THURSDAY, JULY 13, 2006

| A. CONVENE JOINT MEETING: BOARD OF REGENTS AND UTIMCO BOARD OF DIRECTORS | 1:30 p.m. | Chairman Huffines  
| | | Chairman Caven  
| 1. Presentation of Certificates of Appreciation for service as members of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) | 1:35 p.m. | Chairman Huffines  
| | | Chairman Caven  
| 2. Special guest speaker on best practices in institutional investment management | 1:40 p.m. | Dr. Charles Ellis  
| B. BREAK | 2:20 p.m. |  
| 3. Report on U. T. System funds and update regarding centralization of operating funds | 2:35 p.m. | Dr. Kelley  
| 4. Report on Investment Oversight | 2:45 p.m. | Chancellor Yudof/Dr. Kelley  
| | | Chairman Caven  
| • U. T. System Staff and Outside Counsel  
| • UTIMCO Staff and Board Advisors  
| 5. Reports on UTIMCO Board operations and committees | 2:55 p.m. | Chairman Caven  
| | | Chairman Caven  
| | | (for Mr. Nye)  
| | | Mr. Tate  
| | | Mr. Rowling  
| | | Mr. Ferguson  
| • UTIMCO Key Staff  
| • Committee Reports  
| | | Audit and Ethics Committee  
| | | Risk Committee  
| | | Policy Committee  
| | | Compensation Committee  
| 6. Report on UTIMCO organization, corporate performance, budget preview, and investment outlook | 3:15 p.m. | Mr. Boldt  
| | | Staffing  
| | | Funds under management (Internal, External)  
| | | Corporate Performance and FY07 Budget Preview  
| | | Investment Outlook: Global Economic and Capital Market Forecasts  

Page
7. **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

8. **Report on legal and fiduciary issues**
   - Master Investment Management Services Agreement
   - UTIMCO Director Expectations

C. **ADJOURN JOINT MEETING**

D. **RECONVENE MEETING OF THE U. T. SYSTEM BOARD OF REGENTS IN OPEN SESSION TO CONSIDER AGENDA ITEMS**

9. **Approval of 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**

10. **Approval of amendments to the UTIMCO Bylaws**

11. **Approval of amendments to UTIMCO Code of Ethics**

12. **Approval of selection of Mellon Financial Corporation as the Master Custodian to be used by UTIMCO in managing U. T. System funds**

13. **Approval of annual distribution from the Permanent University Fund**

14. **U. T. System Board of Regents: Approval of proposed reappointment of Mr. J. Philip Ferguson and appointment of Mr. Ardon Moore to the Board of Directors of The University of Texas Investment Management Company (UTIMCO)**
E. RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551

1. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – Section 551.071

2. Deliberations Regarding the Purchase, Exchange, Lease, Sale, or Value of Real Property – Section 551.072

3. Negotiated Contracts for Prospective Gifts or Donations – Section 551.073

4. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees – Section 551.074

   a. U. T. Austin: Request for approval of increase in compensation for Head Men's Basketball Coach Richard D. Barnes (Regents' Rules and Regulations, Series 20204, regarding compensation for highly compensated employees)

   b. U. T. System: Consideration of/Discussion and appropriate action regarding individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents (academic and health institutions), U. T. System Administration officers (Executive Vice Chancellors and Vice Chancellors), other officers reporting directly to the Board (Chancellor, Counsel and Secretary, and Director of Audits), and U. T. System and institutional employees and related personnel aspects of the operating budget for the year ending August 31, 2007

RECONVENE IN OPEN SESSION TO VOTE ON EXECUTIVE SESSION ITEMS AND RECESS

Chairman Huffines

5:10 p.m.

7:00 p.m. approximately
F. RECONVENE MEETING OF THE BOARD OF REGENTS IN OPEN SESSION TO CONSIDER AGENDA ITEMS

<table>
<thead>
<tr>
<th>No.</th>
<th>Item</th>
<th>Time</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>U. T. System Board of Regents: Announcement of Special Task Force</td>
<td>8:32 a.m.</td>
<td>196</td>
</tr>
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<td>16</td>
<td>U. T. System Board of Regents: Announcement of Special Community Advisory Committee</td>
<td>8:35 a.m.</td>
<td>196</td>
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<tr>
<td>17</td>
<td>U. T. Arlington: Authorization to accept a gift of approximately 3.245 acres of land located at the northeast corner of Interstate Highway 30 and MacArthur Boulevard, Grand Prairie, Dallas County, Texas, out of the Dudley F. Pearson Survey, Abstract No. 1130, City of Grand Prairie, from Hanson Aggregates West, Inc., for the purpose of constructing a structural testing facility to be known as the U. T. Arlington Center for Structural Engineering Research</td>
<td>8:40 a.m.</td>
<td>196</td>
</tr>
<tr>
<td>18</td>
<td>U. T. Brownsville: Recommended correction to allow additional designated tuition for the 2006 - 2007 and for the 2007 - 2008 academic years</td>
<td>8:42 a.m.</td>
<td>200</td>
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<tr>
<td>19</td>
<td>U. T. Pan American: Recommended adjustments to incidental fees for the 2006 and 2007 academic years</td>
<td>8:44 a.m.</td>
<td>201</td>
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<tr>
<td>20</td>
<td>U. T. Permian Basin: Recommended technical corrections to course numbers for incidental fees for the 2006 and 2007 academic years</td>
<td>8:46 a.m.</td>
<td>201</td>
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<td>21</td>
<td>U. T. System Board of Regents: Amendment to Regents' Rules and Regulations, Series 40307, related to Academic Program Approval Standards and Series 10402, related to duties of the Academic Affairs Committee</td>
<td>8:48 a.m.</td>
<td>202</td>
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<tr>
<td>22</td>
<td>U. T. System: Authorize and approve the use of Available University Funds or Permanent University Fund Bond Proceeds for U. T. Arlington, U. T. Austin, and U. T. Dallas to negotiate and enter into a Texas Emerging Technology Fund Grant Agreement with the Office of the Governor and Endowment Agreements with Texas Instruments and other industry contributors for creation and implementation of a Texas nanoelectronics initiative</td>
<td>8:50 a.m.</td>
<td>209</td>
</tr>
<tr>
<td>24</td>
<td>U. T. El Paso: Authorization to lease approximately 6,799 square feet in a building located at 1825 Hawthorne Street, El Paso, El Paso County, Texas, to Sara Child Care Center, Inc., to operate a child care center; and finding of a public purpose</td>
<td>9:00 a.m.</td>
<td>226</td>
</tr>
</tbody>
</table>
25. U. T. Austin: Performing Arts Center Infrastructure Upgrades Phase I and II – Presentation, discussion, and appropriate action regarding approval of design

9:05 a.m.  Action
Mr. Dixon

26. U. T. System: Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to include Build-out of the Upper Floors of Kelly Hall project at U. T. El Paso, the Physical Plant Building Renovation project at U. T. San Antonio, and the Alkek Expansion project at U. T. M. D. Anderson Cancer Center; request to change total project cost, revise funding sources, appropriation of funds and authorization of expenditure for the Thermal Energy Plant No. 2/Garage project at U. T. San Antonio and the Smithville Facility Strategic Plan project at U. T. M. D. Anderson Cancer Center; resolution regarding parity debt; and consideration of whether any of the projects should be designated as architecturally or historically significant

9:10 a.m.  Action
Mr. Dixon

27. U. T. Health Science Center - Houston: Authorization to enter into an agreement with Optimization Zorn Corporation, Inc. to develop and deploy an automated school readiness rating certification program for the State of Texas

9:15 a.m.  Action
Dr. Shine

28. U. T. M. D. Anderson Cancer Center: Approval for participation and investment as a limited partner in The Madelin Fund, L.P. and delegation to the president of U. T. M. D. Anderson Cancer Center of authority to execute documents and take other actions as necessary

9:20 a.m.  Dr. Shine
President Mendelsohn

G. RECONVENE BOARD OF REGENTS’ MEETING TO RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551 (Working Lunch)

9:30 a.m.

1. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – Section 551.071

2. Deliberations Regarding the Purchase, Exchange, Lease, Sale, or Value of Real Property – Section 551.072

3. Negotiated Contracts for Prospective Gifts or Donations – Section 551.073

4. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees — Section 551.074

b. U. T. System: Consideration of/Discussion and appropriate action regarding individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents (academic and health institutions), U. T. System Administration officers (Executive Vice Chancellors and Vice Chancellors), other officers reporting directly to the Board (Chancellor, Counsel and Secretary, and Director of Audits), and U. T. System and institutional employees and related personnel aspects of the operating budget for the year ending August 31, 2007

H. RECONVENE IN OPEN SESSION TO VOTE ON EXECUTIVE SESSION ITEMS AND ADJOURN 2:30 p.m. approximately
THURSDAY, JULY 13, 2006

A. CONVENE JOINT MEETING: BOARD OF REGENTS AND UTIMCO BOARD OF DIRECTORS

1. **U. T. System Board of Regents: Presentation of Certificates of Appreciation for Service as Members of the Board of Directors of The University of Texas Investment Management Company (UTIMCO)**

   **PRESENTATION**

   Chairman Huffines will present certificates of appreciation to Mr. Woody L. Hunt and Mr. R. D. (Dan) Burck for their service as members of The University of Texas Investment Management Company (UTIMCO) Board of Directors.

   Mr. Hunt served as a director to the UTIMCO Board beginning August 12, 1999 to July 13, 2006. During Mr. Hunt's UTIMCO Board tenure, he was appointed Chairman from April 21, 2003 to September 14, 2005.

   Mr. Burck served as an advisory director to the UTIMCO Board from September 18, 2002 to March 31, 2006, following his term as Chancellor of The University of Texas System and ex-officio Director to the UTIMCO Board. Mr. Burck previously served as a member of the UTIMCO Board of Directors from June 1, 2000 to August 1, 2002. When he was Executive Vice Chancellor for Business Affairs, he held an interim appointment to the UTIMCO Board of Directors from February 22, 1996 to April 25, 1996.

2. **U. T. System Board of Regents: Special guest speaker on best practices in institutional investment management**

   **SPEAKER/BIO**

   Dr. Charles "Charley" Ellis, guest speaker, will discuss best practices in institutional investment management. Dr. Ellis is a Successor Trustee of Yale University and chairs the university's investment committee. He also chairs the finance and investment committee as a Director of the Whitehead Institute for Biomedical Research, is an Overseer of the Stern School of Business at New York University, and is a Director of The Vanguard Group, Inc.

   In 1972, Dr. Ellis founded Greenwich Associates, a strategy consulting firm focusing on financial institutions worldwide. The firm's clients include all the leading professional
financial service organizations in the United States, Europe, and Japan. Dr. Ellis now consults on investment policy with families, the governments of Singapore, New Zealand, and Vietnam, and several large U.S. funds.

Dr. Ellis holds a doctorate in finance and economics from New York University and has authored 11 books, including *CAPITAL* (John Wiley & Sons) and *Winning the Loser's Game* (McGraw-Hill). His article "The Loser's Game" won the Graham & Dodd award in 1977. Dr. Ellis has also written nearly 100 articles for business and professional journals. He served as president of the Institute of Chartered Financial Analysts for over 20 years and has taught investment courses at Harvard Business School, Yale School of Management, and the Princeton workshop. He is one of 10 individuals recognized by the investment profession for lifetime contributions.


**REPORT**

Dr. Scott C. Kelley, Executive Vice Chancellor Business Affairs, will report on U. T. System funds and provide an update regarding the centralization of operating funds. The presentation, as set forth on Pages 3 - 11, helps provide the background for the endowment and operating funds being managed by The University of Texas Investment Management Company (UTIMCO), a summary of each of the funds, an update on the centralization process, and an analysis of the liquidity of the U. T. System.

The concept of centralization was approved by the Board of Regents at the July 8, 2005 meeting. Previously, each U. T. institution's chief business officer was responsible for investing institutional operating reserves selected from four fund options provided by UTIMCO: a money market fund, a short/intermediate term debt fund, a bond index fund, and an equity index fund. Individually, each institution had real liquidity needs and a strong incentive to preserve capital. Investment expertise and philosophy varied from campus to campus, and many institutions lacked the resources necessary to develop a comprehensive investment strategy.

By centralizing and consolidating all campus operating reserves into a single investment pool, liquidity requirements have been dramatically reduced. The Intermediate Term Fund (ITF) has been created with a longer time horizon that provides an increase in expected returns. The ITF became operational on February 1, 2006, and was fully invested in the targeted asset classes within the first month of operation.
The University of Texas System

Report on U. T. System Funds
and
Update on Centralization of Operating Funds

July 13, 2006
U. T. System Funds Managed by The University of Texas Investment Management Company (UTIMCO)

<table>
<thead>
<tr>
<th></th>
<th>Endowment Funds</th>
<th>Operating Funds</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>U. T. Funds</td>
<td></td>
</tr>
<tr>
<td>General Endowment Fund</td>
<td>PUF (PUF)</td>
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<tr>
<td></td>
<td>(PHF)</td>
<td></td>
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<tr>
<td></td>
<td>(LTF)</td>
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<td>(SIF)</td>
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<td>(SITF)</td>
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<td>(ITF)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(IIF)</td>
<td></td>
</tr>
<tr>
<td>Time Horizon</td>
<td>Long 5-30 years</td>
<td>Short 0-120 days</td>
</tr>
<tr>
<td></td>
<td>Long 5-30 years</td>
<td>Short/Inter 1-5 years</td>
</tr>
<tr>
<td></td>
<td>Long 5-30 years</td>
<td>Inter/Long 3-5 years</td>
</tr>
<tr>
<td></td>
<td>Short-Long 0-30 years</td>
<td>Long 5-30 years</td>
</tr>
<tr>
<td>Relative Importance of Objectives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td>Income</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Safety of Principal</td>
<td>Moderate</td>
<td>High</td>
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<tr>
<td></td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Growth of Income</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>High</td>
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<tr>
<td>Growth of Principal</td>
<td>High</td>
<td>Low</td>
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<tr>
<td></td>
<td>High</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>Moderate</td>
</tr>
<tr>
<td>Asset Allocation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Equities</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>Global Ex US Equities</td>
<td>22%</td>
<td>0%</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>Private Capital</td>
<td>9%</td>
<td>0%</td>
</tr>
<tr>
<td>Inflation Linked</td>
<td>14%</td>
<td>0%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Cash Equivalents</td>
<td>0%</td>
<td>100%</td>
</tr>
</tbody>
</table>

(1) As of March 1, 2001 the PHF and LTF are invested in the General Endowment Fund (GEF). GEF serves as the investment pool for the PHF and LTF.

Source: UTIMCO
Prepared by U. T. System Office of Finance
The bar charts below present a snapshot of the change in value of endowment funds since August 31, 2001. As of April 30, 2006, the value of these funds equaled approximately $15.7 billion.

**Permanent University Fund**
The Permanent University Fund (PUF) is a state endowment fund contributing to the support of 18 institutions and 6 agencies of The University Texas System and The Texas A&M University System.

**Long Term Fund**
The U. T. System Long Term Fund (LTF) is an internal U. T. System mutual fund for the pooled investment of over 6,880 privately raised endowments and other long-term funds of the 15 institutions of the U. T. System.

**Permanent Health Fund**
The Permanent Health Fund (PHF) is an internal U. T. System mutual fund for the pooled investment of state endowment funds for health-related institutions of higher education, created August 30, 1999, with proceeds from state tobacco litigation.

**Separately Invested Funds**
The U. T. System Separately Invested Funds (SIFs) consist of over 219 privately raised endowments and charitable trusts where the nature of the underlying asset or donor restrictions preclude investment in the LTF.

Source: UTIMCO
Prepared by U. T. System Office of Finance
U. T. System Operating Funds

The bar charts below present a snapshot of the change in value of operating funds since August 31, 2001. As of April 30, 2006, the value of these funds equaled approximately $4.0 billion.

**Short Term Fund**
The U. T. System Short Term Fund (STF) is a money market mutual fund consisting of the working capital and other operating fund balances held by U. T. System institutions with an investment horizon of less than one year.

**Intermediate Term Fund**
The U. T. System Intermediate Term Fund (ITF) is an internal U. T. System mutual fund for the pooled investment of the operating funds held by UT System institutions with an investment horizon that is intermediate to long-term and not needed for short-term liquidity purposes.

**Institutional Index Funds**
The Institutional Index Funds (IIFs) consist of a U.S. equity index fund and a U.S. debt index fund for the investment of U. T. System institutions’ permanent working capital and long-term capital reserves.

Source: UTIMCO
Prepared by U. T. System Office of Finance
### UTIMCO Assets Under Management

#### Endowment Funds

<table>
<thead>
<tr>
<th></th>
<th>Operating Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U. T. Funds</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| **General Endowment Fund (GEF)**
| Permanent University Fund (PUF) | 10,151.3 | 3,058.1 |
| Permanent Health Fund (PHF)     | 989.9    | 0.0    |
| Long Term Fund (LTF)            | 4,428.7  | 0.0    |
| Separately Invested Funds (SIF) | 167.6    | 0.0    |
| Short Term Fund (STF)           | 980.9    | 0.0    |
| Short Intermediate Term Fund (SITF) | 0.0 | 0.0    |
| Intermediate Term Fund (ITF)    | 0.0      | 0.0    |
| Institutional Index Funds (IIF) | 0.0      | 0.0    |

#### Market Value ($ millions)

<table>
<thead>
<tr>
<th>Date</th>
<th>Permanent University Fund (PUF)</th>
<th>Permanent Health Fund (PHF)</th>
<th>Long Term Fund (LTF)</th>
<th>Separately Invested Funds (SIF)</th>
<th>Short Term Fund (STF)</th>
<th>Short Intermediate Term Fund (SITF)</th>
<th>Intermediate Term Fund (ITF)</th>
<th>Institutional Index Funds (IIF)</th>
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</thead>
<tbody>
<tr>
<td>April 30, 2006</td>
<td>10,151.3</td>
<td>989.9</td>
<td>4,428.7</td>
<td>167.6</td>
<td>980.9</td>
<td>0.0</td>
<td>3,058.1</td>
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<td>March 31, 2006</td>
<td>9,897.9</td>
<td>970.5</td>
<td>4,342.6</td>
<td>160.2</td>
<td>1,018.8</td>
<td>0.0</td>
<td>3,042.5</td>
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<td>February 28, 2006</td>
<td>9,798.6</td>
<td>966.0</td>
<td>4,262.4</td>
<td>326.9</td>
<td>1,084.8</td>
<td>0.0</td>
<td>2,920.0</td>
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<td>November 30, 2005</td>
<td>9,564.6</td>
<td>931.7</td>
<td>4,057.4</td>
<td>315.7</td>
<td>2,330.7</td>
<td>1,208.5</td>
<td>283.7</td>
<td>1,162.0</td>
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<td>August 31, 2005</td>
<td>9,426.7</td>
<td>925.9</td>
<td>4,000.9</td>
<td>195.1</td>
<td>2,380.1</td>
<td>1,222.4</td>
<td>0.0</td>
<td>173.9</td>
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<tr>
<td>August 31, 2004</td>
<td>8,087.9</td>
<td>814.4</td>
<td>3,393.3</td>
<td>227.6</td>
<td>2,210.4</td>
<td>1,178.0</td>
<td>253.0</td>
<td>16,164.6</td>
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<td>August 31, 2003</td>
<td>7,244.8</td>
<td>745.0</td>
<td>2,839.8</td>
<td>352.1</td>
<td>1,837.2</td>
<td>1,435.3</td>
<td>321.8</td>
<td>14,776.0</td>
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<td>August 31, 2002</td>
<td>6,738.3</td>
<td>698.2</td>
<td>2,595.1</td>
<td>174.0</td>
<td>1,315.1</td>
<td>1,435.9</td>
<td>335.5</td>
<td>13,292.1</td>
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<td>August 31, 2001</td>
<td>7,540.1</td>
<td>881.4</td>
<td>2,843.3</td>
<td>182.6</td>
<td>843.2</td>
<td>1,704.6</td>
<td>145.2</td>
<td>14,140.4</td>
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<td>1,016.6</td>
<td>3,136.2</td>
<td>200.1</td>
<td>810.6</td>
<td>1,844.4</td>
<td>71.0</td>
<td>15,531.2</td>
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<td>August 31, 1999</td>
<td>7,465.6</td>
<td>890.3</td>
<td>2,602.3</td>
<td>165.2</td>
<td>764.5</td>
<td>1,769.4</td>
<td>13.1</td>
<td>13,670.4</td>
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<tr>
<td>August 31, 1998</td>
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<td>2,147.7</td>
<td>157.4</td>
<td>655.8</td>
<td>1,809.6</td>
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<td>11,287.6</td>
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<td>August 31, 1997</td>
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<td>2,125.0</td>
<td>146.3</td>
<td>569.3</td>
<td>1,631.4</td>
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<td>10,840.3</td>
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<tr>
<td>August 31, 1996</td>
<td>5,292.1</td>
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<td>1,712.1</td>
<td>149.2</td>
<td>561.4</td>
<td>1,332.1</td>
<td>0.0</td>
<td>9,046.9</td>
</tr>
<tr>
<td>August 31, 1995</td>
<td>4,958.5</td>
<td>0.0</td>
<td>1,549.7</td>
<td>300.9</td>
<td>526.2</td>
<td>1,129.5</td>
<td>0.0</td>
<td>8,464.8</td>
</tr>
</tbody>
</table>

(1) As of March 1, 2001 the PHF and LTF are invested in the General Endowment Fund (GEF). GEF serves as the investment pool for the PHF and LTF.

Source: UTIMCO

Prepared by U. T. System Office of Finance
Growth in U. T. System Endowment and Operating Funds

Prepared by U. T. System Office of Finance
Centralization was approved by the Board of Regents at the August 11, 2005, meeting.

On February 1, 2006, all U. T. System operating funds were invested in the Short Term Fund and Intermediate Term Fund pursuant to U. T. System policy.

The Short Intermediate Term Fund and Institutional Index Funds were eliminated as investment options.

Since February, U. T. System institutions have initiated nearly 3,000 transactions for day-to-day operations using the new CPS application developed by UTIMCO.
## U. T. System Operating Funds
### Asset Allocation ($ millions)

<table>
<thead>
<tr>
<th></th>
<th>Short Term Fund</th>
<th>Intermediate Term Fund</th>
<th>Long Term Fund</th>
<th>Institutional Index Funds</th>
<th>Intermediate Term Fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,963.7</td>
</tr>
<tr>
<td>U. T. System (1)</td>
<td>2,598.0</td>
<td>1,200.2</td>
<td>101.8</td>
<td>63.7</td>
<td>0.0</td>
<td>3,963.7</td>
</tr>
<tr>
<td>U. T. System (x-debt proceeds)</td>
<td>2,186.5</td>
<td>1,200.2</td>
<td>101.8</td>
<td>63.7</td>
<td>0.0</td>
<td>3,552.2</td>
</tr>
<tr>
<td></td>
<td>2,930.9</td>
<td>860.9</td>
<td>2,988.8</td>
<td>4,389.8</td>
<td>2,988.8</td>
<td>3,849.8</td>
</tr>
<tr>
<td>February 1, 2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,894.2</td>
</tr>
<tr>
<td>U. T. System (1)</td>
<td>963.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>2,930.9</td>
<td>3,894.2</td>
</tr>
<tr>
<td>U. T. System (x-debt proceeds)</td>
<td>585.7</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>2,930.9</td>
<td>3,516.6</td>
</tr>
<tr>
<td></td>
<td>2,988.8</td>
<td>860.9</td>
<td>2,988.8</td>
<td>4,389.8</td>
<td>2,988.8</td>
<td>3,849.8</td>
</tr>
<tr>
<td>May 31, 2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4,389.8</td>
</tr>
<tr>
<td>U. T. System (1)</td>
<td>1,400.9</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>2,988.8</td>
<td>4,389.8</td>
</tr>
<tr>
<td>U. T. System (x-debt proceeds)</td>
<td>860.9</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>2,988.8</td>
<td>3,849.8</td>
</tr>
</tbody>
</table>

(1) All bond proceeds and other debt-related accounts must be invested 100% in the Short Term Fund pursuant to Board policy.
## Short Term Fund Liquidity Analysis

**February 1, 2006 to May 31, 2006 ($ millions)**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Average STF Balance</th>
<th>Low STF Balance</th>
<th>High STF Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>U. T. Arlington</td>
<td>20.1 15%</td>
<td>10.5 8%</td>
<td>33.6 24%</td>
</tr>
<tr>
<td>U. T. Austin</td>
<td>128.1 15%</td>
<td>97.9 12%</td>
<td>168.2 19%</td>
</tr>
<tr>
<td>U. T. Brownsville</td>
<td>4.5 16%</td>
<td>1.0 4%</td>
<td>5.3 19%</td>
</tr>
<tr>
<td>U. T. Dallas</td>
<td>10.5 10%</td>
<td>3.6 4%</td>
<td>16.6 15%</td>
</tr>
<tr>
<td>U. T. El Paso</td>
<td>11.1 18%</td>
<td>6.1 11%</td>
<td>20.7 34%</td>
</tr>
<tr>
<td>U. T. Pan American</td>
<td>9.8 17%</td>
<td>4.1 7%</td>
<td>17.6 29%</td>
</tr>
<tr>
<td>U. T. Permian Basin</td>
<td>4.8 53%</td>
<td>4.0 46%</td>
<td>6.1 61%</td>
</tr>
<tr>
<td>U. T. San Antonio</td>
<td>14.1 11%</td>
<td>4.0 3%</td>
<td>21.5 17%</td>
</tr>
<tr>
<td>U. T. Tyler</td>
<td>4.4 19%</td>
<td>2.4 10%</td>
<td>6.3 25%</td>
</tr>
<tr>
<td>U. T. Southwestern Medical Center - Dallas</td>
<td>79.2 15%</td>
<td>41.8 9%</td>
<td>103.9 19%</td>
</tr>
<tr>
<td>U. T. Medical Branch - Galveston</td>
<td>123.9 38%</td>
<td>45.0 19%</td>
<td>205.6 52%</td>
</tr>
<tr>
<td>U. T. M. D. Anderson Cancer Center</td>
<td>115.2 16%</td>
<td>75.2 11%</td>
<td>160.1 21%</td>
</tr>
<tr>
<td>U. T. Health Science Center - Houston</td>
<td>32.4 16%</td>
<td>17.9 10%</td>
<td>45.1 21%</td>
</tr>
<tr>
<td>U. T. Health Science Center - San Antonio</td>
<td>23.8 13%</td>
<td>16.0 9%</td>
<td>39.9 21%</td>
</tr>
<tr>
<td>U. T. Health Center - Tyler</td>
<td>16.8 100%</td>
<td>12.8 100%</td>
<td>19.0 100%</td>
</tr>
<tr>
<td><strong>U. T. System (Aggregate) (1)</strong></td>
<td>1,033.1 26%</td>
<td>848.1 22%</td>
<td>1,400.9 32%</td>
</tr>
<tr>
<td><strong>U. T. System (x-debt proceeds) (1)</strong></td>
<td>633.6 17%</td>
<td>476.6 14%</td>
<td>860.9 22%</td>
</tr>
</tbody>
</table>

(1) All bond proceeds and other debt-related accounts must be invested 100% in the Short Term Fund pursuant to Board policy.

Prepared by U. T. System Office of Finance
4. **U. T. System Board of Regents: Report on Investment Oversight**

REPORT

The Chancellor and the Executive Vice Chancellor for Business Affairs will introduce individuals who directly serve the U. T. System Board of Regents. The University of Texas Investment Management Company (UTIMCO) Board Chairman H. Scott Caven, Jr. will introduce key staff and advisors who directly serve the UTIMCO Board in contributing to the role of investment oversight.

5. **U. T. System Board of Regents: Report on The University of Texas Investment Management Company (UTIMCO) Board operations and committees**

REPORT

The University of Texas Investment Management Company (UTIMCO) Chairman H. Scott Caven, Jr., and Mr. Bob L. Boldt, President, Chief Executive Officer and Chief Investment Officer of UTIMCO, will introduce UTIMCO staff members. Chairman Caven will outline the UTIMCO Board Committee structure. Four Board committees assume primary responsibility for overseeing certain aspects of UTIMCO operations. The chairmen of the UTIMCO Board committees will describe the roles of their committees as follows:

Audit and Ethics Committee: Chairman Caven for Chairman Erle Nye
Risk Committee: Chairman Charles W. Tate
Policy Committee: Chairman Robert B. Rowling
Compensation Committee: Chairman J. Phillip Ferguson

The purposes of these four committees, as set forth in their respective charters, are outlined below.

**Audit & Ethics Committee Charter Purpose:**

The primary purpose of the Committee is to assist the Board in monitoring the financial and compliance functions of the Corporation and the investment funds managed on behalf of The University of Texas System Board of Regents (the “U. T. Board”) to assure the balance, transparency, and integrity of published financial information. Specifically, the Committee is to assist the Board in monitoring:

- The integrity of the financial reporting process, the system of internal controls, the audit process, and the process for monitoring compliance with laws and regulations;
- The independence and performance of the Corporation's independent auditors;
- The independence and performance of the independent auditors selected by the U. T. Board to audit the investment funds managed by UTIMCO on their behalf;
- Internal audit functions performed by the U. T. System Audit Office;
- The Corporation's audit policies, ethics programs, and adherence to regulatory requirements; and
- The Corporation's enterprise risk management.

