

U T I M C O

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
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1999 Annual Report

Building

MOMENTUM







SHORT INTERMEDIATE TERM FUND

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
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Short Intermediate Term Fund

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Short Intermediate Term Fund Overview (\$1,769.4 million)

The Short Intermediate Term Fund (SITF) commenced operations on March 1, 1993. The SITF is an internal UT System mutual fund for the pooled investment of UT System institutional operating funds with an investment horizon greater than one year. The SITF also serves as the source of a \$350 million self-liquidity facility for the Board of Regents of The University of Texas System Revenue Financing System Notes program.

The SITF is structured as a mutual fund where institutions can purchase or sell units at market value weekly on Wednesdays and the first business day of each month. The SITF's income is either reinvested or distributed to the institutions monthly at their election. Distributions from the SITF are used by UT System institutions for intermediate term cash management associated with capital projects and other general institutional purposes.

The SITF's primary investment objective is two-fold: to provide both (1) income and (2) capital appreciation when consistent with income generation, reasonable preservation of capital and the maintenance of adequate SITF liquidity.

The SITF emphasizes moderate liquidity and safety of principal through investment in high grade fixed income and floating rate obligations. SITF investments are diversified among eligible asset classes and issuers (excluding the U.S. Government) as defined in the SITF's investment policy. The SITF carries a AAA₁ credit rating and a bond volatility risk rating of S₂ from Standard & Poor's Inc. AAA is the highest quality rating issued by S&P. An S₂ rating indicates low to moderate market risk exposure.

1999 SITF Financial Highlights

The SITF's net assets have continued to grow over the years, reaching \$1,769.4 million at August 31, 1999. The chart below summarizes the components of growth in the SITF's net assets. Substantially all the growth of the SITF is attributable to contributions from UT System institutions.



(in millions)					
Years Ended August 31,	1995	1996	1997	1998	1999
Beginning Net Asset Value	\$ 945.3	\$ 1,129.5	\$ 1,332.1	\$ 1,631.4	\$ 1,809.6
Contributions (net of withdrawals)	175.7	216.7	274.3	126.9	13.2
Investment Return	67.1	58.2	115.4	152.8	53.4
Expenses	(0.2)	(0.2)	(0.4)	(0.5)	(0.5)
Distributions of Income	(58.4)	(72.1)	(90.0)	(101.0)	(106.3)
Ending Net Asset Value	\$ 1,129.5	\$ 1,332.1	\$ 1,631.4	\$ 1,809.6	\$ 1,769.4

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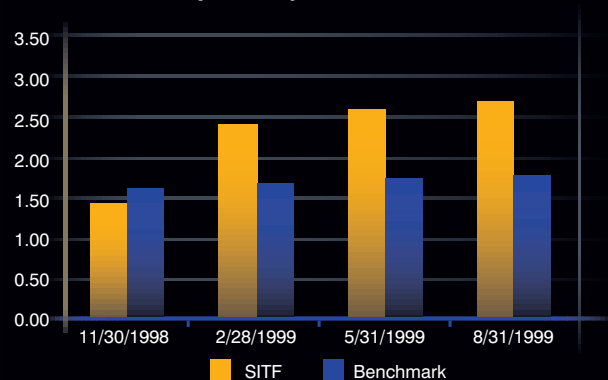
SITF Investment Return

The SITF's total return for the year was 2.95%. The chart below compares the SITF's performance against its policy portfolio benchmark.

August 31, 1999	Average Annual Return		
	One Year	Three Years	Five Years
Short Intermediate Term Fund	2.95%	6.80%	6.37%
Policy Portfolio Benchmark	3.75%	6.02%	6.16%

The SITF investment policy mitigates interest rate risk by limiting the portfolio's duration to a range of 0.5 years to 4 years. Duration estimates the impact small changes in interest rates will have on the value of the portfolio. At August 31, 1999, the option-adjusted duration of the portfolio was 2.69 compared to 1.77 for its policy portfolio. Simplistically, if there is a 1.00% increase (decrease) in yields, the value of the portfolio would (decrease) increase by 2.69%.

Option Adjusted Duration



The University of Texas System Short Intermediate Term Fund

Independent Auditors' Report

**Deloitte &
Touche LLP**



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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The University of Texas Investment Management Company
Austin, Texas

We have audited the accompanying statements of assets and liabilities of The University of Texas System Short Intermediate Term Fund (Fund) as of August 31, 1999 and 1998, including the schedule of investment in securities as of August 31, 1999, and the related statements of operations and changes in net assets for the years ended August 31, 1999 and 1998. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of August 31, 1999 and 1998, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of August 31, 1999 and 1998, and the results of its operations and changes in its net assets for the years then ended in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

October 29, 1999

**Deloitte Touche
Tohmatsu**



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Financial Statements

Statements of Assets and Liabilities

August 31, 1999 and 1998
 (in thousands)

