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.
  - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
  - Eligible collateral securities for repurchase agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
  - The maturity for a repurchase agreement may be from one day to two weeks.
  - The value of all collateral shall be maintained at 102% of the notional value of the repurchase agreement, valued daily.
  - All collateral shall be delivered to the PUF custodian bank. Tri-party collateral arrangements are not permitted.

- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the PUF's fixed income assets.
- Overnight repurchase agreements may not exceed 25% of the PUF's fixed income assets.
- Mortgage Backed Securities (MBS) ~~D~~dollar ~~R~~olls shall be executed as matched book transactions in the same manner as reverse repurchase agreements above. As above, the rules for trading MBS ~~D~~dollar ~~R~~olls shall follow the Public Securities Association standard industry terms.

## Fixed Income

### Domestic Fixed Income

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

- Permissible securities for investment include securities within the components categories of the Lehman Brothers Aggregate Bond Index (LBAGG); These component categories include investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-sectors:  
1) Government securities: Treasury and Agency; 2) Corporate securities: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; 4) Asset-backed securities; 5) Taxable Municipal securities; and 6) Commercial Mortgage-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible:  
a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.
- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- or better by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

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

### Non-U.S. Fixed Income

- ~~Not more than 50% of the PUF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.~~
- ~~Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.~~
- Not more than 50% of the PUF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.
- Not more than 15% of the PUF's fixed income portfolio may be invested in emerging market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

### Equities

The PUF shall:

- ~~A.~~• hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market, or
- ~~B.~~• hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by UTIMCO's chief investment officer.

### **PUF Distributions**

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

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

- B.—ensure that the inflation adjusted value of distributions is maintained over the long term; and
- C.—ensure that the inflation adjusted value of PUF assets after distributions is maintained over rolling 10-year periods.

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

The Texas Constitution states that "The amount of any distributions to the available university fund shall be determined by the board of regents of The University of Texas System in a manner intended to provide the available university fund with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of permanent university fund investments and annual distributions to the available university fund. The amount distributed to the available university fund in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on bonds and notes issued under this section. If the purchasing power of permanent university fund investments for any rolling 10-year period is not preserved, the board may not increase annual distributions to the available university fund until the purchasing power of the permanent university fund investments is restored, except as necessary to pay the principal and interest due and owing on bonds and notes issued under this section. An annual distribution made by the board to the available university fund during any fiscal year may not exceed an amount equal to seven percent of the average net fair market value of permanent university fund investment assets as determined by the board, except as necessary to pay any principal and interest due and owing on bonds issued under this section. The expenses of managing permanent university fund land and investments shall be paid by the permanent university fund."

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

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

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

### **PUF Accounting**

The fiscal year of the PUF shall begin on September 1st and end on August 31st. Market value of the PUF shall be maintained on an accrual basis in compliance with

Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's chief investment officer and reported to the UTIMCO Board of Directors. The PUF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

### **Valuation of Assets**

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PUF net assets. Valuation of PUF assets shall be based on the books and records of the custodian for the valuation date. The final determination of PUF net assets for a month end close shall normally be completed within five business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

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

### **Securities Lending**

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

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

### **Investor Responsibility**

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

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

### **Amendment of Policy Statement**

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

### **Effective Date**

The effective date of this policy shall be ~~August 12, 2004~~August 11, 2005, except for Exhibit A, ~~which was effective January 1, 2004.~~ Effective date for Exhibit A shall be no later than November 1, 2005. The selection of the date shall be determined by UTIMCO's Chief Investment Officer and notification to the Chairmen of the UTIMCO Board and the Board of Regents shall occur prior to the effective date.



**CURRENT EXHIBIT A**

**POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES**

<b>Asset Category</b>	<b>Percent of Portfolio (%)</b>		<b>Benchmarks</b>
	<b>Policy Targets</b>	<b>Policy Ranges</b>	
<b>US Equities:</b>	<b>25.0</b>	<b>15 to 45</b>	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
<b>Global ex US Equities:</b>			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
<b>Total Equity</b>	<b>42.0</b>	<b>20 to 60</b>	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
<b>Total Hedge Funds</b>	<b>25.0</b>	<b>15 to 25</b>	
Venture Capital	6.0	0 to 10	
Private Equity	9.0	5 to 15	
<b>Total Private Capital</b>	<b>15.0</b>	<b>5 to 15</b>	Venture Economics' Periodic IRR Index
<b>Commodities</b>	<b>3.0</b>	<b>0 to 5</b>	GSCI minus 1%
<b>Fixed Income:</b>	<b>15.0</b>	<b>10 to 30</b>	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
<b>Cash</b>	<b>0.0</b>	<b>0 to 5</b>	90 Day T-Bills

<b>Expected Annual Return (%)</b>	<b>8.36</b>
<b>Downside Deviation (%)</b>	<b>4.22</b>
<b>Standard Deviation (%)</b>	<b>10.30</b>

## PROPOSED EXHIBIT A

### POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
<b>US Equities</b>	<b>20.0</b>	<b>10 to 30</b>	Russell 3000 Index
<b>Global ex US Equities</b>	<b>17.0</b>	<b>10 to 30</b>	
Non-US Developed Equity	10.0	0 to 30	MSCI EAFE Index with net dividends
Emerging Markets Equity	7.0	0 to 10	MSCI Emerging Markets Index with net dividends
<b>Hedge Funds</b>	<b>25.0</b>	<b>15 to 30</b>	
Directional Hedge Funds	10.0	5 to 15	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	15.0	10 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
<b>Private Capital</b>	<b>15.0</b>	<b>5 to 20</b>	Venture Economics' Periodic IRR Index
Venture Capital	4.0	0 to 8	
Private Equity	11.0	5 to 15	
<b>Inflation Linked</b>	<b>13.0</b>	<b>5 to 20</b>	
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Commodities	3.0	0 to 6	Combination index: 66.7% GSCI minus .5% plus 33.3% DJ-AIG Commodity Index
TIPS	5.0	0 to 10	Lehman Brothers US TIPS Index
<b>Fixed Income:</b>	<b>10.0</b>	<b>5 to 15</b>	Lehman Brothers Aggregate Bond Index
<b>Cash</b>	<b>0.0</b>	<b>0 to 10</b>	90 Day T-Bills

<b>Expected Annual Return (%)</b>	<b>8.34</b>
<b>1 yr Downside Deviation (%)</b>	<b>-7.6</b>
<b>Standard Deviation (%)</b>	<b>10.8</b>

**THE UNIVERSITY OF TEXAS SYSTEM  
GENERAL ENDOWMENT FUND  
INVESTMENT POLICY STATEMENT**

**Purpose**

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

**GEF Organization**

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

**GEF Management**

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. 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. Pursuant to Section 51.0031(c) of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the GEF.

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

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the GEF shall be managed by UTIMCO, which shall

a) recommend investment policy for the GEF, b) recommend specific asset allocation targets, ranges, and performance benchmarks consistent with GEF objectives, and c) monitor GEF performance against GEF objectives. UTIMCO shall invest the GEF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

### **GEF Administration**

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

### **Funds Eligible to Purchase GEF Units**

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

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

Currently, the Long Term Fund (the "LTF") and the Permanent Health Fund (the "PHF") purchase units in the GEF.

### **GEF Investment Objectives**

The GEF and the PUF are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund assets by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund (in case of the GEF, the target distribution rate of the LTF and the PHF) plus the annual expected expense. The current 5.1% target was derived by adding the PUF's current target distribution rate of 4.75% plus an annual expected expense of .35%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. The GEF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower

returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark and the median return of the universe of the college and university endowments with assets greater than \$1 billion as reported by Cambridge Associates over rolling five-year periods or longer. The Policy Portfolio benchmark will be maintained~~established~~ by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect GEF's asset allocation policy targets.

### **Asset Allocation and Policy**

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. Specific asset allocation positions may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable.

GEF assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

- A. U.S. Equities - U.S. equities represent ownership in U.S. companies that are traded in public markets. ~~Traditional U.S. Equities~~ Traditional U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, ~~exchange traded funds~~, and futures. In addition, derivative applications ~~approved by the UTIMCO Board~~ that serve as a U.S. equity substitute will be classified as traditional U.S. equity. Global mandates that include a majority of U.S. equities will be included in U.S. equities. ~~Traditional U.S. equities provide both current income and capital gains.~~

~~REITS — REITS are real estate investment trusts and are classified as U.S. equities for purposes of this Policy Statement. REITS own, and in most cases operate, income producing real estate.~~

- B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established (non U.S. developed) and emerging markets. Global ex U.S. equities include common stocks, exchange traded funds, and derivatives based on common stock, including warrants, rights, options, ~~exchange traded funds, and futures,~~ are also included if the underlying assets are ~~Global ex U.S. equities~~. In addition, derivative applications ~~approved by the UTIMCO Board~~ that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global mandates that include a majority

of Global ex U.S. equities will be included in Global ex U.S. equities. Global ex U.S. equities provide both current income and capital gains.

Non-U.S. Developed Equity – Non-U.S. developed equities represent ownership in companies domiciled in developed economies (countries) included in the MSCI All – Country World Equity Index – excluding those classified as part of the MSCI Emerging Markets Equity Index. These securities are typically constituents of countries in Europe, the Americas (North/Latin/South) and the Far East with high per-capita income, mature capital markets, and stable governments. The benchmark for this asset category will be the MSCI EAFE Index, with net dividends.

Emerging Markets Equity – Emerging markets equities represent ownership in companies domiciled in emerging economies as defined by the current composition of the MSCI Emerging Markets Equity Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Equity Index qualification status (either through financial or qualitative measures). The benchmark for this asset category will be the MSCI Emerging Markets Equity Index, with net dividends.

- C. Hedge Funds – Hedge funds are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable.

Equity Directional Hedge Funds – Equity Directional hedge fund investments include U.S. and international long/short equity or fixed income strategies and other such strategies that exhibit directional market characteristics using commodities, currencies, derivatives, or other global market instruments. These strategies attempt to exploit profits from security stock selection skills by taking long and short positions in various equity securities. These strategies may also include fund of hedge fund investments. Equity Directional hedge fund investments are made through private placement agreements. Directional hedge fund investments may be held in an internally managed commingled fund.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage, and event driven strategies and other relative value strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discrete events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include multi-strategy managers and fund of hedge fund investments. Absolute return hedge fund investments are made through private

placement agreements. Absolute return hedge fund investments may be held in an internally managed commingled fund.

- D. Private Capital - Private Capital investments include the illiquid debt and equity securities of private or publicly-traded companies. Private Capital investments consist of two sub-asset class categories: Venture Capital and Private Equity.

Venture Capital – Venture Capital investments consist of investments in companies, both U.S. and non-U.S., that are in the early stages of development. Venture capital investments are held either through limited partnerships or as direct ownership interests.

Private Equity – Private Equity investments consist of investments in the equity securities of private businesses, both U.S. and non-U.S., that are considered to be in the post-start-up phase and that are profitable and generating income. Private Equity investments are held either through limited partnerships or as direct ownership interests. The Private Equity category also includes mezzanine and opportunistic investments. Mezzanine investments consist of investments in funds that make subordinated debt or minority equity investments in private companies. Opportunistic investments are limited to illiquid assets and may include distressed debt or secondary private equity partnerships. Mezzanine and opportunistic investments are held through limited partnerships or as direct ownership interests.

- E. Inflation Linked – Inflation linked investments are intended to provide some degree of inflation protection and generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. Inflation linked investments include: Commodities – ~~Commodities include natural resource investments including oil and gas interests and other hard assets. These investments may be held through partnerships, derivative investments, or direct investments.~~

REITS – REITS are real estate investment trusts that may be held as either trust certificates, derivative investments, or exchange traded funds. REITS own, and in most cases operate, income producing real estate.

Commodities – Commodities include natural resource investments including oil and gas interests and other hard assets. These investments may be held through partnerships, derivative investments, exchange traded funds or direct investments.

TIPS - TIPS are inflation protected securities with a return linked to the inflation rate. For diversification purposes, TIPS may include non-U.S.

inflation protected fixed income securities as well as nominal fixed income securities.

- F. Fixed Income – Fixed income investments include debt (whether U.S. or foreign) issued by Governments, various government enterprises, and agencies and domestic and foreign corporations. ~~Traditional Fixed Income~~ – The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications approved by the UTIMCO Board that serve as a fixed income substitute ~~may~~ will be classified as traditional fixed income.

~~TIPS – TIPS are treasury inflation protected securities which are marketable securities with a return linked to the inflation rate. In constructing diversified TIPS portfolios, securities classified as traditional fixed income can be utilized by outside investment managers.~~

- G. Cash and Cash Equivalents – Cash and cash equivalents consist of internal and external pooled investment funds, ~~money market funds~~, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

## **Performance Measurement**

The investment performance of the GEF will be measured by the GEF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the GEF, as indicated in Exhibit A.

## **Investment Guidelines**

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

Investment guidelines include the following:

### General

- Investment guidelines for index, commingled funds, and limited partnerships managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.
- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority to invest in foreign currency denominated securities.



- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's chief investment officer prior to investment of GEF assets in such liquid investment fund.
- No securities may be purchased or held which jeopardize the GEF's tax exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The GEF's investments in warrants shall not exceed more than 5% of the GEF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The GEF may utilize derivatives ~~securities~~ to: a) simulate the purchase or sale of an underlying market index while retaining a collateral~~cash~~ balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a derivative security is priced more attractively than the underlying security; e) ~~index or to~~ hedge risks associated with GEF investments; or f) adjust the market exposure of the asset allocation, including the use of long and short strategies and other such strategies provided that the GEF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board and the Board of Regents. The Derivative Investment Policy shall serve the purpose of defining ~~the permitted~~ applications under which derivatives ~~securities~~ can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

### Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Internal ~~short-term~~ pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by UTIMCO's chief investment officer.
- The GEF's custodian late deposit interest bearing liquid investment fund.

• Municipal short-term securities.

