UTIMCO BOARD OF DIRECTORS
MEETING AGENDA
July 11, 2012

UTIMCO
401 Congress Avenue, Suite 2800
Austin, Texas 78701

Time Begin	End	Item #	Agenda Item
			OPEN MEETING:
8:30 a.m.	8:35 a.m.	1	Call to Order of the Meeting/Discussion and Appropriate Action related to Minutes of April 11, 2012 Meeting*
8:35 a.m.	8:50 a.m.	2	Discussion of Investment Strategy Review FY 2013
8:50 a.m.	9:15 a.m.	3	Report from Policy Committee - Discussion and Appropriate Action Related to the Investment Policy Statements*,** - Discussion and Appropriate Action Related to the Derivative Investment Policy*,** - Discussion and Appropriate Action Related to the Liquidity Policy*,** - Discussion and Appropriate Action Related to the Delegation of Authority Policy*
9:15 a.m.	9:45 a.m.	4	**Executive Session** Pursuant to Section 551.074, *Texas Government Code*, the Board of Directors may convene in Executive Session to deliberate individual personnel matters, including the CEO and Chief Investment Officer **Reconvene into Open Session** Report from Compensation Committee - Discussion and Appropriate Action Related to the CEO's Base Salary for 2012-2013 Fiscal Year* - Discussion and Appropriate Action Related to CEO's Qualitative Performance Goals for the 2012-2013 Performance Period* - Discussion and Appropriate Action Related to the UTIMCO Compensation Program, Amended and Restated effective September 1, 2012*,**
9:45 a.m.	9:55 a.m.	5	Report from Audit and Ethics Committee - Discussion and Appropriate Action Related to Corporate Auditor* - Discussion and Appropriate Action Related to Selection of Master Custodian*,**
9:55 a.m.	10:10 a.m.	6	Report from Risk Committee
10:10 a.m.	10:25 a.m.	7	UTIMCO Organization Update
10:25 a.m.	10:45 a.m.	8	Discussion and Appropriate Action Related to UTIMCO 2012-13 Budget*,**
10:45 a.m.	11:30 a.m.	9	Endowment and Operating Funds Update Report
11:30 a.m.			**Adjourn**

* Action by resolution required
** Resolution requires further approval from the Board of Regents of The University of Texas System

Next Scheduled Meeting: November 9, 2012

RESOLUTION RELATED TO MINUTES

RESOLVED, that the minutes of the meeting of the Board of Directors held on **April 11, 2012,** be, and are hereby, approved.

MINUTES OF THE ANNUAL 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 on **April 11, 2012,** at the offices of the Corporation, Suite 2800, 401 Congress Avenue, Austin, Texas, said meeting having been called by the Chairman, Paul Foster, 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:

Paul Foster, Chairman
Kyle Bass
Morris E. Foster
Printice L. Gary
R. Steven Hicks
Ardon E. Moore
Charles W. Tate
James P. Wilson

Accordingly, a majority and quorum of the Board was in attendance. Director Francisco G. Cigarroa, Vice Chairman for Policy, did not attend the meeting. Also attending the meeting was a member of The University of Texas System Board of Regents (UT System Board), Student Regent John Davis Rutkauskas. Employees of the Corporation attending the meeting were Bruce Zimmerman, CEO and Chief Investment Officer; Cathy Iberg, President and Deputy CIO; Joan Moeller, Secretary and Treasurer; Christy Wallace, Assistant Secretary; Cecilia Gonzalez, internal General Counsel and Chief Compliance Officer; Lindel Eakman, Managing Director – Private Markets Investments; Mark Warner, Managing Director - Natural Resources Investments; Uzi Yoeli, Senior Director - Portfolio Risk Management; Uche Abalogu, Chief Technology Officer; Mark Shoberg, Senior Director – Real Estate Investments; Ryan Ruebsahm, Senior Director – Marketable Alternatives Investments; and other Staff members. Other attendees were Keith Brown of the McCombs School of Business at UT Austin; Jerry Turner and Bob Jewell of Andrews Kurth LLP; and Terry Hull, Charlie Chaffin, Jim Phillips, Roger Starkey, Whitney Henry, Moshmee Kalamkar and Spencer Miller-Payne of The University of Texas System (UT System) Administration; and Greg Anderson of The Texas A&M University System. Mr. Foster called the meeting to order at 9:05 a.m.

Mr. Foster welcomed Morris Foster, the newest member of the Board, also a member of The Texas A&M University System Board of Regents.

Minutes

The first item to come before the Board was approval of the minutes of Board of Directors Meeting held on February 2, 2012. Upon motion duly made and seconded, the following resolution was unanimously adopted by the Board:

> RESOLVED, that the minutes of the meeting of the Board of Directors held on **February 2, 2012,** be, and are hereby, approved.

Corporate Resolutions

Mr. Foster recommended Board approval for Committee Assignments. When a change is made in the composition of the Audit and Ethics Committee, the U. T. System Board of Regents must also approve the appointment of the members of the Audit and Ethics Committee of the Board of Directors of UTIMCO at a future meeting. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> BE IT RESOLVED, that the following Directors of the Corporation are hereby designated as the Audit and Ethics Committee of the Board of Directors:
>
> James P. Wilson
> Printice L. Gary
> R. Steven Hicks
> Charles W. Tate
>
> subject to approval by the Board of Regents of The University of Texas System at a future meeting, to serve until the expiration of their term, or until their successor has been chosen and qualified, or until their earlier death, resignation or removal; and
>
> FURTHER RESOLVED, that James P. Wilson is hereby designated the Chair of the Audit and Ethics Committee and shall preside at its meetings.
>
> BE IT RESOLVED, that the following Directors of the Corporation are hereby designated as the Compensation Committee of the Board of Directors:
>
> R. Steven Hicks
> Kyle Bass
> Ardon E. Moore
> James P. Wilson
>
> to serve until the expiration of their term, or until their successor has been chosen and qualified, or until their earlier death, resignation or removal; and
>
> FURTHER RESOLVED, that R. Steven Hicks is hereby designated the Chair of the Compensation Committee and shall preside at its meetings.
>
> BE IT RESOLVED, that the following Directors of the Corporation are hereby designated as the Risk Committee of the Board of Directors:
>
> Charles W. Tate
> Kyle Bass
> Morris Foster
> Ardon E. Moore

to serve until the expiration of their term, or until their successor has been chosen and qualified, or until their earlier death, resignation or removal; and

FURTHER RESOLVED, that Charles W. Tate is hereby designated the Chair of the Risk Committee and shall preside at its meetings.

BE IT RESOLVED, that the following Directors of the Corporation are hereby designated as the Policy Committee of the Board of Directors:

Printice L. Gary
Kyle Bass
Morris Foster
R. Steven Hicks

to serve until the expiration of their term, or until their successor has been chosen and qualified, or until their earlier death, resignation or removal; and

FURTHER RESOLVED, that Printice L. Gary is hereby designated the Chair of the Policy Committee and shall preside at its meetings.

Mr. Foster also presented a recommendation for Board approval for Corporate Officers. As stated in the Bylaws, a purpose of the Annual Meeting is to elect Officers for the ensuing year. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the following persons are hereby appointed to the respective office or offices of the Corporation set forth opposite their names, to serve until the next Annual Meeting of the Corporation or until their resignation or removal.

Name	Office or Offices
Paul Foster	Chairman
Ardon E. Moore	Vice-Chairman
Francisco G. Cigarroa	Vice-Chairman for Policy
Bruce Zimmerman	Chief Executive Officer and Chief Investment Officer
Cathy Iberg	President and Deputy Chief Investment Officer
Joan Moeller	Senior Managing Director, Treasurer and Secretary
Lindel Eakman	Managing Director
Mark Warner	Managing Director
Uche Abalogu	Chief Technology Officer
Christy Wallace	Assistant Secretary

Endowment and Operating Funds Update

Mr. Foster asked Mr. Zimmerman to present the Corporation's endowment and operating funds update. Mr. Zimmerman presented the Corporation's Performance Summary as of February 29, 2012. He reported the Corporation had $27.3 billion of assets under management at the end of February 29, 2012. Of the $27.3 billion, $13.0 billion was in the Permanent University Fund (PUF), $7.0 billion in the General Endowment Fund (GEF), $1.5 billion in the Short Term Fund (STF), $0.8 in the Debt Proceeds Fund, and $4.8 billion in the Intermediate Term Fund (ITF). Mr. Zimmerman presented actual versus benchmark results, performance during the last 3 and 6 months, and a new page showing the total fund attribution breakdown. He discussed tactical and active value-add analysis. The net performance for the quarter ended February 29, 2012, for the PUF was 3.97% and for the GEF was 3.99%, versus benchmark returns of 4.64% for the PUF and GEF. The net performance for the one year ended February 29, 2012, for the PUF was 2.05% and for the GEF was 2.10%, versus benchmark returns of 2.19% for each fund. The ITF's performance was 4.16% versus its benchmark return of 5.00% for the quarter ended February 29, 2012, and 2.05% versus its benchmark return of 0.85% for the one year ended February 29, 2012. Performance for the STF was 0.03% versus 0.00% for its benchmark return for the quarter ended February 29, 2012, and was 0.15% versus a benchmark return of 0.08% for the one year ended February 29, 2012. Mr. Zimmerman reviewed the Funds' Asset Class and Investment Type targets, ranges and performance objectives. Mr. Zimmerman asked Ms. Iberg and Mr. Ruebsahm to discuss the Less Correlated and Constrained Investment Policy Categorizations and Mr. Eakman to discuss the Private Investments portfolio. Ms. Iberg discussed the endowments' insurance hedges, and Dr. Yoeli was asked to review the section on risk analytics and stress testing. Also included in the report on investment activity as of February 29, 2012, was manager exposure, leverage, and scenario analysis. Mr. Zimmerman also reported on derivatives and counterparties, and gave an update on liquidity, contracts and the ITF. Mr. Zimmerman and Senior Staff answered the Directors' questions.

Review of Natural Resources and Real Estate Portfolios

Mr. Foster asked Mr. Zimmerman to review Natural Resources and Real Estate Investments. Mr. Zimmerman asked Mr. Warner and Mr. Shoberg to update the Board on their respective portfolios. The Natural Resources team was introduced by Mr. Warner and they discussed positive macro drivers, strategy, natural resources platform, investment update and performance. The Real Estate team was introduced by Mr. Shoberg and they provided information to the Board regarding the Real Estate platform, strategy, history of the portfolio, commitment activity, performance and exposure. Mr. Zimmerman, Mr. Warner and Mr. Shoberg answered the Directors' questions.

At approximately 11:35 a.m. the Board adjourned to a Briefing Session.

The open meeting of the Board reconvened in open session at 12:55 p.m.

Risk Committee Report

Mr. Foster asked Mr. Tate to provide a report from the Risk Committee. Mr. Tate reported that the Committee met on April 5, 2012, with all members present. Mr. Tate summarized the Categorization of New Investment Mandates. He stated that there were six new investment mandate categorizations prepared by Staff for the period beginning January 14, 2012, through March 23, 2012. He reported that the Committee reviewed Staff's annual review of mandate categorizations. The "Mandate Categorization Watch-List" continues to be monitored by Staff for possible recategorization. No mandates were recommended for re-categorization at this meeting. Mr. Tate also reported that the Committee heard a report from Ms. Gonzalez on compliance items for the Quarter Ended February 29, 2012. He asked her to summarize her report. The Committee also heard a brief funds update from Mr. Zimmerman, and had a discussion regarding the policy portfolio, positioning, and the strategy of the insurance programs. At this time, Mr. Zimmerman encouraged further discussion by the full Board regarding policy portfolio and positioning and asked the Board for input and guidance. Mr. Zimmerman answered the Directors' questions. Mr. Tate concluded the report, stating that there was no action required by the Board.

Audit and Ethics Committee Report

Mr. Foster asked Mr. Hicks to provide a report on behalf of the Audit and Ethics Committee. Mr. Hicks reported that the Committee convened on April 5, 2012. He stated that the Committee approved a recommendation by Staff that Mr. Tom Wagner and Mr. Brian Gallagher continue as the lead audit partner and lead reviewing partner, respectively, for the 2012 and 2013 year end audits. He explained that the Committee Charter sets forth certain responsibilities of the Committee related to auditor independence and the selection of the external auditors. The Charter requires that the lead audit partner and reviewing partner rotate off of the audit every 5 years, unless the Committee adopts a resolution affirmatively determining that such rotation is not required. There was also a review of the unaudited financial statements for the second quarter for the Funds and Corporation, and the quarterly compliance reports. Mr. Hicks concluded his report.

Policy Committee Report

Mr. Foster asked Mr. Gary to report on behalf of the Policy Committee. Mr. Gary stated that the committee met on April 5, 2012, with all members present. There was discussion on the Distribution Rates and Amount decision making process for the PUF, PHF, LTF, and ITF. Mr. Gary gave background on the Distribution Policy, but reported that Staff did not ask for approval or provide a formal recommendation at the meeting. At this time, Mr. Zimmerman gave the Board the same presentation on Distribution Policy that he gave to the Committee. Mr. Zimmerman, Mr. Hull and Mr. Chaffin answered the Board Members' questions. Mr. Gary concluded the report from the Policy Committee.

Organization Update

Mr. Foster asked Mr. Zimmerman to provide the Board with an update on staffing, the Corporation's budget, including Actual vs. Budget numbers as of February 29, 2012, and technology. Mr. Zimmerman introduced the Corporation's new Chief Technology Officer, Uche Abalogu, who followed with a brief presentation on his background.

Emerging Markets Currency Discussion

Mr. Foster asked Ms. Chen and the Portfolio Positioning Committee to provide an update on emerging markets currencies. Ms. Chen provided the Board a handout of a presentation on Emerging Markets Currency Alternatives providing objectives, existing exposure to emerging markets, and alternative ways to access emerging markets currency exposure. She also gave historical returns, the differences in stock and bond benchmark composite, timing considerations, correlations and Staff recommendations. Ms. Iberg, Ms. Chen and Mr. Kampfe answered the Directors' questions. Mr. Tate left the meeting at this time.

Investment Environment

Mr. Foster asked Mr. Zimmerman to begin discussion of the Investment Environment. Mr. Zimmerman asked all senior staff members to briefly discuss their recent travel. Each staff member gave his observations on the general economy and provided information on the country's investment context and capital markets for each country visited.

Educational Program for Board

Mr. Foster asked Mr. Turner to present the Educational Program for UTIMCO Directors to the Board. Mr. Turner stated that the Investment Management Services Agreement between the UT System Board of Regents and the Corporation requires the Corporation to provide training and education to members of the Board as may be determined in consultation with UT System staff to assure that all duties required of directors under the Texas Non-Profit Corporation Act and matters related to the legal and fiduciary responsibilities of the Directors, including current regulations for determining reasonable compensation, are outlined and discussed fully. Although Board training is provided during an orientation session when new members of the Board are selected, Mr. Turner's presentation served as an update and a resource for current Board members.

There being no further business to come before the Board, the meeting was adjourned at approximately 3:16 p.m.

Secretary: ___________________________
Joan Moeller

Approved: _____________________________ Date: _______________
Paul Foster
Chairman, Board of Directors of
The University of Texas Investment Management Company

Agenda Item
UTIMCO Board of Directors Meeting
July 11, 2012

Agenda Item: Discussion of Investment Strategy Review FY 2013

Developed By: Staff

Presented By: Zimmerman

Type of Item: Discussion item

Description: Mr. Zimmerman will present the Investment Strategy Review. The investment strategy review will provide a comprehensive analysis of the portfolio's positioning, return/risk assumptions, and the current and future economic environment considerations used in developing the recommended changes to the Asset Class and Investment Type targets and ranges for FY 2013.

Recommendation: None

Reference: *Investment Strategy Review For Fiscal Year 2013* presentation

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Investment Strategy Review For Fiscal Year 2013

Executive Summary

- Staff is recommending very few changes to the asset class / investment type targets and ranges. Staff's recommendations are consistent with:
  - Gradual implementation of the Long Term Strategic Asset Allocation
  - A philosophy of less frequent changes to targets and reliance on wider ranges to enable the capturing of market opportunities as they present themselves
- Recommended targets, however, based on revised staff assumptions, are projected to produce lower returns and higher levels of volatility and downside risk
- One significant policy for the Board's consideration is the continuation of the "insurance" or hedging program. With a negative "Expected Monetary Value" and an annual cost of up to 75bp, the objective of this program is to help cushion against potential extreme downside scenarios
- Other less significant changes to various policies – based on actual experiences over the past year – are recommended

Annual Policy Review

- The Investment Management Services Agreement (IMSA) between The University of Texas System Board of Regents (Regents) and The University of Texas Investment Management Company (UTIMCO) requires an annual review of all policies relating to investments (individually, the “Policy” or collectively the “Policies”)

- These Policies include:
  - Endowments
    - Permanent University Fund (PUF)
    - General Endowment Fund (GEF)
      - Long Term Fund (LTF)
      - Permanent Health Fund (PHF)
  - Intermediate Term Fund (ITF)
  - Liquidity Policy
  - Delegation of Authority Policy
  - Derivative Policy

- While a review is required, there is no requirement to alter any Policy

Role of a Policy Portfolio

- Client/Board Fiduciary Responsibility to Control Investments
- 90% of annual returns are due to the Policy Portfolio

Net Returns:	18.8%	11.1%	15.9%	(3.1%)	(13.2%)	13.0%	14.3%	(0.5%)

Policy Portfolio Decisions:
Target and Range Continuums

Tactical Asset and Risk Ranges		More Frequent Changes	Less Frequent Changes
	Wider Ranges	Lack of Control	Increased Staff Responsibility
	Narrower Ranges	Lower Staff Responsibility	Too Rigid

Strategic Asset Allocation and Risk Budget

June 30, 2007 Portfolio (Estimated*)

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
Fixed Income	Investment Grade	13.0%	3.0%	0.0%	**16.0%**
	Credit Related	0.0%	1.0%	1.2%	**2.2%**
	Fixed Income Total	**13.0%**	**4.0%**	**1.2%**	**18.2%**
Real Assets	Real Estate	6.0%	0.0%	0.0%	**6.0%**
	Natural Resources	4.0%	1.0%	0.8%	**5.8%**
	Real Assets Total	**10.0%**	**1.0%**	**0.8%**	**11.8%**
Equity	Developed Country	31.5%	22.0%	6.4%	**59.9%**
	Emerging Market	9.0%	1.0%	0.1%	**10.1%**
	Equity Total	**40.5%**	**23.0%**	**6.5%**	**70.0%**
	TOTAL	**63.5%**	**28.0%**	**8.5%**	**100.0%**

(*) Estimated because "Grid" was not used at that time

Projected August 31, 2012
Asset Allocation

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
Fixed Income	Investment Grade	10.8%	2.9%	0.0%	**13.7%**
	Credit Related	0.1%	5.0%	6.8%	**11.9%**
	Fixed Income Total	**10.9%**	**7.9%**	**6.8%**	**25.6%**
Real Assets	Real Estate	1.5%	0.6%	2.1%	**4.2%**
	Natural Resources	10.2%	0.0%	3.0%	**13.2%**
	Real Assets Total	**11.7%**	**0.6%**	**5.1%**	**17.4%**
Equity	Developed Country	9.8%	19.5%	12.4%	**41.7%**
	Emerging Market	7.7%	2.9%	2.4%	**13.0%**
	Equity Total	**17.5%**	**22.4%**	**14.8%**	**54.7%**
	TOTAL	**40.1%**	**30.9%**	**26.7%**	**97.7%**

Changes from June 30, 2007 to Projected August 31, 2012

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
Fixed Income	Investment Grade	(2.2%)	(0.1%)	0.0%	**(2.3%)**
	Credit Related	0.1%	4.0%	5.6%	**9.7%**
	Fixed Income Total	**(2.1%)**	**3.9%**	**5.6%**	**7.4%**
Real Assets	Real Estate	(4.5%)	0.6%	2.1%	**(1.8%)**
	Natural Resources	6.2%	(1.0%)	2.2%	**7.4%**
	Real Assets Total	**1.7%**	**(0.4%)**	**4.3%**	**5.6%**
Equity	Developed Country	(21.7%)	(2.5%)	6.0%	**(18.2%)**
	Emerging Market	(1.3%)	1.9%	2.3%	**2.9%**
	Equity Total	**(23.0%)**	**(0.6%)**	**8.3%**	**(15.3%)**
	TOTAL	**(23.4%)**	**2.9%**	**18.2%**	**(2.3%)**

Policy Portfolio FY 2012 Targets

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
Fixed Income	Investment Grade	7.5%	2.0%	0.0%	**9.5%**
	Credit Related	0.0%	3.0%	2.5%	**5.5%**
	Fixed Income Total	**7.5%**	**5.0%**	**2.5%**	**15.0%**
Real Assets	Real Estate	2.5%	0.0%	3.0%	**5.5%**
	Natural Resources	6.5%	1.0%	4.0%	**11.5%**
	Real Assets Total	**9.0%**	**1.0%**	**7.0%**	**17.0%**
Equity	Developed Country	18.5%	20.0%	10.0%	**48.5%**
	Emerging Market	12.0%	4.0%	3.5%	**19.5%**
	Equity Total	**30.5%**	**24.0%**	**13.5%**	**68.0%**
	TOTAL	**47.0%**	**30.0%**	**23.0%**	**100.0%**

Long Term Strategic Asset Allocation

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
Fixed Income	Investment Grade	7.5%	2.0%	0.0%	**9.5%**
	Credit Related	0.0%	3.0%	2.5%	**5.5%**
	Fixed Income Total	**7.5%**	**5.0%**	**2.5%**	**15.0%**
Real Assets	Real Estate	3.5%	0.0%	5.0%	**8.5%**
	Natural Resources	5.5%	1.0%	5.0%	**11.5%**
	Real Assets Total	**9.0%**	**1.0%**	**10.0%**	**20.0%**
Equity	Developed Country	16.0%	20.0%	9.0%	**45.0%**
	Emerging Market	12.0%	4.0%	4.0%	**20.0%**
	Equity Total	**28.0%**	**24.0%**	**13.0%**	**65.0%**
	TOTAL	**44.5%**	**30.0%**	**25.5%**	**100.0%**

FY 2012 Policy Targets vs. Long Term Strategic Asset Allocation

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
Fixed Income	Investment Grade	0.0%	0.0%	0.0%	**0.0%**
	Credit Related	0.0%	0.0%	0.0%	**0.0%**
	Fixed Income Total	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Real Assets	Real Estate	1.0%	0.0%	2.0%	**3.0%**
	Natural Resources	(1.0%)	0.0%	1.0%	**0.0%**
	Real Assets Total	**0.0%**	**0.0%**	**3.0%**	**3.0%**
Equity	Developed Country	(2.5%)	0.0%	(1.0%)	**(3.5%)**
	Emerging Market	0.3%	0.0%	0.5%	**0.5%**
	Equity Total	**(2.5%)**	**0.0%**	**(0.5%)**	**(3.0%)**
	TOTAL	**(2.5%)**	**0.0%**	**2.5%**	**0.0%**

Projected FYE 2012 vs. FY 2012 Investment Policy Targets

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
Fixed Income	Investment Grade	3.3%	0.9%	0.0%	**4.2%**
	Credit Related	0.1%	2.0%	4.3%	**6.4%**
	Fixed Income Total	**3.4%**	**2.9%**	**4.3%**	**10.6%**
Real Assets	Real Estate	(1.0%)	0.6%	(0.9%)	**(1.3%)**
	Natural Resources	3.7%	(1.0%)	(1.0%)	**1.7%**
	Real Assets Total	**2.7%**	**(0.4%)**	**(1.9%)**	**0.4%**
Equity	Developed Country	(8.7%)	(0.5%)	2.4%	**(6.8%)**
	Emerging Market	(4.3%)	(1.1%)	(1.1%)	**(6.5%)**
	Equity Total	**(13.0%)**	**(1.6%)**	**1.3%**	**(13.3%)**
	TOTAL	**(6.9%)**	**0.9%**	**3.7%**	**(2.3%)**

Policy Review Process

- UTIMCO Staff initiates the annual review of Policies with the assistance of external data sources
- Investment Policy analysis encompasses, and ultimate recommendations, are predicated on:
  - Quantitative analytic models utilizing "modern portfolio theory"
  - Quantitative analytic models under varying economic scenarios
  - Assessment of peer best practices
  - Experience-based judgment
- UTIMCO Staff presents its recommendations to a joint UTIMCO Policy Committee/Risk Committee forum for consideration
- The Policy Committee and the Risk Committee, upon consideration and potential modification to Staff recommendations, recommend Policy changes to the UTIMCO Board for its review, discussion and decision
- The UTIMCO Board, upon consideration and potential modification to the Policy Committee and the Risk Committee recommendations, recommends Policy changes to the Regents
- The Regents, as the ultimate fiduciary for all assets managed by UTIMCO, upon consideration and potential modification to the UTIMCO Board's recommendations, ultimately determines all Policies

Quantitative Analytic Models

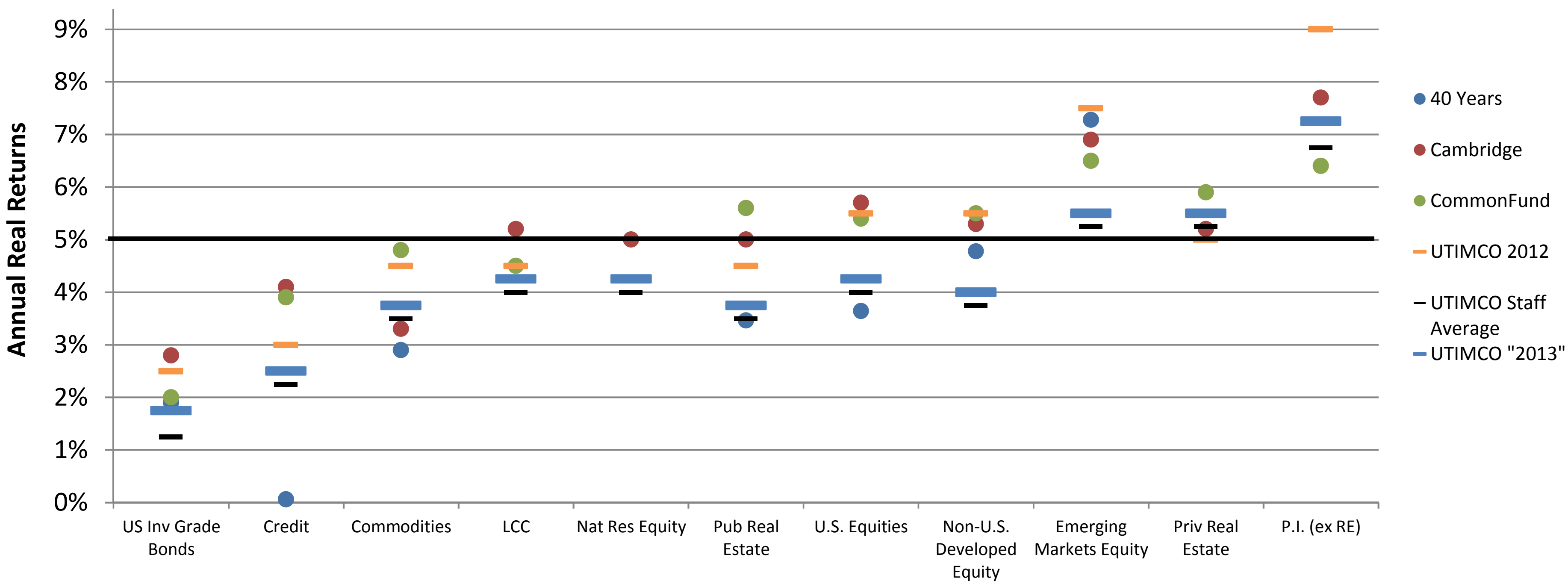
- UTIMCO has utilized quantitative analytic models for a number of years as one input in the development of its Policy recommendations
- These models produce "efficient frontiers" of optimal portfolio construction for any given level of return or risk objectives
- These models rely on key assumptions about returns, risk as measured by historic volatility and correlations for various asset classes and investment types
- These models are useful in assessing potential future outcomes, but are limited by
  - Their ability to fully capture the limitless factors that will affect future outcomes,
  - Their reliance on the assumptions used in the models which, without question, will not precisely predict an uncertain future, and
  - Their tendency to gravitate to "extreme" asset allocations
- More specifically, flaws in this approach include assumptions that
  - Future return scenarios are of normal distribution,
  - Correlations remain constant,
  - Do not take into account liquidity or leverage risk,
  - Do not take into account pragmatic considerations such as constraints on immediate liquidation of existing positions, or the ability / desirability to immediately gain exposure to certain asset classes / investment types, and
  - Do not take into account current asset price levels

Quantitative Analytic Models (Cont'd)

- Additionally, these models solve for a prescribed objective, whereas in fact, return and risk objectives can vary and be in conflict. Different objectives can include:
  - Meeting a certain return objective (e.g., a 50% probability of returning a 5% real return)
  - Maximizing the probability of meeting a certain minimum return objective (e.g., a 70% probability of returning at least a 5% real return)
  - Maximizing returns while minimizing the probability of a certain downside loss (e.g., no more than a 5% probability of losing 10% or more in any year)
- Staff believes that much of the value of utilizing these models lies in assessing various scenarios in order to ascertain "optimal" portfolio construction under differering environments and assumptions
- As such, Staff modeled a number of scenarios including:
  - Long term return/risk assumptions (including Cambridge, Commonfund, and UTIMCO assumptions)
  - Actual return/risk experience since 1970
  - Actual return/risk experience since 1970 under varying economic growth and inflation environments

Return Assumptions

- UTIMCO staff-projected assumptions (Average and “2013”) are lower than external source projections and previously used projections
- Only three asset classes – EM Public Equity and Private Equity including Real Estate – are projected to produce real returns in excess of 5%



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Volatility Sensitivity

- Asset class volatility has not changed dramatically over rolling 5-10 year periods, although it has changed significantly over shorter time periods (e.g., fall of 2008)

	Rolling 5 year volatility, ending in year:								Rolling 10 year volatility, ending in year:				40-year average	**Used**
	1975	1980	1985	1990	1995	2000	2005	2010	1980	1990	2000	2010		
IGFI	4%	8%	10%	6%	4%	4%	5%	5%	7%	8%	4%	5%	6%	**7%**
Credit	9%	10%	11%	6%	5%	4%	6%	12%	10%	9%	5%	9%	8%	**13%**
Real Estate	24%	17%	12%	11%	11%	13%	14%	32%	21%	12%	12%	25%	17%	**15%**
Commodities	21%	14%	13%	10%	7%	14%	14%	21%	18%	12%	11%	18%	14%	**18%**
U.S. Equities	17%	14%	14%	19%	10%	16%	15%	18%	16%	16%	13%	16%	16%	**17%**
Non-US Dev Equities	19%	14%	16%	23%	16%	14%	15%	21%	16%	20%	15%	19%	17%	**19%**
EM Equities			11%	22%	19%	26%	21%	28%		18%	23%	25%	22%	**26%**
LCC*						8%	7%	12%				10%		**11%**
Private Investments*				5%	8%	24%	15%	25%			16%	20%		**22%**

(*) LCC and Private Investment volatility after adjusting for serial correlation

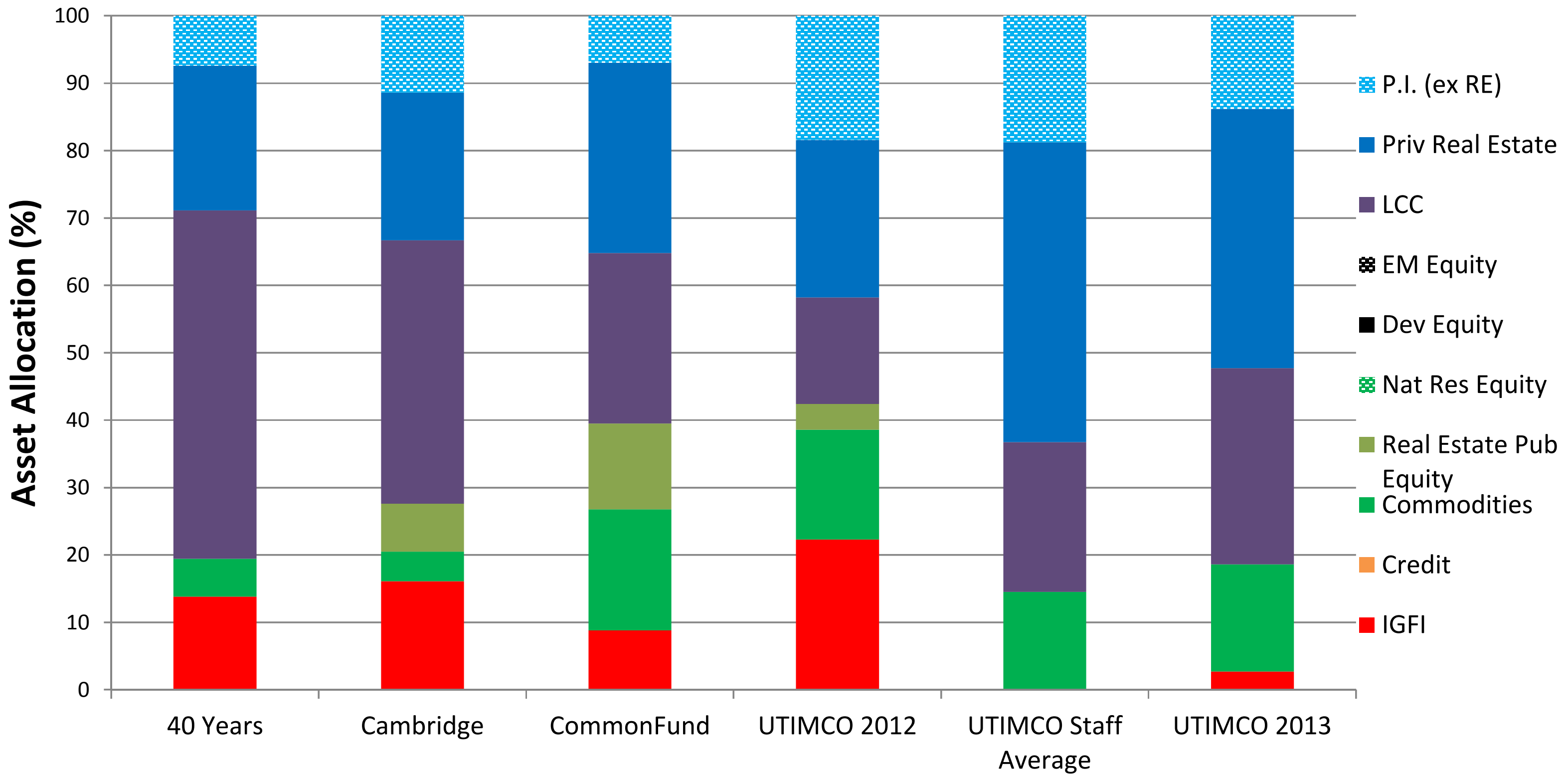
Correlation Sensitivity

- Correlations change over time, particularly the relationships between bonds and stocks, and between commodities and stocks
- For long-term strategic asset allocation modeling purposes, staff has used correlations that are reasonably similar to the long-term average correlation

	Rolling 5 year correlations, ending in year:								Low	High	40-year average	**Used**
	1975	1980	1985	1990	1995	2000	2005	2010				
IGFI vs Dev Eq	0.29	0.26	0.51	0.26	0.45	0.13	(0.45)	(0.11)	(0.45)	0.51	0.14	**0.13**
IGFI vs Commdty	(0.16)	(0.06)	0.00	(0.08)	(0.04)	0.10	(0.04)	(0.09)	(0.16)	0.10	(0.04)	**0.06**
Commdty vs Dev Eq	(0.19)	0.20	0.40	(0.11)	(0.05)	0.07	0.14	0.54	(0.19)	0.54	0.14	**0.00**
Dev Eq vs EM Eq			0.85	0.43	0.48	0.69	0.81	0.84	0.43	0.85	0.69	**0.75**

Efficient Frontier Portfolios – I A

- Objective: 5% Real Returns, with least Downside Risk
- No constraints



Downside Risk	5.98%	5.99%	6.02%	5.96%	7.33%	6.73%

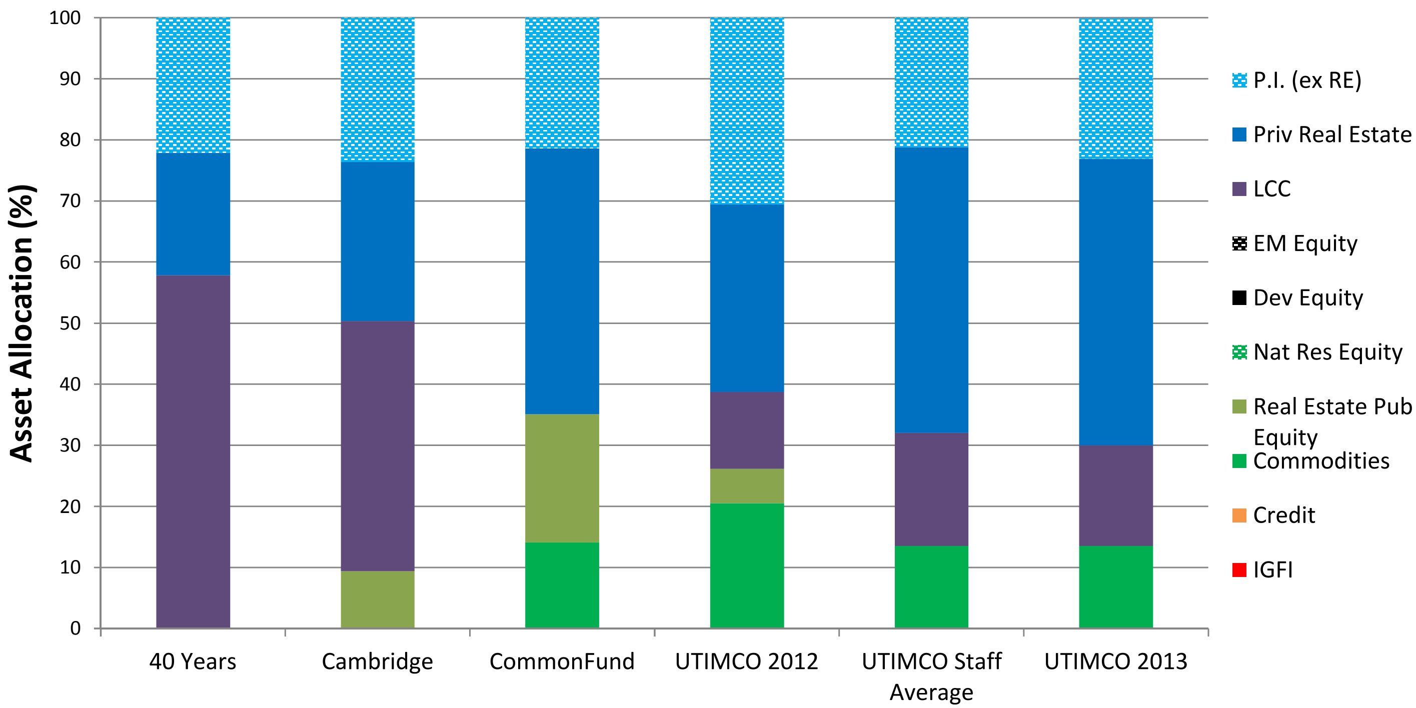
Efficient Frontier Portfolios – I B

- Objective: 5% Real Returns with highest probability
- No constraints

- More aggressive portfolios increase very slightly the probability of achieving the 5% target
  - The increased volatility offsets the effect of higher average returns, with respect to the probability of achieving the 5% target
  - Targeting a 7.25% return increases volatility almost threefold (from 8.3% to 23%), while the probability of achieving the 5% target increases from 50% to 55%

Efficient Frontier Portfolios – I C

- Objective: Highest returns, as long as probability of losing 10% or more in a year is less than 5%
- No constraints



	40 Years	Cambridge	CommonFund	UTIMCO 2012	UTIMCO Staff Average	UTIMCO 2013
Returns	6.01%	5.77%	5.79%	6.03%	5.10%	5.46%
Volatility	11.27	11.11	11.08	11.30	10.71	10.91
Downside Risk	7.40	7.42	7.41	7.40	7.51	7.46

Summary of Unconstrained Efficient Frontier Portfolios

- Unconstrained portfolios targeting a 5% real return call for
  - 30% – 65% private equity, including private real estate equity
  - 20% – 50% hedge funds
  - 7.5% – 33% real assets
  - No public equity

  And have a downside risk of 6-7%
- It is very difficult to improve the probability of producing real returns greater than 5%
- Protecting against drawdown risk actually projects higher real returns (5.1%-6.03%) but with higher downside risk (7.4% - 7.5%)
  - 33% – 70% private equity
  - 0% – 55% hedge funds
  - 0% – 33% real assets
  - No bonds
  - No public equity

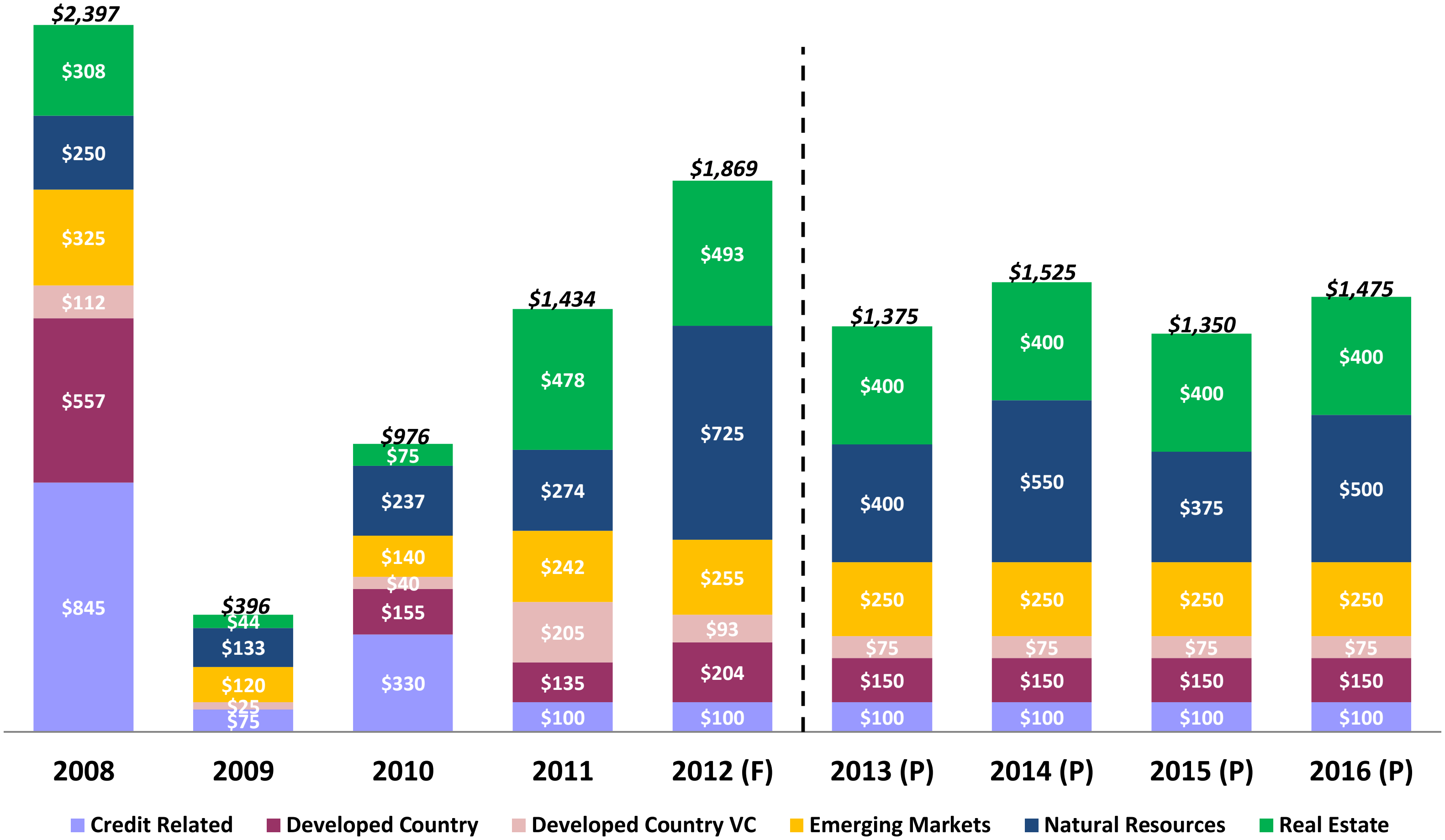
Private Investment NAV and Commitments Projections

- One "pragmatic" consideration is the desired / maximum level of private investments and the pace of gaining this exposure
- The current plan projects private investments to be 27%-29% of total assets

($mm)	CRFI	RE	Nat Res	Dev Eq (ex VC)	VC	EM	Total
Estimated 8/31/2012 NAV	$1,365	$479	$703	$1,627	$766	$509	$5,449
							26.9% of Endowments
2013							
Commitments	100	400	400	150	75	250	1,375
Ending NAV	1,255	801	1,010	1,612	797	648	6,123
							28.7% of Endowments
2014							
Commitments	100	550	400	150	75	250	1,525
Ending NAV	942	1,086	1,306	1,602	835	787	6,558
							29.2% of Endowments
2015							
Commitments	100	400	375	150	75	250	1,350
Ending NAV	598	1,311	1,559	1,576	867	907	6,818
							28.9% of Endowments
2016							
Commitments	100	400	500	150	75	250	1,475
Ending NAV	418	1,514	1,766	1,543	894	1,011	7,146
							28.8% of Endowments

Private Investment Commitments

- Projected commitments over the next four years are roughly an average of actual/forecast commitments over the past five years



Constraints

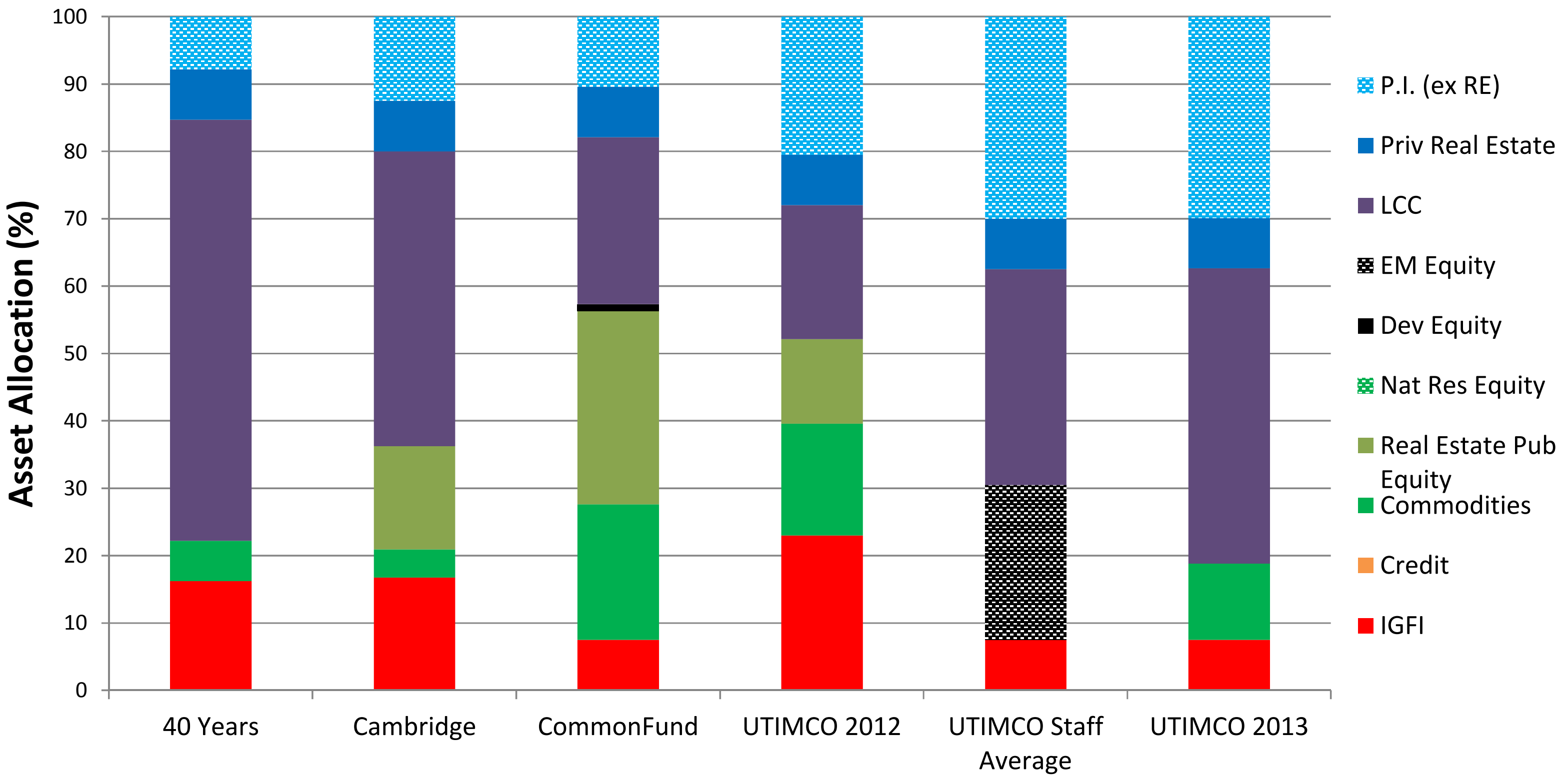
- The next step in modeling is to add constraints based on "real world" pragmatic considerations

