

APR 14 1988

2. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter I (General) and Authorization for the Executive Secretary to the Board to Make Appropriate Editorial Changes Therein.--At the October 9, 1987 meeting of the U. T. Board of Regents, Land and Investment Committee Chairman Ratliff requested that the Office of the Chancellor undertake a review of The University of Texas System endowment policies and programs.

As a result of that review, approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter I (General) pertaining to endowments to read as set forth below:

- a. Present Sections 1-4 were amended and renumbered as follows:

Sec. 1. Gifts to The University of Texas System.

- 1.1 The authority to accept gifts to the System or to any of the component institutions is vested in the Board.
- 1.2 Recommendations for the acceptance of gifts showing details as to value, form, stipulations regarding use, and provisions for custody and disbursement of funds shall be transmitted by the chief administrative officer to the Office of the Chancellor and by that office, with recommendations, to the Board.
- 1.3 Gifts to Permanent Endowments.
1.31 All gifts to establish permanent endowments of any nature shall be accepted by the Board via the Agenda after review and recommendation by

the Office of the Chancellor, including the Office of Asset Management, of the terms of the endowment and the nature of the donated assets. Gifts to a permanent endowment previously established by the Board may be accepted by the chief administrative officer of a component institution after review and approval by the Office of Asset Management of the nature of the donated asset.

1.32 Permanent endowments will be established at a minimum funding level of \$10,000. Endowments may be established to fund scholarship programs and other educational activities as well as the endowed academic positions specified in Section 3 below.

1.33 All endowment gifts are subject to the ensuing provisions:

1.331 Should the Board determine at any time that the fund is not of sufficient size, and has no foreseeable prospects of growing to sufficient size to justify the continuing costs of maintenance of such fund as a separate fund, then in the Board's discretion the principal of such fund may be expended for or otherwise devoted to the accomplishment, as near as may be possible, of the purposes for which the fund was established.

1.332 A permanent register of Memorial Gifts shall be maintained at each component institution to record gifts, or where the gift or donation is not specifically directed to a component, the register shall be maintained by System Administration.

1.4 Except as provided in other subsections of this Section, the authority to accept gifts to a component institution is delegated to the chief administrative officer when the gift is to a fund, foundation, or enterprise already approved by the Board or is a continuation of a series which has been previously approved by the Board. Each chief administrative officer, or a designee specified in writing, is empowered to accept cash gifts (except endowments) to a component institution of the System in the amount of \$25,000 or less and gifts in kind having a value of \$25,000 or less, within the policies of the Board and Legislature governing the acceptability of gifts, and to deposit such gifts to the appropriate accounts. All gifts (except those described in subsection 1.5 below) shall be reported by the docket of each component institution as prescribed by the Board.

- 1.5 A quarterly report of all such gifts of \$25,000 or less showing name and address of donor, amount of cash gift or value of gift in kind, purpose, and date of the gift shall be filed with the Board within thirty (30) days after August 31, November 30, February 28, and May 31 of each year. Such reports will summarize gifts of \$2,500 or less showing only total dollars and number of gifts.
- 1.6 Except as provided in this Section and the preceding Sections, no member of the staff of any institution has the authority to accept gifts to the System or to any of its component institutions. Gifts to the component institutions of books or other objects of very small value and very obvious propriety, without conditions attached, may be accepted by individual members of the staffs provided these gifts are reported to the Board as specified in Subsections 1.4 or 1.5 as appropriate.
- 1.7 Due to the inefficiencies and high costs associated with separately tailoring investment management programs for gifts that are investment-restricted, notwithstanding any other provision of this Chapter, a gift subject to investment restrictions shall be referred to the System Director of Development who shall review the terms of the gift instrument with the Office of Asset Management and the Office of General Counsel prior to acceptance of the gift and/or prior to its recommendation for acceptance by the U. T. Board of Regents.
- 1.8 Neither the System nor any of its component institutions will accept a gift for the benefit of any designated student unless the donor is exempt from Federal Income Taxes as defined by the Commissioner of Internal Revenue.
- 1.9 The acceptance of gifts of real property is prohibited without prior express approval of the Legislature except for establishing scholarships, professorships, or other trusts for educational purposes, provided that such property will not thereafter require legislative appropriations for operation, maintenance, repair, or construction of buildings (Current Appropriations Bill). Acceptance of all gifts of real estate shall be subject to the U. T. System Trust Fund Real Estate Policy Statement.

Sec. 2. Fellowships, Scholarships, and Loan Funds.

- 2.1 After gifts for fellowships, scholarships, and loan funds have been accepted by the Board, as indicated previously, they are administered jointly by designated committees and the business office of each component institution.

- 2.2 In the case of scholarships and fellowships, the appropriate committee, or designated individual, receives applications, makes the necessary inquiries, and determines the award. The committee advises the institutional head of the award who, in turn, approves and forwards the notice of award to the business office. Payments on scholarships and fellowships are made through the business office of the component institution.
- 2.3 In the case of loan funds, the appropriate committee or designated person receives applications for loans, makes the necessary inquiries, and approves or declines the original loan as well as all renewals and extensions. The chairman notifies the business office of the granting of loans, and all records including notes, cash, accounts and collections are thereafter handled by that office. The principal of loan funds is kept intact insofar as possible. The chairman of the awarding committee may be requested by the business office to assist in collection of past due interest or principal.

Sec. 3. Endowment of Academic Positions.

- 3.1 No endowment will be established or announced without prior approval of the Board, and no initial appointment will be made to an endowed chair or professorship without prior approval by the Board via the Agenda. Subsequent new or continuing appointments to the endowed chair or professorship may be approved as a part of the annual operating budget or via the Docket of the Office of the Chancellor. Appointments to endowed fellowships may be approved via the Docket of the Office of the Chancellor, unless included as part of the annual budget approval process.
- 3.2 No negotiations or commitments implying the establishment of the endowment of an academic position will be undertaken by any faculty member or officer of the component institution until the proposal has been formally approved by the chief administrative officer.
- 3.3 Recommendations to the Board concerning acceptance of gifts for endowment of academic positions will be made through the Office of the Chancellor to the Board. Before the final action of the Board, such recommendations will be referred to the Land and Investment Committee as to fiscal arrangements and to the Academic or Health Affairs Committee as to policy.
- 3.4 The six categories of endowed and named academic positions and the minimum funding levels to establish the positions are:
Distinguished University Chairs (\$2,000,000),

Distinguished Chairs (\$1,000,000), Chairs (\$500,000), Distinguished Professorships (\$250,000), Professorships (\$100,000), and Fellowships (\$50,000). All agreements related to endowed academic positions made prior to April 14, 1988, will remain in effect unless a specific request for change is made by the donor and the institution and approved by the Board.

- 3.41 Distinguished University Chairs, Distinguished Chairs, Chairs, Distinguished Professorships, and Professorships will be established with the minimum funding levels authorized by the Board of Regents or the equivalent in annual contributions arranged according to agreements recommended by the Office of the Chancellor and approved by the Board. The component institution will pay from its funds such amounts as are necessary to set the salary of the holder at a level commensurate with his or her record, experience, and position in the faculty. The endowment income will be used both for salary supplementation and for other professional support of the holder of the endowed position, including assistance in the holder's research. The endowment income also may be used to pay an appropriate part of the salary of the holder of the endowed position commensurate with an authorized reduced faculty work load when required by other duties of the position or when the holder is on part-time or full-time research leave which is otherwise unfunded. It is provided specifically, however, that, in no event, will endowment income be used to supplant any other source of funds used to pay the base salary of the holder of the position when the holder is performing his or her regular duties.
- 3.42 Endowed Fellowships. The endowed fellowship will be established with a minimum of \$50,000 or the equivalent in annual contributions arranged according to agreements recommended by the Office of the Chancellor and approved by the Board of Regents. Income from the endowment may be used to supplement the salary of the holder of the fellowship, who may be a qualified person of any academic rank irrespective of tenure status, and will also be available for other professional support of the holder. The endowed fellowship will be used to provide temporary support (not to exceed one academic year) of distinguished scholars who are in temporary residence at the component

while participating in planned academic programs; visiting scholars who are in temporary residence at the institution for special academic programs or purposes; component faculty who have made unique contributions to academic life or to knowledge in their academic discipline; and component faculty of any academic rank, irrespective of tenure status, who have been selected for teaching excellence through procedures established by the component institution. Grants for endowed visiting professorships and endowed teaching fellowships of at least \$50,000 already under contractual agreement for the future, bequests included in wills made prior to April 14, 1988, and other prior bona fide arrangements for endowed teaching fellowships and endowed visiting professorships are excepted in this regulation. Grants for endowed lectureships of at least \$20,000 already under contractual agreement for the future, bequests in wills made prior to April 14, 1988, and other prior bona fide arrangements for endowed lectureships are excepted from the minimum amount restriction in this regulation.

