



**AGENDA  
FOR MEETING/RETREAT  
THE UNIVERSITY OF TEXAS SYSTEM  
BOARD OF REGENTS**

**August 9-10, 2018**  
Austin, Texas

Page

**Thursday, August 9, 2018**

CONVENE THE BOARD IN OPEN SESSION TO RECESS TO EXECUTIVE SESSION PURSUANT TO *TEXAS GOVERNMENT CODE*, CHAPTER 551

8:15 a.m.

Individual Personnel Matters Relating to Officers or Employees – Section 551.074

**U. T. System Board of Regents: Discussion with individual presidents regarding assignment and duties, including individual responsibilities associated with outlining a vision and plans for the future of the institution**

RECONVENE THE BOARD IN OPEN SESSION

10:00 a.m.

**1. U. T. Academic Institutions in Service to the State of Texas**

**a. Role of a Flagship within a University System and in Service to the State**

10:05 a.m.  
President Fenves

**b. Benefits to the Public from Advancement to Tier 1 Status and National Research University Fund (NRUF) Eligibility**

10:25 a.m.  
Executive Vice  
Chancellor Leslie  
Presidents Benson,  
Eighmy, Karbhari, and  
Natalicio

**c. Comprehensive Universities in Student Success and Regional Economic Development**

10:55 a.m.  
Executive Vice  
Chancellor Leslie  
Presidents Bailey,  
Tidwell, and Woodley

**2. U. T. System Board of Regents: Recognition of academic and health institution recipients of the 2018 Regents' Outstanding Teaching Awards**

11:25 a.m.  
Chairman Tucker  
Members of the Board  
Chancellor Faulkner

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RECESS TO EXECUTIVE SESSION PURSUANT TO *TEXAS GOVERNMENT CODE*, CHAPTER 551 (with Working Lunch in Executive Session Room)

12:00 p.m.

**1. Negotiated Contracts for Prospective Gifts or Donations – Section 551.073**

**a. U. T. System Academic Institutions: Discussion and appropriate action regarding proposed negotiated gifts, including potential naming features**



- c. **U. T. Medical Branch - Galveston: Discussion and appropriate action regarding (1) the lease of a hospital building, land, and related parking garage (including leasing or acquiring related equipment) located at 200 Blossom Street, Webster, Harris County, Texas, from HC 200 Blossom Street, LLC, or another entity related to Carter Validus Mission Critical REIT, for clinical, research, and educational uses, (2) the lease of physician office space or acquisition of a medical office building, land, and related parking lot at 250 Blossom Street, Webster, Texas, from G & E Healthcare REIT Mountain Plains TX LLC, or related entity, for clinical, research, and educational uses, and (3) resolution regarding parity debt**
4. **Individual Personnel Matters Relating to Officers or Employees – Section 551.074**
    - a. **U. T. Austin and U. T. Health Science Center - Houston: Discussion and appropriate action regarding (1) proposed new hire with tenure and compensation for Carlos Mery, M.D., in the Dell Medical School at U. T. Austin, and (2) proposed compensation for Tang Ho, M.D., at U. T. Health Science Center - Houston (Regents' *Rules and Regulations*, Rule 20204, regarding compensation for highly compensated employees)**
    - b. **U. T. System: Discussion and appropriate action regarding individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents (academic and health institutions); U. T. System Administration officers (Deputy Chancellor, Executive Vice Chancellors, and Vice Chancellors); other officers reporting directly to the Board (such as Chancellor, General Counsel to the Board, and Chief Audit Executive); Board members, task force members, and advisory council members; and U. T. System and institutional employees, and related personnel aspects of the operating budget for Fiscal Year 2019**
    - c. **U. T. System: Discussion and appropriate action concerning individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of U. T. System and institutional employees including employees covered by Regents' *Rules and Regulations*, Rule 20204, regarding compensation for highly compensated employees, and Rule 20203, regarding compensation for key executives**
    - d. **U. T. Southwestern Medical Center: Discussion with president regarding assignment and duties, including individual responsibilities associated with outlining a vision and plans for the future of the institution**

RECONVENE THE BOARD IN OPEN SESSION

2:00 p.m.

3. ***U. T. Health Institutions in Service to the State of Texas***
  - a. ***Priorities in Future Medical and Health Care Research***

*Executive Vice  
Chancellor Greenberg  
Presidents Henrich,  
Pisters, and Podolsky*

	<b>Page</b>
<b>b. Clinical Strategic Directions</b>	<i>Executive Vice Chancellor Greenberg Presidents Calhoun, Callender, and Colasurdo</i>
CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEMS AND CONSIDER AGENDA ITEMS	
<b>4. U. T. System Board of Regents: Approval of Consent Agenda and consideration of any items referred to the full Board</b>	<i>3:15 p.m. Action</i> <b>10</b>
RECESS FOR AUDIT, COMPLIANCE, AND RISK MANAGEMENT COMMITTEE MEETING	
<b>5. U. T. System: Approval of the U. T. Systemwide Annual Audit Plan for Fiscal Year 2019</b>	<i>3:20 p.m. Action</i> <b>11</b>
RECONVENE THE BOARD TO CONSIDER THE REPORT AND RECOMMENDATIONS OF THE AUDIT, COMPLIANCE, AND RISK MANAGEMENT COMMITTEE AND TO CONSIDER AGENDA ITEMS	
<b>6. U. T. Arlington: Discussion and appropriate action regarding proposed changes to admission criteria for the College of Education Master's degree programs</b>	<i>3:25 p.m. Action</i> <b>18</b>
<b>7. U. T. Arlington: Discussion and appropriate action regarding proposed changes to admission criteria to the Electrical Engineering Master of Science degree program</b>	<i>3:30 p.m. Action</i> <b>23</b>
<b>8. U. T. Dallas: Discussion and appropriate action regarding proposed changes to admission criteria for the Master of Science in Biomedical Engineering, the Doctor of Philosophy in Computer Science, and the Doctor of Philosophy in Software Engineering degree programs</b>	<i>3:35 p.m. Action</i> <b>27</b>
<b>9. U. T. Rio Grande Valley: Discussion and appropriate action regarding proposed changes to admission criteria to the Master of Business Administration, Master of Education in Counseling and Guidance, Master of Education in Educational Leadership, Master of Music, Master of Science in Physics, Master of Science in Interdisciplinary Studies with a concentration in Science and Technology, and the Teacher Certification – Principal Credential</b>	<i>3:40 p.m. Action</i> <b>29</b>
<b>10. U. T. Dallas: Request to approve the honorific naming of the campus mall and Trellis Plaza as the Margaret McDermott Mall and Margaret McDermott Trellis Plaza</b>	<i>3:45 p.m. Action</i> <b>35</b>
<b>11. U. T. Health Science Center - San Antonio: Discussion and appropriate action concerning proposed interagency contract to facilitate planning and design services related to a replacement San Antonio State Hospital</b>	<i>3:50 p.m. Action</i> <b>36</b>
<b>12. U. T. Austin: Darrell K Royal - Texas Memorial Stadium - South End Zone Addition and Stadium Maintenance and Renovation - Amendment of the FY 2019-2024 Capital Improvement Program to include project; approval of total project cost; appropriation of funds; and resolution regarding parity debt</b>	<i>3:55 p.m. Action President Fenves</i> <b>37</b>

		<b>Page</b>
<b>13. U. T. Austin: McDonald Observatory Groundwater and Fire Protection Upgrades - Amendment of the FY 2019-2024 Capital Improvement Program to include project; approval of total project cost; and appropriation of funds and authorization of expenditure</b>	<i>4:05 p.m.</i> <b>Action</b> <i>President Fenves</i>	<b>41</b>
<b>14. U. T. El Paso: Sun Bowl Stadium Structural Repairs, Code Updates, and Modernization - Amendment of the FY 2019-2024 Capital Improvement Program to include project; approval of total project cost; appropriation of funds; authorization of institutional management; and resolution regarding parity debt</b>	<i>4:15 p.m.</i> <b>Action</b> <i>President Natalicio</i>	<b>45</b>
<b>15. U. T. Southwestern Medical Center: North Campus Phase VI - Brain Institute and Cancer Center - Amendment of the FY 2019-2024 Capital Improvement Program to include project</b>	<i>4:25 p.m.</i> <b>Action</b> <i>President Podolsky</i>	<b>49</b>
<b>16. U. T. Southwestern Medical Center: Vivarium and Research Infrastructure Reinvestment - Approval of design development for the Vivarium Building portion of the project; appropriation of funds and authorization of expenditure; and resolution regarding parity debt</b>	<i>4:35 p.m.</i> <b>Action</b> <i>President Podolsky</i>	<b>52</b>
<b>17. U. T. System Board of Regents: Approval of amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, the Intermediate Term Fund, the Liquidity Policy, and the Derivative Investment Policy</b>	<i>4:45 p.m.</i> <b>Action</b>	<b>56</b>
RECESS	<i>5:00 p.m.</i> <i>approximately</i>	

**Friday, August 10, 2018**

RECONVENE THE BOARD IN OPEN SESSION TO CONSIDER AGENDA ITEMS

8:00 a.m.

**18. Introduction of and Comments by Eric J. Wesley, Lieutenant General, US Army**

8:05 a.m.

**19. *How the U. T. System Can Work Comprehensively to Enhance the Public Good***

**a. *Building Public Value Through a University System***

Chancellor Faulkner

**b. *The System's Role in Preparing Texans for Full Participation in the Knowledge Economy***

**c. *The System's Role in Curing and Reducing Instances of Chronic Diseases in Texas***

RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551 (with Working Lunch in Executive Session Room)

10:00 a.m.  
approximately

1. Individual Personnel Matters Relating to Officers or Employees – Section 551.074

**a. U. T. System: Discussion and appropriate action regarding individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents (academic and health institutions); U. T. System Administration officers (Deputy Chancellor, Executive Vice Chancellors, and Vice Chancellors); other officers reporting directly to the Board (such as Chancellor, General Counsel to the Board, and Chief Audit Executive); Board members, task force members, and advisory council members; and U. T. System and institutional employees, and related personnel aspects of the operating budget for Fiscal Year 2019**

**b. U. T. System: Discussion and appropriate action concerning individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of U. T. System and institutional employees including employees covered by Regents' *Rules and Regulations*, Rule 20204, regarding compensation for highly compensated employees, and Rule 20203, regarding compensation for key executives**

**c. U. T. System Board of Regents: Discussion with Chancellor and Deputy Chancellor concerning assignment and duties including individual personnel issues associated with proposed U. T. System budget**

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

**a. U. T. System Board of Regents: Discussion with Counsel on pending legal issues**

<b>b. U. T. System Board of Regents: Discussion regarding legal issues associated with proposed U. T. System budget</b>	<b>Page</b>
RECONVENE THE BOARD IN OPEN SESSION TO CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEMS AND TO CONSIDER AGENDA ITEMS	1:00 p.m.
<b>20. U. T. System Board of Regents: Discussion and possible appropriate action regarding report from Houston Land Task Force</b>	<i>Vice Chairman Hildebrand</i> <b>131</b>
<b>21. U. T. System Board of Regents: Discussion and possible appropriate action regarding report from System Review and Structure Task Force</b>	<i>Regent Eltife</i> <b>132</b>
<b>22. U. T. System: Approval of the nonpersonnel aspects of the operating budgets for Fiscal Year 2019, including Permanent University Fund Bond Proceeds allocations for Library, Equipment, Repair and Rehabilitation Projects and for the Science and Technology Acquisition and Retention Program; and Available University Fund allocation for campus support of the Texas National Security Network at U. T. Austin</b>	1:30 p.m. <b>Action</b> <b>133</b>
<b>23. U. T. System: Discussion and appropriate action regarding personnel aspects of the U. T. System Administration and institutional operating budgets for Fiscal Year 2019</b>	<b>Action</b> <b>135</b>
<b>24. U. T. System Board of Regents: Approval of annual distribution from the Permanent University Fund</b>	1:45 p.m. <b>Action</b> <i>Dr. Kelley</i> <b>136</b>
<b>25. U. T. System Board of Regents: Presentation of Certificate of Appreciation to Chancellor <i>ad interim</i> Faulkner</b>	1:50 p.m.
ADJOURN	2:00 p.m.

**2. U. T. System Board of Regents: Recognition of academic and health institution recipients of the 2018 Regents' Outstanding Teaching Awards**

PRESENTATION

Chairman Tucker will recognize the 2018 recipients for the Regents' Outstanding Teaching Awards, as listed on the website at <https://www.utsystem.edu/rota>.

BACKGROUND INFORMATION

The Board of Regents of the U. T. System places the highest priority on undergraduate teaching at U. T. System universities and encourages teaching excellence by recognizing those faculty who deliver the highest quality of undergraduate instruction, demonstrate their commitment to teaching, and have a history and promising future of sustained excellence with undergraduate teaching in the classroom, in the laboratory, in the field, or online.

On August 14, 2008, the Board established the Regents' Outstanding Teaching Awards (ROTA), which are a recognition of the importance the Board places on the provision of teaching and learning of the highest order, by honoring those who serve students in an exemplary manner and as an incentive for others who aspire to such service. These teaching awards complement existing ways in which faculty excellence is recognized and incentivized.

No more than 16 awards are given among the academic institutions across all faculty levels, and no more than 12 awards are given among the health institutions.



4. **U. T. System Board of Regents: Approval of Consent Agenda and consideration of any items referred to the full Board**

**RECOMMENDATION**

The Board will be asked to approve the [Consent Agenda](#) and may discuss any items referred for consideration by the full Board.

**5. U. T. System: Approval of the U. T. Systemwide Annual Audit Plan for Fiscal Year 2019**

**RECOMMENDATION**

Chief Audit Executive Peppers recommends approval of the proposed Fiscal Year 2019 U. T. Systemwide Annual Audit Plan (Audit Plan). Development of the Audit Plan is based on risk assessments performed at each institution. Implementation of the Audit Plan will be coordinated with the institutional auditors. The Audit Plan executive summary is set forth on the following pages. Additionally, the institutional annual audit plans were provided to the members of the Board of Regents prior to the meeting.

**BACKGROUND INFORMATION**

Institutional audit plans, compiled by the internal audit departments after input and guidance from the U. T. System Audit Office, the Offices of Academic or Health Affairs, and the institution's management and institutional internal audit committee, were submitted to the respective institutional internal audit committee and institutional president for review and comments. Also, the U. T. System Chief Audit Executive provided feedback by conducting audit plan presentations with each institution. After the review process, each institutional internal audit committee formally approved its institution's audit plan.

**The University of Texas System  
Systemwide Internal Audit Program  
Fiscal Year 2019 Annual Audit Plan Executive Summary**

***Systemwide Annual Audit Plan***

The University of Texas (U. T.) Systemwide Fiscal Year (FY) 2019 Annual Audit Plan (Audit Plan) outlines the internal audit activities that will be performed by internal audit throughout the System in FY 2019. To provide consistency at the Systemwide level, the U. T. System Audit Office provided the internal audit departments at the institutions with guidance in the spring of 2018 on the audit plan format, content, and development methodology, including the risk assessment process that supports the engagements selected to be included on the plan. Individual institutional annual audit plans were prepared in June and July 2018. The institutions’ management and internal audit committees provided input and guidance on the annual audit plans. Additionally, the U. T. System Audit Office and the Offices of Academic and Health Affairs provided direction to the institutional chief audit executives through feedback during annual audit plan presentations with each institution. After the review process, each institutional internal audit committee formally approved its institution’s annual audit plan. The FY 2019 Audit Plan, as summarized in the table and graphs that follow, will be formally presented to the U. T. System Board of Regents for consideration for approval at the August 2018 meeting.

The annual audit plans are prepared using a risk-based approach to ensure that areas and activities with the greatest risk are identified for consideration to be audited. Internal audit at each institution and System Administration conducted a risk assessment in which risks to important institutional objectives were identified and rated as Critical, High, Medium, or Low based on probability and impact (additional information on the results of this process is included on the following pages). The Risk Scoring Matrix table (on the right) illustrates how the risks for each objective were ranked. As information technology (IT) risks were the most prevalent in the prior few years’ risk assessments, additional focus was placed on IT risks through collaboration with IT and Information Security (IS) leadership to identify and agree upon critical services and functions that could have a significant impact on business objectives. The results were then used to develop risk-based audits and/or consulting projects that primarily address Critical and High risks to be conducted at System Administration and the institutions. Risk mitigation activities for the Critical and High risks that were not addressed through audit and consulting work were presented as part of the audit plan presentations. The FY 2019 Audit Plan includes the audits derived directly from the risk discussions along with other required and/or recurring work that is performed at System Administration or the institutions, as required by policy, statute, contract, or an external entity.

Risk Scoring Matrix		Impact		
		High	Medium	Low
Probability	High	C	H	M
	Medium	H	M	L
	Low	M	L	L

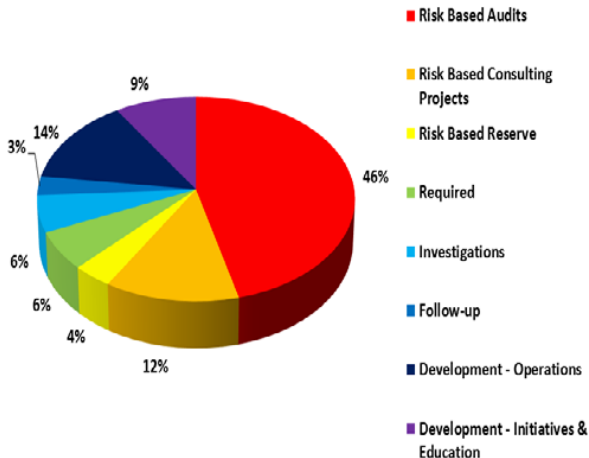
The following table lists the FY 2019 Audit Plan total budgeted audit hours by institution. However, with potential changes in priorities and staffing resources that may occur during the fiscal year, institutions may request approval from their respective president and/or internal audit committee to change their budgeted hours or reallocate budgeted hours among audits and projects.

**The University of Texas System  
Systemwide Internal Audit Program  
Fiscal Year 2019 Annual Audit Plan Executive Summary**

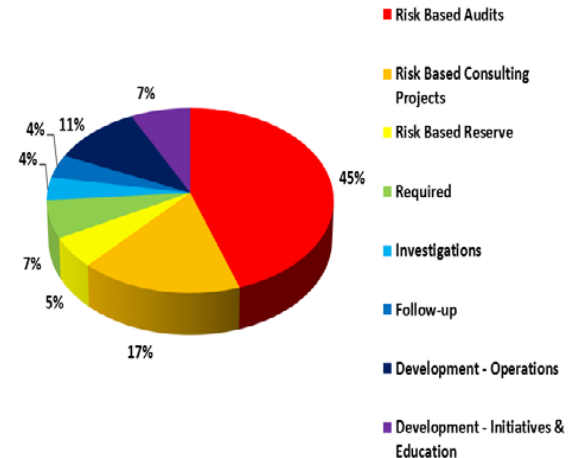
<b>Institution</b>	<b>Budgeted Audit Hours</b>
U. T. System Administration	19,900
U. T. Arlington	8,700
U. T. Austin	19,016
U. T. Dallas	15,450
U. T. El Paso	10,471
U. T. Permian Basin	4,740
U. T. Rio Grande Valley	9,769
U. T. San Antonio	8,875
U. T. Tyler	4,570
U. T. Southwestern Medical Center	18,208
U. T. Medical Branch – Galveston	12,049
U. T. Health Science Center - Houston	14,714
U. T. Health Science Center - San Antonio	9,230
U. T. M. D. Anderson Cancer Center	18,301
U. T. Health Science Center – Tyler	3,005
<b>Total Budgeted Audit Hours</b>	<b>176,998</b>

The FY 2019 Audit Plan directs internal audit resources on audits and other engagements among the categories: Risk Based Audits, Risk Based Consulting Projects, Risk Based Reserve, Required Audits, Investigations, Follow-up, Development - Operations, and Development - Initiatives and Education to address the various risks of U. T. System. The charts below depict the percentage of budgeted audit hours allocated in these categories for the academic and health institutions.

**Academic Institutions**



**Health Institutions**



**The University of Texas System  
Systemwide Internal Audit Program  
Fiscal Year 2019 Annual Audit Plan Executive Summary**

***Systemwide Risk Assessment***

As part of the FY 2019 Audit Plan process, the institutional and System Administration internal auditors executed an objective-based risk assessment. The goals for this common risk assessment approach were to start at the top with an awareness of critical initiatives and objectives to ensure the risks assessed were the most relevant. The assessment process was standardized by using common terms (Taxonomy) and criteria (Risk Scoring Matrix), enabling trending of risk and Systemwide comparisons. As done in the past, an emphasis was placed on collaboration with other functions that assess, handle, or manage risk.

All risks from each institution and System Administration were evaluated for trends. The following list identifies the areas ranked by the most combined Critical and High risks identified.

