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FOR
FINANCE AND PLANNING COMMITTEE

Committee Meeting: 8/14/2008

Board Meeting: 8/14/2008
Austin, Texas

Robert B. Rowling, Chairman
John W. Barnhill, Jr.
Paul Foster
Janiece Longoria

1. U. T. System: Discussion and appropriate action related to approval of *Docket No. 135*

RECOMMENDATION

It is recommended that *Docket No. 135* be approved.

It is also recommended that the Board confirm that authority to execute contracts, documents, or instruments approved therein has been delegated to appropriate officials of the respective institution involved.

Supplemental Materials: Green pages following the Docket tab at the back of Volume 2.

2. U. T. System Board of Regents: Approval of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) recommendations for 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, and the Liquidity Policy

RECOMMENDATION

The Chancellor ad interim 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 and the Liquidity Policy, including asset allocation, as set forth on the referenced pages.

a. Permanent University Fund (PUF) Exhibit A (See Pages 69 – 72)

b. General Endowment Fund (GEF) Exhibit A (See Pages 73 – 76)

c. Permanent Health Fund (PHF) Exhibit B (See Pages 77 – 80)

d. Long Term Fund (LTF) Exhibit B (See Pages 81 – 84)

e. Intermediate Term Fund (ITF) (See Page 85)

f. Liquidity Policy (See Pages 86 – 89)

BACKGROUND INFORMATION

The Master Investment Management Services Agreement (IMSA) 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 UTIMCO Board approved the amendments on July 23, 2008. Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of UTIMCO, reported on UTIMCO's strategy, which included a discussion on the proposed changes to the Investment Policy Statements, at the U. T. System Board of Regents' July 24, 2008 joint meeting with the UTIMCO Board.

Exhibits to the Investment Policy Statements for the PUF, GEF, PHF, LTF and ITF have been amended to reflect "mid-course corrections" to the implementation plan proposed for Fiscal Year Ending (FYE) 2009 and FYE 2010, as well as to recommend targets and ranges through FYE 2011.

In addition, the Exhibits reflect UTIMCO's recommendations related to revisions to benchmarks as summarized below:

- Clarify that the Real Estate benchmark, the National Association of Real Estate Investment Trusts (NAREIT) Equity Index, means the FTSE European Public Real Estate Association (EPRA)/NAREIT Global Index. It was the original intent that the NAREIT Equity Index be a global index and UTIMCO staff has consistently used the FTSE EPRA/NAREIT as the index or benchmark since the March 1, 2008, effective date of the Investment Policy Statements.

- Change the Natural Resources index from the Dow Jones-AIG Commodity Index Total Return to a combination index of 50% Dow Jones-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index.

- Change the benchmark of the Private Investments Real Estate Asset Class to the National Council of Real Estate Investment Fiduciaries (NACRIEF) Custom Index instead of the Venture Economics Custom Index.

The Expected Annual Return, Expected Target Annual Return, and the one-year downside deviation have been adjusted to reflect the revised Asset Class and Investment Type targets for FYE 2009 and FYE 2010. The Expected Annual Return, Expected Target Annual Return, and the one-year downside deviation has been added for FYE 2011.

The Short Term Fund (STF) Investment Policy Statement and the Separately Invested Funds (SIF) Investment Policy Statement have been reviewed by UTIMCO staff and there are no recommended changes. These investment policies were amended by the U. T. Board on November 10, 2005 and July 13, 2006, respectively.

Proposed amendments to the Liquidity Policy are as follows:

- The Liquidity Policy Profile for the Endowment Funds has been changed to incorporate new liquidity limits and trigger zones for FYE 2009 and 2010. Additionally, FYE 2011 has been added.

- The Liquidity Policy Profile for the ITF has been updated to add FYE 2011.

- "Unfunded Commitments" maximum permitted amounts have been changed for FYE 2008, 2009, and 2010, and the maximum permitted amount for FYE 2011 has been added.

EXHIBIT A - PERMANENT UNIVERSITY FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1~~JULY 24~~, 2008

POLICY PORTFOLIO	FYE 2009			FYE 2010			FYE 2011		
	Min	Target	Max	Min	Target	Max	Min	Target	Max
Asset Classes									
Investment Grade Fixed Income	5.0%	7.5~~8.5~~%	15.0%	5.0~~2.5~~%	7.5%	15.0%	5.0%	7.5%	15.0%
Credit-Related Fixed Income	10.0~~1.5~~%	13.5~~6.5~~%	17.5~~14.0~~%	10.0~~2.5~~%	14.5~~7.5~~%	20.0~~15.0~~%	10.0%	14.5%	20.0%
Real Estate	5.0%	7.5~~8.0~~%	15.0~~11.0~~%	5.0%	8.0~~10.0~~%	15.0%	5.0%	8.5%	15.0%
Natural Resources	5.0%	8.5~~9.5~~%	15.0~~13.0~~%	5.0%	9.5~~10.0~~%	15.0%	5.0%	10.0%	15.0%
Developed Country Equity	40.0~~42.5~~%	46.5~~50.0~~%	52.5~~57.5~~%	37.5%	43.0~~45.0~~%	50.0~~52.5~~%	37.5%	41.0%	47.5%
Emerging Markets Equity	12.5%	16.5~~17.5~~%	22.5%	12.5~~15.0~~%	17.5~~20.0~~%	22.5~~25.0~~%	12.5%	18.5%	22.5%
Investment Types									
More Correlated & Constrained Investments	37.5~~45.0~~%	44.5~~51.5~~%	50.0~~60.0~~%	35.0~~42.5~~%	41.5~~49.5~~%	47.5~~57.5~~%	35.0%	41.0%	47.5%
Less Correlated & Constrained Investments	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%
Private Investments	18.0~~10.0~~%	22.5~~15.5~~%	28.0~~20.0~~%	21.0~~12.5~~%	25.5~~17.5~~%	31.0~~22.5~~%	21.0%	26.0%	33.0%

*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 2009	FYE 2010	FYE 2011
Lehman Brothers Global Aggregate Index	5.5~~6.5~~%	5.5~~4.5~~%	5.5%
Lehman Brothers Global High-Yield Index	1.0~~1.5~~%	1.0~~2.0~~%	2.0%
FTSE EPRA/NAREIT Global~~Equity~~ Index	5.5~~6.5~~%	5.0~~7.0~~%	4.5%
50% Dow Jones-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index	5.5~~6.0~~%	4.5~~6.0~~%	4.0%
MSCI World Index with net dividends	17.0~~18.0~~%	15.5~~16.0~~%	14.5%
MSCI Emerging Markets with net dividends	10.0~~13.0~~%	10.0~~14.0~~%	10.5%
MSCI Investable Hedge Fund Index	33.0%	33.0%	33.0%
Venture Economics Custom Index	20.5~~15.5~~%	22.5~~17.5~~%	22.0%
NACRIEF Custom Index	2.0%	3.0%	4.0%

POLICY/TARGET RETURN/RISKS	FYE 2009	FYE 2010	FYE 2011
Expected Annual Return (Benchmarks)	8.78~~8.62~~%	8.86~~8.75~~%	8.85%
Expected Target Annual Return (Active)	9.72~~9.65~~%	9.90~~9.81~~%	9.87%
One Year Downside Deviation	8.72~~8.70~~%	8.71~~8.90~~%	8.67%
Risk Bounds			
Lower: 1 Year Downside Deviation	85%	85%	85%
Upper: 1 Year Downside Deviation	115%	115%	115%

Due to space limitations and the addition of column *FYE 2011*, the columns entitled *March 1, 2008* and *FYE 2008*, as approved by the Board of Regents on July 24, 2008, have been removed in their entirety.

EXHIBIT A
(continued)
PERMANENT UNIVERSITY FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~MARCH~~ SEPTEMBER 1, 2008

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2009

FYE 2009		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	**Investment Grade**	**Lehman Brothers Global Agg (~~6.5~~5.5%)**	2.0%	0.0%	**~~8.5~~7.5%**
	Credit-Related	**Lehman Brothers Global High-Yield (~~1.5~~1.0%)**	**~~2.5~~6.0%**	**~~2.5~~6.5%**	**~~6.5~~13.5%**
Real Assets	**Real Estate**	**FTSE EPRA/NAREIT ~~Equity~~ Global Index (~~6.5~~5.5%)**	**~~0.5~~0.0%**	**NACRIEF Custom Index ~~1.0~~(2.0%)**	**~~8.0~~7.5%**
	Natural Resources	**50% DJ-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index (~~6.0~~5.5%)**	1.5%	**~~2.0~~1.5%**	**~~9.5~~8.5%**
Equity	**Developed Country**	**MSCI World Index with Net Dividends (~~18.0~~17.0%)**	**~~23.5~~18.5%**	**~~8.5~~11.0%**	**~~50.0~~46.5%**
	Emerging Markets	**MSCI EM Index with Net Dividends (~~13.0~~10.0%)**	**~~3.0~~5.0%**	1.5%	**~~17.5~~16.5%**
Total		**~~51.5~~44.5%**	**33.0%**	**~~15.5~~22.5%**	**100.0%**

🟨 MSCI Investable Hedge Fund Index
🟦 Venture Economics Custom~~er~~ Index

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

EXHIBIT A
(continued)

PERMANENT UNIVERSITY FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES

EFFECTIVE DATE ~~MARCH~~ SEPTEMBER 1, 2008

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2010

FYE 2010		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Lehman Brothers Global Agg (~~4.5~~5.5%)	~~3.0~~2.0%	0.0%	7.5%
	Credit-Related	Lehman Brothers Global High-Yield (~~2.0~~1.0%)	~~3.0~~6.0%	~~2.5~~7.5%	~~7.5~~14.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT ~~Equity~~ Global Index (~~7.0~~5.0%)	~~1.0~~0.0%	NACRIEF Custom Index ~~2.0~~(3.0%)	~~10.0~~8.0%
	Natural Resources	50% DJ-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index (~~6.0~~4.5%)	~~2.0~~2.5%	~~2.0~~2.5%	~~10.0~~9.5%
Equity	Developed Country	MSCI World Index with Net Dividends (~~16.0~~15.5%)	~~21.0~~17.5%	~~8.0~~10.0%	~~45.0~~43.0%
	Emerging Markets	MSCI EM Index with Net Dividends (~~14.0~~10.0%)	~~3.0~~5.0%	~~3.0~~2.5%	~~20.0~~17.5%
Total		~~49.5~~41.5%	33.0%	~~17.5~~25.5%	100.0%

🟨	MSCI Investable Hedge Fund Index
🟦	Venture Economics Custom~~er~~ Index

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

EXHIBIT A
(continued)
PERMANENT UNIVERSITY FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2008

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2011

FYE 2011		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	**Investment Grade**	**Lehman Brothers Global Agg** (5.5%)	2.0%	0.0%	**7.5%**
	Credit-Related	**Lehman Brothers Global High-Yield** (2.0%)	6.0%	6.5%	**14.5%**
Real Assets	**Real Estate**	**FTSE EPRA/NAREIT Global Index** (4.5%)	0.0%	**NACRIEF Custom Index (4.0%)**	**8.5%**
	Natural Resources	**50% DJ-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index** (4.0%)	3.0%	3.0%	**10.0%**
Equity	**Developed Country**	**MSCI World Index with Net Dividends** (14.5%)	17.0%	9.5%	**41.0%**
	Emerging Markets	**MSCI EM Index with Net Dividends** (10.5%)	5.0%	3.0%	**18.5%**
Total		**41.0%**	**33.0%**	**26.0%**	**100.0%**

🟨 MSCI Investable Hedge Fund Index
🟦 Venture Economics Custom Index

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

EXHIBIT A – GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1~~JULY 24~~, 2008

POLICY PORTFOLIO	FYE 2009			FYE 2010			FYE 2011		
	Min	Target	Max	Min	Target	Max	Min	Target	Max
Asset Classes									
Investment Grade Fixed Income	5.0%	7.5~~8.5~~%	15.0%	5.0~~2.5~~%	7.5%	15.0%	5.0%	7.5%	15.0%
Credit-Related Fixed Income	10.0~~1.5~~%	13.5~~6.5~~%	17.5~~14.0~~%	10.0~~2.5~~%	14.5~~7.5~~%	20.0~~15.0~~%	10.0%	14.5%	20.0%
Real Estate	5.0%	7.5~~8.0~~%	15.0~~11.0~~%	5.0%	8.0~~10.0~~%	15.0%	5.0%	8.5%	15.0%
Natural Resources	5.0%	8.5~~9.5~~%	15.0~~13.0~~%	5.0%	9.5~~10.0~~%	15.0%	5.0%	10.0%	15.0%
Developed Country Equity	40.0~~42.5~~%	46.5~~50.0~~%	52.5~~57.5~~%	37.5%	43.0~~45.0~~%	50.0~~52.5~~%	37.5%	41.0%	47.5%
Emerging Markets Equity	12.5%	16.5~~17.5~~%	22.5%	12.5~~15.0~~%	17.5~~20.0~~%	22.5~~25.0~~%	12.5%	18.5%	22.5%
Investment Types									
More Correlated & Constrained Investments	37.5~~45.0~~%	44.5~~51.5~~%	50.0~~60.0~~%	35.0~~42.5~~%	41.5~~49.5~~%	47.5~~57.5~~%	35.0%	41.0%	47.5%
Less Correlated & Constrained Investments	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%
Private Investments	18.0~~10.0~~%	22.5~~15.5~~%	28.0~~20.0~~%	21.0~~12.5~~%	25.5~~17.5~~%	31.0~~22.5~~%	21.0%	26.0%	33.0%

*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 2009	FYE 2010	FYE 2011
Lehman Brothers Global Aggregate Index	5.5~~6.5~~%	5.5~~4.5~~%	5.5%
Lehman Brothers Global High-Yield Index	1.0~~1.5~~%	1.0~~2.0~~%	2.0%
FTSE EPRA/NAREIT Global~~Equity~~ Index	5.5~~6.5~~%	5.0~~7.0~~%	4.5%
50% Dow Jones-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index	5.5~~6.0~~%	4.5~~6.0~~%	4.0%
MSCI World Index with net dividends	17.0~~18.0~~%	15.5~~16.0~~%	14.5%
MSCI Emerging Markets with net dividends	10.0~~13.0~~%	10.0~~14.0~~%	10.5%
MSCI Investable Hedge Fund Index	33.0%	33.0%	33.0%
Venture Economics Custom Index	20.5~~15.5~~%	22.5~~17.5~~%	22.0%
NACRIEF Custom Index	2.0%	3.0%	4.0%

POLICY/TARGET RETURN/RISKS	FYE 2009	FYE 2010	FYE 2011
Expected Annual Return (Benchmarks)	8.78~~8.62~~%	8.86~~8.75~~%	8.85%
Expected Target Annual Return (Active)	9.72~~9.65~~%	9.90~~9.81~~%	9.87%
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Risk Bounds			
Lower: 1 Year Downside Deviation	85%	85%	85%
Upper: 1 Year Downside Deviation	115%	115%	115%

Due to space limitations and the addition of column *FYE 2011*, the columns entitled *March 1, 2008* and *FYE 2008*, as approved by the Board of Regents on July 24, 2008, have been removed in their entirety.

EXHIBIT A
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~MARCH~~ SEPTEMBER 1, 2008

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2009

FYE 2009		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	**Investment Grade**	**Lehman Brothers Global Agg** (~~6.5~~5.5%)	2.0%	0.0%	~~8.5~~7.5%
	Credit-Related	**Lehman Brothers Global High-Yield** (~~1.5~~1.0%)	~~2.5~~6.0%	~~2.5~~6.5%	~~6.5~~13.5%
Real Assets	**Real Estate**	FTSE EPRA/**NAREIT** ~~Equity~~ Global **Index** (~~6.5~~5.5%)	~~0.5~~0.0%	NACRIEF Custom Index ~~1.0~~(2.0%)	~~8.0~~7.5%
	Natural Resources	50% **DJ-AIG Commodity Index Total Return** and 50% MSCI World Natural Resources Index (~~6.0~~5.5%)	1.5%	~~2.0~~1.5%	~~9.5~~8.5%
Equity	**Developed Country**	**MSCI World Index with Net Dividends** (~~18.0~~17.0%)	~~23.5~~18.5%	~~8.5~~11.0%	~~50.0~~46.5%
	Emerging Markets	**MSCI EM Index with Net Dividends** (~~13.0~~10.0%)	~~3.0~~5.0%	1.5%	~~17.5~~16.5%
Total		~~51.5~~44.5%	**33.0%**	~~15.5~~22.5%	**100.0%**

🟨	MSCI Investable Hedge Fund Index
🟦	Venture Economics Custom~~er~~ Index

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

EXHIBIT A
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~MARCH~~ SEPTEMBER 1, 2008

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2010

FYE 2010		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Lehman Brothers Global Agg (~~4.5~~5.5%)	~~3.0~~2.0%	0.0%	7.5%
	Credit-Related	Lehman Brothers Global High-Yield (~~2.0~~1.0%)	~~3.0~~6.0%	~~2.5~~7.5%	~~7.5~~14.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT ~~Equity~~ Global Index (~~7.0~~5.0%)	~~1.0~~0.0%	NACRIEF Custom Index ~~2.0~~(3.0%)	~~10.0~~8.0%
	Natural Resources	50% DJ-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index (~~6.0~~4.5%)	~~2.0~~2.5%	~~2.0~~2.5%	~~10.0~~9.5%
Equity	Developed Country	MSCI World Index with Net Dividends (~~16.0~~15.5%)	~~21.0~~17.5%	~~8.0~~10.0%	~~45.0~~43.0%
	Emerging Markets	MSCI EM Index with Net Dividends (~~14.0~~10.0%)	~~3.0~~5.0%	~~3.0~~2.5%	~~20.0~~17.5%
Total		~~49.5~~41.5%	33.0%	~~17.5~~25.5%	100.0%

🟨	MSCI Investable Hedge Fund Index
🟦	Venture Economics Custom~~er~~ Index

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

EXHIBIT A
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2008

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2011

FYE 2011		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	**Investment Grade**	**Lehman Brothers Global Agg** (5.5%)	2.0%	0.0%	**7.5%**
	Credit-Related	**Lehman Brothers Global High-Yield** (2.0%)	6.0%	6.5%	**14.5%**
Real Assets	**Real Estate**	**FTSE EPRA/NAREIT Global Index** (4.5%)	0.0%	**NACRIEF Custom Index (4.0%)**	**8.5%**
	Natural Resources	**50% DJ-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index** (4.0%)	3.0%	3.0%	**10.0%**
Equity	**Developed Country**	**MSCI World Index with Net Dividends** (14.5%)	17.0%	9.5%	**41.0%**
	Emerging Markets	**MSCI EM Index with Net Dividends** (10.5%)	5.0%	3.0%	**18.5%**
Total		**41.0%**	**33.0%**	**26.0%**	**100.0%**

🟨	MSCI Investable Hedge Fund Index
🟦	Venture Economics Custom Index

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

EXHIBIT B - GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1~~JULY 24~~, 2008

POLICY PORTFOLIO	FYE 2009			FYE 2010			FYE 2011		
	Min	Target	Max	Min	Target	Max	Min	Target	Max
Asset Classes									
Investment Grade Fixed Income	5.0%	7.5~~8.5~~%	15.0%	5.0~~2.5~~%	7.5%	15.0%	5.0%	7.5%	15.0%
Credit-Related Fixed Income	10.0~~1.5~~%	13.5~~6.5~~%	17.5~~14.0~~%	10.0~~2.5~~%	14.5~~7.5~~%	20.0~~15.0~~%	10.0%	14.5%	20.0%
Real Estate	5.0%	7.5~~8.0~~%	15.0~~11.0~~%	5.0%	8.0~~10.0~~%	15.0%	5.0%	8.5%	15.0%
Natural Resources	5.0%	8.5~~9.5~~%	15.0~~13.0~~%	5.0%	9.5~~10.0~~%	15.0%	5.0%	10.0%	15.0%
Developed Country Equity	40.0~~42.5~~%	46.5~~50.0~~%	52.5~~57.5~~%	37.5%	43.0~~45.0~~%	50.0~~52.5~~%	37.5%	41.0%	47.5%
Emerging Markets Equity	12.5%	16.5~~17.5~~%	22.5%	12.5~~15.0~~%	17.5~~20.0~~%	22.5~~25.0~~%	12.5%	18.5%	22.5%
Investment Types									
More Correlated & Constrained Investments	37.5~~45.0~~%	44.5~~51.5~~%	50.0~~60.0~~%	35.0~~42.5~~%	41.5~~49.5~~%	47.5~~57.5~~%	35.0%	41.0%	47.5%
Less Correlated & Constrained Investments	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%
Private Investments	18.0~~10.0~~%	22.5~~15.5~~%	28.0~~20.0~~%	21.0~~12.5~~%	25.5~~17.5~~%	31.0~~22.5~~%	21.0%	26.0%	33.0%

*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 2009	FYE 2010	FYE 2011
Lehman Brothers Global Aggregate Index	5.5~~6.5~~%	5.5~~4.5~~%	5.5%
Lehman Brothers Global High-Yield Index	1.0~~1.5~~%	1.0~~2.0~~%	2.0%
FTSE EPRA/NAREIT Global~~Equity~~ Index	5.5~~6.5~~%	5.0~~7.0~~%	4.5%
50% Dow Jones-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index	5.5~~6.0~~%	4.5~~6.0~~%	4.0%
MSCI World Index with net dividends	17.0~~18.0~~%	15.5~~16.0~~%	14.5%
MSCI Emerging Markets with net dividends	10.0~~13.0~~%	10.0~~14.0~~%	10.5%
MSCI Investable Hedge Fund Index	33.0%	33.0%	33.0%
Venture Economics Custom Index	20.5~~15.5~~%	22.5~~17.5~~%	22.0%
NACRIEF Custom Index	2.0%	3.0%	4.0%

POLICY/TARGET RETURN/RISKS	FYE 2009	FYE 2010	FYE 2011
Expected Annual Return (Benchmarks)	8.78~~8.62~~%	8.86~~8.75~~%	8.85%
Expected Target Annual Return (Active)	9.72~~9.65~~%	9.90~~9.81~~%	9.87%
One Year Downside Deviation	8.72~~8.70~~%	8.71~~8.90~~%	8.67%
Risk Bounds			
Lower: 1 Year Downside Deviation	85%	85%	85%
Upper: 1 Year Downside Deviation	115%	115%	115%

Due to space limitations and the addition of column *FYE 2011*, the columns entitled *March 1, 2008* and *FYE 2008*, as approved by the Board of Regents on July 24, 2008, have been removed in their entirety.

