AGENDA/TABLE OF CONTENTS
FOR
SPECIAL CALLED TELEPHONE MEETING
U. T. BOARD OF REGENTS

December 19, 2003
Austin, Texas

A. CALL TO ORDER IN OPEN SESSION

B. CONSIDER AGENDA ITEMS

1. U. T. Board of Regents: Regental appointment to Texas Growth Fund

RECOMMENDATION

In accordance with the requirements of the Regents' Rules and Regulations, Part One, Chapter I, Section 7, Chairman Miller requests the concurrence of the U. T. Board of Regents on his recommended appointment of John W. Barnhill, Jr., to the Board of Trustees of the Texas Growth Fund, effective immediately.

BACKGROUND INFORMATION

Regent Barnhill would replace former Vice-Chairman A. W. "Dub" Riter, Jr., as the U. T. Board of Regents' representative on the Texas Growth Fund Board of Trustees.

2. U. T. Board of Regents: Approve proposed appointment of members to the Audit and Ethics Committee of The University of Texas Investment Management Company (UTIMCO)

RECOMMENDATION

The Board of Directors of The University of Texas Investment Management Company (UTIMCO) recommends that the U. T. Board of Regents approve the appointment of Mr. I. Craig Hester, Mr. James R. Huffines, and Mr. R. H. (Steve) Stevens, Jr. (Chair) to the Audit and Ethics Committee of the UTIMCO Board of Directors to serve until the expiration of their term, or until their successors are chosen and qualify, or until their earlier death, resignation or removal.

BACKGROUND INFORMATION

Section 66.08 of the Texas Education Code requires that the U. T. Board of Regents approve the appointment of members of the Audit and Ethics Committee of the Board of Directors of UTIMCO. On November 20, 2003, the UTIMCO Board of Directors adopted a resolution to recommend the appointment of Mr. I. Craig Hester, Mr. James R. Huffines and Mr. R. H. (Steve) Stevens, Jr., to the Audit and Ethics Committee of the UTIMCO Board of Directors and designated R. H. (Steve) Stevens, Jr., as Chair of the Audit and Ethics Committee.

3. U. T. Board of Regents: Discussion and appropriate action concerning amendment to the Permanent University Fund, General Endowment Fund, Permanent Health Fund, and Long Term Fund Investment Policy Statements (including asset allocation policy); compensation, performance, and oversight issues related to UTIMCO; and Liquidity Policy

RECOMMENDATION

Chairman Miller will lead a discussion concerning the Investment Policy Statements for the Permanent University Fund, General Endowment Fund, Permanent Health Fund, and Long Term Fund (including asset allocation policy); compensation, performance, and oversight issues related to UTIMCO; and the Liquidity Policy.

It is recommended that the Board of Regents discuss and take appropriate action regarding the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. Board of Regents approve proposed amendments to the following Investment Policy Statements as set forth in congressional style on the referenced pages:

a. Permanent University Fund (PUF) (Pages 1 - 17 attached)

b. General Endowment Fund (GEF) (Pages 18 - 32 attached)

c. Permanent Health Fund (PHF) (Pages 33 - 43 attached)

d. Long Term Fund (LTF) (Pages 44 - 54 attached)

These amendments include revisions to Exhibit A of the PUF and GEF Investment Policy Statements and Exhibit B for the PHF and LTF Investment Policy Statements.

Amendments to the Liquidity Policy are also proposed as set forth on Pages 1 - 3 attached in congressional style.

BACKGROUND INFORMATION

Section 3(a) of the Investment Management Services Agreement dated March 1, 1996, second amended and restated effective August 7, 2003, between the Board of Regents of The University of Texas System and UTIMCO provides that UTIMCO shall review the investment policies of the assets under its management and recommend any changes of such policies for approval by the U. T. Board of Regents. The amendments to the PUF, GEF, PHF, and LTF Investment Policy Statements are to clarify provisions and definitions related to asset allocation and asset allocation policy. The amendments are proposed following an in-depth review of asset allocation, including risk framework, decision factors, and return and risk assumptions for the PUF and the GEF by the UTIMCO Board and UTIMCO staff. Detailed input was received during the review from experts including Cambridge Associates, Ennis Knupp and Associates, Goldman Sachs, Wilshire Associates, Barclays Global Investments, and Citigroup. The proposed asset allocation changes are reflected in Exhibit A of both the PUF and GEF Investment Policy Statements. In addition, UTIMCO is proposing an amendment to clarify selection and termination of unaffiliated investment managers. The proposed amendments are summarized below:

- Clarify selection and termination of unaffiliated investment managers for the PUF and GEF. (Reference - Page 3 and Page 18)

- Change the primary investment objective of preserving the purchasing power of PUF, GEF, PHF and LTF assets and annual distributions by earning an average annual real return of 5.1%, rather than 5.5%, over rolling ten-year periods or longer. This 5.1% target was derived by adding the current target distribution rate of 4.75% plus an annual expected expense of .35%. (Reference - Page 4, Page 19, Page 35 and Page 45)

- Eliminate definitions of asset classes and replacing with definitions for the asset classes presented in Exhibit A. (Reference - Page 4 and Page 19)

- Eliminate a separate section on asset allocation policy to streamline the Investment Policy Statements. The asset allocation policy is included with asset allocation as a reference to Exhibit A. (Reference - Page 7, Page 23, Page 35, and Page 45)

- Clarify the investment performance measurement of the PUF and GEF. (Reference - Page 8 and Page 23)

- Clarify certain investment guidelines of the PUF and GEF. (Reference - Page 11 and Page 26)

- Eliminate the section on alternative investments and inflation hedging assets. Names of the asset classes have been changed to clarify the asset classes and the descriptive language is addressed in the Delegation of Investment Approval Authority. (Reference - Page 12 and Page 27)

The UTIMCO Board of Directors approved the policy targets and policy ranges (Exhibit A) of the Investment Policy Statements for the PUF and GEF on November 20, 2003 (Exhibit B for the Investment Policy Statements for the PHF and LTF). The benchmarks presented in Exhibit A were approved at the December 4, 2003 UTIMCO Board meeting. The Investment Policy Statements were also approved at the UTIMCO Board meeting held December 4, 2003. No changes are proposed for the Investment Policy Statements of the Short Intermediate Term Fund, Short Term Fund, or the Separately Invested Funds.

The Liquidity Policy was first approved by the UTIMCO Board of Directors on June 26, 2003 and subsequently approved by the U. T. Board of Regents on August 7, 2003. This Policy defines liquidity categories and sets asset weight limits for each category in order to control the aggregate amount of liquidity risk that can be assumed in the endowment portfolios. Amendment to the Liquidity Policy is recommended to change the liquidity risk measurement from four categories to two: liquid and illiquid. Revisions to the definitions for the liquid and illiquid categories are also proposed. The revised liquidity categories and definitions were discussed and approved at the November 20, 2003, UTIMCO Board meeting and the Policy in its entirety was approved by the UTIMCO Board on December 4, 2003.

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 24 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, in the form of 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 in securities. Surface income, as a renewable source of income, is distributed to the Available University Fund (the "AUF"), as received.

The Constitution prohibits the distribution and expenditure of mineral income contributed to the PUF. The Constitution also requires that all surface income and investment distributions paid to the AUF be expended for certain authorized purposes.

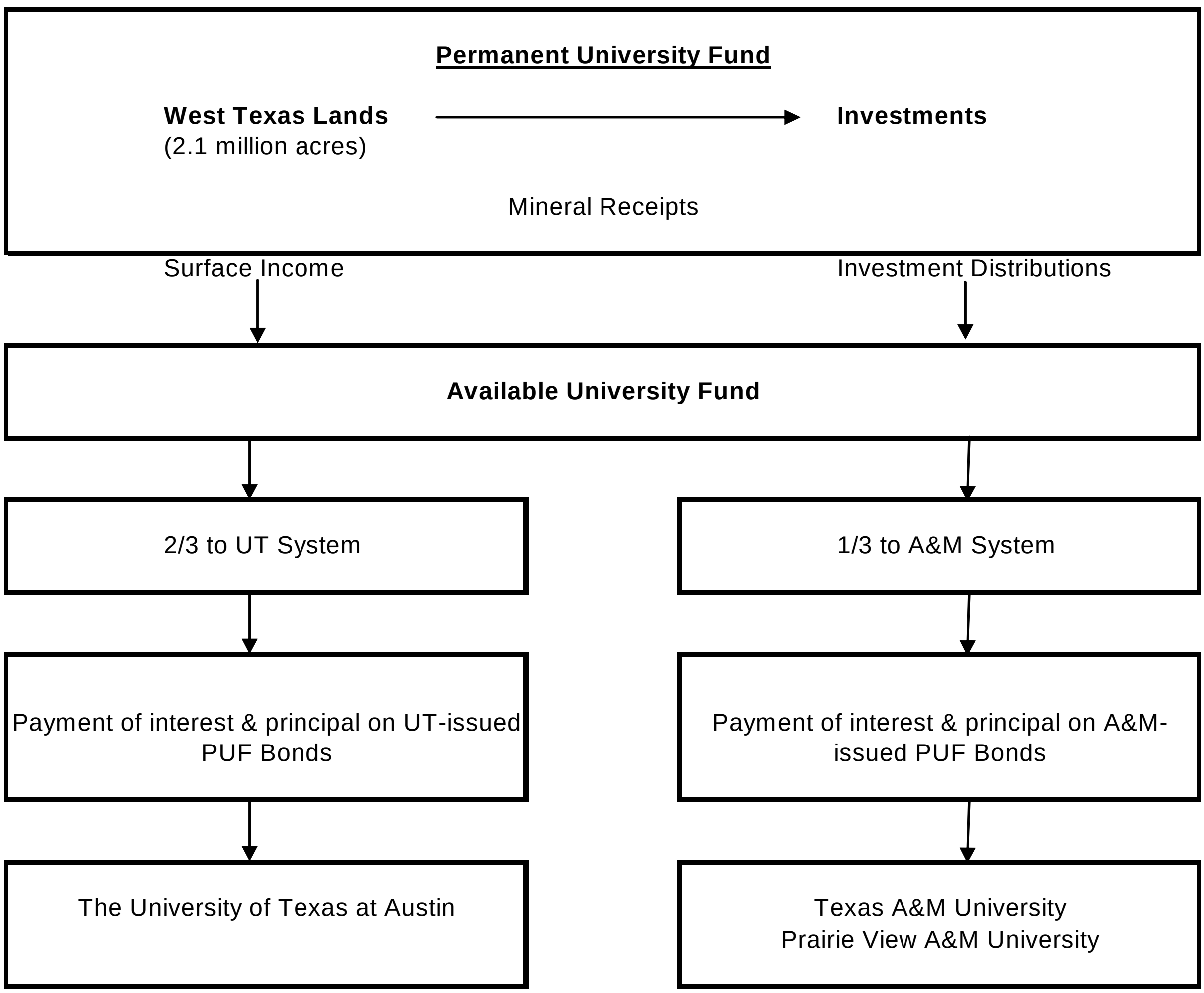
The expenditure of the AUF is subject to a prescribed order of priority:

First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and Texas A&M University System, respectively, expenditures for debt service on PUF bonds. Article VII of the Texas Constitution authorizes the Board of Regents and the Texas A&M University System Board (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 projected interest in AUF receipts for each System covers projected debt service at least 1.5 times.

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

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

Exhibit 1



PUF Management

Article VII of the Texas Constitution assigns fiduciary responsibility for managing and investing the PUF to the Board of Regents. Article VII 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 authorizes the Board of Regents to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the Board of Regents in investment of the PUF. The PUF shall be managed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the PUF, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with PUF objectives, and c) monitor PUF performance against PUF objectives. UTIMCO shall invest the PUF's assets in conformity with investment policy.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority approved by the UTIMCO Board. These guidelines are intended to ensure that the appropriate managers are retained to pursue a defined investment strategy within the PUF's portfolio structure and to define the general conditions under which a portfolio manager may be placed on a watch list or terminated. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. ~~Unaffiliated investment managers may be hired by UTIMCO to improve the PUF's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts.~~ Managers shall be monitored for performance and adherence to investment disciplines.

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 primary investment objective shall be to preserve the purchasing power of PUF assets and annual distributions by earning an average annual real ~~total~~ return~~ after inflation~~ of 5.1 ~~5.5~~% over rolling ten-year periods or longer. This 5.1% target was derived by adding the current target distribution rate of 4.75% plus an annual expected expense of .35%. The PUF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect PUF asset allocation policy targets.

Asset Allocation and Policy

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

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

A. U. S. Equities - U. S. equities represent ownership in U. S. companies that are traded in public markets. Equities include stocks that are further identified by size of the company and are classified as large capitalization, medium capitalization, and small capitalization. U. S. equities may further be delineated by style (growth or value). Warrants, rights, options, futures and hedge funds are also included if the underlying assets are equities. In addition, Derivative Applications approved by the UTIMCO Board that serve as a U. S. equity substitute will be classified as U.S. equities. Equities provide both current income and growth of income.

B. Global ex U. S. Equities – Global ex U. S. equities represent ownership in global companies that are traded in public markets. The global ex U. S. markets include established and emerging markets. Equities include stocks that are further identified by size of the company and are classified as large capitalization, medium capitalization, and small capitalization. Global ex U. S. equities may further be delineated by style (growth or value) or region (Latin America, Asia etc.) or state of economic development (Emerging Markets). Warrants, rights, options, futures and hedge funds are also included if the underlying assets are equities. In addition, Derivative Applications approved by the UTIMCO Board that serve as a Global ex U. S. equity substitute will be classified as Global ex U. S. equities. Equities provide both current income and growth of income.

