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Committee Meeting: 11/8/2007

Board Meeting: 11/9/2007
Austin, Texas

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1. U. T. System: Discussion and appropriate action related to approval of <i>Docket No. 132</i>	11:00 a.m. Discussion <i>Dr. Kelley</i>	Action	23
2. U. T. System: Key Financial Indicators Report	11:05 a.m. Report <i>Dr. Kelley</i>	Not on Agenda	23
3. U. T. System: Approval of a contract with Huron Consulting Group to support an online effort reporting system	11:20 a.m. Action <i>Dr. Kelley</i> <i>Mr. St. Onge</i>	Action	32
4. U. T. System: Fiscal Year 2007 Energy Utility Task Force Report	11:30 a.m. Report <i>Mr. Aldridge</i>	Not on Agenda	35
5. U. T. System Board of Regents: Approval of revisions to The University of Texas Investment Management Company (UTIMCO) Compensation Program	11:45 a.m. Action <i>Mr. Zimmerman</i>	Action	36
6. U. T. System: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the fiscal year and quarter ended August 31, 2007	11:55 a.m. Report <i>Mr. Zimmerman</i>	Report	76
Adjourn	12:00 p.m.		

1. **U. T. System: Discussion and appropriate action related to approval of Docket No. 132**

RECOMMENDATION

It is recommended that *Docket No. 132*, beginning on Page Docket - 1, 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: 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 24 - 31. 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 2003 through July 2007. Ratios requiring balance sheet data are provided for Fiscal Year 2002 through Fiscal Year 2006.

THE UNIVERSITY OF TEXAS SYSTEM



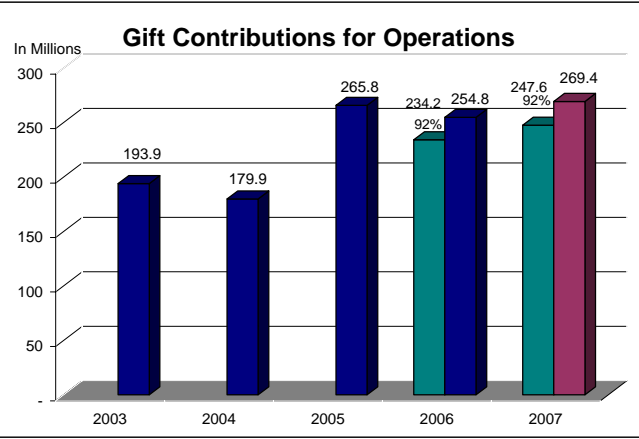
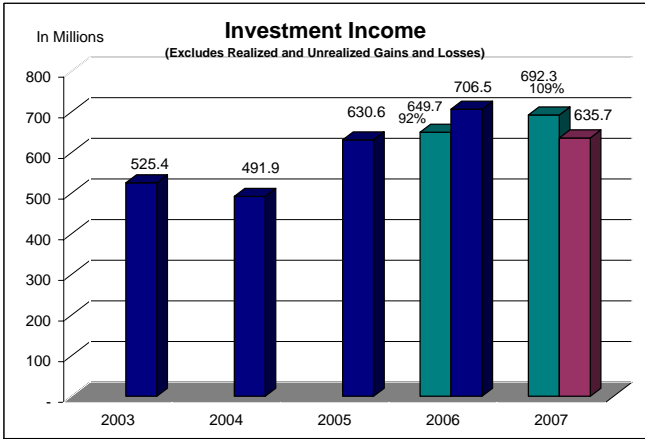
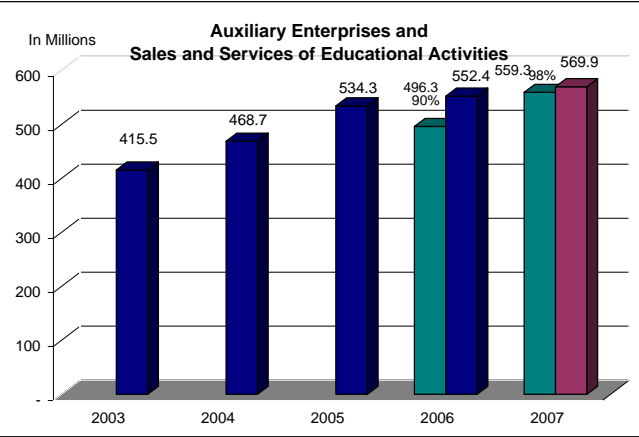
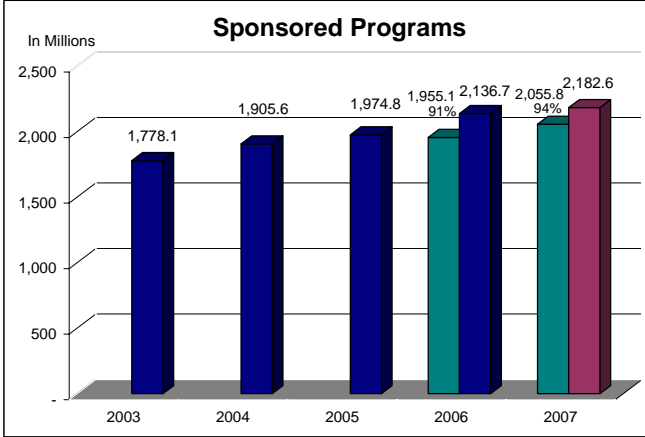
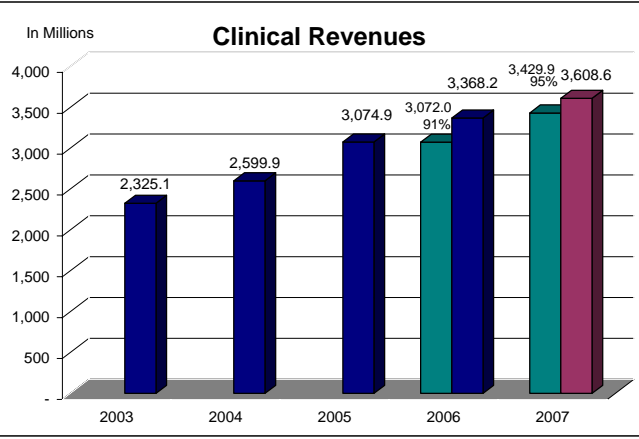
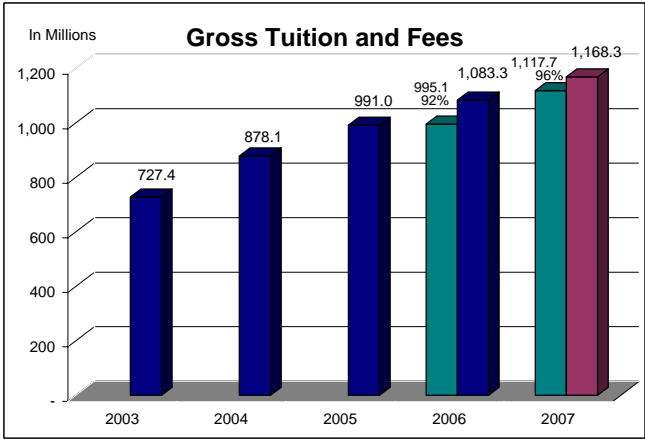
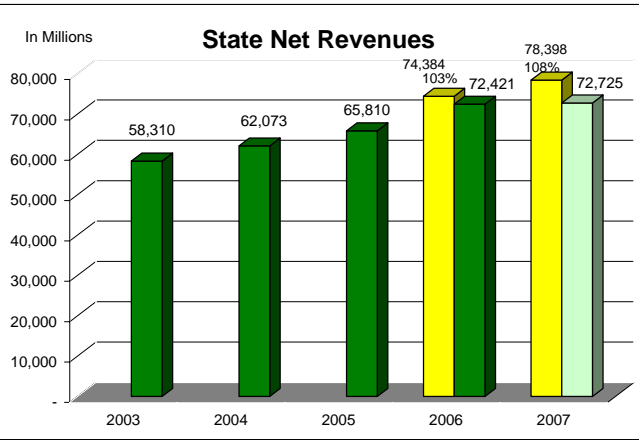
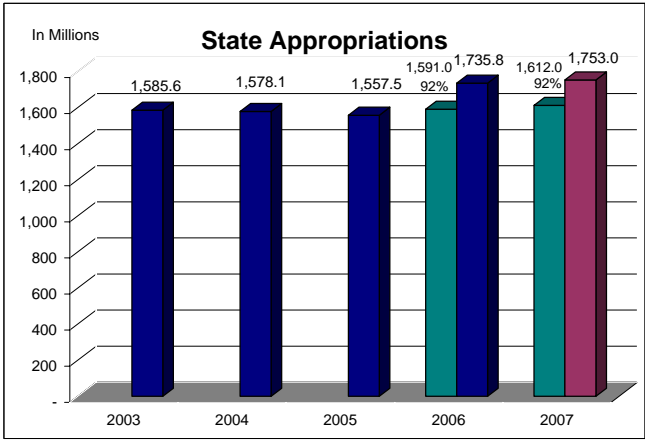
KEY FINANCIAL INDICATORS REPORT

JULY 2007

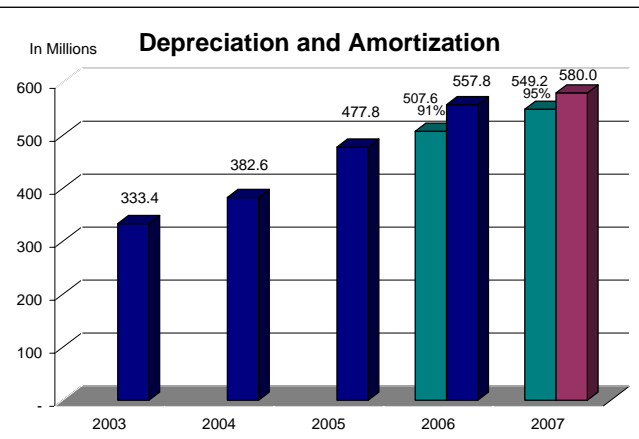
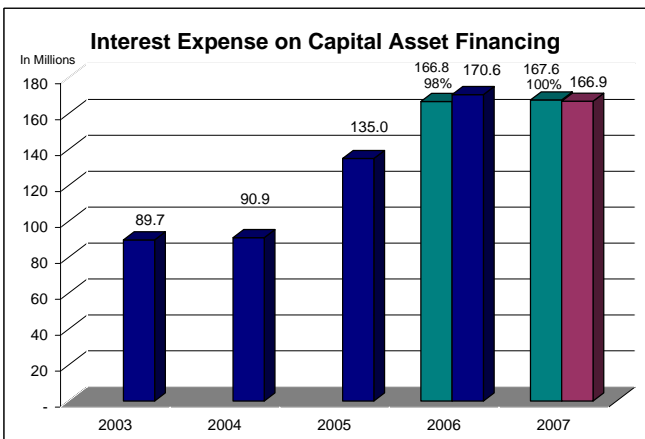
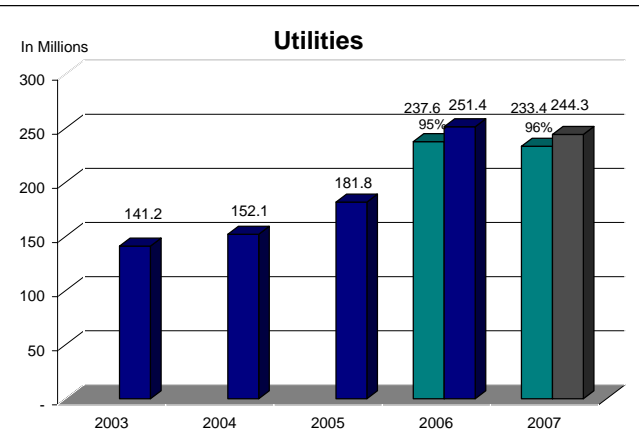
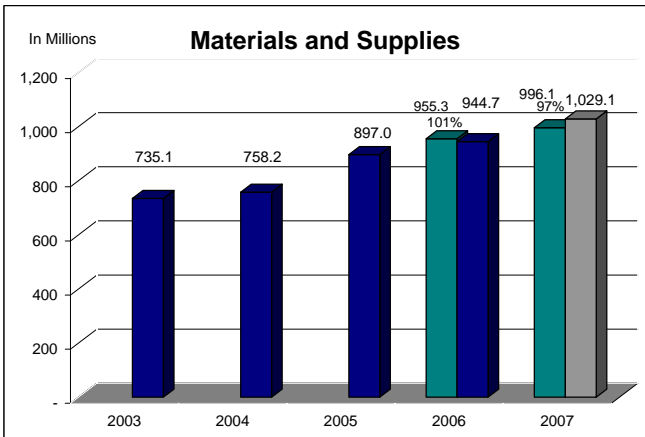
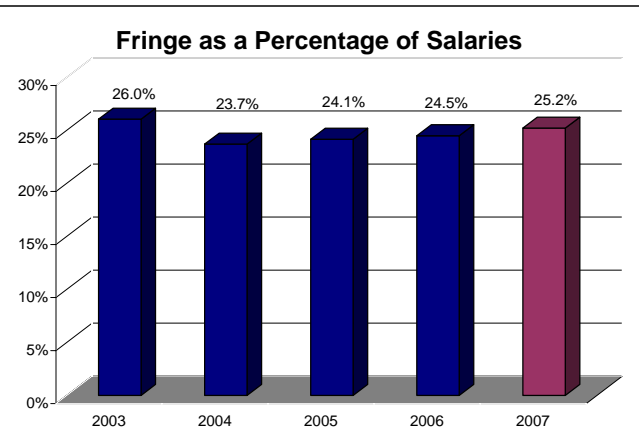
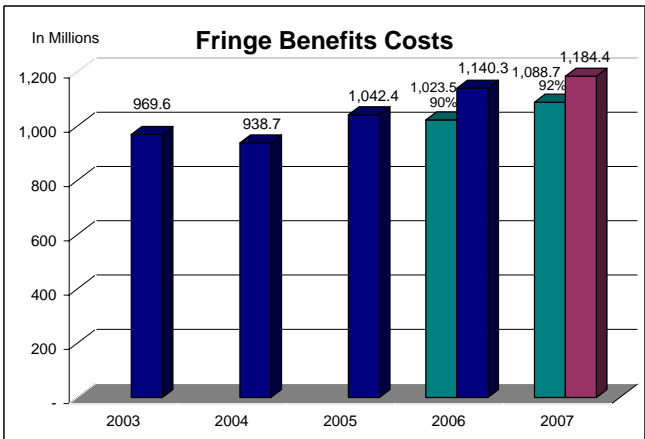
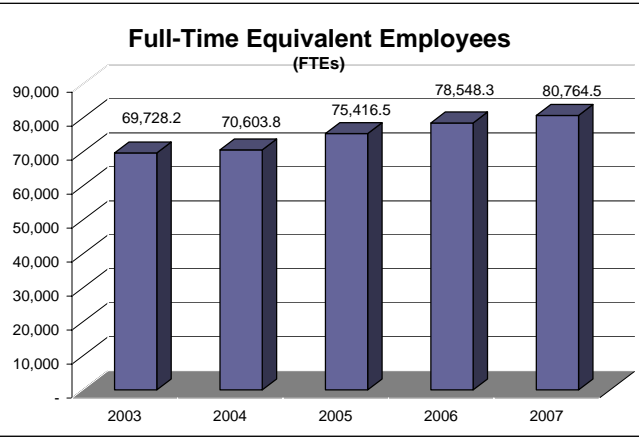
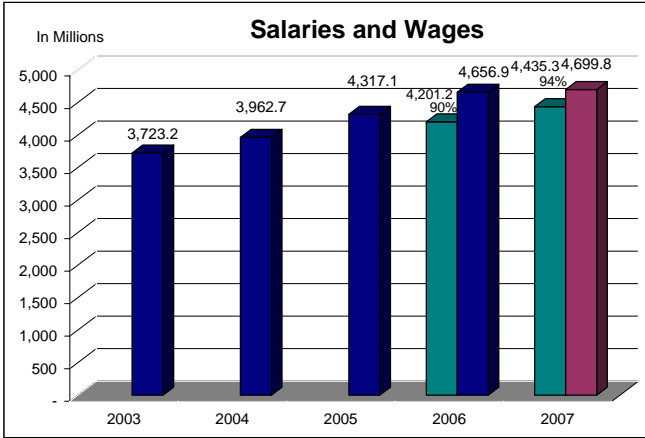
KEY

	Actual 2002 through 2006 amounts (SOURCE: Annual Financial Reports Fiscal Years 2002, 2003, 2004, 2005 and 2006)
	2007 Budget amounts (SOURCE: Operating Budget Summary 2007)
	Projected 2007 amounts (trend based on the average change of the previous four years of data)
	Monthly Financial Report Year to Date amounts for July 2006 and July 2007
	Annual State Net Revenue Collections for 2002, 2003, 2004, 2005 and 2006 (SOURCE: Texas Revenue History by Source 1978-2006, State Comptroller's Office)
	Year to Date State Net Revenue Collections for July 2006 and July 2007 (SOURCE: State Comptroller's Office)
	Estimated State Revenue Collections for 2007 (SOURCE: Revenue Estimate for the 79th Legislature 3rd Called Session, April 2006, State Comptroller's Office)
	2002, 2003, 2004, 2005 & 2006 Annual Average of FTEs, and Average of 1st, 2nd, & 3rd Quarter 2007 FTEs (SOURCE: State Auditor's Office Quarterly FTE Report)
	Year to Date margin for July 2007 (SOURCE: Monthly Financial Report for July 2007)
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	Target Normalized Rates
	Aaa/Aa1 Median (SOURCE: Moody's)
	A2 Median (SOURCE: Moody's)
	Fair Facilities Condition Index (5% - 10%)
	Good Facilities Condition Index (Exceeds 10%)

