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Committee Meeting: 2/11/2009

Robert B. Rowling, Chairman
John W. Barnhill, Jr.
Paul Foster
Janiece Longoria

Board Meeting: 2/12/2009
Austin, Texas

	Committee Meeting	Board Meeting	Page
Convene	1:30 p.m. Chairman Rowling		
1. U. T. System: Discussion and appropriate action related to approval of Docket No. 137	1:30 p.m. Discussion Dr. Kelley	Action	51
2. U. T. System: Report on the Fiscal Year 2008 Annual Financial Report	1:32 p.m. Report Mr. Wallace	Not on Agenda	51
3. U. T. System: Report on the Analysis of Financial Condition for Fiscal Year 2008	1:42 p.m. Report Mr. Wallace	Not on Agenda	52
4. U. T. System: Key Financial Indicators Report and Monthly Financial Report	1:51 p.m. Report Dr. Kelley	Not on Agenda	52
5. U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the quarter ended November 30, 2008	2:00 p.m. Report Mr. Zimmerman	Report	62
6. U. T. System Board of Regents: Approval of amendments to the Exhibits of the Investment Policy Statements regarding changes to benchmarks and maximum range of Credit-Related Fixed Income asset class for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund	2:10 p.m. Action Mr. Zimmerman	Action	68
7. U. T. System Board of Regents: Adoption of a Resolution authorizing the execution of a credit agreement with the Texas Comptroller of Public Accounts, in an aggregate principal amount not to exceed \$500,000,000, to provide liquidity support to the U. T. System related to its variable rate debt programs and authorization to complete all related transactions	2:15 p.m. Action Mr. Aldridge	Action	72

	Committee Meeting	Board Meeting	Page
8. U. T. System: Approval of additional aggregate amount of \$10,250,000 of Revenue Financing System Equipment Financing for Fiscal Year 2009 and resolution regarding parity debt	2:25 p.m. Action <i>Mr. Aldridge</i>	Action	75
Adjourn	2:30 p.m.		

1. **U. T. System: Discussion and appropriate action related to approval of Docket No. 137**

RECOMMENDATION

It is recommended that *Docket No. 137* be approved.

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

Supplemental Materials: Green pages following the Docket tab at the back of Volume 2.

2. **U. T. System: Report on the Fiscal Year 2008 Annual Financial Report**

REPORT

Mr. Randy Wallace, Associate Vice Chancellor, Controller and Chief Budget Officer, will discuss the 2008 Annual Financial Report highlights.

The U. T. System Consolidated Financial Statements for the Years Ended August 31, 2008 and 2007 includes the Management's Discussion and Analysis that provides an overview of the financial position and activities of the U. T. System for the year ended August 31, 2008. An audit of the U. T. System Consolidated Annual Financial Report was performed by internal audit Systemwide and the findings and recommendations will be presented at the Audit Compliance Management Review Committee meeting (see Item 6 on Page 44).

Supplemental Materials:

- **Mr. Wallace's PowerPoint presentation on Pages 119 - 132 of Volume 2.**
- **Annual Financial Report on Pages 133 - 226 of Volume 2.**

BACKGROUND INFORMATION

The Annual Financial Report is required to be filed with the State Comptroller of Public Accounts annually on November 20 and is prepared in compliance with *Texas Government Code* Section 2101.011, regarding requirements established by the State Comptroller of Public Accounts and Governmental Accounting Standards Board pronouncements.

3. **U. T. System: Report on the Analysis of Financial Condition for Fiscal Year 2008**

REPORT

The Analysis of Financial Condition is a broad annual financial evaluation that rates U. T. System institutions based on the factors analyzed as either "Satisfactory," "Watch," or "Unsatisfactory." One institution's rating was downgraded from "Watch" to "Unsatisfactory," and the rating of one institution has been upgraded from "Watch" to "Satisfactory."

An Executive Summary of the report can be found on Pages 229 - 234 of Volume 2.

Financial analysis is performed from each institution's Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. The ratios presented in this report are ratios commonly used by bond rating agencies, public accounting firms, and consulting firms. The following ratios were analyzed: Composite Financial Index, Operating Expense Coverage, Annual Operating Margin, Expendable Resources to Debt, Debt Burden, Debt Service Coverage, and Full-time Equivalent (FTE) Student Enrollment (academic institutions only).

The Analysis of Financial Condition has been prepared since 1995 to track financial ratios to determine if the financial condition of the institutions is improving or declining. This analysis compares trends for Fiscal Year 2004 through Fiscal Year 2008.

Supplemental Materials: Report on Pages 227 - 290 of Volume 2.

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

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report, as set forth on Pages 54 - 61 that follow, and the December Monthly Financial Report included in Volume 2. The reports represent the consolidated and individual operating results of the U. T. System institutions.

The Key Financial Indicators Report compares the Systemwide quarterly results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from Fiscal Year 2005 through November 2008. Ratios requiring balance sheet data are provided for Fiscal Year 2004 through Fiscal Year 2008.

The Monthly Financial Report is provided as support for the Key Financial Indicators. The Report includes the detailed numbers behind the Operating Margin by Institution graph as well as detail for each individual institution as of December 2008.

Supplemental Materials: December Monthly Financial Report on Pages 291 - 315 of Volume 2.

THE UNIVERSITY OF TEXAS SYSTEM



QUARTERLY KEY FINANCIAL INDICATORS REPORT

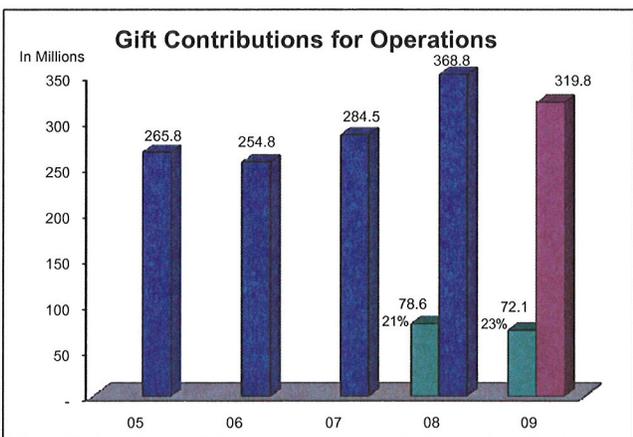
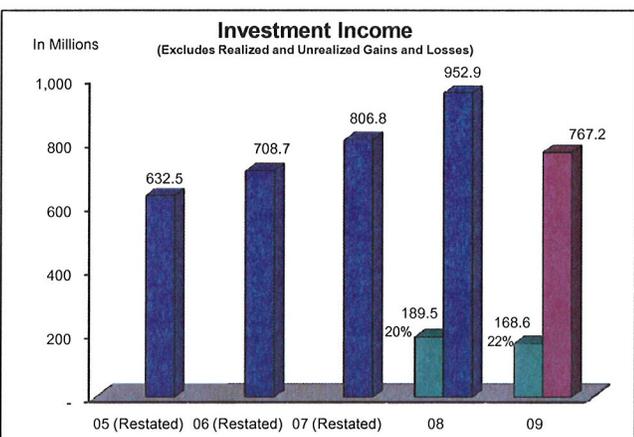
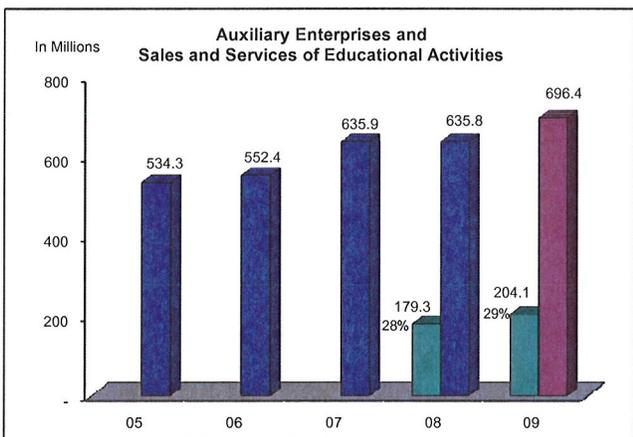
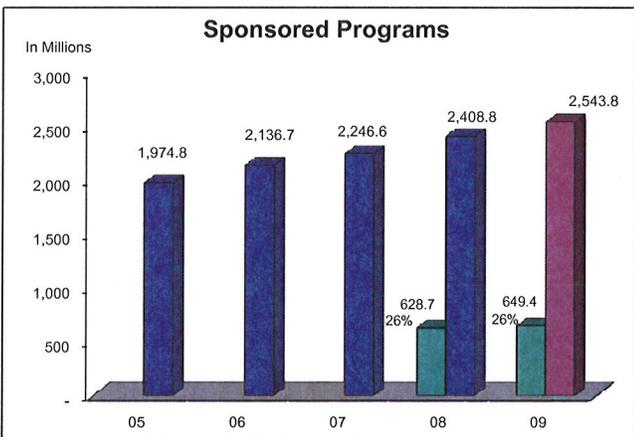
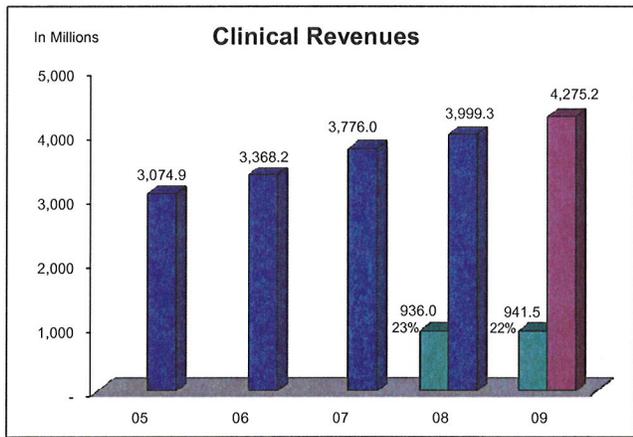
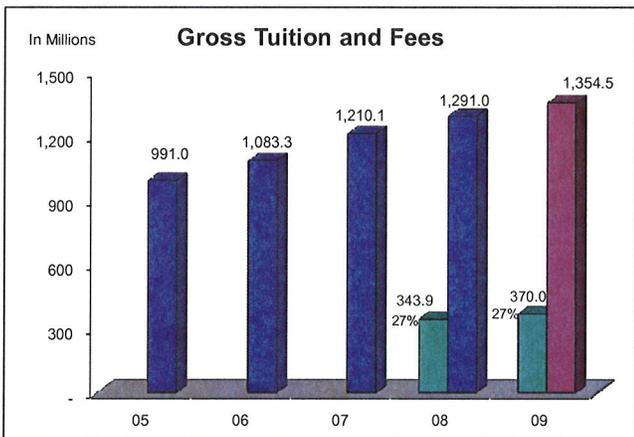
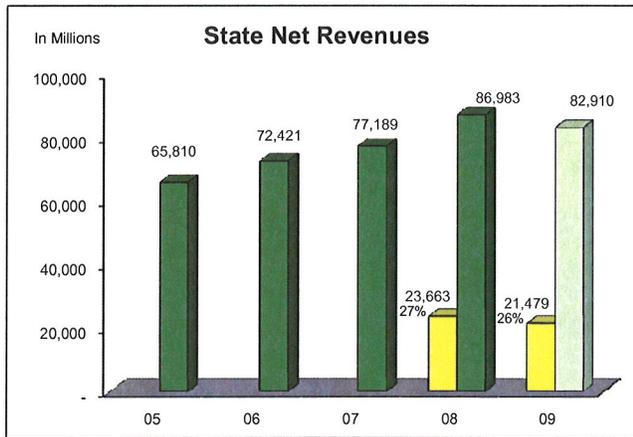
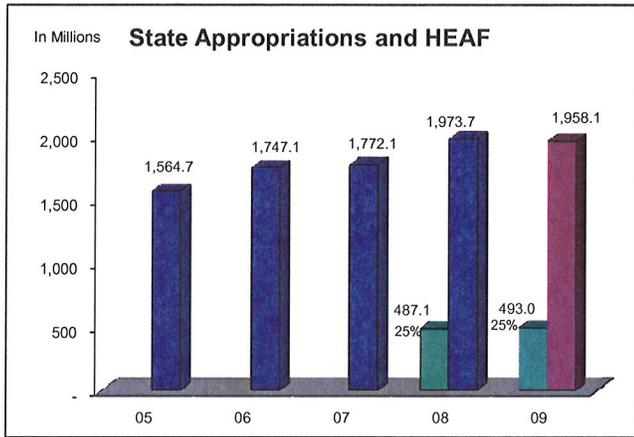
1ST QUARTER FY 2009