EXHIBIT B
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~MARCH~~ SEPTEMBER 1, 2008

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2009

FYE 2009		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	**Investment Grade**	**Lehman Brothers Global Agg (~~6.5~~5.5%)**	2.0%	0.0%	~~8.5~~7.5%
	Credit-Related	**Lehman Brothers Global High-Yield (~~1.5~~1.0%)**	~~2.5~~6.0%	~~2.5~~6.5%	~~6.5~~13.5%
Real Assets	**Real Estate**	**FTSE EPRA/NAREIT ~~Equity~~ Global Index (~~6.5~~5.5%)**	~~0.5~~0.0%	NACRIEF Custom Index ~~1.0~~(2.0%)	~~8.0~~7.5%
	Natural Resources	**50% DJ-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index (~~6.0~~5.5%)**	1.5%	~~2.0~~1.5%	~~9.5~~8.5%
Equity	**Developed Country**	**MSCI World Index with Net Dividends (~~18.0~~17.0%)**	~~23.5~~18.5%	~~8.5~~11.0%	~~50.0~~46.5%
	Emerging Markets	**MSCI EM Index with Net Dividends (~~13.0~~10.0%)**	~~3.0~~5.0%	1.5%	~~17.5~~16.5%
Total		**~~51.5~~44.5%**	**33.0%**	**~~15.5~~22.5%**	**100.0%**

🟨	MSCI Investable Hedge Fund Index
🟦	Venture Economics Custom~~er~~ Index

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

EXHIBIT B
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~MARCH~~ SEPTEMBER 1, 2008

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2010

FYE 2010		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	**Investment Grade**	**Lehman Brothers Global Agg (~~4.5~~5.5%)**	~~3.0~~2.0%	0.0%	**7.5%**
	Credit-Related	**Lehman Brothers Global High-Yield (~~2.0~~1.0%)**	~~3.0~~6.0%	~~2.5~~7.5%	~~7.5~~14.5%
Real Assets	**Real Estate**	**FTSE EPRA/NAREIT ~~Equity~~ Global Index (~~7.0~~5.0%)**	~~1.0~~0.0%	**NACRIEF Custom Index ~~2.0~~(3.0%)**	~~10.0~~8.0%
	Natural Resources	**50% DJ-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index (~~6.0~~4.5%)**	~~2.0~~2.5%	~~2.0~~2.5%	~~10.0~~9.5%
Equity	**Developed Country**	**MSCI World Index with Net Dividends (~~16.0~~15.5%)**	~~21.0~~17.5%	~~8.0~~10.0%	~~45.0~~43.0%
	Emerging Markets	**MSCI EM Index with Net Dividends (~~14.0~~10.0%)**	~~3.0~~5.0%	~~3.0~~2.5%	~~20.0~~17.5%
Total		~~49.5~~41.5%	**33.0%**	~~17.5~~25.5%	**100.0%**

🟨	MSCI Investable Hedge Fund Index
🟦	Venture Economics Custom~~er~~ Index

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

EXHIBIT B
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2008

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2011

FYE 2011		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	**Investment Grade**	**Lehman Brothers Global Agg** (5.5%)	2.0%	0.0%	**7.5%**
	Credit-Related	**Lehman Brothers Global High-Yield** (2.0%)	6.0%	6.5%	**14.5%**
Real Assets	**Real Estate**	**FTSE EPRA/NAREIT Global Index** (4.5%)	0.0%	**NACRIEF Custom Index (4.0%)**	**8.5%**
	Natural Resources	**50% DJ-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index** (4.0%)	3.0%	3.0%	**10.0%**
Equity	**Developed Country**	**MSCI World Index with Net Dividends** (14.5%)	17.0%	9.5%	**41.0%**
	Emerging Markets	**MSCI EM Index with Net Dividends** (10.5%)	5.0%	3.0%	**18.5%**
Total		**41.0%**	**33.0%**	**26.0%**	**100.0%**

🟨	MSCI Investable Hedge Fund Index
🟦	Venture Economics Custom Index

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

EXHIBIT B - GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1~~JULY 24~~, 2008

POLICY PORTFOLIO	FYE 2009			FYE 2010			FYE 2011		
	Min	Target	Max	Min	Target	Max	Min	Target	Max
Asset Classes									
Investment Grade Fixed Income	5.0%	7.5~~8.5~~%	15.0%	5.0~~2.5~~%	7.5%	15.0%	5.0%	7.5%	15.0%
Credit-Related Fixed Income	10.0~~1.5~~%	13.5~~6.5~~%	17.5~~14.0~~%	10.0~~2.5~~%	14.5~~7.5~~%	20.0~~15.0~~%	10.0%	14.5%	20.0%
Real Estate	5.0%	7.5~~8.0~~%	15.0~~11.0~~%	5.0%	8.0~~10.0~~%	15.0%	5.0%	8.5%	15.0%
Natural Resources	5.0%	8.5~~9.5~~%	15.0~~13.0~~%	5.0%	9.5~~10.0~~%	15.0%	5.0%	10.0%	15.0%
Developed Country Equity	40.0~~42.5~~%	46.5~~50.0~~%	52.5~~57.5~~%	37.5%	43.0~~45.0~~%	50.0~~52.5~~%	37.5%	41.0%	47.5%
Emerging Markets Equity	12.5%	16.5~~17.5~~%	22.5%	12.5~~15.0~~%	17.5~~20.0~~%	22.5~~25.0~~%	12.5%	18.5%	22.5%
Investment Types									
More Correlated & Constrained Investments	37.5~~45.0~~%	44.5~~51.5~~%	50.0~~60.0~~%	35.0~~42.5~~%	41.5~~49.5~~%	47.5~~57.5~~%	35.0%	41.0%	47.5%
Less Correlated & Constrained Investments	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%	27.5%	33.0%	37.5%
Private Investments	18.0~~10.0~~%	22.5~~15.5~~%	28.0~~20.0~~%	21.0~~12.5~~%	25.5~~17.5~~%	31.0~~22.5~~%	21.0%	26.0%	33.0%

*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 2009	FYE 2010	FYE 2011
Lehman Brothers Global Aggregate Index	5.5~~6.5~~%	5.5~~4.5~~%	5.5%
Lehman Brothers Global High-Yield Index	1.0~~1.5~~%	1.0~~2.0~~%	2.0%
FTSE EPRA/NAREIT Global~~Equity~~ Index	5.5~~6.5~~%	5.0~~7.0~~%	4.5%
50% Dow Jones-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index	5.5~~6.0~~%	4.5~~6.0~~%	4.0%
MSCI World Index with net dividends	17.0~~18.0~~%	15.5~~16.0~~%	14.5%
MSCI Emerging Markets with net dividends	10.0~~13.0~~%	10.0~~14.0~~%	10.5%
MSCI Investable Hedge Fund Index	33.0%	33.0%	33.0%
Venture Economics Custom Index	20.5~~15.5~~%	22.5~~17.5~~%	22.0%
NACRIEF Custom Index	2.0%	3.0%	4.0%

POLICY/TARGET RETURN/RISKS	FYE 2009	FYE 2010	FYE 2011
Expected Annual Return (Benchmarks)	8.78~~8.62~~%	8.86~~8.75~~%	8.85%
Expected Target Annual Return (Active)	9.72~~9.65~~%	9.90~~9.81~~%	9.87%
One Year Downside Deviation	8.72~~8.70~~%	8.71~~8.90~~%	8.67%
Risk Bounds			
Lower: 1 Year Downside Deviation	85%	85%	85%
Upper: 1 Year Downside Deviation	115%	115%	115%

Due to space limitations and the addition of column *FYE 2011*, the columns entitled *March 1, 2008* and *FYE 2008*, as approved by the Board of Regents on July 24, 2008, have been removed in their entirety.

EXHIBIT B
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~MARCH~~ SEPTEMBER 1, 2008

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2009

FYE 2009		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	**Investment Grade**	**Lehman Brothers Global Agg (~~6.5~~5.5%)**	2.0%	0.0%	~~8.5~~7.5%
	Credit-Related	**Lehman Brothers Global High-Yield (~~1.5~~1.0%)**	~~2.5~~6.0%	~~2.5~~6.5%	~~6.5~~13.5%
Real Assets	**Real Estate**	**FTSE EPRA/NAREIT ~~Equity~~ Global Index (~~6.5~~5.5%)**	~~0.5~~0.0%	NACRIEF Custom Index ~~1.0~~(2.0%)	~~8.0~~7.5%
	Natural Resources	**50% DJ-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index (~~6.0~~5.5%)**	1.5%	~~2.0~~1.5%	~~9.5~~8.5%
Equity	**Developed Country**	**MSCI World Index with Net Dividends (~~18.0~~17.0%)**	~~23.5~~18.5%	~~8.5~~11.0%	~~50.0~~46.5%
	Emerging Markets	**MSCI EM Index with Net Dividends (~~13.0~~10.0%)**	~~3.0~~5.0%	1.5%	~~17.5~~16.5%
Total		**~~51.5~~44.5%**	**33.0%**	**~~15.5~~22.5%**	**100.0%**

🟨	MSCI Investable Hedge Fund Index
🟦	Venture Economics Custom~~er~~ Index

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

EXHIBIT B
(continued)

GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE ~~MARCH~~ SEPTEMBER 1, 2008

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2010

FYE 2010		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Lehman Brothers Global Agg (~~4.5~~5.5%)	~~3.0~~2.0%	0.0%	7.5%
	Credit-Related	Lehman Brothers Global High-Yield (~~2.0~~1.0%)	~~3.0~~6.0%	~~2.5~~7.5%	~~7.5~~14.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT ~~Equity~~ Global Index (~~7.0~~5.0%)	~~1.0~~0.0%	NACRIEF Custom Index ~~2.0~~(3.0%)	~~10.0~~8.0%
	Natural Resources	50% DJ-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index (~~6.0~~4.5%)	~~2.0~~2.5%	~~2.0~~2.5%	~~10.0~~9.5%
Equity	Developed Country	MSCI World Index with Net Dividends (~~16.0~~15.5%)	~~21.0~~17.5%	~~8.0~~10.0%	~~45.0~~43.0%
	Emerging Markets	MSCI EM Index with Net Dividends (~~14.0~~10.0%)	~~3.0~~5.0%	~~3.0~~2.5%	~~20.0~~17.5%
Total		~~49.5~~41.5%	33.0%	~~17.5~~25.5%	100.0%

🟨	MSCI Investable Hedge Fund Index
🟦	Venture Economics Custom~~er~~ Index

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

EXHIBIT B
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2008

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2011

FYE 2011		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	**Investment Grade**	**Lehman Brothers Global Agg** (5.5%)	2.0%	0.0%	**7.5%**
	Credit-Related	**Lehman Brothers Global High-Yield** (2.0%)	6.0%	6.5%	**14.5%**
Real Assets	**Real Estate**	**FTSE EPRA/NAREIT Global Index** (4.5%)	0.0%	**NACRIEF Custom Index (4.0%)**	**8.5%**
	Natural Resources	**50% DJ-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index** (4.0%)	3.0%	3.0%	**10.0%**
Equity	**Developed Country**	**MSCI World Index with Net Dividends** (14.5%)	17.0%	9.5%	**41.0%**
	Emerging Markets	**MSCI EM Index with Net Dividends** (10.5%)	5.0%	3.0%	**18.5%**
Total		**41.0%**	**33.0%**	**26.0%**	**100.0%**

🟨 MSCI Investable Hedge Fund Index
🟦 Venture Economics Custom Index

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

EXHIBIT A - INTERMEDIATE TERM FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER~~MARCH~~ 1, 2008

POLICY PORTFOLIO	FYE 2009			FYE 2010			FYE 2011		
	Min	Target	Max	Min	Target	Max	Min	Target	Max
Asset Classes									
Investment Grade Fixed Income	20.0%	37.0~~38.0~~%	55.0%	20.0%	37.0~~38.0~~%	55.0%	20.0%	37.0%	55.0%
Credit-Related Fixed Income	0.0%	5.5~~3.0~~%	5.0%	0.0%	5.5~~3.0~~%	5.0%	0.0%	5.5%	7.5%
Real Estate	5.0%	10.0~~11.0~~%	15.0%	5.0%	10.0~~11.0~~%	15.0%	5.0%	10.0%	15.0%
Natural Resources	0.0%	7.0%	10.0%	0.0%	7.0%	10.0%	0.0%	7.0%	10.0%
Developed Country Equity	20.0%	30.5~~31.0~~%	45.0%	20.0%	30.5~~31.0~~%	40.0%	20.0%	30.5%	40.0%
Emerging Markets Equity	0.0%	10.0%	15.0%	0.0%	10.0%	15.0%	0.0%	10.0%	15.0%
Investment Types									
More Correlated & Constrained	70.0%	75.0%	80.0%	70.0%	75.0%	80.0%	70.0%	75.0%	80.0%
Less Correlated & Constrained	20.0%	25.0%	30.0%	20.0%	25.0%	30.0%	20.0%	25.0%	30.0%

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

POLICY BENCHMARK (reset monthly)	FYE 2009	FYE 2010	FYE 2011
Lehman Brothers Global Aggregate Index	33.0%	33.0%	33.0%
Lehman Brothers Global High-Yield Index	2.0%	2.0%	2.0%
FTSE EPRA/NAREIT Global~~Equity~~ Index	10.0%	10.0%	10.0%
50% Dow Jones-AIG Commodity Index Total Return and 50% MSCI World Natural Resources Index	5.0%	5.0%	5.0%
MSCI World Index with net dividends	20.0%	20.0%	20.0%
MSCI Emerging Markets with net dividends	5.0%	5.0%	5.0%
MSCI Investable Hedge Fund Index	25.0%	25.0%	25.0%

POLICY/TARGET RETURN/RISKS	FYE 2009	FYE 2010	FYE 2011
Expected Annual Return (Benchmarks)	7.16%	7.16%	7.16%
Expected Target Annual Return (Active)	7.83%	7.83%	7.83%
One Year Downside Deviation	6.38%	6.38%	6.38%
Risk Bounds			
Lower: 1 Year Downside Deviation	85%	85%	85%
Upper: 1 Year Downside Deviation	115%	115%	115%

Due to space limitations and the addition of column *FYE 2011*, the columns entitled *March 1, 2008* and *FYE 2008*, as approved by the Board of Regents on July 24, 2008, have been removed in their entirety.

The University of Texas Investment Management Company
Liquidity Policy

Effective Date of Policy: ~~December 6, 2007~~August 14, 2008
Original Effective Date of Policy: August 7, 2003
Supersedes: Liquidity Policy dated ~~November 10, 2005~~December 6, 2007

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 a Cash position. 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. Modern finance theory asserts that liquidity risk is a systematic risk factor that is incorporated into asset prices such that future longer-term returns will be higher for assets with higher liquidity risk, although that may not be the case in the short term.

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,
- 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
- 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:

Capital market theory does not provide a precise technique to measure liquidity risk. 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 one day to less than 90 days ~~three months~~ 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 90 days or more ~~than three months~~ or in a shorter period of time by accepting a discount of more than 10%.

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:

	~~Dec 07~~	~~FY 08~~	~~FY 09~~	~~FY 10~~
~~Liquidity above trigger zone:~~	~~45%~~	~~42.5%~~	~~40%~~	~~37.5%~~
~~Liquidity within trigger zone:~~	~~40%-45%~~	~~37.5%-42.5%~~	~~35%-40%~~	~~32.5%-37.5%~~
~~Liquidity below trigger zone:~~	~~<40%~~	~~<37.5%~~	~~<35%~~	~~<32.5%~~

	FY 08	**FY 09**	**FY 10**	**FY 11**
Liquidity above trigger zone:	42.5%	35.0%	30%	28.0%
Liquidity within trigger zone:	37.5%-45%	30.0%-35.0%	25.0%-30%	23.0%-28.0%
Liquidity below trigger zone:	<37.5%	<30.0%	<25%	<23.0%

Investments that maintain liquidity below the trigger zone do not require any action by the UTIMCO Board or the Risk Committee. Liquidity within the trigger zone requires special action by the UTIMCO Board or the Risk Committee. For example, the allowable range for **illiquid** investments in FY 08 is up to 62.5% of the total portfolio. However, any **illiquid** investments made in the 57.5% to 62.5% trigger zone require prior approval by the Risk Committee or the UTIMCO Board. 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.

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

	~~Dec 07~~	~~FY 08~~	~~FY 09~~	~~FY 10~~
~~Liquidity above trigger zone:~~	~~65%~~	~~65%~~	~~65%~~	~~65%~~
~~Liquidity within trigger zone:~~	~~55%-65%~~	~~55%-65%~~	~~55%-65%~~	~~55%-65%~~
~~Liquidity below trigger zone:~~	~~<55%~~	~~<55%~~	~~<55%~~	~~<55%~~

	FY 08	FY 09	FY 10	FY 11
Liquidity above trigger zone:	65%	65%	65%	65%
Liquidity within trigger zone:	55%-65%	55%-65%	55%-65%	55%-65%
Liquidity below trigger zone:	<55%	<55%	<55%	<55%

The allowable range for **illiquid** investments is 0% to 45% of the total portfolio for the ITF. However, any **illiquid** investments made in the 35% to 45% trigger zone require prior approval by the Risk Committee or the UTIMCO Board. 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:

	~~Nov 07~~	~~FY 08~~	~~FY 09~~	~~FY 10~~
~~Unfunded Commitment as a percent of total invested assets:~~	~~17.5%~~	~~22.5%~~	~~27.5%~~	~~32.5%~~

	FY 08	FY 09	FY 10	FY 11
Unfunded Commitment as a percent of total invested assets:	25.0%	27.5%	32.5%	32.5%

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 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, 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.

Pages 90 – 94 intentionally left blank.

3. U. T. System: Key Financial Indicators Report and Monthly Financial Report

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report, as set forth on Pages 96 – 103 that follow, and the June Monthly Financial Report. The reports represent the consolidated and individual operating results of the U. T. System institutions.

REPORT

The Key Financial Indicators Report compares the System-wide quarterly results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from Fiscal Year 2004 through May 2008. Ratios requiring balance sheet data are provided for Fiscal Year 2003 through Fiscal Year 2007.

The Monthly Financial Report is provided as support for the Key Financial Indicators. The Report includes the detailed numbers behind the Operating Margin by Institution graph as well as detail for each individual institution as of June 2008.

Supplemental Materials: June Monthly Financial Report on Pages 67 – 91 of Volume 2.

THE UNIVERSITY OF TEXAS SYSTEM

KEY FINANCIAL INDICATORS REPORT

3RD QUARTER FY 2008

KEY

■ Actual 2003 through 2007 amounts
(SOURCE: Annual Financial Reports Fiscal Years 2003, 2004, 2005, 2006 and 2007)

■ 2008 Budget amounts
(SOURCE: Operating Budget Summary 2008)

■ Projected 2008 amounts
(trend based on the average change of the previous four years of data)

■ Monthly Financial Report Year to Date amounts for February 2007 and February 2008

■ Annual State Net Revenue Collections for 2003, 2004, 2005, 2006 and 2007
(SOURCE: Texas Revenue History by Source 1978-2006 and Texas Net Revenue by Source - Fiscal 2007, State Comptroller's Office)

■ Year to Date State Net Revenue Collections for February 2007 and February 2008
(SOURCE: State Comptroller's Office)

■ Estimated State Revenue Collections for 2008
(SOURCE: Biennial Revenue Estimate, 2008 - 2009, State Comptroller's Office)

■ 2003, 2004, 2005, 2006 and 2007 Annual Average of FTEs, 2nd Quarter 2008 FTEs
(SOURCE: State Auditor's Office Quarterly FTE Report)

■ Year-to-Date margin for March 2008
(SOURCE: Monthly Financial Report for March 2008)

■ Projected 2008
(SOURCE: Monthly Financial Report Year- End Projections collected March 2008)

◆—◆ Year-to-Date margin for March 2007
(SOURCE: Monthly Financial Report for March 2008)

●—● Target Normalized Rates

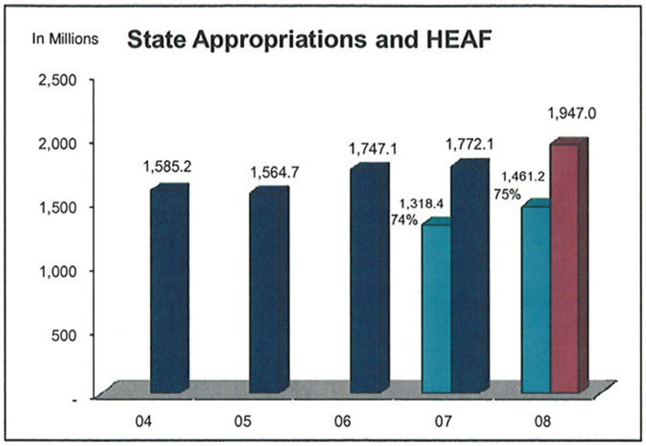
◆—◆ Aaa/Aa1 Median
(SOURCE: Moody's)

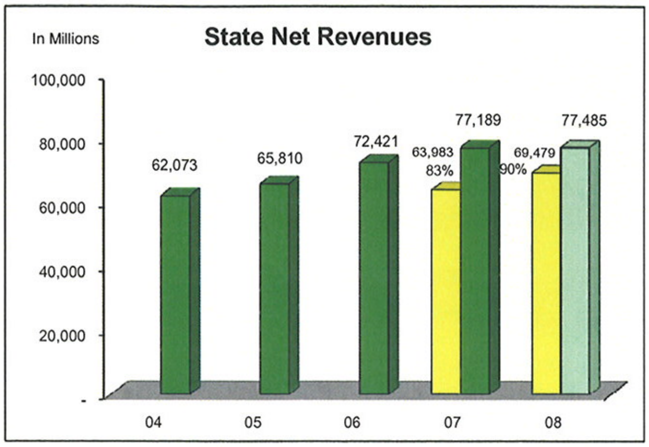
●—● A2 Median
(SOURCE: Moody's)

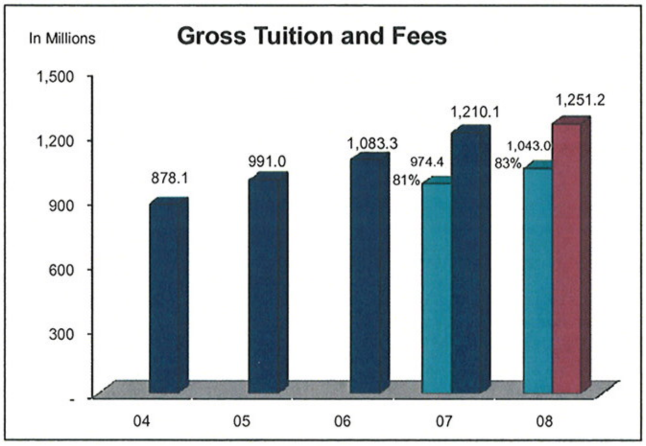
◆—◆ Good Facilities Condition Index (Below 5%)

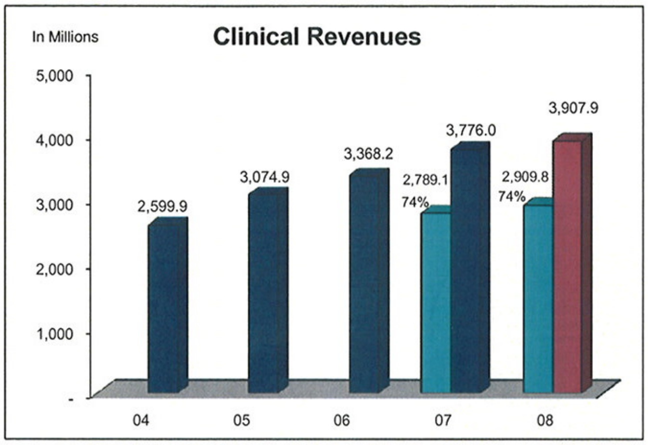
●—● Fair Facilities Condition Index (5% - 10%)

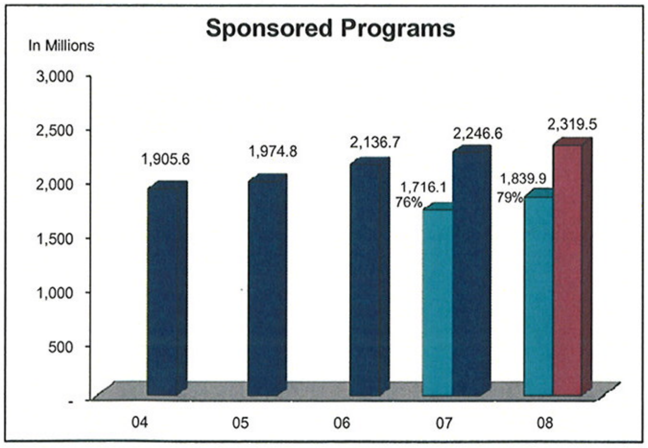
KEY INDICATORS OF REVENUES
ACTUAL 2004 THROUGH 2007
PROJECTED 2008
YEAR-TO-DATE 2007 AND 2008 FROM MAY MONTHLY FINANCIAL REPORT

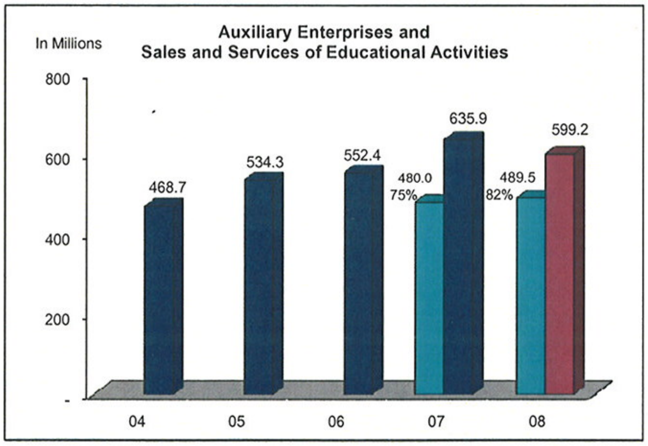

State Appropriations and HEAF

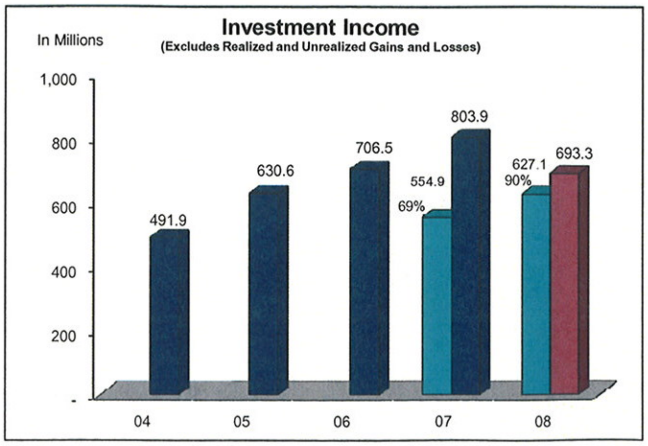

State Net Revenues

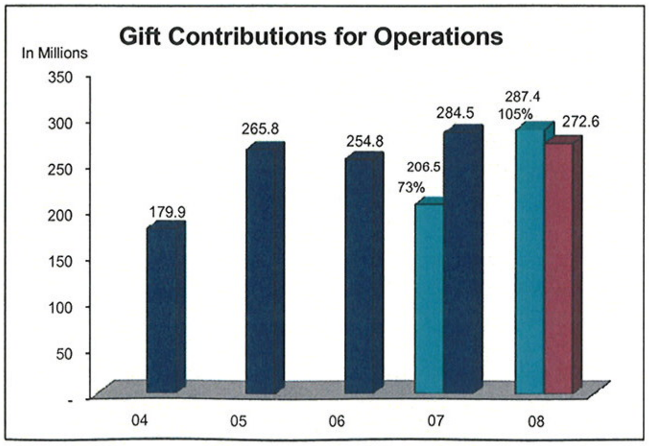

Gross Tuition and Fees


Clinical Revenues

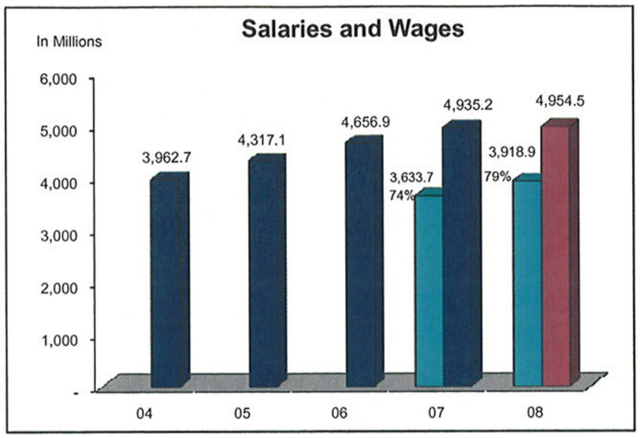

Sponsored Programs

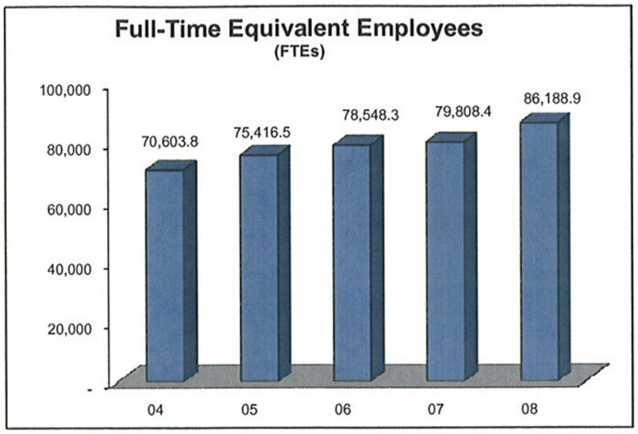

Auxiliary Enterprises and
Sales and Services of Educational Activities

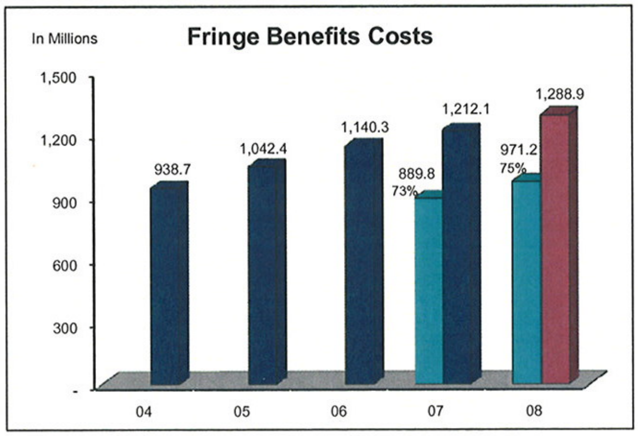

Investment Income
(Excludes Realized and Unrealized Gains and Losses)

