



## TABLE OF CONTENTS FOR FINANCE AND PLANNING COMMITTEE

**Committee Meeting:** 11/16/2006

**Board Meeting:** 11/16/2006  
Austin, Texas

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

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>Convene</b>	<i>8:00 a.m.</i> <i>Chairman Rowling</i>		
1. <b>U. T. System: Discussion and appropriate action related to approval of <i>Docket No. 128</i></b>	<i>8:00 a.m.</i> <b>Discussion, if needed</b> <i>Dr. Kelley</i>	<b>Action</b>	<b>28</b>
2. <b>U. T. System: Key Financial Indicators Report</b>	<i>8:10 a.m.</i> <b>Report</b> <i>Dr. Kelley</i>	Not on Agenda	<b>28</b>
3. <b>U. T. System: Discussion and appropriate action regarding U. T. System Administration recommendations for banking and treasury services</b>	<i>8:20 a.m.</i> <b>Action</b> <i>Dr. Kelley</i>	<b>Action</b>	<b>28</b>
4. <b>U. T. System Board of Regents: Investment Reports for the fiscal year and quarter ended August 31, 2006, and The University of Texas Investment Management Company (UTIMCO) Performance Summary Report</b>	<i>8:40 a.m.</i> <b>Report</b> <i>Ms. Iberg</i>	<b>Report</b>	<b>32</b>
5. <b>U. T. System: Fiscal Year 2006 Energy Utility Task Force Report</b>	<i>8:45 a.m.</i> <b>Report</b> <i>Mr. Aldridge</i> <i>Dr. Clubb, U. T. Austin</i> <i>Mr. Roan, U. T. Southwestern Medical Center - Dallas</i>	Not on Agenda	<b>39</b>
<b>Adjourn</b>	<i>9:00 a.m.</i>		

1. **U. T. System: Discussion and appropriate action related to approval of Docket No. 128**

**RECOMMENDATION**

It is recommended that *Docket No. 128*, beginning on Page Docket - 1, be approved. The Docket is printed on green paper following the Docket tab at the back of the Supplemental Materials (Volume 2) of the Agenda Book.

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

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

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report, as set forth on Pages 21 - 27 of the Supplemental Materials (Volume 2) of the Agenda Book. The report represents the consolidated and individual operating results of the U. T. System institutions.

**REPORT**

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

3. **U. T. System: Discussion and appropriate action regarding U. T. System Administration recommendations for banking and treasury services**

**RECOMMENDATION**

The Chancellor concurs in the recommendation proposed by the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents adopt the recommendations as referenced in the Treasury Strategies, Inc. (TSI) Final Report dated May 31, 2006, attached on Pages 30 - 75 of the Supplemental Materials (Volume 2) of the Agenda Book, and charge the U. T. System Office of Finance with the responsibility of applying such treasury and banking services "best practices" where appropriate.

This recommendation is made with the intent that the actions proposed be designed and implemented by a System-wide working group consisting of the U. T. System Office of Finance personnel and cash management professionals from a number of the U. T. System institutions as designated by the Executive Vice Chancellor for Business Affairs. The working group would likely be supplemented by an outside consultant to assist with identifying other opportunities and implementation strategies. Based on the analysis prepared by TSI, it is expected that the implementation of these "best practices" will result in cost savings to the U. T. System and its institutions, an increased return on cash investments, and greater protection against fraud. The Office of Finance will report back to the Finance and Planning Committee of the Board in Fall 2007 on the status of implementation.

### BACKGROUND INFORMATION

Dr. Kelley will discuss the results of a review of U. T. System treasury and banking services performed by TSI using materials attached on Pages 28 - 75 of the Supplemental Materials (Volume 2) of the Agenda Book.

The U. T. System institutions' banking and treasury operations are highly decentralized and operate independently of each other, with their own systems and bank relationships. While this environment allows the institutions to tailor treasury solutions to unique needs, it also results in a great divergence in the level of expertise, the application of cash management techniques, and the costs incurred to manage working capital.

On an average day, the institutions have a total of approximately \$10 million on deposit with their respective banking institutions. The remaining 99.8% of the U. T. System's \$4.3 billion of short and intermediate term funds are invested centrally with The University of Texas Investment Management Company (UTIMCO). The centralization of the operating investments on February 1, 2006, represented the most significant effort by U. T. System Administration to take a leadership role in setting a U. T. System-wide cash management strategy. Otherwise, the role of U. T. System Administration in the U. T. System-wide treasury operations is limited to the monitoring of bank collateral and the approval of standard bank depository agreements. The U. T. System does not approve the selection of banks or banking services.