- Commercial paper rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- ~~Bankers' acceptances guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.~~
- Repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.
  - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
  - Eligible collateral securities for repurchase agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
  - The maturity for a repurchase agreement may be from one day to two weeks.
  - The value of all collateral shall be maintained at 102% of the notional value of the repurchase agreement, valued daily.
  - All collateral shall be delivered to the GEF custodian bank. Tri-party collateral arrangements are not permitted.
  - The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the GEF's fixed income assets.
  - Overnight repurchase agreements may not exceed 25% of the GEF's fixed income assets.
- Mortgage Backed Securities (MBS) ~~D~~dollar ~~R~~olls shall be executed as matched book transactions in the same manner as reverse repurchase

agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

## Fixed Income

### Domestic Fixed Income

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

Permissible securities for investment include securities within the components categories of the Lehman Brothers Aggregate Bond Index (LBAGG). These component categories include investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-sectors: 1) Government securities: Treasury and Agency; 2) Corporate securities: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; 4) Asset-backed securities; 5) Taxable Municipal securities; and 6) Commercial Mortgage-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- or better, by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.
- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

### Non-U.S. Fixed Income

- ~~Not more than 50% of the GEF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.~~

Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

- Not more than 50% of the GEF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.
- Not more than 15% of the GEF's fixed income portfolio may be invested in emerging market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

### Equities

The GEF shall:

- A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market, or
- B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by UTIMCO's chief investment officer.

### **GEF Accounting**

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

### **Valuation of Assets**

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all GEF net assets and the net asset value per unit of the GEF. Valuation of GEF assets shall be based on the books and records of the custodian for the valuation date. The final determination of GEF net assets for a month end close shall normally be completed within five business days but

determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

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

### **Purchase of GEF Units**

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

### **Redemption of GEF Units**

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

### **Securities Lending**

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

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

### **Investor Responsibility**

As a shareholder, the GEF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies

in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the GEF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the GEF solely in the interest of GEF unitholders and shall not invest the GEF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

### **Amendment of Policy Statement**

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

### **Effective Date**

The effective date of this policy shall be ~~August 12, 2004~~ August 11, 2005, except for Exhibit A, ~~which was effective January 1, 2004.~~ The effective date for Exhibit A shall be no later than November 1, 2005. The selection of the date shall be determined by UTIMCO's Chief Investment Officer and notification to the Chairmen of the UTIMCO Board and the Board of Regents shall occur prior to the effective date.

**CURRENT EXHIBIT A**

**POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES**

<b>Asset Category</b>	<b>Percent of Portfolio (%)</b>		<b>Benchmarks</b>
	<b>Policy Targets</b>	<b>Policy Ranges</b>	
<b>US Equities:</b>	<b>25.0</b>	<b>15 to 45</b>	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
<b>Global ex US Equities:</b>			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
<b>Total Equity</b>	<b>42.0</b>	<b>20 to 60</b>	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
<b>Total Hedge Funds</b>	<b>25.0</b>	<b>15 to 25</b>	
Venture Capital	6.0	0 to 10	
Private Equity	9.0	5 to 15	
<b>Total Private Capital</b>	<b>15.0</b>	<b>5 to 15</b>	Venture Economics' Periodic IRR Index
<b>Commodities</b>	<b>3.0</b>	<b>0 to 5</b>	GSCI minus 1%
<b>Fixed Income:</b>	<b>15.0</b>	<b>10 to 30</b>	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
<b>Cash</b>	<b>0.0</b>	<b>0 to 5</b>	90 Day T-Bills

<b>Expected Annual Return (%)</b>	<b>8.36</b>
<b>Downside Deviation (%)</b>	<b>4.22</b>
<b>Standard Deviation (%)</b>	<b>10.30</b>

**PROPOSED EXHIBIT A**

**POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES**

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
<b>US Equities</b>	<b>20.0</b>	<b>10 to 30</b>	Russell 3000 Index
<b>Global ex US Equities</b>	<b>17.0</b>	<b>10 to 30</b>	
Non-US Developed Equity	10.0	0 to 30	MSCI EAFE Index with net dividends
Emerging Markets Equity	7.0	0 to 10	MSCI Emerging Markets Index with net dividends
<b>Hedge Funds</b>	<b>25.0</b>	<b>15 to 30</b>	
Directional Hedge Funds	10.0	5 to 15	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	15.0	10 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
<b>Private Capital</b>	<b>15.0</b>	<b>5 to 20</b>	Venture Economics' Periodic IRR Index
Venture Capital	4.0	0 to 8	
Private Equity	11.0	5 to 15	
<b>Inflation Linked</b>	<b>13.0</b>	<b>5 to 20</b>	
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Commodities	3.0	0 to 6	Combination index: 66.7% GSCI minus .5% plus 33.3% DJ-AIG Commodity Index
TIPS	5.0	0 to 10	Lehman Brothers US TIPS Index
<b>Fixed Income:</b>	<b>10.0</b>	<b>5 to 15</b>	Lehman Brothers Aggregate Bond Index
<b>Cash</b>	<b>0.0</b>	<b>0 to 10</b>	90 Day T-Bills

<b>Expected Annual Return (%)</b>	<b>8.34</b>
<b>1 yr Downside Deviation (%)</b>	<b>-7.6</b>
<b>Standard Deviation (%)</b>	<b>10.8</b>



10. **U. T. System Board of Regents: Approval to amend The University of Texas Investment Management Company (UTIMCO) Liquidity Policy and the Derivative Investment Policy**

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. System Board of Regents approve the proposed changes to the UTIMCO Liquidity Policy as set forth on Pages 17.1 – 17.5 and referenced in the Background Information of this item, and approve the UTIMCO Derivative Investment Policy on Pages 17.6 – 17.10.

BACKGROUND INFORMATION

Liquidity Policy

The proposed amendments to the Liquidity Policy were approved by the UTIMCO Board on July 21, 2005. The Liquidity Policy is being amended to reflect the name change of the Liquidity Committee to the Risk Committee, and to accommodate the proposed new asset allocations for the Permanent University Fund (PUF) and General Endowment Fund (GEF).

Acting on the recommendation of the Risk Committee, the UTIMCO Board voted to increase the maximum allowable illiquid investments from 30% to 35%, and to change the illiquid “trigger zone” from 20% -30% to 30% - 35%.

Derivative Investment Policy

The UTIMCO Board approved the proposed amendments to the Derivative Investment Policy on July 21, 2005. The purpose of the Derivative Investment Policy is to enumerate the applications, documentation, and limitations for investment in derivatives in the PUF and GEF. The Derivative Investment Policy supplements, but does not supersede, the Investment Policy Statements for the PUF and GEF. Although the Board of Regents has not formally approved the Derivative Investment Policy in the past, Investment Policy Statement guidelines for the PUF and GEF allow for investment in derivatives, provided that their use is in compliance with the Derivative Investment Policy.

The proposed amendments represent technical corrections to the current Policy, including removing Exchange Traded Funds from the definition of derivatives. Consistent with this change, the UTIMCO Board reduced the threshold for the total gross value of all internal derivative positions from 50% to 45% of the net asset value of the Funds.

# The University of Texas Investment Management Company

## Liquidity Policy

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Effective Date of Policy: ~~August 11, 2005~~ ~~November 5, 2004~~  
Original Effective Date of Policy: August 7, 2003

### **Purpose:**

The purpose of this Liquidity Policy is to establish limits on the overall liquidity profile of investments in the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter referred to as the Funds. For the purposes of this policy, “liquidity” is defined as a measure of the ability of an investment position to be converted into a cash position. The established liquidity profile limits will act in conjunction with, but do not supercede, the Investment Policies adopted by the U. T. System Board of Regents.

### **Objective:**

The objective of this Liquidity Policy is to control the element of total risk exposure of the Funds stemming from the uncertainties associated with the ability to convert longer term investments to cash to meet immediate needs or to change investment strategy, and the potential cost of that conversion.

### **Scope:**

This Liquidity Policy applies to all PUF and GEF investments made by The University of Texas Investment Management Company (UTIMCO), both by internal and by external managers. Policy implementation will be managed at the aggregate UTIMCO level and will not be a responsibility of individual internal or external managers managing a portion of the aggregate assets.

### **Definition of Liquidity Risk:**

“Liquidity risk” is defined as that element of total risk resulting from the uncertainty associated with both the cost and time period necessary to convert existing investment positions to cash (or cash equivalents). Liquidity risk can result in lower than expected returns and reduced opportunity to make changes in investment positions to respond to changes in capital market conditions. Modern finance theory asserts that liquidity risk is a systematic risk factor that is incorporated into asset prices such that future longer-term returns will be higher for assets with higher liquidity risk, although that may not be the case in the short term.

### **Liquidity Risk Measurement-The Liquidity Profile:**

Capital market theory does not provide a precise technique to measure liquidity risk. For the purposes of this Liquidity Policy, potential liquidity risk will be monitored by measuring the aggregate liquidity profile of the Funds. All individual investments within the Funds will be segregated into two categories:

- **Liquid:** Investments that could be converted to cash within a period of one day to three months in an orderly market at a discount of 10% or less.
- **Illiquid:** Investments that could be converted to cash in an orderly market over a period of more than three months or in a shorter period of time by accepting a discount of more than 10%.

The measurements necessary to segregate all investments into one of the two categories assume normally functioning capital markets and cash market transactions. In addition, swaps, derivatives, or other third party arrangements to alter the status of an investment classified as illiquid may be considered, with the

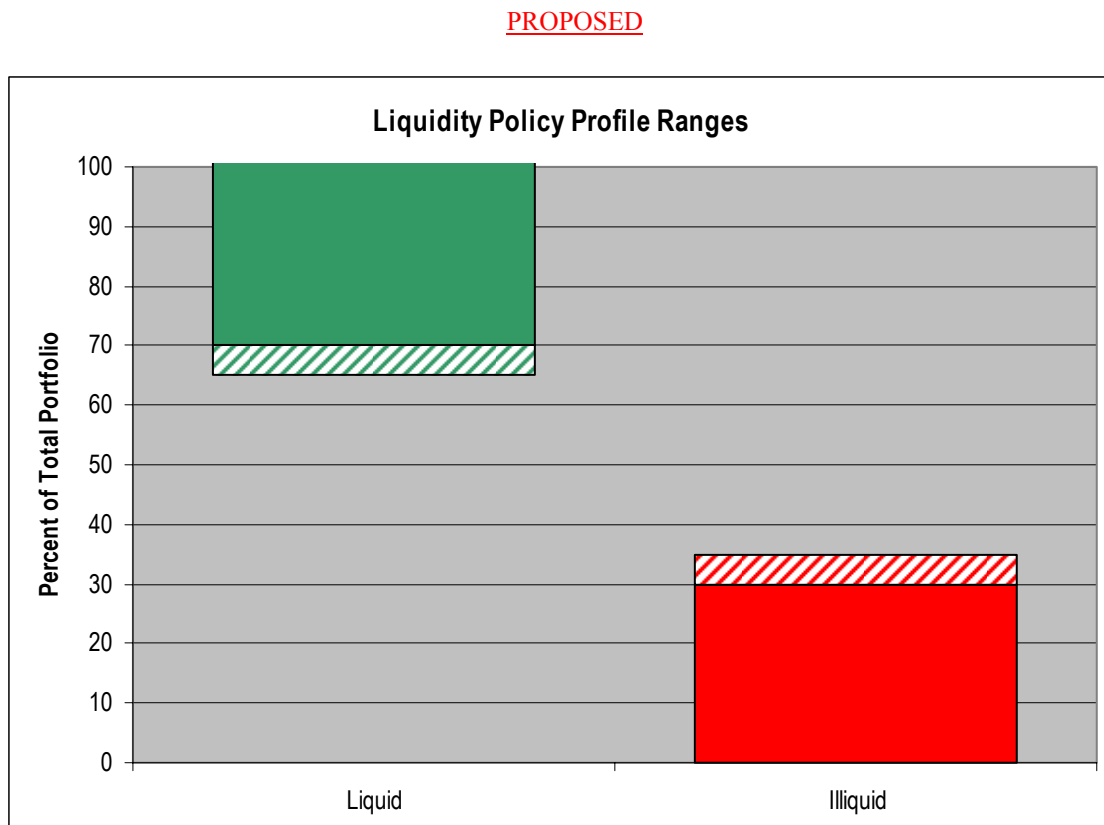
# The University of Texas Investment Management Company Liquidity Policy

prior approval of the UTIMCO Board or the [Risk-Liquidity](#) Committee<sup>1</sup>, in determining the appropriate liquidity category for each investment.

The result of this liquidity risk measurement process will be a liquidity profile for the Funds which indicates the percentage of the total portfolio assets within each liquidity category. This Liquidity Policy defines the acceptable range of percentage of total assets within each liquidity category, specifies “trigger zones” requiring special review by UTIMCO staff and Board, and specifies the method of monitoring and presenting actual versus policy liquidity profiles.