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

Equity Hedge Funds – Equity hedge fund investments include U. S. and international long/short equity strategies. These strategies attempt to exploit profits from stock selection skills by taking long and short positions in various equity securities. These strategies may also include fund of hedge fund investments. Equity hedge fund investments are made through private placement agreements.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage and event driven strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discreet events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements.

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

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

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

E. Commodities – Natural resource investments which include oil and gas interests, commodities, and other hard assets.

F. Fixed Income – Fixed income investments include debt issued by the U. S. Treasury, various government agencies and domestic and foreign corporations. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. Fixed income investments also include hedge funds if the underlying assets are fixed income investments, and treasury inflation protected securities (TIPS) which are marketable securities with a return linked to the inflation rate. In addition, Derivative Applications approved by the UTIMCO Board that serve as a fixed income substitute will be classified as fixed income.

G. Cash & Equivalents – Cash & equivalents consist of money markets, deposit of the Texas State Treasury, foreign currencies and other overnight funds that have not been allocated to a specific asset class.

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

~~B. Fixed Income Investments - Intermediate to long term investment grade bonds offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of PUF income. Below investment grade bonds including high yield bonds usually behave more like equities than high-quality bonds such as Treasuries. In the recovery phase of the market such bonds frequently outperform high-quality bonds.~~

~~C. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation of the PUF. Historically, returns for equities have been higher than for bonds over all extended periods. As such, equities represent the best chance of preserving the purchasing power of the PUF.~~

~~D. Alternative Investments - generally consist of alternative marketable investments and alternative nonmarketable investments.~~

~~- Alternative Marketable Investments - These investments are broadly defined to include hedge funds, arbitrage and special situation funds, distressed debt, market neutral, and other nontraditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. Alternative marketable investments may be made directly by UTIMCO or through partnerships. If these investments are made through partnerships they offer faster drawdown of committed capital and~~

~~earlier realization potential than alternative nonmarketable investments. Alternative marketable investments made through partnerships will generally provide investors with liquidity at least annually.~~

~~-~~ <u>Alternative Nonmarketable Investments</u> ~~– Alternative Nonmarketable investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative nonmarketable investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of PUF asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative nonmarketable investments shall be controlled with extensive due diligence and diversification. These investments are held either through limited partnership or as direct ownership interests. They include special equity, mezzanine venture capital, and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity.~~

~~E.~~ <u>Inflation Hedging Assets</u> ~~- generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. They include direct real estate, REITs, oil and gas interests, commodities, inflation-linked bonds, timberland and other hard assets. These investments may be held through limited partnership, other commingled funds or as direct ownership interests.~~

~~Asset Allocation Policy~~

~~The asset allocation policy and ranges herein recognize that the PUF's return/risk profile can be enhanced by diversifying the PUF's investments across different types of assets whose returns are not closely correlated. The targets and ranges seek to protect the PUF against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.~~

~~The long-term asset allocation policy for the PUF must recognize that the 5.5% real return objective requires a high allocation to broadly defined equities, including domestic, international stocks, alternative equity investments, and inflation hedging assets of 68% to 90%. The allocation to deflation hedging Fixed Income should therefore not exceed 32% of the PUF.~~

~~The Board of Regents delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for large and small capitalization U. S. stocks, established and emerging market international stocks, marketable and nonmarketable alternative equity investments, and other asset classes as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the Board of Regents.~~

Performance Measurement

The investment performance of the PUF will be measured by the PUF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the PUF, as indicated in Exhibit A. ~~Such measurement will occur at least annually, and evaluate the results of the total PUF, major classes of investment assets, and individual portfolios.~~

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 and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.
- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of PUF assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the PUF's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No 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 Derivative Securities to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with PUF investments; or f) adjust the market exposure of the asset allocation, including long and short strategies and other strategies provided that the PUF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board. The Derivative Investment Policy shall serve the purpose of defining the permitted applications under which derivative securities can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Internal short term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by the chief investment officer.

- Deposits of the Texas State Treasury.

- The PUF's custodian late deposit interest bearing liquid investment fund.

- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).

- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.

- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

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

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

    - The maturity for a Repurchase Agreement may be from one day to two weeks.

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

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

- The aggregate amount of Repurchase Agreements with maturities greater than seven calendar days may not exceed 10% of the PUF's fixed income assets.

- Overnight Repurchase Agreements may not exceed 25% of the PUF's fixed income assets.

- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

<u>Fixed Income</u>

<u>Domestic Fixed Income</u>

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

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific subindices 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA;~~and~~, 4) Asset-backed securities; 5) Taxable Municipal securities; and 6) Commercial Mortgage-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

- U. S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

<u>Non-U. S. Fixed Income</u>

- Not more than <u>50</u> ~~35~~% of the PUF's fixed income portfolio may be invested in non-U. S. dollar bonds. Not more than 15% of the PUF's fixed income portfolio may be invested in bonds denominated in any one currency.

- 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 <u>15</u> ~~7.5~~% of the PUF's fixed income portfolio may be invested in Emerging Market debt.

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

<u>Equities</u>

The PUF shall:

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

B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the chief investment officer.

~~Alternative Investments and Inflation Hedging Assets~~

~~Investments in alternative assets and inflation hedging assets may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures) so long as such organizations:~~

~~A. possess specialized investment skills~~

~~B. possess full investment discretion subject to the management agreement~~

~~C. are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken~~

~~D. align the interests of the investor group with the management as closely as possible~~

~~E. charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.~~

~~Investments in alternative nonmarketable assets and inflation hedging assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the PUF has invested prior to the co-investment or in transactions sponsored by investment firms well known to UTIMCO management, provided that such direct investments shall not exceed 25% of the market value of the alternative nonmarketable assets portfolio or the inflation hedging assets portfolio at the time of the direct investment.~~

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested PUF assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore, UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.

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:

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

C. ensure that the inflation adjusted value of PUF assets after distributions is maintained over the long term.

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

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

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

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

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

PUF Accounting

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

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PUF net assets. Valuation of PUF assets shall be based on the books and records of the custodian for the valuation date. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

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

Securities Lending

The PUF may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term 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 agent shall be reviewed by UTIMCO 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 PUF unitholders 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 the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be December 19~~August 7~~, 2003.

PROPOSED

EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

	Percent of Portfolio (%)		
Asset Category	**Policy Targets**	**Policy Ranges**	**Benchmarks**
US Equities	25.0	15 to 45	Russell 3000 Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Traditional Equity	**42.0**	**20 to 60**	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	**25.0**	**15 to 25**	
Venture Capital	6.0	0 to 10	Venture Economics Vintage Year Venture Capital Index
Private Equity	9.0	5 to 15	Venture Economics Vintage Year Private Equity Index
Total Private Capital	**15.0**	**5 to 15**	
Commodities	**3.0**	**0 to 10**	GSCI minus 1%
Fixed Income	**15.0**	**10 to 30**	Lehman Brothers Aggregate Bond Index
Cash	**0.0**	**0 to 5**	90 Day T-Bills

Expected Annual Return (%)	**8.36**
Downside Deviation (%)	**4.22**
Standard Deviation (%)	**10.30**

CURRENT

~~EXHIBIT A~~

~~PUF SPECIFIC ASSET ALLOCATION~~

~~EXPECTED RETURN AND RISK, NEUTRAL ALLOCATIONS, RANGES AND PERFORMANCE OBJECTIVES~~

		~~Expected Return~~	~~Expected Risk~~	~~Neutral Allocation~~	~~Range~~	~~Benchmark Return~~
~~Conventional Equities~~	~~U.S. Stocks~~	~~9.25%~~	~~18.50%~~	~~25.0%~~	~~10%-40%~~	~~S&P 500 Index~~
~~Conventional Equities~~	~~U.S. Small Cap Stocks~~	~~10.25%~~	~~21.25%~~	~~7.5%~~	~~5%-15%~~	~~Russell 2000 Index~~
~~Conventional Equities~~	~~Global ex-U.S. Stocks~~	~~9.75%~~	~~20.75%~~	~~12.0%~~	~~5%-20%~~	~~MSCI EAFE Index (net)~~
~~Conventional Equities~~	~~Emerging Markets Equity~~	~~13.00%~~	~~30.00%~~	~~3.0%~~	~~0%-10%~~	~~MSCI Emerging Mkts. Free~~
~~Alt. Eq. - Marketable~~	~~Absolute Return~~	~~7.75%~~	~~9.25%~~	~~3.0%~~	~~2.5%-10%~~	~~91-Day T-Bills +7%~~
~~Alt. Eq. - Marketable~~	~~Equity Hedge Funds~~	~~8.00%~~	~~14.00%~~	~~7.0%~~	~~2.5%-15%~~	~~91-Day T-Bills +7%~~
~~Alt. Eq. - Non-Marketable~~	~~Venture Capital~~	~~14.25%~~	~~15.75%~~	~~7.5%~~	~~2.5%-10%~~	~~17.00%~~
~~Alt. Eq. - Non-Marketable~~	~~Private Equity~~	~~12.25%~~	~~9.50%~~	~~7.5%~~	~~2.5%-15%~~	~~17.00%~~
~~Inflation Hedging~~	~~Commodities (GSCI)~~	~~8.75%~~	~~19.25%~~	~~2.5%~~	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~Oil and Gas~~	~~11.00%~~	~~27.00%~~	~~0.0%~~	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~Real Estate~~	~~9.00%~~	~~14.50%~~	~~5.0%~~	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~TIPS~~	~~6.50%~~	~~2.50%~~	~~0.0%~~	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~Timberland~~	~~8.50%~~	~~9.25%~~	~~0.0%~~	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Deflation Hedging~~	~~High Yield Bonds~~	~~8.50%~~	~~13.25%~~	~~0.0%~~	~~0%-7%~~	~~Lehman Brothers Aggregate~~
~~Deflation Hedging~~	~~Global ex U.S. Bonds~~	~~6.50%~~	~~13.00%~~	~~5.0%~~	~~0%-7%~~	~~Salomon Non-U.S. WGBI Unh.~~
~~Deflation Hedging~~	~~U.S. Bonds~~	~~6.25%~~	~~9.25%~~	~~15.0%~~	~~10%-25%~~	~~Lehman Brothers Aggregate~~
~~Deflation Hedging~~	~~Cash~~	~~3.75%~~	~~3.50%~~	~~0.0%~~	~~0%-5%~~	~~91 day T-Bills Ave. Yield~~

~~Expected Nominal Return~~	**~~9.35%~~**
~~Expected Risk~~	**~~10.44%~~**
~~Return/Risk Ratio~~	**~~0.90~~**

~~The rebalancing of Fund assets to achieve the neutral allocations shall be subject to the funding of alternative investments.~~

~~Risk is defined in annualized standard deviation terms.~~

~~The neutral policy portfolio is the sum of the neutrally weighted benchmark returns.~~

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 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 is organized as a mutual fund in which each eligible account 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

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.

The GEF shall be governed through The University of Texas Investment Management Company ("UTIMCO"), a nonprofit Corporation organized for the express purpose of investing funds under the control and management of the Board of Regents. UTIMCO shall a) recommend investment policy for the GEF, b) determine specific asset allocation targets, ranges, and performance benchmarks consistent with GEF objectives, and c) monitor GEF performance against GEF objectives. UTIMCO shall invest the GEF assets in conformity with investment policy.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority approved by the UTIMCO Board. These guidelines are intended to ensure that the appropriate managers are retained to pursue a defined investment strategy within the GEF's portfolio structure and to define the general conditions under which a portfolio manager may be placed on a watch list or terminated. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. ~~Unaffiliated investment managers may be hired by UTIMCO to improve the GEF's return and~~

~~risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts.~~ Managers shall be monitored for performance and adherence to investment disciplines.

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, by the Board of Regents and/or UTIMCO.

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

GEF Investment Objectives

The primary investment objective shall be to preserve the purchasing power of GEF assets by earning an average annual real ~~total~~ return ~~after inflation~~ of 5.1 ~~5.5~~% over rolling ten-year periods or longer. This 5.1% target was derived by adding the current target distribution rate of 4.75% plus an annual expected expense of .35%. The GEF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives are to generate a fund return in excess of the Policy Portfolio benchmark and the average median return of the universe of the college and university endowments as reported annually by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect GEF's asset allocation policy targets.

Asset Allocation and Policy

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

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

A. U. S. Equities - U. S. equities represent ownership in U. S. companies that are traded in public markets. Equities include stocks that are further identified by size of the company and are classified as large capitalization, medium capitalization, and small capitalization. U. S. equities may further be delineated by style (growth or value). Warrants, rights, options, futures and hedge funds are also included if the underlying assets are equities. In addition, Derivative Applications approved by the UTIMCO Board that serve as a U. S. equity substitute will be classified as U. S. equities. Equities provide both current income and growth of income.

B. Global ex U. S. Equities – Global ex U. S. equities represent ownership in global companies that are traded in public markets. The global ex U. S. markets include established and emerging markets. Equities include stocks that are further identified by size of the company and are classified as large capitalization, medium capitalization, and small capitalization. Global ex U. S. equities may further be delineated by style (growth or value) or region (Latin America, Asia etc.) or state of economic development (Emerging Markets). Warrants, rights, options, futures and hedge funds are also included if the underlying assets are equities. In addition, Derivative Applications approved by the UTIMCO Board that serve as a Global ex U. S. equity substitute will be classified as Global ex U. S. equities. Equities provide both current income and growth of income.

