



## TABLE OF CONTENTS FOR FINANCE AND PLANNING COMMITTEE

**Committee Meeting:** 5/10/2006

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

**Board Meeting:** 5/11/2006  
Austin, Texas

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>Convene</b>	9:00 a.m. <i>Chairman Rowling</i>		
1. <b>U. T. System: Discussion and appropriate action related to approval of <i>Docket No. 126</i></b>	9:00 a.m. <b>Discussion, Action if needed</b> <i>Dr. Kelley</i>		<b>44</b>
2. <b>U. T. System: Key Financial Indicators Report and Monthly Financial Report</b>	9:10 a.m. <b>Report</b> <i>Dr. Kelley</i>	Not on Agenda	<b>44</b>
3. <b>U. T. System Board of Regents: Approval of annual distributions from the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund</b>	9:20 a.m. <b>Action</b> <i>Mr. Boldt</i>	<b>Action</b>	<b>53</b>
4. <b>U. T. System Board of Regents: Investments Report for the quarter ended February 28, 2006, and The University of Texas Investment Management Company (UTIMCO) Performance Summary Report</b>	9:25 a.m. <b>Report</b> <i>Mr. Boldt</i>	<b>Report</b>	<b>54</b>
5. <b>U. T. System: Recommendation to select retirement programs vendors to be effective September 1, 2006</b>	9:35 a.m. <b>Action</b> <i>Ms. Brown Mr. Stewart</i>	<b>Action</b>	<b>62</b>
6. <b>U. T. System Board of Regents: Amendment to the Regents' <i>Rules and Regulations</i>, Series 20204, regarding determining and documenting the reasonableness of compensation</b>	9:40 a.m. <b>Action</b> <i>Dr. Kelley</i>	<b>Action</b>	<b>64</b>
7. <b>U. T. System: Overview of U. T. System energy savings initiatives</b>	9:45 a.m. <b>Report</b> <i>Mr. Aldridge</i>	Not on Agenda	<b>65</b>
<b>Adjourn</b>	10:00 a.m.		

1. **U. T. System: Discussion and appropriate action related to approval of Docket No. 126**

RECOMMENDATION

It is recommended that *Docket No. 126*, beginning on Page Docket - 1, be approved. The Docket is printed on green paper at the back of the Supplemental Materials (Volume 2) of the Agenda Book.

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

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

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report, as set forth on Pages 45 - 52, and the March Monthly Financial Report (MFR), as set forth on Pages 30 - 55 of the Supplemental Materials (Volume 2) of the Agenda Book. The reports represent the consolidated and individual operating results of the U. T. System institutions.

REPORT

The Key Financial Indicators Report compares the System-wide results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from 2002 through March 2006. Ratios requiring balance sheet data are provided for 2002 through 2005.

The MFR is provided as support for the Key Financial Indicators. The MFR includes the detailed numbers behind the System-wide graphs as well as detail for each individual institution as of March 2006.

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









# THE UNIVERSITY OF TEXAS SYSTEM



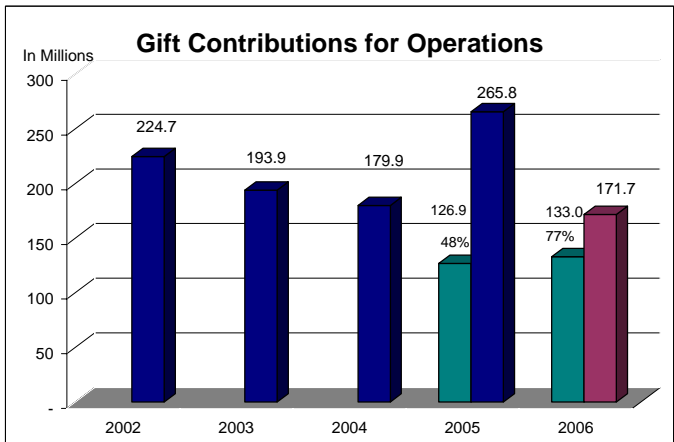
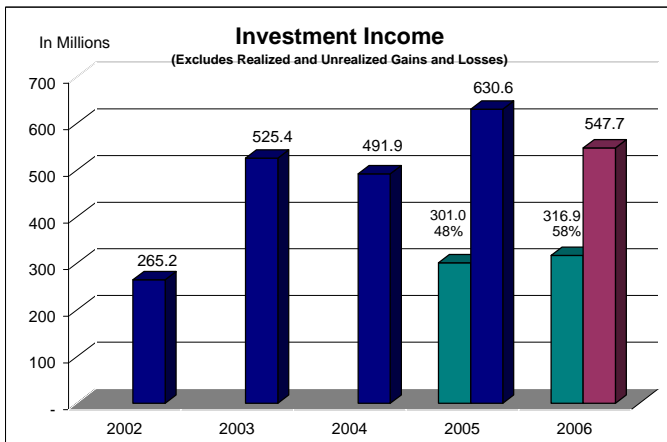
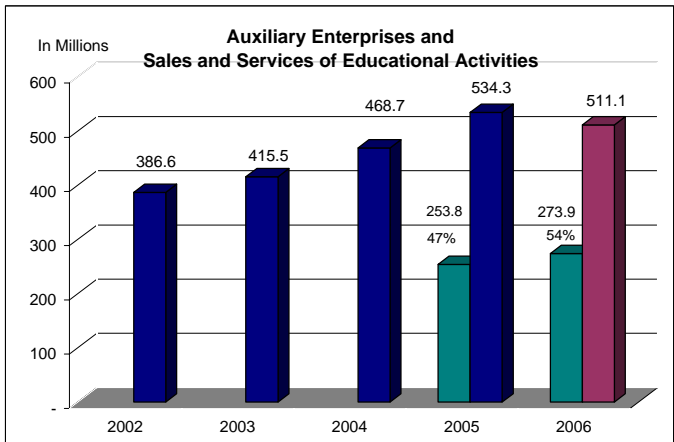
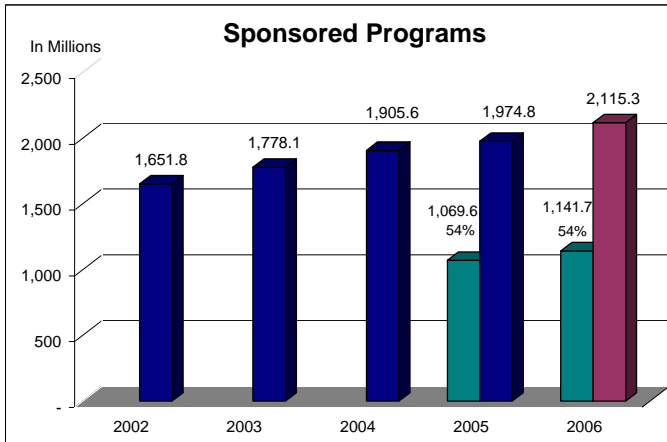
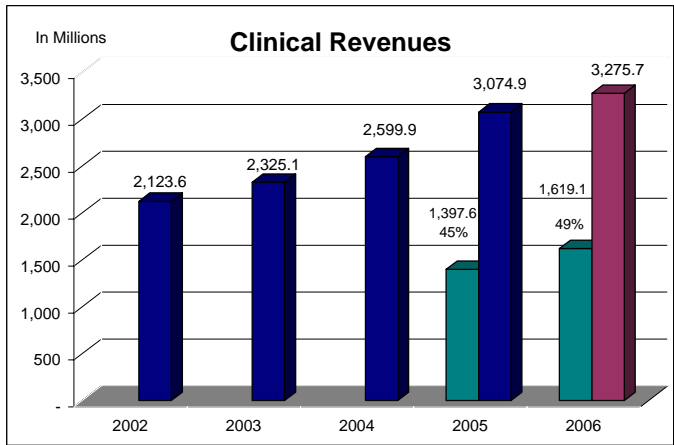
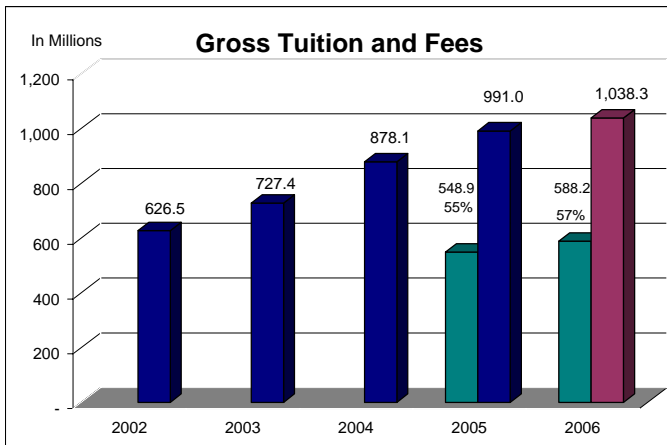
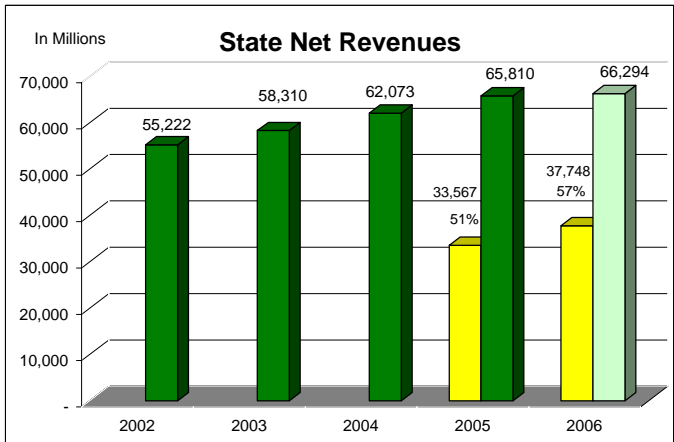
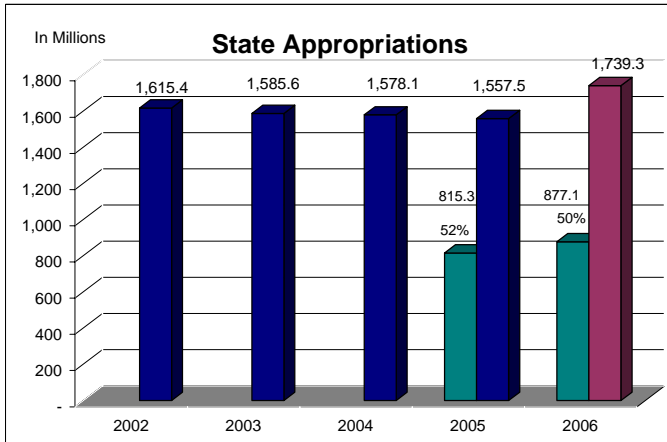
## QUARTERLY KEY STRATEGIC INDICATORS REPORT

