ANNUAL REPORT

2010

UTIMCO

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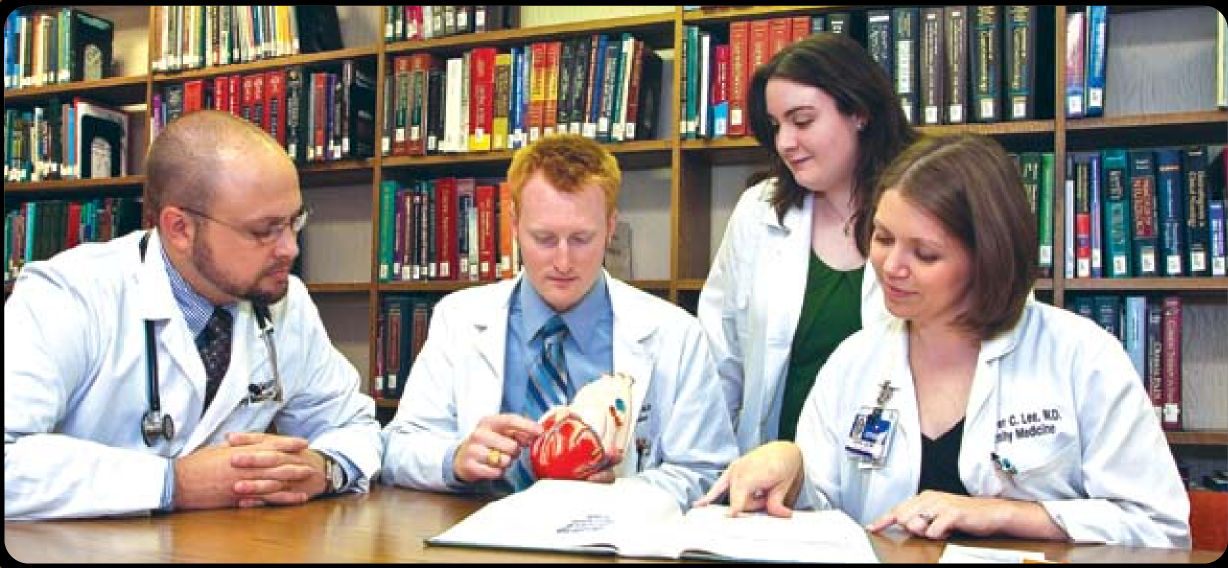

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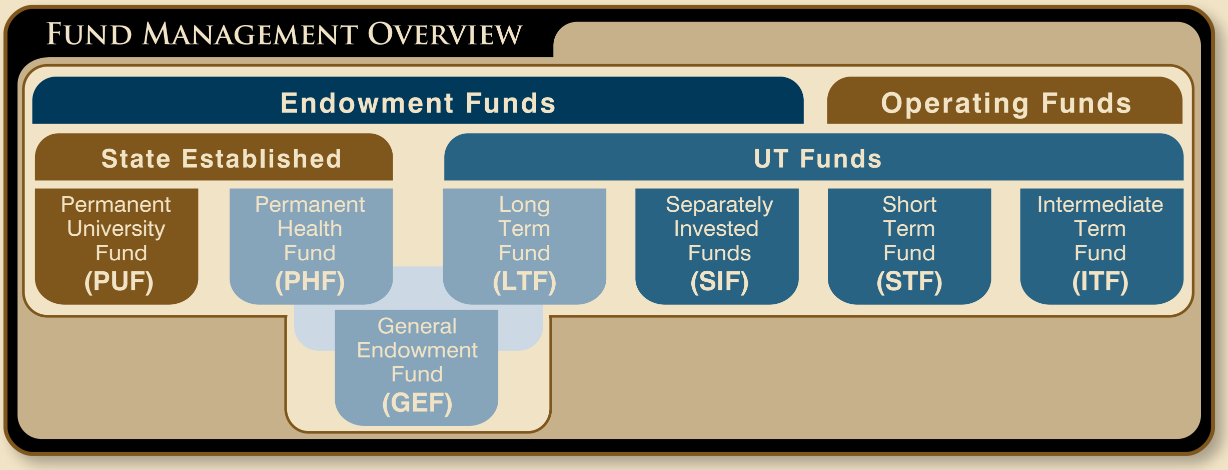
Fund Management Overview

The University of Texas Investment Management Company (UTIMCO) manages the investment assets under the fiduciary care of the Board of Regents of The University of Texas System (UT Board). UTIMCO is governed by a Board of Directors consisting of three members of the UT Board, the Chancellor of The University of Texas System (UT System), one director nominated by the Board of Regents of Texas A&M University System (A&M Board), and four outside directors with experience in investment management. The UT Board has delegated the day-to-day investment management responsibilities of the funds to UTIMCO, subject to compliance with UT Board approved investment policies. The UTIMCO staff includes approximately 55 specialists in various investment disciplines, as well as risk management, compliance, legal, accounting, finance and information technology.

UTIMCO invests the endowment and operating assets entrusted to its management primarily through external investment managers in accordance with the approved investment policies. These external investment managers are then combined into internal "mutual funds", each with distinct time horizons and unique risk and return characteristics.



Endowment Funds

UTIMCO manages four major endowment funds under the fiduciary care of the UT Board. These four endowment funds, with a combined market value of $17.2 billion, are the Permanent University Fund (PUF), the Permanent Health Fund (PHF), the Long Term Fund (LTF), and the Separately Invested Funds (SIF). Two of the endowment funds, the PHF and the LTF, are invested in shares of the General Endowment Fund (GEF), a broadly diversified pooled investment fund managed by UTIMCO. The GEF was created to increase efficiencies in managing investments, reduce costs, and streamline reporting.

Representing a permanent legacy, endowment funds provide the means to create a margin of excellence in higher education for UT and Texas A&M Systems' institutions. Since endowment funds are permanent funds by their nature, they must provide for the economic needs of today while remaining intact to provide the same level of economic support for future generations, not just the next ten to twenty years, but hundreds of years in the future. The trade-off between preserving assets for tomorrow and supporting the educational and health care needs of today creates the need for a delicate balancing act in managing the endowment funds.

Balancing the competing needs of current beneficiaries, future beneficiaries and donors is the motivating force behind UTIMCO's efforts to achieve the following two primary objectives:

1. Provide for current beneficiaries by increasing annual distributions at a rate at least equal to the current rate of inflation so that real purchasing power is maintained, and

2. Provide for future beneficiaries by increasing the market value of endowment assets so that future distributions to future beneficiaries will buy the same or better level of goods and services received by today's beneficiaries (before adding any current contributions and after deducting current distributions).

Four factors affect an endowment fund's ability to meet the competing needs of current and future beneficiaries. These factors are a) fund distributions, b) the rate of inflation, c) fund investment return, and d) fund expenses.

a) Endowment Fund Distributions (Spending). The UT Board determines the annual distributions from the endowments. The key to preservation of endowment purchasing power over the long-term is control of spending through a target distribution rate. This target rate should not exceed the funds' average annual investment return minus fund expenses and inflation over the long-term. The UT Board has approved two distinct forms of distribution or spending policies. One is the so-called "constant growth" spending policy, and the other is the "percent of assets" spending policy.

The PHF and LTF utilize the constant growth spending policy. The PHF and LTF distributions are increased annually at the average rate of inflation for the three preceding years, provided that the distribution rate remains within a range of 3.5% and 5.5% of fund asset value. The constant growth spending policy uses a smoothing formula to reduce annual volatility in spending and to maintain spending on a sustainable basis.

The PUF utilizes the percent of assets spending policy. The PUF's annual distributions are based on a distribution rate of 4.75% of the PUF's three-year average net asset value. This policy has been chosen for the PUF because it is best for endowments in which the current distribution is small relative to the total budget, and where long-term growth of the fund is the key objective, which are the characteristics of the PUF and its beneficiaries.

b) Inflation. Inflation erodes the economic value of an endowment fund by reducing the endowment's purchasing power over time. Endowment assets must be invested so as to maximize the total return after inflation. The long-term expected rate of inflation is 3.0%.

c) Investment Returns. Investment returns generated by the endowment funds are determined primarily by the allocation of fund assets to different asset classes and types of investments, and by the ability of the UTIMCO staff to add value by earning returns greater than those generally available from each asset category. UTIMCO draws on years of investment experience and expertise to determine the best allocations to different categories of assets in order to achieve the returns necessary to meet objectives while endeavoring to protect endowment assets from severe losses in adverse market environments. Once allocation decisions are made, UTIMCO focuses on earning the highest returns possible within each asset category while maintaining strict risk control through a quantitative risk budgeting process and qualitative judgments. **Figure A** shows the investment returns earned for periods ended August 31, 2010, which are a result of these asset allocation decisions and risk budgeting processes.

