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Board Meeting: 8/11-12/2004
U. T. M. D. Anderson Cancer Center

	Board Meeting
<u>WEDNESDAY, AUGUST 11</u>	
A. CALL TO ORDER IN OPEN SESSION	<i>9:30 a.m.</i> <i>Chairman</i> <i>Huffines</i>
B. U. T. System: Discussion and appropriate action regarding executive compensation philosophy	<i>9:30 a.m.</i> <i>Chancellor Yudof</i>
C. RECESS TO EXECUTIVE SESSION	<i>9:45 a.m.</i>
1. U. T. Board of Regents: Deliberations Regarding the Purchase, Exchange, Lease or Value of Real Property - <u>Texas Government Code</u> Section 551.072	
U. T. Pan American: Determination of necessity and authorization to acquire six tracts of mostly undeveloped land consisting of approximately 75 acres located immediately north and west of the campus in Edinburg, Hidalgo County, Texas, by purchase or condemnation, if necessary	<i>Mr. Wilson</i> <i>Dr. Nevárez</i>
2. U. T. Board of Regents: Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - <u>Texas Government Code</u> Section 551.074	
a. U. T. Dallas: Consideration of personnel matters related to presidential search	
b. U. T. System: Consideration of personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents, U. T. System officers and employees	
3. U. T. Board of Regents: Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers - <u>Texas Government Code</u> Section 551.071	
D. RECONVENE IN OPEN SESSION FOR ACTION ON EXECUTIVE SESSION ITEMS	<i>12:25 p.m.</i>

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| E. RECESS FOR MEETINGS OF STANDING COMMITTEES | 12:30-5:00 p.m. |
| Health Affairs Committee | 12:30 p.m. |
| Academic Affairs Committee | 1:45 p.m. |
| Finance and Planning Committee | 2:45 p.m. |
| Facilities Planning and Construction Committee | 4:00 p.m. |

THURSDAY, AUGUST 12

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| F. RECONVENE MEETING OF THE BOARD IN OPEN SESSION | 8:00 a.m. | |
| G. APPROVAL OF MINUTES | | |
| H. CONSIDER AGENDA ITEMS | | |
| 1. U. T. M. D. Anderson Cancer Center: Update on activities of the institution by President Mendelsohn | 8:10 a.m.
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| 2. U. T. System: Report on Selected Legislative Issues for the 79th Texas Legislative Session | 8:30 a.m.
Report
<i>Vice Chancellor Smith</i> | 2 |
| 3. U. T. System: Accountability Framework Update | 8:45 a.m.
Report
<i>Dr. Malandra</i> | 3 |
| 4. U. T. System: Approval of the operating budgets for the fiscal year ending August 31, 2005, and approval of Permanent University Fund Bond Proceeds allocation for Library, Equipment, Repair and Rehabilitation Projects | 8:50 a.m.
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<i>Chancellor Yudof</i> | 4 |
| 5. U. T. Board of Regents: Amendment of Bylaws for The University of Texas Investment Management Company (UTIMCO) | 9:20 a.m.
Action
<i>Chancellor Yudof</i> | 6 |
| 6. U. T. Board of Regents: Approval of the Investment Management Services Agreement with The University of Texas Investment Management Company (UTIMCO) | 9:25 a.m.
Action
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7.	U. T. Board of Regents: Amendment of Regents' <u>Rules and Regulations</u> related to The University of Texas Investment Management Company (UTIMCO) and investment issues	9:30 a.m. Action <i>Chancellor Yudof</i>	10
8.	U. T. System: Authorization of a Fee for Investment Oversight	9:35 a.m. Action <i>Chancellor Yudof</i>	14
9.	U. T. Board of Regents: Approval to Amend the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Short Intermediate Term Fund, Separately Invested Accounts, and Short Term Fund Investment Policy Statements	9:45 a.m. Action <i>Mr. Boldt</i>	15
L.	RECESS FOR MEETINGS OF STANDING COMMITTEES	9:50 a.m.	
M.	RECONVENE MEETING OF THE BOARD		
N.	OTHER MATTER		
	U. T. Board of Regents: Presentation of certificate of appreciation to President Nevárez	10:10 a.m. Action <i>Chairman Huffines</i>	109
Adjourn		10:15 a.m. <i>approximately</i>	

THURSDAY, AUGUST 12

- J. APPROVAL OF MINUTES
- K. CONSIDER AGENDA ITEMS
- 1. **U. T. M. D. Anderson Cancer Center: Update on activities of the institution by President Mendelsohn**

REPORT

President Mendelsohn will present an update on activities of U. T. M. D. Anderson Cancer Center. A PowerPoint presentation is attached on Pages 1.1 - 1.9.

The University of Texas M. D. Anderson Cancer Center

John Mendelsohn, M.D.
President



Vision

We shall be the premier cancer center in the world, based on the excellence of our people, our research-driven patient care and our science. We are Making Cancer History.®

Four Reasons for Top Quality

- We have an outstanding and caring staff of physicians, nurses and other professionals.
- Our patient care is research-driven, so we offer options others do not.
- Our clinics are multidisciplinary, so several minds come together to benefit each patient.
- Our patients are knowledgeable and trusting, and this is an incentive to be innovative and creative.

Patient Care Statistics

	<u>FY'03</u>	<u>5-Year % Growth</u>
Total Patients Served	65,778	37.8%
New Patients Served	24,715	39.7%
Admissions	19,430	22.0%

Education Profile – FY 2003

• Clinical Residents/Fellows	961
• Research Fellows	682
• Graduate Students (with UTHSC)*	450
• Visitors/Special Programs	295
• Nursing Students	310
• Student Programs	301
• School of Health Sciences*	136
• TOTAL TRAINEES	3135

*degree granting program

Research

	<u>2003</u> (Projected)	<u>5 year</u> <u>% increase</u>
Federal grant dollars*	\$164M	143%
# peer-reviewed grants*	510	67%
SPORES* (Specialized Programs of Research Excellence)	9	900%
Patients enrolled in therapeutic clinical trials	12,232	200%
Training grants	26	160%

*Most NCI grants (208), NCI grant dollars (\$98.4M) and SPORES of any academic institution

Strategic Vision

for Making Cancer History® 2005 – 2010

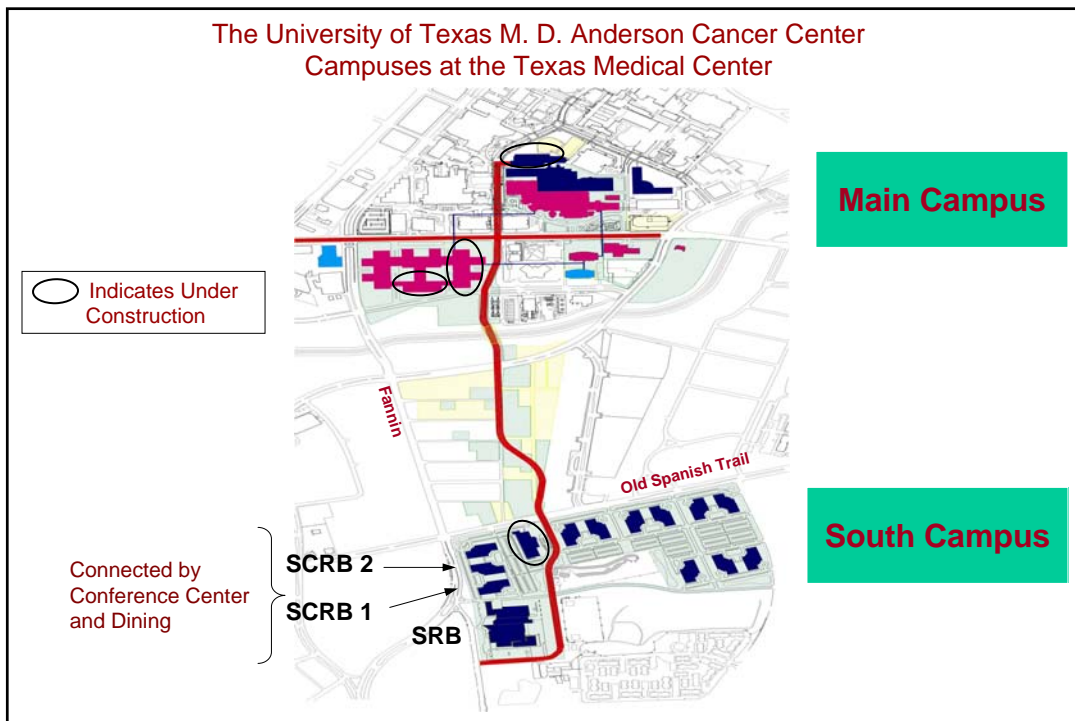


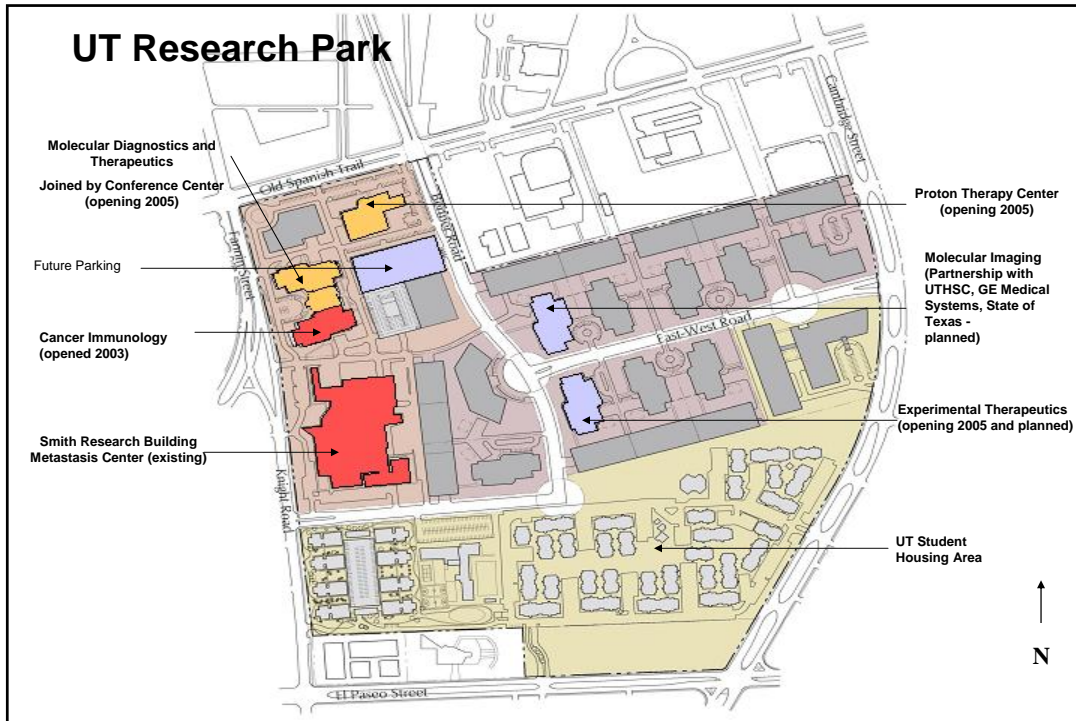
Goals for Future Advancement

- (1) Enhance the excellence, value, safety and efficiency of our patient care.
- (2) Enhance the quality of existing research programs and develop priority programs for the future.
- (3) Enhance the quality and outcomes of our undergraduate and graduate degree-granting programs, and our post-doctoral training programs.

Goals for Future Advancement, cont

- (4) Expand research addressing risk assessment, prevention and early detection of cancer and develop strategies to disseminate these findings.
- (5) Advance M. D. Anderson as an employer of choice.
- (6) Increase our mission-driven collaborations.
- (7) Safeguard and enhance our resources.





Smith Research Building



**South Campus
Bldg II 147,000sf**

**Immunology
Bldg Opened
Summer 2003.**

132,000 sf

The University of Texas M.D. Anderson Cancer Center
South Campus Research Buildings One and Two
and
Conference Center

George and Cynthia Mitchell BSRB

486,000 sf



Cancer Prevention Building

391,000 sf



Ambulatory Clinical Building

782,000 sf



THE UNIVERSITY OF TEXAS
MD ANDERSON
CANCER CENTER
Making Cancer History™

2. **U. T. System: Report on Selected Legislative Issues for the 79th Texas Legislative Session**

REPORT

The Honorable E. Ashley Smith, Vice Chancellor for Governmental Relations, will review various legislative issues of interest to the U. T. System, including regulatory issues. A report on Pages 2.1 - 2.11 addresses the various elements that enhance the performance of the U. T. mission to provide high quality educational opportunities. Vice Chancellor Smith's PowerPoint presentation is set forth on Pages 2.12 - 2.18.

**Report on Possible Legislative and Regulatory Issues
for the 79th Legislature
Office of Governmental Relations**

INTRODUCTION

At the May 2004 meeting of the Board of Regents, the Office of Governmental Relations presented an outline of the issues submitted by institutions within the System and by System Administration for possible consideration by the Legislature in the 79th Regular Session in 2005. Each of the issues has been analyzed in comparison to the mission statement of the System, the accountability framework established by the System, and the System's obligations to meet the goals of the Texas Higher Education Coordinating Board's report, *Closing the Gaps*. Further analysis has refined the themes into six that best describe the goals of System legislative issues for 2005:

- Closing the gaps
- Ensuring high quality education and academic success
- Providing excellence in health care
- Enhancing institutional competitiveness for educators and researchers
- Strengthening services to public education and communities
- Improving efficiency of operations and productive use of resources

From the numerous issues raised by System institutions and administrators, the Chancellor, in consultation with the executive vice chancellors and the Office of Governmental Relations, has identified issues for consideration as System priorities. Many of the priority issues involve the appropriation of state dollars through a formula, through a special item specific to an institution or class of institutions, or through the restoration of previous reductions or vetoed funds. It is therefore important and practical to recognize the context for legislative consideration of these issues: For FY 2004-05, general revenue appropriations statewide decreased 2.9% compared to FY 2002-03. For higher education the general revenue decrease was 2.5% compared to FY 2002-03.

In addition, the System and institutions recently received instructions from the Legislative Budget Board (LBB) that limits each Legislative Appropriations Request (LAR) for general revenue-related funds to 95% of the sums expended in FY 2004 and budgeted for FY 2005. The five percent reduction effectively compounds the previous reductions, and the effect is magnified by the growth in student enrollment, which was 12.6% from Fall 2000 to Fall 2002. How the legislature will treat these issues in the next General Appropriations Act is unpredictable.

EXECUTIVE SUMMARY

Although this report focuses on issues that System institutions believe need legislative consideration, the institutions are engaged in projects and planning that address these issues within current statutory authority and funding.

The highest priority issue is full formula funding that accounts for growth and inflation. Additional System priority issues are:

Closing the Gaps, including:

- ▶ *Supporting emerging institutions and doctoral programs*
- ▶ *Modifying the Higher Education Assistance Fund (HEAF) in regard to equipment and library resources*

Ensuring High Quality Education and Academic Success, including:

- ▶ *Addressing the impact of the Top 10% rule on admissions*
- ▶ *Maximizing the TEXAS Grant program*

Providing Excellence in Health Care, including:

- ▶ *Supporting Graduate Medical Education (GME)*
- ▶ *Providing for indigent care*
- ▶ *Using a formula that does not penalize established educational programs*
- ▶ *Providing for correctional managed care*
- ▶ *Developing the Regional Academic Health Center (RAHC)*
- ▶ *Addressing the conflict between nursing curriculum and licensing requirements*

Enhancing Institutional Competitiveness for Educators and Researchers, including:

- ▶ *Promoting increased research capacity*
- ▶ *Addressing the definition of “restricted research” in research reporting*

Strengthening Services to Public Education and Communities, including:

- ▶ *Continuing current collaborations*
- ▶ *Supporting new initiatives*

Improving Efficiency of Operations and Productive Use of Resources, including:

- ▶ *Establishing a statewide accountability System*
- ▶ *Preserving human resources*
- ▶ *Removing statutory restrictions on administrative flexibility*

Issues specific to an institution, such as legislative authority for a student fee, special item funding, or Tuition Revenue Bonds have been reviewed by System Administration. Whether or not to present those issues for consideration by the legislature is a matter to be determined by the individual institution. The System Administration will support institutions in addressing institution-specific issues that are consistent with the goals described earlier. System institutions are currently preparing Legislative Appropriations Requests and awaiting legislative instructions on Tuition Revenue Bonds.

WORK IN PROGRESS

As noted in the introduction, the issues described in this report are similar to those from the accountability study, which focused on the work of the System institutions. This report focuses on what the institutions need to perform that work, as well as what additional work the institutions want to do. Accordingly, System institutions address the issues described in this report in partnership with the legislature, which directs policy both through substantive legislation and through appropriations.

Projects planned or in progress that address some of these issues within current statutory authority and funding include:

- Creative use of available “excellence” funds and creative means of financing to encourage synergy between the System’s academic and health institutions in order to leverage the strengths of both
- Use of tuition flexibility to encourage timely graduation, such as flat-rate tuition
- Proactive production of an accountability study and plan
- Use of telemedicine and other innovative delivery techniques to provide cost-effective health care.

SYSTEM PRIORITY ISSUES

The highest priority issue is the funding of the formulas by which general revenue is appropriated to academic and health institutions. The core instructional mission of System institutions is dependent on the full funding of formulas that account for inflation and enrollment growth.

The following additional issues, arranged by theme, are those suggested by System Administration as priority issues. The listing is not intended as a rank order of priorities, but rather merely identifies each as a priority issue. Particularly to the extent that some of the issues will represent competing priorities for scarce public dollars, a rank ordering will naturally develop in the legislative process.

Closing the Gaps

The System is committed to meeting the goals established by the Texas Higher Education Coordinating Board entitled *Closing the Gaps: The Texas Higher Education Plan*. Meeting the goals of *Closing the Gaps* is dependent on the provision of funding that is adequate for the necessary growth in faculty, advisors, recruiters, and capital improvements. In addition, the following are specific priority issues that relate to the System’s efforts in this regard:

► *Supporting emerging institutions and doctoral programs.* Most of the state’s higher education resources are located in the central part of the state within a triangle running from Dallas/Fort Worth to San Antonio to Houston/Galveston. Five of the ten largest population centers lie outside this triangle, including El Paso and three areas in South Texas that are Metropolitan Statistical Areas for census purposes: Corpus Christi, Brownsville-Harlingen-San Benito and McAllen-Edinburg-Mission. The population

centers in South Texas are among the fastest growing areas in the state and the nation; they also have the majority minority population. Emerging institutions in the Midland-Odessa and Tyler-Longview-Marshall metropolitan areas also play a critical role in the economic and social growth of their regions as well as serving statewide student needs. Although strides have been made outside the central core for emerging institutions and doctoral institutions, more support must be provided, particularly if the state is to be successful at meeting the goals of *Closing the Gaps* in participation and in research.

In addition, the Washington Advisory Group report, while focused on expanding and enhancing the research capacity of emerging System institutions such as UT Brownsville and UT Pan American, also provides direction for improving the undergraduate curriculum and program effectiveness at those institutions.

► *Modifying the Higher Education Assistance Fund (HEAF) in regard to equipment and library resources.* The University of Texas-Pan American and The University of Texas at Brownsville, the only System institutions that benefit from the constitutional Higher Education Assistance Fund (the common name for the constitutional appropriation of funds under Article VII, Section 17, Texas Constitution) instead of the Permanent University Fund, are among the few institutions best poised to contribute most significantly towards meeting the state's *Closing the Gaps* goals in regard to minority participation in higher education. Enrollment at each institution comes predominately from minority students. UT Pan American ranks second in the nation in the number of bachelor degrees awarded to Hispanics.

The HEAF funds, which may be used only for limited capital purposes (including capital equipment and library), are allocated by legislative formula for 10-year periods, but the formula may be adjusted every five years. In the current allocation period (FYs 2001 – 2005), UT Pan American and UT Brownsville suffered reductions of \$12,659,645 and \$2,554,395 respectively, despite their critical role in closing the gaps.

The reductions were the result of an allocation formula that does not adequately address the need for capital equipment, particularly the technology needed to provide students access to modern microscopes, computer Systems, and libraries that will best prepare them for entry into the employment marketplace. The 79th Legislature has the necessary constitutional authority and the once-every-five-years opportunity to modify the allocation formula for the next five-year allocation period.

Ensuring Quality Education and Academic Success

Institutions of The University of Texas System, which already account for more than one-third of the total number of enrolled students in Texas public universities, must grow infrastructure and services in order for students to have access to high-quality programs and to succeed in those programs. Increased funding through appropriate formulas would permit the adding of faculty and the reduction of student-teacher ratios, which facilitates higher quality education.

Increased funding would permit enhancement of the advising function, produce greater graduation rates and more timely graduations, and ultimately reduce costs. In addition, the following are specific priority issues related to the System's efforts in this regard:

▶ *Addressing the impact of the Top 10% rule on admissions.* State law (Sec. 51.803, Texas Education Code) currently requires the automatic admission of freshman applicants who graduate in the top 10% of their graduating class. There is evidence that if the top 10% provisions are not modified, the percentage of automatically admitted students in UT Austin's freshman class will continue to increase.

Over reliance on a single factor, such as high school class ranking, has a dramatic effect on certain highly specialized areas of study like music, art, drama and architecture, which require talent or portfolio reviews for admissions decisions. Those talents are not addressed by traditional admissions measures like class rank or test scores. As the percentage of automatically admitted students increases, the ability of UT Austin to review these special talents becomes more limited and could be eliminated.

The System has embraced a holistic approach to admissions while at the same time supplementing the progress already made in increasing diversity. Under Regental policy, System institutions will be able to use race and ethnicity among the many factors considered in admissions.

Consideration of this issue is a specific charge of the Subcommittee on Higher Education of the Senate Education Committee. The committee conducted an extensive public hearing on this issue on June 24, 2004.

▶ *Maximizing the TEXAS Grant program.* The Toward EXcellence, Access and Success ("TEXAS") Grant Program was created in 1999 by the Texas Legislature. The program emphasis is on retention of students, and students who continue to meet academic and other eligibility criteria can continue to receive awards, which pay tuition and fees, for up to six years. The State of Texas has strongly encouraged high school students to take the "recommended" or "advanced" high school college-prep curriculum with the representation that a TEXAS Grant would be available to assist them financially for college. In addition, higher education institutions have heavily promoted this program to students and parents.

Although total appropriations for the TEXAS Grant Program, which is need-based, increased for FY04 and FY05, the amount appropriated is less than the amount necessary to make grants to all eligible students. As a result, the amount available for *initial awards* to *new* students was dramatically reduced because coordinating board rules give priority to continuation awards (awards to students who have previously received an initial award).

The effect is easily seen at one System institution alone: UT Pan American is an institution at which 45% of students have an annual family income of less than \$20,000 and serves the fast-growing border region that is on the front line of Closing the Gaps. However, because priority must be given to continuation awards, UT Pan American was allocated only \$1,080,160 in FY2004 for initial TEXAS Grants to new students, compared to \$5,066,554 in FY2003. As a result, UT Pan American was able to award grants to only 353 out of approximately 2000 new eligible students.

*Prepared by Office of Governmental Relations
July 2004*

Providing Excellence in Health Care

The mission statement for The University of Texas System includes this mission: “To provide excellent, affordable, and compassionate patient care through hospitals and clinics that are of central importance to programs of teach, scholarship, research, and service with medicine and related health sciences.”

Success in meeting goals and expectations in this regard is directly related to funding levels; the primary solution to the challenges the System faces in providing health care involve increased funding above current levels. The following are specific priority issues that relate to the System’s efforts in this regard:

► *Supporting Graduate Medical Education (GME).* Health institution funding formulas have never addressed the costs of residency education (post-M.D. degree education). This lack of funding is a particular burden on System health institutions, which educate 66% of all medical residents in Texas. Furthermore, in addition to making other significant budget cuts, the 78th Texas Legislature eliminated Medicaid funding for GME and reduced GME funding allocated by the Texas Higher Education Coordinating Board.

Educating medical residents is the most cost-effective form of training doctors who will practice in Texas. Studies have shown that doctors are likely to practice in the state in which they perform medical residency. GME also plays a critical role in providing patient care, particularly indigent care.

The legislature must adequately fund GME to assure a major source of highly qualified well-trained physicians and to adequately provide for the health of Texans.

► *Providing for indigent care.* For FY 2003, System health institutions provided more than \$1 billion in uncompensated medical care. The cost of uncompensated care creates financial pressure on the institutions while the costs of providing health care are increasing due to nursing shortages, expanding demand for services, and increasing pharmaceutical and supply costs. The University of Texas Medical Branch at Galveston (UTMB), for example, has experienced severe reductions in state funding for the current biennium, with an additional \$10 million a year reduction to the Multi-categorical Teaching Hospital Fund (Indigent Care Fund). While serving the Houston/Galveston region with an uninsured rate twice the national average, these funding cuts have forced UTMB to reduce indigent care volumes. This reduction of direct patient care and the associated reduction in volumes have had an impact on the ability of the institution to achieve its teaching and research missions. As the cost of health care increases, so will the need for indigent care.

► *Using a formula that does not penalize established educational programs.* The underfunding of existing formulas for health institutions has shifted funds from health institutions that have had little or no growth in enrollment to institutions that have had larger enrollment growth. This has penalized mature programs even though their enrollments have not declined and have, in some instances, increased.

In order to compete for legislative funding under the current elements of the formula, existing health institutions with mature programs must admit additional students even as the programs receive diminished funding in support of their current student population. The health institutions must then sustain the incremental costs of enrollment growth through the biennium in hopes that incremental formula funding dollars will be allocated to them in the next biennium.

► *Providing for correctional managed care.* Health care for approximately 80% of those incarcerated in Texas prisons is provided by UTMB on behalf of the Texas Department of Criminal Justice. On a per inmate basis, UTMB will have absorbed revenue reductions for four consecutive years through Fiscal Year 2005, despite actuarial projections of 7.5% per year growth in expenses due to the aging offender population, the incidence of disease and other demographic factors, and medical inflation.

Despite this funding reduction, UTMB has been able to steadily reduce the cost of offender health care by implementing telemedicine, electronic medical records, pharmacy pricing discounts, medical management, and other cost reduction strategies. However, further revenue reductions cannot be sustained or offset by cost reduction efforts.

► *Developing the Regional Academic Health Center (RAHC).* The RAHC was established by the 75th Legislature to serve the counties of Cameron, Hidalgo, Starr and Willacy by providing medical education and research. The RAHC's Medical Education and Medical Research Divisions are under the oversight of the UTHSCSA. The medical education programs started in July 2002 with the opening of the Medical Education Division of the RAHC in Harlingen. The Medical Research Division facility in Edinburg is expected to open in FY2005.

