



2003 Operating Funds

Operating Funds Ownership

(in millions)

August 31, 2003	Short Term Fund	Short Intermediate Term Fund	Institutional Index Funds	Total Value
UT System Administration	\$ 534.7	\$ 140.5	\$ -	\$ 675.2
UT Arlington	79.8	16.3	-	96.1
UT Austin	649.5	37.2	103.5	790.2
UT Brownsville	23.4	3.5	-	26.9
UT Dallas	11.3	63.3	-	74.6
UT El Paso	33.4	14.0	-	47.4
UT Pan American	9.8	44.1	1.9	55.8
UT Permian Basin	8.3	1.1	0.4	9.8
UT San Antonio	41.9	41.6	-	83.5
UT Tyler	17.2	0.4	-	17.6
UT Southwestern Medical Center at Dallas	43.7	337.3	99.1	480.1
UT Medical Branch at Galveston	176.0	75.3	-	251.3
UT Health Science Center at Houston	70.1	114.0	-	184.1
UT Health Science Center at San Antonio	14.2	136.2	-	150.4
UT M.D. Anderson Cancer Center at Houston	110.1	401.6	116.9	628.6
UT Health Center at Tyler	13.8	8.9	-	22.7
Total	\$ 1,837.2	\$ 1,435.3	\$ 321.8	\$ 3,594.3

Operating funds are used primarily to fund UT System component institutions' short term operating needs as well as long term institutional needs associated with capital programs, financial reserves, and endowment matching funds. The UT System institutions have three

investment fund options, allowing the institutions to match the particular time horizon of each investment fund. The three funds are the Short Term Fund (STF), the Short Intermediate Term Fund (SITF) and the Institutional Index Funds (IIF).



SHORT TERM FUND

Overview

The UT System Short Term Fund (STF) is an institutional money market mutual fund consisting of the UT System institutions' working capital and other operating fund balances with an investment horizon less than one year. Withdrawals from the STF are used by the UT System institutions for day-to-day operating purposes and in the management of cash. The STF is invested in the Dreyfus Institutional Preferred Money Market Fund (Dreyfus Fund). The STF's investment objective is to maximize current income consistent with the absolute preservation of capital and maintenance of adequate STF liquidity. The STF maintains a degree of liquidity and safety of principal by investing in short-term money market obligations, including securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities, U.S. dollar denominated time deposits, certificates of deposits, banker's acceptances and other short-term obligations issued by domestic and foreign banks, repurchase agreements, asset-backed securities, and high quality

domestic and foreign commercial paper and other short-term corporate obligations, including those with floating or variable rates of interest. The Dreyfus Institutional Preferred Money Market Fund was rated AAA_m by Standard and Poor's Inc., the highest credit rating that a money market fund may receive from the firm.

Financial Highlights

For the year ended August 31, 2003, STF balances invested in the Dreyfus Fund increased from \$1,315.1 million to \$1,837.2 million. Endowment and other operating funds (PUF, PHF, LTF, GEF, SIF and SITF) also invested in the Dreyfus Fund decreased from \$2,114.4 million to \$1,912.5 million, resulting in a combined UT System total balance of \$3,749.7 million. As of August 31, 2003, total UT System balances represented 31.1% of the Dreyfus Fund.

Investment Return

The chart below presents the performance of the STF compared to the 90 Day Treasury Bill rate.

Investment Return

August 31, 2003	Average Annual Return		
	One Year	Three Years	Five Years
Short Term Fund	1.34%	3.06%	4.09%
90 Day Treasury Bills	1.38%	3.05%	3.92%



SHORT INTERMEDIATE TERM FUND

Overview

Totaling \$1.4 billion, the Short Intermediate Term Fund (SITF) is an internal UT System mutual fund for the pooled investment of UT System institutional operating funds with an investment horizon from one to five years. The SITF commenced operations on March 1, 1993. The SITF also serves as the source of a \$750 million self-liquidity facility for the Board of Regents of The University of Texas System Revenue Financing System Notes program. The SITF also has a commitment in connection with the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 2001A. As of August 31, 2003, the SITF is committed to a maximum purchase commitment of \$58.1 million in the event of a failed remarketing of the Series 2001A bonds. The amount of commitment is expected to decrease annually based on amortization of the Series 2001A bonds.

