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FOR SPECIAL CALLED TELEPHONE MEETING
of
THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS
AND
THE UNIVERSITY OF TEXAS INVESTMENT
MANAGEMENT COMPANY (UTIMCO)
BOARD OF DIRECTORS

August 15, 2011
Austin, Texas

1. **U. T. System Board of Regents: Approval of (a) amendments to Exhibits of the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund, and (b) amendments to the Derivative Investment Policy**

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of The University of Texas Investment Management Company (UTIMCO) staff and anticipated recommendation of the Board of Directors of UTIMCO at the joint meeting that the U. T. System Board of Regents approve proposed amendments to the Exhibits of the Investment Policy Statements for the Permanent University Fund (PUF), the General Endowment Fund (GEF), the Permanent Health Fund (PHF), the Long Term Fund (LTF), and the Intermediate Term Fund (ITF) and proposed amendments to the Derivative Investment Policy.

The amendments to the PUF and GEF Investment Policy Statement Exhibit A are reflected in Exhibit 1 on Pages 3 - 4 and will be consistently applied to the corresponding Exhibit B of the PHF and LTF Investment Policy Statements.

The amendments to the ITF Investment Policy Statement Exhibit A are reflected in Exhibit 2 on Pages 5 - 6.

The amendments to the Derivative Investment Policy are reflected on Pages 7 - 12.

BACKGROUND INFORMATION

The UTIMCO Board last approved amendments to the Exhibits of the Investment Policy Statements and the Derivative Investment Policy on July 14, 2011, and may approve additional amendments in the joint meeting on August 15, 2011. Exhibits to the Investment Policy Statements for the PUF, GEF, PHF, LTF, and ITF are being amended to reflect changes to the Targets and Ranges for Asset Classes and Investment Types proposed for Fiscal Year Ending (FYE) 2012.

One Policy Benchmark target has been changed in all Investment Policy Statements: the FTSE EPRA/NAREIT Developed Index has changed to FTSE EPRA/NAREIT Developed Index Net TRI USD. In addition, the one-year downside deviation for FYE 2012 has been adjusted to reflect the revised Asset Class and Investment Type targets. The Expected Annual Return (Benchmark) target for FYE 2012 has been updated for the PUF, GEF, PHF, and LTF. The Risk Bounds for the Lower: 1 Year Downside Deviation has been decreased from 85% to 75% for the PUF, GEF, PHF, and LTF and from 85% to 70% for the ITF.

Amendments are proposed to the Derivative Investment Policy, including Exhibits A and B, to provide additional clarification regarding risk and investment policy controls and the types of Derivative Investments in which UTIMCO's Chief Executive Officer is authorized to invest. Changes to the Derivative Investment Policy are as follows:

a. Moved language regarding compliance with Investment Policy Statements for emphasis;

b. Added definition for "Long exposure to an Asset Class";

c. Amended Exhibit B, Delegated Derivative Investments Point # 3, to clarify that these Derivative Investments are of the type intended to reduce long exposure or hedge against global interest rate shocks and risk and to increase the maximum aggregate prorated premium of all Derivative Investments from 25 basis points to 75 basis points of the Fund value;

d. Added Point # 6 to Exhibit B, Delegated Derivative Investments, to allow for Derivative Investments used to gain long exposure to an Asset Class so long as the maximum loss does not exceed the premium paid; and

e. Removed the notional value limitation in Exhibit B because the risk bounds provide a more effective limitation on the use of Derivative Investments.

Mr. Zimmerman, UTIMCO Chief Executive Officer and Chief Investment Officer, will discuss current market conditions and the rationale behind the proposed changes.

EXHIBIT 1

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

EFFECTIVE SEPTEMBER 1, ~~2010~~ 2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011

POLICY PORTFOLIO	FYE ~~2011~~ 2012		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	5.0%	9.5%	~~20.0%~~ 25.0%
Credit-Related Fixed Income	~~3%~~ 0.0%	5.5%	30.0%
Real Estate	0.0%	~~4.5%~~ 5.5%	10.0%
Natural Resources	5.0%	~~11.0%~~ 11.5%	~~17.5%~~ 25.0%
Developed Country Equity	~~35.0%~~ 30.0%	~~50.5%~~ 48.5%	60.0%
Emerging Markets Equity	~~10.0%~~ 5.0%	~~19.0%~~ 19.5%	25.0%
Investment Types			
More Correlated & Constrained	35.0%	~~48.0%~~ 47.0%	60.0%
Less Correlated & Constrained	25.0%	30.0%	37.5%
Private Investments	17.5%	~~22.0%~~ 23.0%	32.5%