## Liquidity Policy Profile:

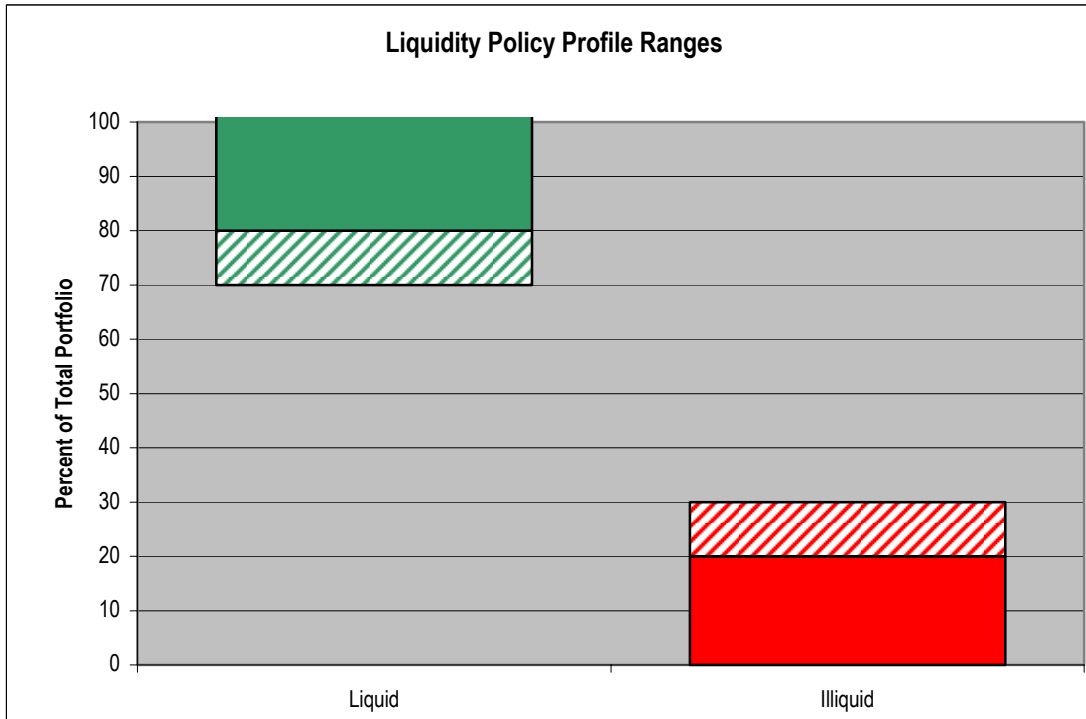
The current Liquidity Policy Profile ranges and trigger zones are defined by the chart below:



<sup>1</sup> The [Risk-Liquidity](#) Committee (formerly, the [Liquidity Committee](#)) was appointed by the UTIMCO Board of Directors and is subject to a [Risk-Liquidity](#) Committee Charter first approved by the UTIMCO Board of Directors on April 8, 2004. The [Risk-Liquidity](#) Committee consists of at least three members of the Board and provides oversight and monitoring of the liquidity of the policy portfolio in accordance with this Liquidity Policy.

# The University of Texas Investment Management Company Liquidity Policy

CURRENT



The green bar indicates the Policy range for investments categorized as “liquid” by the definition presented earlier. The red bar indicates the Policy range for investments categorized as “illiquid” by earlier definition. The shaded sections of the green and red bars indicate trigger zones requiring special action by the UTIMCO Board or the Risk Liquidity Committee. For example, the allowable range for illiquid investments is 0% to 30% of the total portfolio. However, any illiquid investments made in the 20% to 30% trigger zone requires prior approval by the Risk Liquidity Committee or the UTIMCO Board. Risk Liquidity Committee review of new investments in the illiquid trigger zone will supplement, rather than replace, the procedures established by the UTIMCO Board for the approval of new investments.

## Documentation and Controls:

Managing Directors responsible for each asset class are responsible for determining the liquidity category for each investment in that class. These classifications will be reviewed by the Risk Manager and must receive final approval from the Chief Investment Officer. Classifications and weights within each liquidity category will be updated and reported on a monthly basis. The monthly liquidity reports will include certification by each Managing Director, the Risk Manager, the Chief Compliance Officer, and the President of UTIMCO, that all investments are properly categorized and reported. All new investments considered will be categorized by liquidity category, and a statement regarding the effect on overall liquidity of the addition of a new investment must be an element of the due diligence process and will be a part of the recommendation report to the UTIMCO Board.

As additional safeguards, trigger zones have been established as indicated above to trigger required review and action by the UTIMCO Board or the Risk Liquidity Committee in the event any investment action would cause the actual investment position in illiquid investments to enter the designated trigger zone, or in the event market actions caused the actual investment position in illiquid investments to move into trigger

# The University of Texas Investment Management Company

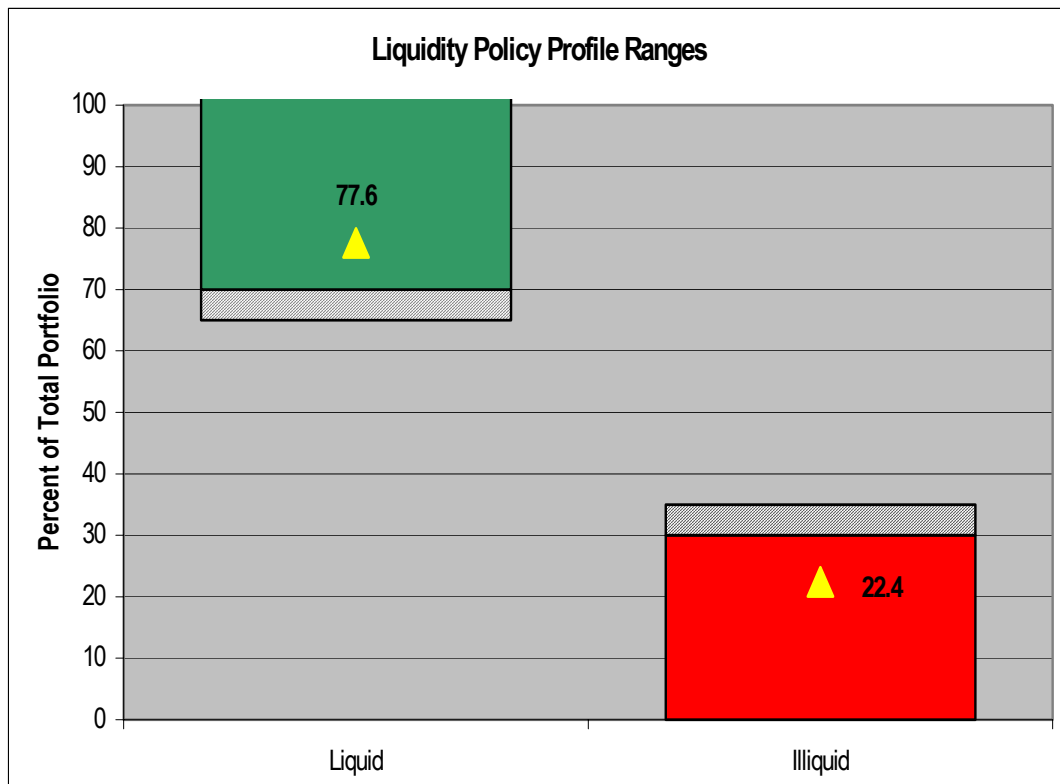
## Liquidity Policy

zones. In addition, any proposed investment actions which would increase the actual investment position in illiquid investments in either the PUF or the GEF by 10% or more of the total asset value of either Fund would also require review and action by the UTIMCO Board or the RiskLiquidity Committee prior to the change. Any actual positions in any trigger zones or outside the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board and the RiskLiquidity Committee the circumstances of the deviation from Policy and the remedy to the situation.

### Reporting:

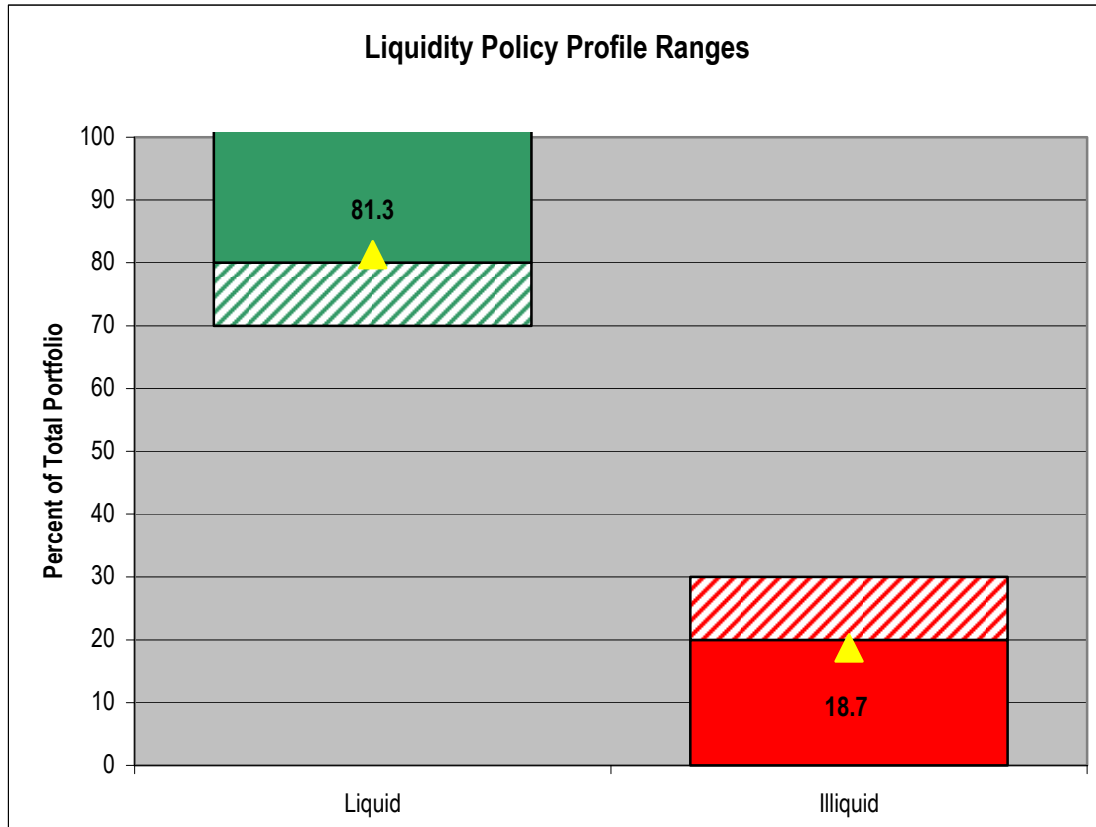
The actual liquidity profile of the Funds and compliance with this Liquidity Policy will be reported to the UTIMCO Board on at least a quarterly basis. Any exception to this Liquidity Policy and actions taken to remedy the exception will be reported promptly. An example of the method of reporting is shown below where the yellow points and number labels indicate current actual exposure levels within each Liquidity Policy Range (numbers shown are examples only). For example, in this illustration the current exposure to “liquid” investments is 77.681.3%, while exposure to “illiquid” investments is 22.418.7% and both are within their respective allowable policy ranges and not in defined trigger zones.

### PROPOSED



The University of Texas Investment Management Company  
Liquidity Policy

CURRENT



# The University of Texas Investment Management Company

## Derivative Investment Policy

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Effective Date of Policy: ~~August 11, 2005~~July 15, 2004

Date Approved by UTIMCO Board: ~~July 21, 2005~~July 15, 2004

### **Purpose:**

The purpose of the Derivative Investment Policy is to enumerate the applications, documentation and limitations for investment in derivatives~~s~~ securities in the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter referred to as the Funds. The Board of Regents approved investment policy guidelines for the Funds allow for investment in derivatives~~s~~ securities provided that their use is in compliance with UTIMCO's Board approved Derivative Investment Policy. This Derivative Investment Policy supplements the Investment Policy Statement for the Funds.

### **Objective:**

The objective of investing in derivatives~~s~~ securities is to facilitate risk management and provide efficiency in the implementation of various investment strategies for the Funds. Through the use of derivatives, the complex risks that are bound together in traditional cash market investments can be separated and managed independently. Derivatives provide the Funds with the most economical means to improve the Funds risk/return profile.

### **Scope:**

This Policy applies to internal management of derivatives at UTIMCO only. Derivatives policies for external managers are established on a case by case basis with each external manager, as described below. This Policy ~~applies to both exchange traded derivatives and over the counter derivative instruments.~~ This Policy shall not be construed to apply to index or other common or commingled funds in which the Funds typically invest. These commingled investment vehicles are governed by separate investment policy statements.

### **External Managers:**

An external investment manager of public market investments employed by UTIMCO may engage in derivative ~~security~~ transactions only if the transactions are consistent with the overall investment objectives of the account. Derivative applications shall be approved only with investment managers that demonstrate investment expertise in their use, and have appropriate risk management policies and procedures to effectively monitor and control their use. Disclosure of permitted derivative applications with external investment managers of public market investments shall be made to UTIMCO's Board ~~prior to investment.~~

The due diligence process in the selection of managers of alternative marketable equities employed by UTIMCO requires a clear understanding of the managers use of derivatives, particularly as it relates to various risk controls and leverage. UTIMCO will invest in such strategies exclusively through limited partnership agreements, offshore corporations or other legal entities that limit the Funds' exposure to its investment in the strategy. Disclosure of derivative applications with alternative marketable equity managers shall be made to UTIMCO's Board ~~prior to investment.~~

### **Definition of Derivatives:**

Derivatives are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as a bonds, stocks, commodities, and currencies). For the purposes of this Policy, derivatives shall include futures contracts, forward contracts~~, exchange traded funds~~, swaps and all forms of options, but shall not include a broader range of securities including mortgage backed securities, structured notes and convertible bonds. (Refer to attached exhibit for glossary of terms)

# The University of Texas Investment Management Company

## Derivative Investment Policy

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### Permitted Derivative Applications:

Derivative applications may be used:

- To implement investment strategies in a low cost and efficient manner;
- To alter the Funds market (systematic) exposure without trading the underlying cash market securities through purchases or short sales, or both, of appropriate derivatives;
- To construct portfolios with risk and return characteristics that could not be created with cash market securities;
- To hedge and control risks so that the Funds' risk/return profile is more closely aligned with the Funds' targeted risk/return profile through purchases or short sales, or both, of appropriate derivatives; or
- To facilitate transition trading.

The primary intent of derivative ~~security~~ transactions should be to hedge risk in portfolios or to implement investment strategies more effectively and at a lower cost than would be possible in the cash market. Only the above derivative applications are permitted until such time as this policy is amended and approved by UTIMCO's Board. The Chief Investment Officer shall recommend and the UTIMCO Board approve any new derivative applications prior to implementation, after fully considering the permissibility, merits, and compliance with all documentation and controls requirements of the application.

### Derivative Applications Not Permitted:

Derivative applications shall not be used to invest in asset classes that are not consistent with the Funds policy asset categories, implementation strategies and risk/return characteristics.

