

Meeting No. 1,008

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

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July 13-14, 2006

Austin, Texas

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OF
THE UNIVERSITY OF TEXAS SYSTEM
JULY 13-14, 2006
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MEETING NO. 1,008

THURSDAY, JULY 13, 2006.--The members of the Board of Regents of The University of Texas System convened at 1:40 p.m. on Thursday, July 13, 2006, in the Board Meeting Room, Ninth Floor, Ashbel Smith Hall, 201 West Seventh Street, Austin, Texas, with the following participation:

ATTENDANCE.--

Present

Chairman Huffines, presiding
Vice Chairman Clements
Vice Chairman Krier
Regent Barnhill
Regent Caven
Regent Estrada
Regent Haley
Regent McHugh
Regent Rowling

Absent

Regent Craven

Counsel and Secretary Frederick

CONVENE JOINT MEETING: BOARD OF REGENTS AND UTIMCO BOARD OF DIRECTORS.--At 1:40 p.m., in accordance with a notice being duly posted with the Secretary of State and there being a quorum present, , Chairman Huffines and Regent Caven, Chairman of the Board of Directors of The University of Texas Investment Management Company (UTIMCO), convened the second annual joint meeting of The University of Texas System Board of Regents and the UTIMCO Board of Directors.

Chairman Huffines welcomed the following members of the UTIMCO Board:

- Chairman H. Scott Caven, Jr.
- Vice-Chairman for Policy, Chancellor Mark G. Yudof
- Mr. Woody L. Hunt
- Mr. Clint D. Carlson
- Mr. J. Philip Ferguson
- Regent Colleen McHugh
- Regent Robert B. Rowling
- Mr. Charles W. Tate
- Advisory Director R. D. (Dan) Burck

Mr. Huffines said Mr. Erle Nye was not able to attend and he acknowledged Mr. Ardon E. Moore, President of Lee M. Bass, Inc., who was in attendance. (Mr. Moore was appointed a director of the UTIMCO Board on July 13. See Page 122.)

1. U. T. System Board of Regents: Presentation of Certificates of Appreciation to Mr. Woody L. Hunt and Mr. R. D. (Dan) Burck for service as members of the Board of Directors of The University of Texas Investment Management Company (UTIMCO)

Chairman Huffines and Regent Caven, Chairman of the Board of Directors of The University of Texas Investment Management Company (UTIMCO), presented Mr. Woody L. Hunt, former Vice Chairman of The University of Texas System Board of Regents and former Chairman of the UTIMCO Board of Directors, and Mr. R. D. (Dan) Burck, former Chancellor of the U. T. System and Advisory Director on the UTIMCO Board, with certificates of appreciation for their service on the Board of Directors. Mr. Hunt served on the UTIMCO Board from 1999 through 2006, and Mr. Burck served as Advisory Director from 2002 through 2006.

2. U. T. System Board of Regents: Dr. Charles Ellis, guest speaker on best practices in institutional investment management

Dr. Charles Ellis, Successor Trustee of Yale University and Chair of Yale University's Investment Committee, spoke about best practices in institutional investment management. Dr. Ellis is an internationally known expert in the investment industry, with a balanced perspective on "best practices." He founded Greenwich Associates and is a member of the Board of Directors of Vanguard.

3. U. T. System Board of Regents: Report on U. T. System funds and update regarding centralization of operating funds

Executive Vice Chancellor Kelley discussed University of Texas System funds and centralization of operating funds using a PowerPoint presentation.

4. U. T. System Board of Regents: Report on Investment Oversight

Chairman Huffines made the following remarks on Investment oversight.

Remarks by Chairman Huffines

Today marks another milestone in the history of our formal investment oversight at The University of Texas System. This

second annual joint meeting itself is the product of a staff recommendation approved by the Board of Regents two years ago.

The idea was, and remains, to convene an annual meeting of the two boards for the purpose of discussing issues of common interest and importance and to ensure that we are fully discharging our respective fiduciary responsibilities.

Today's agenda has been designed by our investment oversight staff to be educational -- with Dr. Ellis, to allow for discussion, and to minimize actual decision-making. A few of the items discussed today, including The University of Texas Investment Management Company (UTIMCO) budget, will be presented for approval at the August Board of Regents' meeting.

In addition to today's joint meeting, those involved in investment oversight have instituted, with Board of Regents' support, a number of other advancements over the past couple of years, including:

1. Updating and improving investment policies and the Investment Management Services Agreement between the Board of Regents and UTIMCO,
2. Helping define the Board of Regents' expectations for new UTIMCO directors and formalizing the process for selecting new UTIMCO directors,
3. Assisting with the creation of a UTIMCO Liquidity Committee that now functions as a full-fledged Risk Committee, with responsibility to oversee investment risk management and investment compliance,
4. Recommending that open session portions of UTIMCO Board meetings be recorded electronically to document actions taken and to assist in preparation of minutes,
5. Working with UTIMCO staff to assure that all UTIMCO policies, UTIMCO Board Minutes, and Committee Charters are accessible electronically through the UTIMCO website,
6. Reviewing the annual UTIMCO budget, and
7. Completing the definitive studies of investment management total cost effectiveness. You may recall for the new Regents and new Directors, that we did an exhaustive analysis of the actual cost of delivering our services last year.

I would point out that the need for investment oversight has never been greater than it is today. The investment world has grown increasingly complex in recent years. It has become more difficult to accurately define even basic asset classes, such as Domestic Equities that we discussed earlier. An asset class that we formerly thought of as common stocks traded on an exchange is now populated with private investment funds, Exchange Traded Funds, and derivative applications. Defining the Hedge Fund asset class is even more complex. The matter is now the subject of significant discussion and the classification issue will come back to the full Board of Regents for review and approval.

In short, the increasing complexity of our \$20 billion investment portfolio heightens the need for us to be industry leaders in policy compliance and risk management. That is the spirit in which the investment oversight function was created. In conclusion, that with the help of all of you, UTIMCO has become the leader in the country of transparency and disclosure and we are proud of that and look forward to continuing that.

Chairman Huffines then called on Chancellor Yudof for comments and Dr. Kelley introduced the following U. T. System Staff and Outside Counsel:

Director of Investment Oversight Cathy Swain
Associate Vice Chancellor Philip Aldridge
Chief Audit Executive and System-wide Compliance Officer Charlie Chaffin
Assistant Director of the Audit Office Amy Barrett
Vice Chancellor Barry Burgdorf
Counsel and Secretary Francie Frederick.

UTIMCO Board Chairman Caven introduced UTIMCO staff and Board advisors and made remarks essentially as follows:

Remarks by UTIMCO Board Chairman Caven

Thank you, Chairman Huffines. Oversight of the U. T. System funds at UTIMCO starts with the President and Chief Investment Officer, Bob Boldt, whom most of you know. I also want to recognize Joan Moeller because of her key role on behalf of the Board of Regents. Joan is Chief Financial Officer and Chief Compliance Officer for the corporation. She has been with the U. T. System since before UTIMCO was formed, and she has filled her current role since 2002.

[Note: Regent Caven also introduced Mr. Trey Thompson, Managing Director - Private Markets; Mr. Larry Goldsmith, Managing Director - Public Markets Investments; Ms. Andrea Reed, Risk Manager; and Mr. Bill Edwards, Managing Director - Information Technology.

We appreciate the work of UTIMCO's staff in the day-to-day management of our \$20 billion in endowment and operating assets. In particular, we want to recognize their achievement earlier this year of launching the new \$3 billion Intermediate Term Fund to diversify and actively manage centralized operating reserves.

In addition to the UTIMCO staff, the UTIMCO Board is served by several important independent advisors and consultants, each with specialized expertise.

Vinson & Elkins (V&E) has been UTIMCO's outside counsel since the company was formed in 1996. As Corporate Counsel, Jerry Turner works directly with the UTIMCO Board, Committees, and staff, and with the U. T. System Office of General Counsel. He also coordinates the work of the V&E team of legal experts in tax, securities, compensation, corporate, partnership, and specialties. The complexity and diversity of investments being undertaken by UTIMCO requires increasingly strong and broad based legal support.

Cambridge Associates has served UTIMCO as our primary investment consultant for at least a decade, and Bruce Myers has worked directly with the UTIMCO Board and staff as the lead consultant for the past nine years. Bruce and his colleagues provide performance data on peer institutions, due diligence reports on specific investment managers, particularly private capital, asset allocation counsel for the portfolios, and support on investment policies and best practices. Special projects have included the cost study last year to compare certain UTIMCO costs with peer endowments, and the value added analysis that accompanied the total cost study completed by U. T. System Investment Oversight staff.

This is Keith Brown's second year serving as an advisor to the Chairman of UTIMCO. We rely on Keith's expertise with derivative investments particularly. As Professor of Finance and Director of the Hicks, Muse, Tate & Furst Center for Private Equity Finance at U. T. Austin, author of text books and many articles, Keith is a widely recognized expert in the world of high finance. Keith was recently elected into The University of Texas Academy of Distinguished Teachers, which is the highest teaching honor bestowed by U. T. Austin. He also advises the Trustees of the Texas Teachers Retirement System. Keith's input was especially important last year when we reviewed and revised the Derivative Investment Policy. We are pleased to have access to his services.

Both Bruce and Keith will report to you later this afternoon.

Finally, Ernst & Young (E&Y) has been the audit firm for the UTIMCO Corporation and System Funds for the past three years, and the UTIMCO Board is recommending to the Board of Regents that we renew their engagement for this fiscal year. I want to recognize Ricky Richter today as the partner in charge of the engagement since we first retained E&Y in 2003. The work of Ricky and his colleagues extends beyond the audits to Sarbanes-Oxley certification of adequacy of financial controls. Last year the corporation and PUF certifications were completed; this year the Permanent Health Fund, Long Term Fund, and General Endowment Fund will be added; and the new ITF will be added next year. E&Y also review relative performance data and calculations before performance incentive bonuses are finalized and approved by the UTIMCO Board. And Deloitte & Touche rely on E&Y audit work in their audit of the System-wide annual financial report.

We appreciate the work of each of these key advisors. They support UTIMCO Board members in fulfilling our fiduciary duty to oversee the complex requirements of the management of the assets controlled by the U. T. System Board of Regents.

5. U. T. System Board of Regents: Reports on UTIMCO Board operations and committees

Regent Caven, Chairman of The University of Texas Investment Management Company (UTIMCO) Board of Directors, introduced the following committees and Committee Chairmen for committee reports.

Audit and Ethics Committee -- Chairman Caven for Mr. Nye

Risk Committee (formerly Liquidity Committee) -- Mr. Tate

Policy Committee -- Regent Rowling

Compensation Committee -- Mr. Ferguson

6. U. T. System Board of Regents: Report on UTIMCO organization, corporate performance, budget preview, and investment outlook

- Staffing
- Funds under management (Internal, External)
- Corporate Performance and FY 2007 Budget Preview
- Investment Outlook: Global Economic and Capital Market Forecasts

Mr. Bob Boldt, President and Chief Executive Office of The University of Texas Investment Management Company (UTIMCO), presented a PowerPoint presentation on UTIMCO organization, corporate performance, budget preview, and investment outlook.

7. U. T. System Board of Regents: Reports on investment objectives and performance, using derivatives in portfolio management

- Spending Policy and Long Term Investment Objectives
- Investment Performance
- Asset Allocation
- Investment Management and Capital Markets Outlook
- Use of Derivatives

Mr. Bruce Myers, Cambridge Associates, presented a PowerPoint presentation on investment objectives and performance, and Dr. Keith Brown, Advisor to The University of Texas Investment Management Company (UTIMCO) Chairman, discussed using derivatives in portfolio management.

Chairman Huffines asked UTIMCO Board Chairman Caven that he arrange for a risk consultant to provide a report to the Board of Regents when the consultant is hired.

8. U. T. System Board of Regents: Report on legal and fiduciary issues

- Master Investment Management Services Agreement
- UTIMCO Director Expectations

Vice Chancellor Burgdorf provided an overview of legal and fiduciary issues and Executive Vice Chancellor Kelley discussed the Master Investment Management Services Agreement and the Expectations for Appointees to The University of Texas Investment Management Company (UTIMCO) Board of Directors included in the Agenda materials.

ADJOURN JOINT MEETING AND CONVENE BOARD OF REGENTS' MEETING.--
Prior to adjourning the joint meeting, former Vice Chairman Hunt [former Chairman of The University of Texas Investment Management Company (UTIMCO) Board] remarked that the oversight function needs to continue to evolve to the next level and he recommended an amendment to the legislation to allow the appointment of additional outside directors to have additional independent expertise. Chairman Huffines again thanked Director Hunt for his excellent service on the UTIMCO Board.

At 4:30 p.m., the joint meeting of The University of Texas System Board of Regents and (UTIMCO) Board of Directors was adjourned. Chairman Huffines thanked members of both Boards for their interest and input. He then announced the U. T. System Board of Regents would reconvene in Open Session to consider the following Agenda Items.