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

POLICY BENCHMARK (reset monthly)	FYE ~~2011~~ 2012
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	6.5%
MSCI World Index with net dividends	~~19.5%~~ 18.5%
MSCI Emerging Markets with net dividends	12.0%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Venture Economics Custom Index	20.0%
NACREIF Custom Index	~~2.0%~~ 3.0%

POLICY/TARGET RETURN/RISKS	FYE ~~2011~~ 2012
Expected Annual Return (Benchmarks) **	~~8.82%~~ 8.81%
One Year Downside Deviation	~~8.94%~~ 8.86%
Risk Bounds	
Lower: 1 Year Downside Deviation	~~85%~~ 75%
Upper: 1 Year Downside Deviation	115%

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

Exhibit 1

(continued)

ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES

EFFECTIVE DATE SEPTEMBER 1, ~~2010~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2011~~ 2012

FYE ~~2011~~ 2012		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (7.5%)	2.0%	0.0%	9.5%
	Credit-Related	0.00%	3.0%	2.5%	5.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.0%	Custom NACREIF ~~2.0~~ 3.0%	~~4.5~~ 5.5%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (6.5%)	1.0%	~~3.5~~ 4.0%	~~11.0~~ 11.5%
Equity	Developed Country	MSCI World Index with Net Dividends (~~19.5~~18.5%)	20.0%	~~11.0~~ 10.0%	~~50.5~~ 48.5%
	Emerging Markets	MSCI EM Index with Net Dividends (12.0%)	4.0%	~~3.0~~ 3.5%	~~19.0~~ 19.5%
Total		~~48.0~~ 47.0%	30.0%	~~22.0~~ 23.0%	100.0%

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

Investment Policy/Benchmarks are indicated in Black/Bold

Reportable Targets are indicated in Gray

EXHIBIT 2 - INTERMEDIATE TERM FUND

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

EFFECTIVE SEPTEMBER 1, ~~2010~~ 2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011

POLICY PORTFOLIO	FYE ~~2011~~ 2012		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	30.0%	37.0%	~~45.0%~~ 50.0%
Credit-Related Fixed Income	0.0%	4.0%	12.0%
Real Estate	0.0%	5.0%	10.0%
Natural Resources	2.5%	8.5%	~~12.5%~~ 20.0%
Developed Country Equity	~~25.0%~~ 20.0%	33.0%	40.0%
Emerging Markets Equity	~~7.5%~~ 2.5%	12.5%	17.5%
Investment Types			
More Correlated & Constrained	60.0%	65.0%	70.0%
Less Correlated & Constrained	30.0%	35.0%	40.0%

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

POLICY BENCHMARK (reset monthly)	FYE ~~2011~~ 2012
Barclays Capital Global Aggregate Index	35.0%
FTSE EPRA/NAREIT Developed Index Net TRI USD	5.0%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	7.5%
MSCI World Index with net dividends	10.0%
MSCI Emerging Markets with net dividends	7.5%
Hedge Fund Research Indices Fund of Funds Composite Index	35.0%

POLICY/TARGET RETURN/RISKS	FYE ~~2011~~ 2012
Expected Annual Return (Benchmarks) **	7.28%
One Year Downside Deviation	5.34%
Risk Bounds	
Lower: 1 Year Downside Deviation	~~85%~~ 70%
Upper: 1 Year Downside Deviation	115%

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

EXHIBIT 2 - INTERMEDIATE TERM FUND
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, ~~2010~~ 2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2011~~ 2012

FYE ~~2011~~ 2012		More Correlated & Constrained	Less Correlated & Constrained	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (35.0%)	2.0%	37.0%
	Credit-Related	(0.0%)	4.0%	4.0%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (5.0%)	0.0%	5.0%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (7.5%)	1.0%	8.5%
Equity	Developed Country	MSCI World Index with Net Dividends (10.0%)	23.0%	33.0%
	Emerging Markets	MSCI EM Index with Net Dividends (7.5%)	5.0%	12.5%
Total		65.0%	35.0%	100.0%

Hedge Fund Research Indices Fund of Funds Composite Index

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

The University of Texas Investment Management Company
Derivative Investment Policy

Effective Date of Policy: ~~August 12, 2010~~August 15, 2011
Date Approved by U. T. System Board of Regents: ~~August 12, 2010~~August 15, 2011
Date Approved by UTIMCO Board: ~~July 14, 2010~~ August 15, 2011
Supersedes: Derivative Investment Policy approved ~~August 20, 2009~~August 12, 2010

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

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

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

This Policy applies to both exchange traded derivatives and over the counter (OTC) derivatives. This Policy shall not be construed to apply to index or other common or commingled funds that are not controlled by UTIMCO. These commingled investment vehicles are governed by separate investment policy statements.