**System Administration:**

- IT – data governance and information security; supporting System Administration and Systemwide services, staffing, training
- Governance – leadership turnover; impact on structure (ideal roles) and performance for System Administration; impact of change to institutions; decision making; and enterprise risk management

**Academic:**

- IT (see additional information on the following pages)
- Finance – development of financial process/technology implementations; resource stress on goals/needs; financial systems controls and data integrity (increase in FY 2019)
- Enrollment management – attracting students and admissions/scholarship processes within changing demographics and compliance (increase in FY 2019)
- Research – attracting research; administering it within compliance and biosafety requirements
- Auxiliary Services – athletics programs operations and compliance; campus safety and security

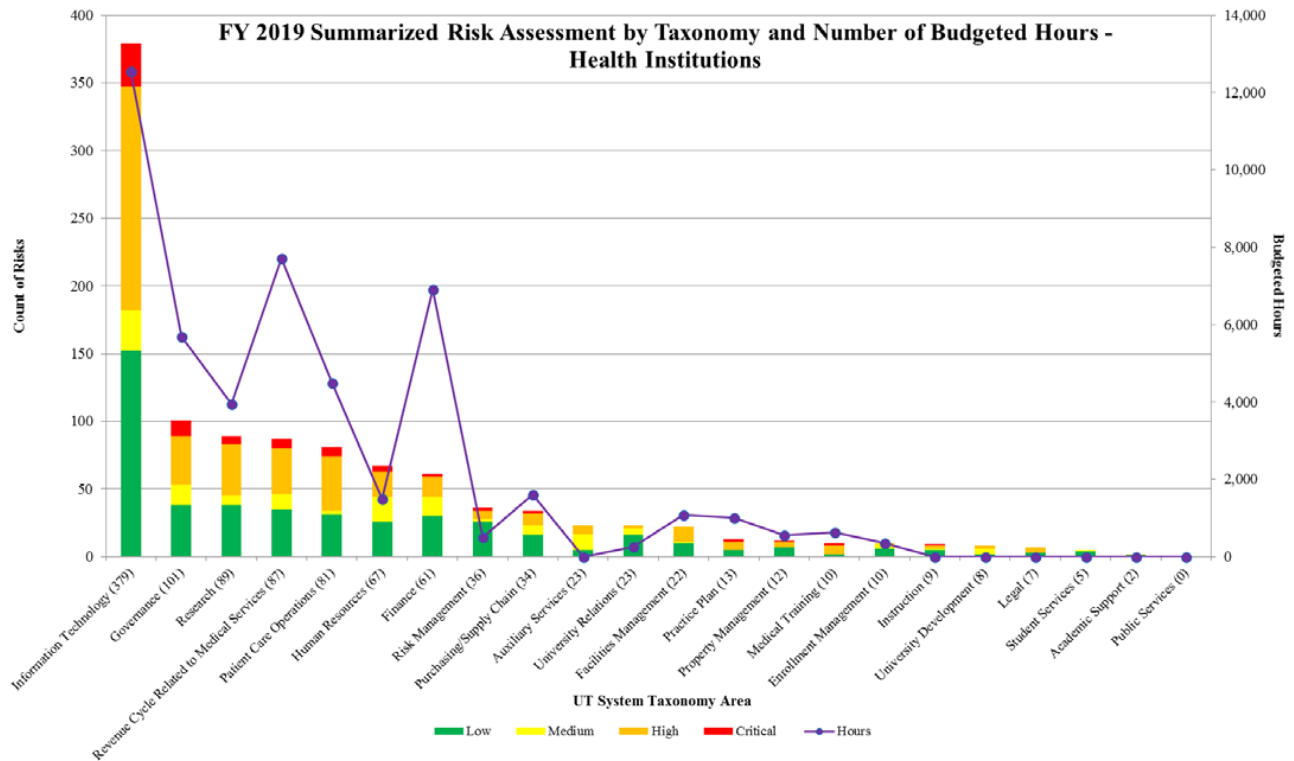
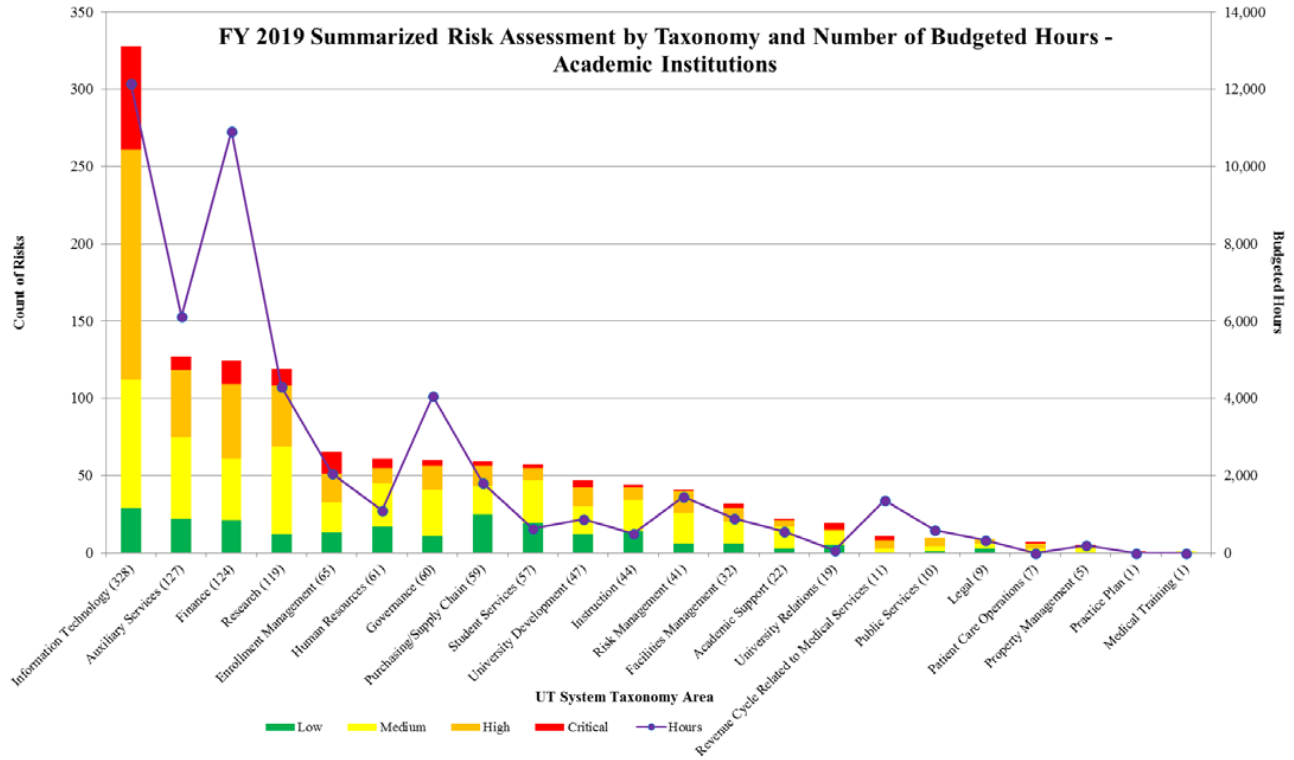
**Health:**

- Revenue cycle – process from admission to coding charges to billing; revenue partners
- IT (see additional information on the following pages)
- Governance – strategies, structures, partners, growth, business continuity, compliance program
- Patient care – structures for delivering quality care; staffing; safety; training
- Research – sustaining funds, faculty and institutes; intellectual property protection; compliance
- Facilities management – new construction responsibilities (increase in FY 2019)

***Risks and Budgeted Hours by Taxonomy from Academic and Health Institution Risk Assessments***

The following graphs cumulatively depict the overall count of risks, by primary Taxonomy area, for the academic and health institutions. The count of risks is broken down by the ratings from the Risk Scoring Matrix, as determined by probability and impact to the achievement of an objective. Plotted against the count of risks is a line depicting the allocation of internal audit resources, budgeted hours for engagements per Taxonomy area, which generally tracks with the count of risks (i.e., more time will be spent on areas where more risks were identified).

### The University of Texas System Systemwide Internal Audit Program Fiscal Year 2019 Annual Audit Plan Executive Summary



Consolidation Prepared by: U. T. System Audit Office  
Date: July 2018

**The University of Texas System  
Systemwide Internal Audit Program  
Fiscal Year 2019 Annual Audit Plan Executive Summary**

***Systemwide IT Risk Assessment Methodology***

During FY 2018, the System Audit Office initiated a project to develop an IT risk assessment methodology to assist internal audit at each institution and System Administration to consistently identify the most significant IT risks for an effective IT audit plan. As part of this process, a uniform framework was developed for defining IT areas (Domains) and functions (Processes), which provides a common language and organization for collaboration and comparison among U. T. institutions.

The common framework also facilitates the identification of cross-institution risks and trends. Cybersecurity Vulnerability Management and Incident Response was the most frequently identified Critical or High risk area, with 12 institutions and System Administration citing at least one Critical or High risk in that area. The most common Critical and High risk areas identified during this year’s risk assessment are:

<u>IT Process</u>	<u># of Institutions*</u>
Cybersecurity Vulnerability Management & Incident Response	13
Cloud/Third-Party Security Management	12
Mobile Devices & Portable Data Storage	11
Information Technology Security Management	11
Data Stewardship/Ownership/Governance	11
Identity & Access Management	10
Networking Equipment & Administration	10
Legal & Regulatory Compliance	10

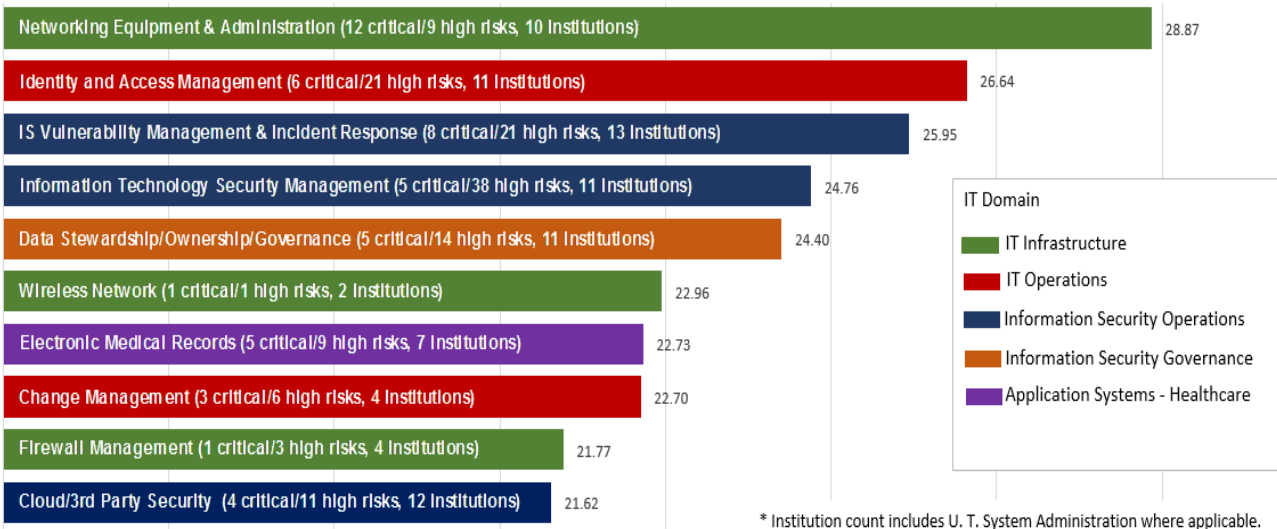
*\* Includes UT System Administration where applicable.*

The methodology also improves visibility into U. T. System risk through Calibrated Risk Scores (CRS), which are numeric values calculated based on risk ratings (Critical, High, Medium, Low) with weighting applied based on institution and Domain/Process factors. This results in the ability to prioritize the full inventory of IT risks, such that Critical and High risks are ranked by their significance to U. T. System as a whole, which can be used for internal audit resource allocation. The weighting of the CRS is based on institutional calibration factors (including multi-institution or Systemwide; academic or health; budget; research expenditures; faculty and staff headcounts; and enrollment) and process calibration (relative risk among processes -- e.g., cybersecurity incident response is weighted higher than IT project management).

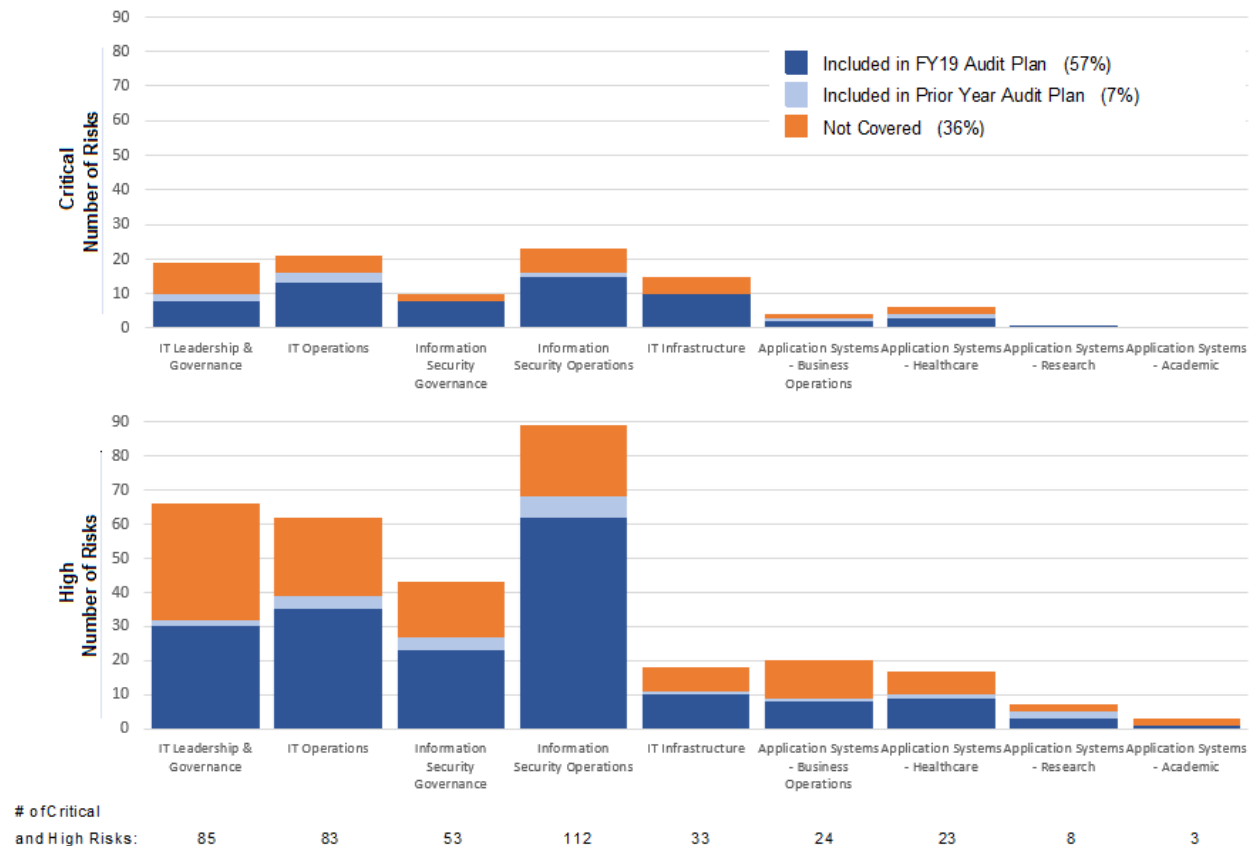
The top ten U. T. System IT risk areas based on CRS of Critical and High risks are displayed on the following page:

## The University of Texas System Systemwide Internal Audit Program Fiscal Year 2019 Annual Audit Plan Executive Summary

IT Process



The graph below depicts the Critical and High risks covered by the FY 2019 Audit Plan:



Consolidation Prepared by: U. T. System Audit Office  
Date: July 2018



6. **U. T. Arlington: Discussion and appropriate action regarding proposed changes to admission criteria for all College of Education Master's degree programs**

**RECOMMENDATION**

The Chancellor *ad interim* concurs in the recommendation of the Deputy Chancellor, the Executive Vice Chancellor for Academic Affairs, and the institutional president that the U. T. System Board of Regents approve changes to the criteria for admission to all College of Education Master's degree programs at U. T. Arlington as described on the following pages.

### **Summary of Changes to Admission Criteria**

The proposed changes to the College of Education (COEd) master's degree admissions policy will provide consistent criteria in its two departments. Currently, the Department of Curriculum and Instruction (C&I) and the Department of Educational Leadership and Policy Studies (ELPS) have different criteria for admissions to the master's degree programs. The proposed policy will create continuity between departments and assist in streamlining the admissions process while maintaining high quality and rigor. The proposed changes will result in identical admissions policies for both departments to be applied to all master's programs in the COEd: Master of Education (M.Ed.) and Master of Education in Teaching (M.Ed.T.).

The proposed policy change includes an emphasis on supporting the Texas workforce and therefore replaces the Graduate Record Exam (GRE) with two years of relevant work experience. This change was predicated on a review of the literature on relationships between the GRE and student success, and after examination of our own graduate students' success relative to the GRE. The literature did not show results that supported its maintenance for admission in programs in the COEd, and analyses of the graduate students showed the GRE had no significant relationship to success in the programs. The students in the COEd master's degree programs are experienced working professionals, K-12 teachers, and school administrators. The work experience of the students is shown to be more valuable than the GRE as the foundation for learning in these education programs. Thus, The College's programs support the workforce who have already proven themselves to be successful professionals in schools, districts, and/or other work environments.

The proposed admissions policy requests a change from three letters of reference to two professional letters of reference on file. In our experience, the three general letters of reference submitted were not meaningful indicators for graduate student success. The change requests two professional letters of reference from a supervisor or other individual in the applicant's profession. It was determined that two professional letters will carry more weight in appraisal of candidate success compared to three letters from unspecified sources. Regarding probationary admission, the proposed change requires a student to maintain a GPA of 3.0 in the first nine hours of graduate coursework.

**Department of Curriculum and Instruction M.Ed. and M.Ed.T. Programs**

<b>Current Unconditional Admission Criteria</b>	<b>Proposed Unconditional Admission Criteria</b>
Current GRE score of 140 on quantitative section and 153 on verbal section.	<del>Current GRE score of 140 on quantitative section and 153 on verbal section.</del> <u>two or more years relevant work experience</u>
3.0 GPA during the last 60 hours of undergraduate coursework and a 3.0 average on all graduate work	<del>3.0 GPA during the last 60 hours of undergraduate coursework and a 3.0 average on all graduate work</del> <u>Undergraduate transcripts with a 3.0 GPA during the last 60 hours or 3.0 cumulative GPA, whichever is higher. A 3.0 GPA on the last 9 hours of graduate coursework may be considered in place of undergraduate GPA.</u>
three letters of reference on file	<del>three letters of reference on file</del> <u>two professional letters of reference on file</u>
<b>Current Probationary Admission Criteria</b>	<b>Proposed Probationary Admission Criteria</b>
All students admitted under probation status will be required to earn a 3.0 GPA during the first 12 hours of graduate coursework in the program, with no grade lower than a "B."	<del>All students admitted under probation status will be required to earn a 3.0 GPA during the first 12 hours of graduate coursework in the program, with no grade lower than a "B."</del> <u>Students granted probationary admission must maintain a 3.0 (B or better) GPA in the first nine credit hours of graduate coursework in the College of Education program to be converted from probationary to unconditional admission.</u>

**Department of Educational Leadership and Policy Studies M.Ed. Program**

<b>Current Unconditional Admission Criteria</b>	<b>Proposed Unconditional Admission Criteria</b>
<p>A minimum of two of the following three Graduate Record Examination (GRE) scores: (1) verbal minimum score of 153, (2) quantitative score of 144, (3) written analytical minimum score of 3.5. For exams taken before August 1, 2011, a minimum of two of the three scores are required: (1) verbal minimum score of 500, (2) quantitative minimum score of 500, (3) written analytical minimum score of 3.5.</p>	<p><del>A minimum of two of the following three Graduate Record Examination (GRE) scores: (1) verbal minimum score of 153, (2) quantitative score of 144, (3) written analytical minimum score of 3.5. For exams taken before August 1, 2011, a minimum of two of the three scores are required: (1) verbal minimum score of 500, (2) quantitative minimum score of 500, (3) written analytical minimum score of 3.5.</del></p> <p><u>two or more years relevant work experience</u></p>
<p>An undergraduate grade point average (GPA) of 3.2 or higher on a 4.0 scale, as calculated by the Graduate School or a graduate GPA of 3.5 or higher on a 4.0 scale on 12 or more hours as calculated by the Graduate School may be used in lieu of the undergraduate GPA.</p>	<p><del>An undergraduate grade point average (GPA) of 3.2 or higher on a 4.0 scale, as calculated by the Graduate School or a graduate GPA of 3.5 or higher on a 4.0 scale on 12 or more hours as calculated by the Graduate School may be used in lieu of the undergraduate GPA.</del></p> <p><u>Undergraduate transcripts with a 3.0 GPA during the last 60 hours or 3.0 cumulative GPA, whichever is higher. A 3.0 GPA on the last 9 hours of graduate coursework may be considered in place of undergraduate GPA.</u></p>
<p>Three letters of reference on file, completed by three persons who can assess the applicant's aptitude, academic skills, and abilities needed for success in the Educational Leadership and Policy Studies master's program.</p>	<p><del>Three letters of reference on file, completed by three persons who can assess the applicant's aptitude, academic skills, and abilities needed for success in the Educational Leadership and Policy Studies master's program.</del></p> <p><u>two professional letters of reference on file</u></p>

Current Probationary Admission Criteria	Proposed Probationary Admission Criteria
	<p><del>All students admitted under probation status will be required to earn a 3.0 GPA during the first 12 hours of graduate coursework in the program, with no grade lower than a "B."</del></p> <p><u>Students granted probationary admission must maintain a 3.0 (B or better) GPA in the first nine credit hours of graduate coursework in the College of Education program to be converted from probationary to unconditional admission.</u></p>

7. **U. T. Arlington: Discussion and appropriate action regarding proposed changes to admission criteria to the Electrical Engineering Master of Science degree program**

RECOMMENDATION

The Chancellor *ad interim* concurs in the recommendation of the Deputy Chancellor, the Executive Vice Chancellor for Academic Affairs, and the institutional president that the U. T. System Board of Regents approve changes to the criteria for admission to the Electrical Engineering Master of Science degree program at U. T. Arlington as described on the following pages.

### **Summary of Changes to Admission Criteria**

Currently, U. T. Arlington BS students in the final year of study and BS graduates who have graduated within three years of expected entrance into the MS program with a minimum GPA of 3.25 in their major and overall are granted a GRE waiver. The department proposes to extend this condition to BS graduates from other universities equivalent to U. T. Arlington, using the Accreditation Board for Engineering and Technology, Inc. (ABET) accreditation and/or other national or global rankings such as that provided by U.S. News & World Report, Shanghai Jiao Tong World University Rankings, or the Times Higher Education World University Rankings. The studies undertaken by the Department of Electrical Engineering indicating that the GRE is not a reliable predictor of the likelihood that a student will succeed in the MS program is the basis of this decision. The department believes that a good GPA from a comparable university is a more reliable predictor of student success in the graduate program.

Current Unconditional Admission Criteria	Proposed Unconditional Admission Criteria
<p><b>Admission Criteria:</b> The Department has two alternative sets of conditions that allow applicants to be unconditionally admitted to the MS program. The Departmental Graduate Advisor(s) reviews all applications and determines if they qualify for admission under one of these two sets of criteria. Applicants who are not unconditionally admitted may be admitted with provisional or probationary status, their admission may be deferred or admission may be denied.</p> <p><b>Unconditional Admission Set #1: GRE Condition</b> A typical MS applicant who is "admitted" will have met the following admission requirements.</p> <ul style="list-style-type: none"> <li>• The minimum undergraduate GPA requirement - For MSEE admission 3.25 (on a 4.0 scale) based on upper division coursework (junior and senior level or equivalent)</li> <li>• Relevance of the student's undergraduate degree (background) to the EE curriculum.</li> <li>• Rigor of the student's Bachelor's degree.</li> <li>• Reputation of the University/College that the student received his/her previous degrees.</li> <li>• GRE scores of at least the following:               <ul style="list-style-type: none"> <li>○ Quantitative score = 720 (new scale: 156) for M.S. or = 750 (new scale: 159) for Ph.D.</li> <li>○ Verbal score = 400 (new scale: 146)</li> <li>○ Analytical Writing = 3 for M.S. or =3.5 for Ph.D.</li> </ul> </li> <li>• For an International student, an additional requirement beyond those stated above: The applicant must meet the minimum university English language requirements as detailed in the general admission requirements section of the catalog.</li> </ul>	<p><b>Admission Criteria:</b> The Department has two alternative sets of conditions that allow applicants to be unconditionally admitted to the MS program. The Departmental Graduate Advisor(s) reviews all applications and determines if they qualify for admission under one of these two sets of criteria. Applicants who are not unconditionally admitted may be admitted with provisional or probationary status, their admission may be deferred or admission may be denied.</p> <p><b>Unconditional Admission Set #1: GRE Condition</b> A typical MS applicant who is "admitted" will have met the following admission requirements.</p> <ul style="list-style-type: none"> <li>• The minimum undergraduate GPA requirement - For MSEE admission 3.25 (on a 4.0 scale) based on upper division coursework (junior and senior level or equivalent)</li> <li>• Relevance of the student's undergraduate degree (background) to the EE curriculum.</li> <li>• Rigor of the student's Bachelor's degree.</li> <li>• Reputation of the University/College that the student received his/her previous degrees.</li> <li>• GRE scores of at least the following:               <ul style="list-style-type: none"> <li>○ Quantitative score = 720 (new scale: 156) for M.S. or = 750 (new scale: 159) for Ph.D.</li> <li>○ Verbal score = 400 (new scale: 146)</li> <li>○ Analytical Writing = 3 for M.S. or =3.5 for Ph.D.</li> </ul> </li> <li>• For an International student, an additional requirement beyond those stated above: The applicant must meet the minimum university English language requirements as detailed in the general admission requirements section of the catalog.</li> </ul>



**Current Unconditional Admission Set #2: GRE Waiver**

A typical applicant who is "admitted" will have met the following admission requirements.

- The student must have graduated from the EE bachelor's degree program at U. T. Arlington no more than three academic years prior to admission to the graduate program (as measured from the start of the semester for which admission is sought). Undergraduate students in their final year of study are also eligible; in such cases, admission with the GRE waiver is contingent upon successful completion of the bachelor's degree.
- The student's U. T. Arlington grade point average must equal or exceed 3.25 in the following calculations:
  - as calculated for admission to the Graduate School;
  - overall;
  - in the major field; and
  - in all upper-division work.

**Proposed Unconditional Admission Set #2: GRE Waiver**

A typical applicant who is "admitted" will have met the following admission requirements.

