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The University of Texas Investment Management Company

Presentation Materials
Board of Directors Meeting

July 15, 2004

Notice of Open Meeting of the
Board of Directors of
The University of Texas Investment
Management Company

July 15, 2004

UTIMCO
221 W. 6th Street, Suite 1700
Austin, Texas

Open Meeting Agenda

Convene at 9:30 a.m.

Open Session:
Call to Order/Consideration of Minutes of May 26, 2004 Meeting*

Discussion and Consideration of Proposed Investments:
- Report from Liquidity Committee
- Non-Marketable Alternative Investments*
- Public Markets Investments*

Endowment and Operating Funds Update:
- Asset Allocation, Risk and Performance
- Liquidity Profile
- Report of Derivative Applications

Discussion and Consideration of UTIMCO 2004/2005 Budget*, **

Presentation on Risk Management

Lunch

Report from Compensation Committee:
Executive Session
Pursuant to 551.074, Texas Government Code, the Board of Directors may convene in Executive Session to consider the compensation committee report.
Reconvene into Open Session
- Consideration of Compensation Committee Report*

Discussion and Consideration of Proposed Changes to Delegation of Authority Policy*

Discussion and Consideration of Proposed Changes to Corporate Documents:
- Investment Policy Statements*, **
- Liquidity Policy and Liquidity Charter*

Derivative Policy*

Adjournment

* Action by resolution required

Posted: July 9, 2004
By: The University of Texas Investment Management Company

Section 1

Resolution No. 1

RESOLVED, that the minutes of the meeting of the Board of Directors held on **May 26, 2004** be, and is hereby, approved.

MINUTES OF THE MEETING OF
THE BOARD OF DIRECTORS OF
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") convened in an open meeting at 10:50 a.m. on the **26th day of May 2004**, at the Hotel Crescent Court, 400 Crescent Court, Dallas, Texas, said meeting having been called by the Chairman, Woody L. Hunt, with notice provided to each member in accordance with the Bylaws. The audio portion of the meeting was electronically recorded.

Participating in the meeting were the following members of the Board:

Woody L. Hunt, Chairman
J. Luther King, Jr., Vice-Chairman
Mark G. Yudof, Vice-Chairman for Policy
Susan M. Byrne
Rita C. Clements
J. Philip Ferguson
I. Craig Hester
James R. Huffines

thus, constituting a majority and quorum of the Board. Director R. H. (Steve) Stevens, Jr. was not present at the meeting. Also, attending the meeting were R. D. Burck, Advisory Director; Scott Caven, UT System Regent; Bob Boldt, President, Chief Executive Officer and Chief Investment Officer of the Corporation; Joan Moeller, Secretary and Treasurer of the Corporation; Christy Wallace, Assistant Secretary of the Corporation; Cathy Iberg, Managing Director – Marketable Alternative Investments and Deputy CIO; Larry Goldsmith, Managing Director of Public Markets; Andrea Reed, Risk Manager; Sara McMahon and Trey Thompson, Co-Managing Directors – Non-Marketable Alternative Investments of the Corporation; Jennifer Mandeville and Darren Myers, Analysts for the Marketable Alternative Investments for the Corporation; Jerry Turner, legal counsel for the Corporation; Philip Aldridge, Charlie Chaffin, and Michael Warden of U. T. System Administration; Bruce Myers of Cambridge Associates; and Michael Sebastian of EnnisKnupp. Mr. Hunt called the meeting to order at 10:50 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each Director or distributed at the meeting.

Minutes

The first matter to come before the Board was approval of the minutes of the meeting of the Board of Directors held on May 6, 2004. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the minutes of the meeting of the Board of Directors held on **May 6, 2004** be, and are hereby, approved.

Compensation Committee Report

Mr. King, Chairman of the Compensation Committee, reported that the Committee met on May 24, 2004, and recommended approval of the Charter of the Compensation Committee. There was discussion among the Board regarding review of compensation decisions by the full board as recommended by the Committee. The adoption of the Charter was tabled until later in the meeting.

Liquidity Committee Report

Mr. Hunt asked Mr. Hester, Chairman of the Liquidity Committee, to report on the meeting of the Liquidity Committee. Mr. Hester reported that the committee had met prior to the Board Meeting. The Committee reviewed the Liquidity Profile report and discussed at length the specific ranges and "trigger zones" for liquid and illiquid investments. Mr. Hester reported that the Liquidity Committee had discussed the fact that the proposed alternative asset investments to be considered by the Corporation's Board today, if approved, would cause the illiquid profile of the PUF and GEF to increase to approximately 21.68% and 21.39%, respectively (based on April 30 valuations), and the Committee does not object to such increase. Upon motion duly made and seconded, the following resolution, was unanimously adopted:

> RESOLVED, that the Liquidity Committee has discussed the fact that the proposed alternative asset investments to be considered by the Corporation's Board today, if approved, would cause the illiquid profile of the PUF and GEF to increase to approximately 21.68% and 21.39%, respectively (based on April 30 valuations), and the Committee does not object to such increase; and
>
> RESOLVED FURTHER, that the Board authorizes an increase in the illiquid profile of the PUF and GEF to the extent considered by the Liquidity Committee.

Asset Allocation, Risk and Performance

Mr. Hunt asked Mr. Boldt to report on the Corporation's asset allocation. Mr. Boldt walked the Board through changes made over the past year and discussed the substantial changes made in the asset allocation. Mr. Boldt discussed past tactical decisions made by the staff, value-added, and future plans for the portfolio which will include active management decisions to increase value-added.

The latest performance information was presented. The reports presented reflected the restatement of the Endowment Policy Portfolios or benchmarks as approved by the Board at the May 6, 2004 meeting. Mr. Boldt reported value-added under the Corporation's management for the period ended April 30, 2004. The net performance for the one-month period ended April 30, 2004, for the PUF and the GEF were - 2.71%, and -2.70%, respectively, versus benchmark returns of -1.85 for each fund. The net performance for one-year ended April 30, 2004, for the PUF and GEF were 24.15% and 24.63%, respectively, versus benchmark returns of 16.27% for each fund. The Short Intermediate Term Fund's (SITF) performance was -0.95% versus benchmark return of -1.08% for the one-month period, and was 1.51% versus benchmark return of 1.18% for the one-year period ended April 30, 2004. Performance for the Short Term Fund (STF) was 0.08% versus 0.08% for its benchmark for the one-month period, and was 1.04% versus benchmark return of 1.07% for the one-year period ended April 30, 2004. Also reported was a manager history performance summary.

Liquidity Profiles

Reports on PUF and GEF liquidity profiles as of April 30, 2004 were presented to the Board by Mr. Boldt. The liquidity reports were certified by the Corporation's President, Risk Manager and Chief Compliance Officer. In addition, all Managing Directors' signatures were provided certifying the April 30, 2004 report and supporting documentation.

CORE Fund Strategy

Mr. Boldt then presented an update on the progress of the development of the CORE Fund Strategy. This update included results of two meetings that the staff held with the UT System Chief Business Officers ("CBO's) and provided a timeline for development of the Strategy. Mr. Boldt and Mr. Aldridge answered the Directors' questions regarding the new investment options for the CBO's to use in managing their respective operating fund assets.

Client Satisfaction Survey

Mr. Hunt asked Mr. Boldt to provide information to the Board regarding the 2004 Client Satisfaction Survey. The survey has been designed to solicit frank, anonymous input from UTIMCO clients throughout the UT System and Texas A&M System. The responses will be collected via the internet through a third party data collection firm and tabulated results will be available to UTIMCO. The survey will assist the staff in achieving one of their three primary goals – to achieve high satisfaction scores from clients in investment skill, innovation, and client communication. Mr. Boldt answered the Directors' questions.

Adoption of Compensation Committee Charter

The topic of adoption of a Charter for the Compensation Committee as recommended by the Compensation Committee was revisited. A recommendation was made to include an additional bullet point to the Charter, stating that the Compensation Committee would provide the Board with full supporting materials for each of the foregoing recommendations of the Charter in sufficient time to allow such materials to be considered by the Board prior to its full discussion and review of such recommendations. Upon motion duly made and seconded; the following resolution was unanimously adopted:

> RESOLVED, that the Charter of the Compensation Committee, as recommended by the Compensation Committee, is hereby approved in the form submitted to the Corporation's Board of Directors with the so noted change.

The Charter of the Compensation Committee so approved is attached to these minutes.

Venture Capital Update

Mr. Hunt asked Trey Thompson and Sara McMahon to update the Board on the Corporation's venture capital strategy. They presented the staff's strategic efforts to increase exposure to venture capital and to take advantage of current market opportunities. During the presentation, Mr. Thompson, Ms. McMahon, Mr. Boldt and Mr. Myers answered the Directors' questions.

Marketable Alternatives Program

Mr. Hunt asked Ms. Iberg to present an overview of the current status of the Marketable Alternatives Investment Program. The Marketable Alternatives Investment Program, since inception in August 1998, has generated superior risk-adjusted returns. A crucial element of the program's success has been the ability to identify and select top-quartile managers through a comprehensive and thorough due diligence process, which will become even more important as the hedge fund industry experiences rapid asset growth. Ms. Iberg and Mr. Boldt answered the Directors' questions.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 3:00 p.m.

Secretary: ________________________
Joan Moeller

Approved: __________________________ Date: ______________
Woody L. Hunt
Chairman, Board of Directors of
The University of Texas Investment
Management Company

The University of Texas Investment Management Company

Charter of the Compensation Committee

Background

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") established a Compensation Committee (the "Committee") on August 30, 1996. The Committee's responsibilities were enumerated and documented in the August 30, 1996 Board minutes. This Charter, adopted by the Board on May 26, 2004 supercedes the Committee's enumerated responsibilities set forth in the August 30, 1996 Board minutes.

Purpose

The primary purpose of the Committee is to provide oversight of the compensation system for officers and employees of the Corporation.

Composition

The Committee shall be composed of three members of the Board appointed from time to time by a majority vote of the Board at a meeting at which a quorum is present. A member may be removed with or without cause at any time by a majority vote of the Board.

Meetings; Quorum; Etc.

The Corporation's Bylaws state that any committee created by the Board shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of such committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next succeeding meeting. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member of such committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting of the committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

Duties and Responsibilities

The Committee has the following duties and responsibilities:

- Recommend to the Board the base salary and performance compensation award of the President and Chief Executive Officer of the Corporation
- Approve the base salaries of all officers (except the President and Chief Executive Officer) of the Corporation
- Recommend to the Board the Performance Compensation Plan and any amendments thereto
- Recommend to the Board the Eligible Employees who are to be granted performance awards under the Performance Compensation Plan
- Approve the Performance Compensation Plan awards for all eligible employees except the President and Chief Executive Officer
- Provide the Board with full supporting materials for each of the foregoing recommendations in sufficient time to allow such materials to be considered by the Board prior to its full discussion and review of such recommendations.

Determination of performance compensation for employees not included in the Performance Compensation Plan is delegated to Corporation management.

Section 2

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Briefing Item:	Presentation of a proposed commitment to DDJ Total Return Loan Fund, L.P.
Developed By:	Thompson
Presented By:	Thompson
Type of Item:	Possible Action Item during Open Session
Description:	DDJ Capital, an existing UTIMCO relationship, is raising a fund to focus on senior loans of middle market companies.
Recommendation:	UTIMCO Staff recommends a $25,000,000 commitment to the DDJ Total Return Loan Fund, L.P.
Discussion:	The staff supports making this commitment as it will allow the endowments to invest with a proven manager that will take advantage of a unique opportunity by utilizing a tested investment strategy.
Reference:	Delegation of Authority Policy; Investment Memorandum

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Agenda Item:	Approval of the proposed investment in Eos Capital Partners III, L.P.
Developed By:	McMahon
Presented By:	McMahon
Type of Item:	Possible Action Item
Description:	Eos Capital Partners III (Eos) will seek management-led buyout, growth equity and recapitalization investments.
Recommendation:	UTIMCO Staff recommends a $25,000,000 investment in Eos Capital Partners III, L.P.
Discussion:	The staff supports making the $25,000,000 investment in Eos for the following reasons:

i) Eos is an established firm that has generated solid returns for investors since 1992 and has developed a unique investment strategy that differentiates the firm from its competition. The key Principals have managed the firm and honed its investment strategy since inception and prior to that at a previous institution;

ii) An investment in the Fund is consistent with the staff's strategy of targeting top tier private equity fund managers; and

iii) Private Equity currently represents 8.89% of the endowments (relative to a 9% target allocation). Given attractive current market fundamentals, the staff is selectively targeting specific strategies to maintain the endowments' private equity exposure as existing holdings mature.

Reference: Delegation of Authority Policy; Investment Memorandum

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Briefing Item:	Presentation of a proposed commitment to OCM Opportunities Fund V, L.P.
Developed By:	Thompson
Presented By:	Thompson
Type of Item:	Possible Action Item
Description:	Oaktree Capital, an existing UTIMCO relationship, is raising a successor fund that will invest in distressed debt securities. On behalf of the endowments, UTIMCO made a $50 million commitment to Fund III in 1999 and a $40 million commitment to Fund IV in 2001. As of June 8, 2004, those funds had out-performed the S&P 500 and Russell 3000 public market equivalent benchmarks and the 1999 and 2001 Venture Economics vintage year benchmarks by wide margins.
Recommendation:	UTIMCO Staff recommends a $25,000,000 commitment to OCM Opportunities Fund V, L.P.
Discussion:	The staff recommends that the endowments continue to support Oaktree's distressed debt efforts for the following reasons: i) A commitment to Fund V is consistent with the staff's goal of investing with firms that have generated significant value for the UT endowments; ii) Oaktree has demonstrated sustainable top-quartile performance utilizing this strategy; and iii) OCM V will be well-positioned to capitalize upon current market opportunities.
Reference:	Delegation of Authority Policy; Investment Memorandum

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Briefing Item: Presentation of a proposed commitment to Tejas Venture Partners, L.P.

Developed By: Thompson

Presented By: Thompson

Type of Item: Possible Action Item

Description: Tejas Ventures is a new, early-stage venture capital fund.

Recommendation: UTIMCO Staff recommends a $25,000,000 commitment to Tejas Venture Partners, L.P.

Discussion: The Staff supports making this commitment for the following reasons:

i) a commitment to the fund will allow UTIMCO to increase the endowments' exposure to venture capital funds and Texas-based software opportunities; and

ii) Tejas will complement the endowments' existing venture capital exposure and prove to be synergistic with other Texas-based venture capital funds.

Reference: Delegation of Authority Policy; Investment Memorandum

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Briefing Item:	Presentation of a proposed investment in Relational Investors LLC
Developed By:	Goldsmith
Presented By:	Goldsmith
Type of Item:	Possible Action Item during Open Session
Description:	Relational Investors, founded in 1996, is $2.8B large/mid cap equity concentrated value manager that takes an active shareholder approach as part of building and profiting from their investment interests.
Recommendation:	UTIMCO Staff recommends a $100,000,000 investment in Relational Investors LLC.
Discussion:	The staff supports making this investment as it will improve the value-added potential of the Domestic Equity asset class by: ▪ reallocating passive investments to actively engaged investments, ▪ increasing the value style exposure of the asset class at an opportune time in the investment cycle, ▪ and by engaging a manager with a concentrated and dedicated philosophy and process that has earned over 12% per annum in excess of the S&P 500 since their inception in 1996.
Reference:	Delegation of Authority Policy; Investment Memorandum

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Briefing Item: Presentation of a proposed investment in John A. Levin & Co.

Developed By: Goldsmith

Presented By: Goldsmith

Type of Item: Possible Action Item during Open Session

Description: John A. Levin & Co., founded in 1982, is a $13 B value-oriented investment organization with over $9 B in long-only based equity strategies. They have built a successful track record in this space by leveraging their strong investment research capabilities (49 investment professionals) who employ an investment approach that seeks to capitalize on undervalued assets that contain a near term catalyst for enterprise improvement.

Recommendation: UTIMCO Staff recommends a $100,000,000 investment in John A. Levin & Co.

Discussion: The staff supports making this investment as it will improve the value-added potential of the Domestic Equity asset class by:

- reallocating passive investments to actively engaged investments,
- increasing the value style exposure of the asset class at an opportune time in the investment cycle,
- engaging a manager with a concentrated and dedicated philosophy and process that has earned a consistent premium in excess of their benchmark,
- and, by partnering on highly complementary fee and revenue sharing terms with the UT Endowments.

Reference: Delegation of Authority Policy; Investment Memorandum

Resolutions to be handed out at the meeting if action is required.

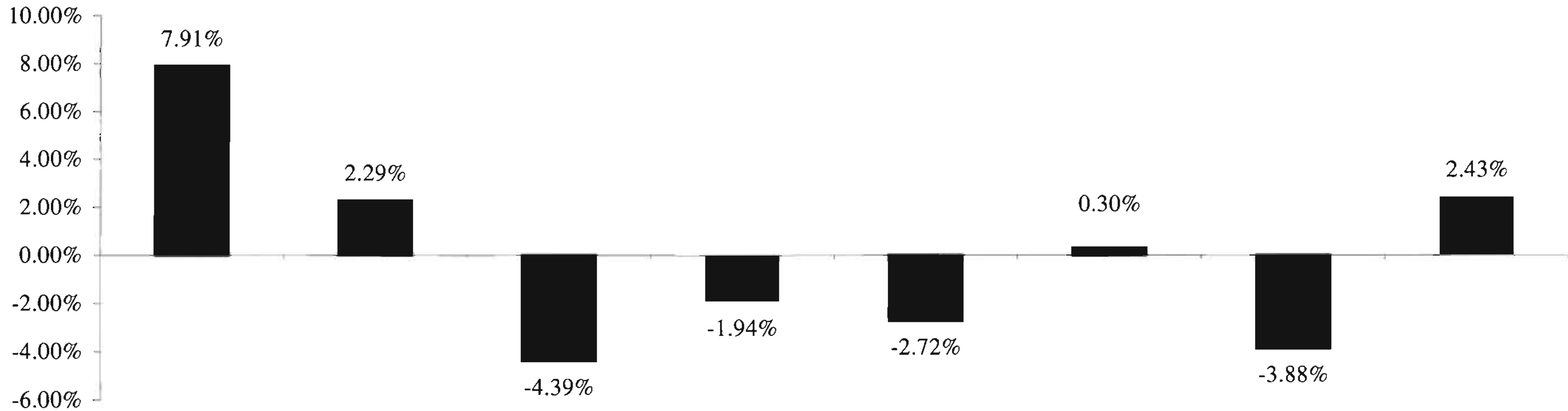
Section 3

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Agenda Item:	Reports on Asset Allocation, Risk, and Performance
Developed By:	Moeller, Hill
Presented By:	Boldt
Type of Item:	Information Item
Description:	The reports presented are for the periods ended May 31, 2004. (Except as noted)
Recommendation:	No action required.
Reference:	Market Exposure; Relative Risk Analysis; UTIMCO Performance Summary; Cumulative Value Added in Endowment Funds; Cumulative Value Added in Marketable Securities; Cumulative Value Added in Non-Marketable Securities; UTIMCO Endowment Funds vs. Cambridge Associates College and University Universe; UTIMCO Endowment Funds vs. Cambridge Associates Colleges and Universities Greater Than One Billion Dollars; Performance Attribution; Public Markets Managers Investment Performance Detail

Permanent University Fund
Market Exposure
May 31, 2004

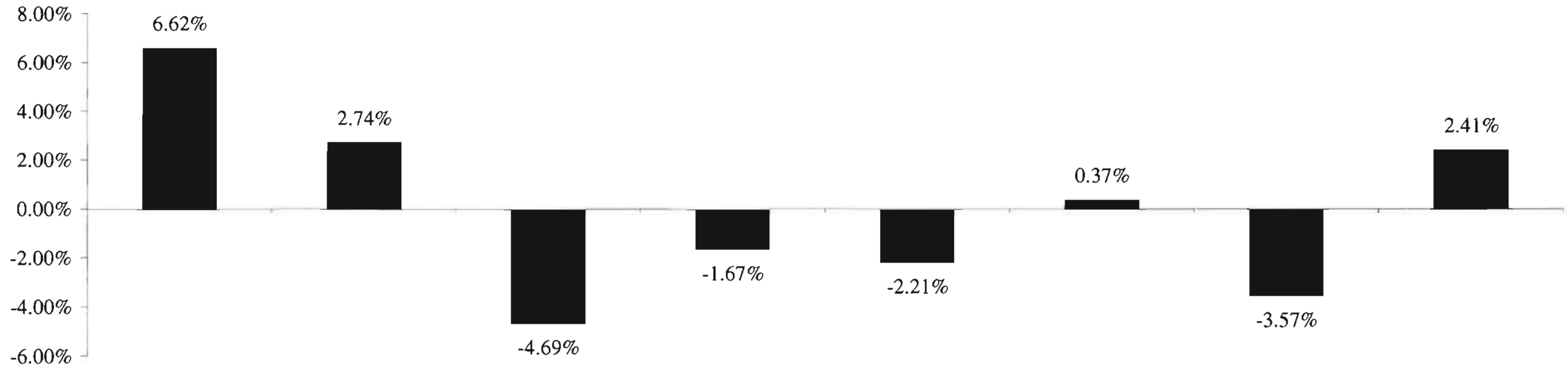
Actual vs Policy



	Domestic Public Equity	International Public Equity	Private Capital	Equity Hedge	Absolute Return	Commodities	Fixed Income	Cash & Cash Equivalents
Actual	32.91%	19.29%	10.61%	8.06%	12.28%	3.30%	11.12%	2.43%
Neutral Policy	25.00%	17.00%	15.00%	10.00%	15.00%	3.00%	15.00%	0.00%
Over/Under	7.91%	2.29%	-4.39%	-1.94%	-2.72%	0.30%	-3.88%	2.43%

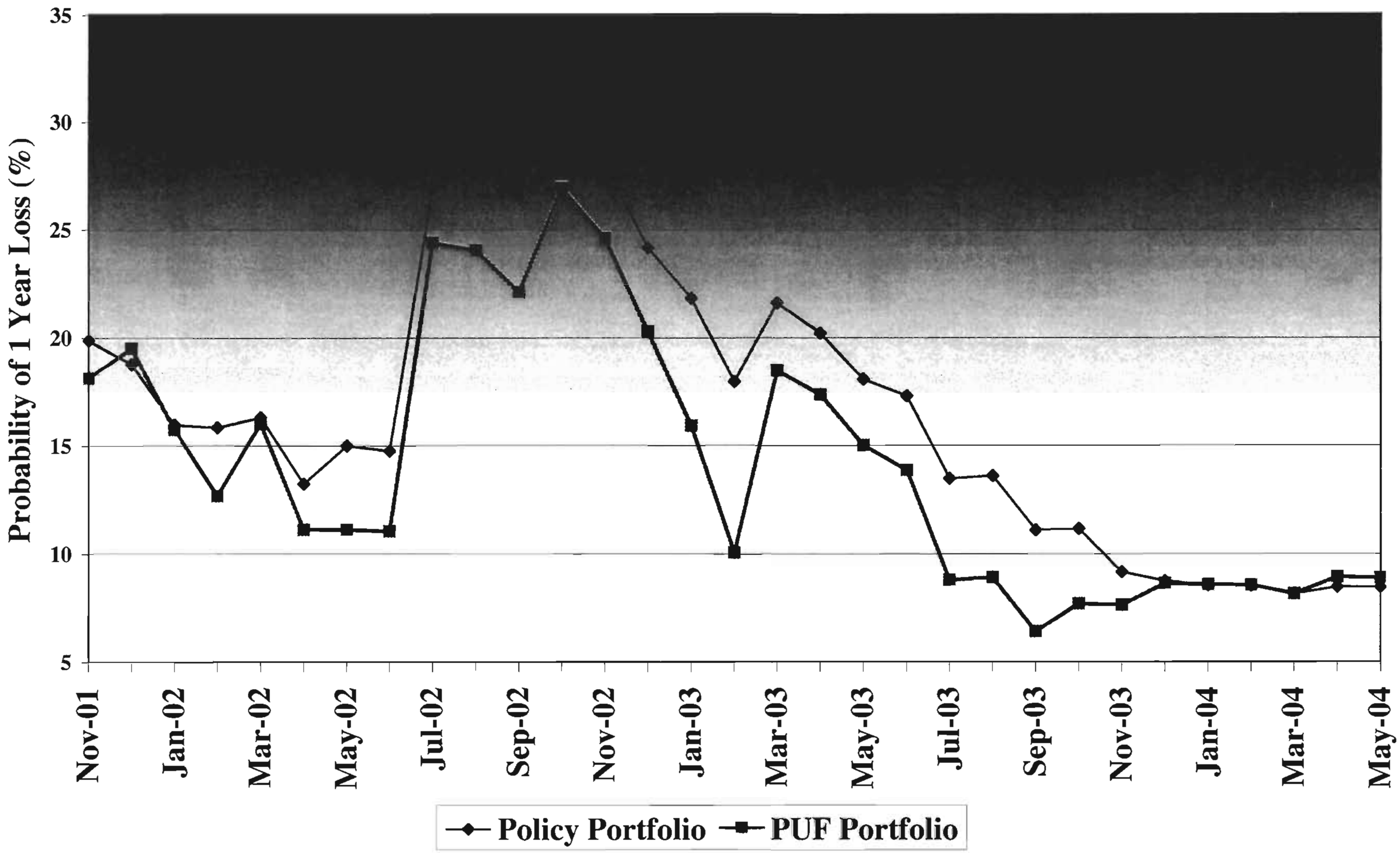
General Endowment Fund
Market Exposure
May 31, 2004

Actual vs Policy



	Domestic Public Equity	International Public Equity	Private Capital	Equity Hedge	Absolute Return	Commodities	Fixed Income	Cash & Cash Equivalents
Actual	31.62%	19.74%	10.31%	8.33%	12.79%	3.37%	11.43%	2.41%
Neutral Policy	25.00%	17.00%	15.00%	10.00%	15.00%	3.00%	15.00%	0.00%
Over/Under	6.62%	2.74%	-4.69%	-1.67%	-2.21%	0.37%	-3.57%	2.41%

Relative Risk Analysis 1 Year Horizon

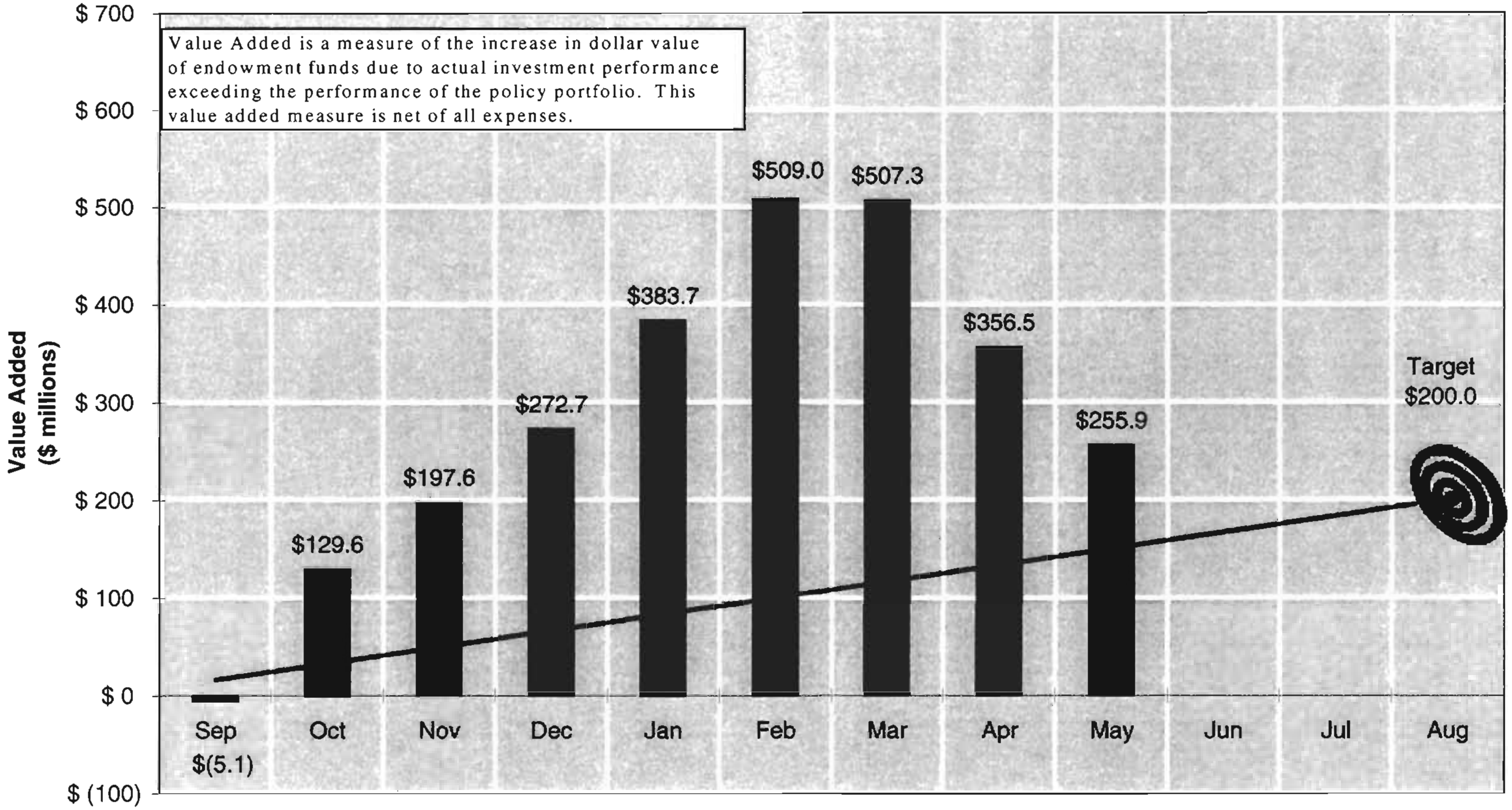


UTIMCO Performance Summary

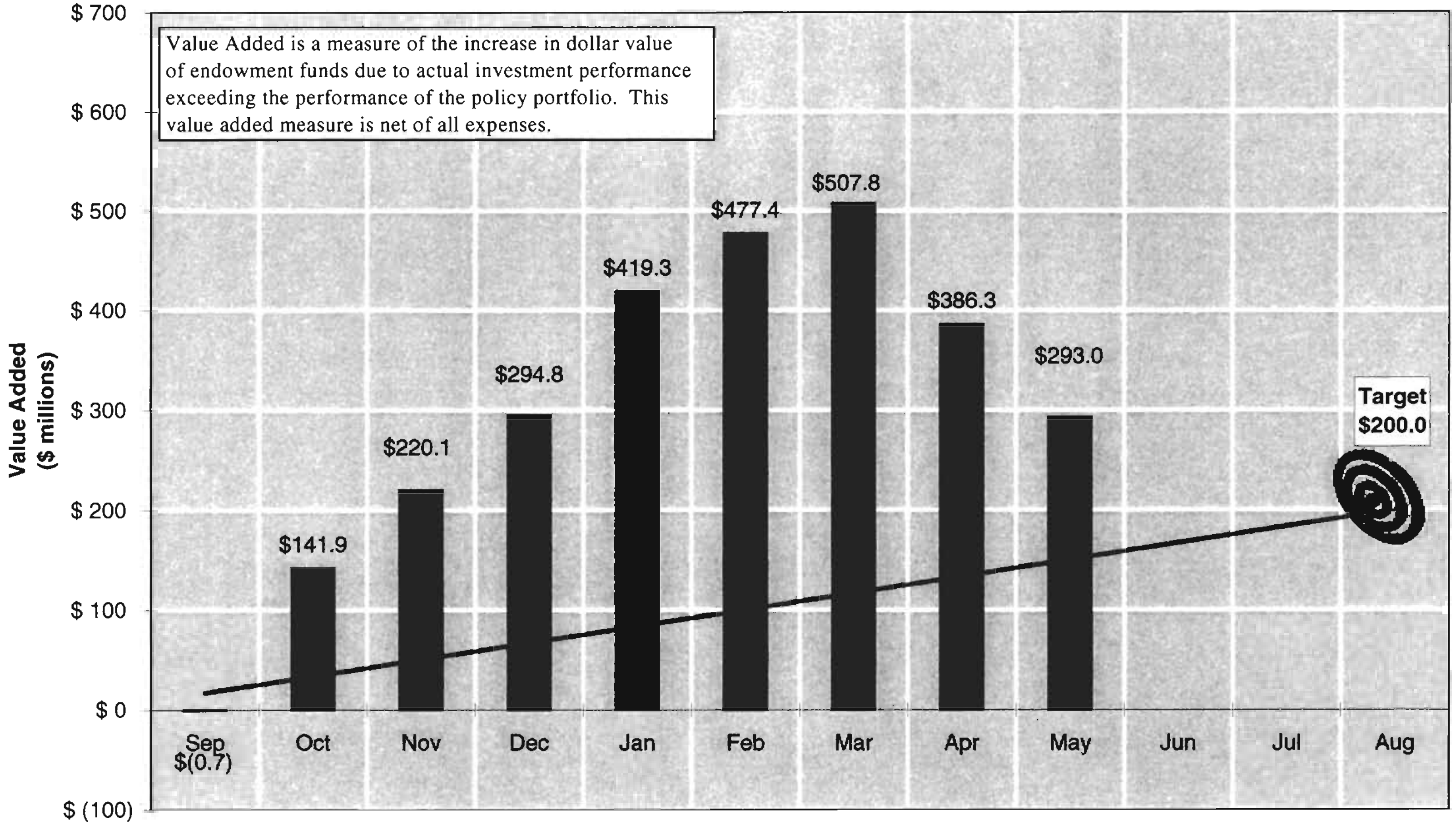
	Net Asset Value 5/31/2004 (in Millions)	Periods Ended May 31, 2004 (Returns for Periods Longer Than One Year are Annualized)								
ENDOWMENT FUNDS		One Month	Three Months	Calendar Year To Date	Six Months	Fiscal Year To Date	One Year	Three Years	Five Years	Ten Years
Permanent University Fund	$ 7,998.0	0.52	(1.39)	3.22	6.83	13.88	20.03	4.68	4.92	9.80
General Endowment Fund		0.56	(1.37)	3.08	6.73	14.02	20.24	5.19	N/A	N/A
Permanent Health Fund	818.5	0.58	(1.41)	3.00	6.62	13.82	19.98	5.03	N/A	N/A
Long Term Fund	3,350.1	0.57	(1.41)	3.00	6.62	13.82	20.01	5.10	6.29	10.53
Separately Invested Funds	219.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Endowment Funds	**12,386.3**									
OPERATING FUNDS										
Short Term Fund	2,393.5	0.08	0.25	0.41	0.50	0.75	1.02	1.80	3.45	4.49
Short Intermediate Term Fund	1,189.2	(0.12)	(0.77)	(0.01)	0.42	1.30	1.01	2.76	4.38	5.46
Institutional Index Funds:										
BGI US Debt Index Fund	-	(0.43)	(2.27)	(0.41)	0.60	2.57	(0.34)	0.64	N/A	N/A
BGI Equity Index Fund	230.1	1.37	(1.72)	1.47	6.79	12.62	18.33	(2.10)	N/A	N/A
Total Operating Funds	**3,812.8**									
Total Investments	**$ 16,199.1**									
BENCHMARKS										
General Endowment Fund: Policy Portfolio (1)		1.41	0.69	3.42	6.44	11.62	14.72	2.23	4.48	10.76
Permanent University Fund: Policy Portfolio (1)		1.41	0.69	3.42	6.44	11.62	14.72	2.23	4.48	10.83
Short Term Fund: 90 Day Treasury Bills Average Yield		0.09	0.25	0.41	0.51	0.77	1.06	1.79	3.37	4.34
Short Intermediate Term Fund: Composite of Government Agencies and Treasuries		(0.17)	(0.87)	(0.11)	0.45	1.10	0.38	4.09	5.22	5.77
Institutional Debt Index Fund: Lehman Brothers Aggregate Bond Index		(0.40)	(2.26)	(0.41)	0.60	2.55	(0.44)	6.29	6.76	7.30
Institutional Equity Index Fund: Standards & Poor's 500 Index (S&P 500)		1.37	(1.72)	1.47	6.79	12.62	18.33	(2.14)	(1.52)	11.34
Other Indices:										
U.S. Equity Markets: Wilshire 5000 Index		1.38	(1.84)	1.81	6.38	13.19	20.46	(0.48)	(0.45)	10.99
International Equity Markets: Morgan Stanley Capital International EAFE Index		0.34	(1.38)	2.32	10.32	23.49	32.66	1.70	0.39	3.98

(1) - Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct errors in benchmark construction and calculation. Results were restated for all periods beginning June, 1993. The complete details of the restatement as well as prior Policy Portfolio returns are available upon request.

