

Meeting No. 1,035

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

Pages 1 - 43

July 24, 2008

Austin, Texas

MEETING NO. 1,035

THURSDAY, JULY 24, 2008.--The members of the Board of Regents of The University of Texas System convened this meeting at 9:10 a.m. on Thursday, July 24, 2008, in the Board Room, Ninth Floor, Ashbel Smith Hall, 201 West Seventh Street, Austin, Texas, with the following participation:

ATTENDANCE.--

Present
Chairman Caven, presiding
Vice Chairman Huffines
Vice Chairman Rowling
Regent Barnhill
Regent Dannenbaum
Regent Dower
Regent Foster
Regent Gary
Regent McHugh

Absent
Regent Longoria

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

WELCOME TO REGENT BENJAMIN L. DOWER.--Chairman Caven welcomed Regent Benjamin L. Dower (Student Regent) to his first regularly scheduled Board meeting.

[On May 9, 2008, Governor Rick Perry named Mr. Benjamin L. Dower, a student at The University of Texas at Dallas, as Student Regent to the Board of Regents of The University of Texas System for a term beginning June 1, 2008, and ending on May 31, 2009.]

CONVENE JOINT MEETING: BOARD OF REGENTS AND THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY (UTIMCO) BOARD OF DIRECTORS.--At 9:10 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 Caven and Vice Chairman Rowling, 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.

1. U. T. System Board of Regents: Introduction and welcome to The University of Texas Investment Management Company (UTIMCO) Board of Directors

Chairman Caven and Vice Chairman Rowling, Chairman of the Board of Directors of The University of Texas Investment Management Company (UTIMCO), welcomed the following members of the UTIMCO Board and staff.

UTIMCO Directors

Chairman Robert B. Rowling
Vice Chairman J. Philip Ferguson
Vice Chairman for Policy, Chancellor Kenneth I. Shine
Mr. Clint D. Carlson (did not attend)
Mr. Paul Foster
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 Phillips, 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. Moshmee Kalamkar, Audit Supervisor
Mr. Anthony de Bruyn, Director of Public Affairs

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 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
Ms. Christy Wallace - Executive Assistant

UTIMCO Board Advisors and Consultants

Mr. Greg Anderson, Associate Vice Chancellor and Treasurer, The Texas A&M University System

Dr. Keith Brown, Advisor to the Chairman, Fayez Sarofim Fellow and Professor of Finance, Red McCombs School of Business, The University of Texas at Austin

Mr. Jerry Turner, Counsel, Vinson & Elkins LLP

Mr. Bruce Myers, Investment Consultant, Cambridge Associates LLC

Mr. Tom Wagner, Audit Partner, Deloitte & Touche LLP (did not attend)

Ms. Nanci Hibschan, Mercer (did not attend)

2. U. T. System Board of Regents: Report on legal issues -- Annual update on fiduciary responsibilities; Master Investment Management Services Agreement (IMSA); Board of Regents' Expectations of The University of Texas Investment Management Company (UTIMCO) Directors

Vice Chancellor and General Counsel Barry Burgdorf discussed fiduciary responsibilities of Regents and The University of Texas Investment Management Company (UTIMCO) Directors. The Board of Regents' Expectations of UTIMCO Directors follows on Pages 4 - 8, which served as background information for this discussion.

UTIMCO General Counsel Cecilia Gonzalez was available to discuss the current Master Investment Management Services Agreement (IMSA).

Note from the Assistant Secretary to the Board of Regents:

Some amendments to the Code of Ethics approved by the Board of Regents on August 14, 2008, impacted the document titled "Expectations of UTIMCO Directors." Needed revisions are reflected in the document attached.

**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*, 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 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);
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: Reports on The University of Texas Investment Management Company (UTIMCO) Board operations and committees

Vice Chairman Rowling, Chairman of The University of Texas Investment Management Company (UTIMCO) Board of Directors, introduced the UTIMCO Board Committee Chairs for remarks.

- Audit and Ethics Committee, Chair Erle Nye

Mr. Nye introduced members of the Committee and he introduced Ms. Cecilia Gonzalez, UTIMCO's General Counsel and Chief Compliance Officer. Mr. Nye reviewed the role of the Committee as set out in the Agenda materials and described meetings held during the past year. He explained that the U. T. System Board hires auditors of the funds while the UTIMCO Board hires the auditor of the UTIMCO corporate books. He said the Committee works closely with The University of Texas System Audit Office and outside internal audit help was hired to conduct specific audits. He mentioned this Committee reviews changes proposed to the UTIMCO Code of Ethics and the Committee conducts self-assessments.

UTIMCO Chairman Rowling reported that a compliance certificate is sent to UTIMCO directors in advance of investing and Chief Compliance Officer Gonzalez monitors these matters.

- Risk Committee, Chair Charles W. Tate

Mr. Tate introduced members of the Committee and reviewed the role of the Committee as set out in the Agenda materials. He described items discussed and approved by the Committee during the past year, such as changes to the investment policy statements, the Derivative Policy, and the Liquidity Policy, delegation of authority, and the adoption of new investment mandate categorization procedures.

Vice Chairman Huffines asked about reporting procedures for situations of noncompliance and Mr. Tate, Mr. Zimmerman, and UTIMCO Chairman Rowling described the process for such reporting through the Risk Committee to the UTIMCO Board.

- Policy Committee, Chair Colleen McHugh

Regent McHugh said the Policy Committee overlaps other committees and focuses on responsibilities to the public. She introduced members of the Committee and summarized the role of the Committee as included in the Agenda materials. Regent McHugh also summarized the activities of

the Committee during the past year, including review of the Investment Management Services Agreement (IMSA), Code of Ethics, Bylaws, internal policies, and the investment policy statements.

- Compensation Committee, Chair J. Phillip Ferguson

Mr. Ferguson also introduced members of the Committee and he reviewed recent activities of the Committee, including addition of new positions, refinement of incentive compensation levels, goals of the Chief Executive Officer (CEO), pay levels, a review of non-cash benefits, and deferred compensation.

4. 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, LLC, reported on the investment objectives and performance of funds managed by The University of Texas Investment Management Company (UTIMCO) including objectives, performance, policy portfolios, benchmarks, and asset allocation.

In response to a question from Regent Barnhill, Mr. Myers reviewed the 25 peer institutions and compared their policies related to investment risk. In response to remarks by Vice Chairman Huffines that performance has been below the median peers, despite not using leverage on derivatives and increasing illiquidity, Mr. Myers said steps taken in 2003 to increase allocations towards more illiquid assets have led to stronger performance of the Permanent University Fund (PUF) and the General Endowment Fund (GEF), but, he said, the peer institutions were taking even more risks and utilizing leverage. Mr. Zimmerman responded with supporting data, saying illiquidity for private investments is now at about 17.5%, which might increase to about 20-25%. He said top performing endowments are higher, with Yale University and Princeton University at 50%. Mr. Zimmerman spoke about the 90-day liquidity measurement, which other endowments do not consider, and he described the distribution procedure used over the year.

Mr. Nye described the more conservative posture of The University of Texas System, a position he believes will lead UTIMCO to being a top performer. Vice Chairman Huffines asked about the allocation of public real estate in the Intermediate Term Fund (ITF) and Mr. Zimmerman described the liquidity of the ITF. Vice Chairman Rowling said performance relative to peers, as the market has deteriorated, has increased considerably. Regent Gary asked where UTIMCO fits among its peers, and Mr. Myers estimated that UTIMCO falls in the third quartile. In response to a question from Vice Chairman Huffines, Mr. Myers and Mr. Zimmerman said they would send out the asset allocation of UTIMCO's peer universe.

Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of UTIMCO, reported on current UTIMCO performance. The UTIMCO Performance Summary Report through the fiscal quarter ending May 31, 2008, is set forth on Page 12.

The Investment Reports for the fiscal quarter ended May 31, 2008, are set forth on Pages 13 – 16, reporting activity for the PUF, GEF, ITF, and Separately Invested Assets investments.

Mr. Zimmerman said losses were experienced in June 2008, and July continues to be a difficult month.

UTIMCO Performance Summary

May 31, 2008

	Net Asset Value 5/31/2008 (in Millions)	Periods Ended May 31, 2008 (Returns for Periods Longer Than One Year are Annualized)							
		Short Term		Year to Date		Historic Returns			
		1 Mo	3 Mos	Calendar	Fiscal	1 Yr	3 Yrs	5 Yrs	10 Yrs
ENDOWMENT FUNDS									
Permanent University Fund	\$ 12,246	1.50	2.78	0.91	4.64	4.82	12.29	14.02	8.19
General Endowment Fund		1.44	2.85	1.01	4.90	5.25	12.52	14.20	N/A
Permanent Health Fund	1,121	1.40	2.76	0.98	4.83	5.11	12.42	14.08	N/A
Long Term Fund	5,710	1.40	2.76	0.97	4.83	5.11	12.43	14.09	8.72
Separately Invested Funds	161	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	19,238								
OPERATING FUNDS									
Short Term Fund	1,749	0.25	0.80	1.52	3.27	4.65	4.69	3.40	3.86
Intermediate Term Fund	4,130	0.93	2.52	1.97	6.21	5.83	N/A	N/A	N/A
Total Operating Funds	5,879								
Total Investments	\$ 25,117								
VALUE ADDED									
Permanent University Fund		0.70	0.71	1.07	1.38	1.95	1.15	2.02	0.21
General Endowment Fund		0.64	0.78	1.17	1.64	2.38	1.38	2.20	N/A
Short Term Fund		0.22	0.43	0.50	0.80	0.80	0.40	0.23	0.21
Intermediate Term Fund		0.82	1.30	1.92	3.28	4.12	N/A	N/A	N/A
VALUE ADDED (\$ IN MILLIONS)									
Permanent University Fund		84	85	130	162	244	366	1,176	N/A
General Endowment Fund		43	52	80	108	164	242	686	N/A
Intermediate Term Fund		34	52	77	125	171	N/A	N/A	N/A