3.43 Individual component institutions are not required to utilize all categories of endowed academic positions and may, with advance administrative approval and inclusion in the institutional Handbook of Operating Procedures, limit institutional endowment activity to those position categories which best fit the component goals and mission.

b. Present Sections 5-11 were renumbered as Sections 4-10, respectively.

Further, approval was granted for the Executive Secretary to the U. T. Board of Regents, in consultation with the Office of General Counsel, to make such editorial changes in the remainder of the Regents' Rules and Regulations as may be necessary in order to conform to the foregoing changes related to endowments and to ensure that Chapter I is not gender specific.

These amendments were necessary in order to keep pace with rising costs, to ensure that the U. T. System endowments are competitive with those of other major institutions and to facilitate U. T. System component institutions long-term development goals.

See Page 200 related to U. T. System Endowment Policy Guidelines.

APR 14 1988

1. U. T. System: Adoption of Endowment Policy Guidelines and Trust Fund Real Estate Policy Statement.--
At the October 1987 meeting of the U. T. Board of Regents, Land and Investment Committee Chairman Ratliff requested that the Office of the Chancellor undertake a review of The University of Texas System endowment policies and programs.

In accordance therewith, the Board adopted the U. T. System Endowment Policy Guidelines set out on Pages 201 - 204 and the U. T. System Trust Fund Real Estate Policy Statement set out on Pages 205 - 209.

The U. T. System Endowment Policy Guidelines address (a) administrative review of proposed gifts to fund endowments and review of the terms of proposed endowments, (b) investment restrictions requested by a donor and (c) payout and reinvestment policies on endowments. These guidelines state that it is the intent of the Board that each institution adopt policies that ensure partial reinvestment of earned income into the corpus of endowment accounts and that these policies set as a goal reinvestment of at least ten percent of endowment earnings.

The U. T. System Trust Fund Real Estate Policy Statement addresses the review and evaluation of proposed gifts of real estate and the management of trust fund real estate including the authorization for the Executive Vice Chancellor for Asset Management to execute documents required for transactions involving trust fund real estate within specified dollar limits.

See Page 209 related to amendments to the Regents' Rules and Regulations, Part Two, Chapter I which implement the intent of the Endowment Policy Guidelines.

U. T. SYSTEM ENDOWMENT POLICY GUIDELINES

Endowments are a critical element in The University of Texas System's drive to develop and maintain quality in faculty, students and facilities. The U. T. Board of Regents is committed to insuring that these endowments provide, on a permanent basis, stable or growing purchasing power to support their dedicated activities. This goal may be achieved through judicious investment, payout, reinvestment and administrative policies which combine to promote the maintenance of the principal value of each gift in inflation-adjusted terms.

While these Endowment Policy Guidelines contain certain requirements, which are written in this statement using verbs such as "must" and "shall," other statements indicate the preference of the Board and generally are written using conditional verbs such as "should." The Board recognizes that each endowment is unique and that exceptions may, from time to time, be appropriate.

Administrative Policy

- (1) A written donative instrument should be obtained for each new endowment fund established. This instrument would preferably include language encouraged in the Investment Policy and Payout and Reinvestment Policy sections of these Guidelines as well as the following:
 - (a) a statement that these funds shall never become a part of the Permanent University Fund or the general funds
 - (b) a statement allowing any person or entity to make additions to the endowment provided that the additions are made subject to the provisions of the donative instrument, and
 - (c) a statement that if, in the opinion of the Board, future circumstances change so that the purposes for which the endowment is established become illegal, impractical or no longer able to be carried out to meet the needs of the component institution, the Board may designate an alternative use for the endowment payout to further the objectives and purposes of the component institution, giving consideration to the donor's special interest as evidenced by the original purpose of the endowment.

In cases where no donative instrument is obtained, the solicitation letter or document sent to the donor or donor(s) may be used as evidence of donative intent and purposes. Should the donor request or require that the donative instrument be signed by a representative of the Board (or anyone connected with the component or the System), the document may be signed only after acceptance of the endowment by the U. T. Board of Regents. As a practical matter, the donated assets may be obtained and managed by the Office of Asset Management prior to acceptance by the Board.

- (2) The U. T. System will not under any circumstances
 - (a) furnish property appraisals or valuations to donors for tax purposes or
 - (b) knowingly participate

in a transaction in which the value of a gift is inflated above its true fair market value to obtain a tax advantage for a donor. It is the responsibility of the component business office to follow the appraisal and reporting requirements as detailed in the Internal Revenue Code. Proper records will be kept and information returns made on all property held for less than two years.

- (3) Component business offices and development offices, the Office of Asset Management, and the Office of General Counsel should operate in a cooperative manner to insure prompt transmission of information on endowments and of donations to fund endowments. Gifts of cash and marketable securities should be transmitted, in the prescribed manner, to the Office of Asset Management as soon as practicable. A cooperative effort should be made to obtain repurchase provisions in the donative instrument when securities are donated for which the donor or related parties are the primary market. Prompt internal notification of potential bequests and insurance claims should occur to allow U. T. System offices to monitor and pursue prompt collection. Gifts of real estate are to be administered according to the U. T. System Trust Fund Real Estate Policy Statement. Documents establishing a charitable remainder trust or life income fund must be approved by the Office of Asset Management and the Office of General Counsel prior to the execution of the contract and the submission of the endowment to the Board for acceptance.
- (4) Reviews to determine whether an asset to fund an endowment should be recommended for acceptance shall include consideration of any required cash expenses, liabilities, contingent liabilities, and unrelated business income taxes as well as any donor requirements which may result in risk of loss such as use of a donor-selected custodian. The Office of Asset Management must concur that the economic risks are appropriate prior to recommendation to the Board for acceptance of the gift.

Investment Policy

- (1) The Office of Asset Management shall invest all endowment funds donated to U. T. System or its component institutions which are under the sole control of the Board of Regents of the U. T. System. No matching funds or other funds of the U. T. System may be held or managed by a party selected by the donor unless specifically approved by the Board. No endowment shall be accepted in which the donor directs the investment transactions or holdings or may approve (other than by specific investment restrictions in the donative instrument) investment policy or strategy.
- (2) The primary and constant standard for making investment decisions for endowments is the "Prudent Person Rule" which states that the investment manager may trade and retain investments... "that persons of ordinary prudence, discretion, and intelligence, exercising the judgment and care under the circumstances then prevailing, acquire or retain for their own account in the management of their affairs, not

in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital." Any investment restrictions established by the donor in the donative instrument shall be reviewed to determine if the authorized investments satisfy the prudent person standard. Specific written investment policy statements shall be approved by the U. T. Board of Regents for all commingled investment funds managed by the Office of Asset Management.

- (3) It is the specific and strong preference of the Board that all endowment gifts be eligible for commingling for investment purposes with other endowment funds. The Board has established the U. T. System Common Trust Fund, governed by its charter and invested according to the U. T. System Common Trust Fund Investment Policy Statement, to provide for the collective investment of endowment and trust funds. This commingling permits enhancement of long-term investment programs, affords appropriate risk control through diversification, and provides for optimization of asset mix through time. It follows that specific language in the donative instrument which allows merging or commingling, for investment purposes, should be actively encouraged by all staff members. Any restrictive language precluding such commingling limits the diversification of investments and exposes an endowment to greater risk of loss or relatively poor investment performance. Furthermore, investment restrictions are not necessary in order for the donor to receive accounting and investment performance reports on the endowment fund. The Office of Asset Management shall review and make recommendations on the acceptance of any investment restriction.
- (4) Restrictions by the donor on the sale or timing of the sale of donated property should be viewed as an investment restriction (since they will affect investment performance) and should be actively discouraged. However, any such restrictions which are approved should be included specifically in the donative instrument in order to insure that the agreement is understood by all parties.

Payout and Reinvestment Policy

- (1) The payout from an endowment shall not exceed received cash income unless otherwise specified by the donative instrument. Income shall be defined as dividend, interest, and other income but shall exclude net appreciation, both realized and unrealized. Certain charitable remainder trusts and life income funds may be accepted which do not comply with this policy during the period in which the payout recipient is not the U. T. System or its institutions.
- (2) In order to insure that the Board has the ability to manage payout and reinvestment policies, wording in the donative instrument should be encouraged which specifically allows the following:
 - (a) income earned and received during a year to be retained in the endowment and expended for the purposes of the endowment in subsequent years, and

- (b) the designation of some portion of income from the endowment as a permanent addition to the principal of the endowment at the discretion of the Board or component institution staff.
- (3) The payout and reinvestment amounts, within any limitations imposed by the donative instrument, should be established at levels which attempt to produce expendable funds which are reasonably stable over time, address the needs of the established purpose, and permit the principal of the endowment to maintain or increase its value in inflation-adjusted terms over time. The Board annually establishes a payout level for endowments invested in the U. T. System Common Trust Fund. Most separately invested endowments have specified payout formulas established in the donative instrument. The diversity of payout levels on endowment funds result in the need for specific case-by-case establishment of appropriate reinvestment levels.

