The University of Texas Investment Management Company
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Institutional Index Funds Overview ($13.1 million)

The vast majority of UT System institutional funds are expected to be expended within five years. Nevertheless, a significant portion of funds classified as institutional funds represents long-term capital reserves such as depreciation reserves. For such funds where achievement of replacement cost and preservation of purchasing power are significant objectives, UTIMCO created the Institutional Index Funds (IIFs). These funds consist of a U.S. debt index fund (DIF) and a U.S. equity index fund (EIF) and are designed to offer higher expected returns than those available with the STF and the SITF.

Debt Index Fund ($5.0 million)

The DIF is a U.S. debt index fund, managed by Barclays Global Investors (BGI), to replicate the return of the Lehman Brothers Aggregate Bond Index. The DIF invests and reinvests primarily in a portfolio of debt securities with the objective of approximating as closely as practicable the total rate of return of the market for debt securities as defined by the medium term bonds that comprise the Lehman Brothers Aggregate Bond Index.

The primary risk of the DIF is interest rate risk associated with a modified adjusted duration of roughly 5.0. Credit or default risk is a secondary risk, which is mitigated in part by the diversification of the DIF among 1,000 individual bonds. The total return of the Lehman Brothers Aggregate Bond Index for the fiscal year ended August 31, 1999 was 0.80%.

Equity Index Fund ($8.1 million)

The EIF is an equity index fund, managed by Barclays Global Investors (BGI), to replicate the S&P 500 Index. The EIF invests and reinvests in a portfolio of common stocks with the objective of approximating as closely as practicable the capitalization weighted total rate of return of that segment of the United States stock market represented by the S&P 500 Index.

The primary risk of the EIF is the potential loss in fund value associated with corporate, industry and economic factors affecting the value of the portfolio's underlying securities. This risk is partially mitigated by the inherent diversification of investing in 500 individual stocks. The total return of the S&P 500 Index for the fiscal year ended August 31, 1999 was 39.8%.