Adequate funding is crucial for the maintenance and operation of RAHC medical education and medical research, for maintaining accreditation, and for providing medical education and student support programs comparable to those provided by the UTHSCSA.

► *Addressing the conflict between nursing curriculum and licensing requirements.* The Board of Nurse Examiners for the State of Texas (BNE) has implemented Advanced Practice Nursing rules that conflict with the authority of the Texas Higher Education Coordinating Board regarding curriculum required for Advanced Practice Nursing. While the Board does not have statutory authority to control curriculum at the graduate level, it does so indirectly through rulemaking and licensure requirements.

For example, the BNE has adopted a rule requiring that certain curricular content be separated out in a course and that it must be recorded as such on the transcript. As a result, a nurse who is nationally certified as a Family Nurse Practitioner, has 10 years' experience as such a practitioner, and has a doctoral degree in nursing will not be licensed by the BNE for that advanced practice because the student's out of state undergraduate transcript fails to separate the curricular content.

The current situation unnecessarily restricts the delivery of health care by highly trained, well-qualified nurse practitioners when the state is experiencing a severe nursing shortage.

Enhancing Institutional Competitiveness for Educators and Researchers

The highest quality education demands the best faculty. Attracting and retaining top-quality faculty is in part determined by salary, but also by institutional support for research. Increased formula funding support yields higher salaries, and increased special funding yields more attractive research opportunities. Both sources of funding work to enable institutions to compete for and retain the best people, in addition to creating circumstances in which faculty can do their job in the best possible way. The following are specific priority issues that relate to the System's efforts in this regard:

► *Promoting increased research capacity.* University research is both a critically necessary teaching model and an economic development engine for the State of Texas. University research, and the technology transfer that comes from university research, contribute more than a billion dollars a year to the Texas economy.

Only two Texas academic institutions, UT Austin and Texas A&M University, have achieved Tier 1 status in research. Texas urgently needs to create additional first-tier research universities in order to secure the state's future educational and economic health. This requires adequate funding to establish concentrations of research strength in terms of faculty excellence and student quality. That research strength is necessary for the additional institutions to compete with public universities in such states as California, Florida, New York and Maryland in recruiting talent and winning research competitions. Specifically, focused funding for start-up packages in selected fields and seeding research efforts as a bridge to federal funding would enhance the ability of System institutions to attract top-quality faculty.

Stable, continuing support for research enhancement is necessary for the state to Close the Gaps in research, and would enable the System to implement the recommendations of the Washington Advisory Group for the enhancement of research at System academic institutions other than UT Austin.

The statutory mechanism for research enhancement was enacted by the 78th Legislature, which created the Research Development Fund (RDF) to be used by institutions specifically to "promote increased research capacity." The RDF replaces the Texas Excellence Fund and the University Research Fund effective September 1, 2005 (after the 79th Legislature, Regular Session). The Governor vetoed the amounts appropriated for those funds by the 78th Legislature in 2003.

► *Addressing the definition of "restricted research" in research reporting.* The Research Development Fund is to be allocated on the basis of the amount of "restricted research" funds expended by the eligible institutions, as were the Texas Excellence Fund and the University Research Fund. The amount of "restricted research" is determined in accordance with standards prescribed by the Texas Higher Education Coordinating Board. The standards adopted by the coordinating board (with institutional input) employ a definition of "restricted research" that is different from—and more narrowly limited than—the Federal definition that is used by most institutions outside of Texas.

The result is an underreporting of research and research-related externally funded activities, which in turn affects Texas' ability to attract research talent and compete for the economic development that comes with additional sponsored research. The definition should be revisited if it continues to be employed in the statutory scheme for allocating funds for increasing research capacity.

Strengthening Services to Public Education and Communities.

Another component of the mission statement of The University of Texas System is to “render service to the public that produces economic, technical, social, cultural, and educational benefits through interactions with individuals and with local, Texas, national, and international organizations and communities.” The System universities accomplish that mission primarily through high-quality teacher preparation and professional development programs, through research-based instructional programs for elementary and secondary schools, and through collaborations with K-12 schools and community colleges. The following are specific priority issues that relate to the System's efforts in this regard:

► *Continuing current collaborations.* As part of their mission, the universities within the System provide many services to K-12 education and to communities through high-quality teacher preparation and professional development programs, through research-based instructional programs for elementary and secondary schools, and through collaborations with K-12 schools and community colleges. Many of these services are funded by external sources. However, specific institutions will be requesting appropriations as special item funding for these projects. For example, continued collaboration between UT Brownsville and Texas Southmost College, previously funded as a special item, provides important pre-collegiate, early intervention programs designed to increase the college admission rates of economically disadvantaged, first-generation college students.

► *Supporting new initiatives.* Although many current services are supported by external funding, some new initiatives suggested by System institutions require appropriated funds for implementation. For example, the proposed Center for Wireless Networking at UT Austin, an important research project, would also include K-12 outreach such as development of community college and high school curriculum.

Improving Efficiency of Operations and Productive Use of Resources

As stewards of public property and public tax dollars, the System has an obligation to continuously improve, operate efficiently, and use the available resources productively. In addition to capital and capital resources, human

resources must be preserved so that the System institutions may attract and retain qualified staff. The following are specific priority issues that relate to the System's efforts in this regard:

► *Establishing a statewide accountability system.* The UT System has committed to an annual report that will offer greater accountability to policy-makers and the public. The first such report has been received and approved by the Board of Regents and communicates performance in teaching, research, and patient care and outlines plans for continuous improvement. Subsequent to the System's initiation of the process that led to the report, Governor Perry in January 2004 issued an executive order requiring all public university systems to develop plans for accountability, with a December 17, 2004 approval deadline for both governing boards and the Texas Higher Education Coordinating Board.

There is significant legislative interest in this issue. In order for the data to be aligned and provide comparable information for the public and policy-makers, a single statewide system of accountability is necessary and likely would result in a streamlined and more efficient reporting of information.

► *Preserving human resources.* Attracting and retaining qualified faculty and staff is a necessity for all institutions of higher education, and is an element necessary for success in closing the gaps and in research enhancement. The System may have a better chance at doing so if changes are authorized in regard to insurance, leave, retirement, and other benefits. System Administration will be working with institutions within and outside the System to identify which specific actions are politically viable and would best serve the goal of attracting and retaining qualified faculty and staff.

► *Removing statutory restrictions on administrative flexibility.* Operating efficiently and getting the most out of available funds require repeated review and analysis of administrative regulations imposed on the operation of System institutions. There are many areas of regulatory relief that could be provided by law in order to save costs and improve efficiency and productivity. Staff has identified more than 30 items of possible regulatory relief and is working with other institutions to evaluate those and other possible similar issues.

INSTITUTION-SPECIFIC ISSUES

Most of the individual institutions within the System submitted for review and consideration issues that could result in legislation specific to the submitting institution, such as legislative authority for a student fee, for special item funding in the appropriations process, or for authority to issue Tuition Revenue Bonds for projects on the institutional campus. System Administration has reviewed those requests with representatives of the individual institutions. Whether or not to present those issues for consideration by the legislature is a matter to be determined by the individual institution in consultation with the Chancellor and executive vice chancellors. To the extent that addressing the issue is consistent with the goals described earlier, System Administration will support the institution's efforts.

*Prepared by Office of Governmental Relations
July 2004*

In regard to Tuition Revenue Bonds, the Chancellor and the Office of Facilities Planning and Construction have reviewed proposed TRB submissions and consulted with and made recommendations to the individual institutions. As of the date of writing of this report, the Legislative Budget Board has not yet issued instructions on the handling of TRB requests, but it is anticipated that the process will be similar to that for the 77th Legislature, in which the project proposals are submitted first to the Texas Higher Education Coordinating Board for review and analysis.



THE UNIVERSITY OF TEXAS SYSTEM

Possible Legislative Issues for the 79th Texas Legislature

August 11-12, 2004

Office of Governmental Relations



Development of Issues

1. **Process began in January 2004**
2. **Component institutions submitted over 100 issues**
3. **Themes are consistent with public expectations of higher education, with the accountability system adopted by the Board, with the System mission statement, and with the Coordinating Board publication, *Closing the Gaps***
4. **Full review and analysis by the Chancellor and Executive Vice Chancellors, as well as the Office of Governmental Relations and other appropriate staff**

2



Context: Competing for Fewer State Dollars

1. For FY 2004-05, general revenue appropriations statewide decreased 2.9% compared to 2002-03.
2. For higher education, the general revenue decrease was 2.5% compared to 2002-03.
3. Instructions from the Legislative Budget Board (LBB) limit each Legislative Appropriations Request (LAR) for general revenue-related funds to 95% of the sums expended in FY 2004 and budgeted for FY 2005.
4. The five percent reduction effectively compounds the previous reductions, and the affect is magnified by the growth in student enrollment, which was 12.6% from Fall 2000 to Fall 2002.

3



Organizing Themes for Analysis of Possible Legislative Issues

The themes that emerged from review and analysis of the issues are similar to those from the accountability study, which focused on the *work* of the institutions, while these themes focus on what the institutions *need* to perform that work, as well as what they *want* to do:

- Closing the gaps,
- Ensuring high quality education and academic success,
- Providing excellence in health care,
- Enhancing institutional competitiveness for educators and researchers,
- Strengthening services to public education and communities, and
- Improving efficiency of operations and productive use of resources.

4



Work in Progress

System initiatives within current statutory authority and funding include:

- Encouraging synergy between academic and health institutions
- Use of tuition flexibility to encourage timely graduation, e.g., flat rate tuition
- Proactive accountability study and plan
- Use of telemedicine and other innovations to provide cost-effective health care

5



System Priorities

The highest priority issue is formula funding.

The core instructional mission of System institutions is dependent on

- full funding of formulas; and
- formulas that account for inflation and enrollment growth.

6



System Priorities

Closing the Gaps

Success depends on funding for necessary growth in faculty, advisors, recruiters, and capital improvements. In addition, specific priority issues are:

- Supporting emerging institutions and doctoral programs
- Modifying the Higher Education Assistance Fund (HEAF) in regard to equipment and library resources

7



System Priorities (continued)

Ensuring High Quality Education and Academic Success

Increased funding permits reduction of student-teacher ratio, enhancement of advising function, greater graduation rates, more timely graduation, and reduction in costs. In addition, specific priority issues are:

- Addressing the impact of the Top 10% rule on admissions
- Maximizing the TEXAS Grant Program

8



System Priorities (continued)

Providing Excellence in Health Care

Success depends on adequate funding. Specific priority issues are:

- Supporting Graduate Medical Education (GME)
- Providing for indigent care
- Using a formula that does not penalize established educational programs
- Providing for correctional managed care
- Developing the Regional Academic Health Center (RAHC)
- Addressing the conflict between nursing curriculum and licensing requirements

9



System Priorities (continued)

Enhancing Institutional Competitiveness for Educators and Researchers

Highest quality education demands attracting and retaining the best faculty and programs. Specific priority issues are:

- Promoting increased research capacity (a teaching model that results in economic development), e.g.:
 - Funding for start-up packages and research seed dollars
 - Funding for faculty salaries and more attractive research opportunities
- Addressing the definition of “restricted research” in research reporting

10



System Priorities (continued)

Strengthening Services to Public Education and Communities

Mission is accomplished primarily through high-quality teacher preparation and research-based instructional programs for K-12. Priority issues are:

- Continuing current collaborations
- Supporting new initiatives

11



System Priorities (continued)

Improving Efficiency of Operations and Productive Use of Resources

As stewards of public property and funds, System has an obligation to continuously improve. Specific priority issues are:

- Establishing a statewide accountability system
- Preserving human resources
- Removing statutory restrictions on administrative flexibility

12



Institution-Specific Issues

1. **Most institutions submitted issues specific to the submitting institution, such as fee authority, special items, or Tuition Revenue Bonds.**
2. **Whether or not to present those issues for consideration by the legislature is to be determined by the institution in consultation with the Chancellor and the Executive Vice Chancellors.**
3. **To the extent that addressing the issue is consistent with the goals described earlier, System Administration will support the institution's efforts.**

13



Dates of Interest

- August to November 2004** – Interim committees continue to meet
- Tuesday, November 2, 2004** – General election
- Monday, November 8, 2004** – Pre-filing of legislation for the 79th Legislature begins
- Tuesday, January 11, 2005** – 79th Legislature convenes at noon
- Friday, March 11, 2005** – Deadline for filing bills and joint resolutions other than local bills, emergency appropriations, and bills that have been declared an emergency by the governor
- Monday, May 30, 2005** – Last day of 79th Regular Session

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THE UNIVERSITY OF TEXAS SYSTEM

Thank You

3. U. T. System: Accountability Framework Update

Dr. Geri H. Malandra, Associate Vice Chancellor for Accountability, will provide an update on preparation of the next edition of the U. T. System Accountability report and development of the state-wide accountability system for higher education.

REPORT

During the months of May through July 2004, the U. T. System Accountability Working Group turned its attention to refining the performance measures for inclusion in the second edition of the U. T. System Board of Regents' Accountability and Performance Report. Over this period, the Council of Public University Presidents and Chancellors and the Texas Higher Education Coordinating Board developed a system for the state as a whole; a draft of the U. T. System Accountability and Performance Measures for 2004 -2005 is attached on Pages 3.1 – 3.11. The report will be submitted for acceptance later this year.

The University of Texas System
Accountability and Performance Report
2004-05

Presentation Outline

1. Background

- Background: development and reception for first (2003-04) edition
- Policy context: development of a state-wide accountability system
- Timelines: U. T. System; State System
- Operating principles: consistency, minimize reporting burden, alignment, analysis

2. Refinements for 2004-05 Edition of the U. T. System Report

- Performance measures: academic institutions, health-related institutions, U. T. System aggregate measures
- Institutional profiles
- Performance benchmarks
- Use of report

The University of Texas System
Preliminary Accountability Timeline
2004-05

May – mid-June 2004	Survey presidents and accountability working group on usefulness of measures and potential targets Working groups and consultation on data enhancements: Health-related institutions Student experience data Economic impact Faculty and staff data Organizational efficiency and productivity
Mid- to late-June 2004	Analyze survey and discussion results; consider changes in framework
July 29, 2004 July - September 2004	Accountability Working Group meets to recommend changes Confirm state-required measures in Coordinating Board system
Early August 2004	Send requests for data updates to institutions Brief Regents on adjustments in framework
Early September 2004	Data update responses due
October 2004 October 27-28	Data analysis and report drafting Accountability Symposium
November 18, 2004 By November 30, 2004	Accountability Working Group meets Final data analysis, drafting, distribution of draft to institutions for review
December 15, 2004	Draft report to Board for first reading
Dec. 17, 2004	Submission of state-wide report (see next page)
January 10, 2005	U. T. System report distributed to Board for second review
February 2005	Presentation of 2005 report to Board

**Performance and Accountability
State-Wide System Timetable**
Texas Higher Education Coordinating Board
As of July 30, 2004

- July
 - Distribute draft performance and accountability system to institutions and Joint Committee
 - Identify representatives to determine measures for health-related institutions
- August
 - Aug. 4 and Aug. 19: Meeting for discussion and questions regarding the accountability measures
 - 23rd: Deadline to send comments to U. T. System
 - 26th: Deadline for systems to submit comments on accountability measures/groupings to Coordinating Board
 - August 17: Meeting of health-related institution representatives to discuss measures list
- September
 - University peer groups set group targets
 - Sept. 7 Group A
 - Sept. 8 Group B
 - Sept. 9 Group C
 - Sept. 10 Group D
 - Sept. 10 Group E
 - CB staff reviews comments and suggestions and makes appropriate modifications to university and health-related measures, groupings
 - Board chairs (CB and regents) meet to review accountability system
 - CB staff prepares final proposal for a performance and accountability system
 - Institutions provide data for previously unreported measures
- October
 - 28th: Final proposal for performance and accountability system is presented to the Coordinating Board (CB) for adoption
 - CB Chairman and CB Chair of the Planning Committee are authorized to make modifications as appropriate following Regents and Joint Committee review
- November/December
 - Institutions review measures and add comments, descriptions, and other desired text
- December
 - Final modifications made as appropriate
 - 17th: Performance and accountability system complete for public universities, health-related institutions, TSTC and Lamar State Colleges
- January
 - Institutional groups meet to review measures prior to the beginning of the Legislative session
 - Formalize out-of-state peer identification process, obtain comparable data
- Spring 2005
 - Institutional groups meet to review measures following the Legislative session

The University of Texas System
Accountability and Performance Report 2004-05
Performance Measures – U. T. Academic Institutions

U. T. System Measures – Academic Institutions Proposed for 2004-05	Proposed in THECB system
<i>(Suggested additions in italics)</i>	
I. Student Access and Success	
1. Number and percent increase of first-time, full-time degree-seeking undergraduates, disaggregated by ethnicity and gender	
2. Ethnic composition of first-time, full-time undergraduates compared with composition of high school graduates in state	x
3. Average ACT/SAT scores of first-time, full-time, degree-seeking undergraduates	
4. Number and percent of first-time, full-time, degree-seeking undergraduate from top 10% of their high school class, by ethnicity	x
5. Number of undergraduate students enrolled on 12th class day, by ethnicity, gender, and age	x
6. Number of first-time, part-time undergrads; % first-time, part-time degree-seeking undergrads; % part-time undergrads	x
7. Total financial aid disaggregated by source	x
8. Total financial aid and net tuition and fees	
9. Percent TEXAS grant funds allocated	
10. Number of full-time undergraduate students receiving financial aid and amount awarded	
11. Tuition, required fees, and scholarship aid	
12. First-year persistence rate for first-time, full-time degree-seeking undergraduates enrolled at this University, by ethnicity, gender	x
13. Four-, five-, and six-year graduation rates from this University of first-time, full-time freshmen	x
14. Six-year persistence rates of students enrolled at this University, by ethnicity and gender	
15. Four-year graduation rate from this University of transfer/community college students	x
16. Six-year composite graduation and persistence rates from this or another Texas public university, by ethnicity and gender	x
17. Number of baccalaureate degrees awarded, by ethnicity and gender	x
18. Certification exam pass rates of teacher education baccalaureate graduates, by ethnicity and gender	x
19. Licensure exam pass rates of nursing graduates	x
20. Licensure exam pass rates of engineering graduates	x
21. Certification exam pass rates of accounting graduates	x
22. Student outcomes: satisfaction with advising	
23. Student outcomes: evaluation of overall educational experience	
24. Student outcomes: likelihood of attending same institution again	
25. <i>Expand student learning outcomes (academic undergraduate)</i>	
Measures for future development:	
Tuition trends	x
Net cost of attendance	
Impact of federal tax credits and deductions	
Refine enrollment, persistence and graduation rates to include first-generation freshmen; and develop composite rates	
Number of community college transfer students enrolled on the 12th day of class	x

U. T. System Measures – Academic Institutions Proposed for 2004-05	Proposed in THECB system
<i>(Suggested additions in italics)</i>	
Student outcomes: satisfaction with teaching	
Postgraduation experience	x
Graduate and Professional Students	
26. Average GRE scores of entering students	
27. <i>Entrance examination data for additional graduate/professional fields, e.g., law, business</i>	
28. Number of graduate and professional students enrolled on the 12th class day, by ethnicity and gender	x
29. Number of degrees awarded by level (masters, professional, doctoral), disaggregated by gender and ethnicity	x
30. Graduate/professional student certification/licensure exam pass rates for law	x
31. Graduate/professional student certification/licensure exam pass rates for pharmacy	x
32. Graduate and professional degrees in high priority fields	x
33. Graduate education degrees conferred	
34. Number of graduate and professional programs, by level	
Measures for future development:	
Graduate/professional student satisfaction	
Postgraduation experience of graduate/professional students	x
II. Teaching, Research, and Health Care Excellence	
35. Dollar amount of sponsored (externally funded) research expenditures, by funding source (federal, state, private, local)	x
36. <i>Dollar amount of all sponsored expenditures, by source and type (research, training, public service, other).</i>	
37. State appropriations for research as a percent of sponsored (external) research funds expended	
38. Number and percent of FTE tenure/tenure-track faculty holding extramural grants	x
39. Ratio of sponsored research expenditures to FTE tenure/tenure-track faculty	x
40. Total number of endowed professorships and chairs, number filled, and percent of total tenure/tenure-track faculty	x
41. Faculty awards (<i>limit to major awards, and top awards in key fields</i>)	x
42. Institution and program rankings	x
43. Number of new invention disclosures	
44. Number of patents issued	
45. Number of licenses and options executed	
46. Revenue from intellectual property	
47. Number of new public start-up companies	
48. Number of faculty and staff, by ethnicity and gender	x
49. FTE student/FTE faculty ratio	x
50. Percent lower division semester credit hours taught by tenure/tenure-track faculty	x
51. Percent lower division semester credit hours taught by professional faculty	
52. Number of postdoctoral fellows	
53. Examples of <i>high-priority</i> externally funded research collaborations	
54. Examples of <i>high-priority</i> educational collaborations	
55. Faculty salaries and trends (national comparisons)	x
Measures for future development:	

U. T. System Measures – Academic Institutions Proposed for 2004-05	Proposed in THECB system
<i>(Suggested additions in italics)</i>	
Measures of teaching excellence (student evaluations, awards, other)	
Technology transfer data and analysis	
Information technology resources to support teaching and research	
III. Service to and Collaborations with Communities	
56. Contributions to K-12 education, and <i>high-priority</i> collaborations with schools and community colleges	
57. Examples of economic impact (periodic studies), <i>including economic impact of capital expenditures</i>	
58. Examples of <i>high-priority</i> collaborations with business, industry, health, public, and community organizations	
59. Historically Underutilized Business trends	
60. Sources of donor support (alumni, individuals, foundations, corporations, other)	
<i>61. Continuing and distance education trends</i>	
Measures for future development:	
Expand measures of impact on K-16 education	
Expand on economic impact of specific initiatives and investments	
IV. Organizational Efficiency and Productivity	
62. Key operating revenue sources, disaggregated by source (i.e., state appropriations, tuition, etc.)	x
63. Key operating expenses, disaggregated by purpose	
64. Adjusted total revenue (tuition, fees, state appropriations) per FTE student and per FTE faculty	x
65. Appropriated funds per FTE student and per FTE faculty	x
66. Total dollar amount of endowment, and ratio per FTE student and per FTE faculty	x
67. Amount expended for administrative costs as a percent of expenditures	x
68. Assignable space per FTE student	x
69. Space utilization rate of classrooms <i>and labs</i>	x
<i>70. Ratio of research expenditures to research E&G sq. ft.</i>	
71. Construction projects—total projected cost, number of projects, number of square feet to be added	
72. Facility condition index	
<i>73. Energy use ratios</i>	
Measures for future development:	
Refine faculty and staff human resources data	

U. T. System Measures – Academic Institutions Used in 2003-04; Proposed for Deletion in 2004-05	Proposed in THECB system
Post-tenure review trends	

Proposed for Academic Institutions in THECB System 7/5/04 draft Not in U. T. System	
Enrollment: FTE # and %, undergraduate, graduate, and professional students, by gender, ethnicity, and age	
% first-time entering applicants accepted, and % of those accepted who enroll	
% of enrollment that are transfers from Texas two-year colleges with at least 30 SCH	
Semester credit hours: Total number of graduate and undergraduate semester credit hours	
Graduate and professional FTSE as a % of total FTSE	
Financial aid: % of students receiving Pell grants	
Developmental education: % of FTFT, degree-seeking undergraduates receiving developmental education who have graduated or are still enrolled in higher education after six academic years (by total and race/ethnicity)	
Developmental education: % of FTFT, degree-seeking undergraduates requiring developmental education	
% baccalaureate graduates completing at least 30 SCH at a Texas two-year college	
# of students taking certification exam for teacher education	
Graduate rates for masters, doctoral, and professional programs	
% of baccalaureate graduates either employed or enrolled in a Texas graduate or professional school within one year after graduation	
% baccalaureate graduates enrolled in a Texas graduate or professional school within one year of graduation	
% baccalaureate graduates employed in Texas one year after graduation	
Class size: % classes with less than 20 students	
Class size: % classes with more than 50 students	
Endowed chairs: average dollars per endowed chair	
Appropriations: appropriated funds per FTE student and per FTE faculty	
Amount of sponsored (external) research funds as a percent of formula-derived general appropriations revenue	
E&G expenditures per FTE student	
Facilities: space utilization rate of labs	
Average cost of tuition and fees for 30 resident undergraduate semester credits	
Expenditures: E&G expenditures per FTE student	

Performance Measures – U. T. Health-Related Institutions

U. T. System Measures – Health-Related Institutions Proposed for 2004-05	Proposed in THECB system
<i>(Suggested additions in italics)</i>	
I. Student Access and Success	
1. Number of undergrad, grad, and professional students enrolled by school on the 12th class day, <i>by ethnicity, gender, and level</i>	x
2. Licensure/certification rate of allied health students	x
3. National board exam first-time pass rate for dental students	x
4. National board exam first-time pass rate for medical students	x
5. National licensure exam pass rates of graduate level nursing students (R.N., and advanced practice nursing)	x
6. Number of degrees awarded, <i>by school, level, ethnicity, and gender</i>	x
7. Graduation rates of medical, dental, nursing, allied health, public health, informatics, <i>and graduate students</i>	x
8. <i>Medical student satisfaction (AAMC survey data)</i>	
Measures for future development:	
<i>Postgraduation experience</i>	x
II. Teaching, Research, and Health Care Excellence	
9. Dollar amount of sponsored (externally funded) research expenditures, disaggregated by funding source	x
10. <i>Dollar amount of all sponsored expenditures, by source and type (research, training, public service, other).</i>	
11. Amount of sponsored (external) research funds as a percent of formula-derived general appropriations revenue	x
12. Number and percent of FTE tenure/tenure-track & FTE nontenure-track research faculty holding extramural grants	x
13. Ratio of externally funded research expenses to FTE faculty	x
14. Total number of endowed professorships and chairs, number filled, and percent of total tenure/tenure-track faculty	x
15. Faculty awards <i>(limit to major awards, and top awards in key fields)</i>	x
16. Institution and program rankings	x
17. Number of new invention disclosures	
18. Number of patents issued	x
19. Number of licenses and options executed	
20. Revenue from intellectual property	
21. Number of new public start-up companies	
22. Number of faculty and staff, <i>by ethnicity, and gender</i>	x
23. FTE student/FTE faculty ratio	x
24. Number of Accreditation Council for Graduate Medical Education-accredited resident programs	
25. Number of residents in ACGME-accredited programs	
26. State-owned and affiliated hospital admissions by U. T. institution faculty	
27. State-owned and affiliated hospital days by U. T. institution faculty	
28. Clinic visits in state-owned and affiliated facilities treated by U. T. institution faculty	