KEY

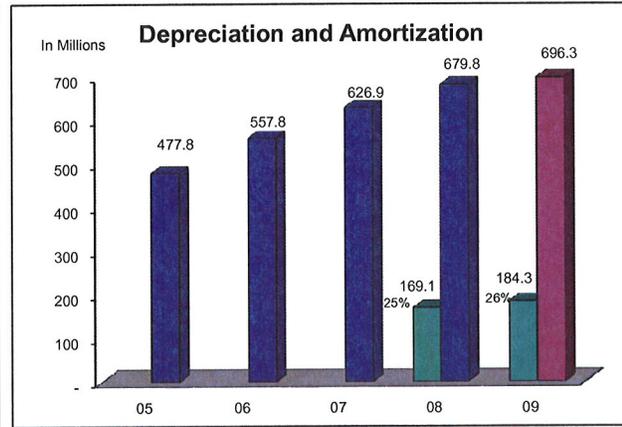
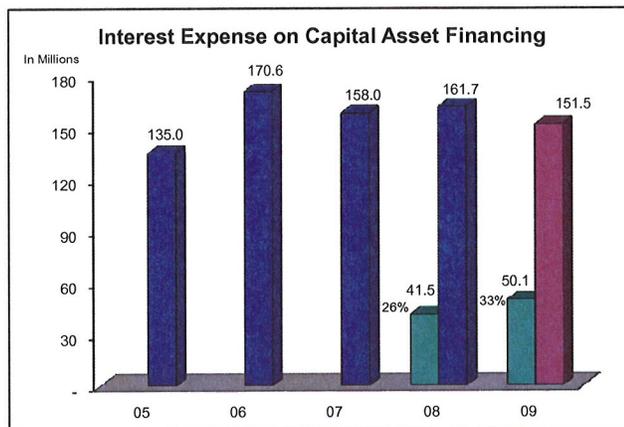
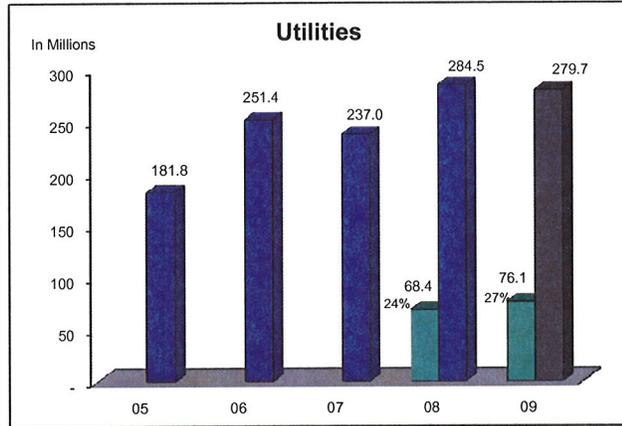
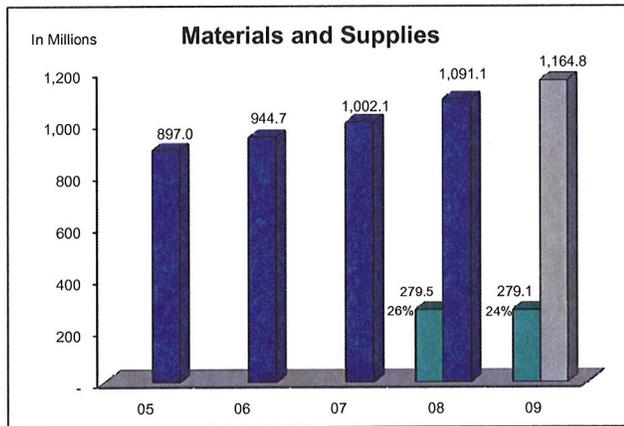
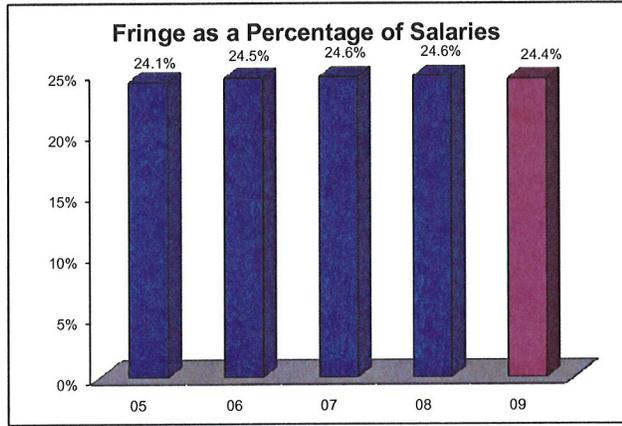
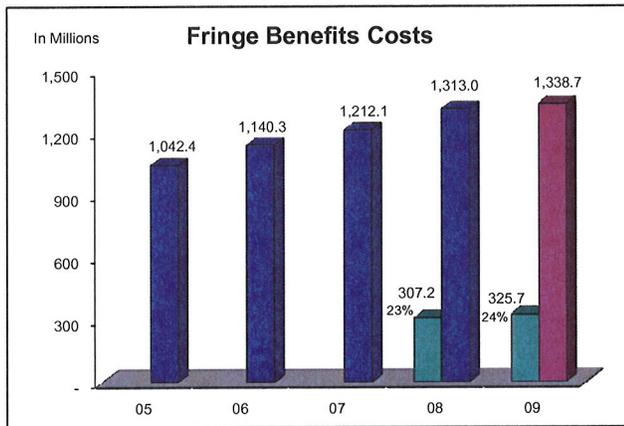
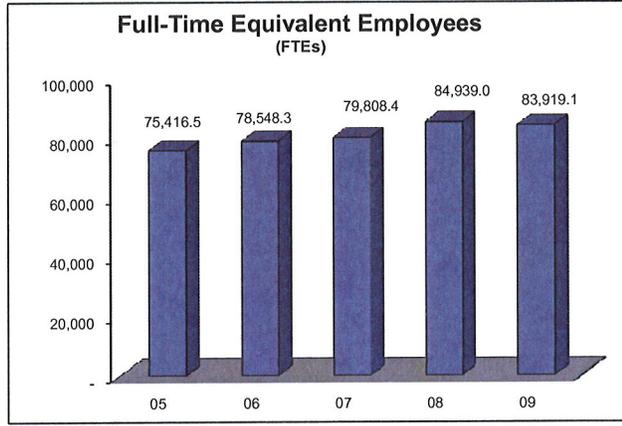
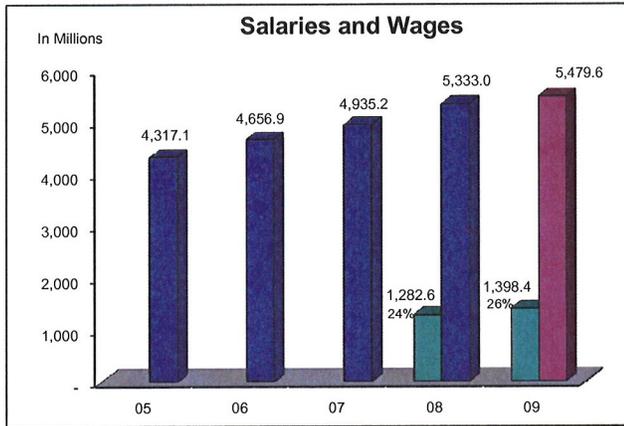
	Actual Annual Amounts (SOURCE: Annual Financial Reports)
	Budget amounts (SOURCE: Operating Budget Summary)
	Projected Amounts based on the average change of the previous three years of data
	Monthly Financial Report Year-to-Date Amounts
	Annual State Net Revenue Collections (SOURCE: Texas Revenue History by Source and Texas Net Revenue by Source, State Comptroller's Office)
	Year-to-Date State Net Revenue Collections (SOURCE: State Comptroller's Office)
	Estimated State Revenue Collections (SOURCE: Biennial Revenue Estimate, State Comptroller's Office)
	Annual and Quarterly Average of FTEs (SOURCE: State Auditor's Office Quarterly FTE Report)
	Year-to-Date Margin (SOURCE: Monthly Financial Report)
	Projected Amounts from current month projections
	Year-to-Date Margin (SOURCE: Monthly Financial Report)
	Target Normalized Rates
	Aaa/Aa1 Median (SOURCE: Moody's)
	A2 Median (SOURCE: Moody's)
	Good Facilities Condition Index (Below 5%)
	Fair Facilities Condition Index (5% - 10%)