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

Equity Hedge Funds – Equity hedge fund investments include U. S. and international long/short equity strategies. These strategies attempt to exploit profits from stock selection skills by taking long and short positions in various equity securities. These strategies may also include fund of hedge fund investments. Equity hedge fund investments are made through private placement agreements.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage and event driven strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discreet events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements.

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

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

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

E. Commodities – Natural resource investments which include oil and gas interests, commodities, and other hard assets.

F. Fixed Income – Fixed income investments include debt issued by the U. S. Treasury, various government agencies and domestic and foreign corporations. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. Fixed income investments also include hedge funds if the underlying assets are fixed income investments, and treasury inflation protected securities (TIPS) which are marketable securities with a return linked to the inflation rate. In addition, Derivative Applications approved by the UTIMCO Board that serve as a fixed income substitute will be classified as fixed income.

G. Cash & Equivalents – Cash & equivalents consist of money markets, foreign currencies and other overnight funds that have not been allocated to a specific asset class.

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

~~B. Fixed Income Investments - Intermediate to long-term investment grade bonds offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of GEF income. Below investment grade bonds including high yield bonds usually behave more like~~

~~equities than high-quality bonds such as Treasuries. In the recovery phase of the market such bonds frequently outperform high-quality bonds.~~

~~C. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation of the GEF. 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 GEF.~~

~~D. Alternative Investments – generally consist of alternative marketable investments and alternative nonmarketable investments.~~

- ~~Alternative Marketable Investments - These investments are broadly defined to include hedge funds, arbitrage and special situation funds, distressed debt, market neutral, and other nontraditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. Alternative marketable investments may be made directly by UTIMCO or through partnerships. If these investments are made through partnerships they offer faster drawdown of committed capital and earlier realization potential than alternative nonmarketable investments. Alternative marketable investments made through partnerships will generally provide investors with liquidity at least annually.~~

- ~~Alternative Nonmarketable Investments – Alternative Nonmarketable investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative nonmarketable investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of GEF asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative nonmarketable investments shall be controlled with extensive due diligence and diversification. These investments are held through either limited partnership or as direct ownership interests. They include special equity, mezzanine venture capital, oil and gas, real estate and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity. They also generally require an extended period of time to achieve targeted investment levels.~~

~~E. Inflation Hedging Assets - generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. They include direct~~

~~real estate, REITs, oil and gas interests, commodities, inflation-linked bonds, timberland and other hard assets. These investments may be held through limited partnership, other commingled funds or as direct ownership interests.~~

~~Asset Allocation Policy~~

~~The asset allocation policy and ranges herein recognize that the GEF's return/risk profile can be enhanced by diversifying the GEF's investments across different types of assets whose returns are not closely correlated. The targets and ranges seek to protect the GEF against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.~~

~~The long-term asset allocation policy for the GEF must recognize that the 5.5% real return objective requires a high allocation to broadly defined equities, including domestic, international stocks, alternative equity investments, and inflation hedging assets of 68% to 90%. The allocation to deflation hedging Fixed Income should therefore not exceed 32% of the GEF.~~

~~The Board of Regents delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for large and small capitalization U. S. stocks, established and emerging market international stocks, marketable and nonmarketable alternative equity investments, and other asset classes as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the Board of Regents.~~

Performance Measurement

The investment performance of the GEF will be measured by the GEF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the GEF, as indicated in Exhibit A. ~~Such measurement will occur at least annually, and evaluate the results of the total GEF, major classes of investment assets, and individual portfolios.~~

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 and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.

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

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

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

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

- No 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 Derivative Securities to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with GEF investments; or f) adjust the market exposure of the asset allocation, including long and short strategies and other strategies provided that the GEF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board. The Derivative Investment Policy shall serve the purpose of defining the permitted applications under which derivative securities can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

<u>Cash and Cash Equivalents</u>

Holdings of cash and cash equivalents may include the following:

- Internal short-term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by the chief investment officer.

- The GEF's custodian late deposit interest bearing liquid investment fund.

- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).

- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.

- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

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

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

    - The maturity for a Repurchase Agreement may be from one day to two weeks.

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

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

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

- Overnight Repurchase Agreements may not exceed 25% of the GEF's fixed income assets.

- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

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

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific subindices 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; ~~and~~ 4) Asset-backed securities; 5) Taxable Municipal securities; and 6) Commercial Mortgage-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

- U. S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

Non-U. S. Fixed Income

- Not more than 50 ~~35~~% of the GEF's fixed income portfolio may be invested in non-U. S. dollar bonds. Not more than 15% of the GEF's fixed income portfolio may be invested in bonds denominated in any one currency.

- 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 15 ~~7.5~~% of the GEF's fixed income portfolio may be invested in Emerging Market debt.

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

Equities

The GEF shall:

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

B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the chief investment officer.

~~Alternative Investments and Inflation Hedging Assets~~

~~Investments in alternative assets and inflation hedging assets may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures) so long as such organizations:~~

~~A. possess specialized investment skills~~

~~B. possess full investment discretion subject to the management agreement~~

~~C. are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken~~

~~D. align the interests of the investor group with the management as closely as possible~~

~~E. charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.~~

~~Investments in alternative nonmarketable assets and inflation hedging assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the GEF has invested prior to the co-investment or in transactions sponsored by investment firms well known to UTIMCO management, provided that such direct investments shall not exceed 25% of the market value of the alternative nonmarketable assets portfolio or the inflation hedging assets portfolio at the time of the direct investment.~~

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested GEF assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore, UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.

GEF Accounting

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

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all GEF net assets and the net asset value per unit of the GEF. Valuation of GEF assets shall be based on the books and records of the custodian for the valuation date. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

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

Purchase of GEF Units

Purchase of GEF units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the GEF or contribution of assets approved by the 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 for the period of the withdrawal.

Securities Lending

The GEF may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term 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 agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the GEF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the GEF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the GEF solely in the interest of GEF unitholders 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 the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be December 19~~August 7~~, 2003.

PROPOSED

EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

	Percent of Portfolio (%)		
Asset Category	**Policy Targets**	**Policy Ranges**	**Benchmarks**
US Equities	25.0	15 to 45	Russell 3000 Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Traditional Equity	**42.0**	**20 to 60**	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	**25.0**	**15 to 25**	
Venture Capital	6.0	0 to 10	Venture Economics Vintage Year Venture Capital Index
Private Equity	9.0	5 to 15	Venture Economics Vintage Year Private Equity Index
Total Private Capital	**15.0**	**5 to 15**	
Commodities	**3.0**	**0 to 10**	GSCI minus 1%
Fixed Income	**15.0**	**10 to 30**	Lehman Brothers Aggregate Bond Index
Cash	**0.0**	**0 to 5**	90 Day T-Bills

Expected Annual Return (%)	**8.36**
Downside Deviation (%)	**4.22**
Standard Deviation (%)	**10.30**

CURRENT

~~EXHIBIT A~~

~~GEF ASSET ALLOCATION~~

~~EXPECTED RETURN AND RISK, NEUTRAL ALLOCATIONS, RANGES AND PERFORMANCE OBJECTIVES~~

		~~Expected Return~~	~~Expected Risk~~	~~Neutral Allocation~~	~~Range~~	~~Benchmark Return~~
~~Conventional Equities~~	~~U.S. Stocks~~	~~9.25%~~	~~18.50%~~	~~**25.0%**~~	~~10%-40%~~	~~S&P 500 Index~~
~~Conventional Equities~~	~~U.S. Small Cap Stocks~~	~~10.25%~~	~~21.25%~~	~~**7.5%**~~	~~5%-15%~~	~~Russell 2000 Index~~
~~Conventional Equities~~	~~Global ex-U.S. Stocks~~	~~9.75%~~	~~20.75%~~	~~**12.0%**~~	~~5%-20%~~	~~MSCI EAFE Index (net)~~
~~Conventional Equities~~	~~Emerging Markets Equity~~	~~13.00%~~	~~30.00%~~	~~**3.0%**~~	~~0%-10%~~	~~MSCI-Emerging Mkts. Free~~
~~Alt. Eq. - Marketable~~	~~Absolute Return~~	~~7.75%~~	~~9.25%~~	~~**3.0%**~~	~~2.5%-10%~~	~~91-Day T-Bills +7%~~
~~Alt. Eq. - Marketable~~	~~Equity Hedge Funds~~	~~8.00%~~	~~14.00%~~	~~**7.0%**~~	~~2.5%-15%~~	~~91-Day T-Bills +7%~~
~~Alt. Eq. - Non-Marketable~~	~~Venture Capital~~	~~14.25%~~	~~15.75%~~	~~**7.5%**~~	~~2.5%-10%~~	~~17.00%~~
~~Alt. Eq. - Non-Marketable~~	~~Private Equity~~	~~12.25%~~	~~9.50%~~	~~**7.5%**~~	~~2.5%-15%~~	~~17.00%~~
~~Inflation Hedging~~	~~Commodities (GSCI)~~	~~8.75%~~	~~19.25%~~	~~**2.5%**~~	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~Oil and Gas~~	~~11.00%~~	~~27.00%~~	~~**0.0%**~~	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~Real Estate~~	~~9.00%~~	~~14.50%~~	~~**5.0%**~~	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~TIPS~~	~~6.50%~~	~~2.50%~~	~~**0.0%**~~	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~Timberland~~	~~8.50%~~	~~9.25%~~	~~**0.0%**~~	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Deflation Hedging~~	~~High Yield Bonds~~	~~8.50%~~	~~13.25%~~	~~**0.0%**~~	~~0%-7%~~	~~Lehman Brothers Aggregate~~
~~Deflation Hedging~~	~~Global ex U.S. Bonds~~	~~6.50%~~	~~13.00%~~	~~**5.0%**~~	~~0%-7%~~	~~Salomon Non-U.S. WGBI Unh.~~
~~Deflation Hedging~~	~~U.S. Bonds~~	~~6.25%~~	~~9.25%~~	~~**15.0%**~~	~~10%-25%~~	~~Lehman Brothers Aggregate~~
~~Deflation Hedging~~	~~Cash~~	~~3.75%~~	~~3.50%~~	~~**0.0%**~~	~~0%-5%~~	~~91 day T-Bills Ave. Yield~~

~~**Expected Nominal Return**~~	~~**9.35%**~~
~~**Expected Risk**~~	~~**10.44%**~~
~~**Return/Risk Ratio**~~	~~**0.90**~~

~~The rebalancing of Fund assets to achieve the neutral allocations shall be subject to the funding of alternative investments.~~

~~Risk is defined in annualized standard deviation terms.~~

~~The neutral policy portfolio is the sum of the neutrally weighted benchmark returns.~~

THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT HEALTH FUND
INVESTMENT POLICY STATEMENT

Purpose

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

A. The Permanent Health Fund for Higher Education (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;

B. Eight of the thirteen separate Permanent Funds for Health Related Institutions (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 -~~at~~ San Antonio
U. T. M. D. Anderson Cancer Center
U. T. Southwestern Medical Center -~~at~~ Dallas
U. T. Medical Branch -~~at~~ Galveston
U. T. Health Science Center -~~at~~ Houston
U. T. Health Center -~~at~~ 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 is organized as a mutual fund in which each eligible account 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. It 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.

Section 163 of the Texas Property Code provides the guidelines for the management, investment and expenditure of endowment funds. It also authorizes the Board of Regents to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the Board of Regents in the investment of the PHF. The PHF shall be governed through The University of Texas Investment Management Company (UTIMCO) which shall: a) recommend investment policy for the PHF; b) determine specific asset allocation targets, ranges, and performance benchmarks consistent with PHF objectives; and c) monitor PHF performance against PHF objectives. UTIMCO shall invest the PHF assets in conformity with investment policy.

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, by the Board of Regents and/or UTIMCO.

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

PHF Investment Objectives

The primary investment objective shall be to preserve the purchasing power of PHF assets and annual distributions by earning an average annual real ~~total~~ return~~ after inflation~~ of 5.1 ~~5.5~~% over rolling ten-year periods or longer. This 5.1% target was derived by adding the current target distribution rate of 4.75% plus an annual expected expense of .35%. The PHF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives are to generate a fund return in excess of the Policy Portfolio benchmark and the average median return of the universe of the college and university endowments as reported annually by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect PHF's asset allocation policy targets.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A and Exhibit B, is the responsibility of UTIMCO. PHF assets shall be allocated among the following investments:

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

B. U. T. System General Endowment Fund (GEF) (See Exhibit B)

~~**Asset Allocation Policy**~~

~~The asset allocation policy and ranges herein recognize that the PHF's return/risk profile can be enhanced by diversifying the PHF's investments across different types of assets whose returns are not closely correlated. The targets and ranges seek to protect the PHF against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.~~

~~The long-term asset allocation policy for the PHF recognizes that the 5.5% real return objective requires a high allocation to the broadly defined conventional equity, and alternative equity, and inflation hedging assets comprising the GEF. (See Exhibit A and Exhibit B).~~

~~The Board of Regents delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above.~~

~~Specific asset allocation policies shall be decided by UTIMCO and reported to the Board of Regents.~~

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.
- All investments will be reported in U. S. dollars.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of PHF assets in such liquid investment fund.
- No securities may be purchased or held which jeopardize the PHF's tax exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No 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:

- Internal short-term pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by the chief investment officer.
- The PHF's custodian late deposit interest bearing liquid investment fund.