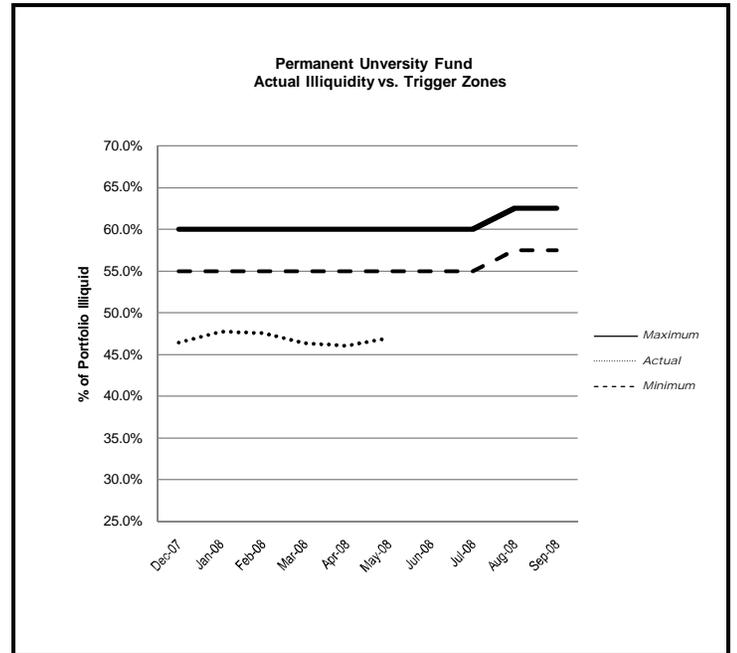
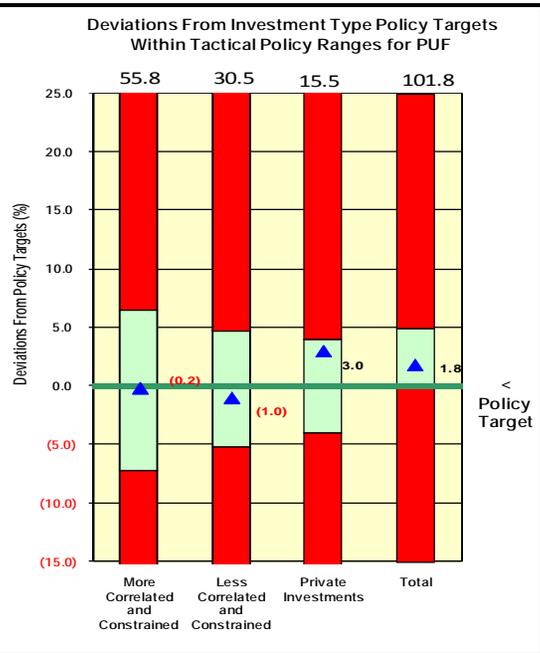
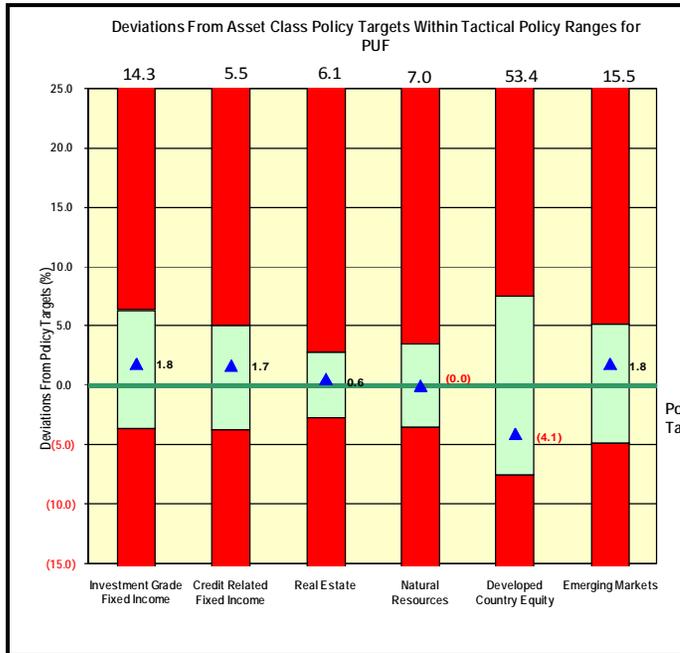
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I. PERMANENT UNIVERSITY FUND Investment Reports for Periods Ended May 31, 2008

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

Summary of Capital Flows			
(\$ millions)	Fiscal Year Ended August 31, 2007	Quarter Ended May 31, 2008	Fiscal Year to Date Ended May 31, 2008
Beginning Net Assets	\$ 10,313.4	\$ 11,905.8	\$ 11,742.8
PUF Lands Receipts	272.8	131.2	301.9
Investment Return	1,639.8	341.1	583.6
Expenses	(82.5)	(19.9)	(45.6)
Distributions to AUF	(400.7)	(112.2)	(336.7)
Ending Net Assets	<u>\$ 11,742.8</u>	<u>\$ 12,246.0</u>	<u>\$ 12,246.0</u>

	Returns		Fiscal Year to Date		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	6.21%	6.64%	-0.22%	-0.09%	-0.31%
Credit-Related	N/A	3.99%	0.02%	-0.06%	-0.04%
Real Estate	-4.96%	-10.55%	0.02%	0.31%	0.33%
Natural Resources	39.15%	34.75%	0.67%	0.20%	0.87%
Developed Country	-3.10%	-2.01%	0.03%	-0.41%	-0.38%
Emerging Markets	12.61%	12.79%	0.07%	-0.10%	-0.03%
Total More Correlated and Constrained	4.25%	3.33%	0.59%	-0.15%	0.44%
Less Correlated and Constrained					
	7.19%	-1.11%	-0.10%	2.42%	2.32%
Private Investments					
	2.33%	12.15%	-0.05%	-1.33%	-1.38%
Total	4.64%	3.26%	0.44%	0.94%	1.38%



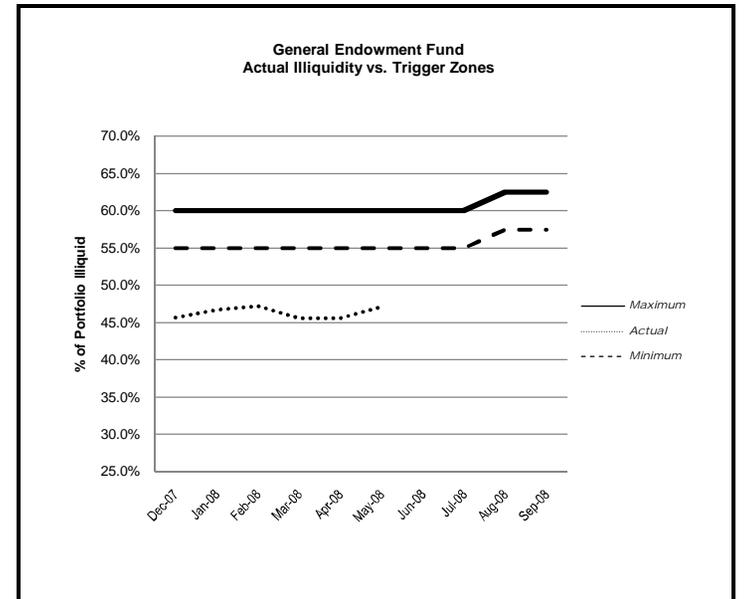
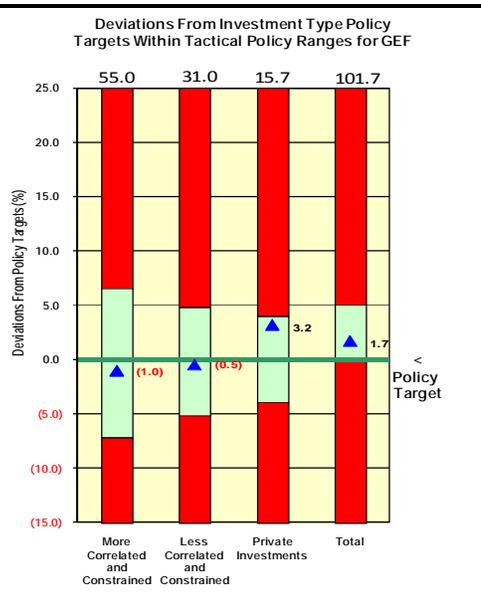
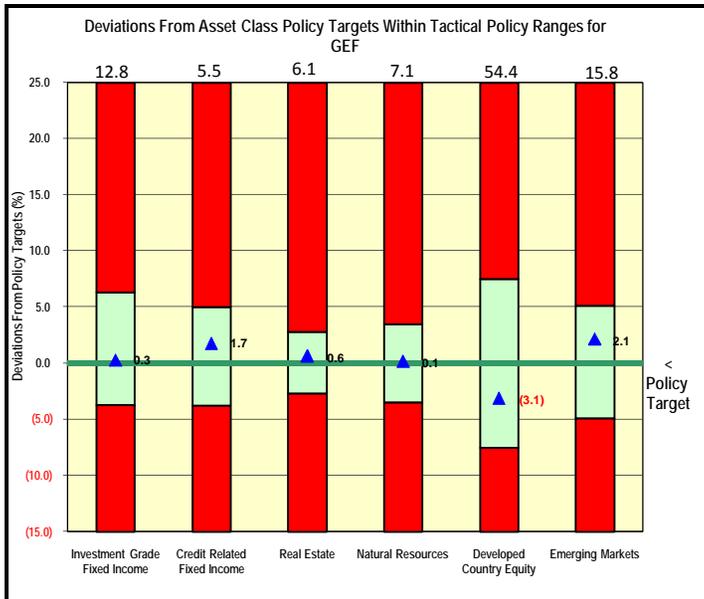
II. GENERAL ENDOWMENT FUND Investment Reports for Periods Ended May 31, 2008