In keeping with the Board's commitment to protect and enhance the purchasing power derived from endowment funds, the Board directs U. T. System component institutions to adopt, for incorporation in each institution's Handbook of Operating Procedures, policies and programs to ensure the partial reinvestment of earned income into the corpus of endowment accounts to serve as an ongoing deterrent against erosion of the purchasing power of endowment funds due to inflation.

Specifically, it is the intent of the Board, subject to limits or restrictions set by donors and to the extent consistent with the purpose(s) and current income requirements of individual endowments, that these institutional reinvestment policies set as a goal reinvestment of at least ten percent of the earnings on all institutional endowment accounts collectively, with an expectation that reinvested earnings on individual endowments will range considerably in a particular year due to varying expenditure requirements for each endowment.

Additionally, the Executive Vice Chancellor for Asset Management is instructed to provide to the Board annually a report of the actual performance of institutional endowments, individually and collectively, to provide a measure of the success of this reinvestment requirement and institutionally adopted policies.

- (4) All payout from endowments supporting unfilled academic positions should be reinvested except for amounts necessary to fund costs relating to recruitment activities.

U. T. SYSTEM TRUST FUND REAL ESTATE POLICY STATEMENT

Objectives

The Board of Regents of The University of Texas System accepts gifts and bequests of real estate which have a clear potential of contributing to the programs of the U. T. System and its component institutions. All such interests in real estate are held in a fiduciary capacity for the benefit of the component institution or fund or program designated by the donor and approved by the Board.

Trust Fund Real Estate Defined

For the purpose of this policy statement, trust fund real estate shall be defined to be all real estate other than campus land which is donated or bequeathed to the U. T. System or any of its component institutions regardless of type, location, or designated use of the funds to be derived therefrom.

Policies

- (1) Gifts of real estate to the U. T. System or its component institutions will be accepted if substantial proceeds can be realized in a timely manner relative to the expenses and efforts required to hold, maintain and manage the property until disposition.
 - (a) An evaluation of the return expected from a gift of real estate shall include but not be limited to such factors as income potential, development characteristics, type of property interest, holding costs, management requirements, holding period and location.
 - (b) It is expected that any costs incurred relating to management or sale of the property including disposal will be charged either against income earned by the property or proceeds from the sale of the property as appropriate.
- (2) The authority to accept gifts and bequests of real estate is vested in the U. T. Board of Regents. Title to each property shall be held in the name of the Board of Regents of the U. T. System, not in the name of any component institution, department or individual within the U. T. System.
 - (a) All deeds for real estate owned by the Board shall be filed in the county where the property is located with the original retained in the permanent records which are maintained by the Executive Secretary in the Office of the U. T. Board of Regents.
 - (b) It shall be the policy of the Board to retain direct control of all interests in real estate owned by the U. T. System. Authority to continue as an executor or trustee for an interest in real estate to be conveyed to the U. T. System shall be granted only by specific approval of the Board.

- (c) It shall be the policy of the Board to accept interests in real estate if such ownership will result in 100% interest in the property. Lesser interests will be accepted when a clear benefit to the U. T. System can be demonstrated. Minority interests in minerals will be accepted regardless of size.
- (3) All gifts of real estate must be evaluated and inspected by an authorized representative of the U. T. System Office of Asset Management prior to acceptance by the Board.
- (4) The Board will not accept gifts of real estate if donor restrictions place undue limitations on the U. T. System's ability to own, manage, and dispose of the property.
- (5) The Board will not accept gifts of encumbered property unless:
 - (a) a clear potential for gain can be demonstrated,
 - (b) a source of funds to meet all requirements is dedicated to that purpose, and
 - (c) acceptable terms of the encumbrance exist.
- (6) The Board will not accept gifts of working interests in minerals or partnerships which create liabilities for unrelated business income taxes or operation of the partnership. However, the Board may direct proposed gifts of this nature to one of the appropriate external foundations associated with the U. T. System.
- (7) Once accepted, interests in minerals shall not be sold unless continued ownership is impractical.
- (8) Gifts of real estate shall be considered for retention as investments when:
 - (a) there is an expectation of above-average return including appreciation, or
 - (b) there is a prospect for direct use by an approved program of a component institution.
- (9) The Board will not subordinate its fee simple interest in any holding of trust fund real estate absent extraordinary circumstances.

Management of Trust Fund Real Estate

- (1) Responsibility for the management, leasing and sale of all real estate and improvements located thereon which is held for trust funds is delegated to the Executive Vice Chancellor for Asset Management subject to the Rules and Regulations of the Board of Regents of The University of Texas System and these policies.
- (2) The Executive Vice Chancellor for Asset Management may delegate responsibility for the management of real estate assets to individuals within his or her office and may employ such additional persons as he or she deems appropriate within the authority granted by the Board.

- (3) The Executive Vice Chancellor for Asset Management or his or her designated representative is authorized and empowered on behalf of the Board to take all actions necessary and to execute all documents required to sell, lease or otherwise convey interests in real estate that are received by gift or bequest within the following parameters:
- (a) Sale of surface interests including improvements: Sales price of Five Hundred Thousand Dollars (\$500,000) or less
 - (b) Lease of surface interests including improvements: Term of twenty (20) years or less or total annual rent of One Hundred Thousand Dollars (\$100,000) or less
 - (c) Lease of mineral interests: Bonus consideration of \$50,000 or less
 - (d) In addition to approval as to legal form and documentation by the Office of General Counsel, a positive recommendation from the following officials shall be required for each transaction:
 - (1) Executive Vice Chancellor for Academic Affairs or Executive Vice Chancellor for Health Affairs as appropriate
 - (2) Component institution President or Director
 - (3) Manager of Endowment Real Estate or Real Estate Associate.
 - (e) Any transaction accomplished under this section shall be included as part of the Chancellor's Docket at the next possible meeting of the U. T. Board of Regents and a copy of each transaction shall be transmitted to the Office of the U. T. Board of Regents for inclusion in the permanent record.
- (4) The preferred method of valuation for the purpose of determining sale price or lease rates for surface interests shall be use of an independent appraiser. The value of transactions involving real estate of nominal value may be determined by use of available resources. An appraisal shall not be required when real estate is sold at public auction or by use of sealed bids.

Annual Reports

The Office of Asset Management shall submit a report not less than once a year to the Land and Investment Committee of the U. T. Board of Regents detailing all real estate assets held in trust for the U. T. System. This report shall provide an inventory of real assets held in trust as of the reporting date and shall note all acquisitions, sales and leases which occurred since the preceding report.

Conflict of Interest

Members of the U. T. Board of Regents are frequently persons of wide-ranging business interests. Therefore, a prudent, independent decision process may result in real estate transactions with or involving firms or organizations with whom a member of the Board is affiliated. Affiliation shall be interpreted within this section to mean an employee, officer, director, or owner of five percent or more of the voting stock of a firm or organization. No member of the Board or employee of the Office of Asset Management may participate in any transaction with the U. T. System involving interests in real estate which such Board member or employee is affiliated other than to convey a gift or bequest to the U. T. System.

Procedures for Acceptance of Gifts of Real Estate

- (1) The authority to accept all gifts of real estate is vested in the U. T. Board of Regents and may be exercised only after evaluation and inspection by the Office of Asset Management of the U. T. System. The Office of Asset Management should be contacted immediately upon identification of a potential gift of real estate in order to determine if the property is acceptable. The Office of Asset Management will obtain a title report on each potential gift to insure that there are no liens or encumbrances on the proposed gift. The fee for this report is usually nominal and shall be charged to the component institution for which the gift is intended.
- (2) Prior to acceptance of a proposed gift of real estate the following should be provided by the donor:
 - (a) Map showing location of property
 - (b) Legal description of property
 - (c) Proof of ownership (deed)
 - (d) Map or survey of subject property
 - (e) List of improvements
 - (f) Current leases, if any
 - (g) List of encumbrances, liens and current expenses, if any
 - (h) Proof of payment of taxes and association fees, if any
 - (i) Commitment for title insurance
 - (j) Recent appraisal and IRS Form 8283 if value declared exceeds \$5,000
 - (k) A written statement from the donor identifying any known waste disposal sites or spills of hazardous waste material on the property or a statement to the contrary
 - (l) Written statement from donor outlining purpose of gift.

- (3) Following review of the information provided by the donor a decision to accept or reject the proposed gift will be based on the potential of the property to produce an acceptable return or to contribute directly to approved programs of the component institution in light of:
 - (a) Holding costs of every type
 - (b) Holding period
 - (c) Donor restrictions
 - (d) Property valuation
 - (e) Management requirements
 - (f) Type of property interest.

- (4) Upon the determination that ownership of a proposed gift is in the best interest of the U. T. System, the component institution which will benefit from the donation shall initiate a request to the appropriate Executive Vice Chancellor asking that the gift be submitted as an agenda item for acceptance by the U. T. Board of Regents at its next regular meeting.

