

Meeting No. 890

THE MINUTES OF THE BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

Pages 1 - 165

February 8, 1996

El Paso, Texas

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 OF
 THE UNIVERSITY OF TEXAS SYSTEM
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MEETING NO. 890

THURSDAY, FEBRUARY 8, 1996.--The members of the Board of Regents of The University of Texas System convened in regular session at 10:00 a.m. on Thursday, February 8, 1996, in Room 308 of the Geological Sciences Building at The University of Texas at El Paso, El Paso, Texas, with the following in attendance:

ATTENDANCE.--

Present

Chairman Rapoport, presiding
Vice-Chairman Smiley
Regent Deily
Regent Evans
Regent Holmes
Regent Loeffler
Regent Temple

Absent

*Vice-Chairman Hicks
**Regent Lebermann

Executive Secretary Dilly

Chancellor Cunningham
Executive Vice Chancellor Duncan
Executive Vice Chancellor Mullins
Executive Vice Chancellor Burck

Chairman Rapoport announced a quorum present and called the meeting to order.

RECESS TO EXECUTIVE AND BRIEFING SESSIONS.--Chairman Rapoport announced that the Board would recess to convene an Executive Session and briefing session pursuant to Texas Government Code, Chapter 551, Sections 551.071, 551.072, and 551.074 to consider those matters listed on the Executive Session agenda.

RECONVENE.--At 1:50 p.m., the Board reconvened in open session in Room 310 of the Geological Sciences Building.

WELCOME BY DR. DIANA S. NATALICIO, PRESIDENT OF THE UNIVERSITY OF TEXAS AT EL PASO.--Chairman Rapoport stated that the Board was pleased to be meeting at The University of Texas at El Paso and was especially delighted to have had the opportunity to meet with many El Paso friends and supporters at last evening's (February 7) very nice social event. He then called on Dr. Diana S. Natalicio, President of U. T. El Paso, for any welcoming remarks on behalf of the host institution.

On behalf of the faculty, staff, and students of U. T. El Paso, President Natalicio welcomed the members of the Board and other guests to the campus.

*Vice-Chairman Hicks was excused because of a previous commitment.

**Regent Lebermann was excused due to a death in his family.

U. T. BOARD OF REGENTS: APPROVAL OF MINUTES OF REGULAR MEETING HELD ON NOVEMBER 9, 1995, AND SPECIAL MEETING HELD ON JANUARY 5, 1996.--Upon motion of Regent Evans, seconded by Vice-Chairman Smiley, the Minutes of the regular meeting of the Board of Regents of The University of Texas System held on November 9, 1995, in Arlington, Texas, were approved as distributed by the Executive Secretary. The official copy of these Minutes is recorded in the Permanent Minutes, Volume XLIII, Pages 1 - 688.

Upon motion of Vice-Chairman Smiley, seconded by Regent Evans, the Minutes of the special meeting of the Board of Regents of The University of Texas System held on January 5, 1996, in Austin, Texas, were approved as distributed by the Executive Secretary. The official copy of these Minutes is recorded in the Permanent Minutes, Volume XLIII, Pages 689 - 698.

RECESS FOR COMMITTEE MEETINGS AND COMMITTEE REPORTS TO THE BOARD.--At 1:55 p.m., the Board recessed for the meetings of the Standing Committees, and Chairman Rapoport announced that at the conclusion of each committee meeting the Board would reconvene to approve the report and recommendations of that committee.

The meetings of the Standing Committees were conducted in open session and the reports and recommendations thereof are set forth on the following pages.

REPORTS AND RECOMMENDATIONS OF STANDING COMMITTEES

REPORT OF EXECUTIVE COMMITTEE (Page 3).--In compliance with Section 7.14 of Chapter I of Part One of the Regents' Rules and Regulations, Chairman Rapoport reported that there were no actions by the Executive Committee since the last meeting for ratification and approval by the U. T. Board of Regents except for Executive Committee Letters 96-3 through 96-6 as noted below:

U. T. System: Approval of Executive Committee Letters 96-3 Through 96-6 Via the Chancellor's Docket Process.--Chairman Rapoport noted that in keeping with approved procedures Executive Committee Letters 96-3 through 96-6, which had been distributed since the November 1995 meeting of the Board and which had received the prior approval of the Executive Committee, now appear in the U. T. System Administration Docket on Pages ECL 1 - 6 and would be considered for approval or ratification on the agenda of the Business Affairs and Audit Committee as set out on Page 4.

REPORT AND RECOMMENDATIONS OF THE BUSINESS AFFAIRS AND AUDIT COMMITTEE (Pages 4 - 15).--Committee Chairman Smiley reported that the Business Affairs and Audit Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Business Affairs and Audit Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. System: Approval of Chancellor's Docket No. 84 (Catalog Change).--Upon recommendation of the Business Affairs and Audit Committee, the Board approved Chancellor's Docket No. 84 in the form distributed by the Executive Secretary. It is attached following Page 165 in the official copies of the Minutes and is made a part of the record of this meeting.

It was expressly authorized that any contracts or other documents or instruments approved therein had been or shall be executed by the appropriate officials of the respective institution involved.

It was ordered that any item included in the Docket that normally is published in the institutional catalog be reflected in the next appropriate catalog published by the respective institution.

To avoid any appearance of a possible conflict of interest, Regent Deily was recorded as abstaining from any vote on Item 1 on Page A - 34 of The University of Texas at Austin Docket related to a contract with Houston Lighting & Power Company.

2. U. T. System: Approval of 1997 Budget Preparation Policies and Limitations for General Operating Budgets, Auxiliary Enterprises, Contracts and Grants, Restricted Current Funds, Designated Funds, and Service and Revolving Funds Activities and Calendar for Budget Operations.--The Board, upon recommendation of the Business Affairs and Audit Committee, adopted the following Budget Preparation Policies and Limitations and Calendar for preparation of the 1997 Operating Budgets for The University of Texas System:

U. T. System 1997 Budget Preparation Policies

General Guidelines - The regulations and directives included in the General Appropriations Act serve as the basis for these guidelines and policies. In preparing the draft of the 1997 Operating Budget, the Chief Administrative Officer of each component institution should adhere to guidelines and policies as detailed below. Overall budget totals, including reasonable reserves, must be limited to the funds available for the year from General Revenue Appropriations, Estimates of Educational and General Income, and limited use of institutional unappropriated balances.

Salary Guidelines - Recommendations regarding salary policy are subject to the following directives of the General Appropriations Act.

Article IX, Section 30. Salaries to be Proportional by Fund.

It is the intent of the Legislature that unless otherwise restricted payment for salaries, wages, and benefits paid from appropriated funds, including local funds and educational and general funds as defined in V.T.C.A., Education Code, Sec. 51.009 (a) and (c), shall be proportional to the source of funds.

1. Merit Increases - Subject to available resources and resolution of any major salary inequities, institutions should give priority to implementing merit salary increases for faculty and staff, keeping in mind the 1996-1997 biennium goal of at least an average 5% merit salary increase for faculty and staff.

Merit increases or advances in rank for faculty are to be on the basis of teaching effectiveness, research, and public service.

Merit increases or promotions for administrative and professional staff and classified staff are to be based on evaluation of performance in areas appropriate to work assignments.

To be eligible for a merit increase, classified staff must have been employed by the institution for at least six months as of August 31, 1996.

2. Other Increases - Equity adjustments, competitive offers, and increases to accomplish contractual commitments may also be granted in this budget and should also consider merit where appropriate, subject to available resources. Such increases should be noted and explained in the supplemental data accompanying the budget.
3. New Positions - New administrative and professional, classified staff and faculty positions are to be requested only when justified by work loads or to meet needs for developing new programs.
4. It is the expectation that Fiscal Year 1997 increases for merit, equity, or other increases be included in the Operating Budget.

Staff Benefits Guidelines - Recommendations regarding employee staff benefits are subject to the following directives included in the General Appropriations Act.

1. Staff Group Insurance Premiums - The General Revenue contribution for staff group insurance premiums for higher education is included in Article III, pages III-30 through III-34 of the General Appropriations Act. For each full-time active and retired employee enrolled for eligible coverage, the 1997 State's contribution rate is as follows:

Employee Only Category	\$186.31
Employee and Spouse Category	\$292.13
Employee and Children Category	\$257.16
Employee and Family Category	\$362.98

Funds appropriated for higher education employees' group insurance contributions may not be used for any other purpose. To budget these funds, a "Transfer from Employees Group Insurance Contribution" should be reflected as a General Revenue item in the "Method of Financing" section of the operating budget summary. Employee group insurance premiums for employees paid from Educational and General Income are included in each institution's appropriation for "Educational and General State Support."

In addition, active and retired employees are authorized to use one-half of the "employee only" state contribution for optional insurance provided that they have health insurance coverage from another source.

2. Teacher Retirement Program - State contribution at 6.0% of payroll is included in the funds appropriated to the Teacher Retirement System to match members' contributions.
3. Optional Retirement Program - The state contribution rate for employees who are on the payroll as of August 31, 1995 is 7.31% of payroll. (State matching contributions of 6.0% of payroll is included in the funds appropriated to the Teacher Retirement System and 1.31% of payroll is included in funds appropriated to The University of Texas System.) For employees who are on the payroll as of August 31, 1995, institutions are authorized to use local funds or other sources of funds to supplement the General Revenue Fund appropriations in order to provide an employer contribution of 8.5% of payroll.

The Optional Retirement Program contribution rate for employees who are hired on or after September 1, 1995 is the same contribution as for members of the Teacher Retirement System, or 6.0% of payroll for Fiscal Year 1997. Institutions must notify all newly hired employees that the contribution rate for the Optional Retirement Program may fluctuate over time.

4. Other Employee Benefits - Employer contributions to the self-insured Unemployment Compensation Fund is \$.68 per \$100 of the first \$9,000 of salary paid per employee. Workers' Compensation Insurance rates have been experience rated for each component.

Other Operating Expenses Guidelines - Increases in Maintenance, Operation, Equipment, and Travel are to be justified by expanded work loads, for developing new programs, or for correcting past deferrals or deficiencies.

Budget Reductions and Limitations - Article III and Article IX of the General Appropriations Act contain several sections requiring budget reductions and budget restrictions which may impact the 1997 Operating Budget. Such reductions should be anticipated in preparing the 1997 Operating Budget. Those riders which may have significant impact are:

Article III, The University of Texas System, Section 4. Appropriations, Governing Board.

Out of the funds appropriated herein, an amount not to exceed \$436,569 in each year of the biennium shall be for all expenses associated with the governing board's duties including, but not limited to: travel, entertainment, lodging, and expenses of state employees who provide services for the governing board.

Article III, Section 34. Proportionality and Optional Retirement Program Contribution Offsets.

Out of the general revenue funds specifically appropriated by those strategies titled "Retirement Contribution Adjustments", The University of Texas System Office is authorized to replace those amounts that are paid by each institution or system office for: (a) Teacher Retirement System (TRS) and Optional Retirement Program (ORP) employer contributions associated with salaries funded by educational and general sources, as required by Section 155, Article IX of this Act, and (b) employer contribution supplements associated with the ORP contribution rate reduction implemented by this Act.

To budget these funds, a "Transfer from System Administration" should be reflected as a General Revenue item in the "Method of Financing" section of the operating budget summary.

Article IX, Section 153. Reduction in Appropriations and Limitation on State Employment.

It is the intent of the Legislature to limit the growth in the level of employment for state agencies and institutions of higher education. The amounts indicated as the "Number of Positions (FTE)" following the agency's items of appropriation in this Act are the target levels for each state agency and institution of higher education. The actual levels of employment shall be monitored by the Legislative Budget Board and the Governor's Office of Budget and Planning. Each state agency and institution of higher education shall report such information upon request.

The Comptroller of Public Accounts is hereby directed to reduce the appropriations made by this Act out of the General Revenue Fund, by an amount equal to 1.26% of the total amount appropriated out of the above identified funding sources, excluding appropriations exempted from the application of this subsection, or \$300,000,000 for the biennium, whichever amount is greater. The Comptroller of Public Accounts shall determine the amounts to be reduced pursuant to this subsection no later than October 1, 1995 and shall inform the Legislative Budget Board and the Governor as to the reduction amounts for each agency. The Comptroller of Public Accounts shall also inform each state agency and institution affected by the reductions no later than October 15, 1995.

It is the intent of the Legislature that at least 50% of the appropriation reductions made pursuant to subsection 2 of this section be applied by the affected agencies toward reductions in salary and personnel expenses.

Article IX, Section 155. Reductions in Appropriations: Higher Education Retirement Programs.

It is the intent of the Legislature that the recommendations developed by the Texas Performance Review (TPR) and described in *Gaining Ground* as recommendation ED 24, Apply the Proportionality Concept to Higher Education's Retirement Programs, be adopted and implemented by the Teacher Retirement System and each affected institution of higher education. In order to achieve an identifiable General Revenue Fund savings of \$120.2 million during the 1996-1997 biennium, the affected institutions of higher education shall pay to the Teacher Retirement System and the Optional Retirement Program, out of funds appropriated elsewhere in this Act and out of local funds, the amounts necessary to provide for the retirement program contribution obligations related to the payment of salaries from funds other than the General Revenue Fund.

1997 Operating Budget Calendar

January 1996	Draft of budget instructions to institutions
February 8, 1996	U. T. Board of Regents approve budget policies
March 18-22, 1996	Budget policy/resource allocation hearings with System Administration
April 22, 1996	Draft copies of budgets, salary rosters and supplemental data (temporary binding) due to System Administration
April 29-May 3, 1996	Technical budget hearings with System Administration
May 13, 1996	Final copies of budgets, salary rosters, and supplemental data due to System Administration
May 23, 1996	Budgets mailed to U. T. Board of Regents
June 1996	U. T. Board of Regents' Committee Briefings and preliminary approval
August 8, 1996	U. T. Board of Regents approve budget
August 19, 1996	Budgets (unbound) due to System Administration for copying and binding

The U. T. System 1997 Budget Preparation Policies track the provisions contained in the General Appropriations Act, H.B. 1 of the 74th Texas Legislature, Regular Session, and are similar to those used in preparing previous budgets.

3. U. T. System: Authorization to Amend the Sick Leave Pool Policy.--In order to comply with Senate Bill 988 passed by the 74th Texas Legislature, which changed the number of days an employee may transfer to a sick leave pool, the Board amended The University of Texas System Sick Leave Pool Policy to read as set forth below:

SICK LEAVE POOL POLICY

1. PURPOSE. Each component institution of the U. T. System and U. T. System Administration shall establish a sick leave pool to provide a source of additional sick leave for those employees who have exhausted accrued annual leave and sick leave because of a catastrophic illness or injury.
2. DEFINITIONS. As used in this Policy:
 - 2.1 "Catastrophic illness or injury" means a severe condition or combination of conditions affecting the mental or physical health of an employee or the employee's immediate family that requires the services of a licensed physician for a prolonged period of time and that requires the employee to exhaust accrued leave and to lose compensation from the State.
 - 2.2 "Employee" means a regular employee of a component institution of the U. T. System or the U. T. System Administration as defined in the General Appropriations Act.
 - 2.3 "Immediate family" means those persons living in the same household with the employee who are either related to the employee by kinship, adoption, or marriage or are certified by the Texas Department of Human Services as foster children of the employee or, if not living in the same household, are totally dependent upon the employee for personal care or services on a continuing basis.
 - 2.4 "Licensed physician" means a person who is licensed to practice in one of the health professions set forth in Article 3.70-2 of the Texas Insurance Code.
 - 2.5 "Pool administrator" means the person appointed to administer the sick leave pool.
 - 2.6 "Sick leave pool" or "pool" means the accumulated sick leave donated by employees for utilization in accordance with this Policy.

3. POOL ADMINISTRATOR. This Policy shall be administered at each component institution by a pool administrator designated by the chief administrative officer and at the U. T. System Administration by a pool administrator designated by the Chancellor of the U. T. System.
 - 3.1 The pool administrator shall adopt forms and regulations appropriate for the administration of this Policy.
 - 3.2 The decision of the pool administrator regarding contributions to and withdrawals from the pool shall be final.
4. SICK LEAVE POOL. The sick leave pool at each component institution and the U. T. System Administration shall consist of the sick leave voluntarily contributed to the pool by employees.
 - 4.1 An employee who desires to contribute sick leave to the pool must submit an application to the pool administrator.
 - 4.2 Contributions to the pool must be in units of eight (8) hours. State employees are permitted to contribute an unlimited number of hours to the sick leave pool. Retiring employees are also permitted to contribute to the sick leave pool.
 - 4.3 Upon approval of an application, the pool administrator shall credit the sick leave pool with the sick leave contributed by an employee and shall direct the human resources office to deduct a corresponding amount from that employee's accrued sick leave.
 - 4.4 Sick leave contributed to the pool may not be designated for the use of a particular person.
 - 4.5 Although contributions are voluntary, employees who leave state employment should be encouraged to contribute to the pool.
5. WITHDRAWAL OF SICK LEAVE FROM THE POOL. Applications to withdraw sick leave from the pool must be submitted on the form prescribed by the pool administrator. An application must be filed with the pool administrator and must be accompanied by a statement from the licensed physician who treated the illness or injury that resulted in the exhaustion of the accrued annual leave and sick leave of the employee making the application. The pool administrator will consider applications in the order in which they are received and will approve or deny an application within ten (10) working days after receipt.
 - 5.1 An employee is eligible to withdraw sick leave from the pool if the pool administrator finds that the employee has exhausted all accrued annual leave and sick leave because of a catastrophic illness or injury or because of a previous donation of sick leave to the pool.

- 5.2 In determining the amount of sick leave to be assigned to an eligible employee from the pool, the pool administrator shall take into consideration the information contained in the employee's application, the number of applications then pending, and the amount of sick leave available in the pool. In no event shall the sick leave allocated to an eligible employee from the pool exceed ninety (90) days or one-third (1/3) of the sick leave pool balance, whichever is less. Upon approval of an employee's application, the pool administrator shall notify the human resources office of the amount of sick leave to be assigned to the employee.
- 5.3 The employee may use sick leave assigned from the pool in the same manner as sick leave accrued pursuant to the General Appropriations Act and shall be treated in the same manner and shall be entitled to accrue the same benefits as an employee who uses such accrued sick leave.
- 5.4 The estate of a deceased employee shall not be entitled to payment for unused sick leave assigned from the pool.

4. U. T. System: Amendment of the Equipment Financing Program for Fiscal Year 1996 and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--The Board, upon recommendation of the Business Affairs and Audit Committee, amended The University of Texas System equipment financing program for Fiscal Year 1996 to include financing for The University of Texas at Dallas in the amount of \$400,000, which will increase the aggregate financing amount from \$38,100,000 to \$38,500,000.

In compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993 (the "Master Resolution"), and upon delivery of the Certificate of an Authorized Representative as set out on Page 13, the Board resolved that:

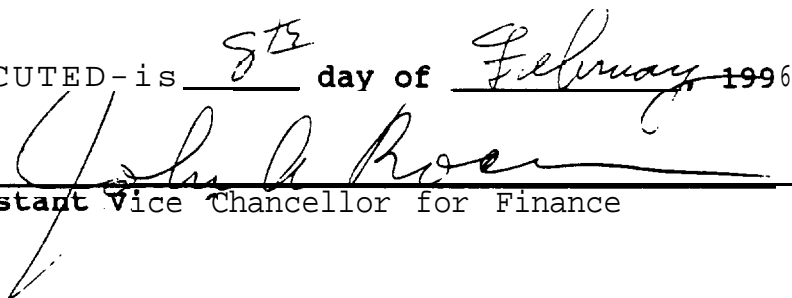
- a. Parity Debt shall be issued to pay the project's cost paid prior to the issuance of such Parity Debt
- b. Sufficient funds will be available to meet the financial obligations of the U. T. System including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System

- c. U. T. Dallas, which is a **"Member"** as such term is used in the Master Resolution, possesses the financial capacity to satisfy its Direct Obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt for the purchase of equipment in the amount of \$400,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System Representative under the 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 (the Waster Resolution"), do hereby execute this certificate for the benefit of the Board of Regents pursuant to Section 5 (a) (ii) of the Master Resolution in connection with the authorization by the Board to issue **"Parity Debt"** pursuant to the Master Resolution to finance equipment cost at U. T. Dallas, and do certify that to the best of my knowledge the Board of Regents is in compliance with all covenants contained in the Master Resolution, First Supplemental Resolution Establishing an Interim Financing Program, Second Supplemental Resolution, Third Supplemental Resolution, and the Fourth Supplemental Resolution, and is not in default of any of the terms, provisions and conditions in said Master Resolution, First Supplemental Resolution, Second Supplemental Resolution, Third Supplemental Resolution, and the Fourth Supplemental Resolution.

EXECUTED-is 5th day of February, 1996


 Assistant Vice Chancellor for Finance

5. U. T. Arlington: Authorization to Establish the One Million Dollar Regents' Centennial Challenge Grant and Allocation of Funds Therefor.--The Business Affairs and Audit Committee recommended and the Board established a One Million Dollar Regents' Centennial Challenge Grant for The University of Texas at Arlington and allocated \$350,000 for that grant from the Fiscal Year 1996 Permanent University Fund (PUF) Bond Proceeds Reserve.

As U. T. Arlington begins its Centennial Year, the faculty and staff seek to make the Honors Program a cornerstone of the University's commitment to excellence and accessibility for undergraduate education. The faculty and staff seek to enhance the Honors Program with facilities improvements, computer equipment, and scholarship support and to increase scholarship support for regular students. Under the One Million Dollar Regents' Centennial Challenge Grant, the University will raise two scholarship dollars for each dollar expended from the challenge grant. The challenge grant proceeds will be used to equip computer labs and classrooms for the Honors Program and to renovate and reconfigure space for the program.

At the August 1995 meeting, the U. T. Board of Regents approved a set-aside of \$3,000,000 from PUF Bond Proceeds to be used as matching funds for proposals to be submitted to the Telecommunications Infrastructure Fund (TIF) program. The TIF program has been delayed, and it now appears that most of this reserve will be carried forward to Fiscal Year 1997. Because the match of private funds and the renovation and equipping of undergraduate computer labs by U. T. Arlington will accomplish many of the same objectives as a match from the TIF program, this reserve can be used as a source of funding for a portion of the challenge grant. The balance of the challenge grant can be funded in Fiscal Year 1997 from this reserve, the regular Fiscal Year 1997 reserve for library, equipment, repair and rehabilitation (Fiscal Year 1997 LERR) or from other sources as may be appropriate at the time.

6. U. T. Health Science Center - San Antonio: Approval to Sell Approximately 316.81 Acres of Land Located in Kerr County, Texas, to Ms. Cynthia Ann Carlton, Austin, Texas, and Authorization for the Executive Vice Chancellor for Business Affairs to Execute Documents Related Thereto.--At the December 1969 meeting, the U. T. Board of Regents authorized The University of Texas Health Science Center at San Antonio to acquire 316.81 acres of land in Kerr County, Texas, by exchange of some other property with the Texas Department of Mental Health and Mental Retardation. Initially used for teaching and research purposes by the Department of Laboratory Animal Resources, the property has not been in use for several years and is considered surplus land.

Upon recommendation of the Business Affairs and Audit Committee, the Board:

- a. Authorized the U. T. Health Science Center - San Antonio to sell approximately 316.81 acres of land in Kerr County, Texas, for \$475,000 to Ms. Cynthia Ann Carlton, Austin, Texas
- b. Authorized the Executive Vice Chancellor for Business Affairs to execute all documents pertaining to this sale.

REPORT AND RECOMMENDATIONS OF THE ACADEMIC AFFAIRS COMMITTEE (Pages 16 - 22).--In the absence of Committee Chairman Lebermann who was excused because of a death in his family, Regent Temple reported that the Academic Affairs Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Academic Affairs Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. Board of Regents - Regents' Rules and Regulations, Part One: Amendments to Chapter III, Section 16 (Leaves of Absence Without Pay).--Upon recommendation of the Academic Affairs and Health Affairs Committees, the Board amended the Regents' Rules and Regulations, Part One, Chapter III, Section 16 regarding leaves of absence without pay to read as set forth below:

Sec. 16. Leaves of Absence Without Pay.

- 16.1 With the interest of the institution being given first consideration and for good cause, leaves of absence without pay may be granted for a period within the term of appointment of a member of any faculty or staff, subject to the general conditions included herein. Leaves of absence for a first year or portion thereof or a second consecutive year's leave may be granted by the chief administrative officer. Leaves of absence for a third consecutive year will be granted only for the reasons outlined in this Subsection, Subsection 16.3, and Subsection 16.4, following review and approval by the appropriate Executive Vice Chancellor.
- 16.2 The maximum period for which a leave of absence will be granted is the end of the fiscal year in which the leave begins. In the case of faculty, the date for return to duty will generally coincide with the beginning of the next semester, following the period of absence.
- 16.3 Except in unusual circumstances, such as military service, reasons of health, continued graduate study, and public service or other activity that reflects credit on the institution and enhances an individual's ability to make subsequent contributions to the institution, a second consecutive year of leave will not be granted.
- 16.4 Except in very unusual circumstances a third consecutive leave of absence for one year will not be granted.
- 16.5 After a return to duty of one year, the leave-of-absence privilege will again be available, subject to the conditions above.

These amendments simplify the process for approval of faculty or staff leaves of absence without pay by removing the requirement for separate U. T. Board of Regents' approval for leaves involving a second or third consecutive year's leave. The leaves will be approved instead by the chief administrative officer with only the third consecutive year's leave requiring review and approval by the appropriate Executive Vice Chancellor. Approved leaves will be documented in the annual operating budgets.

2. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part One, Chapter VI, Section 6 (Use of University-Owned Facilities) and Part Two, Chapter X, Section 9 (Student Union Facilities)(Deferred).--The item related to proposed amendments to the Regents' Rules and Regulations, Part One, Chapter VI, Section 6 regarding use of university-owned facilities and Part Two, Chapter X, Section 9 regarding student union facilities was deferred.

3. U. T. System: Authorization to Amend the Requirement that International Students Maintain Approved Comprehensive Health Insurance or Coverage Effective with the Fall Semester 1996 (Catalog Changes).--At its February 1994 meeting, the U. T. Board of Regents enacted a uniform requirement of comprehensive health insurance or coverage for certain international students enrolled within The University of Texas System. Following further review and experience with the requirement, the Academic Affairs and Health Affairs Committees recommended that the Board amend its February 1994 requirement to exclude certain citizens of a bordering nation (Mexico) if they attend a component institution of the U. T. System located in a county which borders on Mexico (The University of Texas at Brownsville, The University of Texas at El Paso, and The University of Texas - Pan American).

In compliance therewith, the Board amended the policy mandating proof of comprehensive student health insurance or coverage for international students enrolled at U. T. System component institutions as follows:

- a. Required international students holding nonimmigrant visas and living in the United States to maintain approved comprehensive health insurance or coverage while enrolled at U. T. System component institutions, except as provided in item d. below

- b. Authorized each component institution to assess each such international student a health insurance fee (as an incidental fee authorized by Texas Education Code Section 54.504) in the amount of the premium approved for the U. T. System Student Health Insurance Plan for the actual cost of the insurance provided where there is no evidence of continuing coverage under the U. T. System Employee Health Plan or a comparable mandatory employee plan, continuing mandatory coverage through a government sponsored health plan (which

covers health care in the United States and complies with the federal Civil Rights Restoration Act of 1987) or continuing coverage that satisfies the requirements of United States Information Agency (USIA) regulations with regard to J-1 and J-2 visaholders. Further, authorized the assessment of an incidental fee in the amount of the appropriate premium for dependents of J-1 visaholders as required by these federal regulations and required international students to immediately notify the institution should there be a lapse in approved alternative coverage

- c. Encouraged all international students to participate in the U. T. System Student Health Insurance Plan
- d. Excepted from the insurance requirement, students from a bordering nation attending a component institution in a county adjacent to the nation in which the student legally resides
- e. Authorized catalog changes for all component institutions to make this requirement effective with the Fall Semester 1996.

It was ordered that the next appropriate catalogs published at the respective institutions be amended to conform to this action.

- 4. U. T. Pan American: Approval to Establish a Master of Arts Degree in Criminal Justice and to Submit the Degree Program to the Coordinating Board for Approval (Catalog Change).--Upon recommendation of the Academic Affairs Committee, the Board approved the establishment of a Master of Arts degree in Criminal Justice at The University of Texas - Pan American and authorized submission of the proposal to the Texas Higher Education Coordinating Board for review and appropriate action. The master's degree program is consistent with U. T. Pan American's approved Table of Programs and institutional plans for offering quality degree programs to meet student needs.

The Master of Arts degree in Criminal Justice will be administered by the Department of Criminal Justice at U. T. Pan American. All students will take a common core of courses plus designated electives. The program will have three options: a thesis option, which requires thesis submittal to a Thesis Committee; an applied project option, which requires project submittal to an Applied Project Committee; and a non-thesis/project option, which requires the student to take an additional six hours of courses from a list of available criminal justice electives and graduate courses from other disciplines. A final written examination will also be required for all students.

Anticipated date for implementation of the program and admission of students is September 1996 or upon approval by the Coordinating Board.

Currently, four full-time faculty members with terminal degrees are available to teach in the program. One new similarly qualified full-time faculty member is anticipated within the first five years.

Estimated cost for the program, including previous expenditures of \$10,000 for library resources in the three years prior to anticipated program implementation, is \$287,146 for the first five years. State appropriations are expected to contribute \$94,000 in the last three years of the period and South Texas/Border Initiative funding would contribute \$176,146 of the required amount. Higher Education Assistance Fund resources would make up the difference.

Upon approval by the Coordinating Board, the next appropriate catalog published at U. T. Pan American will be amended to reflect this action.

5. U. T. Pan American: Establishment of a Master of Fine Arts Degree with a Major in Art and Authorization to Submit the Degree Program to the Coordinating Board for Approval (Catalog Change).--The Board, upon recommendation of the Academic Affairs Committee, established a Master of Fine Arts degree with a Major in Art at The University of Texas - Pan American and authorized submission of the proposal to the Texas Higher Education Coordinating Board for review and appropriate action. The master's degree program is consistent with U. T. Pan American's approved Table of Programs and institutional plans for offering quality degree programs to meet student needs.

The Master of Fine Arts with a Major in Art degree program is a 60 semester credit hour program administered by a graduate art coordinator in conjunction with a graduate studies committee in the Department of Art at U. T. Pan American. Thirty-three hours of studio courses, including 24 hours of concentration courses and nine hours of minor courses, must be taken. In addition, the student must take twelve hours of art history courses, nine hours of core courses/seminars, and six hours of electives.

The program includes a requirement for field experiences in Mexico. The purpose of these experiences will be twofold: to gain an understanding of the nature of art produced by the Mexican artist and to broaden the student's knowledge within his or her chosen field.

Annual enrollment in the program is expected to be between 12 and 15 students. It is anticipated that the program will be implemented and students admitted in Fall 1996 or upon approval by the Coordinating Board.

Currently, seven full-time faculty members are available to teach in the program. Two new full-time faculty members are anticipated within the first five years.

Estimated cost for the program, including previous expenditures of \$30,000 for library resources and equipment in the three years prior to program implementation, is \$541,958 for the first five years. While state appropriations are expected to contribute \$140,000 in the last three years of the period, South Texas/Border Initiative funding would contribute the majority, \$331,958, of the required amount. Higher Education Assistance Fund resources would make up the balance.

Upon Coordinating Board approval, the next appropriate catalog published at U. T. Pan American will be amended to reflect this action.

6. U. T. Pan American: Approval to Establish a Master of Science Degree in Computer Science and to Submit the Program to the Coordinating Board for Approval (Catalog Change).--The Academic Affairs Committee recommended and the Board approved the establishment of a Master of Science degree in Computer Science at The University of Texas - Pan American and submission of the proposal to the Texas Higher Education Coordinating Board for review and appropriate action. The degree program is consistent with U. T. Pan American's approved Table of Programs and institutional plans for offering quality degree programs to meet student needs.

The Master of Science in Computer Science, which is to be administered by the Department of Computer Science, is a 36 semester credit hour program consisting of 12 core credit hours, 18 elective credit hours and six credit hours of project work. A final examination and a six hour master's project will be required of all students.

An initial enrollment of ten students is expected for Fall 1996 or following Coordinating Board approval with an average class size leveling out at the mid-twenties within five years.

Standard U. T. Pan American Graduate School admission criteria will apply. Because many students are expected to be employed full-time off campus, at least one course per semester will be offered at night, and the use of distance learning techniques, including the Internet and videoconferencing, will be explored. The program complies with the Association for Computing Machinery curriculum guidelines.

The current computing faculty of seven members, with assistance from ten affiliated faculty from other departments, is sufficient to implement the program. However, four graduate teaching assistants and one staff member will need to be added to the department to allow current faculty to shift some teaching effort from the undergraduate program to the new master's program. As library resources for computer science at U. T. Pan American are relatively weak, an annual allocation of approximately \$7,000 for monographs and journals has been included in the budget. Additionally, Unix workstations are needed at a five-year average cost of approximately \$15,000 per year. Most of the anticipated new costs related to the program will be funded by the South Texas/Border Initiative in the first five years. The program is intended to be formula funded after that time.

Upon approval by the Coordinating Board, the next appropriate catalog published at U. T. Pan American will be amended to reflect this action.

7. U. T. Permian Basin: Establishment of a Master of Professional Accountancy Degree Program and Authorization to Submit the Proposal to the Coordinating Board for Approval (Catalog Change).--Approval was given to establish a Master of Professional Accountancy degree program at The University of Texas of the Permian Basin and to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action. The master's degree program is consistent with U. T. Permian Basin's approved Table of Programs and institutional plans for offering quality degree programs to meet student needs.

The Master of Professional Accountancy degree, which is a 36 semester credit hour program administered by the faculty of Accountancy and Information Systems within the School of Business at U. T. Permian Basin, is designed to meet the new 150 semester credit hour curriculum requirement mandated by the Texas State Board of Public Accountancy to be effective for the November 1997 Certified Public Accountant (CPA) examination. The program builds upon and integrates with the existing bachelor's degree program.

It is anticipated that implementation of the program and admission of students will be September 1997 or upon approval by the Coordinating Board.

Seven core accounting courses will be required for the Master of Professional Accountancy, including Advanced Accounting, Information Systems Management, Accounting Theory, Professional Ethics, Advanced Tax, Electronic Data Processing Auditing, and Accounting Research. In addition, students will be required to complete Financial Management: Theory and Techniques; Management Strategy/Policy; and nine hours of graduate business electives. Students who have completed their junior year in the undergraduate program in Accountancy and Information Systems at U. T. Permian Basin with a grade point average (GPA) of 3.0 or better in the last 90 hours of credit may apply for admittance to the Master of Professional Accountancy program. Students who have previously completed a baccalaureate degree may also apply for admission to the Master of Professional Accountancy program. Leveling courses may be required of these students. Admission requirements include taking the Graduate Management Admissions Test (GMAT), with regular status admission requiring a grade point average times 200 plus the GMAT score for a total index of 1120 or higher.

