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FOR
FINANCE AND PLANNING COMMITTEE

Committee Meeting: 11/4/2015

Board Meeting: 11/5/2015
Austin, Texas

R. Steven Hicks, Chairman
David J. Beck
Wallace L. Hall, Jr.
Jeffery D. Hildebrand
Sara Martinez Tucker

	Committee Meeting	Board Meeting	Page
Convene	*1:00 p.m.* *Chairman Hicks*		
1. **U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration**	*1:00 p.m.* **Discussion**	**Action**	**56**
2. **U. T. System: Key Financial Indicators Report**	*1:05 p.m.* **Report/Discussion** *Dr. Kelley*	Not on Agenda	**57**
3. **U. T. System: Discussion and appropriate action regarding an internal lending program**	*1:15 p.m.* **Action** *Dr. Kelley*	**Action**	**66**
4. **U. T. System Board of Regents: Report on activities of the University Lands Advisory Board**	*1:25 p.m.* **Report/Discussion** *Regent Cranberg* *Mr. Houser*	Not on Agenda	**68**
5. **U. T. System: Approval of a Fiscal Year 2016 University Lands operating budget including delegation of authority to enter into a proposed $3.4 million contract with the Texas Energy Research, Education, and Engineering Institute (EREEI)**	*1:40 p.m.* **Action** *Dr. Kelley*	**Action**	**87**
6. **U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the year and quarter ended August 31, 2015**	*1:50 p.m.* **Report/Discussion** *Mr. Zimmerman*	**Report**	**89**

		Committee Meeting	Board Meeting	Page
7.	**U. T. System Board of Regents: Approval of amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, the Intermediate Term Fund, the Separately Invested Fund, the Liquidity Policy, and the Derivative Investment Policy**	*2:00 p.m.* **Action** *Dr. Kelley*	**Action**	**101**
8.	**U. T. System Board of Regents: Approval of the Annual Budget for FY 2016, including the capital expenditures budget and other external direct charges to the Funds, and the Annual Fee and Allocation Schedule for The University of Texas Investment Management Company (UTIMCO)**	*2:05 p.m.* **Action** *Dr. Kelley*	**Action**	**171**
9.	**U. T. System Board of Regents: Approval of revisions to the amended and restated University of Texas Investment Management Company (UTIMCO) Compensation Program**	*2:10 p.m.* **Action** *Vice Chairman Hildebrand*	**Action**	**186**
Adjourn		*2:15 p.m.*		

1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration

RECOMMENDATION

The proposed Consent Agenda is located at the back of the book. Consent Agenda items assigned to this Committee are on Pages 299 - 305.

2. U. T. System: Key Financial Indicators Report

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report, as set forth on the following pages. The report represents the consolidated and individual operating detail of the U. T. System institutions.

The Key Financial Indicators Report compares the Systemwide quarterly results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from Fiscal Year 2011 through July 2015. Ratios requiring balance sheet data are provided for Fiscal Year 2010 through Fiscal Year 2014.

THE UNIVERSITY OF TEXAS SYSTEM

KEY FINANCIAL INDICATORS REPORT

JULY 2015

KEY

Actual Annual Amounts
(SOURCE: Annual Financial Reports)

Budget amounts
(SOURCE: Operating Budget Summary)

Projected Amounts based on the average change of the previous three years of data

Monthly Financial Report Year-to-Date Amounts

Annual and Quarterly Average of FTEs
(SOURCE: State Auditor's Office Quarterly FTE Report)

Year-to-Date Margin
(SOURCE: Monthly Financial Report)

Projected Amounts based on Monthly Financial Report

Year-to-Date Margin
(SOURCE: Monthly Financial Report)

Target Normalized Rates

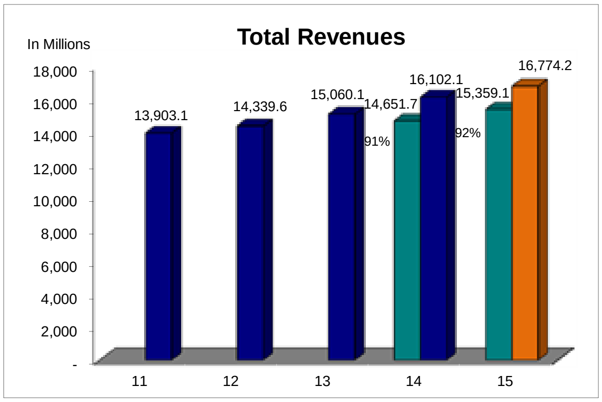
Aaa Median
(SOURCE: Moody's)

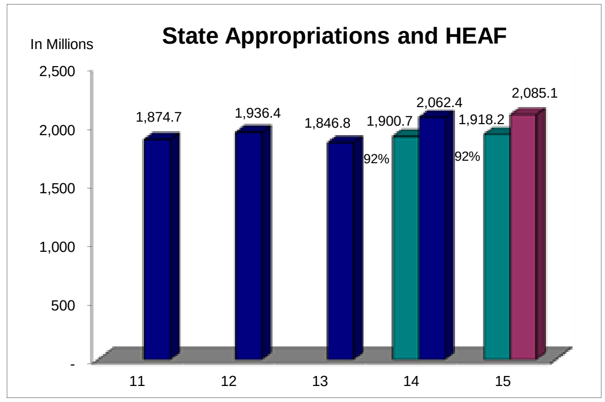
A2 Median
(SOURCE: Moody's)

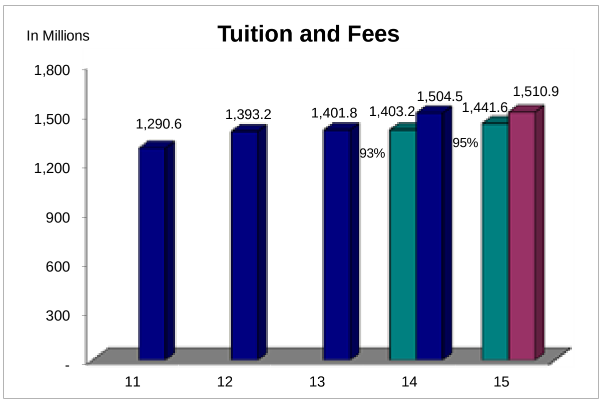
Good Facilities Condition Index (Below 5%)

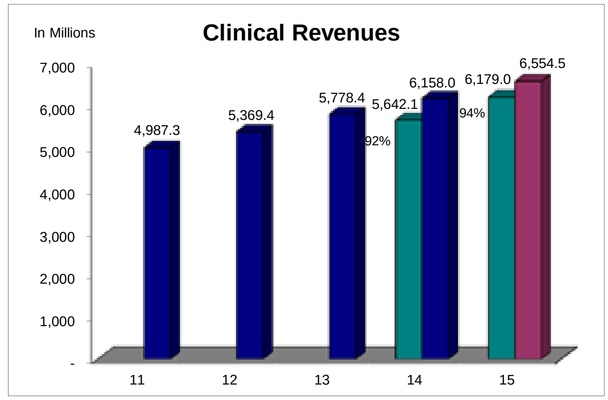
Fair Facilities Condition Index (5% - 10%)

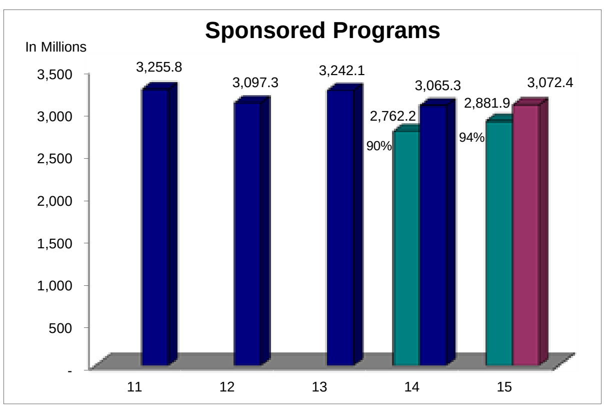
KEY INDICATORS OF REVENUES
ACTUAL 2011 THROUGH 2014
PROJECTED 2015
YEAR-TO-DATE 2014 AND 2015 FROM JULY MONTHLY FINANCIAL REPORT

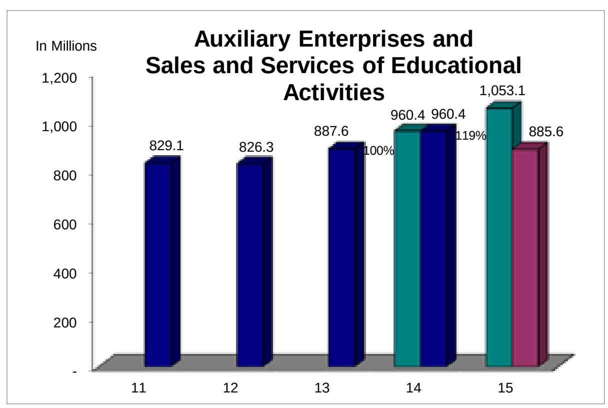


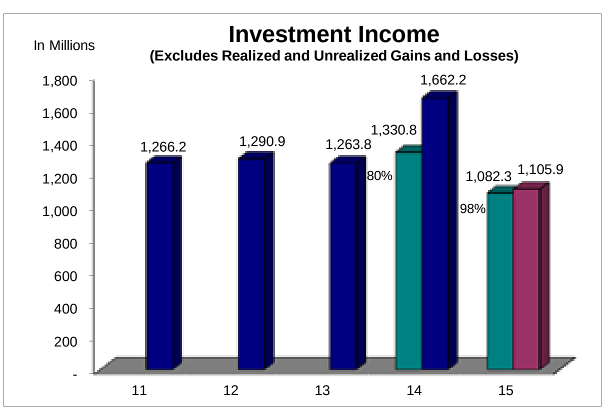


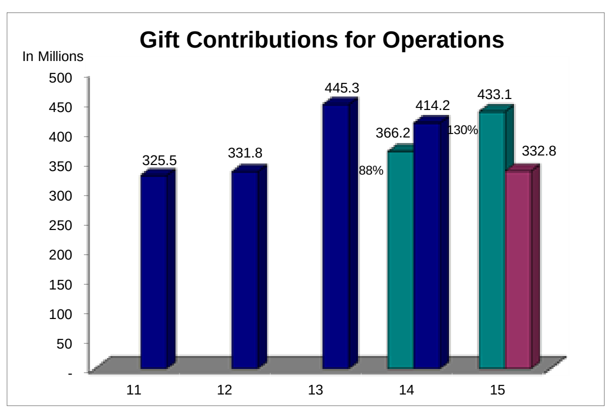




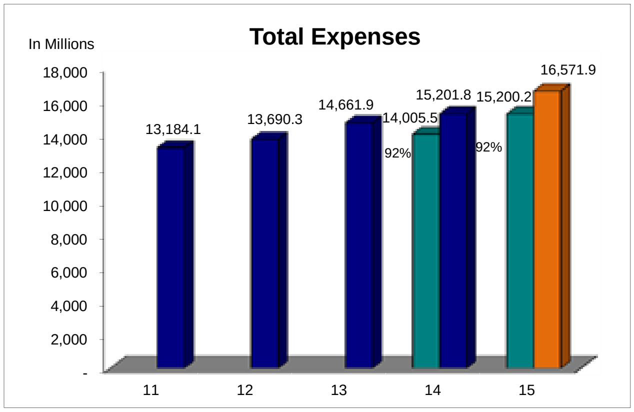


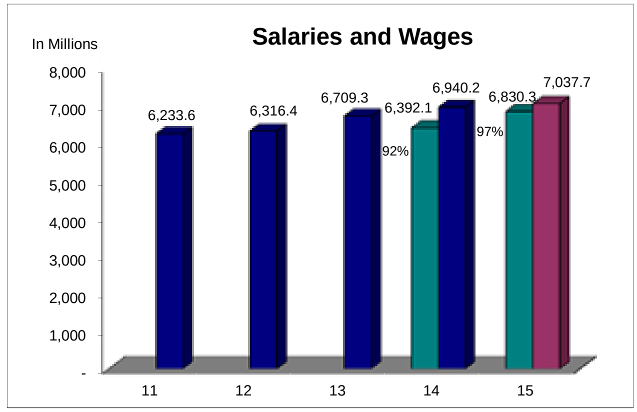


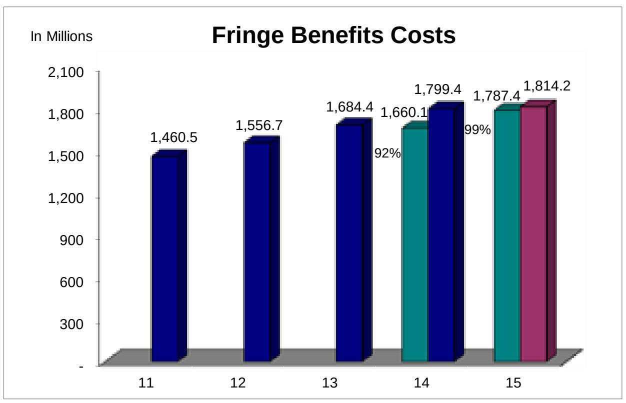


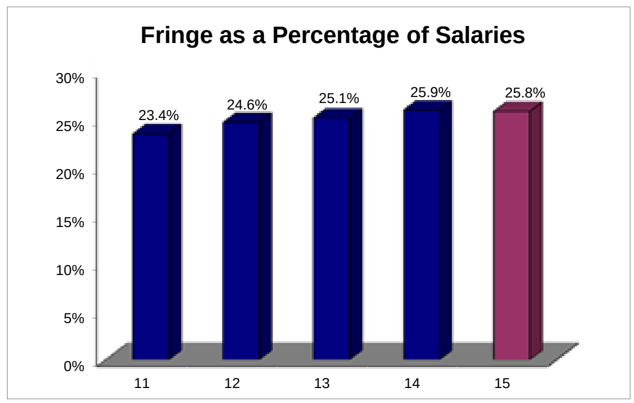


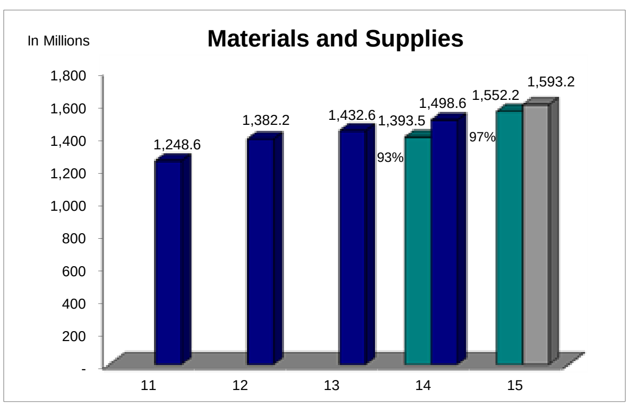
KEY INDICATORS OF EXPENSES
ACTUAL 2011 THROUGH 2014
PROJECTED 2015
YEAR-TO-DATE 2014 AND 2015 FROM JULY MONTHLY FINANCIAL REPORT

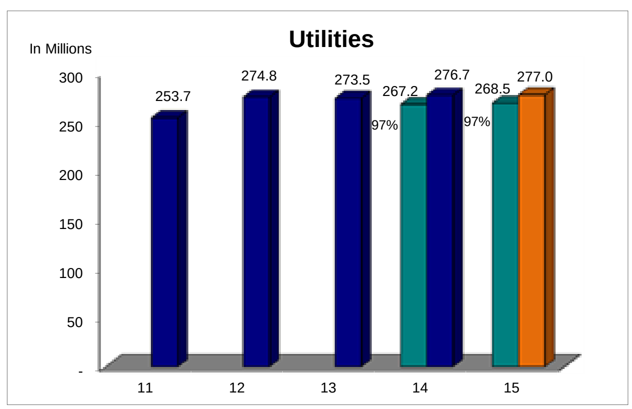


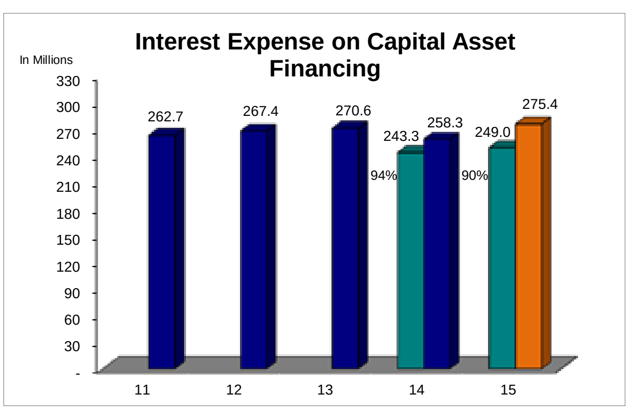


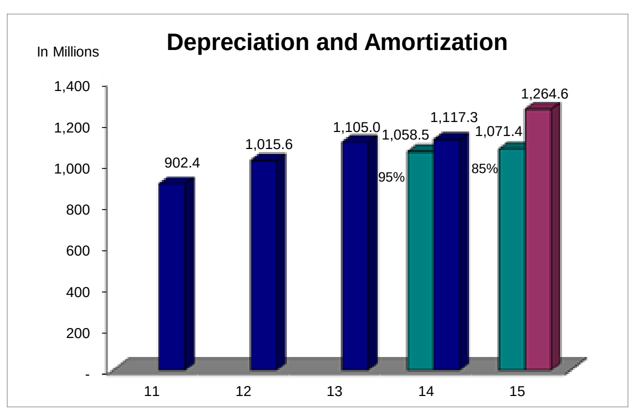




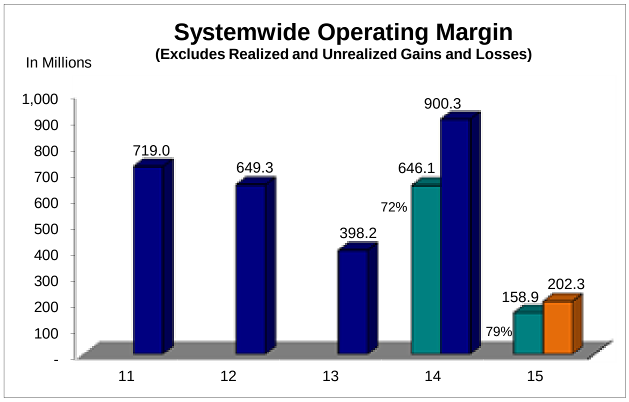




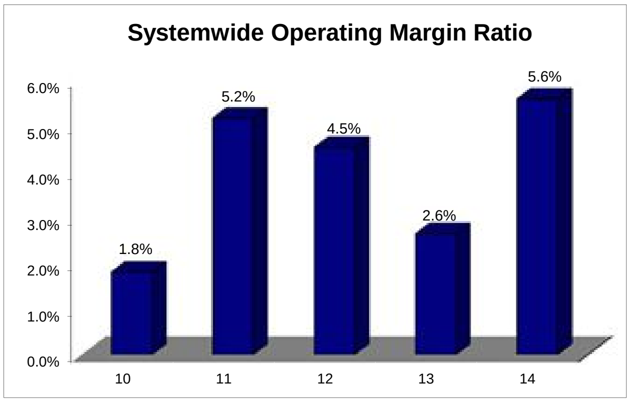




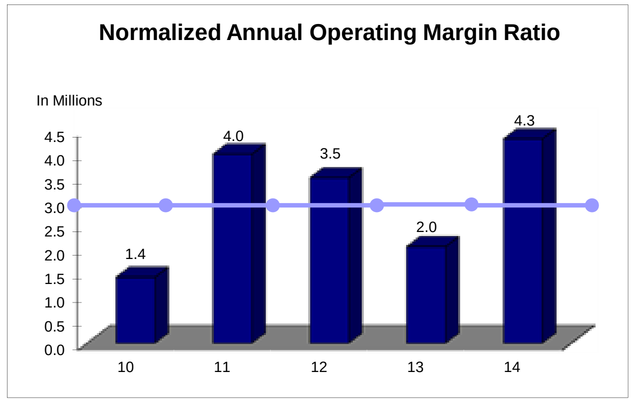
KEY INDICATORS OF RESERVES
ACTUAL 2010 THROUGH 2014
PROJECTED 2015
YEAR-TO-DATE 2014 AND 2015 FROM JULY MONTHLY FINANCIAL REPORT



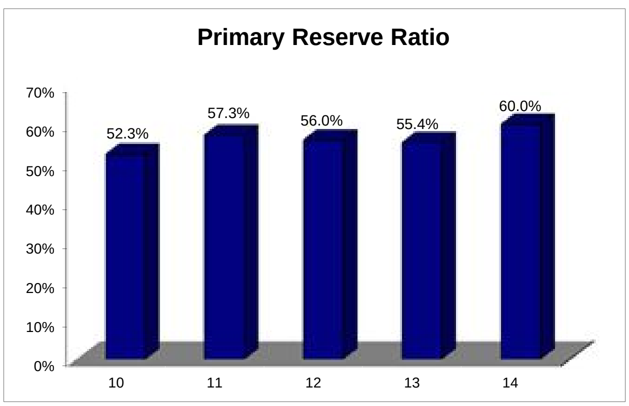
Systemwide Operating Margin
(Excludes Realized and Unrealized Gains and Losses)



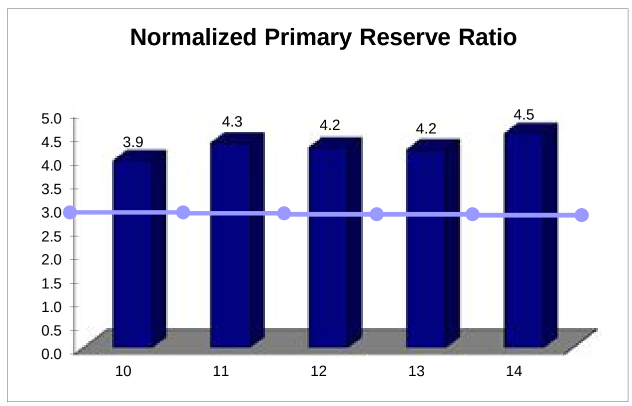
Systemwide Operating Margin Ratio



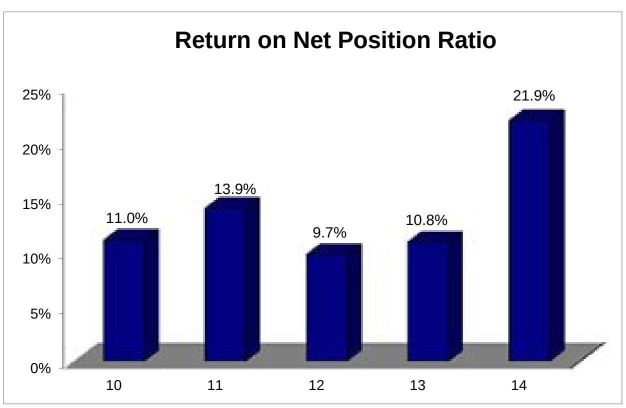
Normalized Annual Operating Margin Ratio



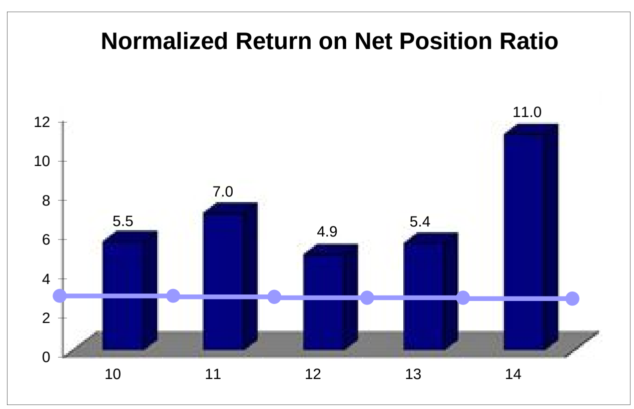
Primary Reserve Ratio



Normalized Primary Reserve Ratio

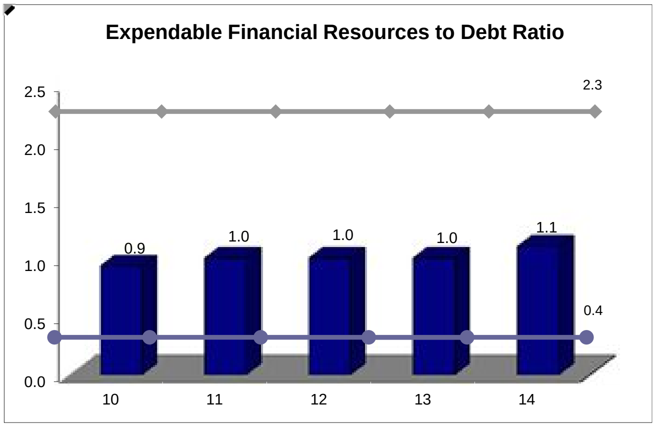


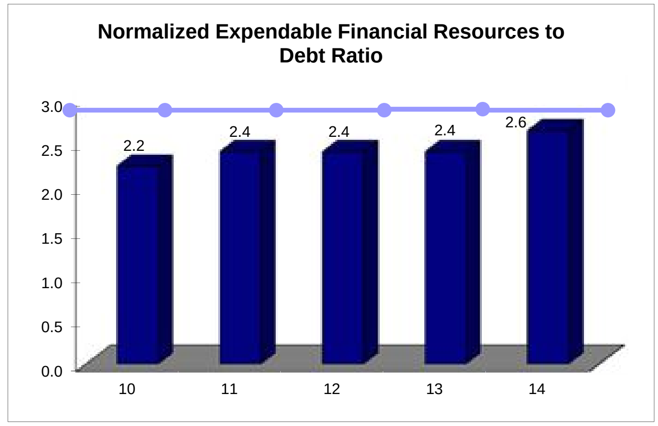
Return on Net Position Ratio

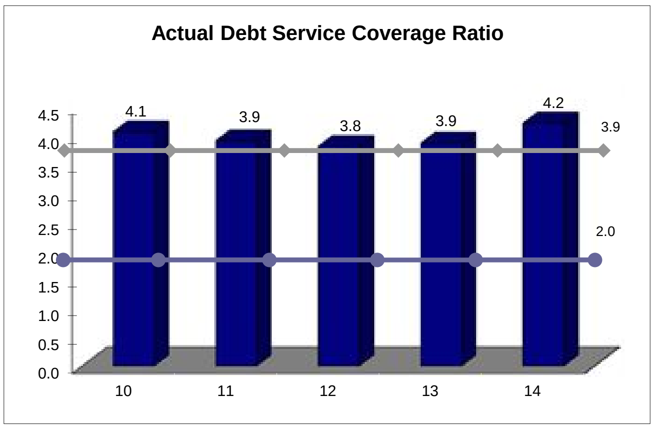


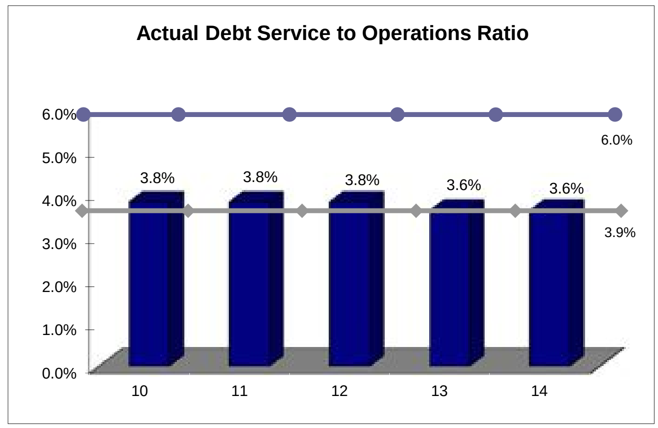
Normalized Return on Net Position Ratio

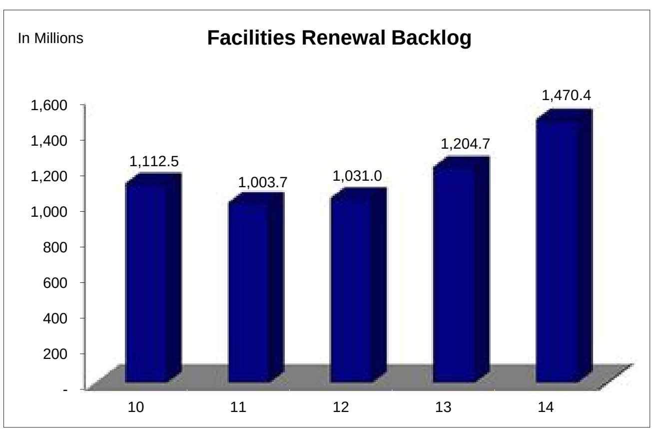
KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY
2010 THROUGH 2014

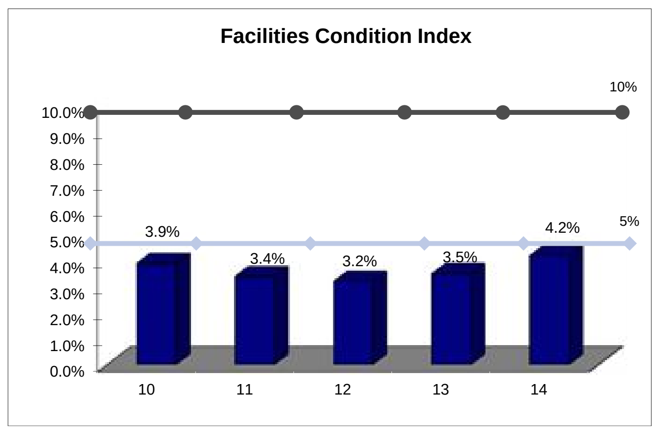




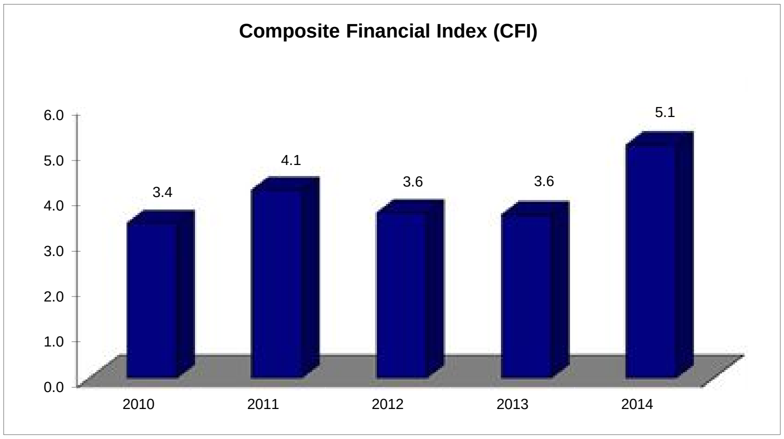




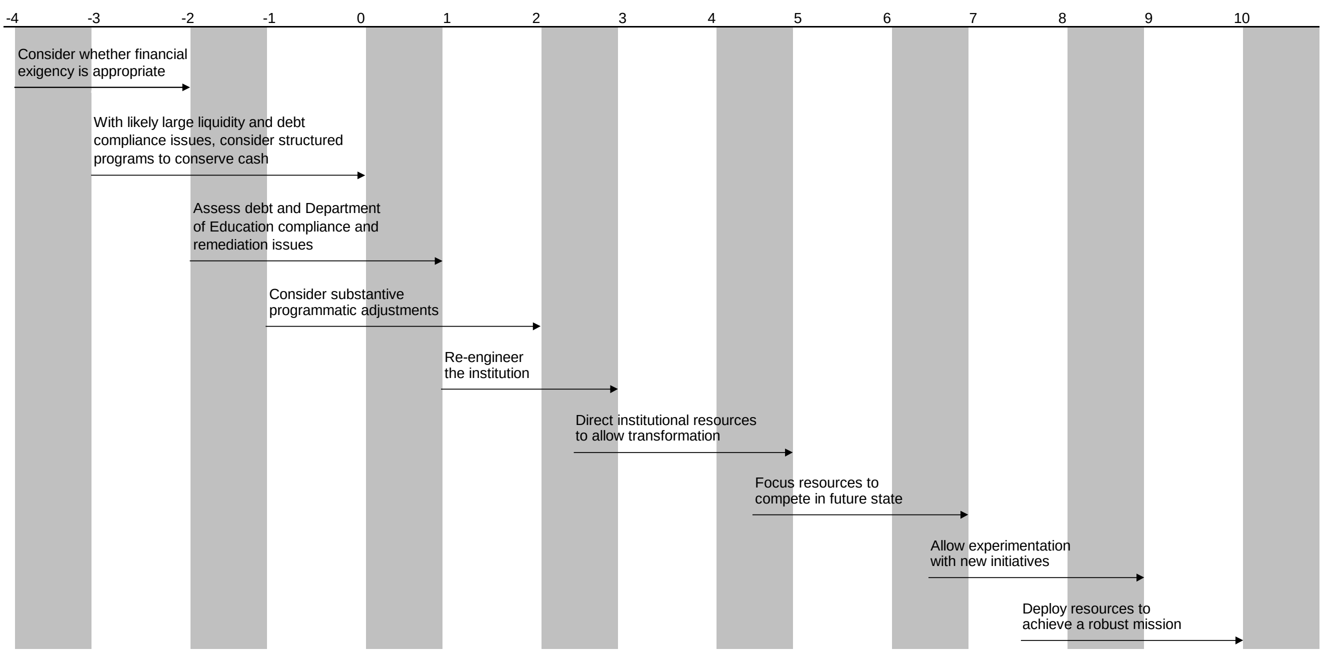




KEY INDICATORS OF FINANCIAL HEALTH
2010 THROUGH 2014

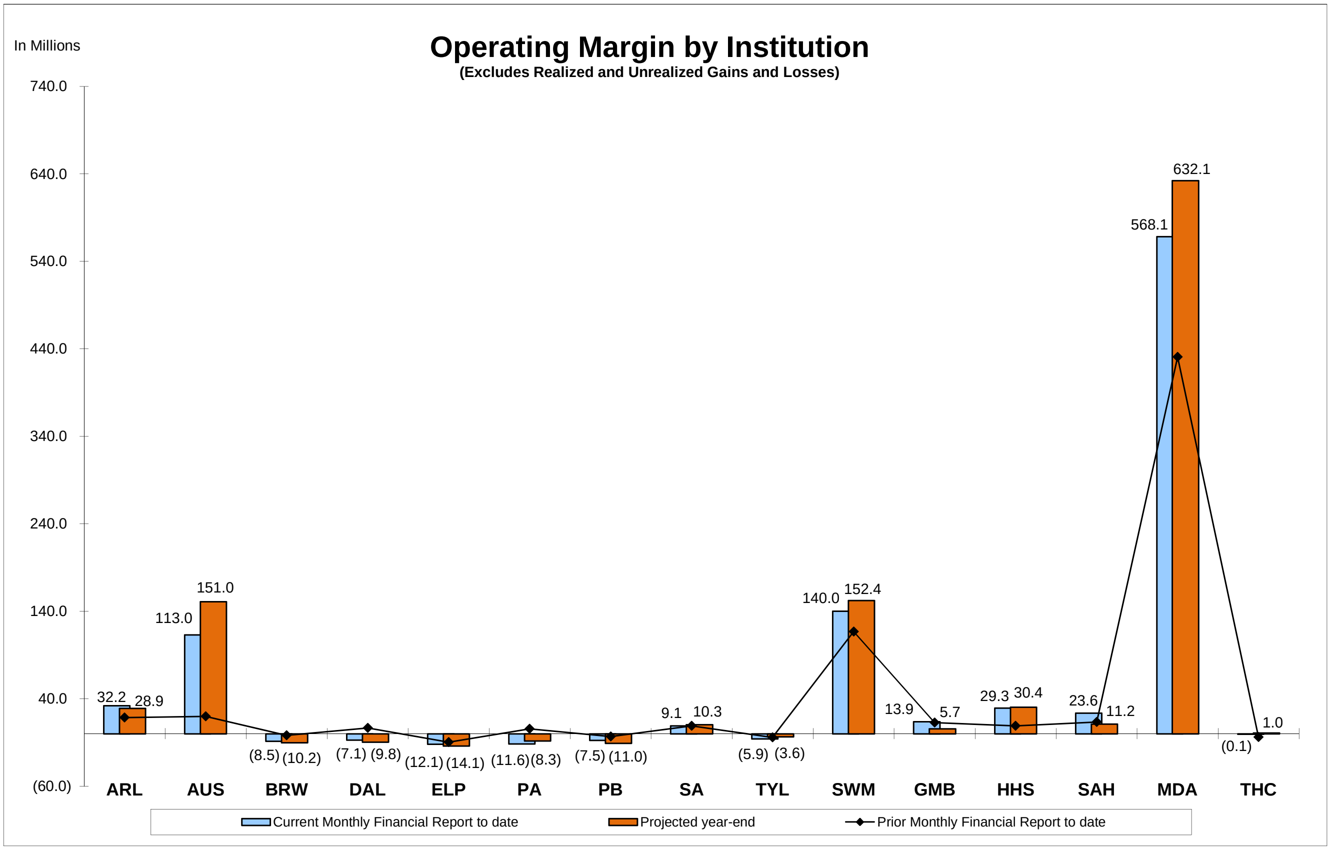


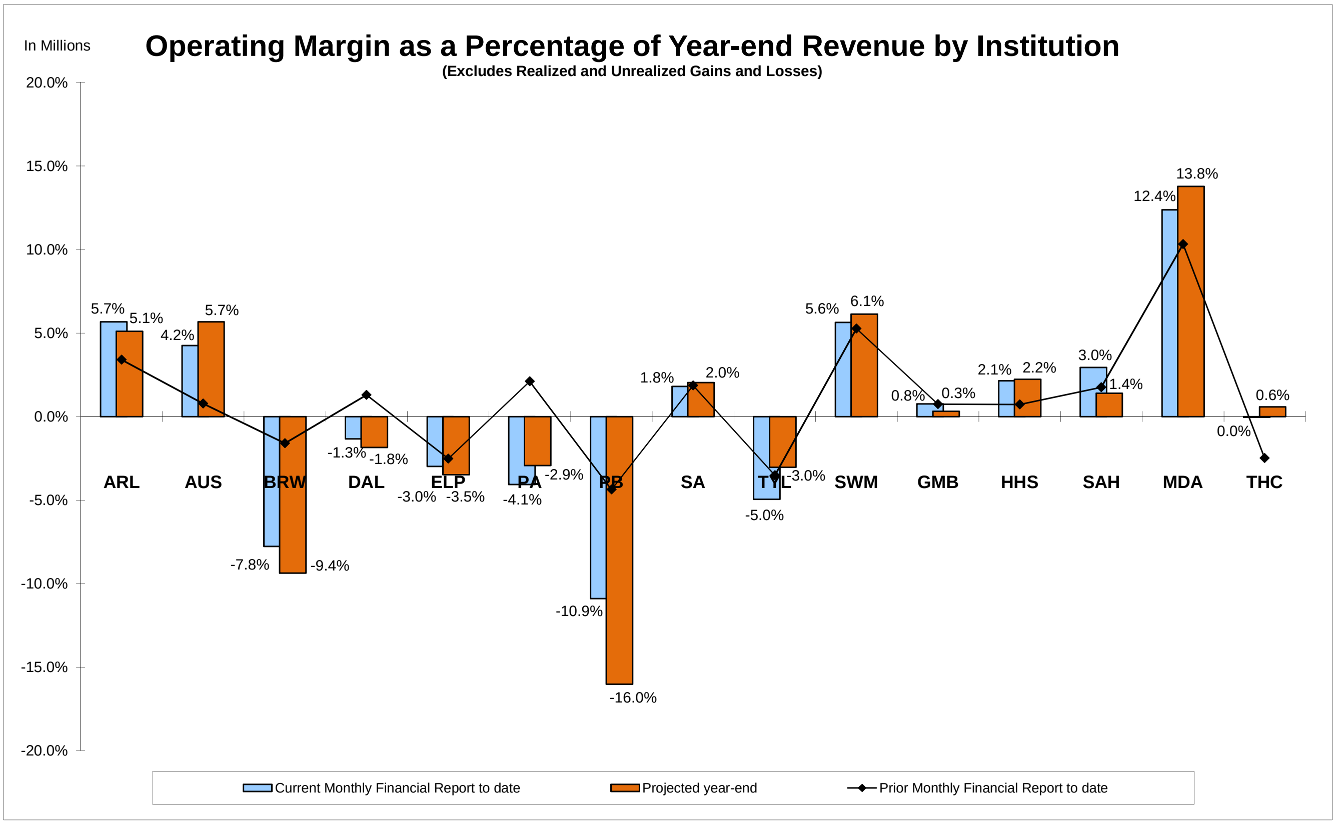
Scale for Charting CFI Performance



Source: Strategic Financial Analysis for Higher Education, Seventh Edition

KEY INDICATORS OF RESERVES
YEAR-TO-DATE 2014 AND 2015 FROM JULY MONTHLY FINANCIAL REPORT
PROJECTED 2015 YEAR-END MARGIN





3. **U. T. System: Discussion and appropriate action regarding an internal lending program**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

a. approve an internal lending program through the establishment of a central bank within the U. T. System. Lending rates and terms will be established by the Executive Vice Chancellor for Business Affairs and the U. T. System Office of Finance and will be updated annually in connection with the U. T. System budget process;

b. approve an initial capitalization of the central bank through a transfer of all balances held in the U. T. System Office of Finance Swap Reserves with a market value estimated at approximately $23.4 million as of October 1, 2015; and

c. approve a policy that allows the Board to share in a portion of the funds generated through the internal lending program. The sharing would occur only when revenue generated by the central bank exceeds amounts needed to maintain a sufficient interest rate buffer, to fund external debt costs, and to provide necessary liquidity as determined by the Executive Vice Chancellor for Business Affairs. Any funds retained centrally would be used exclusively for strategic initiatives that benefit the U. T. System institutions and all expenditures for strategic initiatives would require approval of the Board of Regents.