FEB 11 1988

2. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter III, Section 10, Subsection 10.442, Concerning Reimbursement of Travel Expenses Paid from Gifts, Grants, Designated and Auxiliary Enterprise Funds and Authorization for the Executive Secretary to the Board to Make Appropriate Editorial Changes Therein.--Approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter III, Section 10, Subsection 10.442, concerning reimbursement of travel expenses paid from gifts, grants, designated and auxiliary funds, to read as set forth below:

10.442 Gifts, Grants, Designated and Auxiliary Enterprise Funds.--Reimbursement of travel expenses paid from gifts, grants, designated and auxiliary enterprise funds will be as follows:

- (a) For grants from or derived from Federal or State agencies, travel allowances shall be paid as specified in the foregoing provisions.
- (b) For other gifts, grants, designated, or auxiliary enterprise funds, travel allowances may be for actual expenses for meals and lodging not to exceed \$180 per day. The transportation allowances will be as specified in the foregoing provisions.

The provisions of both (a) and (b) above are subject to the terms, provisions and conditions of the particular gifts, grants, or funds involved. Further exceptions of these provisions may be in accordance with specific authorization by the Board with certain designated funds. Likewise, when anticipated living costs are unusually low for those engaged in travel, the person authorizing the travel may reduce the allowance for all or any part of the travel, provided that the employee shall be notified of such reduced allowance before being allowed to incur any expense. When not otherwise prohibited by the terms of the gift or grant, employees may also be reimbursed for required registration fees or similar expenses incurred in attending meetings of organizations or associations. Receipts for lodging, registration fees, or similar expenses shall be obtained and attached to the expense voucher. Project Directors, Principal Investigators, Departmental Chairpersons, or other authorized personnel under a gift or grant who travel in their personally owned airplanes on necessary official business may be reimbursed therefor as provided in the current appropriations act.

Further, approval was granted for the Executive Secretary to the U. T. Board of Regents, in consultation with the Office of General Counsel, to make such editorial changes in the remainder of the Regents' Rules and Regulations as may be necessary in order to conform to the foregoing changes related to travel reimbursement and to ensure that Chapter III is not gender specific.

DEC - 3 1987

U. T. Board of Regents: Amendments to (a) Regents' Rules and Regulations, Part One, Chapter II, Section 9.2 (Investments and Trusts); (b) Regents' Rules and Regulations, Part Two, Chapter IX, Sections 1, 2 and 5 (Matters Relating to Investments, Trusts, and Lands); (c) The Charter of The University of Texas System Common Trust Fund; (d) The Common Trust Fund Investment Policy Statement; and (e) the Medical Malpractice Self-Insurance Fund Investment Policy Statement.--In order to clarify recent restructuring of the Office of Asset Management for The University of Texas System, the Board:

- a. Amended the Regents' Rules and Regulations, Part One, Chapter II, Subsection 9.2 as set out below:

9.2 Investments and Trusts.

The Executive Vice Chancellor for Asset Management and his or her delegates, the Director for Investments and the Director for Endowments and Trusts, implement policies and actions approved by the Board with respect to:

- 9.21 Investing, managing, and administering of all endowment funds belonging to the System and its component institutions, including the Permanent University Fund and all trusts and special funds.
- 9.22 Issuing, managing and paying all bonds and other evidences of indebtedness issued by the Board for System and its component institutions.
- 9.23 Presenting to the Board through the Office of the Chancellor periodic reports of the status and prospect of funds for which he or she has responsibility and that will be available for expenditure by the System and its component institutions.
- 9.24 Consulting with the Executive Associate for Economic Affairs with respect to the development of long-range plans for the development and management of the economic resources of the System and its component institutions.

- b. Amended the Regents' Rules and Regulations, Part Two, Chapter IX, Sections 1, 2 and 5 as set out below:

Sec. 1. Authorizations re Sales, Assignments, Conveyances, Receipt of Property, and Proxies.

- 1.1 Authority to Purchase, Exchange, and Sell Securities for and on Behalf of the Permanent University Fund (hereinafter sometimes referred to as "PUF") and the Board.--The Chancellor,

or his or her delegate, the Executive Vice Chancellor for Asset Management, and the Director for Investments are authorized to purchase, exchange, and sell any and all securities for and on behalf of the PUF or the Board, and to execute all related state government documents. In addition, external investment managers appointed by the Board of Regents may purchase, sell, or exchange securities, pursuant to written agreement with the Board of Regents, from funds designated from the PUF, the Common Trust Fund, the Medical Malpractice Self-Insurance Fund, or any funds held in trust.

1.2 Authority to Assign and Transfer Securities Owned by the PUF and the Board.--The Chancellor, or his or her delegate, the Executive Vice Chancellor for Asset Management, the Director for Endowments and Trusts, the Comptroller and Associate Comptroller, and the Trust Officer may each assign and transfer any and all securities of any description whatever and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any securities registered in the name of the PUF or the Board, or in any other form of registration of such securities held for the account of the PUF or the Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said Board. In addition, custodian banks appointed by the Executive Vice Chancellor for Asset Management may assign and transfer securities and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any security owned by the Board.

1.3 Authority to Execute Instruments Relating to Land and Mineral Interests.--The Chairman of the Board, the Vice-Chairmen, the Chancellor, or his or her delegate, and the Executive Vice Chancellor for Asset Management are each authorized to execute conveyances, deeds, surface and/or mineral leases, easements, rights-of-way, oil and gas division orders, and transfer orders, geophysical and material source permits, water contracts, pooling and unitization agreements, and any other instruments as may be necessary or appropriate from time to time, relating to the handling, management, control, and disposition of any real estate or mineral interest held or controlled by the Board as a part of the PUF or as a part of any trust or special fund.

- 1.4 Authority to Receive and Collect Money and/or Property.--The Chancellor, the Executive Vice Chancellor for Asset Management, and the Director for Endowments and Trusts are each authorized and empowered to ask, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands, whatever, due, payable, or belonging, or that may become due, payable, or belonging to any of the above funds from investment transactions, from any person or persons, whatever, and to execute any and all necessary or proper receipts, releases, and discharges therefor.
- 1.5 Authority to Execute Proxies and Consent to Modifications in Bond Indentures.--The Chancellor, or his or her delegate, the Executive Vice Chancellor for Asset Management, the Director for Investments, the Director for Endowments and Trusts, and the Investment Officers are each authorized to consent to modifications in bond indentures and to execute proxies within the approved investment policies.
- 1.6 Authority to Deliver and Maintain Securities in Book-Entry Form.--Securities owned by the PUF or the Board may be delivered and maintained by a custodian bank or a member bank of the Federal Reserve System in book-entry form subject to applicable law.

Sec. 2. Policy for Investment and Management of the PUF.

- 2.1 The policies for the investment of funds for the Permanent University Fund shall be those outlined in The Permanent University Fund Investment Policy Statement.
- 2.2 Advice of Investment Advisory Committee.--The Chancellor, the Executive Vice Chancellor for Asset Management, and the Director for Investments shall seek the advice and counsel of the Investment Advisory Committee at its regular quarterly meetings and at other times as appropriate on all of the major matters involving the PUF.
- 2.3 Reports to the Regents' Land and Investment Committee.
 - 2.31 All purchases, sales, and exchanges of investments shall be reported for ratification by the Board through the Regents' Land and Investment Committee.

- 2.32 The investment performance of the Fund, as measured by an unaffiliated organization, shall be reported to the Regents' Land and Investment Committee at least annually.
 - 2.33 The nature and extent of any investments in or business transacted with any firm with which a member of The University of Texas System investment staff is affiliated will be reported to the Regents' Land and Investment Committee annually.
 - 2.34 The Fund's investment in U. S. companies with substantive investments or operations in South Africa will be reported to the Regents' Land and Investment Committee semiannually in combination with the status review of these firms' effective compliance with the spirit of the six key elements of the Sullivan Principles.
 - 2.35 All proxy votes on the social issue of investment and corporate conduct in South Africa will be reported to the Regents' Land and Investment Committee.
- 2.4 The Chancellor, the Executive Vice Chancellor for Asset Management, or the Director for Investments are each authorized to take any and all steps as may be considered necessary or advisable to protect the interest of the PUF in event of default or any other significant changes occurring with respect to any investment.
- 2.5 Policies with Respect to Stock Rights, Fractional Shares, and Proxies.
- 2.51 Exercise of or sale of stock rights and warrants is to be made at the discretion of the Chancellor, the Executive Vice Chancellor for Asset Management, the Director for Investments, or the Investment Officers. Stock rights or warrants which arise in connection with funds under control of an unaffiliated investment manager shall be handled by that manager at its discretion.

2.52 Fractional shares which arise in connection with funds under control of an unaffiliated investment manager or the System investment staff shall be handled by that manager or the staff at its discretion.