2<sup>ND</sup> QUARTER FY 2006

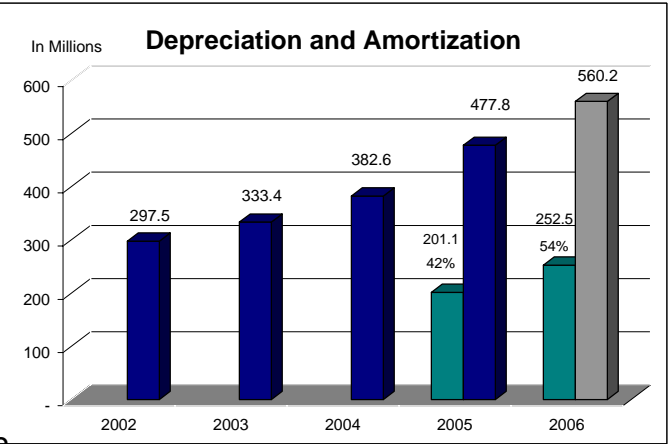
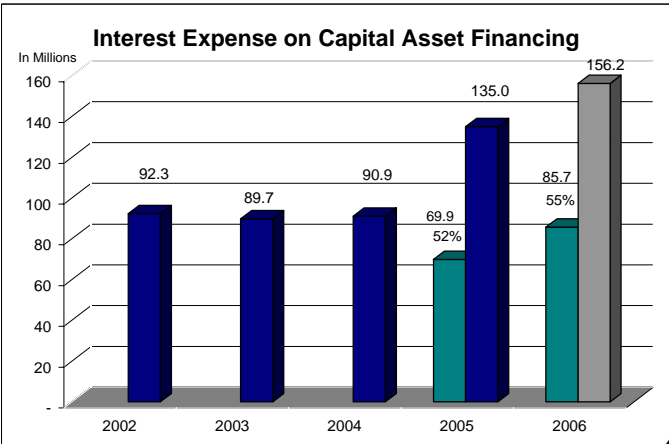
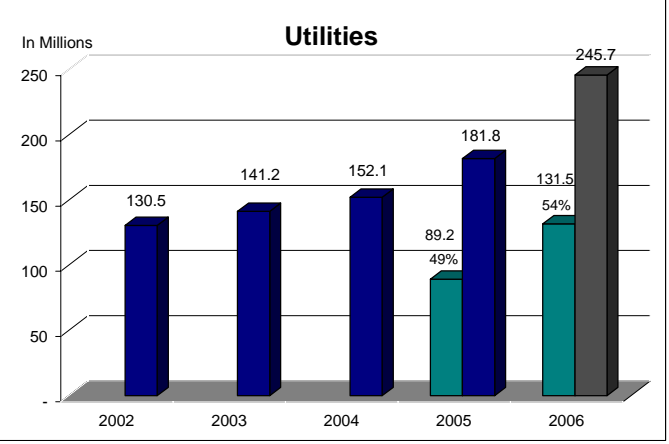
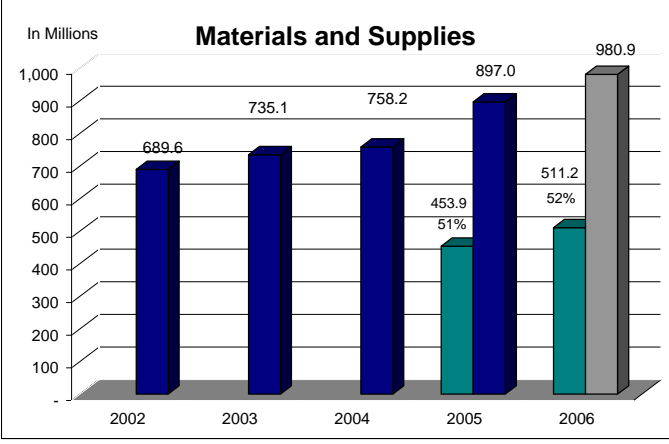
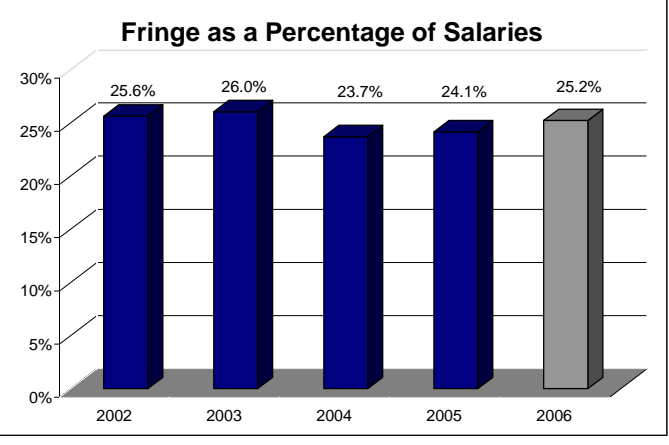
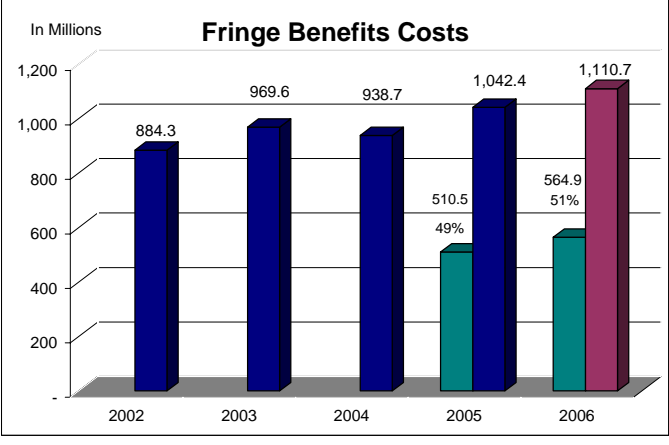
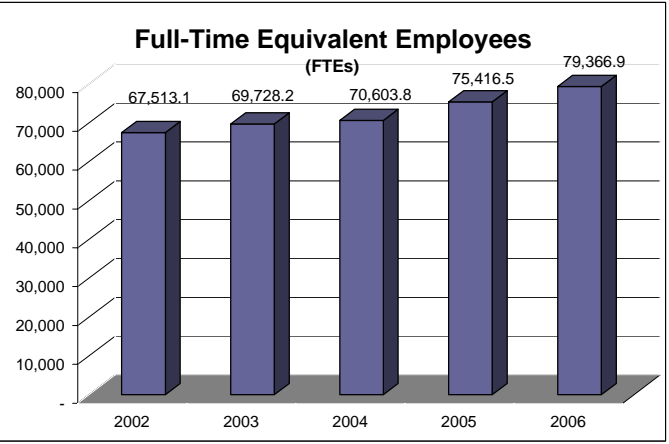
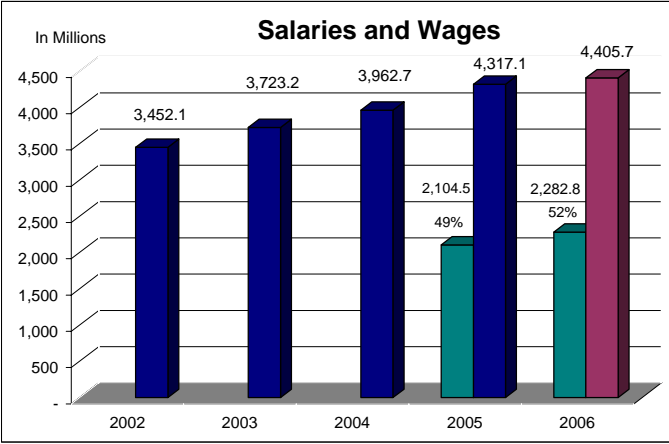
## KEY

	<b>Actual 2002 Through 2005 amounts</b> (SOURCE: Annual Financial Reports Fiscal Years 2002, 2003, 2004 and 2005)
	<b>2006 Budget amounts</b> (SOURCE: Operating Budget Summary 2006)
	<b>Projected 2006 amounts</b> (trend based on the average change of the previous four years of data)
	<b>Monthly Financial Report Year to Date amounts for February 2005 and February 2006</b>
	<b>Annual State Net Revenue Collections for 2002, 2003, 2004 and 2005</b> (SOURCE: Texas Revenue History by Source 1978-2005, State Comptroller's Office)
	<b>Year to Date State Net Revenue Collections for February 2005 and February 2006</b> (SOURCE: State Comptroller's Office)
	<b>Estimated State Revenue Collections for 2006</b> (SOURCE: 2006-07 Certification Revenue Estimate, State Comptroller's Office)
	<b>2002, 2003, 2004 and 2005 Annual Average of FTEs, Average of 1st and 2nd Quarter 2006 FTEs</b> (SOURCE: State Auditor's Office Quarterly FTE Report)
	<b>Year to Date margin for March 2006</b> (SOURCE: Monthly Financial Report for March 2006)
	<b>Projected 2006</b> (SOURCE: Monthly Financial Report Projections for March 2006)
	<b>Year to Date margin for March 2005</b> (SOURCE: Monthly Financial Report for March 2006)
	<b>Target Normalized Rates</b>
	<b>Aaa/Aa1 Median</b> (SOURCE: Moody's)
	<b>Aa2 Median</b> (SOURCE: Moody's)
	<b>Fair Facilities Condition Index (5% - 10%)</b>
	<b>Good Facilities Condition Index (Exceeds 10%)</b>