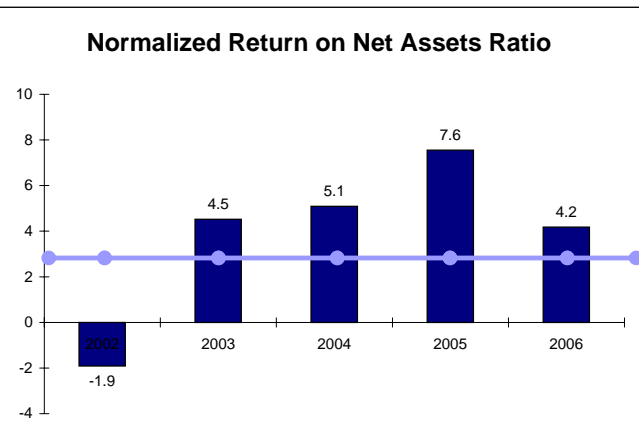
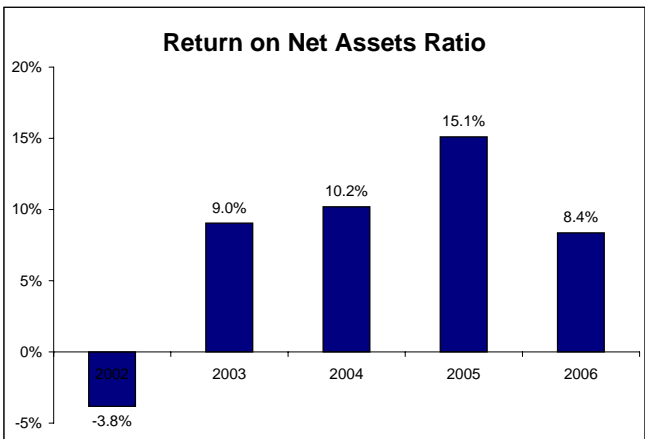
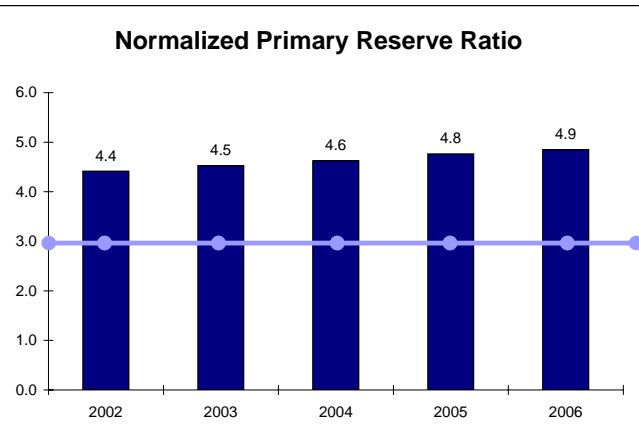
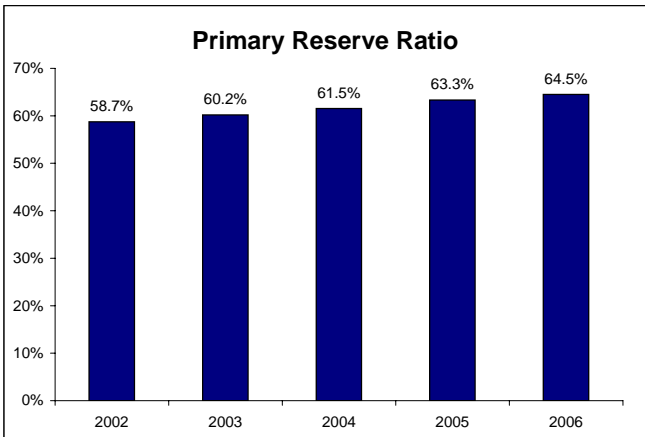
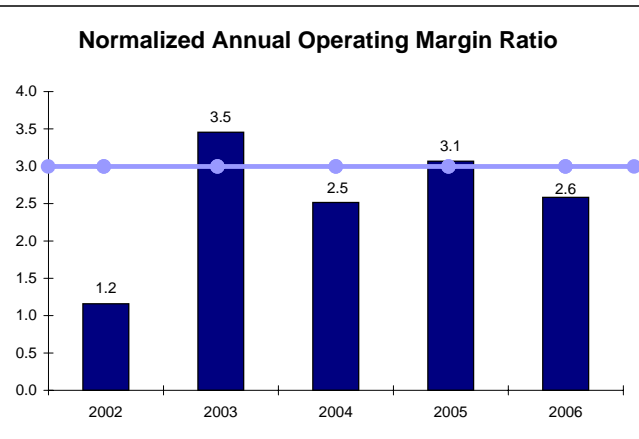
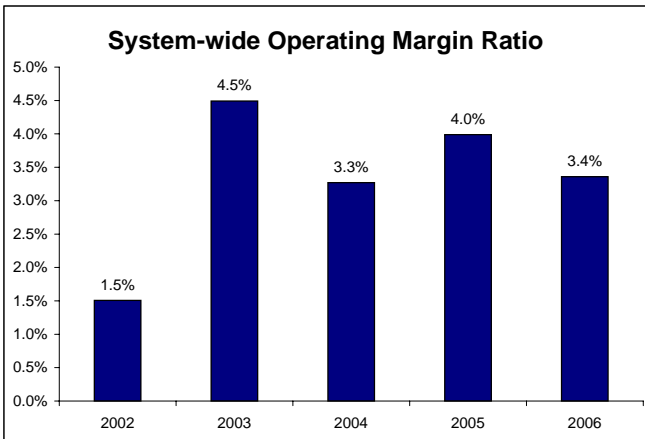
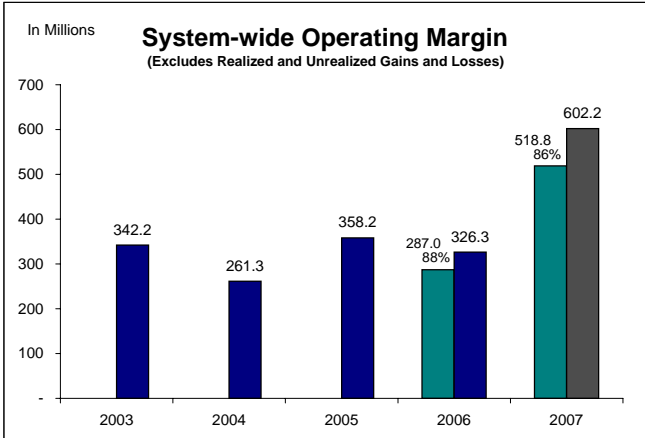
**KEY INDICATORS OF REVENUES
ACTUAL 2003 THROUGH 2006
PROJECTED 2007
YEAR TO DATE 2006 AND 2007 FROM JULY MONTHLY FINANCIAL REPORT**



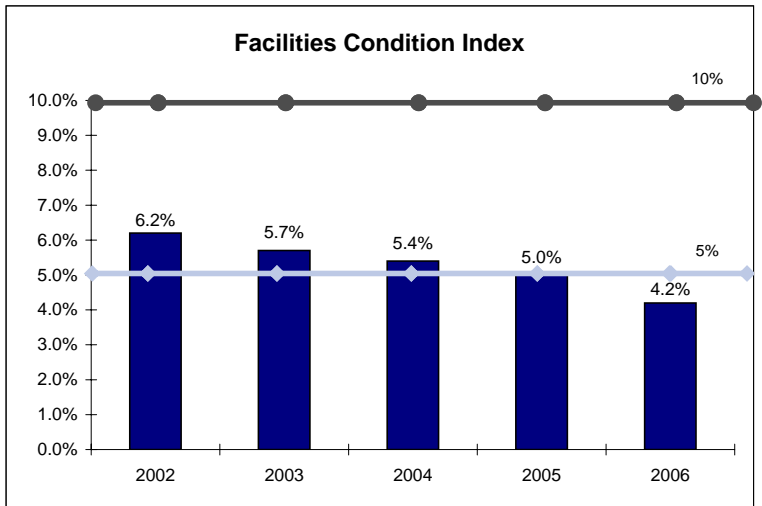
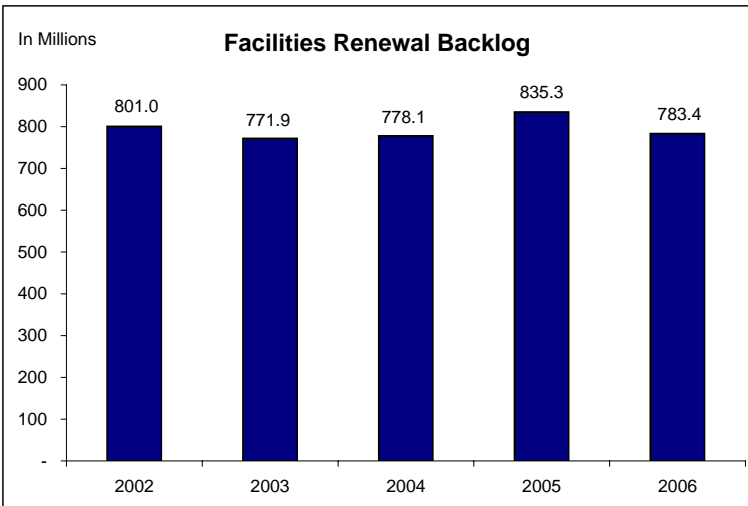
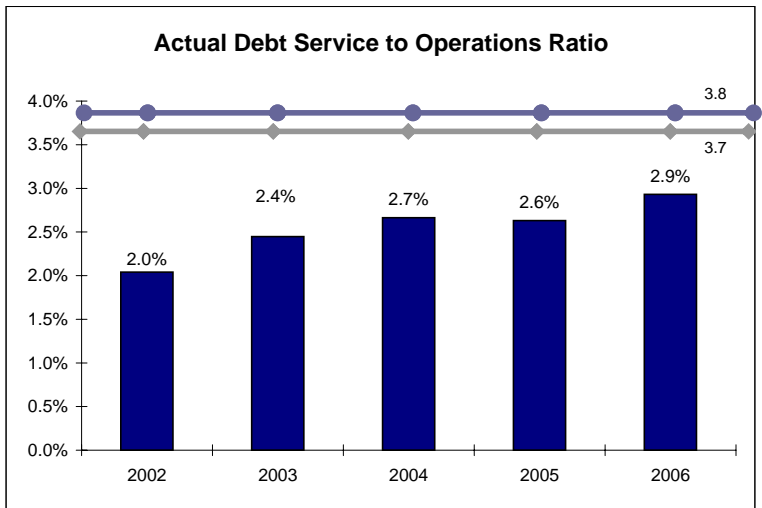
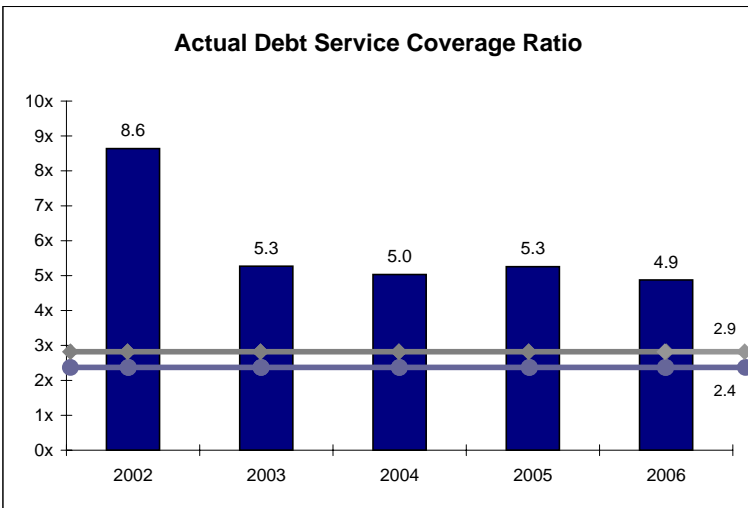
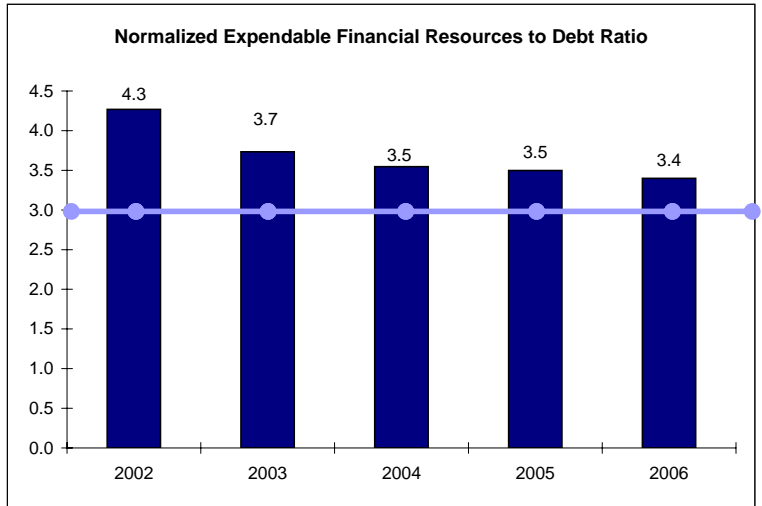
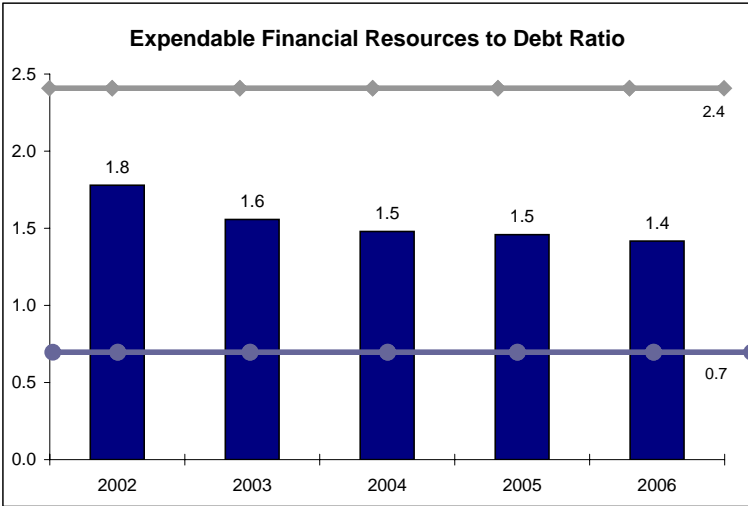
**KEY INDICATORS OF EXPENSES
ACTUAL 2003 THROUGH 2006
PROJECTED 2007
YEAR TO DATE 2006 AND 2007 FROM JULY MONTHLY FINANCIAL REPORT**



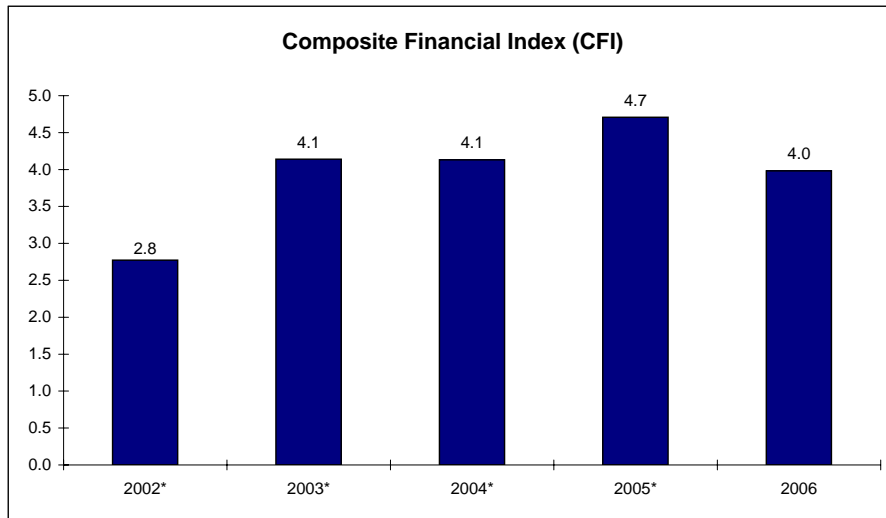
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KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY 2002 THROUGH 2006

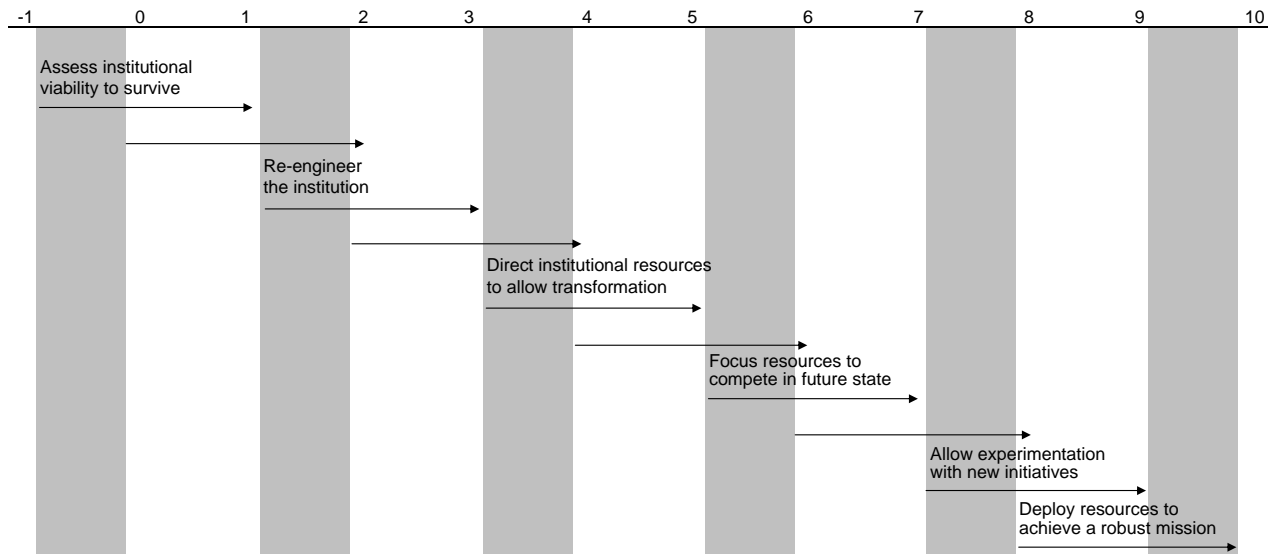


KEY INDICATORS OF FINANCIAL HEALTH 2002 THROUGH 2006



*Restated to reflect appreciation on endowments as restricted expendable net assets as a result of the 2006 external audit. Permanent University Fund Appreciation Restatements are not included above.