2.53 As a general rule, voting stocks held are to be voted by returning proxies to present management. When the Director for Investments or the Director for Endowments and Trusts determines that a vote with management would not be in the shareholder's best financial interest, or when a proposal under consideration is of a social nature, the matter will be referred to the Chancellor or the Executive Vice Chancellor for Asset Management, or, in the event both of them are absent, to the Chairman of the Land and Investment Committee. Voting on the issue of investments and corporate conduct in South Africa shall correspond to the Regents' Policy Statement on South African Issues adopted by the Board at its February 1986 meeting.

2.6 Exchange of Bonds.--The Chancellor, the Executive Vice Chancellor for Asset Management, the Director for Investments, and the Investment Officers are each authorized to exchange bonds owned, from time to time, on a par for par basis (with such cash adjustments as may be required) for other eligible bonds or obligations. In any such exchange the cost of the bonds exchanged out (plus or minus the cash adjustments involved) shall be carried forward as the cost of the bonds or obligations acquired, even though the sale and purchase may be effected through different brokers. Such sales and purchases may be considered as exchanges provided there has been an improvement in book yield.

Sec. 5. Investment Advisory Committee.--The Investment Advisory Committee is and has been established in order to assist and advise the Chancellor, the Executive Vice Chancellor for Asset Management, and the Director for Investments with respect to matters relating to the management of investments.

The following rules shall apply to such Committee:

- 5.1 Membership.--Six members of the Committee shall be selected because of their particular qualifications and experience in the field of investments, including experience in bond and corporate stock investments.
 - 5.2 Selection Procedure.--Appointments to such Committee shall be made by the Board after recommendation by the Chancellor.
 - 5.3 Term of Office.--Each member shall serve a three-year term, with the terms of two members expiring each August 31. A member is eligible for reappointment to a consecutive three-year term, but may not be reappointed thereafter without a three-year break in service.
 - 5.4 Meetings.--Meetings shall be held quarterly and at such other dates as may be considered advisable by the Chancellor and the Executive Vice Chancellor for Asset Management.
- c. Amended The Charter of The University of Texas System Common Trust Fund as set out below:

THE CHARTER OF
THE UNIVERSITY OF TEXAS SYSTEM COMMON TRUST FUND
(Originally Established as
"Funds Grouped for Investment" on June 27, 1932
Amended on February 27, 1948, Amended on March 11, 1967,
Amended on December 5, 1985, Amended on February 13, 1986,
Amended on October 9, 1987, and
Amended on December 3, 1987)

ARTICLE I

Fund Name, Purpose, and Eligibility for Participation

1. The Common Trust Fund as herein established shall be known as "The University of Texas System Common Trust Fund" (originally designated as "Funds Grouped for Investment") and shall be under the control of the Board of Regents of The University of Texas System, as Trustee.
2. The purpose of the Common Trust Fund is to provide for the collective investment of various endowment and trust funds held by The University of Texas System or by the Board of Regents of The University of Texas System in a fiduciary capacity.
3. No endowment or trust fund shall be admitted unless it is under the sole control, with full discretion as to investments, of the Board of Regents of The University of Texas System and/or an official or officials of The University of Texas System in his official capacity. However, no such official, other than the Board of Regents, the Executive Vice Chancellor for Asset Management, or his or her designee,

shall have any control over the management of the Common Trust Fund other than to request admittance or withdrawal of any endowment or trust fund under his control as designated trustee thereof. No endowment or trust shall be admitted which contains a specific provision against commingling or whose investment restrictions prohibit purchase of securities as stated in Article II hereof.

4. The fiscal year for the Common Trust Fund shall be from September 1 through August 31 of the succeeding year.

ARTICLE II

Investments

1. All assets of the Common Trust Fund shall at all times be vested in the Board of Regents of The University of Texas System, and such assets shall be deemed to be held by the Board as a fiduciary regardless of the name in which the securities may be registered.
2. The Common Trust Fund may be invested and reinvested in such securities and investments as are permitted by the laws of the State of Texas as legal investments for funds held by trustees. Where not otherwise in conflict with the provisions of this plan, investment and other powers established by the Texas Trust Code (Subtitle B, Title 9, Texas Property Code) shall prevail.
3. The Common Trust Fund shall be further limited to such investments as are eligible under The Common Trust Fund Investment Policy as adopted by the Board of Regents and as amended from time to time.

ARTICLE III

Asset Valuation

1. As of the first valuation date (March 1, 1948) following adoption of the original plans for a common trust fund, units of the Fund were issued for each \$1.00 invested therein, and thereafter additional units were issued and shall be issued from time to time only on the basis of an amount equal to the then per unit value as determined in accordance with Article III, Section 2, hereof. In order to permit complete investment of a given endowment or trust and to avoid fractional units, any donated amount will be assigned a whole number of units in the Fund based on the appropriate per unit value of the Fund. Any amount of the trust or endowment which exceeds the market value of the units assigned will be transferred to the Common Trust Fund, but no unit shall be issued. Each endowment or trust whose monies are invested in the Common Trust Fund shall have an undivided interest in such Fund in the proportion that the number of units invested therein bears to the total number of all units comprising the Common Trust Fund.

2. On or as of the last business day occurring in November, February, May, and August in each fiscal year (the quarterly evaluation date), the net market value of all assets held for the Common Trust Fund and the per unit value of the Fund shall be determined. Valuations shall be given no effect on the general ledger and supporting ledgers of the University but shall be memorandum accounts only. Such valuations shall be determined in the following manner:
 - a. Listed securities shall be valued at the closing price on the primary exchange on which the stock is traded or at the closing "composite price" as listed in the edition of "The Wall Street Journal" containing the valuation date's prices.
 - b. For Over the Counter (OTC) stocks, the stocks shall be valued at the last bid price.
 - c. If no sale or bid price is available for the last business day of the quarter, the security shall be valued as of the closest business day preceding the last business day of the quarter on which a sale or bid price is available.
 - d. Fixed income securities shall be valued at a price obtained from a recognized bond pricing service.
 - e. Mortgages and mortgage participations shall be evaluated by taking the then face value unless there shall be an existing default in the payment of principal and/or income; in which event, the value as determined by the Executive Vice Chancellor for Asset Management in consultation with his or her staff, from the best information then available, shall be used.
 - f. Cash and cash equivalents, consisting of market instruments with a maximum term of 270 days, shall be valued at their book value on the general ledger.
 - g. All other assets shall be valued by the Executive Vice Chancellor for Asset Management in consultation with his or her staff from the best information then available.

The amount determined as provided in (a) through (g) above, after deducting therefrom all expenses chargeable to principal, shall represent the net market value of the assets comprising such Fund; and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

ARTICLE IV

Admissions and Withdrawals

1. Admission to the Common Trust Fund may be made on any quarterly entrance date (September 1, December 1, March 1, and June 1 of each fiscal year) prior to approval of the Board of Regents upon deposit to the Common Trust Fund of cash or securities eligible under The Common Trust Fund Investment Policy, valued according to the method described in Article III hereof. Securities ineligible under The Common Trust Fund Investment Policy require prior approval of the Board of Regents for deposit to the Common Trust Fund.
2. All admissions made prior to approval of the Board of Regents shall be reported at the first subsequent meeting for ratification by the Board of Regents through the Regents' Land and Investment Committee.
3. Any withdrawals from the Fund require prior approval of the Board of Regents. Withdrawals shall be valued at the market value of the assigned units on the quarterly evaluation date following the approval by the Board of Regents. Withdrawals shall be paid in cash as soon as practicable after such valuation.

ARTICLE V

Segregation of Investments

1. If any investment contained in the Common Trust Fund shall be subsequently determined by the Board of Regents to be an ineligible investment, such investment may, prior to any further admissions to or withdrawals from such Fund, at the discretion of the Executive Vice Chancellor for Asset Management, be sold or segregated and set apart in a liquidating account solely for the benefit of those endowments or trusts participating in the Common Trust Fund at the time of such segregation.
2. Each such liquidating account shall be administered in such manner and the proceeds thereof distributed at such time or times as the Executive Vice Chancellor for Asset Management deems to be for the best interests of the participants in the Common Trust Fund.

ARTICLE VI

Fund Accounting

1. Gross cash income shall consist of actual cash received as income payments on assets held in the Fund. Net cash income shall be gross cash income less investment management fees and administrative processing and custodial fees.
2. Book value of the Fund shall be maintained on a cash receipts and disbursements basis except that bond premiums and discounts shall be amortized with discounts amortized to par on the final maturity date and premiums amortized to the

next call price on that call date and succeeding call prices and dates thereafter until maturity. Asset write-offs or write-downs shall be determined by the Executive Vice Chancellor for Asset Management.

3. Market value of the Fund shall be established as stated in Article III.
4. Any net cash income for a quarter which exceeds the distribution amount for the quarter shall be retained in the Income Reserve Account of the Fund. Such retained income shall not be assigned units in the Fund.