On July 8, 2005, the Board of Regents asked the U. T. System Office of Finance to explore the multiple banking relationships throughout the U. T. System and determine if there are ways to increase efficiency and lower costs for these services. Through a competitive Request for Qualifications (RFQ) process, TSI was hired to perform a "Best Practices Review" of treasury services at the U. T. System institutions and at

U. T. System Administration. TSI is one of the leading treasury advisory firms in the U.S. and has recently completed similar assignments at a number of major corporations and higher education institutions. The scope of the review included

1. strategic review of cash management operations at the 15 U. T. System institutions and U. T. System Administration;
2. documentation and charting of each institution's cash management processes, banking controls, and cash cycle;
3. development of recommendations to optimize U. T. System-wide cash collections; and
4. development of a model framework for ongoing U. T. System-wide cash management best practices, and a comprehensive cash management strategy.

The information gathered by TSI was obtained through a data request and site visits by TSI professionals to each campus. The information was then analyzed and distilled into a set of "best practice" recommendations for each institution. TSI also submitted a set of high-level U. T. System-wide recommendations summarized in the TSI Report.

TSI reviewed treasury activities at each of the 15 institutions in seven major categories. TSI concluded that the collections and disbursement processes were well managed at each of the 15 U. T. System institutions and at System Administration. However, TSI also concluded that across the majority of institutions, structure, banking, cash positioning, controls, and technology fall short of efficient execution although certain institutions are performing at a high level and require minimal support from the U. T. System Office of Finance. See the attached table on Page 28 - 29 of the Supplemental Materials (Volume 2) of the Agenda Book for more information.

### TSI Strategic Recommendations

In addition to the activity-specific recommendations listed above, TSI made three strategic recommendations:

1. Consider centralizing treasury functions at the U. T. System Office of Finance to enhance operational performance, improve governance capabilities, strengthen control framework, and produce cost savings.
2. Consider consolidating banking relationships to provide consistency of form, function, and processes, thereby reducing fees, bank balances, and adding control.
3. Enhance balance management and investment practices (e.g., daily cash sweeps).

Page 4 of the TSI Report [Page 33 of the Supplemental Materials (Volume 2) of the Agenda Book] briefly discusses three distinct operational models that could be implemented to achieve all or some of the potential benefits as referenced therein. The three scenarios are:

1. "Fully Centralized Treasury" whereby the U. T. System Office of Finance would run all banking and treasury functions;
2. "Dual Centralization Structure" that would have the U. T. System Office of Finance running separate treasury functions for the health and academic institutions (or conversely, the large and small institutions); and
3. "Modified Practices Under Existing Treasury Structure," which would place the U. T. System Office of Finance in the role of coordinating and standardizing the banking and treasury practices throughout the U. T. System.

#### U. T. System Administration Observations and Recommendations

U. T. System Administration advocates TSI's "Modified Practices Under Existing Treasury Structure" approach, which would focus on coordinating and standardizing treasury functions throughout the U. T. System. The U. T. System Administration is in general agreement with TSI that the U. T. System has a significant opportunity to standardize policies, controls, and procedures, which should enhance operational performance, improve governance capabilities, strengthen the control framework, and produce savings.

U. T. System agrees with the opportunities identified by TSI, but does not agree that centralizing treasury functions at the U. T. System Office of Finance is the best way to capitalize on them. Page 31 of the TSI Report [Page 60 of the Supplemental Materials (Volume 2) of the Agenda Book] lists a number of considerations relating to centralizing treasury functions, many of which have not been studied or quantified. While conceptually attractive, the idea of centralizing treasury operations at the U. T. System Office of Finance does not take into account the disparate business models and regulatory requirements present at the 15 U. T. System institutions and System Administration. There is also concern that the TSI analysis does not fully capture the significant capital cost to convert existing systems into one consolidated treasury system, the operating disruptions that would result at each institution, or the full value of local banking relationships.

Standardization of the treasury functions could achieve a significant portion of the benefits outlined in the TSI Report without eliminating the treasury expertise and local knowledge needed at the institutions.

Specifically, the following opportunities are achievable through standardization and will serve to bring the U. T. System and its institutions much closer to TSI's definition of "Best Practices":

- use the negotiating power of the U. T. System to standardize and reduce banking fees;
- ensure that all bank accounts are swept daily to maximize interest income;
- create a standard banking Request for Proposals (RFP) to ensure consistent delivery of common banking services and to identify and avoid any impermissible conflicts of interest;
- create a new Business Procedures Memorandum (BPM) to standardize treasury practices and controls and bring them up to a level reflective of best practices;
- reduce the number of banks serving U. T. System institutions and increase the minimum service level standards;
- reduce costs further by negotiating a U. T. System-wide armored car contract, pre-encoding all checks deposited, and eliminating stop pay charges;
- ensure that each institution has a formal treasury operations disaster recovery plan that is integrated with the institution's overall disaster recovery plan;
- ensure that treasury operations are regularly audited and reviewed for compliance purposes; and
- upgrade the U. T. System collateral tracking system for banking deposits.

