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FOR
FINANCE AND PLANNING COMMITTEE

Committee Meeting: 8/11/2010

Board Meeting: 8/12/2010
Austin, Texas

Paul Foster, Chairman
Printice L. Gary
Brenda Pejovich
Wm. Eugene Powell

		Committee Meeting	Board Meeting	Page
7.	**U. T. System Board of Regents: Adoption of resolutions authorizing certain bond enhancement agreements for Revenue Financing System debt and Permanent University Fund debt**	*3:25 p.m.* **Action** *Mr. Aldridge*	**Action**	**108**
8.	**U. T. System: Approval of aggregate amount of $157,373,000 of equipment financing for Fiscal Year 2011 and resolution regarding parity debt**	*3:30 p.m.* **Action** *Mr. Aldridge*	**Action**	**143**
9.	**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 Short Term Fund, the Separately Invested Funds, and the Derivative Investment Policy**	*3:35 p.m.* **Action** *Mr. Zimmerman*	**Action**	**146**
10.	**U. T. System Board of Regents: Approval of amendments to The University of Texas Investment Management Company (UTIMCO) Code of Ethics**	*3:40 p.m.* **Action** *Mr. Zimmerman*	**Action**	**222**
Adjourn		*3:45 p.m.*		

1. **U. T. System: Discussion and appropriate action related to approval of *Docket No. 143***

RECOMMENDATION

It is recommended that *Docket No. 143* be approved. The Docket is behind the Docket tab.

It is also recommended that the Board confirm that authority to execute contracts, documents, or instruments approved therein has been delegated to appropriate officials of the respective institution involved.

2. **U. T. System: Key Financial Indicators Report and Monthly Financial Report**

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report, as set forth on Pages 55 - 63 that follow, and the June Monthly Financial Report on Pages 64 - 87. The reports represent the consolidated and individual operating results of the U. T. System institutions.

The Key Financial Indicators Report compares the Systemwide quarterly results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from Fiscal Year 2006 through May 2010. Ratios requiring balance sheet data are provided for Fiscal Year 2005 through Fiscal Year 2009.

The Monthly Financial Report is provided as support for the Key Financial Indicators. The Report includes the detailed numbers behind the Operating Margin by Institution graph as well as detail for each individual institution as of June 2010

THE UNIVERSITY OF TEXAS SYSTEM

KEY FINANCIAL INDICATORS REPORT

3RD QUARTER FY 2010

KEY

Actual Annual Amounts
(SOURCE: Annual Financial Reports)

Adjustment to Actual Annual Amounts to exclude the Increase in Net OPEB Obligation
(SOURCE: Annual Financial Reports)

Budget amounts
(SOURCE: Operating Budget Summary)

Projected Amounts based on the average change of the previous three years of data

Monthly Financial Report Year-to-Date Amounts

Annual State Net Revenue Collections
(SOURCE: Texas Revenue History by Source and Texas Net Revenue by Source, State Comptroller's Office)

Year-to-Date State Net Revenue Collections
(SOURCE: State Comptroller's Office)

Estimated State Revenue Collections
(SOURCE: Biennial Revenue Estimate, State Comptroller's Office)

Annual and Quarterly Average of FTEs
(SOURCE: State Auditor's Office Quarterly FTE Report)

Year-to-Date Margin
(SOURCE: Monthly Financial Report)

Projected Amounts based on Monthly Financial Report

Year-to-Date Margin
(SOURCE: Monthly Financial Report)

Target Normalized Rates

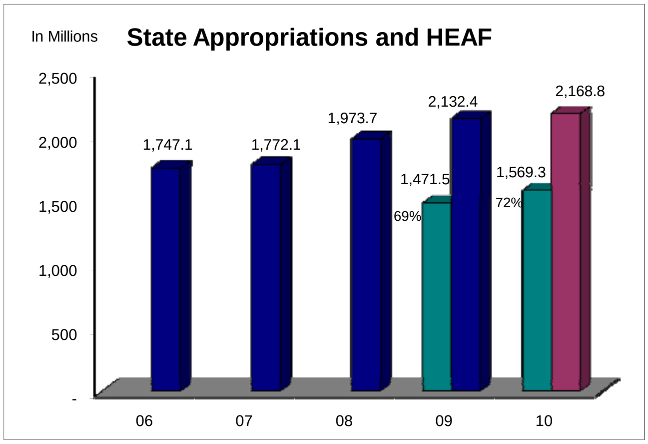
Aaa/Aa1 Median
(SOURCE: Moody's)

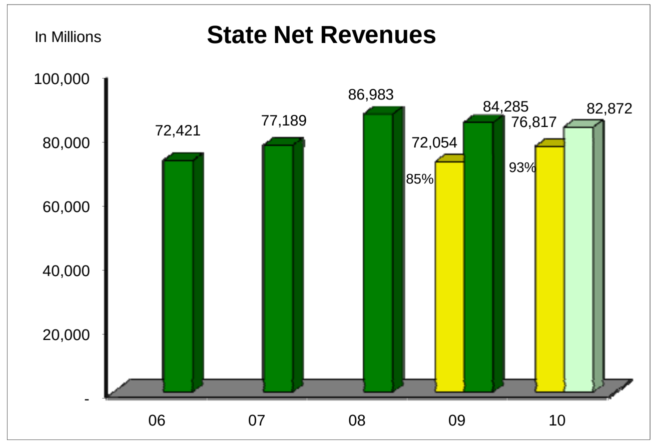
A2 Median
(SOURCE: Moody's)

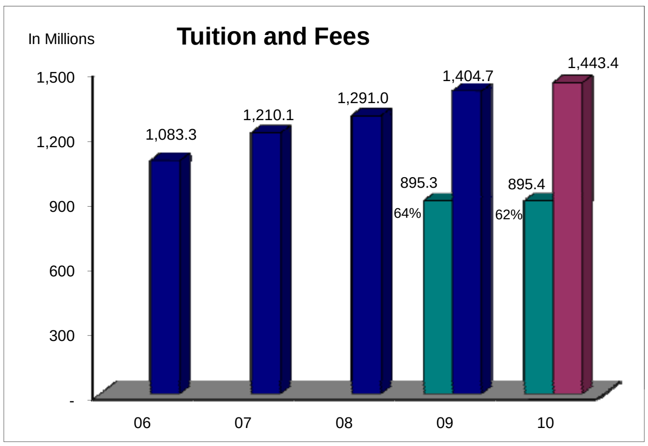
Good Facilities Condition Index (Below 5%)

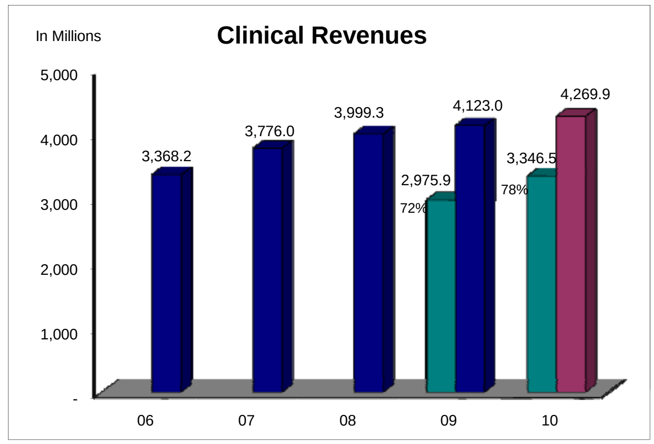
Fair Facilities Condition Index (5% - 10%)

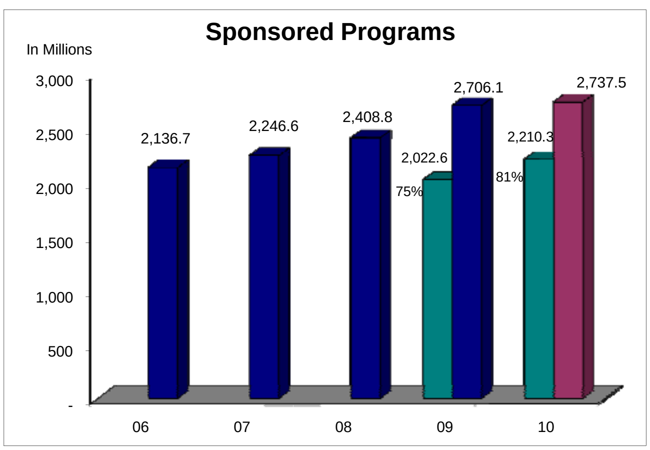
KEY INDICATORS OF REVENUES
ACTUAL 2006 THROUGH 2009
PROJECTED 2010
YEAR-TO-DATE 2009 AND 2010 FROM MAY MONTHLY FINANCIAL REPORT

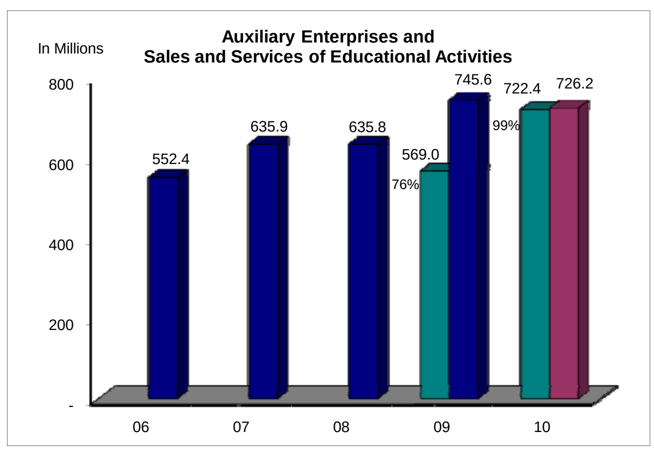


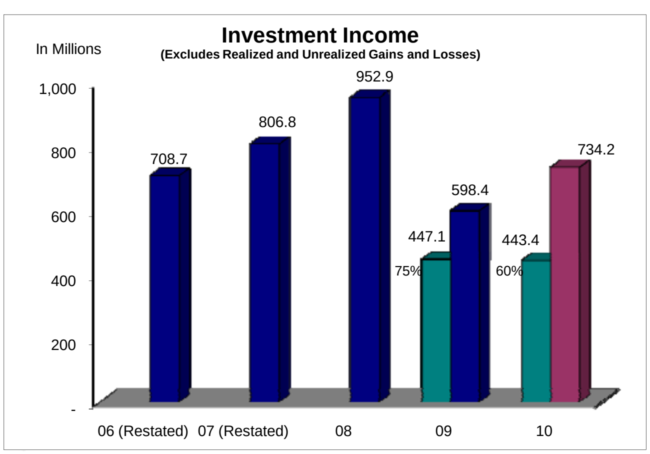


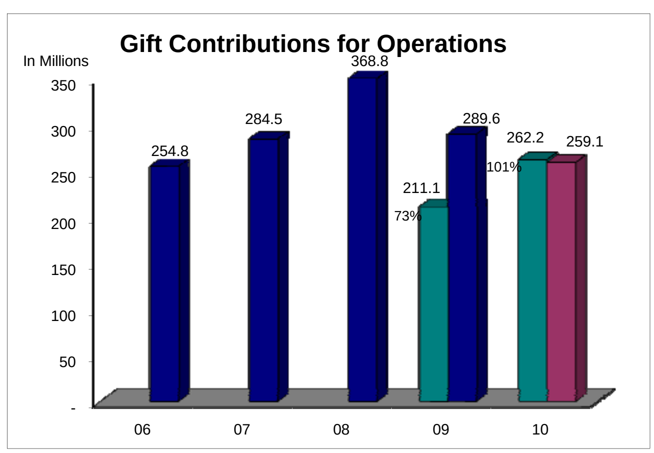




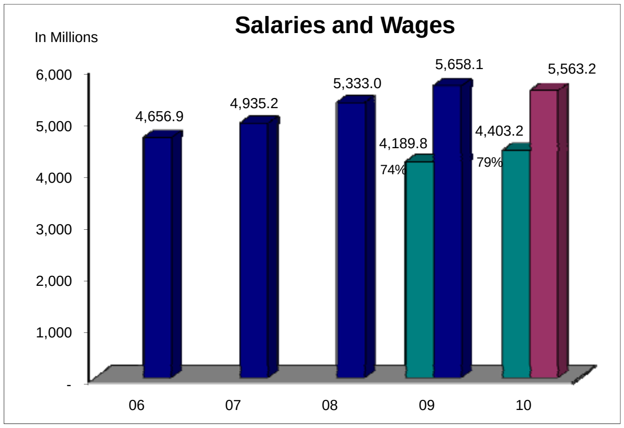


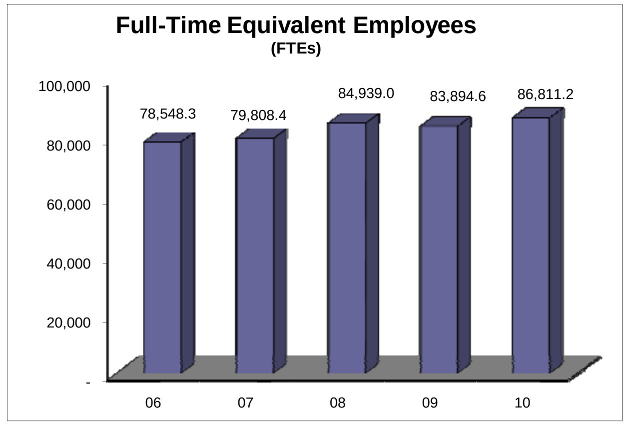


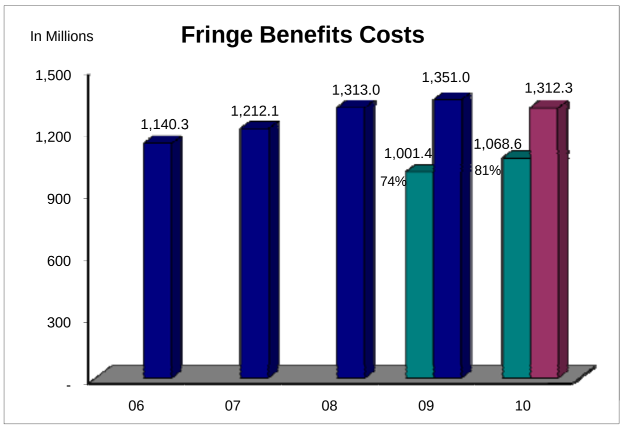


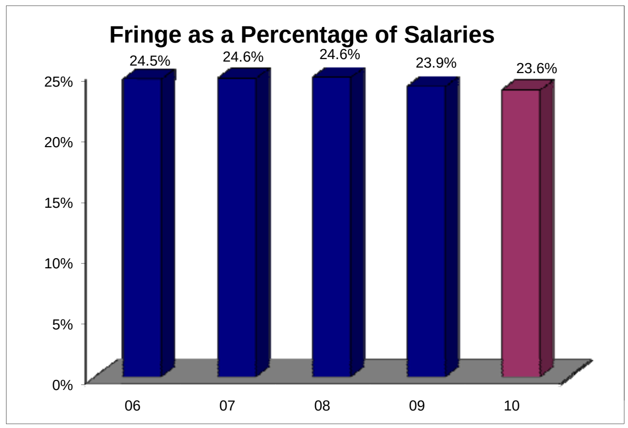


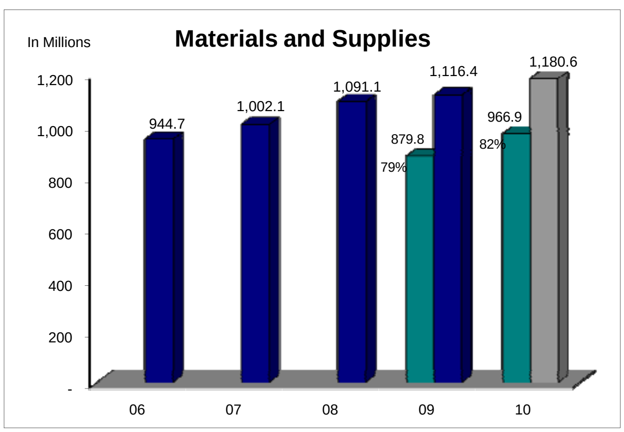
KEY INDICATORS OF EXPENSES
ACTUAL 2006 THROUGH 2009
PROJECTED 2010
YEAR-TO-DATE 2009 AND 2010 FROM MAY MONTHLY FINANCIAL REPORT

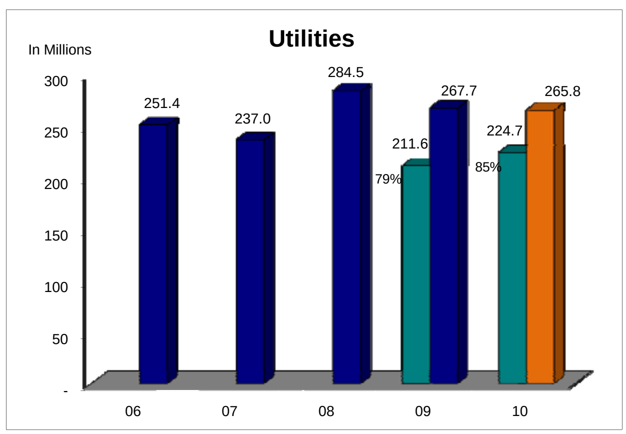


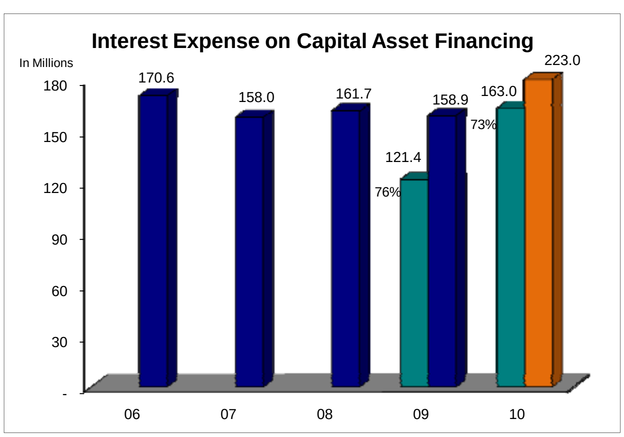


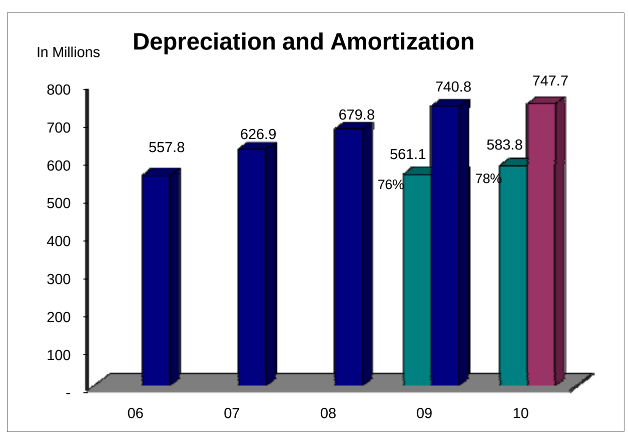




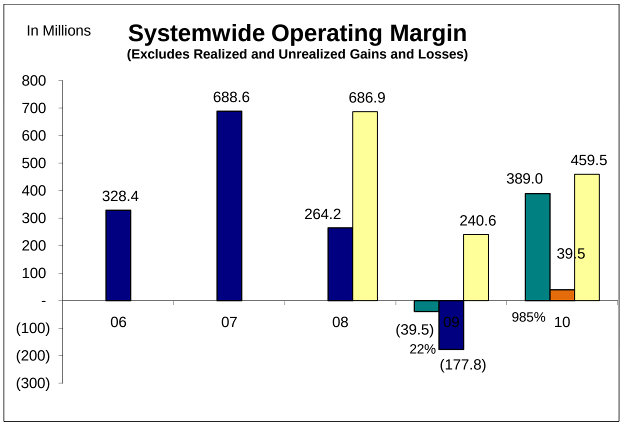


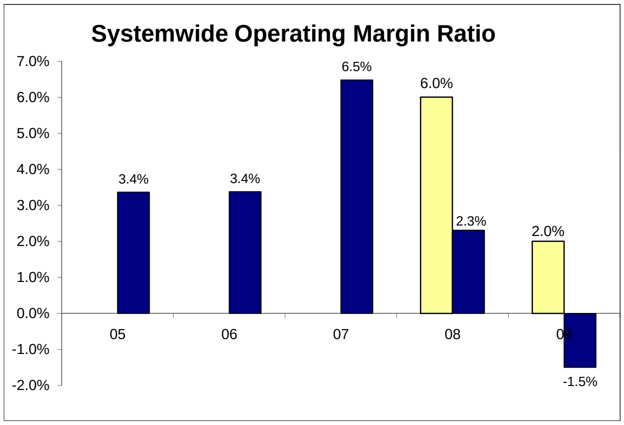


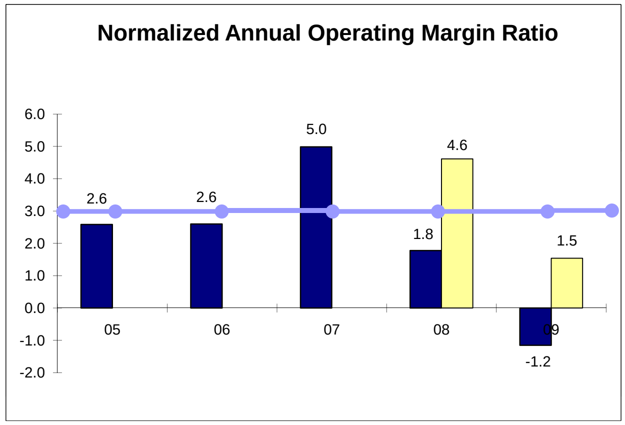


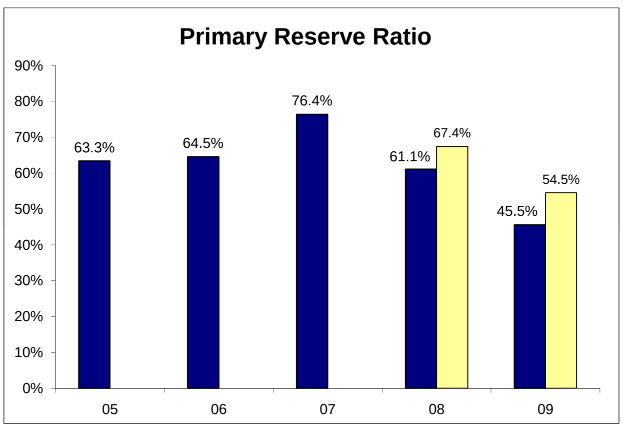


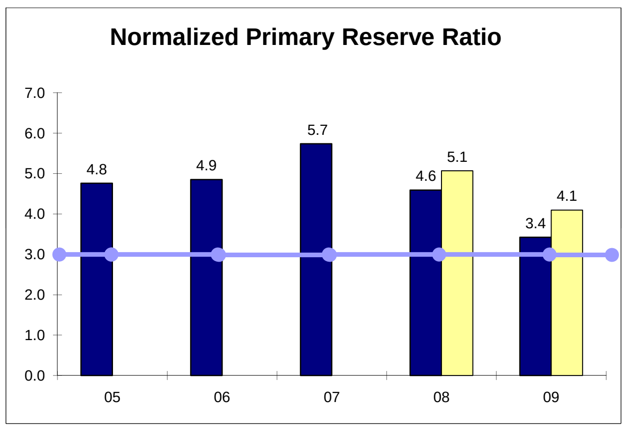
KEY INDICATORS OF RESERVES
ACTUAL 2005 THROUGH 2009
PROJECTED 2010
YEAR-TO-DATE 2009 AND 2010 FROM MAY MONTHLY FINANCIAL REPORT

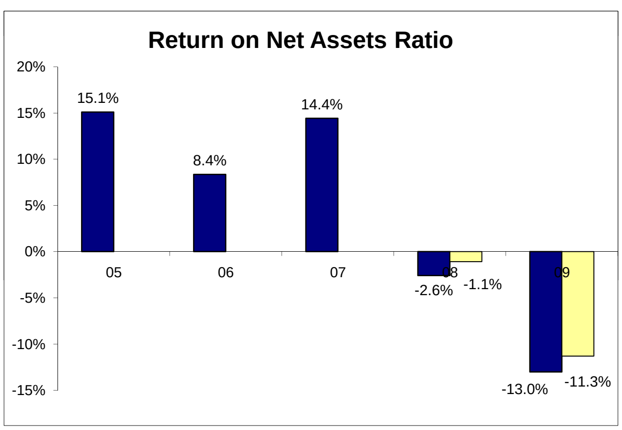


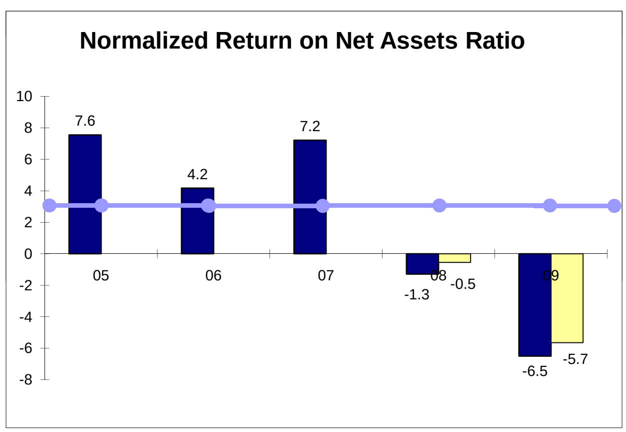




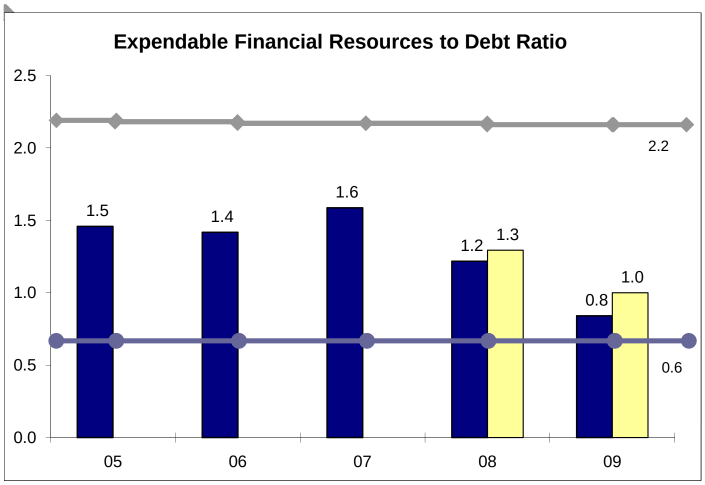


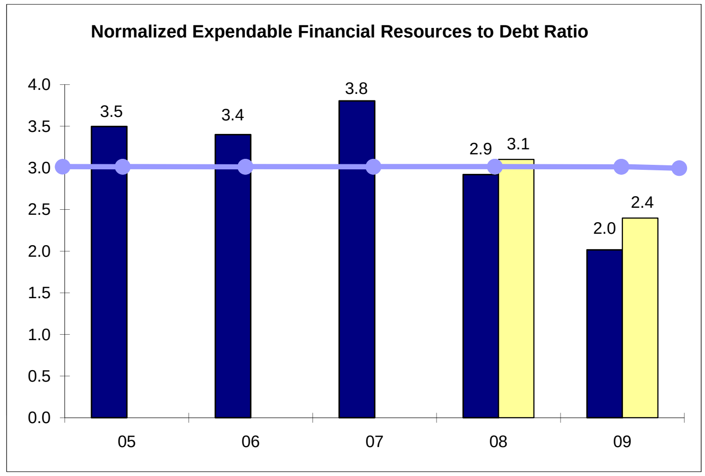


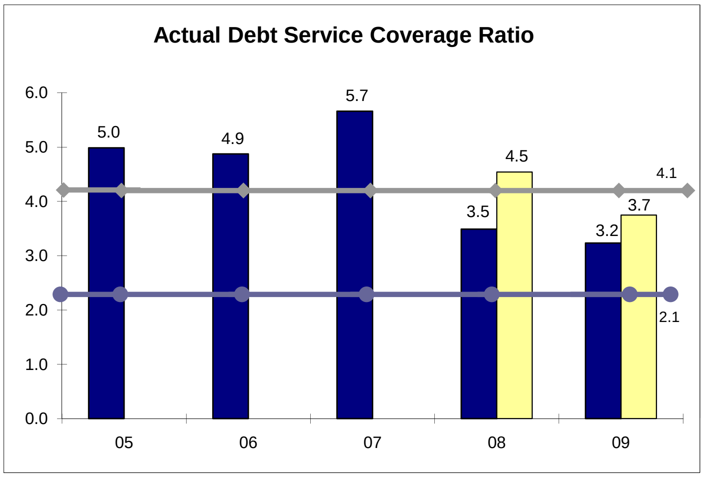


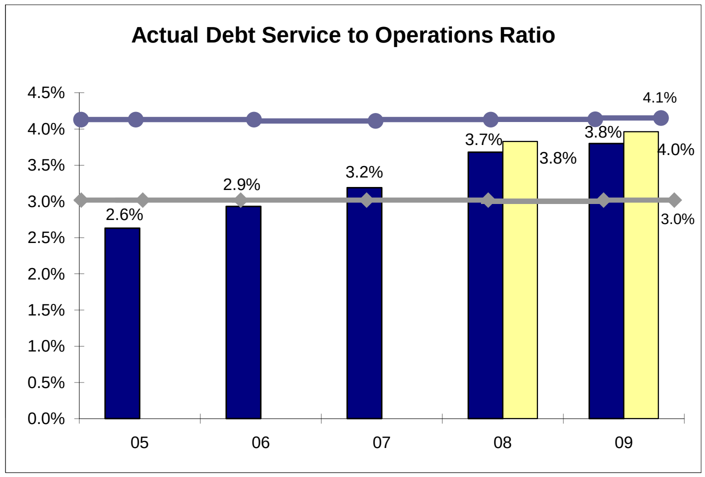


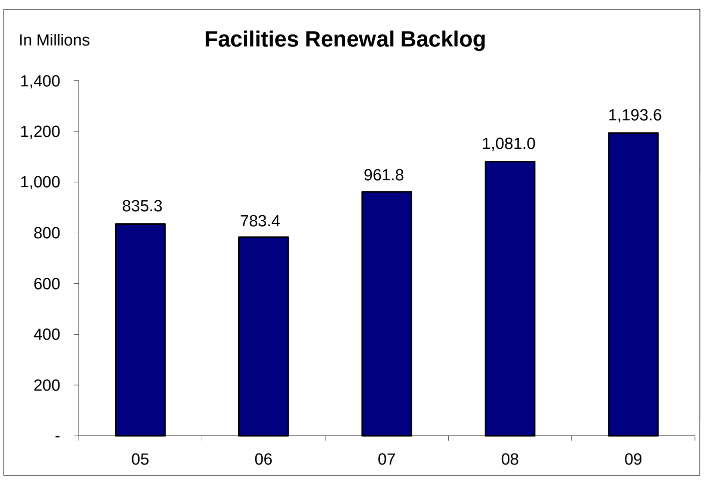
KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY
2005 THROUGH 2009