BACKGROUND INFORMATION

Currently, interest rate risk associated with capital projects financed with Revenue Financing System ("RFS") debt is borne by U. T. System institutions as the institution's borrowing cost is not known until the project is permanently financed with long-term debt.

To reduce this interest rate volatility, many other leading research universities utilize a central bank structure for the purpose of better managing risks within the debt portfolio to minimize the cost of capital while still providing long-term fixed internal loans to individual institutions and their respective projects. The creation of a centralized structure for debt management decisions is expected to result in better control of institutional risks, to standardize loan rates to U. T. System institutions, and to reduce the interest cost volatility for individual projects. By utilizing a portfolio approach, the central bank will be able to utilize certain debt structures that could effectively reduce the cost of capital, such as floating rate debt, that an individual project or institution would traditionally avoid. The proposed central bank will involve projects financed through RFS debt and will not involve projects financed with Tuition Revenue Bond (TRB) or Permanent University Fund (PUF) debt.

In addition to providing a more efficient platform to better manage risks, the central bank is expected to generate funding that can be invested strategically across U. T. System institutions. To the extent asset returns in the central bank exceed external debt costs, these funds are proposed to be invested strategically in U. T. System institutions, although a certain amount of reserves will be needed to provide an appropriate interest rate buffer and to meet external debt service requirements. Due to the need to develop adequate reserves, strategic funding through the central bank is not expected before Fiscal Year 2018. The size of the interest rate buffer is expected to change over time and will be periodically determined by the Office of Business Affairs by taking into account a range of future borrowing costs and investment returns to effectively minimize any potential changes to the long-term loan rate charged to the institutions. A portion of the initial capitalization may be utilized for strategic purposes prior to Fiscal Year 2018, subject to recommendation by the Chancellor and the Executive Vice Chancellor for Business Affairs and approval by the Board of Regents.

All projects previously financed with long-term RFS bonds are proposed to be adjusted to be cash-flow neutral, although small changes due to rounding are anticipated. Future projects are proposed to be financed through the central bank at a long-term loan rate, initially 4.50%, which is expected to be stable over time. Capital equipment and interim financing of capital projects will continue to be financed at variable short-term rates, initially proposed as the average interest rate on the U. T. System's outstanding commercial paper notes plus 0.75%. For projects that cannot be financed on a tax-exempt basis, an additional loan premium will be added to the long-term loan rate, initially proposed to be 0.75%. In accordance with Chapter 54 of the *Texas Education Code*, the payment of principal and interest on loans originated through the central bank are financing costs of the underlying capital projects. Although not currently anticipated, any adjustments to the loan rates are proposed to be considered annually in connection with the U. T. System's annual budget process with any changes that are implemented applying to all outstanding loans.

Funds held in the central bank for liquidity purposes or to serve as an interest rate buffer will be invested in funds managed by The University of Texas Investment Management Company (UTIMCO).

4. U. T. System Board of Regents: Report on activities of the University Lands Advisory Board

REPORT

Regent Cranberg, Chairman of the University Lands Advisory Board (ULAB), and Mr. Mark Houser, Chief Executive Officer - University Lands, will report on activities related to the ULAB using the PowerPoint presentation set forth on the following pages.

BACKGROUND INFORMATION

The ULAB was established by the Board of Regents on May 15, 2014, to advise the Board on operations and management of the University Lands Office, to review and recommend budgets to the Board, and to provide strategic direction for University Lands.

Report on Activities of University Lands Advisory Board

Mr. Mark Houser, Chief Executive Officer – University Lands

U. T. System Board of Regents' Meeting

Finance and Planning Committee

November 2015

The University *of* Texas System

FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

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Key Takeaways

- **Production/Cash Flow/Reserves as Expected**
  - Concern with activity levels moving forward
  - Acreage continues to be recaptured with reduced activity
- **Currently Reviewing Appropriate Structure for More Effective Management of University Lands**
- **Drilling Economics are Challenging to Oil and Gas Operators**
  - Significant improvement in type curves and costs
  - Rates of return still not "attractive" on scale
- **University Lands Must Continue to Look for Creative Ways to Ensure Ongoing Development**
  - Appropriate cost structure for surface easements and damages continues to be assessed
  - Potential incentive structure to promote additional activity through changing price cycles being considered
  - Midstream joint venture agreement reached
  - One to two lease sales anticipated over next 12 months
- **Budget Increase Recommended to Align with Current Strategy**

University Lands (UL) Cash Flow Performance

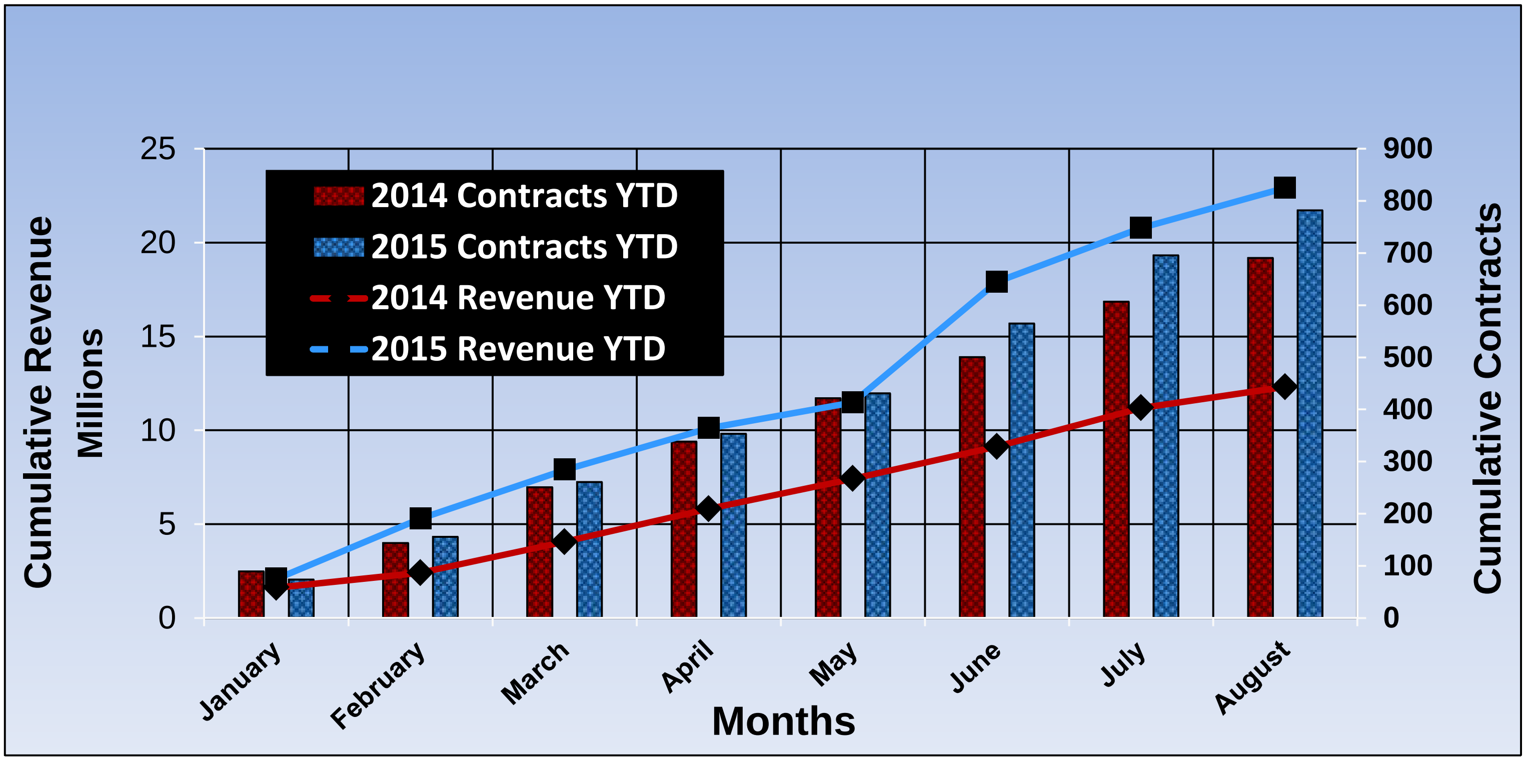
FOR THE TWELVE MONTHS ENDING AUGUST 2015 ($ in thousands)

Permanent University Fund	September 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015	July 2015	August 2015	Cumulative FY 2015
Royalty -													
Oil	$81,950	$67,207	$64,105	$62,950	$55,285	$43,633	$33,489	$32,428	$39,337	$42,637	$45,198	$44,502	$612,721
Gas	16,195	15,781	15,215	15,220	12,268	10,804	11,275	8,078	8,824	9,122	15,832	8,586	147,200
Water	999	2,869	2,353	848	1,181	1,396	1,413	511	660	1,019	414	191	13,854
Brine	36	42	37	41	30	5	11	12	17	11	11	11	264
Oil & Gas Lease Rentals	6	46	48	11	0	4	129	1	4	0	0	2	251
Sale of Caliche, Sand, etc.	888	623	1,083	683	754	452	526	251	578	367	113	303	6,621
Damage Income	1,130	842	1,654	1,005	421	454	450	614	598	574	194	442	8,378
	$101,204	$87,410	$84,495	$80,758	$69,939	$56,748	$47,293	$41,895	$50,018	$53,730	$61,762	$54,037	$789,289
Bonuses -													
Oil & Gas Lease Sale	$0	$0	$0	$0	$0	$0	$0	$0	$0	$919	$320	$160	$1,399
Unitization Payments	2,964	207	1	0	4,250	735	2,884	304	75	528	1,419	1,695	15,062
Amendments/Extensions	279	39	16	275	11	16	69	89	82	4	3	39	922
Total Permanent University Fund	$104,447	$87,656	$84,512	$81,033	$74,200	$57,499	$50,246	$42,288	$50,175	$55,181	$63,504	$55,931	$806,672
Available University Fund													
Grazing Leases	$0	$0	$0	$1,624	$789	$0	$0	$0	$0	$3,562	$577	$0	$6,552
Land Easements	1,179	3,086	2,628	2,547	2,867	4,499	2,990	2,539	1,475	6,451	3,897	3,199	37,357
Winery Lease	0	0	0	0	50	0	0	50	0	0	50	0	150
Exploration Permits	513	0	0	0	327	660	647	0	237	2	0	0	2,386
Transfer/Assignment Fees	11	23	18	13	6	15	4	24	8	11	11	8	152
Interest and Penalty	24	51	62	286	178	44	74	123	68	26	541	1,528	3,005
Total Available University Fund	$1,727	$3,160	$2,708	$4,470	$4,217	$5,218	$3,715	$2,736	$1,788	$10,052	$5,076	$4,735	$49,602
TOTAL PERMANENT & AVAILABLE FUND	$106,174	$90,816	$87,220	$85,503	$78,417	$62,717	$53,961	$45,024	$51,963	$65,233	$68,580	$60,666	$856,274

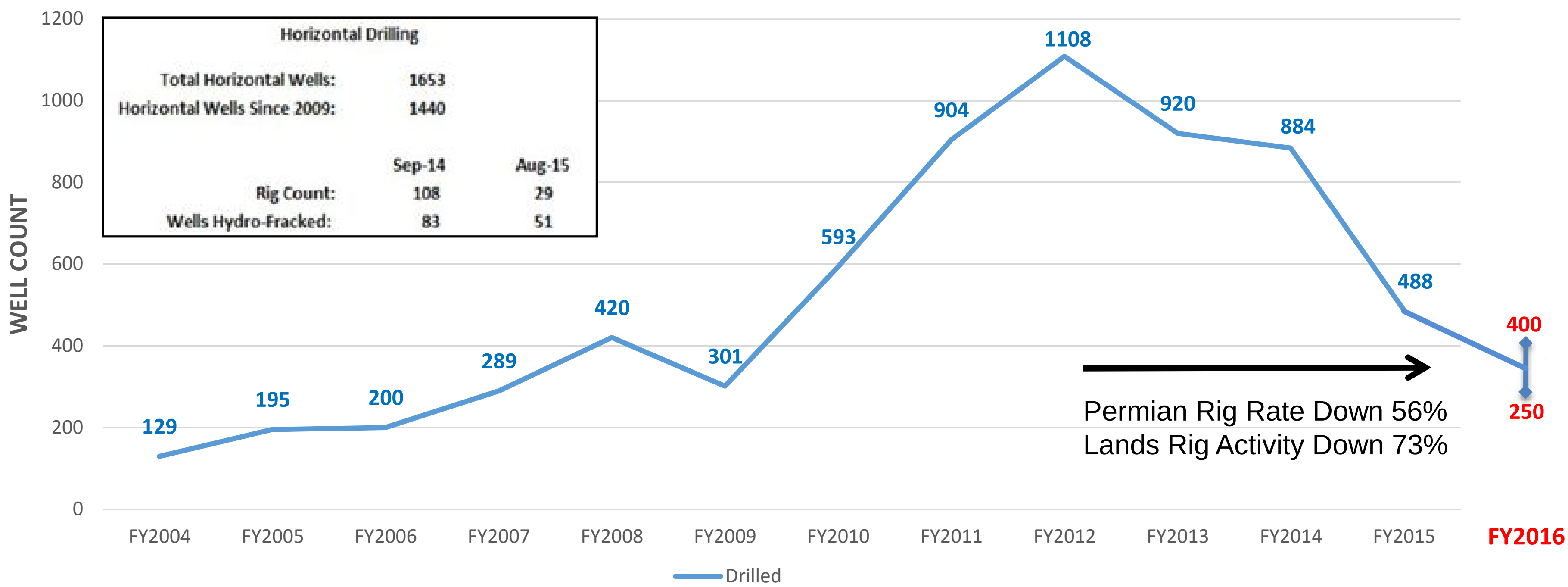
Oil and Gas Lease Status	September 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015	July 2015	August 2015
Leased Acreage	1,591,058	1,557,729	1,558,197	1,558,197	1,557,874	1,556,827	1,532,386	1,513,384	1,511,032	1,510,727	1,505,343	1,503,621
Number of Active Leases	4,369	4,270	4,371	4,272	4,270	4,258	4,217	4,180	4,176	4,175	4,163	4,162
Number of Producing Leases	2,812	2,754	2,807	2,782	2,794	2,786	2,797	2,802	2,800	2,811	2,809	2,825
WTI AVERAGE OIL PRICE	$98.95	$92.68	$89.58	$80.94	$72.14	$55.49	$44.46	$47.34	$44.23	$50.58	$55.95	$56.23
WAHA GAS PRICE (FERC)	$4.40	$3.69	$3.84	$3.77	$3.39	$4.19	$3.00	$2.62	$2.71	$2.49	$2.34	$2.65
WTI OIL PRODUCTION*	828,196	725,151	715,617	777,737	766,357	786,322	753,239	685,002	889,374	842,962	807,828	791,428
WAHA GAS PRODUCTION*	3,680,682	4,276,694	3,962,240	4,037,135	3,618,879	2,578,520	3,758,333	3,083,206	3,256,089	3,663,454	6,765,812	3,240,000

*Production estimates based on monthly revenues divided by average monthly commodity price

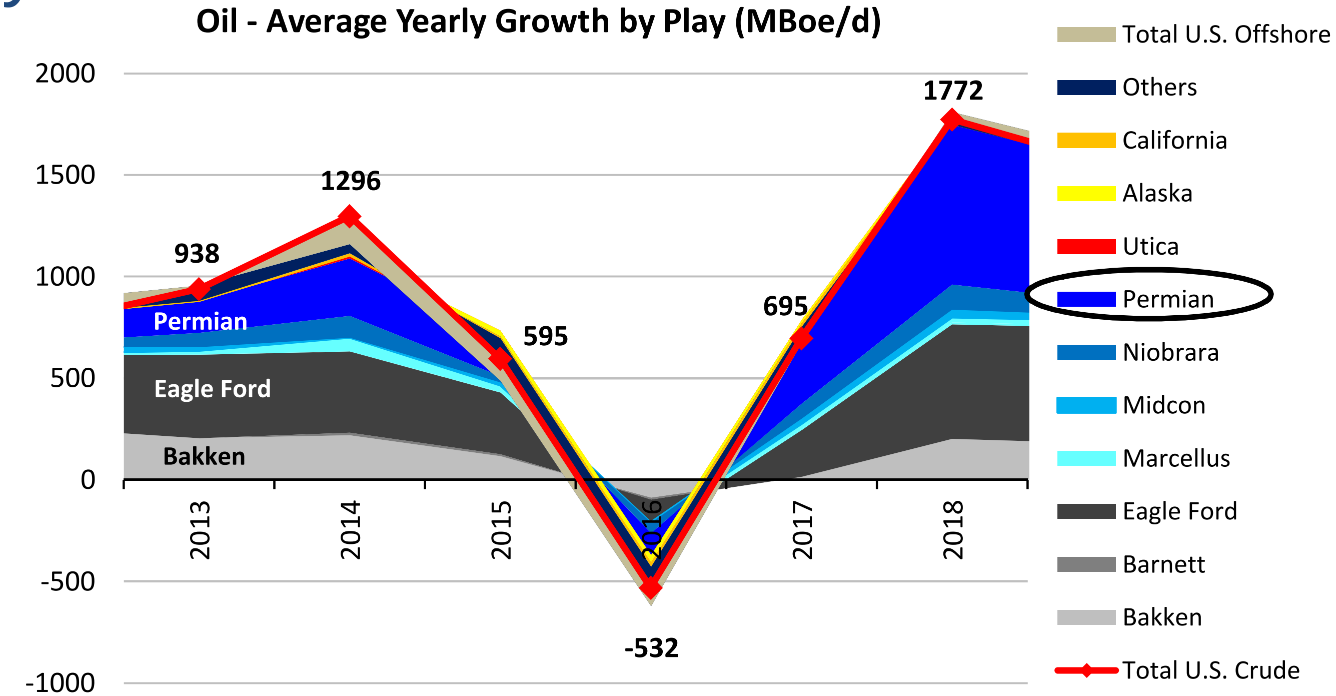
UL Easements and Surface Leasing Activity



University Lands Wells Drilled by Fiscal Year



Permian Basin Will Remain a Strong Player in U.S. Supply Growth

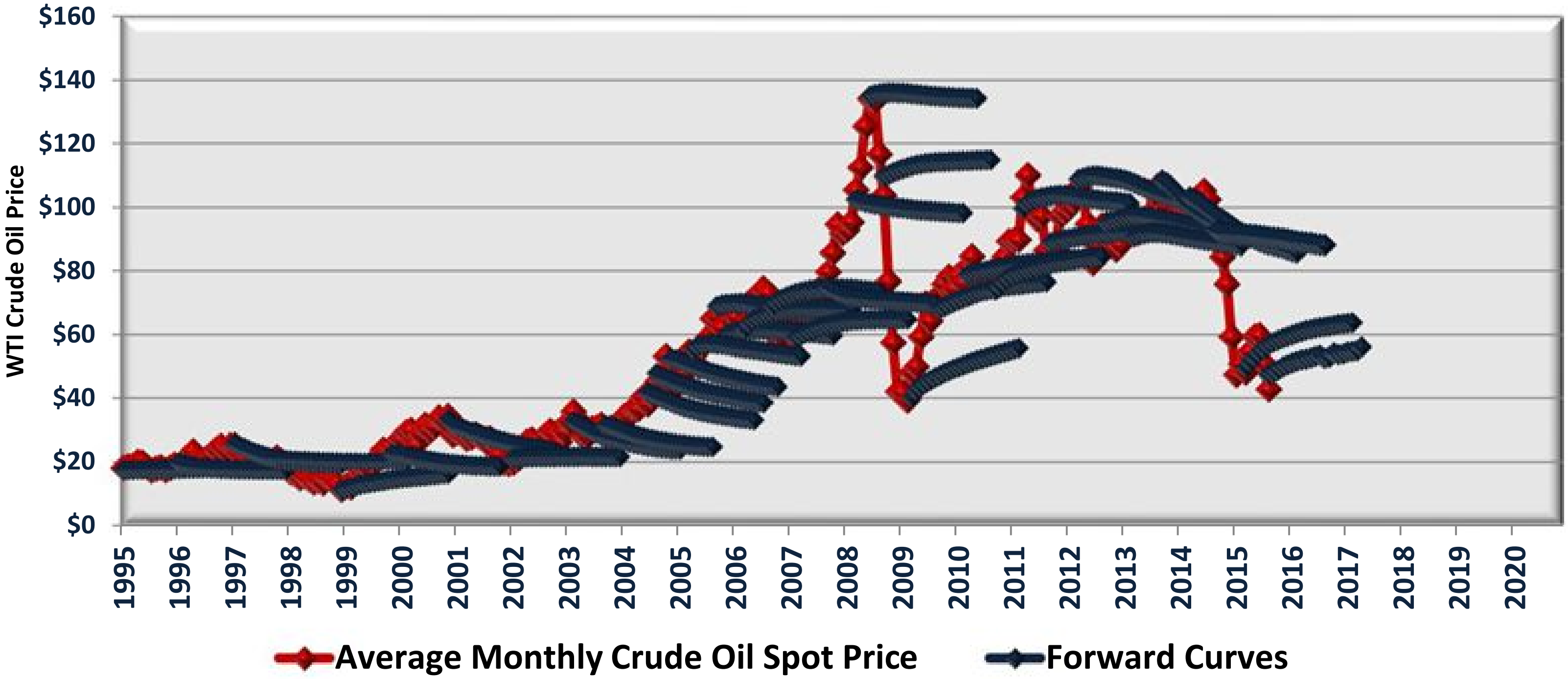


Source: Raymond James & Associates, EIA, HPDI, Baker Hughes

Mboe/d: Thousand barrels oil equivalent per day

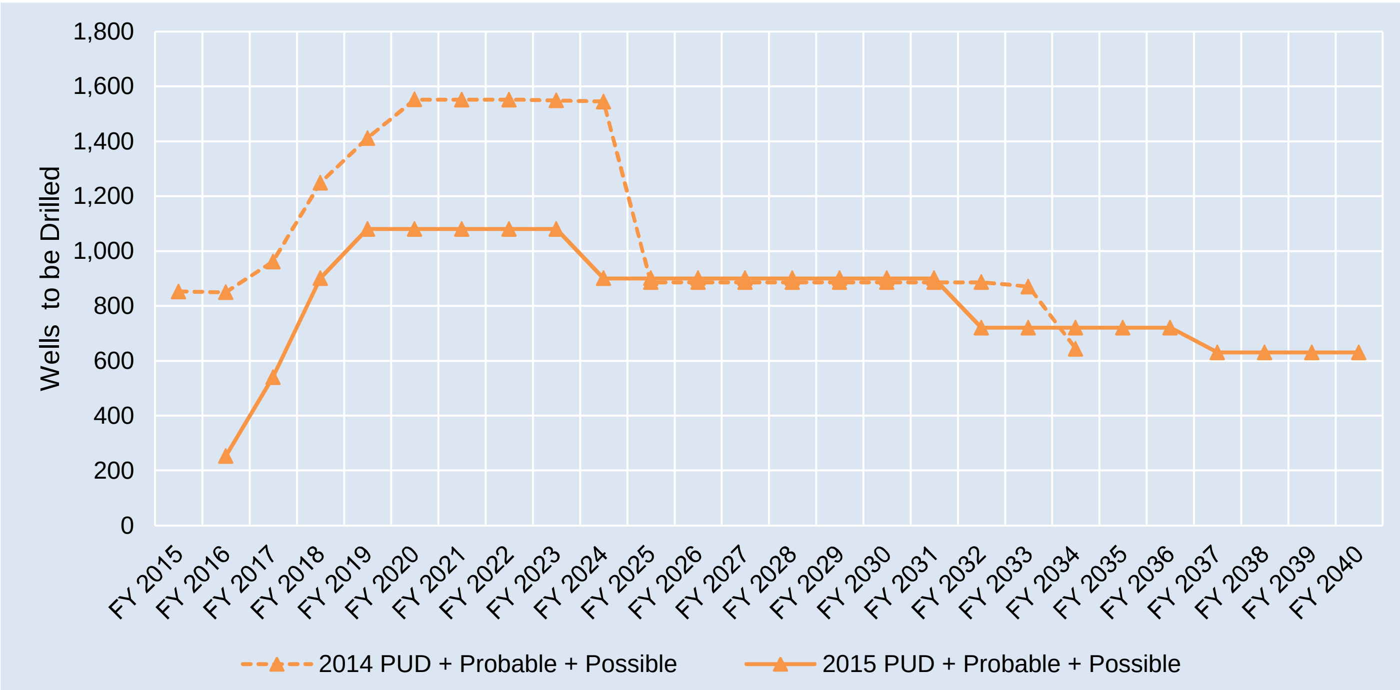
75

Spot Prices vs. the Forward Curve



Source: Plains All American

Wells Drilling Forecast for Reserves 2014 vs. 2015



Total Drilling Locations:

- **2015 ~20,400**
- **2014 ~20,400**

Long Term Pricing:

- **Oil ~40% lower**
- **Gas ~30% lower**

PUD: Proven Undeveloped

Reserves Comparison

NET RESERVES (Million Equivalent Barrels)				
	Proved	Probable	Possible	Total
8/31/2014	162	109	943	1,214
8/31/2015	173	158	802	1,133
8/31/15 @ 2014 Price	176	158	802	1,135
FUTURE NET REVENUE - DISCOUNTED AT 10% ($ Millions)				
8/31/2014	4,967	2,869	11,767	19,603
8/31/2015	2,972	2,328	6,354	11,654
8/31/15 @ 2014 Price	4,878	3,489	9,179	17,547

*numbers subject to rounding

2015 approximate net production:
17.6 MMBOE
(million barrels of oil equivalent)

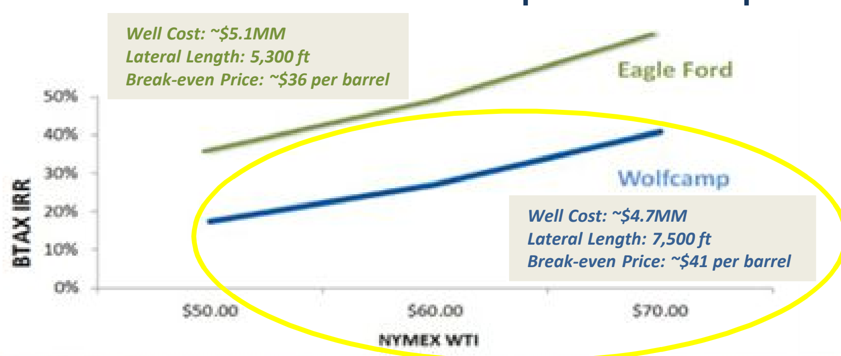
2014 Cash Flow:
$856 million

Increasing Efficiencies:
Returns Still Challenging for Producers

Wolfcamp Cost Efficiencies

Well Recoveries up 50%

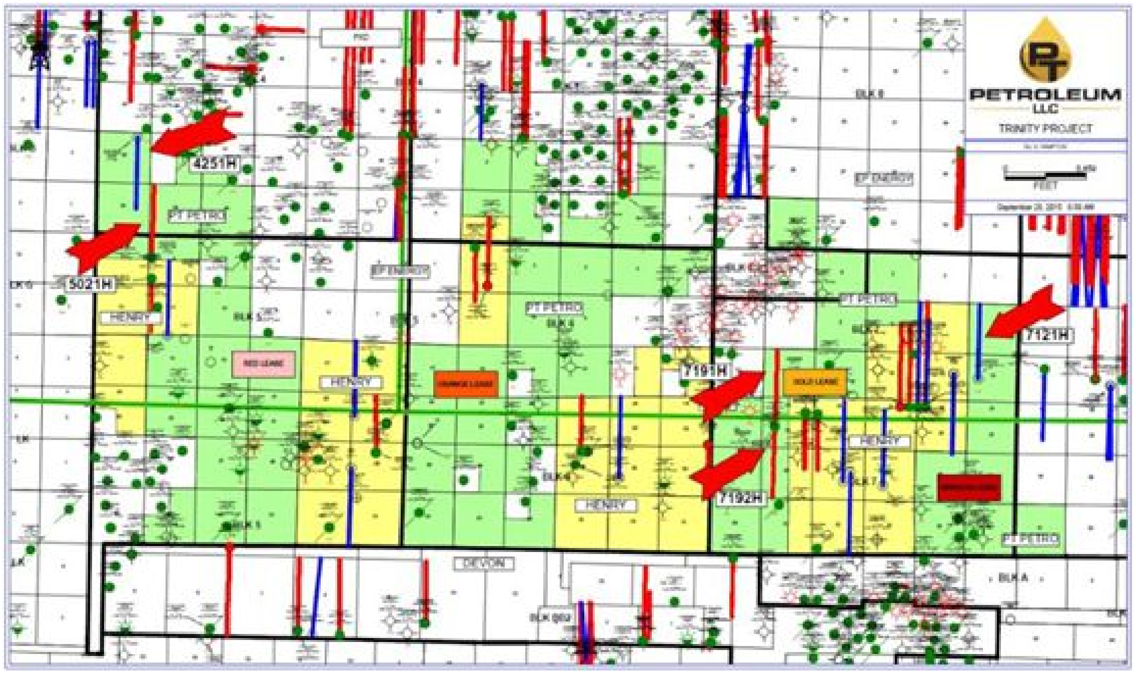
Well Economics Create Competition for Capital



- University Lands is evaluating potential ways for ensuring efficient development of lands over time, including potential price-sensitive royalty structures

Source: EP Energy

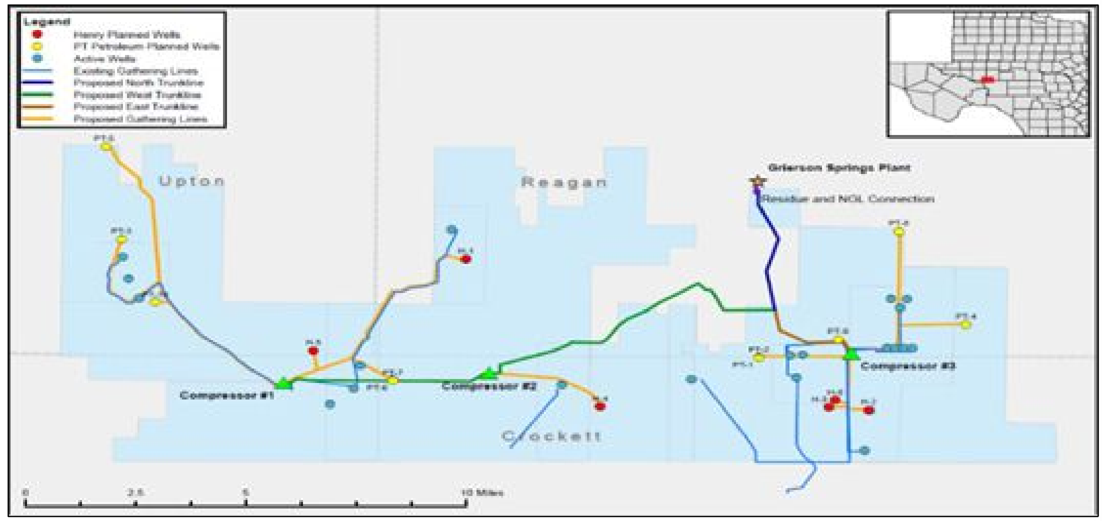
Trinity Project



- **~63,800 acres operated by Henry Petroleum and PT Petroleum**
- Technical review has identified potential for 200 to > 1000 wells drilled across acreage
  - Wolfcamp A & B and Spraberry
- Eight wells have been drilled this year
- 2016 plans provide for another eight new horizontal wells
- Electricity and water infrastructure projects ongoing
- Estimate >$125MM spent through 2016, excluding gathering and processing
- Gathering and processing infrastructure required