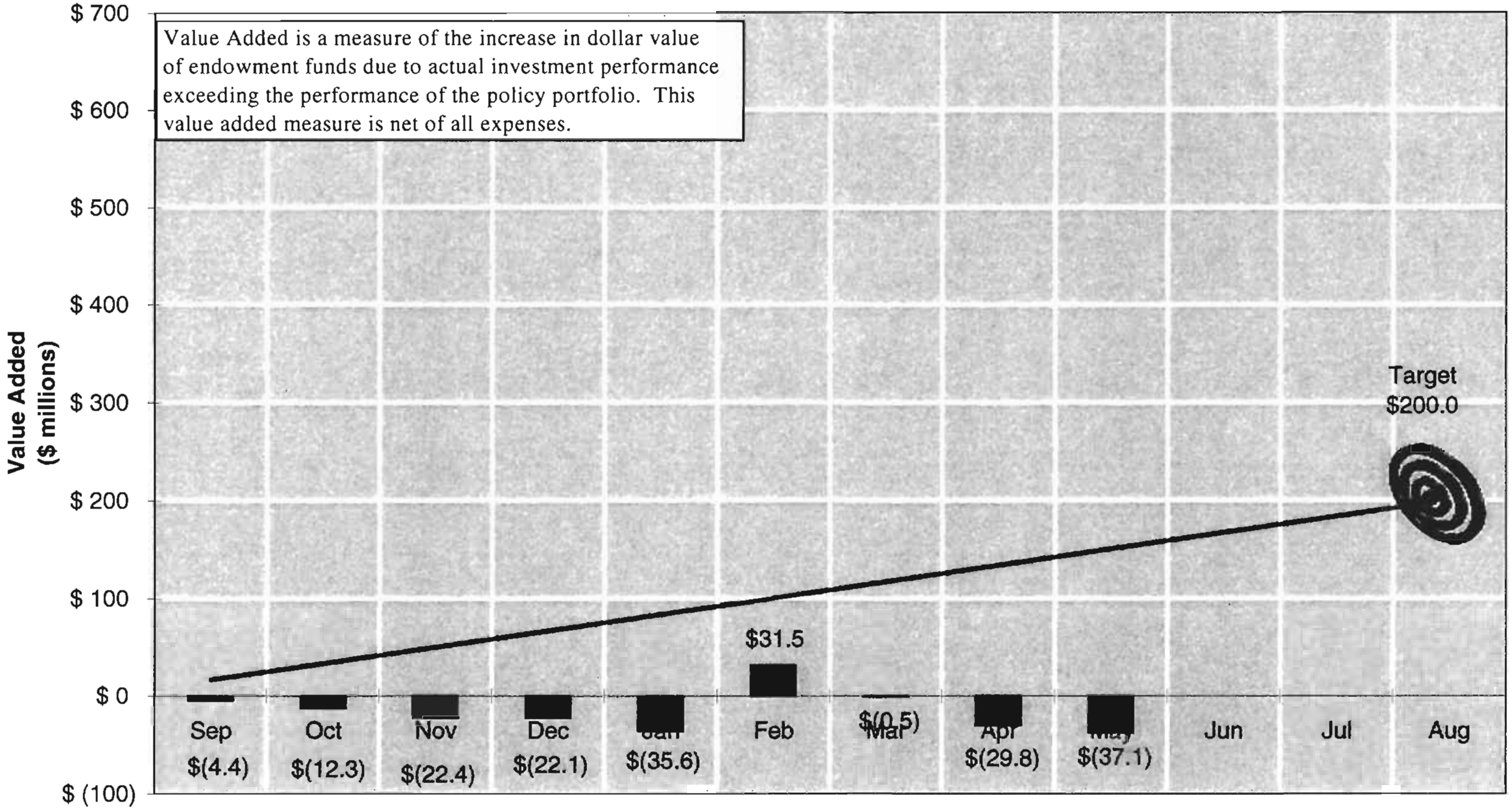
Cumulative Value Added In Endowment Funds
2003-2004 Fiscal Year



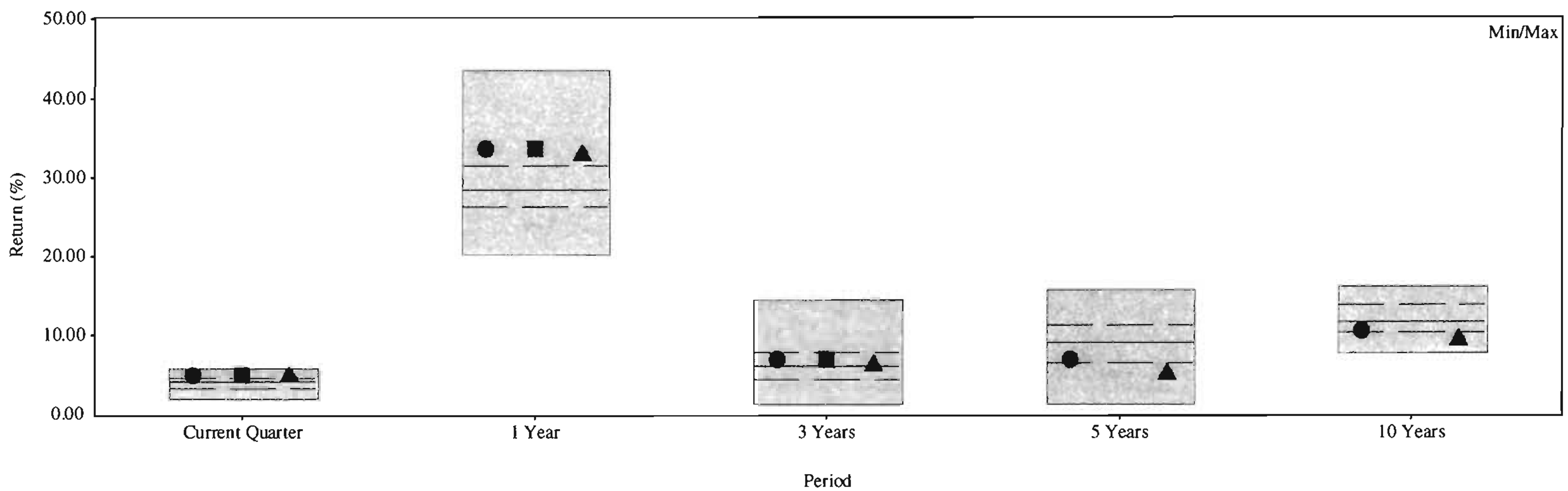
Cumulative Value Added in Marketable Securities in Endowment Funds
2003-2004 Fiscal Year



Cumulative Value Added In Non-Marketable Securities In Endowment Funds
2003-2004 Fiscal Year



UTIMCO ENDOWMENT FUNDS vs.
Cambridge Billion $ Funds Universe
Periods Ended March 31, 2004
Quartile



	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)
Maximum	6.02		43.62		14.50		15.96		16.44	
25th Percentile	4.64		31.59		7.97		11.42		13.99	
Median	4.17		28.40		6.15		9.11		11.75	
75th Percentile	3.34		26.26		4.43		6.61		10.53	
Minimum	2.29		20.56		1.62		1.53		8.14	
# of Portfolios	33		33		33		33		27	
● **UTIMCO LTF-Net of Fees**	5.29	6	33.90	18	7.35	39	7.17	71	10.84	75
■ **UTIMCO PHF-Net of Fees**	5.30	6	33.87	18	7.28	39	---	---	---	---
▲ **UTIMCO PUF-Net of Fees**	5.55	6	33.34	21	6.78	45	5.84	83	10.13	90

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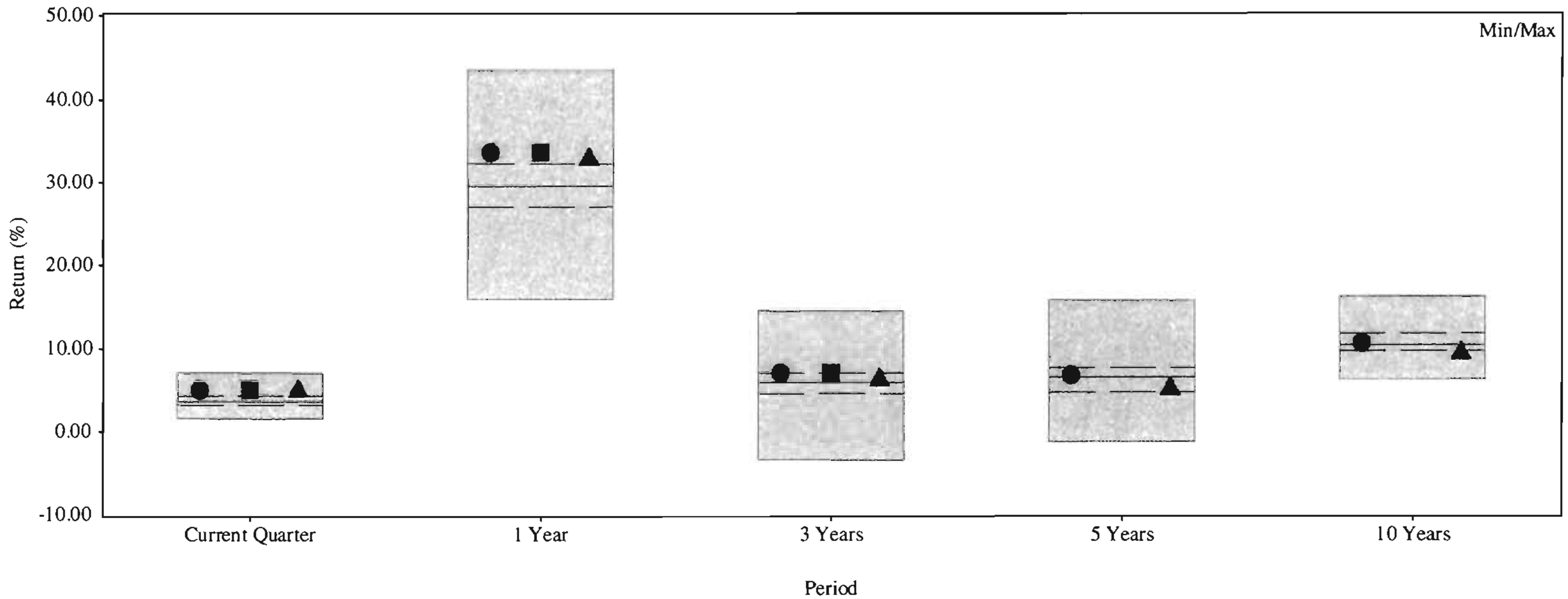
The Cambridge Billion $ Funds Universe consists of the College and Universities with endowment assets greater than one billion dollars that report quarterly to Cambridge Associates, Inc.

The number of Colleges and Universities with endowment assets greater than one billion dollars reporting as of March 31, 2004 was 33.

UTIMCO ENDOWMENT FUNDS vs.
Total Cambridge Universe
Periods Ended March 31, 2004
Quartile



	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)	Return	(% tile)
Maximum	7.00		43.62		14.50		15.96		16.44	
25th Percentile	4.34		32.25		7.18		7.86		11.76	
Median	3.78		29.55		5.86		6.64		10.58	
75th Percentile	3.28		26.95		4.54		4.80		9.73	
Minimum	1.95		16.24		- 3.04		- 0.90		6.68	
# of Portfolios	134		132		131		128		95	
● **UTIMCO LTF-Net of Fees**	5.29	3	33.90	15	7.35	22	7.17	38	10.84	45
■ **UTIMCO PHF-Net of Fees**	5.30	3	33.87	15	7.28	23	---	---	---	---
▲ **UTIMCO PUF-Net of Fees**	5.55	3	33.34	20	6.78	34	5.84	59	10.13	62

The Cambridge Universe consists of all College and Universities that report quarterly returns to Cambridge Associates, Inc. The number of Colleges and Universities reporting as of March 31, 2004 was 134.

Permanent University Fund
Performance Attribution

	Asset Allocation			Return		
	May 31, 2004			One Month Ended May 31, 2004		
	Neutral	Asset Allocation	Market Exposure	Benchmark	PUF	Total Attribution (1)
Cash and Cash Equivalents	0.0%	0.1%	2.4%	0.09%	0.08%	0.00%
U.S. Equities	25.0%	32.9%	32.9%	2.68%	2.21%	-0.05%
Global Equities	17.0%	21.6%	19.3%	0.32%	-1.66%	-0.50%
Equity Hedge Funds	10.0%	8.1%	8.1%	0.42%	-1.35%	-0.15%
Absolute Return Hedge Funds	15.0%	12.3%	12.3%	0.34%	-0.07%	-0.01%
Commodities	3.0%	3.3%	3.3%	4.54%	3.62%	-0.02%
Fixed Income	15.0%	11.1%	11.1%	0.34%	-0.26%	-0.03%
Total Marketable Securities	85.0%	89.4%	89.4%	1.18%	0.35%	-0.76%
Private Capital	15.0%	10.6%	10.6%	2.69%	2.00%	-0.13%
Total Fund	100.0%	100.0%	100.0%	1.41% (2)	0.52%	-0.89%

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.
(2) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.

UTIMCO

Permanent University Fund
Performance Attribution

	Asset Allocation			Return		
		May 31, 2004		Three Months Ended May 31, 2004		
	Neutral	Asset Allocation	Market Exposure	Benchmark	PUF	Total Attribution (1)
Cash and Cash Equivalents	0.0%	0.1%	2.4%	0.25%	0.25%	-0.03%
U.S. Equities	25.0%	32.9%	32.9%	-1.64%	-1.84%	-0.21%
Global Equities	17.0%	21.6%	19.3%	-2.20%	-4.93%	-0.77%
Equity Hedge Funds	10.0%	8.1%	8.1%	1.26%	-0.60%	-0.15%
Absolute Return Hedge Funds	15.0%	12.3%	12.3%	1.01%	0.89%	-0.05%
Commodities	3.0%	3.3%	3.3%	9.41%	5.55%	-0.10%
Fixed Income	15.0%	11.1%	11.1%	-2.03%	-1.56%	0.15%
Total Marketable Securities	85.0%	89.4%	89.4%	-0.62%	-1.85%	-1.16%
Private Capital	15.0%	10.6%	10.6%	8.30%	2.54%	-0.92%
Total Fund	100.0%	100.0%	100.0%	0.69% (2)	-1.39%	-2.08%

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.
(2) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.

Permanent University Fund
Performance Attribution

	Asset Allocation			Return		
		May 31, 2004		Five Months Ended May 31, 2004		
	Neutral	Asset Allocation	Market Exposure	Benchmark	PUF	Total Attribution (1)
Cash and Cash Equivalents	0.0%	0.1%	2.4%	0.41%	0.41%	-0.02%
U.S. Equities	25.0%	32.9%	32.9%	2.23%	2.44%	-0.01%
Global Equities	17.0%	21.6%	19.3%	1.89%	1.09%	-0.29%
Equity Hedge Funds	10.0%	8.1%	8.1%	2.11%	3.64%	0.19%
Absolute Return Hedge Funds	15.0%	12.3%	12.3%	1.67%	4.34%	0.34%
Commodities	3.0%	3.3%	3.3%	17.80%	12.59%	-0.12%
Fixed Income	15.0%	11.1%	11.1%	0.35%	0.14%	0.09%
Total Marketable Securities	85.0%	89.4%	89.4%	2.27%	2.54%	0.18%
Private Capital	15.0%	10.6%	10.6%	10.02%	9.15%	-0.38%
Total Fund	100.0%	100.0%	100.0%	3.42% (2)	3.22%	-0.20%

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.
(2) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.

Permanent University Fund
Performance Attribution

	Asset Allocation			Return		
	May 31, 2004			Nine Months Ended May 31, 2004		
	Neutral	Asset Allocation	Market Exposure	Benchmark	PUF	Total Attribution (1)
Cash and Cash Equivalents	0.0%	0.1%	2.4%	0.77%	0.75%	0.00%
U.S. Equities	25.0%	32.9%	32.9%	13.66%	12.95%	0.14%
Global Equities	17.0%	21.6%	19.3%	22.67%	19.43%	0.03%
Equity Hedge Funds	10.0%	8.1%	8.1%	3.84%	7.29%	0.59%
Absolute Return Hedge Funds	15.0%	12.3%	12.3%	3.40%	11.95%	0.95%
Commodities	3.0%	3.3%	3.3%	25.82%	26.95%	0.39%
Fixed Income	15.0%	11.1%	11.1%	3.07%	6.46%	0.70%
Total Marketable Securities	85.0%	89.4%	89.4%	11.00%	14.19%	2.80%
Private Capital	15.0%	10.6%	10.6%	14.98%	11.88%	-0.54%
Total Fund	100.0%	100.0%	100.0%	11.62% (2) (3)	13.88%	2.26%

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.
(2) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.
(3) Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct errors in benchmark construction and calculation. Results were restated for all periods beginning June, 1993. The complete details of the restatement as well as prior Policy Portfolio returns are available upon request.

General Endowment Fund
Performance Attribution

	Asset Allocation			Return		
	May 31, 2004			One Month Ended May 31, 2004		
	Neutral	Asset Allocation	Market Exposure	Benchmark	GEF	Total Attribution (1)
Cash and Cash Equivalents	0.0%	0.1%	2.5%	0.09%	0.08%	-0.01%
U.S. Equities	25.0%	31.6%	31.6%	2.68%	2.19%	-0.07%
Global Equities	17.0%	22.1%	19.7%	0.32%	-1.63%	-0.47%
Equity Hedge Funds	10.0%	8.3%	8.3%	0.42%	-1.35%	-0.16%
Absolute Return Hedge Funds	15.0%	12.8%	12.8%	0.34%	-0.06%	-0.02%
Commodities	3.0%	3.4%	3.4%	4.54%	3.66%	-0.02%
Fixed Income	15.0%	11.4%	11.4%	0.33%	-0.24%	-0.03%
Total Marketable Securities	85.0%	89.7%	89.7%	1.18%	0.34%	-0.78%
Private Capital	15.0%	10.3%	10.3%	2.69%	2.54%	-0.07%
Total Fund	100.0%	100.0%	100.0%	1.41% (2)	0.56%	-0.85%

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.
(2) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.

General Endowment Fund
Performance Attribution

	Asset Allocation			Return		
		May 31, 2004		Three Months Ended May 31, 2004		
	Neutral	Asset Allocation	Market Exposure	Benchmark	GEF	Total Attribution (1)
Cash and Cash Equivalents	0.0%	0.1%	2.5%	0.25%	0.25%	-0.01%
U.S. Equities	25.0%	31.6%	31.6%	-1.64%	-1.95%	-0.26%
Global Equities	17.0%	22.1%	19.7%	-2.20%	-4.99%	-0.78%
Equity Hedge Funds	10.0%	8.3%	8.3%	1.26%	-0.53%	-0.17%
Absolute Return Hedge Funds	15.0%	12.8%	12.8%	1.01%	0.91%	-0.05%
Commodities	3.0%	3.4%	3.4%	9.41%	5.65%	-0.10%
Fixed Income	15.0%	11.4%	11.4%	-2.03%	-1.43%	0.18%
Total Marketable Securities	85.0%	89.7%	89.7%	-0.62%	-1.87%	-1.19%
Private Capital	15.0%	10.3%	10.3%	8.30%	3.16%	-0.87%
Total Fund	100.0%	100.0%	100.0%	0.69% (2)	-1.37%	-2.06%

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.
(2) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.

General Endowment Fund
Performance Attribution

	Asset Allocation			Return		
		May 31, 2004		Five Months Ended May 31, 2004		
	Neutral	Asset Allocation	Market Exposure	Benchmark	GEF	Total Attribution (1)
Cash and Cash Equivalents	0.0%	0.1%	2.5%	0.41%	0.41%	-0.01%
U.S. Equities	25.0%	31.6%	31.6%	2.23%	2.34%	-0.01%
Global Equities	17.0%	22.1%	19.7%	1.89%	1.03%	-0.24%
Equity Hedge Funds	10.0%	8.3%	8.3%	2.11%	3.72%	0.16%
Absolute Return Hedge Funds	15.0%	12.8%	12.8%	1.67%	4.34%	0.34%
Commodities	3.0%	3.4%	3.4%	17.80%	12.81%	-0.13%
Fixed Income	15.0%	11.4%	11.4%	0.35%	0.19%	0.10%
Total Marketable Securities	85.0%	89.7%	89.7%	2.27%	2.51%	0.21%
Private Capital	15.0%	10.3%	10.3%	10.02%	8.26%	-0.55%
Total Fund	100.0%	100.0%	100.0%	3.42% (2)	3.08%	-0.34%

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.

(2) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.

General Endowment Fund
Performance Attribution

	Asset Allocation			Return		
		May 31, 2004		Nine Months Ended May 31, 2004		
	Neutral	Asset Allocation	Market Exposure	Benchmark	GEF	Total Attribution (1)
Cash and Cash Equivalents	0.0%	0.1%	2.5%	0.77%	0.75%	-0.01%
U.S. Equities	25.0%	31.6%	31.6%	13.66%	12.70%	0.22%
Global Equities	17.0%	22.1%	19.7%	22.67%	19.56%	0.15%
Equity Hedge Funds	10.0%	8.3%	8.3%	3.84%	7.37%	0.55%
Absolute Return Hedge Funds	15.0%	12.8%	12.8%	3.40%	11.96%	0.96%
Commodities	3.0%	3.4%	3.4%	25.82%	27.13%	0.39%
Fixed Income	15.0%	11.4%	11.4%	3.07%	6.69%	0.72%
Total Marketable Securities	85.0%	89.7%	89.7%	11.00%	14.30%	2.98%
Private Capital	15.0%	10.3%	10.3%	14.98%	11.66%	-0.58%
Total Fund	100.0%	100.0%	100.0%	11.62% (2) (3)	14.02%	2.40%

(1) The Total Attribution reports which asset classes contributed to the Fund's outperformance or underperformance relative to the Endowment Policy Portfolio return.

(2) The benchmark that the Fund is measured against is the Endowment Policy Portfolio. The Endowment Policy Portfolio return is the sum of the weighted benchmark returns for each asset class comprising the Endowment Policy Portfolio.

(3) Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct errors in benchmark construction and calculation. Results were restated for all periods beginning June, 1993. The complete details of the restatement as well as prior Policy Portfolio returns are available upon request.

Public Markets Managers
Investment Performance Detail Summary
May 31, 2004

UTIMCO Manager Rating:

positive
neutral to slightly positive
neutral (strategy to be reviewed)
neutral to slightly negative
negative

	Assets Under Management ($ Millions)	Periods Ended May 31, 2004 (Returns for Periods Longer Than One Year are Annualized)									From Inception to May 31, 2004 (Returns for Periods Longer Than One Year are Annualized)	
		One Month	Three Months	Six Months	Nine Months	One Year	Three Years	Five Years	Seven Years	Ten Years	Manager	Inception Date
NET OF FEES PERFORMANCE:												
Public Equities:												
Domestic Equities:												
Passive Management:												
BGI S&P 500	240.6	1.37	(1.72)	6.79	12.61	18.32	(2.11)	(1.50)	5.73	11.46	N/A	February 1993
vs. S&P 500 Index		0.00	0.00	0.00	(0.01)	(0.01)	[illegible]	[illegible]	[illegible]	[illegible]		
BGI S&P 400 Midcap	372.5	2.08	(0.84)	5.49	15.64	26.75	5.70	9.74	12.76	14.90	N/A	December 1992
vs. S&P 400 Midcap Index		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
S&P 400 Midcap Futures	28.8	2.06	(0.90)	4.90	-	-	-	-	-	-	16.66	October 2003
vs. S&P 400 Midcap Index		(0.02)	(0.04)	(0.58)	-	-	-	-	-	-	(0.74)	
Cash Equitization - S&P 500 Index Futures	330.2	1.37	(1.86)	6.22	11.54	16.99	(2.90)	-	-	-	(2.25)	March 2001
vs. S&P 500 Index		(0.00)	(0.14)	(0.57)	(1.08)	(1.34)	(0.76)	-	-	-	(0.77)	
Semiconductor Index Funds	14.7	10.62	-	-	-	-	-	-	-	-	10.62	April 2004
vs. Russell 3000		[illegible]	-	-	-	-	-	-	-	-	[illegible]	
Dow Jones - Exchange Traded Funds and Futures	430.2	0.11	(3.12)	4.98	-	-	-	-	-	-	4.48	November 2003
vs. Dow Jones Industrial Average		[illegible]	[illegible]	(0.21)	-	-	-	-	-	-	(0.79)	
Active Management:												
BGI Russell 2000 Alpha Tilt	281.3	1.31	(3.68)	3.18	14.79	29.69	-	-	-	-	10.05	February 2002
vs. Russell 2000		(0.28)	(0.99)	(1.35)	(0.37)	(0.60)	-	-	-	-	[illegible]	
BGI Russell 3000 Alpha Tilt	292.6	1.08	(2.62)	5.72	12.56	-	-	-	-	-	12.56	August 2003
vs. Russell 3000		(0.38)	(0.80)	(0.50)	(0.40)	-	-	-	-	-	(0.40)	
Cordillera	121.5	2.94	(5.49)	(3.70)	3.69	24.14	(7.70)	5.59	7.08	10.94	9.43	January 1994
vs. Russell 2000 Growth		[illegible]	(2.82)	(6.44)	(8.64)	(5.62)	(7.28)	[illegible]	[illegible]	[illegible]	[illegible]	
Cordillera Opportunistic	29.3	2.24	(2.69)	1.71	-	-	-	-	-	-	17.30	October 2003
vs. Russell 2000		[illegible]	(0.00)	(2.81)	-	-	-	-	-	-	(0.02)	
Davis Hamilton Jackson	40.2	1.59	(2.70)	1.30	4.63	10.49	(4.83)	(1.82)	6.49	10.29	9.25	January 1994
vs. S&P 500 Index		[illegible]	(0.97)	(5.50)	(7.99)	(7.83)	(2.69)	(0.30)	[illegible]	(1.04)	(1.51)	
GSAM- Large Cap	233.4	0.73	(1.12)	8.29	15.67	22.93	(0.68)	(0.60)	-	-	1.83	April 1998
vs. S&P 500 Index		(0.64)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]	
GSAM - Small Cap	209.4	0.35	(5.86)	2.18	14.94	29.71	8.23	9.11	-	-	5.35	April 1998
vs. Russell 2000		(1.25)	(3.17)	(2.35)	(0.22)	(0.58)	[illegible]	[illegible]	-	-	[illegible]	
MBA Investments	0.6	0.16	(0.57)	4.44	9.02	16.41	(3.26)	(6.32)	(0.25)	-	2.95	November 1995
MBA vs. S&P 500 Index		(1.21)	[illegible]	(2.35)	(3.60)	(1.92)	(1.12)	(4.80)	(5.85)	-	(6.60)	
Forstman Leff	285.3	(0.62)	0.31	13.08	21.08	28.66	5.37	10.51	8.90	12.18	11.63	January 1994
vs. Russell 2000		(2.21)	[illegible]	[illegible]	[illegible]	(1.63)	(0.60)	[illegible]	[illegible]	[illegible]	[illegible]	
TCW MultiCap	98.9	2.80	(2.25)	-	-	-	-	-	-	-	(1.12)	February 2004
vs. Russell 3000		[illegible]	(0.43)	-	-	-	-	-	-	-	(0.62)	
TCW Mid Value	19.9	3.79	-	-	-	-	-	-	-	-	3.79	April 2004
vs. Russell 3000		[illegible]	-	-	-	-	-	-	-	-	[illegible]	
TCW Small Value	19.2	2.73	-	-	-	-	-	-	-	-	2.73	April 2004
vs. Russell 2000		[illegible]	-	-	-	-	-	-	-	-	[illegible]	
Value Act Capital	61.1	1.68	2.64	7.52	7.09	-	-	-	-	-	10.99	August 2003
vs. Russell 2000		[illegible]	[illegible]	[illegible]	(8.07)	-	-	-	-	-	(9.45)	
REITS:												
REITS - Greg Cox	798.3	6.90	(1.34)	7.27	18.44	30.22	18.65	14.79	12.26	14.24	13.86	April 1993
vs. Wilshire Real Estate Securities		(0.68)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Domestic Equities Spread Trades:												
Long Large Cap ($964.2 Million In Notional)	-	1.44	(2.79)	-	-	-	-	-	-	-	(3.56)	January 2004
Short Small Cap ($-964.9 Million In Notional)	-	(1.58)	3.11	-	-	-	-	-	-	-	4.65	January 2004
Russell 2000 Exchange Traded Funds and Futures	44.5	2.24	(2.12)	-	-	-	-	-	-	-	(2.12)	February 2004