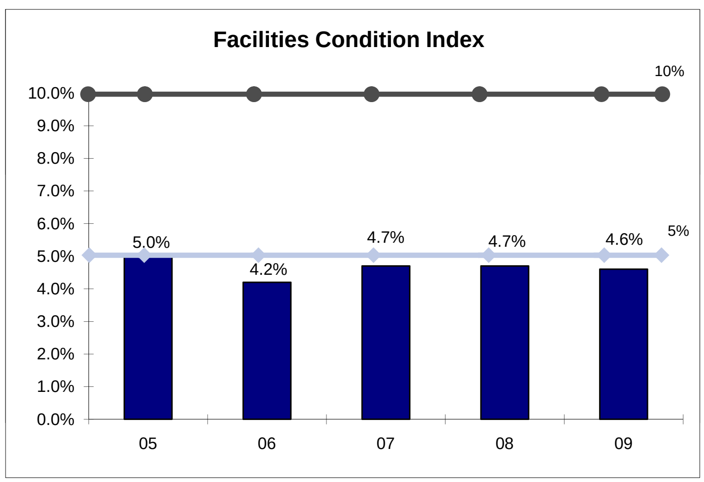


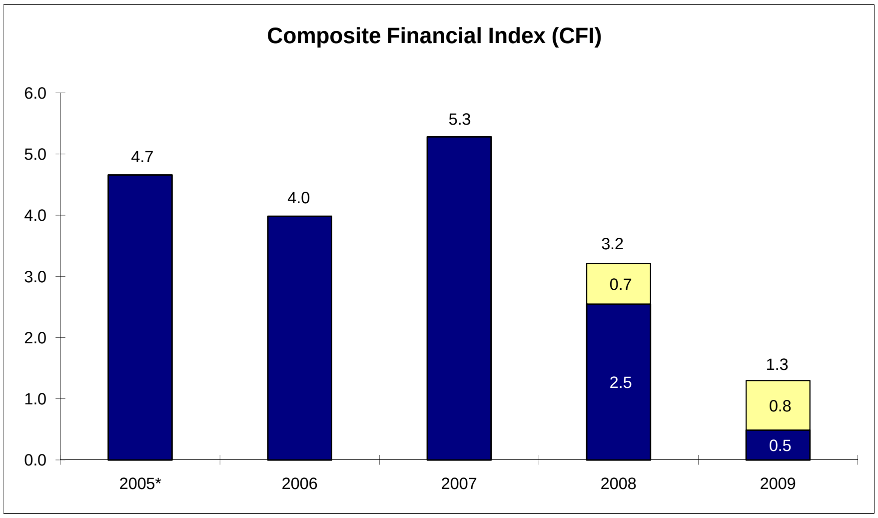




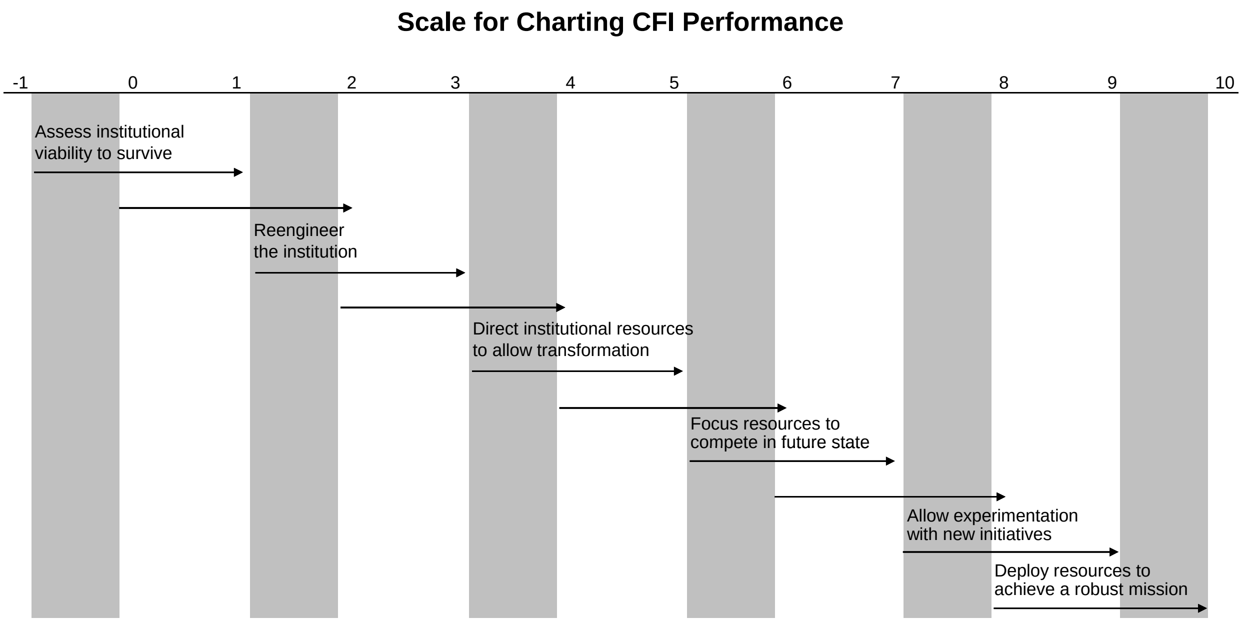




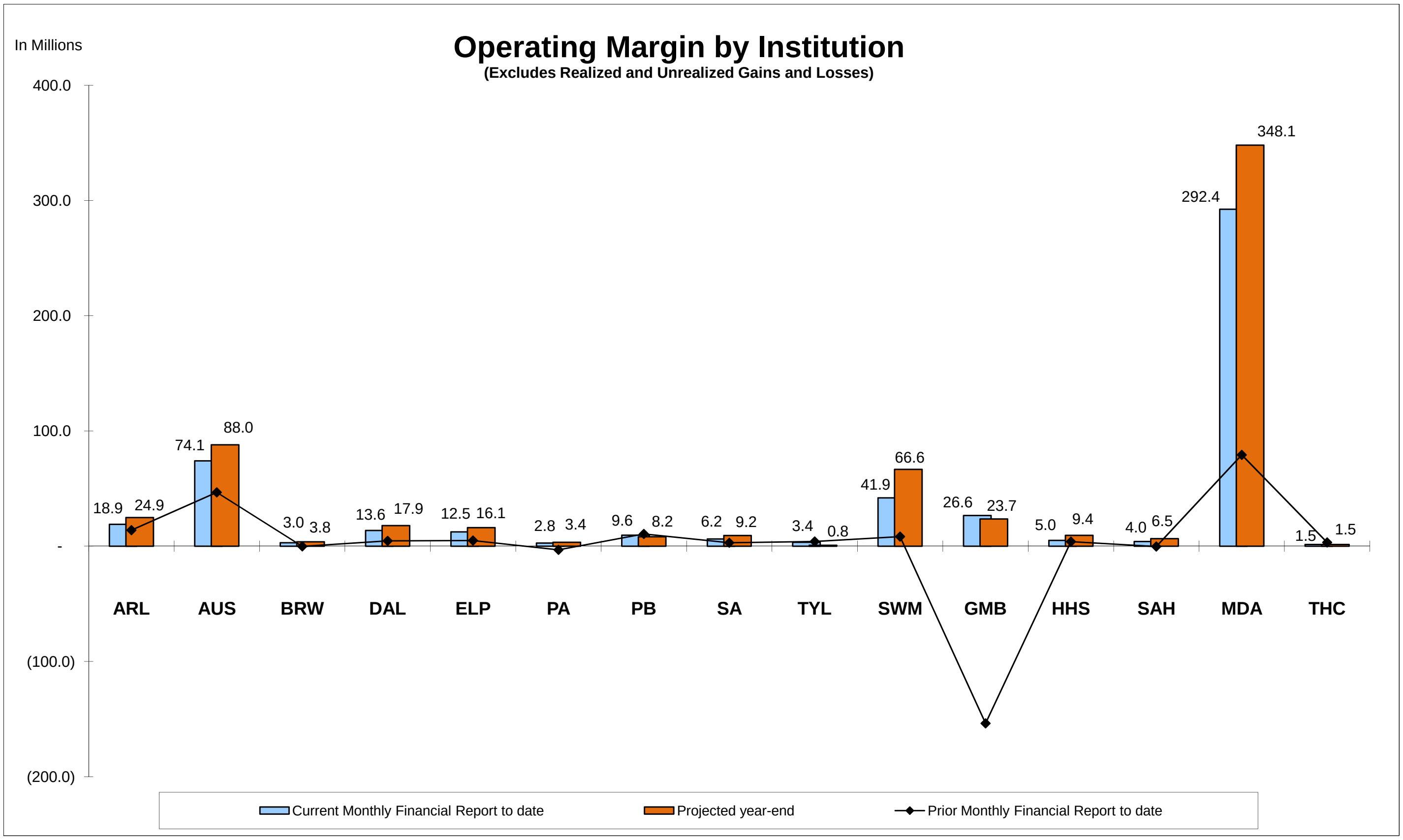


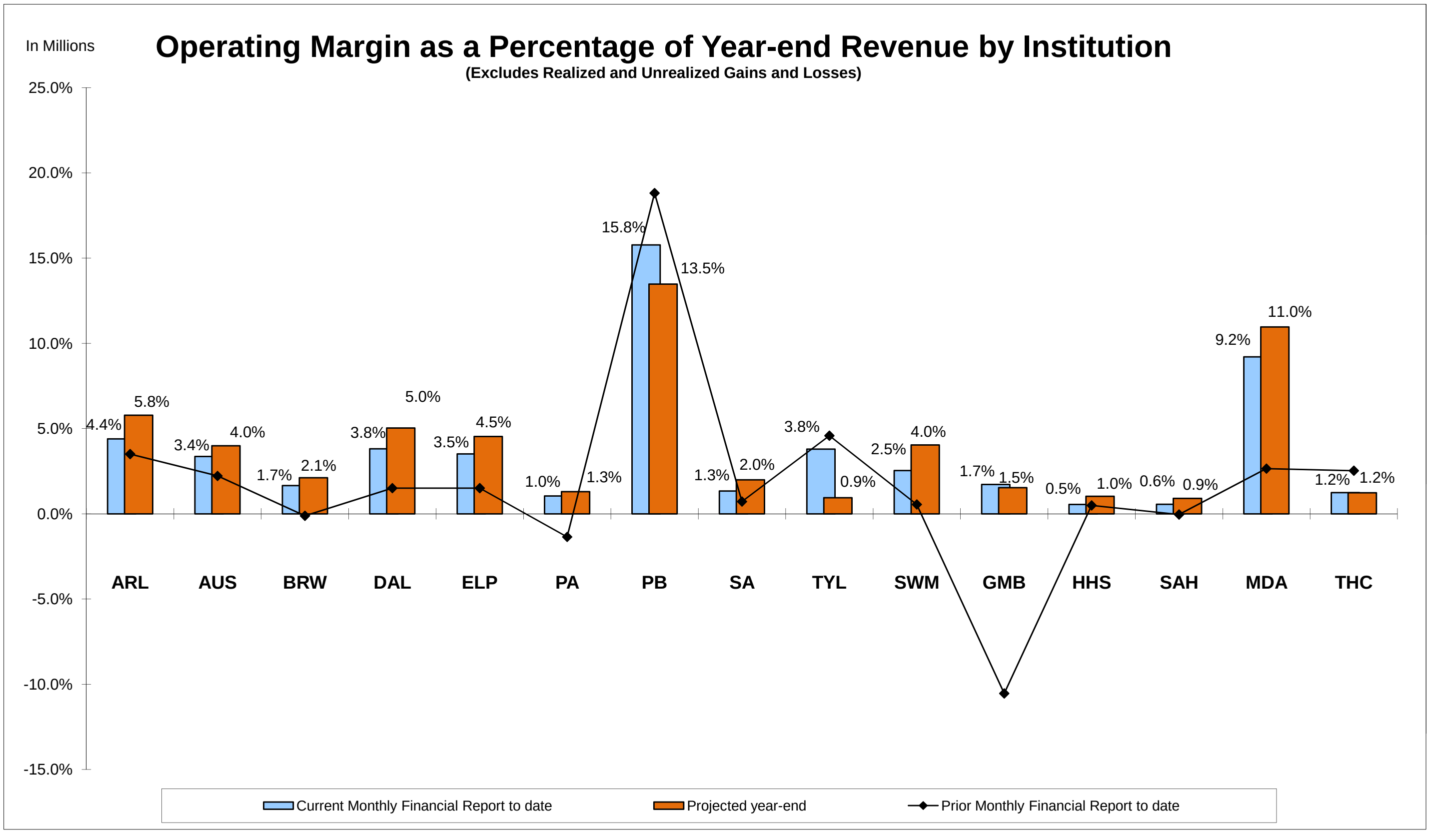


*Restated to reflect appreciation on endowments as restricted expendable net assets as a result of the 2006 external audit



KEY INDICATORS OF RESERVES
YEAR-TO-DATE 2009 AND 2010 FROM MAY MONTHLY FINANCIAL REPORT
PROJECTED 2010 YEAR-END MARGIN





THE UNIVERSITY OF TEXAS SYSTEM
OFFICE OF THE CONTROLLER

MONTHLY FINANCIAL REPORT

(unaudited)

JUNE 2010

201 Seventh Street, ASH 5th Floor
Austin, Texas 78701
512.499.4527
www.utsystem.edu/cont

THE UNIVERSITY OF TEXAS SYSTEM

MONTHLY FINANCIAL REPORT

(Unaudited)

FOR THE TEN MONTHS ENDING

JUNE 30, 2010

The University of Texas System
Monthly Financial Report

Foreword

The Monthly Financial Report (MFR) compares the results of operations between the current year-to-date cumulative amounts and the prior year-to-date cumulative amounts. Explanations are provided for institutions having the largest variances in Adjusted Income (Loss) year-to-date as compared to the prior year, both in terms of dollars and percentages. In addition, although no significant variance may exist, institutions with losses may be discussed.

The data is reported in three sections: (1) Operating Revenues, (2) Operating Expenses and (3) Other Nonoperating Adjustments. Presentation of state appropriation revenues are required under GASB 35 to be reflected as nonoperating revenues, so all institutions will report an Operating Loss prior to this adjustment. The MFR provides an Adjusted Income (Loss), which takes into account the nonoperating adjustments associated with core operating activities. An Adjusted Margin (as a percentage of operating and nonoperating revenue adjustments) is calculated for each period and is intended to reflect relative operating contributions to financial health.

UNAUDITED
The University of Texas System
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition and Fees	$ 998,457,966	$ 956,482,019	$ 41,975,947	4.4%
Sponsored Programs	2,172,797,261	2,085,794,432	87,002,829	4.2%
Net Sales and Services of Educational Activities	457,406,148	301,543,773	155,862,375	51.7%
Net Sales and Services of Hospitals	2,835,189,761	2,511,157,921	324,031,840	12.9%
Net Professional Fees	904,494,125	839,346,498	65,147,627	7.8%
Net Auxiliary Enterprises	350,544,359	319,640,172	30,904,187	9.7%
Other Operating Revenues	120,039,263	125,543,985	(5,504,722)	-4.4%
Total Operating Revenues	**7,838,928,882**	**7,139,508,800**	**699,420,082**	**9.8%**
Operating Expenses				
Salaries and Wages	4,883,720,199	4,648,760,039	234,960,161	5.1%
Payroll Related Costs	1,184,299,984	1,109,645,108	74,654,876	6.7%
Professional Fees and Contracted Services	270,544,779	370,236,977	(99,692,198)	-26.9%
Scholarships and Fellowships	357,528,890	293,620,582	63,908,309	21.8%
Travel	101,999,203	98,707,213	3,291,991	3.3%
Materials and Supplies	1,081,727,800	980,007,190	101,720,610	10.4%
Utilities	252,486,931	235,733,674	16,753,257	7.1%
Telecommunications	103,015,765	95,588,101	7,427,664	7.8%
Repairs and Maintenance	183,696,587	166,429,217	17,267,370	10.4%
Rentals and Leases	110,269,235	97,279,065	12,990,170	13.4%
Printing and Reproduction	27,296,805	24,437,253	2,859,552	11.7%
Bad Debt Expense	(6,621,630)	304,289	(6,925,919)	-2,276.1%
Claims and Losses	41,482,277	13,885,789	27,596,488	198.7%
Federal Sponsored Programs Pass-Throughs	24,503,385	21,580,595	2,922,790	13.5%
Depreciation and Amortization	646,409,262	623,089,854	23,319,409	3.7%
Other Operating Expenses	731,081,825	748,856,740	(17,774,915)	-2.4%
Total Operating Expenses	**9,995,007,051**	**9,527,908,833**	**467,098,219**	**4.9%**
Operating Loss	**(2,156,078,169)**	**(2,388,400,032)**	**232,321,863**	**9.7%**
Other Nonoperating Adjustments				
State Appropriations	1,745,724,352	1,643,118,888	102,605,464	6.2%
Nonexchange Sponsored Programs	295,443,740	159,741,254	135,702,485	85.0%
Gift Contributions for Operations	279,358,357	226,743,985	52,614,372	23.2%
Net Investment Income	497,287,849	483,293,084	13,994,766	2.9%
Interest Expense on Capital Asset Financings	(181,785,416)	(134,932,585)	(46,852,831)	-34.7%
Net Other Nonoperating Adjustments	**2,636,028,881**	**2,377,964,626**	**258,064,255**	**10.9%**
Adjusted Income (Loss) including Depreciation	**479,950,712**	**(10,435,406)**	**490,386,118**	**4,699.3%**
Adjusted Margin (as a percentage) including Depreciation	**4.5%**	**-0.1%**		
Investment Gains (Losses)	1,630,354,089	(4,003,654,858)	5,634,008,948	140.7%
Adj. Inc. (Loss) with Investment Gains (Losses)	**$ 2,110,304,801**	**$ (4,014,090,264)**	**$ 6,124,395,066**	**152.6%**
Adj. Margin % with Investment Gains (Losses)	**17.2%**	**-71.1%**		
Adjusted Income (Loss) with Investment Gains (Losses) excluding Depreciation	**2,756,714,064**	**(3,391,000,411)**	**6,147,714,475**	**181.3%**
Adjusted Margin (as a percentage) with Investment Gains (Losses) excluding Depreciation	**22.4%**	**-60.0%**		

The University of Texas System
Comparison of Adjusted Income (Loss)
For the Ten Months Ending June 30, 2010

	Including Depreciation and Amortization Expense				
	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance		Fluctuation Percentage
UT System Administration	$ 31,225,122	$ 73,445,999	$ (42,220,877)	(1)	-57.5%
UT Arlington	28,510,914	17,401,861	11,109,053		63.8%
UT Austin	88,635,644	48,185,608	40,450,035	(2)	83.9%
UT Brownsville	4,470,815	62,035	4,408,780	(3)	7,106.9%
UT Dallas	14,498,584	6,677,351	7,821,233	(4)	117.1%
UT El Paso	15,206,340	6,003,945	9,202,395	(5)	153.3%
UT Pan American	3,616,233	(2,830,178)	6,446,411	(6)	227.8%
UT Permian Basin	10,293,779	11,202,041	(908,262)		-8.1%
UT San Antonio	7,504,738	5,986,986	1,517,752		25.4%
UT Tyler	3,353,308	5,220,554	(1,867,246)		-35.8%
UT Southwestern Medical Center - Dallas	51,702,115	5,888,023	45,814,092	(7)	778.1%
UT Medical Branch - Galveston	31,857,268	(166,653,087)	198,510,355	(8)	119.1%
UT Health Science Center - Houston	8,143,427	4,258,227	3,885,200	(9)	91.2%
UT Health Science Center - San Antonio	9,318,420	(1,263,842)	10,582,262	(10)	837.3%
UT M. D. Anderson Cancer Center	316,718,511	116,657,296	200,061,215	(11)	171.5%
UT Health Science Center - Tyler	1,353,827	2,309,275	(955,448)		-41.4%
Elimination of AUF Transfer	(146,458,333)	(142,987,500)	(3,470,833)		-2.4%
Total Adjusted Income (Loss)	479,950,712	(10,435,406)	490,386,118		4,699.3%
Investment Gains (Losses)	1,630,354,089	(4,003,654,858)	5,634,008,948	(12)	140.7%
Total Adjusted Income (Loss) with Investment Gains (Losses) Including Depreciation and Amortization	**$ 2,110,304,801**	**$ (4,014,090,264)**	**$ 6,124,395,067**		**152.6%**

	Excluding Depreciation and Amortization Expense			
	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
UT System Administration	$ 39,083,208	$ 82,568,285	$ (43,485,078)	-52.7%
UT Arlington	50,163,335	34,145,079	16,018,256	46.9%
UT Austin	228,933,208	180,221,187	48,712,021	27.0%
UT Brownsville	9,219,439	4,865,531	4,353,908	89.5%
UT Dallas	37,632,669	26,421,332	11,211,337	42.4%
UT El Paso	30,190,886	20,171,132	10,019,754	49.7%
UT Pan American	14,806,052	7,876,105	6,929,947	88.0%
UT Permian Basin	13,706,270	14,343,699	(637,429)	-4.4%
UT San Antonio	38,503,996	33,113,165	5,390,831	16.3%
UT Tyler	11,256,488	12,736,824	(1,480,336)	-11.6%
UT Southwestern Medical Center - Dallas	117,181,484	69,077,878	48,103,606	69.6%
UT Medical Branch - Galveston	92,121,145	(104,940,251)	197,061,396	187.8%
UT Health Science Center - Houston	41,876,586	37,591,862	4,284,724	11.4%
UT Health Science Center - San Antonio	35,985,087	24,829,012	11,156,075	44.9%
UT M. D. Anderson Cancer Center	504,807,270	304,027,521	200,779,749	66.0%
UT Health Science Center - Tyler	7,351,185	8,593,586	(1,242,401)	-14.5%
Elimination of AUF Transfer	(146,458,333)	(142,987,500)	(3,470,833)	-2.4%
Total Adjusted Income (Loss)	1,126,359,975	612,654,447	513,705,527	83.8%
Investment Gains (Losses)	1,630,354,089	(4,003,654,858)	5,634,008,948	140.7%
Total Adjusted Income (Loss) with Investment Gains (Losses) Excluding Depreciation and Amortization	**$ 2,756,714,064**	**$ (3,391,000,411)**	**$ 6,147,714,474**	**181.3%**

THE UNIVERSITY OF TEXAS SYSTEM
EXPLANATION OF VARIANCES ON THE MONTHLY FINANCIAL REPORT
For the Ten Months Ending June 30, 2010

Explanations are provided for institutions having the largest variances in adjusted income (loss) year-to-date as compared to the prior year, both in terms of dollars and percentages. Explanations are also provided for institutions with a current year-to-date adjusted loss.

(1) UT System Administration – The $42.2 million (57.5%) decrease in adjusted income over the same period last year was primarily due to an increase in claims and losses and a decrease in net investment income. The increase in claims and losses is due to increased medical insurance claims for Blue Cross Blue Shield. The Long Term Fund distribution to the institutions increased resulting in a reduction in net investment income. *UT System Administration's* adjusted income was $39.1 million or 19.4% excluding depreciation expense.

(2) UT Austin – The $40.5 million (83.9%) increase in adjusted income over the same period last year was due to an increase in net sales and services of educational activities due to a change in the monthly financial reporting process to include service center activity in 2010, an increase in the Available University Fund (AUF) transfer due to additional funds authorized by the Board of Regents and an increase in net investment income due to improved market conditions. Excluding depreciation expense, *UT Austin's* adjusted income was $228.9 million or 11.7%.

(3) UT Brownsville – The $4.4 million (7,106.9%) increase in adjusted income over the same period last year was primarily attributable to an increase in nonexchange sponsored programs as a result of funding from the American Recovery and Reinvestment Act (ARRA) and in state appropriations due to increased formula funding. Excluding depreciation expense, *UT Brownsville's* adjusted income was $9.2 million or 6%.

(4) UT Dallas – The $7.8 million (117.1%) increase in adjusted income over the same period last year was due to an increase in nonexchange sponsored programs as a result of ARRA funding and from the Texas Research Incentive Programs (TRIP) matching in line with *UT Dallas'* tier one initiative. Excluding depreciation expense, *UT Dallas'* adjusted income was $37.6 million or 12.7%.

(5) UT El Paso – The $9.2 million (153.3%) increase in adjusted income over the same period last year was primarily due to an increase in gift contributions for operations as a result of increased pledge commitments as part of the Centennial Campaign and in nonexchange sponsored programs as a result of ARRA funding. Excluding depreciation expense, *UT El Paso's* adjusted income was $30.2 million or 9.8%.

(6) UT Pan American – The $6.4 million (227.8%) increase in adjusted income over the same period last year was due to an increase in nonexchange sponsored programs as a result of ARRA funding. Excluding depreciation expense, *UT Pan American's* adjusted income was $14.8 million or 6.4%.

(7) UT Southwestern Medical Center - Dallas – The $45.8 million (778.1%) increase in adjusted income over the same period last year was primarily due to an increase in net sales and services of hospitals as a result of increased inpatient and outpatient visits. Excluding depreciation expense, *Southwestern's* adjusted income was $117.2 million or 8.7%.

(8) UT Medical Branch - Galveston – The $198.5 million (119.1%) increase in adjusted income over the same period last year was primarily due to the recovery from the business disruption in revenue generating activities and expenses related to Hurricane *Ike* in 2009. Operating revenues increased $100.9 million and operating expenses decreased $47.4 million. Patient care revenue increased $145.9 million, with increases in admissions of 54%, patient days of 83%, and clinic visits of 11% as compared to last year. Professional fees and contracted services expense decreased $70.6 million due to a reduction of expenses related to the recovery from Hurricane *Ike*.

Management is continuing to monitor financial performance and has taken steps to maintain favorable operating results to plan for the challenge of a $31.4 million General Revenue reduction in 2011. Planning is underway to address year-to-date realized losses of $12 million in Correctional Managed Care (CMC) including the reduction of approximately 300 CMC positions effective July 21, 2010. Cash flow continues to be closely monitored as campus rebuilding activities commenced in January 2010. Excluding depreciation expense, *UTMB's* adjusted income was $92.1 million or 7%. *UTMB* is forecasting a year-end margin of $23.7 million which represents 1.5% of projected revenues. This forecast includes savings to address the $17.9 million anticipated reduction in general revenue for 2011 and $73.2 million of depreciation expense.

(9) *UT Health Science Center – Houston* – The $3.9 million (91.2%) increase in adjusted income over the same period last year was primarily attributable to an increase in nonexchange sponsored programs as a result of ARRA funding. Excluding depreciation expense, *UTHSC-Houston's* adjusted income was $41.9 million or 5.5%.

(10) *UT Health Science Center – San Antonio* – The $10.6 million (837.3%) increase in adjusted income over the same period last year was primarily attributable to an increase in formula funding and special item funding for the San Antonio Life Sciences Institute and the Regional Academic Health Center and savings to address the anticipated reduction in general revenue for 2011. Cancer Therapy Research Center (CTRC) is now break even as a result of a reduction in the number of employees and a reduction in costs in response to the School of Medicine's plan to address the losses in CTRC. The $6 million CTRC Foundation gift for 2010 coupled with enhanced revenue from increased patient volume and services, and cost cutting measures contributed to CTRC's overall loss reduction. *UTHSC-San Antonio* anticipates ending the year with a $7 million positive margin which represents 1% of projected revenues and includes $32 million of depreciation expense. Excluding depreciation expense, *UTHSC-San Antonio's* adjusted income was $36 million or 6.1%.

(11) *UT M. D. Anderson Cancer Center* – The $200.1 million (171.5%) increase in adjusted income over the same period last year was primarily attributable to the recovery from the business disruption in revenue generating activities related to Hurricane *Ike* in 2009. Operating revenues increased $176.3 million due to increased patient activity and patient volumes. Gift contributions for operations also increased due to pledges of $20 million from Ross Perot Sr., $10 million from HEB, $6.5 million from the Kleberg Foundation, $5 million from the John Foundation, and an increase in various large cash gifts. Excluding depreciation expense, *M. D. Anderson's* adjusted income was $504.8 million or 19%.

(12) *Investment Gains (Losses)* - The majority of the $5.6 billion (140.7%) increase in investment gains relates to the Permanent University Fund of $3 billion, the Long Term Fund of $1.4 billion, and the Permanent Health Fund of $274.1 million.

GLOSSARY OF TERMS

OPERATING REVENUES:

NET STUDENT TUITION AND FEES – All student tuition and fee revenues earned at the UT institution for educational purposes, net of tuition discounting.

SPONSORED PROGRAMS – Funding received from local, state and federal governments or private agencies, organizations or individuals, excluding Federal Pell Grant Program which is reported as nonoperating. Includes amounts received for services performed on grants, contracts, and agreements from these entities for current operations. This also includes indirect cost recoveries and pass-through federal and state grants.

NET SALES AND SERVICES OF EDUCATIONAL ACTIVITIES – Revenues that are related to the conduct of instruction, research, and public service and revenues from activities that exist to provide an instructional and laboratory experience for students that create goods and services that may be sold.

NET SALES AND SERVICES OF HOSPITALS – Revenues (net of discounts, allowances, and bad debt expense) generated from UT health institution's daily patient care, special or other services, as well as revenues from health clinics that are part of a hospital.

NET PROFESSIONAL FEES – Revenues (net of discounts, allowances, and bad debt expense) derived from the fees charged by the professional staffs at UT health institutions as part of the Medical Practice Plans. These revenues are also identified as Practice Plan income. Examples of such fees include doctor's fees for clinic visits, medical and dental procedures, professional opinions, and anatomical procedures, such as analysis of specimens after a surgical procedure, etc.

NET AUXILIARY ENTERPRISES – Revenues derived from a service to students, faculty, or staff in which a fee is charged that is directly related to, although not necessarily equal to the cost of the service (e.g., bookstores, dormitories, dining halls, snack bars, inter-collegiate athletic programs, etc.).

OTHER OPERATING REVENUES – Other revenues generated from sales or services provided to meet current fiscal year operating expenses, which are not included in the preceding categories (e.g., certified nonprofit healthcare company revenues, donated drugs, interest on student loans, etc.)

OPERATING EXPENSES:

SALARIES AND WAGES – Expenses for all salaries and wages of individuals employed by the institution including full-time, part-time, longevity, hourly, seasonal, etc.

PAYROLL RELATED COSTS – Expenses for all employee benefits paid by the institution or paid by the state on behalf of the institution. Includes faculty incentive payments and supplemental retirement annuities.

PROFESSIONAL FEES AND CONTRACTED SERVICES – Payments for services rendered on a fee, contract, or other basis by a person, firm, corporation, or company recognized as possessing a high degree of learning and responsibility. Includes such items as services of a consultant, legal counsel, financial or audit fees, medical contracted services, guest lecturers (not employees) and expert witnesses.

OTHER CONTRACTED SERVICES – Payments for services rendered on a contractual basis by a person, firm, corporation or company that possess a lesser degree of learning and responsibility than that required for Professional Fees and Contracted Services. Includes such items as temporary employment expenses, fully insured medical plans expenses, janitorial services, dry cleaning services, etc.

SCHOLARSHIPS AND FELLOWSHIPS – Payments made for scholarship grants to students authorized by law, net of tuition discounting.

TRAVEL – Payments for travel costs incurred during travel by employees, board or commission members and elected/appointed officials on state business.

MATERIALS AND SUPPLIES – Payments for consumable items. Includes, but is not limited to: computer consumables, office supplies, paper products, soap, lights, plants, fuels and lubricants, chemicals and gasses, medical supplies and copier supplies. Also includes postal services, and subscriptions and other publications not for permanent retention.

UTILITIES – Payments for the purchase of electricity, natural gas, water, thermal energy and waste disposal.

TELECOMMUNICATIONS - Electronically transmitted communications services (telephone, internet, computation center services, etc.).

REPAIRS AND MAINTENANCE – Payments for the maintenance and repair of equipment, furnishings, motor vehicles, buildings and other plant facilities. Includes, but is not limited to repair and maintenance to copy machines, furnishings, equipment – including medical and laboratory equipment, office equipment and aircraft.

RENTALS AND LEASES – Payments for rentals or leases of furnishings and equipment, vehicles, land and office buildings (all rental of space).

PRINTING AND REPRODUCTION – Printing and reproduction costs associated with the printing/copying of the institution's documents and publications.

BAD DEBT EXPENSE – Expenses incurred by the university related to nonrevenue receivables such as non-payment of student loans.

CLAIMS AND LOSSES – Payments for claims from self-insurance programs. Other claims for settlements and judgments are considered other operating expenses.

FEDERAL SPONSORED PROGRAMS PASS-THROUGHS – Pass-throughs to other Texas state agencies, including other universities, of federal grants and contracts.

STATE SPONSORED PROGRAMS PASS-THROUGHS – Pass-throughs to other Texas state agencies, including Texas universities.

DEPRECIATION AND AMORTIZATION – Depreciation on capital assets and amortization expense on intangible assets.

OTHER OPERATING EXPENSES – Other operating expenses not identified in other line items above (e.g., certified non profit healthcare company expenses, property taxes, insurance premiums, credit card fees, hazardous waste disposal expenses, meetings and conferences, etc.).

OPERATING LOSS – Total operating revenues less total operating expenses before other nonoperating adjustments like state appropriations.

OTHER NONOPERATING ADJUSTMENTS:

STATE APPROPRIATIONS – Appropriations from the State General Revenue fund, which supplement the UT institutional revenue in meeting operating expenses, such as faculty salaries, utilities, and institutional support.

NONEXCHANGE SPONSORED PROGRAMS – Federal funding received for the Federal Pell Grant Program.

GIFT CONTRIBUTIONS FOR OPERATIONS – Consist of gifts from donors received for use in current operations, excluding gifts for capital acquisition and endowment gifts. Gifts for capital acquisition which can only be used to build or buy capital assets are excluded because they can not be used to support current operations. Endowment gifts must be held in perpetuity and can not be spent. The distributed income from endowment gifts must be spent according to the donor's stipulations.

NET INVESTMENT INCOME (on institutions' sheets) – Interest and dividend income on treasury balances, bank accounts, Short Term Fund, Intermediate Term Fund and Long Term Fund. It also includes distributed earnings from the Permanent Health Fund and patent and royalty income.

NET INVESTMENT INCOME (on the consolidated sheet) – Interest and dividend earnings of the Permanent University Fund, Short Term Fund, Intermediate Term Fund, Long Term Fund and Permanent Health Fund. This line item also includes the Available University Fund surface income, oil and gas royalties, and mineral lease bonus sales.

INTEREST EXPENSE ON CAPITAL ASSET FINANCINGS – Interest expenses associated with bond and note borrowings utilized to finance capital improvement projects by an institution. This consists of the interest portion of mandatory debt service transfers under the Revenue Financing System, Tuition Revenue bond and Permanent University Fund (PUF) bond programs. PUF interest expense is reported on System Administration as the debt legally belongs to the Board of Regents.

ADJUSTED INCOME (LOSS) including Depreciation – Total operating revenues less total operating expenses including depreciation expense plus net other nonoperating adjustments.

ADJUSTED MARGIN (as a percentage) including Depreciation – Percentage of Adjusted Income (Loss) including depreciation expense divided by Total Operating Revenues plus Net Nonoperating Adjustments less Interest Expense on Capital Asset Financings.

AVAILABLE UNIVERSITY FUND TRANSFER – Includes Available University Fund (AUF) transfer to System Administration for Educational and General operations and to UT Austin for Excellence Funding. These transfers are funded by investment earnings from the Permanent University Fund (PUF), which are required by law to be reported in the PUF at System Administration. On the MFR, investment income for System Administration has been reduced for the amount of the System Administration transfer so as not to overstate investment income for System Administration. The AUF transfers are eliminated at the consolidated level to avoid overstating System-wide revenues, as the amounts will be reflected as transfers at year-end.

INVESTMENT GAINS (LOSSES) – Realized and unrealized gains and losses on investments.

ADJUSTED INCOME (LOSS) excluding Depreciation – Total operating revenues less total operating expenses excluding depreciation expense plus net other nonoperating adjustments.

ADJUSTED MARGIN (as a percentage) excluding Depreciation – Percentage of Adjusted Income (Loss) excluding depreciation expense divided by Total Operating Revenues plus Net Nonoperating Adjustments less Interest Expense on Capital Asset Financings.