	1999	1998
Assets		
Investment in Securities, at Value (Cost \$1,781,612 and \$1,527,477, respectively)	\$ 1,755,428	\$ 1,559,015
Receivable for Investments Sold	51,481	246,238
Accrued Income Receivable	22,007	13,295
Total Assets	1,828,916	1,818,548
Liabilities		
Income Distributions Payable to Participants	9,003	8,962
Payable for Investments Purchased	50,482	-
Other Payables and Accrued Expenses	19	12
Total Liabilities	59,504	8,974
Net Assets	\$ 1,769,412	\$ 1,809,574
Net Assets Consist Of:		
Participant Contributions	\$ 1,773,490	\$ 1,757,209
Accumulated Undistributed Net Realized Gain on Investments	22,106	20,827
Net Unrealized (Depreciation) Appreciation	(26,184)	31,538
Net Assets for 178,813,160 and 177,655,105 units, respectively	\$ 1,769,412	\$ 1,809,574
Net Asset Value Per Unit	\$ 9.895	\$ 10.186

The accompanying notes are an integral part of these financial statements.

The University of Texas System Short Intermediate Term Fund

Financial Statements

Statements of Operations and Changes in Net Assets

Years Ended August 31, 1999 and 1998
(in thousands)

	1999	1998
Investment Income		
Interest Income	\$ 106,441	\$ 101,220
Commitment Fee	350	313
Total Investment Income	106,791	101,533
Expenses		
Investment Management Fees	374	453
Custodial Fees and Expenses	81	68
Miscellaneous	45	12
Total Expenses	500	533
Net Investment Income	106,291	101,000
Realized and Unrealized Gain (Loss) on Investments		
Net Realized Gain on Investment Securities	4,350	28,260
Change in Net Unrealized (Depreciation) Appreciation on Investment Securities	(57,722)	23,028
Net Gain (Loss) on Investments	(53,372)	51,288
Net Increase in Net Assets Resulting from Operations	\$ 52,919	\$ 152,288
Net Assets		
Beginning of Period	1,809,574	1,631,388
Participant Contributions (including reinvestments of \$80,930 and \$72,801 for years ended August 31, 1999 and 1998, respectively)	208,146	253,205
Participant Withdrawals	(194,936)	(126,307)
Distributions of Net Investment Income to Participants	(106,291)	(101,000)
End of Period	\$ 1,769,412	\$ 1,809,574
Ratios and Supplemental Data		
Ratio of Expenses to Average Net Assets	0.03%	0.03%
Ratio of Net Investment Income Distributed to Average Net Assets	5.81%	6.04%

The accompanying notes are an integral part of these financial statements.



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Schedule of Investment in Securities

August 31, 1999
 (in thousands)

Description	Coupon	Maturity	Par Value	Cost	Value
Short Term Investment Fund					
Dreyfus Instl Pfd Money Market			\$ 26,051	\$ 26,051	\$ 26,051
Mortgage-Backed Securities:					
Mortgage-Backed CMOS					
Government Natl Mtg Assn 95-7	7.500%	11/16/2019	13,021	12,910	13,098
Mortgage-Backed Pass Through					
FHMLC Group #L7-3378	5.500%	11/01/2000	10,308	10,171	10,184
Total Mortgage-Backed Securities			23,329	23,081	23,282
U.S. Treasury Securities					
U.S. Treasury Notes	6.250%	04/30/2001	50,000	49,160	50,399
U.S. Treasury Notes	6.500%	05/31/2001	25,000	24,935	25,320
U.S. Treasury Notes	6.625%	06/30/2001	100,000	100,035	101,453
U.S. Treasury Notes	6.625%	07/31/2001	100,000	100,889	101,516
U.S. Treasury Notes	6.375%	08/15/2002	350,000	367,682	354,869
U.S. Treasury Notes	5.500%	03/31/2003	225,000	230,090	222,012
U.S. Treasury Notes	5.750%	04/30/2003	75,000	76,467	74,543
U.S. Treasury Notes	5.750%	08/15/2003	75,000	75,872	74,473
U.S. Treasury Notes	6.000%	08/15/2004	175,000	175,924	175,929
Total U.S. Treasury Securities			1,175,000	1,201,054	1,180,514
U.S. Agency Bonds					
Federal Natl Mtg Assn Med Term Notes	6.180%	03/15/2001	31,000	30,420	30,985
Federal Natl Mtg Assn Med Term Notes	6.160%	04/03/2001	48,000	47,329	47,962
Federal Natl Mtg Assn Med Term Notes	6.625%	04/18/2001	20,000	19,881	20,119
Federal Natl Mtg Assn Med Term Notes	6.700%	05/06/2002	59,975	60,497	60,453
Federal Natl Mtg Assn Med Term Notes	6.590%	05/16/2002	100,000	100,705	100,547
Federal Home Loan Bank Cons Bonds	6.030%	11/21/2002	20,000	20,220	19,716
Federal Home Loan Bank Cons Bonds	5.500%	01/21/2003	27,000	26,644	26,165
Federal Natl Mtg Assn Med Term Notes	5.750%	04/15/2003	105,000	106,226	102,638
Federal Farm Credit Bks Cons Med Term Notes	5.720%	06/03/2003	50,000	49,735	48,735
Federal Home Loan Bank Cons Bonds	5.765%	06/11/2003	70,000	69,769	68,261
Total U.S. Agency Bonds			530,975	531,426	525,581
Total Investment in Securities			\$ 1,755,355	\$ 1,781,612	\$ 1,755,428

The accompanying notes are an integral part of these financial statements.