The U. T. System Office of Finance believes that these opportunities can be largely realized over the next 12-18 months, without significantly disrupting the operations of the institutions and without incurring significant costs.

**4. U. T. System Board of Regents: Investment Reports for the fiscal year and quarter ended August 31, 2006, and The University of Texas Investment Management Company (UTIMCO) Performance Summary Report**

REPORT

The Investment Reports for the fiscal year and quarter ended August 31, 2006, are set forth on Pages 34 - 38.

Item I on Page 34 reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the fiscal year was 11.17% versus its composite benchmark return of 12.51%. The PUF's net asset value increased by \$886.7 million since the beginning of the fiscal year to \$10,313.4 million. This change in net asset value includes increases due to contributions from PUF land receipts and net investment return and an annual distribution of \$357.3 million.

Item II on Page 35 reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the fiscal year was 11.10% versus its composite benchmark return of 12.51%. The GEF's net asset value increased during the fiscal year to \$5,427.8 million.

Item III on Page 36 reports activity for the Intermediate Term Fund (ITF). The ITF was implemented on February 1, 2006. The ITF's net investment return for the seven months ended August 31, 2006, was 3.42% versus its composite benchmark return of 3.06%. The ITF's initial contribution was \$2,930.9 million, and the net asset value has increased to \$3,048.8 million due to contributions and net investment return, net of distributions of \$52.7 million.

Item IV on Page 37 presents book and market value 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 \$48.9 million to \$1,509.0 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$43.5 million versus \$45.7 million at the beginning of the period; equities: \$73.7 million versus \$82.4 million at the beginning of the period; and other investments: \$2.2 million versus \$0.3 million at the beginning of the period.

The August 31, 2006, UTIMCO Performance Summary Report is attached on Page 38.

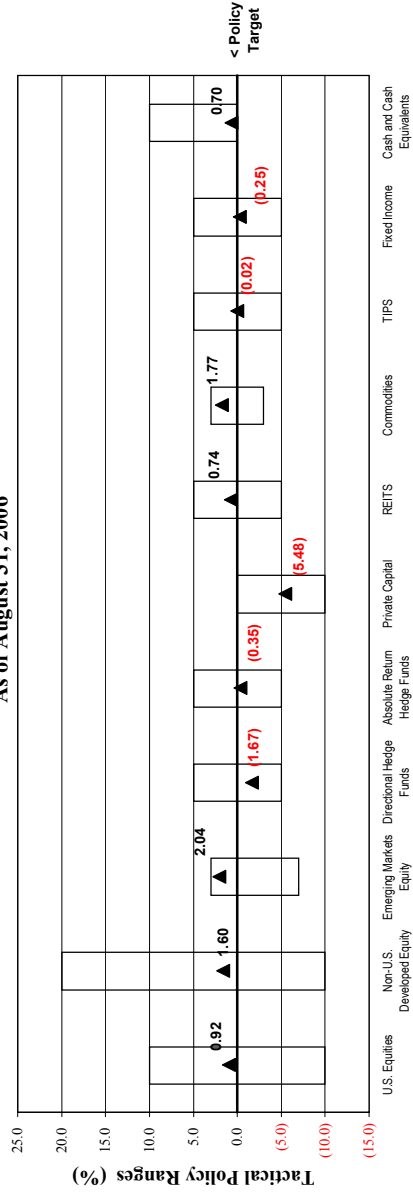
# I. PERMANENT UNIVERSITY FUND Investment Reports for Periods Ended August 31, 2006