Asset Class / Investment Style	Constraint	Rationale
IGFI	≥7.5%	Ensure source of funds for distributions and capital calls
Private RE Eq	≤7.5%	Desire to "ladder in"
Privates (ex RE)	≤30%	Ensure sufficient liquidity

- UTIMCO Risk Management is undertaking a detailed and comprehensive analysis of Illiquidity Risk
  - Required / expected returns given the risk
  - Target exposure
  - "Worst-Case" scenario exposure

Efficient Frontier Portfolios – II A

- Objective: 5% Real Returns, with least Downside Risk
- With constraints



Downside Risk	6.16	6.14	6.40	6.18	10.60	8.05

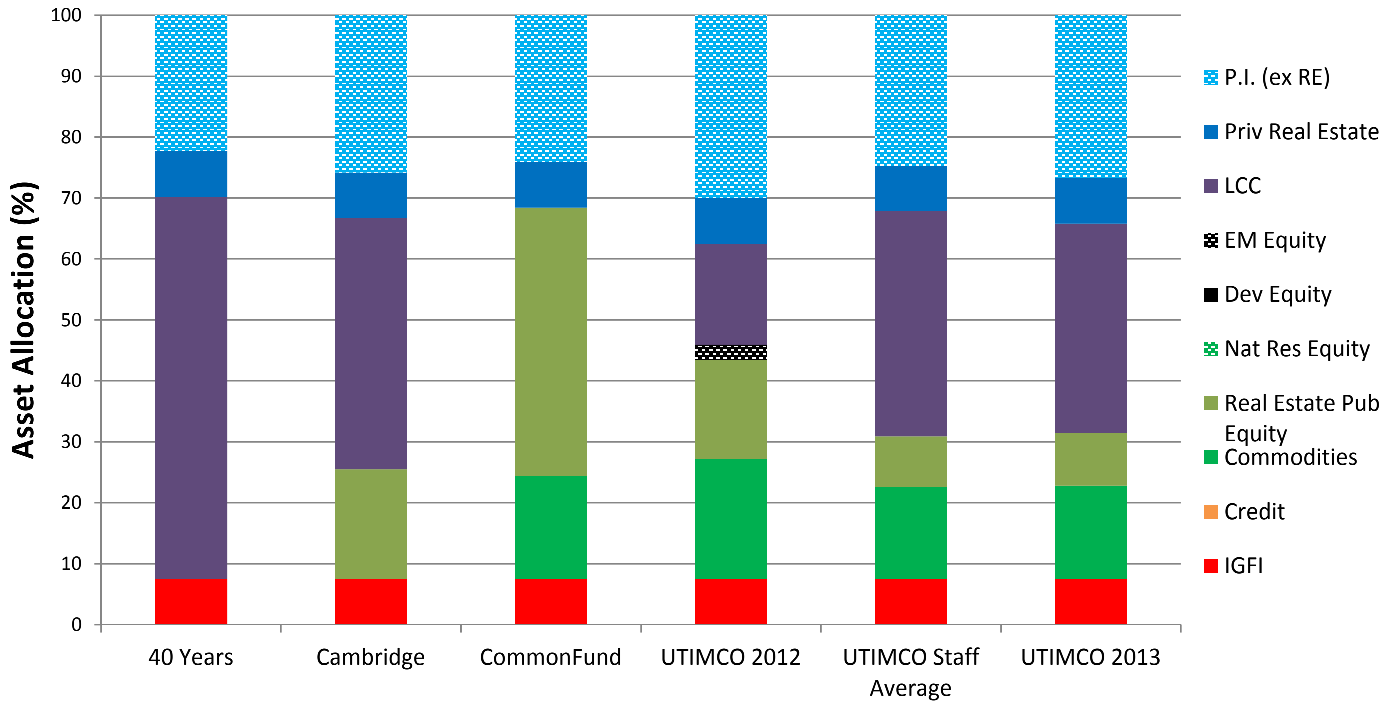
Efficient Frontier Portfolios – II B

- Objective: 5% Real Returns with highest probability
- With constraints

- More aggressive portfolios increase very slightly the probability of achieving the 5% target
  - The increased volatility offsets the effect of higher average returns, with respect to the probability of achieving the 5% target
  - Targeting a 5.75% real return, which is the highest target given the constraints, increases volatility almost twofold (from 11% to 20%), while the probability of achieving the 5% target only increases from 50% to 53%

Efficient Frontier Portfolios – II C

- Objective: Highest returns, as long as probability of losing 10% or more in a year is less than 5%
- With constraints



	40 Years	Cambridge	CommonFund	UTIMCO 2012	UTIMCO Staff Average	UTIMCO 2013
Returns	5.82%	5.63%	5.41%	5.81%	4.45%	4.84%
Volatility	11.2	11.0	10.9	11.1	10.3	10.6
Downside Risk	7.4	7.4	7.5	7.4	7.6	7.6

Summary of Constrained Efficient Frontier Portfolios

- Constrained portfolios targeting a 5% real return call for
  - 15% – 35% private equity, including private real estate equity
  - 20% – 60% hedge funds
  - 0% – 50% real assets
  - One portfolio (UTIMCO staff average) allocates 22.5% to EM Equity; only the CommonFund portfolio has any Developed Countries public equity, and even there it is insignificant
  - 7.5% – 22.5% Investment Grade Fixed Income

  And have an increased downside risk of 6–10.6%
- Again, it is very difficult to improve the probability of producing real returns greater than 5%
- Protecting against drawdown risk actually projects higher real returns (5.4%–5.8%) but with higher downside risk (7.4%–7.5%) under historic and external source assumptions, but reduces returns (4.5%–4.8%) and reduces risk (7.6%) under UTIMCO Average and 2013 assumptions
  - 30% – 35% private equity , including private real estate equity
  - 0% – 65% hedge funds
  - 0% – 60% real assets
  - Almost no public equity
  - Minimal IGFI

Asset Class Returns Vary Depending on the Macro-Economic Environment

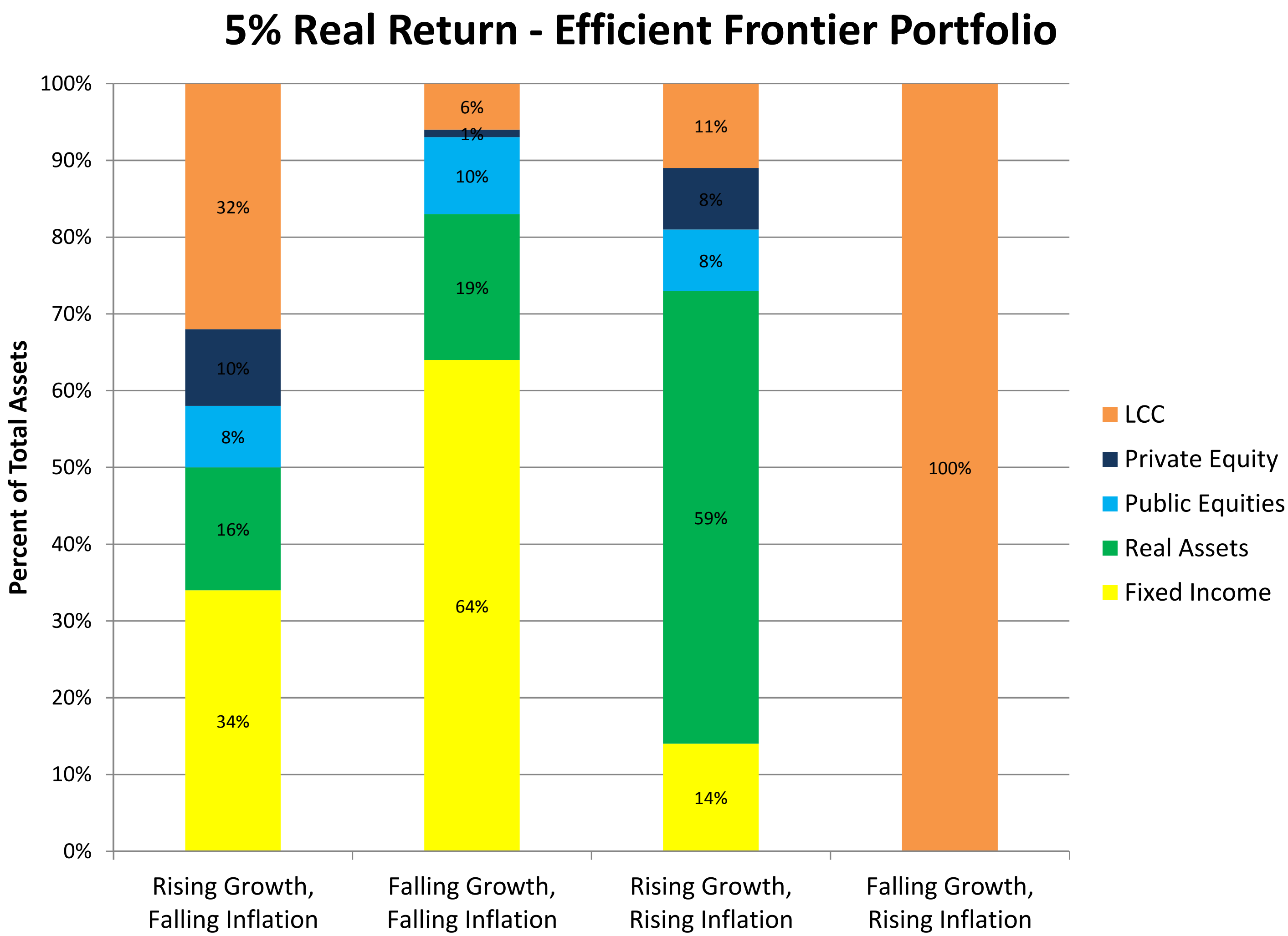
- Optimal portfolios depend greatly on the economic environment, assuming "pricing equilibrium"

	Varying Inflation/Growth Scenarios			
	Rising Growth / Falling Inflation	Falling Growth / Falling Inflation	Rising Growth / Rising Inflation	Falling Growth / Rising Inflation
More Correlated and Constrained				
Investment Grade Fixed Income	2.1%	4.6%	0.1%	1.2%
Credit-related Fixed Income	3.0%	5.2%	(3.5%)	(3.3%)
Real Estate	3.7%	3.5%	4.0%	1.3%
Natural Resources	2.6%	4.2%	7.3%	0.0%
Developed Country Equity	7.8%	5.6%	3.5%	0.2%
Emerging Markets Equity	6.5%	8.8%	4.9%	2.5%
Less Correlated and Constrained*	6.7%	5.9%	4.4%	3.9%
Private Investments*	12.7%	9.9%	8.5%	(2.1%)
Percentage of Time over past 40 years	37%	31%	9%	23%

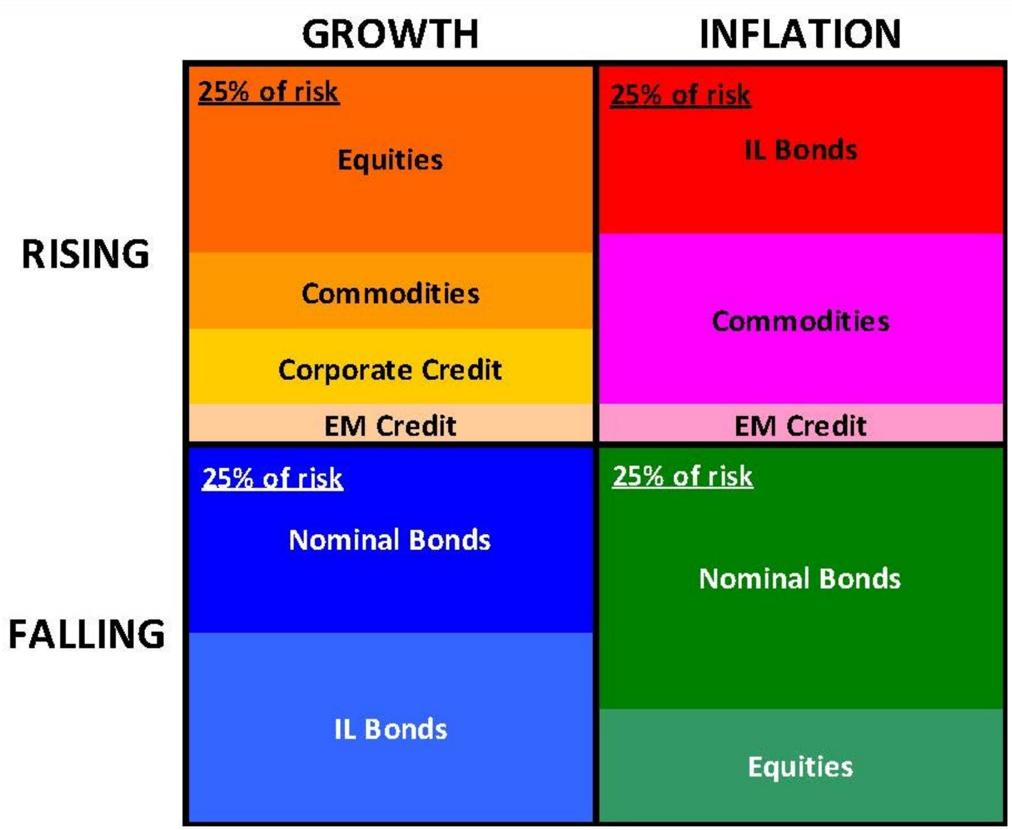
*LCC and PI are estimated based on expected added value in each quadrant

Green indicates greater than 5% real returns; Red indicates negative real returns

Efficient Portfolios Vary Depending on the Macro-Economic Environment



Risk Parity Approach



Note: Bonds are levered to reach equity-like risk levels

- Source: Bridgewater

Analysis of Balance of UTIMCO Portfolio

- While UTIMCO does not have an “all weather” or “risk parity” portfolio, third parties have opined that the UTIMCO portfolio is more balanced than most institutional portfolios
- The risk to reducing equity exposure further and moving more assets into bonds at this time is the low yields on bonds. Also, if growth picks up and/or inflation falls, equity exposure would be desirable

	Risk Exposures			
	All Weather	Current UTIMCO	2007 UTIMCO	Average Peer
Nominal Bonds	30%	3%	3%	2%
IL Bonds	24%	1%	1%	1%
Corporate Credit	5%	8%	3%	3%
EM Credit	6%	2%	2%	2%
Commodities	16%	7%	2%	3%
Dev Equity	16%	59%	74%	77%
EM Equity	3%	20%	15%	12%

Generating a Factor Portfolio

- **Hypothesis**: there are several independent risk factors, each commanding its own risk premium
- Identifying such independent factors is the key issue. Usually involves financial theory, economics, and statistics. Factors typically considered:
  - Equity factors, such as market, small-minus-large, value-minus-growth, momentum
  - Fixed Income factors, such as level, steepness, curvature
  - Currency
  - Real Assets
- Since these factors are independent, their correlation is low, and constructing a portfolio based on such factors would be more robust, and with better diversification effects
- Generating the desired exposure level to a factor, without creating unwanted exposures to other factors, would require extensive use of hedged (long-short) strategies and leverage

Peer Practices

- UTIMCO has a less risky, more defensive portfolio than the peer average:
  - Higher allocations to gold, commodities and hedge funds
  - Lower exposure to public and private equity
  - Lower levels of illiquidity

	UT	Average Peer	UT - Avg Peer O/<U>
IGFI	10.4%	10.2%	0.2%
Gold	4.5%	0.3%	4.2%
Commodities	3.8%	1.5%	2.3%
Hedge Funds	30.2%	22.7%	7.5%
Public Equity	25.4%	29.5%	(4.1%)
Private Credit	6.7%	2.0%	4.7%
Other Private Equity	18.9%	32.8%	(13.9%)
Total Private Equity	25.6%	34.8%	(9.2%)
Other	0.1%	1.0%	(0.9%)
Total	**100.0%**	**100.0%**	**0.0%**

Summary of Varying Economic Environments, Risk Parity, and Peer Approaches

- Economic environments, setting pricing aside, can affect asset class returns and desirability:
  - Good growth with low inflation: Equities
  - Low growth with low inflation: Equities and Fixed Income
  - Good growth with high inflation: Natural Resources
  - Low growth with high inflation: Nothing (perhaps inflation-linked bonds)

  It is difficult to accurately predict economic environments, and it is also difficult to fundamentally shift a large portfolio as the economic environment changes
- A risk-parity approach, in addition to acknowledging the desirability of different asset classes in different economic environments, also acknowledges the different risk (as measured by volatility) between asset classes. Risk parity further assumes all current prices are "fair" and future prices unknown, so it equally weights assets based on equal volatility (i.e., levers bonds to match equity risk)
  - UTIMCO now has a more risk-diversified portfolio than in 2007, and is more risk-diversified than peers
- Factor-based portfolios lead to extensive use of hedge funds, and require leverage to meet return objectives
- UTIMCO, relative to its peers, has higher exposure to hedge funds, gold, and commodities, and lower exposure to public and private equity

“Alpha”

- Up to this point, the models have used asset class and investment style averages, or market returns, and have not factored in the potential for skill-based added value or “alpha”
- Staff is incented to produce alpha primarily through manager selection and has done so over the past five years

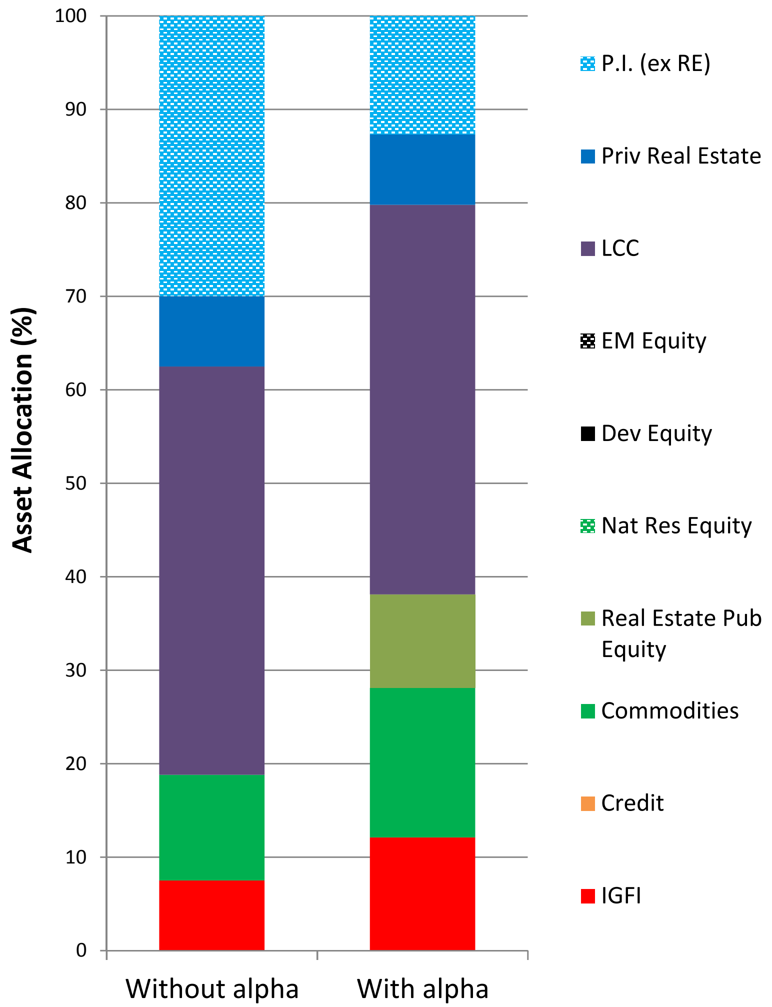
	Compensation Plan Alpha	
	Target (bp)	Max (bp)
IGFI	25.0	62.5
Credit	37.5	100.0
Real Estate	62.5	150.0
Nat Res	62.5	150.0
Dev Equity	62.5	150.0
EM Equity	62.5	150.0
LCC	75.0	250.0
PI	100.0	350.0
Total - Endowments	75.0	225.0
Total - ITF	50.0	150.0

	Fiscal Year Actual Alpha	
	Active Management (bp)	Total (bp)
FY2008	121	211
FY2009	135	220
FY2010	390	426
FY2011	288	274
FYTD2012	283	112
Average	243	249

Role of Alpha

- Alpha can be included in the development of Investment Policies in a number of ways
  - Alpha can be "factored in" to the policy portfolio construction, thereby adjusting the asset class / investment style mix for a given level of return or risk
  - The return target could be increased
  - Alpha can be "used" to increase the probability of achieving the desired level of returns (e.g., greater than 5% real returns)
  - Alpha can be used to offset other costs such as insurance or hedging
- Staff did not, and continues not to, "factor in" alpha in developing a Long Term Policy Portfolio, preferring to either increase the probability of achieving a 5% real return, and/or using the generated alpha to offset any insurance or hedging costs

Effect of Alpha



Constrained Efficient Frontier Portfolio
Excluding Alpha 5% Real Return

	without alpha	with alpha
Returns	5.00%	5.79%
Downside Risk	8.10%	7.60%
Probability of making 5% real	50%	53%

Constrained Efficient Frontier Portfolio
Including Alpha 5% Real Return

Returns	5.00%
Downside Risk	6.10%
Probability of making 5% real	50%

Summary of Optimal Portfolios and LTSAA

	Low	Median	Mean	High	LTSAA
IGFI	7.5%	12.1%	12.9%	23%	7.5%
Credit	0	0	0	0	0
Pub Real Estate	0	10	9.5	28.7	3.5
Commodities	0	11.3	10.6	20.1	2.75
Nat Res Equity	0	0	0	0	2.75
Dev Equity	0	0	0.1	1	16
EM Equity	0	0	3.3	23	12
LCC	19.9	41.7	38.3	62.5	30
Private Real Estate	7.5	7.5	7.5	7.5	5
P.I. (ex RE)	7.8	12.7	17.7	30	20.5

- UTIMCO's Long Term Strategic Asset Allocation differs from the quantitative models
  - Higher allocations to Natural Resources Public Equities, Developed Countries Public Equities, and Emerging Markets Public Equities
  - Lower allocations to Investment Grade Fixed Income, Public and Private Real Estate, Commodities, and Hedge Funds

FY 2013 Recommended Targets

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
Fixed Income	Investment Grade	7.5%	2.0%	0.0%	**9.5%**
	Credit Related	0.0%	3.0%	2.5%	**5.5%**
	Fixed Income Total	**7.5%**	**5.0%**	**2.5%**	**15.0%**
Real Assets	Real Estate	2.5%	0.0%	4.0%	**6.5%**
	Natural Resources	7.5%	1.0%	5.0%	**13.5%**
	Real Assets Total	**10.0%**	**1.0%**	**9.0%**	**20.0%**
Equity	Developed Country	15.0%	20.0%	10.0%	**45.0%**
	Emerging Market	12.0%	4.0%	4.0%	**20.0%**
	Equity Total	**27.0%**	**24.0%**	**14.0%**	**65.0%**
	TOTAL	**44.5%**	**30.0%**	**25.5%**	**100.0%**

FY 2013 Recommended Policy vs. FY 2012 Investment Policy Targets

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
Fixed Income	Investment Grade	0.0%	0.0%	0.0%	**0.0%**
	Credit Related	0.0%	0.0%	0.0%	**0.0%**
	Fixed Income Total	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Real Assets	Real Estate	0.0%	0.0%	1.0%	**1.0%**
	Natural Resources	1.0%	0.0%	1.0%	**2.0%**
	Real Assets Total	**1.0%**	**0.0%**	**2.0%**	**3.0%**
Equity	Developed Country	(3.5%)	0.0%	0.0%	**(3.5%)**
	Emerging Market	0.0%	0.0%	0.5%	**0.5%**
	Equity Total	**(3.5%)**	**0.0%**	**0.5%**	**(3.0%)**
	TOTAL	**(2.5%)**	**0.0%**	**2.5%**	**0.0%**

FY 2013 Recommended Policy vs. Long Term Strategic Asset Allocation

		More Correlated and Constrained (Long Only)	Less Correlated and Constrained (Hedge Funds)	Private Investments	TOTAL
Fixed Income	Investment Grade	0.0%	0.0%	0.0%	**0.0%**
	Credit Related	0.0%	0.0%	0.0%	**0.0%**
	Fixed Income Total	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Real Assets	Real Estate	(1.0%)	0.0%	(1.0%)	**(2.0%)**
	Natural Resources	2.0%	0.0%	0.0%	**2.0%**
	Real Assets Total	**1.0%**	**0.0%**	**(1.0%)**	**0.0%**
Equity	Developed Country	(1.0%)	0.0%	1.0%	**0.0%**
	Emerging Market	0.0%	0.0%	0.0%	**0.0%**
	Equity Total	**(1.0%)**	**0.0%**	**1.0%**	**0.0%**
	TOTAL	**0.0%**	**0.0%**	**0.0%**	**0.0%**

Recommended Investment Policy Allocation Targets and Ranges for FY2013

	MINIMUM	TARGET	MAXIMUM
Asset Classes			
Investment Grade Fixed Income	5.0%	9.5%	20.0%
Credit Related Fixed Income	0.0%	5.5%	30.0%
Real Estate	0.0%	6.5% +1.0%	12.5% +2.5%
Natural Resources	5.0%	13.5% +2.0%	25.0%
Developed Country Equity	35.0%	45.0% -3.5%	60.0%
Emerging Market Equity	10.0%	20.0% +0.5%	25.0%
		100.0%	
Investment Types			
More Correlated and Constrained	35.0%	44.5% -2.5%	60.0%
Less Correlated and Constrained	25.0%	30.0%	37.5%
Private Investments	17.5%	25.5% +2.5%	32.5%
		100.0%	

Green or red indicates change from FY 2012 Policy

Projected Returns

- Given the Policy Targets, portfolio returns and risk can be projected based on asset class and investment type return assumptions
- These portfolio projected returns have limited actual impact
  - PUF distributions can be increased by 0.25% if three year trailing actual average returns exceed this Projected Return by 0.25% or more
- Portfolio Projected Return and Downside Risk vary according to the assumption set:

	FY2012 Policy	40 Years	Cambridge	Common Fund	UTIMCO 2012	UTIMCO Staff Average	UTIMCO 2013
Real Return	5.81%	5.56%	5.72%	5.21%	5.85%	4.54%	4.86%
Downside Risk	8.86%	9.06%	8.96%	9.24%	8.90%	9.62%	9.45%

Intermediate-Term Fund

- Three years ago, the ITF Asset Allocation was changed with the objective of reducing volatility while maintaining as much earning potential as possible. Public equity was reduced and LCC was increased
- Investment performance has been strong over the past three years:

	FY2007-FY2009	FY2010-FYTD2012
Annual Return (nominal)	0.69%	7.48%
Value Add	2.00%	3.16%
Volatility	12.11%	7.69%
Nominal Return vs CPI	(1.22%)	5.17%
Nominal Return vs CPI+3%	(4.28%)	2.11%

- Staff recommends retaining the current asset allocation, and an insurance budget of 50bp
- Given the updated return and volatility assumptions, the projected returns, volatility, and downside risk, excluding insurance trades, are:

	FY2012 Policy	40 Years	Cambridge	Common Fund	UTIMCO 2012	UTIMCO Staff Average	UTIMCO 2013
Expected Real Return	4.28%	4.02%	4.43%	3.95%	4.28%	3.08%	3.41%
Projected Volatility	8.20%	8.20%	8.20%	8.20%	8.20%	8.20%	8.20%
Projected Downside Risk	5.34%	5.27%	5.06%	5.30%	5.34%	5.78%	5.59%

Insurance / Hedging Budget

- UTIMCO undertook a formal insurance or hedging program as part of the Policies reviews and revisions for Fiscal Year 2010
- A review of this program is prudent, with respect to:
  - Definitions
  - Objectives
  - Costs
  - Expectations

Definitions

- One person's "hedge" could be another person's speculation. Therefore, UTIMCO staff has endeavored to be specific about what is called its insurance or hedging budget
  - Purchase calls or puts in order to limit maximum potential loss (i.e., cost of option)

Objectives

- Cushion potential fund losses in scenarios of significant downside shock
  - Unlikely to fully protect funds from losses in scenarios where insurance has been purchased
  - Impossible to completely anticipate potential scenarios

Insurance Costs

	Endowments						ITF					
	Exposures						Exposures					
Event / **Hedge**	**Total Cost** [1]	**bp Cost/Year** [2]	**Notional ($mm)**	**MTM ($mm)**	**Since Inception P/L**	**bp Fiscal Year 2013** [3]	**Total Cost** [1]	**bp Cost/Year** [2]	**Notional ($mm)**	**MTM ($mm)**	**Since Inception P/L**	**bp Fiscal Year 2013** [3]
ACTIVE POSITIONS												
U.S. Inflation												
CMS Options	$ (52)	5.7	$ 9,249	$ 15	$ (37)	5.7	$ (13)	5.8	$ 2,251	$ 4	$ (9)	5.8
Emerging Markets Bubble												
KOSPI Put Spreads	$ (29)	7.4	1,123	23	(6)	6.6	$ (5)	4.9	177	4	(1)	4.4
ASX Put Spreads	$ (34)	10.8	1,530	27	(4)	4.7	$ (5)	7.0	234	4	(1)	3.2
Total	$ (63)	18.2		50	(11)	11.3	$ (10)	12.0		8	(2)	7.5
Sovereign Default												
JPY Rate Options and Swaptions	$ (51)	12.1	6,114	10	(41)	6.7	$ (6)	5.9	717	1	(5)	3.3
DKK Call / EURO Put Options	$ (11)	5.3	1,510	4	(7)	-	$ (3)	5.3	358	1	(2)	-
Total	$ (62)	17.4		14	(48)	6.7	$ (9)	11.2		2	(6)	3.3
SUBTOTAL ACTIVE POSITIONS	**$ (177)**	**41.2**		**78**	**(96)**		**$ (31)**	**28.9**		**14**	**(17)**	
EXPIRED POSITIONS												
JPY Rate Options and Swaptions	$ (4)	1.0	4,184		(4)		$ (0)	0.4	454		(0)	
S&P Put Spreads	$ (61)	32.2	1,395		(61)		$ (10)	21.2	220		(10)	
SUBTOTAL EXPIRED POSITIONS	**$ (66)**	**33.2**			**(66)**		**$ (10)**	**21.7**			**(10)**	
TOTAL	**$ (243)**	**74.4**		**$ 78**	**$ (161)**	**23.7**	**$ (41)**	**50.6**		**$ 14**	**$ (27)**	**16.6**

(1) Maximum Loss for Options (in $mm)

(2) Amount of delegated insurance budget used for fiscal year ending August, 2012

(3) Amount of delegated insurance budget used for fiscal year ending August, 2013

Insurance Expectations

- Insurance helps cushion but does not fully mitigate the downside

Asset Class	Policy	Scenario							
		Full Recovery	Global Stagflation	Mild Eurozone Default	Big Eurozone Default	Japan Crisis	USD Crisis	EM Bubble "Pop"	Deflation
Expected Policy Returns (nominal)	**7.36%**	**18%**	**(7.4%)**	**(5.5%)**	**(20%)**	**(19%)**	**(20%)**	**(22%)**	**(26%)**
Gain from tactical positions	(0.45%)	(3.6%)	2.1%	1.9%	5.4%	4.5%	4.5%	5.1%	4.3%
Gain from insurance	(0.75%)	(0.3%)	0.6%	0.1%	1.5% - 2.6%	1.6% - 4.8%	1.6%	0.8%	0.9%
Gain from manager's alpha	1.00%	0.8%	1.5%	2.3%	2.0%	2.0%	2.0%	2.0%	2.0%
Estimated Endowment Returns	**7.16%**	**15.0%**	**(3.2%)**	**(1.2%)**	**(11%) – (10%)**	**(11%) – (7%)**	**(11.6%)**	**(14.1%)**	**(18.7%)**

Insurance Budget

- The primary tools for protecting assets from a significantly negative scenario are a careful choice of the risk level in the Policy portfolio, asset diversification, and a value / margin of safety orientation
- From a purely long-term economic perspective, insurance has a negative “Expected Monetary Value”
- For a long-term fund like an Endowment, shorter term volatility or drawdowns should not be a major concern
- Essentially insurance provides the funds with an additional layer of protection, should all the primary tools come up short or fail
  - The risk reduction that insurance provides necessarily reduces expected long-term returns
- The decision to hedge (or otherwise reduce risk) is ultimately a client decision
  - If the client wants the added layer of protection, it should delegate a certain amount of authority to UTIMCO staff
  - It would be UTIMCO staff’s responsibility, in communication with its Board and the client, to determine what potential scenarios to hedge against, and what are the most optimal hedges to deploy

Other Policies

Liquidity Policy

- Expanded the Policy's definition of Cash

Delegation of Authority Policy

- Clarifications on the relationship between the Investment Policy Statements, the Derivative Investment Policy and the Delegation of Authority Policy, with respect to:
  - Insurance Budget
  - Programs that utilize shorts

Derivative Investment Policy

- Clarified definition of FX contracts that are excluded from the definition of Derivative Investments
- Consistent with market practice, added exception to exclude FX contracts that mature within 91 days of initial settlement from the requirement to be subject to an ISDA netting agreement, provided the counterparty has been pre-approved by UTIMCO
- Added language to allow for use of individual stock(s) swaps within the portfolio, provided the portfolio would not be net short the individual stock(s)

Agenda Item
UTIMCO Board of Directors Meeting
July 11, 2012

Agenda Item: Report from Policy Committee, including Discussion and Appropriate Action Related to the Investment Policy Statements, the Derivative Investment Policy, the Liquidity Policy and the Delegation of Authority Policy

Developed By: Staff

Presented By: Gary

Type of Item: Action item; Action required by UTIMCO Board and by UT System Board of Regents related the proposed amendments to the Investment Policy Statements, the Derivative Investment Policy and the Liquidity Policy; Action required by the UTIMCO Board related to the proposed amendments to the Delegation of Authority Policy.

Description: The Policy Committee ("Committee") will meet on July 5, 2012. The Committee will meet jointly with the Risk Committee to discuss and take appropriate action related to the proposed amendments to the Investment Policy Statements. The joint meeting will be followed by a Committee meeting for discussion and appropriate action related to minutes.

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

Discussion: Following is a brief summary of the proposed changes to the Investment Policies.

<u>Investment Policies</u>
Exhibit A of the Investment Policy Statements of the PUF, GEF and ITF and Exhibit B of the Investment Policy Statements for the PHF and LTF will be amended to reflect the proposed changes. Additional amendments to the PUF, GEF, and ITF Investment Policy statements are also being submitted for approval. The amendments to the PUF, GEF, ITF, PHF, and LTF are effective September 1, 2012.

The Short Term Fund (STF) Investment Policy Statement and the Separately Invested Funds (SIF) Investment Policy Statement were reviewed by staff and recommended amendments are being proposed. The amendments to the STF and SIF are effective September 1, 2012.

In addition, the following Investment Policies are being submitted to the Risk and Policy Committees for approval of amendments:

- Derivative Investment Policy (effective August 23, 2012)
- Liquidity Policy (effective August 23, 2012)
- Delegation of Authority Policy (effective July 11, 2012)

Exhibits A of the PUF, GEF, and ITF, and Exhibits B in the PHF and LTF Investment Policy Statements, have been amended to set forth the revised Policy Portfolio Asset Class and Investment Type targets and ranges for FY 2013. In addition, the one year downside deviation has been adjusted to reflect the revised Asset Class and Investment Type targets for FY 2013. Finally, the Expected Annual Return (Benchmark) target for FY 2013 has been updated for the PUF, GEF, PHF and LTF.

PUF Investment Policy Statement
Page 5, Asset Class and Investment Type Allocation and Policy; Asset Classes, clarifying changes are being made to the definitions of Investment Grade Fixed Income and Credit-Related Fixed Income.

Page 7, Investment Guidelines, General, clarifying references to the Delegation of Authority Policy and Derivative Investment Policy are being added regarding the use of internal investment strategies or programs employing short sales.

Page 7, Investment Guidelines, General, adding the authorization for the use and amount of aggregated annual premium (75 bps) of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk.

GEF Investment Policy Statement
Pages 3-4, Asset Class and Investment Type Allocation and Policy; Asset Classes, clarifying changes are being made to the definitions of Investment Grade Fixed Income and Credit-Related Fixed Income.

Page 5, Investment Guidelines, General, clarifying references to the Delegation of Authority Policy and Derivative Investment Policy are being added regarding the use of internal investment strategies or programs employing short sales.

Pages 5-6, Investment Guidelines, General, adding the authorization for the use and amount of aggregated annual premium (75 bps) of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk.

ITF Investment Policy Statement
Pages 3-4, Asset Class and Investment Type Allocation and Policy; Asset Classes, clarifying changes are being made to the definitions of Investment Grade Fixed Income and Credit-Related Fixed Income.

Page 5, Investment Guidelines, General, clarifying references to the Delegation of Authority Policy and Derivative Investment Policy are being added regarding the use of internal investment strategies or programs employing short sales.

Page 5, Investment Guidelines, General, adding the authorization for the use and amount of aggregated annual premium (50 bps) of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk.

STF Investment Policy Statement
Page 4, Investment Guidelines, General, Cash and Cash Equivalents, expanded definition.

SIF Investment Policy Statement
Page 3, Asset Class Allocation; Asset Classes, clarifying changes are being made to the definitions of Investment Grade Fixed Income and Credit-Related Fixed Income.

Derivative Investment Policy
Changes to the Derivative Investment Policy are as follows:

- Page 1, Definition of Derivatives, clarified definition of foreign currency contracts that are excluded from the definition of Derivative Investments.

- Page 3, Counterparty Risks, added exception to exclude foreign currency contracts that mature within 91 days of initial settlement from the requirement to be subject to an established ISDA Netting Agreement consistent with market practice, provided that the contracts are traded with a counterparty that has been pre-approved by UTIMCO.

- Page 6, Exhibit B, Delegated Derivative Investment 3 changed to reference aggregated prorated annual premium budget for Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against global interest rate shocks and risk in Investment Policy Statements.

- Page 6, Exhibit B, Delegated Derivative Investment 5, added language to allow for use of individual stock(s) swaps within the portfolio provided the portfolio would not be net short the individual stock(s).

Liquidity Policy
Changes to the Liquidity Policy are as follows:

- Page 1, Definition of Cash: expanded definition

Agenda Item
UTIMCO Board of Directors Meeting
July 11, 2012

Delegation of Authority Policy
Changes to the Delegation of Authority Policy are as follows:

- Page 6, Investment in Derivative Investments: Added reference to Investment Policy Statements for authorization to enter into Derivative Investments.

Internal Policies
Proxy Voting Policy
A detailed Proxy Voting Policy was adopted in approximately 2006 to serve as a guideline for proxy voting decisions and detail the processes by which such decisions are made, primarily for use by UTIMCO's internal equity managers to fulfill UTIMCO's fiduciary duty to vote proxies in the best interests of the Investment Funds under management. The Proxy Voting Policy has been amended to provide additional flexibility to external equity managers to vote proxies in accordance with their own established proxy voting policies, if available, and to provide general guidance to those managers that have not adopted their own proxy voting policies.

Soft Dollar Policy and Procedures
Soft Dollar Policy and Procedures was adopted on May 30, 2001, to outline acceptable uses of soft dollar arrangements in the execution of trades for the Investment Funds under management. While amendments to the Policy are primarily editorial, the amended Policy authorizes the CEO and Chief Investment Officer and President and Deputy CIO to approve the use of soft dollar arrangements by internal investment managers rather than seeking UTIMCO Board approval. At this time, UTIMCO internal investment managers do not anticipate the need for soft dollar arrangements. Use of a soft dollar arrangement must be appropriately documented and directly benefit the investment accounts.

Recommendation: The Policy Committee and Risk Committee will recommend appropriate action of proposed amendments to the Investment Policy Statements for the PUF, GEF, PHF, LTF, ITF, SIF, and STF for the fiscal year beginning September 1, 2012. Staff also recommends approval by the Risk Committee and Policy Committee of the proposed amendments to the Liquidity Policy and Derivative Investment Policy, effective August 23, 2012, and the Delegation of Authority Policy, effective July 11, 2012.

Reference: Investment Policy Statements for the PUF, GEF, PHF, LTF and ITF, effective September 1, 2012, including Exhibits
Investment Policy Statements for the SIF and STF effective September 1, 2012
Derivative Investment Policy, effective August 23, 2012
Liquidity Policy, effective August 23, 2012
Delegation of Authority Policy, effective July 11, 2012

RESOLUTION RELATED TO INVESTMENT POLICIES

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

FURTHER RESOLVED, that the amendments to the Delegation of Authority Policy, as presented be, and are hereby, approved.

THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND
INVESTMENT POLICY STATEMENT

Purpose

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

PUF Organization

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

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

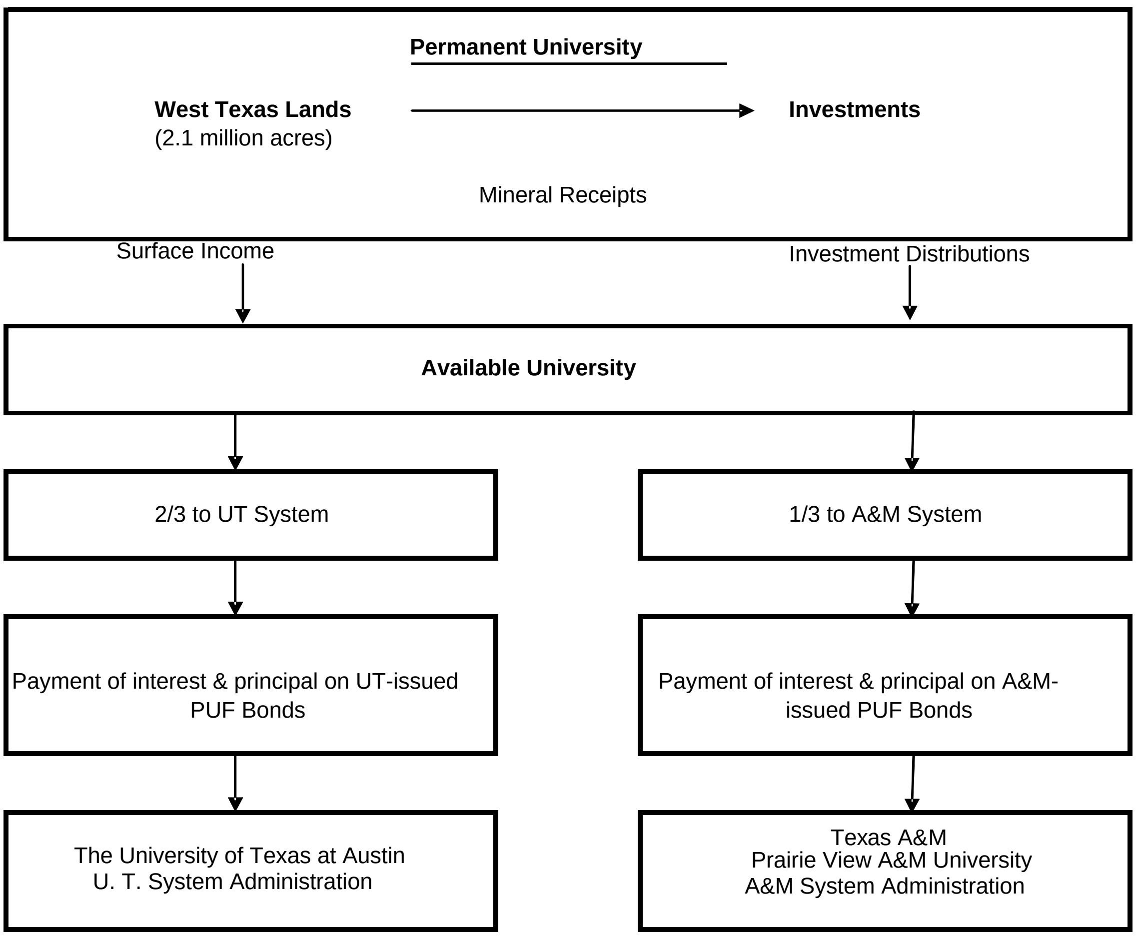
The expenditure of the AUF is subject to a prescribed order of priority:

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

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

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

Exhibit 1



PUF Management

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

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

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

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

PUF Administration

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

PUF Investment Objectives

The PUF and the General Endowment Fund (the "GEF") are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund assets and annual distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund after all expenses. The current target distribution rate is 4.75%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund.

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

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

Asset Class and Investment Type Allocation and Policy

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

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

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

Asset Classes:

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

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

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

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

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

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

Investment Types:

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

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

Private Investments – Mandates that invest primarily in non-public securities and typically entail capital commitments, calls and distributions.

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

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.

- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of PUF assets in such investments.

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

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

- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.

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

- The PUF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 75 basis points of PUF value.

Investment Grade and Credit-Related Fixed Income

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

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

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

- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

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

PUF Distributions

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

- provide a predictable, stable stream of distributions over time;

- ensure that the inflation adjusted value of distributions is maintained over the long term; and

- ensure that the inflation adjusted value of PUF assets after distributions is maintained over rolling 10-year periods.

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

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

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

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

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

PUF Accounting

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

Valuation of Assets

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

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

Compliance

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

Securities Lending

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

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this Policy shall be September 1, ~~2011~~ 2012~~(except for Min and Max ranges and Risk Bounds in Exhibit A, which became effective August 15, 2011)~~.

EXHIBIT A
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY PORTFOLIO	FYE ~~2012~~ 2013		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	5.0%	9.5%	25.0%
Credit-Related Fixed Income	0.0%	5.5%	30.0%
Real Estate	0.0%	~~5.5%~~ 6.5%	~~10.0%~~ 12.5%
Natural Resources	5.0%	~~11.5%~~ 13.5%	25.0%
Developed Country Equity	30.0%	~~48.5%~~ 45.0%	60.0%
Emerging Markets Equity	5.0%	~~19.5%~~ 20.0%	25.0%
Investment Types			
More Correlated & Constrained	35.0%	~~47.0%~~ 44.5%	60.0%
Less Correlated & Constrained	25.0%	30.0%	37.5%
Private Investments	17.5%	~~23.0%~~ 25.5%	32.5%

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

POLICY BENCHMARK (reset monthly)	FYE ~~2012~~ 2013
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	~~6.5%~~ 7.5%
MSCI World Index with net dividends	~~18.5%~~ 15.0%
MSCI Emerging Markets with net dividends	12.0%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Venture Economics Custom Index	~~20.0%~~ 21.5%
NACREIF Custom Index	~~3.0%~~ 4.0%

POLICY/TARGET RETURN/RISKS	FYE ~~2012~~ 2013
Expected Annual Return (Benchmarks) **	~~8.81~~ 7.36%
One Year Downside Deviation	~~8.86~~ 9.45%
Risk Bounds	
Lower: 1 Year Downside Deviation	75%
Upper: 1 Year Downside Deviation	115%

**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of ~~3~~ 2.5%.

EXHIBIT A
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2012~~ 2013

FYE ~~2012~~ 2013		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (7.5%)	2.0%	0.0%	9.5%
	Credit-Related	0.00%	3.0%	2.5%	5.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.0%	Custom NACREIF ~~3.0~~ 4.0%	~~5.5~~ 6.5%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (~~6.5~~ 7.5%)	1.0%	~~4.0~~ 5.0%	~~11.5~~ 13.5%
Equity	Developed Country	MSCI World Index with Net Dividends (~~18.5~~ 15.0%)	20.0%	10.0%	~~48.5~~ 45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (12.0%)	4.0%	~~3.5~~ 4.0%	~~19.5~~ 20.0%
Total		~~47.0~~ 44.5%	30.0%	~~23~~ 25.5%	100.0%

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

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

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND
INVESTMENT POLICY STATEMENT

Purpose

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

GEF Organization

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

GEF Management

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

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

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

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

GEF Administration

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

Funds Eligible to Purchase GEF Units

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

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

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

GEF Investment Objectives

The GEF and the PUF are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund assets by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund (in case of the GEF, the target distribution rate of the LTF and the PHF) after all expenses. The current target distribution rate is 4.75%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund.

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

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

Asset Class and Investment Type Allocation and Policy

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

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

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

Asset Classes:

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

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

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

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

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

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

Investment Types:

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

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

Private Investments – Mandates that invest primarily in non-public securities and typically entail capital commitments, calls and distributions.

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

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.

- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of GEF assets in such investments.

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

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

- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.

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

- The GEF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative

Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 75 basis points of GEF value.

Investment Grade and Credit-Related Fixed Income

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

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

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

- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

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

GEF Accounting

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

Valuation of Assets

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

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

Compliance

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

Purchase of GEF Units

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

Redemption of GEF Units

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

Securities Lending

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

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this Policy shall be September 1, ~~2011~~ 2012~~(except for Min and Max ranges and Risk Bounds in Exhibit A, which became effective August 15, 2011)~~.