### Documentation and Controls:

Prior to the implementation of a new derivative application, UTIMCO shall document the purpose, justification, baseline portfolio, derivative application portfolio, risks (including at a minimum modeling, pricing, liquidity and legal risks), the expected increase or reduction in systematic and specific risk resulting from the application, the acceptable criteria for counterparties in over the counter derivative applications, and the procedures in place to monitor and manage the derivative exposure. Internal control procedures to properly account and value the Funds' exposure to the derivative application shall be fully documented. UTIMCO shall establish an appropriate risk management procedure to monitor compliance and will take corrective action if necessary. UTIMCO shall make a comprehensive report of all derivative applications to the UTIMCO Board on at least a quarterly basis.

### Limitations:

Leverage is inherent in derivatives ~~securities~~ since only a small cash deposit is required to establish a much larger economic impact position. Thus, relative to the cash markets, where in most cases the cash outlay is equal to the asset acquired, derivatives applications offer the possibility of establishing substantially larger market risk exposures with the same amount of cash as a traditional cash market portfolio. Therefore, risk management and control processes must focus on the total risk assumed in a derivatives application, which is the sum of the application-specific risk and the market (systematic) risk established by the derivative application. In order to control and limit the leverage risk, each derivative application must specify a baseline portfolio, and risk measures such as Value at Risk (VAR) will be employed to assure that the total economic impact risk of the derivative application portfolio relative to the baseline portfolio will not exceed 20% of the underlying value of the baseline portfolio. The total relative economic impact risk of each derivative application will be monitored on a daily basis by the most appropriate risk management tools for the particular derivatives application.

As an additional global limitation, the total gross value (without netting counter positions) of all internal derivatives positions shall not exceed ~~4550~~% of the net asset value of the Funds.



## **The University of Texas Investment Management Company Derivative Investment Policy**

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In order to limit the financial risks associated with derivative applications, rigorous counterparty selection criteria and netting agreements shall be required to minimize counterparty risk for over the counter derivatives. The counterparty must be an investment grade credit and the agreement must be marked to market no less frequently than monthly.

**The University of Texas Investment Management Company**  
**Derivative Investment Policy**

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**Derivative Investment Policy Exhibit**  
**Glossary of Terms**

**Application-specific risk** – The portion of total risk in a derivatives application which is due to factors unique to the application as opposed to more systematic, market-related factors. For example, in an option on a specific stock, the risk associated with the specific business results of the company which issued the stock underlying the option would be application-specific risk, as opposed to the overall risk of the stock market which would be Systematic Risk.

**Baseline portfolio** – The cash-market based portfolio which will serve as the basis for calculating the relative risk level of an equivalent derivatives application.

**Cash equivalents** – Includes cash, short term fixed income instruments, accruals, variation margin and one day deposits in transit to the account.

**Cash market** - The physical market for a commodity or financial instrument.

**Counterparty** - The offsetting party in an exchange agreement.

**Derivative application** – A definition of the intended use of a derivative-based position such as replication or enhancing index returns, asset allocation or completion fund strategies, and various alpha transport strategies.

**Derivative application portfolio** – The portfolio including derivative instruments, cash equivalents, and other cash market assets established to replicate a specified baseline portfolio.

**Economic exposure** - The total effective exposure of a derivative position. The economic exposure is the product of the dollar value of the exposure and the market or systematic risk level of the exposure. A common method of measuring economic exposure is with risk management tools such as “value at risk.”

**Exchange traded derivatives** - A derivative instrument traded on an established national or international exchange. These instruments “settle” daily in that cash exchanges are made between the exchange and parties to the contracts consistent with the change in price of the instrument. Fulfillment of the contract is guaranteed by the exchange on which the instruments are traded. Examples include S&P 500 futures contracts and Goldman Sachs Commodities Index futures contracts.

~~**Exchange Traded Funds** – Exchange listed and traded portfolios of publicly traded securities.~~

**Forward contract** - A non-standardized contract for the physical or electronic (through a bookkeeping entry) delivery of a commodity or financial instrument at a specified price at some point in the future.

**Futures contract** - A standardized contract for either the physical delivery of a commodity or instrument at a specified price at some point in the future, or a financial settlement derived from the change in market price of the commodity or financial instrument during the term of the contract.

**Option** - An instrument that conveys the right but not the obligation to buy or deliver the subject financial instrument at a specified price, at a specified future date.

**Over the counter derivatives** - A derivative instrument which result from direct negotiation between a buyer and a counterparty. The terms of such instruments are non-standard and are the result of specific

## The University of Texas Investment Management Company Derivative Investment Policy

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negotiations. Settlement occurs at the negotiated termination date, although the terms may include interim cash payments under certain conditions. Examples include currency swaps and forward contracts, interest rate swaps, and collars.

**Swap** - A contract whereby the parties agree to exchange cash flows of defined investment assets in amounts and times specified by the contract.

**Systematic risk** – The non-diversifiable risks associated with an investment in a particular asset market. For example the financial, political, and other risks associated with a portfolio of common stocks are known as “market” or systematic risks.

**Value at risk (VAR)** – An established method of measuring economic exposure risk. The measure conveys the maximum potential loss (in dollars or percent of total assets) for a particular investment position, for a particular period of time, for a particular level of confidence.

11. **U. T. System Board of Regents: Discussion of revised disclosure regarding restatement of investment performance against benchmarks**

**PURPOSE**

Executive Vice Chancellor Kelley will discuss revised disclosure language for the restatement of investment performance benchmarks. The complete disclosure includes a table, presented on Page 18.3, with a year-by-year comparison of benchmarks as restated and prior to restatement, as well as a complete history of the benchmark composition for the Permanent University Fund (PUF) and General Endowment Fund (GEF) policy portfolios (Pages 18.4 – 18.8).

**BACKGROUND INFORMATION**

On July 8, 2005, the Board of Regents approved a restatement of the benchmarks for the presentation of endowment policy portfolios managed by UTIMCO. The Board also approved a corresponding Error Correction Policy. The complete form of disclosure for the restated benchmark history is shown on Pages 18.1 – 18.8. This disclosure includes a footnote at the bottom of the performance presentation (Page 18.1) that refers to the restatement and contains a link to the more detailed disclosure provided on Pages 18.2 – 18.8.

As requested by the Board, U. T. System staff and UTIMCO staff have prepared for discussion two alternate forms of disclosing the effect of the restatement on Pages 18.9 – 18.10.

**UTIMCO Performance Summary**  
June 30, 2005

	Net Asset Value 6/30/2005 (in Millions)	Periods Ended June 30, 2005 (Returns for Periods Longer Than One Year are Annualized)										
		One Month	Three Months	Six Months	Calendar Year To Date	Fiscal Year To Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
<b>ENDOWMENT FUNDS</b>												
Permanent University Fund	\$ 9,035.9	1.41	2.13	3.93	3.93	14.15	13.52	16.74	11.71	7.32	5.10	9.75
General Endowment Fund		1.42	2.07	3.89	3.89	14.25	13.58	16.78	11.96	7.66	N/A	N/A
Permanent Health Fund	896.5	1.40	2.03	3.82	3.82	14.12	13.43	16.63	11.82	7.52	5.07	N/A
Long Term Fund	3,876.2	1.40	2.03	3.81	3.81	14.12	13.43	16.61	11.85	7.56	5.25	10.44
Separately Invested Funds	173.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total Endowment Funds</b>	<b>13,981.9</b>											
<b>OPERATING FUNDS</b>												
Short Term Fund	2,286.9	0.25	0.73	1.31	1.31	1.91	2.13	1.57	1.54	1.82	2.66	4.12
Short Intermediate Term Fund	1,213.2	0.29	1.19	1.38	1.38	2.02	3.01	2.09	2.22	2.79	4.09	5.07
Institutional Index Funds:												
BGI US Bond Index Fund	-	0.56	3.03	2.52	2.52	3.80	6.83	3.57	5.84	6.54	7.49	N/A
BGI Equity Index Fund	265.7	0.14	1.38	(0.77)	(0.77)	9.58	6.41	12.58	8.34	1.06	(2.33)	N/A
<b>Total Operating Funds</b>	<b>3,765.8</b>											
<b>Total Investments</b>	<b>\$ 17,747.7</b>											

<b>BENCHMARKS (1)</b>												
Permanent University Fund: Policy Portfolio		1.67	3.57	4.49	4.49	12.25	12.69	13.78	9.30	5.32	3.47	10.49
General Endowment Fund: Policy Portfolio		1.67	3.57	4.49	4.49	12.25	12.69	13.78	9.30	5.31	3.37	10.39
Short Term Fund: 90 Day Treasury Bills Average Yield		0.23	0.72	1.29	1.29	1.91	2.15	1.57	1.55	1.82	2.62	3.97
Short Intermediate Ter												
Merrill Lynch 1-3 Year Treasury Index (8/04-current)		0.20	1.14	0.88	0.88	0.81	1.95	1.15	2.45	3.48	4.58	5.15
Institutional Bond Index Fund: Lehman Brothers Aggregate Bond Index		0.55	3.01	2.51	2.51	3.77	6.80	3.51	5.76	6.47	7.40	6.83
Institutional Equity Index Fund: Standards & Poor's 500 Index (S&P 500)		0.14	1.37	(0.81)	(0.81)	9.52	6.32	12.54	8.28	1.02	(2.37)	9.94

<b>VALUE ADDED (2)</b>												
Permanent University Fund		(0.26)	(1.44)	(0.56)	(0.56)	1.89	0.82	2.96	2.41	2.00	1.63	(0.74)
General Endowment Fund		(0.25)	(1.49)	(0.59)	(0.59)	2.00	0.88	3.00	2.66	2.34	N/A	N/A
Permanent Health Fund		(0.27)	(1.54)	(0.67)	(0.67)	1.87	0.74	2.86	2.52	2.21	1.70	N/A
Long Term Fund		(0.27)	(1.54)	(0.68)	(0.68)	1.87	0.73	2.83	2.55	2.25	1.88	0.05
Short Term Fund		0.02	0.01	0.02	0.02	0.00	(0.02)	0.01	(0.01)	(0.01)	0.03	0.15
Short Intermediate Term Fund		0.09	0.06	0.50	0.50	1.22	1.07	0.94	(0.23)	(0.70)	(0.49)	(0.08)
Institutional Bond Index Fund		0.01	0.02	0.01	0.01	0.02	0.03	0.06	0.08	0.08	0.09	N/A
Institutional Equity Index Fund		0.00	0.01	0.04	0.04	0.06	0.09	0.04	0.06	0.04	0.04	N/A

(1) - Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct two technical errors in benchmark construction and calculation and to replace the private capital asset benchmark in previously reported Policy Portfolio returns. Results were restated for all prior periods beginning June, 1993. Complete details of the restatement as well as prior Policy Portfolio returns are available on the web site at [www.utimco.org](http://www.utimco.org) or upon request.

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



**UTIMCO Restatement of Historical  
Endowment Policy Portfolio Returns**

**Performance Presentation Footnote and Detailed Disclosure**

**The following disclosure appears as a footnote to published performance results that include presentation of historical benchmarks:**

Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct two technical errors in benchmark construction and calculation and to replace the private capital asset benchmark in previously reported Policy Portfolio returns. Results were restated for all prior periods beginning June, 1993. Complete details of the restatement as well as prior Policy Portfolio returns are available on the web site at [www.UTIMCO.org](http://www.UTIMCO.org) or upon request.

**A link will be provided on the UTIMCO web site to disclosure in substantially the following form to describe the details of the restatement as well as prior Policy Portfolio returns:**

**Procedures Used to Restate Prior Policy Portfolio Returns**

Policy Portfolio returns for all periods beginning June 1993 were restated in 2004 to correct two technical errors in benchmark construction and calculation and to replace the private capital asset benchmark in previously reported Policy Portfolio returns as follows:

1. UTIMCO began publishing Policy Portfolio returns in 1997. At that time, Policy Portfolio returns for periods prior to 1997 were calculated using the policy asset allocation targets in place in 1997 rather than the actual approved allocations in prior years. In addition, when changes were made in asset allocation targets subsequent to 1997, those changes were implemented immediately in calculating Policy Portfolio returns, despite that fact that the changes might take years to actually implement especially in less liquid asset categories. As a result, prior Policy Portfolio returns did not accurately reflect either the true Asset Allocation Policies in place at each point in time in history or the practical implementation of those Policies. In order to correct these errors, UTIMCO analyzed Board of Regents minutes, UTIMCO Board minutes, and actual quarterly asset statements for the PUF and GEF/LTF for the period 1992 through 2003. Changes in Policy Allocations for liquid asset categories such as public equities and bonds were implemented almost immediately in the LTF/GEF's Policy Portfolio. However, changes in allocations to the LTF/GEF's private equity and hedge funds were phased in on a straight-line basis over time periods that were deemed reasonable to reflect the actual time it would take to implement those changes in the actual endowment portfolios. The PUF was phased-in more closely aligned with actual asset allocation due to the restraints placed on it from the distribution requirements. A senior consultant at Cambridge Associates reviewed the phase in procedures and found them to be reasonable.
2. Since the time it began reporting Policy Portfolio returns in 1997, UTIMCO has reported a single Policy Portfolio return for each time period for comparison to both the PUF and GEF/LTF. However, prior to Texas State Proposition 17 in 1999, the PUF asset allocation was constrained by the necessity to maintain a relatively level annual distribution which could be paid only out of current income. Proposition 17 converted the PUF to a so-called "total return" basis in which distributions could be paid out of either income or principal. The GEF/LTF had paid distributions on a "total return" basis since 1987. In a period of generally declining interest rates over the late 1990's, the PUF was forced into asset allocation positions that differed substantially from stated Investment Policy Targets which were apparently set without consideration of the income requirements (there was no differentiation in Asset Allocation Policy for the PUF and the GEF/LTF) in order to meet income requirements to pay distributions. To correct this error in Policy Portfolio construction, the phase-in process described above was done differently for the PUF Policy Portfolio than for the GEF/LTF Policy Portfolio, resulting in different returns for the two benchmarks. Phase-ins for the PUF were defined to more closely mirror the actual holdings in the PUF since the need to generate current income sometimes precluded a smooth linear phase-in as used in the

**UTIMCO Restatement of Historical  
Endowment Policy Portfolio Returns cont'd**

case of the GEF/LTF. A senior consultant from Cambridge Associates reviewed the assumptions for both the PUF and GEF/LTF and found them to be appropriate.

