



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

Friday, October 12, 2007
9th Floor, Ashbel Smith Hall
Austin, Texas

		Page
A. CONVENE JOINT MEETING: BOARD OF REGENTS AND UTIMCO BOARD OF DIRECTORS	9:00 a.m. <i>Chairman Huffines</i> <i>Chairman Caven</i>	
1. Introductions	9:00 a.m. <i>Chairman Huffines</i> <i>Chairman Caven</i>	1
2. Report on Legislation and Legal Issues	9:05 a.m. Report <i>Mr. Burgdorf</i> <i>Ms. Gonzalez</i>	2
3. Reports on UTIMCO Board Operations and Committees Board Officers, Key Employees, Delegation of Authority Standing Committee Reports: <ul style="list-style-type: none"> • Audit and Ethics Committee • Risk Committee • Policy Committee • Compensation Committee 	9:25 a.m. Report <i>Chairman Caven</i> <i>Mr. Nye</i> <i>Mr. Tate</i> <i>Mr. Rowling</i> <i>Mr. Ferguson</i>	8
4. UTIMCO Update: Report on UTIMCO Organization, Performance, and Activities	9:45 a.m. Report <i>Mr. Zimmerman</i>	9
5. Report on Investment Management Cost Effectiveness	10:00 a.m. Report <i>Dr. Kelley</i>	17
6. Update regarding Centralization of Operating Funds	10:10 a.m. Report <i>Dr. Kelley</i>	30
7. Report on Investment Objectives and Performance from UTIMCO Board Investment Consultant	10:15 a.m. Report <i>Mr. Bruce Myers,</i> <i>Cambridge</i> <i>Associates</i>	35
BREAK	10:40 a.m.	
8. U. T. System Board of Regents: Discussion of U. T. System assets managed by The University of Texas Investment Management Company (UTIMCO) in context of U. T. System financial resources	10:55 a.m. Report <i>Dr. Kelley</i>	52

Friday, October 12, 2007 (continued)

		Page
BUFFET LUNCH	11:30 a.m.	
9. Report on Investment Strategy (working lunch)	11:45 a.m. Report <i>Mr. Zimmerman</i>	63
B. ADJOURN JOINT MEETING	1:00 p.m.	
C. RECONVENE MEETING OF THE BOARD OF REGENTS	1:30 p.m.	
D. CONSIDER AGENDA ITEMS		
10. U. T. System Board of Regents: Presentation regarding work of the Brackenridge Tract Task Force	1:30 p.m. Report <i>Mr. Larry Temple</i>	98
11. U. T. System Board of Regents: Approval of the U. T. System-wide Internal Audit Plan for Fiscal Year 2008	2:45 p.m. Action <i>Regent Estrada</i> <i>Mr. Chaffin</i>	99
12. U. T. System Board of Regents: Amendment to Regents' <i>Rules and Regulations</i>, Series 60102, related to fees for institutional endowment compliance	2:50 p.m. Action <i>Mr. Burgdorf</i> <i>Dr. Safady</i>	144
13. U. T. System: Authorization to allow the Texas Campus Compact, a 501(c)(3) nonprofit organization, to occupy approximately 886 sq. ft. of space located at 702 Colorado Street, Austin, Texas; to provide certain services; and finding of public purpose	2:55 p.m. Action <i>Mr. Burgdorf</i>	147
14. U. T. System: Approval of allocation of Intermediate Term Fund proceeds for System-wide projects	3:00 p.m. Action <i>Dr. Kelley</i> <i>Dr. Prior</i> <i>Dr. Shine</i>	150
15. U. T. System: Approval to form a Coordinating Committee and provide for funding to advance the Texas Alliance for Nanotechnology (TxAN) initiative with The Texas A&M University System	3:10 p.m. Action <i>Mr. Burgdorf</i>	157

Friday, October 12, 2007 (continued)

E. RECESS TO EXECUTIVE SESSION IN ACCORDANCE WITH *TEXAS GOVERNMENT CODE*, CHAPTER 551 3:15 p.m.

1. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees – Section 551.074

U. T. System: Discussion and appropriate action regarding individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents (academic and health institutions), U. T. System Administration officers (Executive Vice Chancellors and Vice Chancellors), other officers reporting directly to the Board (Chancellor, General Counsel to the Board, and Director of Audits and System-wide Compliance Officer), and U. T. System and institutional employees

2. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – Section 551.071

a. **U. T. System: Discussion regarding legal issues related to the Texas Alliance for Nanotechnology (TxAN) initiative**

Mr. Burgdorf

b. **U. T. System Board of Regents: Discussion with Counsel on pending legal issues**

Mr. Burgdorf

F. RECONVENE IN OPEN SESSION TO CONSIDER ACTION ON EXECUTIVE SESSION ITEMS, IF ANY 3:25 p.m.

G. ADJOURN 3:30 p.m.

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

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

UTIMCO Directors

Chairman H. Scott Caven, Jr.
Vice-Chairman Robert B. Rowling
Vice-Chairman for Policy Mark G. Yudof
Mr. Clint D. Carlson
Mr. J. Philip Ferguson
Ms. Colleen McHugh
Mr. Ardon E. Moore
Mr. Erle Nye
Mr. Charles W. Tate

U. T. System Staff

Mr. Philip Aldridge, Associate Vice Chancellor for Finance
Mr. William Huang, Senior Financial Analyst
Mr. Barry Burgdorf, Vice Chancellor and General Counsel
Mr. James Philips, Senior Attorney, Office of General Counsel
Ms. Karen Lundquist, Attorney, Office of General Counsel
Ms. Francie Frederick, General Counsel to the Board of Regents
Mr. Charles Chaffin, Director of Internal Audit
Ms. Amy Barrett, Assistant Director of Internal Audit

UTIMCO Management

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer
Ms. Cathy Iberg, President and Deputy Chief Investment Officer
Ms. Cecilia Gonzalez, General Counsel

UTIMCO Board Advisors and Consultants

Dr. Keith Brown, Advisor to the Chairman, Fayez Sarofim Fellow and Professor of Finance, Red McCombs School of Business, U. T. Austin
Mr. Jerry Turner, Counsel, Vinson & Elkins LLP
Mr. Bruce Myers, Investment Consultant, Cambridge Associates LLC
Mr. Tom Wagner, Audit Partner, Deloitte & Touche
Mr. Gifford Fong, President, Gifford Fong Associates (not attending)

2. **U. T. System Board of Regents: Report on legislation and legal issues: Uniform Prudent Management of Institutional Funds Act (UPMIFA); Master Investment Management Services Agreement (IMSA); Board of Regents' Expectations of UTIMCO Directors**

REPORT

Vice Chancellor and General Counsel Barry Burgdorf will discuss the current Master Investment Management Services Agreement (IMSA) and Ms. Cecilia Gonzalez, General Counsel to UTIMCO, will summarize issues related to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board of Regents' Expectations of UTIMCO Directors follows on Pages 3 - 7 as background information for this discussion.

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

Overview of UTIMCO

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

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

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

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

Qualifications and Terms

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

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

Operations and Resources

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

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

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

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

Duties and Responsibilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Prohibited Transactions -- Conflicts of Interest

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

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

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

Application of the Texas Public Information Act

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

Meeting Requirements

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

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

REPORT

UTIMCO Chairman Caven will outline the UTIMCO Board Committee structure. Four Board committees assume primary responsibility for overseeing certain aspects of UTIMCO operations. The chairmen of the UTIMCO Board committees will describe the roles of their committees as follows:

- Audit and Ethics Committee, Chairman Erle Nye
- Risk Committee, Chairman Charles W. Tate
- Policy Committee, Chairman Robert B. Rowling
- Compensation Committee, Chairman J. Phillip Ferguson

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

Audit & Ethics Committee Charter Purpose:

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

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

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

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

Risk Committee Charter Purpose:

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

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

Policy Committee Charter Purpose:

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

1. The development and amendment of UTIMCO Board Policies and Corporate Documents;
2. Recommendations concerning the development and amendment of investment-related policies of The University of Texas System Board of Regents (U. T. Board) related to the management of funds under the control and management of the U. T. Board; and
3. Recommendations concerning the amendment of the Investment Management Services Agreement, Code of Ethics, and Bylaws.

Compensation Committee Charter Purpose:

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

- Recommend to the Board the base salary and performance compensation award of the CEO;
- Approve base salaries of all officers except the CEO;
- Recommend to the Board the Performance Compensation Plan and any amendments thereto and the eligible employees; and
- Approve Performance Compensation awards for eligible employees except the CEO.

4. U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Update

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of The University of Texas Investment Management Company (UTIMCO), will report on the UTIMCO organizational structure, corporate performance, investment performance, control environment, reporting/communication enhancements, and investment focus, using the PowerPoint presentation set forth on Pages 10 - 16.



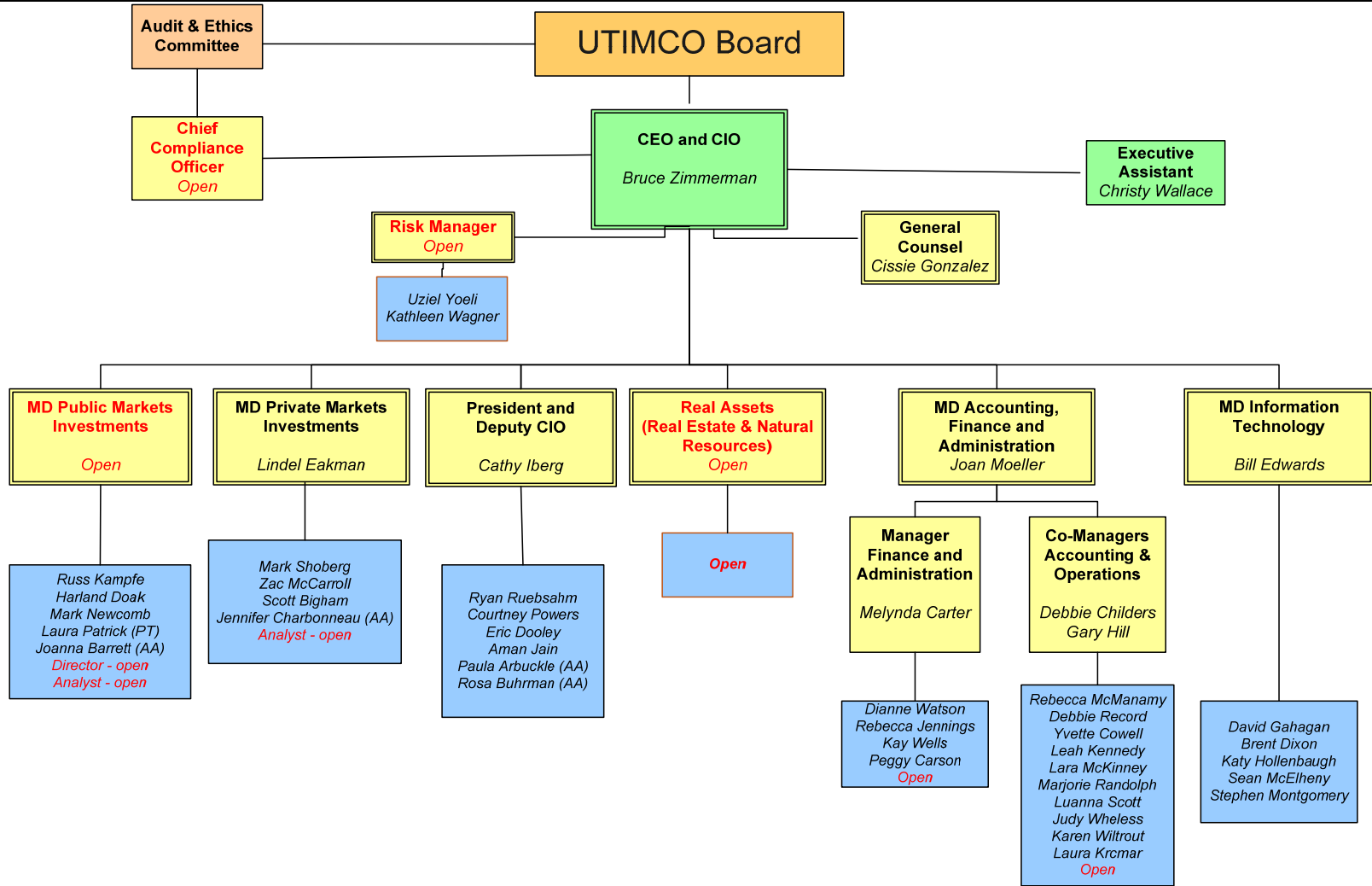
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

UTIMCO Update

Joint Meeting of
The University of Texas System Board of Regents and
UTIMCO Board of Directors
October 12, 2007



UTIMCO - Organizational Structure



11



	2006/07 Budget	2006/2007 Est Actual	2007/08 Budget	2007/08 Bgt vs 2006/07 Est Actual	
				\$	%
UTIMCO Services (\$ in thousands)					
Employee Related Expenses:					
Salaries	\$5,910	\$4,909	\$6,011	\$1,102	22%
Bonus	2,871	2,247	3,258	1,011	45%
Employee Benefits	1,035	750	1,177	427	57%
Payroll taxes	380	302	418	116	38%
Hiring, Recruiting, Relocation Expenses	324	395	440	45	11%
Compensation Consultant	12	13	120	107	823%
Employee Education, Dues, Memberships & Subscriptions	242	114	153	39	34%
Total Employee Related	10,774	8,730	11,577	2,847	33%
Non - Employee Related Expenses:					
Travel & Meetings	356	184	406	222	121%
On-Line Data & Contract Services	702	733	772	39	5%
Lease Expense	689	776	943	167	22%
Depreciation	532	566	608	42	7%
Insurance	262	250	252	2	1%
Legal Expenses	295	567	360	(207)	-37%
Office Expense and Other	331	373	452	79	21%
Total Non-employee Related	3,167	3,449	3,793	344	10%
Total UTIMCO Services	13,941	12,179	15,370	3,191	26%
Direct Costs to Funds, excluding investment manager costs					
Custodian Fees and other direct costs	1,260	1,532	1,536	4	0%
Perf Measure, Analytic tools, Risk Measure	1,767	1,471	1,530	59	4%
Custodian and Analytical Costs	3,027	3,003	3,066	63	2%
Consultant Fees	1,356	1,289	1,325	36	3%
Auditing	329	314	754	440	140%
Legal Fees	985	826	1,100	274	33%
Other	289	203	265	62	31%
Other Directs Total	2,959	2,632	3,444	812	31%
Total Direct Costs to Funds, excluding investment manager costs	5,986	5,635	6,510	875	16%
Total	\$19,927	\$17,814	\$21,880	\$4,066	23%



Investment Performance

Investment Performance Summary Fiscal Year to Date 2007

	<u>PUF</u>	<u>GEF</u>	<u>ITF</u>	<u>STF</u>	<u>TOTAL</u>
Assets (millions)	\$ 11,743	\$ 6,433	\$ 3,721	\$ 1,404	\$ 23,512 ⁽¹⁾
Returns					
%	15.34%	15.90%	10.62%	5.39%	n/a
in millions	\$ 1,640	\$ 929	\$ 377	\$ 70	\$ 3,016
vs. Objectives					
%	7.24%	7.80%	5.60%	n/a	n/a
in millions	\$ 741	\$ 439	\$ 175	n/a	\$ 1,354
vs. Benchmarks					
%	1.96%	2.52%	2.15%	0.10%	n/a
in millions	\$ 199	\$ 141	\$ 73	n/a	\$ 413

(1) Includes \$211 in Separately Invested Assets



Control Environment

- Risk Management
 - Board Risk Committee
 - Risk Budget and Derivatives Policy
 - Risk Dashboard
 - Asset Allocation Ranges
 - Liquidity Policy
 - Enterprise Risk Management
- Compliance
 - Board Audit and Ethics Committee
 - Chief Compliance Officer
 - Internal Ethics and Compliance Committee
 - UT System Institutional Compliance
- Audit
 - Board Audit and Ethics Committee
 - UT System Internal Audit (five audits in 18 months)
 - Deloitte & Touche External Audit (seven audits)



Reporting/Communication Enhancements

- Revised Board Reporting Package
- Integrated Return and Risk Reporting
- Tactical Allocation Impact
- Hedge Fund, Private Equity and Public Markets Portfolio Transparency
- Derivative Exposure
- UT System Engagement/Dialogue



Investment Focus

- Retain and Attract High Caliber Professionals
- Investment Process and Committee
- Real Assets
 - Global Private Real Estate
 - Natural Resources
- Global and Emerging Markets
- Opportunistic Activities

5. **U. T. System Board of Regents: Report on Investment Management Cost Effectiveness**

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will report on the cost effectiveness of UTIMCO's investment management of the U. T. System assets. The presentation, set forth on Pages 18 - 23, shows value added and total actual costs for Fiscal Years 2002-2006. The value added by UTIMCO is based on an analysis performed by Cambridge Associates, as set forth on Pages 24 - 29.

UTIMCO's performance added nearly \$1.13 billion in value during the five fiscal years ending August 31, 2006, net of all investment management costs. Value was added despite the fact that total investment management costs increased 21.4% in Fiscal Year 2006 and have more than doubled as a percent of assets managed since Fiscal Year 2002.



Investment Management Cost Effectiveness

Five-Year Actual Trends through FY2006 FY2007 Budgets and Estimated Costs

Cathy Swain, CFA
Director of Investment Oversight

February 15, 2007

Acknowledgement:

In addition to Cambridge Associates, special thanks for contributions to this report extend to UTIMCO and U. T. System Department of Finance staff, notably to Gary Hill and William Huang, whose relentless pursuit of accuracy and completeness contributed to the integrity of the data and analysis.

Investment Management Cost Effectiveness

I. Executive Summary

This report summarizes the analysis of the cost effectiveness of UTIMCO's investment management of the U. T. System assets, comparing value added and total actual costs¹ for fiscal years 2002-2006 and a forecast for FY07, based on UTIMCO's FY07 budget, estimates provided by UTIMCO, and value added analysis provided by Cambridge Associates. Highlights are:

1. **UTIMCO performance added nearly \$1.13 billion in value during the five fiscal years ending August 31, 2006, net of all investment management costs.**
2. **Cumulative total investment management costs of approximately \$846 million during the past five fiscal years were recovered plus a factor of 1.3 times.**
3. **Total costs increased 21.4% in one year FY06.**
4. Over the five-year period **total costs more than doubled as a percent of assets managed:**
 - a. More than **2.5 times in dollar terms.**
 - b. From 0.66% of average annual assets under management in FY02 to **1.35% in FY06.**
 - c. From nearly \$91 million in FY02 to **\$261 million in FY06.**
5. **We recommend updating a peer cost comparison, emphasizing third party manager fees and expenses which dominate our costs.**

II. Value Added: FY02 - FY06

Cambridge Associates' calculations of UTIMCO's value added performance, net of all fees and expenses, for the PUF and the GEF, for the past five fiscal years ending August 31, 2006, are reported in a memorandum dated February 6, 2007, and appended to this report. The calculations estimate how much value UTIMCO has added by: 1) tactically shifting allocations within approved policy asset class ranges; and 2) selecting active external managers for approved asset classes.

Table 1 below summarizes UTIMCO's value added in dollar terms, and as a multiple of total costs and of performance fees paid to third party managers. There does not appear to be a smooth correlation between value added and performance fees or total costs. (See discussion of "Performance Fees.") Of the total **\$1.13 billion** value added during the five years, 62% was achieved in FY03; total cumulative costs of **\$846 million** were recovered by value added plus **1.3 times**; and total value added equaled a multiple of **3.3 times** total performance fees.

Table 1
UTIMCO Value Added versus Total Costs and Performance Fees
Five-Year Comparison: FY02- FY06

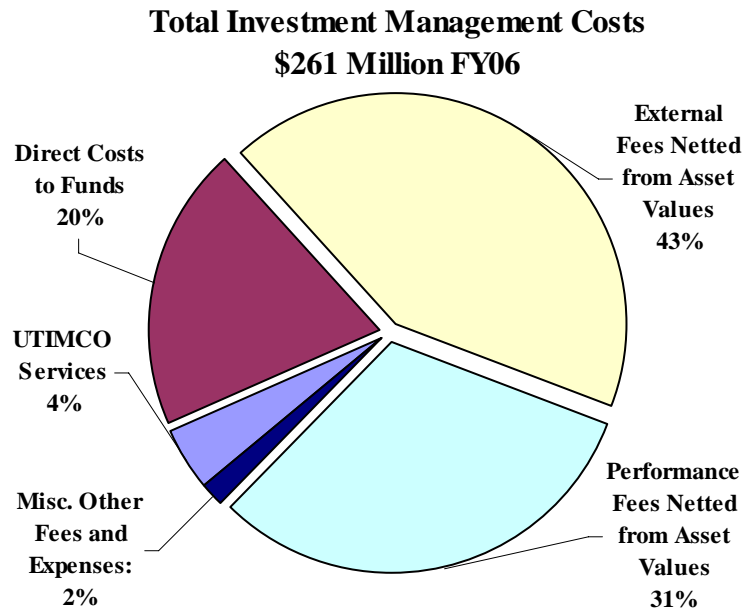
Fiscal Year	\$Millions			Times Value Added	
	Value Added	Total Costs	Performance Fees	Total Costs	Performance Fees
FY06	(170)	261	111	(0.7) X	(1.5) X
FY05	458	215	105	2.1 X	4.3 X
FY04	206	157	66	1.3 X	3.1 X
FY03	701	123	48	5.7 X	15.5 X
FY02	(66)	91	16	(0.7) X	(4.1) X
Five-Year Cumulative	1,129	846	347	1.3 X	3.3 X

¹ Costs do not include transaction and other direct expenses that third party managers deduct from net asset values.

III. Total Investment Cost Trends: FY02 - FY06

The chart illustrates that in FY06 management and performance fees and expenses netted from asset values in mutual funds, partnerships, and hedge funds managed by third parties comprised nearly three-quarters of total investment management costs. UTIMCO does not budget for these expenses, which is typical practice for institutional investors because fees tied to asset values and performance are impossible to predict. UTIMCO staff does track these fees and expenses, however, and has forecast them for FY07, assuming that the policy portfolio target return of 8.34% is achieved.

UTIMCO services represented only 4% of total investment management costs in FY06; budgeted costs (UTIMCO services, direct costs to funds, and other fees and expenses) represented about 26% of total costs.



UTIMCO Services costs support administration and reporting for funds totaling more than \$22 billion, for all donors, and for the benefit of all fifteen U. T. institutions as well as several other related institutions and TAMU; direct investment of about \$5.0 billion in assets (24% of endowments, 20% of operating funds) plus derivative investments totaling nearly \$4.0 billion in gross notional value; and selection and monitoring of third party managers for approximately \$16.6 billion (76% of endowments, 80% of operating funds).

Direct Costs to Funds are budgeted expenses paid directly by the funds, including management and performance fees for third party “agents,” custody, legal, audit, consulting, and risk management system costs.

Miscellaneous other fees and expenses (.02% of total average AUM) are budgeted by and paid to U. T. System Institutions and Administration, and include the education fee, endowment compliance fee, investment oversight fee, and audit expenses.

Total costs have followed an accelerating upward trend over the past five years, increasing in dollar terms more than 21% in FY06 alone. This trend reflects the shifting investment strategy to more expensive “alternative” asset classes, active management style, and performance-based fees, with higher fees paid to third party managers. Tables 2 and 3 summarize actual costs for the five fiscal years ending August 31, 2006, with estimates for FY07, in millions of dollars and as a percent of average assets under management (AUM).

AUM includes operating funds for all years. UTIMCO staff estimate that average AUM will increase 10% during FY07. Asset values and expenses (\$5.3 million in FY06) associated with PUF West Texas Lands are not included. Centralization of operating funds contributes to higher costs in FY06 and FY07, and performance of the ITF shows positive value added relative to its policy portfolio during the seven months it was operational in FY06.

Table 2
U. T. System Total Investment Cost Trend Summary

(\$ millions)	FY02	FY03	FY04	FY05	FY06	Five- Year Cum.	Budget/ Estimate FY07
UTIMCO Services	5.0	7.6	8.8	10.2	11.3	43	13.9
Direct Costs to Funds	20.1	16.0	25.5	33.8	52.3	148	43.4
External Fees Netted from Asset Values	50.6	52.7	62.5	76.5	111.3	354	138.0
Performance Fees Netted from Investment Returns	12.0	44.0	56.9	90.5	81.6	285	83.3
Miscellaneous Other Fees and Expenses:	2.9	3.0	3.0	3.8	4.4	17	5.1
TOTAL INVESTMENT MANAGEMENT COSTS	90.6	123.3	156.7	214.8	260.9	846	283.8
TOTAL % OF AVERAGE ASSETS MANAGED	0.66%	0.88%	1.01%	1.25%	1.35%		1.33%

Table 3
U. T. System Total Investment Cost Summary
UTIMCO TOTAL INVESTMENT COST SUMMARY

(\$ millions)	FY02	FY03	FY04	FY05	FY06	Five- Year Cum.	Budget/ Estimate FY07
AVERAGE TOTAL ASSETS UNDER MANAGEMENT (AUM)	13,716	14,034	15,470	17,245	19,372		21,311
UTIMCO BUDGETED EXPENSES:							
UTIMCO Services Expenses	4.97	7.61	8.63	10.17	11.34	43	13.94
UTIMCO Services % of AUM	0.04%	0.05%	0.06%	0.06%	0.06%		0.07%
Direct Costs to Funds	20.10	16.05	25.51	33.84	52.28	148	43.42
Direct Costs to Funds % of AUM	0.15%	0.11%	0.16%	0.20%	0.27%		0.20%
Total UTIMCO Budgeted Expenses Paid Directly	25.07	23.65	34.13	44.00	63.62	190	57.36
Total UTIMCO Budgeted Expenses Paid Directly % of AUM	0.18%	0.17%	0.22%	0.26%	0.33%		0.27%
EXTERNAL MANAGEMENT FEES NETTED FROM ASSET VALUES:							
Non-Marketable Alternative Assets - Private Capital ¹	36.00	32.10	36.50	38.60	44.20	187	54.60
Marketable Alternative Assets - Hedge Funds	11.80	16.40	20.30	30.50	48.11	127	57.70
Public Markets Assets	-	-	-	2.90	15.54	18	22.46
Mutual Fund Assets - Management Fees	2.80	4.20	5.70	4.50	3.42	21	3.26
Total External Mgmt. Fees Netted from Asset Values	50.60	52.70	62.50	76.50	111.27	354	138.02
Total External Mgmt. Fees Netted from Asset Values % of AUM	0.37%	0.38%	0.40%	0.44%	0.57%		0.65%
Total Direct Expenses & Netted External Mgmt. Fees w/o Perf.²	75.67	76.35	96.63	120.50	174.89	544	195.38
Total Direct Expenses & Netted External Mgmt. Fees w/o Perf. % of AUM	0.55%	0.54%	0.62%	0.70%	0.90%		0.92%
PERFORMANCE FEES NETTED FROM ASSET VALUES:							
Marketable Alternative Assets - Performance Fees	12.00	44.00	56.90	90.50	72.93	276	62.70
Public Markets Assets - Performance Fees	-	-	-	-	8.64	9	20.65
Total Performance Fees Netted from Asset Values	12.00	44.00	56.90	90.50	81.58	285	83.35
Total Performance Fees Netted from Asset Values % of AUM	0.09%	0.31%	0.37%	0.52%	0.42%		0.39%
TOTAL UTIMCO COSTS INCLUDING PERFORMANCE FEES	87.7	120.4	153.5	211.0	256.5	829	278.7
Total UTIMCO Costs including Performance Fees % of AUM	0.64%	0.86%	0.99%	1.22%	1.32%		1.31%
U. T. SYSTEM FEES AND EXPENSES:							
Education Fee (LTF Only)	0.55	0.54	0.67	0.76	0.86	3	0.93
Endowment Compliance Fee (LTF only; paid to U. T. Institutions) ³	2.38	2.44	2.38	2.53	2.72	12	3.14
U. T. System Internal Audit Fee	-	-	-	0.03	0.03	0	
Investment Oversight Fee -- U. T. System Finance	-	-	-	0.50	0.78	1	1.01
Total U. T. System Fees and Expenses	2.93	2.98	3.05	3.82	4.39	17	5.08
Total U. T. System Fees and Expenses % of AUM	0.02%	0.02%	0.02%	0.02%	0.02%		0.02%
TOTAL INVESTMENT MANAGEMENT COSTS	90.6	123.3	156.6	214.8	260.8	846	283.8
TOTAL INVESTMENT MANAGEMENT COSTS % OF AUM	0.66%	0.88%	1.01%	1.25%	1.35%		1.33%

Notes:

- Private capital partnership expenses that are netted from asset values include management fees and other expenses paid by the partnerships, but do not include carried interests of general partners. The actual number for FY06 (K1's) will not be available until late spring.
- "Total Direct Expenses & Netted External Mgmt. Fees w/o Perf." reported in Table 3 above are comparable to the Cambridge Associates "UTIMCO Cost Study," completed May 5, 2005. (See V. Peer Comparisons.)
- Endowment compliance fees (the largest component of U. T. System fees and expenses) are for the Long Term Fund only, not the PUF, and are paid directly to the institutions.
- Texas A&M shares fees and expenses indirectly, with reduced net asset value of their one third share of the PUF.