Public Markets Managers
Investment Performance Detail Summary
May 31, 2004

UTIMCO Manager Rating:

positive
neutral to slightly positive
neutral (strategy to be reviewed)
neutral to slightly negative
negative

		Assets Under Management ($ Millions)	Periods Ended May 31, 2004 (Returns for Periods Longer Than One Year are Annualized) One Month	Three Months	Six Months	Nine Months	One Year	Three Years	Five Years	Seven Years	Ten Years	From Inception to May 31, 2004 (Returns for Periods Longer Than One Year are Annualized) Manager	Inception Date
	NET OF FEES PERFORMANCE (continued)												
	International Equities:												
	Passive Management:												
	BGI EAFE International Fund	503.1	0.35	(1.33)	10.42	23.64	32.87	2.16	0.56	3.01	4.81	6.32	April 1993
	vs. MSCI EAFE Net		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
	BGI Emerging Markets Structured Fund	315.2	(1.67)	(9.28)	5.72	17.53	39.86	-	-	-	-	15.17	February 2002
	vs. MSCI Emerging Markets Free		[illegible]	(0.45)	(0.20)	0.32	(0.62)	-	-	-	-	(0.46)	
	Active Management:												
	BGI International Alpha Tilts	252.7	0.06	(1.29)	10.28	23.36	-	-	-	-	-	23.36	August 2003
	vs. MSCI EAFE Net		(0.28)	0.09	(0.04)	(0.13)	-	-	-	-	-	(0.13)	
Watch List	Capital Guardian Trust Small Cap International	192.5	(1.76)	1.94	15.62	28.94	49.91	6.08	4.12	1.96	-	2.32	December 1996
	vs. Citigroup Extended Market Index World ex U.S.		(2.12)	2.01	2.53	(0.06)	8.67	(4.22)	(2.27)	(2.99)	-	(2.43)	
	International Futures and Exchange Traded Funds	313.9	(0.52)	2.43	13.44	-	-	-	-	-	-	13.44	November 2003
	vs. MSCI EAFE Net		(0.86)	3.82	3.12	-	-	-	-	-	-	3.12	
	Globeflex	168.9	1.99	0.91	18.25	-	-	-	-	-	-	20.76	October 2003
	vs. Citigroup Extended Market Index World ex U.S.		1.65	0.98	5.15	-	-	-	-	-	-	5.78	
	Globeflex Canadian	43.9	0.11	-	-	-	-	-	-	-	-	(9.13)	March 2004
	vs. Nesbitt Burns Small Cap Canada		(0.81)	-	-	-	-	-	-	-	-	(1.48)	
	Globeflex Japan	47.4	(2.84)	-	-	-	-	-	-	-	-	(6.26)	March 2004
	vs. Russell/Nomura Mid-Small Cap Index		0.78	-	-	-	-	-	-	-	-	1.98	
	GSAM - Structured International Equity	211.6	(0.58)	(2.39)	12.02	26.54	33.02	1.63	0.53	-	-	1.24	April 1998
	vs. MSCI EAFE Net		(0.92)	(1.01)	1.72	3.05	0.36	(0.07)	0.13	-	-	0.15	
	Franklin Templeton	472.9	(1.23)	(6.87)	7.75	21.99	37.75	13.61	4.63	(0.06)	-	2.82	January 1996
	vs. MSCI Emerging Markets Free		0.74	1.96	1.83	4.79	(2.73)	1.46	(0.79)	0.43	-	1.20	
Watch List	Oechsle	112.4	0.76	(1.30)	10.29	21.57	39.65	0.32	-	-	-	(6.01)	August 2000
	vs. MSCI EAFE Net		0.42	0.08	(0.02)	(1.92)	6.98	(1.38)	-	-	-	(2.57)	
	International Emerging Futures ($-269.9 Notional Value) (Funded May 2004)	0.0	-	-	-	-	-	-	-	-	-	-	May 2004
	vs. 90 Day Treasury Bills Average Yield		-	-	-	-	-	-	-	-	-		
	International Equitized Liquidity (Funded May 2004)	0.0	-	-	-	-	-	-	-	-	-	-	May 2004
	vs. 90 Day Treasury Bills Average Yield		-	-	-	-	-	-	-	-	-		
	Hedge Funds:												
Watch List	Arrowstreet Capital	35.0	(0.43)	(3.52)	(0.28)	0.36	(12.23)	-	-	-	-	(12.23)	May 2003
	90 Day Treasury Bills Average Yield + 4%		(0.85)	(4.78)	(2.83)	(3.48)	(17.40)	-	-	-	-	(17.39)	
	Blue Ridge	92.6	(3.39)	2.17	-	-	-	-	-	-	-	2.87	January 2004
	vs. 90 Day Treasury Bills Average Yield + 4%		(3.80)	0.90	-	-	-	-	-	-	-	0.76	
	Eminence	54.3	(0.50)	1.81	6.62	12.52	-	-	-	-	-	10.33	July 2003
	vs. 90 Day Treasury Bills Average Yield + 4%		(0.92)	0.55	4.08	8.68	-	-	-	-	-	5.64	
	Indus Asia Pacific	25.1	(3.30)	(5.31)	0.31	-	-	-	-	-	-	0.31	January 2004
	90 Day Treasury Bills Average Yield + 4%		(3.72)	(6.57)	(2.24)	-	-	-	-	-	-	(2.24)	
	Indus Japan	21.6	(3.53)	5.39	8.02	-	-	-	-	-	-	8.02	January 2004
	90 Day Treasury Bills Average Yield + 4%		(3.95)	4.12	5.47	-	-	-	-	-	-	5.47	
	Maverick Fund	508.6	(1.44)	1.40	6.97	9.50	7.00	5.83	11.85	-	-	11.69	August 1998
	vs. 90 Day Treasury Bills Average Yield + 4%		(1.86)	0.17	4.42	5.66	1.83	(0.11)	4.28	-	-	5.93	
	OCM Emerging Markets Fund	81.4	(1.70)	0.91	6.53	8.57	10.19	-	-	-	-	9.66	January 2002
	90 Day Treasury Bills Average Yield + 4%		(2.12)	(0.35)	3.98	4.72	5.01	-	-	-	-	4.14	
	SG Partners	51.2	1.24	(4.37)	(0.29)	2.44	-	-	-	-	-	2.44	September 2003
	vs. 90 Day Treasury Bills Average Yield + 4%		0.82	(5.64)	(2.84)	(1.41)	-	-	-	-	-	(1.41)	
	Sirios Overseas	72.4	0.89	(1.18)	2.68	3.48	4.61	-	-	-	-	6.62	May 2003
	vs. 90 Day Treasury Bills Average Yield + 4%		0.47	(2.44)	0.12	(0.36)	(0.57)	-	-	-	-	[illegible]	
	Standard Pacific Capital Offshores Fund	49.2	(2.01)	(0.85)	3.32	5.54	2.72	-	-	-	-	(1.20)	February 2003
	vs. 90 Day Treasury Bills Average Yield + 4%		(2.42)	(2.12)	0.78	1.76	(2.46)	-	-	-	-	(6.41)	

Public Markets Managers
Investment Performance Detail Summary
May 31, 2004

UTIMCO Manager Rating:

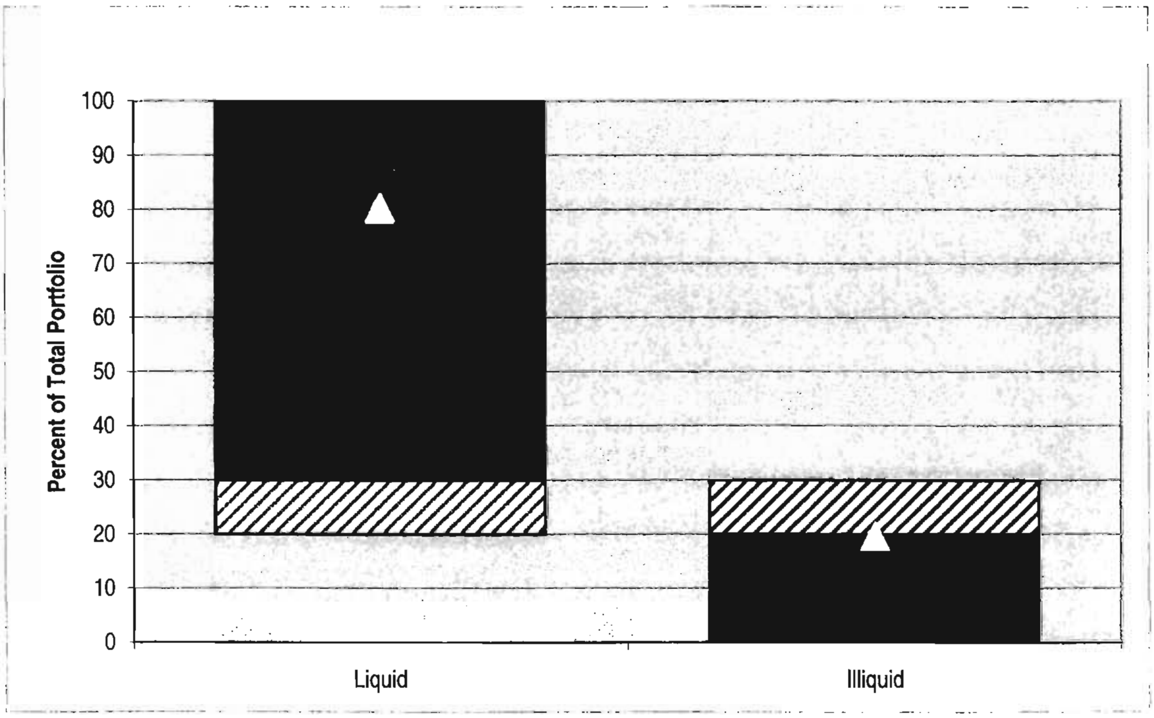
positive
neutral to slightly positive
neutral (strategy to be reviewed)
neutral to slightly negative
negative

	Assets Under Management ($ Millions)	Periods Ended May 31, 2004 (Returns for Periods Longer Than One Year are Annualized) One Month	Three Months	Six Months	Nine Months	One Year	Three Years	Five Years	Seven Years	Ten Years	From Inception to May 31, 2004 (Returns for Periods Longer Than One Year are Annualized) Manager	Inception Date
NET OF FEES PERFORMANCE (continued)												
Absolute Return:												
AQR Offshore	38.3	(1.98)	(4.23)	-	-	-	-	-	-	-	(4.23)	March 2004
vs. 90 Day Treasury Bills Average Yield + 3%		(2.31)	(5.24)	-	-	-	-	-	-	-	(5.24)	
BGI Unequitzed Global Markets (Funded May 2004)	197.1	0.33	-	-	-	-	-	-	-	-	0.33	May 2004
vs. 90 Day Treasury Bills Average Yield + 3%		(0.01)	-	-	-	-	-	-	-	-	(0.01)	
Bridgewater Pure Alpha (Funded 3/04)	40.5	2.04	1.24	-	-	-	-	-	-	-	1.24	March 2004
vs. 90 Day Treasury Bills Average Yield + 3%		1.7	0.23	-	-	-	-	-	-	-	0.23	
Farallon Capital Offshore Investors	363.6	0.40	1.25	6.60	12.53	19.15	13.28	14.43	-	-	13.79	August 1998
vs. 90 Day Treasury Bills Average Yield + 3%		0.06	0.24	4.58	9.47	15.02	8.39	7.93	-	-	7.08	
Indus Event Driven	21.5	(0.20)	5.45	7.56	-	-	-	-	-	-	7.56	January 2004
vs. 90 Day Treasury Bills Average Yield + 3%		(0.54)	4.45	5.54	-	-	-	-	-	-	5.54	
Perry Partners International	411.8	(0.22)	1.87	7.87	15.06	19.31	12.31	15.21	-	-	13.88	August 1998
vs. 90 Day Treasury Bills Average Yield + 3%		(0.55)	0.86	5.85	12.00	15.18	7.42	8.73	-	-	7.17	
Protégé Partners Fund	196.2	(0.51)	(0.47)	4.15	7.60	11.20	-	-	-	-	12.62	February 2003
vs. 90 Day Treasury Bills Average Yield + 3%		(0.84)	(1.48)	2.13	4.55	7.07	-	-	-	-	8.45	
Satellite Fund	245.7	(0.44)	(0.01)	4.02	9.67	15.18	5.17	-	-	-	6.99	September 2000
vs. 90 Day Treasury Bills Average Yield + 3%		(0.78)	(1.02)	2.00	6.62	11.05	0.28	-	-	-	1.21	
Commodities:												
Goldman Sachs Commodity Index	188.5	4.84	10.19	26.78	27.33	34.08	-	-	-	-	30.71	June 2002
vs. Goldman Sachs Commodity Index - 100 bps		0.30	0.78	1.37	3.93	2.66	-	-	-	-	1.51	
PIMCO Real Return	215.8	2.59	1.81	-	-	-	-	-	-	-	10.57	January 2004
vs. Goldman Sachs Commodity Index		(2.04)	(7.87)	-	-	-	-	-	-	-	(7.24)	
Fixed Income:												
Internal - Harland Doak	276.4	(0.50)	(2.49)	0.62	3.73	0.22	6.29	-	-	-	6.32	February 2001
vs. Credit Related Composite Index		0.15	0.28	0.13	0.54	0.74	(1.27)	-	-	-	(1.11)	
Internal - Russ Kampfe	278.4	(0.12)	(1.36)	0.95	2.31	1.89	4.47	-	-	-	6.67	February 2000
vs. Lehman Brothers Aggregate Bond Index		0.25	0.90	0.35	(0.24)	2.34	(1.82)	-	-	-	(1.19)	
Total Internally Managed Fixed Income	554.8	(0.31)	(1.94)	0.78	3.03	1.03	5.34	-	-	-	7.32	
vs. Lehman Brothers Aggregate Bond Index		0.09	0.33	0.18	0.48	1.48	(0.95)	-	-	-	(0.55)	
GMO Emerging Debt Fund (Funded May 2004)	0.0	-	-	-	-	-	-	-	-	-	-	May 2004
vs. JP Morgan Emerging Bond Index Global		-	-	-	-	-	-	-	-	-		
PIMCO Fixed Income	785.7	(0.20)	(1.09)	3.50	9.37	5.21	10.76	8.39	-	-	7.64	March 1998
vs. Lehman Brothers Global Aggregate Index		(0.69)	1.02	1.52	1.70	2.04	0.71	2.20	-	-	1.6	

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Agenda Item:	Reports on PUF and GEF Liquidity Profiles
Developed By:	Moeller
Presented By:	Boldt
Type of Item:	Information Item
Description:	The reports presented are for the periods ended May 31, 2004. Pursuant to the Liquidity Policy, 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. The Funds are in compliance with the policy.
Recommendation:	No action required.
Discussion:	The Liquidity Committee will review the reports at its July 15, 2004 committee meeting.
Reference:	PUF Liquidity Profile GEF Liquidity Profile Liquidity Policy

PUF Liquidity Profile
May 31, 2004



Current

	5/31/2004 Market Value	5/31/2004 Percent	4/30/2004 Market Value	4/30/2004 Percent
Liquid	6,359,680,456.99	80.3	6,381,783,454.28	80.3
Illiquid	1,561,093,128.05	19.7	1,561,929,740.15	19.7
	7,920,773,585.04	100.0	7,943,713,194.43	100.0

Approved but not yet invested illiquid marketable investments:

	5/31/2004 Market Value	5/31/2004 Percent	4/30/2004 Market Value	4/30/2004 Percent
Liquid	6,229,680,456.99	78.6	6,381,783,454.28	80.3
Illiquid	1,691,093,128.05	21.4	1,561,929,740.15	19.7
	7,920,773,585.04	100.0	7,943,713,194.43	100.0

Liquid: Investments that could be converted to cash within a period of 1 day to 3 months in an orderly market at a discount of 10% or less.

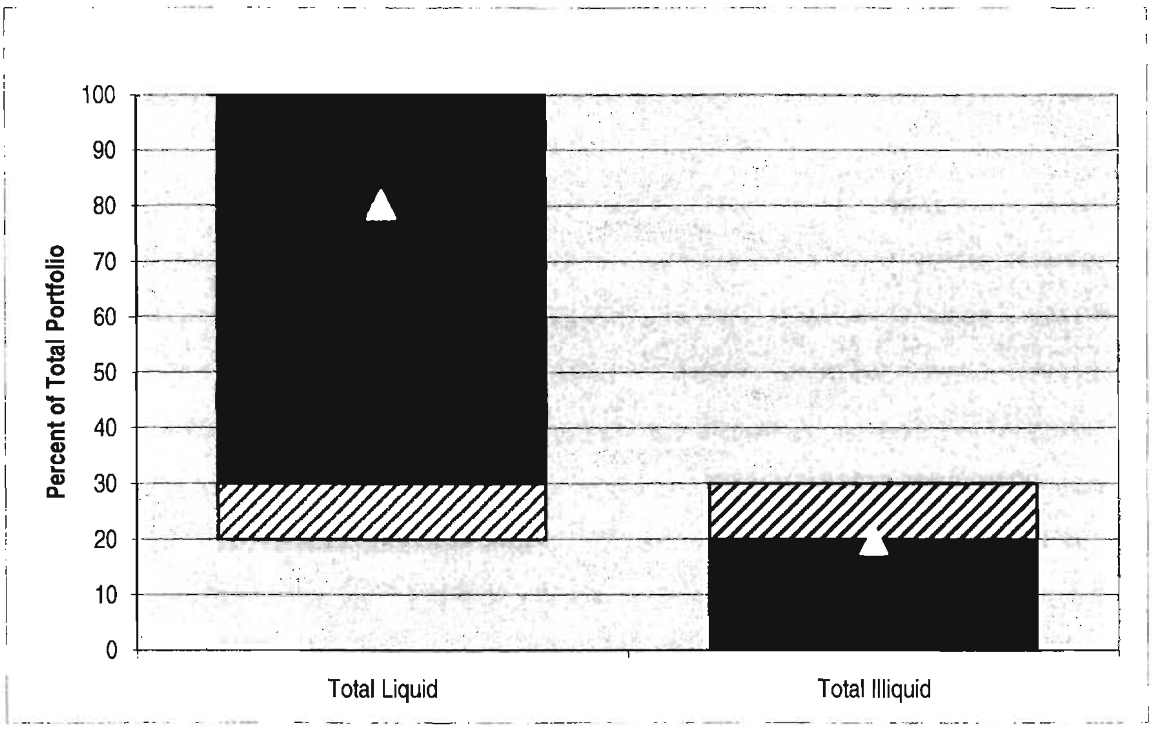
Illiquid: Investments that could be converted to cash in a orderly market over a period of more than 3 months or in a shorter period of time by accepting a discount of more than 10%.

I, ______, as Risk Manager, certify that I have reviewed the liquidity categories provided by the Managing Directors and concur with the classifications.

I, ______, as Chief Compliance Officer and MD of Accounting, Finance and Administration, certify that I have verified that the Managing Directors ' liquidity classifications have been accurately reported and that the percentage calculations are accurate.

I, ______, as President of UTIMCO, certify that I have reviewed the liquidity categories, classifications by Managing Directors' and the method of calculating statistics presented in this report and concur with the information presented.

GEF Liquidity Profile
May 31, 2004



Current

	5/31/2004		4/30/2004	
	Market Value	Percent	Market Value	Percent
Liquid	3,295,407,294.64	80.2	3,398,797,259.00	80.8
Illiquid	813,585,557.47	19.8	809,154,594.29	19.2
	4,108,992,852.11	100.0	4,207,951,853.29	100.0

Approved but not yet invested illiquid marketable investments:

	5/31/2004		4/30/2004	
	Market Value	Percent	Market Value	Percent
Liquid	3,225,407,294.64	78.5	3,398,797,259.00	80.8
Illiquid	883,585,557.47	21.5	809,154,594.29	19.2
	4,108,992,852.11	100.0	4,207,951,853.29	100.0

Liquid: Investments that could be converted to cash within a period of 1 day to 3 months in an orderly market at a discount of 10% or less.

Illiquid: Investments that could be converted to cash in a orderly market over a period of more than 3 months or in a shorter period of time by accepting a discount of more than 10%.

I, Andrea Reed, as Risk Manager, certify that I have reviewed the liquidity categories provided by the Managing Directors and concur with the classifications.

I, Joan Moeller, as Chief Compliance Officer and MD of Accounting, Finance and Administration, certify that I have verified that the Managing Directors ' liquidity classifications have been accurately reported and that the percentage calculations are accurate.

I, ______________, as President of UTIMCO, certify that I have reviewed the liquidity categories, classifications by Managing Directors' and the method of calculating statistics presented in this report and concur with the information presented.

Liquidity Profile for GEF and PUF

May 31, 2004

I certify that I have reviewed the report and supporting documentation covered by the period listed above and concur with the liquidity classifications of the investments that I have for which I have responsibility.

____________________ Larry Goldsmith, Managing Director - Public Markets

June 25, 2004 ____________________ Date

____________________ Cathy Iberg, Managing Director - Marketable Alternatives

6/25/04 ____________________ Date

____________________ Sara McMahon, Managing Director - Non-Marketable Alternatives

7-7-04 ____________________ Date

____________________ Trey Thompson, Managing Director - Non-Marketable Alternatives

6-13-04 ____________________ Date

Illiquid investments approved/delegated or funded since last reported to UTIMCO Board
April 30, 2004

Private Equity investments	Board Approved/ Delegated	Committed Amount PUF	Committed Amount GEF	Funded Amount PUF	Funded Amount GEF
Songbird Hearing Inc.	May 2004	$ 119,572.20	$ 97,831.80	$ -	$ -

Marketable Alternative investments	Board Approved/ Delegated	Committed Amount PUF	Committed Amount GEF	Funded Amount PUF	Funded Amount GEF
Brahman Partners II Offshore, Ltd.	May 2004	$ 65,000,000.00	$ 35,000,000.00	$ -	$ -
OZ Overseas Fund I, LTD.	May 2004	$ 65,000,000.00	$ 35,000,000.00	$ -	$ -

Change in investment's liquidity classification since April 30, 2004

None

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Agenda Item:	Report on Derivative Applications
Developed By:	Goldsmith, Moeller, Childers
Presented By:	Boldt
Type of Item:	Information Item
Description:	The report presented is for the period ended May 31, 2004. Pursuant to the Derivative Investment Policy, UTIMCO staff will make a comprehensive report of all internal derivative applications to the UTIMCO Board on at least a quarterly basis.
Recommendation:	No action required.
Discussion:	The format of this report has been improved to provide additional information based on questions being asked by UTIMCO Board members. The PUF and GEF have total internal futures and exchange traded funds gross exposure (without netting long and short positions) of $3,674.3 million or 30.21% of the endowment funds.
Reference:	Report on Derivative Applications Derivative Investment Policy

TOTAL INTERNAL DERIVATIVES (FUTURES AND ETFs) BY TYPE as of May 31, 2004

	Gross Exposure	Net Exposure	Gross Exposure % of Endowment Funds
S & P 500 Index Futures (Long)	$ 937,130,950.00		7.70%
S & P 500 Index Futures (Short)	(77,860,850.00)	$ 859,270,100.00	0.64%
Dow Jones Futures (Long)	502,044,000.00		4.13%
Diamond ETFs (Dow Jones)	118,017,695.64	620,061,695.64	0.97%
NASDAQ 100 Index Futures (Long)	214,915,600.00	214,915,600.00	1.77%
GSCI Futures (Long)	188,341,312.50	188,341,312.50	1.55%
FTSE 100 INDEX Futures (Long)	168,645,626.31	168,645,626.31	1.39%
TOPIX Index Futures (Long)	81,658,544.87	81,658,544.87	0.67%
NIKKEI 225 Index Futures (Long)	45,702,331.12	45,702,331.12	0.38%
Euro Stoxx 50 Futures (Long)	44,663,561.25	44,663,561.25	0.37%
Semiconductor Holders ETFs	14,711,760.00	14,711,760.00	0.12%
MSCI Singapore ETFs	11,677,856.00	11,677,856.00	0.10%
MSCI Hong Kong ETFs	9,054,000.00	9,054,000.00	0.07%
MSCI South Korea ETFs	3,270,260.00	3,270,260.00	0.03%
Hang Seng Futures (Short)	(41,161,838.21)	(41,161,838.21)	0.34%
MSCI Taiwan ETFs	5,857,164.00		0.05%
Taiwan Index Futures (Short)	(76,730,700.00)	(70,873,536.00)	0.63%
South Africa Index Futures (Short)	(74,150,164.39)	(74,150,164.39)	0.61%
MidCap 400 Index Futures (Long)	28,842,950.00		0.24%
MidCap 400 EMini Futures (Short)	(179,328,600.00)	(150,485,650.00)	1.47%
Russell 2000 ETFs	65,005,422.50		0.53%
Russell 2000 Index Futures (Short)	(12,501,500.00)		0.10%
Russell 2000 Mini Index Futures (Short)	(773,001,660.00)	(720,497,737.50)	6.35%
Net total	**$ 3,674,274,346.79**	**$ 1,204,803,721.60**	**30.21%**
			Less than 50% of Endowment Funds

TOTAL INTERNAL DERIVATIVES (FUTURES AND ETFs) BY APPLICATION as of May 31, 2004

	Gross Exposure	Net Exposure
US EQUITY DERIVATIVES		
1) Index Exposure		
S & P 500 Index Futures (Long)	$ 378,381,325.00	
Dow Jones Futures (Long)	311,508,000.00	
GSCI Futures (Long)	188,341,312.50	
Russell 2000 ETFs	65,005,422.50	
MidCap 400 Index Futures (Long)	28,842,950.00	$ 972,079,010.00
2) Active Tilts		
NASDAQ 100 Index Futures (Long)	-	
Diamond ETFs (Dow Jones)	118,017,695.64	
Semiconductor Holders ETFs	14,711,760.00	132,729,455.64
3) Hedging / Risk Reduction - Spread Trade		
S & P 500 Index Futures (Long)	558,749,625.00	
NASDAQ 100 Index Futures (Long)	214,915,600.00	
Dow Jones Futures (Long)	190,536,000.00	
Russell 2000 Mini Index Futures (Short)	(773,001,660.00)	
MidCap 400 EMini Futures (Short)	(179,328,600.00)	
Russell 2000 Index Futures (Short)	(12,501,500.00)	(630,535.00)
TOTAL US EQUITY DERIVATIVES		$ 1,104,177,930.64
INTERNATIONAL EQUITY DERIVATIVES		
1) Index Exposure		
2) Active Tilts		
MSCI Singapore ETFs	11,677,856.00	
MSCI Hong Kong ETFs	9,054,000.00	
MSCI Taiwan ETFs	5,857,164.00	
MSCI South Korea ETFs	3,270,260.00	$ 29,859,280.00
3) Hedging / Risk Reduction - Emerging Short Proxy		
S & P 500 Index Futures (Short)	(77,860,850.00)	
Taiwan Index Futures (Short)	(76,730,700.00)	
South Africa Index Futures (Short)	(74,150,164.39)	
Hang Seng Futures (Short)	(41,161,838.21)	(269,903,552.60)
Hedging / Risk Reduction - neutralizing country/region underweightings		
FTSE 100 INDEX Futures (Long)	168,645,626.31	
TOPIX Index Futures (Long)	81,658,544.87	
NIKKEI 225 Index Futures (Long)	45,702,331.12	
Euro Stoxx 50 Futures (Long)	44,663,561.25	340,670,063.55
TOTAL INTERNATIONAL EQUITY DERIVATIVES		$ 100,625,790.96
TOTAL EQUITY DERIVATIVES	$ 3,674,274,346.79	$ 1,204,803,721.60

Section 4

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Agenda Item: Discussion and approval of the UTIMCO Services and Direct Funds Budgets for Fiscal Year 2004-2005. Discussion approval of the allocation of the approved budget amounts across the Funds under UTIMCO management. Approved budgets and allocations will be forwarded as recommendations for final approval by the Board of Regents.

Developed By: Boldt, Moeller, Lee

Presented By: Boldt

Type of Item: Action Required by the UTIMCO Board; Additional Action Required by the Board of Regents

Description: The UTIMCO Services Budget includes all expenses directly associated with UTIMCO operations including staff compensation and benefits, general operating expenses such as travel and computer equipment, office lease expenses, and professional fees including general legal and accounting expenses. The Direct Funds Budget includes all expenses directly related to the external management of assets of the endowment and operating funds. These expenses include external management fees, custodian fees, analytical resources expenses, general consulting expenses, and individual investment related legal and accounting expenses. The sum of the UTIMCO Services Budget and the Direct Funds Budget is a measure of the total expense of managing the non-limited partnership investments of the endowment and operating funds. These expenses are allocated across the Funds under UTIMCO management.

Recommendation: UTIMCO Staff recommends that the UTIMCO Services Budget total $10,549,615 for the Fiscal Year 2004-2005. UTIMCO staff recommends that the Direct Funds budget total $27,696,239 for the Fiscal Year 2004-2005. Staff further recommends that these expenses be allocated across the Funds in the manner detailed in the attached agenda item.

Discussion: The UTIMCO Services Budget is developed through a detailed, decentralized process in which each managing director and manager at UTIMCO assumes some budgetary responsibility. The CEO directs and provides final approval to the Services Budget recommendation. The $10,549,615 budget recommendation for fiscal 2004-2005 is a 10.9% dollar increase over the fiscal 2003-2004 budget. However, measured as a percent of assets under the management, the proposed budget is actually 10.5% <u>lower</u> than the current year's budget. Increased budget amounts are necessary to continue building the specialized investment staff, to add a client service representative to work with our clients in the Components, and to provide additional analytical tools for our investment staff. The proposed Direct Funds budget at $27,696,239 is a 29.7% increase over the 2003-2004 fiscal year budgeted amount. However, this budget is directly linked to the asset values of the Funds, and after adjusting for the sizeable increase in asset values over the past year, the proposed budget is only 4.6% higher than the 2003-2004 fiscal year budget. <u>The sum of UTIMCO Services and Direct Funds Budgets is $38,245,854 which is 0.239% of assets under management, approximately the same level as in</u>

fiscal 2003-2004. The process used to allocate these costs across the Funds is complicated, but is based primarily on the objective of allocating costs on the basis of relative asset values or, in some limited cases, on the basis of staff time and resources required. The Budgets recommended do not include expenses associated with the implementation of the new CORE Fund strategy for managing operating funds. Adjustments will be required to the Budgets if the CORE Strategy is approved by the UTIMCO Board and the Board of Regents.

Reference: UTIMCO Delegation of Authority Policy

Resolution No. 2

RESOLVED, that the Corporation's Budget and Fee Request for the period September 1, 2004 through August 31, 2005 be, and is hereby approved, subject to approval by the U. T. System Board of Regents.

UTIMCO Budget Analysis and Recommendation
2004-2005 Fiscal Year

Recommendation

UTIMCO management recommends that the UTIMCO Board approve the UTIMCO Services and Direct Funds budgets, and the allocation of those budgeted amounts across the Funds, as indicated in Appendix 1. These recommended budgets do not include expenses associated with the implementation of the CORE Fund strategy for operating funds management. In the event the CORE Fund strategy is approved by the UTIMCO Board and the Board of Regents, it will be necessary to amend the UTIMCO budgets to include the expenses associated with CORE Fund implementation.

Budget Analysis

The UTIMCO related budget for management of the endowment and operating funds is comprised of two distinct elements. The "UTIMCO Services Budget" provides for all expenses directly associated with UTIMCO operations including staff compensation and benefits, general operating expenses such as travel and computer equipment, office lease expenses, and professional fees including general legal and accounting expenses. The "Direct Funds Budget" provides for all expenses directly related to the external management of assets of the endowment and operating funds. These expenses include external management fees, custodian fees, analytical resources expenses, general consulting expenses (Cambridge Associates), and individual investment related legal and accounting expenses. The sum of the UTIMCO Services Budget and the Direct Funds Budget is a measure of the total expense of managing the non-limited partnership investments of the endowment and operating funds. All management fees associated with limited partnership investments are charged directly to the partnerships and do not appear in either the UTIMCO Services or Direct Funds budgets.