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

<u>Summary of Capital Flows</u>			
(\$ millions)	Fiscal Year Ended August 31, 2007	Quarter Ended May 31, 2008	Fiscal Year to Date Ended May 31, 2008
Beginning Net Assets	\$ 5,427.8	\$ 6,598.9	\$ 6,433.1
Contributions	360.7	125.2	285.6
Withdrawals	(6.2)	(14.9)	(15.7)
Distributions	(239.6)	(65.4)	(193.0)
Investment Return	928.5	196.1	340.5
Expenses	(38.1)	(9.0)	(19.6)
Ending Net Assets	<u>\$ 6,433.1</u>	<u>\$ 6,830.9</u>	<u>\$ 6,830.9</u>

	Returns		Fiscal Year to Date		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	6.35%	6.64%	-0.18%	-0.08%	-0.26%
Credit-Related	N/A	3.99%	0.03%	-0.06%	-0.03%
Real Estate	-4.88%	-10.55%	0.04%	0.33%	0.37%
Natural Resources	38.37%	34.75%	0.61%	0.16%	0.77%
Developed Country	-3.04%	-2.01%	0.05%	-0.39%	-0.34%
Emerging Markets	12.48%	12.79%	0.08%	-0.12%	-0.04%
Total More Correlated and Constrained	4.37%	3.33%	0.63%	-0.16%	0.47%
Less Correlated and Constrained	7.20%	-1.11%	-0.05%	2.39%	2.34%
Private Investments	3.66%	12.15%	-0.05%	-1.12%	-1.17%
Total	4.90%	3.26%	0.53%	1.11%	1.64%

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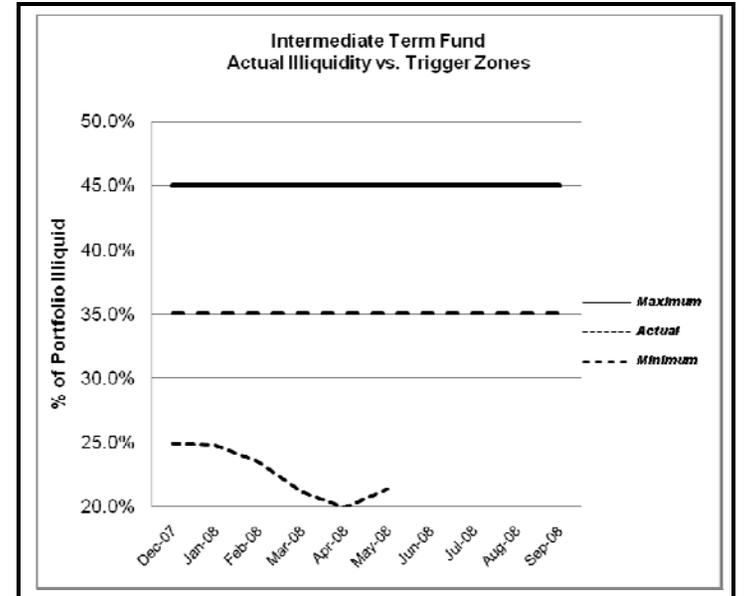
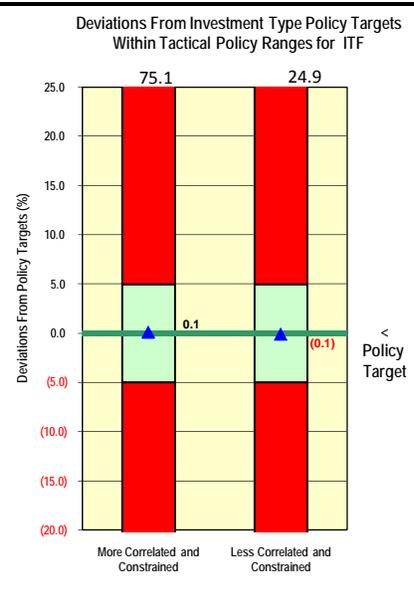
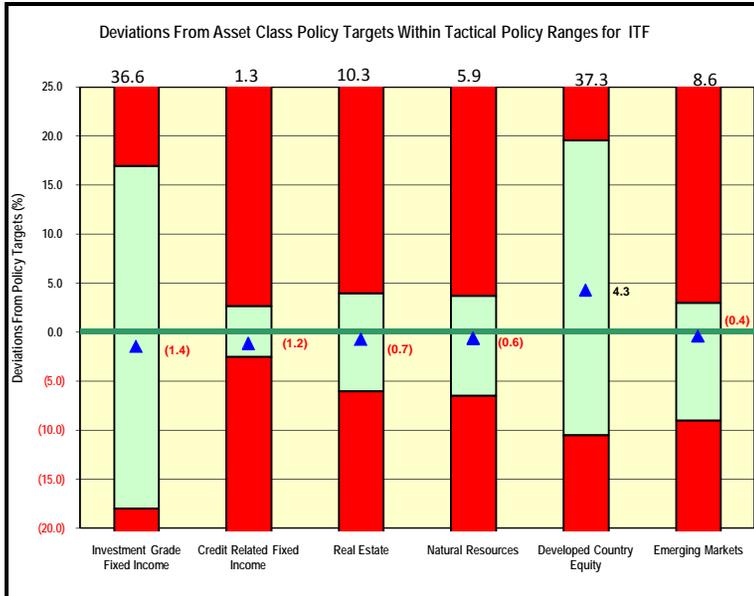
III. INTERMEDIATE TERM FUND Investment Reports for Periods Ended May 31, 2008

Prepared in accordance with Texas Education Code Sec. 51.0032

<u>Summary of Capital Flows</u>			
(\$ millions)	Fiscal Year Ended August 31, 2007	Quarter Ended May 31, 2008	Fiscal Year to Date Ended May 31, 2008
Beginning Net Assets	\$ 3,048.8	\$ 3,936.9	\$ 3,720.6
Contributions	664.6	213.4	1,449.3
Withdrawals	(228.6)	(88.1)	(1,189.9)
Distributions	(104.0)	(30.2)	(88.3)
Investment Return	377.4	106.4	259.0
Expenses	(37.6)	(8.9)	(21.2)
Ending Net Assets	<u>\$ 3,720.6</u>	<u>\$ 4,129.5</u>	<u>\$ 4,129.5</u>

	Returns		Fiscal Year to Date		
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	7.09%	6.35%	-0.09%	0.22%	0.13%
Credit-Related	N/A	3.99%	0.03%	-0.08%	-0.05%
Real Estate	-5.19%	-10.55%	-0.01%	0.61%	0.60%
Natural Resources	40.82%	34.75%	0.31%	0.23%	0.54%
Developed Country	-3.32%	-2.38%	0.29%	-0.20%	0.09%
Emerging Markets	10.72%	12.80%	-0.09%	-0.12%	-0.21%
Total More Correlated and Constrained	5.74%	4.28%	0.44%	0.66%	1.10%
Less Correlated and Constrained					
	7.52%	-1.11%	-0.05%	2.23%	2.18%
Private Investments					
	0.00%	0.00%	0.00%	0.00%	0.00%
Total	6.21%	2.93%	0.39%	2.89%	3.28%

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IV. SEPARATELY INVESTED ASSETS
Summary Investment Report at May 31, 2008
 Report prepared in accordance with *Texas Education Code Sec. 51.0032*

ASSET TYPES	(\$ thousands)															
	CURRENT PURPOSE		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		TOTAL EXCLUDING OPERATING FUNDS		OPERATING FUNDS (SHORT TERM FUND)		TOTAL	
	DESIGNATED	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Cash & Equivalents:																
Beginning value 02/29/08	1,978	1,978	2,708	2,708	87,785	87,785	6,812	6,812	5,859	5,859	105,142	105,142	1,389,745	1,389,745	1,494,887	1,494,887
Increase/(Decrease)	481	481	(369)	(369)	(51,504)	(51,504)	(4,379)	(4,379)	3,408	3,408	(52,363)	(52,363)	359,041	359,041	306,678	306,678
Ending value 05/31/08	2,459	2,459	2,339	2,339	36,281	36,281	2,433	2,433	9,267	9,267	52,779	52,779	1,748,786	1,748,786	1,801,565	1,801,565
Debt Securities:																
Beginning value 02/29/08	-	-	264	249	12,668	13,570	13,798	14,514	-	-	26,730	28,333	-	-	26,730	28,333
Increase/(Decrease)	-	-	-	(5)	62	(157)	(2,090)	(2,423)	-	-	(2,028)	(2,585)	-	-	(2,028)	(2,585)
Ending value 05/31/08	-	-	264	244	12,730	13,413	11,708	12,091	-	-	24,702	25,748	-	-	24,702	25,748
Equity Securities:																
Beginning value 02/29/08	24	2,605	443	417	33,524	35,641	18,482	19,465	-	-	52,473	58,128	-	-	52,473	58,128
Increase/(Decrease)	(6)	(10)	(15)	(15)	913	2,497	6,877	7,000	-	-	7,769	9,472	-	-	7,769	9,472
Ending value 05/31/08	18	2,595	428	402	34,437	38,138	25,359	26,465	-	-	60,242	67,600	-	-	60,242	67,600
Other:																
Beginning value 02/29/08	-	-	280	280	8	8	305	129	90	90	683	507	-	-	683	507
Increase/(Decrease)	-	-	12,654	12,654	(7)	(7)	(1)	1	1,739	1,739	14,385	14,387	-	-	14,385	14,387
Ending value 05/31/08	-	-	12,934	12,934	1	1	304	130	1,829	1,829	15,068	14,894	-	-	15,068	14,894
Total Assets:																
Beginning value 02/29/08	2,002	4,583	3,695	3,654	133,985	137,004	39,397	40,920	5,949	5,949	185,028	192,110	1,389,745	1,389,745	1,574,773	1,581,855
Increase/(Decrease)	475	471	12,270	12,265	(50,536)	(49,171)	407	199	5,147	5,147	(32,237)	(31,089)	359,041	359,041	326,804	327,952
Ending value 05/31/08	2,477	5,054	15,965	15,919	83,449	87,833	39,804	41,119	11,096	11,096	152,791	161,021	1,748,786	1,748,786	1,901,577	1,909,807

Details of individual assets by account furnished upon request.

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5. 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 2009 priorities.