**KEY INDICATORS OF REVENUES
ACTUAL 2005 THROUGH 2008
PROJECTED 2009**

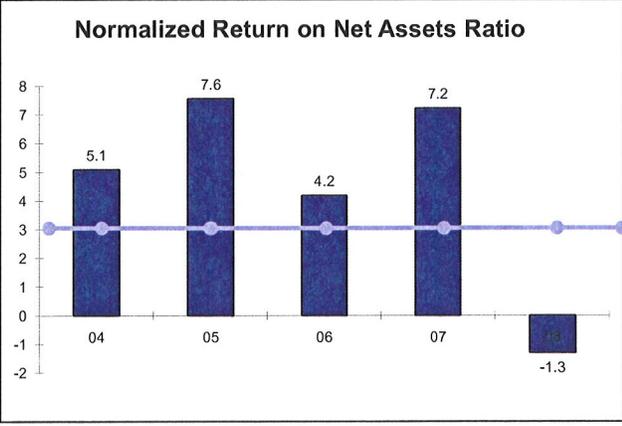
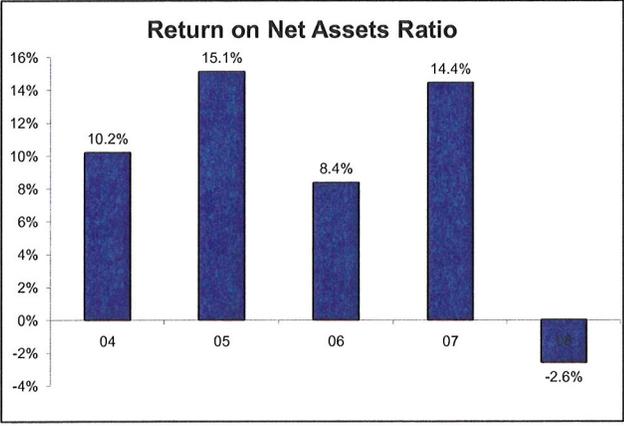
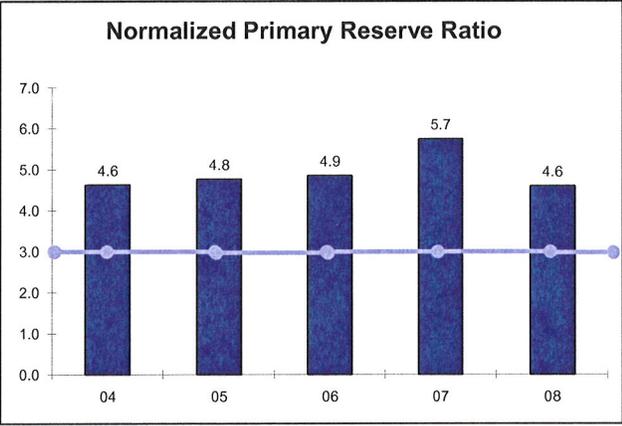
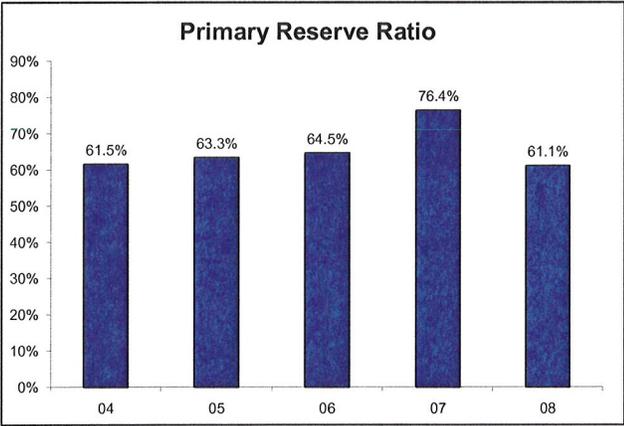
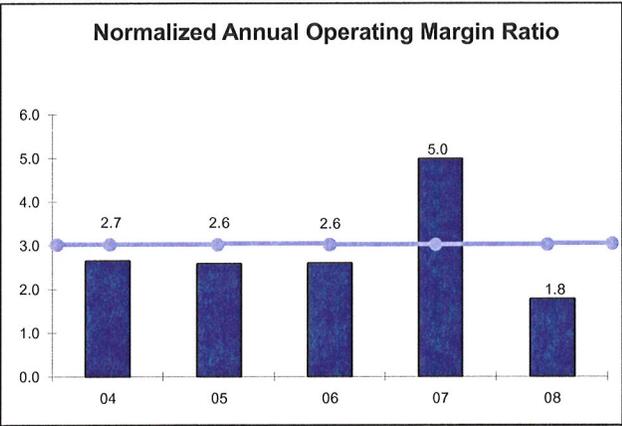
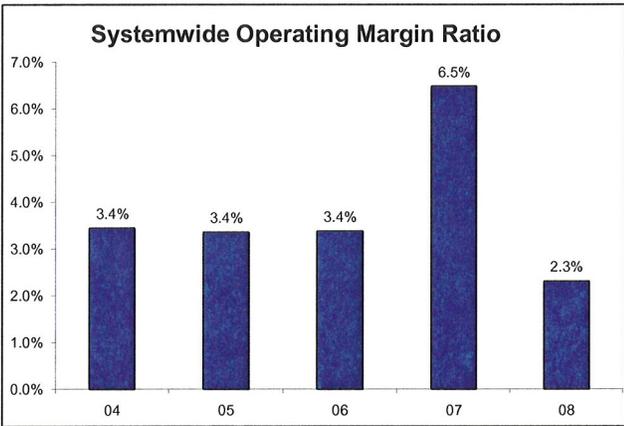
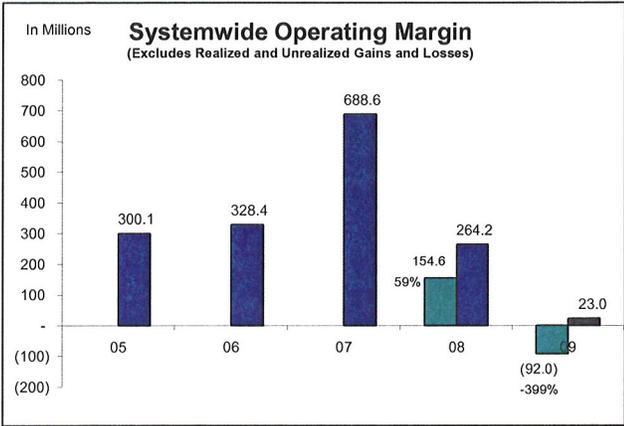
YEAR-TO-DATE 2008 AND 2009 FROM NOVEMBER MONTHLY FINANCIAL REPORT



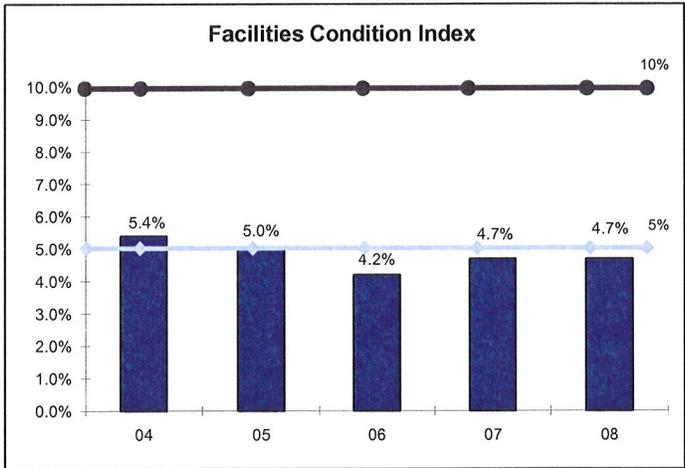
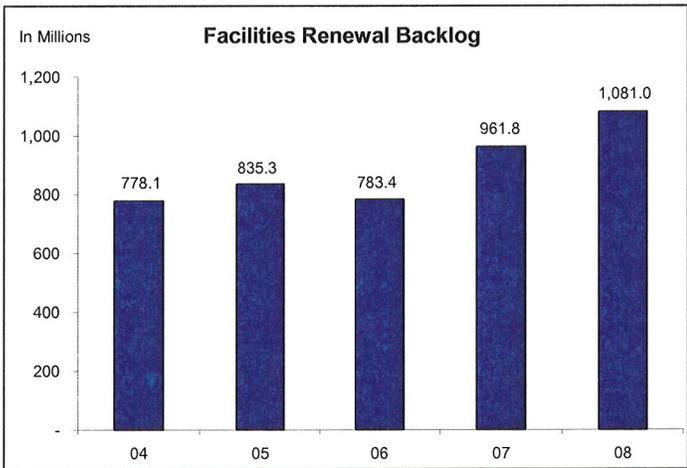
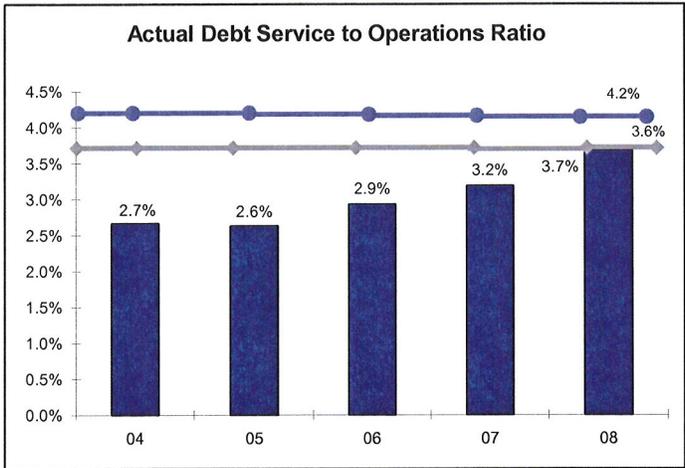
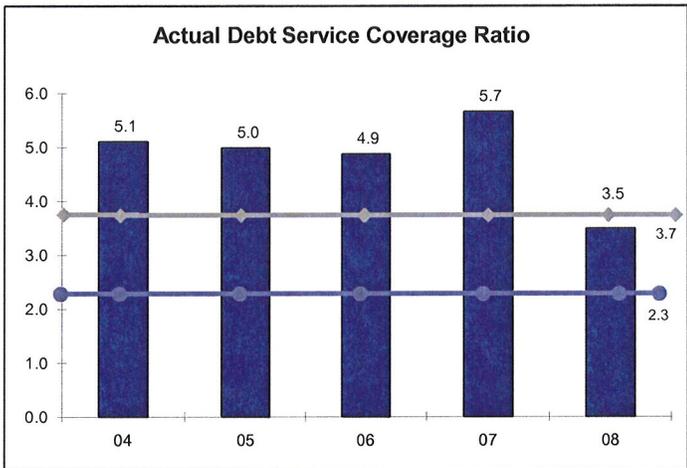
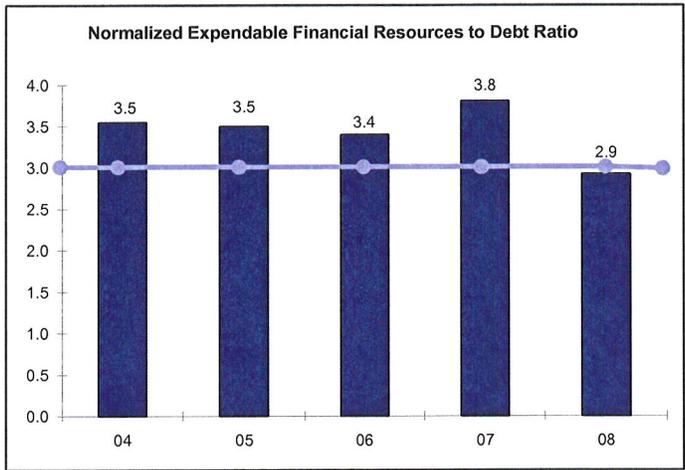
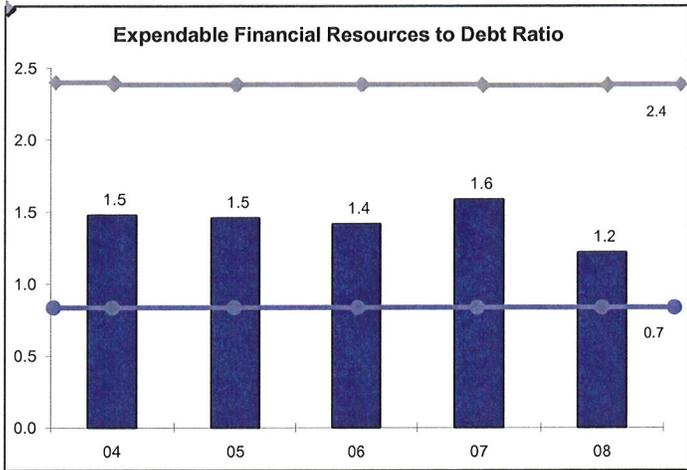
**KEY INDICATORS OF EXPENSES
ACTUAL 2005 THROUGH 2008
PROJECTED 2009
YEAR-TO-DATE 2008 AND 2009 FROM NOVEMBER MONTHLY FINANCIAL REPORT**