UTIMCO management has direct control of the UTIMCO Services budget and expenses. The Services budget is developed through a decentralized process with each Managing Director having some level of budgetary responsibility. The procedures and timeline for the budget development process are detailed in Appendix 2. Actual expense performance relative to the budget is a significant element of the qualitative performance compensation review for each Managing Director and Manager at UTIMCO.

In contrast, because the Direct Funds expenses are affected significantly by price changes in the capital markets and by the level of activity in external manager accounts operating under full discretion, UTIMCO management has only limited control of the Direct Funds budget and expenses. UTIMCO control is limited to selecting the types of external managers to be hired (active versus passive or partnership versus agency account, for example) and negotiation of contract terms. Although the performance of actual Direct Fund expenses relative to budget is not a part of qualitative incentive compensation considerations for UTIMCO management, because all Services and Direct Funds expenses reduce the net returns earned by the endowment and operating funds, UTIMCO management has clear incentive to manage Direct costs so as to maximize net investment returns. Note that this does not necessarily mean that attempting to minimize Direct (or Services) costs is the best approach. What is important both to UTIMCO management and the funds is maximizing net returns, and it is very unlikely that maximum net returns would be earned at a minimum Services and Direct expense level.

One additional bit of background should be helpful to the review of this budget recommendation. As you know, work is underway on a new strategy for operating funds management. The new strategy would involve the development of at least two new investment options, the CORE Fund and the Balanced Fund. These new Funds would be significantly more complicated to manage that the existing SITF. As a result, more management resources will be required if the new strategy is adopted. However, since a final decision on the new strategy will not be made until later this year, it is difficult to accurately budget partial year expenses for the new Funds. The budget recommendations presented break out the CORE strategy items and assume the new strategy is implemented in February, 2005.

The recommended 2004-2005 Fiscal Year UTIMCO Services and Direct Fund budget totals are presented below:

Budget Comparisons Without Core Fund	Fiscal Year 2004-2005 Budget	Fiscal Year 2003-2004 Budget	Increase (Decrease)	% Change
UTIMCO Services	**$10,549,615**	**$9,511,773**	**$1,037,842**	**10.91%**
Direct Fund	**27,696,239**	**21,362,740**	**6,333,499**	**29.65%**
Total	**$38,245,854**	**$30,874,513**	**$7,371,341**	**23.88%**
As a Percent of Average Asset Value				
UTIMCO Services	**0.066%**	**0.074%**	**-0.008%**	**-10.52%**
Direct Fund	**0.173%**	**0.166%**	**0.008%**	**4.60%**
Total	**0.239%**	**0.239%**	**0.000%**	**-0.06%**

Although both the Services and Direct budgets are higher than last year's budgets in dollar terms, as a percentage of assets under management, the Services budget is significantly lower than the prior budget, as is the total of Services and Direct budgets. The small increase in the Direct budget, measured as a percent of assets, is the result of countervailing effects: lower base fees negotiated in performance fee arrangements with external managers, offset by the movement of assets to higher PVA but also higher base fee managers. The net result is a more effective manager lineup at only a slight increase in expenses as a percent of assets.

Adding the CORE Fund strategy will make a significant difference in overall expenses as indicated below:

Budget Comparisons With Core Fund	Fiscal Year 2004-2005 Budget	Fiscal Year 2003-2004 Budget	Increase (Decrease)	% Change
UTIMCO Services	$10,757,907	$9,511,773	$1,246,134	13.10%
Direct Fund	33,447,116	21,362,740	12,084,376	56.57%
Total	$44,205,023	$30,874,513	$13,330,510	43.18%
As a Percent of Average Asset Value				
UTIMCO Services	0.067%	0.074%	-0.007%	-9.46%
Direct Fund	0.209%	0.166%	0.043%	25.90%
Total	0.277%	0.239%	0.038%	15.90%

While UTIMCO Services budget would increase slightly to add the resources necessary to manage the more complicated CORE strategy (although it would still be below the prior budget as a percentage of assets), significant increases would be necessary in the Direct budget to incorporate external management fees that would be higher than the current level of manager fees.

With this overview of the recommended budgets, the following sections focus on the UTIMCO Services and Direct budgets separately.

UTIMCO Services Budget

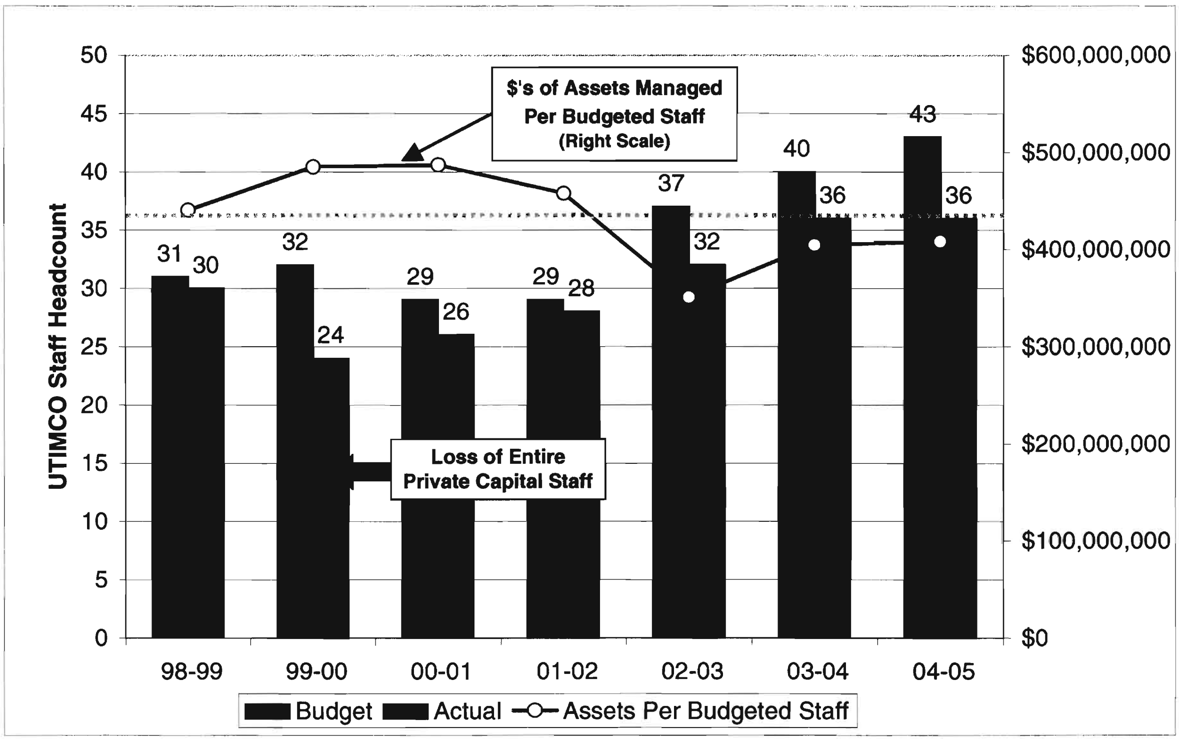
The table below highlights the sources of the increases proposed for the 2005 Services budget:

Sources of Recommended Increases in 2004-2005 UTIMCO Services Budget	
UTIMCO Services 2003-2004 Budget	**$9,511,773**
Increase (Decrease) to 2005 Budget Due To:	
Salary Increases for Existing Satff	**185,390**
Expenses Associated With 6.5 Net New Staff Positions:	
Salaries	**565,000**
Payroll Taxes	**35,564**
Performance Compensation	**94,838**
Employee Benefits	**153,237**
General Operating	**45,700**
Change to Performance Compensation Plan	**(254,725)**
Employee Benefits	**25,552**
General Operating	**277,995**
Professional Fees	**(75,500)**
Depreciation Expense	**174,257**
Lease Expense	**(24,000)**
Contract Services	**45,000**
Insurance	**(2,174)**
Total Increase in Budget	**1,246,134**
UTIMCO Services 2004-2005 Budget	**$10,757,907**

As indicated in the table above, the primary items driving the change in budget are salary increases for existing staff, new additions to the staff, a change in the method of budgeting for the performance compensation plan, increases in general operating expenses, and an increase in depreciation expenses. The complete details of all expense items are presented in Appendix 3. Each of the primary items listed above will be discussed separately below.

Salary Increases for Existing Staff: UTIMCO's compensation policy is to pay competitive base salaries. Competitive base salaries are defined to be salaries within a plus or minus 20% band centered on the market median salary for a similar position in an endowment fund or investment management organization. We obtain information on market median salaries for upper level accounting and administration and investment positions at UTIMCO from Mercer on a regular basis. Salary levels for other accounting and administrative positions are based on local competition in similar organizations. Mercer indicated that the increase in the market median salaries for competitive organizations over the past year was 3.7%. In setting salaries for this year, we began with 3.7% as our target, however the actual total increase was 4.56% for two primary reasons. First, we have several investment staff members who were below the market median. In fact, out of the 16 positions for which we have Mercer data on competitive salary levels, 11 are still below the market median despite larger increases this year to move those staff members closer to market median. On average among the senior staff, base salaries are at 96% of the market median despite the fact that we have a very talented and experienced staff. Most of these staff members should have above median salaries, so it is important to try to continue to move to higher levels which can only be done through above average increases. We can't operate in zero sum game mode wherein the only way we can move below median salaries to their proper level is by shorting increases for other staff members, thus creating future discrepancies in salary levels elsewhere in the organization. Second, among the staff members not covered by the Mercer data, three staff members received larger increases to recognize either promotions or significant changes in workload and responsibility. All other staff members received average, or below average, increases in base salary as recommended by their respective managers.

New Additions to Staff: The largest increase to the budget, $894,339, is due to the addition of 6.5 net new positions to the staff. The job descriptions and justifications for each new position are detailed in Appendix 4. We recommend adding 3.5 new positions immediately, a risk management and operations analyst, a client service specialist, and 1.5 new investment analyst positions. The remaining 3 positions are necessary to implement the CORE Fund strategy and could be delayed until a final decision is made on that strategy. These new positions are essential to our plans to complete a competitive staff structure at UTIMCO. As you are aware, we have made major strides in rebuilding the staff following substantial staff defections in 2000 and 2001. Although the budgeted headcount has increased substantially since the ebb in 2000, current and projected assets managed per budgeted staff are very near the long term average indicated by the dashed line in the figure below; the projected figures for 2004-2005 are approximately equal to the 1998-1999 level before the staff defections:



The increase in staff count from 2000 is due to two factors: first, 2000 was an artificially low starting point, the staff was dangerously thin after the defection of the Private Capital team, necessitating a multimillion dollar payment to Cambridge to monitor existing investments; and second, our new PVA oriented specialist structure requires both a more experienced and larger team to monitor the more sophisticated investments we need to make to earn high value added returns. Our investment in staff will be repaid many times over in the form of enhanced returns.

A Change in the Method of Budgeting for the Incentive Compensation Plan: This budget assumes incentive compensation will be paid under the new Compensation Plan approved by the UTIMCO Board. At maximum performance levels the new Plan will result in higher incentive compensation than the older Plan. However, prior budgets assumed incentive compensation payout at 70% of maximum. We believe that under the more stringent terms of the new Plan, a 70% assumed payout is too high. Therefore, we have changed our assumption to 50% payout and hope that this is the one area of the budget where we will be wrong (ie too low) in our assumptions!

Increases in General Operating Expenses: The level and intensity of our due diligence and monitoring has been ratcheted up several notches with our new staff structure, especially in the public markets area. The basic tools of due diligence are market data, analytical tools, and travel to meet managers face to face. This increase is to add Bloomberg terminals, data resources, and additional travel. I wish Bloomberg terminals were cheaper, but until they are, we need to provide additional resources so that our improved staff can acquire the tools they need to be competitive.

Increase in Depreciation Expenses: I have encouraged our staff to be opportunistic and creative in both investment and management matters. For the past several months we have been working on a plan to take advantage of the extremely soft office space market in Austin by significantly improving our current lease (set to expire in 1.5 years) or moving to new space. We are concerned that if we wait until the completion of our current lease, we will miss the window of opportunity existing today. We have developed several attractive options that would not only be more attractive financially, but would provide future growth space and increased flexibility. However, we are not yet prepared to make a final recommendation. Therefore, we have added this item to the budget, which would cover depreciation expenses for new office equipment and furniture, should we decide to recommend and the Board approve one of the options that would involve a move to new space.

Direct Fund Budget

The details of the Direct budget are shown below:

Direct Funds Budget Without Core Fund	Fiscal Year 2004-2005 Budget	Fiscal Year 2003-2004 Budget	Increase (Decrease)	% Change
External Management Fees	$15,043,557	$9,525,099	$5,518,458	57.94%
External Performance Fees	8,460,603	8,423,641	36,962	0.44%
Total External Management Fees	$23,504,160	$17,948,740	$5,555,420	30.95%
Custodian Fees	$1,226,918	$1,156,630	$70,288	6.08%
Performance Measurement	385,900	400,000	(14,100)	-3.53%
Analytical Tools	299,810	0	299,810	100.00%
Risk Measurement	575,000	403,000	172,000	42.68%
Total Custodian and Analytical Costs	$2,487,628	$1,959,630	$527,998	26.94%
Cambridge Associates Fee	900,000	901,170	(1,170)	-0.13%
Auditing	190,300	184,500	5,800	3.14%
Controls Assessment (Sarbanes-Oxley)	95,000	0	95,000	100.00%
Printing	120,000	87,700	32,300	36.83%
Bank Fees	9,000	9,000	0	0.00%
Rating Agency Fees	23,500	22,000	1,500	6.82%
Legal Fees	345,750	250,000	95,750	38.30%
Background Searches and Other Due Diligence	20,900	0	20,900	100.00%
Total Other Expenses	$1,704,450	$1,454,370	$250,080	17.20%
Total Direct Funds Expenses	$27,696,238	$21,362,740	$6,333,498	29.65%
As a Percent of Average Assets	0.173%	0.166%	0.008%	4.60%

As indicated earlier in the overview of the entire budget, the total Direct budget is expected to expand 29.7% on a dollar basis, but only 4.6% after adjusting for the substantial increase in average asset value of funds under management. More than $5.5 million of the $6.3 million total increase is due to higher projected external manager fees. As indicated earlier, this increase can be traced to three primary factors:

1. Since these external fees are paid almost exclusively to public markets managers, it is important to adjust for the increase in assets under management in public markets since the 2003-2004 budget. That increase is approximately 34%, which means that about 60% of the 58% overall increase in external manager fees, or about $3.2 million of the total $5.5 million increase, is due to an increase in asset values.
2. Within the public markets portfolio, assets were reallocated to higher PVA managers. We have moved funds from larger capitalization domestic managers to smaller capitalization specialists, from domestic equity managers to international equity managers, and within international markets, from developed markets managers to developing markets managers. In almost every case, higher PVA managers also charge higher base fees.
3. Partially offsetting these increases were our efforts to negotiate more attractive fee terms with existing managers. In general, we are moving to

performance based fees which have a relatively low base fee, and have a value-added sharing feature for performance well above the manager's benchmark.

An important point worth noting is that we are very aggressive in negotiating external management fees. As the data from Cambridge Associates in Appendix 5 indicates, UTIMCO external manager fees are approximately 41% lower than same sized accounts at other endowment funds. The increase in manager fees is clearly not due to overpaying our external managers.

Other significant increases include expenditures for analytical tools and risk measurement. We now make extensive use of an analysis package called FactSet that is a very efficient "front end" allowing us to access a large quantity of public markets data. This data is used to track aggregate portfolio exposures by country, industry, size category, and many other categories to assist our decisions in tactical allocation. This data has been especially useful to us in our use of derivative applications to hedge or reinforce risk positions in the public markets segment of the portfolios. As Andrea Reed completes development of our risk budgeting platform, we expect to increase expenditures to acquire the software and data necessary to implement the risk budgeting procedures.

Another large expected increase will be necessary to implement Sarbanes-Oxley. These additional expenses will be primarily fees for auditing work. Finally, we expect the increased activity in selecting and monitoring private equity and hedge fund investments to result in an increase in legal expenses directly related to particular individual investments.

The table below details the Direct budget with CORE Fund expenses included:

Direct Funds Budget With Core Fund	Fiscal Year 2004-2005 Budget	Fiscal Year 2003-2004 Budget	Increase (Decrease)	% Change
External Management Fees	$19,503,141	$9,525,099	$9,978,042	104.76%
External Performance Fees	8,460,603	8,423,641	36,962	0.44%
Total External Management Fees	$27,963,744	$17,948,740	$10,015,004	55.80%
Custodian Fees	$1,911,780	$1,156,630	$755,150	65.29%
Performance Measurement	495,173	400,000	95,173	23.79%
Analytical Tools	299,810	0	299,810	100.00%
Risk Measurement	735,417	403,000	332,417	82.49%
Total Custodian and Analytical Costs	$3,442,180	$1,959,630	$1,482,550	75.65%
Cambridge Associates Fee	900,000	901,170	(1,170)	-0.13%
Auditing	200,300	184,500	15,800	8.56%
Controls Assessment (Sarbanes-Oxley)	101,450	0	101,450	100.00%
Printing	150,000	87,700	62,300	71.04%
Bank Fees	9,000	9,000	0	0.00%
Rating Agency Fees	9,792	22,000	(12,208)	-55.49%
Legal Fees	595,750	250,000	345,750	138.30%
Background Searches and Other Due Diligence	74,900	0	74,900	100.00%
Total Other Expenses	$2,041,192	$1,454,370	$586,822	40.35%
Total Direct Funds Expenses	$33,447,116	$21,362,740	$12,084,376	56.57%
As a Percent of Average Assets	0.209%	0.166%	0.043%	25.90%

The primary differences between the budget without CORE and this budget include a sizeable increase for the higher external management fees associated with the more diversified CORE Fund portfolio, as well as higher custodial, risk measurement, and legal fees.

Allocation of Expenses Across Funds

The final step in the budgeting process is to equitably allocate the budgeted expenses across the Funds. The UTIMCO Services budget has traditionally been allocated on the basis of a combination of relative asset value of the Funds and total staff time dedicated to the management of each Fund. Budgeted expenses for 2004-2005 were allocated as follows: Permanent University Fund 56%, Long Term Fund 32%, Permanent Health Fund 7%, and Short Intermediate Term Fund 5%. These allocations are very similar to prior fiscal year allocations.

Direct Funds expenses are charged primarily to the PUF and GEF on the basis of costs actually incurred. Only those Direct costs associated solely with the PHF, LTF, or the SITF are charged against those Funds. The tables on the following three pages detail the UTIMCO Services and Direct Fund budgets and Fund allocations for fiscal year 2003-

2004, fiscal year 2004-2005 without CORE Fund expenses, and fiscal year 2004-2005 with CORE Fund expenses.

UTIMCO Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2004

Proposed Budget	PUF	PHF	LTF	GEF (PHF LTF)	S/ITF	STF	Separate Funds	Total
Market Value 2/28/03 ($ millions)	**6,300.0**	**667.3**	**2,542.5**	**3,209.8**	**1,594.7**	**1641.8**	**151.1**	**12,897.4**
UTIMCO Services(1)	**5,360,677**	**621,526**	**2,990,223**		**539,348**			**9,511,773**
Direct Expenses of the Fund								
External Management Fees	6,234,803	0		3,290,296		N/A (2)		9,525,099
External Management Fees - Performance Based	5,399,717	0		3,023,924				8,423,640
Other Direct Costs	1,769,946	23,313	56,493	1,440,046	124,202		0	3,414,000
Total Direct Expenses of the Fund	13,404,465	23,313	56,493	7,754,266	124,202		0	21,362,739
TOTAL	**18,765,143**	**644,839**	**3,046,716**	**7,754,266**	**663,550**	N/A (2)	**0**	**30,874,512**
Percentage of Market Value								
UTIMCO Services	0.085%	0.093%	0.118%	0.000%	0.034%	0.000%	0.000%	0.074%
Direct Expenses of the Fund	0.213%	0.003%	0.002%	0.242%	0.008%	0.000%	0.000%	0.166%
TOTAL	**0.298%**	**0.097%**	**0.120%**	**0.242%**	**0.042%**	**0.000%**	**0.000%**	**0.239%**

(1) Allocation Ratio: PUF-56%,Health Fund-7%,LTF-32%, SITF-5%

(2) Income is net of fees

(amounts may not foot due to rounding adjustments)

UTIMCO Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2005

Proposed Budget	PUF	PHF	LTF	GEF - PHF LTF	S/ITF	STF	Separate Funds	Total
Market Value 2/29/04 ($ millions)	**8,218.9**	**840.0**	**3,404.6**	**4,244.6**	**1,106.2**	**2231.3**	**184.9**	**15,985.9**
UTIMCO Services(1)	**5,967,977**	**692,926**	**3,394,168**		**494,545**			**10,549,616**
Direct Expenses of the Fund								
External Management Fees	9,874,557	0		5,169,000		N/A (2)		15,043,557
External Management Fees - Performance Based	5,561,919	0		2,898,684				8,460,603
Other Direct Costs	2,166,240	22,050	112,450	1,768,687	122,651			4,192,078
Total Direct Expenses of the Fund	17,602,717	22,050	112,450	9,836,370	122,651		0	27,696,239
TOTAL	**23,570,694**	**714,976**	**3,506,618**	**9,836,370**	**617,196**	N/A (2)	**0**	**38,245,854**
Percentage of Market Value								
UTIMCO Services	0.073%	0.082%	0.100%	0.000%	0.045%	0.000%	0.000%	0.066%
Direct Expenses of the Fund	0.214%	0.003%	0.003%	0.232%	0.011%	0.000%	0.000%	0.173%
TOTAL	**0.287%**	**0.085%**	**0.103%**	**0.232%**	**0.056%**	**0.000%**	**0.000%**	**0.239%**

(1) Allocation Ratio: PUF-56%,Health Fund-7%,LTF-32%, SITF-5%
(2) Income is net of fees
(amounts may not foot due to rounding adjustments)

UTIMCO Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2005

Proposed Budget	Fund Name							Separate Funds	Total
	PUF	PHF	LTF	GEF (PHF LTF)	CORE	S/ITF	STF		
Market Value 2/29/04 ($ millions)	**8,218.9**	**840.0**	**3,404.6**	**4,244.6**	**4000.0** [2]	**1,106.2** [3]	**2231.3**	**184.9**	**15,985.9**
UTIMCO Services(1)	**5,230,688**	**616,635**	**2,901,579**		**$ 1,709,458**	**299,547**			**10,757,907**
Direct Expenses of the Fund									
External Management Fees	9,874,557	0		5,169,000	4,459,583		N/A (4)		19,503,141
External Management Fees - Performance Basec	5,561,919	0		2,898,684					8,460,603
Other Direct Costs	2,132,231	22,050	112,450	1,734,678	1,427,363	54,601			5,483,372
Total Direct Expenses of the Fund	17,568,708	22,050	112,450	9,802,361	5,886,946	54,601		0	33,447,116
TOTAL	**22,799,396**	**638,685**	**3,014,029**	**9,802,361**	**7,596,404**	**354,147**	N/A (4)	**0**	**44,205,023**
Percentage of Market Value									
UTIMCO Services	0.064%	0.073%	0.085%	0.000%	0.043%	0.027%	0.000%	0.000%	0.067%
Direct Expenses of the Fund	0.214%	0.003%	0.003%	0.231%	0.147%	0.005%	0.000%	0.000%	0.209%
TOTAL	**0.277%**	**0.076%**	**0.089%**	**0.231%**	**0.190%**	**0.032%**	**0.000%**	**0.000%**	**0.277%**

(1) Allocation Ratio: PUF-48%,Health Fund-6%,LTF-27%, SITF-3%, Core-16%

(2) Estimated Investment of $4.0 billion in the Core Fund beginning in February 2005.

(3) Estimated Transfer of SITF and STF investments to the Core Fund beginning in February 2005.

(4) Income is net of fees

(amounts may not foot due to rounding adjustments)

2005

Fee Schedule

With Core

Appendix 1

Appendix 1
2005
Fee Schedule
Without Core

UTIMCO Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2005

Proposed Budget	Fund Name						Separate Funds	Total
	PUF	PHF	LTF	GEF (PHF LTF)	S/ITF	STF		
Market Value 2/29/04 ($ millions)	**8,218.9**	**840.0**	**3,404.6**	**4,244.6**	**1,106.2**	**2231.3**	**184.9**	**15,985.9**
UTIMCO Services(1)	**5,967,977**	**692,926**	**3,394,168**		**494,545**			**10,549,616**
Direct Expenses of the Fund								
External Management Fees	9,874,557	0		5,169,000		N/A (2)		15,043,557
External Management Fees - Performance Based	5,561,919	0		2,898,684				8,460,603
Other Direct Costs	2,166,240	22,050	112,450	1,768,687	122,651			4,192,078
Total Direct Expenses of the Fund	17,602,717	22,050	112,450	9,836,370	122,651		0	27,696,239
TOTAL	**23,570,694**	**714,976**	**3,506,618**	**9,836,370**	**617,196**	N/A (2)	**0**	**38,245,854**
Percentage of Market Value								
UTIMCO Services	0.073%	0.082%	0.100%	0.000%	0.045%	0.000%	0.000%	0.066%
Direct Expenses of the Fund	0.214%	0.003%	0.003%	0.232%	0.011%	0.000%	0.000%	0.173%
TOTAL	**0.287%**	**0.085%**	**0.103%**	**0.232%**	**0.056%**	**0.000%**	**0.000%**	**0.239%**

(1) Allocation Ratio: PUF-56%,Health Fund-7%,LTF-32%, SITF-5%
(2) Income is net of fees
(amounts may not foot due to rounding adjustments)

Appendix 2

Budget Timeline
2005 Operating Budget
The University of Texas Investment Management Company

April 30th	February Books Closed and Financial Statements Completed
May 7th	Budget Packets Distributed to CEO and Managing Directors
May 17th	Budget Worksheets Due from CEO and Managing Directors
May 20th	Present Initial Budget Draft to CEO
May 27th-28th	CEO Budget Review Meetings with Managing Directors
May 28th	Budget Draft Due to UT System Office of Finance
June 15th	UT System's Review and Analysis Complete
July 8th	Budget Information Included in UTIMCO Board Packet
July 15th	Budget Approved by UTIMCO Board
Aug 11th-12th	Budget Approved by UT Board of Regents

Detailed Procedures
Budget Preparation and Approval Process
The University of Texas Investment Management Company

Overview

These procedures document the budget preparation and approval process. They intend to provide a step-by-step guide and reference tool. These processes are reviewed annually by the Manager of Finance & Administration and updated to reflect revised procedures.

Detailed Procedures

File Storage

All permanent files related to the budget preparation, review, and approval process are to be electronically stored on the main server. Folders have been set up for each fiscal year at k:Groups/UtimcoCorporate/Budget. Maintaining data in these files will ensure adequate and timely back-ups, but also take advantage of the security and access rights established by the organization.

Timelines for Budget Preparation, Review, and Board Approval

A Budget Timeline is prepared highlighting the dates critical to ensure the budget is prepared, review, and approved within established deadlines. These dates are coordinated with the UT System Office of Finance, the UT Board of Regents, and the UTIMCO Board.

Finalize Financials for the Six Months Ending February 28th

The current year-to-date expenditure information for the six months ending each February 28th is included as a component in the Budget Packets. As a result, it is critical that the February closing and Financial Statements are completed timely (not later than April 15th).

Prepare Instructions for Cost Center Managers

The Budget Template prepared for each UTIMCO department includes an "Instructions" tab. This instructions tab is to include specific steps to be followed by managers.

Prepare Budget Templates for each UTIMCO Department

An automated Budget Template is prepared for each UTIMCO Department. This template is in the form of an excel notebook containing the following tabs:

- Budget Instructions
- Departmental Budget Worksheet
- Department Salary Worksheet
- Department Controllable Cost Detail
- Comments Tab

Each department budget template contains formulas linking and compiling the organization wide budget.

Budget Packet Distribution

The complete budget packet is distributed to each cost center manager. This packet contains the items referenced above. Each cost center manager is also provided the due date for their budget request.

Update the Master Budget File

While the cost center managers are reviewing and compiling their budget requests, now is the time to review and update the Master Budget File. This review and updates consists of:

- Reviewing and updating spreadsheet formulas and links
- Reviewing cost allocation processes and updating related spreadsheets
- Verifying the accurate flow and link of budget updates to the fee schedule

These updates should be completed before the budget requests for each cost center are submitted.

Initial Compilation of Budget Information

Prepare the 1st draft of the budget based upon the initial budget requests submitted by each cost center manager. This draft budget will also include an updated fee schedule estimating the impact on the management fee charged to the UT System.

Present the Initial Draft Budget to the CEO and Managing Directors

The initial draft budget is presented to the CEO and Managing Directors. This initial draft identifies each department separately and reflects both the separate and aggregate increases or decreases to the proposed budget. In addition, this draft also includes a reconciliation showing the major changes in the budget from the prior year. An updated management fee schedule is also included.

Review of Each Cost Center Budget by the CEO and the Responsible Managing Director

The Chief Executive Officer will meet individually with each cost center manager to review their departmental budget request in detail. This review will focus on salary and staff position, and the controllable costs of each cost center manager.

CEO and Finance Manager Review of Budget Changes

After the CEO conducts his detailed review of the budget with each cost center manager, he will review these recommended changes with the Manager of Finance and Administration.

Preparation of the 2nd Draft of the Budget

The Manager of Finance & Administration will incorporate the changes and adjustments proposed by the CEO and individual cost center managers. Tiered cost allocations will be generated and tested.

Presentation of the 2nd Budget Draft to the CEO and Managing Directors

This 2nd draft identifies each department separately and reflects both the separate and aggregate increases or decreases to the proposed budget. In addition, this draft also includes a reconciliation showing the major changes in the budget from the prior year. An updated management fee schedule is also included.

Final Recommendations and Adjustments are Posted to the Draft Budget

Final modifications, changes, and adjustments are made to the budget packet before it is sent to the UT System Office of Finance for review.

Draft Budget Sent to the UT System Office of Finance for Review and Comments

The Draft Budget is forwarded to the UT System Office of Finance for review and comments. This budget packet includes both the proposed and prior year fee schedules, the proposed operating budget by expense category (with prior year comparative totals), and a schedule reconciling the major differences in the budget from year-to-year.

Respond to Questions and Comments from UT System Office of Finance

It is anticipated that the UT System Office of Finance may have questions or require additional information as a part of their review. The related information or supporting documentation will be provided.

UT System Review and Write-up Distributed to UT Staff and Board of Regents

The review and write-up prepared by the UT System Office of Finance will be distributed by them to other relevant UT System personnel and to the UT Board of Regents.

Budget Presented for Approval by the UTIMCO Board of Directors

The budget is presented to the UTIMCO Board of Directors for review and approval. Relevant supporting schedules will be provided as may be required by the board.

UTIMCO Budget Presented to the UT Board of Regents

The budget is presented to the UT Board of Regents for review and approval. Relevant supporting schedules may be provided both by UTIMCO and the UT System Office of Finance.

Approved Budget Entered into UTIMCO Accounting System

The detailed budget (by line item and department) is ready to enter into the UTIMCO accounting system. Related cost allocation percentages for departments will also be entered so as to properly allocate common costs.

Distribution of Monthly Budget Status Reports

Budget Status Reports are distributed to cost center managers each month during the year. These reports are used to monitor the budget and take proactive steps necessary to comply with the board's approved budget plans.

Appendix 3

Appendix 4

Associate – Non Marketable Alternatives – This position would be capable of managing the investment process from initial review through due diligence to structuring to closing. This additional position will allow the Managing Directors time to focus on new deal generation. This additional position will give the department some extra capacity.

Accountant / Auditor – Compliance – This position will provide assistance with the implementation of Sarbanes-Oxley and provide day to day support for the risk assessment and compliance functions at UTIMCO. This position is a replacement for the Office Associate position being eliminated.