EXHIBIT A
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY PORTFOLIO	FYE ~~2012~~ 2013		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	5.0%	9.5%	25.0%
Credit-Related Fixed Income	0.0%	5.5%	30.0%
Real Estate	0.0%	~~5.5%~~ 6.5%	~~10.0%~~ 12.5%
Natural Resources	5.0%	~~11.5%~~ 13.5%	25.0%
Developed Country Equity	30.0%	~~48.5%~~ 45.0%	60.0%
Emerging Markets Equity	5.0%	~~19.5%~~ 20.0%	25.0%
Investment Types			
More Correlated & Constrained	35.0%	~~47.0%~~ 44.5%	60.0%
Less Correlated & Constrained	25.0%	30.0%	37.5%
Private Investments	17.5%	~~23.0%~~ 25.5%	32.5%

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

POLICY BENCHMARK (reset monthly)	FYE ~~2012~~ 2013
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	~~6.5%~~ 7.5%
MSCI World Index with net dividends	~~18.5%~~ 15.0%
MSCI Emerging Markets with net dividends	12.0%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Venture Economics Custom Index	~~20.0%~~ 21.5%
NACREIF Custom Index	~~3.0%~~ 4.0%

POLICY/TARGET RETURN/RISKS	FYE ~~2012~~ 2013
Expected Annual Return (Benchmarks) **	~~8.81~~ 7.36%
One Year Downside Deviation	~~8.86~~ 9.45%
Risk Bounds	
Lower: 1 Year Downside Deviation	75%
Upper: 1 Year Downside Deviation	115%

**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of ~~3~~ 2.5%.

EXHIBIT A
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2012~~ 2013

FYE ~~2012~~ 2013		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (7.5%)	2.0%	0.0%	9.5%
	Credit-Related	0.00%	3.0%	2.5%	5.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.0%	Custom NACREIF ~~3.0~~ 4.0%	~~5.5~~ 6.5%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (~~6.5~~ 7.5%)	1.0%	~~4.0~~ 5.0%	~~11.5~~ 13.5%
Equity	Developed Country	MSCI World Index with Net Dividends (~~18.5~~ 15.0%)	20.0%	10.0%	~~48.5~~ 45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (12.0%)	4.0%	~~3.5~~ 4.0%	~~19.5~~ 20.0%
Total		~~47.0~~ 44.5%	30.0%	~~23~~ 25.5%	100.0%

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

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

THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT HEALTH FUND
INVESTMENT POLICY STATEMENT

Purpose

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

A. The Permanent Health Fund for Higher Education (the "PHFHE"), the distributions from which are to fund programs that benefit medical research, health education, or treatment programs at 10 health-related institutions of higher education; and

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

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

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

PHF Organization

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

PHF Management

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

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

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

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

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

PHF Administration

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

Funds Eligible to Purchase PHF Units

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

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

PHF Investment Objectives

The primary investment objective shall be to preserve the purchasing power of PHF assets and annual distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate, plus the annual expected expense. The current target rate is 5.2%. The target is subject to adjustment from time to time consistent with the primary investment objective of the PHF.

Asset Allocation and Policy

PHF assets shall be allocated among the following investments:

A. Cash and Cash Equivalents - Cash and Cash Equivalents has the same meaning as given to the term “Cash” in the Liquidity Policy.

B. U. T. System General Endowment Fund (GEF) - See Exhibit B for the current GEF allocation, which is subject to changes by the Board of Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.

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

Performance Measurement

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

Investment Guidelines

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

PHF Distributions

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

A. provide a predictable, stable stream of distributions over time;

B. ensure that the inflation adjusted value of distributions is maintained over the long term; and

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

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

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

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

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

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

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

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

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

PHF Accounting

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

Valuation of Assets

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

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

Compliance

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

Purchase of PHF Units

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

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

Redemption of PHF Units

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this Policy shall be September 1, ~~2011~~2012~~, except for Exhibit B~~. ~~Exhibit B follows the effective date of Exhibit A of the GEF~~

EXHIBIT A

PHF ASSET ALLOCATION

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

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

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

*3 trading days or less

EXHIBIT B - GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY PORTFOLIO	FYE ~~2012~~ 2013		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	5.0%	9.5%	25.0%
Credit-Related Fixed Income	0.0%	5.5%	30.0%
Real Estate	0.0%	~~5.5%~~ 6.5%	~~10.0%~~ 12.5%
Natural Resources	5.0%	~~11.5%~~ 13.5%	25.0%
Developed Country Equity	30.0%	~~48.5%~~ 45.0%	60.0%
Emerging Markets Equity	5.0%	~~19.5%~~ 20.0%	25.0%
Investment Types			
More Correlated & Constrained	35.0%	~~47.0%~~ 44.5%	60.0%
Less Correlated & Constrained	25.0%	30.0%	37.5%
Private Investments	17.5%	~~23.0%~~ 25.5%	32.5%

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

POLICY BENCHMARK (reset monthly)	FYE ~~2012~~ 2013
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	~~6.5%~~ 7.5%
MSCI World Index with net dividends	~~18.5%~~ 15.0%
MSCI Emerging Markets with net dividends	12.0%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Venture Economics Custom Index	~~20.0%~~ 21.5%
NACREIF Custom Index	~~3.0%~~ 4.0%

POLICY/TARGET RETURN/RISKS	FYE ~~2012~~ 2013
Expected Annual Return (Benchmarks) **	~~8.81~~ 7.36%
One Year Downside Deviation	~~8.86~~ 9.45%
Risk Bounds	
Lower: 1 Year Downside Deviation	75%
Upper: 1 Year Downside Deviation	115%

**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of ~~3~~ 2.5%.

EXHIBIT B
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2012~~ 2013

FYE ~~2012~~ 2013		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (7.5%)	2.0%	0.0%	9.5%
	Credit-Related	0.00%	3.0%	2.5%	5.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.0%	Custom NACREIF ~~3.0~~ 4.0%	~~5.5~~ 6.5%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (~~6.5~~ 7.5%)	1.0%	~~4.0~~ 5.0%	~~11.5~~ 13.5%
Equity	Developed Country	MSCI World Index with Net Dividends (~~18.5~~ 15.0%)	20.0%	10.0%	~~48.5~~ 45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (12.0%)	4.0%	~~3.5~~ 4.0%	~~19.5~~ 20.0%
Total		~~47.0~~ 44.5%	30.0%	~~23~~ 25.5%	100.0%

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

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

THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
INVESTMENT POLICY STATEMENT

Purpose

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

LTF Organization

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

LTF Management

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

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

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

LTF Administration

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

Funds Eligible to Purchase LTF Units

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

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

LTF Investment Objectives

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

Asset Allocation and Policy

LTF assets shall be allocated among the following investments.

A. Cash and Cash Equivalents – Cash and Cash Equivalents has the same meaning as given to the term "Cash" in the Liquidity Policy.

B. U. T. System General Endowment Fund (GEF) - See Exhibit B for the current GEF allocation, which is subject to changes by the Board of Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.

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

Performance Measurement

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

Investment Guidelines

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

LTF Distributions

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

A. provide a predictable, stable stream of distributions over time;

B. ensure that the inflation adjusted value of distributions is maintained over the long term; and

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

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

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

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

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

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

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

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

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

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

LTF Accounting

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

Valuation of Assets

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

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

Compliance

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

Purchase of LTF Units

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

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

Redemption of LTF Units

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this Policy shall be September 1, ~~2011~~2012~~, except for Exhibit B~~. ~~Exhibit B follows the effective date of Exhibit A of the GEF.~~

EXHIBIT A

LTF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, ~~2008~~2012

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

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

*3 trading days or less

EXHIBIT B - GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY PORTFOLIO	FYE ~~2012~~ 2013		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	5.0%	9.5%	25.0%
Credit-Related Fixed Income	0.0%	5.5%	30.0%
Real Estate	0.0%	~~5.5%~~ 6.5%	~~10.0%~~ 12.5%
Natural Resources	5.0%	~~11.5%~~ 13.5%	25.0%
Developed Country Equity	30.0%	~~48.5%~~ 45.0%	60.0%
Emerging Markets Equity	5.0%	~~19.5%~~ 20.0%	25.0%
Investment Types			
More Correlated & Constrained	35.0%	~~47.0%~~ 44.5%	60.0%
Less Correlated & Constrained	25.0%	30.0%	37.5%
Private Investments	17.5%	~~23.0%~~ 25.5%	32.5%

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

POLICY BENCHMARK (reset monthly)	FYE ~~2012~~ 2013
Barclays Capital Global Aggregate Index	7.5%
FTSE EPRA/NAREIT Developed Index Net TRI USD	2.5%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	~~6.5%~~ 7.5%
MSCI World Index with net dividends	~~18.5%~~ 15.0%
MSCI Emerging Markets with net dividends	12.0%
Hedge Fund Research Indices Fund of Funds Composite Index	30.0%
Venture Economics Custom Index	~~20.0%~~ 21.5%
NACREIF Custom Index	~~3.0%~~ 4.0%

POLICY/TARGET RETURN/RISKS	FYE ~~2012~~ 2013
Expected Annual Return (Benchmarks) **	~~8.81~~ 7.36%
One Year Downside Deviation	~~8.86~~ 9.45%
Risk Bounds	
Lower: 1 Year Downside Deviation	75%
Upper: 1 Year Downside Deviation	115%

**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of ~~3~~ 2.5%.

EXHIBIT B
(continued)
GENERAL ENDOWMENT FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2012~~ 2013

FYE ~~2012~~ 2013		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (7.5%)	2.0%	0.0%	9.5%
	Credit-Related	0.00%	3.0%	2.5%	5.5%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (2.5%)	0.0%	Custom NACREIF ~~3.0~~ 4.0%	~~5.5~~ 6.5%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (~~6.5~~ 7.5%)	1.0%	~~4.0~~ 5.0%	~~11.5~~ 13.5%
Equity	Developed Country	MSCI World Index with Net Dividends (~~18.5~~ 15.0%)	20.0%	10.0%	~~48.5~~ 45.0%
	Emerging Markets	MSCI EM Index with Net Dividends (12.0%)	4.0%	~~3.5~~ 4.0%	~~19.5~~ 20.0%
Total		~~47.0~~ 44.5%	30.0%	~~23~~ 25.5%	100.0%

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

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

THE UNIVERSITY OF TEXAS SYSTEM
INTERMEDIATE TERM FUND
INVESTMENT POLICY STATEMENT

Purpose and Structure

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

ITF Organization

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

ITF Management

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

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

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

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

ITF Administration

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

Funds Eligible to Purchase ITF Units

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

ITF Investment Objectives

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

The primary investment objective of the ITF is to preserve the purchasing power of ITF assets by earning a compound annualized return over rolling five-year periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index (CPI-U) plus 3%.

The secondary investment objective is to generate average annual returns net of all investment-related expenses, in excess of the approved Policy Portfolio over rolling five-year periods.

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

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

Asset Class and Investment Type Allocation and Policy

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

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

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

Asset Classes:

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

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

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

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

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

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

Investment Types:

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

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

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

Performance Measurement

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

Investment Guidelines

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

General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of ITF assets in such investments.
- No securities may be purchased or held which would jeopardize the ITF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.
- The ITF's investments in warrants shall not exceed more than 5% of the ITF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The ITF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 50 basis points of ITF value.

Investment Grade and Credit-Related Fixed Income

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

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

- Not more than 25% of the market of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.
- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.
- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

ITF Accounting

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

Valuation of ITF Assets

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

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

Compliance

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

ITF Distributions

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

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

Purchase and Redemption of ITF Units

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

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

Securities Lending

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

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this Policy shall be September 1, ~~2011~~ 2012~~(except for Min and Max ranges and Risk Bounds in Exhibit A, which became effective August 15, 2011)~~.

EXHIBIT A - INTERMEDIATE TERM FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY PORTFOLIO	FYE ~~2012~~ 2013		
	Min	Target	Max
Asset Classes			
Investment Grade Fixed Income	30.0%	37.0%	50.0%
Credit-Related Fixed Income	0.0%	4.0%	12.0%
Real Estate	0.0%	5.0%	10.0%
Natural Resources	2.5%	8.5%	20.0%
Developed Country Equity	20.0%	33.0%	40.0%
Emerging Markets Equity	2.5%	12.5%	17.5%
Investment Types			
More Correlated & Constrained	60.0%	65.0%	70.0%
Less Correlated & Constrained	30.0%	35.0%	40.0%

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

POLICY BENCHMARK (reset monthly)	FYE ~~2012~~ 2013
Barclays Capital Global Aggregate Index	35.0%
FTSE EPRA/NAREIT Developed Index Net TRI USD	5.0%
50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	7.5%
MSCI World Index with net dividends	10.0%
MSCI Emerging Markets with net dividends	7.5%
Hedge Fund Research Indices Fund of Funds Composite Index	35.0%

POLICY/TARGET RETURN/RISKS	FYE ~~2012~~ 2013
Expected Annual Return (Benchmarks) **	~~7.28~~ 5.91%
One Year Downside Deviation	~~5.34~~ 5.59%
Risk Bounds	
Lower: 1 Year Downside Deviation	70%
Upper: 1 Year Downside Deviation	115%

**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of ~~3~~ 2.5%.

EXHIBIT A - INTERMEDIATE TERM FUND
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2012 ~~2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011~~

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE ~~2012~~ 2013

FYE ~~2012~~ 2013		More Correlated & Constrained	Less Correlated & Constrained	Total
Fixed Income	Investment Grade	Barclays Capital Global Aggregate Index (35.0%)	2.0%	37.0%
	Credit-Related	(0.0%)	4.0%	4.0%
Real Assets	Real Estate	FTSE EPRA/NAREIT Developed Index Net TRI USD (5.0%)	0.0%	5.0%
	Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index (7.5%)	1.0%	8.5%
Equity	Developed Country	MSCI World Index with Net Dividends (10.0%)	23.0%	33.0%
	Emerging Markets	MSCI EM Index with Net Dividends (7.5%)	5.0%	12.5%
Total		65.0%	35.0%	100.0%

Hedge Fund Research Indices Fund of Funds Composite Index

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

THE UNIVERSITY OF TEXAS SYSTEM
SHORT TERM FUND
INVESTMENT POLICY STATEMENT

Purpose

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

STF Organization

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

STF Management

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

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

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

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

STF Administration

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

Funds Eligible to Purchase STF Units

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

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

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

STF Investment Objectives

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

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

Asset Class Allocation and Policy

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

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

<u>Cash and Cash Equivalents</u> – Short-term, highly liquid investments that are readily convertible to known amounts of cash, and which are subject to a relatively small risk of changes in value.

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

<u>General</u>

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

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

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

- unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation or the equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO),
- securities of the U.S. Treasury and U.S. Agencies and their instrumentalities with maturities of 397 days or less,
- separately managed accounts with investment guidelines equivalent to, or more stringent than, unaffiliated liquid investment funds rated AAA_M by Standard & Poor's Corporation or the equivalent by a NRSRO,
- the Custodian's late deposit interest bearing liquid investment fund,
- municipal short term securities,
- commercial paper rated in the two highest quality classes by Moody's Investor Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2 or the equivalent),
- negotiable certificates of deposit with a bank that is associated with a holding company whose short-term rating meets the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps,
- 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, and
- repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent:

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

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

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

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

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

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

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

Compliance

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

STF Distributions

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

STF Accounting

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

Valuation of Assets

All investments are stated at amortized cost, which in most cases approximates the market value of securities. The objective of the fund is to maintain a stable

$1.00 net asset value; however, the $1.00 net asset value is neither guaranteed nor insured by UTIMCO.

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

Purchase of STF Units

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

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

Redemption of STF Units

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

Securities Lending

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be September 1, ~~2010~~2012.

THE UNIVERSITY OF TEXAS SYSTEM
SEPARATELY INVESTED FUNDS
~~ ~~INVESTMENT POLICY STATEMENT

Purpose

The Separately Invested Funds (the "Accounts") include the Endowment, Trust, Debt Proceeds, and Other Accounts established in the name of the Board of Regents of The University of Texas System (the "Board of Regents"), 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 the inability to sell the gifted investment asset; d) they are assets being migrated upon liquidation into a pooled investment vehicle; e) they are debt proceeds with a short-intermediate investment horizon; or f) they are assets held by The University of Texas Investment Management Company ("UTIMCO") at the request of a University of Texas System institution for which UTIMCO does not have investment discretion (for example, tech stock). This policy covers the Accounts collectively. However, specific guidelines are applied to each individual account. Specific Account restrictions may not fall within the guidelines established in this policy.

Investment Management

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

Ultimate fiduciary responsibility for the Accounts rests with the Board of Regents. Section 66.08, *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents. The applicable trust/endowment document will apply to the management of each trust or endowment. The restrictions set forth in this policy and in any separate writing applicable to the Debt Proceeds Accounts and the Other Accounts will apply to the management of those Accounts.

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

UTIMCO may select and terminate unaffiliated investment managers subject to any limitations stated herein. Managers shall be monitored for performance and adherence to investment disciplines.

Accounts Administration

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

Investment Objectives

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

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

Debt Proceeds Accounts – The primary investment objective shall be safety of principal and maintenance of adequate liquidity sufficient to meet the spend-out schedules of each Account, as provided by the U. T. System Office of Finance.

Debt Proceeds Accounts, other than investments in cash as defined in the Liquidity Policy, will be invested in U.S. government obligations, including obligations of an agency or instrumentality of the United States, taking into consideration the spending needs of the Accounts.

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

Asset Class Allocation

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

Unless otherwise restricted herein, the Accounts' assets shall be allocated among the following broad Asset Classes based upon their individual return/risk characteristics and relationships to other Asset Classes:

Asset Classes:

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

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

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

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

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

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

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

Asset Class Allocation Policy

The Asset Class allocation policy and ranges for the Endowment and Trust Accounts are dependent on the terms and conditions of the applicable trust/endowment or trust document. The Asset Class allocation policy and ranges for the Debt Proceeds and Other Accounts will be determined by the terms and conditions of any applicable documents. If possible, the Accounts' assets shall be diversified among different types of assets whose returns are not closely correlated in order to enhance the return/risk profile of the Accounts.

The Board of Regents delegates authority to UTIMCO to establish specific Asset Class allocation targets and ranges for each Account. UTIMCO may establish specific Asset Class 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.

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.

- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of SIF assets in such investments.

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

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

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

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

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

Investment Grade Fixed Income

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

1) Government: Treasury and Agency;
2) Corporate: Industrial, Finance, Utility, and Yankee;
3) Mortgage-backed securities: GNMA, FHLMC, and FNMA;
4) Asset-backed securities;
5) 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 BAGG as issuers of fixed rate securities;
b) Medium term notes issued by investment grade corporations;
c) Zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and
d) Structured notes issued by BAGG qualified entities.

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

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

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

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

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

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

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

<u>Credit-Related Fixed Income</u>

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

<u>Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity</u>

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

- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

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

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

Distributions

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

Accounting

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

Valuation of Assets

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

Compliance

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

Securities Lending

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

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be ~~March 1, 2011~~September 1, 2012.

The University of Texas Investment Management Company
Derivative Investment Policy

Effective Date of Policy: ~~August 15, 2011~~August 23, 2012
Date Approved by U. T. System Board of Regents: ~~August 15, 2011~~August 23, 2012
Date Approved by UTIMCO Board: ~~August 15, 2011~~July 11, 2012
Supersedes: Derivative Investment Policy approved ~~August 12, 2010~~August 15, 2011

Purpose:

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

Objective:

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

Scope:

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

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

External Managers:

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

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

Definition of Derivatives:

Derivatives are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, commodities, and currencies). For the purposes of this Policy, derivatives shall include Derivative Investments but shall not include a broader range of securities, including mortgage backed securities, structured notes, convertible bonds, exchange traded funds (ETFs), and foreign currency contracts that ~~settle~~ mature within thirty (30) days of initial settlement. Derivatives may be purchased through a national or international exchange or through an OTC direct arrangement with a counterparty. Refer to the attached Exhibit A for a glossary of terms.

Permitted Derivative Applications:

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

Permitted Derivative Applications are Derivative Investments used:

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

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

Risk and Investment Policy Controls:

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

Documentation and Controls:

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

Additional Limitations:

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

Counterparty Risks: In order to limit the financial risks associated with Derivative Investments, rigorous counterparty selection criteria and netting agreements shall be required to minimize counterparty risk for over the counter (OTC) derivatives. Any counterparty in an OTC derivative transaction with the Funds must have a credit rating of at least A- (Standard and Poor's) or A3 (Moody's). All OTC derivatives, with the exception of foreign currency contracts that mature within 91 days of initial settlement and are traded with a counterparty that has been pre-approved by UTIMCO, must be subject to established ISDA Netting Agreements and have full documentation of all legal obligations of the Funds. In the event a counterparty is downgraded below the minimum credit rating requirements stated above, UTIMCO staff will take appropriate action to protect the interests of the Funds, including availing itself of all potential remedies contained in the ISDA agreements, The net market value, net of collateral postings, of all OTC derivatives for any individual counterparty may not exceed 1% of the total market value of the Funds.

Risk Management and Compliance:

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

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

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

Reporting:

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

Derivative Investment Policy Exhibit A
Glossary of Terms

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

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

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

Counterparty - The offsetting party in an exchange agreement.

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

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

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

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

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

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

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

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

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

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

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

Derivative Investment Policy Exhibit B
Delegated Derivative Investments

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

Delegated Derivative Investments:

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

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

3. Derivative Investments that reduce long exposure to an Asset Class or hedge against ~~global interest rate shocks and~~ risk, and limit maximum loss to the premium paid for the Derivative Investment, i.e., purchase options. The aggregate prorated annual premium of all Derivative Investments under this provision shall ~~not exceed 75 basis points of the Fund value~~be as set forth in the respective Fund's Investment Policy Statement.

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

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

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

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

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

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

The University of Texas Investment Management Company
Liquidity Policy

Effective Date of Policy: ~~August 25, 2011~~August 23, 2012
Date Approved by U.T. System Board of Regents: ~~August 25, 2011~~August 23, 2012
Date Approved by UTIMCO Board: ~~July 14, 2011~~July 11, 2012
Original Effective Date of Policy: August 7, 2003
Supersedes: Liquidity Policy dated ~~August 20, 2009~~August 25, 2011

Purpose:

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

Objective:

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

Scope:

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

Definition of Liquidity Risk:

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

Definition of Cash:

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

- the existing Dreyfus Institutional Preferred Money Market Fund mandate and any other UTIMCO Board approved SEC Rule 2a-7 money market fund rated AAAm by Standard & Poors or the equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO),
- securities of the U.S. Treasury and U.S. Agencies and their instrumentalities with maturities of 397 days or less,
- separately managed accounts with investment guidelines equivalent to, or more stringent than, unaffiliated liquid investment funds rated AAAM by Standard & Poor's Corporation or the equivalent by a NRSRO,
- the Custodian's late deposit interest bearing liquid investment fund,
- municipal short term securities,
- commercial paper rated in the two highest quality classes by Moody's Investor Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2 or the equivalent),

- negotiable certificates of deposit with a bank that is associated with a holding company whose short-term rating meets the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps, and
- repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.

Liquidity Risk Measurement-The Liquidity Profile:

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

- **Liquid:** Investments that could be converted to Cash within a period of ~~one day to less than 90 days~~90 days or less in an orderly market at a discount of 10% or less.

- **Illiquid:** Investments that could be converted to Cash in an orderly market over a period of ~~90 days or more~~more than 90 days or in a shorter period of time by accepting a discount of more than 10%.

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

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

- Liquid (Weekly)**:** Investments that could be converted to Cash within a period of one day to less than 7 days in an orderly market at a discount of 5% or less.

- Liquid (Quarterly): Investments that could be converted to Cash within a period of ~~one day to less than 90 days~~90 days or less in an orderly market at a discount of 10% or less.

- Liquid (Annual): Investments that could be converted to Cash within a period of one day to less than 365 days in an orderly market at a discount of 10% or less.

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

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

Liquidity Policy Profile:

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

	FY 09	**FY 10+**
Liquidity above trigger zone:	35.0%	30.0%
Liquidity within trigger zone:	30.0%-35.0%	25.0%-30.0%

Liquidity below trigger zone:	<30.0%	<25.0%

Investments that maintain liquidity below the trigger zone do not require any action by the UTIMCO Board or the Risk Committee. Liquidity within the trigger zone requires special action by the UTIMCO Board or the Risk Committee. For example, the allowable range for **illiquid** investments in FY 09 is up to 70.0% of the total portfolio. However, any **illiquid** investments made in the 65.0% to 70.0% trigger zone require prior approval by the Risk Committee or the UTIMCO Board. Risk 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.

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

	FY 09-11	**FY 12+**
Liquidity above trigger zone:	65%	55%
Liquidity within trigger zone:	55%-65%	50%-55%
Liquidity below trigger zone:	<55%	<50%

The allowable range for **illiquid** investments is 0% to 50% of the total portfolio for the ITF. However, any **illiquid** investments made in the 45% to 50% trigger zone require prior approval by the Risk Committee or the UTIMCO Board. Risk 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.

Unfunded Commitments:

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

	FY 09	**FY 10+**
Unfunded Commitment as a percent of total invested assets:	27.5%	30.0%

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

Documentation and Controls:

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

As additional safeguards, trigger zones have been established as indicated above to trigger required review and action by the UTIMCO Board or the Risk Committee in the event any investment action would cause the actual investment position in illiquid investments to enter the designated trigger zone, or in the event market actions caused the actual investment position in illiquid investments to move into trigger zones. In addition, any proposed investment actions which would increase the actual investment position in illiquid investments in any of the PUF, the GEF, or the ITF by 10% or more of the total asset value of such fund would also require review and action by the UTIMCO Board or the Risk Committee prior to the change. Any actual positions in any trigger zones or outside the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board and the Risk Committee the circumstances of the deviation from Policy and the remedy to the situation. Furthermore, as indicated above, no new commitments may be made for an Endowment Fund without approval from the Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such new commitment, would exceed, the Maximum Permitted Amount.

Reporting:

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

The University of Texas Investment Management Company
Delegation of Authority Policy

Effective Date of Policy: ~~July 14, 2011~~July 11, 2012
Date Approved by UTIMCO Board: ~~July 14, 2011~~July 11, 2012
Supersedes: Delegation of Authority Policy approved by the UTIMCO Board on ~~July 14, 2010~~July 14, 2011

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. Section 66.08(d) of the *Texas Education Code* provides that UTIMCO's duties to the U. T. System Board of Regents with respect to the management of investment funds shall be governed by a contract between the two parties. UTIMCO provides various investment management services to the U. T. System Board as more fully described in the Investment Management Services Agreement by and between the U. T. System Board and UTIMCO. 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. System Board. The UTIMCO Board is responsible for overseeing the investment process to execute the established Investment Policies. However, to enhance the competitiveness of the investment process, improve management and operational efficiency, and define and concentrate accountability for performance, certain duties, and responsibilities are delegated by the UTIMCO Board to UTIMCO Management. This Policy Statement defines the delegation of authority in the two primary areas of UTIMCO operations:

(1) Management, Operations, and Finance; and
(2) Investments.

Objective:
By clearly defining the scope of delegated authority to UTIMCO Management, this Policy Statement enhances operational efficiency and timeliness in decision making, thereby enhancing competitiveness.

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 and any authority not specifically granted in this Policy is retained by the UTIMCO Board acting as agent for the U. T. System Board, provided that nothing contained in this Policy Statement is intended to, or shall, limit any delegation of authority otherwise set forth in the UTIMCO Bylaws, the Investment Management Services Agreement, any Committee Charter, any Investment Policy, or any formal policy adopted by the UTIMCO Board.

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. The duties and responsibilities of the UTIMCO Board are enumerated in the UTIMCO Bylaws, Articles of Incorporation, Committee Charters, Investment Management Services Agreement, and UTIMCO policies. To execute its responsibilities more efficiently, the UTIMCO Board has delegated the authority to implement UTIMCO policies to UTIMCO Management in two primary areas: (i) Management, Operational, and Financial Authority; and (ii) Investment Authority.

Management, Operational, and Financial Authority: Final authority for the functions listed below rests with the UTIMCO Board:

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

However, the UTIMCO Board hereby delegates authority to UTIMCO Management in each functional area as specified below:

Administration, Accounting, and Financial Management: The UTIMCO Board hereby delegates all day-to-day operational decisions to UTIMCO Management. This delegation includes, but is not limited to, all administrative decisions regarding the management of endowment and operating funds as well as all administrative and financial decisions associated with the operation of the UTIMCO organization. This delegation includes the authority to execute all contracts and agreements, subject to the limitations defined below.

Systems Technology Management: The UTIMCO Board hereby delegates all decisions regarding the operation and management of all systems technology assets to UTIMCO Management. This delegation includes the authority to execute all contracts and agreements, subject to the limitations defined below.

Personnel Management: The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer all personnel management decisions regarding positions included in approved UTIMCO operating budgets, and grants authority to the Chief Executive Officer to add non-budgeted personnel as necessary on an emergency basis, subject to review in the following budget cycle, provided that the addition of any non-budgeted personnel shall be promptly reported to the UTIMCO Board. All compensation decisions for officers of UTIMCO are excluded from this delegation.

Compliance: The UTIMCO Board hereby delegates all compliance operations to UTIMCO Management, while retaining all oversight functions as specified in UTIMCO policies.

Client Relations and Reporting: The UTIMCO Board hereby delegates all client relations and reporting decisions to UTIMCO Management.

Public Relations: The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer all decisions regarding public relations matters, except for those matters that are reserved to the UTIMCO Vice Chairman for Policy.

In addition, to facilitate the execution of the authority granted above, the UTIMCO Board hereby delegates the following specific duties and responsibilities to UTIMCO Management:

- *Contracts:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to execute on the behalf of UTIMCO all contracts, leases, or other commercial arrangements (except investment management agency contracts, partnership agreements, investment consultant agreements and agreements with independent auditors) for a total obligation of $1 million or less during the contract term; provided that for purposes of this delegation any contract that does not have a fixed term shall be deemed have a term of one year; provided, further that notice of any such contracts, leases, or other commercial arrangements of $50,000 or more shall be reported to the UTIMCO Board at its regularly scheduled meetings.

- *Outside General Counsel: Management of UTIMCO's External Counsel:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to direct the day-to-day work product of the UTIMCO external counsel, provided that the UTIMCO external counsel shall continue to have primary reporting responsibility to the UTIMCO Board.

Investment Authority: The UTIMCO Board hereby delegates the following specific duties and responsibilities to UTIMCO Management:

- *Tactical Asset Allocation:* Without limitations of timing, procedures, or vehicles utilized, decisions regarding tactical asset allocation within the ranges established in Investment Policies, including rebalancing portfolio weights to Policy Target Weights or actively deviating from Policy Weights as market conditions dictate, are hereby delegated to the UTIMCO Chief Executive Officer, as long as any decisions do not violate established Investment Policies. Short sales of securities (including exchange traded funds, and individual common stocks and bonds, but excluding derivative instruments) to offset existing long positions for risk control purposes may also be utilized as a vehicle in tactical asset allocation. Prior to implementation of any short security sale strategy and throughout the duration of the strategy, risk analyses shall be performed to verify the expected risk reducing impact of the proposed strategy and that the strategy does not result in the risk position of the total Funds being outside the policy risk range.
- *Risk Management:* The UTIMCO Board hereby delegates all decisions regarding the design and operation of any risk management system to UTIMCO Management.
- *New Investment Vehicle and Manager Selection:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to commit UT System funds to new relationships with internal or external investment managers or to new mandates with external investment managers already under existing relationships with UTIMCO, and the accompanying authority to negotiate and execute agency, partnership or subscription agreements as necessary, subject only to the following limitations:
    - More Correlated & Constrained Investments: Any new commitments exceeding (i) $400 million to an individual internal or external manager; (ii) 20% of the total assets managed by an individual external manager; or (iii) 20% of the total assets managed under a new investment strategy by an individual external manager, must follow the process outlined in Appendix A.

- Less Correlated & Constrained Investments: Any new commitments exceeding (i) $200 million; (ii) 20% of the total assets managed by an external manager; or (iii) 20% of the total assets managed under a new investment strategy by an individual external manager, must follow the process outlined in Appendix A.
- Private Investments: Any new commitments exceeding (i) $100 million; or (ii) 20% of the total assets managed by an external manager; or (iii) 20% of the total assets managed under a new investment strategy by an individual external manager; must follow the process outlined in Appendix A. All new commitments to direct Private Investments must follow the process outlined in Appendix A.
  - Co-investments: Any new commitment to a direct Private Investment with an existing external manager, exceeding (i) $50 million; (ii) 20% of the total assets managed by an external manager; (iii) 20% of the total assets managed under a new investment strategy by an individual external manager; or (iv) 20% of the total assets of the Private Investment portfolio in the aggregate; must follow the process outlined in Appendix A.
- For the purposes of the above thresholds, total assets managed by an existing internal or external manager shall be aggregated during the first six months following the initial funding of the mandate and shall not exceed $600 million for all Investment Types. "Total assets" shall be defined as NAV plus unfunded commitments. Mandates that exceed $600 million in the aggregate must follow the process outlined in Appendix A.
- Passive exposure, either by an individual internal or external manager, is limited only as required to maintain the Policy Portfolio within the Asset Class and Investment Type ranges.
- At any time prior to the closing of a commitment, the Staff will send each Board member a description of the proposed investment and a Certificate of Compliance for the investment.
- Other Investments: Any investments in Asset Classes not currently defined in the Policy Portfolio must receive specific UTIMCO Board approval regardless of size.
- Any commitment that would otherwise be permitted under this delegation, but which violates any UTIMCO Policy, is not permitted.
- The UTIMCO Chief Executive Officer will report to the UTIMCO Board at its regularly scheduled Board meetings regarding all decisions made under this delegated authority.

- *Changing Allocations of Investment Funds Among Existing Internal and External Managers and Partnerships:* Subsequent to the first six months of the UTIMCO relationship with a new manager, the UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to increase investments or commitments to existing internal or external investment managers, and the accompanying authority to renegotiate existing agency, partnership or subscription agreements as necessary, subject only to the following limitations:
  - More Correlated & Constrained Investments: Any increases that (i) exceed $200 million to existing funds under management by any individual internal or external manager; or (ii) increase the total assets managed to more than (a) $600 million with an individual internal or external manager or a larger amount approved by

the Board for manager exceptions; (b) 20% of the total assets managed by an individual external manager, or (c) 20% of the total assets managed under a new investment strategy by an individual external manager, must follow the process outlined in Appendix A.

- Less Correlated & Constrained Investments: Any increases that (i) exceed $100 million to existing funds under management; or (ii) increase the total assets managed to more than (a) $500 million with an individual manager; (b) 20% of the assets managed by an external manager; or (c) 20% of the total assets managed under a new investment strategy by an individual external manager, must follow the process outlined in Appendix A.
- Private Investments: Any increase that increases the total assets managed to more than (a) $150 million with an individual manager in a single investment vehicle; (b) 20% of the total assets managed by an external manager; or (c) 20% of the total assets managed under an investment strategy by an individual external manager; must follow the process outlined in Appendix A.
- For the purposes of the above thresholds, no increase shall be permitted which (i) exceeds $300 million to an existing internal or external manager in the aggregate for all Investment Types or (ii) increases the total assets managed by an existing internal or external manager to more than $600 million in the aggregate for all Investment Types. "Total assets" shall be defined as NAV plus unfunded commitments. Any increases that exceed these amounts must follow the process outlined in Appendix A.
- Passive exposure, either by an individual internal or external manager, is limited only as required to maintain the Policy Portfolio within the Asset Class and Investment Type ranges.
- Any increase in investment or commitment that would otherwise be permitted under this delegation, but which violates any UTIMCO Policy, is not permitted.
- The UTIMCO Chief Executive Officer will report to the UTIMCO Board at its regularly scheduled Board meetings regarding all decisions made under this delegated authority.

- *Manager Monitoring and Termination:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer all decisions regarding monitoring and termination of existing internal or external investment managers.
- Notwithstanding, on a quarterly basis, manager mandates (excluding passive exposure) shall be aggregated across investment types and any mandate resulting in three percent (3%) or more exposure relative to the total Funds (excluding the ITF for Private Investments) will be reported to the Risk Committee at its next meeting. UTIMCO staff will be required to make a presentation and prepare a recommendation to the Risk Committee regarding an appropriate course of action for any manager mandate resulting in five percent (5%) or more exposure relative to the total Funds (excluding the ITF for the Private Investments). Such presentation and recommendation will include information regarding the manager mandate, including original amount of investment, historical performance, market and economic outlook, and appropriate sizing, with timelines for completion of any recommended action. After discussion and review by the Risk Committee, the Risk Committee may approve the recommendation of UTIMCO staff, determine a different appropriate level of exposure or request additional information to be

presented at a subsequent meeting before action may be taken by UTIMCO staff. UTIMCO staff will be responsible for implementing any Risk Committee approved action.

- *Investment in Derivative Investments:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to enter into the Derivative Investments of the types set forth in Exhibit B of the Derivative Investment Policy and as authorized by the Funds' Investment Policy Statements. Any new derivative investment recommended by UTIMCO staff or for the engagement of an external manager operating under an Agency Agreement that has been approved by UTIMCO's Chief Investment Officer but is not within the delegated authority set forth in Exhibit B of the Derivative Investment Policy must follow the process outlined in Appendix A.
- *Internal Investment Management:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer all decisions associated with the direct management of assets by UTIMCO Staff.
- *Management of UTIMCO's External Investment Consultant:* The UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to direct the day-to-day work product of the UTIMCO consultant, provided that the UTIMCO consultant shall continue to have primary reporting responsibility to the UTIMCO Board.

Documentation, Controls, and Reporting:
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 UTIMCO's Chief Executive Officer immediately. The UTIMCO Chief Executive Officer will develop a remedy to the exception, if possible, and report the exception and the remedy to the UTIMCO Chairman immediately. Additionally, the UTIMCO Chief Executive Officer will report any exceptions to this Policy to the UTIMCO Board at its next regularly scheduled meeting, unless the UTIMCO Chairman instructs otherwise.

Appendix A
UTIMCO Board Option to Review Proposed Investments

In instances where a proposed investment exceeds the stated Investment Authority of the UTIMCO Chief Executive Officer, the Staff must follow the procedures listed below to provide the UTIMCO Board the opportunity to review an investment proposal at a UTIMCO Board meeting:

1. Option to Review Investment Proposal

   a. For new commitments, Staff will send each UTIMCO Director an investment recommendation, a Certificate of Compliance if one has not previously been provided to each UTIMCO Director, an Option to Review Investment Proposal, and, if required by the UTIMCO Chief Executive Officer, a due diligence report provided by the external consultant. Staff will provide a UTIMCO Director a complete due diligence report upon request.

   b. For additional commitments to existing managers and partnerships, Staff will send each UTIMCO Director an executive summary of the proposed investment, an Option to Review Investment Proposal, and, if required by the UTIMCO Chief Executive Officer, a due diligence report provided by the external consultant. Staff will provide a UTIMCO Director a complete due diligence report upon request.

   c. For new Derivative Investments, Staff will send to each UTIMCO Director detailed documentation describing the proposed trade and an Option to Review Investment Proposal.

2. Option to Review Investment Proposal Form

   The Option to Review Investment Proposal Form will require a UTIMCO Director to choose one of the following alternatives:

   (i) I require a complete review of the investment at a subsequent Board meeting prior to the execution of the investment;

   (ii) I do not require a complete review of the investment at a subsequent Board meeting prior to the execution of the investment; or

   (iii) I do not require a complete review of the investment at a subsequent Board meeting prior to the execution of the investment but request that UTIMCO Staff make a presentation regarding the proposed investment at a future UTIMCO Board meeting.

3. If any UTIMCO Director requires a complete review of the investment prior to the execution of the investment, the Staff shall make a presentation to highlight the attributes of the proposed investment at the next UTIMCO Board meeting. Subsequent to hearing the presentation, the Board shall vote to approve such investment.

Agenda Item
UTIMCO Board of Directors Meeting
July 11, 2012

Agenda Item: Report from Compensation Committee, including (1) Discussion and Appropriate Action Related to CEO's Base Salary for 2012-2013 Fiscal Year; (3) Discussion and Appropriate Action Related to CEO's Qualitative Performance Goals for the 2012-2013 Performance Period; and (3) Discussion and Appropriate Action related to the UTIMCO Compensation Program, Amended and Restated effective September 1, 2012

Developed By: Zimmerman, Moeller, Gonzalez

Presented By: Hicks

Type of Item: Action item; Action required by UTIMCO Board; further action required by the UT System Board of Regents related to the UTIMCO Compensation Program

Description: The Compensation Committee (the "Committee") met on May 24, 2012, and will meet on July 5, 2012 and July 11, 2012. During its May 24, 2012, the Committee discussed individual personnel compensation matters in Executive Session but did not take any votes or make any decisions. Mr. Zimmerman lead a discussion related to possible changes to the the recommendations proposed by Staff related to the UTIMCO Compensation Program. The Committee will also report on the following items to be discussed at its meetings on July 5 and 11, 2012:

1. Action related to base salaries for the UTIMCO Officers and other Plan Participants for 2012-13 fiscal year. Mercer performed a salary benchmarking study, including salary midpoints and salary ranges, to assist UTIMCO in developing a total compensation program that is competitive nationally.
2. Action related to the CEO's Qualitative Performance Goals for the 2012-2013 Performance Period. Section 5.4 of the Plan requires that the CEO's performance goals be determined and approved by the UTIMCO Board. The Committee presents and recommends the approval of the CEO's goals to the UTIMCO Board. There are three categories of performance goals in the Plan: (1) entity performance; (2) asset class performance; and (3) qualitative performance.
3. The UTIMCO Compensation Program effective July 1, 2009 (the "Prior Plan") consists of two elements: base salary and an annual incentive plan. The UTIMCO Board has the discretion to interpret the compensation program and may from time to time adopt such rules and regulations that it may deem necessary to carry out the compensation program and may also amend the compensation program. The proposed UTIMCO Compensation Program effective September 1, 2012 (the "Plan") amends and restates the Prior Plan.

Agenda Item
UTIMCO Board of Directors Meeting
July 11, 2012

Discussion:

(1) Base Salaries. The Committee will report on its action related to the base salaries for all UTIMCO officers and Plan Participants for the 2012-13 fiscal year. The Committee will request that the Board take appropriate action related to the CEO's base salary.

(2***) CEO's Qualitative Performance Goals.*** The Committee will discuss with Mr. Zimmerman his qualitative performance goals for 2012-13 at its meeting on July 5th. Qualitative performance goals may be established in one or more of the following areas: leadership, implementation of operational goals, management of key strategic projects, effective utilization of human and financial resources, and UTIMCO's investment performance relative to the Peer Group. The CEO's qualitative performance goals will be reviewed in Executive Session with the UTIMCO Board. The entity and asset class performance goals are included in the Plan in Table 2 of Appendix D of the Plan that will be approved as part of the adoption of the Plan effective September 1, 2012.

(3) UTIMCO Compensation Program. The Committee will report on proposed changes to the Prior Plan. A draft of the Plan is currently being reviewed by Andrews Kurth LLP and is therefore, subject to change. The proposed changes are as follows:

- Section 5.2 has been changed to reflect a new Performance Period. The Performance Period will begin on September 1 and end August 31, consistent with the fiscal year of the Investment Funds, replacing the current Performance Period of July 1 through June 30.
- Section 5.5 (d) has been changed to make the requirement to use an external investment consultant to evaluate Entity and Asset Class/Investment Type performance permissive rather than required.
- Section 5.5 (f) has been changed to require the Compensation Committee to review and make its recommendations regarding the payment of Performance Incentive Awards within 120 days following the end of the Performance Period rather than 150 days to coincide with the change in Performance Period beginning and end dates.
- Section 5.5 (f) has been changed to clarify the party responsible for the third party review of Performance Incentive Award calculations by adding "and after review by the external auditor," and deleting "based on the certification of its advisors" language.
- Section 5.6 (a) has been changed to require payment of Performance Incentive Awards within 120 days following the end of the Performance Period rather than 150 days to coincide with the change in Performance Period beginning and end dates.
- Section 5.8 (a) (1) has been changed to change the weights of the performance of the Total Endowment Assets (TEA) from 85% to 80% and the Intermediate Term Fund (ITF) from 15% to 20%. As of May 31, 2012, the ITF is 19.4% of the combined total of the TEA and ITF.

- Section 5.8 (a) (6) has been added to provide that the cost of and any benefit related to Derivative Investments of the type described in Derivative Investment Policy Exhibit B, Delegated Derivative Investment #3 (purchase options) will be excluded from the measurement of Entity Performance.
- Section 5.8 (b) (6) has been added to provide that the cost of and any benefit related to Derivative Investments of the type described in Derivative Investment Policy Exhibit B, Delegated Derivative Investment #3 (purchase options) will be excluded from the measurement of Asset Class/Investment Type Performance.
- Section 5.9 (e) has been added to authorize the UTIMCO Board to adjust Performance Incentive Awards for the first three Performance Periods beginning September 1, 2012, if the change in Performance Period unduly benefits or harms a Plan Participant.
- Section 5.11 has been added to incorporate new terminology in the Plan related to Eligibility for Retirement. A Plan Participant will be eligible to retire and immediately vested in all Performance Incentive Awards on the last day of the month in which the sum of the Participant's age and years of service, including months of age and months of service credit, equals or exceeds the number 75. A Plan Participant who becomes eligible for retirement may voluntarily defer all or a portion of his Performance Incentive Award that otherwise would have been deferred had the Participant not been eligible for retirement. Any amount voluntarily deferred will be subject to a three year payout.
- Renumbered Section 5.12. Section 5.12 (a) and (b) has been changed to add language to exclude retirement eligible Participants from the deferrals of Performance Incentive Awards required when certain Extraordinary Circumstances occur.
- Section 8.10 has been changed to add Eligible for Retirement as a defined term.
- Former Sections 8.10 to 8.34 renumbered as Sections 8.11 to 8.35.
- Renumbered Section 8.24 definition of Peer Group changed to eliminate requirement that Peer Group be maintained by the UTIMCO Board's external investment advisor.
- Appendix A, Performance Incentive Award Methodology updated to reflect actual CEO Performance Incentive Award opportunities.
- Table 1, Appendix C has been updated related to two Eligible Positions in the Operations/Support Professionals section. The Managing Director title has been changed to Chief Technology Officer and a Deal Attorney Eligible Position has been added.
- Table 2, Appendix D has been added for the Performance Period beginning September 1, 2012. In the Policy Portfolio Weights, Total Endowment Assets column, % of Portfolio has been changed for Natural Resources, Developed Country Equity, Private Investments (excludes Real Estate) and Private Investments Real Estate. This change corresponds with the

proposed amendments to Exhibits A of the PUF and GEF Investment Policy Statements.

- Table 3, Appendix E has been updated to change the Eligible Position, Operations/Support Professionals, Managing Director title to Chief Technology Officer and add a Deal Attorney eligible position.
- Miscellaneous nonsubstantive and editorial changes.

Recommendation: The Committee will request appropriate action from the Board related to (1) the CEO's Base Salary for 2012-13 fiscal year; (3) the CEO's Qualitative Performance Goals for the 2012-2013 Performance Period; and (3) the Amended and Restated Plan effective September 1, 2012.

Reference: UTIMCO Compensation Program, Amended and Restated effective September 1, 2012; Executive Session materials

RESOLUTION REGARDING CORPORATIONS'S CEO'S BASE SALARY

RESOLVED, that the Board of Directors of UTIMCO hereby approves the Base Salary of the Corporation's CEO for the Fiscal Year 2012-2013 in the amount of $______________.

RESOLUTION RELATED TO THE CEO'S QUALITATIVE PERFORMANCE GOALS FOR THE 2012-2013 PERFORMANCE PERIOD

WHEREAS, Section 5.4.(a) of the UTIMCO Compensation Program (the "Plan") provides that the Compensation Committee (the "Committee") of the Board of Directors of UTIMCO (the "Board") will approve the Performance Goals for each Participant (other than for the CEO) each Performance Period; and

WHEREAS, Section 5.4.(c) of the Plan provides that the Board will determine the Performance Goals of the CEO for each Performance Period; and

WHEREAS, the Board has reviewed the CEO's Qualitative Performance Goals for the 2012-2013 Performance Period, as prepared by the CEO, and recommended by the Committee and set forth in the document presented to the Board.

NOW, THEREFORE, be it:

RESOLVED, that the Board approves the Qualitative Performance Goals for the CEO for the 2012-2013 Performance Period, as set forth in the document presented to the Board.

RESOLUTION RELATED TO AMENDMENTS TO THE UTIMCO COMPENSATION PROGRAM EFFECTIVE SEPTEMBER 1, 2012

WHEREAS, Section 7.2 of the UTIMCO Compensation Program (the "Plan") provides that UTIMCO, by action of its Board of Directors (the "Board"), has the right in its discretion to amend the Plan or any portion thereof from time to time; and

WHEREAS, the Compensation Committee of the Board (the "Committee") has reviewed certain proposed amendments to the Plan incorporated into an Amended and Restated Plan, effective September 1, 2012 (the "Amended and Restated Plan"), in the form previously provided to the Board; and

WHEREAS, the Committee approved the Amended and Restated Plan and made its recommendation to the Board that the Board approve and adopt the Amended and Restated Plan; and

WHEREAS, the Board has reviewed the Amended and Restated Plan.

NOW, THEREFORE, be it:

RESOLVED, that the Board hereby approves and adopts the Amended and Restated Plan, effective as of the date stated therein, subject to the approval of the Board of Regents of The University of Texas System.

DRAFT 07/06/12

UTIMCO
COMPENSATION PROGRAM

Amended and Restated

Effective ~~July~~ September 1, ~~2009~~2012

~~(Appendices updated as of July 1, 2011)~~

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1. COMPENSATION PROGRAM STRUCTURE AND EFFECTIVE DATE

The UTIMCO Compensation Program ("Compensation Program" or "Plan") consists of two elements**:** base salary and an annual incentive plan (the "Performance Incentive Plan"):

Base Salary	+	Performance Incentive	=	Total Compensation

The base salary portion of the Compensation Program sets forth a structure and guidelines for establishing and adjusting the salaries of key investment and operations staff employees. The Performance Incentive Plan portion of the Compensation Program sets forth the criteria for calculating and receiving annual incentive awards for key investment and operations staff who are eligible Participants in the Performance Incentive Plan. Provisions of the Compensation Program relating solely to the base salary portion of the Compensation Program are described in Section 4. Provisions of the Compensation Program relating solely to the Performance Incentive Plan portion of the Compensation Program are described in Section 5. Sections 1, 2, 3, 6, 7, and 8 of the Compensation Program relate to both the base salary portion and the Performance Incentive Plan portion except where otherwise specified in any such Section.