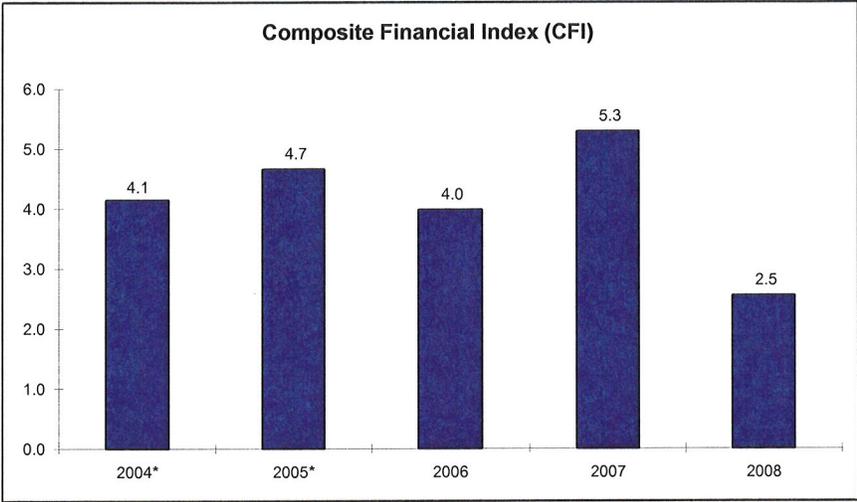
KEY INDICATORS OF RESERVES
ACTUAL 2004 THROUGH 2008
PROJECTED 2009
YEAR-TO-DATE 2008 AND 2009 FROM NOVEMBER MONTHLY FINANCIAL REPORT



KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY 2004 THROUGH 2008

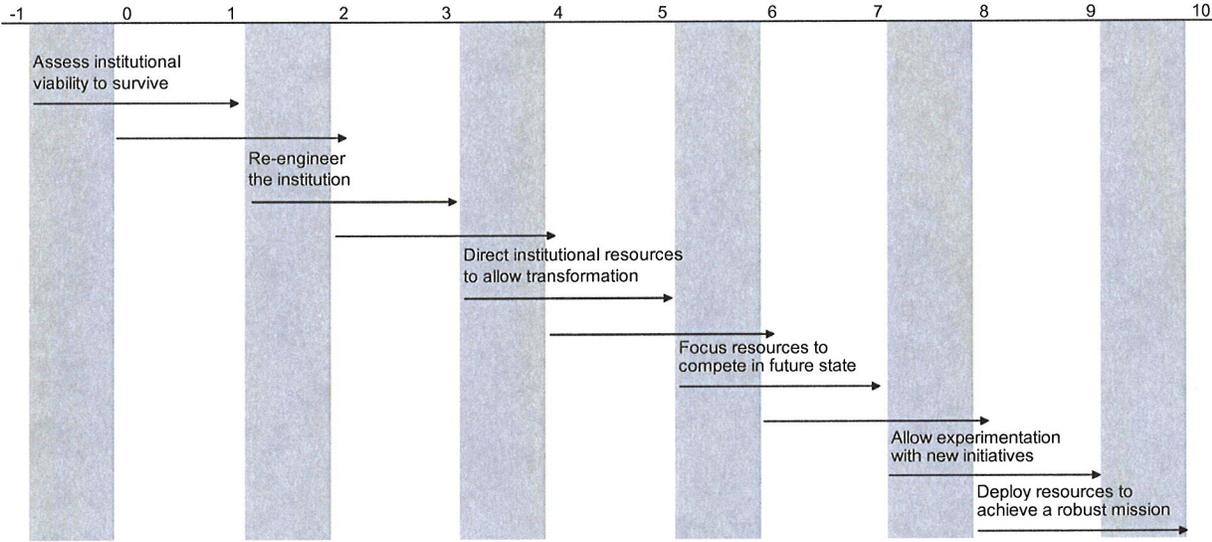


KEY INDICATORS OF FINANCIAL HEALTH 2004 THROUGH 2008

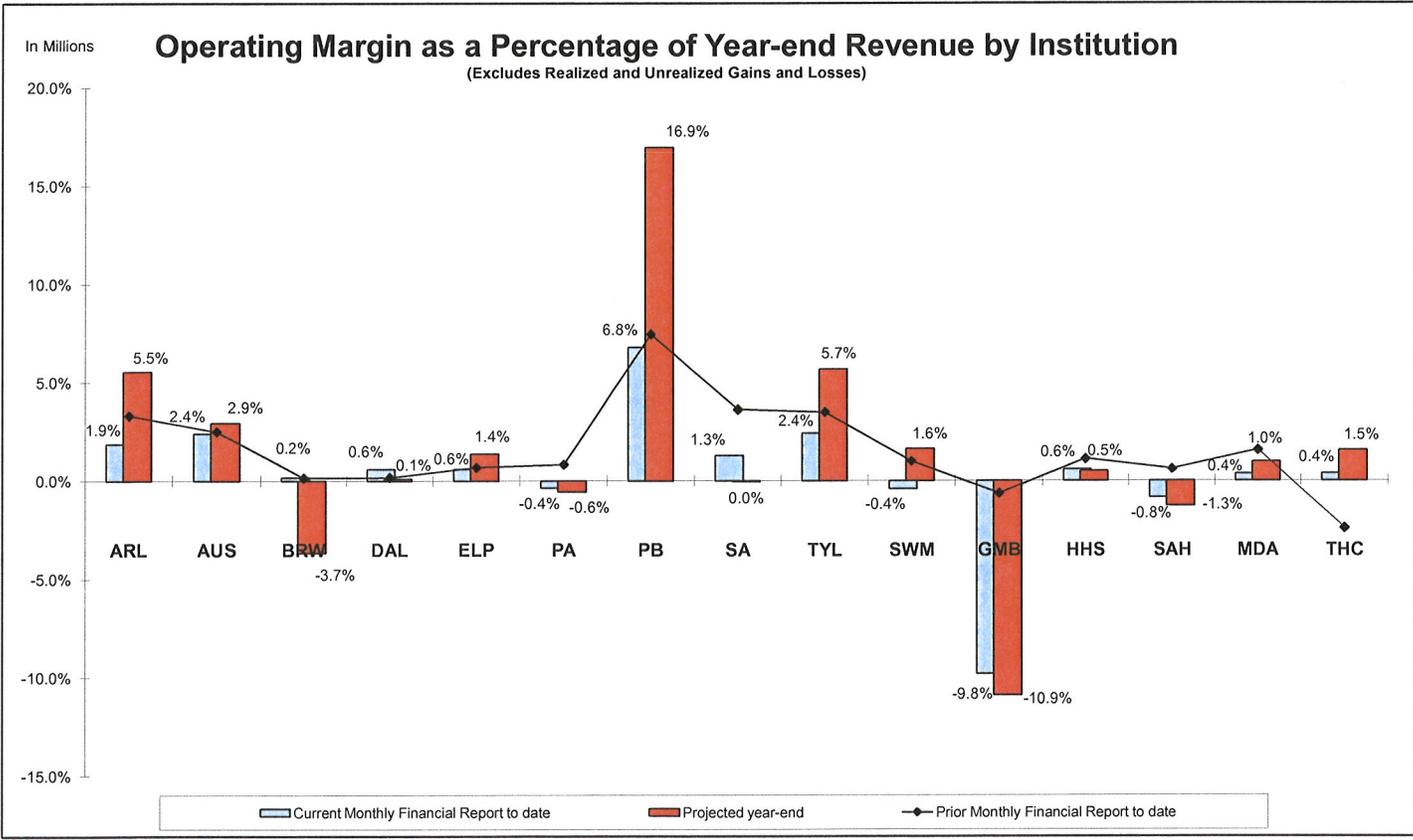
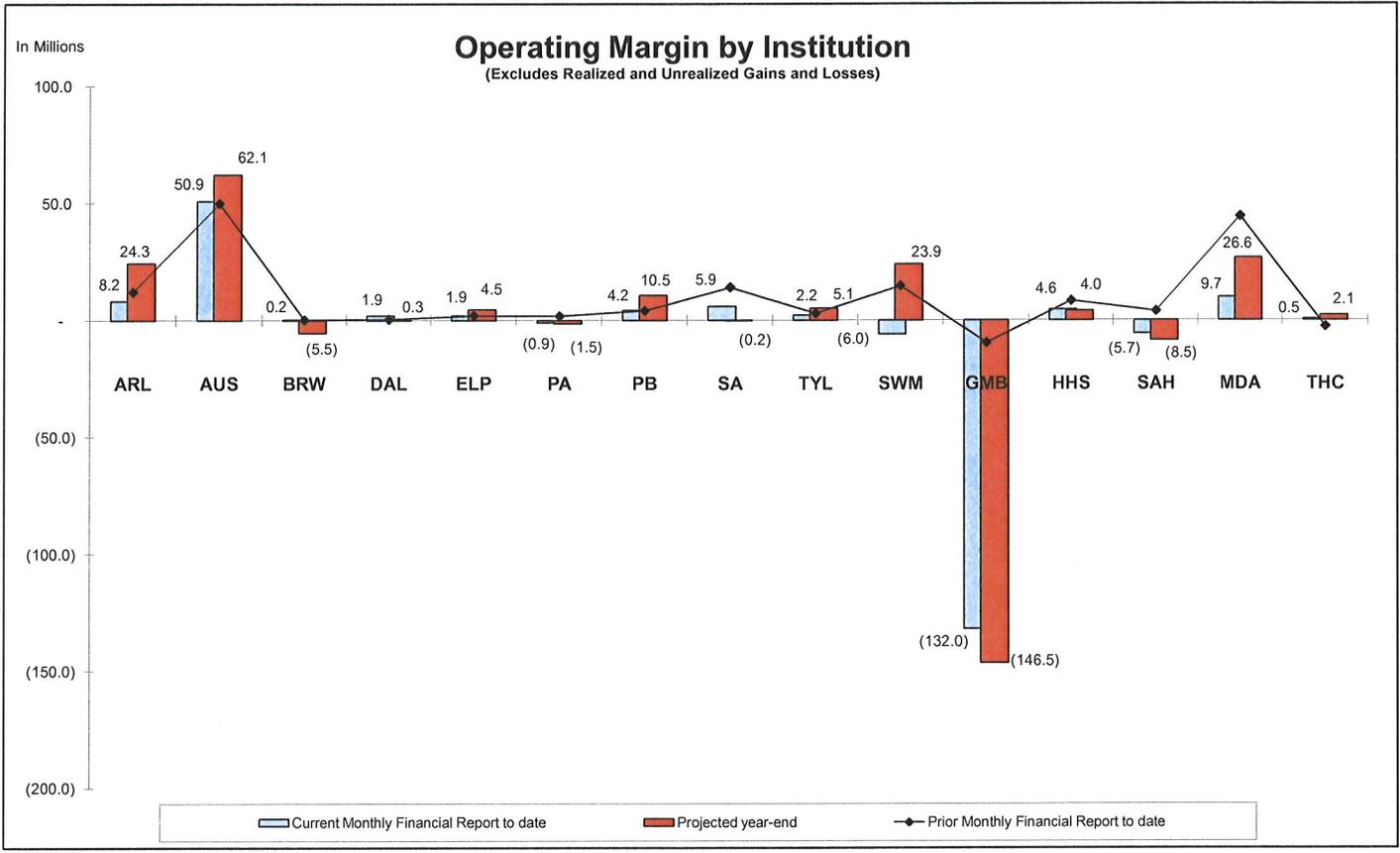


*Restated to reflect appreciation on endowments as restricted expendable net assets as a result of the 2006 external audit

Scale for Charting CFI Performance



KEY INDICATORS OF RESERVES
YEAR-TO-DATE 2008 AND 2009 FROM DECEMBER MONTHLY FINANCIAL REPORT
PROJECTED 2009 YEAR-END MARGIN



5. **U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the quarter ended November 30, 2008**

REPORT

The November 30, 2008 UTIMCO Performance Summary Report is attached on Page 63.

The Investment Reports for the fiscal quarter ended November 30, 2008, are set forth on Pages 64 - 67.