ARTICLE VII

Distribution of Income

1. Distribution shall be made quarterly as soon as practicable after the last calendar day of November, February, May, and August of each fiscal year to the endowment and trust funds participating in the Fund during the respective quarter. The distribution amount shall be the lesser of:
 - (a) one-fourth of an annual guideline amount per unit established by the Board of Regents and as redetermined from time to time by the Board of Regents; or
 - (b) the net cash income for the quarter plus the Income Reserve Account of the Fund.

ARTICLE VIII

Management of Fund

1. Unless in conflict with specific provisions hereof, the management and investment of the Common Trust Fund shall be under the Executive Vice Chancellor for Asset Management, such management and investment thereof to be in accordance with the provisions of the Texas Trust Code (Subtitle B, Title 9, Texas Property Code) and The Common Trust Fund Investment Policy approved by the Board of Regents.

ARTICLE IX

Amendment or Termination of Plan

1. The Board of Regents reserves the right to amend or terminate the Common Trust Fund as it deems necessary or advisable.

- d. Amended the Investment Guidelines section of "The Common Trust Fund Investment Policy Statement" as set out below:

INVESTMENT GUIDELINES

The Fund must be invested at all times in strict compliance with the Texas Trust Code (Subtitle B, Title 9, Texas Property Code) and other applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment restrictions include the following:

- ° All investments must be U. S. dollar denominated unless held by an investment manager retained to manage an international portfolio.
- ° No investments may be made in securities of the South African government, government agencies, or firms.
- ° Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- ° Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- ° Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- ° Repurchase Agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- ° Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the Executive Vice Chancellor for Asset Management prior to investment of Fund monies in such liquid investment fund. No requirement exists that such funds conform to the above restrictions on money market instruments.
- ° Corporate bonds and preferred stocks must be rated a minimum of Baa3 by Moody's Investors Service, Inc. or BBB- by Standard & Poor's Corporation, respectively, when purchased. Bonds rated below A3 and A- shall not constitute an excessive portion of the total bond portfolio. Unrated bonds or preferred stocks may be purchased prior to review by the Land and Investment Committee if, in the opinion of the System's investment staff, they are at least equal in quality to publicly offered securities eligible for purchase. The cost of unrated bonds and preferred stocks which have not been reviewed by the Land and Investment Committee may not exceed 1% of the book value of the Fund.

- ° No more than five percent of the voting securities of a corporation may be owned.
- ° No securities may be purchased or held which would jeopardize the Fund's tax exempt status.
- ° No securities may be purchased on margin or leverage.
- ° No transactions in short sales will be made.
- ° Transactions in financial futures and options (other than those received as part of an investment unit) may only occur as part of a hedging program authorized by the Land and Investment Committee.
- ° Unaffiliated investment managers transacting solely within their assigned assets:
 - shall hold no more than 25% of their managed portfolio in any one industry at cost unless the manager was retained to concentrate in an industry or industries.
 - shall hold no more than 10% of their managed portfolio in the securities of one corporation at cost.
 - shall not hold investment in real estate, partnerships, and other such illiquid assets unless retained to manage this type of asset and shall hold no more than 10% of their managed portfolio in any other asset category different than the type they were retained to manage. Short-term liquid investments are excluded from this limitation. Convertible securities are considered to be equity equivalents for purposes of this restriction.
 - shall hold no securities traded only in foreign markets unless they were retained to manage an international portfolio.

- e. Amended the Investment Guidelines section of the "Medical Malpractice Self-Insurance Fund Investment Policy Statement" as set out below:

INVESTMENT GUIDELINES

The Fund must be invested at all times in strict compliance with the Texas Trust Code (Subtitle B, Title 9, Texas Property Code) and other applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment restrictions include the following:

- ° All investments must be U. S. dollar denominated unless held by an investment manager retained to manage an international portfolio.
- ° No investments may be made in securities of the South African government, government agencies, or firms.
- ° Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2), or Standard & Poor's Corporation (A1 or A2).
- ° Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- ° Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- ° Repurchase Agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- ° Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the Executive Vice Chancellor for Asset Management prior to investment of Fund monies in such liquid investment fund. No requirement exists that such funds conform to the above restrictions on money market instruments.
- ° Corporate bonds and preferred stocks must be rated a minimum of Baa3 by Moody's Investors Service, Inc., or BBB- by Standard & Poor's Corporation, respectively, when purchased. Bonds rated below A3 and A- shall not constitute an excessive portion of the total bond portfolio. Unrated bonds or preferred stocks may be purchased prior to review by the Land and Investment Committee if, in the opinion of the System's investment staff, they are at least equal in quality to publicly offered securities eligible for purchase. The cost of unrated bonds and preferred stocks which have not been reviewed by the Land and Investment Committee may not exceed 1% of the book value of the Fund.

- No more than five percent of the voting securities of a corporation may be owned.
- No securities may be purchased or held which would jeopardize the Fund's tax exempt status.
- No securities may be purchased on margin or leverage.
- No transactions in short sales will be made.
- Transactions in financial futures and options (other than those received as part of an investment unit) may only occur as part of a hedging program authorized by the Land and Investment Committee.
- Unaffiliated investment managers transacting solely within their assigned assets:
 - shall hold no more than 25% of their managed portfolio in any one industry at cost unless the manager was retained to concentrate in an industry or industries.
 - shall hold no more than 10% of their managed portfolio in the securities of one corporation at cost.
 - shall not hold investment in real estate, partnerships, and other such illiquid assets unless retained to manage this type of asset and shall hold no more than 10% of their managed portfolio in any other asset category different than the type they were retained to manage. Short-term liquid investments are excluded from this limitation. Convertible securities are considered to be equity equivalents for purposes of this restriction.
 - shall hold no securities traded only in foreign markets unless they were retained to manage an international portfolio.

DEC - 3 1987

3. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter III, Section 1, Subsection 1.4, Concerning Admission Tickets.--The Board, upon recommendation of the Finance and Audit Committee, amended the Regents' Rules and Regulations, Part Two, Chapter III, Section 1, Subsection 1.4, concerning admission tickets, to read as follows:

1.4 Admission tickets, including complimentary tickets, shall have the price of admission indicated thereon, and all such tickets shall be prenumbered, except for certain events where the section, row, and seat number are shown. Admission tickets and coupon books shall be purchased for delivery to the institutional business office and issued to the department concerned. Unused tickets or books shall be returned along with a prescribed ticket report to the business office within 30 days from the date of the event, and a list showing the names of all persons receiving complimentary tickets shall be a part of the prescribed ticket report. The chief business officer may authorize an exception to the 30-day time limit for submitting ticket reports for a specified event or series of events, provided that the exception must be in writing, and must specify both the reason for the exception and the alternate due date for those ticket reports.

OCT - 9 1987

1. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter V, Subsection 2.4 (Intellectual Property Policy).--In order to comply with legislation passed by the 70th Legislature, approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter V, Subsection 2.4 (Intellectual Property Policy) as set out below:

- a. Subdivision 2.42 was amended to read as follows:

- 2.422 This policy shall apply to intellectual property of all types (including any invention, discovery, trade secret, technology, scientific or technological development, or computer software) regardless of whether subject to protection under the patent, trademark or copyright laws. This policy shall not apply to faculty authored written or visual work, except computer software, produced in the author's professional field, which property shall be owned by the creator; nor shall the policy apply to intellectual property produced as a work for hire in the performance of a contract with the System or as a part of an employee's assigned work responsibilities, which property shall be owned by the Board.

- b. Subdivision 2.44 was amended to read as follows:

- 2.441 Intellectual property that is unrelated to the individual's employment responsibility, has been developed as a result of the individual's efforts on his or her own time, with no System support or use of System's facilities.

- 2.442 Intellectual property that is related to the individual's employment responsibility, or has resulted either from activities performed by the individual on System time, or with support by State funds, or from using System facilities.

- 2.443 Intellectual property that has resulted from research supported by a grant or contract with the Federal Government or an agency thereof, a nonprofit or for profit nongovernmental entity or by a private gift to the System.

- c. Subdivision 2.45 was amended to read as follows:

- 2.452 Intellectual property either related to the individual's employment responsibility, or resulting from activities performed on System time, or with support by State funds, or from using System facilities shall be subject to ownership by the Board. (See 2.442.)

2.4521 Before intellectual property covered by Section 2.422 is disclosed either to the public or for commercial purposes, and before publishing same, the creator shall submit such intellectual property to the Institutional Patent Committee for determination of the System's interest. A component institution may establish guidelines in its Handbook of Operating Procedures for submitting different categories of intellectual property to its Institutional Patent Committee, and procedures to be followed by the Institutional Patent Committee in reviewing and evaluating such submissions. Such guidelines and procedures shall be consistent with this policy and shall be subject to approval as a part of the institutional Handbook. In those instances, however, where delay would jeopardize obtaining the appropriate protection for the property, the creator may, with the approval of the Chairman of the Institutional Patent Committee and the chief administrative officer, file a patent application or take other steps to obtain available protection prior to the Committee and administrative review provided in the following two subsections. If the request is granted, the creator may proceed with the filing of a patent application or other available protective measures pending the determination of the System's interest; provided, however, that the creator shall be reimbursed for expenses in filing the patent application or taking other steps to obtain protection if the decision of the System is to assert and exploit its interests. The Chairman of the Institutional Patent Committee shall notify the System Intellectual Property Office of any such application.