IV. Performance Fees

Performance fees paid to third party managers have increased from \$16 million in FY02 (0.12% of average AUM) to a high of \$111 million (0.61% of average AUM in FY05, 0.54% of average AUM in FY06). In two of the past five years performance fees were paid when value added was less than zero because some managers exceeded their individual benchmarks, even though the portfolios overall under-performed policy benchmarks. Derivative positions and other fixed income assets managed internally also influenced overall performance.

Table 4 shows performance fees paid directly to managers under external agency contracts and those netted from asset values for marketable alternatives (hedge funds); public markets investments in mutual funds and limited partnerships; and other funds. Performance fees netted from asset values in public markets investments were tracked separately only during FY06. Performance fees (including carried interests) netted from asset values of private capital limited partnerships are not tracked separately.

Table 4
Performance Fee Summary FY02-FY07

(\$ millions)	FY02	FY03	FY04	FY05	FY06	<i>Five-Year Cum.</i>	Budget/ Estimate FY07
UTIMCO Services	5.0	7.6	8.8	10.2	11.3	43	13.9
Direct Costs to Funds	20.1	16.0	25.5	33.8	52.3	148	43.4
External Fees Netted from Asset Values	50.6	52.7	62.5	76.5	111.3	354	138.0
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Miscellaneous Other Fees and Expenses:	2.9	3.0	3.0	3.8	4.4	17	5.1
TOTAL INVESTMENT MANAGEMENT COSTS	90.6	123.3	156.7	214.8	260.8	846	283.8
TOTAL % OF AVERAGE ASSETS MANAGED	0.66%	0.88%	1.01%	1.25%	1.35%		1.33%

V. Peer Comparisons

Although benchmarking investment management costs with comparable peer data has proven to be quite challenging, we are prepared to discuss ideas to move forward with a recommendation to update peer cost comparisons, with an emphasis on fees and expenses of third party managers that dominate our costs. Selecting a peer group for cost comparisons should seek institutional investors that are comparable to UTIMCO in **size and asset mix**.

1. The investment management business offers tremendous economies of scale: i.e., the larger the commitment of funds, the lower the fees.
2. Asset mix has a major impact on overall costs; i.e., “alternative” assets and active management are more costly than traditional indexing.

Cambridge Associates completed a study in 2005 comparing UTIMCO expenses to a privately surveyed group of large public and private endowments for the twelve months ending June 30, 2004. Cost increases as a percent of AUM in FY06 placed UTIMCO above the FY04 median for the both private and public endowments surveyed. The study excluded performance fees for hedge funds, partnerships, and mutual funds because comparable peer data was not available.

The 2006 NACUBO Endowment Study recently released the results of its survey with data as of June 30, 2006, and data related to investment management costs is not comparable to data reported by UTIMCO. Table 5 below summarizes how institutions pay performance fees. None reported paying fees for performance “in excess of inflation;” and nearly half of the public institutions reported that they pay performance-based fees on some basis “other” than relative performance, absolute return, or sharing of profits.

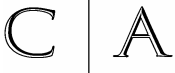
Table 5
How Institutions Pay Performance-Based Fees (%)

Investment Pool Assets:	Relative performance	Absolute Return	Sharing of profits	In Excess of Inflation	Other
Greater than \$1 Billion	32.6	19.6*	36.4	--	17.4*
Full Sample	20	26.7	16.9	--	36.4
Public	17.9	17.9	16.6	--	47.7
Independent	20.9	30.7	17	--	31.3

Source: 2006 NACUBO Endowment Study (NES). 468 institutions provided performance-based fee information.

Table data are equal-weighted.

*Fewer than 10 institutions responding.



C A M B R I D G E A S S O C I A T E S L L C

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M E M O R A N D U M

TO: Scott Caven, Chairman
The University of Texas Investment Management Company

FROM: Jeanne Rogers
Bruce Myers
Hamilton Lee
Paige Roberts

DATE: February 12, 2007

RE: Value Added from UTIMCO Active Management

We have been asked to determine the value added from UTIMCO active management over the last five years as a continuation of the same work done last year on this topic. To that end, we have enclosed three exhibits. All the exhibits have been prepared using performance calculations provided by UTIMCO, and we have independently determined such calculations to be the result of an appropriate methodology consistently applied.

Basis Point Calculation (Exhibits 1 & 2)

Have tactical moves by UTIMCO added value?

The first two exhibits attempt to disaggregate UTIMCO performance for the PUF (Exhibit One) and the GEF (Exhibit Two). The first level of analysis is an attempt to isolate the value added from tactical overweights and underweights made by UTIMCO at the asset class level. To do this, we calculated the performance of the approved target allocation, and that is reflected in column A. The calculation shown in column A was derived by multiplying the approved target allocation for each asset class by the return of the benchmark approved by the Board of Regents for that same asset class. Accordingly, Column B is derived by multiplying the actual asset class weights (as opposed to the target weights) by the return of the benchmarks approved by the Board of Regents. Because the passive benchmarks are used as the return stream for each asset class, no benefit to manager selection or manager alpha is included, but the additions (or subtractions) to return for the tactical asset class overweight or underweight is captured. As shown in the column labeled "B-A Historical Allocation versus Target" the tactical asset class shifts have added 130 basis points and 150 basis points for the PUF and GEF respectively for the five year period and have been positive for each time period except for the most recent year.

Has manager selection added value?

Lastly, the effect of manager selection and manager alpha was isolated by taking the actual performance (net of fees and manager expenses) for the PUF and GEF and comparing that to the returns derived in Column B.

As shown in the column labeled “C-B Manager Selection versus Allocation” the effects of active management and manager selection have added to returns in all periods, with the exception of the last year.

Dollars of Value Added (Exhibit 3)

Exhibit Three attempts to do two things. The first is to roll up the value added in the PUF and the GEF into a total pool value added calculation and the second is to convert basis points into dollars. As shown in that exhibit, tactical overweights/underweights (Column B-A on the previous exhibits) and the effects of manager selection (Column C-B on the previous exhibits) have added over \$1.1 billion in value over the last five years (net of all fees), though they have detracted from returns in the last year.

Basis Point and Dollars of Value Added for the ITF (Exhibit 4)

Due to the recent inception of the ITF, we analyzed this fund separately from the others. However, consistent with the methodology used for the other funds, the column labeled “B-A Historical Allocation versus Target” shows that the tactical asset class shifts have added 30 basis points to performance since inception. Additionally, the column labeled “C-B Manager Selection versus Target” demonstrates that active management has added 10 basis points of performance since inception. Finally, the combination of tactical asset class shifts and active management have added approximately \$10.5 million of value since the fund’s inception.

We would be happy to answer any questions raised by this report and hope that this analysis was informative.

cc: Cathy Iberg, Interim CEO, UTIMCO
Cathy Swain, UT System Office of Investment Oversight

EXHIBIT 1
UTIMCO - PUF
EFFECTS OF ACTIVE PORTFOLIO MANAGEMENT
(As of 8/31/06)

<u>AACRs</u>	<u>(A) Target Allocation Performance</u>	<u>(B) Historical Allocation Performance</u>	<u>(C) Actual Performance</u>
1 YR	12.5	11.8	11.2
2 YR	13.8	14.1	14.9
3 YR	13.5	14.1	14.9
4 YR	11.8	12.7	14.1
5 YR	7.8	9.0	9.5

VALUE ADDED BY (bps):

<u>Time Span</u>	<u>(B-A) Historical Allocation (v. Target)</u>	<u>(C-B) Manager Selection (v. Allocation)</u>
1 YR	-70	-70
2 YR	30	80
3 YR	60	80
4 YR	100	140
5 YR	130	50

Target Allocation shows the performance of a portfolio invested in passive index instruments according to the weightings of UTIMCO's target allocation.

Historical Allocation shows the performance of a portfolio invested in passive index instruments according to the the historical allocation of UTIMCO's portfolio.

Actual Performance is the true historical performance of UTIMCO's portfolio.

EXHIBIT 2
UTIMCO - GEF
EFFECTS OF ACTIVE PORTFOLIO MANAGEMENT
(As of 8/31/06)

<u>AACRs</u>	<u>(A) Target Allocation Performance</u>	<u>(B) Historical Allocation Performance</u>	<u>(C) Actual Performance</u>
1 YR	12.5	12.0	11.1
2 YR	13.8	14.2	14.9
3 YR	13.5	14.2	14.9
4 YR	11.8	12.9	14.3
5 YR	7.8	9.3	9.7

VALUE ADDED BY (bps):

<u>Time Span</u>	<u>(B-A) Historical Allocation (v. Target)</u>	<u>(C-B) Manager Selection (v. Allocation)</u>
1 YR	-50	-90
2 YR	40	70
3 YR	70	70
4 YR	120	140
5 YR	150	40

Target Allocation shows the performance of a portfolio invested in passive index instruments according to the weightings of UTIMCO's target allocation.

Historical Allocation shows the performance of a portfolio invested in passive index instruments according to the the historical allocation of UTIMCO's portfolio.

Actual Performance is the true historical performance of UTIMCO's portfolio.

EXHIBIT 3

UTIMCO - COMBINED POOL Value Added By Active Management Over Time (As of 8/31/06)

<u>TIME Years</u>	<u>PUF (\$Millions)</u>	<u>GEF (\$Millions)</u>	<u>Combined Pool (\$Millions)</u>
1 year	(\$115.33)	(\$65.28)	(\$180.61)
2 years	\$183.48	\$93.91	\$277.39
3 years	\$318.99	\$164.19	\$483.18
4 years	\$761.42	\$422.88	\$1,184.30
5 years	\$702.55	\$416.00	\$1,118.55
2006	(\$115.33)	(\$65.28)	(\$180.61)
2005	\$298.81	\$159.18	\$458.00
2004	\$135.50	\$70.28	\$205.79
2003	\$442.43	\$258.69	\$701.13
2002	(\$58.86)	(\$6.88)	(\$65.75)

EXHIBIT 4
UTIMCO - ITF
EFFECTS OF ACTIVE PORTFOLIO MANAGEMENT
(As of 8/31/06)

<u>AACRs</u>	<u>(A) Target Allocation Performance</u>	<u>(B) Historical Allocation Performance</u>	<u>(C) Actual Performance</u>
Feb 06-Aug 06	3.1	3.4	3.4

VALUE ADDED BY (bps):

<u>Time Span</u>	<u>(B-A) Historical Allocation (v. Target)</u>	<u>(C-B) Manager Selection (v. Allocation)</u>
Feb 06-Aug 06	30	10

DOLLARS VALUE ADDED (\$ millions):

Feb 06-Aug 06	\$10.55
---------------	---------

Target Allocation shows the performance of a portfolio invested in passive index instruments according to the weightings of UTIMCO's target allocation.

Historical Allocation shows the performance of a portfolio invested in passive index instruments according to the the historical allocation of UTIMCO's portfolio.

Actual Performance is the true historical performance of UTIMCO's portfolio.

6. **U. T. System: Update Regarding Centralization of Operating Funds**

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will provide an update on the centralization of U. T. System operating funds, which was implemented on February 1, 2006. The presentation, as set forth on Pages 31 - 34, will provide a brief overview of centralization and detail the value added from centralization through the fiscal year ended August 31, 2007.



The University of Texas System

Update Regarding Centralization of U. T. System Operating Funds

October 12, 2007



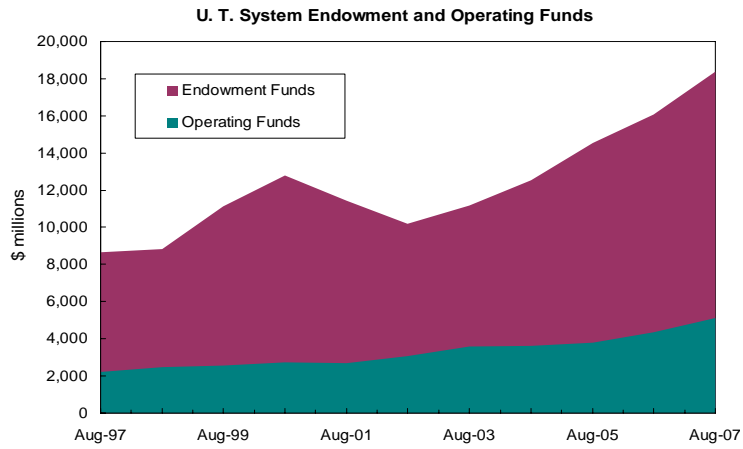
Centralization of the U. T. System Operating Funds

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

2



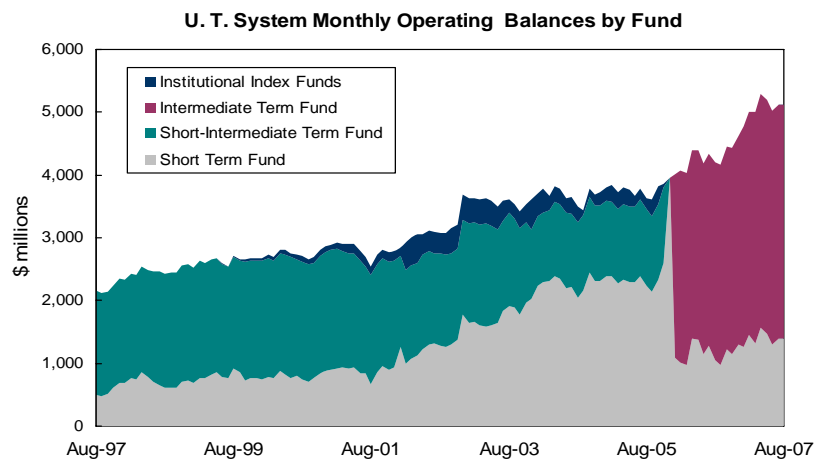
Growth in U. T. System Endowment and Operating Funds



3



U. T. System Operating Funds have increased 138% since August 1997



4



Short Term Fund Liquidity Analysis: February 1, 2006 to August 31, 2007

Institution (\$millions)	Average STF Balance		Low STF Balance		High STF Balance	
UT Arlington	\$24.4	16%	\$8.1	6%	\$64.6	34%
UT Austin	130.5	14%	62.6	7%	246.7	25%
UT Brownsville	5.8	21%	0.0	0%	23.6	61%
UT Dallas	14.5	12%	2.2	2%	36.8	27%
UT El Paso	13.8	19%	0.4	1%	47.2	53%
UT Pan American	9.2	16%	1.5	3%	24.0	37%
UT Permian Basin	5.2	54%	2.3	27%	9.3	79%
UT San Antonio	23.5	15%	4.0	3%	77.0	45%
UT Tyler	5.5	19%	1.0	3%	14.1	39%
UT Southwestern Medical Center at Dallas	101.2	17%	41.8	9%	167.1	25%
UT Medical Branch at Galveston	111.0	34%	-4.8	-3%	231.6	53%
UT M.D. Anderson Cancer Center	43.5	18%	14.1	6%	86.8	34%
UT Health Science Center at Houston	26.6	14%	8.0	4%	50.6	24%
UT Health Science Center at San Antonio	142.8	18%	37.9	6%	239.5	28%
UT Health Center at Tyler	13.4	76%	1.3	5%	20.6	100%
UT System (Aggregate) ⁽¹⁾	\$1,181.5	26%	\$848.1	22%	\$1,558.1	32%
UT System (ex-debt proceeds) ⁽¹⁾	\$700.7	17%	\$476.6	14%	\$1,002.2	22%

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

5



Intermediate Term Fund and Short Term Fund Performance

Operating Funds Performance Summary

	FY2007 (12 mos.)	Since ITF Inception ⁽¹⁾ (19 mos.)
Operating Funds		
Short Term Fund	5.40%	5.24%
Intermediate Term Fund	10.63%	8.88%
Benchmarks		
Short Term Fund: 90 Day Treasury Bills Average Yield	5.30%	5.11%
Intermediate Term Fund: Policy Portfolio	8.47%	7.29%
Net Return Above Benchmark ⁽²⁾		
Short Term Fund	0.10%	0.14%
Intermediate Term Fund	2.16%	1.59%

⁽¹⁾ Returns for performance since ITF inception (19 months) are annualized.

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

6



Value Added from Centralization through August 31, 2007

Summary of Value Added ⁽¹⁾ for Operating Fund Investments Through August 31, 2007

Institution	FY2007 (12 months)	Since Inception (19 Months)
UT Arlington	\$ 6,540,596	\$ 7,372,686
UT Austin	39,583,859	43,834,275
UT Brownsville	985,375	1,175,617
UT Dallas	4,907,393	5,926,406
UT El Paso	2,787,238	3,052,806
UT Pan American	1,963,583	2,519,759
UT Permian Basin	210,255	257,268
UT San Antonio	6,867,075	7,552,981
UT Tyler	1,193,945	1,347,221
UT Southwestern Medical Center at Dallas	16,686,939	21,006,203
UT Medical Branch at Galveston	9,899,068	11,943,696
UT Health Science Center at Houston	9,166,548	10,917,552
UT Health Science Center at San Antonio	7,697,153	9,398,597
UT M.D. Anderson Cancer Center	17,395,716	20,467,525
UT Health Center at Tyler	(29,701)	7,227
Subtotal Value Added - U.T. System Institutions	\$ 125,855,042	\$ 146,779,819
Value Added U.T. System Administration	13,281,198	16,374,916
Total Value Added	\$ 139,136,240	\$ 163,154,735

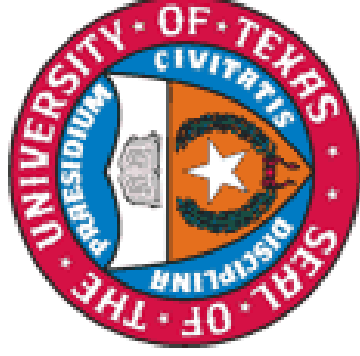
⁽¹⁾ Value added is the actual dollar return for the operating funds in excess of the proxy returns that would have been earned based on the asset allocations as of August 31, 2005.

7. **U. T. System Board of Regents: Report on Investment Objectives and Performance from The University of Texas Investment Management Company (UTIMCO) Board Investment Consultant**

REPORT

Mr. Bruce Myers, Cambridge Associates, will report on the investment objectives and performance of funds managed by the University of Texas Management Company (UTIMCO) including objectives, performance, policy portfolios, benchmark, and asset allocation, using the PowerPoint presentation set forth on Pages 36 - 51.

Discussion on Investment Objectives and Performance



October 2007

Definitions

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

Current Investment Objectives

- “The primary objective for each fund [the PUF and the GEF] shall be to preserve the purchasing power of fund assets and annual distributions by earning an average real return over ten-year periods or longer at least equal to the target distribution rate of such funds plus the annual expected expense”
- “The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark and the median return of the universe of the college and university endowments with assets greater than \$1 billion as reported by Cambridge Associates”

PUF & GEF Asset Allocation

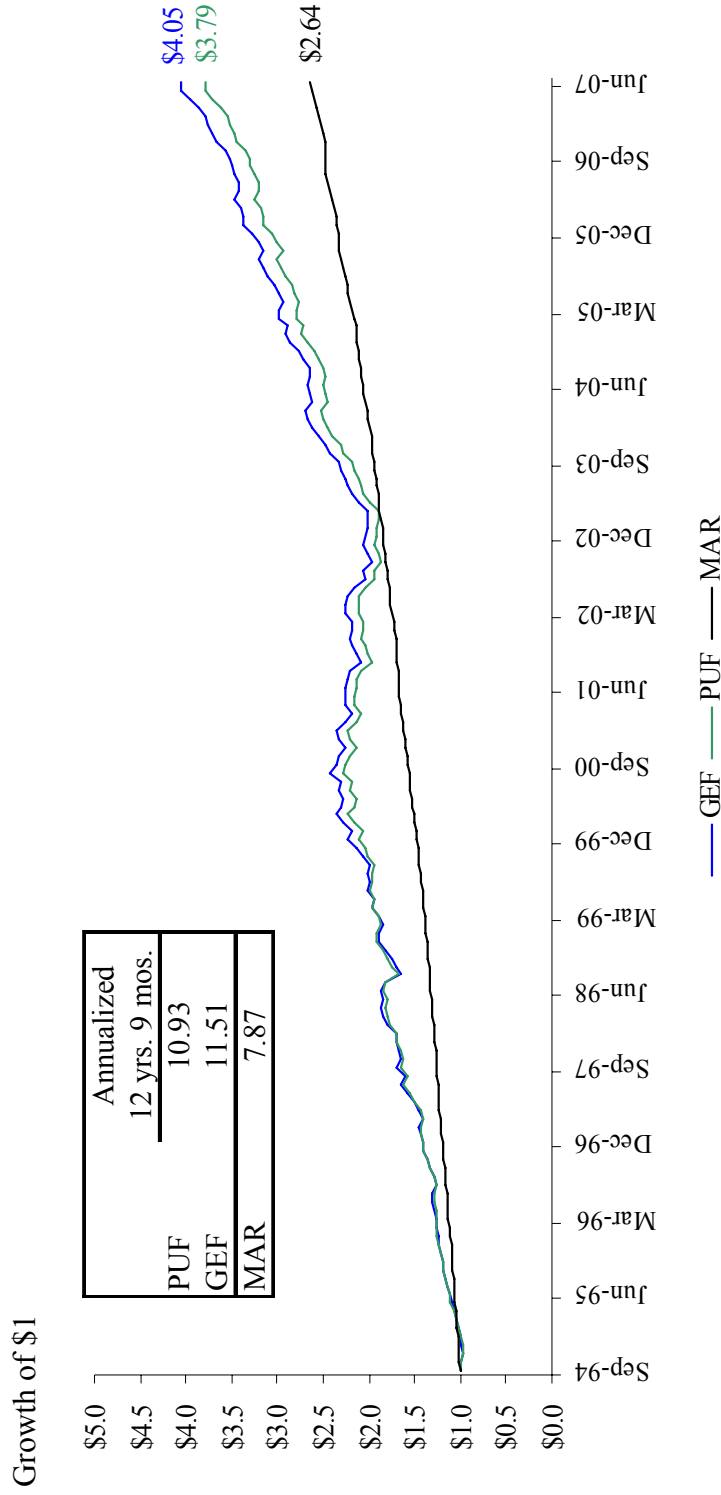
Market Exposure as of June 30, 2007

	Actual Weight PUF	Actual Weight GEF	PUF/GEF Policy Target	PUF/GEF Policy Range	In Compliance (Yes/No)
Traditional U.S. Equities	22.73%	22.98%	20.00%	10-30%	Yes
Global ex-U.S. Equity	19.77%	19.74%	17.00%	10-30%	Yes
Non-U.S. Developed Equity	11.39%	10.99%	10.00%	0-30%	Yes
Emerging Markets Equity	8.38%	8.75%	7.00%	0-10%	Yes
Hedge Funds	24.47%	24.51%	25.00%	15-27.5%	Yes
Directional Hedge Funds	9.90%	9.92%	10.00%	5-15%	Yes
Absolute Return Hedge Funds	14.57%	14.59%	15.00%	10-20%	Yes
Private Capital	10.61%	11.08%	15.00%	5-15%	Yes
Inflation Linked	11.36%	11.17%	13.00%	5-20%	Yes
REITs	4.26%	4.20%	5.00%	0-10%	Yes
Commodities	3.59%	3.61%	3.00%	0-6%	Yes
TIPS	3.51%	3.36%	5.00%	0-10%	Yes
Fixed Income	7.02%	6.94%	10.00%	5-15%	Yes
Cash	4.04%	3.58%	0.00%	0-10%	Yes
Total	100.00%	100.00%	100.00%	---	

Performance Summary: PUF & GEF

- Since 1994 performance of the PUF and the GEF has enhanced purchasing power, outperforming the stated goal of earning the rate of distributions, plus expenses, plus inflation
- While the 10+ year performance of the PUF and the GEF trail their Policy Portfolio Benchmarks, the degree of underperformance has narrowed sharply over the past three years
- Performance (measured on a rolling five-year basis) relative to college and university peers lags the peer universe prior to 2005. Since 2005, the PUF and GEF have modestly outperformed

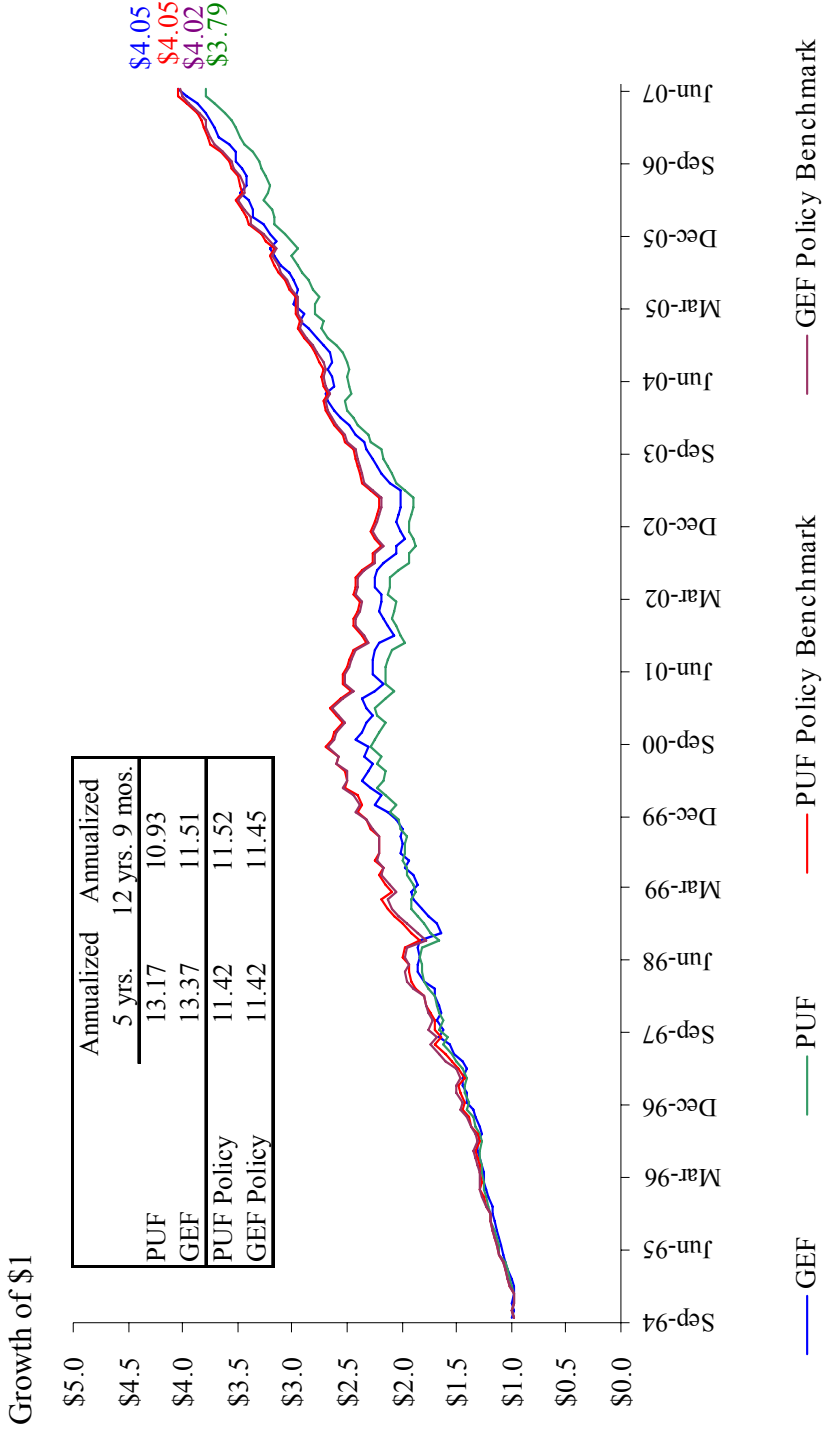
Performance Relative to Minimum Acceptable Return¹



