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FOR
FINANCE AND PLANNING COMMITTEE

Committee Meeting: 11/9/2005

Board Meeting: 11/10/2005
Austin, Texas

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

1. **U. T. System: Approval of *Docket No. 124***

RECOMMENDATION

It is recommended that *Docket No. 124*, beginning on Page Docket - 1, be approved. The Docket is printed on green paper at the back of Supplemental Materials (Volume 2) of the Agenda Book.

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

2. **U. T. System: Discussion of Strategic Financial Analysis**

PURPOSE

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will present a Strategic Financial Analysis of the U. T. System using newly proposed quarterly Key Strategic Indicators to seek input on their usefulness to the Board. The PowerPoint presentation and the Key Strategic Indicators are set forth on Pages 16 - 29 and 30 - 36 of the Supplemental Materials (Volume 2) of the Agenda Book.

KEY POINTS/POLICY ISSUES

There are four key elements of strategic financial analysis:

- Monthly Financial Report and Analysis
- Quarterly Key Strategic Indicators
- Budget to Actual Comparisons
- Financial Modeling

This presentation will review the purposes of each of the above-mentioned elements and propose a new set of quarterly Key Strategic Indicators.

BACKGROUND INFORMATION

In July 2005, the Board asked that a review of the strategic financial analysis reporting be undertaken and potentially augmented.

3. U. T. System Board of Regents: Overview of U. T. System debt programs

REPORT

Mr. Philip R. Aldridge, Associate Vice Chancellor for Finance, will update the Finance and Planning Committee on the performance of the U. T. System debt programs for the five years ended August 31, 2005, following the PowerPoint presentation on Pages 37 - 48 of the Supplemental Materials (Volume 2) of the Agenda Book.

4. U. T. System Board of Regents: Adoption of Liquidity Resolution for U. T. System debt programs and approval to process Security Purchase Agreement with The University of Texas Investment Management Company (UTIMCO)

RECOMMENDATION

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

a. adopt a Liquidity Resolution covenanting to provide internal liquidity support for certain notes and bonds issued by the U. T. System and approving a related Security Purchase Agreement with The University of Texas Investment Management Company (UTIMCO), substantially in the form before the Board on Pages 14.1 - 14.9, relating to the U. T. System's variable rate note and bond programs; and

b. authorize the Executive Vice Chancellor for Business Affairs, the Associate Vice Chancellor for Finance, and the Director of Finance to take any and all actions necessary to carry out the authorization in (a) above.

BACKGROUND INFORMATION

In the resolutions authorizing variable rate note and bond programs, the U. T. System Board of Regents has covenanted, at all times while any notes or bonds are outstanding, to provide liquidity support in the unlikely event that the remarketing agent cannot remarket the notes or bonds. Although the Board has never experienced a failed remarketing of its debt, this Liquidity Resolution provides assurances to the financial markets that the Board will use its eligible resources to purchase its debt in the unlikely event that the debt cannot be sold in the marketplace.

In November 1993, the Board began providing internal liquidity support for a portion of its variable rate debt programs in lieu of securing external bank liquidity. Since November 2002, the Board has provided internal liquidity support for all U. T. System variable rate debt programs. The U. T. System saves an estimated $1,250,000 annually by providing internal liquidity versus external bank liquidity. If UTIMCO were to ever purchase any unremarketed notes or bonds, the notes or bonds purchased would bear interest at rates equal to taxable commercial paper with similar credit ratings until such time as the bonds or notes could be remarketed as provided in the resolutions.

In accordance with the impending centralized management of operating funds, existing internal liquidity agreements between the Board and UTIMCO require revision. Adoption of the proposed Liquidity Resolution and the related Security Purchase Agreement will ensure the Board's ongoing commitment to provide liquidity support and will streamline the commitment by means of a single security purchase agreement with UTIMCO as opposed to the multiple agreements currently in place.

The proposed Liquidity Resolution and Security Purchase Agreement have been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

A RESOLUTION covenanting to use lawfully available funds to purchase Board of Regents of The University of Texas System Permanent University Fund Flexible Rate Notes, Series A (the "Notes") and other Obligations of the Board of Regents (the "Board") of The University of Texas System tendered for purchase or maturing and not remarketed or reissued; approving and authorizing certain authorized officers and employees to act on behalf of the Board in the execution of a related Security Purchase Agreement; and reciting that this Resolution constitutes a "Credit Agreement" for purposes of the Board's resolution authorizing the Notes.

WHEREAS, on November 13, 2002, the Board of Regents (the "Board") of The University of Texas System adopted an amended and restated resolution (the "Note Resolution") approving and authorizing the issuance of its Board of Regents of The University of Texas System Permanent University Fund Flexible Rate Notes, Series A, in an amount at any one time outstanding of not to exceed $400,000,000 (the "Notes"); and

WHEREAS, the Board, in Section 6.04(a) of the Note Resolution, covenanted and agreed that at all times while there are outstanding Notes, it will maintain one or more Credit Agreements (as defined in the Note Resolution) in amounts such that, assuming that all then outstanding Notes were to be tendered for purchase, the amount available to be drawn under the Credit Agreements would be sufficient at that time to pay the purchase price therefor at an amount equal to the principal of all such Notes; and

WHEREAS, Section 6.04(b) of the Note Resolution provides that a Credit Agreement may be a resolution adopted by the Board pursuant to which the Board covenants to provide liquidity support for the Notes by using lawfully available funds to purchase Notes tendered for purchase and not remarketed, which resolution recites that it constitutes a "Credit Agreement" for purposes of the Note Resolution; and

WHEREAS, pursuant to the Board's Revenue Financing System, the Board has also issued its variable rate demand bonds and established commercial paper programs (the "RFS Obligations"); and

WHEREAS, the Board desires to provide liquidity support for the Notes and the RFS Obligations and in furtherance of such desire, the Board and The University of Texas Investment Management Company ("UTIMCO") desire to enter into a certain Security Purchase Agreement substantially in the form attached hereto and incorporated herein, pursuant to which UTIMCO, as agent of the Board and investment manager of funds under the control and management of the Board, will agree, subject to the conditions and limitations set forth therein, to purchase, as an investment of funds of the Board, Notes and RFS Obligations that cannot be remarketed or reissued as provided for in the Note Resolution or the respective Resolution authorizing the RFS Obligations, as the case may be;

NOW, THEREFORE BE IT RESOLVED, that the Board covenants and agrees to provide liquidity support for the Notes and the RFS Obligations by using lawfully available funds to purchase Notes and RFS Obligations tendered for purchase or maturing and not reissued; and

BE IT FURTHER RESOLVED, that an Authorized Representative (as defined in the Note Resolution) is hereby authorized to execute and deliver a Security Purchase Agreement, pursuant to which UTIMCO will agree, subject to the conditions and limitations set forth therein, to purchase, as an investment of funds of the Board, Notes and RFS Obligations that cannot be remarketed or reissued as provided for in the Note Resolution or the respective Resolution authorizing the RFS Obligations, as the case may be;

BE IT FURTHER RESOLVED, that upon satisfaction of the requirements of Section 6.04(c) of the Note Resolution, this Resolution shall constitute a “Credit Agreement” for purposes of the Note Resolution; whereupon, the Board’s resolution adopted on November 13, 2002, approving, in part, a “Note Purchase Agreement” between the Board and UTIMCO, shall be rescinded.

PASSED AND ADOPTED, this the 10th day of November, 2005.

ATTEST:

______________________________ ______________________________

Counsel and Secretary to the Board Chairman of the Board

(Seal)

SECURITY PURCHASE AGREEMENT

dated as of

November 10, 2005

between

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

and

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
as Investment Manager of funds under the control and management of the
Board of Regents of The University of Texas System

SECURITY PURCHASE AGREEMENT

This Security Purchase Agreement is dated as of November 10, 2005, between the Board of Regents (the "Board") of The University of Texas System (the "System") and The University of Texas Investment Management Company ("UTIMCO"), as agent of the Board and investment manager of funds under the control and management of the Board.

<u>RECITALS</u>

WHEREAS, the System currently has outstanding certain commercial paper notes, flexible rate notes and variable rate revenue bonds specifically described in Exhibit A attached hereto (such notes and bonds, and any additional notes or bonds added to Exhibit A pursuant to an amendment to this Agreement under the terms and conditions set forth herein, the "Notes and Bonds"), issued and outstanding in the respective principal amounts and pursuant to the respective Resolutions (each a "Resolution" and collectively, the "Resolutions"), set forth on Exhibit A, as hereafter amended; and

WHEREAS, UTIMCO is to provide a standby purchase commitment to provide liquidity for the Board's obligation under the respective Resolutions to purchase the Notes and Bonds upon their tender or maturity in accordance with the Resolutions while any of the Notes and Bonds are outstanding; and

WHEREAS, the Board and UTIMCO desire to enter into a procedural agreement whereby UTIMCO will agree to purchase on behalf of the Board and as an investment for certain funds of the Board managed by UTIMCO, Notes and Bonds that cannot be remarketed or refunded as provided for in the Resolutions and for which other moneys of the System have not been made available; and

NOW THEREFORE, the parties hereto agree as follows:

Section 1. Definitions.

The terms defined below have the following meanings when used herein unless the context shall indicate a contrary meaning:

"Agreement" shall mean this Security Purchase Agreement, as from time to time amended or supplemented.

"Authorized Representative" shall mean in the case of the Board, the Executive Vice Chancellor for Business Affairs, the Associate Vice Chancellor for Finance or the Director of Finance, or such other officer or employee of the System authorized to act as an Authorized Representative of the Board and in the case of UTIMCO, the President and Chief Executive Officer of UTIMCO, or such other officer or employee of UTIMCO authorized to act as an Authorized Representative of UTIMCO.

"Board" shall mean the Board of Regents of The University of Texas System.