Prepared in accordance with Texas Education Code Sec. 51.0032

	Fiscal Year to Date					
	August 31, 2006		Returns		Value Added	
	Portfolio Exposure	Policy Target	Portfolio Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	0.70%	0.00%	4.58%	-0.04%	0.00%	-0.04%
U.S. Equities	20.92%	20.00%	8.10%	0.00%	-0.13%	-0.13%
Non-U.S. Developed Equity	11.60%	10.00%	20.23%	0.24%	-0.36%	-0.12%
Emerging Markets Equity	9.04%	7.00%	22.29%	-0.29%	-0.58%	-0.87%
Directional Hedge Funds	8.33%	10.00%	6.24%	0.04%	0.14%	0.18%
Absolute Return Hedge Funds	14.65%	15.00%	8.96%	0.02%	0.74%	0.76%
REITS	5.74%	5.00%	28.04%	0.02%	0.07%	0.09%
Commodities	4.77%	3.00%	-4.56%	-0.41%	0.08%	-0.33%
TIPS	4.98%	5.00%	2.06%	0.08%	0.03%	0.11%
Fixed Income	9.75%	10.00%	2.32%	-0.05%	0.07%	0.02%
<b>Total Marketable Securities</b>	<b>90.48%</b>	<b>85.00%</b>	<b>10.00%</b>	<b>-0.39%</b>	<b>0.06%</b>	<b>-0.33%</b>
Private Capital	9.52%	15.00%	23.02%	-0.61%	-0.40%	-1.01%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>11.17%</b>	<b>-1.00%</b>	<b>-0.34%</b>	<b>-1.34%</b>

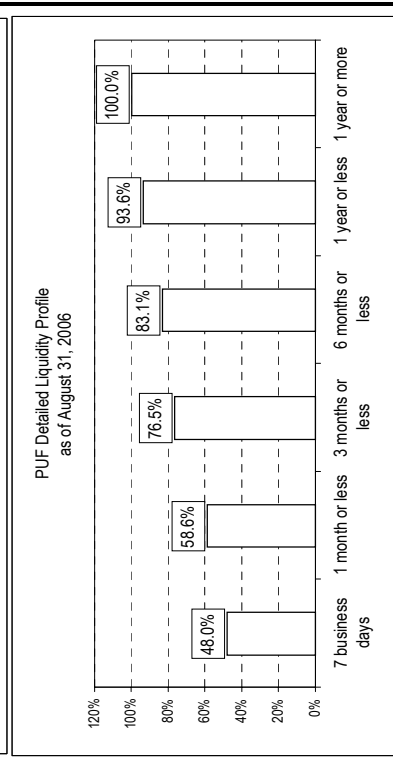
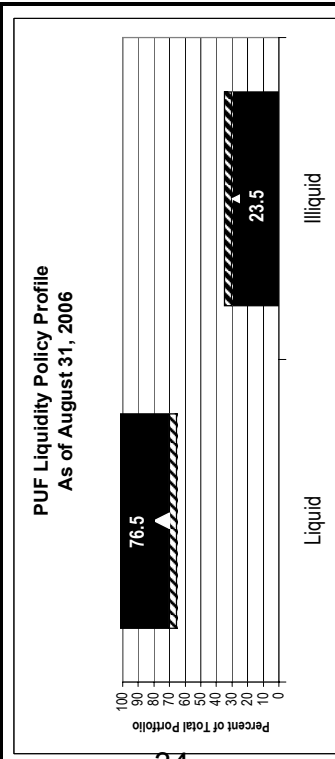
Policy Benchmark returns for Directional Hedge Funds, Absolute Return Hedge Funds and the Total Fund reflect restatements effective January 1, 2006, for the benchmark change approved by the U. T. System Board of Regents on August 10, 2006.

## Deviations From Policy Targets Within Tactical Policy Ranges As of August 31, 2006



### Summary of Capital Flows

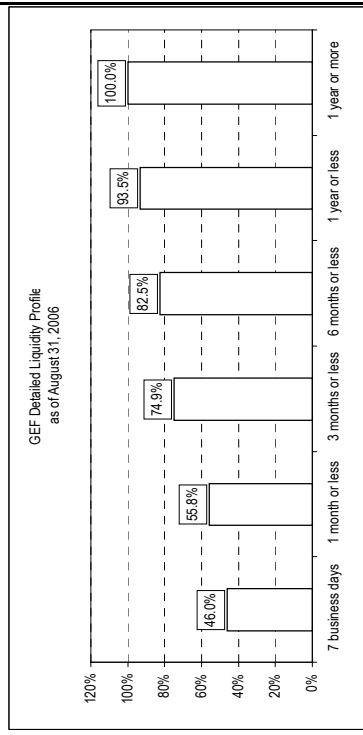
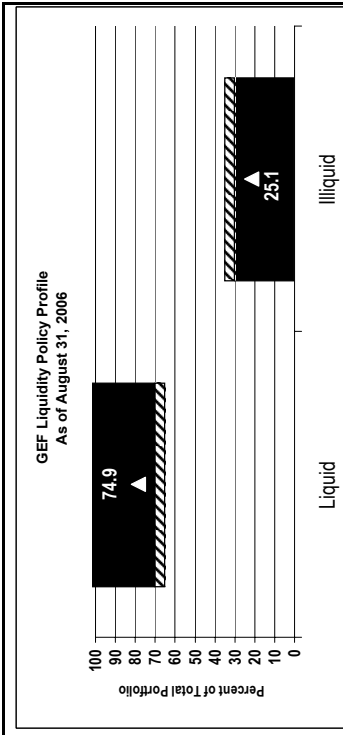
	Fiscal Year Ended August 31, 2005	Quarter Ended August 31, 2006	Fiscal Year Ended August 31, 2006
Beginning Net Assets (\$ millions)	\$ 8,087.9	\$ 10,028.9	\$ 9,426.7
PUF Lands Receipts	193.0	45.7	214.9
Investment Return	1,538.0	264.6	1,111.7
Expenses	(51.0)	(25.8)	(82.6)
Distributions to AUF	(341.2)	-	(357.3)
Ending Net Assets	\$ 9,426.7	\$ 10,313.4	\$ 10,313.4