- The student must have graduated from the EE bachelor's degree program at U. T. Arlington no more than three academic years prior to admission to the graduate program (as measured from the start of the semester for which admission is sought). Undergraduate students in their final year of study are also eligible; in such cases, admission with the GRE waiver is contingent upon successful completion of the bachelor's degree.
- The student's ~~U. T. Arlington~~ grade point average must equal or exceed 3.25 in the following calculations:
  - as calculated for admission to the Graduate School;
  - overall;
  - in the major field; and
  - in all upper-division work
- The student must have graduated from or be in the final year of the EE bachelor's degree program:
  - at U. T. Arlington
  - at another reputable ABET-accredited EE bachelor's degree program.

8. **U. T. Dallas: Discussion and appropriate action regarding proposed changes to admission criteria for the Master of Science in Biomedical Engineering, the Doctor of Philosophy in Computer Science, and the Doctor of Philosophy in Software Engineering degree programs**

**RECOMMENDATION**

The Chancellor *ad interim* concurs in the recommendation of the Deputy Chancellor, the Executive Vice Chancellor for Academic Affairs, and the institutional president that the U. T. System Board of Regents approve changes to the criteria for admission to the Master of Science in Biomedical Engineering, the Doctor of Philosophy in Computer Science, and the Doctor of Philosophy in Software Engineering degree programs at U. T. Dallas as described on the following pages.

**Summary of Changes to Admission Requirements for Engineering and Computer Science (ECS) graduate programs**

1. U. T. Dallas requests two admission changes to its Master of Science in Biomedical Engineering (M.S. BMEN): the GRE score and the grade point average (GPA). In recognition of the unique role the master's degree program plays in students' academic development and ultimately their careers – both as a gateway to career opportunities in industry and to the doctoral program – the Engineering and Computer Science (ECS) department updated the admissions requirements to allow a greater number of students to pursue an M.S. BMEN degree while maintaining the requirement for a strong academic background necessary for success in the master's program. These requested changes are in alignment with other ECS graduate programs:
  - a. U. T. Dallas requests to lower the GRE scale score of 4 to 3 for the analytical writing component score for its M.S. BMEN program.
  - b. U. T. Dallas requests to lower the GPA in undergraduate prerequisites from 3.33 to 3.0 or better on a 4.0 scale for its M.S. BMEN program.
  
2. U. T. Dallas requests to raise the GRE scores from 308 to 315, 153 to 156, and 155 to 159 for the combined verbal and quantitative components respectively for its Doctor of Philosophy (Ph.D.) in Computer Science to be in alignment with other ECS graduate programs.
  
3. U. T. Dallas requests to raise the GRE scores from 308 to 315, 153 to 156, and 155 to 159 for the combined, verbal, and quantitative components respectively for its Ph.D. in Software Engineering in be in alignment with other ECS graduate programs.

<b>Current Unconditional Admission Criteria</b>	<b>Proposed Unconditional Admission Criteria</b>
M.S. BMEN GRE Analytical Writing Score: 4	M.S. BMEN GRE Analytical Writing Score: <del>4</del> <u>3</u>
M.S. BMEN GPA pre-req score: 3.33	M.S. BMEN GPA pre-req score: <del>3.33</del> <u>3.0</u>
Ph.D. in Computer Science GRE Scores Combined: 308; Verbal: 153; Quantitative: 155	Ph.D. in Computer Science GRE Scores Combined: <del>308</del> <u>315</u> ; Verbal: <del>153</del> <u>156</u> ; Quantitative: <del>155</del> <u>159</u>
Ph.D. in Software Engineering GRE Scores Combined: 308; Verbal: 153; Quantitative: 155	Ph.D. in Software Engineering GRE Scores Combined: <del>308</del> <u>315</u> ; Verbal: <del>153</del> <u>156</u> ; Quantitative: <del>155</del> <u>159</u>

9. **U. T. Rio Grande Valley: Discussion and appropriate action regarding proposed changes to admission criteria to the Master of Business Administration, Master of Education in Counseling and Guidance, Master of Education in Educational Leadership, Master of Music, Master of Science in Physics, Master of Science in Interdisciplinary Studies with a concentration in Science and Technology, and the Teacher Certification – Principal Credential**

#### RECOMMENDATION

The Chancellor ad interim concurs in the recommendation of the Deputy Chancellor, the Executive Vice Chancellor for Academic Affairs, and the institutional president that the U. T. System Board of Regents approve changes to the criteria for admission for the Master of Business Administration, Master of Education in Counseling and Guidance, Master of Education in Educational Leadership, Master of Music, Master of Science in Physics, Master of Science in Interdisciplinary Studies with a concentration in Science and Technology, and Teacher Certification - Principal Credential at U. T. Rio Grande Valley as described on the following pages.

**Summary of Changes to Admission Criteria**

U. T. Rio Grande Valley is requesting to change the graduate admission criteria for the following degrees and teacher certifications. These changes were proposed by the faculty of the respective departments and approved by the Graduate Committee. Each of these changes support the University's core priority of enhancing student success by streamlining the admissions criteria.

**Master of Business Administration**

<b>Current Unconditional Admission Criteria</b>	<b>Proposed Unconditional Admission Criteria</b>
Complete the GMAT Exam with a minimum score 400 or the GRE test with minimum scores of 146 Verbal and 146 Quantitative	No change
Submission of two letters of recommendation	No change
Respond to five short answer questions to demonstrate writing competency and communication skills	No change
<p>A waiver of the GMAT requirement will be granted to applicants who show proof of one of the following:</p> <ul style="list-style-type: none"> <li>• Another graduate degree (master's or doctoral)</li> <li>• An undergraduate GPA of 3.80 or higher on a 4 point scale</li> <li>• A waiver may be granted to those students who have more than four years of upper managerial experience in supervisory roles, control of budgets, and decision-making.</li> </ul>	<p>A waiver of the GMAT requirement will be granted to applicants who show proof of one of the following:</p> <ul style="list-style-type: none"> <li>• Another graduate degree (master's or doctoral)</li> <li>• An undergraduate GPA of <del>3.80</del> <u>3.50</u> or higher on a 4 point scale</li> <li>• <u>An undergraduate GPA of at least 3.60 in the last 60 credit hours</u></li> <li>• A waiver may be granted to those students who have more than four years of upper managerial experience in supervisory roles, control of budgets, and decision-making.</li> </ul>

**Reason for Change:** To be more competitive with other schools and continuous improvement.

**MED in Counseling and Guidance**

Current Unconditional Admission Criteria	Proposed Unconditional Admission Criteria
Submission of three letters of recommendation at least one of which must be from a former professor	No change
Submission of letter of intent	No change
Submission of a resume	No change
Personal interview	No change
Criminal background check	No change
2 Years of Professional Development and Appraisal System (PDAS) training and teaching for applicants to the School Counseling Track	<del>2 Years of PDAS and teaching for applicants to the School Counseling Track</del>

**Reason for Change:** To admit all students using the same requirements to the Department of Counseling.

**MED in Educational Leadership**

Current Unconditional Admission Criteria	Proposed Unconditional Admission Criteria
Submission of a letter of intent	No change
Submission of a letter of a resume	No change
Submission of teaching certificate with a minimum of two years of teaching experience	No change
	Submission of GRE scores. Students not eligible for clear admission must have minimum scores of 150 Verbal, 141 Quantitative, and 4.0 Analytical for conditional admission.

**Reason for Change:** The GRE will be required of all applicants for admission. The data results of the GRE will be used to assess and individually develop an action plan for improving the applicants writing skills for applicants that score less than 4.0 on the analytic writing portion. Conditional admission will continue to include the GRE with the minimum UTRGV scores.

**Master of Music**

Current Unconditional Admission Criteria	Proposed Unconditional Admission Criteria
Submission of three letters of recommendation	No change
Submission of a letter of intent	No change
Submission of an essay on professional goals	No change
Submission of a resume	No change
Personal interview	No change
<p>Additional requirements specific to the concentration selected:</p> <p>MM – Ethnomusicology – The applicant must submit a writing sample on a topic in music research. Any students seeking a degree in Ethnomusicology must take diagnostic exams to measure proficiency in Spanish and English. Deficiency in either of these areas will require additional course work.</p>	<p>Additional requirements specific to the concentration selected:</p> <p>MM – Ethnomusicology – The applicant must submit a writing sample on a topic in music research. <del>Any students seeking a degree in Ethnomusicology must take diagnostic exams to measure proficiency in Spanish and English. Deficiency in either of these areas will require additional course work.</del> <u>The foreign language requirement (NASM accreditation requirement) will be met by a translation exercise or other assignment by the thesis advisor while enrolled in MUSI 7300 and MUSI 7301. The language will be determined by the student and the advisor and may include Spanish, Portuguese, or another language relevant to the student's research.</u></p>

**Reason for Change:** To meet National Association of Schools of Music (NASM) standards.

**MS in Physics**

Current Unconditional Admission Criteria	Proposed Unconditional Admission Criteria
GRE general test with expected range of GRE Quantitative scores of >158 for admitted students	GRE general test with <del>expected range of GRE</del> a minimum Quantitative scores of <del>&gt;158</del> <u>161</u> for admitted students
	<u>GRE subject (Physics) test. (No minimum score)</u>
	<u>No waiver of the GRE test if the applicant has completed a previous master's degree</u>
Submission of two letters of recommendation from people familiar with the applicant's undergraduate or graduate scholastic record	Submission of two letters of recommendation <del>from people familiar with the applicant's undergraduate or graduate scholastic record</del> <u>that should mention concrete examples of applicant's prior research experience and highlight strength and weaknesses of the applicant in his/her proposed area of specialization.</u>
Submission of a statement of purpose which should include a letter outlining their motivation to pursue a MS in Physics.	Submission of a statement of <del>purpose which should include a letter outlining their motivation to pursue a MS in Physics</del> research interest and career goals which should clearly articulate why the student wants to enter the Physics Graduate program and what are his/her long-term career goals.

**Reason for Change:** To raise the standards for students entering the program and help ensure student success.



**MS in Interdisciplinary Studies with a concentration in Science and Technology**

Current Unconditional Admission Criteria	Proposed Unconditional Admission Criteria
GRE general test	GRE general test <u>with a minimum test scores of Verbal 146, and Quantitative 151. Subject test is not required.</u>
Submission of a statement of purpose and goals for pursuing the degree	No change
Submission of a resume	<del>Submission of a resume</del>
Submission of two letters from referees conversant with the candidate's academic background	No change

**Reason for Change:** To raise the standards for students entering the program, help ensure student success, and provide better guidance to prospective applicants.

**Teacher Certification - Principal Credential**

Current Unconditional Admission Criteria	Proposed Unconditional Admission Criteria
Master's degree in Educational Leadership	No change
3.0 GPA	No change
Three (3) years teaching experience	<del>Three (3)</del> <u>Two (2)</u> years teaching experience
Presentation of the following to the Faculty Admissions Committee. (1 hour)  A. Evidence of Teaching Effectiveness 1. Presentation of how you use student performance data to improve instruction B. Evidence of Leadership Activities 1. Presentation of end-product from M.Ed. program 2. Presentation of school site leadership roles/responsibilities 3. Evidence of Teaching certificate (Updated) 4. Evidence of Teacher Service Record 5. Criminal Background Check	No change

**Reason for Change:** To be more competitive and to be in line with Texas Education Agency standards.

10. **U. T. Dallas: Request to approve the honorific naming of the campus mall and Trellis Plaza as the Margaret McDermott Mall and Margaret McDermott Trellis Plaza**

RECOMMENDATION

The Chancellor *ad interim* concurs in the recommendation of the Deputy Chancellor, the Executive Vice Chancellor for Academic Affairs, the Vice Chancellor for External Relations, and the institutional president that the U. T. System Board of Regents approve the honorific naming of the campus mall and Trellis Plaza at U. T. Dallas as the Margaret McDermott Mall and Margaret McDermott Trellis Plaza.

BACKGROUND INFORMATION

In recognition of the late Mrs. Margaret McDermott's long history of financial support to the university, U. T. Dallas requests the campus mall and Trellis Plaza be named as the *Margaret McDermott Mall* and *Margaret McDermott Trellis Plaza*, respectively. The 4.5-acre campus mall, which includes five reflecting pools and 116 magnolia trees, is considered a focal point for campus activity. The Trellis Plaza serves as an anchor and central element of the U. T. Dallas campus, showcasing a vast steel trellis canopied fountain.

Mrs. Margaret McDermott's late husband, Eugene McDermott, co-founded the Graduate Research Center of the Southwest in 1961, which later became U. T. Dallas. Beginning in 2005, she made significant investments in campus enhancement and beautification, which transformed the campus landscape. As U. T. Dallas' most generous philanthropist, she also funded scholarships, fellowships, endowed chairs, library renovations, and many other initiatives. Mrs. McDermott received the prestigious Santa Rita Award in 2004.

A supporter of the arts, education, and science, Mrs. McDermott gave generously to the Dallas Symphony Orchestra, the Dallas Opera, the Dallas Arboretum, and U. T. Southwestern, among many others. In appreciation of her long-standing philanthropic support, the City of Dallas named a bridge in her honor.

This naming proposal is consistent with Regents' *Rules and Regulations*, Rule 80307, relating to honorific naming of facilities to recognize the significant philanthropic support provided by Mrs. Margaret McDermott.

11. **U. T. Health Science Center - San Antonio: Discussion and appropriate action concerning proposed interagency contract to facilitate planning and design services related to a replacement San Antonio State Hospital**

**RECOMMENDATION**

The Chancellor *ad interim* concurs in the recommendation of the Deputy Chancellor, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, and the institutional president that the Board of Regents authorize U. T. Health Science Center - San Antonio (U. T. Health San Antonio), working with the U. T. System Office of Facilities Planning and Construction (OFPC), to enter into an interagency contract with the Texas Health and Human Services Commission (HHSC) to provide management of the planning and design services related to a replacement San Antonio State Hospital and possible satellite structure.

**BACKGROUND INFORMATION**

The State of Texas is considering the award of funding for construction of a behavioral health facility in San Antonio, Texas. The Legislative Budget Board has set aside \$13,500,000 to plan and design a replacement San Antonio State Hospital on the existing San Antonio State Hospital campus, with a possible satellite structure in the South Texas Medical Center in San Antonio, Texas. As an alternative to total replacement of the existing facility, the project might instead involve remodeling and expanding existing structures on the site, as well as constructing one or two new facilities.

Under the contract, U. T. Health San Antonio would manage the planning and design for the project, including management of the Architect/Engineer (A/E) selection process and preparation and execution of a contract with a professional architectural firm to provide the complete design administration services for a complete and operable facility. The contract between the HHSC and U. T. Health San Antonio would expire on November 30, 2020, based on projected timelines, but may be extended by mutual agreement. The parties may amend this contract to require U. T. Health San Antonio to facilitate construction of the project.

U. T. Health San Antonio plans to work with OFPC, pursuant to Regents' Rules, to manage the planning and design of the project. OFPC's fee will be paid from project funds using the approved 2007 OFPC Management Fee Schedule Worksheet. U. T. Health San Antonio's oversight fee will be paid from project funds.

The San Antonio State Hospital will include short and long-term subacute options, residential treatment, and supported housing. It will also include crisis respite, as well as acute beds, with a required minimum of 300 inpatient psychiatric beds.

**12. U. T. Austin: Darrell K Royal - Texas Memorial Stadium - South End Zone Addition and Stadium Maintenance and Renovation - Amendment of the FY 2019-2024 Capital Improvement Program to include project; approval of total project cost; appropriation of funds; and resolution regarding parity debt**

**RECOMMENDATION**

The Chancellor *ad interim* concurs in the recommendation of the Deputy Chancellor, the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and the institutional president that the U. T. System Board of Regents amend the Fiscal Year 2019-2024 Capital Improvement Program (CIP) to include the Darrell K Royal - Texas Memorial Stadium - South End Zone Addition and Stadium Maintenance and Renovation project at The University of Texas at Austin as follows:

- a. approve a total project cost of \$175,000,000 with funding of \$125,000,000 from Gifts and \$50,000,000 from Revenue Financing System (RFS) Bond Proceeds;
- b. appropriate funds; and
- c. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt; sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System; and U. T. Austin, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$50,000,000.

**BACKGROUND INFORMATION**

**Debt Service**

The \$50,000,000 in RFS debt will be repaid from premium seating and ticket sales. Annual debt service on the \$50,000,000 in RFS debt is expected to be \$2.98 million. The institution's debt service coverage is expected to be at least 2.3 times and average 2.7 times over FY 2019-2024.

U. T. Austin expects that the proposed Gift funding will be in hand or committed prior to the authorization of expenditure of funds. Should Gift funding not be in hand or committed at the time of design development approval, U. T. Austin has sufficient RFS debt capacity to provide bridge financing, if necessary, to allow the project to proceed on schedule.

**Previous Actions**

On April 5, 2018, the Chancellor approved this project for Definition Phase.

### Project Description

The University of Texas at Austin seeks to construct an expansion of the South End Zone to the Darrell K Royal - Texas Memorial Stadium to include new suites, clubs, loge boxes, sponsor amenities, modified fan seating, and new coaches' offices as well as additional loading docks and facilities support spaces. Upgrades to the existing Moncrief-Neuhaus Athletic Center will include the latest technology in Sports Medicine and Rehabilitation Services.

This addition to the south end of the Stadium will complete the Stadium bowl. Similar to the North End Zone Expansion, completed in 2008, the addition at the south end zone will provide an enhanced game day experience for fans and create additional revenue for Texas Athletics. This project will further support student athlete recruitment and retention and help keep football revenues at a high level.

This proposed project has been approved by U. T. System staff and meets the criteria for inclusion in the CIP. Approval of design development plans and authorization of expenditure of funding will be presented to the President for approval at a later date. Pursuant to Board of Regents' approval on May 10, 2017, U. T. Austin has delegated authority for institutional management of construction projects under the continued oversight of the Office of Facilities Planning and Construction.

**The University of Texas at Austin  
Darrell K Royal - Texas Memorial Stadium - South End Zone Addition and Stadium  
Maintenance and Renovation**

**Project Information**

Project Number	102-782
CIP Project Type	Repair and Rehabilitation
Facility Type	Athletic
Management Type	Institutional Management
Institution's Project Advocates	Arthur Johnson, Executive Senior Associate Athletic Director
Project Delivery Method	Construction Manager-at-Risk
Gross Square Feet (GSF)	237,000

**Project Funding**

	<u>Proposed</u>
Gifts <sup>1</sup>	\$125,000,000
Revenue Financing System Bond Proceeds <sup>2</sup>	<u>\$ 50,000,000</u>
Total Project Cost	<u>\$175,000,000</u>

<sup>1</sup> Gifts \$30,000,000 pledged

<sup>2</sup> Revenue Financing System (RFS) Bond Proceeds proposed to be repaid from ticket sales and Gifts

**Project Cost Detail**

	Cost
<b>BUILDING COST</b>	
- South End Zone Addition	\$ 85,000,000
- Moncrief-Neuhaus Athletic Center Renovation	20,000,000
Fixed Equipment	25,000,000
Site Development	6,800,000
Furniture and Moveable Equipment	5,200,000
Institutionally Managed Work	2,500,000
Architectural/Design Services	15,000,000
Project Management Fees	3,100,000
Insurance	2,900,000
Other Professional Fees	2,600,000
Project Contingency	5,000,000
Other Costs	1,900,000
<b>Total Project Cost</b>	<b>\$175,000,000</b>

**The University of Texas at Austin**  
**Darrell K Royal - Texas Memorial Stadium - South End Zone Addition and Stadium**  
**Maintenance and Renovation**  
(continued)

**Project Planning**

Definition Phase Completed	In Progress
Owner's Project Requirements	In Progress
Basis of Design	In Progress
Schematic Design	In Progress
Detailed Cost Estimate	In Progress

**Project Milestones**

Definition Phase Approval	April 2018
Addition to CIP	August 2018
Design Development Approval	February 2019
Construction Notice to Proceed	June 2019
Substantial Completion	July 2021

13. **U. T. Austin: McDonald Observatory Groundwater and Fire Protection Upgrades - Amendment of the FY 2019-2024 Capital Improvement Program to include project; approval of total project cost; and appropriation of funds and authorization of expenditure**

RECOMMENDATION

The Chancellor *ad interim* concurs in the recommendation of the Deputy Chancellor, the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and the institutional president that the U. T. System Board of Regents amend the Fiscal Year 2019-2024 Capital Improvement Program (CIP) to include the McDonald Observatory Groundwater and Fire Protection Upgrades project at The University of Texas at Austin as follows:

- a. approve a total project cost of \$13,500,000 with funding of \$6,435,000 from the Available University Fund (AUF), \$2,815,000 from Designated Funds, \$2,600,000 from Unexpended Plant Funds, and \$1,650,000 from Permanent University Fund (PUF) Bond Proceeds; and
- b. appropriate funds and authorize expenditure.

BACKGROUND INFORMATION

Previous Actions

On November 10, 2011, the McDonald Observatory Fire Life Safety and Infrastructure Upgrades project was added to the CIP with a total project cost of \$6,500,000 with funding of \$5,500,000 from AUF and \$1,000,000 from Designated Funds. On December 15, 2011, the President approved the design development plans and authorized expenditure of funds. On August 21, 2014, the Board approved an increase in the total project cost to \$8,100,000 with funding of \$50,000 from PUF Bond Proceeds, \$5,500,000 from AUF, and \$2,550,000 from Designated Funds.

On October 9, 2014, the President approved an increase in the total project cost to \$8,515,000 and revised funding to include an additional \$600,000 PUF Bond Proceeds (Board approved August 21, 2014) for a total of \$650,000 from PUF Bond Proceeds, \$5,500,000 from AUF, and reduced Designated Funds to \$2,365,000. On August 20, 2015, the Board approved a Regents' Rule change to increase the major project threshold to \$10 million and this project was removed from the CIP. The proposed increase takes the total project cost above that threshold, requiring Board approval.

Project Description

The need for this project was triggered by 2011 West Texas wildfires, which came close to the McDonald Observatory. Analysis determined that existing systems were inadequate to meet mandated fire water supply and flow demands in the event of a future fire event. To date, the project tasks that have been completed include the wastewater system, test well investigations, two permanent wells, and the design of the system's storage and distribution infrastructure.



Additional project funds were obtained in 2016 to install equipment and infrastructure in the lower valley area of the Observatory. The proposed increase will allow the project to extend the water supply infrastructure to the full Observatory site.

Original project funding proved insufficient as actual construction costs came in higher than estimated. The remoteness of the site and increased construction activity in the area have contributed to higher construction costs and additional filtration equipment was necessary to meet allowable limits required by the Texas Commission on Environmental Quality. The completion of this infrastructure installation is critical to provide a locally managed and sustainable public water supply and fire protection system to the full Observatory site.

This proposed repair and rehabilitation project has been approved by U. T. System staff and meets the criteria for inclusion in the CIP. Pursuant to Board of Regents' approval on May 10, 2017, U. T. Austin has delegated authority for institutional management of construction projects under the continued oversight of the Office of Facilities Planning and Construction.