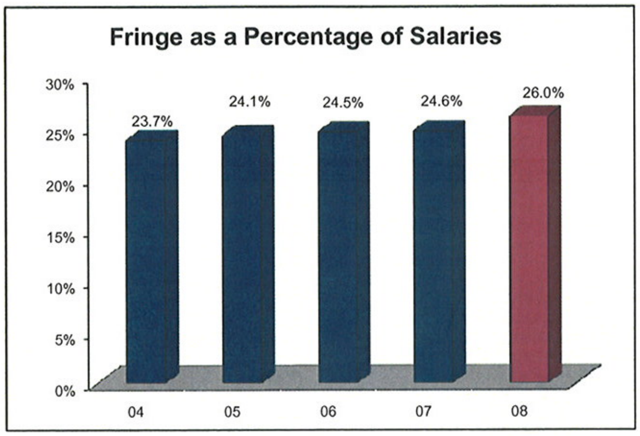

Gift Contributions for Operations

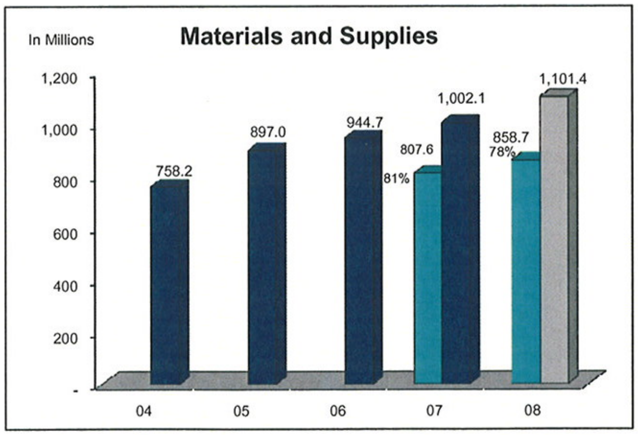
KEY INDICATORS OF EXPENSES
ACTUAL 2004 THROUGH 2007
PROJECTED 2008
YEAR-TO-DATE 2007 AND 2008 FROM MAY MONTHLY FINANCIAL REPORT

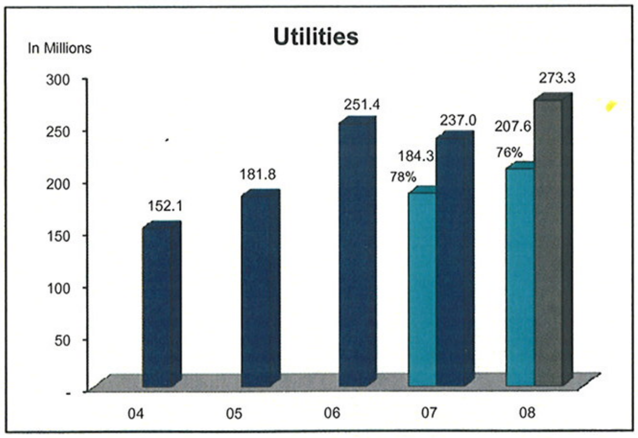

Salaries and Wages

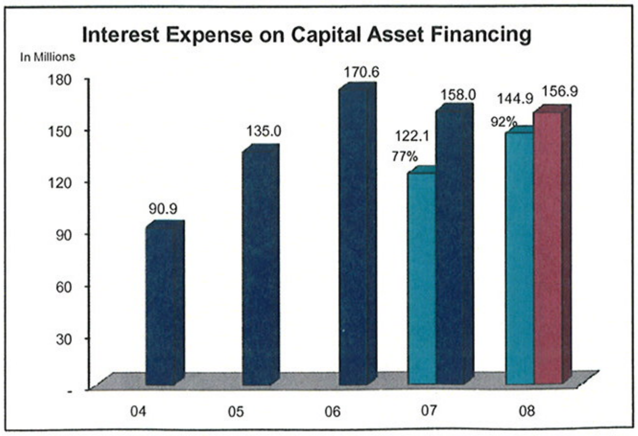

Full-Time Equivalent Employees
(FTEs)

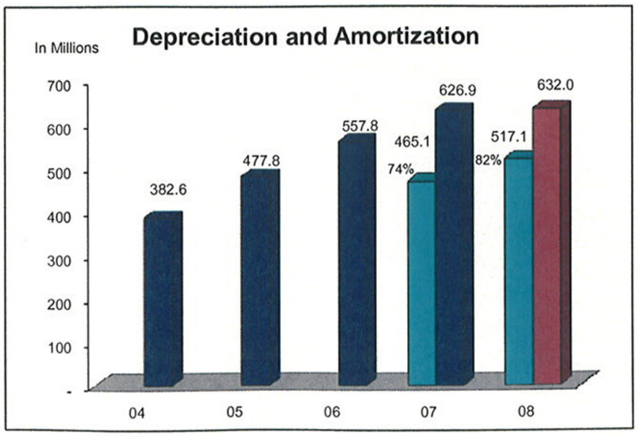

Fringe Benefits Costs


Fringe as a Percentage of Salaries

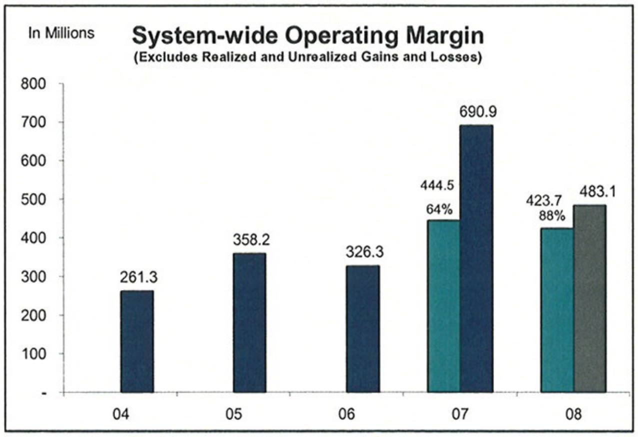

Materials and Supplies


Utilities

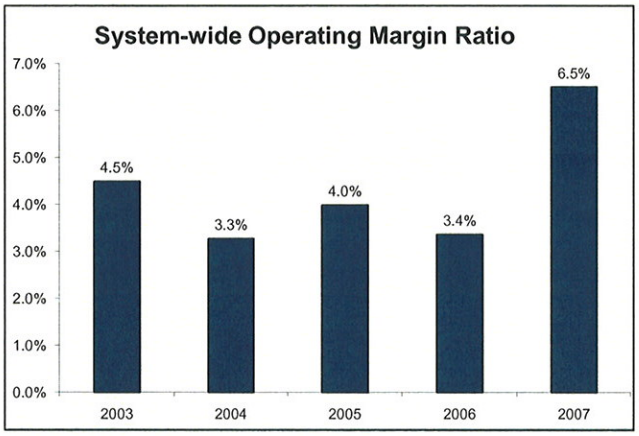

Interest Expense on Capital Asset Financing

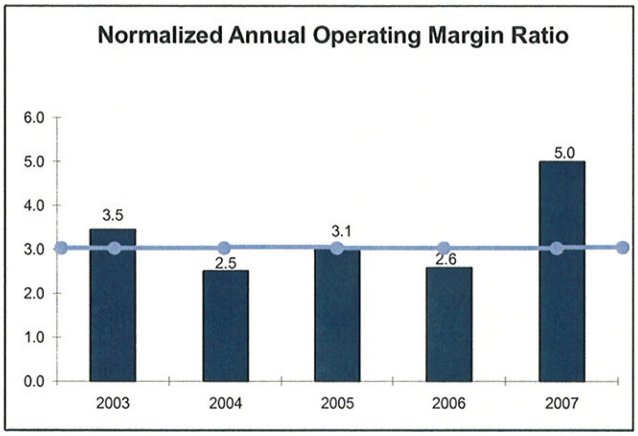

Depreciation and Amortization

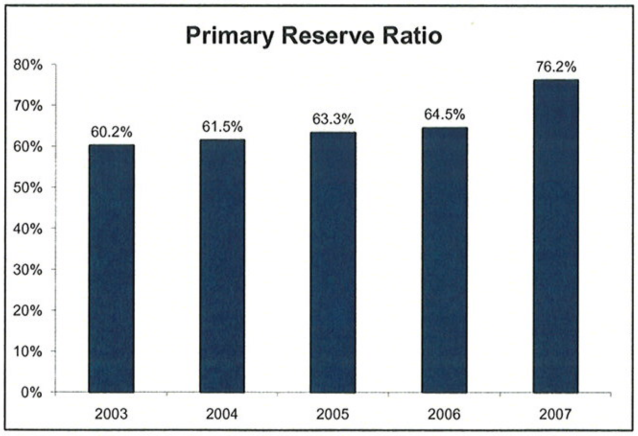
KEY INDICATORS OF RESERVES
ACTUAL 2004 THROUGH 2007
PROJECTED 2008
YEAR-TO-DATE 2007 AND 2008 FROM MAY MONTHLY FINANCIAL REPORT

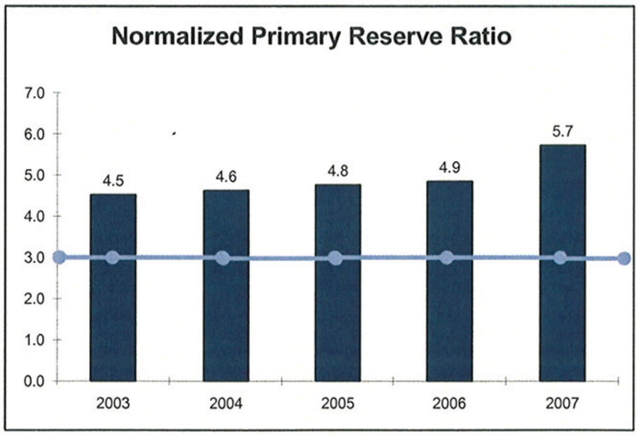

System-wide Operating Margin

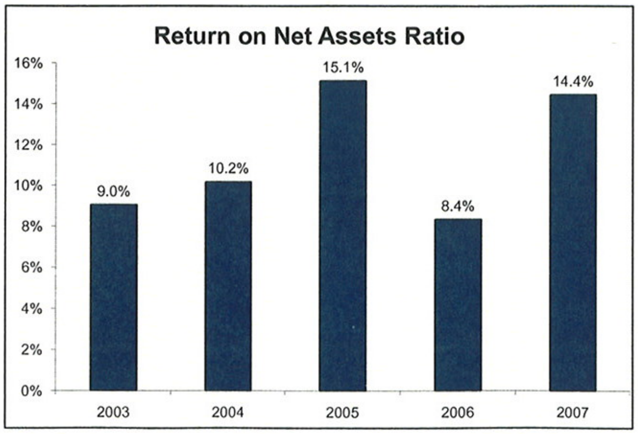
(Excludes Realized and Unrealized Gains and Losses)

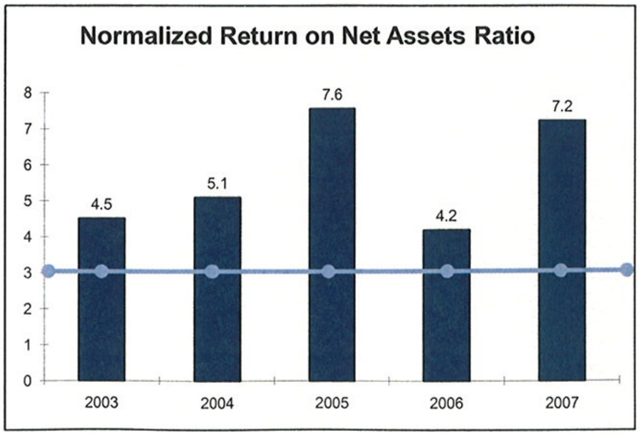

System-wide Operating Margin Ratio


Normalized Annual Operating Margin Ratio

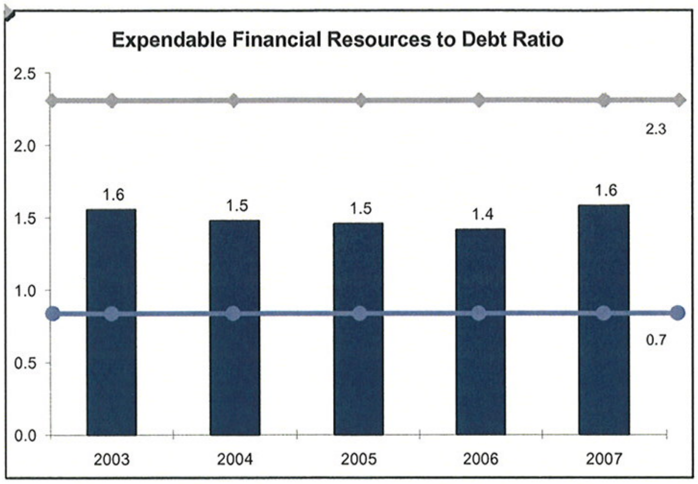

Primary Reserve Ratio

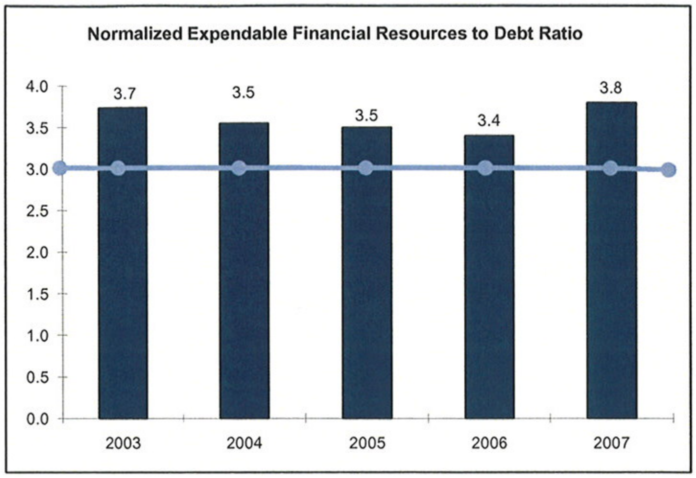

Normalized Primary Reserve Ratio

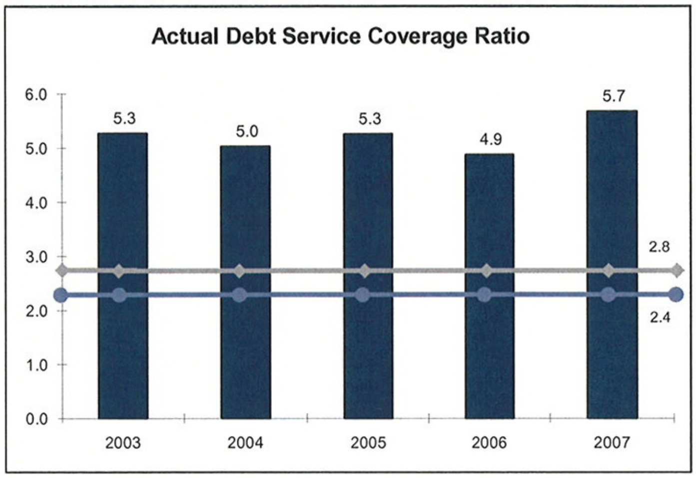

Return on Net Assets Ratio

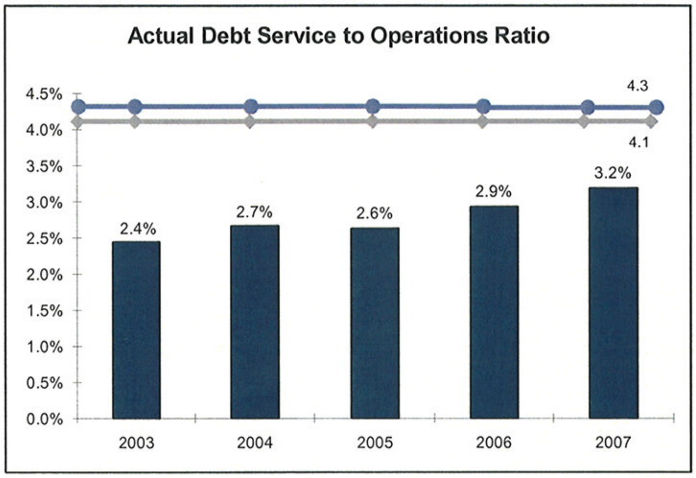

Normalized Return on Net Assets Ratio

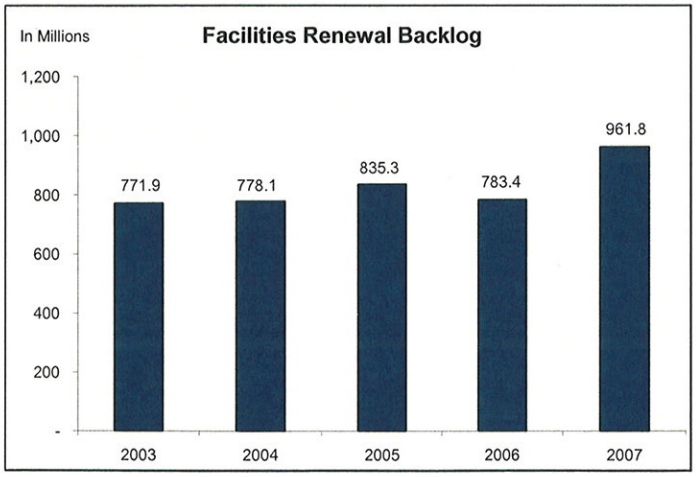
KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY
2003 THROUGH 2007

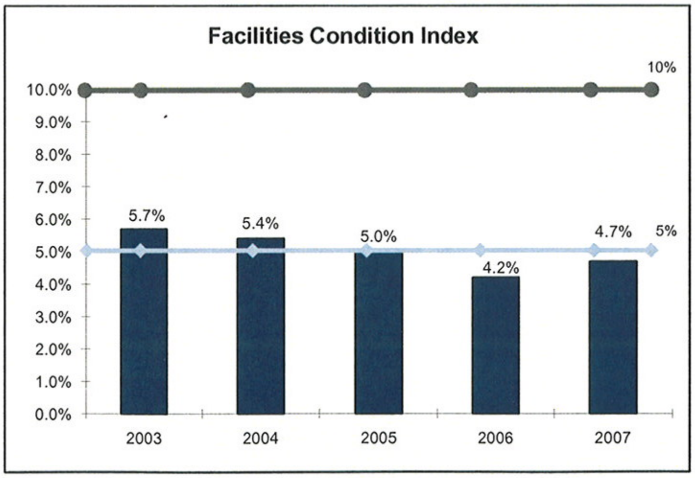

Expendable Financial Resources to Debt Ratio


Normalized Expendable Financial Resources to Debt Ratio

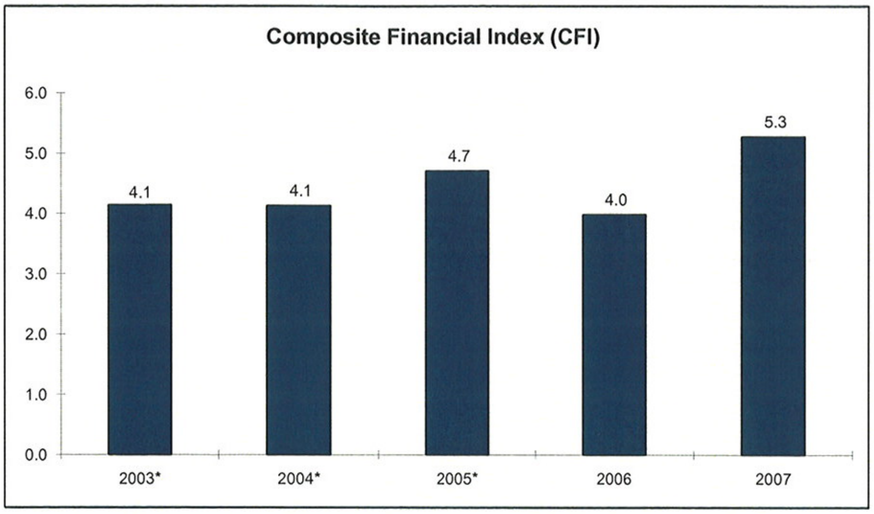

Actual Debt Service Coverage Ratio


Actual Debt Service to Operations Ratio


Facilities Renewal Backlog

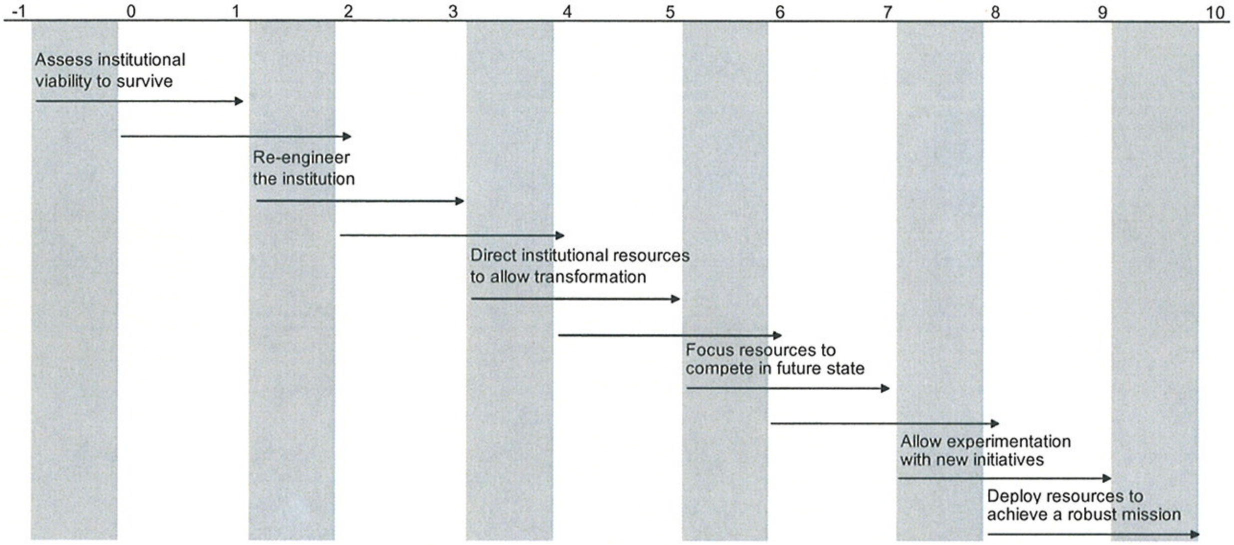

Facilities Condition Index

KEY INDICATORS OF FINANCIAL HEALTH
2003 THROUGH 2007

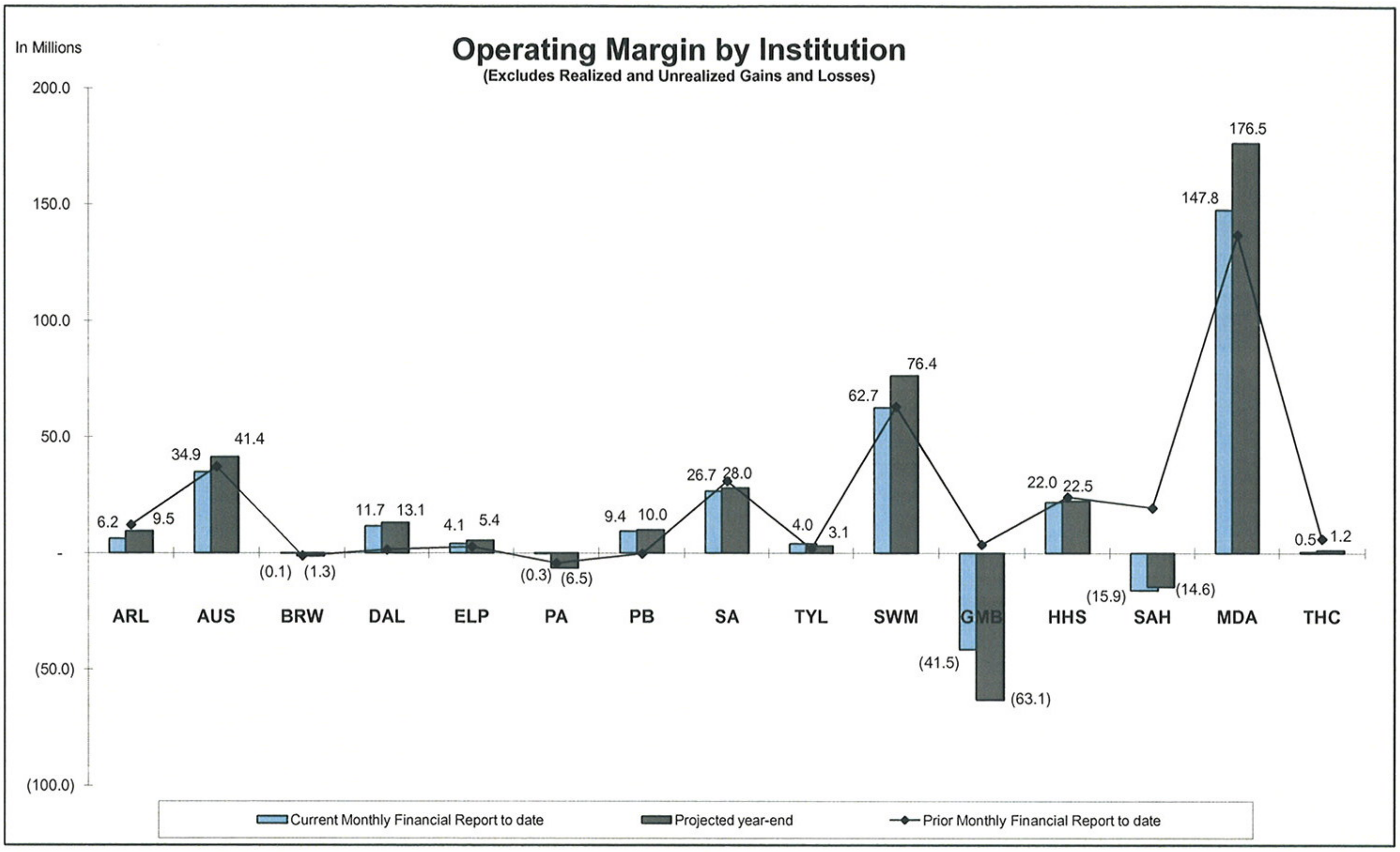

Composite Financial Index (CFI)