"Board Purchase Date" shall have the meaning set forth in Section 5 hereof.

"Bond" or "Bonds" shall mean the evidences of indebtedness authorized to be issued and at any time outstanding pursuant to a Bond Resolution.

"Bond Resolution" shall mean a Resolution adopted by the Board, approving and authorizing the issuance of the Bonds.

"Business Day" shall mean any day (i) when banks are open for business in Austin, Texas and (ii) when banks are not authorized to be closed in New York, New York.

"Commitment Period" shall mean the period from the Effective Date to but not including the Commitment Termination Date.

"Commitment Termination Date" shall mean the final maturity date of any Notes or Bonds described in Exhibit A, as hereafter amended.

"Effective Date" shall mean November 10, 2005.

"Maximum Interest Rate" shall mean the lesser of (a) fifteen percent (15%) per annum and (b) the maximum net effective interest rate permitted by law to be paid on obligations issued or incurred by the Board in the exercise of its borrowing powers (prescribed by Chapter 1204, Texas Government Code, or any successor provision).

"Note" or "Notes" shall mean the evidences of indebtedness authorized to be issued and at any time outstanding pursuant to a Note Resolution.

"Note Resolution" shall mean a Resolution adopted by the Board, approving and authorizing the issuance of the Notes.

"Notice of Purchase" shall mean that notice completed and executed by an Authorized Representative of the Board in substantially the form attached hereto as Exhibit B, which notice shall serve as a written request for UTIMCO to purchase Notes or Bonds as investments in the manner set forth in this Agreement.

"Paying Agent" shall mean the respective agent appointed pursuant to the related Resolution, or any successor to such agent as provided in Exhibit A, as hereafter amended.

"Proposed Purchase Date" shall have the meaning set forth in Section 3 hereof.

"Purchase Date" shall mean the date specified by the Board pursuant to Section 3 of this Agreement as the date on which UTIMCO will purchase Notes or Bonds upon their tender or maturity in accordance with the Resolutions, which date shall be a Business Day.

"Remarketing Agent" shall mean the respective dealer or remarketing agent selected from time to time by the Board to remarket Notes or Bonds in accordance with the related Resolution.

"System" shall mean The University of Texas System.

"UTIMCO" shall mean The University of Texas Investment Management Company.

Section 2. Commitment to Purchase Notes and Bonds.

UTIMCO agrees that as agent of and on behalf of the Board, it will, during the Commitment Period, on the terms and conditions and subject to the limitations set forth in this Agreement, purchase Notes and Bonds as investments of funds of the Board from time to time in amounts up to, but not exceeding, the aggregate principal amount of Notes and Bonds outstanding as provided in Exhibit A, as hereafter amended, in the event a Remarketing Agent has been unable to remarket or refund Notes or Bonds in accordance with the terms of the Resolutions.

Section 3. Method of Purchase.

By not later than 11:00 a.m. Central Time on the date of a proposed purchase hereunder (the "Proposed Purchase Date"), an Authorized Representative of the Board shall submit a purchase request to an Authorized Representative of UTIMCO specifying the amount of Notes or Bonds to be purchased. A purchase request shall be made by delivery of a completed and executed Notice of Purchase or by telephonic notice confirmed as soon as possible by delivery or telecopy of a completed and signed Notice of Purchase, provided that such purchase request shall not be conditioned upon the receipt of the confirming Notice of Purchase.

UTIMCO shall make available, in federal or other immediately available funds, to the respective Paying Agent, the funds necessary to fund such purchase at or prior to 1:30 p.m. Central Time on the Purchase Date, in which event the purchase price shall be principal amount of such purchased Notes or Bonds plus interest accrued with respect thereto to the purchase date.

Section 4. Interest Rates.

Each Note or Bond purchased by UTIMCO, as agent of and on behalf of the Board, pursuant to this Agreement shall be an investment of the fund in which it is purchased and shall bear interest on the principal amount at a rate equal to the rate on taxable commercial paper issued by a major corporate issuer bearing a nationally recognized securities rating agency credit rating equivalent to that of the Note or Bond as agreed to by Authorized Representatives of UTIMCO and the Board.

If the rate of interest applicable to a purchased Note or Bond when determined in the paragraph above would exceed the Maximum Interest Rate, then the applicable rate shall be reduced to the Maximum Interest Rate.

Section 5. Extension or Modification of Agreement.

This Agreement may not be extended or modified unless agreed to in writing by Authorized Representatives of the Board and UTIMCO.

Section 6. Prior Agreements Superseded.

Upon the execution and delivery of this Agreement, all prior agreements between the Board and UTIMCO relating to UTIMCO's purchase of Notes and Bonds not remarketed or refunded in accordance with the terms of the Resolutions are terminated.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY,

By:______________________________________

President and Chief Executive Officer

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

By:______________________________________

Associate Vice Chancellor for Finance

EXHIBIT A

Note or Bond Program	Authorized Amount	Date of Resolution	Maximum Maturity Date	Paying Agent
RFS Commercial Paper Notes, Series A	$750,000,000	August 8, 2002	April 1, 2020	Deutsche Bank Trust Company Americas 60 Wall Street 27th Floor - MS NYC60-2715 New York, NY 10005 Attn: Michele Russo Ph. 212-250-2226
RFS Taxable Commercial Paper Notes, Series B	$50,000,000	May 13, 2004	April 1, 2025	Deutsche Bank Trust Company Americas 60 Wall Street 27th Floor - MS NYC60-2715 New York, NY 10005 Attn: Michele Russo Ph. 212-250-2226
RFS Bonds, Series 2001A	$85,000,000	February 11, 1999	August 15, 2013	Deutsche Bank Trust Company Americas 60 Wall Street 27th Floor - MS NYC60-2715 New York, NY 10005 Attn: Michele Russo Ph. 212-250-2226
PUF Flexible Rate Notes, Series A	$400,000,000	November 13, 2002	May 15, 2030	Deutsche Bank Trust Company Americas 60 Wall Street 27th Floor - MS NYC60-2715 New York, NY 10005 Attn: Michele Russo Ph. 212-250-2226

EXHIBIT B

NOTICE OF PURCHASE

TO: The University of Texas Investment Management Company

FROM: Board of Regents of The University of Texas System

The University of Texas System, acting herein by the undersigned Authorized Representative, pursuant to the Security Purchase Agreement dated as of November 10, 2005, between the Board of Regents of The University of Texas System and The University of Texas Investment Management Company, as Investment Manager of funds under the control and management of the Board, issues this notice for a Purchase to be made under the Security Purchase Agreement as follows:

1. Proposed Purchase Date (which shall be a Business Day):

   ______________________________;

2. Principal Amount to be Purchased plus Accrued Interest Thereon:

   ______________________________;

Funds to purchase Notes or Bonds as provided in the Security Purchase Agreement, should be available for the account of holders of the Notes or Bonds at the Paying Agent by no later than 1:30 p.m. Central Time.

Date of this Notice
of Purchase: ________________

BOARD OF REGENTS OF THE UNIVERSITY
OF TEXAS SYSTEM

By:______________________________
Authorized Representative

5. U. T. System Board of Regents: Approval of the Intermediate Term Fund Investment Policy Statement

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs recommend that the U. T. System Board of Regents approve the U. T. System Intermediate Term Fund (ITF) Investment Policy Statement as presented on Pages 15.1 - 15.11.

BACKGROUND INFORMATION

The U. T. System Board of Regents (Board), at the July 8, 2005 meeting, authorized the centralization of management of the U. T. System operating reserves. The ITF Investment Policy Statement is proposed to establish the ITF as a pooled fund for the collective investment of operating assets and other intermediate and long-term assets under the sole control of the Board, as a fiduciary with full discretion as to investments. Investment policies are the responsibility of the Board. The ITF shall be managed by The University of Texas Investment Management Company (UTIMCO) in conformity with the ITF Investment Policy Statement, with authority delegated by the Board pursuant to the Investment Management Services Agreement with UTIMCO.

UTIMCO staff and U. T. System staff have collaborated in the development of the recommended ITF Investment Policy Statement. The proposed ITF Investment Policy Statement is substantially in the form approved by the UTIMCO Board of Directors on October 7, 2005, with the "Investment Objectives" section expanded to clarify and specify (as shown on Pages 15.2 - 15.3)

1. The primary investment objective is to preserve purchasing power by earning a net return of at least inflation plus 3%, measured over rolling three-year periods.

2. The secondary objective is to generate a net return in excess of the approved Policy Portfolio benchmark return over rolling three-year periods.

3. Prudent diversification within each approved asset class, and a portfolio risk profile within the approved Policy Portfolio risk range (measured monthly) must be maintained.

THE UNIVERSITY OF TEXAS SYSTEM
INTERMEDIATE TERM FUND
INVESTMENT POLICY STATEMENT

Purpose and Structure

The University of Texas System Intermediate Term Fund (ITF) was established by the Board of Regents of The University of Texas System (Board of Regents) as a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by U. T. System institutions and U. T. System Administration.

ITF Organization

The ITF functions as a mutual fund in which each eligible account purchases and redeems ITF units as provided herein. The ownership of ITF 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.

ITF 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 ITF.

Ultimate fiduciary responsibility for the ITF 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 ITF shall be managed by UTIMCO, which shall a) recommend investment policy for the ITF, b) recommend specific asset allocation targets, ranges, and performance benchmarks consistent with ITF objectives, and c) monitor ITF performance against ITF objectives. UTIMCO shall invest the ITF 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 Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

ITF 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 ITF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase ITF Units

No account shall be eligible to purchase units of the ITF unless it is under the sole control, with full discretion as to investments, by the Board of Regents. Any account 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 ITF.

