

Meeting No. 1,048

THE MINUTES OF THE BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

Pages 1 - 41

July 8 - 9, 2009

Austin, Texas

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 OF
 THE UNIVERSITY OF TEXAS SYSTEM
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 AUSTIN, TEXAS

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MEETING NO. 1,048

WEDNESDAY, JULY 8, 2009.--The members of the Board of Regents of The University of Texas System convened this meeting at 10:40 a.m. on Wednesday, July 8, 2009, in the Board Meeting Room, Ninth Floor, Ashbel Smith Hall, 201 West Seventh Street, Austin, Texas, with the following participation:

ATTENDANCE.--

Present

Chairman Huffines, presiding
Vice Chairman McHugh
Vice Chairman Foster
Regent Dannenbaum
Regent Gary
Regent Hicks
Regent Longoria
Regent Powell
Regent Stillwell
Regent Meijer, Student Regent, nonvoting

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Chairman Huffines called the meeting to order.

RECESS TO EXECUTIVE SESSION.--At 10:40 a.m., Chairman Huffines announced the Board would recess to convene in Executive Session pursuant to *Texas Government Code* Sections 551.071, 551.072, 551.073, and 551.074 to consider those matters listed on the Executive Session agenda.

RECONVENE IN OPEN SESSION.--At 2:07 p.m., the Board reconvened in open session and took the following actions on matters discussed in Executive Session.

- 1a. U. T. System: Discussion of individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of U. T. System and institutional employees including employees covered by Regents' *Rules and Regulations*, Rule 20204, regarding compensation for highly compensated employees

No action was taken on this item.

- 1b. U. T. System: Discussion regarding individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents (academic and health institutions), U. T. System Administration officers (Executive Vice Chancellors and Vice Chancellors), other officers reporting directly to the Board (Chancellor, General Counsel to the Board, and Chief Audit Executive), and U. T. System and institutional employees and related personnel aspects of the operating budget for the fiscal year ending August 31, 2010

No action was taken on this item.

- 1c. U. T. Pan American: Discussion of individual personnel matters related to presidential search

No discussion was held on this item.

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

No action was taken on this item.

3. U. T. Dallas: Authorization to purchase approximately 10 acres improved with an office building of approximately 93,060 square feet located at 17217 Waterview Parkway, Dallas, Dallas and Collin Counties, Texas, from T/E Waterview Ltd., a Texas limited partnership, for a purchase price not to exceed fair market value as determined by independent appraisals for use as office, educational, and surge space and future programmed campus expansion, and resolution regarding parity debt

Regent Gary moved that the U. T. System Board of Regents take the following actions on behalf of The University of Texas at Dallas:

- a. authorize the purchase of approximately 10 acres improved with an office building of approximately 93,060 square feet located at 17217 Waterview Parkway, Dallas, Dallas and Collin Counties, Texas, from T/E Waterview Ltd., a Texas limited partnership, for a purchase price not to exceed fair market value as determined by independent appraisals, and in accordance with the parameters discussed in Executive Session, plus all due diligence expenses, closing costs, and other costs and expenses to complete the acquisition of the property as deemed necessary or advisable by the Executive Director of Real Estate, for use as office, educational, and surge space and future programmed campus expansion;

- b. authorize the Executive Director of Real Estate to execute all documents, instruments, and other agreements, subject to approval of all such documents as to legal form by the Office of General Counsel, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing action within parameters outlined in Executive Session; and
- c. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System the findings that are stated in Attachment A to this motion, which has been provided to each member of the Board and which shall be included in the Minutes of this meeting.

The motion was seconded by Regent Hicks and carried unanimously.

ATTACHMENT A TO MOTION FROM EXECUTIVE SESSION

July 8, 2009

- Parity debt shall be issued to pay the project's costs, including any costs prior to issuance of such parity debt;
- Sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System;
- U. T. Dallas, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount not to exceed the fair market value as established by independent appraisals, and in accordance with the parameters discussed in Executive Session, plus all due diligence expenses, closing costs, and other costs and expenses to complete the acquisition of the property as deemed necessary or advisable by the Executive Director of Real Estate; and
- This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the *Code of Federal Regulations* that evidences the Board's intention to reimburse project expenditures with bond proceeds.

4. U. T. System: Discussion and appropriate action concerning negotiated contracts for prospective gifts or donations

No discussion was held on this item.

AGENDA ITEMS

1. U. T. System Board of Regents: Amend Regents' *Rules and Regulations*, Rule 31007, Sections 1, 2, and 5.1(b) regarding tenure appointments at U. T. Health Science Center – Tyler

The Regents' *Rules and Regulations*, Rule 31007, Sections 1, 2, and 5.1(b) regarding tenure, were amended as set forth below to permit seven-year appointments at The University of Texas Health Science Center at Tyler:

Sec. 1 Granting of Tenure. Tenure denotes a status of continuing appointment as a member of the faculty at an institution of The University of Texas System. Academic titles in which faculty members can hold tenure are listed in Rule 31001, Section 2.1 of the Regents' *Rules and Regulations*. Tenure may be granted at the time of appointment to any of such academic ranks, or tenure may be withheld pending satisfactory completion of a probationary period of faculty service. Such tenure status shall not be applicable to the faculty of The University of Texas M. D. Anderson Cancer Center or The University of Texas Health Science Center at Tyler.

Sec. 2 Seven-Year Term Appointment. The University of Texas M. D. Anderson Cancer Center and The University of Texas Health Science Center at Tyler are authorized to award a seven-year term appointment that will denote a status of continuing appointment at that institution as a member of the faculty for a period of seven years. Only members of the faculty with academic titles of Professor, Associate Professor, or Assistant Professor may be granted a seven-year term appointment. A seven-year term appointment may be granted at the time of appointment to any of such academic rank or may be withheld pending satisfactory completion of a probationary period of faculty service. No institution may adopt or implement a seven-year term appointment policy except The University of Texas M. D. Anderson Cancer Center and The University of Texas Health Science Center at Tyler.

...

Sec. 5 Probationary Service. . . .

5.1 Calculation of Service. For purposes of calculating the period of probationary service, an “academic year” shall be the period from September 1 through the following August 31.

. . . .
(b) Each institution with tenured faculty will establish and appropriately communicate a policy for the extension of the maximum probationary period and include the policy in the institutional *Handbook of Operating Procedures* following the standard review and approval process. In the case of The University of Texas M. D. Anderson Cancer Center or The University of Texas Health Science Center at Tyler, the institution may establish a policy that allows the extension of a term-tenure appointment consistent with these guidelines and the term-tenure policy. Institutional policies are to be consistent with the following guidelines:

. . . .

These amendments relating to tenure of faculty will permit U. T. Health Science Center – Tyler to award seven-year term appointments. Previously, U. T. M. D. Anderson Cancer Center was the only institution authorized to offer seven-year term appointments. The option to award the term appointments allows U. T. Health Science Center – Tyler to compete with other academic medical institutions to recruit highly skilled, experienced faculty members and to expand the institution's opportunities to retain the top scientific talent necessary to effectively consolidate its research enterprise.

U. T. Health Science Center – Tyler will develop institutional policies regarding the award of the term appointment for inclusion in its *Handbook of Operating Procedures*.

2. U. T. System: Presentation on the U. T. Systemwide Endowment Compliance Program

Vice Chancellor Safady reported on the Endowment Compliance Program activities and reporting for The University of Texas System for the fiscal year ended August 31, 2008.

In response to questions from Chairman Huffines regarding donor contributions and change in donor attitudes, Dr. Safady said donors nationwide are expecting more accountability for donations and alumni giving nationwide has been slightly declining for the past two years. She described ways in which the U. T. System institutions monitor and report on endowments.

3. U. T. System: Report on highlights of the 81st Texas Legislature, Regular Session

Vice Chancellor McBee reported on highlights for The University of Texas System from the 81st Texas Legislature, Regular Session.

Regarding the Top 10 Percent Rule that was reformed by Senate Bill 175, Mr. McBee said beginning Fall 2011, the law contains a new right given to Top 10% students to retain automatic admission status if they wish to go elsewhere to begin their academic career. In reply to a question from Regent Dannenbaum regarding automatic admission of students to The University of Texas at Austin who chose to attend another school at which they performed poorly, President Powers explained that the law applies only to students who were eligible for admission to U. T. Austin based on their high school record and who were admitted to the University. In addition, the law applies only to students who choose to attend a community college for their first two years. Students are required to maintain a 2.25 grade point average (GPA) and are not particularly at-risk students. The intent is to provide students with a fairly safe harbor for admission to U. T. Austin if they choose to attend a community college first.

Chairman Huffines stated that from a funding standpoint for higher education, the 81st Legislative Session was the best session in at least 20 years and he added the Session will go down in history as one of the finest for higher education.