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

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

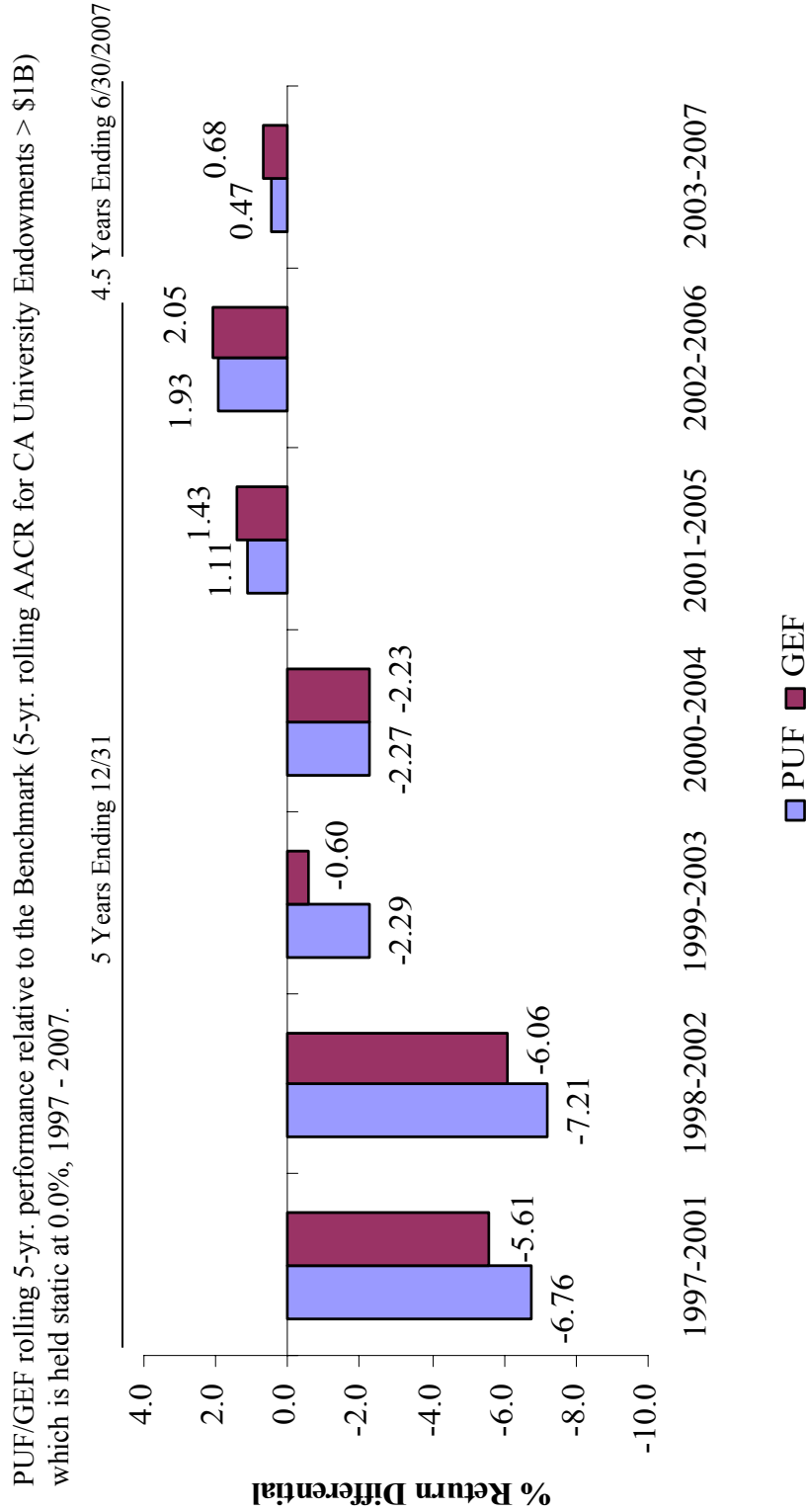
Performance Relative to Policy Portfolio Benchmark²



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

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

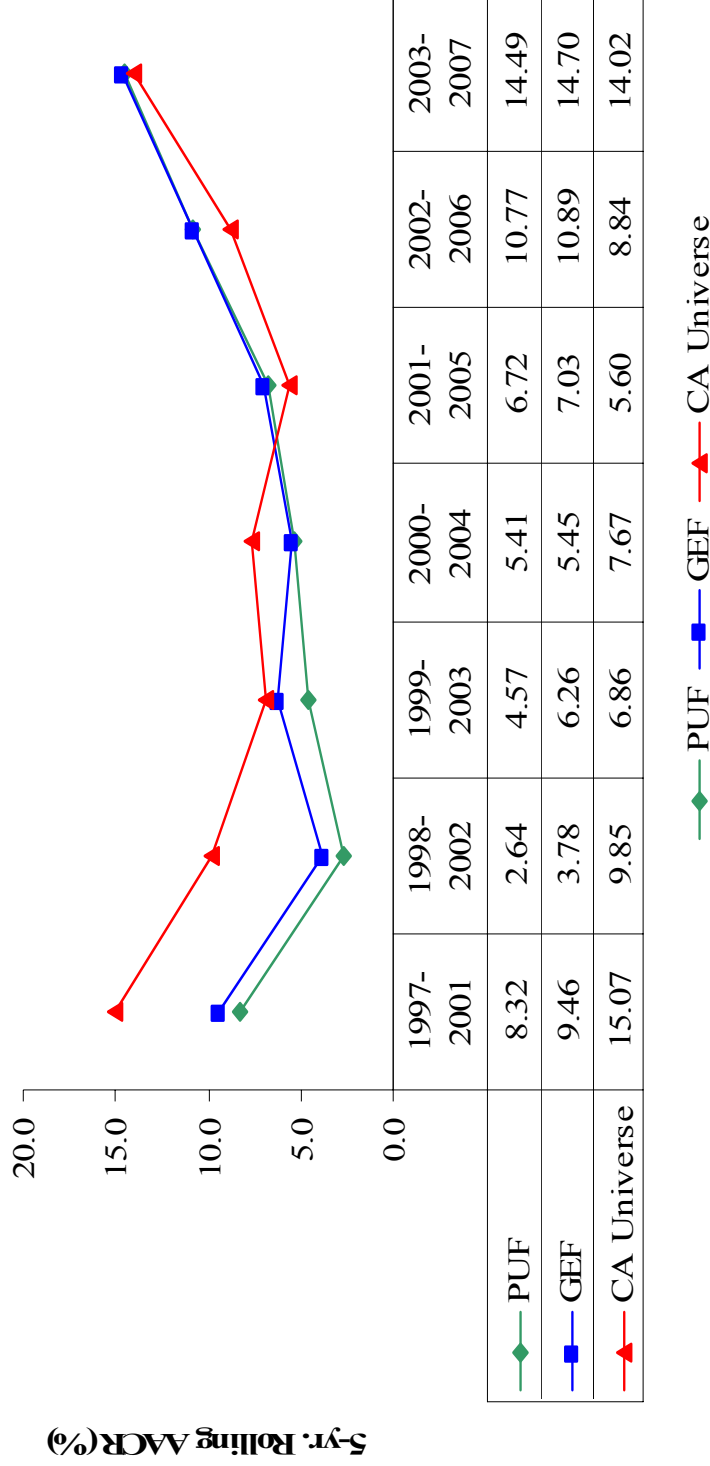
Five-Year Rolling PUF/GEF AACR Performance Relative to Cambridge Five-Year Rolling AACR Performance for University Endowments > \$1 Billion³



³ The 5-yr. Average Annual Compound Return “AACR” is calculated by first assessing CA College and University Endowments over \$1B at the end of each year 1997-2006 and for the sixth month period 1/31/2007-6/30/2007. The mean return for each yearly universe is then calculated. Institutions that did not report performance, even if they are over \$1B at that time, are not included. The mean returns for each yearly universe are then used to calculate rolling 5-yr. Average Annual Compound Returns. Medians are not used due to reporting complications and non-static universes.

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

PUF/GEF rolling 5-yr. performance compared to the Benchmark (5-yr. rolling AACR for CA University Endowments > \$1B), 1997 – 2007.

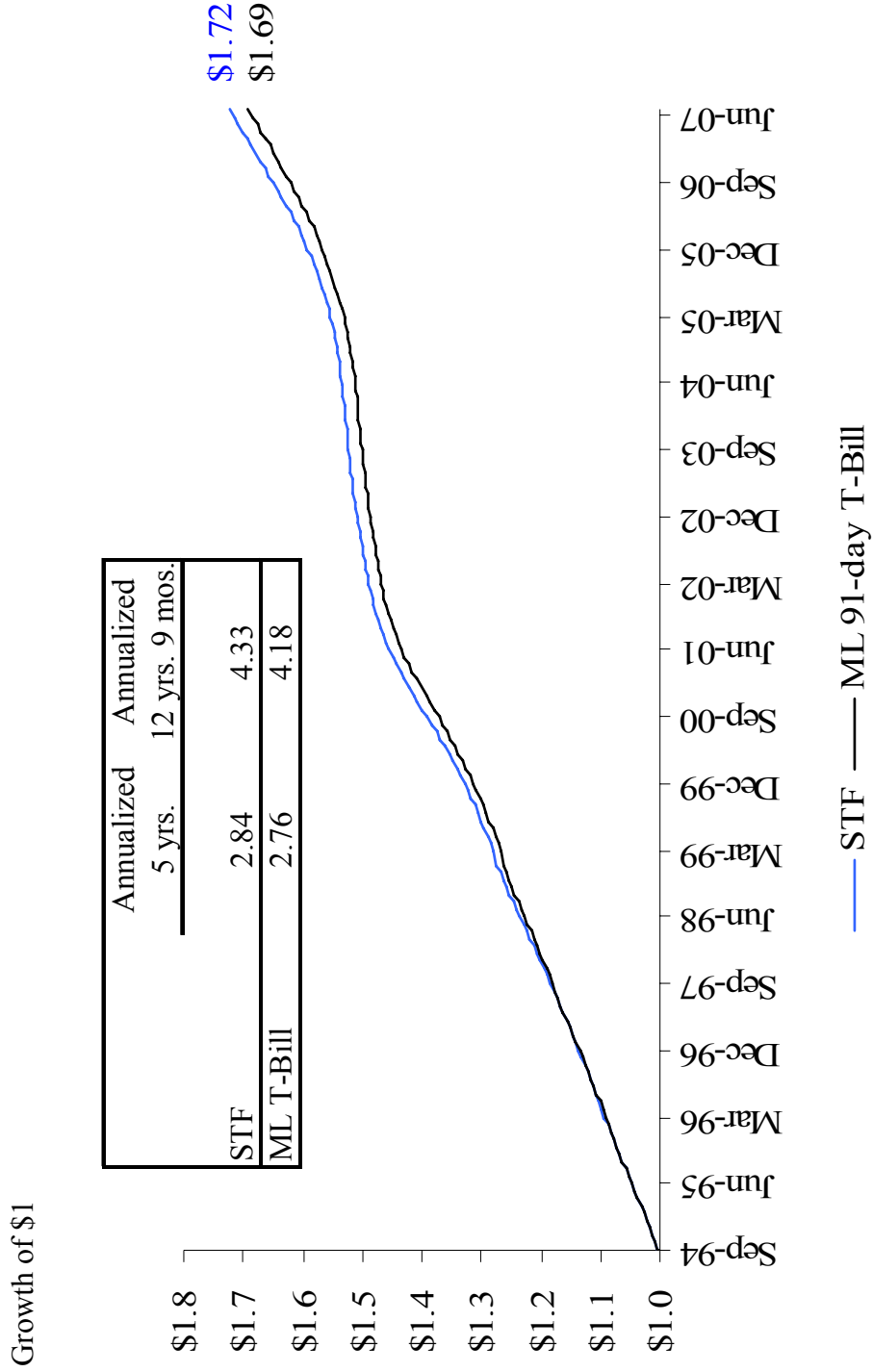


³ The 5-yr. Average Annual Compound Return “AACR” is calculated by first assessing CA College and University Endowments over \$1B at the end of each year 1997-2006 and for the sixth month period 1/31/2007-6/30/2007. The mean return for each yearly universe is then calculated. Institutions that did not report performance, even if they are over \$1B at that time, are not included. The mean returns for each yearly universe are then used to calculate rolling 5-yr. Average Annual Compound Returns. Medians are not used due to reporting complications and non-static universes.

Performance Summary: STF and SITF/ITF

- Performance for the STF has modestly exceeded its benchmark
- Last year, the former SITF was replaced by the ITF
- In its first full year, the ITF outperformed its Policy Benchmark and significantly exceeded its primary objective

STF Performance Relative to Benchmark

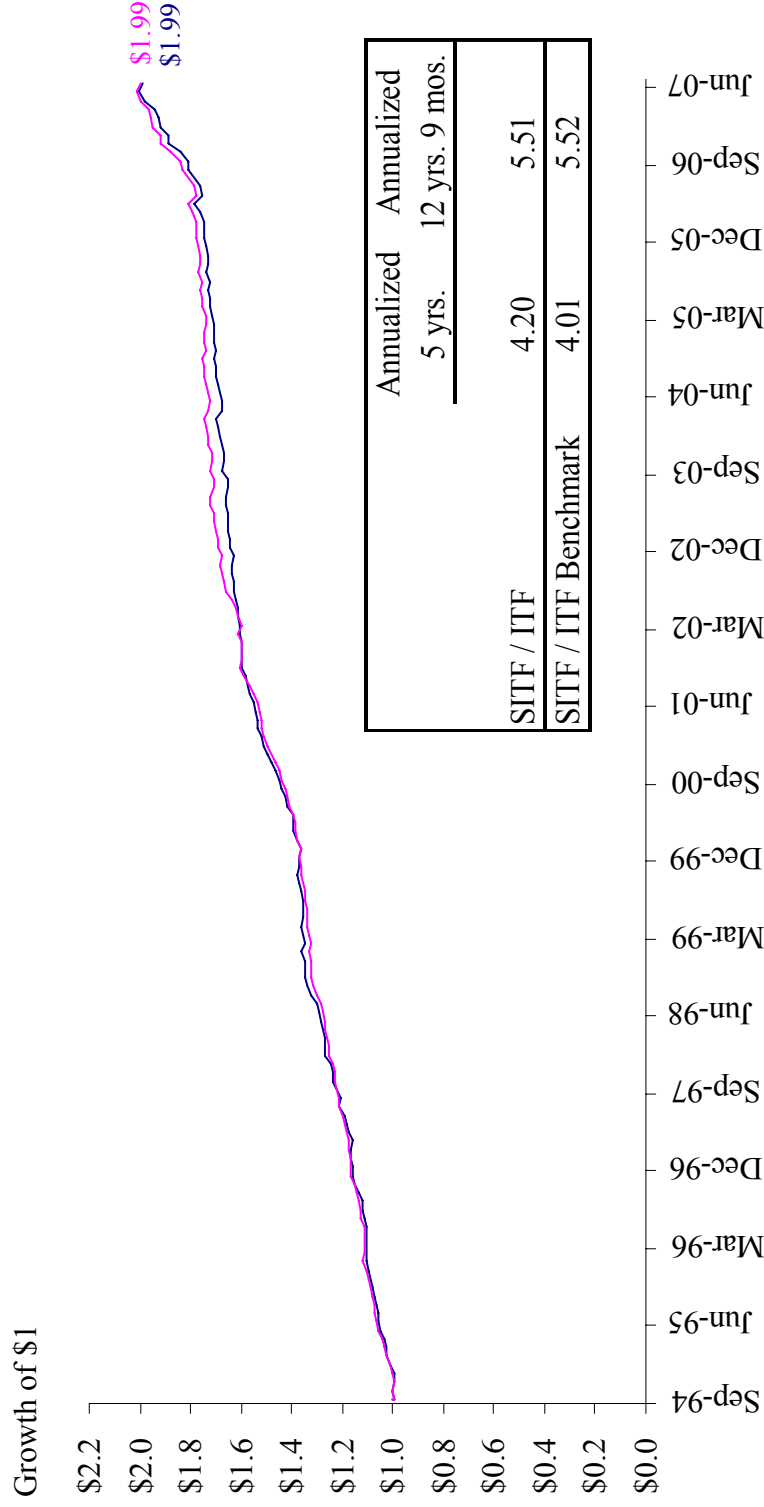


Objective: Maximize current income consistent with the absolute preservation of capital and maintenance of adequate STF liquidity. The STF shall seek to maintain a new asset value of \$1.00.

Intermediate Term Fund (ITF) Market Exposure as of June 30, 2007

	Actual Weight ITF	ITF Policy Target	ITF Policy Range
Traditional U.S. Equities	16.13%	15.00%	5-20%
Global ex-U.S. Equity	10.54%	10.00%	0-15%
Non-U.S. Developed Equity	5.47%	5.00%	0-10%
Emerging Markets Equity	5.07%	5.00%	0-10%
Hedge Funds	24.74%	25.00%	10-27.5%
Directional Hedge Funds	11.42%	12.50%	5-20%
Absolute Return Hedge Funds	13.32%	12.50%	5-20%
Private Capital	0.00%	0.00%	0%
Venture Capital	0.00%	0.00%	---
Private Equity	0.00%	0.00%	---
Inflation Linked	22.77%	25.00%	10-35%
REITs	8.33%	10.00%	0-15%
Commodities	5.15%	5.00%	0-10%
TIPS	9.29%	10.00%	5-15%
Fixed Income	23.70%	25.00%	15-40%
Cash & Equivalents	2.12%	0.00%	0-20%
Total	100.00%	100.00%	---

SITF / ITF Performance Relative to SITF / ITF Benchmark⁴



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

⁴ The SITF ended 1/31/2006, and the ITF began 2/1/2006.

ITF Performance Relative to ITF Historical Policy⁵

ITF Performance

	One Month	Three Months	Calendar Year To Date	One Year
Intermediate Term Fund	(0.76)	2.35	5.33	12.99
ITF Policy Portfolio	(0.88)	1.54	3.76	11.43

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

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

⁵The ITF replaced the SITF as of 2/01/2006.

Conclusions About Past Performance

- System funds have shown strong performance when measured in absolute terms or against the objective of preserving the purchasing power of the assets and the distributions from those assets
- Performance relative to the Policy Portfolio and to other large educational endowments has been less robust, but has improved significantly in recent years

UTIMCO Performance Summary June 30, 2007

	Net Asset Value 6/30/2007 (in Millions)	Periods Ended June 30, 2007 (Returns for Periods Longer Than One Year are Annualized)										
		One Month	Three Months	Calendar Year To Date	Six Months	Fiscal Year To Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
ENDOWMENT FUNDS												
Permanent University Fund	\$ 11,674.8	(0.05)	4.85	9.04	9.04	15.08	17.96	15.39	14.76	16.06	13.17	9.39
General Endowment Fund		(0.04)	4.86	9.25	9.25	15.47	18.36	15.50	14.86	16.14	13.37	N/A
Permanent Health Fund	1,103.1	(0.08)	4.79	9.14	9.14	15.36	18.28	15.42	14.75	16.02	13.25	N/A
Long Term Fund	5,352.9	(0.08)	4.79	9.14	9.14	15.36	18.28	15.43	14.76	16.02	13.27	9.89
Separately Invested Funds	180.7	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	18,311.5											
OPERATING FUNDS												
Short Term Fund	1,474.8	0.43	1.32	2.63	2.63	4.46	5.40	4.81	3.91	3.18	2.84	3.97
Intermediate Term Fund	3,726.0	(0.76)	2.35	5.33	5.33	10.18	12.99	N/A	N/A	N/A	N/A	N/A
Total Operating Funds	5,200.8											
Total Investments	\$ 23,512.3											
BENCHMARKS (1)												
Permanent University Fund: Policy Portfolio		0.17	4.72	7.47	7.47	14.00	16.70	14.94	14.00	14.22	11.42	9.72
General Endowment Fund: Policy Portfolio		0.17	4.72	7.47	7.47	14.00	16.70	14.94	14.00	14.22	11.42	9.30
Short Term Fund: 90 Day Treasury Bills Average Yield		0.39	1.27	2.54	2.54	4.30	5.21	4.59	3.77	3.07	2.76	3.79
Intermediate Term Fund: Policy Portfolio		(0.88)	1.54	3.76	3.76	8.80	11.43	N/A	N/A	N/A	N/A	N/A
VALUE ADDED (2)												
Permanent University Fund		(0.22)	0.13	1.57	1.57	1.08	1.26	0.45	0.76	1.84	1.75	(0.33)
General Endowment Fund		(0.21)	0.14	1.78	1.78	1.47	1.66	0.56	0.86	1.92	1.95	N/A
Permanent Health Fund		(0.25)	0.07	1.67	1.67	1.36	1.58	0.48	0.75	1.80	1.83	N/A
Long Term Fund		(0.25)	0.07	1.67	1.67	1.36	1.58	0.49	0.76	1.80	1.85	0.59
Short Term Fund		0.04	0.05	0.09	0.09	0.16	0.19	0.22	0.14	0.11	0.08	0.18
Intermediate Term Fund		0.12	0.81	1.57	1.57	1.38	1.56	N/A	N/A	N/A	N/A	N/A

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

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

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

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

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

Note: Sourced from UTIMCO

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

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the importance of investment assets in the context of the U. T. System's overall financial resources. The presentation, set forth on Pages 53 - 62, provides an overview of The U. T. System's assets, liabilities, revenues, and expenditures, and the role that UTIMCO-managed assets play in supporting the financial condition of the U. T. System.



The University of Texas System

Discussion of U. T. System Financial Resources

October 12, 2007



U. T. System Financial Resources

- U. T. System Financial Highlights and Trends
- Impact of Funds Managed by The University of Texas Investment Management Company (UTIMCO)
- Credit Strengths and Potential Risks



Executive Summary

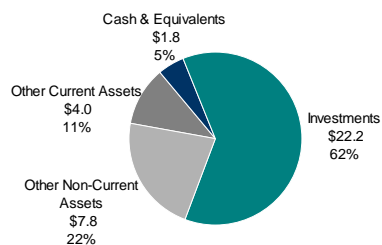
- The U. T. System is one of three public higher education issuers rated AAA/Aaa by the major credit rating agencies. This rating has been maintained despite rapid growth in debt and capital expenditures.
- The strength of the U. T. System is its balance sheet with \$36 billion of assets and \$25 billion of net assets.
- Exclusive of investment income and capital gains, the U. T. System is essentially a break-even operation.

3



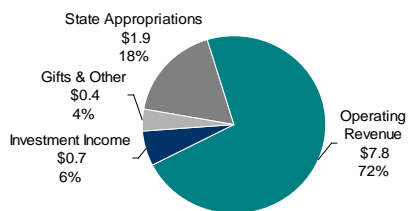
U. T. System Assets and Budgeted Revenue

FYE 2006 Assets: \$35.8 billion



Investments and cash managed by UTIMCO represent almost two-thirds of U. T. System's total assets and almost all of its net assets.

FY 2008 Budgeted Revenue: \$10.9 billion

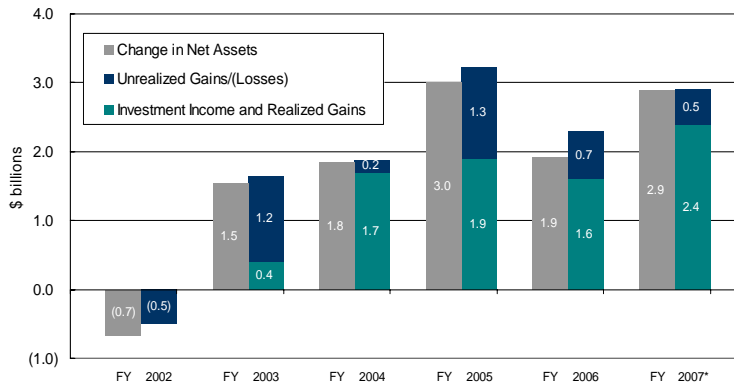


Nevertheless, Investment Income represents only 6% of FY 2008 budgeted revenues.

4



Growth in U. T. System Net Assets is Predominantly Attributable to Investment Performance

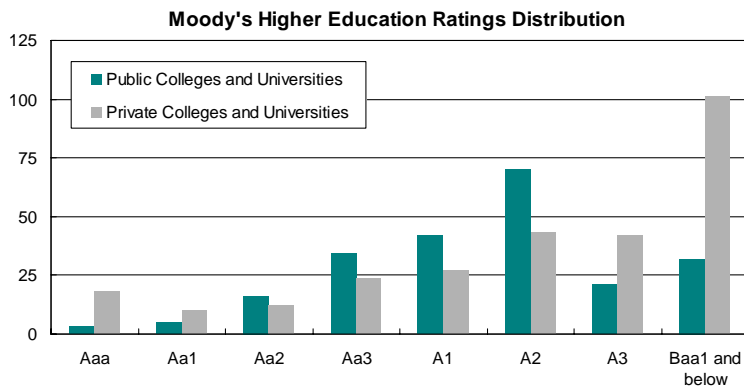


NOTE: Net Assets = Total Assets less Total Liabilities (i.e. book equity).
 *FY 2007 numbers represent an estimate.

5



U.T. System is One of Only Three Public Higher Education Entities rated Aaa



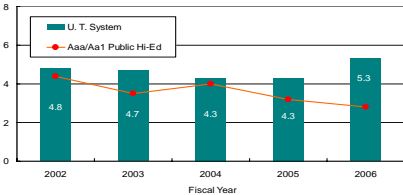
Source: Moody's 2007 College and University Medians (includes public and private). Other public Aaa entities are University of Michigan and University of Virginia.

6

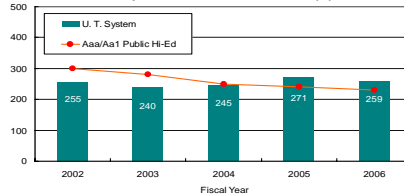


U. T. System's Key Credit Ratios Compare Favorably to its Public Higher Education Peers

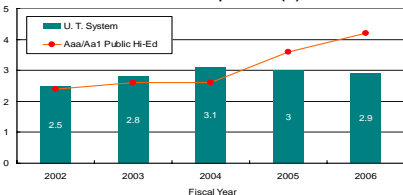
Debt Service Coverage (x)



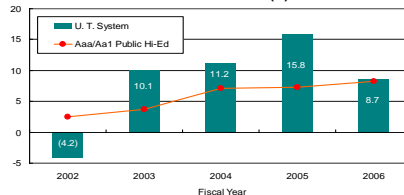
Expendable Resources-to-Debt (%)



Debt Service-to-Operations (%)



Return on Net Assets (%)

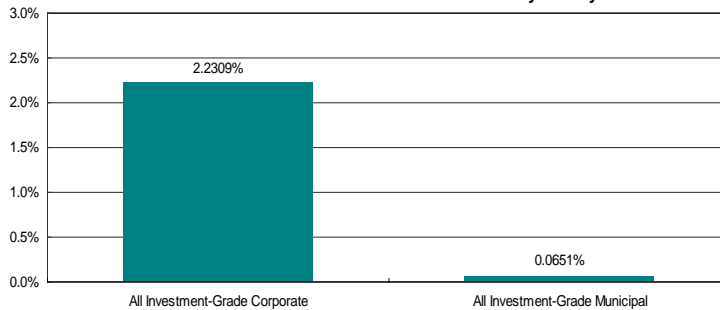


7



Default Rates of Investment Grade Municipal Bonds are far below Corporate Default Rates

Default Rates of Investment Grade Bonds Rated by Moody's



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

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

8



U. T. System Credit Strengths

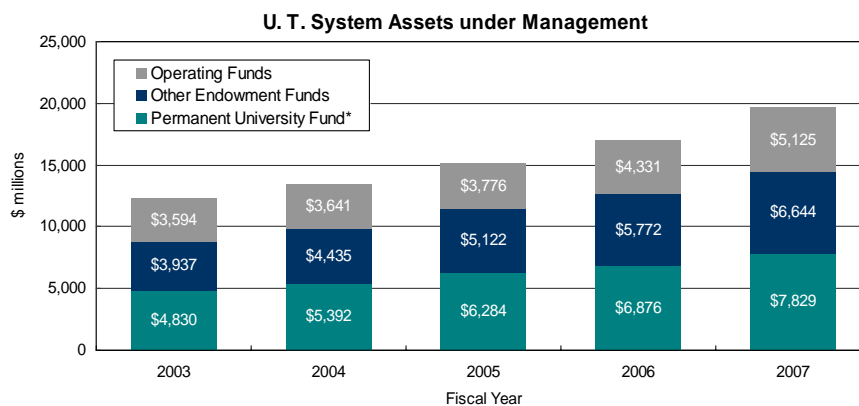
The U. T. System's long-term AAA/Aaa/AAA credit ratings are supported by a number of key factors:

- Strong financial/investment performance
- Strong balance sheet
- Strong private sector support
- Strong student demand
- Strong management team

9



Investment Assets have grown 59% since 2003

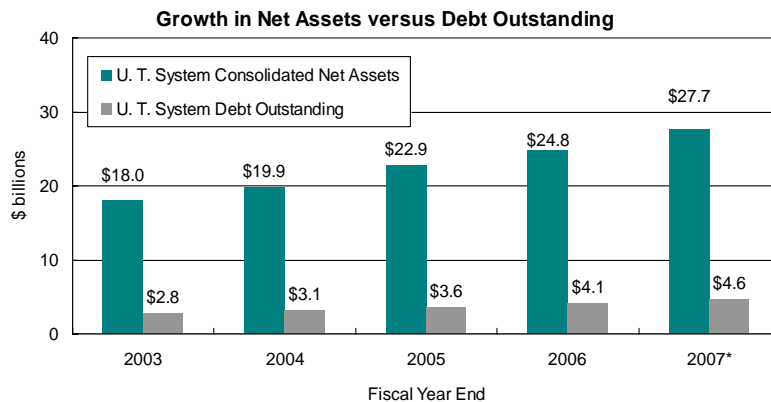


*Represents U. T. System's two-thirds share of the \$11.7 billion market value of the PUF as of 8/31/07.