9. U. T. System Board of Regents: Approval of The University of Texas Investment Management Company (UTIMCO) Board recommendations for amendments to the investment policy statements for the Permanent University Fund, the General Endowment Fund, the Intermediate Term Fund, the Long Term Fund, the Permanent Health Fund, and the Separately Invested Funds and approval of amendments to the Derivative Investment Policy

Upon recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO), the Board approved amendments to the following Investment Policy Statements, including asset allocation, as set forth below:

- a. Permanent University Fund (PUF) (See Pages 12 - 25)
- b. General Endowment Fund (GEF) (See Pages 26 - 37)
- c. Intermediate Term Fund (ITF) (See Pages 38 - 49)
- d. Long Term Fund (LTF) (See Pages 50 - 58)
- e. Permanent Health Fund (PHF) (See Pages 59 - 67)
- f. Separately Invested Funds (SIF) (See Pages 68 - 76)

Further, the Board approved revisions to the Derivative Investment Policy as set forth on Pages 77 - 81.

Section 3(a) of the Investment Management Services Agreement dated February 9, 2006, between the Board of Regents of The University of Texas System (Board of Regents) and The University of Texas Investment Management Company (UTIMCO) provides that UTIMCO shall review the investment policies for each fund at least annually by June 1 of each year. After UTIMCO completes its review, it shall forward any recommended changes to U. T. System staff for review and appropriate action.

The Short Term Fund (STF) Investment Policy Statement and the Liquidity Policy were reviewed by UTIMCO staff and there are no recommended amendments. These investment policies were amended by the Board of Regents on November 10, 2005.

The amended Investment Policy Statements were approved by the UTIMCO Board on March 30, 2006, provided that certain changes were made. The attached documents incorporate these changes and also include an additional change to the SIF policy related to handling of securities suggested by the Office of the Board of Regents and agreed to by U. T. and UTIMCO staff members. The change is detailed on Page 11.

Exhibit A – Asset Allocation

Exhibit A to each of the Investment Policy Statements for the PUF, GEF, and ITF describes each fund's "Policy Portfolio" in terms of targets, ranges, and benchmarks for each approved asset class. 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 were reviewed in great detail last year. Amendments to the Policy Portfolios were approved at the August 11, 2005 meeting of the Board of Regents.

Revisions to Exhibit A of the PUF, GEF, and ITF are summarized as follows:

- A table was added indicating the "risk bounds" calculated from the asset ranges approved by the UTIMCO Board and the Board of Regents last year.
- Cash has been renamed "Liquidity Reserve" and subcomponents of the Liquidity Reserve have been added. The proposed lower boundary of the policy range is negative (-1.0%) intended to accommodate short term cash imbalances and negative accrual situations. The "Temporary Cash Imbalance" would occur for three trading days or less.

The LTF and PHF are primarily invested in the GEF. Exhibit B in the LTF and PHF Investment Policy Statements references and incorporates changes to the GEF's Exhibit A.

ITF Investment Policy Statement

The Board of Regents approved the ITF Investment Policy Statement on November 10, 2005, and amended the Statement on February 9, 2006. Many of the changes to the other fund investment policy statements are intended to conform to the updated ITF policy as further described below. The material changes to the ITF are as detailed below:

- Investment Objectives (Page 39): The UTIMCO Board approved UTIMCO staff's request to change the wording "...prudent diversification within each approved asset class and ... projected portfolio risk profile within the approved Policy Portfolio risk range...[from] "**must** be sustained at all times" [to] "**should** be sustained at all times."

- Asset Allocation and Policy (Page 40): Added the requirement that UTIMCO staff will immediately report to the UTIMCO Board Chairman and take steps to rebalance portfolio positions if the projected portfolio risk moves outside the ranges indicated in the new table in Exhibit A.

Investor Responsibility

All of the Investment Policy Statements, including the SIF, added language to the “Investor Responsibility” sections stating that proxies will be voted in compliance with UTIMCO’s Proxy Voting Policy, to align with the ITF.

PUF, GEF, LTF, and PHF – Alignment with the ITF

The PUF, GEF, LTF, and PHF Investment Policy Statements include the following summarized proposed amendments to align with the ITF:

- Investment Objectives: Added language that diversification and projected portfolio risk profile “should” be sustained at all times; that liquidity is governed by the Liquidity Policy, overseen by the UTIMCO Board’s Risk Committee; and that the return, asset allocation and risk targets are subject to adjustment from time to time by the Board of Regents.
- Asset Allocation and Policy: Added language related to measuring and reporting asset allocation, incorporating derivative positions covered by the Derivative Investment Policy to report asset allocation based on “exposures” rather than “dollar” positions; requiring compliance and rebalancing within the policy ranges in Exhibit A; and providing for UTIMCO Chairman approval of remedial action in the event of extenuating circumstances.
- Cash and Cash Equivalents: Clarified the definition.

PUF and GEF Additional Amendments

Additional amendments for just the PUF and GEF to align with the ITF include:

- Hedge Funds: Clarified that internally managed commingled funds for shared ownership of hedge fund investments by various system accounts (currently the PUF, GEF, and ITF) are managed by UTIMCO.
- Performance Measurement: Added reporting requirements.
- Domestic Fixed Income: Clarified this section to allow external managers to invest up to a maximum of 50% of the total fixed income portfolio in below investment grade bonds, and to add Fitch Investor’s as a rating service.

- Equities: Removed the ability of the UTIMCO's chief investment officer to override the limit of 5% of its equity securities in one corporation.

LTF, PHF, and SIF Additional Amendments

Language was added under Valuation of Assets stating that final determination of Accounts' net assets for a month end close may take longer than a set number of business days under certain circumstances.

SIF Amendments

The SIF Investment Policy Statement includes the following amendments:

- Purpose (Page 68): Added language to clarify that accounts covered by the policy are separate accounts whereby specific account requirements may cause the account to fall outside the established policy guidelines. The policy covers the accounts collectively.
- Investment Objectives (Page 69): Added a definition for "Other Accounts" not invested in one of the pooled investment vehicles, to include agency funds, institution current purpose accounts, and tech stock accounts. Deleted "Operating Accounts" since these are no longer available for the institutions with the centralized operating funds.
- Investment Guidelines (Pages 71 - 75): Changed language to be consistent with other investment policy statements, including derivative use governed by the Derivative Investment Policy and fixed income securities language.
- Equities (Page 75): The UTIMCO Board initially approved a change in the provision in determining the disposition of a gifted security from ... "donor preferences **shall** be considered" to ... "**may** be considered." However, U. T. and UTIMCO staff members recommended the following provision:

To the extent determined practical by the U. T. System Office of Development and Gift Planning Services, donor preferences will be considered in determining whether gifts of securities are held or sold.

Derivative Investment Policy

The amendment to the Derivative Investment Policy adds the SIF.

THE UNIVERSITY OF TEXAS SYSTEM PERMANENT UNIVERSITY FUND INVESTMENT POLICY STATEMENT

Purpose

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

PUF Organization

The PUF was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the PUF were completed in 1883 with the contribution of an additional one million acres of land. Today, the PUF contains 2,109,190 acres of land (the "PUF Lands") located in 19 counties primarily in West Texas.

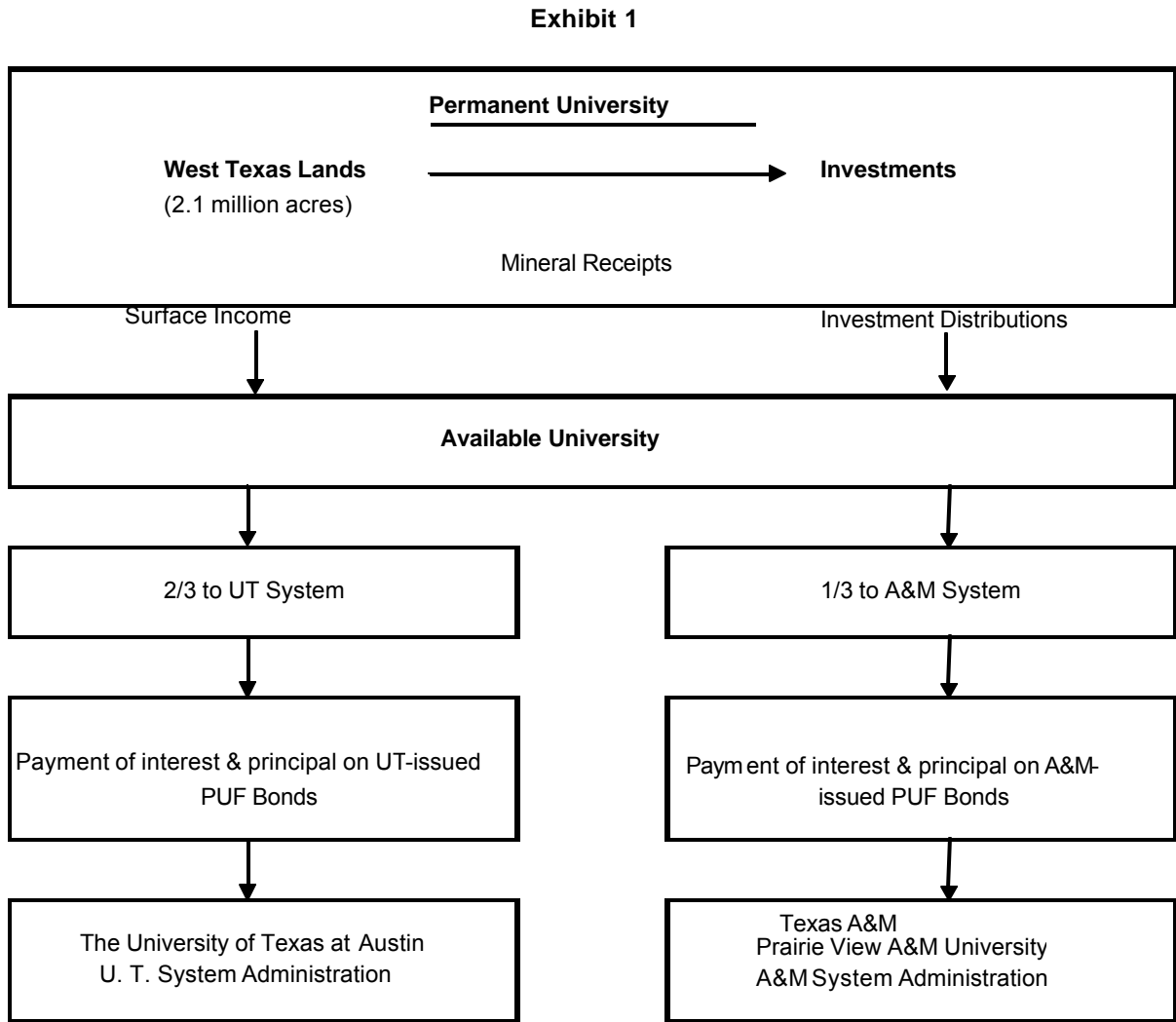
The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, primarily from surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains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

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

First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and the A&M System, respectively, expenditures for debt service on PUF bonds. Article VII of the Texas Constitution authorizes the U. T. System Board of Regents and the Texas A&M University System Board of Regents (the "TAMUS Board") to issue bonds payable from their respective interests in AUF receipts to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes secured by each System's interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUF parity obligations unless the interest of the related System in AUF receipts during the preceding fiscal year covers projected debt service on all PUF Bonds of that System by at least 1.5 times.

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

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



PUF Management

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

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

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

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

PUF Administration

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

PUF Investment Objectives

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

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

Limiting factors are that prudent diversification within each approved asset class and that a projected portfolio risk profile within the approved Policy Portfolio risk range, as defined in Exhibit A and measured at least monthly by UTIMCO’s risk model, should be sustained at all times. Liquidity of the PUF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

PUF return, asset allocation, and risk targets are subject to adjustment from time to time by the U. T. System Board of Regents.

Asset Allocation and Policy

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

In the event that actual portfolio positions in asset categories or projected portfolio risk move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and

detrimental to the interest of the PUF asset values could warrant requesting approval of the UTIMCO Board Chairman for remedial action.

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

- A. U.S. Equities – U.S. equities represent ownership in U.S. companies that are traded in public markets. U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, and futures. In addition, derivative applications that serve as a U.S. equity substitute will be classified as traditional U.S. equity. Global mandates that include a majority of U.S. equities will be included in U.S. equities. U.S. equities provide both current income and capital gains.
- B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established (non-U.S. developed) and emerging markets. Global ex U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, and futures. In addition, derivative applications that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global mandates that include a majority of Global ex U.S. equities will be included in Global ex U.S. equities. Global ex U.S. equities provide both current income and capital gains.

Non-U.S. Developed Equity – Non-U.S. developed equities represent ownership in companies domiciled in developed economies (countries) included in the MSCI All – Country World Equity Index – excluding those classified as part of the MSCI Emerging Markets Equity Index. These securities are typically constituents of countries in Europe, the Americas (North/Latin/South) and the Far East with high per-capita income, mature capital markets, and stable governments. The benchmark for this asset category will be the MSCI EAFE Index, with net dividends.

Emerging Markets Equity – Emerging markets equities represent ownership in companies domiciled in emerging economies as defined by the current composition of the MSCI Emerging Markets Equity Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Equity Index qualification status (either through financial or qualitative measures). The benchmark for this asset category will be the MSCI Emerging Markets Equity Index, with net dividends.

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

Directional Hedge Funds – Directional hedge fund investments include U.S. and international long/short equity or fixed income strategies and other such

strategies that exhibit directional market characteristics using commodities, currencies, derivatives, or other global market instruments. These strategies attempt to exploit profits from security selection skills by taking long and short positions in various securities. These strategies may also include fund of hedge fund investments. Directional hedge fund investments are made through private placement agreements. Directional hedge fund investments may be held in an internal commingled investment fund managed by UTIMCO.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage, event driven strategies and other relative value strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discrete events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include multi-strategy managers and fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements. Absolute return hedge fund investments may be held in an internal commingled investment fund managed by UTIMCO.