4. U. T. Dallas: Authorization to establish M.S. and Ph.D. degree programs in Biomedical Engineering with U. T. Arlington and U. T. Southwestern Medical Center – Dallas

Pursuant to the Regents' *Rules and Regulations*, Rule 40307, related to academic program approval standards, the Board granted authorization to

- a. establish M.S. and Ph.D. degree programs in Biomedical Engineering at The University of Texas at Dallas to be offered jointly with The University of Texas at Arlington and The University of Texas Southwestern Medical Center at Dallas;

- b. submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action; and
- c. authorize the Executive Vice Chancellor for Academic Affairs to certify on behalf of the Board of Regents that relevant Coordinating Board criteria for approval by the Commissioner of Higher Education have been met.

The U. T. Dallas Erik Jonsson School of Engineering and Computer Science will supplement the Biomedical Engineering M.S. and Ph.D. degree programs offered by U. T. Southwestern Medical Center – Dallas and U. T. Arlington. Current enrollment is approximately 150 graduate students, with 90 students in the M.S. program and 60 in the Ph.D. program. The degree will become a three-way joint graduate degree program in biomedical engineering. This approach is designed to support and encourage interinstitutional cooperation and collaboration.

The Ph.D. program consists of a minimum of 58 credit hours of course work, plus a minimum of 30 research hours beyond the bachelor's degree level. The total number of credit hours required for the M.S. degree (thesis option) will be 31. Remaining credit hours would be taken from a list of specialized courses either at U. T. Dallas, U. T. Arlington, or U. T. Southwestern Medical Center – Dallas.

The five-year expenditures of the program are anticipated to be \$15,625,000. This includes new costs of \$2,140,000 for five faculty positions over the first five years, \$1,450,000 for 70 teaching/research assistant positions, and \$315,000 for additional staff. Additional costs for equipment, facilities, library and information technology resources, and reallocation expenses of existing administration and faculty equals \$11,720,000. These costs will be met from credit hour formula funding and reallocation of University resources, including formula-generated excellence funds. Other existing resources will be used to fully fund the program. In addition to the \$1,629,000 in-hand grants, it is anticipated that external funds will cover an increasing portion of the program's cost after the initial development period.

5. U. T. El Paso: Approval of parking permit fees effective Fall 2009

The Board approved parking permit fees effective Fall 2009 as set forth on Page 9 for students, faculty, and staff at The University of Texas at El Paso. The parking permit fees are within the range authorized by law and are consistent with the statutory requirements under Section 54.505 of the *Texas Education Code*.

U. T. EL PASO

FEEES AND MISCELLANEOUS CHARGES

PARKING PERMIT FEES

Approval is recommended for the following parking permit fees to be effective beginning with the Fall Semester 2009. The proposed fees are consistent with the applicable statutory requirements under Section 54.505 of the *Texas Education Code* and have been administratively approved by the Executive Vice Chancellor for Academic Affairs.

Following Regental approval, the appropriate institutional catalog will be amended to reflect these fees.

	<u>Current Rates \$</u>	<u>Proposed Rates \$</u>	<u>Percent Increase</u>
<u>Annual fees:</u>			
<u>Student Permit Classifications</u>			
Residence Halls	75	80	6.67
Perimeter	130	135	3.85
Perimeter Premium	180	185	2.78
Remote	80	85	6.25
Garage – Nest	205	210	2.44
Garage – Premium	255	260	1.96
Motorcycle Perimeter	75	80	6.67
<u>Faculty/Staff Classifications</u>			
Reserved – Campus	650	700	7.69
Inner Campus Orange	310	320	3.23
Inner Campus Red	360	370	2.78
Perimeter	175	185	5.71
Remote	110	120	9.09
Garage – Nest	310	320	3.23
Garage – Premium	360	370	2.78
Motorcycle	75	85	13.33

Prepared by:
U. T. El Paso

July 8, 2009

6. U. T. Austin: Authorization to purchase two tracts of land located at 1601 East 20th Street and 1600, 1602, 1604, and 1606 East Martin Luther King, Jr. Boulevard, Austin, Travis County, Texas, and consisting of a total of approximately 51,327 square feet, from E-MLK Properties, LLC, a Texas limited liability company, for a purchase price of \$1,662,995, for future programmed campus expansion

On behalf of The University of Texas at Austin, the Board

- a. authorized the purchase of two tracts of land located at 1601 East 20th Street and 1600, 1602, 1604, and 1606 East Martin Luther King, Jr. Boulevard, Austin, Travis County, Texas, and consisting of a total of approximately 51,327 square feet, from E-MLK Properties, LLC, a Texas limited liability company, for a purchase price of \$1,662,995, plus all due diligence expenses, closing costs, and other costs and expenses to complete the acquisition of the property as deemed necessary or advisable by the Executive Director of Real Estate, for future programmed campus expansion; and
- b. authorized the Executive Director of Real Estate to execute all documents, instruments, and other agreements, subject to approval of all such documents as to legal form by the Office of General Counsel, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing action.

The subject property consists of approximately 51,327 square feet of unimproved land consisting of four contiguous lots at the northwest corner of East Martin Luther King, Jr. Boulevard and Leona Street, and a portion of an adjacent lot located at the intersection of Concho Street and East 20th Street. This property is located within part of the Blackland area east of IH-35 approved for acquisition by the Board of Regents on December 11, 1981, and is also within the Campus Master Plan approved by the Board of Regents on February 10, 2000. Both the lots on East Martin Luther King, Jr. Boulevard and the lot on East 20th Street adjoin portions of U. T. Austin's campus.

Responding to a question from Regent Hicks, President Powers said there is no plan to build on the property although surface parking would be a suitable use. He outlined the plan to acquire properties in the Blacklands as they become available to result in a contiguous block of land for more permanent use. He noted such use would be developed in consultation with the City of Austin and the surrounding neighborhood. President Powers also noted that negotiations were held in the early 1980s with the Blackland and East Austin communities for U. T. Austin to acquire land west of Leona Street but not east of Leona Street.

The purchase price of \$1,662,995 was calculated based on a unit price of \$32.40 per square foot of actual area of the property as determined by a survey. In response to a question from Chairman Huffines, Ms. Mayne reported that two appraisals valued the land at \$32.75 and \$34.00 per square foot.

The property will be used for future programmed development of campus expansion. Unexpended Plant Funds will be used to fund the purchase.

7. U. T. El Paso: Reauthorization to purchase real property and improvements located at 3401 North Mesa Street, El Paso, El Paso County, Texas, from Mr. Gene McIntyre, Mr. Tracy McIntyre, and Mr. Michael McIntyre for a purchase price of \$1,197,000 for future programmed development of campus expansion; and resolution regarding parity debt

The Board granted authorization on behalf of The University of Texas at El Paso to

- a. purchase real property and improvements located at 3401 North Mesa Street, El Paso, El Paso County, Texas, from Mr. Gene McIntyre, Mr. Tracy McIntyre, and Mr. Michael McIntyre for a purchase price of \$1,197,000, plus all due diligence expenses, closing costs, and other costs and expenses to complete the acquisition of the property as deemed necessary or advisable by the Executive Director of Real Estate, for future programmed development of campus expansion;
- b. authorize the Executive Director of Real Estate to execute all documents, instruments, and other agreements, subject to approval of all such documents as to legal form by the Office of General Counsel, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing action; and
- c. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the RFS Master Resolution) that:
 - parity debt shall be issued to pay the project's costs, including any costs prior to issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues (as defined in the RFS Master Resolution) to satisfy the Annual Debt Service Requirements of the Financing System (as defined in the RFS Master Resolution), and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System;

- U. T. El Paso, which is a "Member" as such term is used in the RFS Master Resolution, possesses the financial capacity to satisfy its direct obligation (as defined in the RFS Master Resolution) relating to the issuance by the U. T. System Board of Regents of parity RFS debt in the aggregate amount not to exceed the purchase price, plus all due diligence expenses and closing costs of the subject property; and
- this action satisfies the official intent requirements set forth in Section 1.150-2 of the *Code of Federal Regulations* that evidences the Board's intention to reimburse project expenditures with bond proceeds.

U. T. El Paso will purchase the subject property consisting of approximately 1.31 acres and improvements of an 8,536 square foot one-story commercial building on 57,080 square feet of land for a negotiated purchase price of \$1,197,000. The property is ideally located between North Mesa Street and Sunbowl Drive and is immediately adjacent to U. T. El Paso's campus. It is across the street from the Swimming and Fitness Center and the Helen of Troy Softball Field. The site was listed for potential campus expansion in U. T. El Paso's 2002 Campus Master Plan prepared by Ellerbe Becket. U. T. El Paso is landlocked with few opportunities for property acquisition for future campus expansion.

This acquisition was approved by the Board of Regents on November 16, 2006, and included the use of Permanent University Fund (PUF) debt to fund the acquisition. Subsequent to such approval, one of the sellers opted not to proceed with the transaction but now, all of the sellers indicate their willingness to proceed.

In response to a question from Vice Chairman Foster, Ms. Mayne reported the pending appraisal was valued at \$1.12 million. Reauthorization of the purchase was necessary because the institution will fund the purchase with the use of U. T. System RFS debt, rather than PUF debt approved in 2006. The RFS debt will be repaid from institutional funds. Debt service is estimated at approximately \$105,000 annually. The institution's debt service coverage ratio is expected to be at least 1.5 times, and to average 2.5 times during the period from FY 2009 through FY 2014.