The Committee is responsible for maintaining free and open communication as well as effective working relationships among the Committee members, independent external auditors, U. T. System's internal auditors, and management of the Corporation. To perform his or her role effectively, each committee member will need to develop and maintain his or her skills and knowledge, including an understanding of the Committee's responsibilities and of the Corporation's activities, operations, and risks.

The Committee will take all appropriate actions to set the overall tone at the Corporation for quality financial reporting, sound risk practices, and ethical behavior.

**Policy Committee Charter Purpose:**

The primary purpose of the Committee is to provide oversight and to monitor:

1. The development and amendment of UTIMCO Board Policies and Corporate Documents;
2. Recommendations concerning the development and amendment of investment-related policies of The University of Texas System Board of Regents (U. T. Board) related to the management of funds under the control and management of the U. T. Board; and

Any decisions made by the Committee regarding the above responsibilities will be submitted to the Board for approval.

**Compensation Committee Charter Purpose:**

The primary purpose of the Committee is to provide oversight of the compensation system for officers and employees of the Corporation.
**Risk Committee Charter Purpose:**

The primary purpose of the Committee is to provide oversight and monitor

1) Investment risk management and compliance,

2) The integrity of risk management procedures and controls,

3) The integrity of risk models and modeling processes, and

4) Liquidity of the Permanent University Fund (PUF), the General Endowment Fund (GEF), and the Intermediate Term Fund (ITF).
6. **U. T. System Board of Regents: Report on The University of Texas Investment Management Company (UTIMCO) organization, corporate performance, budget preview, and investment outlook**

**REPORT**

Mr. Bob Boldt, President, Chief Executive Officer, and Chief Investment Officer of The University of Texas Investment Management Company (UTIMCO), will report on the UTIMCO organization, performance of the corporation, budget preview, and investment outlook report, using the PowerPoint presentation set forth on Pages 16 – 21.
Joint Meeting of
UT System Board of Regents
UTIMCO Board of Directors

Bob L. Boldt

July, 2006
Our Strategic Objectives

- Earn $200 million in Value-Added Per Year,
- Be Recognized as One of the Five Best Managed Endowments in the United States,
- Earn High Satisfaction Ratings From Our Clients for:
  - Investment Skill
  - Innovation
  - Communication
### UTIMCO
#### Assets Under Management

<table>
<thead>
<tr>
<th>Market Value ($ millions)</th>
<th>April 30, 2006</th>
<th>10,151.3</th>
<th>989.9</th>
<th>4,428.7</th>
<th>167.6</th>
<th>980.9</th>
<th>-</th>
<th>3,058.1</th>
<th>-</th>
<th>19,776.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 30, 2006</td>
<td>10,151.3</td>
<td>989.9</td>
<td>4,428.7</td>
<td>167.6</td>
<td>980.9</td>
<td>-</td>
<td>3,058.1</td>
<td>-</td>
<td>19,776.5</td>
<td></td>
</tr>
<tr>
<td>March 31, 2006</td>
<td>9,977.9</td>
<td>970.5</td>
<td>4,342.6</td>
<td>160.2</td>
<td>1,018.8</td>
<td>-</td>
<td>3,042.5</td>
<td>-</td>
<td>19,432.5</td>
<td></td>
</tr>
<tr>
<td>February 28, 2006</td>
<td>9,798.6</td>
<td>966.0</td>
<td>4,262.4</td>
<td>326.9</td>
<td>1,084.8</td>
<td>-</td>
<td>2,920.0</td>
<td>-</td>
<td>19,358.7</td>
<td></td>
</tr>
<tr>
<td>November 30, 2005</td>
<td>9,564.6</td>
<td>931.7</td>
<td>4,057.4</td>
<td>315.7</td>
<td>2,300.7</td>
<td>1,208.5</td>
<td>-</td>
<td>283.7</td>
<td>18,692.3</td>
<td></td>
</tr>
<tr>
<td>August 31, 2005</td>
<td>9,426.7</td>
<td>925.9</td>
<td>4,000.9</td>
<td>195.1</td>
<td>2,380.1</td>
<td>1,222.4</td>
<td>-</td>
<td>173.9</td>
<td>18,325.0</td>
<td></td>
</tr>
<tr>
<td>August 31, 2004</td>
<td>8,087.9</td>
<td>814.4</td>
<td>3,393.3</td>
<td>227.6</td>
<td>2,210.4</td>
<td>1,178.0</td>
<td>-</td>
<td>253.0</td>
<td>16,164.6</td>
<td></td>
</tr>
<tr>
<td>August 31, 2003</td>
<td>7,244.8</td>
<td>745.0</td>
<td>2,839.8</td>
<td>321.2</td>
<td>1,315.1</td>
<td>1,435.9</td>
<td>-</td>
<td>321.8</td>
<td>14,776.0</td>
<td></td>
</tr>
<tr>
<td>August 31, 2002</td>
<td>6,738.3</td>
<td>698.2</td>
<td>2,595.1</td>
<td>174.0</td>
<td>1,351.5</td>
<td>1,435.9</td>
<td>-</td>
<td>335.5</td>
<td>13,292.1</td>
<td></td>
</tr>
<tr>
<td>August 31, 2001</td>
<td>7,540.1</td>
<td>881.4</td>
<td>2,843.3</td>
<td>182.6</td>
<td>843.2</td>
<td>1,704.6</td>
<td>-</td>
<td>145.2</td>
<td>14,104.0</td>
<td></td>
</tr>
<tr>
<td>August 31, 2000</td>
<td>8,452.3</td>
<td>1,016.6</td>
<td>3,136.2</td>
<td>200.1</td>
<td>810.6</td>
<td>1,844.4</td>
<td>-</td>
<td>71.0</td>
<td>15,531.2</td>
<td></td>
</tr>
<tr>
<td>August 31, 1999</td>
<td>7,465.6</td>
<td>890.3</td>
<td>2,602.3</td>
<td>165.2</td>
<td>764.5</td>
<td>1,769.4</td>
<td>-</td>
<td>13.1</td>
<td>13,670.4</td>
<td></td>
</tr>
<tr>
<td>August 31, 1998</td>
<td>6,517.1</td>
<td>-</td>
<td>2,147.7</td>
<td>157.4</td>
<td>655.8</td>
<td>1,809.6</td>
<td>-</td>
<td>-</td>
<td>11,287.6</td>
<td></td>
</tr>
<tr>
<td>August 31, 1997</td>
<td>6,368.3</td>
<td>-</td>
<td>2,125.0</td>
<td>146.3</td>
<td>569.3</td>
<td>1,631.4</td>
<td>-</td>
<td>-</td>
<td>10,840.3</td>
<td></td>
</tr>
<tr>
<td>August 31, 1996</td>
<td>5,292.1</td>
<td>-</td>
<td>1,712.1</td>
<td>149.2</td>
<td>561.4</td>
<td>1,332.1</td>
<td>-</td>
<td>-</td>
<td>9,046.9</td>
<td></td>
</tr>
<tr>
<td>UTIMCO formation (3/1/96)</td>
<td>5,280.7</td>
<td>-</td>
<td>1,694.9</td>
<td>170.7</td>
<td>593.5</td>
<td>1,266.8</td>
<td>-</td>
<td>-</td>
<td>9,006.6</td>
<td></td>
</tr>
<tr>
<td>August 31, 1995</td>
<td>4,958.5</td>
<td>-</td>
<td>1,549.7</td>
<td>300.9</td>
<td>526.2</td>
<td>1,129.5</td>
<td>-</td>
<td>-</td>
<td>8,464.8</td>
<td></td>
</tr>
</tbody>
</table>

(1) As of March 1, 2001 the PHF and LTF are invested in the General Endowment Fund (GEF). GEF serves as the investment pool for the PHF and LTF.
### UTIMCO Corporate Operations - Budget to Actual Comparison

#### 2005-2006 Fiscal Year

<table>
<thead>
<tr>
<th>UTIMCO Expenses</th>
<th>Thru February, 2006</th>
<th>Full Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Budget</td>
<td>Total Actual</td>
</tr>
<tr>
<td>Salaries and Benefits</td>
<td>$4,146,557</td>
<td>$3,786,568</td>
</tr>
<tr>
<td>General Operating Expenses</td>
<td>768,936</td>
<td>674,367</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>243,986</td>
<td>148,109</td>
</tr>
<tr>
<td>Lease Costs</td>
<td>262,351</td>
<td>260,654</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>113,068</td>
<td>168,327</td>
</tr>
<tr>
<td>Insurance</td>
<td>119,161</td>
<td>124,313</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>$5,654,059</strong></td>
<td><strong>$5,162,338</strong></td>
</tr>
</tbody>
</table>

**Over / (Under) Budget**

- Thru February, 2006: $(491,721)
- Full Year: $(733,493)
## UTIMCO 2005 – 2006 Budget Review
### Direct Fund Expenses

#### Total Direct Fund Expenses - Budget to Actual Comparison

**2005-2006 Fiscal Year**

<table>
<thead>
<tr>
<th>Expense Category</th>
<th>Actual</th>
<th>Projected</th>
<th>2006 Budget</th>
<th>Over (under)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Management Fees</td>
<td>$11,072,574</td>
<td>$14,847,515</td>
<td>$20,421,000</td>
<td>($5,573,484)</td>
<td>-27%</td>
</tr>
<tr>
<td>External Mgt. Fees - Performance Fees</td>
<td>$18,519,402.34</td>
<td>$23,392,536.45</td>
<td>$10,391,370.70</td>
<td>$13,001,165.75</td>
<td>125%</td>
</tr>
<tr>
<td><strong>Total External Mgt. Fees</strong></td>
<td><strong>29,591,975.93</strong></td>
<td><strong>38,240,051.58</strong></td>
<td><strong>30,812,370.32</strong></td>
<td><strong>7,427,681.26</strong></td>
<td><strong>24%</strong></td>
</tr>
<tr>
<td>Custodian Fees and other direct costs</td>
<td>$1,286,716.71</td>
<td>$1,762,216.71</td>
<td>$2,356,174.87</td>
<td>($593,958.16)</td>
<td>-25%</td>
</tr>
<tr>
<td>Performance Measurement</td>
<td>$368,637.50</td>
<td>$526,137.50</td>
<td>$621,168.75</td>
<td>($95,031.25)</td>
<td>-15%</td>
</tr>
<tr>
<td>Analytical tools</td>
<td>$253,722.50</td>
<td>$336,095.00</td>
<td>$289,570.00</td>
<td>$46,525.00</td>
<td>16%</td>
</tr>
<tr>
<td>Risk Measurement</td>
<td>$152,000.00</td>
<td>$358,666.67</td>
<td>$803,120.50</td>
<td>($444,453.83)</td>
<td>-55%</td>
</tr>
<tr>
<td><strong>Total Custodian and Analytical Costs</strong></td>
<td><strong>2,061,076.71</strong></td>
<td><strong>2,983,115.88</strong></td>
<td><strong>4,070,034.12</strong></td>
<td><strong>(1,086,918.24)</strong></td>
<td><strong>-27%</strong></td>
</tr>
<tr>
<td>Consultants</td>
<td>$619,666.00</td>
<td>$808,666.00</td>
<td>$1,100,000.00</td>
<td>($291,334.00)</td>
<td>-26%</td>
</tr>
<tr>
<td>Auditing</td>
<td>$140,000.00</td>
<td>$212,000.00</td>
<td>$213,920.00</td>
<td>($1,920.00)</td>
<td>-1%</td>
</tr>
<tr>
<td>Controls Assessment (Sarbanes-Oxley)</td>
<td>$97,110.00</td>
<td>$122,110.00</td>
<td>$136,500.00</td>
<td>($14,390.00)</td>
<td>-11%</td>
</tr>
<tr>
<td>Printing</td>
<td>$163,790.00</td>
<td>$163,790.00</td>
<td>$150,666.08</td>
<td>$13,123.92</td>
<td>9%</td>
</tr>
<tr>
<td>Rating agency fees</td>
<td>$10,646.02</td>
<td>$10,646.02</td>
<td>$10,646.02</td>
<td>$10,646.02</td>
<td>-100%</td>
</tr>
<tr>
<td>Legal fees</td>
<td>$594,173.31</td>
<td>$764,483.31</td>
<td>$555,000.00</td>
<td>$209,483.31</td>
<td>38%</td>
</tr>
<tr>
<td>Background searches and other</td>
<td>$24,956.02</td>
<td>$33,456.02</td>
<td>$67,200.00</td>
<td>($33,743.98)</td>
<td>-50%</td>
</tr>
<tr>
<td>Other</td>
<td>$14,606.29</td>
<td>$18,006.29</td>
<td>$6,000.00</td>
<td>$12,006.29</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Total Other Direct Costs</strong></td>
<td><strong>1,501,157.64</strong></td>
<td><strong>2,133,157.64</strong></td>
<td><strong>2,229,286.08</strong></td>
<td><strong>(96,128.44)</strong></td>
<td><strong>-4%</strong></td>
</tr>
<tr>
<td><strong>Total Direct Fund Expenses</strong></td>
<td><strong>$33,154,210</strong></td>
<td><strong>$43,356,325</strong></td>
<td><strong>$37,111,691</strong></td>
<td><strong>$6,244,635</strong></td>
<td><strong>17%</strong></td>
</tr>
</tbody>
</table>
7. **U. T. System Board of Regents: Reports on investment objectives and performance, using derivatives in portfolio management**

**REPORT**

Mr. Bruce Myers of Cambridge Associates, LLC, Investment Consultant to The University of Texas Investment Management Company (UTIMCO) Board of Directors, will report on investment performance relative to long-term investment objectives of the funds; asset allocation targets, ranges, benchmarks, and expected returns and risk levels for eligible asset classes; asset classification issues; and endowment investment management and capital markets outlook, as set forth on Pages 23 - 38.

Dr. Keith Brown, Fayez Sarofim Fellow and Professor of Finance at U. T. Austin and advisor to the UTIMCO Board Chairman, will report on the role of derivatives in endowment portfolios, as set forth on Pages 39 – 61.
Discussion on Investment Objectives and Performance

July 13, 2006
Current Investment Objectives

- “The primary objective for each fund [the PUF and the GEF] shall be to preserve the purchasing power of fund assets and annual distributions by earning an average real return over ten-year periods or longer at least equal to the target distribution rate of such funds plus the annual expected expense”

- “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”
<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Actual Weight PUF</th>
<th>Actual Weight GEF</th>
<th>PUF/GEF Policy Target</th>
<th>PUF/GEF Policy Range</th>
<th>In Compliance (Yes/No)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional U.S. Equities</td>
<td>19.21%</td>
<td>19.10%</td>
<td>20.00%</td>
<td>10-30%</td>
<td>Yes</td>
</tr>
<tr>
<td>Global ex-U.S. Equity</td>
<td>21.73%</td>
<td>20.98%</td>
<td>17.00%</td>
<td>10-30%</td>
<td>Yes</td>
</tr>
<tr>
<td>Non-U.S. Developed Equity</td>
<td>12.34%</td>
<td>12.19%</td>
<td>10.00%</td>
<td>0-30%</td>
<td>Yes</td>
</tr>
<tr>
<td>Emerging Markets Equity</td>
<td>9.39%</td>
<td>8.79%</td>
<td>7.00%</td>
<td>0-10%</td>
<td>Yes</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>25.05%</td>
<td>25.30%</td>
<td>25.00%</td>
<td>15-27.5%</td>
<td>Yes</td>
</tr>
<tr>
<td>Directional Hedge Funds</td>
<td>8.91%</td>
<td>8.77%</td>
<td>10.00%</td>
<td>5-15%</td>
<td>Yes</td>
</tr>
<tr>
<td>Absolute Return Hedge Funds</td>
<td>16.14%</td>
<td>16.53%</td>
<td>15.00%</td>
<td>10-20%</td>
<td>Yes</td>
</tr>
<tr>
<td>Private Capital</td>
<td>9.39%</td>
<td>10.45%</td>
<td>15.00%</td>
<td>5-15%</td>
<td>Yes</td>
</tr>
<tr>
<td>Venture Capital</td>
<td>1.72%</td>
<td>2.20%</td>
<td>4.00%</td>
<td>0-8%</td>
<td>Yes</td>
</tr>
<tr>
<td>Private Equity</td>
<td>7.67%</td>
<td>8.25%</td>
<td>11.00%</td>
<td>5-15%</td>
<td>Yes</td>
</tr>
<tr>
<td>Inflation Linked</td>
<td>14.40%</td>
<td>14.07%</td>
<td>13.00%</td>
<td>5-20%</td>
<td>Yes</td>
</tr>
<tr>
<td>REITs</td>
<td>5.62%</td>
<td>5.41%</td>
<td>5.00%</td>
<td>0-10%</td>
<td>Yes</td>
</tr>
<tr>
<td>Commodities</td>
<td>4.73%</td>
<td>4.65%</td>
<td>3.00%</td>
<td>0-6%</td>
<td>Yes</td>
</tr>
<tr>
<td>TIPS</td>
<td>4.05%</td>
<td>4.01%</td>
<td>5.00%</td>
<td>0-10%</td>
<td>Yes</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>9.83%</td>
<td>9.81%</td>
<td>10.00%</td>
<td>5-15%</td>
<td>Yes</td>
</tr>
<tr>
<td>Cash</td>
<td>0.39%</td>
<td>0.29%</td>
<td>0.00%</td>
<td>0-10%</td>
<td>Yes</td>
</tr>
<tr>
<td>Total</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
<td>---</td>
<td>---</td>
</tr>
</tbody>
</table>
Performance Summary: PUF & GEF

- Since 1994 performance of the PUF and the GEF has enhanced purchasing power, outperforming the stated goal of earning the rate of distributions, plus expenses, plus inflation.

- While the 10+ year performance of the PUF and the GEF trail their Policy Portfolio Benchmarks, the degree of underperformance has narrowed sharply over the past three years.

- Performance (measured on a rolling five-year basis) relative to college and university peers lags the peer universe, although the degree of underperformance has narrowed in recent years.
Objective: Preserve the purchasing power of fund assets and annual distributions by earning an average annual return over rolling ten-year periods or longer at least equal to the target distribution rate of such funds plus the annual expected expense.

¹ The “MAR” as defined by the University of Texas System Investment Policy Statement is 5.1%. This target was derived by adding the current target distribution rate for the endowment (4.75%) to the annual expected expense (0.35%). 5.1% represents a real annual return target; this report de-annualizes that number to a monthly basis and adds monthly CPIU data to account for inflation.
Objective: Generate a fund return in excess of the Policy Portfolio benchmark over rolling five year periods or longer.

2 The “Policy Portfolio Benchmarks” are the composition of asset class targets in the asset allocation investment policy statement, changed over time with approval of the BOR. Policy Portfolio performance is the composite performance of benchmarks for the asset class targets. In January of 2004, UTIMCO restated historical policy returns based on newly approved policy targets. The Policy Portfolio presented in the report reflects this restatement.
Five-Year Rolling PUF/GEF AACR Performance Relative to Cambridge Five-Year Rolling AACR Performance for University Endowments > $1 Billion³

PUF/GEF rolling 5-yr. performance relative to the Benchmark (5-yr. rolling AACR for CA University Endowments > $1B) which is held static at 0.0%, 1995 - 2005.

³ The 5-yr. Average Annual Compound Return “AACR” is calculated by first assessing CA College and University Endowments over $1B at the end of each year 1995-2005. The mean return for each yearly universe is then calculated. Institutions that did not report performance, even if they are over $1B at that time, are not included. The mean returns for each yearly universe are then used to calculate rolling 5-yr. Average Annual Compound Returns. Medians are not used due to reporting complications and non-static universes.
Five-Year Rolling PUF/GEF AACR Performance Compared to Cambridge Five-Year Rolling AACR Performance for University Endowments > $1 Billion³

PUF/GEF rolling 5-yr. performance compared to the Benchmark (5-yr. rolling AACR for CA University Endowments > $1B), 1995 – 2005.

<table>
<thead>
<tr>
<th></th>
<th>5 yrs.</th>
<th>11 yrs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>PUF</td>
<td>6.7%</td>
<td>10.9%</td>
</tr>
<tr>
<td>GEF</td>
<td>7.0%</td>
<td>11.5%</td>
</tr>
<tr>
<td>CA Universe</td>
<td>5.7%</td>
<td>12.8%</td>
</tr>
</tbody>
</table>

³ The 5-yr. Average Annual Compound Return “AACR” is calculated by first assessing CA College and University Endowments over $1B at the end of each year 1995-2005. The mean return for each yearly universe is then calculated. Institutions that did not report performance, even if they are over $1B at that time, are not included. The mean returns for each yearly universe are then used to calculate rolling 5-yr. Average Annual Compound Returns. Medians are not used due to reporting complications and non-static universes.
Performance Summary: STF and SITF/ITF

- Performance for the STF has modestly exceeded its benchmark

- The long-term track record for the former SITF trailed its benchmark

- Earlier this year, the SITF was replaced by the ITF

- Performance for the ITF is in its early days, but is off to a promising start
**STF Performance Relative to Benchmark**

Growth of $1
11 Years 7 Months Ending 3/31/2006

<table>
<thead>
<tr>
<th>Annualized 5 yrs.</th>
<th>Annualized 11 yrs. 7 mos.</th>
</tr>
</thead>
<tbody>
<tr>
<td>STF</td>
<td>2.3%</td>
</tr>
<tr>
<td>ML T-Bill</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

**Objective:** Maximize current income consistent with the absolute preservation of capital and maintenance of adequate STF liquidity. The STF shall seek to maintain a new asset value of $1.00.
# Intermediate Term Fund (ITF)

## Market Exposure as of March 31, 2006

<table>
<thead>
<tr>
<th>Category</th>
<th>Actual Weight</th>
<th>ITF Policy Target</th>
<th>ITF Policy Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional U.S. Equities</td>
<td>15.24%</td>
<td>15.00%</td>
<td>5-20%</td>
</tr>
<tr>
<td>Global ex-U.S. Equity</td>
<td>10.45%</td>
<td>10.00%</td>
<td>0-15%</td>
</tr>
<tr>
<td>Non-U.S. Developed Equity</td>
<td>5.33%</td>
<td>5.00%</td>
<td>0-10%</td>
</tr>
<tr>
<td>Emerging Markets Equity</td>
<td>5.12%</td>
<td>5.00%</td>
<td>0-10%</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>24.15%</td>
<td>25.00%</td>
<td>10-27.5%</td>
</tr>
<tr>
<td>Directional Hedge Funds</td>
<td>10.36%</td>
<td>12.50%</td>
<td>5-20%</td>
</tr>
<tr>
<td>Absolute Return Hedge Funds</td>
<td>13.79%</td>
<td>12.50%</td>
<td>5-20%</td>
</tr>
<tr>
<td>Private Capital</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0%</td>
</tr>
<tr>
<td>Venture Capital</td>
<td>0.00%</td>
<td>0.00%</td>
<td>---</td>
</tr>
<tr>
<td>Private Equity</td>
<td>0.00%</td>
<td>0.00%</td>
<td>---</td>
</tr>
<tr>
<td>Inflation Linked</td>
<td>25.35%</td>
<td>25.00%</td>
<td>10-35%</td>
</tr>
<tr>
<td>REITs</td>
<td>10.29%</td>
<td>10.00%</td>
<td>0-15%</td>
</tr>
<tr>
<td>Commodities</td>
<td>5.15%</td>
<td>5.00%</td>
<td>0-10%</td>
</tr>
<tr>
<td>TIPS</td>
<td>9.91%</td>
<td>10.00%</td>
<td>5-15%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>24.39%</td>
<td>25.00%</td>
<td>15-40%</td>
</tr>
<tr>
<td>Cash &amp; Equivalents</td>
<td>0.42%</td>
<td>0.00%</td>
<td>0-20%</td>
</tr>
<tr>
<td>Total</td>
<td>100.00%</td>
<td>100.00%</td>
<td>---</td>
</tr>
</tbody>
</table>
SITF Performance Relative to SITF Benchmark

Growth of $1

11 Years 5 Months Ending 1/31/2006

<table>
<thead>
<tr>
<th></th>
<th>Annualized 5 yrs.</th>
<th>Annualized 11 yrs. 5 mos.</th>
</tr>
</thead>
<tbody>
<tr>
<td>SITF</td>
<td>2.92</td>
<td>5.01</td>
</tr>
<tr>
<td>SITF Benchmark</td>
<td>3.48</td>
<td>5.17</td>
</tr>
</tbody>
</table>

SITF Objective: A fund return over a market cycle in excess of the U.T. System Short Term Fund (STF) and the Merrill Lynch 1-3 Year Treasury Index.

4 The SITF was ended 1/31/2006, and the ITF began 2/1/2006.
ITF Performance Relative to ITF Historical Policy

ITF Performance
2/01/2006 – 5/31/2006 (Preliminary)

<table>
<thead>
<tr>
<th></th>
<th>One Month</th>
<th>Three Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intermediate Term Fund</td>
<td>(1.52)</td>
<td>0.68</td>
</tr>
<tr>
<td>ITF Policy Portfolio</td>
<td>(1.87)</td>
<td>(0.01)</td>
</tr>
</tbody>
</table>

**ITF Primary Objective:** 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%.

**ITF Secondary Objective:** Generate a return, net of all direct and allocated expenses, in excess of the approved Policy Portfolio benchmark over rolling three-year periods.

5 The ITF replaced the SITF as of 2/01/2006.
Conclusions About Past Performance

- System funds have shown strong performance when measured in absolute terms or against the objective of preserving the purchasing power of the assets and the distributions from those assets.

- Performance relative to the policy portfolio and to other large educational endowments has been less robust, but has improved significantly since 2003.
Going Forward

- We view the current market environment as one characterized by excess liquidity, compressed returns, and unrealistic risk premium.

- Going forward we would expect volatility in the market to increase, returns in general to be below average, and the possibility of market dislocations to be above average.

- While this view may seem cautious (if not pessimistic), increased volatility and market dislocations in some sectors offers the opportunity to add to return through thoughtful tactical moves and manager selection.
## UTIMCO Performance Summary

### May 31, 2006

(See Footnote 2)

<table>
<thead>
<tr>
<th>Net Asset Value Calendar Fiscal Month</th>
<th>One Month</th>
<th>Three Months</th>
<th>Calendar Year To Date</th>
<th>Six Months</th>
<th>Fiscal Year To Date</th>
<th>One Year</th>
<th>Two Years</th>
<th>Three Years</th>
<th>Four Years</th>
<th>Five Years</th>
<th>Ten Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ENDOWMENT FUNDS</strong> (in Millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent University Fund</td>
<td>$10,028.9</td>
<td>(1.33)</td>
<td>1.84</td>
<td>6.64</td>
<td>8.60</td>
<td>14.62</td>
<td>14.01</td>
<td>15.98</td>
<td>11.14</td>
<td>8.31</td>
<td>9.60</td>
</tr>
<tr>
<td>General Endowment Fund</td>
<td>(1.24)</td>
<td>1.87</td>
<td>4.78</td>
<td>6.71</td>
<td>8.55</td>
<td>14.49</td>
<td>13.94</td>
<td>16.00</td>
<td>11.26</td>
<td>8.60</td>
<td>N/A</td>
</tr>
<tr>
<td>Permanent Health Fund</td>
<td>974.0</td>
<td>(1.26)</td>
<td>1.84</td>
<td>4.78</td>
<td>6.68</td>
<td>8.49</td>
<td>14.40</td>
<td>13.86</td>
<td>15.86</td>
<td>11.14</td>
<td>8.48</td>
</tr>
<tr>
<td>Long Term Fund</td>
<td>4,356.8</td>
<td>(1.26)</td>
<td>1.84</td>
<td>4.79</td>
<td>6.68</td>
<td>8.50</td>
<td>14.41</td>
<td>13.86</td>
<td>15.88</td>
<td>11.17</td>
<td>10.08</td>
</tr>
<tr>
<td>Separately Invested Funds</td>
<td>187.5</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total Endowment Funds</strong></td>
<td>15,547.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>OPERATING FUNDS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short Term Fund</td>
<td>1,400.9</td>
<td>0.42</td>
<td>1.20</td>
<td>1.91</td>
<td>2.26</td>
<td>3.22</td>
<td>4.06</td>
<td>3.01</td>
<td>2.34</td>
<td>2.14</td>
<td>2.28</td>
</tr>
<tr>
<td>Intermediate Term Fund</td>
<td>2,988.8</td>
<td>(1.52)</td>
<td>0.68</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total Operating Funds</strong></td>
<td>4,389.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Investments</strong></td>
<td>$19,936.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### BENCHMARKS (1)

- Permanent University Fund: Policy Portfolio (2)
  - (1.30) 2.02 5.76 7.56 10.11 14.75 13.35 13.79 9.53 6.51 10.24
- General Endowment Fund: Policy Portfolio (2)
  - (1.30) 2.02 5.76 7.56 10.11 14.75 13.35 13.79 9.53 6.52 9.98
- Short Term Fund: 90 Day Treasury Bills Average Yield
  - 0.40 1.16 1.80 2.13 3.05 3.83 2.90 2.28 2.10 2.23 3.82
- Intermediate Term Fund: Policy Portfolio (2)
  - 0.22 0.76 N/A N/A N/A N/A N/A N/A N/A N/A N/A

### VALUE ADDED (3)

- Permanent University Fund
  - (0.03) (0.18) (1.07) (0.92) (1.51) (0.13) 0.66 2.20 1.61 1.80 (0.64)
- General Endowment Fund
  - 0.06 (0.16) (0.98) (0.85) (1.57) (0.26) 0.58 2.21 1.73 2.09 N/A
- Permanent Health Fund
  - 0.04 (0.18) (0.98) (0.88) (1.63) (0.35) 0.50 2.08 1.61 1.96 N/A
- Long Term Fund
  - 0.04 (0.18) (0.98) (0.88) (1.61) (0.33) 0.51 2.09 1.64 2.00 0.10
- Short Term Fund
  - 0.01 0.04 0.10 0.13 0.18 0.23 0.11 0.06 0.04 0.05 0.16
- Intermediate Term Fund
  - (0.30) (0.07) N/A N/A N/A N/A N/A N/A N/A N/A N/A

(1) - Effective May 6, 2004, benchmark returns for the PUF policy portfolio have been restated for prior periods beginning June 1, 1993 through September 30, 2000 and for the GEF/LTF policy portfolio for prior periods beginning June 1, 1993 through September 30, 2001 to correct the following technical errors in benchmark construction and calculation: (a) to reflect actual asset class target allocations which were in place, or the practical implementation of changes to those policy allocations, and (b) to distinguish between PUF and GEF/LTF historical investment objectives and distribution policies by accurately representing actual asset class allocations during those periods.