UTIMCO's strategy is to invest the assets of the PUF and GEF in broadly diversified portfolios of equity, fixed income and real assets across global markets using a long-term investment horizon. In order to earn above market returns, UTIMCO also focuses on a number of different investment

Fig. A **Investment Returns**

Endowment Funds	(in millions) Net Asset Value August 31, 2010	Annual Returns for Periods Ended August 31, 2010 One Year	Three Years	Five Years	Ten Years
Permanent University Fund	$10,725	13.04%	(1.66%)	4.04%	4.65%
General Endowment Fund		13.02%	(1.68%)	4.12%	N/A
Permanent Health Fund	905	12.91%	(1.74%)	4.05%	N/A
Long Term Fund	5,130	12.90%	(1.74%)	4.05%	4.73%
Separately Invested Funds	397	N/A	N/A	N/A	N/A
Total Endowment Funds	$17,157				

Fig. B **Combined PUF and GEF Asset Allocation**

as of August 31, 2010
($ in millions)

Asset Group	Asset Class	More Correlated & Constrained		Less Correlated & Constrained		Private Investments		Grand Total	
Fixed Income	Investment Grade	$ 2,199	13.1%	$ 319	1.9%	$ –	0.0%	$ 2,518	15.0%
	Credit-Related	212	1.3%	1,327	7.9%	1,216	7.2%	2,755	16.4%
Fixed Income Total		2,411	14.4%	1,646	9.8%	1,216	7.2%	5,273	31.4%
Real Assets	Real Estate	508	3.0%	107	0.6%	145	0.9%	760	4.5%
	Natural Resources	1,359	8.1%	13	0.1%	348	2.1%	1,720	10.3%
Real Assets Total		1,867	11.1%	120	0.7%	493	3.0%	2,480	14.8%
Equity	Developed Country	2,075	12.4%	2,900	17.3%	1,736	10.4%	6,711	40.1%
	Emerging Markets	1,569	9.4%	416	2.5%	311	1.8%	2,296	13.7%
Equity Total		3,644	21.8%	3,316	19.8%	2,047	12.2%	9,007	53.8%
Grand Total		$ 7,922	47.3%	$ 5,082	30.3%	$ 3,756	22.4%	$16,760	100.0%

categories characterized by complex, illiquid, and mispriced securities where proprietary information and sophisticated investment strategies offer the opportunity for value-added returns. These asset categories have an additional important advantage. Because these assets typically provide returns which have a low correlation with those of the more traditional exchange-traded equities and fixed income securities ("More Correlated and Constrained") in the PUF and GEF portfolios, they offer the additional advantage of diversifying and, therefore, reducing the overall risk level. These investments include hedge funds ("Less Correlated and Constrained") and private investments, including venture capital, buy-out, growth, real estate and natural resources-related opportunities.

To properly diversify the PUF and GEF assets, UTIMCO invests in a broad variety of asset categories. Asset allocation policy recommendations to the UT Board are developed through careful asset allocation reviews with the UTIMCO Board in which potential returns for each asset category and investment type are balanced against the contribution to total portfolio risk by each category. An asset allocation review is undertaken by the UTIMCO staff, the UTIMCO Board and the UT Board every year.

While the allocations in **Figure B** indicate the actual asset allocation as of August 31, 2010, UTIMCO repositions the allocations to each asset category and investment type from time to time in response to changes in the investment outlook, within the ranges specified in the investment policies adopted by the UT Board.

While the UTIMCO staff works diligently to earn the highest investment returns possible while maintaining risk at acceptable levels, there are still risks associated with the investments held in the PUF and GEF. Equity values can fluctuate in response to the activities of individual companies as well as to general market conditions. Bond prices can fluctuate based on changes in interest rates and the credit quality of the issuers. Real assets prices respond to inflation expectations and specific market supply and demand factors. Investments in non-U.S. securities can involve political and macroeconomic risk in addition to typical individual company risks. An additional element of risk in non-U.S. investments is the currency risk, as the returns on those investments must be converted to U.S. dollars for use here. Private investments (and, to some extent hedge funds) also have an element of liquidity risk, due to the fact that some of these investments cannot be easily converted to cash at short notice. Hedge funds also often entail leverage risk.

All these risks are carefully monitored by both the UTIMCO staff and the UTIMCO Board. It is essential that some risk must be assumed in order to earn the levels of real returns necessary to meet the long term goals of the PUF and GEF. However, it is particularly important to carefully weigh each element of risk against the reward – expected future returns. The quantitative process used at UTIMCO to evaluate risks and rewards is known as risk budgeting. The UTIMCO staff is charged with carefully budgeting risks so that the risk assumed in the aggregate does not exceed the risk limits set by the UT Board. Risks are monitored daily and monthly by UTIMCO staff and quarterly by the UTIMCO Board.

Figure C indicates how the current strategic allocation of the PUF and GEF compares with a peer group of endowment funds which is comprised of endowment funds with portfolios greater than $2.5 billion and staffs utilizing private investments and hedge funds.

FIG. C ASSET ALLOCATION COMPARISON

	Endowment Funds Peer Group May 31, 2010	Combined PUF and GEF Actual Allocation August 31, 2010
Fixed Income	12.3%	14.4%
Equity	26.0%	21.8%
Real Estate	0.0%	3.0%
Natural Resources	2.7%	8.1%
Hedge Funds	23.5%	30.3%
Private Investments	35.5%	22.4%

Source: Cambridge Associates, Inc.

Expenses. UTIMCO incurs expenses associated with analysis, portfolio management, custody and safekeeping, accounting, and other investment related services. Investment fees and other fees paid to external managers are, by far, the largest component of expenses. The majority of external investment manager fees are netted against the PUF's and GEF's asset value or capital, with the remainder being paid from fund assets.

Endowments require investment management in accordance with long-term investment objectives because of the perpetual nature of the funds. Recognizing that the investment environment will only become more challenging in the future, UTIMCO will meet the challenge by maintaining a specialized and experienced investment staff focused on adding value within a well-structured and disciplined asset allocation and risk control process.

UTIMCO's management of $23 billion of assets, including both endowment and operating funds, provides for exceptional economies of scale in the investment of the assets. The ratio of investment expenses, excluding external management fees and UT System administrative charges, to assets under management was .076% for the year ended August 31, 2010.

Endowment Fund Overviews

LTF

Totaling $5.1 billion, the LTF is a pooled UT System investment fund for the collective investment of over 9,400 privately raised endowments and other long-term funds benefiting the 15 institutions of the UT System. Most gifts given to fund endowments are commingled in the LTF and tracked with unit accounting much like a large mutual fund. Each endowment or account purchases units at the LTF's market value per unit. Cash distributions are paid quarterly, on a per unit basis, directly to the UT System institution of record. Distributions from the LTF fund scholarships, teaching, and research across the UT System.

FIG. D LONG TERM FUND FINANCIAL HIGHLIGHTS

(in millions)

Years Ended August 31,	2006	2007	2008	2009	2010
Beginning Net Asset Value	$4,001	$4,441	$5,333	$5,285	$4,517
Contributions (Net of Withdrawals)	172	363	355	192	290
Distributions (Payout)	(180)	(199)	(217)	(236)	(253)
Net Investment Return	448	728	(186)	(724)	576
Ending Net Asset Value	$4,441	$5,333	$5,285	$4,517	$5,130

FIG. E OWNERSHIP OF LONG TERM FUND

August 31, 2010	Accounts	(in millions) Value
UT System Administration	124	$26
Benefit of Multiple Institutions	4	5
UT Arlington	440	65
UT Austin	4,516	2,348
UT Dallas	190	192
UT El Paso	565	118
UT Pan American	94	28
UT Brownsville	99	7
UT Permian Basin	98	15
UT San Antonio	315	50
UT Tyler	203	60
UT Southwestern Medical Center at Dallas	468	700
UT Medical Branch at Galveston	665	377
UT Health Science Center at Houston	408	128
UT Health Science Center at San Antonio	344	149
UT MD Anderson Cancer Center	413	336
UT Health Science Center at Tyler	40	10
Other Accounts	419	516
Total	**9,405**	**$5,130**

PHF

Totaling $.9 billion, the PHF is a pooled UT System investment fund for the collective investment of state endowment funds for health-related institutions of higher education, created with proceeds from state tobacco litigation. Distributions from the PHF fund programs that benefit medical research and health education.

FIG. F PERMANENT HEALTH FUND FINANCIAL HIGHLIGHTS

Years Ended August 31,	2006	2007	2008	2009	(in millions) 2010
Beginning Net Asset Value	$926	$987	$1,100	$1,026	$842
Contributions (Net of Withdrawals)	-	-	-	-	-
Distributions (Payout)	(40)	(41)	(42)	(43)	(44)
Net Investment Return	101	154	(32)	(141)	107
Ending Net Asset Value	**$987**	**$1,100**	**$1,026**	**$842**	**$905**

FIG. G PERMANENT HEALTH FUND OWNERSHIP ALLOCATION

August 31, 2010	(in millions) Value
Permanent Health Fund for Higher Education	$386
UT Health Science Center at San Antonio	220
UT MD Anderson Cancer Center	110
UT Southwestern Medical Center at Dallas	55
UT Medical Branch at Galveston	28
UT Health Science Center at Houston	28
UT Health Science Center at Tyler	28
UT El Paso	28
Regional Academic Health Center	22
Total	**$905**

The UTIMCO Team

PUF

Totaling $10.7 billion, the PUF is a public endowment contributing to the support of 18 institutions and 6 agencies in the UT System and The Texas A&M University System (TAMU System). The Texas Constitution of 1876 established the PUF through the appropriation of land grants previously designated to The University of Texas, as well as an additional one million acres. Another state grant of one million acres was made in 1883.