**II. GENERAL ENDOWMENT FUND**  
**Investment Reports for Periods Ended August 31, 2006**  
 Prepared in accordance with *Texas Education Code Sec. 51.0032*

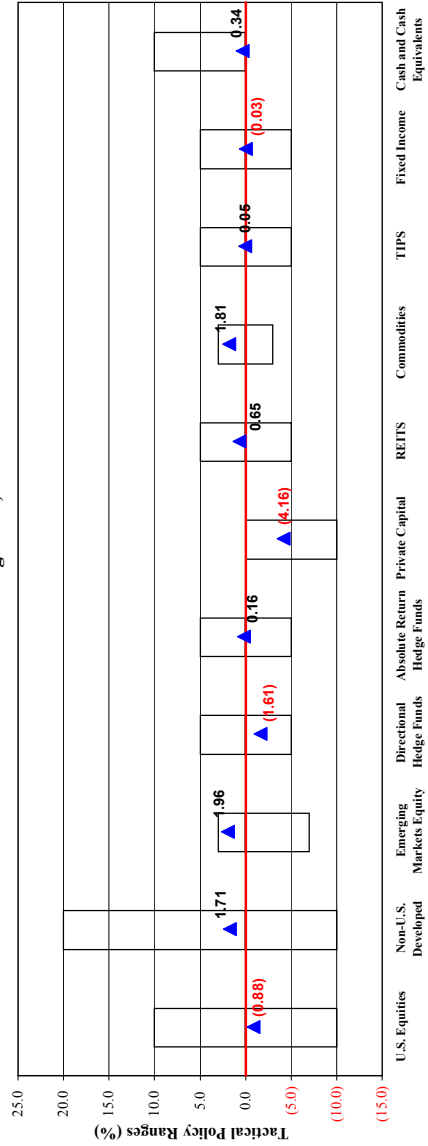
Summary of Capital Flows			
	Fiscal Year Ended August 31, 2005	Quarter Ended August 31, 2006	Fiscal Year Ended August 31, 2006
Beginning Net Assets	\$ 4,207.6	\$ 5,330.8	\$ 4,926.8
Contributions	139.2	27.4	273.9
Withdrawals	(4.7)	(2.4)	(108.0)
Distributions	(206.4)	(55.3)	(220.0)
Investment Return	814.2	139.4	593.3
Expenses	(23.1)	(12.1)	(38.2)
Ending Net Assets	\$ 4,926.8	\$ 5,427.8	\$ 5,427.8



	Returns				Fiscal Year to Date Value Added		
	Portfolio Exposure	Policy Target	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	0.34%	0.00%	4.58%	4.34%	0.01%	0.00%	0.01%
U.S. Equities	19.12%	20.00%	8.46%	8.75%	-0.05%	-0.06%	-0.11%
Non-U.S. Developed Equity	11.71%	10.00%	19.95%	24.28%	0.24%	-0.39%	-0.15%
Emerging Markets Equity	8.96%	7.00%	21.79%	30.58%	-0.36%	-0.61%	-0.97%
Directional Hedge Funds	8.39%	10.00%	6.15%	4.95%	0.05%	0.13%	0.18%
Absolute Return Hedge Funds	15.16%	15.00%	8.89%	4.20%	0.02%	0.73%	0.75%
REITS	5.65%	5.00%	27.92%	26.34%	0.00%	0.06%	0.06%
Commodities	4.81%	3.00%	-4.57%	-6.76%	-0.42%	0.08%	-0.34%
TIPS	5.05%	5.00%	2.06%	1.52%	0.09%	0.03%	0.12%
Fixed Income	9.97%	10.00%	2.49%	1.71%	-0.05%	0.06%	0.03%
<b>Total Marketable Securities</b>	<b>89.16%</b>	<b>85.00%</b>	<b>9.90%</b>	<b>10.21%</b>	<b>-0.47%</b>	<b>0.05%</b>	<b>-0.42%</b>
Private Capital	10.84%	15.00%	21.77%	26.23%	-0.42%	-0.57%	-0.99%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>11.10%</b>	<b>12.51%</b>	<b>-0.89%</b>	<b>-0.52%</b>	<b>-1.41%</b>

Policy Benchmark returns for Directional Hedge Funds, Absolute Return Hedge Funds and the Total Fund reflect restatements effective January 1, 2006, for the benchmark change approved by the U. T. System Board of Regents on August 10, 2006.