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

C. ensure that the inflation adjusted value of PHF assets after distributions is maintained over the long-term.

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

UTIMCO shall be responsible for establishing the PHF's distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise established by UTIMCO and approved by the Board of Regents, fund 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 per unit) the UTIMCO Board, at its sole discretion, may grant an increase in the distribution amount as long such increase does not result in a distribution rate of more than 5.5%.

C. If the distribution rate exceeds 5.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit) the UTIMCO Board at its sole discretion, may reduce the per unit distribution amount.

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

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

PHF Accounting

The fiscal year of the PHF shall begin on September 1st and end on August 31st. Market value of the PHF shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board of Directors. 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 fair market value of the PHF's net assets shall include all related receivables and payables of the PHF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of PHF Units

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

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

Redemption of PHF Units

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

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the PHF solely in the interest of PHF unitholders and shall not invest the PHF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be December 19~~August 7~~, 2003.

PROPOSED

EXHIBIT A

PHF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

	Neutral Allocation	Range	Benchmark Return
GEF Commingled Fund	**100.0%**	95%-100%	Endowment Policy Portfolio
Cash	**0.0%**	0%-5%	90 day T-Bills

Expected Annual Return (%)	**8.36**
Downside Deviation (%)	**4.22**
Standard Deviation (%)	**10.30**

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

CURRENT

~~EXHIBIT A~~

~~PHF ASSET ALLOCATION~~

~~EXPECTED RETURN AND RISK, NEUTRAL ALLOCATIONS, RANGES AND PERFORMANCE OBJECTIVES~~

	~~Expected Return~~	~~Expected Risk~~	~~Neutral Allocation~~	~~Range~~	~~Benchmark Return~~
~~GEF Commingled Fund~~	~~9.35%~~	~~10.44%~~	**~~100.0%~~**	~~95%-100%~~	~~Endowment Policy Portfolio~~
~~Cash~~	~~3.75%~~	~~3.50%~~	**~~0.0%~~**	~~0%-5%~~	~~91 day T-Bills Ave. Yield~~
~~Expected Nominal Return~~			**~~9.35%~~**		
~~Expected Risk~~			**~~10.44%~~**		
~~Return/Risk Ratio~~			**~~0.90~~**		

~~Risk is defined in annualized standard deviation terms.~~

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

PROPOSED

EXHIBIT B

GEF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

	Percent of Portfolio (%)		
Asset Category	**Policy Targets**	**Policy Ranges**	**Benchmarks**
US Equities	25.0	15 to 45	Russell 3000 Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Traditional Equity	**42.0**	**20 to 60**	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	**25.0**	**15 to 25**	
Venture Capital	6.0	0 to 10	Venture Economics Vintage Year Venture Capital Index
Private Equity	9.0	5 to 15	Venture Economics Vintage Year Private Equity Index
Total Private Capital	**15.0**	**5 to 15**	
Commodities	**3.0**	**0 to 10**	GSCI minus 1%
Fixed Income	**15.0**	**10 to 30**	Lehman Brothers Aggregate Bond Index
Cash	**0.0**	**0 to 5**	90 Day T-Bills

Expected Annual Return (%)	**8.36**
Downside Deviation (%)	**4.22**
Standard Deviation (%)	**10.30**

CURRENT

~~EXHIBIT B~~

~~GEF ASSET ALLOCATION~~

~~EXPECTED RETURN AND RISK, NEUTRAL ALLOCATIONS, RANGES AND PERFORMANCE OBJECTIVES~~

		~~Expected Return~~	~~Expected Risk~~	~~Neutral Allocation~~	~~Range~~	~~Benchmark Return~~
~~Conventional Equities~~	~~U.S. Stocks~~	~~9.25%~~	~~18.50%~~	**~~25.0%~~**	~~10%-40%~~	~~S&P 500 Index~~
~~Conventional Equities~~	~~U.S. Small Cap Stocks~~	~~10.25%~~	~~21.25%~~	**~~7.5%~~**	~~5%-15%~~	~~Russell 2000 Index~~
~~Conventional Equities~~	~~Global ex-U.S. Stocks~~	~~9.75%~~	~~20.75%~~	**~~12.0%~~**	~~5%-20%~~	~~MSCI EAFE Index (net)~~
~~Conventional Equities~~	~~Emerging Markets Equity~~	~~13.00%~~	~~30.00%~~	**~~3.0%~~**	~~0%-10%~~	~~MSCI Emerging Mkts. Free~~
~~Alt. Eq. - Marketable~~	~~Absolute Return~~	~~7.75%~~	~~9.25%~~	**~~3.0%~~**	~~2.5%-10%~~	~~91-Day T-Bills +7%~~
~~Alt. Eq. - Marketable~~	~~Equity Hedge Funds~~	~~8.00%~~	~~14.00%~~	**~~7.0%~~**	~~2.5%-15%~~	~~91-Day T-Bills +7%~~
~~Alt. Eq. - Non-Marketable~~	~~Venture Capital~~	~~14.25%~~	~~15.75%~~	**~~7.5%~~**	~~2.5%-10%~~	~~17.00%~~
~~Alt. Eq. - Non-Marketable~~	~~Private Equity~~	~~12.25%~~	~~9.50%~~	**~~7.5%~~**	~~2.5%-15%~~	~~17.00%~~
~~Inflation Hedging~~	~~Commodities (GSCI)~~	~~8.75%~~	~~19.25%~~	**~~2.5%~~**	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~Oil and Gas~~	~~11.00%~~	~~27.00%~~	**~~0.0%~~**	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~Real Estate~~	~~9.00%~~	~~14.50%~~	**~~5.0%~~**	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~TIPS~~	~~6.50%~~	~~2.50%~~	**~~0.0%~~**	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~Timberland~~	~~8.50%~~	~~9.25%~~	**~~0.0%~~**	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Deflation Hedging~~	~~High Yield Bonds~~	~~8.50%~~	~~13.25%~~	**~~0.0%~~**	~~0%-7%~~	~~Lehman Brothers Aggregate~~
~~Deflation Hedging~~	~~Global ex U.S. Bonds~~	~~6.50%~~	~~13.00%~~	**~~5.0%~~**	~~0%-7%~~	~~Salomon Non-U.S. WGBI Unh.~~
~~Deflation Hedging~~	~~U.S. Bonds~~	~~6.25%~~	~~9.25%~~	**~~15.0%~~**	~~10%-25%~~	~~Lehman Brothers Aggregate~~
~~Deflation Hedging~~	~~Cash~~	~~3.75%~~	~~3.50%~~	**~~0.0%~~**	~~0%-5%~~	~~91 day T-Bills Ave. Yield~~

~~Expected Nominal Return~~	**~~9.35%~~**
~~Expected Risk~~	**~~10.44%~~**
~~Return/Risk Ratio~~	**~~0.90~~**

~~The rebalancing of Fund assets to achieve the neutral allocations shall be subject to the funding of alternative investments.~~

~~Risk is defined in annualized standard deviation terms.~~

~~The neutral policy portfolio is the sum of the neutrally weighted benchmark returns.~~

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 is organized as 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

Ultimate fiduciary responsibility for the LTF rests with the Board of Regents. Section 163 of the Texas Property Code authorizes the Board of Regents to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the Board of Regents in the investment of the LTF. The LTF shall be governed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the LTF, b) determine specific asset allocation targets, ranges, and performance benchmarks consistent with LTF objectives, and c) monitor LTF performance against LTF objectives. UTIMCO shall invest the LTF assets in conformity with investment policy.

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 fund shall be eligible to purchase units of the LTF unless it is under the sole control, with full discretion as to investments, by the Board of Regents and/or UTIMCO.

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

LTF Investment Objectives

The primary investment objective shall be to preserve the purchasing power of LTF assets by earning an average annual real ~~total~~ return~~ after inflation~~ of 5.1 ~~5.5~~% over rolling ten year periods or longer. This 5.1% target was derived by adding the current target distribution rate of 4.75% plus an annual expected expense of .35%. The LTF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives are to generate a fund return in excess of the Policy Portfolio benchmark and the average median return of the universe of the college and university endowments as reported annually by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect LTF's asset allocation policy targets.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A and Exhibit B, is the responsibility of UTIMCO. LTF assets shall be allocated among the following investments.

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

B. U. T. System General Endowment Fund (GEF) (See Exhibit B)

~~**Asset Allocation Policy**~~

~~The asset allocation policy and ranges herein recognize that the LTF's return/risk profile can be enhanced by diversifying the LTF's investments across different types of assets whose returns are not closely correlated. The targets and ranges seek to protect the LTF against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.~~

~~The long-term asset allocation policy for the LTF recognizes that the 5.5% real return objective requires a high allocation to the broadly defined conventional equity and alternative equity investments and inflation hedging assets comprising the GEF. (See Exhibit A and Exhibit B).~~

~~The Board of Regents delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. Specific asset allocation policies shall be decided by UTIMCO and reported to the Board of Regents.~~

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

<u>General</u>

- Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.
- All investments will be reported in U. S. dollars.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of LTF assets in such liquid investment fund.
- No securities may be purchased or held which jeopardize the LTF's tax exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No 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:

- Include internal short-term pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by the chief investment officer.
- The LTF's custodian late deposit interest bearing liquid investment fund.

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

C. ensure that the inflation adjusted value of LTF assets after distributions is maintained over the long-term.

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

Pursuant to the Uniform Management of Institutional Funds Act ("Act"), a governing board may distribute, for the uses and purposes for which the fund is established, the net appreciation, realized and unrealized, in the fair market value of the assets of an endowment fund over the historic dollar value of the fund to the extent prudent under the standard provided by the Act. In addition, income may be distributed for the purposes associated with the endowments/foundations.

UTIMCO shall be responsible for establishing the LTF's distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise established by UTIMCO and approved by the Board of Regents or prohibited by the Act, fund 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, at its sole discretion, may grant an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5%.

C. If the distribution rate exceeds 5.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value per unit) the UTIMCO Board at its sole discretion, may reduce the per unit distribution amount.

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

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

LTF Accounting

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

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all LTF net assets and the net asset value per unit of the LTF. Such valuation of LTF assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of LTF assets shall be based on the books and records of the custodian for the valuation date.

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

Purchase of LTF Units

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

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

Redemption of LTF Units

Redemption of LTF units shall be paid in cash as soon as practicable after the quarterly valuation date of the LTF. If the withdrawal is greater than $10 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the LTF's net asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the best interests of all LTF unitholders. Withdrawals from the LTF shall be at the market value price per unit determined for the period of the withdrawal except as follows: withdrawals to correct administrative errors shall be calculated at the per unit value at the time the error occurred. To be considered an administrative error, the contribution shall have been invested in the LTF for a period less than or equal to one year determined from the date of the contribution to the LTF. Transfer of units between endowment unitholders shall not be considered redemption of units subject to this provision.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the LTF solely in the interest of LTF unitholders and shall not invest the LTF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be December 19~~August 7~~, 2003.

PROPOSED

EXHIBIT A

LTF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

	Neutral Allocation	Range	Benchmark Return
GEF Commingled Fund	**100.0%**	95%-100%	Endowment Policy Portfolio
Cash	**0.0%**	0%-5%	90 day T-Bills

Expected Annual Return (%)	**8.36**
Downside Deviation (%)	**4.22**
Standard Deviation (%)	**10.30**

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

CURRENT

~~EXHIBIT A~~

~~LTF ASSET ALLOCATION~~

~~EXPECTED RETURN AND RISK, NEUTRAL ALLOCATIONS, RANGES AND PERFORMANCE OBJECTIVES~~

	~~Expected Return~~	**~~Expected Risk~~**	**~~Neutral Allocation~~**	**~~Range~~**	**~~Benchmark Return~~**
~~GEF Commingled Fund~~	~~9.35%~~	~~10.44%~~	**~~100.0%~~**	~~95%-100%~~	~~Endowment Policy Portfolio~~
~~Cash~~	~~3.75%~~	~~3.50%~~	**~~0.0%~~**	~~0%-5%~~	~~91 day T-Bills Ave. Yield~~
~~Expected Nominal Return~~			**~~9.35%~~**		
~~Expected Risk~~			**~~10.44%~~**		
~~Return/Risk Ratio~~			**~~0.90~~**		

~~Risk is defined in annualized standard deviation terms.~~

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

PROPOSED

EXHIBIT B

GEF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

	Percent of Portfolio (%)		
Asset Category	**Policy Targets**	**Policy Ranges**	**Benchmarks**
US Equities	25.0	15 to 45	Russell 3000 Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Traditional Equity	**42.0**	**20 to 60**	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	**25.0**	**15 to 25**	
Venture Capital	6.0	0 to 10	Venture Economics Vintage Year Venture Capital Index
Private Equity	9.0	5 to 15	Venture Economics Vintage Year Private Equity Index
Total Private Capital	**15.0**	**5 to 15**	
Commodities	**3.0**	**0 to 10**	GSCI minus 1%
Fixed Income	**15.0**	**10 to 30**	Lehman Brothers Aggregate Bond Index
Cash	**0.0**	**0 to 5**	90 Day T-Bills

Expected Annual Return (%)	**8.36**
Downside Deviation (%)	**4.22**
Standard Deviation (%)	**10.30**