Trinity Project – Midstream Joint Venture

- University Lands negotiated a **10% carried equity interest** in a joint venture to build gathering and processing infrastructure with Canyon Midstream, Henry Petroleum and PT Petroleum, et al.
  - Companies are affiliated with Kayne Anderson
  - University Lands contributes **~$3 million in easement and right-of-way**
  - University Lands **waives affiliate language** related to gathering and processing fees deductible from royalty interests
  - University Lands receives a “carried interest” for **its share of $110 million of capital spending**



Phase 1: JT Refrigeration and Field Compression

Phase 2: Cryo Expansion

Trinity Project - Investment Impact

Midstream Investment Economics

	8x EBITDA
Sales Proceeds at 1/21	$ 178,764
Debt Repayment	$ 60,520
Net Proceeds	$ 118,244
Project Internal Rate of Return (IRR)	19%
Project Return on Investment (ROI)	2.00
University Lands 10% Interest	
University Lands 10% Proceeds	$ 11,824
Less: "Foregone" Easements	$ 3,158
Net to University Lands	$ 8,666
University Lands "ROI"	3.7

25% Royalty Generation* Estimate at Current Strip

Present Value 10% of Royalty per Well	1.8	1.8	1.8
Wells	181	500	1000
Present Value of Royalty, $millions	**330**	**900**	**1800**

Potential Other Income:

- $100,000 - $120,000 per well in surface damage income to AUF ($18.1 - $120 million total)
- Third party income through plant

*Based on $60/bbl Oil price

Benefits of Trinity Midstream Investment

- Attractive economics on a stand-alone basis
- Increases likelihood of expanded drilling
- Encourages generation of royalty income
- Affiliated company investing in midstream will help focus development
- Third party income potential from other producers
- Increases midstream competition in area
- Increases University Lands' midstream knowledge from actual operations involvement

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2016 Objectives

- Generate revenue of **$600–$800 million** for fiscal year assuming $50/bbl oil price
- Increase "price neutral" proved reserve value
- Review scenarios for development incentives in tough price environment
- Assess and determine optimal structure for University Lands
- Develop integration program with the Texas Energy Research, Education, and Engineering Institute ("Texas Oil and Gas Institute")
- Complete detailed reservoir study of 20% of University Lands
- Complete technical review with top 20 producers
- Complete one to two lease sales in next 12 months
- Develop and implement "downhole data management process"
- Enhance water management plan
- Develop and implement an effective branding strategy
- Develop an internship program

University Lands Budget Increase Recommendation

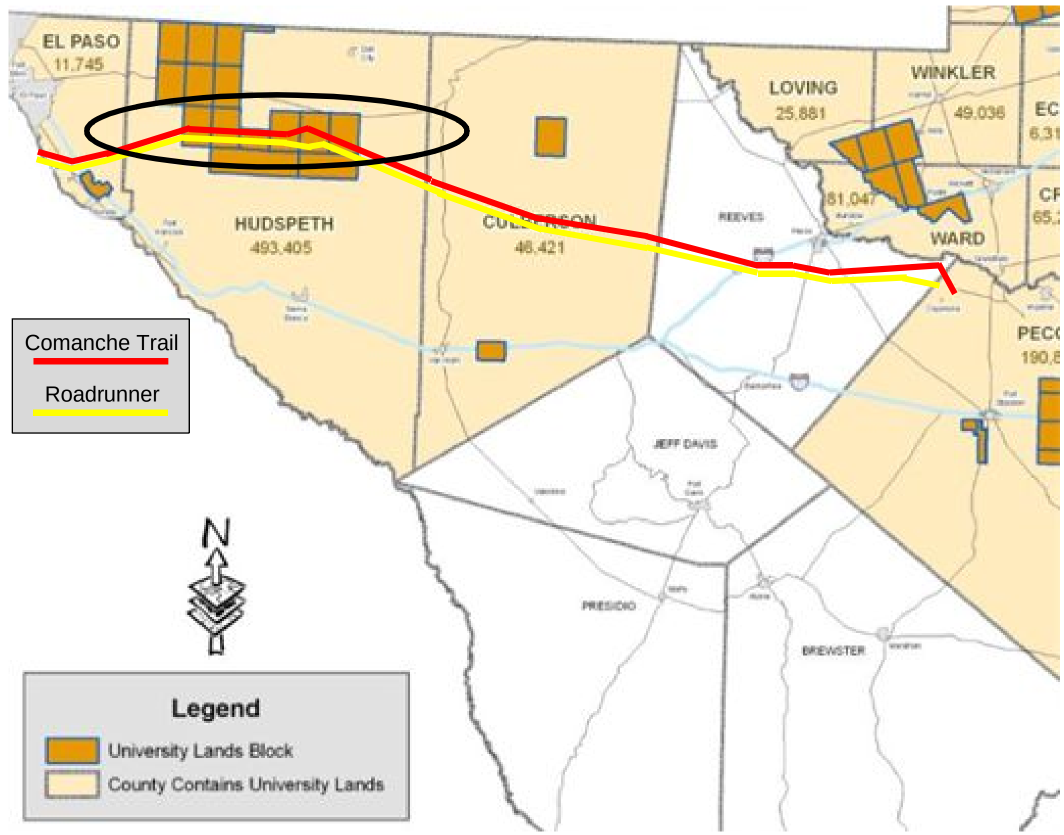
- **Request for budget increase from $17.3 million to $23.6 million. Adjustments include:**
  - Salaries (including benefits) for additional Houston staff as discussed with the University Lands Advisory Board (ULAB): $765,600
  - Salary adjustments (including benefits) for Midland office: $660,000
  - Additional software and hardware for Petroleum Engineering and Geoscience use: $1,128,800
  - Finalization of the Opportune project: $300,000
  - Contract for "Texas Oil and Gas Institute": $3,440,000
- Consistent with strategy for University Lands
  - Reviewed with ULAB

- **Total 2016 Revenue: $600-800M**
- **Total 2016 Production: 15.4M BOE**
- **Total 2016 Projected Costs: $23.6M**
  - **Per unit of production $1.53/BOE**
- **Total 2016 Overhead Costs:**
  - **Excl. Startup/other projects $15.6**
  - **Per unit of production $1.01/BOE**

Similar Minerals Companies
Overhead - >> $1.50 - $2.50+ per BOE

University Lands Easement Requests

- Two pipeline projects to transport gas from the Permian Basin to Mexico
  - Comanche Trail Pipeline (ETP)
  - Roadrunner Pipeline (Oneok)
- Each runs ~37 miles across University Lands
- Requests for approval on Consent Agenda: $6.7 million in total easement revenue
- 10-year lease term through November 2025



University Lands Environmental Practices Go Above and Beyond

- Strong relationships with environmentally-focused organizations including the Texas Commission on Environmental Quality, Texas Railroad Commission, Texas Parks and Wildlife, Natural Resource Conservation Service, and the U.S. Fish and Wildlife Service ensure compliance and best practices
- Many policies unique to University Lands: Operators required to comply with our *Surface Operations Field Manual of Required Operating Procedures for Oil & Gas Leases*
- University Lands' right to conduct unannounced lease inspections
  - 1000+ visits since 2008
  - Monitor permitting, environmental compliance, and general housekeeping
- Robust University Lands Groundwater Management Plan fully operational
- Four of top eight (and maybe more!) operators including EP Energy, Apache, Approach, and Pioneer Resources leading the industry in implementing water recycling and conservation practices
- Continued commitment to prudently evolving practices as technology evolves

5. U. T. System: Approval of a Fiscal Year 2016 University Lands operating budget including delegation of authority to enter into a proposed $3.4 million contract with the Texas Energy Research, Education, and Engineering Institute (EREEI)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents approve a Fiscal Year 2016 University Lands operating budget as shown on the following page.

It is also recommended that the Board delegate authority to the Chief Executive Officer - University Lands to enter into a proposed $3.4 million contract with the Texas Energy Research, Education, and Engineering Institute (EREEI) ("Texas Oil & Gas Institute" or "TOGI") for comprehensive petroleum engineering, geological, and geophysical analysis services, following review of the contract by the U. T. System Office of General Counsel.

BACKGROUND INFORMATION

The University Lands Advisory Board (ULAB) was established by the Board of Regents on May 15, 2014, and charged with providing advice on the strategic direction for University Lands. Over the past 18 months, ULAB has advised the Board on the hiring of a new Chief Executive Officer - University Lands (UL-CEO), whose employment began on March 23, 2015. Since that time, ULAB and the UL-CEO have been working on a strategic direction for University Lands.

The Fiscal Year 2016 budget cycle occurred early in the discussions of the strategic direction for University Lands and the University Lands budget numbers approved at the August 20, 2015 Board of Regents' meeting were placeholders subject to change after the beginning of the new fiscal year. The updated operating budget includes a proposed $3.4 million contract with the "Texas Oil & Gas Institute" for comprehensive petroleum engineering, geological, and geophysical analysis services required to assist the University Lands Geoscience and Engineering Team in performing a detailed study of 20% of the University Lands Resource Base during 2015-2016. "TOGI" will also assist in developing a more streamlined and comprehensive data management process for subsurface evaluation and may evaluate opportunities to enhance production operations through assisting in studies of methane emissions and environmental best practices.

UNIVERSITY LANDS OPERATING BUDGET
FISCAL YEAR ENDING 8/31/2016

	Description	FY2016 APPROVED BUDGET	FY 2016 PROPOSED BUDGET	ADDITIONAL BUDGET REQUIRED
Houston Office - Maintenance & Operations (M&O):				
1	Leased Office Space ($30/sq ft)	$200,000	$360,000	$160,000
2	Building Operating Expense ($13/sq ft)	$58,500	$156,000	$97,500
3	Computers, Supplies, Internet, etc.	$44,700	$80,000	$35,300
4	Miscellaneous Labor/Services	$20,000	$75,000	$55,000
5	Technology Allocation	$30,000	$66,000	$36,000
6	Travel	$50,000	$80,000	$30,000
Total Operations (Houston)		$403,200	$817,000	$413,800
Houston Office - Startup Costs:				
7	Furniture & Fixtures	$0	$150,000	$0
8	Facility Enhancements	$0	$240,000	$0
9	Network Infrastructure	$0	$375,000	$0
10	Video Conferencing	$0	$250,000	$0
11	Land Management System	$0	$300,000	$0
12	Reservoir/Geologic System	$0	$1,000,000	$0
Total Startup Costs (Houston)		$1,600,000	$2,315,000	$715,000
TOTAL M&O		$2,003,200	$3,132,000	$1,128,800
ADMIN & PROFESSIONAL SALARIES		$1,350,000	$1,720,000	$370,000
CLASSIFIED PERSONNEL		$222,000	$432,000	$210,000
BENEFITS		$503,040	$688,640	$185,600
TOTAL BUDGET - HOUSTON OFFICE		$4,078,240	$5,972,640	$1,894,400
Midland Office - M&O:				
Total M&O, Travel & Capital Equipment		$1,158,128	$1,158,128	$0
ADMIN & PROFESSIONAL SALARIES		$989,035	$1,489,035	$500,000
CLASSIFIED PERSONNEL		$2,977,502	$2,977,502	$0
BENEFITS		$1,269,292	$1,429,292	$160,000
WAGES		$20,000	$20,000	$0
OPPORTUNE MAINTENANCE		$200,000	$200,000	$0
TOTAL BUDGET - MIDLAND OFFICE		$6,613,957	$7,273,957	$660,000
TOTAL BUDGET (MIDLAND & HOUSTON)		$10,692,197	$13,246,597	$2,554,400
OTHER BUDGET ITEMS:				
UL LAND PROJECTS		$2,769,800	$2,769,800	$0
UL RESEARCH PROJECTS		$109,425	$109,425	$0
UL SPECIAL PROJECTS		$2,700,000	$2,700,000	$0
UL ARIS/OPPORTUNE		$1,000,000	$1,300,000	$300,000
"TEXAS OIL & GAS INSTITUTE"		$0	$3,440,000	$3,440,000
TOTAL OTHER BUDGET ITEMS		$6,579,225	$10,319,225	$3,740,000
TOTAL BUDGET		$17,271,422	$23,565,822	$6,294,400

Prepared by the Office of University Lands
November 2015

6. U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the year and quarter ended August 31, 2015

REPORT

The August 31, 2015 UTIMCO Performance Summary Report is set forth on Page 90.

The Investment Reports for the fiscal year and quarter ended August 31, 2015, are set forth on Pages 91 - 94.

Item I on Page 91 reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the fiscal year was .43%. The PUF's net asset value increased by $125 million since the beginning of the year to $17,490 million. The increase was due to $807 million PUF Lands receipts, plus a net investment return of $82 million, less the annual distribution to the Available University Fund (AUF) of $764 million.

Item II on Page 92 reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the fiscal year was 1.08%. The GEF's net asset value decreased by $88 million during the fiscal year to $8,237 million.

Item III on Page 93 reports activity for the Intermediate Term Fund (ITF). The ITF's net investment return for the fiscal year was negative 3.28% versus its composite benchmark return of 5.11%. The net asset value increased during the fiscal year to $7,037 million due to net contributions of $821 million, less net investment return of $239 million and distributions of $210 million.

All exposures were within their asset class and investment type ranges. Liquidity was within policy.

Item IV on Page 94 presents book and market values of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus and Fidelity money market fund, increased by $102 million to $2,133 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: $21 million versus $20 million at the beginning of the period; equities: $267 million versus $281 million at the beginning of the period; and other investments: $6 million versus $1 million at the beginning of the period.

Mr. Zimmerman will provide an update using the PowerPoint presentation on Pages 95 - 100.

UTIMCO Performance Summary

August 31, 2015

	Net Asset Value 8/31/2015 (in Millions)	Periods Ended August 31, 2015 (Returns for Periods Longer Than One Year are Annualized)							
		Short Term		Year to Date		Historic Returns			
		1 Mo	3 Mos	Fiscal	Calendar	1 Yr	3 Yrs	5 Yrs	10 Yrs
ENDOWMENT FUNDS									
Permanent University Fund	$ 17,490	(0.87%)	(2.79%)	0.43%	1.78%	0.43%	7.94%	8.27%	6.13%
Permanent Health Fund	1,076								
Long Term Fund	7,161								
General Endowment Fund	25,727	(0.80%)	(2.80%)	1.08%	1.81%	1.08%	8.12%	8.41%	6.24%
Separately Invested Funds	367								
Total Endowment Funds	26,094								
OPERATING FUNDS									
Intermediate Term Fund	7,037	(2.37%)	(4.10%)	(3.28%)	(1.75%)	(3.28%)	3.92%	5.16%	N/A
Short Term Fund and Debt Proceeds Fund	2,059								
Total Operating Funds	9,096								
Total Assets Under Management	$ 35,190								

Footnote available upon request.

UTIMCO 10/5/2015

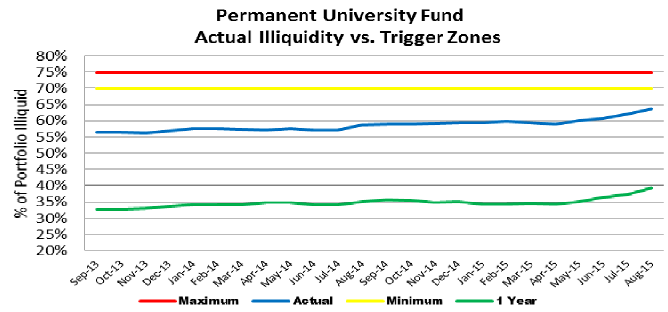
I. PERMANENT UNIVERSITY FUND
Investment Reports for Periods Ended August 31, 2015
Prepared in accordance with *Texas Education Code* Sec. 51.0032

	Fiscal Year to Date						
	Asset Allocation		Returns		Value Added		
	Actual	Policy	Portfolio	Policy Benchmark	Tactical Allocation	Active Management	Total
More Correlated and Constrained:							
Investment Grade	6.1%	6.5%	-5.16%	-6.44%	0.03%	0.05%	0.08%
Credit-Related	0.1%	0.0%	-6.24%	-4.66%	0.00%	0.00%	0.00%
Real Estate	2.3%	2.5%	-8.63%	-4.78%	-0.02%	-0.11%	-0.13%
Natural Resources	6.3%	7.5%	-30.36%	-25.03%	0.03%	-0.51%	-0.48%
Developed Country	13.8%	14.0%	4.96%	-4.13%	0.04%	1.27%	1.31%
Emerging Markets	9.4%	9.5%	-16.92%	-22.95%	-0.06%	0.68%	0.62%
Total More Correlated and Constrained	**38.0%**	**40.0%**	**-9.94%**	**-13.15%**	**0.02%**	**1.38%**	**1.40%**
Less Correlated and Constrained	**29.9%**	**30.0%**	**3.04%**	**1.47%**	**0.06%**	**0.42%**	**0.48%**
Private Investments	**32.1%**	**30.0%**	**13.44%**	**n/a**	**n/a**	**n/a**	**n/a**
Total	**100.0%**	**100.0%**	**0.43%**	**n/a**	**n/a**	**n/a**	**n/a**

n/a - not available

Summary of Capital Flows

($ millions)	Fiscal Year Ended August 31, 2014	Quarter Ended August 31, 2015	Fiscal Year Ended August 31, 2015
Beginning Net Assets	$14,853	$18,200	$17,365
PUF Lands Receipts	1,129	175	807
Investment Return (Net of Expenses)	2,260	(503)	82
Distributions to AUF	(877)	(382)	(764)
Ending Net Assets	$17,365	$17,490	$17,490



II. GENERAL ENDOWMENT FUND
Investment Reports for Periods Ended August 31, 2015

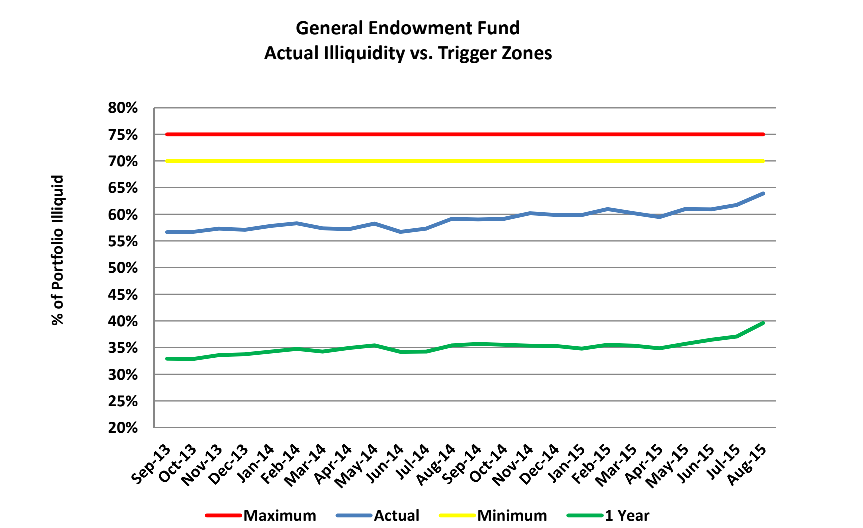
Prepared in accordance with *Texas Education Code* Sec. 51.0032

	Fiscal Year to Date						
	Asset Allocation		Returns		Value Added		
	Actual	Policy	Portfolio	Policy Benchmark	Tactical Allocation	Active Management	Total
More Correlated and Constrained:							
Investment Grade	5.8%	6.5%	-4.09%	-6.44%	0.08%	0.11%	0.19%
Credit-Related	0.1%	0.0%	-6.24%	-4.66%	0.00%	0.00%	0.00%
Real Estate	2.4%	2.5%	-8.61%	-4.78%	-0.02%	-0.11%	-0.13%
Natural Resources	6.4%	7.5%	-30.38%	-25.03%	0.06%	-0.52%	-0.46%
Developed Country	13.8%	14.0%	4.87%	-4.13%	0.06%	1.24%	1.30%
Emerging Markets	9.3%	9.5%	-12.53%	-22.95%	-0.07%	1.20%	1.13%
Total More Correlated and Constrained	**37.8%**	**40.0%**	**-8.47%**	**-13.15%**	**0.11%**	**1.92%**	**2.03%**
Less Correlated and Constrained	**29.9%**	**30.0%**	**3.04%**	**1.47%**	**0.03%**	**0.46%**	**0.49%**
Private Investments	**32.3%**	**30.0%**	**13.44%**	**n/a**	**n/a**	**n/a**	**n/a**
Total	**100.0%**	**100.0%**	**1.08%**	**n/a**	**n/a**	**n/a**	**n/a**

n/a - not available

Summary of Capital Flows

($ millions)	Fiscal Year Ended August 31, 2014	Quarter Ended August 31, 2015	Fiscal Year Ended August 31, 2015
Beginning Net Assets	$7,396	$8,531	$8,325
Contributions	225	44	230
Withdrawals	(13)	(31)	(43)
Distributions	(371)	(74)	(366)
Investment Return (Net of Expenses)	1,088	(233)	91
Ending Net Assets	$8,325	$8,237	$8,237



III. INTERMEDIATE TERM FUND
Investment Reports for Periods Ended August 31, 2015

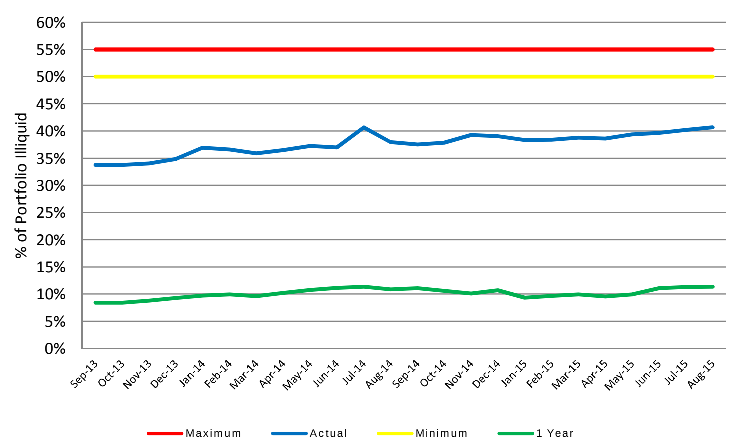
Prepared in accordance with *Texas Education Code* Sec. 51.0032

	Fiscal Year to Date						
	Asset Allocation		**Returns**		**Value Added**		
	Actual	**Policy**	**Portfolio**	**Policy Benchmark**	**Tactical Allocation**	**Active Management**	**Total**
More Correlated and Constrained:							
Investment Grade	30.7%	30.0%	-5.80%	-6.44%	0.02%	0.15%	0.17%
Credit-Related	0.0%	0.0%	0.00%	0.00%	0.00%	0.00%	0.00%
Real Estate	2.7%	3.0%	-8.60%	-4.78%	-0.01%	-0.13%	-0.14%
Natural Resources	5.9%	7.0%	-30.12%	-25.03%	0.08%	-0.43%	-0.35%
Developed Country	8.8%	9.0%	5.07%	-4.13%	0.00%	0.84%	0.84%
Emerging Markets	5.4%	6.0%	-12.52%	-22.95%	-0.01%	0.70%	0.69%
Total More Correlated and Constrained	**53.5%**	**55.0%**	**-8.15%**	**-10.26%**	**0.08%**	**1.13%**	**1.21%**
Less Correlated and Constrained	**46.5%**	**45.0%**	**3.02%**	**1.47%**	**0.00%**	**0.62%**	**0.62%**
Private Investments	**0.0%**	**0.0%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Total	**100.0%**	**100.0%**	**-3.28%**	**-5.11%**	**0.08%**	**1.75%**	**1.83%**

Summary of Capital Flows

($ millions)	Fiscal Year Ended August 31, 2014	Quarter Ended August 31, 2015	Fiscal Year Ended August 31, 2015
Beginning Net Assets	$5,520	$7,196	$6,665
Contributions	2,111	357	1,448
Withdrawals	(1,391)	(164)	(627)
Distributions	(186)	(55)	(210)
Investment Return (Net of Expenses)	611	(297)	(239)
Ending Net Assets	$6,665	$7,037	$7,037

Intermediate Term Fund
Actual Illiquidity vs. Trigger Zones



IV. SEPARATELY INVESTED ASSETS

Summary Investment Report at August 31, 2015

Report prepared in accordance with *Texas Education Code* Sec. 51.0032

($ thousands)

	FUND TYPE															
	CURRENT PURPOSE												OPERATING FUNDS			
	DESIGNATED		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		TOTAL EXCLUDING OPERATING FUNDS		(DEBT PROCEEDS AND (SHORT TERM FUND)		TOTAL	
ASSET TYPES																
Cash & Equivalents:	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Beginning value 05/31/15	-	-	5,494	5,494	45,977	45,977	1,233	1,233	737	737	53,441	53,441	1,977,230	1,977,230	2,030,671	2,030,671
Increase/(Decrease)	-	-	(3,960)	(3,960)	22,319	22,319	833	833	1,045	1,045	20,237	20,237	82,156	82,156	102,393	102,393
Ending value 08/31/15	-	-	1,534	1,534	68,296	68,296	2,066	2,066	1,782	1,782	73,678	73,678	2,059,386	2,059,386	2,133,064	2,133,064
Debt Securities:																
Beginning value 05/31/15	-	-	11	12	11,304	11,661	7,928	7,898	-	-	19,243	19,571	-	-	19,243	19,571
Increase/(Decrease)	-	-	-	(1)	64	(103)	1,172	1,064	-	-	1,236	960	-	-	1,236	960
Ending value 08/31/15	-	-	11	11	11,368	11,558	9,100	8,962	-	-	20,479	20,531	-	-	20,479	20,531
Equity Securities:																
Beginning value 05/31/15	254,273	215,147	1,335	1,327	41,889	51,906	12,538	13,043	-	-	310,035	281,423	-	-	310,035	281,423
Increase/(Decrease)	110	(10,711)	(1,124)	(1,120)	68	(2,369)	303	(635)	-	-	(643)	(14,835)	-	-	(643)	(14,835)
Ending value 08/31/15	254,383	204,436	211	207	41,957	49,537	12,841	12,408	-	-	309,392	266,588	-	-	309,392	266,588
Other:																
Beginning value 05/31/15	-	-	89	89	599	599	572	114	-	-	1,260	802	-	-	1,260	802
Increase/(Decrease)	-	-	5,564	5,564	(564)	(564)	(2)	(3)	572	572	5,570	5,569	-	-	5,570	5,569
Ending value 08/31/15	-	-	5,653	5,653	35	35	570	111	572	572	6,830	6,371	-	-	6,830	6,371
Total Assets:																
Beginning value 05/31/15	254,273	215,147	6,929	6,922	99,769	110,143	22,271	22,288	737	737	383,979	355,237	1,977,230	1,977,230	2,361,209	2,332,467
Increase/(Decrease)	110	(10,711)	480	483	21,887	19,283	2,306	1,259	1,617	1,617	26,400	11,931	82,156	82,156	108,556	94,087
Ending value 08/31/15	254,383	204,436	7,409	7,405	121,656	129,426	24,577	23,547	2,354	2,354	410,379	367,168	2,059,386	2,059,386	2,469,765	2,426,554

Details of individual assets by account furnished upon request.

The University of Texas Investment Management Company

UTIMCO Update

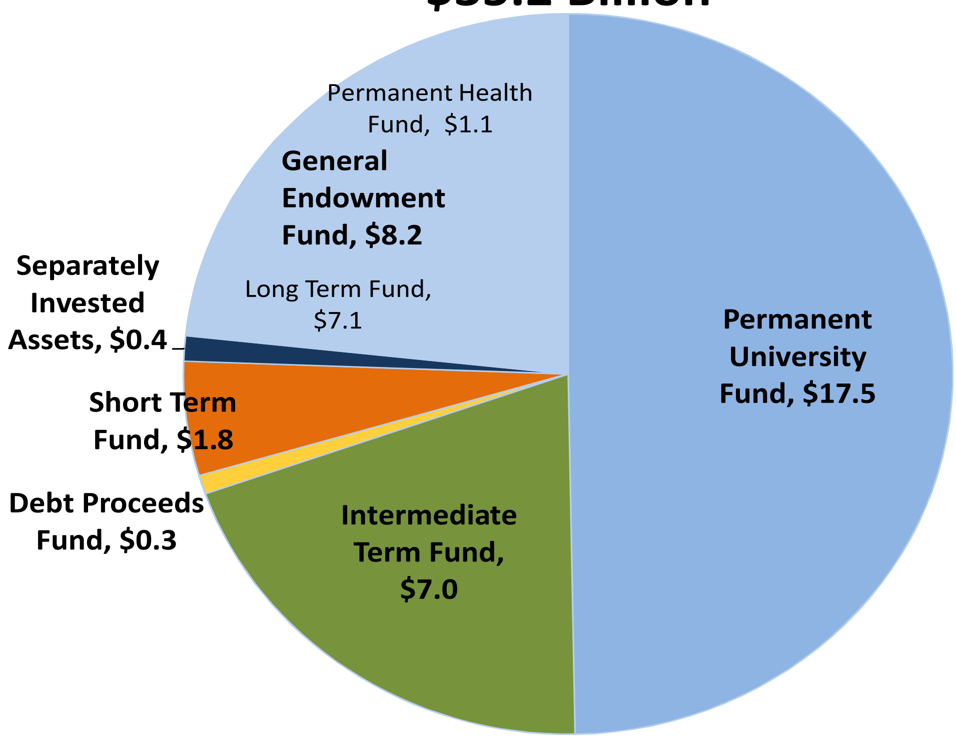
Mr. Bruce Zimmerman
CEO and Chief Investment Officer

U. T. System Board of Regents' Meeting
Finance and Planning Committee
November 2015

UTIMCO ASSETS UNDER MANAGEMENT

As of August 31, 2015

$35.2 Billion



RETURNS

Fund	Periods Ended August 31, 2015 FY	Three Years	Five Years	Ten Years
Permanent University Fund (PUF)	0.43%	7.94%	8.27%	6.13%
General Endowment Fund (GEF)	1.08%	8.12%	8.41%	6.24%
Intermediate Term Fund (ITF)	-3.28%	3.92%	5.16%	N/A

ENDOWMENT DASHBOARD

Underperformance

FY2015	3-years	5-years	10-years
0.6%	7.9%	8.3%	6.2%

Market

	Beta	
U.S. Equity	Rates	Currency
0.567	(0.309)	(0.156)

Scenarios

	US Liquidity Squeeze	China Slowdown	Japan Implosion
Expected Returns:	-21.6%	-18.7%	-15.6%

Downside Volatility

	1 stdev	2 stdev
Expected returns	-2.2%	-11.1%
VIX:	28.4%	

Active Management

Waiting for June 30th
Private Investment benchmark update

Transparency

Full	Full but Lagged	Partial	None
32%	33%	31.5%	3.5%

Concentration

	Manager		Securities (Top 10)	
US	Top 10	Top 20	Bonds	Stocks
54%	25%	42%	5.1%	5.5%

Illiquidity

	90 day liquidity	1 year liquidity	Unfunded Commit-ments
Endowments	36%	61%	25%
ITF	59%	89%	

Leverage

	LCC	LCC ex-FI	Endowments
Gross	1.95	1.65	1.00
Net	0.52	0.60	1.00

Permanent Loss of Capital

	Invested Capital ($B)	Realized Loss ($M)	Anticipated/ Unrealized Loss ($M)	Total Loss ($M)	Annualized Loss (%)
MCC	$33.3	$622	-	$622	0.34%
LCC	12.7	245	175	420	0.49%
PI	13.9	327	124	451	0.81%
Total	$59.9	$1,194	$299	$1,493	0.46%

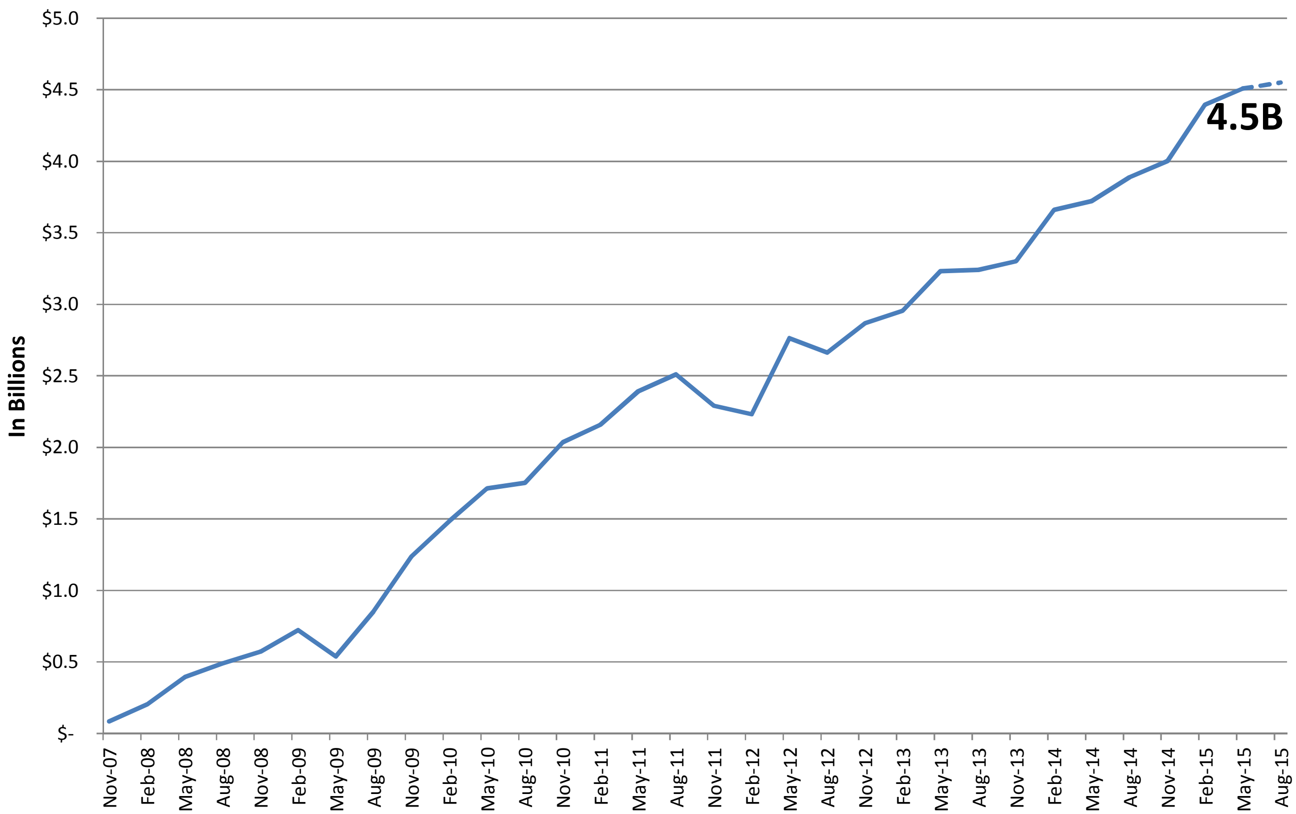
ENDOWMENT EXPOSURE

Asset Group	Asset Class	More Correlated and Constrained (Long Only)		Less Correlated and Constrained (Hedge Funds)		Private Investments		Total	
Fixed Income	Investment Grade	$1,558	6.1%	$415	1.6%	$0	0.0%	$1,973	**7.7%**
	Credit-Related	26	0.1%	1,113	4.3%	958	3.7%	2,097	**8.1%**
	Fixed Income Total	**1,584**	**6.2%**	**1,528**	**5.9%**	**958**	**3.7%**	**4,070**	**15.8%**
Real Assets	Real Estate	$597	2.3%	$2	0.0%	$1,261	4.9%	$1,860	**7.2%**
	Natural Resources	1,635	6.4%	2	0.0%	1,911	7.4%	3,548	**13.8%**
	Real Assets Total	**2,232**	**8.7%**	**4**	**0.0%**	**3,172**	**12.3%**	**5,408**	**21.0%**
Equity	Developed Country	$3,518	13.8%	$5,747	22.3%	$3,192	12.4%	$12,457	**48.5%**
	Emerging Markets	2,405	9.3%	428	1.7%	959	3.7%	3,792	**14.7%**
	Equity Total	**5,923**	**23.1%**	**6,175**	**24.0%**	**4,151**	**16.1%**	**16,249**	**63.2%**
	Total	**$9,739**	**38.0%**	**$7,707**	**29.9%**	**$8,281**	**32.1%**	**$25,727**	**100.0%**
Number of Partners		49		56		146		251	

66

Meeting of the U. T. System Board of Regents - Finance and Planning Committee

VALUE ADD


$5.0
$4.5
$4.0
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$-
In Billions
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May-08
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7. U. T. System Board of Regents: Approval of amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, the Intermediate Term Fund, the Separately Invested Fund, the Liquidity Policy, and the Derivative Investment Policy

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. System Board of Regents approve proposed amendments to the following Investment Policy Statements, including asset allocation, as set forth in congressional style on the referenced pages, to be effective December 1, 2015. Proposed amendments to the Liquidity Policy and the Derivative Investment Policy, as set forth in congressional style on the referenced pages, are to be effective November 5, 2015.

a. Permanent University Fund (PUF) (See Pages 103 - 114)

b. General Endowment Fund (GEF) (See Pages 115 - 124)

c. Permanent Health Fund (PHF) (See Pages 125 - 133)

d. Long Term Fund (LTF) (See Pages 134 - 142)

e. Intermediate Term Fund (ITF) (See Pages 143 - 152)

f. Separately Invested Fund (SIF) (See Pages 153 - 160)

g. Liquidity Policy (See Pages 161 - 164)

h. Derivative Investment Policy (See Pages 165 - 170)

BACKGROUND INFORMATION

The Master Investment Management Services Agreement (IMSA) between the U. T. System Board of Regents and UTIMCO requires that UTIMCO review the current Investment Polices for each Fund at least annually. The review includes distribution (spending) guidelines; long-term investment return expectations and expected risk levels; Asset Class and Investment Type allocation targets and ranges for each eligible Asset Class and Investment Type; expected returns for each Asset Class, Investment Type, and Fund; designated performance benchmarks for each Asset Class and/or Investment Type; and such other matters as the U. T. System Board or its staff designees may request.

