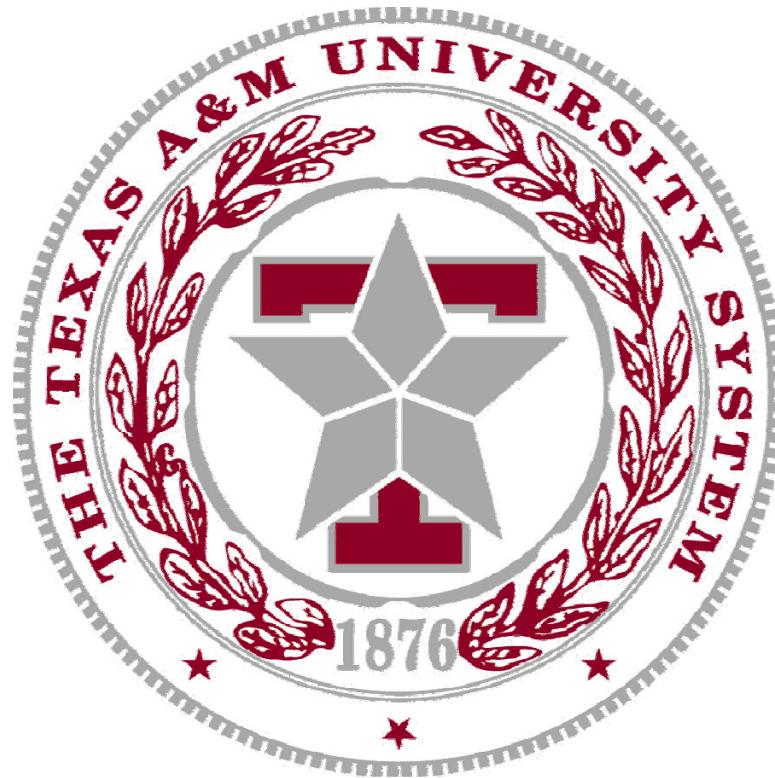


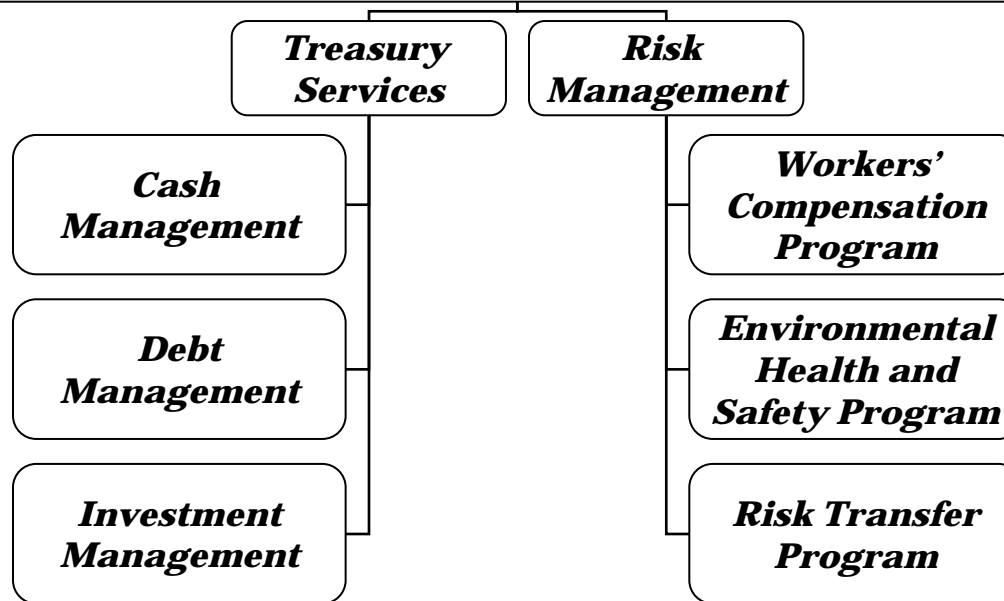
The Texas A&M University System Overview of Treasury Services



December 2007

Office of the Treasurer Organizational Structure

***Associate Vice Chancellor and Treasurer
Greg Anderson***



Treasury Services Mission

To provide centralized financial services to the Members of The Texas A&M University System through innovative, effective, and efficient cash, debt, and investment management and to assist with capital planning.