UNAUDITED
The University of Texas System Administration
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Sponsored Programs	$ 32,696,380	$ 15,004,724	$ 17,691,656	117.9%
Net Sales and Services of Educational Activities	25,288,186	31,629,441	(6,341,255)	-20.0%
Other Operating Revenues	(2,459,198)	1,115,745	(3,574,943)	-320.4%
Total Operating Revenues	**55,525,368**	**47,749,910**	**7,775,458**	**16.3%**
Operating Expenses				
Salaries and Wages	26,332,839	28,197,903	(1,865,064)	-6.6%
Employee Benefits and Related Costs	5,922,683	6,158,800	(236,117)	-3.8%
Professional Fees and Contracted Services	2,103,353	5,771,950	(3,668,597)	-63.6%
Scholarships and Fellowships	1,039,400	651,200	388,200	59.6%
Travel	1,549,817	1,518,311	31,506	2.1%
Materials and Supplies	8,270,717	2,929,206	5,341,511	182.4%
Utilities	323,194	358,825	(35,631)	-9.9%
Telecommunications	2,617,720	3,083,523	(465,803)	-15.1%
Repairs and Maintenance	6,183,962	1,234,065	4,949,897	401.1%
Rentals and Leases	565,986	792,256	(226,269)	-28.6%
Printing and Reproduction	293,300	221,029	72,271	32.7%
Claims and Losses	41,482,277	13,885,789	27,596,488	198.7%
State Sponsored Programs Pass-Thrus	1,565,753	-	1,565,753	100.0%
Depreciation and Amortization	7,858,086	9,122,287	(1,264,201)	-13.9%
Other Operating Expenses	21,399,353	18,999,746	2,399,607	12.6%
Total Operating Expenses	**127,508,439**	**92,924,889**	**34,583,550**	**37.2%**
Operating Loss	**(71,983,072)**	**(45,174,979)**	**(26,808,092)**	**-59.3%**
Other Nonoperating Adjustments				
State Appropriations	1,949,830	768,357	1,181,473	153.8%
Nonexchange Sponsored Programs	10,892,993	-	10,892,993	100.0%
Gift Contributions for Operations	686,077	894,426	(208,349)	-23.3%
Net Investment Income	104,554,781	119,144,171	(14,589,390)	-12.2%
Interest Expense on Capital Asset Financings	(43,237,052)	(31,217,145)	(12,019,907)	-38.5%
Net Other Nonoperating Adjustments	**74,846,630**	**89,589,810**	**(14,743,179)**	**-16.5%**
Adjusted Income (Loss) including Depreciation	**2,863,558**	**44,414,830**	**(41,551,272)**	**-93.6%**
Adjusted Margin (as a percentage) including Depreciation	**1.6%**	**26.4%**		
Available University Fund Transfer	28,361,563	29,031,168	(669,605)	-2.3%
Adjusted Income (Loss) with AUF Transfer	**31,225,122**	**73,445,999**	**(42,220,877)**	**-57.5%**
Adjusted Margin % with AUF Transfer	**15.5%**	**37.2%**		
Investment Gains (Losses)	1,344,836,534	(3,449,782,355)	4,794,618,889	139.0%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	**$ 1,376,061,655**	**$ (3,376,336,357)**	**$ 4,752,398,012**	**140.8%**
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	**89.0%**	**-103.8%**		
Adjusted Income (Loss) with AUF Transfer excluding Depreciation	**39,083,208**	**82,568,285**	**(43,485,078)**	**-52.7%**
Adjusted Margin (as a percentage) with AUF Transfer excluding Depreciation	**19.4%**	**41.8%**		

UNAUDITED
The University of Texas at Arlington
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition and Fees	$ 132,877,324	$ 114,973,608	$ 17,903,716	15.6%
Sponsored Programs	47,527,109	40,415,452	7,111,657	17.6%
Net Sales and Services of Educational Activities	11,528,569	12,767,726	(1,239,157)	-9.7%
Net Auxiliary Enterprises	21,679,877	21,538,711	141,166	0.7%
Other Operating Revenues	7,026,927	7,345,974	(319,047)	-4.3%
Total Operating Revenues	**220,639,806**	**197,041,472**	**23,598,334**	**12.0%**
Operating Expenses				
Salaries and Wages	174,144,632	163,951,555	10,193,077	6.2%
Employee Benefits and Related Costs	36,137,477	36,385,913	(248,436)	-0.7%
Professional Fees and Contracted Services	3,605,558	2,947,123	658,435	22.3%
Scholarships and Fellowships	16,870,290	7,832,376	9,037,914	115.4%
Travel	5,492,778	4,852,619	640,159	13.2%
Materials and Supplies	16,601,640	17,249,433	(647,793)	-3.8%
Utilities	9,905,372	9,339,671	565,701	6.1%
Telecommunications	5,732,647	5,586,602	146,045	2.6%
Repairs and Maintenance	6,786,774	7,136,943	(350,169)	-4.9%
Rentals and Leases	2,923,170	2,575,281	347,889	13.5%
Printing and Reproduction	2,296,718	2,183,958	112,760	5.2%
Federal Sponsored Programs Pass-Thrus	1,628,720	1,673,602	(44,882)	-2.7%
Depreciation and Amortization	21,652,421	16,743,218	4,909,203	29.3%
Other Operating Expenses	20,200,500	16,575,666	3,624,834	21.9%
Total Operating Expenses	**323,978,697**	**295,033,960**	**28,944,737**	**9.8%**
Operating Loss	**(103,338,891)**	**(97,992,489)**	**(5,346,402)**	**-5.5%**
Other Nonoperating Adjustments				
State Appropriations	94,380,020	92,937,157	1,442,863	1.6%
Nonexchange Sponsored Programs	33,198,930	18,219,676	14,979,254	82.2%
Gift Contributions for Operations	2,568,064	1,783,344	784,720	44.0%
Net Investment Income	9,368,873	8,615,468	753,405	8.7%
Interest Expense on Capital Asset Financings	(7,666,082)	(6,161,295)	(1,504,787)	-24.4%
Net Other Nonoperating Adjustments	**131,849,805**	**115,394,350**	**16,455,455**	**14.3%**
Adjusted Income (Loss) including Depreciation	**28,510,914**	**17,401,861**	**11,109,053**	**63.8%**
Adjusted Margin (as a percentage) including Depreciation	**7.9%**	**5.5%**		
Investment Gains (Losses)	7,278,739	(23,587,341)	30,866,080	130.9%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 35,789,653**	**$ (6,185,480)**	**$ 41,975,133**	**678.6%**
Adjusted Margin % with Investment Gains (Losses)	**9.7%**	**-2.1%**		
Adjusted Income (Loss) excluding Depreciation	**50,163,335**	**34,145,079**	**16,018,256**	**46.9%**
Adjusted Margin (as a percentage) excluding Depreciation	**13.9%**	**10.7%**		

UNAUDITED
The University of Texas at Austin
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition and Fees	$ 344,927,985	$ 369,461,781	$ (24,533,796)	-6.6%
Sponsored Programs	416,039,832	404,957,060	11,082,771	2.7%
Net Sales and Services of Educational Activities	298,913,279	139,438,023	159,475,256	114.4%
Net Auxiliary Enterprises	202,130,679	179,931,020	22,199,659	12.3%
Other Operating Revenues	3,611,694	4,475,717	(864,023)	-19.3%
Total Operating Revenues	**1,265,623,468**	**1,098,263,601**	**167,359,867**	**15.2%**
Operating Expenses				
Salaries and Wages	885,091,189	814,846,390	70,244,799	8.6%
Employee Benefits and Related Costs	208,222,136	189,860,484	18,361,652	9.7%
Professional Fees and Contracted Services	25,513,333	28,191,783	(2,678,450)	-9.5%
Scholarships and Fellowships	85,001,135	92,397,703	(7,396,568)	-8.0%
Travel	34,360,643	33,601,387	759,256	2.3%
Materials and Supplies	105,516,695	103,601,971	1,914,724	1.8%
Utilities	80,597,747	62,360,463	18,237,284	29.2%
Telecommunications	49,096,068	41,018,776	8,077,292	19.7%
Repairs and Maintenance	36,331,210	27,814,178	8,517,032	30.6%
Rentals and Leases	16,516,799	13,506,254	3,010,545	22.3%
Printing and Reproduction	9,782,204	8,751,709	1,030,495	11.8%
Federal Sponsored Programs Pass-Thrus	3,180,700	3,381,687	(200,987)	-5.9%
Depreciation and Amortization	140,297,564	132,035,579	8,261,985	6.3%
Other Operating Expenses	162,159,616	139,691,923	22,467,693	16.1%
Total Operating Expenses	**1,841,667,039**	**1,691,060,287**	**150,606,752**	**8.9%**
Operating Loss	**(576,043,571)**	**(592,796,686)**	**16,753,115**	**2.8%**
Other Nonoperating Adjustments				
State Appropriations	284,201,390	282,326,038	1,875,352	0.7%
Nonexchange Sponsored Programs	31,168,267	17,386,102	13,782,165	79.3%
Gift Contributions for Operations	93,787,266	93,632,809	154,457	0.2%
Net Investment Income	138,595,193	133,217,380	5,377,813	4.0%
Interest Expense on Capital Asset Financings	(29,531,235)	(28,567,535)	(963,700)	-3.4%
Net Other Nonoperating Adjustments	**518,220,881**	**497,994,794**	**20,226,087**	**4.1%**
Adjusted Income (Loss) including Depreciation	**(57,822,690)**	**(94,801,892)**	**36,979,202**	**39.0%**
Adjusted Margin (as a percentage) including Depreciation	**-3.2%**	**-5.8%**		
Available University Fund Transfer	146,458,333	142,987,500	3,470,833	2.4%
Adjusted Income (Loss) with AUF Transfer	**88,635,644**	**48,185,608**	**40,450,035**	**83.9%**
Adjusted Margin % with AUF Transfer	**4.5%**	**2.7%**		
Investment Gains (Losses)	158,387,723	(135,134,217)	293,521,940	217.2%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	**$ 247,023,366**	**$ (86,948,609)**	**$ 333,971,975**	**384.1%**
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	**11.7%**	**-5.3%**		
Adjusted Income (Loss) with AUF Transfer excluding Depreciation	**228,933,208**	**180,221,187**	**48,712,021**	**27.0%**
Adjusted Margin (as a percentage) with AUF Transfer excluding Depreciation	**11.7%**	**10.2%**		

UNAUDITED
The University of Texas at Brownsville
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition and Fees	$ 15,807,678	$ 14,671,646	$ 1,136,032	7.7%
Sponsored Programs	66,760,413	60,741,468	6,018,945	9.9%
Net Sales and Services of Educational Activities	1,550,329	1,634,463	(84,134)	-5.1%
Net Auxiliary Enterprises	1,144,384	1,019,771	124,613	12.2%
Other Operating Revenues	29,661	11,173	18,488	165.5%
Total Operating Revenues	**85,292,465**	**78,078,521**	**7,213,944**	**9.2%**
Operating Expenses				
Salaries and Wages	57,636,577	54,898,971	2,737,606	5.0%
Employee Benefits and Related Costs	15,163,169	13,451,332	1,711,837	12.7%
Professional Fees and Contracted Services	1,537,481	1,681,640	(144,159)	-8.6%
Scholarships and Fellowships	49,958,137	38,580,691	11,377,446	29.5%
Travel	912,739	996,609	(83,870)	-8.4%
Materials and Supplies	4,444,211	5,276,333	(832,122)	-15.8%
Utilities	3,135,818	2,908,721	227,097	7.8%
Telecommunications	1,311,951	1,364,794	(52,843)	-3.9%
Repairs and Maintenance	1,518,131	1,366,563	151,568	11.1%
Rentals and Leases	1,653,903	1,669,978	(16,075)	-1.0%
Printing and Reproduction	243,915	282,916	(39,001)	-13.8%
Bad Debt Expense	33,512	29,787	3,725	12.5%
Depreciation and Amortization	4,748,624	4,803,496	(54,872)	-1.1%
Other Operating Expenses	5,535,816	6,248,944	(713,128)	-11.4%
Total Operating Expenses	**147,897,012**	**133,590,395**	**14,306,617**	**10.7%**
Operating Loss	**(62,604,547)**	**(55,511,874)**	**(7,092,673)**	**-12.8%**
Other Nonoperating Adjustments				
State Appropriations	33,880,876	32,609,224	1,271,652	3.9%
Nonexchange Sponsored Programs	33,483,839	22,961,103	10,522,736	45.8%
Gift Contributions for Operations	290,558	323,332	(32,774)	-10.1%
Net Investment Income	929,640	945,335	(15,695)	-1.7%
Interest Expense on Capital Asset Financings	(1,509,551)	(1,265,085)	(244,466)	-19.3%
Net Other Nonoperating Adjustments	**67,075,362**	**55,573,909**	**11,501,453**	**20.7%**
Adjusted Income (Loss) including Depreciation	**4,470,815**	**62,035**	**4,408,780**	**7,106.9%**
Adjusted Margin (as a percentage) including Depreciation	**2.9%**	**0.0%**		
Investment Gains (Losses)	1,225,944	(3,967,181)	5,193,125	130.9%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 5,696,759**	**$ (3,905,146)**	**$ 9,601,905**	**245.9%**
Adjusted Margin % with Investment Gains (Losses)	**3.7%**	**-3.0%**		
Adjusted Income (Loss) excluding Depreciation	**9,219,439**	**4,865,531**	**4,353,908**	**89.5%**
Adjusted Margin (as a percentage) excluding Depreciation	**6.0%**	**3.6%**		

UNAUDITED
The University of Texas at Dallas
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition and Fees	$ 111,632,836	$ 104,852,952	$ 6,779,884	6.5%
Sponsored Programs	40,226,197	36,254,790	3,971,407	11.0%
Net Sales and Services of Educational Activities	9,237,840	7,171,525	2,066,315	28.8%
Net Auxiliary Enterprises	6,785,480	5,143,788	1,641,692	31.9%
Other Operating Revenues	3,344,303	5,099,977	(1,755,674)	-34.4%
Total Operating Revenues	**171,226,656**	**158,523,032**	**12,703,624**	**8.0%**
Operating Expenses				
Salaries and Wages	143,281,735	132,082,513	11,199,222	8.5%
Employee Benefits and Related Costs	30,791,483	27,394,606	3,396,877	12.4%
Professional Fees and Contracted Services	6,403,551	3,287,817	3,115,734	94.8%
Scholarships and Fellowships	16,565,824	17,634,145	(1,068,322)	-6.1%
Travel	3,351,110	3,066,582	284,528	9.3%
Materials and Supplies	14,577,909	12,719,131	1,858,778	14.6%
Utilities	8,580,201	6,875,899	1,704,302	24.8%
Telecommunications	1,389,485	1,258,672	130,813	10.4%
Repairs and Maintenance	1,730,173	3,196,463	(1,466,290)	-45.9%
Rentals and Leases	1,953,627	1,448,797	504,830	34.8%
Printing and Reproduction	1,228,302	1,047,256	181,046	17.3%
Federal Sponsored Programs Pass-Thrus	427,347	227,220	200,127	88.1%
Depreciation and Amortization	23,134,085	19,743,981	3,390,104	17.2%
Other Operating Expenses	21,688,691	18,078,957	3,609,734	20.0%
Total Operating Expenses	**275,103,521**	**248,062,039**	**27,041,482**	**10.9%**
Operating Loss	**(103,876,865)**	**(89,539,007)**	**(14,337,858)**	**-16.0%**
Other Nonoperating Adjustments				
State Appropriations	81,074,171	76,337,692	4,736,479	6.2%
Nonexchange Sponsored Programs	22,092,845	6,077,671	16,015,174	263.5%
Gift Contributions for Operations	11,056,050	7,719,468	3,336,582	43.2%
Net Investment Income	11,282,607	10,565,651	716,956	6.8%
Interest Expense on Capital Asset Financings	(7,130,223)	(4,484,124)	(2,646,099)	-59.0%
Net Other Nonoperating Adjustments	**118,375,450**	**96,216,358**	**22,159,092**	**23.0%**
Adjusted Income (Loss) including Depreciation	**14,498,584**	**6,677,351**	**7,821,233**	**117.1%**
Adjusted Margin (as a percentage) including Depreciation	**4.9%**	**2.6%**		
Investment Gains (Losses)	6,860,227	(18,295,814)	25,156,041	137.5%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 21,358,811**	**$ (11,618,463)**	**$ 32,977,274**	**283.8%**
Adjusted Margin % with Investment Gains (Losses)	**7.0%**	**-4.8%**		
Adjusted Income (Loss) excluding Depreciation	**37,632,669**	**26,421,332**	**11,211,337**	**42.4%**
Adjusted Margin (as a percentage) excluding Depreciation	**12.7%**	**10.2%**		

UNAUDITED
The University of Texas at El Paso
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition and Fees	$ 78,371,669	$ 71,671,388	$ 6,700,281	9.3%
Sponsored Programs	60,253,583	49,650,066	10,603,517	21.4%
Net Sales and Services of Educational Activities	4,543,566	4,827,100	(283,534)	-5.9%
Net Auxiliary Enterprises	19,644,715	19,838,307	(193,592)	-1.0%
Other Operating Revenues	1,717	41,553	(39,836)	-95.9%
Total Operating Revenues	**162,815,250**	**146,028,414**	**16,786,836**	**11.5%**
Operating Expenses				
Salaries and Wages	127,356,647	119,995,041	7,361,606	6.1%
Employee Benefits and Related Costs	31,168,151	28,391,913	2,776,238	9.8%
Professional Fees and Contracted Services	913,710	793,438	120,272	15.2%
Scholarships and Fellowships	59,396,175	41,713,819	17,682,356	42.4%
Travel	5,547,429	5,233,740	313,689	6.0%
Materials and Supplies	18,720,946	17,301,171	1,419,775	8.2%
Utilities	5,141,293	6,436,753	(1,295,460)	-20.1%
Telecommunications	486,917	523,410	(36,493)	-7.0%
Repairs and Maintenance	3,763,564	2,985,263	778,301	26.1%
Rentals and Leases	2,974,185	3,099,381	(125,196)	-4.0%
Printing and Reproduction	687,394	929,556	(242,162)	-26.1%
Federal Sponsored Programs Pass-Thrus	1,161,077	731,022	430,055	58.8%
Depreciation and Amortization	14,984,546	14,167,187	817,359	5.8%
Other Operating Expenses	17,756,995	17,919,730	(162,735)	-0.9%
Total Operating Expenses	**290,059,029**	**260,221,424**	**29,837,605**	**11.5%**
Operating Loss	**(127,243,779)**	**(114,193,010)**	**(13,050,769)**	**-11.4%**
Other Nonoperating Adjustments				
State Appropriations	82,401,842	79,155,745	3,246,097	4.1%
Nonexchange Sponsored Programs	43,998,155	28,811,543	15,186,612	52.7%
Gift Contributions for Operations	11,707,483	6,578,449	5,129,034	78.0%
Net Investment Income	8,701,027	7,832,208	868,819	11.1%
Interest Expense on Capital Asset Financings	(4,358,388)	(2,180,990)	(2,177,398)	-99.8%
Net Other Nonoperating Adjustments	**142,450,119**	**120,196,955**	**22,253,164**	**18.5%**
Adjusted Income (Loss) including Depreciation	**15,206,340**	**6,003,945**	**9,202,395**	**153.3%**
Adjusted Margin (as a percentage) including Depreciation	**4.9%**	**2.2%**		
Investment Gains (Losses)	3,054,809	(8,773,677)	11,828,486	134.8%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 18,261,149**	**$ (2,769,732)**	**$ 21,030,881**	**759.3%**
Adjusted Margin % with Investment Gains (Losses)	**5.8%**	**-1.1%**		
Adjusted Income (Loss) excluding Depreciation	**30,190,886**	**20,171,132**	**10,019,754**	**49.7%**
Adjusted Margin (as a percentage) excluding Depreciation	**9.8%**	**7.5%**		

UNAUDITED

The University of Texas - Pan American

Comparison of Operating Results and Margin

For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition and Fees	$ 49,370,897	$ 42,485,280	$ 6,885,617	16.2%
Sponsored Programs	50,423,398	47,001,778	3,421,620	7.3%
Net Sales and Services of Educational Activities	3,938,016	3,903,275	34,741	0.9%
Net Auxiliary Enterprises	5,671,132	4,031,419	1,639,713	40.7%
Other Operating Revenues	1,729,311	2,877,751	(1,148,440)	-39.9%
Total Operating Revenues	**111,132,754**	**100,299,503**	**10,833,251**	**10.8%**
Operating Expenses				
Salaries and Wages	94,145,694	87,910,182	6,235,512	7.1%
Employee Benefits and Related Costs	23,514,592	22,740,989	773,603	3.4%
Professional Fees and Contracted Services	1,310,991	1,210,679	100,312	8.3%
Scholarships and Fellowships	59,054,999	43,303,513	15,751,486	36.4%
Travel	4,002,383	3,811,719	190,664	5.0%
Materials and Supplies	10,348,768	9,770,494	578,274	5.9%
Utilities	6,187,466	6,404,901	(217,435)	-3.4%
Telecommunications	721,143	940,218	(219,075)	-23.3%
Repairs and Maintenance	2,490,496	2,021,155	469,341	23.2%
Rentals and Leases	843,737	704,351	139,386	19.8%
Printing and Reproduction	322,547	293,561	28,986	9.9%
Bad Debt Expense	(93,530)	270,000	(363,530)	-134.6%
Federal Sponsored Programs Pass-Thrus	294,370	78,897	215,473	273.1%
Depreciation and Amortization	11,189,819	10,706,283	483,536	4.5%
Other Operating Expenses	9,243,704	9,366,194	(122,490)	-1.3%
Total Operating Expenses	**223,577,179**	**199,533,136**	**24,044,043**	**12.1%**
Operating Loss	**(112,444,425)**	**(99,233,633)**	**(13,210,792)**	**-13.3%**
Other Nonoperating Adjustments				
State Appropriations	65,127,892	63,028,789	2,099,103	3.3%
Nonexchange Sponsored Programs	49,753,826	33,168,250	16,585,576	50.0%
Gift Contributions for Operations	1,857,845	1,227,058	630,787	51.4%
Net Investment Income	2,695,281	2,419,438	275,843	11.4%
Interest Expense on Capital Asset Financings	(3,374,186)	(3,440,080)	65,894	1.9%
Net Other Nonoperating Adjustments	**116,060,659**	**96,403,455**	**19,657,204**	**20.4%**
Adjusted Income (Loss) including Depreciation	**3,616,233**	**(2,830,178)**	**6,446,411**	**227.8%**
Adjusted Margin (as a percentage) including Depreciation	**1.6%**	**-1.4%**		
Investment Gains (Losses)	1,633,302	(6,582,271)	8,215,573	124.8%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 5,249,535**	**$ (9,412,449)**	**$ 14,661,984**	**155.8%**
Adjusted Margin % with Investment Gains (Losses)	**2.3%**	**-4.9%**		
Adjusted Income (Loss) excluding Depreciation	**14,806,052**	**7,876,105**	**6,929,947**	**88.0%**
Adjusted Margin (as a percentage) excluding Depreciation	**6.4%**	**3.9%**		

UNAUDITED
The University of Texas of the Permian Basin
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition and Fees	$ 9,980,791	$ 9,436,885	$ 543,906	5.8%
Sponsored Programs	4,368,165	3,443,141	925,024	26.9%
Net Sales and Services of Educational Activities	464,491	417,535	46,956	11.2%
Net Auxiliary Enterprises	2,804,018	2,803,422	596	0.0%
Other Operating Revenues	181,859	112,575	69,284	61.5%
Total Operating Revenues	**17,799,324**	**16,213,558**	**1,585,766**	**9.8%**
Operating Expenses				
Salaries and Wages	18,115,458	16,647,986	1,467,472	8.8%
Employee Benefits and Related Costs	4,135,098	3,817,747	317,351	8.3%
Professional Fees and Contracted Services	741,904	791,852	(49,948)	-6.3%
Scholarships and Fellowships	3,094,542	2,945,282	149,260	5.1%
Travel	699,761	732,358	(32,597)	-4.5%
Materials and Supplies	3,550,269	2,269,274	1,280,995	56.4%
Utilities	2,123,412	1,834,107	289,305	15.8%
Telecommunications	349,629	344,097	5,532	1.6%
Repairs and Maintenance	979,675	1,147,663	(167,988)	-14.6%
Rentals and Leases	343,694	392,198	(48,504)	-12.4%
Printing and Reproduction	191,542	124,387	67,155	54.0%
Depreciation and Amortization	3,412,491	3,141,658	270,833	8.6%
Other Operating Expenses	2,369,991	2,029,336	340,655	16.8%
Total Operating Expenses	**40,107,466**	**36,217,945**	**3,889,521**	**10.7%**
Operating Loss	**(22,308,142)**	**(20,004,387)**	**(2,303,755)**	**-11.5%**
Other Nonoperating Adjustments				
State Appropriations	26,724,438	26,430,308	294,130	1.1%
Nonexchange Sponsored Programs	4,258,329	2,953,165	1,305,164	44.2%
Gift Contributions for Operations	1,181,365	1,012,641	168,724	16.7%
Net Investment Income	2,360,128	1,344,102	1,016,026	75.6%
Interest Expense on Capital Asset Financings	(1,922,339)	(533,788)	(1,388,551)	-260.1%
Net Other Nonoperating Adjustments	**32,601,921**	**31,206,428**	**1,395,493**	**4.5%**
Adjusted Income (Loss) including Depreciation	**10,293,779**	**11,202,041**	**(908,262)**	**-8.1%**
Adjusted Margin (as a percentage) including Depreciation	**19.7%**	**23.4%**		
Investment Gains (Losses)	1,147,032	(721,848)	1,868,880	258.9%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 11,440,811**	**$ 10,480,193**	**$ 960,618**	**9.2%**
Adjusted Margin % with Investment Gains (Losses)	**21.4%**	**22.2%**		
Adjusted Income (Loss) excluding Depreciation	**13,706,270**	**14,343,699**	**(637,429)**	**-4.4%**
Adjusted Margin (as a percentage) excluding Depreciation	**26.2%**	**29.9%**		

UNAUDITED
The University of Texas at San Antonio
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition and Fees	$ 146,654,701	$ 130,295,884	$ 16,358,817	12.6%
Sponsored Programs	55,246,765	53,428,958	1,817,807	3.4%
Net Sales and Services of Educational Activities	6,904,168	7,335,127	(430,959)	-5.9%
Net Auxiliary Enterprises	19,366,022	17,939,418	1,426,604	8.0%
Other Operating Revenues	1,702,347	1,375,157	327,190	23.8%
Total Operating Revenues	**229,874,003**	**210,374,544**	**19,499,459**	**9.3%**
Operating Expenses				
Salaries and Wages	169,931,832	156,966,377	12,965,455	8.3%
Employee Benefits and Related Costs	41,545,881	37,799,405	3,746,476	9.9%
Professional Fees and Contracted Services	3,500,919	3,773,465	(272,546)	-7.2%
Scholarships and Fellowships	38,070,468	26,449,767	11,620,701	43.9%
Travel	6,251,497	5,378,790	872,707	16.2%
Materials and Supplies	28,345,123	23,865,950	4,479,173	18.8%
Utilities	9,446,917	10,112,500	(665,583)	-6.6%
Telecommunications	2,443,709	2,552,454	(108,745)	-4.3%
Repairs and Maintenance	8,479,703	7,756,135	723,568	9.3%
Rentals and Leases	2,507,873	2,392,803	115,070	4.8%
Printing and Reproduction	955,261	1,002,614	(47,353)	-4.7%
Federal Sponsored Programs Pass-Thrus	3,097,653	2,972,990	124,663	4.2%
Depreciation and Amortization	30,999,258	27,126,179	3,873,079	14.3%
Other Operating Expenses	20,345,935	18,297,794	2,048,141	11.2%
Total Operating Expenses	**365,922,029**	**326,447,223**	**39,474,806**	**12.1%**
Operating Loss	**(136,048,026)**	**(116,072,679)**	**(19,975,347)**	**-17.2%**
Other Nonoperating Adjustments				
State Appropriations	100,162,592	95,884,043	4,278,549	4.5%
Nonexchange Sponsored Programs	41,118,608	23,928,612	17,189,997	71.8%
Gift Contributions for Operations	8,333,333	6,088,074	2,245,259	36.9%
Net Investment Income	6,954,149	6,670,315	283,834	4.3%
Interest Expense on Capital Asset Financings	(13,015,918)	(10,511,379)	(2,504,539)	-23.8%
Net Other Nonoperating Adjustments	**143,552,764**	**122,059,665**	**21,493,100**	**17.6%**
Adjusted Income (Loss) including Depreciation	**7,504,738**	**5,986,986**	**1,517,752**	**25.4%**
Adjusted Margin (as a percentage) including Depreciation	**1.9%**	**1.7%**		
Investment Gains (Losses)	11,238,039	(29,987,250)	41,225,289	137.5%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 18,742,777**	**$ (24,000,264)**	**$ 42,743,041**	**178.1%**
Adjusted Margin % with Investment Gains (Losses)	**4.7%**	**-7.7%**		
Adjusted Income (Loss) excluding Depreciation	**38,503,996**	**33,113,165**	**5,390,831**	**16.3%**
Adjusted Margin (as a percentage) excluding Depreciation	**10.0%**	**9.7%**		

UNAUDITED
The University of Texas at Tyler
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition and Fees	$ 22,613,935	$ 21,773,267	$ 840,668	3.9%
Sponsored Programs	7,350,377	7,272,781	77,596	1.1%
Net Sales and Services of Educational Activities	2,007,921	2,243,804	(235,882)	-10.5%
Net Auxiliary Enterprises	3,515,025	3,054,605	460,420	15.1%
Other Operating Revenues	246,458	122,839	123,619	100.6%
Total Operating Revenues	**35,733,716**	**34,467,295**	**1,266,421**	**3.7%**
Operating Expenses				
Salaries and Wages	31,696,589	30,754,201	942,388	3.1%
Employee Benefits and Related Costs	8,273,831	7,711,604	562,227	7.3%
Professional Fees and Contracted Services	822,686	846,487	(23,801)	-2.8%
Scholarships and Fellowships	8,635,288	5,977,727	2,657,561	44.5%
Travel	1,266,190	1,206,638	59,552	4.9%
Materials and Supplies	3,549,942	3,734,198	(184,256)	-4.9%
Utilities	1,328,988	1,520,585	(191,598)	-12.6%
Telecommunications	898,283	475,961	422,322	88.7%
Repairs and Maintenance	1,114,795	1,330,713	(215,918)	-16.2%
Rentals and Leases	271,408	264,947	6,461	2.4%
Printing and Reproduction	560,498	552,998	7,500	1.4%
Bad Debt Expense	820	2,957	(2,137)	-72.3%
Federal Sponsored Programs Pass-Thrus	69,418	507,894	(438,476)	-86.3%
Depreciation and Amortization	7,903,180	7,516,270	386,910	5.1%
Other Operating Expenses	5,540,017	4,976,001	564,016	11.3%
Total Operating Expenses	**71,931,934**	**67,379,181**	**4,552,753**	**6.8%**
Operating Loss	**(36,198,218)**	**(32,911,885)**	**(3,286,332)**	**-10.0%**
Other Nonoperating Adjustments				
State Appropriations	30,207,514	30,616,985	(409,471)	-1.3%
Nonexchange Sponsored Programs	6,981,362	5,118,055	1,863,307	36.4%
Gift Contributions for Operations	1,212,774	668,559	544,215	81.4%
Net Investment Income	3,539,178	3,254,274	284,904	8.8%
Interest Expense on Capital Asset Financings	(2,389,302)	(1,525,434)	(863,868)	-56.6%
Net Other Nonoperating Adjustments	**39,551,526**	**38,132,439**	**1,419,087**	**3.7%**
Adjusted Income (Loss) including Depreciation	**3,353,308**	**5,220,554**	**(1,867,246)**	**-35.8%**
Adjusted Margin (as a percentage) including Depreciation	**4.3%**	**7.0%**		
Investment Gains (Losses)	4,848,907	(5,024,976)	9,873,883	196.5%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 8,202,215**	**$ 195,578**	**$ 8,006,637**	**4093.8%**
Adjusted Margin % with Investment Gains (Losses)	**9.9%**	**0.3%**		
Adjusted Income (Loss) excluding Depreciation	**11,256,488**	**12,736,824**	**(1,480,336)**	**-11.6%**
Adjusted Margin (as a percentage) excludinI Depreciation	**14.5%**	**17.2%**		

UNAUDITED
The University of Texas Southwestern Medical Center at Dallas
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition and Fees	$ 17,656,316	$ 17,582,924	$ 73,392	0.4%
Sponsored Programs	374,312,608	342,570,463	31,742,145	9.3%
Net Sales and Services of Educational Activities	10,084,407	8,282,831	1,801,576	21.8%
Net Sales and Services of Hospitals	392,948,790	329,776,035	63,172,755	19.2%
Net Professional Fees	302,035,486	308,640,881	(6,605,395)	-2.1%
Net Auxiliary Enterprises	14,711,013	14,003,173	707,840	5.1%
Other Operating Revenues	5,368,214	5,948,038	(579,824)	-9.7%
Total Operating Revenues	**1,117,116,834**	**1,026,804,345**	**90,312,489**	**8.8%**
Operating Expenses				
Salaries and Wages	683,599,094	654,675,332	28,923,762	4.4%
Employee Benefits and Related Costs	152,249,338	140,581,784	11,667,554	8.3%
Professional Fees and Contracted Services	16,593,175	19,179,343	(2,586,168)	-13.5%
Scholarships and Fellowships	5,869,522	6,171,973	(302,451)	-4.9%
Travel	7,191,734	7,550,162	(358,428)	-4.7%
Materials and Supplies	172,742,507	165,432,366	7,310,141	4.4%
Utilities	31,023,853	28,274,426	2,749,427	9.7%
Telecommunications	6,696,716	6,313,769	382,947	6.1%
Repairs and Maintenance	13,341,601	12,361,780	979,821	7.9%
Rentals and Leases	6,328,750	6,258,358	70,392	1.1%
Printing and Reproduction	2,711,468	2,793,899	(82,431)	-3.0%
Federal Sponsored Programs Pass-Thrus	2,898,262	1,193,332	1,704,930	142.9%
Depreciation and Amortization	65,479,369	63,189,855	2,289,514	3.6%
Other Operating Expenses	115,925,416	114,991,989	933,427	0.8%
Total Operating Expenses	**1,282,650,804**	**1,228,968,368**	**53,682,436**	**4.4%**
Operating Loss	**(165,533,970)**	**(202,164,023)**	**36,630,053**	**18.1%**
Other Nonoperating Adjustments				
State Appropriations	156,097,900	146,468,255	9,629,645	6.6%
Nonexchange Sponsored Programs	74,358	71,810	2,548	3.5%
Gift Contributions for Operations	23,171,450	23,138,041	33,409	0.1%
Net Investment Income	56,712,961	55,135,943	1,577,018	2.9%
Interest Expense on Capital Asset Financings	(18,820,584)	(16,762,003)	(2,058,581)	-12.3%
Net Other Nonoperating Adjustments	**217,236,085**	**208,052,046**	**9,184,039**	**4.4%**
Adjusted Income (Loss) including Depreciation	**51,702,115**	**5,888,023**	**45,814,092**	**778.1%**
Adjusted Margin (as a percentage) including Depreciation	**3.8%**	**0.5%**		
Investment Gains (Losses)	25,746,931	(96,690,155)	122,437,086	126.6%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 77,449,046**	**$ (90,802,132)**	**$ 168,251,178**	**185.3%**
Adjusted Margin % with Investment Gains (Losses)	**5.6%**	**-7.9%**		
Adjusted Income (Loss) excluding Depreciation	**117,181,484**	**69,077,878**	**48,103,606**	**69.6%**
Adjusted Margin (as a percentage) excluding Depreciation	**8.7%**	**5.5%**		

UNAUDITED
The University of Texas Medical Branch at Galveston
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition and Fees	$ 19,673,148	$ 15,870,921	$ 3,802,227	24.0%
Sponsored Programs	222,965,684	277,112,691	(54,147,007)	-19.5%
Net Sales and Services of Educational Activities	18,395,991	14,655,565	3,740,426	25.5%
Net Sales and Services of Hospitals	578,904,014	451,328,533	127,575,481	28.3%
Net Professional Fees	106,563,180	88,240,865	18,322,315	20.8%
Net Auxiliary Enterprises	4,739,680	3,476,650	1,263,030	36.3%
Other Operating Revenues	8,716,266	8,365,760	350,506	4.2%
Total Operating Revenues	**959,957,963**	**859,050,985**	**100,906,978**	**11.7%**
Operating Expenses				
Salaries and Wages	647,669,191	641,531,600	6,137,591	1.0%
Employee Benefits and Related Costs	156,643,533	153,107,074	3,536,459	2.3%
Professional Fees and Contracted Services	36,723,039	107,345,729	(70,622,690)	-65.8%
Scholarships and Fellowships	5,848,020	5,233,142	614,878	11.7%
Travel	5,453,312	4,879,165	574,147	11.8%
Materials and Supplies	153,230,308	117,241,605	35,988,703	30.7%
Utilities	23,258,009	24,578,417	(1,320,408)	-5.4%
Telecommunications	12,064,796	13,294,806	(1,230,010)	-9.3%
Repairs and Maintenance	34,813,929	31,502,155	3,311,774	10.5%
Rentals and Leases	19,116,221	16,401,889	2,714,332	16.5%
Printing and Reproduction	1,353,832	1,195,370	158,462	13.3%
Federal Sponsored Programs Pass-Thrus	3,893,004	2,807,548	1,085,456	38.7%
Depreciation and Amortization	60,263,876	61,712,836	(1,448,960)	-2.3%
Other Operating Expenses	115,536,354	136,132,530	(20,596,176)	-15.1%
Total Operating Expenses	**1,269,303,376**	**1,316,711,014**	**(47,407,638)**	**-3.6%**
Operating Loss	**(309,345,414)**	**(457,660,029)**	**148,314,615**	**32.4%**
Other Nonoperating Adjustments				
State Appropriations	306,819,897	258,859,477	47,960,420	18.5%
Nonexchange Sponsored Programs	6,528,883	-	6,528,883	100.0%
Gift Contributions for Operations	8,663,730	12,008,098	(3,344,368)	-27.9%
Net Investment Income	25,084,922	25,606,613	(521,691)	-2.0%
Interest Expense on Capital Asset Financings	(5,894,749)	(5,467,246)	(427,503)	-7.8%
Net Other Nonoperating Adjustments	**341,202,682**	**291,006,942**	**50,195,740**	**17.2%**
Adjusted Income (Loss) including Depreciation	**31,857,268**	**(166,653,087)**	**198,510,355**	**119.1%**
Adjusted Margin (as a percentage) including Depreciation	**2.4%**	**-14.4%**		
Investment Gains (Losses)	5,444,597	(32,298,595)	37,743,192	116.9%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 37,301,865**	**$ (198,951,682)**	**$ 236,253,547**	**118.7%**
Adjusted Margin % with Investment Gains (Losses)	**2.8%**	**-17.7%**		
Adjusted Income (Loss) excluding Depreciation	**92,121,145**	**(104,940,251)**	**197,061,396**	**187.8%**
Adjusted Margin (as a percentage) excluding Depreciation	**7.0%**	**-9.1%**		

UNAUDITED
The University of Texas Health Science Center at Houston
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition and Fees	$ 24,679,993	$ 22,771,758	$ 1,908,235	8.4%
Sponsored Programs	307,309,120	278,488,739	28,820,381	10.3%
Net Sales and Services of Educational Activities	33,227,513	33,130,060	97,453	0.3%
Net Sales and Services of Hospitals	32,131,208	29,631,070	2,500,138	8.4%
Net Professional Fees	117,784,618	105,249,772	12,534,846	11.9%
Net Auxiliary Enterprises	18,574,268	18,637,427	(63,159)	-0.3%
Other Operating Revenues	41,796,243	37,516,754	4,279,489	11.4%
Total Operating Revenues	**575,502,963**	**525,425,580**	**50,077,383**	**9.5%**
Operating Expenses				
Salaries and Wages	367,088,517	327,222,367	39,866,150	12.2%
Employee Benefits and Related Costs	80,131,088	69,541,824	10,589,264	15.2%
Professional Fees and Contracted Services	68,832,965	70,357,881	(1,524,916)	-2.2%
Scholarships and Fellowships	4,175,308	3,115,025	1,060,283	34.0%
Travel	6,118,111	5,593,520	524,591	9.4%
Materials and Supplies	50,780,061	44,629,647	6,150,414	13.8%
Utilities	14,330,396	14,728,462	(398,066)	-2.7%
Telecommunications	2,531,723	2,289,798	241,925	10.6%
Repairs and Maintenance	4,761,116	5,882,888	(1,121,772)	-19.1%
Rentals and Leases	11,185,462	9,889,327	1,296,135	13.1%
Printing and Reproduction	4,765,012	3,256,513	1,508,499	46.3%
Bad Debt Expense	1,615	1,545	70	4.5%
Federal Sponsored Programs Pass-Thrus	5,444,542	5,384,298	60,244	1.1%
Depreciation and Amortization	33,733,159	33,333,635	399,524	1.2%
Other Operating Expenses	90,461,436	83,711,112	6,750,324	8.1%
Total Operating Expenses	**744,340,511**	**678,937,842**	**65,402,669**	**9.6%**
Operating Loss	**(168,837,548)**	**(153,512,262)**	**(15,325,286)**	**-10.0%**
Other Nonoperating Adjustments				
State Appropriations	144,415,416	139,856,383	4,559,033	3.3%
Nonexchange Sponsored Programs	10,801,870	256,154	10,545,716	4,116.9%
Gift Contributions for Operations	10,226,916	10,443,482	(216,566)	-2.1%
Net Investment Income	19,041,679	13,258,825	5,782,854	43.6%
Interest Expense on Capital Asset Financings	(7,504,906)	(6,044,355)	(1,460,551)	-24.2%
Net Other Nonoperating Adjustments	**176,980,975**	**157,770,489**	**19,210,486**	**12.2%**
Adjusted Income (Loss) including Depreciation	**8,143,427**	**4,258,227**	**3,885,200**	**91.2%**
Adjusted Margin (as a percentage) including Depreciation	**1.1%**	**0.6%**		
Investment Gains (Losses)	11,047,361	(42,360,279)	53,407,640	126.1%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 19,190,788**	**$ (38,102,052)**	**$ 57,292,840**	**150.4%**
Adjusted Margin % with Investment Gains (Losses)	**2.5%**	**-5.9%**		
Adjusted Income (Loss) excluding Depreciation	**41,876,586**	**37,591,862**	**4,284,724**	**11.4%**
Adjusted Margin (as a percentage) excluding Depreciation	**5.5%**	**5.5%**		