8. U. T. Health Science Center – Houston: Establishment of a center for research in the field of Alzheimer's Disease and other brain disorders and approval to name the center as The George and Cynthia Mitchell Center for Research in Alzheimer's Disease and Related Brain Disorders

The Board approved the establishment and naming of the center for research in the field of Alzheimer's Disease and other brain disorders at The University of Texas Health Science Center at Houston as The George and Cynthia Mitchell Center for Research in Alzheimer's Disease and Related Brain Disorders.

On May 8, 2009, Mr. George P. Mitchell made a commitment of resources totaling \$2,575,239.50 to U. T. Health Science Center – Houston for the establishment of a center at the Medical School that would provide resources and support researchers in the field of Alzheimer's disease and other brain disorders. The work to be conducted at this newly established center is expected to be transformational and applicable to many disciplines in the area of brain disorder research, impacting the way brain diseases are identified, diagnosed, and treated.

To recognize the importance of this commitment of resources and to honor the generosity of Mr. Mitchell's contribution to U. T. Health Science Center – Houston, the institution requested approval to name the center as The George and Cynthia Mitchell Center for Research in Alzheimer's Disease and Related Brain Disorders.

Mr. and Mrs. Mitchell have consistently supported U. T. Health Science Center – Houston since 1994, making gifts to the Medical School, the School of Public Health, the Graduate School of Biomedical Sciences, and the School of Nursing. In addition, the Cynthia and George Mitchell Foundation made a \$1 million gift in 2003 to establish a distinguished chair in Neurosciences. The newly established center will offer the opportunity for collaboration with other healthcare institutions in the Texas Medical Center on research projects in the field of brain disorders.

9. U. T. System: Status Report on the U. T. System Competitiveness Initiative

The University of Texas System Competitiveness Initiative was endorsed by the Board of Regents on August 10, 2006, to significantly enhance global competitiveness in science, technology, engineering, and health. The Initiative was a response to the National Academies' call for action in the report *Rising Above the Gathering Storm: Energizing and Employing America for a Brighter Economic Future* and included the approval of \$2.56 billion for recruitment of world-class faculty, construction of 22 new buildings, and renovations to existing research facilities. The presentation

and report provided indicators of the leadership role that U. T. System has taken to maintain a competitive advantage in science and technology innovation.

A video about the Competitiveness Initiative was presented, largely narrated by Mr. Norman R. Augustine, Chair of the National Academies study that published *Rising Above the Gathering Storm: Energizing and Employing America for a Brighter Economic Future*. Dr. Augustine said that to be competitive, the U.S. has to be innovative. Chancellor Cigarroa then made the following remarks:

Remarks by Chancellor Cigarroa

Every new Chancellor begins the job knowing that the Board of Regents has made its choice with the expectation that The University of Texas System will be lifted to higher levels of excellence. In a fast changing economic and social climate, institutions of higher education that are not continually striving to move upward are losing ground. And, greatness begins with an understanding on a very profound level that comes from an institution's ability to change as the world evolves.

Given these expectations from the Board and the challenges arising from change, I became Chancellor at a very opportune time because I work with a Board that is devoted to excellence and willing to take bold steps to achieve it.

When the Board announced the Competitiveness Initiative three years ago, it was responding to what Norm Augustine discussed on video a few moments ago. At the request of The National Academy of Sciences, Mr. Augustine chaired a committee that produced a report that was released in the Fall 2005. It was titled, *Rising Above the Gathering Storm: Energizing and Employing America for a Brighter Economic Future*. It painted a gloomy picture of America's future leadership in the fields of science, technology, engineering and mathematics; what are frequently called the STEM fields. The report detailed our declining position in these fields and challenged higher education to intervene before it was too late. The broad recommendation for higher education was this: "To make the United States the most attractive setting in which to study and perform research so that we can develop, recruit, and retain the best and brightest students, scientists, and engineers from within the United States and throughout the world."

This, of course, was a very simple statement. In a way, it is simply a restatement of how we in the United States have always viewed

ourselves. But it is actually an immense challenge -- one that U. T. System leadership took seriously from the moment the report was issued.

In fact, less than one year after the report was published, and under the leadership of Chairman Huffines, the Board answered the challenge with the creation of the U. T. System Competitiveness Initiative -- a historic \$2.56 billion commitment to building the most competitive science, engineering, technology and health infrastructure in the country and to retaining and recruiting world-class faculty and students -- the human capital that makes the commitment worthwhile.

Since that time, the commitment of the initiative has actually grown to over \$3 billion, including: \$2.91 billion for academic and research facilities; \$74.33 million in Science and Technology Acquisition and Retention (STARs) program funding to recruit and retain faculty; \$21.88 million in Library, Equipment, Repair, and Rehabilitation (LERR) projects to keep faculty competitive and train students with the latest equipment; \$1.87 million to partner with a national lab; and, \$1.61 million in Texas Ignition Fund (TIF) grants to help start new ventures.

Funding for the initiative involves state and federal legislative appropriations, including a historic tuition revenue bond allocation approved by the 79th Legislature, a transformational Permanent University Fund (PUF) allocation by our Board of Regents, and private gifts of approximately \$301.7 million, stimulated in part by the Competitiveness Initiative. The variety of these funding sources underscores the fact that the initiative is truly a public/private partnership for the future. This commitment is timely and critical to the success of the new Tier One legislation and the encouragement that we position all of the U. T. institutions to achieve higher levels of excellence. U. T. Austin is, of course, already one of only three Tier One universities in Texas. We need to assure its continued trajectory towards world-class status. U. T. M. D. Anderson is already recognized as the #1 cancer hospital in the world. And we have every reason to believe that more U. T. institutions will move up to the top ranks, among the world's best. I believe that in this upcoming decade, several of our academic health centers are poised to be among the top 10 in our nation.

The basic elements of the Competitiveness Initiative are straightforward:

- It directly aligns the resources of the U. T. System with its goals for the future, as laid out in the Strategic Plan.
- It designates an initial 44 science, technology, engineering, and health-related capital projects.
- It sets aside funding for science, technology, mathematics, engineering, and medical faculty recruitment,
- It maintains a consistent focus on ensuring that undergraduate, graduate, and professional students have access to the best faculty and most modern technology available.

The Competitiveness Initiative is, therefore, the tangible manifestation of our commitment to excellence. It sends out the message that the U. T. System will accept nothing but the best for its students. The U. T. System will be a global leader for the advancement of humanity and the public good.

And, it drives home that point with several key groups. It tells the national rising stars of teaching and research that the State of Texas and the U. T. System are the best places in the country to accomplish great things. It tells leaders of industry that we are committed to creating the discoveries and educating the workforce that will allow Texas to thrive in a global economy and to assist in the translation of these discoveries from the laboratory, to the bedside and, then, to all of humanity. To state and federal leaders, it says we are doing more than our part to keep the United States competitive. To the people of Texas, it says we stand with you; we will give you the tools to build a state that works for the greater good. And whether or not you ever set foot on a U. T. campus, we serve you and we work hard to make your lives and your communities better.

This is our goal. This is our responsibility. This is what matters most to us as we go about the daily business of fulfilling our core missions for Texas. Those are education, research, healthcare, and service aimed at building a future of unlimited possibilities. This is our job. And we intend to do it better than anyone else.

The report that we will send home with you today provides the detail of what has been accomplished since the initiative was

passed. These accomplishments are truly impressive by any standard. In the two academic years that the initiative has been in place, we have:

- Added or renovated more than three-quarters of a million square feet of clinical, research, classroom, and laboratory space, with almost 6 million more coming online by 2013.
- Completed 12 major projects, such as the Dell Pediatric Research Institute and the Galveston National Laboratory. The Dell Pediatric Research Institute is a \$97 million project which combines U. T. Austin's expertise in life sciences with the Dell Children's Medical Center and will establish Austin as a center of excellence for children's health and biomedical research. The Galveston National Laboratory, a \$174 million project with \$117 million of the project paid for by federal grants, establishes the U. T. Medical Branch at the world's premier site for infectious disease research. It has already demonstrated its value through its important work during the H1N1 pandemic.
- An additional 31 major projects are to be completed within the next four years. These projects include the \$85 million U. T. El Paso Physical Sciences and Engineering Core Facility and the \$80 million Biomedical Research and Education Facility at the U. T. Health Science Center – Houston.
- Our institutions recruited 89 new STARs faculty and retained 31 outstanding faculty members who could have moved elsewhere. Seven of these individuals are members of the National Academies, including four newly recruited faculty members. Virtually all of the recipients of the STARs awards are doing the kind of high quality work that is likely to earn that honor. It is also worth noting that, while we do not have current numbers on this newest group of STARs award recipients, earlier recipients have generated a 7.5-fold increase in the Board's investment. In other words, we spent \$22 million to attract or retain these people who brought in \$163 million of extramural research funds.
- And, the Board has created a series of special U. T. System awards that will appeal to potential new faculty and researchers as they reward current faculty and scientists. These awards include: the Chancellor's Innovations in Education Awards, the Texas Ignition Fund, the Chancellor's Health Fellows, Chancellor's Entrepreneurship and Innovation Awards, and the new Regents' Outstanding Teaching Awards.