Item I on Page 64 reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the quarter was negative 22.66% versus its composite benchmark return of negative 23.71%. The PUF's net asset value decreased by \$2,522 million since the beginning of the quarter to \$8,838 million. This change in net asset value includes increases due to contributions from PUF land receipts, decreases due to net investment return, and the first payment of the annual distribution to the Available University Fund (AUF) of \$133 million.

Item II on Page 65 reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the quarter was negative 22.81% versus its composite benchmark return of negative 23.71%. The GEF's net asset value decreased during the quarter to \$4,846 million.

Item III on Page 66 reports activity for the Intermediate Term Fund (ITF). The ITF's net investment return for the quarter was negative 21.68% versus its composite benchmark return of negative 22.20%. The net asset value has decreased to \$3,011 million due to net investment return of negative \$842 million and net distributions of \$27 million. The decrease in net asset value was offset by \$8 million net contributions.

For the PUF and GEF, the More Correlated and Constrained (MCC) and Private Investments were outside of their investment type ranges with MCC below its minimum range and Private Investments above its maximum range. All exposures were within their asset class ranges. The ITF was within all of its investment type and asset class ranges. All of the funds' liquidity was within policy.

Item IV on Page 67 presents book and market values of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus money market fund, increased by \$32 million to \$1,592 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$24 million versus \$25 million at the beginning of the period; equities: \$46 million versus \$72 million at the beginning of the period; and other investments: \$1 million versus \$4 million at the beginning of the period.

UTIMCO Performance Summary

November 30, 2008

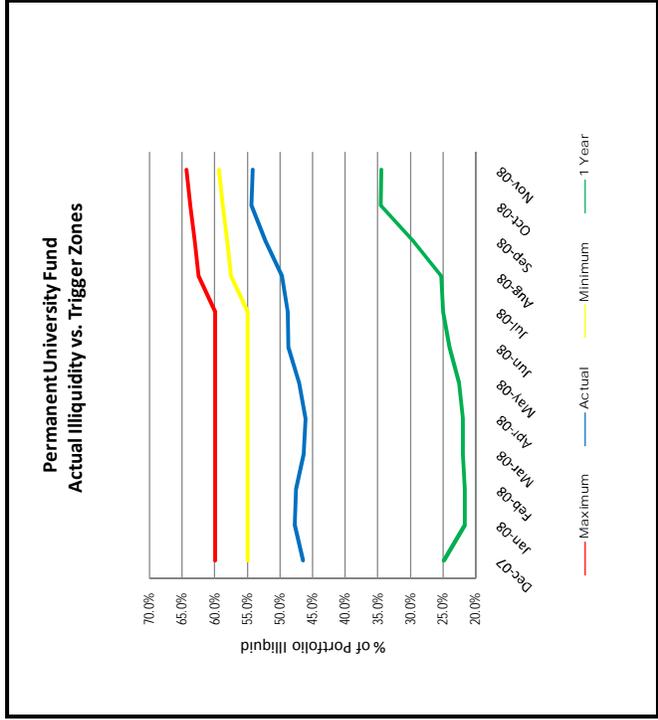
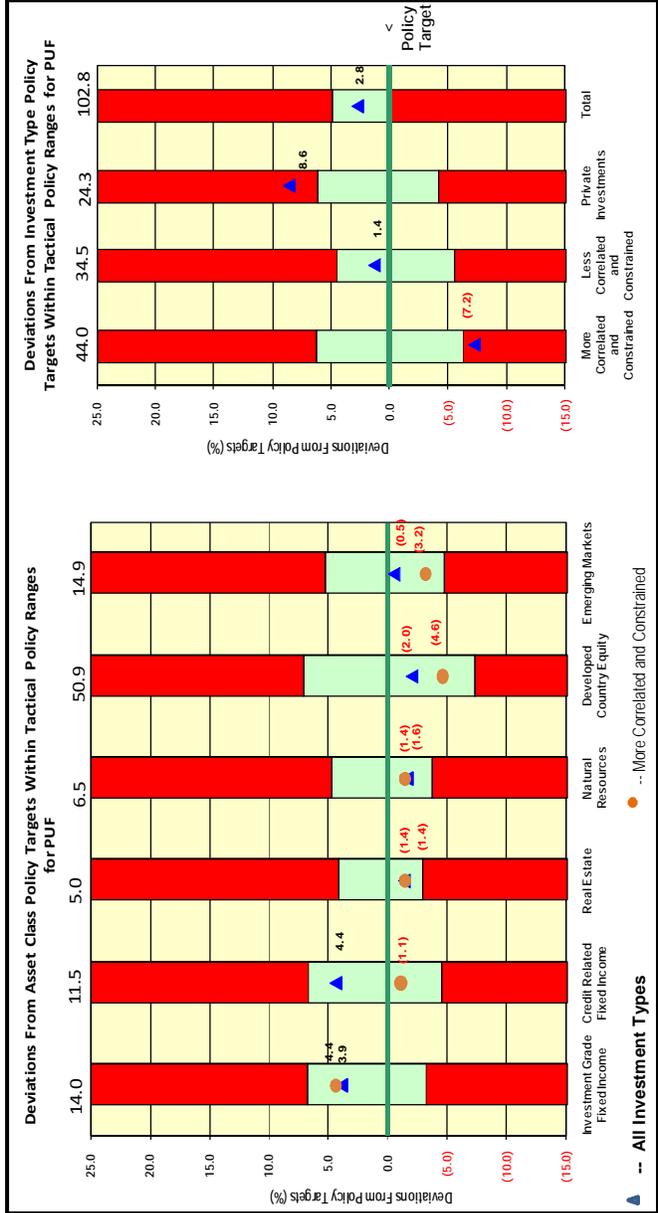
	Net Asset Value 11/30/2008 (in Millions)	Periods Ended November 30, 2008 (Returns for Periods Longer Than One Year are Annualized)																		
		Short Term		Year to Date		Historic Returns														
		1 Mo	3 Mos	Fiscal	Calendar	1 Yr	3 Yrs	5 Yrs	10 Yrs											
ENDOWMENT FUNDS																				
Permanent University Fund	\$ 8,838	(5.60)	(22.66)	(22.66)	(27.91)	(28.03)	(2.00)	4.15	4.35											
General Endowment Fund		(5.71)	(22.81)	(22.81)	(27.97)	(28.04)	(1.80)	4.22	N/A											
Permanent Health Fund	781	(5.65)	(22.76)	(22.76)	(27.93)	(28.01)	(1.84)	4.15	N/A											
Long Term Fund	4,065	(5.65)	(22.76)	(22.76)	(27.93)	(28.01)	(1.84)	4.15	5.20											
Separately Invested Funds	130	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A											
Total Endowment Funds	13,814																			
OPERATING FUNDS																				
Short Term Fund	1,533	0.17	0.63	0.63	2.85	3.28	4.54	3.56	3.71											
Intermediate Term Fund	3,011	(3.24)	(21.68)	(21.68)	(25.34)	(25.42)	N/A	N/A	N/A											
Total Operating Funds	4,544																			
Total Investments	\$ 18,358																			
VALUE ADDED																				
Permanent University Fund		(1.43)	1.05	1.05	2.17	2.19	1.41	1.40	0.90											
General Endowment Fund		(1.54)	0.90	0.90	2.11	2.18	1.61	1.47	N/A											
Short Term Fund		0.07	0.12	0.12	0.80	0.94	0.47	0.29	0.21											
Intermediate Term Fund		0.13	0.52	0.52	2.17	2.42	N/A	N/A	N/A											
VALUE ADDED (\$ IN MILLIONS)																				
Permanent University Fund		(133)	118	118	262	265	372	585	N/A											
General Endowment Fund		(80)	58	58	144	149	237	335	N/A											
Intermediate Term Fund		4	20	20	87	97	N/A	N/A	N/A											

Footnotes available upon request.

I. PERMANENT UNIVERSITY FUND
Investment Reports for Periods Ended November 30, 2008
 Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows				
	Fiscal Year Ended August 31, 2008	Quarter Ended November 30, 2008	Fiscal Year Ended August 31, 2009	
Beginning Net Assets	\$ 11,742.8	\$ 11,359.5	\$ 11,359.5	
PUF Lands Receipts	457.7	168.7	168.7	
Investment Return	(339.5)	(2,550.7)	(2,550.7)	
Expenses	(52.6)	(7.2)	(7.2)	
Distributions to AUF	(448.9)	(132.7)	(132.7)	
Ending Net Assets	\$ 11,359.5	\$ 8,837.6	\$ 8,837.6	

	Fiscal Year to Date			
	Returns		Value Added	
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection
More Correlated and Constrained:				
Investment Grade	-7.97%	-3.23%	0.47%	-0.33%
Credit-Related	-9.03%	-30.39%	-0.21%	0.31%
Real Estate	-42.20%	-44.04%	0.09%	0.12%
Natural Resources	-43.30%	-35.94%	0.08%	-0.43%
Developed Country	-34.10%	-33.22%	0.56%	-0.22%
Emerging Markets	-45.98%	-44.59%	0.66%	-0.20%
Total More Correlated and Constrained	-32.44%	-33.99%	1.65%	-0.75%
Less Correlated and Constrained	-16.44%	-18.23%	0.04%	0.55%
Private Investments	-9.03%	-0.11%	0.62%	-1.06%
Total	-22.66%	-23.71%	2.31%	-1.26%
				1.05%



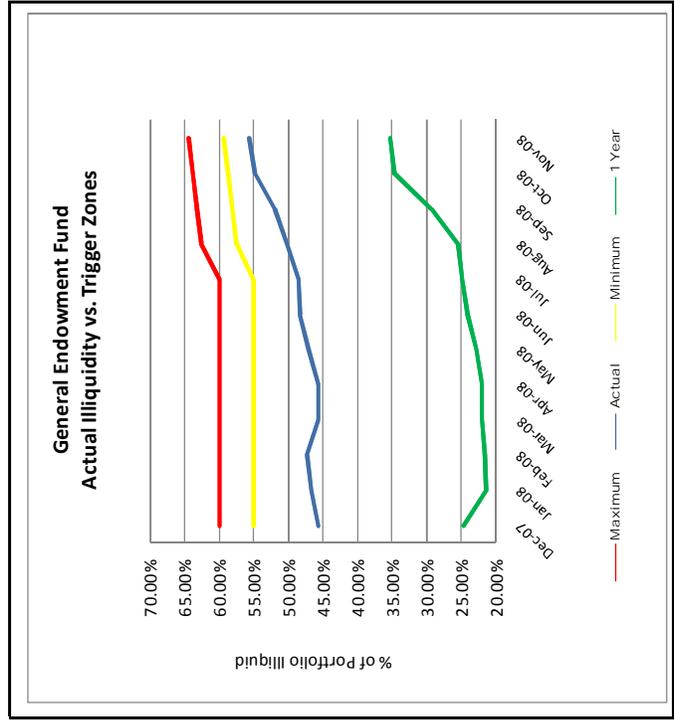
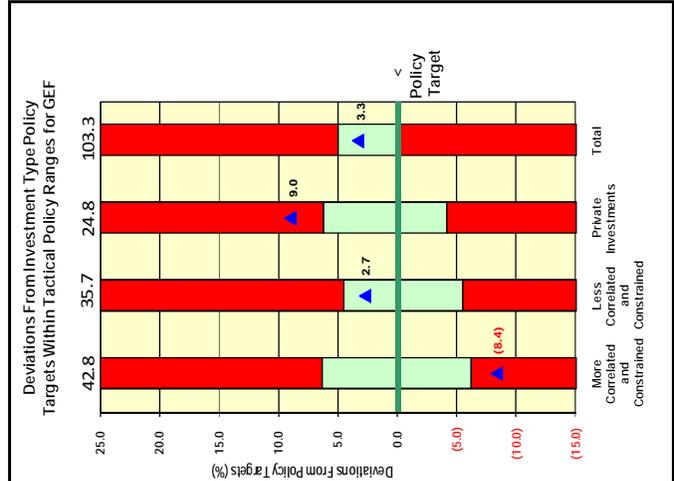
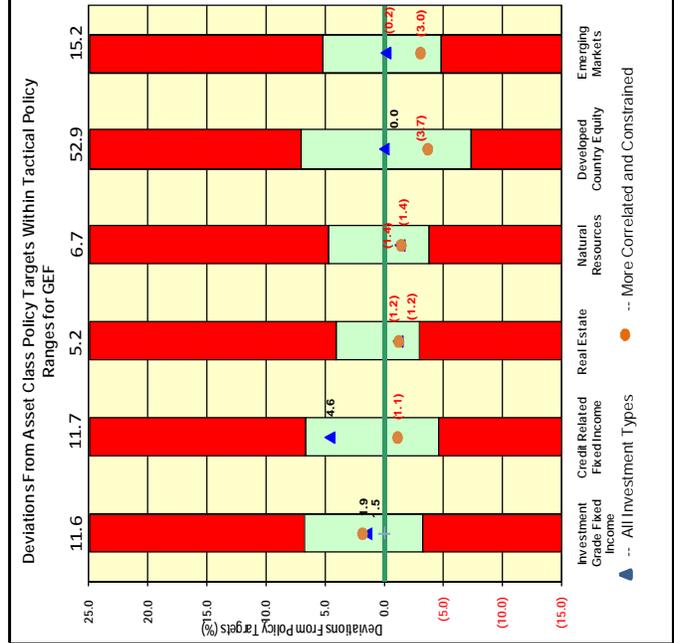
II. GENERAL ENDOWMENT FUND