3. Like many investors in the private capital asset category, UTIMCO has had difficulty determining an appropriate benchmark for the asset category. Over the 1993 through 2004 time period, UTIMCO has used at various times a flat 17% benchmark, a Wilshire 5000 +4% benchmark, and has recently adopted the Venture Economics Periodic IRR Index to evaluate actual private capital performance. Both the flat 17% benchmark and the Wilshire 5000 + 4% proxy benchmark have serious flaws. An essential trait of any appropriate benchmark is that returns for the benchmark should have a high degree of correlation with the actual returns of the portfolio to which the benchmark is being used as a comparison. As the table below indicates, the flat 17% and Wilshire 5000 + 4% benchmarks fail this essential test, especially over shorter time frames. These correlation measures were calculated from actual data over the 1993 to 2003 time period.

Correlation Coefficients	UTIMCO and Venture Economics	UTIMCO and Wilshire +4%	UTIMCO and 17%
1 Year	0.9229	0.5162	0.0000
3 Years	0.8931	0.8882	0.0291
5 Years	0.9520	0.9710	0.0000

While the Wilshire proxy benchmark might be appropriate for longer term time periods such as 5 to 10 years, it is clearly not appropriate over shorter time periods such as one year. The flat 17% benchmark is not appropriate over any time period. On the other hand, the Venture Economics Index passes this important test over all time periods. Since we know that this Index has been a good benchmark over the ten year period that historical results are provided by the statistics above, the Venture Economics Index has been applied retroactively as the private capital asset category benchmark.

The composite result of the restatements of historical Policy Portfolio returns are indicated in the table below. The table also presents Policy Portfolio returns under the prior methods of calculation.

**UTIMCO Performance Summary**

	Years Ended August 31,										
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Permanent University Fund	3.24	16.04	10.63	23.77	4.94	17.82	16.53	(8.64)	(7.35)	12.02	14.73
Permanent University Fund Policy Portfolio	1.72	16.27	12.83	24.72	12.45	20.06	21.88	(9.41)	(6.77)	6.75	13.15
General Endowment Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(6.96)	12.81	14.77
Permanent Health Fund	N/A	N/A	N/A	N/A	N/A	N/A	16.08	(9.24)	(7.05)	12.67	14.60
Long Term Fund	4.11	15.77	11.49	25.04	1.87	21.92	20.59	(8.80)	(6.97)	12.78	14.59
General Endowment Fund Policy Portfolio	2.63	16.69	13.54	26.25	6.74	23.55	21.28	(9.59)	(6.77)	6.75	13.15
Policy Portfolio Before Restatement	7.31	16.02	13.59	25.58	2.05	29.08	16.06	(11.36)	(6.57)	11.93	14.44

## **UTIMCO ENDOWMENT POLICY PORTFOLIO**

### **Benchmark Composition History**

**PUF Endowment Benchmark History:** Beginning January 1, 2004, represents the policy targets as set forth in the Investment Policy Statements approved by the Board of Regents on December 19, 2003. This benchmark is comprised of 20% Russell 3000 Index, 5% Dow Jones Wilshire Real Estate Securities Index, 17% MSCI All Country World ex-U.S. Index, 10% 90 Day T-Bills + 4%, 15% 90 Day T-Bills + 3%, 15% Venture Economics Private Capital Benchmark, 3% GSCI minus 1%, 10% Lehman Brothers Aggregate Bond Index, and 5% Lehman Brothers U.S. TIPS Index Returns through December 31, 2003, represent the returns of the UTIMCO Board of Directors approved Endowment Policy Portfolio. The return history of this benchmark has been supplied by UTIMCO, and the composition of the benchmark is understood as follows:

- **(Sept 1, 2002 - Dec 31, 2003)** - This benchmark is comprised of 24.3% Wilshire 5000 Index, 15.7% MSCI All Country World Free ex-U.S. Index, 20% 90 Day T-Bills + 4%, 10% GSCI minus 1%, 10% Lehman Brothers Government Bond Index, 5% Lehman Brothers Aggregate Bond ex-Government Index, and 15% Venture Economics Private Capital Benchmark.
- **(Nov 1, 2000 - Aug 31, 2002)** - This benchmark is comprised of 25% S&P 500 Index, 7.5% Russell 2000 Index, 12% MSCI EAFE Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 15% Venture Economics Index.
- **(Sept 1, 2000 - Oct 31, 2000)** - This benchmark is comprised of 25% S&P 500 Index, 7.5% Russell 2000 Index, 12% FT Actuarial World ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 15% Venture Economics Index.
- **(Mar 1, 2000 - Aug 31, 2000)** - This benchmark is comprised of 29% S&P 500 Index, 7.5% Russell 2000 Index, 12% FT Actuarial World ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 6% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 15% Venture Economics Index.
- **(Dec 1, 1999 - Feb 28, 2000)** - This Benchmark is comprised of 34% S&P 500 Index, 8% Russell 2000 Index, 7% FT Actuarial World ex-U.S. Index, 7.5% GSCI minus 1%, 30.5% Lehman Brothers Aggregate Bond Index, 13% Venture Economics Index.
- **(Jun 1, 1999 - Nov 30, 1999)** - This Benchmark is comprised of 46% S&P 500 Index, 6% Russell 2000 Index, 7% FT Actuarial World ex-U.S. Index, 30% Lehman Brothers Government Long Index, 11% Venture Economics Index.
- **(Mar 1, 1999 - May 31, 1999)** This Benchmark is comprised of 47% S&P 500 Index, 6% Russell 2000 Index, 7% FT Actuarial World ex-U.S. Index, 31% Lehman Brothers Government Long Index, 9% Venture Economics Index.
- **(Jun 1, 1998 - Feb 28, 1999)** This Benchmark is comprised of 43% S&P 500 Index, 6% Russell 2000 Index, 7% FT Actuarial World ex-U.S. Index, 36% Lehman Brothers Government Long Index, 8% Venture Economics Index.
- **Mar 1, 1998 - May 31, 1998)** This Benchmark is comprised of 44% S&P 500 Index, 6% Russell 2000 Index, 7% FT Actuarial World ex-U.S. Index, 36% Lehman Brothers Government Long Index, 7% Venture Economics Index.



## **UTIMCO ENDOWMENT POLICY PORTFOLIO**

### **Benchmark Composition History cont'd**

- **(Dec 1, 1997 - Feb 28, 1998)** This Benchmark is comprised of 45% S&P 500 Index, 6% Russell 2000 Index, 7% FT Actuarial World ex-U.S. Index, 36% Lehman Brothers Government Long Index, 6% Venture Economics Index.
- **(Mar 1, 1997 - Nov 30, 1997)** This Benchmark is comprised of 43% S&P 500 Index, 6% Russell 2000 Index, 7% FT Actuarial World ex-U.S. Index, 38% Lehman Brothers Government Long Index, 6% Venture Economics Index.
- **(Mar 1, 1996 - Feb 28, 1997)** This Benchmark is comprised of 40% S&P 500 Index, 5% Wilshire Small Cap Index, 5% MSCI EAFE, 44% Salomon Broad Investment Grade Bond Index, 6% Venture Economics Index.
- **(Jun 1, 1995 - Feb 28, 1996)** This Benchmark is comprised of 45% S&P 500 Index, 49% Shearson Lehman Government Corporate Bond Index, 6% Venture Economics Index.
- **(Jun 1, 1994 - May 31, 1995)** This Benchmark is comprised of 43% S&P 500 Index, 52% Shearson Lehman Government Corporate Bond Index, 5% Venture Economics Index.
- **(Sept 1, 1993 - May 31, 1994)** This Benchmark is comprised of 42% S&P 500 Index, 54% Shearson Lehman Government Corporate Bond Index, 4% Venture Economics Index.
- **(Jun 1, 1993 - Aug 31, 1993)** This Benchmark is comprised of 40% S&P 500 Index, 57% Shearson Lehman Government Corporate Bond Index, 3% Venture Economics Index.

**GEF Endowment Benchmark History:** Beginning January 1, 2004, represents the policy targets as set forth in the Investment Policy Statements approved by the Board of Regents on December 19, 2003. This benchmark is comprised of 20% Russell 3000 Index, 5% Dow Jones Wilshire Real Estate Securities Index, 17% MSCI All Country World ex-U.S. Index, 10% 90 Day T-Bills + 4%, 15% 90 Day T-Bills + 3%, 15% Venture Economics Private Capital Benchmark, 3% GSCI minus 1%, 10% Lehman Brothers Aggregate Bond Index, and 5% Lehman Brothers U.S. TIPS Index Returns through December 31, 2003, represent the returns of the UTIMCO Board of Directors approved Endowment Policy Portfolio. The return history of this benchmark has been supplied by UTIMCO, and the composition of the benchmark is understood as follows:

- **(Sept 1, 2002 - Dec 31, 2003)** This benchmark is comprised of 24.3% Wilshire 5000 Index, 15.7% MSCI All Country World Free ex-U.S. Index, 20% 90 Day T-Bills + 4%, 10% GSCI minus 1%, 10% Lehman Brothers Government Bond Index, 5% Lehman Brothers Aggregate Bond ex-Government Index, and 15% Venture Economics Private Capital Benchmark.
- **(Sept 1, 2001 - Aug 31, 2002)** This benchmark is comprised of 25% S&P 500 Index, 7.5% Russell 2000 Index, 12% MSCI EAFE Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 15% Venture Economics Index.
- **(Jun 1, 2001 - Aug 31, 2001)** This benchmark is comprised of 25% S&P 500 Index, 8.1% Russell 2000 Index, 12% MSCI EAFE Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 14.4% Venture Economics Index.
- **(Mar 1, 2001 - May 31, 2001)** This benchmark is comprised of 25% S&P 500 Index, 8.6% Russell 2000 Index, 12% MSCI EAFE Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills +

## **UTIMCO ENDOWMENT POLICY PORTFOLIO**

### **Benchmark Composition History cont'd**

7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 13.9% Venture Economics Index.

- **(Dec 1, 2000 - Feb 28, 2001)** This benchmark is comprised of 25% S&P 500 Index, 9.2% Russell 2000 Index, 12% MSCI EAFE Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 13.3% Venture Economics Index.
- **(Nov 1, 2000 - Nov 30, 2000)** This benchmark is comprised of 25% S&P 500 Index, 9.7% Russell 2000 Index, 12% MSCI EAFE Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 12.8% Venture Economics Index.
- **(Sept 1, 2000 - Oct 31, 2000)** This benchmark is comprised of 25% S&P 500 Index, 9.7% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 12.8% Venture Economics Index.
- **(Jun 1, 2000 - Aug 31, 2000)** This benchmark is comprised of 25% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15.3% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 12.2% Venture Economics Index.
- **(Mar 1, 2000 - May 31, 2000)** This benchmark is comprised of 25% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 15.9% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 11.6% Venture Economics Index.
- **(Dec 1, 1999 - Feb 28, 2000)** This benchmark is comprised of 25% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 10% 90 Day T-Bills + 7% Index, 7.5% GSCI minus 1%, 16.4% Lehman Brothers Aggregate Bond Index, 5% Citicorp Non-US Bond Index, 11.1% Venture Economics Index.
- **(Sept 1, 1999 - Nov 30, 1999)** This benchmark is comprised of 30% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 7% CPI + 8%, 22.5% Lehman Gov't Long Index, 5% JP Morgan Global Gov't Index, 10.5% Venture Economics Index.
- **(Jun 1, 1999 - Aug 31, 1999)** This benchmark is comprised of 31.9% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 7% CPI + 8%, 21.2% Lehman Gov't Long Index, 5% JP Morgan Global Gov't Index, 9.9% Venture Economics Index.
- **(Mar 1, 1999 - May 31, 1999)** This benchmark is comprised of 33.8% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 7% CPI + 8%, 19.8% Lehman Gov't Long Index, 5% JP Morgan Global Gov't Index, 9.4% Venture Economics Index.
- **(Dec 1, 1998 - Feb 28, 1999)** This benchmark is comprised of 35.6% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 7%

## UTIMCO ENDOWMENT POLICY PORTFOLIO

### Benchmark Composition History cont'd

CPI + 8%, 18.6% Lehman Gov't Long Index, 5% JP Morgan Global Gov't Index, 8.8% Venture Economics Index.

- **(Sept 1, 1998 - Nov 30, 1998)** This benchmark is comprised of 37.5% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 7% CPI + 8%, 17.2% Lehman Gov't Long Index, 5% JP Morgan Global Gov't Index, 8.3% Venture Economics Index.
- **(Jun 1, 1998 - Aug 31, 1998)** This benchmark is comprised of 39.4% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 7% CPI + 8%, 15.9% Lehman Gov't Long Index, 5% JP Morgan Global Gov't Index, 7.7% Venture Economics Index.
- **(Mar 1, 1998 - May 31, 1998)** This benchmark is comprised of 41.3% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 26.6% Lehman Gov't Long Index, 7.1% Venture Economics Index.
- **(Dec 1, 1997 - Feb 28, 1998)** This benchmark is comprised of 43.1% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 25.3% Lehman Gov't Long Index, 6.6% Venture Economics Index.
- **(Mar 1, 1997 - Nov 30, 1997)** This benchmark is comprised of 45.0% S&P 500 Index, 10% Russell 2000 Index, 12% FT Actuarial World Ex-U.S. Index, 3% MSCI Emerging Markets Free Index, 24.0% Lehman Gov't Long Index, 6.0% Venture Economics Index.
- **(Dec 1, 1996 - Feb 28, 1997)** This benchmark is comprised of 45.0% S&P 500 Index, 10% Wilshire Small Cap Index, 9.7% MSCI EAFE Index, 2% IFC Investable Comp. Index, 27.3% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.
- **(Sept 1, 1996 - Nov 30, 1996)** This benchmark is comprised of 45.0% S&P 500 Index, 8.8% Wilshire Small Cap Index, 9.1% MSCI EAFE Index, 1.8% IFC Investable Comp. Index, 29.3% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.
- **(Jun 1, 1996 - Aug 31, 1996)** This benchmark is comprised of 45.0% S&P 500 Index, 7.5% Wilshire Small Cap Index, 8.5% MSCI EAFE Index, 1.5% IFC Investable Comp. Index, 31.5% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.
- **(Mar 1, 1996 - May 31, 1996)** This benchmark is comprised of 45.0% S&P 500 Index, 6.3% Wilshire Small Cap Index, 7.9% MSCI EAFE Index, 1.3% IFC Investable Comp. Index, 33.5% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.
- **(Dec 1, 1995 - Feb 28, 1996)** This benchmark is comprised of 45.0% S&P 500 Index, 5.0% Wilshire Small Cap Index, 7.3% MSCI EAFE Index, 1.0% IFC Investable Comp. Index, 35.7% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.
- **(Sept 1, 1995 - Nov 30, 1995)** This benchmark is comprised of 45.0% S&P 500 Index, 3.8% Wilshire Small Cap Index, 6.8% MSCI EAFE Index, 0.8% IFC Investable Comp. Index, 37.6% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.