Appendix 5

As of May 31, 2004

	Index/Flat/ Performance Fee	AUM	UTIMCO Fee (Base)	Average Fee*	UTIMCO Fee $	Average Fee* $	**UTIMCO Savings**
Domestic Equities:							
BGI S&P 500	I	240,600,000	0.013%	0.090%	31,278	216,540	185,262
BGI S&P 400 Midcap	I	372,500,000	0.013%	0.090%	48,425	335,250	286,825
BGI Russell 2000 Alpha Tilt	P	281,300,000	0.15%	0.25%	421,950	703,250	281,300
BGI Russell 3000 Alpha Tilt	P	292,600,000	0.14%	0.25%	409,640	731,500	321,860
Cordillera	F	121,500,000	0.30%	0.78%	364,500	947,700	583,200
Cordillera Opportunistic	P	29,300,000	0.00%	0.78%	0	228,540	228,540
Davis Hamilton Jackson	F	40,200,000	0.33%	0.52%	132,660	209,040	76,380
GSAM- Large Cap	P	233,400,000	0.175%	0.45%	408,450	1,050,300	641,850
GSAM - Small Cap	P	209,400,000	0.175%	0.50%	366,450	1,047,000	680,550
Forstmann Leff	F	285,300,000	0.46%	0.78%	1,312,380	2,225,340	912,960
TCW MultiCap	P	98,900,000	0.00%	0.52%	0	514,280	514,280
TCW Mid Value	P	19,900,000	0.50%	0.78%	99,500	155,220	55,720
TCW Small Value	P	19,200,000	0.50%	0.78%	96,000	149,760	53,760
Value Act Capital	P	61,100,000	1.00%	1.00%	611,000	611,000	0
		-					
International Equities:		-					
BGI EAFE International Fund	I	503,100,000	0.07%	0.45%	352,170	2,263,950	1,911,780
BGI Emerging Markets Structured Fund	I	315,200,000	0.45%	1.00%	1,418,400	3,152,000	1,733,600
BGI International Alpha Tilts	P	252,700,000	0.15%	0.45%	379,050	1,137,150	758,100
Capital Guardian Trust Small Cap International	P	192,500,000	0.475%	0.62%	914,375	1,193,500	279,125
Globeflex	P	168,900,000	0.25%	0.62%	422,250	1,047,180	624,930
Globeflex Canadian	P	43,900,000	0.25%	0.62%	109,750	272,180	162,430
Globeflex Japan	P	47,400,000	0.25%	0.62%	118,500	293,880	175,380
GSAM - Structured International Equity	P	211,600,000	0.175%	0.45%	370,300	952,200	581,900
Franklin Templeton	F	472,900,000	1.25%	1.00%	5,911,250	4,729,000	-1,182,250
Oechsle	P	112,400,000	0.30%	0.45%	337,200	505,800	168,600
		-					
Fixed Income:		-					
PIMCO Fixed Income		785,700,000	0.26%	0.46%	2,042,820	3,614,220	1,571,400
AUM:		**5,411,500,000**					
Total Fees					**16,678,298**	**28,285,780**	**11,607,482**
					0.31%	0.52%	**0.21%**

*Average Fees are from Cambridge Associates 2002 Investment Manager fee study and are based on a $100mm institutional account, with the exception of Emerging Markets and Global Bonds, which are based on a $25mm institutional account.

Section 5

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Agenda Item: Discussion of the Investment Risk Management plan for UTIMCO

Developed By: Reed, Tiu

Presented By: Reed

Type of Item: Information Item

Description: This agenda item describes the overall plan for managing investment risk at UTIMCO. It includes a discussion of various risk metrics and their use in a risk budgeting framework, sample risk reports, and a brief review of current and potential risk systems. The presentation ends with a timeline for the implementation of the plan over the next six months.

Recommendation: No Board action is required.

Discussion: What is risk management? UTIMCO breaks this question down into two areas of responsibility, enterprise risk management and investment risk management. Enterprise risk concerns such issues as human error, failure of accounting controls and office safety. Investment risk is the risk that portfolio performance will not be as expected due to volatility in financial markets. It is the latter realm of risk management that we want to address in this agenda item. UTIMCO has been tracking the investment risk in the endowment portfolios for some time now. The focus, however, has been more on reporting than using risk as a way to manage the investment process. We are now moving to an investment approach that is built around risk – Risk Budgeting. If we effectively manage risk, then we will benefit over time with return performance that is commensurate with the risk taken. By having a thorough understanding of the risks in our portfolios, we should also be able to identify investment issues early on and deal with them preemptively.

Last fall, UTIMCO staff presented a new risk framework to the Board that provides a more realistic view of risk and has as its key metric, Downside Risk. Downside Risk was then used as the optimization criterion in the subsequent asset allocation review process to identify a Policy Portfolio. The Policy Portfolio establishes return targets, asset class allocations and risk levels that UTIMCO staff use to manage the endowment portfolios. By setting risk levels, the Policy Portfolio effectively defines the aggregate amount of risk UTIMCO has available. We are now in the process of creating a budget to allocate this pool of risk. This Risk Budget will form a key tool in the management of the endowment portfolios in the future.

Reference: 2003 Asset Allocation Review materials

THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

The Future of Risk Management at UTIMCO

Andrea Reed & Cristian Tiu

July 15, 2004

95% VaR

- The 95% one-month Value-at-Risk ($VaR_{95\%}$) of the combined endowment portfolios as of May 31, 2004 was ($467 million) or -3.86% on $12.1 billion.
- In other words, based on the assumptions in our model, we do not expect a monthly return below -3.86% in more than one month out of the next 20.

What does this tell you? Is this good or bad?
Is this too much risk or not enough?

Discussion Topics

- VaR
  - What is it?
  - Where did it come from?
  - Virtues & Shortcomings
- VaR $\Rightarrow$ Downside Risk
- Risk Management Plan
- Sample Reporting
- Brief Discussion of Risk Systems
- Timeline

What is VaR?

- Probability-based metric for quantifying the market risk of assets and portfolios.
- An approximation of the maximum loss at a specific confidence interval over a chosen time horizon.
- Key elements:
  - Confidence Interval
    - A 95% confidence interval is equivalent to a 5% probability. You are 95% confident that the portfolios <u>will not lose</u> more than $X in the next month, or that there is a 5% probability that the portfolios <u>will lose more</u> than $X in the next month.
  - Time horizon
    - Daily, weekly, monthly, annually or longer
  - VaR model

Where did VaR come from?

- In the 1980's, large derivative dealers pioneered the concept of VaR, and the methodologies for computing it, to measure, monitor and report the market risks in their expanding portfolios.
- In 1994, JP Morgan released their VaR-based internal risk management methodology, RiskMetrics, to the market at large.
- VaR is now used by virtually all commercial and investment banks and has been institutionalized by regulatory bodies.
- VaR has been less well accepted by "buy side" asset managers – viewed as more of a control tool than as a way to manage portfolio risk.

Virtues of VaR

- Ease of interpretation.
  - Facilitates the communication of risk among managers, directors, investors and other stakeholders.
- Treats risk consistently across financial instruments and asset classes.
  - Allows for the comparison of risk across different portfolios as well as across time frames.
- Provides an “ex ante” view of risk in the portfolio, and, therefore, is able to signal a change in risk level, before performance is realized.
- Useful as a risk metric in a risk budget.

Limitations of VaR

- VaR only measures the amount of loss at a specified probability. VaR does not address the magnitude of a potential loss once the threshold probability is breached.
- VaR was developed by trading institutions with very short-term time horizons (1 day, 10 days), worried about their risk of going out of business. Asset managers, particularly endowments, have much longer time frames, and this must be taken into account when applying VaR to these portfolios.
- Due to computational limitations, many VaR-based risk systems make the simple assumption that underlying asset returns are normally or lognormally distributed.

Limitations, continued

- Most VaR calculation engines, except advanced models in the academic realm and those based on historical returns, assume constant correlation. Therefore, VaR is limited in its ability to estimate loss in extreme market events – when correlations approach 1.0.
  - This issue is typically addressed through stress-testing.
- In certain instances, VaR is not sub-additive, meaning that the sum of the VaRs of the individual assets in a portfolio could be lower(!) than the VaR for the whole portfolio, obviously violating the idea of diversification. This lack of sub-additivity makes VaR a problematic optimization criterion for portfolio allocation (unlike Downside Risk.)

UTIMCO's Preferred Risk Metric: Downside Risk

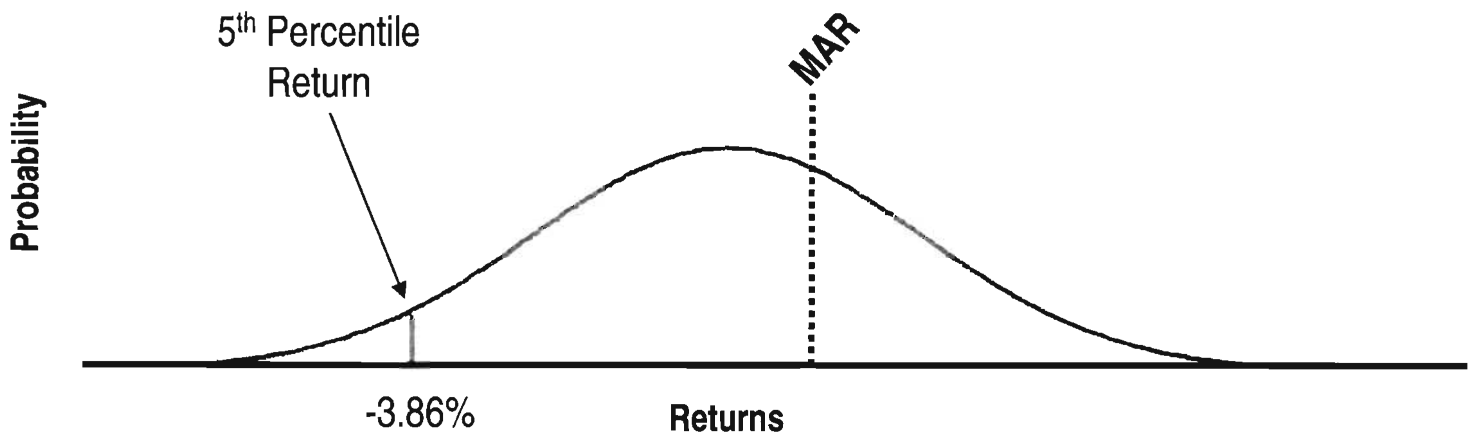
- We have asked this question before – What is risk for the UT System endowment funds?
- Risk is not just variability in returns from the mean as measured by standard deviation.
- Risk is a combination of the <u>possibility</u> of not achieving a target level of return* and the <u>magnitude</u> of the potential shortfall that could occur.
- The metric that best computes UTIMCO's definition of risk is Downside Risk. Downside Risk estimates both the probability and magnitude of future returns falling below a target level of return.

* Minimum Acceptable Return = MAR = Payout Rate + Inflation Rate + Expense Rate = 4.75% + 3.0% + .35% = 8.1%

How Does VaR relate to Downside Risk?

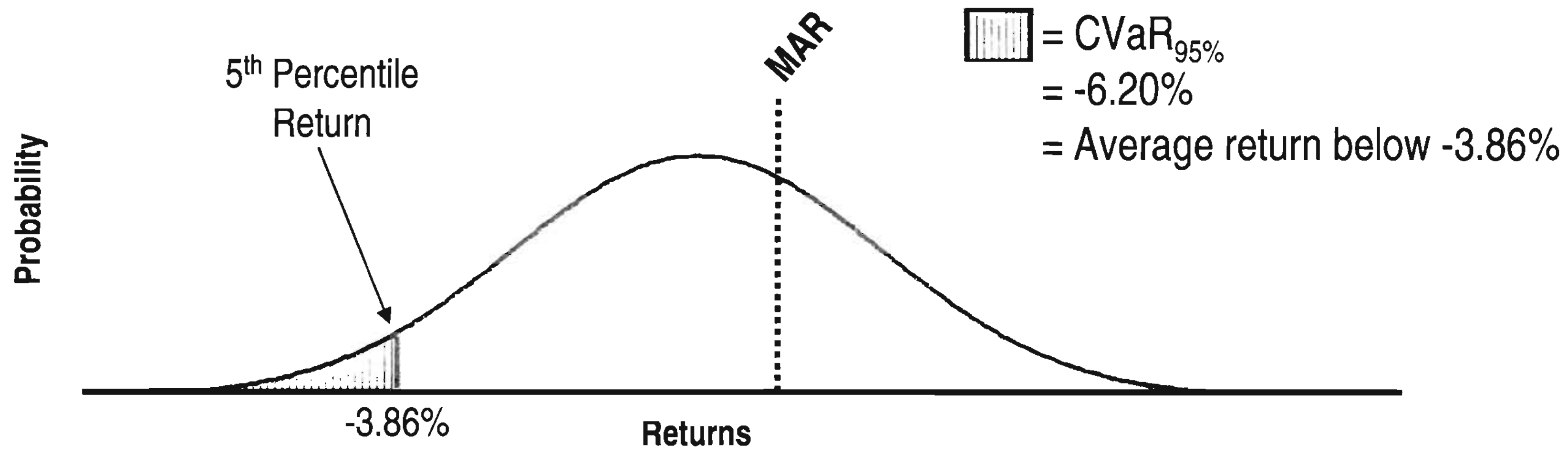
$VaR_{95\%}$

- Calculates loss at a given probability (95% CI → 5% probability)
- Does not address the magnitude of potential loss in the "left tail"
- Does not give information relative to MAR
- $VaR_{95\%}$ = Portfolio Value * 5th Percentile Return = $X million
  = $12.1 billion * -3.86% = ($467 million) over one month



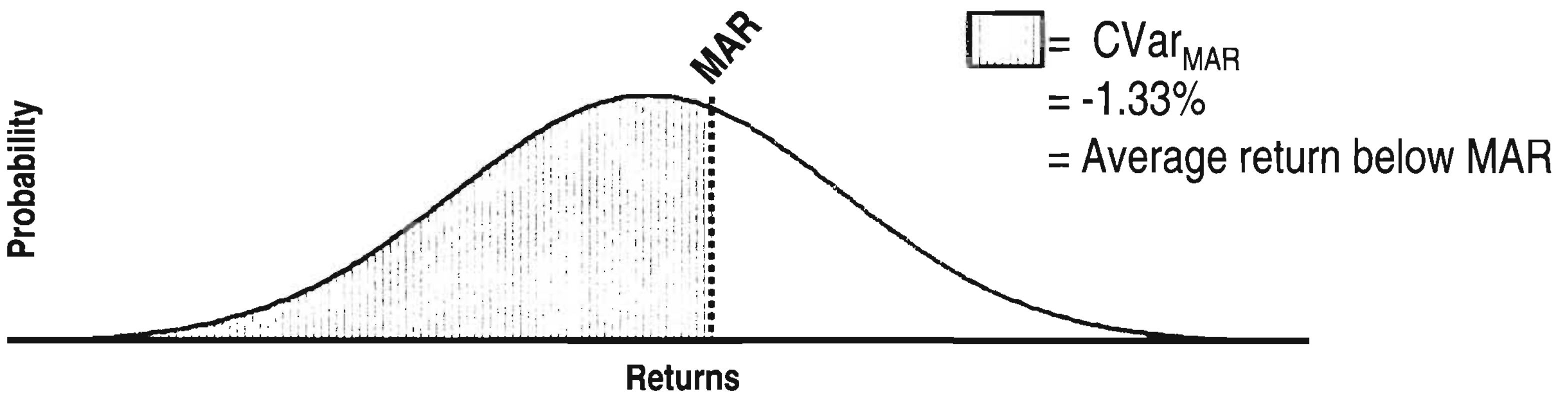
$CVaR_{95\%}$

- Conditional VaR, also known as "Expected Shortfall"
- Addresses magnitude by calculating the average loss below a given probability.
  - Average loss = Sum of the losses below the 5th percentile return multiplied by their respective probabilities, divided by 5%
- Does not give information relative to MAR

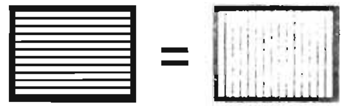


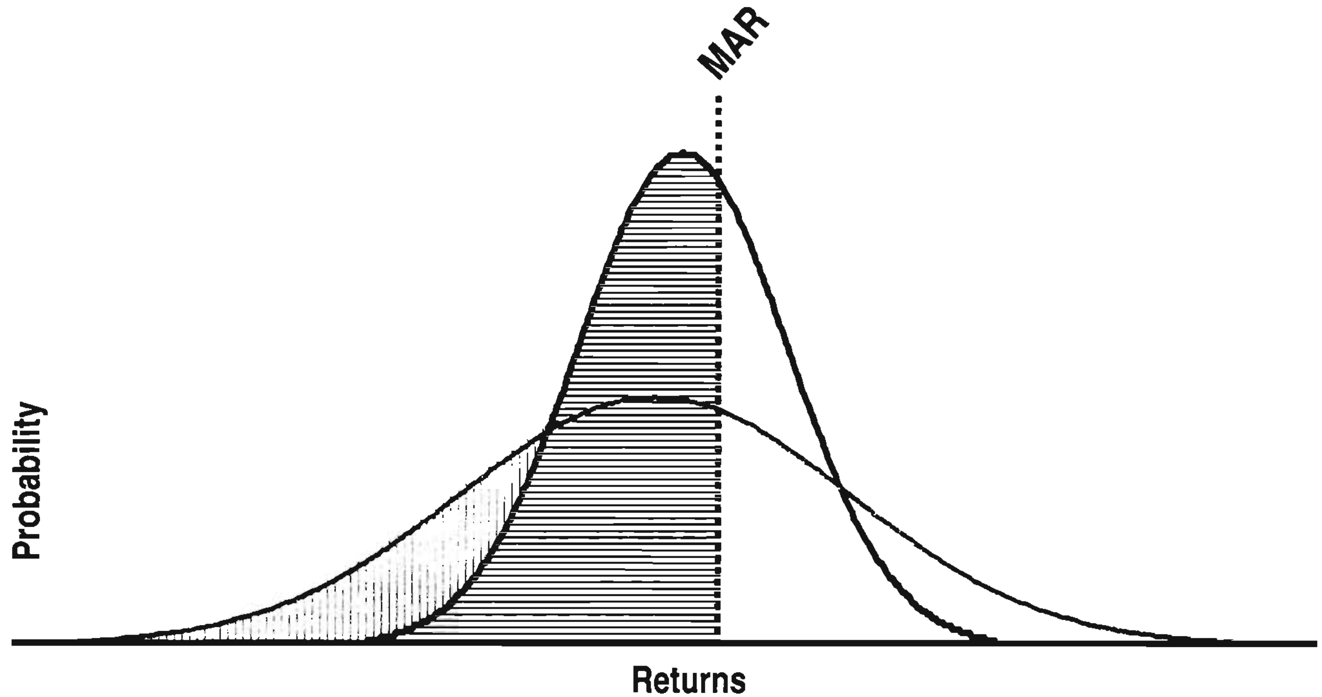
$CVaR_{MAR}$

- A form of $CVaR_{95\%}$, except that the threshold is a target return, not a probability.
- Addresses magnitude & MAR by calculating the average loss below a target return as well as the probability of falling short of the target.
  - Average loss = Sum of the losses below the target return multiplied by their respective probabilities, divided by the probability of shortfall
- <u>Issue</u>: Two portfolios may have the same $CVaR_{MAR}$, but they may also have very different potentials for extreme market events.



Which portfolio do you prefer?

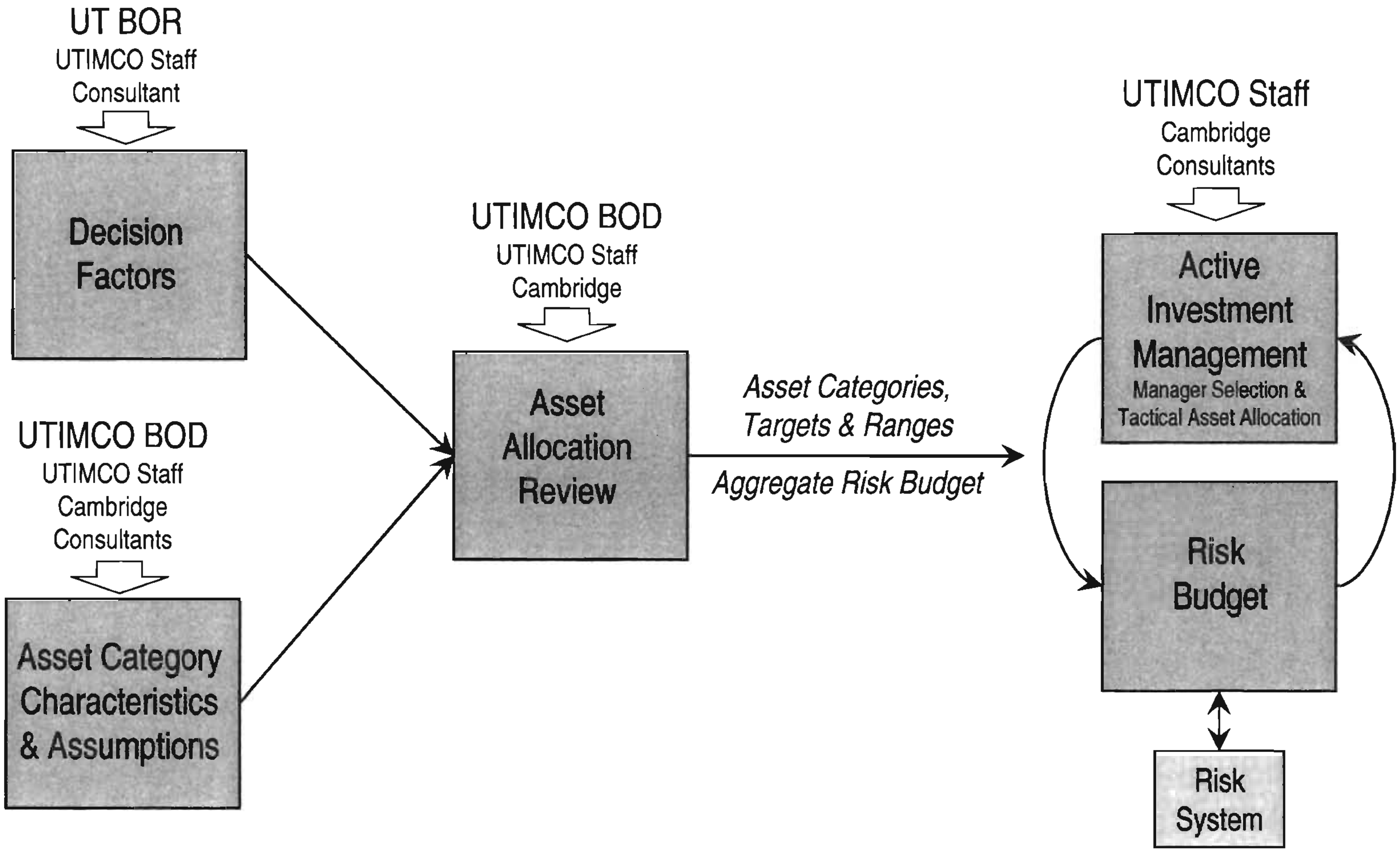
Expected Shortfall_{MAR} is equal under the two curves: 



Downside Risk

- Downside Risk is able to differentiate between two portfolios with the same $CVaR_{MAR}$, but with dissimilar left “tails”.
- Does not just calculate the average loss below MAR, but weights lower return outcomes more heavily. Therefore, even though two portfolios have the same $CVaR_{MAR}$, a portfolio with a “fatter” left tail (increased probability of extreme events) will have a higher downside risk.
- Effectively, a risk-adjusted version of $CVaR_{MAR}$
- Downside Risk will be used in conjunction with other risk measures because there is no single “right” answer.

Overall Risk Management Plan



What is Risk Budgeting?

- Risk Budgeting is a concept that extends the role of Risk Management from <u>risk control</u> to <u>active risk management</u>. The ultimate goal of Risk Budgeting is to improve a portfolio's risk adjusted return.
  - A manager not taking enough risk is just as potentially costly as a manager taking too much risk.
  - Ideally, UTIMCO should stay fully invested from a risk standpoint at all times – wasted risk has a cost.
- Extension of the asset allocation process
  - Establishing a policy portfolio, effectively establishes a risk budget.
- Allocates risk across the portfolio at different management levels and then, on an on-going basis, tracks risk relative to those allocations
  - UTIMCO plans to use Downside Risk as its risk metric in its Risk Budget, but due to system constraints over the next few months, will rely on VaR.
- Limits micromanagement of the investment process if the Board is comfortable with risk allocations and ranges.

Risk Budgeting Process

Determine

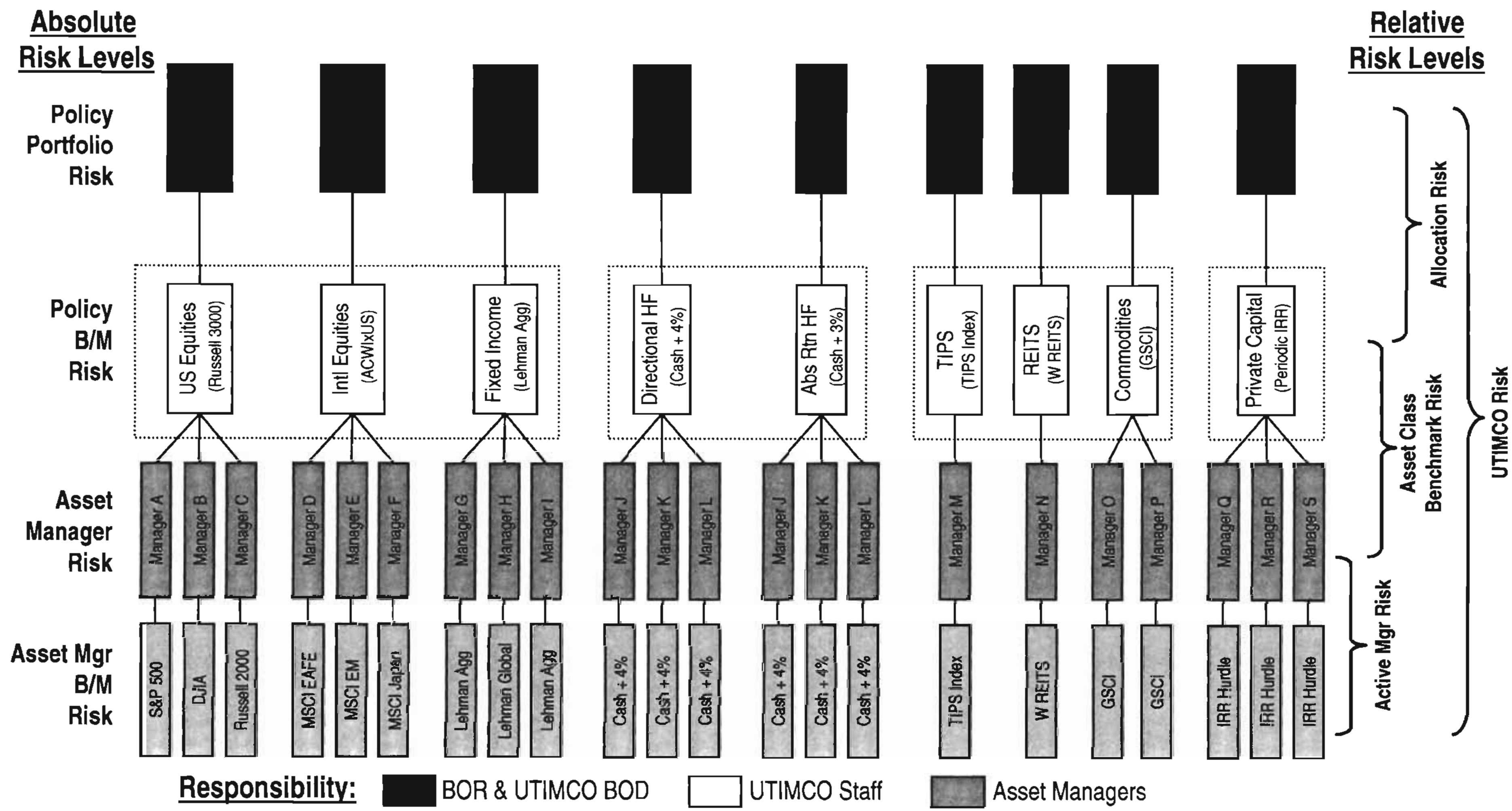
Compute Expected

Establish Thresholds

Monitor and Report

Take Corrective

Risk Budgeting Levels



Sample Risk Exposure Report

GEF
Policy Risk Exposure Report
Risk Statisitic: VaR Risk Level: 95.0% Horizon: 1 Month
As of 5/31/2004

	GEF NAV	% NAV	UTIMCO Policy	Versus Policy	Policy B/M	Asset Manager Risk $VaR	Asset Manager Risk %VaR	Asset Class B/M Risk: Policy B/M Risk $VaR	Policy B/M Risk %VaR	Total Risk/ Pol B/M Risk	UTIMCO Risk: Policy Portfolio Risk $VaR	Policy Portfolio Risk %VaR	Total Risk/ Pol Port Risk
Domestic Public Equity	1,043,472,911	25.0%	20.0%	5.0%	R3K	(57,995,653)	-1.40%	(56,010,679)	-1.35%	3.5%	(44,474,832)	-1.07%	30.4%
International Equity	761,525,744	18.3%	17.0%	1.3%	ACWIxUS	(35,686,350)	-0.86%	(46,229,709)	-1.11%	-22.8%	(41,600,033)	-1.00%	-14.2%
Equity Hedge Funds	347,308,903	8.3%	10.0%	-1.7%	LB Agg	(2,841,402)	-0.07%	(2,841,402)	-0.07%	0.0%	(3,092,221)	-0.07%	-8.1%
Private Capital	430,389,377	10.3%	15.0%	-4.7%	R2KG	(37,718,144)	-0.91%	(37,318,160)	-0.90%	1.1%	(55,128,499)	-1.33%	-31.6%
Absolute Return	532,611,118	12.8%	15.0%	-2.2%	LB Agg	(4,361,780)	-0.11%	(4,361,780)	-0.11%	0.0%	(4,638,331)	-0.11%	-6.0%
Commodities	140,468,127	3.4%	3.0%	0.4%	GSCI	(1,776,589)	-0.04%	(2,357,464)	-0.06%	-24.6%	(2,367,482)	-0.06%	-25.0%
REITS	273,413,934	6.6%	5.0%	1.6%	WREITS	(16,561,176)	-0.40%	(16,017,382)	-0.39%	3.4%	(12,175,619)	-0.29%	36.0%
TIPS	-	0.0%	5.0%	-5.0%	LB TIPS	-	0.00%	-	0.00%	0.0%	(2,536,587)	-0.06%	-100.0%
Fixed Income	467,779,082	11.2%	10.0%	1.2%	LB Agg	(3,160,367)	-0.08%	(2,059,479)	-0.05%	53.5%	(3,092,221)	-0.07%	2.2%
Liquidity Reserve	171,582,825	4.1%	0.0%	4.1%	Tbill	5,182	0.00%	-	0.00%	0.0%	-	0.00%	0.0%
	4,168,552,021	100.0%	100.0%	0.0%		(160,096,279)	-3.86%	(167,196,056)	-4.03%	-4.2%	(169,105,824)	-4.07%	-5.3%
PUF	7,997,992,230					(307,168,721)	-3.86%	(320,790,708)	-4.03%		(324,454,885)	-4.07%	
Total Funds	12,166,544,251					(467,265,000)	-3.86%	(487,986,764)	-4.03%		(493,560,709)	-4.07%	

Over Policy
Under Policy

B/M: Benchmark

Sample Risk Report from Current Risk System

Total Fund Policy Risk Summary

UTIMCO - GEF

Risk Level: 95.0% Horizon: 1 Month

Positions as of: May 31, 2004

	May 31, 2004		
	Market Value	**VaR**	**VaR %**
Total Fund	**$4,151,674,044**	**($160,096,279)**	**-3.86%**
Total Policy Risk			**-4.07%**
Absolute Difference			**-0.22%**
Total Fund Relative VaR to Policy Portfolio (Indicates potential over/under performance versus policy portfolio in 1 in 20 months)			**-0.93%**

Total Fund Policy Risk Detail

	May 31, 2004					
Index Description	**Weight**	**VaR %**	**Portfolio Impact**	**Diversification Benefit**	**Contribution to Total Risk**	**% of Total Risk**
Lehman Aggregate Bond Index	35.0%	-2.06%	-0.72%	78.22%	-0.26%	6.40%
Wilshire Real Estate Securities Price Return	5.0%	-10.43%	-0.52%	50.35%	-0.29%	7.20%
US Russell 3000	20.0%	-6.07%	-1.21%	14.96%	-1.07%	26.30%
US Russell 2000 Growth	15.0%	-9.78%	-1.47%	14.28%	-1.33%	32.60%
GSCI Total Return	3.0%	-9.86%	-0.30%	92.32%	-0.06%	1.40%
Lehman Brothers US Tips Index TIPS	5.0%	-3.15%	-0.16%	65.11%	-0.06%	1.50%
MSCI AC World Ex USA USD	17.0%	-8.40%	-1.43%	38.39%	-1.00%	24.60%
	100.0%	**Total**	**-5.81%**		**-4.07%**	**100.00%**
		Diversification Benefit	**1.73%**			
		Total Policy VaR	**-4.07%**			

Brief Discussion of Risk Systems

- Range of systems available:

Factor Models Rates, Currency, etc.)	Uninvestable Risk Factor Models (Momentum, Size, Volatility, etc.)