Benchmark returns for the PUF and GEF/LTF policy portfolios were also restated for all prior periods beginning June 1, 1993 through December 31, 2003 to replace various benchmark returns reported previously for the Private Capital asset class. Specifically, the Wilshire 5000 + 4%, the benchmark used prior to January 1, 2004, was replaced with the Venture Economics Periodic IRR Index, a more appropriate benchmark measure for the actual Private Capital portfolio.

Complete details of the restatement and previous policy portfolio benchmark history are documented on the UTIMCO website at www.UTIMCO.org or are available upon request.

(2) - UTIMCO staff believes the policy portfolio returns for the PUF, GEF and ITF are inaccurate. The preliminary benchmark returns for the Directional Hedge Fund and Absolute Return assets classes, which are comprised of the S&P Event-Driven Hedge Fund Index, the S&P Directional/Tactical Hedge Fund Index and the S&P Arbitrage Hedge Fund Index are provided by Standard & Poors and are not reliable for the month of May. Due to recent disruptive developments with S&P, UTIMCO staff believes that the MSCI Hedge Investable Index is a more appropriate benchmark for this time period. For the one month time period the impact of using the MSCI benchmark would be a reduction in the total PUF and GEF policy portfolio benchmarks of approximately 54 basis points and a reduction in the total ITF policy portfolio benchmark of approximately 53 basis points.

(3) - Value added is a measure of the difference between actual returns and benchmark or policy portfolio returns for each period shown. Value added is a result of the active management decisions made by UTIMCO staff and external managers.

Note: Sourced From UTIMCO
Using Derivatives in Portfolio Management: Overview and Illustrative Examples

Keith C. Brown
McCombs School of Business
The University of Texas at Austin

University of Texas System Board of Regents’ Meeting

July 13, 2006
Using Derivatives in Portfolio Management

- As a general rule, most “long only” portfolio managers (i.e., non-hedge fund managers) do not use derivative securities in lieu of direct investments in the underlying assets (e.g., equities, fixed-income securities).

- Instead, derivative positions are typically used in conjunction with the underlying stock or bond holdings to accomplish two main tasks:
  - “Repackage” the cash flows of the original portfolio to create a more desirable risk-return tradeoff given the manager’s view of future market activity.
  - Transfer some or all of the unwanted risk in the underlying portfolio, either permanently or temporarily.

- In this context, it is appropriate to think of the derivatives market as an insurance market in which portfolio managers can transfer certain risks (e.g., yield curve exposure, downside equity exposure) to a counterparty in a cost-effective way.

- One important implication of a money manager’s ability to transfer portfolio risk using derivatives is that it may no longer be possible for investors to control the risk of their overall position using policy constraints on the dollar-based asset allocation.
The Cost of “Synthetic” Restructuring With Derivatives

Consider the relative costs of rebalancing a stock portfolio in two ways:

(i) *physical rebalancing* by trading the stocks themselves; or
(ii) *synthetic rebalancing* using future contracts

<table>
<thead>
<tr>
<th>Cost Factor</th>
<th>United States (S&amp;P 500)</th>
<th>Japan (Nikkei 225)</th>
<th>United Kingdom (FT-SE 100)</th>
<th>France (CAC 40)</th>
<th>Germany (DAX)</th>
<th>Hong Kong (Hang Seng)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commissions</td>
<td>0.12%</td>
<td>0.20%</td>
<td>0.20%</td>
<td>0.25%</td>
<td>0.25%</td>
<td>0.50%</td>
</tr>
<tr>
<td>Market Impact</td>
<td>0.30</td>
<td>0.70</td>
<td>0.70</td>
<td>0.50</td>
<td>0.50</td>
<td>0.50</td>
</tr>
<tr>
<td>Taxes</td>
<td>0.00</td>
<td>0.21</td>
<td>0.50</td>
<td>0.00</td>
<td>0.00</td>
<td>0.34</td>
</tr>
<tr>
<td>Total</td>
<td>0.42%</td>
<td>1.11%</td>
<td>1.40%</td>
<td>0.75%</td>
<td>0.75%</td>
<td>1.34%</td>
</tr>
</tbody>
</table>

**A. Stocks**

**B. Futures**

| Commissions          | 0.01%                   | 0.05%              | 0.02%                       | 0.03%           | 0.02%        | 0.05%                |
| Market Impact        | 0.05                    | 0.10               | 0.10                        | 0.10            | 0.10         | 0.10                 |
| Taxes                | 0.00                    | 0.00               | 0.00                        | 0.00            | 0.00         | 0.00                 |
| Total                | 0.06%                   | 0.15%              | 0.12%                       | 0.13%           | 0.12%        | 0.15%                |

The Hedging Principle

Suppose a portfolio manager holds a $100 million position in U.S. equity securities and she is concerned with the possibility that the stock market will decline over the next three months. How can she hedge the risk that her portfolio will experience significant declines in value?

1) Hedging With Stock Index Futures:

<table>
<thead>
<tr>
<th>Economic Event</th>
<th>Actual Stock Exposure</th>
<th>Desired Futures Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Prices Fall</td>
<td>Loss</td>
<td>Gain</td>
</tr>
<tr>
<td>Stock Prices Rise</td>
<td>Gain</td>
<td>Loss</td>
</tr>
</tbody>
</table>

2) Hedging With Stock Index Options:

<table>
<thead>
<tr>
<th>Economic Event</th>
<th>Actual Stock Exposure</th>
<th>Desired Hedge Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Prices Fall</td>
<td>Loss</td>
<td>Gain</td>
</tr>
<tr>
<td>Stock Prices Rise</td>
<td>Gain</td>
<td>No Loss</td>
</tr>
</tbody>
</table>
Consider three alternative methods for hedging the downside risk of holding a long position in a $100 million stock portfolio over the next three months:

1) **Short a stock index futures** contract expiring in three months. Assume the current contract delivery price (i.e., $F_{0,0.25}$) is $101 and that there is no front-expense to enter into the futures agreement. This combination creates a **synthetic T-bill** position.

2) **Buy a stock index put option** contract expiring in three months with an exercise price (i.e., $X$) of $100$. Assume the current market price of the put option is $1.324$. This is known as a **protective put** position.

3) (i) **Buy a stock index put option** with an exercise price of $97 and (ii) **sell a stock index call option** with an exercise price of $108$. Assume that both options expire in three months and have a current price of $0.560$. This is known as an **equity collar** position.
## 1. Hedging Downside Risk With Futures

### Expiration Date Value of a Futures-Hedged Stock Position:

<table>
<thead>
<tr>
<th>Potential Portfolio Value</th>
<th>Value of Short Futures Position</th>
<th>Cost of Futures Contract</th>
<th>Net Futures Hedge Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>(101-60) = 41</td>
<td>0</td>
<td>(60+41) = 101</td>
</tr>
<tr>
<td>70</td>
<td>(101-70) = 31</td>
<td>0</td>
<td>(70+31) = 101</td>
</tr>
<tr>
<td>80</td>
<td>(101-80) = 21</td>
<td>0</td>
<td>(80+21) = 101</td>
</tr>
<tr>
<td>90</td>
<td>(101-90) = 11</td>
<td>0</td>
<td>(90+11) = 101</td>
</tr>
<tr>
<td>100</td>
<td>0</td>
<td>0</td>
<td>(100+0) = 101</td>
</tr>
<tr>
<td>110</td>
<td>(101-110) = -9</td>
<td>0</td>
<td>(110-9) = 101</td>
</tr>
<tr>
<td>120</td>
<td>(101-120) = -19</td>
<td>0</td>
<td>(120-19) = 101</td>
</tr>
<tr>
<td>130</td>
<td>(101-130) = -29</td>
<td>0</td>
<td>(130-29) = 101</td>
</tr>
<tr>
<td>140</td>
<td>(101-140) = -39</td>
<td>0</td>
<td>(140-39) = 101</td>
</tr>
</tbody>
</table>

Notice that this net position can be viewed as a **synthetic Treasury Bill** (i.e., risk-free) holding with a face value of $101.
Graphically, restructuring the long stock position using a short position in the futures contract creates the following synthetic restructuring:

Now         Three Months

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Stock</td>
<td>Short Futures</td>
</tr>
</tbody>
</table>

Net Position:

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Long T-Bill</td>
<td>Long Stock</td>
</tr>
<tr>
<td>( \beta_p = 0)</td>
<td>( \beta_p = 1)</td>
</tr>
</tbody>
</table>
2. Hedging Downside Risk With Put Options

**Expiration Date Value of a Protective Put Position:**

<table>
<thead>
<tr>
<th>Potential Portfolio Value</th>
<th>Value of Put Option</th>
<th>Cost of Put Option</th>
<th>Net Protective Put Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>(100-60) = 40</td>
<td>-1.324</td>
<td>(60+40)-1.324 = 98.676</td>
</tr>
<tr>
<td>70</td>
<td>(100-70) = 30</td>
<td>-1.324</td>
<td>(70+30)-1.324 = 98.676</td>
</tr>
<tr>
<td>80</td>
<td>(100-80) = 20</td>
<td>-1.324</td>
<td>(80+20)-1.324 = 98.676</td>
</tr>
<tr>
<td>90</td>
<td>(100-90) = 10</td>
<td>-1.324</td>
<td>(90+10)-1.324 = 98.676</td>
</tr>
<tr>
<td>100</td>
<td>0</td>
<td>-1.324</td>
<td>(100+0)-1.324 = 98.676</td>
</tr>
<tr>
<td>110</td>
<td>0</td>
<td>-1.324</td>
<td>(110+0)-1.324 = 108.676</td>
</tr>
<tr>
<td>120</td>
<td>0</td>
<td>-1.324</td>
<td>(120+0)-1.324 = 118.676</td>
</tr>
<tr>
<td>130</td>
<td>0</td>
<td>-1.324</td>
<td>(130+0)-1.324 = 128.676</td>
</tr>
<tr>
<td>140</td>
<td>0</td>
<td>-1.324</td>
<td>(140+0)-1.324 = 138.676</td>
</tr>
</tbody>
</table>
2. Hedging Downside Risk With Put Options (cont.)

**Long Stock Plus Long Put:**

- **Terminal Position Value**
  - 98.676
  - -1.324

- **Expiration Date Stock Value**
  - 100

- **Long Stock**

**Equals:**

- **Terminal Position Value**
  - 98.676

- **Expiration Date Stock Value**
  - 100

- **Put-Protected Stock Portfolio**
  - -1.324

- **Long Put**
3. Hedging Downside Risk With An Equity Collar

Expiration Date Value of an Equity Collar-Protected Position:

<table>
<thead>
<tr>
<th>Potential Portfolio Value</th>
<th>Net Option Expense</th>
<th>Value of Put Option</th>
<th>Value of Call Option</th>
<th>Net Collar-Protected Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>(0.56-0.56)=0</td>
<td>(97-60)=37</td>
<td>0</td>
<td>60 + 37 = 97</td>
</tr>
<tr>
<td>70</td>
<td>(0.56-0.56)=0</td>
<td>(97-70)=27</td>
<td>0</td>
<td>70 + 27 = 97</td>
</tr>
<tr>
<td>80</td>
<td>(0.56-0.56)=0</td>
<td>(97-80)=17</td>
<td>0</td>
<td>80 + 17 = 97</td>
</tr>
<tr>
<td>90</td>
<td>(0.56-0.56)=0</td>
<td>(97-90)=7</td>
<td>0</td>
<td>90 + 7 = 97</td>
</tr>
<tr>
<td>97</td>
<td>(0.56-0.56)=0</td>
<td>0</td>
<td>0</td>
<td>97 + 0 = 97</td>
</tr>
<tr>
<td>100</td>
<td>(0.56-0.56)=0</td>
<td>0</td>
<td>0</td>
<td>100 + 0 = 100</td>
</tr>
<tr>
<td>108</td>
<td>(0.56-0.56)=0</td>
<td>0</td>
<td>0</td>
<td>108 - 0 = 108</td>
</tr>
<tr>
<td>110</td>
<td>(0.56-0.56)=0</td>
<td>0</td>
<td>(108-110)= -2</td>
<td>110 - 2 = 108</td>
</tr>
<tr>
<td>120</td>
<td>(0.56-0.56)=0</td>
<td>0</td>
<td>(108-120)= -12</td>
<td>120 - 12 = 108</td>
</tr>
<tr>
<td>130</td>
<td>(0.56-0.56)=0</td>
<td>0</td>
<td>(108-130)= -22</td>
<td>130 - 22 = 108</td>
</tr>
<tr>
<td>140</td>
<td>(0.56-0.56)=0</td>
<td>0</td>
<td>(108-140)= -32</td>
<td>140 - 32 = 108</td>
</tr>
</tbody>
</table>
3. Hedging Downside Risk With An Equity Collar (cont.)

Terminal Stock Price

Terminal Position Value

108
108
97
97

Collar-Protected Stock Portfolio
Zero-Cost Collar Example #1: S&P 500 Index Options

Zero Cost Collar Valuation

<table>
<thead>
<tr>
<th>SPX</th>
<th>S&amp;P 500 INDEX</th>
<th>Currency: USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price of SPX Index</td>
<td>1307.65</td>
<td></td>
</tr>
<tr>
<td>Exercise Type</td>
<td>European</td>
<td></td>
</tr>
<tr>
<td>(US)Rate</td>
<td>4.12% Semiannual</td>
<td></td>
</tr>
<tr>
<td>Fix (P)Put/(C)all</td>
<td>Fix Put</td>
<td></td>
</tr>
<tr>
<td>Put Strike</td>
<td>1176.09</td>
<td>90.00% LONG</td>
</tr>
<tr>
<td>Call Strike</td>
<td>1476.22</td>
<td>112.89% SHORT</td>
</tr>
<tr>
<td>Days to Expiration</td>
<td>90</td>
<td></td>
</tr>
<tr>
<td>Trade Date</td>
<td>4/19/06</td>
<td></td>
</tr>
<tr>
<td>Expiration Date</td>
<td>7/19/06</td>
<td></td>
</tr>
<tr>
<td>Settle Date</td>
<td>4/19/06</td>
<td></td>
</tr>
<tr>
<td>Exercise Delay</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

Risk Parameters

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Put Volatility</td>
<td>9.331%</td>
</tr>
<tr>
<td>Call Volatility</td>
<td>9.331%</td>
</tr>
<tr>
<td>Delta</td>
<td>0.96542</td>
</tr>
<tr>
<td>Gamma</td>
<td>-0.00001</td>
</tr>
<tr>
<td>Vega</td>
<td>-0.00568</td>
</tr>
</tbody>
</table>

Dividends

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend Flow From</td>
<td>4/19/06</td>
</tr>
<tr>
<td>Annualized</td>
<td>5.00%</td>
</tr>
<tr>
<td>Dividend Flow</td>
<td>23.560</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>1.802%</td>
</tr>
</tbody>
</table>

Scenario Analysis

<table>
<thead>
<tr>
<th>V-Axis:</th>
<th>1-P&amp;L</th>
</tr>
</thead>
<tbody>
<tr>
<td>X-Axis:</td>
<td>Curr. underlying: 1307.65</td>
</tr>
<tr>
<td>2-Option Price</td>
<td>1-Underlying Price</td>
</tr>
<tr>
<td>3-Delta</td>
<td>2-Volatility Change</td>
</tr>
<tr>
<td>4-Gamma</td>
<td></td>
</tr>
<tr>
<td>5-Vega</td>
<td></td>
</tr>
</tbody>
</table>

<HELP> for explanation. <MENU> for similar functions.
### Zero Cost Collar Valuation

<table>
<thead>
<tr>
<th>SPX</th>
<th>S&amp;P 500 INDEX</th>
<th>Currency: USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price of SPX Index</td>
<td>1307.65</td>
<td></td>
</tr>
<tr>
<td>Exercise Type</td>
<td>European</td>
<td></td>
</tr>
<tr>
<td>(USD)Rate</td>
<td>4.71% Semiannual</td>
<td></td>
</tr>
</tbody>
</table>

- **Fix (P)ut/(C)all**: Put
- **Put Strike**: 1242.27
- **Call Strike**: 1397.98
- **Put Cost**: 2.9215
- **Call Cost**: 2.9215
- **Days to Expiration**: 90
- **Trade Date**: 4/19/06
- **Expiration Date**: 7/19/06
- **Settle Date**: 4/19/06
- **Exercise Delay**: 0

### Risk Parameters

- **Put Volatility**: 9.3312
- **Call Volatility**: 9.3312
- **Delta**: 0.79738
- **Gamma**: -0.00007
- **Vega**: -0.03356

### Dividends

- **Dividend Flow from 4/19/06 to 7/19/06**: USD 5.810
- **Annualized Dividend Flow**: 3.313
- **Dividend Yield**: 1.802%

### Scenario Analysis

- **y-Axis**: 1-Profile/Loss
- **x-Axis**: 1-Curr. underlying: 1307.65
- **Evaluation Dates**:
  - 4/19/06
  - 4/29/06
  - 7/17/06

- **2-Option Price**
  - 1-Underlying Price: 653.825 to 1951.475
- **3-Delta**
- **4-Gamma**
- **5-Vega**
Zero-Cost Collar Example #2: UTIMCO’s Put Spread Collar

At Year End 2004, UTIMCO staff initiated a trading strategy to accomplish the following goals during the calendar year of 2005:

- Protect the Domestic Equity Portfolio from a potential market decline.
- Participate in a meaningful market advance.
- Engage at levels that are costless.
Typical S&P 500 Portfolio - Full Exposure
Acquire Downside Protection – Buy a Put

S&P 500 Portfolio Put Protection

Put protection after -5% return

S&P 500 Portfolio with Put Protection

S&P 500 Portfolio
Acquire Downside Protection – Buy a Put

S&P 500 Portfolio Put Protection

However, put protection is expensive: - 2.3%
Reduce Cost: Limit Protection

S&P 500 Portfolio with Put Spread

Put protection between -5% and -15%

Full downside participation

S&P 500 Portfolio with Put Spread

S&P 500 Portfolio
Reduce Cost: Limit Protection

S&P 500 Portfolio with Put Spread

Limiting downside helps to defray the cost:
- 95% put (purchased): -2.3%
- 85% put (sold): +1.0%
Net = -1.3% cost

Put protection between -5% and -15%

Full downside participation

S&P 500 Portfolio with Put Spread
S&P 500 Portfolio
Make Costless: Sell a Call

S&P 500 Portfolio with Costless Put Spread Collar

- Upside capped at +10.7%
- Full participation between -5% and +10.7%
- Put protection between -5% and -15%
- Full downside participation

S&P 500 Portfolio with Costless Put Spread Collar

S&P 500 Portfolio
Make Costless: Sell a Call

S&P 500 Portfolio with Costless Put Spread Collar

Limit upside to make strategy costless:
- 95% put (purchased): -2.3%
- 85% put (sold): +1.0%
- 110.7% call (sold): +1.3%
Net = 0% cost

Full participation between -5% and +10.7%

Upside capped at +10.7%

Put protection between -5% and -15%

Full downside participation

Call is sold above the long term equity return average (1926 – 2004 = 10.4%) and the UTIMCO Policy Portfolio expectation of 8.5%
Put Spread Collar Goals Revisited

In structuring this trade, UTIMCO staff identified 3 goals it wished to accomplish:

• Protect the Domestic Equity Portfolio from a potential market decline.
  • Domestic Equity Portfolio is protected from a -5% to a -15% market sell-off

• Participate in a meaningful market advance.
  • Fully participate in an equity advance in excess of the long-term average stock return and the UTIMCO Policy Portfolio return

• Engage at levels that are costless.
  • The Costless Put Spread Collar
Using Derivatives in Portfolio Management: Final Thoughts

- Derivatives offer the money manager an extremely flexible and cost-effective way to alter the risk profile and cash flow patterns of an underlying portfolio of stocks and bonds. Not surprisingly, over the past two decades, they have become essential components of the “toolkit” for many managers.

- It is important to recognize that although they can provide effective insurance against unwanted exposures, derivatives can also be used to quickly and substantially increase the risk of an underlying portfolio, if that is the manager’s intention. Additionally, there are other risks associated with derivatives transactions (e.g., counterparty credit risk) that are not typically involved in direct investments in stocks and bonds.

- It is crucial that the use of derivatives transactions in a money management organization be well-understood and properly governed by the organization’s fiduciaries. In particular, the organization should: (i) adopt a comprehensive policy for derivatives usage, (ii) measure risk exposures with a risk model that fully integrates derivatives with all other asset holdings, and (iii) monitor investment activity on a regular basis.

**REPORT**

The Executive Vice Chancellor for Business Affairs and the Vice Chancellor and General Counsel will report on legal and fiduciary issues related to the investment management of funds that are the responsibility of the U. T. System Board of Regents (U. T. Board). The following materials are provided as background for the discussion:

1. Master Investment Management Services Agreement between the U. T. Board and The University of Texas Investment Management Company (UTIMCO), approved by the U. T. Board on February 9, 2006, as set forth on Pages 63 - 80; and

2. A draft U. T. System Board of Regents Expectations for Appointees to the UTIMCO Board of Directors, dated February 2006, as set forth on Pages 81 - 87.
MASTER INVESTMENT MANAGEMENT SERVICES AGREEMENT WITH UTIMCO

This Investment Management Services Agreement (this "Agreement") by and between the Board of Regents (the "U. T. Board") of The University of Texas System (the "U. T. System") and The University of Texas Investment Management Company ("UTIMCO"), a Texas nonprofit corporation, is effective February 9, 2006 (the "Effective Date"), and supersedes all earlier agreements by and between the U. T. Board and UTIMCO regarding the subject matter hereof.

RECITALS

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

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

WHEREAS, UTIMCO has been 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 et seq., for the express purpose of investing assets under the control and management of the U. T. Board, as designated by the U. T. Board, in accordance with the laws of the State of Texas;

WHEREAS, the U. T. Board desires to continue an Agreement with UTIMCO for UTIMCO to invest certain designated assets under the control and management of the U. T. Board;

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

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

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

Section 1. Definitions.

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

(b) **Cash Reserves** shall mean cash on hand plus investments, plus prepaid expenses, less accounts payable, less other liabilities.

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

(d) **Custodian** or **Custodians** shall mean a commercial bank, trust company or other entity selected by UTIMCO to hold and safe-keep physical securities representing investment assets of any Fund and to perform the other functions listed in Section 5 hereof.

(e) **Delegated Assets** shall mean those assets under the control and management of the U. T. Board that are invested in the Funds managed by UTIMCO hereunder, pursuant to the corresponding Investment Policies as such assets may be directed for investment by the U. T. Board or its designees from time to time pursuant to its Investment Policies or otherwise. The Delegated Assets may include, without limitation, the following funds or categories of assets:

(i) The Permanent University Fund established pursuant to Article VII, Section 11 of the Texas Constitution (the “Permanent University Fund” or “PUF”); provided that, for purposes of this Agreement and the delegation of investment management responsibilities hereunder, the PUF excludes the approximately 2.1 million acres of land located in 19 Texas counties, primarily in West Texas, and constituting a part of the PUF (the “PUF Lands”), as to which the U. T. Board retains complete investment management authority and responsibility;

(ii) Any and all funds or assets under the control and management of the U. T. Board as owner, administrator, contractual investment manager, or otherwise, including without limitation endowment funds and operating assets, other than the Permanent University Fund, the Permanent Health Fund and the U. T. Board Trust Accounts (collectively, “U. T. System Funds”);
(iii) The assets of charitable remainder trusts, foundations and other separately invested assets for which the U. T. Board serves as trustee on behalf of itself and other co-beneficiaries ("U. T. Board Trust Accounts");

(iv) The permanent assets for health-related institutions established pursuant to Chapter 63, Texas Education Code, for which the U. T. Board is an administrator (collectively, the "Permanent Health Fund" or "PHF");

(v) U. T. System Funds or U. T. Board Trust Accounts which, by election of the U. T. Board or by requirement of the trust indenture or donative instrument, are invested separately and apart from other U. T. System Funds and the PUF (collectively, "Separately Invested Funds" or "SIFs"); and

(vi) Institutional assets of third-party non-profit charitable foundations or tax-exempt charitable organizations to the extent dedicated to the support of the educational purposes of the U. T. System and under the control and management of the U. T. Board by contract (collectively, "Foundation Funds").

(f) Funds shall mean the separate investments or pools of assets in which the Delegated Assets are to be invested pursuant to the corresponding Investment Policies, as specified in Schedule A hereto and in the corresponding Investment Policies, each of which may be amended by the U. T. Board from time to time as provided for herein.

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

(h) Investment Policies shall mean the written investment policies determined and approved by the U. T. Board relating to the Funds, and all generally applicable written investment-related policies determined and approved by the U. T. Board that govern the management of investments for some or all Funds, such as the policies regarding Asset Allocation, Derivatives, Liquidity, Risk Measurement and Management, Valuation, and Error Correction in Performance Presentation, but excluding internal UTIMCO operational guidelines as to which approval of the U. T. Board is not required, which include the UTIMCO Soft Dollar Policy and the Proxy Voting Policy (the Proxy Voting Policy being governed by the provisions of the individual Investment Policies related to proxy voting).

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

(j) Surplus Cash Reserves shall mean Cash Reserves on the last day of the fiscal year in excess of twenty-five percent (25%) of the upcoming fiscal year’s operating and capital budgets approved by the U. T. Board.
Section 2. Delegation of Investment Authority; Retention of Policy Setting Authority.

(a) General
The U. T. Board retains ultimate fiduciary responsibility and authority for all matters related to the investment of the Delegated Assets. Pursuant to that responsibility and authority, the U. T. Board hereby appoints UTIMCO as its investment manager with complete authority to act for the Board in the investment of the Funds, subject, however, to such limitations and restrictions as are set forth in the Investment Policies. UTIMCO shall furnish the U. T. Board with continuous investment management services and shall invest and reinvest the assets of the Funds in such ways and at such times as are consistent with the Investment Policies and Section 4 hereof. UTIMCO shall be responsible for overall management of the U. T. Board’s investment affairs as set forth in this Agreement and shall manage each Fund as a discretionary account.

(b) Policy Matters
The U. T. Board, as ultimate fiduciary for the Funds, retains policy setting authority. Unless otherwise provided in writing by the U. T. Board, UTIMCO shall look to the Chancellor to provide primary oversight and management concerning relations with the media, legal issues that implicate policies of the U. T. Board other than the Investment Policies, public disclosure of information and intergovernmental relations. Except for the foregoing matters, the UTIMCO Board of Directors and the President of UTIMCO shall be responsible for making all decisions necessary to implement the Investment Policies. The President of UTIMCO shall confer with the Chancellor on the above-mentioned matters where the Chancellor has primary oversight and management and on other matters that may implicate broader policies of the U. T. Board.

(c) Meetings and Agendas
(i) 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.

(ii) UTIMCO shall participate in an annual joint meeting of the UTIMCO Board of Directors and the U. T. Board as referenced in Art. III, § 7 of the UTIMCO Bylaws.

Section 3. Description of Investment Management Services.