PUF Lands, which today consist of more than 2.1 million acres located primarily in 19 counties in West Texas, are managed by the UT System under the direction of the UT Board. In administering PUF Lands, the UT System's mission is to generate income and apply intensive conservation measures to maintain and/or improve the productivity of the lands for the benefit of the PUF. In keeping with this purpose, the lands are managed to produce two streams of income: one from oil, gas, and mineral interests, and the other from surface interests such as grazing.

Surface acreage of the sparsely populated PUF Lands has been leased primarily for grazing and easements for power lines and pipelines. As mandated by the Constitution, all surface lease income is deposited in the Available University Fund (AUF). Mineral income generated by PUF Lands consists primarily of bonuses and rentals from the periodic sale of mineral leases, and royalties on gross revenues from oil, gas, and sulphur production. The Constitution requires that all income from the sale of PUF Lands and leasing of mineral interests be retained within the PUF and invested in PUF Investments.

Distributions from PUF Investments to the AUF are allocated two-thirds for the benefit of eligible institutions of the UT System and one-third for the benefit of eligible institutions of the TAMU System. PUF distributions paid to the AUF are expended by each university system to fund two major programs as follows:

Debt Service on PUF Bonds Issued to Fund Capital Expenditures

The Constitution authorizes the UT Board and the A&M Board to issue bonds (PUF bonds) payable from their respective interests in PUF distributions. PUF bonds are issued to finance construction and renovation projects, major library acquisitions, and educational and research equipment at the 18 eligible campuses and six agencies of the UT and

Fig. H Permanent University Fund Financial Highlights

(in millions)

Years Ended August 31,	2006	2007	2008	2009	2010
Beginning Net Asset Value	$9,427	$10,313	$11,743	$11,359	$9,674
PUF Lands Mineral Contributions	215	273	458	340	338
Distributions to AUF	(358)	(401)	(449)	(531)	(516)
Net Investment Return	1,029	1,558	(393)	(1,494)	1,229
Ending Net Asset Value	$10,313	$11,743	$11,359	$9,674	$10,725

TAMU Systems. The UT Board and the A&M Board are constitutionally authorized to issue bonds secured by each system's interest in PUF distributions in an amount not to exceed 20% and 10%, respectively, of the book value of PUF assets at the time of issuance. The $1,736.4 million of outstanding UT System PUF bonds were rated AAA, Aaa and AAA by Fitch Ratings, Moody's Investors Service Inc., and Standard & Poor's Inc., respectively, as of fiscal year end. The $611.9 million of outstanding TAMU System PUF bonds were rated AAA, Aaa and AAA by Fitch Ratings, Moody's Investors Service Inc. and Standard & Poor's Inc., respectively, as of fiscal year end.

Academic Excellence Programs

PUF distributions, after payment of debt service on PUF bonds, are used to fund academic excellence programs at UT Austin, Texas A&M University, and Prairie View A&M University. Expenditures for excellence programs encompass library enhancements, specialized science and engineering equipment, student counseling services, graduate student fellowships, and National Merit and other scholarships. In combination, these activities enhance the universities' competitive posture as they seek to attract the best scholars in fulfilling their roles as world-class academic and research universities.

PUF Beneficiaries

The University of Texas System

- UT Arlington
- UT Austin
- UT Dallas
- UT El Paso
- UT Permian Basin
- UT San Antonio
- UT Tyler
- UT Southwestern Medical Center at Dallas
- UT Medical Branch at Galveston
- UT Health Science Center at Houston
- UT Health Science Center at San Antonio
- UT MD Anderson Cancer Center
- UT Health Science Center at Tyler

The Texas A&M University System

- Prairie View A&M University
- Tarleton State University
- Texas A&M University
  - Texas A&M at Galveston
- The Texas A&M Health Science Center
- Texas Agricultural Experiment Station
- Texas Agricultural Extension Service –
  Texas Cooperative Extension
- Texas Engineering Experiment Station
- Texas Engineering Extension Service
- Texas Forest Service
- Texas Transportation Institute

Operating Funds

Operating funds are used primarily to fund UT System institutions' short-term operating needs as well as medium-term institutional needs associated with capital programs, financial reserves, and endowment matching funds. The UT System institutions have two investment fund options, the Short Term Fund (STF) and the Intermediate Term Fund (ITF). The ITF was established February 1, 2006, to improve the efficiency of operating funds management and to improve investment returns on UT System operating reserves. As of August 31, 2010, operating funds of UT System institutions amounted to $5.8 billion.

Letter from the Executive Management of UTIMCO

Fiscal Year 2010 Returns

The Permanent University Fund (the "PUF") and the General Endowment Fund (the "GEF") – together the "Endowments" – had investment gains of 13.04% and 13.02%, respectively, for the fiscal year ending August 31, 2010. PUF assets totaled $10.7 billion and GEF assets totaled $6.0 billion at fiscal year-end.

Coincidentally, these gains almost mirror the losses experienced in fiscal year 2009, resulting in the Endowments being at approximately ninety-eight cents on the dollar for the two year period after adjusting for contributions in and distributions out. This compares to the S&P 500 being at eighty-two cents on the dollar over the same period. The actual peak for Endowment assets occurred in October 2007 - coinciding with the peak in the public equity markets. Since then, the Endowments' assets are at eighty-nine cents on the dollar, as compared to public equity markets which are at sixty-eight cents on the dollar.

The Endowments' actual returns were 4.26%, or 426 basis points, in excess of the Policy Portfolio Benchmark, thus producing $640 million of assets for the UT and A&M Systems. As a reminder, the Policy Portfolio Benchmark represents the returns that would result without UTIMCO staff, namely the returns from investing at each asset class' target weight and receiving the market average returns for each asset class. The outperformance in 2010 is due both to tactical asset allocation – overweighting and underweighting asset classes around targets but within approved ranges – as well as active management on the part of external investment managers.

For the year ending June 30, 2010, as measured against the twenty largest university endowments, UTIMCO ranked third, helping to secure a three-year ranking of sixth out of twenty.

The Intermediate Term Fund (the "ITF") returned 11.04% for the fiscal year. Actual performance was 4.99% better than the Policy Portfolio Benchmark, producing $186 million of additional assets for the fifteen institutions comprising the UT System.

Investment Strategy

UTIMCO's investment strategy remains both constant and flexible, which we believe is appropriate for our long-term mandate.

We believe that when it comes to investing, skill matters. Therefore, we continue to rely on 'best in class' external investment managers. This is evident across all investment styles: long only, hedge funds and private equity.

We believe that a diversified portfolio produces the best risk-adjusted returns so we invest across asset classes, investment styles, geographies and other metrics of differentiation.

We believe that, over the long term, equities will outperform fixed income, so we retain an 'equity bent'; however, we also recognize that during certain periods of time fixed income can provide extremely attractive risk-reward opportunities so we are not rigid in the implementation of the investment strategy.

For example, leading up to and during the Fall 2008 capital markets shocks, we developed a view that opportunities will exist for some time in the prudent accumulation of debt securities and over-levered assets from stressed sellers, including corporate, residential and commercial real estate, consumer and even sovereign debt. We began accumulating these debt positions in late 2007 and remain attractively exposed to these assets.

We have a bias towards value and we welcome a margin of safety in our investments. We also believe in the growth prospects of many emerging markets but are mindful of valuations. Said another way, as long as we invest at the right price we are always happy to benefit from the positive effects of growth.

We believe that as an in-perpetuity investor our long-term horizon allows us to assume prudent levels of illiquidity as long as we are appropriately compensated. That said, we are always vigilant to maintain safe levels of liquidity from which to meet our obligations.

We also believe that our portfolio will benefit from adding exposure to real assets – natural resources and real estate – both from the attractive risk-reward opportunities of the individual investments as well as from their portfolio diversifying and hedging of potential inflation characteristics. We continue to phase implementation of these strategies.

This year, as we do every year, we engaged in a thorough review of our Investment Policies with the UTIMCO Board of Directors and The Board of Regents of The University of Texas System, both which helped shape and ultimately affirmed the funds' investment strategies.

Tactical Allocation and Portfolio Positioning

Over the course of the fiscal year, tactical asset allocation produced approximately 0.55%, or 55 basis points, of 'value add' which resulted in $100 million of additional assets for the Endowments and ITF.

Under-weights to Developed Country Equity and over-weights to Credit Related Fixed Income and Private Investments (which was also highly concentrated in credit related opportunities) were the major positive contributors to this outperformance. Slight under-weights to Emerging Market Equity and Real Estate, and over-weights to Investment Grade Fixed Income and Natural Resources, offset some of the tactical asset allocation gross gains, as we maintained a defensive position throughout the year.