6. U. T. System Board of Regents: Report on The University of Texas Investment Management Company (UTIMCO) Fiscal Year 2009 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), discussed the preliminary UTIMCO Annual Budget for Fiscal Year 2009, which will be brought to The University of Texas System Board of Regents' meeting for consideration in August 2008.

Mr. Zimmerman pointed out that Fiscal Year 2008 travel exceeded budget and he said he would be reviewing the Fiscal Year 2009 travel budget. Regent Barnhill asked how many people go on trips and Mr. Zimmerman answered that two or three staff members usually go on a trip and he described the advantages and results of such travel, such as to learn the market better and understand the investment community.

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, commented on the Office of Finance's review of the budget and confirmed that approximately 95% of UTIMCO management costs are for fees. He credited both Boards with releasing cost and fee information as another indication of the level of transparency. Vice Chairman Rowling asked about investment managers' fees and Mr. Zimmerman described procedures used to negotiate fees and efforts to find some savings in the future.

7. 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. His presentation detailed the value added from centralization through May 31, 2008.

8. 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 assets managed by The University of Texas Investment Management Company (UTIMCO) play in supporting the financial condition of the U. T. System.

Vice Chairman Huffines asked for clarification of the \$754 million in unrealized gains on securities held as shown on Page 94 of the Agenda Book, asking if the book value is added, would that be the constitutional capacity? Dr. Kelley said the unrealized gains are tracked in conservative ways and the book value continues to grow even in a down market. He expects the constitutional capacity to grow.

Regent Dannenbaum asked about the contingency plan in the case of a significant decrease in book value and Dr. Kelley responded that the bottom line in a downturn market would be cessation of issuing new Permanent University Fund (PUF) debt. Vice Chairman Rowling discussed the significant increase in PUF royalties and the importance of royalties to the U. T. System and to The Texas A&M University System.

9. U. T. System Board of Regents: Report on The University of Texas Investment Management Company (UTIMCO) 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 in anticipation of bringing potential changes to the investment policies to The University of Texas System Board of Regents in August 2008.

Mr. Zimmerman spoke about looking, with appropriate caution, for buying opportunities in distressed markets and about resetting private investment targets, widening ranges due to volatility, and increasing credit-related fixed income. He noted that investment programs in natural resources, emerging markets, and real estate are performing well and he spoke about decreasing the liquidity trigger zone in the Liquidity Policy from 40% to 35%.

ADJOURN JOINT MEETING AND CONVENE BOARD OF REGENTS' MEETING.--
Prior to adjourning the joint meeting, Chairman Caven thanked members of both Boards for their interest and input during the meeting and said he looks forward to next year's meeting and a continued close and productive working relationship throughout the year.

At 11:30 a.m., the joint meeting of The University of Texas System Board of Regents and The University of Texas Investment Management Company (UTIMCO) Board of Directors was adjourned. Chairman Caven announced the U. T. System Board of Regents would reconvene in Open Session to consider the following Agenda Items.

10. U. T. Medical Branch - Galveston: Resolution to honor the heroism of the late Mr. Roger Winslow Stone, a longtime employee

The Board adopted the following resolution in recognition of the late Mr. Roger Winslow Stone, a 28-year employee of The University of Texas Medical Branch at Galveston, who saved the lives of two Texas A&M University students caught below-decks when their sailboat capsized on June 6, 2008, during the 2008 Regatta de Amigos.

Mrs. Linda Stone, Eric Stone, Elizabeth Stone, other family and friends, and Mr. Erle Nye, a member of The Texas A&M University System Board of Regents, were in attendance for the presentation.

RESOLUTION

WHEREAS, Roger Winslow Stone joined The University of Texas Medical Branch at Galveston in July 1980, shortly after earning a Bachelor of Science degree in biomedical photography;

WHEREAS, Mr. Stone dedicated his professional life to creating a positive environment for co-workers, students, and patients, first as a biomedical photographer and in subsequent roles as distribution manager, process systems coordinator, and logistics program manager;

WHEREAS, Mr. Stone took it upon himself to help The University of Texas Medical Branch at Galveston address the transportation needs of its workforce by coordinating the institution's commuter van pool and by driving a commuter van himself;

WHEREAS, Mr. Stone brought beauty into the lives of others through his fine art photography and the publication of a book on public gardens of the East Coast, coauthored with his mother, Doris Lacy Stone;

WHEREAS, Mr. Stone exemplified work-life balance by being a devoted husband to Linda, his wife of 17 years, and active father to his two children, Eric and Elizabeth;

WHEREAS, Mr. Stone was a dedicated brother to Valerie Stone and caring uncle to Lacy Shannon and Caitlyn O'Connor;

WHEREAS, Mr. Stone, an experienced mariner, served as a mentor to other young people through his work as an assistant coach and safety officer for The Texas A&M University at Galveston sailing team;

WHEREAS, Mr. Stone, during Texas Race Week in 2007, displayed heroism and altruism when he and his crew abandoned their own race ambitions to save the crew of another sailboat in distress; and

WHEREAS, Mr. Stone's last act as a safety officer was to save the lives of two Texas A&M University students who were caught below-decks when their sailboat capsized during the 2008 Regatta de Amigos, at the cost of his own life.

THEREFORE, BE IT RESOLVED that The University of Texas System Board of Regents formally acknowledges and commends Mr. Stone's exemplary life of service and supports memorializing his life by further resolving that The University of Texas Medical Branch at Galveston will place a recognition plaque on a bench directly facing the Gulf of Mexico at the University's Ninth Street Circle, so that Mr. Stone's name will be an integral part of an area used daily by commuters to the campus; and

That The University of Texas Medical Branch at Galveston will establish the Roger Winslow Stone Hero Award to be given to other University employees who perpetuate his memory by demonstrating extraordinary courage and self-sacrifice in service to others; and

BE IT ALSO RESOLVED, That an official copy of this resolution will be provided to Mrs. Linda Stone as an expression of deep gratitude for the life of Mr. Roger Winslow Stone.

Chairman Caven presented Mrs. Stone with a framed copy of the resolution.

RECESS TO EXECUTIVE SESSION.--At 11:45 a.m., Chairman Caven announced the Board would recess to convene in Executive Session pursuant to *Texas Government Code* Sections 551.071, 551.073, and 551.074 to consider those matters listed on the Executive Session agenda.

RECONVENE IN OPEN SESSION.--At 2:31 p.m., the Board reconvened in open session. The following actions were taken at the end of the meeting on matters discussed in Executive Session.

1a. U. T. San Antonio: Acceptance of Factual Findings of Hearing Tribunal and Termination of Tenured Faculty Member, Dr. Ronald Ayers, effective at 5:00 p.m. Central Standard Time on July 24, 2008

Regent Barnhill moved that, based upon the record from the hearing of charges regarding the matter of Dr. Ronald Ayers, a tenured faculty member at The University of Texas at San Antonio (UTSA)

- a. the Board accept the factual finding of the faculty hearing tribunal that Dr. Ayers had “used a UTSA computer to access some sexually explicit web sites over an undetermined period of time,” and the Board conclude that the record demonstrates that this use was not related to Dr. Ayers’ University duties and was more than incidental; and
- b. the Board accept the factual finding of the faculty hearing tribunal that, when confronted with the information about the charges against him, Dr. Ayers “offered varying explanations over time” that “were not fully supported by the evidence” and that the record shows that Dr. Ayers admitted to deleting records related to the allegations against him, and the Board conclude that Dr. Ayers was dishonest and demonstrated a lack of integrity in responding to the charges.

Based upon the above findings, Regent Barnhill further moved that the Board determine that good cause exists for the termination of Dr. Ayers and vote to terminate him from the U. T. San Antonio faculty effective 5:00 p.m. Central Standard Time on July 24, 2008.

The motions were seconded by Vice Chairman Huffines and carried unanimously.

1b. 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 discussion was held on this item.

- 1c. 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, Chancellor ad interim, 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 year ending August 31, 2009

No discussion was held on this item.

- 1d. U. T. System: Discussion of individual personnel matters relating to Chancellor search

No discussion was held on this item.

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

No discussion was held on this item.

- 3a. U. T. M. D. Anderson Cancer Center: Discussion and appropriate action related to a proposed negotiated gift

No discussion was held on this item.

- 3b. U. T. Health Science Center – Houston: Discussion and appropriate action related to a proposed negotiated gift

No discussion was held on this item.

AGENDA ITEMS, CONTINUED

11. U. T. System Board of Regents: Approval of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) recommendations for amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, and the Long Term Fund

Upon recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO), the Board approved

amendments to the following Investment Policy Statements as set forth on the referenced pages. These mid-course corrections for the fiscal year ending August 31, 2008, are effective July 24, 2008.

- a. Exhibit A, Permanent University Fund (PUF) (See Page 25)
- b. Exhibit A, General Endowment Fund (GEF) (See Page 26)
- c. Exhibit B, Permanent Health Fund (PHF) (See Page 27)
- d. Exhibit B, Long Term Fund (LTF) (See Page 28)

Section 3(a) of the Investment Management Services Agreement (IMSA) approved on February 7, 2008, between the Board of Regents of The University of Texas System and UTIMCO requires UTIMCO to review the Investment Policies of the PUF, the GEF, the PHF, the LTF, and the Intermediate Term Fund (ITF) (collectively the "Funds") at least annually and recommend any changes of such Investment Policies for approval by the U. T. System Board. The review includes 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. System Board or its staff designees may request. After UTIMCO completes its assessment, UTIMCO staff shall forward any recommended changes to U. T. System staff for review and appropriate action. The amended Investment Policy Statements for the Funds were last approved by the UTIMCO Board on November 29, 2007, and by the U. T. System Board on December 6, 2007. UTIMCO will present further recommended changes to the Policy Statements for the fiscal years ending 2009, 2010, and 2011 at the Board of Regents' meeting scheduled for August 2008.