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

(a) Investment Policies:
UTIMCO shall review current Investment Policies for each Fund at least annually by June 1 of each year. Such review shall include distribution (spending) guidelines, long-term investment return expectations and expected risk levels, asset allocation targets and ranges for each eligible asset class, expected returns for each asset class and fund, designated performance benchmarks for each asset class and such other matters as the U. T. Board or its staff designees may request. After UTIMCO completes its assessment,
it shall forward any recommended changes to U. T. System staff for review and appropriate action, following the established schedule for the submission of proposed agenda topics for meetings of the U. T. Board.

(b) **Investment Management:**
UTIMCO shall oversee the investment management process pursuant to the Investment Policies. Such oversight shall include without limitation the development of an investment outlook based on global economic and capital market forecasts, the rebalancing of allocations to each asset class within ranges in response to changes in the investment outlook, and the selection of a combination of portfolio managers to construct portfolios designed to generate the expected returns of each asset class.

(c) **Investment Performance:**
UTIMCO shall monitor and report on investment performance for each of the Funds. With respect to all Funds other than the SIFs, such responsibilities shall include the calculation and evaluation of investment returns for each asset class and individual Fund portfolio against approved benchmarks over various periods of time, and the periodic review of performance benchmarks. With respect to all Funds, such responsibilities shall also include the reporting of investment performance of such specific Funds as may be requested by the U. T. Board, and the reporting to regulatory agencies and others regarding investments under management to the extent required by applicable law.

(d) **Operations:**
UTIMCO shall execute such operational responsibilities as the purchase and sale of investments, the settlement of all trades (to the extent such trades are not settled by the Custodian or brokers), the accounting for all transactions at the portfolio level in accordance with generally accepted accounting principles, the preparation and delivery of periodic financial reports on all Funds, and the maintenance of complete books and records (internally or through contract with the designated Custodian for the assets under management) reflecting transactions and balances of the Funds.

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

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

(f) **Reporting:**
In connection with the annual audited financial statements of UTIMCO, effective with the August 31, 2004 financial statements, UTIMCO shall provide all compliance-related information, reports and certifications, and shall cause the chief executive officer and the
chief financial officer of UTIMCO to provide such certifications, as may be specified by
the U. T. Board and U. T. System compliance policies and procedures adopted or
approved by the U. T. Board. UTIMCO will follow the U. T. System compliance
guidelines as outlined in the Action Plan to Enhance Institutional Compliance, as it may
be amended from time to time, including providing the U. T. Board or its designees with
quarterly compliance reports.

(g) **Disclosure of Information:**
The U. T. Board is committed to a policy of full and fair disclosure to the public. As part
of that commitment with respect to private investments in the Funds, UTIMCO shall
disclose to the public with respect to such private investments all information required to
be disclosed pursuant to Section 552.0225 of the *Texas Government Code* regarding
“Right of Access to Investment Information” (“private investment information”).
UTIMCO shall make no private investment with an entity unless the U. T. Board and
UTIMCO have clear and unequivocal authority to disclose to the public the private
investment information, described immediately above, relating to such investment.

Before UTIMCO declines to disclose any information it has collected, assembled or
maintained in its role as investment manager for the U. T. Board that is requested under
the Texas Public Information Act, the President of UTIMCO shall notify the U. T.
System Vice Chancellor and General Counsel and solicit his or her input to the process.
UTIMCO shall disclose the information unless (i) it is confidential and excepted as
provided in Section 552.143 of the *Texas Government Code* regarding “Confidentiality of
Certain Investment Information,” or (ii) as to any other information, the Vice Chancellor
and General Counsel, after consultation with the Chancellor, approves a Public
Information Act request to the Attorney General of Texas. In addition, the U. T. Board
reserves the right and authority, in its sole discretion, to disclose, or direct the disclosure
of, any information at any time, to the extent such disclosure would not result in a
violation of applicable law or breach or result in a default under any agreement binding
upon UTIMCO or the U. T. Board.

In addition to and not in lieu of the foregoing, UTIMCO will comply with the provisions
of Section 12 below regarding confidentiality provisions of contracts with third parties.

(h) **Other Services:**
UTIMCO shall perform other investment management services, including without
limitation:

(i) attending meetings of the U. T. Board and making such reports as the U. T. Board
may request from time to time;

(ii) rendering services to managers of private equity investments in which UTIMCO
has decided to invest;

(iii) attending meetings of governing bodies of companies in which assets of Funds
have been invested pursuant to this Agreement;
(iv) voting of securities (or proxies with respect thereto) held as investments of the Funds in accordance with the Investment Policies and the UTIMCO Proxy Voting Policy and any other relevant written policies or rules of the U. T. Board;

(v) providing U. T. System institutions with annual endowment reports reflecting, among other things, changes in the investment value of such institution’s endowment and distributions made to such institution to support the activities for which the endowment was established;

(vi) providing charitable trust administration services such as portfolio management, annual tax return preparation, annual trust reporting to donors and remittance of quarterly distributions; providing annual reporting of investment transactions and balances and distributing assets to authorized beneficiaries;

(vii) effecting distributions directly or through the Custodian to U. T. System institutions or other named beneficiaries from the Funds;

(viii) supporting and maintaining online information systems for endowment funds;

(ix) providing training and education to members of the UTIMCO Board of Directors as may be determined in consultation with U. T. System staff to assure that all duties required of directors under the Texas Non-Profit Corporation Act and that matters related to legal and fiduciary responsibilities of the directors, including current regulations for determining reasonable compensation, are outlined and discussed fully; and

(x) any other services necessary to provide investment management of the Funds.

Section 4. Investment Manager as Fiduciary.

UTIMCO acknowledges that it acts as a fiduciary in its management of the investments of the Funds pursuant to the Investment Policies and applicable law. The U. T. Board recognizes that all individual investment transactions involve a variety of significant potential risks, including, without limitation, market risk, liquidity risk, credit risk, cash flow risk, operational risk and counterparty risk, although taken as a whole these transactions are also expected to manage risk. The U. T. Board agrees that (i) UTIMCO will not be liable for any losses incurred in the Funds as a result of investments made pursuant to the Investment Policies and applicable law, and (ii) UTIMCO will not be liable for actions of co-fiduciaries. The U. T. Board also acknowledges that UTIMCO shall not be liable for, and, to the fullest extent authorized by the Constitution and laws of the State of Texas, agrees to hold UTIMCO harmless from the consequences of, any action taken or omitted to be taken by the U. T. System or any of its employees or agents prior to March 1, 1996.
Section 5. Custody of Assets.

UTIMCO shall select one or more Custodians, each of which shall be approved by the U. T. Board, which shall also enter into or approve each agreement with the Custodian(s).

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

Section 6. Use of Unaffiliated Investment Managers.

UTIMCO shall be entitled to use unaffiliated investment advisors to invest all or part of the Funds and to perform other duties, subject to any restrictions in the relevant Investment Policies.

Section 7. Investment Management Fees; Direct Expenses.

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

(a) Annual Budget and Management Fee:
   (i) Budget Approval Policy
       UTIMCO shall submit to the U. T. Board its proposed annual budget for the following fiscal year (an “Annual Budget”) within the time frame specified by the U. T. Board for other annual budget submissions. The Annual Budget shall include all estimated expenses associated with the management of the Funds. The Annual Budget shall also include an annual UTIMCO management fee (an “Annual UTIMCO Management Fee”) which shall include all operating expenses associated with the general management of the Funds, including, without limitation, reasonable salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services expenses, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations hereunder. In addition to its Annual Budget, UTIMCO shall annually submit its capital expenditures budget approved by the UTIMCO Board of Directors to the U. T. Board for approval.
(ii) **Allocation Formula**
At the same time that UTIMCO submits its Annual Budget, it shall also submit to
the U. T. Board an allocation formula for charging the Annual Budget to the
Funds. Items proposed in the Annual Budget and the allocation formula may be
approved, disapproved, or approved with modification by the U. T. Board. Any
such Budget item or formula allocation that is disapproved or approved with
modification may be promptly reviewed and revised by UTIMCO and
resubmitted to the U. T. Board for additional consideration.

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

(iv) **Payment of Third Party Vendors**
UTIMCO is hereby authorized to pay from each Fund direct expenses incurred for
portfolio management, Custodian, auditing, and other services which are
performed by external vendors specifically for each Fund.

(b) **Cash Reserves:**
Within 90 days after the end of each fiscal year, UTIMCO will distribute back to the
Funds which generated the surplus that portion of the Surplus Cash Reserves as may be
directed by the U. T. Board, in its sole discretion, from time to time. Such distribution
back to the Funds shall be in the same proportion that the Funds contributed to the Cash
Reserves.

(c) **UTIMCO Management Service on Outside Boards:**
Members of UTIMCO management, with the approval of the UTIMCO Board, may serve
as directors of companies in which UTIMCO has directly invested Fund assets. In such
event, any and all compensation paid to UTIMCO management for their services as
directors shall be endorsed over to UTIMCO and considered a part of UTIMCO’s fee
income and reflected in the Budget. Furthermore, UTIMCO Board approval of UTIMCO
management’s services as directors of investee companies shall be conditioned upon the
extension of UTIMCO’s Directors and Officers Insurance Policy coverage to UTIMCO
management’s services as directors of investee companies.
(d) **Fees for Services Rendered:**
Members of UTIMCO management may perform services for which UTIMCO receives a fee ("Service Fees") from investment promoters or investee companies in consideration of the UTIMCO staff’s private investment activities and/or investment origination activities. Such Service Fees shall be considered additional fee income to UTIMCO. UTIMCO may also receive commitment fees, standby fees and other similar fees ("Capital Fees") accruing or inuring to the capital invested on behalf of the Funds managed by UTIMCO. Such Capital Fees shall be credited to the Funds from which such investments are funded.

(e) **Miscellaneous Fees:**
UTIMCO management may perform specialized services for assets that are separately invested for which UTIMCO receives a fee from the Fund. These fees primarily relate to maintenance of computer programs for the SIFs. Such Miscellaneous Fees shall be considered additional fee income to UTIMCO and reflected in the Budget.

Section 8. **Brokerage Commissions.**

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

Section 9. **Valuation of Fund Assets.**

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

Section 10. **Representations and Warranties of Parties.**

(a) The U. T. Board represents and warrants that:

(i) The execution, delivery and performance by the U. T. Board of this Agreement have been duly authorized, and this Agreement constitutes a valid and binding agreement of the U. T. Board.

(ii) There is no action, suit or proceeding pending or, to the knowledge of the U. T. Board, threatened against or affecting the U. T. Board or the U. T. System, or relating to this Agreement, in any court or before or by any governmental
department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of the U. T. Board to enter into, and perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.

(iii) The U. T. Board has approved:
(A) the Articles of Incorporation and Bylaws of UTIMCO;
(B) the Investment Policies;
(C) the Audit and Ethics Committee of UTIMCO; and
(D) the Code of Ethics of UTIMCO.

(b) UTIMCO represents and warrants that:
(i) The execution, delivery and performance by UTIMCO of this Agreement have been duly authorized and this Agreement constitutes a valid and binding agreement of UTIMCO.

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

(c) Investment Company Act and State Securities Act:
The parties to this Agreement acknowledge and agree that UTIMCO is not currently required to, and shall not engage in any activities that would require it to, register as an “investment company” under Title 15 United States Code Section 80a-8 (the Investment Company Act of 1940), as amended, and Tex. Rev. Civ. Stat. Ann. art. 581-1 et seq. (The Securities Act).


In the performance of this Agreement, UTIMCO shall abide by, and cause its directors, officers, and employees to abide by, the following policies:
(A) UTIMCO Code of Ethics as approved by the U. T. Board;
(B) UTIMCO Bylaws as approved by the U. T. Board;
(C) All UTIMCO policies;
(D) Applicable portions of the U. T. Board’s Rules and Regulations; and
(E) All U. T. Board-approved Investment Policies, resolutions, and applicable law.

Financial advisors and service providers as defined in Texas Government Code Section 2263.002 shall comply with the disclosure requirements contained in Texas Government Code Section 2263.005, in addition to any obligations regarding disclosure of private investment information and the like as contemplated by Section 3(g) of this Agreement.
Section 12. Contracts with Third Parties.

UTIMCO covenants and agrees that each agreement, contract, or understanding it enters into with any third party will comply with all applicable law (including without limitation Texas Government Code Sections 2263.002 and 2263.005 as referenced in Section 11 above), and will not contain any term or provision limiting the ability of UTIMCO, the U. T. Board, the U. T. System, or any of its institutions to comply with any provision of applicable law, including without limitation any covenant regarding non-disclosure of confidential information or similar subject matter that would purport to limit the ability of UTIMCO or the U. T. Board to comply with any provision of the Texas Public Information Act or other law regarding public disclosure; provided that any contract provision regarding non-disclosure of confidential information must be approved by the Vice Chancellor and General Counsel of the U. T. System or his/her designee.

UTIMCO further covenants and agrees that it will not enter into any contracts indemnifying or holding harmless any third party to a greater extent than the scope of the indemnification of the Indemnified Parties by the U. T. Board without the prior consent and approval of the Vice Chancellor and General Counsel of the U. T. System.

Section 13. UTIMCO’s Open Meeting Policy.

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

Section 14. Prohibition Against Service to Other Clients.

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

Section 15. Termination.

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

Section 16. Amendments.

No amendment hereto shall be effective unless executed by duly authorized representatives of each party in the same manner as this Agreement.
Section 17. Notices.

All notices or communications hereunder shall be in writing and shall not be effective until hand delivered, sent by overnight delivery, or sent by United States Certified or Registered Mail, postage prepaid, to the other party at the following addresses which may be changed by notice sent in the manner required by this paragraph:

To U. T. Board:

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

To UTIMCO:

The University of Texas Investment Management Company
Attn: President and CEO
401 Congress Avenue, Suite 2800
Austin, Texas 78701
Tel. (512) 225-1600
Fax. (512) 225-1660

Section 18. Non-Assignability.

This Agreement is personal to the parties hereto, and no assignment of this Agreement by UTIMCO, whether by contract, merger, consolidation, or operation of law, shall be made other than with the prior written consent of the U. T. Board and in compliance with applicable law.

Section 19. No Waiver of Breach.

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

Section 20. Indemnification.

(a) **Agreements to Indemnify:**

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

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

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

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

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

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

Section 21. **Claims By and Against Managed Assets.**

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

The authority granted in this Section does not include the authority to institute litigation on behalf of the U. T. Board, any Fund, or any associated assets, or to settle contested claims or litigation that may result in receipt of less than full value for the claim or the payment of damages or awards. The settlement of any contested claim or litigation for less than full value requires the prior approval of the U. T. System Vice Chancellor and General Counsel and appropriate U. T. System officials, as set out in the Regents’ *Rules and Regulations*.

Section 22. **Communications.**

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

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

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

Section 24. Authority to Assign and Transfer Securities.

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

Section 25. No Third Party Beneficiaries.

UTIMCO and the U. T. Board each agree that there are no third party beneficiaries of this Agreement.


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

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

Date: 2-28-06

By James R. Huschke Chairman

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Date: 3-1-06

By Scott Lawson, Jr. Chairman
Schedule A

Funds

This Schedule A setting forth the Funds managed by UTIMCO pursuant to this Agreement as fiduciary on behalf of the U. T. Board, in which the Delegated Assets are to be invested as directed by the U. T. Board pursuant to its Investment Policies, may be amended from time to time by the U. T. Board in consultation with UTIMCO to add or remove Funds, change fund allocations, reflect revisions to the corresponding Investment Policies, or otherwise. The Funds covered under this Agreement as of the Effective Date of this Agreement, and the corresponding Investment Policies, are as follows:

a. **Permanent University Fund**: The PUF (as defined in Section 1(e)(i)) will be separately invested in accordance with the PUF Investment Policy Statement.

b. **Permanent Health Fund**: The PHF (as defined in Section 1(e)(iv)) will be separately invested in accordance with the PHF Investment Policy Statement.

c. **Separately Invested Funds**: The SIFs (as defined in Section 1(e)(v)) will be separately invested in accordance with the SIF Investment Policy Statement.

d. **Long Term Fund ("LTF")**: The long-term pooled investment fund previously established by the U. T. Board for the collective investment of all endowment and other long-term funds of institutions of the U. T. System, with investments made in accordance with the LTF Investment Policy Statement.

e. **General Endowment Fund ("GEF")**: The pooled fund for the collective investment of long-term funds under the control and management of the U. T. Board. The PUF, PHF, LTF or other long-term funds may invest in the GEF as authorized by the U. T. Board in each Fund’s investment policy statement, and the GEF funds will be invested in accordance with the GEF Investment Policy Statement.

f. **Short Intermediate Term Fund ("SITF")**: Selected U. T. System Funds (as defined in Section 1(e)(ii)) (other than endowment and other long-term funds, including the Permanent University Fund) designated from time to time by the U. T. Board or its U. T. System staff designees will be collectively invested in the short intermediate term pooled investment fund governed by the SITF Investment Policy Statement.

g. **Short Term Fund ("STF")**: Selected U. T. System Funds designated from time to time by the U. T. Board or its U. T. System staff designees will be invested in the STF, which is the money market mutual fund or funds approved by UTIMCO from time to time as an investment for U. T. System Funds, in accordance with the STF Investment Policy Statement.
h. **Institutional Index Funds**: The Institutional Index Funds currently comprise the following two index Funds:

(i) **The U.S. Debt Index Fund B**, a U.S. debt index fund which replicates the Lehman Brothers Aggregate Bond Index fund and is currently managed by Barclays Global Investors (BGI) for UTIMCO.

(ii) **The Equity Index Fund B**, an equity index fund which replicates the S&P 500 index and is currently managed by BGI for UTIMCO.

i. **The Intermediate Term Fund (“ITF”)**: The ITF was established by the U. T. Board as a pooled fund for the collective investment of operating assets and other intermediate and long-term assets held by U. T. System institutions and U. T. System administration. The ITF will be invested in accordance with the ITF Investment Policy Statement.
Overview of UTIMCO
The University of Texas Investment Management Company ("UTIMCO"), a Texas nonprofit corporation qualified as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code, was created for the sole purpose of managing the investment of funds under the control and management of the Board of Regents of The University of Texas System pursuant to authorization provided in Section 66.08 of the Texas Education Code (the "UTIMCO statute"). UTIMCO manages more than $17.5 billion in total assets, comprised of approximately $13.8 billion in endowment funds, including the Permanent University Fund (PUF), Permanent Health Fund (PHF), Long Term Fund (LTF), and Separately Invested Funds, and more than $3.7 billion in centralized operating funds.

The corporate activities of UTIMCO are managed by its Board of Directors (the “UTIMCO Board”), subject to the Investment Management Services Agreement (“IMSA”) between UTIMCO and the Board of Regents, the applicable provisions of the Board of Regents’ Rules and Regulations, the UTIMCO statute, UTIMCO’s Articles of Incorporation and Bylaws, and other applicable law.

The Chancellor of the U. T. System serves as the Vice Chairman for Policy.

- The Chancellor is charged by the UTIMCO Bylaws with coordination of responsibilities, including the appropriate resolution of policy issues, assigned to UTIMCO and to the U. T. System by the Regents' Rules to facilitate UTIMCO's performance of core investment duties.
- The IMSA between the U. T. System Board of Regents and UTIMCO provides that unless otherwise provided in writing by the U. T. Board, UTIMCO shall look to the Chancellor to provide primary oversight and management concerning matters other than the core investment duties delegated above, including relations with the media, legal issues (such as public disclosure of information), intergovernmental relations, and other matters arising out of UTIMCO's activities as investment manager under this Agreement that implicate policies of the U. T. Board other than investment policy.
- The Regents' Rules, attached, provide additional detail on these duties.

Qualifications and Terms
Pursuant to the UTIMCO statute, the UTIMCO Board consists of nine (9) members. The Chancellor of the U. T. System serves as a Director. The other members of the UTIMCO Board are appointed by the Board of Regents and must include at least three (3) current members of the Board of Regents and one person selected by the Board of Regents from a list of candidates with substantial expertise in investments submitted by the Board of Regents of the Texas A&M University System. Pursuant to the UTIMCO by-laws approved by the Board of Regents, the three (3) Regental Directors serve two-year terms that expire on the first day of April of each odd-numbered year, and the external Directors serve three-year staggered terms that expire on the first day of April of the appropriate year. Any UTIMCO Director may be removed as a Director by the Board of Regents with or without cause and at any time.
Operations and Resources
The UTIMCO Board has delegated primary responsibility for certain functions to key chartered Board Committees:
1. Audit and Ethics Committee (Appointments approved by the Board of Regents)
2. Compensation Committee
3. Policy Committee
4. Risk Committee

U. T. System Administration staff provide oversight through the Office of Business Affairs, including the Finance Department and Director of Investment Oversight; the Office of General Counsel; Internal Audit; and the Counsel and Secretary to the Board of Regents. UTIMCO Directors also have the benefit of professional independent consultants, including:
1. Investment consultants (Cambridge Associates);
2. Independent legal counsel (Vinson & Elkins);
3. Compensation consultants (Mercer Human Resources Group);
4. External auditors (Ernst & Young);
5. Dr. Keith Brown, Professor of Finance at U. T. Austin, Advisor to the Chairman of the UTIMCO Board.

Duties and Responsibilities
By statute and charter, as a fiduciary under the IMSA, UTIMCO is dedicated to the sole purpose of investing funds under the management and control of the Board of Regents. In practice, the fiduciary duties of UTIMCO directors are focused on the fulfillment of the Board of Regents’ investment policy directives. As directors of a nonprofit corporation, UTIMCO Directors’ fiduciary duties also include:
1. Duty of care in prudently managing the corporation’s investment management and other affairs;
2. Duty of loyalty, requiring the avoidance of conflicts of interest; and
3. Duty to avoid conduct that exceeds the chartered powers of the corporation.

Investment Management Responsibilities: The Board of Regents is the ultimate fiduciary responsible for all matters relating to the investment of the funds under its control, in accordance with the “prudent investor” standard of care established by the Texas Constitution, Texas Education Code, and other applicable law. 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.

The Board of Regents delegates to UTIMCO as its fiduciary, under the management of the UTIMCO Board, authority to act for the Board of Regents in the investment of those funds, subject to limitations and restrictions articulated through the IMSA; the Board of Regents’
investment policies; and other applicable laws, rules, and agreements. The UTIMCO Board’s investment management authority, thus derived, includes the following investment management responsibilities:

- Develop an investment outlook based on global economic and capital market forecasts, including long-term investment return expectations and expected risk levels for each asset class and the funds.
- Approve and monitor, subject to UTIMCO’s Delegation of Authority Policy, the selection of portfolio managers (internal staff and third party managers) to construct portfolios designed to generate the expected returns of each asset class pursuant to the investment goals and policies for the U.T. System funds.
- Monitor investment performance of the funds (internally and externally managed) against policy portfolio benchmarks and investment policy goals and objectives.
- Develop and implement a risk management system to measure and monitor overall portfolio derivative exposure, risk levels, liquidity, and leverage.
- Monitor and enforce compliance with all investment and other policies and applicable law.
- Oversee re-balancing of assets within approved investment policy ranges.
- Monitor termination of external managers in accordance with Delegation of Authority Policy and investment policies.

Some investment management responsibilities delegated to UTIMCO, including but not limited to the following, are expressly subject to Board of Regents approval:

- Analyze and recommend investment strategies for U. T. System funds managed by UTIMCO, including asset allocation targets, ranges, and performance benchmarks for each asset class (Exhibit A of the Fund Investment Policy Statements).
- Consider and recommend investments not covered by investment policy statements.
- Review and propose amendments to Board of Regents’ policies related to the investment management of the U. T. System funds, including (not limited to):
  1. Investment Policy Statements for all U. T. System funds.
  2. Distribution (spending) guidelines, rates, and amounts as required.
  3. Liquidity Policy.
  4. Derivative Policy.

**Corporate Governance Responsibilities:** The UTIMCO Board manages the activities of the corporation, providing the primary governance and oversight of the CEO, other professionals employed by UTIMCO, and outside investment managers with whom funds have been invested. Management oversight responsibilities of the UTIMCO Board or UTIMCO Board Committees include the following:

- Monitor actual staffing, operating, and capital expenditures relative to approved budgets.
- Monitor compliance with the Delegation of Authority policy.
- Consider and approve actions outside the authority delegated to the President/CEO/CIO as required.
- Select, engage, and evaluate UTIMCO’s outside counsel, custodian(s), external auditor(s) for the corporation, and investment consultant(s).
- Ensure compliance with UTIMCO’s Code of Ethics, including conflict of interest policies and applicable law.
Develop and administer a compensation plan, consistent with current regulations for determining reasonable compensation, to attract and retain high caliber investment professionals and support staff.

- Appoint, supervise, evaluate and compensate UTIMCO’s President/CEO/CIO.
- Evaluate investment results against incentive compensation plan performance objectives; approve and recommend bonus compensation for UTIMCO’s officers.
- Review and approve committee charters.
- Assure establishment and implementation of legally compliant and administratively effective personnel policies.
- Oversee implementation of accounting principles, policies, internal financial controls, and reporting in the spirit of the Sarbanes-Oxley Act.
- Oversee implementation of public disclosures in compliance with the Texas Public Information Act and other applicable law, in collaboration with the Chancellor/Vice Chairman for Policy.

Some corporate management responsibilities of the UTIMCO Board, including but not limited to the following, are expressly subject to approval by the Board of Regents:

- Review and approve the proposed annual UTIMCO operating and capital budgets, including incentive compensation, capital expenditures, and management fee allocations.
- Review, approve, and recommend key governance documents such as the Articles of Incorporation, Bylaws, and Code of Ethics.
- Approval of Performance Incentive Awards that will result in an increase of 5% or more of the total performance incentive awards calculated to the approved Performance Incentive Plan contained in the UTIMCO Compensation Program.

**Prohibited Transactions -- Conflicts of Interest**

The UTIMCO Code of Ethics (“Code”) details, among other things, prohibitions on transactions between UTIMCO and entities affiliated with UTIMCO Directors, as required by the UTIMCO statute and supplementing the general requirements under the Texas Non-Profit Corporation Act. Amendments to the Code are expressly subject to Board of Regents’ approval.

The Code prohibits any transaction or agreement between UTIMCO and any investment fund or account managed by a UTIMCO Director as a fiduciary or agent for compensation. The Code prohibits agreements or transactions between UTIMCO and a UTIMCO Director or his/her affiliate, including any business in which a UTIMCO Director owns five percent or more of the fair market value or of the voting stock or from which the director received more than five percent of his or her gross income for the preceding calendar year.

The Code prohibits a UTIMCO Director from investing in the private investments of a business entity in which UTIMCO contemporaneously owns a private investment and vice versa. For this purpose, “private investment” means any debt or equity interest that is not publicly traded, including a private investment in a public company.
Application of the Texas Public Information Act
The UTIMCO statute makes UTIMCO and its officers, directors and employees subject to the provisions of the Texas Public Information Act. Corporate documents, correspondence, and emails are subject to public inspection and duplication, unless specifically excepted from disclosure under the Act. The legislature, during the 79th Legislative Session, clarified the application of the Act to investment information held by UTIMCO, specifically making 16 categories of information public but making some private investment fund information, including portfolio company information, confidential.

Meeting Requirements
UTIMCO Directors are expected to attend all regularly scheduled Board meetings which are typically held approximately every two months. In addition, special Board meetings may be scheduled from time to time with prior notice. The Texas Open Meetings Act applies to the UTIMCO Board, requiring that all deliberations of a quorum of the Board take place in open meetings after advance notice of the meeting is posted as required by the Act. Committee meetings are held as needed to address specific items within the Committee charters.
1. Title

Chancellor

2. Rule and Regulation

Sec. 3 Primary Duties and Responsibilities. The Chancellor, by delegation from the Board of Regents, is authorized to exercise the powers and authorities of the Board in the governance of the U. T. System. The Chancellor will normally act through the officers of the U. T. System regarding the matters delegated to them by the Regents’ Rules and Regulations. The Chancellor, however, shall not be precluded from any direct participation and communication with System Administration officers or staff, institutional officers or staff, faculty members, and groups. The major duties of the Chancellor include:

3.13 Oversight of UTIMCO. Serving on the Board of Directors of The University of Texas Investment Management Company (UTIMCO). Generally overseeing the operations of UTIMCO and coordinating interaction between the U. T. System and UTIMCO. Ensuring that UTIMCO implements the core investment functions delegated by the Board of Regents in conformance with the Regents’ Rules and Regulations, the Investment Management Services Agreement, and the Investment Policy Statements adopted by the Board. Directing UTIMCO in areas other than core investment functions such as relations with the media, intergovernmental relations, and public disclosure issues. Recommending to the Board of Regents, in its fiduciary role, an effective oversight system for the proper management of UTIMCO, including, but not limited to clear procedures for the selection of UTIMCO directors; process for budget review; and periodic review of the Investment Management Services Agreement.
1. Title

Oversight Responsibilities for UTIMCO

2. Rule and Regulation

Sec. 1 Chancellor. The Chancellor of The University of Texas System serves on the Board of Directors of The University of Texas Investment Management Company (UTIMCO). The Chancellor oversees the operations of UTIMCO and coordinating interaction between the U. T. System and UTIMCO, ensures that UTIMCO implements the core investment functions delegated to it in conformance with these Rules and Regulations, the Investment Management Services Agreement, and the Investment Policy Statements adopted by the Board of Regents, and directs UTIMCO in areas other than core investment functions, such as relations with the media, intergovernmental relations, and public disclosure issues.