Effective Date: Except as provided in Section 7.9, this document, with an "Effective Date" of~~ July 1, 2009~~ September 1, 2012, supersedes the UTIMCO Compensation Program that was effective July 1, ~~2008~~2009.

2. COMPENSATION PROGRAM OBJECTIVES

UTIMCO's Compensation Program serves a number of objectives:

- To attract and retain key investment and operations staff of outstanding competence and ability.
- To encourage key investment staff to develop a strong commitment to the performance of the assets for which UTIMCO has been delegated investment responsibility.
- To motivate key investment staff to focus on maximizing real, long-term returns for all funds managed by UTIMCO while assuming appropriate levels of risk.
- To facilitate teamwork so that members of UTIMCO operate as a cohesive group.

3. TOTAL COMPENSATION PROGRAM PHILOSOPHY[1]

UTIMCO aspires to attract and retain high caliber employees from nationally recognized peer institutions and the investment management community in general. UTIMCO strives to provide a total compensation program that is competitive nationally, with the elements of compensation evaluated relative to comparably sized university endowments, foundations, and for-profit investment management firms with a similar investment philosophy (e.g., externally managed funds).

UTIMCO's total Compensation Program is positioned against the competitive market as follows:

- Base salaries are targeted at the market median (e.g., 50th percentile).

- Target total compensation (salary plus target Incentive Award Opportunity) is positioned at the market median.

- Maximum total compensation (salary plus maximum Incentive Award Opportunity) is targeted at the market 75th percentile if individual performance is outstanding; provided that if individual performance is outstanding during a Performance Period when endowment investment performance at the end of such Performance Period exceeds 20%, maximum total compensation (salary plus maximum Incentive Award Opportunity modified when Net Returns on Total Endowment Assets exceed 20%) for Affected Participants is targeted at the 90^{th} percentile. (For this purpose, 0 is the lowest point and 100 is the highest.)

Although base salaries, as well as target and maximum total compensation, have a targeted positioning relative to market, an individual employee's actual total compensation may vary from the targeted positioning based on the individual's experience, education, knowledge, skills, and performance as well as UTIMCO's investment performance as described in this document. Except as provided in Sections 5.8 and 5.9 for purposes of determining the length of historical performance, base salaries and Incentive Award Opportunities (as well as the actual Performance Incentive Awards) are not determined based on seniority at UTIMCO.

4. BASE SALARY ADMINISTRATION

4.1. Salary Structure

(a) Base salaries are administered through a Salary Structure as set forth in this Section 4.1. Each employment position has its own salary range, with the midpoint set approximately equal to the market median base salary for employment positions with similar job content and level of responsibility.

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[1] This explanation of UTIMCO's "Total Compensation Program Philosophy" is not intended to modify any of the substantive provisions of this document.

(b) The salary range midpoints will be determined by the Compensation Committee based on consultation with an outside compensation consultant and with UTIMCO management. Salary range midpoints for key management, investment, and operations positions will be updated at least every three years based on a salary benchmarking study conducted by a qualified compensation consultant selected by the Compensation Committee. In years in which the Compensation Committee does not commission a formal salary survey, the base salary midpoints may be adjusted at the Compensation Committee's discretion based on expected annual salary structure adjustments as reported in one or more published compensation planning surveys.

4.2. Salary Adjustments

(a) The base salary of the CEO is determined by the Board. The base salary of the Chief Compliance Officer ("CCO") will be determined by the Compensation Committee based on the joint recommendation of the Audit and Ethics Committee and the CEO and the base salaries of the other key investment and operations employees are determined by the Compensation Committee**.** Base salaries will be set within the salary range for each employment position. An individual's base salary within the range may be higher or lower than the salary range midpoint based on his or her level of experience, education, knowledge, skills, and performance. On an exception basis, the Board may set individual base salaries outside of the salary range if an individual either substantially exceeds or does not meet all of the market criteria for a particular position.

(b) Individuals may receive an annual adjustment (increase or decrease) of their base salaries at the discretion of the Compensation Committee or, in the case of the CEO, at the discretion of the Board. Base salary adjustments, if any, will be determined based on each individual employee's experience, education, knowledge, skills, and performance; provided that, in the case of the CCO, any such adjustment shall be based on the joint recommendation of the Audit and Ethics Committee and the CEO. Employees are not guaranteed an annual salary increase.

5. PERFORMANCE INCENTIVE PLAN

5.1. Purpose of the Performance Incentive Plan

The purpose of the Performance Incentive Plan is to provide annual Performance Incentive Awards to eligible Participants based on specific objective criteria relative to UTIMCO's and each Participant's performance. The primary objectives of the Performance Incentive Plan are outlined in Section 2.

5.2. Performance Period

(a) For purposes of the Performance Incentive Plan, the "Performance Period" begins on ~~July~~September 1 of each year and ends the following ~~June 30~~August 31.

(b) Except as otherwise provided under Sections 5.8 and 5.9, performance for each year in the historical performance period will be measured between ~~July~~September 1 and the following ~~June 30~~August 31 of the applicable year for gauging achievement of the Entity and Asset Class/Investment Type Performance Goals.

~~(b)~~

5.3. Eligibility and Participation

(a) Each employee of UTIMCO will be a "Participant" in the Performance Incentive Plan for a Performance Period if (and only if) he or she is both (i) employed by UTIMCO in an employment position that is designated as an "Eligible Position" for that Performance Period and (ii) selected by the Board as eligible to participate in the Performance Incentive Plan for that Performance Period. "Eligible Positions" for a Performance Period include senior management, investment staff, and other key positions as designated by the CEO and approved by the Board as Eligible Positions for that Performance Period. An employment position that is an Eligible Position in one Performance Period is not automatically an Eligible Position in any subsequent Performance Period, and each Eligible Position must be confirmed or re-confirmed by the Board as being an "Eligible Position" for the applicable Performance Period. Similarly, an employee who is eligible to participate in the Performance Incentive Plan in one Performance Period is not automatically eligible to participate in any subsequent Performance Period (notwithstanding that such employee may be employed in an Eligible Position in that subsequent Performance Period), and each employee must be designated or re-designated by the Board as being eligible to participate in the Performance Incentive Plan for the applicable Performance Period. The Board will confirm the Eligible Positions and designate the eligible employees who will become Participants for a Performance Period within the first 90 days of the Performance Period or, if later, as soon as administratively feasible after the start of the Performance Period. The Board in its discretion may also designate the employment position of a newly hired or promoted employee as an "Eligible Position" and may designate such newly hired or promoted employee as eligible to participate in the Performance Incentive Plan for a Performance Period (or remainder of a Performance Period) within 30 days of such hire or promotion or, if later, as soon as administratively feasible after such hire or promotion**.** A list of Eligible Positions for each Performance Period is set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period when necessary to set forth the Eligible Positions for that Performance Period as soon as administratively practicable after confirmation of such Eligible

Positions by the Board for such Performance Period, and such revised Table 1 will be attached as Appendix C.

(b) An employee in an Eligible Position who has been selected by the Board to participate in the Performance Incentive Plan will become a Participant on the later of (i) the date he or she is employed in an Eligible Position or (ii) the date he or she is selected by the Board to participate in the Performance Incentive Plan; provided, however, that the Board in its discretion may designate any earlier or later date (but not earlier than such employee's date of hire and not later than such employee's date of Termination of employment) upon which such employee will become a Participant, and such employee will instead become a Participant on such earlier or later date. The preceding notwithstanding, except as provided below, an employee may not commence participation in the Performance Incentive Plan and first become a Participant during the last six months of any Performance Period; provided however, that the Board may select an employee to participate in the Performance Incentive Plan during the last six months of the Performance Period when compelling individual circumstances justify a shorter period of time and such circumstances are recorded in the minutes of a meeting of the Board in which event participation of the employee in the Performance Incentive Plan will begin on the participation date selected by the Board for the employee but not earlier than the employee's date of hire (assuming such employee is employed by UTIMCO in an Eligible Position on such date).

(c) An employee will cease to be a Participant in the Performance Incentive Plan on the earliest to occur of: (i) the date such employee is no longer employed in an Eligible Position; (ii) the date of Termination of such employee's employment with UTIMCO for any reason (including Voluntary Termination and Involuntary Termination, death, and Disability); (iii) the date of termination of the Performance Incentive Plan; (iv) the date such employee commences a leave of absence; (v) the date such employee begins participation in any other UTIMCO incentive program; (vi) the date the Board designates that such employee's employment position is not an Eligible Position (or fails to designate the employee's employment position as an Eligible Position with respect to a Performance Period); or (vii) any date designated by the Board as the date on which such employee is no longer a Participant.

(d) Except as provided in Sections 5.10(b) and (c), only individuals who are Participants on the last day of a Performance Period are eligible to receive Performance Incentive Awards under the Performance Incentive Plan for that Performance Period.

5.4. Performance Goals

(a) Within the first 60 days of each Performance Period, except as provided below, the CEO will recommend goals ("Performance Goals") for each Participant (other than the Performance Goals for the CEO, which are determined as provided in Section 5.4(c), and the Performance Goals for employees who are hired or promoted later during a Performance Period) subject to approval by the Compensation Committee within the first 90 days of the Performance Period. The CEO will also recommend Performance Goals for employees who are hired or promoted during the Performance Period and become Participants at the time those employees are designated as Participants (with such Performance Goals subject to confirmation by the Compensation Committee as soon as administratively feasible after such Performance Goals are recommended). If the position of the CCO is determined to be an Eligible Position and the employee in the Eligible Position has been designated by the Compensation Committee as a Participant in the Performance Incentive Plan for the Performance Period, the Performance Goals of the employee holding the position of CCO will be determined jointly by the Audit and Ethics Committee and the CEO. References to the CCO hereafter assume that the position of CCO has been determined to be an Eligible Position and the employee holding the position of CCO has been determined to be a Participant in the Performance Incentive Plan for the Performance Period. If the position of CCO has not been determined to be an Eligible Position for the Performance Period the provisions hereafter specific to the CCO have no force and effect.

(b) There are three categories of Performance Goals:

(1) Entity Performance (measured as described in Section 5.8(a))

(2) Asset Class/Investment Type Performance (measured as described in Section 5.8(b))

(3) Qualitative Performance (measured as described in Section 5.8(c))

Except for the CEO and CCO, Qualitative Performance Goals will be defined jointly by each Participant and his or her supervisor, subject to approval by the CEO and subject to final approval by the Compensation Committee. Qualitative Performance Goals for the CCO will be defined jointly by the Audit and Ethics Committee and the CEO. Qualitative Performance Goals may be established in one or more of the following areas:

- Leadership
- Implementation of operational goals
- Management of key strategic projects
- Effective utilization of human and financial resources
- UTIMCO investment performance relative to the Peer Group

(c) The CEO's Performance Goals will be determined and approved by the Board.

(d) Each Performance Goal for each Eligible Position is assigned a weight for the Performance Period. The Audit and Ethics Committee and the CEO will jointly recommend to the Compensation Committee the weightings of the Performance Goals for the CCO. For each Performance Period, the Compensation Committee will approve (or adjust as it deems appropriate) the weightings of the Performance Goals at the same time it approves the Performance Goals. The weightings for each Eligible Position are set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period when necessary to set forth the weightings for the Eligible Positions for that Performance Period as soon as administratively practicable after such weightings are approved by the Compensation Committee for such Performance Period. Notwithstanding the identified weighting for a Performance Goal for an Eligible Position, the Compensation Committee, may adjust the weightings (up or down) for any Participant for a Performance Period when it considers the identified weighting for a Performance Goal to be inappropriate for such Participant because of his or her length of service with UTIMCO, his or her tenure in the respective Eligible Position, his or her prior work experience, or other factors as deemed appropriate by the Compensation Committee; provided that, in the case of the CCO, any such adjustment shall be based on the joint recommendation of the Audit and Ethics Committee and the CEO. The weightings for the Performance Goals for each Performance Period are subject to approval by the Board.

5.5. Incentive Award Opportunity Levels and Performance Incentive Awards

(a) At the beginning of each Performance Period, each Eligible Position is assigned an "Incentive Award Opportunity" for each Performance Goal for the Participants in that Eligible Position. The Audit and Ethics Committee and CEO will jointly recommend the Incentive Award Opportunity for the CCO to the Compensation Committee. Each Incentive Award Opportunity is determined by the Compensation Committee (and subject to approval by the Board) and is expressed as a percentage of base salary earned during the Performance Period. The Incentive Award Opportunities include a threshold, target, and maximum award for achieving commensurate levels of performance of the respective Performance Goal.

(b) Incentive Award Opportunities for each Performance Period are set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period when necessary to set forth the Incentive Award Opportunities for that Performance Period as soon as administratively practicable after approval of the Incentive Award Opportunities by the Board for such Performance Period, and such revised Table 1 will be attached as Appendix C.

(c) Actual "Performance Incentive Awards" are the amounts that are actually awarded to Participants for the respective Performance Period. Actual

Performance Incentive Awards will range from zero (if a Participant performs below threshold on all Performance Goals or, pursuant to Section 5.~~11~~12(c) in the case of Affected Participants, Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below a negative 14.01% at the end of such Performance Period) to the maximum Incentive Award Opportunity (if a Participant performs at or above maximum on all Performance Goals) depending on performance relative to objectives; provided that, pursuant to Section 5.~~11~~12(d), actual Performance Incentive Awards for Affected Participants may exceed the maximum Incentive Award Opportunity if the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined exceed positive 20.0% at the end of such Performance Period. Awards are capped at maximum levels regardless of whether a Participant exceeds the stated maximum Performance Goals.

(d) Following the end of each Performance Period, the Compensation Committee will review the actual performance of each Participant against the Performance Goals of the respective Participant and determine the Participant's level of achievement of his or her Performance Goals. The Compensation Committee ~~will~~ may seek~~,~~ and ~~may~~ rely on~~,~~ the independent confirmation of the level of Performance Goal achievement from an external investment consultant to evaluate Entity Performance and Asset Class/Investment Type Performance. The CEO will submit a written report to the Compensation Committee, which documents the Participant's performance relative to the Participant's Performance Goals set at the beginning of the Performance Period, and upon which the Compensation Committee may rely in evaluating the Participant's performance. The Audit and Ethics Committee and the CEO will jointly determine the CCO's level of achievement relative to the CCO's Performance Goals. The Board will determine the CEO's level of achievement relative to the CEO's Performance Goals.

(e) Performance Incentive Awards will be calculated for each Participant based on the percentage achieved of each Performance Goal, taking into account the weightings for the Participant's Entity Performance, Asset Class/Investment Type Performance, and Qualitative Performance Goals and each Participant's Incentive Award Opportunity; provided that, Performance Incentive Awards of Affected Participants will be (i) increased if the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined exceed positive 20.0% at the end of such Performance Period and (ii) decreased if the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5.0% at the end of such Performance Period, all pursuant to Section 5.~~11~~12. The methodology for calculating Incentive Award Opportunities and Performance Incentive Awards is presented on Appendix A. Performance

Incentive Awards will be interpolated in a linear fashion between threshold and target as well as between target and maximum.

(f) Within ~~150~~ 120 days following the end of a Performance Period, and after review by the external auditor, the Compensation Committee will review all Performance Incentive Award calculations, ~~based on the certification of its advisors~~, and make any changes it deems appropriate. The Compensation Committee will submit its recommendations to the Board for approval. Subject to the provisions of Section 7.1, the Board will approve Performance Incentive Awards.

(g) Following the approval of a Performance Incentive Award by the Board, each Participant will be notified as to the amount, if any, of his or her Performance Incentive Award as well as the terms, provisions, conditions, and limitations of the Nonvested Deferred Award portion of such Performance Incentive Award.

5.6. Form and Timing of Payouts of Performance Incentive Awards

Except as provided in Sections 5.11, ~~and~~ 5.12, and 5.13, approved Performance Incentive Awards will be paid as follows:

(a) Subject to the Applicable Deferral Percentage of an Eligible Position as documented in Table 1, which is attached as Appendix C, the Performance Incentive Award will be paid to the Participant ("Paid Performance Incentive Award") within ~~150~~ 120 days of the completion of the Performance Period on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which the Performance Period ends, and

(b) An amount of the Performance Incentive Award for an Eligible Position equal to the Applicable Deferral Percentage set forth on Table 1 will be treated as a "Nonvested Deferred Award" subject to the terms of Section 5.7 and paid in accordance with that Section. Table 1 will be revised, as necessary, for each Performance Period to set forth any Applicable Deferral Percentage for each Eligible Position as soon as administratively practicable after approval of the deferral percentages by the Board for such Performance Period and such revised Table 1 will be attached as Appendix C.

5.7. Nonvested Deferred Awards

(a) For each Performance Period, a hypothetical account on UTIMCO's books ("Nonvested Deferred Award Account") will be established for each Participant. As of the date that the corresponding Paid Performance Incentive Award is paid to the Participant, each Participant's Nonvested Deferred Award for a Performance Period will be credited to his or her Nonvested Deferred Award Account established for that Performance Period; provided, however, that, in the case of any Participant whose Nonvested Deferred Award has been forfeited pursuant to Section 5.10(a) or Section

5.~~12~~ 13 on the date such Nonvested Deferred Award would be so credited to his or her Nonvested Deferred Award Account, such Nonvested Deferred Award will not be credited to such Participant's Nonvested Deferred Award Account. The Nonvested Deferred Award Accounts will be credited (or debited) monthly with an amount equal to the net investment returns of the Total Endowment Assets ("Net Returns") for the month multiplied by the balance of the respective Participant's Nonvested Deferred Award Account(s) as of the last day of the month. When the Nonvested Deferred Award is initially credited to the Nonvested Deferred Award Account, the Nonvested Deferred Award Account will be credited (or debited) with Net Returns for the month of the initial credit of a Nonvested Deferred Award, but the Net Returns will be prorated to reflect the number of days of the month during which the amounts were credited to the Nonvested Deferred Award Account. Participants are not entitled to their Nonvested Deferred Award Accounts unless and until they become vested in those accounts in accordance with Section 5.7(b).

(b) Unless a Participant's Nonvested Deferred Award has been forfeited pursuant to Section 5.10(a) or Section 5.~~12~~13, such Participant will become vested in, and entitled to payment of, his or her Nonvested Deferred Award Account for each respective Performance Period according to the following schedule:

(1) On the first anniversary of the last day of the Performance Period for which the Nonvested Deferred Award was earned, one third of the amount then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

(2) On the second anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, one half of the amount then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

(3) On the third anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, the remaining amount then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

(4) Nonvested Deferred Award Accounts payable under the above paragraphs of this Section 5.7(b) will be paid on a date selected in the discretion of UTIMCO after the applicable portion of any such Nonvested Deferred Award Account becomes vested and in no event later than the last day of the calendar year in which the applicable portion of such Nonvested Deferred Award Account becomes vested.

5.8. Performance Measurement Standards

(a) Entity Performance

(1) Entity Performance for purposes of the Performance Incentive Plan is the performance of the Total Endowment Assets (weighted at ~~85~~80%) and the Intermediate Term Fund (weighted at ~~15~~20%).

(2) The performance of the Total Endowment Assets ("TEA") is measured based on the TEA's performance relative to the TEA Policy Portfolio Return (TEA benchmark).

(3) The performance of the Intermediate Term Fund will be measured based on the performance of the ITF relative to the ITF Policy Portfolio Return (ITF benchmark). ~~The performance standards related to the Intermediate Term Fund for the Performance Period beginning July 1, 2007, are reflected in Table 2 on Appendix D.~~

~~(3)~~(4) Performance standards related to the TEA and ITF for each Performance Period beginning after ~~June 30~~August 31, ~~2008~~2010, will be set forth on a revised table for each such Performance Period and set forth on Appendix D as soon as administratively practicable after such standards are determined. Performance of the TEA and ~~Intermediate Term Fund~~ITF is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the TEA and ITF.

~~(4)~~(5) Except as provided in Section 5.9, performance of the Total Endowment Assets (based on the TEA benchmark) and the Intermediate Fund (based on the ITF benchmark) will be measured based on a three-year rolling historical performance of each such fund.

(b) Asset Class/Investment Type Performance

(1) Asset Class/Investment Type Performance is the performance of specific asset classes and investment types within the Total Endowment Assets and the Intermediate Term Fund (such as developed country, private investments, etc.) based on the standards set forth in this Section 5.8(b). Except as provided in paragraph (2) below and Section 5.9, Asset Class/Investment Type Performance will be measured relative to the appropriate benchmark based on three-year rolling historical performance. Performance standards for each asset class and investment type will vary depending on the ability to outperform the respective benchmark. The benchmarks for each asset class and investment type, as well as threshold, target, and maximum performance standards in effect during the three-year rolling historical period, culminating with the current Performance Period, are set forth on Table 2, which is attached as Appendix D. Table 2 will be revised,

as necessary, for subsequent Performance Periods to reflect new benchmarks, as well as threshold, target, and maximum performance standards, in effect during the three-year rolling historical period, culminating with the subsequent Performance Period, in which event, such revised table will be attached as Appendix D as soon as administratively practicable after the change in such benchmarks and standards necessitating such change are set.

(2) Performance for private investments is calculated differently from other asset classes and investment types due to its longer investment horizon and illiquidity of assets. Except for private investments in Real Estate, performance of private investments is determined based on the performance of partnership commitments made since 2001 based on internal rates of return (IRR's) relative to the respective Venture Economics benchmarks. Performance of private investments in Real Estate will be determined based on the performance of partnership commitments made relative to a NACRIEF Custom Index benchmark.

(c) Qualitative Performance

(1) The level of a Participant's Qualitative Performance will be measured by the CEO (in the case of the CCO, jointly by the Audit and Ethics Committee and the CEO), subject to approval by the Compensation Committee, based on the level of attainment (below threshold, threshold, target, or maximum) of the Participant's Qualitative Performance Goals for the Performance Period.

(2) For purposes of determining the level of attainment of each Participant's Qualitative Performance Goals for the Performance Period, the Participant will have attained below threshold level if he or she fails to successfully complete at least 50% of his or her Qualitative Performance Goals for that Performance Period, threshold level if he or she successfully completes 50% of his or her Qualitative Performance Goals for that Performance Period, target level if he or she successfully completes 75% of his or her Qualitative Performance Goals for that Performance Period, and maximum level if he or she successfully completes 100% of his or her Qualitative Performance Goals for that Performance Period (with interpolation for levels of attainment between threshold, target, and maximum).

(3) In determining the percentage of successful completion of a Participant's Qualitative Performance Goals, the CEO, and in the case of the CCO, the Audit and Ethics Committee (in the initial determination) and the Compensation Committee (in its review of the attained levels for approval) need not make such determination based solely on the number of Qualitative Performance Goals successfully completed but may take into account the varying degrees of importance of the Qualitative Performance Goals, changes in the

Participant's employment duties occurring after the Qualitative Performance Goals are determined for the Performance Period, and any other facts and circumstances determined by the CEO, and in the case of the CCO, the Audit and Ethics Committee, or Compensation Committee (as applicable) to be appropriate for consideration in evaluation of the level of achievement of the Participant's Qualitative Performance Goals for the Performance Period.

5.9. ***Modifications of Measurement Period for Measuring Entity and Asset Class/Investment Type Performance Goals***

(a) Although generally Entity Performance and most Asset Class/Investment Type Performance are measured based on three-year rolling historical performance, newly hired Participants will be phased into the Performance Incentive Plan so that Entity Performance and Asset Class/Investment Type Performance are measured over a period of time consistent with each Participant's tenure at UTIMCO. This provision ensures that a Participant is measured and rewarded over a period of time consistent with the period during which he or she influenced the performance of the entity or a particular asset class and investment type. In the Performance Period in which a Participant begins participation in the Performance Incentive Plan, the Entity Performance and Asset Class/Investment Type Performance components of the Incentive Award Opportunity will be based on one full year of historical performance (i.e., the performance for the Performance Period during which the Participant commenced Performance Incentive Plan participation). During a Participant's second year of Performance Incentive Plan participation, the Entity Performance and Asset Class/Investment Type Performance components of the Incentive Award Opportunity will be based on two full years of historical performance. In the third year of a Participant's Performance Incentive Plan participation and beyond, the Entity and Asset Class/Investment Type Performance components of the Incentive Award Opportunity will be based on the three full years of rolling historical performance.

(b) For purposes of measuring Entity and Asset Class/Investment Type Performance, the three-year historical performance cycle will not be utilized for any specific asset class and investment type (or subset of an asset class and investment type) until that asset class and investment type (or subset of that asset class and investment type) has three years of historical performance as part of the Performance Incentive Plan and, until that time, the actual years (full and partial) of historical performance of that asset class and investment type (or subset of that asset class and investment type) while part of the Performance Incentive Plan will be used as the measurement period.

(c) For purposes of measuring Entity and Asset Class/Investment Type Performance of an asset class and investment type (or subset of an asset class and investment type) that is removed from the Performance Incentive Plan prior to completion of the then in-progress three-year historical performance cycle, the three-year historical performance cycle will not be utilized for that removed asset class and investment type (or subset of an asset class and investment type), but instead the actual number of full months that the removed asset class and investment type was part of the Performance Incentive Plan during the then in-progress three-year historical performance cycle will be used as the measurement period.

(d) For purposes of measuring Asset Class/Investment Type Performance for a particular Participant of an asset class and investment type (or subset of an asset class and investment type) that is removed from or added to the Participant's responsibility during the then in-progress three-year historical performance cycle, the three-year historical performance cycle will not be utilized for that removed or added asset class and investment type (or subset of an asset class and investment type), but instead the actual number of full months that the removed or added asset class and investment type was part of the Participant's responsibility during the then in-progress three-year historical performance cycle will be used as the measurement period for evaluating the Asset Class/Investment Type Performance with respect to such Participant.

(e) Beginning with the Performance Period September 1, 2012 to August 31, 2013, Entity Performance and Asset Class/Investment Type Performance for the one-, two-, and three-year historical performance cycles will be measured from September 1st to August 31st. Notwithstanding anything in this Plan to the contrary, if, as a result of the change in the measurement period, in the opinion of the Board, an adjustment to a Participant's Performance Incentive Award is warranted, the Board in its discretion, is authorized to change the amount of a Participant's Performance Incentive Award for the first three Performance Periods beginning after August 31, 2012, so as not to unduly benefit, nor deprive or eliminate an award of a Participant.

5.10. Termination Provisions

(a) Except as otherwise provided in this Section 5.10, any Participant who ceases to be a Participant (either because of Termination of employment with UTIMCO or for any other reason stated in Section 5.3(c)) prior to the end of a Performance Period will not be eligible to receive payment of any Performance Incentive Award for that or any subsequent Performance Periods. In addition, a Participant will forfeit any Nonvested Deferred Awards at such Participant's Voluntary Termination or Involuntary Termination for Cause. Further, upon Involuntary Termination for reasons other than Cause, the amount in the Nonvested Deferred Award Accounts of such terminated individual will vest immediately and be paid on a date selected by UTIMCO and in no event later than the last day of the calendar year in which such Termination occurs.

(b) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment position is no longer an Eligible Position (but such employee continues to be employed with UTIMCO), such Participant's Performance Incentive Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date the Participant ceases to be in an Eligible Position, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards of such individual continue to vest and be paid subject to the provisions of Section 5.7(b).

(c) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment with UTIMCO terminates due to death or Disability, the Participant's Performance Incentive Award for the Performance Period in which Termination occurs, in lieu of any other Performance Incentive Award under the Performance Incentive Plan, will be paid at target on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date of the Participant's death or Disability, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Award Accounts of such terminated individual will vest immediately and be paid on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which such termination occurs. Payments under this provision will be made to the estate or designated beneficiaries of the deceased Participant or to the disabled Participant, as applicable.

(d) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because he or she commences a leave of absence, such Participant's Performance Incentive Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or coinciding with the date the Participant commences such leave of absence, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards of such individual continue to vest and be paid subject to the provisions of Section 5.7(b).

(e) In the case of any Participant who ceases to be a Participant in the Performance Incentive Plan prior to the end of Performance Period and is entitled to a Performance Incentive Award or a prorated Performance

Incentive Award under this Section 5.10, such Performance Incentive Award will be calculated at the time and in the manner provided in Section 5.5 and Appendix A and paid in accordance with Section 5.6 and will not be calculated or paid prior to such time.

5.11. Eligibility for Retirement.

A participant is eligible for retirement on the last day of the month in which the sum of the Participant's age and years of service, including months of age and months of service credit, equals or exceeds the number 75.

In the case of any Participant who is eligible for retirement, any Performance Incentive Award to which the Participant becomes entitled, as well as any remaining Nonvested Deferred Award, will vest immediately and be includible in the Participant's gross income for Federal income tax purposes in the calendar year in which vesting occurs without regard to when payment is made to the Participant. The vested Performance Incentive Award and any remaining Nonvested Deferred Award will be paid to the participant on a date selected by UTIMCO and in no event later than the last day of the calendar year unless the Participant has agreed to a Voluntary Deferral of all or a portion of his Performance Incentive Award that would otherwise have been deferred had the Participant not been eligible for retirement ("Amount Voluntarily Deferred"). If the Participant has agreed to a Voluntary Deferral of such amount of his Performance Incentive Award,

(a) the Amount Voluntarily Deferred (1) will be credited to a hypothetical account established in the Participant's name on UTIMCO's books ("Amount Voluntarily Deferred Account") and (2) will be credited (or debited) monthly with an amount equal to the Net Returns for the month multiplied by the balance in the Participant's Amount Voluntarily Deferred Account as of the last day of the month, provided that when the Amount Voluntarily Deferred is initially credited to the Participant's Amount Voluntarily Deferred Account, the Participant's Amount Voluntarily Deferred Account will be credited (or debited) with Net Returns for the month of the initial credit, but the Net Returns will be prorated to reflect the number of days of the month during which the amounts were credited to the Participant's Amount Voluntarily Deferred Account;

(b) except as provided in clause (c) below, the amount credited to the Participant's Amount Voluntarily Deferred Account shall be paid to the Participant only on the following dates and in the following amounts:

(1) On the first anniversary of the last day of the Performance Period for which the Amount Voluntarily Deferred was earned, one third of the amount then credited to the Participant's Amount Voluntarily Deferred Account for that Performance Period will be paid to the Participant.

(2) On the second anniversary of the end of the Performance Period for which the Amount Voluntarily Deferred was earned, one half of the

amount then credited to the Participant's Amount Voluntarily Deferred Account for that Performance Period will be paid to the Participant.

(3) On the third anniversary of the end of the Performance Period for which the Amount Voluntarily Deferred was earned, the remaining amount then credited to the Participant's Amount Voluntarily Deferred Account for that Performance Period will be paid to the Participant.

(4) Amount Voluntarily Deferred Accounts payable under the above paragraphs of this Section 5.11(b) will be paid on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which the applicable portion of such Amount Voluntarily Deferred Account becomes due and payable; and

(c) any net credits or debits to the Participant's Amount Voluntarily Deferred Account pursuant to clause (a)(2) above will be includible in the Participant's gross income and taxable to the Participant as ordinary income for Federal income tax purposes, and will be subject to Federal employment taxes and wage withholding during the year in which such amounts are paid pursuant to clauses (a) or (b) above.

~~(e)~~

5.~~11~~12. Extraordinary Circumstances.

Notwithstanding anything in this Plan to the contrary, the timing and amount of Performance Incentive Awards of each Participant holding an Eligible Position listed on Table 3, which is attached as Appendix E (each, an "Affected Participant"), are subject to automatic adjustment as follows:

(a) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are negative at the end of such Performance Period, (i) an amount otherwise equal to the Paid Performance Incentive Award attributable to such Performance Period for each Affected Participant will be treated as an "Extraordinary Nonvested Deferral Award" for such Affected Participant that is subject to forfeiture in the same manner and for the same reasons as Nonvested Deferral Awards pursuant to Section 5.10(a), (ii) a separate hypothetical account for such Affected Participant will be established on UTIMCO's books ("Extraordinary Nonvested Deferral Award Account"), which will be (1) credited with such Affected Participant's Extraordinary Nonvested Deferral Award and (2) credited (or debited) monthly with Net Returns of the Total Endowment Assets on the same dates and in the same manner as applies to Nonvested Deferral Award Accounts pursuant to Section 5.7(a), and (iii) unless such Affected Participant's Extraordinary Nonvested Deferral Award has been forfeited pursuant to Section 5.10(a) or

Section 5.~~12~~13, such Affected Participant will become vested in, and entitled to payment of, the amount of his or her Extraordinary Nonvested Deferral Award Account on the first anniversary of the last day of such Performance Period; provided that upon the death, Disability or Involuntary Termination of an Affected Participant for reasons other than Cause, the amount in the Extraordinary Nonvested Deferral Award Account of such Affected Participant will vest immediately and be paid (to the Affected Participant or, in the case of death, to the estate or designated beneficiaries of the deceased Affected Participant) on a date selected by UTIMCO and in no event later than the last day of the calendar year in which such Termination occurs; provided, further, that nothing in this clause (a) shall affect the vesting and payment of Nonvested Deferral Awards to any Affected Participant nor shall it affect the vesting and payment of Performance Incentive Awards to a Participant that has satisfied the requirements for Eligibility for Retirement;

(b) If the Net Returns of the Total Endowment Assets since the end of the Performance Period for which Performance Incentive Awards are being determined are a negative 10.00% or below (measured as of the most recent month-end for which performance data are available) on the date the Board approves the Performance Incentive Award for an Affected Participant, an amount otherwise equal to such Affected Participant's Paid Performance Incentive Award attributable to such Performance Period will also be treated as an "Extraordinary Nonvested Deferral Award" for such Affected Participant that is subject to clause (a) above; provided that nothing in this clause (b) shall affect the vesting and payment of Nonvested Deferral Awards to any Affected Participant nor shall it affect the vesting and payment of Performance Incentive Awards to a Participant that has satisfied the requirements for Eligibility for Retirement;

(c) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5.00% at the end of such Performance Period, the Performance Incentive Award for each Affected Participant for that Performance Period (calculated pursuant to Section 5.5 above) will be reduced by 10% for each percentage point (or portion thereof) of Net Returns below a negative 5.00%, such that the Performance Incentive Award for each such Affected Participant will be eliminated in the event of negative Net Returns below 14.00% (e.g., negative Net Returns of 5.01% will result in the Performance Incentive Award for such Affected Participant being reduced by 10%, negative Net Returns of 6.01% will result in the Performance Incentive Award for such Affected Participant being reduced by 20%, and so forth);

(d) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are in excess of positive 20.00% at the end of such Performance Period, the Performance Incentive Award for each Affected Participant for that Performance Period (calculated pursuant to Section 5.5 above) will be increased by 10% for each percentage point (or portion thereof) of positive

Net Returns in excess of 20.00% (subject to an overall increase limit of 100%), such that the increase in Performance Incentive Award for such Affected Participant will be capped at 100% for positive performance in excess of 29.00% (e.g., positive Net Returns of 20.01% will result in the Performance Incentive Award for such Affected Participant being increased by 10%, positive Net Returns of 21.01% will result in the Performance Incentive Award for such Affected Participant being increased by 20%, and so forth); and

(e) Table 3, which is attached as Appendix E, will be revised, as necessary, for each Performance Period to identify the Eligible Positions whose Performance Incentive Awards are subject to automatic adjustment as to timing and amount pursuant to clauses (a)-(d) above as soon as administratively practicable after approval by the Board and such revised Table 3 will be attached as Appendix E.

5.~~12~~13. Recovery of Performance Incentive Awards

Notwithstanding anything in this Plan to the contrary, if the Board (in its sole discretion, but acting in good faith) determines (a) that a Participant has engaged in willful misconduct that materially disrupts, damages, impairs or interferes with the business, reputation or employee relations of UTIMCO or The University of Texas System, such Participant will not be entitled to any Performance Incentive Awards for the Performance Periods during which the Board determines such misconduct occurred, or (b) that a Participant has engaged in fraudulent misconduct that caused or contributed to a restatement of the investment results upon which such Participant's Performance Incentive Awards were determined by knowingly falsifying any financial or other certification, knowingly providing false information relied upon by others in a financial or other certification, or engaging in other fraudulent activity, or knowingly failing to report any such fraudulent misconduct by others in accordance with UTIMCO's Employee Handbook, such Participant will not be entitled to any Performance Incentive Awards for the Performance Periods for which investment results were so restated. To the extent a Participant has been awarded Performance Incentive Awards to which he or she is not entitled as a result of clause (a) or (b) above, Performance Incentive Awards shall be recovered by UTIMCO pursuant to the following remedies in the order listed: first, such Participant's Nonvested Deferred Awards and Extraordinary Nonvested Deferred Awards will be automatically forfeited; second, any Paid Performance Incentive Award not then paid to such Participant will be withheld and automatically forfeited; and third, such Participant must return to UTIMCO the remaining excess amount. Recovery of Performance Incentive Awards to which a Participant is not entitled pursuant to this Section 5.~~12~~ 13 does not constitute a settlement of other claims that UTIMCO may have against such Participant, including as a result of the conduct giving rise to such recovery. Further, the remedies set forth above are in addition to, and not in lieu of, any actions imposed by law enforcement agencies, regulators or other authorities.

6. COMPENSATION PROGRAM AUTHORITY AND RESPONSIBILITY

6.1. Board as Plan Administrator

Except as otherwise specifically provided in this Compensation Program with respect to powers, duties, and obligations of the Compensation Committee, the Compensation Program will be administered by the Board.

6.2. Powers of Board

The Board has all powers specifically vested herein and all powers necessary or advisable to administer the Compensation Program as it determines in its discretion, including, without limitation, the authority to:

(1) Establish the conditions for the determination and payment of compensation by establishing the provisions of the Performance Incentive Plan.

(2) Select the employees who are eligible to be Participants in the Performance Incentive Plan**.**

(3) Delegate to any other person, committee, or entity any of its ministerial powers and/or duties under the Compensation Program as long as any such delegation is in writing and complies with the UTIMCO Bylaws.

7. COMPENSATION PROGRAM INTERPRETATION

7.1. Board Discretion

(a) Consistent with the provisions of the Compensation Program, the Board has the discretion to interpret the Compensation Program and may from time to time adopt such rules and regulations that it may deem advisable to carry out the Compensation Program. All decisions made by the Board in selecting the Participants approved to receive Performance Incentive Awards, including the amount thereof, and in construing the provisions of the Compensation Program, including without limitation the terms of any Performance Incentive Awards, are final and binding on all Participants.

(b) Notwithstanding any provision of the Compensation Program to the contrary and subject to the requirement that the approval of Performance Incentive Awards that will result in an increase of 5% or more in the total Performance Incentive Awards calculated using the methodology set out on Appendix A must have the prior approval of the U.T. System Board of Regents, the Board has the discretion and authority to make changes in the terms of the Compensation Program in determining a Participant's eligibility for, or amount of, a Performance Incentive Award for any Performance Period whenever it considers that circumstances have occurred during the

Performance Period so as to make such changes appropriate in the opinion of the Board, provided, however, that any such change will not deprive or eliminate an award of a Participant after it has become vested and that such circumstances are recorded in the minutes of a meeting of the Board.

7.2. Duration, Amendment, and Termination

The Board has the right in its discretion to amend the Compensation Program or any portion thereof from time to time, to suspend it for a specified period, or to terminate it entirely or any portion thereof. However, if the Performance Incentive Plan is suspended or terminated during a Performance Period, Participants will receive a prorated Performance Incentive Award based on performance achieved and base salary earned through the Performance Measurement Date immediately preceding such suspension or termination. The Compensation Program will be in effect until suspension or termination by the Board; provided, however, that if the Board so determines at the time of any suspension or termination of the Performance Incentive Plan, Nonvested Deferred Awards credited to Participants' Nonvested Deferred Award Account(s) as of the effective date of such suspension or termination will continue to be administered under the terms of the Performance Incentive Plan after any suspension or termination, except as the Board otherwise determines in its discretion at the time of such suspension or termination.

7.3. Recordkeeping and Reporting

(a) All records for the Compensation Program will be maintained by the Managing Director of Accounting, Finance, and Administration at UTIMCO. Relative performance data and calculations will be reviewed by UTIMCO's external auditor before Performance Incentive Awards are finalized and approved by the Board.

(b) UTIMCO will provide all Participants with a comprehensive report of the current value of their respective Nonvested Deferred Award and Extraordinary Nonvested Deferred Award Account balances, including a complete vesting status of those balances, on at least a quarterly basis.

7.4. Continued Employment

Nothing in the adoption of the Compensation Program or the awarding of Performance Incentive Awards will confer on any employee the right to continued employment with UTIMCO or affect in any way the right of UTIMCO to terminate his or her employment at any time.

7.5. Non-transferability of Awards

Except for the rights of the estate or designated beneficiaries of Participants to receive payments, as set forth herein, Performance Incentive Awards under the Performance Incentive Plan, including both the Paid Performance Incentive Award portion and the Nonvested Deferred Award portion, are non-assignable and nontransferable and are not subject to anticipation, adjustment, alienation, encumbrance, garnishment, attachment, or levy of any kind. The preceding notwithstanding, the Compensation Program will pay any portion of a Performance Incentive Award that is or becomes vested in accordance with an order that meets the requirements of a "qualified domestic relations order" as set forth in Section 414(p) of the *Internal Revenue Code* and Section 206(d) of ERISA.

7.6. Unfunded Liability

(a) Neither the establishment of the Compensation Program, the award of any Performance Incentive Awards, nor the creation of Nonvested Deferred Awards Accounts will be deemed to create a trust. The Compensation Program will constitute an unfunded, unsecured liability of UTIMCO to make payments in accordance with the provisions of the Compensation Program. Any amounts set aside by UTIMCO to assist it in the payment of Performance Incentive Awards or other benefits under the Compensation Program, including without limitation, amounts set aside to pay for Nonvested Deferred Awards, will be the assets of UTIMCO, and no Participant will have any security or other interest in any assets of UTIMCO or the U.T. System Board of Regents by reason of the Compensation Program.

(b) Nothing contained in the Compensation Program will be deemed to give any Participant, or any personal representative or beneficiary, any interest or title to any specific property of UTIMCO or any right against UTIMCO other than as set forth in the Compensation Program.

7.7. Compliance with State and Federal Law

No portion of the Compensation Program will be effective at any time when such portion violates an applicable state or federal law, regulation, or governmental order or directive.

7.8. Federal, State, and Local Tax and Other Deductions

All Performance Incentive Awards under the Compensation Program will be subject to any deductions (1) for tax and withholding required by federal, state, or local law at the time such tax and withholding is due (irrespective of whether such Performance Incentive Award is deferred and not payable at such time) and (2) for any and all amounts owed by the Participant to UTIMCO at the time of payment of the Performance Incentive Award. UTIMCO will not be obligated to advise an employee of the existence of the tax or the amount that UTIMCO will be required to withhold.

7.9. Prior Plan

(a) Except as provided in the following paragraphs of this Section 7.9, this Compensation Program supersedes any prior version of the Compensation Program ("Prior Plan").

(b) All nonvested deferred awards under a Prior Plan will retain the vesting schedule in effect under the Prior Plan at the time such awards were allocated to the respective Participant's account. In all other respects, as of the Effective Date, those nonvested deferred amounts will (1) be credited or debited with the Net Returns over the remaining deferral period in accordance with Section 5.7(a), and (2) be subject to the terms and conditions for Nonvested Deferred Awards under the Performance Incentive Plan as set forth in this restated document.

8. DEFINITION OF TERMS

8.1. **Affected Participant** is defined in Section 5.~~11~~12.

8.2. **Applicable Deferral Percentage** means, as to each Eligible Position, the percentage set forth opposite such Eligible Position under the heading "Percentage of Award Deferred" on Table 1, which is attached as Appendix C.

8.3. **Asset Class/Investment Type Performance** is the performance of specific asset classes and investment types within the Total Endowment Assets and the Intermediate Term Fund (such as developed country, private investments, etc.) based on the standards set forth in Section 5.8(b).

8.4. **Board** is the UTIMCO Board of Directors.

8.5. **Cause** means, as to any employee, that such employee has committed (as determined by UTIMCO in its sole discretion) any of the following: (1) a violation of any securities law or any other law, rule or regulation; (2) willful conduct that reflects negatively on the public image of UTIMCO or the U.T. System; or (3) a breach of UTIMCO's Code of Ethics.

8.6. **Compensation Committee** is the Compensation Committee of the UTIMCO Board of Directors.

8.7. **Compensation Program** is defined in Section 1.

8.8. **Disability** means a condition whereby a Participant either (i) is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that is expected either to result in death or to last for a continuous period of not less than 12 months or (ii) is, by reason of a medically determinable physical or mental impairment that is expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under a disability plan maintained or contributed to by UTIMCO for the benefit of eligible employees.

8.9. **Effective Date** is defined in Section 1.

~~8.9.~~8.10. **Eligible for Retirement is defined in Section 5.11.**

~~8.10.~~8.11. **Eligible Position** is defined in Section 5.3(a).

~~8.11.~~8.12. **Entity Performance** represents the performance of the Total Endowment Assets and the Intermediate Term Fund (based on the measurement standards set forth in Section 5.8(a)).

~~8.12.~~8.13. **Extraordinary Nonvested Deferral Award** is defined in Section 5.~~11~~12.

~~8.13.~~8.14. **Extraordinary Nonvested Deferral Award Account** is defined in Section 5.~~11~~12.

~~8.14.~~8.15. **Incentive Award Opportunity** is defined in Section 5.5(a).

~~8.15.~~8.16. **Intermediate Term Fund or ITF** is The University of Texas System ("U.T. System") Intermediate Term Fund established by the U.T. System Board of Regents as a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by the U.T. System institutions and U.T. System Administration. Performance of the Intermediate Term Fund is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Intermediate Term Fund.

~~8.16.~~8.17. **Intermediate Term Fund Policy Portfolio Return** is the benchmark return for the Intermediate Term Fund policy portfolio and is calculated by summing the neutrally weighted index returns (percentage weight for each asset class and investment type multiplied by the benchmark return for the asset class and investment type) for the various asset classes and investment types in the Intermediate Term Fund policy portfolio for the Performance Period.

~~8.17.~~8.18. **Involuntary Termination** means, as to any person the Termination of such person's employment with UTIMCO wholly initiated by UTIMCO and not due to such person's implicit or explicit request, at a time when such person is otherwise willing and able to continue to perform services for UTIMCO.

~~8.18.~~8.19. **Net Returns** is the investment performance return of the Total Endowment Assets, net of fees. Net of fees factors in all administrative and other fees for managing the Total Endowment Assets. The net investment return will be calculated as follows:

$$\frac{\text{Permanent University Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{Permanent University Fund Net Investment Return}$$

Plus

$$\frac{\text{General Endowment Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{General Endowment Fund Net Investment Return}$$

~~8.19.~~8.20. **Nonvested Deferred Award** is defined in Section 5.6(b).

~~8.20.~~8.21. **Nonvested Deferred Award Account** is defined in Section 5.7(a).

~~8.21.~~8.22. **Paid Performance Incentive Award** is defined in Section 5.6(a).

~~8.22.~~8.23. **Participant** is defined in Section 5.3(a).

~~8.23.~~8.24. **Peer Group** is a peer group of endowment funds ~~maintained by the Board's external investment advisor~~ that is comprised of all endowment funds with more than 10 full-time employee positions, allocations to alternative assets in excess of 40%, and with assets greater than $2.5 billion, all to be determined as of the last day of each of the three immediately preceding Performance Periods as set forth on Appendix B; provided, however, that the Total Endowment Assets are excluded from the Peer Group. The Peer Group will be updated from time to time as deemed appropriate by the Board, and Appendix B will be amended accordingly.

~~8.24.~~8.25. **Performance Goals** are defined in Section 5.4.

~~8.25.~~8.26. **Performance Incentive Award** is the component of a Participant's total compensation that is based on specific performance goals and awarded as current income or deferred at the end of a Performance Period in accordance with Section 5 and Appendix A.

~~8.26.~~8.27. **Performance Incentive Plan** is as defined in Section 1 and described more fully in Section 5.

~~8.27.~~8.28. **Performance Measurement Date** is the close of the last business day of the month.

~~8.28.~~8.29. **Performance Period** is defined in Section 5.2.

~~8.29.~~8.30. **Prior Plan** is defined in Section 7.9.

~~8.30.~~8.31. **Salary Structure** is described in Section 4.1.

~~8.31.~~8.32. **Termination** means, as to any person, a complete severance of the relationship of employer and employee between UTIMCO and such person.

~~8.32.~~8.33. **Total Endowment Assets or TEA** means the combination of the Permanent University Fund and the General Endowment Fund, but does not include any other endowment funds monitored by UTIMCO such as the Separately Invested Fund. Performance of the Total Endowment Assets is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Total Endowment Assets.

~~8.33.~~8.34. **Total Endowment Assets Policy Portfolio Return** is the benchmark return for the Total Endowment Assets policy portfolio and is calculated by summing the neutrally weighted index returns (percentage weight for each asset class and investment type multiplied by the benchmark return for the asset class and investment type) for the various asset classes and investment types in the Total Endowment Assets policy portfolio for the Performance Period.

~~8.34.~~8.35. **Voluntary Terminations** means, as to any person, the Termination of such person's employment with UTIMCO not resulting from an Involuntary Termination or by reason of Death or disability.

Appendix A

Performance Incentive Award Methodology (for Performance Periods beginning on or after ~~July~~ September 1, ~~2008~~2012)

I. Determine "Incentive Award Opportunities" for Each Participant[2]

Step 1. Identify the weights to be allocated to each of the three Performance Goals for each Participant's Eligible Position. The weights vary for each Eligible Position each Performance Period and are set forth in Table 1 on Appendix C for the applicable Performance Period. The total of the weights ascribed to the three Performance Goals must add up to 100% for each Participant. For example, Table 1 on Appendix C may reflect for a Performance Period for the CEO that the weight allocated to the Entity Performance Goal is 60%, the weight allocated to the Asset Class/Investment Type Performance Goal is 0%, and the weight allocated to the Individual Performance Goal is 40%.