ITF Investment Objectives

~~The investment objective shall be to earn annual returns over inflation (as measured by the Consumer Price Index) plus 3%, as measured over five-year rolling periods at risk levels below the PUF and General Endowment (the "GEF").~~
The ITF consists of intermediate and long-term funds held by the U. T. System Board of Regents, as a fiduciary, for the benefit of U. T. System institutions, U. T. System Administration, and other affiliated funds. ITF assets are pooled for efficient investment purposes and managed by UTIMCO over the intermediate to longer term.

The primary investment objective of the ITF is to preserve the purchasing power of ITF assets by earning a compound annualized return over rolling three-year periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index (CPI-U) plus 3%. The ITF's success in meeting this objective depends upon its ability to generate higher returns in periods of low inflation that will offset lower returns generated in years when the capital markets under-perform the rate of inflation.

The secondary ITF objective is to generate a return, net of all direct and allocated expenses, measured monthly by the independent custodian and reported at least quarterly, in excess of the approved Policy Portfolio benchmark over rolling three-year periods. The Policy Portfolio benchmark will be maintained by UTIMCO and will be comprised of a blend of asset class indices reported by the independent custodian and weighted to reflect ITF's approved asset allocation policy targets as defined in Exhibit A.

Limiting factors are that prudent diversification within each approved asset class must be maintained at all times; and a portfolio risk profile within the approved Policy Portfolio risk range, as defined in Exhibit A and measured at least monthly by UTIMCO's risk model, must be sustained at all times. Liquidity of the ITF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

ITF return, asset allocation, and risk targets are subject to adjustment from time to time by the U. T. System Board of Regents.

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. The asset allocation is designed to accommodate the intermediate investment horizon of the ITF assets with enhanced returns at moderate managed risk levels. UTIMCO is responsible for measuring actual asset allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio asset allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific asset allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the ITF asset values could warrant requesting approval of the UTIMCO Board Chairman for remedial action.

ITF 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. U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, and futures. In addition, derivative applications 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. U.S. equities provide both current income and capital gains.

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, and futures. In addition, derivative applications 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.

Directional Hedge Funds – 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 selection skills by taking long and short positions in various securities. These strategies may also include fund of hedge fund investments. Directional hedge fund investments are made through private placement agreements. Directional hedge fund investments may be held in an internal commingled investment fund managed by UTIMCO.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage, 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 internal commingled investment fund managed by UTIMCO.

D. 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:

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.

E. 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. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications that serve as a fixed income substitute may be classified as fixed income.

F. Cash and Cash Equivalents – Short-term (generally securities with time to maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash, and which are subject to a relatively small risk of changes in value.

Performance Measurement

The investment performance of the ITF will be measured by the ITF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, compared against the stated investment benchmarks of the ITF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

Investment Guidelines

The ITF 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 ITF assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the ITF'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 ITF's investments in warrants shall not exceed more than 5% of the ITF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The ITF may utilize derivatives to: a) simulate the purchase or sale of an underlying market index while retaining a collateral 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) hedge risks associated with ITF 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 ITF'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 permitted applications under which derivatives 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:

- Highly liquid internal pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by UTIMCO's chief investment officer.
- ITF'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.
- 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 ITF 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 ITF's fixed income assets.
  - Overnight repurchase agreements may not exceed 25% of the ITF's fixed income assets.
- Mortgage Backed Securities (MBS) dollar rolls shall be executed as matched book transactions in the same manner as reverse repurchase agreements above. As above, the rules for trading MBS dollar rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

Permissible securities for investment include the securities within the component 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- by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition. An external investment manager may be authorized by the terms of an investment advisory agreement to invest up to a maximum of 50% of the total fixed income portfolio 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.

Non-U.S. Fixed Income

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

Equities

The ITF shall:

- Hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market, or
- Hold no more than 5% of its equity securities in the securities of one corporation at cost.

ITF Accounting

The fiscal year of the ITF shall begin on September 1st and end on August 31st. Market value of the ITF shall be maintained on an accrual basis in compliance with Government Accounting Standards Board Statements, Financial Accounting Standards Board Statements, or industry guidelines, whichever is applicable. The ITF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of ITF Assets

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

The fair market value of the ITF's net assets shall include all related receivables and payables of the ITF 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.

ITF Distributions

There will not be any planned distributions from the ITF. The earnings of the ITF will be reflected in the net asset value per unit of the ITF.

Purchase and Redemption of ITF Units

The ITF participants may purchase units on the first business day of each month upon payment of cash to the ITF, at the net asset value per unit of the ITF as of the prior month ending valuation date. Such purchase commitments are binding. The ITF participants may redeem ITF units on a monthly basis. The unit redemption shall be paid in cash as soon as practicable after the month end valuation date of the ITF. Redemptions from the ITF shall be at the market price per unit determined at the time of the redemption. Such redemption commitments are binding.

Participants of the ITF are required to provide notification of purchases and redemptions based on specific notification requirements as set forth in The University of Texas System Allocation Policy for Non-Endowment Funds.

Securities Lending

The ITF may participate in a securities lending contract with a bank or non-bank security lending agent for purposes of realizing additional income. Loans of securities by the ITF 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 ensure compliance with contract provisions.

Investor Responsibility

As a shareholder, the ITF 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 ITF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the ITF solely in the interest of ITF unit-holders, in compliance with the Proxy Voting Policy, and shall not invest the ITF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be November 10, 2005, except for Exhibit A. Adherence to the policy targets and ranges may not be fully effective throughout the first six months after initial funding (expected February 1, 2006) as new portfolio investments are phased in. The selection of the effective date of Exhibit A, to be no later than September 1, 2006, 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 at least 30 days prior to the effective date.

EXHIBIT A

INTERMEDIATE TERM FUND
POLICY TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

Asset Categories	Percent of Policy (%)		Benchmarks
	Policy Targets	**Policy Ranges**	
U. S. Equities	**15**	**5 to 20**	**Russell 3000 Index**
Global ex U. S. Equities	**10**	**0 to 15**	
Non - U. S. Developed Equity	5	0 to 10	MSCI EAFE Index with net dividends
Emerging Markets Equities	5	0 to 10	MSCI Emerging Markets Index with net dividends
Hedge Funds	**25**	**10 to 27.5**	
Directional Hedge Funds	12.5	5 to 20	Combination index: 50% S&P Event-Driven Hedge Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	12.5	5 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
Inflation Linked	**25**	**10 to 35**	
REITS	10	0 to 15	Dow Jones Wilshire Real Estate Securities Index
Commodities	5	0 to 10	Combination Index: 66.7% GSCI minus .5% plus 33.3% DJ-AIG Commodity Index
TIPS	10	5 to 15	Lehman Brothers US TIPS Index
Fixed Income	**25**	**15 to 40**	Lehman Brothers Aggregate Bond Index
Cash	0.0	0 to 20	90 Day T-Bills

Expected Annual Return (%)	7.08
1 yr Downside Deviation (%)	-5.0
Standard Deviation (%)	7.5

		% of Target Risk
Upper Risk Bound: 1 yr Downside Deviation (%)	-6.4	127%
Lower Risk Bound: 1 yr Downside Deviation (%)	-3.5	69%

11/10/05

6. U. T. System Board of Regents: Approval of The University of Texas System Allocation Policy for Non-Endowment Funds effective February 1, 2006

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation that the U. T. System Board of Regents approve a proposed policy titled "The University of Texas System Allocation Policy for Non-Endowment Funds" (Allocation Policy). The Allocation Policy, proposed to be effective February 1, 2006, is set forth on Pages 16.1 - 16.2.

BACKGROUND INFORMATION

The Allocation Policy is intended to ensure that sufficient liquidity is available at all times to meet the needs of the U. T. System institutions and System Administration, while ensuring that all funds not needed for short-term liquidity purposes are invested with an appropriate time horizon to enhance the total return of the non-endowment funds.

Eligible U. T. System institutions with at least $5 million of non-endowment funds on the last day of a calendar month and a current financial condition rating from the U. T. System Administration Office of the Controller of "Watch" or better will invest in the Intermediate Term Fund pursuant to the Allocation Policy. In general, 85% of an institution's non-endowment funds are to be invested in the Intermediate Term Fund. Exceptions for funds that would otherwise be invested pursuant to the Allocation Policy may be made only with the approval of the Executive Vice Chancellor of Business Affairs or the Associate Vice Chancellor for Finance.

The University of Texas System Allocation Policy for Non-Endowment Funds

Purpose

The University of Texas System Allocation Policy for Non-Endowment Funds ("Allocation Policy") is intended to ensure that sufficient liquidity is available at all times to meet the needs of the institutions and System Administration, while ensuring that all funds not needed for short-term liquidity purposes are invested with an appropriate time horizon to enhance the total return of the Non-Endowment funds. Eligible Institutions with at least $5 million of Non-Endowment Funds on the last day of a calendar month and a current financial condition rating from the System Administration Office of the Controller of "Watch" or better will invest in the Intermediate Term Fund ("ITF") pursuant to this policy. Exceptions for funds that would otherwise be invested pursuant to this policy may be made only with the approval of an Authorized Representative.

Allocation and Rebalancing

At the beginning of each month, each institution shall have a minimum of $5 million invested in the Short Term Fund ("STF"). The target allocation for Non-Endowment Funds in excess of $5 million held by Eligible Institutions shall be 15% in the STF and 85% in the ITF. Institutions that are ineligible to invest in the ITF shall be 100% invested in the STF. If an institution ceases being an Eligible Institution as measured on the last day of any month, then it must rebalance such that 100% of its Non-Endowment Funds are in the STF, unless prior approval is obtained from an Authorized Representative.