- Systems reviewed:

BearMeasurisk	PACE	Barra
DSTi (formerly Askari)		Northfield
IFS (Askari risk platform)		APT
RiskMetrics		
Sunguard (Reech)		
Algorithmics		
Blackrock		

- Cost: Up to $575,000/year
  - $150,000 - $250,000/year for the risk system
  - Up to $325,000/year for separate risk reporting for the hedge fund portfolio

What they do well…at least some of them

- Publicly traded securities
- VaR-based analysis
- Multi asset class models
  - Equity
  - Fixed Income
  - Commodities
- Web-based/Service bureau approach – no in-house hardware and out-sourced data handling
- Frequency and availability of reporting

What they don't do well...

- Hedge Funds
  - Only an issue if there is no transparency at the holdings level
  - Solutions:
    - Short-term – use proxy
      - Returns-based analysis
    - Long-term
      - Third party intermediary (requires an <u>additional cost</u> of up to $325,000/year)
- Private Capital
  - Nature of private capital, holdings are not publicly traded
  - Solutions:
    - Short-term – use a public index as proxy, i.e. Russell 2000 Growth
    - Long-term – develop proxy unique to UTIMCO's portfolio

What we are doing now...

- Engaged BearMeasurisk on a month to month basis
  - Formerly Measurisk – a Russell Mellon JV (went defunct in June 2003)
  - Purchased and revived by BearStearns in February 2004
  - Familiar with UTIMCO's portfolios because they provided VaR-based reports to UTIMCO in the past
- Calculating VaR at various confidence levels every month as well as running stress tests on the endowment portfolios
- Modeling the public securities in the portfolios
- Using proxies when modeling Hedge Funds and Private Capital
- Preparing risk reports based on information available
- Cost of service – same as when Measurisk existed, except charged on per report basis - $17,500/report or $210,000/year.

What we will be doing...

- Finalize decision on risk system purchase:
  - Multi asset class capability with historical simulation & Monte Carlo risk engines
  - Easily customized
  - Plan Sponsor/Buy side focus
  - ASP/Service Bureau capabilities
  - Strong financial footing and commitment to research & development
  - Cost within anticipated range ($150,000 – $250,000)
- Design risk system to incorporate our preferred risk measures
- Implement in stages:
  - Public holdings
  - Hedge Funds (over time)
  - Private Equity
- Continually improve risk reporting as system capabilities expand

Timeline

	Summer 2004	September/October 2004	November/December 2004
Short-term Solutions:	Prepare monthly VaR reports and stress tests with BearMeasurisk		
	Introduce Risk Budgeting report on VaR-based risk statistics		
	Use proxies for private capital & hedge funds		
Long-Term Solutions:	Finalize risk system decision		
	Build customized risk metrics in risk system	Continue development of customized risk metrics & test reporting with new metrics	
	Load public securities into new system; proxy hedge funds and private capital	Incorporate hedge funds into risk system based on the hedge fund risk plan; begin development of customized private equity proxy	Continue to develop private capital proxy
	Evaluate options for hedge funds, depending on level of transparency, and design hedge fund risk plan	Implement the hedge fund risk plan	Add new managers to hedge fund risk platform
	Transfer Risk Budgeting report to new system	Expand risk reporting to include hedge fund data as it becomes available	Expand risk reporting to incorporate increased level of information from customized private capital proxy

Section 6

Resolution No. 3

RESOLVED, that the Corporation's President's Base Salary submitted by the Compensation Committee in the amount of $____________ be, and is hereby, approved.

Section 7

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Agenda Item: Discussion and Approval of Delegation of Authority Policy (Policy Statement)

Developed By: Boldt, Moeller

Presented By: Boldt

Type of Item: Action Required by UTIMCO Board

Description: This Policy Statement's purpose is to provide a clear delineation of responsibilities of the UTIMCO Board and the UTIMCO Staff. This Policy Statement defines the delegation of authority in the two primary areas of UTIMCO operation: Management, Operational, and Financial Authority; and Investment Authority.

Recommendation: UTIMCO staff recommends approval of this Policy Statement as presented.

Discussion: This is the first review of this Policy Statement since approved by the UTIMCO Board on April 25, 2003. Jerry Turner with Vinson and Elkins and UTIMCO management both reviewed the Policy Statement. In addition, UT System Staff has proposed changes to Appendix C. Based on the review, the following changes are proposed:

- Included language under investment authority to allow UTIMCO management to change allocations of investment funds among existing internal and external managers and partnerships
- Changed language in Appendix C related to the selection and management of the investment consultant and added language to include outside legal counsel.
- Minor editorial changes

Reference: Delegation of Authority Policy

Resolution No. 4

RESOLVED, that the revised Delegation of Authority Policy be, and is hereby approved in the form as presented to the Board.

The University of Texas Investment Management Company
Delegation of Authority Policy

Effective Date of Policy: ~~April 25, 2003~~July 15, 2004
Date Approved by UTIMCO Board: ~~April 25, 2003~~July 15, 2004
Date Amended: April 25, 2003
Supersedes: Delegation of Authority to Corporation's President and CEO approved by the UTIMCO Board on September 26, 2000

Purpose:
The purpose of the Delegation of Authority Policy is to provide a clear delineation of responsibilities of the UTIMCO Board of Directors and the UTIMCO staff. UTIMCO provides various investment management services to the U. T. Board of Regents as more fully described in the Investment Management Services Agreement by and between the U. T. Board of Regents and UTIMCO. Section 66.08 (d) of the Texas Education Code provides that UTIMCO's duties to the U. T. Board with respect to the management of investment funds shall be governed by a contract between the two parties. The UTIMCO Board is responsible for management and investment oversight of UTIMCO. The UTIMCO Board recommends amendments to the Investment Policies for approval by the U. T. Board of Regents. The UTIMCO Board is responsible for overseeing the investment process to execute the established Investment Policies. However, in order to improve operational efficiency as well as define and concentrate accountability for performance, certain duties and responsibilities are delegated by the UTIMCO Board to UTIMCO Management. This Policy S~~s~~tatement defines the delegation of authority in the two primary areas of UTIMCO operation: Management, Operational, and Financial Authority; and Investment Authority.

Objective:
By clearly defining the limits of delegated authority of UTIMCO Management, this Policy Statement enhances operational efficiency and timeliness in decision making, as well as establishing a framework for the evaluation of UTIMCO Management in the assigned tasks.

Scope:
This Policy applies to all matters under UTIMCO control. The only delegations of authority granted by the UTIMCO Board are enumerated in this Policy. Any authority not specifically granted in this Policy is retained by the UTIMCO Board acting as agent for the U. T. Board of Regents.

Authority Delegated to UTIMCO Management:
The primary functions of the UTIMCO Board are to formulate, revise, implement and conduct ongoing oversight of the policies it has established for UTIMCO. In order to more efficiently execute its responsibilities, the UTIMCO Board has delegated the authority to implement UTIMCO policies to UTIMCO Management in two primary areas: Management, Operational, and Financial Authority, and Investment Authority.

Management, Operational, and Financial Authority: All duties and responsibilities in the areas listed below, which are not specifically reserved for the UTIMCO Board in UTIMCO Bylaws, Articles of Incorporation, Subcommittee Charters, Investment Management Services Agreement, and other

UTIMCO policies, are hereby granted to UTIMCO Management.:

- Administration, Accounting and Financial Management;
- Systems Technology Management;
- Personnel Management;
- Compliance;
- Client Relations and Reporting; and
- Public Relations.

Investment Authority: All duties and responsibilities in investment management, which are not specifically reserved for the UTIMCO Board in UTIMCO Bylaws, Articles of Incorporation, Subcommittee Charters, Investment Management Services Agreement, other UTIMCO policies, and ~~UTIMCO~~ fund investment policies, are hereby granted to UTIMCO Management. Specifically, the UTIMCO Board delegates the following duties and responsibilities to UTIMCO Management:

- Tactical asset allocation within the ranges established in Investment Policy Statements, including rebalancing portfolio weights to Policy Target Weights or actively deviating from Policy Weights as market conditions dictate;
- Investment vehicle and manager selection as defined in Appendix A;
- Manager and partnership monitoring and termination as defined in Appendix B;
- Changing allocations of investment funds among existing internal and external managers and partnerships;
- Investment research and internal asset management;
- Investment risk management;
- Proxy voting and monitoring;
- Selection and management of Investment Consultant as defined in Appendix C;
- Performance monitoring and reporting; and
- Preparation of recommendations regarding strategic asset allocation and other policy issues for the UTIMCO Board.

Documentation and Controls:
All UTIMCO Management decisions made under this Delegation of Authority Policy will be monitored by UTIMCO's Chief Compliance Officer. Any exceptions to this Policy will be reported to the Chief Executive officer immediately. The CEO will develop a remedy to the exception, if possible, and report the exception and the remedy to the UTIMCO Board promptly.

Reporting:
The Chief Compliance Officer will provide a list of any exceptions to this policy on at least an annual basis to the Audit and Ethics Subcommittee of the UTIMCO Board.

Appendix A
Investment Vehicle and Manager Selection

UTIMCO Management shall be responsible for the selection of internal and external portfolio managers and partnerships to invest ~~U. T. System~~ assets managed for the U.T. Board of Regents. While this Delegation of Authority Policy recognizes that manager and partnership selection is inherently subjective, the process is subject to the compliance guidelines set forth in this Appendix.

The process for new manager or partnership selection shall include the following steps:

1. Extensive due diligence by UTIMCO staff, and in some cases by the UTIMCO consultant, examining the factors listed below.
2. Preparation of a complete due diligence report that will be considered by the UTIMCO Management team. Changes or updates to the due diligence report as a result of the management team meeting will be made.
3. In the case of non-marketable alternative asset selections only, the UTIMCO consultant will prepare an independent due diligence report.
4. The standard Certificate of Compliance will be sent to each UTIMCO Board member with an executive summary of the due diligence report and the complete due diligence report. The Certificate of Compliance will have a checkbox to allow any UTIMCO Director to request a complete presentation of the investment at a subsequent Board meeting prior to making the investment.
5. If any Director has requested Board review, staff will provide a complete presentation, which may include a representative of the proposed manager or partnership, at the next UTIMCO Board meeting. If after hearing the presentation, a majority of Directors do not feel the investment is appropriate, the investment will not be made.
6. If no Director has requested a Board presentation, the investment will be negotiated by staff and assets will be invested.

The selection of portfolio managers and partnerships shall be based on careful due-diligence that will include, but will not be limited to, the following factors:

General Firm Overview:

- History of firm or partnership.
- Ownership structure of firm;~~,~~ assessment of capital adequacy.
- Product breadth and growth in products. Are sufficient resources available for proposed investment category?
- Current assets under management; asset growth; plans for future growth; will growth be capped at some point; what portion of total assets will UTIMCO comprise?
- Distribution and size of accounts; percent institutional; percent endowments; what other endowments are investors?
- Is there any indication of instability in the client base?

- Does the manager ~~of UTIMCO funds~~ have his own money at risk alongside UTIMCO?
- How are the firm's investment professionals compensated; is compensation competitive and based on investment performance of UTIMCO account?

Personnel:

- Do the managers of UTIMCO assets have a meaningful and proven record of investment success?
- Is the structure of the portfolio management team consistent with the portfolio approach? Is there sufficient depth of talent?
- What are the educational and professional credentials of the portfolio team?
- What is the historical record of turnover at the firm? Are there likely backups for key individuals on the UTIMCO account?
- How effective is the client service function?
- Confirm all of the above with extensive, on site interviews of key personnel.

Investment Philosophy and Process:

- What is the distinct competitive advantage of the firm and how does the firm intend to maintain that competitive advantage?
- Is the approach fundamental or quantitative in nature? If quantitative, is there a process to update or adapt models as conditions change?
- How are idea generation, research, and due diligence managed?
- How are portfolio construction and risk management managed?
- Does the firm manage investment risk to a benchmark or to an absolute level? How robust is the risk management procedure? Is risk management integral to the investment management process or an afterthought?
- Are operations, administration, and trading capabilities appropriate to the style of management?
- Does the manager have an effective monitoring and compliance procedure in place?

Historical Investment Performance:

- Compare to appropriate passive benchmarks.
- Compare to relevant manager universe performance.
- Compare both risk adjusted and nominal performance; compare information ratios.
- Are excess returns cyclical? If so, what is the nature of the cycle? Are excess returns correlated with excess returns of existing managers?

Fees and Expenses; Other Contract Terms:

- Are fees reasonable given the portfolio mandate?
- Are performance based fees available?

- Are any lockup provisions reasonable? Do we have an unconditional escape if conditions warrant?
- Are there confidentiality provisions? If so, do we have the clearly stated ability to publicly disclose amount invested, key portfolio staff members, performance data, and fees?

In addition to the items listed above, the following factors will be considered in selecting investments in Marketable Alternative assets and Non-Marketable Alternative assets.

Marketable Alternative Assets:

- Identify the manager's process for determining the portfolio's net exposure; determine the range of historical exposure; determine the projected future exposure range.
- Determine the use of leverage; historical?; future plan?
- Determine the potential for the investment generation of taxable income for the endowments; how will the manager avoid UBTI?
- Determine the level of transparency available. Will we have sufficient information to correctly gauge risk?

Non-Marketable Alternative Assets:

- Identify the proprietary nature of the firm's deal flow and the distribution of deal generation among partners.
- Are sufficient key man provisions in place for key partners?
- Determine the firm's methodology for valuing illiquid investments.
- Evaluate the strategies the firm will use to realize returns from illiquid investments.
- Do we have an opportunity to serve on an advisory committee?

Appendix B
Manager and Partnership Monitoring and Termination

UTIMCO Management shall be responsible for monitoring and, when necessary, terminat~~ioning~~ing ~~of~~ internal and external portfolio managers and partnerships investing ~~U. T. System~~ assets managed for the U.T. Board of Regents. While this Delegation of Authority recognizes that these tasks are inherently subjective, the process is subject to the compliance guidelines set forth in this Appendix.

Managers will be monitored on a continuous basis to assure continuing compliance with the factors considered in selecting the managers, listed in Appendix A. Investment performance of each manager will be monitored relative to specific benchmarks established and agreed at the time each manager was hired. Other investment factors, -including level of risk, portfolio turnover, and market sector exposure, will also be closely monitored. Personnel factors, including any turnover in key personnel, significant changes in ownership structure, or changes in compensation structure, will be monitored as well. Regular reports on investment performance will be made available to UTIMCO Directors.

Although terminations of investment managers or partners are expected to be rare, such actions may be necessary from time to time to preserve ~~System~~ investment assets. The general procedure for terminations shall be:

1. A manager committing any of the following acts will be terminated immediately:
   - Fraud;
   - Significant violation of investment policy or key terms of the advisory agreement with UTIMCO;
   - Unethical Acts; or
   - Significant violation of specific portfolio mandate.
2. A manager violating any of the conditions below will be notified that he is being placed on a Watch List indicating enhanced scrutiny:
   - Failure to achieve performance targets over an appropriate period of time;
   - Significant change in portfolio composition or style of management;
   - Risk levels significantly higher or lower than agreement;
   - Significant changes in the manager's organizational structure;
   - Turnover in key investment personnel;
   - Unsustainable growth in assets under management;
   - Significant failure in client service or reporting; or
   - Evidence of consistent operational or administrative errors.
3. Watch List notification will be in written form and will specify the reasons for Watch List designation. The written notification will require a written response from the manager setting out a specific timetable over which the problems will be cured. As part of the enhanced scrutiny of Watch List designation, UTIMCO staff will make at least one on site visit.

4. If the manager cannot cure the problems or fails to meet the timeline established by his response to the Watch List notification, UTIMCO staff will terminate the relationship ~~with UTIMCO~~ and plan an orderly succession of the assets.
5. In the event that the violations of the conditions listed in 2 above are particularly egregious and, in the opinion of UTIMCO Management, place ~~System~~ investment assets in immediate danger, UTIMCO Management may terminate a manager without first placing the manager on the Watch List.
6. UTIMCO Management will promptly notify UTIMCO Board members of all termination decisions.

Appendix C
Selection and Management of Investment Consultant and Outside Legal Counsel

The UTIMCO Board ~~Management~~ shall be responsible for ~~recommending, subject to UTIMCO Board approval,~~ the annual selection of ~~an~~ the external investment consultant, ~~and~~ the scope of work to be performed by the consultant, and the approval of terms and conditions of the consultant's contract. ~~After approval by the UTIMCO Board, UTIMCO Management shall be responsible for negotiating the terms and conditions of the consultant's contract, for determining the work schedule of the consultant, for evaluating the consultant's professional work product, and for recommending the extension or termination of the consultant's contract to the UTIMCO Board.~~ UTIMCO Management shall present to the UTIMCO Board a quarterly report on the consultant's services including projects and fees. Annually, UTIMCO Management shall prepare a comprehensive report to the UTIMCO Board for its use in evaluating the value added by the external consultant. The UTIMCO Board may meet with the investment consultant in closed session to the extent allowed by the Texas Open Meetings Act.

~~UTIMCO Management shall present, on at least an annual basis, a comprehensive report to the UTIMCO Board on the current scope of work of the external consultant.~~

The UTIMCO Board shall be responsible for the selection of outside counsel, the scope of work to be performed by the outside counsel, and the approval of terms and conditions of the outside counsel's contract. UTIMCO Management shall present to the UTIMCO Board a quarterly report on the use of the outside counsel, including fees incurred. Annually, UTIMCO Management shall prepare a comprehensive report to the UTIMCO Board for its use in evaluating the value added by the outside counsel. The UTIMCO Board may meet with the outside counsel in closed session to the extent allowed by the Texas Open Meetings Act.

Section 8

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Agenda Item: Discussion and Approval of Investment Policy Statements

Developed By: Boldt, Moeller

Presented By: Boldt

Type of Item: Action Required by UTIMCO Board; Action Required by Board of Regents

Description: The Investment Policy Statements for the following funds contain proposed changes and amendments: Permanent University Fund (PUF), General Endowment Fund (GEF), Long Term Fund (LTF), Permanent Health Fund (PHF), Short Intermediate Term Fund (SITF), Short Term Fund (STF), and the Separately Invested Funds (SIF)

Recommendation: UTIMCO staff recommends approval of all noted amendments to the investment policy statements.

Discussion: The investment policy statements are required to be reviewed annually. This was a requirement added to the Investment Management Services Agreement in 2003. In addition, the Working Group recommended that UT System staff and its consultants should be involved in UTIMCO issues, including a key role regarding creation of investment policies. UTIMCO management has also requested Jerry Turner with Vinson and Elkins to review the policies. To identify who was requesting a change or amendment, the change or amendment has been color- coded in the investment policy statements based on the following:

- Blue (Jerry Turner, Vinson and Elkins)
- Green (UTIMCO management)
- Pink (UT System staff and its consultants)
- Red (identifies language which was previously approved by the UTIMCO Board in May 2004 and the Finance and Planning Committee of the Board of Regents in May 2004, but was not approved by the Board of Regents.)

Reference: Investment Policy Statements for the PUF, GEF, LTF, PHF, SITF, STF, and SIF.

Resolution No. 5

RESOLVED, that the amendments to the Investment Policy Statements for the Permanent University Fund, the U. T. System General Endowment Fund, the U. T. System Long Term Fund, the Permanent Health Fund, the U. T. System Short Intermediate Term Fund, the U. T. System Short Term Fund, and the U. T. System Separately Invested Funds as presented be, and are hereby, approved, subject to approval by the U. T. System Board of Regents.

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, primarily from ~~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 pursuant to this Policy Statement ~~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.

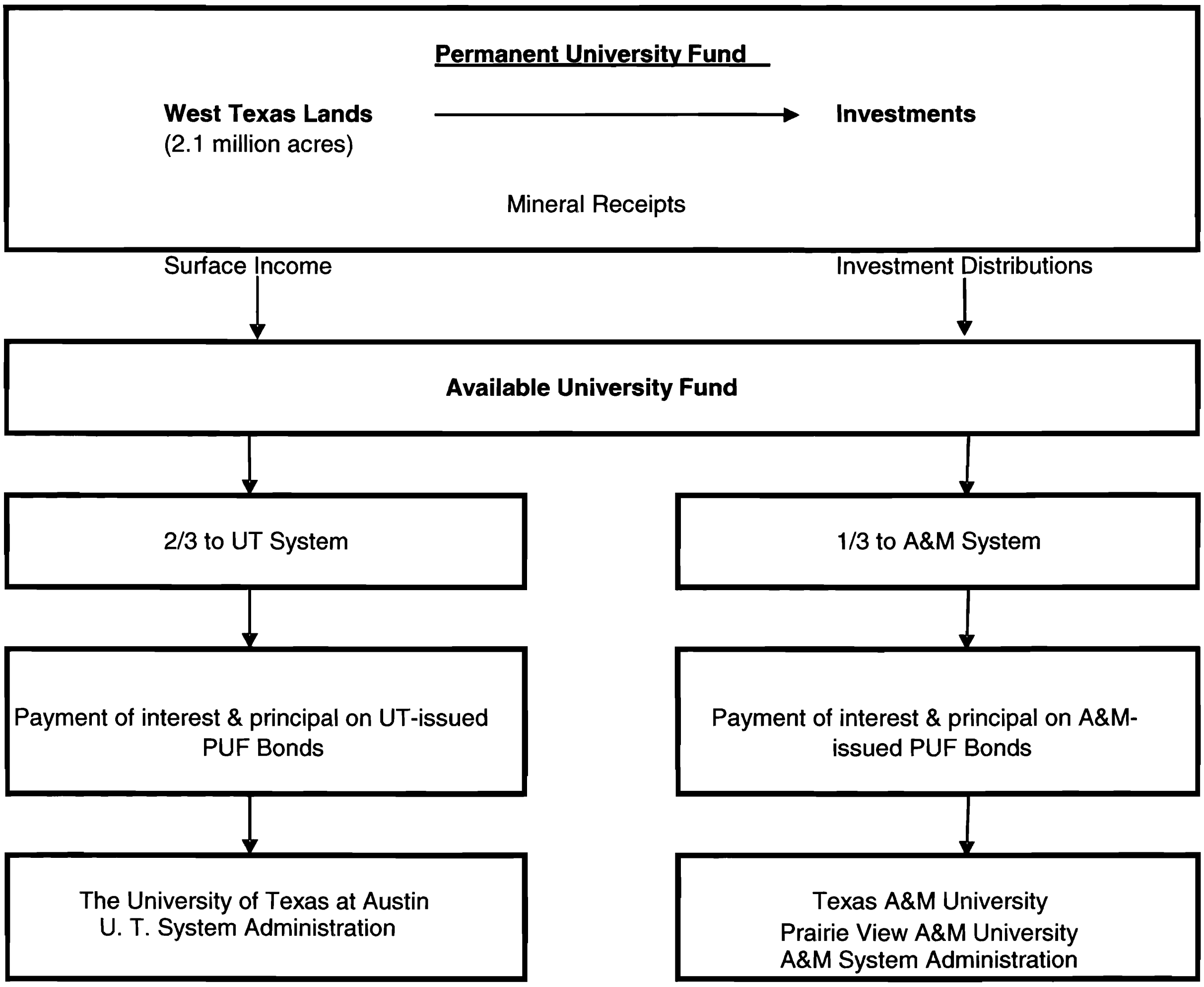
The expenditure of the AUF is subject to a prescribed order of priority:

First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and the ~~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 of Regents (the "TAMUS Board") to issue bonds payable from their respective interests in AUF receipts to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes secured by each System's interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUF parity obligations unless the ~~projected~~ interest of the related System in AUF receipts during the preceding fiscal year ~~for each System~~ covers projected debt service on all PUF Bonds of that System by 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 ~~s~~ Systems.

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

Exhibit 1



PUF Management

Article VII, Section 11b of the Texas Constitution assigns fiduciary responsibility for managing and investing the PUF to the Board of Regents. Article VII, Section 11b authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.

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

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the PUF shall be managed by ~~through The University of Texas Investment Management Company~~ ~~("~~UTIMCO,~~")~~ which shall a) recommend investment policy for the PUF, b) ~~determine~~ recommend 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~~ this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of 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.~~ Managers shall be monitored for performance and adherence to investment disciplines.

PUF Administration

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

PUF Investment Objectives

The PUF and the General Endowment Fund (the "GEF") are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of ~~PUF~~ fund assets and annual distributions by earning an average annual real return ~~of 5.1 %~~ over rolling ten-year periods or longer at least equal to the target distribution rate of such fund, plus the annual expected expense. ~~This~~ The current 5.1% target was derived by adding the PUF's current target distribution rate of 4.75% plus an annual expected expense of .35%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. 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 and the median return of the universe of the college and university endowments with assets greater than $1 billion as reported by Cambridge Associates over rolling five-year periods 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'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 may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable.

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. ~~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.~~

Traditional U.S. Equities – Traditional U.S. equities include common stocks and derivatives based on common stocks, including warrants, rights, options, exchange traded funds, and futures. In addition, ~~D~~derivative ~~A~~applications approved by the UTIMCO Board that serve as a U.S. Equity substitute will be classified as traditional U.S. equity. Traditional U.S. ~~E~~equities provide both current income and ~~growth of income~~ capital gains.

REITS – REITS are real estate investment trusts and are classified as U.S. equities for purposes of this Policy Statement. REITS ~~are companies which~~ own, and in most cases operate, income producing real estate.

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).~~ Derivatives including ~~W~~warrants, rights, options, exchange traded funds, and futures ~~and hedge funds~~ are also included if the underlying assets are Global ex U.S. equities. In addition, ~~D~~derivative ~~A~~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. Global ex U.S. ~~E~~equities provide both current income and ~~growth of income~~ capital gains.

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 partnerships 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~~ ~~p~~Private ~~e~~Equity category also includes mezzanine and opportunistic investments. Mezzanine investments consist 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. Mezzanine and Opportunistic investments are held through limited partnerships or as direct ownership interests.

E. Commodities – Commodities include ~~N~~natural resource investments ~~which~~ includinge oil and gas interests, ~~commodities,~~ and other hard assets. These investments may be held through partnerships, derivative investments, or direct investments.

F. Fixed Income – Fixed income investments include debt (whether U.S. or foreign) issued by ~~the U.S. Treasury~~ Governments, various government enterprises and agencies, and domestic and foreign corporations.

Traditional Fixed Income - 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, ~~D~~derivative ~~A~~applications approved by the UTIMCO Board that serve as a fixed income substitute will be classified as traditional fixed income.

TIPS - TIPS are treasury inflation protected securities which are marketable securities with a return linked to the inflation rate. In constructing diversified TIPS portfolios, securities classified as traditional fixed income can be utilized by outside investment managers.

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

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.

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, and limited partnerships managed externally shall be governed by the terms and conditions of the respective ~~I~~investment ~~M~~ management ~~C~~ contracts or partnership agreements.
- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with ~~discretion~~ the authority to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by ~~the~~ UTIMCO's 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 ~~D~~ derivative ~~S~~ 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 ~~D~~ derivative ~~S~~ 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. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

<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~~ UTIMCO's 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' ~~A~~ acceptances ~~must be~~ guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.

- Repurchase ~~A~~agreements and ~~R~~reverse ~~R~~repurchase ~~A~~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 ~~C~~collateral ~~S~~securities for ~~R~~repurchase ~~A~~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 ~~R~~repurchase ~~A~~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 ~~R~~repurchase ~~A~~agreement, valued daily.

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

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

- Overnight ~~R~~repurchase ~~A~~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 ~~R~~reverse ~~R~~repurchase ~~A~~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~~ subsectors 1) Government securities: Treasury and Agency; 2) Corporate securities: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; 4) Asset-backed securities; 5) Taxable Municipal securities; and 6) Commercial Mortgage-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG 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- or better 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 50% of the PUF's fixed income portfolio may be invested in non-U. S. dollar denominated bonds. ~~Not more than 15% of the PUF's fixed income portfolio may be invested in bonds denominated in any one currency.~~

- Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U. S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

- Not more than 15% of the PUF's fixed income portfolio may be invested in ~~E~~ emerging ~~M~~ 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~~ UTIMCO's chief investment officer.

~~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; and

C. ensure that the inflation adjusted value of PUF assets after distributions is maintained over rolling 10-year periods ~~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~~ or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by ~~the~~ UTIMCO's 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 lending agent shall be reviewed by UTIMCO staff to insure compliance with contract provisions.

Investor Responsibility

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

Effective Date

The effective date of this policy shall be August 12, 2004~~December 19, 2003~~, except for exhibit A which is effective January 1, 2004.

CURRENT

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 5**	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**

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**	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities 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 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	
Private Equity	9.0	5 to 15	
Total Private Capital	**15.0**	**5 to 15**	Venture Economics' Periodic IRR Index
Commodities	**3.0**	**0 to 5**	GSCI minus 1%
Fixed Income:	**15.0**	**10 to 30**	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	**0.0**	**0 to 5**	90 Day T-Bills

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

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND
INVESTMENT POLICY STATEMENT

Purpose

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

GEF Organization

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

GEF Management

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

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

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the GEF shall be ~~governed~~ managed ~~through~~ by ~~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.~~ which shall a) recommend investment policy for the GEF, b) recommend ~~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~~ this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of 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~~. Managers shall be monitored for performance and adherence to investment disciplines.

GEF Administration

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

Funds Eligible to Purchase GEF Units

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

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

GEF Investment Objectives

The GEF and the PUF are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of

~~GEF~~ fund assets by earning an average annual real return ~~of 5.1 %~~ over rolling ten-year periods or longer at least equal to the target distribution rate of such fund (in case of the GEF, the target distribution rate of the LTF and the PHF) plus the annual expected expense. ~~This~~ The current 5.1% target was derived by adding the PUF's current target distribution rate of 4.75% plus an annual expected expense of .35%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. 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 objective~~s~~ is ~~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 with assets greater than $1 billion 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 may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable.

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. ~~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.~~

Traditional U.S. Equities – Traditional U.S. equities include common stocks and derivatives based on common stocks, including warrants, rights, options, exchange traded funds, and futures. In addition, ~~D~~derivative ~~A~~applications approved by the UTIMCO Board that serve as a U.S. Equity substitute will be classified as traditional U.S. equity. Traditional U.S. ~~E~~equities provide both current income and ~~growth of income~~ capital gains.

REITS – REITS are real estate investment trusts and are classified as U.S. equities for purposes of this Policy Statement. REITS ~~are companies which~~ own~~,~~ and in most cases operate, income producing real estate.

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).~~ Derivatives including ~~W~~warrants, rights, options, exchange traded funds, and futures ~~and hedge funds~~ are also included if the underlying assets are Global ex U.S. equities. In addition, ~~D~~derivative ~~A~~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. Global ex U.S. ~~E~~equities provide both current income and ~~growth of income~~ capital gains.

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 partnerships 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~~ ~~p~~Private ~~e~~Equity category also includes mezzanine and opportunistic investments. Mezzanine investments consist 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. Mezzanine and Opportunistic investments are held through limited partnerships or as direct ownership interests.

E. Commodities – Commodities include ~~N~~ natural resource investments ~~which~~ includinge oil and gas interests, ~~commodities,~~ and other hard assets. These investments may be held through partnerships, derivative investments, or direct investments.

F. Fixed Income – Fixed income investments include debt (whether U.S. or foreign) issued by ~~the U. S. Treasury~~ Governments, various government enterprises and agencies and domestic and foreign corporations.

Traditional Fixed Income - 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, ~~D~~derivative ~~A~~applications approved by the UTIMCO Board that serve as a fixed income substitute will be classified as traditional fixed income.