Investment Programs

- *Cash Concentration Pool (CCP)*
 - *\$1.5 billion in assets [12/31/07]*
 - *7.0% annualized 10-year return [12/31/07]*
- *System Endowment Fund (SEF)*
 - *\$799 million in assets [12/31/07]*
 - *9.1% annualized 10-year return [12/31/07]*
- *Investment Reporting and Communications*
- *External Investment Manager Relationships*
- *Cash Management and Bank Operations*

Cash Management

Primary Objective

- *Pool all System cash and manage in such a manner as to:*
 - *Fund disbursements on a daily basis while maintaining bank balances as close to zero as possible*
 - *Invest idle cash to provide adequate liquidity while achieving the highest possible investment returns*

Cash Management

Achieving Objectives

- *Manage the banking and investment relationships:*
 - *Lead Bank – used for disbursements and most ACH transactions [Wells Fargo]*
 - *Depository Bank – used for the deposit of daily receipts by System Members [Wells Fargo]*
 - *Short Term Portfolio – proprietary money market fund [managed by Standish Mellon]*
 - *Long Term Pool – invested by external managers according to asset allocation*

Cash Concentration Pool Policy Asset Allocation

<i>Asset Class</i>	<i>Target Allocation</i>	<i>Asset Class</i>	<i>Target Allocation</i>
<i>Short Term Portfolio</i>	<i>8%</i>	<i>Domestic Equity</i>	<i>24%</i>
<i>Liquidity Portfolio</i>	<i>10%</i>	<i>International Equity</i>	<i>15%</i>
<i>Fixed Income</i>	<i>25%</i>	<i>Absolute Return</i>	<i>18%</i>

Cash Concentration Pool Performance

Performance Periods Ended December 31, 2007

Total Market Value at December 31, 2007: \$1.5 Billion

	<i><u>1-Yr.</u></i>	<i><u>3-Yr.</u></i>	<i><u>5-Yr.</u></i>	<i><u>10-Yr.</u></i>
<i>Cash Concentration Pool</i>	<i>7.0%</i>	<i>6.5%</i>	<i>8.0%</i>	<i>7.0%</i>
<i>Top Quartile</i>	<i>7.6%</i>	<i>5.9%</i>	<i>6.8%</i>	<i>5.9%</i>

System Endowment Fund

Primary Objectives

- *All endowment assets of the System are invested in the System Endowment Fund (SEF) with the primary objectives of:*
 - *Providing a continuing and dependable payout, growing in real terms after giving effect to inflation*
 - *Causing the value of the fund to appreciate over time, exclusive of growth derived from donations*

System Endowment Fund

Achieving Objectives

- *Management attempts to meet objectives by:*
 - *Maximizing the return on the SEF's investments, consistent with the appropriate level of risk and the need for current payout*
 - *Maintaining proper diversification to ensure that investment in a single security, a class of securities, or an industry will not have an excessive impact on the SEF*

System Endowment Fund Policy Asset Allocation

<i>Asset Class</i>	<i>Target Allocation</i>	<i>Asset Class</i>	<i>Target Allocation</i>
<i>Fixed Income</i>	<i>15%</i>	<i>Inflation Hedging*</i>	<i>7%</i>
<i>Domestic Equity</i>	<i>30%</i>	<i>Absolute Return</i>	<i>16%</i>
<i>International Equity</i>	<i>20%</i>	<i>Private Equity</i>	<i>12%</i>

**Inflation Hedging includes timber, real estate, and energy investments.*

System Endowment Fund Performance

Performance Periods Ended December 31, 2007

Total Market Value at December 31, 2007: \$799 Million

	<i><u>1-Yr.</u></i>	<i><u>3-Yr.</u></i>	<i><u>5-Yr.</u></i>	<i><u>10-Yr.</u></i>
<i>System Endowment Fund</i>	<i>8.5%</i>	<i>10.2%</i>	<i>14.1%</i>	<i>9.1%</i>
<i>Top Quartile</i>	<i>10.8%</i>	<i>9.4%</i>	<i>13.2%</i>	<i>7.8%</i>