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

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

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

- E. Inflation Linked – Inflation linked investments are intended to provide some degree of inflation protection and generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. Inflation linked investments include:

REITS – REITS are real estate investment trusts that may be held as either trust certificates, derivative investments, or exchange traded funds. REITS own, and in most cases operate, income producing real estate.

Commodities – Commodities include natural resource investments including oil and gas interests and other hard assets. These investments may be held through partnerships, derivative investments, exchange traded funds or direct investments.

TIPS – TIPS are inflation protected securities with a return linked to the inflation rate. For diversification purposes, TIPS may include non-U.S. inflation protected fixed income securities as well as nominal fixed income securities.

- F. Fixed Income – Fixed income investments include debt (whether U.S. or foreign) issued by Governments, various government enterprises and agencies, and domestic and foreign corporations. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications that serve as a fixed income substitute may be classified as fixed income.
- G. Cash and Cash Equivalents – Short-term (generally securities with time to maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash, and which are subject to a relatively small risk of changes in value.

Performance Measurement

The investment performance of the PUF will be measured by the PUF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the PUF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, and limited partnerships managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.

- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's chief investment officer prior to investment of PUF assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the PUF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The PUF's investments in warrants shall not exceed more than 5% of the PUF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The PUF may utilize derivatives to: a) simulate the purchase or sale of an underlying market index while retaining a collateral balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a derivative security is priced more attractively than the underlying security; e) hedge risks associated with PUF investments; or f) adjust the market exposure of the asset allocation, including the use of long and short strategies and other such strategies provided that the PUF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board and the Board of Regents. The Derivative Investment Policy shall serve the purpose of defining permitted applications under which derivatives can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Highly liquid internal pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by UTIMCO's chief investment officer.

- Deposits of the Texas State Treasury.
- The PUF's custodian late deposit interest bearing liquid investment fund.
- Municipal short-term securities.
- Commercial paper rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit 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.
- Repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
 - Eligible collateral securities for repurchase agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a repurchase agreement may be from one day to two weeks.
 - The value of all collateral shall be maintained at 102% of the notional value of the repurchase agreement, valued daily.
 - All collateral shall be delivered to the PUF custodian bank. Tri-party collateral arrangements are not permitted.
 - The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the PUF's fixed income assets.
 - Overnight repurchase agreements may not exceed 25% of the PUF's fixed income assets.
- Mortgage Backed Securities (MBS) dollar rolls shall be executed as matched book transactions in the same manner as reverse repurchase agreements above. As above, the rules for trading MBS dollar rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

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

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

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

- a) Floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities;
 - b) Medium term notes issued by investment grade corporations;
 - c) Zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and
 - d) Structured notes issued by LBAGG qualified entities.
- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- or better by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition. External investment managers may be authorized by the terms of the investment advisory agreements to invest up to a maximum of 50% of the total fixed income portfolio in below investment grade bonds.
 - Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer.

Non-U.S. Fixed Income

Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

- Not more than 50% of the PUF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.

- Not more than 15% of the PUF's fixed income portfolio may be invested in emerging market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The PUF shall:

- hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market, or
- hold no more than 5% of its equity securities in the securities of one corporation at cost.

PUF Distributions

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

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

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

The Texas Constitution states that "The amount of any distributions to the available university fund shall be determined by the board of regents of The University of Texas System in a manner intended to provide the available university fund with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of permanent university fund investments and annual distributions to the available university fund. The amount distributed to the available university fund in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on bonds and notes issued under this section. If the purchasing power of permanent university fund investments for any rolling 10-year period is not preserved, the board may not increase annual distributions to the available university fund until the purchasing power of the permanent university fund investments is restored, except as necessary to pay the principal and interest due and owing on bonds and notes issued under this section. An annual distribution made by the board to the available university fund during any

fiscal year may not exceed an amount equal to seven percent of the average net fair market value of permanent university fund investment assets as determined by the board, except as necessary to pay any principal and interest due and owing on bonds issued under this section. The expenses of managing permanent university fund land and investments shall be paid by the permanent university fund.”

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

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

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

PUF Accounting

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

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PUF net assets. Valuation of PUF assets shall be based on the books and records of the custodian for the valuation date. The final determination of PUF net assets for a month end close shall normally be completed within five business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

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

Securities Lending

The PUF may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the PUF shall be collateralized by cash, letters of credit or securities

issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be July 13, 2006.

EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities	20.0	10 to 30	Russell 3000 Index
Global ex US Equities	17.0	10 to 30	
Non-US Developed Equity	10.0	0 to 30	MSCI EAFE Index with net dividends
Emerging Markets Equity	7.0	0 to 10	MSCI Emerging Markets Index with net dividends
Hedge Funds	25.0	15 to 27.5	
Directional Hedge Funds	10.0	5 to 15	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	15.0	10 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
Private Capital	15.0	5 to 15	Venture Economics' Periodic IRR Index
Venture Capital	4.0	0 to 8	
Private Equity	11.0	5 to 15	
Inflation Linked	13.0	5 to 20	
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Commodities	3.0	0 to 6	Combination index: 66.7% GSCI minus .5% plus 33.3% DJ-AIG Commodity Index
TIPS	5.0	0 to 10	Lehman Brothers US TIPS Index
Fixed Income	10.0	5 to 15	Lehman Brothers Aggregate Bond Index
Liquidity Reserve	0.0	-1 to 10	90 Day T-Bills
Unencumbered Cash			
Temporary Cash Imbalance*			
Net non-trading receivable			

Expected Annual Return (%)	8.34
1 yr Downside Deviation (%)	-7.6
Standard Deviation (%)	10.8

Upper Risk Bound: 1 yr Downside Deviation (%)	128%
Lower Risk Bound: 1 yr Downside Deviation (%)	74%

* 3 trading days or less

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

Purpose

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

GEF Organization

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

GEF Management

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

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

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company (“UTIMCO”), the GEF shall be managed by UTIMCO, which shall a) recommend investment policy for the GEF, b) recommend specific asset allocation targets, ranges, and performance benchmarks consistent with GEF objectives, and c) monitor GEF performance against GEF objectives. UTIMCO shall invest the GEF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

GEF Administration

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

Funds Eligible to Purchase GEF Units

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

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

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

GEF Investment Objectives

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

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

Limiting factors are that prudent diversification within each approved asset class and that a projected portfolio risk profile within the approved Policy Portfolio risk range, as defined in Exhibit A and measured at least monthly by UTIMCO's risk model, should be sustained at all times. Liquidity of the GEF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

GEF return, asset allocation, and risk targets are subject to adjustment from time to time by the U. T. System Board of Regents.

Asset Allocation and Policy

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

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

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

- A. U.S. Equities - U.S. equities represent ownership in U.S. companies that are traded in public markets. U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, and futures. In addition, derivative applications that serve as a U.S. equity substitute will be classified as traditional U.S. equity. Global mandates that include a majority of U.S. equities will be included in U.S. equities. U.S. equities provide both current income and capital gains.

- B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established (non U.S. developed) and emerging markets. Global ex U.S. equities include common stocks, exchange traded funds, and derivatives based on common stock, including warrants, rights, options, and futures. In addition, derivative applications that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global mandates that include a majority of Global ex U.S. equities will be included in Global ex U.S. equities. Global ex U.S. equities provide both current income and capital gains.

Non-U.S. Developed Equity – Non-U.S. developed equities represent ownership in companies domiciled in developed economies (countries) included in the MSCI All – Country World Equity Index – excluding those classified as part of the MSCI Emerging Markets Equity Index. These securities are typically constituents of countries in Europe, the Americas (North/Latin/South) and the Far East with high per-capita income, mature capital markets, and stable governments. The benchmark for this asset category will be the MSCI EAFE Index, with net dividends.

Emerging Markets Equity – Emerging markets equities represent ownership in companies domiciled in emerging economies as defined by the current composition of the MSCI Emerging Markets Equity Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Equity Index qualification status (either through financial or qualitative measures). The benchmark for this asset category will be the MSCI Emerging Markets Equity Index, with net dividends.

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

Directional Hedge Funds – Directional hedge fund investments include U.S. and international long/short equity or fixed income strategies and other such strategies that exhibit directional market characteristics using commodities, currencies, derivatives, or other global market instruments. These strategies attempt to exploit profits from security selection skills by taking long and short positions in various securities. These strategies may also include fund of hedge fund investments. Directional hedge fund investments are made through private placement agreements. Directional hedge fund investments may be held in an internal commingled investment fund managed by UTIMCO.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage, event driven strategies and other relative value strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely

related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discrete events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include multi-strategy managers and fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements. Absolute return hedge fund investments may be held in an internal commingled investment fund managed by UTIMCO.

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

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

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

- E. Inflation Linked – Inflation linked investments are intended to provide some degree of inflation protection and generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. Inflation linked investments include:

REITS – REITS are real estate investment trusts that may be held as either trust certificates, derivative investments, or exchange traded funds. REITS own, and in most cases operate, income producing real estate.

Commodities – Commodities include natural resource investments including oil and gas interests and other hard assets. These investments may be held through partnerships, derivative investments, exchange traded funds or direct investments.

TIPS – TIPS are inflation protected securities with a return linked to the inflation rate. For diversification purposes, TIPS may include non-U.S.

inflation protected fixed income securities as well as nominal fixed income securities.

- F. Fixed Income – Fixed income investments include debt (whether U.S. or foreign) issued by Governments, various government enterprises, and agencies and domestic and foreign corporations. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications that serve as a fixed income substitute may be classified as fixed income.
- G. Cash and Cash Equivalents – Short-term (generally securities with time to maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash, and which are subject to a relatively small risk of changes in value.

Performance Measurement

The investment performance of the GEF will be measured by the GEF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the GEF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, and limited partnerships managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.
- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's chief investment officer prior to investment of GEF assets in such liquid investment fund.
- No securities may be purchased or held which jeopardize the GEF's tax exempt status.

- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The GEF's investments in warrants shall not exceed more than 5% of the GEF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The GEF may utilize derivatives to: a) simulate the purchase or sale of an underlying market index while retaining a collateral balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a derivative security is priced more attractively than the underlying security; e) hedge risks associated with GEF investments; or f) adjust the market exposure of the asset allocation, including the use of long and short strategies and other such strategies provided that the GEF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board and the Board of Regents. The Derivative Investment Policy shall serve the purpose of defining permitted applications under which derivatives can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Highly liquid internal pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by UTIMCO's chief investment officer.
- The GEF's custodian late deposit interest bearing liquid investment fund.
- Municipal short-term securities.
- Commercial paper rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit 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.

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

Fixed Income

Domestic Fixed Income

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

- 1) Government securities: Treasury and Agency;
- 2) Corporate securities: Industrial, Finance, Utility, and Yankee;
- 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA;

- 4) Asset-backed securities;
- 5) Taxable Municipal securities; and
- 6) Commercial Mortgage-backed securities.

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

- a) Floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities;
 - b) Medium term notes issued by investment grade corporations;
 - c) Zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and
 - d) Structured notes issued by LBAGG qualified entities.
- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- or better, by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition. External investment managers may be authorized by the terms of the investment advisory agreements to invest up to a maximum of 50% of the total fixed income portfolio in below investment grade bonds.
 - Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer.

Non-U.S. Fixed Income

Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

- Not more than 50% of the GEF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.
- Not more than 15% of the GEF's fixed income portfolio may be invested in emerging market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The GEF shall:

- hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market, or
- hold no more than 5% of its equity securities in the securities of one corporation at cost.

GEF Accounting

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

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all GEF net assets and the net asset value per unit of the GEF. Valuation of GEF assets shall be based on the books and records of the custodian for the valuation date. The final determination of GEF net assets for a month end close shall normally be completed within five business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

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

Purchase of GEF Units

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

Redemption of GEF Units

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

Securities Lending

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

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be July 13, 2006.

EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities	20.0	10 to 30	Russell 3000 Index
Global ex US Equities	17.0	10 to 30	
Non-US Developed Equity	10.0	0 to 30	MSCI EAFE Index with net dividends
Emerging Markets Equity	7.0	0 to 10	MSCI Emerging Markets Index with net dividends
Hedge Funds	25.0	15 to 27.5	
Directional Hedge Funds	10.0	5 to 15	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	15.0	10 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
Private Capital	15.0	5 to 15	Venture Economics' Periodic IRR Index
Venture Capital	4.0	0 to 8	
Private Equity	11.0	5 to 15	
Inflation Linked	13.0	5 to 20	
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Commodities	3.0	0 to 6	Combination index: 66.7% GSCI minus .5% plus 33.3% DJ-AIG Commodity Index
TIPS	5.0	0 to 10	Lehman Brothers US TIPS Index
Fixed Income	10.0	5 to 15	Lehman Brothers Aggregate Bond Index
Liquidity Reserve	0.0	-1 to 10	90 Day T-Bills
Unencumbered Cash			
Temporary Cash Imbalance*			
Net non-trading receivable			

Expected Annual Return (%)	8.34
1 yr Downside Deviation (%)	-7.6
Standard Deviation (%)	10.8

	% of Target Risk
Upper Risk Bound: 1 yr Downside Deviation (%)	128%
Lower Risk Bound: 1 yr Downside Deviation (%)	74%

* 3 trading days or less

THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND INVESTMENT POLICY STATEMENT

Purpose and Structure

The University of Texas System Intermediate Term Fund (ITF) was established by the Board of Regents of The University of Texas System (Board of Regents) as a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by U. T. System institutions and U. T. System Administration.