10



Growth in the U. T. System's Net Assets has far outpaced Growth in Debt Outstanding

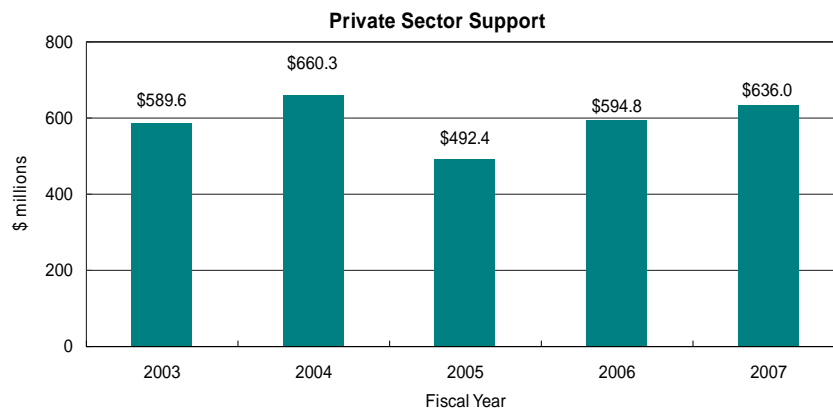


* \$27.7 billion represents expected FY-end 2007 consolidated net assets.

11



Private-Sector Support Averages Almost \$600 Million Annually



12



Rating Agencies have High Opinion of U. T. System and UTIMCO Management

“...STRENGTHS...Sophisticated debt and investment management at the System level enhances bondholder security, particularly since the System supports its variable rate debt with its own financial resources...”



Moody's Investor Service

Global Credit Research
Rating Update
11 Aug 2008

Rating Update: Board of Regents of the University of Texas System

MUODY'S AFFIRMS UNIVERSITY OF TEXAS SYSTEM'S AAA RATINGS ON REVENUE FINANCING SYSTEM AND PERMANENT UNIVERSITY FUND BONDS FOLLOWING RECEIPT OF \$1.6 BILLION CAPITAL PROGRAM

SYSTEM HAS \$1.6 BILLION OF RAISED DEBT OUTSTANDING, INCLUDING REVENUE FINANCING SYSTEM AND PERMANENT UNIVERSITY FUND DEBT

Board of Regents of the University of Texas System

Higher Education

TX

Opinion

NOTE: MOODY'S, Aug. 11, 2008 - Moody's Investor Service has affirmed the AAA long-term ratings on the University of Texas System's Revenue Financing System and Permanent University Fund debt following the System's receipt announcement of a \$1.6 billion program to enhance its competitiveness in academic areas.

While this program represents a substantial new investment in these key areas, the sources of funding for the plan are diversified and well matched to support the program in expected to occur over multiple years.

Source for the plan includes tuition revenue bonds, which are paid for by the System under its Revenue Financing System program, but existing debt service is covered from the full range of Texas debt supported by the Permanent University Fund (a \$1.6 billion conditional-advance amount) and other sources.

OF THE \$1.6 BILLION, NEARLY \$1 BILLION REPRESENTS DEBTS PREVIOUSLY APPROVED BY THE BOARD AND ALREADY INCURRED IN ABBEY ANALYSIS. FUNDING FOR THE NEW \$1.62 BILLION OF PROGRAMS IS EXPECTED TO COME FROM \$640 MILLION IN TUITION REVENUE BONDS, \$120 MILLION OF PERMANENT UNIVERSITY FUNDS, \$120 MILLION OF REVENUE FINANCING SYSTEM BONDS, AND THE REMAINDER FROM NON-DEBT SOURCES. GREAT DEBT SERVICE SUPPORT FROM THE STATE IS A SIGNIFICANT PORTION OF THE PROGRAM AND THE CONTINUED GROWTH IN THE SYSTEM'S REVENUE AND RESOURCES, WE EXPECT THE SYSTEM WILL BE ABLE TO SUPPORT THE EXPANDED CAPITAL PROGRAM AT ITS CURRENT RATING LEVEL.

STRENGTHS

The University of Texas System provides critical educational, health care, research services through its nine academic and six health institutions. Some revenue agreements announced (Fall 2007) ensure \$44,000,000 and \$1.2 billion of research expenditures, and \$1.1 billion of patient care activities.

The System has consistently generated healthy operating performance, with an average annual operating margin of 1.5%.

13



Potential U. T. System Credit Risks

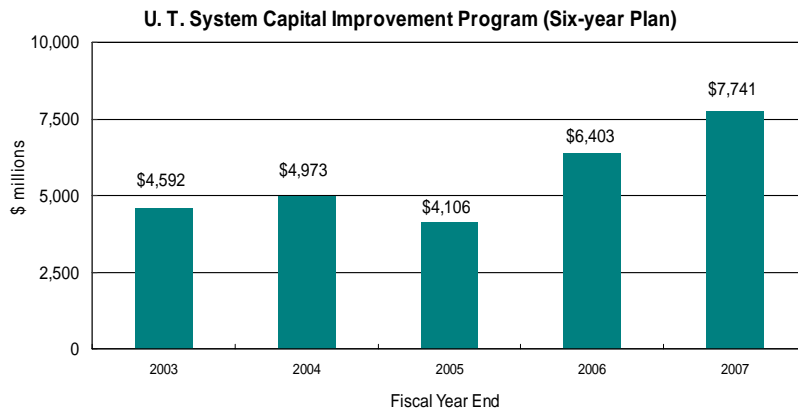
The U. T. System's AAA/Aaa credit ratings could be threatened in future years by a number of factors, including the following:

1. The rate of growth in capital expenditures and debt issuance is not expected to slow. Growth factors include new Tuition Revenue Bond and PUF debt authorizations, and attractive financing rates.
2. The U. T. System's credit profile, while still strong, has been supported by variables that are not sustainable, such as above normal investment gains, record philanthropic support, high oil and gas prices, and low interest rates.
3. The relative level of state funding for higher education is in long-term decline.

14



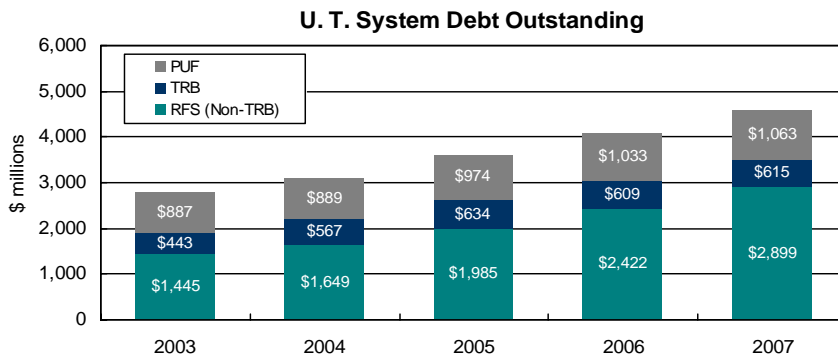
The Capital Improvement Program has Grown 69% since 2003



15



U. T. System's Debt Outstanding is also Growing Rapidly



16



PUF Growth is Due to Capital Gains, Royalty Income, and a Conservative Distribution Policy

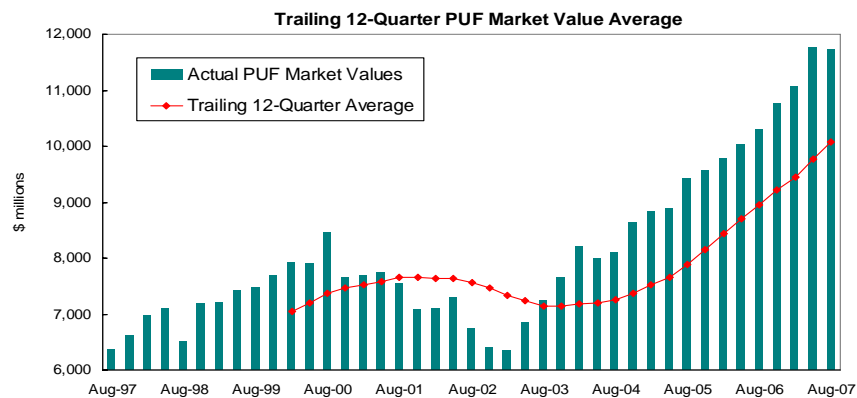
The Permanent University Fund Analysis of Change in the Value of the PUF

(\$ millions)	FY2003	FY2004	FY2005	FY2006	FY2007
Beg. Market Value of Investment Assets	6,738.3	7,244.8	8,087.9	9,426.7	10,313.4
Contribution from PUF Lands	102.0	146.7	193.1	214.9	272.8
Realized Gains on Sales of Securities	(40.0)	731.8	811.3	522.5	614.4
Unrealized Gains on Securities Held	678.8	168.1	487.3	322.9	754.6
Investment Income, Net of Expenses	128.7	144.5	188.3	183.7	188.3
Distributions to the AUF	(363.0)	(348.0)	(341.2)	(357.3)	(400.7)
End. Market Value of Investment Assets	7,244.8	8,087.9	9,426.7	10,313.4	11,742.8

17



The Growth in the PUF Drives Higher Distributions and Greater Debt Capacity



18



PUF Debt Capacity is Limited by the Texas Constitution

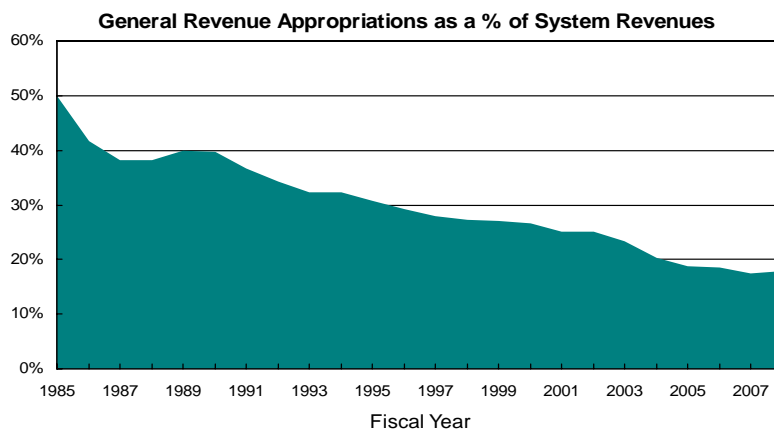
- Art. VII, Sec. 18 of the Texas Constitution limits the amount of PUF debt that can be issued by the U. T. System Board of Regents to an aggregate amount not to exceed 20% of the cost value of PUF investments (exclusive of real estate)

PUF Book Value as of August 31, 2007	10,277,976,783
U. T. Constitutional Debt Limit (20% of PUF Book Value)	2,055,595,357
U. T. PUF Debt Outstanding as of August 31, 2007	(1,062,625,000)
Less: Net U. T. PUF Debt Approved but Unissued	(818,438,534)
Plus: Unexpended PUF Proceeds at 8/31/07	38,363,307
Remaining Constitutional U. T. PUF Debt Capacity	212,895,130

19



State funding Continues to Decline on a Relative Basis



20

9. U. T. System Board of Regents: Report on Investment Strategy

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of The University of Texas Investment Management Company (UTIMCO), will report on investment strategy in anticipation of bringing potential changes to the investment policies to the U. T. System Board of Regents at the December 2007 meeting, using the PowerPoint presentation set forth on Pages 64 - 97.



THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Investment Strategy

Joint Meeting of
The University of Texas System Board of Regents and
UTIMCO Board of Directors
October 12, 2007



Context

- UTIMCO manages investment funds on behalf of The University of Texas System Board of Regents (BoR) according to the Investment Management Services Agreement (IMSA) and certain Investment and other Policies (Policies) that the BoR approves.
- The Policies and IMSA are reviewed annually although no changes are required.
- The Policies document the investment strategies, tactical ranges, controls and risk management practices that UTIMCO pursues and adheres to.
- The purpose of today's discussion is to begin to familiarize the BoR with potential recommended changes to the Policies, which may be brought to the BoR at the December meeting.
- Following today's discussion, the process will entail the UTIMCO staff making specific recommendations as documented in "marked-up" Policies to be presented to UTIMCO's Policy Committee and Board for review, potential revision and approval prior to their presentment to the BoR for its review, potential revision and approval in December.



Investment Objectives

- Investment Objectives dictate Investment Strategies
- Board of Regents Sets Objectives
- Current Objectives:

Endowments (8.10% Return)

- Distribution (4.75%)
- Preserve Purchasing Power (CPI=3.00%)
- Expenses (.35%)

ITF (6.35% Return)

- Preserve Purchasing Power (CPI=3.00%)
- Return Target in excess of CPI (3.00)%
- Expenses (.35%)

Risk Taken and Probability of Meeting Objective



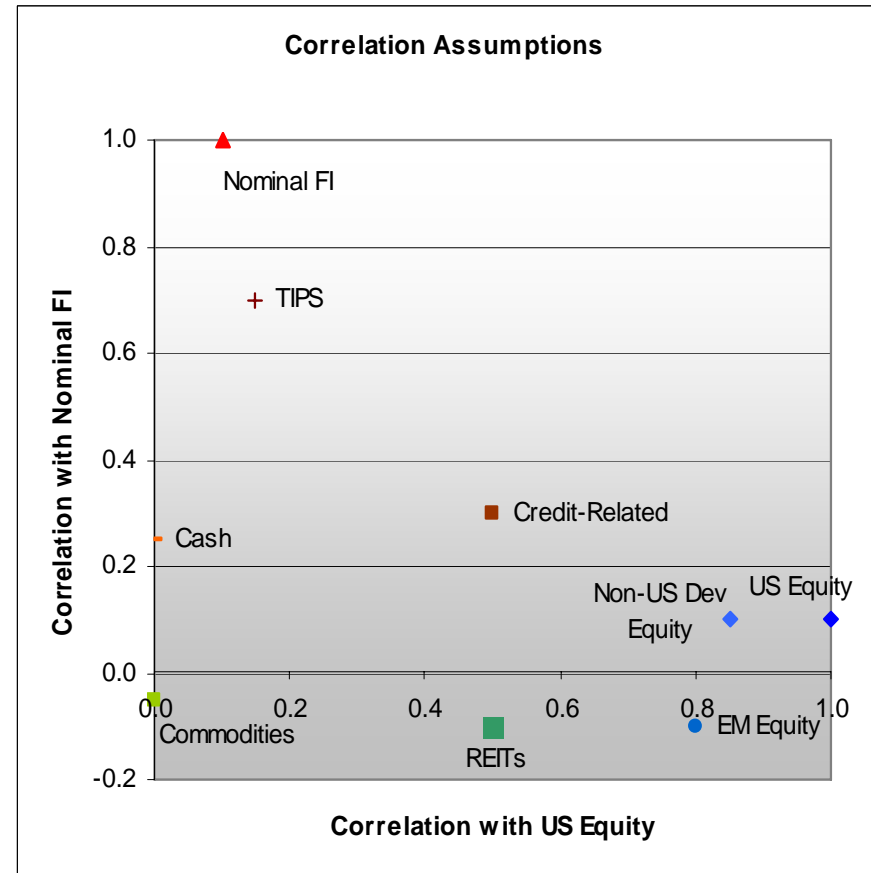
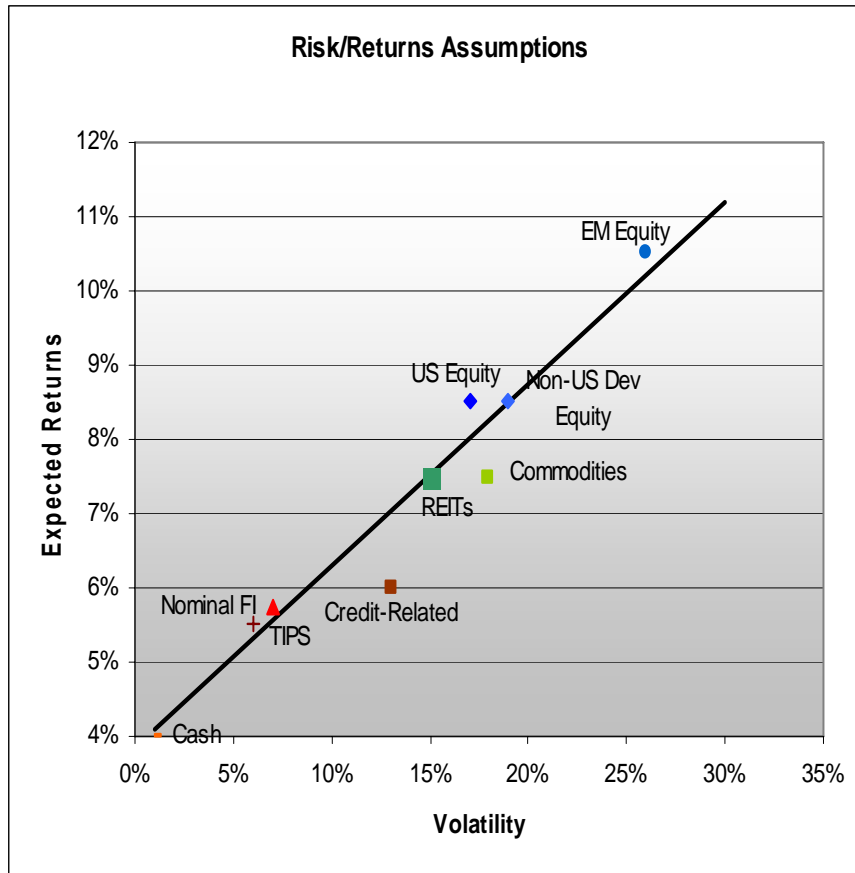
Investment Strategy

- Asset Allocation
 - Strategic
 - Tactical
- Active and Passive Management: Risk Budget
- Illiquidity
- Derivatives/Leverage
- Other Portfolio Management Aspects



Passive Asset Classes Assumptions

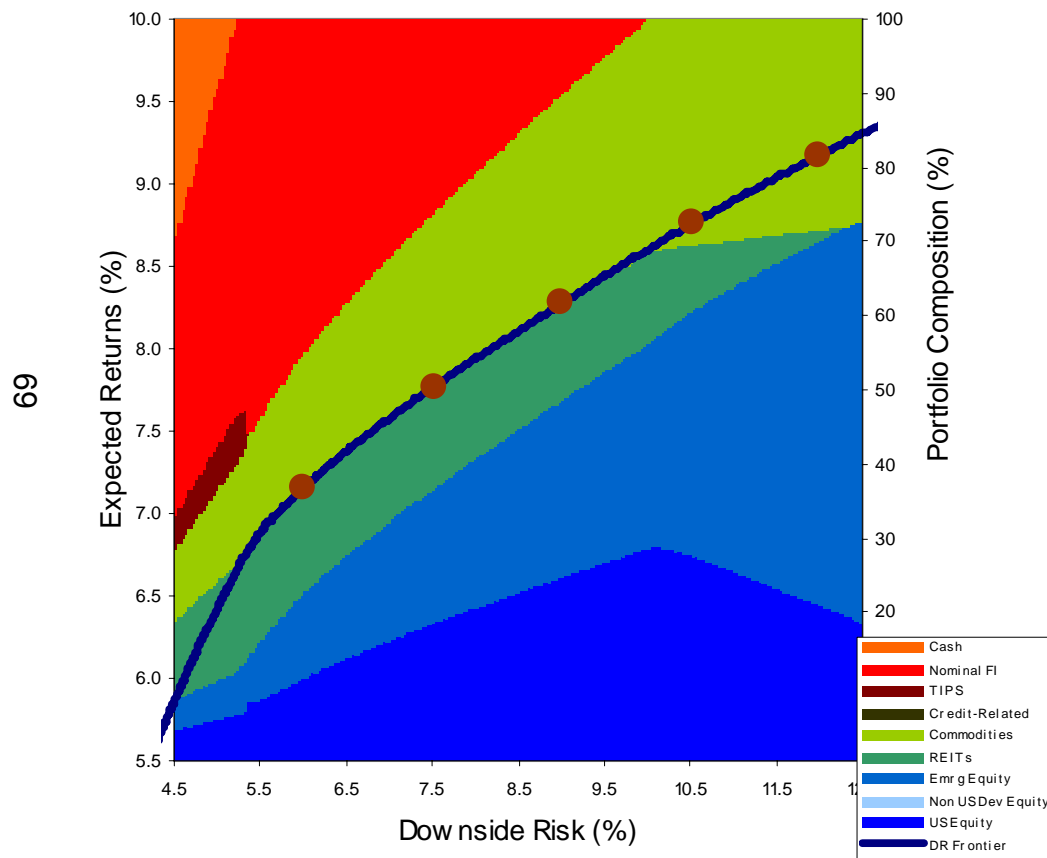
89





Passive Asset Classes - Efficient Frontier and Portfolios

Passive Asset Classes - Efficient Frontier

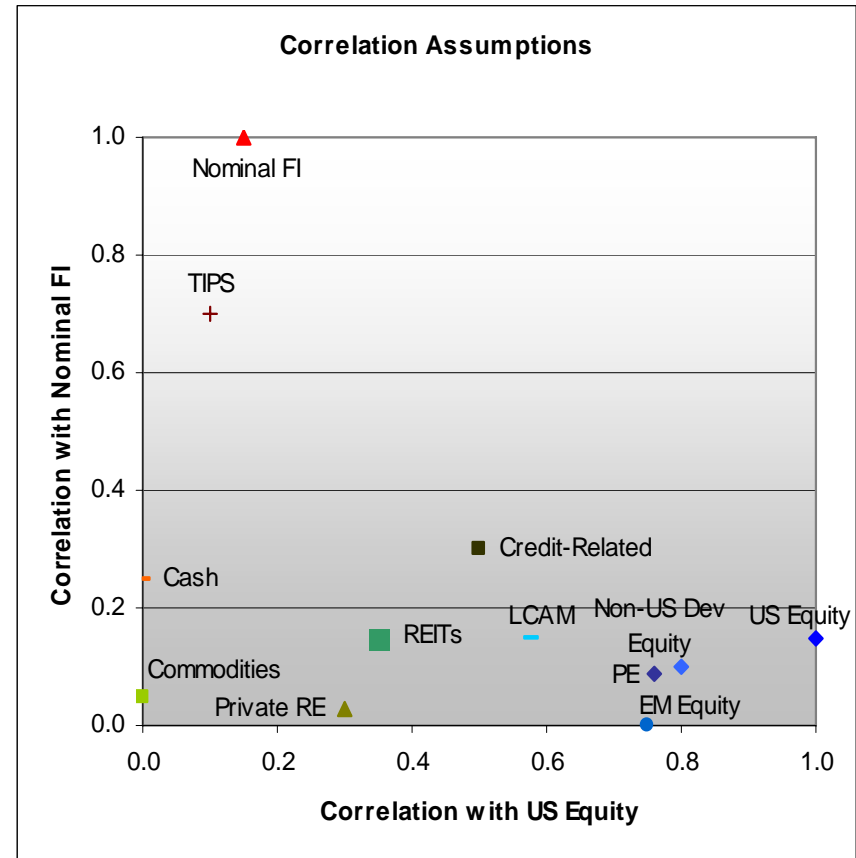
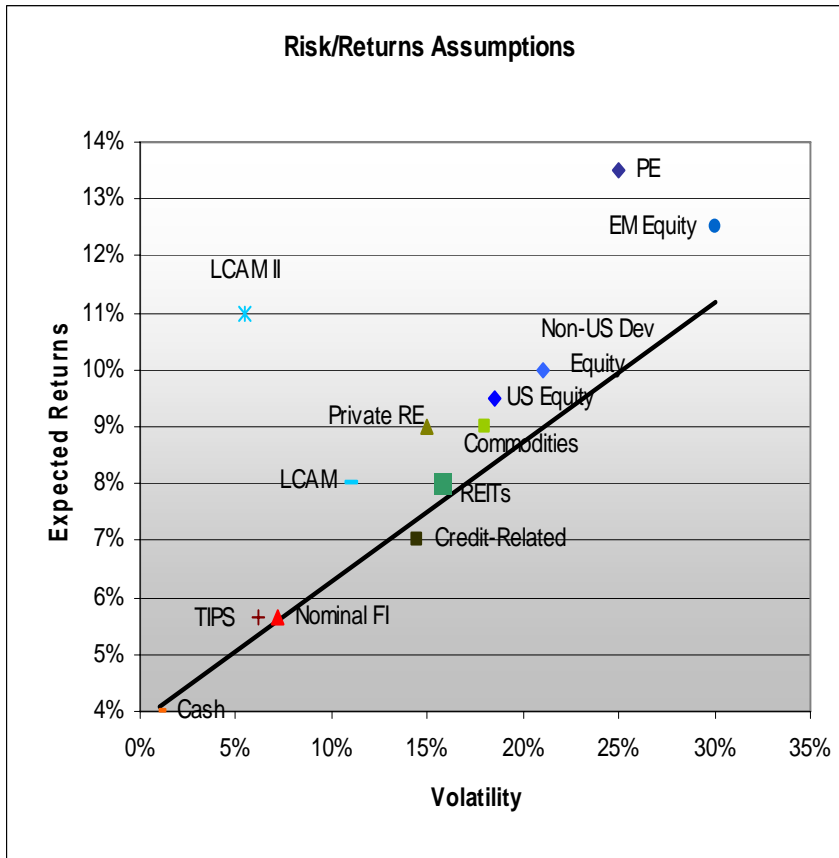


Passive Asset Classes					
Portfolio	Low (6% DR)	Low/Med (7.5% DR)	Medium (9.0% DR)	Med/High (10.5% DR)	High (12.0% DR)
Cash	0%	0%	0%	0%	0%
Nominal FI	46%	27%	11%	0%	0%
TIPS	0%	0%	0%	0%	0%
Credit-Related	0%	0%	0%	0%	0%
FI	46%	27%	11%	0%	0%
Commodities	18%	24%	27%	31%	29%
REITs	14%	13%	13%	9%	2%
Real Assets	32%	37%	40%	40%	31%
US Equity	11%	18%	25%	28%	21%
Non-US Dev Eq	0%	0%	0%	0%	0%
EM Equity	11%	18%	24%	32%	48%
Equity	22%	36%	49%	60%	69%
Returns	7.2%	7.8%	8.3%	8.8%	9.2%
Downside Risk	6.0%	7.5%	9.0%	10.5%	12.0%
Sortino Ratio	-0.16	-0.04	0.03	0.06	0.09