U. T. System Measures – Health-Related Institutions Proposed for 2004-05 <i>(Suggested additions in italics)</i>	Proposed in THECB system
29. Total charges for unsponsored charity care by faculty in state-owned and affiliated facilities	
30. Patient satisfaction ratings	
31. Examples of <i>high-priority</i> externally funded research collaborations	x
32. Examples of <i>high-priority</i> educational collaborations	x
Measures for future development:	
Measures of teaching excellence (student evaluations, awards, other)	
Technology transfer data and analysis	
Information technology resources to support teaching and research	
Faculty salary trends	x
III. Service to and Collaborations with Communities	
33. Examples of <i>high-priority</i> collaborations with schools	
34. Examples of economic impact (periodic studies), <i>including economic impact of capital expenditures</i>	
35. Examples of <i>high-priority</i> collaborations with business, health, industry, public, and community organizations	
36. Historically Underutilized Business trends	
37. Sources of donor support (alumni, individuals, foundations, corporations, other)	x
38. <i>Continuing and distance education trends</i>	
Measures for future development:	
Expand measures of impact on K-16 education	
Expand on economic impact of specific initiatives and investments	
Continuing and distance education trends	
IV. Organizational Efficiency and Productivity	
39. Key operating revenue sources, disaggregated by source (i.e. state appropriations, tuition, etc.)	x
40. Key operating expenses disaggregated by purpose	x
41. Ratio of admissions, charity care, hospital days, and clinic visits to General Revenue for state-owned hospital/clinic operations	
42. Total dollar amount of endowment, and ratio per FTE student and per FTE faculty	x
43. Amount expended for administrative costs as a percent of expenditures	
44. Clinical billings and collections per FTE clinical faculty	
45. Ratio of research expenditures to research E&G sq. ft.	
46. Facility condition index	
47. Construction projects—total projected cost, number of projects, # sq. ft. to be added	
48. <i>Energy use ratios</i>	
Measures for future development:	
Refine faculty and staff human resources data	

U. T. System Measures – Health-Related Institutions Used in 2003-04; Proposed for Deletion in 2004-05	Proposed in THECB system
Post-tenure review trends	
Educational programs for non-UT Physicians and medical personnel	
Net operating margin of faculty practice plans	
Expenditures on and number of participants in staff and faculty professional development	

Proposed for Health-Related Institutions in THECB System 7/5/04 draft Not in U. T. System	
Endowed chairs: average dollars per endowed chair	
Employment: % baccalaureate graduates enrolled in a Texas graduate or professional school within one year of graduation	
% baccalaureate graduates enrolled in a Texas graduate or professional school within one year of graduation	
Appropriations: appropriated funds per FTE student and per FTE faculty	
Facilities: space utilization rate of classrooms and labs	
Hospital/clinical operating expenses	
Expenditures: E&G expenditures per FTE student	

Performance Measures – U. T. System Aggregate Institutions

U. T. System Measures – System Aggregate Measures Proposed for 2004-05	Proposed in THECB system
U. T. System – Aggregate Measures	
1. Total enrollments, percent increase over previous year	
2. Comparison of total U. T. System enrollment increases with increases for all senior institutions in Texas	
3. Number of total graduates as a percent of total graduates in state	
4. Percent of U. T. Hispanic graduates as % of all Hispanic graduates in state	
5. Percent of U. T. Black graduates as % of all Black graduates in state	
6. Hispanic serving institutions in System	
7. Total sponsored expenses	
8. Total technology development (inventions, patents, license agreements, public start-ups, intellectual property income)	
9. Total operating revenue by fund sources	
10. Total operating expenditures by purpose	
11. Total expenses for U. T. System Administration	
12. Number and demographics of System employees (compare with State demographics)	
13. U. T. System bond rating	
14. Total patient care revenue	
Measures for future development:	
Citizen awareness and satisfaction of U. T. as a System (survey)	
U. T System institutions' satisfaction with System services	
Strategic communications impact	

U. T. System Measures – Institutional Profiles Proposed for 2004-05 <i>(Suggested additions in italics)</i>	Proposed in THECB system
National rankings (institutions and programs)	X
Peer comparisons (national peer groups specific to each institution)	X
<i>Centers of excellence (specific to each institution)</i>	
<i>Faculty awards – subfields, regional</i>	

4. **U. T. System: Approval of the operating budgets for the fiscal year ending August 31, 2005, and approval of Permanent University Fund Bond Proceeds allocation for Library, Equipment, Repair and Rehabilitation Projects**

RECOMMENDATION

The Chancellor, with the concurrence of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the presidents of the U. T. System component institutions, recommends that the nonpersonnel aspects of the U. T. System Operating Budgets for the fiscal year ending August 31, 2005, including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans, be approved.

It is further recommended that the Chancellor be authorized to make editorial corrections therein and that subsequent adjustments be reported to the U. T. Board of Regents through the docket.

It is requested that Permanent University Fund Bond Proceeds in the amount of \$100,000,000 be appropriated to fund Library, Equipment, Repair and Rehabilitation (LERR) Projects for Fiscal Year 2005. Of the \$100,000,000 of PUF Bond proceeds, it is requested that \$40,000,000 be appropriated directly to U. T. System component institutions. This would authorize the purchase of approved equipment items and library materials and to contract for repair and rehabilitation projects following standard purchasing and contracting procedures within approved dollar limits. Substitute equipment purchases are to receive prior approval by the Chancellor, the appropriate Executive Vice Chancellor and, where required, the U. T. Board of Regents. Transfers by U. T. System Administration of allocated funds to institutional control or to vendors will coincide with vendor payment requirements. Final approval of specific repair and rehabilitation projects will be in accordance with procedures for construction projects established by the U. T. Board of Regents.

It is requested that the remaining \$60,000,000 of PUF Bond Proceeds be appropriated to provide an additional one-time funding to build and enhance research infrastructure to attract and retain the best qualified faculty and to enhance the U. T. System Digital Library. Through a competitive proposal process determined by U. T. System Administration, \$26,550,000 will be used at the six medical institutions for recruiting top researchers, \$32,450,000 will be distributed to the seven academic institutions, and \$1,000,000 for the U. T. System Digital Library.

It is further recommended that LERR appropriations not expended or obligated by contract or purchase order within six months after the close of Fiscal Year 2005 are to be available for future System-wide reallocation unless specific authorization to continue obligating the funds is given by the Executive Vice Chancellor for Business Affairs on recommendation of the president of the component institution and the appropriate Executive Vice Chancellor.

BACKGROUND INFORMATION

See Executive Session item related to the personnel aspects of the Operating Budgets (Item 2b on Table of Contents Page i for Meeting of the Board).

The appropriation of Permanent University Fund Bond Proceeds will be presented in the Fiscal Year 2005 LERR Budget. As discussed at the July 16, 2004 Board of Regents' meeting, an allocation of \$100,000,000 is being requested for LERR Projects for Fiscal Year 2005. U. T. Dallas will be appropriated \$10,000,000 of these funds for equipping a Natural Science and Engineering Research Building and Technology Accelerator built in connection with an economic development effort with the State of Texas and Texas Instruments. U. T. Dallas will not participate in the allocation of remaining funds. The allocation of these LERR funds to the U. T. System component institutions was developed from prioritized lists of projects submitted by the component institutions and reviewed by U. T. System Administration staff.

As required by the Available University Fund (AUF) Spending Policy, a forecast of revenues and expenses of the AUF for seven years, including the above allocation has been prepared and is provided on Page 30.3. The additional appropriation of Permanent University Fund Bond Proceeds for this allocation is within the policy as shown in the forecast.

5. **U. T. Board of Regents: Amendment of Bylaws for The University of Texas Investment Management Company (UTIMCO)**

RECOMMENDATION

The Chancellor recommends that the U. T. Board of Regents approve the amendments to the UTIMCO Bylaws to be recommended for adoption by the Board of Directors of The University of Texas Investment Management Company (UTIMCO) as attached in congressional style on Pages 7.1 - 7.11.

BACKGROUND INFORMATION

Section 66.08 of the Texas Education Code requires that the U. T. Board of Regents approve Bylaws of the corporation and any amendments thereto. Amendments to the Bylaws are proposed in response to recommendations from the UTIMCO Working Group to the Board on April 29, 2004, in a report entitled "Report of the UTIMCO Working Group to the Board of Regents of the University of Texas System Regarding Certain Investment Management and Oversight Issues".

On April 29, 2004, the Board of Regents authorized Chancellor Yudof to recommend to the Board an effective oversight system for the proper management of UTIMCO. The amendments to the Bylaws proposed by Chancellor Yudof have been reviewed by U. T. System staff and are consistent with effective oversight. The proposed revisions also include minor suggested corrections and updated language.

Proposed amendments are as follows:

- Amend Article III, Sections 2 and 3 concerning the Board of Directors to be consistent with the authorizing legislation.
- Delete reference in Article III, Section 5A, UTIMCO Nominating Committee, submitting the name of a nominee to fill a UTIMCO director's vacancy to the U. T. Board of Regents (general language on nominations is added to Article IV, Section 3).
- Amend Article III, Section 7 to reference a joint annual meeting with the U. T. Board of Regents.
- Amend Article III, Section 8 to add a requirement that the UTIMCO President consult with the UTIMCO Chairman and Vice Chairmen on the proposed agenda for regular UTIMCO Board meetings.
- Amend Article IV, Section 1 to require the UTIMCO Board to fully review, discuss, and approve performance compensation.

- Amend Article V, Section 9 to require posting of significant documents, policies, and meeting minutes on the UTIMCO website and to require that all open meetings are recorded.
- Amend Article VIII to require that the UTIMCO Board schedule timely consideration of requests by the U. T. Board of Regents to alter, amend, or repeal Bylaws.

The UTIMCO Bylaws were initially approved by the Board of Regents on February 8, 1996, and amendments were approved in May 1997, November 1999, February 2000, November 2001, and August 2003.

See related revisions to the UTIMCO Investment Management Services Agreement (Pages 8 - 9.17) and to the Regents' Rules and Regulations (Pages 10 - 13).

BYLAWS
OF
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

ARTICLE I
STRUCTURE AND PURPOSES

Section 1. Structure. The University of Texas Investment Management Company (the “Corporation”) is a nonprofit corporation organized under the laws of the State of Texas, including the Texas Non-Profit Corporation Act, Tex. Rev. Civ. Stat. Ann. Art. 1396-1.01 (the “Act”). The Articles of Incorporation of the Corporation (as amended from time to time, the “Articles of Incorporation”) were filed in the office of the Secretary of the State of Texas on November 15, 1995.

Section 2. Member. The Corporation shall have no members.

Section 3. Purposes. The Corporation is organized and will be operated exclusively for charitable and educational purposes. In accomplishment of such purposes, the Corporation will be administered solely for the purpose of aiding, assisting, supporting and acting on behalf of The University of Texas System (the “System”), an agency of the State of Texas, in the performance of its essential governmental function of providing higher education in accordance with the laws of the State of Texas authorizing and governing the System and the creation of the Corporation. The Corporation shall have, without limitation, the following purposes:

- (a) To invest funds under the control and management of the Board of Regents of the System (the “Board of Regents”), including the permanent university fund, as designated by the Board of Regents in accordance with the laws of the State of Texas; and
- (b) To perform such other activities or functions that the Board of Directors of the Corporation determines are necessary or appropriate for the accomplishment of the purposes of the Corporation, provided, however, that the Corporation may not engage in any business other than investing funds designated by the Board of Regents pursuant to a contract with the System for the investment of such funds.

Section 4. Approval by System. Notwithstanding the powers delegated to the Board of Directors of the Corporation, the Corporation may not contract with the Board of Regents to invest funds under the control and management of the Board of Regents, including the permanent university fund, unless and until the Board of Regents has approved (i) the Articles of Incorporation and Bylaws of the Corporation; (ii) the investment policies of the Corporation; (iii) the audit and ethics committee of the Corporation; and (iv) the code of ethics of the Corporation. Furthermore, the Board of Regents must approve (i) any amendments to the Articles of Incorporation and Bylaws of the Corporation; (ii) any changes to the investment policies of the Corporation; (iii) any changes in the audit and ethics committee of the

Corporation; and (iv) any changes in the code of ethics of the Corporation. The Corporation shall file reports with the Board of Regents quarterly, and at such other times as requested by the Board of Regents, concerning such matters as required by the Board of Regents.

Section 5. Prohibited Transactions. In addition to the prohibitions of the laws of the State of Texas, the Corporation may not enter into an agreement or transaction with a former director, officer, or employee of the Corporation, or a business entity in which a former director, officer, or employee of the Corporation has an interest, on or before the first anniversary of the date the person ceased to be a director, officer, or employee of the Corporation. For purposes of this section (i) a former director, officer, or employee of the Corporation has an interest in a business entity if such person owns (a) five percent or more of the voting stock or shares of the business entity or (b) five percent or more of the fair market value of the business entity, and (ii) a former director of the Corporation has an interest in a business entity if money received by such person from the business entity exceeds five percent of the person's gross income for the preceding calendar year. A two-thirds majority of the Board of Directors of the Corporation shall be required to forward to the Board of Regents a change to this Section.

Section 6. Revolving Door. A former officer or employee of the Corporation may not make any communication to or appearance before a director, officer, or employee of the Corporation before the first anniversary of the date an individual ceased to be an officer or employee of the Corporation if the communication or appearance is made (a) with the intent to influence, and (b) on behalf of any person in connection with any matter on which the person seeks action by the Corporation. If a director of the Corporation knowingly communicates with a former officer or employee of the Corporation, whose communication or appearance is made with the intent to influence, and on behalf of any person in connection with any matter on which the person seeks action by the Corporation, such director shall be subject to removal from serving as a director of the Corporation. If an officer or employee of the Corporation knowingly communicates with a former officer or employee of the Corporation whose communication or appearance is made with the intent to influence, and on behalf of any person in connection with any matter on which the person seeks action by the Corporation, such officer or employee shall be subject to disciplinary action. A two-thirds majority of the Board of Directors of the Corporation shall be required to forward to the Board of Regents a change to this Section.

ARTICLE II OFFICES

Section 1. Principal Place of Business. The principal place of business of the Corporation shall be located at 221 West 6th Street, Suite 1700, Austin, Texas 78701. The Corporation may have such other offices, either within or without the State of Texas, as the Board of Directors may determine or as the affairs of the Corporation may require from time to time.

Section 2. Registered Office and Registered Agent. The Corporation shall have and continuously maintain in the State of Texas a registered office and a registered agent whose office is the Corporation's registered office, as required by the Act. The registered office may, but need not, be identical with the principal office of the Corporation in the State of Texas, and the address of the registered office may be changed from time to time by the Board of Directors in accordance with applicable law.

ARTICLE III BOARD OF DIRECTORS

Section 1. Powers. The property, business, and affairs of the Corporation shall be managed and controlled by the Board of Directors, and subject to the restrictions imposed by law, the Articles of Incorporation, and these Bylaws, the Board of Directors shall exercise all of the powers of the Corporation.

Section 2. Number. The Board of Directors shall consist ~~initially of the four (4) Directors named in the Articles of Incorporation of the Corporation initially filed with the Secretary of State of Texas. The number of Directors will automatically increase to nine (9) following appointment by the Board of Regents of nine (9) Directors consistent with Texas Education Code Section 66.08 to replace the four (4) Directors named in the Articles of Incorporation, provided that the Board of Regents may include any of the four (4) named Directors among the nine (9) appointed Directors. Thereafter, the number of Directors shall be determined by the Board of Regents in compliance with applicable law.~~

Section 3. Appointment and Term. ~~Except for those Directors named in the Articles of Incorporation,~~ Directors shall be appointed by the Board of Regents, pursuant to a process determined by the Board of Regents, except that the Chancellor of the System shall serve as a Director so long as he or she remains Chancellor of the System. ~~Until otherwise changed by the Board of Regents in~~ In compliance with applicable law, the members of the Board of Directors shall include (i) the Chancellor of the System, (ii) at least three (3) persons then serving as members of the Board of Regents ("Regental Directors"), and (iii) one or more persons selected by the Board of Regents from a list of candidates with substantial background and expertise in investments that is submitted by the Board of Regents of The Texas A&M University System (together with the Chancellor of the System and the Regental Directors, the "Affiliated Directors"). The three (3) Regental Directors shall serve for two-year terms that expire on the first day of April of each odd-numbered year. The remaining Directors (other than the Chancellor of the System and the Regental Directors) shall serve three-year staggered terms that expire on the first day of April of the appropriate year. No such Director (other than the Affiliated Directors) shall serve more than three (3) full three-year terms. Notwithstanding the foregoing, the Board of Regents may, from time to time, alter the terms of the Directors. Each person serving as a Director shall serve until the expiration of such Director's term, or until such Director's successor has been chosen and qualified, or until such Director's earlier death, resignation, or removal as provided in these Bylaws.

Section 4. Removal and Resignation. Any Director may be removed from office at any time, with or without cause, by the Board of Regents. Any Director or officer may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein, or, if no time be specified, at the time of its receipt by the President or Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

Section 5. Vacancies. Any vacancy occurring in the office of a Director, whether by death, resignation, removal, increase in the number of Directors, or otherwise, shall be filled by the Board of Regents.

~~Section 5A. Nominations; Nominating Committee. Upon the occurrence of a vacancy in the office of Director (other than in the office of an Affiliated Director), the Board of Directors shall submit to the Board of Regents the name of a nominee to fill such vacancy. The nominee so submitted shall be selected by the Board of Directors from a list of names compiled by the Chairman of the Board. Prior to selection of the nominee, a nominating committee shall screen the individuals on the list and recommend to the Board a nominee to fill such vacancy. The Chairman of the Board shall appoint three members of the Board to serve as the nominating committee and shall designate the chairman of the committee.~~

Section 6. Meetings of Directors. The Directors may hold meetings; ~~maintain an office;~~ and keep the Corporation's books and records at such place or places within ~~or without~~ the State of Texas as the Board of Directors may from time to time determine; ~~provided, however, that in the absence of any such determination, such place shall be the Corporation's principal office in the State of Texas.~~

Section 7. Annual Meetings. The annual meeting of the Board of Directors ("Annual Meeting") shall be held at such time and place as shall be designated from time to time by resolution of the Board of Directors, or, if not so designated, on the third Thursday of the month of April of each year at the Corporation's principal office for the purpose of (i) electing officers for the ensuing year, and (ii) transacting such other business as may be properly brought before such Annual Meeting. Notice of Annual Meetings shall be required.

A joint annual meeting with the U. T. Board of Regents ("Joint Meeting") shall be held prior to August 1 of each year to discuss investment policies including asset allocation, investment performance, determination of risk, performance of the Corporation, organizational issues, proposed budget, and related issues. Notice of Joint Meetings shall be required.

Section 8. Regular Meetings. Regular meetings of the Board of Directors ("Regular Meetings") shall be held at such times and places as shall be designated from time to time by resolution of the Board of Directors. Notice of Regular Meetings shall be required. The UTIMCO President shall consult with the Chairman and the Vice Chairmen of the UTIMCO Board, including the Chancellor as Vice Chairman for Policy, on the draft agenda for meetings of the UTIMCO Board at least two (2) weeks prior to each regular UTIMCO Board meeting.

Section 9. Special Meetings. Special meetings of the Board of Directors (“Special Meetings”) shall be held at such times and places as shall be designated from time to time by the Chairman or, on the written request of any Director, by the Secretary or on the written request of the Board of Regents. Notice of Special Meetings shall be required.

Section 10. Notice of Meetings. The Secretary shall give notice of the time and place of each Annual, Joint, Regular and Special Meeting to each Director in person, or by mail, electronic mail, telegraph, or telephone, at least five (5) days before and not sooner than fifty (50) days before such meeting; provided, however, that in the case of a Special Meeting called because of an emergency or urgent necessity, ~~such~~ notice will ~~only need~~ be provided as required by the Texas Open Meetings Act at least two (2) hours before the meeting is convened.

Section 11. Quorum. A majority of the then acting Directors shall constitute a quorum for the consideration of any matters pertaining to the Corporation’s purposes. If at any meeting of the Board of Directors there is less than a quorum present, the Chairman ~~a majority of those present~~ may adjourn the meeting from time to time. The act of a majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by law, the Articles of Incorporation, or these Bylaws.

Section 12. Voting. Directors must vote in person and proxy voting is prohibited.

Section 13. Conduct of Business. At meetings of the Board of Directors, matters pertaining to the Corporation’s purposes shall be considered.

At all meetings of the Board of Directors, the Chairman of the Board shall preside, and in the absence of the Chairman of the Board, the Vice Chairman of the Board or the Vice Chairman for Policy shall preside. In the absence of the Chairman of the Board and the Vice Chairman ~~Chairman~~ of the Board, a chairman shall be chosen by the Board of Directors from among the Directors present.

The Secretary of the Corporation shall act as secretary of all meetings of the Board of Directors, but in the absence of the Secretary, the Chairman may appoint any person to act as secretary of the meeting.

The chairman of any meeting of the Board of Directors shall determine the order of business and the procedure at the meeting, including, without limitation, conduct of the discussion and the order of business pursuant to a duly posted agenda.

Section 14. Compensation of Directors; Expenses. Persons serving as Directors shall not receive any salary or compensation for their services as Directors. A Director shall be entitled to reimbursement for reasonable expenses incurred by the Director ~~him~~ in carrying out ~~his~~ duties as a Director.

ARTICLE IV COMMITTEES

Section 1. Board Committees. The Board of Directors may from time to time designate members of the Board of Directors to constitute committees that shall have and may exercise such powers as a majority of the Board of Directors may determine in the resolution that creates the committee; provided, however, that the Board of Regents must approve the audit and ethics committee of the Corporation as required by applicable law and further provided that the full UTIMCO Board shall fully review, discuss, and approve performance compensation for UTIMCO officers and employees following careful consideration and due diligence. The Board of Directors may appoint individuals who are not members of the Board of Directors to any committee; provided, however, that a majority of the committee members shall be members of the Board of Directors if such committee exercises the authority of the Board of Directors in the management of the Corporation.

Other committees, not having and exercising the authority of the Board of Directors in the management of the Corporation, may be designated and members appointed by a resolution adopted by the Board of Directors. Membership of such committees may, but need not, be limited to Directors.

Any Director appointed to a committee designated by the Board of Directors shall cease to be a member of such committee when he or she is no longer serving as Director.

Section 2. Procedures; Meetings; Quorum. Any committee created by the Board of Directors or these Bylaws, unless otherwise expressly provided herein, shall (i) have a chairman designated by the Board of Directors, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of such committee or resolution of the Board of Directors, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board of Directors at its next succeeding meeting. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the committee's rules or procedures or these Bylaws or by the Board of Directors.

The Board of Directors may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of such committee. ~~In the absence or disqualification of a member of a committee, the member or members present at any meeting of such committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at that meeting in the place of the absent or disqualified member.~~

Section 3. Nominating Committee. The Chairman may appoint a Nominating Committee to make recommendations to him or her on positions as requested.

ARTICLE V OFFICERS

Section 1. Number, Titles, and Term of Office. The officers of the Corporation shall consist of a Chairman of the Board, a Vice Chairman for Policy, a Vice Chairman of the Board, a President, a Secretary, a Treasurer, and such other officers and assistant officers as the Board of Directors may from time to time elect or appoint. Such other officers and assistant officers shall have such authority and responsibility as may be assigned to them by the Board of Directors. Any two (2) or more offices may be held by the same individual, except the offices of President and Secretary and the offices of Chairman and Vice Chairman. Except for those officers elected at the organizational meeting (the “Organization Meeting”), the term of office for each officer shall be until the next succeeding Annual Meeting at which officers are elected. The term of office for those officers elected at the Organization Meeting shall be that period of time beginning on the date of the Organization Meeting and ending on the date of the first Annual Meeting. In any event, a duly-elected officer shall serve in the office to which he or she is elected until his or her successor has been duly elected and qualified.

Section 2. Removal. Any officer or agent or member of a committee elected or appointed by the Board of Directors may be removed by the Board of Directors, but such removal shall be without prejudice to the contract rights, if any, of the individual so removed. Election or appointment of an officer or agent or member of a committee shall not of itself create contract rights.

Section 3. Vacancies. Any vacancy occurring in any office of the Corporation may be filled by the Board of Directors.

Section 4. Powers and Duties of the Chairman of the Board. The Chairman of the Board shall preside at all meetings of the Board of Directors and shall have such other powers and duties as may be assigned to such officer in these Bylaws or from time to time by the Board of Directors. The Chairman of the Board shall be appointed by the Board of Directors. No Director shall serve more than three (3) full one-year terms as Chairman.

Section 5. Powers and Duties of the Vice Chairman of the Board. The Vice Chairman of the Board shall have such powers and duties as may be assigned to such officer in these Bylaws or from time to time by the Board of Directors and shall exercise the powers of the Chairman during that officer’s absence or inability to act. Any action taken by the Vice Chairman in the performance of the duties of the Chairman shall be conclusive evidence of the absence or inability to act of the Chairman at the time such action was taken. The Vice Chairman of the Board shall be appointed by the Board of Directors. No Director shall serve more than three (3) full one-year terms as Vice Chairman.

Section 6. Powers and Duties of the Vice Chairman for Policy. The Chancellor of the System shall serve as Vice Chairman for Policy and shall coordinate those responsibilities, including the appropriate resolution of policy issues, assigned to UTIMCO and

System by the Rules and Regulations of the Board of Regents and the Investment Management Services Agreement ~~in order~~ to facilitate UTIMCO's performance of its core investment duties.

Section 7. Powers and Duties of the President. The President shall be the Chief Executive Officer of the Corporation. Subject to the control of the Board of Directors, the President shall have general executive charge, management, and control of the properties, business, and operations of the Corporation with all such powers as may be reasonably incident to such responsibilities; shall have the authority to agree upon and execute all leases, contracts, evidences of indebtedness, and other obligations in the name of the Corporation subject to the approval of the Board of Directors and the Executive Committee, if any; and shall have such other powers and duties as may be designated in these Bylaws and as may be assigned to such officer from time to time by the Board of Directors pursuant to a duly approved Delegation of Authority Policy.