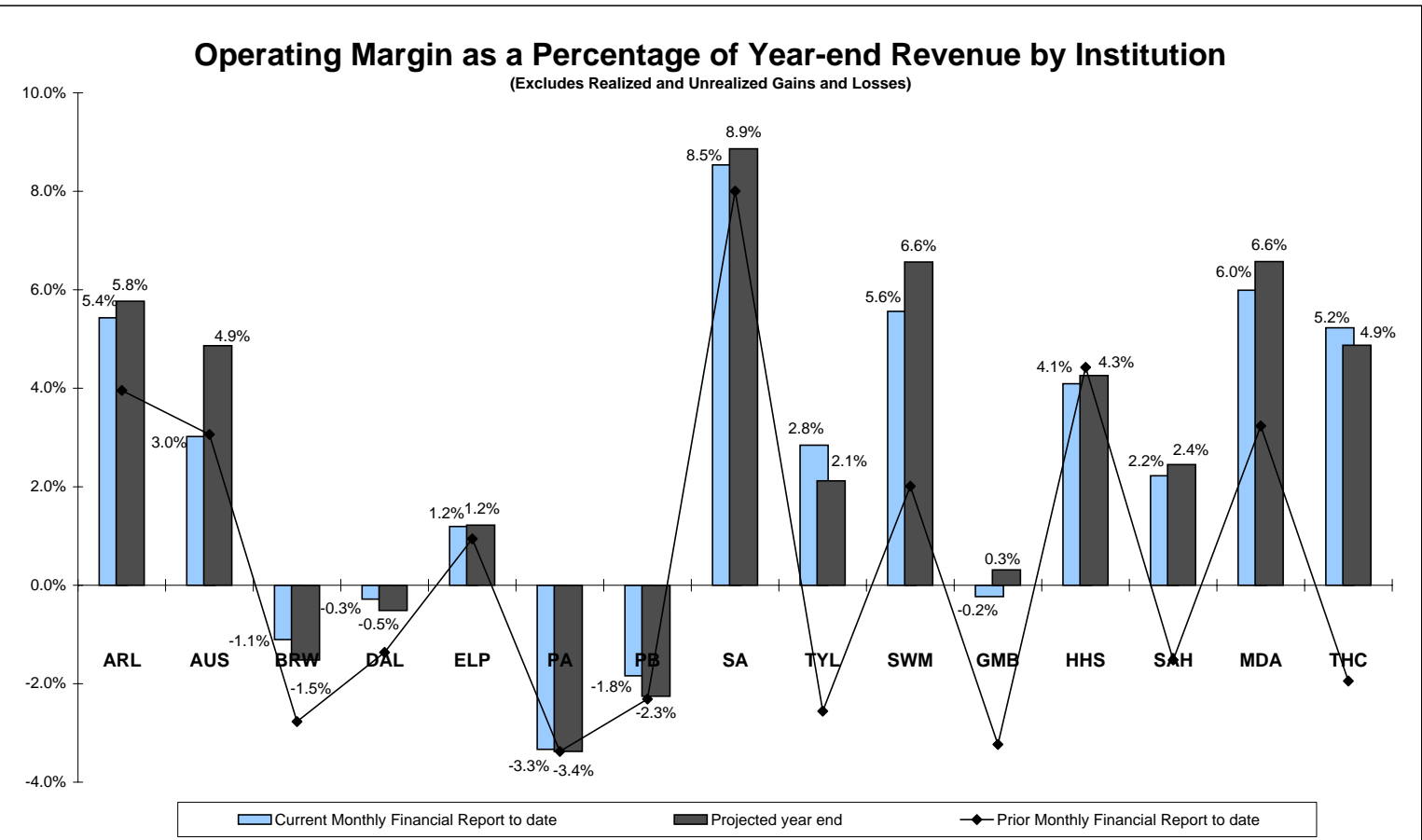
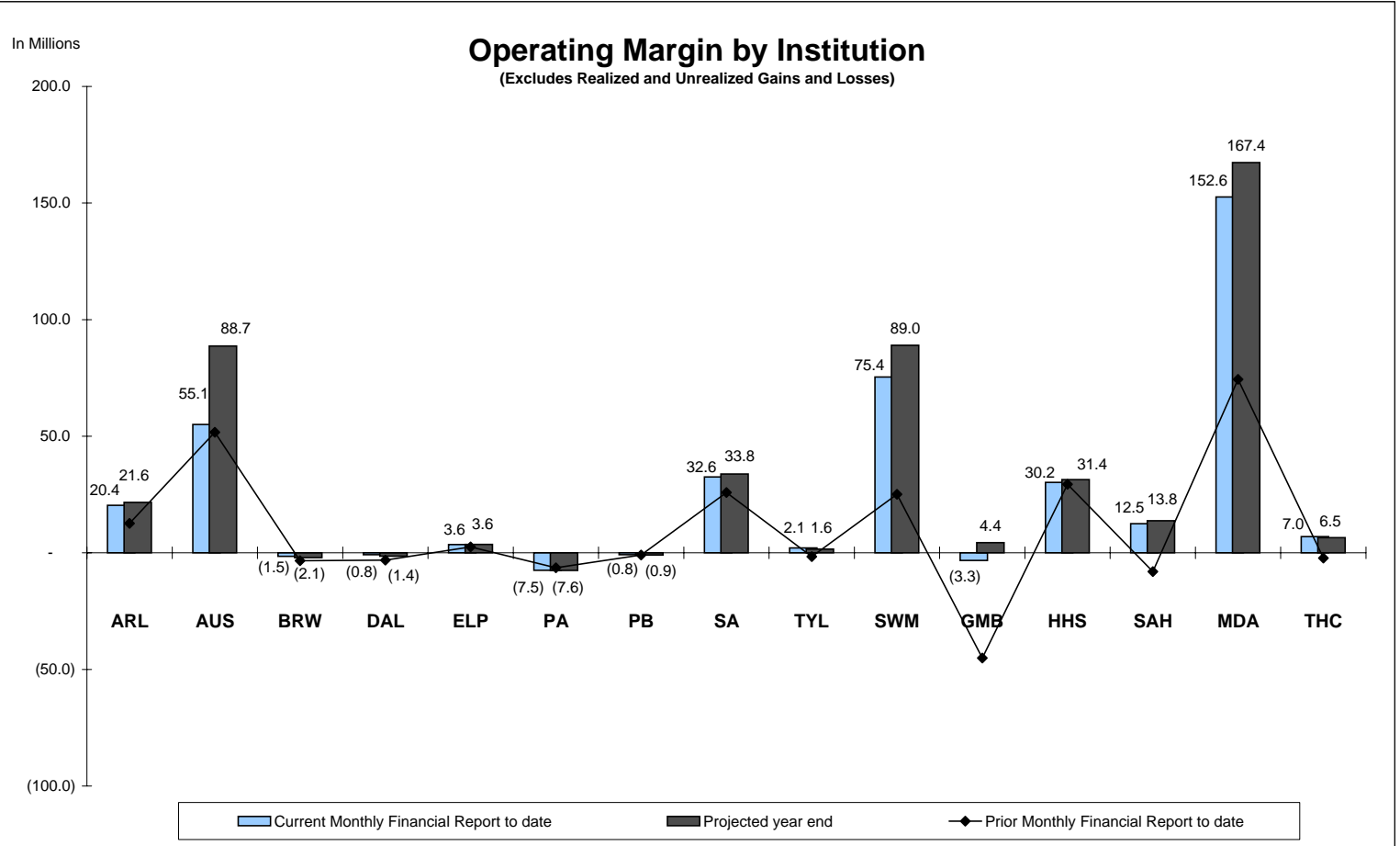
Scale for Charting CFI Performance



KEY INDICATORS OF RESERVES

YEAR TO DATE 2006 AND 2007 FROM JULY MONTHLY FINANCIAL REPORT

PROJECTED 2007 YEAR-END MARGIN



3. **U. T. System: Approval of a contract with Huron Consulting Group to support an online effort reporting system**

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, and the Vice Chancellor for Research and Technology Transfer in the recommendation to approve a contract with Huron Consulting Group to support an online effort reporting system that will be funded with \$3,392,553 from the Available University Fund (AUF), as set forth on Page 34, at all U. T. System institutions except U. T. Dallas, which is reviewing options regarding an enterprise-wide financial system.

BACKGROUND INFORMATION

The extraordinarily complex and ever-changing world of research compliance demands constant and heightened awareness of the many different functions and activities within research enterprises to identify and successfully manage U. T. System's research compliance risk areas.

A critical risk facing all higher education institutions is time and effort reporting compliance. The Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*, sets forth the cost principles that higher education institutions must follow in expenditures of federally sponsored program funds. Section J.10 of OMB Circular A-21 stipulates institutions must have a payroll distribution system, which allows salaries paid under federal grants to be properly allocated and confirmation to be made by the institution that individual salaries paid under federal awards are appropriate to the awards.

Over the last several years, there have been numerous examples of higher education institutions repaying millions of dollars in fines and penalties to the federal government for failure to properly account for the time charged by researchers to grants. In October 2005, the Chancellor instructed Mr. Richard St. Onge in the Office of Health Affairs to lead the time and effort reporting initiative to: develop appropriate policy guidance, develop an education program, and identify the online effort reporting system.

In July 2006, the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, and the Vice Chancellor for Research and Technology Transfer promulgated The University of Texas System Administration Policy UTS163, *Guidance on Effort Reporting Policies*. UTS163 identified the critical policy areas for time and effort reporting and established minimum standards for each policy area. In July 2006, the Office of Health Affairs, in conjunction with the UT TeleCampus, distributed a Web-based time and effort reporting education program that could be easily modified for unique circumstances. Finally, the Office of Health Affairs recently

concluded a two-year review of commercially available online effort reporting systems. A Request for Proposals for an online effort reporting system was issued and three responsive proposals were received. Following several days of demonstration activities in which all U. T. System institutions participated, and several site visits to institutions of higher education with success in implementing one of the online systems being evaluated, a recommendation to pursue a license for the Huron product was made.

In June 2007, the Executive Vice Chancellor for Business Affairs, acting pursuant to delegated authority, signed a U. T. System-wide contract with Huron Consulting Group (Huron) for its Effort Certification and Reporting Tool (ECRT). Huron's ECRT was developed in partnership with the University of Minnesota in 2004. In the last few years, Huron has licensed ECRT to several institutions of higher education across the United States. Huron's ECRT is the type of software cost savings project discussed with the Board on August 9, 2006, in the context of the U. T. System Shared Services Initiative. Potential significant benefits that U. T. System institutions will receive in conjunction with implementing Huron's ECRT are:

- 1) a proven system that is compliant with OMB Circular A-21 requirements;
- 2) a system that would improve the consistency across the U. T. System in regards to policies, procedures, internal controls, and training;
- 3) a system that has robust information technology architecture to mitigate high implementation costs for customization;
- 4) a system that is Web-based and easy to use by both the end users and the contracts and grants personnel; and
- 5) the benefit of leveraging Huron's expertise as well as that of other higher education institutions with respect to future enhancements of the system to address changes in federal requirements.

**The University of Texas System
Total Cost of Ownership for Huron's ECRT**

34

Institution	Discounted License Fee Paid by UT System		Implementation & Out-of-Pocket Costs	Data Center Costs	Total Implementation, Out-of-Pocket, & Data Center Costs Year 1	Year 1 Costs Paid by UT System	Institutional Net Costs		Ongoing Institutional Costs Years 2 through 5	Total Institutional Costs Years 1 - 5	Total Payments by UT System Cost Share Program
	Discounted License Fee (Note 1)	Discounted License Fee Paid by UT System					Costs	Year 1			
UT Austin (Note 2)	\$ 77,546	\$ (77,546)	\$ 774,168	\$ 36,483	\$ 810,651	\$ (568,997)	\$ 241,654	\$ 277,165	\$ 518,819	\$ (646,543)	
UT Arlington	46,528	(46,528)	125,000		125,000	(50,000)	75,000		75,000	(96,528)	
UT El Paso	46,528	(46,528)	125,000		125,000	(50,000)	75,000		75,000	(96,528)	
UT Permian Basin	46,528	(46,528)	50,000		50,000	(42,500)	7,500		7,500	(89,028)	
UT San Antonio	46,528	(46,528)	125,000		125,000	(50,000)	75,000		75,000	(96,528)	
UT Tyler	46,528	(46,528)	50,000		50,000	(42,500)	7,500		7,500	(89,028)	
UT System Administration	46,528	(46,528)	50,000		50,000	(42,500)	7,500		7,500	(89,028)	
Medical Branch	62,037	(62,037)	375,803	36,483	412,286	(187,286)	225,000	277,165	502,165	(249,323)	
Southwestern Medical Center (Note 3)	77,546	(77,546)	442,500	36,483	478,983	(178,983)	300,000	277,165	577,165	(256,529)	
Health Center - Tyler	46,528	(46,528)	125,000		125,000	(100,000)	25,000		25,000	(146,528)	
HSC-Houston	62,037	(62,037)	371,700	36,483	408,183	(183,183)	225,000	277,165	502,165	(245,220)	
HSC-San Antonio (Note 4)	62,037	(62,037)	369,903	36,483	406,386	(181,386)	225,000	277,165	502,165	(243,423)	
UT Brownsville	46,528	(46,528)	125,000		125,000	(100,000)	25,000		25,000	(146,528)	
UT Pan American	46,528	(46,528)	125,000		125,000	(100,000)	25,000		25,000	(146,528)	
MD Anderson Cancer Center	77,546	(77,546)	424,662	36,483	461,145	(111,145)	350,000	277,165	627,165	(188,691)	
Required Upgrades			416,573		416,573	(416,573)	-		-	(416,573)	
Contingency Fund @ UT System						(150,000)	(150,000)		(150,000)	(150,000)	
Total:	\$ 837,500	\$ (837,500)	\$ 4,075,309	\$ 218,898	\$ 4,294,207	\$ (2,555,053)	\$ 1,739,154	\$ 1,662,992	\$ 3,402,146	\$ (3,392,553)	
		100%				60%	40%	100%	50%	50%	

TOTAL COST OF OWNERSHIP FOR HURON'S ECRT: \$ 6,794,699

Note Legend:

- 1) - The non-discounted license fee for all UT System institutions would have been \$2,850,000. The UT System-wide license fee of \$837,500 represents a 71% discount off of list price.
- 2) - UT Austin will perform a joint implementation with UTA, UTEP, UTPB, UTSA, UTT, and UT System Administration.
- 3) - Southwestern Medical Center will perform a joint implementation with HCT.
- 4) - Health Science Center at San Antonio will perform a joint implementation with UTB and UTPA.

4. U. T. System: Fiscal Year 2007 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 2007. The Task Force 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 and previously endorsed by the Board in November 2001 and a 10%-15% reduction in energy usage was targeted for Fiscal Year 2011. The estimated reduction in energy usage for Fiscal Year 2007 from baseline levels is 3.6%. Since Fiscal Year 2001, reductions in energy consumption per square foot by U. T. System institutions have resulted in cumulative savings of \$60.4 million.

Supplemental Materials: Report on Pages 79 - 82 of Volume 2.

5. **U. T. System Board of Regents: Approval of revisions to The University of Texas Investment Management Company (UTIMCO) Compensation Program**

RECOMMENDATION

The University of Texas Investment Management Company (UTIMCO) Board of Directors recommends that the U. T. System Board of Regents approve the amended and restated UTIMCO Compensation Program effective July 1, 2007, as set forth in congressional style on Pages 40 - 75. The proposed revisions, effective for the full plan year beginning July 1, 2007, approved by the UTIMCO Board of Directors on September 21, 2007, amend and restate the UTIMCO Compensation Program that was approved by the Board of Regents on August 10, 2006.

BACKGROUND INFORMATION

The UTIMCO Compensation Program (Plan) includes a two-part structure for determining annual compensation: base salary and an annual incentive plan. The original Plan was effective September 1, 2000. It was amended and restated in its entirety effective September 1, 2004, and again on July 1, 2006, except that certain provisions related to (i) deferred awards and (ii) Section 409A of the *Internal Revenue Code of 1986* were effective September 1, 2004 and January 1, 2005, respectively.

Changes to the current Plan were approved by action of the UTIMCO Board on September 21, 2007, and the Plan has been amended and restated in its entirety with an effective date of July 1, 2007. With the exception of changes to the appendices in the Plan, the Plan is subject to approval by the Board of Regents. CEO Bruce Zimmerman is not a participant in the Plan for the Performance Period ending June 30, 2008. Mr. Zimmerman's performance compensation will be determined as provided in his employment agreement.

Primary Substantive Changes

The most significant changes to the Plan are:

1. Changing the measurement of the entity performance of the Total Endowment Assets (TEA). Entity performance is the performance of the TEA (weighted at 85%) and the Intermediate Term Fund (weighted at 15%). The entity performance of the TEA has been measured based on the performance of the TEA against the Peer Group as set forth in Appendix B of the Plan. The revision requested will allow the TEA to be measured at a weight of 75% of its benchmark and a weight of 25% at its Peer Group. Sections of the Plan affected are:
 - Section 5.8.(a) Entity Performance sets forth how the TEA is measured.
 - Section 8, Definition of Terms, Section 8.22 related to the definition of Policy Portfolio Return has been deleted and moved to Section 8.11. The definition remains the same but is now referred to as the Intermediate Term Fund Policy Portfolio Return. A new Section 8.26 definition has been added to define the Total Endowment Assets Policy Portfolio Return.
 - Appendix A, Performance Incentive Award Methodology, is changed to reflect the calculation of awards consistent with the change in the measurement of Entity Performance.
 - Appendix D, Benchmarks for Asset Class, adds an updated Table 4 for the Performance Period beginning 7/1/2007 through 6/30/2008, including the performance standards for the TEA policy portfolio benchmark. The performance standards for the TEA policy portfolio are threshold +0 bps, target +100 bps, and maximum +150 bps.
2. Language has been added to Section 5.8.(c) of the Plan related to the individual performance goals to clarify how the level of attainment of individual performance goals should be measured based on comments received from the Compensation Committee of the UTIMCO Board.

Additional Changes

The remaining changes clarify operational provisions of the Plan and/or are stylistic.