**The University of Texas at Austin  
McDonald Observatory Groundwater and Fire Protection Upgrades**

**Project Information**

Project Number	102-649
CIP Project Type	Repair and Rehabilitation
Facility Type	Utilities/Infrastructure
Management Type	Institutional Management
Institution's Project Advocate	Dean Appling, Associate Dean for Research and Facilities for the College of Natural Sciences
Project Delivery Method	Design-Build
Gross Square Feet (GSF)	N/A

**Project Funding**

	<u>Proposed</u>
Available University Fund	\$6,435,000
Designated Funds	\$2,815,000
Unexpended Plant Funds	\$2,600,000
Permanent University Fund Bond Proceeds <sup>1</sup>	<u>\$1,650,000</u>
Total Project Cost	<u>\$13,500,000</u>

<sup>1</sup> Permanent University Fund (PUF) Bond Proceeds previously approved by Board (\$650,000 on 8/21/14, and \$1,000,000 on 8/20/15)

**Project Cost Detail**

	Cost
<b>BUILDING COST</b>	
Wastewater System	\$3,158,199
Test Wells	539,529
Permanent Wells	1,272,783
Groundwater and Fire Protection Infrastructure	6,079,506
Fixed Equipment	-
Site Development	-
Furniture and Moveable Equipment	-
Institutionally Managed Work	12,431
Architectural/Design Services	899,219
Project Management Fees	-
Insurance	-
Other Professional Fees	4,550
Project Contingency	783,783
Other Costs	750,000
<b>Total Project Cost</b>	<b>\$13,500,000</b>

**The University of Texas at Austin**  
**McDonald Observatory Groundwater and Fire Protection Upgrades**  
(continued)

**Project Planning**

Definition Phase Completed	N/A
Owner's Project Requirements	N/A
Basis of Design	N/A
Schematic Design	N/A
Detailed Cost Estimate	N/A

**Project Milestones**

Definition Phase Approval	N/A
Addition to CIP	August 2018
Design Development Approval	October 2014*
Construction Notice to Proceed	April 2012*
Substantial Completion	December 2020

\* This project was previously added to the CIP on November 10, 2011, and then removed on August 20, 2015, when the major project threshold was increased to \$10 million.

**14. U. T. El Paso: Sun Bowl Stadium Structural Repairs, Code Updates, and Modernization - Amendment of the FY 2019-2024 Capital Improvement Program to include project; approval of total project cost; appropriation of funds; authorization of institutional management; and resolution regarding parity debt**

RECOMMENDATION

The Chancellor *ad interim* concurs in the recommendation of the Deputy Chancellor, the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and the institutional president that the U. T. System Board of Regents amend the Fiscal Year 2019-2024 Capital Improvement Program (CIP) to include the Sun Bowl Stadium Structural Repairs, Code Updates, and Modernization project at The University of Texas at El Paso as follows:

- a. approve a total project cost of \$16,250,000 with funding of \$12,000,000 from Revenue Financing System (RFS) Bond Proceeds and \$4,250,000 from Gifts;
- b. appropriate funds;
- c. authorize U. T. El Paso to manage the project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts; and
- d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt; sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System; and U. T. El Paso, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$12,000,000.

BACKGROUND INFORMATION

Previous Actions

On April 18, 2018, the Chancellor approved this project for Definition Phase.

Debt Service

The \$12,000,000 in RFS debt will be repaid from Auxiliary Revenues. Annual debt service on the \$12,000,000 in RFS debt is expected to be \$710,000. The institution's debt service coverage is expected to be at least 1.3 times and average 1.5 times over FY 2019-2023.

### Project Description

The Sun Bowl Stadium was constructed in 1963 and was expanded in 1983. This proposed project allows for structural repairs to the upper section of the stadium west stands; address Americans with Disabilities Act (ADA) seating access and dispersion requirements; remodel existing restrooms as required by current codes; and modernize the existing press box. These repairs are necessary to extend the useful life and improve operational efficiency of the facility. This project is included in the institution's Strategic Plan and conforms to the current approved Campus Master Plan as an asset to be maintained.

This proposed repair and rehabilitation project has been approved by U. T. System staff and meets the criteria for inclusion in the CIP. It has been determined that this project would best be managed by U. T. El Paso Facilities Management personnel who have the experience and capability to manage all aspects of the work. Design development plans and authorization of expenditure of funding will be presented to the President for approval at a later date.

**The University of Texas at El Paso  
Sun Bowl Stadium Structural Repairs, Code Updates, and Modernization**

**Project Information**

Project Number	201-1181
CIP Project Type	Repair and Rehabilitation
Facility Type	Athletic
Management Type	Institutional Management
Institution's Project Advocates	Gregory L. McNicol, Associate Vice President for Business Affairs - Facilities Management Christopher P. Park, Senior Associate Athletic Director
Project Delivery Method	Construction Manager-at-Risk
Gross Square Feet (GSF)	N/A

**Project Funding**

Revenue Financing System Bond Proceeds <sup>1</sup>	<u>Proposed</u> \$12,000,000
Gifts <sup>2</sup>	<u>\$ 4,250,000</u>
Total Project Cost	<u>\$16,250,000</u>

<sup>1</sup> Revenue Financing System (RFS) Bond Proceeds proposed to be repaid from Auxiliary Revenues

<sup>2</sup> Gifts in hand

**Project Cost Detail**

	Cost
BUILDING COST	\$11,750,000
Fixed Equipment	270,000
Site Development	500,000
Furniture and Moveable Equipment	1,540,000
Institutionally Managed Work	725,000
Architectural/Design Services	650,000
Project Management Fees	-
Insurance	-
Other Professional Fees	77,500
Project Contingency	737,500
Other Costs	-
Total Project Cost	\$16,250,000

**The University of Texas at El Paso**  
**Sun Bowl Stadium Structural Repairs, Code Updates, and Modernization**  
(continued)

**Project Planning**

Definition Phase Completed	Yes
Owner's Project Requirements	Yes
Basis of Design	Yes
Schematic Design	Yes
Detailed Cost Estimate	Yes

**Project Milestones**

Definition Phase Approval	April 2018
Addition to CIP	August 2018
Design Development Approval	September 2018
Construction Notice to Proceed	October 2018
Substantial Completion	August 2019

15. **U. T. Southwestern Medical Center: North Campus Phase VI - Brain Institute and Cancer Center - Amendment of the FY 2019-2024 Capital Improvement Program to include project**

RECOMMENDATION

The Chancellor *ad interim* concurs in the recommendation of the Deputy Chancellor, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and the institutional president that the U. T. System Board of Regents amend the Fiscal Year 2019-2024 Capital Improvement Program (CIP) to include the North Campus Phase VI - Brain Institute and Cancer Center project at The University of Texas Southwestern Medical Center.

BACKGROUND INFORMATION

Previous Action

On August 3, 2017, the Chancellor approved this project for Definition Phase. On November 10, 2016, the Board approved \$39,000,000 in Permanent University Fund (PUF) Bond Proceeds for this project.

Project Description

The Harold C. Simmons Comprehensive Cancer Center builds on the research strengths of U. T. Southwestern and a broad network of scientific and clinical partners to develop new cancer insights and treatments. The Simmons Cancer Center's scientific programs and disease-oriented teams work hand-in-hand to advance cancer research and patient care by focusing on a major type or area of cancer and are instrumental in shaping and conveying basic and translational findings for use in the clinic.

The Peter O'Donnell Jr. Brain Institute encompasses both research and clinical programs including brain health in sports, the military, and the aging population. The Brain Institute provides advanced diagnostic capabilities and treatment options for brain, spine, muscle, nerve, and psychiatric disorders.

The proposed North Campus Phase VI - Brain Institute and Cancer Center project is essential to the growth of patient care and research for both the Cancer Center and the Brain Institute. The project would add a nine-floor tower of clinic and research space and shared support space. The major cost drivers include infusion bays, exam rooms, research labs, and imaging facilities. The project will also include a parking structure with approximately 1,200 parking spaces.

This proposed project has been approved by U. T. System staff and meets the criteria for inclusion in the CIP. Approval of design development plans and authorization of expenditure of funding will be presented to the Board for approval at a later date. Pursuant to a Memorandum of Understanding effective September 1, 2016, U. T. Southwestern Medical Center has delegated authority of institutional management of construction projects under the continued oversight of the Office of Facilities Planning and Construction.



**The University of Texas Southwestern Medical Center  
North Campus Phase VI - Brain Institute and Cancer Center**

**Project Information**

Project Number	303-1099
CIP Project Type	New Construction
Facility Type	Healthcare Facility, Clinic
Management Type	Institutional Management
Institution's Project Advocate	Dwain Thiele, M.D., Interim Executive Vice President for Academic Affairs, Provost and Dean of U. T. Southwestern Medical School
Project Delivery Method	Construction Manager-at-Risk
Gross Square Feet (GSF)	590,342
Shell Space (GSF)	241,928

**Project Funding**

	<u>Proposed</u>
Revenue Financing System Bond Proceeds <sup>1</sup>	\$313,757,000
Gifts <sup>2</sup>	\$51,000,000
Designated Funds	\$50,000,000
Permanent University Fund Bond Proceeds <sup>3</sup>	<u>\$39,000,000</u>
Total Project Cost	<u>\$453,757,000</u>

<sup>1</sup> Revenue Financing System (RFS) Bond Proceeds to be repaid from Hospital Revenues

<sup>2</sup> Gifts are not yet raised but are expected to be in hand no later than 12/1/20

<sup>3</sup> Permanent University Fund (PUF) Bond Proceeds approved by the Board on 11/10/16

**Project Cost Detail**

	Cost
<b>BUILDING COST</b>	
North Campus Phase VI - Brain Institute and Cancer Center	\$301,027,326
Parking Garage	30,188,152
Fixed Equipment	34,698,160
Site Development	6,420,681
Furniture and Moveable Equipment	7,153,480
Institutionally Managed Work	-
Architectural/Design Services	22,845,754
Project Management Fees	8,590,000
Insurance	5,609,647
Other Professional Fees	-
Project Contingency	33,250,000
Other Costs	3,973,800
<b>Total Project Cost</b>	<b>\$453,757,000</b>

**The University of Texas Southwestern Medical Center  
North Campus Phase VI - Brain Institute and Cancer Center**

(continued)

**Building Cost per GSF Benchmarks** (escalated to midpoint of construction)

North Campus Phase VI - Brain Institute and Cancer Center (with 41% Shell Space)	\$510		
North Campus Phase VI - Brain Institute and Cancer Center (Estimated Total Finish-Out)	\$685		
Texas Higher Education Coordinating Board Average - Healthcare Facility	\$422		
	Low Quartile	Median	High Quartile
Other U. T. System Projects	\$443	\$487	\$590
Other National Projects	\$440	\$635	\$836

**Investment Metrics**

- Provide best-in-class facility to improve patient care and save lives through treatment
- Expand basic molecular brain research to provide prevention and treatment of brain, spine, nerve, and muscle disorders

**Project Planning**

Definition Phase Completed	Yes
Owner's Project Requirements	Yes
Basis of Design	Yes
Schematic Design	Yes
Detailed Cost Estimate	Yes

**Project Milestones**

Definition Phase Approval	August 2017
Addition to CIP	August 2018
Design Development Approval	November 2018
Construction Notice to Proceed	January 2019
Substantial Completion	April 2022

**Basis of Design**

The planned building life expectancy includes the following elements:

- Enclosure: 30 years
- Building Systems: 30 years
- Interior Construction: 30 years

16. **U. T. Southwestern Medical Center: Vivarium and Research Infrastructure Reinvestment - Approval of design development for the Vivarium Building portion of the project; appropriation of funds and authorization of expenditure; and resolution regarding parity debt**

**RECOMMENDATION**

The Chancellor *ad interim* concurs in the recommendation of the Deputy Chancellor, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and the institutional president that the U. T. System Board of Regents approve the recommendations for the Vivarium Building portion of the Vivarium and Research Infrastructure Reinvestment project at The University of Texas Southwestern Medical Center as follows:

- a. approve design development plans;
- b. appropriate funds and authorize expenditure of \$45,380,600 with funding of \$34,000,000 from Revenue Financing System (RFS) Bond Proceeds and \$11,380,600 from Tuition Revenue Bond (TRB) Proceeds; and
- c. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt; sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System; and U. T. Southwestern Medical Center, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$34,000,000.

**BACKGROUND INFORMATION**

**Debt Service**

The \$34,000,000 in RFS debt will be repaid from indirect cost recovery. Annual debt service on the \$34,000,000 in RFS debt is expected to be \$2 million. The institution's debt service coverage is expected to be at least 2.6 times and average 2.8 times over FY 2019-2024.

**Previous Actions**

On August 20, 2015, the Vivarium and Research Infrastructure Reinvestment project was included in the Capital Improvement Program with a total project cost of \$147,500,000 with funding of \$80,000,000 from TRB Proceeds, \$34,000,000 from RFS Bond Proceeds, and \$33,500,000 from Designated Funds. On July 22, 2016, the President approved design development and expenditure of \$47,665,367 with \$25,315,565 from TRB Proceeds and

\$22,349,801 from Designated Funds for the FY 2017 Repair and Rehabilitation (R&R) portion of the project. On April 19, 2017, the President approved design development and expenditure of \$41,346,497 in TRB Proceeds for the FY 2018 R&R portion of the project.

### Project Description

The Vivarium and Research Infrastructure Reinvestment project includes significant renovation and infrastructure to approximately 295,000 gross square feet on the North and South campuses to increase overall animal research capacity. The renovation portion of the project is underway and will be completed over the course of several years. The state-of-the-art Vivarium Building portion of the project will increase capacity for future research growth.

The proposed four-story Vivarium Building will have the capability to house a variety of animals from rodents to traditional farm animal species. The project will include dedicated surgical suites for the larger farm animal species, provide Animal Biosafety Level 2 research areas for housing infectious agents, gene therapy, and work with human cancer cells in animals. Additionally, the new vivarium is designed to allow for easy transport of animals to other areas of campus so that researchers can take advantage of imaging facilities already present on campus.

The existing vivariums on campus are nearing capacity and the current vivarium housing the large farm animal species is in need of costly renovations to comply with current federal guidelines and accrediting agency recommendations. It is more economical to build new facilities than to renovate existing vivarium space.

Pursuant to a Memorandum of Understanding effective September 1, 2016, U. T. Southwestern Medical Center has delegated authority for institutional management of construction projects under the continued oversight of the Office of Facilities Planning and Construction.

**The University of Texas Southwestern Medical Center  
Vivarium Building portion of the Vivarium and Research Infrastructure Reinvestment**

**Project Information**

Project Number	303-948
CIP Project Type	New Construction
Facility Type	Laboratory, Medical/Healthcare
Management Type	Institutional Management
Institution's Project Advocate	Dwain Thiele, M.D. Interim Executive Vice President for Academic Affairs, Provost and Dean of U. T. Southwestern Medical School
Project Delivery Method	Construction Manager-at-Risk
Gross Square Feet (GSF)	61,486
Shell Space GSF	14,461

**Project Funding**

Revenue Financing System Bond Proceeds <sup>1</sup>	<u>Proposed</u> \$34,000,000
Tuition Revenue Bond Proceeds	<u>\$11,380,600</u>
Total Project Cost	<u>\$45,380,600</u>

<sup>1</sup> Revenue Financing System (RFS) Bond Proceeds to be repaid from indirect cost recovery

**Project Cost Detail**

	Cost
BUILDING COST	\$28,710,482
Fixed Equipment	6,380,125
Site Development	150,000
Furniture and Moveable Equipment	736,952
Institutionally Managed Work	1,716,500
Architectural/Design Services	2,204,510
Project Management Fees	1,111,567
Insurance	550,957
Other Professional Fees	713,400
Project Contingency	3,106,107
Other Costs	
<b>Total Project Cost</b>	<b>\$45,380,600</b>

**The University of Texas Southwestern Medical Center  
Vivarium Building portion of the Vivarium and Research Infrastructure Reinvestment  
(continued)**

**Building Cost per GSF Benchmarks (escalated to midpoint of construction)**

Vivarium Building (with 24% Shell Space)	\$467		
Vivarium Building (Estimated Total Finish-Out)	\$553		
Texas Higher Education Coordinating Board Average - Laboratory, Medical/Healthcare	\$502		
	Low Quartile	Median	High Quartile
Other U. T. System Projects	\$487	\$608	\$731
Other National Projects	\$522	\$632	\$768

**Investment Metrics**

- Recruit and retain top caliber researchers and clinician scientists
- Meet federal guidelines and accrediting agency recommendations

**Project Planning**

Definition Phase Completed	Yes
Owner's Project Requirements	Yes
Basis of Design	Yes
Schematic Design	Yes
Detailed Cost Estimate	Yes

**Project Milestones**

Definition Phase Approval	N/A
Addition to CIP	August 2015
Design Development Approval	August 2018
Construction Notice to Proceed	February 2019
Substantial Completion	July 2020

**Basis of Design**

The planned building life expectancy includes the following elements:

- Enclosure: 30 years
- Building Systems: 30 years
- Interior Construction: 30 years

17. **U. T. System Board of Regents: Approval of amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, the Intermediate Term Fund, the Liquidity Policy, and the Derivative Investment Policy**

**RECOMMENDATION**

The Chancellor *ad interim*, the Deputy Chancellor, and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas/Texas A&M Investment Management Company (UTIMCO) that the U. T. System Board of Regents approve the proposed amendments to the following Investment Policy Statements, including asset allocation, the Liquidity Policy, and the Derivative Investment Policy, as set forth in congressional style on the referenced pages.

- a. Permanent University Fund (PUF) (See Pages 58 - 72)
- b. General Endowment Fund (GEF) (See Pages 73 - 86)
- c. Permanent Health Fund (PHF) (See Pages 87 - 96)
- d. Long Term Fund (LTF) (See Pages 97 - 106)
- e. Intermediate Term Fund (ITF) (See Pages 107 - 119)
- f. Liquidity Policy (See Pages 120 - 123)
- g. Derivative Investment Policy (See Pages 124 - 130)

**BACKGROUND INFORMATION**

The Master Investment Management Services Agreement (IMSA) between the U. T. System Board of Regents and UTIMCO requires that UTIMCO review the current Investment Policies for each Fund at least annually. The review includes long-term investment return expectations and expected risk levels, Asset Class allocation targets and ranges for each eligible Asset Class, expected returns for each Asset Class and Fund, designated performance benchmarks for each Asset Class, and such other matters as the U. T. System Board or its staff designees may request.

The amended PUF, GEF, PHF, LTF, and ITF Investment Policy Statements, the Liquidity Policy, and the Derivative Investment Policy were approved by the UTIMCO Board on July 26, 2018.

The Investment Policy Statements for the PUF, GEF, ITF, PHF, and LTF have been amended to reflect changes to the asset allocation framework which replaces the use of More Correlated and Constrained (MCC), Less Correlated and Constrained (LCC), and Private Investments Investment Types with a new asset allocation framework designed with Global Equity, Stable Value, and Real Return asset classes.

The amended Exhibits A of the PUF, GEF, and ITF, and Exhibits B in the PHF and LTF Investment Policy Statements, set forth the revised Asset Class targets and ranges for FYE 2019. In addition, the one-year downside deviation has been adjusted to reflect the revised Asset Class targets for FYE 2019. Finally, the Expected Annual Return (Benchmark) target for FYE 2019 was updated for the PUF, GEF, PHF, and LTF. The effective date for these policies is September 1, 2018.

The Liquidity Policy has been amended to remove the multiple trigger zones and requires prior approval from the UTIMCO Board Risk Committee after consultation with the U. T. System Office of Business Affairs for all investments that would cause illiquidity to exceed the stated illiquidity maximums. The effective date of these changes is August 10, 2018.

The Derivative Investment Policy has been amended as follows:

- The definition of Derivative Investments was moved to Exhibit A and use of the term was standardized throughout the document.
- The Deputy Chief Investment Officer was added as an additional decisionmaker for (a) determining whether a financial instrument is a Derivative Investment if it is unclear; (b) deciding when a Derivative Investment should be presented to the Board; (c) making an exception for counterparty credit ratings below the policy-stated minimum; and (d) reporting to in instances of noncompliance with the policy.
- Language was added to require external managers selected to engage in Derivative Investments to have the legal and investment expertise to limit the downside effects of the proposed derivatives.
- Counterparty Risks: Language was added to permit the UTIMCO team to enter into Derivative Investments without an International Swaps and Derivatives Association (ISDA) netting agreement in jurisdictions where ISDA is not available or the market standard for that jurisdiction.
- Exhibit B: Language was deleted regarding 'naked' short positions as it has a different meaning in some jurisdictions outside the U.S. and clarified to prohibit entry into Derivative Investments that are unhedged and have the potential for unlimited loss.

The effective date of these changes is August 10, 2018.

The Short Term Fund Investment Policy Statement and the Separately Invested Funds Investment Policy Statement were reviewed but no changes were made.



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

**Purpose**

The Permanent University Fund (the “PUF”) is a public endowment contributing to the support of eligible institutions of The University of Texas System and The Texas A&M University System as provided in Article VII, Section 18 of the *Texas Constitution*.

**PUF Organization**

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

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

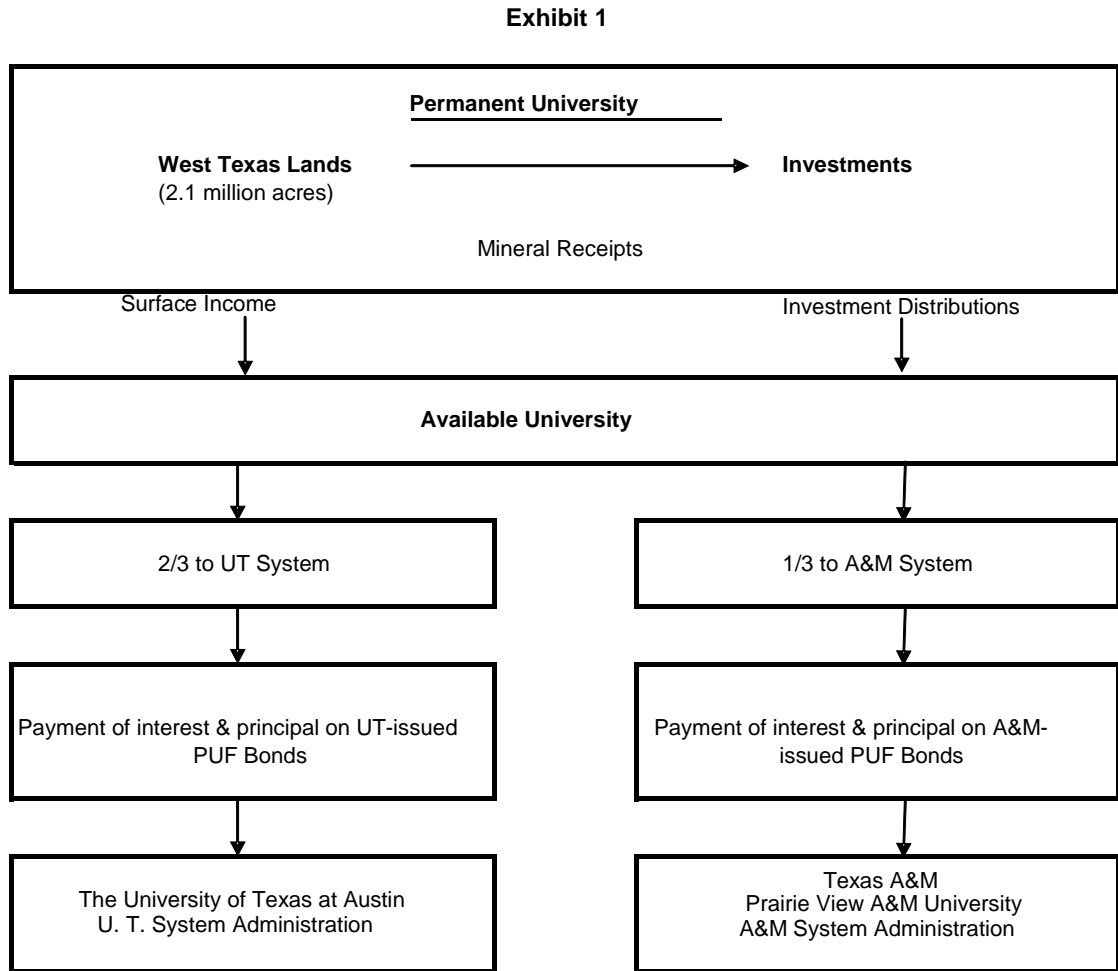
The expenditure of the AUF is subject to a prescribed order of priority:

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

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

*Permanent University Fund Investment Policy Statement (continued)*

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



**PUF Management**

Article VII, Section 11b of the *Texas Constitution* assigns fiduciary responsibility for managing and investing the PUF to the Board of Regents. Article VII, Section 11b authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors,

*Permanent University Fund Investment Policy Statement (continued)*

exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.