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

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

Definition of Derivatives:
Derivatives are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, commodities, and currencies). For the purposes of this Policy, derivatives shall include Derivative Investments but shall not include a broader range of securities, including mortgage backed securities, structured notes, convertible bonds, exchange traded funds (ETFs), and foreign currency contracts that settle within thirty (30) days. Derivatives may be purchased through a national or

international exchange or through an OTC direct arrangement with a counterparty. Refer to the attached Exhibit A for a glossary of terms.

Permitted Derivative Applications:

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

Permitted Derivative Applications are Derivative Investments used:

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

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

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

Risk and Investment Policy Controls:

Following the implementation of any Derivative Investment, the Funds' projected downside deviation and risk bounds, and projected exposure to Asset Class and Investment Type, must be within the permissible ranges as set forth in the Funds' Investment Policy Statements.

Documentation and Controls:

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

Additional Limitations:

Leverage: Leverage is inherent in derivatives since only a small cash deposit is required to establish a much larger economic impact position. Thus, relative to the Cash markets, where in most cases the cash outlay is equal to the asset acquired, Derivative Investments offer the possibility of establishing substantially larger market risk exposures with the same amount of cash as a traditional Cash market portfolio. Therefore, risk management and control processes must focus on the total risk assumed in a Derivative Investment. Exhibits A of the Fund's Investment Policy Statements provide a limitation on the amount of uncollateralized derivative exposure that can be utilized by the Funds whereby, the total Asset Class and Investment Type exposure, including the amount of derivatives exposure not collateralized by cash, may not exceed 105% (100% in the ITF) of the Asset Class and Investment Type exposures excluding the amount of derivatives exposure not collateralized by cash.

Counterparty Risks: In order to limit the financial risks associated with Derivative Investments, rigorous counterparty selection criteria and netting agreements shall be required to minimize counterparty risk for over the counter (OTC) derivatives. Any counterparty in an OTC derivative transaction with the Funds must have a credit rating of at least A- (Standard and Poor's) or A3 (Moody's). All OTC derivatives must be subject to established ISDA Netting Agreements and have full documentation of all legal obligations of the Funds. In the event a counterparty is downgraded below the minimum credit rating requirements stated above, UTIMCO staff will take appropriate action to protect the interests of the Funds, including availing itself of all potential remedies contained in the ISDA agreements, The net market value, net of collateral postings, of all OTC derivatives for any individual counterparty may not exceed 1% of the total market value of the Funds.

Risk Management and Compliance:

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

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

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

Reporting:

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

Derivative Investment Policy Exhibit A
Glossary of Terms

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

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

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

Counterparty - The offsetting party in an exchange agreement.

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

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

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

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

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

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

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

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

Over the counter (OTC) derivatives - A derivative which results from direct negotiation between a buyer and a counterparty. The terms of such derivatives are nonstandard and are the result of specific negotiations. Settlement occurs at the negotiated termination date, although the terms may include interim cash payments under certain conditions. Examples include currency swaps and forward contracts, interest rate swaps, and collars.

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

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

Derivative Investment Policy Exhibit B
Delegated Derivative Investments

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

Delegated Derivative Investments:

1. Replicating Derivatives - Derivative Investments that replicate the return characteristics of a long exposure to an underlying index, Basket or commodity. These investments are generally futures contracts and swaps on a passive index, Basket or commodity.

2. Derivative Investments that upon their expiration would not exceed the loss of a similar investment in the cash index being referred to in the derivative contract. These investments may include swaps whereby the holder of the instrument will forgo potential upside return in exchange for downside protection or receive a multiple of a referenced return should the return of the underlying referenced index be within a certain range and may also include the selling of put options.

3. Derivative Investments that reduce long exposure to an Asset Class or hedge against global interest rate shocks and risk, and limit ~~whereby the~~ maximum loss ~~is limited~~ to the premium paid for the Derivative Investment~~, regardless of notional value~~. The aggregate prorated annual premium of all Derivative Investments under this provision shall not exceed ~~25~~ 75 basis points of the Fund value.

4. Futures contracts and forward contracts on foreign currency if used (i) by an external fixed income manager within its investment guidelines, (ii) for hedging purposes by an external equities manager within its investment guidelines, or (iii) to hedge existing or prospective foreign currency risk by UTIMCO staff.

5. Derivative Investments used to manage bond duration or hedge equity exposure to countries, sectors or capitalization factors within the portfolio only if subsequent to the investment the portfolio would not be net short to any one of those factors. An example of such a hedge is selling futures contracts or call options on a country or sector index, provided the manager is exposed to that country or sector.

6. Derivative Investments used to gain long exposure to an Asset Class and limit maximum loss to the premium paid for the Derivative Investment.

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

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

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

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