Five full-time faculty will support the program. All are CPAs and three hold the Ph.D. degree. Three of the faculty are currently engaged in a research project sponsored by the Texas Society of Certified Public Accountants.

Additional faculty costs (one new position in year three and another in year five) are anticipated. No new funding will be required for this program for the first two years of implementation. Such funding that may be required in years three through five will come from the reallocation of existing state appropriations.

Upon Coordinating Board approval, the next appropriate catalog published at U. T. Permian Basin will be amended to conform to this action.

REPORT AND RECOMMENDATIONS OF THE HEALTH AFFAIRS COMMITTEE (Pages 23 - 26).--Committee Chairman Loeffler reported that the Health Affairs Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Health Affairs Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. Southwestern Medical Center - Dallas (U. T. Southwestern Medical School - Dallas): Establishment of (a) a Department of Molecular Biology and Oncology and (b) a Department of Plastic Surgery and Authorization to Submit the Proposals to the Coordinating Board for Approval (Catalog Change) Effective September 1, 1996.--Authorization was granted for the U. T. Southwestern Medical School - Dallas at The University of Texas Southwestern Medical Center at Dallas to establish the following two departments and to submit the proposals to the Texas Higher Education Coordinating Board for approval:
 - a. Department of Molecular Biology and Oncology
 - b. Department of Plastic Surgery.

The molecular biology component of the Department of Biochemistry will be separated from that department and combined with the resources of the Center for Basic Research in Cancer to create a new Department of Molecular Biology and Oncology. The new department will make it possible to recruit as its chair an internationally distinguished molecular biologist conducting basic research of direct relevance to cancer biology and will also simplify the task of identifying a distinguished biochemist to chair the Department of Biochemistry.

Eight members of the existing Department of Biochemistry will constitute the faculty of the new Department of Molecular Biology and Oncology. No new funds will be required since all support will be transferred from the Department of Biochemistry.

The Division of Plastic and Reconstructive Surgery has existed within the Department of Surgery at the U. T. Southwestern Medical School - Dallas for more than three decades. Over the last decade, the program has expanded and assumed a major role in providing reconstructive care to trauma and cancer patients at Parkland, Zale Lipshy, and Children's Hospitals. The program incorporates successful and highly competitive postgraduate training and conducts innovative clinical research. The Division of Plastic and Reconstructive Surgery has achieved sufficient national stature to warrant full departmental status.

Twelve faculty positions and corresponding operating funds will be transferred from the Department of Surgery to the new Department of Plastic Surgery. No additional funds will be required.

Upon approval by the Coordinating Board, the reorganization of the Department of Biochemistry and the Department of Surgery will become effective September 1, 1996, and the next appropriate catalog published at the U. T. Southwestern Medical Center - Dallas will be amended to reflect this action.

2. U. T. Health Science Center - San Antonio (U. T. G.S.B.S. - San Antonio): Authorization to Establish a Department of Molecular Biomedical Sciences and to Submit the Proposal to the Coordinating Board for Approval (Catalog Change).--The Board, upon recommendation of the Health Affairs Committee, authorized the U. T. G.S.B.S. - San Antonio at The University of Texas Health Science Center at San Antonio to establish a Department of Molecular Biomedical Sciences and to submit the proposal to the Texas Higher Education Coordinating Board for approval.

The development of this new department by the U. T. Health Science Center - San Antonio is the logical consequence of the creation of the Institute of Biotechnology in July 1991. The Department of Molecular Biomedical Sciences is needed to effectively administer the growth of the Institute of Biotechnology and to promote the planning and implementation of departmental goals. It will provide an identity and an administrative organization for the faculty that will in turn help attract outstanding scholars. The new department will also formalize an academic focus for the faculty and provide students with an administrative and educational structure in which to develop their academic identities in the profession to which they aspire.

The Institute of Biotechnology has a total of \$13.2 million in committed federal and nonfederal grants for the next 3 to 5 years and currently receives an annual state appropriation totaling \$5.5 million. It is anticipated that no additional state funds would be required for the creation of this new department.

Upon Coordinating Board approval, the next appropriate catalog published at the U. T. Health Science Center - San Antonio will be amended to reflect this action.

3. U. T. Health Science Center - San Antonio (U. T. Nursing School - San Antonio): Authorization for Course Offerings at Three Outreach Sites (U. T. Brownsville, Texas A&M International University in Laredo, and Texas A&M University - Corpus Christi) and to Submit the Proposals to the Coordinating Board for Approval (Catalog Change).--Following a brief overview of the nursing programs in South Texas by President Howe and Dr. Patty Hawken, Dean of the U. T. Nursing School - San Antonio, and upon recommendation of the Academic Affairs and Health Affairs Committees, the U. T. Nursing School - San Antonio at The University of Texas Health Science Center at San Antonio was authorized to provide course offerings as described below at three outreach sites and to submit the proposals to the Texas Higher Education Coordinating Board for approval:
- a. Extend the Master of Science in Nursing on the campus of The University of Texas at Brownsville
 - b. Offer the Master of Science in Nursing on the campus of Texas A&M International University in Laredo
 - c. Make the post-Master of Science in Nursing aspects of the Doctor of Philosophy, with a focus in nursing, available on the campus of Texas A&M University - Corpus Christi.

The nursing offerings at the three South Texas outreach sites are a part of the U. T. Health Science Center - San Antonio's planned projects under the South Texas/Border Region Health Professional Education Initiative authorized and funded by the 74th Texas Legislature to be used by the institution to "expand graduate medical education, including family practice resident training programs, and other health professional education in the South Texas/Border Region."

The U. T. Nursing School - San Antonio (under the degree granting authority of the U. T. G.S.B.S. - San Antonio) has been providing courses leading to the Master of Science in Nursing (MSN), with a major in Medical Surgical Nursing, on the campus of U. T. Brownsville since 1990 as part of a five-year plan of program offerings to assist with the development of advanced practice nurses in the Lower Rio Grande Valley. To date there have been twenty Master of Science in Nursing graduates. The program, which was scheduled to conclude with the Summer of 1995, will extend the offerings for three years, beginning with Fall 1996, and will offer a major in Acute Nursing Care of the Adult for two complete cycles of the MSN courses. The courses will be provided on the campus of U. T. Brownsville through a combination of interactive television and courses taught on the campus. It is expected that approximately twenty students will enroll.

The Master of Science in Nursing, with a major in Acute Nursing Care of the Adult, will be offered on the campus of Texas A&M International University in Laredo. This program will allow for two complete cycles of the Master of Science in Nursing courses, and the courses will be provided through a combination of courses taught via interactive television and courses taught on site. It is expected that approximately twenty students will enroll.

In addition, the U. T. Nursing School - San Antonio will provide access to the post-Master aspects of the Doctor of Philosophy in Nursing on the campus of Texas A&M University - Corpus Christi. Six courses will be taught via interactive television and on site in Corpus Christi. One additional course will require that students attend summer classes in San Antonio. This will be a limited plan, Fall 1996 - Spring 1999 for the specific course offerings, with the remaining aspects of the program (dissertation, etc.) conducted through the U. T. Health Science Center - San Antonio, with responsibility continuing until each matriculating student has completed the requirements. It is expected that approximately thirteen students will be admitted, with enrollment limited to Fall 1996 and Fall 1997.

Costs for the program in Brownsville are projected at \$119,507 for FY 1996 and \$200,000 for FY 1997. The programs in Laredo are projected to cost \$109,100 for FY 1996 and \$241,138 for FY 1997. In Corpus Christi, the costs for the program are projected at \$142,563 for FY 1996 and \$400,000 for FY 1997. Funding will be provided through the 74th Texas Legislature appropriation to the U. T. Health Science Center - San Antonio for the South Texas/Border Region Health Professional Education Initiative. It is expected that continuation funding will be provided at least through FY 1998 and FY 1999, since the initial funding is to conduct academic programs which would take longer than two years to make a reasonable regional impact.

Upon approval by the Coordinating Board, the next appropriate catalog published at the U. T. Health Science Center - San Antonio will be amended to reflect this action.

REPORT AND RECOMMENDATIONS OF THE FACILITIES PLANNING AND CONSTRUCTION COMMITTEE (Pages 27 - 40).--Committee Chairman Temple reported that the Facilities Planning and Construction Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, all actions set forth in the Minute Orders which follow were recommended by the Facilities Planning and Construction Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. Arlington: Authorization to Amend the U. T. System FY 1996-2001 Capital Improvement Program to Delete Bauder College Renovation and Environmental Center Renovation and to Add Student Services/Registration Building.--The Facilities Planning and Construction Committee recommended and the Board:
 - a. Amended The University of Texas System FY 1996-2001 Capital Improvement Program (CIP) to delete the following projects at The University of Texas at Arlington: Bauder College Renovation on CIP Page D.7 and Environmental Center Renovation on CIP Page D.9
 - b. Amended the CIP to add a U. T. Arlington Student Services/Registration Building at an estimated total project cost of \$14,775,000 to be funded by \$2,857,000 from Permanent University Fund (PUF) Bonds - Special Program reallocated from the two deleted projects and \$11,918,000 from General Use Fee - Special Program.

Based on an architectural/engineering study, U. T. Arlington determined that additional investment of funds in the Bauder College Building, as well as the facility initially identified as the Environmental Center, could not be justified and the institution will demolish both buildings. Cost of demolition for both facilities is expected to be less than \$150,000 and will be funded from Unexpended Plant Funds. The \$2,857,000 in Permanent University Fund Bonds - Special Program, previously allocated to these projects, will be reallocated to the new Student Services/Registration Building.

The new Student Services/Registration Building will provide approximately 100,000 gross square feet of space for outreach, student recruitment, admissions, registration, and a variety of other student services.

2. U. T. Arlington: Appropriation from Revenue Financing System Bond Proceeds for the Campus Information Technology Upgrade Project and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--Upon recommendation of the Facilities Planning and Construction Committee, the Board appropriated \$3,000,000 from Revenue Financing System Bond Proceeds for the Campus Information Technology Upgrade project at The University of Texas at Arlington.

In compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, approved by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and upon delivery of the Certificate of an Authorized Representative as set out on Page 29, the Board resolved that:

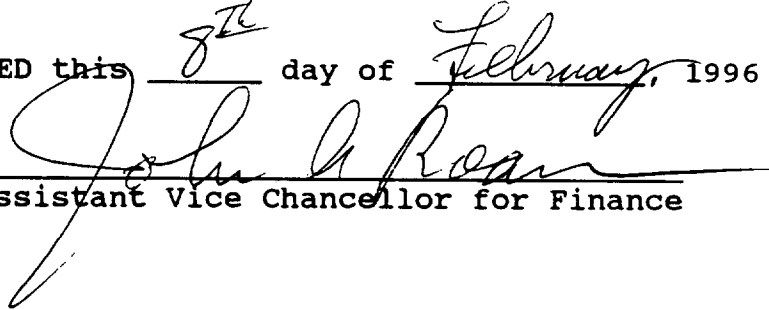
- a. Parity Debt shall be issued to pay the project's cost including any related project costs paid prior to the issuance of such Parity Debt
- b. Sufficient funds will be available to meet the financial obligations of the U. T. System including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System
- c. U. T. Arlington, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its Direct Obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the amount of \$3,000,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

This project will provide for expansion of the existing computer network and involves upgrades to existing network connections, additional fiber optic cable, and the necessary hardware and software to connect buildings not currently on the network.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System Representative under the 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 (the. "Master Resolution"), do hereby execute this certificate for the benefit of the Board of Regents pursuant to Section 5 (a) (ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" pursuant to the Master Resolution to finance the Campus Information Technology Upgrade project at U. T. Arlington, and do certify that to the best of my knowledge the Board of Regents is in compliance with all covenants contained in the Master Resolution, First Supplemental Resolution Establishing an Interim Financing Program, Second Supplemental Resolution, Third Supplemental Resolution and Fourth Supplemental Resolution, and is not in default of any of the terms, provisions and conditions in said Master Resolution, First Supplemental Resolution, Second Supplemental Resolution, Third Supplemental and Fourth Supplemental Resolution as amended.

EXECUTED this 8th day of February, 1996


Assistant Vice Chancellor for Finance

3. U. T. Austin: Acceptance of Campus Master Plan and Approval in Principle of the Seven Fundamental Goals of the Plan.--Committee Chairman Temple noted that in October 1994, the U. T. Board of Regents appointed Cesar Pelli & Associates, Inc., New Haven, Connecticut, to prepare a Campus Master Plan for The University of Texas at Austin. The firm and a committee of faculty, students, staff, and administrators have worked for the past 18 months with all the relevant campus and community groups to prepare the plan. The planning guidelines for this study were that the campus would continue to serve a population and program selection that are similar to current demands and that there were several aspects of the campus that were very successful and should be emphasized, in particular the human scale aesthetic that characterized the original 40 acres that was established by Paul Cret and Cass Gilbert earlier in this century.

Committee Chairman Temple reported that the proposed recommendations related to the Campus Master Plan for U. T. Austin were before the Board on yellow paper and called on President Berdahl to brief the Board on the current status of that planning effort.

President Berdahl prefaced his presentation of the Campus Master Plan with a quotation from a recently published book called A Sense of Place, A Sense of Time by John Brinckerhoff Jackson which, he believed, speaks directly to the question why so many people have a lifelong relationship with U. T. Austin and why it is such a special place in so many hearts.

With the aid of slides and assisted by Dr. Austin Gleeson, Chair of the Campus Master Plan Committee, and Mr. John Rishling, Director of Campus Planning, President Berdahl presented a detailed overview of the Campus Master Plan for U. T. Austin to the Facilities Planning and Construction Committee. An excerpt from President Berdahl's remarks regarding the Campus Master Plan is set out below:

Remarks by President Berdahl

Linking people to a place through a shared sense of commitment is what building a community is all about. This new master plan for our campus, the first in more than 60 years, is a thorough, probing, thoughtful, and bold expression of renewed commitment to the future of our community.

For the past three years, we have been working to build a greater sense of community on campus and among all constituents of The University. Why? Because in many ways the pressures of the modern world detract from the strength, cohesion, and life-sustaining qualities in communities as they used to be, and as people knew and cherished them.

In that light I believe we should think seriously about how The University can help reestablish the sinews of community among our students, faculty, staff, parents, alumni, and other supporters. There are clear opportunities for The University to build a sense of community as we grow, by creating an environment conducive to the finest ideals of academic life.

Universities are very special places, where individual expression and the freshest efforts to unveil new truth can peacefully coexist with deeply regularized patterns of life, work, and play, bound by old and honored traditions and rituals.

Campus planning holds the promise of adding immeasurably to the sense of friendliness, comfort, sociability, and community all of us feel at U. T. Austin. The University's original 40 acres have long been considered the finest part of the campus, gaining beauty, warmth and richness from the original master plans done by Cass Gilbert and Paul Cret just after the turn of the century. We are challenged today to ensure that those exquisite qualities are embodied throughout The University in years ahead as the campus develops, through careful attention to the many elements that shape its physical environment: traffic patterns, parking, landscaping, the style of architecture, the kind of building materials used, the location of new buildings, their relation to open spaces, the size of the residential student population, and more.

This new master plan for The University of Texas at Austin is neither a blueprint nor a template dictating the future; it simply provides a clear set of goals, a set of aesthetic considerations, a comprehensive, intelligent, reasoned, studied, open-ended plan in which the renewal of a commitment to build a strong community is the overarching theme.

The new master plan embodies seven major principles that are interwoven through all of its proposals:

1. To return the core campus to the pedestrian; to provide new opportunities for the use of outdoor space such as the pedestrian mall along Speedway; and to keep vehicular traffic at the edges of the campus and provide new organization to the buses that bring students, faculty and staff to campus
2. To use the rules of the architectural language of Cass Gilbert and Paul Cret's original works, such as the Battle Hall and Sutton Hall, as the basis for new structures; to use the elements that give a human scale to our buildings such as these windows and this ironwork

3. To establish a community of landscaped open spaces, working in concert with buildings, to extend and reknit the campus such as the north mall, that terminates in a new north tower plaza; to articulate an east mall that connects the newer elements of campus; to provide new uses for our open spaces such as the Forty Acres Fest on Speedway
4. To add substantially to on-campus housing thus creating a complete academic community; using this housing to make Waller Creek the amenity that it could be; or to provide new gateways
5. The original Paul Cret Union has served us well. To serve all of our students we will need more unions such as this concept for a Union North; and to support our increased student housing, establish new centers of student activity, reinforcing the housing and academic uses to enhance a full campus life such as this Union with housing on Clark Field
6. To concentrate future construction in the core campus instead of on its fringes; building modern construction at the density of the Paul Cret plan allows us to add 4.8 million square feet of academic buildings without new land acquisition beyond the current program
7. To enhance public perceptions and welcoming through strengthened identity and way-finding programs.

This master plan, including hundreds of drawings and planning documents, as well as several volumes of text, represents the work of literally hundreds of people over the course of the past two years. It represents the work of the finest, most creative, brilliant, and constructive thinkers, planners, architects, and members of our community we could bring together. This work reflects an enormous sense of pride in The University, pride in what the institution has always been and what it might become as an even greater community in the future. It reflects the profound sense of spirit we all share; it shows an energetic search for positive change without abandoning heritage and traditions we cherish. It is about the things that bring us together. Our hope is that this work will be lasting, that it will be used to inform future decisions, and that it will serve future generations well.

Based on this presentation and upon recommendation of the Facilities Planning and Construction Committee, the Board:

- a. Formally accepted the Campus Master Plan for U. T. Austin which was prepared by the firm of Cesar Pelli & Associates, Inc., New Haven, Connecticut, working in conjunction with a committee of faculty, students, staff, and administrators to serve as a guide and framework for future development of the campus. The plan incorporates many drawings, both historical and contemporary, and will be presented in a three volume planning series: Volume 1, *The Campus Master Plan*; Volume 2, *The Architectural Guidelines*; and Volume 3, *The Strategic Use of the Plan*.

Volume 1, *The Campus Master Plan*, provides an overview of the plan including recommendations for creating a pedestrian central campus, actions that will return the campus to the Paul Cret Master Plan ideals, establish a community of open spaces, adding on-campus student housing and associated student activity centers, and articulating approximately 4.8 million square feet of new building in-fill opportunities.

Volume 2, *The Architectural Guidelines*, will serve the needs of future project architects. It specifically describes architectural practices to guide future major building and landscape projects and details the opportunities for new building in-fill on the campus.

Volume 3, *The Strategic Use of the Plan*, proposes for future consideration an implementation schedule for some projected activities and procedures for the management of the plan such as architect selection and future studies that may be required.

- b. Concurred in principle with the seven fundamental goals of the plan which were derived from ten issues presented in the Request for Qualifications (RFQ) soliciting a firm to prepare the master plan. These goals are enumerated below:

- To return the core campus to the pedestrian
- To use the rules of the architectural language found in Paul Cret's original plan and buildings for the design of new campus buildings

- To establish a community of landscaped spaces which together with buildings will extend and reknit the campus
- To substantially increase on-campus housing to build and reinforce a sense of academic community
- To establish new centers of student activity to further establish a full and active life on campus
- To concentrate future construction on the core campus rather than at its perimeter
- To strengthen the identity of the campus through orientation and wayfinding programs.

Specific recommendations for plan implementation and management contained in the final plan will be further reviewed and refined by U. T. Austin and The University of Texas System administration staffs. Any changes to established Board rules, policies, or operating procedures will be addressed through existing approval processes.

The final master plan will be maintained on campus and will be available to the U. T. Board of Regents, the campus, and subsequent project architects as a guide for future campus development.

4. U. T. Austin: Amendment of U. T. System FY 1996-2001 Capital Improvement Program to (a) Replace Project Titled Memorial Stadium Renovations with a Project Titled Memorial Stadium - Replacement of Artificial Turf; (b) Add a Project for Renovation of West Side of Memorial Stadium; (c) Add a Project for Installation of Artificial Turf Practice Field; (d) Add a Project for Renovation and Expansion of Neuhaus/Royal Athletic Center; (e) Add a Project for Construction of Combined Track/Soccer Stadium; (f) Add a Project to Renovate East Side of Memorial Stadium; and (g) Add a Project to Lower Existing Football Field.--Committee Chairman Temple reported that the proposed recommendations regarding the expansion and renovation of Memorial Stadium and related athletic facilities at The University of Texas at Austin were before the Board on yellow paper and were, in effect, a part of and coordinated with the master planning process considered on Page 30.

Following a brief overview by President Berdahl, the Board, upon recommendation of the Facilities Planning and Construction Committee, amended The University of Texas System FY 1996-2001 Capital Improvement Program for projects at U. T. Austin as follows:

- a. Replaced the project titled Memorial Stadium Renovations with a project titled Memorial Stadium - Replacement Artificial Turf consisting of the removal of the existing artificial turf and construction of a natural grass playing field at an estimated preliminary cost of \$1,250,000 to be funded from Auxiliary Enterprise Balances. The turf replacement project has already been authorized by the U. T. Board of Regents via Executive Committee Letter and approved by the Texas Higher Education Coordinating Board. This action will change the Capital Improvement Program to accurately represent project status.
- b. Added a project for the renovation of the West side of Memorial Stadium and construction of sky boxes at an estimated preliminary cost of \$14,000,000 to be funded from Revenue Financing System Bond Proceeds
- c. Added a project for the installation of an artificial turf practice field, using artificial turf removed from Memorial Stadium, and lighting for both the grass and artificial turf practice fields and women's soccer field at an estimated preliminary project cost of \$1,200,000 to be funded by Gifts and Grants
- d. Added a project for the renovation and expansion of the Neuhaus/Royal Athletic Center at an estimated preliminary cost of \$8,000,000 to be funded by Gifts and Grants
- e. Added a project for the construction of a combined track/soccer stadium to be constructed on top of a parking garage with a capacity of up to 1,000 vehicles at an estimated preliminary cost of \$12,400,000 for both the garage and stadium to be funded by \$5,400,000 from Gifts and Grants and \$7,000,000 from Revenue Financing System Bond Proceeds
- f. Added a project to renovate the East side of Memorial Stadium, construct an upper deck of approximately 6,000 seats, a press box, and sky boxes, as well as renovate the West side press box into sky boxes at an estimated preliminary cost of \$32,000,000 to be funded from Revenue Financing System Bond Proceeds

- g. Added a project to lower the existing football field and add approximately 1,570 seats at a preliminary estimated cost of \$2,500,000 to be funded by \$2,000,000 of Revenue Financing System Bond Proceeds and \$500,000 from Auxiliary Enterprise Balances.

In September 1995, a decision was made by the administration to develop a comprehensive yet flexible master plan for Memorial Stadium and the associated facilities that support football and the other sports and activities that use the Stadium. This decision was based on the fact that Memorial Stadium, which was constructed in 1924, was in need of substantial renovation and modification to support the level of athletic activity in place and planned at U. T. Austin.

Heery International, Inc., Atlanta, Georgia, was selected to prepare a comprehensive master plan for Memorial Stadium and was specifically asked to address the following areas:

1. Existing stadium - rest room upgrades, ADA requirements, and structural repairs
2. Expansion of Neuhaus/Royal Athletic Center, which supports the operation of the football team, strength training, and sports medicine needs for all men's and women's athletics
3. Possible lowering of the field and replacement of turf
4. Extension of the seating toward the field
5. Relocation of the track to another site
6. Construction of a multistory building (for improved athletic offices, academic facilities, and historic collections) that incorporates end zone seating in the North end
7. Construction of sky boxes and a new press box
8. Future expansion of seating
9. Installation of state-of-the-art scoreboard and graphics
10. Upgrade of all utilities and infrastructure.

These projects were presented to the U. T. Board of Regents in advance of the conclusion of the Memorial Stadium Master Plan so that the schedule for completion of near-term and intermediate projects emerging from this planning process could be advanced in concert with the Campus Master Plan. The U. T. Board of Regents will

be presented with the completed Memorial Stadium Master Plan, which will describe all the proposed projects and scheduling, in Spring 1996. The projects described above permit substantial renovation activity to be accomplished prior to the 1997 and 1998 football seasons and allows the institution to begin fund raising efforts in support of these various projects.

These projects will be funded from Auxiliary Enterprise Balances accumulated from athletic department revenues, proceeds from fund raising initiatives, and revenue bonds. Revenue bond debt service will be paid from a variety of sources generated in Memorial Stadium, including ticket revenue from expanded seating, revenue from sky boxes, and a surcharge on athletic tickets. In addition, expanded revenues from other athletic department sports activities and parking garage revenues will be used. A detailed analysis of the financing of each Revenue Bond Funded project will be presented to the U. T. Board of Regents upon submission of preliminary plans.

Inclusion of these projects in the Capital Improvement Program will permit the appointment of appropriate architects and engineers and the expenditure of up to 3% of the total project cost advanced from Auxiliary Enterprise Balances for preliminary planning. Individual projects will be presented to the U. T. Board of Regents at a future date based on their appropriate sequencing, achievement of fund raising requirements, and completion of preliminary plans.

5. U. T. Tyler: Authorization to Purchase 1.7 Acres of Land and Improvements Located at 3410 Varsity Drive, Tyler, Smith County, Texas (University Place Retail Center); Submission of the Purchase to the Coordinating Board; Authorization to Complete the Shelled Space and Renovate a Portion of the Project; Appropriation Therefor; Authorization for the Executive Vice Chancellor for Business Affairs to Execute Documents Related to This Transaction; Authorization to Amend the U. T. System FY 1996-2001 Capital Improvement Program (CIP); and Approval for Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--The Facilities Planning and Construction Committee recommended and the Board:
 - a. Authorized The University of Texas at Tyler to purchase 1.7 acres of land and improvements located at 3410 Varsity Drive, Tyler, Smith County, Texas, known as the University Place Retail Center, for \$300,000 plus related closing costs
 - b. Authorized U. T. Tyler to submit the transaction to the Texas Higher Education Coordinating Board for approval
 - c. Authorized U. T. Tyler to complete the shelled space and renovate approximately 7,000 assignable square feet of the project

- d. Appropriated \$300,000 from General Use Fee Balances and \$580,000 from Revenue Financing System Bond Proceeds to fund the total project cost of \$880,000
- e. Authorized the Executive Vice Chancellor for Business Affairs, or his designee, to execute all documents pertaining to the transaction following approval by the Office of General Counsel
- f. Authorized an addition to The University of Texas System FY 1996-2001 Capital Improvement Program (CIP) for this project.

In compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and upon delivery of the Certificate of an Authorized Representative as set out on Page 39, the Board resolved that:

- a. Parity Debt shall be issued to pay the project's cost including any project costs paid prior to the issuance of such Parity Debt
- b. 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 Board relating to the Financing System
- c. U. T. Tyler, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its Direct Obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the amount of \$580,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

The University of Texas at Tyler Educational Foundation, Inc. purchased the University Place Retail Center and executed a Master Lease agreement with the U. T. Board of Regents including an option for the U. T. Board of Regents to purchase the property at any time during the first 36 months of the lease for the full \$300,000 purchase price plus closing costs.

The property includes 74,008 square feet of land, a building containing 17,500 assignable square feet, of which approximately one-half is shelled space without flooring, and a paved parking area which will accommodate at least 91 vehicles. Funds for acquisition are from General Use Fee Balances.

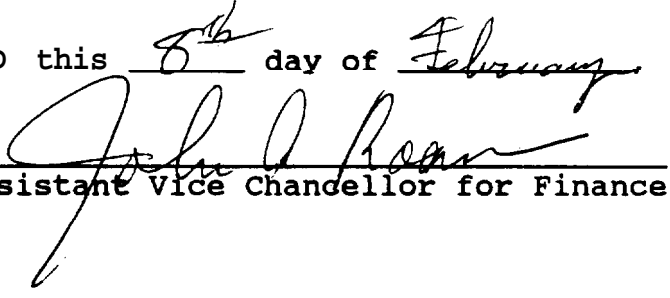
U. T. Tyler will complete the shelled space and renovate approximately 7,000 assignable square feet of the remaining space to support the engineering development program authorized by special item legislation. Cost for this phase of the project is estimated at \$580,000 to be provided from Revenue Financing System Bond Proceeds.

Approval of this item amends The University of Texas System FY 1996-2001 Capital Improvement Program to include a project for the purchase and renovation of University Place Retail Center.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System Representative under the 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 (the "Master Resolution"), do hereby execute this certificate for the benefit of the Board of Regents pursuant to Section 5 (a) (ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" pursuant to the Master Resolution to finance the University Place Retail Center at U. T. Tyler, and do certify that to the best of my knowledge the Board of Regents is in compliance with all covenants contained in the Master Resolution, First Supplemental Resolution Establishing an Interim Financing Program, Second Supplemental Resolution, Third Supplemental Resolution and Fourth Supplemental Resolution, and is not in default of any of the terms, provisions and conditions in said Master Resolution, First Supplemental Resolution, Second Supplemental Resolution, Third Supplemental and Fourth Supplemental Resolution as amended.

EXECUTED this 8th day of February, 1996


Assistant Vice Chancellor for Finance

* * * * *

At the conclusion of the Facilities Planning and Construction Committee meeting, Committee Chairman Temple reported that at today's (February 8) meeting the Board had approved a recommendation from the Executive Committee to award five (5) general construction contracts which included a 45.8% participation by Historically Underutilized Businesses, 38.6% by women-owned firms and 7.2% by minority-owned firms. In addition, six (6) architect/engineer contracts have been awarded since the last meeting and these indicate a 95.6% participation by Historically Underutilized Businesses, 0.4% by women-owned firms and 95.2% by minority-owned firms.

REPORT AND RECOMMENDATIONS OF THE ASSET MANAGEMENT COMMITTEE (Pages 40 - 156).--In the absence of Committee Chairman Hicks who was excused because of a previous commitment, Regent Evans reported that the Asset Management Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, all actions set forth in the Minute Orders which follow were recommended by the Asset Management Committee and approved in open session and without objection by the U. T. Board of Regents.

I. PERMANENT UNIVERSITY FUND

Summary Investment Report at November 30, 1995 --Regent Evans reviewed the Report on Permanent University Fund Investments and Income at November 30, 1995, as prepared by the Office of Asset Management and as set forth below:

PERMANENT UNIVERSITY FUND¹
SUMMARY REPORT
(\$ millions)

	<u>FY94-95</u>	<u>FY95-96</u>
	<u>Full Year</u>	<u>1st Qtr</u>
Beginning Market Value	4,428.0	4,958.5
PUF Lands Receipts ²	57.1	16.4
Investment Income	249.5	64.6
Investment Income Distributed	(249.5)	(64.6)
Realized Gains (Losses)	105.5	46.3
Change in Unrealized Gains (Losses)	<u>367.9</u>	<u>132.5</u>
Ending Market Value	4,958.5	5,153.7
 AUF Income		
Investment Income	249.5	64.6
Surface Income	3.6	.3
Other Income	<u>0.3</u>	<u>.1</u>
Total	253.4	65.0

¹**Excludes** PUF Lands mineral and surface interests with estimated values of \$328.6 million and \$157.8 million, respectively.

²**As** of November 30, 1995: 801,113 acres under lease, 522,661 producing acres, 2,656 active leases and 2,062 producing leases.

II. LONG TERM FUND

Summary Investment Report at November 30, 1995.--Regent Evans reviewed the Report on Long Term Fund Investments and Income at November 30, 1995, as prepared by the Office of Asset Management and as set forth below:

LONG TERM FUND
SUMMARY REPORT
(\$ millions)

	<u>FY94-95</u>	<u>FY95-96</u>
	Full Year	1st Otr
Beginning Net Assets	1,226.3	1,558.8
Contributions	202.3	19.6
Investment Return	201.5	69.7
Expenses	(2.8)	(0.7)
Distributions	(68.5)	(18.9)
Ending Net Assets	<u>1,558.8</u>	<u>1,628.5</u>
Net Asset Value per Unit	3.661	3.778
No. of Units (End of Period)	425,751,253	431,062,475
Distribution Rate per Unit	0.175	0.04375

III. GIFTS, TRUSTS AND ESTATES

1. U. T. System: Summary of Gift Acceptance and Related Administrative Actions Conforming to Board Policy for September 1, 1995 Through November 30, 1995. --Regent Evans reviewed the Summary of Gift Acceptance and Related Administrative Actions Conforming to Board Policy for The University of Texas System for the period September 1, 1995 through November 30, 1995, as prepared by the Office of Development and External Relations and as set forth below:

ACCEPTANCE OF GIFTS HELD BY BOARD

# ALL ITEMS	COMPONENT INSTITUTION	ASSET TYPES						MATCHING FUNDS	TOTAL VALUE
		CASH	SECURITIES	REAL ESTATE	PLEDGES	OTHER	TRANSFERS		
35	U. T. Austin	\$1,156,327	\$ 29,558	---	\$850,715	---	\$ 25,000	\$152,634 *	\$2,061,600
2	U. T. Dallas	550,000	---	---	50,000	---	---	---	600,000
2	U. T. El Paso	115,328	---	---	---	---	---	---	115,328
1	U. T. Permian Basin	10,000	---	---	---	---	---	---	10,000
4	U. T. Tyler	47,500	26,046	---	12,500	---	---	---	86,046
9	U. T. SWMC-Dallas	435,250	314,062	---	---	---	839	650,000 *	750,151
8	U. T. M.B.-Galveston	2,002,000	---	---	8,000	---	1,140,000	---	3,150,000
4	UTHSC-Houston	193,856	---	---	70,243	---	21,012	---	285,111
<u>1</u>	<u>UTHSC-San Antonio</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
66	TOTAL	\$4,510,261	\$369,666	---	\$991,458	---	\$1,186,851	\$802,634 *	\$7,058,236

* Matching funds already held by Board not included in total.

Report includes items through October 5, 1995, that were previously reported to Board on November 9, 1995.