The SITF is structured as a mutual fund in which 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 the components'

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.

Investment Policy

The SITF's primary investment objective is 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 primarily government obligations, and other high grade fixed income and floating rate obligations. The SITF's 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 an AAA_f 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.

Financial Highlights

	(in millions)				
Years Ended August 31,	1999	2000	2001	2002	2003
Beginning Net Asset Value	1,809.6	1,769.4	1,844.4	1,704.6	1,435.9
Contributions (Withdrawals)	13.2	81.6	(194.7)	(261.0)	26.6
Net Investment Return	52.9	107.4	160.7	59.6	25.1
Distributions of Income	(106.3)	(114.0)	(105.8)	(67.3)	(52.3)
Ending Net Asset Value	\$ 1,769.4	\$ 1,844.4	\$ 1,704.6	\$ 1,435.9	\$ 1,435.3



SITF (continued)

Investment Return and Market Commentary

The SITF posted an investment return of 1.64% (net of investment management fees) for the year ended August 31, 2003. The SITF entered fiscal 2003 positioned for a broad-based economic recovery. With the continuing support of monetary and fiscal stimulus flowing through the economic system (courtesy of Federal Reserve interest rate cuts and Federal Government tax relief), the SITF was positioned for a general rise in market interest rates as both the consumer and corporate sector were poised for a sustained rebound. However, with the developing strains of the Iraq War, and with the subsequent fears of potential deflation spurring

investor uncertainty, market interest rates remained in a broad-based decline throughout most of the year. Although it's overall positioning hindered results somewhat, the SITF was able to maintain its dedicated status of preserving investor capital and outperform money market interest rates, even in the most turbulent of market environments.

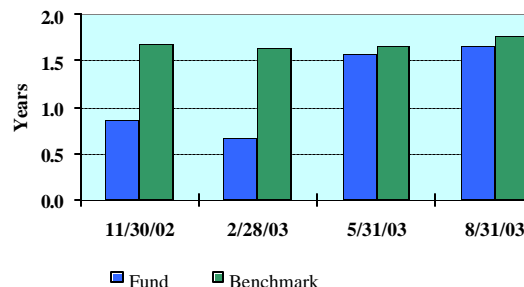
The chart below compares the SITF's performance against its policy portfolio benchmark. The policy portfolio benchmark is a composite index consisting of Government Federal Agencies, Government Treasuries and Treasury bills.

Investment Return

August 31, 2003	Average Annual Return		
	One Year	Five Years	Ten Years
Short Intermediate Term Fund	1.64%	4.60%	5.38%
Policy Portfolio Benchmark	2.52%	5.61%	5.67%

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, 2003, the option adjusted duration of the portfolio was 1.67 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 1.67%.

Option Adjusted Duration





INSTITUTIONAL INDEX FUNDS

Overview

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. These funds consist of a U.S. debt index fund and a U.S. equity index fund and are designed to offer higher expected returns than those available with the Short Term Fund and the Short Intermediate Term Fund.

Debt Index Fund

The debt index fund is a U.S. debt index fund managed by Barclays Global Investors to replicate the return of the Lehman Brothers Aggregate Bond Index. The debt index fund 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 debt index fund is interest rate risk associated with a modified adjusted duration of roughly 4.6. Credit or default risk is a secondary risk which is mitigated in part by the diversification of the debt index fund among 1,000 individual bonds. The total return of the Lehman Brothers Aggregate Bond Index for the fiscal year ended August 31, 2003, was 4.36%.

Equity Index Fund

The equity index fund is an equity index fund managed by Barclays Global Investors to replicate the S&P 500 Index. The equity index fund 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 equity index fund 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, 2003, was 12.07%.