UNAUDITED
The University of Texas Health Science Center at San Antonio
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition and Fees	$ 23,249,564	$ 19,746,281	$ 3,503,283	17.7%
Sponsored Programs	226,121,663	220,885,485	5,236,178	2.4%
Net Sales and Services of Educational Activities	28,822,304	31,649,922	(2,827,618)	-8.9%
Net Professional Fees	104,515,227	91,553,202	12,962,025	14.2%
Net Auxiliary Enterprises	4,156,041	3,156,817	999,224	31.7%
Other Operating Revenues	7,035,493	10,247,167	(3,211,674)	-31.3%
Total Operating Revenues	**393,900,292**	**377,238,874**	**16,661,418**	**4.4%**
Operating Expenses				
Salaries and Wages	319,774,971	287,251,658	32,523,313	11.3%
Employee Benefits and Related Costs	82,044,350	69,787,321	12,257,029	17.6%
Professional Fees and Contracted Services	11,873,745	14,943,083	(3,069,338)	-20.5%
Scholarships and Fellowships	3,938,942	1,614,219	2,324,723	144.0%
Travel	4,906,737	4,818,493	88,244	1.8%
Materials and Supplies	31,024,272	34,240,931	(3,216,659)	-9.4%
Utilities	13,893,703	12,583,333	1,310,370	10.4%
Telecommunications	8,321,931	7,916,930	405,001	5.1%
Repairs and Maintenance	4,300,097	2,818,013	1,482,084	52.6%
Rentals and Leases	5,559,181	3,951,395	1,607,786	40.7%
Printing and Reproduction	1,727,053	1,557,373	169,680	10.9%
Federal Sponsored Programs Pass-Thrus	1,000,000	1,166,667	(166,667)	-14.3%
Depreciation and Amortization	26,666,667	26,092,854	573,813	2.2%
Other Operating Expenses	55,532,608	91,447,479	(35,914,871)	-39.3%
Total Operating Expenses	**570,564,257**	**560,189,749**	**10,374,508**	**1.9%**
Operating Loss	**(176,663,965)**	**(182,950,875)**	**6,286,910**	**3.4%**
Other Nonoperating Adjustments				
State Appropriations	154,092,349	143,072,277	11,020,072	7.7%
Nonexchange Sponsored Programs	760,000	676,667	83,333	12.3%
Gift Contributions for Operations	13,291,153	16,931,945	(3,640,792)	-21.5%
Net Investment Income	25,389,123	25,043,525	345,598	1.4%
Interest Expense on Capital Asset Financings	(7,550,240)	(4,037,381)	(3,512,859)	-87.0%
Net Other Nonoperating Adjustments	**185,982,385**	**181,687,033**	**4,295,352**	**2.4%**
Adjusted Income (Loss) including Depreciation	**9,318,420**	**(1,263,842)**	**10,582,262**	**837.3%**
Adjusted Margin (as a percentage) including Depreciation	**1.6%**	**-0.2%**		
Investment Gains (Losses)	8,401,488	(30,967,773)	39,369,261	127.1%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 17,719,908**	**$ (32,231,615)**	**$ 49,951,523**	**155.0%**
Adjusted Margin % with Investment Gains (Losses)	**3.0%**	**-6.1%**		
Adjusted Income (Loss) excluding Depreciation	**35,985,087**	**24,829,012**	**11,156,075**	**44.9%**
Adjusted Margin (as a percentage) excluding Depreciation	**6.1%**	**4.4%**		

UNAUDITED
The University of Texas M. D. Anderson Cancer Center
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Net Student Tuition and Fees	$ 961,128	$ 887,444	$ 73,684	8.3%
Sponsored Programs	248,752,664	236,836,332	11,916,332	5.0%
Net Sales and Services of Educational Activities	1,361,177	1,464,752	(103,575)	-7.1%
Net Sales and Services of Hospitals	1,792,138,278	1,657,983,466	134,154,812	8.1%
Net Professional Fees	264,823,772	235,104,752	29,719,020	12.6%
Net Auxiliary Enterprises	25,436,632	24,869,411	567,221	2.3%
Other Operating Revenues	40,067,968	40,098,538	(30,570)	-0.1%
Total Operating Revenues	**2,373,541,619**	**2,197,244,695**	**176,296,924**	**8.0%**
Operating Expenses				
Salaries and Wages	1,091,821,023	1,088,698,278	3,122,745	0.3%
Employee Benefits and Related Costs	295,483,815	290,781,061	4,702,754	1.6%
Professional Fees and Contracted Services	83,911,687	100,975,067	(17,063,380)	-16.9%
Travel	14,501,598	15,056,970	(555,372)	-3.7%
Materials and Supplies	447,801,304	405,411,328	42,389,976	10.5%
Utilities	40,539,286	44,925,219	(4,385,933)	-9.8%
Telecommunications	7,304,513	7,813,100	(508,587)	-6.5%
Repairs and Maintenance	54,816,660	54,910,764	(94,104)	-0.2%
Rentals and Leases	36,588,353	32,966,225	3,622,128	11.0%
Federal Sponsored Programs Pass-Thrus	1,023,905	1,141,382	(117,477)	-10.3%
Depreciation and Amortization	188,088,759	187,370,225	718,534	0.4%
Other Operating Expenses	57,865,041	59,709,168	(1,844,127)	-3.1%
Total Operating Expenses	**2,319,745,944**	**2,289,758,787**	**29,987,157**	**1.3%**
Operating Loss	**53,795,675**	**(92,514,092)**	**146,309,767**	**158.1%**
Other Nonoperating Adjustments				
State Appropriations	148,607,404	139,254,429	9,352,975	6.7%
Nonexchange Sponsored Programs	331,475	112,447	219,028	194.8%
Gift Contributions for Operations	90,858,485	44,101,638	46,756,847	106.0%
Net Investment Income	50,440,821	38,007,295	12,433,526	32.7%
Interest Expense on Capital Asset Financings	(27,315,349)	(12,304,421)	(15,010,928)	-122.0%
Net Other Nonoperating Adjustments	**262,922,836**	**209,171,388**	**53,751,448**	**25.7%**
Adjusted Income (Loss) including Depreciation	**316,718,511**	**116,657,296**	**200,061,215**	**171.5%**
Adjusted Margin (as a percentage) including Depreciation	**11.9%**	**4.8%**		
Investment Gains (Losses)	36,224,813	(116,011,601)	152,236,414	131.2%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 352,943,324**	**$ 645,695**	**$ 352,297,629**	**54561.0%**
Adjusted Margin % with Investment Gains (Losses)	**13.1%**	**0.0%**		
Adjusted Income (Loss) excluding Depreciation	**504,807,270**	**304,027,521**	**200,779,749**	**66.0%**
Adjusted Margin (as a percentage) excluding Depreciation	**19.0%**	**12.6%**		

UNAUDITED

The University of Texas Health Science Center at Tyler

Comparison of Operating Results and Margin

For the Ten Months Ending June 30, 2010

	June Year-to-Date FY 2010	June Year-to-Date FY 2009	Variance	Fluctuation Percentage
Operating Revenues				
Sponsored Programs	$ 12,443,304	$ 11,730,504	$ 712,800	6.1%
Net Sales and Services of Educational Activities	1,138,390	992,624	145,766	14.7%
Net Sales and Services of Hospitals	39,067,470	42,438,817	(3,371,347)	-7.9%
Net Professional Fees	8,771,843	10,557,026	(1,785,183)	-16.9%
Net Auxiliary Enterprises	185,395	196,233	(10,838)	-5.5%
Other Operating Revenues	1,640,000	789,267	850,733	107.8%
Total Operating Revenues	**63,246,402**	**66,704,471**	**(3,458,069)**	**-5.2%**
Operating Expenses				
Salaries and Wages	46,034,212	43,129,684	2,904,528	6.7%
Employee Benefits and Related Costs	12,873,359	12,133,252	740,107	6.1%
Professional Fees and Contracted Services	6,156,682	8,139,640	(1,982,958)	-24.4%
Travel	393,364	410,150	(16,786)	-4.1%
Materials and Supplies	12,223,129	14,334,152	(2,111,023)	-14.7%
Utilities	2,671,276	2,491,392	179,884	7.2%
Telecommunications	1,048,534	811,191	237,343	29.3%
Repairs and Maintenance	2,284,702	2,964,476	(679,774)	-22.9%
Rentals and Leases	936,887	965,625	(28,738)	-3.0%
Printing and Reproduction	177,759	244,114	(66,355)	-27.2%
Federal Sponsored Programs Pass-Thrus	321,358	284,436	36,922	13.0%
Depreciation and Amortization	5,997,358	6,284,311	(286,953)	-4.6%
Other Operating Expenses	9,520,352	10,680,171	(1,159,819)	-10.9%
Total Operating Expenses	**100,649,814**	**102,872,594**	**(2,222,780)**	**-2.2%**
Operating Loss	**(37,403,412)**	**(36,168,123)**	**(1,235,289)**	**-3.4%**
Other Nonoperating Adjustments				
State Appropriations	35,580,821	35,513,729	67,092	0.2%
Gift Contributions for Operations	465,808	192,621	273,187	141.8%
Net Investment Income	3,275,923	3,201,372	74,551	2.3%
Interest Expense on Capital Asset Financings	(565,314)	(430,324)	(134,990)	-31.4%
Net Other Nonoperating Adjustments	**38,757,239**	**38,477,398**	**279,841**	**0.7%**
Adjusted Income (Loss) including Depreciation	**1,353,827**	**2,309,275**	**(955,448)**	**-41.4%**
Adjusted Margin (as a percentage) including Depreciation	**1.3%**	**2.2%**		
Investment Gains (Losses)	2,977,644	(3,469,525)	6,447,169	185.8%
Adjusted Income (Loss) with Investment Gains (Losses)	**$ 4,331,471**	**$ (1,160,250)**	**$ 5,491,721**	**473.3%**
Adjusted Margin % with Investment Gains (Losses)	**4.1%**	**-1.1%**		
Adjusted Income (Loss) excluding Depreciation	**7,351,185**	**8,593,586**	**(1,242,401)**	**-14.5%**
Adjusted Margin (as a percentage) excluding Depreciation	**7.2%**	**8.1%**		

3. U. T. System Board of Regents: Shared Services Initiative update

Dr. Kelley will present an update on the U. T. System Shared Services Initiative utilizing the PowerPoint presentation on Pages 89 - 98.

REPORT

"Shared services" is the name given to a specific model for consolidating duplicative information technology and business services in large organizations with multiple, geographically distributed units. "Shared services" is distinct from mere centralization of services in that it encompasses the concept of shared governance and permits greater flexibility and responsiveness. The structure creates incentives for participation and is overseen not just by U. T. System Administration, but also by representatives from the participating U. T. institutions.

The U. T. System has been utilizing many of the concepts of shared services for some time. The "value-added" philosophy emphasized by former Chancellor Yudof recognized the basic premise that efficiency and effectiveness are best obtained by sharing responsibility and resources of the U. T. System and its institutions. Facilities construction management and legal services are two examples within the U. T. System that are consistent with this shared services concept.

The formalization of a Shared Services Initiative with clear definition and objectives, utilization of best practices, and direct U. T. System investment was the next step in this evolutionary process. On August 9, 2006, the concept of the Shared Services Initiative was introduced to the U. T. System Board of Regents. Guiding principles were suggested, potential costs and benefits were discussed, and numerous projects were identified. The following objectives of the Shared Services Initiative were outlined:

1. cost savings realized through economies of scale;
2. process improvements attained through standardization; and
3. universal application of institutionally preferred practices.

On October 4, 2006, the Shared Services Initiative was formally endorsed by the U. T. System Board of Regents and investments were approved for several specific projects.

The Shared Services Initiative update documents the basic principles and foundational elements, and offers a sampling of successful projects; highlights the critical success factors and significant value created since 2006; and indicates future opportunities and a methodology that will continue to add value to the U. T. System and the participating institutions.

U. T. System Shared Services Initiative Update

Dr. Scott C. Kelley
Executive Vice Chancellor for Business Affairs
August 2010

THE UNIVERSITY of TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Board of Regents' Meeting
Finance and Planning Committee

THE UNIVERSITY *of* TEXAS SYSTEM
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Yesterday
Shared Services

- Board of Regents formally endorsed the Shared Services Initiative on October 4, 2006, viewed as the next step of the evolutionary process already underway at U. T. System.

- "Shared Services" is the consolidation of duplicate information technology (IT) and business services in large organizations with multiple, geographically distributed units. It is a proven organizational strategy for achieving:
  - Cost savings realized through economies of scale;
  - Process improvements attained through standardization; and
  - Universal application of institutionally preferred practices.

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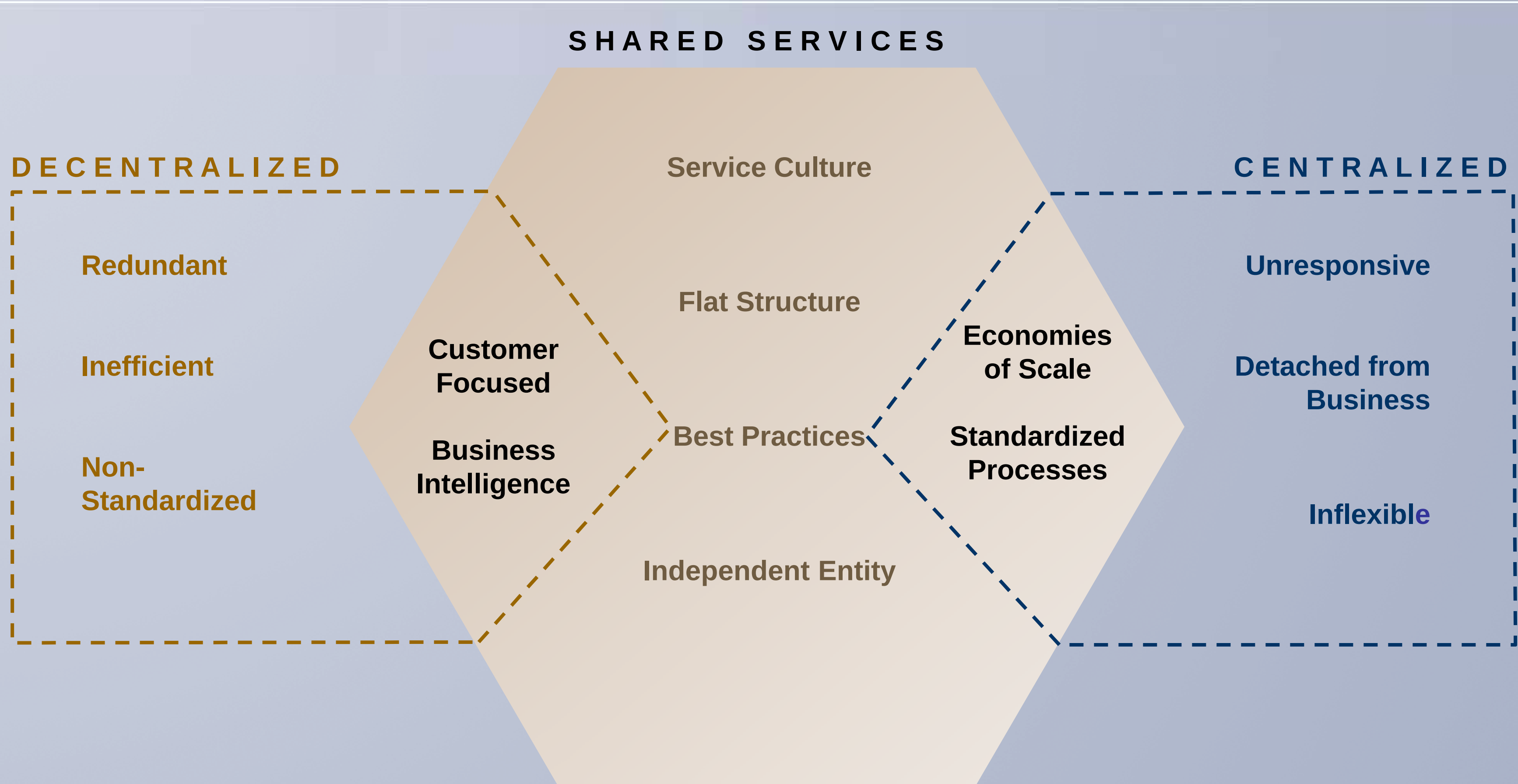
Yesterday
Benefits of Shared Services



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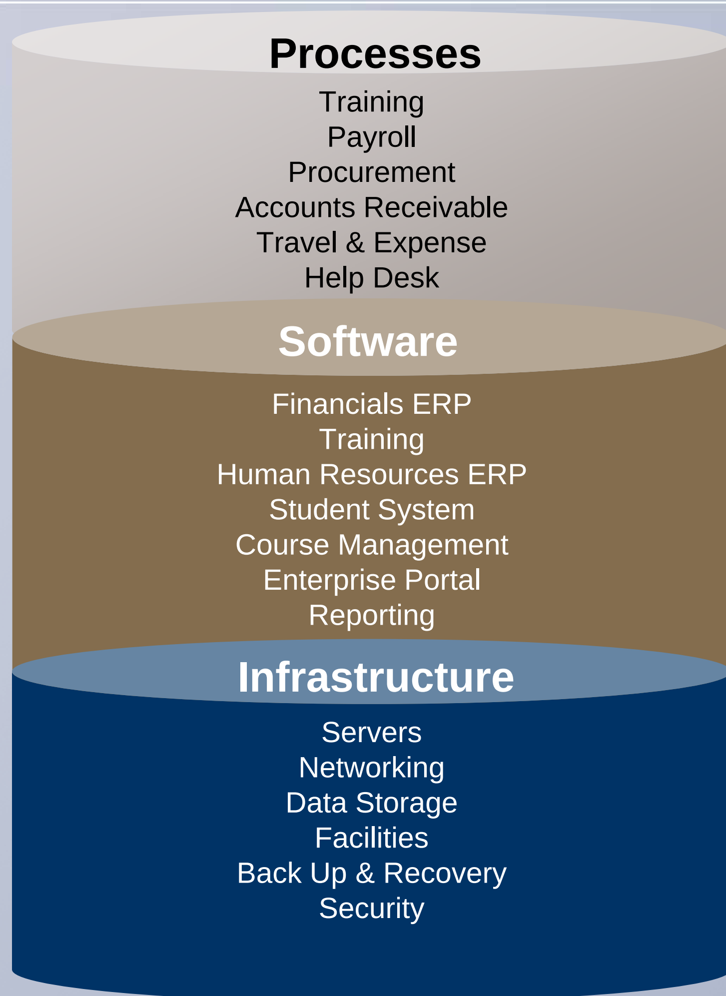
Yesterday
Foundational Elements

Business Process Shared Services

Business Systems Shared Services

Information Technology Shared Services



Insource/ Outsource

Application Service Provider (ASP)

Data Center Consolidation

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Yesterday
Sampling of Shared Services

- Information Technology Infrastructure:
  - U. T. Arlington and U. T. M. D. Anderson Cancer Center Tier III Data Centers
  - U. T. System Network (UTSnet)
- Common Software:
  - Oracle Software Site License
  - North Texas PeopleSoft Student Information System (TexSIS)
  - Online Effort Reporting System (ECRT)
  - Medical Billing Compliance System (MDaudit)
- Standardized Business Processes:
  - U. T. System Digital Library
  - U. T. System Supply Chain Alliance
  - Systemwide Debt Management Program
  - Systemwide Banking and Merchant Card Contracts
  - Financial Consolidation Reporting System
  - Energy Reduction Strategies

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Today
Critical Success Factors

- Voluntary participation
- Executive sponsorship from participating institutions
- Shared governance by participating institutions
- Memorandums of understanding and service level agreements defining roles and responsibilities that are monitored
- Operated as a distinct business unit
- U. T. System contributions of “seed money”
- Competitive pricing of ongoing operating expenses paid by participating institutions
- Quantitative performance measures driving continuous improvements

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Today
Cost Savings

Sampling of Shared Services	Year	Investment	SAVINGS: One-Time	Annual	Avoidance	Cummulative (Gross)
Regional Data Centers	2006	$3.9M	$17.7M	$750K		$20M
U. T. System Network (UTSnet)	2006	5.6M		1.6M		4.8M
Oracle Software Site License	2008	11.6M	9.0M		$13.7M	22.7M
Student Information System (TexSIS)	2006	8.0M	5.0M	500K		6.5M
Online Effort Reporting System (ECRT)	2007	3.4M	5.5M	1.75M	12.5M	21.5M
Medical Billing Compliance System (MDaudit)	2006	200K	250K	50K	42.75M	43.2M
U. T. System Digital Library	2006	45M		30M	90M	360M
U. T. System Supply Chain Alliance	2007	150K		8.1M		10.6M
Systemwide Debt Management	2001	5.4M				181M
Systemwide Banking and Merchant Card Contracts	2007	500K	1.1M	800K		2.2M
Financial Consolidation Reporting System	2007	2.9M			21.75M	21.75M
Energy Reduction Strategies	2001	0		17.75M		142M
Total		$86.65M	$38.55M	$61.3M	$180.7M	$836.25M

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Today
Additional Benefits

- Enhanced Productivity
  - Participating institutions are doing more with less
- Cost Avoidance
  - Technology solutions increase efficiencies thereby avoiding added costs
- Increased Standards and Best Practices
  - Participating institutions realize evaluated standards and practices that create sustainable environments
- Consistent Business Processes
  - End users are networked for sharing of best practices
- Compliance Mitigation
  - Collaboration surrounding common challenges reduces risk exposure
- Improved Collaboration
  - Participating institutions are forging new and dynamic business relationships not thought possible a few years ago
- Increased Awareness
  - Institutions are proactively bringing forth new ideas for consideration

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Tomorrow Opportunities

- Information Technology Infrastructure
  - U. T. Austin Tier III Data Center
  - U. T. System Network (UTSnet)
  - Research Computing Resources, including storage (FY 2011)
- Common Software
  - PeopleSoft Human Resource and Finance implementation for eight academic institutions (FY 2012)
  - PeopleSoft Student Information System for five academic institutions (FY 2013)
  - Procurement-to-pay software application and business processes (FY 2011)
  - Email Exchange (FY 2011)
  - SharePoint /Collaboration (FY 2011)
- Standardized Business Processes
  - Single payroll distribution system for health institutions (FY 2011)
  - Automation and centralization of high-volume, low-dollar medical professional fee bills (FY 2011)
  - U. T. System and Texas A&M System Shared Library Storage Facility (FY 2011)
  - Other shared business functions

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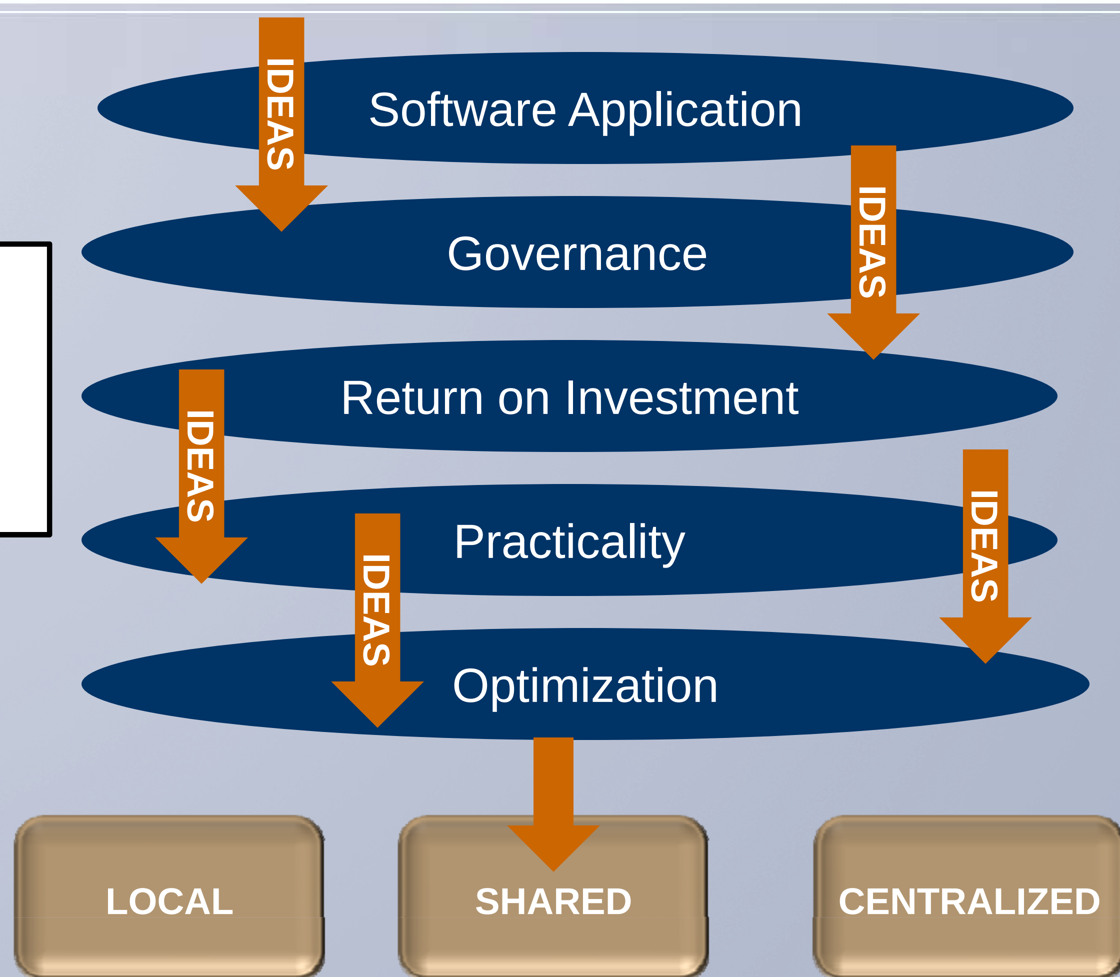
Tomorrow Methodology

Ideas flow through "filters" to determine plausibility of the opportunity and to identify the best "location."



4. **U. T. System: Approval to exceed the full-time equivalent limitation on employees paid from appropriated funds**

RECOMMENDATION

The Chancellor concurs in the recommendation of 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 seven U. T. System institutions that the U. T. System Board of Regents approve allowing those institutions, as set forth in the table on Page 100, to exceed the number of full-time equivalent (FTE) employees paid from appropriated funds for Fiscal Year 2011 that are authorized in Article III of the General Appropriations Act. Also, as required by Article IX, Section 6.10 of the General Appropriations Act, it is recommended that the U. T. System Board of Regents submit a request to the Governor's Office and the Legislative Budget Board to grant approval for these institutions to exceed the authorized number of FTE employees paid from appropriated funds.

BACKGROUND INFORMATION

The General Appropriations Act places a limit on the number of FTE employees paid from appropriated funds that an institution may employ without written approval of the Governor and the Legislative Budget Board. To exceed the FTE limitation, a request must be submitted by the governing board and must include the date on which the board approved the request, a statement justifying the need to exceed the limitation, the source of funds to be used to pay the salaries, and an explanation as to why the functions of the proposed additional FTEs cannot be performed within current staffing levels. Detailed justification information is set forth on Pages 101 - 104.

U. T. Arlington, U. T. Austin, U. T. Pan American, U. T. Tyler, U. T. Medical Branch – Galveston, U. T. Health Science Center – Houston, U. T. Health Science Center – Tyler, and U. T. System Administration will be under the FTE cap and are not requesting to exceed the FTE limitation.

The University of Texas System
Request to Exceed Full-time Equivalent Limitation on Employees Paid From Appropriated Funds
For Period September 1, 2010 through August 31, 2011

Request to Exceed Cap - by Function

	Faculty	Staff	Total
Instruction	380.08	93.15	473.23
Academic Support	-	79.44	79.44
Research	82.70	74.00	156.70
Public Service	2.11	10.51	12.62
Hospitals and Clinics	84.50	110.90	195.40
Institutional Support	-	99.68	99.68
Student Services	-	47.63	47.63
Operations and Maintenance of Plant	-	179.29	179.29
Scholarships and Fellowships	-	0.84	0.84
Total	549.39	695.44	1,244.83

Request to Exceed Cap - by Institution

		Request to Exceed Cap			
	FY 2011 Cap	Faculty	Staff	Total	
U. T. Arlington	2,257.90	-	-	-	*
U. T. Austin	6,519.10	-	-	-	*
U. T. Brownsville	548.90	140.59	163.44	304.03	
U. T. Dallas	1,237.00	51.00	72.00	123.00	
U. T. El Paso	1,730.30	20.00	15.00	35.00	
U. T. Pan American	1,843.30	-	-	-	*
U. T. Permian Basin	296.40	19.70	35.30	55.00	
U. T. San Antonio	2,258.90	82.70	113.40	196.10	
U. T. Tyler	487.10	-	-	-	*
Total Academic Institutions	17,178.90	313.99	399.14	713.13	
U. T. Southwestern Medical Center	2,025.20	40.20	19.80	60.00	
U. T. Medical Branch - Galveston	5,818.70	-	-	-	*
U. T. Health Science Center - Houston	1,873.30	-	-	-	*
U. T. Health Science Center - San Antonio	2,308.90	78.40	62.70	141.10	
U. T. M. D. Anderson Cancer Center	13,081.90	116.80	213.80	330.60	
U. T. Health Science Center - Tyler	708.40	-	-	-	*
Total Health Institutions	25,816.40	235.40	296.30	531.70	
U. T. System Administration	247.00	-	-	-	*
U. T. System Total	43,242.30	549.39	695.44	1,244.83	

*U. T. Arlington, U. T. Austin, U. T. Pan American, U. T. Tyler, U. T. Medical Branch - Galveston, U. T. Health Science Center - Houston, U. T. Health Science Center - Tyler, and U. T. System Administration will not exceed their cap.

The University of Texas System
Fiscal Year 2011 Request to Exceed Full-time Equivalent Limitation on Appropriated Funds

Function	Faculty FTE Increase	Staff FTE Increase	Total FTE Increase from Appropriated Funds	Source of Funds	Justification
U. T. Brownsville					
Instruction	138.48	35.45	173.93	Education and General	Request authorization to exceed the limit for FTEs that are associated and paid with the Texas Southmost College contract.
Academic Support	-	42.44	42.44	Education and General	Request authorization to exceed the limit for FTEs that are associated and paid with the Texas Southmost College contract.
Public Service	2.11	3.41	5.52	Education and General	Request authorization to exceed the limit for FTEs that are associated and paid with the Texas Southmost College contract.
Institutional Support	-	46.98	46.98	Education and General	Request authorization to exceed the limit for FTEs that are associated and paid with the Texas Southmost College contract.
Student Support	-	26.63	26.63	Education and General	Request authorization to exceed the limit for FTEs that are associated and paid with the Texas Southmost College contract.
Operations and Maintenance of Plant	-	7.69	7.69	Education and General	Request authorization to exceed the limit for FTEs that are associated and paid with the Texas Southmost College contract.
Scholarships and Fellowships	-	0.84	0.84	Education and General	Request authorization to exceed the limit for FTEs that are associated and paid with the Texas Southmost College contract.
TOTAL	**140.59**	**163.44**	**304.03**		
U. T. Dallas					
Instruction	51.00	-	51.00	Education and General	Allow for additional faculty, retain U. T. Dallas' quality of education, and maintain faculty/student ratio. The FY11 cap (1,237) is less than the FY10 FTE average by 103 FTEs.
Academic Support	-	10.00	10.00	Education and General	With the increased faculty, additional administrative support is needed.
Research	-	32.00	32.00	Education and General	Research funding continues to increase and will support additional research scientists in providing enhanced research functions, as U. T. Dallas continues toward the strategic goal of becoming a Tier 1 University.
Institutional Support	-	13.00	13.00	Education and General	Additional staff are needed to provide support and improve services in several key administrative areas.
Student Support	-	2.00	2.00	Education and General	With increasing enrollment, additional support staff are needed to provide quality support and additional services to students.
Operations and Maintenance of Plant	-	15.00	15.00	Education and General	Additional staff are needed to help maintain operations and provide security for additional buildings coming online during FY10 including the Student Housing Living-Learning Center.
TOTAL	**51.00**	**72.00**	**123.00**		

Function	Faculty FTE Increase	Staff FTE Increase	Total FTE Increase from Appropriated Funds	Source of Funds	Justification
U. T. El Paso					
Instruction	10.00	-	10.00	Education and General	Additional full-time faculty are needed to meet the increased demand as a result of increased enrollment.
Research	10.00	5.00	15.00	Education and General	Increase in research faculty and full-time staff to support the continued commitment to strategic research initiatives.
Institutional Support	-	4.00	4.00	Education and General	Additional full-time staff required to meet the increased volume of transactions and services.
Academic Support	-	6.00	6.00	Education and General	Additional full-time staff required to assist faculty members with increased administrative functions due to increased enrollment.
TOTAL	**20.00**	**15.00**	**35.00**		
U. T. Permian Basin					
Instruction	19.70	1.00	20.70	Education and General	Faculty transitioning from start-up grant for program development; faculty staffing for Mechanical Engineering, Ed.D. Program, and proposed Nursing Program; staffing for other academic program growth, new degrees, and program enhancement.
Academic Support	-	2.00	2.00	Education and General	Mentoring, on-line program support, information security, and other academic support improvements.
Institutional Support	-	6.50	6.50	Education and General	Increased reaccreditation, audit, purchasing, and other institutional support requirements.
Student Support	-	12.80	12.80	Education and General	Expansion of student services programs to meet needs of growing campus, retention, enrollment management, admissions, and additional staff from Institution Strengthening grant.
Operation and Maintenance of Plant	-	13.00	13.00	Education and General	Two new construction projects slated to open in FY 2011; continuation of increased police staffing at needed levels.
TOTAL	**19.70**	**35.30**	**55.00**		

Function	Faculty FTE Increase	Staff FTE Increase	Total FTE Increase from Appropriated Funds	Source of Funds	Justification
U. T. San Antonio					
Instruction	82.70	12.60	95.30	Education and General	Faculty hiring has increased relative to enrollment as a critical priority to allow sufficient course sections and support research initiatives.
Academic Support	-	19.00	19.00	Education and General	Staffing levels are increasing to keep up with growth in enrollment and other university missions: public service, research, and new facilities.
Institutional Support	-	29.20	29.20	Education and General	Staffing levels are increasing to keep up with growth in enrollment and other university missions: public service, research, and new facilities.
Operations and Maintenance of Plant	-	27.40	27.40	Education and General	Staffing levels are increasing to keep up with growth in enrollment and other university missions: public service, research, and new facilities.
Research	-	11.90	11.90	Education and General	Staffing levels are increasing to keep up with growth in enrollment and other university missions: public service, research, and new facilities.
Student Support	-	6.20	6.20	Education and General	Staffing levels are increasing to keep up with growth in enrollment and other university missions: public service, research, and new facilities.
Public Service	-	7.10	7.10	Education and General	Staffing levels are increasing to keep up with growth in enrollment and other university missions: public service, research, and new facilities.
TOTAL	**82.70**	**113.40**	**196.10**		
U. T. Southwestern Medical Center - Dallas					
Research	20.00	15.00	35.00	Education and General	To provide appropriate staff for new special item, Institute for Genetic and Molecular Disease.
Instruction	7.30	-	7.30	Education and General	To provide appropriate staff for additional formula funding.
Instruction	12.00	-	12.00	Education and General	To provide appropriate staff for additional formula funding for Graduate Medical Education.
Research	0.90	1.60	2.50	Education and General	To provide appropriate staff for additional formula funding.
Operations and Maintenance of Plant	-	3.20	3.20	Education and General	To provide appropriate staff for additional formula funding.
TOTAL	**40.20**	**19.80**	**60.00**		

Function	Faculty FTE Increase	Staff FTE Increase	Total FTE Increase from Appropriated Funds	Source of Funds	Justification
U. T. Health Science Center - San Antonio					
Instruction	58.90	44.10	103.00	Education and General	Increase is related to enhanced Instruction and Operations formula general revenue over the prior biennium, as well as enhanced exceptional item general revenue funding for the Regional Academic Health Center, and increased program development in Tobacco Funds. Consideration of the 5% revenue reduction is included.
Research	19.50	8.50	28.00	Education and General	Increase is related to new exceptional item general revenue funding for the San Antonio Life Sciences Institute and increased program development in Tobacco Funds. Consideration of the 5% revenue reduction is included.
Operations and Maintenance of Plant	-	10.10	10.10	Education and General	Increase is related to enhanced Infrastructure formula general revenue over the prior biennium. Consideration of the 5% revenue reduction is included.
TOTAL	**78.40**	**62.70**	**141.10**		
U. T. M. D. Anderson Cancer Center					
Hospitals and Clinics	84.50	110.90	195.40	Patient Income	Increase is required to provide U. T. M. D. Anderson Cancer Center's standard of care and service to increasing number of patients and to improve the delivery of cancer care.
Research	32.30	-	32.30	Patient Income	Increase is required to provide research programs with support and resources needed to fulfill the research mission of U. T. M. D. Anderson Cancer Center.
Operations and Maintenance of Plant	-	102.90	102.90	Patient Income	Increase is required to provide support for additional facilities and infrastructure that support growth in the institution's missions of instruction, patient care, and research.
TOTAL	**116.80**	**213.80**	**330.60**		

5. **U. T. System Board of Regents: Adoption of a Resolution authorizing the issuance, sale, and delivery of Permanent University Fund Bonds, authorization to designate all or a portion of the bonds as Build America Bonds, and authorization to complete all related transactions**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

a. adopt a Resolution, substantially in the form previously approved by the U. T. System Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Permanent University Fund (PUF) Bonds in one or more installments in an aggregate principal amount not to exceed $500 million to be used to refund certain outstanding PUF Bonds, to refund PUF Flexible Rate Notes, Series A, to refund PUF Commercial Paper Notes, to provide new money to fund construction and acquisition costs and to pay the costs of issuance; and

b. authorize appropriate officers and employees of U. T. System as set forth in the Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such bonds.