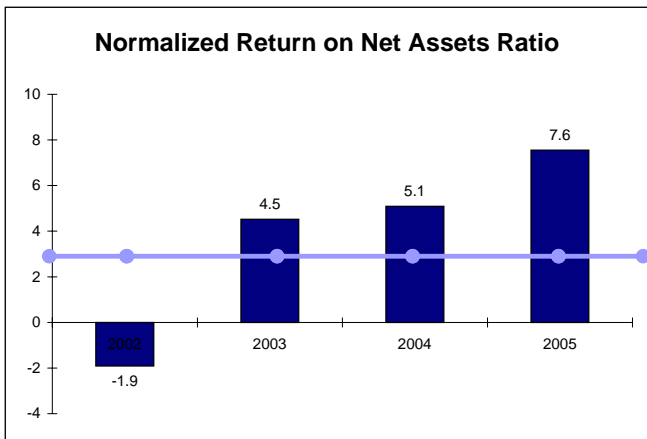
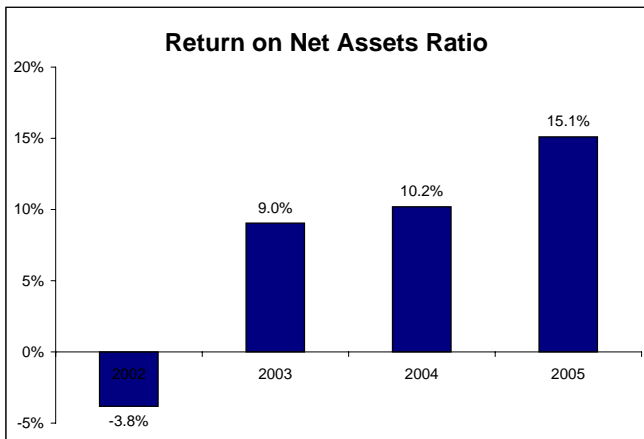
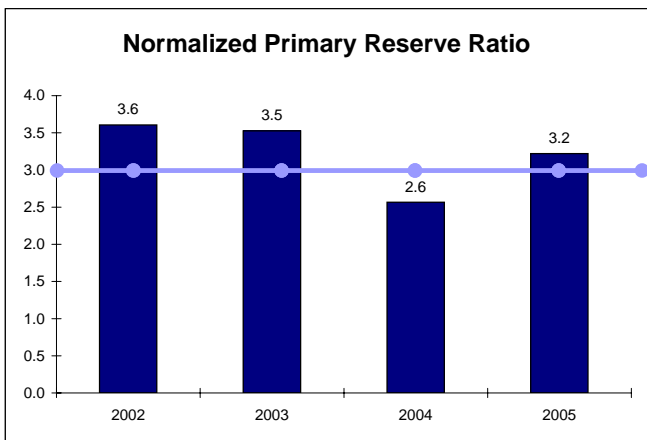
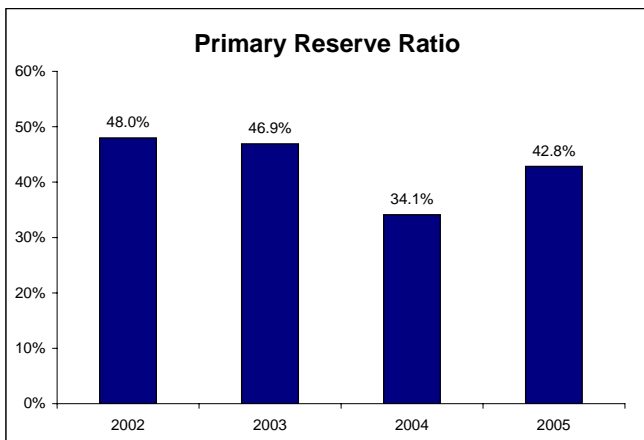
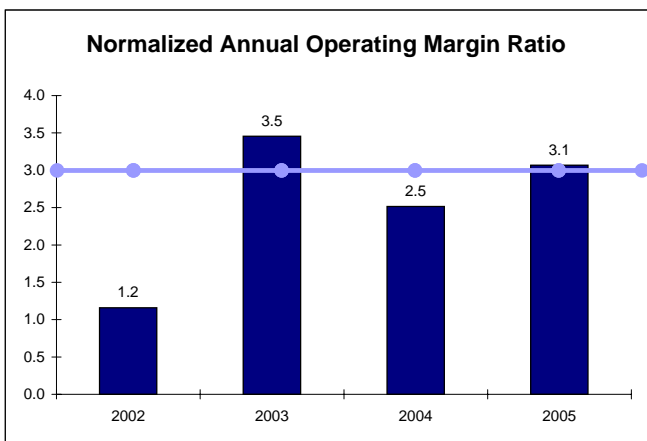
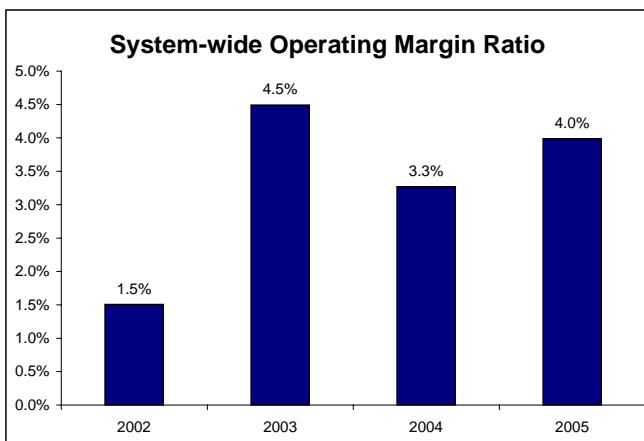
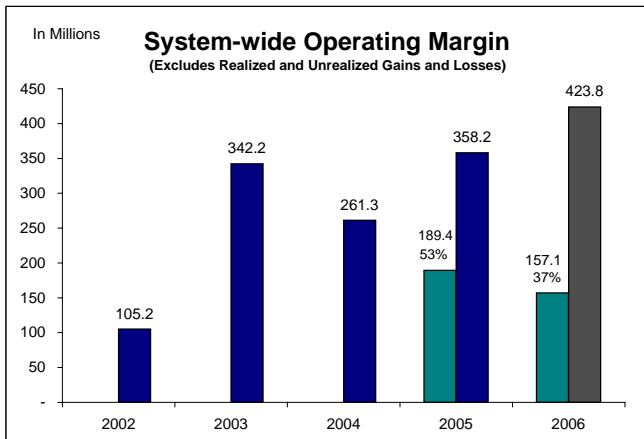
**KEY INDICATORS OF REVENUES**  
**ACTUAL 2002 THROUGH 2005**  
**PROJECTED 2006**  
**YEAR TO DATE 2005 AND 2006 FROM FEBRUARY MONTHLY FINANCIAL REPORT**



**KEY INDICATORS OF EXPENSES**  
**ACTUAL 2002 THROUGH 2005**  
**PROJECTED 2006**  
**YEAR TO DATE 2005 AND 2006 FROM FEBRUARY MONTHLY FINANCIAL REPORT**

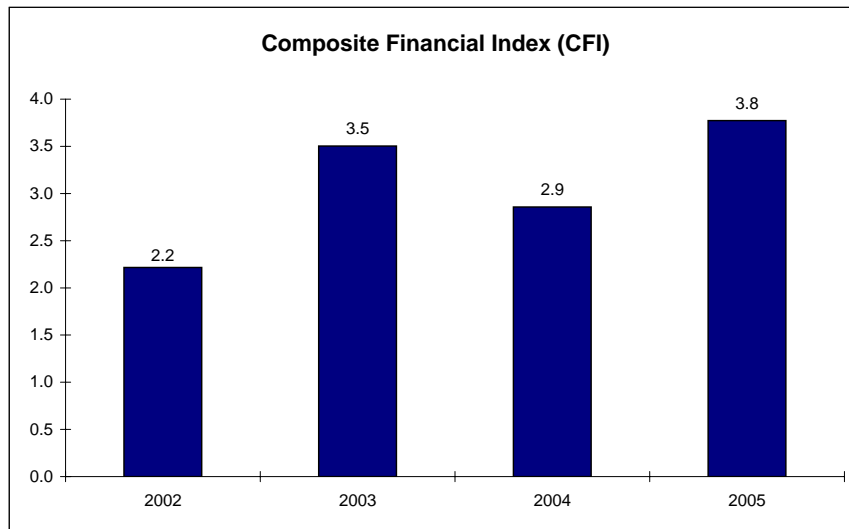


**KEY INDICATORS OF RESERVES**  
**ACTUAL 2002 THROUGH 2005**  
**YEAR TO DATE 2005 AND 2006 FROM FEBRUARY MONTHLY FINANCIAL REPORT**  
**PROJECTED 2006**