ITF Organization

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

ITF Management

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

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

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

changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

ITF Administration

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

Funds Eligible to Purchase ITF Units

No account shall be eligible to purchase units of the ITF unless it is under the sole control, with full discretion as to investments, by the Board of Regents. Any account whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the ITF.

ITF Investment Objectives

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

The primary investment objective of the ITF is to preserve the purchasing power of ITF assets by earning a compound annualized return over rolling three-year periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index (CPI-U) plus 3%. The ITF's success in meeting this objective depends upon its ability to generate higher returns in periods of low inflation that will offset lower returns generated in years when the capital markets under-perform the rate of inflation.

The secondary ITF objective is to generate a return, net of all direct and allocated expenses, measured monthly by the independent custodian and reported at least quarterly, in excess of the approved Policy Portfolio benchmark over rolling three-year periods. The Policy Portfolio benchmark will be maintained by UTIMCO and will be comprised of a blend of asset class indices reported by the independent custodian and weighted to reflect ITF's approved asset allocation policy targets as defined in Exhibit A.

Limiting factors are that prudent diversification within each approved asset class and that a projected portfolio risk profile within the approved Policy Portfolio risk range, as

defined in Exhibit A and measured at least monthly by UTIMCO's risk model, should be sustained at all times. Liquidity of the ITF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

ITF return, asset allocation, and risk targets are subject to adjustment from time to time by the U. T. System Board of Regents.

Asset Allocation and Policy

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

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

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

- A. U.S. Equities – U.S. equities represent ownership in U.S. companies that are traded in public markets. U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, and futures. In addition, derivative applications that serve as a U.S. equity substitute will be classified as traditional U.S. equity. Global mandates that include a majority of U.S. equities will be included in U.S. equities. U.S. equities provide both current income and capital gains.
- B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established (non-U.S. developed) and emerging markets.

Global ex U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, and futures. In addition, derivative applications that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global mandates that include a majority of Global ex U.S. equities will be included in Global ex U.S. equities. Global ex U.S. equities provide both current income and capital gains.

Non-U.S. Developed Equity – Non-U.S. developed equities represent ownership in companies domiciled in developed economies (countries) included in the MSCI All – Country World Equity Index – excluding those classified as part of the MSCI Emerging Markets Equity Index. These securities are typically constituents of countries in Europe, the Americas (North/Latin/South) and the Far East with high per-capita income, mature capital markets, and stable governments. The benchmark for this asset category will be the MSCI EAFE Index, with net dividends.

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placement agreements. Absolute return hedge fund investments may be held in an internal commingled investment fund managed by UTIMCO.

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Commodities– Commodities include natural resource investments including oil and gas interests and other hard assets. These investments may be held through partnerships, derivative investments, exchange traded funds or direct investments.

TIPS - TIPS are inflation protected securities with a return linked to the inflation rate. For diversification purposes, TIPS may include non-U.S. inflation protected fixed income securities as well as nominal fixed income securities.

- E. Fixed Income – Fixed income investments include debt (whether U.S. or foreign) issued by Governments, various government enterprises and agencies, and domestic and foreign corporations. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications that serve as a fixed income substitute may be classified as fixed income.
- F. Cash and Cash Equivalents – Short-term (generally securities with time to maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash, and which are subject to a relatively small risk of changes in value.

Performance Measurement

The investment performance of the ITF will be measured by the ITF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, compared against the stated investment benchmarks of the ITF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

Investment Guidelines

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

General

- Investment guidelines for index, commingled funds, and limited partnerships managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.
- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's chief investment officer prior to investment of ITF assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the ITF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The ITF's investments in warrants shall not exceed more than 5% of the ITF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The ITF may utilize derivatives to: a) simulate the purchase or sale of an underlying market index while retaining a collateral balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a derivative security is priced more attractively than the underlying security; e) hedge risks associated with ITF investments; or f) adjust the market exposure of the asset allocation, including the use of long and short strategies and other such strategies, provided that the ITF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board and the Board of Regents. The Derivative Investment Policy shall serve the purpose of defining permitted applications under which derivatives can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

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- Unaffiliated liquid investment funds as approved by UTIMCO's chief investment officer.
- ITF's custodian late deposit interest bearing liquid investment fund.
- Municipal short-term securities.
- Commercial paper rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit 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.
- Repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
 - Eligible collateral securities for repurchase agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a repurchase agreement may be from one day to two weeks.
 - The value of all collateral shall be maintained at 102% of the notional value of the repurchase agreement, valued daily.
 - All collateral shall be delivered to the ITF custodian bank. Tri-party collateral arrangements are not permitted.
 - The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the ITF's fixed income assets.
 - Overnight repurchase agreements may not exceed 25% of the ITF's fixed income assets.
- Mortgage Backed Securities (MBS) dollar rolls shall be executed as matched book transactions in the same manner as reverse repurchase agreements above. As above, the rules for trading MBS dollar rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

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

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

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

- a) Floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities;
 - b) Medium term notes issued by investment grade corporations;
 - c) Zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and
 - d) Structured notes issued by LBAGG qualified entities.
- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition. An external investment manager may be authorized by the terms of an investment advisory agreement to invest up to a maximum of 50% of the total fixed income portfolio in below investment grade bonds.
 - Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer.

Non-U.S. Fixed Income

Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U. S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

- Not more than 50% of the ITF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.

- Not more than 15% of the ITF's fixed income portfolio may be invested in emerging market debt.
- International currency exposure may be hedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The ITF shall:

- Hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market, or
- Hold no more than 5% of its equity securities in the securities of one corporation at cost.

ITF Accounting

The fiscal year of the ITF shall begin on September 1st and end on August 31st. Market value of the ITF shall be maintained on an accrual basis in compliance with Government Accounting Standards Board Statements, Financial Accounting Standards Board Statements, or industry guidelines, whichever is applicable. The ITF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of ITF Assets

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

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

ITF Distributions

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

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

Purchase and Redemption of ITF Units

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

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

Securities Lending

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

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be July 13, 2006, except for Exhibit A. Adherence to the policy targets and ranges may not be fully effective throughout the first six months after initial funding (expected February 1, 2006) as new portfolio investments are phased in. The selection of the effective date of Exhibit A, to be no later than September 1, 2006, shall be determined by UTIMCO's Chief Investment Officer and notification to the Chairmen of the UTIMCO Board and the Board of Regents shall occur at least 30 days prior to the effective date.

EXHIBIT A

**INTERMEDIATE TERM FUND
POLICY TARGETS, RANGES, AND PERFORMANCE OBJECTIVES**

Asset Categories	Percent of Policy (%)		Benchmarks
	Policy Targets	Policy Ranges	
U. S. Equities	15	5 to 20	Russell 3000 Index
Global ex U. S. Equities	10	0 to 15	
Non - U. S. Developed Equity	5	0 to 10	MSCI EAFE Index with net dividends
Emerging Markets Equities	5	0 to 10	MSCI Emerging Markets Index with net dividends
Hedge Funds	25	10 to 27.5	
Directional Hedge Funds	12.5	5 to 20	Combination index: 50% S&P Event-Driven Hedge Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	12.5	5 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
Inflation Linked	25	10 to 35	
REITS	10	0 to 15	Dow Jones Wilshire Real Estate Securities Index
Commodities	5	0 to 10	Combination Index: 66.7% GSCI minus .5% plus 33.3% DJ-AIG Commodity Index
TIPS	10	5 to 15	Lehman Brothers US TIPS Index
Fixed Income	25	15 to 40	Lehman Brothers Aggregate Bond Index
Liquidity Reserve	0.0	-1 to 20	90 Day T-Bills
Unencumbered Cash			
Temporary Cash Imbalance*			
Net non-trading receivable			

Expected Annual Return (%)	7.08
1 yr Downside Deviation (%)	-5.0
Standard Deviation (%)	7.5

		% of Target Risk
Upper Risk Bound: 1 yr Downside Deviation (%)		127%
Lower Risk Bound: 1 yr Downside Deviation (%)		69%

* 3 trading days or less

**THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
INVESTMENT POLICY STATEMENT**

Purpose

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

LTF Organization

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

LTF Management

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

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

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

LTF Administration

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

Funds Eligible to Purchase LTF Units

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

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

LTF Investment Objectives

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

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

Limiting factors are that prudent diversification within each approved asset class and that a projected portfolio risk profile within the approved Policy Portfolio risk range, as defined in Exhibit A and B and measured at least monthly by UTIMCO's risk model, should be sustained at all times. Liquidity of the U. T. System General Endowment Fund (GEF) will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

LTF return, asset allocation, and risk targets are subject to adjustment from time to time by the U. T. System Board of Regents.

Asset Allocation and Policy

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

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

LTF assets shall be allocated among the following investments.

- A. Cash Equivalents - Short-term (generally securities with time to maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash, and which are subject to a relatively small risk of changes in value.

- B. U. T. System General Endowment Fund (GEF) - See Exhibit B for the current GEF allocation, which is subject to changes by the Board of Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.
- No securities may be purchased or held which jeopardize the LTF's tax exempt status.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

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

LTF Distributions

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

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

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

Generally, pursuant to the Uniform Management of Institutional Funds Act, Chapter 163, *Texas Property Code*, as amended, ("Act"), the Board of Regents may distribute, for the uses and purposes for which the LTF is established, the net appreciation, realized and unrealized, in the fair market value of the assets of the LTF over the historic dollar value of the fund to the extent prudent under the standard provided by the Act.

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

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

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

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

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

LTF Accounting

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

Valuation of Assets

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

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

Purchase of LTF Units

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

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

Redemption of LTF Units

Redemption of LTF units shall be paid in cash as soon as practicable after the quarterly valuation date of the LTF. If the withdrawal is greater than \$10 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than \$10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of

the LTF's net asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the best interests of all LTF unitholders. Withdrawals from the LTF shall be at the market value price per unit determined for the period of the withdrawal except as follows: withdrawals to correct administrative errors shall be calculated at the per unit value at the time the error occurred. To be considered an administrative error, the contribution shall have been invested in the LTF for a period less than or equal to one year determined from the date of the contribution to the LTF. Transfer of units between endowment unitholders shall not be considered redemption of units subject to this provision.

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be July 13, 2006, except for Exhibit B. Exhibit B follows the effective date of Exhibit A of the GEF.

EXHIBIT A

LTF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

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

Expected Annual Return (%)	8.34
1yr Downside Deviation (%)	-7.6
Standard Deviation (%)	10.8

	% of Target Risk
Upper Risk Bound: 1 yr Downside Deviation (%)	128%
Lower Risk Bound: 1 yr Downside Deviation (%)	74%

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

*3 trading days or less

EXHIBIT B

GEF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVE

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities	20.0	10 to 30	Russell 3000 Index
Global ex US Equities	17.0	10 to 30	
Non-US Developed Equity	10.0	0 to 30	MSCI EAFE Index with net dividends
Emerging Markets Equity	7.0	0 to 10	MSCI Emerging Markets Index with net dividends
Hedge Funds	25.0	15 to 27.5	
Directional Hedge Funds	10.0	5 to 15	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	15.0	10 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
Private Capital	15.0	5 to 15	Venture Economics' Periodic IRR Index
Venture Capital	4.0	0 to 8	
Private Equity	11.0	5 to 15	
Inflation Linked	13.0	5 to 20	
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Commodities	3.0	0 to 6	Combination index: 66.7% GSCI minus .5% plus 33.3% DJ-AIG Commodity Index
TIPS	5.0	0 to 10	Lehman Brothers US TIPS Index
Fixed Income:	10.0	5 to 15	Lehman Brothers Aggregate Bond Index
Liquidity Reserve	0.0	-1 to 10	90 Day T-Bills
Unencumbered Cash			
Temporary Cash Imbalance*			
Net non-trading receivable			

Expected Annual Return (%)	8.34
1 yr Downside Deviation (%)	-7.6
Standard Deviation (%)	10.8

	% of Target Risk
Upper Risk Bound: 1 yr Downside Deviation (%)	128%
Lower Risk Bound: 1 yr Downside Deviation (%)	74%

* 3 trading days or less

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

Purpose

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

- A. The Permanent Health Fund for Higher Education (the “PHFHE”), the distributions from which are to fund programs that benefit medical research, health education, or treatment programs at 10 health-related institutions of higher education; and
- B. Eight of the thirteen separate Permanent Funds for Health Related Institutions (the “PFHRIs”), the distributions from which are to fund research and other programs at health-related institutions of higher education that benefit public health. The PFHRIs invested in the PHF are:

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

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

PHF Organization

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

PHF Management

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

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

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

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

allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

PHF Administration

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

Funds Eligible to Purchase PHF Units

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

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

PHF Investment Objectives

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

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

Limiting factors are that prudent diversification within each approved asset class and that a projected portfolio risk profile within the approved Policy Portfolio risk range, as defined in Exhibit A and B and measured at least monthly by UTIMCO's risk model, should be sustained at all times. Liquidity of the U. T. System General Endowment Fund (GEF) will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

PHF return, asset allocation, and risk targets are subject to adjustment from time to time by the U. T. System Board of Regents.