1. Section 1, Program Structure and Effective Date. The effective date has been amended to document that the restated plan will have an effective date of July 1, 2007.
2. Section 5.3.(d), Eligibility and Participation. The reference to Section 5.10(d) has been deleted to exempt the Plan from the provisions of Section 409A of the *Internal Revenue Code of 1986*, as amended, consistent with the short-term deferral rules contained in the final regulations that were effective April 17, 2007.
3. Section 5.4.(b), Performance Goals. Minor editorial changes have been made in this section.
4. Section 5.6, Form and Timing of Payouts of Performance Incentive Awards. The language has been changed consistent with the short-term deferral rules in the final regulations issued under Section 409A of the *Internal Revenue Code of 1986*, as amended, that were effective April 17, 2007.
5. Section 5.7, Nonvested Deferred Awards. The language has been changed consistent with the short-term deferral rules in the final regulations issued under Section 409A of the *Internal Revenue Code of 1986*, as amended, that were effective April 17, 2007.
6. Section 5.8.(b)(2), Asset Class Performance. Language has been added to clarify that the private asset class consists of private equity and venture capital.
7. Section 5.9., Modifications of Measurement Period for Measuring Entity and Asset Class Performance Goals. Subsections (c), (d), and (e) have been added to clarify the measurement of entity and asset class performance when asset classes have not been in existence for the full three years due to both a removal of or addition to the asset class.
8. Section 5.10, Termination Provisions. Minor editorial changes have been made to Subsections (b), (c), and (d). The language in Subsection (c) has been changed consistent with the short-term deferral rules in the final regulations issued under Section 409A of the *Internal Revenue Code of 1986*, as amended, that were effective April 17, 2007.
9. General. All references to “President and CEO” have been changed to “CEO” to accommodate the change in the UTIMCO CEO’s title, eliminating “President” from the title. No delegation of duties or responsibilities has occurred as a result of the title change.

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UTIMCO COMPENSATION PROGRAM

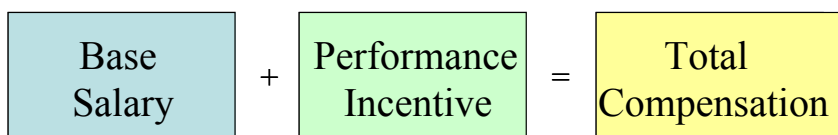
Restated: Effective July 1, ~~2007~~2006

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1. COMPENSATION PROGRAM STRUCTURE AND EFFECTIVE DATE

The UTIMCO Compensation Program (“Compensation Program” or “Plan”) consists of two elements: base salary and an annual incentive plan (the “Performance Incentive Plan”):



The base salary portion of the Compensation Program sets forth a structure and guidelines for establishing and adjusting the salaries of key investment and operations staff employees. The Performance Incentive Plan portion of the Compensation Program sets forth the criteria for calculating and receiving annual incentive awards for key investment and operations staff who are eligible Participants in the Performance Incentive Plan. Provisions of the Compensation Program relating solely to the base salary portion of the Compensation Program are described in Section 4. Provisions of the Compensation Program relating solely to the Performance Incentive Plan portion of the Compensation Program are described in Section 5. Sections 1, 2, 3, 6, 7, and 8 of the Compensation Program relate to both the base salary portion and the Performance Incentive Plan portion except where otherwise specified in any such Section.

Effective Date: The original Compensation Program was effective September 1, 2000. It was amended and restated in its entirety effective September 1, 2004, and again on ~~This document amends and restates the Compensation Program with an “Effective Date” of July 1, 2006,~~ except that (i) provisions of the Performance Incentive Plan relating to the further deferral of Nonvested Deferred Awards after they become vested are eliminated effective September 1, 2004, and (ii) provisions of the Performance Incentive Plan that are deleted, added, or modified to conform to, or exempt the plan from, section 409A of the Internal Revenue Code (Sections 5.6(a), 5.7(b)(4), 5.10(c), and 8.5) are effective January 1, 2005. This document amends and restates the Compensation Program with an “Effective Date” of July 1, 2007.

2. COMPENSATION PROGRAM OBJECTIVES

UTIMCO’s Compensation Program serves a number of objectives:

- To attract and retain key investment and operations staff of outstanding competence and ability.
- To encourage key investment staff to develop a strong commitment to the performance of the assets for which UTIMCO has been delegated investment responsibility.
- To motivate key investment staff to focus on maximizing real, long-term returns for all funds managed by UTIMCO while assuming appropriate levels of risk.

- To facilitate teamwork so that members of UTIMCO operate as a cohesive group.

3. TOTAL COMPENSATION PROGRAM PHILOSOPHY

UTIMCO aspires to attract and retain high caliber employees from nationally recognized peer institutions and the investment management community in general. UTIMCO strives to provide a total compensation program that is competitive nationally, with the elements of compensation evaluated relative to comparably sized university endowments, foundations, in-house managed pension funds, and for-profit investment management firms with a similar investment philosophy (e.g., externally managed funds).

UTIMCO's total Compensation Program is positioned against the competitive market as follows:

- Base salaries are targeted at the market median (e.g., 50th percentile).
- Target total compensation (salary plus target Incentive Award Opportunity) is positioned at the market median.
- Maximum total compensation (salary plus maximum Incentive Award Opportunity) is targeted at the market 75th percentile if performance is outstanding. (For this purpose, 0 is the lowest point and 100 is the highest.)

Although base salaries, as well as target and maximum total compensation, have a targeted positioning relative to market, an individual employee's actual total compensation may vary from the targeted positioning based on the individual's experience, education, knowledge, skills, and performance as well as UTIMCO's investment performance as described in this document. Except as provided in Sections 5.8 and 5.9 for purposes of determining the length of historical performance, base salaries and Incentive Award Opportunities (as well as the actual Performance Incentive Awards) are not determined based on seniority at UTIMCO.

4. BASE SALARY ADMINISTRATION

4.1. Salary Structure

- (a) Base salaries are administered through a Salary Structure as set forth in this Section 4.1. Each employment position has its own salary range, with the midpoint set approximately equal to the market median base salary for employment positions with similar job content and level of responsibility. In most cases, the salary range will be from 20% below the midpoint to 20% above the midpoint.
- (b) The salary range midpoints will be determined by the Compensation Committee based on consultation with an outside compensation consultant and with UTIMCO management. Salary range midpoints for key management, investment, and operations positions will be updated at least

every three years based on a salary benchmarking study conducted by a qualified compensation consultant selected by the Compensation Committee. In years in which the Compensation Committee does not commission a formal salary survey, the base salary midpoints may be adjusted at the Compensation Committee's discretion based on expected annual salary structure adjustments as reported in one or more published compensation planning surveys.

4.2. Salary Adjustments

- (a) The base salary of the ~~President and~~ CEO is determined by the Board, and the base salaries of the other key investment and operations employees are determined by the Compensation Committee. Base salaries will be set within the salary range for each employment position. An individual's base salary within the range may be higher or lower than the salary range midpoint based on his or her level of experience, education, knowledge, skills, and performance. On an exception basis, the Board may set individual base salaries outside of the salary range if an individual either substantially exceeds or does not meet all of the market criteria for a particular position (e.g., recent promotion).
- (b) Individuals may receive an annual adjustment (increase or decrease) of their base salaries at the discretion of the Compensation Committee or, in the case of the ~~President and~~ CEO, at the discretion of the Board. Base salary adjustments, if any, will be determined based on each individual employee's experience, education, knowledge, skills, and performance. Employees are not guaranteed an annual salary increase.

5. PERFORMANCE INCENTIVE PLAN

5.1. Purpose of the Performance Incentive Plan

The purpose of the Performance Incentive Plan is to provide annual Performance Incentive Awards to eligible Participants based on specific objective criteria relative to UTIMCO's and each Participant's performance. The primary objectives of the Performance Incentive Plan are outlined in Section 2.

5.2. Performance Period

- (a) For purposes of the Performance Incentive Plan, the "Performance Period" begins on July 1 of each year and ends the following June 30.
- (b) Except as otherwise provided under Sections 5.8 and 5.9, performance for each year in the historical performance period will be measured between July 1 and the following June 30 of the applicable year for gauging achievement of the Entity and Asset Class Performance Goals.

5.3. *Eligibility and Participation*

- (a) Each employee of UTIMCO will be a “Participant” in the Performance Incentive Plan for a Performance Period if (and only if) he or she is both (i) employed by UTIMCO in an employment position that is designated as an “Eligible Position” for that Performance Period and (ii) selected by the Board as eligible to participate in the Performance Incentive Plan for that Performance Period. “Eligible Positions” for a Performance Period include senior management, investment staff, and other key positions as designated by the ~~President and~~ CEO and approved by the Board as Eligible Positions for that Performance Period. An employment position that is an Eligible Position in one Performance Period is not automatically an Eligible Position in any subsequent Performance Period, and each Eligible Position must be confirmed or re-confirmed by the Board as being an “Eligible Position” for the applicable Performance Period. Similarly, an employee who is eligible to participate in the Performance Plan in one Performance Period is not automatically eligible to participate in any subsequent Performance Period (notwithstanding that such employee may be employed in an Eligible Position in that subsequent Performance Period), and each employee must be designated or re-designated by the Board as being eligible to participate in the Performance Incentive Plan for the applicable Performance Period. The Board will confirm the Eligible Positions and designate the eligible employees who will become Participants for a Performance Period within the first 90 days of the Performance Period or, if later, as soon as administratively feasible after the start of the Performance Period. The Board in its discretion may also designate the employment position of a newly hired or promoted employee as an “Eligible Position” and may designate such newly hired or promoted employee as eligible to participate in the Performance Incentive Plan for a Performance Period (or remainder of a Performance Period) within 30 days of such hire or promotion or, if later, as soon as administratively feasible after such hire or promotion. A list of Eligible Positions for each Performance Period is set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period to set forth the Eligible Positions for that Performance Period as soon as administratively practicable after confirmation of such Eligible Positions by the Board for such Performance Period, and such revised Table 1 will be attached as Appendix C.
- (b) An employee in an Eligible Position who has been selected by the Board to participate in the Performance Incentive Plan will become a Participant on the later of (i) the date he or she is employed in an Eligible Position or (ii) the date he or she is selected by the Board to participate in the Performance Incentive Plan; provided, however, that the Board in its discretion may designate any earlier or later date (but not earlier than such employee’s date of hire and not later than such employee’s date of termination of employment) upon which such employee will become a Participant, and such employee will instead become a Participant on such earlier or later date. The preceding notwithstanding, except when compelling individual circumstances

justify a shorter period of time and such circumstances are recorded in the minutes of a meeting of the Board, an employee may not commence participation in the Performance Incentive Plan and first become a Participant during the last six months of any Performance Period, and, if an employee is selected by the Board to participate in the Performance Incentive Plan or becomes employed in an Eligible Position during the last six months of any Performance Period, participation of such employee in the Performance Incentive Plan will be delayed until the first day of the next Performance Period (assuming such employee is employed by UTIMCO in an Eligible Position on such date).

- (c) An employee will cease to be a Participant in the Performance Incentive Plan on the earliest to occur of: (i) the date such employee is no longer employed in an Eligible Position; (ii) the date of termination of such employee's employment with UTIMCO for any reason (including voluntary and involuntary termination, death, and disability); (iii) the date of termination of the Performance Incentive Plan; (iv) the date such employee commences a leave of absence; (v) the date such employee begins participation in any other UTIMCO incentive program; (vi) the date the Board designates that such employee's employment position is not an Eligible Position (or fails to designate the employee's employment position as an Eligible Position with respect to a Performance Period); or (vii) any date designated by the Board as the date on which such employee is no longer a Participant.
- (d) Except as provided in Sections 5.10(b) ~~and~~; (c), ~~and (d)~~, only individuals who are Participants on the last day of a Performance Period are eligible to receive Performance Incentive Awards under the Performance Incentive Plan for that Performance Period.

5.4. Performance Goals

- (a) Within the first 60 days of each Performance Period, the ~~President and~~ CEO will recommend goals ("Performance Goals") for each Participant (other than the Performance Goals for the ~~President and~~ CEO, which are determined as provided in Section 5.4(c), and the Performance Goals for employees who are hired or promoted later during a Performance Period) subject to approval by the Compensation Committee within the first 90 days of the Performance Period. The ~~President and~~ CEO will also recommend Performance Goals for employees who are hired or promoted during the Performance Period and become Participants at the time those employees are designated as Participants (with such Performance Goals subject to confirmation by the Compensation Committee as soon as administratively feasible after such Performance Goals are recommended).
- (b) There are three categories of Performance Goals:
 - (1) Entity Performance (measured as described in Section 5.8(a))

- (2) Asset Class Performance (measured as described in Section 5.8(b))
- (3) Individual Performance (measured as described in Section 5.8(c))

Except for the ~~President and~~ CEO, Individual Performance Goals will be defined jointly by each Participant and his or her supervisor, subject to approval. ~~These Individual Performance Goals will be measured and approved~~ by the ~~President and~~ CEO and subject to final approval by the Compensation Committee. Individual Performance Goals may be established in one or more of the following areas:

- Leadership
 - Implementation of operational goals
 - Management of key strategic projects
 - Effective utilization of human and financial resources
- (c) The ~~President and~~ CEO's Performance Goals will be determined and approved by the Board.
 - (d) Each Performance Goal for each Eligible Position is assigned a weight for the Performance Period. For each Performance Period, the Compensation Committee will approve (or adjust as it deems appropriate) the weightings of the Performance Goals at the same time it approves the Performance Goals. The weightings for each Eligible Position are set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period to set forth the weightings for the Eligible Positions for that Performance Period as soon as administratively practicable after such weightings are approved by the Compensation Committee for such Performance Period. Notwithstanding the identified weighting for an Eligible Position, the Compensation Committee may adjust the weightings (up or down) for any Participant for a Performance Period where it considers the assigned weighting for a Performance Goal to be inappropriate for such Participant because of his or her length of service with UTIMCO, his or her tenure in the respective Eligible Position, or his or her prior work experience. The weightings for the Performance Goals for each Performance Period are subject to approval by the Board.

5.5. Incentive Award Opportunity Levels and Performance Incentive Awards

- (a) At the beginning of each Performance Period, each Eligible Position is assigned an "Incentive Award Opportunity" for each Performance Goal for the Participants in that Eligible Position. Each Incentive Award Opportunity is determined by the Compensation Committee (and subject to approval by the Board) and is expressed as a percentage of base salary earned during the Performance Period. The Incentive Award Opportunities include a threshold,

target, and maximum award for achieving commensurate levels of performance of the respective Performance Goal.

- (b) Incentive Award Opportunities for each Performance Period are set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period to set forth the Incentive Award Opportunities for that Performance Period as soon as administratively practicable after approval of the Incentive Award Opportunities by the Board for such Performance Period, and such revised Table 1 will be attached as Appendix C.
- (c) Actual “Performance Incentive Awards” are the amounts that are actually awarded to Participants for the respective Performance Period. Actual Performance Incentive Awards will range from zero (if a Participant performs below threshold on all Performance Goals) to the maximum Incentive Award Opportunity (if a Participant performs at or above maximum on all Performance Goals) depending on performance relative to objectives. Awards are capped at maximum levels regardless of whether a Participant exceeds the stated maximum Performance Goals.
- (d) Following the end of each Performance Period, the Compensation Committee will review the actual performance of each Participant against the Performance Goals of the respective Participant and determine the Participant’s level of achievement of his or her Performance Goals. The Compensation Committee will seek, and may rely on, the independent confirmation of the level of Performance Goal achievement from an external investment consultant to evaluate Entity Performance and Asset Class Performance. The ~~President and~~ CEO will submit a written report to the Compensation Committee, which documents the Participant’s performance relative to the Participant’s Performance Goals set at the beginning of the Performance Period, and upon which the Compensation Committee may rely in evaluating the Participant’s performance. The Board will determine the ~~President and~~ CEO’s level of achievement relative to the ~~President and~~ CEO’s Performance Goals.
- (e) Performance Incentive Awards will be calculated for each Participant based on the percentage achieved of each Performance Goal, taking into account the weightings for the Participant’s Entity Performance, Asset Class Performance, and Individual Performance Goals and each Participant’s Incentive Award Opportunity. The methodology for calculating Incentive Award Opportunities and Performance Incentive Awards is presented on Appendix A. Performance Incentive Awards will be interpolated in a linear fashion between threshold and target as well as between target and maximum.
- (f) Within 150 days following the end of a Performance Period, the Compensation Committee will review all Performance Incentive Award calculations, based on the certification of its advisors, and make any changes it deems appropriate. The Compensation Committee will submit its

recommendations to the Board for approval. Subject to the provisions of Section 7.1, the Board will approve Performance Incentive Awards.

- (g) Following the approval of a Performance Incentive Award by the Board, each Participant will be notified as to the amount, if any, of his or her Performance Incentive Award as well as the terms, provisions, conditions, and limitations of the Nonvested Deferred Award portion of such Performance Incentive Award.

5.6. Form and Timing of Payouts of Performance Incentive Awards

Approved Performance Incentive Awards will be paid as follows:

- (a) Seventy percent of the Performance Incentive Award will be paid to the Participant (“Paid Performance Incentive Award”) within 150 days of the completion of the Performance Period on a date selected in the discretion of UTIMCO ~~(and in no event later than the 15th day of the third month following the later of (i) the last day of the calendar year in which the Performance~~ period ends Incentive Award is determined or (ii) the last day of the fiscal year of UTIMCO in which the Performance Incentive Award is determined), and
- (b) Thirty percent of the Performance Incentive Award will be treated as a “Nonvested Deferred Award” subject to the terms of Section 5.7 and paid in accordance with that Section.

5.7. Nonvested Deferred Awards

- (a) For each Performance Period, a hypothetical account on UTIMCO’s books (“Nonvested Deferred Award Account”) will be established for each Participant. As of the date that the corresponding Paid Performance Incentive Award is paid to the Participant, each Participant’s Nonvested Deferred Award for a Performance Period will be credited to his or her Nonvested Deferred Award Account established for that Performance Period; provided, however, that, in the case of any Participant who is not employed by UTIMCO on the date such Nonvested Deferred Award would be so credited to his or her Nonvested Deferred Award Account, such Nonvested Deferred Award will not be credited to such Participant’s Nonvested Deferred Award Account but will instead be forfeited. The Nonvested Deferred Award Accounts will be credited (or debited) monthly with an amount equal to the net investment returns of the Total Endowment Assets (“Net Returns”) for the month multiplied by the balance of the respective Participant’s Nonvested Deferred Award Account(s) as of the last day of the month. When the Nonvested Deferred Award is initially credited to the Nonvested Deferred Award Account, the Nonvested Deferred Award Account will be credited (or debited) with Net Returns for the month of the initial credit of a Nonvested Deferred Award, but the Net Returns will be prorated to reflect the number of days of the month during which the amounts

were credited to the Nonvested Deferred Award Account. Participants are not entitled to their Nonvested Deferred Award Accounts unless and until they become vested in those accounts in accordance with Section 5.7(b).