- In the two academic years that the Competitiveness Initiative has been in place, undergraduate students majoring in science, technology, engineering, and health disciplines have increased 7%, with 2,400 new majors. Graduate enrollment in these fields has increased 6%, with 1,000 new majors. And, according to the National Science Foundation, in 2007, the STEM disciplines accounted for 22.7% of U. T. System academic degrees awarded, higher than the national public college average of 18.5%.
- We received 74% of all awards from the Texas Emerging Technology Fund for a total of \$114.6 million. The ETF is administered by the governor and used to encourage the development and commercialization of research discoveries. We also made 38 awards designed to accelerate commercialization of inventions from the U. T. System's Texas Ignition Fund.
- And, research expenditures increased significantly at U. T. institutions with an overall 28.6% increase from \$1.7 billion in 2005 to \$2.2 billion in 2008. One very important fact to bear in mind is that we accomplished this increase while funding from the National Institutes of Health (NIH) was relatively flat. While our health institutions experienced a 1.9% decrease in NIH funding, they still brought in the lion's share of U. T. System's funding from NIH, amounting to almost \$596 million, including four Clinical and Translational Science Awards.
- And our research is producing impressive commercial applications. 71 start-up companies have been created. An example is CardioSpectra, a company that started with collaboration between U. T. Austin and U. T. Health Science Center – San Antonio and was eventually bought by Volcano, a spin-off company of U. T. Health Science Center – Houston. The company developed a fiber-optic light-based diagnostics technology for viewing the thickness and topography of arterial plaques and determining their risk of rupture or heart attack.
- We also have experienced a 16% increase in new invention disclosures. Licenses and options increased by 26%. And we have had an overall 7% increase in intellectual property gross revenue from \$34.9 million in 2005 to \$37.2 million in 2008.

I have spoken to you about research dollars and metrics but this investment is about much more than brick and mortar improvements. It is an investment first in Texas' most critical asset: our people ... and how the work we do today translates to an immeasurable impact on future students.

Now, I want to introduce you to several of the individuals who are making an impact now.

First, Dr. Tinsley Oden. Dr. Oden is the founding Director of the Institute for Computational Engineering and Sciences (ICES) at U. T. Austin. The Institute supports broad interdisciplinary research and academic programs. He is a member of the U.S. National Academy of Engineering and the National Academies of Engineering of Mexico and of Brazil. In 2004, he was listed as the most highly cited researcher in the world in refereed, peer-reviewed journals. Also, in 2008, he served as the president of the Texas Academy of Medicine, Engineering, Science and Technology (TAMEST). Dr. Oden will discuss the positive impact that the STARs program has had on his work.

(Presentation by J. Tinsley Oden, Ph.D., Associate Vice President for Research and Director of ICES)

Next, we will hear from Dr. Joe Takahashi and Ms. Brandi Baird. Dr. Takahashi is a member of the National Academy of Sciences and a STARs award recipient who was recruited to head the neurosciences department at U. T. Southwestern Medical Center – Dallas. Dr. Takahashi's research interests include understanding the genetic and molecular basis of circadian rhythms, as well as other behaviors including learning and memory. One of his most important accomplishments is the discovery of a gene that is central to the control of circadian rhythms in mammals. Following Dr. Takahashi will be Ms. Brandi Baird, a graduate student at the U. T. Health Science Center – Houston where she is engaged in stem cell research. She works in the Brown Foundation Institute of Molecular Medicine for the Prevention of Human Diseases with former STARs recipients, including Dr. Tom Caskey, the Director of the Institute and the George and Cynthia Mitchell Distinguished Chair in Neurosciences.

(Presentation by Joseph S. Takahashi, Ph.D., Professor and Chair, Department of Neuroscience, Investigator, Howard Hughes Medical Institute, Loyd B. Sands Distinguished Chair in Neuroscience)

(Presentation by Ms. Brandi Baird, M.S., Ph.D. Graduate Student)

Next we are going to hear from Dr. Denise Park and Dr. Kristen Kennedy from U. T. Dallas. Dr. Park is the T. Boone Pickens Distinguished Chair in Clinical Brain Science, a U. T. Regents' Research Scholar, a professor in the Department of Behavioral and Brain Sciences, and a faculty member at the Center for BrainHealth at U. T. Dallas. Her primary research interest is in understanding the role of age-related changes in memory function at the basic level as well as the implications of these changes for society. She has received numerous grants and awards for her research, most recently an NIH Merit Award. Dr. Kennedy is a postdoctoral fellow and research associate working with Dr. Park at the Center for BrainHealth. Dr. Park and Dr. Kennedy are going to discuss how the Competitiveness Initiative helped draw them to Texas and how it facilitates their work.

(Presentation by Denise C. Park, Ph.D., T. Boone Pickens Distinguished Chair in Brain Science, University Regents' Research Scholar)

(Presentation by Kristen Kennedy, Ph.D., Research Associate/Postdoctoral Fellow)

Thank you, Dr. Park and Dr. Kennedy. Your presentation, as well as the others we have heard, is outstanding testimony to the importance and success of the Competitiveness Initiative.

We hope this presentation has been useful to the Board and that you find the detail presented in the written report helpful.

The message that I would like the Board to take from our efforts today is how proud each of you should be for being part of creating and sustaining this magnificent vision for the future of the U. T. System. Because of the Board's prompt response to the *Rising Above the Gathering Storm*, we have in place a remarkable yet workable blueprint for a future that eclipses even the greatness of the past. As Norm Augustine said, this vision will not be accomplished in a short time but it is essential to our competitiveness as a state and a nation. Had the Board delayed or deferred its decision to authorize and implement the Competitiveness Initiative, our national economic difficulties would have intervened and made it almost impossible for us to begin now. But the Board did not delay, the Board did not defer and, as a result, the U. T. System finds itself in a very strong position to move ahead while many university systems outside of Texas must slow their efforts. Our funding is already in place. Our planning is sound. Even the declining price of construction now works in our favor. And, the budgetary wisdom of our leaders, measured against the problems of other states, has

created a competitive advantage for The University of Texas System, with which the initiative can succeed beyond anything we might have imagined.

The fact that we embarked on the realization of your magnificent vision positions us extremely well to be an important part of the Cancer Prevention and Research Institute's work, and to take full advantage of the stimulus funds that the current administration has in place for distribution with the National Science Foundation (NSF), the NIH, and other federal agencies. But, more importantly, it gives us the true opportunity to realize the full potential of our core missions of education, research, health, and service. Now, more than ever, The University of Texas System will strengthen its platform as the "university of the first class" that was called for by the framers of the Constitution of 1876 and then pursued by members of the Board since Chairman Ashbel Smith. Our students will learn from the most talented faculty from around the world, preparing them well to become tomorrow's leaders.

The *Rising Above the Gathering Storm* report noted that the global competition for economic leadership is deeply rooted in scientific and technological innovation. It offered four critical elements that can reinvigorate the national economy and enhance our competitiveness and require strategic investments: education, research and technology development, competitive capacity, and incentives. These elements are exactly what the U. T. System Board of Regents has invested in. And not only will the decision made by the Board improve the quality of life throughout our world, but it will also save lives through the incredible discoveries that will come from our laboratories and by the care of our health providers.

The Competitiveness Initiative has given the U. T. System the wherewithal to recruit the world's most outstanding faculty to educate our students, to provide us with outstanding healthcare, and to challenge the imagination of the scientists, engineers, mathematicians, healthcare providers, and, yes, students who will make the discoveries that change our lives for the better.

I can almost assure you that during your time on the Board, a student will be sitting in class and a professor will inspire that student, plant a seed of interest or even fascination and that seed will lead to a life's work, perhaps leading to a Nobel Prize. Because of your work on this Board, you will be a part of making that happen.

The Competitiveness Initiative is nothing less than a transformational gift to Texas and to future generations. We are extremely grateful to the Board for their wisdom, their vision, and their legacy. We now have a window of time to do fantastic things. And we look forward to reporting on the initiative's continuing success and its impact on the U. T. System over the years ahead.

The report on the [Competitiveness Initiative](#) was distributed to members of the Board and is on file in the Office of the Board of Regents.

RECESS.--The Board recessed at 4:35 p.m.

THURSDAY, JULY 9, 2009.--The members of the Board of Regents of The University of Texas System convened this meeting at 8:35 a.m. on Thursday, July 9, 2009, in the Board Meeting Room, Ninth Floor, Ashbel Smith Hall, 201 West Seventh Street, Austin, Texas, with the following participation:

ATTENDANCE.--

Present

Chairman Huffines, presiding
Vice Chairman McHugh
Vice Chairman Foster
Regent Dannenbaum
Regent Gary
Regent Hicks
Regent Longoria
Regent Powell
Regent Stillwell
Regent Meijer, Student Regent, nonvoting

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Chairman Huffines called the meeting to order.