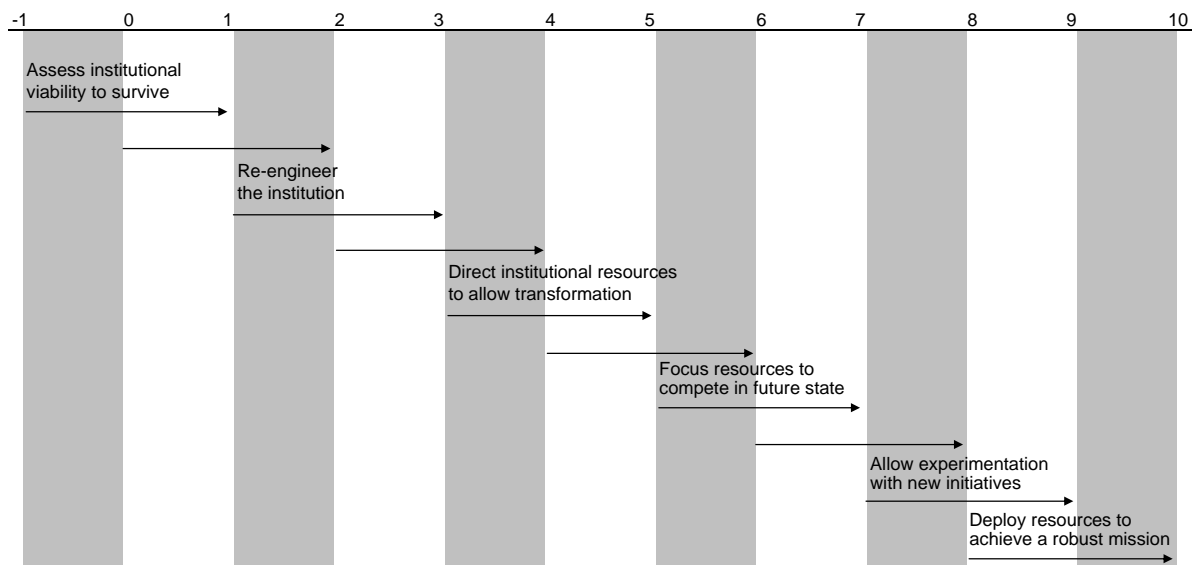




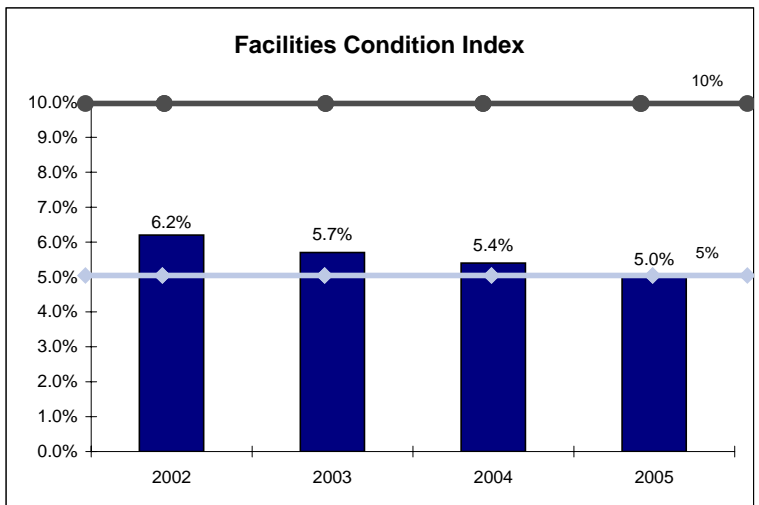
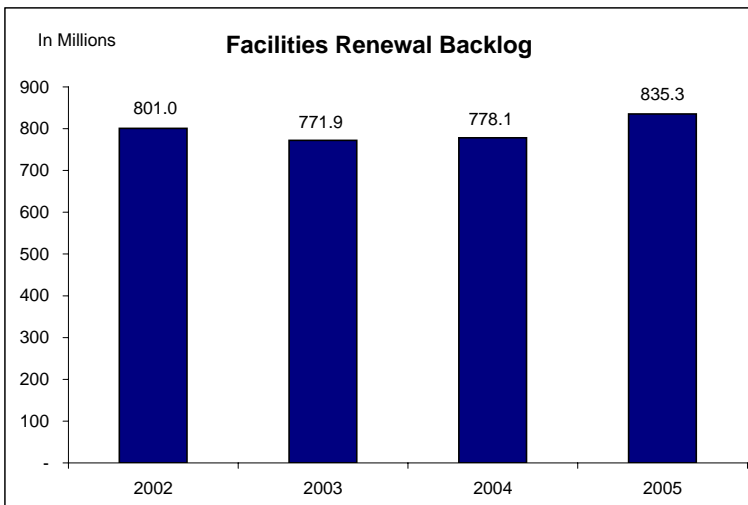
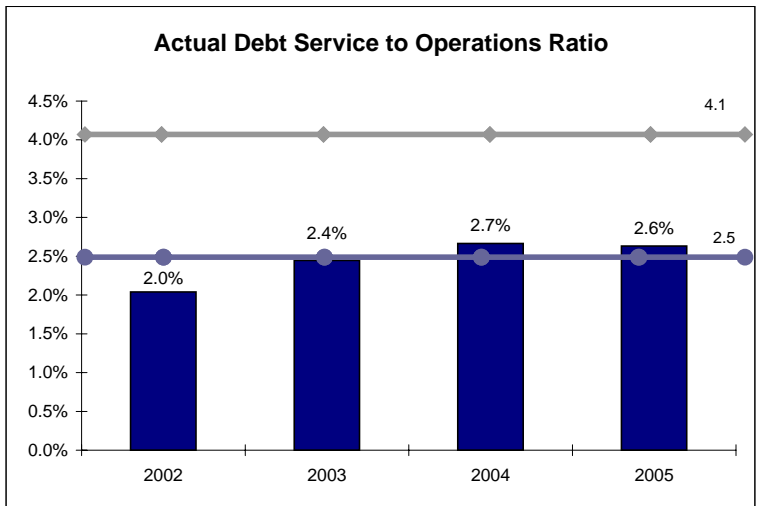
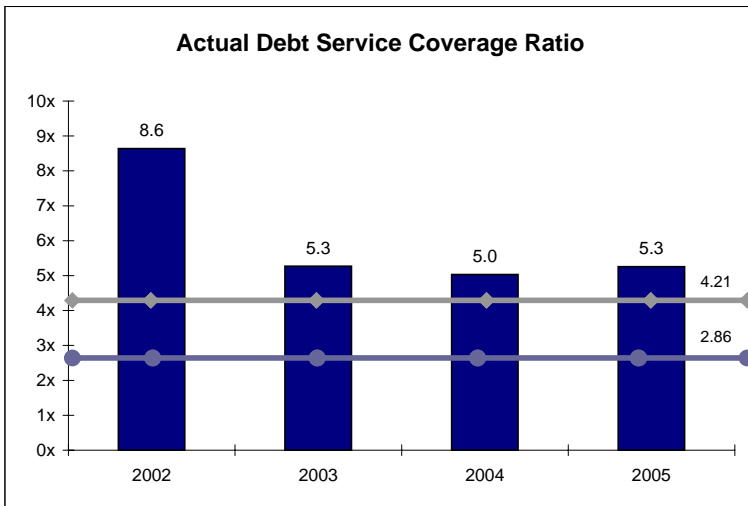
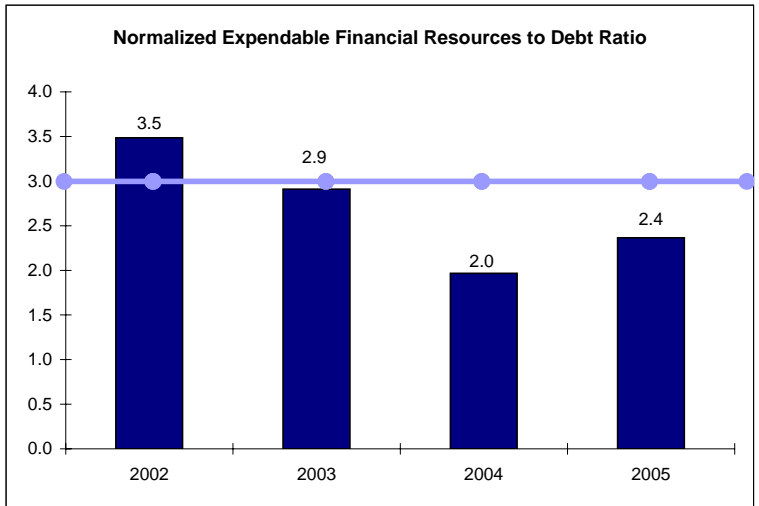
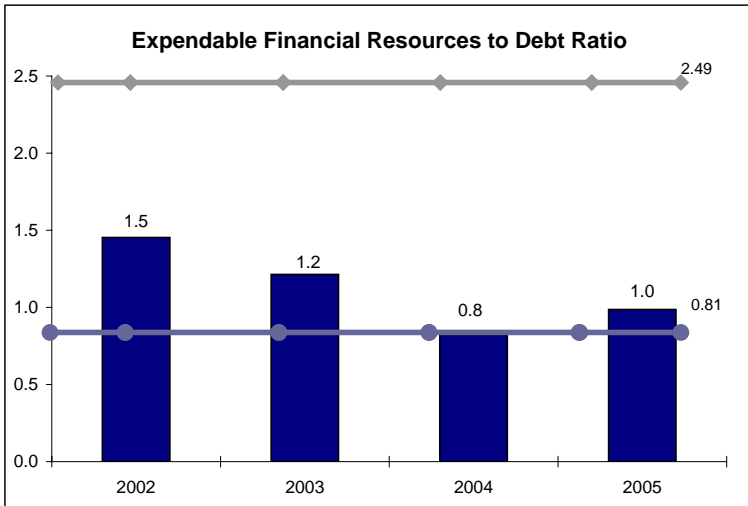
# KEY INDICATORS OF FINANCIAL HEALTH 2002 THROUGH 2005