As shown in **Figure B**, the long-only ("More Correlated and Constrained" or "MCC") Investment Grade Fixed Income allocation of 13.1% of total assets at fiscal year-end is slightly higher than last year's 12.2%, consistent with our strategy of maintaining a defensive position and keeping 'powder dry'. While this may cost some in the short term, we believe maintaining the flexibility to take advantage of opportunities as they arise and maintaining ample liquidity will benefit the Endowments in the long term.

MCC Credit Related Fixed Income declined from 2.3% of total assets at fiscal year-end 2009 to 1.3% at fiscal year-end 2010. With the rally in these markets during the past twelve months, we harvested gains exceeding 44%.

MCC Real Estate assets also declined from 4.5% of total assets at fiscal year-end 2009 to 3.0% at fiscal year-end 2010. Again, the rally in these markets, coupled with our concern about the underlying fundamentals in the real estate markets, led us to monetize some of our gains.

MCC Natural Resources assets increased from 4.6% of total assets at fiscal year-end 2009 to 8.1% at fiscal year-end 2010. A substantial portion of this increase is attributable to a position in gold futures we laddered into during the year. As a hedge for our overall portfolio against weakening financial assets, particularly the US dollar, Euro and Yen, we allocated assets to gold. To date, this tactical position has produced strong returns. The majority of our MCC Natural Resources portfolio remains allocated to active, long-only natural resources-related public equities as well as a diversified portfolio of actively managed commodity futures.

MCC Developed Country Public Equity assets were reduced from 14.7% of total assets to 12.4% of assets during the fiscal year. We remain under-weight in public equities as a result of our shift to credit-related assets. The Developed Country Public Equity exposure we do have is concentrated in high-quality, global companies together with mandates for active managers typically investing in midcap companies.

MCC Emerging Market Public Equity assets remained fairly constant, ending fiscal year 2010 at 9.4%. Our portfolio consists of a diversified set of managers, with some investing globally across all emerging markets, some investing across regional emerging markets such as in Asia or the Middle East and Africa, and other investing in specific countries such as Brazil, China and Russia.

Hedge Funds ("Less Correlated and Constrained" or "LCC" managers) remain the single largest allocation, although they were slightly increased from 29.2% at the end of fiscal year 2009 to 30.3% at the end of fiscal year 2010. UTIMCO has a diversified portfolio of approximately thirty LCC managers employing a wide variety of investment strategies including long/short equities, distressed securities, global macro, relative value and other approaches. Our largest ten managers represent approximately 60% of our LCC portfolio. Three of these managers have been in our portfolio for over ten years and five have been in the portfolio for over five years. The two newer additions to the top ten are two very highly regarded investment managers whose principals we have known for a long time, with particular expertise in credit-related strategies. Our LCC managers utilize low levels of leverage, provide substantial transparency, practice strong risk management and generally approach investing with a value bias based on superior fundamental research.

Lastly, UTIMCO's private investments have remained relatively stable representing 22.4% of total assets. The composition of this portfolio is important, given that approximately one-third of the total private investments are in credit-related strategies that have shorter lives and much more downside protection than traditional buy-out oriented private equity. Another fifteen percent of the private portfolio is comprised of venture capital investments. The remaining half of our private portfolio is distributed across natural resources, real estate, small and mid-cap buyout and growth capital including emerging markets growth.

During the fiscal year, UTIMCO received $1,017 million in distributions from the private investment portfolio and made $816 million in 14 new commitments in private investments.

Active Management

The efforts of our external investment managers in buying and selling securities to produce investment returns that exceed their markets' averages is referred to as 'active management'. These efforts generated approximately 3.70% or 370 basis points of 'value add' or over $700 million of additional assets for the Endowments and ITF.

Our long-only, or MCC, Investment Grade Fixed Income managers bested their market averages, or benchmarks, by approximately 0.45% or 45 basis points, which is strong performance in this more efficient area of the capital markets. As noted above, our long-only credit-related fixed income managers generated a 44% return versus a market average 21% return for the year.

UTIMCO's MCC Real Estate managers generated a 16.7% return versus their market average of 15.1% and the Natural Resources managers delivered 12.8% returns, significantly outpacing their market average of 2.8% by over 1,000 basis points or 10%.

Over the past few years, in previous annual letters, we have noted our dissatisfaction with our public equity managers and a significant devotion of effort to redeem from underperforming managers and place capital with managers in whom we have higher conviction in their ability to deliver better than market-average results. We are pleased to report that these efforts appear to be beginning to pay off.

During fiscal year 2010, our Developed Country Public Equity managers delivered 7.08% returns, significantly exceeding their market average or benchmark returns of 1.54%. And our Emerging Market Public Equity managers produced returns of 19.11%, besting their benchmark returns of 18.02%.

The only area where our managers' returns appeared to lag their benchmark was in Private Investments. We say 'appeared' because one-year numbers can be misleading when evaluating a long-lived investment like private equity. In fact, our portfolio's returns were primarily the result of credit-related investments we made in 2007 and 2008, while the market average returns were primarily the result of an uptick in the valuation of leveraged buyout investments made in the 2004-2007 time period. We remain concerned about equity investments of these vintages given the high degree of leverage underpinning the equity, and believe some of these one-year unrealized gains may, in fact, never become realized gains.

FY 2010 Market Overview and FY 2011 Market Outlook

Most capital markets were fairly choppy during fiscal year 2010. In most investment areas – natural resources and Japan being the exceptions – a strong fiscal year first quarter represented the final throes of the strong "bounce back" from the declines experienced during the Fall 2008. This was followed by a mixed second fiscal quarter, with Europe and investment grade fixed income particularly weak due to concerns about sovereign debt. The third fiscal quarter was weak across the board again, especially in Europe and natural resources. The fourth fiscal quarter showed strong gains in fixed income, real estate, natural resources and emerging market public equities, although developed country public equities were off.

Last year we wrote:

"Our base case for most developed countries is a slow, subpar economic recovery as global assets are rebalanced. At the same time, many developing countries around the world have good prospects for growth and development.

Global excess capacity retards inflation and, together with limited credit supply or demand, deflation concerns are understandable. The vast amounts of monetary stimulus governments have injected, however, cause concerns about inflation and currency devaluation over the longer term."

This continues to capture our outlook with the exception that credit supply has not been limited over the past year – for better or for worse, as the case may prove to be.

The reality is that no one knows what the next fiscal year will bring in the capital markets. And while the future can never be known with certainty, the future looks particularly uncertain to us at this time.

The developed world labors under historically high debt levels, a need to bring consumption back in line with production and excess capacity. Emerging countries will need to rely more on domestic consumption than exports to the developed world to power continued growth.

Unprecedented levels of government monetary and fiscal stimulus will have implications that cannot yet be certain and the role of governments in the economy continues to evolve differentially – and often in unexpected ways – across the globe.

In this context, capital markets – always volatile – are likely to be even more so, particularly over shorter time periods as emotional euphoria and despair rear their ever present heads.

Our mantra is to remain long-term investors: focused on value, cognizant of manic market swings and patiently investing in opportunities that will protect our capital and produce attractive returns over the longer term. We continue to view capital markets as global and we continue to consider the full spectrum of asset classes, investment vehicles and approaches. We remain committed to partnering with best-in-class investment managers and to having a diversified portfolio.

Given the uncertainty and headwinds, we do remain defensive, liquid and flexible. We do believe that the stresses and changes will present attractive opportunities to those that are patient, flexible and ready to move quickly when the situations arise.

Board and Staff

The UTIMCO staff and Board are the keys to investment success. Along with the Board of Regents, and the UT System and its fifteen institutions' staffs, it is the team of people that produce the returns that provide additional resources for the state's educational and health well being.

We are especially grateful for Erle Nye's splendid leadership as Board Chairman during fiscal year 2010, and we are delighted that Paul Foster has agreed to be the organization's new Board Chairman. We are extremely grateful for Colleen McHugh's and Clint Carlson's years of service on the UTIMCO Board and we warmly welcome Printice Gary and Kyle Bass to the Board.

We are grateful for the open communications we have with our colleagues at the UT and A&M Systems and their respective institutions. In addition, we appreciate the oversight, direction and support we receive from the Regents.

Lastly, we cannot express enough our appreciation to all of our colleagues at UTIMCO. We have a great group of people who tirelessly apply their extraordinary skills to enhance the resources available to the public institutions that we serve.

We are pleased to have had a very good year of investment returns. We are prepared for whatever the markets offer and we are committed to doing our best, each and every day. As always, we welcome your inquiries and input.