2.4523 If the System decides to patent or seek other available protection for intellectual property in which it decides to assert and exploit its interest, it shall proceed either through its own efforts or those of an appropriate private firm or attorney to obtain protection and manage the intellectual property. Under appropriate circumstances, and with the consent of the General Counsel and the approval of the Attorney General, component institutions may arrange to have services to obtain protection for intellectual property performed by a local outside attorney on a case-by-case basis. It shall be mandatory for all employees, academic and nonacademic, to assign the rights to intellectual property and patents to the Board when such creations fall within Paragraph 2.452. In those instances where the System licenses rights in intellectual property to third parties, the costs of licensing and obtaining a patent or other protection for the property on behalf of the Board shall first be recaptured from any royalties received by the System, and the remainder of such

royalty income (including license fees, prepaid royalties and minimum royalties) shall be divided as follows:

50% to creator

50% to System.

With the prior approval of the Board as an agenda item, a component institution may include provisions in its Handbook of Operating Procedures to adjust the allocation of royalties set forth herein, but in no event shall the creator receive more than 50% or less than 25% of such proceeds. The division of royalties from patents or other intellectual property managed by an intellectual property management concern will be controlled by the terms of the System's agreement with such concern, as approved by the Board. Any other deviation from this rule requires the prior approval of the Board.

2.453 Intellectual property resulting from research supported by a grant or contract with the Federal Government, or an agency thereof, with a nonprofit or for profit nongovernmental entity, or by a private gift or grant to the System shall be subject to ownership by the Board. (See 2.443.)

d. New Subdivisions 2.46, 2.47, and 2.48 were added to read as follows:

2.46 Equity Interests.

2.461 In agreements with business entities relating to rights in intellectual property owned by the Board, the System may receive equity interests as partial or total compensation for the rights conveyed.

2.462 Consistent with Section 51.92, Education Code, and subject to review and approval by the chief administrative officer of the component institution, the Office of the Chancellor and the Board, employees of the System who conceive, create, discover, invent or develop intellectual property may hold an equity interest in a business entity that has an agreement with the System relating to the research, development, licensing or exploitation of that intellectual property.

2.463 The System may negotiate, but shall not be obligated to negotiate, an equity interest on behalf of any employee as a part of an agreement between the System and a business entity relating to intellectual property conceived, created, discovered, invented or developed by the employee and owned by the Board.

2.464 Dividend income and income from the sale or disposition of equity interests held by the Board pursuant to agreements relating to intellectual property shall belong to the System and shall be distributed in accordance with the provisions of Section 2.50 below.

2.465 Dividend income and income from the sale or disposition of an equity interest held by a System employee pursuant to an agreement between the System and a business entity relating to rights in intellectual property conceived, created, discovered, invented or developed by such employee shall belong to the employee.

2.47 Business Participation.

2.471 Any System employee who conceives, creates, discovers, invents or develops intellectual property shall not serve as a member of the board of directors or other governing board or as an officer or an employee (other than as a consultant) of a business entity that has an agreement with the System relating to the research, development, licensing, or exploitation of that intellectual property without prior review and approval by the chief administrative officer of the component institution, the Office of the Chancellor and the Board as an agenda item.

2.472 When requested and authorized by the Board, an employee may serve on behalf of the Board as a member of the board of directors or other governing board of a business entity that has an agreement with the System relating to the research, development, licensing or exploitation of intellectual property.

2.48 Reporting.

2.481 Any employee covered by Section 2.462, 2.471, or 2.472 shall report in writing to the chief administrative officer of the component institution, or to such other person as may be designated by the chief administrative officer, the name of any business entity as referred to therein in which the person has an interest or for which the person serves as a director, officer or employee and shall be responsible for submitting a revised written report upon any change in the interest or position held by such person in such business entity. These reports shall be accumulated in the office of the chief administrative officer or designee and then forwarded to the appropriate Executive Vice Chancellor by September 1 of each year so that the Office of the Chancellor may file a report with the Board at its October meeting. After the report has been approved by the Board, the Office of the Chancellor shall prepare the report to the Governor and the Legislature required by Section 51.912(c), Education Code.

e. Present Subdivision 2.46 was renumbered as Subdivision 2.49 and amended to read as follows:

2.49 Approval of Agreements Relating to Rights in Intellectual Property.

2.491 Agreements relating to rights in intellectual property shall ordinarily be approved by the Board on the institutional docket following review by the Office of General Counsel and approval by the administration of the component institution and the Office of the Chancellor.

2.492 Any agreement altering substantially the basic intellectual property policy of the System as set out in the preceding sections and other policies and guidelines that may be adopted by the Board shall have the advance approval of the chief administrative officer, the Office of the Chancellor, and the Board as an agenda item.

f. Present Subdivision 2.47 was renumbered as Subdivision 2.50 and amended to read as follows:

2.50 Income from Intellectual Property. The portion of the net income the System retains from royalties and any other intellectual property-related income shall be used first to defray the expenses, if any, of the System Intellectual Property Office and thereafter, as approved by the Board, for research purposes at the component institutions where the income providing creation originated. At the option of a component institution, such income may be accumulated in an endowment fund administered by the Office of Asset Management with the income to be distributed to the component institution for such purposes as may be approved by the Board.

g. Present Subdivision 2.48 was renumbered as Subdivision 2.51

h. A new Subdivision 2.52 was added to read as follows:

2.52 Unless otherwise required by law or the Regents' Rules and Regulations, each intellectual property agreement approved hereunder shall be construed in accordance with the Intellectual Property Policy in existence as of its approval date.

OCT - 9 1987

1. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter VIII, Section 2 (Minor New Building Construction; Minor Repairs and Remodeling; and Construction of Improvements Other Than Buildings Involving Less Than \$300,000 Per Project).--Approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter VIII, Section 2 (Minor New Building Construction; Minor Repairs and Remodeling; and Construction of Improvements Other Than Buildings Involving Less Than \$300,000 Per Project) to read as set out below:

Sec. 2. Minor New Building Construction; Minor Repairs and Remodeling; and Construction of Improvements Other Than Buildings Involving Less Than \$300,000 Per Project.--Minor new building construction, minor repairs and remodeling of the physical plant and construction of improvements other than buildings that involve a total expenditure of \$300,000 or less per project may be handled at the component institution. However, any project involving the addition of space to the building inventory must have advance approval by the Office of the Chancellor and then be approved by the U. T. Board of Regents via standard docket procedures. If the proposed construction or renovation is to accommodate program changes requiring approval beyond the campus level, such program approvals must be secured in advance of requests for construction approval or must be included with the construction request. Funds must have been approved through standard U. T. System budgetary procedures and the project must have been approved by the institution's director of physical plant, chief business officer, and chief administrative officer. All contracts for minor new building construction, minor repairs, or remodeling shall be let on a standard form contract approved by the Office of Facilities Planning and Construction and the Office of General Counsel and shall be submitted to the Board of Regents through the institutional docket. Any such contract that involves the expenditure of more than \$25,000 shall be submitted to the Office of General Counsel for approval as to form prior to its execution by the institution.

These amendments will ensure that: financing for new construction and repair projects has been approved; programmatic changes involving the addition of floor space have been approved; an appropriate contract has been executed; and that legal requirements for performance bonds have been met. These amendments will also prevent construction contracts from being let on purchase orders which do not delineate appropriately the expectations of the State of Texas and The University of Texas System.

OCT - 9 1987

4. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter VI, Section 2, Subsection 2.1 (Optional Retirement Program).--In order to comply with House Bill 10 adopted by the 70th Legislature, the Board, upon recommendation of the Finance and Audit Committee, amended the Regents' Rules and Regulations, Part Two, Chapter VI, Section 2, Subsection 2.1 concerning eligibility for the Optional Retirement Program to read as set forth below:

- 2.1 Pursuant to Sections 31.001 and 36.101 et seq., Title 110B, Vernon's Texas Civil Statutes (to be included in the Texas Government Code) and subject to eligibility rules adopted by the Texas Higher Education Coordinating Board, the following employees are eligible to participate in the Optional Retirement Program (O.R.P.):
- 2.11 Full-time faculty members appointed at least four and one-half months.
 - 2.12 Full-time administrative personnel responsible for teaching and research faculty appointed for at least four and one-half months.
 - 2.13 The Chancellor and individuals employed full-time as Executive Vice Chancellors, Vice Chancellors, chief administrative officers, vice presidents, and professional librarians, or other full-time professional staff persons whose national mobility requirements are similar to those of faculty members and who fill positions that are the subject of nationwide searches in the academic community.