**Deviations From Policy Targets Within Tactical Policy Ranges**  
As of August 31, 2006



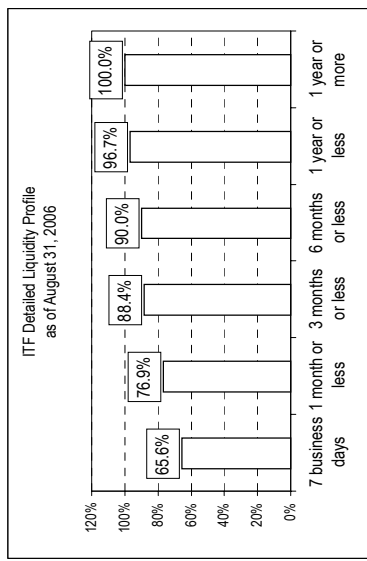
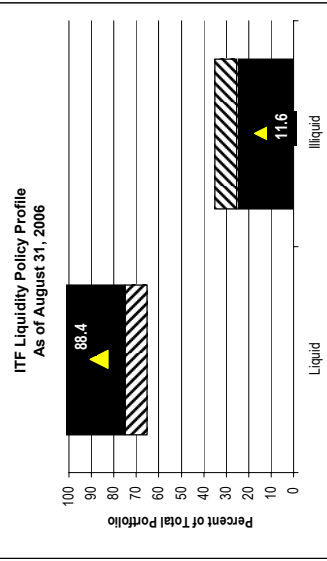
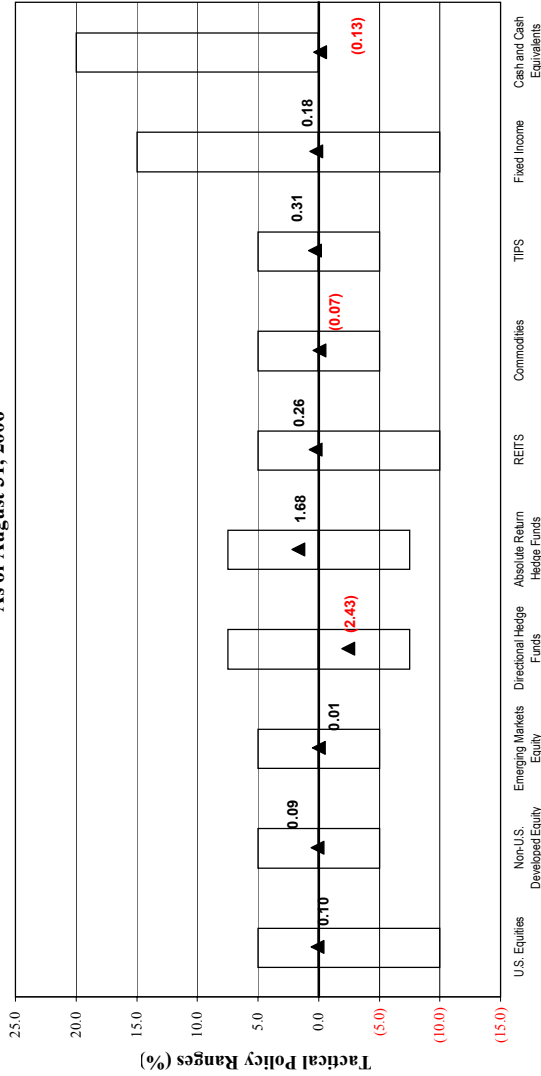
**III. INTERMEDIATE TERM FUND**  
**Investment Reports for Periods Ended August 31, 2006**  
 Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
	Quarter Ended	Inception to Date	
	August 31, 2006	August 31, 2006	Inception to Date
(\$ millions)	\$	2,988.8	\$ -
Beginning Net Assets		47.4	3,112.3
Contributions	(49.0)	(22.6)	(111.2)
Withdrawals	92.4	(8.2)	115.4
Distributions			(15.0)
Investment Return			3,048.8
Expenses			
Ending Net Assets	\$	3,048.8	\$ 3,048.8