### Scale for Charting CFI Performance



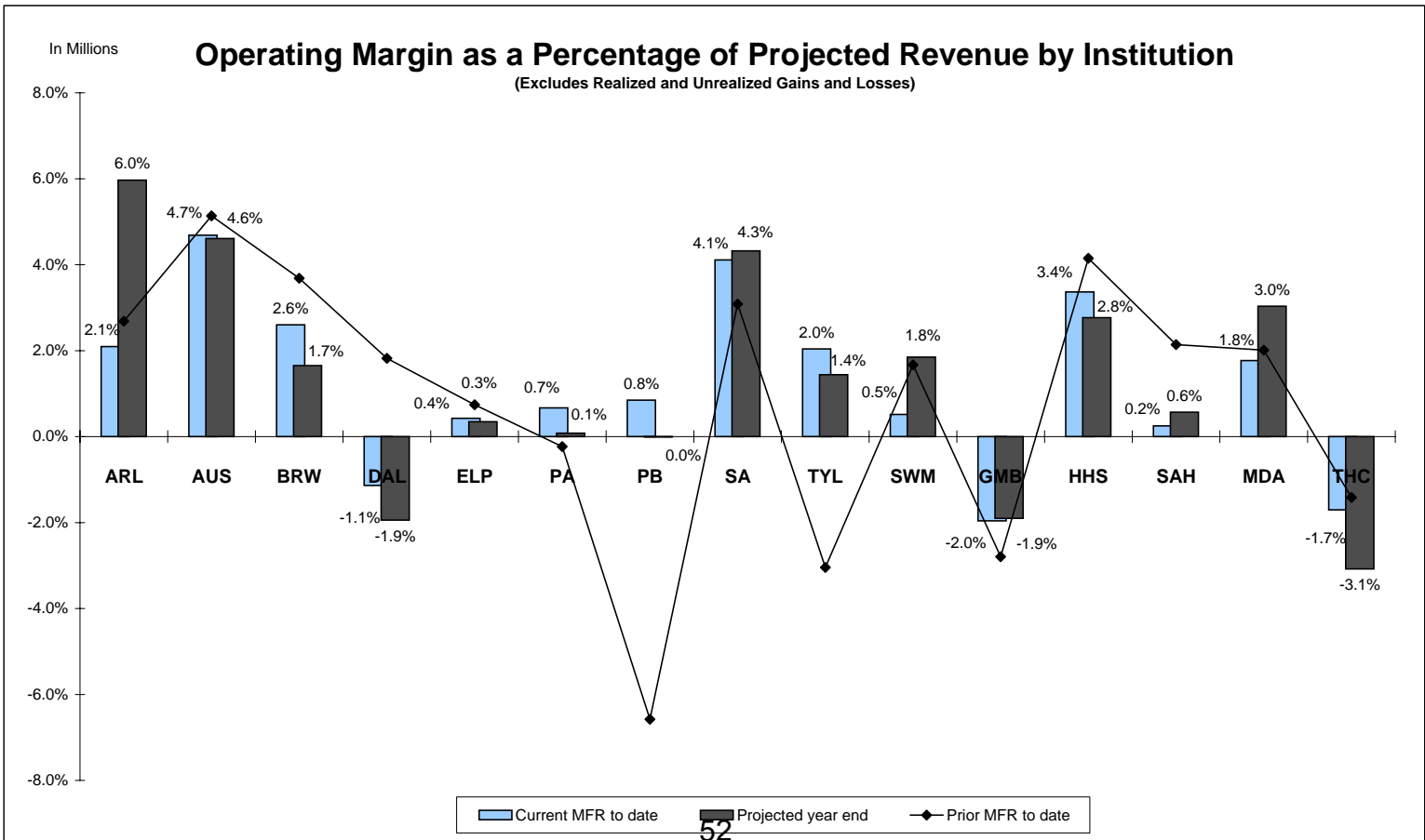
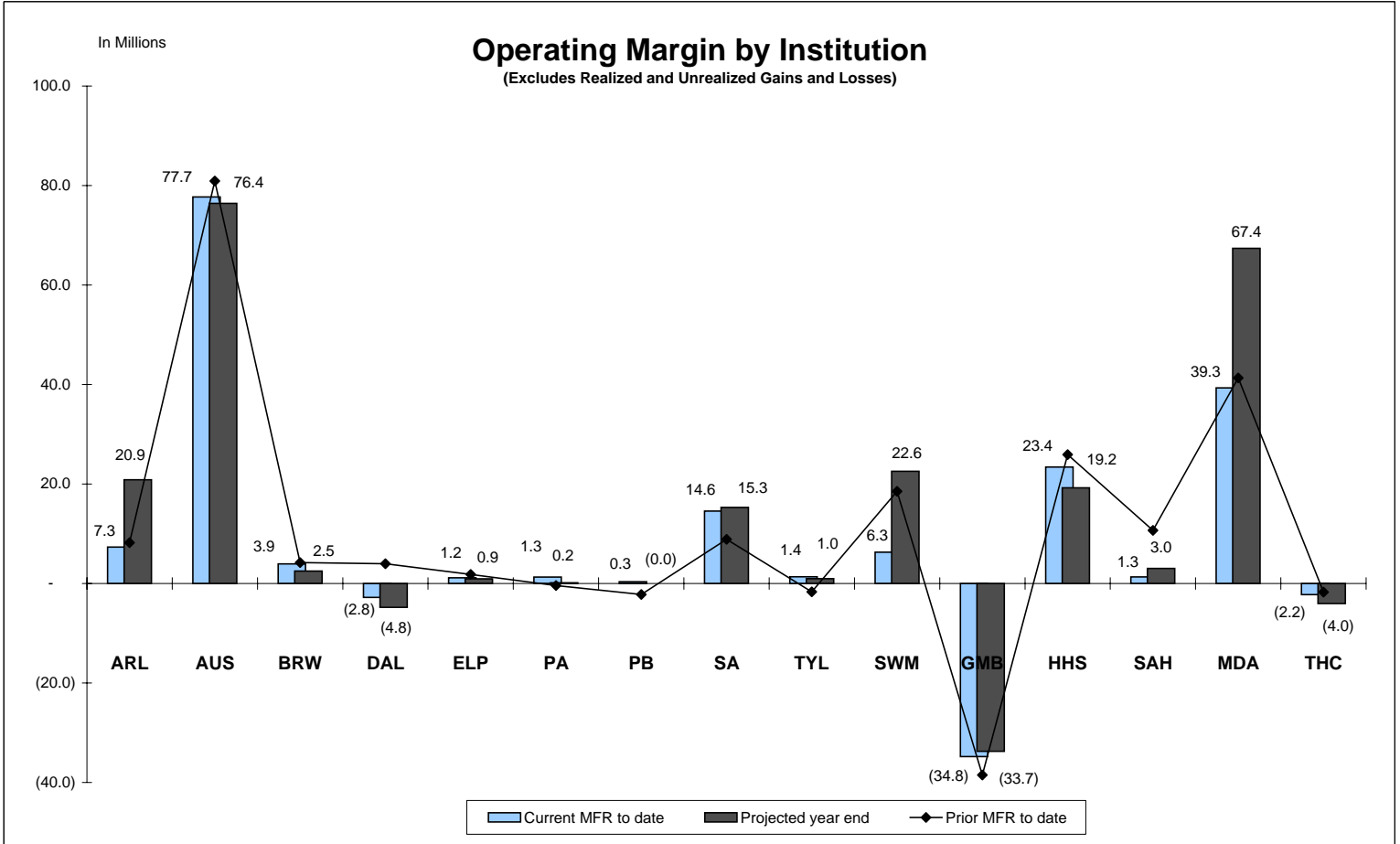
# KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY 2002 THROUGH 2005



# KEY INDICATORS OF RESERVES

## YEAR TO DATE 2005 AND 2006 FROM MARCH MONTHLY FINANCIAL REPORT

### PROJECTED 2006 YEAR-END MARGIN



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

RECOMMENDATION

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

- a. the distribution rate for the Permanent Health Fund (PHF) be increased from \$0.0482 per unit to \$0.0496 per unit effective November 30, 2006;
- b. the distribution rate for the U. T. System Long Term Fund (LTF) be increased from \$0.2764 per unit to \$0.2844 per unit effective November 30, 2006; and
- c. the distribution rate for the U. T. System Intermediate Term Fund (ITF) remain at 3.0% per annum for Fiscal Year 2007.

BACKGROUND INFORMATION

The spending policy objectives of the PHF and LTF are to

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

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

The recommended 2.9% increase in the PHF distribution rate of \$0.0482 to \$0.0496 per unit was based on the PHF's Investment Policy Statement to increase the distributions by the average rate of inflation for the trailing 12 quarters. The PHF's distribution rate calculated using the prior 12-quarter average value of the PHF is 4.9%, within the

range of 3.5% to 5.5% set forth in the PHF Investment Policy Statement. The recommended distribution rate of \$0.0496 per unit was approved by the UTIMCO Board on March 30, 2006.

The recommended 2.9% increase in the LTF distribution rate from \$0.2764 to \$0.2844 per unit was based on the LTF's Investment Policy Statement to increase the distributions by the average rate of inflation for the trailing 12 quarters. The LTF's distribution rate calculated using the prior 12-quarter average value of the LTF is 5.0%, within the range of 3.5% to 5.5% set forth in the LTF Investment Policy Statement. The increase in the consumer price index for the prior three years as of November 30, 2005, was 2.9%. The recommended distribution rate of \$0.2844 per unit was approved by the UTIMCO Board on March 30, 2006.

The distribution rate for the ITF was set at 3.0% per annum for the remainder of Fiscal Year 2006 by the UTIMCO Board and the Board of Regents at their January 17, 2006 and February 9, 2006 meetings, respectively. The recommendation for the rate to remain at 3.0% for Fiscal Year 2007 was approved by the UTIMCO Board on March 30, 2006.

**4. U. T. System Board of Regents: Investments Report for the quarter ended February 28, 2006, and The University of Texas Investment Management Company (UTIMCO) Performance Summary Report**

REPORT

The Investments Report for the quarter ended February 28, 2006, is as set forth on Pages 56 - 61.