CURRENT

~~EXHIBIT B~~

~~GEF ASSET ALLOCATION~~

~~EXPECTED RETURN AND RISK, NEUTRAL ALLOCATIONS, RANGES AND PERFORMANCE OBJECTIVES~~

		~~Expected Return~~	~~Expected Risk~~	~~Neutral Allocation~~	~~Range~~	~~Benchmark Return~~
~~Conventional Equities~~	~~U.S. Stocks~~	~~9.25%~~	~~18.50%~~	~~**25.0%**~~	~~10%-40%~~	~~S&P 500 Index~~
~~Conventional Equities~~	~~U.S. Small Cap Stocks~~	~~10.25%~~	~~21.25%~~	~~**7.5%**~~	~~5%-15%~~	~~Russell 2000 Index~~
~~Conventional Equities~~	~~Global ex-U.S. Stocks~~	~~9.75%~~	~~20.75%~~	~~**12.0%**~~	~~5%-20%~~	~~MSCI EAFE Index (net)~~
~~Conventional Equities~~	~~Emerging Markets Equity~~	~~13.00%~~	~~30.00%~~	~~**3.0%**~~	~~0%-10%~~	~~MSCI Emerging Mkts. Free~~
~~Alt. Eq. - Marketable~~	~~Absolute Return~~	~~7.75%~~	~~9.25%~~	~~**3.0%**~~	~~2.5%-10%~~	~~91-Day T-Bills +7%~~
~~Alt. Eq. - Marketable~~	~~Equity Hedge Funds~~	~~8.00%~~	~~14.00%~~	~~**7.0%**~~	~~2.5%-15%~~	~~91-Day T-Bills +7%~~
~~Alt. Eq. - Non-Marketable~~	~~Venture Capital~~	~~14.25%~~	~~15.75%~~	~~**7.5%**~~	~~2.5%-10%~~	~~17.00%~~
~~Alt. Eq. - Non-Marketable~~	~~Private Equity~~	~~12.25%~~	~~9.50%~~	~~**7.5%**~~	~~2.5%-15%~~	~~17.00%~~
~~Inflation Hedging~~	~~Commodities (GSCI)~~	~~8.75%~~	~~19.25%~~	~~**2.5%**~~	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~Oil and Gas~~	~~11.00%~~	~~27.00%~~	~~**0.0%**~~	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~Real Estate~~	~~9.00%~~	~~14.50%~~	~~**5.0%**~~	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~TIPS~~	~~6.50%~~	~~2.50%~~	~~**0.0%**~~	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Inflation Hedging~~	~~Timberland~~	~~8.50%~~	~~9.25%~~	~~**0.0%**~~	~~0.0%-10%~~	~~33% (GSCI - 100 bps)/67% NCREIF~~
~~Deflation Hedging~~	~~High Yield Bonds~~	~~8.50%~~	~~13.25%~~	~~**0.0%**~~	~~0%-7%~~	~~Lehman Brothers Aggregate~~
~~Deflation Hedging~~	~~Global ex U.S. Bonds~~	~~6.50%~~	~~13.00%~~	~~**5.0%**~~	~~0%-7%~~	~~Salomon Non-U.S. WGBI Unh.~~
~~Deflation Hedging~~	~~U.S. Bonds~~	~~6.25%~~	~~9.25%~~	~~**15.0%**~~	~~10%-25%~~	~~Lehman Brothers Aggregate~~
~~Deflation Hedging~~	~~Cash~~	~~3.75%~~	~~3.50%~~	~~**0.0%**~~	~~0%-5%~~	~~91 day T-Bills Ave. Yield~~
	~~**Expected Nominal Return**~~			~~**9.35%**~~		
	~~**Expected Risk**~~			~~**10.44%**~~		
	~~**Return/Risk Ratio**~~			~~**0.90**~~		

~~The rebalancing of Fund assets to achieve the neutral allocations shall be subject to the funding of alternative investments.~~

~~Risk is defined in annualized standard deviation terms.~~

~~The neutral policy portfolio is the sum of the neutrally weighted benchmark returns.~~

The University of Texas Investment Management Company
Liquidity Policy

Effective Date of Policy: December 19 ~~August 7~~, 2003
Date Approved by UTIMCO Board: December 4 ~~June 26~~, 2003

Purpose:

The purpose of the Liquidity Policy is to establish limits on the overall liquidity profile of investments in the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter referred to as the Funds. For the purposes of this policy, "liquidity" is defined as a measure of the ability of an investment position to be converted into a cash position. The established liquidity profile limits will act in conjunction with, but do not supercede, the Investment Policies~~y~~ established by The University of Texas Investment Management Company (UTIMCO) Board and approved by the U. T. ~~System~~ Board of Regents.

Objective:

The objective of the Liquidity Policy is to control the element of total risk exposure of the ~~PUF and GEF~~ F~~f~~unds stemming from the uncertainties associated with the ability to convert longer term investments to cash to meet immediate needs or to change investment strategy, and to the potential cost of that conversion. This element of total risk is referred to as "Liquidity Risk" in this Policy.

Scope:

This Policy applies to all PUF and GEF investments made by UTIMCO, both by internal and by external managers. Policy implementation will be managed at the aggregate UTIMCO l~~L~~evel and will not be a responsibility of individual internal or external managers managing a portion of the aggregate assets.

Definition of Liquidity Risk:

Liquidity Risk is defined as that element of total risk resulting from the uncertainty associated with both the cost and time period necessary to convert existing investment positions to cash (or cash equivalents). Liquidity risk can result in lower than expected returns and reduced opportunity to make changes in investment positions to respond to changes in capital market conditions. Modern finance theory asserts that liquidity risk is a systematic risk factor that is incorporated into asset prices such that future longer-term returns will be higher for assets with higher liquidity risk, although that may not be the case in the short term.

Liquidity Risk Measurement-The Liquidity Profile:

Capital market theory does not provide a precise technique to measure liquidity risk. For the purposes of this Liquidity Policy, potential liquidity risk will be defined and monitored by measuring the aggregate liquidity profile of the Funds ~~PUF and GEF~~. All individual investments within the Funds ~~PUF and GEF~~ will be segregated into two~~four~~ categories:

- ~~**Highly Liquid:** Investments that could be readily converted to cash within 1 day to 4 weeks, at a discount of 5% or less from current value.~~
- **Liquid:** Investments that could be converted to cash within a period of one day to three months in an orderly market at a discount of 10% or less. ~~1 month to 3 months in an orderly market at minimal discount or in a shorter time period by accepting a discount of 20% or less.~~
- ~~**Moderately Illiquid:** Investments that could be converted to cash within a period of 3 months to 12 months in an orderly market at minimal discount or in a shorter time period by accepting a discount of 30% or less.~~
- **Illiquid:** Investments that could be converted to cash in an orderly market over a period of more than three months or in a shorter period of time by accepting a discount of more than 10%. ~~1 year or more in an orderly market at minimal discount or in a shorter time period by accepting a discount of more than 30%.~~

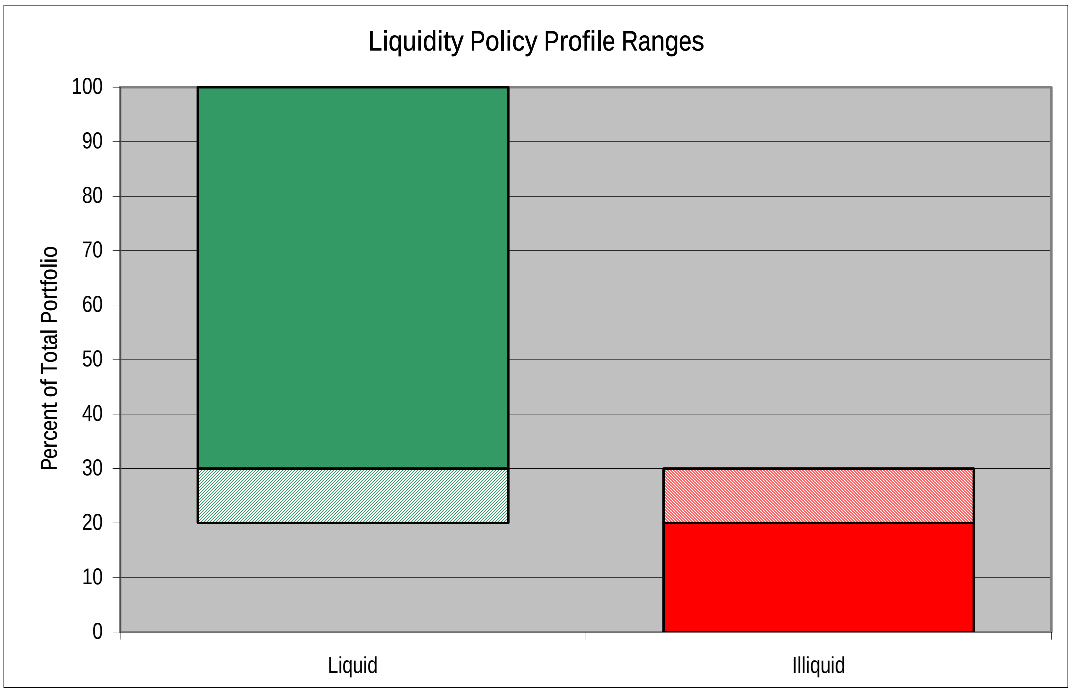
The measurements necessary to segregate all investments into one of the two ~~four~~ categories assume normally functioning capital markets and cash market transactions. In addition, swaps, derivatives, or other third party arrangements to create liquidity may be considered in determining the appropriate liquidity category for each investment upon approval of the UTIMCO Board or Board designated subcommittee.~~, excluding swap or other derivatives transactions which could be utilized in actual emergency situations to create liquidity.~~

The result of this liquidity risk measurement process will be a liquidity profile for the Funds ~~PUF and GEF~~ which indicates the percentage of the total portfolio assets within each liquidity category. This Liquidity Policy defines the acceptable range of percentage of total assets within each liquidity category, specifies "trigger zones" requiring special review by UTIMCO staff and Board, and specifies the method of monitoring and presenting actual versus policy liquidity profiles.

Liquidity Policy Profile:

The current Liquidity Policy Profile ranges and trigger zones are defined by the chart below:

PROPOSED



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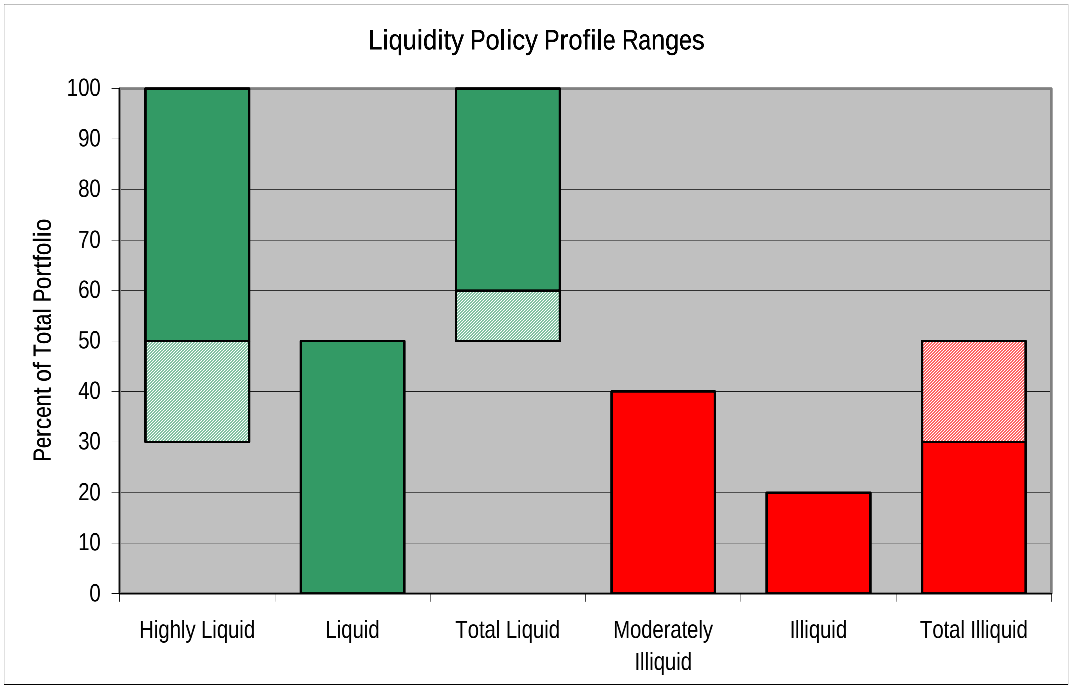


The green bar indicates the Policy range for investments categorized as "Liquid" by the definition presented earlier. The red bar indicates the Policy range for investments categorized as "Illiquid" by earlier definition. The shaded sections of the green and red bars indicate trigger zones requiring special action by the UTIMCO Board or a Board designated subcommittee. For example, the allowable range for "Illiquid" investments is 0% to 30% of the total portfolio, however, any investments made in the 20% to 30% range of total portfolio assets require special prior approval by the UTIMCO Board or subcommittee. ~~The green bars indicate the Policy ranges for investments categorized as "liquid", including subtotals for "Highly Liquid" and "Liquid" categories as well as the total for all liquid categories. The shaded portions of the green bars indicate trigger zones requiring special action by UTIMCO staff and Board. For example, the allowable range for "Highly Liquid" investments is currently 30% to 100% of total assets, while Total Liquid asset must comprise at least 50% of the total portfolio to as much as 100% of the portfolio. However, should actual Highly Liquid investments fall below 50% of total portfolio assets into the defined trigger zone, special review and action would be required by the UTIMCO Board as specified in the Documentation and Control section of this Policy. Likewise, the red bars illustrate the allowable range for "Illiquid" investments, 0% to 20%, while Total Illiquid assets may not comprise more than 50% of total assets. The trigger zone for Total Illiquid assets is 30% or more of the total portfolio.~~