The proposed changes to the Investment Policy Statements, the Liquidity Policy, and the Derivative Investment Policy were approved by the UTIMCO Board on October 15, 2015, and are described on the following page.

Exhibits to the Investment Policy Statements for the PUF, GEF, PHF, LTF, and ITF have been amended to reflect the current Fiscal Year End and the revised Investment Type Targets and Ranges. The Expected Annual Real Return (Benchmark) target was also revised. Amendments are also proposed to adjust the one-year downside volatility based on the change in the Expected Annual Real Return (Benchmark) target and to delete a footnote related to the Expected Annual Return (Benchmark). The Exhibits to the Investment Policy Statements for the PUF, GEF, PHF, and LTF would also be amended to set forth the Target Distribution Rates for the respective Fund as determined by the Board of Regents.

Additionally, the PUF, GEF, PHF, LTF, and ITF Investment Policy Statements would be amended to clarify the investment objectives including that the target distribution rate is to be determined by the Board of Regents. Language has also been added to clarify that concentration limits in Investment Guidelines are limited to More Correlated and Constrained Investments, and the timing for the valuation of assets has been changed to be consistent with current practice. All references to risk terminology related to “risk” and “downside deviation” have been changed to “downside volatility” to be more specific, and other minor editorial changes were made.

The PUF Investment Policy Statement was changed to delete a quotation from the Texas Constitution and to clarify the timing of distribution payments from the PUF to the Available University Fund (AUF). The ITF Investment Policy Statement was changed to clarify that investment returns are net of all investment-related expenses and to add language related to additional expenses charged to the ITF. The Investment Grade Fixed Income section was deleted in the SIF Investment Policy Statement to be consistent with other Investment Policy Statements, and the Liquidity Policy was changed to clarify language in the Liquidity Policy Profile.

The Derivative Investment Policy changed the reference to "downside deviation and risk" to "downside volatility" to be more specific. Language was added to allow for limited use of agreements developed by the International Swaps and Derivatives Association, Inc. (ISDA) in connection with ISDA's Dodd-Frank Documentation Initiative to implement and comply with the regulatory requirements imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act. Exhibit B of the Derivative Investment Policy was changed to clarify that limited-loss derivatives are allowed on individual stocks.

Finally, the Short Term Fund Investment Policy Statement was reviewed but no changes were recommended.

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 eligible institutions of The University of Texas System and The Texas A&M University System as provided in Article VII, Section 18 of the *Texas Constitution*.

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 19 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 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. Surface income, as a renewable source of income, is distributed to the Available University Fund (the "AUF"), as received. The Constitution also requires that all surface income and investment distributions paid to the AUF be expended for certain authorized purposes.

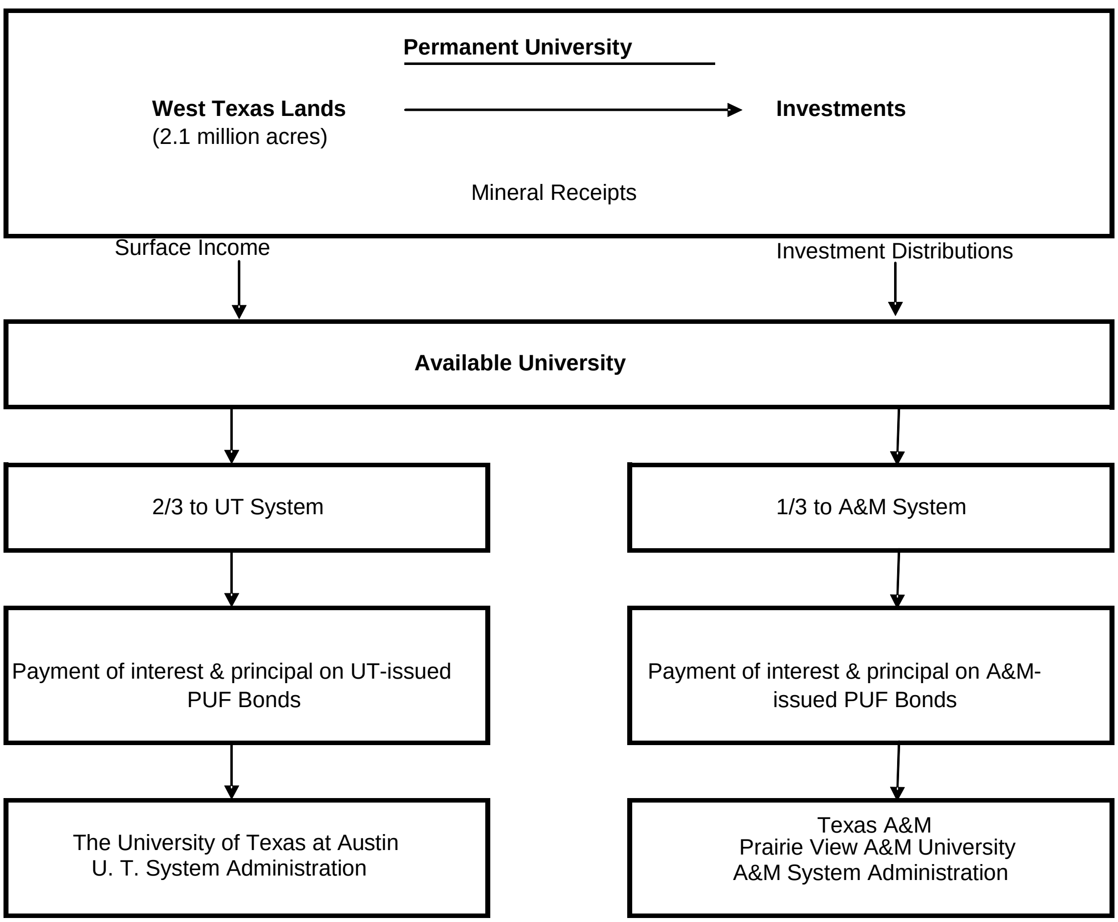
The expenditure of the AUF is subject to a prescribed order of priority:

First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and the A&M System, respectively, AUF receipts are expended for debt service on PUF bonds. Article VII of the *Texas Constitution* authorizes the U. T. System Board of Regents (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 interest of the related System in AUF receipts during the preceding fiscal year covers projected debt service on all PUF Bonds of that System by at least 1.5 times.

Second, AUF receipts are expended 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.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the PUF shall be managed by UTIMCO, which shall a) recommend investment policy for the PUF, b) recommend specific Asset Class and Investment Type 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. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class and Investment Type 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 Authority Policy approved by the UTIMCO Board. 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~~ managed similarly for efficient investment purposes. The primary investment objective ~~for each fund~~of the PUF shall be to preserve the purchasing power of fund assets and annual distributions by earning an average annual real return after all expenses over rolling ten-year periods or longer at least equal to the target distribution rate ~~of such fund~~ determined by the Board of Regents pursuant to Regents' Rule 80303, Section 2.2~~after all expenses~~.~~. The current target distribution rate is 4.75%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds.~~ Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund.

Investments must be within the Asset Class and Investment Type ranges, prudently diversified, and within the approved Policy ~~Risk~~ Downside Volatility Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO's risk model. Liquidity of the PUF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

PUF return, Asset Class and Investment Type allocations, and ~~risk~~ downside volatility targets are subject to adjustment from time to time by the Board of Regents.

Asset Class and Investment Type Allocation and Policy

Asset Class and Investment Type allocation is the primary determinant of the volatility of investment return and, subject to the Asset Class and Investment Type allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. UTIMCO is responsible for measuring actual Asset Class and Investment Type allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio Asset Class and Investment Type allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific Asset Class and Investment Type allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in Asset Class or Investment Type or the Portfolio Projected Downside ~~Deviation~~ Volatility move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the PUF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

PUF assets shall be allocated among the following broad Asset Classes and Investment Types based upon their individual return/risk characteristics and relationships to other Asset Classes and Investment Types:

Asset Classes:

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated investment grade, including cash as defined in the Liquidity Policy.

Credit-Related Fixed Income – Credit-Related Fixed Income represents ownership of fixed income instruments, including real and nominal across all maturities, US and non-US, that are rated below investment grade.

Natural Resources - Natural Resources represents ownership directly or in securities, the value of which are directly or indirectly tied to natural resources including, but not limited to, energy, metals and minerals, agriculture, livestock and timber.

Real Estate - Real Estate represents primarily equity ownership in real property including public and private securities.

Developed Country Equity – Developed Country Equity represents ownership in companies domiciled in developed countries as defined by the composition of the MSCI World Index.

Emerging Markets Equity – Emerging Markets Equity represents ownership in companies domiciled in emerging economies as defined by the composition of the MSCI Emerging Markets Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Index qualification status (either through financial or qualitative measures).

Investment Types:

More Correlated & Constrained Investments ("MCC") – Mandates that exhibit higher levels of beta exposure to the underlying assets being traded, tend to be in a single Asset Class, have lower levels of short exposure and leverage, have more underlying security transparency, are more likely to be in publicly traded securities and are less likely to entail lock-ups.

Less Correlated & Constrained Investments ("LCC") – Mandates that exhibit lower levels of beta exposure to the underlying assets being traded, may be across Asset Classes, may have higher levels of short exposure and leverage, may not have underlying security transparency, are more likely to be in publicly traded securities and may entail lock-ups.

Private Investments ("PI") – Mandates that invest primarily in non-public securities and typically entail capital commitments, calls and distributions.

All mandates will be categorized at inception and on an ongoing basis by Asset Class and Investment Type according to the Mandate Categorization Procedures as approved by the UTIMCO Board and then in effect.

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 Policy Benchmarks of the PUF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will be comprised of a blend of Asset Class and Investment Type indices weighted to reflect PUF's Asset Class and Investment Type allocation policy targets as defined in Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

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, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.

- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of PUF assets in such investments.

- No securities may be purchased or held which would jeopardize the PUF's tax-exempt status.

- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or 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 derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 75 basis points of PUF value.

MCC Investment Grade and Credit-Related Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

MCC Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity

- Not more than 25% of the market value of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.

- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

MCC

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

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:

- 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 PUF assets after distributions is maintained over rolling 10-year periods.

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.

Permanent University Fund Investment Policy Statement (continued)

~~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 ~~Available University Fund~~AUF.

Following approval of the distribution amount, distributions from the PUF to the AUF ~~may be quarterly or annually~~ will be made at the discretion of UTIMCO ~~Management~~management in consultation with the U. T. System Office of Finance and The Texas A&M University System Office of Treasury Services.

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 Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be "other than temporarily impaired" as defined by GAAP shall be written off and reported to UTIMCO's Chief Investment Officer and the UTIMCO Board when material. 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. The final determination of PUF net assets for a month end close shall normally be completed within ~~five~~ seven business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets as approved by the UTIMCO Board and then in effect.

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.

Compliance

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

Securities Lending

The PUF may participate in a securities lending contract with a bank or nonbank security lending agent for 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, in compliance with the Proxy Voting Policy then in effect, 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 Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this Policy shall be ~~September 1, 2014~~December 1, 2015.

Permanent University Fund Investment Policy Statement (continued)

EXHIBIT A
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY PORTFOLIO	FYE ~~2015~~ 2016		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	3.0%	9.0%	25.0%
Credit-Related Fixed Income	0.0%	8.5%	30.0%
Real Estate	0.0%	8.5%	12.5%
Natural Resources	5.0%	14.0%	25.0%
Developed Country Equity	30.0%	45.0%	60.0%
Emerging Markets Equity	8.0%	15.0%	25.0%
Investment Types			
More Correlated & Constrained	30.0%	40.0%	60.0%
Less Correlated & Constrained	25.0%	~~30.0%~~29.0%	37.5%
Private Investments	20.0%	~~30.0%~~31.0%	~~35.0%~~40.0%

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	FYE ~~2015~~ 2016
Barclays Capital Global Aggregate Index	6.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)	7.5%
MSCI World Index with net dividends	14.0%
MSCI Emerging Markets with net dividends	9.5%
Hedge Fund Research Indices Fund of Funds Composite Index	~~30.0%~~29.0%
Custom Cambridge Fund of Funds Benchmark	~~30.0%~~31.0%

POLICY/TARGET RETURN/RISKS/DISTRIBUTION RATE	FYE ~~2015~~ 2016
Target Distribution Rate*	5.0%
Expected Annual Real Return (Benchmark~~s~~)**	~~6.82%~~ 3.9%
One Year Downside ~~Deviation~~ Volatility	~~9.67%~~ 10.0%
Risk Bounds	
Lower: 1 Year Downside ~~Deviation~~ Volatility	75%
Upper: 1 Year Downside ~~Deviation~~ Volatility	115%

~~**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of 2.5%.~~

*Approved by Board of Regents on May 14, 2015.

Permanent University Fund Investment Policy Statement (continued)

EXHIBIT A
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2015~~ 2016

FYE ~~2015~~ 2016		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (6.5%)	~~2.5%~~ 2.25%	0.0%	~~9.0%~~ 8.75%
	Credit-Related	0.00%	~~5%~~ 4.25%	3.5%	~~8.5%~~ 7.75%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.5%	5.5%	8.5%
	Natural Resources	33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU) (7.5%)	0.0%	~~6.5%~~ 7.5%	~~14.0%~~ 15.0%
Equity	Developed Country	MSCI World Index with Net Dividends (14.0%)	20.0%	11.0%	45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (9.5%)	2.0%	3.5%	15.0%
Total		40.0%	~~30.0%~~ 29.0%	~~30.0%~~ 31.0%	100.0%

Hedge Fund Research Indices Fund of Funds Composite Index (Less Correlated & Constrained)
Custom Cambridge Fund of Funds Benchmark (Private Investments)

Investment Policy/Benchmarks are indicated in Black/Bold
Reportable Targets are indicated in Gray

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 a mutual fund in which each eligible fund 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.

General Endowment Fund Investment Policy Statement (continued)

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the GEF shall be managed by UTIMCO, which shall a) recommend investment policy for the GEF, b) recommend specific Asset Class and Investment Type 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. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class and Investment Type 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 Authority Policy approved by the UTIMCO Board. 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 the Board of Regents.

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~~ managed similarly for efficient investment purposes. The primary investment objective ~~for each fund~~of the GEF shall be to preserve the purchasing power of fund assets and annual distributions by earning an average annual real return after all expenses 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) ~~after all expenses~~as determined by the Board of Regents. ~~The current target distribution rate is 4.75%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds.~~ Investment returns are expressed net of all investment-related expenses. ~~Additional expenses include U. T. System administrative fees charged to the fund.~~

Investments must be within the Asset Class and Investment Type ranges, prudently diversified, and within the approved Policy ~~Risk~~ Downside Volatility Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO's risk model. Liquidity of the GEF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

GEF return, Asset Class and Investment Type allocations, and ~~risk~~ downside volatility targets are subject to adjustment from time to time by the Board of Regents.

Asset Class and Investment Type Allocation and Policy

Asset Class and Investment Type allocation is the primary determinant of the volatility of investment return and, subject to the Asset Class and Investment Type allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. UTIMCO is responsible for measuring actual Asset Class and Investment Type allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio Asset Class and Investment Type allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific Asset Class and Investment Type allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in Asset Classes or Investment Types or the Portfolio Projected Downside ~~Deviation~~ Volatility move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the GEF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

GEF assets shall be allocated among the following broad Asset Classes and Investment Types based upon their individual return/risk characteristics and relationships to other Asset Classes and Investment Types:

Asset Classes:

> Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated investment grade, including cash as defined in the Liquidity Policy.

Credit-Related Fixed Income – Credit-Related Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated below investment grade.

Natural Resources - Natural Resources represents ownership directly or in securities, the value of which are directly or indirectly tied to natural resources including, but not limited to, energy, metals and minerals, agriculture, livestock, and timber.

Real Estate - Real Estate represents primarily equity ownership in real property including public and private securities.

Developed Country Equity – Developed Country Equity represents ownership in companies domiciled in developed countries as defined by the composition of the MSCI World Index.

Emerging Markets Equity – Emerging Markets Equity represents ownership in companies domiciled in emerging economies as defined by the composition of the MSCI Emerging Markets Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Index qualification status (either through financial or qualitative measures).

Investment Types:

More Correlated & Constrained Investments ("MCC") – Mandates that exhibit higher levels of beta exposure to the underlying assets being traded, tend to be in a single Asset Class, have lower levels of short exposure and leverage, have more underlying security transparency, are more likely to be in publicly traded securities, and are less likely to entail lock-ups.

Less Correlated & Constrained Investments ("LCC") – Mandates that exhibit lower levels of beta exposure to the underlying assets being traded, may be across Asset Classes, may have higher levels of short exposure and leverage, may not have underlying security transparency, are more likely to be in publicly traded securities, and may entail lock-ups.

Private Investments ("PI") – Mandates that invest primarily in non-public securities and typically entail capital commitments, calls and distributions.

All mandates will be categorized at inception and on an ongoing basis by Asset Class and Investment Type according to the Mandate Categorization Procedures as approved by the UTIMCO Board and then in effect.

Performance Measurement

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 Policy Benchmarks of the GEF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will be comprised of a blend of Asset Class and Investment Type indices weighted to reflect GEF's Asset Class and Investment Type allocation policy targets as defined in Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

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, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of GEF assets in such investments.
- No securities may be purchased or held which jeopardize the GEF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or 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 derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative

Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 75 basis points of GEF value.

MCC Investment Grade and Credit-Related Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

MCC Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity

- Not more than 25% of the market value of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.

- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

MCC

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

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 Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be "other than temporarily impaired" as defined by GAAP shall be written off and reported to UTIMCO's Chief Investment Officer and the UTIMCO Board when material. 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. The final determination of GEF net assets for a month end close shall normally be completed within ~~five~~ seven business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets as approved by the UTIMCO Board and then in effect.

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.

Compliance

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

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 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 at the time of the withdrawal.

Securities Lending

The GEF may participate in a securities lending contract with a bank or nonbank security lending agent for 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 unit holders, in compliance with the Proxy Voting Policy then in effect, 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 Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this Policy shall be ~~September 1, 2014~~December 1, 2015.

General Endowment Fund Investment Policy Statement (continued)

EXHIBIT A
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY PORTFOLIO	FYE ~~2015~~ 2016		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	3.0%	9.0%	25.0%
Credit-Related Fixed Income	0.0%	8.5%	30.0%
Real Estate	0.0%	8.5%	12.5%
Natural Resources	5.0%	14.0%	25.0%
Developed Country Equity	30.0%	45.0%	60.0%
Emerging Markets Equity	8.0%	15.0%	25.0%
Investment Types			
More Correlated & Constrained	30.0%	40.0%	60.0%
Less Correlated & Constrained	25.0%	~~30.0%~~29.0%	37.5%
Private Investments	20.0%	~~30.0%~~31.0%	~~35.0%~~40.0%

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	FYE ~~2015~~ 2016
Barclays Capital Global Aggregate Index	6.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)	7.5%
MSCI World Index with net dividends	14.0%
MSCI Emerging Markets with net dividends	9.5%
Hedge Fund Research Indices Fund of Funds Composite Index	~~30.0%~~29.0%
Custom Cambridge Fund of Funds Benchmark	~~30.0%~~31.0%

POLICY/TARGET RETURN/RISKS/DISTRIBUTION RATE	FYE ~~2015~~ 2016
PHF Target Distribution Rate*	4.8%
LTF Target Distribution Rate*	5.1%
Expected Annual Real Return (Benchmark~~s~~)~~**~~	~~6.82%~~ 3.9%
One Year Downside ~~Deviation~~ Volatility	~~9.67%~~ 10.0%
Risk Bounds	
Lower: 1 Year Downside ~~Deviation~~ Volatility	75%
Upper: 1 Year Downside ~~Deviation~~ Volatility	115%

~~**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of 2.5%.~~

*Approved by Board of Regents on May 14, 2015.

EXHIBIT A
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2015~~ 2016

FYE ~~2015~~ 2016		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (6.5%)	~~2.5%~~ 2.25%	0.0%	~~9.0%~~ 8.75%
	Credit-Related	0.00%	~~5%~~ 4.25%	3.5%	~~8.5%~~ 7.75%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.5%	5.5%	8.5%
	Natural Resources	33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU) (7.5%)	0.0%	~~6.5%~~ 7.5%	~~14.0%~~ 15.0%
Equity	Developed Country	MSCI World Index with Net Dividends (14.0%)	20.0%	11.0%	45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (9.5%)	2.0%	3.5%	15.0%
Total		40.0%	~~30.0%~~ 29.0%	~~30.0%~~ 31.0%	100.0%

Yellow: Hedge Fund Research Indices Fund of Funds Composite Index
Blue: Custom Cambridge Fund of Funds Benchmark

Investment Policy/Benchmarks are indicated in Black/Bold
Reportable Targets are indicated in Gray

THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT HEALTH FUND
INVESTMENT POLICY STATEMENT

Purpose

The Permanent Health Fund (the "PHF"), established by the Board of Regents of The University of Texas System (the "Board of Regents"), is 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
U. T. Medical Branch - Galveston
U. T. Health Science Center - Houston
U. T. Health Science 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 a mutual fund in which each eligible fund 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.

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 UTIMCO which shall: a) recommend investment policy for the PHF; b) recommend specific Asset Class and Investment Type 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 Class and Investment Type allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

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 the Board of Regents.

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 after all expenses over rolling ten-year periods or longer at least equal to the target distribution rate~~, plus the annual expected expense~~ as determined by the Board of Regents. ~~The current target rate is 5.2%. The target is subject to adjustment from time to time consistent with the primary investment objective of the PHF.~~ Investment returns are expressed net of all investment-related expenses. Additional expenses include U. T. System administrative fees charged to the fund. 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.

Asset Allocation and Policy

PHF assets shall be allocated among the following investments:

A. Cash and Cash Equivalents - Cash and Cash Equivalents has the same meaning as given to the term "Cash" in the Liquidity Policy.

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.

In the event that actual Cash and Cash Equivalents positions move outside the range indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance the Cash and Cash Equivalents positions back within the policy range in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the PHF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

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, and compared against the stated Policy Benchmarks of the PHF, as indicated in Exhibits A and B (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

Investment Guidelines

The PHF must be invested at all times in strict compliance with applicable law. Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.

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:

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 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 and expense ratio in order to preserve the purchasing power of PHF distributions and underlying assets.

The Board of Regents will designate a per unit distribution amount annually.

Distributions from the PHF to the unit holders 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 Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be "other than temporarily impaired" as defined by GAAP shall be written off and reported to UTIMCO's Chief Investment Officer and the UTIMCO Board when material. 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. Valuation of PHF assets shall be based on the books and records of the custodian for the valuation date. The final determination of PHF net assets for a month end close shall normally be completed within ~~six~~ eight business days but determination may be longer under certain circumstances.

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.

Compliance

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

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 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 $10 million, advance notice of 60 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 5% 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 time frame to liquidate illiquid investments and the best interests of all PHF unit holders. Withdrawals from the PHF shall be at the market value price per unit determined for the period of the withdrawal.

Investor Responsibility

As a shareholder, the PHF 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 PHF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the PHF solely in the interest of PHF unit holders, in compliance with the Proxy Voting Policy then in effect, 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 ~~September 1, 2014~~December 1, 2015.

EXHIBIT A

PHF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2008

	Neutral Allocation	Range	Benchmark Return
GEF Commingled Fund	100.0%	95% - 100%	Endowment Policy Portfolio
Cash and Cash Equivalents	0.0%	-1% - 5%	90 day T-Bills
Unencumbered Cash			
Temporary Cash Imbalance*			
Net non-trading receivable			

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

*3 trading days or less

Permanent Health Fund Investment Policy Statement (continued)

EXHIBIT B - GENERAL ENDOWMENT FUND

ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

EFFECTIVE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY PORTFOLIO	FYE ~~2015~~ 2016		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	3.0%	9.0%	25.0%
Credit-Related Fixed Income	0.0%	8.5%	30.0%
Real Estate	0.0%	8.5%	12.5%
Natural Resources	5.0%	14.0%	25.0%
Developed Country Equity	30.0%	45.0%	60.0%
Emerging Markets Equity	8.0%	15.0%	25.0%
Investment Types			
More Correlated & Constrained	30.0%	40.0%	60.0%
Less Correlated & Constrained	25.0%	~~30.0%~~29.0%	37.5%
Private Investments	20.0%	~~30.0%~~31.0%	~~35.0%~~40.0%

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	FYE ~~2015~~ 2016
Barclays Capital Global Aggregate Index	6.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)	7.5%
MSCI World Index with net dividends	14.0%
MSCI Emerging Markets with net dividends	9.5%
Hedge Fund Research Indices Fund of Funds Composite Index	~~30.0%~~29.0%
Custom Cambridge Fund of Funds Benchmark	~~30.0%~~31.0%

POLICY/TARGET RETURN/RISKS/DISTRIBUTION RATE	FYE ~~2015~~ 2016
PHF Target Distribution Rate*	4.8%
LTF Target Distribution Rate*	5.1%
Expected Annual Real Return (Benchmark~~s~~)~~**~~	~~6.82%~~ 3.9%
One Year Downside ~~Deviation~~ Volatility	~~9.67%~~ 10.0%
Risk Bounds	
Lower: 1 Year Downside ~~Deviation~~ Volatility	75%
Upper: 1 Year Downside ~~Deviation~~ Volatility	115%

~~**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of 2.5%.~~

*Approved by Board of Regents on May 14, 2015.

EXHIBIT B
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2015~~ 2016

FYE ~~2015~~ 2016		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (6.5%)	~~2.5%~~ 2.25%	0.0%	~~9.0%~~ 8.75%
	Credit-Related	0.00%	~~5%~~ 4.25%	3.5%	~~8.5%~~ 7.75%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.5%	5.5%	8.5%
	Natural Resources	33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU) (7.5%)	0.0%	~~6.5%~~ 7.5%	~~14.0%~~ 15.0%
Equity	Developed Country	MSCI World Index with Net Dividends (14.0%)	20.0%	11.0%	45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (9.5%)	2.0%	3.5%	15.0%
Total		40.0%	~~30.0%~~ 29.0%	~~30.0%~~ 31.0%	100.0%

Hedge Fund Research Indices Fund of Funds Composite Index (Less Correlated & Constrained)
Custom Cambridge Fund of Funds Benchmark (Private Investments)

Investment Policy/Benchmarks are indicated in Black/Bold
Reportable Targets are indicated in Gray

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 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.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the LTF shall be managed by UTIMCO, which shall a) recommend investment policy for the LTF, b) recommend specific Asset Class and Investment Type 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. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class and Investment Type 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 shall be eligible to purchase units of the LTF unless it is under the sole control, with full discretion as to investments, of the Board of Regents.

Any account 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 and annual distributions by earning an average annual real return after all expenses over rolling ten-year periods or longer at least equal to the target distribution rate~~, plus the annual expected expense~~ as determined by the Board of Regents. ~~The current target rate is 5.2%. The target is subject to adjustment from time to time consistent with the primary investment objective of the LTF.~~ Investment returns are expressed net of all investment-related expenses. Additional expenses include U. T. System administrative fees charged to the fund. 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.

Asset Allocation and Policy

LTF assets shall be allocated among the following investments.

A. Cash and Cash Equivalents – Cash and Cash Equivalents has the same meaning as given to the term "Cash" in the Liquidity Policy.

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.

In the event that actual Cash and Cash Equivalents positions move outside the range indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy range in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the LTF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

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, and compared against the stated Policy Benchmarks of the PHF, as indicated in Exhibits A and B (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

Investment Guidelines

The LTF must be invested at all times in strict compliance with applicable law. Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.

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 and expense ratio in order to preserve the purchasing power of LTF distributions and underlying assets.

Generally, pursuant to the Uniform Prudent Management of Institutional Funds Act, Chapter 163, *Texas Property Code,* as amended, ("Act"), subject to the intent of a donor in a gift instrument, the Board of Regents may appropriate for expenditure or accumulate so much of the LTF as it determines is prudent for the uses, benefits, purposes, and duration for which the LTF is established. Notwithstanding the preceding sentence, the Board of Regents may not appropriate for expenditure in any year an amount greater than nine percent (9%) of the LTF, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for expenditure was made.

The Board of Regents will annually approve a per unit distribution amount.

Distributions from the LTF to the unit holders 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 Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be "other than temporarily impaired" as defined by GAAP shall be written off and reported to UTIMCO's Chief Investment Officer and the UTIMCO Board when material. 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. Valuation of LTF assets shall be based on the books and records of the custodian for the valuation date. The final determination of LTF net assets for a month end close shall normally be completed within ~~six~~ eight business days but determination may be longer under certain circumstances.

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.

Compliance

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

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 Chief Investment Officer, at the net asset value per unit of the LTF as of the most recent quarterly valuation date.

Each account 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 $25 million, advance notice of 60 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $25 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 5% 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 time frame to liquidate illiquid investments and the best interests of all LTF unit holders. 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 unit holders shall not be considered redemption of units subject to this provision.

Investor Responsibility

As a shareholder, the LTF 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 LTF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the LTF solely in the interest of LTF unit holders, in compliance with the Proxy Voting Policy then in effect, 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 ~~September 1, 2014~~December 1, 2015.

EXHIBIT A

LTF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2008

	Neutral Allocation	Range	Benchmark Return
GEF Commingled Fund	100.0%	95% - 100%	Endowment Policy Portfolio
Cash and Cash Equivalents	0.0%	-1% - 5%	90 day T-Bills
Unencumbered Cash			
Temporary Cash Imbalance*			
Net non-trading receivable			

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

*3 trading days or less

Long Term Fund Investment Policy Statement (continued)

EXHIBIT B - GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY PORTFOLIO	FYE ~~2015~~ 2016 Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	3.0%	9.0%	25.0%
Credit-Related Fixed Income	0.0%	8.5%	30.0%
Real Estate	0.0%	8.5%	12.5%
Natural Resources	5.0%	14.0%	25.0%
Developed Country Equity	30.0%	45.0%	60.0%
Emerging Markets Equity	8.0%	15.0%	25.0%
Investment Types			
More Correlated & Constrained	30.0%	40.0%	60.0%
Less Correlated & Constrained	25.0%	~~30.0%~~29.0%	37.5%
Private Investments	20.0%	~~30.0%~~31.0%	~~35.0%~~40.0%

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	FYE ~~2015~~ 2016
Barclays Capital Global Aggregate Index	6.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)	7.5%
MSCI World Index with net dividends	14.0%
MSCI Emerging Markets with net dividends	9.5%
Hedge Fund Research Indices Fund of Funds Composite Index	~~30.0%~~29.0%
Custom Cambridge Fund of Funds Benchmark	~~30.0%~~31.0%

POLICY/TARGET RETURN/RISKS/DISTRIBUTION RATE	FYE ~~2015~~ 2016
PHF Target Distribution Rate*	4.8%
LTF Target Distribution Rate*	5.1%
Expected Annual Real Return (Benchmark~~s~~)~~**~~	~~6.82%~~ 3.9%
One Year Downside ~~Deviation~~ Volatility	~~9.67%~~ 10.0%
Risk Bounds	
Lower: 1 Year Downside ~~Deviation~~ Volatility	75%
Upper: 1 Year Downside ~~Deviation~~ Volatility	115%

~~**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of 2.5%.~~

*Approved by Board of Regents on May 14, 2015.

EXHIBIT B
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2015~~ 2016

FYE ~~2015~~ 2016		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	**Investment Grade**	**Barclays Capital Global Aggregate Index** (6.5%)	~~2.5%~~ 2.25%	0.0%	~~9.0%~~ 8.75%
	Credit-Related	0.00%	~~5%~~ 4.25%	3.5%	~~8.5%~~ 7.75%
Real Assets	**Real Estate**	**FTSE EPRA/NAREIT Developed Index Net TRI USD** (2.5%)	0.5%	5.5%	**8.5%**
	Natural Resources	**33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)** (7.5%)	0.0%	~~6.5%~~ 7.5%	~~14.0%~~ 15.0%
Equity	**Developed Country**	**MSCI World Index with Net Dividends** (14.0%)	20.0%	11.0%	**45.0%**
	Emerging Markets	**MSCI EM Index with Net Dividends** (9.5%)	2.0%	3.5%	**15.0%**
Total		**40.0%**	~~30.0%~~ 29.0%	~~30.0%~~ 31.0%	**100.0%**

Hedge Fund Research Indices Fund of Funds Composite Index
Custom Cambridge Fund of Funds Benchmark

Investment Policy/Benchmarks are indicated in Black/Bold
Reportable Targets are indicated in Gray

THE UNIVERSITY OF TEXAS SYSTEM
INTERMEDIATE TERM FUND
INVESTMENT POLICY STATEMENT

Purpose and Structure

The University of Texas System Intermediate Term Fund (the "ITF") 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 intermediate and long-term funds held by U. T. System institutions and U. T. System Administration.

ITF Organization

The ITF functions as a mutual fund in which each eligible account purchases and redeems ITF units as provided herein. The ownership of ITF 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.

ITF 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 ITF.

Ultimate fiduciary responsibility for the ITF 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"), the ITF shall be managed by UTIMCO, which shall a) recommend investment policy for the ITF, b) recommend specific Asset Class and Investment Type allocation targets, ranges, and performance benchmarks consistent with ITF objectives, and c) monitor ITF performance against ITF objectives. UTIMCO shall invest the ITF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class and Investment Type 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 Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

ITF 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 ITF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase ITF Units

No account shall be eligible to purchase units of the ITF unless it is under the sole control, with full discretion as to investments, by the Board of Regents. Any account 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 ITF.

ITF Investment Objectives

The ITF consists of intermediate and long-term funds held by the U. T. System Board of Regents, as a fiduciary, for the benefit of U. T. System institutions, U. T. System Administration, and other affiliated funds. ITF assets are pooled for efficient investment purposes and managed by UTIMCO over the intermediate to longer term.

The primary investment objective of the ITF is to preserve the purchasing power of ITF assets by earning a compound annualized return over rolling five-year periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index (CPI-U) plus 3%.

The secondary investment objective is to generate average annual returns net of all investment-related expenses, in excess of the approved Policy Portfolio over rolling five-year periods. Investment returns are expressed net of all investment-

Intermediate Term Fund Investment Policy Statement (continued)

related expenses. Additional expenses include U. T. System administrative fees charged to the fund.

Investments must be within the Asset Class and Investment Type ranges, prudently diversified, and within the approved Policy ~~Risk~~ Downside Volatility Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO's risk model. Liquidity of the ITF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

ITF return, Asset Class and Investment Type allocations, and ~~risk~~ downside volatility targets are subject to adjustment from time to time by the Board of Regents.

Asset Class and Investment Type Allocation and Policy

Asset Class and Investment Type allocation is the primary determinant of the volatility of investment return and, subject to the Asset Class and Investment Type allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. The Asset Class and Investment Type allocation is designed to accommodate the intermediate investment horizon of the ITF assets with enhanced returns at moderate managed risk levels. UTIMCO is responsible for measuring actual Asset Class and Investment Type allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio Asset Class and Investment Type allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific Asset Class and Investment Type allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in Asset Class or Investment Type or the Projected Downside ~~Deviation~~ Volatility move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the ITF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive remedial action.

ITF assets shall be allocated among the following broad Asset Classes and Investment Types based upon their individual return/risk characteristics and relationships to other Asset Classes and Investment Types:

Asset Classes:

Intermediate Term Fund Investment Policy Statement (continued)

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated investment grade, including Cash as defined in the Liquidity Policy.

Credit-Related Fixed Income – Credit-Related Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated below investment grade.