Due to the steep decline in public equity markets, the potential is increasing for the ratio of Private Investments over Total Endowment Assets to exceed the upper limit (17.5%) established in the Investment Policy Statements effective March 1, 2008. The ratio of Private Investments over Total Endowment Assets as of June 30, 2008, is 16.79% for the PUF and 16.71% for the GEF, compared to a June 30, 2008, maximum range of 16.8% for each. Because this ratio is very dependent on overall fund performance, it would not be possible to establish with any certainty what the ratio would be at the end of July or August. UTIMCO staff determined, and the UTIMCO Board agreed, that it would be imprudent to attempt to enter the secondary market to sell down a portion of existing private investments during this period, which is the only direct lever available to reduce this ratio.

Additionally, the UTIMCO Board has determined that disrupting UTIMCO's Private Investments commitment program is inadvisable, particularly given that it would not impact the ratio in the short term as well as the variable nature of the ratio. Therefore, to remain in compliance with the Investment Policy Statements, the UTIMCO Board recommended the Private Investments maximum range be increased to 20%, effective July 24, 2008.

EXHIBIT A
PERMANENT UNIVERSITY FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE JULY 24, 2008

POLICY PORTFOLIO	March 1, 2008			FYE 2008			FYE 2009			FYE 2010		
	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max
<u>Asset Classes</u>												
Investment Grade Fixed Income	10.0%	14.0%	20.0%	7.5%	11.0%	17.5%	5.0%	8.5%	15.0%	2.5%	7.5%	15.0%
Credit-Related Fixed Income	0.0%	2.5%	5.0%	0.0%	5.0%	12.5%	1.5%	6.5%	14.0%	2.5%	7.5%	15.0%
Real Estate	2.5%	5.0%	7.5%	3.0%	6.0%	9.0%	5.0%	8.0%	11.0%	5.0%	10.0%	15.0%
Natural Resources	3.0%	6.0%	9.0%	4.0%	8.0%	12.0%	5.0%	9.5%	13.0%	5.0%	10.0%	15.0%
Developed Country Equity	52.5%	60.0%	67.5%	47.5%	55.0%	62.5%	42.5%	50.0%	57.5%	37.5%	45.0%	52.5%
Emerging Markets Equity	7.5%	12.5%	17.5%	10.0%	15.0%	20.0%	12.5%	17.5%	22.5%	15.0%	20.0%	25.0%
<u>Investment Types</u>												
More Correlated & Constrained Investments	50.0%	58.5%	65.0%	47.5%	53.5%	60.0%	45.0%	51.5%	60.0%	42.5%	49.5%	57.5%
Less Correlated & Constrained Investments	25.0%	30.0%	35.0%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%
Private Investments	7.5%	11.5%	15.5%	9.5%	13.5%	20.0%	10.0%	15.5%	20.0%	12.5%	17.5%	22.5%

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*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Lehman Brothers Global Aggregate Index	11.0%	8.5%	6.5%	4.5%
Lehman Brothers Global High-Yield Index	1.5%	1.5%	1.5%	2.0%
NAREIT Equity Index	5.0%	5.5%	6.5%	7.0%
Dow Jones-AIG Commodity Index Total Return	4.0%	5.0%	6.0%	6.0%
MSCI World Index with net dividends	27.5%	22.0%	18.0%	16.0%
MSCI Emerging Markets with net dividends	9.5%	11.0%	13.0%	14.0%
MSCI Investable Hedge Fund Index	30.0%	33.0%	33.0%	33.0%
Venture Economics Custom Index	11.5%	13.5%	15.5%	17.5%

POLICY/TARGET RETURN/RISKS	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Expected Annual Return (Benchmarks)	8.34%	8.47%	8.62%	8.75%
Expected Target Annual Return (Active)	9.31%	9.46%	9.65%	9.81%
One Year Downside Deviation	8.52%	8.56%	8.70%	8.90%
Risk Bounds				
Lower: 1 Year Downside Deviation	85%	85%	85%	85%
Upper: 1 Year Downside Deviation	115%	115%	115%	115%

EXHIBIT A
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE JULY 24, 2008

POLICY PORTFOLIO	March 1, 2008			FYE 2008			FYE 2009			FYE 2010		
	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max
<u>Asset Classes</u>												
Investment Grade Fixed Income	10.0%	14.0%	20.0%	7.5%	11.0%	17.5%	5.0%	8.5%	15.0%	2.5%	7.5%	15.0%
Credit-Related Fixed Income	0.0%	2.5%	5.0%	0.0%	5.0%	12.5%	1.5%	6.5%	14.0%	2.5%	7.5%	15.0%
Real Estate	2.5%	5.0%	7.5%	3.0%	6.0%	9.0%	5.0%	8.0%	11.0%	5.0%	10.0%	15.0%
Natural Resources	3.0%	6.0%	9.0%	4.0%	8.0%	12.0%	5.0%	9.5%	13.0%	5.0%	10.0%	15.0%
Developed Country Equity	52.5%	60.0%	67.5%	47.5%	55.0%	62.5%	42.5%	50.0%	57.5%	37.5%	45.0%	52.5%
Emerging Markets Equity	7.5%	12.5%	17.5%	10.0%	15.0%	20.0%	12.5%	17.5%	22.5%	15.0%	20.0%	25.0%
<u>Investment Types</u>												
More Correlated & Constrained Investments	50.0%	58.5%	65.0%	47.5%	53.5%	60.0%	45.0%	51.5%	60.0%	42.5%	49.5%	57.5%
Less Correlated & Constrained Investments	25.0%	30.0%	35.0%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%
Private Investments	7.5%	11.5%	15.5%	9.5%	13.5%	20.0%	10.0%	15.5%	20.0%	12.5%	17.5%	22.5%

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*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Lehman Brothers Global Aggregate Index	11.0%	8.5%	6.5%	4.5%
Lehman Brothers Global High-Yield Index	1.5%	1.5%	1.5%	2.0%
NAREIT Equity Index	5.0%	5.5%	6.5%	7.0%
Dow Jones-AIG Commodity Index Total Return	4.0%	5.0%	6.0%	6.0%
MSCI World Index with net dividends	27.5%	22.0%	18.0%	16.0%
MSCI Emerging Markets with net dividends	9.5%	11.0%	13.0%	14.0%
MSCI Investable Hedge Fund Index	30.0%	33.0%	33.0%	33.0%
Venture Economics Custom Index	11.5%	13.5%	15.5%	17.5%

POLICY/TARGET RETURN/RISKS	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Expected Annual Return (Benchmarks)	8.34%	8.47%	8.62%	8.75%
Expected Target Annual Return (Active)	9.31%	9.46%	9.65%	9.81%
One Year Downside Deviation	8.52%	8.56%	8.70%	8.90%
Risk Bounds				
Lower: 1 Year Downside Deviation	85%	85%	85%	85%
Upper: 1 Year Downside Deviation	115%	115%	115%	115%

EXHIBIT B
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE JULY 24, 2008

POLICY PORTFOLIO	March 1, 2008			FYE 2008			FYE 2009			FYE 2010		
	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max
<u>Asset Classes</u>												
Investment Grade Fixed Income	10.0%	14.0%	20.0%	7.5%	11.0%	17.5%	5.0%	8.5%	15.0%	2.5%	7.5%	15.0%
Credit-Related Fixed Income	0.0%	2.5%	5.0%	0.0%	5.0%	12.5%	1.5%	6.5%	14.0%	2.5%	7.5%	15.0%
Real Estate	2.5%	5.0%	7.5%	3.0%	6.0%	9.0%	5.0%	8.0%	11.0%	5.0%	10.0%	15.0%
Natural Resources	3.0%	6.0%	9.0%	4.0%	8.0%	12.0%	5.0%	9.5%	13.0%	5.0%	10.0%	15.0%
Developed Country Equity	52.5%	60.0%	67.5%	47.5%	55.0%	62.5%	42.5%	50.0%	57.5%	37.5%	45.0%	52.5%
Emerging Markets Equity	7.5%	12.5%	17.5%	10.0%	15.0%	20.0%	12.5%	17.5%	22.5%	15.0%	20.0%	25.0%
<u>Investment Types</u>												
More Correlated & Constrained Investments	50.0%	58.5%	65.0%	47.5%	53.5%	60.0%	45.0%	51.5%	60.0%	42.5%	49.5%	57.5%
Less Correlated & Constrained Investments	25.0%	30.0%	35.0%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%
Private Investments	7.5%	11.5%	15.5%	9.5%	13.5%	20.0%	10.0%	15.5%	20.0%	12.5%	17.5%	22.5%

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*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Lehman Brothers Global Aggregate Index	11.0%	8.5%	6.5%	4.5%
Lehman Brothers Global High-Yield Index	1.5%	1.5%	1.5%	2.0%
NAREIT Equity Index	5.0%	5.5%	6.5%	7.0%
Dow Jones-AIG Commodity Index Total Return	4.0%	5.0%	6.0%	6.0%
MSCI World Index with net dividends	27.5%	22.0%	18.0%	16.0%
MSCI Emerging Markets with net dividends	9.5%	11.0%	13.0%	14.0%
MSCI Investable Hedge Fund Index	30.0%	33.0%	33.0%	33.0%
Venture Economics Custom Index	11.5%	13.5%	15.5%	17.5%

POLICY/TARGET RETURN/RISKS	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Expected Annual Return (Benchmarks)	8.34%	8.47%	8.62%	8.75%
Expected Target Annual Return (Active)	9.31%	9.46%	9.65%	9.81%
One Year Downside Deviation	8.52%	8.56%	8.70%	8.90%
Risk Bounds				
Lower: 1 Year Downside Deviation	85%	85%	85%	85%
Upper: 1 Year Downside Deviation	115%	115%	115%	115%