	Returns					Value Added	
	August 31, 2006	Policy Target	Portfolio	Policy Benchmark	From Asset Allocation		From Security Selection
Cash and Cash Equivalents	-0.13%	0.00%	2.88%	2.76%	-0.04%	0.00%	-0.04%
U.S. Equities	15.10%	15.00%	2.79%	2.24%	0.00%	0.08%	0.08%
Non-U.S. Developed Equity	5.09%	5.00%	4.57%	7.70%	0.01%	-0.15%	-0.14%
Emerging Markets Equity	5.01%	5.00%	-1.83%	0.26%	-0.02%	-0.12%	-0.14%
Directional Hedge Funds	10.07%	12.50%	2.65%	1.11%	-0.02%	0.20%	0.18%
Absolute Return Hedge Funds	14.18%	12.50%	4.19%	1.11%	0.01%	0.39%	0.40%
REITS	10.26%	10.00%	13.16%	14.19%	-0.02%	-0.11%	-0.13%
Commodities	4.93%	5.00%	-3.25%	-2.82%	-0.01%	-0.03%	-0.04%
TIPS	10.31%	10.00%	2.14%	1.57%	-0.01%	0.06%	0.05%
Fixed Income	25.18%	25.00%	2.81%	2.15%	-0.02%	0.16%	0.14%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>3.42%</b>	<b>3.06%</b>	<b>-0.12%</b>	<b>0.48%</b>	<b>0.36%</b>

Policy Benchmark returns for Directional Hedge Funds, Absolute Return Hedge Funds and the Total Fund reflect restatements effective February 1, 2006, for the benchmark change approved by the U. T. System Board of Regents on August 10, 2006.

**Deviations From Policy Targets Within Tactical Policy Ranges**  
 As of August 31, 2006



IV. SEPARATELY INVESTED ASSETS

Summary Investment Report at August 31, 2006

Report prepared in accordance with Texas Education Code Sec. 51.0032

ASSET TYPES	(\$ thousands)																	
	FUND TYPE																	
	CURRENT PURPOSE DESIGNATED		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		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	BOOK	MARKET	
<b>Cash &amp; Equivalents:</b>																		
Beginning value 05/31/06	1,590	6,110	6,110	47,429	47,429	668	668	3,350	3,350	59,147	59,147	1,400,934	1,400,934	1,460,081	1,460,081			
Increase/(Decrease)	43	(3,761)	(3,761)	70,236	70,236	6,251	6,251	94,810	94,810	167,579	167,579	(118,672)	(118,672)	48,907	48,907			
Ending value 08/31/06	1,633	2,349	2,349	117,665	117,665	6,919	6,919	98,160	98,160	226,726	226,726	1,282,262	1,282,262	1,508,988	1,508,988			
<b>Debt Securities:</b>																		
Beginning value 05/31/06	-	263	229	29,877	29,234	16,597	16,256	-	-	46,737	45,719	-	-	46,737	45,719			
Increase/(Decrease)	-	-	(14)	(11)	70	(2,651)	(2,294)	-	-	(2,662)	(2,238)	-	-	(2,662)	(2,238)			
Ending value 08/31/06	-	263	215	29,866	29,304	13,946	13,962	-	-	44,075	43,481	-	-	44,075	43,481			
<b>Equity Securities:</b>																		
Beginning value 05/31/06	27	6,241	5,783	37,046	43,981	21,428	26,682	-	-	64,284	82,419	-	-	64,284	82,419			
Increase/(Decrease)	-	(1,184)	(3,891)	(968)	(559)	(2,692)	(3,070)	-	-	(7,551)	(8,712)	-	-	(7,551)	(8,712)			
Ending value 08/31/06	27	5,057	1,892	36,078	43,422	18,736	23,612	-	-	56,733	73,707	-	-	56,733	73,707			
<b>Other:</b>																		
Beginning value 05/31/06	-	177	177	2	2	251	105	-	-	430	284	-	-	430	284			
Increase/(Decrease)	-	1,914	1,914	-	-	4	-	-	-	1,918	1,914	-	-	1,918	1,914			
Ending value 08/31/06	-	2,091	2,091	2	2	255	105	-	-	2,348	2,198	-	-	2,348	2,198			
<b>Total Assets:</b>																		
Beginning value 05/31/06	1,617	7,831	12,333	120,031	114,354	38,944	43,711	3,350	3,350	170,598	187,569	1,400,934	1,400,934	1,571,532	1,588,503			
Increase/(Decrease)	43	(1,141)	(5,738)	69,257	69,747	912	887	94,810	94,810	159,284	158,543	(118,672)	(118,672)	40,612	39,871			
Ending value 08/31/06	1,660	6,690	6,595	183,611	190,393	39,856	44,598	98,160	98,160	329,882	346,112	1,282,262	1,282,262	1,612,144	1,628,374			

Details of individual assets by account furnished upon request.