BACKGROUND INFORMATION

On August 20, 2009, the Board of Regents adopted a resolution authorizing the issuance of PUF Bonds in an amount not to exceed $400 million. Adoption of this Resolution would rescind the resolution approved by the Board of Regents in August 2009, and would provide a similar authorized amount and purposes as the prior resolution, including the flexibility to issue a portion of the bonds as taxable bonds and to designate such bonds as Build America Bonds.

Adoption of the Resolution would also authorize appropriate officers and employees of U. T. System to take any and all actions, including making appropriate elections required by federal tax law, necessary to cause the issuance of all or a portion of the proposed bonds as taxable Build America Bonds. The determination of whether to designate any bonds as Build America Bonds would be made by the appropriate officer based on what is most cost-effective at the time of pricing. The Resolution also authorizes the issuance of taxable bonds, without designating such taxable bonds as

Build America Bonds, which may be necessary to manage the federal arbitrage limit applicable to the PUF. Adoption of the Resolution would also authorize appropriate officers and employees of U. T. System to take any and all actions, including making appropriate elections required by federal tax law, necessary to cause the allowable credit to be refunded to U. T. System in the event that all or a portion of the proposed financing is issued as taxable Build America Bonds.

The proposed Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

> Note: The proposed resolution is available online at http://www.utsystem.edu/bor/AgendaBook/Aug10/8-11&12-10MeetingPage.html.

6. U. T. System Board of Regents: Adoption of a Supplemental Resolution authorizing the issuance, sale, and delivery of Revenue Financing System Bonds, authorization to designate all or a portion of the bonds as Build America Bonds, and authorization to complete all related transactions

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

a. adopt a Supplemental Resolution, substantially in the form previously approved by the U. T. System Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System (RFS) Bonds in one or more installments in an aggregate principal amount not to exceed $900 million to be used to refund certain outstanding RFS Bonds, to refund RFS Commercial Paper Notes, to provide new money to fund construction and acquisition costs of projects in the Capital Improvement Program and to pay the costs of issuance; and

b. authorize appropriate officers and employees of U. T. System as set forth in the Supplemental Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such RFS Bonds.

BACKGROUND INFORMATION

On August 20, 2009, the Board of Regents adopted a resolution authorizing the issuance of additional RFS Bonds in an amount not to exceed $800 million. A portion of this authority was utilized with the issuance of $331.4 million RFS Bonds, Series 2010A that were issued on March 25, 2010, and $385.4 million of RFS Refunding Bonds, Series 2010B that were issued on April 14, 2010. On May 13, 2010, the Board of Regents adopted a resolution authorizing the issuance of additional RFS Bonds in an amount not to exceed $750 million. A portion of this authority was utilized with the issuance of $516.2 million RFS Taxable Bonds, Series 2010D (Build America Bonds) that were issued on June 30, 2010.

Adoption of this Supplemental Resolution would rescind the remaining issuance authority under the resolution approved by the Board of Regents in May, and provide a similar authorized amount and purposes as the prior resolution, including the flexibility to issue a portion of the bonds as taxable bonds and to designate such bonds as Build America Bonds.

Adoption of the Supplemental Resolution would also authorize appropriate officers and employees of U. T. System to take any and all actions, including making appropriate elections required by federal tax law, necessary to cause the issuance of all or a portion of the proposed bonds as taxable Build America Bonds. The determination of whether to designate any bonds as Build America Bonds would be made by the appropriate officer based on what is most cost-effective at the time of pricing. The Supplemental Resolution also authorizes the issuance of taxable bonds, without designating such taxable bonds as Build America Bonds, which may be necessary due to the use of certain facilities.

Adoption of the Supplemental Resolution would also authorize appropriate officers and employees of U. T. System to take any and all actions, including making appropriate elections required by federal tax law, necessary to cause the allowable credit to be refunded to U. T. System in the event that all or a portion of the proposed financing is issued as taxable Build America Bonds. The Supplemental Resolution also authorizes the appropriate officers and employees of the U. T. System to refund outstanding RFS Bonds pursuant to a tender program and to use lawfully available funds to defease outstanding RFS Bonds when economically advantageous.

The proposed Supplemental Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

> Note: The proposed resolution is available online at http://www.utsystem.edu/bor/AgendaBook/Aug10/8-11&12-10MeetingPage.html.

7. U. T. System Board of Regents: Adoption of resolutions authorizing certain bond enhancement agreements for Revenue Financing System debt and Permanent University Fund debt

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents adopt resolutions substantially in the form set out on Pages 109 - 142 (the Resolutions) authorizing appropriate officers of the U. T. System to enter into bond enhancement agreements related to its Revenue Financing System (RFS) and Permanent University Fund (PUF) debt programs in accordance with the U. T. System Interest Rate Swap Policy and to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents.

BACKGROUND INFORMATION

Texas Education Code Section 65.461 provides specific authority to the U. T. System Board of Regents to enter into "bond enhancement agreements," which include interest rate swaps and related agreements in connection with administration of the U. T. System's RFS and PUF debt programs.

The U. T. System Interest Rate Swap Policy was approved by the Board of Regents as a Regental Policy on February 13, 2003, and was incorporated into the Regents' *Rules and Regulations*, Rule 70202, on December 10, 2004. The Rule was subsequently amended on August 23, 2007. Section 1371.056(l) of the *Texas Government Code* requires that while an interest rate management agreement transaction is outstanding, the governing body of the issuer shall review and ratify or modify its related risk management policy at least biennially.

On August 20, 2009, the Board approved bond enhancement agreement resolutions for FY 2010. Approval of this item would authorize the execution of bond enhancement agreement transactions related to RFS and PUF debt in accordance with the U. T. System Interest Rate Swap Policy for FY 2011 and will ratify the existing U. T. System Interest Rate Swap Policy, set out as Exhibit B on Pages 117 - 123 and 135 - 141, as required by Section 1371.056. The determination to utilize bond enhancement agreements will be made based on market conditions at the time of pricing the related debt issuance. The Chairman of the Board of Regents and the Chairman of the Board's Finance and Planning Committee will be informed in advance of any proposed transactions to be undertaken pursuant to the resolutions.

A RESOLUTION AUTHORIZING THE EXECUTION AND DELIVERY OF BOND ENHANCEMENT AGREEMENTS RELATING TO REVENUE FINANCING SYSTEM DEBT AND AUTHORIZING AND APPROVING OTHER INSTRUMENTS AND PROCEDURES RELATING TO SAID AGREEMENTS

August 12, 2010

WHEREAS, the Board of Regents (the "Board") of The University of Texas System (the "System") is the governing body of the System, an institution of higher education under the *Texas Education Code* and an agency of the State of Texas; and

WHEREAS, on February 14, 1991, the Board adopted the First Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System and amended such resolution on October 8, 1993, and August 14, 1997 (referred to herein as the "Master Resolution"); and

WHEREAS, unless otherwise defined herein, terms used herein shall have the meaning given in the Master Resolution or as set forth in Exhibit A hereto; and

WHEREAS, the Master Resolution establishes the Revenue Financing System comprised of the institutions now or hereafter constituting components of the System that are designated "Members" of the Financing System by action of the Board and pledges the Pledged Revenues attributable to each Member of the Financing System to the payment of Parity Debt to be outstanding under the Master Resolution; and

WHEREAS, the Board has adopted Supplemental Resolutions to the Master Resolution authorizing the issuance of Parity Debt thereunder as special, limited obligations of the Board payable solely from and secured by a lien on and pledge of Pledged Revenues pledged for the equal and proportionate benefit and security of all owners of Parity Debt; and

WHEREAS, the Board has previously entered into certain Executed Master Agreements (as defined herein) with certain counterparties setting forth the terms and conditions applicable to each Confirmation (as defined herein) executed or to be executed thereunder; and

WHEREAS, the Board hereby desires to ratify the System's Interest Rate Swap Policy, a copy of which is attached hereto as Exhibit B, and to severally authorize each Authorized Representative (as defined in the System's Interest Rate Swap Policy) to enter into Bond Enhancement Agreements (as defined herein) from time to time, all as provided in this Resolution.

NOW THEREFORE BE IT RESOLVED, that

SECTION 1. DEFINITIONS. In addition to the definitions set forth in the preamble of this Resolution, the terms used in this Resolution and not otherwise defined shall have the meanings given in the Master Resolution or in Exhibit A to this Resolution attached hereto and made a part hereof.

SECTION 2. AUTHORIZATION OF BOND ENHANCEMENT AGREEMENTS.

(a) Delegation. Each Authorized Representative is hereby severally authorized to act on behalf of the Board in accepting and executing new or amended confirmations under one or more of the Master Agreements (each, a "Confirmation", and collectively with the applicable Master Agreement, a "Bond Enhancement Agreement") when, in his or her judgment, the execution of such Confirmation is consistent with this Resolution and the System's Interest Rate Swap Policy and either (i) the transaction is expected to reduce the net interest to be paid by the Board with respect to any then outstanding Parity Debt or Parity Debt anticipated to be issued in the future over the term of the Bond Enhancement Agreement or (ii) the transaction is in the best interests of the Board given the market conditions at that time. The delegation to each Authorized Representative to execute and deliver Bond Enhancement Agreements on behalf of the Board under this Resolution shall expire on September 1, 2011.

(b) Authorizing Law and Treatment as Credit Agreement. The Board hereby determines that any such Bond Enhancement Agreement entered into by an Authorized Representative pursuant to this Resolution is necessary or appropriate to place the Board's obligations with respect to its outstanding Parity Debt or Parity Debt anticipated to be issued in the future on the interest rate, currency, cash flow or other basis set forth in such Bond Enhancement Agreement as approved and executed on behalf of the Board by an Authorized Representative. Each Bond Enhancement Agreement constitutes a "Credit Agreement" as defined in the Master Resolution and a "bond enhancement agreement" under Section 65.461 of the *Texas Education Code*, as amended ("Section 65.461"). Pursuant to Section 65.461, a Bond Enhancement Agreement authorized and executed by an Authorized Representative under this Resolution shall not be considered a "credit agreement" under Chapter 1371 of the *Texas Government Code*, as amended ("Chapter 1371"), unless specifically designated as such by such Authorized Representative. In the event an Authorized Representative elects to treat a Bond Enhancement Agreement authorized by this Resolution as a "credit agreement" under Chapter 1371 and this Resolution has not previously been submitted to the Attorney General by an Authorized Representative, such Authorized Representative shall submit this Resolution to the Attorney General for review and approval in accordance with the requirements of Chapter 1371 as the proceedings authorizing Bond Enhancement Agreements entered into by the Board pursuant to this Resolution.

(c) Maximum Term. The maximum term of each Bond Enhancement Agreement authorized by this Resolution shall not exceed the maturity date of the then outstanding related Parity Debt or the related Parity Debt anticipated to be issued in the future, as applicable.

(d) Notional Amount. The notional amount of any Bond Enhancement Agreement authorized by this Resolution shall not at any time exceed the aggregate principal amount of the then outstanding related Parity Debt and related Parity Debt anticipated to be issued in the future, as applicable; provided that the aggregate notional amount of multiple Bond Enhancement Agreements relating to the same Parity Debt may exceed the principal amount of the related Parity Debt if such Bond Enhancement Agreements are for different purposes, as evidenced for example by different rates for calculating payments owed, and the aggregate notional amount of any such Bond Enhancement Agreements for the same purpose otherwise satisfies the foregoing requirements.

(e) Early Termination. No Confirmation entered into pursuant to this Resolution shall contain early termination provisions at the option of the counterparty except upon the occurrence of an event of default or an additional termination event, as prescribed in the applicable Master Agreement. In addition to subsections (a) and (b) of Section 6 hereof, each Authorized Representative is hereby severally authorized to terminate any Bond Enhancement when, in his or her judgment, such termination is in the best interests of the Board given the market conditions at that time.

(f) Maximum Rate. No Bond Enhancement Agreement authorized by this Resolution shall be payable at a rate greater than the maximum rate allowed by law.

(g) Credit Enhancement. An Authorized Representative may obtain credit enhancement for any Bond Enhancement Agreement if such Authorized Representative, as evidenced by a certificate delivered to the General Counsel to the Board, has determined that after taking into account the cost of such credit enhancement, such credit enhancement will reduce the amount payable by the Board pursuant to such

Bond Enhancement Agreement; provided that the annual cost of credit enhancement on any Bond Enhancement Agreement entered into pursuant to this Resolution may not exceed 0.50% of the notional amount of such Bond Enhancement Agreement.

SECTION 3. BOND ENHANCEMENT AGREEMENTS AS PARITY DEBT. The costs of any Bond Enhancement Agreement and the amounts payable thereunder shall be payable out of Pledged Revenues and each Bond Enhancement Agreement shall constitute Parity Debt under the Master Resolution, except to the extent that a Bond Enhancement Agreement provides that an obligation of the Board thereunder shall be payable from and secured by a lien on Pledged Revenues subordinate to the lien securing the payment of the Parity Debt. The Board determines that this Resolution shall constitute a Supplemental Resolution to the Master Resolution and as required by Section 5(a) of the Master Resolution, the Board further determines that upon the delivery of the Bond Enhancement Agreements authorized by this Resolution it will have sufficient funds to meet the financial obligations of the System, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System and that the Members on whose behalf such Bond Enhancement Agreements are entered into possess the financial capacity to satisfy their Direct Obligations after taking such Bond Enhancement Agreements into account.

SECTION 4. AUTHORIZATION FOR SPECIFIC TRANSACTIONS. In addition to the authority otherwise granted in this Resolution, each Authorized Representative is hereby severally granted continuing authority to enter into the following specific transactions pursuant to a Confirmation (or other agreement or instrument deemed necessary by an Authorized Representative) upon satisfaction of the following respective conditions:

(A) Floating-to-fixed rate interest rate swap transactions under which the Board would pay an amount based upon a fixed rate of interest and the counterparty would pay an amount based upon a variable rate of interest with respect to Parity Debt then outstanding bearing interest at a variable rate and Parity Debt anticipated to be issued in the future that will bear interest at a variable rate, as applicable. Prior to entering into such transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that (i) the synthetic fixed rate to the Board pursuant to the swap transaction is lower than the rate available to the Board for comparable fixed rate debt at the time of the swap transaction, and (ii) if the variable rate being paid or expected to be paid by the Board on the applicable Parity Debt is computed on a basis different from the calculation of the variable rate to be received under the swap transaction over the stated term of such swap transaction, the basis risk of the transaction is expected to be minimal based upon historical relationships between such bases.

(B) Fixed-to-floating rate interest rate swap transactions under which the Board would pay an amount based upon a variable rate of interest and the counterparty would pay an amount based upon a fixed rate of interest, with respect to Parity Debt then outstanding bearing interest at a fixed rate and Parity Debt anticipated to be issued in the future that will bear interest at a fixed rate, as applicable. Prior to entering into such transaction an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that converting such portion of fixed rate Parity Debt to a variable rate pursuant to the fixed-to-floating interest rate swap transaction would be beneficial to the System by (i) lowering the anticipated net interest cost on the Parity Debt to be swapped against or (ii) assisting in the System's asset/liability management by matching a portion of its variable rate assets with variable rate Parity Debt.

(C) Basis swap transactions under which the Board would pay a variable rate of interest computed on one basis, such as the Securities Industry and Financial Markets Association Municipal Swap Index, and the counterparty would pay a variable rate of interest computed on a different basis, such as the London Interbank Offered Rate ("LIBOR"), with respect to a designated maturity or principal amount of outstanding Parity Debt and Parity Debt anticipated to be issued in the future, as applicable. Prior to entering into such transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that by entering into the basis swap transaction the Board is expected to be able to (i) achieve spread income or upfront cash payments, (ii) preserve call option and advance refunding capability on its Parity Debt, (iii) lower net interest cost by effecting a percent of LIBOR synthetic refunding without issuing additional bonds or acquiring credit enhancement, (iv) lower net interest cost on Parity Debt by layering tax risk on top of a traditional or synthetic fixed rate financing, (v) preserve liquidity capacity, or (vi) avoid the mark to market volatility of a fixed-to-floating or floating-to-fixed swap in changing interest rate environments.

(D) Interest rate locks, caps, floors, and collars for the purpose of limiting the exposure of the Board to adverse changes in interest rates in connection with outstanding Parity Debt or additional Parity Debt anticipated to be issued in the future. Prior to entering into such a transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that such transaction is expected to limit or eliminate such exposure.

SECTION 5. <u>APPLICATION OF PAYMENTS RECEIVED UNDER BOND ENHANCEMENT AGREEMENTS</u>.

(a) <u>General</u>. Except as further limited by subsection (b) hereof, to the extent the Board receives payments pursuant to a Bond Enhancement Agreement, such payments shall be applied for any lawful purpose.

(b) <u>Payments under Chapter 1371 Credit Agreements</u>. In the event an Authorized Representative elects to treat a Bond Enhancement Agreement authorized by this Resolution as a "credit agreement" under Chapter 1371 and such Bond Enhancement Agreement is executed and delivered pursuant to Chapter 1371, to the extent that the Board receives payments pursuant to such a Bond Enhancement Agreement, such payments shall be applied as follows: (i) to pay (A) debt service on the Parity Debt or anticipated issuance of Parity Debt related to the Bond Enhancement Agreement, or (B) the costs to be financed by the Parity Debt or anticipated issuance of Parity Debt related to the Bond Enhancement Agreement; provided that, if applicable, such costs shall have been approved for construction by the Board and that the applicable projects have received the required approval or review of the Texas Higher Education Coordinating Board to the extent and as required by the provisions of Section 61.058 of the *Texas Education Code*; (ii) to pay other liabilities or expenses that are secured on parity with or senior to the Parity Debt or anticipated issuance of Parity Debt related to the Bond Enhancement Agreement; or (iii) to the extent that costs set forth in (i) and (ii) have been satisfied, for any other lawful purpose.

SECTION 6. <u>BOND ENHANCEMENT AGREEMENTS IN CONNECTION WITH ANTICIPATED PARITY DEBT</u>.

(a) <u>Requirement to Terminate or Modify Agreement for Non-issuance of Anticipated Parity Debt</u>. In the event a Bond Enhancement Agreement is entered into under this Resolution in connection with the anticipated issuance of Parity Debt and such Parity Debt is not actually issued on or prior to the effective date of such agreement, an Authorized Representative shall either terminate such Bond Enhancement Agreement or amend such Bond Enhancement Agreement in such event to (i) delay the effective date of such Bond Enhancement Agreement; or (ii) replace such anticipated Parity Debt with any then outstanding Parity Debt having the same types of interest rates (fixed or variable) as the anticipated Parity Debt.

(b) <u>Requirement to Terminate or Modify Agreement for Notional Amount in Excess of Anticipated Parity Debt as Issued</u>. In the event a Bond Enhancement Agreement is entered into under this

Resolution in connection with the anticipated issuance of Parity Debt and such Bond Enhancement Agreement has a notional amount that at any time exceeds the principal amount to be outstanding of such anticipated Parity Debt as actually issued, an Authorized Representative shall either terminate such Bond Enhancement Agreement or amend such Bond Enhancement Agreement to (i) reduce the notional amount of such Bond Enhancement as appropriate so that such notional amount does not exceed at any time the principal amount to be outstanding of such anticipated Parity Debt as actually issued or (ii) supplement or replace all or a portion of such anticipated Parity Debt with any then outstanding Parity Debt having the same types of interest rates (fixed or variable) as the anticipated Parity Debt as necessary to ensure that the notional amount of such Bond Enhancement Agreement does not exceed at any time the principal amount of the applicable Parity Debt.

(c) Board Recognition of Anticipated Parity Debt. No Bond Enhancement Agreement may be entered into under this Resolution with respect to the Board's obligations under an anticipated future issuance of Parity Debt unless such anticipated issuance of future debt shall have been recognized by official action of the Board pursuant to (i) the Board's prior adoption of a resolution authorizing the issuance of such debt, including, but not limited to, a resolution delegating the parameters of such issuance to an Authorized Representative or a resolution authorizing the issuance of commercial paper notes, (ii) the Board's prior approval of its then current Capital Improvement Program contemplating the financing of the projects to be financed by such anticipated issuance of debt and the amount of such debt to be issued, or (iii) the Board's action pursuant to subsection (e) hereof with respect to Parity Debt anticipated to be issued to refund outstanding Parity Debt.

(d) Required Description of Anticipated Parity Debt. To the extent that a Bond Enhancement Agreement is entered into under this Resolution with respect to the Board's obligations under an anticipated future issuance of Parity Debt, an Authorized Representative must also deliver to the General Counsel to the Board at the time such agreement is entered into a certificate with respect to such anticipated Parity Debt stating: (i) the anticipated issuance date of such Parity Debt or a range of anticipated dates of up to six months for such issuance, provided that such date or range of dates may not be more than the lesser of seventy-two (72) months after the date of the applicable Confirmation or the latest date contemplated for the issuance of such Parity Debt in the Board's then current Capital Improvement Program; (ii) whether such Parity Debt will bear interest at a fixed or variable rate; (iii) if such Parity Debt will bear interest at a fixed rate, what fixed interest rate or range of interest rates with respect to such Parity Debt is anticipated; (iv) if such Parity Debt will bear interest at a variable rate, what basis is anticipated to be used to compute such variable rate; (v) the assumed maturity schedule and amortization for such Parity Debt, including the assumed interest cost; (vi) the anticipated purposes for which the proceeds of such Parity Debt will be used; and (vii) for Parity Debt anticipated to be issued for new money projects, a list or description of such projects anticipated to be financed, provided that each such project must be contemplated for financing with Parity Debt by the Board's then current Capital Improvement Program or have otherwise received Board approval for financing.

(e) Board's Statement of Intent to Issue Refunding Debt for Savings. If the conditions in this Resolution are otherwise satisfied, the Board hereby authorizes each Authorized Representative to enter into a Bond Enhancement Agreement in connection with Parity Debt anticipated to be issued for the purpose of advance refunding any existing Parity Debt, provided that as certified by an Authorized Representative to the General Counsel to the Board, such anticipated issue of Parity Debt, when taking into consideration the effect of such Bond Enhancement Agreement, is expected to result in a present value savings in connection with such advance refunding of at least 3.0% (determined in the manner set forth in a supplemental resolution approved by the Board authorizing the issuance of additional Parity Debt), and in such event, the Board hereby declares its intention to cause such Parity Debt to be issued. No such certification or declaration shall be applicable in connection with Parity Debt anticipated to be issued for the purpose of currently refunding any existing Parity Debt within ninety (90) days of the date of issuance of such anticipated Parity Debt.

SECTION 7. MASTER AGREEMENTS.

(a) New Master Agreements. Each Authorized Representative is hereby severally authorized to enter into ISDA Master Agreements (the "New Master Agreements") with counterparties satisfying the ratings requirements of the System's Interest Rate Swap Policy. Such New Master Agreements shall be in substantially the same form as the Executed Master Agreements, with such changes as, in the judgment of an Authorized Representative, with the advice and counsel of the Office of General Counsel and Bond Counsel, are necessary or desirable (i) to carry out the intent of the Board as expressed in this Resolution, (ii) to receive approval of this Resolution by the Attorney General of the State of Texas, if pursuant Section 2(b) of this Resolution, an Authorized Representative elects to designate any Bond Enhancement Agreement entered into by the Board pursuant to this Resolution as a "credit agreement" under Chapter 1371, (iii) to accommodate the credit structure or requirements of a particular counterparty or (iv) to incorporate comments received or anticipated to be received from any credit rating agency relating to a New Master Agreement. Each Authorized Representative is authorized to enter into such New Master Agreements and to enter into Confirmations thereunder in accordance with this Resolution and in furtherance of and to carry out the intent hereof.

(b) Amendments to Master Agreements. Each Authorized Representative is hereby further severally authorized to enter into amendments to the Master Agreements to allow Confirmations thereunder to be issued and entered into with respect to any then outstanding Parity Debt or Parity Debt anticipated to be issued in the future and to make such other amendments in accordance with the terms of the respective Master Agreements as in the judgment of such Authorized Representative, with the advice and counsel of the Office of General Counsel and Bond Counsel, are necessary or desirable to allow the Board to achieve the benefits of the Bond Enhancement Agreements in accordance with and subject to the System's Interest Rate Swap Policy and this Resolution.

SECTION 8. ADDITIONAL AUTHORIZATION; RATIFICATION OF SWAP POLICY.

(a) Additional Agreements and Documents Authorized. Each Authorized Representative and all officers of the Board are severally authorized to execute and deliver such other agreements and documents as are contemplated by this Resolution and the Master Agreements or are otherwise necessary in connection with entering into Confirmations and Bond Enhancement Agreements as described in this Resolution, as any such Authorized Representative or officer shall deem appropriate, including without limitation, officer's certificates, legal opinions, and credit support documents.

(b) Further Actions. Each Authorized Representative and all officers of the Board are severally authorized to take all such further actions, to execute and deliver such further instruments and documents in the name and on behalf of the Board to pay all such expenses as in his or her judgment shall be necessary or advisable in order fully to carry out the purposes of this Resolution.

(c) Swap Policy. The Board has reviewed and hereby ratifies and affirms the System's Interest Rate Swap Policy, a copy of which is attached hereto as Exhibit B.

EXHIBIT A

DEFINITIONS

As used in this Resolution the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"Authorized Representative" – As defined in the System's Interest Rate Swap Policy (a copy of which is attached hereto as Exhibit B).

"Board" – The Board of Regents of The University of Texas System.

"Bond Enhancement Agreement" – Collectively, each Confirmation and the applicable Master Agreement.

"Chapter 1371" – Chapter 1371 of the *Texas Government Code*, as amended.

"Confirmation" – Each confirmation entered into by an Authorized Representative on behalf of the Board pursuant to this Resolution.

"Executed Master Agreements" – The following existing and fully executed ISDA Master Agreements currently in effect between the Board and the respective counterparty noted below (copies of which are attached hereto as Exhibit C):

(i) ISDA Master Agreement with Bank of America, N.A., dated as of December 6, 2005;

(ii) ISDA Master Agreement with JPMorgan Chase Bank, National Association, dated as of May 2, 2006;

(iii) ISDA Master Agreement with Merrill Lynch Capital Services, Inc., dated as of May 1, 2006;

(iv) ISDA Master Agreement with Morgan Stanley Capital Services Inc., dated as of December 6, 2005;

(v) ISDA Master Agreement with UBS AG, dated as of November 1, 2007;

(vi) ISDA Master Agreement with Royal Bank of Canada, dated as of April 4, 2008;

(vii) ISDA Master Agreement with Goldman Sachs Bank USA, dated as of August 1, 2009; and

(viii) ISDA Master Agreement with Wells Fargo Bank, National Association, dated as of August 21, 2009.

"ISDA" – The International Swaps and Derivatives Association, Inc.

"LIBOR" – London Interbank Offered Rate.

"Master Agreements" – Collectively, the Executed Master Agreements and any New Master Agreements.

"Master Resolution" – The First Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the Board on February 14, 1991, and amended on October 8, 1993, and August 14, 1997.

"New Master Agreements" – Any ISDA Master Agreements entered into by an Authorized Representative pursuant to Section 7(a) of this Resolution.

"Section 65.461" – Section 65.461 of the *Texas Education Code*, as amended.

"System" – The University of Texas System.

EXHIBIT B

INTEREST RATE SWAP POLICY
OF THE UNIVERSITY OF TEXAS SYSTEM

1. Title

Interest Rate Swap Policy

2. Rule and Regulation

Sec. 1 Authority. *Texas Education Code*, Chapter 55, including Section 55.13, *Texas Education Code,* Chapter 65, including Section 65.461, and *Texas Government Code*, Chapter 1371, including Section 1371.056, authorize the Board of Regents (Board) of The University of Texas System (U. T. System) to enter into interest rate management agreements and bond enhancement agreements (collectively "swaps").

Sec. 2 Purpose. This policy will govern the use of swaps in connection with the U. T. System's management of its debt programs, including the Permanent University Fund and Revenue Financing System debt programs. By using swaps in a prudent manner, the U. T. System can increase the U. T. System's financial flexibility, provide opportunities for interest rate savings, allow the U. T. System to actively manage asset and liability interest rate risk, take advantage of market opportunities to lower the overall cost of debt, balance interest rate risk, or hedge other exposures. The use of swaps must be tied directly to U. T. System debt instruments. The U. T. System shall not enter into swaps for speculative purposes.

Sec. 3 Legality/Approval. Prior to entering into a swap, the U. T. System must receive approval from the Board of Regents (which may include a delegation of authority to an Authorized Representative to enter into one or more swaps) and any required approvals from the Texas Attorney General and the Texas Bond Review Board. The U. T. System will also secure an opinion acceptable to the Authorized Representative from legal counsel that the swap is a legal, valid, and binding obligation of the U. T. System and that entering into the swap complies with applicable State and federal laws.

Sec. 4 Form of Agreements. Each interest rate swap shall contain terms and conditions as set forth in the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, as amended, and such other terms and conditions including schedules, credit support annexes, and confirmations as deemed necessary by an Authorized Representative.

Sec. 5 Methods of Procuring Swaps. Swaps can be procured via competitive bids or on a negotiated basis with counterparties or its credit support providers having credit ratings of ‘A’ or ‘A2’ or better from Standard & Poor’s or Moody’s, respectively.

5.1 Competitive. The competitive bid should include a minimum of three firms. An Authorized Representative may allow a firm or firms not submitting the bid that produces the lowest cost to match the lowest bid and be awarded a specified percentage of the notional amount of the swap.

5.2 Negotiated. An Authorized Representative may procure swaps by negotiated methods in the following situations:

(a) A determination is made by an Authorized Representative that due to the complexity of a particular swap, a negotiated bid would result in the most favorable pricing;

(b) An Authorized Representative makes a determination that, in light of the facts and circumstances, doing so will promote the U. T. System’s interests by encouraging and rewarding innovation; or

(c) A determination is made by an Authorized Representative that a competitive bid would likely create market pricing effects that would be detrimental to the interests of the U. T. System.

Sec. 6 Counterparty Risk. Counterparty risk is the risk of a failure by one of the U. T. System’s swap counterparties to perform as required under a swap. To mitigate this risk, the U. T. System will 1) diversify its exposure among highly rated swap counterparties satisfying the rating criteria set forth in Section 5 above; 2) require collateralization as set forth below; and 3) include an optional termination event if the counterparty (or its credit support provider, if applicable) is downgraded below a second (lower) threshold.

6.1 Value Owed by Counterparty. To limit and diversify the U. T. System’s counterparty risk and to monitor credit exposure to each counterparty, the U. T. System may not enter into a swap with an otherwise qualified counterparty unless the cumulative mark-to-market value owed by the counterparty (and its credit support provider, if applicable) to the U. T. System shall be less than or equal to the applicable threshold amount set forth in Section 6.3 below.

6.2 Calculation of Value Owed. The value owed shall be the sum of all mark-to-market values between the subject counterparty and the U. T. System regardless of the type of swap, net of collateral posted by the counterparty. Collateral will consist of cash, U.S. Treasury securities, and Federal Agency securities guaranteed unconditionally by the full faith and credit of the U.S. Government. Collateral shall be deposited with a third party trustee acceptable to U. T. System or as mutually agreed upon between U. T. System and each counterparty.

6.3 Threshold Amounts Based on Credit Rating. Specific threshold amounts by counterparty are based on the cumulative mark-to-market value of the swap(s) and the credit rating of the counterparty or its credit support provider. The threshold amounts are as follows:

(a) AAA / Aaa	$30 million
(b) AA+ / Aa1	$25 million
(c) AA / Aa2	$20 million
(d) AA- / Aa3	$15 million
(e) A+ / A1	$10 million
(f) A / A2	$ 5 million

6.4 Downgraded Rating. If the credit rating of a counterparty or its credit support provider is downgraded such that the cumulative mark-to-market value of all swaps between such counterparty and the U. T. System exceeds the maximum permitted by this policy, the counterparty must post collateral or provide other credit enhancement that is satisfactory to the U. T. System and ensures compliance with this policy.

Sec. 7 Termination Risk. The U. T. System shall consider the merits of including a provision that permits it to optionally terminate a swap at any time over the term of the swap (elective termination right). In general, exercising the right to optionally terminate a swap should produce a benefit to the U. T. System, either through receipt of a payment from a termination, or if a termination payment is made by the U. T. System, a conversion to a more beneficial debt instrument or credit relationship. If no other remedies are available, it is possible that a termination payment by the U. T. System may be required in the event of termination of a swap due to a counterparty default or following a decrease in credit rating.

Sec. 8 Amortization Risk. The amortization schedules of the debt and associated swap should be closely matched for the duration of the swap. Mismatched amortization schedules can result in a less than satisfactory hedge and create unnecessary risk. In no circumstance may (i) the notional amount of a swap exceed the principal amount of the related debt at any time, or (ii) the term of a swap extend beyond the final maturity date of the related debt instrument, or in the case of a refunding transaction, beyond the final maturity date of the refunding bonds.

Sec. 9 Basis Risk. Basis risk arises as a result of movement in the underlying variable rate indices that may not be in tandem, creating a cost differential that could result in a net cash outflow from the U. T. System. Basis risk can also result from the use of floating, but different, indices. To mitigate basis risk, any index used as part of a swap shall be a recognized market index, including but not limited to the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index or the London Interbank Offered Rate (LIBOR).

Sec. 10 Tax Risk. Tax risk is the risk that tax laws will change, resulting in a change in the marginal tax rates on swaps and their underlying assets. Tax risk is also present in all tax-exempt debt issuances. The Office of Finance should continually monitor and evaluate tax risk.

Sec. 11 Interest Rate Risk. Additional interest rate risk can be created by entering into certain types of swaps. Interest rate risk is risk that costs associated with variable rate exposure increase as a result of changes in market interest rates. The Office of Finance will incorporate the impact of each swap on the overall debt portfolio.