CONVENE JOINT MEETING: BOARD OF REGENTS AND THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY (UTIMCO) BOARD OF DIRECTORS.--At 8:35 a.m., in accordance with a notice being duly posted with the Secretary of State and there being a quorum of both Boards present, Chairman Huffines and Mr. J. Philip Ferguson, Vice Chairman of the Board of Directors of The University of Texas Investment Management Company (UTIMCO), convened the annual joint meeting of The University of Texas System Board of Regents and the UTIMCO Board of Directors. Chairman Huffines then asked Vice Chairman Foster to chair the meeting with Vice Chairman Ferguson.

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

University of Texas System Board Vice Chairman Foster and The University of Texas Investment Management Company (UTIMCO) Board of Directors' Vice Chairman Ferguson welcomed the following members of the UTIMCO Board and staff.

UTIMCO Directors

Chairman Erle Nye (did not attend)
Vice Chairman J. Philip Ferguson
Vice Chairman for Policy, Chancellor Francisco G. Cigarroa

Mr. Clint D. Carlson
Mr. Paul Foster
Ms. Janiece Longoria
Ms. Colleen McHugh
Mr. Ardon E. Moore (did not attend)
Mr. Charles W. Tate

U. T. System

Mr. Philip Aldridge, Vice Chancellor for Finance and Business Development
Mr. William Huang, Treasury Manager
Mr. Barry Burgdorf, Vice Chancellor and General Counsel
Mr. James Phillips, Senior Attorney, Office of General Counsel
Ms. Francie Frederick, General Counsel to the Board of Regents
Ms. Karen Rabon, Assistant General Counsel to the Board of Regents
Mr. Charles Chaffin, Chief Audit Executive
Ms. Moshmee Kalamkar, Audit Supervisor
Mr. Anthony de Bruyn, Director of Public Affairs

Texas A&M University System

Mr. Gregory R. Anderson, Associate Vice Chancellor and Treasurer (did not attend)

UTIMCO

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

UTIMCO Board Advisors and Consultants

Dr. Keith Brown, Advisor to the Chairman, Fayeze Sarofim Fellow and Professor of Finance, Red McCombs School of Business, U. T. Austin
Mr. Jerry Turner, Counsel, Andrews Kurth LLP
Mr. Bruce Myers, Investment Consultant, Cambridge Associates LLC

2. U. T. System Board of Regents: Annual Briefing on Fiduciary Responsibilities of Directors including discussion of the Master Investment Management Services Agreement (IMSA), Board of Regents' Expectations of UTIMCO Directors, Code of Ethics, and Bylaws

Vice Chancellor and General Counsel Barry Burgdorf presented the annual briefing on fiduciary responsibilities of directors including discussion of the Master Investment Management Services Agreement (IMSA), Board of Regents' Expectations of UTIMCO Directors, the Code of Ethics, and the Bylaws. The Board of Regents' Expectations of UTIMCO Directors on Pages 26 - 30 served 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”).

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*, Rule 20101 and Rule 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 at least 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, other than the

Director recommended by The Texas A&M University System Board of Regents, 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 Systemwide 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 (Andrews Kurth, LLP);
3. Compensation consultants (Mercer);
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.

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. Such review shall include distribution (spending) guidelines, long-term investment return expectations and expected risk levels, Asset Class and Investment Type allocation targets and ranges, expected returns for each Asset Class and Investment Type and fund, designated performance benchmarks for each Asset Class and Investment Type and such other matters as the U. T. Board or its staff designees may request.
- After UTIMCO completes its assessment, UTIMCO 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 and Investment Type 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 and Investment Type.
- Monitor and report on investment performance for each of the Funds. With respect to all Funds other than the Separately Invested Funds ("SIFs"), such responsibilities shall include the calculation and evaluation of investment returns for each Asset Class and Investment Type 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 Class and Investment Type allocation targets, ranges, and performance benchmarks for each Asset Class and Investment Type (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 and Chief Investment Officer, 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 incentive compensation for UTIMCO's officers and other compensation plan participants.
- 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 UTIMCO 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 if after the investment the UTIMCO Director’s investment constitutes a pecuniary interest (i.e., ownership of five percent or more of the fair market value of the assets or of the voting stock or from which the UTIMCO Director received more than five percent of his or her gross income for the preceding calendar year). 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 if the UTIMCO Director’s interest constitutes a pecuniary interest. 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 three 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: Discussion of U. T. System financial resources and assets managed by The University of Texas Investment Management Company (UTIMCO)

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, discussed the importance of investment assets in the context of The University of Texas System's overall financial resources. The presentation provided 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.

In reference to the constitutional limits on Permanent University Fund (PUF) debt, Regent Dannenbaum asked if the U. T. System is subject to the state-wide constitutional limit on the amount of bonds and Dr. Kelley responded no, although the U. T. System is accountable to the Bond Review Board for approval of issuances. Regent Gary asked how the PUF debt capacity will impact capital projects and Executive Vice Chancellor Kelley said it is a constraint that is constitutionally based but the protection it provides assures that debt issued will never exceed the capacity level. Since PUF debt cannot be issued above the cap, Vice Chairman Foster asked what happens if debt is issued and the book value declines and Dr. Kelley answered the only restriction in that case is that more debt cannot be issued.

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

Mr. J. Philip Ferguson, Vice Chairman of The University of Texas Investment Management Company (UTIMCO) Board of Directors, provided a report from UTIMCO Board Chairman Nye who was not in attendance, and he introduced the UTIMCO Board Committee Chairs for remarks.

- Audit and Ethics Committee: Chairman Paul Foster reported on activities of the Committee since the last joint meeting on July 24, 2008.

Regent Longoria asked about the Committee's process to assess and monitor enterprise risk management and Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of UTIMCO, responded that is the number one goal of the Chief Compliance Officer. The review will be completed this year and brought through the Audit and Ethics Committee to the UTIMCO Board. Further, the review will be coordinated with University of Texas System compliance.

- Risk Committee: Chairman Charles W. Tate reported on the composition, purpose, and activities of the Committee since the last joint meeting on July 24, 2008.

Chairman Tate reported the Risk Committee met with the Policy Committee to review changes in the Investment Policy Statements, the Liquidity Policy, the Derivative Investment Policy, and changes in delegation of authority that would be presented to the UTIMCO Board on July 9, 2009, and to The University of Texas System Board of Regents in August 2009.

- Policy Committee: Chairman Colleen McHugh reported on the composition, purpose, and activities of the Committee since the last joint meeting on July 24, 2008.

Vice Chairman McHugh noted that the Board members serve on multiple committees. She remarked that the committee structure is working well.

- Compensation Committee: Chairman J. Phillip Ferguson reported on the composition, purpose, and activities of the Committee since the last joint meeting on July 24, 2008.

Chairman Ferguson previewed major recommendations of the UTIMCO Compensation Program that would be proposed to the UTIMCO Board on July 9, 2009, and to the U. T. System Board of Regents in August 2009.

In response to questions from Regent Gary, Vice Chairman Foster and Mr. Zimmerman discussed the significance of timing related to valuing of private and alternative investments. Mr. Zimmerman said UTIMCO places investment managers in the midway to conservative range with respect to their valuation and pricing practices. Mr. Tate added there is continual, healthy dialog amongst the UTIMCO team on these issues and that the UTIMCO staff does not necessarily accept these valuations at face value. Mr. Charles Chaffin, Chief Audit Executive for the U. T. System, clarified that from a good governance standpoint, the Board of Regents engages and hires the independent auditor of the funds managed by UTIMCO and he noted the auditor engaged, Mr. Tom Wagner of Deloitte & Touche, concluded that UTIMCO engages in best practices to determine these values. Mr. Zimmerman added that the auditor felt UTIMCO has detailed policies, clear and well-document procedures, and is attentive to detail in this matter.

Regent Dannenbaum asked about investment opportunities in a government mortgage fund program known as Public-Private Investment Program (PPIP), wherein the U.S. Treasury picked nine money managers to launch its program to buy mortgage-backed securities from banks. Mr. Zimmerman reported UTIMCO is monitoring the program but has not

invested in these funds to date. Mr. Tate clarified that UTIMCO, however, does have investment mandates with certain of the entities that plan to participate in the program although, as Mr. Zimmerman added, those mandates are not necessarily to purchase these assets. Also in response to a question by Regent Dannenbaum about protecting against inflation, Mr. Zimmerman explained the International Swaps and Derivatives Association, Inc (ISDA) agreements with counterparties.

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

Mr. Bruce Myers, Cambridge Associates, introduced Cambridge as a consultant to The University of Texas Investment Management Company (UTIMCO) Board of Directors. He reported on the investment objectives and performance of funds managed by UTIMCO including objectives, performance, policy portfolios, benchmark, and asset allocation.

Chairman Huffines asked about the challenging nature of large educational endowment benchmarks and UTIMCO's performance related to peers. Mr. Myers and Mr. Zimmerman, Chief Executive Officer and Chief Investment Officer of UTIMCO, discussed the differences between the private and public universities in terms of endowments, investment strategies, and accountability to the public. Mr. Myers stated UTIMCO's performance would be more competitive if only compared with other large public universities.