Active Asset Classes Assumptions

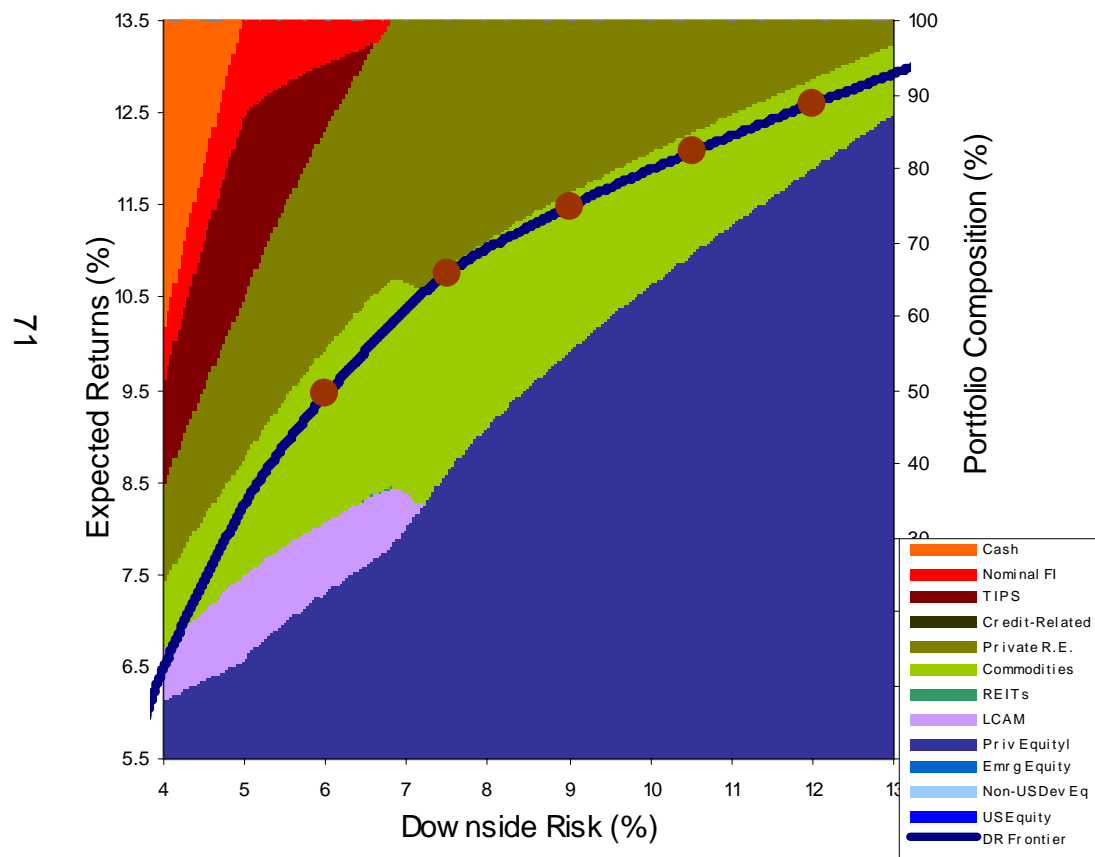
70





Active Asset Classes – Efficient Frontier and Portfolios

Active Asset Class- Efficient Frontier



Active Asset Class					
Portfolio	Low (6% DR)	Low/Med (7.5% DR)	Medium (9.0% DR)	Med/High (10.5% DR)	High (12.0% DR)
Cash	0%	0%	0%	0%	0%
Nominal FI	6%	0%	0%	0%	0%
TIPS	9%	0%	0%	0%	0%
Credit-Related	0%	0%	0%	0%	0%
FI	15%	0%	0%	0%	0%
Commodities	22%	27%	21%	16%	12%
REITs	0%	0%	0%	0%	0%
Private R.E.	30%	33%	23%	15%	8%
Real Assets	52%	60%	44%	31%	20%
US Equity	0%	0%	0%	0%	0%
Non-US Dev Eq	0%	0%	0%	0%	0%
EM Equity	0%	0%	0%	0%	0%
Private Equity	23%	40%	56%	69%	80%
Equity	23%	40%	56%	69%	80%
LCAM	10%	0%	0%	0%	0%
Returns	9.4%	10.8%	11.5%	12.1%	12.6%
Risk (DR)	6.0%	7.5%	9.0%	10.5%	12.0%
Sortino Ratio	0.22	0.35	0.38	0.38	0.37



Efficient Frontier Summary (8.5% DR)

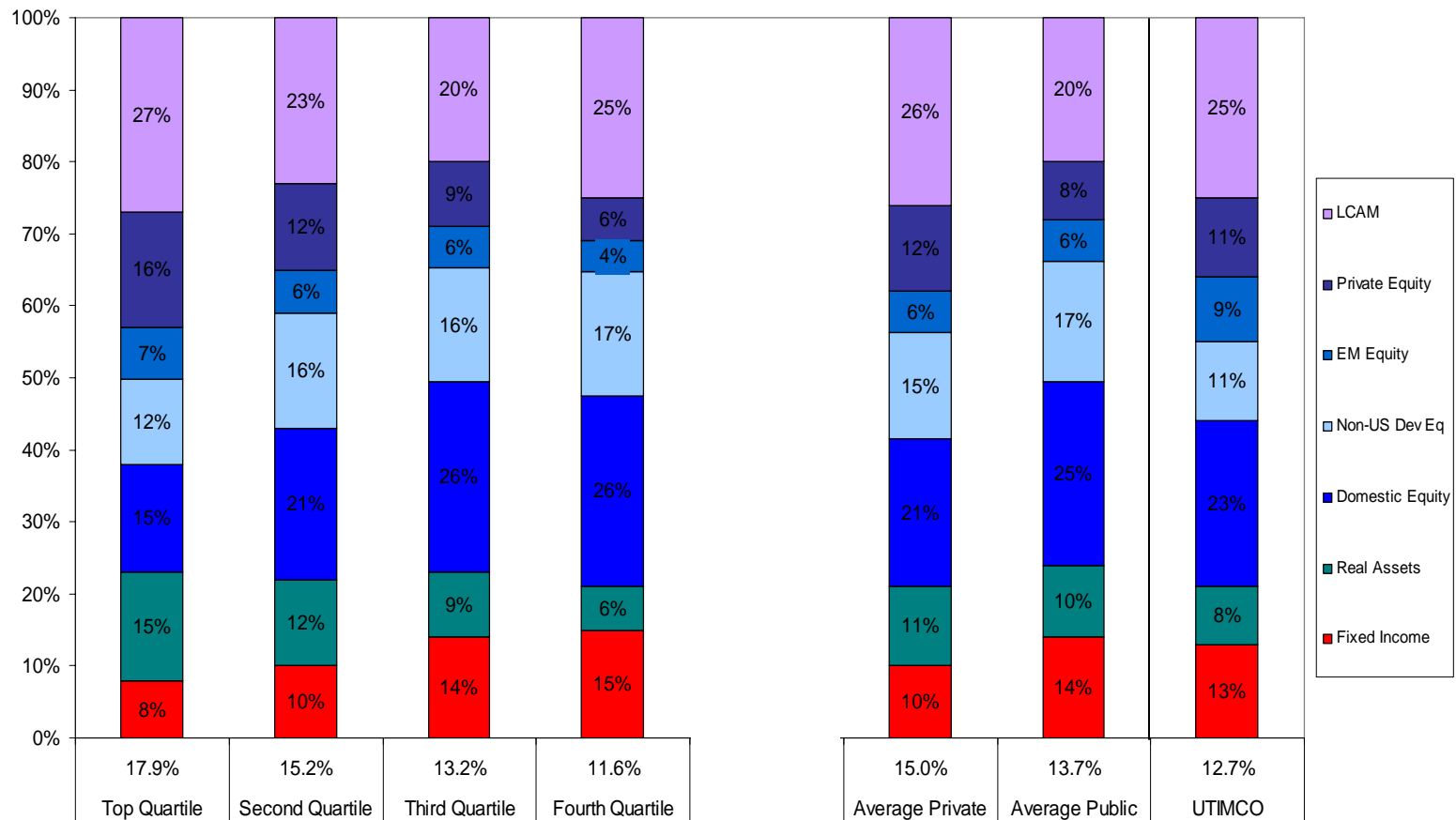
Results	Current Policy Portfolio	Passive	Active	Cambridge Assumptions	LCAM II 11% returns 5.5% vol
Returns	9.3%	8.2%	11.3%	11.4%	12.4%
Downside Risk	8.5%	8.5%	8.5%	8.5%	8.5%
Sortino Ratio	0.14	0.01	0.37	0.39	0.5
Chances of Meeting Return Target (over a ten year period)	62%	51%	76%	77%	81%
Asset Allocation					
Fixed Income	15%	16%	0%	0%	0%
Commodities	3%	27%	23%	20%	0%
REITS	5%	13%	0%	0%	0%
Private Real Estate	0%	0%	26%	11%	0%
Developed Economies	19%	22%	0%	0%	0%
Developing Economies	18%	22%	0%	20%	0%
Private Equity	15%	0%	51%	39%	55%
LCAM	25%	0%	0%	0%	45%

72



Peer Comparisons

Top Performing Endowments have higher asset allocations to Real Assets, Emerging Markets, Private Equity and Less-Correlated Active Managers and lower allocations to Fixed Income and Developed Economy Equities



73



Asset Classes and Investment Vehicles

Current Portfolio

		More Constrained, Primarily Long-Only, No Leverage	Less Constrained, Long/Short, Levered ¹	Private Investments	Total
Fixed Income	Investment Grade	13.0%	3.0%	0.0%	16.0%
	Credit Related	0.0%	1.0%	1.2%	2.2%
Real Assets	Natural Resources	6.0%	1.0%	0.8%	7.8%
	Real Estate	4.0%	0.0%	0.0%	4.0%
Equity	Developed Economies	31.5%	22.0%	6.4%	59.9%
	Developing Economies	9.0%	1.0%	0.1%	10.1%
Total		63.5%	28.0%	8.5%	100.0%

¹ Multi-Strategy Managers generally categorized as Developed Economies Equity



Less-Correlated Active Managers

(NAV in millions)

Category	NAV	%	# of Managers	Exposure				Large Mandates
				Gross	Net	Long	Short	
L/S – General	\$ 1,330	22	7	323%	-17%	153%	-170%	Maverick, Blue Ridge
L/S – Geography	\$ 723	12	7	194%	44%	119%	-75%	OZ Eur/Asia, Indus Jap/Asia
L/S – Sector	\$ 465	8	7	170%	57%	114%	-57%	Steadfast Financial
Total L/S	\$ 2,519	42%	21	258%	14%	136%	-122%	
Multi-Strat - L/S Bias	\$ 2,003	34	8	228%	55%	141%	-87%	Farallon, Perry, Protégé
Multi-Strat - General	\$ 489	8	4	264%	115%	190%	-74%	Satellite
Total Multi-Strat	\$ 2,492	42%	12	235%	67%	151%	-84%	
Arbitrage/Rel Value	\$ 786	13%	5	840%	-32%	404%	-436%	Bridgewater, BGI
High Yield/Distressed	\$ 193	3%	4	171%	84%	128%	-43%	Silverpoint
Total	\$ 5,991	100%	42	322%	32%	177%	-145%	

75



Private Equity

76

	No. of Managers	No. of Funds	Existing Portfolio* (%)			Existing Portfolio (\$)		
			Invested	Unfunded Comm.	Economic Exposure	Invested	Unfunded Comm.	Economic Exposure
Category								
US Buyout	17	32	20%	24%	23%	\$ 317	\$ 502	\$ 819
Euro Buyout	8	19	15%	19%	17%	239	394	\$ 633
EM/Asia Pacific Buyout	2	2	1%	1%	1%	16	28	\$ 44
Global Buyout	3	6	12%	6%	9%	182	131	\$ 313
Total Buyout	30	59	48%	51%	50%	754	1,055	1,809
Venture Capital	21	39	22%	17%	19%	336	362	698
Opportunistic/Other	6	10	6%	11%	9%	95	226	321
Distressed/Mezz	8	18	14%	14%	14%	221	284	505
Energy	8	16	10%	7%	8%	154	143	297
Total	73	142	100%	100%	100%	\$ 1,560	\$ 2,070	\$ 3,630

* Excludes secondary sale and includes pending commitments

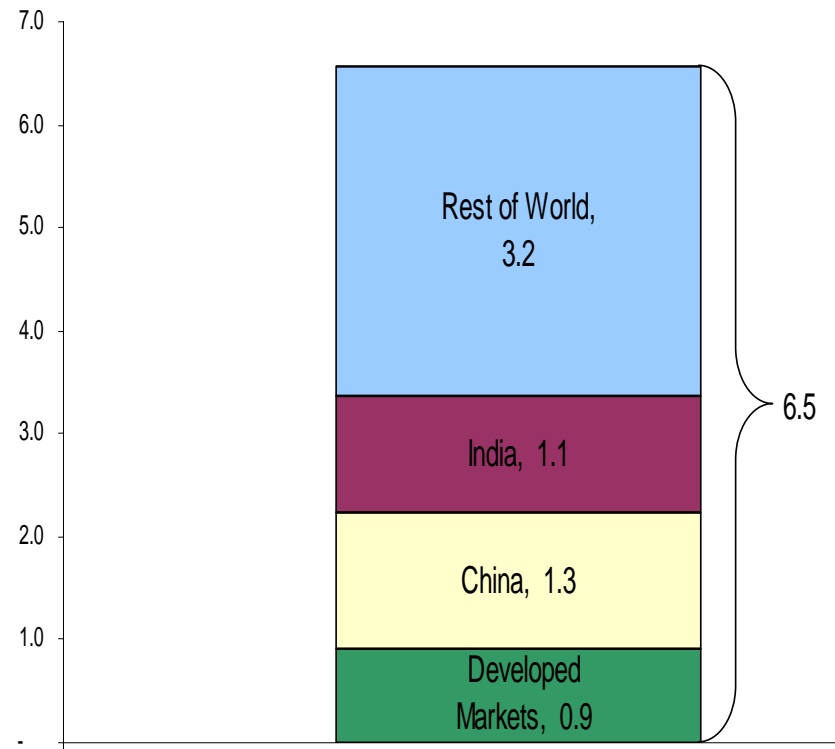


Strategic Investment Themes: Global Growth and Emerging Markets



77

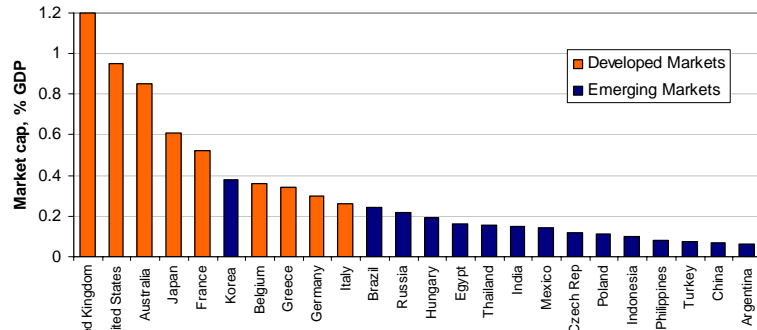
Population (in billions)





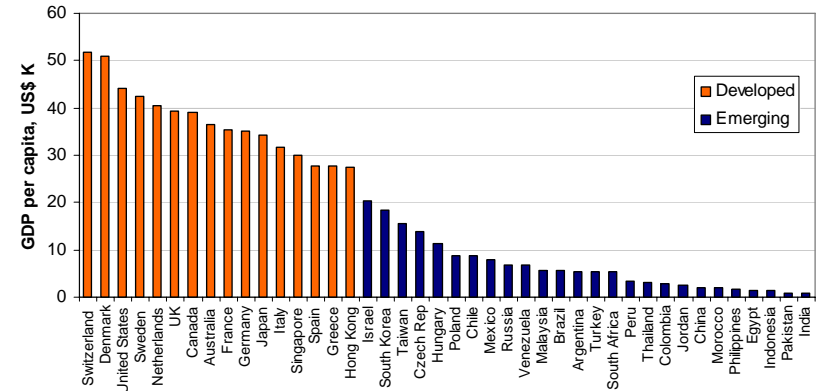
Emerging Market Economic and Capitalization Trends

Market Cap as % of GDP



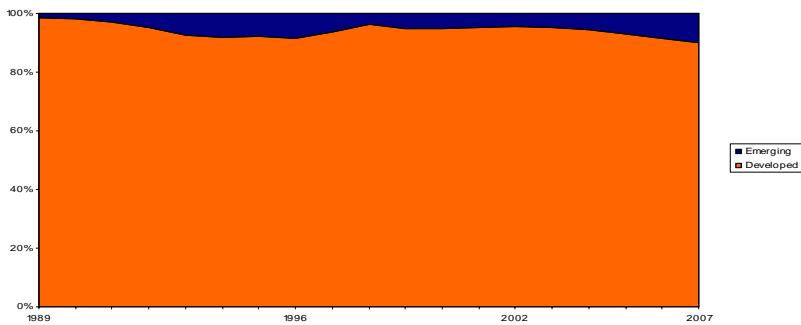
Source: FactSet

GDP per Capita

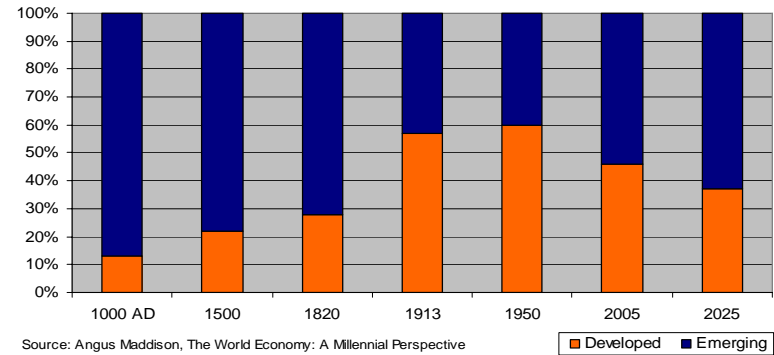


As of April 2007. Source: IMF

Equity Market Capitalization



% Share of Global GDP



Source: Angus Maddison, The World Economy: A Millennial Perspective



Emerging Market Risks and Investment Approach

Risks

- Political
 - Trade
 - Rule of Law
 - Terrorism/War
 - Cycles/Inflation/Volatility
 - Corporate Quality
 - Governance
 - Regulation
- }
- Local Knowledge/Relationships

79

<u>Investment Strategy (20% of Total Portfolio, 30% of Total Equity)</u>	<u>Allocation</u>	<u>Range</u>
Primarily Long Only, No Leverage	80%	25-100%
Long/Short, Leverage	10%	0-40%
Private Investments	10%	0-50%

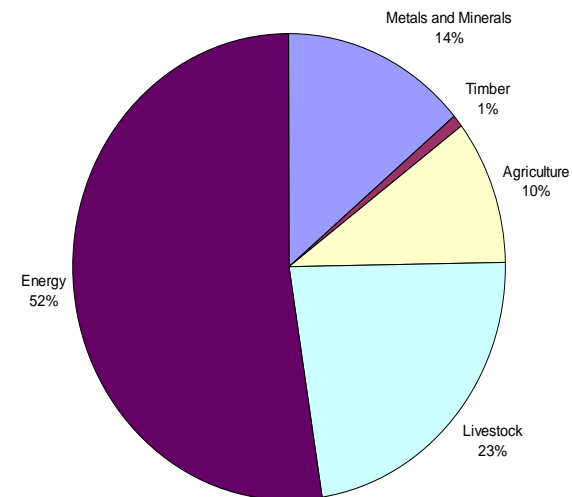


Natural Resources: How to Invest

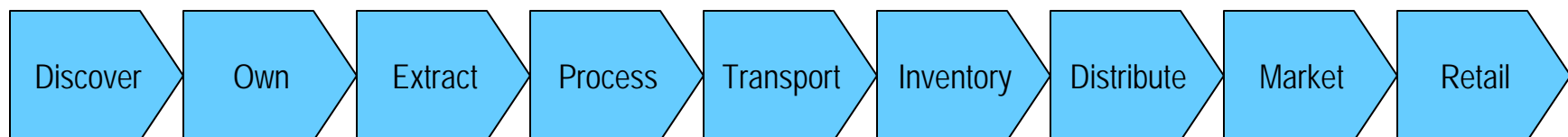
Capital Market by Type of Resource

Natural Resources Financial Markets

Market	(trillions)
Futures	\$16.5
Options	2.5
Public Equity	3.0



Natural Resources Supply Chain





Impact of China Growth: Global Demand for Resources

	Starting Year	Start Year GDP/Cap*	20 Yr GDP Inc	2006 GDP/Cap	Per Capita Consumption					
					Oil (bbls)	Steel (kg)	Copper (kg)	Alum (kg)	Zinc (kg)	Nickel (kg)
China	2006	\$1,840	TBD	\$1,840	2	250	3	6	2	0.2
Taiwan	1972	\$1,980	8.30%	\$4,810	15	975	15	20	9	2
Korea	1975	\$1,802	8.10%	\$3,849	15	850	25	19	12	4
Japan	1963	\$3,848	6.00%	\$13,901	13	600	10	17	4	2

81

Impact of China's Estimated Demand on World Demand						
	Historical Annlzd. Demand Growth 1960-2006	Chinese Demand % World	Estimated Chinese Demand Growth	Estimated World (with China) Demand Growth (if rest of world has avg growth)	Growth Relative to History	% Increase in Avg Growth
Copper	2.8%	20%	9.3%	4.9%	2.0%	71.0%
Aluminum	4.6%	24%	4.9%	4.7%	0.1%	2.0%
Oil	3.1%	8%	10.5%	4.2%	1.2%	39.0%
Nickel	3.4%	15%	10.0%	5.1%	1.7%	50.0%
Zinc	2.8%	30%	5.4%	3.7%	1.0%	36.0%
Lead	2.5%	27%	5.8%	3.6%	1.1%	44.0%
Tin	1.4%	34%	6.2%	3.6%	2.1%	140.0%



Natural Resources Investment Strategy

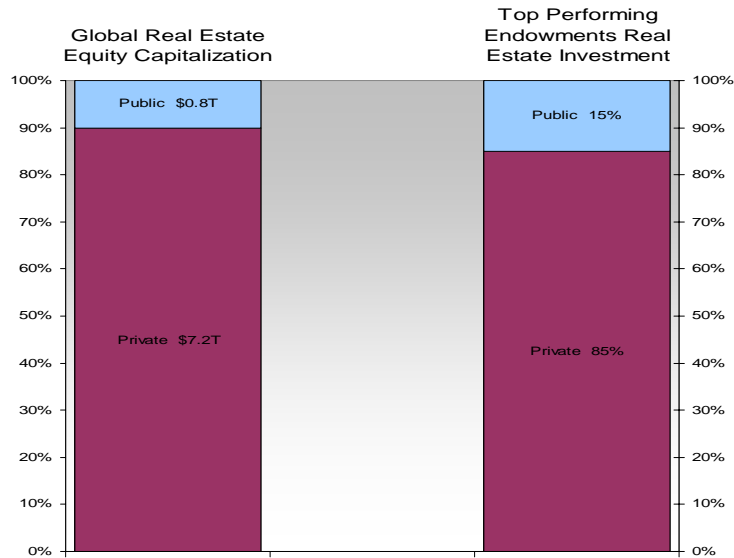
Natural Resources as a Separate Asset Class with a 10% Allocation

	Energy (Oil, Gas, Elec, Wind, Water)	Metals/Minerals	Ag/Livestock & Timber	Allocations	
				Target	Range
Allocations by Type of Natural Resource					
Target	55%	25%	20%		
Range	0-70%	0-50%	0-40%		
Investment Vehicles					
Primarily Long Only, No Leverage				40%	0-70%
Long/Short, Leveraged				30%	0-50%
Private Investments				30%	0-70%

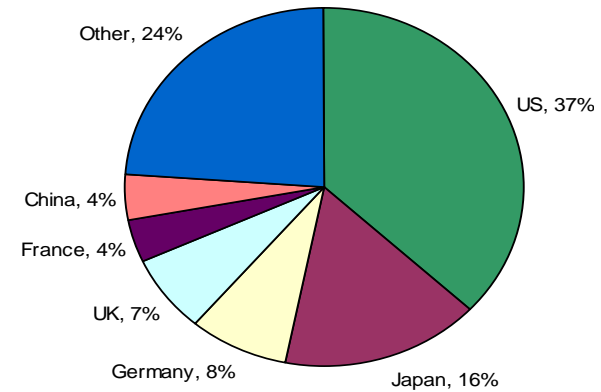
82



Strategic Investment Thesis: Real Estate Private Equity



Market Size by Geography



83

	Public Real Estate Equity		Private Real Estate Equity		Total
	Target	Range	Target	Range	
US	20%	0-50%	20%	0-40%	40%
Europe	20	0-40	10	0-30	30
Asia	<u>20</u>	<u>0-40</u>	<u>10</u>	<u>0-30</u>	<u>30</u>
Total	60%	10-70%	40%	0-60%	100%



Private Investment Commitment Model

Given a desired "investment level" and capital call/distribution assumptions, annual commitment 'budgets' can be modeled.