Bruce Zimmerman
Chief Executive Officer and
Chief Investment Officer

Cathy Iberg
President and Deputy
Chief Investment Officer

UTIMCO Board of Directors As of August 31, 2010

Paul L. Foster (Chairman)

Vice Chairman – Board of Regents, The University of Texas System; **Executive Chairman –** Western Refining, El Paso, Texas; **Member –** Former Executive Committee and Former Chair El Paso Regional Economic Development Corporation; **Former Chairman –** El Paso Chapter of the American Red Cross; **Member –** Texas Economic Development Corporation; **Member –** Advisory Board, Hankamer School of Business at Baylor University; **Member –** Executive Committee of the Paso del Norte Group; **Former Member –** Texas Higher Education Coordinating Board; **Member –** Bank of the West Board of Directors and Chairman of the Nomination and Governance Committee; **Member –** National Petroleum Club; **Member –** Governor's Business Council; **Former Member –** Young President's Organization; **Member –** World President's Organization; **Member –** Business Advisory Council, University of Texas at El Paso; **Member –** Greater El Paso Chamber of Commerce Board of Directors

J. Philip Ferguson (Vice Chairman)

Chair – UTIMCO Compensation Committee; **Member –** UTIMCO Risk Committee; **Former Chief Investment Officer –** AIM Capital Management, Inc.; **Member –** Fund Advisory Committee, The MBA Investment Fund, The University of Texas at Austin; **Member –** Board of Directors of ABM Industries, Inc. (NYSE: ABM); **Member –** Audit Committee of ABM Industries, Inc.; **Member –** Investment Committee, Museum of Fine Arts, Houston; **Member –** Development Board, UT Health Science Center at Houston; **Chair –** UT School of Nursing at Houston, Advisory Council; **Member –** Chancellor's Advisory Council, Texas Christian University; **Former Trustee –** Houston Ballet; **Former Director –** Memorial Hermann Foundation; **Trustee –** Memorial Endowment Fund, St. John the Divine Episcopal Church; **Former Member –** Board of Governors of the Investment Adviser Association

Francisco G. Cigarroa, M.D. (Vice Chairman for Policy)

Chancellor – The University of Texas System; **Past President –** The University of Texas Health Science Center at San Antonio; **Member –** Institute of Medicine of The National Academies; **Fellow –** American College of Surgery; **Diplomate –** American Board of Surgery; **Member –** American Medical Association; **Member –** Texas Medical Association; **Alumni Fellow –** Yale Corporation; **President –** Texas Academy of Medicine, Engineering, and Science of Texas (TAMEST); **Member –** Council of University Presidents and Chancellors; **Past Member –** The President's Committee on the National Medal of Science; **Member –** The Secretary's Council on Public Health Preparedness, Office of the Assistant Secretary for Public Health Emergency Preparedness

Kyle Bass

Managing Member and Principal – Hayman Advisors L.P.; **Director –** ABS Credit Derivatives Users Association; **Founding Member –** Serengeti Asset Management Advisory Board; **Former Managing Director –** Legg Mason, Inc.; **Former Senior Managing Director –** Bear, Stearns & Co.

Printice L. Gary

Chair – UTIMCO Policy Committee; **Member –** Board of Regents, The University of Texas System; **CEO and Managing Partner –** Carleton Residential Properties; **Former Division Partner –** Trammell Crow Residential; **Member –** Board of the Southwestern Medical Foundation; **Member –** Board of the National Equity Fund; **Former Trustee –** Carleton College

Paul L. Foster | J. Philip Ferguson | Francisco G. Cigarroa | Kyle Bass

Janiece Longoria

Chair – UTIMCO Audit and Ethics Committee; **Member –** UTIMCO Compensation Committee; **Vice Chairman –** Board of Regents, The University of Texas System; **Partner –** Ogden, Gibson, Broocks, Longoria & Hall L.L.P.; **Member –** American Bar Association's Business Law Section and Litigation Section; **Fellow –** Houston Bar Association and Houston Bar Foundation; **Member –** Board of Directors, CenterPoint Energy, Inc.; **Commissioner –** Port of Houston Authority; **Member –** Board of Directors, Texas Medical Center; **Member –** Board of Directors, MD Anderson Services Corporation

Ardon E. Moore

Member – UTIMCO Compensation Committee; **Member –** UTIMCO Risk Committee; **President and CEO –** Lee M. Bass, Inc.; **Member –** The University of Texas Development Board; **President –** Fort Worth Zoological Association; **Trustee –** Cook Children's Hospital, Fort Worth; **Past President –** All Saint's Episcopal School of Fort Worth; **Past Trustee –** Texas Water Foundation; **Trustee –** Stanford Business School Trust; **Member –** Advisory Council, The University of Texas McCombs School of Business

Erle Nye

Member – UTIMCO Audit and Ethics Committee; **Member –** UTIMCO Policy Committee; **Past Chairman –** UTIMCO Board of Directors; **Past Member and Chairman –** Board of Regents, The Texas A&M University System; **Chairman Emeritus –** TXU Corp.; **Member –** Texas A&M University College of Engineering Advisory Council; **Member –** Southern Methodist University Dedman School of Law and Cox School of Business Executive Boards, Tate Lecture Series Board, and Maguire Center Executive Advisory Board; **Member –** AT&T Center for the Performing Arts Board; **Member –** KERA North Texas Broadcasting Board; **Member –** Trinity Trust Board; **Past Chairman –** Baylor College of Dentistry Board of Directors; **Chairman –** National Infrastructure Advisory Council; **Member –** Salvation Army, State Fair of Texas, and Southwestern Exposition and Livestock Show Board of Directors; **Member –** Chancellor's Century Council of Advisors, The Texas A&M University System; **Member –** Development Council, The University of Texas at Dallas; **Chairman and Member –** Baylor Health Care System Foundation Board

Charles W. Tate

Chair – UTIMCO Risk Committee; **Member –** UTIMCO Audit and Ethics Committee; **Chairman & Founding Partner –** Capital Royalty L.P.; **Former Partner and Member of Management Committee –** Hicks, Muse, Tate & Furst Incorporated; **Former Managing Director –** Morgan Stanley & Co. Incorporated; **Member –** The University Cancer Foundation Board of Visitors & Strategic Advisory Committee for The University of Texas MD Anderson Cancer Center; **Chairman –** The University of Texas MD Anderson Cancer Center - Center for Global Oncology Advisory Group; **Member –** The University of Texas MD Anderson Cancer Center - "Making Cancer History" Campaign Cabinet; **Co-Vice Chair –** The University of Texas "Campaign for Texas"; **Member –** The University of Texas Development Board; **Chairman –** External Advisory Committee of The University of Texas Department of Biomedical Engineering; **Recipient –** 2007 University of Texas Distinguished Alumnus Award; **Member –** McCombs School of Business Hall of Fame; **Member –** Board of Overseers of the Columbia University Graduate School of Business; **Chairman –** Texas Life Science Center of Innovation & Commercialization; **Member –** Cancer Prevention & Research Institute of Texas - Oversight Committee; **Member –** Cancer Prevention & Research Institute of Texas - Executive Committee; **Chairman –** Cancer Prevention & Research Institute of Texas – Economic Development & Commercialization Subcommittee; **Member –** The Robert A. Welch Foundation Board of Directors; **Member –** Industry & Community Affiliates Committee of The Academy of Medicine, Engineering & Science of Texas

Printice L. Gary Janiece Longoria Ardon E. Moore Erle Nye Charles W. Tate

The University of Texas System Board of Regents

As of August 31, 2010

OFFICERS
Colleen McHugh - Chairman
Paul L. Foster - Vice Chairman
Janiece Longoria - Vice Chairman

MEMBERS
Terms Expire February 1, 2011*
Janiece Longoria
Colleen McHugh
Brenda Pejovich

Terms Expire February 1, 2013*
James D. Dannenbaum
Paul L. Foster
Printice L. Gary

Terms Expire February 1, 2015*
R. Steven "Steve" Hicks
Wm. Eugene "Gene" Powell
Robert L. Stillwell

STUDENT REGENT
Term Expires May 31, 2011*
Kyle J. Kalkwarf

*Each Regent's term expires when a successor has been appointed, qualified, and taken the oath of office.
The Student Regent serves a one-year term.