Endowment Spending Policy

Excluding fees, distribute no more than 5% of the previous 20-quarter rolling average unit market value of the System Endowment Fund calculated the last day of February for the next fiscal year

External Manager Selection

- *Investment Managers are selected based on the following criteria:*
 - *Asset class and style of management*
 - *Management philosophy and application of process consistently through time*
 - *Experience of personnel and track record of performance*
 - *Proven ability to outperform managers of similar style*

External Manager Termination

- *Managers are terminated for the following reasons:*
 - *Non-compliance with investment policy*
 - *Change in the firm's investment philosophy and/or investment process*
 - *Change in investment personnel*
 - *Sustained underperformance of manager versus peers*

Debt Management

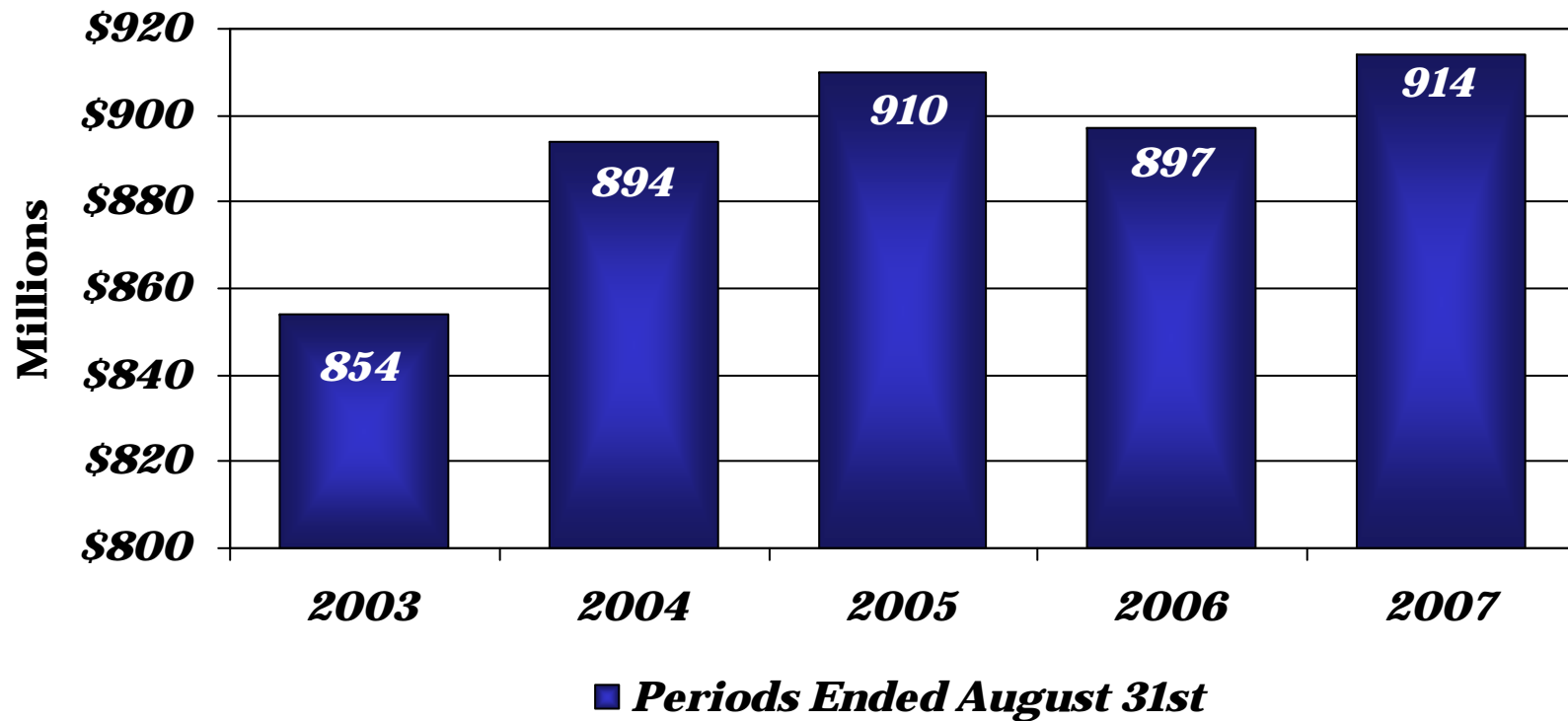
Debt Programs

- ***Revenue Financing System (RFS)***
 - *\$759 million outstanding bonds [12/31/07]*
 - *10 bond issues outstanding [12/31/07]*
 - *\$174 million outstanding commercial paper and notes [12/31/07]*
 - *4.60% average interest cost*
- ***Permanent University Fund (PUF)***
 - *\$405 million outstanding bonds [12/31/07]*
 - *5 bond issues outstanding [12/31/07]*
 - *No outstanding flexible rate notes [12/31/07]*
 - *5.06% average interest cost*