These amendments were necessitated by a recent amendment to State law that changes and limits to some extent the definition of "faculty member" for purposes of Optional Retirement Program eligibility. The statutory amendment also makes O.R.P. eligibility subject to rules adopted by the Texas Higher Education Coordinating Board. Staff members who participate in O.R.P. pursuant to previously established institutional rules will be "grandfathered."

JUN 11 1987

2. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Approval of Amendment to Chapter IX, Section 1.1 (Authority to Purchase, Exchange, and Sell Securities for the PUF and the Board).--In order for external investment managers to be selected by the U. T. Board of Regents for all trust funds rather than for only the Permanent University Fund and the Common Trust Fund, approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter IX, Section 1.1, concerning the authority to purchase, exchange, and sell securities to read as set out below:

- 1.1 Authority to Purchase, Exchange, and Sell Securities for and on Behalf of the Permanent University Fund (hereinafter sometimes referred to as "PUF") and the Board.--The Chancellor, or his delegate, the Executive Vice Chancellor for Asset Management, and the Executive Director for Investments and Trusts are authorized to purchase, exchange, and sell any and all securities for and on behalf of the PUF or the Board, and to execute all related state government documents. In addition, external investment managers appointed by the Board of Regents may purchase, sell, or exchange securities, pursuant to written agreement with the Board of Regents, from funds designated from the PUF, the Common Trust Fund, the Medical Malpractice Self Insurance Fund, or any funds held in trust.

This amendment was necessary to implement the related item on Page 68 which, in essence, would authorize The Sealy & Smith Foundation, Galveston, Texas, to purchase, exchange and sell securities for two trust accounts over which the U. T. Board of Regents exercises joint control with The Sealy & Smith Foundation.

AUG 13 1987

1. U. T. Board of Regents: Recommendation for Approval of Revisions to the Regents' Rules and Regulations, Part Two, Chapter V, Section 2.4 (Intellectual Property Policy) (Withdrawn).--The item related to proposed amendments to the Regents' Rules and Regulations, Part Two, Chapter V, Section 2.4 (Intellectual Property Policy) was withdrawn for consideration at a later date.

AUG 13 1987

1. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Proposed Amendments to Chapter VIII, Section 2 (Minor New Building Construction) (Withdrawn).--Committee Chairman Hay reported that the item related to proposed amendments to the Regents' Rules and Regulations, Part Two, Chapter VIII, Section 2 (Minor New Building Construction) was withdrawn for consideration at a later date.

1.
FEB 12 1987

U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter VIII (Physical Plant Improvements), Section 1 (Major New Building Construction Exceeding the Amount of \$300,000 Per Project) and Section 6 (Modification of Bids) and Authorization for the Executive Secretary to the Board to Make Appropriate Editorial Changes Therein.--Approval was given to amend Subdivision 1.31 of Section 1 (Major New Building Construction Exceeding the Amount of \$300,000 Per Project) and Subsection 6.1 of Section 6 (Modification of Bids) of Chapter VIII (Physical Plant Improvements) of Part Two of the Regents' Rules and Regulations as set forth below:

a. Subdivision 1.31 of Section 1 was amended to read as follows:

1.31 After the Board approves the final plans and specifications, the Board shall authorize the Office of Facilities Planning and Construction to advertise for bids. Advertisements for bids for buildings shall be in accordance with State law.

b. Subsection 6.1 of Section 6 was amended to read as follows:

6.1 No bid shall be changed, amended, or modified by telegram or otherwise after the deadline for bid filing set out in the advertisement for bids in connection with the construction or erection of permanent improvements at any of the component institutions of the System under Section 51.907, Texas Education Code, V.T.C.S.

Further, authorization was given for the Executive Secretary to the U. T. Board of Regents, in consultation with the Office of General Counsel, to make appropriate editorial changes in the remainder of the Regents' Rules and Regulations that may be necessary in order to conform to the foregoing changes related to construction projects and to ensure that the entire chapter is not gender specific.

These amendments will eliminate the requirement that bids be advertised only by general newspaper publication and will permit bidders to amend their bids up to the filing deadline for the purpose of updating price quotes from subcontractors and suppliers. This is a generally accepted practice in the construction industry and may result in direct cost savings.



FEB 12 1967

2. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter V, Section 2.3, Subsection 2.32 (Overtime).--In order to comply with federal law and the State Appropriations Bill, the Board amended the Regents' Rules and Regulations, Part Two, Chapter V, Section 2.3, Subsection 2.32 related to overtime compensation to read as follows:

2.3 Overtime.

2.31 The schedule of activities shall be so organized that employees are not required to work in excess of established work periods except when operating necessities demand it. Any overtime services actually required must have the advance written approval of the chief administrative officer or the chief business officer, or both.

2.32 With the exception of professional medical personnel and bona fide executive, administrative, and professional positions, all employees required or permitted to work in excess of forty hours per week shall be compensated for such overtime either:

2.321 By receiving compensatory time off at the rate of one and one-half (1½) hours off for each hour of overtime, subject to the accrual limitation of 480 hours in the case of personnel engaged in public safety or emergency response activities; or 240 hours for other categories of employees. Such compensatory time off shall be granted at a mutually convenient date anytime during the twelve month period following the end of the workweek in which such compensatory time is accrued, or during a shorter time period as specified by the component institution; or

2.322 In cases where granting compensatory time is impracticable, by receiving pay equivalent to one and one-half times the regular rate of pay.

2.33 Compensatory time for those employees excepted from this provision shall be determined by the chief administrative officer of the institution involved.

2.34 Institutions paying overtime shall maintain a monthly record of overtime paid indicating the number of employees so compensated and the total amount paid.

DEC - 4 1986

3. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter IV, Section 6 (Space Leases).--Approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter IV, Section 6 (Space Leases) to read as set forth below:

Sec. 6. Space Leases.

- 6.1 Space leases involving buildings paid from all fund sources must, by law, be approved by the State Purchasing and General Services Commission and may not extend beyond a ten-year period.
- 6.2 Proposals to the State Purchasing and General Services Commission for space leases require the advance approval of the Executive Director for Finance and Administration. The proposal must show type of space and purpose of its use, approximate number of square feet, location, whether janitor service and/or utilities will be furnished by the lessor, period of lease, and any other requirements set out by the Executive Director for Finance and Administration or the State Purchasing and General Services Commission.
- 6.3 A proposal shall be approved and the lease completed prior to occupancy of any space for office, storage, or other purposes. Lease documents are to be submitted to the Board through the institutional docket procedures.

These amendments are required to conform the Regents' Rules and Regulations to Article 601b, Section 6.01, Vernon's Texas Civil Statutes.

DEC - 4 1986

1. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter I, Section 1 (Gifts to The University of Texas System).--Approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter I, Section 1 concerning gifts to The University of Texas System as set out below:

- a. A new Subsection 1.6 was added to read as follows:

1.6 Due to the inefficiencies and high costs associated with separately tailoring investment management programs for gifts that are investment-restricted, notwithstanding any other provision of this Chapter, a gift subject to investment restrictions shall be referred to the System Director of Development who shall review the terms of the gift instrument with the Office of Asset Management and the Office of General Counsel prior to acceptance of the gift and/or prior to its recommendation for acceptance by the U. T. Board of Regents.

- b. Present Subsections 1.6 and 1.7 were renumbered as Subsections 1.7 and 1.8, respectively.

1986³.

U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendment to Chapter I, Section 7 (Policy Against Discrimination).--The Board, upon recommendation of the Finance and Audit Committee, amended the Regents' Rules and Regulations, Part Two, Chapter I, Section 7 (Policy Against Discrimination) to read as follows:

Sec. 7. Policy Against Discrimination.--To the extent provided by applicable law, no person shall be excluded from participation in, denied the benefits of, or be subject to discrimination under, any program or activity sponsored or conducted by the System or any of its component institutions, on the basis of race, color, national origin, religion, sex, age, veteran status, or handicap.

2.

DEC - 4 1986

U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter III, Section 2, Subsection 2.1 (Deposits with Institutional Business Office).--The Board, upon recommendation of the Finance and Audit Committee, amended the Regents' Rules and Regulations, Part Two, Chapter III, Section 2, Subsection 2.1 (Deposits with Institutional Business Office) to read as follows:

- 2.1 Money received by all departments from all sources shall be deposited, using an official form, in the institutional business office, unless depositing directly to a special bank account has been specifically authorized by the System Comptroller. The deposits shall be daily if the receipts are \$200 or more, and weekly even if the accumulation is less than \$200. Except for mail deposits authorized under Subdivisions 2.11 and 2.12, the deposit shall be made in person by a departmental representative to whom an official receipt is issued.
 - 2.11 Mail deposits by on-campus departments are authorized if the amount of each deposit is less than \$100 and does not contain cash (currency).
 - 2.12 Mail deposits by off-campus activities are authorized if such deposit does not contain cash (currency).