Sec. 12 Reporting.

12.1 The Office of Finance staff will report to the Board within 30 days of completion of any swap transaction.

12.2 The Annual Financial Report prepared by the U. T. System and presented to the Board of Regents will discuss the status of all swaps. The report shall include a list of all swaps with notional value and interest rates, a list of counterparties (and credit support providers, if applicable) and their respective credit ratings, and other key terms.

3. Definitions

Authorized Representative – includes the Executive Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, the Vice Chancellor for Finance and Business Development, and the Assistant Vice Chancellor for Finance.

Counterparty – a participant in a swap who exchanges payments based on interest rates or other criteria with another counterparty.

Counterparty Long-Term Debt Rating – lowest prevailing rating from Standard & Poor's / Moody's.

Hedge – a transaction entered into to reduce exposure to market fluctuations.

Interest Rate Swap – a swap in which two parties agree to exchange future net cash flows based on predetermined interest rates or indices calculated on an agreed notional amount. An interest rate swap is not a debt instrument and there is no exchange of principal.

ISDA Master Agreement – the International Swaps and Derivatives Association, Inc. (ISDA), is the global trade association for the derivatives industry. The ISDA Master Agreement is the basic governing document that serves as a framework for all interest rate swaps and certain other types of swaps between two counterparties. It is a standard form used throughout the industry. It is typically negotiated once, prior to the first swap transaction, and remains in force for all subsequent swap transactions.

London Interbank Offered Rate (LIBOR) – the rate of interest at which banks borrow funds from other banks in the London interbank market. It is a commonly used benchmark for swaps.

Mark-to-Market – calculation of the value of a financial instrument (like an interest rate swap) based on the current market rates or prices of the underlying indices.

Maximum cumulative mark-to-market – value of swaps owed to the U. T. System by counterparty (net of collateral posted).

Notional Amount – the size of the swap and the dollar amount used to calculate interest payments.

SIFMA Index - (formerly known as the Bond Market Association (BMA) Municipal Swap index). The principal benchmark for floating rate payments for tax-exempt issuers. The index is a national rate based on a market basket of high-grade, seven-day, tax-exempt variable rate bond issues.

4. Relevant Federal and State Statutes

Texas Education Code, Chapter 55 – Financing Permanent Improvements

Texas Education Code, Chapter 65 – Administration of The University of Texas System

Texas Government Code, Chapter 1371 – Obligations for Certain Public Improvements

5. Relevant System Policies, Procedures, and Forms

None

6. Who Should Know

Administrators

7. System Administration Office(s) Responsible for Rule

Office of Business Affairs

8. Dates Approved or Amended

August 23, 2007
December 10, 2004

9. Contact Information

Questions or comments regarding this rule should be directed to:

- bor@utsystem.edu

EXHIBIT C

EXECUTED MASTER AGREEMENTS

[On File with the Board]

A RESOLUTION AUTHORIZING THE EXECUTION AND DELIVERY OF BOND ENHANCEMENT AGREEMENTS RELATING TO PERMANENT UNIVERSITY FUND DEBT AND AUTHORIZING AND APPROVING OTHER INSTRUMENTS AND PROCEDURES RELATING TO SAID AGREEMENTS

August 12, 2010

WHEREAS, the Board of Regents (the "Board") of The University of Texas System (the "System") is the governing body of the System, an institution of higher education under the Texas Education Code and an agency of the State of Texas (the "State"); and

WHEREAS, the Permanent University Fund is a constitutional fund and public endowment created in the Texas Constitution of 1876, as created, established, implemented and administered pursuant to Sections 10, 11, 11a, 11b, 15 and 18 of Article VII of the Constitution of the State, as amended, and by other applicable present and future constitutional and statutory provisions, and further implemented by the provisions of Chapter 66, *Texas Education Code*, as amended (the "Permanent University Fund"); and

WHEREAS, the Available University Fund is defined by the Constitution of the State and consists of distributions made to it from the total return on all investment assets of the Permanent University Fund, including the net income attributable to the surface of Permanent University Fund land, as determined by the Board pursuant to Section 18 of Article VII of the Constitution of the State, as amended (the "Available University Fund"); and

WHEREAS, Section 18 of Article VII of the Constitution of the State, as may hereafter be amended (the "Constitutional Provision"), authorizes the Board to issue bonds and notes ("PUF Debt") not to exceed a total amount of 20% of the cost value of investments and other assets of the Permanent University Fund, exclusive of real estate, at the time of issuance thereof and to pledge all or any part of its two-thirds interest in the Available University Fund (the "Interest of the System") to secure the payment of the principal of and interest on PUF Debt, for the purpose of acquiring land, constructing and equipping buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, acquiring capital equipment and library books and library materials, and refunding bonds or notes issued under the Constitutional Provision or prior law, at or for the System administration and institutions of the System as listed in the Constitutional Provision; and

WHEREAS, the Constitutional Provision also provides that out of the Interest of the System in the Available University Fund there shall be appropriated an annual sum sufficient to pay the principal and interest due on PUF Debt, and the remainder of the Interest of the System in the Available University Fund (the "Residual AUF") shall be appropriated for the support and maintenance of The University of Texas at Austin and the System Administration; and

WHEREAS, unless otherwise defined herein, terms used herein shall have the meaning as set forth in Exhibit A hereto; and

WHEREAS, the Board has previously entered into certain Executed Master Agreements (as defined herein) with certain counterparties setting forth the terms and conditions applicable to each Confirmation (as defined herein) to be executed thereunder; and

WHEREAS, the Board hereby desires to ratify the U.T. System's Interest Rate Swap Policy, a copy of which is attached hereto as Exhibit B, and to severally authorize each Authorized Representative (as defined in the System's Interest Rate Swap Policy) to enter into Bond Enhancement Agreements (as defined herein) from time to time, all as provided in this Resolution.

NOW THEREFORE BE IT RESOLVED, that

SECTION 1. DEFINITIONS. Capitalized terms used in this Resolution and not otherwise defined shall have the meanings given in Exhibit A attached hereto and made a part hereof.

SECTION 2. AUTHORIZATION OF BOND ENHANCEMENT AGREEMENTS.

(a) Delegation. Each Authorized Representative is hereby severally authorized to act on behalf of the Board in accepting and executing new or amended confirmations under one or more of the Master Agreements (each, a "Confirmation" and, collectively with the applicable Master Agreement, a "Bond Enhancement Agreement") when, in his or her judgment, the execution of such Confirmation is consistent with this Resolution and the System's Interest Rate Swap Policy and either (i) the transaction is expected to reduce the net interest to be paid by the Board with respect to any then outstanding PUF Debt or PUF Debt anticipated to be issued in the future over the term of the Bond Enhancement Agreement or (ii) the transaction is in the best interests of the Board given the market conditions at that time. The delegation to each Authorized Representative to execute and deliver Bond Enhancement Agreements on behalf of the Board under this Resolution shall expire on September 1, 2011.

(b) Authorizing Law and Treatment as Credit Agreement. The Board hereby determines that any such Bond Enhancement Agreement entered into by an Authorized Representative pursuant to this Resolution is necessary or appropriate to place the Board's obligations with respect to its outstanding PUF Debt or PUF Debt anticipated to be issued in the future on the interest rate, currency, cash flow or other basis set forth in such Bond Enhancement Agreement as approved and executed on behalf of the Board by an Authorized Representative. Each Bond Enhancement Agreement constitutes a "bond enhancement agreement" under Section 65.461 of the *Texas Education Code*, as amended ("Section 65.461"). Pursuant to Section 65.461, a Bond Enhancement Agreement authorized and executed by an Authorized Representative under this Resolution shall not be considered a "credit agreement" under Chapter 1371 of the *Texas Government Code*, as amended ("Chapter 1371"), unless specifically designated as such by such Authorized Representative. In the event an Authorized Representative elects to treat a Bond Enhancement Agreement authorized by this Resolution as a "credit agreement" under Chapter 1371 and this Resolution has not previously been submitted to the Attorney General by an Authorized Representative, such Authorized Representative shall submit this Resolution to the Attorney General for review and approval in accordance with the requirements of Chapter 1371 as the proceedings authorizing Bond Enhancement Agreements entered into by the Board pursuant to this Resolution.

(c) Costs; Maximum Term. The costs of any Bond Enhancement Agreement and the amounts payable thereunder, including but not limited to any amounts payable by the Board as a result of terminating a Bond Enhancement Agreement, shall be payable from the Residual AUF as a cost of the support and maintenance of System administration or from any other source that is legally available to make such payments.

The maximum term of each Bond Enhancement Agreement authorized by this Resolution shall not exceed the maturity date of the then outstanding related PUF Debt or the related PUF Debt anticipated to be issued in the future, as applicable.

(d) Notional Amount. The notional amount of any Bond Enhancement Agreement authorized by this Resolution shall not at any time exceed the aggregate principal amount of the then outstanding related PUF Debt or related PUF Debt anticipated to be issued in the future, as applicable; provided that the aggregate notional amount of multiple Bond Enhancement Agreements relating to the same PUF Debt may exceed the principal amount of the related PUF Debt if such Bond Enhancement Agreements are for different purposes, as evidenced for example by different rates for calculating payments owed, and the aggregate notional amount of any such Bond Enhancement Agreements for the same purpose otherwise satisfies the foregoing requirements.

(e) Early Termination. No Confirmation entered into pursuant to this Resolution shall contain early termination provisions at the option of the counterparty except upon the occurrence of an event of default or an additional termination event, as prescribed in the applicable Master Agreement. In addition to subsections (a) and (b) of Section 5 hereof, each Authorized Representative is hereby severally authorized to terminate any Bond Enhancement when, in his or her judgment, such termination is in the best interests of the Board given the market conditions at that time.

(f) Maximum Rate. No Bond Enhancement Agreement authorized by this Resolution shall be payable at a rate greater than the maximum rate allowed by law.

(g) Credit Enhancement. An Authorized Representative may obtain credit enhancement for any Bond Enhancement Agreement if such Authorized Representative, as evidenced by a certificate delivered to the General Counsel to the Board, has determined that after taking into account the cost of such credit enhancement, such credit enhancement will reduce the amount payable by the Board pursuant to such Bond Enhancement Agreement; provided that the annual cost of credit enhancement on any Bond Enhancement Agreement entered into pursuant to this Resolution may not exceed 0.50% of the notional amount of such Bond Enhancement Agreement.

SECTION 3. AUTHORIZATION FOR SPECIFIC TRANSACTIONS. In addition to the authority otherwise granted in this Resolution, each Authorized Representative is hereby severally granted continuing authority to enter into the following specific transactions pursuant to a Confirmation (or other agreement or instrument deemed necessary by an Authorized Representative) upon satisfaction of the following respective conditions:

(A) Floating-to-fixed rate interest rate swap transactions under which the Board would pay an amount based upon a fixed rate of interest and the counterparty would pay an amount based upon a variable rate of interest with respect to PUF Debt then outstanding bearing interest at a variable rate and any PUF Debt anticipated to be issued in the future that will bear interest at a variable rate, as applicable. Prior to entering into such transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that (i) the synthetic fixed rate to the Board pursuant to the swap transaction is lower than the rate available to the Board for comparable fixed rate debt at the time of the swap transaction, and (ii) if the variable rate being paid or expected to be paid by the Board on the applicable PUF Debt is computed on a basis different from the calculation of the variable rate to be received under the swap transaction over the stated term of such swap transaction, the basis risk of the transaction is expected to be minimal based upon historical relationships between such bases.

(B) Fixed-to-floating rate interest rate swap transactions under which the Board would pay an amount based upon a variable rate of interest and the counterparty would pay an amount based upon a fixed rate of interest, with respect to PUF Debt then outstanding bearing interest at a fixed rate or PUF Debt anticipated to be issued in the future that will bear interest at a fixed rate, as applicable. Prior to entering into such transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that converting such portion of fixed rate PUF Debt to a variable rate pursuant to the fixed-to-floating interest rate swap transaction would be beneficial to the System by (i) lowering the anticipated net interest cost on the PUF Debt to be swapped against or (ii) assisting in the System's asset/liability management by matching a portion of its variable rate assets with variable rate PUF Debt.

(C) Basis swap transactions under which the Board would pay a variable rate of interest computed on one basis, such as the Securities Industry and Financial Markets Association Municipal Swap Index, and the counterparty would pay a variable rate of interest computed on a different basis, such as a designated maturity of the London Interbank Offered Rate ("LIBOR"), with respect to a given principal amount of PUF Debt then outstanding or PUF Debt anticipated to be issued in the future, as applicable. Prior to entering into such transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that by entering into the basis swap transaction the Board is expected to be able to (i) achieve spread income or upfront cash payments, (ii) preserve call option and advance refunding capability on its PUF Debt, (iii) lower net interest cost by effecting a percent of LIBOR synthetic refunding without issuing additional bonds or acquiring credit enhancement, (iv) lower net interest cost on PUF Debt by layering tax risk on top of a traditional or synthetic fixed rate financing, (v) preserve liquidity capacity, or (vi) avoid the mark to market volatility of a fixed-to-floating or floating-to-fixed swap in changing interest rate environments.

(D) Interest rate locks, caps, floors, and collars for the purpose of limiting the exposure of the Board to adverse changes in interest rates in connection with outstanding PUF Debt or additional PUF Debt anticipated to be issued in the future. Prior to entering into such a transaction, an Authorized Representative must deliver to the General Counsel to the Board a certificate to the effect that such transaction is expected to limit or eliminate such exposure.

SECTION 4. <u>APPLICATION OF PAYMENTS RECEIVED UNDER BOND ENHANCEMENT AGREEMENTS</u>.

(a) <u>General</u>. Except as provided in subsection (b) hereof, to the extent the Board receives payments pursuant to a Bond Enhancement Agreement, such payments shall be applied for any lawful purpose.

(b) <u>Payments under Chapter 1371 Credit Agreements</u>. In the event an Authorized Representative elects to treat a Bond Enhancement Agreement authorized by this Resolution as a "credit agreement" under Chapter 1371 and such Bond Enhancement Agreement is executed and delivered pursuant to Chapter 1371, to the extent that the Board receives payments pursuant to such a Bond Enhancement Agreement, such payments shall be applied as follows: (i) to pay (A) debt service on the PUF Debt or anticipated issuance of PUF Debt related to the Bond Enhancement Agreement, or (B) the costs to be financed by the PUF Debt or anticipated issuance of PUF Debt related to the Bond Enhancement Agreement; provided that, if applicable, such costs shall have been approved for construction by the Board and that the applicable projects have received the required approval or review of the Texas Higher Education Coordinating Board to the extent and as required by the provisions of Section 61.058 of the *Texas Education Code*; (ii) to pay other liabilities or expenses that are secured on parity with or senior to the PUF Debt or anticipated issuance of PUF Debt related to the Bond Enhancement Agreement; or (iii) to the extent that costs set forth in (i) and (ii) have been satisfied, for any other lawful purpose.

SECTION 5. <u>BOND ENHANCEMENT AGREEMENTS IN CONNECTION WITH ANTICIPATED PUF DEBT</u>.

(a) <u>Requirement to Terminate or Modify Agreement for Non-issuance of Anticipated PUF Debt</u>. In the event a Bond Enhancement Agreement is entered into under this Resolution in connection with the anticipated issuance of PUF Debt and such PUF Debt is not actually issued on or prior to the effective date of such agreement, an Authorized Representative shall either terminate such Bond Enhancement Agreement or amend such Bond Enhancement Agreement in such event (i) to delay the effective date of such Bond Enhancement Agreement; or (ii) to replace such anticipated PUF Debt with any then outstanding PUF Debt having the same types of interest rates (fixed or variable) as the anticipated PUF Debt.

(b) <u>Requirement to Terminate or Modify Agreement for Notional Amount in Excess of Anticipated PUF Debt as Issued</u>. In the event a Bond Enhancement Agreement is entered into under this Resolution in connection with the anticipated issuance of PUF Debt and such Bond Enhancement Agreement has a notional amount that at any time exceeds the principal amount to be outstanding of such anticipated PUF Debt as actually issued, an Authorized Representative shall either terminate such Bond Enhancement Agreement or amend such Bond Enhancement Agreement (i) to reduce the notional amount of such Bond Enhancement as appropriate so that such notional amount does not exceed at any time the principal amount to be outstanding of such anticipated PUF Debt as actually issued or (ii) supplement or replace all or a portion of such anticipated PUF Debt with any then outstanding PUF Debt having the same types of interest rates (fixed or variable) as the anticipated PUF Debt as necessary to ensure that the notional amount of such Bond Enhancement Agreement does not exceed at any time the principal amount of the applicable PUF Debt.

(c) Board Recognition of Anticipated Parity Debt. No Bond Enhancement Agreement may be entered into under this Resolution with respect to the Board's obligations under an anticipated future issuance of PUF Debt unless such anticipated issuance of future debt shall have been recognized by official action of the Board pursuant to (i) the Board's prior adoption of a resolution authorizing the issuance of such debt, including but not limited to a resolution delegating the parameters of such issuance to an Authorized Representative or a resolution authorizing the issuance of commercial paper notes, (ii) the Board's prior approval of its then current Capital Improvement Program contemplating the financing of the projects to be financed by such anticipated issuance of debt and the amount of such debt to be issued, or (iii) the Board's action pursuant to subsection (e) hereof with respect to PUF Debt anticipated to be issued to refund outstanding PUF Debt.

(d) Required Description of Anticipated PUF Debt. To the extent that a Bond Enhancement Agreement is entered into under this Resolution with respect to the Board's obligations under an anticipated future issuance of PUF Debt, an Authorized Representative must also deliver to the General Counsel to the Board at the time such agreement is entered into a certificate with respect to such anticipated PUF Debt stating: (i) the anticipated issuance date of such PUF Debt or a range of anticipated dates of up to six months for such issuance, provided that such date or range of dates may not be more than the lesser of seventy-two (72) months after the date of the applicable Confirmation or the latest date contemplated for the issuance of such PUF Debt in the Board's then current Capital Improvement Program; (ii) whether such PUF Debt will bear interest at a fixed or variable rate; (iii) if such PUF Debt will bear interest at a fixed rate, what fixed interest rate or range of interest rates with respect to such PUF Debt is anticipated; (iv) if such PUF Debt will bear interest at a variable rate, what basis is anticipated to be used to compute such variable rate; (v) the assumed maturity schedule and amortization for such PUF Debt, including the assumed interest cost; (vi) the anticipated purposes for which the proceeds of such PUF Debt will be used; and (vii) for PUF Debt anticipated to be issued for new money projects, a list or description of such projects anticipated to be financed, provided that each such project must be contemplated for financing with PUF Debt by the Board's then current Capital Improvement Program or have otherwise received Board approval for financing.

(e) Board's Statement of Intent to Issue Advance Refunding Debt for Savings. If the conditions in this Resolution are otherwise satisfied, the Board hereby authorizes each Authorized Representative to enter into a Bond Enhancement Agreement in connection with PUF Debt anticipated to be issued for the purpose of advance refunding any existing PUF Debt, provided that as certified by an Authorized Representative to the General Counsel to the Board, such anticipated issue of PUF Debt, when taking into consideration the effect of such Bond Enhancement Agreement, is expected to result in a present value savings in connection with such advance refunding of at least 3.0% (determined in the manner set forth in the resolution approved by the Board authorizing the issuance of such anticipated issue of PUF Debt), and in such event, the Board hereby declares its intention to cause such anticipated PUF Debt to be issued. No such certification or declaration shall be applicable in connection with PUF Debt anticipated to be issued for the purpose of currently refunding any existing PUF Debt within ninety (90) days of the date of issuance of such anticipated PUF Debt.

SECTION 6. MASTER AGREEMENTS.

(a) New Master Agreements. Each Authorized Representative is hereby severally authorized to enter into ISDA Master Agreements (the "New Master Agreements") with counterparties satisfying the ratings requirements of the System's Interest Rate Swap Policy. Such New Master Agreements shall be in substantially the same form as the Executed Master Agreements, with such changes as, in the judgment of an Authorized Representative, with the advice and counsel of the Office of General Counsel and Bond Counsel, are necessary or desirable (i) to carry out the intent of the Board as expressed in this Resolution, (ii) to receive approval of this Resolution by the Attorney General of the State of Texas, if pursuant Section 2(b) of this Resolution, an Authorized Representative elects to designate any Bond Enhancement Agreement entered into by the Board pursuant to this Resolution as a "credit agreement" under Chapter 1371, (iii) to accommodate the credit structure or requirements of a particular counterparty or (iv) to incorporate comments received or anticipated to be received from any credit rating agency relating to a New Master Agreement. Each Authorized Representative is authorized to enter into such New Master Agreements and to enter into Confirmations thereunder in accordance with this Resolution and in furtherance of and to carry out the intent hereof.

(b) Amendments to Master Agreements. Each Authorized Representative is hereby further severally authorized to enter into amendments to the Master Agreements to allow Confirmations thereunder to be issued and entered into with respect to any then outstanding PUF Debt or PUF Debt anticipated to be issued in the future and to make such other amendments in accordance with the terms of the respective Master Agreements as in the judgment of such Authorized Representative, with the advice and counsel of the Office of General Counsel and Bond Counsel, are necessary or desirable to allow the Board to achieve the benefits of the Bond Enhancement Agreements in accordance with and subject to the System's Interest Rate Swap Policy and this Resolution.

SECTION 7. ADDITIONAL AUTHORIZATION; RATIFICATION OF SWAP POLICY.

(a) Additional Agreements and Documents Authorized. Each Authorized Representative and all officers of the Board are severally authorized to execute and deliver such other agreements and documents as are contemplated by this Resolution and the Master Agreements or are otherwise necessary in connection with entering into Confirmations and Bond Enhancement Agreements as described in this Resolution, as any such Authorized Representative or officer shall deem appropriate, including without limitation, officer's certificates, legal opinions, and credit support documents.

(b) Further Actions. Each Authorized Representative and all officers of the Board are severally authorized to take all such further actions, to execute and deliver such further instruments and documents in the name and on behalf of the Board to pay all such expenses as in his or her judgment shall be necessary or advisable in order fully to carry out the purposes of this Resolution.

(c) Swap Policy. The Board has reviewed and hereby ratifies and affirms the System's Interest Rate Swap Policy, a copy of which is attached hereto as Exhibit B.

[Remainder of page intentionally left blank]

EXHIBIT A

DEFINITIONS

As used in this Resolution the following terms shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

"Authorized Representative" shall have the meaning given to such term in the System's Interest Rate Swap Policy (a copy of which is attached hereto as Exhibit B).

"Available University Fund" shall have the meaning given to such term in the recitals to this Resolution.

"Board" shall have the meaning given to such term in the recitals to this Resolution.

"Bond Enhancement Agreement" shall have the meaning given to such term in Section 2(a) hereof.

"Chapter 1371" shall have the meaning given to such term in Section 2(b) hereof.

"Confirmation" shall have the meaning given to such term in Section 2(a) hereof.

"Constitutional Provision" shall have the meaning given to such term in the recitals to this Resolution.

"Executed Master Agreements" shall mean the following existing and fully executed ISDA Master Agreements currently in effect between the Board and the respective counterparty noted below (copies of which are attached hereto as Exhibit C):

(i) ISDA Master Agreement with Bank of America, N.A., dated as of December 1, 2007;

(ii) ISDA Master Agreement with Goldman Sachs Capital Markets, L.P., dated as of December 1, 2007;

(iii) ISDA Master Agreement with JPMorgan Chase Bank, National Association, dated as of December 1, 2007;

(iv) ISDA Master Agreement with Merrill Lynch Capital Services, Inc., dated as of December 1, 2007;

(v) ISDA Master Agreement with Morgan Stanley Capital Services Inc., dated as of December 1, 2007;

(vi) ISDA Master Agreement with the Royal Bank of Canada dated as of May 22, 2008; and

(vii) ISDA Master Agreement with UBS AG, dated as of April 1, 2008.

"Interest of the System" shall have the meaning given to such term in the recitals to this Resolution.

"ISDA" shall mean the International Swaps and Derivatives Association, Inc.

"LIBOR" shall have the meaning given to such term in clause (C) of Section 3 hereof.

"Master Agreements" shall mean, collectively, the Executed Master Agreements and any New Master Agreements.

"New Master Agreements" shall have the meaning given to such term in Section 6(a) hereof.

"Permanent University Fund" shall have the meaning given to such term in the recitals to this Resolution.

"PUF Debt" shall have the meaning given to such term in the recitals to this Resolution.

"Residual AUF" shall have the meaning given to such term in the recitals to this Resolution.

"Section 65.461" shall have the meaning given to such term in Section 2(b) hereof.

"State" shall have the meaning given to such term in the recitals to this Resolution.

"System" shall have the meaning given to such term in the recitals to this Resolution.

EXHIBIT B

INTEREST RATE SWAP POLICY
OF THE UNIVERSITY OF TEXAS SYSTEM

1. Title

Interest Rate Swap Policy

2. Rule and Regulation

Sec. 1 Authority. *Texas Education Code*, Chapter 55, including Section 55.13, *Texas Education Code,* Chapter 65, including Section 65.461, and *Texas Government Code*, Chapter 1371, including Section 1371.056, authorize the Board of Regents (Board) of The University of Texas System (U. T. System) to enter into interest rate management agreements and bond enhancement agreements (collectively “swaps”).

Sec. 2 Purpose. This policy will govern the use of swaps in connection with the U. T. System’s management of its debt programs, including the Permanent University Fund and Revenue Financing System debt programs. By using swaps in a prudent manner, the U. T. System can increase the U. T. System’s financial flexibility, provide opportunities for interest rate savings, allow the U. T. System to actively manage asset and liability interest rate risk, take advantage of market opportunities to lower the overall cost of debt, balance interest rate risk, or hedge other exposures. The use of swaps must be tied directly to U. T. System debt instruments. The U. T. System shall not enter into swaps for speculative purposes.

Sec. 3 Legality/Approval. Prior to entering into a swap, the U. T. System must receive approval from the Board of Regents (which may include a delegation of authority to an Authorized Representative to enter into one or more swaps) and any required approvals from the Texas Attorney General and the Texas Bond Review Board. The U. T. System will also secure an opinion acceptable to the Authorized Representative from legal counsel that the swap is a legal, valid, and binding obligation of the U. T. System and that entering into the swap complies with applicable State and federal laws.

Sec. 4 Form of Agreements. Each interest rate swap shall contain terms and conditions as set forth in the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, as amended, and such other terms and conditions including schedules, credit support annexes, and confirmations as deemed necessary by an Authorized Representative.

Sec. 5 Methods of Procuring Swaps. Swaps can be procured via competitive bids or on a negotiated basis with counterparties or its credit support providers having credit ratings of ‘A’ or ‘A2’ or better from Standard & Poor’s or Moody’s, respectively.

5.1 Competitive. The competitive bid should include a minimum of three firms. An Authorized Representative may allow a firm or firms not submitting the bid that produces the lowest cost to match the lowest bid and be awarded a specified percentage of the notional amount of the swap.

5.2 Negotiated. An Authorized Representative may procure swaps by negotiated methods in the following situations:

(a) A determination is made by an Authorized Representative that due to the complexity of a particular swap, a negotiated bid would result in the most favorable pricing;

(b) An Authorized Representative makes a determination that, in light of the facts and circumstances, doing so will promote the U. T. System’s interests by encouraging and rewarding innovation; or

(c) A determination is made by an Authorized Representative that a competitive bid would likely create market pricing effects that would be detrimental to the interests of the U. T. System.

Sec. 6 Counterparty Risk. Counterparty risk is the risk of a failure by one of the U. T. System’s swap counterparties to perform as required under a swap. To mitigate this risk, the U. T. System will 1) diversify its exposure among highly rated swap counterparties satisfying the rating criteria set forth in Section 5 above; 2) require collateralization as set forth below; and 3) include an optional termination event if the counterparty (or its credit support provider, if applicable) is downgraded below a second (lower) threshold.

6.1 Value Owed by Counterparty. To limit and diversify the U. T. System’s counterparty risk and to monitor credit exposure to each counterparty, the U. T. System may not enter into a swap with an otherwise qualified counterparty unless the cumulative mark-to-market value owed by the counterparty (and its credit support provider, if applicable) to the U. T. System shall be less than or equal to the applicable threshold amount set forth in Section 6.3 below.

6.2 Calculation of Value Owed. The value owed shall be the sum of all mark-to-market values between the subject counterparty and the U. T. System regardless of the type of swap, net of collateral posted by the counterparty. Collateral will consist of cash, U.S. Treasury securities, and Federal Agency securities guaranteed unconditionally by the full faith and credit of the U.S. Government. Collateral shall be deposited with a third party trustee acceptable to U. T. System or as mutually agreed upon between U. T. System and each counterparty.

6.3 Threshold Amounts Based on Credit Rating. Specific threshold amounts by counterparty are based on the cumulative mark-to-market value of the swap(s) and the credit rating of the counterparty or its credit support provider. The threshold amounts are as follows:

(a) AAA / Aaa	$30 million
(b) AA+ / Aa1	$25 million
(c) AA / Aa2	$20 million
(d) AA- / Aa3	$15 million
(e) A+ / A1	$10 million
(f) A / A2	$ 5 million

6.4 Downgraded Rating. If the credit rating of a counterparty or its credit support provider is downgraded such that the cumulative mark-to-market value of all swaps between such counterparty and the U. T. System exceeds the maximum permitted by this policy, the counterparty must post collateral or provide other credit enhancement that is satisfactory to the U. T. System and ensures compliance with this policy.

Sec. 7 Termination Risk. The U. T. System shall consider the merits of including a provision that permits it to optionally terminate a swap at any time over the term of the swap (elective termination right). In general, exercising the right to optionally terminate a swap should produce a benefit to the U. T. System, either through receipt of a payment from a termination, or if a termination payment is made by the U. T. System, a conversion to a more beneficial debt instrument or credit relationship. If no other remedies are available, it is possible that a termination payment by the U. T. System may be required in the event of termination of a swap due to a counterparty default or following a decrease in credit rating.

Sec. 8 Amortization Risk. The amortization schedules of the debt and associated swap should be closely matched for the duration of the swap. Mismatched amortization schedules can result in a less than satisfactory hedge and create unnecessary risk. In no circumstance may (i) the notional amount of a swap exceed the principal amount of the related debt at any time, or (ii) the term of a swap extend beyond the final maturity date of the related debt instrument, or in the case of a refunding transaction, beyond the final maturity date of the refunding bonds.

Sec. 9 Basis Risk. Basis risk arises as a result of movement in the underlying variable rate indices that may not be in tandem, creating a cost differential that could result in a net cash outflow from the U. T. System. Basis risk can also result from the use of floating, but different, indices. To mitigate basis risk, any index used as part of a swap shall be a recognized market index, including but not limited to the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index or the London Interbank Offered Rate (LIBOR).

Sec. 10 Tax Risk. Tax risk is the risk that tax laws will change, resulting in a change in the marginal tax rates on swaps and their underlying assets. Tax risk is also present in all tax-exempt debt issuances. The Office of Finance should continually monitor and evaluate tax risk.

Sec. 11 Interest Rate Risk. Additional interest rate risk can be created by entering into certain types of swaps. Interest rate risk is risk that costs associated with variable rate exposure increase as a result of changes in market interest rates. The Office of Finance will incorporate the impact of each swap on the overall debt portfolio.

Sec. 12 Reporting.

12.1 The Office of Finance staff will report to the Board within 30 days of completion of any swap transaction.

12.2 The Annual Financial Report prepared by the U. T. System and presented to the Board of Regents will discuss the status of all swaps. The report shall include a list of all swaps with notional value and interest rates, a list of counterparties (and credit support providers, if applicable) and their respective credit ratings, and other key terms.

3. Definitions

Authorized Representative – includes the Executive Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, the Vice Chancellor for Finance and Business Development, and the Assistant Vice Chancellor for Finance.

Counterparty – a participant in a swap who exchanges payments based on interest rates or other criteria with another counterparty.

Counterparty Long-Term Debt Rating – lowest prevailing rating from Standard & Poor's / Moody's.

Hedge – a transaction entered into to reduce exposure to market fluctuations.

Interest Rate Swap – a swap in which two parties agree to exchange future net cash flows based on predetermined interest rates or indices calculated on an agreed notional amount. An interest rate swap is not a debt instrument and there is no exchange of principal.

ISDA Master Agreement – the International Swaps and Derivatives Association, Inc. (ISDA), is the global trade association for the derivatives industry. The ISDA Master Agreement is the basic governing document that serves as a framework for all interest rate swaps and certain other types of swaps between two counterparties. It is a standard form used throughout the industry. It is typically negotiated once, prior to the first swap transaction, and remains in force for all subsequent swap transactions.

London Interbank Offered Rate (LIBOR) – the rate of interest at which banks borrow funds from other banks in the London interbank market. It is a commonly used benchmark for swaps.

Mark-to-Market – calculation of the value of a financial instrument (like an interest rate swap) based on the current market rates or prices of the underlying indices.

Maximum cumulative mark-to-market – value of swaps owed to the U. T. System by counterparty (net of collateral posted).

Notional Amount – the size of the swap and the dollar amount used to calculate interest payments.

SIFMA Index - (formerly known as the Bond Market Association (BMA) Municipal Swap index). The principal benchmark for floating rate payments for tax-exempt issuers. The index is a national rate based on a market basket of high-grade, seven-day, tax-exempt variable rate bond issues.

4. Relevant Federal and State Statutes

Texas Education Code, Chapter 55 – Financing Permanent Improvements

Texas Education Code, Chapter 65 – Administration of The University of Texas System

Texas Government Code, Chapter 1371 – Obligations for Certain Public Improvements

5. Relevant System Policies, Procedures, and Forms

None

6. Who Should Know

Administrators

7. System Administration Office(s) Responsible for Rule

Office of Business Affairs

8. Dates Approved or Amended

August 23, 2007
December 10, 2004

9. Contact Information

Questions or comments regarding this rule should be directed to:

- bor@utsystem.edu

EXHIBIT C

EXECUTED MASTER AGREEMENTS

[On file with the Board]

8. **U. T. System: Approval of aggregate amount of $157,373,000 of equipment financing for Fiscal Year 2011 and resolution regarding parity debt**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents

a. approve an aggregate amount of $157,373,000 of Revenue Financing System Equipment Financing for FY 2011 as allocated to those U. T. System institutions set out on Page 145; and

b. 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 cost of equipment including costs incurred 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;

- the U. T. System institutions and U. T. System Administration, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their 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 $157,373,000 for the purchase of equipment; and

- this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the *Code of Federal Regulations* that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

On April 14, 1994, the U. T. System Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. Equipment financing is used for the purchase of equipment in lieu of more costly vendor financing. The guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized twice a year with full amortization not to exceed 10 years.

This agenda item requests approval of an aggregate amount of $157,373,000 for equipment financing for Fiscal Year 2011.

The U. T. System Board of Regents approved $125,918,000 of equipment financing in Fiscal Year 2010, of which $41,925,000 has been issued as of July 31, 2010.

Further details on the equipment to be financed and debt service coverage ratios for individual institutions can be found on Page 145.

APPROVAL OF U. T. SYSTEM EQUIPMENT FINANCING
FY 2011

Institution	$ Amount of Request	Description of Expected Equipment Purchases	DSC*
U. T. Austin	$3,000,000	Classroom equipment, research equipment, information technology equipment, and athletics equipment	1.8x
U. T. Dallas	12,000,000	General purpose equipment and information technology equipment	2.3x
U. T. El Paso	1,373,000	Vehicle purchases, infrastructure equipment, facility-related equipment, and athletics equipment	2.1x
U. T. Southwestern Medical Center – Dallas	35,000,000	Information technology equipment, clinical and hospital equipment, and non-clinical equipment	2.4x
U. T. Medical Branch – Galveston	40,000,000	Clinical equipment, information technology equipment, and general-purpose equipment	2.0x
U. T. Health Science Center – Houston	3,000,000	Information technology equipment	2.4x
U. T. Health Science Center – San Antonio	7,000,000	Research equipment, clinical equipment, and infrastructure equipment	2.0x
U. T. M. D. Anderson Cancer Center	50,000,000	Medical equipment, research equipment, and diagnostic equipment	7.1x
U. T. Health Science Center – Tyler	6,000,000	Classroom equipment, clinical equipment, and diagnostic equipment	1.8x

Total	$157,373,000

* Debt Service Coverage ("DSC") based on six-year forecasted Statement of Revenues, Expenses, and Changes in Net Assets ("SRECNA") for FY2011 – FY2016.