Natural Resources - Natural Resources represents ownership directly or in securities, the value of which are directly or indirectly tied to natural resources including, but not limited to, energy, metals and minerals, agriculture, livestock, and timber.

Real Estate - Real Estate represents primarily equity ownership in real property including public and private securities.

Developed Country Equity – Developed Country Equity represents ownership in companies domiciled in developed countries as defined by the composition of the MSCI World Index.

Emerging Markets Equity – Emerging Markets Equity represents ownership in companies domiciled in emerging economies as defined by the composition of the MSCI Emerging Markets Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Index qualification status (either through financial or qualitative measures).

Investment Types:

More Correlated & Constrained Investments ("MCC") – Mandates that exhibit higher levels of beta exposure to the underlying assets being traded, tend to be in a single Asset Class, have lower levels of short exposure and leverage, have more underlying security transparency, are more likely to be in publicly traded securities, and are less likely to entail lock-ups.

Less Correlated & Constrained Investments ("LCC") – Mandates that exhibit lower levels of beta exposure to the underlying assets being traded, may be across Asset Classes, may have higher levels of short exposure and leverage, may not have underlying security transparency, are more likely to be in publicly traded securities, and may entail lock-ups.

All mandates will be categorized at inception and on an ongoing basis by Asset Class and Investment Type according to the Mandate Categorization Procedures as approved by the UTIMCO Board and then in effect.

Intermediate Term Fund Investment Policy Statement (continued)

Performance Measurement

The investment performance of the ITF will be measured by the ITF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, compared against the stated Policy Benchmarks of the ITF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will be comprised of a blend of Asset Class and Investment Type indices reported by the independent custodian and weighted to reflect ITF's approved Asset Class and Investment Type allocation policy targets as defined in Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

Investment Guidelines

The ITF must be invested at all times in strict compliance with applicable law. Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of ITF assets in such investments.
- No securities may be purchased or held which would jeopardize the ITF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.
- The ITF's investments in warrants shall not exceed more than 5% of the ITF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The ITF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 50 basis points of ITF value.

Intermediate Term Fund Investment Policy Statement (continued)

MCC Investment Grade and Credit-Related Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

MCC Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity

- Not more than 25% of the market of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.
- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

MCC

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

ITF Accounting

The fiscal year of the ITF shall begin on September 1st and end on August 31st. Market value of the ITF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be "other than temporarily impaired" as defined by GAAP shall be written off and reported to UTIMCO's Chief Investment Officer and the UTIMCO Board when material. The ITF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of ITF Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all ITF net assets and the net asset value per unit of the ITF. The final determination of ITF net assets for a month end close shall normally be completed within ~~six~~ seven business days but determination may be longer under certain circumstances. Valuation of ITF assets shall be based on the books and records of the custodian for the valuation date.

The fair market value of the ITF's net assets shall include all related receivables and payables of the ITF 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.

Compliance

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the noncompliant activity within this Policy.

ITF Distributions

The ITF shall provide monthly distributions to the unit holders. The Board of Regents will approve an annual distribution amount. Distributions from the ITF to the unit holders shall be made monthly on the first business day of each month. To calculate the monthly distribution, the distribution rate (% divided by 12) will be multiplied by each unit holder's account, determined as follows:

- Net asset value of each unit holder's account on the last business day of the second prior month;
- Plus value of each unit holder's net purchase/redemption amount on the first business day of the prior month;
- Less the distribution amount paid to each unit holder's account on the first business day of the prior month.

Purchase and Redemption of ITF Units

The ITF participants may purchase units on the first business day of each month upon payment of cash or reinvestment of distributions to the ITF, at the net asset value per unit of the ITF as of the prior month ending valuation date. Such purchase commitments are binding. The ITF participants may redeem ITF units on a monthly basis. The unit redemption shall be paid in cash as soon as practicable after the month end valuation date of the ITF. Redemptions from the ITF shall be at the market price per unit determined at the time of the redemption. Such redemption commitments are binding.

Participants of the ITF are required to provide notification of purchases and redemptions based on specific notification requirements as set forth in The University of Texas System Allocation Policy for Non-Endowment Funds.

Intermediate Term Fund Investment Policy Statement (continued)

Securities Lending

The ITF may participate in a securities lending contract with a bank or non-bank security lending agent for purposes of realizing additional income. Loans of securities by the ITF 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 ensure compliance with contract provisions.

Investor Responsibility

As a shareholder, the ITF 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 ITF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the ITF solely in the interest of ITF unitholders, in compliance with the Proxy Voting Policy then in effect, and shall not invest the ITF 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 ~~September 1, 2014~~December 1, 2015.

Intermediate Term Fund Investment Policy Statement (continued)

EXHIBIT A - INTERMEDIATE TERM FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY PORTFOLIO	FYE ~~2015~~ 2016		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	20.0%	34.5%	50.0%
Credit-Related Fixed Income	0.0%	7.5%	12.0%
Real Estate	0.0%	4.0%	10.0%
Natural Resources	2.5%	7.0%	20.0%
Developed Country Equity	20.0%	38.0%	50.0%
Emerging Markets Equity	2.5%	9.0%	17.5%
Investment Types			
More Correlated & Constrained	45.0%	55.0%	65.0%
Less Correlated & Constrained	35.0%	45.0%	55.0%

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 100% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	FYE ~~2015~~ 2016
Barclays Capital Global Aggregate Index	30.0%
FTSE EPRA/NAREIT Developed Index Net TRI USD	3.0%
33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU)	7.0%
MSCI World Index with net dividends	9.0%
MSCI Emerging Markets with net dividends	6.0%
Hedge Fund Research Indices Fund of Funds Composite Index	45.0%

POLICY/TARGET RETURN/RISKS	FYE ~~2015~~ 2016
Expected Annual Real Return (Benchmark~~s~~)~~**~~	~~5.28%~~ 2.4%
One Year Downside ~~Deviation~~ Volatility	~~5.96%~~ 6.1%
Risk Bounds	
Lower: 1 Year Downside ~~Deviation~~ Volatility	70%
Upper: 1 Year Downside ~~Deviation~~ Volatility	115%

~~**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of 2.5%.~~

EXHIBIT A - INTERMEDIATE TERM FUND
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~SEPTEMBER 1, 2014~~ DECEMBER 1, 2015

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2015~~ 2016

FYE ~~2015~~ 2016		More Correlated & Constrained	Less Correlated & Constrained	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (30.0%)	4.5%	34.5%
	Credit-Related	(0.0%)	7.5%	7.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (3.0%)	1.0%	4.0%
	Natural Resources	33.4% Bloomberg Commodity Total Return Index, 33.3% MSCI World Natural Resources Index and 33.3% Gold Spot price (XAU) (7.0%)	0.0%	7.0%
Equity	Developed Country	MSCI World Index with Net Dividends (9.0%)	29.0%	38.0%
	Emerging Markets	MSCI EM Index with Net Dividends (6.0%)	3.0%	9.0%
Total		55.0%	45.0%	100.0%

Hedge Fund Research Indices Fund of Funds Composite Index

Investment Policy/Benchmarks are indicated in Black/Bold
Reportable Targets are indicated in Gray

THE UNIVERSITY OF TEXAS SYSTEM
SEPARATELY INVESTED FUNDS
INVESTMENT POLICY STATEMENT

Purpose

The Separately Invested Funds (the "Accounts") include the Endowment, Trust, Debt Proceeds, and Other Accounts established in the name of the Board of Regents of The University of Texas System (the "Board of Regents"), 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 the inability to sell the gifted investment asset; d) they are assets being migrated upon liquidation into a pooled investment vehicle; e) they are debt proceeds with a short-intermediate investment horizon; or f) they are assets held by The University of Texas Investment Management Company ("UTIMCO") at the request of a University of Texas System institution for which UTIMCO does not have investment discretion (for example, tech stock). This policy covers the Accounts collectively. However, specific guidelines are applied to each individual account. Specific Account restrictions may not fall within the guidelines established in this policy.

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 of each trust or endowment. The restrictions set forth in this policy and in any separate writing applicable to the Debt Proceeds Accounts and the Other Accounts will apply to the management of those Accounts.

Pursuant to an Investment Management Services Agreement between the Board of Regents and UTIMCO, the assets for the Accounts shall be managed by UTIMCO, which shall: a) recommend investment policy for the Accounts, b) determine specific Asset Class allocation targets, ranges and performance benchmarks consistent with the Accounts objectives, and if appropriate c) monitor the Accounts' performance against Accounts objectives. UTIMCO shall invest the Accounts' assets in conformity with this Policy Statement.

UTIMCO may select and terminate unaffiliated investment managers subject to any limitations stated herein. Managers shall be monitored for performance and adherence to investment disciplines.

Accounts 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 Accounts shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Investment Objectives

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

<u>Trust Accounts</u> - Trust Accounts are defined as either Foundation Accounts or Charitable Trusts ((Charitable Remainder Unitrusts (CRUT), Charitable Remainder Annuity Trusts (CRAT), Pooled Income Funds (PIF), or Charitable Trusts (CT)). 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 are 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.

<u>Debt Proceeds Accounts</u> – The primary investment objective shall be safety of principal and maintenance of adequate liquidity sufficient to meet the spend-out schedules of each Account, as provided by the U. T. System Office of Finance.

Debt Proceeds Accounts, other than investments in cash as defined in the Liquidity Policy, will be invested in U.S. government obligations, including obligations of an agency or instrumentality of the United States, taking into consideration the spending needs of the Accounts.

Other Accounts – These are all accounts which are not Endowment Accounts, Trust Accounts, or Debt Proceeds Accounts that hold assets not invested in one of the pooled investment vehicles. These accounts include agency funds, institution current purpose accounts, and tech stock accounts.

Asset Class Allocation

Asset Class allocation is the primary determinant of the volatility of investment return and subject to the Asset Class allocation ranges specified herein, is the responsibility of UTIMCO. Specific Asset Class allocation positions may be changed from time to time based on the economic and investment outlook.

Unless otherwise restricted herein, the Accounts' assets shall be allocated among the following broad Asset Classes based upon their individual return/risk characteristics and relationships to other Asset Classes:

Asset Classes:

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated investment grade, including cash as defined in the Liquidity Policy.

Credit-Related Fixed Income – Credit-Related Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated below investment grade.

Natural Resources - Natural Resources represents ownership directly or in securities, the value of which are directly or indirectly tied to natural resources including, but not limited to, energy, metals and minerals, agriculture, livestock, and timber.

Real Estate - Real Estate represents primarily equity ownership in real property including public and private securities.

Developed Country Equity – Developed Country Equity represents ownership in companies domiciled in developed countries as defined by the composition of the MSCI World Index.

Emerging Markets Equity – Emerging Markets Equity represents ownership in companies domiciled in emerging economies as defined by the composition of the MSCI Emerging Markets Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Index qualification status (either through financial or qualitative measures).

In addition, life insurance and variable annuities may be acceptable investments.

Asset Class Allocation Policy

The Asset Class allocation policy and ranges for the Endowment and Trust Accounts are dependent on the terms and conditions of the applicable trust/endowment or trust document. The Asset Class allocation policy and ranges for the Debt Proceeds and Other Accounts will be determined by the terms and conditions of any applicable documents. If possible, the Accounts' 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 Accounts.

The Board of Regents delegates authority to UTIMCO to establish specific Asset Class allocation targets and ranges for each Account. UTIMCO may establish specific Asset Class 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.

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, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.

- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of SIF assets in such investments.

Separately Invested Funds Investment Policy Statement (continued)

- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority to invest in foreign currency denominated securities.

- No securities may be purchased or held which would jeopardize, if applicable, the Account's tax-exempt status.

- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

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

The Account may utilize derivatives only in accordance with the Derivative Investment Policy.

~~Investment Grade Fixed Income~~

~~Permissible securities for investment include the securities within the component categories of the Barclays Aggregate Bond Index (BAGG). These component categories include investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-sectors:~~

~~1) Government: Treasury and Agency;~~
~~2) Corporate: Industrial, Finance, Utility, and Yankee;~~
~~3) Mortgage-backed securities: GNMA, FHLMC, and FNMA;~~
~~4) Asset-backed securities;~~
~~5) 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 BAGG 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 BAGG 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 BBB- or better by Fitch Investors Service at the time of acquisition.~~

Separately Invested Funds Investment Policy Statement (continued)

- ~~Not more than 35% of the Account's fixed income portfolio may be invested in non-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 other than U.S. dollar.~~

- ~~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 Chief Investment Officer.~~

- ~~Permissible securities for investment include Fixed Income Variable Annuity Contracts as approved by UTIMCO's Chief Investment Officer.~~

Investment Grade and Credit-Related Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity

- Not more than 25% of the market of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.

- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

The provisions concerning investment in Investment Grade Fixed Income, Credit-Related Fixed Income, and Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity shall not apply to Accounts when expressly prohibited by the terms and conditions of the applicable trust/endowment, trust or other controlling document. To the extent determined practical by the U. T. System Office of Development and Gift Planning Services, donor preferences will be considered in determining whether gifts of securities are held or sold.

Distributions

Distributions of income or amounts from the Accounts 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) based on specific requirements for other 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 Generally Accepted Accounting Principles (“GAAP”), Governmental 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 Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be “other than temporarily impaired” as defined by GAAP shall be written off and reported to UTIMCO’s Chief Investment Officer and the UTIMCO Board when material.

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. The final determination of the Accounts net assets for a month end close shall normally be completed within ten business days but determination may be longer under certain circumstances.

Compliance

Compliance with this Policy will be monitored by UTIMCO’s Chief Compliance Officer. UTIMCO’s Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO’s compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO’s Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO’s Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the noncompliant activity within this Policy.

Securities Lending

The Accounts may participate in a securities lending contract with a bank or nonbank security lending agent for 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. 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 Accounts have 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 Accounts. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Accounts solely in the interest of the beneficiaries, in compliance with the Proxy Voting Policy then in effect, and shall not invest the Accounts 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 Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be ~~September 1, 2012~~December 1, 2015.

The University of Texas Investment Management Company
Liquidity Policy

Effective Date of Policy: ~~August 21, 2014~~November 5, 2015
Date Approved by U. T. System Board of Regents: ~~August 21, 2014~~November 5, 2015
Date Approved by UTIMCO Board: ~~July 29, 2014~~October 15, 2015
Original Effective Date of Policy: August 7, 2003
Supersedes: Liquidity Policy dated ~~August 22, 2013~~August 21, 2014

Purpose:

The purpose of this Liquidity Policy is to establish limits on the overall liquidity profile of investments in (1) the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter collectively referred to as the Endowment Funds and, (2) the Intermediate Term Fund (ITF). For the purposes of this policy, "liquidity" is defined as a measure of the ability of an investment position to be converted into Cash. The established liquidity profile limits will act in conjunction with, but do not supersede, the Investment Policies adopted by the U. T. System Board of Regents.

Objective:

The objective of this Liquidity Policy is to control the element of total risk exposure of the Endowment Funds and the ITF stemming from the uncertainties associated with the ability to convert longer term investments to Cash to meet immediate needs or to change investment strategy, and the potential cost of that conversion.

Scope:

This Liquidity Policy applies to all PUF, GEF, and ITF investments made by The University of Texas Investment Management Company (UTIMCO), both by internal and by external managers. Policy implementation will be managed at the aggregate UTIMCO level and will not be a responsibility of individual internal or external managers managing a portion of the aggregate assets.

Definition of Liquidity Risk:

"Liquidity risk" is defined as that element of total risk resulting from the uncertainty associated with both the cost and time period necessary to convert existing investment positions to Cash. Liquidity risk also entails obligations relating to the unfunded portions of capital commitments. Liquidity risk can result in lower than expected returns and reduced opportunity to make changes in investment positions to respond to changes in capital market conditions.

Definition of Cash:

Cash is defined as short term (generally securities with time to maturity or mandatory purchase or redemption of three months or less), highly liquid investments that are readily convertible to known amounts and which are subject to a relatively small risk of changes in value. Holdings may include:

- the existing Dreyfus Institutional Preferred Money Market Fund mandate and any other UTIMCO Board approved SEC Rule 2a-7 money market fund rated AAAm by Standard & Poor's or the equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO),
- securities of the U.S. Treasury and U.S. Agencies and their instrumentalities with maturities of 397 days or less,
- separately managed accounts with investment guidelines equivalent to, or more stringent than, unaffiliated liquid investment funds rated AAAm by Standard & Poor's Corporation or the equivalent by a NRSRO,
- the Custodian's late deposit interest bearing liquid investment fund,
- municipal short term securities,
- commercial paper rated in the two highest quality classes by Moody's Investor Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2 or the equivalent),
- negotiable certificates of deposit with a bank that is associated with a holding company whose short-term rating meets the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps, and

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Liquidity Policy

- repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.

Liquidity Risk Measurement-The Liquidity Profile:

For the purposes of this Liquidity Policy, potential liquidity risk will be monitored by measuring the aggregate liquidity profile of the Endowment Funds and ITF. All individual investments within the Endowment Funds and ITF will be segregated into two categories:

- **Liquid:** Investments that could be converted to Cash within a period of 90 days or less in an orderly market at a discount of 10% or less.
- **Illiquid:** Investments that could be converted to Cash in an orderly market over a period of more than 90 days or in a shorter period of time by accepting a discount of more than 10%.

UTIMCO staff will report individual investments within the Endowment Funds and ITF categorized as follows:

- Cash: Short term (generally securities with time to maturity or mandatory purchase or redemption of three months or less), highly liquid investments that are readily convertible to known amounts and which are subject to a relatively small risk of changes in value.
- Liquid (Weekly)**:** Investments that could be converted to Cash within a period of one day to less than 7 days in an orderly market at a discount of 5% or less.
- Liquid (Quarterly): Investments that could be converted to Cash within a period of 90 days or less in an orderly market at a discount of 10% or less.
- Liquid (Annual): Investments that could be converted to Cash within a period of one day to less than 365 days in an orderly market at a discount of 10% or less.

The measurements necessary to segregate all existing investments into one of the two categories assume normally functioning capital markets and cash market transactions. In addition, swaps, derivatives, or other third party arrangements to alter the status of an investment classified as illiquid may be considered, with the prior approval of the UTIMCO Board or the Risk Committee, in determining the appropriate liquidity category for each investment.

The result of this liquidity risk measurement process will be a liquidity profile for the Endowment Funds and the ITF which indicates the percentage of the total portfolio assets within each liquidity category. This Liquidity Policy defines the acceptable range of percentage of total assets within each liquidity category, specifies "trigger zones" requiring special review by UTIMCO staff and special action by the UTIMCO Board or the Risk Committee, and specifies the method of monitoring and presenting actual versus policy liquidity profiles.

Liquidity Policy Profile:

The current Liquidity Policy Profile ranges and trigger zones for each of the Endowment Funds are defined by the table below:

	FY 14+
Liquidity above trigger zone:	30.0%
Liquidity within trigger zone:	25.0%-30.0%
Liquidity below trigger zone:	<25.0%

The ~~allowable range~~permitted maximum for **illiquid** investments is ~~0% to~~ 75% of the total portfolio for the Endowment Funds~~; i.e.,~~. ~~investments~~ Investments for the Endowment Funds that maintain liquidity above the trigger

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Liquidity Policy

zone do not require any action by the Risk Committee. ~~However, any~~ Any **illiquid** investments made in the 70% to 75% trigger zone require prior approval by the Risk Committee. No investment may be made for the Endowment Funds which would cause illiquidity to be greater than 75%.

The current Liquidity Policy Profile ranges and trigger zones for the ITF are defined by the table below:

	FY 14+
Liquidity above trigger zone:	50%
Liquidity within trigger zone:	45%-50%
Liquidity below trigger zone:	<45%

The ~~allowable range~~permitted maximum for **illiquid** investments is ~~0% to~~ 55% of the total portfolio for the ITF~~;~~ ~~i.e.,~~. ~~investments~~ Investments for the ITF that maintain liquidity above the trigger zone do not require any action by the Risk Committee. ~~However, any~~ Any **illiquid** investments made in the 50% to 55% trigger zone require prior approval by the Risk Committee. No investment may be made for the ITF which would cause illiquidity to be greater than 55%.

Risk Committee review of new investments in the illiquid trigger zone will supplement, rather than replace, the procedures established by the UTIMCO Board for the approval of new investments.

Unfunded Commitments:

As used herein, “unfunded commitments” refers to capital that has been legally committed from an Endowment Fund and has not yet been called but may still be called by the general partner or investment manager. The Maximum Permitted Amount of unfunded commitments for each Endowment Fund is:

	FY 14+
Unfunded Commitment as a percent of total invested assets:	30.0%

No new commitments may be made for an Endowment Fund without approval from the Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such commitment, would exceed the Maximum Permitted Amount.

Documentation and Controls:

Managing Directors responsible for each asset class are responsible for determining the liquidity category for each investment in that asset class as well as the amount of unfunded commitments for each Endowment Fund. The determination of liquidity will include underlying security trading volumes, notice periods, redemption dates, lock-up periods, and “soft” and “hard” gates. These classifications will be reviewed by the Risk Manager and the Chief Compliance Officer, and must receive final approval from the Chief Investment Officer. Classifications and weights within each liquidity category will be updated and reported on a monthly basis. All new investments considered will be categorized by liquidity category, and a statement regarding the effect on overall liquidity and the amount of unfunded commitments for each Endowment Fund of the addition of a new investment must be an element of the due diligence process and will be a part of the recommendation report to the UTIMCO Board.

As additional safeguards, trigger zones have been established as indicated above to trigger required review and action by the UTIMCO Board or the Risk Committee in the event any investment action would cause the actual investment position in illiquid investments to enter the designated trigger zone, or in the event market actions caused the actual investment position in illiquid investments to move into trigger zones. In addition, any proposed investment actions which would increase the actual investment position in illiquid investments in any of the PUF, the GEF, or the ITF by 10% or more of the total asset value of such fund would also require review and action by the UTIMCO Board or the Risk Committee prior to the change. Any actual positions in any trigger zones or outside

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Liquidity Policy

the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board and the Risk Committee the circumstances of the deviation from Policy and the remedy to the situation. Furthermore, as indicated above, no new commitments may be made for an Endowment Fund without approval from the Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such new commitment, would exceed, the Maximum Permitted Amount.

Reporting:

The actual liquidity profiles of the Endowment Funds and the ITF, including a detailed analysis of liquidity by category, and the status of unfunded commitments for each Endowment Fund, and compliance with this Liquidity Policy will be reported to the UTIMCO Board on at least a quarterly basis. Any exception to this Liquidity Policy and actions taken to remedy the exception will be reported promptly.

The University of Texas Investment Management Company
Derivative Investment Policy

Effective Date of Policy: ~~August 21, 2014~~November 5, 2015
Date Approved by U. T. System Board of Regents: ~~August 21, 2014~~November 5, 2015
Date Approved by UTIMCO Board: ~~July 29, 2014~~October 15, 2015
Supersedes: Derivative Investment Policy approved ~~August 22, 2013~~August 21, 2014

Purpose:

The purpose of the Derivative Investment Policy is to set forth the applications, documentation and limitations for investment in derivatives in the Permanent University Fund (PUF), the General Endowment Fund (GEF), the Intermediate Term Fund (ITF), and the Separately Invested Funds (SIF), hereinafter referred to as the Funds. The Board of Regents approved investment policy guidelines for the Funds to allow for investment in derivatives provided that their use is in compliance with UTIMCO's Board approved Derivative Investment Policy. This Derivative Investment Policy supplements the Investment Policy Statements for the Funds.

Objective:

The objective of investing in derivatives is to facilitate risk management and provide efficiency in the implementation of various investment strategies for the Funds. Derivatives can provide the Funds with more economical means to improve the Funds' risk/return profile.

Scope:

This Policy applies to all derivatives in the Funds executed by UTIMCO staff and by external managers operating under an Agency Agreement. This Policy does not apply to external managers operating under limited partnership agreements, offshore corporations, or other Limited Liability Entities that limit the liability exposure of the Funds' investments. Derivative policies for external managers are established on a case-by-case basis with each external manager, as described below.

This Policy applies to both Exchange Traded Derivatives and Over the Counter (OTC) derivatives. This Policy shall not be construed to apply to index or other common or commingled funds that are not controlled by UTIMCO. These commingled investment vehicles are governed by separate investment policy statements.

External Managers:

External managers are selected to manage the Funds' assets under either an Agency Agreement or through a Limited Liability Entity. An external manager operating under an Agency Agreement may engage in derivative investments only if (i) such manager has been approved to use derivatives by the UTIMCO Chief Investment Officer and (ii) the investments are consistent with the overall investment objectives of the account and in compliance with this Policy. The use of derivatives by an external manager operating under an Agency Agreement shall be approved by the UTIMCO Chief Investment Officer only for external managers that (i) demonstrate investment expertise in their use, (ii) have appropriate risk management and valuation policies and procedures, and (iii) effectively monitor and control their use.

While this Policy does not specifically include external managers operating through a Limited Liability Entity, it is noted that selecting and monitoring external managers through a Limited Liability Entity requires a clear understanding of the external managers' use of derivatives, particularly as it relates to various risk controls and leverage. The permitted uses of derivatives and leverage must be fully documented in the limited liability agreements with these managers.

Definition of Derivatives:

Derivatives are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, commodities, and currencies). For the purposes of this Policy, derivatives shall include Derivative Investments but shall not include a broader range of securities, such as mortgage backed securities, structured notes (including participation notes), convertible bonds, exchange traded funds (ETFs), and Bona Fide Spot Foreign Exchange Transactions. Derivatives may be purchased through a national or international exchange or through an OTC direct arrangement with a Counterparty. Refer to the

The University of Texas Investment Management Company
Derivative Investment Policy

attached Exhibit A for a glossary of terms. If it is unclear whether a particular financial instrument meets the definition of Derivative Investment, the Risk Manager and Chief Compliance Officer, in consultation with the Chief Investment Officer, will determine whether the financial instrument is a Derivative Investment. The Chief Investment Officer will report such determinations to the Chairman of the Risk Committee.

Permitted Derivative Applications:

The primary intent of derivatives should be to hedge risk in portfolios or to implement investment strategies more effectively and at a lower cost than would be possible in the Cash Market.

Permitted Derivative Applications are Derivative Investments used:

- To implement investment strategies in a low cost and efficient manner;
- To alter the Funds' market (systematic) exposure without trading the underlying Cash Market securities through purchases or short sales, or both, of appropriate derivatives;
- To construct portfolios with risk and return characteristics that could not be created with Cash Market securities;
- To hedge and control risks; or
- To facilitate transition trading.

UTIMCO staff may not enter into any Derivative Investment that is not a Permitted Derivative Application. To the extent that a Derivative Investment is a Permitted Derivative Application but is not within the delegated authority as set forth on Exhibit B, the UTIMCO Board will be provided with an "Option to Review" following the process outlined in Exhibit A to the Delegation of Authority Policy. This "Option to Review" applies to any new Derivative Investment recommended by UTIMCO staff and approved by UTIMCO's Chief Investment Officer that is not within the delegated authority set forth on Exhibit B or the engagement of an external manager operating under an Agency Agreement that seeks to engage in a Derivative Investment that is not within the delegated authority set forth on Exhibit B. Notwithstanding the foregoing, UTIMCO's Chief Investment Officer, the Risk Manager, or Chief Compliance Officer may determine that presentation and approval of the proposed Derivative Investment at a Risk Committee meeting is warranted before engaging in the Derivative Investment.

Risk and Investment Policy Controls:

Following the implementation of any Derivative Investment, the Funds' projected downside ~~deviation and risk~~volatility bounds, and projected exposure to Asset Class and Investment Type, must be within the permissible ranges as set forth in the Funds' Investment Policy Statements.

Documentation and Controls:

Prior to the implementation of a new Derivative Investment by UTIMCO staff, UTIMCO staff shall document the purpose, valuation method, methods for calculating delta, delta-adjusted exposure, Asset Class and Investment Type exposure, the effect on portfolio leverage (if applicable), risks (including, but not limited to modeling, pricing, liquidity and Counterparty risks), the expected increase or reduction in risk resulting from the Derivative Investments, and the procedures in place to monitor and manage the derivative exposure. For any short exposure, UTIMCO staff shall also document the basis risk and appropriate stop-loss procedures. UTIMCO shall establish appropriate risk management procedures to monitor daily the risk of (i) internally managed Derivative Investments and (ii) externally managed accounts operating under Agency Agreements that permit derivatives. Internal control procedures to properly account and value the Funds' exposure to the Derivative Investment shall be fully documented.

Additional Limitations:

Leverage: Leverage is inherent in many derivatives. In Cash Markets, in most cases, the cash outlay is equal to the market exposure acquired. By contrast, Derivative Investments offer the possibility of establishing – for the same cash outlay – substantially larger market exposure. Therefore, risk management and control processes must focus on the total risk assumed in a Derivative Investment. Exhibits A of the Fund's Investment Policy Statements provide a limitation on the amount of uncollateralized derivative exposure that can be utilized by the Funds whereby, the total Asset Class and Investment Type exposure, including the amount of derivatives exposure not collateralized by cash, may not exceed 105% (100% in the ITF) of the Asset Class and Investment Type exposures excluding the amount of derivatives exposure not collateralized by cash.

Counterparty Risks: Rigorous Counterparty selection criteria and netting agreements shall be required to minimize Counterparty risk for Over the Counter (OTC) derivatives. Any Counterparty in an OTC derivative transaction with the Funds must have a credit rating of at least A- (Standard and Poor's) or A3 (Moody's). All OTC derivatives, with the exception of Bona Fide Spot Foreign Exchange Transactions, must be subject to established ISDA Netting Agreements and have full documentation of all legal obligations of the Funds. In limited circumstances, the August 2012 DF Protocol Agreement, as published on August 13, 2012 (the "August Protocol Agreement") and the 2002 ISDA Master Agreement with a Schedule (an "ISDA March 2013 DF Protocol Master Agreement"), developed in connection with ISDA's Dodd-Frank Documentation Initiative to implement and comply with the regulatory requirements imposed under Title VII of the Dodd–Frank Wall Street Reform and Consumer Protection Act, may be used in place of an ISDA Netting Agreement or on a temporary basis until an ISDA Netting Agreement with the Counterparty has been executed. In the event a Counterparty is downgraded below the minimum credit rating requirements stated above, UTIMCO staff will take appropriate action to protect the interests of the Funds, including availing itself of all potential remedies contained in the ISDA agreements. The net market value, net of collateral postings, of all OTC derivatives for any individual Counterparty may not exceed 1% of the total market value of the Funds.

Risk Management and Compliance:

To ensure compliance with all terms and limitations of this Policy, all internally managed and externally managed Derivative Investments in accounts under Agency Agreements will be marked to market on a daily basis by the Funds' custodian and reviewed periodically, but no less frequently than monthly, for accuracy by the UTIMCO Risk Manager. In addition, data from the external risk model will be reviewed for accuracy and completeness by the UTIMCO Risk Manager.

Compliance with this Policy will be monitored by the UTIMCO Chief Compliance Officer using data provided by the custodian and the external risk model.

Any instances of noncompliance with this Policy will be reported immediately to the UTIMCO Chief Compliance Officer and the UTIMCO Chief Investment Officer, who will determine the appropriate remedy and report promptly to the Chairs of the Risk Committee, the Audit & Ethics Committee, and the UTIMCO Board Chairman. The UTIMCO Board Chairman may waive immediate remedial action in appropriate circumstances.

Reporting:

On a quarterly basis, UTIMCO shall provide a comprehensive report to UTIMCO's Board and the Risk Committee. This report shall include all outstanding Derivative Investments, by type, entered into during the period being reported for both internal managers and external managers operating under Agency Agreements. Asset allocation as provided in the Funds' Investment Policy Statements shall incorporate the impact of uncollateralized derivative exposure associated with derivatives. For risk reporting purposes, the models used to calculate the expected profit or loss in each scenario will include the effect of delta sensitivity and other derivative sensitivity parameters as appropriate. Risk calculations will take into account leverage, correlation, and exposure parameters such as beta for equities and duration for fixed income. The UTIMCO Risk Manager will calculate risk attribution - i.e., how much of the overall risk is attributed to each Asset Class and Investment Type, including the full effect on risk of the derivatives in each. The UTIMCO Risk Manager will calculate risk attribution for each Derivative Investment.

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Derivative Investment Policy

Derivative Investment Policy Exhibit A
Glossary of Terms

Agency Agreement – A form of legal agreement that typically grants limited investment discretion to an external investment manager to act as the investment agent of the Funds but does not limit the liability of the Funds for actions taken by that agent.

Basket – A group of securities and a weighting scheme, or a proprietary index. Baskets are typically defined to achieve a certain investment goal, within certain limitations. For example, a Basket could replicate an emerging market index, excluding certain companies that UTIMCO is not permitted to hold.

Bona Fide Spot Foreign Exchange Transaction – Generally, a foreign exchange transaction that settles via an actual delivery of the relevant currencies within two business days (T+2). In addition, an agreement, contract or transaction for the purchase or sale of an amount of foreign currency equal to the price of a foreign security with respect to which (i) the security and related foreign currency transactions are executed contemporaneously in order to effect delivery by the relevant securities settlement deadline and (ii) actual delivery of the foreign security and foreign currency occurs by such deadline (such transaction, a "Securities Conversion Transaction"). For Securities Conversion Transactions, the Commodity Futures Trading Commission (CFTC) will consider the relevant foreign exchange spot market settlement deadline to be the same as the securities settlement deadline.

Cash Market - The physical market for a commodity or financial instrument.

Counterparty - The offsetting party in an exchange agreement.

Derivative Investment – An investment in a Futures Contract, Forward Contract, swap, and all forms of options.

Exchange Traded Derivatives - A Derivative Investment traded on an established national or international exchange. These derivatives "settle" daily in that cash exchanges are made between the exchange and parties to the contracts consistent with the change in price of the instrument. Fulfillment of the contract is guaranteed by the exchange on which the derivatives are traded. Examples include S&P 500 Futures Contracts and Goldman Sachs Commodities Index Futures Contracts.

Forward Contract - A nonstandardized contract for the physical or electronic (through a bookkeeping entry) delivery of a commodity or financial instrument at a specified price at some point in the future. The most typical Forward Contract is a forward foreign currency contract, which involves the contemplated exchange of two currencies.

Futures Contract - A standardized contract for either the physical delivery of a commodity or instrument at a specified price at some point in the future, or a financial settlement derived from the change in market price of the commodity or financial instrument during the term of the contract.

ISDA Netting Agreement - The International Swaps and Derivatives Association (ISDA) is the global trade association representing participants in the privately negotiated derivatives industry, covering swaps and options across all asset classes. ISDA has produced generally accepted "Master Agreements," a 1992 Master Agreement and a 2002 Master Agreement, that are used by most counterparties in OTC derivatives. Netting agreements are terms within the applicable Master Agreement that deal with the calculation of exposure for each Counterparty. These netting agreements require that exposures between counterparties will be "netted" so that payables and receivables under all existing derivatives between two Counterparties are offset in determining the net exposure between the two Counterparties.

Limited Liability Entity – A legal entity created to define how assets contributed to the entity by external partners to the agreement will be managed by the manager of the entity. These entities are typically limited liability partnerships, corporations, or other such entities that limit the liability of external investors to the current value of the external investors' investment in the entity.

Long Exposure to an Asset Class – The Net Asset Value of the Asset Class and Investment Type as defined in the Funds' Investment Policy Statement.

Option - A derivative that conveys the right but not the obligation to buy or deliver the subject financial instrument at a specified price, at a specified future date.

Over the Counter (OTC) derivatives - A derivative which results from direct negotiation between a buyer and a Counterparty. The terms of such derivatives are nonstandard and are the result of specific negotiations. Settlement occurs at the negotiated termination date, although the terms may include interim cash payments under certain conditions. Examples include currency swaps and Forward Contracts, interest rate swaps, and collars.

Replicating Derivatives – Derivatives that are intended to replicate the return characteristics of an underlying index or any other Cash Market security.

Swap - A contract whereby the parties agree to exchange cash flows of defined investment assets in amounts and times specified by the contract.

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Derivative Investment Policy

Derivative Investment Policy Exhibit B
Delegated Derivative Investments

Subject to the limitations contained in the Derivative Investment Policy, the UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to enter into the following Derivative Investments:

Delegated Derivative Investments:

1. Replicating Derivatives - Derivative Investments that replicate the return characteristics of a long exposure to an underlying index, Basket or commodity. These investments are generally Futures Contracts and swaps on a passive index, Basket or commodity.

2. Derivative Investments that upon their expiration would not exceed the loss of a similar investment in the cash ~~index~~ market equivalent being referred to in the derivative contract. These investments may include swaps whereby the holder of the instrument will forgo potential upside return in exchange for downside protection or receive a multiple of a referenced return should the return of the underlying referenced ~~index~~ cash market equivalent be within a certain range and may also include the selling of put options.