Section 8. Powers and Duties of the Treasurer. The Treasurer shall have custody of all of the Corporation's funds and securities that come into such officer's hands. When necessary or proper, the Treasurer may endorse or cause to be endorsed, in the name and on behalf of the Corporation, checks, notes, and other obligations for collection and shall deposit or cause to be deposited the same to the credit of the Corporation in such bank or banks or depositories and in such manner as shall be designated and prescribed by the Board of Directors; may sign or cause to be signed all receipts and vouchers for payments made to the Corporation either alone or jointly with such other officer as may be designated by the Board of Directors; whenever required by the Board of Directors, shall render or cause to be rendered a statement of the cash account; shall enter or cause to be entered regularly in the Corporation's books to be kept by such officer for that purpose full and accurate accounts of all moneys received and paid out on account of the Corporation; shall perform all acts incident to the position of Treasurer subject to the control of the Board of Directors; and shall, if required by the Board of Directors, give such bond for the faithful discharge of such officer's duties in such form as the Board of Directors may require.

Section 9. Powers and Duties of the Secretary. The Secretary shall keep the minutes of all meetings of the Board of Directors in books provided for that purpose; shall attend to the giving and serving of all notices; in furtherance of the Corporation's purposes and subject to the limitations contained in the Articles of Incorporation, may sign with the President in the name and on behalf of the Corporation and/or attest the signatures thereto, all contracts, conveyances, franchises, bonds, deeds, assignments, mortgages, notes, and other instruments of the Corporation; shall have charge of the Corporation's books, records, documents, and instruments, except the books of account and financial records and securities of which the Treasurer shall have custody and charge, and such other books and papers as the Board of Directors may direct, all of which shall be open at reasonable times to the inspection of any Director upon application at the Corporation's office during business hours; and shall in general perform all duties incident to the office of Secretary subject to the control of the Board of Directors. The Secretary shall assure that current copies of the Corporation's Articles of Incorporation and Bylaws, Corporation Policies, Investment Policies approved by the U. T. Board of Regents, Committee Charters, and Minutes of all meetings of the Corporation and Committees are posted on the Corporation's website. The Secretary will assure that all open meetings of the Corporation are recorded and that recordings are available upon request.

ARTICLE VI
MISCELLANEOUS PROVISIONS

Section 1. Fiscal Year. The Corporation's fiscal year shall be as determined from time to time by the Board of Directors.

Section 2. Seal. The Corporation's seal, if any, shall be such as may be approved from time to time by the Board of Directors.

Section 3. Notice and Waiver of Notice. Whenever any notice is required to be given by mail under the provisions of these Bylaws, such notice shall be deemed to be delivered when deposited in the United States mail in a sealed postpaid wrapper addressed to the person or Board of Regents entitled thereto at such person's post office address, as such appears in the records of the Corporation, and such notice shall be deemed to have been given on the date of such mailing. A waiver of notice in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to notice.

Section 4. ~~Resignations. Any Director or officer may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein, or, if no time be specified, at the time of its receipt by the President or Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.~~

Section 5. Open Meetings. The Board of Directors shall conduct open meetings in accordance with Section 66.08(h), Texas Education Code. The ~~Secretary~~ President is required to provide public notice of such meetings in accordance with applicable law therewith.

ARTICLE VII
INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 1. Right to Indemnification. Subject to any limitations and conditions in these Bylaws, including, without limitation, this Article VII, each person who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative (a "Proceeding"), or any appeal of such a Proceeding or any inquiry or investigation that could lead to a Proceeding, by reason of the fact that he or a person of whom he is the legal representative, is or was a Director or officer of the Corporation, or while a Director or officer of the Corporation is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent, or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise, shall be indemnified by the Corporation to the fullest extent authorized by the Act, as the same exists or may hereafter be amended (but, in the case of

any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against judgments, penalties (including excise and similar taxes), fines, settlements and reasonable expenses (including, without limitation, attorneys' fees) actually incurred by such person in connection with a Proceeding, but if the Proceeding was brought by or in behalf of the Corporation, the indemnification is limited to reasonable expenses actually incurred or suffered by such person in connection therewith, and indemnification under these Bylaws shall continue as to a person who has ceased to serve in the capacity which initially entitled such person to indemnity hereunder. In no case, however, shall the Corporation indemnify any person, or the legal representatives of any person, with respect to any matters as to which such person shall be finally adjudged in any such Proceeding to be liable on the basis that personal benefit resulted from an action taken in such person's official capacity, or in which such person is found liable to the Corporation. Any person entitled to indemnification pursuant to this Article VII is sometimes referred to herein as an "Indemnified Person."

Section 2. Advance Payment. An Indemnified Person's right to indemnification conferred in this Article VII shall include the right to be paid or reimbursed by the Corporation the reasonable expenses incurred by an Indemnified Person who was, is or is threatened to be made a named defendant or respondent in a Proceeding in advance of the final disposition of the Proceeding; provided, however, that the payment of such expenses incurred by an Indemnified Person in advance of the final disposition of a Proceeding shall be made only upon delivery to the Corporation of a written affirmation by such Indemnified Person of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification under this Article VII and a written undertaking by or on behalf of such Indemnified Person to repay all amounts so advanced if it shall ultimately be determined that such Indemnified Person is not entitled to be indemnified under this Article VII or otherwise.

Section 3. Appearance as a Witness. Notwithstanding any other provision of this Article VII, the Corporation may pay or reimburse expenses incurred by an Indemnified Person in connection with his or her appearance as a witness or other participation in a Proceeding at a time when the Indemnified Person ~~he~~ is not a named defendant or respondent in the Proceeding.

Section 4. Nonexclusivity of Rights. The right to indemnification and the advancement and payment of expenses conferred in this Article VII shall not be exclusive of any other right which an Indemnified Person may have or hereafter acquire under any law (common or statutory), the Articles of Incorporation, the Bylaws, agreement, vote of disinterested Director or otherwise.

Section 5. Insurance. The Corporation may purchase and maintain insurance, at its expense, to protect itself or any Indemnified Person, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under this Article VII ~~VIII~~.

Section 6. Savings Clause. If this Article VII or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify and hold harmless each Indemnified Person as to costs, charges and

expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative to the full extent permitted by any applicable portion of this Article VII that shall not have been invalidated and to the fullest extent permitted by applicable law.

ARTICLE VIII AMENDMENTS

Section 1. Amendment. These Bylaws may be altered, amended, or repealed by the Board of Directors with the approval of the Board of Regents. A request by the Board of Regents to consider an alteration, amendment, or repeal of these Bylaws will be considered at the next regular meeting of the Corporation or at a special meeting called for that purpose.

6. **U. T. Board of Regents: Approval of the Investment Management Services Agreement with The University of Texas Investment Management Company (UTIMCO)**

RECOMMENDATION

The Chancellor recommends that the U. T. Board of Regents approve the Investment Management Services Agreement effective August 12, 2004, as set forth in congressional style on Pages 9.1 - 9.17, which amends and restates the Amended and Restated Investment Management Services Agreement, effective November 16, 2000, as amended by a first amendment effective March 1, 2001, and a second amendment effective August 7, 2003.

BACKGROUND INFORMATION

The amendments add and revise certain sections in the Second Amended and Restated Investment Management Services Agreement to address recommendations from the UTIMCO Working Group to the Board on April 29, 2004, in a report entitled "Report of the UTIMCO Working Group to the Board of Regents of the University of Texas System Regarding Certain Investment Management and Oversight Issues". Former Board Chairman Miller appointed a UTIMCO Working Group as announced on February 3, 2004, to review issues including Board oversight, contractual relationship, and the structure of UTIMCO.

On April 29, 2004, the Board of Regents authorized Chancellor Yudof to recommend to the Board an effective oversight system for the proper management of UTIMCO. The proposed revisions to the Agreement have been reviewed by U. T. System staff and are consistent with effective oversight.

Substantive amendments to the Agreement are as follows:

- Amend Section 2 to require the UTIMCO President to consult on the agenda (consistent with proposed amendment to UTIMCO Bylaws at Article III, Section 7).
- Amend Section 3(a) to require annual UTIMCO review of investment policies by June 1 of each year.
- Amend Section 4 to require UTIMCO to provide training and education to the UTIMCO Board of Directors.
- Amend Section 7 to require UTIMCO budget submission within the timeframe set for U. T. budget submissions and to allow the U. T. Board of Regents greater flexibility to modify a proposed budget item.

- Add a Section 7(e) covering definition of cash reserves and requiring a \$4 million distribution of surplus cash reserves within 90 days of the end of Fiscal Year 2004.
- Add new language to Section 21 (currently covered only in the Regents' Rules) concerning claims by and against the managed funds.
- Add new language on improved communications to Section 22.
- Add new language (currently covered only in the Regents' Rules) concerning authority to purchase, exchange, and sell securities (Section 23) and authority to assign and transfer securities (Section 24).

See related revisions to the UTIMCO Bylaws (Pages 6 - 7.11) and to the Regents' Rules and Regulations (Pages 10 - 13).

~~SECOND AMENDED AND RESTATED INVESTMENT MANAGEMENT SERVICES AGREEMENT~~

This ~~Second Amended and Restated~~ Investment Management Services Agreement (this “Agreement”) by and between the Board of Regents (the “U. T. Board”) of The University of Texas System (the “U. T. System”) and The University of Texas Investment Management Company (“UTIMCO”), a Texas nonprofit corporation, is effective August 12, 2004 ~~7, 2003~~ (the “Effective Date”), and supersedes all earlier agreements ~~amends and restates that certain Amended and Restated Investment Management Agreement~~ by and between the U. T. Board and UTIMCO, effective November 16, 2000, ~~as amended by the first amendment effective March 1, 2001, which amended and restated that certain Investment Management Services Agreement by and between the U. T. Board and UTIMCO, effective March 1, 1996, as amended by the first amendment effective June 2, 1997, the second amendment effective November 12, 1998, and the third amendment effective September 1, 1999.~~

RECITALS

WHEREAS, the U. T. Board, pursuant to the Constitution and statutes of the State of Texas, is responsible for the investment of the Permanent University Fund, the local and institutional funds of the U. T. System and the funds of various trusts and foundations for which it serves as trustee, all of which funds are under the control and management of the U. T. Board; ~~and~~

WHEREAS, Section 66.08, Texas Education Code, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit corporation for the corporation to invest funds under the control and management of the U. T. Board, as designated by the U. T. Board; ~~and~~

WHEREAS, UTIMCO has been organized under the laws of the State of Texas, including the Texas Non-Profit Nonprofit Corporation Act, Tex. Rev. Civ. Stat. Ann. art. 1396-1.01 et seq. Article 1396-1.01 et seq., Vernon’s Texas Civil Statutes, for the express purpose of investing funds under the control and management of the U. T. Board, as designated by the U. T. Board, in accordance with the laws of the State of Texas; ~~and~~

WHEREAS, the U. T. Board desires to continue an ~~enter into this~~ Agreement with UTIMCO ~~in order to provide~~ for UTIMCO to invest certain designated funds under the control and management of the U. T. Board; ~~and~~

WHEREAS, UTIMCO desires to enter into this Agreement with the U. T. Board and to invest certain designated funds under the control and management of the U. T. Board; ~~and~~

WHEREAS, all conditions precedent to the execution and delivery of this Agreement have been fully satisfied and fulfilled, including, without limitations, the conditions established by Section 66.08, Texas Education Code, as amended.;

NOW THEREFORE, for and in consideration of the premises and the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

Section 1. Definitions.

Accounts shall mean those funds for which the U. T. Board has responsibility, namely (a) the Permanent University Fund, excluding PUF Lands, (b) the Permanent Health Fund, (c) the U. T. Board Accounts and (d) the U. T. Board Trust Accounts.

Available University Fund or **AUF** shall mean the fund that consists of the distributions made to it from the total return on all investment assets of the Permanent University Fund, including the net income attributable to the surface of PUF Lands, all as provided by Article VII, Section 18 of the Texas Constitution.

Affiliate shall mean an entity directly or indirectly controlling, controlled by, or under common control with UTIMCO, including an entity with whom UTIMCO has an express or implied agreement regarding the direct or indirect purchase of investments by each from the other.

Cash Reserves shall mean cash on hand plus investments less accounts payable.

Claims shall mean all claims, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action, or impleader) any Indemnified Party and all requests or demands for indemnification made by any third party upon any Indemnified Party, even if groundless, false or fraudulent, so long as the claim, lawsuit, cause of action, other legal action or proceeding, request or demand is alleged or determined, directly or indirectly, to arise out of, result from, relate to or be based upon, in whole or in part, the duties, activities, acts or omissions of any person arising under this Agreement.

Custodian or **Custodians** shall mean a commercial bank, trust company or other entity selected by UTIMCO to hold and safekeep physical securities representing investment assets of any Account and to perform the other functions listed in Section 5 hereof. ~~The primary Custodian as of the effective date of this Agreement is Mellon Trust of Everett, Massachusetts. Substitute or additional Custodians may be appointed by UTIMCO from time to time.~~

General Endowment Fund or **GEF** shall mean the pooled fund for the collective investment of long-term funds under the control and management of the U. T. Board. The PUF, PHF, LTF or other long-term funds may invest in the GEF as authorized by the U. T. Board in each fund's investment policy statement.

Indemnified Parties shall mean UTIMCO and any of its officers, directors, employees and agents.

Investment Policies shall mean the written investment policies determined and approved by the U. T. Board relating to the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Separately Invested Funds, Short Intermediate Term Fund and the Short Term Fund. Amendments may be presented by UTIMCO to the U. T. Board for review and approval.

Long Term Fund or **LTF** shall mean the long-term pooled investment fund previously established by the U. T. Board for the collective investment of all endowment and other long-term funds of component institutions of the U. T. System.

Losses shall mean losses, costs, damages, expenses, judgments and liabilities of whatever nature (including, but not limited to, attorneys', accountants' and other professionals' fees, litigation and court costs and expenses, amounts paid in settlement, amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other person under any arrangement providing for indemnification of that person) directly or indirectly resulting from, arising out of or relating to one or more Claims.

Permanent Health Fund or **PHF** shall mean collectively the permanent funds for health-related institutions established pursuant to Chapter 63, Texas Education Code, for which the U. T. Board is an administrator.

Permanent University Fund or **PUF** shall mean the constitutional fund known by that name and established pursuant to Article VII, Section 11 of the Texas Constitution.

Permanent University Fund Lands or **PUF Lands** shall mean approximately 2.1 million acres of land located in 19 24 Texas counties, primarily in West Texas, and constituting a part of the Permanent University Fund.

Separately Invested Funds or **SIFs** shall mean U. T. System Funds or U. T. Board Trust accounts which, by election of the U. T. Board or by requirement of the trust indenture or donative instrument, are invested separately and apart from other U. T. System Funds and the PUF.

Short Intermediate Term Fund or **SITF** shall mean the short intermediate term pooled investment fund previously established by the U. T. Board for the collective investment of funds (other than endowment and other long-term funds, including the Permanent University Fund) of the component institutions of the U. T. System.

Short Term Fund or **STF** shall mean the money market mutual fund or funds approved by UTIMCO from time to time as an investment for U. T. System Funds.

U. T. Board Accounts shall mean the investment assets of the General Endowment Fund and U. T. System Funds.

U. T. Board Trust Accounts shall mean the assets of charitable remainder trusts, foundations and other separately invested funds for which the U. T. Board serves as trustee on behalf of itself and other co-beneficiaries.

U. T. System Funds shall mean all funds under the control and management of the U. T. Board, other than the Permanent University Fund, the Permanent Health Fund and the U. T. Board Trust Accounts.

Section 2. Delegation of Investment Authority; Retention of Policy Setting Authority.

The U. T. Board hereby appoints UTIMCO as its investment manager with complete authority to act for the Board in the investment of the Accounts, subject, however, to such limitations and restrictions as are set forth in the Investment Policies. UTIMCO shall furnish the U. T. Board with continuous investment management services and shall invest and reinvest the assets of the Accounts in such ways and at such times as are consistent with the Investment Policies and Section 4 hereof. UTIMCO shall be responsible for overall management of the U. T. Board's investment affairs as covered by this Agreement and shall manage each Account as a discretionary account.

The U. T. Board, as ultimate fiduciary for the Accounts, retains policy setting authority. Unless otherwise provided in writing by the U. T. Board, UTIMCO ~~shall be authorized to~~ look to the Chancellor to provide primary oversight and management concerning matters other than the core investment duties delegated above, including relations with the media, legal issues (such as public disclosure of information), intergovernmental relations, and policy issues other than those associated with investment allocation and/or return. The Board of UTIMCO and the President of UTIMCO shall be responsible for implementing the investment policy of the U. T. Board and performing those core investment duties delegated above. It shall be the responsibility of the President of UTIMCO to inform the Chancellor of unresolved policy issues not governed by the Investment Policies immediately so that appropriate oversight and management can be provided by the Chancellor. UTIMCO hereby agrees to abide by such oversight and management decisions made by the Chancellor.

The UTIMCO President shall consult with the Chairman and the Vice Chairmen of the UTIMCO Board, including the Chancellor as Vice Chairman for Policy, on the draft agenda for meetings of the UTIMCO Board at least two (2) weeks prior to each regular UTIMCO Board meeting.

Section 3. Description of Investment Management Services.

During the term of this Agreement, UTIMCO shall provide the following services in conjunction with the investment of the Accounts:

- a) **Investment Policies:**
UTIMCO shall review current investment policies for each Account, including policies concerning Asset Allocation, Liquidity, and Derivatives, at least annually by June 1 of each year. Such review shall include distribution (spending) guidelines, long-term investment return expectations and expected risk levels, asset allocation targets and ranges for each eligible asset class, expected returns for each asset class and fund, and designated performance benchmarks for each asset class. After UTIMCO completes its assessment, it shall forward any recommended changes to U. T. System staff for review prior to being submitted to the U. T. Board for discussion during an annual Joint Meeting between the U. T. Board and the UTIMCO Board of Directors approval.
- b) **Investment Management:**
UTIMCO shall oversee the investment management process. Such oversight shall include the development of an investment outlook based on global economic and capital market forecasts, the rebalancing of allocations to each asset class within ranges in response to changes in the investment outlook, and the selection of a combination of portfolio managers to construct portfolios designed to generate the expected returns of each asset class.
- c) **Investment Performance:**
UTIMCO shall monitor and report on investment performance for the PUF, PHF and U. T. Board accounts. Such responsibilities shall include the calculation and evaluation of performance of asset classes and individual portfolios, against established benchmarks over various periods of time, the periodic review of performance benchmarks, the reporting of investment performance of Separately Invested Assets and U. T. Board Trust Accounts as requested by the U. T. Board, and the reporting to regulatory agencies and others regarding investments under management to the extent required by applicable law.
- d) **Operations:**
UTIMCO shall execute such operational responsibilities as the purchase and sale of investments, the settlement of all trades (to the extent such trades are not settled by the Custodian or brokers), the accounting for all transactions at the portfolio level in accordance with generally accepted accounting principles, the preparation and delivery of periodic financial reports on all funds, and the maintenance of complete books and records (internally or through contract with the designated Custodian for the assets under management) reflecting transactions and balances of the Accounts.

e) **Maintenance of and Access to Books and Records:**

UTIMCO shall maintain the books and records for each Account on the basis of a fiscal year ending August 31st (or such other fiscal year as the U. T. Board may establish from time to time), and shall keep full separate records of all transactions with respect to each Account.

The books and records of the Accounts and any and all records concerning UTIMCO and UTIMCO's operations shall be available during normal business hours for inspection by an authorized representative of U. T. System. UTIMCO shall provide full audit access to auditors representing the U. T. Board or the State Auditor, including access to any and all information concerning the operations of UTIMCO, including information necessary to review UTIMCO expenditures for compliance and reasonableness with the approved budget, to auditors representing the U. T. Board or the State Auditor.

f) **Reporting:**

In connection with the annual audited financial statements of UTIMCO, effective with the August 31, 2004 financial statements, the chief executive officer and the chief financial officer of UTIMCO shall provide certifications similar to those required by Section 302 of the Sarbanes-Oxley Act of 2002, Corporate Responsibility for Financial Reports. UTIMCO will follow ~~begin following~~ the U. T. System compliance guidelines as outlined in the Action Plan to Enhance Institutional Compliance, as may be amended, including providing the U. T. Board or its designee with quarterly compliance reports.

g) **Disclosure of Information:**

The U. T. Board is committed to a policy of full and fair disclosure to the public. As part of that commitment with respect to private investments in the Accounts, the following information shall be disclosed to the public with respect to such private investments (“private investment information”): the name and purpose of each private investment entity; the names of the individual principals managing such private investment; the amount invested by UTIMCO in such private investments; the investment returns for such private investment, including internal rates of return; and remaining value information. UTIMCO shall make no private investment with an entity unless the U. T. Board and UTIMCO has clear and unequivocal authority to disclose to the public the private investment information, described immediately above, relating to such investment.

Before UTIMCO declines to disclose any information it has collected, assembled or maintained in its role as investment manager for the U. T. Board that is requested under the Texas Public Information Act, the President of UTIMCO shall consult with the U. T. System Vice Chancellor and General Counsel. UTIMCO shall disclose the information unless the Vice Chancellor and General Counsel, after consultation with the Chancellor, approves a Public Information Act request to the Attorney General of Texas.

h) **Other Services:**

UTIMCO shall perform other investment management services including but not limited to ~~to include~~ 1) attending meetings of the U. T. Board and making such reports as the U. T. Board may request from time to time, 2) attending an annual Joint Meeting between the UTIMCO Board of Directors and the U. T. System Board of Regents as referenced in Article III Section 7 of the UTIMCO Bylaws, 3) rendering services to managers ~~promoters~~ of private equity investments in which UTIMCO has decided to invest, 4) attending meetings of governing bodies of companies in which UTIMCO's managed Accounts have invested, 5) voting of securities (or proxies with respect thereto) held as investments of the Accounts according to written policies of the U. T. Board; 6) providing U. T. System component institutions with annual endowment reports reflecting, among other things, changes in the investment value of such component's endowment and distributions made to such component to support the activities for which the endowment was established; 7) providing charitable trust administration services such as portfolio management, annual tax return preparation, annual trust reporting to donors and remittance of quarterly distributions; providing annual reporting of investment transactions and balances and distributing funds to authorized beneficiaries on foundation accounts; 8) effecting distributions directly or through the Custodian to U. T. System component institutions or other named beneficiaries from the Accounts; 9) supporting and maintaining on-line account information system for endowment accounts; and 10) any other services necessary to provide investment management of the Accounts.

Section 4. Investment Manager as Fiduciary; Training and Education.

UTIMCO acknowledges that it will be acting as a fiduciary with respect to managing the investments of the Accounts subject to the Investment Policies and applicable law. The U. T. Board recognizes that all individual investment transactions involve a variety of significant potential risks, including, without limitation, market risk, liquidity risk, credit risk, cash flow risk, operational risk and counterparty risk, although taken as a whole these transactions are also expected to manage risk. The U. T. Board agrees that (i) UTIMCO will not be liable for any losses incurred in the Accounts as a result of investments made pursuant to the Investment Policies, and (ii) UTIMCO will not be liable for actions of co-fiduciaries. The U. T. Board also acknowledges that UTIMCO shall not be liable for, and, to the fullest extent authorized by the Constitution and laws of the State of Texas, agrees to hold UTIMCO harmless from the consequences of any action taken or omitted to be taken by the U. T. System or any of its employees or agents prior to March 1, 1996.

UTIMCO agrees to provide training and education to members of the UTIMCO Board of Directors to assure that all duties required of directors under the Texas Non-Profit Corporation Act and that matters related to legal and fiduciary responsibilities of the Directors, including current regulations for determining reasonable compensation, are outlined and discussed fully.

Section 5. Custody of Assets.

UTIMCO shall use custodians for safekeeping, settlement of security purchases, sales, collection of income and other duties as more fully described in the existing custody agreement between UTIMCO and the Custodian, which agreement, together with the U. T. Board's rights, duties and obligations thereunder, has been assigned to UTIMCO. In addition, UTIMCO may from time to time use a brokerage firm to settle security sales on behalf of the U. T. Board and may invest in a regulated mutual fund, externally managed commingled funds, or other investments in which assets are held outside of the bank custody relationship. Any physical certificates not held in safekeeping with a Custodian shall be held in safekeeping at a local bank as designated by UTIMCO.

Section 6. Use of Unaffiliated Investment Managers.

UTIMCO shall be entitled to use unaffiliated investment advisors to invest all or part of the Accounts and to perform other duties ~~as more fully described in existing investment advisory agreements between UTIMCO and such investment advisors, which agreements, together with the U. T. Board's rights, duties and obligations thereunder, have been assigned to UTIMCO.~~

Section 7. Investment Management Fees; Direct Expenses.

For services performed hereunder, UTIMCO shall be compensated in the amounts and in the manner set forth below:

a) Annual Budget and Management Fee:

UTIMCO shall submit to the U. T. Board its proposed annual budget for the following fiscal year (an "Annual Budget") within the time frame specified by the U. T. Board for other annual budget submissions. The Annual Budget shall include all estimated expenses associated with the management of the Accounts. The Annual Budget shall also include an annual UTIMCO management fee (an "Annual UTIMCO Management Fee") which shall include all operating expenses associated with the general management of the Accounts, including, without limitation, reasonable salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services expenses, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations hereunder.

At the same time that UTIMCO submits its Annual Budget, it shall also submit to the U. T. Board an allocation formula for charging the Annual Budget to the Accounts. Items proposed in the Annual Budget and the allocation formula may shall be approved, or disapproved, or approved with modification by the U. T. Board. Any such Budget item or formula allocation that is disapproved or approved with modification may shall be promptly reviewed and revised by UTIMCO and resubmitted to the U. T. Board for additional consideration approval.

On or before the first day of each fiscal quarter, UTIMCO shall be entitled to charge each Account with its allocable share (determined in accordance with the allocation formula then in effect) of one-fourth of the amount of the Annual UTIMCO Management Fee to pay UTIMCO's operating expenses for the succeeding fiscal quarter. UTIMCO ~~may~~ ~~shall be entitled~~, with the approval of the U. T. Board, to revise the Annual UTIMCO Management Fee and allocation formula at any time during a fiscal year. Any statements for partial quarters at the beginning or end of this Agreement shall be prorated to reflect the actual time services were rendered during such partial quarters.