Sec. 2 Executive Vice Chancellor for Business Affairs. The Executive Vice Chancellor for Business Affairs designates and supervises the U. T. System liaison to UTIMCO, overseeing audits and investment performance assessments of UTIMCO, and reviewing budgetary and investment reports submitted by UTIMCO.

Sec. 3 Vice Chancellor and General Counsel. The Vice Chancellor and General Counsel oversees legal services provided to UTIMCO by outside legal counsel, consistent with the requirements of the Texas Disciplinary Rules of Professional Conduct, and providing counsel, advice, and legal interpretations to the Board of Regents, the Chancellor, and other U. T. System officials concerning UTIMCO-related issues.

Sec. 4 System-wide Compliance Officer. The System-wide Compliance Officer is responsible, and will be held accountable for, apprising the Chancellor and the Audit, Compliance, and Management Review Committee of the institutional compliance functions and activities at UTIMCO. The System-wide Compliance Officer provides institutional compliance assistance to the Chief Compliance Officer of UTIMCO in the exercise of their responsibilities and prescribes the format for the annual risk based compliance plan and the quarterly compliance status reports to be submitted by UTIMCO.
C. ADJOURN JOINT MEETING

D. RECONVENE MEETING OF THE U. T. SYSTEM BOARD OF REGENTS IN OPEN SESSION TO CONSIDER AGENDA ITEMS

9. U. T. System Board of Regents: Approval of 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

RECOMMENDATION

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

a. Permanent University Fund (PUF) (See Pages 92 - 106)

b. General Endowment Fund (GEF) (See Pages 107 - 119)

c. Intermediate Term Fund (ITF) (See Pages 120 - 131)

d. Long Term Fund (LTF) (See Pages 132 - 140)

e. Permanent Health Fund (PHF) (See Pages 141 – 150)

f. Separately Invested Funds (SIF) (See Pages 151- 161)

It is further recommended that the Board approve revisions to the Derivative Investment Policy (see Pages 162 - 166).

BACKGROUND INFORMATION

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 in November 2005.

The proposed 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 Board Office and agreed to by U. T. and UTIMCO staff members. The change is detailed on Page 91.

**Exhibit A – Asset Allocation**
Exhibit A to each of the Investment Policy Statements for the Permanent University Fund (PUF), General Endowment Fund (GEF), and Intermediate Term Fund (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 proposed currently to Exhibit A of the PUF, GEF, and ITF are summarized as follows:

- Add a table 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 3 trading days or less.

The Long Term Fund (LTF) and Permanent Health Fund (PHF) are primarily invested in the GEF. Exhibit B in each of their 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 it February 9, 2006. Many of the proposed changes to the other fund investment policy statements are intended to conform to the updated ITF policy as further described below. The only material proposed changes to the ITF are as detailed on the next page.
• **Investment Objectives** (Page 121): 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 122): Add 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, add 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, 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**: Add 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**: Add 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**: Clarify the definition.

**PUF and GEF Additional Amendments**

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

• **Hedge Funds**: Clarify 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**: Add reporting requirements.
• **Domestic Fixed Income**: Clarify 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**: Remove 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 Separately Invested Funds (SIF) Additional Amendments**
Language is 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 also proposes the following amendments:

• **Purpose** (Page 151): Add 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 152): Add 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. Delete “Operating Accounts,” since these are no longer available for the institutions with the centralized operating funds.

• **Investment Guidelines** (Pages 154 - 159): Change 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 159): 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 recommend 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 proposed amendment to the Derivative Investment Policy adds the SIF.
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:

Exhibit 1

West Texas (2.1 million acres) → Permanent University Fund → Investments

Surface Income → Mineral Receipts → Investment Distributions

Available University Fund

2/3 to UT System

Payment of interest & principal on UT-PUF Bonds → The University of Texas at Austin U. T. System Administration

1/3 to A&M System

Payment of interest & principal on A&M-issued PUF Bonds

Texas A&M University Prairie View A&M University A&M System Administration
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. Specific asset allocation positions may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. 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 internally managed 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 internally managed 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 investments.
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 – Cash and cash equivalents consist of internal and external pooled investment funds, deposits of the Texas State Treasury, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class. 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:

- 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;
- Medium term notes issued by investment grade corporations;
- Zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and
- 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 equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. 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, provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally recognized rating services, such as Moody’s Investors Service, Standard & Poor’s Corporation, or Fitch Investors Service.

Non-U.S. Fixed Income

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 unless authorized by UTIMCO’s chief investment officer.

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. August 11, 2005, except for Exhibit A. Effective date for Exhibit A shall be no later than November 1, 2005. The selection of the date 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 prior to the effective date.
EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Percent of Portfolio (%)</th>
<th>Policy Targets</th>
<th>Policy Ranges</th>
<th>Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Equities</td>
<td>20.0</td>
<td>10 to 30</td>
<td></td>
<td>Russell 3000 Index</td>
</tr>
<tr>
<td>Global ex US Equities</td>
<td>17.0</td>
<td>10 to 30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-US Developed Equity</td>
<td>10.0</td>
<td>0 to 30</td>
<td></td>
<td>MSCI EAFE Index with net dividends</td>
</tr>
<tr>
<td>Emerging Markets Equity</td>
<td>7.0</td>
<td>0 to 10</td>
<td></td>
<td>MSCI Emerging Markets Index with net dividends</td>
</tr>
<tr>
<td><strong>Hedge Funds</strong></td>
<td></td>
<td></td>
<td>15 to 27.5</td>
<td></td>
</tr>
<tr>
<td>Directional Hedge Funds</td>
<td>10.0</td>
<td>5 to 15</td>
<td></td>
<td>Combination index: 50% S&amp;P Event-Driven Hedge Fund Index plus 50% S&amp;P Directional/Tactical Hedge Fund Index</td>
</tr>
<tr>
<td>Absolute Return Hedge Funds</td>
<td>15.0</td>
<td>10 to 20</td>
<td></td>
<td>Combination index: 66.7% S&amp;P Event-Driven Hedge Fund Index plus 33.3% S&amp;P Arbitrage Hedge Fund Index</td>
</tr>
<tr>
<td><strong>Private Capital</strong></td>
<td>15.0</td>
<td>5 to 15</td>
<td></td>
<td>Venture Economics’ Periodic IRR Index</td>
</tr>
<tr>
<td>Venture Capital</td>
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<td>0 to 8</td>
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<td></td>
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<tr>
<td>Private Equity</td>
<td>11.0</td>
<td>5 to 15</td>
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<tr>
<td><strong>Inflation Linked</strong></td>
<td>13.0</td>
<td>5 to 20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REITS</td>
<td>5.0</td>
<td>0 to 10</td>
<td></td>
<td>Dow Jones Wilshire Real Estate Securities Index</td>
</tr>
<tr>
<td>Commodities</td>
<td>3.0</td>
<td>0 to 6</td>
<td></td>
<td>Combination index: 66.7% GSCI minus .5% plus 33.3% DJ-AIG Commodity Index</td>
</tr>
<tr>
<td>TIPS</td>
<td>5.0</td>
<td>0 to 10</td>
<td></td>
<td>Lehman Brothers US TIPS Index</td>
</tr>
<tr>
<td>Fixed Income:</td>
<td>10.0</td>
<td>5 to 15</td>
<td></td>
<td>Lehman Brothers Aggregate Bond Index</td>
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<td><strong>CASH Liquidity Reserve</strong></td>
<td>0.0</td>
<td>-1.0 to 10</td>
<td></td>
<td>90 Day T-Bills</td>
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<tr>
<td>Unencumbered Cash</td>
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<td></td>
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<tr>
<td>Temporary Cash Imbalance*</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Net non-trading receivable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

*3 trading days or less

<table>
<thead>
<tr>
<th>% of Target Risk</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper Risk Bound:</td>
<td>128%</td>
</tr>
<tr>
<td>1 yr Downside Deviation (%)</td>
<td></td>
</tr>
<tr>
<td>Lower Risk Bound:</td>
<td>74%</td>
</tr>
<tr>
<td>1 yr Downside Deviation (%)</td>
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</tbody>
</table>
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 approval by the Board of Regents.

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

**GEF Administration**

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

**Funds Eligible to Purchase GEF Units**

No fund shall be eligible to purchase units of the GEF unless it is under the sole control, with full discretion as to investments, of the Board of Regents 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. Specific asset allocation positions may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. 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 internally managed 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 internally managed 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 – Cash and cash equivalents consist of internal and external pooled investment funds, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class. 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 an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. 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 provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody’s Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

Non-U.S. Fixed Income
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 unless authorized by UTIMCO’s chief investment officer.

**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, except for Exhibit A. The effective date for Exhibit A shall be no later than November 1, 2005. The selection of the date 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 prior to the effective date.
### EXHIBIT A

#### POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

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

| 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
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 must be maintained at all times; 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, must 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.

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. 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.

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:

- Highly liquid internal pooled investment funds managed by UTIMCO.
- 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.
Intermediate Term Fund Investment Policy Statement (continued)

- 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 unit-holders, 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

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

| Expected Annual Return (%)      | 7.08                  |                                                        |
| 1 yr Downside Deviation (%)     | -5.0                  | Upper Risk Bound: 1 yr Downside Deviation (%) 6.4 127% |
| Standard Deviation (%)          | 7.5                   | Lower Risk Bound: 1 yr Downside Deviation (%) 3.5 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, and/or UTIMCO.

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 - 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. 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 August 12, 2004, except for Exhibit B. Effective date for Exhibit B shall be September 1, 2005. Exhibit B follows the effective date of Exhibit A of the GEF.
### LTF Asset Allocation

**Policy Targets, Ranges and Performance Objectives**

<table>
<thead>
<tr>
<th>Neutral Allocation</th>
<th>Range</th>
<th>Benchmark Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>GEF Commingled Fund</td>
<td>100.0%</td>
<td>95% - 100%</td>
</tr>
<tr>
<td>CASH Liquidity Reserve</td>
<td>0.0%</td>
<td>-1% - 0% - 5%</td>
</tr>
<tr>
<td>Unencumbered Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporary Cash Imbalance*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net non-trading receivable</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Expected Annual Return (%)

| 8.34 |

#### 1yr Downside Deviation (%)

| 4.22 |

#### Standard Deviation (%)

| 10.8 |

#### % of Target Risk

| 128% |

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

EFFECTIVE 9/1/2005

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVE

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Percent of Portfolio (%)</th>
<th>Policy Targets</th>
<th>Policy Ranges</th>
<th>Benchmarks</th>
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<tbody>
<tr>
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<td>20.0</td>
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Expected Annual Return (%) | 8.34                       | % of Target Risk |
1 yr Downside Deviation (%) | -7.6                      | 128%             |
Standard Deviation (%)      | 10.8                      | 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 and/or UTIMCO.

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

**PHF Investment Objectives**

The primary investment objective shall be to preserve the purchasing power of PHF assets and annual distributions by earning an average annual real return 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 - 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. 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 August 12, 2004**, except for Exhibit B. **Effective date for Exhibit B shall be September 1, 2005.** Exhibit B follows the effective date of Exhibit A of the GEF.
## EXHIBIT A

### PHF ASSET ALLOCATION

#### POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

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<thead>
<tr>
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<th>Benchmark Return</th>
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#### Expected Annual Return (%)

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</tbody>
</table>

#### % 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
Permanent Health Fund Investment Policy Statement (continued)

EXHIBIT B

GEF ASSET ALLOCATION

EFFECTIVE 9/1/2005

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<tr>
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<td>5 to 15</td>
<td></td>
<td>Lehman Brothers Aggregate Bond Index</td>
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<tr>
<td>CASH Liquidity Reserve</td>
<td>0.0</td>
<td>-1 0 to 10</td>
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<td>90 Day T-Bills</td>
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<tr>
<td>Unencumbered Cash</td>
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<tr>
<td>Temporary Cash Imbalance*</td>
<td></td>
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<tr>
<td>Net non-trading receivable</td>
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<table>
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<tr>
<th>Expected Annual Return (%)</th>
<th>8.34</th>
<th>Percentage of Target Risk</th>
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<tr>
<td>1 yr Downside Deviation (%)</td>
<td>-7.6</td>
<td>Upper Risk Bound:</td>
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<td>Standard Deviation (%)</td>
<td>10.8</td>
<td>1 yr Downside Deviation (%)</td>
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<tr>
<td></td>
<td></td>
<td>Lower Risk Bound:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1 yr Downside Deviation (%)</td>
</tr>
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</table>

* 3 trading days or less
THE UNIVERSITY OF TEXAS SYSTEM
SEPARATELY INVESTED FUNDS ENDOWMENT, TRUST, AND OTHER ACCOUNTS
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; or 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 The University of Texas Investment Company ("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), or Charitable Lead Trusts (CLT)). The Board of Regents recognizes that the investment objective of a trust is dependent on the terms and conditions as defined in the trust document of each trust. The conditions that will affect the investment strategy are a) the trust payout provisions; b) the ages of the income beneficiaries; c) the ability to sell the gifted assets that were contributed to the trust; and d) consideration to investment preferences of the income beneficiaries. Taking these conditions into consideration, the fundamental investment objectives of the trust will be to generate a low to moderate growth in trust principal and to provide adequate liquidity in order to meet the payout provisions of the trust.

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.
Operating Accounts – These are separate operating accounts of U. T. System component institutions which invest in an Equity Index Fund and U.S. Debt Index Fund as approved by UTIMCO’s chief investment officer. The amount of component operating funds invested in the index funds is governed by the U. T. System Financial Policy.

Asset Allocation

Asset allocation is the primary determinant of 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. With respect to the operating accounts, the U. T. System financial policies shall govern. If possible, the Account’s assets shall be diversified among different types of assets whose returns are not closely correlated in order to enhance the return/risk profile of the Account.

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

Performance Measurement

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

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. Investment Management Contract.

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

• Investment policies of any unaffiliated liquid investment 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.
Separately Invested Funds

Endowment, Trust and Other Accounts

Investment Policy Statement

(continued)

- 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.

- The Account may utilize derivative securities with the approval of the UTIMCO Board to a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a derivative security is priced more attractively than the underlying security; e) index or to hedge risks associated with Account investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that: i) no leverage is employed in the implementation of such derivative purchases or sales; ii) no more than 5% of the Accounts assets are required as an initial margin deposit for such contracts; iii) the Account’s investments in warrants shall not exceed more than 5% of the Account’s net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.

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

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

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

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

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

Risk Management

• Credit risk shall be controlled by UTIMCO who is responsible for the development and maintenance of credit quality standards for the Account.

• Counterparty exposure in the area of repurchase agreements and reverse repurchase agreements—Not more than 5% of the total value of the securities in the Account shall be placed with any one counterparty.

• Diversification of credit risk shall be determined on an account basis.

Eligible Investments

Cash and cash equivalents

Holdings of cash and cash equivalents may include the following:
• Unaffiliated liquid (Money Market Funds) investment funds rated AAA by Standard & Poor’s Corporation.

• Approved Tax Exempt unaffiliated liquid investment fund.

• **Highly liquid internal short term** pooled investment fund managed by UTIMCO.

• Commercial paper, negotiable certificates of deposit, and Bankers’ Acceptances must be rated at least A-1 by Standard & Poor’s Corporation and P-1 by Moody’s Investors Service, Inc.

• Floating rate securities, if they are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e., a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment: inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters.

• Repurchase 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**

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

Within this overall limitation:

Permissible securities for investment include the securities within the components 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; and
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 equivalent rating by a nationally recognized rating agency at the time of acquisition.
• Not more than 35% of the Account’s fixed income portfolio may be invested in non-U.S. 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:

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

B. holds no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by UTIMCO’s 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 shall be considered in determining whether gifts of securities are held or sold the disposition of a gifted security.

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

**Accounting**

The fiscal year of the Accounts shall begin on September 1st and end on August 31st. Trusts will also have a tax year end which may be different than August 31st. Market value of the Accounts shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, industry guidelines, or federal income tax laws, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's 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**. **August 12, 2004**.
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), and 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...
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
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.
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.
**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. Theses 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.
10. **U. T. System Board of Regents: Approval of amendments to The University of Texas Investment Management Company (UTIMCO) Bylaws**

**RECOMMENDATION**

The Chancellor, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. System Board of Regents approve the amendments to the UTIMCO Bylaws as set forth on Page 168.

**BACKGROUND INFORMATION**

Section 66.08 of the *Texas Education Code* requires that the U. T. System Board of Regents approve Bylaws of UTIMCO and any amendments thereto. The proposed amendments to the Bylaws were approved by the UTIMCO Board of Directors on May 25, 2006. Proposed amendments are summarized as follows:

- **Article I, Section 6:** Change the "Revolving Door" language to conform to Section 66.08 of the *Texas Education Code* and the revised UTIMCO Code of Ethics (see Item 12 on Page 169).

- **Article II, Section 1:** Update "Principal Place of Business" to reflect UTIMCO's new address.

- **Article III, Section 8:** Review period for draft agendas for UTIMCO Board meetings was changed from two weeks to three weeks prior to the meeting to be consistent with the Master Investment Management Services Agreement (IMSA).

The Bylaws were initially approved by the U. T. System Board of Regents on February 8, 1996, and amendments were approved in May 1997, November 1999, February 2000, November 2001, August 2003, and August 2004.
ARTICLE I
STRUCTURE AND PURPOSES

Section 6. Revolving Door. A former director or employee of the Corporation may not make any communication to or appearance before a director, officer, 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, officer, or employee of the Corporation if the communication or appearance is made (a) with the intent to influence, and (b) on behalf of any person in connection with any matter on which the person seeks action by the Corporation. If a director of the Corporation knowingly communicates with a former 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 officer or 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, 221 West 6th Street, Suite 1700, Austin, Texas 78701. The Corporation may have such other offices, either within or without the State of Texas, as the Board of Directors may determine or as the affairs of the Corporation may require from time to time.

ARTICLE III
BOARD OF DIRECTORS

Section 8. Regular Meetings. Regular meetings of the Board of Directors (“Regular Meetings”) shall be held at such times and places as shall be designated from time to time by resolution of the Board of Directors. Notice of Regular Meetings shall be required. The UTIMCO President shall consult with the Chairman and the Vice Chairmen of the UTIMCO Board, including the Chancellor as Vice Chairman for Policy, on the draft agenda for meetings of the UTIMCO Board at least two (2) weeks prior to each regular UTIMCO Board meeting.
11. **U. T. System Board of Regents: Approval of amendments to The University of Texas Investment Management Company (UTIMCO) Code of Ethics**

**RECOMMENDATION**

The Chancellor, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO), that the U. T. System Board of Regents approve the revised UTIMCO Code of Ethics in the form provided on Pages 172 - 191.

**BACKGROUND INFORMATION**

Section 66.08 of the *Texas Education Code* requires that the U. T. System Board of Regents approve the UTIMCO Code of Ethics (Code) and any changes thereto. U. T. System’s Office of General Counsel re-wrote and reorganized the Code, without changing its intent or substance, to simplify the language, make it easier to reference, and clarify some provisions. UTIMCO staff, Vinson & Elkins (UTIMCO counsel), U. T. System staff, and Baker Botts (U. T. System outside counsel) reviewed the rewritten Code; certain provisions were changed; and other provisions were added.

The UTIMCO Board originally reviewed the current Code at its July 21, 2005 meeting and approved certain amendments. The proposed amended Code adopted at the July 21, 2005 meeting was not presented to the U. T. System Board of Regents for approval to allow for the Code to be rewritten in order to simplify the language. These amendments (with some modifications) are incorporated in the rewritten Code at Sections 1.01, 2.10, 3.03, and 3.06. The rewritten Code was approved by the UTIMCO Board on May 25, 2006.

Following is a summary of material changes proposed in the draft revisions to the UTIMCO Code of Ethics (the “Draft Code”) relative to the current UTIMCO Code of Ethics (the “Current Code”).

1. **Prohibited Investments.**

   A. **Prior Holdings Exception.** The Draft Code adds a new exception to the general prohibition on private investments by UTIMCO in a business entity in which a director, employee, or affiliate already has an investment. Specifically, the Draft Code would allow UTIMCO or a UTIMCO entity to invest in a business entity in which a director or director entity holds a private investment that was acquired before the date that director assumed a position with UTIMCO, unless their investment constitutes a “pecuniary interest,” provided that two-thirds of the UTIMCO Board
approves the investment after disclosure and a finding that the investment will not benefit the director or director entity financially. The Draft Code does not extend this exception to employees or employee entities.

B. Public Companies. The Draft Code excludes the prohibition against investment by UTIMCO funds in the publicly traded securities of a publicly traded company in which an entity controlled by a director or employee has a pecuniary interest from the “procedures and safeguards” to be implemented by UTIMCO and UTIMCO entities; however, it maintains the Current Code’s prohibition of similar investments in companies in which a director or employee individually has a pecuniary interest.

2. General Principles. The introductory “General Principles” section of the Draft Code has been expanded and refined to more comprehensively summarize the legal and fiduciary principles governing the investment management activities of UTIMCO.

3. “Control” Definition. The Draft Code changes the procedures for determining whether a director, employee or UTIMCO has “control” of an entity. In particular, the Draft Code allows the presumption that a director or employee’s investment or management position that enables direction of operating or financial decisions of an entity constitutes control to be rebutted if UTIMCO’s general counsel will provide a legal opinion to the UTIMCO Board, after review and confirmation of the relevant facts, that the director or employee does not have ultimate control of the entity’s operating or financial decisions.

4. Education and Penal Code. The Draft Code mandates that directors and employees be specifically knowledgeable of Texas Penal Code Sections 39.02 (Abuse of Official Capacity) and 39.06 (Misuse of Official Information), in addition to Section 66.08 of the Texas Education Code authorizing external management of funds. The Current Code requires specific knowledge only of Section 66.08.

5. Nepotism Policy. The Draft Code adds an exemption to the nepotism prohibitions, allowing employment of a relative for a short-term special project as a non-exempt employee, if the employee seeking to employ a relative obtains prior approval from the UTIMCO chief compliance officer following disclosure of the relationship.

6. Gift Policy. The Draft Code removes the prohibition against solicitation of gifts and prohibits only the acceptance of gifts.


8. Divestments. The Draft Code adds a provision that directors and employees are not required to divest private investments held on the date they assume their positions with UTIMCO, as long as those investments do not constitute a “pecuniary interest.”
9. **Other Prohibitions.** The Draft Code condenses and simplifies the Current Code’s language describing additional restrictions on directors and employees.

10. **Due Dates for Disclosure Statements.** The Draft Code changes the due date for financial disclosure statements, ethics compliance statements, and disciplinary action disclosure statements from January 31 to April 30 of each year to correspond to the due date for financial disclosure statements filed with the Texas Ethics Commission.
Sec. 1.01. General Principles. (a) The Board of Regents of The University of Texas System has appointed The University of Texas Investment Management Company (“UTIMCO”) as its investment manager with respect to those funds for which the Board of Regents has investment responsibility. Pursuant to the investment management services agreement between the Board of Regents and UTIMCO, UTIMCO has acknowledged that it will act as a fiduciary with respect to managing the investment of those funds. Accordingly, all directors and employees of UTIMCO must develop an awareness of and respond to UTIMCO’s obligations to the Board of Regents. 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.

(bd) 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.
“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.

“UTIMCO” means The University of Texas Investment Management Company.

“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 may not have a direct or indirect interest, including financial or other interests, or engage in a business transaction or professional activity, or incur any obligation of any nature that is in conflict with the proper discharge of the director’s or employee’s duties in the interests of UTIMCO.

(b) A director or employee may 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 solicit or accept a gift because of or through the use of the director’s or employee’s position with UTIMCO if the gift is from a person other than a director or employee and the director or employee knows or should know is being have known that the gift would not have been solicited, offered or given because of the director’s or employee’s position with UTIMCO. If the director or employee did not hold his or her position as a director or employee, 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, with a value of less than $50, 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, and other items of nominal intrinsic value, 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 who 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, director, entity, employee, or employee entity has a pecuniary interest.

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

1. invest in the private investments of a business entity if a director, or director entity, employee, or employee 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 UTMICO entity, a director, or a director entity then owns a private investment in the same business entity; or

(2) co-invest with UTIMCO, a UTIMICO 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;

(6) use UTIMCO information, resources, or facilities, or information or resources paid for by UTIMCO, for personal gain or the gain of any person or entity other than UTIMCO, including the use of information paid for by UTIMCO to assist or benefit private clients of the director or employee; or

(7) use for personal advantage or for advantage to others any information derived from a relationship with UTIMCO that might reflect favorably or adversely on the value of any investment or contemplated investment.

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 January 31 or 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 January 31 or 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 January 31 or 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.
12. **U. T. System Board of Regents: Approval of Mellon Financial Corporation as the Master Custodian to be used by The University of Texas Investment Management Company (UTIMCO) in managing U. T. System Funds**

**RECOMMENDATION**

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. System Board of Regents approve UTIMCO’s selection of Mellon Financial Corporation (Mellon) as the Master Custodian in managing U. T. System Funds.

**BACKGROUND INFORMATION**

Section 5 of the Master Investment Management Services Agreement between the U. T. System Board of Regents and UTIMCO requires that UTIMCO select one or more custodians for the U. T. System Funds managed by UTIMCO, each of which shall be approved by the U. T. System Board. Mellon has been the Master Custodian since September 1, 1995. The current contract expires on June 30, 2006.

A review of custodian services was conducted by UTIMCO beginning in January 2006 and was concluded in April 2006. UTIMCO distributed a request for proposals to six potential candidates. The candidates were Mellon, State Street Corporation, The Northern Trust Company, The Bank of New York Company, Inc., JP Morgan Chase Bank, N.A., and Wachovia Corporation.

A UTIMCO staff committee reviewed the proposals and participated in conference calls. The committee selected The Bank of New York Company, Inc., Northern Trust Corporation, and Mellon as the three finalists. Five committee members, comprised of Debbie Childers, Bill Edwards, Gary Hill, David Gahagan, and Marjorie Harrigan, visited the offices and operations of The Bank of New York Company, Inc. and The Northern Trust Company. The committee attended presentations conducted by the finalists. Upon careful consideration, the committee recommended that Mellon remain the custodian for the U. T. System Funds.

The estimated value of the contract with Mellon over the five-year term is $1,000,000.00.

The recommendation to retain Mellon as the Master Custodian was approved by the UTIMCO Audit and Ethics Committee on May 16, 2006, and by the UTIMCO Board of Directors on May 25, 2006.
13. **U. T. System Board of Regents: Approval of annual distribution from the Permanent University Fund**

**RECOMMENDATION**

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the fiscal year distribution from the Permanent University Fund (PUF) to the Available University Fund (AUF) be increased by 12.1% from $357,337,255 to $400,685,603 effective September 1, 2006. The distribution is an amount equal to 4.75% of the trailing 12-quarter average of the net asset value of the PUF. The increase in the distribution is a direct result of the increase in the market value of the PUF, as reflected in the trailing 12-quarter average.

**BACKGROUND INFORMATION**

The PUF Investment Policy states that the annual distribution from the PUF to the AUF shall be an amount equal to 4.75% of the trailing 12-quarter average of the net asset value of the PUF for the quarter ending February of each fiscal year. Per this formula, the amount to be distributed from the PUF for Fiscal Year 2006-2007 is $400,685,603 as calculated below:

<table>
<thead>
<tr>
<th>Quarter Ended</th>
<th>Net Asset Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/31/03</td>
<td>6,850,946,583</td>
</tr>
<tr>
<td>8/31/03</td>
<td>7,244,827,576</td>
</tr>
<tr>
<td>11/30/03</td>
<td>7,655,088,067</td>
</tr>
<tr>
<td>2/28/04</td>
<td>8,218,934,425</td>
</tr>
<tr>
<td>5/31/04</td>
<td>7,997,992,228</td>
</tr>
<tr>
<td>8/31/04</td>
<td>8,087,877,617</td>
</tr>
<tr>
<td>11/30/04</td>
<td>8,648,150,213</td>
</tr>
<tr>
<td>2/28/05</td>
<td>8,832,164,283</td>
</tr>
<tr>
<td>5/31/05</td>
<td>8,899,839,516</td>
</tr>
<tr>
<td>8/31/05</td>
<td>9,426,742,792</td>
</tr>
<tr>
<td>11/30/05</td>
<td>9,564,640,080</td>
</tr>
<tr>
<td>02/28/06</td>
<td>9,798,633,228</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 101,225,836,608</strong></td>
</tr>
</tbody>
</table>

Number of Quarters: 12
Average Net Asset Value: $8,435,486,384
Distribution Percentage: 4.75%

Fiscal Year 2006-07 Distribution: $400,685,603
Article VII, Section 18 of the Texas Constitution requires that the amount of distributions to the AUF be determined by the U. T. Board of Regents in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of PUF investments and annual distributions to the AUF. The Texas Constitution further limits the U. T. Board’s discretion to set annual PUF distributions to the satisfaction of three tests:

The amount of PUF distributions to the AUF 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 PUF bonds and notes. The proposed distribution of $400,685,603 is substantially greater than scheduled PUF Debt Service of $136,523,348 projected for Fiscal Year 2006-2007.