*Restated to reflect appreciation on endowments as restricted expendable net assets as a result of the 2006 external audit

Scale for Charting CFI Performance

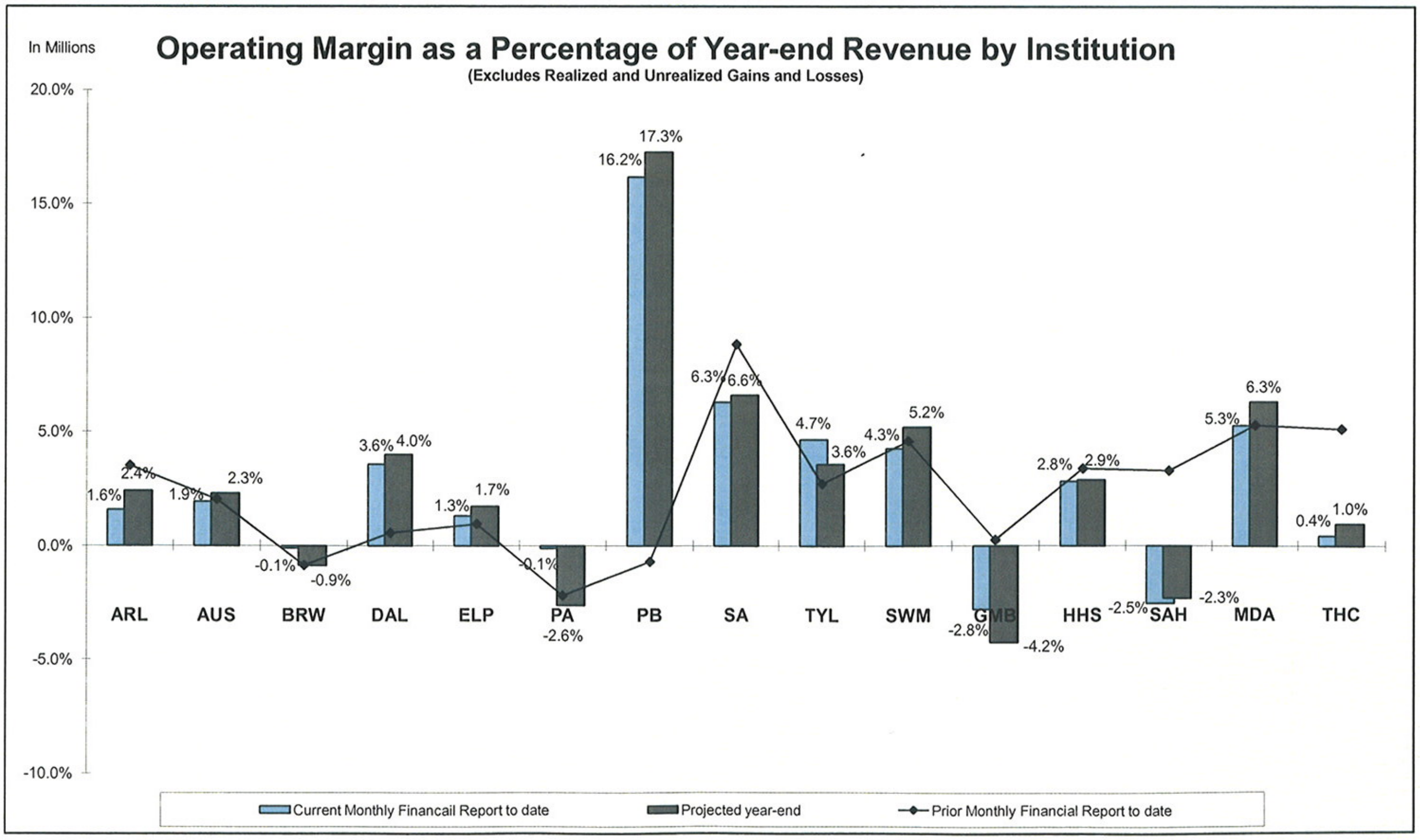


KEY INDICATORS OF RESERVES
YEAR-TO-DATE 2007 AND 2008 FROM JUNE MONTHLY FINANCIAL REPORT
PROJECTED 2008 YEAR-END MARGIN



Operating Margin by Institution

(Excludes Realized and Unrealized Gains and Losses)



Operating Margin as a Percentage of Year-end Revenue by Institution

(Excludes Realized and Unrealized Gains and Losses)

4. U. T. System: Approval to exceed the full-time equivalent limitation on employees paid from appropriated funds

RECOMMENDATION

Dr. Kenneth I. Shine, in his roles as Chancellor ad interim and Executive Vice Chancellor for Health Affairs, concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and the presidents of the affected U. T. System institutions that the U. T. System Board of Regents approve allowing those institutions, as set forth in the table on Page 105, to exceed the number of full-time equivalent (FTE) employees paid from appropriated funds for Fiscal Year 2009 that are authorized in Article III of the General Appropriations Act. Also, as required by Article IX, Section 6.10 of the General Appropriations Act, it is recommended that the U. T. System Board of Regents submit a request to the Governor's Office and the Legislative Budget Board to grant approval for these institutions to exceed the authorized number of FTE employees paid from appropriated funds.

Supplemental Materials: Detailed justification information on Pages 92 – 95 of Volume 2.

BACKGROUND INFORMATION

The General Appropriations Act places a limit on the number of FTE employees paid from appropriated funds that an institution may employ without written approval of the Governor and the Legislative Budget Board. To exceed the FTE limitation, a request must be submitted by the governing board and must include the date on which the board approved the request, a statement justifying the need to exceed the limitation, the source of funds to be used to pay the salaries, and an explanation as to why the functions of the proposed additional FTEs cannot be performed within current staffing levels.

U. T. Austin, U. T. Dallas, U. T. Pan American, U. T. Health Science Center – Houston, U. T. Health Science Center – San Antonio, and U. T. Health Science Center – Tyler will be under the FTE cap and are not requesting to exceed the FTE limitation.

The University of Texas System
Request to Exceed Full-time Equivalent Limitation on Employees Paid From Appropriated Funds
For Period September 1, 2008 through August 31, 2009

Request to Exceed Cap - by Function

	Faculty	Staff	Total
Instruction	677.28	301.00	978.28
Academic Support	-	7.23	7.23
Research	89.89	235.12	325.01
Public Service	1.53	11.13	12.66
Hospitals and Clinics	91.40	1,423.00	1,514.40
Institutional Support	-	246.92	246.92
Student Services	-	43.59	43.59
Operations and Maintenance of Plant	-	520.52	520.52
Scholarships and Fellowships	-	0.93	0.93
Total	860.10	2,789.44	3,649.54

Request to Exceed Cap - by Institution

		Request to Exceed Cap			
	FY 2009 Cap	Faculty	Staff	Total	
U. T. Arlington	2,247.90	3.00	7.00	10.00	
U. T. Austin	6,619.10	-	-	-	*
U. T. Brownsville	554.00	117.89	126.93	244.82	
U. T. Dallas	1,322.60	-	-	-	*
U. T. El Paso	1,797.90	15.00	-	15.00	
U. T. Pan American	1,896.10	-	-	-	*
U. T. Permian Basin	306.40	2.43	-	2.43	
U. T. San Antonio	2,041.00	121.00	138.00	259.00	
U. T. Tyler	481.80	23.80	17.00	40.80	
Total Academic Institutions	17,266.80	283.12	288.93	572.05	
U. T. Southwestern Medical Center	1,240.10	458.58	492.61	951.19	
U. T. Medical Branch - Galveston	5,534.70	56.00	276.70	332.70	
U. T. Health Science Center - Houston	1,869.60	-	-	-	*
U. T. Health Science Center - San Antonio	2,516.70	-	-	-	*
U. T. M. D. Anderson Cancer Center	11,947.20	62.40	1,721.20	1,783.60	
U. T. Health Science Center - Tyler	740.70	-	-	-	*
Total Health Institutions	23,849.00	576.98	2,490.51	3,067.49	
U. T. System Administration	249.00	-	10.00	10.00	
U. T. System Total	41,364.80	860.10	2,789.44	3,649.54	

* U. T. Austin, U. T. Dallas, U. T. Pan American, U. T. Health Science Center - Houston, U. T. Health Science Center - San Antonio, and U. T. Health Science Center - Tyler will not exceed their cap.

5. U. T. System: Approval of Optional Retirement Program employer contribution rates for Fiscal Year 2009

RECOMMENDATION

Dr. Kenneth I. Shine, in his roles as Chancellor ad interim and Executive Vice Chancellor for Health Affairs, concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor for Administration that the U. T. System Board of Regents approve the Optional Retirement Program (ORP) employer contribution rates for Fiscal Year 2009 as follows:

a. 8.5% for all institutions and U. T. System Administration with respect to employees who participated in the ORP prior to September 1, 1995; and

b. for all other employees, an employer contribution rate as recommended by each institution and set forth on Page 109.

Further approval is requested to delegate to the Chancellor authority to approve the ORP employer contribution rates for future years in accordance with rules issued by the Texas Higher Education Coordinating Board.

BACKGROUND INFORMATION

ORP is a retirement program where eligibility is strictly determined by the job performed and not based on years of service or salary level. To be eligible to participate in ORP, an employee must: (1) initially be appointed on a full-time basis for four and one-half months or more; and (2) be appointed to a position otherwise eligible to participate in ORP. Employees who are eligible to participate in a retirement program who are not eligible to participate in ORP must participate in the Teacher Retirement System of Texas. Positions that are generally ORP-eligible are:

1) Faculty members whose duties include teaching and/or research as a principal activity
2) Faculty administrators responsible for teaching and research faculty
3) Professional librarians
4) Chief and senior administrative officials
5) Specialized professional positions (such as physicians, engineers, and attorneys)
6) Athletic coaches and directors
7) Counselors treated in the same manner as faculty

Prior to September 1, 1995, the ORP employer contribution rate was 8.5% for all ORP participants. An enactment by the 74th Texas Legislature reduced ORP employer contributions to participants from 8.5% to 6.0%, effective September 1, 1995. However, U. T. System was permitted to "grandfather" those employees participating in the ORP during the 1994-95 biennium. This resulted in a two-tiered ORP employer contribution rate for U. T. System employees: those who participated in ORP during the 1994-95 biennium continued to receive 8.5%, while those who did not participate during the 1994-95 biennium received 6.0%.

The 78th Texas Legislature enacted *Texas Government Code* Section 830.2015, which expanded the definition of a grandfathered employee from one who had participated during the 1994-95 biennium to one who had participated in ORP prior to September 1, 1995. The legislation also granted permissive authority for institutions of higher education to set the ORP employer contribution rate for grandfathered and nongrandfathered participants at any percentage level between the amount appropriated by the State and 8.5%. In the General Appropriations Act, the 80th Legislature increased the appropriated rate from 6.0% to 6.58% for the 2008-09 biennium. It is not required that the rate be the same for grandfathered employees nor that the rate be the same for all U. T. System institutions.

Given the diversity of the U. T. System institutions and the differential budget impact for each institution, each institutional president was asked to propose its ORP employer contribution rates for grandfathered and nongrandfathered participants as noted in the chart on Page 109. It should be noted that all institutions are making progress toward 8.5% for nongrandfathered employees.

a. For Fiscal Year 2009, with respect to grandfathered employees hired prior to September 1, 1995, all U. T. System institutions elected to continue the current 8.5% employer contribution rate.

b. For nongrandfathered participants hired after September 1, 1995, nine institutions (U. T. Arlington, U. T. Austin, U. T. Brownsville, U. T. Dallas, U. T. El Paso, U. T. Pan American, U. T. Southwestern Medical Center – Dallas, U. T. Health Science Center – Houston, and U. T. Health Science Center – San Antonio) have proposed to increase the ORP employer contribution rate from the rate established by the Board for Fiscal Year 2008.

c. Six institutions (U. T. Permian Basin, U. T. San Antonio, U. T. Tyler, U. T. Medical Branch – Galveston, U. T. M. D. Anderson Cancer Center, and U. T. Health Science Center – Tyler) and U. T. System Administration will continue the contribution rate of 8.5% as approved by the Board for Fiscal Year 2008.

The governing board of an institution of higher education has the authority to set the ORP employer contribution rates in accordance with rules issued by the Coordinating Board. Under those rules, the governing board is to determine the employer contribution rates once per year, to be effective for the entire year. All institutions plan to implement the employer contribution rates effective September 1, 2008, with the exception of U. T. Austin. Because of the number of employees this will impact and the required analysis of each individual's tax deferrals to ensure compliance with the *Internal Revenue Code*, U. T. Austin proposes implementation of the new employer contribution rate change beginning with paychecks issued on or after January 1, 2009.

Approval of this agenda item will authorize all U. T. System institutions with the exception of U. T. Austin to implement the ORP employer contribution rates on September 1, 2008, and authorize U. T. Austin to implement beginning with paychecks issued on or after January 1, 2009. Due to the large number of participants at U. T. Austin who may be subject to contribution limits, it is easier to calculate ORP contributions based on a tax year rather than a fiscal year.

The University of Texas System
FY 2009 Optional Retirement Program Contribution Rates

Grandfathered Employees	2008 Approved Rate	2009 Proposed Rate	2009 Participants	2009 Total Cost	Cost Above 6.58%
U. T. Arlington	8.50%	8.50%	550	3,465,612	785,143
U. T. Austin*	8.50%	8.50%	1,309	15,212,429	3,436,219
U. T. Brownsville	8.50%	8.50%	129	852,557	192,578
U. T. Dallas	8.50%	8.50%	185	1,836,200	414,985
U. T. El Paso	8.50%	8.50%	244	1,652,609	373,295
U. T. Pan American	8.50%	8.50%	166	1,107,149	250,085
U. T. Permian Basin	8.50%	8.50%	27	164,670	37,196
U. T. San Antonio	8.50%	8.50%	315	2,868,733	647,996
U. T. Tyler	8.50%	8.50%	57	361,167	81,581
U. T. Southwestern Medical Center - Dallas	8.50%	8.50%	483	7,590,305	1,714,516
U. T. Medical Branch - Galveston	8.50%	8.50%	607	8,189,698	1,849,908
U. T. Health Science Center - Houston	8.50%	8.50%	456	5,879,904	1,328,164
U. T. Health Science Center - San Antonio	8.50%	8.50%	448	5,108,176	1,153,847
U. T. M. D. Anderson Cancer Center	8.50%	8.50%	403	8,069,125	1,822,673
U. T. Health Science Center - Tyler	8.50%	8.50%	39	382,913	86,493
U. T. System Administration	8.50%	8.50%	33	370,875	83,769
TOTAL			5,451	$ 63,112,122	$ 14,258,448

Nongrandfathered Employees	2008 Approved Rate	2009 Proposed Rate	2009 Participants	2009 Total Cost	Cost Above 6.58%
U. T. Arlington	7.00%	7.50%	317	1,808,390	221,829
U. T. Austin*	7.50%	8.00%	1,445	12,547,770	2,227,230
U. T. Brownsville	6.58%	8.50%	179	943,246	213,063
U. T. Dallas	7.50%	8.00%	307	2,972,145	527,500
U. T. El Paso	6.58%	7.50%	415	2,032,970	249,377
U. T. Pan American	7.50%	8.00%	326	1,653,673	293,527
U. T. Permian Basin	8.50%	8.50%	74	417,852	94,385
U. T. San Antonio	8.50%	8.50%	487	3,555,317	803,082
U. T. Tyler	8.50%	8.50%	177	1,042,213	235,418
U. T. Southwestern Medical Center - Dallas	7.50%	8.00%	1,427	13,307,502	2,362,082
U. T. Medical Branch - Galveston	8.50%	8.50%	1,329	10,810,084	2,441,807
U. T. Health Science Center - Houston	6.58%	7.50%	741	7,493,968	919,260
U. T. Health Science Center - San Antonio	6.58%	7.50%	687	4,911,464	602,473
U. T. M. D. Anderson Cancer Center	8.50%	8.50%	1,119	17,625,579	3,981,307
U. T. Health Science Center - Tyler	8.50%	8.50%	39	1,081,725	244,342
U. T. System Administration	8.50%	8.50%	38	476,724	107,684
TOTAL			9,107	$ 82,680,622	$ 15,524,366

*U. T. Austin will implement on or after 1/1/2009.

6. U. T. System Board of Regents: Approval of a new University of Texas Investment Management Company (UTIMCO) Compensation Program

RECOMMENDATION

The University of Texas Investment Management Company (UTIMCO) Board of Directors recommends that the U. T. System Board of Regents (U. T. Board) approve a new UTIMCO Compensation Program (Plan) effective July 1, 2008, as set forth in congressional style on Pages 112 – 149. The Plan was approved by the UTIMCO Board of Directors (UTIMCO Board) on July 23, 2008, and supersedes the UTIMCO Compensation Program that was approved by the Board on November 9, 2007 (Prior Plan). The Plan is to be effective for the full Plan Year beginning July 1, 2008.

BACKGROUND INFORMATION

The Prior Plan consists of two elements: base salary and an annual incentive plan. Except as noted in the discussion below, the proposed Plan maintains the structure of the Prior Plan with minor editorial changes but is intended to supersede the Prior Plan. The UTIMCO Board engaged Mercer as its compensation consultant to review the design of the Plan and provide advice and counsel to the UTIMCO Board and the UTIMCO Compensation Committee.

Entity Performance

Entity performance is the performance of the Total Endowments Assets (weighted at 85%) and the Intermediate Term Fund (weighted at 15%). UTIMCO is recommending that the performance of the Total Endowment Assets (combination of the Permanent University Fund and the General Endowment Fund) be measured solely on the Total Endowment Assets relative performance to its benchmark (Total Endowment Assets' Policy Portfolio Return) and eliminate the requirement that it also be measured against the Peer Group. Currently, the Total Endowment Assets is measured against a weight of 75% of its benchmark and a weight of 25% of its Peer Group. This change has been incorporated into Section 5.8 on Page 123 and in Table 2 in Appendix D.

Other

- Provisions have been incorporated setting forth the responsibilities of the UTIMCO Audit and Ethics Committee and UTIMCO Chief Executive Officer relative to the joint recommendations that must be made to the UTIMCO Compensation Committee regarding the General Counsel and Chief Compliance Officer's base salary, performance goals and achievement of performance goals, performance incentives, and designation of the position of General Counsel and Chief Compliance Officer as a Participant in the Plan. These changes have been incorporated in Section 4.2 on Page 116, Section 5.4 on Pages 118 – 120, Section 5.5 on Pages 120 – 121, and Section 5.8(c) on Pages 126 – 127.

- Individual Performance Goals have been renamed as Qualitative Performance Goals to allow for consideration of criteria in addition to individual performance in evaluating the level of achievement of a Participant's performance for a Performance Period. Consideration of UTIMCO's performance relative to its Peer Group has been added as one of the criteria on which qualitative performance goals may be based. This change has been incorporated in Section 5.4(b) on Page 119 and Section 5.8(c) on Pages 126 – 127.

- Section 5.3(b) has been changed to clarify that when compelling individual circumstances justify a shorter period of time and such circumstances are recorded in the minutes of a meeting of the UTIMCO Board, an employee in an Eligible Position may be designated as a Participant in the Plan during the last six months of a Performance Period.

- Section 5.8(b)(2) related to private investments incorporates two benchmarks: (1) the Venture Economics benchmark for private investments other than Real Estate; and (2) a National Council of Real Estate Investment Fiduciaries (NACRIEF) Custom Index for private investments in Real Estate. The NACRIEF Custom Index benchmark was approved by the UTIMCO Board on July 23, 2008, and is now being submitted for approval by the U. T. Board.

- The definition of Peer Group in Section 8.17 has been changed based on the collective recommendations of Cambridge Associates and Mercer to include all endowment funds with more than 10 full-time employee positions, with 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 in Appendix B on Page 142; provided, however, that the Total Endowment Assets are excluded from the Peer Group. The Peer Group in Appendix B will be updated when the information is available.

- The sample methodology in Appendix A on Page 137 has been updated to reflect the new threshold, target, and maximum performance standards.

- Table 1 in Appendix C on Page 146 has been updated based on Mercer's recommendations regarding weightings and incentive award opportunities.

- Table 2 in Appendix D on Page 149 has been updated to incorporate the new Asset Classes and Investment Types methodology and benchmarks set forth in the Investment Policies adopted by the UTIMCO Board effective March 1, 2008. Table 2 has also been updated to include new threshold, target, and maximum performance standards and to add a specific asset class benchmark for Internal Investment Grade Fixed Income. The new benchmarks and performance standards incorporated in Table 2 were approved by the UTIMCO Board on July 23, 2008, and are now being submitted for approval by the U. T. Board.

UTIMCO
1996
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

UTIMCO
COMPENSATION PROGRAM

~~Restated:~~ Effective July 1, ~~2007~~2008

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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: ~~The original Compensation Program was effective September 1, 2000. It was amended and restated in its entirety effective September 1, 2004, and again on July 1, 2006, except that (i) provisions of the Performance Incentive Plan relating to the further deferral of Nonvested Deferred Awards after they become vested are eliminated effective September 1, 2004, and (ii) provisions of the Performance Incentive Plan that are deleted, added, or modified to conform to, or exempt the plan from, section 409A of the Internal Revenue Code (Sections 5.6(a), 5.7(b)(4), 5.10(c), and 8.5) are effective January 1, 2005.~~ Except as provided in Section 7.9, ~~This~~ this document, with an “Effective Date” of July 1, 2008, supersedes ~~amends and restates~~ the UTIMCO Compensation Program that was effective July 1, 2007~~with an “Effective Date” of July 1, 2007~~.

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

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, in-house managed pension funds**,** 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 performance is outstanding. (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~~. In most cases, the salary range will be from 20% below the midpoint to 20% above the midpoint.~~

(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~~ (e.g., recent promotion)~~.

(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 July 1 of each year and ends the following June 30.

(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 July

1 and the following June 30 of the applicable year for gauging achievement of the Entity and ~~Asset Class~~Asset Class/Investment Type Performance Goals.

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 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 when compelling individual circumstances justify a shorter period of time and such circumstances are recorded in the minutes of a meeting of the Board, 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, and, if an employee is selected by the Board to participate in the Performance Incentive Plan or becomes employed in an Eligible Position during the last six months of any Performance Period, participation of such employee in the Performance Incentive Plan will be delayed until the first day of the next Performance Period (assuming such employee is employed by UTIMCO in an Eligible Position on such 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 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 categories of Performance Goals:

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

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

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

Except for the CEO and CCO, ~~Individual~~ 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. ~~Individual~~ Qualitative Performance Goals may be established in one or more of the following areas:

- 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 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 ~~where~~ when it considers the ~~assigned~~ 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, ~~or~~ 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 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) to the maximum Incentive Award Opportunity (if a Participant performs at or above maximum on all Performance Goals) depending on performance relative to objectives. 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 will seek, and may 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 ~~Individual~~ Qualitative Performance Goals and each Participant's Incentive Award Opportunity. 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 150 days following the end of a Performance Period, the Compensation Committee will review all Performance Incentive Award calculations, based on the certification of its advisors, 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

Approved Performance Incentive Awards will be paid as follows:

(a) Seventy percent of the Performance Incentive Award will be paid to the Participant ("Paid Performance Incentive Award") within 150 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 ~~p~~Period ends, and

(b) Thirty percent of the Performance Incentive Award will be treated as a "Nonvested Deferred Award" subject to the terms of Section 5.7 and paid in accordance with that Section.

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 who is not employed by UTIMCO 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 but will instead be forfeited. 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) Assuming and contingent upon continued employment with UTIMCO, except as provided in Section 5.10(c), a 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 85%) and the Intermediate Term Fund (weighted at 15%).

(2) The performance of the Total Endowment Assets is measured based on the TEA's performance relative to the TEA Policy Portfolio Return (TEA benchmark). ~~(weighted at 75%) and to the Peer Group (weighted at 25%). The Board's chosen investment advisor will determine the performance of the Peer Group annually for the Performance Period. 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. The Board's investment advisor will calculate a percentile rank for the performance of the Total Endowment Assets relative to the Peer Group, with the 100th percentile representing the highest rank, the 50th percentile representing the median, and the 0th percentile representing the lowest rank.~~

(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). The performance standards related to the Intermediate Term Fund for the Performance Period beginning July 1,

2006, are reflected in ~~Table 4~~Table 2 on Appendix D. Performance standards related to the ITF for each Performance Period beginning after June 30, ~~2007~~2008, will be set forth on a revised table for each such Performance Period and set forth on Appendix D as soon as administratively practicable after such standards are determined. 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 ITF.

(4) Except as provided in Section 5.9, performance of the Total Endowment Assets (based on the TEA benchmark~~ and Peer Group performance~~) 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

(1) 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 ~~US public equity~~developed country, private ~~capital~~investments, etc.) based on the standards set forth in this Section 5.8(b). Except as provided in paragraph (2) below and 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. ~~Table 2 below identifies the benchmarks for each asset class as well as threshold, target, and maximum performance standards for the Performance Periods ending June 30, 2003, 2004, and 2005 and includes July 2005 and August 2005. Table 3 below identifies the benchmarks for each asset class as well as threshold, target, and maximum performance standards beginning September 1, 2005, through December 31, 2005. Table 4 below identifies the benchmarks for each asset class as well as threshold, target, and maximum performance standards beginning January 1, 2006, through June 30, 2006.~~ The benchmarks for each asset class and investment type, as well as threshold, target, and maximum performance standards for the Performance Period beginning July 1, 2006, is set forth on Appendix D. The benchmarks for each asset class and investment type as well as threshold, target, and maximum performance standards for Performance Periods beginning after June 30, ~~2006~~2009, will be set forth in a revised table for each such Performance Period as soon as administratively practicable after such benchmarks and standards are set, and such revised table will be attached as Appendix D.