Francie A. Frederick – General Counsel to the Board of Regents

The University of Texas System Officers

As of August 31, 2010

Francisco G. Cigarroa, M.D. – Chancellor
Scott C. Kelley – Executive Vice Chancellor for Business Affairs
David B. Prior – Executive Vice Chancellor for Academic Affairs
Kenneth I. Shine – Executive Vice Chancellor for Health Affairs
Philip Aldridge – Vice Chancellor for Finance and Business Development
Tonya Moten Brown – Vice Chancellor for Administration
Barry D. Burgdorf – Vice Chancellor and General Counsel
Francie A. Frederick – General Counsel to the Board of Regents
Barry McBee – Vice Chancellor for Governmental Relations
Keith McDowell – Vice Chancellor for Research and Technology Transfer
Randa S. Safady – Vice Chancellor for External Relations
William H. Shute – Vice Chancellor for Federal Relations
Amy Shaw Thomas – Vice Chancellor and Counsel for Health Affairs
Sandra K. Woodley – Vice Chancellor for Strategic Initiatives

UTIMCO Senior Management

As of August 31, 2010

Bruce Zimmerman – CEO and Chief Investment Officer
Cathy Iberg – President and Deputy Chief Investment Officer
Joan Moeller – Senior Managing Director – Accounting, Finance and Administration
Anna Cecilia Gonzalez – General Counsel and Chief Compliance Officer
Lindel Eakman – Managing Director – Private Investments
Bill Edwards – Managing Director – Information Technology
Mark Warner – Managing Director – Natural Resources Investments
Mark Shoberg – Senior Director – Real Estate Investments
Uziel Yoeli – Senior Director – Portfolio Risk Management

LEGAL COUNSEL – Andrews Kurth, LLP, Austin, Texas

INDEPENDENT AUDITORS – Deloitte & Touche LLP

Frequently Asked Questions

LTF DISTRIBUTIONS

1. What is the spending (distribution) policy of the LTF?

The LTF utilizes what is often called a "constant growth" spending policy in determining annual distributions. Under a constant growth spending policy, distributions in a year are equal to the distribution in the prior year (in dollars) plus an increase to offset actual inflation in that particular year. Thus, distributions grow at a steady rate equal to the rate of inflation, which provides a stable stream of "real" resources to the beneficiaries of the endowments in the LTF. The constant growth spending policy is particularly suited to endowments in which current distributions are large relative to the total budget for the program being served by the endowment, as is the case for many of the endowments in the LTF. An unfortunate effect of the constant growth spending policy is that the volatility of financial markets, which is typically much greater than the volatility of inflation, is transferred to the value of the endowment funds from which distributions are made. To moderate potential negative effects on the value of endowments, which could endanger the ability of the endowments to meet the needs of future beneficiaries, a smoothing formula is used to calculate the inflation rate at which distributions are increased year to year and limits are placed on the distributions to protect the endowments under the most adverse capital market environments.

2. How is the LTF distribution rate determined?

Distributions are increased annually at the three year average rate of inflation, provided that the distributions remain within a range of 3.5% and 5.5% of the three year average net asset value of the LTF. All calculations are done on a per-share (or per-unit) basis, to adjust for flows into and out of the LTF. For example, the 2010 distribution rate of $.3098 per unit was increased to $.3172 for fiscal year 2011 because the average three year increase of the consumer price index was 2.4%. Distributions based on the new rate of $.3172 were equal to 5.05% of the three year per-unit asset value of the LTF, within the allowable range of 3.5% to 5.5%, up from the 4.83% payout in 2010. The long-term target distribution rate for the LTF is 4.75%.

3. Who determines the distribution rate for the LTF?

Final authority over the distribution rate rests with the UT Board. Following the Spending Policy established by the UTIMCO Board, UTIMCO staff recommends the annual distribution rate to the UTIMCO Board. Upon approval by the UTIMCO Board, the rate is recommended to the UT Board.

4. What is the current payout of the LTF?

The payout for the LTF for the fiscal year ended August 31, 2010, was $.3098 per unit. The UT Board has approved a payout rate of $.3172 per unit for the fiscal year ending August 31, 2011. The 2010 payout or distribution rate amounted to 4.83% of the LTF's twelve-quarter average net asset value.

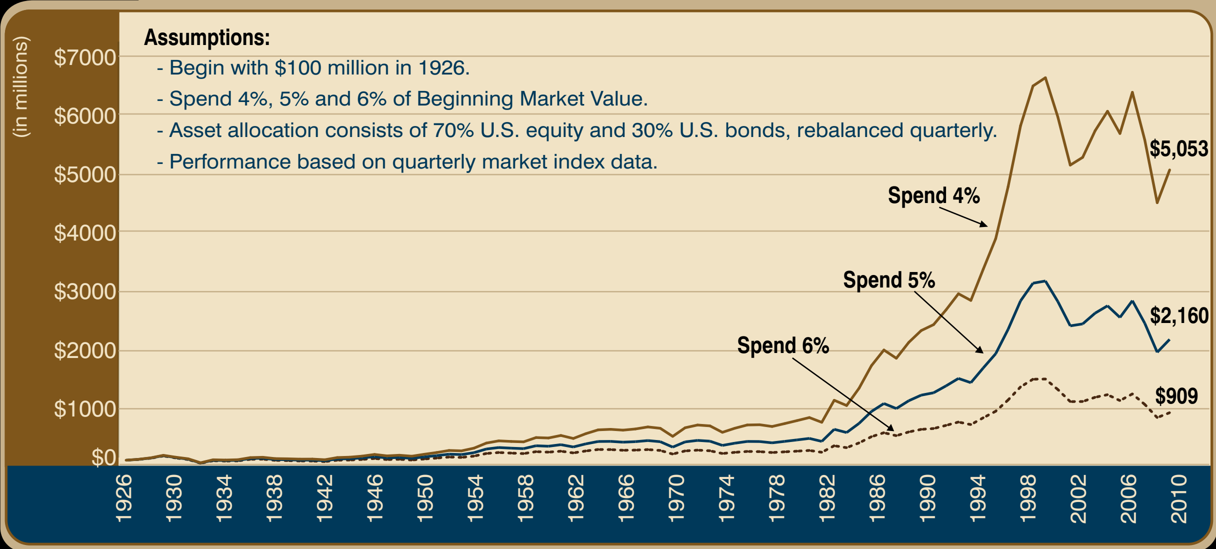
5. How does the distribution rate convert into dollars distributed to the individual endowment beneficiary?

All endowments which invest in the LTF purchase units based on the LTF's market value per unit as of the date of purchase. The endowment beneficiary receives distributions on the last day of each fiscal quarter from the LTF based on the number of units owned at that time multiplied by the current distribution rate.

6. How has the distribution policy in the past affected the internal growth of the LTF?

The LTF's investment and distribution policy has been positioned to balance the needs of present and future beneficiaries by distributing only a portion of the market value of the endowment each year. Reinvested earnings, the difference between the total returns and the distribution rates over time, provide the cushion to support the endowments' educational programs in the future, while still

Fig. I Endowment Market Values After Spending



Source: Cambridge Associates, LLC

Assumptions: (Begin with $100 million in 1926. Spend 4%, 5%, and 6% of average beginning market value of the previous four quarters. Asset allocation consists of 70% U.S. equity (performance measured by Ibbotson Yearbook, Large Company Stocks 1926-68; S&P 500 1969-present) and 30% U.S. bonds (performance measured by CA Corp Bond Series [derived from Salomon yields] 1926-68; Salomon High Grade Corporate Bond Total Rate of Return Index, Red SB Book 1969-79; SSB High Grade AAA/AA Corporate 10+ Year Index 1980-present), rebalanced quarterly. Management fees have been disregarded.

meeting the needs of current beneficiaries.

UTIMCO adheres to the constant growth distribution philosophy. Distributions rates are targeted at 4.75%. In years when investment markets are strong, excess returns are held within the LTF. These excess returns are used to maintain a constant distribution stream for beneficiaries in years, such as fiscal years 2008 and 2009, when investment returns fell below the targeted distribution rate.

7. What effect does the target distribution (spending) rate have on an endowment's value in the long term?

One of the two objectives required to preserve the purchasing power of the endowment is to increase the market value of the endowment (after the annual distribution) at a rate at least equal to the rate of inflation. Over the long term, a higher spending rate will produce a lower long term endowment market value when compared to a lower spending rate. The effect that the distribution (spending) rate will have on the endowment's value is shown graphically in **Figure I**.

8. How does the current distribution rate of the LTF compare to other colleges and universities?

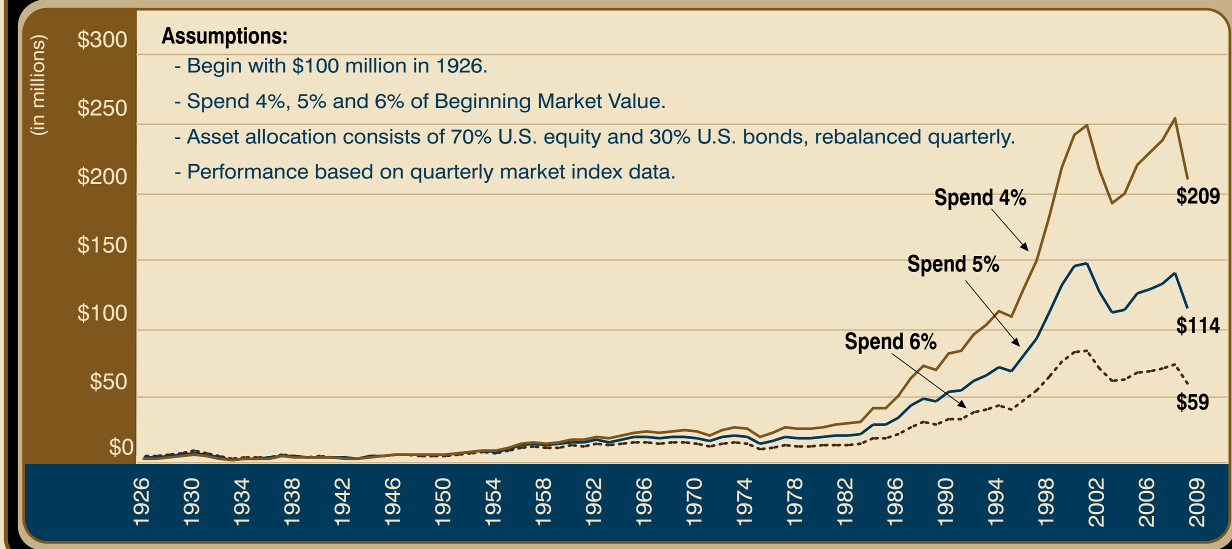
The LTF's distributions, when compared to the 2009 NACUBO-Commonfund Study of Endowments, are near the distribution rates for large endowment funds (**Figure J**).