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

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

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

### **PUF Administration**

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

### **PUF Investment Objectives**

The PUF and the General Endowment Fund (the "GEF") are managed similarly for efficient investment purposes. The primary investment objective of the PUF shall be to maximize investment returns within the risk parameters specified in this Policy Statement without regard to the distribution rate. Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund.

Investments must be ~~within the Asset Class and Investment Type ranges~~, prudently diversified, and within the approved Policy Downside Volatility Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO's risk model. Liquidity of the

*Permanent University Fund Investment Policy Statement (continued)*

PUF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

PUF return, Asset Class ~~and Investment Type~~ allocations, and downside volatility targets are subject to adjustment from time to time by the Board of Regents.

**Asset Class ~~and Investment Type~~ Allocation and Policy**

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

In the event that actual portfolio positions in Asset Classes ~~es or Investment Type~~ or the Portfolio Projected Downside Volatility move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the PUF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

PUF assets shall be allocated among the following broad Asset Classes ~~and Investment Types~~ based upon their individual return/risk characteristics and relationships to other Asset Classes ~~and Investment Types~~:

~~Asset Classes:~~

~~Investment Grade Fixed Income — Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated investment grade, including cash as defined in the Liquidity Policy.~~

~~Credit-Related Fixed Income — Credit-Related Fixed Income represents ownership of fixed income instruments, including real and nominal across all maturities, US and non-US, that are rated below investment grade.~~

~~Natural Resources — Natural Resources represents ownership directly or in securities, the value of which are directly or indirectly tied to natural resources including, but not limited to, energy, metals and minerals, agriculture, livestock and timber.~~

*Permanent University Fund Investment Policy Statement (continued)*

~~Real Estate – Real Estate represents primarily equity ownership in real property including public and private securities.~~

~~Developed Country Equity – Developed Country Equity represents ownership in companies domiciled in developed countries as defined by the composition of the MSCI World Index.~~

~~Emerging Markets Equity – Emerging Markets Equity represents ownership in companies domiciled in emerging economies as defined by the composition of the MSCI Emerging Markets Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Index qualification status (either through financial or qualitative measures).~~

~~Investment Types:~~

~~— More Correlated & Constrained Investments (“MCC”) – Mandates that exhibit higher levels of beta exposure to the underlying assets being traded, tend to be in a single Asset Class, have lower levels of short exposure and leverage, have more underlying security transparency, are more likely to be in publicly traded securities and are less likely to entail lock-ups.~~

~~— Less Correlated & Constrained Investments (“LCC”) – Mandates that exhibit lower levels of beta exposure to the underlying assets being traded, may be across Asset Classes, may have higher levels of short exposure and leverage, may not have underlying security transparency, are more likely to be in publicly traded securities and may entail lock-ups.~~

~~— Private Investments (“PI”) – Mandates that invest primarily in non-public securities and typically entail capital commitments, calls and distributions.~~

~~**Global Equity:**~~

~~U.S. Public Equity – U.S. Public Equity invests primarily in the equity securities of companies domiciled in the U.S. These securities are traded in public markets (on an exchange, over the counter, pursuant to SEC Rule 144a, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. U.S. Public Equity includes common stocks, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).~~

~~Non-U.S. Developed Public Equity – Non-U.S. Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries (other than the U.S.) that are part of the MSCI World Index. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after~~

*Permanent University Fund Investment Policy Statement (continued)*

the initial investment. Non-U.S. Developed Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Global Developed Public Equity – Global Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries that are part of the MSCI World Index; however, the asset allocation between U.S. and non-U.S. may be variable over time. Global Developed Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Emerging Markets Public Equity – Emerging Markets Public Equity invests primarily in the equity securities of companies that are domiciled in (i) the emerging countries that are part of the MSCI Emerging Markets Index or (ii) countries that have yet to reach MSCI Emerging Markets Index qualification status. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Emerging Markets Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Directional Hedge Funds – Directional Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Directional Hedge Funds exhibit some market sensitivity as defined by beta to public equities. Strategies may include but are not limited to long/short equity, multi-strategy, event-driven, distressed and stressed credit and global macro.

Private Equity – Private Equity investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in controlling or minority ownership interests in private or publicly-traded companies. These investments are acquired by purchasing publicly-traded or privately-issued common and preferred stocks, convertible securities, warrants, rights, options or debt obligations of private or publicly-traded companies. Private Equity investments often have transfer restrictions and are not as liquid as publicly-traded securities. Private Equity investments are often classified by strategy including: buyouts, venture capital and private credit.

**Stable Value:**

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, U.S. and non-U.S., that are rated investment grade. These include debt issued by the Sovereign

*Permanent University Fund Investment Policy Statement (continued)*

Governments, various government enterprises and agencies, and corporations. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications that serve as a fixed income substitute may be classified as Investment Grade Fixed Income.

Credit-Related Fixed Income – Credit-Related Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, U.S. and non-U.S., that are rated below investment grade.

Stable Value Hedge Funds – Stable Value Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Stable Value Hedge Fund investments exhibit little to no market sensitivity, as defined by beta to U.S. Public Equity, and have an absolute return orientation. Strategies may include but are not limited to market-neutral equity, multi-strategy, re-insurance, risk premia, trend following, senior secured lending and global macro.

Cash – Cash consists of internal and external pooled investment funds, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

**Real Return:**

Inflation Linked Bonds – Inflation Linked Bonds include fixed income investments issued by both U.S. and Non-U.S. Governments where the principal value of the bond has been indexed to some rate of inflation, as well as derivatives referencing Inflation Linked Bonds or directly linked to inflation rates, including but not limited to inflation swaps. Inflation Linked Bonds are intended to provide some degree of inflation protection .

Commodities – Commodities investments represent ownership of bulk physical goods such as metals, grains, foods and energy products. These investments can be made through actual physical ownership of the goods, or through financial ownership of the underlying goods achieved through the purchase of derivatives based on commodities or commodities indices.

Natural Resources – Natural Resources investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in a controlling or minority ownership interest in a company involved in the production of natural resources including, but not limited to: energy, precious metals, metals, minerals, agriculture, livestock, and timber. Some Natural Resource investments may have transfer restrictions and may not be as liquid as publicly-traded securities.

Infrastructure – Infrastructure investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in ownership of companies or assets that provide an essential service that

*Permanent University Fund Investment Policy Statement (continued)*

contributes to the economic or social productivity of an organization, community, or society at large with real assets in the water, transportation, energy, communication or social sectors. Investments generally have structure features that include a monopolistic or oligopolistic market position with high barriers to entry; a low elasticity of demand due to their essential functions; stable, predictable, and long-term revenue contracts; or inflation protection through inflation adjustment mechanisms in underlying contracts. Some Infrastructure investments may have transfer restrictions and may not be as liquid as publicly-traded securities.

Public Real Estate – Public Real Estate invests principally in companies that are part of the FTSE/EPRA NAREIT Developed Index and that own or manage equity or debt interests in portfolios of real estate or real assets. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Public Real Estate includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Private Real Estate – Private Real Estate investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in a controlling or minority ownership interest in a real asset or a real estate focused company. Private Real Estate investments are acquired by purchasing physical real assets, physical real estate or publicly-traded or privately-issued securities including, but not limited to: common or preferred stock, secured or subordinated debt, mortgage-related investments, master limited partnerships (“MLPs”) and real estate investment trusts (“REITs”). Some Private Real Estate investments may have transfer restrictions and may not be as liquid as publicly-traded securities. Private Real Estate investments are often classified by strategy including: core, core-plus, value-added, opportunistic and special situations.

All mandates will be categorized at inception and on an ongoing basis by Asset Class ~~and Investment Type~~ according to the ~~Mandate Categorization Procedures~~ as approved by the ~~UTIMCO Board~~ and then in effect.

### **Performance Measurement**

The investment performance of the PUF will be measured by the PUF’s custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated Policy Benchmarks of the PUF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will be comprised of a blend of Asset Class ~~and Investment Type~~ indices weighted to reflect PUF’s Asset Class ~~and Investment Type~~ allocation policy targets as defined in



*Permanent University Fund Investment Policy Statement (continued)*

Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

**Investment Guidelines**

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

Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of PUF assets in such investments.
- No securities may be purchased or held which would jeopardize the PUF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.
- The PUF's investments in warrants shall not exceed more than 5% of the PUF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The PUF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 75 basis points of PUF value.

MCC Investment Grade and Credit-Related Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

~~MCC Public Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets~~ Public Equity

*Permanent University Fund Investment Policy Statement (continued)*

- Not more than 25% of the market value of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.
- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

MCC Public Equity Stable Value

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

**PUF Distributions**

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

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

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

Annually, the Board of Regents will approve a distribution amount to the AUF pursuant to Regents' Rule 80303, Section 2.2.

Following approval of the distribution amount, distributions from the PUF to the AUF will be made at the discretion of UTIMCO management in consultation with the U. T. System Office of Finance and The Texas A&M University System Office of Treasury Services.

**PUF Accounting**

The fiscal year of the PUF shall begin on September 1st and end on August 31st. Market value of the PUF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be "other than temporarily impaired" as defined by GAAP shall be written off and reported to UTIMCO's Chief Investment Officer and the UTIMCO Board when material. The

*Permanent University Fund Investment Policy Statement (continued)*

PUF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

### **Valuation of Assets**

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

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

### **Compliance**

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

### **Securities Lending**

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

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

### **Investor Responsibility**

As a shareholder, the PUF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a

*Permanent University Fund Investment Policy Statement (continued)*

manner consistent with the unique role and mission of higher education as well as for the economic benefit of the PUF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the PUF solely in the interest of the U. T. System and the A&M System, in compliance with the Proxy Voting Policy then in effect, and shall not invest the PUF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

**Amendment of Policy Statement**

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

**Effective Date**

The effective date of this Policy shall be ~~December 1, 2017~~September 1, 2018.

Permanent University Fund Investment Policy Statement (continued)

**EXHIBIT A**  
**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES**  
**EFFECTIVE DECEMBER 1, 2017**

POLICY PORTFOLIO	FYE 2018		
	Min	Target	Max
<b>Asset Classes</b>			
Investment Grade Fixed Income	3.0%	9.5%	25.0%
Credit-Related Fixed Income	0.0%	7.5%	30.0%
Real Estate	0.0%	7.0%	12.5%
Natural Resources	2.5%	14.5%	20.0%
Developed Country Equity	30.0%	44.5%	65.0%
Emerging Markets Equity	8.0%	17.0%	25.0%
<b>Investment Types</b>			
More Correlated & Constrained	30.0%	39.0%	60.0%
Less Correlated & Constrained	15.0%	21.0%	37.5%
Private Investments	20.0%	40.0%	50.0%

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

POLICY BENCHMARK	FYE 2018
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	0.0%
Gold Spot price (XAU)	2.5%
MSCI World Index with net dividends	19.0%
MSCI Emerging Markets with net dividends	10.0%
Hedge Fund Research Indices Fund of Funds Composite Index	21.0%
Custom Cambridge Fund of Funds Benchmark	40.0%

POLICY/TARGET RETURN/RISKS	FYE 2018
Expected 10-Year Annual Real Return (Benchmark)	3.93%
One Year Downside Volatility	11.23%
<b>Risk Bounds</b>	
Lower: 1 Year Downside Volatility	75.00%
Upper: 1 Year Downside Volatility	115.00%

## Permanent University Fund Investment Policy Statement (continued)

**EXHIBIT A**  
**ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES**  
**EFFECTIVE SEPTEMBER 1, 2018**

Asset Class	FYE 2019			Benchmark
	Min	Target	Max	
<b>Global Equity:</b>				
U.S. Public Equity	2.0%	7.0%	12.0%	MSCI U.S. with Net Dividends
Non-U.S. Developed Public Equity	0.0%	4.0%	10.0%	MSCI EAFE and Canada with Net Dividends
Global Developed Public Equity	3.0%	8.0%	13.0%	MSCI World Index with Net Dividends
<i>Total Developed Public Equity</i>	12.0%	19.0%	26.0%	
Emerging Markets Public Equity	5.0%	10.0%	15.0%	MSCI Emerging Markets Index with Net Dividends
<i>Total Public Equity</i>	22.0%	29.0%	36.0%	
Directional Hedge Funds	7.0%	12.0%	17.0%	HFRI Fund of Funds Composite
Private Equity	18.0%	22.0%	27.0%	Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital
<b>Total Global Equity</b>	<b>56.0%</b>	<b>63.0%</b>	<b>70.0%</b>	
<b>Stable Value:</b>				
Investment Grade Fixed Income	2.0%	9.5%	12.0%	Bloomberg Barclays Global Aggregate Index - Hedged
Credit-Related Fixed Income	0.0%	0.0%	5.0%	Bloomberg Barclays Capital Global High Yield Index
<i>Total Fixed Income</i>	2.0%	9.5%	12.0%	
Cash	(5.0%)	1.0%	6.0%	3 month T-Bills
Stable Value Hedge Funds	2.0%	7.0%	12.0%	HFRI Fund of Funds Conservative
<b>Total Stable Value</b>	<b>11.5%</b>	<b>17.5%</b>	<b>23.5%</b>	
<b>Real Return:</b>				
Inflation Linked Bonds	0.0%	0.0%	5.0%	Bloomberg Barclays Global Inflation Linked TR Index
Gold	0.0%	1.5%	5.0%	Gold Spot Price (XAU)
Commodities	0.0%	0.0%	6.0%	Bloomberg Commodity TRI
<i>Total Commodities</i>	0.0%	1.5%	6.0%	
Natural Resources	0.0%	8.0%	12.0%	Cambridge Natural Resources
Infrastructure	0.0%	2.0%	9.0%	Cambridge Infrastructure
Public Real Estate	0.0%	0.0%	5.0%	FTSE EPRA/NAREIT Developed Index Net TRIUSD
Private Real Estate	3.0%	8.0%	13.0%	Cambridge Real Estate
<b>Total Real Return</b>	<b>13.5%</b>	<b>19.5%</b>	<b>25.5%</b>	
<b>Total All Asset Classes</b>		<b>100.0%</b>		

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


POLICY/TARGET RETURN/RISKS	FYE 2019
Expected 10-Year Annual Real Return	4.30%
One Year Downside Volatility	10.83%
Risk Bounds	
Lower: 1 Year Downside Volatility	75.00%
Upper: 1 Year Downside Volatility	115.00%

EXHIBIT A - Endowments  
(continued)

ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES  
EFFECTIVE DATE DECEMBER 1, 2017

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2018

FYE 2018		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (7.5%)	2.0%	0.0%	9.5%
	Credit-Related	(0.0%)	4.0%	3.5%	7.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (0.0%)	0.0%	7.0%	7.0%
	Natural Resources	Gold Spot price (XAU) (2.5%)	0.0%	12.0%	14.5%
Equity	Developed Country	MSCI World Index with Net Dividends (19.0%)	13.0%	12.5%	44.5%
	Emerging Markets	MSCI EM Index with Net Dividends (10.0%)	2.0%	5.0%	17.0%
<b>Total</b>		<b>39.0%</b>	<b>21.0%</b>	<b>40.0%</b>	<b>100.0%</b>

 Hedge Fund Research Indices Fund of Funds Composite Index  
 Custom Cambridge Fund of Funds Benchmark

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

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

**Purpose**

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

**GEF Organization**

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

**GEF Management**

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

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



*General Endowment Fund Investment Policy Statement (continued)*

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

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

### **GEF Administration**

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

### **Funds Eligible to Purchase GEF Units**

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

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

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

### **GEF Investment Objectives**

The GEF and the PUF are managed similarly for efficient investment purposes. The primary investment objective of the GEF shall be to maximize investment returns within the risk parameters specified in this Policy Statement without regard to the distribution rate. Investment returns are expressed net of all investment-related expenses.

Investments must be ~~within the Asset Class and Investment Type ranges,~~ prudently diversified, and within the approved Policy Downside Volatility Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO’s risk model. Liquidity of the

*General Endowment Fund Investment Policy Statement (continued)*

GEF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

GEF return, Asset Class ~~and Investment Type~~ allocations, and downside volatility targets are subject to adjustment from time to time by the Board of Regents.

**Asset Class ~~and Investment Type~~ Allocation and Policy**

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

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

GEF assets shall be allocated among the following broad Asset Classes ~~and Investment Types~~ based upon their individual return/risk characteristics and relationships to other Asset Classes ~~and Investment Types~~:

~~Asset Classes:~~

~~Investment Grade Fixed Income — Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated investment grade, including cash as defined in the Liquidity Policy.~~

~~Credit-Related Fixed Income — Credit-Related Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated below investment grade.~~

~~Natural Resources — Natural Resources represents ownership directly or in securities, the value of which are directly or indirectly tied to natural resources including, but not limited to, energy, metals and minerals, agriculture, livestock, and timber.~~

*General Endowment Fund Investment Policy Statement (continued)*

~~Real Estate – Real Estate represents primarily equity ownership in real property including public and private securities.~~

~~Developed Country Equity – Developed Country Equity represents ownership in companies domiciled in developed countries as defined by the composition of the MSCI World Index.~~

~~Emerging Markets Equity – Emerging Markets Equity represents ownership in companies domiciled in emerging economies as defined by the composition of the MSCI Emerging Markets Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Index qualification status (either through financial or qualitative measures).~~

Investment Types:

~~More Correlated & Constrained Investments (“MCC”) – Mandates that exhibit higher levels of beta exposure to the underlying assets being traded, tend to be in a single Asset Class, have lower levels of short exposure and leverage, have more underlying security transparency, are more likely to be in publicly traded securities, and are less likely to entail lock-ups.~~

~~Less Correlated & Constrained Investments (“LCC”) – Mandates that exhibit lower levels of beta exposure to the underlying assets being traded, may be across Asset Classes, may have higher levels of short exposure and leverage, may not have underlying security transparency, are more likely to be in publicly traded securities, and may entail lock-ups.~~

~~Private Investments (“PI”) – Mandates that invest primarily in non-public securities and typically entail capital commitments, calls and distributions.~~

Global Equity:

~~U.S. Public Equity – U.S. Public Equity invests primarily in the equity securities of companies domiciled in the U.S. These securities are traded in public markets (on an exchange, over the counter, pursuant to SEC Rule 144a, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. U.S. Public Equity includes common stocks, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).~~

~~Non-U.S. Developed Public Equity – Non-U.S. Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries (other than the U.S.) that are part of the MSCI World Index. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after~~

*General Endowment Fund Investment Policy Statement (continued)*

the initial investment. Non-U.S. Developed Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Global Developed Public Equity – Global Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries that are part of the MSCI World Index; however, the asset allocation between U.S. and non-U.S. may be variable over time. Global Developed Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Emerging Markets Public Equity – Emerging Markets Public Equity invests primarily in the equity securities of companies that are domiciled in (i) the emerging countries that are part of the MSCI Emerging Markets Index or (ii) countries that have yet to reach MSCI Emerging Markets Index qualification status. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Emerging Markets Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Directional Hedge Funds – Directional Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Directional Hedge Funds exhibit some market sensitivity as defined by beta to public equities. Strategies may include but are not limited to long/short equity, multi-strategy, event-driven, distressed and stressed credit and global macro.

Private Equity – Private Equity investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in controlling or minority ownership interests in private or publicly-traded companies. These investments are acquired by purchasing publicly-traded or privately-issued common and preferred stocks, convertible securities, warrants, rights, options or debt obligations of private or publicly-traded companies. Private Equity investments often have transfer restrictions and are not as liquid as publicly-traded securities. Private Equity investments are often classified by strategy including: buyouts, venture capital and private credit.

**Stable Value:**

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, U.S. and non-U.S., that are rated investment grade. These include debt issued by the Sovereign

*General Endowment Fund Investment Policy Statement (continued)*

Governments, various government enterprises and agencies, and corporations. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications that serve as a fixed income substitute may be classified as Investment Grade Fixed Income.

Credit-Related Fixed Income – Credit-Related Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, U.S. and non-U.S., that are rated below investment grade.

Stable Value Hedge Funds – Stable Value Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Stable Value Hedge Fund investments exhibit little to no market sensitivity, as defined by beta to U.S. Public Equity, and have an absolute return orientation. Strategies may include but are not limited to market-neutral equity, multi-strategy, re-insurance, risk premia, trend following, senior secured lending and global macro.

Cash – Cash consists of internal and external pooled investment funds, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

**Real Return:**

Inflation Linked Bonds – Inflation Linked Bonds include fixed income investments issued by both U.S. and Non-U.S. Governments where the principal value of the bond has been indexed to some rate of inflation, as well as derivatives referencing Inflation Linked Bonds or directly linked to inflation rates, including but not limited to inflation swaps. Inflation Linked Bonds are intended to provide some degree of inflation protection .

Commodities – Commodities investments represent ownership of bulk physical goods such as metals, grains, foods and energy products. These investments can be made through actual physical ownership of the goods, or through financial ownership of the underlying goods achieved through the purchase of derivatives based on commodities or commodities indices.

Natural Resources – Natural Resources investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in a controlling or minority ownership interest in a company involved in the production of natural resources including, but not limited to: energy, precious metals, metals, minerals, agriculture, livestock, and timber. Some Natural Resource investments may have transfer restrictions and may not be as liquid as publicly-traded securities.

Infrastructure – Infrastructure investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in ownership of companies or assets that provide an essential service that

*General Endowment Fund Investment Policy Statement (continued)*

contributes to the economic or social productivity of an organization, community, or society at large with real assets in the water, transportation, energy, communication or social sectors. Investments generally have structure features that include a monopolistic or oligopolistic market position with high barriers to entry; a low elasticity of demand due to their essential functions; stable, predictable, and long-term revenue contracts; or inflation protection through inflation adjustment mechanisms in underlying contracts. Some Infrastructure investments may have transfer restrictions and may not be as liquid as publicly-traded securities.

Public Real Estate – Public Real Estate invests principally in companies that are part of the FTSE/EPRA NAREIT Developed Index and that own or manage equity or debt interests in portfolios of real estate or real assets. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Public Real Estate includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Private Real Estate – Private Real Estate investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in a controlling or minority ownership interest in a real asset or a real estate focused company. Private Real Estate investments are acquired by purchasing physical real assets, physical real estate or publicly-traded or privately-issued securities including, but not limited to: common or preferred stock, secured or subordinated debt, mortgage-related investments, master limited partnerships (“MLPs”) and real estate investment trusts (“REITs”). Some Private Real Estate investments may have transfer restrictions and may not be as liquid as publicly-traded securities. Private Real Estate investments are often classified by strategy including: core, core-plus, value-added, opportunistic and special situations.

~~All mandates will be categorized at inception and on an ongoing basis by Asset Class and Investment Type according to the Mandate Categorization Procedures as approved by the UTIMCO Board and then in effect.~~

## **Performance Measurement**

The investment performance of the GEF will be measured by the GEF’s custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated Policy Benchmarks of the GEF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will be comprised of a blend of Asset Class ~~and Investment Type~~ indices weighted to reflect GEF’s Asset Class ~~and Investment Type~~ allocation policy targets as defined in

*General Endowment Fund Investment Policy Statement (continued)*

Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

**Investment Guidelines**

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

Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of GEF assets in such investments.
- No securities may be purchased or held which would jeopardize the GEF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.
- The GEF's investments in warrants shall not exceed more than 5% of the GEF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The GEF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 75 basis points of GEF value.