<table>
<thead>
<tr>
<th>System</th>
<th>Debt Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>U. T.</td>
<td>$ 91,386,688</td>
</tr>
<tr>
<td>TAMU</td>
<td>45,136,660</td>
</tr>
<tr>
<td>Total</td>
<td>$ 136,523,348</td>
</tr>
</tbody>
</table>

Sources: U. T. System Office of Finance and Texas A&M University (TAMU) System Office of Treasury Services

The U. T. Board may not increase annual PUF distributions to the AUF (except as necessary to pay PUF debt service) if the purchasing power of PUF investments for any rolling 10-year period has not been preserved. As the schedule below indicates, the average annual increase in the rate of growth of the value of PUF investments (net of expenses, inflation, and distributions) for the trailing 10-year period ended February 28, 2006, was 3.77%, which indicates that the purchasing power test was met.

<table>
<thead>
<tr>
<th>Average Annual</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of Total Return</td>
<td>9.78%</td>
</tr>
<tr>
<td>Mineral Interest Receipts</td>
<td>1.46%</td>
</tr>
<tr>
<td>Expense Rate</td>
<td>(0.18)% (1)</td>
</tr>
<tr>
<td>Inflation Rate</td>
<td>(2.58)%</td>
</tr>
<tr>
<td>Distribution Rate</td>
<td>(4.71)%</td>
</tr>
<tr>
<td>Net Real Return</td>
<td>3.77%</td>
</tr>
</tbody>
</table>

(1) Paid from AUF until 1/01/00

The annual distribution from the PUF to the AUF during any fiscal year made by the U. T. Board may not exceed an amount equal to 7% of the average net fair market value of PUF investment assets as determined by the U. T. Board (except as necessary to pay PUF bonds debt service). The annual distribution rate calculated using the trailing 12-quarter average value of the PUF is within the 7% maximum allowable distribution rate.
### Proposed Distribution as a % of Maximum Value of PUF Proposed Value of PUF Allowed Investments

<table>
<thead>
<tr>
<th>Proposed Distribution Investments (1)</th>
<th>Proposed Distribution</th>
<th>Value of PUF Investments</th>
<th>Proposed Distribution as a % of Value of PUF Investments</th>
<th>Maximum Allowed Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$8,435,485,384</td>
<td>$400,685,603</td>
<td>4.75%</td>
<td>7.00%</td>
<td></td>
</tr>
</tbody>
</table>

(1) Source: UTIMCO

14. **U. T. System Board of Regents: Approval of proposed reappointment of Mr. J. Philip Ferguson and appointment of Mr. Ardon Moore to the Board of Directors of The University of Texas Investment Management Company (UTIMCO)**

**RECOMMENDATION**

Chairman Huffines recommends two appointments to The University of Texas Investment Management Company (UTIMCO) Board of Directors for terms to expire April 1, 2009, as follows:

a. reappointment of Mr. J. Philip Ferguson, Houston, Texas, and

b. appointment of Mr. Ardon Moore, Fort Worth, Texas.

**BACKGROUND INFORMATION**

Section 66.08 of the *Texas Government Code* requires that the U. T. System Board of Regents appoint all members of the Board of Directors of UTIMCO. The positions to be considered are currently held by Mr. Woody L. Hunt and Mr. J. Philip Ferguson and are not "affiliated Director" positions. Mr. Hunt and Mr. Ferguson were appointed for terms expiring on April 1, 2006.

Mr. Moore is President of Lee M. Bass, Inc. and has significant experience as an investment professional. He received a BBA from U. T. Austin in 1980 and an MBA from the Stanford Graduate School of Business in 1988. Mr. Moore is the current President of the Fort Worth Zoological Association and is a member of the Board of Cook Children's Hospital.

Following the approval of newly appointed members, UTIMCO will elect officers, make a report to the Board, and seek approval of the composition of the UTIMCO Audit and Ethics Committee.
FRIDAY, JULY 14, 2006

F. RECONVENE MEETING OF THE BOARD OF REGENTS IN OPEN SESSION TO CONSIDER AGENDA ITEMS

15. U. T. System Board of Regents: Announcement of Special Task Force

Chairman Huffines plans to announce the appointment of a special task force.

16. U. T. System Board of Regents: Announcement of Special Community Advisory Committee

Chairman Huffines plans to announce the appointment of a special community advisory committee.

17. U. T. Arlington: Authorization to accept a gift of approximately 3.245 acres of land located at the northeast corner of Interstate Highway 30 and MacArthur Boulevard, Grand Prairie, Dallas County, Texas, out of the Dudley F. Pearson Survey, Abstract No. 1130, City of Grand Prairie, from Hanson Aggregates West, Inc., for the purpose of constructing a structural testing facility to be known as the U. T. Arlington Center for Structural Engineering Research

RECOMMENDATION

The Chancellor concurs in the recommendation of the Interim Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Spaniolo that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. Arlington, to

a. accept a gift of unimproved land located at the northeast corner of Interstate Highway 30 and MacArthur Boulevard, Grand Prairie, Dallas County, Texas, described as 3.245 acres out of the Dudley F. Pearson Survey, Abstract No. 1130, City of Grand Prairie, Dallas County, Texas, from Hanson Aggregates West, Inc., on which will be subsequently constructed a structural testing facility to be known as the U. T. Arlington Center for Structural Engineering Research; and

b. authorize the Executive Director of Real Estate to negotiate the terms of the gift deed within certain parameters and to execute all documents, instruments, and other agreements, subject to approval of all such
documents as to legal form by the Office of General Counsel, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

The subject property consists of 3.245 acres of unimproved land located at the northeast corner of Interstate Highway 30 and MacArthur Boulevard, Grand Prairie, Dallas County, Texas. The property owner of record is Hanson Aggregates West, Inc., which has its regional headquarters in Dallas and is an operating division of Hanson P.L.C., an international building materials company.

The donor owns property adjacent to the subject property; the adjacent property is used by the donor for the manufacturing of concrete pipe and concrete pipe products. The donor, therefore, desires to place permanent use restrictions on the property to prohibit competing uses on the subject property. Additionally, the donor proposes to reserve a right of reentry so that if U. T. Arlington fails to construct or ceases to use the facility planned for the site, the donor may retake possession of and title to the property.

Details of the restrictive covenants and the right of reentry have not yet been finalized. The donor, however, has been advised that both limitations must expire after a set number of years, consistent with similar, recent gifts to the U. T. System. The Real Estate Office is currently in negotiations with the donor and is coordinating with U. T. Arlington and the Office of General Counsel.

The gift will provide U. T. Arlington with a site to construct a full-scale structural testing facility that will be known as the U. T. Arlington Center for Structural Engineering Research. Details and cost of the building will be submitted at a subsequent Board of Regents’ meeting when U. T. Arlington seeks an amendment to its Capital Improvement Program after the building is fully funded with other gifts, donations, and in-kind contributions. The terms and conditions of the acquisition are reflected in the transaction summary below:

Transaction Summary

Institution: U. T. Arlington
Type of Transaction: Gift of unimproved land
Total Area: Approximately 3.245 acres
Improvements: None
Location: Northeast corner of Interstate Highway 30 and MacArthur Boulevard, described as 3.245 acres out of the Dudley F. Pearson Survey, Abstract No. 1130, City of Grand Prairie, Dallas County, Texas; see attached map

Donor: Hanson Aggregates West, Inc.

Appraised Value: $706,761 (Hanes Appraisal Company, December 29, 2005); appraised value does not reflect proposed restrictions on use of the land and an update will be requested once the restrictions are negotiated

Restrictions: The gift deed, yet to be negotiated, will contain restrictive covenants prohibiting the use of the property for competing commercial businesses and a right of reentry permitting the donor to retake possession of the property if U. T. Arlington fails to construct or ceases to use the planned facility on the property; both limitations will expire after a set number of years, yet to be negotiated

Intended Use: Campus expansion to construct a structural testing facility that will be used for programs of the College of Engineering at U. T. Arlington
18. **U. T. Brownsville: Recommended correction to allow additional designated tuition for the 2006-2007 and for the 2007-2008 academic years**

**RECOMMENDATION**

The Chancellor, the Interim Executive Vice Chancellor for Academic Affairs, and President García recommend that the action of the Board of Regents approving tuition and fees on March 28, 2006, which will go into effect as of August 21, 2006, be amended to correct the rate of designated tuition for the 2006-2007 and for the 2007-2008 academic years as follows:

<table>
<thead>
<tr>
<th></th>
<th>Current Rate $</th>
<th>2006-2007 Rate $</th>
<th>2007-2008 Rate $</th>
</tr>
</thead>
<tbody>
<tr>
<td>For each regular or summer semester</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Previously Approved Rate</td>
<td>44.00</td>
<td>56.00</td>
<td>62.00</td>
</tr>
<tr>
<td>Corrected Rate</td>
<td>44.00</td>
<td>58.00</td>
<td>66.00</td>
</tr>
</tbody>
</table>

Following Regental approval, the appropriate institutional catalog will be amended to reflect these fees.

**BACKGROUND INFORMATION**

The tuition increases recommended for approval by the Board on March 28, 2006, stated the incorrect increase for the 2006-2007 and 2007-2008 academic years.

The change corrects an error in the tuition proposal submitted by U. T. Brownsville to the Board in March that assumed a $2 per semester credit hour increase in statutory tuition in each of the two years. The change will increase the designated tuition rate by $2 per semester credit hour in 2006-2007 and by $4 per semester credit hour in 2007-2008. The total charge for tuition and required fees will not change from those approved by the Regents on March 28, 2006. A public hearing on the change to the designated tuition rate has been held as required by *Texas Education Code* Section 54.0513.
19. **U. T. Pan American: Recommended adjustments to incidental fees for the 2006 and 2007 academic years**

**RECOMMENDATION**

The Chancellor concurs in the recommendation of the Interim Executive Vice Chancellor for Academic Affairs, the Vice Chancellor and General Counsel, and President Cárdenas that the adjustments to incidental course fees for the 2006 and 2007 academic years be approved as follows:

<table>
<thead>
<tr>
<th>Course</th>
<th>Proposed Fee ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOCW 6370 Field Practicum I</td>
<td>$12.50</td>
</tr>
<tr>
<td>SOCW 6371 Field Practicum I</td>
<td>$12.50</td>
</tr>
<tr>
<td>SOCW 6375 Advanced Field Practicum</td>
<td>$12.50</td>
</tr>
<tr>
<td>SOCW 6675 Advanced Field Practicum</td>
<td>$12.50</td>
</tr>
</tbody>
</table>

**BACKGROUND INFORMATION**

U. T. Pan American received permission from the Board of Regents at the February 9, 2006 Board meeting to charge a new fee for field experience in Social Work. Approval of this request would allow the institution to extend the fee to the courses listed above. These courses are merely a division of existing courses that will enable students to take a part-time or reduced course load.

20. **U. T. Permian Basin: Recommended technical corrections to course numbers for incidental fees for the 2006 and 2007 academic years**

**RECOMMENDATION**

The Chancellor concurs in the recommendation of the Interim Executive Vice Chancellor for Academic Affairs, the Vice Chancellor and General Counsel, and President Watts that technical corrections to course numbers for incidental fees for the 2006 and 2007 academic years be approved as follows:

<table>
<thead>
<tr>
<th>Old Number</th>
<th>Old Course Name</th>
<th>New Number</th>
<th>Proposed Fee ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KINE1109</td>
<td>Adventure Education</td>
<td>KINE 1109</td>
<td>40</td>
</tr>
<tr>
<td>KINE1109</td>
<td>Advance Swim Lifeguard</td>
<td>KINE 1110</td>
<td>5</td>
</tr>
<tr>
<td>KINE1109</td>
<td>Advance Track &amp; Field</td>
<td>KINE 1111</td>
<td>5</td>
</tr>
<tr>
<td>KINE1109</td>
<td>Aerobic Activities</td>
<td>KINE 1112</td>
<td>5</td>
</tr>
</tbody>
</table>
KINE1109  Archery       KINE 1113  5
KINE1109  Basketball Officiate  KINE 1114  5
KINE1109  Disc Sports       KINE 1116  5
KINE1109  Elementary Dance  KINE 1117  5
KINE1109  Golf            KINE 1118  35
KINE1109  Gymnastics      KINE 1119  5
KINE1109  Hockey           KINE 1120  5
KINE1109  Lacrosse        KINE 1121  5
KINE1109  Racquet Sports 1 KINE 1122  5
KINE1109  Racquet Sports 2 KINE 1123  5
KINE1109  Secondary Dance KINE 1124  5
KINE1109  Soccer          KINE 1125  5
KINE1109  Team Handball   KINE 1126  5
KINE1109  Volleyball      KINE 1128  5
KINE1159.005  Advance Soccer  KINE 1155  5
KINE1159.001  Aerobics     KINE 1156  5
KINE1159.003  Handball     KINE 1157  5
KINE1159.004  Tai Kwon Do  KINE 1158  45
KINE1159.002  Weight Training  KINE 1159  5

BACKGROUND INFORMATION

U. T. Permian Basin received permission on February 9, 2006, from the Board of Regents to charge a new incidental fee for certain courses. U. T. Permian Basin now seeks permission to apply the approved course fees to new course numbers of a more generic course title. Sections of the courses listed are being changed to stand-alone courses. Each course requires separate approval.

21. **U. T. System Board of Regents: Amendments to the Regents' Rules and Regulations, Series 40307, related to Academic Program Approval Standards and Series 10402, related to duties of the Academic Affairs Committee**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Interim Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, and the Vice Chancellor and General Counsel that

a. the Regents' Rules and Regulations, Series 40307, related to Academic Program Approval Standards, be amended as set forth in congressional style on Pages 204 - 208; and
b. Series 10402, related to duties of the Academic Affairs Committee, be amended as set forth below:

(d) Review proposed substantive changes in the doctoral degree program inventory and the academic administrative structure and recommend to the Board approval or disapproval of such changes.

BACKGROUND INFORMATION

The proposed amendments to the Regents' *Rules and Regulations*, Series 40307, would permit the Executive Vice Chancellors for Academic Affairs and Health Affairs to approve nonsubstantive program change requests and substantive baccalaureate and master's degree requests from academic and health institutions which are eligible for staff-level approval by the Commissioner of Higher Education, without further approval from the Board of Regents. The Office of Academic Affairs will compile for the Board of Regents an annual listing of new doctoral programs approved by the Board and the new baccalaureate and master's programs, discontinuations, and consolidations approved by the Executive Vice Chancellor.

A related amendment is proposed to Series 10402 to provide that the Academic Affairs Committee reviews substantive changes in doctoral programs, consistent with the delegated authority requested.
1. Title

Academic Program Approval Standards

2. Rule and Regulation

Sec. 1 Overarching Principles. The standards used for review and approval of academic program proposals are derived from three overarching principles that guide decisions about program goals, design, and implementation at The University of Texas System institutions. These principles are:

1.1 Mission. New university degree and certificate programs should be consistent with the higher education goals and mission of the State of Texas, the U. T. System, and the offering institution. This principle has implications not only for which programs should be offered by U. T. System institutions, but also for how they are designed and delivered so as to be responsive to the needs of students, parents, and the private and public sectors.

1.2 Quality. U. T. System degree and certificate programs should be of excellent quality. Program design, resources, and implementation plan, judged critically in view of the stated goals for a particular program, should compare favorably with State, national and international standards and competing programs. In general, they should exceed minimum standards of the Texas Higher Education Coordinating Board or appropriate accrediting bodies.

1.3 Efficient Use of Resources. Academic programs at institutions of the U. T. System should represent good investments and efficient use of public and private resources. Program choice, design, and implementation plans should reflect wise use of institutional and inter-institutional or shared resources.

Sec. 2 Standards. Applying these principles of excellence to review of proposed new academic degree or certificate programs, the Academic or Health Affairs Committee approves proposals that must provide good evidence of meeting the following standards:

2.1 Standards Relating to Goals, Need, Fit
(a) Program goals and educational objectives are clear.

(b) Connections between proposed program goals and State and U. T. System goals and mission are strong and convincing.

(c) Program goals advance institutional mission and strategic plan. Program is on the approved Table of Programs.

(d) Program would meet a well-documented unmet need related to present or future manpower or social needs or regional priorities.

(e) Program complements and builds upon existing university programs, strengths, and resources.

2.2 Standards for Quality of Implementation

(a) Design of the degree or certificate program reflects understanding of state-of-the-art in the discipline.

(b) Resources, including faculty, facilities, special equipment, field placement sites for internships, library and information access, and others as necessary, are adequate to deliver a program of excellent quality, meeting or exceeding Southern Association of Colleges and Schools (SACS) standards and those of other professional accrediting bodies where applicable.

(c) Faculty responsible for program design and delivery have appropriate, relevant content expertise, scholarship records, and other professional experience and credentials.

(d) New graduate programs are built upon demonstrated competence in related areas at the undergraduate or, where appropriate, master’s level.

(e) Program implementation and delivery plans are responsive to student needs and supportive of student retention and graduation, in light of program goals and resource availability.
(f) The program proposal includes a plan for periodic program evaluation focusing on the program objectives, productivity, faculty and resources, changes in environment such as competition and delivery modes, student outcomes, retention, and graduation.

(g) An efficient administration plan for the program is described with clear accountability and appropriate roles for faculty committees and unit administrators.

(h) Interdisciplinary, cross-departmental, or cross-college programs are supported by administrative reporting structures likely to preserve interdisciplinary cooperation.

2.3 Standards for Costs and Revenues

(a) Program proposal presents clear, logically consistent estimates of program costs and revenues.

(b) Prospective student demand adequate for an efficient program is convincingly demonstrated, with specific attention to competing programs, other providers, and other delivery systems.

(c) Proposal establishes growth potential to generate adequate resources to support program costs from State formula funding sources after the first three years and, where appropriate, from non-State sources.

(d) Available inter-institutional, shared resources are utilized where appropriate.

(e) Overall program costs are justifiable in light of potential program benefits and impact.

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

None

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
22. **U. T. System: Authorize and approve the use of Available University Funds or Permanent University Fund Bond Proceeds for U. T. Arlington, U. T. Austin, and U. T. Dallas to negotiate and enter into a Texas Emerging Technology Fund Grant Agreement with the Office of the Governor and Endowment Agreements with Texas Instruments and other industry contributors for creation and implementation of a Texas nanoelectronics initiative**

**RECOMMENDATION**

The Chancellor concurs in the recommendation of the Interim Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Research and Technology Transfer, the Vice Chancellor and General Counsel, President Spaniolo, President Powers, and President Daniel that authorization be given to the Chancellor to negotiate the final terms of and execute the attached template Texas Emerging Technology Fund (ETF) Grant Agreement on Pages 212 - 224 with the State of Texas, acting by and through the Office of the Governor, Economic Development and Tourism and related Endowment Agreements with Texas Instruments (TI) and other industry contributors. The Chancellor's authorization to sign the Agreement is based upon approval by the Governor's Office, Lt. Governor's Office, and Speaker's Office and after review and approval by the Vice Chancellor and General Counsel. Available University Funds (AUF) or Permanent University Funds (PUF) will be used to fund the U. T. System portion of the initiative, at the discretion of the Executive Vice Chancellor for Business Affairs.

In addition, authorization is requested for the Chancellor to further negotiate the terms of and execute any and all related implementing agreements and other documents necessary to establish a nanoelectronics research institute at U. T. Austin, and to implement the broader nanoelectronics initiative, including the recruitment of eight senior faculty members specializing in nanoelectronics and providing startup support at U. T. Arlington, U. T. Austin and U. T. Dallas.

**BACKGROUND INFORMATION**

The Nano Electronics Research Corporation (NERC) has solicited proposals from U.S. institutions qualified to do research in areas of interest to the Nanoelectronics Research Initiative (NRI). NERC is a not-for-profit research management organization that implements the NRI by funding a number of nanoelectronics technology-oriented research programs. NERC is a wholly owned but separately managed subsidiary of the Semiconductor Research Corporation (SRC). SRC is a research management consortium that was established in 1982 and sponsors semiconductor research for its members.
In December 2005, NERC announced grants to fund the creation of two new university-based nanoelectronic research centers: (1) The Western Institute of Nanoelectronics (WIN), headquartered at the University of California, Los Angeles, will have participants from three University of California (UC) campuses (Los Angeles, Berkeley and Santa Barbara) and Stanford University. In addition to its NRI funding, WIN will also receive direct support from Intel and the UC Discovery Program, and (2) The Institute for Nanoelectronics Discovery and Exploration (INDEX), headquartered at the State University of New York, University at Albany (SUNY-Albany), will also include Georgia Institute of Technology, Harvard University, the Massachusetts Institute of Technology, Purdue University, Rensselaer Polytechnic Institute and Yale University.

U. T. Austin is proposing to NERC that a third nanoelectronics research center be established, headquartered at U. T. Austin and called the South West Academy for Nanoelectronics (SWAN). SWAN would be coordinated by U. T. Austin and would involve other schools not currently part of WIN and INDEX, with a focus on the Southwest. This proposed nanoelectronics research center will have several research themes to be phased in at different times at various institutions and would include novel devices based on electron spin, phase and tunneling; novel multi-functional materials; nano-manufacturing with self-assembly and 3-D heterogeneous integration; novel interconnects/packaging and architectures; and metrology. U. T. Austin is currently finalizing the NERC application process and an award is anticipated as early as July 30, 2006.

To support the establishment of SWAN beyond the startup funding provided by NERC and the NRI and to assure that the State of Texas positions itself to become a national and global leader in the emerging field of nanoelectronics, a $30 million "Top Talent" initiative is proposed. The initiative would be equally supported by Texas industries, the U. T. System and the State of Texas through an ETF Research Superiority Grant.

The support would be divided as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
<th>Proposed Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Facilities, Labs and Capital Equipment for eight senior faculty members</td>
<td>$10 million</td>
<td>U. T. System</td>
</tr>
<tr>
<td>2. Additional Startup Support (student and postdoc support, summer salary, endowments, additional equipment and operations -</td>
<td>$10 million</td>
<td>TETF</td>
</tr>
<tr>
<td>3. Endowments for Eight Distinguished Chairs</td>
<td>$10 million</td>
<td>TI and others</td>
</tr>
</tbody>
</table>

The $10 million dollar commitment by the U. T. System Board of Regents is contingent upon the award of the $10 million ETF grant by the Governor's Office and the endowment contribution of $10 million in industry funds.
Although SWAN would be headquartered at U. T. Austin under the leadership of Dr. Sanjay Banerjee, the overall Top Talent program will be managed through the Office of the Vice Chancellor for Research and Technology Transfer at U. T. System. The University of Texas at Dallas will be the administrative lead institution for the ETF grant. Annual reports on the Top Talent Program will be made to the Board of Regents. Co-directors for the program will be identified at participating institutions. An external academic and industrial advisory committee will be formed to provide advice, counsel and assessment for the program and to identify possible recipients for the technologies developed.

As the NRI consortium develops, other participants will be invited to participate, including Rice University, Texas Tech University and Texas A&M University. Participants from other states may include the University of Illinois at Urbana-Champaign, Northwestern University, Michigan State University, University of Wisconsin-Madison, Pennsylvania State University, University of Virginia, Notre Dame University, and Arizona State University.

The ETF Grant Agreement will provide the details of the implementation of the initiative and will address specific funding, timing of the disbursements of funds and specific tasking. Appropriate patent and intellectual property provisions and protections will be included in additional implementing agreements by participating parties on a case-by-case basis as the initiative develops and specific research projects are identified.
TEXAS EMERGING TECHNOLOGY FUND

GRANT AGREEMENT

BETWEEN THE STATE OF TEXAS

AND

[GRANTEE]

THIS AGREEMENT shall be effective as of ______________________, and is between the State of Texas, acting by and through the Office of the Governor Economic Development and Tourism (the "Grantor") and ____________________________ (the “Grantee”).

RECITALS

A. Pursuant to House Bill 1765 enacted in the 79th Regular Session of the Legislature, the State of Texas has allocated $200 million, to be used with the express written approval of the Governor, Lieutenant Governor, and Speaker of the House of Representatives to develop and diversify the economy of the State of Texas by expediting innovation and commercialization of research; attracting, creating, or expanding private sector entities that will promote a substantial increase in high-quality jobs; and increasing higher education applied technology research capabilities.

B. Article III, Section 52-a of the Texas Constitution expressly authorizes the State to use public funds for the public purposes of development and diversification of the economy of the State, the elimination of unemployment or underemployment in the State, or the development of commerce in the State;

C. To ensure that the benefits the State provides under this Agreement are utilized in a manner consistent with Article III, Section 52-a of the Texas Constitution, and other laws, Grantee has agreed to comply with certain conditions and deliver certain performance, including expediting innovation and commercialization of research; attracting, creating, or expanding private sector entities that will promote a substantial increase in high-quality jobs; and increasing higher education applied technology capabilities; and acquiring capital improvements in exchange for receiving these benefits.
D. The Governor, Lieutenant Governor, and Speaker of the House of Representatives have approved this Grant as evidenced by the letter attached as Exhibit A.

E. The Grantee and the Grantor desire to set forth herein the provisions relating to the granting of such monies and the disbursement thereof to the Grantee.

**IN CONSIDERATION** of the grant described and other provisions in this Agreement, the parties to this Agreement agree as follows.

### Article I
**DEFINITIONS**

Section 1.01 **Defined Terms.** As used in this Agreement, the following terms shall have the meanings set out respectively after each such term (the meanings to be equally applicable to both the singular and plural forms of the terms defined), unless the context specifically indicates otherwise:

A. “Agreement” - means this Texas Emerging Technology Fund Grant Agreement between the Grantor and the Grantee.


C. "Event of Default" - means those events delineated in Section 2.07.

D. "Grant" - means a grant of monies from the Grantor to the Grantee in an amount of _______________________ Dollars ($_____________).

E. "Grantee" - means __________________________________.

F. "Grantor" - means the State of Texas, acting by and through the Office of the Governor Economic Development and Tourism.

### Article II
**GRANT**

Section 2.01 **Grant of Monies.** The Grantor shall issue the Grant to the Grantee and disburse the proceeds in accordance with the provisions of this Agreement. The Grant is not intended to be a loan of money.

Section 2.02 **Use of Grant Proceeds.**

A. 
**B. Top Talent.** Grantee commits to use the Grant to secure the employment of __________________ for the term of this Agreement to ________________.

**C. Allowable Expenses.** The Grant may be used for research and research capability acquisition, including salaries and benefits, travel, consumable supplies, other operating expenses, capital equipment, and construction or renovation of facilities as provided for in Grantee’s application attached as Exhibit B and consistent with Section 2.02 A. and Section 2.02 B. above.

Section 2.03 **Milestones.** Grantee commits to using best efforts in targeting the milestones outlined in the attached Exhibit C in research and development in __________________ and Grantee shall provide the state with sufficient evidence, to the satisfaction of Grantor, that the milestones have been met.

Section 2.04 **Use and Retention of Texas Suppliers.** Grantee will use reasonable efforts to use qualified Texas-based suppliers to provide products and services under this Agreement, provided however, Grantee may in its sole discretion select suppliers and contractors based on program needs, scientific criteria, and industry standards.

Section 2.05 **Grantee Representations and Warranties.** The Grantee further covenants with, and represents and warrants to the Grantor as follows:

A. It has legal authority to enter into, execute, and deliver this Agreement, and all documents referred to herein, and it has taken all actions necessary to its execution and delivery of such documents.

B. It will comply with all of the terms, conditions, provisions, covenants, requirements, and warranties in this Agreement, and all other documents referred to herein.

C. It has made no material false statement or misstatement of fact in connection with its receipt of the Grant, and all of the information it previously submitted to the Grantor or which it will submit to the Grantor in the future relating to the Grant or the disbursement of any of the Grant is and will be true and correct.

D. It is not in violation of any provisions of its charter or of the laws of the State of Texas, or of the laws of the State in which it was formed, and there are no actions, suits, or proceedings pending, or to its knowledge threatened, before any judicial body or governmental authority against or affecting it, other than those specifically disclosed on the Emerging Technology Fund Application, and it is not in default with respect to any order, writ, injunction, decree, or demand of any court or any governmental authority which would impair its ability to enter into this Agreement, or any document referred to herein, or to perform any of the acts required of it in such documents.

E. Neither the execution and delivery of this Agreement, or any document referred to herein, nor compliance with any of the terms, conditions, requirements, or provisions contained in this Agreement or any documents referred to herein is prevented by, is a
breach of, or will result in a breach of, any term, condition, or provision of any agreement or document to which it is now a party or by which it is bound.

F. It will not knowingly attempt to attract an individual key researcher or research superiority identified for consideration for funding by another public or private institution of higher education in Texas under Subchapter F of Texas Government Code Chapter 490.

G. It shall furnish such satisfactory evidence regarding the representations and warranties described herein as may be required and requested by the Grantor.