CLASSIFICATION OF GIFTS AND OTHER ACTIONS

<u>COMPONENT INSTITUTION</u>	<u>ENDOWMENTS</u>	<u>CHARITABLE REMAINDER TRUSTS</u>	<u>POOLED INCOME FUND</u>	<u>REMAINDER INTERESTS</u>	<u>HELD IN TRUST BY OTHERS</u>	<u>CURRENT PURPOSE</u>	<u>OTHER</u>
U. T. Austin	33	---	---	---	4	---	---
U. T. Dallas	2	---	---	---	---	---	---
U. T. El Paso	2	---	---	---	---	---	---
U. T. Permian Basin	1	---	---	---	---	---	---
U. T. Tyler	4	---	---	---	---	---	---
U. T. SWMC-Dallas	a	---	---	---	1	---	---
U. T. M.B.-Galveston	a	---	---	---	---	---	---
UTHSC-Houston	4	---	---	---	---	---	---
UTHSC-San Antonio	1	---	---	---	---	---	---
TOTAL	63	---	---	---	5	---	---

PURPOSES OF GIFTS HELD BY BOARD AND OTHERS

ENDOWMENT

<u>COMPONENT</u>	<u>INSTITUTION</u>	<u>DIST.</u> <u>CHAIR</u>	<u>CHAIR</u>	<u>DIST.</u> <u>PROF'SHIP</u>	<u>PROF'SHIP</u>	<u>FACULTY</u> <u>FELL'SHIP</u>	<u>GRADUATE</u> <u>FELL'SHIP</u>	<u>SCHOLARSHIP</u>	<u>OTHER</u>	<u>CURRENT</u> <u>PURPOSE</u>	<u>OTHER</u> <u>PURPOSE</u>
U. T. Austin		---	---	---	---	1	1	17	1	---	2
U. T. Dallas		---	---	---	1	---	---	1	---	---	---
U. T. El Paso		---	---	---	1	---	---	1	---	---	---
U. T. Permian Basin		---	---	---	---	---	---	1	---	---	---
U. T. Tyler		---	---	---	---	---	---	4	---	---	---
U. T. SWMC-Dallas		1	---	1	4	---	---	---	---	---	---
U. T. M.B.-Galveston		5	---	1	---	---	---	---	1	---	---
UTHSC-Houston		---	---	1	---	---	---	2	---	---	---
UTHSC-San Antonio		---	---	1	---	---	---	---	---	---	---
	TOTAL	6	---	4	6	1	1	26	2	---	2

Total purposes may not equal total number of items for each component, due to the fact that some items pertain to multiple purposes.

OTHER ADMINISTRATIVE ACTIONS

<u>COMPONENT INSTITUTION</u>	<u>ESTABLISH ENDOWMENT</u>	<u>REDESIGNATE ENDOWMENT LEVEL</u>	<u>OTHER REDESIGNATION</u>	<u>DISSOLVE ENDOWMENT</u>	<u>APPROVE/ALLOCATE MATCHING</u>	<u>ACCEPT TRUSTEESHIP</u>	<u>OTHER</u>
U. T. Austin	19	---	13	---	1	---	1
U. T. Dallas	2	---	---	---	---	---	---
U. T. El Paso	2	---	---	---	---	---	---
U. T. Permian Basin	1	---	---	---	---	---	---
U. T. Tyler	4	---	---	---	---	---	---
U. T. SWMC-Dallas	6	---	---	3	5	---	---
U. T. M.B.-Galveston	2	5	1	---	2	---	---
UTHSC-Houston	3	1	---	---	1	---	---
UTHSC-San Antonio	---	1	---	---	---	---	---
TOTAL	39	7	14	3	9	---	1

COMPARATIVE SUMMARY OF GIFTS ACCEPTED VIA THE OFFICIAL ADMINISTRATIVE PROCESS

FISCAL YEAR 1996

<u>COMPONENT INSTITUTION</u>	<u>FY 1995 FULL YEAR</u>	<u>9/1/95 to 11/30/95</u>
U. T. Arlington	\$ 476,474	---
U. T. Austin	11,154,914	\$ 2,061,600
U. T. Brownsville	220,000	---
U. T. Dallas	10,578	600,000
U. T. El Paso	854,886	115,328
U. T. Pan American	524,267	---
U. T. Permian Basin	567,500	10,000
U. T. San Antonio	150,300	---
U. T. Tyler	365,000	86,046
U. T. SWMC-Dallas	4,999,190	750,151
U. T. M.B.-Galveston	3,795,794	3,150,000
UTHSC-Houston	1,068,967	285,111
UTHSC-San Antonio	273,834	---
UTMDACC	1,230,048	---
U. T. HC-Tyler	<u>748,608</u>	<u>---</u>
TOTAL	\$ 26,440,360	\$ 7,058,236

2. U. T. Austin: Acceptance of Bequest from the Estate of Hazel H. Ransom, Austin, Texas, to Establish the Harry Hunt Ransom Chair and Establishment and Designation of Use of the Harry Hunt Ransom General Endowment Fund for the Harry Ransom Humanities Research Center.--Upon recommendation of the Asset Management Committee, the Board accepted a residuary bequest of approximately \$1,560,000 from the Estate of Hazel H. Ransom, Austin, Texas, for the benefit of The University of Texas at Austin

Of the bequest, \$500,000 will be used to establish the Harry Hunt Ransom Chair. Distributions from the endowment will be used to support the Chair in accordance with the terms of Mrs. Ransom's Will. The remainder of the bequest in the amount of approximately \$1,060,000 will be used to establish the Harry Hunt Ransom General Endowment Fund for general support of operations and collection development within the Harry Ransom Humanities Research Center.

IV. OTHER MATTERS

U. T. Board of Regents: Adoption of Resolution Approving Investment Management Services Agreement with The University of Texas Investment Management Company (UTIMCO), Approval of Certain Terms Precedent to the Execution of the Agreement, Approval of Related Amendments to the Regents' Rules and Regulations, Parts One and Two, and Authorization for the Chairman of the Board of Regents and the Chancellor to Carry Out the Transactions Contemplated by the Resolution.--The Board, upon recommendation of the Asset Management Committee, adopted the following resolution:

BE IT RESOLVED, That the Board is authorized and empowered to enter into an Investment Management Services Agreement (the "Agreement") with The University of Texas Investment Management Company ("UTIMCO") substantially in the form attached hereto as Attachment A with supporting Exhibits A - K and the Chairman of the Board is hereby authorized and directed, for and on behalf of the Board, to sign the Agreement, with such negotiated revisions, amendments and modifications as he determines to be in the best interests of the Board, such determination to be conclusively evidenced by his execution of the Agreement, and the Executive Secretary to the Board is hereby authorized and directed, for and on behalf of the Board, to attest and seal the Agreement;

FURTHER RESOLVED, That the Board hereby expressly approves the UTIMCO investment policies with related revisions to current Board policies as attached to the Agreement as Exhibits A through E;

FURTHER RESOLVED, That the Board hereby approves the articles of incorporation and bylaws of UTIMCO attached to the Agreement as Exhibits H and I, respectively;

FURTHER RESOLVED, That the Board hereby approves the UTIMCO Code of Ethics attached to the Agreement as Exhibit K; (See Exhibit J: members of the Audit and Ethics Committee will be approved by the Board at a later date);

FURTHER RESOLVED, That the Board hereby accepts the opinion of Ernst & Young concerning the fair representation, in all material respects, of the Summary of Investments and Total Income of the Permanent University Fund, attached hereto as Attachment B, and hereby finds and determines that said opinion satisfies the requirements of Section 4 of H.B. 1877 requiring a financial audit prior to implementation of the first investment management services agreement with UTIMCO;

FURTHER RESOLVED, That the amendments to the Regents' Rules and Regulations as presented in Attachment C hereto are approved;

FURTHER RESOLVED, That the U. T. System is authorized and empowered to enter into an office lease agreement, a furniture lease agreement, an information systems services agreement and other services agreements with UTIMCO as required and the Chancellor is hereby authorized and directed, for and on behalf of the U. T. System, to sign such agreements, in each case with such negotiated revisions, amendments and modifications as he determines are in the best interests of the U. T. System, such determination to be conclusively evidenced by his execution of any such agreement, and the Executive Secretary to the Board is hereby authorized and directed, for and on behalf of the Board, to attest and seal such agreements;

FURTHER RESOLVED, That the assignment of all investment management, brokerage, custodian and other contracts for investment management services to UTIMCO, as the successor entity to the Office of Asset Management, are approved;

FURTHER RESOLVED, That the officers of the U. T. System be, and each of them hereby is, authorized and empowered, for, in the name of and on behalf of the Board, to take such actions and to execute and deliver such amendments, certificates, agreements, instruments, notices and documents, or to effect any necessary filings with any and all appropriate regulatory authorities, State and Federal, as may be required, or as such officer may deem necessary, advisable or proper in order to carry out the transactions contemplated by, and the purposes and intent of the foregoing resolutions; all such actions to be performed in such manner, and all such amendments, certificates, agreements, instruments, notices and documents to be executed and delivered in such form, as the officer performing or executing the same shall approve, the performance or execution thereof by such officer to be conclusive evidence of the approval thereof by such officer and by this Board; and

FURTHER RESOLVED, That the authority granted to the officers of the U. T. System under the foregoing resolutions shall be deemed to include, the authority to perform such further acts and deeds as may be necessary or appropriate, in the judgment of such officers, to carry out the transactions contemplated thereby, and all acts and deeds previously performed by the officers of the U. T. System prior to the date of these resolutions that are within the authority conferred hereby, are ratified, confirmed and approved as the authorized acts and deeds of the Board.

The above actions are based upon a recent review of the U. T. System investment governance and management structure. This review was undertaken in recognition of the U. T. System's increasing reliance on private support and its endowment resources to fund its mission. Effective use of these critical sources of funding will depend on the successful management by the Board of Regents of the approximately \$8.5 billion of Permanent University Fund (PUF) and U. T. System investment assets under its fiduciary care. Successful investment management will present an increasingly formidable challenge in the coming years as a result of two major factors. First, the U. T. System will be required to compete for returns in an increasingly complex investment environment marked by global markets, alternative investment classes, a proliferation of new, complicated financial instruments, and short windows of opportunity. Second, the scale and complexity of the Board's investment responsibilities have grown to the point where full-time oversight of the investment portfolios is required.

As part of its long-range planning to help meet the investment challenge presented by such factors, the Asset Management Committee engaged Cambridge Associates, a nationally recognized endowment consulting firm, to evaluate the existing U. T. System investment oversight and management structure. The analysis performed by Cambridge Associates identified numerous deficiencies in the existing governance structure which in its opinion inhibit the U. T. System's ability to compete effectively for investment returns. The major governance deficiencies cited were limited investment expertise by most Board members, a lack of "institutional memory" from frequent Board turnover, overlapping governance committees, and poor separation of policy formulation from operations.

Cambridge Associates recommended that the Board correct such deficiencies by using a not-for-profit investment corporation based on investment governance and management models successfully employed by other leading universities with multi-billion dollar endowments. As the investment portfolios of these peer institutions increased in scale and complexity over time, the governance structures were designed to provide for independent operations and significant delegation of authority.

These models attempt to remedy the same governance deficiencies identified by Cambridge Associates by establishing hybrid boards consisting of both trustees and investment professionals and delegating investment decisions to investment staff, subject to policy constraints. These structural characteristics were specifically implemented to (a) preserve ultimate trustee control of investments for fiduciary purposes, (b) create a separate investment board with a high level of investment expertise for oversight purposes, (c) emphasize policy deliberation at the board level, (d) streamline decision making by shortening reporting lines, and (e) focus accountability for investment results.

Based on the conclusions of the Cambridge Associates evaluation, the U. T. Board of Regents on April 10, 1995, adopted a resolution authorizing the pursuit of statutory amendments which would delegate the investment authority for Board designated funds to a nonprofit investment management corporation. Such statutory authority was provided in May 1995, with the passage of H.B. 1877 by the Texas Legislature. H.B. 1877 amended Section 66.08 of the Texas Education Code and authorized the Board to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board subject to the following conditions:

1. That the corporation not engage in any business other than investing funds designated by the Board under the contract;
2. That the Board approve:
 - a. The articles of incorporation and bylaws of the corporation and any amendments thereto
 - b. The investment policies of the corporation, including amendments thereto
 - c. The audit and ethics committee of the corporation, and
 - d. The code of ethics of the corporation;
3. That the Board appoint and remove all members of the corporation's board of directors;
4. That the Board provide for an annual financial audit of the Permanent University Fund;
5. That the corporation file quarterly reports with the Board concerning matters required by the Board.

Following the receipt of this statutory authority the Board authorized the preparation of a business plan pursuant to which a 501(c)(3) corporation to be known as The University of Texas Investment Management Company would be organized and contracted with to perform the investment management functions currently performed by the Office of Asset Management. This plan was presented to the Chancellor, the Asset Management Committee, and the U. T. Board of Regents in various briefings and is the basis for these actions.

The Investment Management Services Agreement (Attachment A) appoints UTIMCO as the Board's investment manager with complete authority to act for the Board in the investment of all funds currently managed by the Office of Asset Management. The Agreement also defines the investment management services to be provided by UTIMCO and imposes a fiduciary duty on the company in performing its services. It provides for the safekeeping of investments with the current custodian, Mellon Trust, Pittsburgh, Pennsylvania, and the assessment of four fees: (1) a one-time organizational fee in an amount not to exceed \$250,000 with which to fund expenses incurred in organizing UTIMCO, (2) a one-time working capital fee equal to \$500,000 to be used by UTIMCO as a working capital reserve, (3) a one-time equipment fee in the form of an in-kind transfer of certain office equipment currently used by the Office of Asset Management and listed in Exhibit F with an estimated book value of \$631,000, and (4) an annual management fee for the current fiscal year at an annualized rate of \$4,530,602 or approximately .05% of the market value as of August 31, 1995, of funds to be managed by UTIMCO, as presented in Exhibit G. The Agreement also authorizes UTIMCO to charge each fund under management for the direct expenses incurred for portfolio management, custody, auditing and other services performed by external vendors for each fund. Furthermore, the Agreement indemnifies UTIMCO and its directors, employees and other agents to the fullest extent permitted by applicable law. Finally, it prohibits self dealing and service to other clients and allows the U. T. Board of Regents to terminate the Agreement by written notice to UTIMCO subject to reasonable allowance for settlement of pending trades.

Approval of the UTIMCO Investment Policy Statements (Exhibits A - E) encompasses the following actions:

Permanent University Fund (Exhibit A): Rescission of the existing PUF policy and adoption of a new policy. The new policy recognizes the non-total return structure of the fund by emphasizing income growth over total return and an increased allocation to equities.

Long Term Fund (Exhibit B): The policy statement contains no policy changes per se. Amendments relate to the substitution of UTIMCO for Office of Asset Management where appropriate and standardization of definitions with the PUF policy.

Operating Funds Investment Policy Statement (Exhibit C): Amended to substitute UTIMCO for Office of Asset Management.

Short/Intermediate Term Fund Information Memorandum (Exhibit D): Amended to reflect the dissolution of the Fund Advisory Board, incorporation of a pre-approved section regarding derivatives guidelines, and substitution of UTIMCO for Office of Asset Management.

Private Investment Policy Statement (Exhibit E): Recognize the substitution of UTIMCO and the UTIMCO Board for the Asset Management Committee and revision of valuation policy to conform to industry standards.

The amendments to the Regents' Rules and Regulations, Parts One and Two (Attachment C) dissolve the existing investment governance and management structure and recognize the provision of investment management services by UTIMCO. Included in the revisions to the Rules and Regulations is the dissolution of the Asset Management Committee, the Office of Asset Management, and the Investment Advisory Committee.

UTIMCO will enter into an agreement with the U. T. System to lease 12,565 square feet on floors two and three of Claudia Taylor Johnson Hall and 40 parking spaces for employees and visitors at an initial annual rate of \$197,700. UTIMCO will receive a tenant's improvements allowance of \$155,000. UTIMCO also will enter into an information systems support contract with the U. T. System until such time as it can support its own information technologies.

The documents related to this transaction have been reviewed by the Office of General Counsel as to compliance with the enabling legislation and the Office of the Board of Regents as to revision of the Regents' Rules and Regulations.

Adoption of the resolution to create a new investment governance and management structure will strengthen the U. T. Board's ability to fulfill its fiduciary responsibility and to generate investment returns equal to or in excess of peer universities.

INVESTMENT MANAGEMENT SERVICES AGREEMENT

This Investment Management Services Agreement (this "Agreement") by and between **the** Board of Regents (the "U.T. Board") of The University of Texas System (the "U.T. System") and The University of Texas Investment Management Company ("UTIMCO"), a Texas non-profit corporation, is effective March 1, 1996, (the "Effective Date").

RECITALS

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

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

WHEREAS, UTIMCO has been organized under the laws of the State of Texas, including the Texas Non-Profit Corporation Act, Article 1396-1 .01 et seq., Vernon's Texas Civil Statutes, for the express purpose of investing funds under the control and management of the U.T. Board, as designated by the U.T. Board, in accordance with the laws of the State of Texas; and

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

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

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

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

AGREEMENT

Section 1. Definitions.

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

Available University Fund or **AUF** shall mean the dividend, interest and other income of the Permanent University Fund (less administrative expenses), including net income attributable to the surface of PUF Lands, all as provided by **Article VII**, Section 18 of the Texas Constitution.

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

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

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

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

Investment Policies shall mean the written investment policies relating to the PUF, the LTF, the SIF, the **S/ITF** and the STF attached hereto as **Exhibits A-E**, as the same may be amended **from** time to time by UTIMCO with the consent and **approval** of the U.T. Board.

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

University Fund and other funds subject to use restrictions that are inconsistent with investment in such Long Term Fund).

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

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

Permanent University Fund Lands or **PUF Lands** shall mean the approximately 2,109,109 acres of land located in 24 Texas counties and constituting a part of the Permanent University Fund.

Q.E.I.E. shall mean the quasiendowment fund established by the U.T. Board on December 8, 1988, to provide performance compensation for professional staff employed by the Office of Asset Management.

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

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

Short Term Fund or **STF** shall mean the money market mutual fund or funds approved by UTIMCO **from** time to time as an investment for U.T. System Funds. As of the effective date of this **Agreement**, the only Short Term Fund is a money market mutual fund known as the Financial Square Prime Obligations Fund, which is a series of the Goldman Sachs Money Market **Trust**. Substitute or additional money market mutual funds (including internally managed **funds**) may be approved by UTIMCO from time to time as the Short Term Fund.

U.T. Board Accounts shall mean the investment assets of the U.T. System, consisting of the Long Term Fund, the Short/Intermediate Term Fund, the Short Term Fund and the Separately Invested Funds.

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

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

Section 2. Delegation of Investment Authority.

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

Section 3. Description of Investment Management Services.

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

a) **Investment Policies:**

UTIMCO shall review current investment policies for each **Account** and recommend any amendments for approval by the U.T. Board. Such review shall include distribution (spending) guidelines, long-term investment **return** expectations and expected risk levels, asset allocation targets and ranges for each **eligible** asset class, expected returns for each asset class and **fund**, and designated performance benchmarks for each asset class.

b) **Investment Management:**

UTIMCO shall oversee the investment management process. Such oversight shall include the development of an investment outlook based on global economic and capital market forecasts, the rebalancing of allocations to each asset class within ranges in response to changes in the investment outlook, and the **selection** of a combination of portfolio managers to construct portfolios designed to generate the expected returns of each asset class.

c) **Investment Performance:**

UTIMCO shall monitor and report on investment **performance** for the PUF and U.T. Board accounts. Such responsibilities shall include the calculation and evaluation of performance of asset classes and individual portfolios, against established benchmarks over various periods of time, the periodic review of performance benchmarks, the reporting of investment performance of Separately Invested Assets and U.T. Board Trust Accounts as requested by the U.T. **Board**, and the reporting to regulatory agencies and others regarding investments under management to the extent required by applicable law.

d) **Operations:**

UTIMCO shall execute such operational responsibilities as the purchase and sale of investments, settlement of all trades (to the extent such trades are not settled by Custodian or brokers), the accounting for all transactions at the portfolio level in accordance with

generally accepted accounting principles, the preparation and delivery of periodic financial reports on all funds; and the maintenance of complete books and records (internally or through contract with the designated Custodian for the assets under management) reflecting transactions and balances of the Accounts.

e) **Books and Records:**

UTIMCO shall maintain the books and records for each Account on the basis of a fiscal year ending August 31st (or such other fiscal year as the U.T. Board may establish **from** time to time), and shall keep full separate records of all transactions with respect to each Account. The books and records of the Accounts and all records concerning **UTIMCO's** operations shall be available during normal business hours for inspection by an authorized representative of U.T. System. UTIMCO shall provide full audit access to auditors representing the U.T. Board or the State Auditor, including access to any and all information concerning the operations of UTIMCO.

f) **Other Services:**

UTIMCO shall perform other investment management services to include attending meetings of the U.T. Board and making such reports as the **U.T.** Board may request from time to time, voting of securities (or proxies with respect thereto) held as investments of the Accounts; providing U.T. System component institutions with **annual** endowment reports reflecting, among other things, changes in the investment value of such component's endowment and distributions made to such component to support the activities for which the endowment was established, providing charitable trust administration services such as portfolio management, annual tax return preparation, annual trust reporting to donors and remittance of quarterly distributions; **providing** annual reporting of investment transactions and balances and distributing funds to authorized beneficiaries on foundation accounts; effecting distributions directly or through the Custodian to U.T. System component institutions or other named beneficiaries **from** the Accounts; supporting and maintaining on-line account information system for endowment accounts; and any other services necessary to provide investment management of the Accounts.

Section 4. Investment Manager as Fiduciary.

UTIMCO acknowledges that it will be acting as a fiduciary with respect to managing the investments of **the** Accounts **and that, subject** to the Investment Policies and applicable law, it will exercise the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion and intelligence exercise in the management of their own **affairs**, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital. The U.T. Board recognizes that all investment transactions involve a variety of significant potential risks, including, without limitation, market risk liquidity risk, credit risk, cash flow risk, operational risk and **counterparty risk**. The U.T. Board agrees that (i) UTIMCO will not be liable for any losses incurred in the Accounts as a result of investments made pursuant to the Investment Policies, and (ii) UTIMCO will not be liable for actions of co-fiduciaries. The Board also acknowledges that UTIMCO shall not be liable for, and, to the fullest extent authorized by the Constitution and laws of the State of Texas, agrees to hold

UTIMCO **harmless from** the consequences of any action taken or omitted to be taken by the U.T. System or any of its employees or agents prior to the Effective Date of this Agreement.

Section 5. Custody of Assets.

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

Section 6. Use of Unaffiliated Investment Managers.

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

Section 7. Investment Management Fees; Direct Expenses.

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

a) **Organizational Fee:**

On the Effective Date, the U.T. Board shall pay UTIMCO the sum of \$250,000 as reimbursement for **expenses** incurred in **organizing** UTIMCO to provide the investment management services **required** herein. Any excess funds **remaining after** payment of all actual organizational expenses shall be rebated back to the U.T. Board

b) **Working Capital Fee:**

On the Effective Date, the U.T. Board shall pay to UTIMCO an amount equal to **\$500,000** to be used by UTIMCO as a **working** capital reserve. Said **reserve** shall be used, as needed, to pay **operating expenses** associated with the general management of the Accounts and shall be reviewed annually to determine its level of adequacy.

c) **In-Kind Transfer of Office Equipment:**

On the Effective Date, the U.T. Board shall transfer title to certain equipment currently used by the Office of Asset Management of the U.T. System listed on **Exhibit F** hereto with an estimated book value of **\$631,000**.

d) **Annual Management Fee:**

At least sixty (60) days prior to August 31 of each year, UTIMCO shall submit to the U.T. Board its proposed annual fee for the following fiscal year (an "Annual Fee"). The Annual Fee shall be based on UTIMCO's annual budget which shall include **all** operating expenses associated **with** the general management of the Accounts, including, without limitation, salaries, benefits and performance compensation of portfolio management and support personnel (to the extent that same are not budgeted for payment **from** the Q.E.I.E.), expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll and other general services expenses, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations hereunder.

At the same time that UTIMCO submits its Annual Fee, it shall also submit to the U.T. Board an allocation formula for charging the Annual Fee to the Accounts. The Annual Fee and the allocation formula shall be approved or disapproved by the U.T. Board at its next regular meeting. The U.T. Board will not unreasonably withhold approval of the Annual Fee or the allocation formula. Any such fee or formula which is disapproved shall be promptly revised by UTIMCO and re-submitted to the U.T. Board for approval. If any Annual Fee or allocation formula is not approved by the U.T. Board prior to the **first** day of the fiscal year covered by such Annual Fee or allocation formula, the Annual Fee and allocation formula, as the case may be, in effect during the previous fiscal year **shall** continue in effect until a new Annual Fee or allocation formula, as the case may be, has been approved for the new fiscal year. Notwithstanding the foregoing, the Annual Fee and allocation formula for the initial fiscal year (or remainder thereof) of this Agreement shall be set forth on **Exhibit G**.

On or before the first day of each fiscal quarter, UTIMCO shall be entitled to charge each Account with its allocable share (**determined** in accordance with the allocation formula then in effect) of one-fourth of the amount of the Annual Fee to pay UTIMCO's operating expenses for the **succeeding fiscal quarter**; provided, that following an audit of UTIMCO's **financial** statements for any **fiscal** year, **if it is determined** that UTIMCO's operating expenses during such fiscal year were less than its Annual Fee, UTIMCO shall credit the surplus amount charged to the Accounts during such fiscal year (based upon the allocation formula then in effect) against the amount charged to each respective Account on or before the first day of the next fiscal quarter; provided, further, that UTIMCO shall credit investment earnings **realized** on funds pending disbursement to pay operating expenses in the same fashion as set forth in the immediately preceding proviso. UTIMCO shall be entitled, with the approval of the U.T. Board, to revise the Annual Fee and allocation formula at any time during a fiscal year. Any statements for partial quarters at the **beginning** or end of this Agreement shall be prorated to reflect the actual time services were rendered during such partial quarters.

UTIMCO is hereby authorized to pay from each Account direct expenses incurred for portfolio management, custodian, auditing, and other services which are performed by external vendors specifically for each Account. UTIMCO is authorized to pay expenses incurred on behalf of the Permanent University Fund by submitting a purchase voucher to

the State Comptroller for payment of said expenses **from** the Available University Fund. Notwithstanding the above, vouchers submitted for quarterly payment of the UTIMCO annual management fee **from** the AUF shall require the approval of the Office of Investment Accounting of the U.T. System (or any successor to the functions of that office).

e) **Performance Compensation:**

In addition to the fees provided for above, the U.T. Board shall pay to UTIMCO from the Q.E.I.E. the amount of performance compensation actually awarded to UTIMCO staff, subject to the maximum amount of such compensation budgeted for payment from the Q.E.I.E. pursuant to UTIMCO's annual budget. Amounts distributed from the Q.E.I.E. in any given year in excess of amounts paid to UTIMCO shall be reinvested and shall be available for future payment to UTIMCO pursuant to this subsection (e).

Section 8. Brokerage Commissions.

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

section 9. Valuation of Account Assets.

For the purposes of reporting the valuation of each Account, the market value of the securities (including cash and **short** term equivalents) settled in the Account **shall** be determined as of the close of business on the last business day of each fiscal quarter by the Custodian.

Section 10. Representationa and Warranties of Parties.

U.T. Board.

- A. The U.T. Board (a) is duly established and validly existing under the laws of the State of Texas and is an agency of the State of Texas, **(b)** has all power and authority and all material government licenses, authorizations, consents and approvals required

to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.

- B. The execution, delivery and performance by the U.T. Board of this Agreement have been duly authorized by all necessary action and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which the U.T. Board is a party or by which it or any of its property is bound.
- C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will be necessary for the valid execution, delivery or performance by the U.T. Board of this Agreement.
- D. This Agreement constitutes a valid and binding agreement of the U.T. Board.
- E. There is no action, suit or **proceeding** pending or, to the knowledge of the U.T. Board, threatened against or affecting the U.T. Board or the U.T. System, or relating to this Agreement, in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially **affect** the ability or authority of the U.T. Board to enter into, and perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.
- F. The U.T. Board has approved and does hereby approve:
 - (1) the Articles of **Incorporation** and Bylaws of UTIMCO attached as **Exhibits H and I, respectively;**
 - (2) the Investment Policies;
 - (3) the audit and ethics committee of UTIMCO, the members of which are listed on **Exhibit J;** and
 - (4) the Code of Ethics of UTIMCO attached as **Exhibit K.**
- G. The U.T. Board has been provided with the opportunity to ask questions of, and it has received answers thereto satisfactory to it from, UTIMCO and its representatives regarding this Agreement and has obtained all additional information requested by it of UTIMCO and its representatives prior to entering into this Agreement.

UTIMCO.

- A. UTIMCO (a) is duly organized and validly existing as a Texas non-profit corporation under the laws of the State of Texas, particularly the Texas Non-Profit Corporation Act, Article 1396-1 .01 et seq., Vernon's Texas Civil Statutes, (b) has all corporate power and authority and all material government licenses, authorizations, consents

and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.

- B. The execution, delivery and performance by UTIMCO of this Agreement have been duly authorized by all necessary action by UTIMCO and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which UTIMCO is a party or by which it or any of its property is bound.
- C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental **department**, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will be necessary for the valid execution, delivery or performance by UTIMCO of this Agreement.
- D. This Agreement constitutes a valid and binding agreement of UTIMCO.
- E. There is no action, suit or proceeding pending or, to the knowledge of UTIMCO, threatened against or affecting UTIMCO, or relating to this Agreement in any court or before or by any governmental **department**, agency or instrumentality which, if adversely determined, would materially **affect** the ability or authority of **UTIMCO** to enter into, and to perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.

Section 10. Prohibition Against Self-Dealing.

Consistent with the requirements of Section 66.08, Texas Education Code, **UTIMCO** shall not enter into an agreement or transaction with any of the following:

- A. A director, officer, or employee of UTIMCO acting in other than an official capacity on behalf of UTIMCO;
- B. A business entity in which a director, officer, or employee of UTIMCO has an **interest**;
- C. A former director, officer, or employee of UTIMCO on or before the second anniversary of the date the person ceased to be a director, officer, or employee of UTIMCO;
- D. A business entity in which a former director, officer, or employee of UTIMCO has an interest on or before the second anniversary of the date the person ceased to be a director, officer, or employee of UTIMCO.

For purposes of **this** Section, a person has an interest in a business entity if(i) the person owns five percent or more of the voting stock or shares of the business entity; (ii) the person owns five percent

or more of the fair market value of the business entity; or (iii) money received by the person **from** the business entity exceeds five percent of the person's gross income for the preceding calendar year. Any agreement or transaction entered into in violation of this Section 10 is void.

Section 11. Prohibition Against Service to Other Clients.

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

Section 12. Investment Company Act.

UTIMCO shall not be required to register as an "investment company" under the investment Company Act of 1940, as amended.

Section 13. Termination.

The U.T. Board may **terminate** this Agreement at any time by written notice to UTIMCO, effective immediately upon receipt of such notice by UTIMCO, subject to reasonable **allowance** for settlement of pending trades. UTIMCO may terminate this Agreement upon thirty (30) days' written notice to the U.T. Board. There shall be no penalty for termination; however, UTIMCO **shall** be entitled to all compensation and benefits earned **prior to** termination.

Section 14. Amendments.

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

Section 15. Notices.

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

To U.T. Board:

Board of Regents of The University of Texas System
Attn: Executive Secretary
201 West Seventh Street
Austin, Texas 78701
Tel. (5 12) 499-4402
Fax. (5 12) **499-4425**

To UTIMCO:

The University of Texas Investment Management Company
Attn: President
2 10 West Sixth St. • 2nd Floor
Austin, Texas 7870 1
Tel. (5 12) 499-4337
Fax. (5 12) 499-4365

Section 16. Non-Assignability.

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

section 17. **No Waiver of Breach.**

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

Section 18. Indemnification.

a) **Agreements to Indemnify**

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

b) **Reimbursement:**

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

- c) **Notice:**
In case any Claim shall be brought or, to the knowledge of any Indemnified Party, **threatened** against any Indemnified Party **in** respect of which indemnity may be sought against the U.T. Board, such Indemnified Party shall promptly notify the U.T. Board in writing; provided, however, that any failure so to notify shall not relieve the U.T. Board of its obligations under this Section.
- d) **Defense:**
The U.T. Board shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the U.T. Board, in writing, (ii) the U.T. Board has failed to assume the defense and to employ counsel, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the U.T. Board, and such Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the U.T. Board (in which case, if such Indemnified Party notifies the U.T. Board in writing that it elects to employ separate counsel at the U.T. Board's expense, the U.T. Board shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the U.T. Board shall not, in connection with **any** one action or **separate** but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate **firm** of attorneys for the Indemnified Parties, which **firm** shall be designated in writing by such Indemnified Parties).
- e) **Cooperation; Settlement:**
Each Indemnified Party shall use reasonable efforts to cooperate with the U.T. Board in the defense of any action or Claim. The U.T. Board shall not be liable for any settlement of any action or Claim without its consent but, if any such action or Claim is settled with the consent of the U.T. Board or there be final judgment for the plaintiff in any such action or with respect to any such Claim the U.T. Board shall indemnify and hold harmless the **Indemnified** Parties **from** and against any Loss by reason of such settlement or **judgment** as provided in Subsection (a) .of this Section.
- f) **Survival: ~~Right to Enforce:~~**
The provisions of this Section shall survive the termination of this Agreement, and the obligations of the U.T. Board hereunder shall apply to Losses or Claims whether asserted prior to or after the termination of this Agreement. In the event of failure by the U.T. Board to observe **the** covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the U.T. Board under this Section.

Section 19. Confidential Relationships.

Except as otherwise required by law, all information and recommendations furnished by UTIMCO shall be regarded as confidential by the U.T. Board. Each party shall regard as confidential all information concerning the **affairs** of the other party or the Accounts. Each party shall take all steps as are reasonably necessary to ensure compliance with this Section.

Section 20. Entire Agreement; Miscellaneous.

This Agreement contains the entire agreement between the parties and all representation with respect to the subject matter thereof. Headings in the Agreement are for purposes of reference only and shall not limit or otherwise effect the meaning hereof. Any capitalized term used in an Exhibit to this Agreement shall have the meaning designated herein, unless otherwise defined in the Exhibit itself.

Section 21. Governing Law.

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

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

Date: _____

By: _____
Bernard Rapoport
Chairman

AT-TEST:

Arthur H. Dilly
Executive Secretary

**THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY,
a Texas non-profit corporation**

Date: _____

By: _____
Thomas G. Ricks
President

PERMANENT UNIVERSITY FUND

INVESTMENT POLICY

Background

The Permanent University Fund (the "PUF") is a public endowment contributing to the support of The University of Texas System and The Texas A&M University System. The PUF was established by the Texas Constitution in 1876 with the appropriation of one million acres of land in addition to land previously granted to The University of Texas. The granting of land to the PUF was completed in 1883 with the granting of an additional one million acres of land. The 2,109,110 acres held by the PUF are located in 19 West Texas counties.

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, in the form of surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non distributable part of **PUF** corpus, and is invested in securities. Surface income, as a renewable source of income, is distributed to the Available University Fund, (the "AUF"), as received.

The Constitution prohibits the distribution and expenditure of **PUF** corpus. As a result, realized gains and losses from the sale of PUF securities must be retained as corpus and may not be distributed to the AUF. Conversely, the Constitution requires the distribution of all PUF income, generally in the form of dividend and interest income, into the AUF to be expended for certain authorized purposes.