UTIMCO is hereby authorized to pay from each Account direct expenses incurred for portfolio management, custodian, auditing, and other services which are performed by external vendors specifically for each Account.

b) **Directors Fees:**

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Account assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and considered a part of UTIMCO's fee income and reflected in the Budget. Furthermore, UTIMCO Board approval of UTIMCO management's services as directors of investee companies shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's services as directors of investee companies.

c) **Fees for Services Rendered:**

Members of UTIMCO management may perform services for which UTIMCO receives a fee ("Service Fees") from investment promoters or investee companies in consideration of the UTIMCO staff's private investment activities and/or investment origination activities. Such Service Fees shall be considered additional fee income to UTIMCO. UTIMCO may also receive commitment fees, standby fees and other similar fees ("Capital Fees") accruing or inuring to the capital invested on behalf of the Accounts managed by UTIMCO. Such Capital Fees shall be credited to the Accounts from which such investments are funded.

d) **Miscellaneous Fees:**

UTIMCO management may perform specialized services for accounts that are separately invested for which UTIMCO receives a fee from the account. These fees primarily relate to maintenance of computer programs for the separately invested accounts. Such Miscellaneous Fees shall be considered additional fee income to UTIMCO and reflected in the Budget.

e) **Cash Reserves:**

Surplus Cash Reserves are defined as Cash Reserves on the last day of the fiscal year in excess of ¼ of the upcoming fiscal year's projected operating budget. Within 90 days after the end of Fiscal Year 2004, UTIMCO will distribute \$4 million of the Surplus Cash Reserves back to the Accounts, which generated

the surplus in the same proportion that the Accounts contributed to the Cash Reserves. In future fiscal years, the U. T. Board may direct UTIMCO to make additional distributions to the Accounts from Surplus Cash Reserves.

Section 8. Brokerage Commissions.

The U. T. Board acknowledges and agrees that the investment management fees provided for in Section 7 6 are in addition to any compensation that may be due to a broker or dealer in effecting and executing transactions on behalf of UTIMCO. UTIMCO is hereby authorized and empowered, with full discretion, to issue instructions in accordance with the Investment Policies to such unaffiliated brokerage firms as may be selected by UTIMCO for the execution of orders for the purchase, sale, exchange and general investment of the Accounts; provided that UTIMCO shall not select a brokerage firm that is an Affiliate of UTIMCO. All orders for Account transactions shall be placed in such markets and through such brokers as UTIMCO determines will offer the most favorable price, execution and commission cost of each order. The U. T. Board acknowledges and agrees that UTIMCO, from time to time and in accordance with applicable law, may pay commissions to brokers that are higher than those that might be obtainable elsewhere in order to obtain from such brokers research and other services expected to enhance the long-term value of the Accounts.

Section 9. Valuation of Account Assets.

The valuation of the account shall be determined in accordance with the Investment Policies approved by the U. T. Board for the account.

Section 10. Representations and Warranties of Parties.

U. T. Board.

- A. The U. T. Board (a) is duly established and validly existing under the laws of the State of Texas and is an agency of the State of Texas, (b) has all power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.
- B. The execution, delivery and performance by the U. T. Board of this Agreement have been duly authorized by all necessary action and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which the U. T. Board is a party or by which it or any of its property is bound.
- C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will be necessary for the valid execution, delivery or performance by the U. T. Board of this Agreement.

- D. This Agreement constitutes a valid and binding agreement of the U. T. Board.
- E. There is no action, suit or proceeding pending or, to the knowledge of the U. T. Board, threatened against or affecting the U. T. Board or the U. T. System, or relating to this Agreement, in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of the U. T. Board to enter into, and perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.
- F. The U. T. Board has approved:
 - (1) the Articles of Incorporation and Bylaws of UTIMCO;
 - (2) the Investment Policies;
 - (3) the Audit and Ethics committee of UTIMCO; and
 - (4) the Code of Ethics of UTIMCO.
- G. The U. T. Board has been provided with the opportunity to ask questions of, and it has received answers thereto satisfactory to it from, UTIMCO and its representatives regarding this Agreement and has obtained all additional information requested by it of UTIMCO and its representatives prior to entering into this Agreement.

UTIMCO.

- A. UTIMCO (a) is duly organized and validly existing as a Texas nonprofit corporation under the laws of the State of Texas, particularly the Texas Nonprofit Corporation Act, Tex. Rev. Civ. Stat. Ann. art. 1396-1.01 et seq. ~~Article 1396-1.01 et seq., Vernon's Texas Civil Statutes~~, (b) has all corporate power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.
- B. The execution, delivery and performance by UTIMCO of this Agreement have been duly authorized by all necessary action by UTIMCO and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which UTIMCO is a party or by which it or any of its property is bound.
- C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will be necessary for the valid execution, delivery or performance by UTIMCO of this Agreement.

- D. This Agreement constitutes a valid and binding agreement of UTIMCO.
- E. There is no action, suit or proceeding pending or, to the knowledge of UTIMCO, threatened against or affecting UTIMCO, or relating to this Agreement in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of UTIMCO to enter into, and to perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.

Section 11. Compliance with Bylaws, Policies, Regulations and Financial Disclosure Requirements ~~UTIMCO's Code of Ethics.~~

In the performance of this Agreement ~~Consistent with the requirements of Section 66.08, Texas Education Code~~, UTIMCO's Directors, Officers, and Employees shall abide by the following policies:

- a) UTIMCO's Code of Ethics as approved by the U. T. Board
- b) UTIMCO Bylaws as approved by the U. T. Board
- c) All UTIMCO policies
- d) Applicable portions of Regents' Rules and Regulations.

Financial advisors and service providers as defined in Texas Government Code Section 2263.002 shall comply with the disclosure requirements contained in Texas Government Code Section 2263.005.

Section 12. UTIMCO's Open Meeting Policy.

Except as otherwise provided in Section 66.08, Texas Education Code, UTIMCO shall comply with all applicable provisions of the Texas Open Meetings Act, Chapter 551 of the Texas Government Code.

Section 13. Prohibition Against Service to Other Clients.

In accordance with Section 66.08, Texas Education Code, UTIMCO shall not engage in any business other than managing the Accounts under this Agreement.

Section 14. Investment Company Act and State Securities Act.

The parties to this agreement acknowledge that UTIMCO shall not be required to register as an "investment company" under Section 80a-8 of Title 15 of the United States Code Section 80a-8 (the Investment Company Act of 1940), as amended, and Tex. Rev. Civ. Stat. Ann. art. 581-1 et seq. (The Securities Act).

Section 15. Termination.

The U. T. Board may terminate this Agreement at any time by written notice to UTIMCO, effective immediately upon receipt of such notice by UTIMCO, subject to reasonable allowance for settlement of pending trades. UTIMCO may terminate this Agreement upon ninety (90) days' written notice to the U. T. Board. There shall be no penalty for termination; however, UTIMCO shall be entitled to all management fees, compensation, and benefits earned prior to termination.

Section 16. Amendments.

No amendment hereto shall be effective unless executed in the same manner as this Agreement.

Section 17. Notices.

All notices or communications hereunder shall be in writing and shall not be effective until hand delivered and receipted to the other party, or sent by overnight delivery, or sent by United States Certified or Registered Mail, postage prepaid, to the addressed party. The following are the designated addresses for such notices or communications and may only be changed by communication in the manner required by this paragraph:

To U. T. Board:

Board of Regents of The University of Texas System
Attn: Counsel and Secretary
201 West Seventh Street, Suite 820
Austin, Texas 78701
Tel. (512) 499-4402
Fax. (512) 499-4425

To UTIMCO:

The University of Texas Investment Management Company
Attn: President and CEO
221 West Sixth St., Suite 1700
Austin, Texas 78701
Tel. (512) 225-1600
Fax. (512) 225-1660

Section 18. Non-Assignability.

No Assignment of this Agreement by UTIMCO shall be made without having obtained the prior written consent of the U. T. Board nor is the Agreement assignable by the U. T. Board.

Section 19. No Waiver of Breach.

A waiver of a breach of any provision of this Agreement shall not constitute a waiver of any subsequent breach of that provision or a breach of any provision hereof. Failure of either party to enforce at any time or from time to time any provision of this Agreement shall not be construed as a waiver thereof.

Section 20. Indemnification.

a) **Agreements to Indemnify:**

To the fullest extent authorized by the Constitution and laws of the State of Texas, the U. T. Board shall indemnify and hold harmless each of the Indemnified Parties against any and all Losses, including Losses resulting from the negligence of the Indemnified Party claiming indemnification; provided, however, the U. T. Board shall not be obligated to indemnify an Indemnified Party against Losses to the extent such Losses are caused by (i) an act or omission that involves intentional misconduct or a knowing violation of law by the Indemnified Party claiming indemnification, (ii) a transaction from which the Indemnified Party claiming indemnification received an improper benefit, (iii) an act or omission for which the liability of the Indemnified Party claiming indemnification is expressly provided by an applicable statute, or (iv) an act or omission constituting gross negligence by the Indemnified Party claiming indemnification; provided further that indemnification payments by the U. T. Board shall be paid from the same sources as the Annual Fee pursuant to Section 7.

b) **Reimbursement:**

Each Indemnified Party shall reimburse the U. T. Board for payments made by the U. T. Board pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any insurance with respect to any Loss. At the request and expense of the U. T. Board, each Indemnified Party shall have the duty to claim any such insurance proceeds and such Indemnified Party shall assign its rights to such proceeds, to the extent of such required reimbursement, to the U. T. Board.

c) **Notice:**

In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the U. T. Board, such Indemnified Party shall promptly notify the U. T. Board in writing; provided, however, that any failure so to notify shall not relieve the U. T. Board of its obligations under this Section.

d) **Defense:**

The U. T. Board shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of

such counsel has been specifically authorized by the U. T. Board, in writing, (ii) the U. T. Board has failed to assume the defense and to employ counsel, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the U. T. Board, and such Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the U. T. Board (in which case, if such Indemnified Party notifies the U. T. Board in writing that it elects to employ separate counsel at the U. T. Board's expense, the U. T. Board shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the U. T. Board shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by such Indemnified Parties).

e) **Cooperation; Settlement:**

Each Indemnified Party shall use reasonable efforts to cooperate with the U. T. Board in the defense of any action or Claim. The U. T. Board shall not be liable for any settlement of any action or Claim without its consent but, if any such action or Claim is settled with the consent of the U. T. Board or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the U. T. Board shall indemnify and hold harmless the Indemnified Parties from and against any Loss by reason of such settlement or judgment as provided in Subsection (a) of this Section.

f) **Survival; Right to Enforce:**

The provisions of this Section shall survive the termination of this Agreement, and the obligations of the U. T. Board hereunder shall apply to Losses or Claims whether asserted prior to or after the termination of this Agreement. In the event of failure by the U. T. Board to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the U. T. Board under this Section.

Section 21. Claims By and Against Managed Funds.

UTIMCO is authorized and empowered to seek, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands due, payable, or belonging, or that may become due, payable, or belonging to the PUF or the U. T. Board from any person or persons as a result of any investment transaction and to execute any and all necessary or proper receipts, releases, and discharges therefor and any other instruments as may be necessary or appropriate from time to time relating to the handling, management, control, and disposition of any investment.

The authority granted in this Section does not include the authority to institute litigation on behalf of the U. T. Board or to settle contested claims or litigation that may result in UTIMCO receiving less than full value for the claim or the payment of damages or

awards. The settlement of any contested claim or litigation for less than full value requires the prior approval of the U. T. System Vice Chancellor and General Counsel and appropriate System officials, as set out in the Regents' Rules and Regulations.

Section 22. Communications.

UTIMCO and U. T. System will assure that communications are clear and timely. UTIMCO will provide notice of actions taken in meetings of the UTIMCO Board and committees to members of the U. T. Board through the Office of the Board of Regents. U. T. will provide notice of actions taken by the U. T. Board related to UTIMCO issues to members of the UTIMCO Board of Directors through the President and CEO of UTIMCO.

Section 23. Authority to Purchase, Exchange, and Sell Securities.

UTIMCO may purchase, exchange, and sell, for and on behalf of the Permanent University Fund or the U. T. Board, any and all securities of any description whatever and from any source, including gifts and bequests, registered in the name of the PUF or the U. T. Board, or in any other form of registration of such securities held for the account of the PUF or the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, external investment managers appointed by UTIMCO may purchase, sell, or exchange securities, pursuant to written agreement with UTIMCO.

Section 24. Authority to Assign and Transfer Securities.

UTIMCO may assign and transfer any and all securities of any description whatever and from any source, including gifts and bequests, and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any securities registered in the name of the PUF or the U. T. Board, or in any other form of registration of such securities held for the account of the PUF or the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, custodian banks appointed by UTIMCO may assign and transfer securities and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any security owned by the U. T. Board.

Section 25. Governing Law.

This Agreement and all matters arising under it shall be governed by the Constitution and laws of the State of Texas. Venue for any action brought by any party hereto concerning the subject matter of this Investment Management Services Agreement shall be in Travis County, Texas.

**BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM**

Date: _____

By _____
James R. Huffines
Chairman

**THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY**

Date: _____

By _____
Woody L. Hunt
Chairman

7. **U. T. Board of Regents: Amendment of Regents' Rules and Regulations related to The University of Texas Investment Management Company (UTIMCO) and investment issues**

RECOMMENDATION

The Chancellor recommends that the Regents' Rules and Regulations, Part One, Chapter I, Section 7 and Chapter II, Sections 3 and 12, and Part Two, Chapter IX, Section 3 be amended as set forth below in congressional style:

- a. Amend Part One, Chapter 1, Section 7, Subsection 7.3, related to committees and other appointments, as follows:

Sec. 7. Committees and Other Appointments

...

- 7.3 The University of Texas Investment Management Company (UTIMCO) Pursuant to Texas Education Code Section 66.08, the U. T. Board of Regents shall appoint the nine directors of The University of Texas Investment Management Company (UTIMCO). Periodically, the U. T. Board of Regents will review the performance of the UTIMCO Board of Directors. At least three members of the U. T. Board of Regents and the Chancellor shall be appointed to the UTIMCO Board of Directors by the Chairman of the U. T. Board of Regents, by and with the consent of the U. T. Board of Regents. At least one director will be selected from a list of candidates with substantial background and expertise in investments, as submitted to the U. T. Board of Regents by the Board of Regents of The Texas A&M University System. The selection process for external members of the UTIMCO Board of Directors is as follows:
- 7.31 The Chairman of the U. T. Board of Regents and the Chairman of UTIMCO send a joint letter to leaders in the public and private sector soliciting nominations.
- 7.32 Nominations are to be provided to the Chairman of the U. T. Board of Regents.
- 7.33 The Chairman of the U. T. Board of Regents appoints a selection advisory committee to review nominations.
- 7.34 After review, the selection advisory committee makes recommendations to the Chairman of the U. T. Board of Regents.

- 7.35 At the direction of the Chairman of the U. T. Board of Regents, the Office of the Board of Regents asks individuals to complete a background questionnaire. The Office of the Board of Regents apprises those individuals of the UTIMCO Code of Ethics and disqualifications from service.
- 7.36 Using information from the questionnaires, the Office of the Board of Regents:
 - 7.361 confirms the educational degrees and professional certifications;
 - 7.362 assures that professional licensure and certifications are in good standing;
 - 7.363 reviews business relationships, if any, with members of the Board of Regents or the UTIMCO Board or with U. T. System or UTIMCO; and
 - 7.364 initiates review by the U. T. System Director of Police of the Texas conviction database and contacts local law enforcement.
- 7.37 The Chairman of the U. T. Board of Regents and the Chairman of UTIMCO conduct personal interviews, as needed, to assure that external UTIMCO directors possess varied investment backgrounds and risk management expertise.
- 7.38 The Chairman of the U. T. Board of Regents submits a recommended appointment for approval by the U. T. Board of Regents.

- b. Amend Part One, Chapter II, Sections 3 and 12, related to the duties and responsibilities of the Chancellor and Vice Chancellor and General Counsel, respectively, as follows:

Sec. 3. Chancellor

...

3.2 Primary Duties and Responsibilities of the Chancellor

The Chancellor, by delegation from the Board, is authorized to exercise the powers and authorities of the Board in the governance of the System. The Chancellor will normally act through the officers of the System regarding the matters delegated to them by these Rules. The Chancellor, however, shall not be precluded from any direct participation and communication with System Administration officers or staff, institutional officers or staff, faculty members, and groups. The major duties of the Chancellor include:

...

- 3.2(12) Serving on the Board of Directors of The University of Texas Investment Management Company (UTIMCO). Generally overseeing the operations of UTIMCO, with support from System staff and external consultants as appropriate, and coordinating interaction between the System and UTIMCO. Ensuring that UTIMCO implements the core investment functions delegated to it in conformance with the Articles of Incorporation and Bylaws of UTIMCO, these Rules and Regulations, the Investment Management Services Agreement, and the Investment Policy Statements adopted by the Board. Directing UTIMCO in areas other than core investment functions, such as relations with the media, intergovernmental relations, decisions regarding institution of claims and waiver of claims, and public disclosure issues.

Sec. 12. Vice Chancellor and General Counsel

...

12.2 Duties and Responsibilities

The primary responsibilities of the Vice Chancellor and General Counsel include:

...

- 12.2(18) ~~Overseeing legal services provided to UTIMCO by outside legal counsel, consistent with the requirements of the Texas Disciplinary Rules of Professional Conduct, and P~~providing counsel, advice, and legal interpretations to the Board, the Chancellor, and other System officials concerning UTIMCO-related issues.
- 12.2(19) Performing such other duties as may be assigned by the Chancellor.

- c. Amend Part Two, Chapter IX, Section 3, related to the policy for investment and management of the Permanent University Fund, as follows:

Sec. 3. Policy for Investment and Management of the PUF

...

3.2 Reports Regarding Asset Management

- 3.21 The investment performance of the PUF, as measured by an unaffiliated organization, shall be reported to the Board quarterly at least annually.

...

- 3.3 Authorization to Protect PUF Interests
Subject to the provisions of Subsection 2.5 of this Chapter,
UTIMCO is authorized to take any and all steps as may be
considered necessary or advisable to protect the interest of
the PUF in event of default or any other significant changes
occurring with respect to any investment.

.....

BACKGROUND INFORMATION

The amendments to the Regents' Rules and Regulations are proposed in response to direction from the Board on April 29, 2004, following consideration of a report entitled "Report of the UTIMCO Working Group to the Board of Regents of the University of Texas System Regarding Certain Investment Management and Oversight Issues". The proposed amendments have been reviewed by U. T. System staff, including the Vice Chancellor and General Counsel, and are consistent with effective oversight of investment management.

Substantive changes proposed to Part One are as follows:

- Amend Section 7, Chapter I, to provide for periodic review of the performance of UTIMCO directors and specify the selection process for external members of the UTIMCO Board.
- Amend Section 3, Chapter II to reference assistance by U. T. System staff and external consultants in the Chancellor's oversight of UTIMCO and to include decisions related to the institution and waiver of claims within the specific areas of policy direction.
- Amend Section 12, Chapter II to delete overly broad language on the role of the Vice Chancellor and General Counsel concerning legal counsel provided to UTIMCO.

See related revisions to the UTIMCO Bylaws (Pages 6 - 7.11) and to the UTIMCO Investment Management Services Agreement (Pages 8 - 9.17).

8. U. T. System: Authorization of a Fee for Investment Oversight

RECOMMENDATION

The Chancellor recommends that the U. T. Board of Regents authorize The University of Texas Investment Management Company (UTIMCO) to assess an investment oversight fee on behalf of U. T. System Administration up to 0.005% of the net asset value of the Long Term Fund (LTF), the Permanent University Fund (PUF), the Permanent Health Fund (PHF), and the Short and Intermediate Term Fund (SITF), using the same allocation formula approved for assessment of the UTIMCO management fee for the support of enhanced investment oversight efforts.

BACKGROUND INFORMATION

The authorization to charge an investment oversight fee is consistent with a recommendation from the UTIMCO Working Group to the Board of Regents. On April 29, 2004, the Board authorized Chancellor Yudof to recommend an effective oversight system for the proper management of UTIMCO. The proposed fee has been reviewed by U. T. System staff.

Approval of this recommendation would authorize a portion of the PUF, the LTF, the PHF and the SITF to be used for enhanced investment oversight activities to ensure institutional compliance with the Investment Management Services Agreement made between the Board of Regents and UTIMCO. An institution may exempt specific endowments from the assessment if the terms of an endowment prohibit the assessment.

For Fiscal Year 2005, the budgeted oversight expenses to be recovered through the investment oversight fee total \$509,500. This includes \$280,500 for the retention of Ennis Knupp + Associates as the Board's investment consultant, \$154,000 for a Director of Investment Oversight (including benefits and overhead costs), and \$75,000 for outside legal counsel.

It is anticipated that the first assessment level distribution to U. T. System Administration will be made in September 2004 based on the prior 12-quarter's average of the market value of the Funds on August 31, 2004. Thereafter, it is anticipated that assessment level distributions will be made annually based on the prior 12-quarter's average of the market value of the Funds on August 31 of each fiscal year.

This recommendation is consistent with previous actions of the Board, including those taken in December 1988, August 1995, August 1997, and November 2001, and is authorized by Article VII, Section 18 of the Texas Constitution and Texas Education Code Sections 63.002 and 65.37.

9. **U. T. Board of Regents: Approval to Amend the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Short Intermediate Term Fund, Separately Invested Accounts, and Short Term Fund Investment Policy Statements**

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. Board of Regents approve proposed amendments to the following Investment Policy Statements as set forth in congressional style on the referenced pages:

- a. Permanent University Fund (PUF) (See Pages 20.1 - 20.15)
- b. General Endowment Fund (GEF) (See Pages 20.16 - 20.28)
- c. Permanent Health Fund (PHF) (See Pages 20.29 - 20.38)
- d. Long Term Fund (LTF) (See Pages 20.39 - 20.48)
- e. Short Intermediate Term Fund (SITF) (See Pages 20.49 - 20.59)
- f. Separately Invested Accounts (SIF) (See Pages 20.60 - 20.69)
- g. Short Term Fund (STF) (See Pages 20.70 - 20.78)

BACKGROUND INFORMATION

Section 3(a) of the Investment Management Services Agreement dated March 1, 1996, second amended and restated effective August 7, 2003, between the Board of Regents of The University of Texas System and UTIMCO provides that UTIMCO shall review the investment policies of the assets under its management and recommend any changes of such policies for approval by the U. T. Board of Regents. The UTIMCO Working Group also recommended that U. T. System staff and its consultants should be involved in UTIMCO issues, including a key role regarding creation of investment policies. Vinson & Elkins, UTIMCO's attorneys, also reviewed the Investment Policy Statements. The amended Investment Policy Statements were approved by the UTIMCO Board on July 15, 2004. Sections of the PUF and GEF Investment Policy Statements and the SITF Investment Policy Statements were previously approved by the UTIMCO Board on May 6, 2004 and were approved, with modifications, by the Finance and Planning Committee on May 12, 2004.

The proposed amendments are summarized below:

- PUF, GEF, PHF, LTF, SITF, SIF, and STF: Clarify that ultimate fiduciary responsibility of the funds rests with the Board of Regents. Texas Education Code Section 66.08, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents. Pursuant to an Investment Management Services Agreement between the Board of Regents and UTIMCO, the funds shall be managed by UTIMCO.
- GEF, PHF, LTF, SITF, SIF, and STF: Clarify that the Board of Regents has elected the PUF prudent investor standard to govern its management of the funds. In addition, the prudent investor standard is described.
- PUF, GEF, PHF, LTF, and SITF: Clarify that UTIMCO shall recommend specific asset allocation targets, ranges, and performance benchmarks. All changes to the policy statements or exhibits to the policy statements, including changes to asset allocation targets, ranges, and performance benchmarks, are subject to approval by the Board of Regents.
- PUF and GEF: Clarify that the primary investment objective of the PUF and GEF is to preserve the purchasing power of assets and fund distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund, plus the annual expected expense.
- PUF, GEF, PHF and LTF: Restate the funds' secondary fund objective which should be consistent between the funds. The objective is to generate a fund return in excess of the Policy Portfolio benchmark and the median return of the universe of the college and university endowments with assets greater than \$1 billion as reported by Cambridge Associates.
- PUF, GEF, and SITF: Add language that UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable in the event actual portfolio positions in asset categories move outside the ranges.
- PUF and GEF: Remove language related to members of UTIMCO management serving as directors of companies in which UTIMCO has directly invested assets. This language is provided for in the Investment Management Services Agreement and the UTIMCO Code of Ethics.

- PHF and LTF: Establish that Exhibit B (current GEF allocation) to the LTF and PHF Investment Policy Statements is subject to changes by the Board of Regents and upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.
- PHF and LTF: Remove certain specific language in the General section and Cash and Cash Equivalents section and instead refer to the GEF Investment Policy Statement.
- SITF: Move the Asset Allocation Policy section to form the Asset Allocation and Policy section.
- SITF: Changes to the investment objectives were modified and approved by the Finance and Planning Committee at its May 12, 2004 meeting. In addition, a change is being proposed to use the Merrill Lynch 1-3 Year Treasury Index instead of the policy portfolio benchmark. This benchmark change is also reflected in Exhibit A of the SITF Investment Policy Statement.
- STF: Remove naming a specific universe in the investment objectives. The current universe referenced in the policy, The Donoghue's, is no longer available.
- STF: Clarify that all investments are stated at amortized cost, which in most cases approximates the market value of securities. In addition, although the objective of the fund is to maintain a stable \$1 value, the \$1 net asset value is not guaranteed.

In addition, amendments are being proposed to the PUF and GEF Asset Allocation and Policy section of the Investment Policy Statements and Exhibits A and B. These amendments have been proposed to correct technical corrections to benchmark categories and definitions. These proposed changes were approved by the UTIMCO Board on May 6, 2004 and the Finance and Planning Committee at its May 12, 2004 meeting. The Investment Policy Statements for the PUF and the GEF provide that UTIMCO "shall...recommend specific asset allocation targets, ranges, and performance benchmarks consistent with PUF (and GEF) objectives...". The Board of Regents adopted amendments to the Investment Policy Statements for the PUF and GEF at its December 19, 2003 meeting which established new asset allocation targets for several asset categories. However, there were also changes made to performance benchmarks and asset category definitions in the revised Investment Policy Statements which the UTIMCO Board believes would have negative unintended consequences. In exercising its delegated responsibility to recommend benchmarks, UTIMCO recommends the technical corrections to the PUF and GEF Investment Policy Statements set forth in this Agenda Item. There are no changes to any asset allocation targets previously

approved by the Board of Regents recommended in this Agenda Item. There are no changes to the expected return or expected risk measures. The only recommended changes are technical corrections to benchmark categories and definitions.

The recommended changes to the PUF and GEF Investment Policy Statements segregate two individual asset categories which were grouped under broader asset classes, and provide asset definitions and benchmarks for the revised asset categories. The proposed definitional changes are reflected in Exhibit A of both the PUF and GEF Investment Policy Statements. The current policy targets, ranges, and performance objectives are set out on Page 20.14 (PUF) and Page 20.27 (GEF). Proposed changes are set on Page 20.15 (PUF) and Page 20.28 (GEF). In addition, a change is proposed in the benchmarks for Private Equity and Venture Capital asset categories as reported in Exhibit A.