Eligible Institutions are required to rebalance when the projected allocation to the STF at month-end is less than 10% or greater than 20% of the institution's Non-Endowment Funds, or when a cash inflow or outflow is scheduled to occur during the next calendar month that is likely to result in the institution having less than 10% or more than 20% of its Non-Endowment Funds in the STF at the end of the next calendar month. Each Chief Business Officer is responsible for rebalancing to ensure the institution's Non-Endowment Funds are within this target range, which will be reviewed on a monthly basis by the System Administration Office of Finance. At least five days prior to the end of each month, each institution should check its balance in the STF and the ITF to determine if rebalancing will be necessary. If necessary, ITF transactions should be initiated on or before the last business day of the month. ITF transactions will be effective on the first day of the following month. For transactions greater than $10 million (redemptions or withdrawals), the institution should provide notice to The University of Texas Investment Management Company (UTIMCO) at least five days in advance to facilitate UTIMCO's ability to transact efficiently.

Sharing of Investment Returns

If the total investment return on the ITF in a fiscal year is in excess of the primary national Consumer Price Index ("CPI-U") published by the Bureau of Labor Statistics plus 3.0%, then the amount in excess of the CPI-U plus 3.0% will be split, with 90% of the excess return being retained by the institutions and 10% being distributed to System Administration. Any funds distributed to System Administration will be used exclusively for strategic initiatives that benefit the institutions, and all expenditures of the funds by System Administration will require approval of the Board of Regents.

No excess returns will be distributed to System Administration unless the cumulative total investment return of the ITF, measured from the inception date of this policy through the most recent fiscal year end, is in excess of the monthly compounded cumulative return of the CPI-U plus 3.0% for the same period.

Definitions

Authorized Representative – The Executive Vice Chancellor for Business Affairs at System Administration or the Associate Vice Chancellor for Finance at System Administration.

Eligible Institutions – Institutions with at least $5.0 million of Non-Endowment Funds on the last day of a month and a current financial condition rating from the System Administration Office of the Controller of "Watch" or better.

Intermediate Term Fund (ITF) – The ITF is a pooled fund for the investment of Non-Endowment funds that are not required to be invested in the Short Term Fund. Refer to the ITF Investment Policy for more information.

Non-Endowment Funds – Non-Endowment Funds include all non-endowment monies owned by the Board of Regents or under the control of the Board of Regents. Funds that are legally required to be invested elsewhere, such as funds held at the State Treasury and certain trust funds, are excluded from this policy. Due to Internal Revenue Service restrictions governing tax-exempt debt such as yield restriction and spend-out requirements, debt-related funds are also specifically excluded from this policy. Exceptions for Non-Endowment funds that would otherwise be invested pursuant to this policy may be made only with the approval of an Authorized Representative.

Short Term Fund (STF) – The STF is an institutional money market mutual fund, currently the Dreyfus Institutional Preferred Money Market Fund (Dreyfus Fund). The STF provides daily liquidity and safety of principal by investing in short-term money market obligations. Refer to the STF Investment Policy for more information.

7. **U. T. System Board of Regents: Approval to Amend the Short Term Fund Investment Policy Statement, the 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 Short Term Fund Investment Policy Statement, the Liquidity Policy, and the Derivative Investment Policy as set forth on Pages 18.1 - 18.17 and referenced in the Background Information of this item.

These policy amendments were approved by the UTIMCO Board on October 7, 2005, in substantially the form as set forth on Pages 18.1 - 18.17.

BACKGROUND INFORMATION

Amendments to the Investment Policies are authorized by Section 3(a) of the Investment Management Services Agreement dated September 1, 2005, between the Board of Regents of The University of Texas System and UTIMCO. Section 3(a) provides that UTIMCO shall review the investment policies of the assets under its management and recommend any changes to such policies for approval by the U. T. System Board of Regents. No amendments to the Permanent University Fund (PUF), General Endowment Fund (GEF), Permanent Health Fund (PHF), Long Term Fund (LTF), Short Intermediate Term Fund (SITF), or Separately Invested Accounts (SIA) Investment Policy Statements are being recommended at this time.

Proposed amendments to the Short Term Fund (STF) Investment Policy Statement are summarized below:

- Include language to clarify when the funds of foundations may invest in the STF.
- Clarify definition of Cash and Cash Equivalents.
- Remove derivative language since derivatives will not be used in the STF.
- Remove eligible investment language.

The Liquidity Policy and Derivative Investment Policy are proposed for amendment to include the new Intermediate Term Fund (ITF) (see Item 5 on Page 15). The ITF is proposed as a pooled operating fund for the collective investment of operating funds and other intermediate and long-term funds held by the U. T. System institutions and System Administration. The Liquidity Policy and Derivative Investment Policy supplement, but do not supersede, the Investment Policy Statements for the PUF, GEF, and ITF.

The Derivative Investment Policy is also being proposed for amendment to:

- Expand the scope covering external managers operating under agency agreements;
- Expand and clarify the controls related to counterparty risk associated with over-the-counter derivative transactions;
- Include a global risk limitation to prohibit any internal or external agency derivative transaction from causing the aggregate risk exposure of the PUF, the GEF, and/or the ITF to exceed the risk limits set by the respective approved asset allocation policies;
- Include a section on risk management procedures and compliance; and
- Include a section expanding the derivative reporting requirements to the UTIMCO Board.

These amendments to the Derivative Investment Policy represent a significant refinement in the oversight of U. T. System investment portfolios, utilizing UTIMCO's expanding risk management capabilities. Review of this Policy will continue in the future, consistent with industry best practices.

THE UNIVERSITY OF TEXAS SYSTEM
SHORT TERM FUND
INVESTMENT POLICY STATEMENT

Purpose

The Short Term Fund (the "STF") was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System ~~component~~ institutions and System Administration with an investment horizon of less than one year.

STF Organization

The STF functions like a mutual fund in which each eligible account purchases and redeems STF units as provided herein. The ownership of STF 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.

STF 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 STF.

Ultimate fiduciary responsibility for the STF 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 STF shall be managed by UTIMCO, which shall: a) recommend investment policy for the STF, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with STF objectives, and c) monitor STF performance against STF objectives. UTIMCO shall invest the STF assets in conformity with this Policy Statement.

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

STF 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 STF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase STF Units

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

Any account 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 STF.

The funds of a foundation ~~which is~~ structured as a supporting organization described in Section 509(a) of the *Internal Revenue Code* of 1986, which supports the activities of the U. T. System and its ~~component~~ institutions, may purchase units in the STF provided that a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the STF.~~:~~

~~A. the purchase of STF units by foundation funds is approved by UTIMCO's chief investment officer;~~

~~B. all members of the foundation's governing board are also members of the Board of Regents;~~

~~C. the foundation has the same fiscal year as the STF;~~

~~D. a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the STF; and~~

~~E. no officer of such foundation, other than members of the Board of Regents, the Chancellor, UTIMCO's chief investment officer or his or~~

~~her delegate shall have any control over the management of the STF other than to request purchase and redemption of STF units.~~

STF Investment Objectives

The primary investment objective shall be to maximize current income consistent with the absolute preservation of capital and maintenance of adequate STF liquidity. The STF shall seek to maintain a net asset value of $1.00.

Achievement of this objective shall be defined as a fund return in excess of the average gross return of the median manager of an approved universe of institutional only money market funds.

Asset Allocation

Asset allocation is the primary determinant of investment performance and subject to the asset allocation ranges specified herein is the responsibility of UTIMCO. Specific asset allocation targets may be changed from time to time based on the economic and investment outlook.

STF assets shall be allocated to the following broad asset class:

Cash and Cash Equivalents ~~-~~ — Short-term (generally securities with time to maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash, and which are subject to a relatively small risk of changes in value. ~~are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.~~

Performance Measurement

The investment performance of the STF will be measured by an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the performance benchmarks of the STF. Such measurement will occur at least quarterly.

Investment Guidelines

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

Investment guidelines include the following:

General

- All investments will be U.S. dollar denominated assets.

- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of STF assets in such liquid investment fund.

- No securities may be purchased or held which would jeopardize the STF's tax-exempt status.

- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

- ~~The STF may utilize derivative securities with the approval of the UTIMCO Board to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a derivative security is priced more attractively than the underlying security; e) to index or to hedge risks associated with STF investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such derivative purchases or sales; ii) no more than 5% of STF assets are required as an initial margin deposit for such contacts; and iii) the STF's investments in warrants shall not exceed more than 5% of the STF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.~~

- ~~Such derivative securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.~~

- ~~UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the STF and the prices of derivative security investments by investing in only those contracts whose behavior is expected to resemble that of the STF's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a derivative security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. Derivative securities purchased or sold over the counter may not represent more than 15% of the net assets of the STF.~~

- ~~In the event that there are no derivative securities traded on a particular market index, the STF may utilize a composite of other derivative security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce~~

~~any tracking error from the low correlation of the selected derivative securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.~~

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

~~Eligible Investments~~

~~The weighted average maturity of the portfolio shall not be more than 60 days. Individual securities shall have a remaining maturity not longer than 397 days. The maturity of a portfolio security shall be deemed to be the period remaining (calculated from the trade date or such other date on which the STF's interest in the security is subject to market action) until the date noted on the face of the security as the date on which the principal amount must be paid, or in the case of a security called for redemption, the date on which the redemption payment must be made, except that: a) a variable rate security, the principal amount of which is scheduled on the face of the security to be paid in 397 days or less, shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate; b) a variable rate security that is subject to a demand feature shall be deemed to have a maturity equal to the longer of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand; c) a floating rate security that is subject to a demand feature shall be deemed to have a maturity equal to the period remaining until the principal amount can be recovered through demand; d) a repurchase agreement shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur, or, where no date is specified, but the agreement is subject to a demand, the notice period applicable to a demand for the repurchase of the securities. A demand feature shall mean a put that entitles the holder to receive the principal amount of the underlying security or securities and that may be exercised either at any time on no more than 30 days notice or at specified intervals not exceeding 397 days and upon no more than 30 days notice.~~

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.