Step 2. Identify the percentage of base salary for the Participant's Eligible Position that determines the Performance Incentive Award for achievement of the Threshold, Target, and Maximum levels of the Performance Goals. The percentages vary for each Eligible Position each Performance Period and are set forth in Table 1 on Appendix C for the applicable Performance Period. For example, Table 1 on Appendix C may show that for a Performance Period the applicable percentages for determining the Performance Incentive Award for the CEO are ~~50~~0% of his or her base salary for achievement of Threshold level performance of all three Performance Goals, 100% of his or her base salary for achievement of Target level performance of all three Performance Goals, and ~~200~~300% of his or her base salary for achievement of Maximum level performance of all three Performance Goals.

Step 3. Calculate the dollar amount of the potential Threshold, Target, and Maximum awards (the "Incentive Award Opportunities") for each Participant by multiplying the Participant's base salary for the Performance Period by the applicable percentage (from Step #2 above). For example, assuming the CEO has a base salary of $~~575,000~~600,000 for a Performance Period, based on the assumed percentages set forth in Step #2 above, the CEO will be eligible for a total award of $~~287,500~~0 ~~(50% of his or her base salary)~~ if he or she achieves Threshold level performance of all three

[2] These Incentive Award Opportunities represent amounts that each Participant will be awarded if he or she achieves his or her Performance Goals at varying levels and are calculated at the beginning of each Performance Period or, if later, the date such Participant commences participation in the Performance Incentive Plan.

Performance Goals, $~~575,000~~600,000 (100% of his or her base salary) if he or she achieves Target level performance of all three Performance Goals, and $~~1,150,000~~1,800,000 (~~200~~300% of his or her base salary) if he or she achieves Maximum level performance of all three Performance Goals.

Step 4. Because a Participant may achieve different levels of performance in different Performance Goals and be eligible for different levels of awards for that achievement (e.g., he or she may achieve Target performance in the Entity Performance Goal and be eligible to receive a Target award for that goal and achieve Maximum performance in the Qualitative Performance Goal and be eligible to receive a Maximum award for that Performance Goal), it is necessary to determine the Incentive Award Opportunity of the Threshold, Target, and Maximum award for each separate Performance Goal (and, because achievement of the Entity Performance Goal is determined in part by achievement of the Total Endowment Assets and in part by achievement of the Intermediate Term Fund, a Threshold, Target, and Maximum Incentive Award Opportunity separately for the TEA and the ITF must be determined)**.** This is done by multiplying the dollar amount of the Threshold, Target, and Maximum awards for the performance of all three Performance Goals calculated in Step #3 above for the Participant by the weight allocated for that Participant to the particular Performance Goal (and, further, by multiplying the Incentive Award Opportunity for the Entity Performance by the weight ascribed to achievement of the Total Endowment Assets (~~85~~80%) and by the weight ascribed to achievement of the Intermediate Term Fund (~~15~~20%)).

Step 5. After Steps #3 and #4 above are performed for each of the three levels of performance for each of the three Performance Goals, there will be 12 different Incentive Award Opportunities for each Participant. For example, for the CEO (based on an assumed base salary of $~~575,000~~600,000, the assumed weights for the Performance Goals set forth in Step #1 above, and the assumed percentages of base salary for the awards set forth in Step #2 above), the 12 different Incentive Award Opportunities for achievement of the Performance Goals for the Performance Period are as follows:

Incentive Award Opportunities for CEO
(based on assumed base salary of $~~575,000~~600,000)

Performance Goal	Weight	Threshold Level Award	Target Level Award	Maximum Level Award
Entity (TEA v. TEA Policy Portfolio Return	.51% (~~.85~~.80 x .60)	$~~146,625~~0	$~~293,250~~288,000	$~~586,500~~864,000
Entity (ITF v. ITF Policy Portfolio Return)	9.0% (~~.15~~.20 x .60)	$~~25,875~~0	$~~51,750~~72,000	$~~103,500~~216,000
Asset Class/Investment Type	0%	$0	$0	$0
Qualitative	40%	$~~115,000~~0	$~~230,000~~240,000	$~~460,000~~720,000
Total	100%	$~~287,500~~0 (~~50~~0% of salary)	$~~575,000~~600,000 (100% of salary)	$~~1,150,000~~1,800,000 (~~200~~300% of salary)

II. Calculate Performance Incentive Award for Each Participant[3]

Step 6. Identify the achievement percentiles or achieved basis points that divide the Threshold, Target, and Maximum levels for each Performance Goal. These divisions for the level of achievement of the Entity and Asset Class/Investment Type Performance Goals are set forth in the table for the applicable Performance Period as set forth on Appendix D. The measurement for the level of achievement (i.e., Threshold, Target, or Maximum) for the Qualitative Performance Goal is initially determined each Performance Period by the Participant's supervisor, if any, (in the case of the CCO, jointly by the Audit and Ethics Committee and the CEO), and then is approved (or adjusted) by the Compensation Committee as it deems appropriate in its discretion. If the Participant has no supervisor, the measurement for the level of achievement for the Qualitative Performance Goal is determined each Performance Period by the Compensation Committee**.** The Board will determine the CEO's level of achievement relative to the CEO's Performance Goals.

Step 7. Determine the percentile or basis points achieved for each Performance Goal for each Participant using the standards set forth in Sections 5.5 and 5.8 of the Compensation Program, as modified in Section 5.9. Determine the level of achievement of each Participant's Qualitative Performance Goal.

Step 8. Calculate the amount of each Participant's award attributable to each Performance Goal by identifying the Incentive Award Opportunity amount for each Performance Goal (e.g., as assumed and set forth for the CEO in the table in Step #5 above) commensurate with the Participant's level of

[3] In the event that the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 14.0% at the end of such Performance Period, steps 6 through 14 need not be followed with respect to Affected Participants when calculating Performance Incentive Awards for that Performance Period.

achievement for that Performance Goal (determined in Steps #6 and #7 above). An award for achievement percentiles in between the stated Threshold, Target, and Maximum levels is determined by linear interpolation. For example, if +100 bps of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal has been achieved, that +100 bps is between the Target (+75bps) and the Maximum (+~~150~~225bps) levels, so to determine the amount of the award attributable to +100 bps of achievement of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal, perform the following steps: (i) subtract the difference between the dollar amounts of the Target and Maximum Incentive Award Opportunities for the Participant (e.g., for the CEO, as illustrated in the table in Step #5, the difference is $~~293,250~~576,000 ($~~586,500~~864,000-$~~293,250~~288,000)); (ii) divide 25 (the bps difference between the Target level of +75 bps and the attained level of +100 bps) by ~~75~~150 (the bps difference between the Target level and Maximum level) to get the fraction ~~25/75~~25/150 to determine the pro rata portion of the difference between Target and Maximum actually achieved; (iii) multiply the amount determined in the preceding Step (i) by the fraction determined in the preceding Step (ii) ($~~293,250~~576,000 x ~~25/75~~25/150 = $~~97,750~~96,000); and (iv) add the amount determined in the preceding Step (iii) to the Target Incentive Award Opportunity for the Participant to get the actual award for the Participant attributable to each Performance Goal ($~~97,750~~96,000 + $~~293,250~~288,000 = $~~391,000~~384,000).

Step 9. In determining the Asset Class/Investment Type Performance portion of an award for a Performance Period for each Participant who is responsible for more than one asset class and investment type during that Performance Period, first, the Participant's attained level of achievement (i.e., Below Threshold, Threshold, Target, or Maximum) is determined for each asset class and investment type for which such Participant is responsible by comparing the actual performance to the appropriate benchmark for the asset class and investment type; then, the award is calculated for the determined level of achievement for each such asset class and investment type by multiplying the award commensurate with the level of achievement by the weight assigned to the Asset Class/Investment Type Performance Goal for such Participant; then, the various asset classes and investment types for which the Participant is responsible are assigned a pro rata weight (i.e., the assets in such asset class and investment type relative to the total assets under such Participant's responsibility); then, each determined award for a separate asset class and investment type is multiplied by the weight for that asset class and investment type; and, finally, the weighted awards are totaled to produce the Participant's award attributable to Asset Class/Investment Type Performance.

Step 10. In determining the award attributable to the Entity Performance Goal, achievement of the Total Endowment Assets portion of the Entity Performance Goal (and the commensurate award) is weighted at ~~85~~80%

(and then multiplied by the weight assigned to the Entity Performance Goal for the Participant), and achievement of the Intermediate Term Fund portion of the Entity Performance Goal (and commensurate award) is weighted at ~~15~~20% (and then multiplied by the weight assigned to the Entity Performance Goal for the Participant). For example, assuming a base salary of $~~575,000~~600,000, if the CEO achieved the Target level (+75 bps) of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal, and achieved the Maximum level (+~~100~~150 bps) of the Intermediate Term Fund portion of the Entity Performance Goal, he or she would have earned an award of $~~396,750~~504,000 for his or her level of achievement of the Entity Performance Goal as follows: $~~293,250~~288,000 for Target level of achievement of the TEA benchmark portion of the TEA portion of Entity Performance Goal (.~~85~~ 80 x .60 x $~~575,000~~600,000) plus $~~103,500~~216,000 for Maximum level of achievement of the ITF portion of the Entity Performance Goal (.~~15~~ 20 x .60 x $~~1,150,000~~1,800,000).

Step 11. No award is given for an achievement percentile below Threshold, and no award above the Maximum award is given for an achievement percentile above the Maximum level.

Step 12. Subject to any applicable adjustment in Step #13 below, add the awards determined in Steps #8, #9, and #10 above for each Performance Goal (as modified by Step #11) together to determine the total amount of the Participant's Performance Incentive Award for the Performance Period.

Step 13. In the case of any Participant who becomes a Participant in the Performance Incentive Plan after the first day of the applicable Performance Period, such Participant's Performance Incentive Award (determined in Step #12) will be prorated to reflect the actual portion of the Performance Period in which he or she was a Participant. In the case of a Participant who ceases to be a Participant prior to the end of a Performance Period, his or her entitlement to any Performance Incentive Award is determined under Section 5.10 and, in the case of such entitlement, such Participant's Performance Incentive Award, if any, will be prorated and adjusted as provided in Section 5.10.

Step 14. In the case of any Affected Participant, such Affected Participant's Performance Incentive Award calculated pursuant to Steps #1 through #13 above shall be multiplied by the appropriate factor set forth in the following charges:

When Net Returns of Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5.0% at the end of such Performance Period:

Actual Negative Net Returns (Rounded to Nearest One-Hundredth Decimal)	Factor
5.01 - 6.00	.9
6.01 - 7.00	.8
7.01 - 8.00	.7
8.01 - 9.00	.6
9.01 - 10.00	.5
10.01 - 11.00	.4
11.01 - 12.00	.3
12.01 - 13.00	.2
13.01 - 14.00	.1
14.01 and Below	.0

When Net Returns of Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are in excess of positive 20.0% at the end of such Performance Period:

Actual Positive Net Returns (Rounded to Nearest One-Hundredth Decimal)	Factor
20.01 - 21.00	1.1
21.01 - 22.00	1.2
22.01 - 23.00	1.3
23.01 - 24.00	1.4
24.01 - 25.00	1.5
25.01 - 26.00	1.6
26.01 - 27.00	1.7
27.01 - 28.00	1.8
28.01 - 29.00	1.9
29.01 and Above	2.0

Appendix B

UTIMCO Peer Group

- Columbia University
- Cornell University
- Duke University
- Emory University
- Harvard University
- Massachusetts Institute of Technology
- Northwestern University
- Princeton University
- Rice University
- Stanford University
- UNC Management Company
- University of California
- University of Chicago
- University of Michigan
- University of Notre Dame
- University of Pennsylvania
- University of Southern California
- University of Virginia Investment Management Company
- Vanderbilt University
- Washington University in St. Louis
- Yale University

Source: Cambridge Associates. Represents endowment funds (excluding the Total Endowment Assets) with more than 10 full-time employee positions, allocations to alternative assets in excess of 40%, and with assets greater than $2.5 billion, all to be determined as of the last day of each fiscal year end June 2009, 2010, 2011.

Appendix C

Eligible Positions
Weightings
Incentive Award Opportunities for each Eligible Position
(for each Performance Period)

TABLE 1 (For the Performance Periods beginning after ~~June 30, 2010~~August 31, 2012)

	Weighting			Incentive Award Opportunity (% of Salary)				Percentage of Award
Eligible Position	Entity	Asset Class/ Investment Type	Qualitative (Individual)	< Threshold	Threshold	Target	Maximum	Deferred
		Investment Professionals						
CEO & Chief Investment Officer	60%	0%	40%	0%	0%	100%	300%	50%
President & Deputy CIO	40%	40%	20%	0%	0%	95%	250%	50%
Managing Director - Investments	30%	40%	30%	0%	0%	85%	215%	40%
Managing Director - Private Investments	30%	30%	40%	0%	0%	85%	215%	40%
Senior Director - Investments	25%	35%	40%	0%	0%	60%	150%	35%
Senior Portfolio Manager	20%	40%	40%	0%	0%	60%	150%	35%
Senior Director - Risk Management	30%	0%	70%	0%	0%	50%	135%	35%
Portfolio Manager	20%	40%	40%	0%	0%	50%	130%	30%
Director - Investments	20%	40%	40%	0%	0%	50%	130%	30%
Director - Private Investments	20%	30%	50%	0%	0%	50%	130%	30%
Director - Risk Management	30%	0%	70%	0%	0%	40%	90%	30%
Senior Associate - Investments	15%	35%	50%	0%	0%	40%	90%	20%
Senior Associate - Private Investments	15%	25%	60%	0%	0%	40%	90%	20%
Senior Associate - Risk Management	30%	0%	70%	0%	0%	40%	80%	20%
Associate - Investments	15%	30%	55%	0%	0%	35%	85%	15%
Associate - Private Investments	15%	20%	65%	0%	0%	35%	85%	15%
Associate - Risk Management	30%	0%	70%	0%	0%	35%	70%	15%
Senior Analyst - Investments	10%	20%	70%	0%	0%	30%	60%	0%
Analyst - Investments	10%	20%	70%	0%	0%	25%	50%	0%
Analyst - Risk Management	30%	0%	70%	0%	0%	25%	50%	0%
		Operations/Support Professionals						
Senior Managing Director	20%	0%	80%	0%	0%	60%	120%	40%
Chief Technology Officer~~Managing DirectorChief~~	20%	0%	80%	0%	0%	50%	100%	30%
General Counsel & Chief Compliance Officer	0%	0%	100%	0%	0%	50%	100%	30%
Senior Manager	20%	0%	80%	0%	0%	40%	90%	25%
Manager	20%	0%	80%	0%	0%	40%	80%	25%
Deal Attorney	20%	0%	80%	0%	0%	40%	80%	25%
Senior Financial Analyst	20%	0%	80%	0%	0%	30%	60%	20%

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Appendix D

Benchmarks for Entity and Asset Class/Investment Type and
Threshold, Target, and Maximum Performance Standards
(for Performance Periods beginning on or after ~~July 1, 2008~~September 1, 2010)

~~Performance Standards for Intermediate Term Fund~~
~~(for Performance Periods beginning on or after July 1, 2008)~~

UPDATED TABLE 2 (~~7/1/08~~09/01/10 through 8/31/11)

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights: Total Endowment Assets (% of Portfolio)	Policy Portfolio Weights: ITF (% of Portfolio)	Performance Standards: Threshold	Performance Standards: Target	Performance Standards: Maximum
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+75 bps	+225 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+150 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	30.0%	+0 bps	+25 bps	+62.5 bps
Real Estate	FTSE EPRA/NAREIT Developed Index	2.5%	5.0%	+0 bps	+62.5 bps	+150 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	6.5%	7.5%	+0 bps	+62.5 bps	+150 bps
Developed Country Equity	MSCI World Index with net dividends	19.5%	15.0%	+0 bps	+62.5 bps	+150 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	12.0%	7.5%	+0 bps	+62.5 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index*	30.0%	35.0%	+0 bps	+75 bps	+250 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index	20.0%	0%	+0 bps	+100 bps	+350 bps
Private Investments Real Estate	NACREIF Custom Index	2.0%	0%	+0 bps	+100 bps	+325 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+100 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps

* For the Performance Period beginning 7/01/2008 through 12/31/2008, the benchmark is MSCI Investable Hedge Fund Index

UPDATED TABLE 2 (9/1/11 through ~~6/30/12~~08/31/12)

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights: Total Endowment Assets (% of Portfolio)	Policy Portfolio Weights: ITF (% of Portfolio)	Performance Standards: Threshold	Performance Standards: Target	Performance Standards: Maximum
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+75 bps	+225 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+150 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	35.0%	+0 bps	+25 bps	+62.5 bps
Real Estate	FTSE EPRA/NAREIT Developed Index NET TRI USD	2.5%	5.0%	+0 bps	+62.5 bps	+150 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	6.5%	7.5%	+0 bps	+62.5 bps	+150 bps
Developed Country Equity	MSCI World Index with net dividends	18.5%	10.0%	+0 bps	+62.5 bps	+150 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	12.0%	7.5%	+0 bps	+62.5 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index	30.0%	35.0%	+0 bps	+75 bps	+250 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index	20.0%	0%	+0 bps	+100 bps	+350 bps
Private Investments Real Estate	NACREIF Custom Index	3.0%	0%	+0 bps	+100 bps	+325 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+100 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps

UPDATED TABLE 2 (9/1/12 through 08/31/13)

		Policy Portfolio Weights		Performance Standards		
		Total Endowment Assets	ITF			
Asset Class/Investment Type	Benchmark	(% of Portfolio)	(% of Portfolio)	Threshold	Target	Maximum
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+75 bps	+225 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+150 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	35.0%	+0 bps	+25 bps	+62.5 bps
Real Estate	FTSE EPRA/NAREIT Developed Index NET TRI USD	2.5%	5.0%	+0 bps	+62.5 bps	+150 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	7.5%~~6.5%~~	7.5%	+0 bps	+62.5 bps	+150 bps
Developed Country Equity	MSCI World Index with net dividends	15.0%~~18.5%~~	10.0%	+0 bps	+62.5 bps	+150 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	12.0%	7.5%	+0 bps	+62.5 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index	30.0%	35.0%	+0 bps	+75 bps	+250 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index	21.5%~~20.0%~~	0%	+0 bps	+100 bps	+350 bps
Private Investments Real Estate	NACREIF Custom Index	4.0%~~3.0%~~	0%	+0 bps	+100 bps	+325 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+100 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps

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Appendix E

Eligible Positions of Affected Participants

Table 3 (For the Performance Periods beginning after ~~June 30, 2011~~September 1, 2012)

Eligible Position
Investment Professionals
CEO & Chief Investment Officer
President & Deputy CIO
Managing Director
Managing Director - Private Investments
Senior Director, Investment
Senior Portfolio Manager
Senior Director, Risk Management
Portfolio Manager
Director, Investment
Director - Private Investments
Director, Risk Management
Operations/Support Professionals
Senior Managing Director
~~Managing Director~~ Chief Technology Officer
General Counsel & Chief Compliance Officer
Senior Manager
Deal Attorney
Manager

Agenda Item
UTIMCO Board of Directors Meeting
July 11, 2012

Agenda Item: Report from Audit and Ethics Committee, including (1) Discussion and Appropriate Action Related to Corporate Auditor and (2) Discussion and Appropriate Action Related to Selection of Master Custodian

Developed By: Zimmerman, Gonzalez, Moeller

Presented By: Wilson

Type of Item: Action item related to Engaging Corporate Auditor and Master Custodian; further Action required by UT Board of Regents related to Master Custodian; discussion item on other items

Description: An Audit and Ethics Committee ("Committee") meeting will be held on July 5, 2012. The Committee's agenda includes the following: (1) discussion and appropriate action related to minutes; (2) discussion and appropriate action related to engaging corporate external auditor; (3) report from UT System Audit Office (4) update of compliance, reporting, and audit issues; (5) discussion and appropriate action related to base salary, performance incentive plan participation, and performance goals for the General Counsel and Chief Compliance Officer for the 2011-12 fiscal year; (6) discussion and appropriate action related to selection of master custodian; and (7) presentation of unaudited financial statements for the nine months ended May 31, 2012 for the Funds and the Corporation.

Discussion: The Committee will discuss hiring Deloitte and Touche LLP as the corporate auditor. If approved by the Committee and the Board, FY 2012 will be the sixth year that Deloitte serves as the Corporation's independent auditor. Estimated fees for the 2012 audit services are $33,500 plus out-of-pocket expenses, an increase of $2,000 from the 2011 audit.

UT System Audit Office will present to the Committee their audit of UTIMCO's internal controls over financial reporting related to the Long Term Fund, a draft of the Audit Office's 2013 internal audit plan, and provide an update of its 2012 audit activities.

The Committee will also discuss and take action related to the General Counsel and Chief Compliance Officer's base salary, performance incentive plan participation, and performance goals for the 2012-13 fiscal year and performance period.

Staff will present to the Committee its recommendation to retain BNY Mellon as the master custodian for the Investment Funds under the fiduciary care of the Board of Regents of The University of Texas System. The master custodian provides a wide range of services, including global custody, accounting, performance, analytics and securities lending. In accordance with the UTIMCO Purchasing Policy, formal bids should be obtained every five years for contracts with vendors in excess of $1,000,000. The current contract with BNY Mellon was effective March 30, 2007, and the last custodian review was conducted in 2006. Staff will review the process with the Committee and discuss the reasons for staff's recommendation to retain BNY Mellon as the master custodian.

Routine activities of the Committee include reviewing the unaudited financial statements for the nine month period for the Funds and the UTIMCO Corporation, and the quarterly compliance reports.

Recommendation: Committee will request appropriate action related to the hiring of Deloitte & Touche LLP as the corporate auditor and retaining BNY Mellon as master custodian for the Investment Funds under the fiduciary care of the Board of Regents of The University of Texas System.

Reference: Deloitte & Touche LLP Engagement Letter; Quarterly Compliance Reports

RESOLUTION RELATED TO INDEPENDENT AUDITOR FOR THE CORPORATION

RESOLVED, that the firm of Deloitte & Touche LLP be, and is hereby, engaged as the independent auditor of the Corporation for the year ended August 31, 2012.

RESOLUTION RELATED TO MASTER CUSTODIAN SELECTION

RESOLVED, that the UTIMCO Board approves the selection of Bank of New York Mellon ("BNY Mellon") as the master custodian for the investment assets under the fiduciary care of Board of Regents of The University of Texas System and directs staff to renegotiate or extend the existing contract with BNY Mellon, as considered necessary, subject to approval of the Board of Regents of The University of Texas System.

Deloitte.

Deloitte & Touche LLP
Suite 1700
400 West 15th Street
Austin, TX 78701
USA

Tel: +1 512 691 2300
www.deloitte.com

June 19, 2012

Ms. Joan Moeller
Managing Director—Accounting, Finance and Administration
The University of Texas Investment Management Company
401 Congress Street, Suite 2800
Austin, TX 78701

Dear Ms. Moeller:

Deloitte & Touche LLP ("D&T" or "we" or "us") is pleased to serve as independent auditors for The University of Texas Investment Management Company ("UTIMCO" or the "Company"). Mr. Thomas Wagner will be responsible for the services that we perform for the Company hereunder.

In addition to the audit services we are engaged to provide under this engagement letter, we would also be pleased to assist the Company on issues as they arise throughout the year. Hence, we hope that you will call Mr. Wagner whenever you believe D&T can be of assistance.

The services to be performed by D&T pursuant to this engagement are subject to the terms and conditions set forth herein and in the accompanying appendices. Such conditions shall be effective as of the date of the commencement of such services.

Audit of Financial Statements

Our engagement is to perform an audit in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards"). The objective of an audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of the Company's financial statements for the year ending August 31, 2012, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects.

Appendix A contains a description of our responsibilities and an audit under generally accepted auditing standards.

Our ability to express an opinion and the wording thereof will, of course, be dependent on the facts and circumstances at the date of our report. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of this engagement. If we are unable to complete our audit or if the report to be issued by D&T as a result of this engagement requires modification, the reasons therefore will be discussed with the Audit and Ethics Committee of the UTIMCO Board of Directors (the "Audit and Ethics Committee") and the management of UTIMCO.

Management's Responsibilities

Appendix B describes management's responsibilities for (1) the financial statements, (2) representation letters, (3) independence matters relating to providing certain services, and (4) independence matters relating to hiring.

Responsibility of the Audit and Ethics Committee

As independent auditors of the Company, we acknowledge that the Audit and Ethics Committee is directly responsible for the appointment, compensation, and oversight of our work, and accordingly, except as otherwise specifically noted, we will report directly to the Audit and Ethics Committee. You have advised us that the services to be performed under this engagement letter, including, where applicable, the use by D&T of affiliates or related entities as subcontractors in connection with this engagement, have been approved by the Audit and Ethics Committee in accordance with the Audit and Ethics Committee's established preapproval policies and procedures.

Communications with the Audit and Ethics Committee

Appendix C describes various matters that we are required by generally accepted auditing standards to communicate with the Audit and Ethics Committee and management.

Fees

We estimate that our fees for the audit of the Company's financial statements will be $33,100, plus expenses. Engagement-related expenses, such as travel, lodging, transportation, meals, telephone, typing, etc., will be billed in addition to the fees and will be stated separately on the invoices.

Our continued service on this engagement is dependent upon payment of our invoices within 30 days of the date of the invoice. To the extent that certain circumstances, as listed in Appendix D, arise during this engagement, our fee estimate also may be significantly affected, and additional fees may be necessary. We will notify you promptly of any circumstances we encounter that could significantly affect our estimate and discuss with you any additional fees, as necessary. Additional services provided beyond the scope of services described herein will be billed separately.

Inclusion of D&T Reports or References to D&T in Other Documents or Electronic Sites

If the Company intends to publish or otherwise reproduce in any document our report on the Company's financial statements, or otherwise make reference to D&T in a document that contains other information in addition to the audited financial statements (e.g., in a periodic filing with a regulator, in a debt or equity offering circular, or in a private placement memorandum), thereby associating D&T with such document, the Company agrees that its management will provide D&T with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of our report, or the reference to D&T, in such document before the document is printed and distributed. The inclusion or incorporation by reference of our report in any such document would constitute the reissuance of our report. The Company also agrees that its management will notify us and obtain our approval prior to including our report on an electronic site.

Our engagement to perform the services described herein does not constitute our agreement to be associated with any such documents published or reproduced by or on behalf of the Company. Any request by the Company to reissue our report, to consent to its inclusion or incorporation by reference in an offering or other document, or to agree to its inclusion on an electronic site will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any services that would need to be performed in connection with any such request; fees for such services (and their scope) would be subject to the mutual agreement of the Company and D&T at such time as D&T is engaged to perform the services and would be described in a separate engagement letter.

* * * * * *

This engagement letter, including Appendices A through F attached hereto and made a part hereof, constitutes the entire agreement between the parties with respect to this engagement and supersedes all other prior and contemporaneous agreements or understandings between the parties, whether written or oral, relating to this engagement.

If the above terms are acceptable and the services outlined are in accordance with your understanding, please sign the copy of this engagement letter in the space provided and return it to us.

Yours truly,

Deloitte & Touche LLP

By your signature below, you confirm that the Company, through its Audit and Ethics Committee, has expressly authorized you to enter into this agreement with us on the Company's behalf.

Accepted and agreed to by the Company:

By:____

Title:______________________________________

Date:______________________________________

APPENDIX A

DESCRIPTION OF OUR RESPONSIBILITIES AND AN AUDIT UNDER GENERALLY ACCEPTED AUDITING STANDARDS

This Appendix A is part of the engagement letter dated June 19, 2012 between Deloitte & Touche LLP and the University of Texas Investment Management Company and approved by the Audit and Ethics Committee of the UTIMCO Board of Directors and the management of UTIMCO.

Our Responsibilities

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit and Ethics Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Audit and Ethics Committee of their responsibilities.

Components of an Audit

An audit includes the following:

- Obtaining an understanding of the Company and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures
- Consideration of internal control over financial reporting, as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting
- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- Inquiring directly of the Audit and Ethics Committee regarding its views about the risks of fraud and whether the Audit and Ethics Committee has knowledge of any fraud or suspected fraud affecting the Company
- Assessing the accounting principles used and significant estimates made by management
- Evaluating the overall financial statement presentation.

Reasonable Assurance

We will plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. However, because of the characteristics of fraud, a properly planned and performed audit may not detect a material misstatement. Therefore, an audit conducted in accordance with generally accepted auditing standards is designed to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. An audit is not designed to detect error or fraud that is immaterial to the financial statements, nor is it designed to provide assurance on internal control or to identify deficiencies in internal control.

APPENDIX B

MANAGEMENT'S RESPONSIBILITIES

This Appendix B is part of the engagement letter dated June 19, 2012 between Deloitte & Touche LLP and the University of Texas Investment Management Company and approved by the Audit and Ethics Committee of the UTIMCO Board of Directions and the management of UTIMCO.

Financial Statements

The overall accuracy of the financial statements and their conformity with generally accepted accounting principles are the responsibility of the Company's management. In this regard, management has the responsibility for, among other things:

- Selecting and applying the accounting policies
- Establishing and maintaining effective internal control over financial reporting
- Designing and implementing programs and controls to prevent and detect fraud
- Identifying and ensuring that the Company complies with the laws and regulations applicable to its activities and informing us of any known material violations of such laws or regulations
- Adjusting the financial statements to correct material misstatements
- Providing D&T with (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, (2) additional information that we may request from management for the purpose of our audit, and (3) unrestricted access to personnel within the Company from whom we determine it necessary to obtain evidence.

Representation Letters

We will make specific inquiries of the Company's management about the representations embodied in the financial statements. Additionally, we will request that management provide to us the written representations the Company is required to provide to its independent auditors under generally accepted auditing standards. As part of our audit procedures, we will request that management provide us with a representation letter that includes, among other things:

- Acknowledgment of management's responsibility for the preparation of the financial statements
- Affirmation of management's belief that the effects of any uncorrected financial statement misstatements aggregated by us during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

We will also request that management confirm certain representations made to us during our audit. The responses to those inquiries and related written representations of management required by generally accepted auditing standards are part of the evidential matter that D&T will rely on in forming its opinion on the Company's financial statements. Because of the importance of management's representations, the

Company agrees to release and indemnify D&T, its subcontractors, and their respective personnel from all claims, liabilities, and expenses relating to our services under this engagement letter attributable to any misrepresentation by management.

Independence Matters Relating to Providing Certain Services

In connection with our engagement, D&T, management, and the Audit and Ethics Committee will assume certain roles and responsibilities in an effort to assist D&T in maintaining independence. Management of the Company will ensure that the Company has policies and procedures in place for the purpose of ensuring that the Company will not act to engage D&T or accept from D&T any service that under American Institute of Certified Public Accountants (AICPA) or other applicable rules would impair D&T's independence. All potential services are to be discussed with Mr. Wagner.

Independence Matters Relating to Hiring

Management will coordinate with D&T to ensure that D&T's independence is not impaired by hiring former or current D&T partners, principals, or professional employees in a key position, as defined in the AICPA *Code of Professional Conduct* that would cause a violation of the AICPA *Code of Professional Conduct* or other applicable independence rules. Any employment opportunities with the Company for a former or current D&T partner, principal, or professional employee should be discussed with Mr. Wagner before entering into substantive employment conversations with the former or current D&T partner, principal, or professional employee.

For purposes of the preceding two paragraphs, "D&T" shall mean Deloitte & Touche LLP and its subsidiaries; Deloitte Touche Tohmatsu, its member firms, the affiliates of Deloitte & Touche LLP, Deloitte Touche Tohmatsu, and its member firms; and, in all cases, any successor or assignee.

APPENDIX C

COMMUNICATIONS WITH THE AUDIT AND ETHICS COMMITTEE

This Appendix C is part of the engagement letter dated June 19, 2012 between Deloitte & Touche LLP and the University of Texas Investment Management Company and approved by the Audit and Ethics Committee of the UTIMCO Board of Directions of the management of UTIMCO.

Significant Matters

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to the responsibilities of the Audit and Ethics Committee in overseeing the financial reporting process.

Fraud and Illegal Acts

We will report directly to the Audit and Ethics Committee any fraud of which we become aware that involves senior management and any fraud (whether caused by senior management or other employees) of which we become aware that causes a material misstatement of the financial statements. We will report to senior management any fraud perpetrated by lower-level employees of which we become aware that does not cause a material misstatement of the financial statements; however, we will not report such matters directly to the Audit and Ethics Committee, unless otherwise directed by the Audit and Ethics Committee.

We will inform the appropriate level of management of the Company and determine that the Audit and Ethics Committee is adequately informed with respect to illegal acts that have been detected or have otherwise come to our attention in the course of our audit, unless the illegal acts are clearly inconsequential.

Internal Control Matters

We will communicate, in writing, to management and the Audit and Ethics Committee all significant deficiencies and material weaknesses identified during the audit as required by AU 325, *Communicating Internal Control Related Matters Identified in an Audit*. Our written communication will identify those matters considered by D&T to be significant deficiencies and those that are considered by D&T to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis.

Other Matters

Generally accepted auditing standards do not require us to design procedures for the purpose of identifying other matters to communicate with the Audit and Ethics Committee. However, we will communicate to the Audit and Ethics Committee matters required by AU 380, *The Auditor's Communication with Those Charged with Governance*.

Texas State Auditor's Office

D&T agrees that the Texas State Auditor's Office or any authorized regulatory representative of the State shall at any time have access to and the rights to examine and audit any pertinent books, documents, working papers, and records of D&T relating to this agreement, and to excerpt and transcribe any pertinent books, documents, working papers, and records of D&T. If photocopies of pertinent books, documents, working papers, and records of D&T are requested, D&T will send a letter to the Texas State Auditor's Office or regulatory representative of the state similar (but not identical) in form to that in the American Institute Of Certified Public Accountants auditing section 9339, and such letter will be acknowledged by The Texas State Auditor's office or regulatory representative of the state prior to the provision of any photocopies by D&T. Any photocopies of pertinent books, documents, working papers, and records of D&T will be identified as "confidential treatment requested by Deloitte & Touche LLP."

APPENDIX D

CIRCUMSTANCES AFFECTING TIMING AND FEE ESTIMATE

This Appendix D is part of the engagement letter dated June 19, 2012 between Deloitte & Touche LLP and the University of Texas Investment Management Company and approved by the Audit and Ethics Committee of the UTIMCO Board of Directors and the management of UTIMCO.

The fees quoted for the audit are based on certain assumptions. Circumstances may arise during the engagement that may significantly affect the targeted completion dates or our fee estimate. As a result, changes to the fees may be necessary. Such circumstances include but are not limited to the following:

Audit Facilitation

1. Changes to the timing of the engagement at the Company's request. Changes to the timing of the engagement usually require reassignment of personnel used by D&T in the performance of services hereunder. However, because it is often difficult to reassign individuals to other engagements, D&T may incur significant unanticipated costs.

2. All audit schedules are not (a) provided by the Company on the date requested, (b) completed in a format acceptable to D&T, (c) mathematically correct, or (d) in agreement with the appropriate Company records (e.g., general ledger accounts). D&T will provide the Company with a separate listing of required schedules, information requests, and the dates such items are needed.

3. Significant delays in responding to our requests for information, such as reconciling variances or providing requested supporting documentation (e.g., invoices, contracts, and other documents).

4. Deterioration in the quality of the Company's accounting records during the current-year engagement in comparison with the prior-year engagement.

5. A completed trial balance, referenced to the supporting analyses and schedules and financial statements, is not provided timely by the Company's personnel.

6. Draft financial statements with appropriate supporting documentation are not prepared accurately and timely by the Company's personnel.

7. Electronic files in an appropriate format and containing the information requested are not provided by the Company on the date requested for our use in performing file interrogation. D&T will provide the Company with a separate listing of the required files and the dates the files are needed.

8. The engagement team, while performing work on the Company's premises, is not provided with high-speed access to the Internet for purposes of conducting the engagement.

Significant Issues or Changes

9. Significant deficiencies or material weaknesses in the design or operating effectiveness of the Company's internal control over financial reporting are identified during our audit that result in the expansion of our audit procedures.

10. A significant level of proposed audit adjustments is identified during our audit.

11. A significant number of drafts of the financial statements are submitted for our review, or we identify a significant level of deficiencies in the draft financial statements.

12. Significant new issues or changes as follows:

    a. Significant new accounting issues.

    b. Significant changes in accounting policies or practices from those used in prior years

    c. Significant events or transactions not contemplated in our budgets.

    d. Significant changes in the Company's financial reporting process or Information Technology systems.

    e. Significant changes in the Company's accounting personnel, their responsibilities, or their availability.

    f. Significant changes in auditing standards.

    g. Significant changes in the Company's use of specialists, or the specialists or their work product does not meet the qualifications required by generally accepted auditing standards for our reliance upon their work.

13. Changes in audit scope caused by events that are beyond our control.

Payment for Services Rendered

14. Without limiting its rights or remedies, D&T may halt or terminate its services entirely if payment is not received within 30 days of the date of the invoice.

APPENDIX E

GENERAL BUSINESS TERMS

This Appendix E is part of the engagement letter to which these terms are attached (the engagement letter, including its appendices, the "engagement letter") dated June 19, 2012 between Deloitte & Touche LLP and the University of Texas Investment Management Company and approved by the Audit and Ethics Committee of the UTIMCO Board of Directors and the management of UTIMCO.

1. **Independent Contractor.** D&T is an independent contractor and D&T is not, and will not be considered to be, an agent, partner, fiduciary, or representative of the Company or the Audit and Ethics Committee.

2. **Survival.** The agreements and undertakings of the Company and the Audit and Ethics Committee contained in the engagement letter will survive the completion or termination of this engagement.

3. **Assignment and Subcontracting.** Except as provided below, no party may assign any of its rights or obligations hereunder (including, without limitation, interests or claims relating to this engagement) without the prior written consent of the other parties. The Company and the Audit and Ethics Committee hereby consent to D&T subcontracting a portion of its services under this engagement to any affiliate or related entity, whether located within or outside of the United States. Professional services performed hereunder by any of D&T's affiliates or related entities shall be invoiced as professional fees, and any related expenses shall be invoiced as expenses, unless otherwise agreed.

4. **Severability.** If any term of the engagement letter is unenforceable, such term shall not affect the other terms, but such unenforceable term shall be deemed modified to the extent necessary to render it enforceable, preserving to the fullest extent permissible the intent of the parties set forth herein.

5. **Force Majeure.** No party shall be deemed to be in breach of the engagement letter as a result of any delays or nonperformance directly or indirectly resulting from circumstances or causes beyond its reasonable control, including, without limitation, fire, epidemic or other casualty, act of God, strike or labor dispute, war or other violence, or any law, order or requirement of any governmental agency or authority.

6. **Dispute Resolution.** Any controversy or claim between the parties arising out of or relating to the engagement letter or this engagement (a "Dispute") shall be resolved by mediation or binding arbitration as set forth in the Dispute Resolution Provision attached hereto as Appendix F and made a part hereof.

APPENDIX F

DISPUTE RESOLUTION PROVISION

This Appendix F is part of the engagement letter to which these terms are attached (the engagement letter, including its appendices, the "engagement letter") dated June 19, 2012 between Deloitte & Touche LLP and the University of Texas Investment Management Company and approved by the Audit and Ethics Committee of the UTIMCO Board of Directors and the management of UTIMCO.

This Dispute Resolution Provision sets forth the dispute resolution process and procedures applicable to the resolution of Disputes and shall apply to the fullest extent of the law, whether in contract, statute, tort (such as *negligence*), or otherwise.

Mediation: All Disputes shall be first submitted to nonbinding confidential mediation by written notice to the parties, and shall be treated as compromise and settlement negotiations under the standards set forth in the Federal Rules of Evidence and all applicable state counterparts, together with any applicable statutes protecting the confidentiality of mediations or settlement discussions. If the parties cannot agree on a mediator, the International Institute for Conflict Prevention and Resolution ("CPR"), at the written request of a party, shall designate a mediator.

Arbitration Procedures: If a Dispute has not been resolved within 90 days after the effective date of the written notice beginning the mediation process (or such longer period, if the parties so agree in writing), the mediation shall terminate and the Dispute shall be settled by binding arbitration to be held in New York, New York. The arbitration shall be solely between the parties and shall be conducted in accordance with the CPR Rules for Non-Administered Arbitration that are in effect at the time of the commencement of the arbitration, except to the extent modified by this Dispute Resolution Provision (the "Rules").

The arbitration shall be conducted before a panel of three arbitrators. Each of the Company and Deloitte & Touche LLP shall designate one arbitrator in accordance with the "screened" appointment procedure provided in the Rules and the two party-designated arbitrators shall jointly select the third in accordance with the Rules. No arbitrator may serve on the panel unless he or she has agreed in writing to enforce the terms of the engagement letter (including its appendices) to which this Dispute Resolution Provision is attached and to abide by the terms of this Dispute Resolution Provision. Except with respect to the interpretation and enforcement of these arbitration procedures (which shall be governed by the Federal Arbitration Act), the arbitrators shall apply the laws of the State of New York (without giving effect to its choice of law principles) in connection with the Dispute. The arbitrators shall have no power to award punitive, exemplary or other damages not based on a party's actual damages (and the parties expressly waive their right to receive such damages). The arbitrators may render a summary disposition relative to all or some of the issues, provided that the responding party has had an adequate opportunity to respond to any such application for such disposition. Discovery shall be conducted in accordance with the Rules.

All aspects of the arbitration shall be treated as confidential, as provided in the Rules. Before making any disclosure permitted by the Rules, a party shall give written notice to all other parties and afford such parties a reasonable opportunity to protect their interests. Further, judgment on the arbitrators' award may be entered in any court having jurisdiction.

Costs: Each party shall bear its own costs in both the mediation and the arbitration; however, the parties shall share the fees and expenses of both the mediators and the arbitrators equally.

FINAL 061512

The University of Texas Investment Management Company
Institutional Compliance Program Annual Report
for the Quarter Ended May 31, 2012

Section I – Organizational Matters

- Three meetings of the Ethics and Compliance Committee have been held during this fiscal year: September 19, 2011, December 15, 2011, and March 21, 2012.
- Uche Abalogu, Chief Technology Officer for UTIMCO, began employment on March 5, 2012.

Section II - Risk Assessment, Monitoring Activities and Specialized Training (Performed by Responsible Party)

High-Risk Area #1: Investment Due Diligence
Responsible Party: President and Deputy CIO for Public Markets and Marketable Alternatives, Managing Directors for Private Markets and Natural Resources Investments, and Senior Director - Real Estate Investments
Key "A" risk(s) identified:

- *Organization could fail to adequately conduct due diligence on prospective managers.*
- *Organization could fail to adequately conduct continual review and evaluation of external managers hired to manage UT System investment funds.*

Key Monitoring Activities:
Public Markets: The Public Markets groups participated in 105 meetings/calls with potential managers. Serious due diligence was initiated on two managers. One manager was hired. Ongoing review of active external managers included 50 meetings/calls. Additional efforts included monthly performance tracking, reviews and analyses by the team. A quarterly portfolio review meeting was held during the quarter.

Marketable Alternative Investments: The Marketable Alternative Investments group participated in 58 meetings/calls with potential managers. Serious due diligence was initiated on one manager. Two managers were hired. Ongoing review of external managers was conducted in the form of 92 meetings/calls/site visits and participation in various annual meetings. A portfolio review meeting was held during the quarter.

Private Markets: The Private Markets group initiated serious due diligence on two potential managers. One commitment was made. The Private Markets group also participated in 82 meetings with active external managers and 92 meetings with potential managers, including site visits, conference calls, Advisory Board or Annual meetings, ILPA meetings, and a quarterly portfolio review meeting.

Natural Resources: The Natural Resources group participated in 38 meetings/calls with potential managers. Serious due diligence was initiated on one manager. Two managers were hired. Ongoing review of active external managers included 79 meetings/calls. Additional efforts included participation in annual meetings and quarterly portfolio review meetings.

Real Estate: The Real Estate group participated in 42 meetings/calls with potential managers. Serious due diligence was initiated on three managers. Two managers were hired. Ongoing review of active external managers included 51 meetings/calls. Additional efforts included participation in annual meetings and quarterly portfolio review meetings.

Specialized Training: Staff attended nine industry-related conferences/forums during the quarter.

High-Risk Area #2: Investment Risk Management
Responsible Party: Senior Director - Risk Management
Key "A" risk(s) identified:

- *Organization could fail to accurately perform its assessment of risk due to data and investment instrument modeling error.*
- *Organization could fail to respond to risk levels (manage risk budget).*

Key Monitoring Activities:

- During the quarter, Risk Team reconciled accounting records' market value with market values modeled by IFS; reconciled month end values from IFS to accounting records and identified reasons for all discrepancies. Compared each month's risk results with both prior month results and with market activity to determine consistency, and identified reasons for all changes; prepared monthly charts and reports based on inputs from risk model during this quarter, including trend analysis of risk exposure and attribution, as well as analysis of managers' betas and correlations.
- Risk Team continued the negotiations and support of ISDAs for UTIMCO's direct trades, and for managers operating under agency agreements. Risk Team continued to engage in discussions with Regulatory Entities, current Counterparties and other Risk Management teams regarding the possible downgrade of various counterparties and ways UTIMCO can mitigate its Counterparty Risk, as well as various aspects of Dodd Frank.
- Risk Team continued to work with Albourne and IFS on improving proxies for LCC and Private Investments.
- Risk Team continued to monitor the current macro environment, thought processes, and methodologies of other risk teams, by coordinating and chairing an Endowments Risk Management forum, by analyzing new product offerings for risk management, and by participating in conferences.
- All internal derivatives were reviewed and analyzed in detail prior to initiation. The insurance budget is continuously tracked.
- Derivative positions are monitored on a daily basis. External managers that may use derivatives are monitored daily for spikes in returns or in volatility. Effects of derivatives on the overall portfolio are monitored monthly. Fixed income duration and tracking error is being monitored on an ongoing basis. Managers' use of margin and leverage is monitored on an ongoing basis. Risk Team confirmed each month downside risk and VaR calculations.
- Risk Team participated in the due diligence of two new managers and assisted Investment Staff in the analysis of Manager derivative trading agreements.
- Risk Team prepared projections on portfolio risk, country exposure, liquidity, and asset allocations; updated projections on a weekly basis.
- Risk Team is evaluating its sources and flow of data/information to better assist the new Chief of Technology in his goal of integrating systems.

Specialized Training: Participated in two conferences during the quarter. Kate Wagner passed the level 2 CAIA exam.

High-Risk Area #3: Information Technology & Security
Responsible Party: Chief Technology Officer
Key "A" risk(s) identified:

- *Organization could fail to adequately secure networks and data to prevent abuse, destruction, and/or theft.*
- *Organization could fail to manage computer software and hardware resulting in internal and external users unable to perform necessary job duties.*

Key Monitoring Activities:

- Several alerts to staff about information security issues, including the Visa/MasterCard breach and Windows Updates for mobile and personal device security.

- Applications that monitor virus or malicious software are running. Mechanisms are in place to provide notification if applications are not functioning properly. Additional applications monitor server activity and notify IT staff of any perceived problems.
- Continued training of users on the procedures and proper use of encrypted USB drives on an as needed basis.
- Provided topic specific email alerts to employees regarding encryption of social security numbers and credit card numbers, computer viruses, potential attacks, and critical updates.
- Monitoring and blocking of unencrypted electronic transmissions of social security numbers and credit card numbers is ongoing. Violations are reported to the CCO and staff is reminded to transmit via encrypted means.
- Laptop security reviews continue. At random, the ISO and CCO verify laptops are physically secured to the desk. Violators are notified when necessary.
- Compliance checks for nightly shutdown/logout and VPN access continue. Violations noted and violators notified when necessary.
- Random checks for confidential data storage continue and CISO continues to work with development staff to restrict access to source code.
- Reviewed Information Security Compliance materials in preparation for annual training.
- Worked with other UTIMCO staff on the continued development of the Business Continuity Plan.
- Revised Information Security Plan submitted to UT System.
- Staff replaced the Ironport email security appliance.
- Rolled out additional monitoring tools for windows server patch management.
- Attended a training session on Mobile Device Security and Good Technology options.

Specialized Training: CISO attended meetings of the Chief Information Security Officers Council and the UT System-wide Information Security Conference (INFO-SEC). Also attended training on ConfigureSoft, VMware security. DCTO and Network Analyst attended a seminar on security and backup of storage arrays and vmWare.

High-Risk Area #4: Investment Compliance
Responsible Party: Manager - Portfolio Accounting and Operations
Key "A" risk(s) identified:

- *Organization could fail to comply with investment policies, applicable laws and regulations, and other policies.*
- *Organization could fail to detect non-compliance with applicable policies, etc.*

Key Monitoring Activities:

- Verified that investments are in compliance with rules and guidelines in policies, rules and regulations utilizing custodian's software and in-house developed databases and reports
- Work continues to verify that custodian software queries and database queries are working properly for manager compliance. Continued cross training of new employee.
- Review of monthly and quarterly investment compliance reports prepared by staff.
- All mandates submitted to the Chief Compliance Officer were reviewed and categorized pursuant to asset class and investment type in accordance with the Mandate Categorization Procedure and approved by the UTIMCO Risk Committee.
- Continued participation by the Portfolio Accounting and Operations staff in prospective and active external manager investment due diligence.
- Derivative Investment Controls and Processes are being followed and work continues on improving them.