During the construction of the new policy portfolio, it became apparent that two unintended consequences resulted from the movement of Real Estate Investment Trusts (REITS) and Treasury Inflation Protected Securities (TIPS) from the inflation hedge asset category to the U.S. Equities and Fixed Income categories, respectively. The benchmarks of the U.S. Equities and Fixed Income classes were not adjusted correspondingly to account for the asset allocation percentage weights of the asset categories added.

1. Under the asset classification scheme of the new Investment Policy Statement, the actual U.S. Equities portfolio for the PUF and GEF would consist of approximately 21.6% of REITS (REITS' value of \$859.2 versus total U.S. Equities with REITS of \$3,974.1 as of March 31, 2004) while the Benchmark for the asset class, the Russell 3000 Index, has a weight of approximately 2% in REITS. This difference in weights between the actual portfolios and the policy portfolios creates a substantial risk concentration requiring transactions totaling more than \$1.5 billion to correct. In addition to the expenses associated with the transactions which would total several million dollars, there would be three additional negative effects.
 - a. REITS have been an important part of the endowment funds' portfolios for more than 10 years. They are the endowments' only investment in real estate and substantially reducing this position would lower the diversification and increase the risk of the overall portfolios with no expected increase in returns.
 - b. Because the proceeds of the sale of the existing REITS portfolio would be transferred from internal management to external active management, the total UTIMCO and fund budgets would immediately increase by about 8.7% (approximately \$2.7 million per year), reflecting the difference in costs between internal and

external active management. In addition, total internally managed assets would be reduced by about one-third with no decrease in costs.

- c. An important source of value added over the past two years, REITS, managed internally by Mr. Greg Cox, Portfolio Manager - Equity Investments, would be reduced to about one-tenth of its previous weight, thus limiting UTIMCO's ability to add value in the future.
2. The second issue relates to TIPS. The intention was to introduce TIPS as part of the portfolio allocation, and a 5% allocation was originally approved by the UTIMCO Board. However, moving TIPS to the Fixed Income category would make it unlikely that the intended 33.3% allocation to TIPS (5% for TIPS out of 15% total for fixed income) would occur since the Lehman Brothers Bond Index does not contain any TIPS in its construction. TIPS would be more appropriately measured against the Lehman Brothers U.S. TIPS Index. Therefore, implementing the 5% allocation to TIPS intended by the Asset Allocation Policy would create a substantial risk concentration position relative to the Lehman Brothers Aggregate Bond benchmark, making it less likely that TIPS would actually be purchased under the risk budgeting procedure used by UTIMCO. This would be an unintended negative result because TIPS have unique and attractive strategic characteristics that would improve diversification and lower the overall risk of the portfolio. The Investment Policy should encourage, not discourage, a TIPS position. The changes recommended in this Agenda Item would encourage TIPS positions.

Clarification on the use of the Venture Economics Benchmark for the Private Capital asset category is also proposed. During the recently completed Asset Allocation Review process, a new benchmark based on Venture Economics data was approved. The UTIMCO Board approved the use of Venture Economics' Vintage Year Venture Capital Index for the benchmark of Venture Capital and the use of Venture Economics' Vintage year Private Equity Index for Private Equity. At the time of the approval, the UTIMCO Board noted that staff would have to determine the most appropriate way to incorporate the Venture Economics benchmark into the endowment policy portfolio benchmark. The incorporation of Private Capital returns into the overall policy portfolio presents technical challenges due to differences in the methodology used to calculate return.

The best solution to the technical challenges is to use the Venture Economics' Periodic Internal Rate of Return Index for the entire Private Capital asset category rather than separate indices for venture capital and private equity. Although still not a perfect solution to the benchmarking problems of private equity, the Venture Economics Index does have an important characteristic necessary in any good benchmark: high correlation with the actual portfolio segment for which it has been selected as the benchmark.

The table below indicates the correlation of actual private equity returns in the endowment funds with the Venture Economics Index over individual one, three, and five-year periods over the past 10 years:

Correlation Coefficients	UTIMCO and Venture Economics
1 Year	0.9229
3 Years	0.8931
5 Years	0.9520

Correlation coefficients are statistical measures of how closely two variables change as measured at different points in time. A correlation coefficient of 1.0 indicates the two variables are moving in exact lockstep; a correlation coefficient of 0.0 indicates the two variables are moving completely independently. The high correlation measures above for the historical returns of the private capital portfolios and the Venture Economics benchmark indicate that the Venture Economics benchmark should be an effective benchmark for the endowments' private capital investments.

THE UNIVERSITY OF TEXAS SYSTEM PERMANENT UNIVERSITY FUND INVESTMENT POLICY STATEMENT

Purpose

The Permanent University Fund (the "PUF") is a public endowment contributing to the support of institutions of The University of Texas System (other than The University of Texas Pan - American and The University of Texas at Brownsville) and institutions of The Texas A&M University System (other than Texas A&M University-Corpus Christi, Texas A&M International University, Texas A&M University-Kingsville, West Texas A&M University, Texas A&M University-Commerce, Texas A&M University-Texarkana, and Baylor College of Dentistry).

PUF Organization

The PUF was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the PUF were completed in 1883 with the contribution of an additional one million acres of land. Today, the PUF contains 2,109,190 acres of land (the "PUF Lands") located in 24 counties primarily in West Texas.

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, primarily ~~from in the form of~~ surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested pursuant to this Policy Statement ~~in securities~~. Surface income, as a renewable source of income, is distributed to the Available University Fund (the "AUF"), as received. ~~The Constitution prohibits the distribution and expenditure of mineral income contributed to the PUF.~~ The Constitution also requires that all surface income and investment distributions paid to the AUF be expended for certain authorized purposes.

The expenditure of the AUF is subject to a prescribed order of priority:

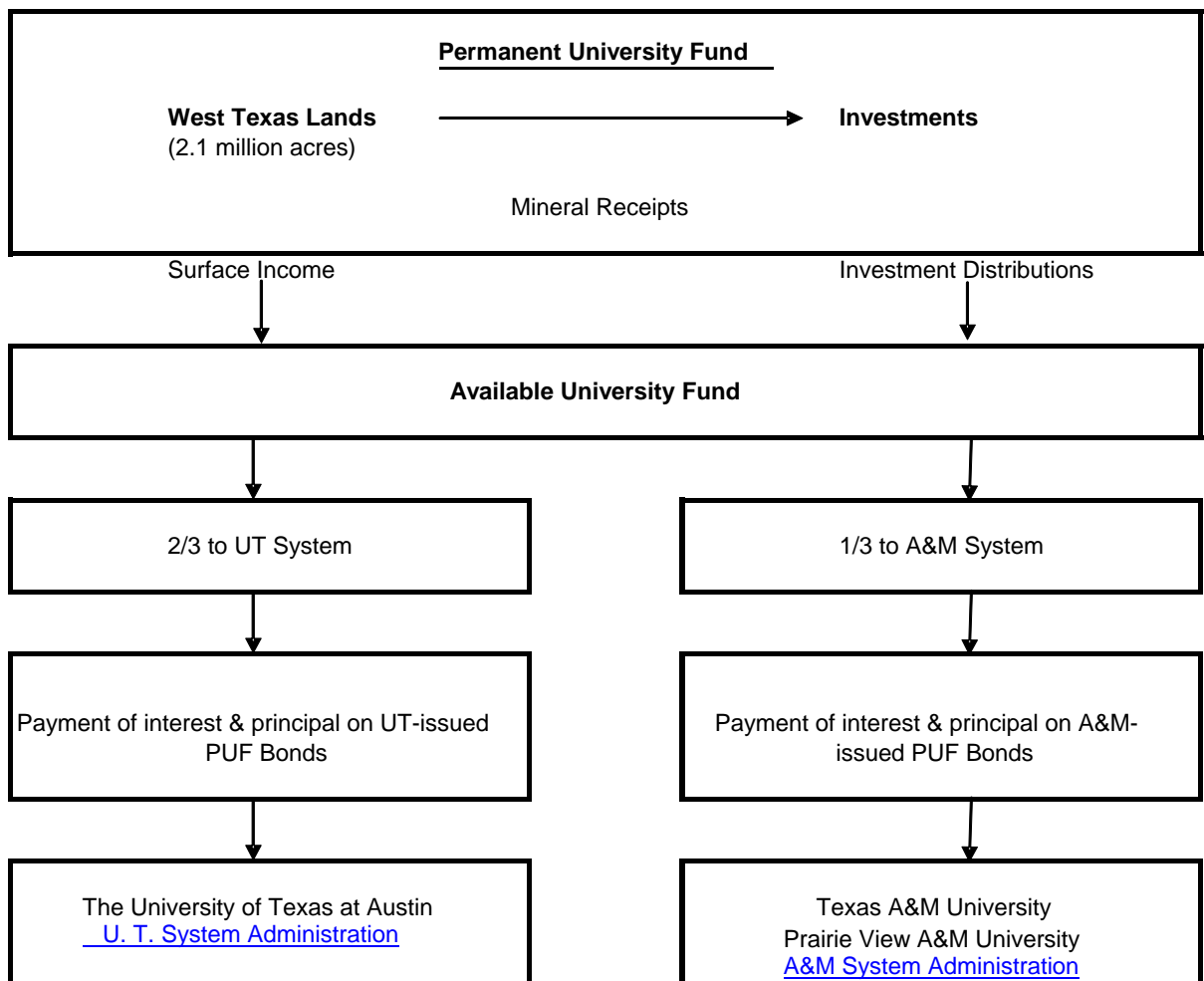
First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and ~~the Texas A&M University System~~, respectively, expenditures for debt service on PUF bonds. Article VII of the Texas Constitution authorizes the Board of Regents and the Texas A&M University System Board of Regents (the "TAMUS Board") to issue bonds payable from their respective interests in AUF receipts to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes secured by each System's interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the

issuance of additional PUF parity obligations unless the projected interest of the related System in AUF receipts during the preceding fiscal year for each System covers projected debt service on all PUF Bonds of that System by at least 1.5 times.

Second, expenditures to fund a) excellence programs specifically at U. T. Austin, Texas A&M University and Prairie View A&M University and b) the administration of the university systems.

The payment of surface income and investment distributions from the PUF to the AUF and the associated expenditures is depicted below in Exhibit 1:

Exhibit 1



PUF Management

Article VII, Section 11b of the Texas Constitution assigns fiduciary responsibility for managing and investing the PUF to the Board of Regents. Article VII, Section 11b authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.

Ultimate fiduciary responsibility for the PUF rests with the Board of Regents. Section 66.08 of the Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the Board of Regents in investment of the PUF.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), ~~t~~The PUF shall be managed ~~by~~ through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the PUF, b) recommend ~~determine~~ specific asset allocation targets, ranges and performance benchmarks consistent with PUF objectives, and c) monitor PUF performance against PUF objectives. UTIMCO shall invest the PUF's assets in conformity with this Policy Statement investment policy. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges, and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority approved by the UTIMCO Board. ~~These guidelines are intended to ensure that the appropriate managers are retained to pursue a defined investment strategy within the PUF's portfolio structure and to define the general conditions under which a portfolio manager may be placed on a watch list or terminated. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.~~

PUF Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of PUF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

PUF Investment Objectives

The PUF and the General Endowment Fund (the “GEF”) are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund PUF assets and annual distributions by earning an average annual real return of ~~5.1%~~ over rolling ten-year periods or longer at least equal to the target distribution rate of such fund plus the annual expected expense. ~~The current~~ This 5.1% target was derived by adding the PUF’s current target distribution rate of 4.75% plus an annual expected expense of .35%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. The PUF’s success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark and the median return of the universe of the college and university endowments with assets greater than \$1 billion as reported by Cambridge Associates over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect PUF’s asset allocation policy targets.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. Specific asset allocation positions may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable.

PUF assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

- A. U.S. Equities – U.S. equities represent ownership in U.S. companies that are traded in public markets; ~~Equities include stocks that are further identified by size of the company and are classified as large capitalization, medium~~

~~capitalization, and small capitalization. U.S. equities may further be delineated by style (growth or value). Warrants, rights, options, futures and hedge funds are also included if the underlying assets are equities. In addition, Derivative Applications approved by the UTIMCO Board that serve as a U.S. equity substitute will be classified as U.S. equities. Equities provide both current income and growth of income.~~

Traditional U.S. Equities – Traditional U.S. equities include common stocks and derivatives based on common stocks, including warrants, rights, options, exchange traded funds, and futures. In addition, derivative applications approved by the UTIMCO Board that serve as a U.S. equity substitute will be classified as traditional U.S. equity. Traditional U.S. equities provide both current income and capital gains.

REITS – REITS are real estate investment trusts and are classified as U.S. equities for purposes of this Policy Statement. REITS own, and in most cases operate, income producing real estate.

B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established and emerging markets. ~~Equities include stocks that are further identified by size of the company and are classified as large capitalization, medium capitalization, and small capitalization. Global ex U.S. equities may further be delineated by style (growth or value) or region (Latin America, Asia etc.) or state of economic development (Emerging Markets). Derivatives including w~~Warrants, rights, options, exchange traded funds, and futures and hedge funds are also included if the underlying assets are Global ex U.S. equities. In addition, ~~d~~Derivative ~~a~~Applications approved by the UTIMCO Board that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global ex U.S. eEquities provide both current income and capital gains ~~growth of income~~.

C. Hedge Funds – Hedge funds are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable.

Equity Hedge Funds – Equity hedge fund investments include U.S. and international long/short equity strategies. These strategies attempt to exploit profits from stock selection skills by taking long and short positions in various equity securities. These strategies may also include fund of hedge fund investments. Equity hedge fund investments are made through private placement agreements.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage and event driven strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a

variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discreet events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements.

- D. Private Capital - Private Capital investments include the illiquid debt and equity securities of private or publicly-traded companies. Private Capital investments consist of two sub-asset class categories: Venture Capital and Private Equity.

Venture Capital – Venture capital investments consist of investments in companies, both U.S. and non-U.S. that are in the early stages of development. Venture Capital investments are held either through limited partnerships or as direct ownership interests.

Private Equity – Private Equity investments consist of investments in the equity securities of private businesses, both U.S. and non-U.S., that are considered to be in the post-start-up phase and that are profitable and generating income. Private Equity investments are held either through limited partnerships or as direct ownership interests. The classification of Private Equity category also includes mezzanine and opportunistic investments. Mezzanine investments consist of investments in funds that make subordinated debt or minority equity investments in private companies. Opportunistic investments are limited to illiquid assets and may include distressed debt or secondary private equity partnerships. Mezzanine and opportunistic investments are held through limited partnerships or as direct ownership interests.

- E. Commodities – Commodities include nNatural resource investments which including oil and gas interests, commodities, and other hard assets. These investments may be held through partnerships, derivative investments or direct investments.
- F. Fixed Income – Fixed income investments include debt (whether U.S. or foreign) issued by Governments the U.S. Treasury, various government enterprises and agencies, and domestic and foreign corporations.

Traditional Fixed Income - The principal securities include bonds, notes, bills and mortgage and asset-backed securities. Fixed income investments also include hedge funds if the underlying assets are fixed income investments, and treasury inflation protected securities (TIPS) which are marketable securities with a return linked to the inflation rate. In addition, Derivative aApplications approved by the UTIMCO Board that serve as a fixed income substitute will be classified as traditional fixed income.

TIPS - TIPS are treasury inflation protected securities which are marketable securities with a return linked to the inflation rate. In constructing diversified TIPS portfolios, securities classified as traditional fixed income can be utilized by outside investment managers.

- G. Cash and Cash & Equivalents – Cash and cash & equivalents consist of money markets funds, deposit of the Texas State Treasury, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

Performance Measurement

The investment performance of the PUF will be measured by the PUF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the PUF, as indicated in Exhibit A.

Investment Guidelines

The PUF must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for index, and other commingled funds, and limited partnerships managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.
- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority ~~discretion~~ to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's ~~the~~ chief investment officer prior to investment of PUF assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the PUF's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

- The PUF's investments in warrants shall not exceed more than 5% of the PUF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The PUF may utilize dDerivative sSecurities to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a dDerivative sSecurity is priced more attractively than the underlying security; e) index or to hedge risks associated with PUF investments; or f) adjust the market exposure of the asset allocation, including long and short strategies and other strategies provided that the PUF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board. The Derivative Investment Policy shall serve the purpose of defining the permitted applications under which derivative securities can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Internal short-term pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by UTIMCO's ~~the~~ chief investment officer.
- Deposits of the Texas State Treasury.
- The PUF's custodian late deposit interest bearing liquid investment fund.
- Commercial paper ~~must be~~ rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit ~~must be~~ with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' aAcceptances ~~must be~~ guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.

- Repurchase aAgreements and rReverse rRepurchase aAgreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
 - Eligible cCollateral sSecurities for rRepurchase aAgreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a rRepurchase aAgreement may be from one day to two weeks.
 - The value of all collateral shall be maintained at 102% of the notional value of the rRepurchase aAgreement, valued daily.
 - All collateral shall be delivered to the PUF custodian bank. Tri-party collateral arrangements are not permitted.
- The aggregate amount of rRepurchase aAgreements with maturities greater than seven calendar days may not exceed 10% of the PUF's fixed income assets.
- Overnight rRepurchase aAgreements may not exceed 25% of the PUF's fixed income assets.
- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as rReverse rRepurchase aAgreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U.S. Treasury, U.S. Government-Sponsored Enterprises, or U.S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government

and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific subsectors ~~subindices~~ 1) Government securities: Treasury and Agency; 2) Corporate securities: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; 4) Asset-backed securities; 5) Taxable Municipal securities; and 6) Commercial Mortgage-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- or better by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.
- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

Non-U.S. Fixed Income

- Not more than 50% of the PUF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds. ~~Not more than 15% of the PUF's fixed income portfolio may be invested in bonds denominated in any one currency.~~
- Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.
- .
- Not more than 15% of the PUF's fixed income portfolio may be invested in eEmerging mMarket debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The PUF shall:

- A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market
- B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by UTIMCO's the chief investment officer.

~~Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested PUF assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore, UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.~~

PUF Distributions

The PUF shall balance the needs and interests of present beneficiaries with those of the future. PUF spending policy objectives shall be to:

- A. provide a predictable, stable stream of distributions over time;
- B. ensure that the inflation adjusted value of distributions is maintained over the long term; and
- C. ensure that the inflation adjusted value of PUF assets after distributions is maintained over rolling 10-year periods ~~the long term.~~

The goal is for the PUF's average spending rate over time not to exceed the PUF's average annual investment return after inflation and expenses in order to preserve the purchasing power of PUF distributions and underlying assets.

The Texas Constitution states that "The amount of any distributions to the available university fund shall be determined by the board of regents of The University of Texas System in a manner intended to provide the available university fund with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of permanent university fund investments and annual distributions to the available university fund. The amount distributed to the available university fund in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on bonds and notes issued under this

section. If the purchasing power of permanent university fund investments for any rolling 10-year period is not preserved, the board may not increase annual distributions to the available university fund until the purchasing power of the permanent university fund investments is restored, except as necessary to pay the principal and interest due and owing on bonds and notes issued under this section. An annual distribution made by the board to the available university fund during any fiscal year may not exceed an amount equal to seven percent of the average net fair market value of permanent university fund investment assets as determined by the board, except as necessary to pay any principal and interest due and owing on bonds issued under this section. The expenses of managing permanent university fund land and investments shall be paid by the permanent university fund.”

Annually, the Board of Regents will approve a distribution amount to the AUF.

In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the Board of Regents in May of each year an amount to be distributed to the AUF during the next fiscal year. UTIMCO's recommendation on the annual distribution shall be an amount equal to 4.75% of the trailing twelve quarter average of the net asset value of the PUF for the quarter ending February of each year.

Following approval of the distribution amount, distributions from the PUF to the AUF may be quarterly or annually at the discretion of UTIMCO Management.

PUF Accounting

The fiscal year of the PUF shall begin on September 1st and end on August 31st. Market value of the PUF shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, industry guidelines, or ~~and~~ state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's ~~the~~ chief investment officer and reported to the UTIMCO Board of Directors. The PUF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PUF net assets. Valuation of PUF assets shall be based on the books and records of the custodian for the valuation date. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

The fair market value of the PUF's net assets shall include all related receivables and payables of the PUF on the valuation. Such valuation shall be final and conclusive.

Securities Lending

The PUF may participate in a securities lending contract with a bank or nonbank security lending agent for ~~either short-term or long-term~~ purposes of realizing additional income. Loans of securities by the PUF shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the PUF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the PUF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the PUF solely in the interest of the U. T. System and the A&M System ~~PUF unitholders~~ and shall not invest the PUF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend this ~~the Investment Policy Statement~~ as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be August 12, 2004, except for Exhibit A which was effective January 1, 2004 ~~December 19, 2003~~.

CURRENT

EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities	25.0	15 to 45	Russell 3000 Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Traditional Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	Venture Economics Vintage Year Venture Capital Index
Private Equity	9.0	5 to 15	Venture Economics Vintage Year Private Equity Index
Total Private Capital	15.0	5 to 15	
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income	15.0	10 to 30	Lehman Brothers Aggregate Bond Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

PROPOSED

EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities:	25.0	15 to 45	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	
Private Equity	9.0	5 to 15	
Total Private Capital	15.0	5 to 15	Venture Economics' Periodic IRR Index
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income:	15.0	10 to 30	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

**THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND
INVESTMENT POLICY STATEMENT**

Purpose

The General Endowment Fund (the "GEF"), established by the Board of Regents of The University of Texas System (the "Board of Regents") March 1, 2001, is a pooled fund for the collective investment of certain long-term funds under the control and management of the Board of Regents. The GEF provides for greater diversification of investments than would be possible if each account were managed separately.

GEF Organization

The GEF ~~functions like~~ is organized as a mutual fund in which each eligible fund account purchases and redeems GEF units as provided herein. The ownership of GEF assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

GEF Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031 (c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the GEF.

Ultimate fiduciary responsibility for the GEF rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), ~~t~~The GEF shall be managed by ~~governed through~~ The University

of Texas Investment Management Company ("UTIMCO"), a nonprofit Corporation organized for the express purpose of investing funds under the control and management of the Board of Regents. ~~UTIMCO which shall a) recommend investment policy for the GEF, b) recommend ~~determine~~ specific asset allocation targets, ranges, and performance benchmarks consistent with GEF objectives, and c) monitor GEF performance against GEF objectives. UTIMCO shall invest the GEF assets in conformity with this Policy Statement investment policy. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.~~

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority approved by the UTIMCO Board. ~~These guidelines are intended to ensure that the appropriate managers are retained to pursue a defined investment strategy within the GEF's portfolio structure and to define the general conditions under which a portfolio manager may be placed on a watch list or terminated. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.~~

GEF Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of GEF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase GEF Units

No fund shall be eligible to purchase units of the GEF unless it is under the sole control, with full discretion as to investments, of ~~by~~ the Board of Regents and/or UTIMCO.

Any fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the GEF.

Currently, the Long Term Fund (the "LTF") and the Permanent Health Fund (the "PHF") purchase units in the GEF.

GEF Investment Objectives

The GEF and the PUF are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund GEF assets by earning an average annual real return ~~of 5.4%~~ over rolling ten-year

periods or longer at least equal to the target distribution rate of such fund (in case of the GEF, the target distribution rate of the LTF and the PHF) plus the annual expected expense. ~~The current~~ This 5.1% target was derived by adding the PUF's current target distribution rate of 4.75% plus an annual expected expense of .35%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. The GEF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives ~~is~~ are to generate a fund return in excess of the Policy Portfolio benchmark and the ~~average~~ average median return of the universe of the college and university endowments with assets greater than \$1 billion as reported ~~annually~~ by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect GEF's asset allocation policy targets.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. Specific asset allocation positions may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable.

GEF assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

- A. U.S. Equities - U.S. equities represent ownership in U.S. companies that are traded in public markets: ~~Equities include stocks that are further identified by size of the company and are classified as large capitalization, medium capitalization, and small capitalization. U.S. equities may further be delineated by style (growth or value). Warrants, rights, options, futures and hedge funds are also included if the underlying assets are equities. In addition, Derivative Applications approved by the UTIMCO Board that serve as a U.S. equity substitute will be classified as U.S. equities. Equities provide both current income and growth of income.~~

Traditional U.S. Equities – Traditional U.S. equities include common stocks and derivatives based on common stocks, including warrants, rights, options, exchange traded funds, and futures. In addition, derivative applications approved by the UTIMCO Board that serve as a U.S. equity

substitute will be classified as traditional U.S. equity. Traditional U.S. equities provide both current income and capital gains.

REITS – REITS are real estate investment trusts and are classified as U.S. equities for purposes of this Policy Statement. REITS own, and in most cases operate, income producing real estate.

- B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established and emerging markets. ~~Equities include stocks that are further identified by size of the company and are classified as large capitalization, medium capitalization, and small capitalization. Global ex U.S. equities may further be delineated by style (growth or value) or region (Latin America, Asia etc.) or state of economic development (Emerging Markets).~~ Derivatives including warrants, rights, options, exchange traded funds, and futures and hedge funds are also included if the underlying assets are Global ex U.S. equities. In addition, ~~Derivative Applications~~ approved by the UTIMCO Board that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global ex U.S. Equities provide both current income and capital gains ~~growth of income~~.

- C. Hedge Funds – Hedge funds are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable.

Equity Hedge Funds – Equity hedge fund investments include U.S. and international long/short equity strategies. These strategies attempt to exploit profits from stock selection skills by taking long and short positions in various equity securities. These strategies may also include fund of hedge fund investments. Equity hedge fund investments are made through private placement agreements.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage and event driven strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discreet events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements.

- D. Private Capital - Private Capital investments include the illiquid debt and equity securities of private or publicly-traded companies. Private Capital investments consist of two sub-asset class categories: Venture Capital and Private Equity.

Venture Capital – Venture Capital investments consist of investments in companies, both U.S. and non-U.S., that are in the early stages of development. Venture capital investments are held either through limited partnerships or as direct ownership interests.

Private Equity – Private Equity investments consist of investments in the equity securities of private businesses, both U.S. and non-U.S., that are considered to be in the post-start-up phase and that are profitable and generating income. Private Equity investments are held either through limited partnerships or as direct ownership interests. The classification of Private Equity category also includes mezzanine and opportunistic investments. Mezzanine investments consist of investments in funds that make subordinated debt or minority equity investments in private companies. Opportunistic investments are limited to illiquid assets and may include distressed debt or secondary private equity partnerships. Mezzanine and opportunistic investments are held through limited partnerships or as direct ownership interests.