Asset Allocation and Policy

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

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

PHF assets shall be allocated among the following investments:

- A. Cash Equivalents - Short-term (generally securities with time to maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash, and which are subject to a relatively small risk of changes in value.
- B. U. T. System General Endowment Fund (GEF) - See Exhibit B for the current GEF allocation, which is subject to changes by the Board of Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.
- No securities may be purchased or held which jeopardize the PHF's tax exempt status.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

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

PHF Distributions

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

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

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

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

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

- A. Increase the prior year's per unit distribution amount (cents per unit) by the average inflation rate (C.P.I.) for the previous twelve quarters. This will be the per unit distribution amount for the next fiscal year. This amount may be rounded to the nearest \$.0005 per unit.
- B. If the inflationary increase in Step A results in a distribution rate below 3.5% (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price

per unit), the UTIMCO Board may recommend an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5%.

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

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

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

PHF Accounting

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

Valuation of Assets

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

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

Purchase of PHF Units

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

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

Redemption of PHF Units

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be July 13, 2006, except for Exhibit B. Exhibit B follows the effective date of Exhibit A of the GEF.

EXHIBIT A

PHF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

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

Expected Annual Return (%)	8.34
1 yr Downside Deviation (%)	-7.6
Standard Deviation (%)	10.8

	% of Target Risk
Upper Risk Bound: 1 yr Downside Deviation (%)	128%
Lower Risk Bound: 1 yr Downside Deviation (%)	74%

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

*3 trading days or less

EXHIBIT B

GEF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities	20.0	10 to 30	Russell 3000 Index
Global ex US Equities	17.0	10 to 30	
Non-US Developed Equity	10.0	0 to 30	MSCI EAFE Index with net dividends
Emerging Markets Equity	7.0	0 to 10	MSCI Emerging Markets Index with net dividends
Hedge Funds	25.0	15 to 27.5	
Directional Hedge Funds	10.0	5 to 15	Combination index: 50% S&P Event-Driven Hedge Fund Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	15.0	10 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
Private Capital	15.0	5 to 15	Venture Economics' Periodic IRR Index
Venture Capital	4.0	0 to 8	
Private Equity	11.0	5 to 15	
Inflation Linked	13.0	5 to 20	
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Commodities	3.0	0 to 6	Combination index: 66.7% GSCI minus .5% plus 33.3% DJ-AIG Commodity Index
TIPS	5.0	0 to 10	Lehman Brothers US TIPS Index
Fixed Income:	10.0	5 to 15	Lehman Brothers Aggregate Bond Index
Liquidity Reserve	0.0	-1 to 10	90 Day T-Bills
Unencumbered Cash			
Temporary Cash Imbalance*			
Net non-trading receivable			

Expected Annual Return (%)	8.34
1 yr Downside Deviation (%)	-7.6
Standard Deviation (%)	10.8

	% of Target Risk
Upper Risk Bound: 1 yr Downside Deviation (%)	128%
Lower Risk Bound: 1 yr Downside Deviation (%)	74%

* 3 trading days or less

THE UNIVERSITY OF TEXAS SYSTEM SEPARATELY INVESTED FUNDS INVESTMENT POLICY STATEMENT

Purpose

The Separately Invested Funds (the "Accounts") include the Endowment, Trust, and Other Accounts established in the name of the Board of Regents of The University of Texas System (the "Board of Regents"), as trustee, and are Accounts which are not solely invested in one of the pooled investment vehicles. These Accounts are not invested in the pooled investment vehicle because: a) they are charitable trusts; b) of investment restrictions incorporated into the trust/endowment document; c) of inability to sell the gifted investment asset; d) they are assets being migrated upon liquidation into a pooled investment vehicle; or e) assets held by The University of Texas Investment Management Company ("UTIMCO") at the request of a University of Texas System institution for which UTIMCO does not have investment discretion (for example, tech stock). This policy covers the Accounts collectively. However, specific guidelines are applied to each individual account. Specific Account restrictions may not fall within the guidelines established in this policy.

Investment Management

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

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

Pursuant to an Investment Management Services Agreement between the Board of Regents and UTIMCO, the assets for the Account shall be managed by UTIMCO,

which shall: a) recommend investment policy for the Accounts, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with the Account objectives, and if appropriate c) monitor the Account's performance against Account objectives. UTIMCO shall invest the Account's assets in conformity with this Policy Statement.

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

Account Administration

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

Investment Objectives

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

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

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

Asset Allocation

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

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

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

Asset Allocation Policy

The asset allocation policy and ranges for each Account herein is dependent on the terms and conditions of the applicable trust/endowment or trust document. . If possible, the Account's assets shall be diversified among different types of assets whose returns are not closely correlated in order to enhance the return/risk profile of the Account.

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

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

General

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

The Account may utilize derivatives to: a) simulate the purchase or sale of an underlying market index while retaining a collateral balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a derivative security is priced more attractively than the underlying security; e) hedge risks associated with ITF investments; or f) adjust the market exposure of the asset allocation, including the use of long and short strategies and other such strategies, provided that the Account's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board and the Board of Regents. The Derivative Investment Policy shall serve the purpose of defining permitted applications under which derivatives can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

Eligible Investments

Cash and cash equivalents

Holdings of cash and cash equivalents may include the following:

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

Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.

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

Fixed income securities

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

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

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

- a) Floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities;
 - b) Medium term notes issued by investment grade corporations;
 - c) Zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and
 - d) Structured notes issued by LBAGG qualified entities.
- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition.
 - Not more than 35% of the Account's fixed income portfolio may be invested in non-U.S. dollar bonds. Not more than 15% of the Account's fixed income portfolio may be invested in bonds denominated in any one currency other than U.S. dollar.
 - Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.
 - Not more than 7.5% of the Account's fixed income portfolio may be invested in Emerging Market debt.
 - International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.
 - Permissible securities for investment include Fixed Income Mutual Funds and Debt Index Funds as approved by UTIMCO's chief investment officer.
 - Permissible securities for investment include Fixed Income Variable Annuity Contracts as approved by UTIMCO's chief investment officer.

Equities

The Account may purchase equity securities as long as it:

- holds no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market.

- holds no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by UTIMCO's chief investment officer.

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

The provisions concerning investment in fixed income and equities securities shall not apply to an Account in which the agreement prohibits the sale of an equity or fixed income security. To the extent determined practical by the U. T. System Office of Development and Gift Planning Services, donor preferences will be considered in determining whether gifts of securities are held or sold.

Distributions

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

Accounting

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

Valuation of Assets

As of the close of business for each month, UTIMCO shall determine the fair market value of all assets in the Accounts. Such valuation of assets shall be based on the bank trust custody agreement in effect or other external source if not held in the bank custody account at the date of valuation. The final determination of the Accounts net assets for a month end close shall normally be completed within ten business days but determination may be longer under certain circumstances.

Securities Lending

The Account may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the Accounts shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least

100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be July 13, 2006.

The University of Texas Investment Management Company

Derivative Investment Policy

Effective Date of Policy: July 13, 2006

Date Approved by UTIMCO Board: March 30, 2006

Purpose:

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

Objective:

The objective of investing in derivatives is to facilitate risk management and provide efficiency in the implementation of various investment strategies for the Funds. Through the use of derivatives, the complex risks that are bound together in traditional cash market investments can be separated and managed independently. Derivatives provide the Funds with the most economical means to improve the Funds risk/return profile.

Scope:

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

This Policy applies to both exchange traded derivatives and over the counter (OTC) derivative instruments. This Policy shall not be construed to apply to index or other common or commingled funds in which the Funds typically invest. These commingled investment vehicles are governed by separate investment policy statements.

External Managers :

External managers are selected to manage the Funds' assets under either an Agency Agreement or through a Limited Liability Entity. An external investment manager of public market investments employed by UTIMCO under an Agency Agreement may engage in derivative transactions only if the transactions are consistent with the overall investment objectives of the account. Derivative applications shall be approved only with investment managers that demonstrate investment expertise in their use, and have appropriate risk management policies and procedures to effectively monitor and control their use.

Selecting and monitoring external managers through a Limited Liability Entity requires a clear understanding of the managers' use of derivatives, particularly as it relates to various risk controls and leverage. These managers typically have complete delegated authority, and monitoring of risk exposures and leverage is done on both an individual entity and aggregate basis. The permitted uses of derivatives and leverage are fully documented in the limited liability agreements with these managers.

Definition of Derivatives:

Derivatives are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as a bonds, stocks, commodities, and currencies). For the purposes of this Policy, derivatives shall include futures contracts, forward contracts, swaps and all forms of options, but shall not include a broader range of securities including

The University of Texas Investment Management Company

Derivative Investment Policy

mortgage backed securities, structured notes and convertible bonds. Derivatives may be purchased through a national exchange or through an OTC direct arrangement with a counterparty. Refer to the attached exhibit for a glossary of terms.

Permitted Derivative Applications:

Derivative applications may be used:

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

The primary intent of derivative transactions should be to hedge risk in portfolios or to implement investment strategies more effectively and at a lower cost than would be possible in the cash market. Except as provided below, only the above derivative applications are permitted until such time as this policy is amended and approved by UTIMCO's Board and the U.T. System Board of Regents. The Chief Investment Officer shall recommend and the UTIMCO Board must approve any new internal derivative applications prior to implementation, after fully considering the permissibility, merits, and compliance with all documentation and controls requirements of the application. Derivative policies of external managers that may engage in derivative applications not otherwise permitted by this Policy, or a Policy subsequently broadened by the UTIMCO Board and the U.T. System Board of Regents, must be approved by the UTIMCO Board. Existing external managers as of November 10, 2005, will comply with this policy on or before January 1, 2006.

Derivative Applications Not Permitted:

Derivative applications shall not be used to invest in asset classes that are not consistent with the Funds' policy asset categories, implementation strategies and risk/return characteristics.

Documentation and Controls:

Prior to the implementation of a new internal derivative application, UTIMCO shall document the purpose, justification, baseline portfolio, derivative application portfolio, risks (including at a minimum modeling, pricing, liquidity and legal risks), the expected increase or reduction in systematic and specific risk resulting from the application, and the procedures in place to monitor and manage the derivative exposure. Internal control procedures to properly account and value the Funds' exposure to the derivative application shall be fully documented. UTIMCO shall establish an appropriate risk management procedure to monitor compliance and will take corrective action if necessary.

Limitations:

Economic Impact and Leverage: Leverage is inherent in derivatives since only a small cash deposit is required to establish a much larger economic impact position. Thus, relative to the cash markets, where in most cases the cash outlay is equal to the asset acquired, derivatives applications offer the possibility of establishing substantially larger market risk exposures with the same amount of cash as a traditional cash market portfolio. Therefore, risk management and control processes must focus on the total risk assumed in a derivatives application, which is the sum of the application-specific risk and the market (systematic) risk established by the derivative application. In order to control and limit the leverage risk, each internal derivative application must specify a baseline portfolio, and risk measures such as Value at Risk (VAR) will be employed to assure that the total economic impact risk of the derivative application portfolio relative to the baseline portfolio will not exceed 20% of the underlying value of the baseline

The University of Texas Investment Management Company Derivative Investment Policy

portfolio. The total relative economic impact risk of each derivative application will be monitored on a daily basis by the most appropriate risk management tools for the particular derivative application.

Counterparty Risks: In order to limit the financial risks associated with derivative applications, rigorous counterparty selection criteria and netting agreements shall be required to minimize counterparty risk for over the counter derivatives. Any counterparty in an OTC derivative transaction with the Funds must have a credit rating of at least A- (Standard and Poor's) or A3 (Moody's). All OTC derivative transactions must be subject to established ISDA Netting Agreements and have full documentation of all legal obligations of the Funds under the transactions. The net market value of all OTC derivative positions for any individual counterparty may not exceed 1% of the total market value of the Funds.

Global Risk Limitations: Notwithstanding other limitations in this Derivative Policy, no derivative transaction may be taken that would cause the aggregate risk exposure of the Funds to exceed the aggregate risk limits established by the current asset allocation policies of the Funds.

Risk Management and Compliance:

To ensure compliance with all terms and limitations of this Policy, all internally managed and externally managed derivatives in accounts under Agency Agreements will be marked to market on a daily basis by the Funds' external custodian, and these daily reports will be reviewed for accuracy by the UTIMCO Risk Manager. Compliance with the conditions of this Policy will be monitored by the UTIMCO Chief Compliance Officer using data provided by the external custodian and the external risk model. Data from the external risk model will be reviewed for accuracy and completeness by the UTIMCO Risk Manager. Any violations of the terms in this Policy will be reported immediately to the Chief Investment Officer, who will determine the appropriate remedy and report promptly to the Risk Committee and the UTIMCO Board.

Reporting:

UTIMCO shall provide a comprehensive report of all approved derivative applications for both internal managers and external managers under Agency Agreements. UTIMCO shall also provide a comprehensive report of all outstanding derivatives positions established by internal managers and external managers under Agency Agreements. These reports will be provided at least on a quarterly basis to the UTIMCO Board and the Risk Committee.