Investment Reports for Periods Ended November 30, 2008

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
	Fiscal Year Ended August 31, 2008	Quarter Ended November 30, 2008	Fiscal Year Ended August 31, 2009
Beginning Net Assets	\$ 6,433.1	\$ 6,310.4	\$ 6,310.4
Contributions	358.6	52.3	52.3
Withdrawals	(20.2)	(1.2)	(1.2)
Distributions	(259.0)	(68.9)	(68.9)
Investment Return	(180.8)	(1,444.2)	(1,444.2)
Expenses	(21.3)	(2.0)	(2.0)
Ending Net Assets	\$ 6,310.4	\$ 4,846.4	\$ 4,846.4

	Fiscal Year to Date		
	Returns	Value Added	
	Portfolio	Policy Benchmark	From Security Selection
More Correlated and Constrained:			
Investment Grade	-7.62%	-3.23%	0.39%
Credit-Related	-9.04%	-30.39%	-0.20%
Real Estate	-42.24%	-44.04%	0.06%
Natural Resources	-42.59%	-35.94%	0.09%
Developed Country	-34.53%	-33.22%	0.57%
Emerging Markets	-45.87%	-44.59%	0.63%
Total More Correlated and Constrained	-32.83%	-32.99%	-0.19%
Less Correlated and Constrained			
Private Investments	-16.45%	-18.23%	0.05%
Total	-9.02%	-0.11%	0.56%
	-22.81%	-23.71%	-1.05%
			2.18%
			-1.28%
			0.90%

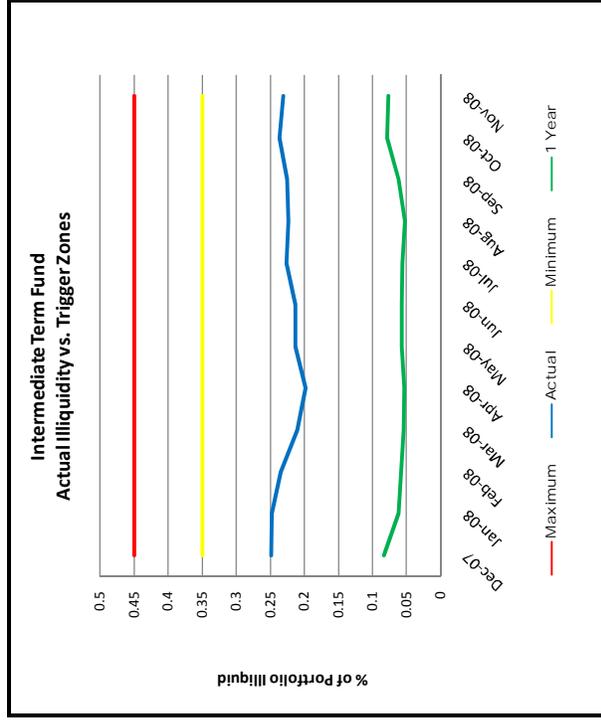
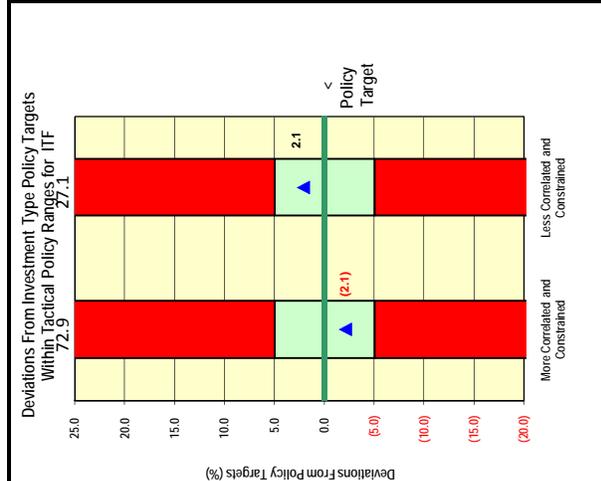
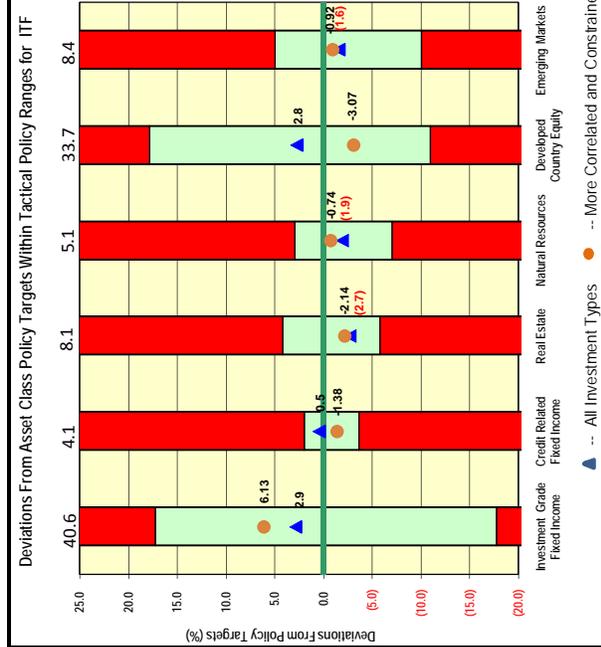


III. INTERMEDIATE TERM FUND Investment Reports for Periods Ended November 30, 2008

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows				
	Fiscal Year Ended		Fiscal Year Ended	
	August 31, 2008	November 30, 2008	August 31, 2008	August 31, 2009
Beginning Net Assets	\$ 3,720.6	\$ 3,874.8	\$ 3,874.8	3,874.8
Contributions	1,639.1	149.7	149.7	149.7
Withdrawals	(1,335.3)	(142.1)	(142.1)	(142.1)
Distributions	(118.6)	(26.6)	(26.6)	(26.6)
Investment Return	(7.5)	(842.3)	(842.3)	(842.3)
Expenses	(23.5)	(3.0)	(3.0)	(3.0)
Ending Net Assets	\$ 3,874.8	\$ 3,010.5	\$ 3,010.5	3,010.5

	Fiscal Year to Date		
	Returns		Value Added
	Portfolio	Policy Benchmark	From Asset Allocation From Security Selection Total
More Correlated and Constrained:			
Investment Grade	-7.22%	-3.23%	0.50%
Credit-Related	-9.05%	-30.39%	-0.27%
Real Estate	-42.27%	-44.04%	0.04%
Natural Resources	-39.09%	-35.94%	0.04%
Developed Country	-32.07%	-33.22%	0.11%
Emerging Markets	-46.15%	-44.59%	0.20%
Total More Correlated and Constrained	-23.41%	-23.52%	-0.53%
Less Correlated and Constrained	-16.59%	-18.23%	-0.16%
Private Investments	0.00%	0.00%	0.00%
Total	-21.68%	-22.20%	0.46%
			0.06%
			0.52%



IV. SEPARATELY INVESTED ASSETS
Summary Investment Report at November 30, 2008
 Report prepared in accordance with Texas Education Code Sec. 51.0032

ASSET TYPES	FUND TYPE																						
	CURRENT PURPOSE DESIGNATED			RESTRICTED			ENDOWMENT & SIMILAR FUNDS			ANNUITY & LIFE INCOME FUNDS			AGENCY FUNDS			TOTAL EXCLUDING OPERATING FUNDS			OPERATING FUNDS (SHORT TERM FUND)			TOTAL	
	BOOK	MARKET		BOOK	MARKET		BOOK	MARKET		BOOK	MARKET		BOOK	MARKET		BOOK	MARKET		BOOK	MARKET	BOOK	MARKET	
Cash & Equivalents:																							
Beginning value 08/31/08	-	-	3,168	3,168	62,152	62,152	2,083	2,083	2,083	2,083	3,491	3,491	3,491	3,491	70,894	70,894	70,894	1,489,067	1,489,067	1,489,067	1,559,961	1,559,961	
Increase/(Decrease)	53	(842)	(842)	(842)	(10,629)	(10,629)	(495)	(495)	(495)	205	205	205	205	205	(11,708)	(11,708)	(11,708)	43,929	43,929	43,929	32,221	32,221	
Ending value 11/30/08	53	53	2,326	2,326	51,523	51,523	1,588	1,588	1,588	3,696	3,696	3,696	3,696	3,696	59,186	59,186	59,186	1,532,996	1,532,996	1,532,996	1,592,182	1,592,182	
Debt Securities:																							
Beginning value 08/31/08	-	-	265	259	12,605	13,234	11,676	11,959	11,959	-	-	-	-	-	24,546	25,452	25,452	-	-	-	24,546	25,452	
Increase/(Decrease)	-	-	-	9	(701)	(862)	(220)	(582)	(582)	-	-	-	-	-	(921)	(1,435)	(1,435)	-	-	-	(921)	(1,435)	
Ending value 11/30/08	-	-	265	268	11,904	12,372	11,456	11,377	11,377	-	-	-	-	-	23,625	24,017	24,017	-	-	-	23,625	24,017	
Equity Securities:																							
Beginning value 08/31/08	18	13,563	440	415	33,906	34,764	25,452	23,473	23,473	-	-	-	-	-	59,816	72,215	72,215	-	-	-	59,816	72,215	
Increase/(Decrease)	(1)	(7,041)	89	54	(3,524)	(12,075)	(1,083)	(7,629)	(7,629)	-	-	-	-	-	(4,519)	(26,691)	(26,691)	-	-	-	(4,519)	(26,691)	
Ending value 11/30/08	17	6,522	529	469	30,382	22,689	24,369	15,844	15,844	-	-	-	-	-	55,297	45,524	45,524	-	-	-	55,297	45,524	
Other:																							
Beginning value 08/31/08	-	-	3,196	3,196	3	3	321	130	130	1,054	1,054	1,054	1,054	1,054	4,574	4,383	4,383	-	-	-	4,574	4,383	
Increase/(Decrease)	-	-	(2,362)	(2,362)	6	6	-	-	-	(789)	(789)	(789)	(789)	(789)	(3,145)	(3,145)	(3,145)	-	-	-	(3,145)	(3,145)	
Ending value 11/30/08	-	-	834	834	9	9	321	130	130	265	265	265	265	265	1,429	1,238	1,238	-	-	-	1,429	1,238	
Total Assets:																							
Beginning value 08/31/08	18	13,563	7,069	7,038	108,666	110,153	39,532	37,645	37,645	4,545	4,545	4,545	4,545	4,545	159,830	172,944	172,944	1,489,067	1,489,067	1,489,067	1,648,897	1,662,011	
Increase/(Decrease)	52	(6,988)	(3,115)	(3,141)	(14,848)	(23,560)	(1,798)	(8,706)	(8,706)	(584)	(584)	(584)	(584)	(584)	(20,293)	(42,979)	(42,979)	43,929	43,929	43,929	23,636	950	
Ending value 11/30/08	70	6,575	3,954	3,897	93,818	86,593	37,734	28,939	28,939	3,961	3,961	3,961	3,961	3,961	139,537	129,965	129,965	1,532,996	1,532,996	1,532,996	1,672,533	1,662,961	

Details of individual assets by account furnished upon request.