Mr. Bruce Zimmerman then reported on current UTIMCO performance through the fiscal quarter ending May 31, 2009, following the materials on Pages 34 - 38. He reported for the quarter, endowments were up just under 11.5% and the Intermediate Term Fund (ITF) was up about 15.5%. However, for fiscal year-to-date, both the endowments and the ITF were down, 18.75% and 13.3%, respectively.

Chairman Huffines asked about the underperformance of the emerging markets portfolio and Mr. Zimmerman explained that UTIMCO's managers tend to be more value-oriented and thus, may not perform as well in the short term when certain markets take off but their portfolios tend not to fall as much when the markets decline. He spoke of future plans to diversify more and to engage more active managers.

UTIMCO Performance Summary

May 31, 2009

	Net Asset Value 5/31/2009 (in Millions)	Periods Ended May 31, 2009 (Returns for Periods Longer Than One Year are Annualized)							
		<u>Short Term</u>		<u>Year to Date</u>		<u>Historic Returns</u>			
		1 Mo	3 Mos	Calendar	Fiscal	1 Yr	3 Yrs	5 Yrs	10 Yrs
ENDOWMENT FUNDS									
Permanent University Fund	\$ 9,144	5.80	11.49	4.17	(18.54)	(24.75)	(2.40)	3.86	4.39
General Endowment Fund		5.78	11.42	4.08	(18.78)	(24.97)	(2.26)	3.92	N/A
Permanent Health Fund	799	5.78	11.40	4.09	(18.75)	(24.92)	(2.30)	3.87	N/A
Long Term Fund	4,267	5.78	11.40	4.09	(18.75)	(24.92)	(2.30)	3.87	5.08
Separately Invested Funds	104	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	14,314								
OPERATING FUNDS									
Short Term Fund	1,498	0.05	0.15	0.34	1.10	1.78	3.92	3.56	3.50
Intermediate Term Fund	3,365	6.96	15.48	7.19	(13.31)	(18.96)	(0.70)	N/A	N/A
Total Operating Funds	4,863								
Total Investments	\$ 19,177								
VALUE ADDED									
Permanent University Fund		0.67	(1.69)	(0.09)	0.73	1.13	1.35	1.22	0.85
General Endowment Fund		0.65	(1.76)	(0.18)	0.49	0.91	1.49	1.28	N/A
Short Term Fund		0.04	0.07	0.25	0.49	0.66	0.55	0.37	0.22
Intermediate Term Fund		0.21	(2.39)	0.32	0.58	0.85	1.99	N/A	N/A
VALUE ADDED (\$ IN MILLIONS)									
Permanent University Fund		58	(137)	(6)	83	138	376	535	N/A
General Endowment Fund		32	(81)	(9)	31	64	233	309	N/A
Intermediate Term Fund		7	(70)	10	22	34	192	N/A	N/A
Total Value Added		97	(288)	(5)	136	236	801	844	N/A

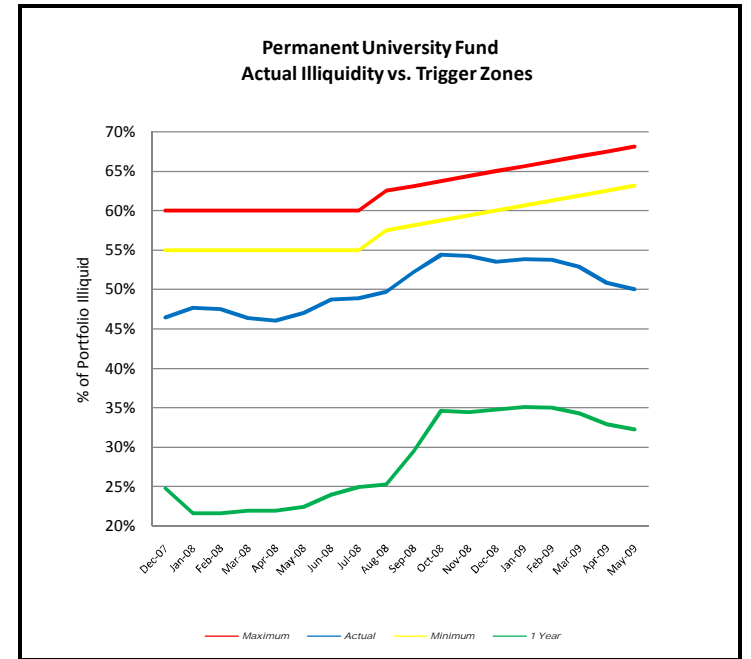
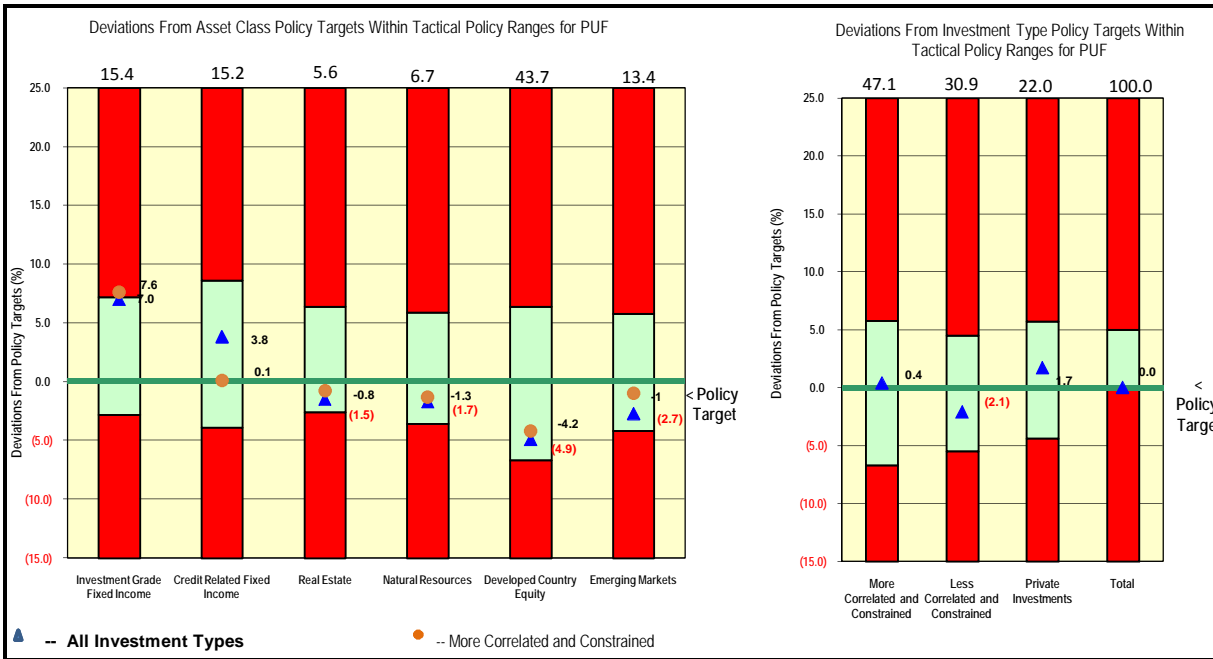
I. PERMANENT UNIVERSITY FUND Investment Reports for Periods Ended May 31, 2009

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

<u>Summary of Capital Flows</u>			
(\$ millions)	Fiscal Year Ended August 31, 2008	Quarter Ended May 31, 2009	Fiscal Year Ended August 31, 2009
Beginning Net Assets	\$ 11,742.8	\$ 8,286.9	\$ 11,359.5
PUF Lands Receipts	457.7	50.5	285.6
Investment Return	(339.5)	944.4	(2,082.7)
Expenses	(52.6)	(5.3)	(20.4)
Distributions to AUF	(448.9)	(132.7)	(398.2)
Ending Net Assets	<u>\$ 11,359.5</u>	<u>\$ 9,143.8</u>	<u>\$ 9,143.8</u>

	Returns		Fiscal Year to Date		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	0.13%	3.91%	0.54%	-0.26%	0.28%
Credit-Related	-8.42%	-4.75%	-0.21%	0.02%	-0.19%
Real Estate	-31.52%	-35.03%	-0.16%	0.27%	0.11%
Natural Resources	-34.94%	-30.66%	-0.03%	-0.21%	-0.24%
Developed Country	-28.46%	-26.37%	0.47%	-0.51%	-0.04%
Emerging Markets	-25.66%	-17.65%	0.14%	-0.90%	-0.76%
Total More Correlated and Constrained	-22.29%	-20.19%	0.75%	-1.59%	-0.84%
Less Correlated and Constrained					
Private Investments	-11.22%	-16.07%	-0.03%	1.51%	1.48%
Total	-18.54%	-19.27%	0.64%	0.09%	0.73%