Private Equity

	Capital calls	Unfunded commitments	Distributions
Present		100%	
Year 1	18%	82%	0%
Year 2	21%	61%	6%
Year 3	19%	42%	10%
Year 4	15%	27%	12%
Year 5	11%	16%	14%
Year 6	9%	7%	16%
Year 7	4%	3%	19%
Year 8	3%	-	23%
Year 9		-	23%
Year 10		-	18%
Year 11		-	13%
Year 12		-	7%

Private Real Estate

	Capital calls	Unfunded commitments	Distributions
Present		100%	
Year 1	21%	79%	
Year 2	32%	47%	
Year 3	32%	15%	
Year 4	15%	-	26%
Year 5		-	25%
Year 6		-	43%
Year 7		-	34%
Year 8		-	4%



Commitment Plan

85

	2007	2008	2009	2010	2011	2012
Credit Related						
% of portfolio	1.2%	1.4%	1.7%	2.1%	2.5%	2.9%
Unfunded commitment	1.6%	2.5%	3.0%	3.1%	3.0%	2.9%
Annual commitment	\$200m	\$250m	\$225m	\$200m	\$200m	\$200m
Natural Resources						
% of portfolio	0.9%	0.8%	1.0%	1.5%	2.2%	3.0%
Unfunded commitment	0.8%	1.8%	3.1%	4.2%	4.7%	4.6%
Annual commitment	\$40m	\$250m	\$350m	\$400m	\$370m	\$300m
Developed PE						
% of portfolio	6.5%	7.4%	8.2%	8.9%	9.5%	9.7%
Unfunded commitment	9.6%	9.4%	8.5%	7.7%	6.9%	6.9%
Annual commitment	\$740m	\$500m	\$400m	\$400m	\$400m	\$550m
Emerging PE						
% of portfolio	0.1%	0.1%	0.3%	0.8%	1.4%	2.1%
Unfunded commitment	0.2%	1.2%	2.4%	3.3%	3.7%	3.3%
Annual commitment	\$30m	\$210m	\$300m	\$300m	\$300m	\$150m
Total % of portfolio	8.6%	9.7%	11.3%	13.3%	15.6%	17.7%
Total commitments	\$1010m	\$1210m	\$1275m	\$1300m	\$1270m	\$1200m

Real Estate	2007	2008	2009	2010	2011	2012
% of portfolio		0.0%	0.3%	1.1%	2.6%	4.2%
Unfunded commitment		1.3%	2.0%	2.1%	2.3%	1.3%
Annual commitment		\$250m	\$400m	\$500m	\$500m	\$500m

Total Illiquid	8.6%	9.7%	11.5%	14.4%	18.1%	22.0%
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PUF and GEF Strategic Asset Allocation FY 2012 Recommendation vs Current

		More Constrained Primarily Long-Only, No Leverage		Less Constrained Long/Short, Levered		Private Investments		Total	
Fixed Income	Investment Grade	5.5%	13.0%	2.0%	3.0%	0.0%	0.0%	7.5%	16.0%
	Credit Related	1.5%	0.0%	3.0%	1.0%	3.0%	1.2%	7.5%	2.2%
Real Assets	Natural Resources	4.0%	6.0%	3.0%	1.0%	3.0%	0.8%	10.0%	7.8%
	Real Estate	5.0%	4.0%	1.0%	0.0%	4.0%	0.0%	10.0%	4.0%
Equity	Developed Economies	16.0%	31.5%	19.0%	22.0%	10.0%	6.4%	45.0%	59.9%
	Developing Economies	16.0%	9.0%	2.0%	1.0%	2.0%	0.1%	20.0%	10.1%
Total		48.0%	63.5%	30.0%	28.0%	22.0%	8.5%	100.0%	100.0%

Black = Recommended Portfolio Red = Current Portfolio



Recommended Strategy in Existing Format

	Actual Allocation	Current Policy	Recommended Policy
Cash	3.0	0.0	N/S
Nominal Bonds	7.0	10.0	N/S
TIPs	3.0	5.0	N/S
<i>Investment Grade</i>	<i>N/S</i>	<i>N/S</i>	<i>5.5</i>
<i>Credit Related (Primarily Long Only)</i>	<i>N/S</i>	<i>N/S</i>	<i>1.5</i>
Total Fixed Income	13.0	15.0	7.0
Public Real Estate	4.0	5.0	5.0
<i>Private Real Estate</i>	<i>N/A</i>	<i>N/A</i>	<i>4.0</i>
Total Real Estate	4.0	5.0	9.0
Natural Resources (Primarily Long Only)	4.0	3.0	4.0
US Public Equity	23.0	20.0	8.0
Non-US Dev Pub Equity	<u>11.0</u>	<u>10.0</u>	<u>8.0</u>
Total Developed Equity	34.0	30.0	16.0
Developing Equity	9.0	7.0	16.0
Buy out	9.0	11.0	N/S
VC	<u>2.0</u>	<u>4.0</u>	<u>N/S</u>
Private Equity (Including Natural Resources and Credit Related)	11.0	15.0	18.0
Abs Ret	15.0	15.0	N/S
Directional	<u>10.0</u>	<u>10.0</u>	<u>N/S</u>
LCAM (Including Natural Resources and Credit Related)	25.0	25.0	30.0
Total Assets	100.0%	100.0%	100.0%

87



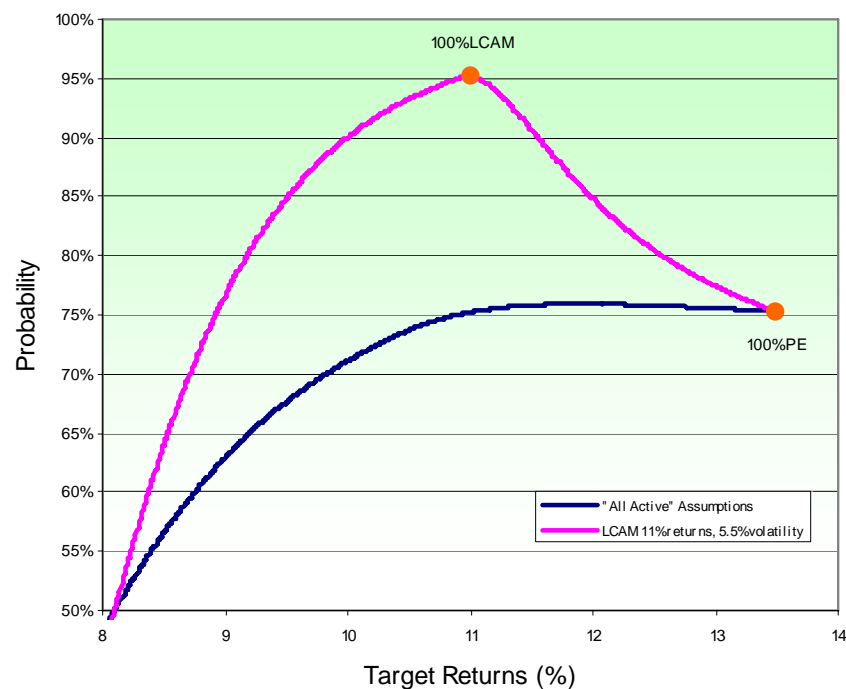
PUF and GEF Recommendation – Projected Results

- Expected Returns: 9.9%
- Downside Risk: 9.1%
- Sortino Ratio .20
- Probability of meeting 10 year return target 66%

88

- Less attractive risk/return profile than unconstrained portfolio
 - 15% FI (vs 0% in unconstrained portfolio)
 - 4% Private Real Estate (vs 18-33%)
 - 18% Private Equity (vs 32-40%)

Probability of Achieving 8.1% returns
over a 10 year period





Asset Allocation Tactical Ranges

	Primarily Long, Non-Levered			Long/Short, Levered			Private Investments			Total		
	<u>Min</u>	<u>Target</u>	<u>Max</u>	<u>Min</u>	<u>Target</u>	<u>Max</u>	<u>Min</u>	<u>Target</u>	<u>Max</u>	<u>Min</u>	<u>Target</u>	<u>Max</u>
Investment Grade	5.0%	5.5%	15.0%	0.0%	2.0%	5.0%	0.0%	0.0%	5.0%	5.0%	7.5%	20.0%
Credit-Related	<u>0.0%</u>	<u>1.5%</u>	<u>5.0%</u>	<u>1.0%</u>	<u>3.0%</u>	<u>5.0%</u>	<u>0.0%</u>	<u>3.0%</u>	<u>5.0%</u>	<u>2.5%</u>	<u>7.5%</u>	<u>10.0%</u>
Total Fixed Income	5.0%	7.0%	20.0%	1.0%	5.0%	10.0%	0.0%	3.0%	7.5%	7.5%	15.0%	25.0%
Natural Resources	2.0%	4.0%	6.0%	1.0%	3.0%	5.0%	1.0%	3.0%	6.0%	5.0%	10.0%	15.0%
Real Estate	<u>2.5%</u>	<u>5.0%</u>	<u>7.5%</u>	<u>0.0%</u>	<u>1.0%</u>	<u>3.0%</u>	<u>2.0%</u>	<u>4.0%</u>	<u>8.0%</u>	<u>5.0%</u>	<u>10.0%</u>	<u>15.0%</u>
Total Real Assets	4.5%	9.0%	13.5%	1.0%	4.0%	8.0%	3.0%	7.0%	12.0%	8.5%	20.0%	30.0%
Developed Economies	12.0%	16.0%	25.0%	15.0%	19.0%	25.0%	7.5%	10.0%	15.0%	32.5%	45.0%	55.0%
Developing Economies	<u>10.0%</u>	<u>16.0%</u>	<u>25.0%</u>	<u>0.0%</u>	<u>2.0%</u>	<u>5.0%</u>	<u>0.0%</u>	<u>2.0%</u>	<u>5.0%</u>	<u>10.0%</u>	<u>20.0%</u>	<u>25.0%</u>
Total Equity	25.0%	32.0%	40.0%	15.0%	21.0%	30.0%	7.5%	12.0%	20.0%	47.5%	65.0%	65.0%
Total	42.0%	48.0%	60.0%	25.0%	30.0%	33.0%	15.0%	22.0%	25.0%	100.0%	100.0%	105.0%

69



Implementation Timetable

Asset Class target reached in 3 years, Investment Vehicle reached in 5 years

8

Asset Class	Adjusted Current	FY 08 Target	FY 09 Target	FY 10 Target	FY 11 Target	FY 12 Target
Investment Grade	16.0%	12.0%	10.0%	7.5%	7.5%	7.5%
Credit Related	2.2	5.0	7.0	7.5	7.5	7.5
Natural Resources	7.8	9.0	10.0	10.0	10.0	10.0
Real Estate	4.0	6.0	8.0	10.0	10.0	10.0
Developed Economies	59.9	56.5	50.0	45.0	45.0	45.0
Developing Economies	<u>10.1</u>	<u>12.5</u>	<u>15.0</u>	<u>20.0</u>	<u>20.0</u>	<u>20.0</u>
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Investment Vehicle						
LCAM	28.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Private Equity	8.6%	9.7%	11.5%	14.4%	18.1%	22.0%



Benchmarks

		More Constrained, Primarily Long-Only, No Leverage	Less Constrained, Long/Short, Levered	Private Investments
Fixed Income	Investment Grade	Lehman Brothers Global Aggregate		
	Credit Related	Citigroup High Yield		
Real Assets	Natural Resources	DJ-AIG		
	Real Estate	60% DJ Wilshire RESI + 40% NCREIF		
Equity	Developed Economies	MSCI World Index ex EM		
	Developing Economies	MSCI EM Index with Net Dividends		

91



Long/Short, Levered: MSCI Investable HF Index

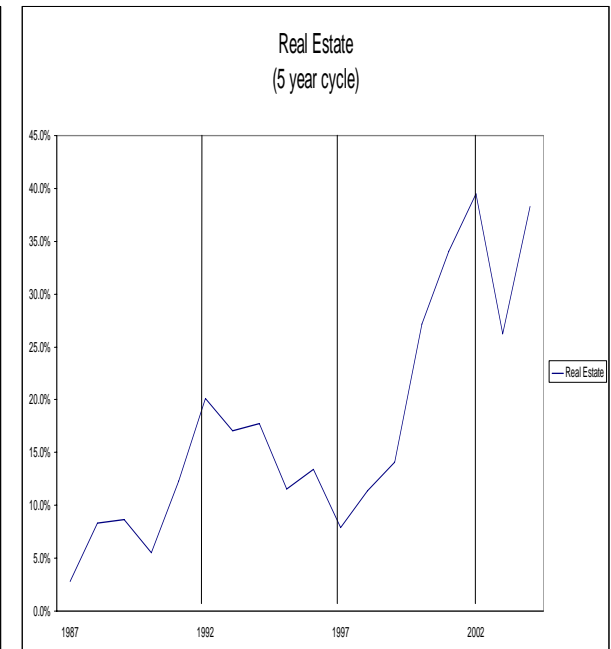
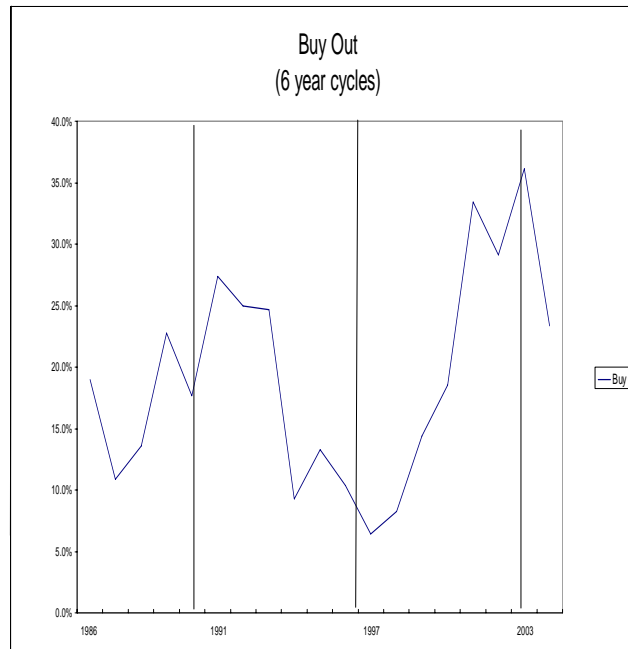
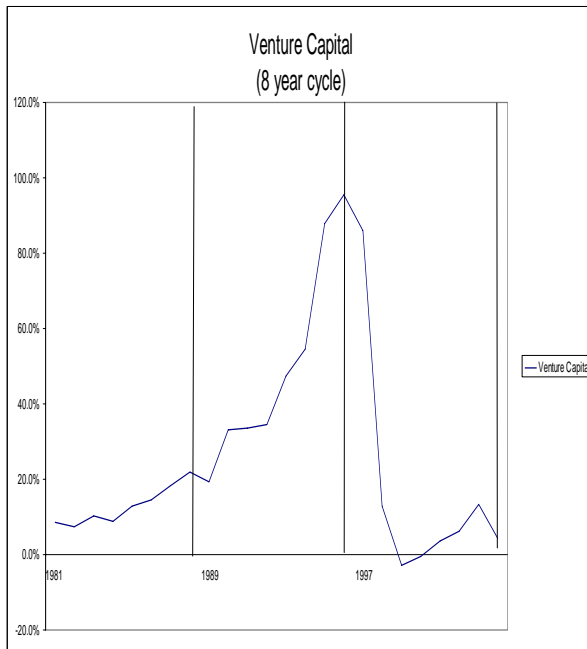
Private Investments: Venture Economics Periodic IRR Index



Illiquidity: Cash Needs and Cycles

- While the PUF and GEF's cash needs are only 5% per year, the need to liquidate "illiquid" investments at inopportune times during a cycle pose a significant risk.
- 10 year cycles and 5% annual distribution result in a "simplistic" illiquidity cap of 50%

92





Illiquidity and Unfunded Commitment Limits

Current Portfolio

Asset Class	% of Portfolio	Illiquid ¹		Semi-liquid ²	
		% of Asset Class	% of Total Portfolio	% of Asset Class	% of Total Portfolio
Investment Grade	16%	10%	2%	4%	1%
Credit Related	2%	80%	2%	64%	1%
Natural Resources	8%	56%	4%	47%	4%
Real Estate	4%	0%	0%	0%	0%
Developed Economies	60%	33%	20%	20%	12%
Developing Economies	<u>10%</u>	1%	<u>0%</u>	1%	<u>0%</u>
Total	100%		28%		18%

Recommended Portfolio

Asset Class	% of Portfolio	Illiquid ¹		Semi-liquid ²	
		% of Asset Class	% of Total Portfolio	% of Asset Class	% of Total Portfolio
Investment Grade	7.5%	0%	0%	0%	0%
Credit Related	7.5%	62%	4%	48%	3%
Nat Resources	10.0%	56%	5%	46%	4%
Real Estate	10.0%	75%	7%	72%	7%
Developed Economies	45.0%	42%	21%	28%	14%
Developing Economies	<u>20.0%</u>	27%	<u>4%</u>	22%	<u>3%</u>
Total	100.0%		43%		33%

¹ Liquidity = 3 months ² Liquidity = 1 year



Recommended Unfunded Commitment Constraints

Asset Class	Recommended Portfolio		
	Invested	Target Unfunded Commitment	Max Unfunded Commitment
Investment Grade	0%	0%	2%
Credit Related	3%	4%	5%
Natural Resources	3%	5%	7%
Real Estate	4%	6%	8%
Developed Economies	10%	12%	14%
Developing Economies	<u>2%</u>	<u>4%</u>	<u>6%</u>
Total	22%	31%	42%

94



Derivative Policy

- In October, 2002 the Board approved the Derivative Investment Policy which details the
 - 1) Applications for,
 - 2) Documentation of, and
 - 3) Limitations on and monitoring ofthe use of derivatives by UTIMCO staff and its External Managers operating under Agency Agreements

- Permitted Applications involve:
 - Assist with portfolio risk management
 - Alter systemic (market) exposure
 - Construction of risk/return portfolios which can't be created using the cash market
 - Provide for efficiency in strategic implementation
 - Facilitate mandate transitionsDerivatives are not permitted in asset classes inconsistent with Investment Policies

- Required Documentation includes:

<ul style="list-style-type: none">- Purpose- Justification- Baseline Portfolio- Derivative Application Portfolio	<ul style="list-style-type: none">- Risks (including at a minimum: Modeling, Pricing, Liquidity and Legal)- Expected change in systematic and specific risk- Procedures in place to monitor and manage- Contracts/procedures to account for value
---	--

- Limitations include:
 - Downside Risk vs Baseline must be within $\pm 20\%$
 - "Global" exposure must be within Strategic Asset Allocation
 - Counterparty must be A-/A3 or better and no more than 1% of total fund net exposure to a single counterparty

- Monitoring includes daily mark-to-market and review by Risk Management and CIO



Approved Derivatives and Leverage

- In June 2003, the Board approved UTIMCO Staff to use derivatives in three applications:
 - US Equity: Market Cap and Sector “Shifts”
 - Non-US Equity: Country/Geography “Shifts”
 - GSCI: Gain commodity exposure
- In September 2003, the Board approved UTIMCO Staff to use derivatives in a “Structured Active Management” application:
 - Maintain US equity market exposure
 - Obtain active return via hedge fund mandates/risk

A limit of 5% of the Total Fund was placed on this application
- The CIO recommend three changes/enhancements to the risk management/reporting of the use of derivatives
 - The Structured Active Management application will be disaggregated for reporting purposes into the US equity and hedge fund elements of the application
 - The Notional Delta Equivalent associated with the use of options will be used to calculate the “Global” exposure vis-à-vis the Strategic Asset Allocation
 - Each element of the derivative application will be reported in its respective asset allocation for the purposes of calculating the “Global” exposure vis-à-vis the Strategic Asset Allocation



Current ITF Strategic Asset Allocation

No change recommended for ITF at this time

As of June 30, 2007		More Constrained, Primarily Long-Only, No Leverage	Less Constrained, Long/Short, Levered	Private Investments	Total
Fixed Income	Investment Grade	35.0%	2.7%	0.0%	37.7%
	Credit Related	0.0%	0.9%	0.0%	0.9%
Real Assets	Natural Resources	5.0%	0.9%	0.0%	5.9%
	Real Estate	8.0%	0.0%	0.0%	8.0%
Equity	Developed Economies	22.0%	19.6%	0.0%	41.6%
	Developing Economies	5.0%	0.9%	0.0%	5.9%
Total		75.0%	25.0%	0.0%	100.0%

97

10. **U. T. System Board of Regents: Presentation regarding work of the Brackenridge Tract Task Force**

INTRODUCTION

Mr. Larry E. Temple, Chairman of the Brackenridge Tract Task Force, will present the work and recommendations of the Brackenridge Tract Task Force.

BACKGROUND INFORMATION

At the July 14, 2006 meeting of the U. T. System Board of Regents, Chairman James R. Huffines, acting on behalf of the Board, announced the establishment of the Brackenridge Tract Task Force to be chaired by Mr. Larry E. Temple. Chairman Huffines gave the following charge to the Task Force:

The charge to the Task Force is to review and identify facts and issues that impact land held in Travis County by the U. T. System Board of Regents for the benefit of The University of Texas at Austin and known as the Brackenridge Tract. The Task Force is asked to seek input and advice concerning the Board's stewardship of the Brackenridge Tract, to make findings of fact related to the asset, to identify alternatives concerning long term uses of the Tract, and to make recommendations concerning the best and most prudent ways to utilize the asset to the maximum benefit of The University of Texas at Austin.

Chairman Huffines subsequently appointed the following Task Force members:

- Dr. Pat L. Clubb
- Mr. Frank W. Denius
- Mr. Jesus Garza
- Ms. Dealey Herndon
- Mr. Kevin P. Hegarty
- Dr. Scott C. Kelley
- Mr. Tom Meredith
- Mr. C. Patrick Oles, Jr.
- Ambassador Pamela P. Willeford

11. **U. T. System Board of Regents: Approval of the U. T. System-wide Internal Audit Plan for Fiscal Year 2008**

RECOMMENDATION

Audit, Compliance, and Management Review Committee Chairman Estrada recommends that the U. T. System Board of Regents approve the proposed U. T. System-wide Internal Audit Plan (Plan) for Fiscal Year 2008. Development of the Plan is based on risk assessments performed at each institution. Implementation of the Plan will be coordinated with the institutional auditors.

The full Plan, including an executive summary on Pages 100 - 129, is attached on Pages 102 - 103.

BACKGROUND INFORMATION

Institutional audit plans, compiled by the internal audit departments after input and guidance from the System Audit Office, Offices of Academic or Health Affairs, and the institution's management and Institutional Audit Committee, were submitted to all Institutional Audit Committees and institutional presidents for review and comments. Additionally, the institutional audit plans were presented and discussed at the U. T. System Administration Internal Audit Committee meeting held on September 6, 2007.

The Chief Audit Executive provided feedback by conducting audit hearings with each institution. After the review process, each Institutional Audit Committee formally approved its institution's audit plan.

**THE UNIVERSITY OF TEXAS SYSTEM
SYSTEM-WIDE AUDIT PROGRAM**



**INTERNAL AUDIT PLAN
FISCAL YEAR 2008**

Mr. Charles G. Chaffin, Chief Audit Executive
The University of Texas System
201 West 7th Street, CLB 3.100
Austin, TX 78701

TABLE OF CONTENTS

<i>Executive Summary</i>	2
Appendix A ~ Large Institutions	4
THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION (Part 1 of 2 – System Administration Audit).....	5
THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION (Part 2 of 2 - Oversight).....	7
THE UNIVERSITY OF TEXAS AT AUSTIN.....	9
THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER at DALLAS	11
THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON.....	14
THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON.....	16
THE UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT SAN ANTONIO	18
THE UNIVERSITY OF TEXAS M. D. ANDERSON CANCER CENTER.....	20
Appendix B ~ Mid-Size Institutions	123
THE UNIVERSITY OF TEXAS AT ARLINGTON.....	24
THE UNIVERSITY OF TEXAS AT BROWNSVILLE	26
THE UNIVERSITY OF TEXAS AT DALLAS.....	28
THE UNIVERSITY OF TEXAS AT EL PASO	30
THE UNIVERSITY OF TEXAS AT PAN AMERICAN.....	33
THE UNIVERSITY OF TEXAS AT SAN ANTONIO.....	35
Appendix C ~ Small Institutions	37
THE UNIVERSITY OF TEXAS OF THE PERMIAN BASIN	38
THE UNIVERSITY OF TEXAS AT TYLER	40
THE UNIVERSITY OF TEXAS HEALTH CENTER AT TYLER.....	42

Executive Summary

The University of Texas System-wide fiscal year 2008 Internal Audit Plan (2008 Audit Plan) is a blueprint of the internal audit activities that will be performed by the internal audit function throughout The University of Texas System in FY 2008. Individual audit plans were prepared at System Administration and each institution and approved by the Institutional Audit Committee.

The process of preparing the audit plans is risk based and ensures that areas/activities specific to each institution with the greatest risk are identified to be audited. The System Audit Office, Offices of Academic or Health Affairs, and the institution's Management and Audit Committee provided input and guidance on the audit plans. Additionally, the Chief Audit Executive provided direction to the internal audit directors prior to the preparation of the audit plans and formal feedback through "audit hearings" with each institution.

The efforts of the internal audit function continue to expand into areas other than the performance of traditional audits. Examples of added services include: providing continued assistance in the System-wide Financial Audit, implementation of Enterprise Risk Management, and performing consulting projects and special investigations at the request of management.

The 2008 Audit Plan illustrates an economic and efficient use of internal audit resources, and addresses the risks of The University of Texas System by planning activities as follows:

Area	Audit Hours	% of Total Hours
UT System Requested	25,980	20%
Externally Required	15,040	12%
Risk Based	47,460	37%
Change in Management	8,760	7%
Follow-up	5,374	4%
Projects	25,102	20%
Total	127,716	100%

	UT System Requested	Externally Required	Risk Based	Change in Management	Follow-up	Projects	Total
U. T. System Administration	2,930	1,600	5,650	700	300	3,460	14,640
Large Institutions:							
U. T. Austin	1,950	2,450	4,500	2,400	1,000	2,400	14,700
U. T. Southwestern	3,200	840	6,250	2,000	200	2,550	15,040
U. T. Medical Branch at Galveston	1,550	1,960	5,395	680	600	1,625	11,810
U. T. HSC - Houston	2,310	610	2,215	715	310	1,552	7,712
U. T. HSC - San Antonio	2,580	1,300	1,090	300	300	1,670	7,240
U. T. MDA Cancer Center	850	550	8,475	-	800	3,700	14,375
Subtotal	12,440	7,710	27,925	6,095	3,210	13,497	70,877
Mid-size Institutions:							
U. T. Arlington	1,940	830	2,150	-	300	850	6,070
U. T. Brownsville	1,000	400	1,550	450	350	700	4,450
U. T. Dallas	740	920	2,170	140	90	610	4,670
U. T. El Paso	1,650	1,000	3,400	350	400	1,474	8,274
U. T. Pan American	1,560	900	975	305	150	890	4,780
U. T. San Antonio	1,700	770	2,120	-	300	1,696	6,586
Subtotal	8,590	4,820	12,365	1,245	1,590	6,220	34,830
Small Institutions:							
U. T. Permian Basin	470	230	140	400	62	-	1,302
U. T. Tyler	500	240	880	200	52	715	2,587
U. T. HC at Tyler	1,050	440	500	120	160	1,210	3,480
Subtotal	2,020	910	1,520	720	274	1,925	7,369
TOTAL	25,980	15,040	47,460	8,760	5,374	25,102	127,716
Percentage of Total	20%	12%	37%	7%	4%	20%	100%

Appendix A

U. T. System Administration

~Large Institutions

U. T. Austin

U. T. Southwestern Medical Center at Dallas

U. T. Medical Branch at Galveston

U. T. Health Science Center at Houston

U. T. Health Science Center at San Antonio

U. T. M. D. Anderson Cancer Center

The University of Texas System Administration
 (Part 1 of 2 - System Administration Audit)
 INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$151,803,792
 Total Number of 2008 Budgeted Auditor Positions: 13.95

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
Financial audit - FY07	1,400	16%
Financial audit - FY08	400	5%
Chancellor's travel & entertainment	200	2%
<i>Consulting</i>		
Conflict of interest	30	0%
Subtotal	2,030	23%
<i>Externally Required</i>		
None		
Subtotal	0	0%
<i>UTIMCO</i>		
Investment activities - TBD	500	
Asset allocation	300	
Code of ethics	100	
Investment management contracts	0	
Meetings/oversight activities	200	
Financial statement assistance	500	
CEO travel and entertainment	100	
Follow-up	100	
<i>Carryforward</i>	100	
Subtotal	1900	22%
<i>Institutional Risk-based</i>		
Oil and gas producers (500 hrs each)	1,000	
OEB Medicare Part D	300	
OFPC conflict of interest	300	
OFPC compliance monitoring	300	
IPSI	400	
Bauer House	200	
Advisory councils		
Subtotal	2500	29%

Prepared by: U. T. System Internal Audit Program
 Consolidated by: U. T. System Audit Office
 Date: September 2007

IT Institutional Risk-based

Filenet	200
Texas Medical & Dental Schools Application Service (TMDSAS) IT Systems	200
Risk-based TBD	100
Student project TBD	50

Subtotal 550 6%

Change in Management/Departmental

OEB	150
Research and Technology Transfer	150
Federal Relations	150
Controller's Office	
Telecampus	150

Subtotal 600 7%

Follow-up 300 3%

Audit Projects

Carry forward	580
Audit committee	150
State reporting	40
Audit plan and risk assessments	50

Subtotal 820 9%

TOTAL 8,700 100%

The University of Texas System Administration

(Part 2 of 2 - Oversight)

INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$151,803,792

Total Number of 2008 Budgeted Auditor Positions: 13.95

Fiscal Year 2008 Audit Plan - Oversight

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
<i>Audits</i>		
Guidance/Assistance Provided to the Institutions related to the System-wide Financial Audit - FY 2007	300	
Guidance/Assistance Provided to the Institutions related to the System-wide Financial Audit - FY 2008	50	
Assistance to UT Permian Basin related to the Financial Audit - FY 2007	300	
Assistance to Health Center - Tyler related to the Financial Audit - FY 2007	250	
<i>Consulting</i>		
<i>Special Requests</i>		
<i>Carryforward</i>		
Subtotal	900	15%
<i>Externally Required</i>		
<i>Audits</i>		
NCAA Agreed Upon Procedures at UT Arlington, UT El Paso, UT San Antonio, and UT Pan American	1600	
<i>Consulting</i>		
<i>Special Requests</i>		
<i>Carryforward</i>		
Subtotal	1600	27%
<i>Risk-based Institutional Audits</i>		
<i>Audits</i>		
IT Audits - Various institutions	250	
<i>Consulting</i>		
System-wide IT Consulting	100	
Student Health Center Audits Consulting	50	
<i>Special Requests</i>		
<i>Carryforward</i>		
Subtotal	700	12%

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 Date: September 2007

Change in Management*Audits**Consulting**Special Requests*

Texas International Education Consortium (TIEC) Change in Management

100

*Carryforward***Subtotal****100****2%****Follow-up***Audits**Consulting**Special Requests**Carryforward***Subtotal****0****0%****Audit Projects***Reporting*

2009 System-wide Audit Plan

50

Audit, Compliance, and Management Review Committee (ACMR)

250

Recommendation Tracking System (Red, Orange, Yellow, Green - ROYG)

250

Internal Audit Council

150

In the News - Newsletter

45

Consulting

Institution Liaison Activities

1200

Special Requests

Institutional Peer Reviews

50

System Audit Office Peer Review Self-Assessment and Preparation

400

To Be Determined

200

Carryforward

2008 System-wide Audit Plan

45

Subtotal**2640****44%****Total Hours****5940****100%**

The University of Texas at Austin
 INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$1,851,737,373
 Total Number of 2008 Budgeted Auditor Positions: 15