Fig. J Spending Rate Comparison

As of June 30,	2005	2006	2007	2008	2009
LTF	4.8%	4.6%	4.4%	3.9%	4.1%
Endowments Greater than $1 Billion	4.7%	4.6%	4.4%	4.2%	4.6%
Public	4.6%	4.5%	4.5%	4.2%	4.2%
Independent	5.1%	4.8%	4.7%	4.4%	4.5%

Source: 2005-2007 NACUBO Endowment Study; 2008-2009 NACUBO-Commonfund Study of Endowments 2009.

FIG. K NOMINAL SPENDING



Source: Cambridge Associates, LLC

Assumptions: Begin with $100 million in 1926. Spend 4%, 5%, and 6% of average beginning market value of the previous four quarters. Asset allocation consists of 70% U.S. equity (performance measured by Ibbotson Yearbook, Large Company Stocks 1926-68; S&P 500 1969-present) and 30% U.S. bonds (performance measured by CA Corp Bond Series [derived from Salomon yields] 1926-68; Salomon High Grade Corporate Bond Total Rate of Return Index, Red SB Book 1969-79; SSB High Grade AAA/AA Corporate 10+ Year Index 1980-present), rebalanced quarterly. Management fees have been disregarded.

9. What effect does the target distribution (spending) rate have on the amount of the distribution (the dollar payout) paid to the endowment beneficiaries in the long term?

One of the two objectives required to preserve the purchasing power of the endowment is to increase the amount of the annual distribution to endowment beneficiaries at a rate at least equal to the rate of inflation. Over the long term, a higher spending rate will produce a lower spending amount because the endowment's ability to grow has been compromised by the higher spending rate. The effect the distribution (spending) rate has on the dollar payout is shown graphically in **Figure K.**

OPERATIONS

10. How and when are LTF units purchased and redeemed?

Units are purchased on quarterly buy-in dates of March 1, June 1, September 1, and December 1. Funds wired to UTIMCO prior to a quarterly purchase date are immediately invested in a money market account until LTF units can be purchased. Interest earned on the money market account during the interim period is distributed to the UT System institution of record.

11. What are the expenses of the GEF and LTF?

UTIMCO's large asset base allows for economies of scale in the management of the endowment funds. UTIMCO incurs expenses associated with strategy and analysis, portfolio management, custody and safekeeping, accounting and other investment related functions. The GEF was created as the investment vehicle in which the LTF and PHF could get cost effective exposure to a well diversified investment portfolio. Both the LTF and PHF pay the same fee for every unit of GEF owned by these Funds. However, there are additional expenses which differ for the LTF and PHF. Therefore, the total fee paid by each unit of the LTF includes LTF expenses plus a portion of the GEF expenses. The UTIMCO fee for 2010 fiscal year was 0.06% of LTF average net assets; fees and expenses paid to external managers (which do not directly net fees against the net asset value or capital), and other service providers totaled 0.25% of LTF average net assets. These fees and expenses do not include fees incurred and charged by the general partners in partnership investments, fees charged by mutual fund managers, and fees charged by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice.

The LTF is also assessed an annual administrative fee on behalf of the UT System and UT System institutions for the support of endowment administration and management, and an annual fee to cover costs associated with UT System personnel in their oversight responsibilities of UTIMCO. The endowment management and administration and oversight fees for 2010 were 0.25% of LTF average net assets.

12. How does compensation for UTIMCO staff members compare to other endowments?

Compensation for top UTIMCO staff members is a combination of base salary and performance-based incentive compensation. Base salaries are set at the median level for similar job functions in a universe of endowments, foundations, and private investment management firms constructed by our compensation consultant, Mercer. Performance-based incentive compensation is based on investment performance and qualitative performance goals. Investment performance includes UTIMCO's performance and asset class performance. UTIMCO's investment performance is measured by comparing the endowment funds' (the PUF and the GEF) and the Intermediate Term Fund's net investment return relative to their respective policy portfolio returns. Asset class performance is measured by comparing asset class net investment returns relative to approved performance indices for each staff member's specific area of responsibility. Qualitative performance goals may be based on leadership, implementation of operational goals, management of key strategic projects, and effective utilization of human and financial resources. All elements of staff compensation at UTIMCO are defined in the UTIMCO Compensation Program that was approved by the UTIMCO Board and the UT Board.

13. What types of reporting and services are available to obtain periodic information about the Fund?

UTIMCO provides a variety of reports and services, including an annual report. Individual donor statements are available to UT System institutions via UTIMCO's website at **www.utimco.org**. UT System institutions may also obtain daily individual account information via the Component Reporting Information System (CRIS), also accessed through the UTIMCO website.

Fig. L LTF Ratio of Expenses to Average Net Assets

Years Ended August 31,	2006	2007	2008	2009	2010
UTIMCO Management	0.05%	0.08%	0.08%	0.11%	0.06%
External Investment Managers[1]	0.30%	0.16%	0.11%	0.16%	0.22%
Other Service Providers Fees	0.04%	0.04%	0.07%	0.01%	0.03%
Total Investment Fees and Expenses	0.39%	0.28%	0.26%	0.28%	0.31%
UT System Administrative Fees[2]	0.08%	0.08%	0.19%	0.27%	0.25%
Total	0.47%	0.36%	0.45%	0.55%	0.56%

(1) Fees incurred by the general partners in private investments, fees incurred by mutual fund managers, and fees charged by hedge fund managers are not included in these totals. Fees incurred by partnerships, mutuals funds and hedge funds are netted directly against returns for those investments in accordance with standard industry practice.

(2) During the fiscal year ended August 31, 2008, the UT System administrative fee assessed on behalf of the UT System and UT System institutions for the support of endowment administration and management was increased from .08% to .20% of a rolling twelve quarter average net asset value of the LTF. The change in the ratios between 2008 and 2009 are reflective of the expense ratios being calculated on a five-quarter average net asset value of the LTF, and the fee assessment being calculated on a twelve-quarter average net asset value of the LTF.

Frequently Used Terms

Asset Allocation – Asset allocation is the long-term strategy for investing funds into various asset classes based on investment goals, time horizon, and risk tolerance. It is the primary determinant of investment return, and is defined by the investment policy for each fund.

Asset Class – Asset class refers to a set of related investment vehicles that have similar risk and return characteristics. Different types of asset classes would include domestic equities, international equities, fixed income, hedge funds, commodities, and private investments.

Benchmark Returns – Benchmark returns are the returns for a specific index defined in the investment policy statement as the performance measurement standard for a particular asset class. The most commonly used benchmarks are market indexes such as the S&P 500 Index for common stocks and the Barclay's Capital Aggregate Bond Index for bonds.

Book Value of an Endowment – The book value of an endowment represents all contributions, reinvested income and any realized gains or losses attributable to the sale of an investment held in the endowment.

Downside Risk – A risk metric that distinguishes between "good" and "bad" returns by assigning risk only to those returns below a return specified by an investor. Downside risk is considered a more effective risk measure than standard deviation (volatility) for two important reasons: 1) it is investor specific, and 2) it identifies return distributions that have higher probabilities for negative ("left tail") market events. Downside risk is also referred to as downside deviation or target semi-deviation.

Endowment Policy Portfolio – The endowment policy portfolio is the hypothetical portfolio consisting of each asset category weighted at the neutral asset class allocation outlined in the investment policy of each fund.

Endowment Policy Portfolio Return – The endowment policy portfolio return is the benchmark return for the endowment policy portfolio and is calculated by summing the neutrally weighted index return (percentage weight for the asset class multiplied by the benchmark return for the asset class) for the various asset classes in the endowment portfolio for the period.

Expected Returns – Expected returns are best estimates of what returns might be over some future time period. Expected returns are based on projection models of different possible scenarios. Each scenario is assigned a probability of occurrence. The result of weighting each scenario by its probability of occurrence is the expected return.

Expected Risk – Expected risk is the projected variability in future returns. A common measure of risk is standard deviation.

Hedge Funds – Hedge fund investments are broadly defined to include non-traditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable. These types of investments can include: (1) global long/short strategies that attempt to exploit profits from security selection skills by taking long positions in securities that are expected to advance and short positions in securities where returns are expected to lag or decline; (2) arbitrage strategies which attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics; and (3) event driven strategies that attempt to exploit pricing discrepancies that often exist during discreet events such as bankruptcies, mergers, takeovers, spin-offs and recapitalizations in equity and debt securities.

Investment Return – Investment return is the change in investment value during the period, including both realized and unrealized capital appreciation and income, expressed as a percentage of the market value at the beginning of the period. Investment return is also known as total return.