## **UTIMCO ENDOWMENT POLICY PORTFOLIO**

### **Benchmark Composition History cont'd**

- **(Jun 1, 1995 - Aug 31, 1995)** This benchmark is comprised of 45.0% S&P 500 Index, 2.5% Wilshire Small Cap Index, 6.2% MSCI EAFE Index, 0.5% IFC Investable Comp. Index, 39.8% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.
- **(Mar 1, 1995 - May 31, 1995)** This benchmark is comprised of 45.0% S&P 500 Index, 1.3% Wilshire Small Cap Index, 5.6% MSCI EAFE Index, 0.3% IFC Investable Comp. Index, 41.8% Salomon Broad Investment Grade Bond Index, 6.0% Venture Economics Index.
- **(Sept 1, 1994 - Feb 28, 1995)** This benchmark is comprised of 50.0% S&P 500 Index, 44.0% Shearson Lehman Gov't Corporate Bond Index, 6.0% Venture Economics Index.
- **(Jun 1, 1994 - Aug 31, 1994)** This benchmark is comprised of 49.5% S&P 500 Index, 44.5% Shearson Lehman Gov't Corporate Bond Index, 6.0% Venture Economics Index.
- **(Mar 1, 1994 - May 31, 1994)** This benchmark is comprised of 49.0% S&P 500 Index, 45.0% Shearson Lehman Gov't Corporate Bond Index, 6.0% Venture Economics Index.
- **(Dec 1, 1993 - Feb 28, 1994)** This benchmark is comprised of 48.5% S&P 500 Index, 45.5% Shearson Lehman Gov't Corporate Bond Index, 6.0% Venture Economics Index.
- **(Sept 1, 1993 - Nov 30, 1993)** This benchmark is comprised of 48.0% S&P 500 Index, 46.0% Shearson Lehman Gov't Corporate Bond Index, 6.0% Venture Economics Index.
- **(Jun 1, 1993 - Aug 31, 1993)** This benchmark is comprised of 47.5% S&P 500 Index, 46.5% Shearson Lehman Gov't Corporate Bond Index, 6.0% Venture Economics Index.

	Net Asset Value 5/31/2005 (in Millions)	Periods Ended Net Asset Value (Returns for Periods Longer Than One Year are Annualized)										
		One Month	Three Months	Calendar Year To Date	Six Months	Fiscal Year To Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
<b>ENDOWMENT FUNDS</b>												
Permanent University Fund	\$ 8,899.8	1.73	0.14	2.49	4.97	12.56	13.41	16.67	10.00	6.79	5.47	9.76
General Endowment Fund		1.72	0.09	2.44	4.89	12.65	13.38	16.76	10.20	7.18	N/A	N/A
Permanent Health Fund	887.2	1.73	0.04	2.39	4.83	12.55	13.31	16.60	10.08	7.05	5.53	N/A
Long Term Fund	3,792.4	1.73	0.04	2.38	4.84	12.55	13.32	16.61	10.11	7.09	5.61	10.46
Separately Invested Funds	208.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total Endowment Funds</b>	<b>13,787.7</b>											
<b>OPERATING FUNDS</b>												
Short Term Fund	2,328.4	0.25	0.70	1.06	1.23	1.66	1.97	1.49	1.51	1.84	2.71	4.14
Short Intermediate Term Fund	1,202.0	0.43	0.98	1.09	1.39	1.73	2.93	1.96	2.24	2.81	4.33	5.11
Institutional Index Funds:												
BGI US Bond Index Fund	-	1.09	1.91	1.95	2.90	3.22	6.85	3.19	5.97	6.50	7.81	N/A
BGI Equity Index Fund	265.3	3.20	(0.53)	(0.91)	2.49	9.43	8.32	13.21	5.66	0.41	(1.88)	N/A
<b>Total Operating Funds</b>	<b>3,795.7</b>											
<b>Total Investments</b>	<b>\$ 17,583.4</b>											

<b>BENCHMARKS (1)</b>											
Permanent University Fund: Restated Policy Portfolio (1)	1.84	1.89	2.77	4.59	10.41	11.98	13.31	7.84	4.55	3.85	10.48
Permanent University Fund: Prior Policy Portfolio (1)	1.84	1.89	2.77	4.59	10.41	11.98	14.63	10.30	7.78	6.32	11.60
General Endowment Fund: Restated Policy Portfolio (1)	1.84	1.89	2.77	4.59	10.41	11.98	13.31	7.84	4.55	3.75	10.37
General Endowment Fund: Prior Policy Portfolio (1)	1.84	1.89	2.77	4.59	10.41	11.98	14.63	10.30	7.78	6.52	11.70
Short Term Fund: 90 Day Treasury Bills Average Yield	0.26	0.73	1.06	1.28	1.67	1.99	1.52	1.52	1.84	2.66	4.00
Short Intermediate Term Fund: Composite (3/93-7/04) and Merrill Lynch 1-3 Year Treasury Bills Average Yield (8/04-current)	0.38	0.95	0.68	0.89	0.61	1.82	1.10	2.65	3.52	4.77	5.19
Institutional Bond Index Fund: Lehman Brothers Aggregate Bond Index	1.08	1.92	1.96	2.90	3.21	6.82	3.13	5.87	6.42	7.73	6.85
Institutional Equity Index Fund: Standards & Poor's 500 Index (S&P 500)	3.18	(0.57)	(0.95)	2.42	9.36	8.24	13.17	5.60	0.36	(1.93)	10.18

<b>VALUE ADDED (2)</b>											
Permanent University Fund Restated Policy Portfolio	(0.11)	(1.75)	(0.29)	0.38	2.15	1.43	3.36	2.16	2.24	1.62	(0.72)
Permanent University Fund Prior Policy Portfolio	(0.11)	(1.75)	(0.29)	0.38	2.15	1.43	2.04	(0.30)	(0.98)	(1.05)	(1.84)
General Endowment Fund Restated Policy Portfolio	(0.12)	(1.80)	(0.34)	0.30	2.23	1.40	3.45	2.36	2.63	N/A	N/A
General Endowment Fund Prior Policy Portfolio	(0.12)	(1.80)	(0.34)	0.30	2.23	1.40	2.13	(0.10)	(0.59)	N/A	N/A
Permanent Health Fund	(0.11)	(1.85)	(0.39)	0.24	2.14	1.34	3.29	2.23	2.49	1.78	N/A
Long Term Fund	(0.11)	(1.85)	(0.39)	0.25	2.14	1.34	3.31	2.26	2.54	1.86	0.09
Short Term Fund	(0.01)	(0.03)	0.00	(0.04)	(0.02)	(0.02)	(0.03)	(0.02)	0.00	0.05	0.15
Short Intermediate Term Fund	0.05	0.04	0.41	0.50	1.12	1.11	0.87	(0.41)	(0.71)	(0.44)	(0.09)
Institutional Bond Index Fund	0.01	(0.01)	(0.01)	0.00	0.01	0.03	0.07	0.10	0.07	0.08	N/A
Institutional Equity Index Fund	0.02	0.04	0.04	0.07	0.06	0.09	0.04	0.06	0.05	0.04	N/A

(1) - Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct two technical errors in benchmark construction and calculation and to replace the private capital asset benchmark in previously reported Policy Portfolio returns. Results were restated for all periods beginning June, 1993. Complete details of the restatement as well as prior Policy Portfolio returns are available on the website at [www.utimco.org](http://www.utimco.org) or upon request.

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

Restated Performance History  
With Benchmark Restatement Summary

UTIMCO Performance Summary  
May 31, 2005

Net Asset Value 5/31/2005 (in Millions)	Periods Ended May 31, 2005 (Returns for Periods Longer Than One Year are Annualized)										
	One Month	Three Months	Calendar Year To Date	Six Months	Fiscal Year To Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
	1.73	0.14	2.49	4.97	12.56	13.41	16.67	10.00	6.79	5.47	9.76
Permanent University Fund	1.72	0.09	2.44	4.89	12.65	13.38	16.76	10.20	7.18	N/A	N/A
General Endowment Fund	1.73	0.04	2.39	4.83	12.55	13.31	16.60	10.08	7.05	5.53	N/A
Permanent Health Fund	1.73	0.04	2.38	4.84	12.55	13.32	16.61	10.11	7.09	5.61	10.46
Long Term Fund	208.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Separately Invested Funds	208.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total Endowment Funds</b>	<b>13,787.7</b>										
<b>OPERATING FUNDS</b>											
Short Term Fund	2.328.4	0.25	0.70	1.06	1.23	1.66	1.97	1.49	1.84	2.71	4.14
Short Intermediate Term Fund	1,202.0	0.43	0.98	1.09	1.39	1.73	2.93	1.96	2.24	2.81	4.33
Institutional Index Funds:											
BGI US Bond Index Fund											
BGI Equity Index Fund	265.3	1.09	1.91	1.95	2.90	3.22	6.85	3.19	5.97	6.50	7.81
<b>Total Operating Funds</b>	<b>3,795.7</b>	<b>3.20</b>	<b>(0.53)</b>	<b>(0.91)</b>	<b>2.49</b>	<b>9.43</b>	<b>8.32</b>	<b>13.21</b>	<b>5.66</b>	<b>0.41</b>	<b>(1.88)</b>
<b>Total Investments</b>	<b>\$ 17,583.4</b>										

Net Asset Value 5/31/2005 (in Millions)	Periods Ended August 31, 2005										
	One Month	Three Months	Calendar Year To Date	Six Months	Fiscal Year To Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
	1.84 <th>1.89 <th>2.77 <th>4.59 <th>10.41 <th>11.98 <th>13.31 <th>7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th></th></th></th></th></th></th></th>	1.89 <th>2.77 <th>4.59 <th>10.41 <th>11.98 <th>13.31 <th>7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th></th></th></th></th></th></th>	2.77 <th>4.59 <th>10.41 <th>11.98 <th>13.31 <th>7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th></th></th></th></th></th>	4.59 <th>10.41 <th>11.98 <th>13.31 <th>7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th></th></th></th></th>	10.41 <th>11.98 <th>13.31 <th>7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th></th></th></th>	11.98 <th>13.31 <th>7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th></th></th>	13.31 <th>7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th></th>	7.84 <th>4.55 <th>3.85 <th>10.48</th> </th></th>	4.55 <th>3.85 <th>10.48</th> </th>	3.85 <th>10.48</th>	10.48
Permanent University Fund: Restated Policy Portfolio (1)	1.84	1.89	2.77	4.59	10.41	11.98	13.31	7.84	4.55	3.85	10.48
General Endowment Fund: Restated Policy Portfolio (1)	1.84	1.89	2.77	4.59	10.41	11.98	13.31	7.84	4.55	3.75	10.37
Short Term Fund: 90 Day Treasury Bills Average Yield	0.26	0.73	1.06	1.28	1.67	1.99	1.52	1.52	1.84	2.66	4.00
Short Intermediate Term Fund: Composite (3/93-7/04) and Merrill Lynch 1-3 Year Treasury Index (8/04-current)	0.38	0.95	0.68	0.89	0.61	1.82	1.10		3.52	4.77	5.19
Institutional Bond Index Fund: Lehman Brothers Aggregate Bond Index	1.08	1.92	1.96	2.90	3.21	6.82	3.13	5.87	6.92	7.73	6.85
Institutional Equity Index Fund: Standard & Poor's 500 Index (S&P 500)	3.18	(0.57)	(0.95)	2.42	9.36	8.24	13.17	5.60	0.36	(1.93)	10.18
<b>VALUE ADDED (2)</b>											
Permanent University Fund: Restated Policy Portfolio	(0.11)	(1.73)	(0.29)	0.38	2.15	1.43	3.36	2.16	2.24	1.62	(0.72)
General Endowment Fund: Restated Policy Portfolio	(0.12)	(1.80)	(0.34)	0.30	2.23	1.40	3.45	2.36	2.63	N/A	N/A
Permanent Health Fund	(0.11)	(1.85)	(0.39)	0.24	2.14	1.31	3.29	2.23	2.19	1.78	N/A
Long Term Fund	(0.11)	(1.83)	(0.39)	0.25	2.14	1.34	3.31	2.26	2.54	1.86	0.09
Short Term Fund	(0.01)	(0.03)	0.00	(0.02)	(0.02)	(0.03)	(0.02)	0.00	0.00	0.15	(0.09)
Short Intermediate Term Fund	0.05	0.01	0.41	0.50	1.12	1.11	0.87	(0.43)	(0.71)	(0.44)	(0.09)
Institutional Bond Index Fund	0.01	(0.01)	(0.01)	0.00	0.01	0.05	0.07	0.10	0.07	0.08	N/A
Institutional Equity Index Fund	0.02	0.01	0.04	0.07	0.86	0.69	0.04	0.06	0.05	0.04	N/A

(1) - Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct two technical errors in benchmark construction and calculation and to replace the private capital asset benchmark in previously reported Policy Portfolio returns. Results were restated for all periods beginning June, 1993. Complete details of the restatement as well as prior Policy Portfolio returns are available on the website [www.utimco.org](http://www.utimco.org) or upon request. The impact of the restatement by fiscal year is shown below.