Documentation and Controls:

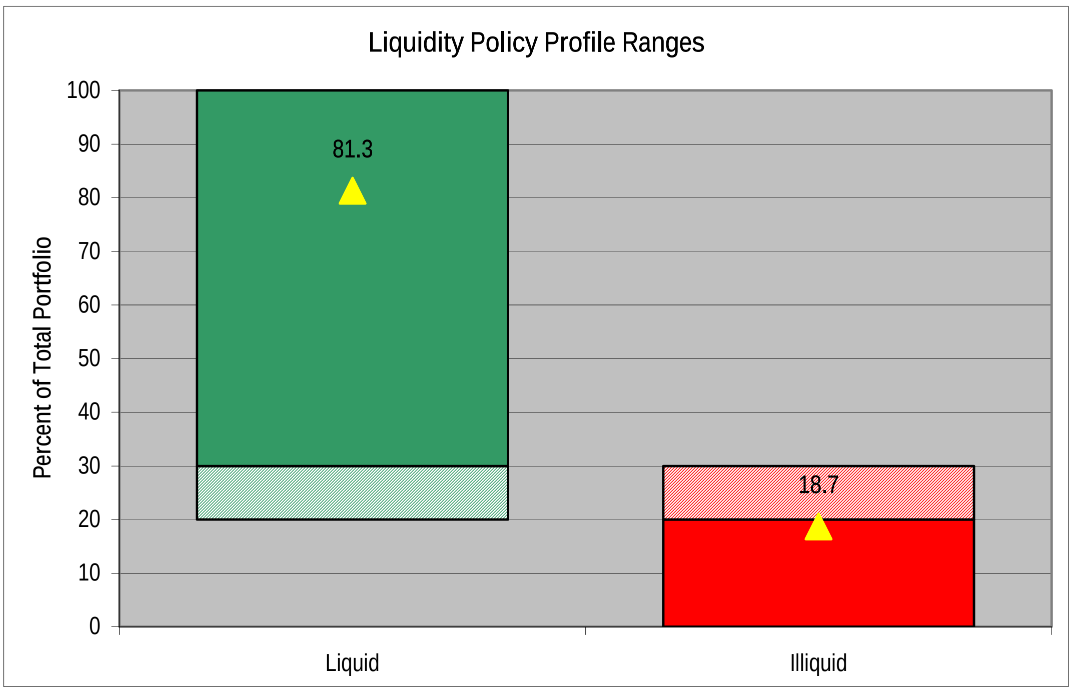
Managing Directors responsible for each asset class are responsible for determining the liquidity category for each investment in that class. These classifications will be reviewed by the Risk Manager and must receive final approval from the Chief Investment Officer. Classifications and weights within each liquidity category will be updated and reported on a monthly basis. All new investments considered will be categorized by liquidity category and a statement regarding the effect on overall liquidity of the addition of the new investment must be an element of the due diligence process and will be a part of all recommendation reports to the UTIMCO Board.

As additional safeguards, trigger zones have been established as indicated above to trigger required review and action by the UTIMCO Board in the event any investment action would cause any liquidity measure to enter any of the designated trigger zones, or in the event market actions caused measures to move into trigger zones. In addition, any proposed investment actions which would change any single liquidity category percentage by 10% or more would also require UTIMCO Board review and action prior to the change. Any actual positions in any trigger zones or outside the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board the circumstances of the deviation from Policy and the remedy to the situation.

Reporting:

The actual Liquidity Profile of the Funds and compliance with the Liquidity Policy will be reported to the UTIMCO Board on at least a quarterly basis. Any exception to the Policy and actions taken to remedy the exception will be reported promptly. An example of the method of reporting is shown below where the yellow points and number labels indicate current actual exposure levels within each Liquidity Policy Range (numbers shown are examples only). For example, in this illustration the current exposure to "Liquid" ~~"Highly Liquid"~~ investments is 81.3 ~~65.1~~%, while exposure to "Illiquid" investments is 18.7 ~~9.4~~% and both are within their respective allowable policy ranges and not in defined trigger zones.

PROPOSED



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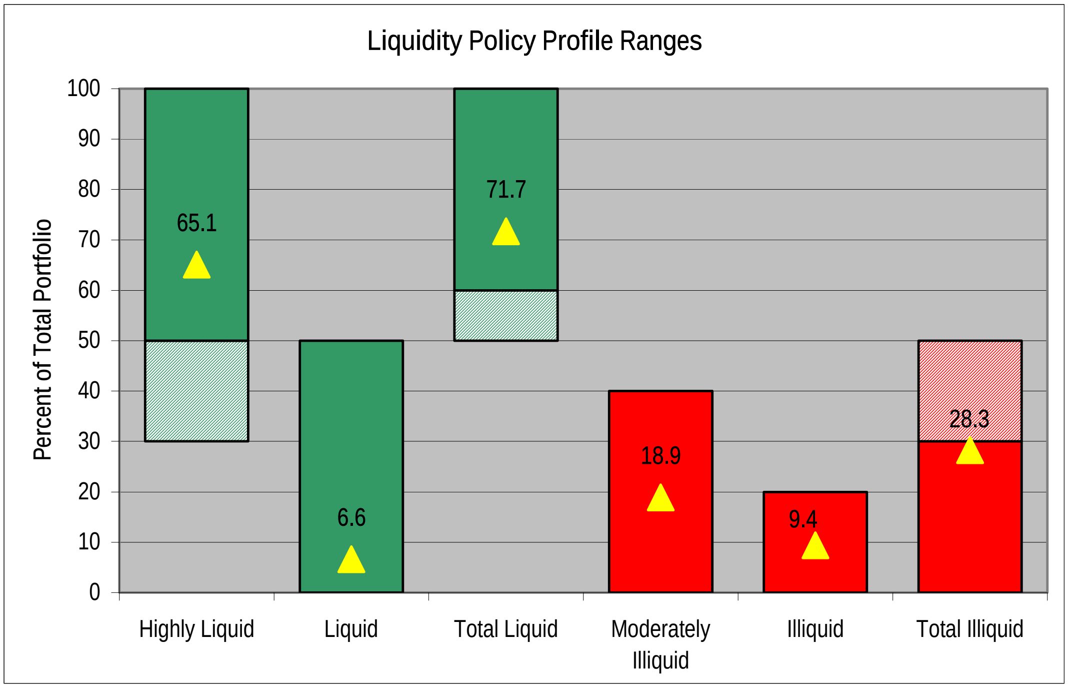

Liquidity Policy Profile Ranges
Percent of Total Portfolio
100
90
80
70
60
50
40
30
20
10
0
65.1
6.6
71.7
18.9
9.4
28.3
Highly Liquid
Liquid
Total Liquid
Moderately Illiquid
Illiquid
Total Illiquid

4. U. T. System: Recommended correction of oversight of tuition approval for U. T. Austin School of Law for Academic Year 2005-2006

RECOMMENDATION

The Chancellor recommends that the action of the Board of Regents approving tuition and fees on November 18, 2003, to be effective January 23, 2004, be clarified to specifically approve the recommendation that tuition at the U. T. Austin School of Law be increased for Academic Year 2005-2006, as recommended by President Faulkner and as included in the Agenda Book for that meeting. The recommendations are summarized on Pages 6 and 7.

BACKGROUND INFORMATION

The Chancellor intended that this needed tuition increase be recommended for approval, but the motion made on November 18, 2003, mentioned only increases for Academic Year 2004-2005.

UT Austin
Business and Law Designated Tuition Proposals

College Specific Designated Tuition Proposals

	2004-05	2005-06
Business: MBA, MPA, PPA		
Resident, per SCH	38	No proposal
Nonresident, per SCH	29	No proposal
Law		
Resident, per SCH	60	84
Nonresident, per SCH	60	84

Key Assumptions

Full-time student course load:

Business MBA, MPA, PPA: 15 hrs/semester
Law: 14 hrs/semester

Academic Sustainability Tuition - charged as a flat rate to all full-time students

prorated to part-time students

Sp 04: start new legislative fee for Barbara Jordan and Cesar Chavez statues at $2/semester

ESTIMATE for 2004-05 tuition and fees includes:

$2/SCH statutory tuition increase for all resident students except Law which is capped at $80/SCH;
no statutory tuition increase for non-resident students pending future CB action;
3% increase on est total mandatory and college/course fees; and
no designated or differential tuition increases

	Fall 2003	Proposed Spring 2004	% Change from Fall 2003	Proposed Fall 2004 and Spring 2005	% Change from Sp 2004	% Change from Fall 2003	Fall 2005 and Spring 2006	Change from Spring 2005
Full-time Student data								
Resident Graduate Students								
Business - MBA, MPA and PPA								
Statutory tuition	690	690		720				
Designated tuition - current	690	690		690				
Designated tuition - proposed new	0	0		570				
Differential tuition	690	690		690				
Academic Sustainability Tuition	0	360		720				
Statue fee	0	2		2				
Required and college/course fees	3674	3674		3784				
Total: tuition and fees	5744	6106	6.3%	7176	17.5%	24.9%		
Law								
Statutory tuition	1120	1120		1120			1120	
Designated tuition - current	644	644		644			644	
Designated tuition - proposed new	0	0		840			1176	
Differential tuition	2240	2240		2240			2240	
Academic Sustainability Tuition	0	360		720			720	no increase in AST
Statue fee	0	2		2			2	
Required and college/course fees	1390	1390		1432			1473	3% fee increase
Total: tuition and fees	5394	5756	6.7%	6998	21.6%	29.7%	7375	5.4%

	Fall 2003	Proposed Spring 2004	% Change from Fall 2003	Proposed Fall 2004 and Spring 2005	% Change from Sp 2004	% Change from Fall 2003	Fall 2005 and Spring 2006	Change from Spring 2005
Non-resident Students - Continuing from Spring 2004								
Business - MBA, MPA and PPA								
Statutory tuition	4230	4230		4230				
Designated tuition - current	690	690		690				
Designated tuition - proposed new	0	0		435				
Differential tuition	4230	4230		4230				
Academic Sustainability Tuition	0	400		800				
Statue fee	0	2		2				
Required and college/course fees	3674	3674		3784				
Total: tuition and fees	12824	13226	3.1%	14171	7.1%	10.5%		
Law								
Statutory tuition	3948	3948		3948			3948	
Designated tuition - current	644	644		644			644	
Designated tuition - proposed new	0	0		840			1176	
Differential tuition	4200	4200		4200			4200	
Academic Sustainability Tuition	0	400		800			800	no increase in AST
Statue fee	0	2		2			2	
Required and college/course fees	1390	1390		1432			1473	3% fee increase
Total: tuition and fees	10182	10584	3.9%	11866	12.1%	16.5%	12243	3.2%
New Non-resident Students enrolling for the first time after Spring 2004								
Business - MBA, MPA and PPA								
Statutory tuition	4230			4230				
Designated tuition - current	690			690				
Designated tuition - proposed new	0			435				
Differential tuition	4230			4230				
Academic Sustainability Tuition	0			1200				
Statue fee	0			2				
Required and college/course fees	3674			3784				
Total: tuition and fees	12824	NA		14571	NA	13.6%		
Law								
Statutory tuition	3948			3948			3948	
Designated tuition - current	644			644			644	
Designated tuition - proposed new	0			840			1176	
Differential tuition	4200			4200			4200	
Academic Sustainability Tuition	0			1200			1200	no increase in AST
Statue fee	0			2			2	
Required and college/course fees	1390			1432			1473	3% fee increase
Total: tuition and fees	10182	NA		12266	NA	20.5%	12643	3.1%

5. U. T. Austin: Recommendation for the Geology Foundation, with the assistance of the Bureau of Economic Geology, to manage the royalties received from the Estate of John A. Jackson, Deceased (Waiver of Regents' Rules and Regulations, Part Two, Chapter IX, Section 1, Subsection 1.3)

RECOMMENDATION

The Chancellor concurs in the recommendation of President Faulkner that the Board of Regents waive Subsection 1.3 of Section 1, Chapter IX, Part Two of the Regents' Rules and Regulations to authorize the Geology Foundation of The University of Texas at Austin, with assistance from the Bureau of Economic Geology, to manage the royalties received from the Estate of John A. Jackson, Deceased, as part of the bequest of 95% of the residuary estate.

It is recommended that approval of the waiver be conditioned upon the development of procedures that assure appropriate oversight by the Board and the Chancellor of the expenditure by the Foundation of income from this bequest and other sources.

BACKGROUND INFORMATION

The Geology Foundation is an internal foundation of the U. T. System created in October 1953 by a Board of Regents resolution as set forth in Section 7, Subsection 7.31 of Part One, Chapter VII of the Regents' Rules and Regulations. The Foundation supports the Bureau of Economic Geology and the Institute of Geophysics, as well as the Department of Geological Sciences.

Mr. John A. Jackson died on March 21, 2003, and his Will included an express bequest of 95% of his residuary estate to the Geology Foundation of U. T. Austin to be used as a part of the John A. and Katherine G. Jackson Endowed Fund in Geosciences ("Endowed Fund") created June 15, 2001. The Endowed Fund is a permanent endowment for the Geology Foundation of U. T. Austin, which supports the John A. and Katherine G. Jackson School of Geosciences ("School of Geosciences"). This approximately $232 million bequest includes mineral interests valued in the probate inventory at $80,185,436.85. UTIMCO will manage the non-mineral interest portion of the bequest.