Item I on Page 56 reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the quarter end was 4.71% versus its composite benchmark return of 5.43%. The PUF's net asset value increased by \$234.0 million since the beginning of the quarter to \$9,798.6 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 a \$257.3 million distribution to complete the annual distribution from the PUF to the Available University Fund (AUF).

Item II on Page 57 reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the quarter was 4.75% versus its composite benchmark return of 5.43%. The GEF's net asset value increase during the quarter to \$5,228.5 million was made up of a large foundation contribution and investment return, net of a \$105.5 million withdrawal from the Medical Liability Self Insurance Fund to invest in the Intermediate Term Fund.

Item III on Page 58 reports activity for the Intermediate Term Fund (ITF). The ITF was implemented on February 1, 2006. The initial contribution to the ITF was \$2,930.9 million. The decrease to the quarter ending value of \$2,920.0 million was made up of expenses, investment return, and \$7.3 million in distributions based on a 3% per annum distribution rate. During the first month since inception, the net investment return was negative .11% versus the performance benchmark of 0%.

Item IV on Page 59 reports activity for the Short Intermediate Term Fund (SITF). The SITF was fully liquidated on January 31, 2006. All participants reinvested this money into the ITF or Short Term Fund. Total net investment return on the SITF was .66% for the two-month period ended January 31, 2006.

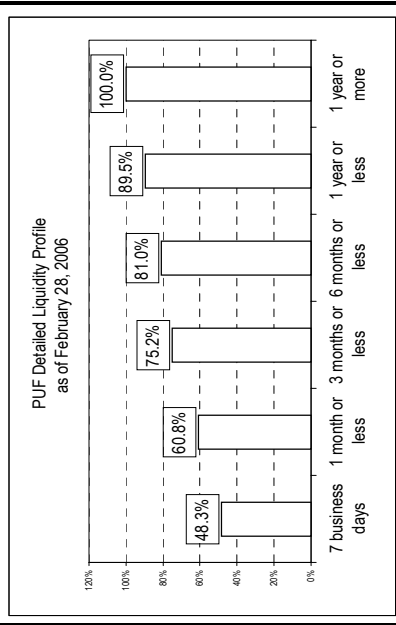
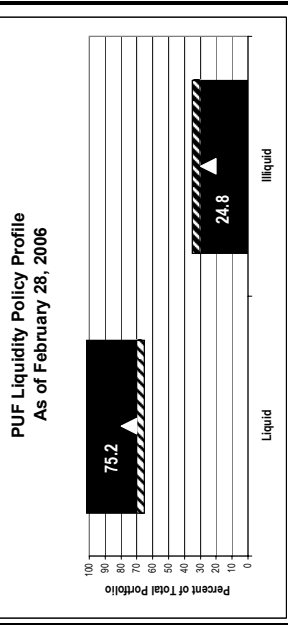
Item V on Page 60 presents book and market value of cash, debt, equity, and other securities held in funds outside of internal investment pools. The large decrease in cash and equivalents and equity securities reflects operating funds withdrawn and invested in the ITF. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus money market fund, decreased by \$1,339.9 million to \$1,177.9 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$46.4 million versus \$46.2 million at the beginning of the period; equities: \$81.6 million versus \$364.9 million at the beginning of the period; and other investments: \$105.7 million versus \$1.3 million at the beginning of the period.

The February 28, 2006, UTIMCO Performance Summary Report is attached on Page 61.

# I. PERMANENT UNIVERSITY FUND Investment Reports for Periods Ended February 28, 2006

Prepared in accordance with Texas Education Code Sec. 51.0032

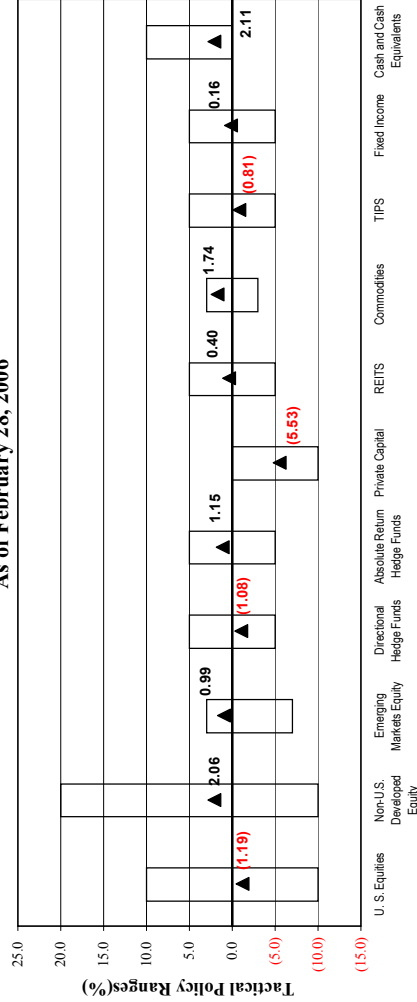
Summary of Capital Flows			
	Fiscal Year Ended August 31, 2005	Quarter Ended February 28, 2006	Fiscal Year to Date February 28, 2006
Beginning Net Assets (\$ millions)	\$ 8,087.9	\$ 9,564.6	\$ 9,426.7
PUF Lands Receipts	193.0	47.3	117.4
Investment Return	1,538.0	466.1	649.8
Expenses	(51.0)	(22.1)	(38.0)
Distributions to AUF	(341.2)	(257.3)	(357.3)
Ending Net Assets	\$ 9,426.7	\$ 9,798.6	\$ 9,798.6



	Fiscal Year to Date			
	February 28, 2006	Returns	Policy Benchmark	Value Added
Cash and Cash Equivalents	2.11%	2.00%	1.87%	0.05%
U.S. Equities	18.81%	3.34%	6.56%	-0.66%
Non-U.S. Developed Equities	12.06%	16.94%	15.14%	0.18%
Emerging Markets	7.99%	23.19%	30.09%	-0.45%
Directional Hedge Funds	8.92%	4.42%	4.19%	0.02%
Absolute Return Hedge Funds	16.15%	5.43%	3.21%	0.34%
REITS	5.40%	14.00%	13.06%	0.04%
Commodities	4.74%	-9.86%	-12.54%	-0.33%
TIPS	4.19%	0.22%	-0.09%	0.08%
Fixed Income	10.16%	-0.19%	-0.11%	-0.05%
<b>Total Marketable Securities</b>	<b>90.53%</b>	<b>6.27%</b>	<b>6.99%</b>	<b>-0.42%</b>
Private Capital	9.47%	9.94%	13.32%	-0.62%
<b>Total</b>	<b>100.00%</b>	<b>6.64%</b>	<b>7.93%</b>	<b>-1.29%</b>

## Deviations From Policy Targets Within Tactical Policy Ranges

As of February 28, 2006

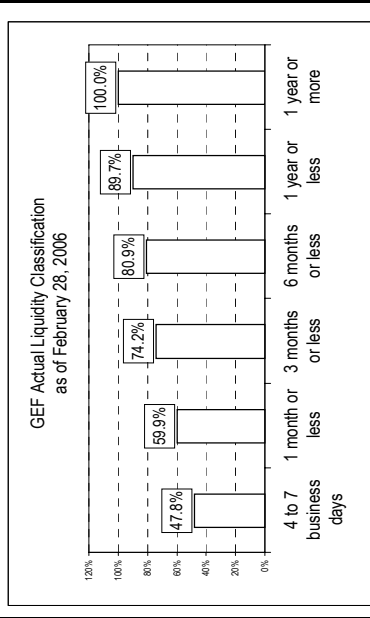
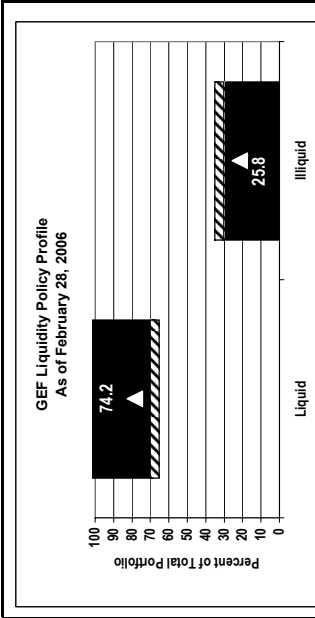


## II. GENERAL ENDOWMENT FUND

### Investment Reports for Periods Ended February 28, 2006

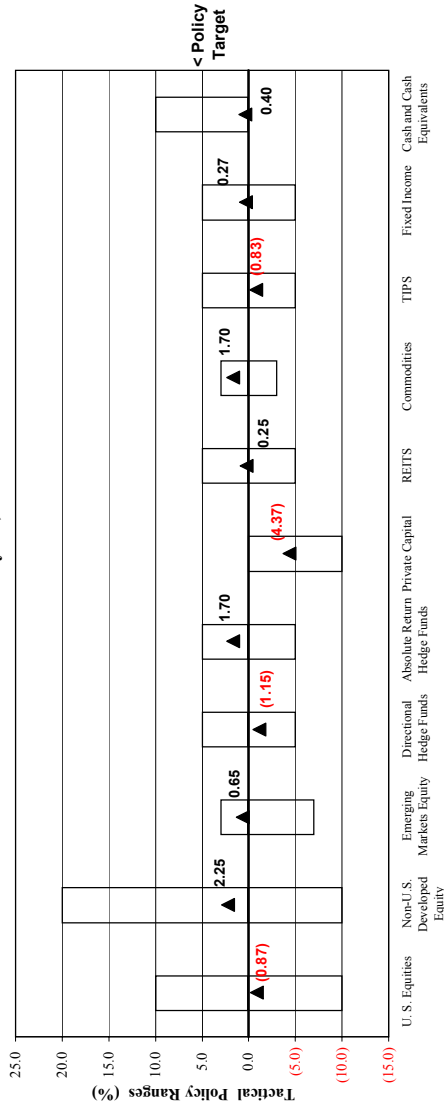
Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
	Fiscal Year Ended August 31, 2005	Quarter Ended February 28, 2006	
		February 28, 2006	Fiscal Year to Date February 28, 2006
Beginning Net Assets (\$ millions)	\$ 4,207.6	\$ 4,989.1	\$ 4,926.8
Contributions	139.2	155.2	187.2
Withdrawals	(4.7)	(105.5)	(105.5)
Distributions	(206.4)	(55.6)	(109.5)
Investment Return	814.2	255.8	347.8
Expenses	(23.1)	(10.5)	(18.3)
Ending Net Assets	\$ 4,926.8	\$ 5,228.5	\$ 5,228.5