(b) Assuming and contingent upon continued employment with UTIMCO, except as provided in Section 5.10(c), a Participant will become vested in, and entitled to payment of, his or her Nonvested Deferred Award Account for each respective Performance Period according to the following schedule:

(1) On the first anniversary of the last day of the Performance Period for which the Nonvested Deferred Award was earned, one third of the amount then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

(2) On the second anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, one half of the amount then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

(3) On the third anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, the remaining amount then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

(4) Nonvested Deferred Award Accounts payable under the above paragraphs of this Section 5.7(b) will be paid ~~as soon as administratively practicable~~ on a date selected in the discretion of UTIMCO after the applicable portion of any such Nonvested Deferred Award Account becomes vested and in no event later than ~~the 15th day of the third month following the later of (i) the last day of the calendar year in which the applicable portion of such Nonvested Deferred Award Account becomes vested or (ii) the last day of the fiscal year of UTIMCO in which the applicable portion of such Nonvested Deferred Award Account becomes vested.~~

5.8. Performance Measurement Standards

(a) Entity Performance

(1) Entity Performance for purposes of the Performance Incentive Plan is the performance of the Total Endowment Assets (weighted at 85%) and the Intermediate Term Fund (weighted at 15%).

(2) The performance of the Total Endowment Assets is measured based on the TEA's performance relative to the TEA Policy Portfolio Return (TEA benchmark) (weighted at 75%) and to the Peer Group (weighted

at 25%). The Board's chosen investment advisor will determine the performance of the Peer Group annually for the Performance Period. Performance of the Total Endowment Assets is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Total Endowment Assets. The Board's investment advisor will calculate a percentile rank for the performance of the Total Endowment Assets relative to the Peer Group, with the 100th percentile representing the highest rank, the 50th percentile representing the median, and the 0th percentile representing the lowest rank.

- (3) The performance of the Intermediate Term Fund will be measured based on the performance of the ITF relative to the ITF Policy Portfolio Return (ITF benchmark). The performance standards related to the Intermediate Term Fund for the Performance Period beginning July 1, 2006, are reflected in Table 4 on Appendix D. Performance standards related to the ITF for each Performance Period beginning after June 30, 2007, will be set forth on a revised table for each such Performance Period and set forth on Appendix D as soon as administratively practicable after such standards are determined. Performance of the Intermediate Term Fund is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the ITF.
- (4) Except as provided in Section 5.9, performance of the Total Endowment Assets (based on the TEA benchmark and Peer Group performance) and the Intermediate Fund (based on the ITF benchmark) will be measured based on a three-year rolling historical performance of each such fund.

(b) Asset Class Performance

- (1) Asset Class Performance is the performance of specific asset classes within the Total Endowment Assets and the Intermediate Term Fund (such as US public equity, private capital, etc.) based on the standards set forth in this Section 5.8(b). Except as provided in paragraph (2) below and Section 5.9, Asset Class Performance will be measured relative to the appropriate benchmark based on three-year rolling historical performance. Performance standards for each asset class will vary depending on the ability to outperform the respective benchmark. Table 2 below identifies the benchmarks for each asset class as well as threshold, target, and maximum performance standards for the Performance Periods ending June 30, 2003, 2004, and 2005 and includes July 2005 and August 2005. Table 3 below identifies the benchmarks for each asset class as well as threshold, target, and maximum performance standards beginning September 1, 2005, through December 31, 2005. Table 4 below identifies the benchmarks for each asset class as well as threshold, target, and maximum

performance standards beginning January 1, 2006, through June 30, 2006. The benchmarks for each asset class as well as threshold, target, and maximum performance standards for Performance Periods beginning after June 30, 2006, will be set forth in a revised table for each such Performance Period as soon as administratively practicable after such benchmarks and standards are set, and such revised table will be attached as Appendix D.

TABLE 2 (7/1/04 through 8/31/05)

Asset Class	Benchmark	Policy Portfolio			
		Weights (% of Portfolio)	Performance Standards		
			Threshold	Target	Maximum
Entity: Peer group	Peer group (Endowments w/ >\$ 1 B assets)	n/a	40th %ile	60th %ile	75th %ile
US Public Equity	Russell 3000	20.0%	+0 bps	+31 bps	+62 bps
International Equity	MSCI All Country World Index, Ex US	17.0%	+0 bps	+52.5 bps	+105 bps
Fixed Income	Lehman Brothers Aggregate Bond Index	10.0%	+0 bps	+12.5 bps	+25 bps
Private Capital	Roll up of Private Equity & Venture Capital	15.0%			
Private Equity	Venture Economics Private Equity Database	--	+0 bps	+100 bps	+200 bps
Venture Capital	Venture Economics Venture Capital Database	--	+0 bps	+112.5 bps	+225 bps
Absolute Return Hedge Funds	91-Day T-Bill	15.0%	+300 bps	+350 bps	+400 bps
Equity Hedge Funds	91-Day T-Bill	10.0%	+400 bps	+465 bps	+530 bps
Inflation Hedge	Roll up of Commodities, TIPS & REITS	13.0%			
Commodities	Goldman Sachs Commodity Index	3.0%	-100 bps	-15 bps	+0 bps
TIPS	Lehman Brothers US TIPS Index	5.0%	+0 bps	+2.5 bps	+5 bps
REITS	Dow Jones Wilshire Real Estate Securities Index	5.0%	+0 bps	+37.5 bps	+75 bps
Cash	91-Day T-Bill	0.0%	+0 bps	+0 bps	+0 bps
Short Intermediate Term Fund	SITF Policy Statement	--	+0 bps	+5 bps	+10 bps

TABLE 3 (9/1/05 through 12/31/05)

Asset Class	Benchmark	Policy Portfolio Weights (% of Portfolio)	Performance Standards		
			Threshold	Target	Maximum
Entity: Peer Group	Peer group (Endowments w/>\$1 B assets)	n/a	40th %ile	60th %ile	75th %ile
US Public Equity	Russell 3000 Index	20%	+0 bps	+31 bps	+62 bps
Non-US Developed Equity	MSCI EAFE Index with net dividends	10%	+0 bps	+37.5 bps	+75 bps
Emerging Markets Equity	MSCI Emerging Markets Index with net dividends	7%	+0 bps	+75 bps	+150 bps
Directional Hedge Funds	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index	10%	+0 bps	+65 bps	+130 bps
Absolute Return Hedge Funds	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index	15%	+0 bps	+50 bps	+100 bps
Private Equity	Custom Benchmark Created from Venture Economics Database	11%	+0 bps	+103.5 bps	+207 bps
Venture Capital	Custom Benchmark Created from Venture Economics Database	4%	+0 bps	+103.5 bps	+207 bps
REITS	Dow Jones Wilshire Real Estate Securities Index	5%	+0 bps	+37.5 bps	+75 bps
Commodities	Combination index: 66.7% Goldman Sachs Commodity Index minus .5% plus 33.3% DJ-AIG Commodity Index	3%	+0 bps	+17.5 bps	+35 bps
TIPS	Lehman Brothers US TIPS Index	5%	+0 bps	+2.5 bps	+5 bps
Fixed Income	Lehman Brothers Aggregate Bond Index	10%	+0 bps	+12.5 bps	+25 bps
Cash	90 day t-bills	0%	+0 bps	+0 bps	+0 bps
Short Intermediate Term Fund	SITF Policy Statement	--	+0 bps	+5 bps	+10 bps

TABLE 4 (1/1/06 through 6/30/06)

Asset Class	Benchmark	Policy Portfolio Weights (% of Portfolio)	Performance Standards		
			Threshold	Target	Maximum
Entity: Peer Group	Peer group (Endowments w/>\$1 B assets)	n/a	40th %ile	60th %ile	75th %ile
US Public Equity	Russell 3000 Index	20%	+0 bps	+31 bps	+62 bps
Non-US Developed Equity	MSCI EAFE Index with net dividends	10%	+0 bps	+37.5 bps	+75 bps
Emerging Markets Equity	MSCI Emerging Markets Index with net dividends	7%	+0 bps	+75 bps	+150 bps
Directional Hedge Funds	MSCI Investable Hedge Fund Index	10%	+0 bps	+65 bps	+130 bps
Absolute Return Hedge Funds	MSCI Investable Hedge Fund Index	15%	+0 bps	+50 bps	+100 bps
Private Equity	Custom Benchmark Created from Venture Economics Database	11%	+0 bps	+103.5 bps	+207 bps
Venture Capital	Custom Benchmark Created from Venture Economics Database	4%	+0 bps	+103.5 bps	+207 bps
REITS	Dow Jones Wilshire Real Estate Securities Index	5%	+0 bps	+37.5 bps	+75 bps
Commodities	Combination index: 66.7% Goldman Sachs Commodity Index minus .5% plus 33.3% DJ-AIG Commodity Index	3%	+0 bps	+17.5 bps	+35 bps
TIPS	Lehman Brothers US TIPS Index	5%	+0 bps	+2.5 bps	+5 bps
Fixed Income	Lehman Brothers Aggregate Bond Index	10%	+0 bps	+12.5 bps	+25 bps
Cash	90 day t-bills	0%	+0 bps	+0 bps	+0 bps
Short Intermediate Term Fund	SITF Policy Statement	--	+0 bps	+5 bps	+10 bps

- (2) Performance for the private capital asset class (Private Equity and Venture Capital) is calculated differently from other asset classes due to its longer investment horizon and illiquidity of assets. Performance of the private capital asset class is determined based on the performance of partnership commitments made by the current private capital team since 2001 based on internal rates of return (IRR's) relative to the respective Venture Economics benchmarks.

(c) Individual Performance

(1) The level of a Participant's Individual Performance will be measured by the CEO, subject to approval by the Compensation Committee, based on the level of attainment (below threshold, threshold, target, or maximum) of the Participant's Individual Performance Goals for the Performance Period.

(2) For purposes of determining the level of attainment of each Participant's Individual Performance Goals for the Performance Period, the Participant will have attained below threshold level if he or she fails to successfully complete at least 50% of his or her Individual Performance Goals for that Performance Period, threshold level if he or she successfully completes 50% of his or her Individual Performance Goals for that Performance Period, target level if he or she successfully completes 75% of his or her Individual Performance Goals for that Performance Period, and maximum level if he or she successfully completes 100% of his or her Individual Performance Goals for that Performance Period (with interpolation for levels of attainment between threshold, target, and maximum).

(3) In determining the percentage of successful completion of a Participant's Individual Performance Goals, the CEO (in his or her initial determination) and the Compensation Committee (in its review of the attained levels for approval) need not make such determination based solely on the number of Individual Performance Goals successfully completed but may take into account the varying degrees of importance of the Individual Performance Goals, changes in the Participant's employment duties occurring after the Individual Performance Goals are determined for the Performance Period, and any other facts and circumstances determined by the CEO or Compensation Committee (as applicable) to be appropriate for consideration in evaluation of the level of achievement of the Participant's Individual Performance Goals for the Performance Period.

~~Individual Performance of each Participant will be measured based on that Participant's performance of the duties of his or her employment position during the Performance Period.~~

5.9. *Modifications of Measurement Period for Measuring ~~Equity-Entity~~ and Asset Class Performance Goals*

- (a) Although generally Entity Performance and most Asset Class Performance are measured based on three-year rolling historical performance, newly hired Participants will be phased into the Performance Incentive Plan so that Entity Performance and Asset Class Performance are measured over a period of time consistent with each Participant's tenure at UTIMCO. This provision ensures that a Participant is measured and rewarded over a period of time consistent with the period during which he or she influenced the performance of the entity or a particular asset class. In the Performance Period in which a Participant begins participation in the Performance Incentive Plan, the Entity Performance and Asset Class Performance components of the Incentive Award Opportunity will be based on one full year of historical performance (i.e., the performance for the Performance Period during which the Participant commenced Performance Incentive Plan participation). During a Participant's second year of Performance Incentive Plan participation, the Entity Performance and Asset Class Performance components of the Incentive Award Opportunity will be based on two full years of historical performance. In the third year of a Participant's Performance Incentive Plan participation and beyond, the Entity and Asset Class Performance components of the Incentive Award Opportunity will be based on the three full years of rolling historical performance. This provision will apply to Participants who are UTIMCO employees hired after July 1, 2001.
- (b) For purposes of measuring the Intermediate Term Fund component of Entity and Asset Class Performance, the three-year historical performance cycle will not be utilized until the Intermediate Term Fund has three years of historical performance as part of the Performance Incentive Plan and, until that time, the actual years of historical performance will be used as the measurement period. The Intermediate Term Fund was formed on February 1, 2006, and is added as a measurement of performance under the Performance Incentive Plan effective July 1, 2006. Therefore, as of June 30, 2007, the ITF will have one year of historical performance that will be measured for purposes of determining ~~Equity-Entity~~ and Asset Class Performance; as of June 30, 2008, the ITF will have two consecutive years of historical performance that will be measured for purposes of determining ~~Equity-Entity~~ and Asset Class Performance; and as of June 30, 2009, and for each Performance Period thereafter, three consecutive years of historical performance will be utilized for purposes of measuring the ITF prong of ~~Equity-Entity~~ and Asset Class Performance.
- (c) For purposes of measuring Entity and Asset Class Performance, the three-year historical performance cycle will not be utilized for any specific asset class (or subset of an asset class) until that asset class (or subset of that asset class) has three years of historical performance as part of the Performance Incentive Plan and, until that time, the actual years (full and partial) of

historical performance of that asset class (or subset of that asset class) while part of the Performance Incentive Plan will be used as the measurement period.

- (d) For purposes of measuring Entity and Asset Class Performance of an asset class (or subset of an asset class) that is removed from the Performance Incentive Plan prior to completion of the then in-progress three-year historical performance cycle, the three-year historical performance cycle will not be utilized for that removed asset class (or subset of an asset class), but instead the actual number of full months that the removed asset class was part of the Performance Incentive Plan during the then in-progress three-year historical performance cycle will be used as the measurement period.
- (e) For purposes of measuring Asset Class Performance for a particular Participant of an asset class (or subset of an asset class) that is removed from or added to the Participant's responsibility during the then in-progress three-year historical performance cycle, the three-year historical performance cycle will not be utilized for that removed or added asset class (or subset of an asset class), but instead the actual number of full months that the removed or added asset class was part of the Participant's responsibility during the then in-progress three-year historical performance cycle will be used as the measurement period for evaluating the Asset Class Performance with respect to such Participant.

5.10. Termination Provisions

- (a) Except as otherwise provided in this Section 5.10, any Participant who ceases to be a Participant (either because of termination of employment with UTIMCO or for any other reason stated in Section 5.3(c)) prior to the end of a Performance Period will not be eligible to receive payment of any Performance Incentive Award for that or any subsequent Performance Periods. In addition, a Participant will only continue to vest in Nonvested Deferred Awards while he or she is employed with UTIMCO and will forfeit any Nonvested Deferred Awards at termination of employment with UTIMCO.
- (b) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment position is no longer an Eligible Position (but such employee continues to be employed with UTIMCO), such Participant's Performance Incentive Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date the Participant ceases to be in an Eligible Position, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested

Deferred Awards of such individual continue to vest and be paid subject to the provisions of Section 5.7(b).

- (c) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment with UTIMCO terminates due to death or Disability, the Participant's Performance Incentive Award for the Performance Period in which termination occurs, in lieu of any other Performance Incentive Award under the Performance Incentive Plan, will be paid at target on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date of the Participant's death or Disability, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Award Accounts of such terminated individual will vest immediately and be paid ~~as soon as administratively practicable after such termination on a date selected in the discretion of UTIMCO~~ and in no event later than ~~the 15th day of the third month following the later of (i)~~ the last day of the calendar year in which such termination occurs ~~or (ii) the last day of the fiscal year of UTIMCO in which such termination occurs~~. Payments under this provision will be made to the estate or designated beneficiaries of the deceased Participant or to the disabled Participant, as applicable.
- (d) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because he or she commences a leave of absence, such Participant's Performance Incentive Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or coinciding with the date the Participant commences such leave of absence, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards of such individual continue to vest and be paid subject to the provisions of Section 5.7(b).
- (e) In the case of any Participant who ceases to be a Participant in the Performance Incentive Plan prior to the end of Performance Period and is entitled to a Performance Incentive Award or a prorated Performance Incentive Award under this Section 5.10, such Performance Incentive Award will be calculated at the time and in the manner provided in Section 5.5 and Appendix A and paid in accordance with Section 5.6 and will not be calculated or paid prior to such time.

6. COMPENSATION PROGRAM AUTHORITY AND RESPONSIBILITY

6.1. Board as Plan Administrator

Except as otherwise specifically provided in this Compensation Program with respect to powers, duties, and obligations of the Compensation Committee, the Compensation Program will be administered by the Board.

6.2. Powers of Board

The Board has all powers specifically vested herein and all powers necessary or advisable to administer the Compensation Program as it determines in its discretion, including, without limitation, the authority to:

- (1) Establish the conditions for the determination and payment of compensation by establishing the provisions of the Performance Incentive Plan.
- (2) Select the employees who are eligible to be Participants in the Performance Incentive Plan.
- (3) Delegate to any other person, committee, or entity any of its ministerial powers and/or duties under the Compensation Program as long as any such delegation is in writing and complies with the UTIMCO Bylaws.

7. COMPENSATION PROGRAM INTERPRETATION

7.1. Board Discretion

- (a) Consistent with the provisions of the Compensation Program, the Board has the discretion to interpret the Compensation Program and may from time to time adopt such rules and regulations that it may deem advisable to carry out the Compensation Program. All decisions made by the Board in selecting the Participants approved to receive Performance Incentive Awards, including the amount thereof, and in construing the provisions of the Compensation Program, including without limitation the terms of any Performance Incentive Awards, are final and binding on all Participants.
- (b) Notwithstanding any provision of the Compensation Program to the contrary and subject to the requirement that the approval of Performance Incentive Awards that will result in an increase of 5% or more in the total Performance Incentive Awards calculated using the methodology set out on Appendix A must have the prior approval of the U.T. System Board of Regents, the Board has the discretion and authority to make changes in the terms of the Compensation Program in determining a Participant's eligibility for, or amount of, a Performance Incentive Award for any Performance Period whenever it considers that circumstances have occurred during the Performance Period so as to make such changes appropriate in the opinion of

the Board, provided, however, that any such change will not deprive or eliminate an award of a Participant after it has become vested and that such circumstances are recorded in the minutes of a meeting of the Board.