Less Correlated and Constrained Investments – Less correlated and constrained investments are investment mandates that exhibit lower levels of beta exposure to the underlying assets being traded, may be across Asset Classes, may have higher levels of short exposure and leverage, may not have underlying security transparency, are more likely to be in publicly traded securities and may entail lock-ups.

Long Position – A long position is a bet that prices will rise. For example, you have a long position when you buy a stock and benefit from prices rising. A long position is the opposite of a short position.

Market Value – Market value is the value of an investment determined by prevailing prices for that investment in an actively traded market including the investment.

More Correlated and Constrained Investments – More correlated and constrained investments are investment mandates that exhibit higher levels of beta exposure to the underlying assets being traded, tend to be in a single asset class, have lower levels of short exposure and leverage, have more underlying security transparency, are more likely to be in publicly traded securities and are less likely to entail lock-ups.

Net Investment Return – Net investment return is total return after deduction of investment management fees and expenses.

Private Investments – Private investments consist of investments in the equity securities of private businesses including real estate. Private investments are held either through limited partnerships or as direct ownership interests. The private equity category also includes mezzanine and opportunistic investments.

Purchasing Power – The primary objective of the endowment funds is to preserve the purchasing power of the endowment over the long-term. This essentially means to increase the market value of the endowments over time by a rate at least equal to the rate of inflation after all expenses and distributions and to increase annual distributions by a rate at least equal to the rate of inflation.

Realized Gain or Loss – Realized gain or loss represents any gain or loss attributable to the sale or disposition of an investment.

Short position – A short position is a bet that prices will fall. For example, a short position in a stock will benefit from the stock price falling. Short positions are obtained by borrowing securities from another party, selling them and then repurchasing them at a later date, at a lower price, to return the shares to the original owner. The investor making the short sale pockets the difference between the price at which the shares were sold and the price at which the shares were repurchased to return to the original owner. A short position is the opposite of a long position.

Standard Deviation – Standard deviation is a measure of the variability of investment returns. It is the most commonly used measure of risk.

Total Return – Total return is the change in investment value during the period, including both realized and unrealized capital appreciation and income, expressed as a percentage of the market value at the beginning of the period. Total return is also known as investment return.

Unrealized Gain or Loss – Unrealized gain or loss represents the difference between the market value and book value of an investment.

Value-Added – Value-added is a measure of the increase in dollar value of endowment funds due to actual investment performance exceeding the performance of the policy portfolio.

Frequently Asked Questions

1 Sum of the market value of the investment holdings for the endowment at the beginning of the year (September 1, 2009).

2 Funds received from donors or matching funds. Contributions may be received in the form of cash, securities, real estate, mineral interests, and other assets. Contributions are reported at market value on the contribution date.

3 Funds that are withdrawn from the endowment. Because most endowments are perpetual, withdrawals are minimal. Those made are normally due to an administrative adjustment or if the endowment is a term endowment.

4 Total funds distributed to the institution to support the purposes of the endowment. In some instances, the distributions are not received in cash but are automatically reinvested into the endowment principal. Distributions (payout) are derived from the LTF units held by the endowment and any separately invested assets.

The LTF distributions are determined by the number of units held and payout in cents per unit.

The separately invested assets receive income, which may include interest, dividends, and real estate income that is also distributed to the institution.

5 Average Market Value is derived from the sum of the endowment's market value for the five quarters ended August 31, 2010 divided by five.

6 Summary of information presented in the body of the Endowment Report for years 2006 through 2010.

7 Sum of the book value of the investment holdings held at the end of the year. The book value also represents all contributions, reinvested income and any realized gains (losses) attributable to the sale of an investment. The difference between market value and book value is unrealized gains and losses.

8 Reinvestment of distributions into the endowment principal which becomes a permanent part of the endowment.

9 Represents the component of the LTF distributions derived from LTF income (interest and dividends) and any income from separately invested assets. Separately invested assets are individual investment holdings of the endowment such as real estate, stocks, bonds, and mineral interests. Expenses, if any, on the separately invested accounts, are deducted from income.

10 Represents any gains or losses attributable to the sale of an investment. Also includes the portion of distributions attributable to realized gains of the LTF.

11 Amount of growth or decline in the market value of the endowment that is not attributable to realized gains or income.

12 Beginning market value, plus contributions, reinvested income and total investment return, less withdrawals and cash distributions to the endowment. This value will also comprise the sum of the market value of the investment holdings for the endowment at the end of the year.

13 Total cash distributions divided by the average market value.

14 LTF payout was 30.98¢ per unit for the year ended August 31, 2010.

15 Number of LTF units held by the endowment at the end of the year.

16 Endowment's investment in the LTF. It is the number of LTF units held by the endowment multiplied by the LTF market value per unit at the end of the year.

DONOR ENDOWED SCHOLARSHIP

I. ENDOWMENT REPORT FOR PERIOD ENDED AUGUST 31, 2010

1	Beginning Market Value (September 1, 2009)		$212,987.18	
2	Contributions Received		--	
3	Withdrawals		--	
	Income Reinvested		--	8
	Investment Return:			
	Income	$ 1,312.82 (9)		
	Net Realized Gains (Losses) on Investments	(10) 10,254.80		
	Net Increase (Decrease) in Market Value of Investments	14,968.95 (11)		
	Total Investment Return		26,536.57	
4	Cash Distributions to Endowment Income Account		(11,567.62)	
	Ending Market Value (August 31, 2010)		$227,956.13	12

		LONG TERM FUND	OTHER	TOTAL
4	Total Cash Distributions	$ 11,567.62	--	$ 11,567.62

5	Average Market Value For Period Ended August 31, 2010 (1)	$ 223,736.84	
	Annual Yield (Total Cash Distributions as a % of Average Market Value)	5.17%	13
	Current Long Term Fund Annual Payout in Cents Per Unit	30.98¢	14

II. FIVE YEAR INVESTMENT HISTORY

6 15

YEAR ENDED 8/31	NET CONTRIBUTIONS (WITHDRAWALS)	INCOME REINVESTED	DISTRIBUTIONS	INVESTMENT RETURN	TOTAL MARKET VALUE	TOTAL BOOK VALUE	LTF MARKET VALUE	LONG TERM FUND UNITS
2006	--	--	(10,313.88)	25,501.60	251,655.36	100,000.00	251,655.36	37,315.00
2007	--	--	(10,612.40)	38,934.82	279,977.78	100,000.00	279,977.78	37,315.00
2008	--	48.58	(10,930.52)	(8,748.93)	260,346.91	100,048.58	260,346.91	37,321.48
2009	--	52.71	(11,288.32)	(36,124.12)	212,987.18	100,101.29	212,987.18	37,329.04
2010	--	--	(11,567.62)	26,536.57	227,956.13	100,101.29	227,956.13	37,329.04

7 16

(1) Five quarter average.

DONOR ENDOWED SCHOLARSHIP

III. ENDOWMENT AND LONG TERM FUND PERFORMANCE FOR THE PERIOD ENDED AUGUST 31, 2010

	ENDOWMENT TOTAL RETURN	LONG TERM FUND TOTAL RETURN (NET OF FEES) 19
17 One Year	12.60%	12.90%
Three Years (Annualized)	-1.97% 20	-1.74%
18 Five Years (Annualized)	3.87%	4.05%
Ten Years (Annualized)	4.58%	4.73%

21

IV. SCHEDULE OF INVESTMENTS AS OF AUGUST 31, 2010

	PAR/SHARES	BOOK VALUE ($)	MARKET VALUE ($)
COMMINGLED FUNDS:			
LONG TERM FUND UNITS	37,329.04	100,101.29	227,956.13
TOTAL INVESTMENTS	37,329.04	100,101.29	227,956.13

17 Computes the change in the endowment's investment value, including both capital appreciation (realized and unrealized gains and losses) and income, expressed as a percentage of the endowment's market value at the beginning of the year (September 1, 2009).

18 Endowment's total return is calculated individually for the twelve month periods ended August 31, 2006, 2007, 2008, 2009, and 2010 and the results are geometrically linked to provide a five year annualized return. The total return computes the change in the endowment's investment value, including both capital appreciation (realized and unrealized gains and losses) and income, expressed as a percentage of the endowment's market value at the beginning of the period.

19 Computes the change in the LTF value (at the Fund level) and includes both capital appreciation (realized and unrealized gains and losses) and income, expressed as a percentage of the LTF market value at the beginning of the period.

20 Endowment's total return is calculated individually for the twelve month periods ended August 31, 2008, 2009, and 2010 and the results are geometrically linked to provide a three year annualized return. The total return computes the change in the endowment's investment value, including both capital appreciation (realized and unrealized gains and losses) and income, expressed as a percentage of the endowment's market value at the beginning of the year.

21 Endowment's total return is calculated individually for the twelve month periods ended August 31, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, and 2010 and the results are geometrically linked to provide a ten year annualized return. The total return computes the change in the endowment's investment value, including both capital appreciation (realized and unrealized gains and losses) and income, expressed as a percentage of the endowment's market value at the beginning of the period.

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