- Commercial paper, negotiable certificates of deposit, and Bankers' Acceptances must be rated at least A-1 by Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc.

- Floating rate securities, if they meet the single security duration criteria and are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e., a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment; inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters.

- Repurchase agreements and reverse repurchase agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.

    - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master repurchase agreement with UTIMCO.

    - Eligible Collateral Securities for repurchase agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.

    - The maturity for a repurchase agreement may be from one day to two weeks.

    - The value of all collateral shall be maintained at 102% of the notional value of the repurchase agreement, valued daily.

    - All collateral shall be delivered to the STF 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 STF's total assets.

    - Overnight repurchase agreements may not exceed 50% of the STF's total assets.

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

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

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

- ~~Such derivatives shall be priced daily.~~

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

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

STF Distributions

Distributions of income from the STF to the unitholders shall be made as soon as practicable on or after the last day of each month.

STF Accounting

The fiscal year of the STF shall begin on September 1st and end on August 31st. Market value of the STF 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.

Valuation of Assets

All investments are stated at amortized cost, which in most cases approximates the market value of securities. The objective of the fund is to maintain a stable $1.00 net asset value; however, the $1.00 net asset value is neither~~not~~ guaranteed nor insured by UTIMCO.

The STF's net assets shall include all related receivables and payables of the STF 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 STF Units

Purchase of STF units may be made on each business day upon payment of cash to the STF or contribution of assets approved by UTIMCO's chief investment officer, at the net asset value~~$1.00~~ per unit of the STF as of the most recent valuation date.

Each account whose monies are invested in the STF shall own an undivided interest in the STF in the proportion that the number of units invested therein bears to the total number of all units comprising the STF.

Redemption of STF Units

Redemption of units may be made on each business day at the net asset value~~$1.00~~ per unit.

Securities Lending

The STF may not participate in a securities lending contract with a bank or nonbank security lending agent.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the STF solely in the interest of STF unitholders and shall not invest the STF so as to achieve temporal benefits for any purpose, including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be ~~August 12, 2004~~ November 10, 2005.

The University of Texas Investment Management Company
Liquidity Policy

Effective Date of Policy: November 10, 2005~~August 11, 2005~~
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 (1) the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter collectively referred to as the Endowment Funds and, (2) the Intermediate Term Fund (ITF). 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 Endowment Funds and the ITF 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, and ITF 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 Endowment Funds and ITF. All individual investments within the Endowment Funds and ITF 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.

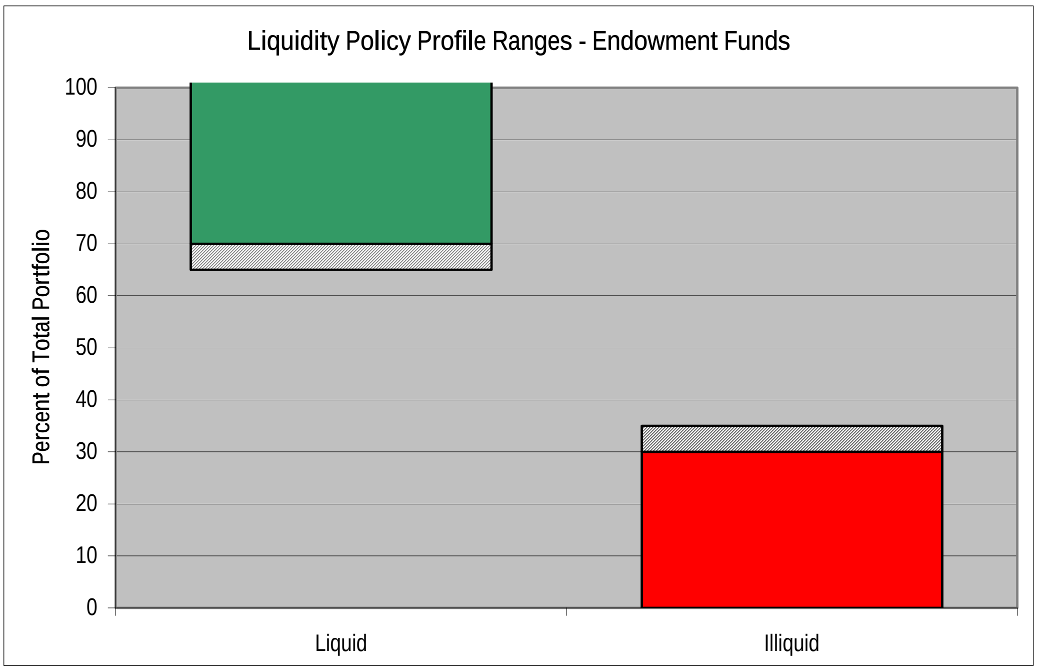
- **Illiquid:** Investments that could be converted to cash in an orderly market over a period of more than three months or in a shorter period of time by accepting a discount of more than 10%.

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 prior approval of the UTIMCO Board or the Risk Committee[1], in determining the appropriate liquidity category for each investment.

The result of this liquidity risk measurement process will be a liquidity profile for the Endowment Funds and the ITF 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:

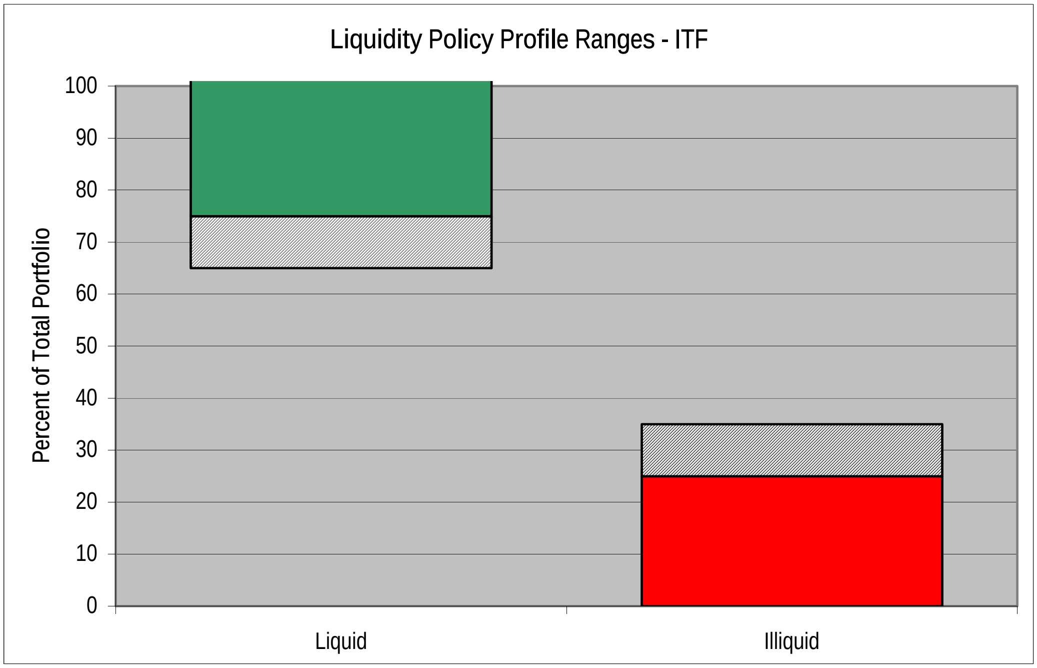
The current Liquidity Policy Profile ranges and trigger zones for each of the Endowment Funds are defined by the chart below:



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 Committee. For example, the allowable range for illiquid investments is 0% to 35% of the total portfolio. However, any illiquid investments made in the 30% to 35% trigger zone requires prior approval by the Risk Committee or the UTIMCO Board. Risk 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.

[1] The Risk Committee (formerly, the Liquidity Committee) was appointed by the UTIMCO Board of Directors and is subject to a Risk Committee Charter first approved by the UTIMCO Board of Directors on April 8, 2004. The Risk 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 current Liquidity Policy Profile ranges and trigger zones for the ITF are defined by the chart below:



The allowable range for illiquid investments is 0% to 35% of the total portfolio for the ITF. However, any illiquid investments made in the 25% to 35% trigger zone require prior approval by the Risk Committee or the UTIMCO Board. Risk 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.

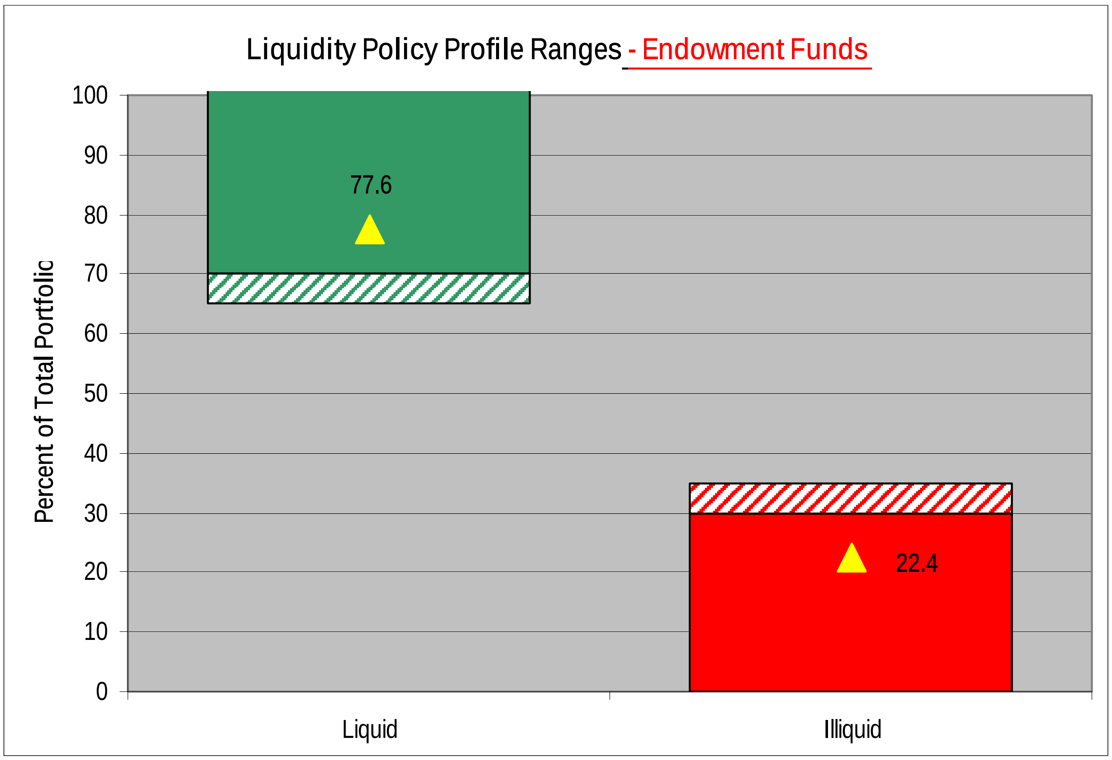
Documentation and Controls:

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 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 zones. In addition, any proposed investment actions which would increase the actual investment position in illiquid investments in ~~either~~any of the PUF, ~~or~~ the GEF, or the ITF by 10% or more of the total asset value of ~~either~~ such ~~F~~fund would also require review and action by the UTIMCO Board or the Risk 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 Risk Committee the circumstances of the deviation from Policy and the remedy to the situation.

Reporting:

The actual liquidity profiles of the Endowment Funds and the ITF, 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 for the Endowment Funds (numbers shown are examples only). For example, in this illustration the current exposure to "liquid" investments is 77.6%, while exposure to "illiquid" investments is 22.4% and both are within their respective allowable policy ranges and not in defined trigger zones.



The University of Texas Investment Management Company
Derivative Investment Policy

Effective Date of Policy: November 10, 2005~~August 11, 2005~~
Date Approved by UTIMCO Board: October 7, 2005~~July 21, 2005~~

Purpose:

The purpose of the Derivative Investment Policy is to enumerate the applications, documentation and limitations for investment in derivatives in the Permanent University Fund (PUF), ~~and~~ the General Endowment Fund (GEF), and the Intermediate Term Fund (ITF), hereinafter referred to as the Funds. The Board of Regents approved investment policy guidelines for the Funds allow for investment in derivatives 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 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:

Except where specifically noted, this Policy applies to all derivative transactions in the Funds executed by internal UTIMCO staff and by external managers operating under an Agency Agreement. ~~This Policy applies to internal management of derivatives at UTIMCO only.~~ This Policy does not apply to external managers operating under limited partnership agreements, offshore corporations, or other Limited Liability Entities that limit the liability exposure of the Funds' investments. 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 (OTC) 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:

External managers are selected to manage the Funds' assets under either an Agency Agreement or through a Limited Liability Entity. An external investment manager of public market investments employed by UTIMCO under an Agency Agreement may engage in derivative 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.~~

Selecting and monitoring external managers through a Limited Liability Entity ~~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.~~These managers typically have complete delegated authority, and monitoring of risk exposures and leverage is done on both an individual entity and aggregate basis. The permitted uses of derivatives and leverage are fully documented in the limited liability agreements with these managers.

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, swaps and all forms of options, but shall not include a broader range of securities including mortgage backed securities, structured notes and convertible bonds. ~~.~~ Derivatives may be purchased through a national exchange or through an OTC direct arrangement with a counterparty. ~~(~~Refer to the attached exhibit for a glossary of terms.~~)~~

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 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. Except as provided below, ~~O~~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 must approve any new internal derivative applications prior to implementation, after fully considering the permissibility, merits, and compliance with all documentation and controls requirements of the application. Derivative policies of external managers that engage in derivative applications not otherwise permitted by this Policy, or a Policy subsequently broadened by the UTIMCO Board, must be approved by the UTIMCO Board. Existing external managers as of November 10, 2005, will comply with this policy on or before January 1, 2006.

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 internal 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:

Economic Impact and Leverage: Leverage is inherent in derivatives 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 internal 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 derivative ~~s~~ application.

Counterparty Risks: ~~As an additional global limitation, the total gross value (without netting counter positions) of all internal derivatives positions shall not exceed 45% of the net asset value of the Funds.~~
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. Any counterparty in an OTC derivative transaction with the Funds must have a credit rating of at least A- (Standard and Poor's) or A3 (Moody's). All OTC derivative transactions must be subject to established ISDA Netting Agreements and have full documentation of all legal obligations of the Funds under the transactions. ~~The counterparty must be an investment grade credit and the agreement must be marked to market no less frequently than monthly.~~ The net market value of all OTC derivative positions for any individual counterparty may not exceed 1% of the total market value of the Funds.

Global Risk Limitations: Notwithstanding other limitations in this Derivative Policy, no derivative transaction may be taken that would cause the aggregate risk exposure of the Funds to exceed the aggregate risk limits established by the current asset allocation policies of the Funds.

Risk Management and Compliance:

To ensure compliance with all terms and limitations of this Policy, all internally managed and externally managed derivatives in accounts under Agency Agreements will be marked to market on a daily basis by the Funds' external custodian, and these daily reports will be reviewed for accuracy by the UTIMCO Risk Manager. Compliance with the conditions of this Policy will be monitored by the UTIMCO Chief Compliance Officer using data provided by the external custodian and the external risk model. Data from the external risk model will be reviewed for accuracy and completeness by the UTIMCO Risk Manager. Any violations of the terms in this Policy will be reported immediately to the Chief Investment Officer, who will determine the appropriate remedy and report promptly to the Risk Committee and the UTIMCO Board.

Reporting:

UTIMCO shall provide a comprehensive report of all approved derivative applications for both internal managers and external managers under Agency Agreements. UTIMCO shall also provide a comprehensive report of all outstanding derivatives positions established by internal managers and external managers under Agency Agreements. These reports will be provided at least on a quarterly basis to the UTIMCO Board and the Risk Committee.

Derivative Investment Policy Exhibit
Glossary of Terms

Agency Agreement – A form of legal agreement that typically grants limited investment discretion to an external investment manager to act as the investment agent of the Funds but does not limit the liability of the Funds for actions taken by that agent.

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.

Delta Equivalent Value – The delta of an option is a measure of the change in price of an option with a small change in the value of the security underlying the option as implied by the Black-Scholes theory. The delta is a function of the volatility of the underlying security, the dividend rate of the underlying security, the strike price of the option, the time to maturity of the option, and the risk free interest rate. The delta then defines the value of the underlying security that would be necessary to fully hedge the option position, the delta equivalent value. For example, if an option on a stock has a notional value of $100 but would change in price by $6 when the value of the underlying stock changes by $10, then the delta equivalent value of the option is $60.

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.

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.

ISDA Netting Agreement - The International Swaps and Derivatives Association (ISDA) is the global trade association representing participants in the privately negotiated derivatives industry, covering swaps and options across all asset classes. ISDA has produced generally accepted "Master Agreements," a 1992 Master Agreement and a 2002 Master Agreement, that are used by most counterparties in OTC derivatives transactions. Netting agreements are terms within the applicable Master Agreement that deal with the calculation of exposure for each counterparty. These netting agreements require that exposures between counterparties will be "netted" so that payables and receivables under all existing derivative transactions between two counterparties are offset in determining the net exposure between the two counterparties.

Limited Liability Entity – A legal entity created to define how assets contributed to the entity by external partners to the agreement will be managed by the manager of the entity. Theses entities are typically limited liability partnerships, corporations, or other such entities that limit the liability of external investors to the current value of the external investors' investment in the entity.

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 (OTC) 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 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.

8. U. T. System Board of Regents: Investments Report for the quarter and fiscal year ended August 31, 2005, and The University of Texas Investment Management Company (UTIMCO) Performance Summary Report

REPORT

The Investments Report for the quarter and fiscal year ended August 31, 2005, are set forth on Pages 19.1 - 19.5.

Item I on Page 19.1 reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the fiscal year was 18.8% versus its composite benchmark return of 15.1%. The PUF's net asset value increased by $1,338.8 million since the beginning of the fiscal year to $9,426.7 million. This change in net asset value includes increases due to contributions from PUF land receipts and net investment return and a decrease due to the $341.2 million annual distribution.

Item II on Page 19.2 reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the fiscal year was 18.8% versus its composite benchmark return of 15.1%. The GEF's net asset value increased $719.2 million since the beginning of the fiscal year to $4,926.8 million.

Item III on Page 19.3 reports activity for the Short Intermediate Term Fund (SITF). Total net investment return on the SITF was 2.48% for the fiscal year versus the SITF's performance benchmark of 1.15%. The SITF's net asset value increased by $44.4 million since the beginning of the fiscal year to $1,222.4 million. This increase in net asset value was due to net contributions and investment return to the SITF.

Item IV on Page 19.4 presents book and market value of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus money market fund, increased by $37.5 million to $2,443.8 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: $47.2 million versus $47.3 million at the beginning of the period; equities: $256.5 million versus $346.2 million at the beginning of the period; and other investments: $1.6 million versus $2.2 million at the beginning of the period.

The August 31, 2005, Performance Summary Report prepared by The University of Texas Investment Management Company (UTIMCO) is attached on Page 19.5.