Part Two, Chapter IX, Section 1, Subsection 1.3 of the Regents' Rules provides that all assets received by the Board through a bequest shall be accepted and processed by the Office of Development and External Relations and, after acceptance and processing, shall be delivered to the appropriate office for management. Part Two, Chapter IX, Section 6, Subsection 6.8 of the Regents' Rules, provides that University

Lands - West Texas Operations is to manage gifts of mineral interests received through bequests. In order for the Geology Foundation to manage the royalties, the Board of Regents must waive Subsection 6.8 "by a majority of all of the members of the Board" pursuant to Part One, Chapter I, Section 1, Subsection 1.3 of the Regents' Rules.

The Geology Foundation has developed Financial Management Procedures that provide instructions for management of the mineral interests and royalty payments to be received as a result of the addition of the mineral estates to the Endowed Fund. The Financial Management Procedures establish systems to manage the legal documents concerning ownership and royalty rights and to account for receipt and deposit of payments as well as provide an audit trail for distributions from the Endowed Fund to support the activities of the School of Geosciences. The Audit Office of the U. T. System will periodically audit the records of the Geology Foundation to ensure compliance with developed procedures. Findings of the U. T. System Audit Office will be reported to the Board of Regents, the Chancellor, and the President of U. T. Austin.

The Office of General Counsel is currently reviewing the status of all U. T. System internal corporations and foundations, established as authorized by the Regents' Rules, and will present a report and recommendations to the Board concerning standard operating policies and procedures and a schedule of regular reviews to assure significant review, as appropriate to the responsibilities and budget of each internal foundation or corporation.

6. U. T. Dallas: Authorization to negotiate and enter into an economic development agreement with the State of Texas for expansion of the Erik Jonsson School of Engineering and Computer Sciences

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, and President Jenifer that authorization be given to the Chancellor to negotiate the terms of and execute any and all documents necessary to enter into an economic development agreement with the State of Texas, acting by and through the Office of the Governor, Economic Development and Tourism (State) to expand and enhance the Erik Jonsson School of Engineering and Computer Sciences at U. T. Dallas.

BACKGROUND INFORMATION

The State of Texas is negotiating an agreement with Texas Instruments for construction of a new $3 billion research, development, and manufacturing facility to be located in Richardson, Texas. This facility will be designed to manufacture advanced semiconductor devices. As part of that agreement, the State has offered to significantly enhance the academic and research programs at the Erik Jonsson School of Engineering and Computer Sciences at U. T. Dallas (the Jonsson School) as an incentive for Texas Instruments to locate the facility in the State.

In order to satisfy the State's commitment to Texas Instruments, the State and U. T. System have proposed a $300 million, 5-year program aimed at elevating the Jonsson School to a Top-50 ranking among U.S. engineering schools. The details of the enhancement program along with funding sources, proposed uses, and Top-50 milestone deliverables are outlined in the Jonsson School Research Excellence Initiative prepared by Dr. Robert Helms, Professor and Dean of the Jonsson School, attached to this agenda item as Exhibit 1 on Page 13.

The $300 million commitment is based on the following funding amounts described in greater detail below:

Texas Enterprise Fund	$50 million
Construction of the Natural Science and Engineering Research Building and Technology Accelerator	$85 million[1]
U. T. System Equipment Funds (PUF LERR[2])	$30 million
Reallocation of Previously Approved Tuition Revenue Bonds from Founders/Berkner Renovation Project	$20 million
U. T. Dallas Salary Support (Fund Balances)	$15 million
Private/Corporate Support	$100 million[3]
Total	$300 million

U. T. System and the State are currently in negotiations to finalize the terms of the economic development agreement that will implement this $300 million commitment. It is anticipated that the final agreement will include terms consistent with the following provisions:

Texas Enterprise Fund

- In May, 2003, the Governor, Lieutenant Governor, and Speaker of the House approved the allocation of $50 million from the Texas Enterprise Fund (TEF) to U. T. System for enhancement and expansion of the Jonsson School. Upon approval of the economic development agreement, an initial payment of $21.5 million will be made to U. T. System as soon as practicable after

[1] In present value terms, the State would be funding $70.4 million (83%) of the $85 million acquisition with U.T. Dallas responsible for the remaining $14.6 million (17%).

[2] Library, Equipment, Repair and Rehabilitation

[3] The State has agreed to "cooperate and assist U. T. Dallas" in its efforts to raise $25 million of this amount through additional Economic Development Funds.

January 1, 2004. The second and final payment of $28.5 million will be made as soon as practicable after January 1, 2005. The TEF grant funds are dedicated for academic program purposes and not for facility enhancements. The TEF grant funds are not subject to reimbursement or repayment by U. T. System except for instances of gross mismanagement or fraud.

Research Building

- U. T. System will construct a new $85 million Natural Science and Engineering Research Building and Technology Accelerator (Research Building) as part of the Jonsson School expansion. This project was approved by the Board of Regents on November 13, 2003, for inclusion in the Capital Improvement Program.

- It is anticipated that U. T. System will provide interim debt financing to construct the Research Building and then enter into a long-term financing agreement with the General Land Office (GLO) for permanent financing. The contracts with the GLO are currently in negotiations, but generally provide that the GLO will purchase the Research Building upon its completion and resell it to U. T. System under a 20-year term contract for deed. When negotiations are completed, the agreements with the GLO will be submitted to the Board of Regents for separate approval before execution.

- The State intends for the Legislature to appropriate additional funding to U. T. Dallas in future bienniums to reimburse U. T. Dallas for amounts that it must pay each year to retire the long-term financing obligations of the Research Building. As proposed, the State's reimbursement will be in accordance with the following table:

Financing Year	State Obligation (% of total annual UT System obligation)
1 thru 10	100%
11	95%
12	85%
13	75%
14	65%
15	55%
16	40%
17	20%
18	20%
19	10%
20	10%

- In present value terms, the State would be funding $70.4 million (83%) of the $85 million Research Building acquisition amount with U. T. Dallas responsible for the remaining $14.6 million (17%).

- Similar to construction projects paid for through Tuition Revenue Bonds, U.T. System will have to fulfill its obligations under the financing agreements with the GLO even in the absence of any future appropriations by the Legislature.

- The State's commitment to appropriate the additional funding for the long-term financing obligations will not be dependent on or subject to Texas Instruments fulfilling or being excused from fulfilling its obligations to the State.

Other U. T. System Obligations

On a "best efforts" basis, the U. T. System and U. T. Dallas agree to:

- Provide $30 million of funds (PUF LERR) over five years for the purpose of equipping the Research Building. The Board of Regents approved the first $10 million of PUF LERR funds at its meeting on August 7, 2003.

- Reallocate $20 million of Tuition Revenue Bond funds previously approved for the Founders/Berkner renovation project at U. T. Dallas for use by the Schools of Natural Science and Math and the Jonsson School. Reallocation of these funds may require legislative amendments to Sections 55.13 and 55.1732(a) of the Texas Education Code and the parties to the economic development agreement agree to cooperate in obtaining those amendments, if necessary.

- Provide $15 million of funds from U. T. Dallas over five years to support employee and faculty salaries related to the Research Building.

- Raise $100 million over five years from private and corporate donors to fund endowments for faculty chairs and student fellowships and assistantships at U. T. Dallas. The State has agreed to "cooperate and assist U. T. Dallas" in its efforts to raise $25 million of this amount through additional Economic Development Funds.

AGENDA EXHIBIT 1

JONSSON SCHOOL RESEARCH EXCELLENCE INITIATIVE

The Jonsson School Research Excellence Initiative (JSREI) is a university-wide initiative, centered in the Jonsson School, that encompasses a five-year plan for the growth of university research activities and the education of research-oriented graduate students. Overall funding for the five-year plan is $300M. This total includes $50M from the State of Texas Enterprise Fund as part of the State's agreement with Texas Instruments for TI to locate its new 300mm microchip manufacturing facility in Richardson. Six funding components specifically associated with the Enterprise Fund are required to meet these objectives:

- Funding of new research activities for existing faculty and for new faculty to be hired as part of the overall program.
- Seed funding for graduate research assistantships in support of new programs.
- Seed funding for laboratory operations and administration prior to its replacement by newly acquired external research funding.
- Matching funding to help attract and retain these new external research programs.
- Seed funding for pre-construction services on the Natural Science and Engineering Research Building (NSERB).
- Development of a plan for self-sufficiency beyond the initial (five-year) period, in the form of externally funded research facilitated by the matching funds and infrastructure development established to that point.

FUNDING SOURCES

Table I shows the broad allocation of the total budget over the five-year period by funding source. Included in the program is a plan for self-sufficiency in the form of steadily increasing external research funding, ramping to a steady-state value of about $50M/yr. in year 6. Also included is a plan for external contributions, in the form of corporate donations, private support or other funds, to be secured through an ongoing fundraising campaign.

As indicated in Tables I and II, $50M from the State Enterprise fund is to be expended in the first two years of the program.

Prepared by Dean Helms

12/4/03

Table I. Funding Sources

Funding Source	5-Yr. Total ($M)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Permanent School Fund Land & Building Commitment	85.0			85.0		
Texas Enterprise Fund	50.0	21.5	28.5			
Private Support, Corporate Donors or Other Funding Sources	100.0	5.0	7.5	30.5	31.5	25.5
UT System & UTD Contributions	65.0	30.5	11.5	8.0	7.0	8.0
Total Sources	300.0	57.0	47.5	123.5	38.5	33.5

EXPENDITURES FROM THE ENTERPRISE FUND FOR YEARS 1 AND 2: $50M

Details of Enterprise Fund expenditures for years 1 and 2 as shown in Table II include:

- $12M for research initiation, including research start-up funds for new faculty and for current faculty initiating research projects in new areas.
- $6M for laboratory operations and administration. This includes the human resources (lab technicians, administrative assistants, etc.) needed to make the new research programs sufficiently competitive to become self-sustaining by the end of the five-year period. Yearly expenditures in this category track the numbers of new faculty members.
- $8M in assistantships/fellowships for research-oriented graduate students. The plan calls for recruitment of new doctoral students who will be offered competitive research assistantships and fellowships from faculty research grants, Enterprise funds and other State sources.
- $5M in pre construction services on the NSERB. This money will be recouped when permanent financing is in place for the NSERB and will be reallocated for other research purposes.
- $19M in university matching funds for external research contracts and grants. Federal agencies and many industrial sponsors expect a proportion of each research grant/award to be matched by the university. The $7.0M shown for FY 2004 is based on the Jonsson School's total proposal output/value of $30M in FY 2003 and its current standard matching rate of 25%. The $12.0M shown for FY 2005 projects a reasonable growth in proposal output/value by new and existing faculty.

Prepared by Dean Helms

12/4/03

Table II. Expenditures of JSREI Texas Enterprise Funds

Research Funding: Enterprise Fund	5-Yr. Total ($M)	FY 2004	FY 2005
Research Initiation	12.0	4.0	8.0
Lab Ops/Admin & Research Assistants	14.0	5.5	8.5
Building Costs	5.0	5.0	
Matching	19.0.0	7.0	12.0
Enterprise Totals	50.0	21.5	28.5

FY 2004 anticipated deliverables for release of FY 2005 Enterprise funds

- Release of additional $10M in equipment funds by the U.T. System (for a total of $20M).
- Addition of 4 tenured/tenure-track faculty hired (for a Jonsson School total of 82).
- Board of Regents and Higher Education Coordinating Board approval of construction of the NSERB.

FY 2005 anticipated deliverables

- Addition of 5 tenured/tenure-track faculty (for a Jonsson School total of 87).
- Increase (over FY 2003) of $6M in external research funding.
- Increase of 80 in Ph.D. student enrollment over FY 2003 as measured by fall-semester census-day enrollment.
- Start of construction of the NSERB.

Prepared by Dean Helms

12/4/03

7. U. T. Dallas: Campus Housing Phase IX - Approve design development; approve alternative energy economic feasibility; approve total project cost; appropriate funds and authorize expenditure; and parity debt

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Jenifer that the U. T. Board of Regents approve the recommendations listed below for the U. T. Dallas Campus Housing Phase IX project:

Project Number:	301-173	
Architecturally or Historically Significant:	Yes ☐ No ☒	
Project Delivery Method:	Competitive Sealed Proposals	
Substantial Completion Date:	July 2005	
Total Project Cost:	Source RFS*	Current $4,000,000
Debt Service:	The debt will be repaid from net student housing revenues at U. T. Dallas. Annual debt service on $4,000,000 of Revenue Financing System debt is projected to be $1,171,511. Debt service coverage for the project is expected to be at least 1.77 times.	
Recommendations:	a. approve design development plans as reflected on Pages 18 - 20; b. approve the evaluation of alternative energy economic feasibility; c. approve total project cost; d. appropriate funds and authorize expenditure of funds; and e. make the "finding of fact" determinations required by Section 5 of the Master Resolution regarding the ability to repay debt prior to the issuance of additional Revenue Financing System parity debt.	
Previous Actions:	In November 2003, the project was authorized for inclusion in the CIP.	
Project Description:	U. T. Dallas requests that the Campus Housing Phase IX project begin because of the anticipated growth in enrollment and the heavy demand for housing. Current facilities are operating at close to 100% occupancy. The number of beds available to students will increase by approximately 200. The project is to be constructed in garden-style apartments. Approval of design development in December 2003 is necessary in order for construction to begin in February to meet the completion date of August 2004.	