	Fiscal Year to Date					
	February 28, 2006	Returns	Value Added			
	Portfolio Exposure	Policy Target	Portfolio Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	0.40%	0.00%	1.87%	0.04%	0.00%	0.04%
U.S. Equities	19.13%	20.00%	6.56%	-0.04%	-0.60%	-0.64%
Non-U.S. Developed Equities	12.25%	10.00%	15.14%	0.24%	0.15%	0.39%
Emerging Markets	7.65%	7.00%	30.09%	-0.21%	-0.47%	-0.68%
Directional Hedge Funds	8.85%	10.00%	4.19%	0.02%	0.01%	0.03%
Absolute Return Hedge Funds	16.70%	15.00%	5.37%	0.00%	0.33%	0.33%
REITS	5.25%	5.00%	13.06%	-0.01%	0.04%	0.03%
Commodities	4.70%	3.00%	-12.54%	-0.40%	0.09%	-0.31%
TIPS	4.17%	5.00%	0.22%	0.06%	0.02%	0.08%
Fixed Income	10.27%	10.00%	-0.11%	-0.04%	0.02%	-0.02%
<b>Total Marketable Securities</b>	<b>89.37%</b>	<b>85.00%</b>	<b>6.21%</b>	<b>-0.34%</b>	<b>-0.41%</b>	<b>-0.75%</b>
Private Capital	10.63%	15.00%	13.32%	-0.10%	-0.52%	-0.62%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>6.56%</b>	<b>-0.44%</b>	<b>-0.93%</b>	<b>-1.37%</b>

**Deviations From Policy Targets Within Tactical Policy Ranges**  
As of February 28, 2006



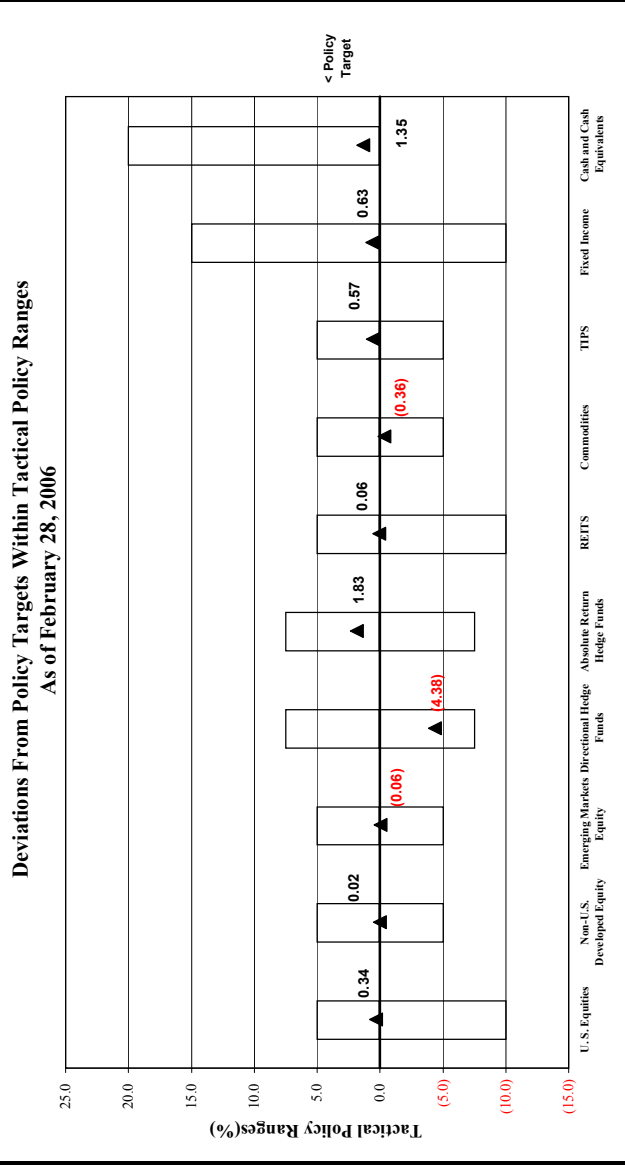
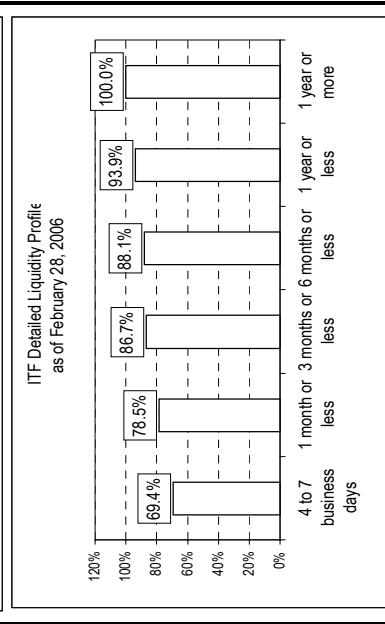
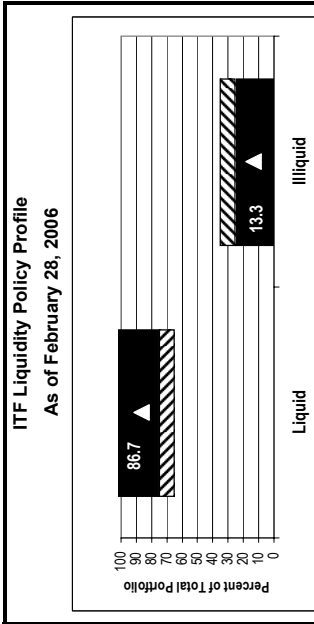


### III. INTERMEDIATE TERM FUND Investment Reports for Periods Ended February 28, 2006

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows	
Month Ended February 28, 2006	Inception to Date
Beginning Net Assets	-
Contributions	2,930.9
Withdrawals	-
Distributions	(7.3)
Investment Return	(3.3)
Expenses	(0.3)
Ending Net Assets	\$ 2,920.0

	Returns					Value Added	
	February 28, 2006	Policy Target	Portfolio	Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	1.35%	0.00%	0.34%	0.33%	0.00%	0.00%	0.00%
U.S. Equities	15.34%	15.00%	-0.64%	0.18%	0.00%	-0.12%	-0.12%
Non-U.S. Developed Equities	5.02%	5.00%	-0.06%	-0.22%	0.00%	0.01%	0.01%
Emerging Markets Equities	4.94%	5.00%	-1.51%	-0.12%	0.00%	-0.07%	-0.07%
Directional Hedge Funds	8.12%	12.50%	0.89%	0.56%	-0.04%	0.04%	0.00%
Absolute Return Hedge Funds	14.33%	12.50%	0.82%	0.52%	0.02%	0.04%	0.06%
REITS	10.06%	10.00%	1.97%	2.19%	0.00%	-0.02%	-0.02%
Commodities	4.64%	5.00%	-8.61%	-8.85%	-0.01%	0.01%	0.00%
TIPS	10.57%	10.00%	0.39%	-0.05%	0.00%	0.04%	0.04%
Fixed Income	25.63%	25.00%	0.28%	0.33%	0.00%	-0.01%	-0.01%
<b>Total Marketable Securities</b>	<b>100.00%</b>	<b>100.00%</b>	<b>-0.11%</b>	<b>0.00%</b>	<b>-0.03%</b>	<b>-0.08%</b>	<b>-0.11%</b>



**IV. SHORT INTERMEDIATE TERM FUND**  
**Investment Report for Periods Ended February 28, 2006**  
 Report prepared in accordance with *Texas Education Code Sec. 51.0032*

	(\$ millions)		
	FY04-05 Full Year	1st Qtr	FY05-06 2nd Qtr Year-to-Date
Beginning Net Assets	\$ 1,178.0	\$ 1,222.4	\$ 1,208.5
Net Contributions (Withdrawals)	46.0	(0.5)	(1,208.7)
Investment Return	30.0	(2.6)	7.5
Expenses	(0.5)	(0.1)	(0.10)
Distributions of Income	(31.1)	(10.7)	(7.2)
Ending Net Assets	\$ 1,222.4	\$ 1,208.5	\$ -
Net Asset Value per Unit	9.914	9.805	-
No. of Units (End of Period)	123,305,429	123,251,937	-
Total Net Investment Return	2.48%	-0.20%	0.66% *
			0.45% *

\* Fund terminated January 31, 2006. Net Investment Return is for the period ended January 31, 2006.