6. **U. T. System Board of Regents: Approval of amendments to the Exhibits of the Investment Policy Statements regarding changes to benchmarks and maximum range of Credit-Related Fixed Income asset class for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund**

RECOMMENDATION

Contingent upon approval by the Board of Directors of The University of Texas Investment Management Company (UTIMCO) of the following recommendations at the UTIMCO Board's February 5, 2009 meeting, the Chancellor and the Executive Vice Chancellor for Business Affairs concur in the UTIMCO Board of Directors' recommendation that the U. T. System Board of Regents approve proposed amendments to the Exhibits of the Investment Policy Statements summarized as follows:

- a. Benchmark changes:
 - Rename the Lehman Brothers Global Aggregate Index to the Barclays Capital Global Aggregate Index for the Investment Grade Fixed Income asset class
 - Rename the Lehman Brothers Global High-Yield Index to the Barclays Capital Global High-Yield Index for the Credit-Related Fixed Income asset class
 - Adopt the Hedge Fund Research Indices (HFRI) Fund of Funds Composite Index as the new benchmark for the Less Correlated & Constrained (LCC) Investment Type effective January 1, 2009
- b. Increase the maximum range of the Credit-Related Fixed Income asset class as follows:
 - Increase the range from 17.5% to 22.5% for the period ending August 31, 2009, and from 20.0% to 22.5% for the periods ending August 31, 2010 and August 31, 2011, for the Permanent University Fund (PUF) and General Endowment Fund (GEF)
 - Increase the range from 7.5% to 12.5% for the periods ending August 31, 2009, 2010, and 2011 for the Intermediate Term Fund (ITF)

The amendments to the Exhibits of the PUF and GEF Investment Policy Statements are reflected in Exhibit 1 on Page 70 and will be consistently applied to the PUF and GEF Investment Policy Statements and the corresponding Exhibits in the Permanent Health Fund (PHF) and Long Term Fund (LTF) Investment Policy Statements. The amendments to the ITF Investment Policy Statement Exhibits are reflected in Exhibit 2 on Page 71.

BACKGROUND INFORMATION

The U. T. System Board of Regents adopted the current benchmarks for the PUF, GEF, PHF, LTF, and ITF on August 14, 2008, to be effective September 1, 2008. The Lehman Brothers' indices have changed names consistent with the renaming of the Lehman Brothers' indices in November 2008, resulting from the acquisition of Lehman Brothers by Barclays Capital, Inc., in September 2008. The composition of the indices did not change.

The current LCC benchmark, MSCI Investable Hedge Fund Index, is being discontinued by MSCI as of January 21, 2009. Due to the elimination of the MSCI Investable Hedge Fund Index, a replacement benchmark is required and UTIMCO staff has conducted a study with LCC consultant Albourne Partners to recommend a new benchmark to become effective January 1, 2009. Cambridge Associates LLC also delivered an opinion in support of the HFRI Fund of Funds Composite Index. On February 5, 2009, the UTIMCO Board is anticipated to approve the use of the HFRI Fund of Funds Composite Index for the LCC to be effective as of January 1, 2009.

UTIMCO anticipates requesting the U. T. System Board of Regents to approve an increase in the asset allocation maximum range for the Credit-Related Fixed Income asset class for the PUF, GEF, and ITF. The exposure as of December 31, 2008, for the PUF and GEF, is within the Fiscal Year 2009 minimum and maximum ranges of 10.0% and 17.5%, with PUF and GEF at 11.47% and 11.44%, respectively. The December 31, 2008, exposure for the ITF is 4.13%, which is within the Fiscal Year 2009 minimum and maximum ranges of 0% and 7.5%. Because UTIMCO staff believes that there will continue to be attractive risk-adjusted opportunities in the Credit-Related Fixed Income asset class, the UTIMCO Board at its February 5, 2009 meeting will consider a UTIMCO staff proposal to increase the maximum ranges for the Credit-Related Fixed Income Asset Class for the PUF, GEF, and ITF. Based on the results of the meeting and the action taken by the UTIMCO Board, UTIMCO staff will bring forth a proposal at the U. T. System Board of Regents' February 2009 meeting.

EXHIBIT 1
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~SEPTEMBER 1, 2008~~ JANUARY 1, 2009

POLICY PORTFOLIO	FYE 2009			FYE 2010			FYE 2011		
	Min	Target	Max	Min	Target	Max	Min	Target	Max
<u>Asset Classes</u>									
Investment Grade Fixed Income	5.0%	7.5%	15.0%	5.0%	7.5%	15.0%	5.0%	7.5%	15.0%
Credit-Related Fixed Income	10.0%	13.5%	22.5-47.5%	10.0%	14.5%	22.5-29.9%	10.0%	14.5%	22.5-29.9%
Real Estate	5.0%	7.5%	15.0%	5.0%	8.0%	15.0%	5.0%	8.5%	15.0%
Natural Resources	5.0%	8.5%	15.0%	5.0%	9.5%	15.0%	5.0%	10.0%	15.0%
Developed Country Equity	40.0%	46.5%	52.5%	37.5%	43.0%	50.0%	37.5%	41.0%	47.5%
Emerging Markets Equity	12.5%	16.5%	22.5%	12.5%	17.5%	22.5%	12.5%	18.5%	22.5%
<u>Investment Types</u>									
More Correlated & Constrained Investments	37.5%	44.5%	50.0%	35.0%	41.5%	47.5%	35.0%	41.0%	47.5%
Less Correlated & Constrained Investments	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%
Private Investments	18.0%	22.5%	28.0%	21.0%	25.5%	31.0%	21.0%	26.0%	33.0%

*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)	FYE 2009			FYE 2010			FYE 2011		
	Min	Target	Max	Min	Target	Max	Min	Target	Max
<u>Lehman Brothers- Barclays Capital Global Aggregate Index</u>	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
<u>Lehman Brothers- Barclays Capital Global High-Yield Index</u>	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	2.0%	2.0%	2.0%
FTSE EPRA/NAREIT Global Index	5.5%	5.5%	5.5%	5.0%	5.0%	5.0%	4.5%	4.5%	4.5%
50% Dow Jones-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index	5.5%	5.5%	5.5%	4.5%	4.5%	4.5%	4.0%	4.0%	4.0%
MSCI World Index with net dividends	17.0%	17.0%	17.0%	15.5%	15.5%	15.5%	14.5%	14.5%	14.5%
MSCI Emerging Markets with net dividends	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.5%	10.5%	10.5%
<u>MSCI Investable Hedge Fund Index Hedge Fund Research Indices Fund of Funds Composite Index</u>	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%
Venture Economics Custom Index	20.5%	20.5%	20.5%	22.5%	22.5%	22.5%	22.0%	22.0%	22.0%
NACRIEF Custom Index	2.0%	2.0%	2.0%	3.0%	3.0%	3.0%	4.0%	4.0%	4.0%
<u>POLICY/TARGET RETURN/RISKS</u>									
Expected Annual Return (Benchmarks)	8.78%	8.78%	8.78%	8.86%	8.86%	8.86%	8.85%	8.85%	8.85%
Expected Target Annual Return (Active)	9.72%	9.72%	9.72%	9.90%	9.90%	9.90%	9.87%	9.87%	9.87%
One Year Downside Deviation	8.72%	8.72%	8.72%	8.71%	8.71%	8.71%	8.67%	8.67%	8.67%
Risk Bounds									
Lower: 1 Year Downside Deviation	85%	85%	85%	85%	85%	85%	85%	85%	85%
Upper: 1 Year Downside Deviation	115%	115%	115%	115%	115%	115%	115%	115%	115%

**EXHIBIT 2 - INTERMEDIATE TERM FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~SEPTEMBER 1, 2008~~ JANUARY 1, 2009**

POLICY PORTFOLIO	FYE 2009		FYE 2010		FYE 2011	
	Min	Target	Min	Target	Min	Target
<u>Asset Classes</u>						
Investment Grade Fixed Income	20.0%	37.0%	20.0%	37.0%	20.0%	37.0%
Credit-Related Fixed Income	0.0%	5.5%	0.0%	5.5%	0.0%	5.5%
Real Estate	5.0%	10.0%	5.0%	10.0%	5.0%	10.0%
Natural Resources	0.0%	7.0%	0.0%	7.0%	0.0%	7.0%
Developed Country Equity	20.0%	30.5%	20.0%	30.5%	20.0%	30.5%
Emerging Markets Equity	0.0%	10.0%	0.0%	10.0%	0.0%	10.0%
<u>Investment Types</u>						
More Correlated & Constrained	70.0%	75.0%	70.0%	75.0%	70.0%	75.0%
Less Correlated & Constrained	20.0%	25.0%	20.0%	25.0%	20.0%	25.0%

*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)	FYE 2009		FYE 2010		FYE 2011	
	Min	Target	Min	Target	Min	Target
Lehman Brothers Barclays Capital Global Aggregate Index		33.0%		33.0%		33.0%
Lehman Brothers Barclays Capital Global High-Yield Index		2.0%		2.0%		2.0%
FTSE EPRA/NAREIT Global Index		10.0%		10.0%		10.0%
50% Dow Jones-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index		5.0%		5.0%		5.0%
MSCI World Index with net dividends		20.0%		20.0%		20.0%
MSCI Emerging Markets with net dividends		5.0%		5.0%		5.0%
MSCI Investable Hedge Fund Index Hedge Fund Research Indices Fund of Funds Composite Index		25.0%		25.0%		25.0%

POLICY/TARGET RETURN/RISKS	FYE 2009		FYE 2010		FYE 2011	
	Min	Target	Min	Target	Min	Target
Expected Annual Return (Benchmarks)		7.16%		7.16%		7.16%
Expected Target Annual Return (Active)		7.83%		7.83%		7.83%
One Year Downside Deviation		6.38%		6.38%		6.38%
Risk Bounds						
Lower: 1 Year Downside Deviation		85%		85%		85%
Upper: 1 Year Downside Deviation		115%		115%		115%

7. **U. T. System Board of Regents: Adoption of a Resolution authorizing the execution of a credit agreement with the Texas Comptroller of Public Accounts, in an aggregate principal amount not to exceed \$500,000,000, to provide liquidity support to the U. T. System related to its variable rate debt programs and authorization to complete all related transactions**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents adopt a Resolution as set out on Pages 73 – 74e (the Resolution) authorizing appropriate officers of the U. T. System to enter into a credit agreement with the Texas Comptroller of Public Accounts, in an aggregate principal amount not to exceed \$500,000,000, to provide liquidity support related to the U. T. System's Revenue Financing System (RFS) and Permanent University Fund (PUF) variable rate debt programs and to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents, within the limitations and procedures specified in the Resolution.