7.2. *Duration, Amendment, and Termination*

The Board has the right in its discretion to amend the Compensation Program or any portion thereof from time to time, to suspend it for a specified period, or to terminate it entirely or any portion thereof. However, if the Performance Incentive Plan is suspended or terminated during a Performance Period, Participants will receive a prorated Performance Incentive Award based on performance achieved and base salary earned through the Performance Measurement Date immediately preceding such suspension or termination. The Compensation Program will be in effect until suspension or termination by the Board; provided, however, that if the Board so determines at the time of any suspension or termination of the Performance Incentive Plan, Nonvested Deferred Awards credited to Participants' Nonvested Deferred Award Account(s) as of the effective date of such suspension or termination will continue to be administered under the terms of the Performance Incentive Plan after any suspension or termination, except as the Board otherwise determines in its discretion at the time of such suspension or termination.

7.3. *Recordkeeping and Reporting*

- (a) All records for the Compensation Program will be maintained by the Managing Director of Accounting, Finance, and Administration at UTIMCO. Relative performance data and calculations will be reviewed by UTIMCO's external auditor before Performance Incentive Awards are finalized and approved by the Board.
- (b) UTIMCO will provide all Participants with a comprehensive report of the current value of their respective Nonvested Deferred Award Account balances, including a complete vesting status of those balances, on at least a quarterly basis.

7.4. *Continued Employment*

Nothing in the adoption of the Compensation Program or the awarding of Performance Incentive Awards will confer on any employee the right to continued employment with UTIMCO or affect in any way the right of UTIMCO to terminate his or her employment at any time.

7.5. *Non-transferability of Awards*

Except for the rights of the estate or designated beneficiaries of Participants to receive payments, as set forth herein, Performance Incentive Awards under the Performance Incentive Plan, including both the Paid Performance Incentive Award portion and the Nonvested Deferred Award portion, are non-assignable and non-transferable and are not subject to anticipation, adjustment, alienation,

encumbrance, garnishment, attachment, or levy of any kind. The preceding notwithstanding, the Compensation Program will pay any portion of a Performance Incentive Award that is or becomes vested in accordance with an order that meets the requirements of a “qualified domestic relations order” as set forth in Section 414(p) of the *Internal Revenue Code* and Section 206(d) of ERISA.

7.6. *Unfunded Liability*

- (a) Neither the establishment of the Compensation Program, the award of any Performance Incentive Awards, nor the creation of Nonvested Deferred Awards Accounts will be deemed to create a trust. The Compensation Program will constitute an unfunded, unsecured liability of UTIMCO to make payments in accordance with the provisions of the Compensation Program. Any amounts set aside by UTIMCO to assist it in the payment of Performance Incentive Awards or other benefits under the Compensation Program, including without limitation, amounts set aside to pay for Nonvested Deferred Awards, will be the assets of UTIMCO, and no Participant will have any security or other interest in any assets of UTIMCO or the U.T. System Board of Regents by reason of the Compensation Program.
- (b) Nothing contained in the Compensation Program will be deemed to give any Participant, or any personal representative or beneficiary, any interest or title to any specific property of UTIMCO or any right against UTIMCO other than as set forth in the Compensation Program.

7.7. *Compliance with State and Federal Law*

No portion of the Compensation Program will be effective at any time when such portion violates an applicable state or federal law, regulation, or governmental order or directive.

7.8. *Federal, State, and Local Tax and Other Deductions*

All Performance Incentive Awards under the Compensation Program will be subject to any deductions (1) for tax and withholding required by federal, state, or local law at the time such tax and withholding is due (irrespective of whether such Performance Incentive Award is deferred and not payable at such time) and (2) for any and all amounts owed by the Participant to UTIMCO at the time of payment of the Performance Incentive Award. UTIMCO will not be obligated to advise an employee of the existence of the tax or the amount that UTIMCO will be required to withhold.

7.9. *Prior Plan*

- (a) Except as provided in the following paragraphs of this Section 7.9, this restatement of the Compensation Program amends and supersedes any prior version of the Compensation Program (“Prior Plan”).

- (b) All nonvested deferred awards under a Prior Plan will retain the vesting schedule in effect under the Prior Plan at the time such awards were allocated to the respective Participant's account. In all other respects, as of the Effective Date, those nonvested deferred amounts will (1) be credited or debited with the Net Returns over the remaining deferral period in accordance with Section 5.7(a), and (2) be subject to the terms and conditions for Nonvested Deferred Awards under the Performance Incentive Plan as set forth in this restated document.

8. DEFINITION OF TERMS

- 8.1. Asset Class Performance** is the performance of specific asset classes within the Total Endowment Assets and the Intermediate Term Fund (such as US public equity, private capital, etc.) based on the standards set forth in Section 5.8(b).
- 8.2. Board** is the UTIMCO Board of Directors.
- 8.3. Compensation Committee** is the Compensation Committee of the UTIMCO Board of Directors.
- 8.4. Compensation Program** is defined in Section 1.
- 8.5. Disability** means a condition whereby a Participant either (i) is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that is expected either to result in death or to last for a continuous period of not less than 12 months or (ii) is, by reason of a medically determinable physical or mental impairment that is expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under a disability plan maintained or contributed to by UTIMCO for the benefit of eligible employees.
- 8.6. Effective Date** is defined in Section 1.
- 8.7. Eligible Position** is defined in Section 5.3(a).
- 8.8. Entity Performance** represents the performance of the Total Endowment Assets and the Intermediate Term Fund (based on the measurement standards set forth in Section 5.8(a)).
- 8.9. Incentive Award Opportunity** is defined in Section 5.5(a).
- 8.10. Intermediate Term Fund or ITF** is The University of Texas System (“U.T. System”) Intermediate Term Fund established by the U.T. System Board of Regents as a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by the U.T. System institutions and U.T. System Administration. Performance of the Intermediate Term Fund is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Intermediate Term Fund.
- 8.11. Intermediate Term Fund Policy Portfolio Return** is the benchmark return for the Intermediate Term Fund policy portfolio and is calculated by summing the neutrally weighted index returns (percentage weight for each asset class multiplied by the benchmark return for the asset class) for the various asset classes in the Intermediate Term Fund policy portfolio for the Performance Period.
- 8.11.8.12. Net Returns** is the investment performance return of the Total Endowment Assets, net of fees. Net of fees factors in all administrative and other fees for

managing the Total Endowment Assets. The net investment return will be calculated as follows:

$$\frac{\text{Permanent University Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{Permanent University Fund Net Investment Return}$$

Plus

$$\frac{\text{General Endowment Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{General Endowment Fund Net Investment Return}$$

8.12.8.13. Nonvested Deferred Award is defined in Section 5.6(b).

8.13.8.14. Nonvested Deferred Award Account is defined in Section 5.7(a).

8.14.8.15. Paid Performance Incentive Award is defined in Section 5.6(a).

8.15.8.16. Participant is defined in Section 5.3(a).

8.16.8.17. Peer Group is a peer group of endowment funds maintained by the Board's external investment advisor that is comprised of all endowment funds with assets greater than \$1 billion on the last day of each of the three immediately preceding Performance Periods and set forth on Appendix B; provided, however, that Harvard University's endowment fund, Yale University's endowment fund, and Total Endowment Assets are excluded from the Peer Group. The Peer Group will be updated from time to time as deemed appropriate by the Board, and Appendix B will be amended accordingly.

8.17.8.18. Performance Goals are defined in Section 5.4.

8.18.8.19. Performance Incentive Award is the component of a Participant's total compensation that is based on specific performance goals and awarded as current income or deferred at the end of a Performance Period in accordance with Section 5 and Appendix A.

8.19.8.20. Performance Incentive Plan is as defined in Section 1 and described more fully in Section 5.

8.20.8.21. Performance Measurement Date is the close of the last business day of the month.

8.21.8.22. Performance Period is defined in Section 5.2.

~~**8.22. Policy Portfolio Return** is the benchmark return for the Intermediate Term Fund policy portfolio and is calculated by summing the neutrally weighted index returns (percentage weight for each asset class multiplied by the benchmark return for the asset class) for the various asset classes in the Intermediate Term Fund portfolio for the Performance Period.~~

8.23. Prior Plan is defined in Section 7.9.

8.24. Salary Structure is described in Section 4.1.

8.25. Total Endowment Assets or TEA means the combination of the Permanent University Fund and the General Endowment Fund, but does not include any other

endowment funds monitored by UTIMCO such as the Separately Invested Fund. Performance of the Total Endowment Assets is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Total Endowment Assets.

8.26. Total Endowment Assets Policy Portfolio Return is the benchmark return for the Total Endowment Assets policy portfolio and is calculated by summing the neutrally weighted index returns (percentage weight for each asset class multiplied by the benchmark return for the asset class) for the various asset classes in the Total Endowment Assets policy portfolio for the Performance Period.

Appendix A

Performance Incentive Award Methodology (for Performance Periods beginning on or after July 1, ~~2006~~2007)

I. Determine “Incentive Award Opportunities” for Each Participant¹

- Step 1. Identify the weights to be allocated to each of the three Performance Goals for each Participant’s Eligible Position. The weights vary for each Eligible Position each Performance Period and are set forth in Table 1 on Appendix C for the applicable Performance Period. The total of the weights ascribed to the three Performance Goals must add up to 100% for each Participant. For example, Table 1 on Appendix C may reflect for a Performance Period for the ~~President and~~ CEO that the weight allocated to the Entity Performance Goal is 70%, the weight allocated to the Asset Class Performance Goal is 0%, and the weight allocated to the Individual Performance Goal is 30%.
- Step 2. Identify the percentage of base salary for the Participant’s Eligible Position that determines the Performance Incentive Award for achievement of the Threshold, Target, and Maximum levels of the Performance Goals. The percentages vary for each Eligible Position each Performance Period and are set forth in Table 1 on Appendix C for the applicable Performance Period. For example, Table 1 on Appendix C may show that for a Performance Period the applicable percentages for determining the Performance Incentive Award for the ~~President and~~ CEO are 18% of his or her base salary for achievement of Threshold level performance of all three Performance Goals, 90% of his or her base salary for achievement of Target level performance of all three Performance Goals, and 180% of his or her base salary for achievement of Maximum level performance of all three Performance Goals.
- Step 3. Calculate the dollar amount of the potential Threshold, Target, and Maximum awards (the “Incentive Award Opportunities”) for each Participant by multiplying the Participant’s base salary for the Performance Period by the applicable percentage (from Step #2 above). For example, assuming the ~~President and~~ CEO has a base salary of \$495,000 for a Performance Period, based on the assumed percentages set forth in Step #2 above, the ~~President and~~ CEO will be eligible for a total award of \$89,100 (18% of his or her base salary) if he or she achieves Threshold level performance of all three Performance Goals, \$445,500 (90% of his or her

¹ These Incentive Award Opportunities represent amounts that each Participant will be awarded if he or she achieves his or her Performance Goals at varying levels and are calculated at the beginning of each Performance Period or, if later, the date such Participant commences participation in the Performance Incentive Plan.

base salary) if he or she achieves Target level performance of all three Performance Goals, and \$891,000 (180% of his or her base salary) if he or she achieves Maximum level performance of all three Performance Goals.

- Step 4. Because a Participant may achieve different levels of performance in different Performance Goals and be eligible for different levels of awards for that achievement (e.g., he or she may achieve Target performance in the Entity Performance Goal and be eligible to receive a Target award for that goal and achieve Maximum performance in the Individual Performance Goal and be eligible to receive a Maximum award for that Performance Goal), it is necessary to determine the Incentive Award Opportunity of the Threshold, Target, and Maximum award for each separate Performance Goal (and, because achievement of the ~~Equity-Entity~~ Performance Goal is determined in part by achievement of the Total Endowment Assets and in part by achievement of the Intermediate Term Fund, a Threshold, Target, and Maximum Incentive Award Opportunity separately for the TEA and the ITF must be determined). This is done by multiplying the dollar amount of the Threshold, Target, and Maximum awards for the performance of all three Performance Goals calculated in Step #3 above for the Participant by the weight allocated for that Participant to the particular Performance Goal (and, further, by multiplying the Incentive Award Opportunity for the ~~Equity-Entity~~ Performance by the weight ascribed to achievement of the Total Endowment Assets (85%) and by the weight ascribed to achievement of the Intermediate Term Fund (15%)). The 85% Entity Performance of the Total Endowment Assets is derived from the weighting of the Peer Group portion at 25% and the TEA benchmark portion (TEA Policy Portfolio Return) at 75%.
- Step 5. After Steps #3 and #4 above are performed for each of the three levels of performance for each of the three Performance Goals, there will be ~~12-15~~ different Incentive Award Opportunities for each Participant. For example, for the ~~President and~~ CEO (based on an assumed base salary of \$495,000, the assumed weights for the Performance Goals set forth in Step #1 above, and the assumed percentages of base salary for the awards set forth in Step #2 above), the ~~12-15~~ different Incentive Award Opportunities for achievement of the Performance Goals for the Performance Period are as follows:

Incentive Award Opportunities for ~~President and~~ CEO
(based on assumed base salary of \$495,000)

Performance Goal	Weight	Threshold Level Award	Target Level Award	Maximum Level Award
Entity (TEA v. Peer Group)	59.514.875% (.25 x .85 x .70)	\$13,25353,045	\$66,268265,073	\$132,536530,145
<u>Entity (TEA v. TEA Policy Portfolio Return)</u>	<u>44.625%</u> (.75 x .85 x .70)	<u>\$39,761</u>	<u>\$198,804</u>	<u>397,609</u>
Entity (ITF v. <u>ITF</u> Policy Portfolio Return)	10.5% (.15 x .70)	\$9,356	\$46,778	\$93,555
Asset Class	0%	\$0	\$0	\$0
Individual	30%	\$26,730	\$133,650	\$267,300
Total	100%	\$89,100 (18% of salary)	\$445,500 (90% of salary)	\$891,000 (180% of salary)

II. Calculate Performance Incentive Award for Each Participant

Step 6. Identify the achievement percentiles or achieved basis points that divide the Threshold, Target, and Maximum levels for each Performance Goal. These divisions for the level of achievement of the Entity and Asset Class Performance Goals are set forth in the table for the applicable Performance Period (i.e., Table 2, Table 3, Table 4, or any later table set forth on Appendix D, as applicable). The measurement for the level of achievement (i.e., Threshold, Target, or Maximum) for the Individual Performance Goal is initially determined each Performance Period by the Participant’s supervisor, if any, and then is approved (or adjusted) by the Compensation Committee as it deems appropriate in its discretion. If the Participant has no supervisor, the measurement for the level of achievement for the Individual Performance Goal is determined each Performance Period by the Compensation Committee. The Board will determine the ~~President and~~ CEO’s level of achievement relative to the ~~President and~~ CEO’s Performance Goals.

Step 7. Determine the percentile or basis points achieved for each Performance Goal for each Participant using the standards set forth in Sections 5.5 and 5.8 of the Compensation Program, as modified ~~in the case of new hires~~ in Section 5.9. Determine the level of achievement of each Participant’s Individual Performance Goal.

Step 8. Calculate the amount of each Participant’s award attributable to each Performance Goal by identifying the Incentive Award Opportunity amount for each Performance Goal (e.g., as assumed and set forth for the ~~President and~~ CEO in the table in Step #5 above) commensurate with the Participant’s level of achievement for that Performance Goal (determined in Steps #6 and #7 above). An award for achievement percentiles in between the stated Threshold, Target, and Maximum levels is determined by linear interpolation. For example, if the 65th percentile of the Peer Group portion of Total Endowment Assets portion of the Entity Performance Goal has been achieved, that percentile is between the Target (60th percentile) and the Maximum (75th percentile) levels, so to determine

the amount of the award attributable to the 65th percentile achievement of the Peer Group portion of the TEA portion of the Entity Performance Goal, perform the following steps: (i) subtract the difference between the dollar amounts of the Target and Maximum Incentive Award Opportunities for the Participant (e.g., for the ~~President and~~ CEO, as illustrated in the table in Step #5, the difference is ~~\$66,268,265,072~~ (~~\$132,536-\$66,268,530,145-\$265,073~~)); (ii) divide 5 (the percentile difference between the Target level of 60th percentile and the attained level of 65th percentile) by 15 (the percentile difference between the Target level and Maximum level) to get the fraction 5/15 to determine the pro rata portion of the difference between Target and Maximum actually achieved; (iii) multiply the amount determined in the preceding Step (i) by the fraction determined in the preceding Step (ii) (~~\$66,268,265,072~~ x 5/15 = ~~\$22,089,88,357~~); and (iv) add the amount determined in the preceding Step (iii) to the Target Incentive Award Opportunity for the Participant to get the actual award for the Participant attributable to each Performance Goal (~~\$22,089,88,357~~ + ~~\$66,268,265,073~~ = ~~\$88,357,353,430~~).

Step 9. In determining the Asset Class Performance portion of an award for a Performance Period for each Participant who is responsible for more than one asset class during that Performance Period, first, the Participant's attained level of achievement (i.e., Below Threshold, Threshold, Target, or Maximum) is determined for each asset class for which such Participant is responsible by comparing the actual performance to the appropriate benchmark for the asset class; then, the award is calculated for the determined level of achievement for each such asset class by multiplying the award commensurate with the level of achievement by the weight assigned to the Asset Class Performance Goal for such Participant; then, the various asset classes for which the Participant is responsible are assigned a pro rata weight (i.e., the assets in such asset class relative to the total assets under such Participant's responsibility); then, each determined award for a separate asset class is multiplied by the weight for that asset class; and, finally, the weighted awards are totaled to produce the Participant's award attributable to Asset Class Performance.

Step 10. In determining the award attributable to the EntityEquity Performance Goal (TEA Peer Group at 25% and TEA Policy Portfolio Return at 75%), achievement of the Total Endowment Assets portion of the Entity Performance Goal (and the commensurate award) is weighted at 85% with 14.875% for the TEA Peer Group and 44.625% for the TEA Policy Portfolio Return (and then both multiplied by the weight assigned to the Entity Performance Goal for the Participant), and achievement of the Intermediate Term Fund portion of the ~~Equity-Entity~~ Performance Goal (and commensurate award) is weighted at 15% (and then multiplied by the weight assigned to the Entity Performance Goal for the Participant). For example, assuming a base salary of \$495,000, if the ~~President and~~ CEO achieved the Target level (60th percentile) of the TEA Peer Group portion of the Total Endowment Assets portion of the Entity Performance Goal, achieved the Maximum level (+150 bps) of the TEA benchmark portion of

the Total Endowment Assets portion of the Entity Performance Goal, and achieved the Maximum level (+65 bps) of the Intermediate Term Fund portion of the Entity Performance Goal, he or she would have earned an award of ~~\$557,432~~~~358,628~~ for his or her level of achievement of the Equity Entity Performance Goal as follows: ~~\$66,268~~~~265,073~~ for Target level of achievement of the TEA Peer Group portion of the TEA portion of the Equity Entity Performance Goal ($.25 \times .85 \times .70 \times \$445,500$); plus \$397,609 for Maximum level of achievement of the TEA benchmark portion of the TEA portion of Entity Performance Goal ($.75 \times .85 \times .70 \times \$891,000$) plus \$93,555 for Maximum level of achievement of the ITF portion of the Equity Entity Performance Goal ($.15 \times .70 \times \$891,000$).