~~TABLE 2 (7/1/04 through 8/31/05)~~

Asset Class	Benchmark	Policy Portfolio Weights (% of Portfolio)	Performance Standards		
			Threshold	Target	Maximum
Entity: Peer goup	Peer group (Endowments w/ >$ 1 B assets)	n/a	40th %ile	60th %ile	75th %ile
US Public Equity	Russell 3000	20.0%	+0 bps	+31 bps	+62 bps
International Equity	MSCI All Country World Index, Ex US	17.0%	+0 bps	+52.5 bps	+105 bps
Fixed Income	Lehman Brothers Aggregate Bond Index	10.0%	+0 bps	+12.5 bps	+25 bps
Private Capital	Roll up of Private Equity & Venture Capital	15.0%			
Private Equity	Venture Economics Private Equity Database	--	+0 bps	+100 bps	+200 bps
Venture Capital	Venture Economics Venture Capital Database	--	+0 bps	+112.5 bps	+225 bps
Absolute Return Hedge Funds	91-Day T-Bill	15.0%	+300 bps	+350 bps	+400 bps
Equity Hedge Funds	91-Day T-Bill	10.0%	+400 bps	+465 bps	+530 bps
Inflation Hedge	Roll up of Commodities, TIPS & REITS	13.0%			
Commodities	Goldman Sachs Commodity Index	3.0%	-100 bps	-15 bps	+0 bps
TIPS	Lehman Brothers US TIPS Index	5.0%	+0 bps	+2.5 bps	+5 bps
REITS	Dow Jones Wilshire Real Estate Securities Index	5.0%	+0 bps	+37.5 bps	+75 bps
Cash	91-Day T-Bill	0.0%	+0 bps	+0 bps	+0 bps
~~Short Intermediate Term Fund~~	~~SITF Policy Statement~~	~~--~~	~~+0 bps~~	~~+5 bps~~	~~+10 bps~~

~~TABLE 3 (9/1/05 through 12/31/05)~~

Asset Class	Benchmark	Policy Portfolio Weights (% of Portfolio)	Performance Standards		
			Threshold	Target	Maximum
Entity: Peer Group	Peer group (Endowments w/>$1 B assets)	n/a	40th %ile	60th %ile	75th %ile
US Public Equity	Russell 3000 Index	20%	+0 bps	+31 bps	+62 bps
Non-US Developed Equity	MSCI EAFE Index with net dividends	10%	+0 bps	+37.5 bps	+75 bps
Emerging Markets Equity	MSCI Emerging Markets Index with net dividends	7%	+0 bps	+75 bps	+150 bps
Directional Hedge Funds	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index	10%	+0 bps	+65 bps	+130 bps
Absolute Return Hedge Funds	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index	15%	+0 bps	+50 bps	+100 bps
Private Equity	Custom Benchmark Created from Venture Economics Database	11%	+0 bps	+103.5 bps	+207 bps
Venture Capital	Custom Benchmark Created from Venture Economics Database	4%	+0 bps	+103.5 bps	+207 bps
REITS	Dow Jones Wilshire Real Estate Securities Index	5%	+0 bps	+37.5 bps	+75 bps
Commodities	Combination index: 66.7% Goldman Sachs Commodity Index minus .5% plus 33.3% DJ-AIG Commodity Index	3%	+0 bps	+17.5 bps	+35 bps
TIPS	Lehman Brothers US TIPS Index	5%	+0 bps	+2.5 bps	+5 bps
Fixed Income	Lehman Brothers Aggregate Bond Index	10%	+0 bps	+12.5 bps	+25 bps
Cash	90 day t-bills	0%	+0 bps	+0 bps	+0 bps
Short Intermediate Term Fund	SITF Policy Statement	--	+0 bps	+5 bps	+10 bps

~~TABLE 4 (1/1/06 through 6/30/06)~~

Asset Class	Benchmark	Policy Portfolio Weights (% of Portfolio)	Performance Standards		
			Threshold	Target	Maximum
Entity: Peer Group	Peer group (Endowments w/>$1 B assets)	n/a	40th %ile	60th %ile	75th %ile
US Public Equity	Russell 3000 Index	20%	+0 bps	+31 bps	+62 bps
Non-US Developed Equity	MSCI EAFE Index with net dividends	10%	+0 bps	+37.5 bps	+75 bps
Emerging Markets Equity	MSCI Emerging Markets Index with net dividends	7%	+0 bps	+75 bps	+150 bps
Directional Hedge Funds	MSCI Investable Hedge Fund Index	10%	+0 bps	+65 bps	+130 bps
Absolute Return Hedge Funds	MSCI Investable Hedge Fund Index	15%	+0 bps	+50 bps	+100 bps
Private Equity	Custom Benchmark Created from Venture Economics Database	11%	+0 bps	+103.5 bps	+207 bps
Venture Capital	Custom Benchmark Created from Venture Economics Database	4%	+0 bps	+103.5 bps	+207 bps
REITS	Dow Jones Wilshire Real Estate Securities Index	5%	+0 bps	+37.5 bps	+75 bps
Commodities	Combination index: 66.7% Goldman Sachs Commodity Index minus .5% plus 33.3% DJ-AIG Commodity Index	3%	+0 bps	+17.5 bps	+35 bps
TIPS	Lehman Brothers US TIPS Index	5%	+0 bps	+2.5 bps	+5 bps
Fixed Income	Lehman Brothers Aggregate Bond Index	10%	+0 bps	+12.5 bps	+25 bps
Cash	90 day t-bills	0%	+0 bps	+0 bps	+0 bps
Short Intermediate Term Fund	SITF Policy Statement	--	+0 bps	+5 bps	+10 bps

(2) Performance for ~~the~~ private ~~capital~~ investments~~asset class (Private Equity and Venture Capital)~~ is calculated differently from other asset classes and investment types due to its longer investment horizon and illiquidity of assets. Except for private investments in Real Estate, p~~P~~erformance of ~~the~~ private ~~capital asset class~~investments is determined based on the performance of partnership commitments made ~~by the current private capital team~~ since 2001 based on internal rates of return (IRR's) relative to the respective Venture Economics benchmarks. Performance of private investments in Real Estate will be determined based on the performance of partnership commitments made relative to a NACRIEF Custom Index benchmark.

(c) ~~Individual~~ Qualitative Performance

(1) The level of a Participant's ~~Individual~~ 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 ~~Individual~~ Qualitative Performance Goals for the Performance Period.

(2) For purposes of determining the level of attainment of each Participant's ~~Individual~~ 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 ~~Individual~~ Qualitative Performance Goals for that Performance Period, threshold level if he or she successfully

completes 50% of his or her ~~Individual~~ Qualitative Performance Goals for that Performance Period, target level if he or she successfully completes 75% of his or her ~~Individual~~ Qualitative Performance Goals for that Performance Period, and maximum level if he or she successfully completes 100% of his or her ~~Individual~~ Qualitative Performance Goals for that Performance Period (with interpolation for levels of attainment between threshold, target, and maximum).

(3) In determining the percentage of successful completion of a Participant's ~~Individual~~ Qualitative Performance Goals, the CEO, and in the case of the CCO, the Audit and Ethics Committee (in ~~his or her~~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 ~~Individual~~ Qualitative Performance Goals successfully completed but may take into account the varying degrees of importance of the ~~Individual~~ Qualitative Performance Goals, changes in the Participant's employment duties occurring after the ~~Individual~~ 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 ~~Individual~~ 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.~~ This provision will apply to Participants who are UTIMCO employees hired after July 1, 2001.~~

(b) For purposes of measuring the Intermediate Term Fund component of Entity and Asset Class/Investment Type Performance, the three-year historical performance cycle will not be utilized until the Intermediate Term Fund has three years of historical performance as part of the Performance Incentive Plan and, until that time, the actual years of historical performance will be used as the measurement period. The Intermediate Term Fund was formed on February 1, 2006, and is added as a measurement of performance under the Performance Incentive Plan effective July 1, 2006. Therefore, as of June 30, 2007, the ITF ~~will have~~had one year of historical performance that will be measured for purposes of determining Entity and Asset Class/Investment Type Performance; as of June 30, 2008, the ITF ~~will have~~had two consecutive years of historical performance that will be measured for purposes of determining Entity and Asset Class/Investment Type Performance; and as of June 30, 2009, and for each Performance Period thereafter, three consecutive years of historical performance will be utilized for purposes of measuring the ITF prong of Entity and Asset Class Performance.

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

(d) For purposes of measuring Entity and ~~Asset Class~~Asset Class/Investment Type Performance of an ~~asset class~~asset class and investment type (or subset of an ~~asset class~~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~~asset class and investment type (or subset of an ~~asset class~~asset class and investment type), but instead the actual number of full months that the removed ~~asset class~~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.

(e) For purposes of measuring ~~Asset Class~~Asset Class/Investment Type Performance for a particular Participant of an ~~asset class~~asset class and investment type (or subset of an ~~asset class~~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~~asset class and investment type (or subset of an ~~asset class~~asset class and investment type), but instead the actual number of full months that the removed or added ~~asset class~~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~~Asset Class/Investment Type Performance with respect to such 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 only continue to vest in Nonvested Deferred Awards while he or she is employed with UTIMCO and will forfeit any Nonvested Deferred Awards at termination of employment with UTIMCO.

(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.

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 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 ~~restatement of the~~ Compensation Program ~~amends and~~ 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. **~~Asset Class~~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 ~~US public equity~~developed country, private ~~capital~~investments, etc.) based on the standards set forth in Section 5.8(b).

8.2. **Board** is the UTIMCO Board of Directors.

8.3. **Compensation Committee** is the Compensation Committee of the UTIMCO Board of Directors.

8.4. **Compensation Program** is defined in Section 1.

8.5. **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.

8.6. **Effective Date** is defined in Section 1.

8.7. **Eligible Position** is defined in Section 5.3(a).

8.8. **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)).

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

8.10. **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.

8.11. **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~~asset class and investment type multiplied by the benchmark return for the ~~asset class~~asset class and investment type) for the various asset classes and investment types in the Intermediate Term Fund policy portfolio for the Performance Period.

8.12. **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:

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

Plus

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

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

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

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

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

8.17. Peer Group is a peer group of endowment funds maintained by the Board's external investment advisor 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 $~~1~~ 2.5 billion, all to be determined as of ~~on~~ the last day of each of the three immediately preceding Performance Periods ~~and~~ as set forth on Appendix B; provided, however, that ~~Harvard University's endowment fund, Yale University's endowment fund, and~~ 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.

8.18. Performance Goals are defined in Section 5.4.

8.19. 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.

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

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

8.22. Performance Period is defined in Section 5.2.

8.23. Prior Plan is defined in Section 7.9.

8.24. Salary Structure is described in Section 4.1.

8.25. 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.

8.26. 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~~asset class and investment type multiplied by the benchmark return for the ~~asset class~~asset class and investment type) for the various asset classes and investment types in the Total Endowment Assets policy portfolio for the Performance Period.

Appendix A

Performance Incentive Award Methodology
(for Performance Periods beginning on or after July 1, ~~2007~~2008)

I. Determine "Incentive Award Opportunities" for Each Participant[1]

Step 1. Identify the weights to be allocated to each of the three 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 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 ~~70~~60%, the weight allocated to the ~~Asset Class~~Asset Class/Investment Type Performance Goal is 0%, and the weight allocated to the Individual Performance Goal is ~~30~~40%.

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 ~~18~~50% of his or her base salary for achievement of Threshold level performance of all three Performance Goals, ~~90~~100% of his or her base salary for achievement of Target level performance of all three Performance Goals, and ~~180~~200% of his or her base salary for achievement of Maximum level performance of all three 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 $~~495,000~~575,000 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 $~~89,100~~287,500 (~~18~~50% of his or her base salary) if he or she achieves Threshold level performance of all three Performance Goals, $~~445,500~~575,000 (~~90~~100% of his or her base

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[1] 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**.**

salary) if he or she achieves Target level performance of all three Performance Goals, and $~~891,000~~1,150,000 (~~180~~200% of his or her base salary) if he or she achieves Maximum level performance of all three 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 ~~Individual~~ 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 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 (85%) and by the weight ascribed to achievement of the Intermediate Term Fund (15%)). ~~The 85% Entity Performance of the Total Endowment Assets is derived from the weighting of the Peer Group portion at 25% and the TEA benchmark portion (TEA Policy Portfolio Return) at 75%.~~

Step 5. After Steps #3 and #4 above are performed for each of the three levels of performance for each of the three Performance Goals, there will be ~~15~~ 12 different Incentive Award Opportunities for each Participant. For example, for the CEO (based on an assumed base salary of $~~495,000~~575,000, 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 ~~15~~ 12 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 $~~495,000~~575,000)

Performance Goal	Weight	Threshold Level Award	Target Level Award	Maximum Level Award
~~Entity (TEA v. Peer Group)~~	~~14.875% (.25 x.85 x .70)~~	~~$13,253~~	~~$66,268~~	~~$132,536~~
Entity (TEA v. TEA Policy Portfolio Return	~~44.625~~.51% (~~.75 x ~~.85 x ~~.70~~.60)	$~~39,761~~146,625	$~~198,804~~293,250	$~~397,609~~586,500
Entity (ITF v. ITF Policy Portfolio Return)	~~10.5~~9.0% (.15 x ~~.70~~.60)	$~~9,356~~25,875	$~~46,778~~51,750	$~~93,555~~103,500
~~Asset Class~~Asset Class/Investment Type	0%	$0	$0	$0
~~Individual ~~Qualitative	~~30~~40%	$~~26,730~~115,000	$~~133,650~~230,000	$~~267,300~~460,000
Total	100%	$~~89,100~~287,500 (~~18~~50% of salary)	$~~445,500~~575,000 (~~90~~100% of salary)	$~~891,000~~1,150,000 (~~180~~200% of salary)

II. Calculate Performance Incentive Award for Each Participant

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~~Asset Class/Investment Type Performance Goals are set forth in the table for the applicable Performance Period ~~(i.e., Table 2, Table 3, Table 4, or any later table ~~as set forth on Appendix D~~, as applicable)~~. The measurement for the level of achievement (i.e., Threshold, Target, or Maximum) for the ~~Individual ~~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 ~~Individual~~ 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 ~~Individual ~~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 above). An award for achievement percentiles in between the stated

Threshold, Target, and Maximum levels is determined by linear interpolation. For example, if ~~the 65th percentile of the Peer Group portion of Total Endowment Assets portion~~ +100 bps of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal has been achieved, that ~~percentile~~ +100 bps is between the Target (~~60th percentile~~+75bps) and the Maximum (~~75th percentile~~+150bps) levels, so to determine the amount of the award attributable to ~~the 65th percentile~~+100 bps of achievement ~~of the Peer Group portion of the TEA portion~~ 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 $~~66,268~~293,250 ($~~132,536~~586,500-$~~66,268~~293,250)); (ii) divide ~~5~~ 25 (the ~~percentile~~ bps difference between the Target level of ~~60th percentile~~+75 bps and the attained level of ~~65th percentile~~+100 bps) by ~~15~~ 75 (the ~~percentile~~ bps difference between the Target level and Maximum level) to get the fraction ~~5/15~~ 25/75 to determine the pro rata portion of the difference between Target and Maximum actually achieved; (iii) multiply the amount determined in the preceding Step (i) by the fraction determined in the preceding Step (ii) ($~~66,268~~293,250 x ~~5/15~~25/75 = $~~22,089~~97,750); and (iv) add the amount determined in the preceding Step (iii) to the Target Incentive Award Opportunity for the Participant to get the actual award for the Participant attributable to each Performance Goal ($~~22,089~~97,750 + $~~66,268~~293,250 = $~~88,357~~391,000).

Step 9. In determining the ~~Asset Class~~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~~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~~asset class and investment type for which such Participant is responsible by comparing the actual performance to the appropriate benchmark for the ~~asset class~~asset class and investment type; then, the award is calculated for the determined level of achievement for each such ~~asset class~~asset class and investment type by multiplying the award commensurate with the level of achievement by the weight assigned to the ~~Asset Class~~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~~asset class and investment type relative to the total assets under such Participant's responsibility); then, each determined award for a separate ~~asset class~~asset class and investment type is multiplied by the weight for that ~~asset class~~asset class and investment type; and, finally, the weighted awards are totaled to produce the Participant's award attributable to ~~Asset Class~~Asset Class/Investment Type Performance.

Step 10. In determining the award attributable to the Entity Performance Goal ~~(TEA Peer Group at 25% and TEA Policy Portfolio Return at 75%)~~, achievement of the Total Endowment Assets portion of the Entity Performance Goal (and the commensurate award) is weighted at 85% ~~with 14.875% for the TEA Peer Group and 44.625% for the TEA Policy Portfolio Return~~ (and then ~~both~~ 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 15% (and then multiplied by the weight assigned to the Entity Performance Goal for the Participant). For example, assuming a base salary of $~~495,000~~575,000, if the CEO achieved the Target level (~~60th percentile~~+75 bps) ~~of the TEA Peer Group portion of the Total Endowment Assets portion of the Entity Performance Goal, achieved the Maximum level (+150 bps)~~ of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal, and achieved the Maximum level (+~~65~~ 100 bps) of the Intermediate Term Fund portion of the Entity Performance Goal, he or she would have earned an award of $~~557,432~~396,750 for his or her level of achievement of the Entity Performance Goal as follows: $~~66,268~~293,250 for Target level of achievement ~~of the TEA Peer Group portion of the TEA portion of the Entity Performance Goal (.25 x .85 x .70 x $445,500); plus $397,609 for Maximum level of achievement~~ of the TEA benchmark portion of the TEA portion of Entity Performance Goal (~~.75 x~~ .85 x ~~.70~~ .60 x $~~891,000~~575,000) plus $~~93,555~~103,500 for Maximum level of achievement of the ITF portion of the Entity Performance Goal (.15 x ~~.70~~.60 x $~~891,000~~1,150,000).

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

Step 13. 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) 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.

(NEEDS TO BE UPDATED)

Appendix B

UTIMCO Peer Group

- Amherst College
- Baylor College of Medicine
- Boston College
- Brown University
- California Institute of Technology
- Case Western Reserve University
- Columbia University
- Cornell University
- Dartmouth College
- Duke University
- Emory University
- Grinnell College
- Indiana University and Foundation
- Johns Hopkins University
- Massachusetts Institute of Technology
- New York University
- Northwestern University
- Ohio State University and Foundation
- Pennsylvania State University
- Pomona College
- Princeton University
- Purdue University
- Rice University
- Smith College
- Southern Methodist University
- Stanford University
- Swarthmore College
- The Rockefeller University
- The Texas A&M University System and Foundations
- UNC at Chapel Hill and Foundations
- University of California
- University of Chicago
- University of Cincinnati
- University of Delaware
- University of Illinois and Foundation
- University of Michigan
- University of Minnesota and Foundation
- University of Nebraska and Foundation
- University of Notre Dame
- University of Pennsylvania
- University of Pittsburgh
- University of Richmond
- University of Rochester
- University of Southern California
- University of Virginia
- University of Washington
- University of Wisconsin Foundation
- Vanderbilt University
- Washington University
- Wellesley College
- Williams College
- Yeshiva University

Source: Cambridge Associates. Represents University endowments (excluding Harvard, Yale, and Total Endowment Assets) with total assets in excess of $1 billion as of each fiscal year end June 2005, 2006, 2007.

Appendix C

Eligible Positions
Weightings
Incentive Award Opportunities for each Eligible Position
(for each Performance Period)

~~TABLE 1 (2005/2006 Performance Period)~~

	Weighting			Incentive Award Opportunity (% of Salary)			
Eligible Position	**Entity**	**Asset Class**	**Individual**	**< Threshold**	**Threshold**	**Target**	**Maximum**
Investment Professionals							
President, CEO & CIO	70%	0%	30%	0%	18%	90%	180%
Deputy CIO & MD of Marketable Alt. Invest.	40%	40%	20%	0%	13%	65%	130%
Risk Manager	70%	0%	30%	0%	12%	60%	120%
MD, Public Markets Invest.	20%	60%	20%	0%	12%	60%	120%
MD, Inflation Hedging Assets	20%	60%	20%	0%	12%	60%	120%
Co-MD, Non-Marketable Alt Inv (n=2)	30%	50%	20%	0%	12%	60%	120%
Manager of Operating Fund Investments	20%	60%	20%	0%	10%	50%	100%
Portfolio Manager, Equity Invest.	20%	60%	20%	0%	10%	50%	100%
Sr. Portfolio Mgr., Fixed Income Invest.	20%	60%	20%	0%	10%	50%	100%
Portfolio Manager, Fixed Income Invest.	20%	60%	20%	0%	10%	50%	100%
Analytical Support-Investment	20%	60%	20%	0%	5%	25%	50%
Analytical Support-Risk Management	70%	0%	30%	0%	5%	25%	50%
Operations/Support Professionals							
MD, Accounting, Finance & Admin.	20%	0%	80%	0%	10%	50%	100%
MD, Information Technology	20%	0%	80%	0%	10%	50%	100%
Manager, Finance & Administration	20%	0%	80%	0%	5%	25%	50%
Manager, Investment Reporting	20%	0%	80%	0%	5%	25%	50%
Manager, Portfolio Accounting & Ops.	20%	0%	80%	0%	5%	25%	50%

~~UPDATED TABLE 1 (For the Performance Periods beginning after June 30, 2006)~~

	Weighting			Incentive Award Opportunity (% of Salary)			
Eligible Position	**Entity**	**Asset Class**	**Individual**	**< Threshold**	**Threshold**	**Target**	**Maximum**
Investment Professionals							
President, CEO & CIO	70%	0%	30%	0%	20%	100%	200%
Deputy CIO & MD of Marketable Alt. Invest.	40%	40%	20%	0%	18%	90%	190%
Risk Manager	70%	0%	30%	0%	18%	90%	190%
MD, Public Markets Invest.	20%	60%	20%	0%	18%	90%	190%
MD, Inflation Hedging Assets	20%	60%	20%	0%	18%	90%	190%
MD, Non-Marketable Alt Inv	30%	50%	20%	0%	18%	90%	190%
Sr. Portfolio Mgr., Fixed Income Invest.	20%	60%	20%	0%	10%	50%	140%
Portfolio Manager, Fixed Income Invest.	20%	60%	20%	0%	10%	50%	140%
Director, Public Markets	20%	60%	20%	0%	8%	40%	80%
Director, Marketable Alternative	20%	60%	20%	0%	8%	40%	80%
Director, Inflation Hedging Assets	20%	60%	20%	0%	8%	40%	80%
Director, Non-Marketable Alternative	20%	60%	20%	0%	8%	40%	80%
Director, Risk Management	70%	0%	30%	0%	8%	40%	80%
Associate, Public Markets	20%	60%	20%	0%	6%	30%	70%
Associate, Marketable Alternative	20%	60%	20%	0%	6%	30%	70%
Associate, Inflation Hedging Assets	20%	60%	20%	0%	6%	30%	70%
Associate, Non-Marketable Alternative	20%	20%	60%	0%	6%	30%	70%
Associate, Risk Management	70%	0%	30%	0%	6%	30%	70%
Analyst, Public Markets	20%	60%	20%	0%	6%	30%	50%
Analyst, Marketable Alternative	20%	60%	20%	0%	6%	30%	50%
Analyst, Inflation Hedging Assets	20%	60%	20%	0%	6%	30%	50%
Analyst, Non-Marketable Alternative	20%	20%	60%	0%	6%	30%	50%
Analyst, Risk Management	70%	0%	30%	0%	6%	30%	50%
Operations/Support Professionals							
MD, Accounting, Finance & Admin.	20%	0%	80%	0%	10%	50%	140%
MD, Information Technology	20%	0%	80%	0%	10%	50%	140%
Manager, Finance & Administration	20%	0%	80%	0%	8%	40%	80%
Manager, Investment Reporting	20%	0%	80%	0%	8%	40%	80%
Manager, Portfolio Accounting & Ops.	20%	0%	80%	0%	8%	40%	80%
~~Manager, Client Services~~	~~20%~~	~~0%~~	~~80%~~	~~0%~~	~~8%~~	~~40%~~	~~80%~~

~~UPDATED TABLE 1 (For the Performance Periods beginning after June 30, 2007)~~

	Weighting			Incentive Award Opportunity (% of Salary)			
Eligible Position	**Entity**	**Asset Class**	**Individual**	**< Threshold**	**Threshold**	**Target**	**Maximum**
		Investment Professionals					
President, CEO & CIO	70%	0%	30%	0%	20%	100%	200%
Deputy CIO & MD of Marketable Alt. Invest.	40%	40%	20%	0%	18%	90%	190%
Risk Manager	30%	0%	70%	0%	18%	90%	190%
MD, Public Markets Invest.	20%	60%	20%	0%	18%	90%	190%
MD, Inflation Hedging Assets	20%	60%	20%	0%	18%	90%	190%
MD, Private Markets	30%	50%	20%	0%	18%	90%	190%
Sr. Portfolio Mgr., Fixed Income Invest.	20%	60%	20%	0%	10%	50%	140%
Portfolio Manager, Fixed Income Invest.	20%	60%	20%	0%	10%	50%	140%
Director, Public Markets	20%	60%	20%	0%	8%	40%	80%
Director, Marketable Alternative	20%	60%	20%	0%	8%	40%	80%
Director, Inflation Hedging Assets	20%	60%	20%	0%	8%	40%	80%
Director, Natural Resources	20%	0%	80%	0%	8%	40%	80%
Director, Private Markets	20%	60%	20%	0%	8%	40%	80%
Director, Risk Management	30%	0%	70%	0%	8%	40%	80%
Associate, Public Markets	20%	60%	20%	0%	6%	30%	70%
Associate, Marketable Alternative	20%	60%	20%	0%	6%	30%	70%
Associate, Inflation Hedging Assets	20%	60%	20%	0%	6%	30%	70%
Associate, Private Markets	20%	20%	60%	0%	6%	30%	70%
Associate, Risk Management	30%	0%	70%	0%	6%	30%	70%
Analyst, Public Markets	20%	60%	20%	0%	6%	30%	50%
Analyst, Marketable Alternative	20%	60%	20%	0%	6%	30%	50%
Analyst, Inflation Hedging Assets	20%	60%	20%	0%	6%	30%	50%
Analyst, Private Markets	20%	20%	60%	0%	6%	30%	50%
Analyst, Risk Management	30%	0%	70%	0%	6%	30%	50%
		Operations/Support Professionals					
MD, Accounting, Finance & Admin.	20%	0%	80%	0%	10%	50%	140%
MD, Information Technology	20%	0%	80%	0%	10%	50%	140%
Manager, Finance & Administration	20%	0%	80%	0%	8%	40%	80%
Manager, Investment Reporting	20%	0%	80%	0%	8%	40%	80%
Manager, Portfolio Accounting & Ops.	20%	0%	80%	0%	8%	40%	80%
General Counsel	0%	0%	100%	0%	8%	40%	80%
Chief Compliance Officer	0%	0%	100%	0%	8%	40%	80%