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
FY 2007 Financial Statement Review	1,000	
FY 2008 Financial Statement Review	200	
Presidential Travel and Entertainment Expenses	300	
IT Systems Change Management Audit	350	
Federal Portion of the Statewide Single Audit (assist SAO)	100	
Subtotal	1,950	13%
<i>Externally Required</i>		
Advanced Research Program (ARP) Grants	600	
Technology Workforce Development (TWD) Grants	400	
Higher Education Coordinating Board Facilities Audit	500	
Texas Administrative Code (TAC) 202 Compliance Audit	250	
National Automated Clearing House Association (NACHA) - rules for electronic check payments	150	
NCAA Football Attendance	100	
Southern Association of Colleges and Schools (SACS) Accreditation Review	300	
Governance - Ethics and Conflict of Interest, campus-wide survey	150	
Subtotal	2450	17%
<i>Risk Based Tier One: Institutional</i>		
Student Quality - under Provost	300	
NCAA - Bylaw 16 Awards and Benefits	500	
Physical Plant	500	
Enrollment Management - Student Affairs	300	
Student Financial Services - ERM	200	
Human Resources - the Hiring Process, carryforward	200	
Environmental Health and Safety, carryforward	100	
Subtotal	2100	14%
<i>Risk Based Tier Two: Auditable Area</i>		
<i>Research</i>		
Administrative Support for Research	500	
Export Controls	300	
Animal and Human Subject Research	300	
Time and Effort Reporting, Project Level, carryforward	100	

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<i>Information Technology</i>		
University of Texas System Rule 165		750
SENF (Security of SSN)		300
SSN Security Report Review		150
Subtotal		2400
		16%
Change in Management Allocation		
<i>Change in Management Audits</i>		2200
<i>Management Review Carryforward</i>		200
Subtotal		2400
		16%
Follow-up		1000
		7%
Audit Projects		
<i>U. T. System Requests</i>		
<i>Special Requests - Audits</i>		
Athletics - Entertainment	300	
Texas Union	300	
Texas Student Media	200	
Purchasing Contracts, campus-wide	250	
Audit Projects Subtotal	1050	
Consulting Projects		
<i>Special Requests - Consulting</i>		
Consulting Projects Subtotal	0	
Other Projects		
Quality Assurance Review	350	
Internal Audit Committee	350	
Investigations	250	
IA Technical Support	400	
Other Projects Subtotal	1350	
Projects Total	2400	16%
Total Hours	14,700	100%

The University of Texas Southwestern Medical Center at Dallas
 INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$1,411,864,610
 2008 BUDGETED AUDITOR POSITIONS - 14

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
FY07 Financial Statement Audit	1800	
FY08 Financial Statement Audit	600	
Conflicts of Interest	400	
Presidential Travel and Entertainment Expenses	150	
Federal Portion of the Statewide Single Audit (assistance to the SAO) - A-133	250	
Carryforward	0	
Subtotal	3200	21%
<i>Externally Required</i>		
UTS 155: Policies and Procedures Regarding MSRDP/DSRDP/PRS Business Operations (if applicable)	200	
National Pediatric Infectious Disease Foundation AFR	200	
Family Practice Residency Program Grants (THECB requirement)	200	
Graduate Medical Education Grant (THECB requirement)	200	
ATP/ARP Grants (if applicable)	0	
Biennium Requirement completed in FY07.	0	
Internal Audit Annual Report	40	
Carryforward	0	
Subtotal	840	6%
<i>Risk Based: Institutional</i>		
MSRDP Billing Operations	600	
MSRDP - Finance	300	
Cash Receipts Operations - Hospitals & Clinics	500	
University Hospital - Accounts Payable	500	
University Hospital - Patient Billing and Accounts Receivable	0	
Physical Plant - Auto Shop, Key Control, Service Calls, Contract and Bidding Processes	0	
Subtotal	1900	13%
<i>Risk Based: Auditable Area</i>		
<i>Research</i>		
Environmental Health and Safety	400	
Biological and Chemical Safety - exposures	400	
Willed Body Program	300	

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 Date: September 2007

Service Centers, Recharge Centers, and Specialized Service Facilities, Core Labs	500
Clinical Research Billing	0

Information Technology

IT Computer Inventory Control & Data Encryption	400
Network Security Review	400
Epic Resolute Implementation Review	250

Patient Care

University Hospitals - Radiology	500
University Hospital - Medical Records	300
University Hospital - Surgery	500
Organ Transplant Program (Kidney / Pancreas, Heart / Lung)	300
Transplant Services	300
Consulting	150
Carryforward	50

Subtotal	4350	29%
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Change in Management Allocation

Change in Management Audits

Internal Medicine	500
Radiation Oncology	300
Auxiliary Enterprises	300
Psychiatry	300
Clinical Sciences	300
Neurology	200
Continuing Education	0
Library	0
Business Continuity	0
Police Department	0
Carryforward	100

Subtotal	1900	13%
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Follow-up	200	1%
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Projects

UT System Requests	200
Special Requests - Audits	200
Audit Projects Subtotal	400

Consulting Projects

Fraud Prevention and Analysis	300
LBB Performance Measures	200
Compliance Monitoring	300
Special Requests - Consulting	200
Consulting Projects Subtotal	1000

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Other Projects

Requests for Information/Assistance	<u>200</u>	
Quality Assurance Review	<u>200</u>	
Training provided by IA	<u>150</u>	
Internal Audit Committee	<u>200</u>	
Reserve for other Special Requests/Investigations	<u>400</u>	
Other Projects Subtotal	1150	
Projects Total	2,550	17%

Total Hours	<u><u>14940</u></u>	100%
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The University of Texas Medical Branch at Galveston
 INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$1,452,549,964
 2008 Budgeted Auditor Positions: 12

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
FY07 Financial Statement Audit	500	
FY08 Financial Statement Audit (interim)	300	
Regents' Rule 20205:Presidential Travel and Entertainment Expenses	250	
IS Systems Change Management Process	500	
Subtotal	1550	13%
<i>Externally Required</i>		
Correctional Managed Care	500	
UTS155 - MSRDP/DSRDP/PRS/AHRDP Business Operations	350	
SACS Accreditation Review	450	
<u>Texas Higher Education Coordinating Board Audits :</u>		
Family Practice Residency Program	140	
Primary Care/Internal Medicine Residency Program	140	
Graduate Medical Education ("GME")	140	
Austin Program Grants	140	
<i>Carryforward: Correctional Managed Care</i>	100	
Subtotal	1960	17%
<i>Risk Based Tier One: Institutional</i>		
Compliance Risk Areas	500	
Asset Management	400	
Construction	500	
Governance Review	400	
Subtotal	1800	15%
<i>Risk Based Tier Two: Auditable Area</i>		
<i>Research</i>		
IACUC	400	
Pre and Post Award Management	400	
Huron System Implementation	200	
A-133 Implementation Monitoring	50	
<i>Carryforward: Research Design Review</i>	80	

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<i>Information Technology</i>		
PeopleSoft Application	750	
Security Action Plan Monitoring	275	
IS Strategic Planning	200	
<i>Carryforward: General Computer Controls - Financial Audit</i>	200	
<i>Patient Care</i>		
DAMP Casebook/Cancer Patient Referral Process Review	400	
Revenue Cycle	600	
<i>Carryforward: Revenue Cycle</i>	40	
Subtotal	3595	30%
Change in Management Allocation		
<i>Change in Management Audits</i>	600	
<i>Management Review Carryforward</i>	80	
Subtotal	680	6%
Follow up	600	5%
Projects		
<i>U. T. System Requests</i>	200	
<i>Special Requests - Audits</i>	350	
Audit Projects Subtotal	550	
Consulting Projects		
<i>Special Requests - Consulting</i>	350	
Consulting Projects Subtotal	350	
Other Projects		
<i>Annual Risk Assessment/Work Plan Development</i>	225	
<i>Liaison with External Auditors</i>	200	
<i>TeamMate Upgrade/Enhancements</i>	50	
<i>Internal Audit Committee</i>	150	
<i>Institutional Committee Attendance</i>	100	
Other Projects Subtotal	725	
Projects Total	1625	14%
Total	11810	100%

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University of Texas Health Science Center at Houston
 INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$741,281,680
 2008 Budgeted Auditor Positions: 7

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
Financial Statements FY 2007 Assurance Work	1,795	
Presidential Travel and Entertainment	115	
Research Conflicts of Interest	400	
Subtotal	2,310	30%
<i>Externally Required</i>		
Medical School Practice Plan (MSRDP)	200	
Dental Branch Practice Plan (DSRDP)	160	
THECB Residency Programs - Five Programs	220	
Internal Audit Annual Report	30	
Subtotal	610	8%
<i>Risk Based Tier Two: Auditable Area</i>		
<i>Research</i>		
Time & Effort Reporting	220	
<i>Information Technology</i>		
IT Governance: Project Funding and Selection	500	
Wireless Networks	550	
Student Information Services Application	600	
Carryforward	115	
<i>Patient Care</i>		
Medical Billing Compliance	230	
Subtotal	2,215	29%
<i>Change in Management</i>		
Change in Management Audits	600	
Management Review Carryforward	115	
Subtotal	715	9%
Follow-up	310	4%
<i>Projects</i>		
U. T. System Requests	120	
Special Requests - Audits	452	
UT Physicians	120	

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Audit Projects Subtotal	<u>692</u>	
Other Projects		
Internal Audit Committee	120	
Investigations	620	
Audit Plan FY2009	120	
Other Projects Subtotal	<u>860</u>	
Projects Total	<u>1,552</u>	20%
Total Hours	<u>7,712</u>	100%

The University of Texas Health Science Center at San Antonio
 INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$576,189,482
 Total Number of 2008 Budgeted Auditor Positions: 7

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
Financial: Annual Financial Statement Audit - FY 2007	1000	
IT: General Computer Controls for Annual Financial Statement Audit	300	
Financial: Annual Financial Statement Audit - FY 2008		
Financial: President Expenditures	110	
<i>Carry Forward</i> Financial: UT Medicine Financial Reporting - 2007	50	
Financial: UT Medicine Financial Reporting - 2008	400	
IT: IT Systems Change Management	350	
Governance and Research: Conflict of Interest	370	
Subtotal	2580	36%
<i>Externally Required</i>		
Financial: SACS Financial Review	250	
Financial: Practice Plans Financial Review/Receivables & Allowance	360	
Financial: Family Practice Residency Program	110	
Financial: ARP/ATP Grants	220	
IT: TAC 202 Program Compliance	360	
Subtotal	1300	18%
<i>Risk Based: Institutional</i>		
<i>Audits</i>		
Education: South Texas Campuses - Internal Control Review		
Research: Research		
<i>Consulting</i>		
	60	
Subtotal	60	1%
<i>Risk Based: Auditable Area</i>		
<i>Patient Care</i>		
<i>Audits</i>		
Patient Care: Patient Customer Service	370	
Patient Care: Patient AR & Collections		
<i>Carry forward</i>		
Patient Care: Patient Scheduling & Registration	130	
<i>Information Technology</i>		
<i>Audits</i>		
IT audits listed under UT System Requested and Externally Required sections		
<i>Consulting</i>		
IT: Consulting with the Information Security Office	200	

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IT: PeopleSoft Human Capital Management (HCM) Upgrade	100	
IT: Patient Billing System (EPIC) Implementation	120	
<i>Carry forward</i>		
IT Planning & Organization: Manage IT Human Resources	50	
<i>Consulting</i>	60	
Subtotal	1030	14%
Change in Management	300	4%
Follow-up	300	4%
Projects		
U. T. System Requests	100	
IA Annual Report	20	
Special Requests - Audits	300	
Audit Projects Subtotal	420	
Other Projects		
Annual Audit Plan	150	
Training provided by IA	40	
Internal Audit Committee	70	
Self-Assessment for External Quality Assurance Review	300	
External Quality Assurance Review - April 2008	100	
TeamMate Project	200	
Relocation of Department	90	
Investigations	200	
Reserve for other Special Requests	100	
Other Projects Subtotal	1250	
Projects Total	1670	23%
Total Hours	7240	100%

THE UNIVERSITY OF TEXAS M. D. ANDERSON CANCER CENTER
 INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$2,572,612,537
 TOTAL NUMBER OF 2008 BUDGETED AUDITOR POSITIONS (GROSS OF VACANCIES) = 14

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
UT System Requested		
<i>Audits</i>		
Presidential Travel and Entertainment Expenses Audit	450	
<i>Consulting</i>		
Governance	400	
UT System Requested Subtotal	850	5%
Externally Required		
<i>Audits</i>		
Physicians' Referral Service Financial Review	500	
Texas Higher Education Coordinating Board Facilities Audit	Co-source	
<i>Carryforward</i>		
Advanced Research Programs and Advanced Technology Programs (ARP/ATP)	50	
Externally Required Subtotal	550	4%
Risk Based Tier One: Institutional		
<i>Audits</i>		
Physicians Network - Community Based Radiation Treatment Centers	1200	
Construction Fraud	Co-source	
Construction Project	Co-source	
<i>Consulting</i>		
Human Resources Project	700	
Enterprise-wide Risk Management	700	
Risk Based Tier One: Institutional Subtotal	2600	18%
Risk Based Tier Two: Auditable Area		
Information Technology		
<i>Audits</i>		
Clinical Trials Application Security	Co-source	
IMPAC (Mosaic Q) Application Security	Co-source	
Supply Chain Enablement Kiosk Application Security	Co-source	
Kiosk - Patient History Database	Co-source	

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Clinic Station Change Management	Co-source
Wireless Security (Guest Access)	Co-source
Performance & Capacity Management (Centralized IT)	Co-source
Patch Management	Co-source
Remote Access	Co-source
Data Center # 3	Co-source

Consulting

User Awareness and Compliance (IT Policies and Procedures)	Co-source
Disaster Recovery	Co-source

Risk Based Tier Two: Information Technology Subtotal

0 0%

Patient Care

Audits

Revenue Assurance	1500
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Consulting

Advanced Beneficiary Notification Implementation Review	600
Health Information Management	400

Carryforward

HIPAA Disclosures Relating to Authorizations	200
Pharmacy Inventory Review - Phase II	75

Financial

Audits

Institutional "Spirit of Sarbanes-Oxley" Testing - MDACC	900
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Risk Management

Consulting

Business Continuity Planning	Co-source
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Research

Audits

Clinical Trials Research	1500
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Consulting

Time and Effort Reporting	400
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Carryforward

Lab Safety	250
Maintenance and Security of Biological Research Materials	50

Risk Based Tier Two: Auditable Area Subtotal

5875 41%

Management Requested

Consulting

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Management Requested Subtotal	0	0%
Management Review		
<i>Change in Management Audits</i>		
Management Review Subtotal	0	0%
Follow-Up		
Follow-Up: Validation of Completed Recommendations	400	
Follow-Up: Quarterly Reporting	400	
Follow-Up Subtotal	800	6%
Audit Projects		
<i>U. T. System Requests</i>		
<i>Special Requests - Audits</i>		
Audit Projects Subtotal	0	
Other Projects		
Fraud Initiative	1300	
Investigations	200	
Internal Quality Assurance Activities	250	
Institutional Risk Assessment and Work Plan Development	600	
Liaison with External Auditors	100	
Management Involvement on Co-sourced Engagements	200	
Training Materials Preparation	650	
Institutional Committee Participation	400	
Other Projects Subtotal	3700	
Projects Total	3700	26%
Total Hours	14375	100%

Appendix B ~ *Mid-Size Institutions*

U. T. Arlington
U. T. Brownsville
U. T. Dallas
U. T. El Paso
U. T. Pan American
U. T. San Antonio

THE UNIVERSITY OF TEXAS AT ARLINGTON
 INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$366,032,273
 TOTAL NUMBER OF 2008 BUDGETED AUDITOR POSITIONS (GROSS OF VACANCIES): 6

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
Financial Statement Audit -- Fiscal Year 2007	600	
Financial Statement Audit -- Fiscal Year 2008	200	
Presidential Travel & Entertainment Expense Audit	120	
IT Systems Change Management Audit - UTS - 165	250	
Federal Portion of the Statewide Single Audit (assistance to the SAO)	20	
Student Health Center	550	
Carryforward - Compliance with Payment Card Industry Data Security Standards	200	
Subtotal	1940	32%
<i>Externally Required</i>		
Governance - Conflicts of Interest / Standards of Conduct	120	
Texas Workforce Development (TWD) Grants Audit	120	
NCAA Financial Audit	80	
NCAA Compliance Audit -- Eligibility	160	
Carryforward - NCAA Compliance - Recruiting and TAC 202 audits	350	
Subtotal	830	14%
<i>Risk Based Tier One: Institutional</i>		
Crisis Management Program Assessment	400	
Subtotal	400	7%
<i>Risk Based Tier Two: Auditable Area</i>		
<i>Research</i>		
Follow-Up on Time and Effort Reporting	100	
Grants & Contracts	400	
<i>Information Technology</i>		
Profile System Development	220	
UTS 165 - Digital Sensitive Data	280	
ACL Exception Reporting with Focus on Payroll & Payables	350	
Carryforward - MyMav Student Information Systems and General Computer Controls - Delivery & Support audits	400	
Subtotal	1750	29%

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Change in Management Allocation

Change in Management Audits

-

Management Review Carryforward

-

Subtotal

0 0%

Follow-up

300 5%

Audit Projects

U. T. System Requests	80
FY 2009 Audit Plan Preparation	80
Annual Internal Audit Report	40
Audit Projects Subtotal	200

Consulting Projects

Special Requests - Consulting	130
Consulting Projects Subtotal	130

Other Projects

Quality Assurance Review	80
Internal Audit Committee	60
Investigations	80
Reserve for other Special Requests	300
Other Projects Subtotal	520

Projects Total

850 14%

Total Hours

6070 100%

THE UNIVERSITY OF TEXAS AT BROWNSVILLE
 INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$129,970,535
 TOTAL NUMBER OF 2008 BUDGETED AUDITOR POSITIONS (GROSS OF VACANCIES): 4

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
<i>Audits</i>		
FY 2007 Financial Statement Audit	700	
IT Systems Change Management Audit	200	
Presidential Travel and Entertainment Expenses	100	
Subtotal	1000	22%
<i>Externally Required</i>		
SACS Financial Review	200	
Governance: Standards of Conduct/Conflicts of Interest	200	
Subtotal	400	9%
<i>Risk Based: Institutional</i>		
Physical Plant	300	
Outreach Programs	300	
Student Fees	250	
Carryforward-Compliance: Contracts & Grants--Allowable Cost, Time & Effort, Reporting	20	
Subtotal	870	20%
<i>Risk Based: Auditable Area</i>		
<i>Research</i>		
IRB	210	
Effort Reporting	200	
<i>Information Technology</i>		
General Controls Review	250	
Carryforward--Protecting the Confidentiality & Integrity of Digital Research Data	20	
Subtotal	680	15%
<i>Change in Management Allocation</i>		
Change in Management Audits	300	
Carryforward from 2007		
Institutional Advancement Division	50	
Training provided by IA	100	

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Subtotal		450	10%
Follow-up			
Student Health Services	150		
Other	200		
Subtotal		350	8%
Projects			
U. T. System Requests	40		
SACS	100		
Audit Projects Subtotal	140		
Consulting Projects			
Special Requests - Consulting	100		
Consulting Projects Subtotal	100		
Other Projects			
Quality Assurance Review	140		
Internal Audit Committee/IA Council	100		
Internal Audit Annual Plan-SAO	20		
Annual Audit Plan	100		
ERM Implementation	100		
Other Projects Subtotal	460		
Projects Total		700	16%
Total Hours		4450	100%

The University of Texas at Dallas
 INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$276,255,981
 TOTAL NUMBER OF 2008 BUDGETED AUDITOR POSITIONS (GROSS OF VACANCIES): 4.25

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
FY 2007 Financial Statement Audit	300	
FY 2008 Interim Financial Statement Audit Work	100	
Presidential Travel and Entertainment Expenses	120	
IT Systems Change Management Audit	200	
Federal Portion of the Statewide Single Audit (assistance to SAO)	20	
Subtotal	740	16%
<i>Externally Required</i>		
FY 2007 Financial Statement Review - SACS	400	
ATP/ARP Grants (Research Grants)	100	
Texas Workforce Development Grants	80	
Lena Callier Trust	100	
Governance/Consulting Project: Standards of Conduct Guide	120	
<i>Consulting</i>	120	
Subtotal	920	20%
<i>Risk Based Tier One: Institutional</i>		
Construction	200	
Work Orders & Billings	100	
Financial Aid	240	
Gifts	200	
New Programs and Centers		
Center for Brain Health (Research Center)	120	
Sickle Cell Center (Research Center)	120	
Carried Forward from FY 2007		
Scholarships and Fellowships	120	
Subtotal	1100	24%
<i>Risk Based Tier Two: Auditable Area</i>		
<i>Research</i>		
UTS 163 (Time and Effort Reporting & Cost Sharing)	220	
<i>Information Technology</i>		
UTS 165 (Information Resources Security and Use Policy)	200	
Authentication and Computer Account Requests	240	
Unix	150	

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Compliance		
Medical Billing at Callier Center & School of Brain and Behavioral Sciences	160	
SEVIS	100	
Subtotal	1070	23%
Change in Management Allocation		
Reserve for Change in Management Audits and Training Classes	100	
Management Training Class Development	40	
Subtotal	140	3%
Follow-up		
Quarterly Follow-up of Significant Audit Recommendations	10	
Annual Follow-up Audit	80	
Subtotal	90	2%
Projects		
ACL Projects - Internal Audit Office	40	
Annual Internal Audit Report	40	
Audit & Compliance Committee	60	
External QAR Follow-up	20	
FY 2009 Audit Plan	80	
PeopleSoft Project Team	80	
Reserved for Special Projects & Investigations - As Determined by President, Audit Committee, Etc.	40	
SACS	80	
U. T. System Requests	40	
Policies and Procedures Updates	100	
Hotline Investigations	30	
Projects Total	610	13%
Total Hours	4670	100%

The University of Texas at El Paso
 INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$280,233,637
 TOTAL NUMBER OF 2008 BUDGETED AUDITOR POSITIONS (GROSS OF VACANCIES): 9

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
<i>Audits</i>		
FY 2007 Financial Statement Audit	600	
Presidential Travel, Entertainment and Housing Audit	100	
IT Systems Change Management Audit	200	
Compliance with Payment Card Industry Data Security Standards	250	
Federal Portion of the Statewide Single Audit (assistance to the SAO)	200	
Student Health Center	300	
Subtotal	1650	20%
<i>Externally Required</i>		
<i>Audits</i>		
KTEP FM Radio Station	50	
NCAA Financial Audit and Attendance Audit	300	
Technology Workforce Development Grants	150	
Texas Higher Education Facilities Audit	200	
<i>Carryforward</i>		
TAC 202 Compliance Audit	300	
Subtotal	1000	12%
<i>Risk Based Tier One: Institutional</i>		
<i>Audits</i>		
<i>Environmental Health and Safety:</i>		
Laboratory Safety	200	
<i>Purchasing:</i>		
Purchasing Ethics and Conflict of Interest	150	
<i>Student Services:</i>		
Student Records	200	
<i>Financial Management:</i>		
Financial Disclosure and Conflict of Interest	300	
<i>Asset and Risk Management:</i>		
Tuition and Fees Management	300	
<i>Auxiliary and Service Departments:</i>		
Special Events	300	
<i>Carryforward</i>		

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Emergency Response Plan	100	
Procurement Card	100	
Subtotal	1650	20%
Risk Based Tier Two: Auditable Area		
Research		
Audits		
Effort Reporting	200	
Post Award Management and Financial Reporting of Contracts & Grants	200	
Carryforward		
Protection of Research	200	
Information Technology		
Audits		
Data Integrity	200	
Physical Security	150	
Security of Sensitive Data	200	
Digital Research Data	200	
Solicitation, Use and Maintenance of SSNs	100	
Carryforward		
Decentralized Server Security	100	
IT Follow-up	200	
Subtotal	1750	21%
Change in Management Allocation		
<i>Change in Management Audits</i>		
Professional and Continuing Education (PACE)	200	
Ticket Center	150	
Subtotal	350	4%
Follow-up	400	5%
Projects		
<i>U. T. System Requests</i>	100	
<i>Special Requests - Audits</i>	100	
Audit Projects Subtotal	200	
Consulting Projects		
Special Requests - Consulting	100	
Consulting Projects Subtotal	100	
Other Projects		

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Year-end Inventory and Periodic Cash Counts	100	
Quality Assurance Review	300	
Institutional Compliance Committee	30	
Annual Internal Audit Report	30	
Training provided by IA	150	
Internal Audit Committee	80	
Investigations	300	
Reserve for other Special Requests	184	
Other Projects Subtotal	<u>1174</u>	
Projects Total	<u>1474</u>	18%
Total Hours	<u>8274</u>	100%

The University of Texas - Pan American
 INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$229,220,552
 TOTAL NUMBER OF 2008 BUDGETED AUDITOR POSITIONS (GROSS OF VACANCIES): 4

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
System-wide Financial Audit	800	
President's Travel & Entertainment	75	
Compliance with Payment Card Data Security Standards	300	
Protection of Research Data	150	
IT Systems Change Management	200	
<i>UT System Requested Carryforward</i>		
Confidentiality of Social Security Numbers	35	
Subtotal	1,560	33%
<i>Externally Required</i>		
NCAA Agreed-Upon Procedures	250	
Technology Workforce Development Grants Program	200	
Texas Higher Education Facilities Audits	250	
NCAA Compliance - Recruitment	200	
Subtotal	900	19%
<i>Risk Based Tier One: Institutional</i>		
Student Financial Services	250	
Procurement	300	
President's Initiative	150	
<i>Risk Based: Institutional Carryforward</i>		
Payroll	25	
Subtotal	725	15%
<i>Risk Based Tier Two: Auditable Area</i>		
<i>Research</i>		
Time and Effort Reporting Implementation	100	
<i>Information Technology</i>		
Banner Implementation Project	150	

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Subtotal		250	5%
Change in Management Allocation			
<i>Change in Management Audits</i>			
Dean's Office - College of Education		110	
Vice President of Information Technology		110	
<i>Management Review Carryforward</i>			
College of Health Sciences and Human Services		20	
College of Arts & Humanities		65	
Subtotal		305	6%
Follow-up			
Projects			
<i>U. T. System Requests</i>			
	50		
<i>Special Requests - Audits</i>			
Monthly Review of President's Expenses	240		
Reserved for Other Special Requests	150		
Audit Projects Subtotal		440	
Consulting Projects			
Special Requests - Consulting	50		
Consulting Projects Subtotal		50	
Other Projects			
<i>Committee Meetings</i>			
President's Council	25		
Information Technology Planning Committee	25		
Internal Audit Committee	75		
Institutional Compliance Committee	25		
Athletic Council & Executive Committee	20		
UT System Audit Council	30		
Annual Audit Plan	125		
External Auditors	25		
Investigations	50		
Other Projects Subtotal		400	
Projects Total		890	19%
Total Hours		4780	100%

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THE UNIVERSITY OF TEXAS AT SAN ANTONIO
 INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$377,596,180
 TOTAL NUMBER OF 2008 BUDGETED AUDITOR POSITIONS: 6.6

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
FY 2007 Financial Statement Review	500	
FY 2007 Presidential Travel and Entertainment	300	
Student Health Center	400	
IT Systems Change Management	400	
FY 2008 Financial Statement Review (Interim Work)	100	
Subtotal	1700	26%
<i>Externally Required</i>		
FY 2007 NCAA Annual Financial Audit	250	
State Auditors - A-133 Statewide - Student Financial Aid Cluster and Research Cluster	80	
Texas Workforce Development Grants	100	
Facilities Audit (Texas Higher Education Coordinating Board)	100	
Utility Billing Audits	200	
Carryforward TAC 202	40	
Subtotal	770	12%
<i>Risk Based Tier One: Institutional</i>		
Institute for Texan Cultures Management Review	500	
SACS Accreditation	100	
Carryforward Campus Security	120	
Subtotal	720	11%
<i>Risk Based Tier Two: Auditable Area</i>		
<i>Research</i>		
UTS 163 (Effort Reporting, Cost Sharing, Cost Transfers)	500	
Animal Research	400	
<i>Information Technology</i>		
Computer Controls (BANNER)	500	
Subtotal	1400	21%
<i>Change in Management Allocation</i>		
<i>Change in Management Audits</i>		
Subtotal	0	0%
Follow-up	300	5%