**V. SEPARATELY INVESTED ASSETS**  
**Summary Investment Report at February 28, 2006**  
 Report prepared in accordance with *Texas Education Code Sec. 51.0032.*

ASSET TYPES	(\$ thousands)														
	FUND TYPE														
	CURRENT PURPOSE DESIGNATED		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		OPERATING FUNDS		TOTAL		
BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
<b>Cash &amp; Equivalents:</b>															
Beginning value 11/30/05	3,179	3,179	6,145	6,145	56,264	56,264	601	601	120,846	120,846	2,330,743	2,330,743	2,517,778	2,517,778	2,517,778
Increase/(Decrease)	1,313	1,313	(3,284)	(3,284)	26,401	26,401	191	191	(118,558)	(118,558)	(1,245,931)	(1,245,931)	(1,339,868)	(1,339,868)	(1,339,868)
Ending value 2/28/06	4,492	4,492	2,861	2,861	82,665	82,665	792	792	2,288	2,288	1,084,812	1,084,812	1,177,910	1,177,910	1,177,910
<b>Debt Securities:</b>															
Beginning value 11/30/05	-	-	263	211	29,850	29,666	16,181	16,322	-	-	-	-	46,294	46,199	46,199
Increase/(Decrease)	-	-	-	1	28	(123)	418	346	-	-	-	-	446	224	224
Ending value 2/28/06	-	-	263	212	29,878	29,543	16,599	16,668	-	-	-	-	46,740	46,423	46,423
<b>Equity Securities:</b>															
Beginning value 11/30/05	27	7,632	1,903	1,631	40,680	47,109	20,379	24,839	-	-	315,787	283,680	378,776	364,891	364,891
Increase/(Decrease)	-	(268)	1,506	1,504	(3,801)	(2,796)	1,198	1,997	-	-	(315,787)	(283,680)	(316,884)	(283,243)	(283,243)
Ending value 2/28/06	27	7,364	3,409	3,135	36,879	44,313	21,577	26,836	-	-	-	-	61,892	81,648	81,648
<b>Other:</b>															
Beginning value 11/30/05	-	-	1,205	1,205	2	2	234	86	-	-	-	-	1,441	1,293	1,293
Increase/(Decrease)	105,487	105,487	(1,066)	(1,066)	(1)	(1)	5	19	-	-	-	-	104,425	104,439	104,439
Ending value 2/28/06	105,487	105,487	139	139	1	1	239	105	-	-	-	-	105,866	105,732	105,732

Details of individual assets by account furnished upon request.

# UTIMCO Performance Summary

February 28, 2006

	Net Asset Value 2/28/2006 (in Millions)	Periods Ended February 28, 2006 (Returns for Periods Longer Than One Year are Annualized)										
		One Month	Calendar Year To Date	Three Months	Fiscal Year To Date	Six Months	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
<b>ENDOWMENT FUNDS</b>												
Permanent University Fund	\$ 9,798.6	(0.06)	2.80	4.71	6.64	12.70	12.19	18.36	11.31	8.00	9.62	
General Endowment Fund		0.04	2.86	4.75	6.56	12.50	12.11	18.55	11.46	8.34	N/A	
Permanent Health Fund	966.0	0.11	2.89	4.75	6.53	12.38	12.02	18.42	11.34	8.21	N/A	
Long Term Fund	4,262.4	0.11	2.89	4.75	6.54	12.39	12.03	18.44	11.37	8.26	10.29	
Separately Invested Funds	326.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
<b>Total Endowment Funds</b>	<b>15,353.9</b>											
<b>OPERATING FUNDS</b>												
Short Term Fund	1,084.8	0.34	0.70	1.05	2.00	3.54	2.53	2.04	1.96	2.30	3.99	
Intermediate Term Fund	2,920.0	(0.11)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
<b>Total Operating Funds</b>	<b>4,004.8</b>											
<b>Total Investments</b>	<b>\$ 19,358.7</b>											
<b>BENCHMARKS (1)</b>												
Permanent University Fund: Policy Portfolio		0.34	3.67	5.43	7.93	14.60	12.59	15.49	9.31	5.90	10.33	
General Endowment Fund: Policy Portfolio		0.34	3.67	5.43	7.93	14.60	12.59	15.49	9.31	5.94	10.15	
Short Term Fund: 90 Day Treasury Bills Average Yield		0.33	0.64	0.96	1.87	3.38	2.44	2.00	1.92	2.26	3.83	
Intermediate Term Fund: Policy Portfolio		(0.00)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
<b>VALUE ADDED (2)</b>												
Permanent University Fund		(0.40)	(0.86)	(0.72)	(1.29)	(1.89)	(0.41)	2.87	2.00	2.10	(0.71)	
General Endowment Fund		(0.29)	(0.81)	(0.68)	(1.37)	(2.10)	(0.48)	3.06	2.15	2.40	N/A	
Permanent Health Fund		(0.23)	(0.78)	(0.68)	(1.41)	(2.22)	(0.57)	2.93	2.02	2.28	N/A	
Long Term Fund		(0.23)	(0.77)	(0.68)	(1.39)	(2.21)	(0.56)	2.95	2.06	2.32	0.14	
Short Term Fund		0.01	0.06	0.09	0.13	0.16	0.08	0.04	0.04	0.04	0.16	
Intermediate Term Fund		(0.11)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	

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

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

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

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

5. **U. T. System: Recommendation to select retirement programs vendors to be effective September 1, 2006**

**RECOMMENDATION**

Vice Chancellor Brown and Mr. Dan Stewart, Assistant Vice Chancellor for Employee Services, will make a recommendation to the U. T. System Board of Regents at the Board meeting concerning the selection of certain vendors to provide retirement products and services for the Optional Retirement Program (ORP), The University of Texas System Governmental Retirement Arrangement (UTGRA), UTSaver Tax Sheltered Annuity Program (UTSaver TSA), and UTSaver Deferred Compensation Plan (UTSaver DCP) and to enter into contracts with the U. T. System effective September 1, 2006.

**BACKGROUND INFORMATION**

The U. T. System currently contracts with eight vendors to provide products and services for the ORP and UTGRA, with six of the eight also offering products and services for the UTSaver DCP. These contracts expire on August 31, 2006.

For the UTSaver TSA product, the U. T. System does not hold contracts with the existing vendors. There are approximately 140 UTSaver TSA vendors and one currently authorized UTGRA vendor receiving employee contributions.

On December 15, 2005, the U. T. System issued a Request for Proposals (RFP) to select a common set of retirement vendors to offer products and services for all U. T. System retirement programs. The RFP was developed with the assistance of an outside consulting firm, Rudd and Wisdom, Inc., and an RFP Advisory Group, which consisted of U. T. System employees with expertise in the areas of finance and benefit plans administration, representatives from the human resource departments of various U. T. System institutions, faculty members, institutional chief business officers, and a representative from The University of Texas Investment Management Company (UTIMCO).

The purpose of the RFP was to competitively and comparatively select retirement vendors by seeking the following core competencies: (1) experience in multivendor higher education markets, (2) ability to provide products and services in all four plan types, (3) overall financial stability, (4) competitively priced products, (5) excellent long-term investment performance history, (6) comprehensive communication and education capabilities, (7) compliance with U. T. System policies and state law, (8) ability to provide investment guidance to all employees, (9) outstanding recordkeeping systems, and (10) state-of-the-art employee service capabilities.

Nine vendors responded:

1. AIG VALIC (currently contracted vendor)
2. Fidelity Investments (currently contracted vendor)
3. FTJ Fund Choice
4. ING Life Insurance and Annuity Company (currently contracted vendor)
5. Lincoln Financial Group (currently contracted vendor)
6. Lincoln Investment Planning
7. MetLife Resources/CitiStreet Associates (currently contracted vendors - merged in January 2006, responded to RFP as MetLife Resources)
8. Security Benefit Life Insurance Company
9. TIAA-CREF (currently contracted vendor)

Of the eight currently contracted vendors, one vendor did not respond.

Through close coordination with Rudd and Wisdom, Inc., U. T. System analyzed all nine proposals submitted and determined that certain vendors provide superior retirement products and services. In accordance with *Texas Administrative Code*, Chapter 25, as promulgated by the Texas Higher Education Coordinating Board (THECB), the U. T. System is proposing to contract with a minimum of four qualified companies, including at least one company that offers 403(b)(1) annuity accounts and one company that offers 403(b)(7) custodial accounts.

Employees will continue to be permitted to contribute to their current vendors or to choose to contribute to one or more of the contracting vendors; however, U. T. System is considering the development of a policy to address whether future contributions should be allowed to continue to the vendors who were not selected or to current vendors that chose not to respond to the RFP.

Through utilizing this competitive bid process, the U. T. System Office of Employee Benefits will achieve substantial decreases in product cost, expansion of investment options, enhancement of investment services to be provided to retirement program participants, improved vendor accountability, and strengthened relationships between U. T. System and the approved vendors.

6. **U. T. System Board of Regents: Amendment to the Regents' *Rules and Regulations*, Series 20204, regarding determining and documenting the reasonableness of compensation**

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Business Affairs that the definition of what constitutes total compensation contained in the Regents' *Rules and Regulations*, Series 20204, regarding determining and documenting the reasonableness of compensation, be amended as set forth below in congressional style:

**3. Definitions**

...

Total Annual Compensation – includes salaries or wages, ~~employer contributions to Teachers Retirement System of Texas and Optional Retirement Program,~~ practice plan supplements, incentive plan payments, and unpaid deferred compensation, ~~and excludes excluding~~ employer-provided insurance, expense allowances, employer contributions to Teachers Retirement System of Texas and Optional Retirement Program, and other fringe benefits.

BACKGROUND INFORMATION

The proposed amendment to the Regents' *Rules* is necessary to address an accounting and documentation problem not identified when this Regents' *Rules* provision was adopted in July 2005. As U. T. System institutions worked to implement the review requirements, problems were encountered because the elements of total compensation for a U. T. System employee typically do not include employer contributions for retirement programs.

**7. U. T. System: Overview of U. T. System energy savings initiatives**

REPORT

Mr. Philip R. Aldridge, Associate Vice Chancellor for Finance, will provide an update on energy savings initiatives throughout the U. T. System. The report will address the progress of the Energy Utility Task Force and the U. T. System's response to the Governor's Executive Order RP-49, issued on October 27, 2005, relating to energy conservation by state agencies. Materials relating to this Agenda Item are attached on Pages 56 - 78 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. The estimated reduction in energy usage through Fiscal Year 2005 is 5.2%. A 5-10% reduction in energy usage is targeted for Fiscal Year 2006.