The expenditure of PUF income which is distributed to the AUF is subject to a prescribed order of priority:

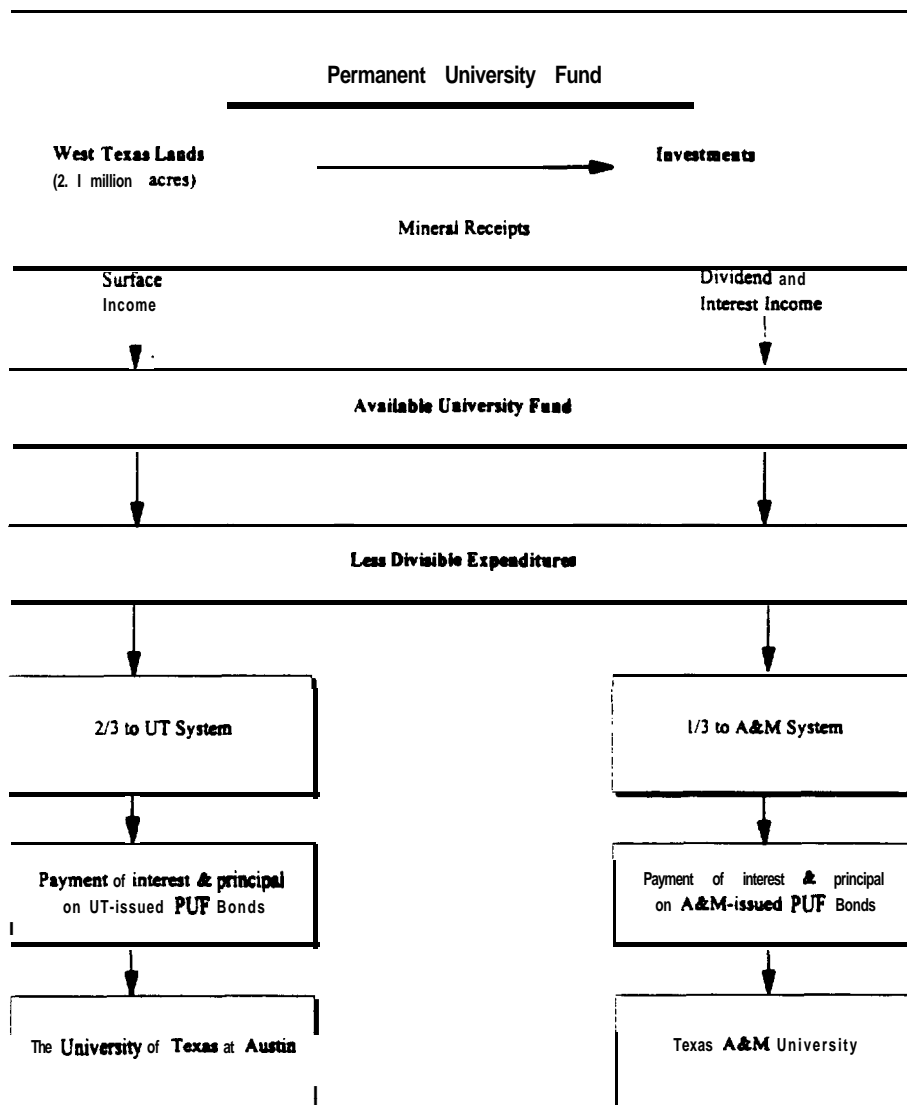
First, expenses incurred in the administration of PUF lands and securities. Resolutions adopted by the U. T. Board of Regents (the "U. T. Board") require that administrative expenses of the **PUF** be restricted to a minimum consistent with prudent business judgment.

Second, following a **2/3rds** and **1/3rd** allocation of distributed **PUF** income (net of administrative expenses) to the U. T. System and Texas A&M University System, expenditures for debt service on PUF bonds. Article VII of the Texas Constitution authorizes the U. T. Board and the TAMU Board to issue bonds payable from their respective interests in distributed PUP income to finance permanent improvements and to refinance outstanding PUP obligations. The Constitution limits the amount of bonds and notes secured by each System's interest in divisible PUF income to 20% and 10% of the book value of PUP investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUP parity obligations unless the projected interest in PUP net income for each System covers projected debt service at least 1.5 times.

Third. expenditures to fund a) excellence programs specifically at U. T. Austin and Texas **A&M** University (respectively) and b) the administration of the university systems.

The distribution of income and expenditures from the PUF to the AUF is depicted below in Exhibit 1:

Exhibit 1



Responsibility and Management of the PUF

Article VII of the Texas Constitution assigns fiduciary responsibility for managing and investing the Fund to the U. T. Board. Article VII authorizes the U. T. Board, subject to procedures and restrictions it establishes, to invest the Fund in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent person investment standard. This standard requires that the U. T. Board, in making investments, shall exercise the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital.

Section 66.08 of the Education Code and Section 163 of the Property Code authorize the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in investment of the PUF.

Investment Objectives

Establishment of investment objectives for the PUF is complicated by the fact that, under the Constitution, growth in the value of PUF investments produces no benefit to the PUF's beneficiaries **unless** price growth is converted into growth in distributable income. Only then will the PUF beneficiaries benefit in the form of increased AUF debt service capacity and/or increased payout capacity for excellence programs.

The investment objectives for the PUF, as a perpetual endowment fund, are twofold:

1. to grow distributable investment income at a minimum rate equal to **inflation**. High volatility of distributed income (i.e., volatility of debt service coverage ratios and program support) should be minimized to preserve the **AAA** rating assigned to PUF bonds. Minimization of income volatility shall be achieved, in part, through diversification of PUF assets in order to provide that investment in a single security, issuer, industry or asset class shall not have an excessive impact on **PUF** asset income. This **first** objective of growing distributable investment income paid to the AUF at a minimum rate equal to **inflation** is directed at preserving the purchasing power of beneficiaries in the future.
2. The second major objective for the **PUF** shall be directed at the current year's beneficiaries - to grow investment income over the preceding fiscal year at a minimum rate equal to the rate of income growth produced by the capital markets. This second objective recognizes that the use of passive **indexation** is an authorized investment strategy and that the use of active investment strategies must generate rates of income growth (net of expenses) over that of an index.

The need to reconcile the interests of current beneficiaries with those of future beneficiaries must recognize that a high level of distributed income in a current year is desirable only to the extent that it can be grown at the rate of **inflation** over time.

Asset Allocation

Achievement of PUF investment objectives shall be pursued primarily through asset allocation. Policy allocation ranges for each asset class (as contained herein) shall be determined by the chief investment officer subject to annual approval of the U. T. Board. Actual allocations to **asset** classes at any time may be adjusted by the chief investment officer (within approved ranges) in response to changes in its outlook for investments.

PUF investments shall be allocated among the following broad asset classes based upon their individual income and price growth characteristics, risks, and relationships to other asset classes. PUF asset allocation shall recognize the unique Constitutional provisions governing the separation of income from capital.

I. Cash Equivalents

- **Income:** Yields on cash equivalents such as commercial paper, State Treasury deposits, etc. are fixed for short periods. In the majority of cases, yields on cash equivalents are significantly below those of longer term fixed income securities. Although their short terms and **frequent** resetting of yields provide some protection against inflation, these characteristics also can produce high income volatility.
- **Price:** Market values of cash equivalents seldom vary **from par** values due to their short maturities. Since these securities mature at par, there is no opportunity to realize price appreciation with which to protect purchasing power. The short term nature of these securities are generally inappropriate given the perpetual nature of the PUP. Cash equivalents should only be used to provide liquidity for expected securities purchases.

I I . Fixed Income Investments

- **Income:** Fixed income investments offer the best protection for hedging against the threat of **deflation** by providing a fixed and predictable source of PUF income. The fixed nature of the coupon rate provides no volatility of income over **the term of the security**. At the same time, however, this same characteristic renders fixed income securities ineffective in growing coupon income over time to offset inflation.
- **Price:** The value of fixed income securities varies inversely with changes in interest rates. **Current Constitutional** restrictions, however, **substantially** limit the ability to sell fixed income securities without creating income volatility. During periods of declining interest rates, the sale of appreciated fixed income securities to realize gains will reduce interest income upon reinvestment of proceeds. Realized gains **may** not be distributed to the AUF to offset the loss of income. Conversely, during periods of rising interest rates, the sale of depreciated securities to increase income will reduce book value as the loss is realized. This will reduce statutory debt capacity and inhibit the ability to issue PUF bonds to fund new capital projects or to refinance outstanding obligations. While reinvestment of proceeds into higher yielding bonds may increase interest income at a

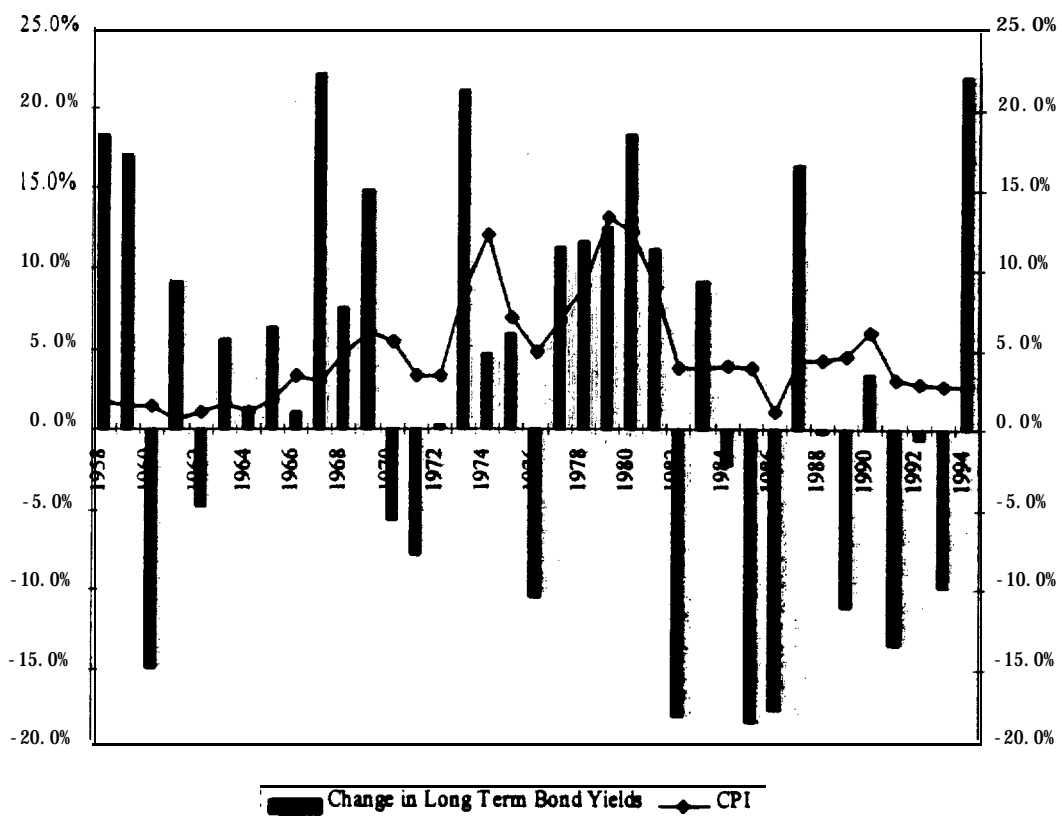
rate equal to or greater than the rate of inflation for a period of time, the increased income from the higher yielding bonds must all be distributed to the AUF and thus will not be available for retention in PUF **corpus** to offset realized losses.

In addition, the ability **to grow** income through the sale of bonds prior to their maturity date is unsustainable over the long term. Long term growth of interest income through reinvestment into higher yielding bonds requires that interest rates grow in perpetuity. The cyclicality of interest rates will inevitably produce periods of declining rates and reinvestment of bond proceeds at lower yields.

Given current Constitutional restrictions and a U. T. Board preference to maintain a threshold level of PUF investment income in any budget year, the use of a total **return** strategy (e.g. buying and selling bonds in anticipation of changes in the yield curve to generate gains) for any amounts allocated to fixed income securities is inappropriate as a means to achieve **PUF** investment objectives. Such a strategy is inappropriate because total return fails to distinguish between income and principal. Furthermore, over long term interest rate cycles , income increases and decreases resulting **from** security sales prior to maturity will cancel each other out. The result is an aggregate income distribution roughly equal to that of a buy **and** hold strategy only with substantially more year to year income volatility.

The cyclicality of interest rates also produces income volatility for the fixed income portfolio as a whole even when a bond is held to maturity. Consequently, the Constitutional restrictions and susceptibility of AUF expenditures to income volatility require a buy and hold strategy in order to minimize reinvestment risk, i.e., failure to replace coupon rates on maturing bonds. Fixed income securities should be purchased and redeemed at maturity. Fixed income securities should be of high quality (to control credit risk), non-callable, when practical (to control optional redemption risk), and long term in order to maximize yield for a given level of **risk**(exceptions for periods of inverted yield curves). Emphasis should also be placed on both laddering maturities over maturity years and diversifying the composition of yields for any given maturity year (where possible) in order to control the volatility of reinvestment yield spreads and, by definition, **annual** distributable income.

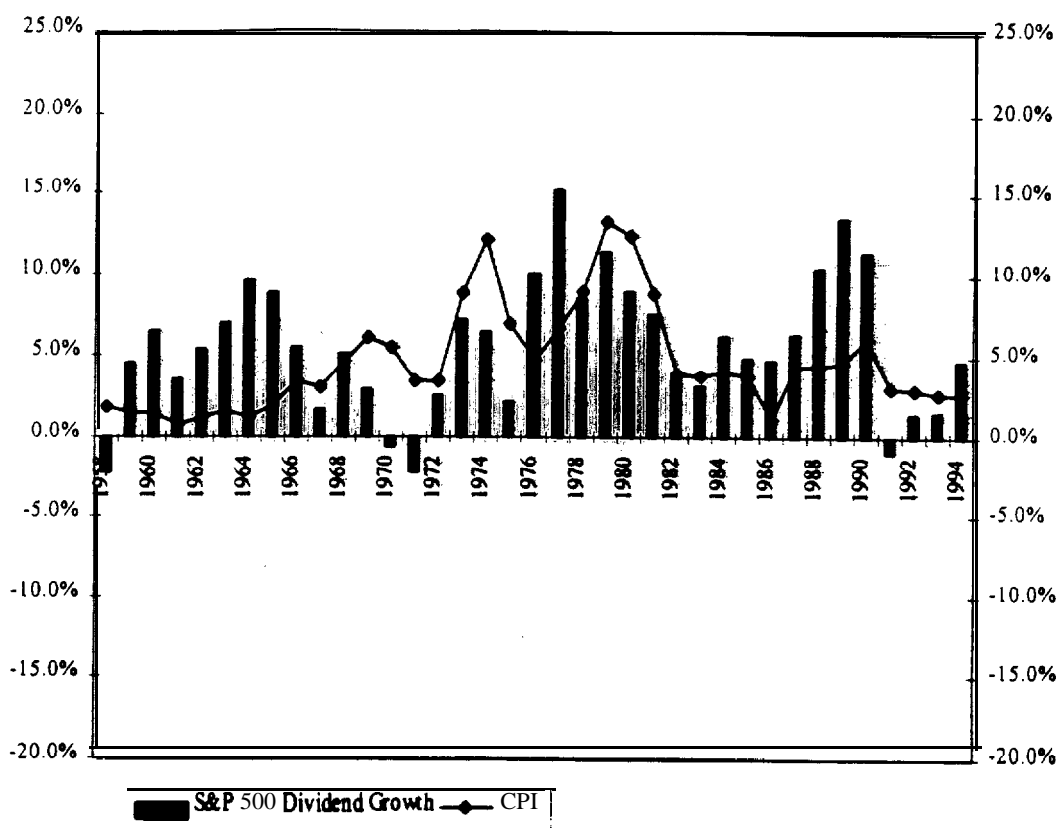
The historical volatility of bond yields (as represented by the 30 year U.S. Treasury bond) from year to year and the annual rate of inflation is presented below:



Yields on long term bonds (i.e., reinvestment yields) since 1957 have been characterized by high year to year volatility and an inability to either reduce income volatility or to grow income at the rate of **inflation** as required by the PUF's primary investment objective.

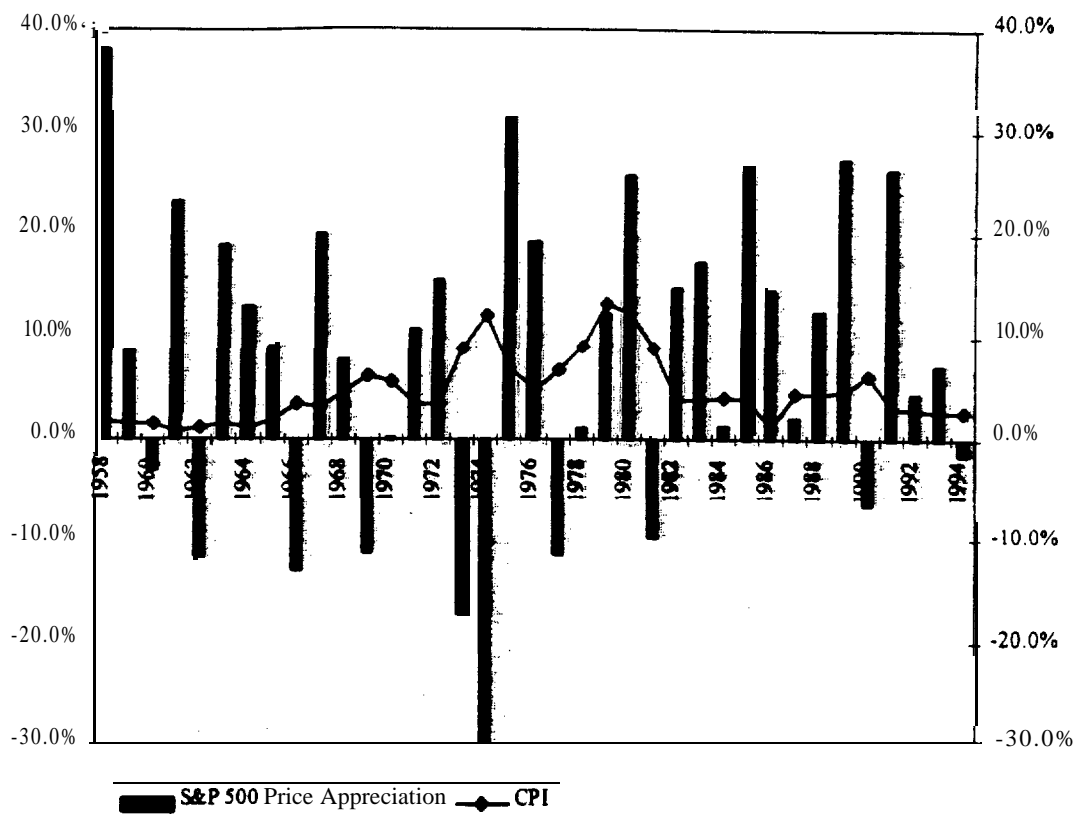
III. Equities

- Income: Dividend yields of equity securities are generally significantly below yields on fixed income securities. While fixed income coupon rates are fixed over the life of a bond, dividend rates are adjustable by corporate boards. Thus, equities can produce downward income volatility. However, year to year declines in dividend rates (as represented by the S&P 500 Index), have been infrequent and of relatively small magnitudes. The chart below indicates that dividends of the corporate stocks underlying the S&P 500 Index have increased in virtually every year. The average rate of growth has been 5.5% per year since 1957 • an annual rate greater than the 4.6% average rate of inflation.



Given historical evidence of dividend growth, equity securities are preferable to fixed income securities in preserving the purchasing power of **PUF** distributable income.

- Price: The values of equity securities vary in response to the activities of individual companies, as well as general market and economic conditions. Equity securities are distinct **from fixed** income senior debt securities in that sale of appreciated or depreciated securities does not necessarily produce higher or lower dividend yields. In addition, periods of price depreciation in the equity market do not necessarily imply dividend reductions correlate with dividend decreases. Equity securities participate in a company's ability to raise prices during inflation or reduce costs in order to increase earnings. Since 1957, price appreciation of the S&P 500 Index has averaged 6.8% a year • vs. an average rate of inflation of 4.6%. Consequently, equity securities, on average, are also superior to fixed income securities in protecting asset values.



Equity securities contain significant **price** risk in periods of economic dislocation. Since 1929, there have been three 3-year periods in which the cumulative decline in the value of equities for the period has ranged from 32% to 76%. Asset allocation policy should recognize that the **PUF** is a perpetual fund without liabilities such as insurance claims, pension benefits, etc. which might require the forced liquidation of equities during periods of financial distress. The **PUF** is uniquely structured to withstand the short term volatility of **equity** prices and to capture the higher rates of income and price growth that equities offer over *the long term*.

IV. **Alternative Assets**

- General: Defined as illiquid investments designed to enhance long term returns through investment in inefficient, complex markets. Examples are investments in buy-outs, venture capital companies, etc. where the securities are not registered for sale on public exchanges. These investments may be in the form of limited partnership interests or directly held securities.

- **Income:** As a rule, alternative assets derive the majority of their returns from price appreciation. Dividend rates are •□• to non-existent but do offer the opportunity for growth over time. Certain securities such as mezzanine investments offer fixed coupon rates and frequently are accompanied by warrants or other equity equivalents which can provide price appreciation. Although the coupon rates on such securities often exceed the rates on more traditional senior fixed income securities, they are generally fixed during the term of the instrument and thus offer no potential for income growth over time.
- **Price:** Although not traded on an exchange for most of the holding period, alternative assets offer high rates of price return as compensation for illiquidity and greater financial risk. These risks should be controlled through disciplined due diligence and diversification.

Alternative assets are appropriate as a PUF asset class in order to compensate for allocation to deflation hedging fixed income securities and for their ability to produce above average rates of price appreciation.

Asset allocation policy should recognize also that debt service on PUF bonds (and in fact all AUF expenditures) are denominated in dollars. Exposure to securities whose income payments are denominated in foreign currencies should be set as to minimize income fluctuations created by changes in foreign exchange rates, dividend withholding taxes and other governmental regulations.

Asset Allocation Policy Targets

Unless subsequently changed by the chief investment officer, with the approval of the U. T. Board, the long term asset allocation policy ranges and targets for the Fund shall be as follows:

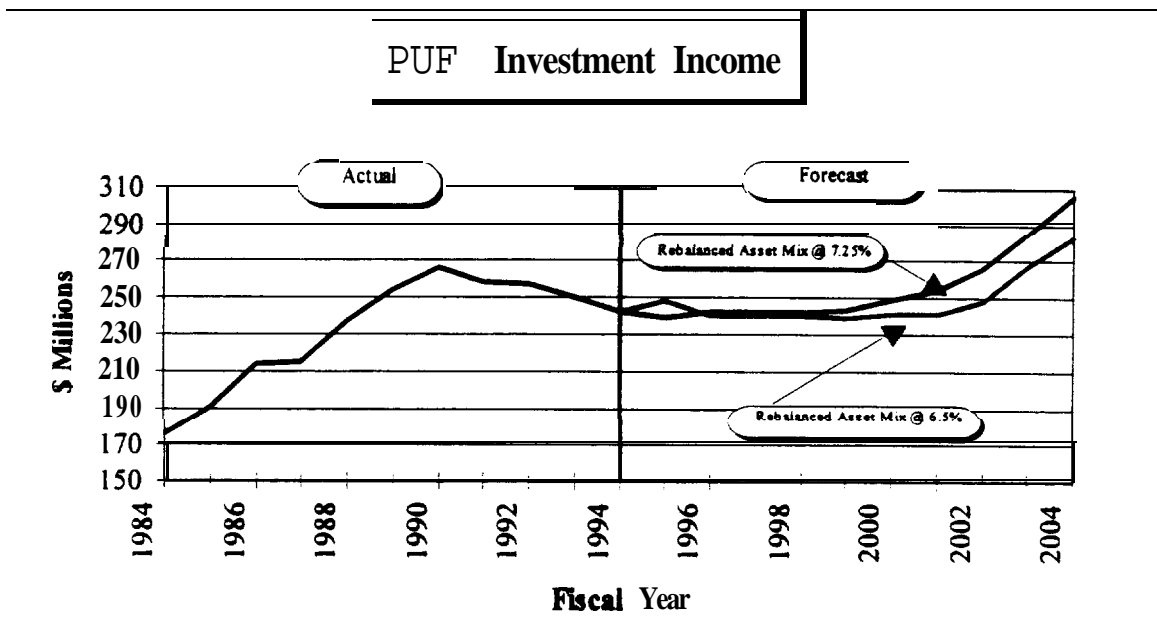
	<u>Range</u>	<u>Target</u>
Cash and Equivalents	0%-5%	0.0%
Fixed Income (U.S. Domestic)	20%-40%	30.0%
Equities		
u. s. common stocks:		
Med./Large Capitalization Stocks	35%-45%	40.0%
Small Capitalization Stocks	5%-15%	10.0%
International Common Stocks:		
Established Markets	<u>7.5% -12.5%</u>	<u>10.0%</u>
Total Equities	50% - 70%	60.0%
Alternative Assets:		
Mezzanine	2.0% - 3.0%	2.5%
Buy-outs/Special Equities	5.0% - 8.0%	6.5%

Venture Capital	<u>0.5%-1.5%</u>	<u>1.0%</u>
Total Alternative Assets	<u>7.5%- 12.5%</u>	<u>10.0%</u>
TOTAL ASSETS		100.0%

Fund Distribution Policy

Rebalancing the PUF to achieve the long term target allocations listed above is constrained by the U. T. Board's desire to grow distributable investment income from current payout levels. Rebalancing the PUF to asset allocation targets over the next 10 years is projected to result in little income growth until such time as the equity allocation dominates (using 7.25% and 6.5% reinvestment rates) as shown below:

Exhibit 2



The Board recognizes that the high distribution rate for the PUF is generally incompatible with the primary objective of growing income at the rate of inflation because of the need to generate high income yields with fixed income securities.

Investment Return Objectives

Specific performance goals for the separate asset classes shall be as follows:

	Income Growth <u>vs. Inflation</u>	Income Growth <u>vs. Capital Market</u>
Cash Equivalents	C.P.I.	(1)
Fixed Income:	C.P.I.	Salomon Inv. Grade Bond Index
Equities	C.P.I.	S&P 500 Index
Alternative Assets	C.P.I.	S&P 500 Index

(1) Benchmark of asset class holding cash.

Income growth shall be the sole measurement criteria for the Fund. Price growth shall be incorporated into achievement of Fund objectives only to the extent that Fund portfolio managers convert it to income growth. Price growth on equity portfolios is expected as a normal part of equity investing since equity values are generally calculated as the present value of an expected dividend payout stream. No price growth **from** fixed income securities is expected due to the buy and hold investment strategy.

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

Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment restrictions include the following:

General:

1. All investments must be U. S. dollar denominated unless held by an investment manager retained to manage an international portfolio.
2. Investment policies of any unaffiliated liquid investment **fund** must be reviewed and approved by the chief investment officer prior to investment of Fund monies in such liquid investment fund. No requirement exists that such funds conform to the above restrictions on money market instruments.
3. No securities may be purchased or held which would jeopardize the Fund's tax-exempt Status.
4. No securities may be purchased on margin or leverage unless specifically authorized by the UTIMCO Board.
5. No transactions in short sales may be made unless specifically authorized by the UTIMCO Board.
6. Transactions in derivative instruments (other than those received as part of an investment unit) must be authorized by the chief investment **officer** and may occur only as part of a

hedging, asset allocation, or other program specifically authorized by the UTIMCO Board. For purposes of this policy, derivatives shall be **defined** as any instrument whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

Fixed Income:

1. Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
2. Negotiable certificates of deposit must be with a bank that is associated with a **holding** company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
3. Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
4. Repurchase Agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
5. The average quality of the fixed income portfolio shall be rated A1 using Moody's Investors Service, Inc. ratings or A+ using Standard & Poor's ratings. Fixed income securities (including preferred stocks) must be rated a minimum of Baa3 by Moody's Investors Service, Inc. or BBB- by Standard & Poor's Corporation, respectively, when purchased unless approved by the chief investment **officer**. Unrated bonds or preferred stocks may be purchased prior to review by the UTIMCO Board if, in the opinion of the System's investment staff, they are at least equal in quality to publicly offered securities eligible for purchase. The cost of bonds or preferred stocks rated below Baa3 or BBB-, unrated bonds, and unrated preferred stocks which have been purchased but have not been reviewed by the UTIMCO Board may not exceed 1% of the book value of the Fund.

Equities:

1. No more than 5% of the voting securities of a corporation may be owned by the U. T. Board unless additional ownership is specifically authorized by the chief investment **officer**.
2. Portfolio **managers** transacting solely within their assigned assets:
 - shall hold no more than 25% of their managed portfolio in any one industry or industries (as defined by the chief investment officer) at cost unless the manager was retained to concentrate in an industry or industries.
 - shall hold no more than **10%** of their managed portfolio in the securities of one corporation at cost unless **authorized** by the chief investment officer.
 - shall not hold investment in real estate, partnerships, and other such illiquid assets unless retained to manage this type of asset.

shall hold equity securities, cash and cash equivalents. Cash and cash equivalents shall not exceed 10% of the market value of the entire portfolio unless approved by the chief investment officer. Any security which converts into an equity security shall be considered an equity security for the purposes of this restriction.

Securities Lending

The PUF may enter into a securities lending contract with a bank or non-bank security lending agent. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate. The securities lending program shall be evaluated from time to time as deemed necessary by UTIMCO. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Performance Measurement

The investment performance of the Fund will be measured by UTIMCO based on Fund income and security values as reported by the custodian. Such measurement and comparison against benchmarks shall occur at least quarterly and shall evaluate the results of the total Fund, major asset classes, and individual portfolios.

Fund Accounting

The fiscal year of the PUF shall begin on September 1 st and end on August 31 st. Market value of the Fund shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, whichever is applicable. Asset write-offs or writedowns shall be approved by the chief investment officer.

Valuation of Assets

The investment assets of the PUF shall be valued by the PUF's custodian at market value at the close of business as of the last business day of each calendar month in accordance with standard industry practices.

Reporting

As soon as reasonably available after the end of each fiscal quarter, UTIMCO shall deliver to the U. T. Board an investment report presenting activity and the performance of the PUF for the immediately preceding quarter.

Effective Date

The effective date of this policy shall be March 1, 1996.

THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
POLICY STATEMENT

Purpose

The Long Term Fund (the "LTF" or "Fund") shall be established by the Board of Regents of The University of Texas System (the "Board") as a pooled fund for the collective investment of private endowments and other long term funds supporting various programs of The University of Texas System. The LTF shall succeed the Common Trust Fund and provide investment management of underlying funds benefiting U. T. component institutions. The LTF shall also provide for greater diversification of investments than what might be possible if each account were managed separately.

LTF Organization

The LTF shall be organized as a mutual fund in which each eligible fund shall purchase and redeem Fund units as provided in this LTF Policy Statement. The ownership of LTF assets shall at all times be vested in the Board. Such assets shall be deemed to be held by the Board, as a fiduciary, regardless of the name in which the assets may be registered.

LTF Management

Fiduciary responsibility for the LTF rests with the Board. The LTF shall be governed through The University of Texas Investment Management Company ("UTIMCO") which shall a) define long term investment objectives and risk tolerances for the LTF, b) develop investment policies consistent with LTF objectives, and c) monitor LTF performances against LTF objectives. UTIMCO shall invest the LTF assets in conformity with this policy statement and employ an investment staff to support the chief investment officer in the management of the Fund.

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

LTF Administration

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

Funds Eligible to Purchase LTF Units

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

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

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

1. the purchase of LTF units by foundation funds is approved by the chief investment officer,
2. all members of the foundation's governing board are also members of the Board,
3. the foundation has the same fiscal year as the LTF,
4. a contract between the Board and the foundation has been executed authorizing investment of foundation funds in the LTF, and,
5. no officer of such foundation, other than members of the Board, the Chancellor, the chief investment officer or his or her delegate shall have any control over the management of the LTF other than to request purchase and redemption of LTF units.

LTF Investment Objectives

The primary investment objective shall be to preserve the purchasing power of LTF principal and distributions stream by maximizing inflation adjusted total return. Based on long term historical returns, the LTF shall attempt to earn an average annual total return of at least inflation plus 5.5% over rolling 5 and 10 year periods.

A secondary return objective is to outperform relevant capital markets. This objective recognizes that the LTF's long term objectives cannot be met solely by achieving a total return target equal to the rate of inflation. This secondary objective is especially relevant when capital market returns greatly exceed the rate of inflation. The LTF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

Asset Allocation

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

In establishing asset allocation policy, UTIMCO shall recognize that the LTF's return/risk profile can be enhanced by diversifying the LTF's investments across different types of assets whose returns are not closely correlated. UTIMCO should seek to protect the LTF against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation. The LTF should maintain adequate liquidity to support distributions and any redemptions.

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

1. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but are less reliable in protecting the purchasing power of asset values in an inflationary economy. Cash equivalents provide good liquidity under both deflation and inflation conditions.

2. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of LTF income. Such bonds should be high quality, non-callable and intermediate to long term in order to ensure the generation of current income and preservation of nominal capital.
3. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation of the LTF. Historically, returns for equities are higher than for bonds over all extended periods since 1929. As such, equities represent the best chance of preserving the purchasing power of the Fund.
4. Alternative Assets - generally consist of alternative marketable investments and alternative illiquid investments. The advantages of alternative investments is that they enhance long term returns through investment in inefficient, complex markets. They offer reduced endowment volatility through their low correlation characteristics. The disadvantages of this asset class are that they are illiquid, require higher and more complex fees, and are dependent on the quality of external managers and their due diligence efforts. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative investments shall be controlled with extensive due diligence and diversification over time and across funds.

Alternative Marketable Investments -

These investments are broadly defined to include absolute return funds (hedge funds), arbitrage and special situation funds, high yield bonds, distressed obligations and emerging markets whose underlying securities are traded on public exchanges. As such, they offer faster drawdown and earlier realization potential than alternative "illiquid" investments.

Alternative "Illiquid" Investments -

These investments are generally held through limited partnership interests. They include private equity and buyout funds, and venture capital interests that are privately held and which are not registered for sale on public exchanges.

5. Inflation Hedging Assets - This category includes oil and gas interests, real estate, commodities and other assets whose current incomes and principal values generally increase as inflation accelerates.