MCC Investment Grade and Credit-Related Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

*General Endowment Fund Investment Policy Statement (continued)*

~~MCG Public Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets~~  
Public Equity

- Not more than 25% of the market value of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.
- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

MCG Stable Value

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

**GEF Accounting**

The fiscal year of the GEF shall begin on September 1st and end on August 31st. Market value of the GEF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles (“GAAP”), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO’s Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be “other than temporarily impaired” as defined by GAAP shall be written off and reported to UTIMCO’s Chief Investment Officer and the UTIMCO Board when material. The GEF’s financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

**Valuation of Assets**

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

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

**Compliance**

Compliance with this Policy will be monitored by UTIMCO’s Chief Compliance Officer, UTIMCO’s Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & UTIMCO [44/09/201708/10/2018](#)



*General Endowment Fund Investment Policy Statement (continued)*

Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

### **Purchase of GEF Units**

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

### **Redemption of GEF Units**

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

### **Securities Lending**

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

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

### **Investor Responsibility**

As a shareholder, the GEF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the GEF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the GEF solely in the interest of GEF unit holders, in compliance with the Proxy Voting Policy then in effect, and shall not

*General Endowment Fund Investment Policy Statement (continued)*

invest the GEF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

**Amendment of Policy Statement**

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

**Effective Date**

The effective date of this Policy shall be ~~December 1, 2017~~ September 1, 2018.

## General Endowment Fund Investment Policy Statement (continued)

**EXHIBIT A**  
**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES**  
**EFFECTIVE DECEMBER 1, 2017**

POLICY PORTFOLIO	FYE 2018		
	Min	Target	Max
<b>Asset Classes</b>			
Investment Grade Fixed Income	3.0%	9.5%	25.0%
Credit-Related Fixed Income	0.0%	7.5%	30.0%
Real Estate	0.0%	7.0%	12.5%
Natural Resources	2.5%	14.5%	20.0%
Developed Country Equity	30.0%	44.5%	65.0%
Emerging Markets Equity	8.0%	17.0%	25.0%
<b>Investment Types</b>			
More Correlated & Constrained	30.0%	39.0%	60.0%
Less Correlated & Constrained	15.0%	21.0%	37.5%
Private Investments	20.0%	40.0%	50.0%

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

POLICY BENCHMARK	FYE 2018
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	0.0%
Gold Spot price (XAU)	2.5%
MSCI World Index with net dividends	19.0%
MSCI Emerging Markets with net dividends	10.0%
Hedge Fund Research Indices Fund of Funds Composite Index	21.0%
Custom Cambridge Fund of Funds Benchmark	40.0%

POLICY/TARGET RETURN/RISKS	FYE 2018
Expected 10-Year Annual Real Return (Benchmark)	3.93%
One Year Downside Volatility	11.23%
<b>Risk Bounds</b>	
Lower: 1 Year Downside Volatility	75.00%
Upper: 1 Year Downside Volatility	115.00%

General Endowment Fund Investment Policy Statement (continued)

**EXHIBIT A  
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES  
EFFECTIVE SEPTEMBER 1, 2018**

Asset Class	FYE 2019			Benchmark
	Min	Target	Max	
<b>Global Equity:</b>				
U.S. Public Equity	2.0%	7.0%	12.0%	MSCI U.S. with Net Dividends
Non-U.S. Developed Public Equity	0.0%	4.0%	10.0%	MSCI EAFE and Canada with Net Dividends
Global Developed Public Equity	3.0%	8.0%	13.0%	MSCI World Index with Net Dividends
<i>Total Developed Public Equity</i>	12.0%	19.0%	26.0%	
Emerging Markets Public Equity	5.0%	10.0%	15.0%	MSCI Emerging Markets Index with Net Dividends
<i>Total Public Equity</i>	22.0%	29.0%	36.0%	
Directional Hedge Funds	7.0%	12.0%	17.0%	HFRI Fund of Funds Composite
Private Equity	18.0%	22.0%	27.0%	Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital
<b>Total Global Equity</b>	<b>56.0%</b>	<b>63.0%</b>	<b>70.0%</b>	
<b>Stable Value:</b>				
Investment Grade Fixed Income	2.0%	9.5%	12.0%	Bloomberg Barclays Global Aggregate Index - Hedged
Credit-Related Fixed Income	0.0%	0.0%	5.0%	Bloomberg Barclays Capital Global High Yield Index
<i>Total Fixed Income</i>	2.0%	9.5%	12.0%	
Cash	(5.0%)	1.0%	6.0%	3 month T-Bills
Stable Value Hedge Funds	2.0%	7.0%	12.0%	HFRI Fund of Funds Conservative
<b>Total Stable Value</b>	<b>11.5%</b>	<b>17.5%</b>	<b>23.5%</b>	
<b>Real Return:</b>				
Inflation Linked Bonds	0.0%	0.0%	5.0%	Bloomberg Barclays Global Inflation Linked TR Index
Gold	0.0%	1.5%	5.0%	Gold Spot Price (XAU)
Commodities	0.0%	0.0%	6.0%	Bloomberg Commodity TRI
<i>Total Commodities</i>	0.0%	1.5%	6.0%	
Natural Resources	0.0%	8.0%	12.0%	Cambridge Natural Resources
Infrastructure	0.0%	2.0%	9.0%	Cambridge Infrastructure
Public Real Estate	0.0%	0.0%	5.0%	FTSE EPRA/NAREIT Developed Index Net TRIUSD
Private Real Estate	3.0%	8.0%	13.0%	Cambridge Real Estate
<b>Total Real Return</b>	<b>13.5%</b>	<b>19.5%</b>	<b>25.5%</b>	
<b>Total All Asset Classes</b>		<b>100.0%</b>		

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

POLICY/TARGET RETURN/RISKS	FYE 2019
Expected 10-Year Annual Real Return	4.30%
One Year Downside Volatility	10.83%
Risk Bounds	
Lower: 1 Year Downside Volatility	75.00%
Upper: 1 Year Downside Volatility	115.00%

**EXHIBIT A - Endowments  
(continued)  
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES  
EFFECTIVE DATE DECEMBER 1, 2017**

**POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2018**

FYE 2018		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (7.5%)	2.0%	0.0%	9.5%
	Credit-Related	(0.0%)	4.0%	3.5%	7.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (0.0%)	0.0%	7.0%	7.0%
	Natural Resources	Gold Spot price (XAU) (2.5%)	0.0%	12.0%	14.5%
Equity	Developed Country	MSCI World Index with Net Dividends (19.0%)	13.0%	12.5%	44.5%
	Emerging Markets	MSCI EM Index with Net Dividends (10.0%)	2.0%	5.0%	17.0%
<b>Total</b>		<b>39.0%</b>	<b>21.0%</b>	<b>40.0%</b>	<b>100.0%</b>

Hedge Fund Research Indices Fund of Funds Composite Index  
 Custom Cambridge Fund of Funds Benchmark

Investment Policy/Benchmarks are indicated in Black/Bold  
 Reportable Targets are indicated in Gray  
 UTIMCO 11/09/2017/08/10/2018

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

**Purpose**

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

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

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

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

**PHF Organization**

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

*Permanent Health Fund Investment Policy Statement (continued)*

## **PHF Management**

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

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

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

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

*Permanent Health Fund Investment Policy Statement (continued)*

changes to Asset Class ~~and Investment Type~~ allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

### **PHF Administration**

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

### **Funds Eligible to Purchase PHF Units**

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

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

### **PHF Investment Objectives**

The primary investment objective shall be to maximize investment returns within the risk parameters specified in this Policy Statement without regard to the distribution rate. Investment returns are expressed net of all investment-related expenses. Additional expenses include U. T. System administrative fees charged to the fund. The PHF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

### **Asset Allocation and Policy**

PHF assets shall be allocated among the following investments:

- A. Cash and Cash Equivalents - Cash and Cash Equivalents has the same meaning as given to the term "Cash" in the Liquidity Policy.
- B. U. T. System General Endowment Fund (GEF) - See Exhibit B for the current GEF allocation, which is subject to changes by the Board of Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.

In the event that actual Cash and Cash Equivalents positions move outside the range indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps



*Permanent Health Fund Investment Policy Statement (continued)*

to rebalance the Cash and Cash Equivalents positions back within the policy range in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the PHF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

### **Performance Measurement**

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

### **Investment Guidelines**

The PHF must be invested at all times in strict compliance with applicable law. Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.

### **PHF Distributions**

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

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

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

The Board of Regents will designate a per unit distribution amount annually.

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

*Permanent Health Fund Investment Policy Statement (continued)*

**PHF Accounting**

The fiscal year of the PHF shall begin on September 1st and end on August 31st. Market value of the PHF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles (“GAAP”), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO’s Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be “other than temporarily impaired” as defined by GAAP shall be written off and reported to UTIMCO’s Chief Investment Officer and the UTIMCO Board when material. The PHF’s financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

**Valuation of Assets**

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

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

**Compliance**

Compliance with this Policy will be monitored by UTIMCO’s Chief Compliance Officer. UTIMCO’s Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO’s compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO’s Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO’s Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

**Purchase of PHF Units**

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

*Permanent Health Fund Investment Policy Statement (continued)*

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

**Redemption of PHF Units**

Redemption of PHF units shall be paid in cash as soon as practicable after the quarterly valuation date of the PHF. If the withdrawal is greater than \$10 million, advance notice of 60 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than \$10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 5% of the PHF's net asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the time frame to liquidate illiquid investments and the best interests of all PHF unit holders. Withdrawals from the PHF shall be at the market value price per unit determined for the period of the withdrawal.

**Investor Responsibility**

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

**Amendment of Policy Statement**

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

**Effective Date**

The effective date of this Policy shall be ~~December 1, 2017~~September 1, 2018.

*Permanent Health Fund Investment Policy Statement (continued)*

**EXHIBIT A**

**PHF ASSET ALLOCATION**

**POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES  
EFFECTIVE DATE SEPTEMBER 1, 2008**

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

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

\*3 trading days or less

## Permanent Health Fund Investment Policy Statement (continued)

**EXHIBIT B - GENERAL ENDOWMENT FUND**  
**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES**  
**EFFECTIVE DECEMBER 1, 2017**

POLICY PORTFOLIO	FYE 2018		
	Min	Target	Max
<u>Asset Classes</u>			
Investment Grade Fixed Income	3.0%	9.5%	25.0%
Credit-Related Fixed Income	0.0%	7.5%	30.0%
Real Estate	0.0%	7.0%	12.5%
Natural Resources	2.5%	14.5%	20.0%
Developed Country Equity	30.0%	44.5%	65.0%
Emerging Markets Equity	8.0%	17.0%	25.0%
<u>Investment Types</u>			
More Correlated & Constrained	30.0%	39.0%	60.0%
Less Correlated & Constrained	15.0%	21.0%	37.5%
Private Investments	20.0%	40.0%	50.0%

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

POLICY BENCHMARK	FYE 2018
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	0.0%
Gold Spot price (XAU)	2.5%
MSCI World Index with net dividends	19.0%
MSCI Emerging Markets with net dividends	10.0%
Hedge Fund Research Indices Fund of Funds Composite Index	21.0%
Custom Cambridge Fund of Funds Benchmark	40.0%

POLICY/TARGET RETURN/RISKS	FYE 2018
Expected 10-Year Annual Real Return (Benchmark)	3.93%
One Year Downside Volatility	11.23%
<b>Risk Bounds</b>	
Lower: 1 Year Downside Volatility	75.00%
Upper: 1 Year Downside Volatility	115.00%

Permanent Health Fund Investment Policy Statement (continued)

**EXHIBIT B - GENERAL ENDOWMENT FUND  
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES  
EFFECTIVE SEPTEMBER 1, 2018**

Asset Class	FYE 2019			Benchmark
	Min	Target	Max	
<b>Global Equity:</b>				
U.S. Public Equity	2.0%	7.0%	12.0%	MSCI U.S. with Net Dividends
Non-U.S. Developed Public Equity	0.0%	4.0%	10.0%	MSCI EAFE and Canada with Net Dividends
Global Developed Public Equity	3.0%	8.0%	13.0%	MSCI World Index with Net Dividends
<i>Total Developed Public Equity</i>	12.0%	19.0%	26.0%	
Emerging Markets Public Equity	5.0%	10.0%	15.0%	MSCI Emerging Markets Index with Net Dividends
<i>Total Public Equity</i>	22.0%	29.0%	36.0%	
Directional Hedge Funds	7.0%	12.0%	17.0%	HFRI Fund of Funds Composite
Private Equity	18.0%	22.0%	27.0%	Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital
<b>Total Global Equity</b>	<b>56.0%</b>	<b>63.0%</b>	<b>70.0%</b>	
<b>Stable Value:</b>				
Investment Grade Fixed Income	2.0%	9.5%	12.0%	Bloomberg Barclays Global Aggregate Index - Hedged
Credit-Related Fixed Income	0.0%	0.0%	5.0%	Bloomberg Barclays Capital Global High Yield Index
<i>Total Fixed Income</i>	2.0%	9.5%	12.0%	
Cash	(5.0%)	1.0%	6.0%	3 month T-Bills
Stable Value Hedge Funds	2.0%	7.0%	12.0%	HFRI Fund of Funds Conservative
<b>Total Stable Value</b>	<b>11.5%</b>	<b>17.5%</b>	<b>23.5%</b>	
<b>Real Return:</b>				
Inflation Linked Bonds	0.0%	0.0%	5.0%	Bloomberg Barclays Global Inflation Linked TR Index
Gold	0.0%	1.5%	5.0%	Gold Spot Price (XAU)
Commodities	0.0%	0.0%	6.0%	Bloomberg Commodity TRI
<i>Total Commodities</i>	0.0%	1.5%	6.0%	
Natural Resources	0.0%	8.0%	12.0%	Cambridge Natural Resources
Infrastructure	0.0%	2.0%	9.0%	Cambridge Infrastructure
Public Real Estate	0.0%	0.0%	5.0%	FTSE EPRA/NAREIT Developed Index Net TRIUSD
Private Real Estate	3.0%	8.0%	13.0%	Cambridge Real Estate
<b>Total Real Return</b>	<b>13.5%</b>	<b>19.5%</b>	<b>25.5%</b>	
<b>Total All Asset Classes</b>		<b>100.0%</b>		

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

POLICY/TARGET RETURN/RISKS	FYE 2019
Expected 10-Year Annual Real Return	4.30%
One Year Downside Volatility	10.83%
Risk Bounds	
Lower: 1 Year Downside Volatility	75.00%
Upper: 1 Year Downside Volatility	115.00%

**EXHIBIT B**  
**(continued)**  
**GENERAL ENDOWMENT FUND**  
**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES**  
**EFFECTIVE DATE DECEMBER 1, 2017**

**POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2018**

FYE 2018		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (7.5%)	2.0%	0.0%	9.5%
	Credit-Related	(0.0%)	4.0%	3.5%	7.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (0.0%)	0.0%	7.0%	7.0%
	Natural Resources	Gold Spot price (XAU) (2.5%)	0.0%	12.0%	14.5%
Equity	Developed Country	MSCI World Index with Net Dividends (19.0%)	13.0%	12.5%	44.5%
	Emerging Markets	MSCI EM Index with Net Dividends (10.0%)	2.0%	5.0%	17.0%
<b>Total</b>		<b>39.0%</b>	<b>21.0%</b>	<b>40.0%</b>	<b>100.0%</b>

 Hedge Fund Research Indices Fund of Funds Composite Index  
 Custom Cambridge Fund of Funds Benchmark  
 Benchmark

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

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

**Purpose**

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

**LTF Organization**

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

**LTF Management**

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

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

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas/Texas A&M Investment Management



*Long Term Fund Investment Policy Statement (continued)*

Company (“UTIMCO”), the LTF shall be managed by UTIMCO, which shall a) recommend investment policy for the LTF, b) recommend specific Asset Class ~~and Investment Type~~ allocation targets, ranges, and performance benchmarks consistent with LTF objectives, and c) monitor LTF performance against LTF objectives. UTIMCO shall invest the LTF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class ~~and Investment Type~~ allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

### **LTF Administration**

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

### **Funds Eligible to Purchase LTF Units**

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

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

### **LTF Investment Objectives**

The primary investment objective shall be to maximize investment returns within the risk parameters specified in this Policy Statement without regard to the distribution rate. Investment returns are expressed net of all investment-related expenses. Additional expenses include U. T. System administrative fees charged to the fund. The LTF’s success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

### **Asset Allocation and Policy**

LTF assets shall be allocated among the following investments.

- A. Cash and Cash Equivalents – Cash and Cash Equivalents has the same meaning as given to the term “Cash” in the Liquidity Policy.
- B. U. T. System General Endowment Fund (GEF) - See Exhibit B for the current GEF allocation, which is subject to changes by the Board of

*Long Term Fund Investment Policy Statement (continued)*

Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.

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

### **Performance Measurement**

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

### **Investment Guidelines**

The LTF must be invested at all times in strict compliance with applicable law. Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.

### **LTF Distributions**

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

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

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

*Long Term Fund Investment Policy Statement (continued)*

Generally, pursuant to the Uniform Prudent Management of Institutional Funds Act, Chapter 163, *Texas Property Code*, as amended, (“Act”), subject to the intent of a donor in a gift instrument, the Board of Regents may appropriate for expenditure or accumulate so much of the LTF as it determines is prudent for the uses, benefits, purposes, and duration for which the LTF is established. Notwithstanding the preceding sentence, the Board of Regents may not appropriate for expenditure in any year an amount greater than nine percent (9%) of the LTF, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for expenditure was made.

The Board of Regents will annually approve a per unit distribution amount.

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

### **LTF Accounting**

The fiscal year of the LTF shall begin on September 1st and end on August 31st. Market value of the LTF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles (“GAAP”), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO’s Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be “other than temporarily impaired” as defined by GAAP shall be written off and reported to UTIMCO’s Chief Investment Officer and the UTIMCO Board when material. The LTF’s financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

### **Valuation of Assets**

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

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

## **Compliance**

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

## **Purchase of LTF Units**

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

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

## **Redemption of LTF Units**

Redemption of LTF units shall be paid in cash as soon as practicable after the quarterly valuation date of the LTF. If the withdrawal is greater than \$25 million, advance notice of 60 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than \$25 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 5% of the LTF's net asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the time frame to liquidate illiquid investments and the best interests of all LTF unit holders. Withdrawals from the LTF shall be at the market value price per unit determined for the period of the withdrawal except as follows: withdrawals to correct administrative errors shall be calculated at the per unit value at the time the error occurred. To be considered an administrative error, the contribution shall have been invested in the LTF for a period less than or equal to one year determined from the date of the contribution to the LTF. Transfer of units between endowment unit holders shall not be considered redemption of units subject to this provision.

## **Investor Responsibility**

As a shareholder, the LTF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a

*Long Term Fund Investment Policy Statement (continued)*

manner consistent with the unique role and mission of higher education as well as for the economic benefit of the LTF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the LTF solely in the interest of LTF unit holders, in compliance with the Proxy Voting Policy then in effect, and shall not invest the LTF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

**Amendment of Policy Statement**

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

**Effective Date**

The effective date of this Policy shall be ~~December 1, 2017~~September 1, 2018.

**EXHIBIT A**

**LTF ASSET ALLOCATION**

**POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES  
EFFECTIVE DATE SEPTEMBER 1, 2008**

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

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

\*3 trading days or less

## Long Term Fund Investment Policy Statement (continued)

**EXHIBIT B - GENERAL ENDOWMENT FUND**  
**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES**  
**EFFECTIVE DECEMBER 1, 2017**

POLICY PORTFOLIO	FYE 2018		
	Min	Target	Max
<b>Asset Classes</b>			
Investment Grade Fixed Income	3.0%	9.5%	25.0%
Credit-Related Fixed Income	0.0%	7.5%	30.0%
Real Estate	0.0%	7.0%	12.5%
Natural Resources	2.5%	14.5%	20.0%
Developed Country Equity	30.0%	44.5%	65.0%
Emerging Markets Equity	8.0%	17.0%	25.0%
<b>Investment Types</b>			
More Correlated & Constrained	30.0%	39.0%	60.0%
Less Correlated & Constrained	15.0%	21.0%	37.5%
Private Investments	20.0%	40.0%	50.0%

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

POLICY BENCHMARK	FYE 2018
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	0.0%
Gold Spot price (XAU)	2.5%
MSCI World Index with net dividends	19.0%
MSCI Emerging Markets with net dividends	10.0%
Hedge Fund Research Indices Fund of Funds Composite Index	21.0%
Custom Cambridge Fund of Funds Benchmark	40.0%

POLICY/TARGET RETURN/RISKS	FYE 2018
Expected 10-Year Annual Real Return (Benchmark)	3.93%
One Year Downside Volatility	11.23%
<b>Risk Bounds</b>	
Lower: 1 Year Downside Volatility	75.00%
Upper: 1 Year Downside Volatility	115.00%

Long Term Fund Investment Policy Statement (continued)

**EXHIBIT B - GENERAL ENDOWMENT FUND  
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES  
EFFECTIVE SEPTEMBER 1, 2018**

Asset Class	FYE 2019			Benchmark
	Min	Target	Max	
<b>Global Equity:</b>				
U.S. Public Equity	2.0%	7.0%	12.0%	MSCI U.S. with Net Dividends
Non-U.S. Developed Public Equity	0.0%	4.0%	10.0%	MSCI EAFE and Canada with Net Dividends
Global Developed Public Equity	3.0%	8.0%	13.0%	MSCI World Index with Net Dividends
<i>Total Developed Public Equity</i>	12.0%	19.0%	26.0%	
Emerging Markets Public Equity	5.0%	10.0%	15.0%	MSCI Emerging Markets Index with Net Dividends
<i>Total Public Equity</i>	22.0%	29.0%	36.0%	
Directional Hedge Funds	7.0%	12.0%	17.0%	HFRI Fund of Funds Composite
Private Equity	18.0%	22.0%	27.0%	Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital
<b>Total Global Equity</b>	<b>56.0%</b>	<b>63.0%</b>	<b>70.0%</b>	
<b>Stable Value:</b>				
Investment Grade Fixed Income	2.0%	9.5%	12.0%	Bloomberg Barclays Global Aggregate Index - Hedged
Credit-Related Fixed Income	0.0%	0.0%	5.0%	Bloomberg Barclays Capital Global High Yield Index
<i>Total Fixed Income</i>	2.0%	9.5%	12.0%	
Cash	(5.0%)	1.0%	6.0%	3 month T-Bills
Stable Value Hedge Funds	2.0%	7.0%	12.0%	HFRI Fund of Funds Conservative
<b>Total Stable Value</b>	<b>11.5%</b>	<b>17.5%</b>	<b>23.5%</b>	
<b>Real Return:</b>				
Inflation Linked Bonds	0.0%	0.0%	5.0%	Bloomberg Barclays Global Inflation Linked TR Index
Gold	0.0%	1.5%	5.0%	Gold Spot Price (XAU)
Commodities	0.0%	0.0%	6.0%	Bloomberg Commodity TRI
<i>Total Commodities</i>	0.0%	1.5%	6.0%	
Natural Resources	0.0%	8.0%	12.0%	Cambridge Natural Resources
Infrastructure	0.0%	2.0%	9.0%	Cambridge Infrastructure
Public Real Estate	0.0%	0.0%	5.0%	FTSE EPRA/NAREIT Developed Index Net TRIUSD
Private Real Estate	3.0%	8.0%	13.0%	Cambridge Real Estate
<b>Total Real Return</b>	<b>13.5%</b>	<b>19.5%</b>	<b>25.5%</b>	
<b>Total All Asset Classes</b>		<b>100.0%</b>		

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

POLICY/TARGET RETURN/RISKS	FYE 2019
Expected 10-Year Annual Real Return	4.30%
One Year Downside Volatility	10.83%
Risk Bounds	
Lower: 1 Year Downside Volatility	75.00%
Upper: 1 Year Downside Volatility	115.00%



**EXHIBIT B**  
**(continued)**  
**GENERAL ENDOWMENT FUND**  
**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES**  
**EFFECTIVE DATE DECEMBER 1, 2017**

**POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2018**

FYE 2018		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (7.5%)	2.0%	0.0%	9.5%
	Credit-Related	(0.0%)	4.0%	3.5%	7.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (0.0%)	0.0%	7.0%	7.0%
	Natural Resources	Gold Spot price (XAU) (2.5%)	0.0%	12.0%	14.5%
Equity	Developed Country	MSCI World Index with Net Dividends (19.0%)	13.0%	12.5%	44.5%
	Emerging Markets	MSCI EM Index with Net Dividends (10.0%)	2.0%	5.0%	17.0%
<b>Total</b>		<b>39.0%</b>	<b>21.0%</b>	<b>40.0%</b>	<b>100.0%</b>

 Hedge Fund Research Indices Fund of Funds Composite Index  
 Custom Cambridge Fund of Funds Benchmark  
 Benchmark

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

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

**Purpose and Structure**

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

**ITF Organization**

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

**ITF Management**

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

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

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas/Texas A&M Investment Management Company (“UTIMCO”), the ITF shall be managed by UTIMCO, which shall a) recommend investment policy for the ITF, b) recommend specific Asset Class ~~and~~

*Intermediate Term Fund Investment Policy Statement (continued)*

~~Investment Type~~ allocation targets, ranges, and performance benchmarks consistent with ITF objectives, and c) monitor ITF performance against ITF objectives. UTIMCO shall invest the ITF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class ~~and Investment Type~~ allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

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

### **ITF Administration**

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

### **Funds Eligible to Purchase ITF Units**

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

### **ITF Investment Objectives**

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

The primary investment objective of the ITF is to maximize investment returns within the risk parameters specified in this Policy Statement without regard to the distribution rate.