Projects

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 Date: September 2007

<i>U. T. System Special Requests</i>	200		
<i>Management Special Requests</i>	250		
Audit Projects Subtotal	450		
Consulting Projects			
Special Requests - Consulting	0		
Consulting Projects Subtotal	0		
Other Projects			
Investigations	200		
Committee Council and Staff Meetings	400		
Professional Associations	466		
Teammate Maintenance	50		
Methodware Implementation	50		
Audit Planning	80		
Other Projects Subtotal	1246		
Projects Total		1696	26%
Total Hours		6586	100%

Appendix C ~ *Small Institutions*

U. T. Permian Basin

U. T. Tyler

U. T. Health Center - Tyler

The University of Texas of the Permian Basin

INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$44,821,881

TOTAL NUMBER OF 2008 BUDGETED AUDITOR POSITIONS (GROSS OF VACANCIES): 1 (.5 FTE) plus one student worker

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
FY 2007 Financial Statement Audit	240	
Presidential Travel and Entertainment Expenses Audit	90	
IT Systems Change Management Audit	80	
Federal Portion of the Statewide Single Audit (assist SAO)	40	
<i>Carryforward--Confidentiality and Integrity of Digital Research Data</i>	20	
Subtotal	470	36%
<i>Externally Required</i>		
NCAA	120	
Governance	80	
<i>Carryforward--TAC 202</i>	30	
Subtotal	230	18%
<i>Risk Based Tier One: Institutional</i>		
ERM Monitoring	60	
Subtotal	60	5%
<i>Risk Based Tier Two: Auditable Area</i>		
<i>Research</i>		
<i>Information Technology</i>		
Confidentiality of Social Security Numbers	80	
<i>Patient Care</i>		
Subtotal	80	6%
<i>Change in Management Allocation</i>		
<i>Change in Management Audits</i>	400	
<i>Management Review Carryforward</i>		
Subtotal	400	31%

Prepared by: U. T. System Internal Audit Program
 Consolidated by: U. T. System Audit Office
 Date: September 2007

Follow-up		62	5%
Projects			
<i>U. T. System Requests</i>			
<i>Special Requests - Audits</i>			
Audit Projects Subtotal	<u>0</u>		
Consulting Projects			
Special Requests - Consulting			
Consulting Projects Subtotal	<u>0</u>		
Other Projects			
Quality Assurance Review			
Training provided by IA			
Internal Audit Committee			
Investigations			
Reserve for other Special Requests			
Other Projects Subtotal	<u>0</u>		
Projects Total		<u>0</u>	0%
Total Hours		<u><u>1302</u></u>	100%

THE UNIVERSITY OF TEXAS AT TYLER
 INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$74,945,642
 TOTAL NUMBER OF 2008 BUDGETED AUDITOR POSITIONS (GROSS OF VACANCIES): 2.5

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested/Required</i>		
2007 Annual Financial Report	250	
2008 Annual Financial Report - Interim	50	
Presidential Travel and Entertainment	80	
IT Systems Change Management/UTS 165	120	
Subtotal	500	19%
<i>Externally Required</i>		
Audits:		
Texas Workforce Development Grant	80	
ATP/ARP Grants (Research Grants)	80	
Consulting:		
Governance/Consulting Project: Standards of Conduct Guide	80	
Subtotal	240	9%
<i>Risk Based Tier One: Institutional</i>		
Audits:		
Campus Safety and Security-carryover	60	
Procurement Card	120	
Endowment Compliance-follow-up	80	
Consulting:		
Business Continuity Plan	0	
Faculty Evaluation and Tenure Process	120	
Subtotal	380	15%
<i>Risk Based Tier Two: Auditable Area</i>		
Audits:		
<i>Student Services:</i>		
Health Clinic	100	
<i>Information Technology</i>		
Academic Local Area Networks-carryover	80	
<i>Research:</i>		
Federal Awards campus wide	200	
Consulting:		

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 Consolidated by: U. T. System Audit Office
 Date: September 2007

Academic:

Course Availability and Scheduling	120	
Subtotal	500	19%

Change in Management Allocation

Vice President for Academic Affairs/Provost	120	
Vice President for Student Affairs/External Relations	0	
Assistant Vice President-Business Affairs	80	
Registrar's Office	0	
Subtotal	200	8%

Follow-up

Quarterly follow-up of significant audit recommendations	12	
Annual follow-up of audit recommendations for FY 2007	40	
Subtotal	52	2%

Projects

PeopleSoft (POPS) Steering Committee	100	
SACS Quality Enhancement Plan Steering Committee	80	
Audit Projects Subtotal	180	

Consulting Projects

Special Requests - President's Office	40	
Risk Assessment consultations	40	
Consulting Projects Subtotal	80	

Other Projects

Quality Assurance Review	150	
Training provided by IA	40	
Internal Audit Committee-UT Tyler	60	
Compliance Working Group	25	
2007 Annual Audit Report - SAO	40	
2008-2009 Audit Work Plan	60	
Investigations/Ethics Line	40	
Reserve for other Special Requests	0	
Website development	40	
Other Projects Subtotal	455	

Projects Total	715	28%
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Total Hours	2587	100%
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Prepared by: U. T. System Internal Audit Program
Consolidated by: U. T. System Audit Office
Date: September 2007

THE UNIVERSITY OF TEXAS HEALTH CENTER AT TYLER
 INSTITUTION TOTAL 2008 BUDGETED EXPENDITURE AMOUNT: \$116,833,598
 TOTAL NUMBER OF 2008 BUDGETED AUDITOR POSITIONS: 3

Fiscal Year 2008 Audit Plan

Audit Areas	Priority Budgeted Hours	% of Total
<i>UT System Requested</i>		
FY 2007 Financial Statement Audit	500	
Presidential Travel and Entertainment Expenses Audit	150	
IT Systems Change Management Audit	250	
Conflicts of Interest Audit	150	
Subtotal	1050	30%
<i>Externally Required</i>		
Medical Services, Research and Development Plan Audit FYE 8/31/2007	200	
Family Practice Residency/Graduate Medical Education Program Grants Audit FYE 8/31/2007	120	
<i>Consulting</i>		
Governance/Standards of Conduct Consulting Project	120	
Subtotal	440	13%
<i>Risk Based Tier One: Institutional</i>		
Contract Audit	250	
Subtotal	250	7%
<i>Risk Based Tier Two: Auditable Area</i>		
<i>Research</i>		
Health Information Management Process Audit	250	
Subtotal	250	7%
<i>Change in Management Allocation</i>		
<i>Change in Management Audits</i>	120	
<i>Management Review Carryforward</i>		
Subtotal	120	3%
Follow-up	160	5%

Prepared by: U. T. System Internal Audit Program
 Consolidated by: U. T. System Audit Office
 Date: September 2007

Projects		
U. T. System Requests	100	
Audit Projects Subtotal	100	
Consulting Projects		
Special Requests - Consulting		
Consulting Projects Subtotal	0	
Other Projects		
Quality Assurance Review	40	
Training provided by IA	20	
Internal Audit Committee	120	
Investigations	40	
Compliance Inspections/Consulting	500	
Policy Tracking System Development	150	
Reserve for other Special Requests	100	
Annual Audit Plan and Report	140	
Other Projects Subtotal	1110	
Projects Total	1210	35%
Total Hours	3480	100%

12. **U. T. System Board of Regents: Amendment to Regents' Rules and Regulations, Series 60102, related to fees for endowment compliance**

RECOMMENDATION

The Chancellor concurs with the recommendation of the Vice Chancellor for External Relations and the Vice Chancellor and General Counsel that Regents' *Rules and Regulations*, Series 60102, be amended as set forth in congressional style on Pages 131 - 132 to rename the fee for institutional endowment compliance as the fee for institutional endowment administration and management and the fee for educational purposes as the fee for System endowment administration and management. Further, it is recommended that the fees be allowed to increase to more fully compensate U. T. System Administration and U. T. System institutions for actual endowment administrative and management costs.

BACKGROUND INFORMATION

Currently, Regents' *Rules and Regulations*, Series 60102, authorizes The University of Texas Investment Management Company (UTIMCO) to assess, on behalf of U. T. System, a fee for institutional endowment compliance, which has varied from 0.04% to 0.08% over the last five years. By Board of Regents' resolution, UTIMCO has assessed a "fee for educational purposes," which has remained constant at 0.02% over the last five years. These fees were meant to reimburse U. T. System Administration and U. T. System institutions for administration and management of endowments, including compliance, but in reality are not sufficient to fully compensate U. T. System Administration and U. T. System institutions for these costs.

Accordingly, as reflected in the proposed revision of the Regents' *Rules*, the fee for institutional endowment compliance and the fee for educational purposes would be renamed as fees for endowment administration and management. Allowance would be made so that the U. T. System institutions and U. T. System Administration are adequately compensated to carry out required administrative, management, and compliance activities without the need to rely on additional funding resources. The revised Rule includes a provision that U. T. System Administration and U. T. System institutions may not take advantage of increased cost recovery until and unless they have demonstrated auditable proof that such administrative and management expenses are indeed being incurred. Therefore, if this revised Rule is adopted, U. T. System institutions may receive an administrative and management fee on their endowments from a minimum of 0.08% to a maximum of 0.20% and U. T. System Administration may receive an administrative and management fee of between 0.02% to a maximum 0.03%.

1. Title

~~Fee Fees~~ for ~~Institutional~~ Endowment ~~Compliance~~ Administration and Management

2. Rule and Regulation

Sec. 1 Background. Each University of Texas System institution is charged with raising private sector contributions for the establishment of endowments to fulfill the mission and goals of the institution. Endowments are designated for student scholarships and fellowships, faculty and administrative support, and for programmatic purposes. ~~High~~ Administration and management of the endowments are the joint responsibility of the U. T. System and each institution. The U. T. System and System institutions must devote adequate resources to assure appropriate accounting and use of endowment funds. In addition, high quality, effective compliance programs are of fundamental importance and represent an ongoing fiduciary responsibility of System Administration and each institution. As authorized by *Texas Education Code Section 65.37*, the Board of Regents may assess ~~a fee fees~~ for ~~institutional~~ compliance administration and management.

Sec. 2 Type and Amount of ~~Fee Fees~~. The Board of Regents authorizes The University of Texas Investment Management Company (UTIMCO) to assess an ~~administrative~~ administration and management fee of up to ~~0.08~~ 0.20% of the market value of the Long Term Fund's (LTF) net asset value as determined by UTIMCO for the support of ~~enhanced and expanded institutional~~ compliance administration and management efforts by each institution.

In addition, the Board of Regents authorizes UTIMCO to assess an administrative fee of up to 0.03% of the market value of the LTF's net asset value as determined by UTIMCO for the support of endowment administration and management efforts by System Administration for support of enhanced and expanded System Administration endowment administration and management efforts. These administration and management fees replace the previously charged fee for endowment compliance (0.08%) and the fee for education purposes (0.02%) and those fees will no longer be assessed.

- Sec. 3 Implementation and Use of Fee. This ~~approval~~ Rule authorizes a small portion of the LTF (up to an aggregate of 0.23%) to be used ~~for enhanced and expanded~~ to offset the U. T. System and an institution's administrative and management activities to ensure appropriate administration and management as well as institutional compliance with the ~~agreement~~ agreements made with ~~an endowment's donor(s)~~ donors. The Chancellor may authorize an institution to exercise this funding option and assess up to ~~0.08~~ 0.20% of the market value of its endowments invested in the LTF and up to 0.03% of the market value of all LTF endowments for System Administration.

To be eligible to receive these administration and management fees at or above a rate of 0.08% for the institutions and 0.02% for the U. T. System, System Administration offices and each institution must provide evidence of expenditures on endowment administration and management based on guidance provided by the Office of External Relations and verified by institutional internal audit departments in coordination with the System Audit Office. The assessment of the administration and management fees on the endowments may not exceed the amount necessary to reimburse System offices and the institution for its verified endowment administration and management expenses. An institution may exempt specific endowments from the assessment and is not required to assess a fee if it wishes to absorb administration and management expenses.

- Sec. 4 Program Details. Operational details are to be determined by the Chancellor, the President and Chief Executive Officer of UTIMCO, and/or their designated representatives.
- 4.1 Basis of Distributions. Assessment level distributions will be made annually based on the prior 12-quarter's average of the market value of the LTF on May 31 of each fiscal year.

3. Definitions

Endowment – funds that typically have certain donor imposed restrictions placed upon the principal and/or the funds available for distribution (e.g., income and/or gains).

13. **U. T. System: Authorization to allow the Texas Campus Compact, a 501(c)(3) nonprofit organization, to occupy approximately 886 sq. ft. of space located at 702 Colorado Street, Austin, Texas; to provide certain services; and finding of public purpose**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the Vice Chancellor and General Counsel that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. System Administration, to

- a. allow the Texas Campus Compact, a 501(c)(3) nonprofit corporation, to occupy approximately 886 sq. ft. of space located in the Colorado Building at 702 Colorado Street, Austin, Texas, for the purpose of carrying out the educational purposes of the Texas Campus Compact and for no other purpose;
- b. determine that the use of the space by the Texas Campus Compact and the provision of basic office services to the Texas Campus Compact, including but not limited to, phone service, Internet access, and postal handling for the stated reason serves a public purpose appropriate to the function of U. T. System, and that the consideration to the U. T. System for the agreement is adequate;
- c. require that the proposed agreement with Texas Campus Compact contains adequate safeguards to ensure that the public purpose continues to be met throughout the life of the agreement; and
- d. authorize the Executive Vice Chancellor for Business Affairs to execute all documents, instruments, and other agreements, subject to approval of all such documents as to legal form by the Office of General Counsel, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations.

BACKGROUND INFORMATION

The Texas Campus Compact, Inc. ("TXCC"), a consortium of Texas colleges and universities, is affiliated with the National Campus Compact. Its mission is to provide support for colleges and universities committed to nurturing students into responsible, caring, leaders in their communities by ensuring that students gain an understanding of their duties and responsibilities as citizens; promoting community service in connection

with academic studies; participating actively in the community and lending institutional resources for its improvement; and modeling the concept of community, cultivation and encouraging open discourse on issues and values and taking actions to address these concerns.

TXCC is a 501(c)(3) nonprofit corporation with 45 dues-paying member institutions of higher education located on 50 Texas college and university campuses. TXCC is a member of the National Campus Compact which has over 35 state affiliates and over 1,000 member campuses. TXCC has placed approximately 50 Volunteers in Service to America (VISTA) volunteers in member campuses in Texas and, in 2007, cohosted with The University of Texas at Austin a National Conference on Civic Engagement, with over 360 participants. Two University of Texas System presidents serve on the TXCC Board of Directors and confirm the importance of its mission in strengthening institutions of higher education in Texas and to developing students' citizenship skills and values, encouraging partnerships between campuses and communities, and assisting faculty who seek to integrate public and community engagement into their teaching and research.

When TXCC was founded in 2000, Texas Tech University provided facilities and services so that use of TXCC resources could be fully devoted to accomplishing its goals to strengthen institutions of higher education. Most recently, St. Edward's University has provided the facilities and services. TXCC has now requested the assistance of The University of Texas System Administration in providing space and certain services that will enable it to continue to carry out its educational purposes.

Specific terms of the agreement are as follows:

- TXCC will be solely responsible for all compensation and benefits provided to its employees, and such employees will not be employees of the U. T. System.
- On behalf of the TXCC Board of Directors, the U. T. System Audit Office will inspect and review records maintained by the university in regard to the accounts established and funded solely by TXCC, consistent with the auditing procedures utilized for all university accounts. Reports will be presented directly to the Executive Committee of the TXCC Board of Directors and to the Chancellor of the U. T. System.
- All TXCC employees will be required to certify and sign the U. T. System Authorized Use Policy and agree to its terms.
- The agreement shall be evaluated at the end of each fiscal year to ensure that the arrangement continues to meet the needs and furthers the purposes of both the U. T. System and TXCC. If it is determined that a more suitable host arrangement should be pursued, the U. T. System and TXCC agree to release one another from the agreement.
- TXCC shall hold harmless, defend, and indemnify the U. T. System against all claims, actions, liability, damage, loss and expense by reason of injury or death to any person or persons or damage to property arising or alleged to have arisen from the acts or omissions of TXCC, its employees, agents, and subcontractors

during the course of this Agreement. TXCC shall assume liability for and shall indemnify and hold harmless the U. T. System for any and all liabilities, obligations, losses, damages, or costs of any kind and nature whatsoever in any way relating to or arising out of TXCC's operations and/or use of the space.

- The U. T. System shall not be liable to TXCC or any other person in the building or space by TXCC's consent, initiation, or license for any loss, expense, or damage either to the person or property sustained by reason of any condition of the building or space, or due to any act of any employee or agent of the U. T. System, or the act of any other person whatsoever; and in the event the 60-day termination clause is invoked by TXCC, they shall reimburse the U. T. System for all expenses incurred and accrued to that point, and an amount required to settle any noncancelable obligations incurred by TXCC. Active grants or contracts will be transferred to TXCC upon termination unless otherwise indicated by the grantor.

The University of Texas System may offer the space and provide services to TXCC at no cost only if a determination is made by the Board of Regents that the location of TXCC within the facilities of U. T. System Administration serves a public purpose appropriate to the function of the U. T. System, that adequate consideration is received by the U. T. System, and that the System maintains adequate safeguards and controls to ensure that the public purpose continues to be met.

The U. T. System Administration has determined that the agreement meets the requirements in the following manner: the property will be used to further and advance the public educational purpose of The University of Texas System through TXCC's actions and mission, the consideration is the added value of student volunteer coordination to institutions of higher education, and the agreement contains controls through the 60-day termination provision and the requirement that TXCC abide by all applicable laws and regulations. U. T. System agrees to assist TXCC in its endeavors by providing office space and certain services. The agreement will be for a two-year term and may be continued with the mutual agreement of U. T. System and the TXCC Board of Directors.

14. U. T. System: Approval of allocation of Intermediate Term Fund proceeds for System-wide projects

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, and the Executive Vice Chancellor for Health Affairs in the recommendation to allocate the \$16.5 million Intermediate Term Fund proceeds to the following projects: (1) \$2.5 million to a matching program for completion of the LEARN network to all U. T. System institutions; (2) \$9 million for the STARs Plus Program (allocated 75% to academic institutions and 25% to health institutions), which will provide funds for operating costs and to recruit and retain outstanding faculty in all disciplines; and (3) \$5 million for the Graduate Programs Initiative, a competitive grant program to support innovations in the education of non-professional graduate students (Ph.D. and comparable degree candidates) at all U. T. System institutions.

BACKGROUND INFORMATION

The University of Texas System Allocation Policy for Non-Endowment Funds was approved by the U. T. System Board of Regents on November 10, 2005, and implemented on February 1, 2006, as part of the centralization of non-endowment funds. 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 U. T. 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. Non-endowment funds are invested in the Intermediate Term Fund (ITF) and Short Term Fund (STF) pursuant to the Allocation Policy.

The Allocation Policy permits sharing of investment returns from the ITF if the total investment return on the ITF in a fiscal year (and since ITF inception) is in excess of the national Consumer Price Index ("CPI-U") published by the Bureau of Labor Statistics plus 3.0%. The amount in excess of the CPI-U plus 3.0% is split with 90% of the excess return being retained by the institutions and 10% being distributed to System Administration. The funds distributed to System Administration are to be used exclusively for strategic initiatives that benefit the institutions, and all expenditures of the funds by System Administration require approval of the Board of Regents.

For Fiscal Year 2007 (and for the period since ITF inception), the total investment return on the ITF was in excess of CPI-U plus 3.0%. The 10% portion of the excess return to be distributed to System Administration for System-wide projects is \$16.5 million (ITF proceeds).

The STARs Plus Program and the Graduate Programs Initiative are more fully described on Pages 137 – 142.

STARs Plus

In 2004, The University of Texas System initiated the STARs Program for “Science and Technology Acquisition and Retention” of outstanding faculty. The Program has been extremely popular among the various campuses and has been successful in recruiting and retaining faculty whose subsequent research funding has been very substantial and continues to grow. The STARs Program is limited, in that it is based on availability of PUF bond proceeds which may be applied only toward the purchase of equipment or renovations. It is also focused on science and technology as part of the University’s efforts in these areas and the desire to generate substantial extramural research funding.

Recruitment of faculty often requires “startup” resources which go beyond equipment and renovation needs. These research resources often include supplies, technical support, funding for graduate students and other operating costs.

STARs Plus is a time limited initiative, dependent on the availability of funds, which may be used for the non-equipment/renovation portions of faculty recruitment costs. It is made possible through the recent availability of returns on investment which are not part of the Permanent University Fund. Since these returns may vary depending upon market conditions, they cannot be relied upon for the long term, but do offer opportunities on a time limited basis. The STARs Plus Program will permit campuses to request, through their respective President, funds which may be part of a recruitment startup package for new faculty. This would include faculty recruited to full time positions in any academic field. Whereas STARs money may be requested for retention of outstanding faculty, the limited amount of money currently available for STARs Plus precludes the use of these monies for retention.

Requests for STARs Plus funding require that the faculty member be recruited to a full-time tenure track position. Two types of requests will be considered. The first is a proposal for STARs funding, i.e. PUF support of equipment and renovations, accompanied by a request for STARs Plus supplementation, i.e. \$XXX,XXX for equipment and \$YYY,YYY for operating expenses over “X” years. These proposals will be made to the relevant Office of Academic Affairs or Health Affairs and will be considered in the usual manner previously established for evaluating STARs requests. In the case of Health Affairs, all proposals will be screened by consultants and they will be asked for recommendations with regard to approval of both the STARs and the STARs Plus requests. In the case of the Office of Academic Affairs, the same process will apply to competitively offered STARs funding. For those campuses receiving an allocation of STARs money from the Office Academic Affairs, an allocation of STARs Plus money will also be identified.

The second category of requests will be for STARs Plus funding for faculty recruits who are not be considered for STARs award, i.e. requests would be for operating monies only, not for equipment and/or renovations. These will be separately evaluated by the Office of Health and Academic Affairs with appropriate Ad Hoc consultation as needed. Requests in this category may well include the recruitment of an individual in the arts, humanities, or social sciences, for example, who require no equipment or renovations, but require some startup funds. Evaluation of the requests may require a consultation with a consultant knowledgeable of the field and its needs.

A total of \$9 million will be available for the STARs Plus Program, \$6.75 for academic campuses and \$2.25 million for health campuses. Requests will be considered for amounts up to \$250,000. It is assumed that not all faculty recruitments will require the full amount. It is also assumed that the institution will be making good faith efforts to contribute to the startup operating costs for

the faculty recruitment, depending upon the resources available to it for this purpose.

STARs Plus monies may be used for any legitimate academic expense associated with the operating of the faculty member's academic program. While recipients of the Regents' Research Scholars award may apply for additional support from the STARs Program, they will not be eligible for STARs Plus support (since the donor contribution is for operations). Recipients of STARs Plus funds will be eligible to participate in other programs, such as the Graduate Programs Initiative.

Applications may be submitted to the appropriate Executive Vice Chancellor.

Graduate Programs Initiative

Graduate students seeking nonprofessional doctoral degrees (Ph.D. or its equivalent) are among the most important students in great universities. They aspire to expertise in research essential to the private sector and are, in many cases, the future faculty members of universities and colleges. The quality of graduate students, and the programs in which they are involved, is a critical determinant of new faculty recruitment for The University of Texas System (UT System) campuses. As part of the UT Strategic Planning Activity, a Task Force was established under the Chairmanship of Professor George Stancel of The University of Texas Health Science Center at Houston. The group produced an outstanding report, which identified many challenges and opportunities for graduate programs in the UT System. Their analysis clearly demonstrated that our campuses are in intense competition for graduate students with the very best programs in other parts of the country and indeed the world. While we have had success in some areas in competing successfully for the very best graduate students, we have lost an inordinate number of candidates to programs on the two coasts of the United States. Major issues raised by the Task Force were the need for new and creative organization and content of graduate programs, more adequate stipends for candidates, a very competitive research environment, and expansion of interdisciplinary and multidisciplinary teaching and research opportunities across the System.

The Graduate Program Initiative is a time limited grant program designed to stimulate creative and innovative approaches to nonprofessional graduate education in the UT System. It is made possible through the recent availability of returns on investment which are not part of the Permanent University Fund. Its goals include:

- Innovative efforts to better prepare graduate students for the changing environment for science and technology in the 21st century. This includes the

abilities to work across scientific disciplines with colleagues in a variety of other areas; to make successful scientific collaborations; and to understand technology transfer, translational research, and the applications of science to society.

- Educational experiences and programs which demonstrably increase the frequency with which graduate student candidates select the University of Texas institutions, rather than other locations, for their graduate education.
- Creative approaches, which may more effectively or smoothly integrate the graduate experience with the post doctoral experience.
- New configurations of faculty and research programs, which enhance the graduate student experience.

Grants will be awarded on a competitive basis to proposals responsive to the above goals and objectives, but will not be limited to these approaches. A total of \$5 million will be available for grants up to \$500,000 for new initiatives in graduate education. Grant requests will be evaluated by a peer review process, which considers a number of criteria which include, but are not necessarily limited to:

- Degree to which the program addresses the above described goals and objectives of the program.
- The quality of the program, its faculty, and its students.
- The potential for substantially improving the quality of graduate students and the effectiveness of the related program.
- The extent to which the program maximizes resources and/or involves multidisciplinary education and experiences.
- The degree of overall impact on the institution, by improving the quality of faculty, students, fellows and research.
- Matching funds from the institution to enhance the recruitment of outstanding graduate students.

- The identification of metrics by which the success or impact of the program can be assessed.

The extent to which the proposal indicates the potential for continued funding of the effort upon the cessation of the grant will also be a consideration in the evaluation of proposals. This may include commitments for institutional support, and opportunities for extramural, governmental or private sector funding, including philanthropic support.

Funding by the grant may be used to provide graduate student stipends, equipment, supplies, or faculty and administrative support for achieving the success of the program. Within financial constraints of the institution, the degree of its financial commitment to the program will be considered in evaluating proposals. The degree to which the initiative could be reproduced in other institutions will also be considered.

Multiple proposals may be made from the same institution, but it is unlikely that more than two such proposals would be funded at a single campus. Proposals may be made for three to five years with annual progress reports required.

Proposals may be made by any program directors (faculty), but must have clear endorsement by appropriate departmental chairs, deans and the institution's president. Such indications of support should be part of the proposal.

Proposals should be submitted to the appropriate Executive Vice Chancellor.

15. **U. T. System: Approval to form a Coordinating Committee and provide for funding to advance the Texas Alliance for Nanotechnology (TxAN) initiative with The Texas A&M University System**

RECOMMENDATION

The Chancellor concurs with the recommendation of the Vice Chancellor and General Counsel and the Vice Chancellor for Research and Technology Transfer, after review and concurrence by the Executive Vice Chancellor for Academic Affairs and the Executive Vice Chancellor for Health Affairs, that the Board authorize the Chancellor to take the steps necessary and reasonable to 1) together with The Texas A&M University System (Texas A&M System) form a coordinating committee (Committee) comprised of four U. T. System appointees and four Texas A&M System appointees to begin exploratory work (detailed below) for the creation of the Texas Alliance for Nanotechnology (TxAN), a proposed State of Texas university-industry laboratory for nanotechnology research and development, and 2) provide \$500,000 in Available University Funds (AUF) to be matched by Texas A&M System for use by the Committee as described below.

BACKGROUND INFORMATION

Under the leadership of the Governor's Office, U. T. System and Texas A&M System have been working over the past nine months on the TxAN initiative. TxAN is conceived to be an advanced nanotechnology research and development infrastructure providing opportunities for collaboration among researchers located across the State of Texas to further the research, development, promotion, and commercialization of nanotechnology in the State of Texas. If feasible, TxAN will culminate in the creation of a statewide laboratory to promote advanced commercialization and opportunities in Texas by leveraging top university research talent and existing resources.

U. T. System and Texas A&M System believe that TxAN will provide a conduit to enhance the research capabilities of both systems and will promote collaboration among faculty of educational institutions and universities in the State of Texas and the recruitment and retention of faculty members and student researchers in the field of nanotechnology.

The Committee will be charged with 1) working with an outside contractor to roadmap the TxAN project, including plans for equipment and facilities, requests for additional investments, and inclusion of other universities and industry participants; 2) determining whether to prepare and then preparing, if appropriate, a request for proposal for governmental and industry partners for TxAN; and 3) creating a standardized intellectual property format and technology transfer vehicle under which both U. T. System and Texas A&M System will agree to operate, including, for example, master licensing agreements.