U. T. System Office of Finance, June 30, 2010

9. **<u>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 Short Term Fund, the Separately Invested Funds, and the Derivative Investment Policy</u>**

RECOMMENDATION

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

a. Permanent University Fund (PUF) (See Pages 148 - 159)

b. General Endowment Fund (GEF) (See Pages 160 - 169)

c. Permanent Health Fund (PHF) (See Pages 170 - 180)

d. Long Term Fund (LTF) (See Pages 181 - 189)

e. Intermediate Term Fund (ITF) (See Pages 190 - 199)

f. Short Term Fund (STF) (See Pages 200 - 206)

g. Separately Invested Funds (SIF) (See Pages 207 - 215)

h. Derivative Investment Policy (See Pages 216 - 221)

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 Polices for each Fund at least annually. The review includes distribution (spending) guidelines, long-term investment return expectations and expected risk levels, Asset Class and Investment Type allocation targets and ranges for each eligible Asset Class and Investment Type, expected returns for each Asset Class, Investment Type, and Fund, designated performance benchmarks for each Asset Class and/or Investment Type, and such other matters as the U. T. System Board or its staff designees may request.

The UTIMCO Board approved the amendments to the Investment Policy Statements and the Derivative Investment Policy on July 14, 2010. Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of UTIMCO, discussed UTIMCO's investment strategy, which included a discussion on the proposed changes to the Investment Policy Statements, at the U. T. System Board of Regents' joint meeting with the UTIMCO Board on July 14, 2010.

Exhibits to the Investment Policy Statements for the PUF, GEF, PHF, and LTF have been amended to reflect changes to the Targets and Ranges for Asset Classes and Investment Types proposed for Fiscal Year Ending (FYE) 2011. The Expected Annual Return (Benchmarks) has been changed, and the one year downside deviation has been adjusted to reflect the revised Asset Class and Investment Type targets for FYE 2011.

The PUF and GEF Investment Objectives language is being changed to clarify the calculation of investment returns and other expenses charged to the fund, and the secondary investment objectives are being deleted. The Policy Portfolio benchmark language is being moved to the Performance Measurement section of the Investment Policy Statements. With respect to the PHF and LTF, the secondary investment objectives are being deleted.

The ITF's Investment Objective is being changed to use a five-year rolling period to calculate purchasing power rather than three years. Language is being changed to clarify the ITF's secondary investment objective, and the Policy Portfolio benchmark language is being moved to the Performance Measurement section of the Investment Policy Statement.

The STF and SIF Investment Policy Statements are being amended to make the language consistent with the terminology previously adopted for the PUF, GEF, ITF, PHF, and LTF Investment Policy Statements.

All amended Investment Policy Statements will be effective September 1, 2010.

Proposed amendments to the Derivative Investment Policy are as follows:

- Definition of Derivatives changed to exclude foreign currency contracts that settle within thirty (30) days.

- Additional Limitations and Reporting language has been corrected to refer to "uncollateralized derivative exposure" rather than "leverage" to be consistent with Exhibits A of the PUF, GEF, and ITF Investment Policy Statements.

- Language changed to require noncompliance issues to be reported to the UTIMCO Board Chairman rather than the UTIMCO Board and to allow the UTIMCO Board Chairman to waive immediate remedial action in appropriate circumstances.

THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND
INVESTMENT POLICY STATEMENT

Purpose

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

PUF Organization

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

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

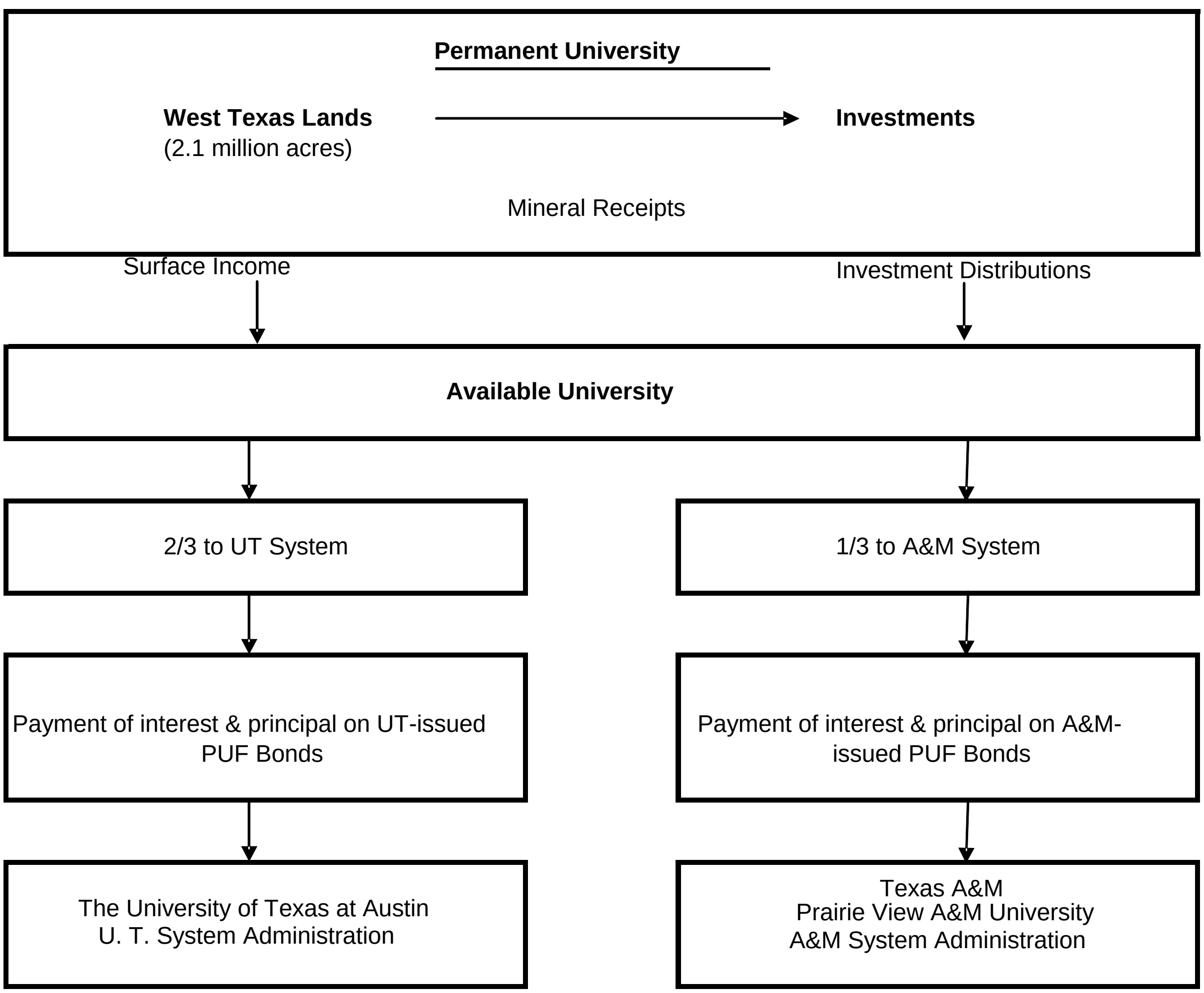
The expenditure of the AUF is subject to a prescribed order of priority:

First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and the A&M System, respectively, 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.

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

Exhibit 1



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

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

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the PUF shall be managed by UTIMCO, which shall a) recommend investment policy for the PUF, b) recommend specific Asset 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 pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund assets and annual distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund ~~plus the annual expected~~after all expenses. The ~~current 5.1% target was derived by adding the PUF's~~ current target distribution rate ~~of~~ is 4.75%~~ plus an annual expected expense of .35%~~. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund.

~~The secondary investment objectives are to generate (i) average annual returns adjusted for downside risk in excess of the Policy Portfolio adjusted for downside risk over rolling five-year periods and (ii) average annual returns in excess of the median return of the universe of the college and university endowments with assets greater than $1 billion as reported by Cambridge Associates over rolling five-year periods. 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 Exhibit A.~~

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

Portfolio Projected Downside Deviation 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:

<u>Asset Classes:</u>

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

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

<u>Natural Resources</u> - 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.

<u>Real Estate</u> - Real Estate represents primarily equity ownership in real property including public and private securities.

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

<u>Emerging Markets Equity</u> – 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).

<u>Investment Types:</u>

<u>More Correlated & Constrained Investments</u> – 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 – 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 – Mandates that invest primarily in non-public securities and typically entail capital commitments, calls and distributions.

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 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 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.

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.

Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets 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.

- 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.

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

Annually, the Board of Regents will approve a distribution amount to the Available University Fund.

In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the Board of Regents each May, or at other times as needed, an amount to be distributed to the AUF during the next fiscal year. UTIMCO's recommendation to the Board of Regents shall be an amount equal to 4.75% of the trailing 12-quarter average of the net asset value of the PUF for the quarter ending February of each year unless the average annual rate of return of the PUF investments over the trailing 12 quarters exceeds the Expected Return by 25 basis points or more, in which case the distribution shall be 5.0% of the trailing 12-quarter average. "Expected Return" is the Expected Annual Return or Benchmarks set out in Exhibit A to this Policy Statement.

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

PUF Accounting

The fiscal year of the PUF shall begin on September 1st and end on August 31st. Market value of the PUF shall be maintained on an accrual basis in compliance with 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 PUF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PUF net assets. Valuation of PUF assets shall be based on the books and records of the custodian for the valuation date. The final determination of PUF net assets for a month end close shall normally be completed within five business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets 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 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 ~~August 20, 2009~~September 1, 2010 ~~(except for Exhibit A which is effective September 1, 2009)~~.

EXHIBIT A
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 20~~09~~10

POLICY PORTFOLIO	Min	FYE 201~~0~~1 Target	Max
Asset Classes			
Investment Grade Fixed Income	5.0%	9.5%	20.0%
Credit-Related Fixed Income	3.0%	5.5%	30.0%
Real Estate	~~2.5~~ 0%	4.5%	10.0%
Natural Resources	5.0%	~~9.0~~ 11.0%	~~15.0~~ 17.5%
Developed Country Equity	35.0%	~~52.5~~ 50.5%	60.0%
Emerging Markets Equity	10.0%	19.0%	25.0%
Investment Types			
More Correlated & Constrained	35.0%	48~~.5~~ 0%	~~55.0~~ 60.0%
Less Correlated & Constrained	25.0%	30.0%	~~35.0~~ 37.5%
Private Investments	17.5%	~~21.5~~ 22.0%	32.5%

*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 (reset monthly)	FYE 201~~0~~1
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index	~~3.5~~ 2.5%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	~~5.5~~ 6.5%
MSCI World Index with net dividends	~~19.0~~ 19.5%
MSCI Emerging Markets with net dividends	~~13.0~~ 12.0%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Venture Economics Custom Index	~~20.5~~ 20.0%
NACREIF Custom Index	~~1.0~~ 2.0%

POLICY/TARGET RETURN/RISKS	FYE 201~~0~~1
Expected Annual Return (Benchmarks) **	~~8.86~~ 8.82%
One Year Downside Deviation	~~9.05~~ 8.94%
Risk Bounds	
Lower: 1 Year Downside Deviation	85%
Upper: 1 Year Downside Deviation	115%

****Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of 3%.**

EXHIBIT A
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 20~~09~~10

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 201~~0~~1

FYE 201~~0~~1		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	0.00%	3.0%	2.5%	5.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index (~~3.5~~ 2.5%)	0.0%	Custom NACREIF ~~1~~ 2.0%	4.5%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (~~5.5~~ 6.5%)	1.0%	~~2.5~~ 3.5%	~~9.0~~ 11.0%
Equity	Developed Country	MSCI World Index with Net Dividends (~~19.0~~19.5 %)	20.0%	~~13.5~~ 11.0%	~~52.5~~ 50.5%
	Emerging Markets	MSCI EM Index with Net Dividends (~~13.0~~ 12.0%)	4.0%	~~2.0~~ 3.0%	19.0%
Total		~~48.5~~ 48.0%	30.0%	~~21.5~~ 22.0%	100.0%

Hedge Fund Research Indices Fund of Funds Composite Index (yellow)
Venture Economics Custom Index (blue)

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.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the GEF shall be managed by UTIMCO, which shall a) recommend investment policy for the GEF, b) recommend specific Asset 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 pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund assets by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund (in case of the GEF, the target distribution rate of the LTF and the PHF) ~~plus the annual expected~~ after all expenses. The ~~current 5.2% target was derived by adding the GEF's~~ current target distribution rate ~~of~~ is 4.75%~~ plus an annual expected expense of .45%~~. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund.

~~The secondary investment objectives are to generate (i) average annual returns adjusted for downside risk in excess of the Policy Portfolio adjusted for downside risk over rolling five-year periods and (ii) average annual returns in excess of the median return of the universe of the college and university endowments with assets greater than $1 billion as reported by Cambridge Associates over rolling five-year periods. 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 Exhibit A.~~

Investments must be within the Asset Class and Investment Type ranges, prudently diversified, and within the approved Policy Risk Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO's risk model. Liquidity of the 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 risk 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 Deviation 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, including real and nominal, US and non-US, and across all maturities 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, US and non-US, and across all maturities 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 – 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 – 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 – Mandates that invest primarily in non-public securities and typically entail capital commitments, calls and distributions.

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 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 jeopardize the GEF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

- The GEF's investments in warrants shall not exceed more than 5% of the GEF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.

- The GEF may utilize derivatives only in accordance with the Derivative Investment Policy.

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.

Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets 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.

- 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 five business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets 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 & 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 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 ~~August 20, 2009~~ September 1, 2010~~(except for Exhibit A which is effective September 1, 2009)~~.

EXHIBIT A
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 20~~09~~10

POLICY PORTFOLIO	FYE 201~~0~~1 Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	5.0%	9.5%	20.0%
Credit-Related Fixed Income	3.0%	5.5%	30.0%
Real Estate	~~2.5~~ 0%	4.5%	10.0%
Natural Resources	5.0%	~~9.0~~ 11.0%	~~15.0~~ 17.5%
Developed Country Equity	35.0%	~~52.5~~ 50.5%	60.0%
Emerging Markets Equity	10.0%	19.0%	25.0%
Investment Types			
More Correlated & Constrained	35.0%	48~~.5~~ 0%	~~55.0~~ 60.0%
Less Correlated & Constrained	25.0%	30.0%	~~35.0~~ 37.5%
Private Investments	17.5%	~~21.5~~ 22.0%	32.5%

*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 (reset monthly)	FYE 201~~0~~1
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index	~~3.5~~ 2.5%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	~~5.5~~ 6.5%
MSCI World Index with net dividends	~~19.0~~ 19.5%
MSCI Emerging Markets with net dividends	~~13.0~~ 12.0%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Venture Economics Custom Index	~~20.5~~ 20.0%
NACREIF Custom Index	~~1.0~~ 2.0%

POLICY/TARGET RETURN/RISKS	FYE 201~~0~~1
Expected Annual Return (Benchmarks) **	~~8.86~~ 8.82%
One Year Downside Deviation	~~9.05~~ 8.94%
Risk Bounds	
Lower: 1 Year Downside Deviation	85%
Upper: 1 Year Downside Deviation	115%

****Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of 3%.**

EXHIBIT A
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 20~~09~~10

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 201~~0~~1

FYE 201~~0~~1		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	0.00%	3.0%	2.5%	5.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index (~~3.5~~ 2.5%)	0.0%	Custom NACREIF ~~1~~ 2.0%	4.5%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (~~5.5~~ 6.5%)	1.0%	~~2.5~~ 3.5%	~~9.0~~ 11.0%
Equity	Developed Country	MSCI World Index with Net Dividends (~~19.0~~19.5 %)	20.0%	~~13.5~~ 11.0%	~~52.5~~ 50.5%
	Emerging Markets	MSCI EM Index with Net Dividends (~~13.0~~ 12.0%)	4.0%	~~2.0~~ 3.0%	19.0%
Total		~~48.5~~ 48.0%	30.0%	~~21.5~~ 22.0%	100.0%

Hedge Fund Research Indices Fund of Funds Composite Index

Venture Economics Custom Index

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

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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 - Dallas
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.

PHF Management

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

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

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

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the PHF shall be managed by UTIMCO which shall: a) recommend investment policy for the PHF; b) recommend specific Asset 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 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 preserve the purchasing power of PHF assets and annual distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate, plus the annual expected expense. The current target rate is 5.2%. The target is subject to adjustment from time to time consistent with the primary investment objective of the PHF.

~~The secondary investment objectives are to generate (i) average annual returns adjusted for downside risk in excess of the Policy Portfolio adjusted for downside risk over rolling five-year periods and (ii) average annual returns in excess of the median return of the universe of the college and university endowments with assets greater than $1 billion as reported by Cambridge Associates over rolling five-year periods.~~

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 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.

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

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

A. Increase the prior year's per unit distribution amount (cents per unit) by the average inflation rate (C.P.I.) for the previous twelve quarters. This will be the per unit distribution amount for the next fiscal year. This amount may be rounded to the nearest $.0005 per unit.

B. If the inflationary increase in Step A results in a distribution rate below 3.5% (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit), the UTIMCO Board may recommend an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5% (computed in the same manner).

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

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

Distributions from the PHF to the 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.

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 six business days but determination may be longer under certain circumstances.

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

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.

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

Redemption of PHF Units

Redemption of PHF units shall be paid in cash as soon as practicable after the quarterly valuation date of the PHF. If the withdrawal is greater than $5 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $5 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the PHF's net asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the best interests of all PHF 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 ~~August 20, 2009~~September 1, 2010~~, except for Exhibit B. Exhibit B follows the effective date of Exhibit A of the GEF~~.

EXHIBIT A

PHF ASSET ALLOCATION

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

	Neutral Allocation	Range	Benchmark Return
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

EXHIBIT B - GENERAL ENDOWMENT FUND

ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

EFFECTIVE SEPTEMBER 1, 20~~09~~10

POLICY PORTFOLIO		FYE 201~~0~~1	
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	5.0%	9.5%	20.0%
Credit-Related Fixed Income	3.0%	5.5%	30.0%
Real Estate	~~2.5~~ 0%	4.5%	10.0%
Natural Resources	5.0%	~~9.0~~ 11.0%	~~15.0~~ 17.5%
Developed Country Equity	35.0%	~~52.5~~ 50.5%	60.0%
Emerging Markets Equity	10.0%	19.0%	25.0%
Investment Types			
More Correlated & Constrained	35.0%	48~~.5~~ 0%	~~55.0~~ 60.0%
Less Correlated & Constrained	25.0%	30.0%	~~35.0~~ 37.5%
Private Investments	17.5%	~~21.5~~ 22.0%	32.5%

*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 (reset monthly)	FYE 201~~0~~1
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index	~~3.5~~ 2.5%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	~~5.5~~ 6.5%
MSCI World Index with net dividends	~~19.0~~ 19.5%
MSCI Emerging Markets with net dividends	~~13.0~~ 12.0%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Venture Economics Custom Index	~~20.5~~ 20.0%
NACREIF Custom Index	~~1.0~~ 2.0%

POLICY/TARGET RETURN/RISKS	FYE 201~~0~~1
Expected Annual Return (Benchmarks) **	~~8.86~~ 8.82%
One Year Downside Deviation	~~9.05~~ 8.94%
Risk Bounds	
Lower: 1 Year Downside Deviation	85%
Upper: 1 Year Downside Deviation	115%

****Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of 3%.**

EXHIBIT B
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 20~~09~~10

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 201~~0~~1

FYE 201~~0~~1		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	0.00%	3.0%	2.5%	5.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index (~~3.5~~ 2.5%)	0.0%	Custom NACREIF ~~1~~ 2.0%	4.5%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (~~5.5~~ 6.5%)	1.0%	~~2.5~~ 3.5%	~~9.0~~ 11.0%
Equity	Developed Country	MSCI World Index with Net Dividends (~~19.0~~19.5 %)	20.0%	~~13.5~~ 11.0%	~~52.5~~ 50.5%
	Emerging Markets	MSCI EM Index with Net Dividends (~~13.0~~ 12.0%)	4.0%	~~2.0~~ 3.0%	19.0%
Total		~~48.5~~ 48.0%	30.0%	~~21.5~~ 22.0%	100.0%

Hedge Fund Research Indices Fund of Funds Composite Index (yellow)
Venture Economics Custom Index (blue)

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 Investment Management 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 preserve the purchasing power of LTF assets by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate, plus the annual expected expense. The current target rate is 5.2%. The target is subject to adjustment from time to time consistent with the primary investment objective of the LTF. The LTF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

~~The secondary investment objectives are to generate (i) average annual returns adjusted for downside risk in excess of the Policy Portfolio adjusted for downside risk over rolling five-year periods and (ii) average annual returns in excess of the median return of the universe of the college and university endowments with assets greater than $1 billion as reported by Cambridge Associates over rolling five-year periods.~~

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 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 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.

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.

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

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

A. Increase the prior year's per unit distribution amount (cents per unit) by the average inflation rate (C.P.I.) for the previous twelve quarters. This will be the per unit distribution amount for the next fiscal year. This amount may be rounded to the nearest $.0005 per unit.

B. If the inflationary increase in Step A results in a distribution rate below 3.5% (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit), the UTIMCO Board may recommend an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5% (computed in the same manner).

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

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

Distributions from the LTF to the 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 six business days but determination may be longer under certain circumstances.

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

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 $10 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the LTF's net asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the best interests of all LTF 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 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 ~~August 20, 2009~~September 1, 2010~~, except for Exhibit B. Exhibit B follows the effective date of Exhibit A of the GEF~~.

EXHIBIT A

LTF ASSET ALLOCATION

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

	Neutral Allocation	Range	Benchmark Return
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

EXHIBIT B - GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 20~~09~~10

POLICY PORTFOLIO	FYE 201~~0~~1		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	5.0%	9.5%	20.0%
Credit-Related Fixed Income	3.0%	5.5%	30.0%
Real Estate	~~2.5~~ 0%	4.5%	10.0%
Natural Resources	5.0%	~~9.0~~ 11.0%	~~15.0~~ 17.5%
Developed Country Equity	35.0%	~~52.5~~ 50.5%	60.0%
Emerging Markets Equity	10.0%	19.0%	25.0%
Investment Types			
More Correlated & Constrained	35.0%	48~~.5~~ 0%	~~55.0~~ 60.0%
Less Correlated & Constrained	25.0%	30.0%	~~35.0~~ 37.5%
Private Investments	17.5%	~~21.5~~ 22.0%	32.5%

*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 (reset monthly)	FYE 201~~0~~1
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index	~~3.5~~ 2.5%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	~~5.5~~ 6.5%
MSCI World Index with net dividends	~~19.0~~ 19.5%
MSCI Emerging Markets with net dividends	~~13.0~~ 12.0%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Venture Economics Custom Index	~~20.5~~ 20.0%
NACREIF Custom Index	~~1.0~~ 2.0%

POLICY/TARGET RETURN/RISKS	FYE 201~~0~~1
Expected Annual Return (Benchmarks) **	~~8.86~~ 8.82%
One Year Downside Deviation	~~9.05~~ 8.94%
Risk Bounds	
Lower: 1 Year Downside Deviation	85%
Upper: 1 Year Downside Deviation	115%

****Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of 3%.**

EXHIBIT B
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 20~~09~~10

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 201~~0~~1

FYE 201~~0~~1		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	0.00%	3.0%	2.5%	5.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index (~~3.5~~ 2.5%)	0.0%	Custom NACREIF ~~1~~ 2.0%	4.5%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (~~5.5~~ 6.5%)	1.0%	~~2.5~~ 3.5%	~~9.0~~ 11.0%
Equity	Developed Country	MSCI World Index with Net Dividends (~~19.0~~19.5 %)	20.0%	~~13.5~~ 11.0%	~~52.5~~ 50.5%
	Emerging Markets	MSCI EM Index with Net Dividends (~~13.0~~ 12.0%)	4.0%	~~2.0~~ 3.0%	19.0%
Total		~~48.5~~ 48.0%	30.0%	~~21.5~~ 22.0%	100.0%

Yellow	Hedge Fund Research Indices Fund of Funds Composite Index
Blue	Venture Economics Custom Index

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 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 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 preserve the purchasing power of ITF assets by earning a compound annualized return over rolling ~~three~~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%.

The secondary investment objective~~s~~ ~~are~~is to generate ~~(i)~~ average annual returns ~~adjusted for downside risk,~~ net of all ~~direct and allocated~~investment-related expenses, in excess of the approved Policy Portfolio ~~adjusted downside for risk~~ over rolling five-year periods. ~~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.~~

Investments must be within the Asset Class and Investment Type ranges, prudently diversified, and within the approved Policy Risk 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 risk 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 Deviation 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, including real and nominal, US and non-US, and across all maturities 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, US and non-US, and across all maturities 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 – 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 – 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.

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 by the UTIMCO Board.
- The ITF's investments in warrants shall not exceed more than 5% of the ITF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The ITF may utilize derivatives only in accordance with the Derivative Investment Policy.

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.

Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets 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.
- 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 shall normally be completed within six business days but determination may be longer under certain circumstances. Valuation of ITF assets shall be based on the books and records of the custodian for the valuation date.

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

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 UTIMCO Board will recommend the annual distribution (%) rate to the Board of Regents. 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.

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 ~~August 20, 2009~~ September 1, 2010~~(except for Exhibit A which is effective September 1, 2009)~~.

EXHIBIT A - INTERMEDIATE TERM FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 20~~09~~10

POLICY PORTFOLIO	FYE 201~~0~~1		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	30.0%	37.0%	45.0%
Credit-Related Fixed Income	0.0%	4.0%	12.0%
Real Estate	0.0%	5.0%	10.0%
Natural Resources	2.5%	8.5%	12.5%
Developed Country Equity	25.0%	33.0%	40.0%
Emerging Markets Equity	7.5%	12.5%	17.5%
Investment Types			
More Correlated & Constrained	60.0%	65.0%	70.0%
Less Correlated & Constrained	30.0%	35.0%	40.0%

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed ~~105~~ 100% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	FYE 201~~0~~1
Barclays Capital Global Aggregate Index	35.0%
FTSE EPRA/NAREIT Developed Index	5.0%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	7.5%
MSCI World Index with net dividends	10.0%
MSCI Emerging Markets with net dividends	7.5%
Hedge Fund Research Indices Fund of Funds Composite Index	35.0%

POLICY/TARGET RETURN/RISKS	FYE 201~~0~~1
Expected Annual Return (Benchmarks) **	7.28%
One Year Downside Deviation	5.34%
Risk Bounds	
Lower: 1 Year Downside Deviation	85%
Upper: 1 Year Downside Deviation	115%

****Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of 3%.**

EXHIBIT A - INTERMEDIATE TERM FUND
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 20~~09~~10

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 201~~0~~1

FYE 201~~0~~1		More Correlated & Constrained	Less Correlated & Constrained	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (35.0%)	2.0%	37.0%
	Credit-Related	(0.0%)	4.0%	4.0%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index (5.0%)	0.0%	5.0%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (7.5%)	1.0%	8.5%
Equity	Developed Country	MSCI World Index with Net Dividends (10.0%)	23.0%	33.0%
	Emerging Markets	MSCI EM Index with Net Dividends (7.5%)	5.0%	12.5%
Total		65.0%	35.0%	100.0%

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 SYSTEM
SHORT TERM FUND
INVESTMENT POLICY STATEMENT

Purpose

The Short Term Fund (the "STF") 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 short and intermediate term funds held by U. T. System institutions and System Administration with an investment horizon of less than one year.

STF Organization

The STF functions like a mutual fund in which each eligible account purchases and redeems STF units as provided herein. The ownership of STF 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.

STF 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 STF.

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

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

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

STF 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 STF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase STF Units

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

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

The funds of a foundation structured as a supporting organization described in Section 509(a) of the *Internal Revenue Code of 1986*, which supports the activities of the U. T. System and its institutions, may purchase units in the STF provided that a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the STF.

STF Investment Objectives

The primary investment objective shall be to maximize current income consistent with the absolute preservation of capital and maintenance of adequate STF liquidity. The STF shall seek to maintain a net asset value of $1.00.

Achievement of this objective shall be defined as a fund return in excess of the average gross return of the median manager of an approved universe of institutional only money market funds.

Asset Class Allocation and Policy

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

STF assets shall be allocated to the following broad ~~asset~~ Asset ~~class~~Class:

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

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

General

- All investments will be U.S. dollar denominated assets.
- 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 STF assets in such investments.

~~Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of STF assets in such liquid investment fund.~~

- No securities may be purchased or held which ~~would~~ jeopardize the STF's tax-exempt status.

- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No internal investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

Cash and Cash Equivalents
Holdings of cash and cash equivalents may include the following:

- u~~U~~naffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation or the equivalent by a Nationally Recognized Statistical Rating Organization (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,

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

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

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

~~.~~

- Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master repurchase agreement with UTIMCO.

- Eligible Collateral Securities for repurchase agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.

- The maturity for a repurchase agreement may be from one day to two weeks.

- The value of all collateral shall be maintained at 102% of the notional value of the repurchase agreement, valued daily.

- All collateral shall be delivered to the STF custodian bank. Tri-party collateral arrangements are not permitted.

- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the STF's total assets.

- Overnight repurchase agreements may not exceed 50% of the STF's total assets.

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.

STF Distributions

Distributions of income from the STF to the unitholders shall be made as soon as practicable on or after the last day of each month.

STF Accounting

The fiscal year of the STF shall begin on September 1st and end on August 31st. Market value of the STF shall be maintained on an accrual basis in compliance with ~~Financial Accounting Standards Board Statements~~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~~ Chief ~~investment~~ Investment ~~officer~~ 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.

Valuation of Assets

All investments are stated at amortized cost, which in most cases approximates the market value of securities. The objective of the fund is to maintain a stable $1.00 net asset value; however, the $1.00 net asset value is neither guaranteed nor insured by UTIMCO.

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

Purchase of STF Units

Purchase of STF units may be made on each business day upon payment of cash to the STF or contribution of assets approved by UTIMCO's ~~chief~~ Chief ~~investment~~ Investment ~~officer~~Officer, at the net asset value per unit of the STF as of the most recent valuation date.

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

Redemption of STF Units

Redemption of units may be made on each business day at the net asset value per unit.

Securities Lending

The STF may not participate in a securities lending contract with a bank or nonbank security lending agent.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the STF solely in the interest of STF unitholders and shall not invest the STF 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 ~~November 10, 2005~~September 1, 2010.

THE UNIVERSITY OF TEXAS SYSTEM
SEPARATELY INVESTED FUNDS INVESTMENT POLICY STATEMENT

Purpose

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

Investment Management

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

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

Pursuant to an Investment Management Services Agreement between the Board of Regents and UTIMCO, the assets for the Accounts shall be managed by UTIMCO, which shall: a) recommend investment policy for the Accounts, b) determine specific ~~asset~~ Asset Class allocation targets, ranges and performance benchmarks consistent with the Accounts objectives, and if appropriate c) monitor the Accounts'~~s~~ performance against Accounts objectives. UTIMCO shall invest the Accounts'~~s~~ assets in conformity with this Policy Statement.

UTIMCO may select and terminate ~~U~~unaffiliated investment managers ~~may be hired by UTIMCO to improve the Account's return and risk characteristics~~subject to any limitations stated herein.~~ Such managers shall have complete investment discretion unless restricted by the terms of their management contracts.~~ Managers shall be monitored for performance and adherence to investment disciplines.

Accounts Administration

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

Investment Objectives

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

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

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

Asset Class Allocation

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

~~If appropriate, t~~The Accounts's assets shall be allocated among the following broad ~~asset classes~~ Asset Classes based upon their individual return/risk characteristics and relationships to other ~~asset classes~~ Asset Classes:

~~A. Cash and Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.~~

~~B. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of income for the Account. Such bonds should be high quality, with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction. This classification shall include fixed income mutual funds.~~

~~C. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation for the Account. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Account. This classification shall include equity mutual funds.~~

~~D. Variable Annuities - These are insurance contracts purchased on the life or lives of the income beneficiaries and for which the funds underlying the contract are invested in various mutual funds which offer diversification of the Account's assets. These contracts offer some downside market risk protection in case of the income beneficiary's death in the early years of the contract. These investment assets are only appropriate for the charitable remainder trusts.~~

Asset Classes:

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments, including real and nominal, US and non-US, and across all maturities 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, US and non-US, and across all maturities 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).

In addition, life insurance and variable annuities may be acceptable investments.

Asset Class Allocation Policy

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

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

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for index, ~~and other~~ commingled funds, 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 SIF assets in such investments.

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

- ~~Investment policies of any unaffiliated liquid investment Account must be reviewed and approved by UTIMCO's chief investment officer prior to investment of Account's assets in such liquid investment Account.~~

- No securities may be purchased or held which would jeopardize, if applicable, the Account's tax-exempt status.

- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No internal investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

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

~~purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.~~only in accordance with the Derivative Investment Policy.

Investment Grade Fixed Income

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

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

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

a) Floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the ~~LBAGG~~BAGG as issuers of fixed rate securities;
b) Medium term notes issued by investment grade corporations;
c) Zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and
d) Structured notes issued by ~~LBAGG~~BAGG qualified entities.

- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition.

- Not more than 35% of the Account's fixed income portfolio may be invested in non-U.S. dollar bonds. Not more than 15% of the Account's fixed income portfolio may be invested in bonds denominated in any one currency other than U.S. dollar.

- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.

- Not more than 7.5% of the Account's fixed income portfolio may be invested in Emerging Market debt.

- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

- Permissible securities for investment include Fixed Income Mutual Funds and Debt Index Funds as approved by UTIMCO's chief investment officer.

- Permissible securities for investment include Fixed Income Variable Annuity Contracts as approved by UTIMCO's chief investment officer.

~~Equities~~

~~The Account may purchase equity securities as long as it:~~

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

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

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

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.

Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets 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.

- 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.

The provisions concerning investment in ~~fixed income~~ Investment Grade Fixed Income and ~~equities securities~~ Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity shall not apply to ~~an~~ Accounts ~~in which the agreement prohibits the sale of an equity or fixed income security~~ when expressly prohibited by the terms and conditions of the applicable trust/endowment or trust document. To the extent determined practical by the U. T. System Office of Development and Gift Planning Services, donor preferences will be considered in determining whether gifts of securities are held or sold.

Distributions

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

Accounting

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

Valuation of Assets

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

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.

Securities Lending

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

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

Investor Responsibility

As a shareholder, the Accounts ~~has~~ have 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 Accounts. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Accounts solely in the interest of the beneficiaries, in compliance with the Proxy Voting Policy then in effect, and shall not invest the Accounts 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~~this Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be ~~July 13, 2006~~ September 1, 2010.

The University of Texas Investment Management Company
Derivative Investment Policy

Effective Date of Policy: ~~August 20, 2009~~ August 11, 2010
Date Approved by U. T. System Board of Regents: ~~August 20, 2009~~ August 12, 2010
Date Approved by UTIMCO Board: ~~July 9, 2009~~July 14, 2010
Supersedes: Derivative Investment Policy approved ~~December 6, 2007~~August 20, 2009

Purpose:

The purpose of the Derivative Investment Policy is to set forth the applications, documentation and limitations for investment in derivatives in the Permanent University Fund (PUF), the General Endowment Fund (GEF), the Intermediate Term Fund (ITF), and the 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 provided that their use is in compliance with UTIMCO's Board approved Derivative Investment Policy. This Derivative Investment Policy supplements the Investment Policy Statements for the Funds.

Objective:

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

Scope:

This Policy applies to all derivatives in the Funds 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 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) derivatives. This Policy shall not be construed to apply to index or other common or commingled funds that are not controlled by UTIMCO. 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 investments only if (i) such manager has been approved to use derivatives by the UTIMCO Chief Investment Officer and (ii) the investments are consistent with the overall investment objectives of the account and in compliance with this Policy. The use of derivatives 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, and (iii) 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, particularly as it relates to various risk controls and leverage. The permitted uses of derivatives 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 but shall not include a broader range of securities, including mortgage backed securities, structured notes, convertible bonds, ~~and~~ exchange traded funds (ETFs), and foreign currency contracts that settle within thirty (30) days. 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.