TABLE 1 (For the Performance Periods beginning after June 30, 2008)

	Weighting			**Incentive Award Opportunity (% of Salary)**			
Eligible Position	**Entity**	**Asset Class**	**Individual**	**< Threshold**	**Threshold**	**Target**	**Maximum**
Investment Professionals							
CEO & Chief Investment Officer	60%	0%	40%	0%	50%	100%	200%
President & Deputy CIO	30%	50%	20%	0%	45%	90%	190%
Managing Director	25%	50%	25%	0%	45%	90%	190%
Senior Director, Investment	20%	40%	40%	0%	25%	50%	100%
Senior Portfolio Manager	20%	40%	40%	0%	25%	50%	100%
Portfolio Manager	20%	40%	40%	0%	25%	50%	100%
Director, Investment	20%	40%	40%	0%	20%	40%	80%
Director, Risk Management	30%	0%	70%	0%	20%	40%	80%
Associate and Senior Associate, Investment	15%	30%	55%	0%	18%	35%	70%
Associate, Risk Management	30%	0%	70%	0%	18%	35%	70%
Analyst and Senior Analyst, Investment	10%	20%	70%	0%	13%	25%	50%
Analyst, Risk Management	30%	0%	70%	0%	13%	25%	50%
Operations/Support Professionals							
Senior Managing Director	20%	0%	80%	0%	30%	60%	120%
Managing Director	20%	0%	80%	0%	25%	50%	100%
General Counsel & Chief Compliance Officer	0%	0%	100%	0%	25%	50%	100%
Manager	20%	0%	80%	0%	20%	40%	80%

Appendix D

Benchmarks for ~~Asset Class~~Asset Class/Investment Type
Threshold, Target, and Maximum Performance Standards
(for Performance Periods beginning on or after July 1, 2006)

Performance Standards for Intermediate Term Fund
(for Performance Periods beginning on or after July 1, 2006)

~~UPDATED TABLE 4~~TABLE 2 (7/1/06 through 6/30/07)

		Policy Portfolio Weights		Performance Standards		
Asset Class	Benchmark	Total Endowment Assets (% of Portfolio)	ITF (% of Portfolio)	Threshold	Target	Maximum
Entity: Peer Group (Total Endowment Funds)	Peer group (Endowments w/>$1 B assets)	n/a	n/a	40th %ile	60th %ile	75th %ile
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+32.5 bps	+65 bps
US Public Equity	Russell 3000 Index	20%	15%	+0 bps	+31 bps	+62 bps
Non-US Developed Equity	MSCI EAFE Index with net dividends	10%	5%	+0 bps	+37.5 bps	+75 bps
Emerging Markets Equity	MSCI Emerging Markets Index with net dividends	7%	5%	+0 bps	+75 bps	+150 bps
Directional Hedge Funds	MSCI Investable Hedge Fund Index	10%	12.5%	+0 bps	+65 bps	+130 bps
Absolute Return Hedge Funds	MSCI Investable Hedge Fund Index	15%	12.5%	+0 bps	+50 bps	+100 bps
Private Equity	Custom Benchmark Created from Venture Economics Database	11%	0%	+0 bps	+103.5 bps	+207 bps
Venture Capital	Custom Benchmark Created from Venture Economics Database	4%	0%	+0 bps	+103.5 bps	+207 bps
REITS	Dow Jones Wilshire Real Estate Securities Index	5%	10%	+0 bps	+37.5 bps	+75 bps
Commodities	Combination index: 66.7% Goldman Sachs Commodity Index minus .5% plus 33.3% DJ-AIG Commodity Index	3%	5%	+0 bps	+17.5 bps	+35 bps
TIPS	Lehman Brothers US TIPS Index	5%	10%	+0 bps	+2.5 bps	+5 bps
Fixed Income	Lehman Brothers Aggregate Bond Index	10%	25%	+0 bps	+12.5 bps	+25 bps
Cash	90 day t-bills	0%	0%	+0 bps	+0 bps	+0 bps

UPDATED ~~TABLE 4~~TABLE 2 (7/1/07 through 6/30/08)

		Policy Portfolio Weights		Performance Standards		
Asset Class	Benchmark	Total Endowment Assets (% of Portfolio)	ITF (% of Portfolio)	Threshold	Target	Maximum
Entity: Peer Group (Total Endowment Funds)	Peer group (Endowments w/>$1 B assets)	n/a	n/a	40th %ile	60th %ile	75th %ile
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+100 bps	+150 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+32.5 bps	+65 bps
US Public Equity	Russell 3000 Index	20%	15%	+0 bps	+31 bps	+62 bps
Non-US Developed Equity	MSCI EAFE Index with net dividends	10%	5%	+0 bps	+37.5 bps	+75 bps
Emerging Markets Equity	MSCI Emerging Markets Index with net dividends	7%	5%	+0 bps	+75 bps	+150 bps
Directional Hedge Funds	MSCI Investable Hedge Fund Index	10%	12.5%	+0 bps	+65 bps	+130 bps
Absolute Return Hedge Funds	MSCI Investable Hedge Fund Index	15%	12.5%	+0 bps	+50 bps	+100 bps
Private Equity	Custom Benchmark Created from Venture Economics Database	11%	0%	+0 bps	+103.5 bps	+207 bps
Venture Capital	Custom Benchmark Created from Venture Economics Database	4%	0%	+0 bps	+103.5 bps	+207 bps
REITS	Dow Jones Wilshire Real Estate Securities Index	5%	10%	+0 bps	+37.5 bps	+75 bps
Commodities	Combination index: 66.7% Goldman Sachs Commodity Index minus .5% plus 33.3% DJ-AIG Commodity Index	3%	5%	+0 bps	+17.5 bps	+35 bps
TIPS	Lehman Brothers US TIPS Index	5%	10%	+0 bps	+2.5 bps	+5 bps
Fixed Income	Lehman Brothers Aggregate Bond Index	10%	25%	+0 bps	+12.5 bps	+25 bps
Internal Credit	Credit Related Composite Index	0%	0%	+0 bps	+12.5 bps	+25 bps
Cash	90 day t-bills	0%	0%	+0 bps	+0 bps	+0 bps

UPDATED TABLE 2 (7/1/08 through 6/30/09)

		Policy Portfolio Weights		Performance Standards		
		Total Endowment	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	+75 bps	+150 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+100 bps
Investment Grade Fixed Income	Lehman Brothers Global Aggregate Index	7.0%	33.0%	+0 bps	+12.5 bps	+25 bps
Credit-Related Fixed Income	Lehman Brothers Global High-Yield Index	1.2%	2.0%	+0 bps	+25 bps	+50 bps
Real Estate	FTSE EPRA/NAREIT Global Index	5.5%	10.0%	+0 bps	+37.5 bps	+75 bps
Natural Resources	Combination index - 50% Dow Jones-AIG Commodities Index + 50% MSCI World Natural Resources Index	5.3%	5.0%	+0 bps	+37.5 bps	+75 bps
Develop Country Equity	MSCI World Index with net dividends	19.5%	20.0%	+0 bps	+35 bps	+70 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	10.5%	5.0%	+0 bps	+75 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	MSCI Investable Hedge Fund Index	33.0%	25.0%	+0 bps	+125 bps	+250 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index	17.0%	0%	+0 bps	+100 bps	+200 bps
Private Investments Real Estate	NACREIF Custom Index	1.0%	0%	+0 bps	+37.5 bps	+75 bps
Specific asset class benchmark:						
Internal Investment Grade Fixed Income	US Lehman Aggregate			+0 bps	+12.5 bps	+25 bps

7. U. T. System Board of Regents: Approval of the Annual Budget, including the capital expenditures budget, and Annual Fee and Allocation Schedule for The University of Texas Investment Management Company (UTIMCO)

RECOMMENDATION

The University of Texas Investment Management Company (UTIMCO) Board of Directors recommends that the U. T. System Board of Regents approve the proposed Annual Budget as set forth on Page 151, which includes the capital expenditures budget, and the Annual Fee and Allocation Schedule for the fiscal year ending August 31, 2009, as set forth on Pages 152 – 153.

BACKGROUND INFORMATION

The proposed Annual Budget of $66.8 million for Fiscal Year 2009 was approved by the UTIMCO Board on July 23, 2008. The proposed Budget is an increase of 3.4% over the prior year budget and an 8.8% increase over the Fiscal Year 2008 Forecast.

Of the $66.8 million Fiscal Year 2009 Budget, $16.5 million is for UTIMCO services and $6.0 million is for non-investment manager services such as custodial, legal, audit, and consulting services charged to the Funds. This combined $22.5 million compares to the $21.9 million Fiscal Year 2008 Budget or an increase of $.6 million.

The remainder of the Budget is for investment manager annual and performance fees charged directly to the Funds. The budgeted increase is primarily driven by fund performance assumptions.

The proposed Annual Fee and Allocation Schedule shows the allocation of the proposed budgeted expenses among U. T. System funds. The fees are to be paid quarterly.

The proposed capital expenditures budget totaling $.2 million is included in the total Annual Budget.

UTIMCO	**FY 2008**	**FY 2008**	**FY 2009**	**Increase/(Decrease)**	
(in thousands)	**Budget**	**Forecast**	**Budget**	**$**	**%**
SUMMARY					
UTIMCO Personnel	**$11,457**	**$10,322**	**$12,489**	**$2,167**	**21%**
UTIMCO Other	**3,912**	**3,680**	**4,055**	**375**	**10%**
Total UTIMCO	**15,369**	**14,002**	**16,544**	**2,542**	**18%**
Other, Non-Investment Manager	**6,511**	**5,920**	**6,042**	**122**	**2%**
Total Non-Investment Manager	**21,880**	**19,922**	**22,586**	**2,664**	**13%**
Investment Manager - Invoiced	**42,715**	**41,455**	**44,203**	**2,748**	**7%**
Total	**$64,595**	**$61,377**	**$66,789**	**$5,412**	**9%**
DETAIL					
UTIMCO Personnel					
Salaries	$6,011	$5,397	$6,956	$1,559	29%
Bonus	3,258	3,343	3,566	223	7%
Benefits	1,177	954	1,293	339	36%
Taxes	418	333	478	145	44%
Hiring	440	124	50	(74)	-60%
Subscriptions, Dues, Education	153	171	146	(25)	-15%
Total	**$11,457**	**$10,322**	**$12,489**	**$2,167**	**21%**
UTIMCO Other					
Travel & Meetings	$463	$567	$859	$292	51%
Online, Data, Contract Services	772	654	743	89	14%
Lease	943	950	983	33	3%
Depreciation	608	537	612	75	14%
Insurance	252	240	236	(4)	-2%
Office Expenses	334	367	363	(4)	-1%
Professional Services	542	365	259	(106)	-29%
Total	**$3,912**	**$3,680**	**$4,055**	**$375**	**10%**
Other, Non-Investment Manager					
Custodian	$1,536	$1,672	$1,725	$53	3%
Measurement & Analytics	1,530	1,366	1,327	(39)	-3%
Consultants	1,325	736	950	214	29%
Investment-related Legal	1,160	1,160	1,115	(45)	-4%
Audit	754	830	776	(54)	-7%
Printing	195	153	139	(14)	-9%
Other	10	3	10	7	233%
Total	**$6,511**	**$5,920**	**$6,042**	**$122**	**2%**
Investment Manager - Invoiced					
Management Fees	$18,989	$22,138	$23,897	$1,759	8%
Performance Fees	23,726	19,317	20,306	989	5%
Total	**$42,715**	**$41,455**	**$44,203**	**$2,748**	**7%**
Capital Expenditures					
Ongoing	$194	$189	$220	$31	16%
Expansion	162	427	0	(427)	-100%
Total	**$356**	**$616**	**$220**	**(396)**	**-64%**

($ in millions)	Actual					Projected	Budget - AUM Flat	Budget - AUM 3%
	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 09
Average Total Assets Under Management (AuM):	$ 14,034	$ 15,470	$ 17,245	$ 19,372	$ 21,965	$ 24,497	$ 24,497	$ 25,232
Costs excluding Investment Manager Expenses								
UTIMCO Services	$7	$8	$10	$11	$12	$14	$17	$17
Costs to Funds (Other than Investment Manager)	4	4	5	5	6	6	6	6
UTIMCO + Non-Investment Manager Cost to Funds	$11	$12	$15	$16	$18	$20	$23	$23
Costs/AuMs (basis points)								
UTIMCO Services	5	5	6	6	6	6	7	7
Costs to Funds (Other than Investment Manager)	3	3	3	2	2	2	3	3
UTIMCO Services + Costs to Funds	8	8	9	8	8	8	10	10
Investment Manager Fees								
Annual Management Fees								
Netted Against Net Asset Value/Capital Balance	$53	$62	$77	$115	$158	$200	$249	$249
Charged to Funds	9	13	13	18	16	22	24	24
Total Annual Management Fees	$62	$75	$90	$133	$174	$222	$273	$273
Performance Fees								
Netted Against Net Asset Value/Capital Balance	$44	$57	$91	$81	$227	$170	$171	$171
Charged to Funds	3	9	16	30	18	19	20	20
Total Performance Fees	$47	$66	$107	$111	$245	$189	$191	$191
Total Investment Manager Fees	$109	$141	$197	$244	$419	$411	$464	$464
Costs/AuMs (basis points)								
Annual Management Fees	44	48	52	69	79	91	111	108
Performance Fees	33	43	62	57	112	77	78	76
Total Fees	77	91	114	126	191	168	189	184

UTIMCO Budget
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2009

($ millions)	The Permanent University Fund (PUF)	The Permanent Health Fund (PHF)	The University of Texas System Long Term Fund (LTF)	General Endowment Fund (GEF)	The University of Texas System Intermediate Term Fund (ITF)	Short Term Fund (STF)	Separately Invested Endowments and Charitable Trust Accounts	Total
Market Value 2/29/08	**$ 11,906**	**$ 1,101**	**$ 5,497**	**$ 6,598**	**$ 3,937**	**$ 1,390**	**$ 192**	**$ 24,023**
UTIMCO Management Fee (includes all operating expenses associated with the general management of the Funds)	**$ 8.1**	**$ 0.9**	**$ 4.6**		**$ 2.9**			**$ 16.5**
Allocation Ratio	**49%**	**6%**	**28%**		**17%**			**100%**
Direct Expenses of the Fund								
External Management Fees	$ 11.6	$ -	$ -	$ 6.6	$ 5.8			$ 24.0
External Management Fees - Performance Based	10.8	-	-	5.9	3.6			20.3
Other Direct Costs	2.8	-	0.2	1.9	1.1			6.0
Total Direct Expenses of the Fund	25.2	-	0.2	14.4	10.5			50.3
TOTAL	**$ 33.3**	**$ 0.9**	**$ 4.8**	**$ 14.4**	**$ 13.4**			**$ 66.8**
Percentage of Market Value (in basis points)								
UTIMCO Services	6.8	8.3	8.4	-	7.3			6.9
Direct Expenses of the Fund	21.1	0.3	0.3	21.8	26.8			20.9
TOTAL	**27.9**	**8.6**	**8.7**	**21.8**	**34.1**			**27.8**

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8. U. T. System Board of Regents: Approval to amend Regents' *Rules and Regulations*, Rule 80303, regarding Use of the Available University Fund

RECOMMENDATION

The Chancellor ad interim concurs in the recommendation of the Executive Vice Chancellor for Business Affairs and the Vice Chancellor and General Counsel that Regents' *Rules and Regulations*, Rule 80303, regarding Use of the Available University Fund (AUF) be amended as set forth on Pages 156 – 158.

BACKGROUND INFORMATION

The proposed amendments to Regents' Rule 80303 are intended to make the Rule consistent with the recent change to the Permanent University Fund (PUF) distribution policy, provisions in the new Capital Expenditure Policy reviewed by the Board at the May 15, 2008, meeting and effective as of July 1, 2008, and current practice in the way that the AUF is managed.

Following is a summary of recommended changes:

Section 1 - Eliminate the requirement to maintain the "highest possible credit ratings" for the PUF.

Section 2.1 - Clarify that the six-year forecast of the AUF is provided to the Finance and Planning Committee of the Board as needed, rather than every quarter.

Section 2.2 - Update the PUF distribution language to conform with current policy.

Section 2.3 - Update the Capital Improvement Program (CIP) language to conform with the Capital Expenditure Policy.

Section 3.1 - Create consistency with Section 2.1.

1. Title

Use of the Available University Fund

2. Rule and Regulation

Sec. 1 Impact of Spending. Any staff recommendation to appropriate funds from the Available University Fund (AUF)~~,~~ or from Permanent University Fund (PUF) Bond Proceeds~~,~~ will be presented in the context of that appropriation's impact on: (a) AUF funding for the support and maintenance of U. T. Austin, (b) bond ratings, and (c) projected AUF balances. These impacts will be considered to provide a consistent and dependable level of funding.~~ and to maintain the highest possible credit ratings .~~

Sec. 2 Required Reports. To determine the appropriate level of spending of the AUF, the following reports will be provided to the Board of Regents:

2.1 A forecast of at least six years of the income and expenditures of the AUF will be presented as needed~~at each meeting of~~ to the Board of Regents' Finance and Planning Committee~~ by the Office of Finance~~. ~~Quarterly,~~ The University of Texas Investment Management Company (UTIMCO) shall provide to the Office of Finance a forecast of the PUF distributions to the AUF that will be the basis of the AUF forecast. Included as part of the AUF forecast will be the projected amount of remaining PUF debt capacity calculated in accordance with this policy.

2.2 In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the Board of Regents in May of each year an amount to be distributed to the AUF during the next fiscal year. UTIMCO's recommendation on the annual distribution shall be an amount equal to 4.75% of the trailing 12-quarter average of the net asset value of the PUF for the quarter ending February of each year unless the average annual rate of return of the PUF investments over the trailing 12 quarters exceeds the Expected Return by 25 basis points or more, in which case the distribution shall be 5.0% of the trailing 12-quarter average. "Expected

Return" is the Expected Annual Return or Benchmark set out in the Permanent University Fund Investment Policy Statement.

2.3 The CIP will be updated quarterly and reviewed with the Board of Regents every year. The updated CIP will include an estimated start date for each project, which ~~that~~ will be based on the criteria set forth in Section 3.2 below, project readiness, projected fund availability, and relative urgency of need for the completed project.

Sec. 3 Individual Projects. The following items will be done when preparing requests of AUF expenditures:

3.1 As a part of each agenda item requesting approval of AUF expenditures or PUF funded projects, a statement indicating compliance with this policy ~~based on the most recent forecast~~ shall be included.

3.2 In preparing recommendations for projects to be approved, the staff will be guided by the following justification criteria:

(a) consistency with institution's mission;

(b) project need;

(c) unique opportunity;

(d) matching funds/leverage;

(e) cost effectiveness;

(f) state of existing facility condition; and

(g) other available funding sources.

3.3 No project will be recommended for approval, if in any of the forecasted years the required appropriations from the AUF or PUF bond proceeds would cause:

(a) the forecasted AUF expenditures for program enrichment at U. T. Austin to fall below 45% of the sum of the projected U. T. System share of the net divisible AUF annual income and interest income on AUF balances [subject to the limits imposed by (b) and (c) below];

(b) debt service coverage to be less than 1.50:1.00; and

(c) the forecasted end of year AUF balance to be less than $30 million.

Sec. 4 System Administration Budget. Operating expenditures of the U. T. System Administration will be carefully controlled to maximize the opportunity to meet the capital needs of the institutions of the U. T. System and the operating budget needs of U. T. Austin. Wherever possible, alternate funding from institutions, State funds, or other sources will be sought. Programs for which alternative funding cannot be obtained will be evaluated for possible reductions or phase-out.

9. U. T. System Board of Regents: Adoption of Twentieth Supplemental Resolution authorizing Revenue Financing System Bonds; authorization to complete all related transactions; and resolution regarding parity debt

RECOMMENDATION

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

a. adopt the Twentieth Supplemental Resolution to the Master Resolution, containing terms in substantially the form approved by the Board of Regents on November 13, 2003, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System Bonds in one or more installments in an aggregate principal amount not to exceed $800 million for the purpose of refunding a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A; to provide new money to fund construction and acquisition costs of projects in the Capital Improvement Program (CIP); to current or advance refund certain outstanding Revenue Financing System Bonds to produce present value debt service savings; and to pay the costs of issuance and any original issue discount; and

b. authorize appropriate officers and employees of the U. T. System as set forth in the Twentieth Supplemental Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents, within the limitations and procedures specified therein, make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such Bonds.

The Chancellor ad interim also concurs with the recommendation of the Executive Vice Chancellor for Business Affairs that, as required by Section 5(a) of the Master Resolution, the Board further determines that upon the delivery of bonds authorized by this Resolution it will have sufficient funds to meet the financial obligations of the System, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System and that the Members on whose behalf such bonds are issued possess the financial capacity to satisfy their direct obligations after taking such bonds into account.

A one-page summary of debt-related Items 9 – 14 on Pages 159 – 169 is set out on Page 161.

Supplemental Materials: PowerPoint presentation related to a full overview of debt-related agenda items on Pages 96 – 105 of Volume 2.

BACKGROUND INFORMATION

On February 14, 1991, the U. T. System Board of Regents adopted a Master Resolution establishing the Revenue Financing System (RFS) to create a cost-effective, System-wide financing structure for institutions of the U. T. System. Since that time, the Board has adopted 19 supplemental resolutions to provide debt financing for projects that have received the requisite U. T. System Board of Regents and Texas Higher Education Coordinating Board approvals.

The Resolution authorizes refunding a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A, refunding certain outstanding RFS Bonds for savings, and new money to fund construction and acquisition costs of projects in the CIP. Generally, commercial paper debt is issued to fund projects during the construction phase and the debt is not amortized. Once construction is complete, the commercial paper is refunded with bonds. Depending on the level of interest rates at the time of pricing, outstanding commercial paper and new money for construction may be financed with long-term debt.

Adoption of the Twentieth Supplemental Resolution (Resolution) would authorize the refunding of certain outstanding RFS Bonds provided that an advance refunding exceed a minimum 3% present value debt service savings threshold. An advance refunding involves issuing bonds to refund outstanding bonds in advance of the call date. Refunding bonds are issued at lower interest rates, thereby producing debt service savings. Adoption of this Resolution will provide the flexibility to select the particular bonds to be refunded depending on market conditions at the time of pricing. The particular bonds to be refunded will be called for redemption on the first practical optional redemption date for each series of refunded bonds occurring after the delivery of the refunding bonds.

In addition, the Resolution authorizes remarketing, tender, auction and broker-dealer agreements customarily utilized in connection with the types of variable rate instruments authorized.

The proposed Twentieth Supplemental Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

> Note: The Twentieth Supplemental Resolution and forms of auction agreement and broker-dealer agreement contain terms that are substantially the same as those contained in the Thirteenth through Nineteenth Supplemental Resolutions and forms of auction agreement and broker-dealer agreement previously approved by the Board on November 13, 2003, for use as standard agreements. These documents have not been included as part of the agenda materials, but are available upon request.

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Debt-Related Agenda Items Proposed for FY 2009

	FY 2008	Proposed FY 2009
RFS Bond Resolution	\$950 million- (19th Supplemental)	\$800 million- (20th Supplemental)
PUF Bond Resolution	\$300 million	\$450 million
RFS Commercial Paper Resolution	\$800 million RFS Commercial Paper Programs	\$1.25 billion RFS Commercial Paper Program
PUF Commercial Paper Resolution	\$400 million PUF Flexible Rate Note Program	\$500 million PUF Commercial Paper Program
RFS Equipment Financing	\$103 million	\$123 million
Bond Enhancement Agreement Resolutions	Approved	Proposed

10. U. T. System Board of Regents: Adoption of a Resolution authorizing the issuance, sale, and delivery of Permanent University Fund Bonds, and authorization to complete all related transactions

RECOMMENDATION

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

a. adopt a Resolution, substantially in the form previously approved by the U. T. System Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Permanent University Fund (PUF) Bonds in one or more installments in an aggregate principal amount not to exceed $450 million to be used to refund certain outstanding Permanent University Fund Bonds, to refund all or a portion of the then outstanding Permanent University Fund Flexible Rate Notes, Series A, to refund Permanent University Fund Commercial Paper Notes, to provide new money to fund construction and acquisition costs and to pay the costs of issuance; and

b. authorize appropriate officers and employees of U. T. System as set forth in the Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such bonds.

BACKGROUND INFORMATION

Adoption of the Resolution would authorize the advance or current refunding of a portion of certain outstanding PUF Bonds provided that an advance refunding exceeds a minimum 3% present value debt service savings threshold. An advance refunding involves issuing bonds to refund outstanding bonds more than 90 days in advance of the call date whereas a current refunding involves issuing bonds to refund outstanding bonds within 90 days of the call date. Refunding bonds are issued at lower interest rates thereby producing debt service savings. Adoption of this Resolution will provide the flexibility to select the particular bonds to be refunded depending on market conditions at the time of pricing.

As provided in the Resolution, the potential bonds to be refunded include the outstanding PUF Bonds, Series 2002A, Series 2004A&B, Series 2005A&B, and Series 2006A-C.