3. Derivative Investments that reduce Long Exposure to an Asset Class or hedge against risk, and limit maximum loss to the premium paid for the Derivative Investment, i.e., purchase options. The aggregate prorated annual premium of all Derivative Investments under this provision shall be as set forth in the respective Fund's Investment Policy Statement.

4. Futures Contracts and Forward Contracts on foreign currency if used (i) by an external fixed income manager within its investment guidelines, (ii) for hedging purposes by an external equities manager within its investment guidelines, or (iii) to hedge existing or prospective foreign currency risk by UTIMCO staff.

5. Derivative Investments used to manage bond duration or hedge equity exposure to countries, sectors or capitalization factors, or individual stock(s) swaps within the portfolio only if subsequent to the investment the portfolio would not be net short to any one of those factors. An example of such a hedge is selling Futures Contracts or call options on a country or sector index, provided the manager is exposed to that country or sector.

6. Derivative Investments used to gain Long Exposure to an Asset Class and limit maximum loss to the premium paid for the Derivative Investment.

The delegated authority set forth above should not be construed to permit UTIMCO staff to enter into Derivative Investments that are unhedged or 'naked' short positions containing unlimited loss.

Modeling: Each Delegated Derivative Investment must be such that it can be decomposed into one or more components, and each said component can be modeled using a model such as the CDS valuation model, Black-Scholes model, including modifications for foreign currency ("Quanto"), allowing both normal and log-normal distributions (the Black model), and modifications to handle dividends or other model approved by the Policy Committee.

Leverage: Each Delegated Derivative Investment must be modeled on a fully collateralized basis. During the course of the investment, cash collateral backing a Derivative Investment may be utilized to invest in other investments thereby creating leverage at the Fund level. This is only allowed if within the Funds' Investment Policy Statements.

8. U. T. System Board of Regents: Approval of the Annual Budget for FY 2016, including the capital expenditures budget and other external direct charges to the Funds, and the Annual Fee and Allocation Schedule for The University of Texas Investment Management Company (UTIMCO)

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of The University of Texas Investment Management Company (UTIMCO) Board of Directors that the U. T. System Board of Regents approve the proposed Annual Budget for the year ending August 31, 2016, as set forth on Page 172, which includes the capital expenditures budget and other external direct charges to the Funds, and the Annual Fee and Allocation Schedule as set forth on Page 173.

BACKGROUND INFORMATION

The proposed Total Budgeted Costs consist of $31.5 million for UTIMCO services (23.9% increase over FY 2015 budget) and $8.5 million (14.5% increase from FY 2015 budget) for external non-investment manager services such as custodial, legal, audit, and consulting services. These Total Budgeted Costs represent only a portion of total investment costs as they exclude external manager fees. The proposed Total Budgeted Costs was approved by the UTIMCO Board on October 15, 2015.

The proposed Annual Fee and Allocation Schedule shows the allocation of the proposed budgeted expenses among U. T. System funds in total. UTIMCO expenses are 8.7 basis points of forecasted assets under management at August 31, 2016. The fees are to be paid quarterly.

The proposed capital expenditures budget totaling $1.6 million is included in the total Annual Budget.

UTIMCO projects that there will be no cash reserves available to be distributed back to the U. T. System funds per the Master Investment Management Services Agreement (IMSA) between the U. T. System Board of Regents and UTIMCO. The U. T. System Office of Business Affairs has prepared a memorandum for the purpose of reviewing budgeted expenses, which is included as a part of this Agenda Item on Pages 174 - 185.

UTIMCO ANNUAL BUDGET

$ in thousands	FY 2015	FY 2016	FY 2016 Budget v FY 2015 Budget	
	Budget	Budget	$	%
Salaries, Benefits & Taxes	$11,944	$14,186	$2,242	18.8%
Incentive Compensation	8,518	10,441	1,923	22.6%
Total Compensation	20,462	24,627	4,165	20.4%
Other Expenses	4,966	6,883	1,917	38.6%
Total UTIMCO	**$25,428**	**$31,510**	**$6,082**	**23.9%**
Other Investment-related Expenses Charged to the Funds	**$7,422**	**$8,502**	**$1,080**	**14.6%**

Prepared by: UTIMCO
Date: October 15, 2015

UTIMCO Management Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule

For the fiscal year ending August 31, 2016

Proposed Budget	Fund Name: PUF	PHF	LTF	GEF (PHF, LTF)	ITF	STF	Separate Funds	Debt Proceeds	Total
Forecasted Market Value 8/31/16 ($ millions)	**18,188**	**1,097**	**7,490**	**8,587**	**7,165**	**1,774**	**367**	**285**	**36,366**
UTIMCO Management Fee									
Dollars (thousands)	16,913	1,290	8,663		4,644				31,510
Basis Points	**9.3**	**11.8**	**11.6**	**0**	**6.5**	**0**	**0**	**0**	**8.7**
Direct Expenses to the Fund, excluding UT System Direct Expenses to the Fund									
Dollars (thousands)	3,924	25	26	2,214	2,313				8,502
Basis Points	**2.2**	**0.2**	**0.0**	**2.6**	**3.2**	**0**	**0**	**0**	**2.3**

Fiscal Year 2016

Review of UTIMCO Services Budget and Other Direct Costs to Funds Excluding External Investment Manager Fees

The University of Texas System
Office of Finance

Presented by:
Terry Hull – Associate Vice Chancellor for Finance
Allen Hah – Assistant Vice Chancellor for Finance

October 16, 2015

Based on UTIMCO Board approval on October 15, 2015

Fiscal Year 2016
Review of UTIMCO Services Budget and Other Direct Costs to Funds Excluding External Investment Manager Fees

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Executive Summary

This report reviews the UTIMCO Services budget and other budgeted investment management expenses ("Direct Costs to Funds") for fiscal year 2016 that the UTIMCO Board approved on October 15, 2015 and the U. T. System Board of Regents will consider at its November 4-5, 2015 meeting. The "UTIMCO Services Budget" includes corporate expenses paid directly by UTIMCO, and the "Direct Costs to Funds" budget includes costs related to custody, consulting, corporate legal, audit, and risk measurement. The proposed budget for FY16 is:

	FY16 ($ millions)
• UTIMCO Services Budget	31.5
• Direct Costs to Funds: Other Costs	8.5
Total Budgeted Costs (excludes external manager fees)	$ 40.0

The Total Budgeted Costs excludes external manager fees that are paid by the funds and netted from asset values as well as external investment manager fees paid directly by UTIMCO. The total investment costs for UTIMCO managed funds, comprising Investment Manager Fees paid directly and fees netted against asset values, are reviewed in a separate report.

Highlights:

- **Total Budgeted Costs for FY16**: The FY16 budget is $40.0 million, a 21.8% increase from the FY15 budget.
- **Total Forecast Costs for FY15**: Total costs for FY15 are forecast at $33.8 million, which is 3.0% or $990k over the FY15 budget. The increase is due primarily to higher custodian fees and depreciation expenses partially offset by lower legal fees.
- **The Total Direct Costs to Funds budget (excluding external investment manager fees)**: The FY16 budget of $8.5 million for direct fund costs is up 14.5% from the FY15 budget. Of the $1.1 million increase, $1 million is due to higher custodian costs. Custody fees are billed at higher rates in emerging countries where UTIMCO has increased holdings.
- **The UTIMCO Services Budget:** The FY16 budget is $31.5 million for the "operating" budget of UTIMCO, a 23.9% increase from the FY15 budget. Of the $6.1 million increase, $4.2 million relates to increases in employee-related costs and a $1.1 million increase in depreciation expense. The increase in the UTIMCO Services Budget is partially attributable to 12 additional FTE positions expected for FY16.
- **Compensation:** Compensation-related expenses represent approximately 69% of the UTIMCO Services Budget. Aggregate salaries for FY16 are budgeted to be up 20.1% from the FY15 budget. Budgeted salaries for FY16 include a 21.8% increase due to promotions and an 11.1% increase for existing staff (excluding promotions). Budgeted salaries are also included for three unfilled positions, two open positions, and seven new positions. Budgeted performance compensation for FY16 reflects an increase of $1.9 million or a 22.6% increase due to salary increases, additional FTEs, and increased performance compensation percentages.
- **UTIMCO Reserves:** UTIMCO staff projects that UTIMCO will have no cash reserves available to be distributed at fiscal year-end 2015. We concur with UTIMCO staff in recommending that no distribution of reserves be made at this time.

Budget Analysis and Trends

UTIMCO proposes Total Budgeted Costs for FY16 of $40.0 million. Table 1 shows the Total Budgeted Costs (Direct Costs to Funds and UTIMCO Services Budget excluding external manager fees) as a percent of average Assets Under Management ("AUM") since FY11.

Table 1: Total Budgeted Costs Trend FY11-FY16

($ millions)

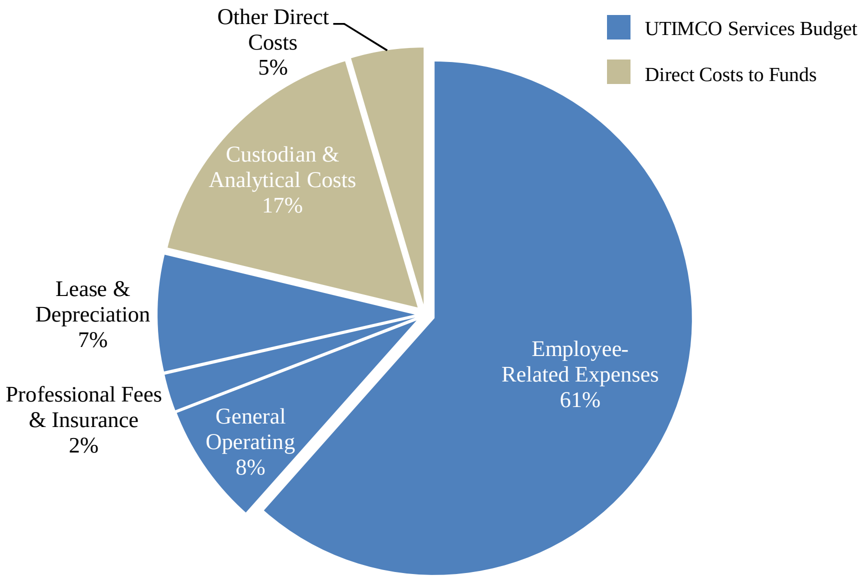
	FY11	FY12	FY13	FY14	Forecast FY15	Budget FY16
Average Total AUM[1]	24,840	27,235	28,886	32,363	34,957	35,778
% Change in AUM	14%	10%	6%	12%	8%	2%
Direct Costs to Funds	7.8	7.3	7.2	7.1	8.1	8.5
% Change in Direct Costs to Funds	36.1%	-5.4%	-2.2%	-1.6%	14.0%	5.6%
Direct Costs to Funds % of AUM	0.03%	0.03%	0.02%	0.02%	0.02%	0.02%
UTIMCO Services Budget	18.2	15.9	26.2	24.1	25.8	31.5
% Change in UTIMCO Services Budget	9.7%	-12.3%	64.6%	-8.2%	7.1%	22.2%
UTIMCO Services Budget % of AUM	0.07%	0.06%	0.09%	0.07%	0.07%	0.09%
Total Budgeted Costs	25.9	23.3	33.4	31.2	33.8	40.0
% Change in Total Budgeted Costs	16.5%	-10.2%	43.5%	-6.8%	8.6%	18.2%
Total Budgeted Costs % of AUM	0.10%	0.09%	0.12%	0.10%	0.10%	0.11%

[1] FY16 Average Total AUM assumes projected FY16 balances based on moderate returns, projected West Texas Land and gift income, and projected distributions.

FY 16 Total Budgeted Costs

(Excluding external manager fees)

$40.0 million



The pie chart above shows the breakdown of Total Budgeted Costs. The UTIMCO Services Budget represents 78% of the total budget, with employee-related expenses being the largest component at 61%. Direct Costs to Funds include Custodian & Analytical Costs (17%) and Other Direct Costs (5%).

Management fees and performance fees paid to external investment managers, which are either paid directly by UTIMCO or netted against asset values by the external managers, are not included in these amounts. UTIMCO retains external managers for approximately 95.5% of the AUM, with UTIMCO staff directly managing approximately 4.5% of assets as well as an internal derivatives portfolio.

Table 2 compares the Total Budgeted Costs for FY15 and FY16. Refer to Exhibits A and B for a detailed budget comparison for FY15-FY16 and budget trend for FY11-FY16.

Table 2: FY15 Forecast and FY16 Budget Overview

($ millions)

	FY15 Forecast				FY16 Budget			
	$ Budget	$ Projected	$ Change vs FY15 Budget	% Change vs FY15 Budget	$ Budget	$ Change vs FY15 Projected	% Change vs FY15 Projected	% Change vs FY15 Budget
UTIMCO Services	25.4	25.8	0.4	1.4%	31.5	5.7	22.2%	23.9%
Direct Costs to Funds	7.4	8.1	0.6	8.5%	8.5	0.4	5.6%	14.5%
Total Budgeted Costs	32.9	33.8	1.0	3.0%	40.0	6.2	18.2%	21.8%

<u>FY15 Forecast versus FY15 Budget</u>: UTIMCO staff forecasts FY15 Total Budgeted Costs will be $33.8 million, $1.0 million (3.0%) over the FY15 budget of $32.9 million. The increase is due primarily to higher than expected custody fees and depreciation expense.

- UTIMCO Services expenses are forecast to be over budget by $359k, due primarily to increased depreciation.
  - Depreciation expense is forecast to be $472k (73.0%) over budget due to staff costs related to the Investment Support System (ISS) project that were required to be capitalized and depreciated, and the variance was due to the timing of placing the asset into service. Fees paid to a consultant were also required to be depreciated.
  - Employee-related expenses are forecasted to be $186k or 0.9% under budget. Performance compensation is forecast to be just slightly over budget by $121k (1.4%), but this was more than offset by lower salary expenses, employee benefits and payroll taxes due to unfilled positions and staff departures.

- Direct Costs to Funds are higher than budgeted by $630k, or 8.5% above budget driven almost entirely by higher custody costs.
  - Custodian fees are forecast to be $929k (20.8%) over budget. The increase is due to UTIMCO holding more assets in emerging countries, including China and India. The asset-based fees and transaction costs are billed at a higher tier for emerging countries.
  - Investment legal fees for FY15 are forecast to be $170k (42.5%) under budget. The hiring of internal legal counsel for deals in FY14 continues to save more money than anticipated; these savings are expected to continue.

- Capital Expenditures are forecast at $70k (5.1%) over budget due to higher Technology and Software Upgrades ($39k or 56% higher than budget), office equipment and fixtures ($67k or 168% higher than budget), and Leasehold ($75k higher or 100% higher than budget). These increases are partially offset by lower Technology Initiatives ($111k or 9% lower than budget).

<u>FY16 Proposed Budget</u>: The proposed $40.0 million Total Budgeted Costs for FY16 is $7.2 million or 21.8% higher than the approved FY15 budget with $6.1 million of the increase attributable to increased UTIMCO Services and $1.1 million of the increase attributable to Direct Cost to Funds.

- The increase in the UTIMCO Services Budget is attributable primarily to a 21.3% increase in salaries and wages and performance compensation, driven primarily by a 16.7% budgeted growth in FTE (from 72 employees as of FY15 to 84 employees in FY16) and increased compensation for existing staff.
- FY16 Direct Costs to Funds of $8.5 million are 14.5% higher than FY15 budget primarily due to increases in Emerging Markets transaction costs.
- Capital Expenditures are budgeted at $1.6 million in FY16, an increase of 14.0% compared to the FY15 budget. UTIMCO continues implementing technology initiatives recommended by its new Chief Technology Officer, primarily related to two key initiatives: a document management system and an investment support system. Additionally, an accounting software upgrade is budgeted for FY16.

Direct Costs to Funds

Direct Costs to Funds for FY16, excluding external manager fees, are budgeted at $8.5 million.

<u>Custodian and Analytical Costs:</u> Custodian and analytical costs for FY15 are forecast at $6.5 million, 14.2% higher than budgeted for FY15, and are budgeted for FY16 at $6.7 million. This is due to increased asset based fees and transaction costs related to securities that are being held in emerging countries.

<u>Legal Fees, Background Searches, and Foreign Tax Consultants:</u> Savings in legal fees due to the hiring of internal legal counsel have continued, resulting in $170k (42.5%) of savings forecast in FY15 compared to FY15 budget of $400k and have been lowered by $100k (25.0%) to $300k for the FY16 budget. Background searches expenses are budgeted higher for FY16 to $275k ($100k or 57.1% higher than FY15 budget) to account for budgeted increases in staffing. FY16 fees for foreign tax consultants is budgeted higher at $169k ($69k or 68.8% higher than FY15 budget) due to increased holdings in China and India.

UTIMCO Services Budget

For FY16, total personnel-related expenses including employee benefits account for 79% of the UTIMCO Services budget (62% of Total Budgeted Costs, excluding external manager fees). Trends in staffing and total compensation in relation to assets under management are shown in Table 3 and Table 3a below. Table 3a adjusts for a one-time deferral of incentive compensation, decreasing FY13 performance compensation by $3.6 million and increasing FY12 performance compensation by the same amount. Highlights from these tables include:

- Staffing had been very steady through FY13 at 58 positions but has increased in recent years to 72 positions by the end of FY15 with 84 positions budgeted for FY16.
- Average AUM per employee has grown approximately 2.3% annually from FY11 to FY15 but is projected to fall given additional staff in FY16.

- Aggregate salaries for FY15 are forecast to be 46% above FY11 levels, which equates to a 10.0% growth rate on an average annual basis.
- Performance Compensation for FY15 is forecast to be 37% above FY11 levels, which equates to a 8.3% growth rate on an average annual basis.
- Since FY11, total compensation per employee has increased 2.5% (annualized) from $227k to $250k forecast in FY15.

Table 3: UTIMCO Compensation and Headcount FY11-FY16

	FY11	FY12	FY13	FY14	Forecast FY15	% Change Since FY11 (annual)	Budget FY16	% Change From FY15
Employees (as of year end)	56	58	58	64	72	6.5%	84	16.7%
Average Total AUM ($ millions)	24,840	27,235	28,886	32,363	34,957	8.9%	35,778	2.3%
Average AUM/Employee ($ millions)	444	470	498	506	486	2.3%	426	-12.3%
Salaries and Wages ($ millions)	6.4	6.9	7.6	8.7	9.4	10.0%	11.4	21.5%
Performance Compensation ($ millions)	6.3	3.3	12.5	9.4	8.6	8.3%	10.4	20.9%
Total Compensation ($ millions)	12.7	10.2	20.1	18.1	18.0	9.1%	21.9	21.2%
Total Compensation per Employee ($)	227,029	175,328	346,573	283,135	250,470	2.5%	260,203	3.9%
Perf. Comp. as % of Salaries and Wages	98%	47%	165%	109%	92%		91%	
Perf. Comp. as % of Total Compensation	49%	32%	62%	52%	48%		48%	

Table 3a: UTIMCO Compensation and Headcount FY11-FY16

(Adjusted for Extraordinary Event Impacting FY12 – FY13)

	FY11	FY12	FY13	FY14	Forecast FY15	% Change Since FY11 (annual)	Budget FY16	% Change From FY15
Employees (as of year end)	56	58	58	64	72	6.5%	84	16.7%
Average Total AUM ($ millions)	24,840	27,235	28,886	32,363	34,957	8.9%	35,778	2.3%
Average AUM/Employee ($ millions)	444	470	498	506	486	2.3%	426	-12.3%
Salaries and Wages ($)	6.4	6.9	7.6	8.7	9.4	10.0%	11.4	21.5%
Performance Compensation ($)	6.3	6.9	8.9	9.4	8.6	8.3%	10.4	20.9%
Total Compensation ($)	12.7	13.8	16.5	18.1	18.0	9.1%	21.9	21.2%
Total Compensation per Employee ($)	227,029	237,954	283,947	283,135	250,470	2.5%	260,203	3.9%
Perf. Comp. as % of Salaries and Wages	98%	100%	117%	109%	92%		91%	
Perf. Comp. as % of Total Compensation	49%	50%	54%	52%	48%		48%	

Staffing: The FY15 budget was based on staffing of 72 employees; actual staffing is forecast at 72 employees at fiscal year-end 2015. The FY16 budget is based on staffing of 84 employees. The FY16 staffing increase is primarily in the investment professional area.

<u>Personnel-related Expenses</u>:

- **Salaries and Wages** are forecast to be $9.4 million in FY15, which is in line with budget. Aggregate salaries and wages are budgeted at $11.4 million in FY16, an increase of 20.1% compared to the FY15 budget. About half of the increase comes from the budgeted increase of 12 employees (9 investment professionals and 3 support/control staff), and the other half of the increase reflects an average 11.1% salary increase for existing staff, excluding promotions. Including promotions, salary increases for existing staff average 13.1%. Budgeted salaries for FY16 are based on 84 positions, up from 72 staff forecast at Aug. 31, 2015.

- **Performance Compensation** for FY15 is projected to be in line with budget, and the FY16 budget is higher by 23.9% due primarily to increased staffing, promotions, increased performance compensation percentages, and increases in base salaries for existing staff.

- **Employee Benefits** are budgeted to increase 14.1% from $1.65 million in FY15 to $1.88 million in FY16. The budget reflects a 10.3% increase in 403(b) contributions and a 17.7% increase in insurance and cell phone costs.

It should be noted that investment staff compensation increases are a result of a peer benchmarking study conducted in 2013 and again in 2015 that detailed UTIMCO's staff compensation to be lower than the compensation plans' objective of paying staff at median levels compared to peers.

<u>General Operating Expenses (non-employee)</u> including office expenses, lease expenses, insurance, travel and accounting fees are forecast to be in line with budget in FY15 at $4.39 million versus a budget of $4.32 million. General operating expenses for FY16 are budgeted to increase 16.9% to $5.1 million. The budgeted increase primarily relates to increased executive coaching and a cost increase related to services used for private investments ($209k), search firm fees for five new positions ($171k), and higher travel expenses related to staff additions and travel expenses ($135k).

<u>Lease Expenses</u>: Lease expenses are budgeted to increase 6.5% compared to FY15 budgeted amounts, due primarily to increased property taxes.

Table 4: UTIMCO Lease Expenses FY11-FY16

	FY11	FY12	FY13	FY14	Forecast FY15	Budget FY16
Property Lease	$518,373	$518,373	$518,373	$518,373	$518,373	$518,376
Operating Expenses	$468,651	$513,894	$554,516	$606,703	$632,036	$673,440
Parking Expenses	$111,911	$114,677	$124,666	$146,272	$149,819	$148,800
Other Expenses	$6,900	$7,334	$7,966	$8,102	$7,050	$7,200
Amortization (Deferred Rent Credit)	($170,344)	($170,344)	($170,344)	($170,344)	($170,344)	($170,352)
Total Lease Expenses (net)	$935,490	$983,934	$1,035,177	$1,109,106	$1,136,934	$1,177,464

UTIMCO Capital Expenditures

The trend for Capital Expenditures for FY11-FY16 is summarized in Table 5 below. The Chief Technology Officer, hired in March 2012, identified several key initiatives including document management, disaster recovery efforts, and upgrading video conferencing and phone systems, all of which significantly increased capital expenditures in FY13 compared to preceding years. Total capital expenditures are forecast to be $1.44 million in FY15, which is slightly higher than the $1.37 million FY15 budgeted amount. Capex is budgeted at $1.56 million in FY15, with the majority of expenditures focused on two continuing key initiatives: a document management system and an investment support system. The document management system is intended to standardize file structures, have enhanced security and search functionality, and assist in record retention. The investment support system will provide investment staff with better access to information from differing perspectives and levels of detail, better automation, and the ability to quickly produce cross-portfolio analysis.

An accounting software upgrade is budgeted for FY16 of $128k, and the $150k forecasted amount for Leasehold was higher than the FY15 budgeted amount of $75k due to higher costs related to construction costs in existing space (28th floor) to accommodate staff increases.

Table 5: UTIMCO Capital Expenditures FY11-FY16

	FY11	FY12	FY13	FY14	Forecast FY15	Budget FY16
Ongoing: Technology and Software Upgrades	$122,048	$121,416	$89,146	$46,623	$107,810	$227,000
Ongoing: Office Equipment and Fixtures	$43,700	$20,021	$105,290	-	$107,135	$50,000
Expansion: Technology Initiatives / Video Conferencing	-	-	$612,482	$1,035,190	$1,076,643	$1,252,000
Expansion: Leasehold	-	-	-	-	$150,085	$35,000
Total Capital Expenditures (net)	$165,748	$141,437	$806,918	$1,081,813	$1,441,673	$1,564,000

EXHIBIT A

Total Budgeted Costs FY15-FY16

	FY15 Budget	FY15 Forecast	Change from FY15 Budget $	Change from FY15 Budget %	FY16 Budget	Change from FY15 Forecast $	Change from FY15 Forecast %	Change from FY15 Budget %
UTIMCO Services								
Salaries and Wages + Vacation	9,504,386	9,394,865	-109,522	-1.2%	11,415,599	2,020,734	21.5%	20.1%
Performance Compensation + Earnings	8,518,278	8,639,000	120,722	1.4%	10,441,456	1,802,456	20.9%	22.6%
Total Compensation	18,022,664	18,033,864	11,200	0.1%	21,857,055	3,823,191	21.2%	21.3%
Total Payroll taxes	792,636	685,490	-107,146	-13.5%	889,925	204,435	29.8%	12.3%
403(b) Contributions	786,198	696,658	-89,540	-11.4%	867,051	170,393	24.5%	10.3%
Insurance & Cell Phone	861,224	861,002	-222	-0.0%	1,013,439	152,437	17.7%	17.7%
Employee Benefits	1,647,422	1,557,659	-89,763	-5.4%	1,880,490	322,831	20.7%	14.1%
Recruiting and Relocation Expenses	69,000	65,609	-3,391	-4.9%	132,000	66,391	101.2%	91.3%
Employee Education	75,104	62,452	-12,652	-16.8%	76,200	13,748	22.0%	1.5%
Other Employee Related Expenses	144,104	128,061	-16,043	-11.1%	208,200	80,139	62.6%	44.5%
Total Employee Related Expenses	20,606,826	20,405,074	-201,752	-1.0%	24,835,670	4,430,596	21.7%	20.5%
On-Line Data & Contract Services	1,294,080	1,272,828	-21,252	-1.6%	1,540,944	268,116	21.1%	19.1%
Travel & Meetings, Including BOD	630,500	706,348	75,848	12.0%	848,500	142,152	20.1%	34.6%
Phone and Telecommunications	53,340	44,263	-9,077	-17.0%	47,340	3,077	7.0%	-11.2%
Computer & Office Supplies	49,140	57,751	8,611	17.5%	59,760	2,009	3.5%	21.6%
Repairs/Maintenance	292,464	262,642	-29,822	-10.2%	335,268	72,626	27.7%	14.6%
Other Office Expenses	105,252	110,075	4,823	4.6%	123,636	13,561	12.3%	17.5%
Total Office Expense	500,196	474,732	-25,464	-5.1%	566,004	91,272	19.2%	13.2%
Total Lease Expense	1,120,692	1,136,934	16,242	1.4%	1,177,464	40,530	3.6%	5.1%
Board, Comp., & Hiring Consultants	200,100	295,519	95,419	47.7%	400,500	104,981	35.5%	100.1%
Legal Expenses	140,400	100,463	-39,937	-28.4%	120,000	19,537	19.4%	-14.5%
Accounting fees	58,500	60,045	1,545	2.6%	57,804	-2,241	-3.7%	-1.2%
Total Professional Fees	399,000	456,027	57,027	14.3%	578,304	122,277	26.8%	44.9%
Total Insurance	227,400	213,576	-13,824	-6.1%	212,880	-696	-0.3%	-6.4%
Depreciation of Equipment	650,000	1,122,098	472,098	72.6%	1,750,000	627,902	56.0%	169.2%
Total Non-Employee Related Expenses	4,821,868	5,382,542	560,674	11.6%	6,674,096	1,291,554	24.0%	38.4%
Total UTIMCO Services	25,428,694	25,787,616	358,922	1.4%	31,509,766	5,722,150	22.2%	23.9%
Direct Costs to Funds								
Custodian Fees and Other Direct Costs	4,463,774	5,392,899	929,125	20.8%	5,462,258	69,359	1.3%	22.4%
Performance Measurement	470,700	373,975	-96,725	-20.5%	484,668	110,693	29.6%	3.0%
Analytical Tools	395,457	395,581	124	0.0%	407,338	11,757	3.0%	3.0%
Risk Measurement	324,000	292,000	-32,000	-9.9%	324,000	32,000	11.0%	0.0%
Custodian and Analytical Costs	5,653,930	6,454,455	800,525	14.2%	6,678,264	223,809	3.5%	18.1%
Consultant Fees	353,500	292,193	-61,307	-17.3%	300,000	7,807	2.7%	-15.1%
Auditing	720,000	718,663	-1,337	-0.2%	760,000	41,337	5.8%	5.6%
Legal Fees	400,000	229,987	-170,013	-42.5%	300,000	70,013	30.4%	-25.0%
Background Searches & Other	294,500	357,264	62,764	21.3%	463,336	106,072	29.7%	57.3%
Other Direct Costs Total	1,768,000	1,598,107	-169,893	-9.6%	1,823,336	225,229	14.1%	3.1%
Total Direct Costs to Funds	7,421,930	8,052,562	630,632	8.5%	8,501,600	449,038	5.6%	14.5%
Total Budgeted Costs	32,850,624	33,840,178	989,554	3.0%	40,011,366	6,171,188	18.2%	21.8%

EXHIBIT B

Total Budgeted Costs FY11-FY16

	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual	FY15 Forecast	FY16 Budget
UTIMCO Services						
Salaries and Wages + Vacation	6,422,656	6,903,383	7,587,688	8,670,689	9,394,865	11,415,599
Performance Compensation + Earnings	6,290,993	3,265,622	12,513,544	9,449,922	8,639,000	10,441,456
Total Compensation	12,713,649	10,169,005	20,101,232	18,120,611	18,033,864	21,857,055
Total Payroll taxes	492,963	472,196	641,091	674,824	685,490	889,925
403(b) Contributions	485,227	515,669	566,262	650,111	696,658	867,051
Insurance & Cell Phone	585,957	619,546	701,259	853,864	861,002	1,013,439
Employee Benefits	1,071,184	1,135,215	1,267,521	1,503,975	1,557,659	1,880,490
Recruiting and Relocation Expenses	15,210	49,522	25,979	39,886	65,609	132,000
Employee Education	30,159	36,287	55,349	43,996	62,452	76,200
Other Employee-Related Expenses	45,369	85,809	81,328	83,883	128,061	208,200
Total Employee Related Expenses	14,323,165	11,862,225	22,091,173	20,383,292	20,405,074	24,835,670
On-Line Data & Contract Services	1,003,058	1,038,036	1,164,419	1,097,399	1,272,828	1,540,944
Travel & Meetings, Including BOD	416,713	588,240	536,748	531,618	706,348	848,500
Phone and Telecommunications	69,072	32,976	36,781	51,757	44,263	47,340
Computer & Office Supplies	80,768	49,748	50,392	41,156	57,751	59,760
Repairs/Maintenance	182,535	160,071	191,971	253,734	262,642	335,268
Other Office Expenses	52,400	105,966	92,250	114,622	110,075	123,636
Total Office Expense	384,775	348,762	371,394	461,269	474,732	566,004
Total Lease Expense	935,490	983,934	1,035,176	1,109,105	1,136,934	1,177,464
Board, Compensation, & Hiring Consultants	44,500	211,000	165,341	285,917	295,519	400,500
Legal Expenses	247,303	106,483	88,279	77,795	100,463	120,000
Accounting fees	38,950	51,975	49,268	51,934	60,045	57,804
Total Professional Fees	330,753	369,458	302,888	415,646	456,027	578,304
Total Insurance	227,326	208,729	207,103	219,163	213,576	212,880
Depreciation of Equipment	552,739	533,872	518,707	676,524	1,122,098	1,750,000
Total Non-Employee Related Expenses	3,850,854	4,071,032	4,136,434	4,510,724	5,382,542	6,674,096
Total UTIMCO Services	18,174,019	15,933,256	26,227,607	24,894,016	25,787,616	31,509,766
Direct Costs to Funds						
Custodian Fees and Other Direct Costs	4,452,927	4,200,390	4,160,625	4,450,469	5,392,899	5,462,258
Performance Measurement	408,525	429,584	401,220	346,414	373,975	484,668
Analytical Tools	342,534	358,697	390,371	395,504	395,581	407,338
Risk Measurement	292,000	292,000	292,000	292,000	292,000	324,000
Custodian and Analytical Costs	5,495,986	5,280,671	5,244,216	5,484,387	6,454,455	6,678,264
Consultant Fees	554,891	415,375	403,304	353,500	292,193	300,000
Auditing	677,000	371,779	465,410	526,865	718,663	760,000
Legal Fees	795,933	786,122	659,516	272,735	229,987	300,000
Background Searches & Other	231,403	484,991	406,479	427,044	357,264	463,336
Other Direct Costs Total	2,259,227	2,058,267	1,934,709	1,580,144	1,598,107	1,823,336
Total Direct Costs to Funds	7,755,213	7,338,938	7,178,925	7,064,531	8,052,562	8,501,600
Total Budgeted Costs	25,929,232	23,272,194	33,406,532	31,958,547	33,840,178	40,011,366

EXHIBIT C

UTIMCO Reserve Analysis for August 31, 2015

Projected Cash Reserves at August 31, 2015		
Cash		10,331,468
Prepaid Expenses		618,040
Less: Accounts Payable (Includes incentive compensation & earnings payable)		(7,354,418)
Expected Cash Reserves at August 31, 2015		$ 3,595,090
FY16 Proposed Operating Budget	31,509,766	
Applicable Percentage	25%	7,877,442
FY16 Proposed Capital Expenditures	1,564,000	1,564,000
Required Cash Reserves at August 31, 2015		$ 9,441,442
Balance Available for Distribution		$ (5,846,352)
Recommended Distribution		$ -

9. **U. T. System Board of Regents: Approval of revisions to the amended and restated University of Texas Investment Management Company (UTIMCO) Compensation Program**

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of The University of Texas Investment Management Company Board of Directors (UTIMCO Board) that the U. T. System Board of Regents (U. T. System Board) approve the amended and restated UTIMCO Compensation Program (Plan) effective September 1, 2015, as set forth in congressional style on the following pages. The Plan was approved by the UTIMCO Board on October 15, 2015, and amends and restates the UTIMCO Compensation Program that was approved by the U. T. System Board on May 15, 2014 (Prior Plan).

BACKGROUND INFORMATION

The Plan consists of two elements: base salary and an annual incentive plan. The UTIMCO Board has the discretion to interpret the Plan, may from time to time adopt such rules and regulations that it may deem necessary to carry out the Plan, and may also amend the Plan. The UTIMCO Board last made editorial amendments to the Plan not requiring U. T. System Board approval on July 29, 2014.

The proposed changes are as follows:

a. Section 1 has been changed to reflect a new effective date of September 1, 2015;

b. Sections 3, 5.5(c) and (e), and 5.12(d) have been changed to remove the language related to the increasing of performance incentive awards in the Extraordinary Circumstance of outperformance by 20% or more;

c. Sections 5.2(b), 5.8(b) and (c) and 8.3 have been changed to eliminate Asset Class/Investment Type as a Quantitative Performance Goal. Appendices C and D have been updated to reflect the removal of the Asset Class/Investment Type Quantitative Performance Goal;

d. Sections 5.4(b) and 5.8(c) [renumbered 5.8(b)(2)] have been changed to remove Asset Class/Investment Type as a Quantitative Performance Goal and add it as a Qualitative Performance Goal. Investment staff portfolio performance will be measured against a universe of funds as determined annually by the UTIMCO Compensation Committee;

e. Sections 5.5(c) and 5.12(c) have been changed to remove the language related to decreasing performance incentive awards when net returns during a performance period are below negative 5.01%;

f. Section 5.8(b)(3) has been changed related to the calculation of the level of attainment of the qualitative portion of an individual's performance goals;

g. Language in Section 5.9(e) applicable to the change in Plan year end from June 30 to August 31 has been removed since it is no longer relevant;

h. Appendix A, Performance Incentive Award Methodology has been updated to incorporate the Plan design changes;

i. Appendix C, Eligible Positions, Weightings, Incentive Award Opportunities and Percentage of Award Deferred has been revised for the Performance Periods beginning after August 31, 2015;

j. Appendix D, Table 2 has been revised for the Performance Periods beginning September 1, 2013;

k. Appendix E, Table 3 of Eligible positions has been revised for the Performance Periods beginning after September 1, 2015; and

l. Other miscellaneous nonsubstantive and editorial changes are recommended as shown.