The secondary investment objective is to preserve the purchasing power of ITF assets by earning a compound annualized return over rolling five-year periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index (CPI-U) plus 3% and to generate average annual returns net of all investment-related expenses, in excess of the approved Policy Portfolio over rolling five-year periods. Investment returns are expressed net of all

*Intermediate Term Fund Investment Policy Statement (continued)*

investment-related expenses. Additional expenses include U. T. System administrative fees charged to the fund.

Investments must be ~~within the Asset Class and Investment Type ranges~~, prudently diversified, and within the approved Policy Downside Volatility Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO's risk model. Liquidity of the ITF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

ITF return, Asset Class ~~and Investment Type~~ allocations, and downside volatility targets are subject to adjustment from time to time by the Board of Regents.

**Asset Class ~~and Investment Type~~ Allocation and Policy**

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

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

ITF assets shall be allocated among the following broad Asset Classes ~~and Investment Types~~ based upon their individual return/risk characteristics and relationships to other Asset Classes ~~and Investment Types~~:

Asset Classes:

~~Investment Grade Fixed Income — Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities,~~

*Intermediate Term Fund Investment Policy Statement (continued)*

~~including real and nominal, US and non-US, that are rated investment grade, including Cash as defined in the Liquidity Policy.~~

~~Credit-Related Fixed Income — Credit-Related Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated below investment grade.~~

~~Natural Resources — Natural Resources represents ownership directly or in securities, the value of which are directly or indirectly tied to natural resources including, but not limited to, energy, metals and minerals, agriculture, livestock, and timber.~~

~~Real Estate — Real Estate represents primarily equity ownership in real property including public and private securities.~~

~~Developed Country Equity — Developed Country Equity represents ownership in companies domiciled in developed countries as defined by the composition of the MSCI World Index.~~

~~Emerging Markets Equity — Emerging Markets Equity represents ownership in companies domiciled in emerging economies as defined by the composition of the MSCI Emerging Markets Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Index qualification status (either through financial or qualitative measures).~~

Investment Types:

~~— More Correlated & Constrained Investments (“MCC”) — Mandates that exhibit higher levels of beta exposure to the underlying assets being traded, tend to be in a single Asset Class, have lower levels of short exposure and leverage, have more underlying security transparency, are more likely to be in publicly traded securities, and are less likely to entail lock-ups.~~

~~— Less Correlated & Constrained Investments (“LCC”) — Mandates that exhibit lower levels of beta exposure to the underlying assets being traded, may be across Asset Classes, may have higher levels of short exposure and leverage, may not have underlying security transparency, are more likely to be in publicly traded securities, and may entail lock-ups.~~

Global Equity:

U.S. Public Equity – U.S. Public Equity invests primarily in the equity securities of companies domiciled in the U.S. These securities are traded in public markets (on an exchange, over the counter, pursuant to SEC Rule 144a, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years

*Intermediate Term Fund Investment Policy Statement (continued)*

after the initial investment. U.S. Public Equity includes common stocks, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Non-U.S. Developed Public Equity – Non-U.S. Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries (other than the U.S.) that are part of the MSCI World Index. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Non-U.S. Developed Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Global Developed Public Equity – Global Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries that are part of the MSCI World Index; however, the asset allocation between U.S. and non-U.S. may be variable over time. Global Developed Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Emerging Markets Public Equity – Emerging Markets Public Equity invests primarily in the equity securities of companies that are domiciled in (i) the emerging countries that are part of the MSCI Emerging Markets Index or (ii) countries that have yet to reach MSCI Emerging Markets Index qualification status. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering (“IPO”)) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Emerging Markets Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Directional Hedge Funds – Directional Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Directional Hedge Funds exhibit some market sensitivity as defined by beta to public equities. Strategies may include but are not limited to long/short equity, multi-strategy, event-driven, distressed and stressed credit and global macro.

**Stable Value:**

*Intermediate Term Fund Investment Policy Statement (continued)*

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, U.S. and non-U.S., that are rated investment grade. These include debt issued by the Sovereign Governments, various government enterprises and agencies, and corporations. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications that serve as a fixed income substitute may be classified as Investment Grade Fixed Income.

Stable Value Hedge Funds – Stable Value Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Stable Value Hedge Fund investments exhibit little to no market sensitivity, as defined by beta to U.S. Public Equity, and have an absolute return orientation. Strategies may include but are not limited to market-neutral equity, multi-strategy, re-insurance, risk premia, trend following, senior secured lending and global macro.

Cash – Cash consists of internal and external pooled investment funds, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

**Real Return:**

Inflation Linked Bonds – Inflation Linked Bonds include fixed income investments issued by both U.S. and Non-U.S. Governments where the principal value of the bond has been indexed to some rate of inflation, as well as derivatives referencing Inflation Linked Bonds or directly linked to inflation rates, including but not limited to inflation swaps. Inflation Linked Bonds are intended to provide some degree of inflation protection.

Commodities – Commodities investments represent ownership of bulk physical goods such as metals, grains, foods and energy products. These investments can be made through actual physical ownership of the goods, or through financial ownership of the underlying goods achieved through the purchase of derivatives based on commodities or commodities indices.

Public Real Estate – Public Real Estate invests principally in companies that are part of the FTSE/EPRA NAREIT Developed Index and that own or manage equity or debt interests in portfolios of real estate or real assets. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Public Real Estate includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

*Intermediate Term Fund Investment Policy Statement (continued)*

All mandates will be categorized at inception and on an ongoing basis by Asset Class ~~and Investment Type according to the Mandate Categorization Procedures as approved by the UTIMCO Board and then in effect.~~

### **Performance Measurement**

The investment performance of the ITF will be measured by the ITF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, compared against the stated Policy Benchmarks of the ITF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will be comprised of a blend of Asset Class ~~and Investment Type~~ indices reported by the independent custodian and weighted to reflect ITF's approved Asset Class ~~and Investment Type~~ allocation policy targets as defined in Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

### **Investment Guidelines**

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

#### General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of ITF assets in such investments.
- No securities may be purchased or held which would jeopardize the ITF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.



*Intermediate Term Fund Investment Policy Statement (continued)*

- The ITF's investments in warrants shall not exceed more than 5% of the ITF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The ITF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 50 basis points of ITF value.

~~MCC Investment Grade and Credit-Related Fixed Income~~

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

~~MCC Public Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Public Equity~~

- Not more than 25% of the market of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.
- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

~~MCC Public Equity Stable Value~~

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

**ITF Accounting**

The fiscal year of the ITF shall begin on September 1st and end on August 31st. Market value of the ITF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be "other than temporarily impaired" as defined by GAAP shall be written off and reported to UTIMCO's Chief Investment Officer and the UTIMCO Board when material. The ITF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

**Valuation of ITF Assets**

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all ITF net assets and the net asset value per unit of the ITF. The final determination of ITF net assets for a month end close

*Intermediate Term Fund Investment Policy Statement (continued)*

shall normally be completed within seven business days but determination may be longer under certain circumstances. Valuation of ITF assets shall be based on the books and records of the custodian for the valuation date.

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

### **Compliance**

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the noncompliant activity within this Policy.

### **ITF Distributions**

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

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

### **Purchase and Redemption of ITF Units**

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

*Intermediate Term Fund Investment Policy Statement (continued)*

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

**Securities Lending**

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

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

**Investor Responsibility**

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

**Amendment of Policy Statement**

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

**Effective Date**

The effective date of this Policy shall be ~~December 1, 2017~~ September 1, 2018.

## Intermediate Term Fund Investment Policy Statement (continued)

**EXHIBIT A - INTERMEDIATE TERM FUND**  
**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES**  
**EFFECTIVE DATE DECEMBER 1, 2017**

POLICY PORTFOLIO	FYE 2018		
	Min	Target	Max
<b><u>Asset Classes</u></b>			
Investment Grade Fixed Income	20.0%	34.5%	50.0%
Credit-Related Fixed Income	0.0%	7.5%	12.0%
Real Estate	0.0%	0.0%	10.0%
Natural Resources	0.0%	2.5%	10.0%
Developed Country Equity	20.0%	44.0%	60.0%
Emerging Markets Equity	2.5%	11.5%	20.0%
<b><u>Investment Types</u></b>			
More Correlated & Constrained	45.0%	55.0%	65.0%
Less Correlated & Constrained	35.0%	45.0%	55.0%

-The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 100% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK	FYE 2018
Barclays Capital Global Aggregate Index	30.0%
FTSE EPRA/NAREIT Developed Index Net TRI USD	0.0%
Gold Spot price (XAU)	2.5%
MSCI World Index with net dividends	15.0%
MSCI Emerging Markets with net dividends	7.5%
Hedge Fund Research Indices Fund of Funds Composite Index	45.0%

POLICY/TARGET RETURN/RISKS	FYE 2018
Expected 10-Year Annual Real Return (Benchmark)	2.03%
One Year Downside Volatility	5.98%
<b>Risk Bounds</b>	
Lower: 1 Year Downside Volatility	70.00%
Upper: 1 Year Downside Volatility	115.00%

Intermediate Term Fund Investment Policy Statement (continued)

**EXHIBIT A  
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES  
EFFECTIVE SEPTEMBER 1, 2018**

Asset Class	FYE 2019			Benchmark
	Min	Target	Max	
<b>Global Equity:</b>				
U.S. Public Equity	0.7%	5.7%	10.7%	MSCI U.S. with Net Dividends
Non-U.S. Developed Public Equity	0.0%	3.4%	8.4%	MSCI EAFE and Canada with Net Dividends
Global Developed Public Equity	1.6%	6.6%	11.6%	MSCI World Index with Net Dividends
<i>Total Developed Public Equity</i>	7.5%	15.7%	22.5%	
Emerging Markets Public Equity	2.1%	7.1%	12.1%	MSCI Emerging Markets Index with Net Dividends
<i>Total Public Equity</i>	15.8%	22.8%	29.8%	
Directional Hedge Funds	25.0%	31.6%	38.0%	HFRI Fund of Funds Composite
<b>Total Global Equity</b>	<b>47.5%</b>	<b>54.4%</b>	<b>62.0%</b>	
<b>Stable Value:</b>				
Investment Grade Fixed Income	20.0%	28.7%	35.0%	Bloomberg Barclays Global Aggregate Index - Hedged
Cash	0.0%	3.0%	5.0%	3 month Tbills
Stable Value Hedge Funds	5.0%	10.2%	15.0%	HFRI Fund of Funds Conservative
<b>Total Stable Value</b>	<b>13.0%</b>	<b>41.9%</b>	<b>23.0%</b>	
<b>Real Return:</b>				
Inflation Linked Bonds	0.0%	0.0%	5.0%	Bloomberg Barclays Global Inflation Linked TR Index
Gold	0.0%	2.4%	7.5%	Gold Spot Price (XAU)
Commodities	0.0%	1.2%	6.0%	Bloomberg Commodity TRI
<i>Total Commodities</i>	0.0%	3.6%	8.5%	
Public Real Estate	0.0%	0.1%	5.0%	FTSE EPRA/NAREIT Developed Index Net TRIUSD
<b>Total Real Return</b>	<b>0.0%</b>	<b>3.7%</b>	<b>10.0%</b>	
<b>Total All Asset Classes</b>		<b>100.0%</b>		


The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 100% of the Asset Class exposure excluding the amount of derivatives exposure not collateralized by Cash.

POLICY/TARGET RETURN/RISKS	FYE 2019
Expected 10-Year Annual Real Return	2.10%
One Year Downside Volatility	5.36%
Risk Bounds	
Lower: 1 Year Downside Volatility	75.00%
Upper: 1 Year Downside Volatility	115.00%

**EXHIBIT A - INTERMEDIATE TERM FUND**  
 (continued)  
**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES**  
 EFFECTIVE DATE DECEMBER 1, 2017

**POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2018**

<b>FYE 2018</b>		<b>More Correlated &amp; Constrained</b>	<b>Less Correlated &amp; Constrained</b>	<b>Total</b>
<b>Fixed Income</b>	<b>Investment Grade</b>	<b>Barclays Capital Global Aggregate Index (30.0%)</b>	<b>4.5%</b>	<b>34.5%</b>
	<b>Credit-Related</b>	<b>(0.0%)</b>	<b>7.5%</b>	<b>7.5%</b>
<b>Real Assets</b>	<b>Real Estate</b>	<b>FTSE EPRA/NAREIT Developed Index Net TRI USD (0.0%)</b>	<b>0.0%</b>	<b>0.0%</b>
	<b>Natural Resources</b>	<b>Gold Spot price (XAU) (2.5%)</b>	<b>0.0%</b>	<b>2.5%</b>
<b>Equity</b>	<b>Developed Country</b>	<b>MSCI World Index with Net Dividends (15.0%)</b>	<b>29.0%</b>	<b>44.0%</b>
	<b>Emerging Markets</b>	<b>MSCI EM Index with Net Dividends (7.5%)</b>	<b>4.0%</b>	<b>11.5%</b>
<b>Total</b>		<b>55.0%</b>	<b>45.0%</b>	<b>100.0%</b>

 Hedge Fund Research  
 Indices Fund of Funds  
 Composite Index

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

## The University of Texas/Texas A&M Investment Management Company Liquidity Policy

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Effective Date of Policy: ~~November 9, 2017~~August 10, 2018  
Date Approved by U. T. System Board of Regents: ~~November 9, 2017~~August 10, 2018  
Date Approved by UTIMCO Board: ~~September 11, 2017~~July 26, 2018  
Original Effective Date of Policy: August 7, 2003  
Supersedes: Liquidity Policy dated ~~November 5, 2015~~November 9, 2017

### **Purpose:**

The purpose of this Liquidity Policy is to establish limits on the overall liquidity profile of investments in (1) the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter collectively referred to as the Endowment Funds and, (2) the Intermediate Term Fund (ITF). For the purposes of this policy, “liquidity” is defined as a measure of the ability of an investment position to be converted into Cash. The established liquidity profile limits will act in conjunction with, but do not supersede, the Investment Policies adopted by the U. T. System Board of Regents.

### **Objective:**

The objective of this Liquidity Policy is to control the element of total risk exposure of the Endowment Funds and the ITF stemming from the uncertainties associated with the ability to convert longer term investments to Cash to meet immediate needs or to change investment strategy, and the potential cost of that conversion.

### **Scope:**

This Liquidity Policy applies to all PUF, GEF, and ITF investments made by The University of Texas/Texas A&M Investment Management Company (UTIMCO), both by internal and by external managers. Policy implementation will be managed at the aggregate UTIMCO level and will not be a responsibility of individual internal or external managers managing a portion of the aggregate assets.

### **Definition of Liquidity Risk:**

“Liquidity risk” is defined as that element of total risk resulting from the uncertainty associated with both the cost and time period necessary to convert existing investment positions to Cash. Liquidity risk also entails obligations relating to the unfunded portions of capital commitments. Liquidity risk can result in lower than expected returns and reduced opportunity to make changes in investment positions to respond to changes in capital market conditions.

### **Definition of Cash:**

Cash is defined as short term (generally securities with time to maturity or mandatory purchase or redemption of three months or less), highly liquid investments that are readily convertible to known amounts and which are subject to a relatively small risk of changes in value. Holdings may include:

- the existing Dreyfus Institutional Preferred Money Market Fund mandate and any other UTIMCO Board approved SEC Rule 2a-7 money market fund rated AAAM by Standard & Poor’s or the equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO),
- securities of the U.S. Treasury and U.S. Agencies and their instrumentalities with maturities of 397 days or less,
- separately managed accounts with investment guidelines equivalent to, or more stringent than, unaffiliated liquid investment funds rated AAAM by Standard & Poor’s Corporation or the equivalent by a NRSRO,
- the Custodian’s late deposit interest bearing liquid investment fund,
- municipal short term securities,
- commercial paper rated in the two highest quality classes by Moody’s Investor Service, Inc. (P1 or P2) or Standard & Poor’s Corporation (A1 or A2 or the equivalent),
- negotiable certificates of deposit with a bank that is associated with a holding company whose short-term rating meets the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps, and

## The University of Texas/Texas A&M Investment Management Company Liquidity Policy

- repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.

### Liquidity Risk Measurement-The Liquidity Profile:

For the purposes of this Liquidity Policy, potential liquidity risk will be monitored by measuring the aggregate liquidity profile of the Endowment Funds and ITF. All individual investments within the Endowment Funds and ITF will be segregated into two categories:

- **Liquid:** Investments that could be converted to Cash within a period of 120 days or less in an orderly market at a discount of 10% or less.
- **Illiquid:** Investments that could be converted to Cash in an orderly market over a period of more than 120 days or in a shorter period of time by accepting a discount of more than 10%.

The UTIMCO Team will report individual investments within the Endowment Funds and ITF categorized as follows:

- Cash: Short term (generally securities with time to maturity or mandatory purchase or redemption of three months or less), highly liquid investments that are readily convertible to known amounts and which are subject to a relatively small risk of changes in value.
- Liquid (Weekly): Investments that could be converted to Cash within a period of one day to less than 7 days in an orderly market at a discount of 5% or less.
- Liquid (Annual): Investments that could be converted to Cash within a period of one day to less than 365 days in an orderly market at a discount of 10% or less.

The measurements necessary to segregate all existing investments into one of the two categories assume normally functioning capital markets and cash market transactions. In addition, swaps, derivatives, or other third party arrangements to alter the status of an investment classified as illiquid may be considered, with the prior approval of the UTIMCO Board or the Risk Committee, in determining the appropriate liquidity category for each investment.

The result of this liquidity risk measurement process will be a liquidity profile for the Endowment Funds and the ITF which indicates the percentage of the total portfolio assets within each liquidity category. This Liquidity Policy defines the acceptable range of percentage of total assets within each liquidity category, specifies “trigger zones” when requiring special review or action is required by the UTIMCO Team, and when special action is required by the UTIMCO Board or the Risk Committee, and specifies the method of monitoring and presenting actual versus policy liquidity profiles.

### Liquidity Policy Profile:

The current Liquidity Policy Profile ranges and trigger zones for each of the Endowment Funds are defined by the table below:

	<u>FY 14:</u>
Liquidity above trigger zone:	<u>30.0%</u>
Liquidity within trigger zone:	<u>25.0% - 30.0%</u>
Liquidity below trigger zone:	<u>&lt;25.0%</u>

The permitted maximum for **illiquid** investments for each of the Endowment Funds is 75% of the total portfolio for the Endowment Funds. Investments for the Endowment Funds that maintain liquidity above the trigger zone do not require any action by the Risk Committee. Any **illiquid** investments made in the that would cause illiquidity to exceed 70% to 75% trigger zone requires prior approval by the Risk Committee after consultation with The University of



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~~Texas System Office of Business Affairs. No investment may be made for the Endowment Funds which would cause illiquidity to be greater than 75%.~~

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

	<u>FY 14+</u>
Liquidity above trigger zone:	50%
Liquidity within trigger zone:	45% - 50%
Liquidity below trigger zone:	<45%

The permitted maximum for **illiquid** investments for the ITF is ~~55~~50% of the total portfolio for the ITF. ~~Investments for the ITF that maintain liquidity above the trigger zone do not require any action by the Risk Committee.~~ Any **illiquid** investments ~~made in the that would cause illiquidity to exceed 50% to 55% trigger zone~~ requires prior approval by the Risk Committee after consultation with The University of Texas System Office of Business Affairs. ~~No investment may be made for the ITF which would cause illiquidity to be greater than 55%.~~

Risk Committee review of new investments ~~in the illiquid trigger zone~~above the permitted maximums will supplement, rather than replace, the procedures established by the UTIMCO Board for the approval of new investments.

### Unfunded Commitments:

As used herein, “unfunded commitments” refers to capital that has been legally committed from an Endowment Fund and has not yet been called but may still be called by the general partner or investment manager. The Maximum Permitted Amount of unfunded commitments for each Endowment Fund is:

	<u>FY 14+</u>
Unfunded Commitment as a percent of <u>the total invested assets</u> <del>Net Asset Value of the Endowment Funds:</del>	30.0%

No new commitments may be made for an Endowment Fund without approval from the Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such commitment, would exceed the Maximum Permitted Amount.

### Documentation and Controls:

Managing Directors responsible for each asset class are responsible for determining the liquidity category for each investment in that asset class as well as the amount of unfunded commitments ~~for each Endowment Fund.~~ The determination of liquidity will include underlying security trading volumes, notice periods, redemption dates, lock-up periods, and “soft” and “hard” gates. These classifications will be reviewed by the Risk Manager and the Chief Compliance Officer, and must receive final approval from the Chief Investment Officer. Classifications and weights within each liquidity category will be updated and reported on a monthly basis. All new investments considered will be categorized by liquidity category, and a statement regarding the effect on overall liquidity and the amount of unfunded commitments for each Endowment Fund of the addition of a new investment must be an element of the due diligence process and will be a part of the recommendation report to the UTIMCO Board.

As additional safeguards, ~~trigger zones~~maximum illiquidity levels have been established as indicated above to ~~trigger~~ require review and action by the UTIMCO Board or the Risk Committee in the event any investment action would cause the actual investment position in illiquid investments to ~~enter the designated trigger zone~~exceed the permitted maximum illiquidity levels, or in the event market actions caused the actual investment position in illiquid investments to ~~move into trigger zones~~exceed the maximum illiquidity levels. In addition, any proposed investment actions which would increase the actual investment position in illiquid investments in any of the PUF, the GEF, or the ITF by 10%

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or more of the total asset value of such fund would also require review and action by the UTIMCO Board or the Risk Committee prior to the change. Any actual positions ~~in any trigger zones or~~ outside the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board and the Risk Committee the circumstances of the deviation from Policy and the remedy to the situation. Furthermore, as indicated above, no new commitments may be made for an Endowment Fund without approval from the Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such new commitment, would exceed, the Maximum Permitted Amount.

### **Reporting:**

The actual liquidity profiles of the Endowment Funds and the ITF, including a detailed analysis of liquidity by category, and the status of unfunded commitments for each Endowment Fund, and compliance with this Liquidity Policy will be reported to the UTIMCO Board on at least a quarterly basis. Any exception to this Liquidity Policy and actions taken to remedy the exception will be reported promptly.