The University of Texas System Short Intermediate Term Fund

Notes to Financial Statements

Note 1 - Organization

The University of Texas System Short Intermediate Term Fund (Fund) is a short intermediate term pooled investment fund established by The University of Texas Board of Regents for the collective investment of operating funds and other short and intermediate term funds held by The University of Texas System Administration and the fifteen component institutions of The University of Texas System. The Fund carries an AAA₊ credit quality rating and a bond fund volatility rating of S₂ from Standard & Poor's, Inc. (S&P). AAA is the highest credit quality rating issued by S&P. An S₂ rating indicates low to moderate market risk exposure. The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an investment management services agreement with the Board of Regents.

The accompanying financial statements follow the form and content of investment company financial statements and related disclosures in accordance with generally accepted accounting principles. The principles followed will differ from the principles applied in governmental and fund accounting. The annual combined financial statements of The University of Texas System are prepared in accordance with Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements and include information related to the Short Intermediate Term Fund. The accompanying financial statements may differ in presentation from governmental accounting principles or the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

Note 2 - Significant Accounting Policies

(A) Investment Policy - The Fund invests in high grade fixed income obligations as provided for in the Fund's Investment Policy statement. Limiting the duration of the Fund to a range of one-half to four years controls interest rate risk. The duration of any eligible investment should not exceed 10 years.

(B) Security Valuation - Investments are valued on the basis of market valuations provided by Merrill Lynch Securities Pricing Services and various other independent pricing services.

(C) Investment Income - Interest income is accrued as earned. Premium and discounts on bonds are not amortized.

(D) Security Transactions - Security transactions are accounted for on a trade date basis. Gains and losses on securities sold are determined on the basis of average cost. A loss is recognized if there is impairment in the value of the security that is determined to be other than temporary.

(E) Federal Income Taxes - The Fund is not subject to federal income tax.

(F) Fund Valuation - Valuation of the Fund's units occurs weekly and at month-end. Unit values are determined by dividing the value of the Fund's net assets by the number of units outstanding on the valuation date.

(G) Distributions to Participants - Accrued net investment income is allocated to participants each valuation period. Income is distributed to participants at the beginning of each month.

(H) Purchases and Redemption of Units - The value of participating units, upon admission to or withdrawal from the Fund, is based upon the market value of net assets held as of the valuation date. There are no transaction costs incurred by participants to purchase or redeem units.

(I) Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.



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Note 3 - Note Repurchase Commitment

The Fund has entered into a note repurchase commitment with The University of Texas System Board of Regent's Revenue Financing System which commits the Fund to acquire up to \$350 million of revenue financing system notes in the event of a failed remarketing of these notes. If the net asset value of the Fund declines below \$1,225 million and is expected to remain below this amount for thirty days, the Fund's commitment will be \$250 million. If the net asset value of the Fund declines below \$875 million and is expected to remain below this amount for thirty days, the Fund's commitment will be \$150 million. The fee earned by the Fund for the year ended August 31, 1999 was \$350,000, which is 10 basis points on the purchase commitment amount of \$350 million. Effective November 13, 1997, the purchase commitment amount was increased from \$250 million to \$350 million. The fee earned for the year ended August 31, 1998 was \$313,014.

Note 4 - Acquisitions and Dispositions of Investments

Acquisitions and dispositions (including sales, maturities and prepayments) of securities, other than short-term securities, totaled \$1,130,521,804 and \$299,802,778, respectively, for the year ended August 31, 1999. For the year ended August 31, 1998, acquisitions and dispositions of securities were \$1,160,806,042 and \$1,599,491,984, respectively.

Net realized gains on investments for the years ended August 31, 1999 and 1998 were \$4,349,681 and \$28,260,437, respectively. Such transactions were made at current market prices on the dates of the transactions.

Note 5 - Custodial Fees and Expenses

Custodial fees and expenses are assessed quarterly by the financial institution which holds the Fund's assets. Fees are based on the market value of the Fund and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement and online communication services per the contractual agreement.

Note 6 - Investment Management Fees

The Fund is assessed an investment management fee by The University of Texas Investment Management Company. For the years ended August 31, 1999 and 1998, the fee was \$373,554 and \$452,840, respectively.

Note 7 - Year 2000 (Unaudited)

The Fund could be adversely affected if the computer systems it uses and those used by the custodian and other major service providers do not properly process and calculate date-related information and data from and after January 1, 2000. This is commonly known as the Year 2000 problem.

All internal processes and programs, hardware and software products have been analyzed and are considered Year 2000 ready. As of August 31, 1999, Mellon Trust, the custodian and the major service provider for the Fund, had completed 100% of the remediation and system testing for their mission critical and high business value systems and considered themselves ready for the Year 2000. The Fund's other key service providers have taken steps that UTIMCO believes are reasonable in addressing Year 2000.