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;

provided however, that after implementing any Derivative Investment, the Funds' projected downside deviation is within the Funds' projected downside deviation range and risk bounds, and the Asset Class and Investment Type exposures are within permissible ranges as set forth in the Funds' Investment Policy Statements.

UTIMCO staff may not enter into any Derivative Investment that is not a Permitted Derivative Application. To the extent that a Derivative Investment is a Permitted Derivative Application but is not within the delegated authority as set forth on Exhibit B, the UTIMCO Board will be provided with an "Option to Review" following the process outlined in Exhibit A to the Delegation of Authority Policy. This "Option to Review" applies to any new Derivative Investment recommended by UTIMCO staff and approved by UTIMCO's Chief Investment Officer that is not within the delegated authority set forth on Exhibit B or the engagement of an external manager operating under an Agency Agreement that seeks to engage in a Derivative Investment that is not within the delegated authority set forth on Exhibit B. Notwithstanding, with respect to any Derivative Investment, UTIMCO's Chief Investment Officer, the Risk Manager, or Chief Compliance Officer may determine that presentation and approval of the proposed Derivative Investment at a UTIMCO Board meeting is warranted before engaging in the Derivative Investment.

Documentation and Controls:

Prior to the implementation of a new Derivative Investment 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 to monitor daily the risk of internally managed and of externally managed accounts operating under an Agency Agreement that utilize derivatives. Internal control procedures to properly account and value the Funds' exposure to the Derivative Investment shall be fully documented.

Additional Limitations:

Leverage: Leverage is inherent in derivatives since only a small cash deposit is required to establish a much larger economic impact position. Thus, relative to the Cash markets, where in most cases the cash outlay is equal to the asset acquired, Derivative Investments offer the possibility of establishing substantially larger market risk exposures with the same amount of cash as a traditional Cash market portfolio. Therefore, risk management and control processes must focus on the total risk assumed in a Derivative Investment. Exhibits A of the Fund's Investment Policy Statements provide a limitation on the amount of ~~leverage~~ 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: In order to limit the financial risks associated with Derivative Investments, rigorous counterparty selection criteria and netting agreements shall be required to minimize counterparty risk for over the counter (OTC) derivatives. Any counterparty in an OTC derivative transaction with the Funds must have a credit rating of at least A- (Standard and Poor's) or A3 (Moody's). All OTC derivatives must be subject to established ISDA Netting Agreements and have full documentation of all legal obligations of the Funds. In the event a counterparty is downgraded below the minimum credit rating requirements stated above, 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 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. In addition, data from the external risk model will be reviewed for accuracy and completeness by the UTIMCO Risk Manager.

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 the UTIMCO Chief Investment Officer, 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 ~~leverage~~uncollateralized derivative exposure associated with derivatives. 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 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 of the derivatives in each. The UTIMCO Risk Manager will calculate risk attribution for each Derivative Investment.

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.

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

Counterparty - The offsetting party in an exchange agreement.

Derivative Investment – An investment in a futures contract, forward contract, swap, and all forms of options.

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 nonstandardized 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.

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.

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 a buyer and a counterparty. The terms of such derivatives are nonstandard 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.

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 index 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 index be within a certain range and may also include the selling of put options.

3. Derivative Investments whereby the maximum loss is limited to the premium paid for the Derivative Investment, regardless of notional value. The aggregate prorated annual premium of all Derivative Investments under this provision shall not exceed 25 basis points of the Fund value.

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 by UTIMCO staff.

5. Derivative Investments used to manage bond duration or hedge equity exposure to countries, sectors or capitalization factors 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.

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 containing unlimited loss.

Notwithstanding the delegated authority set forth above, if the notional value of a new Derivative Investment exceeds thirty-three percent (33%) of the overall Fund value, UTIMCO's Chief Investment Officer must request approval from the UTIMCO Chairman before entering into the new Derivative Investment. If the new Derivative Investment is approved by the UTIMCO Chairman and executed, UTIMCO's Chief Investment Officer shall make a presentation to the UTIMCO Board regarding the details of the Derivative Investment at its next regularly scheduled meeting.

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.

10. U. T. System Board of Regents: Approval of amendments to The University of Texas Investment Management Company (UTIMCO) Code of Ethics

RECOMMENDATION

The Chancellor, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. System Board of Regents approve the revised UTIMCO Code of Ethics in the form provided on Pages 225 - 248.

BACKGROUND INFORMATION

Section 66.08 of the *Texas Education Code* requires that the U. T. System Board of Regents approve the UTIMCO Code of Ethics (Code) and any changes thereto. The draft changes are based on the joint efforts of the UTIMCO staff, Andrews Kurth LLP (UTIMCO outside counsel), and U. T. System staff. U. T. System General Counsel finds that the changes are consistent with *Texas Education Code* Section 66.08. These amendments to the Code of Ethics were approved at the July 14, 2010 meeting of the UTIMCO Board.

The most significant change to the Code is the deletion of provisions permittingUTIMCO Directors and UTIMCO to hold private investments in the same business entity so long as a Director's private investment does not constitute a pecuniary interest as defined in the Code. Under the proposed draft, only certain private investments acquired before a Director assumes his position on the UTIMCO Board would be permitted. The definition of "Key Employee" has also been narrowed to limit it to UTIMCO officers: Chief Executive Officer and Chief Investment Officer, President and Deputy Chief Investment Officer, Senior Managing Director, Treasurer and Secretary, Managing Directors, and Assistant Secretary.

Other changes include reorganization, clarification, and standardization of existing provisions as follows:

-Subchapter A, Section 1.02(11); narrowed definition of "Key Employee" to only include UTIMCO officers.

-Subchapter A, Section 1.02(12); moved definition of "pecuniary interest" from Section 3.01 to definitions section and added "any private investment in a business entity" to the definition of pecuniary interest.

-Subchapter A, Section 1.15; deleted because of redundancy as the definition of Key Employee has been narrowed to include only UTIMCO officers, who are designated annually by the UTIMCO Board.

-Subchapter C, Section 3.01; added phrase to Subsection (a) "Except as provided in Sections 3.04 and 3.05"; Subsection(a)(4) has been moved and renumbered as (a)(3) and Subsection (a)(3) has been renumbered as Subsection (b) and the following language added "UTIMCO or UTIMCO entity may not enter into an agreement or transaction with"; deleted prior Subsection (b) as definition of "pecuniary interest" has been moved to Section 1.02(12); and added new Subsection (c) to read "The prohibitions provided by this section apply to the spouse, minor children, or other dependent Relatives of a current or former Director or Employee."

-Subchapter C, Section 3.02; renumbered prior Section 3.02 as Subchapter B, Section 2.09 and a new "Section 3.02. Prohibitions Related to Directors" was added.

-Subchapter C, Section 3.03; renumbered as Section 3.04 and added a new "Section 3.03. Prohibitions Related to Employees." New Section 3.04 outlines exceptions for investment in private investments also held by a Director.

-Subchapter C, prior Section 3.04; deleted as provisions have been incorporated into new Section 3.02.

-Subchapter C, prior Section 3.05; deleted as provisions have been incorporated into new Section 3.03.

-Subchapter C, Section 3.06; renumbered as Section 3.05 and amended to add references to "Director" and "Director entity" regarding divestment of private investments owned prior to the date on which the Director assumed a position on the UTIMCO Board.

-Subchapter C, Section 3.08; renumbered as Section 3.07 and Section 3.07(g) changed "financial futures, and options on futures" to "interest rate, currency, commodity, and stock index futures, and options on those futures" for clarification.

-Subchapter C, Section 3.10; renumbered as Section 3.09 and Section 3.09(b) changed "A Key Employee" to "An Employee" since all employees are now required to obtain advance written approval from the CEO for any outside employment or business.

-Subchapter C, Section 3.12; renumbered as Section 3.11 and Subsections (b) and (c) renumbered as Section 3.11(c) and (f), respectively; added new Subsections (b), (d), and (e) to incorporate State law provisions and penalties provided in *Texas Education Code* Subsections 66.08(l)-(o).

-Subchapter D, Sections 4.03 and 4.05; changes to standardize the due dates of filing extensions for annual ethics compliance statements required by the Code.

-Subchapter D, Section 4.03(f); changed to provide that all ethics compliance statements will be maintained by the Chief Compliance Officer, consistent with UTIMCO practice.

-Subchapter D, Section 4.04; Subsections (a) and (b) combined as language regarding the responsibilities of Director's and Employee's with respect to certification of pecuniary interests and ownership of private investments in a business entity with which UTIMCO seeks to do business was deleted.

-Subchapter D, Section 4.09; changed "Key Employees" to "Employees" since all employees are now required to obtain advance written approval from the CEO for any outside employment or business.

DRAFT 07/23/10

UTIMCO

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THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

CODE OF ETHICS

Approved by the Board of Regents August 12. 2010~~August 14, 2008~~

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY CODE OF ETHICS

Subchapter A. GENERAL PROVISIONS

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

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

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

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

(e) This Code of Ethics anticipates that many of UTIMCO's Directors and Employees will be active investors, either individually or on behalf of others, in the same asset categories as the funds managed by UTIMCO on behalf of the Board of Regents. Without seeking to disqualify those Directors and Employees from service to UTIMCO except to the extent necessary or appropriate to avoid conflicts of interest or otherwise conform to applicable law, this Code holds all Directors and Employees to high standards of conduct consistent with their special relationship of trust, confidence, and responsibility to UTIMCO. This Code also recognizes UTIMCO's unique role as the dedicated investment manager of the Board of Regents in investing the funds in furtherance of the education mission of the Board of Regents, the institutions of The University of Texas System, and other beneficiaries of the funds.

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

Sec. 1.02. Definitions. In this Code:

(1) "Audit and Ethics Committee" means the standing Audit and Ethics Committee established by UTIMCO bylaws.

(2) "Board" means the Board of Directors of UTIMCO.

(3) "Board of Regents" means the Board of Regents of The University of Texas System.

(4) "CEO" means the Chief Executive Officer of UTIMCO.

(5) "Chief Compliance Officer" means the person designated from time to time as the chair of the Employee Ethics and Compliance Committee.

(6) "Director" means a member of the Board of Directors of UTIMCO.

(7) "Director entity" means an investment fund or other entity controlled by a UTIMCO Director.

(8) "Employee" means a person working for UTIMCO in an employer-employee relationship.

(9) "Employee entity" means an investment fund or other entity controlled by a UTIMCO Employee.

(10) "General Counsel" means the lawyer or firm of lawyers designated from time to time as the external General Counsel of UTIMCO.

(11) "Key Employee" means an Employee who has been designated by the Board as ~~one who exercises significant decision-making authority by virtue of the position the Employee holds with UTIMCO~~an officer of UTIMCO.

(12) "Pecuniary interest" in a business entity means:

(A) ownership of five percent or more of the voting stock or shares of the business entity; or

(B) ownership of five percent or more of the fair market value of the business entity; or

(C) receipt of more than five percent of the person's gross income for the preceding calendar year from the business entity; or

(D) any private investment in the business entity.

(~~12~~13) "Personal securities transactions" means:

(A) transactions for a Director's or Employee's own account, including an individual retirement account; or

(B) transactions for an account, other than an account over which the Director or Employee has no direct or indirect influence or control, in which the Director or Employee, or the Director's or Employee's spouse, minor child, or other dependent Relative:

(i) is an income or principal beneficiary or other equity owner of the account; or

(ii) receives compensation for managing the account for the benefit of persons other than such person or his or her family.

(~~13~~14) "Private investment" means any debt obligation or equity interest that is not a publicly traded security, including a "private investment" in a publicly traded company.

(~~14~~15) "Publicly traded company" means a business entity with a class of securities that consists of publicly traded securities.

(~~15~~16) “Publicly traded securities” means securities of a class that is listed on a national securities exchange or quoted on the NASDAQ national market system in the United States or that is publicly traded on any foreign stock exchange or other foreign market.

(~~16~~17) “Relative” means a person related within the third degree by consanguinity or the second degree by affinity determined in accordance with Sections 573.021 – 573.025, *Government Code*. For purposes of this definition:

(i) examples of a relative within the third degree by consanguinity are a child, grandchild, great-grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece, or nephew;

(ii) examples of a relative within the second degree by affinity are a spouse, a person related to a spouse within the second degree by consanguinity, or a spouse of such a person;

(iii) a person adopted into a family is considered a relative on the same basis as a natural born family member; and

(iv) a person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.

(~~17~~18) “UTIMCO” means The University of Texas Investment Management Company.

(~~18~~19) “UTIMCO entity” means an investment fund or other entity controlled by UTIMCO.

Sec. 1.03. Definition of “Control.” (a) For purposes of this Code, UTIMCO or a Director or Employee is presumed to control an investment fund or other entity if UTIMCO’s or the Director’s or Employee’s management role with or investment in the fund or entity enables UTIMCO or the Director or Employee, as appropriate, to direct the operating or financial decisions of the fund or entity. However, the presumption of control by a Director or Employee shall be rebutted if the General Counsel advises the Board that, based upon a review and confirmation of relevant facts provided by the respective Director or Employee, it is the opinion of the General

Counsel that the Director or Employee does not have ultimate control of the operating or financial decisions of a particular fund or entity.

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

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

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

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

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

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

Sec. 1.08. General Standards of Conduct for Directors and Employees.
(a) It is the policy of UTIMCO that a Director or Employee should not:

(1) accept or solicit any gift, favor, or service that might reasonably tend to influence the Director or Employee in the discharge of his or her duties for UTIMCO or that the Director or Employee knows or should know is being offered with the intent to influence the Director's or Employee's conduct on behalf of UTIMCO;

(2) accept other employment or engage in a business or professional activity that the Director or Employee might reasonably expect would require or induce the Director or Employee to disclose confidential information acquired by reason of his or her position with UTIMCO;

(3) accept other employment or compensation that could reasonably be expected to impair the Director's or Employee's independence of judgment in the performance of his or her duties for UTIMCO;

(4) make personal investments that could reasonably be expected to create a substantial conflict between the Director's or Employee's private interest and the interests of UTIMCO; or

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

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

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

Sec. 1.10. Relationship with UTIMCO Not Used for Personal Gain.
(a) Directors and Employees may not use their relationship with UTIMCO to seek or obtain personal gain beyond agreed compensation or any properly authorized expense reimbursement.

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

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

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

(c) Directors and Employees may not copy confidential information, for any reason, except as required to fulfill their duties for UTIMCO.

(d) Employees may not remove confidential information from the premises of UTIMCO, except as required to fulfill their duties for UTIMCO and then only for so long as required to fulfill their duties.

(e) Employees must return to UTIMCO all confidential information in their possession immediately upon request or immediately upon the termination of Employee's employment with UTIMCO, whichever comes first.

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

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

(1) before the date of the selection of the Key Employee or consultant; or

(2) before becoming a Relative.

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

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

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

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

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

(1) gifts given on special occasions between Employees and/or Directors;

(2) books, pamphlets, articles, or other similar materials that contain information directly related to the job duties of a Director or Employee and that are accepted by the Director or Employee on behalf of UTIMCO for use in performing his or her job duties;

(3) gifts from the Relatives of a Director or Employee that are based solely on a personal relationship between the Director or Employee and his or her Relative;

(4) business meals and receptions when the donor or a representative of the donor is present;

(5) ground transportation in connection with business meetings, meals, or receptions;

(6) fees for seminars or conferences that relate to the Director's or Employee's job duties and that are sponsored by UTIMCO's consultants or agents, prospective consultants or agents, or persons or entities whose interests may be affected by UTIMCO; and

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

(c) Attendance of Directors or Employees at seminars, conferences or other sponsored events that involve entertainment or recreation and that are hosted in person and paid for by UTIMCO's consultants or agents, prospective consultants or agents, or persons or entities who interests may be affected by UTIMCO may in some cases be in the best interest of UTIMCO. An Employee must obtain specific written approval to attend such events from the CEO or Chief Compliance Officer. Approval may be withheld for elaborate entertainment events such as ski trips, hunting trips, or stays at expensive resorts.

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

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

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

~~**Sec. 1.15. Key Employees.** The Board shall designate by position with UTIMCO those Employees who exercise significant decision-making authority. These Employees are "Key Employees" for purposes of this Code.~~

Subchapter B. CONFLICTS OF INTEREST

Sec. 2.01. Definition of Conflict of Interest. (a) A conflict of interest exists for a Director or Employee when the Director or Employee has a personal or private commercial or business relationship that could reasonably be expected to diminish the Director's or Employee's independence of judgment in the performance of the Director's or Employee's responsibilities to UTIMCO.

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

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

Sec. ~~2.03~~2.02. Duty to Avoid Conflicts of Interest. (a) Directors and Employees should avoid personal, employment, or business relationships that create conflicts of interest.

(b) A Director or Employee may not take action personally or on behalf of UTIMCO that will result in a reasonably foreseeable conflict of interest. If a Director or Employee believes that an action is in the best interest of UTIMCO but could foreseeably result in a conflict of interest, the Director must disclose that fact to the General Counsel or the Employee must disclose that fact to the Chief Compliance Officer before taking the action.

Sec. ~~2.04~~2.03. Duty to Disclose and Cure Conflicts. A Director or Employee who becomes aware of a conflict of interest has an affirmative duty to disclose and cure the conflict in a manner provided for in this Code.

Sec. ~~2.05~~2.04. Curing Conflicts of Interest. (a) A Director or Employee who becomes aware, or reasonably should have become aware, of a conflict of interest shall cure the conflict by promptly eliminating it, except as provided by Subsection (b).

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

(1) the Director or Employee may be and is effectively separated from influencing the action taken;

(2) the action may properly be taken by others;

(3) the nature of the conflict is not such that the Director or Employee must regularly and consistently withdraw from decisions that are normally the Director's or Employee's responsibility with respect to UTIMCO; and

(4) the conflict is not a prohibited transaction resulting from a Director or Employee having a pecuniary interest in a business entity as ~~described~~defined in Section ~~3.01~~1.02(12) of this Code.

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

Sec. ~~2.06~~2.05. Disclosing and Refraining from Participation. (a) A Director must disclose any conflicts of interest regarding matters that are before the Board, absent himself or herself from any relevant deliberations, and refrain from voting on the matter.

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

Sec. ~~2.07~~2.06. Waivers of Conflicts of Interest. (a) The Board shall decide at an official meeting whether to waive any conflict of interest disclosed under Section 2.~~06~~05(b) of this Code.

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

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

(d) The Chief Compliance Officer shall maintain records of all waivers granted, including the reasons supporting the waivers.

Sec. ~~2.08~~2.07. Procedures for Director's Disclosure of Conflict of Interest. A Director must disclose conflicts of interest in writing to the General Counsel before a UTIMCO Board meeting. If disclosure is made at a Board meeting, the minutes of the meeting must include the disclosure of the conflict.

Sec. ~~2.09~~2.08. Procedures for Employee's Disclosure of Conflict of Interest. (a) An Employee must promptly disclose conflicts of interest in writing to the Chief Compliance Officer through the financial disclosure and ethics compliance statement required by Section 4.03 of this Code. The Chief Compliance Officer shall report to the Audit and Ethics Committee regarding the statements the officer receives under this subsection.

(b) If a person with a duty to disclose a conflict has a reasonable cause to believe that disclosure to the Chief Compliance Officer will be ineffective, the person shall disclose the conflict to the Audit and Ethics Committee by filing a written disclosure with the chair of the Committee.

(c) A copy of the disclosure provided to either the Chief Compliance Officer or the Audit and Ethics Committee shall be provided to the Employee's supervisor unless the person with the conflict of interest believes that the disclosure would be detrimental to the resolution of the conflict.

Sec. 2.09. Procedures for Preventing Conflicts Related to Publicly Traded Companies. UTIMCO and UTIMCO entities shall implement procedures and safeguards to insure that none of the funds for which the Board of Regents has investment responsibility and for which UTIMCO has been appointed as investment manager is invested by UTIMCO or a UTIMCO entity in the publicly traded securities of a publicly traded company in which a Director or Employee has a pecuniary interest.

Sec. 2.10. Exceptions for Minimal Stock Ownership. It is not a conflict of interest solely because a Director or Employee has an investment in the stock of a publicly traded company that is owned, purchased, sold, or otherwise dealt with by UTIMCO if the Director's or Employee's interest in the stock is not more than five percent of any class and if the Director or Employee is not a director or officer of the company.

Sec. ~~2.10~~2.11. Referrals. Referral of information from a Director related to investment opportunities outside of a posted open meeting of the Board must be made using the procedures provided by the Regents' *Rules and Regulations*, Rule 70201, Section 12.

Subchapter C. PROHIBITED TRANSACTIONS AND INTERESTS

Sec. 3.01. Prohibitions Related to UTIMCO. (a) Except as provided in Sections 3.04 and 3.05, UTIMCO or a UTIMCO entity may not enter into an agreement or transaction with:

(1) a Director or Employee acting in other than an official capacity on behalf of UTIMCO;

(2) a Director entity, Employee entity, or other business entity~~, including an investment fund,~~ in which a Director or Employee has, or is in the process of acquiring, a pecuniary interest; or

(3) an investment fund or account managed by a Director, Director entity, Employee, or Employee entity as a fiduciary or agent for compensation, other than funds for which the Board of Regents has investment responsibility and for which UTIMCO has been appointed as investment manager.

(~~3~~b) UTIMCO or a UTIMCO entity may not enter into an agreement or transaction with a former Director or Employee, an investment fund or other entity controlled by a former Director or Employee, or a business entity in which a former Director or Employee has a pecuniary interest, on or before the first anniversary of the date the person ceased to be a Director or Employee.~~; or~~

~~(4) an investment fund or account managed by a Director, Director entity, Employee, or Employee entity as a fiduciary or agent for compensation, other than funds for which the Board of Regents has investment responsibility and for which UTIMCO has been appointed as investment manager.~~

~~(b) For purposes of this Code, a person has a "pecuniary interest" in a business entity if the person:~~

~~(1) owns five percent or more of the voting stock or shares of the business entity; or~~

~~(2) owns five percent or more of the fair market value of the business entity; or~~

~~(3) received more than five percent of the person's gross income for the preceding calendar year from the business entity.~~

(c) The prohibitions provided by this section apply to the spouse, minor children, or other dependent Relatives of a current or former Director or Employee.

~~**Sec. 3.02. UTIMCO Investment Policies for Publicly Traded Companies.** UTIMCO and UTIMCO entities shall implement procedures and safeguards to insure that none of the funds for which the Board of Regents has investment responsibility and for which UTIMCO has been appointed as investment manager is invested by UTIMCO or a UTIMCO entity in the publicly traded securities of a publicly traded company in which a Director or Employee has a pecuniary interest.~~

Sec. 3.02. Prohibitions Related to Directors. (a) Except as provided in Sections 3.04 and 3.05, a Director or a Director entity may not enter into an agreement or transaction with:

(1) UTIMCO or an Employee acting in other than an official capacity on behalf of UTIMCO; or

(2) a UTIMCO entity, Employee entity, or other business entity in which UTIMCO owns, or is in the process of acquiring, a private investment or an Employee has, or is in the process of acquiring, a pecuniary interest.

(b) The prohibitions provided by this section apply to the spouse, minor children, or other dependent Relatives of a Director or Employee.

Sec. 3.03. Prohibitions Related to Employees. (a) Except as provided in Sections 3.04 and 3.05, an Employee or Employee entity may not enter into an agreement or transaction with:

(1) UTIMCO or a Director acting in other than an official capacity on behalf of UTIMCO; or

(2) a UTIMCO entity, Director entity, or other business entity in which UTIMCO owns, or is in the process of acquiring, a private investment or a Director has, or is in the process of acquiring, a pecuniary interest.

(b) The prohibitions provided by this section apply to the spouse, minor children, or other dependent Relatives of a Director or Employee.

Sec. ~~3.03~~3.04. UTIMCO Investments in Private Investments of Certain Business Entities. (a) UTIMCO or a UTIMCO entity may ~~not:~~

~~(1)~~ invest in the private investments of a business entity ~~if~~ when a Director or Director entity then owns a private investment ~~pecuniary interest~~ in the same business entity ~~as defined by Section 3.01(b) of this Code; or~~ if:

(1) the Director or Director entity acquired the private investment before the date on which the Director assumed a position with UTIMCO;

(2) the Director's private investment does not constitute a pecuniary interest in a business entity as defined in Section 1.02(12)(A)-(C) of this Code; and

(3) the Board approves the investment by UTIMCO or the UTIMCO entity by a vote of two-thirds of the membership of the Board after a full disclosure in an open meeting of the relevant facts and a finding by the Board that the investment will not benefit the director or director entity financially.

~~(2) invest in the private investments of a business entity if an Employee or Employee entity then owns a private investment in the same business entity; or~~

~~(3) co-invest with a Director or Director entity in the private investments of the same business entity if after the co-investment, the Director's or Director entity's private investment constitutes a pecuniary interest in the business entity as defined by Section 3.01(b) of this Code; or~~

~~(4) co-invest with an Employee or Employee entity in the private investments of the same business entity.~~

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

~~(1) invest in the private investments of a business entity if UTIMCO or a UTIMCO entity, then owns a private investment in the same business entity if after the investment, the Director's or Director entity's private investment constitutes a pecuniary interest in the business entity as defined by Section 3.01(b) of this Code; or~~

~~(2) co-invest with UTIMCO or a UTIMCO entity in the private investments of the same business entity if after the co-investment, the Director's or Director entity's private investment constitutes a pecuniary interest in the business entity as defined by Section 3.01(b) of this Code; or~~

~~(3) co-invest with an Employee or an Employee entity in the private investments of the same business entity.~~

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

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

~~(1) invest in the private investments of a business entity if UTIMCO, a UTIMCO entity, a Director, or a Director entity then owns a private investment in the same business entity; or~~

~~(2) co-invest with UTIMCO, a UTIMCO entity, a Director, or a Director entity in the private investments of the same business entity.~~

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

Sec. 3.0~~6~~5. Divestment Not Required For Certain Private Investments. A~~n~~ Director, Director entity, Employee or Employee entity that owns a private investment in a business entity on the date on which the Director or Employee assumes a position with UTIMCO is not required by Section 3.02 or ~~3.05~~3.03 of this Code to divest that private investment as long as the private investment does not constitute a pecuniary interest in a business entity as defined ~~by~~ in Section ~~3.01(b)~~1.02(12)(A)-(C) of this Code. Any transactions concerning the private investment that might occur after that date are subject to this Code.

Sec. 3.0~~7~~6. Director Personal Securities Transactions. (a) A Director or Director entity may buy or sell a publicly traded security of an issuer that is held by UTIMCO but may not engage in a personal securities transaction if the Director has actual knowledge that an internal portfolio manager of UTIMCO has placed a buy/sell order for execution.

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

Sec. 3.0~~8~~7. Employee Personal Securities Transactions. (a) Employees are prohibited from using advance knowledge of a UTIMCO decision to buy or sell a security for the personal financial gain of the Employee.

(b) An Employee or Employee entity may engage in a personal securities transaction without obtaining preclearance for the transaction from the Chief Compliance Officer with respect to a security that is not a security of an issuer that is held by UTIMCO and included on the UTIMCO maintained list of securities holdings. The UTIMCO list of securities holdings will be posted on the UTIMCO intranet and updated as securities holdings change. An employee may rely on the posted list when engaging in personal securities transactions.

(c) Before an Employee or Employee entity may engage in a personal securities transaction with respect to a security of an issuer that is included on the UTIMCO maintained list of securities holdings, the Employee or Employee entity must obtain preclearance for the transaction from the Chief Compliance Officer. Preclearance is effective for one trading day only.

(d) The Chief Compliance Officer shall verify that no buy/sell order has been placed by a UTIMCO internal manager –with respect to the security of an issuer held by and included on the UTIMCO maintained list of securities holdings that is the subject of the Employee's personal securities transaction. If such a buy/sell order has been placed, an Employee or Employee entity may not conduct the personal securities transaction for those securities until at least one trading day after the buy/sell order has been completed or canceled.

(e) The Chief Compliance Officer shall document preclearances in a personal securities transaction log for each Employee, which will provide a record of all requests and approvals or denials of preclearances.

(f) An Employee who engages in a personal securities transaction must provide transactional disclosure for each transaction by completing a transactional disclosure form and filing it with the Chief Compliance Officer not later than the tenth calendar day after the trade date. The form must contain the:

(1) name and amount of the security involved;

(2) date and nature of the transaction;

(3) price at which the transaction was effected; and

(4) name of the broker through whom the transaction was effected.

(g) The preclearance and transactional disclosure requirements apply only to equity or equity-related transactions, including stocks, convertibles, preferreds, options on securities, warrants, and rights, etc., for domestic and foreign securities, whether publicly traded or privately placed. The preclearance and transactional disclosure requirements do not apply to bonds other than convertible bonds, mutual funds, co-mingled trust funds, exchange traded funds, ~~financial~~ interest rate, currency, commodity, and stock index futures, and options on those futures.

(h) This section applies to an Employee's spouse, minor child, or other dependent Relative.

Sec. 3.0~~9~~8. Interest in Brokerage Firm (a) A Director may not direct trades or exercise discretion over the selection of brokerage firms.

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

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

(1) stock held for an Employee's own account;

(2) stock or other ownership or profit sharing interests held by an Employee's spouse; ~~or~~and

(3) stock held for an account, other than an account over which the Employee has no direct or indirect influence or control, in which the Employee has a beneficial interest, such as accounts involving the spouse, minor child, or other dependent Relative.

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

Sec. 3.~~10~~09. Employee's Outside Employment or Business Activity. (a) An Employee may not engage in outside employment, business, or other activities that detract from the ability to reasonably fulfill the full-time responsibilities to UTIMCO.

(b) An ~~Key~~ Employee must obtain advance written approval from the CEO for any outside employment or business, including service as director, officer, or investment consultant or manager for another person or entity. The CEO must obtain advance approval from the Board for any outside employment.

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

Sec. 3.~~11~~10. Further Restrictions on Directors and Employees. A Director or Employee may not:

(1) participate in a matter before UTIMCO that involves a business, contract, property, or investment held by the person if it is reasonably foreseeable that UTIMCO action on the matter would confer a benefit to the person by or through the business, contract, property, or investment;

(2) recommend or cause discretionary UTIMCO business to be transacted with or for the benefit of a Relative;

(3) accept offers by reason of the person’s position with UTIMCO to trade in any security or other investment on terms more favorable than available to the general investing public;

(4) borrow from investment managers, outside service providers, professional advisors or consultants, banks, or other financial institutions with which UTIMCO has a business relationship unless the entity is normally engaged in such lending in the usual course of business, in which case the transaction must be on customary terms offered to others under similar circumstances to finance proper and usual activities; or

(5) represent any person in any action or proceeding before or involving the interests of UTIMCO except as a duly authorized representative or agent of UTIMCO.

Sec. 3.~~12~~11. Former Directors and Employees. (a) A former Director or Employee may not make any communication to or appearance before a current Director or Employee before the second anniversary, in the case of a former Director, or the first anniversary, in the case of a former Employee, of the date the former Director or Employee ceased to be a Director or Employee if the communication is made:

(1) with the intent to influence; and

(2) on behalf of any person in connection with any matter on which the former Director or Employee seeks action by UTIMCO.

(b) State law provides that a former Director who violates subsection (a) commits an offense. An offense under this subsection is a Class A misdemeanor.

(~~b~~c) A Director or Employee who knowingly communicates with a former Director or Employee in violation of ~~this prohibition~~subsection (a) is subject to disciplinary action, including removal from serving as a Director.

(d) A former officer or Employee may not represent any person or receive compensation for services rendered on behalf of any person regarding a particular matter in which the former officer or Employee participated during the period of service or employment with the corporation, either through personal involvement or because the particular matter was within the officer's or Employee's responsibility. In this subsection:

(1) "Participated" means to have taken action as an officer or Employee through decision, approval, disapproval, recommendation, giving advice, investigation, or similar action.

(2) "Particular matter" means a specific investigation, application, request for a ruling or determination, rulemaking proceeding, contract, claim, charge, accusation, arrest, or judicial or other proceeding.

(e) State law provides that a former officer or Employee who violates subsection (d) commits an offense. An offense under this subsection is a Class A misdemeanor.

(~~e~~f) A former Director or Employee may not disclose confidential information without UTIMCO's written consent or except as permitted or required by law.

Subchapter D. FINANCIAL DISCLOSURE, COMPLIANCE, AND ENFORCEMENT

Sec. 4.01. Employee Ethics and Compliance Committee. (a) The CEO shall appoint an Employee Ethics and Compliance Committee composed of UTIMCO personnel.

(b) The Chief Compliance Officer appointed by the Audit and Ethics Committee shall be the chair of the Employee Ethics and Compliance Committee.

(c) The Employee Ethics and Compliance Committee shall:

(1) provide ethics training for UTIMCO personnel; and

(2) issue opinions on the proper interpretation of this Code.

(d) An Employee may file a written request with the Employee Ethics and Compliance Committee for an opinion on the proper interpretation of this Code, and may rely on that opinion with respect to compliance with this Code.

Sec. 4.02. Financial Disclosure Statements. (a) Directors and Employees shall file financial disclosure statements with the Chief Compliance Officer.

(b) Directors and Employees shall file the financial disclosure statement not later than the 30th day after the date of appointment or employment, and not later than April 30 of each year thereafter. The CEO may postpone a filing deadline for not more than 60 days on the written request of a Director or Employee (other than the CEO), or for an additional period for good cause as determined by the chair of the Board. A CEO's request to postpone his/her filing deadline must be approved by the chair of the Board.

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

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

Sec. 4.03. Ethics Compliance Statements. (a) Directors and Employees, including acting or interim Employees, must file ethics compliance statements with the Chief Compliance Officer.

(b) Directors and Employees shall sign, date, and file the ethics compliance statements not later than the ~~60th~~ 30th day after the date of appointment or employment. Thereafter, any person who is a Director or Employee on December 31 of any year must file the compliance statement not later than April 30 of the following year. The CEO may postpone a filing deadline for not more than 60 days on the written request of a Director or Employee (other than the CEO), or for an additional period for good cause as determined by the chair of the Board. A CEO's request to postpone his/her filing deadline must be approved by the chair of the Board.

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

(d) Key Employees must acknowledge their Key Employee status in the ethics compliance statement.

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

(f) ~~An Employee's signed statement shall be maintained in the Employee's personnel file.~~ The Chief Compliance Officer shall maintain the Directors' and Employees' signed statements.

Sec. 4.04. Certification of No Pecuniary Interest. ~~(a)~~ Before the Board enters into an agreement or transaction with a business entity~~, including an investment fund,~~ each Director and Key Employee shall certify that he or she does not have a pecuniary interest, as defined by Section ~~3.01(b)~~1.02(12) of this Code, in the business entity.

~~(b) Before the Board invests in the private investments of a business entity, (i) each Director shall certify that neither the Director nor any Director entity has a pecuniary interest, as defined by Section 3.01(b) of this Code, in the same business entity; and (ii) each Key Employee shall certify that neither the Key Employee nor any Key Employee entity owns a private investment in the same business entity.~~

Sec. 4.05. Disciplinary Action Disclosure Statements. (a) Directors and Key Employees shall file disciplinary action disclosure statements that disclose any proceedings, actions, or hearings by any professional organization or other entity involving the Director or Key Employee.

(b) Directors and Key Employees must file the disciplinary action disclosure statement with the Chief Compliance Officer not later than April 30 of the first year of designation as a Director or Key Employee and not later than April 30 of each year thereafter. The CEO may postpone a filing deadline for not more than 60 days on the written request of a Director or Employee (other than the CEO), or for an additional period for good cause as determined by the chair of the Board. A CEO's request to postpone his/her filing deadline must be approved by the chair of the Board.

(c) A Director or Key Employee must promptly update a statement if any action occurs that would cause a Director's or Employee's answers to change.

Sec. 4.06. Custodian of Records. For open records purposes, the Chief Compliance Officer is the custodian of the disclosure statements required by this Code.

Sec. 4.07. Enforcement. (a) The CEO is responsible for implementing this Code with respect to Employees. The Board shall enforce this Code with respect to Employees through the CEO.

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

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

Sec. 4.08. Duty to Report. (a) A Director who has knowledge of a violation of this Code shall report the violation to the General Counsel.

(b) An Employee who has knowledge of a violation of this Code shall report the violation to the Chief Compliance Officer or to a member of the Audit and Ethics Committee.

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

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

(1) any approval given for outside employment by ~~Key~~ Employees, including the nature of the employment; and

(2) any disciplinary action disclosed by Directors or Key Employees.