BACKGROUND INFORMATION

To maintain the highest short-term credit ratings, the U. T. System must provide either internal or external liquidity support of its variable rate debt programs. Currently, the U. T. System supports all of its variable rate debt programs with internal liquidity. On a limited basis, the Texas Comptroller of Public Accounts is offering liquidity support to state issuers at a reasonable cost. Adoption of this Resolution will authorize the negotiation of a credit agreement with the Texas Comptroller to provide an additional source of liquidity to the U. T. System to support its variable rate debt programs. Currently, U. T. System staff is negotiating \$150 million of initial liquidity support at an annual cost of 8 to 12 basis points. A similar agreement between the U. T. System and the State Treasurer was previously approved by the U. T. System Board of Regents on April 14, 1994.

**A RESOLUTION AUTHORIZING THE EXECUTION AND DELIVERY OF
LIQUIDITY AGREEMENTS RELATING TO CERTAIN VARIABLE RATE
INDEBTEDNESS OF THE SYSTEM**

WHEREAS, the Board of Regents (the "Board") of The University of Texas System (the "System") is the governing body of the System, an institution of higher education under the *Texas Education Code* and an agency of the State of Texas (the "State");

WHEREAS, on February 14, 1991, the Board adopted the First Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System and amended such resolution on October 8, 1993, and August 14, 1997 (referred to herein as the "Master Resolution");

WHEREAS, unless otherwise defined herein, terms used herein shall have the meaning given in the Master Resolution or as set forth in Exhibit A hereto;

WHEREAS, pursuant to the Revenue Financing System, the Board has previously authorized the issuance of certain variable rate notes through a commercial paper note program and has currently outstanding certain variable rate revenue bonds payable from Pledged Revenues all as set forth in Exhibit B attached hereto (collectively, the "RFS Obligations");

WHEREAS, pursuant to the Constitutional Provision, the Board has previously authorized the issuance of certain variable rate notes through a commercial paper note program and a flexible rate note program and has currently outstanding certain variable rate revenue bonds payable from the Interest of the System all as set forth in Exhibit C attached hereto (collectively, the "PUF Obligations," and together with the RFS Obligations, the "Obligations");

WHEREAS, the Board desires to provide for liquidity support for the Obligations as set forth in this Resolution;

WHEREAS, the Comptroller of Public Accounts of the State of Texas (the "Comptroller") has provided the System with the form of an initial draft liquidity agreement with respect to the Obligations attached hereto as Exhibit D (the "Draft Agreement"); and

WHEREAS, in furtherance of its desire to provide for liquidity support for the Obligations, the Board hereby authorizes each Authorized Representative to enter into one or more liquidity agreements with the Comptroller or any related entity of equal credit quality (the "Liquidity Provider") in accordance with the terms set forth in this Resolution.

NOW THEREFORE BE IT RESOLVED, that

SECTION 1. DEFINITIONS. In addition to the definitions set forth in the preamble of this Resolution, the terms used in this Resolution and not otherwise defined shall have the meanings

given in the Master Resolution or in Exhibit A to this Resolution attached hereto and made a part hereof.

SECTION 2. AUTHORIZATION OF LIQUIDITY AGREEMENTS. (a) Delegation. Each Authorized Representative is hereby severally authorized to act on behalf of the Board in entering into and executing one or more agreements with the Liquidity Provider, or any subsequent amendments thereto, to provide for liquidity support for all or a portion of the Obligations (each, a "Liquidity Agreement") within the parameters established by this Resolution. The delegation to each Authorized Representative to execute and deliver Liquidity Agreements on behalf of the Board under this Resolution shall not be limited by any term or provision in the Draft Agreement and shall expire on February 11, 2010.

(b) Maximum Principal Amount. The aggregate principal amount of all commitments under Liquidity Agreements authorized by this Resolution shall not at any time exceed \$500,000,000.

(c) Maximum Term. The maximum term of each Liquidity Agreement authorized by this Resolution shall not exceed the maturity date of the then outstanding related Obligations in the case of variable rate revenue bonds or the expiration date of the note program in the case of commercial paper notes or flexible rate notes.

(d) Maximum Rate. No Liquidity Agreement authorized by this Resolution shall be payable at a rate greater than the maximum rate allowed by law.

SECTION 3. SOURCE OF PAYMENT AND SECURITY FOR LIQUIDITY AGREEMENTS.

(a) General. The costs of any Liquidity Agreement authorized by this Resolution and the amounts payable thereunder shall be payable from the same source and on the lien priority as the Obligations to which such Liquidity Agreement applies.

(b) RFS Obligations. To the extent a Liquidity Agreement applies to RFS Obligations, the Board's payment obligations under such agreement shall be payable out of Pledged Revenues and each Liquidity Agreement shall constitute Parity Debt under the Master Resolution, except to the extent that a Liquidity Agreement provides that an obligation of the Board thereunder shall be payable from and secured by a lien on Pledged Revenues subordinate to the lien securing the payment of the Parity Debt. The Board determines that this Resolution shall constitute a Supplemental Resolution to the Master Resolution and as required by Section 5(a) of the Master Resolution, the Board further determines that upon the delivery of a each Liquidity Agreement applicable to RFS Obligations it will have sufficient funds to meet the financial obligations of the System, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System and that the Members on whose behalf such Liquidity Agreement is entered into possess the financial capacity to satisfy their Direct Obligations after taking such Liquidity Agreement into account.

(c) PUF Obligations. To the extent a Liquidity Agreement applies to PUF Obligations, the Board's payment obligations under such agreement shall be payable from the Residual AUF as a cost of the support and maintenance of System administration or from any other source that is legally available to make such payments.

SECTION 4. ADDITIONAL AUTHORIZATION. (a) Additional Agreements and Documents Authorized. Each Authorized Representative and all officers or officials of the Board are severally authorized to execute and deliver such other agreements and documents as are contemplated by this Resolution or are otherwise necessary in connection with entering into Liquidity Agreements as described in this Resolution, as any such officer or official shall deem appropriate, including without limitation, officer's certificates, legal opinions, and credit support documents.

(b) Further Actions. All officers or officials of the Board and its agents and counsel are authorized to take all such further actions, to execute and deliver such further instruments and documents in the name and on behalf of the Board to pay all such expenses as in his or her judgment shall be necessary or advisable in order fully to carry out the purposes of this Resolution.

(c) Attorney General Submission. Each Authorized Representative is hereby authorized to submit this Resolution to the Attorney General of the State for review and approval in accordance with the requirements of Chapter 1371 of the *Texas Government Code*, as amended, as the proceedings authorizing the Liquidity Agreements entered into by the Board pursuant to this Resolution and to provide for the payment of costs in connection therewith.

EXHIBIT A

DEFINITIONS

"Authorized Representative" shall mean one or more of the following officers or employees of The University of Texas System, to wit: the Chancellor, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Finance and Business Development, and the Assistant Vice Chancellor for Finance or such other officer or employee of The University of Texas System authorized by the Board to act as an Authorized Representative under this Resolution.

"Available University Fund" shall mean the Available University Fund as defined by the Constitution of the State and consists of distributions made to it from the total return on all investment assets of the Permanent University Fund, including the net income attributable to the surface of Permanent University Fund land, as determined by the Board pursuant to Section 18 of Article VII of the Constitution of the State.

"Constitutional Provision" shall mean Section 18 of Article VII of the Constitution of the State, as may hereafter be amended.

"Interest of the System" shall mean the System's two-thirds interest in the Available University Fund.

"Permanent University Fund" shall mean the constitutional fund and public endowment created in the Texas Constitution of 1876, as created, established, implemented and administered pursuant to Sections 10, 11, 11a, 11b, 15 and 18 of Article VII of the Constitution of the State, as amended, and by other applicable present and future constitutional and statutory provisions, and further implemented by the provisions of Chapter 66, *Texas Education Code*, as amended.

"Residual AUF" shall mean the remainder of the Interest of the System in the Available University Fund appropriated for the support and maintenance of The University of Texas at Austin and the System Administration after the appropriation of an annual sum sufficient to pay the principal and interest due on bonds and notes issued by the Board pursuant to the Constitutional Provision.

EXHIBIT B
RFS OBLIGATIONS

Note Program or Bonds	Authorized Amount	Date of Authorizing Resolution	Maximum Maturity Date
RFS Commercial Paper Notes, Series A and Taxable Commercial Paper Notes, Series B	\$1,250,000,000	August 14, 2008	April 1, 2035
RFS Refunding Bonds, Series 2001A	\$85,000,000	February 11, 1999	August 15, 2013
RFS Refunding Bonds, Series 2007B	\$345,460,000	August 23, 2007	August 1, 2034
RFS Bonds, Series 2008B	\$685,485,000	February 7, 2008	August 1, 2039

EXHIBIT C
PUF OBLIGATIONS

Note Program or Bonds	Authorized Amount	Date of Authorizing Resolution	Maximum Maturity Date
PUF Commercial Paper Notes, Series A and Taxable Commercial Paper Notes, Series B	\$500,000,000	August 14, 2008	August 1, 2035
PUF Flexible Rate Notes, Series A	\$400,000,000	November 13, 2002	May 15, 2030
PUF Bonds, Series 2008A	\$400,905,000	August 14, 2008	July 1, 2038

EXHIBIT D

DRAFT LIQUIDITY AGREEMENT

[On file with the Board]

8. **U. T. System: Approval of additional aggregate amount of \$10,250,000 of Revenue Financing System Equipment Financing for Fiscal Year 2009 and resolution regarding parity debt**

RECOMMENDATION

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

- a. approve an additional aggregate amount of \$10,250,000 of Revenue Financing System Equipment Financing for Fiscal Year 2009 as allocated to those U. T. System institutions set out on Page 77; and
- b. 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 cost of equipment including costs incurred 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;
 - the institutions and U. T. System Administration, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their 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 \$10,250,000 for the purchase of equipment; and
 - this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the *Code of Federal Regulations* that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

On April 14, 1994, the U. T. System Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. Equipment financing is

used for the purchase of equipment in lieu of more costly vendor financing. The Guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized twice a year with full amortization not to exceed 10 years.

On August 14, 2008, the U. T. System Board of Regents approved \$122,756,000 for equipment financing in Fiscal Year 2009. This agenda item requests approval of an additional aggregate amount of \$10,250,000 for equipment financing for Fiscal Year 2009.

Further details on the equipment to be financed and debt coverage ratios for individual institutions may be found on Page 77.

REQUEST FOR APPROVAL OF U. T. SYSTEM EQUIPMENT FINANCING
FY 2009 (FEBRUARY 2009)

Institution	\$ Amount of		Description of	DSC*
	Request	Expected Equipment Purchases		
U. T. Dallas	\$2,000,000	Enterprise Resource Planning ("ERP") implementation		2.5x
U.T. El Paso	250,000	Technology infrastructure		2.6x
U. T. Health Science Center - Houston	5,000,000	Telecommunication system, clinical equipment		1.7x
U. T. Health Science Center - San Antonio	3,000,000	Clinical equipment, core research equipment, infrastructure equipment		1.5x
Total	\$10,250,000			

* Debt Service Coverage ("DSC") based on six-year forecasted Statement of Revenues, Expenses, and Changes in Net Assets ("SRECNA") for FY2009 – FY2014.

U. T. System Office of Finance, January 21, 2009