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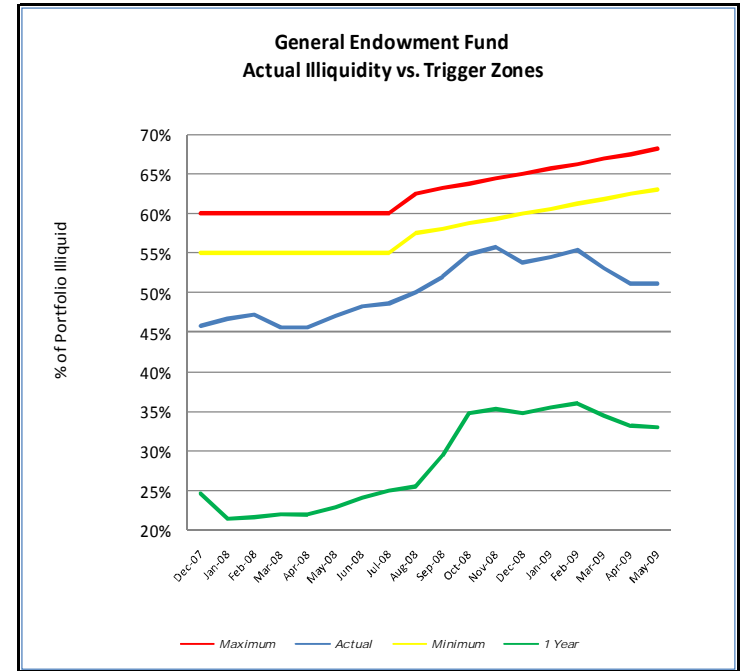
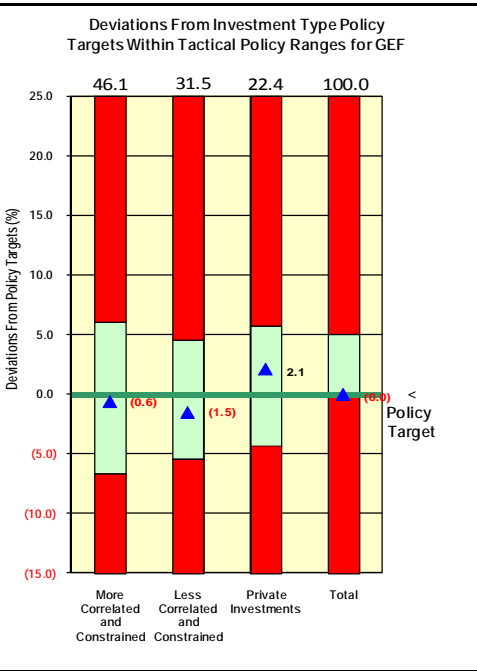
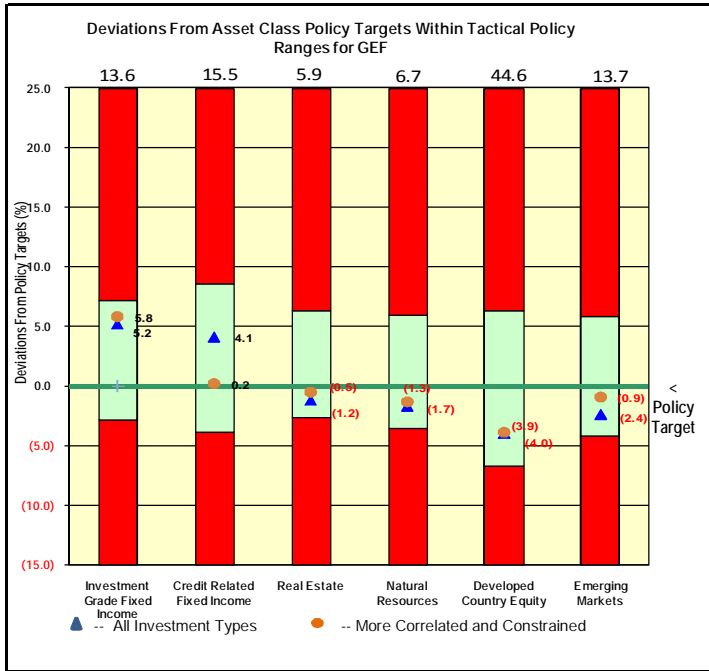
II. GENERAL ENDOWMENT FUND Investment Reports for Periods Ended May 31, 2009

Prepared in accordance with Texas Education Code Sec. 51.0032

<u>Summary of Capital Flows</u>			
(\$ millions)	Fiscal Year Ended August 31, 2008	Quarter Ended May 31, 2009	Fiscal Year Ended August 31, 2009
Beginning Net Assets	\$ 6,433.1	\$ 4,557.1	\$ 6,310.4
Contributions	358.6	56.6	161.4
Withdrawals	(20.2)	(4.1)	(6.3)
Distributions	(259.0)	(70.4)	(208.7)
Investment Return	(180.8)	527.4	(1,185.9)
Expenses	(21.3)	(0.4)	(4.7)
Ending Net Assets	<u>\$ 6,310.4</u>	<u>\$ 5,066.2</u>	<u>\$ 5,066.2</u>

	Returns		Fiscal Year to Date		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	0.12%	3.91%	0.41%	-0.26%	0.15%
Credit-Related	-8.57%	-4.75%	-0.20%	0.02%	-0.18%
Real Estate	-31.65%	-35.03%	-0.17%	0.24%	0.07%
Natural Resources	-34.15%	-30.66%	-0.03%	-0.16%	-0.19%
Developed Country	-28.87%	-26.37%	0.44%	-0.59%	-0.15%
Emerging Markets	-25.67%	-17.65%	0.13%	-0.90%	-0.77%
Total More Correlated and Constrained	-22.96%	-20.19%	0.58%	-1.65%	-1.07%
Less Correlated and Constrained	-11.22%	-16.07%	-0.02%	1.50%	1.48%
Private Investments	-19.92%	-19.34%	-0.11%	0.19%	0.08%
Total	-18.78%	-19.27%	0.45%	0.04%	0.49%

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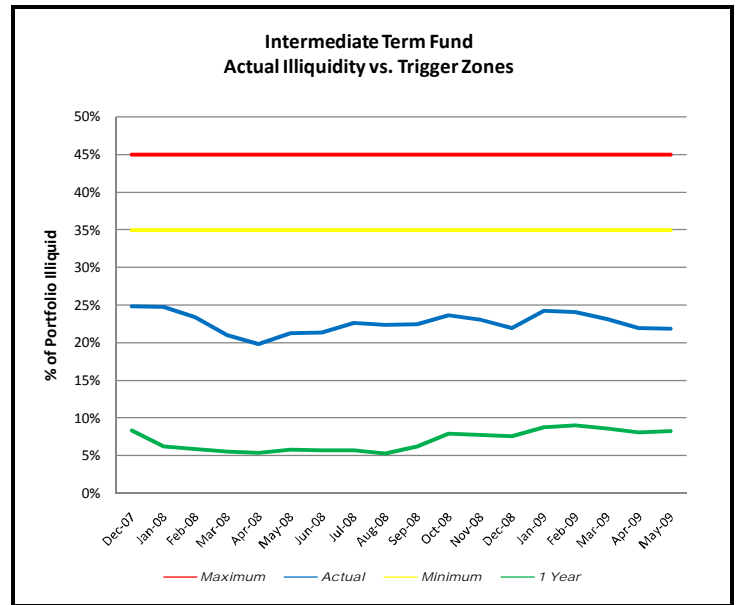
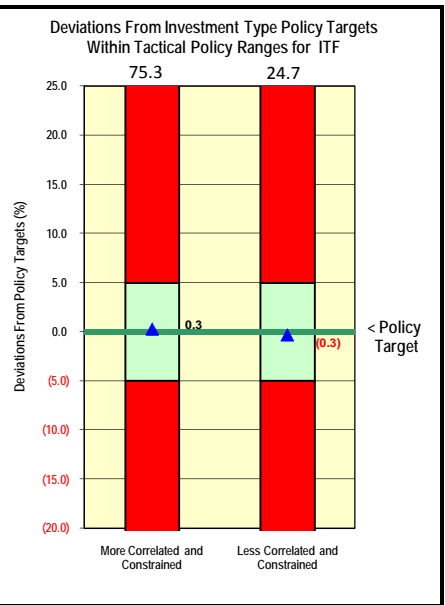
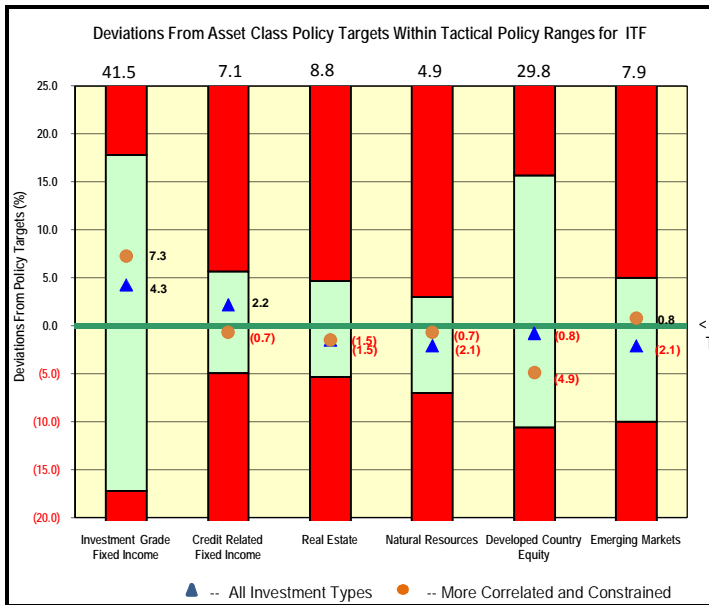