Step ~~10~~11. No award is given for an achievement percentile below Threshold, and no award above the Maximum award is given for an achievement percentile above the Maximum level.

Step ~~11~~12. Subject to any applicable adjustment in Step ~~12-13~~ below, add the awards determined in Steps #~~8~~, #~~9~~, and #~~9-10~~ above for each Performance Goal (as modified by Step #~~10~~11) together to determine the total amount of the Participant's Performance Incentive Award for the Performance Period.

Step ~~12~~13. In the case of any Participant who becomes a Participant in the Performance Incentive Plan after the first day of the applicable Performance Period, such Participant's Performance Incentive Award (determined in Step #~~11~~12) will be prorated to reflect the actual portion of the Performance Period in which he or she was a Participant. In the case of a Participant who ceases to be a Participant prior to the end of a Performance Period, his or her entitlement to any Performance Incentive Award is determined under Section 5.10 and, in the case of such entitlement, such Participant's Performance Incentive Award, if any, will be prorated and adjusted as provided in Section 5.10.

Appendix B

UTIMCO Peer Group

- Boston College
- Brown University
- California Institute of Technology
- Case Western Reserve University
- Columbia University
- Cornell University
- Dartmouth College
- Duke University
- Emory University
- Grinnell College
- Indiana University and Foundation
- Johns Hopkins University
- Massachusetts Institute of Technology
- New York University
- Northwestern University
- Ohio State University and Foundation
- Pennsylvania State University
- Pomona College
- Princeton University
- Purdue University
- Rice University
- Stanford University
- Swarthmore College
- The Rockefeller University
- The Texas A&M University System and Foundations
- UNC at Chapel Hill and Foundations
- University of California
- University of Chicago
- University of Illinois and Foundation
- University of Michigan
- University of Minnesota and Foundation
- University of Notre Dame
- University of Pennsylvania
- University of Pittsburgh
- University of Richmond
- University of Rochester
- University of Southern California
- University of Virginia
- University of Washington
- Vanderbilt University
- Washington University
- Wellesley College
- Williams College
- Yeshiva University

Source: Cambridge Associates. Represents University endowments (excluding Harvard, Yale, and Total Endowment Assets) with total assets in excess of \$1 billion as of each fiscal year end June 2004, 2005, 2006.

Appendix C

Eligible Positions Weightings Incentive Award Opportunities for each Eligible Position (for each Performance Period)

TABLE 1 (2005/2006 Performance Period)

Eligible Position	Weighting			Incentive Award Opportunity (% of Salary)			
	Entity	Asset		< Threshold	Threshold	Target	Maximum
		Class	Individual				
<i>Investment Professionals</i>							
President, CEO & CIO	70%	0%	30%	0%	18%	90%	180%
Deputy CIO & MD of Marketable Alt. Invest.	40%	40%	20%	0%	13%	65%	130%
Risk Manager	70%	0%	30%	0%	12%	60%	120%
MD, Public Markets Invest.	20%	60%	20%	0%	12%	60%	120%
MD, Inflation Hedging Assets	20%	60%	20%	0%	12%	60%	120%
Co-MD, Non-Marketable Alt Inv (n=2)	30%	50%	20%	0%	12%	60%	120%
Manager of Operating Fund Investments	20%	60%	20%	0%	10%	50%	100%
Portfolio Manager, Equity Invest.	20%	60%	20%	0%	10%	50%	100%
Sr. Portfolio Mgr., Fixed Income Invest.	20%	60%	20%	0%	10%	50%	100%
Portfolio Manager, Fixed Income Invest.	20%	60%	20%	0%	10%	50%	100%
Analytical Support-Investment	20%	60%	20%	0%	5%	25%	50%
Analytical Support-Risk Management	70%	0%	30%	0%	5%	25%	50%
<i>Operations/Support Professionals</i>							
MD, Accounting, Finance & Admin.	20%	0%	80%	0%	10%	50%	100%
MD, Information Technology	20%	0%	80%	0%	10%	50%	100%
Manager, Finance & Administration	20%	0%	80%	0%	5%	25%	50%
Manager, Investment Reporting	20%	0%	80%	0%	5%	25%	50%
Manager, Portfolio Accounting & Ops.	20%	0%	80%	0%	5%	25%	50%

UPDATED TABLE 1 (For the Performance Periods beginning after June 30, 2006)

Eligible Position	Weighting			Incentive Award Opportunity (% of Salary)			
	Entity	Asset		< Threshold	Threshold	Target	Maximum
		Class	Individual				
<i>Investment Professionals</i>							
President, CEO & CIO	70%	0%	30%	0%	20%	100%	200%
Deputy CIO & MD of Marketable Alt. Invest.	40%	40%	20%	0%	18%	90%	190%
Risk Manager	70%	0%	30%	0%	18%	90%	190%
MD, Public Markets Invest.	20%	60%	20%	0%	18%	90%	190%
MD, Inflation Hedging Assets	20%	60%	20%	0%	18%	90%	190%
MD, Non-Marketable Alt Inv	30%	50%	20%	0%	18%	90%	190%
Sr. Portfolio Mgr., Fixed Income Invest.	20%	60%	20%	0%	10%	50%	140%
Portfolio Manager, Fixed Income Invest.	20%	60%	20%	0%	10%	50%	140%
Director, Public Markets	20%	60%	20%	0%	8%	40%	80%
Director, Marketable Alternative	20%	60%	20%	0%	8%	40%	80%
Director, Inflation Hedging Assets	20%	60%	20%	0%	8%	40%	80%
Director, Non-Marketable Alternative	20%	60%	20%	0%	8%	40%	80%
Director, Risk Management	70%	0%	30%	0%	8%	40%	80%
Associate, Public Markets	20%	60%	20%	0%	6%	30%	70%
Associate, Marketable Alternative	20%	60%	20%	0%	6%	30%	70%
Associate, Inflation Hedging Assets	20%	60%	20%	0%	6%	30%	70%
Associate, Non-Marketable Alternative	20%	20%	60%	0%	6%	30%	70%
Associate, Risk Management	70%	0%	30%	0%	6%	30%	70%
Analyst, Public Markets	20%	60%	20%	0%	6%	30%	50%
Analyst, Marketable Alternative	20%	60%	20%	0%	6%	30%	50%
Analyst, Inflation Hedging Assets	20%	60%	20%	0%	6%	30%	50%
Analyst, Non-Marketable Alternative	20%	20%	60%	0%	6%	30%	50%
Analyst, Risk Management	70%	0%	30%	0%	6%	30%	50%
<i>Operations/Support Professionals</i>							
MD, Accounting, Finance & Admin.	20%	0%	80%	0%	10%	50%	140%
MD, Information Technology	20%	0%	80%	0%	10%	50%	140%
Manager, Finance & Administration	20%	0%	80%	0%	8%	40%	80%
Manager, Investment Reporting	20%	0%	80%	0%	8%	40%	80%
Manager, Portfolio Accounting & Ops.	20%	0%	80%	0%	8%	40%	80%
Manager, Client Services	20%	0%	80%	0%	8%	40%	80%

UPDATED TABLE 1 (For the Performance Periods beginning after June 30, 2007)

Eligible Position	Weighting			Incentive Award Opportunity (% of Salary)			
	Entity	Asset		< Threshold	Threshold	Target	Maximum
		Class	Individual				
<i>Investment Professionals</i>							
CEO	70%	0%	30%	0%	20%	100%	200%
Deputy CIO & MD of Marketable Alt. Invest.	40%	40%	20%	0%	18%	90%	190%
Risk Manager	30%	0%	70%	0%	18%	90%	190%
MD, Public Markets Invest.	20%	60%	20%	0%	18%	90%	190%
MD, Inflation Hedging Assets	20%	60%	20%	0%	18%	90%	190%
MD, Private Markets	30%	50%	20%	0%	18%	90%	190%
Sr. Portfolio Mgr., Fixed Income Invest.	20%	60%	20%	0%	10%	50%	140%
Portfolio Manager, Fixed Income Invest.	20%	60%	20%	0%	10%	50%	140%
Director, Public Markets	20%	60%	20%	0%	8%	40%	80%
Director, Marketable Alternative	20%	60%	20%	0%	8%	40%	80%
Director, Inflation Hedging Assets	20%	60%	20%	0%	8%	40%	80%
Director, Private Markets	20%	60%	20%	0%	8%	40%	80%
Director, Risk Management	30%	0%	70%	0%	8%	40%	80%
Associate, Public Markets	20%	60%	20%	0%	6%	30%	70%
Associate, Marketable Alternative	20%	60%	20%	0%	6%	30%	70%
Associate, Inflation Hedging Assets	20%	60%	20%	0%	6%	30%	70%
Associate, Private Markets	20%	20%	60%	0%	6%	30%	70%
Associate, Risk Management	30%	0%	70%	0%	6%	30%	70%
Analyst, Public Markets	20%	60%	20%	0%	6%	30%	50%
Analyst, Marketable Alternative	20%	60%	20%	0%	6%	30%	50%
Analyst, Inflation Hedging Assets	20%	60%	20%	0%	6%	30%	50%
Analyst, Private Markets	20%	20%	60%	0%	6%	30%	50%
Analyst, Risk Management	30%	0%	70%	0%	6%	30%	50%
<i>Operations/Support Professionals</i>							
MD, Accounting, Finance & Admin.	20%	0%	80%	0%	10%	50%	140%
MD, Information Technology	20%	0%	80%	0%	10%	50%	140%
Manager, Finance & Administration	20%	0%	80%	0%	8%	40%	80%
Manager, Investment Reporting	20%	0%	80%	0%	8%	40%	80%
Manager, Portfolio Accounting & Ops.	20%	0%	80%	0%	8%	40%	80%
General Counsel	0%	0%	100%	0%	8%	40%	80%
Chief Compliance Officer	0%	0%	100%	0%	8%	40%	80%

Appendix D

Benchmarks for Asset Class Threshold, Target, and Maximum Performance Standards (for Performance Periods beginning on or after July 1, 2006)

Performance Standards for Intermediate Term Fund (for Performance Periods beginning on or after July 1, 2006)

UPDATED TABLE 4 (7/1/06 through 6/30/07)

Asset Class	Benchmark	Policy Portfolio Weights		Performance Standards		
		Total Endowment Assets	ITF	Threshold	Target	Maximum
		(% of Portfolio)	(% of Portfolio)			
Entity: Peer Group (Total Endowment Funds)	Peer group (Endowments w/>>\$1 B assets)	n/a	n/a	40th %ile	60th %ile	75th %ile
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+32.5 bps	+65 bps
US Public Equity	Russell 3000 Index	20%	15%	+0 bps	+31 bps	+62 bps
Non-US Developed Equity	MSCI EAFE Index with net dividends	10%	5%	+0 bps	+37.5 bps	+75 bps
Emerging Markets Equity	MSCI Emerging Markets Index with net dividends	7%	5%	+0 bps	+75 bps	+150 bps
Directional Hedge Funds	MSCI Investable Hedge Fund Index	10%	12.5%	+0 bps	+65 bps	+130 bps
Absolute Return Hedge Funds	MSCI Investable Hedge Fund Index	15%	12.5%	+0 bps	+50 bps	+100 bps
Private Equity	Custom Benchmark Created from Venture Economics Database	11%	0%	+0 bps	+103.5 bps	+207 bps
Venture Capital	Custom Benchmark Created from Venture Economics Database	4%	0%	+0 bps	+103.5 bps	+207 bps
REITS	Dow Jones Wilshire Real Estate Securities Index	5%	10%	+0 bps	+37.5 bps	+75 bps
Commodities	Combination index: 66.7% Goldman Sachs Commodity Index minus .5% plus 33.3% DJ-AIG Commodity Index	3%	5%	+0 bps	+17.5 bps	+35 bps
TIPS	Lehman Brothers US TIPS Index	5%	10%	+0 bps	+2.5 bps	+5 bps
Fixed Income	Lehman Brothers Aggregate Bond Index	10%	25%	+0 bps	+12.5 bps	+25 bps
Cash	90 day t-bills	0%	0%	+0 bps	+0 bps	+0 bps

UPDATED TABLE 4 (7/1/07 through 6/30/08)

Asset Class	Benchmark	Policy Portfolio Weights		Performance Standards		
		Total Endowment Assets	ITF	Threshold	Target	Maximum
		(% of Portfolio)	(% of Portfolio)			
Entity: Peer Group (Total Endowment Funds)	Peer group (Endowments w/>>\$1 B	n/a	n/a	40th %ile	60th %ile	75th %ile
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+100 bps	+150 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+32.5 bps	+65 bps
US Public Equity	Russell 3000 Index	20%	15%	+0 bps	+31 bps	+62 bps
Non-US Developed Equity	MSCI EAFE Index with net dividends	10%	5%	+0 bps	+37.5 bps	+75 bps
Emerging Markets Equity	MSCI Emerging Markets Index with net dividends	7%	5%	+0 bps	+75 bps	+150 bps
Directional Hedge Funds	MSCI Investable Hedge Fund Index	10%	12.5%	+0 bps	+65 bps	+130 bps
Absolute Return Hedge Funds	MSCI Investable Hedge Fund Index	15%	12.5%	+0 bps	+50 bps	+100 bps
Private Equity	Custom Benchmark Created from Venture Economics Database	11%	0%	+0 bps	+103.5 bps	+207 bps
Venture Capital	Custom Benchmark Created from Venture Economics Database	4%	0%	+0 bps	+103.5 bps	+207 bps
REITS	Dow Jones Wilshire Real Estate Securities Index	5%	10%	+0 bps	+37.5 bps	+75 bps
Commodities	Combination index: 66.7% Goldman Sachs Commodity Index minus .5% plus 33.3% DJ-AIG Commodity Index	3%	5%	+0 bps	+17.5 bps	+35 bps
TIPS	Lehman Brothers US TIPS Index	5%	10%	+0 bps	+2.5 bps	+5 bps
Fixed Income	Lehman Brothers Aggregate Bond Index	10%	25%	+0 bps	+12.5 bps	+25 bps
Internal Credit	Credit Related Composite Index	0%	0%	+0 bps	+12.5 bps	+25 bps
Cash	90 day t-bills	0%	0%	+0 bps	+0 bps	+0 bps

6. **U. T. System: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the fiscal year and quarter ended August 31, 2007**

REPORT

The August 31, 2007, UTIMCO Performance Summary Report is attached on Page 77.

The Investment Reports for the fiscal year and quarter ended August 31, 2007, are set forth on Pages 78 - 81.

Item I on Page 78 reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the fiscal year was 15.34% versus its composite benchmark return of 13.38%. The PUF's net asset value increased by \$1,429 million since the beginning of the fiscal year to \$11,743 million. This change in net asset value includes increases due to contributions from PUF land receipts and net investment return and decreases by the annual distribution of \$401 million.

Item II on Page 79 reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the fiscal year was 15.90% versus its composite benchmark return of 13.38%. The GEF's net asset value increased during the fiscal year to \$6,433 million.

Item III on Page 80 reports activity for the Intermediate Term Fund (ITF). The ITF's net investment return for the fiscal year was 10.62% versus its composite benchmark return of 8.47%. The net asset value has increased to \$3,721 million due to contributions and net investment return, net of distributions of \$104 million.

For all funds, all exposures were within their asset class ranges, generally very close to target, and liquidity was within policy.

Item IV on Page 81 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, decreased by \$109 million to \$1,512 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$29 million versus \$34 million at the beginning of the period; equities: \$69 million versus \$74 million at the beginning of the period; and other investments: \$4 million versus \$0.1 million at the beginning of the period.

UTIMCO Performance Summary

August 31, 2007

	Net Asset Value 8/31/2007 (in Millions)	Periods Ended August 31, 2007 (Returns for Periods Longer Than One Year are Annualized)							
		<u>Short Term</u>		<u>Year-to-Date</u>		<u>Historic Returns</u>			
		1 Mo	3 Mos	Calendar	Fiscal	1 Yr	3 Yrs	5 Yrs	10 Yrs
ENDOWMENT FUNDS									
Permanent University Fund	\$ 11,743	0.24	0.17	9.28	15.34	15.34	15.06	14.38	9.09
General Endowment Fund		0.38	0.33	9.66	15.90	15.90	15.23	14.65	N/A
Permanent Health Fund	1,100	0.35	0.27	9.52	15.76	15.76	15.12	14.52	N/A
Long Term Fund	5,333	0.35	0.27	9.52	15.76	15.76	15.12	14.54	9.62
Separately Invested Funds	211	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	18,387								
OPERATING FUNDS									
Short Term Fund	1,404	0.45	1.33	3.55	5.39	5.39	4.15	2.96	3.96
Intermediate Term Fund	3,721	0.29	(0.36)	5.75	10.62	10.62	N/A	N/A	N/A
Total Operating Funds	5,125								
Total Investments	\$ 23,512								
VALUE ADDED									
Permanent University Fund		0.19	0.55	2.40	1.96	1.96	1.42	2.25	(0.35)
General Endowment Fund		0.33	0.71	2.78	2.52	2.52	1.59	2.52	N/A
Permanent Health Fund		0.30	0.65	2.64	2.38	2.38	1.48	2.39	N/A
Long Term Fund		0.30	0.65	2.64	2.38	2.38	1.48	2.41	0.52
Short Term Fund		(0.11)	(0.01)	0.04	0.10	0.10	0.13	0.07	0.16
Intermediate Term Fund		0.05	0.82	2.31	2.15	2.15	N/A	N/A	N/A

Footnotes available upon request.