Specialized Training: None

High-Risk Area #5: Conflicts of Interest
Responsible Party: Senior Managing Director - Accounting, Finance and Administration

Key "A" risk(s) identified:

- *Organization could fail to comply with conflicts of interest provisions in Code of Ethics and Texas Education Code section 66.08.*

Key Monitoring Activities:

- All Certificates of Compliance were received timely from all UTIMCO Board members and key employees for all investment managers hired and funded. Certificates were reviewed for completeness; no conflicts of interest were noted, i.e., no pecuniary interests were identified by any UTIMCO Board member or key employee.
- List of publicly traded securities of all publicly traded companies in which a UTIMCO Board member or employee has a pecuniary interest (the "restricted list") was maintained. Internal and external managers under agency agreements are provided the restricted list in order to prevent the violation of the UTIMCO Code of Ethics and *Texas Education Code* section 66.08. No changes to the restricted list occurred during the quarter. One new manager was hired which required the list to be sent. The restricted list was sent to the manager timely.
- On a daily basis, accounting staff reviewed security holdings of internal and external managers for compliance with the restricted list. No exceptions noted.
- One Director was appointed by the Texas A&M System Board of Regents effective April 4, 2012. The financial disclosure statement and ethics compliance statements were received timely. Six directors returned their annual financial disclosure statement and ethics compliance statement timely before the April 30th deadline. Two directors requested and received extensions by the CEO to file the annual statements.
- Periodic review of public resources for comparison with financial disclosure statement information provided by Directors was performed during the quarter.
- No preclearance of securities transactions was requested during the quarter. Five trades occurred whereby the transaction disclosures forms were not turned in by the required ten days. Four trades were executed by the same individual and one trade was executed by a different individual.
- Annual employee training was held during the quarter on March 27th and a makeup session was held on April 4th. All employees turned in their financial disclosure and ethics compliance statements timely. Two employees, one intern, and one unpaid intern began employment during the quarter and attended training sessions. All ethics compliance forms due during the quarter for these individuals were timely filed.
- Eight trips/events for vendor reimbursed/paid expenses, which required documentation and supervisor/CEO approval, had appropriate documentation and approval. Eight trips occurred that included entertainment and CEO approval was obtained.

Specialized Training: None

<u>Section III – Monitoring and Assurance Activities (Performed by Compliance Office)</u>

High-Risk Area #1: Investment Due Diligence
Assessment of Control Structure: *Well controlled*
Assurance Activities Conducted: CCO reviewed results of quarterly due diligence monitoring plan for each Investment group. Ongoing due diligence efforts on multiple managers continue. The Senior Director, Risk Management and CCO participated in the bi-weekly Investment Committee meetings, the monthly Investment meetings, and quarterly portfolio reviews.
Significant Findings: None.

High-Risk Area #2: Investment Risk Management
Assessment of Control Structure: *Well controlled*
Assurance Activities Conducted: CCO continues to review documentation maintained by the Risk Team evidencing risk monitoring performed by the Risk Team.
Significant Findings: None

High-Risk Area #3: Information Technology & Security
Assessment of Control Structure: *Well controlled*
Assurance Activities Conducted: CCO continues to meet with ISO regarding information technology and security practices.
Significant Findings: None

High-Risk Area #4: Investment Compliance
Assessment of Control Structure: *Well controlled*
Assurance Activities Conducted: CCO is performing monthly review of Compliance Reports. CCO reviewed the documentation and workpapers supporting the various compliance reports prepared by the Responsible Parties. Monthly report (checklist) reviewed and signed off by Debbie Childers to determine that policy requirements have been maintained based on the activity performed by staff.
Significant Findings: None

High-Risk Area #5: Conflicts of Interest
Assessment of Control Structure: *Well controlled*
Assurance Activities Conducted: CCO designee reviewed the completed sign- offs for completeness for all certificates of compliance received. All UTIMCO Board members and all employees had timely signed off on certificates of compliance; no conflicts of interest were noted. Monitoring for potential conflicts of interest in the areas of personal securities transactions, outside employment and business activities, and manager/third party-paid travel, entertainment and gifts is ongoing.
Significant Findings: None

Section IV – General Compliance Training Activities

Two annual training sessions were held; training sessions were held for two new hires and two interns.

Section V – Action Plan Activities

- Meetings of the Employee Ethics and Compliance Committee are held quarterly.
- Information Technology Access & Security: Staff member is participating in the Chief Information Security Officers Council.

Section VI – Confidential Reporting

UTIMCO maintains a Compliance Hotline to receive and process complaints. UTIMCO has contracted with an outside vendor to provide the service. The chart below summarizes the calls received during the fiscal year:

Type	Number	% of Total
Employee Relations	0	0.00%
Policy Issues	0	0.00%
Hang ups or wrong numbers	8	100.00%
Total	8	100.00%

All calls are accepted by the hotline and reported to the UTIMCO Compliance Office. All reports are handled by a 5-person team comprised of the Chief Compliance Officer, Manager of Finance & Administration, the Office Manager, the Executive Assistant to the CEO and Chief Investment Officer, and David Givens from the System-wide Compliance Office.

The University of Texas Investment Management Company
Institutional Compliance Action Plan
Fiscal Year 2012

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
A. RISK ASSESSMENT			
1.	Review risk assessments to determine if updates are needed and map controls identified in the risk assessment to controls identified in the process documentation where needed	06/30/12	In process
B. MONITORING ACTIVITIES / ASSURANCE			
2.	Draft Monitoring Plans related to primary risks identified in ERM : * Portfolio Strategy and Management * Operations, Accounting, and Reporting * General Management	03/31/12	General Management plan completed; Operations, Accounting, and Reporting plan completed; Portfolio Strategy and Management included as part of investment group monitoring plans
3.	Periodic review of Responsible Party Monitoring Plan documentation for high risk areas A	On-going	On-going
4.	Work with Risk Management to enhance monitoring by CCO	On-going	On-going
C. COMPLIANCE TRAINING / AWARENESS			
5.	Provide Code of Ethics training and information to improve staff awareness of compliance program	04/30/12	Annual training held on March 27, 2012; Makeup session held April 4, 2012; New hire training held for 2 interns and 2 new employees
6.	Identify and network with similarly situated compliance professionals	On-going	On-going
D. REPORTING			
7.	Conduct quarterly meetings with the internal ethics and compliance committee	On-going	On-going
8.	Provide quarterly/annual reports to the System-wide office	On-going	On-going
E. OTHER / GENERAL COMPLIANCE			
9.	Hotline report investigations	On-going	On-going
10.	Periodic Re-evaluation of enterprise risk management and regular reporting to UTIMCO Audit and Ethics committee	06/30/12	In process
11.	ICAC activities: ICAC and Standing Committee participation	On-going	On-going

Updated 061512

#	ACTION ITEM	TARGET COMPLETION DATE	STATUS
12.	Work with Board Secretary and IT staff on implementation of Diligent BoardBooks	02/28/12	Completed
13.	Manage implementation of Records Retention Procedures	08/31/12	Refinement of procedure continues, Staff departments have submitted updated listings of types of records and holding periods for update to Retention schedule
14.	Refine and implement business continuity plan	08/31/12	Testing in process; CISO David Gahagan is managing the process for testing of plan

Updated 061512

Agenda Item
UTIMCO Board of Directors Meeting
July 11, 2012

Agenda Item: Report from Risk Committee

Developed By: Staff

Presented By: Tate

Type of Item: Discussion item

Description: The Risk Committee ("Committee") will meet separately and jointly with the Policy Committee on July 5, 2012. The Committee's agenda includes (1) discussion and appropriate action related to the minutes; (2) discussion and appropriate action related to categorization of new investment mandates; (3) discussion on use of broker-dealers; (4) review and discussion of compliance reporting; and (5) review and discussion of performance and risk reporting.

Discussion The Committee will review and approve, as appropriate, the sixteen (16) mandate categorizations prepared by staff for the period beginning March 24, 2012, and ending June 25, 2012. The Committee will report to the UTIMCO Board the results of its review of the Investment Mandate Categorizations.

Based on a recommendation from UT System Audit Office, UTIMCO developed formal procedures to approve new broker relationships prior to trade execution and maintain an approved broker listing. As a result, Staff adopted an Approved Fixed Income Broker-Dealer Procedure, effective July 1, 2008 (the "Procedure"), which includes an Approved Fixed Income Broker-Dealer List (the "List"). In order to be added to the List, a Broker-Dealer must meet the following criteria: (1) usage of delivery versus payment; (2) documentation of overall desirability of sales coverage; (3) adequate financials, which would require a copy of the Broker-Dealer's current FOCUS report on file; (4) a copy of the latest annual report containing an unqualified auditor's opinion; and (5) trading authorization signed by a corporate compliance officer. The Procedure also requires an annual review of the List by a committee comprised of the UTIMCO Traders, the CEO and Chief Investment Officer, the President and Deputy CIO, and the General Counsel and Chief Compliance Officer using the same criteria. Subsequent to the adoption of the Procedure of the Procedure in 2008, the Committee was requested to approve all exceptions for broker/dealers not meeting all policy criteria for usage by UTIMCO resulting from its annual review. The Procedure has been amended, effective July 1, 2012, to allow the CEO and Chief Investment Officer to approve all exceptions for broker/dealers not meeting all policy criteria. Staff will discuss with Committee the use of Broker-Dealers, including the results of the annual review of the Broker-Dealer List and work performed on potential additions to the List. Employees authorized to trade are only permitted to conduct trades with a Broker-Dealer on the Approved Fixed Income Broker-Dealer List.

Agenda Item
UTIMCO Board of Directors Meeting
July 11, 2012

The Committee will review the quarterly compliance reporting and the performance and risk reporting.

After the separate meeting is adjourned, the Committee will have a joint meeting with the Policy Committee to discuss staff's recommended amendments to the Investment Policy Statements of the Permanent University Fund, General Endowment Fund, Intermediate Term Fund, Permanent Health Fund, Long Term Fund, Short Term Fund and Separately Invested Funds. The Committees will also discuss Staff's recommended amendments to the Derivative Investment Policy, Liquidity Policy, and Delegation of Authority Policy. The discussion of the Investment Policies is covered in the Report from the Policy Committee in Tab 3.

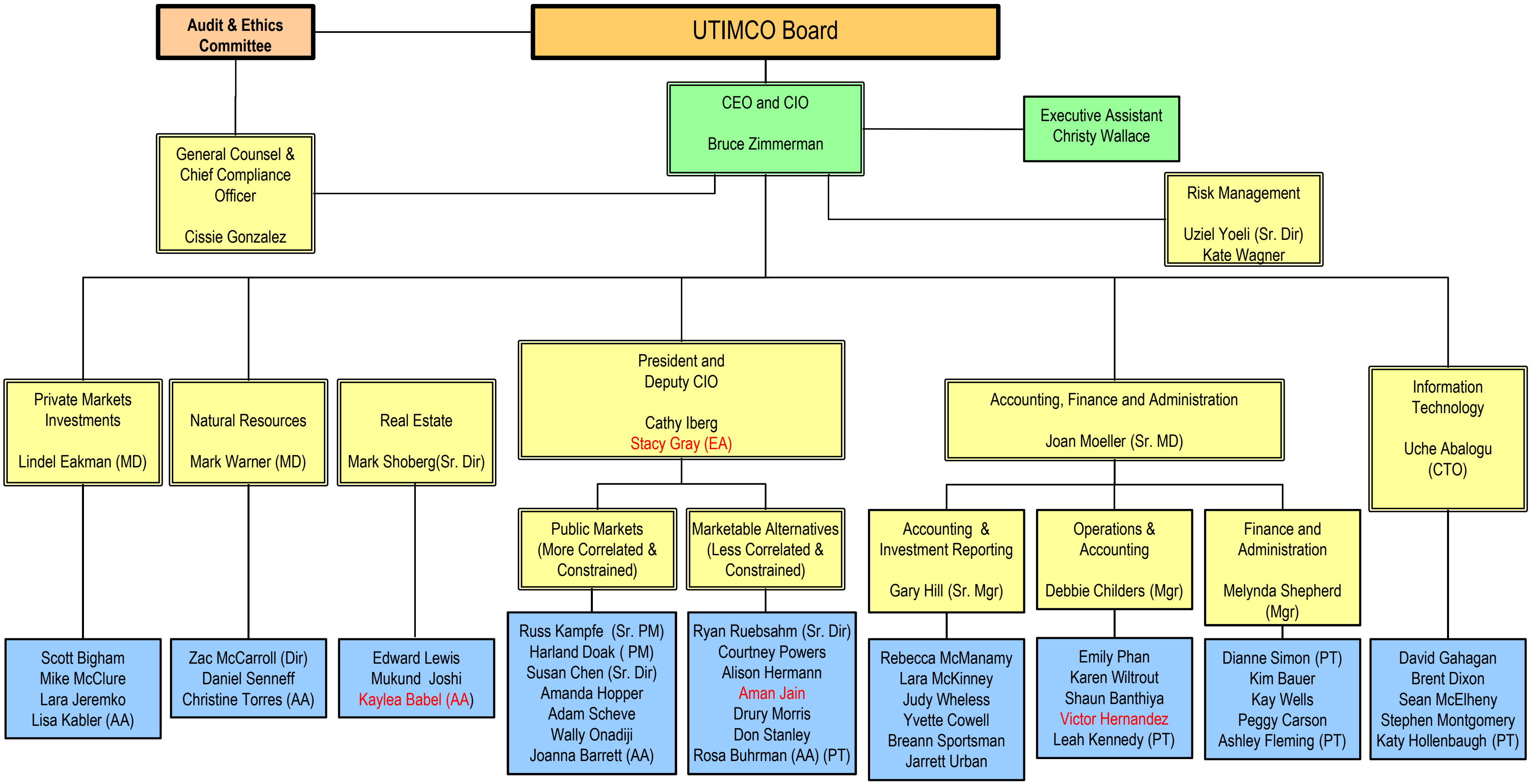
Recommendation: None

Reference: None

Agenda Item
UTIMCO Board of Directors Meeting
July 11, 2012

Agenda Item:	UTIMCO Organization Update
Developed By:	Zimmerman
Presented By:	Zimmerman
Type of Item:	Information item
Description:	Mr. Zimmerman will provide an update on UTIMCO's staffing and technology strategy.
Reference:	UTIMCO Organization Chart *Technology Strategy* presentation (Handout)

UTIMCO – Organizational Structure



As of June 2012

Agenda Item
UTIMCO Board of Directors Meeting
July 11, 2012

Agenda Item: Discussion and Appropriate Action Related to UTIMCO 2012-13 Budget

Developed By: Zimmerman, Moeller, Shepherd

Presented By: Zimmerman

Type of Item: Action required by UTIMCO Board; Action required by Board of Regents of The University of Texas System ("U.T. Board")

Description: The Master Investment Management Services Agreement with UTIMCO ("IMSA") sets forth the annual budget and management fee requirements. UTIMCO submits to the U.T. Board its proposed annual budget for the following fiscal year within the time frame specified by the U.T. Board for other annual budget submissions. The annual budget includes all estimated expenses associated with the management of the Investment Funds. The annual budget also includes an annual UTIMCO management fee which includes all operating expenses associated with the general management of the funds, including, without limitation, reasonable salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations under the IMSA. At the same time UTIMCO submits its annual budget, it submits to the U.T. Board an allocation formula for charging the annual budget to the Investment Funds. In addition to the annual budget, UTIMCO submits its capital expenditures budget.

During the preparation of the annual budget, a reserve analysis is also prepared. Within 90 days after the end of each fiscal year in the event that there is a surplus, UTIMCO distributes that portion of the cash reserves as may be directed by the U.T. Board back to the Funds which generated the surplus.

Discussion: Mr. Zimmerman will present the UTIMCO FY13 Budget presentation, including the reserve analysis.

Recommendation: UTIMCO staff recommends that the UTIMCO 2012-2013 Annual Budget, Capital Budget, Management Fee Request, and Allocation Schedule be approved as presented.

Reference: *UTIMCO FY13 Budget* presentation

RESOLUTION RELATED TO BUDGET

RESOLVED, that the UTIMCO Management Fee of $27,767,698, Other Direct Fund Costs of $7,138,770, and Anticipated Invoiced External Manager Fees of $59,576,816, resulting in Total Fees, excluding UT System Direct Expenses to the Funds, of $94,483,284; Capital Budget of $1,350,000; and the Allocation Schedule; as provided to the Board for the period beginning September 1, 2012 through August 31, 2013, be, and are hereby, approved, subject to approval by the Board of Regents of The University of Texas System.

The University of Texas
Investment Management Company

UTIMCO
FY 13 Budget

FY 2012 Forecast and FY 12 & 13 Budget

UTIMCO FY 12 Forecast and FY 12 & 13 Budget ($ in thousands)	FY 12		FY 12F vs. FY 12B	FY 13	FY 13B vs. FY 12B
	Forecast	Budget	O / (U)	Budget	O / (U)
Salaries & Benefits	$8,604	$8,735	($131)	$10,017	$1,282
Incentive Compensation	3,135	5,390	(2,255)	13,421	8,031
Other UTIMCO	4,154	4,174	(20)	4,329	155
Total UTIMCO	**$15,893**	**$18,299**	**($2,406)**	**$27,767**	**$9,468**
Direct Costs	7,019	7,576	(557)	7,139	(437)
Total Costs	**$22,912**	**$25,875**	**($2,963)**	**$34,906**	**$9,031**

Salaries & Benefits

Salaries & Benefits ($ in thousands)	FY 12		FY 12F vs. FY 12B	FY 13	FY 13B vs. FY 12B
	Forecast	Budget	O / (U)	Budget	O / (U)
Salaries	$6,993	$7,036	($43)	$7,976	$940
Benefits and Taxes	1,611	1,699	(88)	2,041	342
Total Costs	$8,604	$8,735	($131)	$10,017	$1,282

FY 12
Forecast vs. Budget

Favorable

- Open CTO position for six months
- Unfilled Associate position for entire year

Unfavorable

- Use of part time programmer
- Hired Marketable Alts/IT Senior Analyst

FY 12 Run Rate
vs. FY 12 Forecast

FY 12 Forecast	$6,993
FY 12 Run Rate	7,107
	$114

- Filled CTO Position
- Replacements at higher salary than incumbent
- Lag in filling accounting openings

FY 12 Run Rate
vs. FY 13 Budget

	$	%
FY 2012 Run Rate	$7,107	
Plan participant increases	148	2.8%
Non-plan Staff Increases	50	3.0%
Promotions	118	
Staff Adds/Open Positions	553	
	$7,976	

Staff Adds

Staff Adds

		Description
Deal Legal	$175	▪ Offset in Deal Legal Expenses (Direct Cost)
Paralegal	70	▪ Transfer of Compliance tasks from Ops due to increased Ops load from separate accounts & emerging markets investments
Senior Associate (NR)	128	▪ Opportunistic hire; Transferred from Public Markets
Analyst Positions (1.5 FTEs)	77	▪ Facilitate training due to anticipated turnover & provide for additional resources
IT Staff (1.5 FTEs)	103	▪ Support IT strategy
Total	**$553**	

Incentive Compensation

Performance Compensation (thousands $)	FY 12 Forecast	FY 12 Budget	FY 12F vs. FY 12B O / (U)	FY 12F vs. FY 12B Comments	FY 13 Budget	FY 13B vs. FY 12B O / (U)	FY 13B vs. FY 12B Comments
Cash Award	$1,135	$3,572	($2,437)	▪ Extraordinary circumstances deferred ($3,664)	$6,768	$3,196	▪ Cash award budgeted at 95% vs. 70% of max incentive comp plus increases in salaries and potential maximum incentive comp
Vesting of Deferrals	1,842	1,675	167	▪ 70% of maximum budgeted vs. 95% of maximum earned	2,468	793	▪ Assume earn 95% of max in FY 2012
Extraordinary Circumstances Deferral	-	-	-		3,664	3,664	▪ Extraordinary circumstances vests
Earnings	158	143	15	▪ Earnings budget based on 70% of max vs. 95% of max earned	521	378	▪ Earnings budgeted on larger deferral
	$3,135	$5,390	($2,255)		$13,421	$8,031	

UTIMCO Expenses

UTIMCO Expenses (thousands $)	FY 12 Forecast	FY 12 Budget	FY 12F vs. FY 12B O / (U)	FY 12F vs. FY 12B Comments	FY 13 Budget	FY 13B vs. FY 12B O / (U)	FY 13B vs. FY 12B Comments
Lease	$979	$964	$15	▪ Operating expenses higher than anticipated (property tax pass through)	$987	$23	▪ 2.5% increase in operating expenses
Depreciation	532	575	(43)	▪ Lower depreciation due to delayed purchases	600	25	▪ Increased Capital Budget
OnLine Services & Subscriptions	984	915	69	▪ Partial year Private Investment System; Unbudgeted Bloomberg	1,047	132	▪ Full year PI System; Research provider price increase
Travel	554	550	4	▪ On budget	600	50	▪ Continued pace of travel
Legal, Accounting, Comp and Board Consultants	253	300	(47)	▪ Reduced legal offset by higher accounting fees and hiring of compensation consultant	261	(39)	▪ No Compensation Consultant part of year offset by increased legal for Legislative Session
Insurance	200	230	(30)	▪ Negotiated reduced costs	205	(25)	▪ Minor price increases
Other Contract Services	177	150	27	▪ IT and hiring consultant fees	172	22	▪ No hiring expenses offset by non-capitalizable IT Consulting
Other	475	490	(15)	▪ Lower employee education expenses	457	(33)	▪ Reduction in hiring expenses
Total	$4,154	$4,174	($20)		$4,329	$155	

Direct Costs

Direct Costs (thousands $)	FY 12 Forecast	FY 12 Budget	FY 12 vs. FY 12B O / (U)	FY 12 vs. FY 12B Comments	FY 13 Budget	FY 13B vs. FY 12B O / (U)	FY 13B vs. FY 12B Comments
Custodian Fees	$4,104	$4,487	($383)	▪ BNY Mellon price reduction in FY 2012	$4,029	($458)	▪ Full year effect of price reduction
Performance Measurement	429	480	(51)	▪ BNY Mellon fee reductions & number of accounts less as result of consolidations	513	33	▪ Increased activity in FY 2013
Analytical Tools & Risk Measurement	663	659	4	▪ On budget	707	48	▪ Addition of one Factset user
Legal Fees	669	930	(261)	▪ Fewer deals and lower cost per deal	526	(404)	▪ Reduction due to in-house legal add
Consultant Fees	415	416	(1)	▪ On budget	419	3	▪ No increase
Background Searches	205	264	(59)	▪ FY 2012 expenses may end up at budget	334	70	▪ Catch-up due to policy
Auditing	372	296	76	▪ Gold audit and out of pocket costs	465	169	▪ Deloitte fee increase
Foreign Tax Consultants	104	40	64	▪ Higher number of separate accounts in emerging markets	142	102	▪ Higher number of separate accounts in emerging markets
Other	58	4	54	▪ Misc fees for global entry & various settlement fee charges	4	-	▪ No increase
	$7,019	$7,576	($557)		$7,139	($437)	

Capital Budget

Capital Expenditures (thousands $)	FY 11		FY 12		FY 13
	Actual	Budget	Forecast	Budget	Budget
New Technology Inititiatives	$0	$0	$220	$0	$1,100
Computer Servers/Software	63	88	6	50	50
Staff Equipment	43	35	2	40	40
Software Licenses	16	13	30	20	20
Video Conferencing	-	17	-	15	50
Phone System	-	-	-	50	70
Equipment & Copiers	44	62	20	50	20
Office Security	-	-	-	35	-
Total Capital Budget	**$166**	**$215**	**$278**	**$260**	**$1,350**

Annual Fee & Allocation Schedule

UTIMCO Management Fee and Direct Budgeted Investment Expenses
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2013

Proposed Budget	Fund Name: PUF	PHF	LTF	GEF (PHF, LTF)	ITF	STF	Separate Funds	Total
Market Value 2/29/12 ($ millions)	**12,971**	**981**	**6,048**	**7,029** (2)	**4,826**	**1,544**	**918**	**27,288**
UTIMCO Management Fee								
Dollars (thousands)	14,082	1,260	7,765		4,660			27,768
Basis Points	10.9	12.8	12.8	0	9.7	0	0	10.2
Direct Expenses to the Fund, excluding UT System Direct Expenses to the Fund								
Dollars (thousands)								
Other Direct Costs	3,226	19	21	2,069	1,805			7,140
External Management Fees - AUM	20,424	0	0	11,314	9,730	N/A (1)		41,468
External Management Fees - Performance	9,527	0	0	5,314	3,267			18,108
Total Dollars	**33,177**	**19**	**21**	**18,697**	**14,802**		**0**	**66,716**
Basis Points								
Other Direct Costs	2.5	0.2	0.0	2.9	3.7	0	0	2.6
External Management Fees - AUM	15.7	-	-	16.1	20.2	N/A (1)		15.2
External Management Fees - Performance	7.3	-	-	7.6	6.8			6.6
Total Basis Points	25.5	0.2	0.0	26.6	30.7	N/A (1)		24.4
UT System Direct Expenses to the Fund								
Dollars (thousands)								
UT System Fees for Endowment Admin & Mgmt	0	0	13,571	0	0	0	0	13,571
UT System Oversight Fees	207	17	98	0	78	0	0	400
UT System PUF Lands	8,879	0	0	0	0	0	0	8,879
Total Dollars	9,086	17	13,669	0	78	0	0	22,850
Total Basis Points	7.0	0.2	22.6	0	0.2	0	0	8.4

(1) Income is net of fees
(2) Pooled Fund for the collective investment of the PHF and LTF

Reserve Analysis

Projected Cash Reserves at August 31, 2012:

Cash		$ 7,885,171
Prepaid Expenses		377,694
Less: Accounts Payable, Accrued Liabilities (Includes awards & earnings payable)		(2,066,984)
Expected Cash Reserves at August 31, 2012		**$ 6,195,880**
2013 Proposed Operating Budget	27,767,698	
Applicable Percentage	25%	6,941,924
2013 Proposed Capital Expenditures	1,350,000	1,350,000
Required Cash Reserves at August 31, 2012		**$ 8,291,924**
Balance Available for Distribution		**$ (2,096,044)**

Conclusion: No Rebate Required Back to the UT System Investment Funds

Funds Update

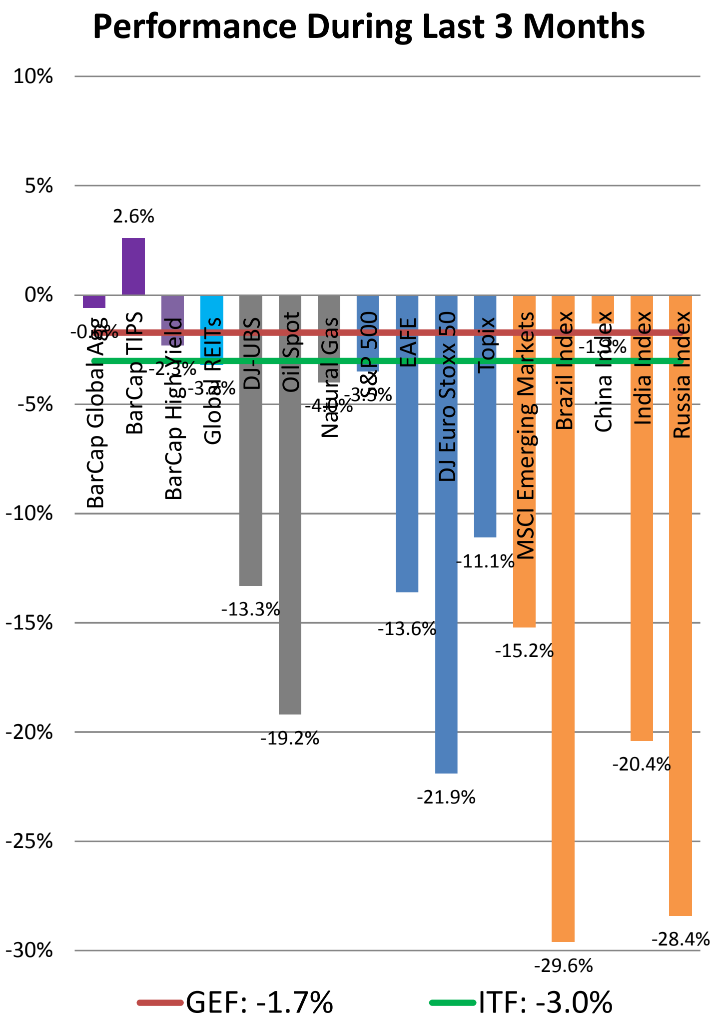
Returns

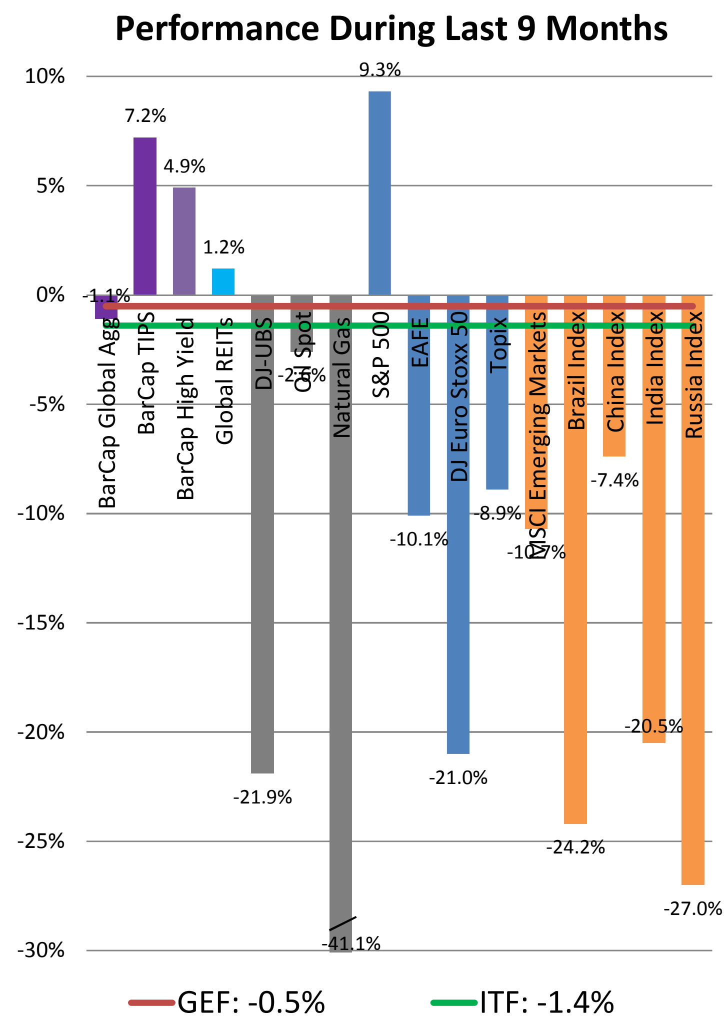
UTIMCO Performance Summary

ENDOWMENT FUNDS	Net Asset Value 5/31/2012 (in Millions)	Current Quarter	Year to Date: Fiscal	Year to Date: Peers	Year to Date: Calendar	Historic Returns: 1 Yr	Historic Returns: 3 Yrs	Historic Returns: 5 Yrs	Historic Returns: 10 Yrs
		Periods Ended May 31, 2012 (Returns for Periods Longer Than One Year are Annualized)							
Permanent University Fund	$12,843	(1.69%)	(0.48%)	(2.21%)	3.35%	(3.17%)	11.27%	1.67%	6.93%
Permanent Health Fund	953								
Long Term Fund	5,931								
General Endowment Fund	6,884	(1.72)	(0.51)	(2.22)	3.34	(3.17)	11.29	1.71	7.03
Separately Invested Funds	140								
Total Endowment Funds	19,867								
OPERATING FUNDS									
Intermediate Term Fund	4,745	(3.02)	(1.41)	(2.48)	1.91	(3.63)	9.35	2.32	N/A
Short Term and Debt Proceeds Funds	2,332	0.05	0.11	0.13	0.07	0.14	0.22	1.40	2.09
Total Operating Funds	7,077								
Total Investments	$26,944								
VALUE ADDED - Percent (1)									
Permanent University Fund		2.78%	1.15%	2.17%	2.76%	1.94%	3.40%	2.54%	2.11%
General Endowment Fund		2.75	1.12	2.16	2.75	1.94	3.42	2.58	2.21
Intermediate Term Fund		1.51	1.45	2.08	1.52	2.00	2.90	2.65	N/A
VALUE ADDED - $ in Millions (1)									
Permanent University Fund		$362	$152	$285	$342	$259	$1,113	$1,499	$2,313
General Endowment Fund		195	78	154	185	140	625	850	1,320
Intermediate Term Fund		74	70	101	71	98	357	551	N/A
Total Value Added		$ 631	$ 300	$ 540	$ 598	$ 497	$ 2,095	$ 2,900	$ 3,633

(1) - Value added is a measure of the difference between actual returns and benchmark or policy portfolio returns for each period shown. Value added is a result of the active management decisions made by UTIMCO staff and external managers.

Performance During Last 3 and 9 Months



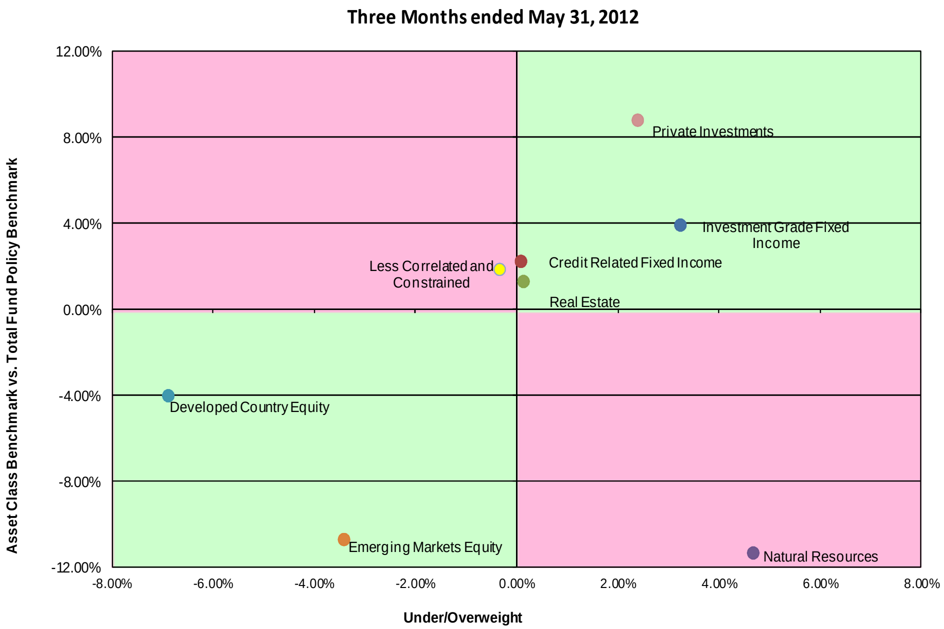


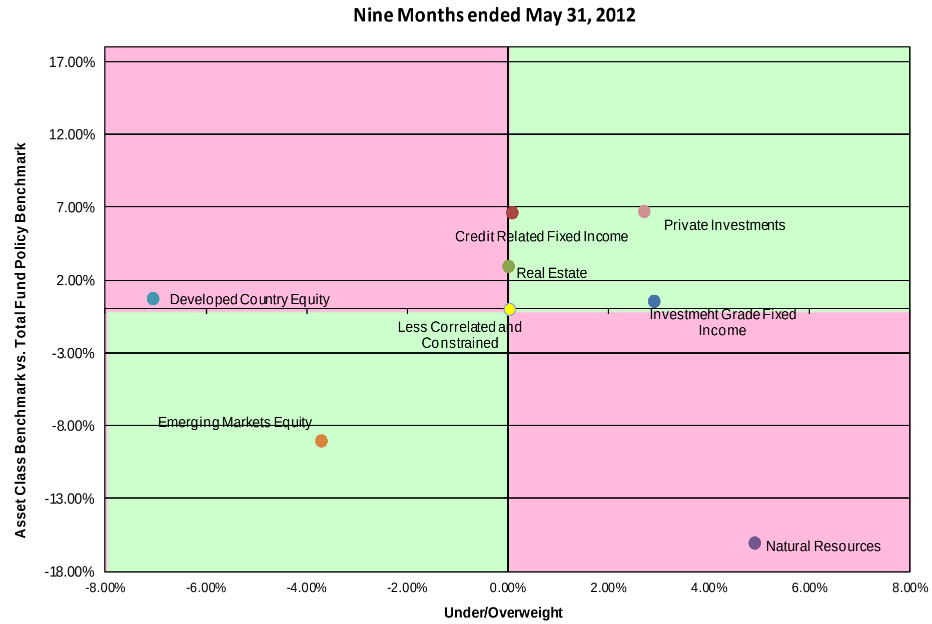
Total Fund Attribution Breakdown (GEF)
Three and Nine Months Ended May 31, 2012

	Three Months	Nine Months
Tactical Allocation		
Asset Based	48	(77)
Derivative Based Tactical Allocation [1]	15	(3)
Total Tactical	63	(80)
Active Management (External Managers vs. Benchmarks)	250	283
Insurance Hedges	(7)	(64)
Interactive Effect	(31)	(27)
Total	275	112

[1] MSCI Japan Short Swaps, MSCI Europe Short Swaps, S&P 500 Short Swaps, S&P 400 Short Swaps, IYR Written Puts, XME Written Puts, Emerging Markets Written Puts

Tactical Value Add – Active Managers (GEF)
Three and Nine Months Ended May 31, 2012





Three Months ended May 31, 2012

	Weight Actual	Weight Policy	Over / (Under) Weight	Benchmark Returns	+ / -
Investment Grade Fixed Income	10.74%	7.50%	3.24%	-0.58%	0.15%
Credit Related Fixed Income	0.11%	0.00%	0.11%	-2.31%	0.00%
Real Estate	2.64%	2.50%	0.14%	-3.23%	0.00%
Natural Resources	11.18%	6.50%	4.68%	-15.82%	-0.55%
Developed Country Equity	11.64%	18.50%	-6.86%	-8.51%	0.27%
Emerging Markets Equity	8.60%	12.00%	-3.40%	-15.20%	0.39%
Total More Correlated and Constrained	44.91%	47.00%	-2.09%		0.26%
Less Correlated and Constrained	29.68%	30.00%	-0.32%	-2.68%	-0.01%
Total Fund excluding Private Investments	74.59%	77.00%	-2.41%		0.25%
Private Investments	25.41%	23.00%	2.41%	4.30%	0.23%
Total Fund: Active Managers	**100.00%**	**100.00%**	**0.00%**	**-4.47%**	**0.48%**

Nine Months ended May 31, 2012

	Weight Actual	Weight Policy	Over / (Under) Weight	Benchmark Returns	+ / -
Investment Grade Fixed Income	10.42%	7.50%	2.92%	-1.09%	0.06%
Credit Related Fixed Income	0.10%	0.00%	0.10%	4.93%	0.00%
Real Estate	2.52%	2.50%	0.02%	1.22%	-0.02%
Natural Resources	11.42%	6.50%	4.92%	-17.69%	-0.87%
Developed Country Equity	11.45%	18.50%	-7.05%	-0.94%	-0.13%
Emerging Markets Equity	8.32%	12.00%	-3.68%	-10.74%	0.19%
Total More Correlated and Constrained	44.23%	47.00%	-2.77%		-0.77%
Less Correlated and Constrained	30.05%	30.00%	0.05%	-1.64%	-0.01%
Total Fund excluding Private Investments	74.28%	77.00%	-2.72%		-0.78%
Private Investments	25.72%	23.00%	2.72%	5.03%	0.01%
Total Fund: Active Managers	**100.00%**	**100.00%**	**0.00%**	**-1.63%**	**-0.77%**

Active Management Value Add
Three and Nine Months Ended May 31, 2012

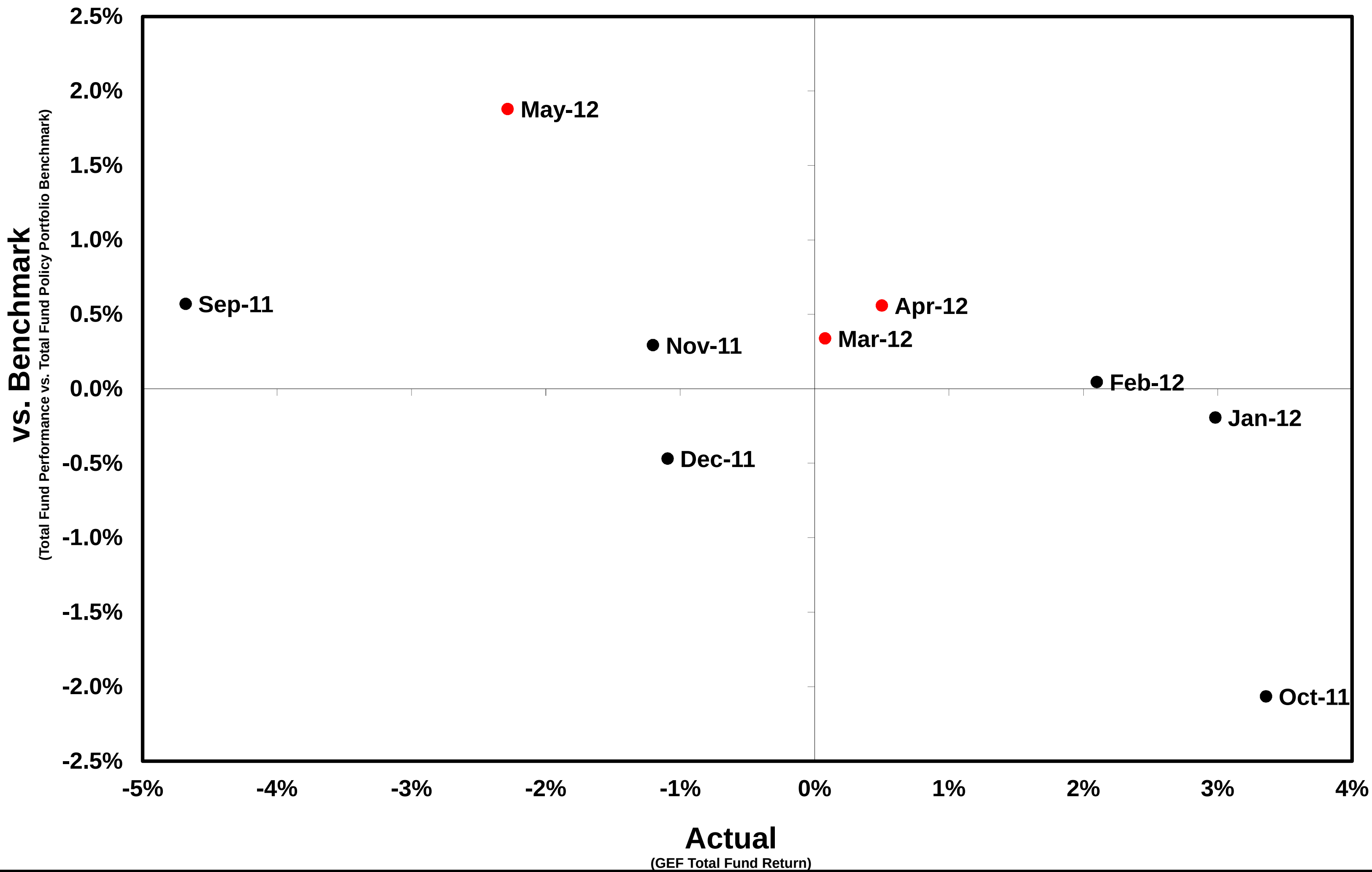
	3 Months (bps)	
Less Correlated	92	Passport (20.48), Blue Ridge (10.91), Maverick (9.09)
Developed Country Equity	68	Value Act (1.22), AKO Capital (0.86), Maverick Long (0.63)
Emerging Markets Equity	32	Hillhouse (1.51), Blakeney (1.06), New Silk Road (0.61)
Natural Resources	20	Gold (3.14), Gresham (0.59), Schroders (0.36)
Credit Related Fixed Income	-	
Subtotal	212	
Investment Grade Fixed Income	(1)	Credit Suisse Hedging Griffo (0.35), Colchester (0.13)
Real Estate	(3)	European Investors (1.08), Morgan Stanley REITS (0.77)
Subtotal	(4)	
Total Fund excluding Private Investments	208	
Private Investments	42	
Total Active Managers	250	

	9 Months (bps)	Manager (Alpha)
Less Correlated and Constrained	137	Eminence (25.19), Valiant (25.51), Soroban (18.10)
Developed Country Equity	84	Value Act (2.09), AKO Capital (1.27), Stelliam (1.21)
Emerging Markets Equity	16	Hillhouse (1.17), Dynamo (0.66), New Silk Road (0.47)
Investment Grade Fixed Income	13	Internal Fixed Income (1.12), Brandywine (0.81)
Natural Resources	4	Gold (1.35), MLP Basket (0.88)
Credit Related Fixed Income	-	
Subtotal	254	
Real Estate	(1)	European Investors (1.88), Morgan Stanley REITS (0.49)
Subtotal	(1)	
Total Fund excluding Private Investments	253	
Private Investments	30	
Total Active Managers	283	

GEF Performance Breakdown
Nine Months Ended May 31, 2012

Asset Class		Allocation		Return		Attribution to Total Fund Relative Return
		GEF Average	Policy	GEF	Benchmark	
More Correlated and Constrained:						
Fixed Income	Investment Grade	10.6%	7.5%	-1.15%	-1.09%	0.04%
	Credit-Related	0.1%	0.0%	5.11%	4.93%	0.00%
Real Assets	Real Estate	2.5%	2.5%	-1.83%	1.22%	-0.09%
	Natural Resources	11.4%	6.5%	-16.43%	-17.69%	-0.76%
Equity	Developed Country	11.6%	18.5%	-0.13%	-0.94%	-0.04%
	Emerging Markets	8.4%	12.0%	-8.93%	-10.74%	0.32%
Total More Correlated and Constrained		**44.6%**	**47.0%**	**-6.32%**	**-5.50%**	**-0.53%**
Total Less Correlated and Constrained		**29.9%**	**30.0%**	**3.61%**	**-1.64%**	**1.51%**
Private Real Estate Investments		1.6%	3.0%	-3.94%	6.06%	-0.26%
Private Investments excluding Real Estate		23.9%	20.0%	6.14%	4.87%	0.40%
Total Private Investments		**25.5%**	**23.0%**	**5.42%**	**5.03%**	**0.14%**
Total GEF Portfolio		**100.0%**	**100.0%**	**-0.51%**	**-1.63%**	**1.12%**

Actual and "vs. Benchmark" Returns by Month
Fiscal Year to Date 2012
(GEF)



Value-Add Analysis

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FYTD12
MCC								
Tactical	0.43%	-0.54%	0.14%	0.82%	0.29%	0.01%	0.05%	-0.89%
Active	0.42%	-0.81%	-0.74%	-0.19%	-1.75%	2.11%	0.67%	1.04%
TOTAL	0.85%	-1.35%	-0.60%	0.63%	-1.46%	2.11%	0.72%	0.15%
LCC								
Tactical	-0.01%	0.07%	-0.02%	-0.09%	0.04%	0.21%	0.12%	0.09%
Active	2.09%	0.86%	2.63%	2.02%	1.68%	2.61%	1.39%	1.47%
TOTAL	2.08%	0.93%	2.61%	1.93%	1.71%	2.82%	1.50%	1.55%
Private Investments								
Tactical	-0.68%	-0.42%	-0.69%	0.14%	0.35%	0.40%	-0.11%	-0.10%
Active	1.51%	-0.57%	1.20%	-0.59%	1.54%	-0.98%	0.83%	0.19%
TOTAL	0.83%	-0.99%	0.51%	-0.45%	1.88%	-0.58%	0.72%	0.09%
Overall GEF								
Tactical	-0.26%	-0.89%	-0.57%	0.87%	0.67%	0.62%	0.06%	-0.91%
Active	4.02%	-0.52%	3.09%	1.24%	1.46%	3.74%	2.88%	2.70%
Insurance Hedges					0.07%	-0.09%	-0.20%	-0.64%
Derivative Based								-0.03%
TOTAL	3.76%	-1.41%	2.52%	2.11%	2.20%	4.26%	2.74%	1.12%