TIPS - TIPS are treasury inflation protected securities which are marketable securities with a return linked to the inflation rate. In constructing diversified TIPS portfolios, securities classified as traditional fixed income can be utilized by outside investment managers.

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

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.

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, and limited partnerships managed externally shall be governed by the terms and conditions of the respective ~~I~~investment ~~M~~ management ~~C~~ contracts or partnership agreements.

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

- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by ~~the~~ UTIMCO's 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 ~~D~~ derivative ~~S~~ 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 ~~D~~ derivative ~~S~~ 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. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

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~~ UTIMCO's 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' ~~A~~ acceptances ~~must be~~ guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase ~~A~~agreements and ~~R~~reverse ~~R~~repurchase ~~A~~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 ~~C~~collateral ~~S~~securities for ~~R~~repurchase ~~A~~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 ~~R~~repurchase ~~A~~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 ~~R~~repurchase ~~A~~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 ~~R~~repurchase ~~A~~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.

<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~~ subsectors 1) Government securities: Treasury and Agency; 2) Corporate securities: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; 4) Asset-backed securities; 5) Taxable Municipal securities; and 6) Commercial Mortgage-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG 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- or better, 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 50% of the GEF's fixed income portfolio may be invested in non-U. S. dollar denominated bonds. ~~Not more than 15% of the GEF's fixed income portfolio may be invested in bonds denominated in any one currency.~~

- Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U. S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

- Not more than 15% of the GEF's fixed income portfolio may be invested in ~~E~~ emerging ~~M~~ 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 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~~ UTIMCO's chief investment officer.

~~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, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by ~~the~~ UTIMCO's 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~~ UTIMCO's chief investment officer, at the net asset value per unit of the GEF as of the most recent quarterly valuation date. Each fund whose monies are invested in the GEF shall own an undivided interest in the GEF in the proportion that the number of units invested therein bears to the total number of all units comprising the GEF.

Redemption of GEF Units

Redemption of GEF units shall be paid in cash as soon as practicable after the quarterly valuation date of the GEF. Withdrawals from the GEF shall be at the market value price per unit determined 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 lending agent shall be reviewed by UTIMCO staff to insure compliance with contract provisions.

Investor Responsibility

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

Effective Date

The effective date of this policy shall be August 12, 2004~~December 19, 2003~~, except for exhibit A which is effective January 1, 2004.

CURRENT

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 5**	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**

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**	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities 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 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	
Private Equity	9.0	5 to 15	
Total Private Capital	**15.0**	**5 to 15**	Venture Economics' Periodic IRR Index
Commodities	**3.0**	**0 to 5**	GSCI minus 1%
Fixed Income:	**15.0**	**10 to 30**	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	**0.0**	**0 to 5**	90 Day T-Bills

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

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

LTF Management

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

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

~~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.~~ Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), t~~T~~he LTF shall be ~~governed~~ managed by ~~through~~ ~~The University of Texas Investment Management Company ("~~UTIMCO~~")~~, which shall a) recommend investment policy for the LTF, b) recommend ~~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 this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

LTF Administration

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

Funds Eligible to Purchase LTF Units

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

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

LTF Investment Objectives

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

The secondary fund objective~~s are~~ is 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 with assets greater than $1 billion 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 for the current GEF allocation, which is subject to changes by the Board of Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.~~)~~

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 quarterly ~~annually~~.

Investment Guidelines

The LTF 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 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:

- Eligible investments within the "Cash and Cash Equivalents" category of the GEF Investment Policy Statement.

- ~~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; and

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

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

Generally, p~~P~~ursuant to the Uniform Management of Institutional Funds Act, Chapter 163, Texas Property Code, as amended, ("Act"), ~~a governing board~~ the Board of Regents may distribute, for the uses and purposes for which the ~~fund~~ LTF is established, the net appreciation, realized and unrealized, in the fair market value of the assets of ~~an endowment fund~~ the LTF 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~~ calculating the LTF's distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise ~~established~~ recommended by UTIMCO and approved by the Board of Regents or prohibited by the Act, LTF ~~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~~ recommend 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 price per unit), the UTIMCO Board ~~at its sole discretion,~~ may ~~reduce~~ recommend a reduction in the per unit distribution amount.

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

Distributions from the LTF to the 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, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by ~~the~~ UTIMCO's 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~~ UTIMCO's chief investment officer, at the net asset value per unit of the LTF as of the most recent quarterly valuation date.

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

Redemption of LTF Units

Redemption of LTF units shall be paid in cash as soon as practicable after the quarterly valuation date of the LTF. If the withdrawal is greater than $10 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the LTF's net asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the best interests of all LTF 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 August 12, 2004~~December 19, 2003~~.

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 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 5**	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**

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**	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities 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 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	
Private Equity	9.0	5 to 15	
Total Private Capital	**15.0**	**5 to 15**	Venture Economics' Periodic IRR Index
Commodities	**3.0**	**0 to 5**	GSCI minus 1%
Fixed Income:	**15.0**	**10 to 30**	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	**0.0**	**0 to 5**	90 Day T-Bills

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

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 (the "PHFHE"), the distributions from which are to fund programs that benefit medical research, health education, or treatment programs at 10 health-related institutions of higher education; and

B. Eight of the thirteen separate Permanent Funds for Health Related Institutions (the "PFHRIs"), the distributions from which are to fund research and other programs at health-related institutions of higher education that benefit public health. The PFHRIs invested in the PHF are:

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

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

PHF Organization

The PHF ~~is organized as~~ functions like a mutual fund in which each eligible fund ~~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. Pursuant to the foregoing and an Investment Management Services Agreement between the Board of Regents and the State Comptroller, the Board of Regents is the administrator responsible for managing the PHF. Chapter 63 ~~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.

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

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

~~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.~~ Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), t~~T~~he PHF shall be ~~governed~~ managed by ~~through~~ ~~The University of Texas Investment Management Company (~~UTIMCO~~)~~

which shall: a) recommend investment policy for the PHF; b) recommend ~~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 this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

PHF Administration

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

Funds Eligible to Purchase PHF Units

No fund shall be eligible to purchase units of the PHF unless it is a permanent health fund established pursuant to Chapter 63 of the Texas Education Code, under the control, with full discretion as to investments, of ~~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 return ~~of 5.1%~~ over rolling ten-year periods or longer at least equal to the target distribution rate, plus the annual expected expense. ~~This 5.1% target was derived by adding the current target distribution rate of 4.75% plus an annual expected expense of .35%.~~ The current target rate is 5.1%. The target is subject to adjustment from time to time consistent with the primary investment objective of the PHF. 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 objective~~s are~~ is 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 with assets greater than $1 billion 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 for the current GEF allocation, which is subject to changes by the Board of Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.~~)~~

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 quarterly ~~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.~~

<u>Cash and Cash Equivalents</u>

Holdings of cash and cash equivalents may include the following:

- Eligible investments within the "Cash and Cash Equivalents" category of the GEF Investment Policy Statement.

- ~~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; and

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

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

UTIMCO shall be responsible for ~~establishing~~ calculating the PHF's distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise ~~established~~ recommended by UTIMCO and approved by the Board of Regents, PHF ~~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~~ recommend 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 price per unit), the UTIMCO Board ~~at its sole discretion,~~ may ~~reduce~~ recommend a reduction in the per unit distribution amount.

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

Distributions from the PHF to the 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, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by ~~the~~ UTIMCO's 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. Such valuation of PHF assets shall be based on the bank trust custody agreement in effect at the date of valuation. 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~~ UTIMCO's chief investment officer, at the net asset value per unit of the PHF as of the most recent quarterly valuation date.

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

Redemption of PHF Units

Redemption of PHF units shall be paid in cash as soon as practicable after the quarterly valuation date of the PHF. If the withdrawal is greater than $5 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $5 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the PHF's net asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the best interests of all PHF 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 August 12, 2004~~December 19, 2003~~.

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 B

GEF ASSET ALLOCATION

	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 5**	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

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

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

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**	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities 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 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	
Private Equity	9.0	5 to 15	
Total Private Capital	**15.0**	**5 to 15**	Venture Economics' Periodic IRR Index
Commodities	**3.0**	**0 to 5**	GSCI minus 1%
Fixed Income:	**15.0**	**10 to 30**	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	**0.0**	**0 to 5**	90 Day T-Bills

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

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

Purpose

The Short Intermediate Term Fund (the "SITF"), was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System component institutions and System Administration with an investment horizon greater than one year.

SITF Organization

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

SITF Management

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

Ultimate fiduciary responsibility for the SITF 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.

~~Ultimate fiduciary responsibility for the SITF 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 SITF.~~ Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), ~~T~~ the SITF shall be managed by ~~governed through The University of Texas Investment Management Company ("~~UTIMCO,~~")~~ which shall a) recommend investment policy for the SITF, b) recommend ~~determine~~ specific asset allocation targets, ranges and performance benchmarks consistent with SITF objectives, and c) monitor SITF performance against SITF objectives. UTIMCO shall invest the SITF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibit to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority approved by the UTIMCO Board. ~~Unaffiliated investment managers may be hired by UTIMCO to improve the SITF'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.

SITF Administration

UTIMCO ~~or its agent~~ 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 SITF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase SITF Units

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

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

The funds of a foundation which is structured as a supporting organization described in Section 509(a) of the Internal Revenue Code of 1986 which supports the activities of the U. T. System and its component institutions, may purchase units in the SITF provided that:

A. the purchase of SITF units by foundation funds is approved by ~~the~~ UTIMCO's chief investment officer;

B. all members of the foundation's governing board are also members of the Board of Regents;

C. the foundation has the same fiscal year as the SITF;

D. a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the SITF; and

E. no officer of such foundation, other than members of the Board of Regents, the Chancellor, ~~the~~ UTIMCO's chief investment officer or his or her delegate shall have any control over the management of the SITF other than to request purchase and redemption of SITF units.

SITF Investment Objectives

The primary investment objective shall be to provide both income through investment in high grade fixed income and floating rate obligations and capital appreciation when consistent with income generation. ~~, reasonable preservation of capital~~ and maintenance of adequate SITF liquidity. ~~In seeking to achieve its objectives, the SITF shall attempt to minimize the probability of a negative total return over a one-year period.~~ Within the exposure limits contained herein, investments shall be diversified among authorized asset classes and issuers (excluding the U. S. Government) in order to minimize portfolio risk for a given level of expected return. This objective will be achieved by adding value through active management including duration and yield curve management, sector rotation, security selection, and cost efficient trading.

Achievement of this objective shall be defined by a fund return over a market cycle in excess of the U.T. System Short Term Fund ("STF") and the ~~Policy Portfolio benchmark~~ Merrill Lynch 1-3 Year Treasury Index . ~~and the average return of the median manager of the MorningStar universe of government bond funds restricted to an average maturity of less than or equal to three years.~~ The SITF will attempt to achieve a return in excess of the STF primarily through a longer average maturity/duration and through UTIMCO active portfolio management efforts. ~~The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect SITF asset allocation policy targets.~~

It is important to note that the SITF return will be more volatile than the STF fund returns, and under very unusual capital market conditions, the total return of the SITF could be negative over a 12 month period.

Asset Allocation and Policy

Asset allocation is the primary determinant of investment performance and, subject to the asset allocation ranges specified ~~herein~~ in Exhibit A, is the responsibility of UTIMCO. Specific asset allocation targets may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable.

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

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

2. Fixed Income Investments- offer predictable income streams without the remarketing risk often associated with cash and cash equivalents.

3. Floating R~~r~~ate S~~s~~ecurities - offer protection from unanticipated inflationary pressures and rises in interest rates.

~~**Asset Allocation Policy**~~

~~The asset allocation policy and ranges herein seek to protect the SITF against illiquidity in both normal and extraordinary markets.~~

~~The Board of Regents delegates authority to UTIMCO to establish specific asset allocation targets and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for or within the asset classes listed above 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 SITF will be measured by the SITF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the ~~stated investment objectives~~ specific performance benchmarks of the SITF. Such measurement will occur at least quarterly ~~annually, and evaluate the results of the total SITF, major classes of investment assets, and individual portfolios~~.

Investment Guidelines

The SITF must be invested at all times in strict compliance with applicable law. ~~The primary and constant standard for making investment decisions is the investment standard set forth in the Uniform Management of Institutional Funds Act (§163.007, Texas Property Code)~~

Investment guidelines include the following:

<u>General</u>

- 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~~ UTIMCO's chief investment officer prior to investment of SITF assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the SITF'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 SITF may utilize ~~D~~derivative ~~S~~securities with the approval of the UTIMCO Board ~~to~~; a) to simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) to facilitate trading; c) to reduce transaction costs; d) to seek higher investment returns when a ~~D~~derivative ~~S~~security is priced more attractively than the underlying security; e) to index or to hedge risks associated with SITF investments; or f) to adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such ~~D~~derivative purchases or sales; ii) no more than 5% of SITF assets are required as an initial margin deposit for such contracts; iii) the SITF's investments in warrants shall not exceed more than 5% of the SITF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- Such ~~D~~derivative ~~S~~securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the SITF and the prices of ~~D~~derivative ~~S~~security investments by investing in only those contracts whose behavior is expected to resemble that of the SITF's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a ~~D~~derivative ~~S~~security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of ~~D~~derivative ~~S~~securities purchased or sold over the counter may not represent more than 15% of the net assets of the SITF.

In the event that there are no ~~D~~derivative ~~S~~securities traded on a particular market index, the SITF may utilize a composite of other ~~D~~derivative ~~S~~security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected ~~D~~derivative ~~S~~securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

- UTIMCO shall minimize the risk that a party will default on its payment obligation under a ~~D~~derivative ~~S~~security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the SITF will not be able to meet its obligation to the counterparty by investing the SITF in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

  ~~The SITF may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.~~

- The duration of any eligible investment shall not exceed 10 years.

<u>Risk Management</u>

- Credit risk shall be controlled by UTIMCO who is responsible for the development and maintenance of credit quality standards for the SITF.

- Interest rate risk shall be controlled by limiting the option-adjusted duration of the portfolio between one-half year and four years unless approved in advance by the UTIMCO Board.

- Not more than 5% of the total value of the securities in the SITF shall be placed with any one issuer (i.e. Commercial Paper, Certificates of Deposit, or

Bankers Acceptances) other than the U.S. Treasury, U.S. Agency, or Government Sponsored entities.

- Counterparty exposure in the area of ~~R~~repurchase ~~A~~agreements and ~~R~~reverse ~~R~~repurchase ~~A~~agreements shall be not more than 5% of the total value of the securities in the SITF shall be placed with any one counterparty.

Eligible Investments

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

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.

- Internal short term pooled investment fund managed by UTIMCO.

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

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

- Repurchase ~~A~~agreements and ~~R~~reverse ~~R~~repurchase ~~A~~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 ~~C~~collateral ~~S~~securities for ~~R~~repurchase ~~A~~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 ~~R~~repurchase ~~A~~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 ~~R~~repurchase ~~A~~agreement, valued daily.

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

- Reverse ~~R~~repurchase ~~A~~agreements shall be used to fund the liquidity facility for the University of Texas System revenue financing notes.

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

- Overnight repurchase agreements may not exceed 25% of the SITF's total assets.

<u>Fixed Income</u>
Holdings of eligible fixed income securities shall be limited to the following:

- Securities issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies. The latter two categories include U. S. Government Agency Mortgage Backed Securities ("MBS").

Holdings of eligible fixed income derivative securities shall be limited by the following guidelines:

With prior written approval of the UTIMCO Board, the Portfolio Manager may enter into derivatives transactions utilizing exchange traded fixed income futures contracts or options on fixed income futures contracts; provided that such derivatives transactions are designed to control duration or manage risk.

Such derivatives transactions shall be established on a case by case basis. These contracts shall include but shall not be limited to Ten-Year Treasury Futures, Eurodollar Futures, or Treasury Bill Futures, provided that the futures exchanges are rated AAA or the equivalent as determined by UTIMCO.

Such derivatives shall be priced daily.

Market risk shall be measured in dollar duration equivalent values or in the case of options in delta or percentage of equivalent futures contracts.

For the purpose of this policy Collateralized Mortgage Obligations ("CMOs") are considered to be MBS, not derivatives.

SITF Distributions

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

SITF Accounting

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

Valuation of Assets

UTIMCO shall determine the fair market value of all SITF net assets and the net asset value per unit of the SITF no less than once a week and on the last business day of each month. Such valuation of SITF assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of SITF assets shall be based on the books and records of the custodian for the valuation date.

The fair market value of the SITF's net assets shall include all related receivables and payables of the SITF 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 SITF Units

Purchase of SITF units may be made no ~~less~~ more often than once a week and on the last business day of each month upon payment of cash to the SITF or contribution of assets approved by ~~the~~ UTIMCO's chief investment officer, at the net asset value per unit of the SITF as of the most recent weekly or end of month valuation date.

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

Redemption of SITF Units

Redemption of SITF units shall be paid in cash as soon as practicable after the most recent weekly or end of month valuation date of the SITF

Securities Lending

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be August 12, 2004~~August 7, 2003~~.

EXHIBIT A

SHORT INTERMEDIATE TERM FUND

SPECIFIC ASSET ALLOCATION TARGETS~~,~~ AND RANGES~~, AND PERFORMANCE OBJECTIVES~~

	Target	Range	~~Performance Objective~~
U.S. Treasuries	60%	0%-100%	~~(1)~~
U.S. Government Agencies	40%	0%-80%	~~(2)~~
Mortgage Backed Securities	0%	0%-60%	
STIF	0%	0%-40%	
Corporate Cash Equivalents	0%	0%-40%	
Repurchase Agreements	0%	0%-33%	
TOTAL ASSETS	**100%**		

~~(1) .1 x M.L. 91-day U.S. Treasury Bill Index + .1 x M.L. 6 mo. U.S. Treasury Bill Index + .3x M.L. 1-3 yr. U.S. Treasury Index + .1 x M.L. 3-5 yr. U.S. Treasury Index~~

~~(2) .3 x M.L. 1-3 yr. U.S. Federal Agencies Index + .1 x M.L. 3-5 yr. U.S. Federal Agencies Index~~

~~Achievement of these performance objectives is most appropriately evaluated over a full market cycle of roughly five years.~~

THE UNIVERSITY OF TEXAS SYSTEM
SHORT TERM FUND
INVESTMENT POLICY STATEMENT

Purpose

The Short Term Fund (the "STF") was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System component institutions and System Administration with an investment horizon less than one year.

STF Organization

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

STF Management

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

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

~~Ultimate fiduciary responsibility for the STF rests with the Board of Regents. Section 163 of the 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 STF.~~ Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), ~~T~~ the STF shall be managed by ~~governed through The University of Texas Investment Management Company ("~~UTIMCO,~~")~~ which shall: a) recommend investment policy for the STF, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with STF objectives, and c) monitor STF performance against STF objectives. UTIMCO shall invest the STF assets in conformity with ~~investment policy~~ this Policy Statement.

~~Unaffiliated investment managers may be hired by UTIMCO to improve the STF's return and risk characteristics.~~ UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority approved by the UTIMCO Board. ~~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.

STF Administration

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

Funds Eligible to Purchase STF Units

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

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

The funds of a foundation which is structured as a supporting organization described in Section 509(a) of the Internal Revenue Code of 1986, which supports the activities of the U. T. System and its component institutions, may purchase units in the STF provided that:

A. the purchase of STF units by foundation funds is approved by ~~the~~ UTIMCO's chief investment officer;

B. all members of the foundation's governing board are also members of the Board of Regents;

C. the foundation has the same fiscal year as the STF;

D. a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the STF; and

E. no officer of such foundation, other than members of the Board of Regents, the Chancellor, ~~the~~ UTIMCO's chief investment officer or his or her delegate shall have any control over the management of the STF other than to request purchase and redemption of STF units.

STF Investment Objectives

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

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

Asset Allocation

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

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

<u>Cash and Cash Equivalents</u> - 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 ~~the best combination of income and~~ good liquidity under both deflation and inflation conditions.

Performance Measurement

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

Investment Guidelines

The STF must be invested at all times in strict compliance with applicable law. ~~The primary and constant standard for making investment decisions is the investment standard set forth in the Uniform Management of Institutional Funds Act (§163.007, Texas Property Code)~~

Investment guidelines include the following:

General

- All investments will be U. S. dollar denominated assets.

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

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

- No 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 STF may utilize ~~D~~derivative ~~S~~securities with the approval of the UTIMCO Board 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 ~~D~~derivative ~~S~~security is priced more attractively than the underlying security; e) to index or to hedge risks associated with STF investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such ~~D~~derivative purchases or sales; ii) no more than 5% of STF assets are required as an initial margin deposit for such contacts; and iii) the STF's investments in warrants shall not exceed more than 5% of the STF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.

- Such ~~D~~derivative ~~S~~securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

- UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the STF and the prices of ~~D~~derivative ~~S~~security investments by investing in only those contracts whose behavior is expected to resemble that of the STF's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a ~~D~~derivative ~~S~~security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. Derivative ~~S~~securities purchased or sold over the counter may not represent more than 15% of the net assets of the STF.

- In the event that there are no ~~D~~derivative ~~S~~securities traded on a particular market index, the STF may utilize a composite of other ~~D~~derivative ~~S~~security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected ~~D~~derivative ~~S~~securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

- UTIMCO shall minimize the risk that a party will default on its payment obligation under a ~~D~~derivative ~~S~~security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the STF will not be able to meet its obligation to the counterparty by investing the STF in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

- ~~The STF may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.~~

<u>Eligible Investments</u>

The weighted average maturity of the portfolio shall not be more than 60 days. Individual securities shall have a remaining maturity not longer than 397 days. The maturity of a portfolio security shall be deemed to be the period remaining (calculated from the trade date or such other date on which the STF's interest in the security is subject to market action) until the date noted on the face of the security as the date on which the principal amount must be paid, or in the case of a security called for redemption, the date on which the redemption payment must be made, except that: a) a variable rate security, the principal amount of which is scheduled on the face of the security to be paid in 397 days or less, shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate; b) a variable rate security that is subject to a demand feature shall be deemed to have a maturity equal to the longer of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand; c) a floating rate security that is subject to a demand feature shall be deemed to have a maturity equal to the period remaining until the principal amount can be recovered through demand; d) a repurchase agreement shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur, or, where no date is specified, but the agreement is subject to a demand, the notice period applicable to a demand for the repurchase of the securities. A demand feature shall mean a put that entitles the holder to receive the principal amount of the underlying security or securities and that may be exercised either at any time on no more than 30 days notice or at specified intervals not exceeding 397 days and upon no more than 30 days notice.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.

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

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

- Repurchase ~~A~~agreements and ~~R~~reverse ~~R~~repurchase ~~A~~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 ~~R~~repurchase ~~A~~agreement with UTIMCO.

  - Eligible Collateral Securities for ~~R~~repurchase ~~A~~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 ~~R~~repurchase ~~A~~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 ~~R~~repurchase ~~A~~agreement, valued daily.

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

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

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

<u>Fixed Income</u>
Holdings of eligible fixed income derivative securities shall be limited by the following guidelines:

- With prior written approval of the UTIMCO Board, the Portfolio Manager may enter into derivatives transactions utilizing exchange traded fixed income futures contracts or options on fixed income futures contracts, provided that such derivatives transactions are designed to control duration or manage risk.

- Such derivatives transactions shall be established on a case by case basis. These contracts shall include but shall not be limited to Fed Fund Futures, Eurodollar Futures, or Treasury Bill Futures, provided that the futures exchanges are rated AAA or the equivalent as determined by UTIMCO.

- Such derivatives shall be priced daily.

- Market risk shall be measured in dollar duration equivalent values or, in the case of options, in delta or percentage of equivalent futures contracts.

- For the purpose of this policy Collateralized Mortgage Obligations ("CMOs") are considered to be Mortgage Backed Securities ("MBS"), not derivatives.

STF Distributions

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

STF Accounting

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

Valuation of Assets

~~As of the close of business on each business day, UTIMCO shall determine the fair market value of all STF net assets. Such valuation of STF assets shall be based on the bank trust custody agreement in effect at the date of valuation.~~ All investments are stated at amortized cost, which in most cases approximates the market value of securities. The objective of the Fund is to maintain a stable $1.00 net asset value; however, the $1.00 net asset value is not guaranteed or insured by the UTIMCO.

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

Purchase of STF Units

Purchase of STF units may be made on each business day upon payment of cash to the STF or contribution of assets approved by ~~the~~ UTIMCO's chief investment officer, at $1.00 per unit of the STF as of the most recent valuation date.

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

Redemption of STF Units

Redemption of units may be made on each business day at $1.00 per unit.

Securities Lending

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be August 12, 2004~~August 7, 2003~~.

THE UNIVERSITY OF TEXAS SYSTEM
SEPARATELY INVESTED ENDOWMENT, TRUST, AND OTHER ACCOUNTS INVESTMENT POLICY STATEMENT

Purpose

The Separately Invested Endowment, Trust, and Other Accounts are Accounts established in the name of the Board of Regents of The University of Texas System (the "Board of Regents"), as trustee, and are Accounts which are not solely invested in one of the pooled investment vehicles. These Accounts are not invested in the pooled investment vehicle because: a) they are charitable trusts; b) of investment restrictions incorporated into the trust/endowment document; c) of inability to sell the gifted investment asset; or d) they are assets being migrated upon liquidation into a pooled investment vehicle.

Investment Management

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

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

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Company ("UTIMCO"), the ~~Ultimate fiduciary responsibility for the assets of the Accounts rests with the Board of Regents. Section 163 of the 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 institutional assets for the Account (endowment and operating accounts). The~~

~~applicable trust instrument will apply to the management of trust investments. The~~ assets for the Account shall be ~~governed~~ managed by ~~through~~ ~~The University of Texas Investment Management Company ("~~UTIMCO,~~")~~ which shall: a) recommend investment policy for the Accounts, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with the Account objectives, and if appropriate c) monitor the Account's performance against Account objectives. UTIMCO shall invest the Account's assets in conformity with this Policy Statement ~~investment policy~~.

Unaffiliated investment managers may be hired by UTIMCO to improve the Account'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.

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

Investment Objectives

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

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

<u>Operating Accounts</u> - These are separate operating accounts of ~~the~~ U.T. System c~~C~~omponent institutions which invest in an Equity Index Fund and U. S. Debt Index

Fund as approved by ~~the~~ UTIMCO's Chief Investment Officer. The amount of component operating funds invested in the index funds is governed by the U. T. System Financial Policy.

Asset Allocation

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

If appropriate, the Account's assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

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

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

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

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

Asset Allocation Policy

The asset allocation policy and ranges for each Account ~~trust or endowment~~ herein is dependent on the terms and conditions of the applicable trust/endowment or trust document. With respect to the operating accounts, the U. T. System financial policies shall govern. If possible, the Account's assets shall be diversified among different types of assets whose returns are not closely correlated in order to enhance the return/risk profile of the Account.

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

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

<u>General</u>

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

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

- No 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 Account may utilize ~~D~~derivative ~~S~~securities with the approval of the UTIMCO Board 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 ~~D~~derivative ~~S~~security is priced more attractively than the underlying security; e) index or to hedge risks associated with Account investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that: i) no leverage is employed in the implementation of such ~~D~~derivative purchases or sales; ii) no more than 5% of the Accounts assets are required as an initial margin deposit for such contracts; iii) the Account's investments in warrants shall not exceed more than 5% of the Account's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.

- Such ~~D~~derivative ~~S~~securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Account and the prices of ~~D~~derivative ~~S~~security investments by investing in only those contracts whose behavior is expected to resemble that of the Account's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a ~~D~~derivative ~~S~~security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of ~~D~~derivative ~~S~~securities purchased or sold over the counter may not represent more than 15% of the net assets of the Account.

In the event that there are no ~~D~~derivative ~~S~~securities traded on a particular market index, the Account may utilize a composite of other ~~D~~derivative ~~S~~security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected ~~D~~derivative ~~S~~securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

UTIMCO shall minimize the risk that a party will default on its payment obligation under a ~~D~~derivative ~~S~~security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the Account will not be able to meet its obligation to the counterparty by investing the Account in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

The Account may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.

Risk Management

- Credit risk shall be controlled by UTIMCO who is responsible for the development and maintenance of credit quality standards for the Account.

- Counterparty exposure in the area of ~~R~~repurchase ~~A~~agreements and ~~R~~reverse ~~R~~repurchase ~~A~~agreements – Not more than 5% of the total value of the securities in the Account shall be placed with any one counterparty.

- Diversification of credit risk shall be determined on an account basis.

Eligible Investments

Cash and cash equivalents

Holdings of cash and cash equivalents may include the following:

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.

- Approved Tax Exempt unaffiliated liquid investment fund.

- Internal short term pooled investment fund managed by UTIMCO.

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

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

- Repurchase ~~A~~agreements and ~~R~~reverse ~~R~~repurchase ~~A~~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 ~~R~~repurchase ~~A~~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 ~~R~~repurchase ~~A~~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 ~~R~~repurchase ~~A~~agreement, valued daily.

- All collateral shall be delivered to the Account's 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 Account's total assets.

- Overnight repurchase agreements may not exceed 10% of the Account's total assets.

• Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as ~~R~~reverse ~~R~~repurchase ~~A~~agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

<u>Fixed income securities</u>

Holdings of eligible 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 sub-indices; 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. 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.

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

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

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

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

- Permissible securities for investment include Fixed Income Mutual Funds and Debt Index Funds as approved by ~~the~~ UTIMCO's Chief Investment Officer.

- Permissible securities for investment include Fixed Income Variable Annuity Contracts as approved by ~~the~~ UTIMCO's Chief Investment Officer.

<u>Equities</u>

The Account may purchase equity securities as long as it:

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

B. holds no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by ~~the~~ UTIMCO's Chief Investment Officer.

The Account may purchase Equity Mutual Funds and Equity Variables Annuity Contracts as approved by ~~the~~ UTIMCO's Chief Investment Officer.

The provisions concerning investment in fixed income and equities securities shall not apply to an endowment in which the agreement prohibits the sale of an equity or fixed income security. Donor preferences shall be considered in determining the disposition of a gifted security.

Distributions

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

Accounting

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

Valuation of Assets

As of the close of business for each month, UTIMCO shall determine the fair market value of all assets in the Accounts. Such valuation of assets shall be based on the bank trust custody agreement in effect or other external source if not held in the bank custody account at the date of valuation.

Securities Lending

The Account 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 Accounts shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate. The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the Account 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 Account. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Account solely in the interest of the beneficiaries and shall not invest the Account so as to achieve temporal benefits for any purpose, including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be August 12, 2004~~August 7, 2003~~.

Section 9

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Agenda Item:	Discussion and Approval of Liquidity Policy
Developed By:	Boldt, Moeller
Presented By:	Hester, Boldt
Type of Item:	Action Required by UTIMCO Board; Action required by U.T. Board of Regents
Description:	The Liquidity 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.
Recommendation:	Recommend approval of the Liquidity Policy as presented in this agenda item, with additional changes, if any, resulting from the July 15, 2004 meeting of the Liquidity Committee.

Discussion: The Liquidity Policy is being amended for the following:

- Clarify that swaps, derivatives, or other third party arrangements may alter an investments liquidity status rather than create liquidity.
- Clarify the responsibility that the Liquidity Committee has in reviewing new investments made in the 20% to 30% trigger zone. The Liquidity Committee will supplement, rather than replace, the procedures the UTIMCO Board has in place for the approval of new investments.
- Require certification of the accuracy of the monthly liquidity reports by each managing director, risk manager, chief compliance officer, and president
- Clarify that either the UTIMCO Board or Liquidity Committee can review and approve certain actions. This delegation is further documented in the Liquidity Charter
- Proposal of new charts reporting liquidity to clarify the range for the liquid investments.
- Minor editorial changes have been made.

Reference: PUF and GEF Investment Policies; Delegation of Authority Policy

Resolution No. 6

RESOLVED, that the Liquidity Policy as presented be, and is hereby, approved, subject to approval by the U. T. System Board of Regents.

The University of Texas Investment Management Company
Liquidity Policy

Original Effective Date of Policy: August 7, 2003~~December 19, 2003~~
Original Date Approved by UTIMCO Board: June 26, 2003~~December 4, 2003~~
Dates revised by UTIMCO Board: July 15, 2004 and December 4, 2003

Purpose:

The purpose of ~~the~~this 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 adopted~~established by The University of Texas Investment Management Company (UTIMCO) Board and approved~~ by the U. T. Board of Regents.