I. PERMANENT UNIVERSITY FUND

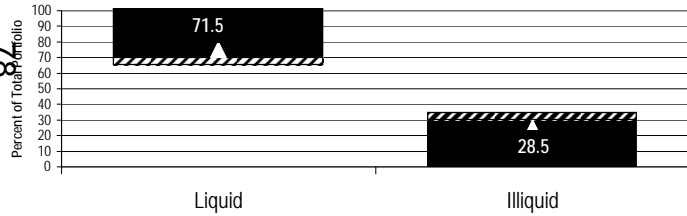
Investment Reports for Periods Ended August 31, 2007

Prepared in accordance with Texas Education Code Sec. 51.0032

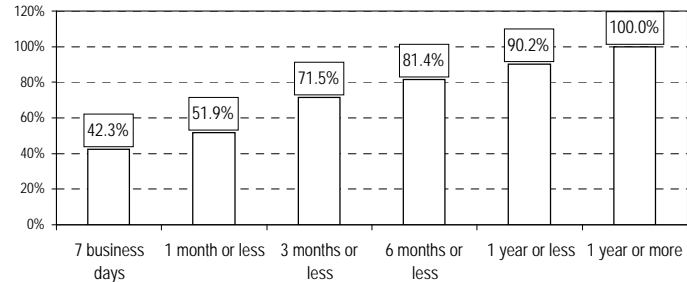
Summary of Capital Flows

(\$ millions)	Fiscal Year Ended August 31, 2006	Quarter Ended August 31, 2007	Fiscal Year Ended August 31, 2007
Beginning Net Assets	\$ 9,426.7	\$ 11,763.6	\$ 10,313.4
PUF Lands Receipts	214.9	65.6	272.8
Investment Return	1,111.7	36.6	1,639.8
Expenses	(82.6)	(22.8)	(82.5)
Distributions to AUF	(357.3)	(100.2)	(400.7)
Ending Net Assets	\$ 10,313.4	\$ 11,742.8	\$ 11,742.8

PUF Liquidity Policy Profile As of August 31, 2007



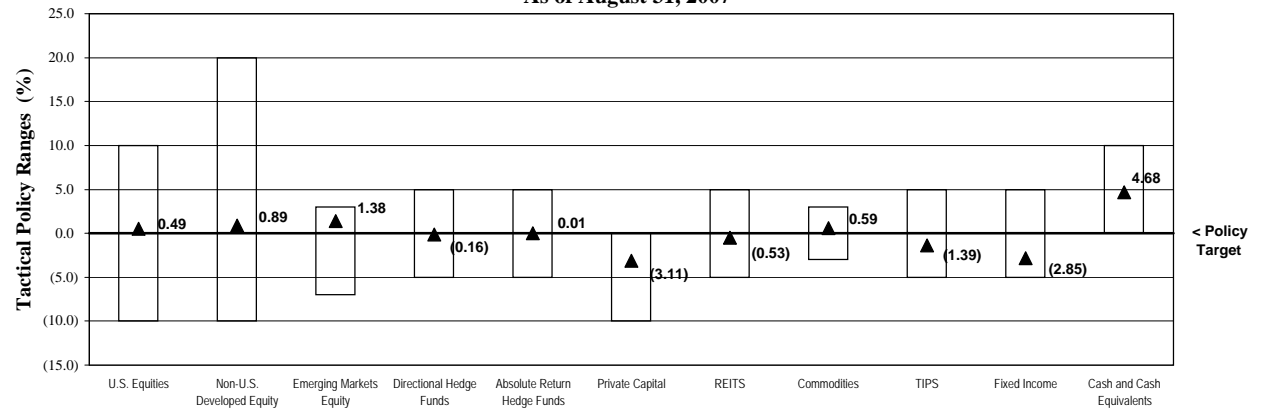
PUF Detailed Liquidity Profile as of August 31, 2007



Fiscal Year to Date

	August 31, 2007		Returns		Value Added		
	Portfolio Exposure	Policy Target	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	4.68%	0.00%	5.39%	5.29%	-0.27%	0.00%	-0.27%
U.S. Equities	20.49%	20.00%	15.14%	14.94%	0.01%	0.03%	0.04%
Non-U.S. Developed Equity	10.89%	10.00%	14.07%	18.71%	0.01%	-0.45%	-0.44%
Emerging Markets Equity	8.38%	7.00%	37.28%	43.63%	0.37%	-0.37%	0.00%
Directional Hedge Funds	9.84%	10.00%	19.01%	6.18%	-0.01%	1.30%	1.29%
Absolute Return Hedge Funds	15.01%	15.00%	14.69%	6.18%	-0.01%	1.32%	1.31%
REITS	4.47%	5.00%	5.65%	1.71%	0.02%	0.20%	0.22%
Commodities	3.59%	3.00%	-9.81%	-5.07%	-0.43%	-0.16%	-0.59%
TIPS	3.61%	5.00%	3.84%	3.76%	0.11%	0.00%	0.11%
Fixed Income	7.15%	10.00%	5.07%	5.26%	0.20%	-0.02%	0.18%
Total Marketable Securities	88.11%	85.00%	13.80%	11.18%	0.00%	1.85%	1.85%
Private Capital	11.89%	15.00%	28.59%	23.33%	-0.64%	0.75%	0.11%
Total	100.00%	100.00%	15.34%	13.38%	-0.64%	2.60%	1.96%

Deviations From Policy Targets Within Tactical Policy Ranges As of August 31, 2007



II. GENERAL ENDOWMENT FUND

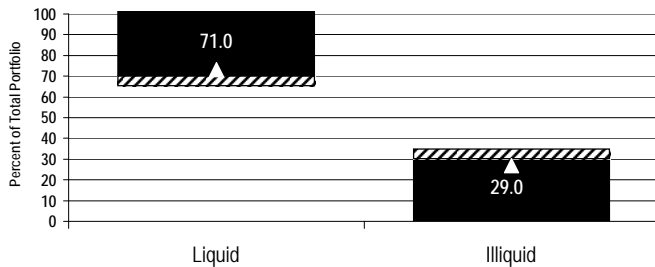
Investment Reports for Periods Ended August 31, 2007

Prepared in accordance with Texas Education Code Sec. 51.0032

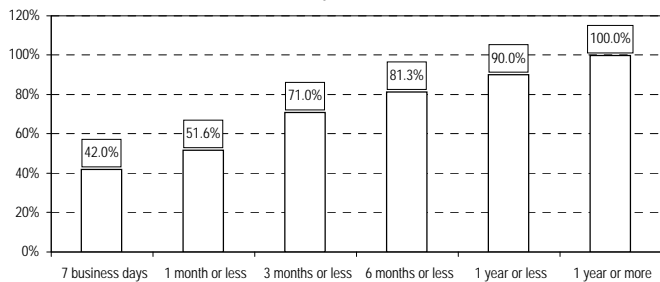
Summary of Capital Flows

(\$ millions)	Fiscal Year Ended August 31, 2006	Quarter Ended August 31, 2007	Fiscal Year Ended August 31, 2007
Beginning Net Assets	\$ 4,926.8	\$ 6,435.5	\$ 5,427.8
Contributions	273.9	44.3	360.7
Withdrawals	(108.0)	(4.3)	(6.2)
Distributions	(220.0)	(60.8)	(239.6)
Investment Return	593.3	29.6	928.5
Expenses	(38.2)	(11.2)	(38.1)
Ending Net Assets	\$ 5,427.8	\$ 6,433.1	\$ 6,433.1

GEF Liquidity Policy Profile
As of August 31, 2007



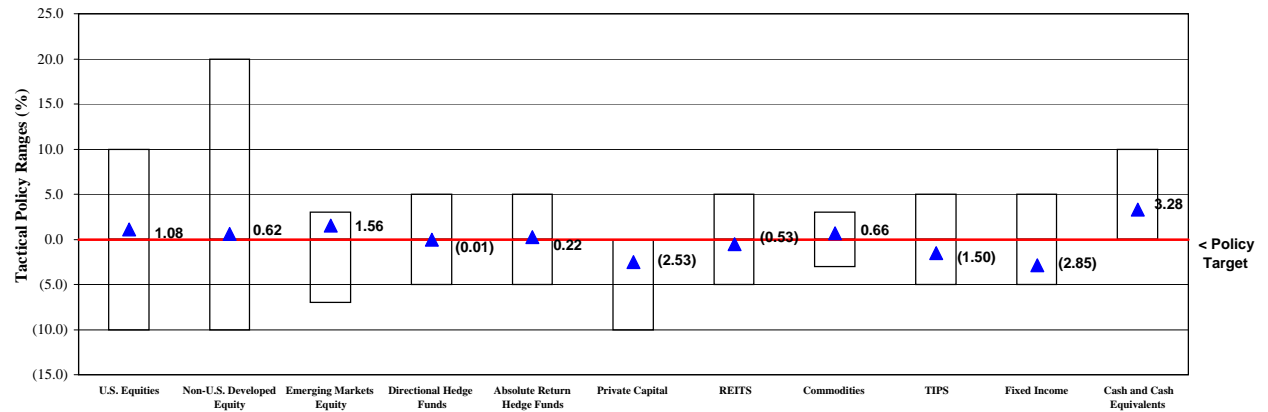
GEF Detailed Liquidity Profile
as of August 31, 2007



Fiscal Year to Date

	August 31, 2007		Returns		Value Added		
	Portfolio Exposure	Policy Target	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	3.28%	0.00%	5.39%	5.29%	-0.20%	0.00%	-0.20%
U.S. Equities	21.08%	20.00%	15.06%	14.94%	0.03%	0.01%	0.04%
Non-U.S. Developed Equity	10.62%	10.00%	14.14%	18.71%	0.01%	-0.45%	-0.44%
Emerging Markets Equity	8.56%	7.00%	37.66%	43.63%	0.37%	-0.35%	0.02%
Directional Hedge Funds	9.99%	10.00%	19.01%	6.18%	-0.02%	1.31%	1.29%
Absolute Return Hedge Funds	15.22%	15.00%	14.69%	6.18%	0.00%	1.32%	1.32%
REITS	4.47%	5.00%	5.72%	1.71%	0.01%	0.21%	0.22%
Commodities	3.66%	3.00%	-9.68%	-5.07%	-0.39%	-0.16%	-0.55%
TIPS	3.50%	5.00%	3.81%	3.76%	0.11%	0.00%	0.11%
Fixed Income	7.15%	10.00%	5.27%	5.26%	0.20%	0.00%	0.20%
Total Marketable Securities	87.53%	85.00%	14.00%	11.18%	0.12%	1.89%	2.01%
Private Capital	12.47%	15.00%	31.86%	23.33%	-0.69%	1.20%	0.51%
Total	100.00%	100.00%	15.90%	13.38%	-0.57%	3.09%	2.52%

Deviations From Policy Targets Within Tactical Policy Ranges
As of August 31, 2007



III. INTERMEDIATE TERM FUND Investment Reports for Periods Ended August 31, 2007

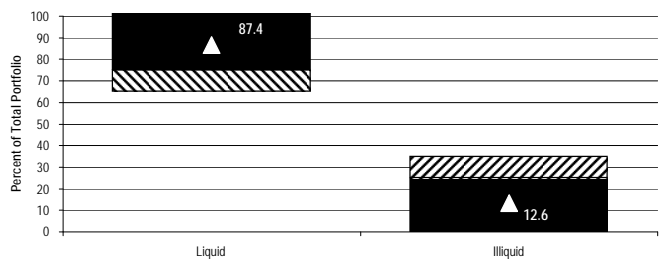
Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows

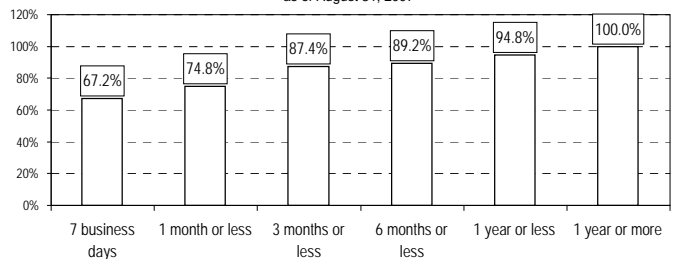
(\$ millions)	Fiscal Year Ended August 31, 2006	Quarter Ended August 31, 2007	Fiscal Year Ended August 31, 2007
Beginning Net Assets	\$ -	\$ 3,740.0	\$ 3,048.8
Contributions	3,112.3	61.4	664.6
Withdrawals	(111.2)	(39.1)	(228.6)
Distributions	(52.7)	(28.0)	(104.0)
Investment Return	115.4	(4.4)	377.4
Expenses	(15.0)	(9.3)	(37.6)
Ending Net Assets	\$ 3,048.8	\$ 3,720.6	\$ 3,720.6

	August 31, 2007		Fiscal Year to Date				
			Returns		Value Added		
	Portfolio Exposure	Policy Target	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	0.42%	0.00%	5.39%	5.29%	-0.06%	0.00%	-0.06%
U.S. Equities	14.92%	15.00%	14.72%	14.94%	0.04%	-0.03%	0.01%
Non-U.S. Developed Equity	5.36%	5.00%	15.12%	18.71%	0.00%	-0.17%	-0.17%
Emerging Markets Equity	5.54%	5.00%	37.54%	43.63%	-0.06%	-0.24%	-0.30%
Directional Hedge Funds	11.63%	12.50%	19.04%	6.18%	-0.15%	1.57%	1.42%
Absolute Return Hedge Funds	13.75%	12.50%	14.34%	6.18%	0.03%	1.01%	1.04%
REITS	9.25%	10.00%	4.98%	1.71%	0.17%	0.30%	0.47%
Commodities	5.20%	5.00%	-7.98%	-5.07%	-0.03%	-0.15%	-0.18%
TIPS	9.62%	10.00%	3.84%	3.76%	-0.01%	0.01%	0.00%
Fixed Income	24.31%	25.00%	5.05%	5.26%	-0.03%	-0.05%	-0.08%
Total	100.00%	100.00%	10.62%	8.47%	-0.10%	2.25%	2.15%

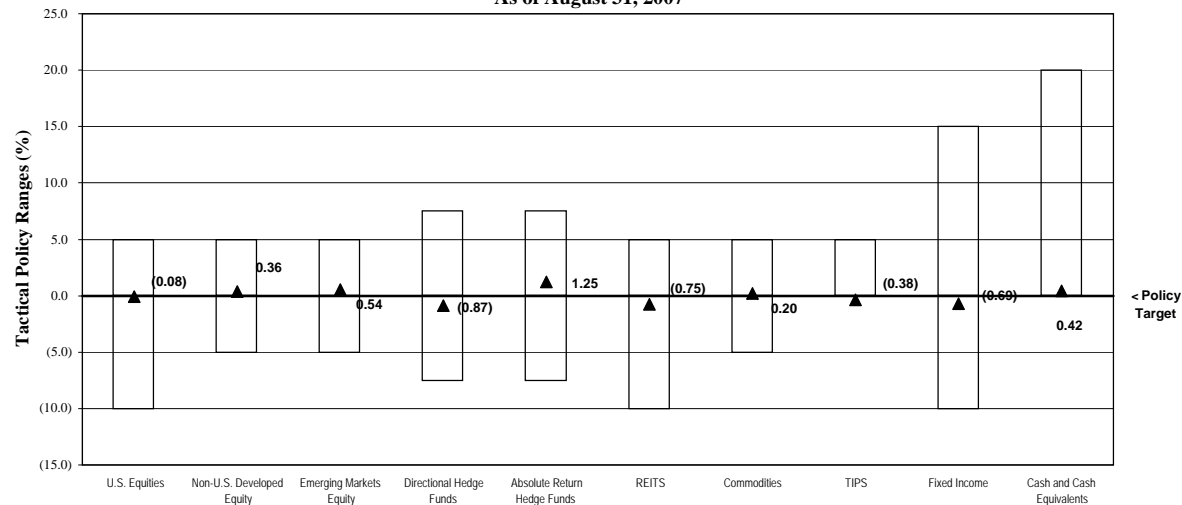
ITF Liquidity Policy Profile
As of August 31, 2007



ITF Detailed Liquidity Profile
as of August 31, 2007



Deviations From Policy Targets Within Tactical Policy Ranges
As of August 31, 2007



IV. SEPARATELY INVESTED ASSETS
Summary Investment Report at August 31, 2007
 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 FUI (SHORT TERM FI)	
	DESIGNATED	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MAI
Cash & Equivalents:														
Beginning value 05/31/07	1,853	1,853	1,838	1,838	28,636	28,636	7,712	7,712	22,862	22,862	62,901	62,901	1,558,096	1.5
Increase/(Decrease)	46	46	308	308	16,247	16,247	(369)	(369)	29,231	29,231	45,463	45,463	(154,073)	(1)
Ending value 08/31/07	1,899	1,899	2,146	2,146	44,883	44,883	7,343	7,343	52,093	52,093	108,364	108,364	1,404,023	1.4
Debt Securities:														
Beginning value 05/31/07	-	-	263	222	18,377	18,661	15,276	15,046	-	-	33,916	33,929	-	-
Increase/(Decrease)	-	-	8	15	(5,169)	(4,952)	-	165	-	-	(5,161)	(4,772)	-	-
Ending value 08/31/07	-	-	271	237	13,208	13,709	15,276	15,211	-	-	28,755	29,157	-	-
Equity Securities:														
Beginning value 05/31/07	24	7,629	728	828	32,597	40,786	18,025	24,633	-	-	51,374	73,876	-	-
Increase/(Decrease)	-	(1,814)	(289)	(340)	94	(1,729)	(95)	(635)	-	-	(290)	(4,518)	-	-
Ending value 08/31/07	24	5,815	439	488	32,691	39,057	17,930	23,998	-	-	51,084	69,358	-	-
Other:														
Beginning value 05/31/07	-	-	16	16	4	4	283	116	-	-	303	136	-	-
Increase/(Decrease)	1,293	1,293	2,305	2,305	(3)	(3)	5	-	539	539	4,139	4,134	-	-
Ending value 08/31/07	1,293	1,293	2,321	2,321	1	1	288	116	539	539	4,442	4,270	-	-
Total Assets:														
Beginning value 05/31/07	1,877	9,482	2,845	2,904	79,614	88,087	41,296	47,507	22,862	22,862	148,494	170,842	1,558,096	1.5
Increase/(Decrease)	1,339	(475)	2,332	2,288	11,169	9,563	(459)	(839)	29,770	29,770	44,151	40,307	(154,073)	(1)
Ending value 08/31/07	3,216	9,007	5,177	5,192	90,783	97,650	40,837	46,668	52,632	52,632	192,645	211,149	1,404,023	1.4

Details of individual assets by account furnished upon request.