UTIMCO
COMPENSATION PROGRAM

Amended and Restated
Effective September 1, ~~2013~~2015

~~(Appendices updated as of September 1, 2014)~~

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1. COMPENSATION PROGRAM STRUCTURE AND EFFECTIVE DATE

The UTIMCO Compensation Program ("Compensation Program" or "Plan") consists of two elements**:** base salary and an annual incentive plan (the "Performance Incentive Plan"):

Base Salary + Performance Incentive = Total Compensation

The base salary portion of the Compensation Program sets forth a structure and guidelines for establishing and adjusting the salaries of key investment and operations staff employees. The Performance Incentive Plan portion of the Compensation Program sets forth the criteria for calculating and receiving annual incentive awards for key investment and operations staff who are eligible Participants in the Performance Incentive Plan. Provisions of the Compensation Program relating solely to the base salary portion of the Compensation Program are described in Section 4. Provisions of the Compensation Program relating solely to the Performance Incentive Plan portion of the Compensation Program are described in Section 5. Sections 1, 2, 3, 6, 7, and 8 of the Compensation Program relate to both the base salary portion and the Performance Incentive Plan portion except where otherwise specified in any such Section.

Effective Date: Except as provided in Section 7.9, this document, with an "Effective Date" of September 1, ~~2013~~2015, supersedes the UTIMCO Compensation Program that was effective September 1, ~~2012~~2013.

2. COMPENSATION PROGRAM OBJECTIVES

UTIMCO's Compensation Program serves a number of objectives:

- To attract and retain key investment and operations staff of outstanding competence and ability.
- To encourage key investment staff to develop a strong commitment to the performance of the assets for which UTIMCO has been delegated investment responsibility.
- To motivate key investment staff to focus on maximizing real, long-term returns for all funds managed by UTIMCO while assuming appropriate levels of risk.
- To facilitate teamwork so that members of UTIMCO operate as a cohesive group.

3. TOTAL COMPENSATION PROGRAM PHILOSOPHY[1]

UTIMCO aspires to attract and retain high caliber employees from nationally recognized peer institutions and the investment management community in general. UTIMCO strives to provide a total compensation program that is competitive nationally, with the elements of compensation evaluated relative to comparably sized university endowments, foundations, and for-profit investment management firms with a similar investment philosophy (e.g., externally managed funds).

UTIMCO's total Compensation Program is positioned against the competitive market as follows:

- Base salaries are targeted at the market median (e.g., 50th percentile).
- Target total compensation (salary plus target Incentive Award Opportunity) is positioned at the market median.
- Maximum total compensation (salary plus maximum Incentive Award Opportunity) is targeted at the market 75th percentile if individual performance is outstanding.~~; provided that if individual performance is outstanding during a Performance Period when endowment investment performance at the end of such Performance Period exceeds 20%, maximum total compensation (salary plus maximum Incentive Award Opportunity modified when Net Returns on Total Endowment Assets exceed 20%) for Affected Participants is targeted at the 90th percentile. (For this purpose, 0 is the lowest point and 100 is the highest.)~~

Although base salaries, as well as target and maximum total compensation, have a targeted positioning relative to market, an individual employee's actual total compensation may vary from the targeted positioning based on the individual's experience, education, knowledge, skills, and performance as well as UTIMCO's investment performance as described in this document. Except as provided in Sections 5.8 and 5.9 for purposes of determining the length of historical performance, base salaries and Incentive Award Opportunities (as well as the actual Performance Incentive Awards) are not determined based on seniority at UTIMCO.

4. BASE SALARY ADMINISTRATION

4.1. Salary Structure

(a) Base salaries are administered through a Salary Structure as set forth in this Section 4.1. Each employment position has its own salary range, with the midpoint set approximately equal to the market median base salary for employment positions with similar job content and level of responsibility.

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[1] This explanation of UTIMCO's "Total Compensation Program Philosophy" is not intended to modify any of the substantive provisions of this document.

(b) The salary range midpoints will be determined by the Compensation Committee based on consultation with an outside compensation consultant and with UTIMCO management. Salary range midpoints for key management, investment, and operations positions will be updated at least every three years based on a salary benchmarking study conducted by a qualified compensation consultant selected by the Compensation Committee. In years in which the Compensation Committee does not commission a formal salary survey, the base salary midpoints may be adjusted at the Compensation Committee's discretion based on expected annual salary structure adjustments as reported in one or more published compensation planning surveys.

4.2. Salary Adjustments

(a) The base salary of the CEO is determined by the Board. The base salary of the Chief Compliance Officer ("CCO") will be determined by the Compensation Committee based on the joint recommendation of the Audit and Ethics Committee and the CEO and the base salaries of the other key investment and operations employees are determined by the Compensation Committee**.** Base salaries will be set within the salary range for each employment position. An individual's base salary within the range may be higher or lower than the salary range midpoint based on his or her level of experience, education, knowledge, skills, and performance. On an exception basis, the Board may set individual base salaries outside of the salary range if an individual either substantially exceeds or does not meet all of the market criteria for a particular position.

(b) Individuals may receive an annual adjustment (increase or decrease) of their base salaries at the discretion of the Compensation Committee or, in the case of the CEO, at the discretion of the Board. Base salary adjustments, if any, will be determined based on each individual employee's experience, education, knowledge, skills, and performance; provided that, in the case of the CCO, any such adjustment shall be based on the joint recommendation of the Audit and Ethics Committee and the CEO. Employees are not guaranteed an annual salary increase.

5. PERFORMANCE INCENTIVE PLAN

5.1. Purpose of the Performance Incentive Plan

The purpose of the Performance Incentive Plan is to provide annual Performance Incentive Awards to eligible Participants based on specific objective criteria relative to UTIMCO's and each Participant's performance. The primary objectives of the Performance Incentive Plan are outlined in Section 2.

5.2. Performance Period

(a) For purposes of the Performance Incentive Plan, the "Performance Period" begins on September 1 of each year and ends the following August 31.

(b) Except as otherwise provided under Sections 5.8 and 5.9, performance for each year in the historical performance period will be measured between September 1 and the following August 31 of the applicable year for gauging achievement of the Entity ~~and Asset Class/Investment Type~~ Performance Goal~~s~~.

5.3. ***Eligibility and Participation***

(a) Each employee of UTIMCO will be a "Participant" in the Performance Incentive Plan for a Performance Period if (and only if) he or she is both (i) employed by UTIMCO in an employment position that is designated as an "Eligible Position" for that Performance Period and (ii) selected by the Board as eligible to participate in the Performance Incentive Plan for that Performance Period. "Eligible Positions" for a Performance Period include senior management, investment staff, and other key positions as designated by the CEO and approved by the Board as Eligible Positions for that Performance Period. An employment position that is an Eligible Position in one Performance Period is not automatically an Eligible Position in any subsequent Performance Period, and each Eligible Position must be confirmed or re-confirmed by the Board as being an "Eligible Position" for the applicable Performance Period. Similarly, an employee who is eligible to participate in the Performance Incentive Plan in one Performance Period is not automatically eligible to participate in any subsequent Performance Period (notwithstanding that such employee may be employed in an Eligible Position in that subsequent Performance Period), and each employee must be designated or re-designated by the Board as being eligible to participate in the Performance Incentive Plan for the applicable Performance Period. The Board will confirm the Eligible Positions and designate the eligible employees who will become Participants for a Performance Period within the first 90 days of the Performance Period or, if later, as soon as administratively feasible after the start of the Performance Period. The Board in its discretion may also designate the employment position of a newly hired or promoted employee as an "Eligible Position" and may designate such newly hired or promoted employee as eligible to participate in the Performance Incentive Plan for a Performance Period (or remainder of a Performance Period) within 30 days of such hire or promotion or, if later, as soon as administratively feasible after such hire or promotion**.** A list of Eligible Positions for each Performance Period is set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period when necessary to set forth the Eligible Positions for that Performance Period as soon as administratively practicable after confirmation of such Eligible Positions by the Board for such Performance Period, and such revised Table 1 will be attached as Appendix C.

(b) An employee in an Eligible Position who has been selected by the Board to participate in the Performance Incentive Plan will become a Participant on the later of (i) the date he or she is employed in an Eligible Position or (ii) the date he or she is selected by the Board to participate in the Performance Incentive Plan; provided, however, that the Board in its discretion may designate any earlier or later date (but not earlier than such employee's date of hire and not later than such employee's date of Termination of employment) upon which such employee will become a Participant, and such employee will instead become a Participant on such earlier or later date. The preceding notwithstanding, except as provided below, an employee may not commence participation in the Performance Incentive Plan and first become a Participant during the last six months of any Performance Period; provided however, that the Board may select an employee to participate in the Performance Incentive Plan during the last six months of the Performance Period when compelling individual circumstances justify a shorter period of time and such circumstances are recorded in the minutes of a meeting of the Board in which event participation of the employee in the Performance Incentive Plan will begin on the participation date selected by the Board for the employee but not earlier than the employee's date of hire (assuming such employee is employed by UTIMCO in an Eligible Position on such date).

(c) An employee will cease to be a Participant in the Performance Incentive Plan on the earliest to occur of: (i) the date such employee is no longer employed in an Eligible Position; (ii) the date of Termination of such employee's employment with UTIMCO for any reason (including Voluntary Termination and Involuntary Termination, death, and Disability); (iii) the date of termination of the Performance Incentive Plan; (iv) the date such employee commences a leave of absence; (v) the date such employee begins participation in any other UTIMCO incentive program; (vi) the date the Board designates that such employee's employment position is not an Eligible Position (or fails to designate the employee's employment position as an Eligible Position with respect to a Performance Period); or (vii) any date designated by the Board as the date on which such employee is no longer a Participant.

(d) Except as provided in Sections 5.10(b) and (c), only individuals who are Participants on the last day of a Performance Period are eligible to receive Performance Incentive Awards under the Performance Incentive Plan for that Performance Period.

5.4. Performance Goals

(a) Within the first 60 days of each Performance Period, except as provided below, the CEO will recommend goals ("Performance Goals") for each Participant (other than the Performance Goals for the CEO, which are determined as provided in Section 5.4(c), and the Performance Goals for employees who are hired or promoted later during a Performance Period) subject to approval by the Compensation Committee within the first 90 days of the Performance Period. The CEO will also recommend Performance Goals for employees who are hired or promoted during the Performance Period and become Participants at the time those employees are designated as Participants (with such Performance Goals subject to confirmation by the Compensation Committee as soon as administratively feasible after such Performance Goals are recommended). If the position of the CCO is determined to be an Eligible Position and the employee in the Eligible Position has been designated by the Compensation Committee as a Participant in the Performance Incentive Plan for the Performance Period, the Performance Goals of the employee holding the position of CCO will be determined jointly by the Audit and Ethics Committee and the CEO. References to the CCO hereafter assume that the position of CCO has been determined to be an Eligible Position and the employee holding the position of CCO has been determined to be a Participant in the Performance Incentive Plan for the Performance Period. If the position of CCO has not been determined to be an Eligible Position for the Performance Period the provisions hereafter specific to the CCO have no force and effect.

(b) There are ~~three~~ two categories of Performance Goals:

(1) Entity Performance (measured as described in Section 5.8(a))

~~(2) Asset Class/Investment Type Performance (measured as described in Section 5.8(b))~~

~~(3)~~(2) Qualitative Performance (measured as described in Section 5.8(~~c~~b))

Except for the CEO and CCO, Qualitative Performance Goals will be defined jointly by each Participant and his or her supervisor, subject to approval by the CEO and subject to final approval by the Compensation Committee. Qualitative Performance Goals for the CCO will be defined jointly by the Audit and Ethics Committee and the CEO. Qualitative Performance Goals may be established in one or more of the following areas:

- Asset Class/Investment Type Performance
- Leadership
- Implementation of operational goals
- Management of key strategic projects
- Effective utilization of human and financial resources
- UTIMCO investment performance relative to the Peer Group

(c) The CEO's Performance Goals will be determined and approved by the Board.

(d) Each Performance Goal for each Eligible Position is assigned a weight for the Performance Period. The Audit and Ethics Committee and the CEO will jointly recommend to the Compensation Committee the weightings of the Performance Goals for the CCO. For each Performance Period, the Compensation Committee will approve (or adjust as it deems appropriate) the weightings of the Performance Goals at the same time it approves the Performance Goals. The weightings for each Eligible Position are set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period when necessary to set forth the weightings for the Eligible Positions for that Performance Period as soon as administratively practicable after such weightings are approved by the Compensation Committee for such Performance Period. Notwithstanding the identified weighting for a Performance Goal for an Eligible Position, the Compensation Committee, may adjust the weightings (up or down) for any Participant for a Performance Period when it considers the identified weighting for a Performance Goal to be inappropriate for such Participant because of his or her length of service with UTIMCO, his or her tenure in the respective Eligible Position, his or her prior work experience, or other factors as deemed appropriate by the Compensation Committee; provided that, in the case of the CCO, any such adjustment shall be based on the joint recommendation of the Audit and Ethics Committee and the CEO. The weightings for the Performance Goals for each Performance Period are subject to approval by the Board.

5.5. Incentive Award Opportunity Levels and Performance Incentive Awards

(a) At the beginning of each Performance Period, each Eligible Position is assigned an "Incentive Award Opportunity" for each Performance Goal for the Participants in that Eligible Position. The Audit and Ethics Committee and CEO will jointly recommend the Incentive Award Opportunity for the CCO to the Compensation Committee. Each Incentive Award Opportunity is determined by the Compensation Committee (and subject to approval by the Board) and is expressed as a percentage of base salary earned during the Performance Period. The Incentive Award Opportunities include a threshold, target, and maximum award for achieving commensurate levels of performance of the respective Performance Goal.

(b) Incentive Award Opportunities for each Performance Period are set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period when necessary to set forth the Incentive Award Opportunities for that Performance Period as soon as administratively practicable after approval of the Incentive Award Opportunities by the Board for such Performance Period, and such revised Table 1 will be attached as Appendix C.

(c) Actual "Performance Incentive Awards" are the amounts that are actually awarded to Participants for the respective Performance Period. Actual

Performance Incentive Awards will range from zero (if a Participant performs below threshold on all Performance Goals~~ or, pursuant to Section 5.12(c) in the case of Affected Participants, Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below a negative 14.01% at the end of such Performance Period~~) to the maximum Incentive Award Opportunity (if a Participant performs at or above maximum on all Performance Goals) depending on performance relative to objectives~~; provided that, pursuant to Section 5.12(d), actual Performance Incentive Awards for Affected Participants may exceed the maximum Incentive Award Opportunity if the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined exceed positive 20.0% at the end of such Performance Period~~. Awards are capped at maximum levels regardless of whether a Participant exceeds the stated maximum Performance Goals.

(d) Following the end of each Performance Period, the Compensation Committee will review the actual performance of each Participant against the Performance Goals of the respective Participant and determine the Participant's level of achievement of his or her Performance Goals. The Compensation Committee may seek and rely on the independent confirmation of the level of Performance Goal achievement from an external investment consultant to evaluate Entity Performance and Asset Class/Investment Type Performance. The CEO will submit a written report to the Compensation Committee, which documents the Participant's performance relative to the Participant's Performance Goals set at the beginning of the Performance Period, and upon which the Compensation Committee may rely in evaluating the Participant's performance. The Audit and Ethics Committee and the CEO will jointly determine the CCO's level of achievement relative to the CCO's Performance Goals. The Board will determine the CEO's level of achievement relative to the CEO's Performance Goals.

(e) Performance Incentive Awards will be calculated for each Participant based on the percentage achieved of each Performance Goal, taking into account the weightings for the Participant's Entity Performance~~, Asset Class/Investment Type Performance,~~ and Qualitative Performance Goals and each Participant's Incentive Award Opportunity~~; provided that, Performance Incentive Awards of Affected Participants will be (i) increased if the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined exceed positive 20.0% at the end of such Performance Period and (ii) decreased if the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5.0% at the end of such Performance Period, all pursuant to Section 5.12~~. The methodology for calculating Incentive Award Opportunities and Performance Incentive Awards is presented on Appendix A. Performance

Incentive Awards will be interpolated in a linear fashion between threshold and target as well as between target and maximum.

(f) Within 120 days following the end of a Performance Period, and after review by the external auditor, the Compensation Committee will review all Performance Incentive Award calculations, and make any changes it deems appropriate. The Compensation Committee will submit its recommendations to the Board for approval. Subject to the provisions of Section 7.1, the Board will approve Performance Incentive Awards.

(g) Following the approval of a Performance Incentive Award by the Board, each Participant will be notified as to the amount, if any, of his or her Performance Incentive Award as well as the terms, provisions, conditions, and limitations of the Nonvested Deferred Award portion of such Performance Incentive Award.

5.6. Form and Timing of Payouts of Performance Incentive Awards

Except as provided in Sections 5.11, 5.12, and 5.13, approved Performance Incentive Awards will be paid as follows:

(a) Subject to the Applicable Deferral Percentage of an Eligible Position as documented in Table 1, which is attached as Appendix C, the Performance Incentive Award will be paid to the Participant ("Paid Performance Incentive Award") within 120 days of the completion of the Performance Period on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which the Performance Period ends, and

(b) An amount of the Performance Incentive Award for an Eligible Position equal to the Applicable Deferral Percentage set forth on Table 1 will be treated as a "Nonvested Deferred Award" subject to the terms of Section 5.7 and paid in accordance with that Section. Table 1 will be revised, as necessary, for each Performance Period to set forth any Applicable Deferral Percentage for each Eligible Position as soon as administratively practicable after approval of the deferral percentages by the Board for such Performance Period and such revised Table 1 will be attached as Appendix C.

5.7. Nonvested Deferred Awards

(a) For each Performance Period, a hypothetical account on UTIMCO's books ("Nonvested Deferred Award Account") will be established for each Participant. As of the date that the corresponding Paid Performance Incentive Award is paid to the Participant, each Participant's Nonvested Deferred Award for a Performance Period will be credited to his or her Nonvested Deferred Award Account established for that Performance Period; provided, however, that, in the case of any Participant whose Nonvested Deferred Award has been forfeited pursuant to Section 5.10(a) or Section 5.13 on the date such Nonvested Deferred Award would be so credited to his or her Nonvested Deferred Award Account, such Nonvested Deferred Award will not be credited to such Participant's Nonvested Deferred Award Account. The Nonvested Deferred Award Accounts will be credited (or debited) monthly with an amount equal to the net investment returns of the Total Endowment Assets ("Net Returns") for the month multiplied by the balance of the respective Participant's Nonvested Deferred Award Account(s) as of the last day of the month. When the Nonvested Deferred Award is initially credited to the Nonvested Deferred Award Account, the Nonvested Deferred Award Account will be credited (or debited) with Net Returns for the month of the initial credit of a Nonvested Deferred Award, but the Net Returns will be prorated to reflect the number of days of the month during which the amounts were credited to the Nonvested Deferred Award Account. Participants are not entitled to their Nonvested Deferred Award Accounts unless and until they become vested in those accounts in accordance with Section 5.7(b).

(b) Unless a Participant's Nonvested Deferred Award has been forfeited pursuant to Section 5.10(a) or Section 5.13, such Participant will become vested in, and entitled to payment of, his or her Nonvested Deferred Award Account for each respective Performance Period according to the following schedule:

(1) On the first anniversary of the last day of the Performance Period for which the Nonvested Deferred Award was earned, one third of the amount then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

(2) On the second anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, one half of the amount then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

(3) On the third anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, the remaining amount then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

(4) Nonvested Deferred Award Accounts payable under the above paragraphs of this Section 5.7(b) will be paid on a date selected in the discretion of UTIMCO after the applicable portion of any such Nonvested Deferred Award Account becomes vested and in no event later than the last day of the calendar year in which the applicable portion of such Nonvested Deferred Award Account becomes vested.

5.8. Performance Measurement Standards

(a) Entity Performance

(1) Entity Performance for purposes of the Performance Incentive Plan is the performance of the Total Endowment Assets (weighted at 80%) and the Intermediate Term Fund (weighted at 20%).

(2) The performance of the Total Endowment Assets ("TEA") is measured based on the TEA's performance relative to the TEA Policy Portfolio Return (TEA benchmark).

(3) The performance of the Intermediate Term Fund will be measured based on the performance of the ITF relative to the ITF Policy Portfolio Return (ITF benchmark).

(4) Performance standards related to the TEA and ITF for each Performance Period beginning after August 31, ~~2010~~2013, will be updated as necessary and set forth on a revised table for each such Performance Period ~~and set forth on~~in Appendix D as soon as administratively practicable after such standards are determined. Performance of the TEA and ITF is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the TEA and ITF.

(5) Except as provided in Section 5.9, performance of the Total Endowment Assets (based on the TEA benchmark) and the Intermediate Fund (based on the ITF benchmark) will be measured based on a three-year rolling historical performance of each such fund.

~~(b) Asset Class/Investment Type Performance~~

~~Asset Class/Investment Type Performance is the performance of specific asset classes and investment types within the Total Endowment Assets and the Intermediate Term Fund (such as developed country, private investments, etc.) based on the standards set forth in this Section 5.8(b). Except as provided in Section 5.9, Asset Class/Investment Type Performance will be measured relative to the appropriate benchmark based on three-year rolling historical performance. Performance standards for each asset class and investment type will vary depending on the ability to outperform the respective benchmark. The benchmarks for each asset class and investment type, as well as threshold, target, and maximum performance standards in effect during the three-year rolling historical period, culminating with the current Performance Period, are set forth on Table 2, which is attached as Appendix D. Table 2 will be revised, as necessary, for subsequent Performance Periods to reflect new benchmarks, as well as threshold, target, and maximum performance standards, in effect during the three-year rolling historical period, culminating with the subsequent Performance Period, in~~

~~which event, such revised table will be attached as Appendix D as soon as administratively practicable after the change in such benchmarks and standards necessitating such change are set.~~

(~~c~~b) Qualitative Performance

(1) The level of a Participant's Qualitative Performance will be measured by the CEO (in the case of the CCO, jointly by the Audit and Ethics Committee and the CEO), subject to approval by the Compensation Committee, based on the level of attainment (below threshold, threshold, target, or maximum) of the Participant's Qualitative Performance Goals for the Performance Period.

~~(1)~~(2) For purposes of determining the level of attainment of a Participant's Qualitative Performance Goal for the Performance Period related to Asset Class/Investment Type Performance, except as provided in Sections 5.8 and 5.9, as a starting point, Asset Class/Investment Type Performance will be based on three-year rolling historical performance measured between September 1 and the following August 31 of the applicable year relative to top quartile performance of a universe of peer funds as determined annually by the Compensation Committee.

~~(2)~~(3) For purposes of determining the level of attainment of each Participant's Qualitative Performance Goals for the Performance Period, the Participant will ~~have attained below threshold level if he or she fails to successfully complete at least 50% of his or her Qualitative Performance Goals for that Performance Period,~~receive 0% (threshold level) if he or she ~~successfully completes 50%~~fails to complete any of his or her Qualitative Performance Goals for that Performance Period, target level if he or she successfully completes ~~75~~50% of his or her Qualitative Performance Goals for that Performance Period, and the maximum level if he or she successfully completes 100% of his or her Qualitative Performance Goals for that Performance Period (with interpolation for levels of attainment between threshold, target, and maximum).

(~~3~~4) In determining the percentage of successful completion of a Participant's Qualitative Performance Goals, the CEO, and in the case of the CCO, the Audit and Ethics Committee (in the initial determination) and the Compensation Committee (in its review of the attained levels for approval) need not make such determination based solely on the number of Qualitative Performance Goals successfully completed but may take into account the varying degrees of importance of the Qualitative Performance Goals, changes in the Participant's employment duties occurring after the Qualitative Performance Goals are determined for the Performance Period, and any other facts and circumstances determined by the CEO, and in the case of the CCO, the Audit and Ethics Committee, or Compensation Committee (as applicable) to be appropriate for consideration in evaluation of the level of achievement of the Participant's Qualitative Performance Goals for the Performance Period.

5.9. *Modifications of Measurement Period for Measuring Entity and Asset Class/Investment Type Performance Goals*

(a) Although generally Entity Performance and most Asset Class/Investment Type Performance are measured based on three-year rolling historical performance, newly hired Participants will be phased into the Performance Incentive Plan so that Entity Performance and Asset Class/Investment Type Performance are measured over a period of time consistent with each Participant's tenure at UTIMCO. This provision ensures that a Participant is measured and rewarded over a period of time consistent with the period during which he or she influenced the performance of the entity or a particular asset class and investment type. In the Performance Period in which a Participant begins participation in the Performance Incentive Plan, the Entity Performance and Asset Class/Investment Type Performance ~~components of the Incentive Award Opportunity~~ will be based on one full year of historical performance (i.e., the performance for the Performance Period during which the Participant commenced Performance Incentive Plan participation). During a Participant's second year of Performance Incentive Plan participation, the Entity Performance and Asset Class/Investment Type Performance ~~components of the Incentive Award Opportunity~~ will be based on two full years of historical performance. In the third year of a Participant's Performance Incentive Plan participation and beyond, the Entity and Asset Class/Investment Type Performance ~~components of the Incentive Award Opportunity~~ will be based on the three full years of rolling historical performance.

(b) For purposes of measuring Entity and Asset Class/Investment Type Performance, the three-year historical performance cycle will not be utilized for any specific asset class and investment type (or subset of an asset class and investment type) until that asset class and investment type (or subset of that asset class and investment type) has three years of historical performance as part of the Performance Incentive Plan and, until that time, the actual years (full and partial) of historical performance of that asset class and investment type (or subset of that asset class and investment type) while part of the Performance Incentive Plan will be used as the measurement period.

(c) For purposes of measuring Entity and Asset Class/Investment Type Performance of an asset class and investment type (or subset of an asset class and investment type) that is removed from the Performance Incentive Plan prior to completion of the then in-progress three-year historical performance cycle, the three-year historical performance cycle will not be utilized for that removed asset class and investment type (or subset of an asset class and investment type), but instead the actual number of full months that the removed asset class and investment type was part of the Performance Incentive Plan during the then in-progress three-year historical performance cycle will be used as the measurement period.

(d) For purposes of measuring Asset Class/Investment Type Performance for a particular Participant of an asset class and investment type (or subset of an asset class and investment type) that is removed from or added to the Participant's responsibility during the then in-progress three-year historical performance cycle, the three-year historical performance cycle will not be utilized for that removed or added asset class and investment type (or subset of an asset class and investment type), but instead the actual number of full months that the removed or added asset class and investment type was part of the Participant's responsibility during the then in-progress three-year historical performance cycle will be used as the measurement period for evaluating the Asset Class/Investment Type Performance with respect to such Participant.

~~(e) Beginning with the Performance Period September 1, 2012 to August 31, 2013, Entity Performance and Asset Class/Investment Type Performance for the one-, two-, and three-year historical performance cycles will be measured from September 1st to August 31st. Notwithstanding anything in this Plan to the contrary, if, as a result of the change in the measurement period, in the opinion of the Board, an adjustment to a Participant's Performance Incentive Award is warranted, the Board in its discretion, is authorized to change the amount of a Participant's Performance Incentive Award for the first three Performance Periods beginning after August 31, 2012, so as not to unduly benefit, nor deprive or eliminate an award of a Participant.~~

5.10. Termination Provisions

(a) Except as otherwise provided in this Section 5.10, any Participant who ceases to be a Participant (either because of Termination of employment with UTIMCO or for any other reason stated in Section 5.3(c)) prior to the end of a Performance Period will not be eligible to receive payment of any Performance Incentive Award for that or any subsequent Performance Periods. In addition, a Participant will forfeit any Nonvested Deferred Awards at such Participant's Voluntary Termination or Involuntary Termination for Cause. Further, upon Involuntary Termination for reasons other than Cause, the amount in the Nonvested Deferred Award Accounts of such terminated individual will vest immediately and be paid on a date selected by UTIMCO and in no event later than the last day of the calendar year in which such Termination occurs.

(b) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment position is no longer an Eligible Position (but such employee continues to be employed with UTIMCO), such Participant's Performance

Incentive Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date the Participant ceases to be in an Eligible Position, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards of such individual continue to vest and be paid subject to the provisions of Section 5.7(b).

(c) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment with UTIMCO terminates due to death or Disability, the Participant's Performance Incentive Award for the Performance Period in which Termination occurs, in lieu of any other Performance Incentive Award under the Performance Incentive Plan, will be paid at target on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date of the Participant's death or Disability, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Award Accounts of such terminated individual will vest immediately and be paid on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which such termination occurs. Payments under this provision will be made to the estate or designated beneficiaries of the deceased Participant or to the disabled Participant, as applicable.

(d) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because he or she commences a leave of absence, such Participant's Performance Incentive Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or coinciding with the date the Participant commences such leave of absence, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards of such individual continue to vest and be paid subject to the provisions of Section 5.7(b).

(e) In the case of any Participant who ceases to be a Participant in the Performance Incentive Plan prior to the end of Performance Period and is entitled to a Performance Incentive Award or a prorated Performance Incentive Award under this Section 5.10, such Performance Incentive Award will be calculated at the time and in the manner provided in Section 5.5 and Appendix A and paid in accordance with Section 5.6 and will not be calculated or paid prior to such time.

5.11. Eligibility for Retirement

A participant is eligible for retirement on the last day of the month in which the sum of the Participant's age and years of service, including months of age and months of service credit, equals or exceeds the number 75.

In the case of any Participant who is eligible for retirement, any Performance Incentive Award to which the Participant becomes entitled, as well as any remaining Nonvested Deferred Award, will vest immediately and be includible in the Participant's gross income for Federal income tax purposes in the calendar year in which vesting occurs without regard to when payment is made to the Participant. The vested Performance Incentive Award and any remaining Nonvested Deferred Award will be paid to the participant on a date selected by UTIMCO and in no event later than the last day of the calendar year unless the Participant has agreed to a Voluntary Deferral of all or a portion of his Performance Incentive Award that would otherwise have been deferred had the Participant not been eligible for retirement ("Amount Voluntarily Deferred"). If the Participant has agreed to a Voluntary Deferral of such amount of his Performance Incentive Award,

(a) the Amount Voluntarily Deferred (1) will be credited to a hypothetical account established in the Participant's name on UTIMCO's books ("Amount Voluntarily Deferred Account") and (2) will be credited (or debited) monthly with an amount equal to the Net Returns for the month multiplied by the balance in the Participant's Amount Voluntarily Deferred Account as of the last day of the month, provided that when the Amount Voluntarily Deferred is initially credited to the Participant's Amount Voluntarily Deferred Account, the Participant's Amount Voluntarily Deferred Account will be credited (or debited) with Net Returns for the month of the initial credit, but the Net Returns will be prorated to reflect the number of days of the month during which the amounts were credited to the Participant's Amount Voluntarily Deferred Account;

(b) except as provided in clause (c) below, the amount credited to the Participant's Amount Voluntarily Deferred Account shall be paid to the Participant only on the following dates and in the following amounts:

    (1) On the first anniversary of the last day of the Performance Period for which the Amount Voluntarily Deferred was earned, one third of the amount then credited to the Participant's Amount Voluntarily Deferred Account for that Performance Period will be paid to the Participant.

    (2) On the second anniversary of the end of the Performance Period for which the Amount Voluntarily Deferred was earned, one half of the amount then credited to the Participant's Amount Voluntarily Deferred Account for that Performance Period will be paid to the Participant.

(3) On the third anniversary of the end of the Performance Period for which the Amount Voluntarily Deferred was earned, the remaining amount then credited to the Participant's Amount Voluntarily Deferred Account for that Performance Period will be paid to the Participant.

(4) Amount Voluntarily Deferred Accounts payable under the above paragraphs of this Section 5.11(b) will be paid on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which the applicable portion of such Amount Voluntarily Deferred Account becomes due and payable; and

(c) any net credits or debits to the Participant's Amount Voluntarily Deferred Account pursuant to clause (a)(2) above will be includible in the Participant's gross income and taxable to the Participant as ordinary income for Federal income tax purposes, and will be subject to Federal employment taxes and wage withholding during the year in which such amounts are paid pursuant to clauses (a) or (b) above.

5.12. Extraordinary Circumstances

Notwithstanding anything in this Plan to the contrary, the timing and amount of Performance Incentive Awards of each Participant holding an Eligible Position listed on Table 3, which is attached as Appendix E (each, an "Affected Participant"), are subject to automatic adjustment as follows:

(a) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are negative at the end of such Performance Period, (i) an amount otherwise equal to the Paid Performance Incentive Award attributable to such Performance Period for each Affected Participant will be treated as an "Extraordinary Nonvested Deferral Award" for such Affected Participant that is subject to forfeiture in the same manner and for the same reasons as Nonvested Deferral Awards pursuant to Section 5.10(a), (ii) a separate hypothetical account for such Affected Participant will be established on UTIMCO's books ("Extraordinary Nonvested Deferral Award Account"), which will be (1) credited with such Affected Participant's Extraordinary Nonvested Deferral Award and (2) credited (or debited) monthly with Net Returns of the Total Endowment Assets on the same dates and in the same manner as applies to Nonvested Deferral Award Accounts pursuant to Section 5.7(a), and (iii) unless such Affected Participant's Extraordinary Nonvested Deferral Award has been forfeited pursuant to Section 5.10(a) or Section 5.13, such Affected Participant will become vested in, and entitled to payment of, the amount of his or her Extraordinary Nonvested Deferral Award Account on the first anniversary of the last day of such Performance Period; provided that upon the death, Disability or Involuntary Termination of an Affected Participant for reasons other than Cause, the amount in the Extraordinary Nonvested Deferral Award Account of such Affected

Participant will vest immediately and be paid (to the Affected Participant or, in the case of death, to the estate or designated beneficiaries of the deceased Affected Participant) on a date selected by UTIMCO and in no event later than the last day of the calendar year in which such Termination occurs; provided, further, that nothing in this clause (a) shall affect the vesting and payment of Nonvested Deferral Awards to any Affected Participant nor shall it affect the vesting and payment of Performance Incentive Awards to a Participant that has satisfied the requirements for Eligibility for Retirement;

(b) If the Net Returns of the Total Endowment Assets since the end of the Performance Period for which Performance Incentive Awards are being determined are a negative 10.00% or below (measured as of the most recent month-end for which performance data are available) on the date the Board approves the Performance Incentive Award for an Affected Participant, an amount otherwise equal to such Affected Participant's Paid Performance Incentive Award attributable to such Performance Period will also be treated as an "Extraordinary Nonvested Deferral Award" for such Affected Participant that is subject to clause (a) above; provided that nothing in this clause (b) shall affect the vesting and payment of Nonvested Deferral Awards to any Affected Participant nor shall it affect the vesting and payment of Performance Incentive Awards to a Participant that has satisfied the requirements for Eligibility for Retirement; and

~~(c) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5.00% at the end of such Performance Period, the Performance Incentive Award for each Affected Participant for that Performance Period (calculated pursuant to Section 5.5 above) will be reduced by 10% for each percentage point (or portion thereof) of Net Returns below a negative 5.00%, such that the Performance Incentive Award for each such Affected Participant will be eliminated in the event of negative Net Returns below 14.00% (e.g., negative Net Returns of 5.01% will result in the Performance Incentive Award for such Affected Participant being reduced by 10%, negative Net Returns of 6.01% will result in the Performance Incentive Award for such Affected Participant being reduced by 20%, and so forth);~~

~~(d) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are in excess of positive 20.00% at the end of such Performance Period, the Performance Incentive Award for each Affected Participant for that Performance Period (calculated pursuant to Section 5.5 above) will be increased by 10% for each percentage point (or portion thereof) of positive Net Returns in excess of 20.00% (subject to an overall increase limit of 100%), such that the increase in Performance Incentive Award for such Affected Participant will be capped at 100% for positive performance in excess of 29.00% (e.g., positive Net Returns of 20.01% will result in the Performance Incentive Award for such Affected Participant being increased by 10%, positive Net Returns of 21.01% will result in the Performance~~

~~Incentive Award for such Affected Participant being increased by 20%, and so forth); and~~

(~~e~~c) Table 3, which is attached as Appendix E, will be revised, as necessary, for each Performance Period to identify the Eligible Positions whose Performance Incentive Awards are subject to automatic adjustment as to timing and amount pursuant to clauses (a)~~-~~ and (~~d~~b) above as soon as administratively practicable after approval by the Board and such revised Table 3 will be attached as Appendix E.