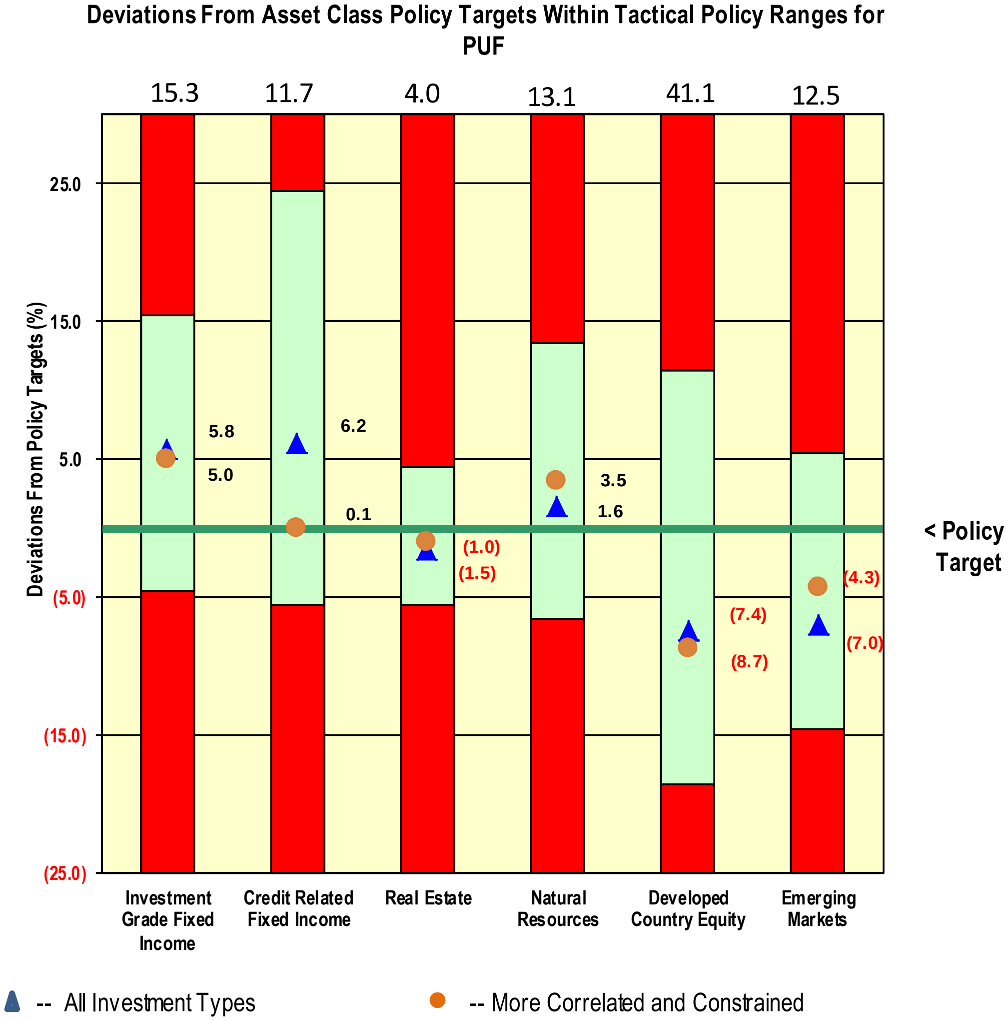
Assets

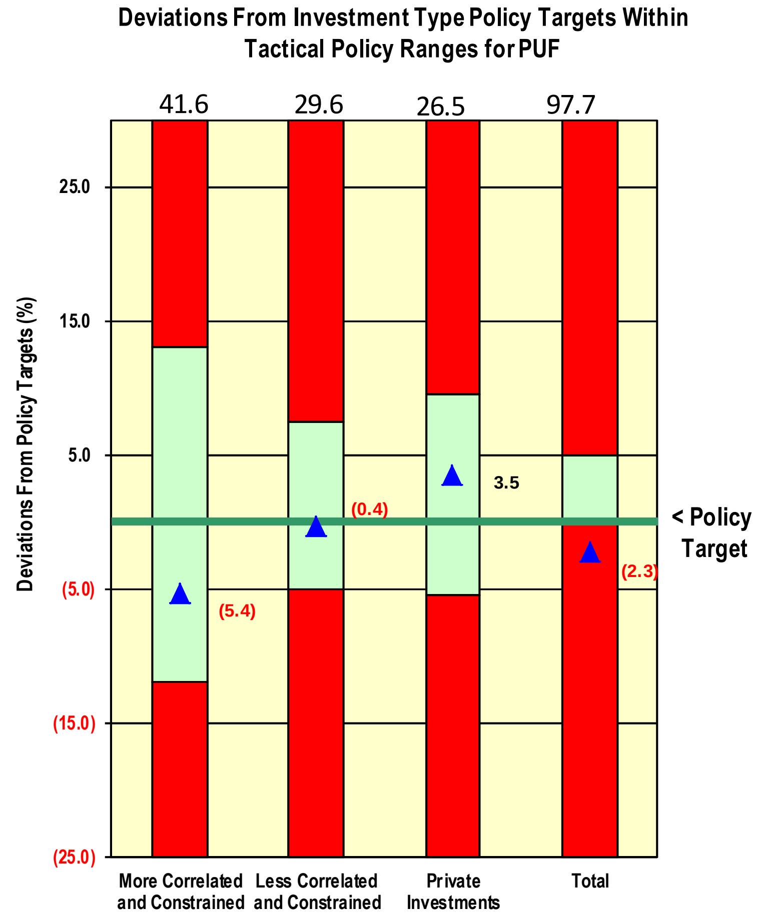
Combined PUF and GEF Asset Allocation as of May 31, 2012 (in millions)

Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments		Grand Total	
Fixed Income	Investment Grade	$ 2,312	11.7%	$ 564	2.9%	$ -	0.0%	$ 2,876	**14.6%**
	Credit-Related	21	0.1%	955	4.8%	1,354	6.9%	2,330	**11.8%**
Fixed Income Total		**2,333**	**11.8%**	**1,519**	**7.7%**	**1,354**	**6.9%**	**5,206**	**26.4%**
Real Assets	Real Estate	$ 299	1.5%	$ 113	0.6%	$ 383	1.9%	795	**4.0%**
	Natural Resources	1,989	10.1%	8	0.0%	622	3.2%	2,619	**13.3%**
Real Assets Total		**2,288**	**11.6%**	**121**	**0.6%**	**1,005**	**5.1%**	**3,414**	**17.3%**
Equity	Developed Country	$ 1,933	9.8%	$ 3,742	19.0%	$ 2,457	12.4%	8,132	**41.2%**
	Emerging Markets	1,536	7.8%	488	2.5%	461	2.3%	2,485	**12.6%**
Equity Total		**3,469**	**17.6%**	**4,230**	**21.5%**	**2,918**	**14.7%**	**10,617**	**53.8%**
Grand Total		**$ 8,090**	**41.0%**	**$ 5,870**	**29.8%**	**$ 5,277**	**26.7%**	**$ 19,237**	**97.5%**

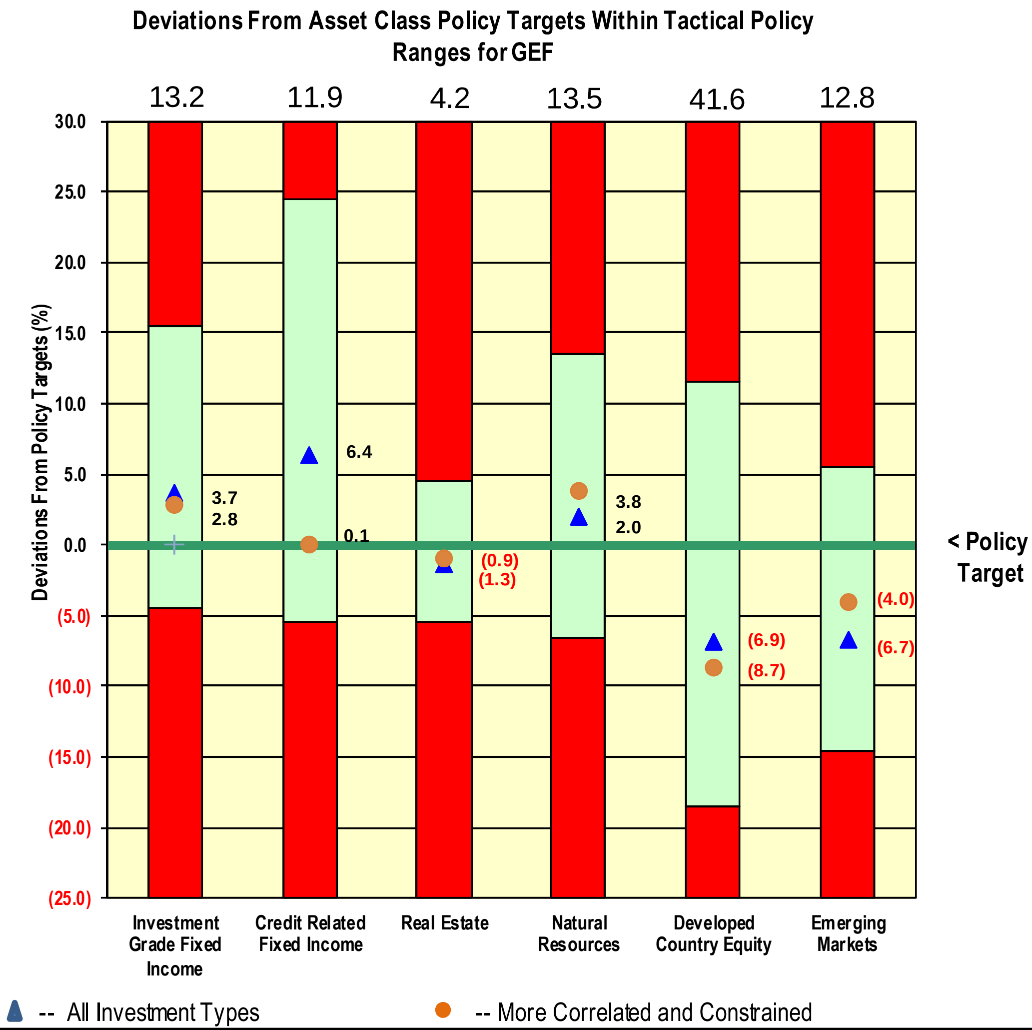
The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

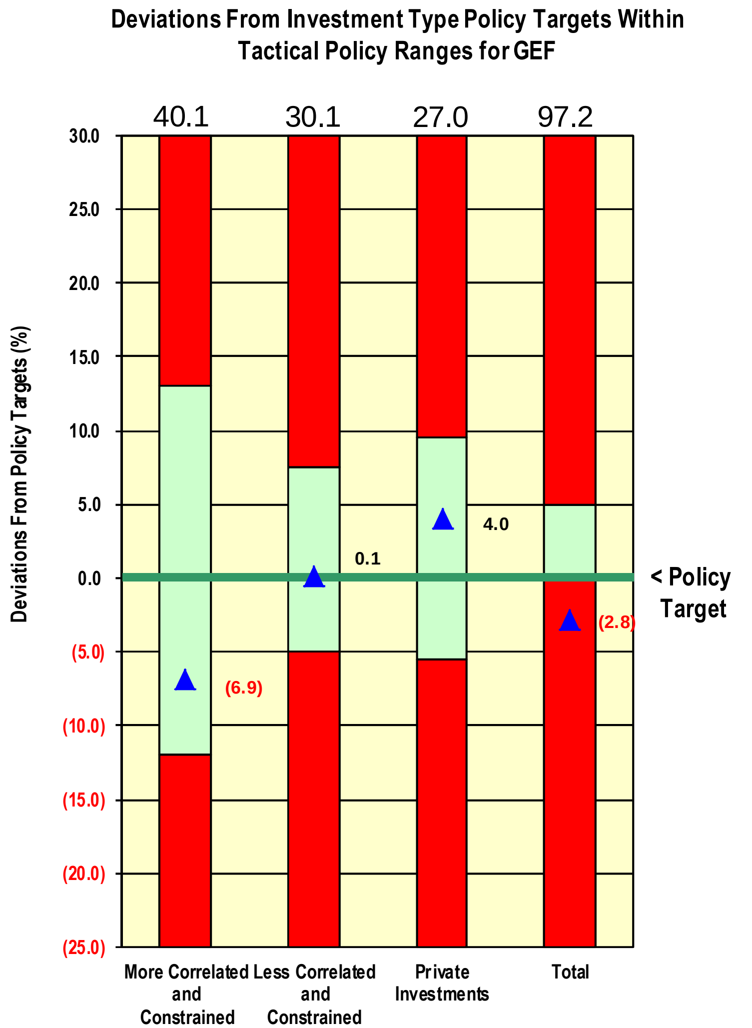
PUF Asset Allocation as of May 31, 2012





GEF Asset Allocation as of May 31, 2012





LCC Investment Policy Categorizations vs. "Look Thru" Exposures April 30, 2012

Exposure Methodology Comparison			
	Policy	**Look-Through**	**Difference**
Investment Grade Fixed Income	3.0%	2.7%	-0.2%
Credit-Related Fixed Income	5.0%	6.0%	1.1%
Real Estate	0.6%	0.5%	-0.1%
Natural Resources	0.0%	0.7%	0.7%
Developed Country Equity	19.7%	18.4%	-1.3%
Emerging Markets Equity	2.5%	2.5%	-0.1%
Less Correlated & Constrained	**30.8%**	**30.8%**	**0.0%**

Private Investments
Portfolio Rollforward
Nine Months Ended May 31, 2012

$ in millions	Beg FY 9/1/11 NAV	Beg FY 9/1/11 Unfunded	Beg FY 9/1/11 # Funds	Calls	Distributions	Change in Valuation	% Return	FY'12 New Commitments # Funds	FY'12 New Commitments $ Committed	End FQ 5/31/12 NAV	End FQ 5/31/12 Unfunded
Credit-Related Fixed Income	$1,319	$361	32	$192	$193	$36	2.7%	2	$100	$1,354	$309
Real Estate	264	568	17	155	25	(11)	(3.9)%	6	357	383	761
Natural Resources	519	591	25	131	219	191	38.6%	5	450	622	907
Venture	725	364	39	86	119	260		3	93	952	438
Other Developed Country Equity	1,642	763	75	208	204	(173)		5	250	1,473	633
Total Developed Country Equity	2,367	1,127	114	294	323	87	3.3%	8	343	2,425	1,071
Emerging Markets Equity	455	440	18	57	32	(20)	(4.2)%	2	105	460	498
TOTAL	**$4,924**	**$3,087**	**206**	**$829**	**$792**	**$283**	5.4%	**23**	**$1,355**	**$5,244**	**$3,546**
% of Endowment (PUF+ GEF)	***25%***	***16%***								***27%***	***18%***

Derivatives

Endowment Insurance Hedges

Event	Hedge	Exposures as of May 31, 2012: Total Cost [1]	bps Cost/Year [2]	Notional ($mm)	MTM ($mm)	Since Inception P/L	Changes since February 29, 2012: Total Cost [1]	bps Cost/Year [2]	Notional ($mm)	MTM ($mm)	bps Fiscal Year 2013 [3]
ACTIVE POSITIONS											
U.S. Inflation											
	CMS Options	$ (52)	5.7	$ 9,249	$ 15	$ (37)	$ -	-	$ -	$ (11)	5.7
Emerging Markets Bubble											
	KOSPI Put Spreads	$ (29)	7.4	1,123	23	(6)	$ -	-	-	5	6.6
	ASX Put Spreads	$ (34)	10.8	1,530	27	(4)	$ -	-	-	3	4.7
	Total	$ (63)	18.2		50	(11)	$ -	-		8	11.3
Sovereign Default											
	JPY Rate Options and Swaptions	$ (51)	12.1	6,114	10	(41)	$ -	-	-	(12)	6.7
	DKK Call / EURO Put Options	$ (11)	5.3	1,510	4	(7)	$ -	-	-	(1)	-
	Total	$ (62)	17.4		14	(48)	$ -	-		(13)	6.7
Low Growth / Recession											
	S&P Put Spreads	$ -	-	-	-	-	$ 30	(16.0)	(786)	(1)	6.7
SUBTOTAL ACTIVE POSITIONS		**$ (177)**	**41.2**		**78**	**(96)**	**$ 30**	**(16.0)**		**(17)**	
EXPIRED POSITIONS											
	JPY Rate Options and Swaptions	$ (4)	1.0	4,184		(4)	$ -	-	-		
	S&P Put Spreads	$ (61)	32.2	1,395		(61)	$ (30)	16.0	786		
SUBTOTAL EXPIRED POSITIONS		**$ (66)**	**33.2**			**(66)**	**$ (30)**	**16.0**			
	TOTAL	**$ (243)**	**74.4**		**$ 78**	**$ (161)**	**$ -**	**-**		**$ (17)**	**23.7**

(1) Maximum Loss for Options (in $mm)

(2) Amount of delegated insurance budget used for fiscal year ending August, 2012

(3) Amount of delegated insurance budget used for fiscal year ending August, 2013

Non-Insurance Related Internal Derivatives
May 31, 2012

Manager	Derivative Strategy	Net Notional Value ($ millions)	Activity from previous report (2/29/2012) ($ millions)
Real Estate			
RUGL Swap	Short Swap on RUGL Index to reduce exposure to global real estate	(83)	(2)
DJUSRE Swap	Short Swap on DJUSRE Index to reduce exposure to U.S. real estate	(167)	(2)
Developed Country Equity			
S&P 500 Swap	Short Swap on S&P 500 Index to reduce exposure to equity markets	(117)	114
Japan Forwards	Sale of Japanese Yen forwards to hedge the currency exposure in the MCC accounts	(102)	-
MSCI Europe Swap	Short Swap on MSCI Europe Index to reduce exposure to equity markets	(97)	24
MSCI Japan Swap	Short Swap on MSCI Japan Index to reduce exposure to equity markets	(57)	13
Emerging Markets Equity			
Emerging Markets FX Overlay	Currency forwards to align the Asset Class FX exposure closer to the benchmark	174	-
Emerging Markets Exposure Hedges	Short swap on MSCI Australia index to hedge out current unwanted long exposure to Australia in the EM portfolio	(24)	(24)
Korean Swap	Long swap on MSCI Korea index to increase exposure to Korea	14	14
Taiwan synthetic futures	Long TAIEX synthetic futures to increase exposure to Taiwan	10	10

External Manager Agency Account Derivatives
May 31, 2012

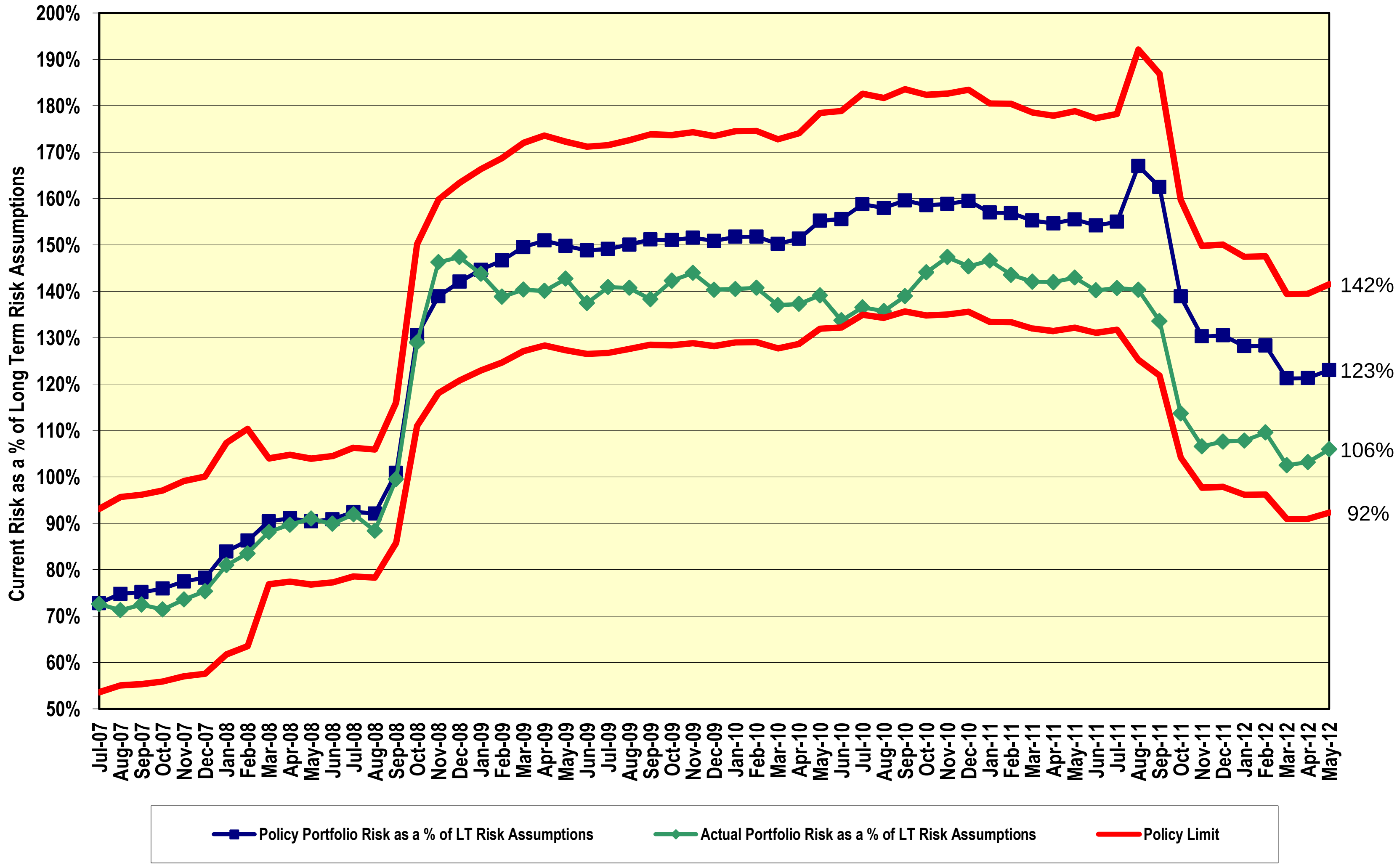
Manager	Derivative Strategy	Net Notional Value ($ millions)
Investment Grade Fixed Income		
Brandywine	Currency forwards used to hedge foreign currency exposure	(142)
Credit Suisse Hedging Griffo	Futures contracts used to hedge the portfolio back to the US dollar	36
PIMCO Global Bonds	Currency forwards used to underweight the US dollar	49
	Long US and Non-US futures used to overweight duration in Eurozone	101
	Long futures used to overweight front end of US and UK yield curves	16
	Receive Interest rate swaps used to overweight duration in the Eurozone and underweight intermediate portion of the Japanese yield curve	38
	Pay Interest rate swaps used to overweight duration in the Eurozone and underweight intermediate portion of the Japanese yield curve	(147)
	Interest rate swaps used to overweight front end of US and UK yield curves	(8)
	Short/Written credit default swaps used to overweight credit risk	117
	Long/Purchased credit default swaps used to underweight credit risk	(31)
	Written options used to increase portfolio yield	(221)
	Purchased options used to increase portfolio yield	-
Natural Resources		
Gresham	Long Exchange-traded commodity futures	401
Wellington Commodities SPV	Exchange-traded commodity futures, options and/or swaps	92
Developed Equity		
International Value Advisors	Currency forward contracts for hedging purposes or to provide efficient investment exposure.	(33)
Non-US Emerging Equity		
Squadra	Exchange-traded options and futures to provide higher return on cash holdings	2

OTC Derivative Counterparty Report
May 31, 2012

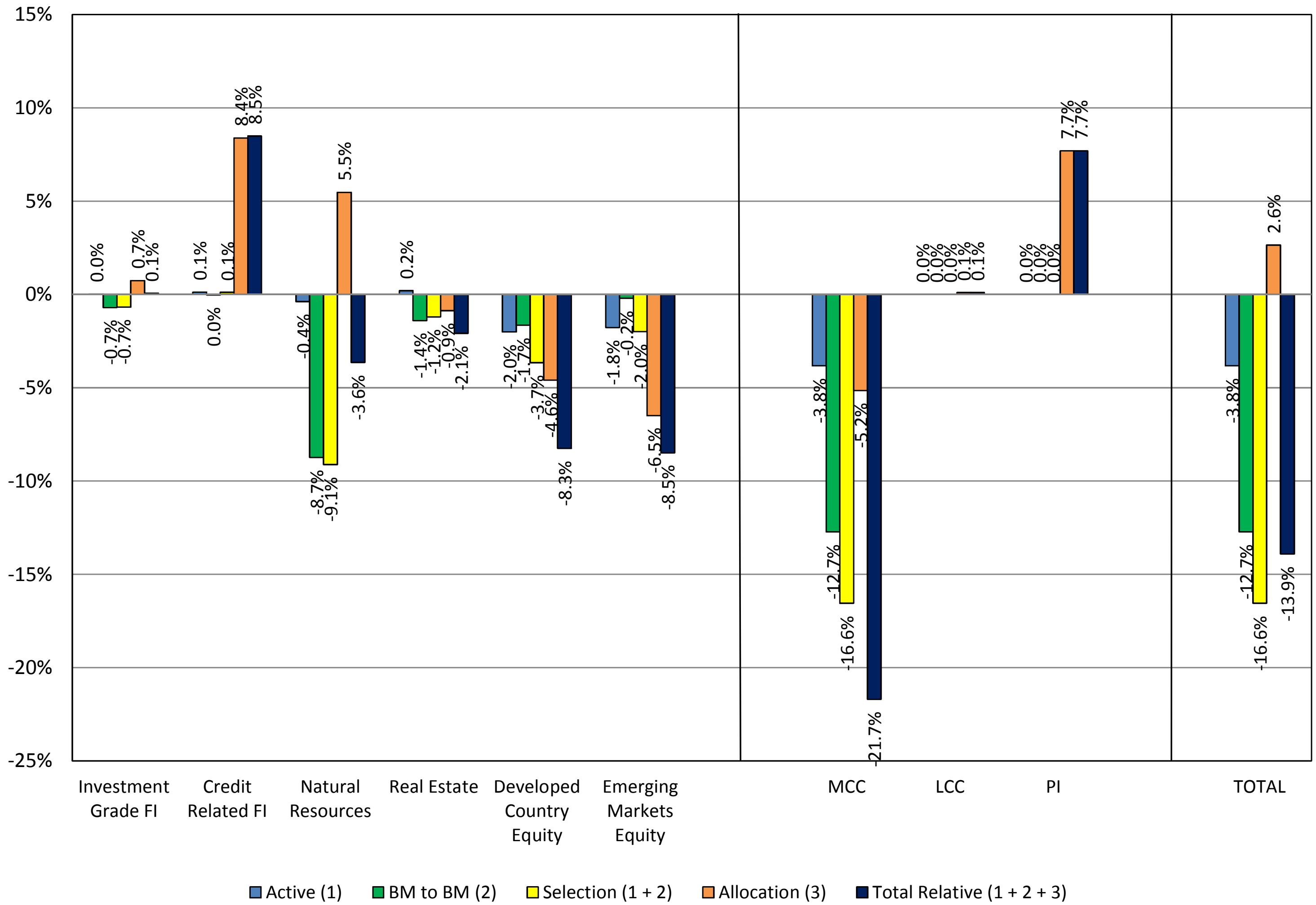
Counterparty	S & P Counterparty Rating	$ millions (net of posted collateral): Mark-to-Market Owed by Broker	Mark-to-Market Owed by UTIMCO	Total Mark-to-Market	Percentage of Total Funds
GOLDMAN SACHS	A-	$ 41.5	$ (37.3)	$ 4.2	0.02%
CITIBANK NY	A-	14.1	(1.7)	12.4	0.05%
MORGAN STANLEY	A-	6.3	(6.9)	(0.6)	0.00%
BARCLAYS	A+	5.7	(13.2)	(7.5)	-0.03%
HSBC BK USA, NEW YORK	A+	4.6	(4.8)	(0.2)	0.00%
BNP PARIBAS	AA-	3.9	(2.9)	1.0	0.00%
DEUTSCHE BANK AG	A+	3.8	(2.7)	1.1	0.00%
J P MORGAN, CHASE	A+	1.9	(0.3)	1.6	0.01%
MELLON BANK	A+	1.4	(0.5)	0.9	0.00%
UBS AG, STAMFORD	A	0.9	(0.8)	0.1	0.00%
BANK OF AMERICA	A-	0.8	(0.5)	0.3	0.00%
ROYAL BANK OF SCOTLAND PLC	A-	0.3	(0.1)	0.2	0.00%
CS FIRST BOSTON GBL FOREIGN EXCH	A	0.3	(0.8)	(0.5)	0.00%
BANK OF NOVA SCOTIA	AA-	0.1	-	0.1	0.00%
UBS A G, ZURICH	A	0.1	(0.2)	(0.1)	0.00%
ROYAL BANK OF CANADA	AA-	0.1	(0.3)	(0.2)	0.00%
CHASE MANHATTAN	A	0.1	(0.6)	(0.5)	0.00%
SOCIETE GENERALE, PARIS	A	-	-	-	0.00%
CREDIT SUISSE FIRST	A	(0.2)	0.3	0.1	0.00%
Grand Total		$ 85.7	$ (73.3)	$ 12.4	0.05%

Risk Analytics

Current Risk Environment of GEF
(Based on Downside Risk; LT assumption = 8.88%)



GEF 4-Way Risk Decomposition as of May 31, 2012

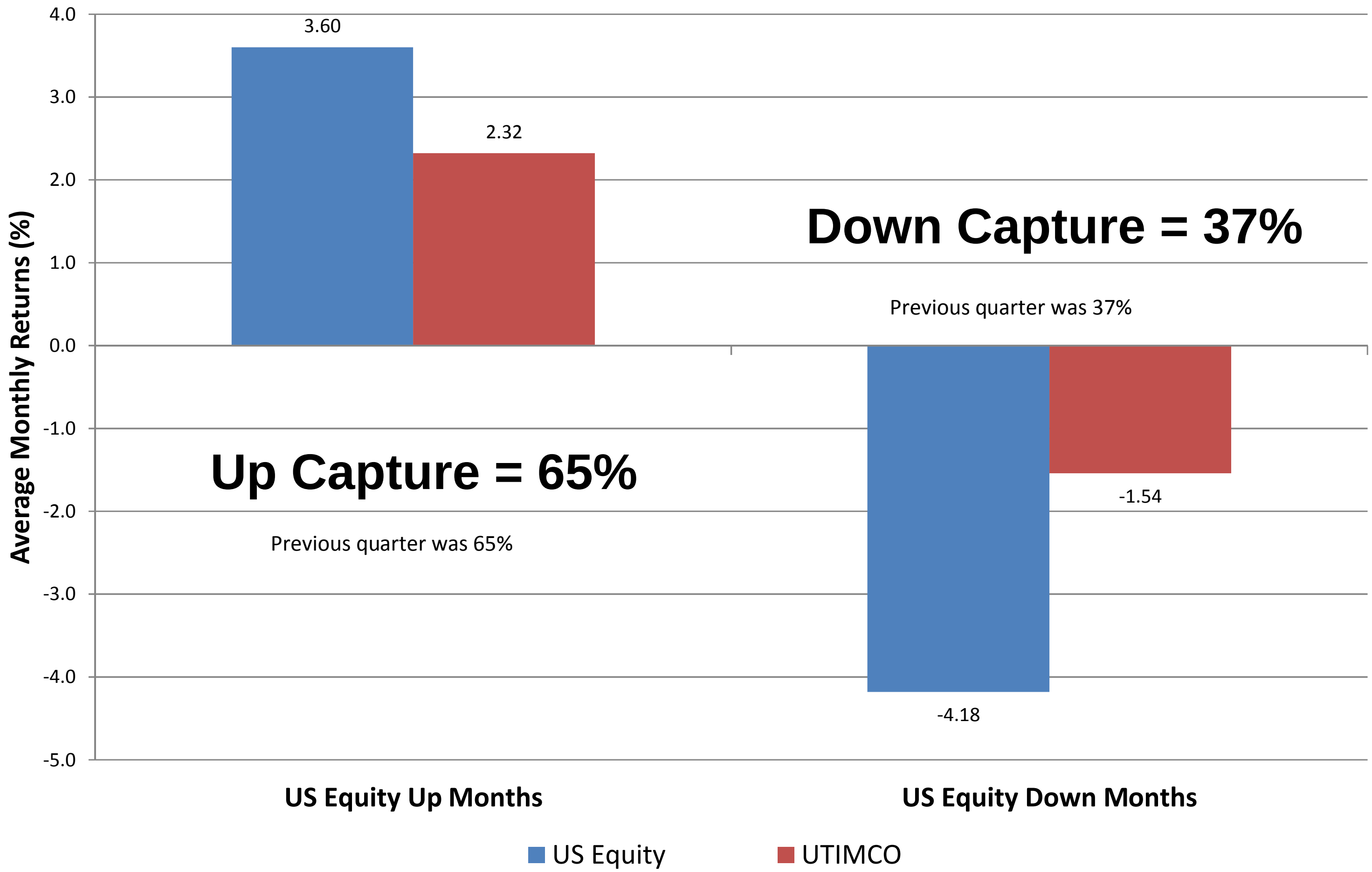


Portfolio Sharpe and Information Ratios

Period Ending May 31, 2012

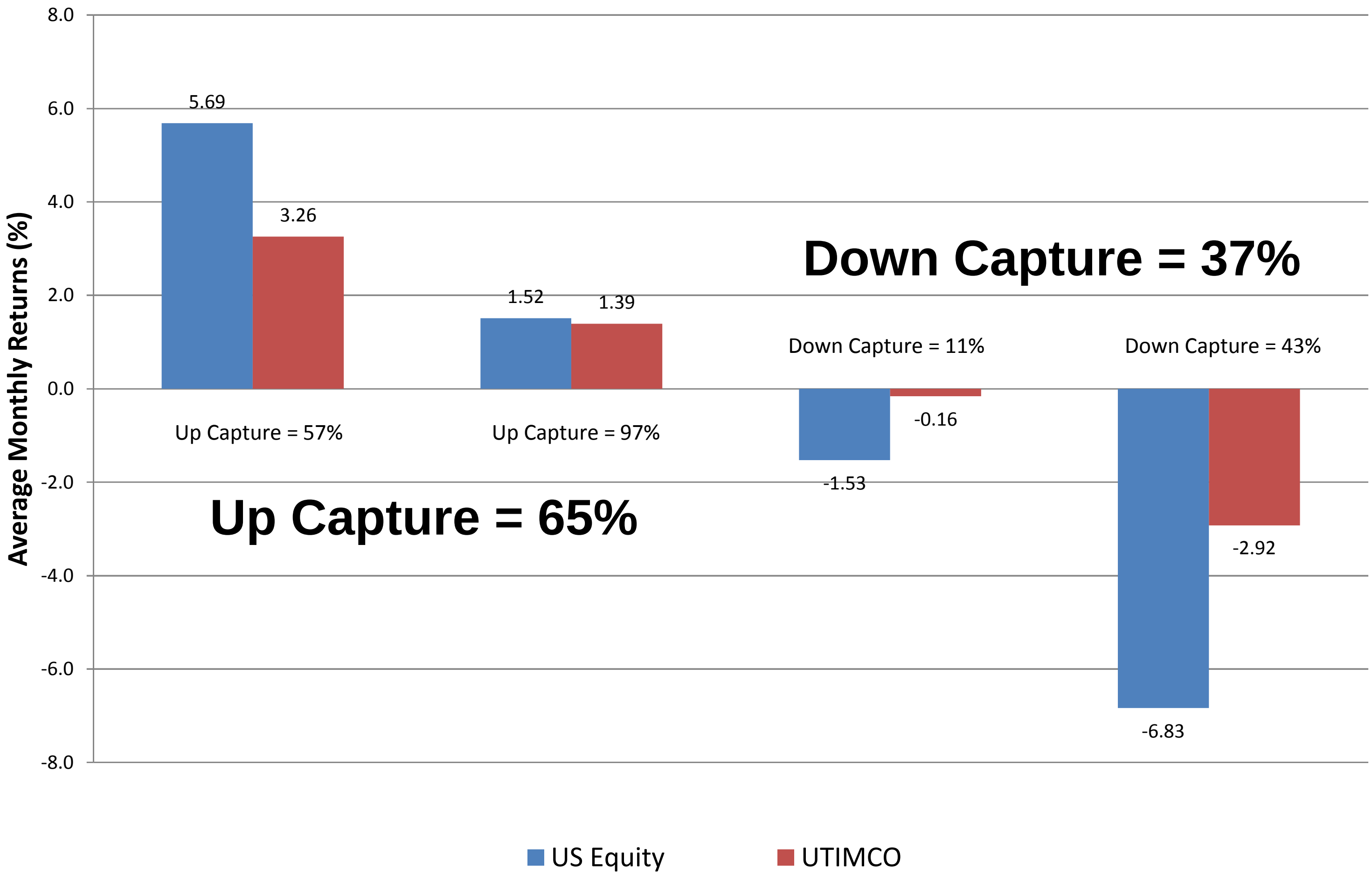
	Three Months	One Year	Three Years	Five Years	Ten Years
Actual Returns	(1.72)	(3.17)	11.29	1.71	6.95
Risk-free Returns	0.03	0.05	0.12	1.06	1.88
Actual Volatility	2.60	8.13	7.40	10.58	8.93
Portfolio Sharpe Ratio	(0.67)	(0.40)	1.54	0.06	0.57
Policy Returns	(4.47)	(5.11)	7.87	(0.87)	4.82
Policy Volatility	3.77	10.41	8.96	11.70	9.51
Tracking Error	1.18	3.46	2.88	3.00	2.69
Portfolio Information Ratio	2.33	0.56	1.19	0.86	0.79

UTIMCO's Up/Down Capture



Data from 8/1996 till 5/2012. US equity had 80 down months and 110 up months

UTIMCO's Up/Down Capture



Data from 8/1996 till 5/2012. US equity had 80 down months and 110 up months

GEF Marginal Risk Contribution

	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	0.09	0.13		**0.10**
Credit-Related Fixed Income	1.40	0.38	0.60	**0.51**
Natural Resources	0.93	-0.31	3.09	**1.44**
Real Estate	0.91	0.11	3.53	**1.82**
Developed Country Equity	1.01	0.49	1.98	**1.06**
Emerging Markets Equity	1.13	0.31	3.33	**1.37**
TOTAL	**0.79**	**0.41**	**1.99**	**1.00**

Derivative Risk Contribution - GEF

Scaled to Risk of Policy Portfolio

Risk	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	0.9%	0.3%		**1.1%**
Credit-Related Fixed Income	0.1%	1.5%	3.6%	**5.3%**
Natural Resources	8.3%	0.0%	8.5%	**16.8%**
Real Estate	2.1%	0.1%	5.9%	**8.1%**
Developed Country Equity	10.0%	8.2%	21.3%	**39.5%**
Emerging Markets Equity	7.8%	0.7%	6.8%	**15.3%**
TOTAL	**29.1%**	**10.8%**	**46.2%**	**86.1%**

Risk Contribution of Derivatives

Risk	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	-1.0%			**-1.0%**
Credit-Related Fixed Income				**0.0%**
Natural Resources	1.2%			**1.2%**
Real Estate	-1.3%			**-1.3%**
Developed Country Equity	-3.1%			**-3.1%**
Emerging Markets Equity	-0.2%			**-0.2%**
TOTAL	**-4.4%**	**0.0%**	**0.0%**	**-4.4%**

Risk Contribution Excluding Derivatives

Risk	MCC	LCC	PI	TOTAL
Investment Grade Fixed Income	1.9%	0.3%		**2.2%**
Credit-Related Fixed Income	0.1%	1.5%	3.6%	**5.3%**
Natural Resources	7.1%	0.0%	8.5%	**15.6%**
Real Estate	3.4%	0.1%	5.9%	**9.4%**
Developed Country Equity	13.1%	8.2%	21.3%	**42.6%**
Emerging Markets Equity	8.0%	0.7%	6.8%	**15.5%**
TOTAL	**33.5%**	**10.8%**	**46.2%**	**90.5%**

Correlations

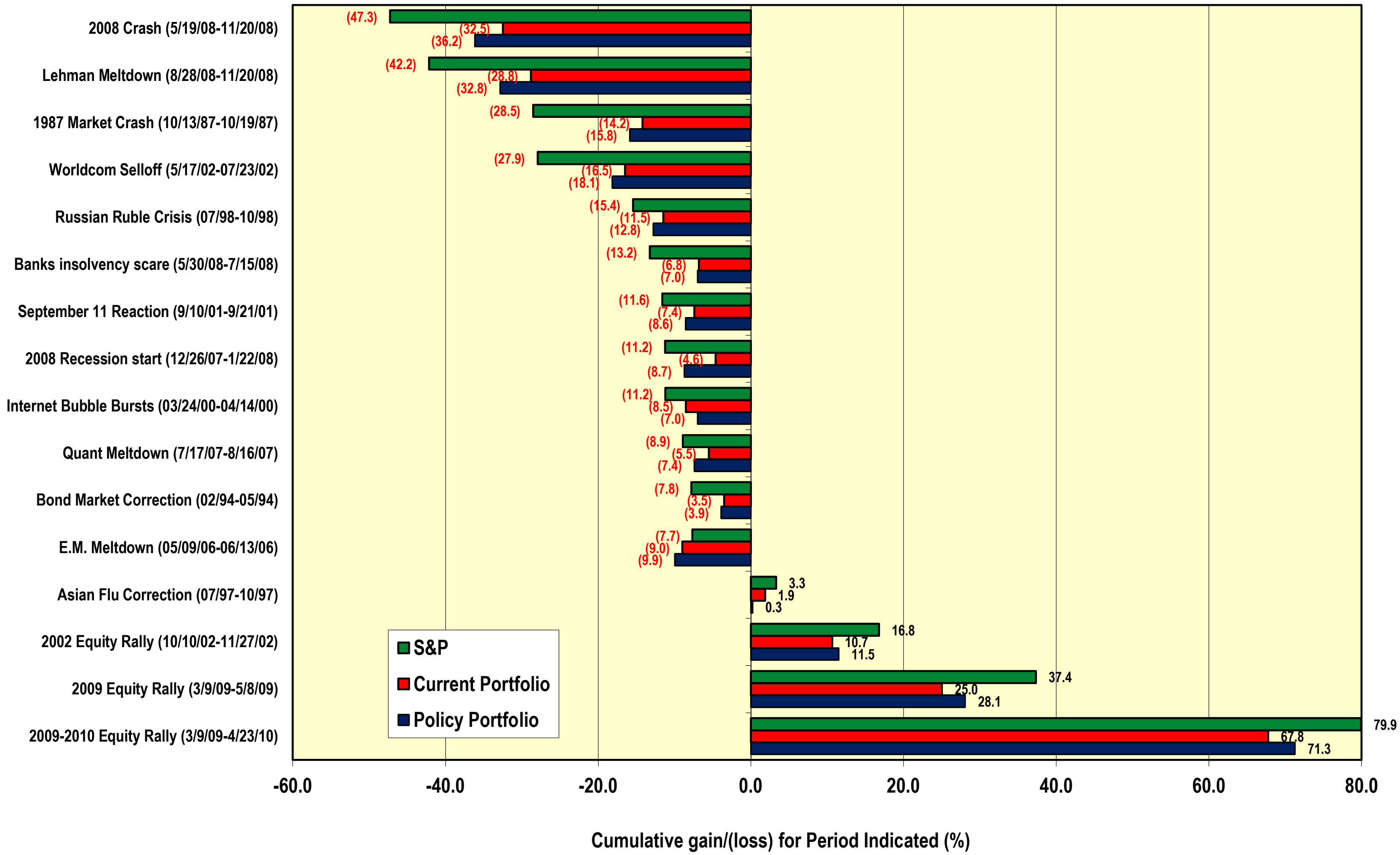
Measured from March 2008 through May 2012

	Total IGFI	Total Credit	Total RE	Total NatRes	Total DC	Total EM	MCC	LCC	PI	GEF
Total IGFI	1.00	0.44	0.62	0.68	0.67	0.69	0.76	0.64	0.30	0.75
Total Credit		1.00	0.59	0.60	0.65	0.58	0.60	0.67	0.71	0.71
Total RE			1.00	0.62	0.81	0.84	0.90	0.57	0.41	0.86
Total NatRes				1.00	0.79	0.80	0.85	0.80	0.37	0.87
Total DC					1.00	0.86	0.92	0.88	0.47	0.96
Total EM						1.00	0.96	0.81	0.21	0.94
MCC							1.00	0.80	0.31	0.98
LCC								1.00	0.29	0.88
PI									1.00	0.45
GEF										1.00

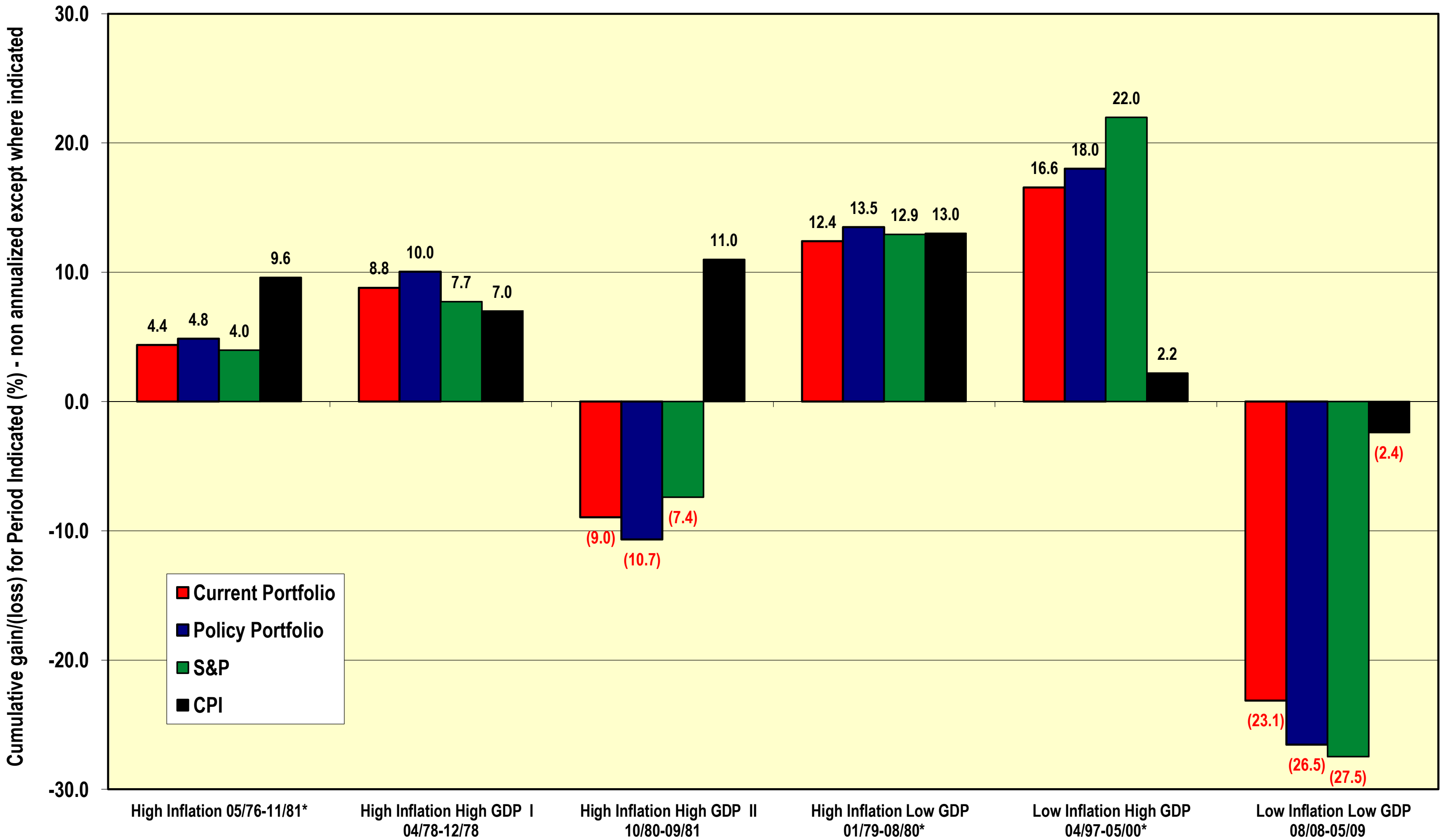
Parametric Stress Tests

Test	Effect on Endowment
• S&P-500 drops 20%	(11.35%)
• Rates rise 100bp	(0.30%)
• Dollar strengthens 5%	(0.77%)
• Dollar weakens 5%	0.87%
• Yield curve flattens – Bull case	0.27%
• Yield curve flattens – Bear case	(0.16%)
• Yield curve steepens – Bull case	0.16%
• Yield curve steepens – Bear case	(0.12%)

Hypothetical Performance of Current GEF Portfolio in Selected Market Stress Environments



Hypothetical Performance of Current GEF Portfolio in Selected Economic Stress Environments



* Annualized

Scenario Analysis

Asset Class	Policy	Scenario							
		Full Recovery	Global Stagflation	Mild Eurozone Default	Big Eurozone Default	Japan Crisis	USD Crisis	EM Bubble "Pop"	Deflation
Expected Policy Returns (nominal)	**7.36%**	**18%**	**(7.4%)**	**(5.5%)**	**(20%)**	**(19%)**	**(20%)**	**(22%)**	**(26%)**
Gain from tactical positions	(0.45%)	(3.6%)	2.1%	1.9%	5.4%	4.5%	4.5%	5.1%	4.3%
Gain from insurance	(0.75%)	(0.3%)	0.6%	0.1%	1.5% - 2.6%	1.6% - 4.8%	1.6%	0.8%	0.9%
Gain from manager's alpha	1.00%	0.8%	1.5%	2.3%	2.0%	2.0%	2.0%	2.0%	2.0%
Estimated Endowment Returns	**7.16%**	**15.0%**	**(3.2%)**	**(1.2%)**	**(11%) – (10%)**	**(11%) – (7%)**	**(11.6%)**	**(14.1%)**	**(18.7%)**