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Effective Date of Policy: ~~August 25, 2016~~August 10, 2018  
Date Approved by U. T. System Board of Regents: ~~August 25, 2016~~August 10, 2018  
Date Approved by UTIMCO Board: ~~July 21, 2016~~July 26, 2018  
Supersedes: Derivative Investment Policy approved ~~November 5, 2015~~July 21, 2016

### Purpose:

The purpose of ~~the this~~ Derivative Investment Policy (the "Policy") is to set forth the applications, documentation and limitations for investment in ~~derivatives-Derivative Investments~~ in the Permanent University Fund (PUF), the General Endowment Fund (GEF), the Intermediate Term Fund (ITF), and the Separately Invested Funds (SIF), hereinafter referred to as the Funds. The Board of Regents approved investment policy guidelines for the Funds ~~to allow for investment in derivatives-Derivative Investments~~ provided that ~~their use is~~they are in compliance with ~~UTIMCO's Board approved Derivative Investment~~the Policy. This ~~Derivative Investment~~ Policy supplements the Investment Policy Statements for the Funds.

### Objective:

The objective of investing in ~~derivatives-Derivative Investments~~ is to facilitate risk management and provide efficiency in the implementation of various investment strategies for the Funds. ~~Derivatives-Derivative Investments~~ can provide the Funds with more economical means to improve the Funds' risk/return profile.

### Scope:

This Policy applies to all ~~D~~erivatives Investments in the Funds that are executed by UTIMCO ~~staff~~ and by external managers operating under an Agency Agreement. This Policy does not apply to external managers operating under limited partnership agreements, offshore corporations, or through other Limited Liability Entities that limit the liability exposure of the Funds' investments. Derivative policies for external managers are established on a case-by-case basis with each external manager, as described below.

This Policy applies to both Exchange Traded Derivatives and Over the Counter (OTC) ~~D~~erivatives. This Policy shall not be construed to apply to ~~index or other common or~~ commingled funds that are not controlled by to which UTIMCO does not have full transparency and ownership control of the underlying assets. These commingled investment vehicles are governed by separate investment policy statements.

### External Managers:

External managers are selected to manage the Funds' assets under either an Agency Agreement or through a Limited Liability Entity. An external manager operating under an Agency Agreement may engage in ~~derivative-Derivative investments-Investments~~ only if (i) such manager has been approved to use ~~derivatives-Derivative Investments~~ by ~~the~~ UTIMCO ~~Chief Investment Officer~~ and (ii) the ~~investments-Derivative Investments~~ are consistent with the overall investment objectives of the related account and in compliance with this Policy. The use of ~~derivatives-Derivative Investments~~ by an external manager operating under an Agency Agreement shall be approved by ~~the~~ UTIMCO ~~Chief Investment Officer~~ only for external managers that (i) demonstrate investment expertise in their use, (ii) have appropriate risk management and valuation policies and procedures, (iii) have the legal and investment expertise to limit the downside effects of the proposed derivatives and (iv) effectively monitor and control their use.

While this Policy does not specifically include external managers operating through a Limited Liability Entity, it is noted that selecting and monitoring external managers through a Limited Liability Entity requires a clear understanding of the external managers' use of ~~derivatives~~Derivative Investments, particularly as it relates to various risk controls and leverage. The permitted uses of ~~derivatives-Derivative Investments~~ and leverage must be fully documented in the limited liability agreements with these managers.

### Definition of Derivatives:

Derivatives are financial instruments whose value is derived, in whole or part, from the value of ~~any~~ one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, commodities, and currencies). For the purposes of this Policy, derivatives shall include Derivative Investments as defined in Exhibit A ~~but shall not include~~

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~~a broader range of securities, such as mortgage backed securities, structured notes (including participation notes), convertible bonds, exchange traded funds (ETFs), and Bona Fide Spot Foreign Exchange Transactions. Derivatives may be purchased through a national or international exchange or through an OTC direct arrangement with a Counterparty. Refer to the attached Exhibit A for a glossary of terms.~~ If it is unclear whether a particular financial instrument meets the definition of Derivative Investment, the ~~Risk Manager~~Managing Director - Risk Management and Chief Compliance Officer, in consultation with the Chief Investment Officer (“CIO”) or ~~Deputy Chief Investment Officer (“Deputy CIO”)~~, will determine whether the financial instrument is a Derivative Investment. The ~~Chief Investment Officer CIO or Deputy CIO~~ will report such determinations to the Chairman of the Risk Committee.

### Permitted Derivative Applications:

The primary intent of derivatives should be to hedge risk in portfolios or to implement investment strategies more effectively and at a lower cost than would be possible in the Cash Market.

Permitted Derivative Applications are Derivative Investments used:

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

UTIMCO ~~staff~~ may not enter into any Derivative Investment that is not a Permitted Derivative Application. To the extent a new Derivative Investment recommended by UTIMCO ~~staff~~ or for the engagement of an external manager operating under an Agency Agreement that has been approved by UTIMCO’s ~~Chief Investment Officer~~ is a Permitted Derivative Application but is not of the types set forth on Exhibit B, any Director may require a complete review of the new Derivative Investment prior to implementation. Notwithstanding the foregoing, UTIMCO’s ~~Chief Investment Officer CIO or Deputy CIO~~, the ~~Risk Manager~~Managing Director - Risk Management, or Chief Compliance Officer may determine that presentation and approval of the proposed Derivative Investment at a Risk Committee meeting is warranted before engaging in the Derivative Investment.

### Risk and Investment Policy Controls:

~~Prior~~Following to the implementation of ~~any one or more similar~~ Derivative Investments, UTIMCO will model the impact of the derivative on the Funds’ projected downside volatility ~~bounds~~, and ~~projected~~ exposure to the respective Asset Class ~~and Investment Type, must be to ensure that the Funds remain~~ within the permissible ranges as set forth in the Funds’ Investment Policy Statements.

### Documentation and Controls:

Prior to the implementation of ~~a new one or more similar~~ Derivative Investments by UTIMCO ~~staff~~, UTIMCO ~~staff~~ shall document the purpose, valuation method, methods for calculating delta, delta-adjusted exposure, Asset Class ~~and Investment Type~~ exposure, the effect on portfolio leverage (if applicable), risks (including, but not limited to modeling, pricing, liquidity and Counterparty risks), the expected increase or reduction in risk resulting from the Derivative Investments, and the procedures in place to monitor and manage the derivative exposure. For any short exposure, UTIMCO ~~staff~~ shall also document the basis risk and appropriate stop-loss procedures. UTIMCO shall establish appropriate risk management procedures and the appropriate frequency to monitor ~~daily~~ the risk of (i) internally managed Derivative Investments and (ii) externally managed accounts operating under Agency Agreements that permit derivatives. Internal control procedures to properly account and value the Funds’ exposure to the Derivative Investment shall be fully documented.

### Additional Risk Mitigants~~Limitations~~:

**Leverage:** Leverage is inherent in many ~~derivatives derivatives~~ Derivative Investments. In Cash Markets, in most cases, the cash outlay is equal to the market exposure acquired. By contrast, Derivative Investments offer the possibility of establishing – for the same cash outlay – substantially larger market exposure. Therefore, risk management and control

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processes must focus on the total risk assumed in a Derivative Investment. Exhibits A of the Fund's Investment Policy Statements provide a limitation on the amount of uncollateralized derivative exposure that can be utilized by the Funds whereby, the total Asset Class ~~and Investment Type~~ exposure, including the amount of derivatives exposure not collateralized by cash, may not exceed 105% (100% in the ITF) of the Asset Class ~~and Investment Type~~ exposures excluding the amount of derivatives exposure not collateralized by cash.

**Counterparty Risks:** Rigorous Counterparty selection criteria ~~and netting agreements~~ shall be required to minimize Counterparty risk for Over the Counter (OTC) ~~Derivatives~~. ~~In order to be eligible as a~~ Any Counterparty ~~to~~ an OTC derivative transaction with the Funds, ~~whether the trade is initiated by UTIMCO, by an external manager under Agency Agreement, the Counterparty, or by a Limited Liability Entity where UTIMCO has full transparency and ownership control of the underlying assets, the Counterparty~~ must have a credit rating of at least A- (Standard and Poor's) or A3 (Moody's) ~~-, unless an exception is approved by the Risk Manager~~ Managing Director - Risk Management and by the CIO or Deputy CIO. All OTC derivatives, with the exception of Derivative Investments where ISDA is not available or the market standard (e.g., Bona Fide Spot Foreign Exchange Transactions, participation notes (P-notes) and low exercise purchase options (LEPOs)), must be subject to established ISDA Netting Agreements and have full documentation of all legal obligations of the Funds. In limited circumstances, the August 2012 DF Protocol Agreement, as published on August 13, 2012 (the "August Protocol Agreement") and the 2002 ISDA Master Agreement with a Schedule (an "ISDA March 2013 DF Protocol Master Agreement"), developed in connection with ISDA's Dodd-Frank Documentation Initiative to implement and comply with the regulatory requirements imposed under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, may be used in place of an ISDA Netting Agreement or on a temporary basis until an ISDA Netting Agreement with the Counterparty has been executed. In the event a Counterparty is downgraded below the minimum credit rating ~~requirements stated above~~ requirement, UTIMCO ~~staff~~ will take appropriate action to protect the interests of the Funds, ~~including availing itself of all potential remedies contained in the ISDA agreements~~.

The net market value, net of collateral postings, of all OTC derivatives for any individual Counterparty may not exceed ~~30bps~~ 1% of the total market value of the Funds.

### **Risk Management and Compliance:**

To ensure compliance with all terms and limitations of this Policy, all internally managed and externally managed Derivative Investments in accounts under Agency Agreements will be marked to market ~~on a daily basis~~ by the Funds' custodian and reviewed periodically, but no less frequently than monthly, for accuracy by the UTIMCO ~~Risk Manager~~ Managing Director - Risk Management. In addition, data from the external risk model will be reviewed for accuracy and completeness by the UTIMCO ~~Risk Manager~~ Managing Director - Risk Management.

Compliance with this Policy will be monitored by the UTIMCO Chief Compliance Officer using data provided by the custodian and the external risk model.

Any instances of noncompliance with this Policy will be reported immediately to the UTIMCO Chief Compliance Officer and ~~to~~ the UTIMCO ~~Chief Investment Officer~~ CIO or Deputy CIO, who will determine the appropriate remedy and report promptly to the Chairs of the Risk Committee, the Audit & Ethics Committee, and the UTIMCO Board Chairman. The UTIMCO Board Chairman may waive immediate remedial action in appropriate circumstances.

### **Reporting:**

On a quarterly basis, UTIMCO shall provide a comprehensive report to UTIMCO's Board and the Risk Committee. This report shall include all outstanding Derivative Investments, by type, entered into during the period being reported for both internal managers and external managers operating under Agency Agreements. Asset allocation as provided in the Funds' Investment Policy Statements shall incorporate the impact of uncollateralized derivative exposure associated with ~~derivatives~~ Derivative Investments. For risk reporting purposes, the models used to calculate the expected profit or loss in each scenario will include the effect of delta sensitivity and other derivative sensitivity parameters as appropriate. Risk calculations will take into account leverage, correlation, and exposure parameters such as beta for equities and duration for fixed income. The UTIMCO ~~Risk Manager~~ Managing Director - Risk Management will calculate risk attribution - i.e., how much of the overall risk is attributed to each Asset Class ~~and Investment Type~~, including the full effect on risk

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of the ~~derivatives~~ Derivative Investments in each. The UTIMCO ~~Risk Manager~~ Managing Director - Risk Management will calculate risk attribution for each Derivative Investment.

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Derivative Investment Policy Exhibit A  
Glossary of Terms

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

**Basket** – A group of securities and a weighting scheme, or a proprietary index. Baskets are typically defined to achieve a certain investment goal, within certain limitations. For example, a Basket could replicate an emerging market index, excluding certain companies that UTIMCO is not permitted to hold.

**Bona Fide Spot Foreign Exchange Transaction** – ~~Generally, a foreign exchange transaction that settles via an actual delivery of the relevant currencies within two business days (T+2). In addition, an An~~ agreement, contract or transaction for the purchase or sale of an amount of foreign currency equal to the price of a foreign security with respect to which (i) the security and related foreign currency transactions are executed contemporaneously in order to effect delivery by the relevant securities settlement deadline and (ii) actual delivery of the foreign security and foreign currency occurs by such deadline (such transaction, a “Securities Conversion Transaction”). For Securities Conversion Transactions, the Commodity Futures Trading Commission (CFTC) will consider the relevant foreign exchange spot market settlement deadline to be the same as the securities settlement deadline. A Bona Fide Spot Foreign Exchange Transaction generally settles via actual delivery of the relevant currencies within a few business days; however, settlement may take longer due to differences in international market conditions exchanges may take longer.

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

**Counterparty** - ~~The offsetting party in an exchange agreement.~~ entity with which a Derivative Investment is transacted, and which is not a national or international exchange.

**Derivative Investment** – ~~An investment in a Futures Contract, Forward Contract, swap, and all forms of options.~~ A financial instrument whose value is derived, in whole or part, from the value of one or more underlying securities or assets, or index of securities or assets. A Derivative Investment can be either an Exchange Traded Derivative or an Over the Counter (OTC) Derivative. For the purpose of this Policy, Derivative Investments will include:

- All Over the Counter (OTC) Derivatives, with the exception of Bona Fide Spot Foreign Exchange Transactions, and and, mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations.
- As for Exchange Traded Derivatives, the definition will only include Futures Contracts, and listed Options, and cleared Swaps; in particular, the definition will not include exchange traded funds (“ETFs”) and ADRsdepository receipts (“DRs”).

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

**Forward Contract** - A non-standardized contract for the physical or electronic (through a bookkeeping entry) delivery of a commodity or financial instrument at a specified price at some point in the future. The most typical Forward Contract is a forward foreign currency contract, which involves the contemplated exchange of two currencies.

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

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

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

**Long Exposure to an Asset Class** – The Net Asset Value of the Asset Class and Investment Type as defined in the Funds’ Investment Policy Statement.

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

**Over the Counter (OTC) Derivatives** - A derivative which results from direct negotiation between two entities, a buyer/seller and a Counterparty. The terms of such derivatives are non-standard and are the result of specific negotiations. Settlement occurs at the negotiated termination date, although the terms may include interim cash payments under certain conditions. Examples include currency swaps and Forward Contracts, interest rate swaps, and collars.

**Replicating Derivatives** – Derivatives that are intended to replicate the return characteristics of an underlying index or any other Cash Market security.

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



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**Derivative Investment Policy Exhibit B**  
**Delegated Derivative Investments**

Subject to the limitations contained in the Derivative Investment Policy, the UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to enter into the following Derivative Investments:

Delegated Derivative Investments:

1. Replicating Derivatives - Derivative Investments that replicate the return characteristics of a long exposure to an underlying index, Basket or commodity. These investments are generally Futures Contracts and swaps on a passive index, Basket or commodity.
2. Derivative Investments that upon their expiration would not exceed the loss of a similar investment in the cash market equivalent being referred to in the derivative contract. These investments may include swaps whereby the holder of the instrument will forgo potential upside return in exchange for downside protection or receive a multiple of a referenced return should the return of the underlying referenced cash market equivalent be within a certain range and may also include the selling of put options.
3. Derivative Investments that reduce Long Exposure to an Asset Class or hedge against risk, and limit maximum loss to the premium paid for the Derivative Investment, i.e., purchase options. The aggregate prorated annual premium of all Derivative Investments under this provision shall be as set forth in the respective Fund's Investment Policy Statement.
4. Futures Contracts and Forward Contracts on foreign currency if used (i) by an external fixed income manager within its investment guidelines, (ii) for hedging purposes by an external equities manager within its investment guidelines, or (iii) to hedge existing or prospective foreign currency risk or to gain long exposure to a foreign currency by UTIMCO ~~staff~~.
5. Derivative Investments used to manage bond duration or hedge equity exposure to countries, sectors or capitalization factors, or individual stock(s) swaps within the portfolio only if subsequent to the investment the portfolio would not be net short to any one of those factors. An example of such a hedge is selling Futures Contracts or call options on a country or sector index, provided the manager is exposed to that country or sector.
6. Derivative Investments used to gain Long Exposure to an Asset Class and limit maximum loss to the premium paid for the Derivative Investment.

The delegated authority set forth above should not be construed to permit UTIMCO ~~staff~~ to enter into Derivative Investments that are unhedged or 'naked' short positions and containing have the potential for unlimited loss.

Modeling: Each Delegated Derivative Investment must be such that it can be decomposed into one or more components, and each said component can be modeled using a model such as the CDS valuation model, Black-Scholes model, including modifications for foreign currency ("Quanto"), allowing both normal and log-normal distributions (the Black model), and modifications to handle dividends or other model approved by the Policy Committee.

Leverage: Each Delegated Derivative Investment must be modeled on a fully collateralized basis. During the course of the investment, cash collateral backing a Derivative Investment may be utilized to invest in other investments thereby creating leverage at the Fund level. This is only allowed if within the Funds' Investment Policy Statements.

20. **U. T. System Board of Regents: Discussion and possible appropriate action regarding report from Houston Land Task Force**

Vice Chairman Hildebrand may report on the work of the Houston Land Task Force. Other members of the Task Force are Vice Chairman Foster, Regent Beck, and Regent Hicks.

**21. U. T. System Board of Regents: Discussion and possible appropriate action regarding report from System Review and Structure Task Force**

Regent Eltife may report on the work of the System Review and Structure Task Force. Other members of the Task Force are Regent Aliseda, Regent Longoria, and Regent Weaver.

**22. U. T. System: Approval of the nonpersonnel aspects of the operating budgets for Fiscal Year 2019, including Permanent University Fund Bond Proceeds allocations for Library, Equipment, Repair and Rehabilitation Projects and for the Science and Technology Acquisition and Retention program; and Available University Fund allocation for campus support of the Texas National Security Network at U. T. Austin**

RECOMMENDATION

Chancellor *ad interim* Faulkner, with the concurrence of the Deputy Chancellor, the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the presidents of the U. T. System institutions, recommends that the nonpersonnel aspects of the U. T. System Operating Budgets for Fiscal Year 2019, including Educational and General Funds, Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical, Dental, Nursing, and Allied Health Faculty Services, Research and Development Plans, be approved.

It is further recommended that the Chancellor be authorized to make editorial corrections to the approved budget and that subsequent adjustments be reported to the U. T. System Board of Regents through the Consent Agenda subject to the requirements of the Budget Rules and Procedures. Chancellor *ad interim* Faulkner will present the following recommended items:

- Fiscal Year 2019 Operating Budget
- Fiscal Year 2019 Library, Equipment, Repair and Rehabilitation (LERR) Budget
- Fiscal Year 2019 Faculty Science and Technology Acquisition and Retention (STARs) program
- Campus support for the Texas National Security Network

It is requested that Permanent University Fund (PUF) Bond Proceeds in the amount of \$35 million be appropriated directly to the institutions to fund LERR Projects for Fiscal Year 2019.

It is also requested that \$35 million of PUF Bond Proceeds be appropriated to provide additional funding to build and enhance research infrastructure to attract and retain the best qualified faculty through the Faculty STARs program. Through a competitive proposal process determined by U. T. System Administration, funds will be distributed for the purpose of recruiting or retaining top researchers.

In addition, it is requested that an Available University Fund (AUF) allocation of \$3 million be authorized to fund continued support at U. T. Austin for the Texas National Security Network (NSN).

BACKGROUND INFORMATION

A supplemental volume of the budget materials titled "Operating Budget Summaries and Reserve Allocations for Library, Equipment, Repair and Rehabilitation and Faculty STARs" was provided to all Regents prior to the meeting and is available online at <https://www.utsystem.edu/documents/docs/operating-budget-summary/operating-budget-summary-system-fy-2019>.

The appropriation of PUF Bond Proceeds will be presented in the Fiscal Year 2019 LERR Budget and is subject to the budget rules and expenditure guidelines adopted therein and the requirements of the U. T. Systemwide Policy UTS168 Capital Expenditure Policy. The allocation of LERR funds to the U. T. institutions was developed from prioritized lists of projects submitted by the institutions and reviewed by U. T. System Administration staff. The allocation of PUF Bond Proceeds for Faculty STARs are also subject to the LERR budget rules, expenditure guidelines, and UTS168. Additionally, PUF Bond Proceeds appropriated above to LERR and Faculty STARs must be spent in accordance with the Article VII, Section 18 of the Texas Constitution. PUF Bond Proceeds may only be used for the purpose of acquiring land either with or without permanent improvements, constructing and equipping buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, acquiring capital equipment, and acquiring library books and library materials.

On November 10, 2016, the Board appropriated \$10 million of AUF for U. T. Austin in support of the NSN Quantum Leap. Out of the Quantum Leap funding approved in the FY 2018 U. T. System Administration Operating Budget, an additional \$8.2 million was transferred to U. T. Austin for NSN. The requested \$3 million allocation would increase total support of the NSN at U. T. Austin to \$21.2 million.

See Agenda Item 23 and also the Executive Session items related to individual personnel aspects of the U. T. System Operating Budgets (Items 1a through 1c for August 10).

23. **U. T. System: Discussion and appropriate action regarding personnel aspects of the U. T. System Administration and institutional operating budgets for Fiscal Year 2019**

RECOMMENDATION

Chancellor *ad interim* Faulkner concurs with the Deputy Chancellor, the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, and the Executive Vice Chancellor for Business Affairs that approval be granted regarding personnel aspects of the U. T. System Administration operating budget for Fiscal Year 2019 as included in the previous Agenda Item (Item 22).

See also the Executive Session items related to the individual personnel aspects of the U. T. System Operating Budgets (Executive Session Items 1a through 1c for August 10).

**24. U. T. System Board of Regents: Approval of annual distribution from the Permanent University Fund**

**RECOMMENDATION**

The Chancellor *ad interim* concurs with the Deputy Chancellor and the Executive Vice Chancellor for Business Affairs in the recommendation that the Fiscal Year 2019 distribution from the Permanent University Fund (PUF) to the Available University Fund (AUF) be increased from \$887,250,000 to \$1,014,000,000 effective September 1, 2018.

**BACKGROUND INFORMATION**

Article VII, Section 18 of the Texas Constitution provides that the Board of Regents will determine the annual distribution from the PUF to the AUF and requires that the amount of distributions to the AUF be determined by the Board of Regents in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of PUF investments and annual distributions to the AUF. The Constitution further limits the Board of Regents' discretion to set annual PUF distributions to the satisfaction of three tests:

1. The amount of PUF distributions to the AUF in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on PUF bonds and notes. The proposed distribution of \$1,014,000,000 is substantially greater than PUF bond debt service of \$350,500,000 projected for FY 2018-2019.

<b>System</b>	<b>Debt Service</b>
U. T.	\$ 227,000,000
TAMU	123,500,000
Total:	<u>\$ 350,500,000</u>

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

2. The Board of Regents may not increase annual PUF distributions to the AUF (except as necessary to pay PUF debt service) if the purchasing power of PUF investments for any rolling 10-year period has not been preserved. As the schedule below indicates, the average annual increase in the rate of growth of the value of PUF investments (net of expenses, inflation, and distributions) for the trailing 10-year period ended February 28, 2018, was 4.35%, which indicates that the purchasing power test was met.

<b>Average Annual</b>	<b>Percent</b>
Rate of Total Return, Net of Investment Manager Fees	5.74%
Mineral Interest Receipts	5.17%
Expense Rate	(0.18)% (1)
Inflation Rate	(1.64)%
Distribution Rate	(4.74)%
Net Real Return	<u>4.35%</u>

(1) The expense rate as shown is a 10-year annualized average and includes PUF Land Expenses and PUF investment management costs other than investment manager fees. Investment management fees are a reduction to the Rate of Total Return.

3. The annual distribution from the PUF to the AUF during any fiscal year made by the Board of Regents may not exceed an amount equal to 7% of the average net fair market value of PUF investment assets as determined by the Board of Regents (except as necessary to pay PUF bond debt service). The annual distribution rate calculated using the trailing 20-quarter average value of the PUF is within the 7% maximum allowable distribution rate.

<b>Value of PUF Investments (1)</b>	<b>Proposed Distribution</b>	<b>Proposed Distribution as a % of Value of PUF Investments</b>	<b>Maximum Allowed Rate</b>
\$17,797,898,588	\$ 1,014,000,000	5.70%	7.00%

(1) Source: UTIMCO