The University of Texas Investment Management Company

Derivative Investment Policy

Derivative Investment Policy Exhibit

Glossary of Terms

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

Application specific risk – The portion of total risk in a derivatives application which is due to factors unique to the application as opposed to more systematic, market-related factors. For example, in an option on a specific stock, the risk associated with the specific business results of the company which issued the stock underlying the option would be application-specific risk, as opposed to the overall risk of the stock market which would be Systematic Risk.

Baseline portfolio – The cash-market based portfolio which will serve as the basis for calculating the relative risk level of an equivalent derivatives application.

Cash equivalents – Includes cash, short term fixed income instruments, accruals, variation margin and one day deposits in transit to the account.

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

Counterparty - The offsetting party in an exchange agreement.

Delta Equivalent Value – The delta of an option is a measure of the change in price of an option with a small change in the value of the security underlying the option as implied by the Black-Scholes theory. The delta is a function of the volatility of the underlying security, the dividend rate of the underlying security, the strike price of the option, the time to maturity of the option, and the risk free interest rate. The delta then defines the value of the underlying security that would be necessary to fully hedge the option position, the delta equivalent value. For example, if an option on a stock has a notional value of \$100 but would change in price by \$6 when the value of the underlying stock changes by \$10, then the delta equivalent value of the option is \$60.

Derivative application – A definition of the intended use of a derivative-based position such as replication or enhancing index returns, asset allocation or completion fund strategies, and various alpha transport strategies.

Derivative application portfolio – The portfolio including derivative instruments, cash equivalents, and other cash market assets established to replicate a specified baseline portfolio.

Economic exposure - The total effective exposure of a derivative position. The economic exposure is the product of the dollar value of the exposure and the market or systematic risk level of the exposure. A common method of measuring economic exposure is with risk management tools such as “value at risk.”

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

The University of Texas Investment Management Company Derivative Investment Policy

Forward contract - A non-standardized contract for the physical or electronic (through a bookkeeping entry) delivery of a commodity or financial instrument at a specified price at some point in the future.

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

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

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

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

Over the counter (OTC) derivatives - A derivative instrument which result from direct negotiation between a buyer and a counterparty. The terms of such instruments are non-standard and are the result of specific negotiations. Settlement occurs at the negotiated termination date, although the terms may include interim cash payments under certain conditions. Examples include currency swaps and forward contracts, interest rate swaps, and collars.

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

Systematic risk – The non-diversifiable risks associated with an investment in a particular asset market. For example the financial, political, and other risks associated with a portfolio of common stocks are known as "market" or systematic risks.

Value at risk (VAR) – An established method of measuring economic exposure risk. The measure conveys the maximum potential loss (in dollars or percent of total assets) for a particular investment position, for a particular period of time, for a particular level of confidence.

BYLAWS
OF
THE UNIVERSITY OF TEXAS INVESTMENT
MANAGEMENT COMPANY

Restated to Include
Amendments Adopted on

March 13, 1997

(Approved by the Board of Regents on May 8, 1997)

May 2, 1997

(Approved by the Board of Regents on May 8, 1997)

September 22, 1999

(Approved by the Board of Regents on November 11, 1999)

December 9, 1999

(Approved by the Board of Regents on February 10, 2000)

October 26, 2001

(Approved by the Board of Regents on November 8, 2001)

June 26, 2003

(Approved by the Board of Regents on August 7, 2003)

Ratified September 29, 2004

(Approved by the Board of Regents on August 12, 2004)

May 25, 2006

(Approved by the Board of Regents on July 13, 2006)

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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. 1396-1.01 (the “Act”). The Articles of Incorporation of the Corporation (as amended from time to time, the “Articles of Incorporation”) were filed in the office of the Secretary of the State of Texas on November 15, 1995.

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

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

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

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

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

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

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

ARTICLE II OFFICES

Section 1. Principal Place of Business. The principal place of business of the Corporation shall be located at 401 Congress Avenue, Suite 2800, Austin, Texas 78701. The Corporation may have such other offices, either within or without the State of Texas, as the Board of Directors may determine or as the affairs of the Corporation may require from time to time.

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

ARTICLE III BOARD OF DIRECTORS

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

Section 2. Number. The Board of Directors shall consist of nine (9) Directors consistent with Texas Education Code Section 66.08.

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

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

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

Section 6. Meetings of Directors. The Directors may hold meetings and keep the Corporation's books and records at such place or places within the State of Texas as the Board of Directors may from time to time determine.

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

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

Section 8. Regular Meetings. Regular meetings of the Board of Directors ("Regular Meetings") shall be held at such times and places as shall be designated from time to time by resolution of the Board of Directors. Notice of Regular Meetings shall be required. The UTIMCO President shall consult with the Chairman and the Vice Chairmen of the UTIMCO Board, including the Chancellor as Vice Chairman for Policy, on the draft agenda for meetings of the UTIMCO Board at least three (3) weeks prior to each regular UTIMCO Board meeting.

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

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

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

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

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

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

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

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

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

ARTICLE IV COMMITTEES

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

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

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

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

The Board of Directors may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of such committee.

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

ARTICLE V OFFICERS

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

Section 2. Removal. Any officer or agent or member of a committee elected or appointed by the Board of Directors may be removed by the Board of Directors, but such removal shall be without prejudice to the contract rights, if any, of the individual so

removed. Election or appointment of an officer or agent or member of a committee shall not of itself create contract rights.

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

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

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

Section 6. Powers and Duties of the Vice Chairman for Policy. The Chancellor of the System shall serve as Vice Chairman for Policy and shall coordinate those responsibilities, including the appropriate resolution of policy issues, assigned to UTIMCO and System by the Rules and Regulations of the Board of Regents and the Investment Management Services Agreement to facilitate UTIMCO's performance of its core investment duties.

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

Section 8. Powers and Duties of the Treasurer. The Treasurer shall have custody of all of the Corporation's funds and securities that come into such officer's hands. When necessary or proper, the Treasurer may endorse or cause to be endorsed, in the name and on behalf of the Corporation, checks, notes, and other obligations for collection and shall deposit or cause to be deposited the same to the credit of the Corporation in such bank or banks or depositories and in such manner as shall be designated and prescribed by the Board of Directors; may sign or cause to be signed all receipts and vouchers for payments made to the Corporation either alone or jointly with such other officer as may be designated by the Board of Directors; whenever required by the Board of Directors, shall render or cause to be rendered a statement of

the cash account; shall enter or cause to be entered regularly in the Corporation's books to be kept by such officer for that purpose full and accurate accounts of all moneys received and paid out on account of the Corporation; shall perform all acts incident to the position of Treasurer subject to the control of the Board of Directors; and shall, if required by the Board of Directors, give such bond for the faithful discharge of such officer's duties in such form as the Board of Directors may require.

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

ARTICLE VI MISCELLANEOUS PROVISIONS

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

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

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

Section 4. Public Information. The Board of Directors shall comply with applicable provisions of the Texas Public Information Act.

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

ARTICLE VII INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

Section 2. Advance Payment. An Indemnified Person's right to indemnification conferred in this Article VII shall include the right to be paid or reimbursed by the Corporation the reasonable expenses incurred by an Indemnified Person who was, is or is threatened to be made a named defendant or respondent in a Proceeding in advance of the final disposition of the Proceeding; provided, however, that the payment of such expenses incurred by an Indemnified Person in advance of the final disposition of a Proceeding shall be made only

upon delivery to the Corporation of a written affirmation by such Indemnified Person of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification under this Article VII and a written undertaking by or on behalf of such Indemnified Person to repay all amounts so advanced if it shall ultimately be determined that such Indemnified Person is not entitled to be indemnified under this Article VII or otherwise.

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

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

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

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

ARTICLE VIII AMENDMENTS

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



**THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY**

CODE OF ETHICS

Approved by the Board of Regents July 13, 2006

**THE UNIVERSITY OF TEXAS INVESTMENT
MANAGEMENT COMPANY
CODE OF ETHICS**

Subchapter A. GENERAL PROVISIONS

Sec. 1.01. General Principles. (a) The Board of Regents of The University of Texas System has ultimate fiduciary responsibility for causing the funds within its investment authority to be managed in accordance with applicable law.

(b) The standard mandated by Article VII, Section 11b, of the Texas Constitution concerning the permanent university fund, the standard mandated by the Board of Regents concerning all of the funds within its investment authority under the Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company (UTIMCO), and the standard mandated by the Board of Regents' Investment Policy Statements require those funds to be invested in such investments that "prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of the assets of the fund rather than a single investment."

(c) Pursuant to the Investment Management Services Agreement, the Board of Regents has appointed UTIMCO as its investment manager with respect to those funds for which the Board of Regents has investment responsibility. In the agreement, UTIMCO has acknowledged that it acts as a fiduciary of the Board of Regents in the discharge of its investment management responsibilities and is obligated to manage the investments of the funds pursuant to policies of the Board of Regents that incorporate and adhere to the prudent investor standard. Accordingly, both the Board of Regents and UTIMCO have fiduciary interests in assuring that the directors and employees of UTIMCO possess the requisite knowledge, skill, and experience to manage the funds in accordance with the prudent investor standard described in Subsection (b) of this section and other applicable law.

(d) This Code of Ethics sets forth the basic principles and guidelines for directors and employees of UTIMCO, in addition to and in accordance with the requirements of Section 66.08 of the *Texas Education Code*, the Texas Non-Profit Corporation Act, and other applicable laws.

(e) This Code of Ethics anticipates that many of UTIMCO's directors and employees will be active investors, either individually or on behalf of

others, in the same asset categories as the funds managed by UTIMCO on behalf of the Board of Regents. Without seeking to disqualify those directors and employees from service to UTIMCO except to the extent necessary or appropriate to avoid conflicts of interest or otherwise conform to applicable law, this code holds all directors and employees to high standards of conduct consistent with their special relationship of trust, confidence, and responsibility to UTIMCO. This code also recognizes UTIMCO's unique role as the dedicated investment manager of the Board of Regents in investing the funds in furtherance of the education mission of the Board of Regents, the institutions of The University of Texas System, and other beneficiaries of the funds.

(f) In addition to strict compliance with legal requirements, all directors and employees are expected to be guided by the basic principles of loyalty, prudence, honesty and fairness in conducting UTIMCO's affairs.

Sec. 1.02. Definitions. In this Code:

- (1) "Audit and ethics committee" means the standing audit and ethics committee established by UTIMCO bylaws.
- (2) "Board" means the Board of Directors of UTIMCO.
- (3) "Board of Regents" means the Board of Regents of The University of Texas System.
- (4) "Chief compliance officer" means the person designated from time to time as the chairman of the employee ethics and compliance committee.
- (5) "Director" means a member of the Board of Directors of UTIMCO.
- (6) "Director entity" means an investment fund or other entity controlled by a UTIMCO director.
- (7) "Employee" means a person working for UTIMCO in an employer-employee relationship.
- (8) "Employee entity" means an investment fund or other entity controlled by a UTIMCO employee.
- (9) "General counsel" means the lawyer or firm of lawyers designated from time to time as the general counsel of UTIMCO.

- (10) “Key employee” means an employee who has been designated by the board as one who exercises significant decision-making authority by virtue of the position the employee holds with UTIMCO.
- (11) “Personal securities transactions” means:
- (A) transactions for a director’s or employee’s own account, including an individual retirement account; or
 - (B) transactions for an account, other than an account over which the director or employee has no direct or indirect influence or control, in which the director or employee, or the director’s or employee’s spouse, minor child, or other dependent relative:
 - (i) is an income or principal beneficiary or other equity owner of the account; or
 - (ii) receives compensation for managing the account for the benefit of persons other than such person or his or her family.
- (12) “President” means the chief executive officer of UTIMCO.
- (13) “Private investment” means any debt obligation or equity interest that is not a publicly traded security, including a “private investment” in a publicly traded company.
- (14) “Publicly traded company” means a business entity with a class of securities that consists of publicly traded securities.
- (15) “Publicly traded securities” means securities of a class that is listed on a national securities exchange or quoted on the NASDAQ national market system in the United States or that is publicly traded on any foreign stock exchange or other foreign market.
- (16) “Relative” means a person related within the third degree by consanguinity or the second degree by affinity determined in accordance with Sections 573.021 – 573.025, *Government Code*. For purposes of this definition:
- (i) examples of a relative within the third degree by consanguinity are a child, grandchild, great-grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece, or nephew;

- (ii) examples of a relative within the second degree by affinity are a spouse, a person related to a spouse within the second degree by consanguinity, or a spouse of such a person;
 - (iii) a person adopted into a family is considered a relative on the same basis as a natural born family member; and
 - (iv) a person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.
- (17) “UTIMCO” means The University of Texas Investment Management Company.
- (18) “UTIMCO entity” means an investment fund or other entity controlled by UTIMCO.

Sec. 1.03. Definition of “Control.” (a) For purposes of this code, UTIMCO or a director or employee is presumed to control an investment fund or other entity if UTIMCO’s or the director’s or employee’s management role with or investment in the fund or entity enables UTIMCO or the director or employee, as appropriate, to direct the operating or financial decisions of the fund or entity. However, the presumption of control by a director or employee shall be rebutted if the general counsel advises the board that, based upon a review and confirmation of relevant facts provided by the respective director or employee, it is the opinion of the general counsel that the director or employee does not have ultimate control of the operating or financial decisions of a particular fund or entity.