Objective:

The objective of ~~the~~this Liquidity Policy is to control the element of total risk exposure of the Funds 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 Liquidity Policy applies to all PUF and GEF investments made by The University of Texas Investment Management Company (UTIMCO), both by internal and by external managers. Policy implementation will be managed at the aggregate UTIMCO level and will not be a responsibility of individual internal or external managers managing a portion of the aggregate assets.

Definition of Liquidity Risk:

"Liquidity ~~R~~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. All individual investments within the Funds will be segregated into two categories:

- **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.

- **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%.

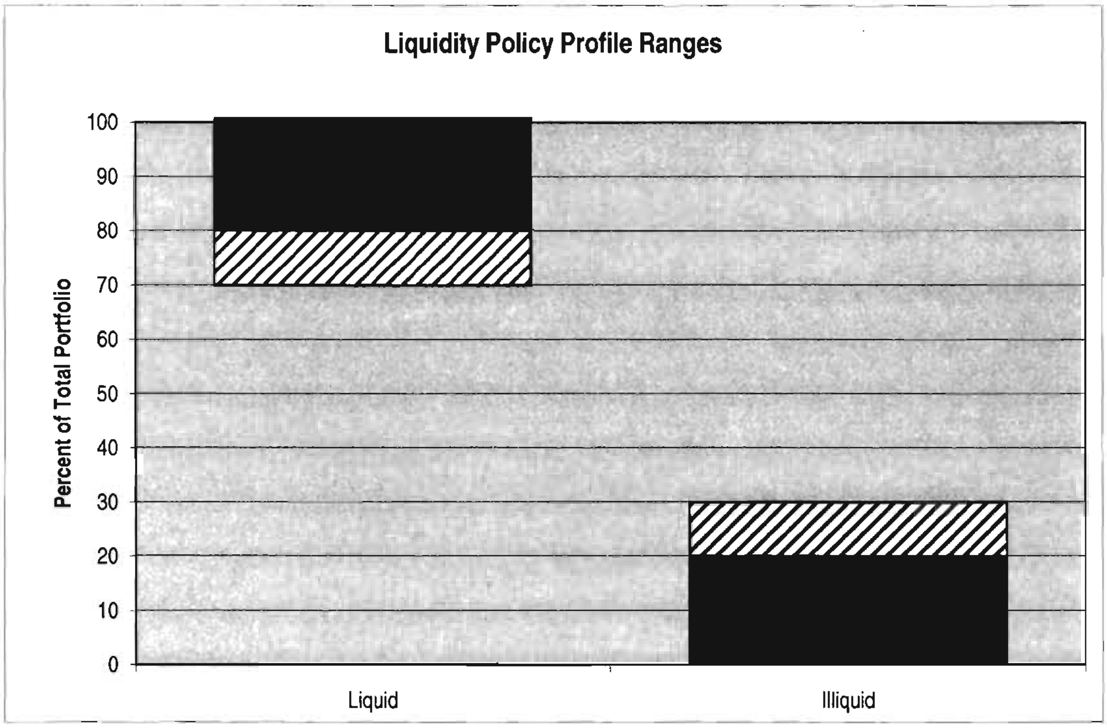
The measurements necessary to segregate all investments into one of the two categories assume normally functioning capital markets and cash market transactions. In addition, swaps, derivatives, or other third party arrangements to alter an investments liquidity status ~~create liquidity~~ may be considered,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

The result of this liquidity risk measurement process will be a liquidity profile for the Funds 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:

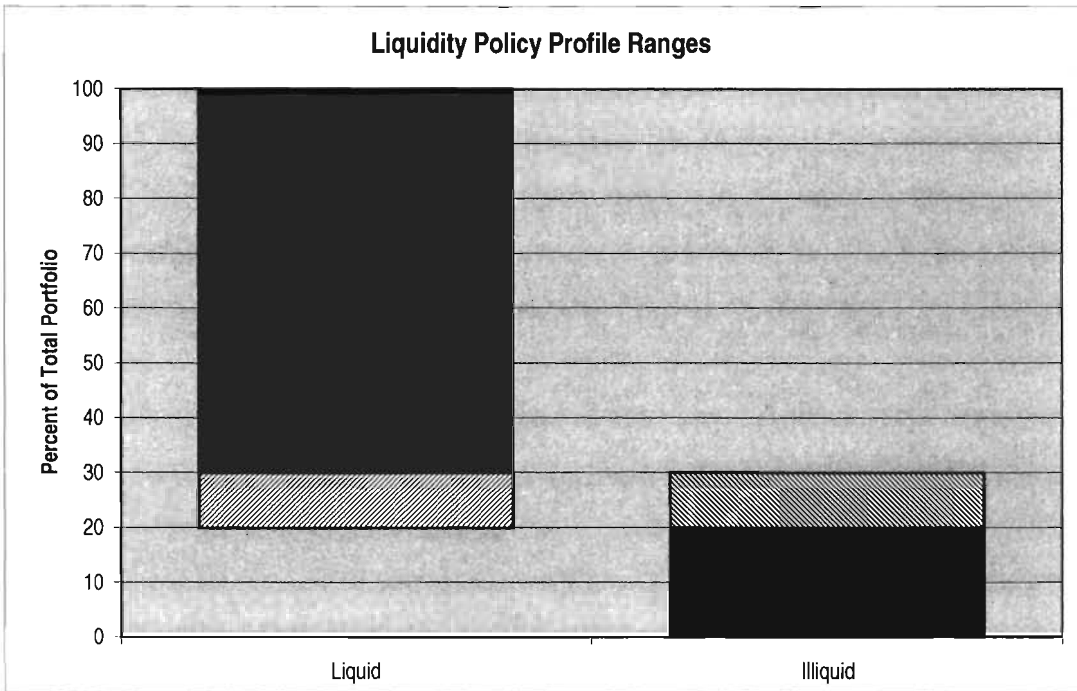
The current Liquidity Policy Profile ranges and trigger zones are defined by the chart below:

PROPOSED



The University of Texas Investment Management Company
Liquidity Policy

CURRENT



The green bar indicates the Policy range for investments categorized as "~~L~~liquid" by the definition presented earlier. The red bar indicates the Policy range for investments categorized as "~~I~~illiquid" by earlier definition. The shaded sections of the green and red bars indicate trigger zones requiring special action by the UTIMCO Board or the Liquidity Committee~~a Board-designated subcommittee~~. ~~For example, the allowable range for "Iilliquid" 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~~. For example, the allowable range for illiquid investments is 0% to 30% of the total portfolio. However, any illiquid investments made in the 20% to 30% trigger zone requires prior approval by the Liquidity Committee or the UTIMCO Board. Liquidity Committee review of new investments in the illiquid trigger zone will supplement, rather than replace, the procedures established by the UTIMCO Board for the approval of new investments.

Documentation and Controls:

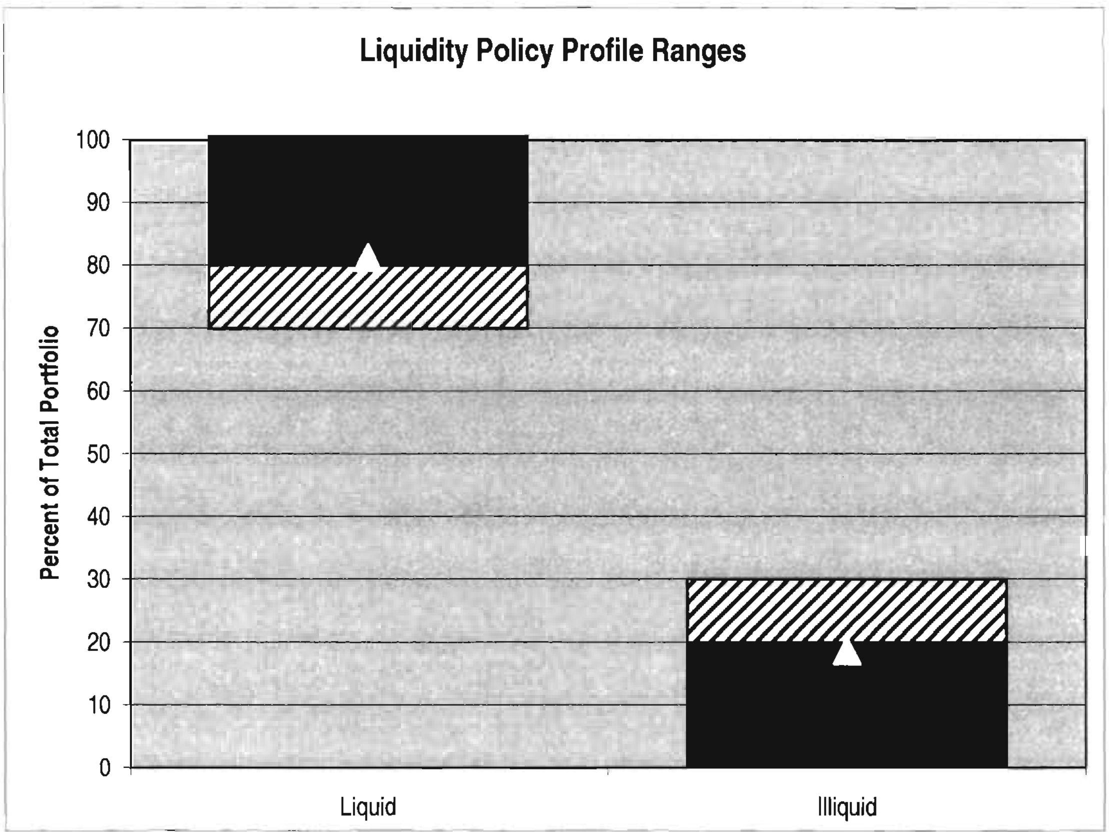
Managing Directors responsible for each asset class are responsible for determining the liquidity category for each investment in that class. These classifications will be reviewed by the Risk Manager and must receive final approval from the Chief Investment Officer. Classifications and weights within each liquidity category will be updated and reported on a monthly basis. The monthly liquidity reports will include certification by each Managing Director, the Risk Manager, the Chief Compliance Officer, and the President of UTIMCO, that all investments are properly catergorized and reported. All new investments considered will be categorized by liquidity category, and a statement regarding the effect on overall liquidity of the addition of ~~the~~a new investment must be an element of the due diligence process and will be a part of ~~all~~the recommendation report~~s~~ 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 or the Liquidity Committee in the event any investment action would cause ~~any liquidity measure~~ the actual investment position in illiquid investments to enter ~~any of~~ the designated trigger zones~~s~~, or in the event market actions caused ~~measures~~the actual investment position in illiquid investments to move into trigger zones. In addition, any proposed investment actions which would ~~change any single liquidity category percentage~~increase the actual investment position in illiquid investments in either the PUF or the GEF by 10% or more would also require ~~UTIMCO Board~~ review and action by the UTIMCO Board or the Liquidity Committee prior to the change. Any actual positions in any trigger zones or outside the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board and the Liquidity Committee the circumstances of the deviation from Policy and the remedy to the situation.

Reporting:

The actual ~~L~~liquidity ~~P~~profile of the Funds and compliance with ~~the~~this Liquidity Policy will be reported to the UTIMCO Board on at least a quarterly basis. Any exception to ~~the~~this Liquidity 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 "~~L~~liquid" investments is 81.3%, while exposure to "~~I~~illiquid" investments is 18.7% and both are within their respective allowable policy ranges and not in defined trigger zones.

PROPOSED



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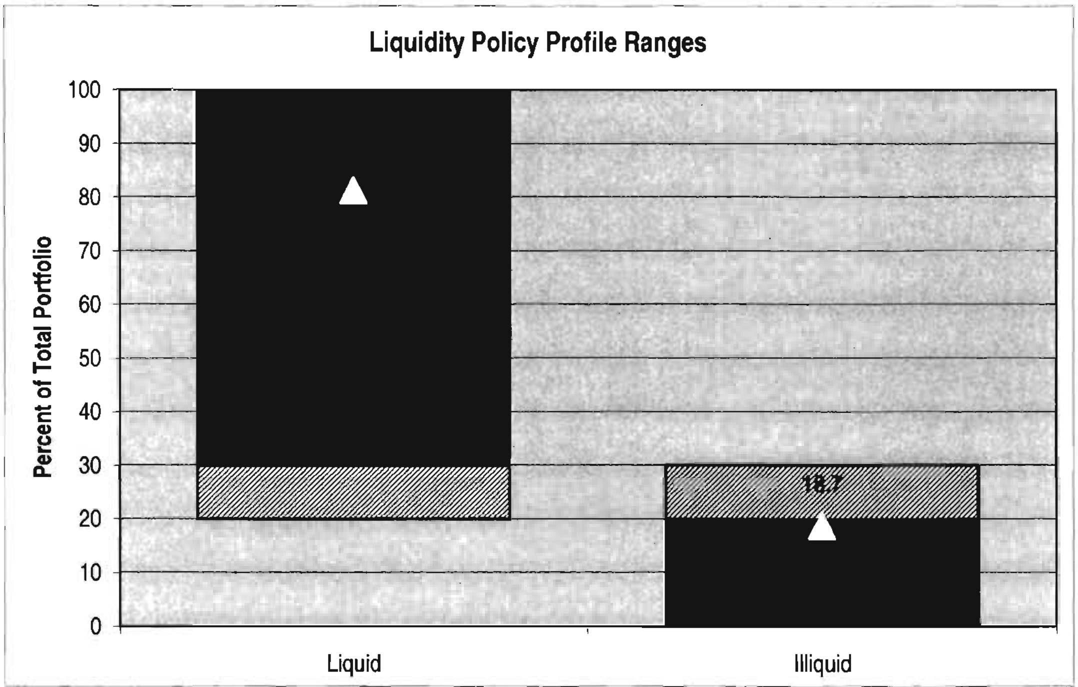
Liquidity Policy Profile Ranges
Percent of Total Portfolio
100
90
80
70
60
50
40
30
20
10
0
18.7
Liquid
Illiquid

The University of Texas Investment Management Company

Charter of the Liquidity Committee

Background

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") established a Liquidity Committee (the "Committee") on November 20, 2003. This Charter, adopted by the Board on April 8, 2004, and revised on July 15, 2004, sets forth the responsibilities of the Committee.

Purpose

The primary purpose of the Committee is to provide oversight and monitor liquidity of the policy portfolio in accordance with the Corporation's Liquidity Policy, originally approved by the Board on June 26, 2003 ~~December 4, 2003~~, and originally effective August 7, 2003 ~~December 19, 2003~~. The Board has adopted a Liquidity Policy to establish limits on the overall liquidity profile of investments in the Permanent University Fund (PUF) and the General Endowment Fund (GEF). Liquidity is defined as a measure of the ability of an investment position to be converted into a cash position.

Composition

The Committee shall be composed of at least three members of the Board appointed from time to time by a majority vote of the Board at a meeting at which a quorum is present. A member may be removed with or without cause at any time by a majority vote of the Board. Only members of the Board are eligible to serve on the Committee.

Meetings; Quorum; Etc.

The Corporation's Bylaws state that any committee created by the Board, including the Committee, shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of the Committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next succeeding meeting. At every meeting of the Committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the Committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of the Committee, who may replace any absent or disqualified member of the Committee. In the absence or disqualification of a member of the Committee, the member or members present at any meeting of the Committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

Duties and Responsibilities

The UTIMCO Board has delegated the following duties and responsibilities to the Liquidity Committee [~~The Committee has the following duties and responsibilities~~]:

- The Committee must review and recommend for consideration to the UTIMCO board any new investment that would cause the allocation for illiquid investments in either the PUF or GEF to exceed the lower illiquidity limit specified in the Liquidity Policy for the respective Funds' total portfolio. [~~The Committee must review and approve, before any such investment or series of investments are made, any investment or series of investments which would cause the allocation for illiquid investments in either the PUF or GEF to exceed 20% of the respective Fund's total portfolio. (Under the Liquidity Policy, the allowable allocation range for illiquid investments is 0% to 30% of a Fund's total portfolio.)~~]

- The Committee must review and approve, before any such action or actions are taken, any proposed changes in allocations among existing investments that would cause the allocation for illiquid investments in either the PUF or GEF to exceed the lower illiquidity limit specified in the liquidity policy for the respective funds total portfolio.

- The Committee must review and approve, before any such action or actions are taken, any proposed investment action or actions that [~~which~~] would increase the actual investment position in illiquid investments [~~or decrease the overall allocation to any single liquidity category~~] in either the PUF or GEF by 10% or more [~~of a Fund's total portfolio~~].

- In the event [~~any~~] that market actions cause actual investment positions in illiquid investments [~~are outside the allocation ranges~~] to exceed the upper illiquidity limit established by the Liquidity Policy [~~(exceed 30% of a Fund's total portfolio)~~] or to move into the ~~are within~~ "trigger zone[~~s~~]" [~~for such allocation ranges (between 20% to 30% of a Fund's total portfolio),~~] defined as the allocation range between the lower and upper illiquidity limits established by the Liquidity Policy, the Committee [~~reviews~~] will review and approve the Chief Investment Officer's proposed remedy or strategy for complying with the required allocation range for liquid and illiquid investments.

- The Committee must approve the use of swaps, derivatives, or other third party arrangements to alter the liquidity status of any investment.

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Agenda Item: Consideration of the Charter of the Liquidity Committee ("Committee")

Developed By: Hester, Boldt, Moeller

Presented By: Hester, Boldt

Type of Item: Action Required by UTIMCO Board

Description: The Charter sets forth the functions, duties and responsibilities of the Committee in order for the Committee to assist the Board in providing oversight and monitoring the liquidity of the policy portfolio in accordance with the Liquidity Policy.

Recommendation: Recommend approval of the Charter of the Liquidity Committee as presented in this agenda item, with additional changes, if any, resulting from the July 15, 2004 meeting of the Liquidity Committee.

Discussion: The Charter was adopted by the UTIMCO Board on April 8, 2004 to enumerate the responsibilities delegated to the Committee. The Committee was established on November 20, 2003 and held its first meeting on March 23, 2004. During the preceding months, questions arose concerning certain responsibilities delegated to the Committee by UTIMCO Board. Changes have been made to the Liquidity Policy to clarify the responsibility of the Committee. The Charter has been amended for the following:

- To clarify the responsibility that the Liquidity Committee has in reviewing new investments made in the 20% to 30% trigger zone. The Liquidity Committee will supplement, rather than replace, the procedures the UTIMCO Board has in place for the approval of new investments.
- To enumerate that the Committee is delegated responsibility to approve changes in allocations among existing investments.
- To clarify procedures when market actions cause actual investment positions to exceed the upper illiquidity limit or move into the illiquidity range.
- To enumerate that the Committee is delegated responsibility to approve the use of swaps, derivatives, or other third party arrangements to alter the liquidity status of any investment.

Reference: Charter of the Liquidity Committee; Liquidity Policy

Resolution No. 7

RESOLVED, that the Charter for the Liquidity Committee be, and is hereby, approved in the form as presented to the Board.

The University of Texas Investment Management Company

Charter of the Liquidity Committee

Background

The Board of Directors (the "Board") of The University of Texas Investment Management Company (the "Corporation") established a Liquidity Committee (the "Committee") on November 20, 2003. This Charter, adopted by the Board on April 8, 2004, and revised on July 15, 2004, sets forth the responsibilities of the Committee.

Purpose

The primary purpose of the Committee is to provide oversight and monitor liquidity of the policy portfolio in accordance with the Corporation's Liquidity Policy, originally approved by the Board on June 26, 2003 ~~December 4, 2003~~, and originally effective August 7, 2003 ~~December 19, 2003~~. The Board has adopted a Liquidity Policy to establish limits on the overall liquidity profile of investments in the Permanent University Fund (PUF) and the General Endowment Fund (GEF). Liquidity is defined as a measure of the ability of an investment position to be converted into a cash position.

Composition

The Committee shall be composed of at least three members of the Board appointed from time to time by a majority vote of the Board at a meeting at which a quorum is present. A member may be removed with or without cause at any time by a majority vote of the Board. Only members of the Board are eligible to serve on the Committee.

Meetings; Quorum; Etc.

The Corporation's Bylaws state that any committee created by the Board, including the Committee, shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of the Committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next succeeding meeting. At every meeting of the Committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the Committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of the Committee, who may replace any absent or disqualified member of the Committee. In the absence or disqualification of a member of the Committee, the member or members present at any meeting of the Committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

Duties and Responsibilities

The UTIMCO Board has delegated the following duties and responsibilities to the Liquidity Committee [~~The Committee has the following duties and responsibilities~~]:

- The Committee must review and recommend for consideration to the UTIMCO board any new investment that would cause the allocation for illiquid investments in either the PUF or GEF to exceed the lower illiquidity limit specified in the Liquidity Policy for the respective Funds' total portfolio. [~~The Committee must review and approve, before any such investment or series of investments are made, any investment or series of investments which would cause the allocation for illiquid investments in either the PUF or GEF to exceed 20% of the respective Fund's total portfolio. (Under the Liquidity Policy, the allowable allocation range for illiquid investments is 0% to 30% of a Fund's total portfolio.)~~]

- The Committee must review and approve, before any such action or actions are taken, any proposed changes in allocations among existing investments that would cause the allocation for illiquid investments in either the PUF or GEF to exceed the lower illiquidity limit specified in the liquidity policy for the respective funds total portfolio.

- The Committee must review and approve, before any such action or actions are taken, any proposed investment action or actions that [~~which~~] would increase the actual investment position in illiquid investments [~~or decrease the overall allocation to any single liquidity category~~] in either the PUF or GEF by 10% or more [~~of a Fund's total portfolio~~].

- In the event [~~any~~] that market actions cause actual investment positions in illiquid investments [~~are outside the allocation ranges~~] to exceed the upper illiquidity limit established by the Liquidity Policy [~~(exceed 30% of a Fund's total portfolio)~~] or to move into the ~~are within~~ “trigger zone[~~s~~]” [~~for such allocation ranges (between 20% to 30% of a Fund's total portfolio),~~] defined as the allocation range between the lower and upper illiquidity limits established by the Liquidity Policy, the Committee [~~reviews~~] will review and approve the Chief Investment Officer's proposed remedy or strategy for complying with the required allocation range for liquid and illiquid investments.

- <u>The Committee must approve the use of swaps, derivatives, or other third party arrangements to alter the liquidity status of any investment</u>.

Section 10

Agenda Item
UTIMCO Board of Directors Meeting
July 15, 2004

Agenda Item: Discussion and Approval of Derivative Investment Policy

Developed By: Boldt, Iberg, Goldsmith, Reed, Moeller

Presented By: Boldt

Type of Item: Action Required by UTIMCO Board

Description: The Derivative Investment Policy enumerates the applications, documentation and limitations for investment in derivative securities in the Permanent University Fund (PUF) and the General Endowment Fund (GEF). The Board of Regents approved investment policy guidelines for the PUF and GEF allow for the investment in derivative securities provided that their use is in compliance with UTIMCO's Board approved Derivative Investment Policy.

Recommendation: UTIMCO staff recommends approval of the Derivative Investment Policy as presented.

Discussion: This is the first review of the Derivative Investment Policy since approved by the UTIMCO Board on October 12, 2002. Jerry Turner with Vinson and Elkins and UTIMCO management both reviewed the Policy. Based on the review, the following changes are proposed:

- Under Permitted Derivative Applications, clarified that altering the Funds market exposure and hedging and controlling risks may be accomplished through purchases or short sales, or both.
- The total of all internal derivative positions shall not exceed 50% of the net assets of the PUF and GEF. External managers will be limited by individual contract.
- Added exchange traded funds as a derivative instrument
- Reorganized certain sections for easier readability.
- Minor editorial changes

Reference: PUF and GEF Investment Policies; Delegation of Authority

Resolution No. 6

RESOLVED, that the Derivative Policy be, and is hereby, approved in the form as presented to the Board.

The University of Texas Investment Management Company
Derivative Investment Policy

Effective Date of Policy: ~~October 31, 2002~~ August 12, 2004
Date Approved by UTIMCO Board: ~~October 31, 2002~~ July 15, 2004

Purpose:

The purpose of the Derivative Investment Policy is to enumerate the applications, documentation and limitations for investment in derivative securities in the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter referred to as the Funds. The Board of Regents approved investment policy guidelines for the Funds allow for investment in derivative securities provided that their use is in compliance with UTIMCO's Board approved Derivative Investment Policy. ~~The~~This Derivative Investment Policy supplements the Investment Policy Statement for the Funds.

Objective:

The objective of investing in derivative securities is to facilitate risk management and provide efficiency in the implementation of various investment strategies for the Funds. Through the use of derivatives, the complex risks that are bound together in traditional cash market investments can be separated and managed independently. Derivatives provide the Funds with the most economical means to improve the Funds risk/return profile.

Scope:

This Policy applies to internal management of derivatives at UTIMCO only. Derivatives policies for external managers are established on a case by case basis with each external manager, as described below. This Policy ~~Statement~~ applies to both exchange traded derivatives and over the counter derivative instruments. This Policy shall not be construed to apply to index or other common or commingled funds in which the Funds typically invest. These commingled investment vehicles are governed by separate investment policy statements.

External Managers:

An external investment manager of public market investments employed by UTIMCO may engage in derivative security transactions only if the transactions are consistent with the overall investment objectives of the account. Derivative applications shall be approved only with investment managers that demonstrate investment expertise in their use, and have appropriate risk management policies and procedures to effectively monitor and control their use. Disclosure of permitted derivative applications with external investment managers of public market investments shall be made to UTIMCO's Board prior to investment.

The due diligence process in the selection of managers of alternative marketable equities employed by UTIMCO requires a clear understanding of the managers use of derivatives, particularly as it relates to various risk controls and leverage. UTIMCO will invest in such strategies exclusively through limited partnership agreements, offshore corporations or other legal entities that limit the Funds' exposure to its investment in the strategy. Disclosure of derivative applications with alternative marketable equity managers shall be made to UTIMCO's Board prior to investment.

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 a bonds, stocks, commodities, and currencies). For the purposes of this Policy, derivatives shall include futures contracts, forward~~s~~ contracts, exchange traded funds, swaps and all forms of options, but shall not include a broader range of securities including mortgage backed securities, structured notes and convertible bonds. (Refer to attached exhibit for glossary of terms)

The University of Texas Investment Management Company
Derivative Investment Policy

Permitted Derivative Applications:

Derivatives~~s~~ applications may be 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 so that the Funds' risk/return profile is more closely aligned with the Funds' targeted risk/return profile through purchases or short sales, or both, of appropriate derivatives~~,~~; or
- To facilitate transition trading~~,~~.

- ~~By managers of public markets investments employed by UTIMCO. An external investment manager may engage in derivative security transactions only if the transactions are consistent with the overall investment objectives of the account. Derivative applications shall be approved only with investment managers that demonstrate investment expertise in their use, and have appropriate risk management policies and procedures to effectively monitor and control their use. Disclosure of permitted derivative applications with external investment managers shall be made to UTIMCO's Board prior to investment.~~
- ~~By managers of alternative marketable equities employed by UTIMCO. The due diligence process in the selection of these managers requires a clear understanding of the managers use of derivatives, particularly as it relates to various risk controls and leverage. UTIMCO will invest in such strategies exclusively through limited partnership agreements, offshore corporations or other legal entities that limit the Funds' exposure to its investment in the strategy. Disclosure of derivative applications with alternative marketable equity managers shall be made to UTIMCO's Board prior to investment.~~

The primary intent of derivative security transactions 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. Only the above derivative applications are permitted until such time as this policy is amended and approved by UTIMCO's Board. The Chief Investment Officer shall recommend and the UTIMCO Board approve any new derivative applications prior to implementation, after fully considering the permissibility, merits, and compliance with all documentation and controls requirements of the application.

Derivative Applications Not Permitted:

Derivative ~~A~~applications shall not be used to invest in asset classes that are not consistent with the Funds policy asset categories, implementation strategies and risk/return characteristics. ~~Only the above derivative applications are permitted until such time as this policy is amended and approved by UTIMCO's Board.~~

Documentation and Controls:

Prior to the implementation of a new derivative application, UTIMCO shall document the purpose, justification, baseline portfolio, derivative application portfolio, risks (including at a minimum modeling, pricing, liquidity and legal risks), the expected increase or reduction in systematic and specific risk resulting from the application, the acceptable criteria for counterparties in over the counter derivative applications, and the procedures in place to monitor and manage the derivative exposure. Internal control procedures to properly account and value the Funds' exposure to the derivative application shall be fully documented. ~~The Chief Investment Officer shall recommend and the UTIMCO Board approve any new derivative applications prior to implementation, after fully considering the permissibility, merits, and compliance with all documentation and controls requirements of the application.~~ UTIMCO shall establish an appropriate risk management procedure to monitor compliance and will take corrective action if necessary. UTIMCO shall make a comprehensive report of all derivative applications to the UTIMCO Board on at least a quarterly basis.

Limitations:

Leverage is inherent in derivative securities 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, derivatives applications 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 derivatives application, which is the sum of the application-specific risk and the market (systematic) risk established by the derivative application. In order to control and limit the leverage risk, each derivative application must specify a baseline portfolio, and risk measures such as Value at Risk (VAR) will be employed to assure that the total economic impact risk of the derivative application portfolio relative to the baseline portfolio will not exceed 20% of the underlying value of the baseline portfolio. The total relative economic impact risk of each derivative application will be monitored on a daily basis by the most appropriate risk management tools for the particular derivatives application.

As an additional global limitation, the total gross value (without netting counter positions) of all internal derivatives positions~~, including both internal and external managers, in the Funds~~ shall not exceed 50% of the net asset value of the Funds.

In order to limit the financial risks associated with derivative applications, rigorous counterparty selection criteria and netting agreements shall be required to minimize counterparty risk for over the counter derivatives. The counterparty must be an investment grade credit and the agreement must be marked to market no less frequently than monthly.

Derivative Investment Policy Exhibit
Glossary of Terms

Application-~~-S~~specific ~~R~~risk – The portion of total risk in a derivatives application which is due to factors unique to the application as opposed to more systematic, market-related factors. For example, in an option on a specific stock, the risk associated with the specific business results of the company which issued the stock underlying the option would be ~~A~~application-~~-S~~specific ~~R~~risk, as opposed to the overall risk of the stock market which would be Systematic Risk.

Baseline ~~P~~portfolio – The cash-market based portfolio which will serve as the basis for calculating the relative risk level of an equivalent derivatives application.

Cash ~~E~~equivalents – Includes cash, short term fixed income instruments, accruals, variation margin and one day deposits in transit to the account.

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

Counterparty - The offsetting party in an exchange agreement.

Derivative ~~A~~application – A definition of the intended use of a derivative-based position such as replication or enhancing index returns, asset allocation or completion fund strategies, and various alpha transport strategies.

Derivative ~~A~~application ~~P~~portfolio – The portfolio including derivative instruments, cash equivalents, and other cash market assets established to replicate a specified baseline portfolio.

Economic ~~E~~exposure - The total effective exposure of a derivative position. The economic exposure is the product of the dollar value of the exposure and the market or systematic risk level of the exposure. A common method of measuring economic exposure is with risk management tools such as "value at risk."

Exchange ~~T~~traded ~~D~~derivatives - A ~~D~~derivative instrument~~s~~ traded on an established national or international exchange. These instruments "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 instruments are traded. Examples include S&P 500 futures contracts and Goldman Sachs Commodities Index futures contracts.

Exchange Traded Funds – Exchange listed and traded portfolios of publicly traded securities.

Forward ~~C~~contract - A non-standardized contract for the physical or electronic (through a bookkeeping entry) delivery of a commodity or financial instrument at a specified price at some point in the future.

Futures ~~C~~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.

Option - An instrument 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 ~~C~~counter ~~D~~derivatives - A ~~D~~derivative instrument~~s~~ which result from direct negotiation between a buyer and a counterparty. The terms of such instruments are non-standard and are the result of specific negotiations. Settlement occurs at the negotiated termination date, although the terms may include interim cash payments under certain conditions. Examples include currency swaps and forward contracts, interest rate swaps, and collars.

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

Systematic ~~R~~risk – The non-diversifiable risks associated with an investment in a particular asset market. For example the financial, political, and other risks associated with a portfolio of common stocks are known as "market" or systematic risks.

Value at ~~R~~risk (VAR) – An established method of measuring economic exposure risk. The measure conveys the maximum potential loss (in dollars or percent of total assets) for a particular investment position, for a particular period of time, for a particular level of confidence.