The Resolution would also authorize the current refunding of all or a portion of the PUF Flexible Rate Notes, Series A. The PUF Flexible Rate Note program is used to provide interim financing for PUF projects approved by the Board. Adoption of the Resolution will permit the interim financing provided through the Notes to be replaced with long-term financing. The Resolution also authorizes the issuance of bonds to provide new money to fund the capital costs of eligible projects.

Proceeds from the Bonds related to refunding outstanding debt will be used to purchase U.S. government or other eligible securities to be placed in one or more escrow accounts. Proceeds from the escrowed securities will be used to redeem the refunded bonds, the refunded Flexible Rate Notes, and the refunded Commercial Paper Notes.

The proposed resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

Note: The proposed resolution has not been included as part of the agenda materials, but is available upon request.

11. U. T. System Board of Regents: Adoption of Amended and Restated First Supplemental Resolution to the Master Resolution establishing the Revenue Financing System Commercial Paper Note Program; repeal of the Fifth Supplemental Resolution; authorization for officers of U. T. System to complete all transactions related thereto; and resolution regarding parity debt

RECOMMENDATION

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

a. adopt the Amended and Restated First Supplemental Resolution to the Master Resolution authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System Commercial Paper Notes, Series A and Taxable Commercial Paper Notes, Series B, in an aggregate principal amount not to exceed $1.25 billion;

b. repeal the Fifth Supplemental Resolution to the Master Resolution authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System Taxable Commercial Paper Notes, Series B; and

c. authorize appropriate officers and employees of the U. T. System as set forth in the Amended and Restated First Supplemental Resolution to take

> any and all actions necessary to carry out the intentions of the U. T. System Board of Regents, within the limitations and procedures specified therein; make certain covenants and agreements in connection therewith; and resolve other matters incident and related to the issuance, sale, security, and delivery of such Notes.

The Chancellor ad interim also concurs with the recommendation of the Executive Vice Chancellor for Business Affairs that as required by Section 5(a) of the Master Resolution, the Board further determines that upon the delivery of Notes authorized by this Resolution, it will have sufficient funds to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System and that the Members on whose behalf such Notes are issued possess the financial capacity to satisfy their direct obligations after taking such Notes into account.

BACKGROUND INFORMATION

The U. T. System's Revenue Financing System Tax-Exempt Commercial Paper Note Program was established on April 12, 1990. Since that time, the size of the Program has been increased periodically, up to the current authorization of $750 million, to meet the financing needs of the U. T. System. The U. T. System's Revenue Financing System Taxable Commercial Paper Note Program was established on May 13, 2004.

Adoption of this Resolution would combine both the Tax-Exempt and Taxable Commercial Paper Programs under the Amended and Restated First Supplemental Resolution and would repeal the separate Taxable Commercial Paper Program authorization under the Fifth Supplemental Resolution. The increase in program authorization from $750 million tax-exempt authorization and $50 million taxable authorization to $1.25 billion aggregate authorization is needed to facilitate the financing of capital projects reflected in the FY 2008-2013 Capital Improvement Program (CIP). The Tax-Exempt Commercial Paper Program capacity was increased from $350 million to $750 million on August 8, 2002. Since that time, the U. T. System's CIP has more than doubled and the existing program authorization has been reached repeatedly. Increased commercial paper capacity will permit the U. T. System to continue to provide efficient interim financing and additional timing flexibility in accessing the long-term capital markets, while combining the programs under a single resolution for greater efficiency.

The use of tax-exempt debt for projects is limited by the *Internal Revenue Code* to facilities employed for governmental purposes. Projects with nongovernmental or private use beyond established limits are denied the benefits of tax-exempt debt and must employ taxable debt.

Liquidity for the combined programs will continue to be provided by the U. T. System through an arrangement with The University of Texas Investment Management Company (UTIMCO) consistent with the provisions governing liquidity for the Commercial Paper Program.

The proposed Amended and Restated First Supplemental Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

12. U. T. System Board of Regents: Adoption of a Resolution authorizing the Permanent University Fund Commercial Paper Notes, Series A and Taxable Commercial Paper Notes, Series B; and authorization to complete all related transactions

RECOMMENDATION

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

a. adopt a Resolution authorizing the Permanent University Fund (PUF) Commercial Paper Notes, Series A and Taxable Commercial Paper Notes, Series B up to an aggregate principal amount at any one time outstanding not to exceed $500 million; and

b. authorize appropriate officers and employees of U. T. System as set forth in the Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such notes.

BACKGROUND INFORMATION

The U. T. System's PUF Flexible Rate Notes, Series A program, which provides interim financing for eligible projects, was established in 1985. Since that time, the size of the program has been increased periodically to meet the financing needs of the U. T. System. The existing Flexible Rate Note Program capacity was increased from $250 million to $400 million on November 13, 2002. Since that time, the U. T. System's Capital Improvement Program (CIP) has more than doubled while the size of the PUF interim financing program has not increased.

The increase in program authorization from $400 million to $500 million is needed to facilitate the financing of capital projects reflected in the FY 2008-2013 CIP. Increased PUF interim financing capacity will permit the U. T. System to continue to provide efficient interim financing and additional timing flexibility in accessing the long-term capital markets.

Adoption of this Resolution would replace the existing Flexible Rate Note Program with a Commercial Paper Program virtually identical to the U. T. System's Revenue Financing System Commercial Paper Program, which provides the U. T. System the ability to issue both taxable and tax-exempt commercial paper depending on the project characteristics. Replacing the Flexible Rate Note Program with a Commercial Paper Program will provide greater efficiency and will provide the ability to finance both taxable and tax-exempt projects under a single resolution.

The use of tax-exempt debt for projects is limited by the *Internal Revenue Code* to facilities employed for governmental purposes. Projects with nongovernmental or private use beyond established limits are denied the benefits of tax-exempt debt and must employ taxable debt.

Liquidity for the PUF Commercial Paper Note Program will continue to be provided by the U. T. System through an arrangement with The University of Texas Investment Management Company (UTIMCO) consistent with the provisions governing liquidity for the Flexible Rate Note Program.

The proposed Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

13. U. T. System: Approval of aggregate amount of $122,756,000 of equipment financing for Fiscal Year 2009 and resolution regarding parity debt

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 aggregate amount of $122,756,000 of Revenue Financing System Equipment Financing as allocated to those U. T. System institutions set out on Page 168; and

b. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that

- parity debt shall be issued to pay the cost of equipment including costs incurred prior to the issuance of such parity debt;

- sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System;

- the institutions and U. T. System Administration, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of $122,756,000 for the purchase of equipment; and

- this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the *Code of Federal Regulations* that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

On April 14, 1994, the U. T. System Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. The current guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized twice a year with full amortization not to exceed 10 years.

This agenda item requests approval of an aggregate amount of $122,756,000 for equipment financing for Fiscal Year 2009.

The U. T. System Board of Regents approved $102,957,000 of equipment financing in Fiscal Year 2008, of which $52,477,000 has been issued through July 1, 2008.

Further details on the equipment to be financed and debt coverage ratios for individual institutions can be found on Page 168.

APPROVAL OF U. T. SYSTEM EQUIPMENT FINANCING
FY 2009

Institution	$ Amount of Request	Description of Expected Equipment Purchases	DSC*
U. T. Austin	$5,500,000	Classroom equipment, research equipment, information technology equipment, and athletics equipment	5.4x
U. T. Dallas	5,000,000	General purpose equipment and information technology equipment	2.7x
U. T. El Paso	256,000	Facilities maintenance equipment and vehicle purchases	2.3x
U. T. Southwestern Medical Center - Dallas	40,000,000	Information technology equipment, clinical and hospital equipment, and non-clinical equipment	3.6x
U. T. Medical Branch - Galveston	14,000,000	General purpose equipment	2.3x
U. T. Health Science Center - San Antonio	4,000,000	Research equipment, clinical equipment, and infrastructure equipment	4.2x
U. T. M. D. Anderson Cancer Center	50,000,000	Medical equipment, research equipment, and diagnostic equipment	5.2x
U.T. Health Science Center - Tyler	4,000,000	Clinical equipment	6.1x

Total	$122,756,000

* Debt Service Coverage ("DSC") based on actual results for FY07.

U. T. System Office of Finance, June 23, 2008

14. U. T. System Board of Regents: Adoption of resolutions authorizing certain bond enhancement agreements for Revenue Financing System debt and Permanent University Fund debt

RECOMMENDATION

The Chancellor ad interim concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents adopt resolutions substantially in the form set out on Pages 170 – 190 (the Resolutions) authorizing appropriate officers of the U. T. System to enter into bond enhancement agreements related to its Revenue Financing System (RFS) and Permanent University Fund (PUF) debt programs in accordance with the U. T. System Interest Rate Swap Policy and to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents.

BACKGROUND INFORMATION

Regents' *Rules and Regulations*, Rule 70202, concerning the Interest Rate Swap Policy, was approved by the U. T. System Board of Regents on February 13, 2003, and amended on August 23, 2007.

Texas Education Code Section 65.461 provides specific authority to the U. T. System Board of Regents to enter into "bond enhancement agreements," which include interest rate swaps and related agreements in connection with administration of the U. T. System's RFS and PUF debt programs.

On August 23, 2007, the Board approved bond enhancement agreement resolutions for FY 2008. Approval of this item would authorize the execution of bond enhancement agreement transactions related to RFS and PUF debt in accordance with the U. T. System Interest Rate Swap Policy for FY 2009. The determination to utilize bond enhancement agreements will be made based on market conditions at the time of pricing the related debt issuance. The Chairman of the Board of Regents and the Chairman of the Finance and Planning Committee will be informed in advance of any proposed transactions to be undertaken pursuant to the resolutions.

A RESOLUTION AUTHORIZING THE EXECUTION AND DELIVERY OF BOND ENHANCEMENT AGREEMENTS RELATING TO REVENUE FINANCING SYSTEM DEBT AND AUTHORIZING AND APPROVING OTHER INSTRUMENTS AND PROCEDURES RELATING TO SAID AGREEMENTS

August 14, 2008

WHEREAS, the Board of Regents (the "Board") of The University of Texas System (the "System") is the governing body of the System, an institution of higher education under the *Texas Education Code* and an agency of the State of Texas; and

WHEREAS, on February 14, 1991, the Board adopted the First Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System and amended such resolution on October 8, 1993, and August 14, 1997 (referred to herein as the "Master Resolution"); and

WHEREAS, unless otherwise defined herein, terms used herein shall have the meaning given in the Master Resolution or as set forth in Exhibit A hereto; and

WHEREAS, the Master Resolution establishes the Revenue Financing System comprised of the institutions now or hereafter constituting components of the System that are designated "Members" of the Financing System by action of the Board and pledges the Pledged Revenues attributable to each Member of the Financing System to the payment of Parity Debt to be outstanding under the Master Resolution; and

WHEREAS, the Board has adopted Supplemental Resolutions to the Master Resolution authorizing the issuance of Parity Debt thereunder as special, limited obligations of the Board payable solely from and secured by a lien on and pledge of Pledged Revenues pledged for the equal and proportionate benefit and security of all owners of Parity Debt; and

WHEREAS, the Board has previously entered into certain Executed Master Agreements (as defined herein) with certain counterparties setting forth the terms and conditions applicable to each Confirmation (as defined herein) executed or to be executed thereunder; and

WHEREAS, the Board hereby desires to severally authorize each Authorized Representative (as defined in the System's Interest Rate Swap Policy, a copy of which is attached hereto as Exhibit B) to enter into Bond Enhancement Agreements (as defined herein) from time to time, all as provided in this Resolution.

NOW THEREFORE BE IT RESOLVED, that

SECTION 1. DEFINITIONS. In addition to the definitions set forth in the preamble of this Resolution, the terms used in this Resolution and not otherwise defined shall have the meanings given in the Master Resolution or in Exhibit A to this Resolution attached hereto and made a part hereof.

SECTION 2. AUTHORIZATION OF BOND ENHANCEMENT AGREEMENTS.

(a) Delegation. Each Authorized Representative is hereby severally authorized to act on behalf of the Board in accepting and executing new or amended confirmations under one or more of the Master Agreements (each, a "Confirmation", and collectively with the applicable Master Agreement, a "Bond Enhancement Agreement") when, in his or her judgment, the execution of such Confirmation is consistent with this Resolution and the System's Interest Rate Swap Policy and either (i) the transaction is expected to reduce the net interest to be paid by the Board with respect to any then outstanding Parity Debt or Parity Debt anticipated to be issued in the future over the term of the Bond Enhancement Agreement or (ii) the transaction is in the best interests of the Board given the market conditions at that time. The delegation to each Authorized Representative to execute and deliver Bond Enhancement Agreements on behalf of the Board under this Resolution shall expire on September 1, 2009.

(b) Authorizing Law and Treatment as Credit Agreement. The Board hereby determines that any such Bond Enhancement Agreement entered into by an Authorized Representative pursuant to this Resolution is necessary or appropriate to place the Board's obligations with respect to its outstanding Parity Debt or Parity Debt anticipated to be issued in the future on the interest rate, currency, cash flow or other basis set forth in such Bond Enhancement Agreement as approved and executed on behalf of the Board by an Authorized Representative. Each Bond Enhancement Agreement constitutes a "Credit Agreement" as defined in the Master Resolution and a "bond enhancement agreement" under Section 65.461 of the *Texas Education Code* ("Section 65.461"). Pursuant to Section 65.461, a Bond Enhancement Agreement authorized and executed by an Authorized Representative under this Resolution shall not be considered a "credit agreement" under Chapter 1371 of the *Texas Government Code*, as amended ("Chapter 1371"), unless specifically designated as such by such Authorized Representative. In the event an Authorized Representative elects to treat a Bond Enhancement Agreement authorized by this Resolution as a "credit agreement" under Chapter 1371 and this Resolution has not previously been submitted to the Attorney General by an Authorized Representative, such Authorized Representative shall submit this Resolution to the Attorney General for review and approval in accordance with the requirements of Chapter 1371 as the proceedings authorizing Bond Enhancement Agreements entered into by the Board pursuant to this Resolution.

(c) Maximum Term. The maximum term of each Bond Enhancement Agreement authorized by this Resolution shall not exceed the maturity date of the then outstanding related Parity Debt or the related Parity Debt anticipated to be issued in the future, as applicable.

(d) Notional Amount. The notional amount of any Bond Enhancement Agreement authorized by this Resolution shall not at any time exceed the aggregate principal amount of the then outstanding related Parity Debt and related Parity Debt anticipated to be issued in the future, as applicable; provided that the aggregate notional amount of multiple Bond Enhancement Agreements relating to the same Parity Debt may exceed the principal amount of the related Parity Debt if such Bond Enhancement Agreements are for different purposes, as evidenced for example by different rates for calculating payments owed, and the aggregate notional amount of any such Bond Enhancement Agreements for the same purpose otherwise satisfies the foregoing requirements.

(e) Early Termination. No Confirmation entered into pursuant to this Resolution shall contain early termination provisions at the option of the counterparty except upon the occurrence of an event of default or an additional termination event, as prescribed in the applicable Master Agreement.

(f) Maximum Rate. No Bond Enhancement Agreement authorized by this Resolution shall be payable at a rate greater than the maximum rate allowed by law.

(g) Credit Enhancement. An Authorized Representative may obtain credit enhancement for any Bond Enhancement Agreement if such Authorized Representative, as evidenced by a certificate delivered to the General Counsel to the Board, has determined that after taking into account the cost of such credit enhancement, such credit enhancement will reduce the amount payable by the Board pursuant to such Bond Enhancement Agreement; provided that the annual cost of credit enhancement on any Bond Enhancement Agreement entered into pursuant to this Resolution may not exceed 0.50% of the notional amount of such Bond Enhancement Agreement.

SECTION 3. BOND ENHANCEMENT AGREEMENTS AS PARITY DEBT. The costs of any Bond Enhancement Agreement and the amounts payable thereunder shall be payable out of Pledged Revenues and each Bond Enhancement Agreement shall constitute Parity Debt under the Master Resolution, except to the extent that a Bond Enhancement Agreement provides that an obligation of the Board thereunder shall be payable from and secured by a lien on Pledged Revenues subordinate to the lien securing the payment of the Parity Debt. The Board determines that this Resolution shall constitute a Supplemental Resolution to the Master Resolution and as required by Section 5(a) of the Master Resolution, the Board further determines that upon the delivery of the Bond Enhancement Agreements authorized by this Resolution it will have sufficient funds to meet the financial obligations of the System, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System and that the Members on whose behalf such Bond Enhancement Agreements are entered into possess the financial capacity to satisfy their Direct Obligations after taking such Bond Enhancement Agreements into account.

SECTION 4. AUTHORIZATION FOR SPECIFIC TRANSACTIONS. In addition to the authority otherwise granted in this Resolution, each Authorized Representative is hereby severally granted continuing authority to enter into the following specific transactions pursuant to a Confirmation upon satisfaction of the following respective conditions:

(A) Floating-to-fixed rate interest rate swap transactions under which the Board would pay an amount based upon a fixed rate of interest and the counterparty would pay an amount based upon a variable rate of interest with respect to Parity Debt then outstanding bearing interest at a variable rate and Parity Debt anticipated to be issued in the future that will bear interest at a variable rate, as applicable. Prior to entering into such transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that (i) the synthetic fixed rate to the Board pursuant to the swap transaction is lower than the rate available to the Board for comparable fixed rate debt at the time of the swap transaction, and (ii) if the variable rate being paid or expected to be paid by the Board on the applicable Parity Debt is computed on a basis different from the calculation of the variable rate to be received under the swap transaction over the stated term of such swap transaction, the basis risk of the transaction is expected to be minimal based upon historical relationships between such bases.

(B) Fixed-to-floating rate interest rate swap transactions under which the Board would pay an amount based on a variable rate of interest and the counterparty would pay an amount based on a fixed rate of interest, with respect to Parity Debt then outstanding bearing interest at a fixed rate and Parity Debt anticipated to be issued in the future that will bear interest at a fixed rate, as applicable. Prior to entering into such transaction the Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that converting such portion of fixed rate Parity Debt to a variable rate pursuant to the fixed-to-floating interest rate swap transaction would be beneficial to the System by (i) lowering the anticipated net interest cost on the Parity Debt to be swapped against or (ii) assisting in the System's asset/liability management by matching a portion of its variable rate assets with variable rate Parity Debt.

(C) Basis swap transactions under which the Board would pay a variable rate of interest computed on one basis, such as the Securities Industry and Financial Markets Association Municipal Swap Index, and the counterparty would pay a variable rate of interest computed on a different basis, such as the London Interbank Offered Rate ("LIBOR"), with respect to a designated maturity or principal amount of outstanding Parity Debt and Parity Debt anticipated to be issued in the future, as applicable. Prior to entering into such transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that by entering into the basis swap transaction the Board is expected to be able to (i) achieve spread income or upfront cash payments, (ii) preserve call option and advance refunding capability on its Parity Debt, (iii) lower net interest cost by effecting a percent of LIBOR synthetic refunding without issuing additional bonds or acquiring credit enhancement, (iv) lower net interest cost on Parity Debt by layering tax risk on top of a traditional fixed rate financing, (v) preserve liquidity capacity, or (vi) avoid the mark to market volatility of a fixed-to-floating or floating-to-fixed swap in changing interest rate environments.

(D) Interest rate locks, caps, floors, and collars for the purpose of limiting the exposure of the Board to adverse changes in interest rates in connection with outstanding Parity Debt or additional Parity Debt anticipated to be issued in the future. Prior to entering into such a transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that such transaction is expected to limit or eliminate such exposure.

SECTION 5. APPLICATION OF PAYMENTS RECEIVED UNDER BOND ENHANCEMENT AGREEMENTS.

(a) General. Except as further limited by subsection (b) hereof, to the extent the Board receives payments pursuant to a Bond Enhancement Agreement, such payments shall be applied for any lawful purpose.

(b) Payments under Chapter 1371 Credit Agreements. In the event an Authorized Representative elects to treat a Bond Enhancement Agreement authorized by this Resolution as a "credit agreement" under Chapter 1371 and such Bond Enhancement Agreement is executed and delivered pursuant to Chapter 1371, to the extent that the Board receives payments pursuant to such a Bond Enhancement Agreement, such payments shall be applied as follows: (i) to pay (A) debt service on the Parity Debt or anticipated issuance of Parity Debt related to the Bond Enhancement Agreement, or (B) the costs to be financed by the Parity Debt or anticipated issuance of Parity Debt related to the Bond Enhancement Agreement; provided that, if applicable, such costs shall have been approved for construction by the Board and that the applicable projects have received the required approval or review of the Texas Higher Education Coordinating Board to the extent and as required by the provisions of Section 61.058 of the *Texas Education Code*; (ii) to pay other liabilities or expenses that are secured on parity with or senior to the Parity Debt or anticipated issuance of Parity Debt related to the Bond Enhancement Agreement; or (iii) to the extent that costs set forth in (i) and (ii) have been satisfied, for any other lawful purpose.

SECTION 6. BOND ENHANCEMENT AGREEMENTS IN CONNECTION WITH ANTICIPATED PARITY DEBT.

(a) Requirement to Terminate or Modify Agreement for Non-issuance of Anticipated Parity Debt. In the event a Bond Enhancement Agreement is entered into under this Resolution in connection with the anticipated issuance of Parity Debt and such Parity Debt is not actually issued on or prior to the effective date of such agreement, an Authorized Representative shall either terminate such Bond Enhancement Agreement or amend such Bond Enhancement Agreement in such event to (i) delay the effective date of such Bond Enhancement Agreement; or (ii) replace such anticipated Parity Debt with any then outstanding Parity Debt having the same types of interest rates (fixed or variable) as the anticipated Parity Debt.

(b) Requirement to Terminate or Modify Agreement for Notional Amount in Excess of Anticipated Parity Debt as Issued. In the event a Bond Enhancement Agreement is entered into under this Resolution in connection with the anticipated issuance of Parity Debt and such Bond Enhancement Agreement has a notional amount that at any time exceeds the principal amount to be outstanding of such anticipated Parity Debt as actually issued, an Authorized Representative shall either terminate such Bond Enhancement Agreement or amend such Bond Enhancement Agreement to (i) reduce the notional amount of such Bond Enhancement as appropriate so that such notional amount does not exceed at any time the principal amount to be outstanding of such anticipated Parity Debt as actually issued or (ii) supplement or replace all or a portion of such anticipated Parity Debt with any then outstanding Parity Debt having the same types of interest rates (fixed or variable) as the anticipated Parity Debt as necessary to ensure that the notional amount of such Bond Enhancement Agreement does not exceed at any time the principal amount of the applicable Parity Debt.

(c) Board Recognition of Anticipated Parity Debt. No Bond Enhancement Agreement may be entered into under this Resolution with respect to the Board's obligations under an anticipated future issuance of Parity Debt unless such anticipated issuance of future debt shall have been recognized by official action of the Board pursuant to either (i) the Board's prior adoption of a resolution authorizing the issuance of such debt, including a resolution delegating the parameters of such issuance to an Authorized Representative or a resolution authorizing the issuance of commercial paper notes, (ii) the Board's prior approval of its then current Capital Improvement Program contemplating the financing of the projects to be financed by such anticipated issuance of debt and the amount of such debt to be issued, or (iii) the Board's action pursuant to subsection (e) hereof with respect to Parity Debt anticipated to be issued to refund outstanding Parity Debt.

(d) Required Description of Anticipated Parity Debt. To the extent that a Bond Enhancement Agreement is entered into under this Resolution with respect to the Board's obligations under an anticipated future issuance of Parity Debt, an Authorized Representative must also deliver to the General Counsel to the Board at the time such agreement is entered into a certificate with respect to such anticipated Parity Debt stating: (i) the anticipated issuance date of such Parity Debt or a range of anticipated dates of up to six months for such issuance, provided that such date or range of dates may not be more than the lesser of seventy-two (72) months after the date of the applicable Confirmation or the latest date contemplated for the issuance of such Parity Debt in the Board's then current Capital Improvement Program; (ii) whether such Parity Debt will bear interest at a fixed or variable rate; (iii) if such Parity Debt will bear interest at a fixed rate, what fixed interest rate or range of interest rates with respect to such Parity Debt is anticipated; (iv) if such Parity Debt will bear interest at a variable rate, what basis is anticipated to be used to compute such variable rate; (v) the assumed maturity schedule and amortization for such Parity Debt, including the assumed interest cost; (vi) the anticipated purposes for which the proceeds of such Parity Debt will be used; and (vii) for Parity Debt anticipated to be issued for new money projects, a list or description of such projects anticipated to be financed, provided that each such project must be contemplated for financing with Parity Debt by the Board's then current Capital Improvement Program or have otherwise received Board approval for financing.

(e) Board's Statement of Intent to Issue Refunding Debt for Savings. If the conditions in this Resolution are otherwise satisfied, the Board hereby authorizes each Authorized Representative to enter into a Bond Enhancement Agreement in connection with Parity Debt anticipated to be issued to refund any existing Parity Debt, provided that as certified by an Authorized Representative to the General Counsel to the Board, such new issue of Parity Debt, when taking into consideration the effect of such Bond Enhancement Agreement, is anticipated to result in a present value savings in connection with such refunding of at least 3.0% (determined in the manner set forth in a supplemental resolution approved by the Board authorizing the issuance of additional Parity Debt), and in such event, the Board hereby declares its intention to cause such Parity Debt to be issued.

SECTION 7. MASTER AGREEMENTS.

(a) New Master Agreements. Each Authorized Representative is hereby authorized to enter into ISDA Master Agreements (the "New Master Agreements") with counterparties satisfying the ratings requirements of the System's Interest Rate Swap Policy. Such New Master Agreements shall be in substantially the same form as the Executed Master Agreements, with such changes as, in the judgment of an Authorized Representative, with the advice and counsel of the Office of General Counsel and Bond Counsel, are necessary or desirable (i) to carry out the intent of the Board as expressed in this Resolution, (ii) to receive approval of this Resolution by the Attorney General of the State of Texas, if pursuant Section 2(b) of this Resolution, an Authorized Representative elects to designate any Bond Enhancement Agreement entered into by the Board pursuant to this Resolution as a "credit agreement" under Chapter 1371, (iii) to accommodate the credit structure or requirements of a particular counterparty or (iv) to incorporate comments received or anticipated to be received from any credit rating agency relating to a New Master Agreement. Each Authorized Representative is authorized to enter into such New Master Agreements and to enter into Confirmations thereunder in accordance with this Resolution and in furtherance of and to carry out the intent hereof.