(b) Without limiting the provisions of Subsection (a), UTIMCO or a director or employee is not presumed to control an investment fund or other entity if UTIMCO or the director or employee does not have a management role, if the terms of the investment do not give UTIMCO or the director or employee, as appropriate, the legal right to direct the operating or financial decisions of the fund or entity, and if UTIMCO or the director or employee, as appropriate, does not attempt to direct the operating or financial decisions.

Sec. 1.04. Decision-Making Based on Merit. (a) UTIMCO directors and employees shall base UTIMCO business transactions on professional integrity and competence, financial merit and benefit to UTIMCO, and, if required or prudent, on a competitive basis.

(b) UTIMCO directors and employees may not base any UTIMCO business decisions on family or personal relationships.

Sec. 1.05. Compliance with Law. Directors and employees shall comply with all applicable laws, and should be specifically knowledgeable of Section 66.08, *Education Code* (Investment Management), Section 39.02, *Penal Code* (Abuse of Official Capacity), and Section 39.06, *Penal Code* (Misuse of Official Information).

Sec. 1.06. Compliance with Professional Standards. Directors and employees who are members of professional organizations, such as the CFA Institute, shall comply with any standards of conduct adopted by the organizations of which they are members.

Sec. 1.07. Accounting and Operating Controls. Directors and employees shall observe the accounting and operating controls established by law and UTIMCO policies, including restrictions and prohibitions on the use of UTIMCO property for personal or other purposes not related to UTIMCO business.

Sec. 1.08. General Standards of Conduct for Directors and Employees.

(a) It is the policy of UTIMCO that a director or employee should not:

- (1) accept or solicit any gift, favor, or service that might reasonably tend to influence the director or employee in the discharge of his or her duties for UTIMCO or that the director or employee knows or should know is being offered with the intent to influence the director's or employee's conduct on behalf of UTIMCO;
- (2) accept other employment or engage in a business or professional activity that the director or employee might reasonably expect would require or induce the director or employee to disclose confidential information acquired by reason of his or her position with UTIMCO;
- (3) accept other employment or compensation that could reasonably be expected to impair the director's or employee's independence of judgment in the performance of his or her duties for UTIMCO;
- (4) make personal investments that could reasonably be expected to create a substantial conflict between the director's or employee's private interest and the interests of UTIMCO; or

- (5) intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised the director's or employee's authority or performed the director's or employee's duties at UTIMCO in favor of another.

Sec. 1.09. Honesty and Loyalty. (a) Directors and employees shall be honest in the exercise of their duties and may not take actions that will discredit UTIMCO.

(b) Directors and employees should be loyal to the interests of UTIMCO to the extent that the loyalty is not in conflict with other duties that legally have priority.

Sec. 1.10. Relationship with UTIMCO Not Used for Personal Gain.

(a) Directors and employees may not use their relationship with UTIMCO to seek or obtain personal gain beyond agreed compensation or any properly authorized expense reimbursement.

(b) This section does not prohibit the use of UTIMCO as a reference or prohibit communicating to others the fact that a relationship with UTIMCO exists as long as no misrepresentation is involved.

Sec. 1.11. Confidential Information. (a) Directors and employees may not disclose confidential information unless duly authorized personnel determine that the disclosure is either permitted or required by law.

(b) Directors and employees shall use confidential information for UTIMCO purposes and not for their own personal gain or for the gain of third parties.

Sec. 1.12. Nepotism. (a) UTIMCO may not employ a person who is a relative of a director. This subsection does not prohibit the continued employment of a person who has been working for UTIMCO for at least 30 consecutive days before the date of the related director's appointment.

(b) UTIMCO may not employ a person who is a relative of a key employee, of a consultant, or of any owner, director, or officer of a consultant. This subsection does not prohibit the continued employment of a person who has been working for UTIMCO for at least 30 consecutive days:

- (1) before the date of the selection of the key employee or consultant; or
- (2) before becoming a relative.

(c) An employee may not exercise discretionary authority to hire, evaluate, or promote a relative.

(d) An employee may not directly or indirectly supervise a relative. In this subsection, “supervise” means to oversee with the powers of direction and decision-making the implementation of one’s own or another’s intentions, and normally involves assigning duties, overseeing and evaluating work, and approving leave.

(e) This section does not prohibit the employment of a relative of an employee for a short-term special project as a non-exempt employee if the employee seeking to employ a relative discloses the relationship in advance to the chief compliance officer and obtains prior approval from that officer for the employment.

Sec. 1.13. Gifts and Entertainment. (a) A director or employee may not accept a gift that the director or employee knows or should know is being offered or given because of the director’s or employee’s position with UTIMCO. This prohibition applies to gifts solicited or accepted for the personal benefit of the director or employee as well as to gifts to third parties.

(b) The prohibitions in this code do not apply to the following gifts if acceptance does not violate a law:

- (1) gifts given on special occasions between employees and/or directors;
- (2) books, pamphlets, articles, or other similar materials that contain information directly related to the job duties of a director or employee and that are accepted by the director or employee on behalf of UTIMCO for use in performing his or her job duties;
- (3) gifts from the relatives of a director or employee that are based solely on a personal relationship between the director or employee and his or her relative;
- (4) business meals and receptions when the donor or a representative of the donor is present;
- (5) ground transportation in connection with business meetings, meals, or receptions;
- (6) fees for seminars or conferences that relate to the director’s or employee’s job duties and that are sponsored by

UTIMCO's consultants or agents, prospective consultants or agents, or persons or entities whose interests may be affected by UTIMCO; and

- (7) items of nominal intrinsic value, such as modest items of food and refreshment on infrequent occasions, gifts on special occasions, and unsolicited advertising or promotional material such as plaques, certificates, trophies, paperweights, calendars, note pads, and pencils, but excluding cash or negotiable instruments.

(c) Attendance of directors or employees at seminars or conferences that involve entertainment or recreation and that are sponsored and paid for by UTIMCO's consultants or agents, prospective consultants or agents, or persons or entities whose interests may be affected by UTIMCO may in some cases be in the best interest of UTIMCO. An employee must obtain specific written approval to attend such events from the president or chief compliance officer. Approval may be withheld for elaborate entertainment events such as ski trips, hunting trips, or stays at expensive resorts.

(d) A director or employee may not accept a gift if the source of the gift is not identified or if the director or employee knows or has reason to know that a prohibited gift is being offered through an intermediary.

(e) A director or employee who receives a prohibited gift should return the gift to its source or, if that is not possible or feasible, donate the gift to charity.

Sec. 1.14. Communications with General Counsel. When the general counsel of UTIMCO is a firm of lawyers, one principal within that firm must be identified to receive all written and oral communications made pursuant to this code.

Sec. 1.15. Key Employees. The board shall designate by position with UTIMCO those employees who exercise significant decision-making authority. These employees are "key employees" for purposes of this code.

Subchapter B. CONFLICTS OF INTEREST

Sec. 2.01. Definition of Conflict of Interest. (a) A conflict of interest exists for a director or employee when the director or employee has a personal or private commercial or business relationship that could reasonably be expected to diminish the director's or employee's independence of

judgment in the performance of the director's or employee's responsibilities to UTIMCO.

(b) For example, a person's independence of judgment is diminished when the person is in a position to take action or not take action with respect to UTIMCO or its business and the act or failure to act is or reasonably appears to be influenced by considerations of personal gain or benefit rather than motivated by the interests of UTIMCO.

Sec. 2.02. Exceptions for Minimal Stock Ownership. It is not a conflict of interest solely because a director or employee has an investment in the stock of a publicly traded company that is owned, purchased, sold, or otherwise dealt with by UTIMCO if the director's or employee's interest in the stock is not more than five percent of any class and if the director or employee is not a director or officer of the company.

Sec. 2.03. Duty to Avoid Conflicts of Interest. (a) Directors and employees should avoid personal, employment, or business relationships that create conflicts of interest.

(b) A director or employee may not take action personally or on behalf of UTIMCO that will result in a reasonably foreseeable conflict of interest. If a director or employee believes that an action is in the best interest of UTIMCO but could foreseeably result in a conflict of interest, the director or employee must disclose that fact to the chief compliance officer before taking the action.

Sec. 2.04. Duty to Disclose and Cure Conflicts. A director or employee who becomes aware of a conflict of interest has an affirmative duty to disclose and cure the conflict in a manner provided for in this code.

Sec. 2.05. Curing Conflicts of Interest. (a) A director or employee who becomes aware, or reasonably should have become aware, of a conflict of interest shall cure the conflict by promptly eliminating it, except as provided by Subsection (b).

(b) A director or employee may cure a conflict by prudently withdrawing from action on a particular matter in which a conflict exists if:

- (1) the director or employee may be and is effectively separated from influencing the action taken;
- (2) the action may properly be taken by others;

- (3) the nature of the conflict is not such that the director or employee must regularly and consistently withdraw from decisions that are normally the director's or employee's responsibility with respect to UTIMCO; and
- (4) the conflict is not a prohibited transaction resulting from a director or employee having a pecuniary interest in a business entity as described in Section 3.01 of this code.

(c) A director or employee who cannot or does not wish to eliminate or cure a conflict of interest shall terminate his or her relationship with UTIMCO as quickly as responsibly and legally possible.

Sec. 2.06. Disclosing and Refraining from Participation. (a) A director must disclose any conflicts of interest regarding matters that are before the Board, absent himself or herself from any relevant deliberations, and refrain from voting on the matter.

(b) An employee must disclose any conflicts of interest and refrain from giving advice or making decisions about matters affected by the conflict unless the Board, after consultation with the general counsel, expressly waives the conflict.

Sec. 2.07. Waivers of Conflicts of Interest. (a) The Board shall decide at an official meeting whether to waive any conflict of interest disclosed under Section 2.06(b) of this code.

(b) To assist it in deciding whether to grant waivers, the Board may develop criteria for determining the kinds of relationships that do not constitute material conflicts.

(c) Any waiver of a conflict of interest, including the reasons supporting the waiver, must be included in the minutes of the meeting.

(d) The chief compliance officer shall maintain records of all waivers granted, including the reasons supporting the waivers.

Sec. 2.08. Procedures for Director's Disclosure of Conflict of Interest. A director must disclose conflicts of interest in writing to the general counsel before a UTIMCO Board meeting. If disclosure is made at a Board meeting, the minutes of the meeting must include the disclosure of the conflict.

Sec. 2.09. Procedures for Employee's Disclosure of Conflict of Interest. (a) An employee must promptly disclose conflicts of interest in writing to the chief compliance officer through the financial disclosure and ethics

compliance statement required by Section 4.03 of this code. The chief compliance officer shall report to the audit and ethics committee regarding the statements the officer receives under this subsection.

(b) If a person with a duty to disclose a conflict has a reasonable cause to believe that disclosure to the chief compliance officer will be ineffective, the person shall disclose the conflict to the audit and ethics committee by filing a written disclosure with the chairman of the committee. The UTIMCO office manager shall provide the address of the chairman of the committee.

(c) A copy of the disclosure provided to either the chief compliance officer or the audit and ethics committee shall be provided to the employee's supervisor unless the person with the conflict of interest believes that the disclosure would be detrimental to the resolution of the conflict.

Sec. 2.10. Referrals. Referral of information from a director related to investment opportunities outside of a posted open meeting of the board must be made using the procedures provided by the Regents' *Rules and Regulations*, Series 70201, Section 12.

Subchapter C. PROHIBITED TRANSACTIONS AND INTERESTS

Sec. 3.01. Prohibitions Related to UTIMCO. (a) UTIMCO or a UTIMCO entity may not enter into an agreement or transaction with:

- (1) a director or employee acting in other than an official capacity on behalf of UTIMCO;
- (2) a director entity, employee entity, or other business entity, including an investment fund, in which a director or employee has a pecuniary interest;
- (3) a former director or employee, an investment fund or other entity controlled by a former director or employee, or a business entity in which a former director or employee has a pecuniary interest, on or before the first anniversary of the date the person ceased to be a director or employee; or
- (4) an investment fund or account managed by a director, director entity, employee, or employee entity as a fiduciary or agent for compensation, other than funds for which the Board of Regents has investment responsibility and for which UTIMCO has been appointed as investment manager.

(b) For purposes of this code, a person has a “pecuniary interest” in a business entity if the person:

- (1) owns five percent or more of the voting stock or shares of the business entity; or
- (2) owns five percent or more of the fair market value of the business entity; or
- (3) received more than five percent of the person’s gross income for the preceding calendar year from the business entity; or
- (4) has a private investment in a business entity, including an investment fund, controlled by the person.

Sec. 3.02. UTIMCO Investment Policies for Publicly Traded Companies.

UTIMCO and UTIMCO entities shall implement procedures and safeguards to insure that none of the funds for which the Board of Regents has investment responsibility and for which UTIMCO has been appointed as investment manager is invested by UTIMCO or a UTIMCO entity in the publicly traded securities of a publicly traded company in which a director or employee has a pecuniary interest.

Sec. 3.03. UTIMCO Investments in Private Investments of Certain Business Entities. UTIMCO or a UTIMCO entity may not:

- (1) invest in the private investments of a business entity if a director or director entity then owns a private investment in the same business entity unless:
 - (A) the director or director entity acquired the private investment before the date on which the director assumed a position with UTIMCO;
 - (B) the director’s private investment does not constitute a pecuniary interest in a business entity as defined by Section 3.01(b) of this code; and
 - (C) the Board approves the investment by UTIMCO or the UTIMCO entity by a vote of two-thirds of the membership of the Board after a full disclosure in an open meeting of the relevant facts and a finding by the Board that the investment will not benefit the director or director entity financially;

- (2) invest in the private investments of a business entity if an employee or employee entity then owns a private investment in the same business entity; or
- (3) except as provided above, co-invest with a director, director entity, employee, or employee entity in the private investments of the same business entity.