5.13. Recovery of Performance Incentive Awards

Notwithstanding anything in this Plan to the contrary, if the Board (in its sole discretion, but acting in good faith) determines (a) that a Participant has engaged in willful misconduct that materially disrupts, damages, impairs or interferes with the business, reputation or employee relations of UTIMCO or The University of Texas System, such Participant will not be entitled to any Performance Incentive Awards for the Performance Periods during which the Board determines such misconduct occurred, or (b) that a Participant has engaged in fraudulent misconduct that caused or contributed to a restatement of the investment results upon which such Participant's Performance Incentive Awards were determined by knowingly falsifying any financial or other certification, knowingly providing false information relied upon by others in a financial or other certification, or engaging in other fraudulent activity, or knowingly failing to report any such fraudulent misconduct by others in accordance with UTIMCO's Employee Handbook, such Participant will not be entitled to any Performance Incentive Awards for the Performance Periods for which investment results were so restated. To the extent a Participant has been awarded Performance Incentive Awards to which he or she is not entitled as a result of clause (a) or (b) above, Performance Incentive Awards shall be recovered by UTIMCO pursuant to the following remedies in the order listed: first, such Participant's Nonvested Deferred Awards and Extraordinary Nonvested Deferred Awards will be automatically forfeited; second, any Paid Performance Incentive Award not then paid to such Participant will be withheld and automatically forfeited; and third, such Participant must return to UTIMCO the remaining excess amount. Recovery of Performance Incentive Awards to which a Participant is not entitled pursuant to this Section 5.13 does not constitute a settlement of other claims that UTIMCO may have against such Participant, including as a result of the conduct giving rise to such recovery. Further, the remedies set forth above are in addition to, and not in lieu of, any actions imposed by law enforcement agencies, regulators or other authorities.

6. COMPENSATION PROGRAM AUTHORITY AND RESPONSIBILITY

6.1. Board as Plan Administrator

Except as otherwise specifically provided in this Compensation Program with respect to powers, duties, and obligations of the Compensation Committee, the Compensation Program will be administered by the Board.

6.2. Powers of Board

The Board has all powers specifically vested herein and all powers necessary or advisable to administer the Compensation Program as it determines in its discretion, including, without limitation, the authority to:

(1) Establish the conditions for the determination and payment of compensation by establishing the provisions of the Performance Incentive Plan.

(2) Select the employees who are eligible to be Participants in the Performance Incentive Plan**.**

(3) Delegate to any other person, committee, or entity any of its ministerial powers and/or duties under the Compensation Program as long as any such delegation is in writing and complies with the UTIMCO Bylaws.

7. COMPENSATION PROGRAM INTERPRETATION

7.1. Board Discretion

(a) Consistent with the provisions of the Compensation Program, the Board has the discretion to interpret the Compensation Program and may from time to time adopt such rules and regulations that it may deem advisable to carry out the Compensation Program. All decisions made by the Board in selecting the Participants approved to receive Performance Incentive Awards, including the amount thereof, and in construing the provisions of the Compensation Program, including without limitation the terms of any Performance Incentive Awards, are final and binding on all Participants.

(b) Notwithstanding any provision of the Compensation Program to the contrary and subject to the requirement that the approval of Performance Incentive Awards that will result in an increase of 5% or more in the total Performance Incentive Awards calculated using the methodology set out on Appendix A must have the prior approval of the U. T. System Board of Regents, the Board has the discretion and authority to make changes in the terms of the Compensation Program in determining a Participant's eligibility for, or amount of, a Performance Incentive Award for any Performance Period whenever it considers that circumstances have occurred during the Performance Period so as to make such changes appropriate in the opinion of the Board, provided, however, that any such change will not deprive or eliminate an award of a Participant after it has become vested and that such circumstances are recorded in the minutes of a meeting of the Board.

7.2. Duration, Amendment, and Termination

The Board has the right in its discretion to amend the Compensation Program or any portion thereof from time to time, to suspend it for a specified period, or to terminate it entirely or any portion thereof. However, if the Performance Incentive Plan is suspended or terminated during a Performance Period, Participants will receive a prorated Performance Incentive Award based on performance achieved and base salary earned through the Performance Measurement Date immediately preceding such suspension or termination. The Compensation Program will be in effect until suspension or termination by the Board; provided, however, that if the Board so determines at the time of any suspension or termination of the Performance Incentive Plan, Nonvested Deferred Awards credited to Participants' Nonvested Deferred Award Account(s) as of the effective date of such suspension or termination will continue to be administered under the terms of the Performance Incentive Plan after any suspension or termination, except as the Board otherwise determines in its discretion at the time of such suspension or termination.

7.3. Recordkeeping and Reporting

(a) All records for the Compensation Program will be maintained by the Managing Director of Accounting, Finance, and Administration at UTIMCO. Relative performance data and calculations will be reviewed by UTIMCO's external auditor before Performance Incentive Awards are finalized and approved by the Board.

(b) UTIMCO will provide all Participants with a comprehensive report of the current value of their respective Nonvested Deferred Award and Extraordinary Nonvested Deferred Award Account balances, including a complete vesting status of those balances, on at least a quarterly basis.

7.4. Continued Employment

Nothing in the adoption of the Compensation Program or the awarding of Performance Incentive Awards will confer on any employee the right to continued employment with UTIMCO or affect in any way the right of UTIMCO to terminate his or her employment at any time.

7.5. Non-transferability of Awards

Except for the rights of the estate or designated beneficiaries of Participants to receive payments, as set forth herein, Performance Incentive Awards under the Performance Incentive Plan, including both the Paid Performance Incentive Award portion and the Nonvested Deferred Award portion, are non-assignable and non-transferable and are not subject to anticipation, adjustment, alienation, encumbrance, garnishment, attachment, or levy of any kind. The preceding notwithstanding, the Compensation Program will pay any portion of a Performance Incentive Award that is or becomes vested in accordance with an order that meets the requirements of a "qualified domestic relations order" as set forth in Section 414(p) of the *Internal Revenue Code* and Section 206(d) of ERISA.

7.6. Unfunded Liability

(a) Neither the establishment of the Compensation Program, the award of any Performance Incentive Awards, nor the creation of Nonvested Deferred Awards Accounts will be deemed to create a trust. The Compensation Program will constitute an unfunded, unsecured liability of UTIMCO to make payments in accordance with the provisions of the Compensation Program. Any amounts set aside by UTIMCO to assist it in the payment of Performance Incentive Awards or other benefits under the Compensation Program, including without limitation, amounts set aside to pay for Nonvested Deferred Awards, will be the assets of UTIMCO, and no Participant will have any security or other interest in any assets of UTIMCO or the U. T. System Board of Regents by reason of the Compensation Program.

(b) Nothing contained in the Compensation Program will be deemed to give any Participant, or any personal representative or beneficiary, any interest or title to any specific property of UTIMCO or any right against UTIMCO other than as set forth in the Compensation Program.

7.7. Compliance with State and Federal Law

No portion of the Compensation Program will be effective at any time when such portion violates an applicable state or federal law, regulation, or governmental order or directive.

7.8. Federal, State, and Local Tax and Other Deductions

All Performance Incentive Awards under the Compensation Program will be subject to any deductions (1) for tax and withholding required by federal, state, or local law at the time such tax and withholding is due (irrespective of whether such Performance Incentive Award is deferred and not payable at such time) and (2) for any and all amounts owed by the Participant to UTIMCO at the time of payment of the Performance Incentive Award. UTIMCO will not be obligated to advise an employee of the existence of the tax or the amount that UTIMCO will be required to withhold.

7.9. Prior Plan

(a) Except as provided in the following paragraphs of this Section 7.9, this Compensation Program supersedes any prior version of the Compensation Program ("Prior Plan").

(b) All nonvested deferred awards under a Prior Plan will retain the vesting schedule in effect under the Prior Plan at the time such awards were allocated to the respective Participant's account. In all other respects, as of the Effective Date, those nonvested deferred amounts will (1) be credited or debited with the Net Returns over the remaining deferral period in accordance with Section 5.7(a), and (2) be subject to the terms and conditions for Nonvested Deferred Awards under the Performance Incentive Plan as set forth in this restated document.

8. DEFINITION OF TERMS

8.1. Affected Participant is defined in Section 5.12.

8.2. Applicable Deferral Percentage means, as to each Eligible Position, the percentage set forth opposite such Eligible Position under the heading "Percentage of Award Deferred" on Table 1, which is attached as Appendix C.

8.3. Asset Class/Investment Type Performance is the performance of specific asset classes and investment types within the Total Endowment Assets and the Intermediate Term Fund (such as developed country, private investments, etc.) ~~based on the standards set forth in Section 5.8(b)~~.

8.4. Board is the UTIMCO Board of Directors.

8.5. Cause means, as to any employee, that such employee has committed (as determined by UTIMCO in its sole discretion) any of the following: (1) a violation of any securities law or any other law, rule or regulation; (2) willful conduct that reflects negatively on the public image of UTIMCO or the U. T. System; or (3) a breach of UTIMCO's Code of Ethics.

8.6. Compensation Committee is the Compensation Committee of the UTIMCO Board of Directors.

8.7. Compensation Program is defined in Section 1.

8.8. Disability means a condition whereby a Participant either (i) is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that is expected either to result in death or to last for a continuous period of not less than 12 months or (ii) is, by reason of a medically determinable physical or mental impairment that is expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under a disability plan maintained or contributed to by UTIMCO for the benefit of eligible employees.

8.9. Effective Date is defined in Section 1.

8.10. Eligible for Retirement is defined in Section 5.11.

8.11. Eligible Position is defined in Section 5.3(a).

8.12. Entity Performance represents the performance of the Total Endowment Assets and the Intermediate Term Fund (based on the measurement standards set forth in Section 5.8(a)).

8.13. Extraordinary Nonvested Deferral Award is defined in Section 5.12.

8.14. Extraordinary Nonvested Deferral Award Account is defined in Section 5.12.

8.15. Incentive Award Opportunity is defined in Section 5.5(a).

8.16. Intermediate Term Fund or ITF is The University of Texas System ("U. T. System") Intermediate Term Fund established by the U. T. System Board of Regents as a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by the U. T. System institutions and U. T. System Administration. Performance of the Intermediate Term Fund is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Intermediate Term Fund.

8.17. Intermediate Term Fund Policy Portfolio Return is the benchmark return for the Intermediate Term Fund policy portfolio and is calculated by summing the neutrally weighted index returns (percentage weight for each asset class and investment type multiplied by the benchmark return for the asset class and investment type) for the various asset classes and investment types in the Intermediate Term Fund policy portfolio for the Performance Period.

8.18. Involuntary Termination means, as to any person the Termination of such person's employment with UTIMCO wholly initiated by UTIMCO and not due to such person's implicit or explicit request, at a time when such person is otherwise willing and able to continue to perform services for UTIMCO.

8.19. Net Returns is the investment performance return of the Total Endowment Assets, net of fees. Net of fees factors in all administrative and other fees for managing the Total Endowment Assets. The net investment return will be calculated as follows:

$$\frac{\text{Permanent University Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{Permanent University Fund Net Investment Return}$$

$$\text{Plus}$$

$$\frac{\text{General Endowment Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{General Endowment Fund Net Investment Return}$$

8.20. Nonvested Deferred Award is defined in Section 5.6(b).

8.21. Nonvested Deferred Award Account is defined in Section 5.7(a).

8.22. Paid Performance Incentive Award is defined in Section 5.6(a).

8.23. Participant is defined in Section 5.3(a).

8.24. Peer Group is a peer group of endowment funds that is comprised of all endowment funds with more than 10 full-time employee positions, allocations to alternative assets in excess of 40%, and with assets greater than $2.5 billion, all to be determined as of the last day of each of the three immediately preceding Performance Periods as set forth on Appendix B; provided, however, that the Total Endowment Assets are excluded from the Peer Group. The Peer Group will be updated from time to time as deemed appropriate by the Board, and Appendix B will be amended accordingly.

8.25. Performance Goals are defined in Section 5.4.

8.26. Performance Incentive Award is the component of a Participant's total compensation that is based on specific performance goals and awarded as current income or deferred at the end of a Performance Period in accordance with Section 5 and Appendix A.

8.27. Performance Incentive Plan is as defined in Section 1 and described more fully in Section 5.

8.28. Performance Measurement Date is the close of the last business day of the month.

8.29. Performance Period is defined in Section 5.2.

8.30. Prior Plan is defined in Section 7.9.

8.31. Salary Structure is described in Section 4.1.

8.32. Termination means, as to any person, a complete severance of the relationship of employer and employee between UTIMCO and such person.

8.33. Total Endowment Assets or TEA means the combination of the Permanent University Fund and the General Endowment Fund, but does not include any other endowment funds monitored by UTIMCO such as the Separately Invested Fund. Performance of the Total Endowment Assets is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Total Endowment Assets.

8.34. Total Endowment Assets Policy Portfolio Return is the benchmark return for the Total Endowment Assets policy portfolio and is calculated by summing the neutrally weighted index returns (percentage weight for each asset class and investment type multiplied by the benchmark return for the asset class and investment type) for the various asset classes and investment types in the Total Endowment Assets policy portfolio for the Performance Period.

8.35. Voluntary Terminations means, as to any person, the Termination of such person's employment with UTIMCO not resulting from an Involuntary Termination or by reason of Death or disability.

Appendix A

Performance Incentive Award Methodology (for Performance Periods beginning on or after September 1, ~~2013~~2015)

I. Determine "Incentive Award Opportunities" for Each Participant[2]

Step 1. Identify the weights to be allocated to each of the ~~three~~ two Performance Goals for each Participant's Eligible Position. The weights vary for each Eligible Position each Performance Period and are set forth in Table 1 on Appendix C for the applicable Performance Period. The total of the weights ascribed to the ~~three~~ two Performance Goals must add up to 100% for each Participant. For example, Table 1 on Appendix C may reflect for a Performance Period for the CEO that the weight allocated to the Entity Performance Goal is ~~60%~~80%, ~~the weight allocated to the Asset Class/Investment Type Performance Goal is 0%,~~ and the weight allocated to the Individual Performance Goal is ~~40%~~20%.

Step 2. Identify the percentage of base salary for the Participant's Eligible Position that determines the Performance Incentive Award for achievement of the Threshold, Target, and Maximum levels of the Performance Goals. The percentages vary for each Eligible Position each Performance Period and are set forth in Table 1 on Appendix C for the applicable Performance Period. For example, Table 1 on Appendix C may show that for a Performance Period the applicable percentages for determining the Performance Incentive Award for the CEO are 0% of his or her base salary for achievement of Threshold level performance of ~~all three~~both Performance Goals, ~~125~~200% of his or her base salary for achievement of Target level performance of ~~all three~~both Performance Goals, and ~~340~~450% of his or her base salary for achievement of Maximum level performance of ~~all three~~both Performance Goals.

Step 3. Calculate the dollar amount of the potential Threshold, Target, and Maximum awards (the "Incentive Award Opportunities") for each Participant by multiplying the Participant's base salary for the Performance Period by the applicable percentage (from Step #2 above). For example, assuming the CEO has a base salary of $~~655,000~~750,000 for a Performance Period, based on the assumed percentages set forth in Step #2 above, the CEO will be eligible for a total award of $0 if he or she achieves Threshold level performance of ~~all three~~both Performance Goals, $~~818,750~~1,500,00 (~~125~~200% of his or her base salary) if he or she achieves Target level

[2] These Incentive Award Opportunities represent amounts that each Participant will be awarded if he or she achieves his or her Performance Goals at varying levels and are calculated at the beginning of each Performance Period or, if later, the date such Participant commences participation in the Performance Incentive Plan.

performance of ~~all three~~both Performance Goals, and $~~2,227,000~~3,375,000 (~~340~~450% of his or her base salary) if he or she achieves Maximum level performance of ~~all three~~both Performance Goals.

Step 4. Because a Participant may achieve different levels of performance in different Performance Goals and be eligible for different levels of awards for that achievement (e.g., he or she may achieve Target performance in the Entity Performance Goal and be eligible to receive a Target award for that goal and achieve Maximum performance in the Qualitative Performance Goal and be eligible to receive a Maximum award for that Performance Goal), it is necessary to determine the Incentive Award Opportunity of the Threshold, Target, and Maximum award for each separate Performance Goal (and, because achievement of the Entity Performance Goal is determined in part by achievement of the Total Endowment Assets and in part by achievement of the Intermediate Term Fund, a Threshold, Target, and Maximum Incentive Award Opportunity separately for the TEA and the ITF must be determined). This is done by multiplying the dollar amount of the Threshold, Target, and Maximum awards for the performance of ~~all three~~both Performance Goals calculated in Step #3 above for the Participant by the weight allocated for that Participant to the particular Performance Goal (and, further, by multiplying the Incentive Award Opportunity for the Entity Performance by the weight ascribed to achievement of the Total Endowment Assets (80%) and by the weight ascribed to achievement of the Intermediate Term Fund (20%)).

Step 5. After Steps #3 and #4 above are performed for each of the three levels of performance for each of the ~~three~~ two Performance Goals, there will be ~~12~~ 9 different Incentive Award Opportunities for each Participant. For example, for the CEO (based on an assumed base salary of $~~655,000~~750,000, the assumed weights for the Performance Goals set forth in Step #1 above, and the assumed percentages of base salary for the awards set forth in Step #2 above), the ~~12~~ 9 different Incentive Award Opportunities for achievement of the Performance Goals for the Performance Period are as follows:

Incentive Award Opportunities for CEO
(based on assumed base salary of $~~655,000~~750,000)

Performance Goal	Weight	Threshold Level Award	Target Level Award	Maximum Level Award
Entity (TEA v. TEA Policy Portfolio Return	~~48~~64% (.80 x .~~60~~80)	$0	$~~393,000~~960,000	$~~1,068,960~~2,160,000
Entity (ITF v. ITF Policy Portfolio Return)	~~12~~16% (.20 x .~~60~~80)	$0	$~~98,250~~240,000	$~~267,240~~540,000
~~Asset Class/Investment Type~~	~~0%~~	~~$0~~	~~$0~~	~~$0~~
Qualitative	~~40~~20%	$0	$~~327,500~~300,000	$~~890,800~~675,000
Total	100%	$0 (0% of salary)	$~~818,750~~1,500,000 (~~125~~200% of salary)	$~~2,227,000~~3,375,000 (~~340~~450% of salary)

II. Calculate Performance Incentive Award for Each Participant[3]

Step 6. Identify the achievement percentiles or achieved basis points that divide the Threshold, Target, and Maximum levels for each Performance Goal. These divisions for the level of achievement of the Entity ~~and Asset Class/Investment Type Performance Goals~~ are set forth in the table for the applicable Performance Period as set forth on Appendix D. The measurement for the level of achievement (i.e., Threshold, Target, or Maximum) for the Qualitative Performance Goal is initially determined each Performance Period by the Participant's supervisor, if any, (in the case of the CCO, jointly by the Audit and Ethics Committee and the CEO), and then is approved (or adjusted) by the Compensation Committee as it deems appropriate in its discretion. If the Participant has no supervisor, the measurement for the level of achievement for the Qualitative Performance Goal is determined each Performance Period by the Compensation Committee**.** The Board will determine the CEO's level of achievement relative to the CEO's Performance Goals.

Step 7. Determine the percentile or basis points achieved for each Performance Goal for each Participant using the standards set forth in Sections 5.5 and 5.8 of the Compensation Program, as modified in Section 5.9. Determine the level of achievement of each Participant's Qualitative Performance Goal.

Step 8. Calculate the amount of each Participant's award attributable to each Performance Goal by identifying the Incentive Award Opportunity amount for each Performance Goal (e.g., as assumed and set forth for the CEO in the table in Step #5 above) commensurate with the Participant's level of achievement for that Performance Goal (determined in Steps #6 and #7

[3] ~~In the event that the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 14.0% at the end of such Performance Period, steps 6 through 14 need not be followed with respect to Affected Participants when calculating Performance Incentive Awards for that Performance Period.~~

above). An award for achievement percentiles in between the stated Threshold, Target, and Maximum levels is determined by linear interpolation. For example, if +~~100~~ 150 bps of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal has been achieved, that +~~100~~ 150 bps is between the Target (+~~75~~ 100 bps) and the Maximum (+~~225~~ 250 bps) levels, so to determine the amount of the award attributable to +~~100~~ 150 bps of achievement of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal, perform the following steps: (i) subtract the difference between the dollar amounts of the Target and Maximum Incentive Award Opportunities for the Participant (e.g., for the CEO, as illustrated in the table in Step #5, the difference is $~~675,960~~1,200,000 ($~~1,068,960-$393,000~~2,160,000-960,000)); (ii) divide ~~25~~ 50 (the bps difference between the Target level of +~~75~~ 100 bps and the attained level of +~~100~~ 150 bps) by 150 (the bps difference between the Target level and Maximum level) to get the fraction ~~25~~50/150 to determine the pro rata portion of the difference between Target and Maximum actually achieved; (iii) multiply the amount determined in the preceding Step (i) by the fraction determined in the preceding Step (ii) ($~~675,960~~1,200,000 x ~~25~~50/150 = $~~112,660~~400,000); and (iv) add the amount determined in the preceding Step (iii) to the Target Incentive Award Opportunity for the Participant to get the actual award for the Participant attributable to each Performance Goal ($~~112,660~~400,000+$~~393,000~~960,000=$~~505,660~~1,360,000).

Step 9. ~~In determining the Asset Class/Investment Type Performance portion of an award for a Performance Period for each Participant who is responsible for more than one asset class and investment type during that Performance Period, first, the Participant's attained level of achievement (i.e., Below Threshold, Threshold, Target, or Maximum) is determined for each asset class and investment type for which such Participant is responsible by comparing the actual performance to the appropriate benchmark for the asset class and investment type; then, the award is calculated for the determined level of achievement for each such asset class and investment type by multiplying the award commensurate with the level of achievement by the weight assigned to the Asset Class/Investment Type Performance Goal for such Participant; then, the various asset classes and investment types for which the Participant is responsible are assigned a pro rata weight (i.e., the assets in such asset class and investment type relative to the total assets under such Participant's responsibility); then, each determined award for a separate asset class and investment type is multiplied by the weight for that asset class and investment type; and, finally, the weighted awards are totaled to produce the Participant's award attributable to Asset Class/Investment Type Performance.~~

~~Step 10.~~ In determining the award attributable to the Entity Performance Goal, achievement of the Total Endowment Assets portion of the Entity Performance Goal (and the commensurate award) is weighted at 80% (and then multiplied by the weight assigned to the Entity Performance Goal for the Participant), and achievement of the Intermediate Term Fund portion of the Entity Performance Goal (and commensurate award) is weighted at 20% (and then multiplied by the weight assigned to the Entity Performance Goal for the Participant). For example, assuming a base salary of $~~655,000~~750,000, if the CEO achieved the Target level (+~~75~~ 100 bps) of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal, and achieved the Maximum level (+150 bps) of the Intermediate Term Fund portion of the Entity Performance Goal, he or she would have earned an award of $~~660,240~~1,500,000 for his or her level of achievement of the Entity Performance Goal as follows: $~~393,000~~960,000 for Target level of achievement of the TEA benchmark portion of the TEA portion of Entity Performance Goal (.80 x ~~.60~~.80 x $~~655,000~~1,500,000) plus $~~267,240~~540,000 for Maximum level of achievement of the ITF portion of the Entity Performance Goal (.20 x ~~.60~~.80 x $~~2,227,000~~3,375,000).

Step ~~11~~10. No award is given for an achievement percentile below Threshold, and no award above the Maximum award is given for an achievement percentile above the Maximum level.

Step ~~12~~11. Subject to any applicable adjustment in Step #~~13~~12 below, add the awards determined in Steps #8~~,~~ and #9~~, and #10~~ above for each Performance Goal (as modified by Step #~~11~~10) together to determine the total amount of the Participant's Performance Incentive Award for the Performance Period.

Step ~~13~~12. In the case of any Participant who becomes a Participant in the Performance Incentive Plan after the first day of the applicable Performance Period, such Participant's Performance Incentive Award (determined in Step #~~12~~11) will be prorated to reflect the actual portion of the Performance Period in which he or she was a Participant. In the case of a Participant who ceases to be a Participant prior to the end of a Performance Period, his or her entitlement to any Performance Incentive Award is determined under Section 5.10 and, in the case of such entitlement, such Participant's Performance Incentive Award, if any, will be prorated and adjusted as provided in Section 5.10.

~~Step 14. In the case of any Affected Participant, such Affected Participant's Performance Incentive Award calculated pursuant to Steps #1 through #13 above shall be multiplied by the appropriate factor set forth in the following charges:~~

~~When Net Returns of Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5.0% at the end of such Performance Period:~~

~~Actual Negative Net Returns (Rounded to Nearest One-Hundredth Decimal)~~	~~Factor~~
~~5.01 - 6.00~~	~~.9~~
~~6.01 - 7.00~~	~~.8~~
~~7.01 - 8.00~~	~~.7~~
~~8.01 - 9.00~~	~~.6~~
~~9.01 - 10.00~~	~~.5~~
~~10.01 - 11.00~~	~~.4~~
~~11.01 - 12.00~~	~~.3~~
~~12.01 - 13.00~~	~~.2~~
~~13.01 - 14.00~~	~~.1~~
~~14.01 and Below~~	~~.0~~

~~When Net Returns of Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are in excess of positive 20.0% at the end of such Performance Period:~~

~~Actual Positive Net Returns (Rounded to Nearest One-Hundredth Decimal)~~	~~Factor~~
~~20.01 - 21.00~~	~~1.1~~
~~21.01 - 22.00~~	~~1.2~~
~~22.01 - 23.00~~	~~1.3~~
~~23.01 - 24.00~~	~~1.4~~
~~24.01 - 25.00~~	~~1.5~~
~~25.01 - 26.00~~	~~1.6~~
~~26.01 - 27.00~~	~~1.7~~
~~27.01 - 28.00~~	~~1.8~~
~~28.01 - 29.00~~	~~1.9~~
~~29.01 and Above~~	~~2.0~~

Appendix B

UTIMCO Peer Group

- Brown University
- Columbia University
- Cornell University
- Dartmouth College
- Duke University
- Emory University
- Harvard University
- Johns Hopkins University
- Massachusetts Institute of Technology
- New York University
- Northwestern University
- Princeton University
- Rice University
- Stanford University
- UNC Management Company
- University of California
- University of Chicago
- University of Michigan
- University of Notre Dame
- University of Pennsylvania
- University of Southern California
- University of Virginia Investment Management Company
- Vanderbilt University
- Washington University in St. Louis
- Yale University

Source: Cambridge Associates. Represents endowment funds (excluding the Total Endowment Assets) with more than 10 full-time employee positions, allocations to alternative assets in excess of 40%, and with assets greater than $2.5 billion, all to be determined as of the last day of each fiscal year end June 2011, 2012, and 2013.

Appendix C

Eligible Positions
Weightings
Incentive Award Opportunities
Percentage of Award Deferred
for each Eligible Position

(for each Performance Period)

~~TABLE 1 (For the Performance Periods beginning after August 31, 2014)~~

	Weighting			Incentive Award Opportunity (% of Salary)				Percentage of Award
Eligible Position	**Entity**	**Asset Class/ Investment Type**	**Qualitative (Individual)**	**< Threshold**	**Threshold**	**Target**	**Maximum**	**Deferred**
		Investment Professionals						
CEO & Chief Investment Officer	60%	0%	40%	0%	0%	125%	340%	50%
President & Deputy CIO	40%	40%	20%	0%	0%	115%	300%	50%
Senior Managing Director - Investments	30%	40%	30%	0%	0%	110%	260%	45%
Managing Director - Investments	30%	40%	30%	0%	0%	100%	240%	40%
Managing Director - Private Investments	30%	30%	40%	0%	0%	100%	240%	40%
Managing Director - Risk Management	30%	0%	70%	0%	0%	65%	180%	40%
Senior Director - Investments	25%	35%	40%	0%	0%	70%	185%	35%
Senior Portfolio Manager	20%	40%	40%	0%	0%	70%	185%	35%
Senior Director - Risk Management	30%	0%	70%	0%	0%	55%	170%	35%
Portfolio Manager	20%	40%	40%	0%	0%	60%	170%	30%
Director - Investments	20%	40%	40%	0%	0%	60%	170%	30%
Director - Private Investments	20%	30%	50%	0%	0%	60%	170%	30%
Director - Risk Management	30%	0%	70%	0%	0%	50%	150%	30%
Senior Associate - Investments	15%	35%	50%	0%	0%	50%	150%	20%
Senior Associate - Private Investments	15%	25%	60%	0%	0%	50%	150%	20%
Senior Associate - Risk Management	30%	0%	70%	0%	0%	45%	140%	20%
Associate - Investments	15%	30%	55%	0%	0%	35%	135%	15%
Associate - Private Investments	15%	20%	65%	0%	0%	35%	135%	15%
Associate - Risk Management	30%	0%	70%	0%	0%	35%	120%	15%
Senior Analyst - Investments	10%	20%	70%	0%	0%	30%	100%	0%
Analyst - Investments	10%	20%	70%	0%	0%	25%	75%	0%
Analyst - Risk Management	30%	0%	70%	0%	0%	25%	75%	0%
		Operations/Support Professionals						
Senior Managing Director	20%	0%	80%	0%	0%	65%	150%	40%
Chief Technology Officer	20%	0%	80%	0%	0%	55%	100%	30%
General Counsel & Chief Compliance Officer	0%	0%	100%	0%	0%	50%	120%	30%
Senior Manager	20%	0%	80%	0%	0%	50%	90%	25%
Manager	20%	0%	80%	0%	0%	50%	80%	25%
Investment Counsel	20%	0%	80%	0%	0%	40%	80%	25%
Senior Financial Analyst	20%	0%	80%	0%	0%	40%	60%	20%
IT Investment Associate	20%	0%	80%	0%	0%	35%	100%	20%

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TABLE 1 (For the Performance Periods beginning after August 31, 2015)

	Weighting		Incentive Award Opportunity (% of Salary)				Percentage of Award
Eligible Position	Entity	Qualitative (Individual)	< Threshold	Threshold	Target	Maximum	Deferred
Investment Professionals							
CEO & Chief Investment Officer	80%	20%	0%	0%	200%	450%	50%
Senior Managing Director - Investments	70%	30%	0%	0%	120%	300%	45%
Managing Director - Investments	65%	35%	0%	0%	100%	250%	40%
Managing Director - Fixed Income	65%	35%	0%	0%	80%	200%	40%
Managing Director - Risk Management	65%	35%	0%	0%	80%	200%	40%
Senior Director - Investments	60%	40%	0%	0%	70%	185%	35%
Director - Investments	50%	50%	0%	0%	65%	175%	30%
Director - Risk Management	50%	50%	0%	0%	60%	160%	30%
Senior Associate - Investments	40%	60%	0%	0%	60%	155%	20%
Senior Associate - Risk Management	40%	60%	0%	0%	45%	140%	20%
Associate - Investments	35%	65%	0%	0%	50%	145%	15%
Associate - Risk Management	35%	65%	0%	0%	35%	120%	15%
Senior Analyst - Investments	30%	70%	0%	0%	40%	110%	0%
Analyst - Investments	20%	80%	0%	0%	30%	75%	0%
Analyst - Risk Management	20%	80%	0%	0%	25%	75%	0%
Operations/Support Professionals							
Senior Managing Director	20%	80%	0%	0%	65%	150%	40%
Chief Technology Officer	20%	80%	0%	0%	55%	100%	30%
General Counsel & Chief Compliance Officer	0%	100%	0%	0%	50%	120%	30%
Senior Manager	20%	80%	0%	0%	50%	90%	25%
Manager	20%	80%	0%	0%	50%	80%	25%
Senior Investment Counsel	50%	50%	0%	0%	40%	80%	25%
Senior Financial Analyst	20%	80%	0%	0%	40%	60%	20%
Chief Information Security Officer	20%	80%	0%	0%	35%	100%	20%
IT Investment Associate	20%	80%	0%	0%	35%	100%	20%

Appendix D

Benchmarks for Entity and Asset Class/Investment Type and Threshold, Target, and Maximum Performance Standards

(for Performance Periods beginning on or after September 1, ~~2011~~2013)

~~UPDATED TABLE 2 (9/1/12 through 08/31/13)~~

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights: Total Endowment Assets (% of Portfolio)	Policy Portfolio Weights: ITF (% of Portfolio)	Performance Standards: Threshold	Performance Standards: Target	Performance Standards: Maximum
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+75 bps	+225 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+150 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	35.0%	+0 bps	+25 bps	+62.5 bps
Real Estate	FTSE EPRA/NAREIT Developed Index NET TRI USD	2.5%	5.0%	+0 bps	+62.5 bps	+150 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	7.5%	7.5%	+0 bps	+62.5 bps	+150 bps
Developed Country Equity	MSCI World Index with net dividends	15.0%	10.0%	+0 bps	+62.5 bps	+150 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	12.0%	7.5%	+0 bps	+62.5 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index	30.0%	35.0%	+0 bps	+75 bps	+250 bps
Private Investments	Custom Cambridge Fund of Funds Benchmark	25.5%	0%	+0 bps	+150 bps	+450 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+100 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps

~~UPDATED TABLE 2 (9/1/13 through 08/31/14)~~

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights: Total Endowment Assets (% of Portfolio)	Policy Portfolio Weights: ITF (% of Portfolio)	Performance Standards: Threshold	Performance Standards: Target	Performance Standards: Maximum
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+100 bps	+250 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+150 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	30.0%	+0 bps	+25 bps	+62.5 bps
Real Estate	FTSE EPRA/NAREIT Developed Index NET TRI USD	2.5%	3.0%	+0 bps	+62.5 bps	+150 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	7.5%	7.0%	+0 bps	+62.5 bps	+150 bps
Developed Country Equity	MSCI World Index with net dividends	14.0%	9.0%	+0 bps	+62.5 bps	+150 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	10.0%	6.0%	+0 bps	+62.5 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index	30.0%	45.0%	+0 bps	+75 bps	+250 bps
Private Investments	Custom Cambridge Fund of Funds Benchmark	28.5%	0%	+0 bps	+150 bps	+450 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+100 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps

~~UPDATED TABLE 2 (9/1/14 through 08/31/15)~~

		Policy Portfolio Weights		Performance Standards		
		Total Endowment Assets	ITF			
Asset Class/Investment Type	Benchmark	(% of Portfolio)	(% of Portfolio)	Threshold	Target	Maximum
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+100 bps	+250 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+150 bps
MCC Investment Grade Fixed Income:	Barclays Capital Global Aggregate Index	6.5%	30.0%	+0 bps	+25 bps	+62.5 bps
MCC Credit - Related Fixed Income	Barcalys Capital Global High Yield Index	0.0%	0.0%	+0 bps	+37.5 bps	+100 bps
MCC Real Estate	FTSE EPRA/NAREIT Developed Index NET TRI USD	2.5%	3.0%	+0 bps	+62.5 bps	+150 bps
MCC Natural Resources	50% Bloomberg Commodity Total Return Index and 50% MSCI World Natural Resources Index	5.0%	4.6%	+0 bps	+62.5 bps	+150 bps
MCC Natural Resources Gold	Gold Spot price (XAU)	2.5%	2.4%	+0 bps	+0 bps	+0 bps
MCC Developed Country Equity	MSCI World Index with net dividends	14.0%	9.0%	+0 bps	+62.5 bps	+150 bps
MCC Emerging Markets Equity	MSCI Emerging Markets with net dividends	9.5%	6.0%	+0 bps	+62.5 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index	30.0%	45.0%	+0 bps	+75 bps	+250 bps
Private Investments	Custom Cambridge Fund of Funds Benchmark	30.0%	0%	+0 bps	+150 bps	+450 bps

UPDATED TABLE 2 (beginning 9/1/13)

		Performance Standards		
Entity	Benchmark	Threshold	Target	Maximum
Total Endowment Funds	Policy Portfolio	+0 bps	+100 bps	+250 bps
Intermediate Term Fund	Policy Portfolio	+0 bps	+50 bps	+150 bps

Appendix E

Eligible Positions of Affected Participants

Table 3 (For the Performance Periods beginning ~~after~~ September 1, ~~2014~~2015)

Eligible Position
Investment Professionals
CEO & Chief Investment Officer
President & Deputy CIO
Senior Managing Director
Managing Director
Managing Director - Private Investments
Managing Director, Risk Management
Senior Director, Investment
Senior Portfolio Manager
Senior Director, Risk Management
Portfolio Manager
Director, Investment
Director - Private Investments
Director, Risk Management
Operations/Support Professionals
Senior Managing Director
Chief Technology Officer
General Counsel & Chief Compliance Officer
Senior Manager
Investment Counsel
Manager

Eligible Position
Investment Professionals
CEO & Chief Investment Officer
Senior Managing Director - Investments
Managing Director - Investments
Managing Director - Fixed Income
Managing Director - Risk Management
Senior Director - Investments
Director - Investments
Director - Risk Management
Operations/Support Professionals
Senior Managing Director
Chief Technology Officer
General Counsel & Chief Compliance Officer
Senior Manager
Senior Investment Counsel
Manager