E. Commodities – Commodities include nNatural resource investments which including oil and gas interests, commodities, and other hard assets. These investments may be held through partnerships, derivative investments, or direct investments.

F. Fixed Income – Fixed income investments include debt (whether U.S. or foreign) issued by Governments the U.S. Treasury, various government enterprises, and agencies and domestic and foreign corporations.

Traditional Fixed Income - The principal securities include bonds, notes, bills and mortgage and asset-backed securities. Fixed income investments also include hedge funds if the underlying assets are fixed income investments, and treasury inflation protected securities (TIPS) which are marketable securities with a return linked to the inflation rate. In addition, Derivative aApplications approved by the UTIMCO Board that serve as a fixed income substitute will be classified as traditional fixed income.

TIPS - TIPS are treasury inflation protected securities which are marketable securities with a return linked to the inflation rate. In constructing diversified TIPS portfolios, securities classified as traditional fixed income can be utilized by outside investment managers.

G. Cash and Cash Equivalents – Cash and & cash equivalents consist of money markets funds, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

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The investment performance of the GEF will be measured by the GEF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the GEF, as indicated in Exhibit A.

Investment Guidelines

The GEF must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for ~~index, and other commingled funds, and limited partnerships~~ managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.
- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority ~~discretion~~ to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's ~~the~~ chief investment officer prior to investment of GEF assets in such liquid investment fund.
- No securities may be purchased or held which jeopardize the GEF's tax exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The GEF's investments in warrants shall not exceed more than 5% of the GEF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The GEF may utilize d~~D~~erivative s~~S~~ecurities to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a d~~D~~erivative s~~S~~ecurity is priced more attractively than the underlying security; e) index or to hedge risks

associated with GEF investments; or f) adjust the market exposure of the asset allocation, including long and short strategies and other strategies provided that the GEF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board. The Derivative Investment Policy shall serve the purpose of defining the permitted applications under which derivative securities can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Internal short-term pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by UTIMCO's ~~the~~ chief investment officer.
- The GEF's custodian late deposit interest bearing liquid investment fund.
- Commercial paper ~~must be~~ rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit ~~must be~~ with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' aAcceptances ~~must be~~ guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase aAgreements and rReverse rRepurchase aAgreements ~~must be~~ transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.

- Eligible cCollateral sSecurities for rRepurchase aAgreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a rRepurchase aAgreement may be from one day to two weeks.
 - The value of all collateral shall be maintained at 102% of the notional value of the rRepurchase aAgreement, valued daily.
 - All collateral shall be delivered to the GEF custodian bank. Tri-party collateral arrangements are not permitted.
- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the GEF's fixed income assets.
 - Overnight rRepurchase aAgreements may not exceed 25% of the GEF's fixed income assets.
 - Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as rReverse rRepurchase aAgreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U.S. Treasury, U.S. Government-Sponsored Enterprises, or U.S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:

Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific subsectors subindices

- 1) Government securities: Treasury and Agency;
- 2) Corporate securities: Industrial, Finance, Utility, and Yankee;
- 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA;
- 4) Asset-backed securities;
- 5) Taxable Municipal securities; and
- 6) Commercial Mortgage-backed securities.

In addition to the permissible securities listed above, the following securities shall be permissible:

- a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities;
- b) medium term notes issued by investment grade corporations;
- c) zero coupon

bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- or better, by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

Non-U.S. Fixed Income

- Not more than 50% of the GEF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds. ~~Not more than 15% of the GEF's fixed income portfolio may be invested in bonds denominated in any one currency.~~
- Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.
- Not more than 15% of the GEF's fixed income portfolio may be invested in eEmerging mMarket debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The GEF shall:

- A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market
- B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by UTIMCO's the chief investment officer.

~~Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested GEF assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore, UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.~~

GEF Accounting

The fiscal year of the GEF shall begin on September 1st and end on August 31st. Market value of the GEF shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's the chief investment officer and reported to the UTIMCO Board of Directors. The GEF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all GEF net assets and the net asset value per unit of the GEF. Valuation of GEF assets shall be based on the books and records of the custodian for the valuation date. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

The fair market value of the GEF's net assets shall include all related receivables and payables of the GEF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of GEF Units

Purchase of GEF units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the GEF or contribution of assets approved by UTIMCO's the chief investment officer, at the net asset value per unit of the GEF as of the most recent quarterly valuation date. Each fund whose monies are invested in the GEF shall own an undivided interest in the GEF in the proportion that the number of units invested therein bears to the total number of all units comprising the GEF.

Redemption of GEF Units

Redemption of GEF units shall be paid in cash as soon as practicable after the quarterly valuation date of the GEF. Withdrawals from the GEF shall be at the market value price per unit determined for the period of the withdrawal.

Securities Lending

The GEF may participate in a securities lending contract with a bank or nonbank security lending agent for ~~either short-term or long-term~~ purposes of realizing additional income. Loans of securities by the GEF shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the GEF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the GEF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the GEF solely in the interest of GEF unitholders and shall not invest the GEF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend this ~~the~~ Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be August 12, 2004, except for Exhibit A which was effective January 1, 2004 December 19, 2003.

CURRENT

EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities	25.0	15 to 45	Russell 3000 Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Traditional Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	Venture Economics Vintage Year Venture Capital Index
Private Equity	9.0	5 to 15	Venture Economics Vintage Year Private Equity Index
Total Private Capital	15.0	5 to 15	
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income	15.0	10 to 30	Lehman Brothers Aggregate Bond Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

PROPOSED

EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities:	25.0	15 to 45	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	
Private Equity	9.0	5 to 15	
Total Private Capital	15.0	5 to 15	Venture Economics' Periodic IRR Index
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income:	15.0	10 to 30	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

**THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT HEALTH FUND
INVESTMENT POLICY STATEMENT**

Purpose

The Permanent Health Fund (the “PHF”) is hereby established by the Board of Regents of The University of Texas System (the “Board of Regents”), as a pooled fund for the collective investment of certain permanent funds for health-related institutions of higher education created, effective August 30, 1999, by Chapter 63 of the Texas Education Code. The permanent health funds which have assets in the PHF are:

- A. The Permanent Health Fund for Higher Education (the “PHFHE”), the distributions from which are to fund programs that benefit medical research, health education, or treatment programs at 10 health-related institutions of higher education; and

- B. Eight of the thirteen separate Permanent Funds for Health Related Institutions (the “PFHRIs”), the distributions from which are to fund research and other programs at health-related institutions of higher education that benefit public health. The PFHRIs invested in the PHF are:

- U. T. Health Science Center - San Antonio
- U. T. M. D. Anderson Cancer Center
- U. T. Southwestern Medical Center - Dallas
- U. T. Medical Branch - Galveston
- U. T. Health Science Center - Houston
- U. T. Health Center - Tyler
- U. T. El Paso
- Regional Academic Health Center

The PHF provides for greater diversification of investments than would be possible if each account were managed separately.

PHF Organization

The PHF ~~functions like is organized~~ as a mutual fund in which each eligible fund account purchases and redeems PHF units as provided herein.

PHF Management

Chapter 63 of the Texas Education Code designates: a) the Board of Regents as the administrator for the PHFHE and b) the governing board of an institution for which a PFHRI fund is established as the administrator for its own PFHRI, or if the governing board so elects, the Comptroller of Public Accounts (State Comptroller). It permits the State Comptroller, in turn, to contract with the governing board of any institution that is eligible to receive a grant under Chapter 63. Pursuant to the foregoing and an Investment Management Services Agreement between the Board of Regents and the State Comptroller, the Board of Regents is the administrator responsible for managing the PHF. Chapter 63 further states that the Board of Regents may manage and invest the PHF in the same manner as the Board of Regents manages and invests other permanent endowments. It also requires that the administrator invest the funds in a manner that preserves the purchasing power of the funds' assets and distributions. It further requires that the administrator make distributions in a manner consistent with the administrator's policies and procedures for making distributions to the beneficiaries of its own endowments in the case of the PHFHE or the funds themselves in the case of the PFHRI funds.

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Chapter 63 of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the PHF.

Ultimate fiduciary responsibility for the PHF rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

~~Section 163 of the Texas Property Code provides the guidelines for the management, investment and expenditure of endowment funds. It also authorizes the Board of Regents to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the Board of Regents in the investment of the PHF. Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the PHF shall be managed by governed through The University of Texas Investment Management Company (UTIMCO) which shall: a) recommend investment policy for the PHF; b) recommend determine~~

specific asset allocation targets, ranges, and performance benchmarks consistent with PHF objectives; and c) monitor PHF performance against PHF objectives. UTIMCO shall invest the PHF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents investment policy.

PHF Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of PHF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase PHF Units

No fund shall be eligible to purchase units of the PHF unless it is a permanent health fund established pursuant to Chapter 63 of the Texas Education Code, under the control, with full discretion as to investments, of by the Board of Regents and/or UTIMCO.

Any fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the PHF.

PHF Investment Objectives

The primary investment objective shall be to preserve the purchasing power of PHF assets and annual distributions by earning an average annual real return ~~of 5.1%~~ over rolling ten-year periods or longer at least equal to the target distribution rate, plus the annual expected expense. ~~This 5.1% target was derived by adding the current target distribution rate of 4.75% plus an annual expected expense of .35%.~~ The current target rate is 5.1%. The target is subject to adjustment from time to time consistent with the primary investment objective of the PHF. The PHF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives ~~are~~ is to generate a fund return in excess of the Policy Portfolio benchmark and the average median return of the universe of the college and university endowments with assets greater than \$1 billion as reported ~~annually~~ by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect PHF's asset allocation policy targets.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A and Exhibit B, is the responsibility of UTIMCO. PHF assets shall be allocated among the following investments:

- A. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.
- B. U. T. System General Endowment Fund (GEF) - (See Exhibit B for the current GEF allocation, which is subject to changes by the Board of Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.)

Performance Measurement

The investment performance of the PHF will be measured by the PHF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board. Such measurement will occur at least quarterly annually.

Investment Guidelines

The PHF must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.
- ~~All investments will be reported in U. S. dollars.~~
- ~~Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of PHF assets in such liquid investment fund.~~
- No securities may be purchased or held which jeopardize the PHF's tax exempt status.
- ~~No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.~~

- ~~• No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.~~

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Eligible investments within the “Cash and Cash Equivalents” category of the GEF Investment Policy Statement.

~~Internal short-term pooled investment funds managed by UTIMCO.~~

- ~~• Unaffiliated liquid investment funds as approved by the chief investment officer.~~

- ~~• The PHF’s custodian late deposit interest bearing liquid investment fund.~~

PHF Distributions

The PHF shall balance the needs and interests of present beneficiaries with those of the future. PHF spending policy objectives shall be to:

- provide a predictable, stable stream of distributions over time;
- ensure that the inflation adjusted value of distributions is maintained over the long term; and
- ensure that the inflation adjusted value of PHF assets after distributions is maintained over the long term.

The goal is for the PHF’s average spending rate over time not to exceed the PHF’s average annual investment return after inflation in order to preserve the purchasing power of PHF distributions and underlying assets.

UTIMCO shall be responsible for calculating ~~establishing~~ the PHF’s distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise recommended ~~established~~ by UTIMCO and approved by the Board of Regents, PHF fund distributions shall be based on the following criteria:

The annual unit distribution amount shall be adjusted annually based on the following formula:

- Increase the prior year’s per unit distribution amount (cents per unit) by the average inflation rate (C.P.I.) for the previous twelve quarters. This will be the per unit distribution amount for the next fiscal year. This amount may be rounded to the nearest \$.0005 per unit.

- B. If the inflationary increase in Step A. results in a distribution rate below 3.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit), ~~the UTIMCO Board, at its sole discretion,~~ may recommend ~~grant~~ an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5%.

- C. If the distribution rate exceeds 5.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit), ~~the UTIMCO Board at its sole discretion,~~ may recommend a reduction in ~~reduce~~ the per unit distribution amount.

Notwithstanding any of the foregoing provisions, the Board of Regents may approve a per unit distribution amount that, in their judgment, would be more appropriate than the rate calculated by the policy provisions.

Distributions from the PHF to the unitholders shall be made quarterly as soon as practicable on or after the last business day of November, February, May, and August of each fiscal year.

PHF Accounting

The fiscal year of the PHF shall begin on September 1st and end on August 31st. Market value of the PHF shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, ~~or~~ industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's ~~the~~ chief investment officer and reported to the UTIMCO Board of ~~Directors~~. The PHF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PHF net assets and the net asset value per unit of the PHF. Such valuation of PHF assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of PHF assets shall be based on the books and records of the custodian for the valuation date.

The fair market value of the PHF's net assets shall include all related receivables and payables of the PHF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of PHF Units

Purchase of PHF units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the PHF or contribution of assets approved by UTIMCO's the chief investment officer, at the net asset value per unit of the PHF as of the most recent quarterly valuation date.

Each fund whose monies are invested in the PHF shall own an undivided interest in the PHF in the proportion that the number of units invested therein bears to the total number of all units comprising the PHF.

Redemption of PHF Units

Redemption of PHF units shall be paid in cash as soon as practicable after the quarterly valuation date of the PHF. If the withdrawal is greater than \$5 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than \$5 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the PHF's net asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the best interests of all PHF unitholders. Withdrawals from the PHF shall be at the market value price per unit determined for the period of the withdrawal.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the PHF solely in the interest of PHF unitholders and shall not invest the PHF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

| The effective date of this policy shall be August 12, 2004 ~~December 19, 2003~~.

EXHIBIT A

PHF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

	Neutral Allocation	Range	Benchmark Return
GEF Commingled Fund	100.0%	95%-100%	Endowment Policy Portfolio
Cash	0.0%	0%-5%	90 day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

The endowment policy portfolio is the sum of the neutrally weighted benchmark returns for the GEF.

CURRENT

EXHIBIT B

GEF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities	25.0	15 to 45	Russell 3000 Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Traditional Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	Venture Economics Vintage Year Venture Capital Index
Private Equity	9.0	5 to 15	Venture Economics Vintage Year Private Equity Index
Total Private Capital	15.0	5 to 15	
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income	15.0	10 to 30	Lehman Brothers Aggregate Bond Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

PROPOSED

EXHIBIT B

GEF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities:	25.0	15 to 45	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	
Private Equity	9.0	5 to 15	
Total Private Capital	15.0	5 to 15	Venture Economics' Periodic IRR Index
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income:	15.0	10 to 30	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

THE UNIVERSITY OF TEXAS SYSTEM LONG TERM FUND INVESTMENT POLICY STATEMENT

Purpose

The Long Term Fund (the "LTF"), succeeded the Common Trust Fund in February, 1995, and was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of private endowments and other long-term funds supporting various programs of The University of Texas System. The LTF provides for greater diversification of investments than would be possible if each account were managed separately.

LTF Organization

The LTF functions like ~~is organized as~~ a mutual fund in which each eligible account purchases and redeems LTF units as provided herein. The ownership of LTF assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

LTF Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the LTF.

Ultimate fiduciary responsibility for the LTF rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

~~Section 163 of the Texas Property Code authorizes the Board of Regents to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the Board of Regents in the investment of the LTF. Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), t~~The LTF shall be managed by ~~governed through~~ The University of Texas Investment Management Company ("UTIMCO"), which shall a) recommend investment policy for the LTF, b) recommend ~~determine~~ specific asset allocation targets, ranges, and performance benchmarks consistent with LTF objectives, and c) monitor LTF performance against LTF objectives. UTIMCO shall invest the LTF assets in conformity with this Policy Statement investment policy. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

LTF Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of LTF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase LTF Units

No account fund shall be eligible to purchase units of the LTF unless it is under the sole control, with full discretion as to investments, of ~~by~~ the Board of Regents and/or UTIMCO.

Any account fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the LTF.

LTF Investment Objectives

The primary investment objective shall be to preserve the purchasing power of LTF assets by earning an average annual real return ~~of 5.1%~~ over rolling ten-year periods or longer at least equal to the target distribution rate, plus the annual expected expense. ~~This 5.1% target was derived by adding the current target distribution rate of 4.75% plus an annual expected expense of .35%. The current target rate is 5.1%. The target is subject to adjustment from time to time consistent with the primary investment objective of the LTF.~~ The LTF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives ~~are~~ is to generate a fund return in excess of the Policy Portfolio benchmark and the average median return of the universe of the college and university endowments with assets greater than \$1 billion as reported ~~annually~~ by Cambridge Associates ~~and NACUBO~~ over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect LTF's asset allocation policy targets.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A and Exhibit B, is the responsibility of UTIMCO. LTF assets shall be allocated among the following investments.

- A. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.
- B. U. T. System General Endowment Fund (GEF) - (See Exhibit B for the current GEF allocation, which is subject to changes by the Board of Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.)

Performance Measurement

The investment performance of the LTF will be measured by the LTF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board. Such measurement will occur at least quarterly annually.

Investment Guidelines

The LTF must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.
- ~~All investments will be reported in U. S. dollars.~~

- ~~Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of LTF assets in such liquid investment fund.~~
- No securities may be purchased or held which jeopardize the LTF's tax exempt status.
- ~~No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.~~
- ~~No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.~~

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Eligible investments within the "Cash and Cash Equivalents" category of the GEF Investment Policy Statement.
~~Include internal short-term pooled investment funds managed by UTIMCO.~~
- ~~Unaffiliated liquid investment funds as approved by the chief investment officer.~~
- ~~The LTF's custodian late deposit interest bearing liquid investment fund.~~

LTF Distributions

The LTF shall balance the needs and interests of present beneficiaries with those of the future. LTF spending policy objectives shall be to:

- A. provide a predictable, stable stream of distributions over time;
- B. ensure that the inflation adjusted value of distributions is maintained over the long term; and
- C. ensure that the inflation adjusted value of LTF assets after distributions is maintained over the long term.

The goal is for the LTF's average spending rate over time not to exceed the LTF's average annual investment return after inflation in order to preserve the purchasing power of LTF distributions and underlying assets.

Generally, pursuant to the Uniform Management of Institutional Funds Act, Chapter 163, Texas Property Code, as amended, ("Act"), the Board of Regents a governing board may distribute, for the uses and purposes for which the LTF fund is

established, the net appreciation, realized and unrealized, in the fair market value of the assets of the LTF an endowment fund over the historic dollar value of the fund to the extent prudent under the standard provided by the Act. ~~In addition, income may be distributed for the purposes associated with the endowments/foundations.~~

UTIMCO shall be responsible for calculating ~~establishing~~ the LTF's distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise recommended ~~established~~ by UTIMCO and approved by the Board of Regents or prohibited by the Act, LTF fund distributions shall be based on the following criteria:

The annual unit distribution amount shall be adjusted annually based on the following formula:

- A. Increase the prior year's per unit distribution amount (cents per unit) by the average inflation rate (C.P.I.) for the previous twelve quarters. This will be the per unit distribution amount for the next fiscal year. This amount may be rounded to the nearest \$.0005 per unit.
- B. If the inflationary increase in Step A- results in a distribution rate below 3.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit), ~~the UTIMCO Board, at its sole discretion,~~ may recommend ~~grant~~ an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5%.
- C. If the distribution rate exceeds 5.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit), ~~the UTIMCO Board at its sole discretion,~~ may recommend a reduction in ~~reduce~~ the per unit distribution amount.

Notwithstanding any of the foregoing provisions, the Board of Regents may approve a per unit distribution amount that, in their judgment, would be more appropriate than the rate calculated by the policy provisions.

Distributions from the LTF to the unitholders shall be made quarterly as soon as practicable on or after the last business day of November, February, May, and August of each fiscal year.

LTF Accounting

The fiscal year of the LTF shall begin on September 1st and end on August 31st. Market value of the LTF shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, ~~or~~ industry guidelines, or state statutes, whichever is

applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's ~~the~~ chief investment officer and reported to the UTIMCO Board. The LTF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all LTF net assets and the net asset value per unit of the LTF. Such valuation of LTF assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of LTF assets shall be based on the books and records of the custodian for the valuation date.

The fair market value of the LTF's net assets shall include all related receivables and payables of the LTF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of LTF Units

Purchase of LTF units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the LTF or contribution of assets approved by UTIMCO's ~~the~~ chief investment officer, at the net asset value per unit of the LTF as of the most recent quarterly valuation date.

Each account fund ~~fund~~ whose monies are invested in the LTF shall own an undivided interest in the LTF in the proportion that the number of units invested therein bears to the total number of all units comprising the LTF.

Redemption of LTF Units

Redemption of LTF units shall be paid in cash as soon as practicable after the quarterly valuation date of the LTF. If the withdrawal is greater than \$10 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than \$10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the LTF's net asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the best interests of all LTF unitholders. Withdrawals from the LTF shall be at the market value price per unit determined for the period of the withdrawal except as follows: withdrawals to correct administrative errors shall be calculated at the per unit value at the time the error occurred. To be considered an administrative error, the contribution shall have been invested in the LTF for a period less than or equal to one year determined from the date of the contribution to the

LTF. Transfer of units between endowment unitholders shall not be considered redemption of units subject to this provision.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the LTF solely in the interest of LTF unitholders and shall not invest the LTF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

| The effective date of this policy shall be August 12, 2004 ~~December 19, 2003~~.

EXHIBIT A

LTF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

	Neutral Allocation	Range	Benchmark Return
GEF Commingled Fund	100.0%	95%-100%	Endowment Policy Portfolio
Cash	0.0%	0%-5%	90 day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

The endowment policy portfolio is the sum of the neutrally weighted benchmark returns for the GEF.

CURRENT

EXHIBIT B

GEF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities	25.0	15 to 45	Russell 3000 Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Traditional Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	Venture Economics Vintage Year Venture Capital Index
Private Equity	9.0	5 to 15	Venture Economics Vintage Year Private Equity Index
Total Private Capital	15.0	5 to 15	
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income	15.0	10 to 30	Lehman Brothers Aggregate Bond Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

PROPOSED

EXHIBIT B

GEF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities:	25.0	15 to 45	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	
Private Equity	9.0	5 to 15	
Total Private Capital	15.0	5 to 15	Venture Economics' Periodic IRR Index
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income:	15.0	10 to 30	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

THE UNIVERSITY OF TEXAS SYSTEM SHORT INTERMEDIATE TERM FUND INVESTMENT POLICY STATEMENT

Purpose

The Short Intermediate Term Fund (the "SITF"), was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System component institutions and System Administration with an investment horizon greater than one year.

SITF Organization

The SITF ~~functions like~~ ~~is organized as~~ a mutual fund in which each eligible account purchases and redeems SITF units as provided herein. The ownership of SITF assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

SITF Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031 (c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the SITF.

Ultimate fiduciary responsibility for the SITF rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

~~Section 163 of the Texas Property Code authorizes the Board of Regents to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the Board of Regents in the investment of the SITF.~~

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), ~~t~~The SITF shall be managed by ~~governed through~~ ~~The University of Texas Investment Management Company ("UTIMCO")~~ which shall a) recommend investment policy for the SITF, b) recommend ~~determine~~ specific asset allocation targets, ranges and performance benchmarks consistent with SITF objectives, and c) monitor SITF performance against SITF objectives. UTIMCO shall invest the SITF assets in conformity with this Policy Statement investment policy. All changes to this Policy Statement or the exhibit to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority approved by the UTIMCO Board. ~~Unaffiliated investment managers may be hired by UTIMCO to improve the SITF's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.~~

SITF Administration

~~UTIMCO or its agent~~ shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of SITF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase SITF Units

No account fund shall be eligible to purchase units of the SITF unless it is under the sole control, with full discretion as to investments, of ~~by~~ the Board of Regents and/or UTIMCO.

Any account fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the SITF.

The funds of a foundation which is structured as a supporting organization described in Section 509(a) of the Internal Revenue Code of 1986 which supports the activities of the U. T. System and its component institutions, may purchase units in the SITF provided that:

- A. the purchase of SITF units by foundation funds is approved by UTIMCO's ~~the~~ chief investment officer;

- B. all members of the foundation's governing board are also members of the Board of Regents;
- C. the foundation has the same fiscal year as the SITF;
- D. a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the SITF; and
- E. no officer of such foundation, other than members of the Board of Regents, the Chancellor, UTIMCO's the chief investment officer or his or her delegate shall have any control over the management of the SITF other than to request purchase and redemption of SITF units.

SITF Investment Objectives

The primary investment objective shall be to provide both income through investment in high grade fixed income and floating rate obligations and capital appreciation when consistent with income generation, reasonable preservation of capital and maintenance of adequate SITF liquidity. In seeking to achieve its objectives, the SITF shall attempt to minimize the probability of a negative total return over a one-year period. Within the exposure limits contained herein, investments shall be diversified among authorized asset classes and issuers (excluding the U.S. U.S. Government) in order to minimize portfolio risk for a given level of expected return. This objective will be achieved by adding value through active management including duration and yield curve management, sector rotation, security selection, and cost efficient trading.

Achievement of this objective shall be defined by a fund return over a market cycle in excess of the U. T. System Short Term Fund ("STF") and the Merrill Lynch 1-3 Year Treasury Index. The SITF will attempt to achieve a return in excess of the STF primarily through a longer average maturity/duration and through UTIMCO active portfolio management efforts Policy Portfolio benchmark and the average return of the median manager of the MorningStar universe of government bond funds restricted to an average maturity of less than or equal to three years. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect SITF asset allocation policy targets.

It is important to note that the SITF return will be more volatile than the STF fund returns, and under very unusual capital market conditions, the total return of the SITF could be negative over a 12-month period.

Asset Allocation and Policy

Asset allocation is the primary determinant of investment performance and, subject to the asset allocation ranges specified in Exhibit A, herein is the responsibility of

UTIMCO. Specific asset allocation targets may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable.

SITF assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

1. Cash and Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good ~~the best combination of income and~~ liquidity under both deflation and inflation conditions.
2. Fixed Income Investments - offer predictable income streams without the remarketing risk often associated with cash and cash equivalents.
3. Floating Rate Securities - offer protection from unanticipated inflationary pressures and rises in interest rates.

Asset Allocation Policy

~~The asset allocation policy and ranges herein seek to protect the SITF against illiquidity in both normal and extraordinary markets.~~

~~The Board of Regents delegates authority to UTIMCO to establish specific asset allocation targets and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for or within the asset classes listed above as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the Board of Regents.~~

Performance Measurement

~~The investment performance of the SITF will be measured by the SITF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the specific performance benchmarks stated investment objectives of the SITF. Such measurement will occur at least quarterly annually, and evaluate the results of the total SITF, major classes of investment assets, and individual portfolios.~~

Investment Guidelines

~~The SITF must be invested at all times in strict compliance with applicable law. The primary and constant standard for making investment decisions is the investment~~

standard set forth in the Uniform Management of Institutional Funds Act (§163.007, Texas Property Code).