UTIMCO Performance Benchmark Restatement Summary

Net Asset Value 5/31/2005 (in Millions)	Periods Ended August 31, 2005											
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	12.36	3.24	16.04	10.63	23.77	4.94	17.82	16.53	(8.64)	(7.35)	12.02	14.73
Permanent University Fund	1.69	1.72	16.27	12.83	24.72	12.45	20.06	21.88	(9.41)	(6.77)	6.75	13.15
Permanent University Fund Policy Portfolio												
General Endowment Fund	3.13	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(6.96)	12.81	14.77
Permanent Health Fund	3.15	4.11	15.77	11.49	25.04	1.87	21.92	20.59	(8.80)	(6.97)	12.78	14.59
Long Term Fund	1.69	2.63	16.69	13.54	26.25	6.74	23.55	21.28	(9.59)	(6.77)	6.75	13.15
General Endowment Fund Policy Portfolio												
Policy Portfolio Before Restatement	1.69	7.31	16.02	13.59	25.58	2.05	29.08	16.06	(11.36)	(6.57)	11.93	14.44

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

12. **U. T. System: Report on highlights of the 79th Texas Legislature, Regular Session**

REPORT

Vice Chancellor Ashley Smith will present highlights of the 79th Texas Legislature, Regular Session. He will discuss key measures and their effect on higher education in the upcoming 2006-2007 biennium including System-wide plans to enhance educational attainment and research in Texas, using the PowerPoint attached on Pages 19.1 – 19.14. A related report is included in the back pocket of this notebook.



# THE UNIVERSITY OF TEXAS SYSTEM

## ***Highlights of the 79th Texas Legislature Regular Session***

*August 11, 2005*

*Office of Governmental Relations*





# Contents

- I. Significance of What Did and Did Not Happen**
- II. Appropriations Overview**
  - **Biennial Comparisons**
- III. System Legislative Priorities**
- IV. Interim Sessions – First and Second Called**



# Significance of What Didn't Happen

This legislative session may be most notable for what was proposed but did NOT happen:

- Tuition flexibility was not repealed or limited
- Statewide accountability plan—that would have tied tuition flexibility to accountability--was not enacted
- Claimants in the sovereign immunity case were not permitted to sue.
- Top 10% law was not repealed or modified
- Tuition revenue bonds were not approved
- Stem cell research was not limited
- Tobacco permanent funds were not moved into the treasury



# Significance of What Did Happen

- **Both academic and health institutions received increased appropriations over FY 04-05, with additional formula funding for formula enhancement and enrollment growth (\$160 million for academics, \$58 million for health)**
- **Graduate Medical Education (GME) for the first time received separate formula funding for faculty support (\$25 million)**
- **The correctional managed care shortfall was covered by a supplemental appropriation, and the amount appropriated for the next biennium was increased by \$60 million.**
- **A non-voting student regent was added to each of the state's boards of regents.**
- **A new Texas Emerging Technology Fund was created to underwrite university research and technology transfer.**
- **Higher education was relieved from some reporting burdens and the overall reporting burden will be studied in depth during the legislative interim.**
- **Disclosure of private equity investment information was clarified, permitting UTIMCO to continue to make private equity investments.**



# Appropriations Summary

## HEALTH INSTITUTIONS GENERAL REVENUE

(\$ millions)	04-05	06-07	\$ Change	% Change
UT Southwestern	\$201.9	\$259.0	\$57.1	28.26 %
UTMB Galveston	428.2	438.3	10.1	2.37 %
UTHSC Houston	243.8	261.6	17.8	7.28 %
UTHSC San Antonio	246.5	258.0	11.5	4.69 %
UT MD Anderson	268.3	288.8	20.5	7.64 %
UTHC Tyler	64.6	65.9	1.3	2.01 %
<b>Total</b>	<b>\$1,453.3</b>	<b>\$1,571.6</b>	<b>\$118.3</b>	<b>8.14 %</b>

**\*\*Inflation factor per biennium: 3.7%**



# Appropriations Summary

## ACADEMIC INSTITUTIONS GENERAL REVENUE

(\$ millions)	04-05	06-07	\$ Change	% Change
UT Arlington	\$163.0	\$169.0	\$6.0	3.69 %
UT Austin	483.4	502.8	19.4	4.01 %
UT Dallas	113.0	121.9	8.9	7.85 %
UT El Paso	117.9	126.5	8.6	7.27 %
UT Pan Am	99.2	109.8	10.6	10.72 %
UT Brownsville	37.6	41.2	3.5	9.40 %
UT Permian Basin	26.8	28.8	2.1	7.76 %
UT San Antonio	135.5	162.7	27.2	20.07 %
UT Tyler	43.8	50.4	6.5	14.95 %
<b>Total</b>	<b>\$1,220.2</b>	<b>\$1,313.0</b>	<b>\$92.8</b>	<b>7.61 %</b>
System Administration	1.65	1.56	(0.08)	(- 5.00)%
<b>Grand total</b>	<b>2,675.09</b>	<b>2,886.15</b>	<b>211.06</b>	<b>7.89 %</b>
<b>*Enrollment Growth</b>				<b>[6%]</b>
<b>**Inflation</b>				<b>[3.7%]</b>

19.6



# U.T. System Institutions Biennial Comparisons

## Health

	<b>02-03</b>	<b>04-05</b>	<b>06-07</b>
	\$1.483 Billion	\$1.453 Billion	\$1.57 Billion
<b>% Difference</b>		<b>[-2%]</b>	<b>[+8.14%]</b>

## Academic

	<b>02-03</b>	<b>04-05</b>	<b>06-07</b>
<b>\$ per FTSE</b>	\$5019	\$4430	\$4494
<b>% Difference</b>		<b>[-12%]</b>	<b>[+1.4%]</b>
<b>*Enrollment Growth</b>		<b>[13.9 %]</b>	<b>[6%]</b>
<b>**Inflation</b>		<b>[3.7%]</b>	<b>[3.7%]</b>



# System Legislative Priorities

## Closing the Gaps

- Legislature has reappropriated and reallocated the Higher Education Assistance Fund (HEAF). UT Brownsville will receive \$2.8 million per year, up from \$1.05 million, and UT Pan American will receive \$8.6 million per year, up from \$6.08 million. [HB 3001]
- An emerging institution, UT Health Center – Tyler, was approved to offer education and training in allied health and related health science fields. [SB 276]



# System Legislative Priorities

## Ensuring High Quality Education & Academic Success

- TEXAS grant program changed to increase the availability of grants to students in public institutions of higher education while raising the minimum required GPA to retain eligibility. [SB 1227; HB 1172]
- Tuition-based graduation incentives enacted, encouraging timely graduation in order to reduce costs and make space for the anticipated increase in enrolled students. [SBs 30, 32]
- A new appropriations rider requires the Legislative Budget Board (LBB) and Coordinating Board to work with higher education institutions to align appropriations performance measures with the measures included in the statewide accountability system developed by the Coordinating Board. [SB 1]





# System Legislative Priorities

## Providing Excellence in Health Care

- Formula funding of GME: \$25 million annually statewide, primarily salaries for faculty supervision of medical residents. [SB 1]
- Immediate additional \$66.3 million for correctional managed health care, in addition \$25 million increase for the biennium [HB10; SB 1]
- Incentives to recruit and retain nursing faculty: tuition waivers, continuation of retirement benefits for nursing faculty who return to work, and low-cost home loans. [SB 132]



# System Legislative Priorities

## Enhancing Institutional Competitiveness for Educators & Researchers

- \$132 million for full debt service (two years' principal and interest) on existing TRBs for UT institutions. [SB 1]
- \$42.8 million appropriated to the *Research Development Fund* (RDF), an increase of \$19.5 million. System institutions will receive \$14.3 million during the biennium, or 33.5 percent of the total. [SB 1]
- Texas Enterprise Fund funded at \$140 million
- New *Texas Emerging Technology Fund*, which has a higher education applied technology focus funded at \$100 million with a potential for an additional \$100 million. [HBs 10, 1765]
- System permitted to charge resident tuition for employees (and family) of science and technology partners, such as Sandia NL. [SB 1528]



# System Legislative Priorities

## Strengthening Services to Public Education & Communities

- The UT Center for Improving the Readiness of Children for Learning and Education (CIRCLE), part of the UT Health Science Center – Houston, will participate in the development of a school readiness certification system as part of the *Statewide Early Childhood Initiative*. [SB 23]
- UT Brownsville has been authorized to establish the *Texas Academy for Mathematics and Science Studies*, designed to provide high school students with the opportunity to pursue mathematics education. [SB 1452]



# System Legislative Priorities

## Improving Efficiency of Operations and Productive Use of Resources

- Coordinating Board and Legislative Budget Board will study higher education reporting requirements that are duplicative, inefficient, or unnecessary. [SB 1226]
- Some requirements for reporting to the Legislative Budget Board by institutions of higher education and other state agencies were repealed. [HB 2753]
- Institutions of higher education received additional flexibility in operating and maintaining their vehicle fleets, including exemption from any minimum use criteria. [HB 3227]
- The required disclosure of portfolio company information associated with private equity investments by UTIMCO (and other public investors) was clarified in manner that will permit continued private equity investment [SB 121]



# Special Session Actions

## First Called Session - Key Legislation

- Fiscal Matters [HB 1/SB 1, HB 5/SB 5, SB 6]
  - Public School Finance [HB 2/SB 2]
  - Property Tax Relief [HB 3/SB 3]
  - Tuition Revenue Bonds [HB 6/SB 80]
  - Judicial Pay Increase [HB 11/SB 11]
  - Eminent Domain [HB 78, HB 116, SB 62]
  - Telecom [SB 21]
- The First Called Session ended at midnight on Wednesday, July 20, 2005. The legislature did not vote out the bills on a Public School Finance or Property Tax Relief plan. Governor Perry immediately called legislators back for the Second Called Session beginning on Thursday, July 21, 2005.

## Second Called Session – Subjects:

- Public School Finance
- Property Tax Relief
- Tuition Revenue Bonds
- Judicial Pay Increase
- Telecom

13. **U. T. System: Accountability Framework Refinements for 2005 Report**

REPORT

Dr. Geri Malandra, Associate Vice Chancellor for Institutional Planning and Accountability, will brief members of the Board on refinements to the framework and timeline for The University of Texas System Strategic Planning Framework Proposal for 2005-06 attached on Pages 20.1 – 20.6.

The University of Texas System  
Accountability and Performance Report  
2005

Presentation Outline

**1. Background**

- State and national policy context for accountability
- Timeline
- Operating principles: consistency, reduced reporting burden, alignment, analysis, and usefulness

**2. Refinements for 2005 Edition**

- Proposed enhancements of performance measures and analysis
- Use of report

The University of Texas System

**Preliminary Accountability Timeline  
2005**

April– July 2005	Consult presidents and accountability working group on usefulness of measures and potential targets  Consult with Coordinating Board on any adjustments to State accountability system  Analyze results of consultations; consider changes in framework
July 2005	Accountability Working Group meets to recommend enhancements of framework
August – September 2005	Brief Regents on proposed adjustments in framework  Send requests for data updates to institutions
September- October 2005	Data update responses due
October 2005	Data analysis and report drafting
November 2005	Final data analysis, drafting, and preliminary review
December, 2005	Draft report to Board and presidents for first reading
January 2006	Report distributed to Board for second review
February 2006	Presentation of 2005-06 report to Board



The University of Texas System  
**Accountability and Performance Report 2005**

**Performance Measures – U. T. System Academic Institutions**

Five-year trends where data are available  
*Proposed additions in italics*

<b>I. Student Access and Success – Undergraduate Students</b>
1. Number and percent increase of first-time, full-time degree-seeking undergraduates, disaggregated by ethnicity and gender
2. Ethnic composition of first-time, full-time undergraduates compared with composition of high school graduates in state
3. Average ACT/SAT scores of first-time, full-time, degree-seeking undergraduates
4. Number and percent of first-time, full-time, degree-seeking undergraduate from top 10 percent of their high school class, by ethnicity
5. Number of undergraduate students enrolled on 12th class day, by ethnicity, gender, and age
6. Number of first-time, part-time undergrads; first-time, part-time degree-seeking undergrads; percent part-time undergrads
7. Total financial aid disaggregated by source
8. Total financial aid and net tuition and fees
9. Percent TEXAS grant funds allocated
10. Number and amount of financial aid awards to undergraduate student
11. Tuition, required fees, and scholarship aid
12. First-year persistence rate for first-time, full-time degree-seeking undergraduates enrolled at this University, by ethnicity, gender
13. Four-, five-, and six-year graduation rates from this University of first-time, full-time freshmen
14. Six-year persistence rates of students enrolled at this University, by ethnicity and gender
15. Four-year graduation rate from this University of transfer/community college students
16. Six-year composite graduation and persistence rates from this or another Texas public university, by ethnicity and gender
17. Number of baccalaureate degrees awarded, by ethnicity and gender
18. Certification exam pass rates of teacher education baccalaureate graduates, by ethnicity and gender
19. Licensure exam pass rates of nursing graduates
20. Licensure exam pass rates of engineering graduates
21. Certification exam pass rates of accounting graduates
22. Student outcomes: satisfaction with advising
23. Student outcomes: evaluation of overall educational experience
24. Student outcomes: likelihood of attending same institution again
<i>Proposed for 2005-06</i>
<i>25. Student learning outcomes (academic undergraduate)</i>
<i>26. Postgraduation experience (proportion of students employed or enrolled in graduate/professional school one year after graduation)</i>