# UTIMCO Performance Summary

August 31, 2006

	Net Asset Value 8/31/2006 (in Millions)	Periods Ended August 31, 2006 (Returns for Periods Longer Than One Year are Annualized)										
		One Month	Three Months	Six Months	Calendar Year To Date	Fiscal Year To Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
<b>ENDOWMENT FUNDS</b>												
Permanent University Fund	\$ 10,313.4	1.31	2.36	4.25	7.17	11.17	11.17	14.92	14.86	14.14	9.48	9.87
General Endowment Fund		1.33	2.35	4.26	7.24	11.10	11.10	14.89	14.85	14.34	9.72	N/A
Permanent Health Fund	987.0	1.34	2.36	4.24	7.25	11.05	11.05	14.80	14.73	14.21	9.60	N/A
Long Term Fund	4,440.8	1.34	2.35	4.24	7.25	11.06	11.06	14.81	14.73	14.24	9.64	10.47
Separately Invested Funds	346.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total Endowment Funds</b>	<b>16,087.3</b>											
<b>OPERATING FUNDS</b>												
Short Term Fund	1,282.3	0.45	1.32	2.53	3.25	4.58	4.58	3.53	2.70	2.35	2.34	3.98
Intermediate Term Fund	3,048.8	1.37	2.83	3.54	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total Operating Funds</b>	<b>4,331.1</b>											
<b>Total Investments</b>	<b>\$ 20,418.4</b>											
<b>BENCHMARKS (1)</b>												
Permanent University Fund: Policy Portfolio		1.50	2.76	4.25	8.07	12.51	12.51	13.78	13.57	11.82	7.83	10.48
General Endowment Fund: Policy Portfolio		1.50	2.76	4.25	8.07	12.51	12.51	13.78	13.57	11.82	7.83	10.28
Short Term Fund: 90 Day Treasury Bills Average Yield		0.44	1.25	2.43	3.08	4.34	4.34	3.39	2.61	2.30	2.29	3.81
Intermediate Term Fund: Policy Portfolio		1.34	2.93	3.14	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>VALUE ADDED (2)</b>												
Permanent University Fund		(0.19)	(0.39)	0.00	(0.90)	(1.35)	(1.35)	1.14	1.29	2.32	1.65	(0.62)
General Endowment Fund		(0.17)	(0.40)	0.01	(0.83)	(1.42)	(1.42)	1.11	1.28	2.52	1.89	N/A
Permanent Health Fund		(0.16)	(0.40)	(0.01)	(0.81)	(1.47)	(1.47)	1.02	1.17	2.39	1.77	N/A
Long Term Fund		(0.16)	(0.40)	(0.01)	(0.81)	(1.46)	(1.46)	1.03	1.17	2.42	1.81	0.18
Short Term Fund		0.01	0.06	0.10	0.17	0.24	0.24	0.14	0.09	0.05	0.05	0.17
Intermediate Term Fund		0.03	(0.09)	0.40	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

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

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

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

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

**5. U. T. System: Fiscal Year 2006 Energy Utility Task Force Report**

REPORT

Mr. Philip R. Aldridge, Associate Vice Chancellor for Finance, will provide the annual report on the progress of the Energy Utility Task Force for Fiscal Year 2006 using materials attached on Pages 76 - 79 of the Supplemental Materials (Volume 2) of the Agenda Book. The Energy Utility Task Force (EUTF) was created in February 2001 to evaluate and recommend strategies for U. T. System institutions to reduce energy consumption, better manage commodity price risk, and leverage their purchasing power to reduce energy costs.

Initial recommendations and energy consumption reduction goals were presented to the Board in November 2001. A 5-10% reduction in energy usage was targeted for Fiscal Year 2006. The estimated reduction in energy usage through Fiscal Year 2006 is 1.9%, short of the EUTF's goal.

Dr. Patricia L. Clubb, Vice President for Employee and Campus Services, U. T. Austin, and Mr. John Roan, Executive Vice President for Business Affairs, U. T. Southwestern Medical Center - Dallas, will discuss the information provided about their respective ongoing energy conservation efforts as included on Pages 79 - 85 of the Supplemental Materials (Volume 2) of the Agenda Book.

In addition to the energy conservation efforts ongoing at the U. T. System institutions, the U. T. System Administration is actively exploring other ways to reduce energy costs, including the possibility of participating in a statewide energy procurement program with other higher education systems.