(b) Amendments to Master Agreements. Each Authorized Representative is hereby further severally authorized to enter into amendments to the Master Agreements to allow Confirmations thereunder to be issued and entered into with respect to any then outstanding Parity Debt or Parity Debt anticipated to be issued in the future and to make such other amendments in accordance with the terms of the respective Master Agreements as in the judgment of such Authorized Representative, with the advice and counsel of the Office of General Counsel and Bond Counsel, are necessary or desirable to allow the Board to achieve the benefits of the Bond Enhancement Agreements in accordance with and subject to the System's Interest Rate Swap Policy and this Resolution.

SECTION 8. ADDITIONAL AUTHORIZATION.

(a) Additional Agreements and Documents Authorized. Each Authorized Representative and all officers or officials of the Board are severally authorized to execute and deliver such other agreements and documents as are contemplated by this Resolution and the Master Agreements or are otherwise necessary in connection with entering into Confirmations and Bond Enhancement Agreements as described in this Resolution, as any such officer or official shall deem appropriate, including without limitation, officer's certificates, legal opinions, and credit support documents.

(b) Further Actions. All officers or officials of the Board and its agents and counsel are authorized to take all such further actions, to execute and deliver such further instruments and documents in the name and on behalf of the Board to pay all such expenses as in his or her judgment shall be necessary or advisable in order fully to carry out the purposes of this Resolution.

EXHIBIT A

DEFINITIONS

As used in this Resolution the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"Authorized Representative" – As defined in the System's Interest Rate Swap Policy (a copy of which is attached hereto as Exhibit B).

"Board" – The Board of Regents of The University of Texas System.

"Bond Enhancement Agreement" – Collectively, each Confirmation and the applicable Master Agreement.

"Chapter 1371" – Chapter 1371 of the *Texas Government Code*, as amended.

"Confirmation" – Each confirmation entered into by an Authorized Representative on behalf of the Board pursuant to this Resolution.

"Executed Master Agreements" – The following existing and fully executed ISDA Master Agreements currently in effect between the Board and the respective counterparty noted below (copies of which are attached hereto as Exhibit C):

(i) ISDA Master Agreement with Bank of America, N.A., dated as of December 6, 2005;

(ii) [ISDA Master Agreement with Goldman Sachs Mitsui Marine Derivative Products, L.P., dated as of December 6, 2005;]

(iii) ISDA Master Agreement with JPMorgan Chase Bank, National Association, dated as of May 2, 2006;

(iv) ISDA Master Agreement with Lehman Brothers Commercial Bank, dated as of December 6, 2005 and Amended and Restated as of April 21, 2006;

(v) ISDA Master Agreement with Merrill Lynch Capital Services, Inc., dated as of May 1, 2006;

(vi) ISDA Master Agreement with Morgan Stanley Capital Services Inc., dated as of December 6, 2005;

(vii) ISDA Master Agreement with UBS AG, dated as of November 1, 2007; and

(viii) ISDA Master Agreement with Royal Bank of Canada, dated as of April 4, 2008.

"ISDA" – The International Swaps and Derivatives Association, Inc.

"LIBOR" – London Interbank Offered Rate.

"Master Agreements" – Collectively, the Executed Master Agreements and any New Master Agreements.

"Master Resolution" – The First Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the Board on February 14, 1991, and amended on October 8, 1993, and August 14, 1997.

"New Master Agreements" – Any ISDA Master Agreements entered into by an Authorized Representative pursuant to Section 7(a) of this Resolution.

"Section 65.461" – Section 65.461 of the *Texas Education Code*.

"System" – The University of Texas System.

EXHIBIT B

INTEREST RATE SWAP POLICY OF THE UNIVERSITY OF TEXAS SYSTEM

[On file with the Board]

EXHIBIT C

EXECUTED MASTER AGREEMENTS

[On File with the Board]

A RESOLUTION AUTHORIZING THE EXECUTION AND DELIVERY OF BOND ENHANCEMENT AGREEMENTS RELATING TO PERMANENT UNIVERSITY FUND DEBT AND AUTHORIZING AND APPROVING OTHER INSTRUMENTS AND PROCEDURES RELATING TO SAID AGREEMENTS

August 14, 2008

WHEREAS, the Board of Regents (the "Board") of The University of Texas System (the "System") is the governing body of the System, an institution of higher education under the *Texas Education Code* and an agency of the State of Texas (the "State"); and

WHEREAS, the Permanent University Fund is a constitutional fund and public endowment created in the Texas Constitution of 1876, as created, established, implemented and administered pursuant to Sections 10, 11, 11a, 11b, 15 and 18 of Article VII of the Constitution of the State, as amended, and by other applicable present and future constitutional and statutory provisions, and further implemented by the provisions of Chapter 66, *Texas Education Code*, as amended, the "Permanent University Fund"); and

WHEREAS, the Available University Fund is defined by the Constitution of the State and consists of distributions made to it from the total return on all investment assets of the Permanent University Fund, including the net income attributable to the surface of Permanent University Fund land, as determined by the Board pursuant to Section 18 of Article VII of the Constitution of the State (the "Available University Fund"); and

WHEREAS, Section 18 of Article VII of the Constitution of the State, as may hereafter be amended (the "Constitutional Provision"), authorizes the Board to issue bonds and notes ("PUF Debt") not to exceed a total amount of 20% of the cost value of investments and other assets of the Permanent University Fund, exclusive of real estate, at the time of issuance thereof and to pledge all or any part of its two-thirds interest in the Available University Fund (the "Interest of the System") to secure the payment of the principal of and interest on PUF Debt, for the purpose of acquiring land, constructing and equipping buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, acquiring capital equipment and library books and library materials, and refunding bonds or notes issued under the Constitutional Provision or prior law, at or for the System Administration and institutions of the System as listed in the Constitutional Provision; and

WHEREAS, the Constitutional Provision also provides that out of the Interest of the System in the Available University Fund there shall be appropriated an annual sum sufficient to pay the principal and interest due on PUF Debt, and the remainder of the Interest of the System in the Available University Fund (the "Residual AUF") shall be appropriated for the support and maintenance of The University of Texas at Austin and the System Administration; and

WHEREAS, unless otherwise defined herein, terms used herein shall have the meaning as set forth in Exhibit A hereto; and

WHEREAS, the Board has previously entered into certain Executed Master Agreements (as defined herein) with certain counterparties setting forth the terms and conditions applicable to each Confirmation (as defined herein) to be executed thereunder; and

WHEREAS, the Board hereby desires to severally authorize each Authorized Representative (as defined in the U.T. System's Interest Rate Swap Policy, a copy of which is attached hereto as Exhibit B) to enter into Bond Enhancement Agreements (as defined herein) from time to time, all as provided in this Resolution.

NOW THEREFORE BE IT RESOLVED, that

SECTION 1. DEFINITIONS. Capitalized terms used in this Resolution and not otherwise defined shall have the meanings given in Exhibit A attached hereto and made a part hereof.

SECTION 2. AUTHORIZATION OF BOND ENHANCEMENT AGREEMENTS.

(a) Delegation. Each Authorized Representative is hereby severally authorized to act on behalf of the Board in accepting and executing new or amended confirmations under one or more of the Master Agreements (each, a "Confirmation" and, collectively with the applicable Master Agreement, a "Bond Enhancement Agreement") when, in his or her judgment, the execution of such Confirmation is consistent with this Resolution and the U.T. System Interest Rate Swap Policy and either (i) the transaction is expected to reduce the net interest to be paid by the Board with respect to any then outstanding PUF Debt or PUF Debt anticipated to be issued in the future over the term of the Bond Enhancement Agreement or (ii) the transaction is in the best interests of the Board given the market conditions at that time. The delegation to each Authorized Representative to execute and deliver Bond Enhancement Agreements on behalf of the Board under this Resolution shall expire on September 1, 2009.

(b) Authorizing Law and Treatment as Credit Agreement. The Board hereby determines that any such Bond Enhancement Agreement entered into by an Authorized Representative pursuant to this Resolution is necessary or appropriate to place the Board's obligations with respect to its outstanding PUF Debt or PUF Debt anticipated to be issued in the future on the interest rate, currency, cash flow or other basis set forth in such Bond Enhancement Agreement as approved and executed on behalf of the Board by an Authorized Representative. Each Bond Enhancement Agreement constitutes a "bond enhancement agreement" under Section 65.461 of the *Texas Education Code* ("Section 65.461"). Pursuant to Section 65.461, a Bond Enhancement Agreement authorized and executed by an Authorized Representative under this Resolution shall not be considered a "credit agreement" under Chapter 1371 of the *Texas Government Code*, as amended ("Chapter 1371"), unless specifically designated as such by such Authorized Representative. In the event an Authorized Representative elects to treat a Bond Enhancement Agreement authorized by this Resolution as a "credit agreement" under Chapter 1371 and this Resolution has not previously been submitted to the Attorney General by an Authorized Representative, such Authorized Representative shall submit this Resolution to the Attorney General for review and approval in accordance with the requirements of Chapter 1371 as the proceedings authorizing Bond Enhancement Agreements entered into by the Board pursuant to this Resolution.

(c) Costs; Maximum Term. The costs of any Bond Enhancement Agreement and the amounts payable thereunder shall be payable from the Residual AUF as a cost of the support and maintenance of System administration or from any other source that is legally available to make such payments. In the event an Authorized Representative elects to terminate a Bond Enhancement Agreement, any amounts payable by the Board as a result of such termination shall be payable from the Residual AUF; provided, that if such Bond Enhancement Agreement is designated as a "credit agreement" under Chapter 1371 pursuant to Section 2(b) hereof and such Bond Enhancement Agreement is entered into in connection with PUF Debt anticipated to be issued in the future, any such amounts payable by the Board as a result of such termination may be payable from the Residual AUF or from the proceeds of the PUF Debt to which such Bond Enhancement Agreement relates as a "project cost" under Chapter 1371.

The maximum term of each Bond Enhancement Agreement authorized by this Resolution shall not exceed the maturity date of the then outstanding related PUF Debt or the related PUF Debt anticipated to be issued in the future, as applicable.

(d) Notional Amount. The notional amount of any Bond Enhancement Agreement authorized by this Resolution shall not at any time exceed the aggregate principal amount of the then outstanding related PUF Debt or related PUF Debt anticipated to be issued in the future, as applicable; provided that the aggregate notional amount of multiple Bond Enhancement Agreements relating to the same PUF Debt may exceed the principal amount of the related PUF Debt if such Bond Enhancement Agreements are for different purposes, as evidenced for example by different rates for calculating payments owed, and the aggregate notional amount of any such Bond Enhancement Agreements for the same purpose otherwise satisfies the foregoing requirements.

(e) Early Termination. No Confirmation entered into pursuant to this Resolution shall contain early termination provisions at the option of the counterparty except upon the occurrence of an event of default or an additional termination event, as prescribed in the applicable Master Agreement. In addition to subsections (a) and (b) of Section 5 hereof, each Authorized Representative is hereby severally authorized to terminate any Bond Enhancement when, in his or her judgment, such termination is in the best interests of the Board given the market conditions at that time.

(f) Maximum Rate. No Bond Enhancement Agreement authorized by this Resolution shall be payable at a rate greater than the maximum rate allowed by law.

(g) Credit Enhancement. An Authorized Representative may obtain credit enhancement for any Bond Enhancement Agreement if such Authorized Representative, as evidenced by a certificate delivered to the General Counsel to the Board, has determined that after taking into account the cost of such credit enhancement, such credit enhancement will reduce the amount payable by the Board pursuant to such Bond Enhancement Agreement; provided that the annual cost of credit enhancement on any Bond Enhancement Agreement entered into pursuant to this Resolution may not exceed 0.50% of the notional amount of such Bond Enhancement Agreement.

SECTION 3. AUTHORIZATION FOR SPECIFIC TRANSACTIONS. In addition to the authority otherwise granted in this Resolution, each Authorized Representative is hereby severally granted continuing authority to enter into the following specific transactions pursuant to a Confirmation (or other agreement or instrument deemed necessary by an Authorized Representative) upon satisfaction of the following respective conditions:

(A) Floating-to-fixed rate interest rate swap transactions under which the Board would pay an amount based upon a fixed rate of interest and the counterparty would pay an amount based upon a variable rate of interest with respect to PUF Debt then outstanding bearing interest at a variable rate and any PUF Debt anticipated to be issued in the future that will bear interest at a variable rate, as applicable. Prior to entering into such transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that (i) the synthetic fixed rate to the Board pursuant to the swap transaction is lower than the rate available to the Board for comparable fixed rate debt at the time of the swap transaction, and (ii) if the variable rate being paid or expected to be paid by the Board on the applicable PUF Debt is computed on a basis different from the calculation of the variable rate to be received under the swap transaction over the stated term of such swap transaction, the basis risk of the transaction is expected to be minimal based upon historical relationships between such bases.

(B) Fixed-to-floating rate interest rate swap transactions under which the Board would pay an amount based upon a variable rate of interest and the counterparty would pay an amount based upon a fixed rate of interest, with respect to PUF Debt then outstanding bearing interest at a fixed rate or PUF Debt anticipated to be issued in the future that will bear interest at a fixed rate, as applicable. Prior to entering into such transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that converting such portion of fixed rate PUF Debt to a variable rate pursuant to the fixed-to-floating interest rate swap transaction would be beneficial to the System by (i) lowering the anticipated net interest cost on the PUF Debt to be swapped against or (ii) assisting in the System's asset/liability management by matching a portion of its variable rate assets with variable rate PUF Debt.

(C) Basis swap transactions under which the Board would pay a variable rate of interest computed on one basis, such as the Securities Industry and Financial Markets Association Municipal Swap Index, and the counterparty would pay a variable rate of interest computed on a different basis, such as a designated maturity of the London Interbank Offered Rate ("LIBOR"), with respect to a given principal amount of PUF Debt then outstanding or PUF Debt anticipated to be issued in the future, as applicable. Prior to entering into such transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that by entering into the basis swap transaction the Board is expected to be able to (i) achieve spread income or upfront cash payments, (ii) preserve call option and advance refunding capability on its PUF Debt, (iii) lower net interest cost by effecting a percent of LIBOR synthetic refunding without issuing additional bonds or acquiring credit enhancement, (iv) lower net interest cost on PUF Debt by layering tax risk on top of a traditional fixed rate financing, (v) preserve liquidity capacity, or (vi) avoid the mark to market volatility of a fixed-to-floating or floating-to-fixed swap in changing interest rate environments.

(D) Interest rate locks, caps, floors, and collars for the purpose of limiting the exposure of the Board to adverse changes in interest rates in connection with outstanding PUF Debt or additional PUF Debt anticipated to be issued in the future. Prior to entering into such a transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that such transaction is expected to limit or eliminate such exposure.

SECTION 4. APPLICATION OF PAYMENTS RECEIVED UNDER BOND ENHANCEMENT AGREEMENTS.

(a) General. Except as provided in subsection (b) hereof, to the extent the Board receives payments pursuant to a Bond Enhancement Agreement, such payments shall be applied for any lawful purpose.

(b) Payments under Chapter 1371 Credit Agreements. In the event an Authorized Representative elects to treat a Bond Enhancement Agreement authorized by this Resolution as a "credit agreement" under Chapter 1371 and such Bond Enhancement Agreement is executed and delivered pursuant to Chapter 1371, to the extent that the Board receives payments pursuant to such a Bond Enhancement Agreement, such payments shall be applied as follows: (i) to pay (A) debt service on the PUF Debt or anticipated issuance of PUF Debt related to the Bond Enhancement Agreement, or (B) the costs to be financed by the PUF Debt or anticipated issuance of PUF Debt related to the Bond Enhancement Agreement; provided that, if applicable, such costs shall have been approved for construction by the Board and that the applicable projects have received the required approval or review of the Texas Higher Education Coordinating Board to the extent and as required by the provisions of Section 61.058 of the *Texas Education Code*; (ii) to pay other liabilities or expenses that are secured on parity with or senior to the PUF Debt or anticipated issuance of PUF Debt related to the Bond Enhancement Agreement; or (iii) to the extent that costs set forth in (i) and (ii) have been satisfied, for any other lawful purpose.

SECTION 5. BOND ENHANCEMENT AGREEMENTS IN CONNECTION WITH ANTICIPATED PUF DEBT.

(a) Requirement to Terminate or Modify Agreement for Non-issuance of Anticipated PUF Debt. In the event a Bond Enhancement Agreement is entered into under this Resolution in connection with the anticipated issuance of PUF Debt and such PUF Debt is not actually issued on or prior to the effective date of such agreement, an Authorized Representative shall either terminate such Bond Enhancement Agreement or amend such Bond Enhancement Agreement in such event (i) to delay the effective date of such Bond Enhancement Agreement; or (ii) to replace such anticipated PUF Debt with any then outstanding PUF Debt having the same types of interest rates (fixed or variable) as the anticipated PUF Debt.

(b) Requirement to Terminate or Modify Agreement for Notional Amount in Excess of Anticipated PUF Debt as Issued. In the event a Bond Enhancement Agreement is entered into under this Resolution in connection with the anticipated issuance of PUF Debt and such Bond Enhancement Agreement has a notional amount that at any time exceeds the principal amount to be outstanding of such anticipated PUF Debt as actually issued, an Authorized Representative shall either terminate such Bond Enhancement Agreement or amend such Bond Enhancement Agreement (i) to reduce the notional amount of such Bond Enhancement as appropriate so that such notional amount does not exceed at any time the principal amount to be outstanding of such anticipated PUF Debt as actually issued or (ii) supplement or replace all or a portion of such anticipated PUF Debt with any then outstanding PUF Debt having the same types of interest rates (fixed or variable) as the anticipated PUF Debt as necessary to ensure that the notional amount of such Bond Enhancement Agreement does not exceed at any time the principal amount of the applicable PUF Debt.

(c) Board Recognition of Anticipated Parity Debt. No Bond Enhancement Agreement may be entered into under this Resolution with respect to the Board’s obligations under an anticipated future issuance of PUF Debt unless such anticipated issuance of future debt shall have been recognized by official action of the Board pursuant to either (i) the Board’s prior adoption of a resolution authorizing the issuance of such debt, including but not limited to a resolution delegating the parameters of such issuance to an Authorized Representative or a resolution authorizing the issuance of commercial paper notes, (ii) the Board’s prior approval of its then current Capital Improvement Program contemplating the financing of the projects to be financed by such anticipated issuance of debt and the amount of such debt to be issued, or (iii) the Board’s action pursuant to subsection (e) hereof with respect to PUF Debt anticipated to be issued to refund outstanding PUF Debt.

(d) Required Description of Anticipated PUF Debt. To the extent that a Bond Enhancement Agreement is entered into under this Resolution with respect to the Board’s obligations under an anticipated future issuance of PUF Debt, an Authorized Representative must also deliver to the General Counsel to the Board at the time such agreement is entered into a certificate with respect to such anticipated PUF Debt stating: (i) the anticipated issuance date of such PUF Debt or a range of anticipated dates of up to six months for such issuance, provided that such date or range of dates may not be more than the lesser of seventy-two (72) months after the date of the applicable Confirmation or the latest date contemplated for the issuance of such PUF Debt in the Board’s then current Capital Improvement Program; (ii) whether such PUF Debt will bear interest at a fixed or variable rate; (iii) if such PUF Debt will bear interest at a fixed rate, what fixed interest rate or range of interest rates with respect to such PUF Debt is anticipated; (iv) if such PUF Debt will bear interest at a variable rate, what basis is anticipated to be used to compute such variable rate; (v) the assumed maturity schedule and amortization for such PUF Debt, including the assumed interest cost; (vi) the anticipated purposes for which the proceeds of such PUF Debt will be used; and (vii) for PUF Debt anticipated to be issued for new money projects, a list or description of such projects anticipated to be financed, provided that each such project must be contemplated for financing with PUF Debt by the Board's then current Capital Improvement Program or have otherwise received Board approval for financing.

(e) Board's Statement of Intent to Issue Refunding Debt for Savings. If the conditions in this Resolution are otherwise satisfied, the Board hereby authorizes each Authorized Representative to enter into a Bond Enhancement Agreement in connection with PUF Debt anticipated to be issued to refund any existing PUF Debt, provided that as certified by an Authorized Representative to the General Counsel to the Board, such new issue of PUF Debt, when taking into consideration the effect of such Bond Enhancement Agreement, is anticipated to result in a present value savings in connection with such refunding of at least 3.0% (determined in the manner set forth in the resolution approved by the Board authorizing the issuance of additional PUF Debt), and in such event, the Board hereby declares its intention to cause such PUF Debt to be issued.

SECTION 6. MASTER AGREEMENTS.

(a) New Master Agreements. Each Authorized Representative is hereby severally authorized to enter into ISDA Master Agreements (the "New Master Agreements") with counterparties satisfying the ratings requirements of the System's Interest Rate Swap Policy. Such New Master Agreements shall be in substantially the same form as the Executed Master Agreements, with such changes as, in the judgment of an Authorized Representative, with the advice and counsel of the Office of General Counsel and Bond Counsel, are necessary or desirable (i) to carry out the intent of the Board as expressed in this Resolution, (ii) to receive approval of this Resolution by the Attorney General of the State of Texas, if pursuant Section 2(b) of this Resolution, an Authorized Representative elects to designate any Bond Enhancement Agreement entered into by the Board pursuant to this Resolution as a "credit agreement" under Chapter 1371, (iii) to accommodate the credit structure or requirements of a particular counterparty or (iv) to incorporate comments received or anticipated to be received from any credit rating agency relating to a New Master Agreement. Each Authorized Representative is authorized to enter into such New Master Agreements and to enter into Confirmations thereunder in accordance with this Resolution and in furtherance of and to carry out the intent hereof.

(b) Amendments to Master Agreements. Each Authorized Representative is hereby further severally authorized to enter into amendments to the Master Agreements to allow Confirmations thereunder to be issued and entered into with respect to any then outstanding PUF Debt or PUF Debt anticipated to be issued in the future and to make such other amendments in accordance with the terms of the respective Master Agreements as in the judgment of such Authorized Representative, with the advice and counsel of the Office of General Counsel and Bond Counsel, are necessary or desirable to allow the Board to achieve the benefits of the Bond Enhancement Agreements in accordance with and subject to the System's Interest Rate Swap Policy and this Resolution.

SECTION 7. ADDITIONAL AUTHORIZATION.

(a) Additional Agreements and Documents Authorized. Each Authorized Representative and all officers or officials of the Board are severally authorized to execute and deliver such other agreements and documents as are contemplated by this Resolution and the Master Agreements or are otherwise necessary in connection with entering into Confirmations and Bond Enhancement Agreements as described in this Resolution, as any such officer or official shall deem appropriate, including without limitation, officer's certificates, legal opinions, and credit support documents.

(b) Further Actions. All officers or officials of the Board and its agents and counsel are authorized to take all such further actions, to execute and deliver such further instruments and documents in the name and on behalf of the Board to pay all such expenses as in his or her judgment shall be necessary or advisable in order fully to carry out the purposes of this Resolution.

EXHIBIT A

DEFINITIONS

As used in this Resolution the following terms shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"Authorized Representative" shall have the meaning given to such term in the System's Interest Rate Swap Policy (a copy of which is attached hereto as Exhibit B).

"Available University Fund" shall have the meaning given to such term in the recitals to this Resolution.

"Board" shall have the meaning given to such term in the recitals to this Resolution.

"Bond Enhancement Agreement" shall have the meaning given to such term in Section 2(a) hereof.

"Chapter 1371" shall have the meaning given to such term in Section 2(b) hereof.

"Confirmation" shall have the meaning given to such term in Section 2(a) hereof.

"Constitutional Provision" shall have the meaning given to such term in the recitals to this Resolution.

"Executed Master Agreements" shall mean the following existing and fully executed ISDA Master Agreements currently in effect between the Board and the respective counterparty noted below (copies of which are attached hereto as Exhibit C):

(i) ISDA Master Agreement with Bank of America, N.A., dated as of December 1, 2007;

(ii) ISDA Master Agreement with Goldman Sachs Capital Markets, L.P., dated as of December 1, 2007;

(iii) ISDA Master Agreement with JPMorgan Chase Bank, National Association, dated as of December 1, 2007;

(iv) ISDA Master Agreement with Lehman Brothers Special Financing Inc., dated as of December 1, 2007;

(v) ISDA Master Agreement with Merrill Lynch Capital Services, Inc., dated as of December 1, 2007;

(vi) ISDA Master Agreement with Morgan Stanley Capital Services Inc., dated as of December 1, 2007; and

(vii) ISDA Master Agreement with UBS AG, dated as of April 1, 2008.

"Interest of the System" shall have the meaning given to such term in the recitals to this Resolution.

"ISDA" shall mean the International Swaps and Derivatives Association, Inc.

"LIBOR" shall have the meaning given to such term in clause (C) of Section 3 hereof.

"Master Agreements" shall mean, collectively, the Executed Master Agreements and any New Master Agreements.

"New Master Agreements" shall have the meaning given to such term in Section 6(a) hereof.

"Permanent University Fund" shall have the meaning given to such term in the recitals to this Resolution.

"PUF Debt" shall have the meaning given to such term in the recitals to this Resolution.

"Residual AUF" shall have the meaning given to such term in the recitals to this Resolution.

"Section 65.461" shall have the meaning given to such term in Section 2(b) hereof.

"State" shall have the meaning given to such term in the recitals to this Resolution.

"System" shall have the meaning given to such term in the recitals to this Resolution.

EXHIBIT B

INTEREST RATE SWAP POLICY OF THE UNIVERSITY OF TEXAS SYSTEM

[On file with the Board]

EXHIBIT C

EXECUTED MASTER AGREEMENTS

[On file with the Board]

15. **U. T. System: Report on the negotiation of a contract to hedge the price and sell a portion of the future oil and gas royalty production from the Permanent University Fund Lands**

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will report on progress of the negotiations of a contract with one or more counterparties to hedge the price and sell a portion of the future oil and gas royalty production from the Permanent University Fund (PUF) Lands, as approved at the July 24, 2008 meeting of the Board.