EXHIBIT B
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE JULY 24, 2008

POLICY PORTFOLIO	March 1, 2008			FYE 2008			FYE 2009			FYE 2010		
	Min	Target	Max	Min	Target	Max	Min	Target	Max	Min	Target	Max
<u>Asset Classes</u>												
Investment Grade Fixed Income	10.0%	14.0%	20.0%	7.5%	11.0%	17.5%	5.0%	8.5%	15.0%	2.5%	7.5%	15.0%
Credit-Related Fixed Income	0.0%	2.5%	5.0%	0.0%	5.0%	12.5%	1.5%	6.5%	14.0%	2.5%	7.5%	15.0%
Real Estate	2.5%	5.0%	7.5%	3.0%	6.0%	9.0%	5.0%	8.0%	11.0%	5.0%	10.0%	15.0%
Natural Resources	3.0%	6.0%	9.0%	4.0%	8.0%	12.0%	5.0%	9.5%	13.0%	5.0%	10.0%	15.0%
Developed Country Equity	52.5%	60.0%	67.5%	47.5%	55.0%	62.5%	42.5%	50.0%	57.5%	37.5%	45.0%	52.5%
Emerging Markets Equity	7.5%	12.5%	17.5%	10.0%	15.0%	20.0%	12.5%	17.5%	22.5%	15.0%	20.0%	25.0%
<u>Investment Types</u>												
More Correlated & Constrained Investments	50.0%	58.5%	65.0%	47.5%	53.5%	60.0%	45.0%	51.5%	60.0%	42.5%	49.5%	57.5%
Less Correlated & Constrained Investments	25.0%	30.0%	35.0%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%
Private Investments	7.5%	11.5%	15.5%	9.5%	13.5%	20.0%	10.0%	15.5%	20.0%	12.5%	17.5%	22.5%

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Lehman Brothers Global Aggregate Index	11.0%	8.5%	6.5%	4.5%
Lehman Brothers Global High-Yield Index	1.5%	1.5%	1.5%	2.0%
NAREIT Equity Index	5.0%	5.5%	6.5%	7.0%
Dow Jones-AIG Commodity Index Total Return	4.0%	5.0%	6.0%	6.0%
MSCI World Index with net dividends	27.5%	22.0%	18.0%	16.0%
MSCI Emerging Markets with net dividends	9.5%	11.0%	13.0%	14.0%
MSCI Investable Hedge Fund Index	30.0%	33.0%	33.0%	33.0%
Venture Economics Custom Index	11.5%	13.5%	15.5%	17.5%

POLICY/TARGET RETURN/RISKS	March 1, 2008	FYE 2008	FYE 2009	FYE 2010
Expected Annual Return (Benchmarks)	8.34%	8.47%	8.62%	8.75%
Expected Target Annual Return (Active)	9.31%	9.46%	9.65%	9.81%
One Year Downside Deviation	8.52%	8.56%	8.70%	8.90%
Risk Bounds				
Lower: 1 Year Downside Deviation	85%	85%	85%	85%
Upper: 1 Year Downside Deviation	115%	115%	115%	115%

12. U. T. Health Science Center – San Antonio: Recreation and Wellness Center - Approval of design development; appropriation of funds and authorization of expenditure; approval of evaluation of alternative energy economic feasibility; and resolution regarding parity debt (Final Board Approval)

With Vice Chairman Rowling abstaining from discussion and vote because of his business interests in San Antonio, the Board approved the recommendations for the Recreation and Wellness Center project at The University of Texas Health Science Center at San Antonio as follows:

Project No.: 402-403
Institutional Managed: Yes No
Project Delivery Method: Design/Build
Substantial Completion Date: March 2009
Total Project Cost:

<u>Source</u>	<u>Current</u>
Revenue Financing System Bond Proceeds	\$5,500,000

- Investment Metrics:**
- Project will increase exercise space for students by more than 29,000 square feet by 2009.
 - Project will provide exercise space for approximately 2,800 students and additional 1,200 faculty and staff in the Medical Center by 2009.
- a. approve design development plans;
 - b. appropriate funds and authorize expenditure of funds;
 - c. approve the evaluation of alternative energy economic feasibility; and
 - d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the 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; and
 - U. T. Health Science Center – San Antonio, 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 of \$5,500,000.

Debt Service

The \$5,500,000 in Revenue Financing System debt will be repaid from revenue generated by the project. Annual debt service on the \$5,500,000 Revenue Financing System debt is expected to be \$400,000. The institution's debt service coverage is expected to average 1.7 times over FY 2009-2014.

Previous Board Action

On May 15, 2008, the project was included in the Capital Improvement Program (CIP) with a total project cost of \$5,500,000 with funding from Revenue Financing System Bond Proceeds and was authorized for institutional management.

Project Description

The project will house a new recreation and wellness facility of approximately 37,000 gross square feet (GSF) located on the main campus. The center will include space for workout rooms, cardiovascular and weight training, an outdoor pool, and gymnasium. The facility will be open 24 hours a day, seven days a week to accommodate the various schedules of students, faculty, and staff. This project will build the shell and finish out the gymnasium. The facility operator will complete the interior finish-out and construct an outdoor pool.

U. T. Health Science Center – San Antonio students are in need of adequate exercise and recreation facilities. This project will construct a center to accommodate students, providing space for fitness classes and intramurals and a casual gathering space (see Item 13 on Page 31 regarding the lease of a fitness facility).

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building or an addition to an existing building. Therefore, the Project Architect prepared a renewable energy evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

13. U. T. Health Science Center – San Antonio: Authorization to lease a shell building containing approximately 37,000 square feet and approximately 8,000 square feet of adjoining land, all within an approximately 1.25-acre site located on Merton Minter Drive, on the institution's Long Campus, being a part of Block 6, N. C. B. 12816, Oak Hills Park, Unit 1, in the Manuel Tejada Survey No. 89, San Antonio, Bexar County, Texas, to Spectrum Clubs, Inc., a California corporation, or a subsidiary thereof, for the finish-out, equipping, and operation of a recreation and wellness center to serve the student body, faculty, and staff of the institution and the general public

On behalf of The University of Texas Health Science Center at San Antonio, the Board authorized

- a. the lease of a shell building containing approximately 37,000 square feet and approximately 8,000 square feet of adjoining land, all within an approximately 1.25-acre site located on Merton Minter Drive, on the institution's Long Campus, being a part of Block 6, N. C. B. 12816, Oak Hills Park, Unit 1, in the Manuel Tejada Survey No. 89, San Antonio, Bexar County, Texas, to Spectrum Clubs, Inc., a California corporation, or a subsidiary thereof ("Spectrum"), for the finish-out, equipping, and operation of a recreation and wellness center to serve the student body, faculty, and staff of the institution and the general public (see Item 12 on Page 29 regarding construction of a fitness facility); and
- b. 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.

Vice Chairman Rowling abstained from discussion and vote because of his business interests in San Antonio.

U. T. Health Science Center – San Antonio has selected Spectrum through a request for proposal (RFP) process to finish out, equip, and operate the institution's proposed recreation and wellness center. The center will be located on the Joe R. and Teresa Lozano Long Campus in a vacant portion of the current recreation area between the tennis courts and the track. The institution will construct an approximately 37,000 square foot shell building and will finish out the gymnasium. Spectrum will finish out the remaining interior of the recreation and wellness center, build an outdoor pool with wall enclosure next to the facility, equip the center with free weights and up-to-date exercise equipment, operate the center 24 hours a day, seven days a week, and provide personal trainers.

U. T. Health Science Center – San Antonio will lease the shell facility and land to Spectrum for a term of 15 years, plus a period of up to three months to complete the finish-out and equip the facility. In addition, it is anticipated that the tenant will have two five-year renewal options. Spectrum will also have the use for its employees of 50 existing parking spaces on the institution's campus. During the lease term, Spectrum will provide memberships to the institution's student body, and offer discounted memberships to the institution's faculty and staff. The current schedule indicates that Spectrum can complete the finish-out work by May 2009. Students will, however, have the use of Spectrum's other San Antonio area facilities beginning September 2008.

Rent paid by Spectrum will increase for each renewal option. U. T. Health Science Center – San Antonio will pay a fee per student to Spectrum for all students to be members of the club; increases to this fee, both during the primary term as well as for the renewal term(s) if exercised, are under negotiation. Rental and fee details were included in the Agenda materials.

An on-site recreation and wellness center has been a top priority for the students at U. T. Health Science Center – San Antonio for many years. The center's location will complement the institution's existing recreational facilities. U. T. Health Science Center – San Antonio has determined that obtaining a vendor to finish out, equip, and operate the center will provide the highest level of function and service for the cost. The institution's students are estimated to initially comprise about one-half of the center's estimated membership capacity of 6,000; to the extent there is capacity, staff and faculty, as well as the general public, expected to primarily consist of individuals affiliated with institutions located in the San Antonio Medical Center, may purchase memberships.

Spectrum will finish out the facility at its own expense and will operate the center at all times and at its own expense. The lease will give U. T. Health Science Center – San Antonio the right to approve the plans and specifications of the proposed improvements and will limit the use of the property to a recreation and wellness center facility. The lease will also contain operating requirements and provisions that require the tenant to provide insurance and to indemnify the landlord for matters arising from the tenant's use or occupancy of or activities on the premises.

Note from the Assistant Secretary to the Board:

Although the transaction summary in the Agenda Book stated that rent would be as follows:

- Years 1 through 15: \$43,041
- Years 16 through 20: \$52,080
- Years 21 through 25: \$57,288

the president's letter correctly stated that rent for those time periods would be:

- Years 1 through 15: \$43,041
- Years 16 through 20: \$47,345
- Years 21 through 25: \$52,080

The lease will be to Racquetball and Fitness Clubs, Inc., a subsidiary of Spectrum.

14. U. T. Austin: Authorization to enter into a license with Sprint Spectrum Realty Company, L. P., a Delaware limited partnership, to permit the licensee to place telecommunications facilities on the roof of the Art Building and Museum at 2301 San Jacinto Boulevard, Austin, Travis County, Texas, for provision of telecommunications services to the campus

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

- a. approved to enter into a license with Sprint Spectrum Realty Company, L. P., a Delaware limited partnership, to permit the licensee to place telecommunications cell tower and related facilities on the roof of the Art Building and Museum on the U. T. Austin campus at 2301 San Jacinto Boulevard, Austin, Travis County, Texas, for the provision of telecommunications services to the campus; and
- b. authorized the Executive Director of Real Estate to execute the license agreement and such other related documents, 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.