Asset Allocation Policy Targets

The long term asset allocation policy targets for the LTF shall be established and reviewed annually by the UTIMCO Board. The long term asset allocation policy targets for the Fund shall be as follows:

	<u>Percentage</u>
Cash and Equivalents	0.0%
Equities	
U. S. Common Stocks:	
Med/Large Capitalization Stocks	25.0%
Small Capitalization Stocks	<u>10.0</u>
sub-total	35.0

	<u>Percentage</u>
International Common Stocks:	
Established Markets	12.0
Emerging Markets	<u>3.0</u>
sub-total	<u>15.0</u>
Total Common Stocks	50.0
Alternative Assets:	
Liquid	10.0
Illiquid	<u>10.0</u>
Total Alternative Assets	20.0
Inflation Hedging Assets	10.0
Fixed Income	
U. S. (Domestic)	15.0
International	<u>5.0</u>
Total Fixed Income	<u>20.0</u>
TOTAL ASSETS	100.0%

Investment Return Objectives

The overall long term performance goals (net of management fees) for the LTF are to earn an annualized total rate of return equal to:

- a) the annualized rate of inflation plus 5.5%, and
- b) the median return for the universe of the largest college and university endowments as calculated by Cambridge Associates.

Specific performance goals for the separate asset classes shall be as follows:

Equities

U. S. Common Stocks:

Med/Large Cap. Stocks	S&P 500 Index
Small Cap. Stocks	Wilshire Small Cap Index

International Common Stocks:

Established Markets	EAFE Index
Emerging Markets	IFC Investable Comp. Index

Alternative Assets:

Liquid	S&P 500 Index + 5.00%
Illiquid	S&P 500 Index + 5.00%

Inflation Hedging Assets

Cons. Price Index + 5.00%

Fixed Income:

U. S. (Domestic)	Sal. Broad Inv. Grade Bond Index
International	Morgan Non U. S. Bond Index

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

Performance Measurement

The investment performance of the Fund will be measured by an unaffiliated organization with recognized expertise in this field or LTF's custodian bank, and compared against the stated investment objectives of the Fund. Such measurement will occur at least annually, and evaluate the results of the total Fund, major classes of investment assets, and individual portfolios.

Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment restrictions include the following:

General:

1. All investments must be U. S. dollar denominated unless held by an investment manager retained to manage an international portfolio.
2. Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of Fund monies in such liquid investment fund. No requirement exists that such funds conform to the above restrictions on money market instruments.
3. No securities may be purchased or held which would jeopardize the Fund's tax-exempt status.
4. No securities may be purchased on margin or leverage unless specifically authorized by the UTIMCO Board.
5. No transactions in short sales may be made unless specifically authorized by the UTIMCO Board.
6. Transactions in derivative instruments (other than those received as part of an investment unit) must be authorized by the UTIMCO Board and may occur only as part of a hedging, asset allocation, or other program specifically authorized by the UTIMCO Chief Investment Officer. For purposes of this policy, derivatives shall be defined as any instrument whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

Fixed Income:

1. Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
2. Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
3. Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
4. Repurchase Agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

5. The average quality of the fixed income portfolio shall be rated A1 using Moody's Investors Service, Inc. ratings or A+ using Standard & Poor's ratings. Fixed income securities (including preferred stocks) must be rated a minimum of Baa3 by Moody's Investors Service, Inc. or BBB- by Standard & Poor's Corporation, respectively, when purchased unless approved by the chief investment officer. Unrated bonds or preferred stocks may be purchased prior to review by the UTIMCO Board if, in the opinion of UTIMCO's investment staff, they are at least equal in quality to publicly offered securities eligible for purchase. The cost of bonds or preferred stocks rated below Baa3 or BBB-, unrated bonds, and unrated preferred stocks which have been purchased but have not been reviewed by the UTIMCO Board may not exceed 1% of the book value of the Fund.

Equities:

1. No more than 5% of the voting securities of a corporation may be owned by the Board unless additional ownership is specifically authorized by the chief investment officer.
2. Portfolio managers transacting solely within their assigned assets:
 - shall hold no more than 25% of their managed portfolio in any one industry or industries (as defined by the chief investment officer) at cost unless the manager was retained to concentrate in an industry or industries.
 - shall hold no more than 10% of their managed portfolio in the securities of one corporation at cost unless authorized by the chief investment officer.
 - shall not hold investment in real estate, partnerships, and other such illiquid assets unless retained to manage this type of asset.
 - shall hold equity securities, cash and cash equivalents. Cash and cash equivalents shall not exceed 10% of the market value of the entire portfolio unless approved by the chief investment officer. Any security which converts into an equity security shall be considered an equity security for the purposes of this restriction.

Fund Distributions

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

- a) provide a predictable, stable stream of distributions over time,
- b) ensure that the inflation adjusted value of distributions is maintained over the long term, and
- c) ensure that the inflation adjusted value of Fund assets is maintained over the long term.

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

Pursuant to the Uniform Management of Institutional Funds Act, a governing board may distribute for the uses and purposes for which the fund is established the net realized appreciation in the fair market value of the assets of an endowment fund over the historic dollar value of the fund to the extent prudent under the standard provided by the Act. In addition, income may be distributed for the purposes associated with the endowments/foundations.

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

1. The annual payout rate of \$0.175 per unit shall remain in place until this per unit rate is less than or equal to a distribution percentage of 4.5% calculated as follows:
 - a) Using the most recent August 31st year end, determine an average market value using the 12 quarters including and previous to the year end selected.
 - b) Determine annualized distributions to the unitholders as of the August 31st date determined in 1. a) (August 31st distributions multiplied by 4)
 - c) Divide step b) by step a) to determine the distribution percentage. If this result is less than or equal to 4.5%, the distribution percentage and the equivalent per unit rate shall be established as provided in step 2. below.
2. Determine the per unit rate as follows:
 - a) Take the distribution percentage as established in step c) above and increase by the three-year annualized CPI calculated for the fiscal year established above in 1. a)
 - b) If this percentage as calculated in 2. a) is between 3.5% and 5.5% determine a per unit rate as follows: Take the distribution percentage calculated in step 2. a) above and multiply by the average market value established in 1. a). Divide this result by the # of units at the end of the fiscal year used for these calculations to determine a per unit rate. This per unit rate shall be used in calculating distributions to the unitholders beginning with the fiscal year following the recommendation by the UTIMCO Board and approved by the Board.
 - c) If the percentage in step 2. a) is not within the range of 3.5% and 5.5% a percentage shall be established by the UTIMCO Board and step 2. b) shall be used in calculating the per unit rate.

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

Fund Accounting

The fiscal year of the LTF shall begin on September 1st and end on August 31st.

Market value of the Fund shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, whichever is applicable.

Asset write-offs or write-downs shall be approved by the chief investment officer.

Valuation of Assets

On each last business day in November, February, May, and August of each fiscal year (the quarterly valuation date), UTIMCO shall determine the fair market value of all Fund net assets and the net asset value per unit of the Fund. Such valuations shall be determined in accordance with an Asset Valuation Policy approved by the UTIMCO Chief Investment Officer and consistent with prevailing industry standards.

The fair market value of the Fund's net assets shall include all related receivables and payables of the Fund on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive. Valuations shall be given no effect on the general ledger and supporting ledgers of the U. T. System but shall be memorandum accounts only.

Reporting

As soon as reasonably available after the end of each fiscal year, UTIMCO shall deliver to the UTIMCO Board an investment report presenting activity and the performance of the LTF for the immediately preceding quarter.

Purchase of LTF Units

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

In order to permit complete investment of funds and to avoid fractional units, any purchase amount will be assigned a whole number of units in the Fund based on the appropriate per unit value of the Fund. Any fractional amount of purchase funds which exceeds the market value of the units assigned will be transferred to the Fund but no units shall be issued. Each fund whose monies are invested in the Fund shall own an undivided interest in the Fund in the proportion that the number of units invested therein bears to the total number of all units comprising the Fund.

Redemption of LTF Units

Redemption of Units shall be paid in cash as soon as practicable after the quarterly valuation date of the LTF. If the withdrawal is greater than \$10 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than \$10 million, advance notice of five business days shall be required prior to the quarterly valuation date. Withdrawals

from the LTF shall be at the market value price per unit determined for the period of the withdrawal except as follows: Withdrawals to correct administrative errors shall be calculated at the per unit value at the time the error occurred, if determinable. If the error date is indeterminable, the average cost per unit of the withdrawing unitholder shall be used to determine the number of units to withdraw. This provision does not apply to transfer of units between endowment unitholders.

Securities Lending

The LTF may enter into a securities lending contract with a bank or nonbank security lending agent. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate. The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Segregation of Investments

If any investment contained in the LTF shall be subsequently determined by the UTIMCO Board to be an ineligible investment, such investment may, prior to any further admissions to or withdrawals from such Fund, at the discretion of the chief investment officer, be sold or segregated and set apart in a liquidating account solely for the benefit of Fund unitholders at the time of such segregation. Each such liquidating account shall be administered in such manner and the proceeds thereof distributed at such time or times as the chief investment officer deems to be in the best interests of Fund unitholders.

Investor Responsibility

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

Conflicts of Interest

Members of the Board and the UTIMCO Board are frequently persons of wide-ranging business interests. Therefore, a prudent, independent investment decision process may result in investments in firms or organizations with which a member of the Board or the UTIMCO Board is affiliated. Affiliation

shall be interpreted within this section to mean an employee, officer, director, or owner of five percent or more of the voting stock of a firm or organization. The Fund may invest in such securities provided that:

1. A member of the Board or the UTIMCO Board:
 - a) shall disclose any conflict of interest with respect to a proposed investment or selection of a vendor
 - b) shall not participate in the discussion of an investment or vendor selection involving a conflict of interest
 - c) shall not vote on any issue involving a conflict of interest.
2. Investments will not be purchased from or sold to a member of the Board or the UTIMCO Board.
3. All staff members of UTIMCO with discretionary authority to purchase securities or otherwise expend Fund assets shall comply with UTIMCO ethics and standards of conduct policies.

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be March 1, 1996.

THE UNIVERSITY OF TEXAS SYSTEM
OPERATING FUNDS INVESTMENT POLICY

SCOPE

This investment policy statement shall govern the investment of institutional funds, as defined by Sections 51.008 and 51.009 of the Texas Education Code, under the control of The University of Texas System and its component institutions, excluding the following funds:

- a. Endowment funds and funds functioning as endowments, trust funds, and agency funds administered by UTIMCO,
- b. Medical Liability Self-Insurance Fund authorized by Chapter 59 of the Texas Education Code administered by UTIMCO,
- c. Investment income related to endowment funds and funds functioning as endowments, trust funds, agency funds and the self-insurance fund in b. above as long as such income remains administered by UTIMCO.

Funds governed by this investment policy statement shall hereinafter be referred to as "operating funds". Nothing in this investment policy statement shall be construed to limit the holding, management, or sale of non-cash gifts or bequests by The University of Texas System and its component institutions.

BACKGROUND

The investment of operating funds under the control of component institutions of The University of Texas System is governed by the following statutes:

- a. Section 51.0031 of the Texas Education Code, and
- b. The Public Funds Investment Act of 1987 (Article 842a-2, Texas Revised Civil Statutes Annotated), as amended.

This policy is written in compliance with Section 5 of the Public Funds Investment Act of 1987 which requires that investments be made in accordance with written policies approved by the governing body of an institution of higher education.

INVESTMENT OBJECTIVE

The primary objective of the operating funds investment program is to generate a high rate of income and secondly to produce capital appreciation when consistent with the reasonable preservation of principal and the maintenance of adequate liquidity. Within the exposure limits contained herein, investments shall be diversified among authorized investment

categories and issuers in order to minimize portfolio risk for a given level of expected return. Volatility of interest rates is expected, and therefore, periodic maturities of portions of each portfolio afford opportunities to restructure portfolios through yield and maturity adjustment.

INVESTMENT GUIDELINES

Investment restrictions include the following:

1. All investments must be U. S. dollar denominated.
2. Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2), or Standard & Poor's Corporation (A1 or A2).
3. Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
4. Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
5. Repurchase Agreements and Reverse Repurchase Agreements shall conform to the Repurchase Agreement Investment Guidelines as approved by the Operating Fund Advisory Board.
6. All investments in bonds or other evidence of indebtedness shall be issued by or guaranteed by the U. S. government or U. S. government agencies or instrumentalities except for the securities listed in restrictions 2, 3, 4, and 5 above.
7. No preferred or common stocks or other ownership interests or securities convertible into ownership interests may be purchased.
8. No securities may be purchased or held which would jeopardize the Fund's tax exempt status.
9. No securities may be purchased on margin or leverage.
10. No transactions in short sales will be made.
11. Transactions in derivative instruments (other than those received as part of an investment unit) must be authorized by the UTIMCO Chief Investment Officer and may occur only as part of a hedging, asset allocation, or other program authorized by the UTIMCO Board. For purposes of this policy, derivatives shall be defined as any instrument whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

12. Any unaffiliated liquid investment fund must be reviewed and approved by the UTIMCO Chief Investment Officer prior to investment of Fund monies in such liquid investment fund.

BIDS

Investments in bank common trust funds may be made only after oral or written competitive bids have been solicited from at least three banks located within Texas. Investments in bank and S&L certificates of deposits may be made after electronic, oral or written bids have been solicited.

INVESTMENT MANAGEMENT

Overall fiduciary responsibility for the investment of operating funds resides with the U. T. Board of Regents. U. T. System component institutions shall be responsible for the allocation of investments between eligible money market funds, collateralized bank and S&L certificates of deposit and the Operating Funds Short/Intermediate Term Fund ("the Fund") subject to prescribed limits for each U. T. System component institution. The Fund shall be managed per the terms of the Fund Information Memorandum and UTIMCO shall approve investment policy, selection and evaluation of the Fund investment manager and other Fund agents and annual Fund budgets. Fund portfolio management shall be the responsibility of UTIMCO for an initial period of five years from the creation of the Fund. The Fund shall be administered on a day-to-day basis by UTIMCO.

REPORTING

Component business officers shall be responsible for transmitting all necessary information to UTIMCO in order to permit periodic reporting by UTIMCO to the Board concerning portfolio balances and yields for individual components and for the U. T. System as a whole.

STANDARD OF CARE

Investments should be made with judgement and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

EFFECTIVE DATE

This policy shall be effective March 1, 1996 and shall remain in effect until amended or revoked by the U. T. Board of Regents.

THE UNIVERSITY OF TEXAS SYSTEM
OPERATING FUNDS SHORT/INTERMEDIATE TERM FUND
INFORMATION MEMORANDUM

This Information Memorandum sets forth the terms governing the operation of the Fund.

PURPOSE

The purpose of the Fund is to provide a short/intermediate term pooled investment fund for operating funds currently held by U. T. System component institutions and System Administration.

BENEFITS

The Fund will provide convenient access to the yields and economies of scale generally associated with a pooled investment fund. Participation in the Fund by unitholders is expected to eliminate the investing, administrative and accounting burdens commonly incurred with direct ownership of securities. The benefits to unitholders are:

- (a) concentration of investment decisions with a single investment professional,
- (b) reduction in System-wide overhead costs associated with maintaining numerous investment managers at the component level,
- (c) elimination or reduction of fees for an external money market fund,
- (d) reduced minimum liquidity balances System-wide,
- (e) reduced overall administrative costs,
- (f) improved integration of component institution cash management systems with investment operations,
- (g) increased investment income through reverse repurchase agreements, and
- (h) improved interest rate risk management.

INVESTMENT GUIDELINES

The Fund shall be invested in accordance with The University of Texas System Operating Funds Investment Policy.

INVESTMENT OBJECTIVES

The Fund seeks primarily to provide a high rate of income through investment in high grade fixed income obligations. In addition, the Fund shall seek capital appreciation when consistent with this primary objective, the reasonable preservation of capital and the maintenance of adequate Fund liquidity. In seeking to achieve its investment objectives the Fund shall attempt to minimize the probability of a negative total return over a 1-year period.

PERFORMANCE BENCHMARK

Attainment of Fund investment objectives shall be defined as the achievement over an interest rate cycle (i.e. 5 years) of a total return in excess of the Fund's performance benchmark.

No single index represents the Fund's portfolio composition as permitted under the Operating Funds Investment Policy or the Fund's liquidity requirements. A combination of indices weighted as follows shall comprise the Fund's normal performance benchmark:

- 10% Merrill Lynch U. S. Treasury 6 month Bill Index
- 10% Merrill Lynch U. S. 91-day Treasury Bill Index
- 30% Merrill Lynch U. S. Treasury 1-3 year Index
- 30% Merrill Lynch Federal Agencies 1-3 year Index
- 10% Merrill Lynch U. S. Treasury 3-5 year Index
- 10% Merrill Lynch Federal Agencies 3-5 year Index

This performance benchmark is believed to represent how the Fund should "normally" look in terms of risk, composition by securities, duration, and other factors governed by the Investment Policy. It also is believed to embody the tradeoffs between risk and return or between the total return and yield objectives established for the Fund. The performance benchmark may be revised by the Fund Advisory Board if deemed appropriate. During the estimated 2-year phased buy-in period, the performance benchmark weightings shall be adjusted to reflect the higher levels of liquidity.

FUND STRUCTURE

Two investment funds shall be available to U. T. System unitholders:

- (a) A Money Market Fund - this fund shall provide unitholders with overnight liquidity and shall be valued at a constant unit value.
- (b) The Short/Intermediate Term Fund - the Fund shall invest in a portfolio of securities with term maturities up to 5 years. It shall accept purchases and redemptions on a weekly basis and on the first business day of each month or on such other dates as determined by UTIMCO. Fund units shall be valued on a market value basis.

FUND MANAGEMENT

UTIMCO shall approve Fund investment policy, selection of the Investment Manager and other agents of the Fund, Fund Investment Memorandum and the Fund annual budget. UTIMCO shall also review and evaluate Investment Manager performance. Approval shall be evidenced by a majority vote of at least five members present at any meeting.

Fund Administrator

The Fund Administrator shall be responsible for the overall administration of the Fund's operations. Such administrative responsibilities shall include the recommendation of investment policy, negotiation and supervision of the Investment Manager, custodian and Transfer Agent, dividend distribution, investor servicing, accounting and other services provided to the Fund, preparation and distribution of the Fund Investment Memorandum, coordination of and reporting to component institutions and the U. T. Board of Regents, preparation of Fund budgets, ongoing review of expenses, verification of Fund collections and disbursements, review of investment legislation, and general supervision of all aspects of the Fund's operations.

UTIMCO shall serve as Fund Administrator.

Fund Investment Manager

The Investment Manager shall be responsible for the formulation of portfolio strategy and direction, execution of portfolio transactions, and compliance with investment policy guidelines. The Investment Manager will have complete discretion in the investment and management of the Fund's assets in accordance with the Fund's investment objectives and policies and subject to the general supervision and direction by the Fund Administrator.

UTIMCO shall serve as Fund Investment Manager.

Fund Custodian and Transfer Agent

The Fund Custodian and Transfer Agent shall be a bank. Its responsibilities shall include the following: safekeeping of portfolio cash and securities, processing securities transactions including securities release, receipt and delivery, the collection of income from portfolio securities, payment of fund expenses, income and market value accounting, reconciliation of general ledgers and financial statements, processing unitholder purchase and redemption transactions, pricing of securities and calculation of net asset value per unit, maintenance of unitholder accounts and records, processing payout options, account designations and addresses, monitoring the reinvestment of distributions, and providing periodic account statements to unitholders.

FUND INVESTMENT STRATEGY

The Fund shall employ a hybrid "active" buy and hold strategy in order to achieve its primary objective of a high rate of income and its secondary objective of capital appreciation. Subject to its primary objective of generating a high rate of income, the Fund Investment Manager shall seek to increase expected returns by purchasing or selling securities in anticipation of changes in interest rates or sector spread relationships.

The Fund shall also attempt to control interest rate risk by monitoring the duration of the portfolio and thereby minimize exposure to unexpected changes in interest rates.

FUND PORTFOLIO MATURITY

The Fund's normal dollar weighted average portfolio maturity may range from 1 year to 4 years depending on the Investment Manager's judgement of current or anticipated market conditions. Based on the Investment Manager's assessment of interest rate trends, generally, the average maturity will be shortened when interest rates are expected to rise and lengthened when interest rates are expected to decline.

The range may be extended from 1 day to 5 years in the event of extreme changes in interest rate expectations and only upon the written approval of the UTIMCO Chief Investment Officer.

The Fund's investments may include mortgage-backed pass-through securities or Real Estate Mortgage Investment Conduits (REMICs) which are issued by various U. S. Government agencies or instrumentalities. Such securities will have an estimated average life of five years or less as determined by the Investment Manager. Average life estimates will be based upon anticipated prepayment patterns which, in turn, will be based on past prepayment patterns, prevailing interest rates, and other factors. Due to actual prepayment experience, however, the remaining estimated average life of such an investment after purchase by the Fund may increase to more than five years or may decrease at a rate faster than anticipated. The Fund's other securities will have remaining maturities of 5 years or less and repurchase agreements will have remaining maturities of less than one year.

The Fund may purchase securities with variable or floating interest rates. In calculating average portfolio duration or maturity, such securities will generally be treated as having a maturity equal to the time remaining until their interest rate is next reset, unless the Investment Manager believes some other treatment to be more appropriate, for example, because of the market price impact of interest rate caps and floors. In addition, the Fund also may purchase securities that have demand or put features. In calculating average portfolio duration or maturity, these securities generally will be treated as having a maturity equal to the period remaining until the Fund can obtain the principal amount through exercise of such feature.

ACCOUNTING POLICIES AND PROCEDURES

The Fund shall be accounted for using the market value method as prescribed by the NACUBO Financial Accounting and Reporting Manual for Higher Education, Paragraph 402.2 Principles of Accounting for Investment Pools. The procedures adopted shall ensure proper accounting for the unitholder's principal and market changes and the proper crediting of income earned. This shall be accomplished by unitizing the investment pool.

Under this procedure, each unitholder shall receive "units" in the pool when it contributes funds to the Fund. The number of units assigned to the unitholder shall be the dollar value of the funds contributed divided by the market value per unit at the close of the business day next preceding the date of purchase. When funds are withdrawn from the pool, withdrawals shall be valued at the unit market value of the pool at the close of business day preceding withdrawal.

The withdrawal of funds from the Fund by unitholders under the market value method shall create either realized gains and losses equal to the unit market value at the time of withdrawal less the unit average cost value. Unitholders shall credit/debit such gains and losses first to an earnings reserve account and secondly to an income account prior to allocating income to the fund groups underlying unitholders' Fund accounts.

INITIAL PURCHASE OF UNITS

In order to minimize the effects of "yield blending," Fund investors may elect to invest proceeds from existing direct investments into the Fund no later than the earlier of the date of sale or maturity of such investments. Purchases of Fund units shall occur at the market unit value of the Fund as of the close of the business day preceding purchase.

REVERSE REPURCHASE AGREEMENTS

As a means of generating additional income and Fund liquidity, the Fund may lend up to 33 1/3% of its assets in reverse repurchase agreements, which are agreements pursuant to which securities are sold to a third party (banks, brokers and dealers) with the understanding that the Fund will repurchase the securities from the third party at a fixed price. The Fund will receive cash in an amount equal to at least 100% of the current value of the securities plus accrued interest. The Fund will continue to receive interest payable on the securities and will receive as income a portion of the interest on the investment of any cash proceeds. The terms of such reverse repurchase agreements will provide for termination at any time. Reverse repurchase agreements involve risks of nonperformance by the purchaser on its commitment to resell the securities back to the Fund.

Reverse repurchase contracts shall be approved by UTIMCO.

REPORTS TO UNITHOLDERS

Each unitholder shall be provided with transaction information and an individual monthly and annual statement.

FUND EXPENSES

Each unitholder shall be assessed a fee to reimburse the Fund for its operating expenses. Such operating expenses may include investment management, custodian, transfer and dividend disbursing services, preparation and maintenance of books and records of the Fund, outside legal and auditors, charges and expenses of acquiring and disposing of portfolio securities, preparation and furnishing of reports, research and all direct and indirect costs to operate the Fund. Such fee shall be reviewed and approved annually by the Board of Regents. Any fees paid to the Fund in excess of actual Fund operating expenses shall be credited at the end of each fiscal year to unitholders in proportion to average units assets held by each unitholder during the year then ended. Such credit, if any, shall be included in the calculation of Fund performance.

STATEMENT REGARDING INVESTMENT RESTRICTIONS ON DERIVATIVE SECURITIES

Further to the investment restrictions placed on derivatives in the Short/Intermediate Term Fund Investment Policy, the following categories of U.S. Agency and mortgage-backed securities shall constitute inappropriate securities for inclusion in the S/ITF portfolio:

- **Inverse Floaters**
Securities with adjustable coupons which move in the opposite direction of an index, such as the London Interbank Offering Rate (LIBOR) or Cost of Funds Index (COFI).
- **Non Money Market Based Floaters**
Securities with adjustable coupons tied to an interest rate index with a maturity longer than one year.
- **Interest Only (IO) Mortgage Securities**
Mortgage-backed instruments created to pay only the interest cash flows and little to no principal, subjecting the entire investment to repayment risk.
- **Principal Only (PO) Mortgage Securities**
Mortgage-backed instruments created to pay only the principal cash flows and no interest subjecting the yield and maturity date to prepayment risk.
- **Non Dollar Rate Based Floaters**
Securities with adjustable coupons tied to a non-U.S. interest rate index such as the Euro-Mark, Euro-Yen or Euro-Sterling rates.
- **Range Notes or Floaters**
Securities with fixed or variable coupons which accrue interest only if an interest rate index is between two pre-designated levels during the coupon period.

The University of Texas System
Private Investment Policy Statement

I. PURPOSE

The purpose of this policy is to orient and limit U. T. private investments to business situations with a high probability of excellent returns over time, but without avoidable risks or risks out of proportion to expected returns. Good communication and flexibility are desired results from implementation of this policy.

This policy shall govern the use of private investments in all funds under the supervision of the Board of Regents.

II. INVESTMENT OBJECTIVES

The primary investment objective of the private investment portfolio is long term capital appreciation in excess of the return expected from publicly traded stocks. The portfolio's target annual rate of return shall be described in the PUF and LTF investment policies. Equity investments or their equivalent will be emphasized to accelerate growth of capital and maximize the private investment portfolio's potential as an inflation hedge.

A second investment objective of the private investment portfolio is to provide a means of prudent diversification of the total fund, recognizing both the absolute growth of private investment in a global economy as well as the inherently greater balance afforded over funds limited to publicly traded securities.

III. INVESTMENT APPROVAL AND MANAGEMENT

The Office of Private Investments, under procedures established by the President of UTIMCO, is responsible for the selection, investigation, due diligence, negotiation, closing, and monitoring of each private investment.

The Office of Private Investments shall conduct a thorough written evaluation of each specific investment proposal selected for review. Upon the unanimous approval of the Office of Private Investments portfolio managers, the proposed transaction, its risk and return characteristics, and structure will be recommended to the President of UTIMCO who will independently approve or reject the portfolio managers' investment recommendation, after considering fully all relevant information available. In the event that the President of UTIMCO approves the portfolio managers' recommendation to invest in a proposed transaction, he or she shall present the investment recommendation for approval in accordance with procedures established by the UTIMCO Board. Such approval shall constitute sufficient authority for UTIMCO to enter into the proposed transaction subject to any further approvals required at the time.

At least once a quarter, the President of UTIMCO shall issue a report to the UTIMCO Board which summarizes the activity of the private investment portfolios for each fund so invested. Said report shall include new commitments, portfolio cash flows, unfunded commitments, and performance for the immediately preceding quarter and portfolio values and asset allocation as of the end of the immediately preceding quarter.

IV. INVESTMENT PORTFOLIO LIMITS

The funded and outstanding private investment portfolio may not exceed the allocation ranges for private investments as provided in the PUF and LTF investment policies.

The maximum investment in any one entity shall not exceed 10% of fund commitments.

V. INVESTMENT GUIDELINES

All investment decisions shall be made in compliance with the "prudent person standard." Portfolio investments shall be based upon the projected ability of the underlying business or project to create incremental value through the expansion or improved efficiency of operations or by the development and production of natural resources. Investments may be used to finance capital expenditures and working capital at any stage of a company's growth and/or to effect a change of control.

Investments with the following risk characteristics shall be avoided.

- a. Financial risk associated with highly leveraged transactions where the business is closely tied to either the economy or a specific industry cycle, securities denominated in soft currencies, fluctuating interest rates, commodity prices, or exchange rates.
- b. Operating risk associated with a single product or patent, extreme reliance on an individual in management, dominant suppliers or customers, or low barriers to entry.
- c. Regulatory risk associated with regulated industries subject to politicization of rate setting, base service decisions, or where success is highly dependent on continued access to public resources or favorable tax policy.
- d. Environmental risk associated with products or manufacturing processes deemed unusually hazardous to the environment.

Additional prohibitions shall include:

- 1) Participation in hostile takeovers,
- 2) Start ups or early stage companies involved in high technology product lines, unless made through a properly structured venture capital partnership/fund or via coinvestment with such an organization,
- 3) Equity ownership in entities in bankruptcy.

The private investment portfolios shall minimize ownership of securities and participation in other activities that would cause the income attributable to these investments to be classified as unrelated business taxable income.

Waiver of any of these guidelines requires the approval of the UTIMCO Board.

VI. INVESTMENT MANAGEMENT FIRMS/PARTNERSHIPS

The private investment portfolios may be invested in any authorized area through management contracts with unaffiliated organizations possessing specialized investment skills. Such investment may be in the form of interests in limited partnerships, trusts, joint ventures, etc., where principals of the management firms have investment discretion. The principals of such firms shall have a demonstrated record of accomplishment and performance in the area of investment being undertaken and shall be required to invest on the same terms as the participating investors. Management fees and performance compensation payable under such contracts shall not exceed prevailing norms at the time of negotiation.

Private investments may include coinvestment directly in transactions sponsored and invested in by a management firm/partnership in which UTIMCO is already an investor.

VII. BOARD REPRESENTATION

The Board of Regents recognizes that private investments frequently result in ownership of an interest in a company sufficient to warrant joining the board of directors to monitor and participate in oversight of the company. The decision to accept a board seat shall be the responsibility of the UTIMCO Board.

VIII. PRIVATE INVESTMENT PORTFOLIO VALUATION

The valuation of the private investments is an important ongoing yet inherently subjective process. To avoid unwarranted fluctuations and to assure a consistent methodology, all valuations will adhere to the process established and approved in Attachment A, U. T. Private Investment Valuation Criteria.

**U. T. Private Investment
Valuation Criteria**

To Change Market Value in Published Financial Reports

The methodology used to evaluate private investments is by nature subjective and must be thoughtfully and conservatively administered. All valuation decisions are subject to concurrence by the President of UTIMCO. Valuation will generally occur on a quarterly basis.

Direct Investments

- a. Publicly traded stocks and bonds with no restrictions
 - @ last bid price or market closing price. Restricted public stock values in excess of cost shall be reduced by 25%.
- b. Non-public stocks and bonds
 - @ last price paid in a new round of financing (requiring at least one new investor to confirm value ascribed).
- c. Oil and gas reserves at net book value
- d. Real estate at last appraised value

Partnership Investments

- a. Partnership capital account
- b. Oil and gas reserves at amortized cost

Other

Control blocks of marketable stock held by U. T. or in conjunction with other investors may have value beyond market quotes.

Write Down - Book & Market Value

Investments of no discernible value or burdened with formidable business problems with little potential for success shall be written down to \$1 upon such a determination.