Section 2.06 Event(s) of Default. The following events shall, unless waived in writing by the Grantor, constitute an Event of Default under this Agreement upon the Grantor giving the Grantee 30 days written notice of such event, and the Grantee's failure to cure such event during such 30 day time period for those Events of Default that can be cured within 30 days or within whatever time period is needed to cure those Events of Default that cannot be cured within 30 days as long as the Grantee is using its best efforts to cure and is making reasonable progress in curing such Events of Default. However, in no event shall the time period to cure any Event of Default exceed 3 months. Notwithstanding the foregoing, any of the following events that cannot be cured shall, unless waived in writing by the Grantor, constitute an Event of Default under this Agreement immediately upon the Grantor giving the Grantee written notice of such event:

A. If any representation, covenant, or warranty made by the Grantee herein, or in the application for funding, in any other document furnished by Grantee pursuant to this Agreement, or in order to induce the Grantor to disburse any of the Grant, shall prove to have been untrue or incorrect in any material respect or materially misleading as of the time such representation, covenant, or warranty was made.

B. If the Grantee fails to fully comply with any provision, term, condition, covenant, or warranty contained in this Agreement, the application, or any other document referred to herein.

Section 2.07 Remedies. Upon the occurrence of an Event of Default and at any time thereafter until such Event of Default is cured to the satisfaction of the Grantor, the Grantor may enforce any or all of the following remedies.

A. The Grantor may refrain from disbursing the Grant and any amount of the Grant not previously disbursed; provided, however, the Grantor may make such a disbursement after the occurrence of an Event of Default without thereby waiving its rights and remedies hereunder.

B. The Grantor may demand that the portion of the Grant already disbursed to the Grantee be returned to it, and upon such demand the Grantee shall return such portion to Grantor, plus interest at the rate of 5% per year, compounded annually. Grantee shall repay this amount within 30 days following demand made by Grantor.
C. If the Grantee does not repay any portion of the amount specified in Section 2.08.B within 30 days of demand by either the Grantor, then such amount may, unless precluded by law, be taken from or off-set against any aids or other monies that the Grantee is otherwise entitled to receive from the State of Texas.

D. The Grantor may enforce any additional remedies it has in law or equity.

E. The rights and remedies herein specified are cumulative and not exclusive of any rights or remedies that the Grantor would otherwise possess.

Section 2.08 Notification of Event of Default. The Grantee shall notify Grantor in writing, as soon as possible and in any event within 30 days after it has obtained knowledge of the occurrence of each Event of Default. The Grantee shall include a statement setting forth details of each Event of Default or event which with the giving of notice or upon the lapse of time or both would constitute an Event of Default and the action which the Grantee proposes to take with respect thereto.

Section 2.09 Termination/Modification of Grant. If the full amount of the Grant has not been disbursed within one year of the effective date of this Agreement or such later date to which the Grantee and the Grantor may agree in writing, then, the Grantor’s obligation to fund the Grant shall terminate. In such event, if none of the Grant has been disbursed by such date then the Grantor’s obligation to fund any portion of the Grant shall terminate and this Agreement shall also terminate and no longer be of any force or effect. If some but not all of the Grant has been disbursed by such date, then the Grantor shall have no further obligation to provide any additional funding for the Grant and this Agreement shall remain in full force and effect but shall be modified and amended to reflect the amount of the Grant that was actually disbursed as of such date.

Section 2.10 Effect of Event of Default/Termination. If an Event of Default occurs and the Grantee is required to and does return the amount specified in Section 2.08B to the Grantor, then the Grantor shall have the right to terminate this Agreement. Further, in any event Grantor may terminate this Agreement at any time following an Event of Default following the opportunity to cure as provided by section 2.07.

Article III
DISBURSEMENT OF GRANT PROCEEDS

Section 3.01 Disbursement of Grant. Grantor shall disburse the Grant to the Grantee in accordance with section 3.02, and only after all conditions precedent have been complied with to the satisfaction of the Grantor in section 3.03. Under no circumstance shall the Grantor be required to disburse funds in excess of the amount requested by the Grantee under the provisions contained in section 3.02. Provided, however, if the Grantee has not fully complied with the provisions and requirements contained in section 3.03 by the date that is six months from the effective date of this Agreement, then the Grantor’s obligation to disburse any of the Grant shall terminate as of such day, and this Agreement shall become null and void.
Section 3.02  **Timeline for Disbursement.** The Grantor shall disburse the Grant to the Grantee in accordance with the following timeline provided that all other requirements prior to receiving any disbursements pursuant to this Agreement have been satisfied:

A. $_________ of the Grant from Section 1.01D. as soon as practicable following the execution of this Agreement;

B. $_________ within ___ days after the effective date of this Agreement; and

C. $_________ within ___ days after the effective date of this Agreement.

Section 3.03  **Conditions Precedent to Disbursement of Grant.** All of the following conditions precedent shall be met to the satisfaction of the Grantor prior to any disbursement of the Grant.

A. The Grantor shall have received a request for disbursement of the Grant specifying the amount of funds being requested, which such amount shall not exceed the maximum amount of the Grant set forth in Section 1.01.

B. No Event of Default under this Agreement or event which would constitute an Event of Default but for the requirement that notice be given or that a period of grace or time elapse shall have occurred and be continuing.

C. Grantee shall provide evidence to the satisfaction of Grantor that Grantee has entered into an employment contract or other sufficient employment commitment with __________ for the term of this Agreement.

D. The Grantee has supplied to the Grantor all other documentation that the Grantor may reasonably require.

**Article IV**  
**MISCELLANEOUS**

Section 4.01  **Term of Agreement.** Unless terminated earlier pursuant to the terms of this Agreement, the term of the Agreement shall begin on the effective date of this Agreement and continue through ________________ [four year term].

Section 4.02  **Record Keeping and Reporting.** The Grantee shall maintain or cause to be maintained books, records, documents and other evidence pertaining to compliance with the requirements contained in this Agreement, and upon request shall allow or cause the entity which is maintaining such items to allow the Grantor, or auditors for the Grantor, including the State Auditor for the State of Texas, to inspect, audit, copy, or abstract, all of its books, records, papers, or other documents relevant to the Grant. The Grantee shall use or cause the entity which is maintaining such books and records to use generally accepted accounting principles in the maintenance of such books and records, and shall retain or cause to be retained all of such
books, records, documents and other evidence for a period of 4 years from the date that the Agreement is terminated by either party or the term of the Agreement ends, whichever is later.

Section 4.03 **Annual Reporting.** Each year throughout the term of this Agreement, by January 31, Grantee must deliver to Grantor a compliance verification signed by a duly authorized representative of Grantee that shall verify Grantee’s compliance with each of Grantee’s obligations in this Agreement. Further, each compliance report shall include providing Grantor reasonable access to Grantee’s annual financial reports. In addition, Grantee shall provide a compliance verification due no sooner than six months from the effective date of the Agreement. The compliance verification must be submitted prior to receiving the third disbursement referenced in Section 3.02 above. All Compliance Verifications shall be in a form reasonably satisfactory to Grantor and shall provide appropriate back-up data.

Section 4.04 **Liability.** In no event will either party be liable to the other party for any indirect, special, punitive, exemplary, incidental or consequential damages. This limitation will apply regardless of whether or not the other party has been advised of the possibility of such damages.

Section 4.05 **Relationship of the Parties.** The parties will perform their respective obligations under this Agreement as independent contractors and not as agents, employees, partners, joint venturers, or representatives of the other party. Neither party can make representations or commitments that bind the other party.

Section 4.06 **Binding Effect and Assignment or Modification.** This Agreement and all terms, provisions and obligations set forth herein shall be binding upon and shall inure to the benefit of the parties and their successors and assigns and shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns and all other state agencies and any other agencies, departments, divisions, governmental entities, public corporations and other entities which shall be successors to each of the parties or which shall succeed to or become obligated to perform or become bound by any of the covenants, agreements or obligations hereunder of each of the parties hereto.

Section 4.07 **Waiver.** Neither the failure by the Grantee or the Grantor, in any one or more instances to insist upon the complete and total observance or performance of any term or provision hereof, nor the failure of the Grantee or the Grantor to exercise any right, privilege, or remedy conferred hereunder or afforded by law shall be construed as waiving any breach of such term, provision, or the right to exercise such right, privilege, or remedy thereafter. In addition, no delay on the part of either the Grantee or the Grantor, in exercising any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy preclude other or further exercise thereof or the exercise of any other right or remedy.

Section 4.08 **Entire Agreement.** This Agreement and the documents referred to and incorporated herein by reference embody the entire agreement between the Grantee and the Grantor, and there are no other agreements, either oral or written, between the Grantee and the Grantor on the subject matter hereof.
Section 4.09  **Applicable Law and Venue.** This Agreement is made and entered into in the State of Texas, and this Agreement and all disputes arising out of or relating thereto shall be governed by the laws of the State of Texas, without regard to any otherwise applicable conflict of law rules or requirements. The parties agree that any action, suit, litigation or other proceeding arising out of or in any way relating to this Agreement, or the matters referred to therein, shall be commenced in the county of the defendant’s principal location or place of business.

Section 4.10  **Dispute Resolution.**

A. **Informal Meetings.** The parties’ representatives will meet as needed to implement the terms of this Agreement and will make a good faith attempt to informally resolve any disputes.

B. **Non-binding Mediation.** Except to prevent irreparable harm for which there is no adequate remedy at law, neither party shall file suit to enforce this Agreement without first submitting the dispute to confidential, non-binding mediation before a mediator mutually agreed upon by the parties.

Section 4.11  **Publicity.** The parties agree to cooperate fully to coordinate with each other in connection with all press releases and publications regarding this Agreement. The Grantee shall not issue any press releases or other publicity regarding this Agreement or the Grant without the prior written consent of Grantor. Following the goal of encouraging development of scientific breakthroughs, publication or presentation of scholarly materials is expected and encouraged. Publication in scholarly journals (including graduate theses and dissertations) and presentations at scientific meetings may be released by Grantee without condition of Grantor.

Section 4.12  **No Waiver of Sovereign Immunity.** Nothing in this Agreement may be construed to be a waiver of the sovereign immunity of the State, or any agency of the State that is a party to this Agreement, to suit.

Section 4.13  **Severability.** If any provision of this Agreement is finally judged by any court to be invalid, then the remaining provisions shall remain in full force and effect and they shall be interpreted, performed, and enforced as if the invalid provision did not appear herein.

Section 4.14  **Merger.** This document constitutes the final entire agreement between the parties and supersedes any and all prior oral or written communication, representation or agreement relating to the subject matter of this Agreement.

Section 4.15  **Survival of Promises.** Notwithstanding any expiration, termination or cancellation of this Agreement, the rights and obligations pertaining to payment or repayment of funds and/or liquidated damages, confidentiality, disclaimers and limitation of liability, indemnification, and any other provision implying survivability will remain in effect after this Agreement ends.

Section 4.16  **Force Majeure.** Neither party shall be required to perform any obligation under this Agreement or be liable or responsible for any loss or damage resulting from its failure to perform so long as performance is delayed by force majeure or acts of God, including but not
limited to strikes, lockouts or labor shortages, embargo, riot, war, revolution, terrorism, rebellion, insurrection, flood, natural disaster, or interruption of utilities from external causes.

Section 4.17 Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute one and the same instrument.

Section 4.18 Notices. All notices, requests, demands and other communications will be in writing and will be deemed given and received (i) on the date of delivery when delivered by hand, (ii) on the following business day when sent by confirmed simultaneous telecopy, (iii) on the following business day when sent by receipted overnight courier, or (iv) three (3) business days after deposit in the United States Mail when mailed by registered or certified mail, return receipt requested, first class postage prepaid, as follows:

If to the Grantor to:

ATTN: Emerging Technology Fund Grant Program
General Counsel
Office of the Governor
P.O Box 12428
Austin, Texas 78711
Phone: 512-463-1788
Fax: 512-463-1932

If to Grantee to:

______________________  
______________________  
______________________  
______________________  

(THE REMAINING PORTION OF THIS PAGE WAS INTENTIONALLY LEFT BLANK)
IN TESTIMONY HEREOF, the Grantee and the Grantor have executed this Texas Emerging Technology Fund Grant Agreement on the day and date indicated immediately below their respective signatures.

The State of Texas

Deirdre Delisi
Chief of Staff
Office of the Governor

Grantee

[Title]

Date

Date
Exhibit A

Letter from Governor, Lieutenant Governor and Speaker Approving Grant to __________________________ from the Texas Emerging Technology Fund
Exhibit B

Grantee Emerging Technology Fund Application
Exhibit C

Timeline and Milestones
RECOMMENDATION

The Chancellor concurs in the recommendation of the Interim Executive Vice Chancellor for Academic Affairs, the Vice Chancellor for External Relations, and President Powers that the U. T. System Board of Regents approve the naming of the Center for International Security and Law as the Robert S. Strauss Center for International Security and Law to recognize the significant contributions of former Ambassador, The Honorable Robert S. Strauss, to our country in his many important foreign affairs positions.

BACKGROUND INFORMATION

The Center for International Security and Law was established in January 2006 as a unit reporting to the Executive Vice President and Provost of the U. T. Austin. The Center will support interdisciplinary research and scholarly activity with a goal of combining U. T. Austin's world-renowned prowess in a number of critical fields – public affairs, science and technology, energy, law, history, areas studies -- with a new, intense focus on the most important global issues America and the world will face this century and beyond. An initial concentration of the Center will be the study of the geopolitics of energy in the 21st century. The Strauss Center will partner with the Lyndon B. Johnson School of Public Affairs and with the new John A. and Katherine G. Jackson School of Geosciences to explore this critical issue.

The Honorable Robert Schwarz Strauss is currently a Senior Executive Partner at Akin, Gump, Strauss, Hauer & Feld, L.L.P., a law firm he cofounded in 1945. He graduated from law school in 1941. He is Chairman of the U.S.-Russia Business Council, a member of the Council on Foreign Affairs, and a Trustee of the Center for Strategic and International Studies. His contributions to politics and foreign affairs include cofounder and past chairman, 1973 - 1976, of the Democratic National Committee, and U.S. President Jimmy Carter's special trade representative and personal representative to the Middle East Peace Negotiations, receiving the Presidential Medal of Freedom in 1981. Appointed by President George H. W. Bush as U.S. Ambassador to the Soviet Union in 1991, Mr. Strauss subsequently served as the U.S. Ambassador to the Russian Federation and returned to private practice in 1992. The Center's reputation and efforts to secure private philanthropy will be greatly enhanced by dedicating it in the name of Ambassador Strauss.

The proposed naming is consistent with the Regents' Rules and Regulations, Series 80307, relating to the honorific naming of facilities because of the significant contributions to U. T. Austin and society by Ambassador Strauss.
24. **U. T. El Paso:** Authorization to lease approximately 6,799 square feet in a building located at 1825 Hawthorne Street, El Paso, El Paso County, Texas, to Sara Child Care Center, Inc., to operate a child care center; and finding of a public purpose

**RECOMMENDATION**

The Chancellor concurs in the recommendation of the Interim Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Natalicio that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. El Paso, to

a. lease to Sara Child Care Center, Inc., approximately 6,799 square feet in a building located at 1825 Hawthorne Street, El Paso, El Paso County, Texas, for use as a child care center operated by the tenant for the children of faculty, staff, and students at U. T. El Paso only;

b. determine that the lease of the premises to Sara Child Care Center, Inc., for the stated reason serves a public purpose appropriate to the function of U. T. El Paso and that the consideration to the U. T. System and U. T. El Paso for the lease of the premises is adequate; and

c. authorize the Executive Director of Real Estate to execute all documents, instruments, and other agreements, subject to approval of all such documents as to legal form by the Office of General Counsel, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations.

**BACKGROUND INFORMATION**

U. T. El Paso issued a Request for Proposals in April 2005 to select a contractor to provide child care services on its campus to the children of faculty, staff, and students at U. T. El Paso. It subsequently selected Sara Child Care Center, Inc., to provide those services. The institution has negotiated a child care services agreement and a lease agreement with Sara Child Care Center, Inc.

The child care services agreement places limits on the maximum rates that Sara Child Care Center, Inc., may charge for its services and requires the service provider to provide an enrollment report to the Dean of Students at U. T. El Paso at the beginning of each semester. If the Dean of Students determines that an enrolled child is not eligible because the parent is no longer a student or a member of the staff or faculty at U. T. El Paso, the Dean of Students will notify the provider who must then terminate the
service agreement for the ineligible child. The services agreement also requires the contractor to provide a meal plan meeting federal standards and requirements by Fall 2006.

Under the proposed lease to Sara Child Care Center, Inc., the tenant may use the leased premises only for the purpose of operating a child care center to provide child care services to the children of faculty members, staff members, and currently enrolled students at the University. Annual rent under the proposed lease agreement is $3,100 per year. The term of the lease is coextensive with the term of the child care services agreement and will not exceed 10 years. Specific terms of the lease agreement are shown on the transaction summary below. The location of the building is displayed on the map attached on Page 225.

The Attorney General of the State of Texas has advised in Opinion No. MW-373 (1981) that, for the use of space in university facilities at a below market rental to comply with the Texas Constitution, three requirements must be met: (1) the use of the property must serve a public purpose, appropriate to the function of the university, (2) adequate consideration must be received by the university, and (3) the university must maintain controls over the user's activities to ensure that the public purpose is achieved.

In Opinion No. JM-1156 (1990) dealing with the question of whether the state may lease space for a child care facility in a state building for less than fair market value, the Attorney General confirmed the above requirements and concluded that a court would likely agree that leasing space for child care facilities at a rate less than fair market value in order to improve employee performance is a public purpose.

The limitations in the services agreement on the rates that Sara Child Care Center, Inc., may charge and on who is eligible for child care services at the facility and the requirement that the contractor provide meals to the children are intended to facilitate the provision of economical and convenient child care services to the faculty, staff, and students of U. T. El Paso, which the institution believes will have a positive effect on employee and student morale and productivity.

**Transaction Summary**

Institution: U. T. El Paso

Type of Transaction: Lease of space

Total Area: 6,799 square feet

Location: 1825 Hawthorne Street, El Paso, El Paso County, Texas; see attached map

Tenant: Sara Child Care Center, Inc.
<table>
<thead>
<tr>
<th>Third-Party Selection Process and Rationale:</th>
<th>A request for proposals (RFP) was issued and the campus selected the tenant on the basis of the tenant’s response to the RFP.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Rent:</td>
<td>$3,100</td>
</tr>
<tr>
<td>Process Used to Set Price:</td>
<td>The rental rate was determined as a part of the negotiations with the tenant on the services agreement; under the services agreement, Sara Child Care Center, Inc., is limited in the rates it may charge for child care services and the clientele it may serve, and is required to provide a meal plan by Fall 2006.</td>
</tr>
<tr>
<td>Lease Term:</td>
<td>Seven years, plus three, one-year renewal options; lease terminates automatically if the related child care services agreement terminates</td>
</tr>
<tr>
<td>Intended Use:</td>
<td>A child care center for the faculty, staff, and students of U. T. El Paso</td>
</tr>
</tbody>
</table>
25. **U. T. Austin: Performing Arts Center Infrastructure Upgrades Phase I and II - Presentation, discussion, and appropriate action regarding approval of design**

**RECOMMENDATION**

Interim Associate Vice Chancellor for Facilities Planning and Construction Dixon will present material samples and additional renderings for consideration for the exterior appearance of the south elevation of the building resulting from the entry lobby/atrium expansion of the Performing Arts Center.

**BACKGROUND INFORMATION**

The project is returning for final approval as it received only conditional approval at the May 2006 Board of Regents' meeting pending consideration of the mesh proposed to be used for the windows. The project will be presented with more detailed information on the south facade along with alternate designs. Renderings and samples of each design will be available for review and discussion.

26. **U. T. System: Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to include Build-out of the Upper Floors of Kelly Hall project at U. T. El Paso, the Physical Plant Building Renovation project at U. T. San Antonio, and the Alkek Expansion project at U. T. M. D. Anderson Cancer Center; request to change total project cost, revise funding sources, appropriation of funds and authorization of expenditure for the Thermal Energy Plant No. 2/Garage project at U. T. San Antonio and the Smithville Facility Strategic Plan project at U. T. M. D. Anderson Cancer Center; resolution regarding parity debt; and consideration of whether any of the projects should be designated as architecturally or historically significant.**

**RECOMMENDATION**

The Chancellor concurs with the Interim Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, President Natalicio, President Mendelsohn, and President Romo that the U. T. System Board of Regents amend the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget as set forth below:

a. addition of the following projects to the Capital Improvement Program (CIP):
   - Build-out of the Upper Floors of Kelly Hall project at U. T. El Paso,
   - Physical Plant Building Renovation project at U. T. San Antonio, and
   - Alkek Expansion project at U. T. M. D. Anderson Cancer Center;
b. revise the total project cost, and/or revise funding sources, and appropriate funding and authorize expenditure for the following projects included in the CIP:
   • Thermal Energy Plant No. 2/Garage project at U. T. San Antonio, and
   • Smithville Facility Strategic Plan project at U. T. M. D. Anderson Cancer Center;

c. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System for the Build-out of the Upper Floors of Kelly Hall project at U. T. El Paso and the Thermal Energy Plant No. 2/Garage project at U. T. San Antonio that:
   • parity debt shall be issued to pay the projects’ cost, including any costs prior to the issuance of such parity debt;
   • sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System;
   • U. T. El Paso and U. T. San Antonio, which are “Members” as such term is used in the Master Resolution, possess the financial capacity to satisfy their respective direct obligations as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the amount of $2,400,000 and $2,475,000; respectively; and

d. in accordance with Regents’ Rules and Regulations, Series 80302, the proposed projects listed below must be reviewed to determine if any are of special interest to the Board because of proposed building site, historical or cultural significance, proposed use, or other unique characteristics. For projects determined by the Board to be of special interest, the Facilities Planning and Construction Committee will select the architect.

1. Capital Improvement Program Additions

These proposed off-cycle projects have been approved by U. T. System staff and meet the criteria for inclusion in the Capital Improvement Program.

The Build-out of the Upper Floors of Kelly Hall project at U. T. El Paso will remodel the upper two floors and level five of Kelly Hall. Kelly Hall is a seven-story building that was a former dormitory. Four of the seven floors have been remodeled into office space for various research centers and other university functions. U. T. El Paso is requesting institutional management for this repair and rehabilitation project and appropriation and authorization for expenditure of the funding of $2,400,000 from Revenue Financing System Bond Proceeds.
The $2,400,000 in Revenue Financing System debt will be repaid from Designated Tuition. Average annual debt service on the project is estimated at $156,123. The institution's debt service coverage with the inclusion of the $2,400,000 in incremental debt associated with this project is expected to average 1.3 times over FY 2007 - FY 2012.

**The Physical Plant Building Renovation project at U. T. San Antonio** will renovate approximately 27,200 gross square feet to include accommodations for the Police Department, Parking and Transportation, and Information Technology. This project will provide program space to include offices, a communications center, training rooms, locker rooms, access control, entry and holding, and a shared lobby. This project will also upgrade and replace existing building systems, public rest rooms, circulation space, and provide additional building security. U. T. San Antonio is requesting institutional management for this repair and rehabilitation project and appropriation and authorization for expenditure of the funding of $2,700,000 from Unexpended Plant Funds.

**The Alkek Expansion project at U. T. M. D. Anderson Cancer Center** will construct five new inpatient floors with additional support space provided for pharmacy, nursing support, additional post anesthesia care unit and intensive care unit beds. The Alkek Expansion will also renovate the existing 12th floor to address infrastructure issues associated with the current protected environment. Two floors of Lutheran Pavilion will be vacated to provide horizontal expansion for surgery services on Level 5 and diagnostic imaging services on Level 3. Beds from these floors will be relocated to the new Alkek Tower floors. Initially three and one half shelled floors will be included in the Alkek Expansion, with plans to build out one and half floors in 2014 and two floors in 2016.

The Albert B. and Margaret M. Alkek Tower was designed to accommodate nine additional floors. The structural design was planned with locations for additional elevator capacity and mechanical distribution systems as well as future crane placement. U. T. M. D. Anderson Cancer Center is requesting institutional management of the project with the oversight of the Office of Facilities Planning and Construction. The proposed funding would be $224,000,000 from Revenue Financing System Bond Proceeds and $56,000,000 from Hospital Revenues for a total of $280,000,000.

2. **Changes to Total Project Cost, Revisions to Sources of Funding, Appropriation and Authorization of Expenditures, and Resolution of Parity Debt.**

**The Thermal Energy Plant No. 2/Garage project at U. T. San Antonio** requested an increase in the total project cost, appropriation of funds and authorization of expenditure, and resolution regarding parity debt. On August 7, 2003, the project was included in the Capital Improvement Program with a preliminary project cost of $8,000,000 with funding from Designated Tuition. On November 5, 2004, the Board approved design development plans and increased the total project cost to $16,500,000 with funding from Revenue Financing System Bond Proceeds. On May 12, 2005, the
Board approved the increase of the total project cost to $25,900,000 to include the parking garage and appropriated the additional funding of $9,400,000 from Revenue Financing System Bond Proceeds. On August 11, 2005, the Board approved the design development plans for the Parking Garage portion of the project. On April 3, 2006, the Chancellor approved the increase of the total project cost by $1,650,000 from Unexpended Plant Funds.

Funding would be revised from $25,900,000 from Revenue Financing System Bond Proceeds and $1,650,000 from Unexpended Plant Funds to $28,375,000 from Revenue Financing System Bond Proceeds and $1,650,000 from Unexpended Plant Funds for a total of $30,025,000. This request is for authorization for expenditure and appropriation of the additional $2,475,000 from Revenue Financing System Bond Proceeds.

The increase in total project cost will fund the increased scope of the Thermal Energy Plant No. 2 project and the four-level, 482 parking space garage that will include two elevators, elevator lobby, and support spaces. The Thermal Energy Plant will support the University Center Expansion, Phase III; Biotechnology, Sciences and Engineering, Phase II; and the Recreation and Wellness Center, Phase II.

The incremental $2,475,000 of Revenue Financing System debt will be repaid by parking fees and Designated Tuition. Average annual debt service on the yet-to-be-issued portion of Revenue Financing System for this project ($11.87 million) is estimated at approximately $772,000. Debt service coverage on the entire Thermal Plant No. 2/Garage project Revenue Financing System ($28.375 million) is expected to be at least 1.5 times and average 2.8 times over FY 2007 - FY 2012.

The Smithville Facility Strategic Plan project at U. T. M. D. Anderson Cancer Center was included in the CIP on August 7, 2003 with a preliminary project cost of $30,000,000 with funding from Hospital Revenues. With the adoption of the FY 2006-2011 CIP on August 11, 2005, the project was included in the CIP with a preliminary project cost of $30,300,000 with funding of $18,000,000 from Revenue Financing System Bond Proceeds and $12,300,000 from Hospital Revenues. On November 10, 2005, the Board approved the design development plans for Phase I of the project and appropriated $12,300,000 from Hospital Revenues.

This request is to decrease the total project cost and revise the funding sources to $26,000,000 from Hospital Revenues and to appropriate and authorize expenditure of the additional $13,700,000 from Hospital Revenues for construction of the fourth research laboratory building and infrastructure improvements on the campus.
27. **U. T. Health Science Center - Houston: Authorization to enter into an agreement with Optimization Zorn Corporation, Inc. to develop and deploy an automated school readiness rating certification program for the State of Texas**

**RECOMMENDATION**

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Vice Chancellor and General Counsel, and President Willerson that authorization be given for President Willerson and U. T. Health Science Center - Houston to execute an agreement with Optimization Zorn Corporation, Inc. (OZ), for development and deployment of an automated school readiness rating certification program for the State of Texas.

**BACKGROUND INFORMATION**

In accordance with the Regents’ *Rules and Regulations*, Series 10501, Board approval to execute this agreement, which exceeds $1 million and is for the period June 1, 2006 through August 31, 2007, is required. The total cost for services is $2,398,350. Some of the specific services include

a. enhancement of a data management system tracking data for all eligible children;

b. identification of early childhood literacy program effectiveness; and

c. tracking of student-level performance among early childhood and kindergarten institutions.

The institution's Department of Developmental Pediatrics will oversee this agreement and ensure that OZ delivers the final product in acceptable form. This project is funded through a grant from the Texas Education Agency.

The agreement will contain the following key elements:

- U. T. Health Science Center - Houston will spend $2,398,350 from the period June 1, 2006 through August 31, 2007. The total amount of payments made shall not exceed $718,950, excluding travel expenses, for work and services during the period from June 1, 2006 to August 31, 2006. From September 1, 2006 to August 31, 2007, the total payments shall not exceed $1,665,000, excluding travel expenses.
• All drawings, designs, specifications, plans, computations, computer hardware and software, etc., prepared or provided by OZ are the sole and exclusive property of U. T. Health Science Center - Houston.

• U. T. Health Science Center - Houston may terminate this contract at any time upon written notice to OZ.

• If funding is lost from the Texas Education Agency, U. T. Health Science Center - Houston may terminate the contract without further duty or obligation.