U. T. Austin intends to provide telecommunications services to the campus by a distributed antennae system (DAS), but the DAS is not expected to be functioning until the first quarter of 2009. Until the DAS begins functioning, this license will aid in the provision of telecommunications services to campus visitors, students, faculty, staff, and administration.

Sprint Spectrum Realty Company, L. P., has a lease for these telecommunications facilities that terminates on July 31, 2008. This license will permit these facilities to continue to provide services until the earlier of August 31, 2009, or the DAS begins functioning.

Regent Foster abstained from discussion and vote because of stockholdings.

15. U. T. M. D. Anderson Cancer Center: Authorization to purchase approximately 81,579 square feet of unimproved land located at 7301-7313 Almeda Road, also known as Lots 1 through 12 and certain alleys, Block 8, Institute Place Subdivision, and the northern portion of Virginia Avenue right-of-way, all in Houston, Harris County, Texas, from Institute Place Partners, Ltd., a Texas limited partnership, for a purchase price not to exceed fair market value as established by independent appraisals for future use for campus administrative and support functions

On behalf of The University of Texas M. D. Anderson Cancer Center, the Board

- a. authorized the purchase of approximately 81,579 square feet of unimproved land located at 7301-7313 Almeda Road, also known as Lots 1 through 12 and certain alleys, Block 8, Institute Place Subdivision, and the northern portion of Virginia Avenue right-of-way, all in Houston, Harris County, Texas, from Institute Place Partners, Ltd., a Texas limited partnership, for a purchase price not to exceed fair market value as established by independent appraisals, 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 use for campus administrative and support functions; 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.

Acquisition of the subject property is part of the land assemblage being undertaken by U. T. M. D. Anderson Cancer Center to accommodate the relocation of important but noncritical functions that will allow greater use of core facilities in the heart of the Texas Medical Center for patient treatment and research.

The subject property is presently unimproved and is located at the intersection of Almeda Road and Corder Street in Houston, Texas. The site is directly across the railroad tracks from a 28.8008-acre tract that was approved by the Board on February 8, 2007, for acquisition by U. T. M. D. Anderson Cancer Center.

U. T. M. D. Anderson Cancer Center has concluded that the main campus in the Texas Medical Center and the south campus should be reserved for use for research and critical patient care functions. Accordingly, many administrative and support activities currently in the main and south

campuses most likely will be relocated to the area in which the subject property and adjacent tracts are located to allow expansion of the research and patient care functions on the main and south campuses.

The acquisition will be funded with Local Hospital Margins.

16. U. T. M. D. Anderson Cancer Center: Authorization to grant licenses to CenterPoint Energy Houston Electric L. L. C., a Texas limited liability company, to permit the licensee to place electrical distribution facilities on portions of the campus to serve campus facilities and facilitate land acquisitions

On behalf of The University of Texas M. D. Anderson Cancer Center, the Board

- a. authorized entering into licenses with CenterPoint Energy Houston Electric L. L. C., a Texas limited liability company, to permit the licensee to place electrical distribution facilities on portions of the campus to serve campus facilities and facilitate land acquisitions; and
- b. authorized the Executive Director of Real Estate to execute the license agreements and such other related documents, 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.

Regent Longoria had requested to disclose that she serves on the board of CenterPoint Energy.

The four license agreements are described to permit campus acquisition and construction projects to proceed on schedule:

- a. To enter into a temporary license with CenterPoint Energy Houston Electric L. L. C. (CenterPoint), to permit the licensee to keep electrical distribution facilities until no longer needed on certain existing streets and alleys of the Institute Addition, Houston, Harris County, Texas. In accordance with an authorization approved by the Board of Regents on February 7, 2008, the streets and alleys will be acquired by U. T. M. D. Anderson Cancer Center from the City of Houston in exchange for the right-of-way of the proposed Bertner Avenue extension in U. T. M. D. Anderson Cancer Center's Mid-campus area. This license is a precondition to closing the exchange transaction, which the parties expect to close prior to the August 2008 Board of Regents' meeting.
- b. To enter into a license with CenterPoint to permit the licensee to place electrical distribution facilities at the north and south ends of the

proposed extension of Bertner Avenue in U. T. M. D. Anderson Cancer Center's Mid-campus area. The license will cover an area east of the proposed Bertner Avenue between Braes Bayou and Braeswood Boulevard, and an area northeast of the intersection of Bertner Avenue and Old Spanish Trail in Houston, Harris County, Texas. This license is related to the land exchange transaction between the City of Houston and U. T. M. D. Anderson Cancer Center approved by the Board of Regents on February 7, 2008, and which the parties expect to close prior to the August 2008 Board of Regents' meeting.

- c. To enter into a license with CenterPoint to permit the licensee to place electrical distribution facilities at 1881 East Road, Houston, Harris County, Texas, to provide for permanent electrical service to the Center for Advanced Biomedical Imaging Research facility, now under construction. Due to the size and complexity of the facility's systems, only basic shell construction work can be completed using temporary power. Without permanent electrical service, construction of the facility will stop, leading to delays, cost increases, and service disruptions.
- d. To enter into a license with CenterPoint to permit the licensee to place electrical distribution facilities at 3000 Pawnee Street, Houston, Harris County, Texas, to provide for upgraded permanent electrical service for the Pawnee Building to permit the expansion of offices for the relocation of campus operations personnel. Without upgraded permanent electrical services, relocation of personnel will be delayed, leading to cost increases and service disruptions.

17. U. T. System and U. T. Austin: Approval to fund the Research Partnership with Sandia National Laboratories

The Board appropriated \$1,250,000 of Available University Funds (AUF) to The University of Texas at Austin to support four core research programs for collaborative "grand challenge" projects to be completed jointly by students and faculty at U. T. Austin and Sandia National Laboratories (SNL). A corresponding reduction of the remaining \$1,250,000 of Permanent University Fund (PUF) bonding authority approved by the Board on November 16, 2006, under the Regents' Research Scholars Program will close the program.

The total cost to seed the U. T. System/SNL collaboration program is \$1,875,000 of which the Board approved \$625,000 of Intermediate Term Fund (ITF) proceeds on May 15, 2008, for The University of Texas Medical Branch at Galveston. The remaining \$1,250,000 for the program at U. T. Austin is needed for operations, which can be funded by AUF whereas PUF Bond Proceeds are limited to capital expenditures.

18. U. T. Austin: Approval to name the central area of the north end zone of the Darrell K Royal - Texas Memorial Stadium as the Red McCombs Red Zone

The Board approved the naming the central area of the north end zone of the Darrell K Royal - Texas Memorial Stadium at The University of Texas at Austin as the Red McCombs Red Zone in recognition of a \$6 million pledge from Mr. B. J. (Red) McCombs to support the construction of the new north end zone.

The north end renovation of Darrell K Royal - Texas Memorial Stadium is the largest part of a multimillion dollar stadium project scheduled for completion in August 2008. The two-year project will result in 47 suites, 2,000 club seats, 2,000 additional chair-back seats in the lower deck, and the ability to accommodate 10,000 more fans in regular seating. With this stadium renovation, the new capacity will reach 96,000.

U. T. Austin received permission from the University of Wisconsin, which uses the mark "Red Zone" in association with Camp Randall Stadium, that use of the mark "Red Zone" does not violate any trademark rights.

Mr. Red McCombs' philanthropy to The University of Texas has been extraordinary. In 1997, he made the largest donation ever to women's athletics at U. T. Austin, funding a new women's softball complex. In May 2000, he gave \$50 million to the U. T. Austin Business School, the largest single donation in U. T. Austin's history. On May 11, 2000, the Board renamed the College of Business Administration and Graduate School of Business as the Red McCombs School of Business.

19. U. T. Austin: Approval of honorific naming of the Veterans Memorial Plaza at the Darrell K Royal - Texas Memorial Stadium as the Frank Denius Veterans Memorial Plaza

The Board approved the naming of the Veterans Memorial Plaza at the Darrell K Royal - Texas Memorial Stadium at The University of Texas at Austin as the Frank Denius Veterans Memorial Plaza to recognize the significant contributions of Mr. Denius to U. T. Austin, to U. T. Athletics, and to the United States of America as a World War II veteran.

Texas Memorial Stadium was dedicated in 1924 to Texas veterans who served in World War I. A north end was added to the stadium two years later. On August 29, 1996, the Board approved the renaming of the stadium as the Darrell K Royal - Texas Memorial Stadium. In November 2000, recognition plaques were added saluting those who served in all wars and conflicts in which U.S. Armed Forces were involved since World War I.

In November 16, 2006, the Board approved a \$149.9 million expansion plan for the north end (later increased to \$179 million). Included in the project was

a new veterans memorial plaza scheduled for completion in August 2008. The new outdoor plaza at the northwest corner will be a memorial to veterans and the bronze plaque that originally commemorated World War I veterans in the old north end zone will be rededicated. The plaza will also include a bronze statue of "The Doughboy" made possible through a generous contribution from the Cain Foundation and Mr. Denius.

Mr. Frank Denius has a long and distinguished record of service to Texas higher education, to U. T. Austin, and to U. T. Athletics. He is a distinguished alumnus of U. T. Austin, a recipient of the Santa Rita Award bestowed by the U. T. System Board of Regents on November 16, 2006, and he serves as chairman of the Darrell K Royal - Texas Memorial Stadium Veterans Committee. Mr. Denius is one of the 10 most decorated World War II veterans in America.

20. U. T. System Board of Regents: Report from Chairman on Governor's Higher Education Summit

Chairman Caven reported briefly on follow-up to the Governor's Higher Education Summit held in Austin, Texas, on May 21, 2008.

Chairman Caven's report

I would like to report on the Governor's Higher Education Summit. The plan is for each of the Texas public university systems and institutions to submit one-page summaries of either their current activities or planned initiatives that address the seven "breakthrough solutions" presented at the Summit, and we will share those summaries, when received, with the Regents.

The following Regents have volunteered to become more engaged in the discussions of the issues:

- Regent Dannenbaum will serve on the committee discussing
 - measuring teaching efficiency and effectiveness and publicly recognizing extraordinary teachers,
 - recognizing and rewarding extraordinary teachers, and
 - requiring evidence of teaching skill for tenure.
- Regents Foster and Gary will serve on the committee discussing splitting research and teaching budgets to encourage excellence.
- Regent Longoria will serve on the committee discussing the use of "results-based" contracts with students to measure quality.