UTIMCO INVENTORY

(Items in bold correspond to Acct. Services Inventory)

#	Inventory #	Serial#	Room #	Description	Purchase Price	Estimated Purchase Price	Estimated Market Value	Employee
4			1.2.00	CALCULATOR-ROYAL 480pd		125.00	OAM	
4	334033		1.2.00	DICTATING MACHINE, SONY 12928	702.23			
4	600478	40900106	1.2.00	FAX MACHINE 1500M RICOH	2,444.00		OAY	
4	488338		1.2.00	KODAK-ERTAGRAPHIC W/ZOOM LENS	327.00			
4	410923		1.2.00	TYPEWRITER-IBM SELECTRIC	861.50		OAM	
4			1.2.12	CALCULATOR - SHARP GS-2164F		109.95	OAM	
4			1.2.12	COFFEE POT		60.95	est. G&L 257	
4			1.2.16	MECHANICAL PROJ. SCREEN (in ceiling)			629 OAM	
4			2.1.00	CALCULATOR ROYAL 480PD		109.95	est. G&L 257	
4			2.1.06	CALCULATOR - SHARP		109.95	est. - G&L 257	
4	476250		2.1.06	PHOTOCOPIER, SHARP SF-7320	910.00		OEA-White	
4	393002		2.1.06	IBM SELECTRIC T	718.20		OEA-White	
4				CALCULATOR - SHARP		109.95	est. - G&L 257	
4			2.1.19	CALCULATOR - SHARP		109.95	est. G&L 257	
4			2.1.14	CALCULATOR - SHARP		109.95	est. - G&L 257	
4	606842		2.1.16	DUKANE OVERHEAD PROJECTOR	710.00		OEA-Moeller	
4			2.1.22	CALCULATOR - OLIVETTI		109.95	est. - G&L 257	
4			2.1.30	CALCULATOR - SHARP		109.95	est. - G&L 257	
4				CALCULATOR - SHARP		109.95	est. - G&L 257	
4			2.1.32	CALCULATOR - HERMES		109.95	est. - G&L 257	
4	440621		2.2.02	COPIER, XEROX 1090	1,041.19		OEA - Copy Room	
4	440621		2.2.02	COPIER, XEROX MDL 1090	54,675.40		OEA - Copy Room	
4	426444		2.2.02	XEROX 1050 COPIER W/RECIRCU	18,609.00		OEA - Copy Room	
4			2.2.02	CLOCK		20.00	G&L 343	
4			2.2.02	CALCULATOR - VICTOR		100.95	est. - G&L 257	
4			2.2.02	ELECTRIC PENCIL SHARPENER		37.95	G&L 640	
4			2.2.02	MAIL SCALE		20.00	GIL 835 OEA	
4			2.2.02	PAPER CUTTER		99.95	G&L 914 OEA	
4			2.2.02	TIME CLOCK		200.00	G&L 341 OEA	
4			2.2.02	TIME CLOCK		200.00	G&L 341	
4	365651		2.2.02	TYPEWRITER, ELECTRIC IBM SE	878.00		OEA - Fax Room	
4	107918		2.2.12	TYPEWRITER, ELECTRIC IBM	760.00		OEA - Storeroom	
4	317249		2.2.14	ICE MAKER - IBM ELECTRIC	846.00		Surpl 17/29/95 J. Benner)	
4						750.00	est. OEA hallway	

#	Inventory #	Serial#	Room #	Description	Purchase Price	Estimated Purchase Price	Estimated Market Value	Employee
4			2.2.18	CALCULATOR - SHARP		109.95	est. - G&L 257	OEA -K. Rebold
4			2.2.20	CALCULATOR - SHARP		109.95	est. -G&L 257	OEA - T. Gonzales
4			2.2.20	CALCULATOR - SHARP		109.95	est. - G&L 257	OEA - J. Byrd
4			2.2.20	CALCULATOR - SHARP		109.95	est. - G&L 257	OEA - S. Meyers
4			2.2.22	CALCULATOR - ROYAL		109.95	est. - G&L 257	
4						109.95	est. - G&L 257	
4	600724		2.2.22	CALCULATOR - SHARP ROYAL		2,000.00	est. - OER/OE&T	OEA Treasury Ops
4			2.3.02	CALCULATOR - SHARP		109.95	est. - G&L 257	OEII - G. Baker
4	4313%		2.3.02	LETTER OPENER - AUTOMATIC	631.25		est. - G&L 257	OLCGI - B. Seifts
4	4094%		2.302	TRANSCIVER, FACSIMILE, CAN	1,968.20			OEI/OLCGI
4	385583		2.3.26	TYPEWRITER, IBM ELECTRIC	846.00			OLCGI - Trading Room
4	407921		2.3.26	ZENITH T V				OLCGI - Trading Room
4	No#		2.3.26	ZENITH V C R				OLCGI - Trading Room
4			2.4.04	CALCULATOR - SHARP		199.95	est. - G&L 257	OFII - D. Watson
4			2.4.06	ELECTRIC PENCIL SHARPENER		37.95	G&L 840 257	OFII - Trading Room
4			2.4.10	TYPEWRITER - HERMES		109.95	est. -G&L	OFII - Vacant
4	349186		2.4.10	TYPEWRITER, W C CORRECTING	930.50			OFII - N. Murrow
4			3.1.00	ICEMAKER		750.00	est.	OAM-Breakroom
4			3.1.00	MICROWAVE - HOTPOINT		220.00	G&L 625	OAM-Breakroom
4			3.1.00	MICROWAVE - KENMORE		220.00	G&L 625	OAM-Breakroom
4	NOY		3.1.00	OVEN - FRIGIDARE		550.00	est.	OAM-Breakroom
4	NO #		3.1.00	REFRIGERATOR - GE/HOTPOINT		750.00	est.	OAM-Breakroom
4	NO #		3.1.00	REFRIGERATOR - GE/HOTPOINT		750.00	est.	OAM-Breakroom
4			3.1.00	REFRIG		750.00	est.	OAM-Breakroom
4			3.1.00	TOASTER/TOASTER OVEN		150.00	est.	OAM-Breakroom
4			3.1.00	TV - M. WARD		200.00	est.	OAM-Breakroom
	358814		3.3.16	TYPEWRITER, ELECTRIC IBM SE	954.45			Surplus ?
	337727		3.3.16	TYPEWRITER, IBM CORRECTING	776.50			Surplus ?
4		outside	2.2.14	COFFEE POT		60.95	G&L 629	OEA hallway
4		outside	2.2.14	COFFEE POT		60.95	G&L 629	OEA hallway
					89,684.42	9,782.55		
12	489909		1.2.00	COMPUTER, 486DX - AmTech	3,720.00		1,500.00	OAM-vacant (CL)
12	491970	2V527	1.2.00	COMPUTER, DELL 450M BUNDLE	4,618.00		2,000.00	OPI - Maugham
12	No#	4431000196	1.2.00	Dell Monitor		0.00	200.00	OPI - Maugham (included in bundle price)
12	No#	T4KAM2529390	1.2.00	EverView Monitor		400.00	150.00	OAM-vacant (CL)
12	457493		1.2.00	INTERNAL MODEM	586.00		150.00	OPI - Maugham
12	456828		1.2.00	LASER PRINTER - HP IID	300.00		600.00	OPI - Maugham
12	457493		1.2.00	MICROCOMPUTER - IBM PS/2	2,646.00		300.00	OPI - Maugham
12	502310	USB4402259	1.2.00	PRINTER HP DESKJET 1200C BL (COLOR)	1,462.00		1,000.00	OAY (note: Computer estimate purchase)

I	Inventory #	Serial#	Room #	Description	Purchase Price	Estimated Purchase Price	Estimated Market Value	Employee
12	490353	2LZLK	1.2.04	COMPUTER, DELL 450M BUNDLE	4,714.00		2,500.00	OPI - Long
12	502943		1.2.04	COMPUTER, TOSHIBA PORTEGE	2,720.00		2,000.00	OPI - Long
12	No#	315A2295	1.2.04	Dell Monitor		0.00	200.00	OPI - Long
12	435198		1.2.04	LASER PRINTER	1,999.95		600.00	OPI - Long
12	503686		1.2.06	COMPUTER TOSHIBA PROTEGE	2,083.00		2,000.00	OPI - Nickels
12	490352		1.2.06	COMPUTER, DELL 450M BUNDLE	4,714.00		2,500.00	OPI - Nickels
12	No#	316A1490	1.2.06	Dell Monitor		0.00	200.00	OPI - Nickels
12	403255		1.2.06	HP SCANJET HP PC	400.00		400.00	OPI - Nickels
12	490351		1.2.06	PRINTER, HP LASERJET IVM	1,765.00		600.00	OPI - Nickels
12	494675	2XDH5	1.2.08	DELL 466MXV BUNDLE	3,309.00		2,000.00	OAM/ASA - Borowski
12	No#	320B1920	1.2.08	Dell Monitor		0.00	200.00	OAM/ASA - Borowski
12	491971		1.2.08	PRINTER, HP LASERJET IVM	1,765.00		600.00	OAM/ASA - Borowski
12		45954	1.2.08	Supra 14.4 Modem			100.00	OAM/ASA - Borowski
12	498523		1.2.10	DELL 466MXV BUNDLE		200.00	2,000.00	OAM - Ricks
12	600770	65528A058Q55	1.2.10	DELL MONITOR - 17"	3,162.00		856.00	OAM - Ricks
12		??	1.2.10	FAX MODEM		200.00	100.00	OAM - Ricks
12		??	1.2.10	PRINTER - HP III		1,000.00	400.00	OAM - Ricks
12	498527	3S25G	1.2.12	DELL 466MXV BUNDLE	2,322.00		2,000.00	OAM - Wallace
12	498527		1.2.12	DELL 466MXV BUNDLE	840.00			OAM - Wallace
12	600771	65528A07KH55	1.2.12	DELL MONITOR - 17"		856.00	856.00	OAM - Wallace
12	489398		1.2.12	PRINTER, HP LASERJET IV	1,360.00		600.00	OAM - Wallace
12	436398		1.2.14	COMPUTER, COMPAQ PORTABLE II	3,614.00		300.00	OAM/ASA - Vacant (JR)
12	494677	2XD5L	1.2.14	DELL 466MXV BUNDLE	3,309.00		2,500.00	OAM/ASA - Vacant (JR)
12	No#	331B1961	1.2.14	Dell Monitor		0.00	200.00	OAM/ASA - Vacant (JR)
12	491972		1.2.14	PRINTER, HP LASERJET IVM	1,765.00		600.00	OAM/ASA - Vacant (JR)
12		009566	1.2.14	Supra 14.4 Modem		200.00	100.00	OAM/ASA - Vacant (JR)
121		282130TA	1.2.14	Trakker backup		300.00	200.00	OAM/ASA - Vacant (JR)
12	453974		1.3.04	FAX MODEM	517.471		50.00	OAM (not currently used)-S. ONION (C)
12	498599		2.1.00	AUTOMATIC FILE CONVERSIONS	1,500.00		1,000.00	OEA-(Vacant-reception area)
12	494680	2XD6K	2.1.00	DELL 466MXV BUNDLE	3,309.00		2,000.00	OEA-(Vacant-reception area)
12	No#	320B3730	2.1.00	Dell Monitor		300.00	200.00	OEA-(Vacant-reception area)
12	498598		2.1.00	HP JD CARD FOR DESIGNJET 60	577.00		300.00	OEA-(Vacant-reception area)
12	498598	USFB365127	2.1.00	HP LASERJET 4SI MX PRINTER	4,259.00		3,000.00	OEA-(Vacant-reception area)
12	456837		2.1.00	T/R NETWORK 16/4 (FILESERVER)	565.00		150.00	OEA-(Vacant-reception area)
12		0002670210641802	2.1.00	US Robotics 14.4 Modem		150.00	150.00	OEA-(Vacant-reception area)
12			2.1.00	US ROBOTICS SPORTSTER MODEM		150.00	100.00	OEA-(Vacant-reception area)
12	502945		2.1.04	COMPUTER, TOSHIBA PORTEGE	3,035.00		2,000.00	OEA-Iberg
12	600850	65528A07BQ55	2.1.04	DELL MONITOR - 17"		856.00	856.00	OEA-Iberg
12	No#	SG5111N2N6	2.1.04	DESKJET 560C		350.00	350.00	OEA-Iberg
12	479972		2.1.06	CD ROM		400.00	200.00	OEA-White
12	455592	2843Q	2.1.06	COMPUTER, DELL 433M BUNDLE	2,913.00		1,500.00	OEA-Iberg or White?

#	Inventory #	Serial#	Room #	Description	Purchase Price	Estimated Purchase Price	Estimated Market Value	Employee
12	489530	2KKWB	2.1.06	COMPUTER, DELL 466/L	3,071.00		2,000.00	OEA-White
12	459203		2.1.06	LASER PRINTER - HP LASERJET III	2,311.88		600.00	OEA-White
12	455174		2.1.06	LASER PRINTER - HP SERIES II	1,695.23		600.00	OEA-White
12	No#	U430012087	2.1.06	MONITOR, DELL SVGA 1024I	282.00		200.00	OEA-White
12	453336	JC1601VMA1	2.1.06	MONITOR, NEC MULTISYNC 4D C	1,270.00		300.00	OEA-White
12			2.1.06	SUPRA FAX MODEM		200.00	100.00	OEA-White
12	490405	2NNW5	2.1.08	COMPUTER, 466/M BUNDLE	3,368.00		2,000.00	OEA-Woodard
12	No#	320B4015	2.1.08	Dell Monitor		400.00	200.00	OEA-Woodard
12	No#	US36S1R0C6	2.1.08	DESK JET 500		300.00	200.00	OEA-Woodard
12	600602	4X505	2.1.10	DELL 466 Le	2,052.00		2,000.00	OEA-Hill
12	600601	4X507	2.1.10	DELL 466/LE 16/340/BUNDLE	2,052.00		2,000.00	OEA-Hill
12	No#	3750109048	2.1.10	Dell Monitor		259.00	200.00	OEA-Hill
12	No#	US36Q1S1TJ	2.1.10	HP DESK JET 500		300.00	200.00	OEA-Hill
12	494679	2XD5F	2.1.12	DELL 466/MXV BUNDLE	3,309.00		2,000.00	OEA-Smith
12	No#	320B4022	2.1.12	Dell Monitor		400.00	200.00	OEA-Smith
12	474125	3224A20094	2.1.12	HP LASER JET 500		300.00	200.00	OEA-Smith
12	502944		2.1.14	COMPUTER, TOSHIBA PORTEGE	3,535.00		2,000.00	OEA-Moeller
12	NO #	M431022798	2.1.14	DELL MONITOR		259.00	200.00	OEA-Moeller
12	474126	3224A20090	2.1.14	HP LAJET JET 500		300.00	200.00	OEA-Moeller
12	NO #		2.1.16	DELL MONITOR		250.00	2,000.00	OEA-Storeroom
12	428942		2.1.16	EMULATION BOX	960.00		300.00	OEA
12	429276		2.1.16	IRMA PRINT		960.00	300.00	OEA-Storeroom
12	433685		2.1.16	IRMA PRINT BOARD/BOX PARALL	755.00		300.00	OEA-Storeroom
12	492034		2.1.16	NVIEW MODEL SPECTRA-C LCD	3,674.00		2,500.00	OEA-Storeroom
12	499897		2.1.16	THINKPAD 350C 486NOTEBOOK W	3,538.00		2,500.00	OEA-Storeroom
12	494678	2XD58	2.1.20	DELL 466/MXV BUNDLE	3,309.00		2,000.00	OEA - Record
12	No#	320B1861	2.1.20	Dell Monitor		400.00	200.00	OEA - Record
12		094708	2.1.20	MICROSPEED MOUSE		50.00	25.00	OEA - Record
12	434133		2.1.20	PRINTER SYSTEM - HP Laserjet II	2,163.83		600.00	OEA - Record
12	490406	2NNW4	2.1.22	COMPUTER, DELL 466/M BUNDLE	3,368.00		2,000.00	OEA - Childers
12	No#	U431000437	2.1.22	DELL MONITOR		400.00	200.00	OEA - Childers
12	NO #	3052S71532	2.1.22	HP DESKJET 500		300.00	200.00	OEA - Childers
12	498540	3S7ZH	2.1.24	DELL 466/MXV BUNDLE	3,105.00		2,000.00	OEA - Wheless
12	No#	M454125577	2.1.24	DELL MONITOR		400.00	200.00	OEA - Wheless
12	430589		2.1.24	LASERJET PRINTER,SERIES II	1,402.50		600.00	OEA - Wheless
12	456991		2.1.26	DESK, SINGLE PEDESTAL LEFT	613.31			OEA - Vacant
12	415552		2.1.26	PRINTER, HP LASER JET	1,820.00		500.00	OEA - Vacant
12	600853	54Y4J	2.1.30	DELL 575/XL BUNDLE		2,351.00	2,351.00	OEA - Read
12	No#	79793A1XG675	2.1.30	DELL MONITOR		442.00	442.00	OEA - Read
12	429791		2.1.30	HP LASER JET II		1,462.00	600.00	OEA - Read
12	494681	2XD50	2.1.32	DELL 466/MXV BUNDLE	3,309.00		2,000.00	OEA - Kirby

#	Inventory #	Serial#	Rnum #	Description	Purchase Price	Estimated Estimated Market		Employee
						Purchase Price	Value	
12	No#	32081908	2.1.32	DELL MONITOR		400.00	200.00	OEA - Kirby
12		31014A2441	2.1.32	PRACTICAL PERIPHERAL MODEM 9600		200.00	100.00	OEA - Kirby
12	493284		2.2.02	AGILE INTERFACE FOR XEROX 4	1,113.00		600.00	OEA - Copy Room
12	493285		2.2.02	AGILE INTERFACE FOR XEROX 4	1,113.00		600.00	OEA - Copy Room
12	428944		2.2.02	EMULATION BOX - IRMA BOX	960.00		300.00	Transferred 10/3/95 - Surplus to OIR
12	448266		2.2.02	LASER PRINTER - DATA PRODUCTS	3,134.67		1,000.00	Transferred 10/3/95 - Surplus to OIR
12	479019		2.2.02	MICROFILM READER/PRINTER w/table	11,142.45			OEA - copy/ Room
12	493414	56V-004741	2.2.02	XEROX 4213 LASER PRINTING S	3,895.00		3,000.00	OEA - Copy Room
12	493415	56V-004364	2.2.02	XEROX 4213 LASER PRINTING S	3,895.00		3,000.00	OEA - Copy Room
12	463168		2.2.10	ANALOG MONITOR, MULTISYNC 3	650.38		150.00	OEA - Server Room
12	602540	S95025451846	2.2.10	APC SMART-UPS		614.00	600.00	OEA - Server Room
12	No#	888609004281	2.2.10	AT&T MONITOR		400.00	150.00	OEA - Server Room
12	No#	41505277T424	2.2.10	COMPAQ MONITOR		400.00	200.00	OEA - Server Room
12	439996	4833AJ281068	2.2.10	COMPUTER COMPAQ DESKPRO 386	5,420.50		300.00	OEA - Server Room
12	496553		2.2.10	COMPUTER COMPAQ PROLIANT 20	11,672.48		11,672.00	OEA - Server Room (UTS_OAM)
12	446482		2.2.10	COMPUTER, AT & T 6396	3,526.00		500.00	OEA - Server Room
12	479979		2.2.10	COMPUTER, CUI ADV 486 W/14"	1,999.00		400.00	OFAI - Vacant
12	600690	72-8052523	2.2.10	COMPUTER, IBM PS/2 MODEL 60	4,362.00		300.00	OEA - Server Room
12	600775	08716	2.2.10	DELL SYSTEM 310		3,000.00	400.00	OEA - Server Room (CD-VIEW server)
12	600697	4633AJ286682	2.2.10	FIXED CD-ROM & SOFTWARE	1,838.00		1,800.00	OEA - Server Room
12	379057			COLOR	859.53		200.00	OEA - Server Room
12	440000			IK. COMPAQ. TYPE 17	6,407.00		300.00	OEA - Server Room (PC Anywhere serv
12	443259		 T UPS	837.00		300.00	OEA - Server Room
12	479980		2.2.10	GOLDSTAR MONITOR		500.00	150.00	OEA - Server Room
12	479984		2.2.10	GOLDSTAR MONITOR		500.00	150.00	OEA - Server Room
12	446482		2.2.10	HARD DISK, 300 MB ADDED TO HOOK_EM	2,200.00		300.00	OEA - Server Room
12		A0104000390C	2.2.10	HAYES 2400 MODEM		250.00	50.00	OEA - Server Room
12	No#	C2106A	2.2.10	HP DESKJET		400.00	200.00	OEA - Server Room
12	No#	23-13537	2.2.10	IBM MONITOR		400.00	150.00	OEA - Server Room
12	No#	72-0970101	2.2.10	IBM MONITOR		400.00	150.00	OEA - Server Room
12	462407	23-1247100	2.2.10	IBM PS/2 MODEL: 555X	2,520.00		300.00	OEA - Server Room
12		0030922001	2.2.10	MAGNOVOX MONITOR.		400.00	150.00	OEA - Server Room
12	493287	A04120043977	2.2.10	MODEM, HAYES BAUD	568.00		100.00	OEA - Server Room
12	443257	61-012448	2.2.10	MODEM, US ROBOTICS COURIER	547.50		100.00	OEA - Server Room
12	443260	61-012479	2.2.10	MODEM, US ROBOTICS COURIER	547.50		100.00	OEA - Server Room
12	No#	45CH00536	2.2.10	PLEXTOR 4PLEX CD-ROM		450.00	400.00	OEA - Server Room
12	No#	45CH007226	2.2.10	PLEXTOR 4PLEX CD-ROM		450.00	400.00	OEA - Server Room
12	376787		2.2.10	PRINTER, EPSON	837.00		200.00	OEA - Server Room
12			2.2.10	TODD CD-ROM TOWER		1,500.00	500.00	OEA - Server Room
12	600851	65528A07AD55	2.2.14	DELL MONITOR - 17"		856.00	856.00	OEA - B. Edwards
12	600772	64Y45	2.2.14	DELL XI 575 BUNDLE		2,351.00	2,351.00	OEA - R Edwards

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#	Inventory #	Serial#	Room #	Description	Purchase Price	Estimated Purchase Price	Estimated Market Value	Employee
12			2.2.14	US ROBOTICS MODEM		150.00	100.00	OEA - B. Edwards
12	489529	2KKWD	2.2.16	COMPUTER, DELL 466/L BUNDLE	3,071.00		2,000.00	OEA - L. Carino
12	459872		2.2.16	EXTERNAL TAPE BACK-UP, 80 M	724.00			*
12	NO #	89UC2106X	2.2.16	HP DESKJET 500		300.00	200.00	OEA - L. Carino
12	No#	M431022799	2.2.16	MONITOR, SVGA 1024I	282.00		200.00	OEA - L. Carino
12	600691	503VM	2.2.18	DELL 466/LE 16/340 BUNDLE	2,052.00		2,000.00	OEA - K. Rebold
12	No#	03062G0G3995	2.2.18	DELL MONITOR		400.00	200.00	OEA - K. Rebold
12	474124	3224a20051	2.2.18	HP DESKJET 500		300.00	200.00	OEA - K. Rebold
12	493286		2.2.20	AGILE INTERFACE FOR XEROX 4	1,113.00		600.00	OEA - S. Meyers
12	443577		2.2.20	DISPLAY STATION CRT 6300 MO	771.00			? Not on B. White's list
12	462405		2.2.20	MICROCOMPUTER - Club American	2,998.00		400.00	OEA - Byrd
12	462405		2.2.20	MICROCOMPUTER - Club Monitor	1,047.00		150.00	OEA - Byrd
12	460717		2.2.20	MICROCOMPUTER - CLUB AMERICAN	3,546.00		400.00	OEA - S. Myers
12	460716		2.2.20	MONITOR, CLUB MULTISYNC	699.00		150.00	OEA - S. Myers
12	493416	56V-004496	2.2.20	XEROX 4213 LASER PRINTING S	3,895.00		3,000.00	OEA - S. Myers
12	600774	09725	2.2.22	DELL SYSTEM 310		3,000.00	400.00	OEA - K. Mayes
12		A13031083419	2.2.22	HAYES 2400 MODEM		300.00	50.00	OEA - K. Mayes
12	No#	3112S04016	2.2.22	HP DESKJET		300.00	200.00	OEA - V. Coffin
12	NO #	US36Q1S1TV	2.2.22	HP DESKJET 500		300.00	200.00	OEA - K. Mayes
12	459871		2.2.22	MICROCOMPUTER, IBM PS/2	6,646.00		300.00	OEA Mayes/Coffin
12	479020		2.2.22	MODEM - HAYES 2400		550.00	50.00	OEA - K. Mayes
12	470981		2.2.22	MODEM, PP 9600 BAUD W/MNP	510.00		150.00	OEA - K. Mayes/V. Coffin
12	No#	45096000217	2.2.22	SUN MOOR CD ROM DRIVE	470.00		200.00	OEA - K. Mayes
12		0002670210641436	2.2.22	US ROBOTICS 14.4 MODEM		150.00	100.00	OEA - K. Mayes
12	600692	503VM	2.2.24	DELL 466/LE 16/340 BUNDLE	2,052.00		2,000.00	OEA - J. Benner
12	No#	03062G0G3755	2.2.24	DELL MONITOR		400.00	200.00	OEA - J. Benner
12	No#	3109A21766	2.2.24	HP DESKJET		300.00	200.00	OEA - J. Benner
12	369716		2.2.24	MODEM, HAYES SMART - 1200 B	639.88		50.00	OEA - J. Benner
12	475703		2.3.02	4MB CHIP FOR PRINTER, HP LA	200.00			OLCGI - B. Seifts
12	498526	3S25D	2.3.02	DELL 466/MXV BUNDLE	3,162.00		2,000.00	OEA - G. Baker
12	503691	3SGTV	2.3.02	DELL 466/MXV BUNDLE	2,742.00		2,000.00	OLCGI - B. Seifts
12	No#	45918A06A614	2.3.02	DELL MONITOR		400.00	200.00	OLCGI - B. Seifts
12		A19231083555	2.3.02	HAYES 2400 MODEM		350.00	50.00	OLCGI - B. Seifts
12	443261		2.3.02	HP LASERJET SERIES II	1,769.00		600.00	OEA - G. Baker
12	475703		2.3.02	PRINTER, HP LASERJET SERIES III	1,265.00		600.00	OLCGI - B. Seifts
12	479994		2.3.02	ULTRASCAN 14C (DELL MONITOR)	650.00		150.00	OEA - G. Baker
12	395414		2.3.02	WHEELWRITER 5, FOR IBM	836.00		300.00	OEA/OLCGI
12	419308		2.3.04	PRINTER, LASERJET, HP 2686A	1,828.75		200.00	Library
12		8350576	2.3.08	AMDECK MONITOR		450.00	150.00	OEA - AIS
12		S94114443254	2.3.08	APC SMART UPS		600.00	600.00	OEA - AIS (OS/2 server)
12	No#	CY5112NM1S2	2.3.08	APPLE MONITOR		350.00	200.00	OEA - AIS

#	Inventory #	Serial#	Room #	Description	Purchase Price	Estimated Purchase Price	Estimated Market Value	Employee
12	No#	512AF05AF738	2.3.08	COMPAQ MONITOR		250.00	200.00	OEA - AIS (OS/2 server)
12	463167		2.3.08	COMPUTER - TOKEN RING NETWO	500.00		150.00	OEA - Y. Gee
12	464031		2.3.08	COMPUTER WORKSTATION W/KEYB	912.00			OEA - ?
12	486893	282ZL	2.3.08	COMPUTER, DELL 433/M BUNDLE	2,896.00		1,500.00	OEA - AIS (Gee)
12	No#	M4513950	2.3.08	DELL MONITOR		300.00	200.00	OEA - AIS
12	489528	2KKWS	2.3.08	DELL 466 L		3,353.00	2,000.00	OEA - AIS (Read)
12	494676	2XD5G	2.3.08	DELL 466/MXV BUNDLE	3,309.00		2,000.00	OEA - Gee
12	498543	3826L	2.3.08	DELL 466/MXV BUNDLE	3,525.00		2,000.00	OEA - Iberg
12	498541	3S26K	2.3.08	DELL 466/MXV BUNDLE	3,525.00		2,000.00	OEA - AIS (Kampfe)
12	600866	58XN0	2.3.08	DELL 575/M W/ CD-ROM		3,000.00	3,000.00	OEA - AIS
12	600852	54Y3R	2.3.08	DELL 575/XL BUNDLE		2,351.00	2,351.00	OEA - AIS
12	600859	571S2	2.3.08	DELL 575/XL BUNDLE		2,069.00	2,069.00	OEA - AIS
12	No#	7096965	2.3.08	DELL MONITOR		442.00	400.00	OEA - AIS
12	No#	320B3725J	2.3.08	DELL MONITOR		300.00	200.00	OEA - AIS (Edwards)
12	No#	M431022801	2.3.08	DELL MONITOR		300.00	200.00	OEA - AIS (Read)
12	No#	M454139519	2.3.08	DELL MONITOR		300.00	200.00	OEA - AIS (Gee)
12	No#	SN-45918A064Z14	2.3.08	DELL MONITOR		300.00	200.00	OEA - AIS (Wallace)
12	No#	SN-45918A068X14	2.3.08	DELL MONITOR		300.00	200.00	OEA - AIS (Ricks)
12	600860	65532A00FH35	2.3.08	DELL MONITOR - 21"		1,713.00	1,713.00	OEA - AIS
12	460220		2.3.08	DISPLAY, COLOR	615.00		150.00	OEA - AIS
12	476481	23-W2102	2.3.08	DISPLAY, COLOR 14" (#8515)	545.00		150.00	OEA - AIS
12	456841		2.3.08	DISPLAY, COLOR, #8515, 14"	615.00		150.00	OEA - AIS
12	No#	US36Q1S1TB	2.3.08	HP DESKJET		400.00	200.00	OEA - Y. Gee
12	No#	US36Q1S1VF	2.3.08	HP DESKJET		350.00	200.00	OEA - AIS
12		US00140817	2.3.08	HP SCANNER		1,200.00	1,000.00	OEA - AIS
12	460715	D001082	2.3.08	MICROCOMPUTER - CLUB AMERICAN	4,745.00		400.00	OEA - AIS
12	460715		2.3.08	MICROCOMPUTER W/COMPONENTS (MEM	384.00			OEA - AIS
12	463167		2.3.08	MICROCOMPUTER, IBM	7,228.00		300.00	OEA - Y. Gee
12	460994	23-9008462	2.3.08	MICROCOMPUTER, IBM PS/2	6,646.00		300.00	OEA - Y. Gee
12	460713	D001088	2.3.08	MICROCOMPUTER- CLUB AMERICAN	4,217.00		400.00	OEA - AIS
12	No#		2.3.08	MONITOR, CLUB MULTISYNC	699.00		150.00	OEA - AIS
12	460718		2.3.08	MONITOR, CLUB MULTISYNC	699.00		150.00	OEA - AIS
12	476483	23-RT745	2.3.08	MONITOR, IBM PS/2 14" COLOR	600.00		150.00	OEA - AIS
12	600695		2.3.08	POWER MAC 7100/80 8/700/CD	1,532.00		2,500.00	OEA - AIS
12	600696		2.3.08	PROLIANT 1500 PENT-75-NP-HD	10,225.71		10,000.00	OEA - Y. Gee (OS/2 server)
12		0002670210641821	2.3.08	US ROBOTICS 14.4 MODEM		120.00	100.00	OEA - AIS (OS/2 server)
12	No#	7095276	2.3.12	DELL 15" MONITOR		442.00	400.00	OEA - M. Stinnett
12	498666	3H2FX	2.3.12	DELL 466/MXV BUNDLE	3,362.00		2,000.00	OEA - M. Stinnett
12	No#	M454124452	2.3.12	DELL MONITOR		400.00	200.00	OEA - M. Stinnett
12	600854	571GO	2.3.12	DELL XL 575		2,688.00	2,688.00	OEA - M. Stinnett
12	NO #	US36Q1S1V7	2.3.12	HP DESKJET 500		400.00	200.00	OEA - M. Stinnett

	Inventory #	Serial#	Room #	Description	Purchase Price	Estimated Purchase Price	Estimated Market Value	Employee
12	480887	0002670210641790	2.3.12	US SCANNERS 14.4 MODEM		1,000.00	400.00	OEA - M. Stinnett
12	459322		2.3.14	ADAPTOR. T/R NETW	6,072.00		1,000.00	OEA - M. Stinnett
12	No#	0095048	2.3.14	CLUB MONITOR		450.00	150.00	OEA - Y. Gee (STOCKS)
12	436230	4751AJ2B1704	2.3.14	COMPAQ DESKPRO 388		5,000.00	200.00	OEA - Y. Gee
12	439994	4835AJ2B0802	2.3.14	COMPUTER, COMPAQ DESKPRO 38	5,420.50		300.00	OEA - Y. Gee
12	479993		2.3.14	DELL 32MB RAM, CUST in STOCKS	4,497.00		500.00	OEA - Gee
12	479993	1R0TV	2.3.14	DELL 450SE/2 BUNDLE	6,393.00		2,000.00	OEA - Gee (STOCKS server)
12	498542	3S22L	2.3.14	DELL 466/MXV BUNDLE	3,105.00		2,000.00	OEA - Y. Gee
12	600858	571GL	2.3.14	DELL 575/XL BUNDLE		2,069.00	2,069.00	OEA - Y. Gee
12	No #	79793A1YPH75	2.3.14	DELL MONITOR		400.00		OEA - Y. Gee
12	NO #	3035513756	2.3.14	HP DESK JET		400.00	200.00	OEA - Y. Gee
12	479993		2.3.14	IGB DRIVE, 2ND SE, CUST in STOCKS	1,529.00		500.00	OEA - Gee
12	434367	2728A05472	2.3.14	PRINTER, HP PAINTJET	767.25		400.00	OAM - Gee
12		0008390034231762	2.3.14	US ROBOTICS 28.8 MODEM		100.00	125.00	OEA - Y. Gee
12	494674	2XD5C	2.3.16	DELL 466/MXV BUNDLE	3,309.00		2,000.00	OAM - D Gahagan
12	No#	M454106258	2.3.16	DELL MONITOR		400.00	200.00	OAM - D Gahagan
12	NO #	US36T1R0BY	2.3.16	HP DESKJET 500		400.00	200.00	OAM - D Gahagan
12	456842	23-D6939	2.3.16	IBM MONITOR		600.00	150.00	OAM - D Gahagan
12			2.3.16	KEYBOARDS (2)		0.00		OAM - D Gahagan
12			2.3.16	LABTEC SPEAKERS		150.00		OAM - D Gahagan
12	456827	23-9218910	2.3.16	MICROCOMPUTER- IBM PS/2 MODEL 80	6,582.00		300.00	OAM - D. Gahagan
12		009568	2.3.16	MODEM - SUPRA 14.4 FAX		150.00	100.00	OAM - D Gahagan
12	369712		2.3.16	MODEM, HAYES SMART - 1200 B	1,509.88		50.00	OEA - Storeroom
12	439896		2.3.16	PRINTER - HP LASERJET SERIES II	2,213.68		600.00	OAM - D Gahagan
12	484850		2.3.16	TW 72-PIN 16MB SIMMS FOR DGAHAGAN	2,199.00		300.00	OAM - D Gahagan
12			2.3.16	US ROBOTICS 28.8 MODEMS (2)		200.00	300.00	OAM - D Gahagan
12	No#	45918A01HM14	2.3.18	DELL MONITOR		400.00	200.00	OELL - G. Cox
12	494885	30Q8Z	2.3.18	DELL MXV BUNDLE	2,969.00		2,000.00	OELL - G. Cox
12			2.3.18	MP 401 AUTO DATA SWITCH		0.00	leased thru Bloom.	OELL - G. Cox
12	434135		2.3.18	PRINTER- HP SERIES II	2,163.83		600.00	OELL - G. Cox
12	498528	3S254	2.3.20	DELL 466/MXV BUNDLE	2,322.00		2,000.00	OELL - M. Penn
12	No#	45918A069K14	2.3.20	DELL MONITOR	840.00		200.00	OELL - M. Penn
12	440501		2.3.20	LASER PRINTER, HP SERIES II	2,299.93		600.00	OELL - M. Penn
12	382645		2.120	MODEM, SMART, HAYES	550.00		50.00	
12	475704		2.3.22	4MB CHIP FOR PRINTER, HP LA	200.00			OLCGI - H. Timmins
12	479977		2.3.22	COMPUTER, CUI ADV 486 W/14"	1,999.00		400.00	OLCGI - H. Timmins
12			2.3.22	DATA SWITCH/CA POWER DIRECTOR		0.00	leased thru Bloom.	OLCGI - H. Timmins
12	498524	3S250	2.3.22	DELL 466/MXV BUNDLE	2,322.00		2,000.00	OLCGI - H. Timmins
12	No#	45918A06BU14	2.3.22	DELL MONITOR	840.00		200.00	OLCGI - H. Timmins
12	475704		2.3.22	PRINTER, HP LASERJET SERIES	1,265.00		600.00	OLCGI - H. Timmins