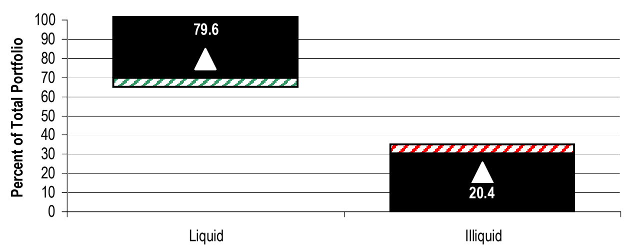
I. PERMANENT UNIVERSITY FUND
Investment Reports for Periods Ended August 31, 2005
Prepared in accordance with *Texas Education Code* Sec. 51.0032

Summary of Capital Flows

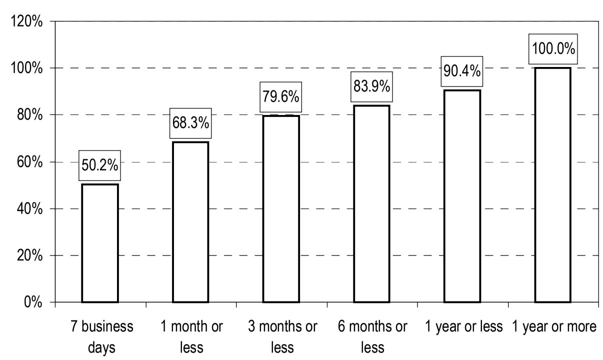
($ millions)	Fiscal Year Ended August 31, 2004	Quarter Ended August 31, 2005	Fiscal Year Ended August 31, 2005
Beginning Net Assets	$ 7,244.8	$ 8,899.8	$ 8,087.9
PUF Lands Receipts	146.7	35.2	193.0
Investment Return	1,070.2	506.5	1,538.0
Expenses	(25.8)	(14.8)	(51.0)
Distributions to AUF	(348.0)	-	(341.2)
Ending Net Assets	$ 8,087.9	$ 9,426.7	$ 9,426.7

	August 31, 2005		Fiscal Year to Date: Returns		Fiscal Year to Date: Value Added		
	Portfolio Exposure	Policy Target	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	1.88%	0.00%	2.48%	2.44%	-0.15%	0.00%	-0.15%
U.S. Equities	27.73%	25.00%	19.35%	17.95%	0.13%	0.34%	0.47%
Global Equities	17.65%	17.00%	26.30%	26.56%	0.25%	-0.04%	0.21%
Equity Hedge Funds	9.73%	10.00%	13.23%	6.61%	-0.01%	0.70%	0.69%
Absolute Return Hedge Funds	13.56%	15.00%	14.26%	5.55%	-0.01%	1.37%	1.36%
Commodities	5.25%	3.00%	32.06%	40.72%	0.24%	-0.28%	-0.04%
Fixed Income	14.91%	15.00%	6.51%	4.66%	-0.02%	0.30%	0.28%
Total Marketable Securities	**90.71%**	85.00%	**17.66%**	**14.54%**	**0.43%**	**2.39%**	**2.82%**
Private Capital	9.29%	15.00%	30.00%	17.70%	-0.84%	1.76%	0.92%
Total	**100.00%**	100.00%	**18.80%**	**15.06%**	**-0.41%**	**4.15%**	**3.74%**

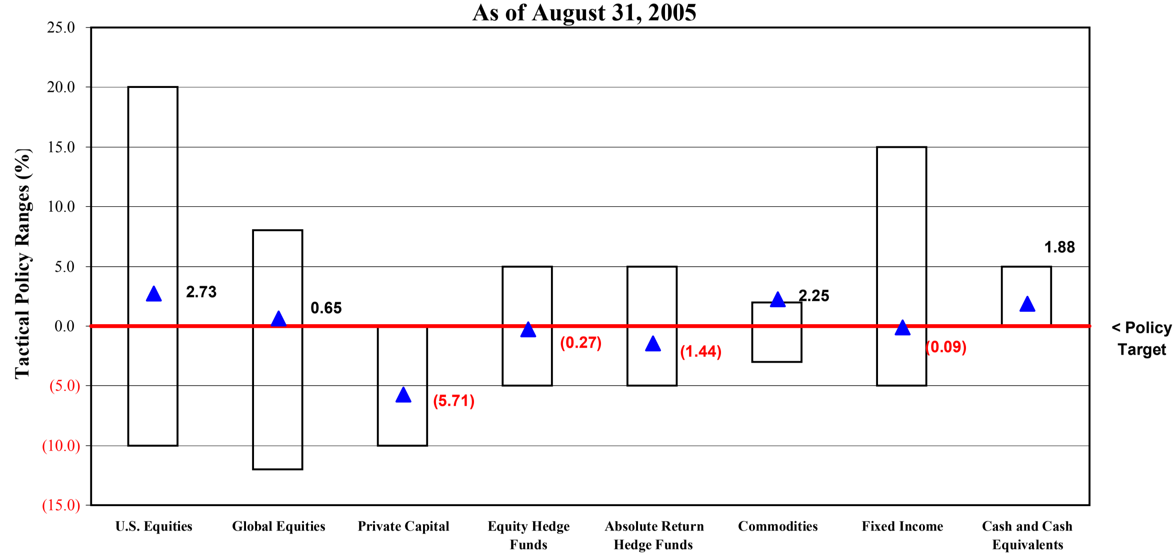
PUF Liquidity Policy Profile
As of August 31, 2005



PUF Detailed Liquidity Profile
as of August 31, 2005



Deviations From Policy Targets Within Tactical Policy Ranges
As of August 31, 2005



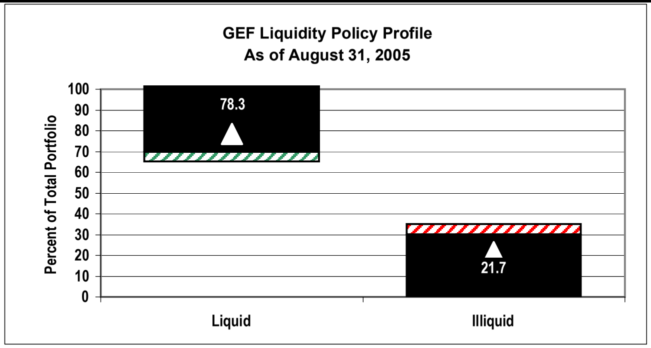
UTIMCO 11/9/2005

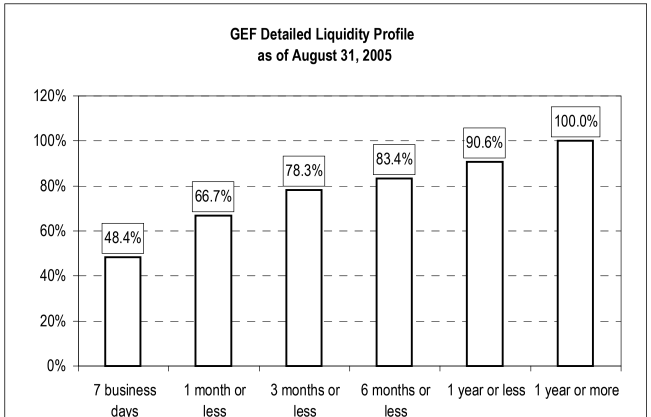
II. GENERAL ENDOWMENT FUND
Investment Reports for Periods Ended August 31, 2005
Prepared in accordance with *Texas Education Code* Sec. 51.0032

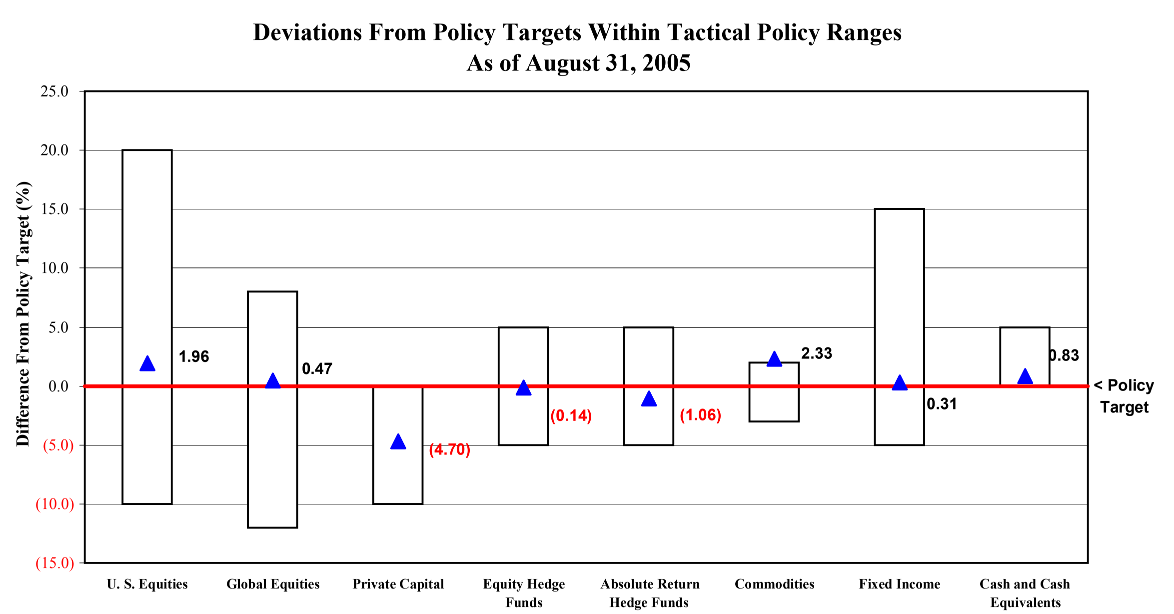
Summary of Capital Flows

($ millions)	Fiscal Year Ended August 31, 2004	Quarter Ended August 31, 2005	Fiscal Year Ended August 31, 2005
Beginning Net Assets	$ 3,584.8	$ 4,679.5	$ 4,207.6
Contributions	308.9	42.9	139.2
Withdrawals	(235.5)	(53.9)	(211.1)
Investment Return	559.0	264.6	814.2
Expenses	(9.6)	(6.3)	(23.1)
Ending Net Assets	$ 4,207.6	$ 4,926.8	$ 4,926.8