It is anticipated that there will also be inter-system or inter-Board discussions of the issues. Let me take this opportunity to thank the members of the Board

for participating in this process and to acknowledge Executive Vice Chancellor Prior for his work as lead University of Texas System staff liaison in this effort.

21. U. T. System: Approval to negotiate and execute a contract to hedge the price and sell a portion of the future oil and gas royalty production from the University Lands

The Permanent University Fund (PUF) University Lands encompass 2.1 million acres of surface and mineral interests in 19 counties in West Texas. Royalty production net to The University of Texas System in Fiscal Year 2007 totaled 1.8 million barrels of oil and 14.7 billion cubic feet of natural gas. Total oil and gas royalty income in Fiscal Year 2007 was \$210.8 million and is expected to exceed \$350 million in Fiscal Year 2008. Recently, oil prices reached an all-time record in excess of \$140 per barrel and natural gas prices were more than \$13 per thousand cubic feet.

Chairman Caven provided introductory remarks, saying that it may be time for the U. T. System, which has traditionally served as a passive recipient of royalties, lease payments, and bonus payments, to take greater control of the income stream through more sophisticated hedging techniques.

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, then presented a report on PUF investments, on the distribution to the Available University Fund (AUF), and uses of the funds. He explained that the proposal before the Board is a forward sale of a portion of the oil and gas reserves that are currently in the ground. He then explained the advantages and challenges of the proposal and terms of any proposed contractual arrangements to hedge the price and/or sell a portion of the future oil and gas royalty production from the University Lands.

Dr. Kelley outlined these advantages of the proposal:

- Locks in oil and gas prices at today's rates
- Diversifies the investment portfolio
- By monetizing the commodity and putting the money into the PUF, the AUF payout returns can be used now for investments in campuses.

Dr. Kelley handed out a draft summary report on reserves prepared by Netherland, Sewell and Associates, Inc., Dallas, Texas. Each page of the report varied only by discount rate. (The [draft report](#) is on file in the Office of the Board of Regents.) He reviewed alternative transactions: a true sale structure and a commodity pre-pay structure, and he reviewed differences in associated risks, timing, and business income taxes.

Challenges of the proposal reviewed by Dr. Kelley were:

- The structure must not be considered as debt for the State of Texas
- Whether or not the commodity must be delivered in-kind

Dr. Kelley introduced Mr. Mark Warner, Director of Natural Resources Investments for The University of Texas Investment Management Company (UTIMCO), who acknowledged Mr. Zac McCarroll, Associate in Natural Resource Investments for UTIMCO, and Mr. Joseph J. Spellman, a Senior Vice President of Netherland, Sewell and Associates, Inc., who also discussed the transaction. Dr. Kelley pointed out for the record that while monetizing approximately \$1 billion is significant, it would provide, over time, increased access to a stream of revenue of around \$50 million. He commented that is not transformational and other revenue sources will continue to be needed. Dr. Kelley said that once the proposal is approved by this Board, the sale would need to move expeditiously and he pointed out the transaction would be with the Board for Lease. He recommended forward selling as much volume of oil and gas as possible under no more than a 10-year contract. Chairman Caven added that an additional advantage of monetizing would be to grant additional PUF bonding capacity.

Regent Gary asked about pricing of the spread between the discount rate for the forward sale versus the commodity prepay and Dr. Kelley said the advantage will be known when the commodity is priced. Mr. Warner added that cash flows were reviewed last week and price ranges might be in the tens of basis points, driven by two things: first, in a production payment structure the counterparty takes on the reserve risk, with the risk very low in this case. The reserve report is a document that can be diligenced by third parties and represents a large diversity of wells and leases. The reserve risk is largely mitigated because of that and also by the aggressiveness of the advance rate; how much the cash flow is monetized in any given year. Mr. Warner said that AAA credit that the PUF can wrap around a transaction such as a commodity prepay is something that has a known spread associated with it. The credit risk is layer one that will provide some price differentiation. The second layer is more about the market in that production payments and the constituents who buy those papers are largely the bank market and insurance market. There is some turbulence in those markets now so there is a natural lack of buyers that will potentially make the prepay have an even better pricing gap.

Vice Chairman Rowling asked about the numbers being used for producing wells and Mr. Warner said the numbers were from wells producing as of March 31, 2008.

Vice Chairman Rowling asked about Proved Developed Non-Producing wells (PDNP) and Mr. Warner answered that PDNPs are almost impossible to determine in this case.

In response to a question from Vice Chairman Rowling, Dr. Kelley answered that only a determined volume is being committed and he agreed with Vice Chairman Rowling's assessment that the volume could come from Planned Unit Developments (PUDs) in the future or wells that are not producing right now to satisfy the payment. Vice Chairman Rowling also asked if all the production from University lands, not just proved developed amounts that are being produced, could be used to satisfy the payment and Dr. Kelley said that is correct; such production provides comfort in terms of how much is committed in the forward sale.

Mr. Warner stated the barrels are fungible but he does not anticipate the counterparties being one to advance beyond the Proved Developed Producing (PDP) wedge. He said it will be some fraction of the PDP and added that probables and possibles add additional comfort. In a production payment, minerals in the ground are being sold, not royalty interests. A known production stream (barrels), known fields, and known wells are being sold.

As a Regental representative on the Board for Lease of University Lands, Regent Dannenbaum asked if the production is the existing production from the existing strata and Dr. Kelley said the sale would be a fixed volume of barrels of oil and billion cubic feet (BCF) of gas. How much would be determined through analysis; only the wells producing today would ultimately be taken into account. Dr. Kelley noted the only way the counterparty to a transaction would not receive the barrels of oil would be if an entire field did not produce enough to be able to deliver.

Regent Dannenbaum asked if the gross production from the existing production would be the number. Dr. Kelley said the counterparty would likely not enter into a transaction to buy 100% of the production as they would want some cushion but once that is determined and bought, the commitment may be delivered from PDPs or from others that may come online. Mr. Warner clarified the number is what is negotiated.

In response to a question from Regent Gary about the use of cash, Dr. Kelley stated the upfront cash payment is a conversion from oil and gas into dollars that must be put into the corpus of the trust. It goes right into the PUF, is invested by UTIMCO, and is not to be spent. Vice Chairman Huffines explained the Board will distribute excellence funding by percentage, citing the example that for \$200-300 million in royalties, only 5% may be distributed whereas for a lump sum, the Board would be able to distribute significantly more to the campuses for excellence funding.

Regent Dower asked if the plan is to sell all of the proved development reserves within the buffer zones as available and Dr. Kelley replied that the goal is to maximize the amount of volume that could be sold that makes sense from both the counterparty's and U. T.'s perspective, that could be

delivered, and that the pricing would make sense. Dr. Kelley continued to say it will be a fraction of the proved developed producing lease, with the fraction dependent on the structure.

In response to a question from Regent Foster, Dr. Kelley explained that the \$400 million is not just oil and gas but includes approximately \$50 million in lease bonuses. He said there are assumptions related to fairly sharp declines on existing wells that will likely be made up and if prices hold next year they may stay around \$400 million with some wells declining and others being brought online, which the PDP report will not account for. Dr. Kelley said he does not recommend selling all the reserves, only a significant portion, in order to still have oil and gas produced that may be sold over time. Mr. Warner expressed the need to take into account not just what is being produced today, but what will be produced in future years for a full account of the production stream.

Vice Chairman Rowling said this is a good transaction if oil prices increase 10% a year and if UTIMCO investments can make more than 10% a year, plus the discount rate. Mr. Zimmerman discussed the risks associated with a diversified pool of investments and with a single commodity. Chairman Caven added that much of the pricing on the expectation of the theoretical contracts is probably more dependent on the discount rate than on the price of oil today. He thinks the discount rate could be higher in the future.

Regent Foster asked about the difference in business income tax between selling in 10 years or operating on an annual basis and Dr. Kelley explained that royalty income is exempt, but the forward sale would be categorized as a mortgage-debt transaction, it falls into another category. Investing the income right away subjects the income to that tax. Regent Dannenbaum asked if there is a specific tax code provision that says this and Dr. Kelley replied affirmatively. Vice Chairman Huffines clarified that the commodity prepay could be consummated in a more timely fashion and Dr. Kelley elaborated that due diligence by the counterparty would be minimal but more diligence would be needed by U. T. to ensure the chosen volume could be delivered. He said the work done by Nederland and Sewell and their reputation in the industry will greatly help the process, but it would require time.

Chancellor Shine said he is pleased with the expertise provided in this matter and with the team involved, including the consultants. He noted the availability of resources is extraordinarily attractive and meaningful, if this deal makes economic sense, it will be an important step that will contribute to providing facilities and support for growth.

Vice Chairman Huffines stated his support to move forward and elevate the excellence funding not only for the U. T. System campuses but for The Texas A&M University System as well. He thought this transaction would be looked back upon as historical to the Board.

Vice Chairman Rowling remarked that even if the transaction is not executed, the knowledge that there are 13.5 million barrels of crude producing oil and 69.3 BCF of gas in the ground is of value.

Vice Chairman Rowling then moved that the Board of Regents

- a. approve the recommendation to delegate to the Executive Vice Chancellor for Business Affairs the authority, with appropriate consultation with the Chancellor and the Vice Chancellor and General Counsel, to proceed with the negotiation and execution of a contract with one or more counterparties, selected through a competitive process, to hedge the price and/or sell a portion of the future oil and gas royalty production from the University Lands, subject to approval of the recommended terms and conditions of the agreements with recommended parties by the Chairman and Vice Chairmen, and
- b. further authorize the Executive Vice Chancellor for Business Affairs to recommend the proposed agreements to the Board for Lease of University Lands for their consideration and approval.

The motion was seconded by Vice Chairman Huffines and carried by acclamation.

ADJOURNMENT.--There being no further business, the meeting was adjourned at 3:50 p.m.

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

August 13, 2008