#	I Inventory #	Serial#	Room #	Description	Purchase Price	Estimated Purchase Price	Estimated Market Value	Employee
12	479978		23.22	GOLDSTAR MONITOR		550.00	150.00	OLCGI - H. Timmins
12	498667	3H2FW	2.3.24	DELL 466/MXV BUNDLE	3,162.00		2,000.00	OLCGI - C. Hopkins
12	No#	45918A097P24	23.24	DELL MONITOR		400.00	200.00	OLCGI - C. Hopkins
12	434849		2.3.24	PRINTER, LASER HP SERIES II	1,668.30		600.00	OLCGI - C. Hopkins
12		140394	2.3.24	SUPRA 14.4 MODEM		150.00	100.00	OLCGI - C. Hopkins
12	600707		2.3.26	COMPAQ PROLIANT		10,000.00	10,000.00	OLCGI - Trading Room
12	407920		2.3.31	COMPUTER, MSK DE			300.00	OLCGI - Trading Room
12	No#		2.3.26	COMPUTER, DESKTOP MONITOR	700.00		150.00	OLCGI - Trading Room
12		23ZBV16	2.3.26	IBM MONITOR		450.00	150.00	OLCGI - Trading Room
12	382644		2.3.26	MODEM, SMART, HAYES	580.00		50.00	*
12	418892		2.3.26	PRINTER, EPSON FX 286	589.00		200.00	OLCGI - Trading Room
12	486908		2.3.26	PRINTER, HP LASERJET IV	1,184.00		600.00	
12	360449		2.4.02	TRADER, MONROE BOND	1,195.00		1,195.00	OFII - B. Holland
12	498525		2.4.04	DELL 466/MXV BUNDLE	3,162.00		2,000.00	OFII - D. Watson
12	No#	45918A01K714	2.4.04	DELL MONITOR		400	200.00	OFII - D. Watson
12	443262		2.4.04	LASERJET SERIES II, HP	1,769.00		600.00	OFII - D. Watson
12			2.4.06	BLOOMBERG (1)		0.00	leased	OFII - Trading Room
12	498665	3H211	2.4.06	DELL 466/MXV BUNDLE	3,791.00		2,000.00	OFII - Trading Room
12	600773	54Y40	2.4.06	DELL 575/XL BUNDLE		2,688.00	2,688.00	OFII - Kampfe
12	No#	320B3736	2.4.06	DELL MONITOR		400.00	200.00	OFII - Trading Room
12	No#	U430012094	2.4.06	DELL MONITOR		400.00	200.00	OFII - Trading Room
12			2.4.06	DOW JONES TELERATE (2)		0.00	leased	OFII - Trading Room
12	486895		2.4.06	HAYES ULTRA 86/SC EZ PC	552.00		100.00	OFII - Trading Room
12	459321		2.4.06	MONITOR, COLOR	1,084.00		150.00	OLCGI - Trading Room
12	434134		2.4.06	PRINTER SYSTEM HPLJ II	2,163.83		600.00	OFII - Trading Room
12	376764		2.4.06	TRADER, MONROE BOND, MODEL	1,076.00		1,076.00	OFII - Trading Room
12	461685		2.4.06	TRADER, MONROE BOND, MODEL	1,395.00		1,395.00	OFII - Trading Room
12	439995		2.4.10	COMPUTER, COMPAQ DESKPRO 38	5,420.50		300.00	OFII - Vacant
12	479989		2.4.10	COMPUTER, CUI ADV 486 W/14"	1,999.00		400.00	OFII - Vacant
12	479990		2.4.10	GOLDSTAR MONITOR		500.00	150.00	OFII - Vacant
12		B09068023498	2.4.10	HAYES 1200 MODEM		400.00	50.00	OFII - Vacant
12		2014435Z	2.4.10	NEC MONITOR		450.00	150.00	OFII - Vacant
12	369710	0772347	2.4.10	PRINTER, W/IBM PRINTER STAN	1,179.88		200.00	OFII - Trading Room
12	No#	82000703	2.4.10	SAMSUNG MONITOR		450.00	150.00	OFII - Vacant
12		82001361	2.4.10	SAMSUNG MONITOR		450.00	150.00	OFII - Vacant
12	439999		3.1.00	DAYNA FILE, 360K - 5 1/4" D	803.00			OAM-Storage
12	456843		3.1.02	COMPUTER, IBM PS/2 MODEL: 7		3,020.00	300.00	OAM-Storage
12	453973		3.1.02	DESKWRITER, HP	740.00		200.00	OAM-Storage
12	No#	90102349	3.1.02	GOLDSTAR MONITOR		450.00	150.00	OAM-Storage
12	No#	23-GHV66	3.1.02	IBM MONITOR		450.00	150.00	OAM-Storage
12	No#	72-06782	3.1.02	IBM MONITOR		450.00	150.00	OAM-Storage

1996 Annual Fee and Allocation Schedule

	PUF	U.T. Funds				Q-EIE	Total
	PUF	Pooled Funds			Separate Funds		
	PUF	LTF	S/ITF	STF			
Market Value 8/31/95	4,958.5	1,549.7	1,123.7	526.2	181.9		8,340.0
Projected Expenses							
UTIMCO Services	2,028,788	2,169,759	332,055	0	0	0	4,530,602
Ext. Port. Mgmt. Fees	2,997,736	2,640,838	0	947,160	0	0	6,585,734
Ext. Port. Mgmt. Fees Reserve (15%)	449,660	0	0	0	0	0	449,660
Custodian Fees	305,000	214,021	47,675	0	2,746	0	569,442
Performance Compensation	0	0	0	0	0	338,937	338,937
TOTAL	5,781,184	5,024,618	379,730	947,160	2,746	338,937	12,474,375
Percentage of Market Value							
UTIMCO Services	0.04%	0.14%	0.03%	0.00%	0.00%	n/a	0.05%
Ext. Port. Mgmt. Fees	0.06%	0.17%	0.00%	0.18%	0.00%	n/a	0.08%
Ext. Port. Mgmt. Fees Reserve (15%)	0.01%	0.00%	0.00%	0.00%	0.00%	n/a	0.01%
Custodian Fees	0.01%	0.01%	0.00%	0.00%	0.00%	n/a	0.01%
Performance Compensation	0.00%	0.00%	0.00%	0.00%	0.00%	n/a	0.00%
TOTAL	0.12%	0.32%	0.03%	0.18%	0.00%	n/a	0.15%

ARTICLES OF INCORPORATION
OF
THE UNIVERSITY OF TEXAS INVESTMENT
MANAGEMENT COMPANY

FILED
In the Office of the
Secretary of State of Texas
NOV 15 1995
CORPORATIONS SECTION

I, the undersigned natural person, of the age of eighteen (18) years or more, **acting** as incorporator of a corporation under the Texas Non-Profit Corporation **Act**, **do hereby** adopt the following Articles of Incorporation for such corporation (the "Corporation"):

ARTICLE 1.

The name of the **Corporation** is **The University** of Texas Investment Management Company.

ARTICLE II.

The Corporation is a non-profit corporation.

ARTICLE III.

The period of the **Corporation's** duration is perpetual.

ARTICLE IV.

The exclusive **purposes** for which the **Corporation** is organized and is to be operated are charitable and **educational** within the meaning of section **501(c)(3)** of the Code. In accomplishment of **such purposes**, the **Corporation** is to be **administered** solely for the purpose of **aiding, assisting, supporting** and acting on behalf of **The University of Texas System** (the "**System**"), an agency of **the State of Texas**, in the performance of its essential governmental function of **providing** higher education in accordance with the **laws** of the State of Texas **authorizing and governing** the **System** and the **creation** of the **Corporation**. Specifically, the **Corporation** will **be administered** for the benefit of the **System** by:

- (a) **Investing** funds under the control and management of the **Board of Regents** of the **System** (the "**Board of Regents**"), **including** the permanent university fund,

as **designated by the Board of Regents in accordance** with the laws of the State of Texas; and

(b) Performing such other activities or functions that the Board of Directors of the Corporation determines are necessary or appropriate for the accomplishment of the purposes of the Corporation, provided, however, that the Corporation may not engage in any business other than investing **funds** designated by the Board of Regents pursuant to a contract with the System for the investment of such funds.

The broadest discretion is vested in and conferred upon the Board of Directors of the Corporation for the accomplishment of these purposes, provided, however, that no contribution shall be made or distributed to **or** for any **person**, firm, corporation, or other entity that shall apply, directly or indirectly, such contributed funds for any purpose **or** purposes in violation of the Constitution and statutes of the United States or the State of Texas.

ARTICLE v.

The Corporation shall have no members, within the meaning of the Texas **Non-Profit Corporation Act**.

ARTICLE VI.

The street address of the initial registered office of the Corporation is 701 **Brazos Street**, Austin, Texas **78701**, and the name of its initial registered agent at such address is C T Corporation.

ARTICLE VII.

The initial number of members of the Board of Directors is four (4) and the names and **addresses** of the persons who are to serve initially as Directors are:

Name	Address
William H. Cunningham	601 Colorado Street Austin, Texas 78701
Donald L. Evans	508 W. Wall , Suite 500 Midland, Texas 79701

Thomas O. Hicks

200 Crescent Court, Suite 1600
Dallas, Texas 75201

Tom Loeffler

7710 Jones **Maltsberger**, Suite 540
San Antonio, Texas 78216

ARTICLE VIII.

The name and street address of the incorporator are :

<u>Name</u>	<u>Address</u>
Jerry E. Turner	One American Center 600 Congress Avenue Austin, Texas 78701-3200

ARTICLE IX.

Regardless of any other **provisions** of these **Articles** of Incorporation or the laws of the State of Texas, the Corporation shall not, within the meaning of section 501(c)(3) of the Code

- (1) **permit** any part of the net **earnings** of the Corporation to **inure** to the benefit of any **private individual** (except **that** reasonable compensation may be paid for personal **services** rendered to or for the **Corporation** affecting oae or more of its **purposes**);
- (2) devote **more than an insubstantial** part of its activities to attempting to influence legislation by propaganda or otherwise,
- (3) **participate** in, or **intervene** in (including the publication or **distribution** of statements), aay political campaign oa behalf of aay **candidate** for public **office**; or
- (4) attempt to influence the outcome of aay **specific** public election or to carry on, directly or **indirectly**, any voter registration drives.

ARTICLE X.

Upon the **dissolution** of the Corporation, after **payment or provision** for payment of the Corporation's **liabilities** has been made, the Corporation's remaining assets shall **be**

distributed exclusively to the **System**. If the **System** is not in existence, such assets shall be distributed to the State Of **Texas exclusively** for public purposes.

ARTICLE XI.

The Corporation shall indemnify (which indemnification shall include, without **limitation**, advancing reasonable expenses) any person who is or was a Director, officer, employee, or agent of the Corporation (or any person who is or was serving at the request of the Corporation as a Director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise) to the fullest extent required or permitted by applicable law. In addition, the Corporation shall have the power to indemnify (which indemnification shall include, without limitation, advancing reasonable expenses) to the fullest extent permitted by law such other persons as the Board of Directors may determine from time to time. The Corporation shall have the power to purchase and maintain at its **expense** insurance on **behalf** of such persons to the fullest extent permitted by applicable law, whether or not the Corporation would have the power to **indemnify** such persons under the foregoing provisions.

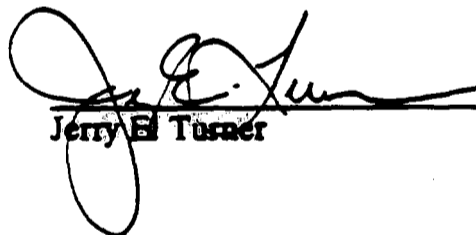
ARTICLE XII.

As used herein the term "Code" refers to the Internal Revenue Code of the 1986, as amended, and future corresponding revenue laws of the United States.

ARTICLE XIII.

These **Articles** may **be** amended **by** the Board of **Directors** of the Corporation with the approval of the Board of Regents.

IN **WITNESS** WHEREOF, I have hereunto set my hand this 14th day of November, **1995**.


Jerry E. Turner

STATE OF TEXAS §

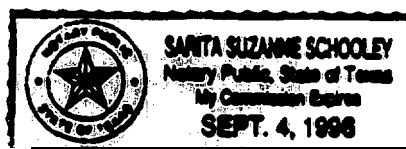
COUNTY OF AUSTIN §

I, notary public, do hereby **certify** that on this 14th day of November, **1995**, **personally** appeared before me **Jerry E. Turner**, who, being by me fii duly **sworn**, declared that he is the person who signed the foregoing document as incorporator, and that the statements therein contained are true.

Given IN WITNESS WHEREOF, I have hereunto **set** my hand and **seal** the day and year above written.

Santa Suzanne Schooley

**Notary Public in and for
the State of Texas**





The State of Texas

SECRETARY OF STATE

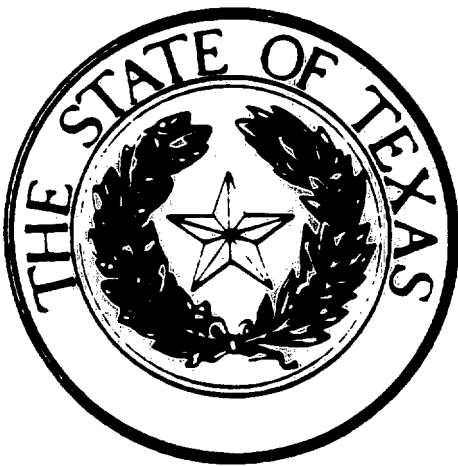
CERTIFICATE OF INCORPORATION
OF
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
CHARTER NUMBER 01377795-01


The undersigned, as Secretary of State of Texas, hereby certifies that the attached Articles of Incorporation for the above named corporation have been received in this office and are found to conform to law.

ACCORDINGLY, the undersigned, as Secretary of State, and by virtue of the authority vested in the Secretary by law, hereby issues this Certificate of Incorporation.

Issuance of this Certificate of Incorporation does not authorize the use of a corporate name in this state in violation of the rights of another under the federal Trademark Act of 1946, the Texas trademark law, the Assumed Business or Professional Name Act, or the common law.

Dated: November 15, 1995
Effective November 15, 1995





Antonio O. Garza, Jr.
Secretary of State

RR

BYLAWS
OF
THE UNIVERSITY OF TEXAS INVESTMENT
MANAGEMENT COMPANY

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BYLAWS
OF
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

ARTICLE I
STRUCTURE AND PURPOSES

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

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

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

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

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

approve (i) any amendments to the Articles of incorporation and Bylaws of the Corporation; (ii) any changes to the investment policies of the Corporation; (iii) any changes in the audit and ethics committee of the Corporation; and (iv) any changes in the code of ethics of the Corporation. The Corporation shall file quarterly reports with the Board of Regents concerning such matters as required by the Board of Regents.

ARTICLE II OFFICES

Section 1. Principal Place of Business. The principal place of business of the Corporation shall be located at Claudia Taylor Johnson Hall, Second Floor, 210 West 6th Street, Austin, Texas 78701. The Corporation may have such other offices, either within or without the State of Texas, as the Board of Directors may determine or as the affairs of the Corporation may require from time to time.

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

ARTICLE III BOARD OF DIRECTORS

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

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

Section 3. Appointment and Term. Except for those Directors named in the Articles of Incorporation, Directors shall be appointed by the Board of Regents, except that the Chancellor of the System shall serve as a Director so long as he remains Chancellor of the System. Until otherwise changed by the Board of Regents in compliance with applicable law, the members of the Board of

Directors shall include (i) the Chancellor of the System, (ii) at least three (3) persons then serving as members of the Board of Regents (“Regental Directors”), and (iii) one or more persons selected by the Board of Regents **from** a list of candidates with substantial background and expertise in investments that is submitted by the Board of Regents of The Texas A&M University System. The three (3) **Regental** Directors shall serve for two-year terms that expire on the first day of February of each odd-numbered year, except that the initially-appointed **Regental** Directors shall serve until February 1, 1997. **The** remaining Directors (other than the Chancellor of the System and the **Regental** Directors) shall serve three-year staggered terms that expire on the first day of February of the appropriate year, except that the term of one of the initially-appointed Directors shall end on February 1, 1997, **the** term of **two** (2) initially-appointed Directors shall end on February 1, 1998, and the term of the remaining two (2) initially-appointed Directors shall end on February 1, 1999; provided, however, that no such Director (other than the Chancellor of the System or the **Regental** Directors) shall serve more than three (3) full three-year terms. Notwithstanding the foregoing, the Board of Regents may from time to time alter the terms of the Directors. Each person serving as a Director shall serve until the earlier to occur of (i) the expiration of such Director’s term or (ii) such Director’s death, resignation, or removal as provided in these Bylaws.

Section 4. Removal. Any Director may be removed from office at any time, **with** or without cause, by the Board of Regents.

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

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

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

Section 8. Regular Meetings. Regular meetings of the Board of Directors (“Regular Meetings”) shall be held bi-monthly at such times and places as shall be designated from time to time by resolution of the Board of Directors. Notice of Regular Meetings shall be required.

Section 9. Special Meetings. Special meetings of the Board of Directors (“Special Meetings”) shall be held at such times and places as shall be designated from time to time by the

Chairman or, on the written request of any Director, by the Secretary or on the written request of the Board of Regents. Notice of Special Meetings shall be required.

Section 10. Notice of Meetings. The Secretary shall give notice of the time and place of each Annual, Regular and Special Meeting to each Director in person, or by mail, telegraph, or telephone, at least five (5) days before and not sooner than **fifty** (50) days before such meeting; provided, however, that in the case of a Special Meeting called because of an emergency or urgent necessity, such notice only need be provided at least two (2) hours before the meeting is convened. Unless otherwise indicated in such notice, any and all matters pertaining to the Corporation's purposes may be considered and acted upon at such meeting. At any such meeting at which every Director shall be present even though without notice, any matter pertaining to the Corporation's purposes may be considered and acted upon.

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

Section 12. Voting. To the extent permitted by applicable law, a Director may vote in person or by proxy executed in writing by the Director. No proxy shall be valid **after** three (3) months from the date of its execution. Each proxy shall be revocable unless expressly provided therein to be irrevocable, and unless otherwise made irrevocable by law.

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

At all meetings of the Board of Directors, the Chairman of the Board shall preside, and in the absence of the Chairman of the Board, a chairman shall be chosen by the Board of Directors from among the Directors present.

The Secretary of the Corporation shall act as secretary of all meetings of the Board of Directors, but in the absence of the Secretary, the chairman may appoint any person to act as secretary of the meeting. The chairman of any meeting of the Board of Directors shall determine the order of business and the procedure at the meeting, including, without limitation, conduct of the discussion and the order of business.

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

ARTICLE IV
COMMITTEES

Section 1. Board Committees. The Board of Directors may from time to time designate members of the Board of **Directors** to constitute committees that shall have and may exercise such powers as a majority of the Board of Directors may determine in the resolution that creates the committee. The Board of Directors may appoint individuals who are not members of the Board of Directors to any committee; provided, however, that a majority of the committee members shall be members of the Board of Directors if such committee exercises the authority of the Board of Directors in the management of the Corporation.

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

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

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

ARTICLE V
OFFICERS

Section 1. Number, Titles, and Term of Office. The officers of the Corporation shall consist of a Chairman of the Board, a President, a Secretary, a Treasurer, and such other officers and assistant officers as the Board of Directors may from time to time elect or appoint. Such other officers and assistant officers shall have such authority and responsibility as may be assigned to them by the Board of Directors. Any two (2) or more offices may be held by the same individual, except the offices of President and Secretary. Except for those officers elected at the organizational meeting (the "**Organiza-**

tion Meeting”), the term of **office** for each **officer** shall be until the next succeeding Annual Meeting at which officers are elected. The term of office for those officers elected at the Organization Meeting shall be that period of time beginning on the **date** of the Organization Meeting and ending on the date of the **first** Annual Meeting. In any event, a duly-elected officer shall serve in the **office** to which he or she is elected until his or her successor has been duly elected and qualified.

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

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

Section 4. Powers and Duties of the Chairman of the Board. The Chairman of the Board shall preside at all meetings of the Board of Directors **and** shall have such other powers and duties as may be assigned to such officer in these Bylaws or **from** time to time by the Board of Directors. The Chairman of the Board shall be appointed by the Board of Directors.

Section 5. Powers and Duties of the President. The President shall be the Chief Executive Officer of the Corporation. Subject to the control of the Board of Directors, the President shall have general executive charge, management, **and** control of the properties, business, and operations of the Corporation with all such powers as may be reasonably incident to such responsibilities; shall have the authority to agree upon and execute all leases, contracts, evidences of indebtedness, **and** other obligations in the name of the Corporation subject to the approval of the Board of Directors **and the** Executive Committee, if any; **and** shall have such other powers **and** duties as may be designated in these Bylaws and as may be assigned to such officer from time to time by the Board of Directors.

Section 6. Powers and Duties of the Treasurer. The Treasurer shall have custody of all of the Corporation’s funds and securities that come into such **officer’s** hands. When necessary or proper, the Treasurer may endorse or cause to be endorsed, in the name and on behalf of the Corporation, checks, notes, **and other** obligations for collection and shall deposit or cause to be deposited the same to the credit of the Corporation in such bank or **banks** or depositories and in such manner as shall be designated **and** prescribed by the Board of Directors; may sign or cause to be signed all receipts and vouchers for payments made to the Corporation either alone or jointly with such other officer as may be designated **by** the Board of Directors; whenever required by the Board of Directors, shall render or cause to be rendered a statement of the cash account; shall enter or cause to be entered regularly in the Corporation’s books to be kept by such officer for that purpose full and accurate accounts of all moneys received **and** paid out on account of the Corporation; shall perform all acts incident to the position of Treasurer subject to the control of the Board of Directors; **and** shall, if required **by** the Board of Directors, give such bond for the faithful discharge of such **officer’s** duties in such form as the Board of Directors may require.

Section 7. Powers and Duties of the Secretary. The Secretary shall keep the minutes of all meetings of the Board of Directors in books provided for that purpose; shall attend to the giving and serving of all notices; in furtherance of the Corporation's purposes and subject to the limitations contained in the Articles of Incorporation, may sign with the President in the name and on behalf of the Corporation and/or attest the signatures thereto, all contracts, conveyances, franchises, bonds, deeds, assignments, mortgages, notes, and other instruments of the Corporation; shall have charge of the Corporation's books, records, documents, and instruments, except the books of account and financial records and securities of which the Treasurer shall have custody and charge, and such other books and papers as the Board of Directors may direct, all of which shall be open at reasonable times to the inspection of any Director upon application at the Corporation's office during business hours; and shall in general perform all duties incident to the **office** of Secretary subject to the control of the Board of Directors.

ARTICLE VI
MISCELLANEOUS PROVISIONS

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

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

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

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

Section 5. Action Without a Meeting by Directors or Committees: Telephone Meetings. To the extent permitted by applicable law, any action required by law or these Bylaws to be taken at a meeting of the Board of Directors or any committee, or any action which may be taken at a meeting of the Board of Directors or of any committee thereof may be taken without such a meeting if a consent in writing, setting forth the action to be taken, shall be signed by all of the Directors or members of the committee, as the case may be. Such consent shall have the same force and effect as a unanimous vote at a meeting, and may be stated as such in any document or instrument filed with the Secretary of State. Subject to the requirements of law for notice of meetings, unless otherwise restricted by the Articles of

Incorporation or these Bylaws, members of the Board of Directors or members of any committee may participate in and hold a meeting of such Board of Directors or committee, as the case may be, by means of a conference telephone, or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in such meeting shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called or convened.

ARTICLE VII INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 1. Right to Indemnification. Subject to any limitations and conditions in these Bylaws, including, without limitation, this Article VII, each person who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative (a "Proceeding"), or any appeal of such a Proceeding or any inquiry or investigation that could lead to a Proceeding, by reason of the fact that he or a person of whom he is the legal representative, is or was a Director or **officer** of the Corporation, or while a Director or officer of the Corporation is or was serving at the request of the Corporation as a director, **officer**, partner, venturer, proprietor, trustee, employee, agent, or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise, shall be indemnified by the Corporation to the fullest extent authorized by the Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against judgments, penalties (including excise and similar taxes), fines, settlements and reasonable expenses (including, without limitation, attorneys' fees) actually incurred by such person in connection with a Proceeding, but if the Proceeding was brought by or in behalf of the Corporation, the indemnification is limited to reasonable expenses actually incurred or suffered by such person in connection therewith, and indemnification under these Bylaws shall continue as to a person who has ceased to serve in the capacity which initially entitled such person to indemnity hereunder. In no case, however, shall the Corporation indemnify any person, or the legal representatives of any person, with respect to any matters as to which such person shall be finally adjudged in any such Proceeding to be liable on the basis that personal benefit resulted **from** an action taken in such person's official capacity, or in which such person is found liable to the Corporation. Any person entitled to indemnification pursuant to this Article VII is sometimes referred to herein as an "Indemnified Person."

Section 2. Advance Payment. Indemnified Person's right to indemnification conferred in this Article VII shall include the right to be paid or reimbursed by the Corporation the reasonable expenses incurred by an Indemnified Person who was, is or is threatened to be made a named defendant or respondent in a Proceeding in advance of the final disposition of the Proceeding; provided, however, that the payment of such expenses incurred by an Indemnified Person in advance of the final disposition of a Proceeding shall be made only upon delivery to the Corporation of a written **affirmation** by such Indemnified Person of his good faith belief that he has met the standard of conduct necessary for

indemnification under this Article VII and a written undertaking by or on behalf of such Indemnified Person to repay all amounts so advanced if it shall ultimately be determined that such Indemnified Person is not entitled to be indemnified under this Article VII or otherwise.

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

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

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

Section 6. Savings Clause. If this Article VII or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify and hold harmless each Indemnified Person as to **costs**, charges and expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative to the **full** extent permitted by any applicable portion of this Article VII that shall not have been invalidated and to the fullest extent permitted by applicable law.

ARTICLE VIII AMENDMENTS

Section 1. Amendment. These Bylaws may be altered, amended, or repealed by the Board of Directors with the approval of the Board of Regents.

Members of the Audit
and Ethics Committee
will be approved by
the Board of Regents
at a later date.

SUMMARY

The Company, its directors and its employees shall conduct themselves in a manner that ensures that each of their actions and activities is honest, ethical, legal, and proper in appearance, as well as in fact. Directors and employees are responsible for **both** the integrity and consequences of their own actions, and are expected to conduct themselves in accordance with the above principles and standards of conduct, as well as Company policies and procedures. Each director and employee shall expect co-directors and co-workers to do so as well. Directors and employees are obligated to report violations of the Company's ethics and standards of conduct to their management or other Company **officials** in accordance with Company policies and procedures.

After reading the "Code of Ethics", each director and employee is required to sign a "Certificate of Receipt and Acceptance", which will be maintained in the director's or employee's permanent file.

Working together, we can assure through our conduct that the Company will earn and maintain a reputation for honesty and integrity.

Code of Ethics



The Company shall earn its reputation for honesty and integrity by conducting its business in accordance with the highest legal and ethical standards of conduct and obligating all its directors and employees to meet these standards.



The Company's Code of Ethics consists of the following seven principles. The standards of conduct required of all Company directors and employees are presented with each principle below:

CODE OF ETHICS

1. Comply with all applicable laws and regulations of the states and countries in which the Company operates.

Directors and employees shall conduct the Company's business in strict compliance with the laws, governmental requirements, and contractual agreements applicable to it and its business in the states and countries in which the Company does business.

2. Provide the highest quality services and products to the Board of Regents consistent with contractual agreements.

Directors and employees shall perform their assignments to ensure that the services and products delivered to the Board of Regents meet all formally specified quantity and quality requirements, are delivered on time, and are within the agreed upon cost or budget.

3. Maintain a productive and professional work environment.

Directors and employees shall conduct themselves in a manner that maintains a professional business environment that is conducive to high quality work. Directors and employees shall perform their assigned duties and responsibilities to the best of our abilities and without distractions from unprofessional influences. All directors and employees are expected to adhere to assigned work schedules, maintain a good attendance record, and work required overtime. Directors and employees shall accurately represent their professional and educational qualifications. Each employee is expected to not intimidate, coerce, harass, or unlawfully discriminate against other

directors and employees, prospective directors and employees, suppliers or the Board of Regents; gamble on Company premises or while on duty; use insulting or obscene language; be involved with illegal drugs at any time or place either on or off Company premises; possess or use alcohol while on Company premises, or while on duty without proper authorization, or be under the influence of alcohol or other legal substances while on duty, on Company premises, or at any time or place which can affect the Company adversely; solicit contributions or purchases on Company property without proper authorization; or distribute or post petitions or other promotional or campaign literature or material on Company premises or while on duty unless properly authorized.

4. Recognize and respond positively to our obligations as good Company citizens of the various communities in which we operate.

Directors and employees are encouraged to contribute their time or otherwise support civic, charitable, and other worthy activities that are beneficial to the communities in which these directors and employees live or work.

5. Honor the property rights and interests of the Company, its directors and employees, clients, suppliers, and others.

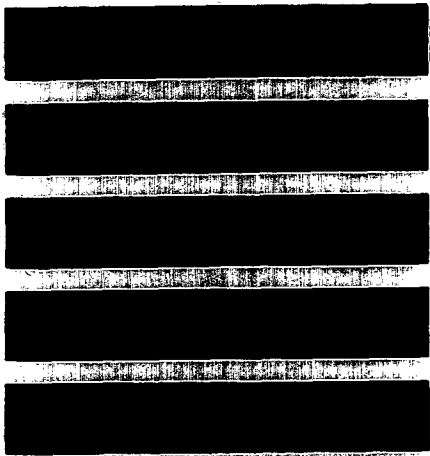
Directors and employees are expected to be honest in all their dealings with the company, the Board of Regents, suppliers, directors and employees, and others. Directors and employees shall respect the property rights of the Company and others, and not misuse property, equipment (including "assigned" equipment such as telephones), or Company supplies and/or others. Directors and employees and former directors and employees shall not use or disclose proprietary and/or Company sensitive information for other than Company purposes. Directors and employees shall adhere to security procedures relating to classified information, Company proprietary and/or sensitive information, and access to Company facilities and information systems. Directors and employees shall not remove or retain Company reports, proposals, documents, papers, equipment, or supplies without proper authorization.

6. Maintain "arm's length" business relationships and avoid conflicts of interest.

Each employee has a duty of loyalty to the Company. Directors and employees' personal relationships or interests outside the Company shall not influence the Company's business activities. Directors and employees shall avoid activities, business relationships, entertainment of or from others, or gratuities to or from others which create or appear to create conflicts between their interests or potential interests and those of the Company, or which may impair or appear to impair their decisions, judgments, job performance, or conduct. Directors and employees shall notify management promptly if they, their spouses, or other close family members, have a significant interest in or are involved in a potential conflict of interest with a current or prospective supplier, investee, or other entity having a business relationship with the Company. Directors and employees shall deal fairly with the Company and not usurp corporate opportunities for their personal benefit.

7. Accurately and fairly account for all transactions, and for all funds and assets owned by, or in the custody of, the Company.

Directors and employees shall accurately prepare time reports, expense vouchers, and other claims for reimbursement in accordance with Company policy. Directors and employees shall represent facts honestly and completely and shall not knowingly make false or improper entries on any Company documents.



**Summary of Investments and
Summary of Investment Income (Cash Basis)
Permanent University Fund
Year ended August 31, 1995**

 **ERNST & YOUNG *LLP***

Permanent University Fund
Summary of Investments and
Summary of Investment Income (Cash Basis)

Year ended August 31, 1995

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Report of Independent Auditors

Board of Regents
The University of Texas System Permanent
University Fund

We have audited the accompanying **Summary** of Investments as of **August 31, 1995**, and the Summary of Investment **Income (Cash Basis)** of the Permanent University Fund for the year then ended. These summaries are the responsibility of management. Our responsibility is to express an opinion on these summaries based **on** our audit.

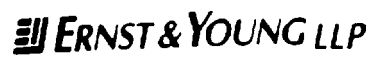
We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Summary of Investments and Summary of Investment Income (Cash Basis) are free of material misstatement. An audit includes examining, **on a test** basis, evidence supporting the amounts and disclosures in the **financial** statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

As described in Note 1, the Summary of Investment Income (Cash Basis) referred to above has been prepared on **the basis of** cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. Also as described in Note 1, both summaries referred to above have been prepared for the purpose of complying with Section 4 of Texas **House Bill** 1877 which requires a financial audit of the Fund. These **summaries are not intended to be a complete presentation** of the Permanent University **Fund's financial position or results of operations**.

In our opinion, the Summary of Investments referred to above presents fairly, in all material respects, investments of the **Permanent University Fund at August 31, 1995, in conformity** with generally accepted accounting **principles**.

Also in our **opinion, the Summary of Investment Income (Cash Basis) referred** to above presents fairly, in all material respects, the investment income of the Permanent University Fund for **the year ended August 31, 1995, on the** basis of accounting described in Note 1.

Our audit of the Summary of Investments was conducted for **the purpose of forming** an opinion **on such summary taken as a whole. The fair value information appearing in** conjunction with the book value information on the summary is presented for **purposes** of additional analysis. Such information has been subjected to the auditing procedures applied in our audit of the Summary of Investments and, in our opinion, is fairly stated in all material respects in relation to the **summary** taken as a whole.



This report is intended solely for the use of the Board of Regents of the University of Texas System Permanent University Fund and for filing with regulatory agencies. This restriction is not intended to limit the distribution of this report, which **upon** filing is a matter of public record.

October 20, 1995

Ernst + Young LLP

Permanent University Fund

Summary of Investments

August 31, 1995

	<i>Book Value</i>	<i>Market Value</i>
	<i>(In Thousands)</i>	
Long-term securities		
Debt securities		
U.S. government obligations:		
Direct - treasuries	\$ 347,577	\$ 383,420
Guaranteed:		
Mortgage-backed	21,707	23,077
Other	28,140	29,851
Total U.S. government obligations	397,424	436,348
U.S. government agencies (non-guaranteed):		
Mortgage-backed	318,358	334,662
Other	35,533	41,307
Total U.S. government agencies (non-guaranteed)	353,891	375,969
Foreign government obligations	95,394	99,372
Municipal and county bonds	76,857	77,527
Corporate bonds	1,288,290	1,350,207
Total debt securities	2,211,856	2,339,423
<i>Preferred stocks</i>	6,083	9,371
Equity securities		
Convertible preferred stocks	632	698
Common stocks and other equities	829,336	1,085,887
Index funds	1,023,335	1,217,694
Total equity securities	1,853,303	2,304,279
Total long-term securities	4,071,242	4,653,073
Short-term securities		
U.S. government (direct and guaranteed)	43,189	43,661
U.S. government agencies (non-guaranteed)	3,000	3,017
Corporate bonds	21,947	22,324
Total short-term securities	68,136	69,002
Cash and cash equivalents		
Cash held at state treasury	80,459	80,459
Money markets	4,406	4,406
Commercial paper	150,000	150,000
Total cash and cash equivalents	234,865	234,865
Total investments	\$4,374,243	\$4,956,940

See accompanying notes.

Permanent University Fund
Summary of Investment Income (Cash Basis)

Year ended August 31, 1995

Investment Income (Cash Basis) by Investment Type

Debt securities	\$187,978,696
Preferred stocks	790,671
Equity securities	50,465,469
Cash and cash equivalents	9,987,746
Other investment income	311,537
Total investment income	<u>\$249,534,119</u>

See accompanying notes.

Permanent University Fund

Notes to Summary of Investments and Summary of Investment Income (Cash Basis)

August 31, 1995

1. Organization

The Permanent University Fund (PUP) is a public endowment contributing to the **support** of eligible institutions of The University of Texas System (UT System) and The Texas A&M University System (A&M System). The UT System and the A&M System are agencies of the State of Texas. Earnings from the PUP **flow** into the Available University Fund (**AUF**).