<b>I. Student Access and Success – Graduate and Professional Students</b>
27. Average entrance examination scores of entering students: GRE, LSAT, GMAT
28. Number of graduate and professional students enrolled on the 12 <sup>th</sup> class day, by ethnicity and gender
29. Number of degrees awarded by level (masters, professional, doctoral), disaggregated by gender and ethnicity
30. Graduate/professional student certification/licensure exam pass rates for law
31. Graduate/professional student certification/licensure exam pass rates for pharmacy
32. Graduate and professional degrees in high priority fields
33. Graduate education degrees conferred
34. Number of graduate and professional programs, by level
<i>Proposed for 2005-06</i>
<i>35. Postgraduation experience of graduate/professional students (employment one year after graduating from graduate/professional program)</i>

**Performance Measures – U. T. System Academic Institutions, continued**

<b>II. Teaching, Research, and Health Care Excellence</b>
36. Dollar amount of research expenditures, by funding source (federal, state, private, local)
37. Dollar amount of all sponsored revenue, by source
38. State appropriations for research as a percent of research expenditures
39. Number and percent of FTE tenure/tenure-track faculty holding extramural grants
40. Ratio of research expenditures to FTE tenure/tenure-track faculty
41. Total number of endowed professorships and chairs, number filled, and percent of total tenure/tenure-track faculty
42. Faculty awards (limited to major awards, and top awards in key fields)
43. Institution and program rankings
44. Number of new invention disclosures
45. Number of patents issued
46. Number of licenses and options executed
47. Revenue from intellectual property
48. Number of new public start-up companies
49. Number of faculty and staff, disaggregated by ethnicity and gender
50. FTE student/FTE faculty ratio
51. Percent lower division semester credit hours taught by tenure/tenure-track faculty
52. Percent lower division semester credit hours taught by professional faculty
53. Number of postdoctoral fellows
54. Examples of high-priority externally funded research collaborations
55. Examples of high-priority educational collaborations
56. Faculty salaries and trends (national comparisons)

<b>III. Service to and Collaborations with Communities</b>
57. Contributions to K-12 education, and high-priority collaborations with schools and community colleges
58. Examples of economic impact (periodic studies), including economic impact of capital expenditures
59. Examples of high-priority collaborations with business, industry, health, public, and community organizations
60. Historically Underutilized Business trends
61. Sources of donor support (alumni, individuals, foundations, corporations, other)
<i>Proposed for 2005-06</i>
62. <i>Distance education trends</i>

<b>IV. Organizational Efficiency and Productivity</b>
63. Key operating revenue sources, disaggregated by source (i.e., state appropriations, tuition, etc.)
64. Key operating expenses, disaggregated by purpose
65. Adjusted total revenue (tuition, fees, state appropriations) per FTE student and per FTE faculty
66. Appropriated funds per FTE student and per FTE faculty
67. Total dollar amount of endowment, and ratio per FTE student and per FTE faculty
68. Amount expended for administrative costs as a percent of expenditures
69. Assignable space per FTE student
70. Space utilization rate of classrooms and labs
71. Ratio of research expenditures to research E&G sq. ft.
72. Energy use ratios
73. Construction projects—total projected cost, number of projects, number of square feet to be added
74. Facility condition index
75. Small class trends

## Performance Measures – U. T. System Health-Related Institutions

Five-year trends where data are available

*Proposed additions in italics*

<b>I. Student Access and Success</b>
1. Number of undergrad, grad, and professional students enrolled by school on the 12th class day, by ethnicity, gender, and level
2. Licensure/certification rate of allied health students
3. National board exam first-time pass rate for dental students
4. National board exam first-time pass rate for medical students
5. National licensure exam pass rates of graduate level nursing students (R.N., and advanced practice nursing)
6. Number of degrees awarded, by school, level, ethnicity, and gender
7. Graduation rates of medical, dental, nursing, allied health, public health, informatics, and graduate students
8. Medical student satisfaction (AAMC survey data)
<i>Proposed for 2005-06</i>
9. <i>Postgraduation experience (employment or enrollment in graduate/professional program one year after graduation of baccalaureate students)</i>
<b>II. Teaching, Research, and Health Care Excellence</b>
10. Dollar amount of research expenditures, disaggregated by funding source
11. Dollar amount of all sponsored revenue, by source
12. Amount of sponsored research expenditures as a percent of formula-derived general appropriations revenue
13. Number and percent of FTE tenure/tenure-track & FTE nontenure-track research faculty holding extramural grants
14. Ratio of research expenditures to FTE faculty
15. Total number of endowed professorships and chairs, number filled, and percent of total tenure/tenure-track faculty
16. Faculty awards (limited to major awards, and top awards in key fields)
17. Institution and program rankings
18. Number of new invention disclosures
19. Number of patents issued
20. Number of licenses and options executed
21. Revenue from intellectual property
22. Number of new public start-up companies
23. Number of faculty and staff, disaggregated by ethnicity, and gender
24. FTE student/FTE faculty ratio
25. Number of Accreditation Council for Graduate Medical Education-accredited resident programs
26. Number of residents in ACGME-accredited programs
27. State-owned and affiliated hospital admissions by U. T. institution faculty
28. State-owned and affiliated hospital days by U. T. institution faculty
29. Clinic visits in state-owned and affiliated facilities treated by U. T. institution faculty
30. Total charges for unsponsored charity care by faculty in state-owned and affiliated facilities
31. Patient satisfaction ratings
32. Examples of high-priority externally funded research collaborations
33. Examples of high-priority educational collaborations

**Performance Measures – U. T. System Health-Related Institutions, continued**

<b>III. Service to and Collaborations with Communities</b>
34. Examples of high-priority collaborations with schools
35. Examples of economic impact (periodic studies), including economic impact of capital expenditures
36. Examples of high-priority collaborations with business, health, industry, public, and community organizations
37. Historically Underutilized Business trends
38. Sources of donor support (alumni, individuals, foundations, corporations, other)
<i>Proposed for 2005-06</i>
39. <i>Distance education trends</i>

<b>IV. Organizational Efficiency and Productivity</b>
40. Key operating revenue sources, disaggregated by source (i.e. state appropriations, tuition, etc.)
41. Key operating expenses disaggregated by purpose
42. Ratio of admissions, charity care, hospital days, and clinic visits to General Revenue for state-owned hospital/clinic operations
43. Total dollar amount of endowment, and ratio per FTE student and per FTE faculty
44. Amount expended for administrative costs as a percent of expenditures
45. Clinical billings and collections per FTE clinical faculty
46. Ratio of research expenditures to research E&G sq. ft.
47. Energy use ratios
48. Facility condition index
49. Construction projects—total projected cost, number of projects, # sq. ft. to be added

<b>U. T. System Aggregate Measures</b>
1. Total enrollments, percent increase over previous year
2. Comparison of total U. T. System enrollment increases with increases for all senior institutions in Texas
3. Number of total graduates as a percent of total graduates in state
4. Percent of U. T. Hispanic graduates as percent of all Hispanic graduates in state
5. Percent of U. T. Black graduates as percent of all Black graduates in state
6. Hispanic serving institutions in System
7. Total sponsored expenses
8. Total technology development (inventions, patents, license agreements, public start-ups, intellectual property income)
9. Total operating revenue by fund sources
10. Total operating expenditures by purpose
11. Total expenses for U. T. System Administration
12. Number and demographics of System employees (compare with State demographics)
13. U. T. System bond rating
14. Total patient care revenue
15. Total energy use

<b>V. U. T. System Institution Measures – Institutional Profiles</b>
National rankings (institutions and programs)
Peer comparisons (national peer groups specific to each institution)
Centers of excellence (specific to each institution)
Faculty awards – subfields, regional

14. **U. T. System Board of Regents: Resolution of appreciation to The Sealy & Smith Foundation**

**RECOMMENDATION**

It is recommended that The University of Texas System Board of Regents approve the following resolution to recognize The Sealy & Smith Foundation of Galveston for its historic and visionary philanthropy, which reached the \$500 million milestone in 2004 and which has, over the past eight decades, transformed The University of Texas Medical Branch at Galveston into a world-class academic medical center that remains forever committed to the health and well-being of its hometown neighbors, as well as the citizens of Texas.

**RESOLUTION**

WHEREAS, The Sealy & Smith Foundation, since its establishment in 1922 by Jennie Sealy Smith and John Sealy II, the heirs of John Sealy I, has perpetuated the Sealy family's longstanding tradition of visionary philanthropy to improve the health of the Galveston community;

WHEREAS, The Foundation has provided the crucial margin of excellence that has enabled the state's oldest academic medical center to serve the health needs of the citizens of Galveston, and by extension the entire State of Texas, through innovative patient care practices that have been developed in part through the University's robust research initiatives and its efforts to train generations of caregivers;

WHEREAS, The Sealy & Smith Foundation has generously provided for many of the buildings and much of the state-of-the-art equipment that enables The University of Texas Medical Branch to advance medical knowledge and medical practice in order to afford the people of Galveston and beyond access to world-class health care services and facilities;

WHEREAS, The Foundation has invested in the important work of dedicated clinicians who serve their patients with cutting-edge expertise, utmost skill, and deep compassion; creative educators of tomorrow's health workforce; and pioneering researchers whose groundbreaking discoveries advance the practice of medicine;

WHEREAS, By virtue of having contributed more than \$500 million to The University of Texas Medical Branch at Galveston over the course of its history, the Foundation is distinguished as the largest single contributor to any University of Texas System institution and is among the largest single contributors to any public medical school in the nation;

WHEREAS, This extraordinary tradition of philanthropy has been made possible by generations of Sealy & Smith Foundation leaders -- embodied most recently by Mr. Charles A. Worthen, President Emeritus, who led the Foundation from 1992 through 2004, and Mr. John Kelso, current President of the Foundation -- who have set the standard for charitable organizations in terms of a forward-thinking spirit, wise stewardship of resources, and a strategic approach to giving that yields maximum benefit for patients; and

WHEREAS, The University of Texas System Board of Regents is eternally grateful for the enduring support of The Sealy & Smith Foundation, which will continue to transform the health care landscape in Galveston and throughout Texas well into the future;

THEREFORE, BE IT RESOLVED this 11th day of August, 2005, that the Board of Regents of The University of Texas System formally recognizes The Sealy & Smith Foundation for its vital role in shaping not only The University of Texas Medical Branch and the health care environment in Galveston, but also the very nature of Texas medicine.

**15. U. T. System Board of Regents: Resolution to honor former Southmost Union Junior College District Board of Trustees Chairman Mary Rose Cárdenas**

RECOMMENDATION

It is recommended that the Board approve the following resolution to recognize the contributions of former Southmost Union Junior College District Board of Trustees Chairman Mary Rose Cárdenas to The University of Texas System:

RESOLUTION

WHEREAS, Mary Rose Cárdenas was first elected to the Texas Southmost College Board of Trustees in 1984;

WHEREAS, Mary Rose Cárdenas announced her retirement from the Texas Southmost College Board at Spring Commencement 2005 after 21 years of extraordinary service;

WHEREAS, During her tenure on the Board, Mary Rose Cárdenas was elected by her colleagues and served four terms as Chair of the Southmost Union Junior College District Board;

WHEREAS, In 1987, Mary Rose Cárdenas played a significant role in helping raise money and guide the establishment of a scholarship endowment program that has grown to over \$5 million and has helped over 10,000 students,

WHEREAS, In 1991, the inspiring leadership of Mrs. Cárdenas was key in helping create and design the historical academic partnership between U. T. Brownsville and Texas Southmost College making it the first such partnership in the State of Texas;

WHEREAS, Mary Rose Cárdenas has served as a key member of the Partnership Advisory Committee with Regents and Trustees;

WHEREAS, Mary Rose Cárdenas has been a guiding force in ensuring the success of the Partnership, and in 2000, together with U. T. Board Chairman Donald L. Evans, signed an extension of the Partnership for 99 years;

WHEREAS, Twice Mary Rose Cárdenas played a vital role in obtaining voters' approval for bond issues for capital improvements of the campus, first in 1986 and again in 2004, making available more than \$81 million for campus expansion;

WHEREAS, Mary Rose Cárdenas has served on the U. T. Brownsville and Texas Southmost College Development Board since its inception in 1994;

WHEREAS, Together with her husband, Renato, the Cárdenas Family has established an endowment at U. T. Brownsville and Texas Southmost College and has been enormously generous over the years in supporting music, the arts, science, chess, and innumerable student scholarships and activities;

WHEREAS, Mrs. Cárdenas was recognized nationally for her service to the college district as the 2002 recipient of the prestigious Distinguished Service Award from the Association of Governing Boards of Universities and Colleges;

WHEREAS, Mrs. Cárdenas was honored as the Texas Southmost College Distinguished Alumnus in 2004; and

WHEREAS, In her honor the Trustees of Texas Southmost College have named a building on their campus Mary Rose Cárdenas Hall North and South.

THEREFORE, BE IT RESOLVED that appreciation be extended to the incomparable and visionary Mary Rose Cárdenas for her 21 years of invaluable and unselfish service to Texas Southmost College and that it further commend her for her hard work and fairness in performing her duties; and be it further

RESOLVED that an official copy of this resolution be prepared for Mary Rose Cárdenas as an expression of highest esteem and warmest regards.

J. RECESS FOR MEETINGS OF THE STANDING COMMITTEES AND COMMITTEE REPORTS TO THE BOARD

The Standing Committees of the Board of Regents of The University of Texas System will meet as set forth below to consider recommendations on those matters on the agenda for each Committee listed in the Agenda Book. At the conclusion of each Standing Committee meeting, the report of that Committee will be formally presented to the Board for consideration and action.

Audit, Compliance, and Management Review Committee: Chairman Estrada  
Agenda Book Page 25  
No Items

Finance and Planning Committee: Chairman Rowling  
Agenda Book Page 32

Academic Affairs Committee: Chairman Krier  
Agenda Book Page 45

Health Affairs Committee: Chairman Clements  
Agenda Book Page 66

Facilities Planning and Construction Committee: Chairman Barnhill  
Agenda Book Page 84

K. RECONVENE AS COMMITTEE OF THE WHOLE AND RECESS TO EXECUTIVE SESSION (See Meeting of the Board Table of Contents Page iv)

L. RECONVENE IN OPEN SESSION AND CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEMS

M. ADJOURN