Investment guidelines include the following:

General

- All investments will be U.S. U.S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's ~~the~~ chief investment officer prior to investment of SITF assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the SITF's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The SITF may utilize dDerivative sSecurities with the approval of the UTIMCO Board to: a) to simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) to facilitate trading; c) to reduce transaction costs; d) to seek higher investment returns when a dDerivative sSecurity is priced more attractively than the underlying security; e) to index or to hedge risks associated with SITF investments; or f) to adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such dDerivative purchases or sales; ii) no more than 5% of SITF assets are required as an initial margin deposit for such contracts; iii) the SITF's investments in warrants shall not exceed more than 5% of the SITF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- Such dDerivative sSecurities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the SITF and

the prices of dDerivative sSecurity investments by investing in only those contracts whose behavior is expected to resemble that of the SITF's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a dDerivative sSecurity contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of dDerivative sSecurities purchased or sold over the counter may not represent more than 15% of the net assets of the SITF.

In the event that there are no dDerivative sSecurities traded on a particular market index, the SITF may utilize a composite of other dDerivative sSecurity contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected dDerivative sSecurities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

- UTIMCO shall minimize the risk that a party will default on its payment obligation under a dDerivative sSecurity agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the SITF will not be able to meet its obligation to the counterparty by investing the SITF in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

~~The SITF may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.~~

- The duration of any eligible investment shall not exceed 10 years.

Risk Management

- Credit risk shall be controlled by UTIMCO who is responsible for the development and maintenance of credit quality standards for the SITF.
- Interest rate risk shall be controlled by limiting the option-adjusted duration of the portfolio between one-half year and four years unless approved in advance by the UTIMCO Board.
- Not more than 5% of the total value of the securities in the SITF shall be placed with any one issuer (i.e., Commercial Paper, Certificates of Deposit, or Bankers Acceptances) other than the U.S. Treasury, U.S. Agency, or Government Sponsored entities.

- Counterparty exposure in the area of rRepurchase aAgreements and rReverse rRepurchase aAgreements shall be not more than 5% of the total value of the securities in the SITF shall be placed with any one counterparty.

Eligible Investments

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.
- Internal short term pooled investment fund managed by UTIMCO.
- Commercial paper, negotiable certificates of deposit, and Bankers' Acceptances ~~must be~~ rated at least A-1 by Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc.
- Floating rate securities, if they meet the single security duration criteria and are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e., a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment; inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters.
- Repurchase aAgreements and rReverse rRepurchase aAgreements ~~must be~~ transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. U.S. Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
 - Eligible cCollateral sSecurities for rRepurchase aAgreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a rRepurchase aAgreement may be from one day to two weeks.
 - The value of all collateral shall be maintained at 102% of the notional value of the rRepurchase aAgreement, valued daily.

- All collateral shall be delivered to the SITF custodian bank. Tri-party collateral arrangements are not permitted.
- Reverse ~~r~~Repurchase ~~a~~Agreements shall be used to fund the liquidity facility for The University of Texas System revenue financing notes.
- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the SITF's total assets.
- Overnight repurchase agreements may not exceed 25% of the SITF's total assets.

Fixed Income

Holdings of eligible fixed income securities shall be limited to the following:

- Securities issued by or fully guaranteed by the U.S. ~~U.S.~~ Treasury, U.S. ~~U.S.~~ Government-Sponsored Enterprises, or U.S. ~~U.S.~~ Government Agencies. The latter two categories include U.S. ~~U.S.~~ Government Agency Mortgage Backed Securities ("MBS").

Holdings of eligible fixed income derivative securities shall be limited by the following guidelines:

With prior written approval of the UTIMCO Board, the Portfolio Manager may enter into derivatives transactions utilizing exchange traded fixed income futures contracts or options on fixed income futures contracts; provided that such derivatives transactions are designed to control duration or manage risk.

Such derivatives transactions shall be established on a case_by_case basis. These contracts shall include but shall not be limited to Ten-Year Treasury Futures, Eurodollar Futures, or Treasury Bill Futures, provided that the futures exchanges are rated AAA or the equivalent as determined by UTIMCO.

Such derivatives shall be priced daily.

Market risk shall be measured in dollar duration equivalent values or in the case of options in delta or percentage of equivalent futures contracts.

For the purpose of this policy Collateralized Mortgage Obligations ("CMOs") are considered to be MBS, not derivatives.

SITF Distributions

Distributions of income from the SITF to the unitholders shall be made as soon as practicable on or after the last day of each month.

SITF Accounting

The fiscal year of the SITF shall begin on September 1st and end on August 31st. Market value of the SITF shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's the chief investment officer and reported to the UTIMCO Board. The SITF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

UTIMCO shall determine the fair market value of all SITF net assets and the net asset value per unit of the SITF no less than once a week and on the last business day of each month. Such valuation of SITF assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of SITF assets shall be based on the books and records of the custodian for the valuation date.

The fair market value of the SITF's net assets shall include all related receivables and payables of the SITF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of SITF Units

Purchase of SITF units may be made no more often less than once a week and on the last business day of each month upon payment of cash to the SITF or contribution of assets approved by UTIMCO's the chief investment officer, at the net asset value per unit of the SITF as of the most recent weekly or end of month valuation date.

Each account fund whose monies are invested in the SITF shall own an undivided interest in the SITF in the proportion that the number of units invested therein bears to the total number of all units comprising the SITF.

Redemption of SITF Units

Redemption of SITF units shall be paid in cash as soon as practicable after the most recent weekly or end of month valuation date of the SITF.

Securities Lending

The SITF may not participate in a securities lending contract with a bank or nonbank security lending agent.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the SITF solely in the interest of SITF unitholders and shall not invest the SITF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

| The effective date of this policy shall be August 12, 2004 ~~7, 2003~~.

EXHIBIT A

**SHORT INTERMEDIATE TERM FUND
SPECIFIC ASSET ALLOCATION TARGETS, AND RANGES, AND
PERFORMANCE OBJECTIVES**

	Performance		
	<u>Target</u>	<u>Range</u>	<u>Objective</u>
U.S. Treasuries	60%	0%-100%	(1)
U.S. Government Agencies	40%	0%-80%	(2)
Mortgage Backed Securities	0%	0%-60%	
STIF	0%	0%-40%	
Corporate Cash Equivalents	0%	0%-40%	
Repurchase Agreements	<u>0%</u>	0%-33%	
TOTAL ASSETS	100%		

~~(1) .1 x M.L. 91-day U.S. Treasury Bill Index + .1 x M.L. 6 mo. U.S. Treasury Bill Index + .3x M.L. 1-3 yr. U.S. Treasury Index + .1 x M.L. 3-5 yr. U.S. Treasury Index~~

~~(2) .3 x M.L. 1-3 yr. U.S. Federal Agencies Index + .1 x M.L. 3-5 yr. U.S. Federal Agencies Index~~

~~Achievement of these performance objectives is most appropriately evaluated over a full market cycle of roughly five years.~~

**THE UNIVERSITY OF TEXAS SYSTEM
SEPARATELY INVESTED ENDOWMENT, TRUST, AND OTHER
ACCOUNTS INVESTMENT POLICY STATEMENT**

Purpose

The Separately Invested Endowment, Trust, and Other Accounts are Accounts established in the name of the Board of Regents of The University of Texas System (the "Board of Regents"), as trustee, and are Accounts which are not solely invested in one of the pooled investment vehicles. These Accounts are not invested in the pooled investment vehicle because: a) they are charitable trusts; b) of investment restrictions incorporated into the trust/endowment document; c) of inability to sell the gifted investment asset; or d) they are assets being migrated upon liquidation into a pooled investment vehicle.

Investment Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the Accounts.

Ultimate fiduciary responsibility for the Accounts rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents. The applicable trust/endowment document will apply to the management to each trust or endowment.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Company ("UTIMCO"), the Ultimate fiduciary responsibility for the assets of the Accounts rests with the Board of Regents. Section 163 of the Property Code authorizes the Board of Regents to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the Board of Regents in the investment of the institutional assets for the Account (endowment and operating accounts). The

~~applicable trust instrument will apply to the management of trust investments. The assets for the Account shall be managed by governed through The University of Texas Investment Management Company ("UTIMCO,"~~ which shall: a) recommend investment policy for the Accounts, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with the Account objectives, and if appropriate c) monitor the Account's performance against Account objectives. UTIMCO shall invest the Account's assets in conformity with this Policy Statement investment policy.

Unaffiliated investment managers may be hired by UTIMCO to improve the Account's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

Account Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and Accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of assets in the Account shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Investment Objectives

Endowment Accounts - The primary investment objective shall be to invest the Account in assets that comply with the terms of the applicable trust/endowment document ~~endowment agreement~~, taking into consideration the investment time horizon of the Account.

Trust Accounts - Trust Accounts are defined as either Foundation Accounts or Charitable Trusts ((Charitable Remainder Unitrusts (CRUT), Charitable Remainder Annuity Trusts (CRAT), Pooled Income Funds (PIF), Charitable Trusts (CT), or Charitable Lead Trusts (CLT)). The Board of Regents recognizes that the investment objective of a trust is dependent on the terms and conditions as defined in the trust document of each trust. The conditions that will affect the investment strategy are a) the trust payout provisions; b) the ages of the income beneficiaries; c) the ability to sell the gifted assets that were contributed to the trust; and d) consideration to investment preferences of the income beneficiaries. Taking these conditions into consideration, the fundamental investment objectives of the trust will be to generate a low to moderate growth in trust principal and to provide adequate liquidity in order to meet the payout provisions of the trust.

Operating Accounts - These are separate operating accounts of U. T. System ~~the c~~Component institutions which invest in an Equity Index Fund and U.S. ~~U.S.~~ Debt

Index Fund as approved by UTIMCO's ~~the~~ Chief Investment Officer. The amount of component operating funds invested in the index funds is governed by the U. T. System Financial Policy.

Asset Allocation

Asset allocation is the primary determinant ~~of the volatility~~ of investment performance ~~return~~ and subject to the asset allocation ranges specified herein is the responsibility of by UTIMCO. Specific asset allocation targets may be changed from time to time based on the economic and investment outlook.

If appropriate, the Account's assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

- A. Cash and Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.
- B. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of income for the Account. Such bonds should be high quality, with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction. This classification shall include fixed income mutual funds.
- C. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation for the Account. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Account. This classification shall include equity mutual funds.
- D. Variable Annuities - These are insurance contracts purchased on the life or lives of the income beneficiaries and for which the funds underlying the contract are invested in various mutual funds which offer diversification of the Account's assets. These contracts offer some downside market risk protection in case of the income beneficiary's death in the early years of the contract. These investment assets are only appropriate for the charitable remainder trusts.

Asset Allocation Policy

The asset allocation policy and ranges for each Account trust or endowment herein is dependent on the terms and conditions of the applicable trust/endowment or trust document. With respect to the operating accounts, the U. T. System financial policies shall govern. If possible, the Account's assets shall be diversified among

different types of assets whose returns are not closely correlated in order to enhance the return/risk profile of the Account.

The Board of Regents delegates authority to UTIMCO to establish specific asset allocation targets and ranges for each trust or endowment Account. UTIMCO may establish specific asset allocation targets and ranges for or within the asset classes listed above as well as the specific performance benchmarks for each asset class.

Performance Measurement

The investment performance of the actively managed Accounts, where cost effective, will be calculated and evaluated quarterly ~~annually~~.

Investment Guidelines

The Accounts must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.
- All investments will be U.S. ~~U. S.~~ dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment Account must be reviewed and approved by UTIMCO's ~~the~~ chief investment officer prior to investment of Account's assets in such liquid investment Account.
- No securities may be purchased or held which would jeopardize, if applicable, the Account's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The Account may utilize d~~Derivative~~ s~~Securities~~ with the approval of the UTIMCO Board to a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment

returns when a dDerivative sSecurity is priced more attractively than the underlying security; e) index or to hedge risks associated with Account investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that: i) no leverage is employed in the implementation of such dDerivative purchases or sales; ii) no more than 5% of the Accounts assets are required as an initial margin deposit for such contracts; iii) the Account's investments in warrants shall not exceed more than 5% of the Account's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.

- Such dDerivative sSecurities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Account and the prices of dDerivative sSecurity investments by investing in only those contracts whose behavior is expected to resemble that of the Account's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a dDerivative sSecurity contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of dDerivative sSecurities purchased or sold over the counter may not represent more than 15% of the net assets of the Account.

In the event that there are no dDerivative sSecurities traded on a particular market index, the Account may utilize a composite of other dDerivative sSecurity contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected dDerivative sSecurities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

UTIMCO shall minimize the risk that a party will default on its payment obligation under a dDerivative sSecurity agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the Account will not be able to meet its obligation to the counterparty by investing the Account in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

The Account may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in

exchange rates among foreign currencies and between foreign currencies and the U.S. U. S. dollar.

Risk Management

- Credit risk shall be controlled by UTIMCO who is responsible for the development and maintenance of credit quality standards for the Account.
- Counterparty exposure in the area of rRepurchase aAgreements and rReverse rRepurchase aAgreements – Not more than 5% of the total value of the securities in the Account shall be placed with any one counterparty.
- Diversification of credit risk shall be determined on an account basis.

Eligible Investments

Cash and cash equivalents

Holdings of cash and cash equivalents may include the following:

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.
- Approved Tax Exempt unaffiliated liquid investment fund.
- Internal short term pooled investment fund managed by UTIMCO.
- Commercial paper, negotiable certificates of deposit, and Bankers' Acceptances must be rated at least A-1 by Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc.
- Floating rate securities, if they are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e., a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment; inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters.
- Repurchase aAgreements and rReverse rRepurchase aAgreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

- Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
- Eligible Collateral Securities for rRepurchase aAgreements are limited to U.S. U-S. Treasury securities and U.S. U-S. Government Agency securities with a maturity of not more than 10 years.
- The maturity for a rRepurchase aAgreement may be from one day to two weeks.
- The value of all collateral shall be maintained at 102% of the notional value of the rRepurchase aAgreement, valued daily.
- All collateral shall be delivered to the Account's custodian bank. Tri-party collateral arrangements are not permitted.
- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the Account's total assets.
- Overnight repurchase agreements may not exceed 10% of the Account's total assets.
- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as rReverse rRepurchase aAgreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed income securities

Holdings of eligible fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U.S. U-S. Treasury, U.S. U-S. Government-Sponsored Enterprises, or U.S. U-S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific subindices; 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; and 4) Asset-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible:
 - a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate

securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition.
- Not more than 35% of the Account's fixed income portfolio may be invested in non-U.S. U.S. dollar bonds. Not more than 15% of the Account's fixed income portfolio may be invested in bonds denominated in any one currency.
- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.
- Not more than 7.5% of the Account's fixed income portfolio may be invested in Emerging Market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.
- Permissible securities for investment include Fixed Income Mutual Funds and Debt Index Funds as approved by UTIMCO's the cChief investment officer.
- Permissible securities for investment include Fixed Income Variable Annuity Contracts as approved by UTIMCO's the cChief investment officer.

Equities

The Account may purchase equity securities as long as it:

- A. holds no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market.
- B. holds no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by UTIMCO's the cChief investment officer.

The Account may purchase Equity Mutual Funds and Equity Variables Annuity Contracts as approved by UTIMCO's the cChief investment officer.

The provisions concerning investment in fixed income and equities securities shall not apply to an endowment in which the agreement prohibits the sale of an equity or fixed income security. Donor preferences shall be considered in determining the disposition of a gifted security.

Distributions

Distributions of income or amounts from the Accounts to the beneficiaries shall be made as soon as practicable, either: a) based on the terms of the applicable trust instrument; b) following the fiscal quarter end for endowments; or c) on or after the last day of the month for operating Accounts.

Accounting

The fiscal year of the Accounts shall begin on September 1st and end on August 31st. Trusts will also have a tax year end which may be different than August 31st. Market value of the Accounts shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, industry guidelines, or federal income tax laws, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's ~~the~~ chief investment officer and reported to the UTIMCO Board.

Valuation of Assets

As of the close of business for each month, UTIMCO shall determine the fair market value of all assets in the Accounts. Such valuation of assets shall be based on the bank trust custody agreement in effect or other external source if not held in the bank custody account at the date of valuation.

Securities Lending

The Account may participate in a securities lending contract with a bank or nonbank security lending agent for ~~either short-term or long-term~~ purposes of realizing additional income. Loans of securities by the Accounts shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U.S. U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate. The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the Account has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Account. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Account solely in the interest of the beneficiaries and shall not invest the Account so as to achieve temporal benefits for any purpose, including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be August 12, 2004 ~~7, 2003~~.

THE UNIVERSITY OF TEXAS SYSTEM SHORT TERM FUND INVESTMENT POLICY STATEMENT

Purpose

The Short Term Fund (the "STF") was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System component institutions and System Administration with an investment horizon less than one year.

STF Organization

The STF ~~functions like~~ ~~is organized as~~ a mutual fund in which each eligible account purchases and redeems STF units as provided herein. The ownership of STF assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

STF Management

Article VII Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the STF.

Ultimate fiduciary responsibility for the STF rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Section 163 of the Property Code authorizes the Board of Regents to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the Board of Regents in the investment of the STF. Pursuant to an Investment Management Services Agreement between the Board of Regents and

The University of Texas Investment Management Company ("UTIMCO"), ~~t~~The STF shall be ~~managed by governed through The University of Texas Investment Management Company ("UTIMCO")~~ which shall: a) recommend investment policy for the STF, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with STF objectives, and c) monitor STF performance against STF objectives. UTIMCO shall invest the STF assets in conformity with this Policy Statement ~~investment policy~~.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority approved by the UTIMCO Board. ~~Unaffiliated investment managers may be hired by UTIMCO to improve the STF's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.~~

STF Administration

UTIMCO ~~or its agent~~ shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of STF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase STF Units

No account fund shall be eligible to purchase units of the STF unless it is under the sole control, with full discretion as to investments, by the Board of Regents and/or UTIMCO.

Any account fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the STF.

The funds of a foundation which is structured as a supporting organization described in Section 509(a) of the Internal Revenue Code of 1986, which supports the activities of the U. T. System and its component institutions, may purchase units in the STF provided that:

- A. the purchase of STF units by foundation funds is approved by UTIMCO's ~~the~~ chief investment officer;
- B. all members of the foundation's governing board are also members of the Board of Regents;
- C. the foundation has the same fiscal year as the STF;

- D. a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the STF; and
- E. no officer of such foundation, other than members of the Board of Regents, the Chancellor, UTIMCO's ~~the~~ chief investment officer or his or her delegate shall have any control over the management of the STF other than to request purchase and redemption of STF units.

STF Investment Objectives

The primary investment objective shall be to maximize current income consistent with the absolute preservation of capital and maintenance of adequate STF liquidity. The STF shall seek to maintain a net asset value of \$1.00.

Achievement of this objective shall be defined as a fund return in excess of the average gross return of the median manager of an approved ~~the Donoghue's~~ universe of institutional only money market funds.

Asset Allocation

Asset allocation is the primary determinant of investment performance and subject to the asset allocation ranges specified herein is the responsibility of UTIMCO. Specific asset allocation targets may be changed from time to time based on the economic and investment outlook.

STF assets shall be allocated to ~~among~~ the following broad asset class:

Cash and Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good ~~the best combination of income and liquidity~~ under both deflation and inflation conditions.

Performance Measurement

The investment performance of the STF will be measured by an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the performance benchmarks ~~stated investment objectives~~ of the STF. Such measurement will occur at least quarterly ~~annually, and evaluate the results of the total STF, major classes of investment assets, and individual portfolios.~~

Investment Guidelines

The STF must be invested at all times in strict compliance with applicable law. ~~The primary and constant standard for making investment decisions is the investment standard set forth in the Uniform Management of Institutional Funds Act (§163.007, Texas Property Code).~~

Investment guidelines include the following:

General

- All investments will be U.S. ~~U. S.~~ dollar denominated assets.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of STF assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the STF's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The STF may utilize ~~d~~Derivative ~~s~~Securities with the approval of the UTIMCO Board to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a ~~d~~Derivative ~~s~~Security is priced more attractively than the underlying security; e) to index or to hedge risks associated with STF investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such ~~d~~Derivative purchases or sales; ii) no more than 5% of STF assets are required as an initial margin deposit for such contacts; and iii) the STF's investments in warrants shall not exceed more than 5% of the STF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- Such ~~d~~Derivative ~~s~~Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

- UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the STF and the prices of ~~d~~Derivative ~~s~~Security investments by investing in only those contracts whose behavior is expected to resemble that of the STF's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a ~~d~~Derivative ~~s~~Security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. Derivative ~~s~~Securities purchased or sold over the counter may not represent more than 15% of the net assets of the STF.
- In the event that there are no ~~d~~Derivative ~~s~~Securities traded on a particular market index, the STF may utilize a composite of other ~~d~~Derivative ~~s~~Security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected ~~d~~Derivative ~~s~~Securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.
- UTIMCO shall minimize the risk that a party will default on its payment obligation under a ~~d~~Derivative ~~s~~Security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the STF will not be able to meet its obligation to the counterparty by investing the STF in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

~~The STF may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.~~

Eligible Investments

The weighted average maturity of the portfolio shall not be more than 60 days. Individual securities shall have a remaining maturity not longer than 397 days. The maturity of a portfolio security shall be deemed to be the period remaining (calculated from the trade date or such other date on which the STF's interest in the security is subject to market action) until the date noted on the face of the security as the date on which the principal amount must be paid, or in the case of a security called for redemption, the date on which the redemption payment must be made, except that: a) a variable rate security, the principal amount of which is scheduled on the face of the security to be paid in 397 days or less, shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate; b) a variable rate security that is subject to a demand feature shall be deemed to have a maturity equal to the longer of the period remaining until the next

readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand; c) a floating rate security that is subject to a demand feature shall be deemed to have a maturity equal to the period remaining until the principal amount can be recovered through demand; d) a repurchase agreement shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur, or, where no date is specified, but the agreement is subject to a demand, the notice period applicable to a demand for the repurchase of the securities. A demand feature shall mean a put that entitles the holder to receive the principal amount of the underlying security or securities and that may be exercised either at any time on no more than 30 days notice or at specified intervals not exceeding 397 days and upon no more than 30 days notice.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.
- Commercial paper, negotiable certificates of deposit, and Bankers' Acceptances must be rated at least A-1 by Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc.
- Floating rate securities, if they meet the single security duration criteria and are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e., a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment; inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters.
- Repurchase ~~a~~Agreements and ~~r~~Reverse ~~r~~Repurchase ~~a~~Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. ~~U. S.~~ Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master ~~r~~Repurchase ~~a~~Agreement with UTIMCO.
 - Eligible Collateral Securities for ~~r~~Repurchase ~~a~~Agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a ~~r~~Repurchase ~~a~~Agreement may be from one day to two weeks.

- The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.
- All collateral shall be delivered to the STF custodian bank. Tri-party collateral arrangements are not permitted.
- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the STF's total assets.
- Overnight repurchase agreements may not exceed 50% of the STF's total assets.

Fixed Income

Holdings of eligible fixed income derivative securities shall be limited by the following guidelines:

- With prior written approval of the UTIMCO Board, the Portfolio Manager may enter into derivatives transactions utilizing exchange traded fixed income futures contracts or options on fixed income futures contracts, provided that such derivatives transactions are designed to control duration or manage risk.
- Such derivatives transactions shall be established on a case-by-case basis. These contracts shall include but shall not be limited to Fed Fund Futures, Eurodollar Futures, or Treasury Bill Futures, provided that the futures exchanges are rated AAA or the equivalent as determined by UTIMCO.
- Such derivatives shall be priced daily.
- Market risk shall be measured in dollar duration equivalent values or, in the case of options, in delta or percentage of equivalent futures contracts.
- For the purpose of this policy Collateralized Mortgage Obligations ("CMOs") are considered to be Mortgage Backed Securities ("MBS"), not derivatives.

STF Distributions

Distributions of income from the STF to the unitholders shall be made as soon as practicable on or after the last day of each month.

STF Accounting

The fiscal year of the STF shall begin on September 1st and end on August 31st. Market value of the STF shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, ~~or~~ industry guidelines, or state statutes, whichever is

applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's the chief investment officer and reported to the UTIMCO Board.

Valuation of Assets

~~All investments are stated at amortized cost, which in most cases approximates the market value of securities. The objective of the fund is to maintain a stable \$1.00 net asset value; however, the \$1.00 net asset value is not guaranteed or insured by UTIMCO. As of the close of business on each business day, UTIMCO shall determine the fair market value of all STF net assets. Such valuation of STF assets shall be based on the bank trust custody agreement in effect at the date of valuation.~~

The fair market value of the STF's net assets shall include all related receivables and payables of the STF on the valuation date, and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of STF Units

Purchase of STF units may be made on each business day upon payment of cash to the STF or contribution of assets approved by UTIMCO's the chief investment officer, at \$1.00 per unit of the STF as of the most recent valuation date.

Each account fund whose monies are invested in the STF shall own an undivided interest in the STF in the proportion that the number of units invested therein bears to the total number of all units comprising the STF.

Redemption of STF Units

Redemption of units may be made on each business day at \$1.00 per unit.

Securities Lending

The STF may not participate in a securities lending contract with a bank or nonbank security lending agent.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the STF solely in the interest of STF unitholders and shall not invest the STF so as to achieve temporal benefits for any purpose, including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

| The effective date of this policy shall be August 12, 2004 ~~7, 2003~~.

L. RECESS FOR MEETINGS OF THE STANDING COMMITTEES AND
COMMITTEE REPORTS TO THE BOARD

The Standing Committees of the Board of Regents of The University of Texas System will meet as set forth below to consider recommendations on those matters on the agenda for each Committee listed in the Agenda Book. At the conclusion of each Standing Committee meeting, the report of that Committee will be formally presented to the Board for consideration and action.

Executive Committee: Chairman Huffines
No items

Audit, Compliance, and Management Review Committee: Chairman Estrada
No items

Finance and Planning Committee: Chairman Hunt
Agenda Book Page 26

Academic Affairs Committee: Chairman Krier
Agenda Book Page 40

Health Affairs Committee: Chairman Clements
Agenda Book Page 49

Facilities Planning and Construction Committee: Chairman Barnhill
Agenda Book Page 83