	August 31, 2005		Fiscal Year to Date: Returns		Fiscal Year to Date: Value Added		
	Portfolio Exposure	Policy Target	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	0.83%	0.00%	2.48%	2.44%	-0.13%	0.00%	-0.13%
U.S. Equities	26.96%	25.00%	19.42%	17.95%	0.07%	0.35%	0.42%
Global Equities	17.47%	17.00%	26.82%	26.56%	0.28%	0.04%	0.32%
Equity Hedge Funds	9.86%	10.00%	13.17%	6.61%	0.00%	0.69%	0.69%
Absolute Return Hedge Funds	13.94%	15.00%	14.44%	5.55%	-0.01%	1.40%	1.39%
Commodities	5.33%	3.00%	32.24%	40.72%	0.24%	-0.27%	-0.03%
Fixed Income	15.31%	15.00%	6.51%	4.66%	-0.03%	0.30%	0.27%
Total Marketable Securities	**89.70%**	85.00%	**17.79%**	**14.54%**	**0.42%**	**2.51%**	**2.93%**
Private Capital	10.30%	15.00%	28.26%	17.70%	-0.68%	1.51%	0.83%
Total	**100.00%**	100.00%	**18.82%**	**15.06%**	**-0.26%**	**4.02%**	**3.76%**







III. SHORT INTERMEDIATE TERM FUND

Investment Report for Periods Ended August 31, 2005

Report prepared in accordance with *Texas Education Code* Sec. 51.0032

($ millions)

	FY03-04	FY04-05				
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year-to-Date
Beginning Net Assets	$ 1,435.3	$ 1,178.0	$ 1,199.0	$ 1,206.4	$ 1,202.0	$ 1,178.0
Net Contributions (Withdrawals)	(261.3)	22.8	9.5	(7.8)	21.5	46.0
Investment Return	33.2	4.3	4.9	11.8	9.0	30.0
Expenses	(0.6)	(0.2)	-	(0.1)	(0.2)	(0.5)
Distributions of Income	(28.6)	(5.9)	(7.0)	(8.3)	(9.9)	(31.1)
Ending Net Assets	$ 1,178.0	$ 1,199.0	$ 1,206.4	$ 1,202.0	$ 1,222.4	$ 1,222.4
Net Asset Value per Unit	9.927	9.911	9.894	9.923	9.914	9.914
No. of Units (End of Period)	118,671,708	120,971,065	121,930,268	121,136,214	123,305,429	123,305,429
Total Net Investment Return	2.49%	0.34%	0.40%	0.98%	0.73%	2.48%

IV. SEPARATELY INVESTED ASSETS

Summary Investment Report at August 31, 2005

Report prepared in accordance with *Texas Education Code* Sec. 51.0032.

($ thousands)

	FUND TYPE													
	CURRENT PURPOSE				ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		OPERATING FUNDS		TOTAL	
	DESIGNATED		RESTRICTED											
ASSET TYPES														
Cash & Equivalents:	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Beginning value 05/31/05	2,780	2,780	6,335	6,335	68,202	68,202	624	624	-	-	2,328,377	2,328,377	2,406,318	2,406,318
Increase/(Decrease)	77	77	(2,999)	(2,999)	(11,412)	(11,412)	53	53	-	-	51,771	51,771	37,490	37,490
Ending value 08/31/05	2,857	2,857	3,336	3,336	56,790	56,790	677	677	-	-	2,380,148	2,380,148	2,443,808	2,443,808
Debt Securities:														
Beginning value 05/31/05	-	-	263	214	29,378	29,942	16,497	17,106	-	-	-	-	46,138	47,262
Increase/(Decrease)	-	-	-	1	387	134	(185)	(185)	-	-	-	-	202	(50)
Ending value 08/31/05	-	-	263	215	29,765	30,076	16,312	16,921	-	-	-	-	46,340	47,212
Equity Securities:														
Beginning value 05/31/05	36	9,201	2,064	1,756	41,097	46,002	21,575	23,922	-	-	306,886	265,308	371,658	346,189
Increase/(Decrease)	(9)	(3)	(149)	(151)	32	821	(392)	1,076	-	-	(95,298)	(91,426)	(95,816)	(89,683)
Ending value 08/31/05	27	9,198	1,915	1,605	41,129	46,823	21,183	24,998	-	-	211,588	173,882	275,842	256,506
Other:														
Beginning value 05/31/05	2,000	2,000	111	111	-	-	218	86	-	-	-	-	2,329	2,197
Increase/(Decrease)	(2,000)	(2,000)	1,436	1,436	-	-	5	-	-	-	-	-	(559)	(564)
Ending value 08/31/05	-	-	1,547	1,547	-	-	223	86	-	-	-	-	1,770	1,633

Details of individual assets by account furnished upon request.

UTIMCO Performance Summary

August 31, 2005

	Net Asset Value 8/31/2005 (in Millions)	Periods Ended August 31, 2005 (Returns for Periods Longer Than One Year are Annualized)										
ENDOWMENT FUNDS		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
Permanent University Fund	$ 9,426.7	1.75	5.54	5.69	8.16	18.80	18.80	16.75	15.15	9.06	5.26	9.81
General Endowment Fund		1.73	5.48	5.58	8.05	18.82	18.82	16.78	15.44	9.38	N/A	N/A
Permanent Health Fund	925.9	1.73	5.45	5.49	7.97	18.68	18.68	16.62	15.29	9.24	5.27	N/A
Long Term Fund	4,000.9	1.73	5.45	5.49	7.96	18.68	18.68	16.62	15.32	9.29	5.41	10.51
Separately Invested Funds	195.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	**14,548.6**											
OPERATING FUNDS												
Short Term Fund	2,380.1	0.29	0.81	1.51	1.88	2.48	2.48	1.77	1.62	1.79	2.54	4.07
Short Intermediate Term Fund	1,222.4	0.78	0.73	1.72	1.83	2.48	2.48	2.49	2.20	2.59	3.83	5.00
Institutional Index Funds:												
BGI US Bond Index Fund	-	1.26	0.92	2.85	2.89	4.17	4.17	5.17	5.01	5.75	7.06	N/A
BGI Equity Index Fund	173.9	(0.90)	2.93	2.38	1.99	12.64	12.64	12.06	12.08	3.67	(2.67)	N/A
Total Operating Funds	**3,776.4**											
Total Investments	**$ 18,325.0**											
BENCHMARKS (1)												
Permanent University Fund: Policy Portfolio		0.97	4.21	6.18	7.10	15.06	15.06	14.10	11.59	6.69	3.26	10.51
General Endowment Fund: Policy Portfolio		0.97	4.21	6.18	7.10	15.06	15.06	14.10	11.59	6.69	3.21	10.38
Short Term Fund: 90 Day Treasury Bills Average Yield		0.29	0.76	1.49	1.82	2.44	2.44	1.76	1.63	1.79	2.53	3.92
Short Intermediate Term Fund: Composite (3/93-7/04) and Merrill Lynch 1-3 Year Treasury Index (8/04-current)		0.62	0.53	1.48	1.22	1.15	1.15	1.73	1.99	3.12	4.35	5.09
Institutional Bond Index Fund: Lehman Brothers Aggregate Bond Index		1.28	0.91	2.85	2.88	4.15	4.15	5.14	4.88	5.67	6.98	6.76
Institutional Equity Index Fund: Standards & Poor's 500 Index (S&P 500)		(0.91)	2.92	2.33	1.94	12.56	12.56	12.01	12.03	3.62	(2.71)	9.85
VALUE ADDED (2)												
Permanent University Fund		0.77	1.33	(0.49)	1.07	3.74	3.74	2.65	3.56	2.37	2.01	(0.70)
General Endowment Fund		0.75	1.27	(0.60)	0.95	3.76	3.76	2.68	3.85	2.69	N/A	N/A
Permanent Health Fund		0.76	1.24	(0.68)	0.87	3.63	3.63	2.52	3.70	2.56	2.05	N/A
Long Term Fund		0.76	1.24	(0.69)	0.86	3.62	3.62	2.52	3.73	2.60	2.19	0.13
Short Term Fund		0.00	0.06	0.02	0.06	0.04	0.04	0.01	(0.01)	0.00	0.01	0.15
Short Intermediate Term Fund		0.16	0.20	0.24	0.61	1.33	1.33	0.76	0.21	(0.53)	(0.52)	(0.08)
Institutional Bond Index Fund		(0.02)	0.01	0.00	0.00	0.02	0.02	0.03	0.14	0.08	0.08	N/A
Institutional Equity Index Fund		0.01	0.01	0.05	0.05	0.08	0.08	0.05	0.05	0.05	0.04	N/A

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

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

Complete details of the restatement and previous policy portfolio benchmark history are documented on the UTIMCO website atwww.UTIMCO.org or are available upon request.

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

9. U. T. System: Fiscal Year 2005 Energy Utility Task Force Report

REPORT

Mr. Philip R. Aldridge, Associate Vice Chancellor for Finance, will provide the annual report on the progress of the Energy Utility Task Force for Fiscal Year 2005 using the PowerPoint presentation attached on Pages 49 - 52 of the Supplemental Materials (Volume 2) of the Agenda Book. The Energy Utility Task Force was created in February 2001 to evaluate and recommend strategies for U. T. System institutions to reduce energy consumption, better manage commodity price risk, and leverage their purchasing power to reduce energy costs.

Initial recommendations and energy consumption reduction goals were presented to the Board in November 2001. A 2-4% reduction in System-wide energy use per square foot was targeted for Fiscal Year 2003 and was achieved. A 5-10% reduction in energy usage is targeted for Fiscal Year 2006. The estimated reduction in energy usage through Fiscal Year 2005 is 5.2%.