The Summary of Investments has been prepared on the accrual basis of accounting. The Summary of Investment Income (Cash Basis) has been prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. The Summary of Investment Income (Cash Basis) presents only gross investment income on a cash basis for the year ended August 31, 1995. Expenses **related** to operation of the PUP are deducted after investment income has been remitted to the AUF. The Summary of **Investments** and the Summary of Investment Income (Cash Basis) have been prepared for the purpose of complying with Section 4 of Texas House Bill **1877**, which requires a financial audit of the PUP.

2. Significant Accounting Policies

Investments

The investments of the PUP **are carried** at amortized cost (book value), with the exception of the **PUF's** 2.1 million acres of West Texas land which is not included in this report. Bond discount and premium is amortized over the life of the security using the **interest** method.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held at the State Treasury, money market instruments, and **commercial paper**.

Security Valuation

Investments are primarily valued on the basis of market valuations provided by independent pricing services.

Fixed income securities directly held are valued based upon prices supplied by Merrill Lynch Securities Pricing Service, external broker quotes, and internal pricing matrices.

Permanent University Fund

Notes to **Summary of Investments** and **Summary of Investment Income (Cash Basis)** (continued)

2. Significant Accounting Policies (continued)

The **fair** values of equity investments are based on the New York Stock Exchange composite closing prices, if available. If not available, the fair value is based on the closing price **on** the primary **exchange** on which the security is traded, **the** closing sale or bid price on NASDAQ, other authoritative **external sources**, or an **internal valuation determined** as specified by policies established by the Board of Regents.

Securities **held through index funds** are generally valued as follows:

- **Stocks traded on security** are valued at **market** prices on the valuation date.
- Stocks traded on the over-the-counter **market** are valued at **the** last reportable bid **price**, except for National Market System OTC stocks which are valued at their closing market price.
- Fixed income securities are valued based upon bid quotations obtained from major market makers or security exchanges.

Foreign **Currency Translation**

The **accounting** records of **the PUF** are **maintained** in U.S. dollars. **Purchases and sales of securities and income receipts are translated into** U.S. dollars **at the** exchange **rate on** the **dates of the transactions**.

Investment income includes net **realized** and unrealized **currency** gains and losses recognized between accrual and payment dates.

Investment **Income**

Interest and dividend **income** is **recorded** when received. Dividend and interest income is **recorded** net of foreign taxes when recovery of **such taxes is not** assured. Distributions of investment **income** to the **AUF** is on a cash basis as **provided** by statute.

Permanent University Fund

Notes to Summary of Investments and Summary of Investment Income (Cash Basis) (continued)

2. **Significant** Accounting Policies (continued)

Security Transactions

Security transactions are accounted for in this report on a trade date basis. Gains and **losses** on securities sold are determined on the basis of **average** cost. A loss is recognized if there is an impairment in the value of the **security** that is determined to be other than temporary.

Federal Income Taxes

The PUF is not subject to **federal** income tax.

3. Investment Activity

During the year ended August 31, 1995, the cost of purchases and proceeds **from** sales and maturities of investments (excluding short-term investments) were \$81 **1** million and \$700 million, respectively. Such transactions were made at **current** market prices on the dates of the transactions.

4. Securities Lending

The **PUF** loaned securities to certain brokers who paid the PUF negotiated lenders' fees. These fees are **included** in **investment** income. PUP receives U.S. Treasury obligations and/or cash as collateral **against the loaned securities in an amount** at least equal to 102% of the market value **of the loaned securities**. This **collateral** must be maintained during the period of the loan. **There** were no securities loaned as **of August 31, 1995**.

5. Investment Commitments

Unsettled trades for security purchases and unfunded **contractual commitments** for equity private placements was \$163 million at August **31, 1995**.

Permanent University Fund

Notes to Summary of Investments and Summary of Investment Income (Cash Basis) (continued)

6. Index Funds

Market value of the index funds as of August 31, 1995 was approximately \$1,218 million. Included in these index funds are the Equity Index Fund B Lendable, which is indexed against the S&P **500** Index, and the **Midcap** Index Fund B Lendable, which is indexed against the S&P **Midcap Index**. These **index** funds are wholly owned by the **University** of Texas System's Long-Term Fund as well as the PUF, and have been accounted for using the equity method of accounting.

Amendments to the Regents' Rules and Regulations

a. Amended Part One, Chapter I, Section 7, Subsection 7.1 (Standing Committees) as set forth below:

7.1 Standing Committees.--The following committees shall be standing committees of the Board to consider policies for the government of all major areas: (a) Executive Committee; (b) Business Affairs and Audit Committee; (c) Academic Affairs Committee; (d) Health Affairs Committee; (e) Facilities Planning and Construction Committee.

b. Deleted Part One, Chapter I, Section 7, Subsection 7.19 (Duties of the Asset Management Committee) in its entirety.

c. Amended Part One, Chapter I, Section 8, Subsection 8.23 (Order of Business) as set forth below:

8.23 Consideration of approval of items contained in reports of standing committees.
(a) Executive Committee
(b) Business Affairs and Audit Committee
(c) Academic Affairs Committee
(d) Health Affairs Committee
(e) Facilities Planning and Construction Committee

d. Deleted Part One, Chapter I, Section 9 (Executive Associate for Economic Affairs) in its entirety and renumbered the remaining sections accordingly.

e. Amended Part One, Chapter II, Section 6 (Executive Vice Chancellor for Business Affairs), Subsections 6.2(10), 6.2(11), 6.2(14) and 6.2(15) (Duties and Responsibilities) as set forth below:

6.2(10) Managing the operations of the offices listed below through such internal administrative organization as he/she deems to be appropriate:
Office of the Associate Vice Chancellor for Business Affairs
Office of Historically Underutilized Business Development
Office of the Director of Police
Office of the Assistant Vice Chancellor and Controller
Budget Office
Office of Management Information Systems
Office of Information Services

Office of Business and
 Administrative Services
 Director of Accounting
 regarding System
 Administration accounts
 Office of the Assistant Vice
 Chancellor for Finance
 Office of Facilities Plan-
 ning and Construction
 Office of Finance
 Real Estate Office regarding
 gift and campus real estate
 Office of Human Resources
 Office of Employee Group
 Insurance Program
 Office of West Texas Lands
 Management
 University Lands
 Accounting Office
 Surface Interests
 Oil, Gas & Mineral
 Interests.

- 6.2(11) Supervising and coordinating the acquisition, disposition, and/or management of all gift and campus lands at the component institutions and the U. T. System, except for Permanent University Fund Lands, with a view toward maximizing the income to be realized from the operation and/or sale of these properties. In discharging this responsibility, the Executive Vice Chancellor for Business Affairs shall work closely with the appropriate Executive Vice Chancellor, the chief administrative officer of a component institution of the System and their delegates with regard to the management of trust lands and other non-campus real estate held by the Board of Regents for and on behalf of a particular institution. He/She shall also establish procedures that assure effective coordination with the Director of Estates and Trusts with regard to the management of trust lands other than Permanent University Fund Lands.
- 6.2(14) Implementing policy for the receipt, disbursement, and custody of non-investment funds and for terms of depository agreements with banks.
- 6.2(15) Forwarding debt issues for approval by the Board of Regents.

f. Deleted Part One, Chapter II, Section 7 (Vice Chancellor for Asset Management) in its entirety and renumbered the remaining sections accordingly.

g. Amended Part Two, Chapter III, Section 4 (Local Institutional Funds), Subsections 4.11, 4.13, and 4.2 as set forth below:

4.11 Funds held in demand deposits, time deposits, or non-negotiable certificates of deposit shall be deposited or invested only in banks with which the Board has a depository agreement. Depository and custody agreements may be negotiated and executed by UTIMCO or the Executive Vice Chancellor for Business Affairs when such depository agreements are in substantially the same form as a standard depository agreement approved by the Board or, for other agreements, in a form approved by the Office of General Counsel and are with banks meeting the then current policies of the Board. Each chief administrative officer and chief business officer of a component institution or the Executive Vice Chancellor for Business Affairs may negotiate and execute contracts for banking services with banks which have entered into a depository agreement with the Board if the contract has been approved by the Office of General Counsel and the Office of Business Affairs.

4.13 Operating funds, as defined by The University of Texas System Operating Funds Investment Policy, shall be invested in compliance with that investment policy statement. Operating funds shall be invested in funds approved by UTIMCO based on, at a minimum, the criteria specified in The University of Texas System Operating Funds Investment Policy. UTIMCO shall administer pooled investment funds for the investment of operating funds as authorized by the Board. The chief business officer of any component institution may add or withdraw operating funds of the component to or from (i) demand deposits, time deposits, or non-negotiable certificates of deposit as set forth in Subsection 4.11 of this Section, (ii) any common trust fund or money market fund approved by UTIMCO or (iii) any investment pool administered by UTIMCO for the investment of such operating funds on any established addition or withdrawal date of the pool.

4.2 Depository banks selected shall furnish adequate surety bonds or securities to assure safety of these funds. Such securities shall be delivered by the depository bank to an account in the name of the Board at a third-party depository(ies), bank(s) or trust company(ies) approved and contracted with by the Executive Vice Chancellor for Business

Affairs. Local Funds shall be deposited in the depository banks or invested as soon as possible but in no event later than that provided by law. Demand deposits and time deposits will be maintained in accordance with the current policies of the Board.

h. Amended Part Two, Chapter IX (Matters Relating to Investments, Trusts, and Lands) to read as set forth below:

Sec. 1. Authority Regarding Assets.

- 1.1 Subject to the more specific provisions of other sections of the Regents' Rules and Regulations or specific Regental policies, the authority to manage and invest assets of or held by the U. T. System shall be as set forth below.
- 1.2 All assets, regardless of the nature of the asset, received through a bequest or through a distribution from an account held in trust by others shall be accepted and processed by the Office of Development and External Relations and invested by UTIMCO, except for gift real property which shall be managed by the Real Estate Office until appropriate distribution may be made to the beneficiary institution or to an endowment fund, a fund functioning as an endowment, or a life income or annuity fund.
- 1.3 All assets of the Permanent University Fund, excluding the real property of the Permanent University Fund, shall be managed by UTIMCO. Real property of the Permanent University Fund shall be managed by the Office of Business Affairs.
- 1.4 All assets, regardless of the nature of the asset, received for or held in an endowment fund (other than the Permanent University Fund), a fund functioning as an endowment, or a life income or annuity fund shall be managed by UTIMCO until such funds terminate.
- 1.5 All assets of Retirement of Indebtedness Funds, Bond Proceeds, Unemployment Compensation Funds, Workers' Compensation Funds, the Medical/Dental Self-Insurance Fund, the Vision Services Fund, and the Medical Liability Self-Insurance Fund ("consolidated System funds") shall be managed with respect to investment of such funds as set forth below:
 - 1.51 The Office of Business Affairs shall invest the Retirement of Indebtedness Funds, Bond Proceeds, Unemployment Compensation Funds, Workers' Compensation Funds, the Medical/Dental Self-Insurance Fund, and the Vision Services Fund in the

same manner that chief business officers may invest the operating funds of each component institution.

1.52 UTIMCO shall invest the Medical Liability Self-Insurance Fund in the Long Term Fund, Short/Intermediate Term Fund, and Short Term Fund as directed by the Vice Chancellor and General Counsel.

1.6 Except as provided in Subsection 1.2 of this Section, assets which are not a part of the Permanent University Fund, an endowment fund, a fund functioning as an endowment, or a life income or annuity fund or consolidated System funds shall be managed as set forth below:

1.61 Real property used for campus lands shall be managed by the chief administrative officer of the component institution subject to review by the Office of Business Affairs prior to requesting Board approval to acquire the property. Otherwise, non-campus real property shall be managed by the Real Estate Office.

1.62 Tangible personal property shall be managed by the chief administrative officer of the component institution.

1.63 Intangible personal property consisting of securities, interests in businesses, and equity interests in technology transfer firms as set out in the Regents' Intellectual Property Policy shall be managed by UTIMCO. Other intangible personal property shall be managed by the chief administrative officer of the component institution.

Sec. 2. Authorizations Regarding Sales, Assignments, Conveyances, Receipt of Property, and Proxies.

2.1 Authority to Purchase, Exchange, and Sell Securities for and on Behalf of the Permanent University Fund (hereinafter sometimes referred to as "PUF") and the Board.--Pursuant to an Investment Management Services Agreement, UTIMCO shall be authorized to purchase, exchange, and sell any and all securities of any description whatever and from any source, including gifts and bequests, for and on behalf of the PUF or the Board. In addition, external investment managers appointed by UTIMCO may purchase, sell, or exchange securities, pursuant to written agreement with UTIMCO.

- 2.2 Authority to Transact Through Investment Dealers.--Sales, purchases, and exchanges by UTIMCO shall be effected through investment dealers or brokers in accordance with the applicable Investment Policy Statement.
- 2.3 Authority to Assign and Transfer Securities Owned by the PUF and the Board.-- UTIMCO may assign and transfer any and all securities of any description whatever and from any source, including gifts and bequests, and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any securities registered in the name of the PUF or the Board, or in any other form of registration of such securities held for the account of the PUF or the Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said Board. In addition, custodian banks appointed by UTIMCO may assign and transfer securities and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any security owned by the Board.
- 2.4 Authority to Execute Instruments Relating to Land and Mineral Interests.--The authority to execute conveyances, deeds, surface and/or mineral leases, easements, rights-of-way, oil and gas division orders, and transfer orders, geophysical and material source permits, water contracts, pooling and unitization agreements, and any other instruments as may be necessary or appropriate from time to time, relating to the handling, management, control, and disposition of any real estate or mineral interest held or controlled by the Board is hereby authorized as follows:
Real Estate or Mineral Interests held as part of the PUF, gift real estate or campus lands, and not held as part of an investment portfolio managed by UTIMCO:
The Chancellor or his or her delegate
The Executive Vice Chancellor for Business Affairs or his or her delegate.

- 2.5 Authority to Receive and Collect Money and/or Property.--
- (i) UTIMCO is authorized and empowered to ask, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands, whatever, due, payable, or belonging, or that may become due, payable, or belonging to the PUF or the Board from investment transactions, from any person or persons, whatever, and to execute any and all necessary or proper receipts, releases, and discharges therefor and any other instruments as may be necessary or appropriate from time to time, relating to the handling, management, and control and disposition of any investment.
 - (ii) The Office of Estates and Trusts is authorized and empowered to ask, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands, whatever, due, payable, or belonging, or that may become due, payable, or belonging to the PUF or the Board from gifts and bequests, from any person or persons, whatever, and to execute any and all necessary or proper receipts, releases, and discharges therefor and any other instruments as may be necessary or appropriate from time to time, relating to the handling, management, and control and disposition of any gift and bequest.
- 2.6 Authority to Execute Proxies and Consent to Modifications in Bond Indentures.-- UTIMCO is authorized to consent to modifications in bond indentures and to execute proxies within the approved investment policies.
- 2.7 Authority to Deliver and Maintain Securities in Book-Entry Form.-- Securities owned by the PUF or the Board may be delivered and maintained by a custodian bank or a member bank of the Federal Reserve System in book-entry form subject to applicable law.

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

- 3.1 The policies for the investment of funds for the Permanent University Fund shall be those outlined in The Permanent University Fund Investment Policy Statement.

- 3.2 Reports Regarding Asset Management.
 - 3.21 The investment performance of the PUF, as measured by an unaffiliated organization, shall be reported to the Board at least annually.
 - 3.22 The nature and extent of any investments in or business transacted with any firm with which a director, officer or employee of UTIMCO is affiliated will be reported to the Board annually.
- 3.3 UTIMCO is authorized to take any and all steps as may be considered necessary or advisable to protect the interest of the PUF in event of default or any other significant changes occurring with respect to any investment.
- 3.4 Policies with Respect to Stock Rights, Fractional Shares, and Proxies.
 - 3.41 Exercise of or sale of stock rights and warrants is to be made at the discretion of UTIMCO.
 - 3.42 Fractional shares which arise in connection with funds under control of UTIMCO shall be handled at its discretion.
 - 3.43 As a general rule, voting stocks held are to be voted by UTIMCO pursuant to its proxy voting policy.

Sec. 4. Policy for Investment and Management of U. T. Investment Pools.

- 4.1 The policies for the investment of funds for U. T. investment pools shall be those outlined in the applicable Investment Policy Statement.
- 4.2 The provisions of Sections 3.2, 3.3, and 3.4, with respect to the investment and management of the PUF, shall likewise apply to other U. T. investment pools.
- 4.3 The Operating Funds Short/Intermediate Term Fund shall be administered in a manner consistent with all provisions of The University of Texas System Operating Funds Short/Intermediate Term Fund Information Memorandum.
- 4.4 The Medical Liability Self-Insurance Fund shall be administered in a manner consistent with all provisions of the Plan for Professional Medical Liability Self-Insurance.
- 4.5 Each pooled income fund established by U. T. shall be administered according to its trust indenture and applicable law.

Sec. 5. Policy for Investment and Management of Endowment and Trust Funds Invested Through or Separate from U. T. Investment Pools.

- 5.1 Endowment funds and funds functioning as endowments will be managed in a manner consistent with the U. T. System Gifts Policy Guidelines, prudent person investment standards, and the Uniform Management of Institutional Funds Act (Title 10, Chapter 163, Texas Property Code). These funds will be managed separately and not commingled with the Long Term Fund if the terms of the instrument by which the fund was created preclude investment through the Long Term Fund. In addition, nonmarketable securities held by an endowment fund may be recorded as separately invested. All other endowment funds and funds functioning as endowments will be invested through the Long Term Fund.
- 5.2 Trust funds and other life income accounts will be invested and administered consistent with the U. T. System Gifts Policy Guidelines, prudent person investment standards, and the Texas Trust Code (Title 9, Subtitle B, Texas Property Code).
- 5.3 The provisions of Sections 3.2, 3.3, and 3.4 with respect to the investment and management of the PUF, shall likewise apply to endowment and trust funds except that Subsection 3.21 shall be applied only when such funds are invested through a U. T. investment pool.

i. Amended Part Two, Chapter XII (Intellectual Property), Section 3 as set forth below:

Sec. 3. Institutional Intellectual Property Advisory Committees, Office of General Counsel, and UTIMCO.

- 3.2 Office of General Counsel.--The Office of General Counsel will have responsibility for all legal matters relating to intellectual property and will assist component institutions with respect to such matters. Among other responsibilities, the Office of General Counsel will secure protection for intellectual property when appropriate and will police infringements; maintain central databases and files of patent applications, issued patents, copyrights, licenses and agreements; coordinate with component institutions in negotiating and preparing

license and other agreements; review and approve as to form all agreements relating to intellectual property; and coordinate with and cooperate with UTIMCO in all such matters.

- 3.3 UTIMCO.--UTIMCO will assist component institutions in business and financial matters relating to intellectual property; coordinate with component institutions in evaluating royalty and/or equity transactions and review and approve agreements relating to equity transactions; represent System on boards of directors of entities in which the Board holds equity and the right to a board position; serve as a repository for certificates of shares in entities in which the Board holds equity and represent the System's interest with respect thereto; and coordinate with and cooperate with the Office of General Counsel in all such matters.

**j. Amended Part Two, Chapter XII (Intellectual Property),
Section 9, Subsection 9.3 as set forth below:**

Sec. 9. Approval of and Execution of Legal Documents Relating to Rights in Intellectual Property.

- 9.3 The Chancellor, the appropriate Executive Vice Chancellor, the Vice Chancellor and General Counsel or the authorized representative of UTIMCO may execute, on behalf of the Board, legal documents relating to the Board's rights in intellectual property, including, but not limited to, declarations, affidavits, powers of attorney, disclaimers, and other such documents relating to patent applications and patents; applications, declarations, affidavits, affidavits of use, powers of attorney, and other such documents relating to trademarks; applications for registration of and other such documents relating to copyrights; and license and assignment documents approved by the Board pursuant to Subsections 9.1 or 9.2.

RECONVENE.--At 2:30 p.m., the Board reconvened as a committee of the whole to consider those items remaining on the agenda.

ITEM FOR THE RECORD

U. T. Arlington: Appointment of Special Committee for the Selection of a Chief Administrative Officer (President).--
The membership of the Special Committee for the Selection of a Chief Administrative Officer (President) for The University of Texas at Arlington is herewith reported for the record. This Special Committee, constituted pursuant to the Regents' Rules and Regulations, Part One, Chapter II, Section 13, Subsection 13.1, Subdivision 13.14, has the specific charge to advise the Board and evaluate a candidate advanced for consideration by the Board.

Special Committee for the Selection
of a Chief Administrative Officer
for
The University of Texas at Arlington

U. T. System Administration Representatives

Chancellor William H. Cunningham
Executive Vice Chancellor for Academic Affairs
James P. Duncan (Chairman)

U. T. System Chief Administrative Officers

Dr. Juliet V. Garcia, President, The University of
Texas at Brownsville
Dr. Franklyn G. Jenifer, President, The University
of Texas at Dallas

U. T. Arlington Alumni Representative

Mr. George Campbell

Community/External Representatives

Mr. Nathan L. Robinett
Mr. Jenkins Garrett

U. T. Arlington Deans' Representative

Dr. S. Peter Rosen, College of Science

U. T. Arlington Faculty Representatives

Dr. John M. Beehler, College of Business
Administration
Dr. Robert Bing, College of Liberal Arts
Dr. Elinor Pape, College of Engineering

Nonfaculty Representatives

Ms. Debbie McMahon, Human Resources
Mr. William Leslie, Physical Plant

Student Representatives

Ms. Reace Alvarenga, President, Student Congress
Ms. Melinda Stewart, President, Graduate Council

See Page 159.

EXECUTIVE SESSION OF THE BOARD OF REGENTS

Chairman Rapoport reported that the Board had met in Executive Session in Room 308 of the Geological Sciences Building to discuss matters in accordance with Texas Government Code, Chapter 551, Sections 551.071, 551.072, and 551.074. In response to Chairman Rapoport's inquiry regarding the wishes of the Board, the following actions were taken:

1. U. T. Health Science Center - Houston: Settlement of Medical Liability Litigation - Ricardo Garcia, Albert Garcia, Simon Garcia, Carlos Garcia, Jose Luis Garcia, and Rose Mary Briagas.--Regent Deily moved that the Chancellor and the Office of General Counsel be authorized to settle on behalf of The University of Texas Health Science Center at Houston the medical liability litigation brought by Ricardo Garcia, Albert Garcia, Simon Garcia, Carlos Garcia, Jose Luis Garcia, and Rose Mary Briagas in accordance with the proposal presented in Executive Session.

Regent Evans seconded the motion which carried without objection.

2. U. T. Medical Branch - Galveston: Acceptance of Gift of St. Mary's Hospital Facilities from The Sealy & Smith Foundation, Galveston, Texas, and Authorization for Executive Vice President of the Institution to Execute All Documents Related Thereto.--Upon motion of Regent Temple, seconded by Regent Holmes, the Board:
 - a. Acknowledged with deep and sincere appreciation the willingness of The Sealy & Smith Foundation, Galveston, Texas, to make a gift of the St. Mary's Hospital facilities to The University of Texas Medical Branch at Galveston by providing the total funding necessary for this acquisition
 - b. Authorized the Executive Vice President of the U. T. Medical Branch - Galveston or his delegate to execute all documents relating to the acceptance of this gift and the acquisition of the St. Mary's Hospital facilities and assets following approval by the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and the Office of General Counsel.

3. U. T. M.D. Anderson Cancer Center: Consideration of Recommendation of Hearing Tribunal Regarding Termination of Sewa Legha, M.D., a Tenured Faculty Member (Deferred).--Following prolonged and serious Executive Session consideration by the Board with regard to the matter concerning the termination of Sewa Legha, M.D., a tenured faculty member at The University of Texas M.D. Anderson Cancer Center, Regent Loeffler moved that the Board express deep concern over the issues related to compliance with rules and regulations of the institution and the Board of Regents and other matters identified in the record of the hearing tribunal.

Regent Loeffler further moved that final action by the Board on this matter be deferred to a later date in order for counsel to consider implementation of the recommendations of the hearing tribunal and issues related to the appropriateness of continued employment with a report back to the Board on or before February 29, 1996.

Vice-Chairman Smiley seconded the motions which carried by unanimous vote.

4. U. T. Arlington: Ratification of Executive Committee Letter 96-9 Which Authorized the Chairman of the Board to Appoint a Special Committee for the Selection of a Chief Administrative Officer (President); Acceptance of the Recommendation of the Special Committee to Appoint Dr. Robert E. Witt as President; and Discharge of the Special Committee.--Chairman Rapoport reported that since the distribution of the Material Supporting the Agenda an additional item related to the proposed appointment of a President at The University of Texas at Arlington had been posted with the Secretary of State.

Upon motion of Regent Holmes, seconded by Regent Temple, the Board:

- a. Ratified its action in Executive Committee Letter 96-9 which authorized Chairman Rapoport to appoint a Special Committee to advise the Board on the presidency of U. T. Arlington as permitted by the Regents' Rules and Regulations, Part One, Chapter II, Subsection 13.14
- b. Accepted the recommendation of that Special Committee that Dr. Robert E. Witt, currently Interim President of U. T. Arlington, be appointed the President of that institution and in accordance with Section 51.913 of the Texas Education Code the Board gives public notice that Dr. Robert E. Witt is the finalist for the presidency of U. T. Arlington and that the Board intends to meet on or before March 1 to formalize the appointment of a President of U. T. Arlington
- c. Discharged the Special Committee with the sincere appreciation of the Board.

Following a standing ovation, Dr. Witt expressed his appreciation to the Board and Chancellor Cunningham for this opportunity to serve U. T. Arlington.

See Page 157 related to the appointment of a Special Committee for the Selection of a Chief Administrative Officer (President) of U. T. Arlington.

REPORT OF BOARD FOR LEASE OF UNIVERSITY LANDS

Regents Rapoport and Lebermann, as members of the Board for Lease of University Lands, submitted the following report on behalf of that Board:

Report

The Board for Lease of University Lands met on November 14, 1995, at the Center for Energy and Economic Diversification in Midland, Texas, for a general business meeting and to hold the Regular Oil and Gas Lease Sale No. 88 and the Frontier Oil and Gas Lease Sale No. 88-A.

Following is a report on the results of the lease sales:

- a. Regular Oil and Gas Lease Sale No. 88:
44,628 acres of Permanent University Fund lands were nominated for lease. Bonuses in the amount of \$3,602,287 were paid for leases covering 32,536 acres. No bids were received on 12,092 acres.
- b. Frontier Oil and Gas Lease Sale No. 88-A:
All available Frontier acreage was offered for lease. Bonuses in the amount of \$90,015 were paid for leases covering 3,884 acres.
- c. Total bonuses paid were \$3,692,302. Total bonuses paid were higher than for any sale since July 1987.

Following is a report on the general business meeting:

- a. Approved the Minutes of the Board for Lease meeting of September 14, 1995
- b. Approved the recommended procedures and terms for Regular Oil and Gas Lease Sale No. 89 and Frontier Oil and Gas Lease Sale No. 89-A to be held on May 14, 1996

- c. Received a report on the take in-kind crude oil sale held September 21, 1995. Estimated royalty enhancement will be \$0.92/barrel for approximately 3,475 barrels of oil per day. Total projected enhancement is approximately \$580,000 over a 6-month period.
- d. Approved all high bids received for acreage offered in the Regular Oil and Gas Lease Sale No. 88 and the Frontier Oil and Gas Lease Sale No. 88-A.

REPORT OF SPECIAL COMMITTEES

U. T. Board of Regents - Special Committee on Minorities and Women: Report by Committee Chairman Holmes.--Chairman Rapoport reported that he had asked Regent Holmes to chair a Special Committee on Minorities and Women which will have a defined responsibility to advance The University of Texas System initiatives in these two important areas. Chairman Rapoport then called on Regent Holmes who presented the following report:

Report

The Special Committee on Minorities and Women held its most recent meeting on January 18, 1996, at The University of Texas System offices in Austin. Regents Evans, Smiley, and I were present, and Chairman Rapoport joined us for the session. Others present were Chancellor Cunningham, Executive Vice Chancellor Burck, and Vice Chancellor Perry, as well as the following members of the U. T. System administrative staff: Armando Diaz, Francie Frederick, Gwen Grigsby, Trennis Jones, Homer Pena, Steve Rung, Gerald Schroeder, and Lewis Wright.

Much of the meeting focused on the review of a preliminary report on minorities and women in faculty and senior administrative positions at each of the fifteen component institutions. The report also included narrative statements and explanatory notes by the chief administrative officers of the components on the environmental conditions which have an impact on an institution's efforts to recruit and retain qualified minorities and women, outlined any special institutional strategies or initiatives which are underway to increase the number of minorities and women in faculty and senior administrative positions, and summarized any other information which would make the statistical information more meaningful and helpful. Further, each component

provided a listing of the titles of executive, administrative, and managerial positions held by minorities and women. Each member of the Committee agreed that a thorough review of each of these reports outside the meeting would be of enormous benefit to future discussions.

Chancellor Cunningham indicated that salary information on tenure and tenure-track faculty members organized by academic department and college or school will be developed by individual components, thereby permitting the Regental Committee to review data more accurately and with more understanding. U. T. System staff members are currently working with designated administrators on each of the campuses in order that resulting data is accurate and reflects the unique structure and organization of the component.

The Committee discussed the extraordinary complexity of comparing salary levels of persons holding executive, administrative, and managerial positions among the fifteen components. Because job responsibilities vary so extensively, it is extremely difficult to make comparisons within a single institution and also between campuses. It was agreed that Chancellor Cunningham will ask a team with special expertise to explore the possibilities of developing a computer model which might provide a valid approach to such an analysis.

Ms. Patti Ohlendorf, Vice Provost at The University of Texas at Austin and the Chair of the Committee on the Advancement of Women, provided an update on the work of that committee. The group is in the process of refining its recommendations, and it is anticipated that a final report will be forwarded to the Chancellor during the current Spring Semester.

The Special Committee continues its strong commitment to fulfilling its charge and to developing approaches which will advance the fundamental principles of equality and fairness throughout the U. T. System.

In closing, Regents Smiley and Evans commended Regent Holmes on his very informative report.

OTHER MATTERS

U. T. System: Annual Report on the Activities of the Faculty Advisory Council. --Chancellor Cunningham introduced Dr. Lynn M. Little, Chair of The University of Texas System Faculty Advisory Council and Associate Professor in the Department of Medical Laboratory Sciences at The University of Texas Southwestern Medical Center at Dallas, who presented the following report:

UT SYSTEM FACULTY ADVISORY COUNCIL
ANNUAL REPORT TO THE UT SYSTEM BOARD OF REGENTS
for 1994-95

LYNN M. LITTLE, Ph.D., CHAIR

Thank you, Chancellor Cunningham for that warm introduction.

Chairman **Rapoport**, Members of the Board, Chancellor Cunningham, and distinguished guests.

Thank you for inviting me here today to report on the recent activities of the University of Texas System Faculty Advisory Council. The Faculty Advisory Council was established by the Board of Regents in 1989 to serve in an advisory capacity for the Board of Regents, working with and through the Chancellor and the UT System Administration, and to serve also as a conduit for flow of information to and from the UT System Administration as well as the administrations and faculty of the 15 respective component institutions.

The Faculty Advisory Council first met in April, 1990 and continues to meet four times each year, principally in Austin. Members of the Faculty Advisory Council are faculty leaders on their respective campuses who generally are selected for service on the Council by their respective Faculty Senates, with Presidential approval. These individuals then generally serve for a two-year term, unless elected to the position of either Secretary or Chair-Elect.

The Faculty Advisory Council works through a committee system, and may discuss in open forum any item considered to be of **general** relevance to faculty and general interest to Council members. From time to time, the Council also may be asked to take up matters suggested by the Chancellor or by the Board of Regents.

The Council's deliberations may lead to formal recommendations made to the Chancellor requesting his action or that of the Board, or it may result in Council members taking recommendations back to their respective administrations or faculties for consideration and implementation. The following is only a sampling of the diverse issues considered over the past year by each of the four standing committees.

Governance Committee

1. Conducted a thorough survey of faculty governance procedures at each component institution, including assessment of: operating procedures, academic program review procedures, faculty evaluation procedures, and workload policies.

2. Gained approval for the Chancellor and the Office of Governmental Relations to consult with the Council's Executive Committee, during the 1995 legislative session, on issues of importance to System faculty

3. Recommended changes in the wording of Regents' *Rules* relating to a number of issues, including faculty responsibilities, faculty liability, due process, and others.

Academic Affairs Committee

1. Conducted a survey of Teaching Effectiveness at all System components with the collaboration of Dr. Arthur Hernandez of the University of Texas at San Antonio. The final report from this survey now is in preparation.

2. Drafted an Administrative Policy Regarding Creation, Use and Distribution of Telecourse Materials, with advice and counsel from Ms. Georgia Harper of the Office of General Counsel.

3. Is serving as a review panel during the drafting of the Policy for the Use and Protection of Information Resources, in consultation with Mr. Lewis Watkins, Director of the Department of **Information** Resources.

Faculty Quality Committee

1. Surveyed the status of faculty development programs at the respective component institutions with the goal of strengthening such programs.

2. Has begun to review salary-compression and salary-inequity issues across the System as they relate to faculty credentials, tenure, rank, and years of-service.

3. Has begun work on an Exit-Interview instrument to assess the true causes of resignation when faculty choose to leave their employment as members of UT System component faculties.

Health Affairs Committee

1. Worked with Mr. Bob **Molloy**, Director of the Employee Group Insurance Program, in making improvements over the past year in the operations of the System's health and dental coverage carriers.

2. Worked with Mr. J.B. Pace, a System Analyst, in tracking and evaluating proposed legislation that would **impact** the health coverage of UT System faculty.

3. **Spent** many long hours discussing and planning how to survive in a managed care environment within an academic health center.

As you may glean from the foregoing, the reach of the Faculty Advisory Council extends across the entire spectrum of issues that may affect UT System faculty. I know that I speak for every member of the Council when I say that we take our charge very seriously and that each of us is honored and proud to be permitted to serve both our fellow faculty members, the Chancellor, the Board, and the larger UT System family in this manner. Thank you, again, for having me here today, and I shall be happy to attempt to answer any of your questions at this time.

SCHEDULED MEETING.--Chairman Rapoport announced that the next scheduled meeting of the U. T. Board of Regents would be held on May 9, 1996, at The University of Texas Health Science Center at Houston.

ADJOURNMENT.--There being no further business, the meeting was adjourned at 2:50 p.m.

/s/ Arthur H. Dilly
Executive Secretary

February 16, 1996