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

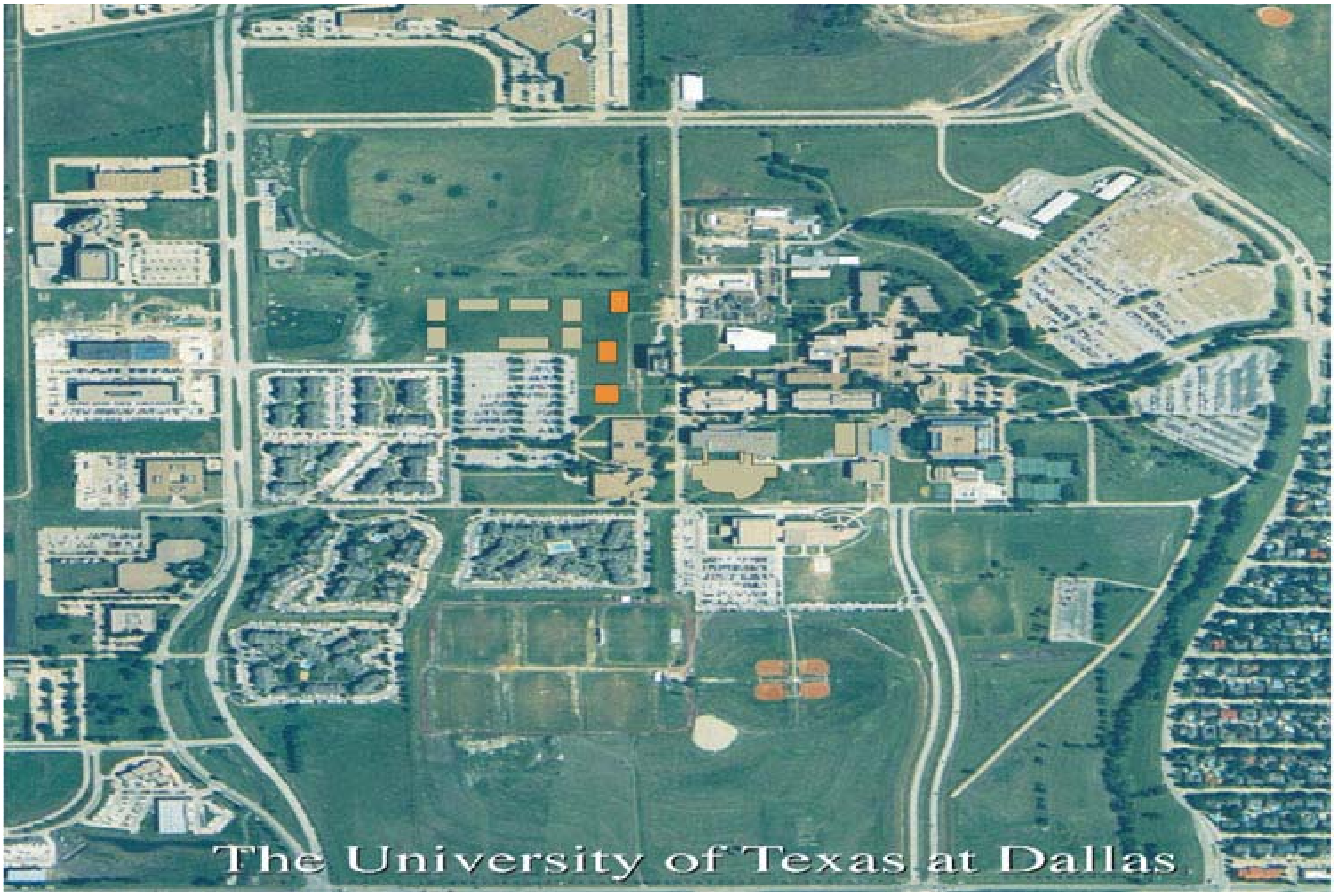
The economic impact of the project will be reported to the U. T. Board of Regents as part of the design development presentation.

*Funding Source = RFS (Revenue Financing System Bond Proceeds)

UTD
THE UNIVERSITY OF TEXAS AT DALLAS

CAMPUS HOUSING


EXISTING GOLF COURSE
PROPOSED POND
FUTURE PHASE
EXISTING PHASE
CENTRAL ENERGY PLANT
UT D
PHASE 8B SITE PLAN


The University of Texas at Dallas

8. **U. T. Southwestern Medical Center - Dallas: Authorization to purchase approximately 12.709 acres of land and improvements and a leasehold interest in 0.348 acres of land located at 2232 Inwood Road, Dallas, Dallas County, Texas**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Interim Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and President Wildenthal that authorization be granted by the U. T. Board of Regents, on behalf of U. T. Southwestern Medical Center - Dallas, to:

a. purchase the real property and improvements located at 2232 Inwood Road, Dallas, Dallas County, Texas, from the City of Dallas; and

b. authorize the Executive Director of Real Estate to execute all documents, instruments and other agreements, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

The subject property is a 13.057-acre tract of land and improvements, which consists of 12.709 acres owned by the City of Dallas and the City's leasehold interest in 0.348 acres of land. The buildings are industrial warehouse structures used by the City of Dallas for vehicle repair and maintenance, and have a combined area of approximately 64,618 square feet. The property is located near the Inwood entrance to the U. T. Southwestern Medical Center - Dallas north campus, and is identified within the campus development zones in the U. T. Southwestern Medical Center - Dallas Campus Master Plan 2002 Update as well as the acquisition area established by the 60th Legislature, Regular Session (House Bill 287, Chapter 73), which authorizes acquisition of properties to be used for campus expansion and university purposes.

U. T. Southwestern Medical Center - Dallas wishes to purchase the property to develop the site as a biomedical technology center or as an asset to support other medical missions. Acquisition of this property is important to long-term, strategic objectives of U. T. Southwestern Medical Center - Dallas's technology development program and north campus facilities. It is anticipated that U. T. Southwestern Medical Center - Dallas will seek a private entity to develop the property as a Biomedical Technology Research Center under a ground lease. This Biotech Startup Initiative is one of U. T. Southwestern Medical Center - Dallas's collaborations with business, nonprofit and community organizations. The project will work with local and state entities to foster the launch of area biotechnology companies based on U. T. Southwestern Medical Center - Dallas's technologies and to create a biotechnology sector.

The proposed purchase price of $4.1 million is supported by three appraisals ranging from $4.15 million to $6.73 million that were prepared in 2001 and 2002 for the City of Dallas and the General Land Office. Significant increases in value in the immediate area over recent months have been documented by the Real Estate Office. The source of funding for the acquisition will be Local Fund cash balances.

As partial consideration to the City of Dallas for making the land available, U. T. Southwestern Medical Center - Dallas will share 25% of any equity received, if any, in lieu of rent from tenants of the biotechnology facility on the premises. In the unlikely event that the property is sold within 10 years, the City of Dallas will receive 50% of any net profits associated with the value of the land. The environmental assessment of the property indicated the need to remediate contamination on the site. As conditions prior to closing, the City will apply to the Texas Commission on Environmental Quality to participate in the Voluntary Cleanup Program and to obtain an Innocent Owner Certificate, and will pay all costs required to remediate the site.

The detailed terms and conditions of this purchase are as reflected in the transaction summary below:

Transaction Summary

Component:	U. T. Southwestern Medical Center - Dallas
Type of Transaction:	Purchase
Property:	13.057-acre tract of land and improvements
Address:	2232 Inwood Road
Seller:	City of Dallas
Purchase Price:	$4.1 million
Appraisals:	$5.07 million by W. G. Wall Company for the City of Dallas, dated June 28, 2001
	$6.73 million by Con-Real Support Group, Inc. for the City of Dallas, dated July 20, 2001
	$4.15 million by the Mark Donoho Company for the General Land Office, dated May 15, 2002
Effective Date:	Upon approval by both parties
Closing:	May 1, 2004

Vacating the Property:	July 31, 2004 without penalty. Beginning August 1, 2004, the City will pay $569.00 per day to occupy the site.
Environmental Clean-up:	Prior to or on the effective date: • Seller shall make application and submit property to Texas Commission on Environmental Quality's (TCEQ) Voluntary Cleanup Program (VCP). • City shall pay necessary fees for application into the VCP, administrative/oversight costs, and the cost of remediation not to exceed $125,000. • City shall apply for an Innocent Owner Certificate (IOC) from TCEQ for any environmental contaminants on the property that originated from an off-site source. • City is responsible for all costs associated with the application and securing the IOC. • City shall be the lead applicant and U. T. Southwestern shall be included as an applicant on the VCP and IOC applications.
Use of Property:	For a minimum of five years, U. T. Southwestern shall attempt in good faith to establish a Biomedical Technology Center on the property. • U. T. Southwestern intends to contract with a third party via an RFP to develop and finance the project and to manage leases. • U. T. Southwestern may lease space in support of its biomedical missions.
Sale of Property:	If U. T. Southwestern were to sell the property within 10 years, 50% of any net profits (after recovery of purchase price and all transaction and improvement costs) shall be paid to City.
Further Consideration:	For five years, City shall receive 25% of equity received by U. T. Southwestern in lieu of rent from any U. T. Southwestern spin-off tenants.

9. U. T. Southwestern Medical Center - Dallas: Authorization to sell real property and improvements located at 5140 Seneca Drive, Dallas, Dallas County, Texas

RECOMMENDATION

The Chancellor concurs in the recommendation of the Interim Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and President Wildenthal that authorization be granted by the U. T. Board of Regents, on behalf of U. T. Southwestern Medical Center - Dallas, to:

a. sell the real property and improvements located at 5140 Seneca Drive, Dallas, Dallas County, Texas, to Ms. Laurel Payne Smith for $1.3 million. If the contract with Ms. Smith is terminated, the property will be sold to the purchaser offering the highest amount equaling or exceeding the appraised value of $1.1 million.

b. authorize the Executive Director of Real Estate to execute all documents, instruments and other agreements, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

In December 1992, the Board accepted a gift of the subject property, known as "Bashour House", from the Cardiology Fund, Inc. of Dallas, Texas, for use as a residence for the President of U. T. Southwestern Medical Center - Dallas or other senior staff as designated by the President. The property was leased to Dr. Fouad A. Bashour. Dr. Bashour died on January 1, 2003, and U. T. Southwestern Medical Center - Dallas now wishes to sell the property. The net proceeds from the sale will be added to the Fouad A. Bashour Cardiology Fund Endowment at U. T. Southwestern Medical Center - Dallas.

The fair market value of the property was established by an appraisal dated October 14, 2003, by Hunsicker Appraisal Company, Inc. of Dallas, Texas. The property is listed for sale with Ebby Halliday, Realtors for its appraised market value. Five offers ranging from $1.15 million to $1.3 million have been received to date. U. T. Southwestern Medical Center - Dallas will pay a brokerage fee of 6% in connection with the sale.

10. U. T. Southwestern Medical Center - Dallas: Ambulatory Surgical Center - Amendment of the FY 2004-2009 Capital Improvement Program and FY 2004-2005 Capital Budget to include project and possible designation as architecturally or historically significant

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Interim Vice Chancellor for Business Affairs, and President Wildenthal that the U. T. Board of Regents amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to include the Ambulatory Surgical Center project at U. T. Southwestern Medical Center - Dallas and possible designation as architecturally or historically significant.

Project Delivery Method: To be determined

Substantial Completion Date: January 2006

Total Project Cost:

Source	Current	Proposed
Revenue Financing System Bond Proceeds	–	$62,400,000

Project Description:

The proposed Ambulatory Surgical Center project consists of an approximately 250,000 gross square foot, 10-story building and an approximately 625 car parking garage. The building will initially include 5 finished floors totaling approximately 125,000 gross square feet, and 5 shelled floors.

The Ambulatory Surgical Center will include ambulatory surgical and procedure suites; and diagnostic and treatment rooms including imaging, clinics, and physician offices. The building will be located on the west side of St. Paul University Hospital adjacent to Medical Center Drive, in conformance with the current master plan.

This is the first project to move forward as part of the work envisioned in the Clinical Services Building that is currently on the Future Projects list at $146,000,000. Working with the faculty and hospital partners, the immediate need has been identified to provide new space to conduct outpatient surgery. Presently, these procedures, including orthopedics, plastics, and gastrointestinal day procedures, are conducted primarily in the hospitals. With limited operating rooms, the outpatient surgery naturally competes for space, causing delays in conducting the less acute procedures. The conclusion of the combined hospital and practice management team, along with both university and private physicians, is that this new facility is vital to the combined operations.

This off-cycle project has been approved by U. T. System staff and meets the criteria for inclusion in the Capital Improvement Program.

Request to approve this amendment to the CIP is time-critical in order for this facility to be operational in January 2006. Construction must start by August 2004 in order to meet the completion date.

C. RECESS TO EXECUTIVE SESSION, if needed

1. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Texas Government Code Section 551.074

   a. **U. T. System: Consideration of personnel matters relating to appointment, employment, evaluation, assignment, and duties of officers or employees**

   b. **U. T. System: Consideration of personnel matters relating to evaluation of presidents, U. T. System Executive Officers, and employees**

2. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers - Texas Government Code Section 551.071

D. RECONVENE IN OPEN SESSION TO CONSIDER ACTION ON EXECUTIVE SESSION ITEM(S), if needed

E. ADJOURN