III. INTERMEDIATE TERM FUND Investment Reports for Periods Ended May 31, 2009

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
(\$ millions)	Fiscal Year Ended August 31, 2008	Quarter Ended May 31, 2009	Fiscal Year Ended August 31, 2009
Beginning Net Assets	\$ 3,720.6	\$ 2,927.0	\$ 3,874.8
Contributions	1,639.1	22.4	238.0
Withdrawals	(1,335.3)	(13.9)	(158.7)
Distributions	(118.6)	(22.8)	(72.4)
Investment Return	(7.5)	454.7	(507.6)
Expenses	(23.5)	(2.2)	(8.9)
Ending Net Assets	<u>\$ 3,874.8</u>	<u>\$ 3,365.2</u>	<u>\$ 3,365.2</u>

	Returns		Fiscal Year to Date		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	1.49%	3.91%	0.33%	-0.79%	-0.46%
Credit-Related	-10.14%	-4.75%	-0.24%	-0.06%	-0.30%
Real Estate	-31.51%	-35.03%	-0.35%	0.48%	0.13%
Natural Resources	-31.60%	-30.66%	0.01%	-0.02%	-0.01%
Developed Country	-24.66%	-26.37%	-0.01%	0.35%	0.34%
Emerging Markets	-25.84%	-17.65%	0.17%	-0.47%	-0.30%
Total More Correlated and Constrained	-14.11%	-13.45%	-0.09%	-0.51%	-0.60%
Less Correlated and Constrained	-11.26%	-16.07%	-0.27%	1.45%	1.18%
Private Investments	0.00%	0.00%	0.00%	0.00%	0.00%
Total	-13.31%	-13.89%	-0.36%	0.94%	0.58%



IV. SEPARATELY INVESTED ASSETS
Summary Investment Report at May 31, 2009
 Report prepared in accordance with *Texas Education Code Sec. 51.0032*

ASSET TYPES	(\$ thousands)															
	FUND TYPE															TOTAL
	CURRENT PURPOSE DESIGNATED		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		TOTAL EXCLUDING OPERATING FUNDS		OPERATING FUNDS (SHORT TERM FUND)			
BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	
Cash & Equivalents:																
Beginning value 02/28/09	6	6	2,111	2,111	54,677	54,677	1,853	1,853	5,843	5,843	64,490	64,490	1,607,638	1,607,638	1,672,128	1,672,128
Increase/(Decrease)	5	5	(348)	(348)	(29,763)	(29,763)	(612)	(612)	(3,547)	(3,547)	(34,265)	(34,265)	(110,056)	(110,056)	(144,321)	(144,321)
Ending value 05/31/09	11	11	1,763	1,763	24,914	24,914	1,241	1,241	2,296	2,296	30,225	30,225	1,497,582	1,497,582	1,527,807	1,527,807
Debt Securities:																
Beginning value 02/28/09	-	-	265	269	11,356	11,947	15,824	15,102	-	-	27,445	27,318	-	-	27,445	27,318
Increase/(Decrease)	-	-	-	(8)	1,064	1,286	(18)	544	-	-	1,046	1,822	-	-	1,046	1,822
Ending value 05/31/09	-	-	265	261	12,420	13,233	15,806	15,646	-	-	28,491	29,140	-	-	28,491	29,140
Equity Securities:																
Beginning value 02/28/09	17	3,488	463	418	28,260	18,241	19,009	10,467	-	-	47,749	32,614	-	-	47,749	32,614
Increase/(Decrease)	-	(516)	1,036	1,064	(1,792)	3,415	(130)	3,906	-	-	(886)	7,869	-	-	(886)	7,869
Ending value 05/31/09	17	2,972	1,499	1,482	26,468	21,656	18,879	14,373	-	-	46,863	40,483	-	-	46,863	40,483
Other:																
Beginning value 02/28/09	-	-	370	370	8	8	337	134	437	437	1,152	949	-	-	1,152	949
Increase/(Decrease)	-	-	(192)	(192)	1,647	1,647	-	-	1,573	1,573	3,028	3,028	-	-	3,028	3,028
Ending value 05/31/09	-	-	178	178	1,655	1,655	337	134	2,010	2,010	4,180	3,977	-	-	4,180	3,977
Total Assets:																
Beginning value 02/28/09	23	3,494	3,209	3,168	94,301	84,873	37,023	27,556	6,280	6,280	140,836	125,371	1,607,638	1,607,638	1,748,474	1,733,009
Increase/(Decrease)	5	(511)	496	516	(28,844)	(23,415)	(760)	3,838	(1,974)	(1,974)	(31,077)	(21,546)	(110,056)	(110,056)	(141,133)	(131,602)
Ending value 05/31/09	28	2,983	3,705	3,684	65,457	61,458	36,263	31,394	4,306	4,306	109,759	103,825	1,497,582	1,497,582	1,607,341	1,601,407

Details of individual assets by account furnished upon request.

6. U. T. System: Update regarding centralization of operating funds

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, provided an update on the centralization of University of Texas System operating funds, which was implemented on February 1, 2006. The presentation provided a brief overview of centralization and detailed the value added from centralization through May 31, 2009.

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

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of The University of Texas Investment Management Company (UTIMCO), reported on the UTIMCO organization, investments, control and support and Fiscal Year 2010 priorities.

In response to a question from Chairman Huffines, Mr. Zimmerman listed the following recent audit activities:

- Deloitte & Touche, external auditors, audited the funds and UTIMCO's work
- The University of Texas System audits the Permanent University Fund (PUF) controls, Chief Executive Officer (CEO) expenses, and internal fixed income and derivatives.
- The State audits the Code of Ethics.

Regent Dannenbaum inquired about information technology security and Mr. Zimmerman explained there is only one system that deals with money and that works only with the U. T. System institutions. He said security enhancements have been made to the UTIMCO website. The funds systems are located at the funds managers and at the custodian, BNY Mellon, and UTIMCO endeavors to understand as much about their technology platforms as possible.

Regent Gary endorsed the allocation of resources for due diligence necessary to find opportunities in such areas as emerging markets.

8. U. T. System Board of Regents: Report on The University of Texas Investment Management Company (UTIMCO) Fiscal Year 2010 budget and fees, and U. T. System Office of Finance review

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of The University of Texas Investment Management Company (UTIMCO),

presented the preliminary UTIMCO Annual Budget for Fiscal Year 2010. Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, provided a review of the UTIMCO budget including an analysis of budget trends.

The UTIMCO Board will seek approval of the budget at The University of Texas System Board of Regents' August 2009 meeting.

Mr. Zimmerman said some of the management fees are higher than they should be and this is an area of focus for UTIMCO. Chairman Huffines asked if some of the endowment managers are receptive to driving down some of the management fees and Mr. Zimmerman replied they are. He noted improvements in the hedge funds.

9. U. T. System Board of Regents: Discussion of U. T. System Funds' Investment Strategy

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of The University of Texas Investment Management Company (UTIMCO), reported on the investment strategy with respect to asset allocation, downside risk, liquidity (and unfunded commitments), leverage, and use of derivatives, including proposed changes to Delegation of Authority, Liquidity Policy, and the Derivative Investment Policy. [Mr. Zimmerman's presentation](#) is on file in the Office of the Board of Regents.

In response to a question from Vice Chairman Foster about the University's investments in oil and gas assets in West Texas, Mr. Zimmerman said those assets are qualitatively taken into consideration in developing the investment portfolio. He explained that along with other natural resources, these assets allow diversification from stocks and bonds and contribute to the strategic view that natural resources is a good place to invest.

Regent Dannenbaum asked about investments in master limited partnerships and Mr. Zimmerman and Mr. Mark Warner, Director - Natural Resources Investments, responded they are reviewing such investments.

Mr. Zimmerman elaborated on the strategy of UTIMCO, saying that the corporation is not set up to trade, rather UTIMCO depends on their managers to move in and out of trade, particularly multistrategy hedge fund managers. He explained that UTIMCO is more set up for long-term investments. Regent Gary asked about the length of the investment period for unfunded commitments and Mr. Zimmerman answered typically the period is four to six years from the final closing. Regent Powell asked about the time, effort, and cost of interviewing and hiring managers particularly with respect to the number of fund managers recently replaced in the hedge fund book, and

Mr. Zimmerman explained that UTIMCO recently downsized the hedge fund book and that UTIMCO's strategy has been to hire a core of proven managers and hire and test newer, less experienced managers. In this environment, UTIMCO decided when reducing its hedge fund book to have fewer bets on newer managers. He also noted that some of the managers just did not work out.

SCHEDULED MEETING.--The next regularly scheduled meeting will be held on August 19-20, 2009, in Austin, Texas.

ADJOURNMENT.--There being no further business, the meeting was adjourned at 12:25 p.m.

/s/Carol A. Felkel
Assistant Secretary to the Board of Regents

August 18, 2009