Sec. 3.04. Director Investments in Private Investments of Certain Business Entities. (a) A director or a director entity may not:

- (1) invest in the private investments of a business entity if UTIMCO, a UTIMCO entity, an employee, or an employee entity then owns a private investment in the same business entity; or
- (2) co-invest with UTIMCO, a UTIMCO entity, an employee, or an employee entity in the private investments of the same business entity.

(b) The prohibitions provided by this section apply to a director's spouse, minor children, or other dependent relatives.

Sec. 3.05. Employee Investments in Private Investments of Certain Business Entities. (a) An employee or employee entity may not:

- (1) invest in the private investments of a business entity if UTIMCO, a UTIMCO entity, a director, or a director entity then owns a private investment in the same business entity; or
- (2) co-invest with UTIMCO, a UTIMCO entity, a director, or a director entity in the private investments of the same business entity.

(b) The prohibitions provided by this section apply to an employee's spouse, minor children, or other dependent relatives.

Sec. 3.06. Divestment Not Required For Certain Private Investments.

A director, director entity, employee, or employee entity that owns a private investment in a business entity on the date on which the director or employee assumes a position with UTIMCO is not required by Section 3.04 or 3.05 of this code to divest that private investment as long as the private investment does not constitute a pecuniary interest in a business entity as defined by Section 3.01 of this code. Any transactions

concerning the private investment that might occur after that date are subject to this code.

Sec. 3.07. Director Personal Securities Transactions. (a) A director or director entity may buy or sell a publicly traded security of an issuer that is held by UTIMCO but may not engage in a personal securities transaction if the director has actual knowledge that an internal portfolio manager of UTIMCO has placed a buy/sell order for execution.

(b) The prohibition provided by this section applies to a director's spouse, minor child, or other dependent relative.

Sec. 3.08. Employee Personal Securities Transactions. (a) An employee or employee entity may not engage in a personal securities transaction without obtaining preclearance for each transaction from the chief compliance officer. Preclearance is effective for one trading day only.

(b) The chief compliance officer shall verify that no buy/sell order has been placed by a UTIMCO internal manager for securities of the same class. If such a buy/sell order has been placed, an employee or employee entity may not conduct a personal securities transaction for those securities until at least one trading day after the buy/sell order has been completed or canceled.

(c) The chief compliance officer shall document preclearances in a personal securities transaction log for each employee, which will provide a record of all requests and approvals or denials of preclearances.

(d) An employee who engages in a personal securities transaction must also provide transactional disclosure for each transaction by completing a transactional disclosure form and filing it with the chief compliance officer not later than the tenth calendar day after the trade date. The form must contain the:

- (1) name and amount of the security involved;
- (2) date and nature of the transaction;
- (3) price at which the transaction was effected; and
- (4) name of the broker through whom the transaction was effected.

(e) The preclearance and transactional disclosure requirements apply only to equity or equity-related transactions, including stocks, convertibles, preferreds, options on securities, warrants, and rights, etc.,

for domestic and foreign securities, whether publicly traded or privately placed. The preclearance and transactional disclosure requirements do not apply to bonds other than convertible bonds, mutual funds, co-mingled trust funds, financial futures, and options on futures.

(f) This section applies to an employee's spouse, minor child, or other dependent relative.

Sec 3.09. Interest in Brokerage Firm or Consultant. (a) A director may not direct trades or exercise discretion over the selection of brokerage firms.

(b) An employee may not have stock or other ownership or profit sharing interest in a brokerage firm selected by the employee for UTIMCO business if the employee has the discretion to direct trading and therefore the discretion to select brokerage firms.

(c) A director or employee may not have stock or other ownership or profit sharing interest in a consultant selected by the director or employee for UTIMCO business if the director or employee has the discretion to select consultants.

(d) The restrictions provided by this section apply to:

- (1) stock held for a director's or employee's own account;
- (2) stock or other ownership or profit sharing interests held by a director's or employee's spouse; or
- (3) stock held for an account, other than an account over which the director or employee has no direct or indirect influence or control, in which the director or employee has a beneficial interest, such as accounts involving the spouse, minor child, or other dependent relative.

(e) The restrictions provided by this section do not prohibit the ownership of stock in a company that may own stock in a brokerage firm or consultant if the brokerage firm or consultant is not the dominant or primary business of the parent company.

Sec. 3.10. Employee's Outside Employment or Business Activity. (a) An employee may not engage in outside employment, business, or other activities that detract from the ability to reasonably fulfill the full-time responsibilities to UTIMCO.

(b) A key employee must obtain advance written approval from the president for any outside employment or business, including service as

director, officer, or investment consultant or manager for another person or entity. The president must obtain advance approval from the Board for any outside employment.

(c) An employee, with the prior approval of the Board, may serve as a director of a company in which UTIMCO has directly invested its assets. The Board's approval must be conditioned on the extension of UTIMCO's Directors and Officers Insurance Policy coverage to the employee's service as director of the investee company. All compensation paid to an employee for service as director of an investee company shall be endorsed to UTIMCO and applied against UTIMCO's fees.

Sec. 3.11. Further Restrictions on Directors and Employees. A director or employee may not:

- (1) participate in a matter before UTIMCO that involves a business, contract, property, or investment held by the person if it is reasonably foreseeable that UTIMCO action on the matter would confer a benefit to the person by or through the business, contract, property, or investment;
- (2) recommend or cause discretionary UTIMCO business to be transacted with or for the benefit of a relative;
- (3) accept offers by reason of the person's position with UTIMCO to trade in any security or other investment on terms more favorable than available to the general investing public;
- (4) borrow from investment managers, outside service providers, professional advisors or consultants, banks, or other financial institutions with which UTIMCO has a business relationship unless the entity is normally engaged in such lending in the usual course of business, in which case the transaction must be on customary terms offered to others under similar circumstances to finance proper and usual activities; or
- (5) represent any person in any action or proceeding before or involving the interests of UTIMCO except as a duly authorized representative or agent of UTIMCO.

Sec. 3.12. Former Directors and Employees. (a) A former director or employee may not make any communication to or appearance before a current director or employee before the second anniversary, in the case of a former director, or the first anniversary, in the case of a former

employee, of the date the former director or employee ceased to be a director or employee if the communication is made:

- (1) with the intent to influence; and
 - (2) on behalf of any person in connection with any matter on which the former director or employee seeks action by UTIMCO.
- (b) A director or employee who knowingly communicates with a former director or employee in violation of this prohibition is subject to disciplinary action, including removal from serving as a director.

Subchapter D. FINANCIAL DISCLOSURE, COMPLIANCE, AND ENFORCEMENT

Sec. 4.01. Employee Ethics and Compliance Committee. (a) The president shall appoint an employee ethics and compliance committee composed of UTIMCO personnel.

(b) The chairman of the employee ethics and compliance committee is the chief compliance officer.

(c) The employee ethics and compliance committee shall:

- (1) provide ethics training for UTIMCO personnel; and
- (2) issue opinions on the proper interpretation of this code.

(d) An employee may file a written request with the employee ethics and compliance committee for an opinion on the proper interpretation of this code, and may rely on that opinion with respect to compliance with this code.

Sec. 4.02. Financial Disclosure Statements. (a) Directors and employees shall file financial disclosure statements with the chief compliance officer.

(b) Directors and employees shall file the financial disclosure statement not later than the 30th day after the date of appointment or employment, and not later than April 30 of each year thereafter. The president may postpone a filing deadline for not more than 60 days on written request, or for an additional period for good cause as determined by the chairman of the Board.

(c) UTIMCO must maintain a financial disclosure statement for at least five years after the date it is filed.

(d) Directors who are required to file disclosure statements with the Texas Ethics Commission shall file those statements in the form prescribed by law.

Sec. 4.03. Ethics Compliance Statements. (a) Directors and employees, including acting or interim employees, must file ethics compliance statements with the chief compliance officer.

(b) Directors and employees shall sign, date, and file the ethics compliance statements not later than the 60th day after the date of appointment or employment. Thereafter, any person who is a director or employee on December 31 of any year must file the compliance statement not later than April 30 of the following year.

(c) In the ethics compliance statement, the director or employee must acknowledge that he or she has received and read this code, that he or she will comply with its provisions, and that it is his or her duty to report any act by other directors or employees when he or she has knowledge of a violation of this code. An employee must also acknowledge that adherence to this code is a condition of employment. The statement must also disclose any conflicts of interest or violations of the code of which the director or employee is aware.

(d) Key employees must acknowledge their key employee status in the ethics compliance statement.

(e) The ethics compliance statement must include a reminder that a director or employee is required to update a statement if a change in circumstances occurs that would require reporting under this code.

(f) An employee's signed statement shall be maintained in the employee's personnel file. The chief compliance officer shall maintain the directors' signed statements.

Sec. 4.04. Certification of No Pecuniary Interest. Before the Board considers an agreement or transaction with a business entity or an investment in a business entity, each director and key employee shall certify that he or she does not have a pecuniary interest, as defined by Section 3.01(b) of this code, in the business entity.

Sec. 4.05. Disciplinary Action Disclosure Statements. (a) Directors and key employees shall file disciplinary action disclosure statements that

disclose any proceedings, actions, or hearings by any professional organization or other entity involving the director or key employee.

(b) Directors and key employees must file the disciplinary action disclosure statement with the chief compliance officer not later than April 30 of the first year of designation as a director or key employee.

(c) A director or key employee must promptly update a statement if any action occurs that would cause a director's or employee's answers to change.

Sec. 4.06. Custodian of Records. For open records purposes, the chief compliance officer is the custodian of the disclosure statements required by this code.

Sec. 4.07. Enforcement. (a) The president is responsible for implementing this code with respect to employees. The Board shall enforce this code with respect to employees through the president.

(b) An employee who violates this code may be subject to the full range of disciplinary options under UTIMCO personnel policies and practices, including termination.

(c) The Board shall enforce this code with respect to individual directors through resolutions of reprimand, censure, or other appropriate parliamentary measures, including requests for resignation.

Sec. 4.08. Duty to Report. (a) A director who has knowledge of a violation of this code shall report the violation to the general counsel.

(b) An employee who has knowledge of a violation of this code shall report the violation to the chief compliance officer or to a member of the audit and ethics committee.

(c) Retaliatory action may not be taken against a person who makes a good faith report of a violation involving another person.

Sec. 4.09. Notice to Audit and Ethics Committee. (a) The president shall notify the audit and ethics committee in writing not later than February 15 of each year concerning:

(1) any approval given for outside employment by key employees, including the nature of the employment; and

(2) any disciplinary action disclosed by directors or key employees.

2.4 Compliance Standard

- (a) Program proposal complies in content and format with the Texas Higher Education Coordinating Board rules and instructions for program authorization.

2.5 Additional Standards for Doctoral Programs

- (a) There is a sufficient base of sponsored research programs in place to support student and faculty research.
- (b) Proposal presents convincing plans for recruitment of a critical mass of very talented students, carefully screened in accord with the goals of the program.
- (c) Proposed program addresses preparation for graduates' future roles of teaching, research or creative endeavor, and work in nonacademic professional settings as appropriate.
- (d) Appropriate student support is available and/or there is a convincing plan for development of future support.
- (e) Because of the high level of resource requirements for doctoral programs, particularly rigorous attention must be applied to almost all approval standards in this document.

Sec. 3 Approvals.

- 3.1 The Executive Vice Chancellor for Academic Affairs or Health Affairs approves (1) nonsubstantive program change requests and (2) substantive certificate, baccalaureate, and master's degree requests from respective general academic or health-related institutions.
- 3.2 Doctoral programs or other substantive proposals not meeting the criteria for approval by the Executive Vice Chancellors for Academic Affairs or Health Affairs must be approved by the Board of Regents' Academic Affairs or Health Affairs Committee and forwarded to the Board of Regents for final approval.

3.3 The Offices of Academic Affairs and Health Affairs will provide annually to the Board of Regents a list of academic program approvals made by the respective Executive Vice Chancellors.

Sec. 4 Changes in Degree Requirements. Changes in degree requirements shall not become effective until approved by the Board of Regents and published in the appropriate catalog; however, students may be given the benefit of any action reducing or modifying the requirements for their degrees immediately upon Board approval.

3. Definitions

Nonsubstantive program change requests – Generally meet the following criteria:

- (1) No implications for changes in institutional role and scope
- (2) No significant new costs
- (3) No issues of unnecessary duplication with programs at other institutions
- (4) Potential for high quality programming obvious from institution's previous experience in the same or closely related subject field.

Substantive baccalaureate and master's degree requests that are eligible for staff-level approval by the Commissioner of Higher Education – Generally meet the following criteria:

- (1) Within the approved Table of Programs
- (2) Of high quality and meet SACS and other accrediting agency standards
- (3) Adequate practicum placement sites are available, if applicable
- (4) Demonstrated student interest and job market need
- (5) No program duplication issues
- (6) Five year cost is less than \$2 million
- (7) No new special item funding would be required