- ***Arbitrage Tracking Process***
- ***SEC Disclosure***
- ***Assistance with Capital Planning***

Revenue Financing System

- *Bond Ratings: Aa1, AA+*
- *Total Debt Outstanding: \$933 Million [12/31/07]*
- *Available to all System Members*
- *Used to finance new construction, renovations, equipment, and land acquisitions including auxiliary enterprise projects such as athletic facilities and dormitories*
- *Debt service is provided by participating System Members*
- *Tuition Revenue Bond authorizations are issued under the RFS program with debt service reimbursed by the State*
- *Available additional capacity based on revenues and reserve balances: \$1.8 Billion*

Revenue Financing System Debt Outstanding



Revenue Financing System Debt by System Component

<i>Texas A&M University</i>	<i>44.60%</i>
<i>Prairie View A&M University</i>	<i>12.19%</i>
<i>Texas A&M International</i>	<i>9.66%</i>
<i>Texas A&M - Corpus Christi</i>	<i>7.83%</i>
<i>Tarleton State University</i>	<i>7.43%</i>
<i>West Texas A&M</i>	<i>5.39%</i>
<i>Texas A&M - Texarkana</i>	<i>1.60%</i>
<i>Texas A&M - Kingsville</i>	<i>2.76%</i>
<i>Texas A&M - Commerce</i>	<i>4.37%</i>
<i>Health Science Center</i>	<i>2.34%</i>
<i>Texas A&M University-Galveston</i>	<i>1.36%</i>
<i>Engineering Agencies</i>	<i>0.12%</i>
<i>System Offices</i>	<i><u>0.35%</u></i>
<i>Total</i>	<i>100.00%</i>