The Center for Improving the Readiness of Children for Learning and Education (CIRCLE) at U. T. Health Science Center - Houston is under the direction of Susan H. Landry, Ph.D., and incorporates a large number of research and training staff and child development faculty. Currently, the Center is actively involved in numerous research, community programs, and training activities related to the goal of promoting quality learning environments for young children.

In 2005, the Texas Legislature mandated the State Center for Early Childhood Development (State Center) to establish a School Readiness Certification System to be used across Texas. The purpose of this statewide system is to certify that children in Head Start, childcare and public school pre-kindergarten programs are arriving into kindergarten socially, emotionally, and cognitively ready. OZ, based in Dallas, Texas, is on the Texas Building and Procurement Commission's state purchasing list and was selected by the Texas Education Agency to work with the State Center to provide a web-based information system to support data collection and the implementation of the School Readiness Certification System. There are no other companies with a proven and documented history of success with Texas state government that possess the capability for volume, security, and scalability using existing data sets on Texas children ages 0-5 years that OZ demonstrates. The Texas Education Agency has designated OZ as a sole source provider.

28. **U. T. M. D. Anderson Cancer Center: Approval for participation and investment as a limited partner in The Madelin Fund, L.P. and delegation to the president of U. T. M. D. Anderson Cancer Center of authority to execute documents and take other actions as necessary**

**RECOMMENDATION**

The Chancellor concurs in the recommendation of President Mendelsohn and the Executive Vice Chancellor for Health Affairs, as reviewed by the Vice Chancellor and
General Counsel, that The University of Texas System Board of Regents approve and/or authorize the following on behalf of The University of Texas M. D. Anderson Cancer Center:

a. participation and investment as a limited partner in The Madelin Fund, L.P. focused on cancer therapeutics in accordance with the term sheet, on Pages 238 - 251.

b. delegation to the president of U. T. M. D. Anderson Cancer Center, following review by the Executive Vice Chancellor for Health Affairs and the Vice Chancellor and General Counsel, of authority to execute documents and take such other actions necessary to accomplish the referenced transaction.

BACKGROUND INFORMATION

Over the course of the previous eight years, U. T. M. D. Anderson Cancer Center (UTMDACC) has expended substantial effort and resources to advance its campus environment toward promoting technology commercialization. This is a critical part of UTMDACC's mission to eradicate cancer, in that its efforts are aimed at accelerating the process of developing novel inventions in the cancer treatment and prevention arena into products that will benefit cancer patients and the public at large.

Under the direction of Dr. Christopher C. Capelli, Vice President for Technology Transfer, UTMDACC has created an Active Venture Development Program, which is aimed at taking novel inventions created at UTMDACC and coupling them with inventions from other universities to develop beneficial products in the cancer care and prevention market.

In conjunction with the activity in the Active Venture Development Program, UTMDACC has recently secured a proposed term sheet for the formation of The Madelin Fund, L.P. that will be aimed at providing privately negotiated venture capital investment in companies operating in the oncology and oncology-related healthcare sectors, including, but not limited to, cancer prevention, diagnostics, therapeutics, medical devices, post-treatment cancer care opportunities, and such disease states that are representative of abnormal cell growth and proliferation. This opportunity was discussed with members of the Board of Regents' during the Health Affairs Committee on May 10, 2006.

As structured, UTMDACC's investment in the fund would only come about in the event that the Madelin Fund principals were able to raise an initial capital amount of $22.5 million. Upon raising $22.5 million, UTMDACC would then contribute $2.5 million for its 10% position. Thereafter, capital will be raised to a maximum of $50 million total value of the fund, including the $5 million maximum contribution on the part of UTMDACC.
UTMDACC would match every $9 raised with $1 of its own investment to maintain its 10% position. The principals of the Madelin Fund have committed to investing $1.25 million of their own.

As a limited partner, UTMDACC would not be subject to any further investment other than the maximum amount of $5 million regardless of circumstances. UTMDACC would share in the gains and profits of the fund commensurate with its percentage position. It would also receive a minority of the carried interest for its role as a special limited partner. UTMDACC would not participate in the investment decisions of the fund, as that would be the role of the general partner. UTMDACC has the right to approve any use of its name in connection with any documents or other material used in connection with the raising of capital for the fund.

The fund would not be limited to investment opportunities involving UTMDACC inventions. The fund would be focused on cancer therapeutics and oncology-related products as described above. It is anticipated that inventions from other universities would be evaluated for potential investment opportunities through the M. D. Anderson Active Venture Development Program with the opportunity to enhance those inventions with scientific contributions from UTMDACC, or by coupling those inventions with UTMDACC inventions in order to advance both inventions towards a marketable product. The scientific feasibility and diligence services provided by UTMDACC would be on a fee for service basis pursuant to a separate contract.

It is the intention of U. T. M. D. Anderson Cancer Center to use unrestricted gift funds to provide the capital necessary for this investment. U. T. M. D. Anderson Cancer Center has determined that such funds may be legally invested as proposed. Further, U. T. M. D. Anderson Cancer Center's investment in the fund has been requested by the general partner to show support and commitment to the effort on the part of U. T. M. D. Anderson Cancer Center.

Over the course of the previous eight years as UTMDACC has advanced its technology development and commercialization program, it has become apparent that investment capital needed to fund the companies necessary to develop oncology inventions into products is not readily available in the Houston market. This opportunity provides a unique chance to accelerate the process of raising interest in the capital markets necessary for the development of new oncology products. The other 90% capital that the general partners will raise for this fund will come largely from investors on both the east and west coasts of the United States, with some investors from overseas, such as the Asian market. That type of participation will undoubtedly create a higher level of interest in other capital markets, as investment in new technology companies tends to be through a syndicated process of multiple venture capital funds.
SUMMARY OF PRINCIPAL TERMS

THE MADELIN FUND, L.P.

A Fund Investing in Cancer Related Opportunities Emanating from The University of Texas M. D. Anderson Cancer Center and Other Institutions, Entities and Individuals

The following is a summary of the principal terms of the offering of limited partnership interests in The Madelin, Fund, L.P. (the “Fund”), a Delaware limited partnership. This summary is qualified in its entirety by reference to this Memorandum and the Limited Partnership Agreement of the Fund (the “Partnership Agreement”), a copy of which will be provided to each prospective investor upon request. To the extent that a conflict exists between this document and the Partnership Agreement, the Partnership Agreement shall control.

The Fund: The Madelin Fund, L.P., a Delaware limited partnership.

Investment Objective: The Fund’s objective is to achieve investment returns primarily in the form of capital gains by making privately negotiated venture capital investments in companies operating in the oncology and oncology related healthcare sectors, including but not limited to cancer prevention, diagnostics, therapeutics, medical devices, post-treatment cancer care opportunities, and such disease states that are representative of abnormal cell growth and proliferation. The Fund will have a relationship with The University of Texas M. D. Anderson Cancer Center (UTMDACC) described below under “Special Limited Partner and Relationship with The University of Texas M. D. Anderson Cancer Center.”

General Partner: The General Partner of the Fund will be Madelin Investment Partners, L.P., a Delaware limited partnership. Edward A. Fagin, Cynthia Ekberg Tsai, Fred Mermelstein, Ph.D. and Robin Smith, M.D., M.B.A. (each a “Principal”) will be owners of the General Partner and “Name to be Determined”, LLC, the general partner of the General Partner.

Fred Mermelstein, Ph.D. will serve as the liaison on behalf of the General Partner with UTMDACC and/or its designees.

The Principals and their affiliates, either directly as limited partners or through the General Partner, will make an aggregate capital commitment to the Fund of $1.25 million, to be funded either in cash or in promissory notes.

Manager: The Fund will engage Madelin Management, LLC (the “Manager”), an affiliate of the General Partner, to provide various investment advisory services to the Fund. The Manager
will sub-contract with UTMDACC to provide certain advisory services, including deal sourcing, scientific or feasibility due diligence and technology validation.

The Fund has formed an alliance with UTMDACC and its Active Venture Development Program to enhance the Fund’s ability to identify, evaluate and launch ventures based on technologies and services originating either with UTMDACC or from institutions, entities and individuals unaffiliated with UTMDACC. The General Partner expects that the Fund’s alliance with UTMDACC will provide the Fund with enhanced deal flow, assistance in assessing opportunities, and access to opportunities incubated within the UTMDACC Active Venture Development Program. However, neither UTMDACC’s participation in this transaction, nor its participation in any activity contemplated herein, shall in any way serve as either a warranty or representation of either the quantity or quality of any or all investment opportunities presented for investment to the Fund. UTMDACC’s capital commitment to the Fund will be equal to 10% of the total capital commitments, not to exceed $5 million, and UTMDACC will receive 20% of the carried interest of the Fund as a Special Limited Partner in addition to its proportionate interest as a Limited Partner. UTMDACC will use its best efforts to show the Fund all legally available investment opportunities emanating from UTMDACC which are within the scope of the Fund’s investment objectives. UTMDACC will have the right to participate as an observer in all meetings of the Principals of the General Partner relating to investment decisions except where considerations of confidentiality and/or conflict of interest make such participation inappropriate or prohibited.

UTMDACC shall have right to approve the use of its name in any documents or other material used to solicit investments in the Fund.

The securities being offered are limited partnership interests ("Interests"). The Fund is seeking total capital commitments ("Commitments") of $50 million. Commitments in excess of or less than this amount may be accepted at the discretion of the General Partner. Commitments in excess of $50 million shall not affect UTMDACC’s maximum total commitment of $5 million. Investors that subscribe for interests will become limited partners of the Fund (the "Limited Partners" and, together with the General Partner and Special Limited Partner, the "Partners").
Minimum Investment:
The minimum Commitment for a Limited Partner will be $500,000 for individuals and $1,000,000 for institutions, although the General Partner reserves the right to waive these minimums. The General Partner may, in its discretion, decline to accept any subscriptions that are tendered.

Closings:
An initial closing of the Fund (the “Initial Closing”) will be held upon the acceptance of subscriptions for Commitments aggregating at least $25 million inclusive of UTMDACC’s 10% commitment and not until such commitments are obtained. The General Partner, in its discretion, may admit additional Limited Partners to the Fund or allow existing Partners to increase their Commitments at subsequent closings (each a “Subsequent Closing”) held at its discretion until the date of the first anniversary of the Initial Closing (such first anniversary referred to hereafter as the “Final Closing Date”). All Partners, regardless of the closings at which they are admitted to the Fund, will share in every Fund investment and expense pro rata in accordance with their respective subscriptions.

Each Limited Partner admitted at any Subsequent Closing (or which increases its Commitment after the date of the Initial Closing) will be required to pay to the Fund an amount (the “Later Closing Amount”) equal to the sum of: (a) an amount equal to the same percentage of its Commitment that has been contributed by the other Limited Partners; plus (b) an amount of interest accruing at a per annum rate equal to 8% on the amount of such prior capital contributions from the dates when such prior capital contributions would have been required to be drawn down through the date of such Subsequent Closing (the “Interest Component”). The amount referred to in (a) above will be distributed to the Partners that participated in the prior capital contributions pro rata in accordance with each such Partner’s capital contributions, provided that amounts representing the Management Fee (as defined below) and the Interest Component thereon shall be paid to the Manager. Amounts so distributed in respect of prior capital contributions will be available to be redrawn by the General Partner in the same manner and to the same extent as unfunded Commitments. Interest Components paid as provided above will be distributed to the Partners that participated in prior capital contributions in amounts reflecting the timing and amounts of those prior capital contributions and will not be treated as capital contributions to the Fund.
Term: Ten years from the Final Closing Date, subject to extension by the General Partner for up to three additional one-year periods.

Investment Period: The Partners will have no obligation to make additional capital contributions to fund new investments after the third anniversary of the date of the Initial Closing (the “Investment Period”); provided, however, that the General Partner may extend the Investment Period for a one-year period in its discretion; and provided, further, that after the end of the Investment Period the Partners will have a continuing obligation to make contributions to finance then existing commitments and complete investments in transactions which were in process at the close of the Investment Period, follow-on investments and to pay Fund Expenses (as defined below), liabilities and obligations, including management fees. Nothing in this section entitled “Investment Period” shall serve to increase UTMDACC’s maximum total Commitment of $5 million.

Key Persons: If more than two of the Principals cease to remain actively involved in the affairs and activities of the Fund, the General Partner shall promptly notify the Limited Partners and shall not make any new investments (except for follow-on investments or investments pursuant to a then existing legally binding agreement) without the approval of the Advisory Committee (as defined below). Such suspension shall continue until the General Partner presents a management plan that is approved by the Advisory Committee or a majority in interest of the Limited Partners.

Capital Calls: Capital calls generally will be made as necessary to fund investments, meet expenses and liabilities of the Fund, or to establish and maintain cash reserves for such purposes as the General Partner deems necessary and appropriate, with not less than ten business days’ prior written notice. In no event shall the sum of all commitments and / or contributions made by UTMDACC to the Fund exceed $5 million.

Any amounts returned to the Partners either (i) as a return of Commitments called in anticipation of an unconsummated Fund investment or (ii) as repayment of a Bridge Financing (as defined in “Bridge Financing” below) made by the Fund will be available for future Fund investments and expenses.

Reinvestment: In addition to the foregoing, the General Partner may retain and reinvest otherwise distributable proceeds or subject all or a portion of such proceeds to a subsequent drawdown in order to
Distributions:

The Fund intends to distribute available cash (net of reserves for permitted reinvestment, Fund Expenses or withholdings) on a timely basis and to make in-kind distributions of publicly traded securities as soon as those companies have reached an appropriate level of development. Distributions prior to termination may be made in the form of cash or freely traded securities. Upon liquidation, distributions also may consist of restricted securities or property.

Distributions shall be made in the following amounts and order of priority:

(i) First, 100% to the Partners until each Partner has received distributions equal to their aggregate capital contributions; and

(ii) Thereafter, (a) 20% to the General Partner and Special Limited Partner and (b) 80% to the Partners (the distributions paid to the General Partner and Special Limited Partner under clause (a) are referred to as distributions of “Carried Interest”).

The General Partner and Special Limited Partner may elect in their sole and absolute discretion not to receive all or any portion of any Carried Interest distributions that would otherwise be made to them. Any such distribution shall be, in the General Partner and Special Limited Partner’s sole discretion, either retained by the Fund on the General Partner and Special Limited Partner’s behalf or distributed to the Limited Partners. To the extent that the General Partner and Special Limited Partner elect not to receive any Carried Interest distribution, subsequent distributions shall be made to the General Partner and Special Limited Partner until they have received the amount of Carried Interest distributions they would then have been entitled to receive without such election; provided that no interest shall accrue on or be paid to the General Partner and Special Limited Partner with respect to any such deferred Carried Interest distributions.

The Fund may make cash distributions to the General Partner and the Special Limited Partner in an amount sufficient to pay the General Partner’s and the Special Limited Partner (or their respective owners’) income taxes on income allocated for tax

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Valuation of In-Kind Distributions:

Distributions of freely tradable securities will be valued at the average closing trade prices for the ten business days immediately preceding distribution if closing trade prices generally are reported, and otherwise at the average closing bid prices for the ten business days immediately preceding distribution. Distributions of in-kind of assets other than freely tradable securities will be valued by the General Partner, taking all factors it deems relevant into account, subject to an objection procedure where a majority of the Limited Partners may object to the General Partner’s valuation and request a new valuation. If the General Partner and a majority of the Limited Partners cannot agree on a valuation, an independent chartered financial analyst will determine the valuation. Valuations determined in the above manner shall be binding on the Partners for all purposes, including determination of Carried Interest distributions to the General Partner and Special Limited Partner.

Clawback:

If, after the Fund has made its final liquidating distribution, the General Partner and Special Limited Partner have received aggregate distributions with respect to their Carried Interest in excess of 20% of the Fund’s cumulative net profits, the General Partner and Special Limited Partner will return to the Fund the amount of that excess, net of tax distributions made to the General Partner and Special Limited Partner that are attributable to their Carried Interest (calculated in accordance with the Fund’s Partnership Agreement).

Bridge Financing:

The Fund may provide interim financing ("Bridge Financing") in order to facilitate a portfolio investment. A Bridge Financing recouped within one year following the date of the closing of such financing may be retained by the Fund for reinvestment or used to pay Fund expenses or it may be returned to the Partners and added to unfunded Commitments that will be subject to recall by the Fund. During such one-year period, a Bridge Financing will be treated as a short-term investment and will not be subject to the carried interest provisions outlined in “Distributions” above.

A Bridge Financing not recouped within one year will be treated as a permanent investment in the portfolio company. Hence, after such one-year period, interest earned will not be treated as short-term interest income, and the Bridge Financing will be subject to the carried interest provisions outlined in “Distributions” above.
Management Fee:

A management fee for management and administrative services (the “Management Fee”) will be payable by the Fund, quarterly in advance, to the Manager and will commence as of the Initial Closing. Until the first calendar year after the end of the Investment Period, the Management Fee will equal 2.5% per annum of the Fund’s aggregate Commitments. Thereafter, the Management Fee will be reduced by 10% per year, but in no event shall be less than 1.5% of the Fund’s aggregate Commitments.

Pursuant to the Manager’s sub-advisory agreement with UTMDACC, the Manager will pay UTMDACC compensation in respect of the due diligence and other services to be provided by UTMDACC. In no event shall such services constitute management and/or administrative services. Such compensation generally shall be in an amount up to 20% of the annual Management Fee as set forth in the attached Schedule A.

All transaction fees and break-up fees paid to the General Partner or Manager in any fiscal year by the Fund’s portfolio companies will be used to reduce the Management Fee arising in the following fiscal year. All other remuneration paid to the General Partner or Manager by the Fund’s portfolio companies, including director’s fees, consulting fees, advisory fees or other similar remuneration, will not be offset against the Management Fee. In addition, any reimbursement of the Manager or its respective employees or affiliates for out-of-pocket expenses incurred on behalf of a portfolio company or for compensation for services as an employee or officer of a portfolio company will not be offset against the Management Fee.

The Management Fee will commence as of the Initial Closing Date based on total Commitments, regardless of when a Limited Partner is actually admitted.

Organizational and Offering Expenses:

The Fund will bear all reasonable organizational expenses of the Fund, the General Partner and the Manager, and all reasonable expenses (including fees and expenses of placement agents) incurred in connection with the offering of the Interests.

General Partner’s and Manager’s Expenses:

Each of the General Partner and Manager will be responsible for its normal operating expenses, including salaries and employee benefits, office expenses, office and equipment rental and bookkeeping.

Fund Expenses:

In addition to the Management Fee, to the extent the following fees, costs and expenses are not paid by portfolio companies or
others, the Fund will pay and be responsible for all of its other expenses, including but not limited to: all fees, costs and expenses of and incidental to the holding, developing, negotiating, structuring, making and disposing of portfolio investments (whether or not consummated); the cost of the preparation of the annual audit, financial and tax reports to Partners, and other reports to and communications with Partners; fees and expenses of tax advisers, attorneys, accountants, auditors and consultants; all routine administrative expenses; litigation-related expenses; costs and expenses associated with meetings of the Limited Partners and of the Advisory Committee and Scientific Advisory Board of the Fund; all other legal fees, costs and expenses incident to the Fund, its formation, its management and activities; interest and other expenses relating to any Fund indebtedness; insurance premiums; fees incurred by the Fund for special advisory or consulting services; brokerage commissions, custodial expenses, securities filing fees and other investment costs; any taxes, fees or other governmental charges levied against the Fund; expenses of liquidating the Fund, including without limitation any legal, accounting, advisory, financing and consulting costs and expenses in connection therewith and all extraordinary fees, costs and expenses (all of the foregoing, "Fund Expenses").

Advisory Committee: The Fund will have an Advisory Committee consisting of at least three persons chosen by the General Partner from Limited Partners or persons associated with the Limited Partners, including one person from or associated with UTMDACC (the "Advisory Committee"). The Advisory Committee will provide such advice and counsel as is requested by the General Partner in connection with potential conflicts of interest, portfolio valuation and other Fund matters. The Fund will reimburse each Advisory Committee member for reasonable out-of-pocket expenses.

Scientific Advisory Board: The General Partner, with the assistance of UTMDACC, will form a Scientific Advisory Board of leading professionals from UTMDACC and other leading institutions to advise the Fund on matters relating to investment strategy, deal sourcing, due diligence and validation and related matters.

Indemnification: The Fund will indemnify and hold harmless the General Partner, the Manager, the Special Limited Partner and any of their affiliates, shareholders, partners, officers, directors, employees, or agents, and any members of the Investment
Committee ("Indemnitees") for any and all claims, liabilities, losses, damages, costs and expenses incurred by such Indemnitee or to which such Indemnitee may be subject by reason of its activities on behalf of the Fund or in furtherance of the interest of the Fund or otherwise arising out of or in connection with the Fund and its portfolio companies and as otherwise provided for in the Partnership Agreement (including activities of any Indemnitees that relate to the offer or sale of Interests in the Fund in reliance on any representations or warranties made by any Limited Partner), except that this indemnity shall not apply to losses that are found by a court of competent jurisdiction or an arbitrator or arbitration panel to have resulted from such Indemnitee’s own fraud, wilful misconduct, gross negligence or wilful and material breach of the Partnership Agreement. Limited Partners will be obligated to return amounts distributed to them to fund indemnity obligations (without regard to their Commitments), subject to certain limitations described in the Partnership Agreement. Members of the Advisory Committee will also be entitled to indemnification from the Fund as provided in the Partnership Agreement.

The Indemnitees also have the benefit of exculpation provisions similar to the foregoing as set forth in the Partnership Agreement. The Fund may agree to indemnify and exculpate certain finders and advisers engaged in connection with the placement of interests in the Fund to the maximum extent permitted by law.

Transferability of Interests; Withdrawal:

A Limited Partner may not sell, assign or transfer its Interest except under certain limited circumstances and with the prior written consent of the General Partner, provided however that UTMDACC shall have the right in its sole discretion to transfer its interest to an affiliated entity within the University of Texas System. Withdrawals of capital are not permitted except under certain limited circumstances to comply with certain laws or regulations applicable to a Limited Partner.

Investment Guidelines:

The General Partner will not, without the prior approval of the Advisory Committee, (a) invest more than 20% of the Fund’s total Commitments in the securities of any single issuer, (b) make open-market purchases of publicly-traded securities at a cost in excess of 10% of the Fund’s total Commitments, (c) invest in any pooled investment vehicle requiring the payment of additional management fees or carried interest, or (d) invest initially in a portfolio company of any other investment vehicle.
managed by affiliates of the General Partner.

The Fund may borrow money only on a short-term basis pending drawdowns of Commitments, not to exceed at any time 10% of the Fund’s total committed capital.

In the event that, after the General Partner determines the amount that the Fund should invest in a portfolio investment, and after taking into account any joint investment relationships, deal sourcing and strategic reasons to allocate any opportunity to invest additional amounts in such portfolio investment to third parties, there is still an opportunity to invest additional sums in such portfolio investment (any such additional amount being a "Co-Investment Opportunity"), then the General Partner shall offer a portion of such Co-Investment Opportunity to any Limited Partners that, at the time of their admission to the Fund, elected in writing with the General Partner to receive such offers. Each such Limited Partner will be entitled (but not obligated) to invest outside the Fund in such Co-Investment Opportunities in an amount equal to the amount of such Co-Investment Opportunity multiplied by a fraction, the numerator of which is such Limited Partner’s Commitment and the denominator of which is the aggregate Commitments of all Partners. All or any part of any remaining Co-Investment Opportunity may be offered by the General Partner in its sole discretion to any other person or persons (including, without limitation, any third parties, Limited Partners of the Fund, the General Partner or any of the Principals or their affiliates). The General Partner and its affiliates may establish an investment vehicle in connection with the making of co-investments.

The Partnership Agreement will provide that any Limited Partner which defaults with respect to any payment of its Commitment when due shall be subject to various consequences specified therein, including the imposition of an interest charge, punitive dilution of its interest, set-off against or withholding of distributions payable to such Partner, the sale of its Interest, a loss of future participation in Fund profits and the cancellation of its remaining Commitment. A defaulting Limited Partner shall remain liable to the Fund, the General Partner and the Manager for its share of Fund Expenses, including the Management Fee, through the remaining life of the Fund. A default by any one Partner will not relieve any other Partner from its obligations to fund a capital call. The General Partner may require each non-defaulting Limited Partner to make an additional capital contribution in respect of such portfolio
investment equal to its pro rata share of the defaulted capital contribution; provided that no Limited Partner will be required to fund amounts in excess of its unfunded Commitment. Any additional capital contributions made by a non-defaulting Limited Partner will reduce the unfunded Commitment of such Limited Partner.

Other Activities:
Without the consent of a majority in interest of the Limited Partners, neither the General Partner nor any affiliate will organize another investment fund with investment objectives substantially similar to those of the Fund until the earliest of (i) the date on which 75% of the Fund’s total Commitments have been expended, invested or reserved for follow-on investments in existing portfolio companies or reserved for reasonably anticipated expenses of the Fund, (ii) the end of the Investment Period, and (iii) the dissolution of the Fund.

Reports:
The General Partner will use commercially reasonable efforts to provide the Limited Partners, within 90 days of the conclusion of each fiscal year, with (i) an annual audited report and (ii) annual tax information necessary for completion of their income tax returns. The General Partner will use commercially reasonable efforts to provide the Limited Partners, within 60 days of the conclusion of each of the first three fiscal quarters, with unaudited quarterly financial statements. Limited Partners will keep such reports and all other Fund information strictly confidential.

Potential Parallel Investment Vehicle:
The Fund is intended to comply with the Investment Company Act of 1940 (the "Investment Company Act") by virtue of either Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act. The General Partner may organize separate parallel partnerships to address any legal, tax or regulatory concerns of particular investors. If such parallel partnerships are established, such partnerships and the Fund will operate in parallel, participate proportionately in all investment opportunities and share proportionately in all investment expenses.

Employee Benefit Plan Regulations:
The General Partner intends to conduct the operations of the Fund so that it will be an appropriate investment for employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). In particular, the General Partner will use commercially reasonable efforts to ensure that the Fund will not be deemed to hold the "plan assets" of such employee benefit plans under the plan asset
regulations promulgated by the Department of Labor. The fiduciary of each prospective plan investor must independently determine that the Fund is an appropriate investment for such plan, taking into account the fiduciary’s obligations under ERISA and the facts and circumstances of each investing plan.

**Tax-Exempt Investors:**

The Fund will use commercially reasonable efforts to avoid causing any tax-exempt Limited Partner to realize "unrelated business taxable income." To that extent it shall be a goal of the Fund to invest in opportunities that will serve to benefit the public by accelerating the development and public availability of goods and services from companies operating in the oncology and oncology related healthcare sectors, including but not limited to cancer prevention, education, diagnostics, therapeutics, medical devices, and post-treatment cancer care products.

**Confidentiality:**

The Limited Partners will be required to give an undertaking that they shall not, and shall make reasonable efforts to ensure that every person connected or associated with such Limited Partner shall not, disclose to any person, firm or corporation, or use to the detriment of the Fund, the General Partner or the Manager, any confidential information which may have come to its knowledge as a result of being a Limited Partner in the Fund and concerning the affairs of the Fund, the General Partner, the Manager, the Special Limited Partner, any of the Limited Partners or concerning any actual or proposed investment by the Fund, unless required to do so by law, including but not limited to the Texas Public Information Act, or by the regulations of any relevant stock exchange or other regulatory authority which has jurisdiction over it.

**Amendments; Entire Agreement:**

The Partnership Agreement may be amended from time to time with the written consent of the General Partner and a majority in interest of the Limited Partners, except that no amendment may increase any Limited Partner’s Commitment, reduce its share of the Fund’s distributions, income or gains or increase such Limited Partner’s share of losses or change the amendment provisions in a manner adverse to such Limited Partner, without the consent of such Limited Partner nor may any amendment change the percentage of interests of Limited Partners required for any consent without the approval of the percentage of such interests that would be required for the consent in question. Notwithstanding the foregoing, the General Partner may amend the Partnership Agreement without the consent of the Limited Partners in connection with a subsequent closing so long as the
amendment does not adversely affect the rights and obligations of any existing Limited Partner as a whole in any material respect and the amendment is not objected to by Limited Partners representing 20% or more of the Fund’s Commitments.

The Fund or the General Partner, without any further act, approval or vote of any Partner, may enter into side letters or other writings with individual Limited Partners which have the effect of establishing rights under, or altering or supplementing, the terms of the Partnership Agreement in regards to such Limited Partner, and only such Limited Partner. Any rights established, or any terms of the Partnership Agreement altered or supplemented, in a side letter with a Limited Partner shall govern solely with respect to such Limited Partner and only such Limited Partner (but not any of such Limited Partner’s assignees or transferees unless so specified in such side letter) notwithstanding any other provision of the Partnership Agreement.

Legal Counsel: Fulbright & Jaworski L.L.P. will act as counsel to the Fund.

Execution: Execution of this document as provided below represents the intent but no obligations of the parties.

The Madelin Fund, L.P. By and Through

Date

Leon Leach
Executive Vice President
The University of Texas M. D. Anderson Cancer Center


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<th>Percentage of Management</th>
<th>Size of Fund</th>
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