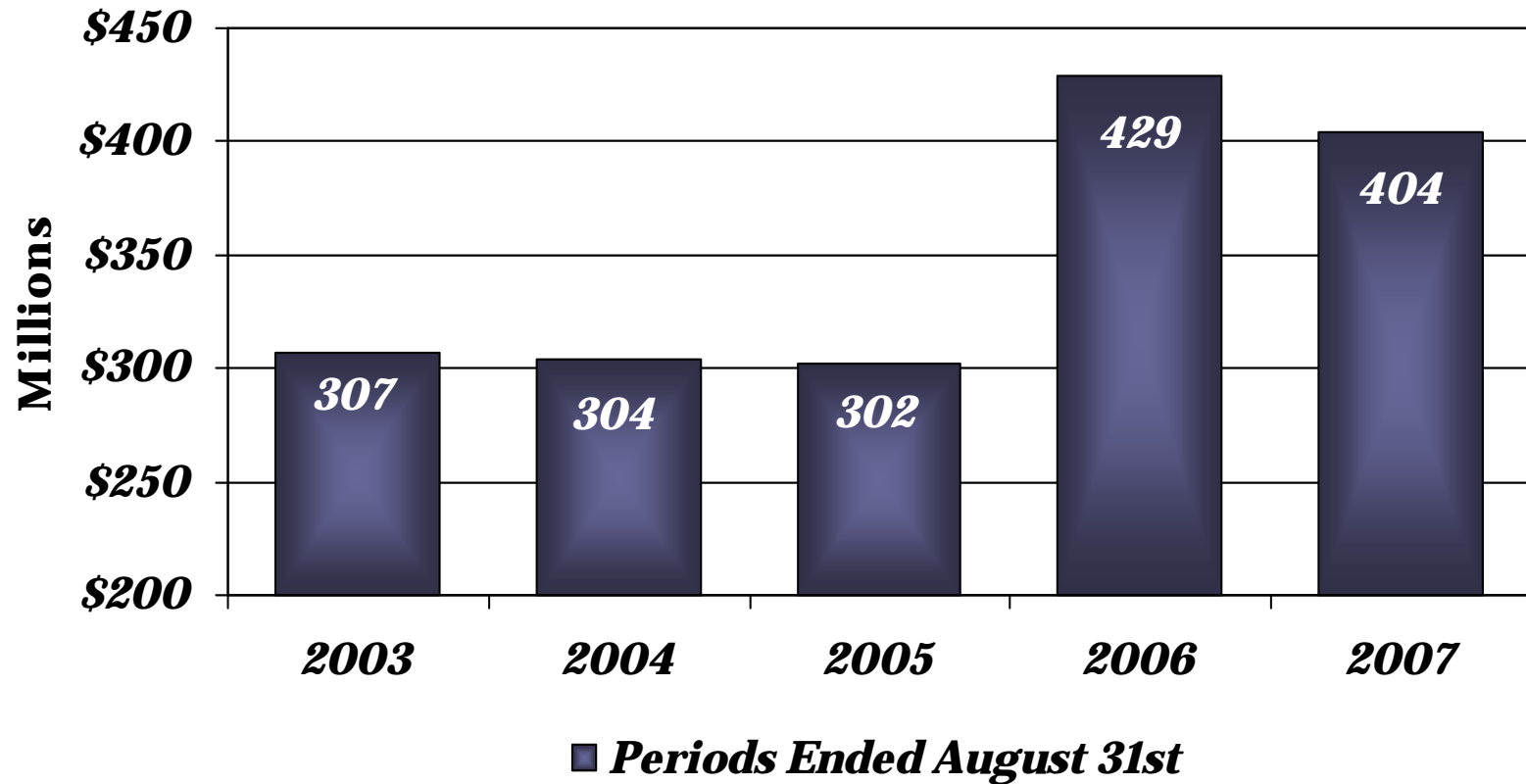
Available University Fund

- *The Available University Fund is the distribution from the Permanent University Fund.*
 - *Calculated as a percentage (currently 4.75%) of the 12-quarter average market value of the Permanent University Fund*
 - *Includes surface income from the land*
- *1/3 of distribution for A&M System and 2/3 for UT System*
- *Distribution can be used for debt service or excellence/operations expenditures*
- *Excellence/operations available to:*
 - *Texas A&M University*
 - *Prairie View A&M University*
 - *System Offices*

Permanent University Fund Debt

- *Bond Ratings: Aaa, AAA*
- *Total Debt Outstanding: \$404 Million [12/31/07]*
- *Available to:*
 - *Texas A&M University*
 - *Texas A&M University at Galveston*
 - *Tarleton State University*
 - *Prairie View A&M University*
 - *AgriLife and Engineering Agencies*
 - *Health Science Center (except Baylor College of Dentistry and Pharmacy School in Kingsville)*
- *Debt service is paid from one-third allocation of Available University Fund income*
- *Debt outstanding cannot exceed 10% of the book value of the Permanent University Fund*
- *Available Additional Capacity: \$203 Million*
- *Used to finance new construction, renovation of Educational & General facilities, equipment purchases, library materials, and land acquisitions*

Permanent University Fund Debt Outstanding



Permanent University Fund Debt by Benefiting System Component

<i>Texas A&M University</i>	<i>55.58%</i>
<i>Prairie View A&M University</i>	<i>18.98%</i>
<i>Tarleton State University</i>	<i>8.67%</i>
<i>AgriLife Agencies</i>	<i>4.17%</i>
<i>Texas A&M University-Galveston</i>	<i>3.15%</i>
<i>Health Science Center</i>	<i>5.92%</i>
<i>Engineering Agencies</i>	<i>2.38%</i>
<i>System Offices</i>	<i><u>1.15%</u></i>
<i>Total Debt</i>	<i>100.00%</i>