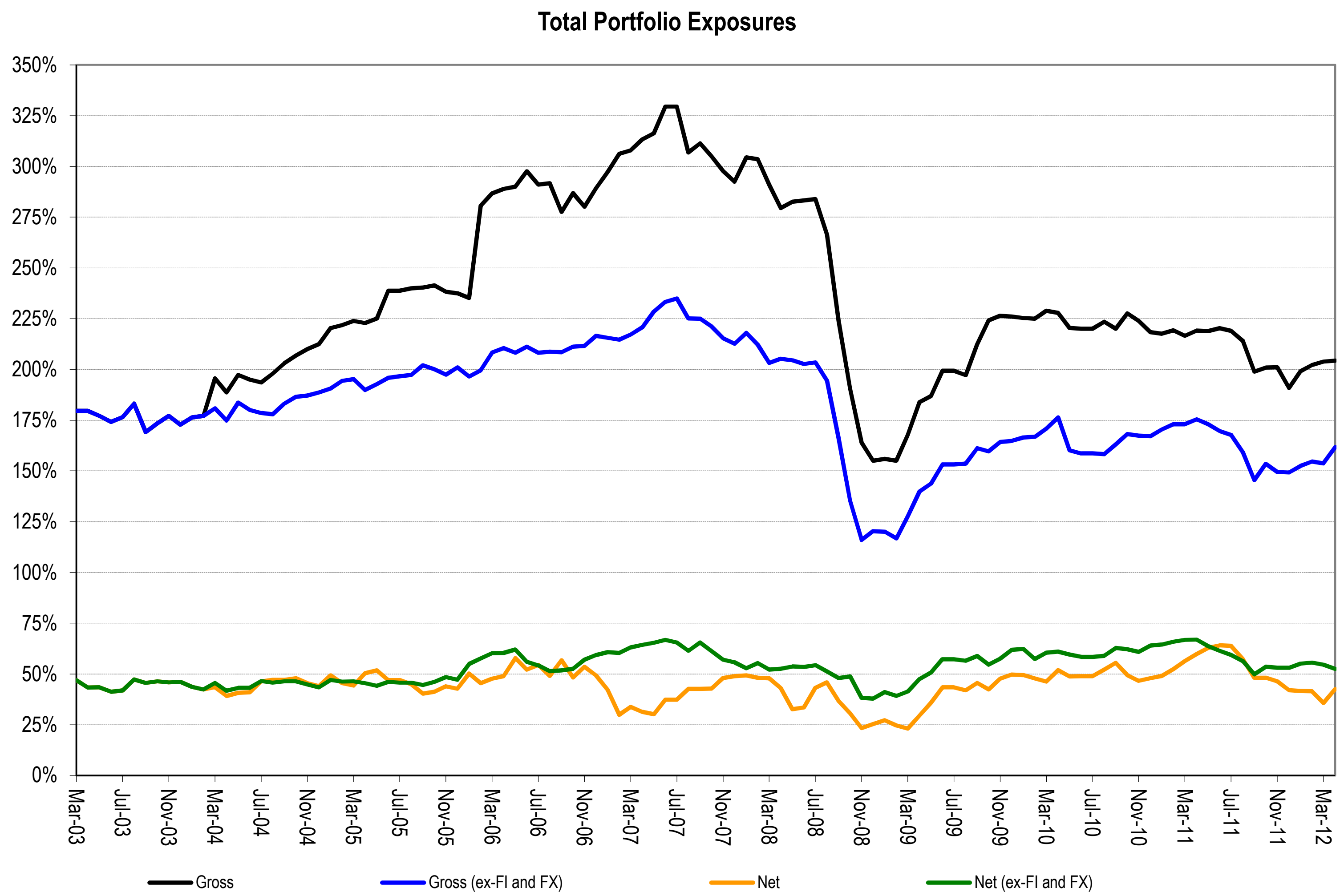
Leverage

Portfolio Level Leverage as of May 31, 2012

- Investment Grade Fixed Income had a long exposure of 1.17x, no net leverage
- All other asst classes and investment types had no net leverage at the portfolio level
  - Portfolio-level hedges are counted as gross leverage in several asset classes
- Overall the portfolio had a gross leverage of 1.06x, net of 0.97x

LCC Leverage

as of April 30, 2012



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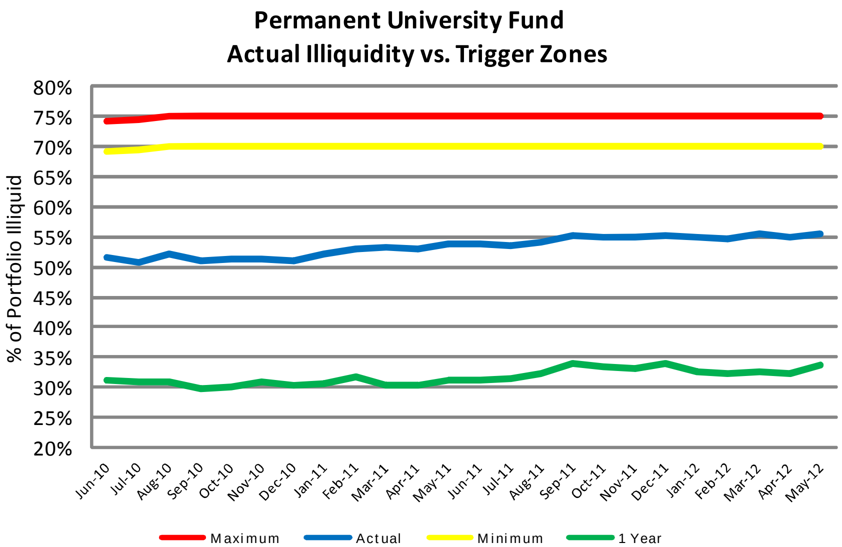
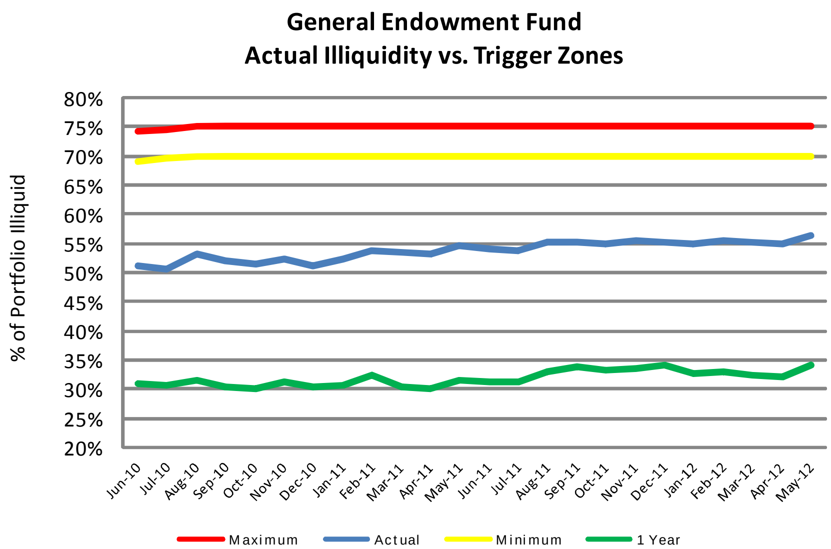
Liquidity

Endowment Fund Liquidity

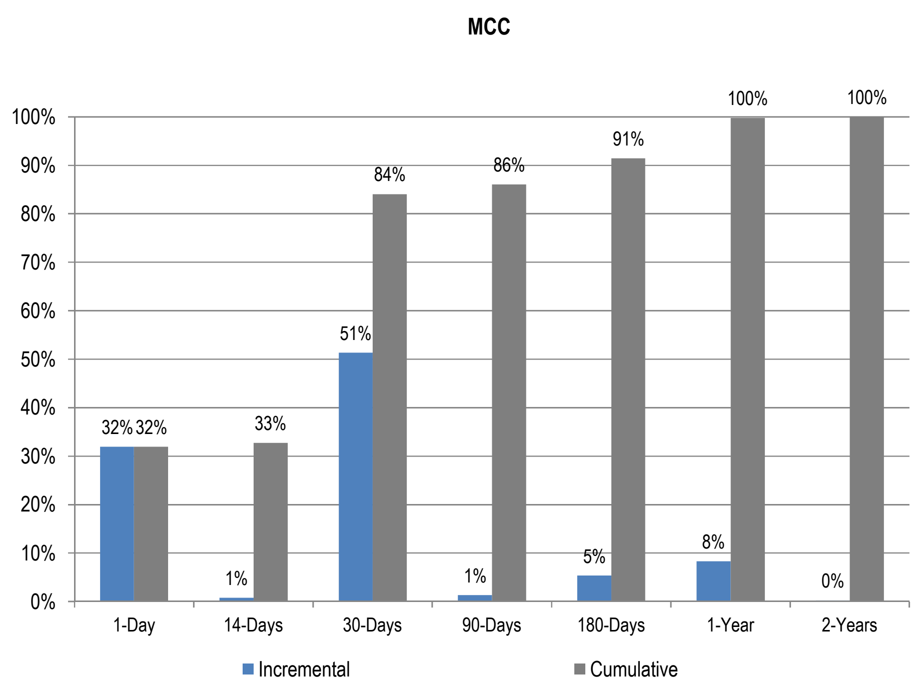


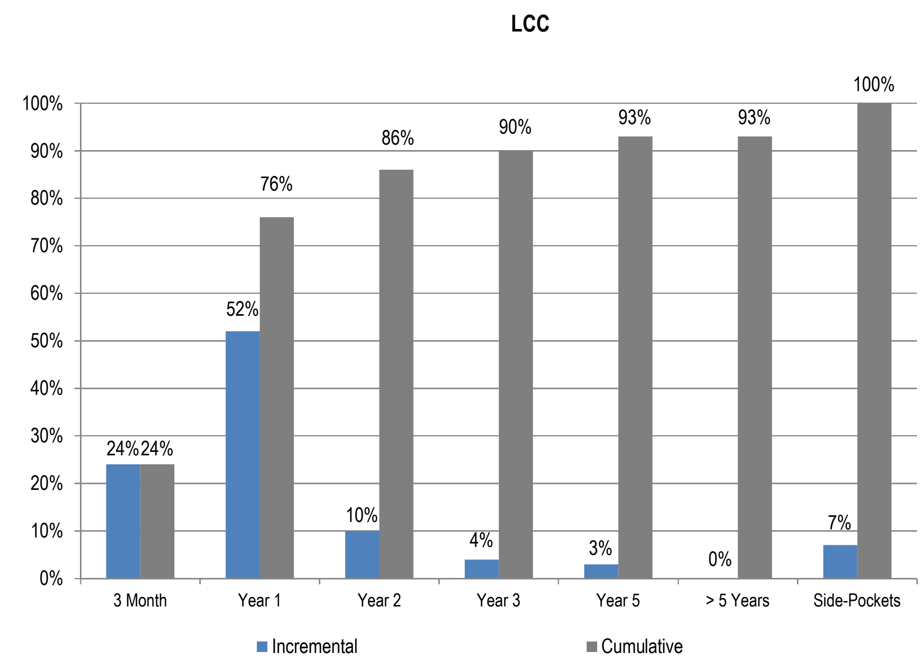


Three Month Liquidity $ 5,723 million One Year Liquidity $ 8,532 million

Three Month Liquidity $ 2,994 million One Year Liquidity $ 4,536 million

Estimated Run-Off Liquidity*
As of May 31, 2012





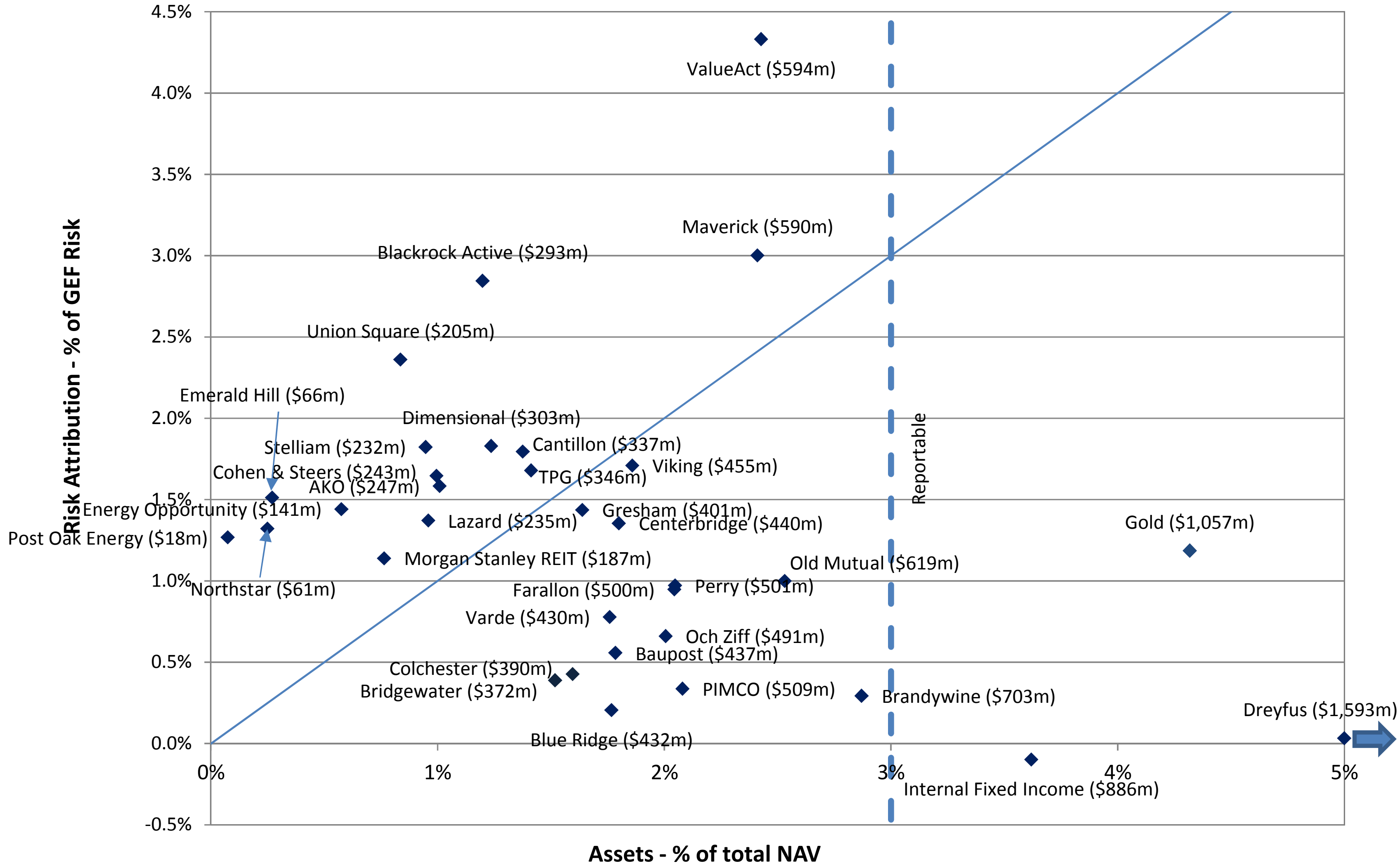
***Actual point in time liquidity varies from "smoothed" Policy Liquidity methodology**

Unfunded Commitments
As of May 31, 2012

Asset Class	Unfunded Commitment	Unfunded Commitment as % of Total Endowments
PRIVATE INVESTMENTS		
TRADING	$32	0.1%
CONTROL	138	0.7%
OPPORTUNISTIC	139	0.7%
CREDIT-RELATED FIXED INCOME	**309**	**1.5%**
REAL ESTATE	***761***	**3.9%**
NATURAL RESOURCES	***907***	**4.6%**
MEGA/LARGE BUYOUT	75	0.4%
MEDIUM/SMALL BUYOUT	419	2.2%
VENTURE CAPITAL	372	1.9%
GROWTH/OPPORTUNISTIC	205	1.0%
DEVELOPED MARKETS EQUITY	***1,071***	***5.5%***
EMERGING MARKETS EQUITY	***498***	**2.5%**
TOTAL PRIVATE INVESTMENTS	***$3,546***	**18.0%**
LESS CORRELATED AND CONSTRAINED		
INVESTMENT GRADE FIXED INCOME	***$ -***	**0.0%**
CREDIT-RELATED FIXED INCOME	***57***	**0.3%**
REAL ESTATE	***-***	**0.0%**
NATURAL RESOURCES	***-***	**0.0%**
DEVELOPED MARKETS EQUITY	***19***	**0.1%**
EMERGING MARKETS EQUITY	***3***	**0.0%**
TOTAL LESS CORRELATED AND CONSTRAINED	***$79***	**0.4%**
GRAND TOTAL PI AND LCC	***$3,625***	**18.4%**
TOTAL ENDOWMENTS HOLDINGS	***$19,727***	
MAXIMUM AMOUNT OF UNFUNDED COMMITMENTS ALLOWED PER LIQUIDITY POLICY		**30.0%**

Manager Exposure

Largest Mandates: Risk and Dollar Allocations



Mandates with at least 1.41% of total assets, or at least 1.14% of Risk. Risk on this chart is measured using historical downside risk

Manager Exposures over 3% and 5%
May 31, 2012

Managers with exposure >3% relative to total Funds (excluding ITF for Private Investments)

Manager Name	Investment Amount	%-age
More Correlated and Constrained		
Internal Fixed Income	885,791,774	3.62%
Less Correlated and Constrained		
None		
Private Investments		
None		

Managers with exposure >5% relative to total Funds (excluding ITF for Private Investments)

Manager Name	Investment Amount	%-age
	None	

Investment Activity

Investments, Commitments, Significant Redemptions

Report on Investment Transactions Made Under the Delegation of Authority

Quarter Ended May 31, 2012

	Redemptions ($ millions)				Investments / Commitments ($ millions)				Illiquid
	MCC	LCC	Private	Total	MCC	LCC	Private	Total	
Investment Grade Fixed Income									
Bridgewater PAMM	-	79	-	79	-	-	-	-	
Lone Peak	-	25	-	25	-	-	-	-	
Absolute Return (Bain)	-	-	-	-	-	100	-	100	No
	-	104	-	104	-	100	-	100	
Credit-Related Fixed Income									
Oaktree Opportunities IX	-	-	-	-	-	-	25	25	Yes
	-	-	-	-	-	-	25	25	
Real Estate									
Niam Nordic V	-	-	-	-	-	-	47	47	Yes
Apollo GSS Holding	-	-	-	-	-	-	36	36	Yes
	-	-	-	-	-	-	83	83	
Natural Resources									
Taurus Resources	-	-	-	-	-	-	69	69	Yes
Kerogen Energy	-	-	-	-	-	-	100	100	Yes
	-	-	-	-	-	-	169	169	
Developed Country Equity									
Perry Partners	-	63	-	63	-	-	-	-	
Protege Partners	-	40	-	40	-	-	-	-	
Lansdowne UK	-	35	-	35	-	-	-	-	
Maverick	-	25	-	25	-	-	-	-	
Eton Park	-	21	-	21	-	-	-	-	
Cadian	-	-	-	-	-	25	-	25	Yes
Gotham	-	-	-	-	-	25	-	25	No
	-	184	-	184	-	50	-	50	
Emerging Markets Equity									
Dimensional	50	-	-	50	-	-	-	-	
Dynamo	21	-	-	21	-	-	-	-	
Penta Asia L/S	-	18	-	18	-	-	-	-	
Squadra	-	-	-	-	50	-	-	50	No
	71	18	-	89	50	-	-	50	
Subtotal	**$ 71**	**$ 306**	**$ -**	**$ 377**	**$ 50**	**$ 150**	**$ 277**	**$ 477**	
Other	-	8	-	8	2	-	-	2	
Grand Total	**$ 71**	**$ 314**	**$ -**	**$ 385**	**$ 52**	**$ 150**	**$ 277**	**$ 479**	

Report on Investment Transactions Made Under the Delegation of Authority

Year-to-date as of May 31, 2012

	Redemptions ($ millions)				Investments / Commitments ($ millions)				
	MCC	LCC	Private	Total	MCC	LCC	Private	Total	Illiquid
Investment Grade Fixed Income									
PIMCO	248	-	-	248	-	-	-	-	
Bridgewater PAMM	-	79	-	79	-	79	-	79	No
Bridgewater II	-	79	-	79	-	-	-	-	
Brandywine	54	-	-	54	-	-	-	-	
Internal Fixed Income (Kampfe and Doak)	45	-	-	45	-	-	-	-	
Lone Peak	-	25	-	25	-	25	-	25	Yes
Old Mutual	14	-	-	14	-	-	-	-	
Colchester	-	-	-	-	400	-	-	400	No
Absolute Return (Bain)	-	-	-	-	-	100	-	100	No
Farallon Asia Special Situations II	-	-	-	-	-	60	-	60	Yes
	361	183	-	544	400	264	-	664	
Credit-Related Fixed Income									
OZ Credit Opportunity	-	-	-	-	-	100	-	100	Yes
Mount Kellett Capital Partners II, L.P.	-	-	-	-	-	-	75	75	Yes
Oaktree Opportunities IX	-	-	-	-	-	-	25	25	Yes
	-	-	-	-	-	100	100	200	
Real Estate									
GEM Realty	-	25	-	25	-	-	-	-	
Wheelock Street Real Estate Fund	-	-	-	-	-	-	100	100	Yes
Carmel Partners Investments Fund IV, L.P.	-	-	-	-	-	-	75	75	Yes
Green Courte Real Estate Partners III	-	-	-	-	-	-	50	50	Yes
Blackstone Real Estate Partners VII, L.P.	-	-	-	-	-	-	50	50	Yes
Niam Nordic V	-	-	-	-	-	-	47	47	Yes
Apollo GSS Holding	-	-	-	-	-	-	36	36	Yes
	-	25	-	25	-	-	358	358	
Natural Resources									
BlackRock Global	123	-	-	123	-	-	-	-	
The Mitchell Group	-	-	-	-	150	-	-	150	No
POEP Co-invest LP	-	-	-	-	-	-	100	100	Yes
Post Oak Energy Partners LP	-	-	-	-	-	-	100	100	Yes
NGP Natural Resources X, L.P.	-	-	-	-	-	-	75	75	Yes
Taurus Resources	-	-	-	-	-	-	69	69	Yes
Energy Opportunities	-	-	-	-	40	-	-	40	No
BlackRock Small Cap	-	-	-	-	22	-	-	22	No
BlackRock Metals & Mining	-	-	-	-	6	-	-	6	No
Kerogen Energy	-	-	-	-	-	-	100	100	Yes
	123	-	-	123	218	-	444	662	

Report on Investment Transactions Made Under the Delegation of Authority (continued)

Year-to-date as of May 31, 2012

	Redemptions ($ millions)				Investments / Commitments ($ millions)				Illiquid
	MCC	LCC	Private	Total	MCC	LCC	Private	Total	
Developed Country Equity									
Levin	134	-	-	134	-	-	-	-	
Wellington Special Equity	123	-	-	123	-	-	-	-	
Protege Partners	-	90	-	90	-	-	-	-	
Perry Partners	-	87	-	87	-	-	-	-	
Criterion Capital Partners	-	66	-	66	-	-	-	-	
Lansdowne UK	-	60	-	60	-	-	-	-	
FCOI II	-	50	-	50	-	-	-	-	
Blue Ridge	-	46	-	46	-	-	-	-	
OZ Overseas Fund	-	45	-	45	-	-	-	-	
Eton Park	-	43	-	43	-	-	-	-	
Indus Japan	-	25	-	25	-	-	-	-	
Maverick	-	25	-	25	-	-	-	-	
TPG Axon	-	16	-	16	-	-	-	-	
Viking Global Equities	-	-	-	-	-	100	-	100	No
Gotham Diversified	-	-	-	-	-	95	-	95	No
Ford Financial Fund II, L.P.	-	-	-	-	-	-	75	75	Yes
Criterion Horizon Offshore	-	-	-	-	-	66	-	66	Yes
American Industrial Partners Capital Fund V, L.P.	-	-	-	-	-	-	50	50	Yes
AKO	-	-	-	-	50	-	-	50	Yes
Kingstown	-	-	-	-	-	50	-	50	Yes
LNK Partners II, L.P.	-	-	-	-	-	-	50	50	Yes
Senator Global Opportunities	-	-	-	-	-	50	-	50	Yes
University Ventures Fund I UTIMCO-Investment LP							50	50	Yes
True Ventures III, L.P.	-	-	-	-	-	-	35	35	Yes
IA Venture Strategies Fund II, L.P.	-	-	-	-	-	-	30	30	Yes
Union Square Ventures 2012 Fund, L.P.	-	-	-	-	-	-	28	28 **1**	Yes
University Ventures Fund I, L.P.	-	-	-	-	-	-	25	25	Yes
Cadian	-	-	-	-	-	25	-	25	Yes
	257	553	-	810	50	386	343	779	

Report on Investment Transactions Made Under the Delegation of Authority (continued)

Year-to-date as of May 31, 2012

	Redemptions ($ millions)				Investments / Commitments ($ millions)				
	MCC	LCC	Private	Total	MCC	LCC	Private	Total	Illiquid
Emerging Markets Equity									
Dimensional Fund Advisors	60	-	-	60	20	-	-	20	No
Acadian	50	-	-	50	-	-	-	-	
Blakeney	45	-	-	45	-	-	-	-	
Lazard	40	-	-	40	-	-	-	-	
Moon Capital	-	25	-	25	-	-	-	-	
Dynamo	21	-	-	21	-	-	-	-	
Penta Asia L/S	-	18	-	18	-	-	-	-	
AR Capital	-	-	-	-	100	-	-	100	No
Victoria South American Partners II L.P.	-	-	-	-	-	-	65	65	Yes
Squadra	-	-	-	-	50	-	-	50	No
Turkish Private Equity Fund III L.P.	-	-	-	-	-	-	40	40	Yes
New Silk Road	-	-	-	-	25	-	-	25	Yes
Janchor	-	-	-	-	-	25	-	25	Yes
Valiant	-	1	-	1	-	5	-	5	Yes
	216	44	-	260	195	30	105	330	
Subtotal	**$ 957**	**$ 805**	**$ -**	**$ 1,762**	**$ 863**	**$ 780**	**$ 1,350**	**$ 2,993**	
Other	-	12	-	12	2	-	-	2	
Grand Total	**$ 957**	**$ 817**	**$ -**	**$ 1,774**	**$ 865**	**$ 780**	**$ 1,350**	**$ 2,995**	

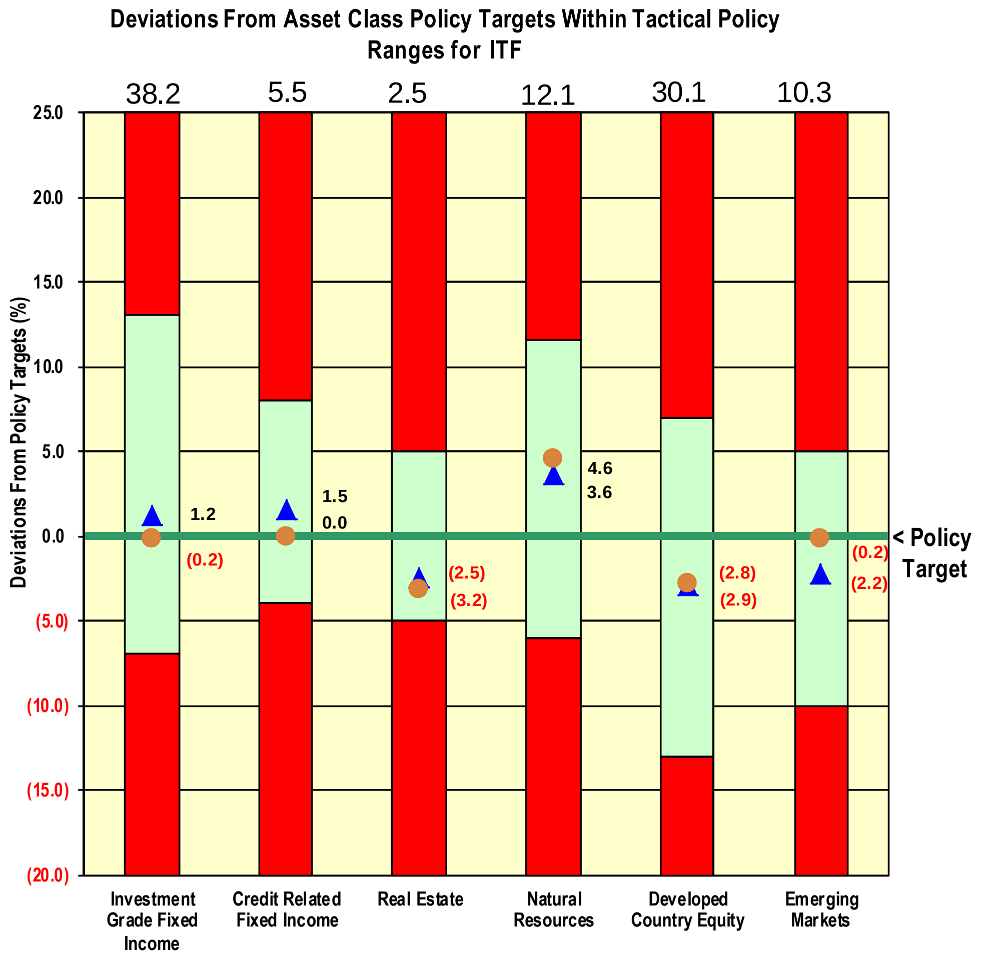
(1) - Final commitment amount will be the lesser of 20% of total commitments or the maximum commitment. This report reflects the maximum commitment.

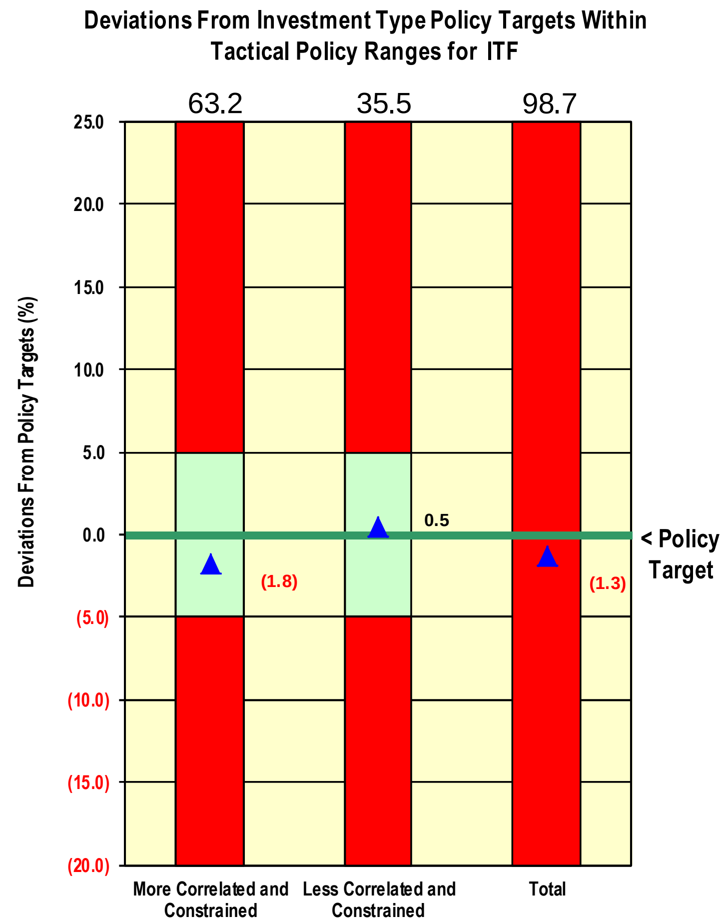
ITF

ITF Asset Allocation
as of May 31, 2012
(in millions)

Asset Group	Asset Class	More Correlated and Constrained		Less Correlated and Constrained		Private Investments		Grand Total	
Fixed Income	Investment Grade	$ 1,763	37.2%	$ 162	3.4%	$ -	0.0%	$ 1,925	**40.6%**
	Credit-Related	-	0.0%	274	5.8%	-	0.0%	274	**5.8%**
Fixed Income Total		**1,763**	**37.2%**	**436**	**9.2%**	**-**	**0.0%**	**2,199**	**46.4%**
Real Assets	Real Estate	79	1.7%	32	0.7%	-	0.0%	111	**2.4%**
	Natural Resources	508	10.7%	2	0.1%	-	0.0%	510	**10.8%**
Real Assets Total		**587**	**12.4%**	**34**	**0.8%**	**-**	**0.0%**	**621**	**13.2%**
Equity	Developed Country	346	7.2%	1,072	22.6%	-	0.0%	1,418	**29.8%**
	Emerging Markets	309	6.4%	140	3.0%	-	0.0%	449	**9.4%**
Equity Total		**655**	**13.6%**	**1,212**	**25.6%**	**-**	**0.0%**	**1,867**	**39.2%**
Grand Total		**$ 3,005**	**63.2%**	**$ 1,682**	**35.6%**	**$-**	**0.0%**	**$ 4,687**	**98.8%**

ITF Asset Allocation as of May 31, 2012





▲ -- All Investment Types ● -- More Correlated and Constrained

ITF Insurance Hedges

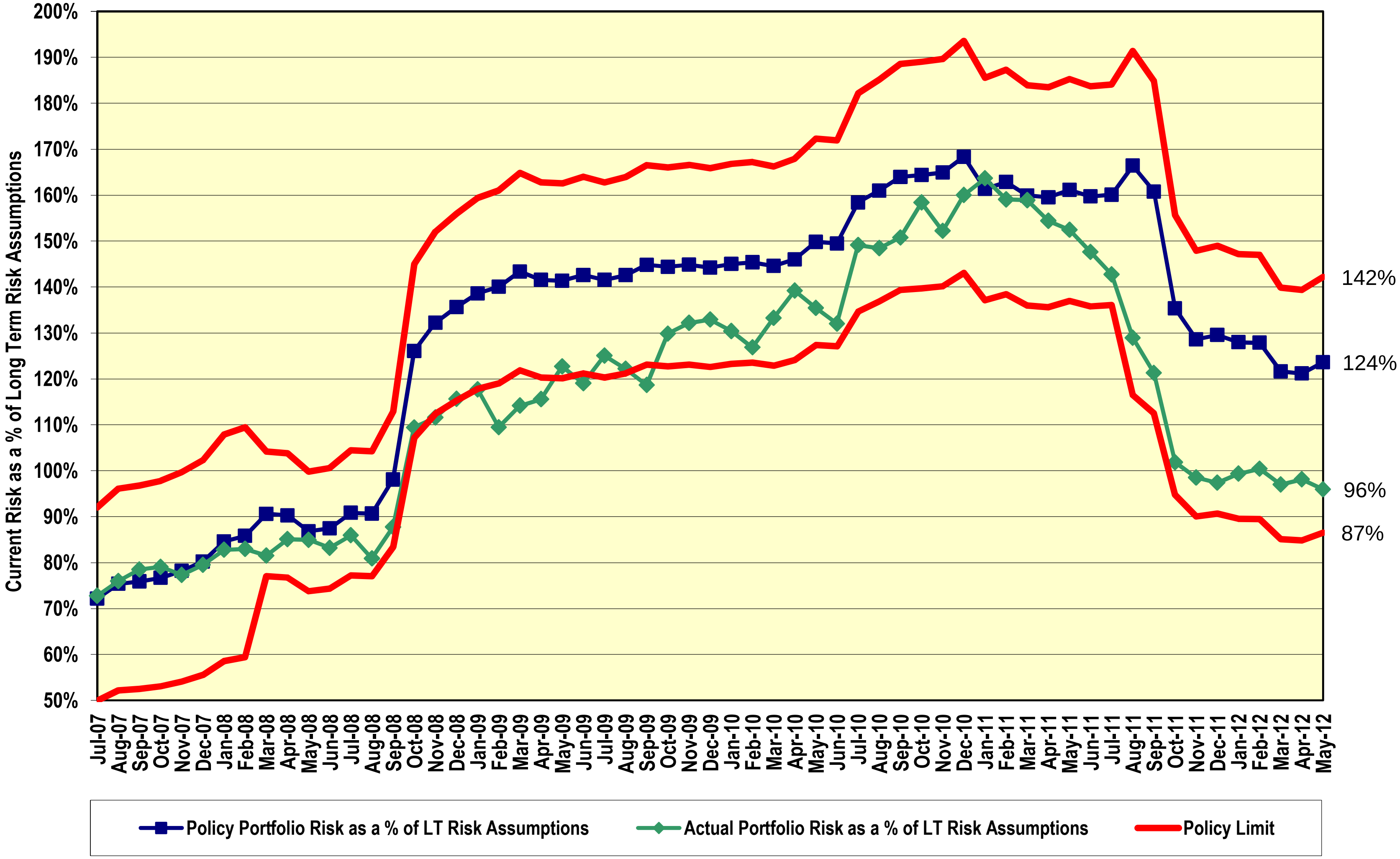
Event	Hedge	Exposures as of May 31, 2012: Total Cost (1)	bps Cost/Year (2)	Notional ($mm)	MTM ($mm)	Since Inception P/L	Changes since February 29, 2012: Total Cost (1)	bps Cost/Year (2)	Notional ($mm)	MTM ($mm)	bps Fiscal Year 2013 (3)
ACTIVE POSITIONS											
U.S. Inflation											
	CMS Options	$ (13)	5.8	$ 2,251	$ 4	$ (9)	$ -	-	$ -	$ (3)	5.8
Emerging Markets Bubble											
	KOSPI Put Spreads	$ (5)	4.9	177	4	(1)	$ -	-	-	1	4.4
	ASX Put Spreads	$ (5)	7.0	234	4	(1)	$ -	-	-	0	3.2
	Total	$ (10)	12.0		8	(2)	$ -	-		1	7.5
Sovereign Default											
	JPY Rate Options and Swaptions	$ (6)	5.9	717	1	(5)	$ -	-	-	(1)	3.3
	DKK Call / EURO Put Options	$ (3)	5.3	358	1	(2)	$ -	-	-	(0)	-
	Total	$ (9)	11.2		2	(6)	$ -	-		(2)	3.3
Low Growth / Recession											
	S&P Put Spreads	$ -	-	-	-	-	$ 5	(10.5)	(124)	(0)	6.7
SUBTOTAL ACTIVE POSITIONS		**$ (31)**	**28.9**		**14**	**(17)**	**$ 5**	**(10.5)**		**(3)**	
EXPIRED POSITIONS											
	JPY Rate Options and Swaptions	$ (0)	0.4	454		(0)	$ -	-	-		
	S&P Put Spreads	$ (10)	21.2	220		(10)	$ (5)	10.5	124		
SUBTOTAL EXPIRED POSITIONS		**$ (10)**	**21.7**			**(10)**	**$ (5)**	**10.5**			
	TOTAL	**$ (41)**	**50.6**		**$ 14**	**$ (27)**	**$ -**	**-**		**$ (3)**	**16.6**

(1) Maximum Loss for Options (in $mm)

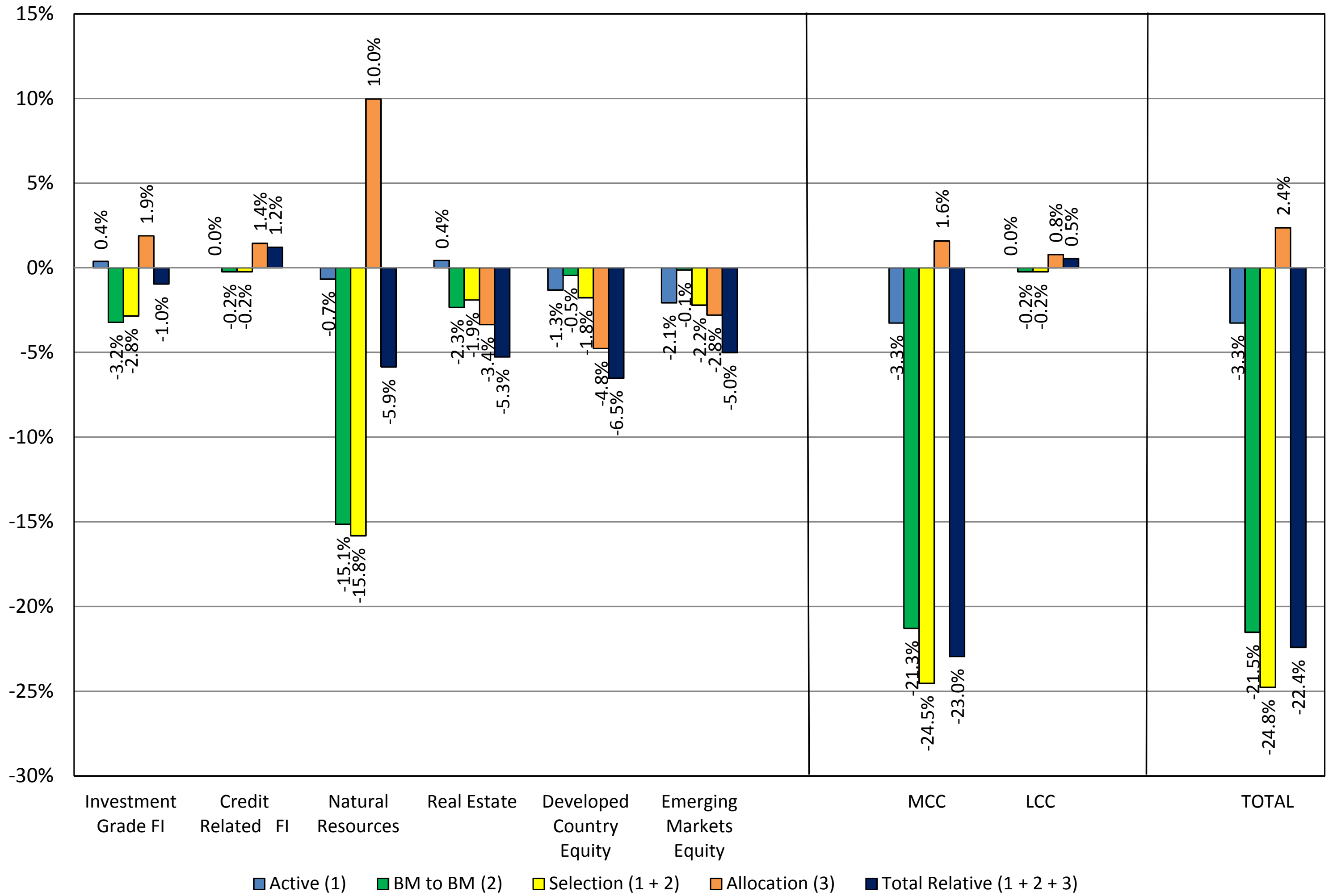
(2) Amount of delegated insurance budget used for fiscal year ending August, 2012

(3) Amount of delegated insurance budget used for fiscal year ending August, 2013

Current Risk Environment of ITF
(Based on Downside Risk; LT assumption = 5.34%)



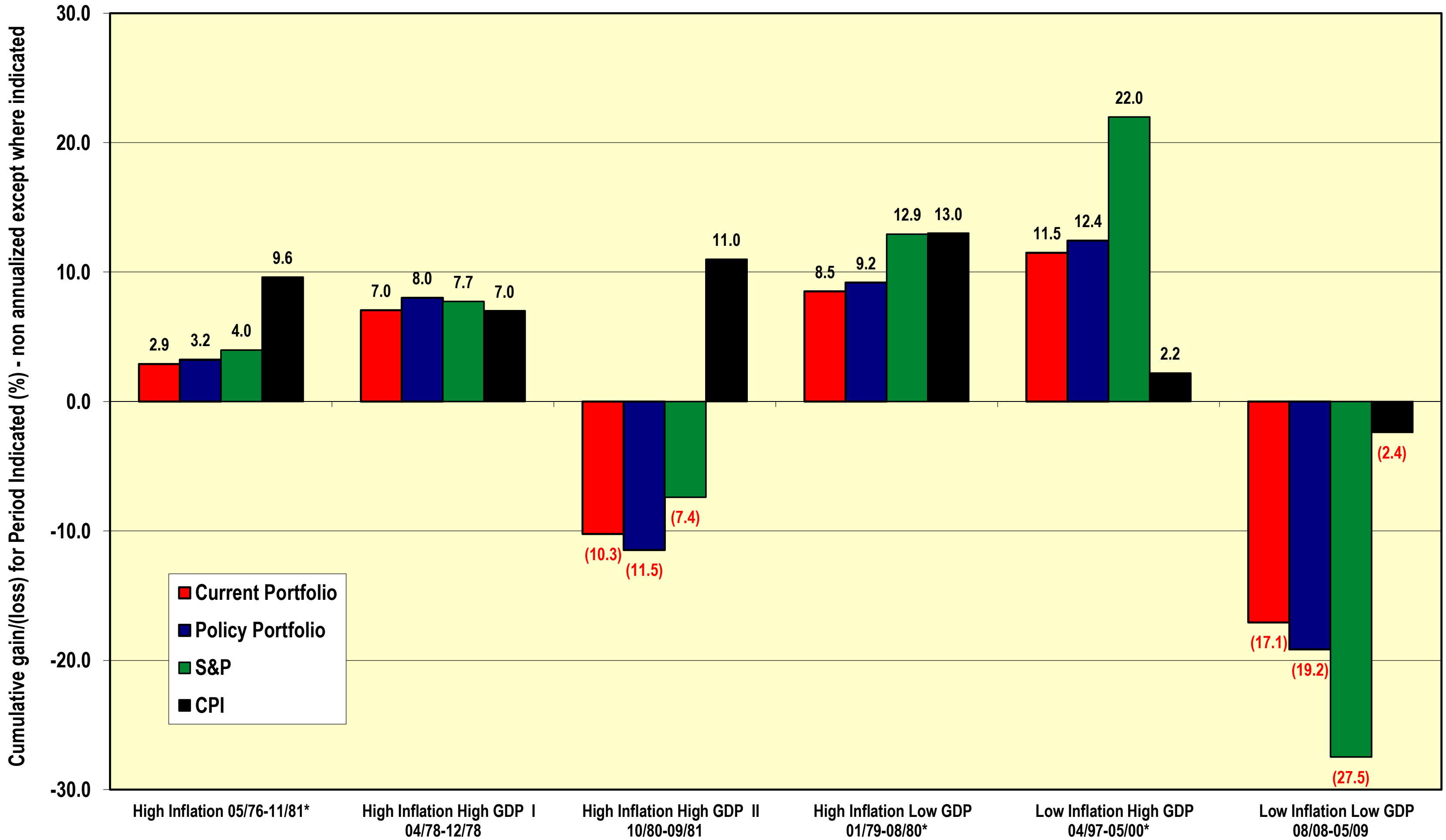
ITF 4-Way Risk Decomposition as of May 31, 2012



Parametric Stress Tests

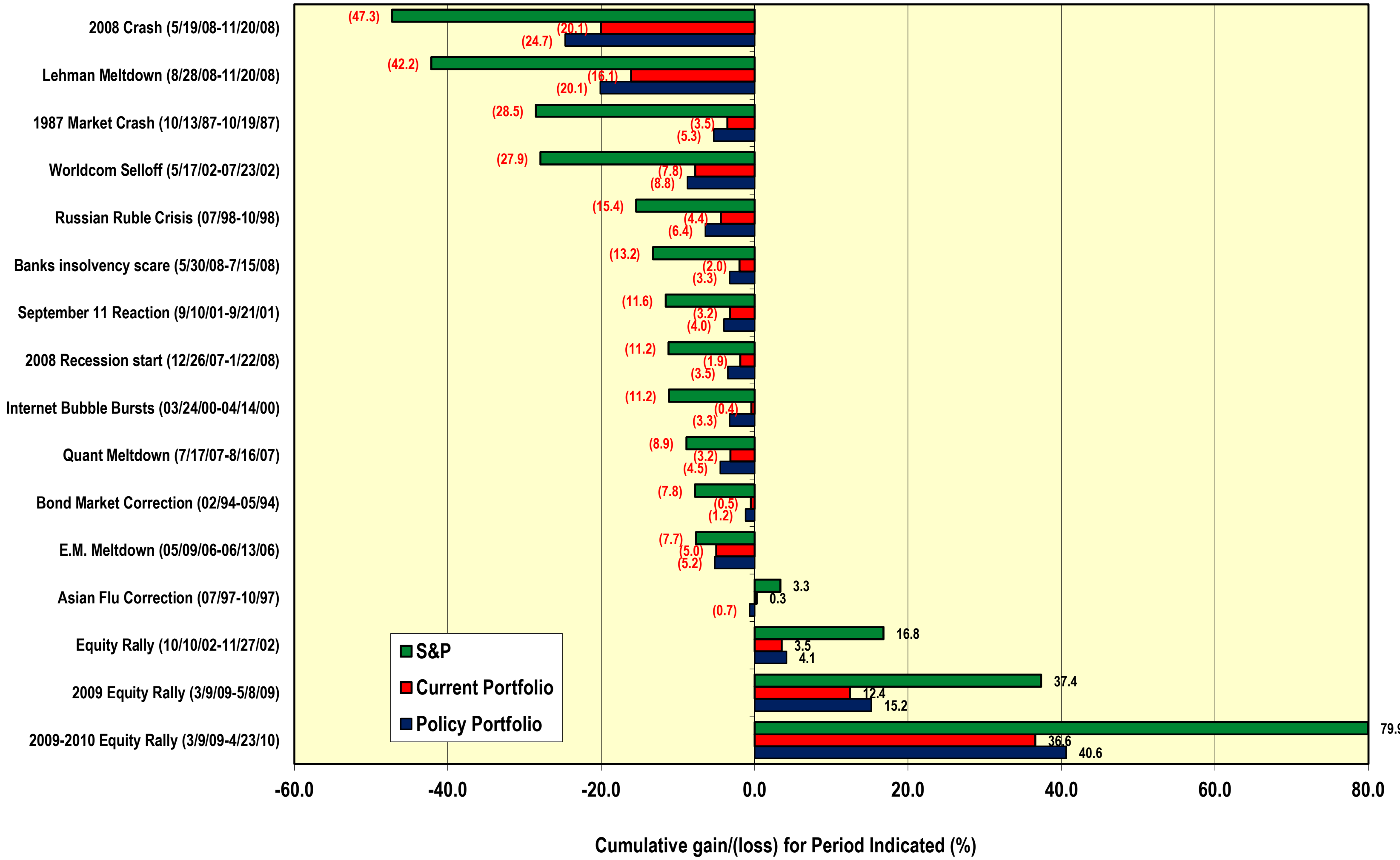
Test	Effect on ITF
• S&P-500 drops 20%	(3.64%)
• Rates rise 100bp	(1.52%)
• Dollar strengthens 5%	(1.22%)
• Dollar weakens 5%	1.36%
• Yield curve flattens – Bull case	1.30%
• Yield curve flattens – Bear case	(0.45%)
• Yield curve steepens – Bull case	0.45%
• Yield curve steepens – Bear case	(1.05%)

Hypothetical Performance of Current ITF Portfolio in Selected Economic Stress Environments



* Annualized

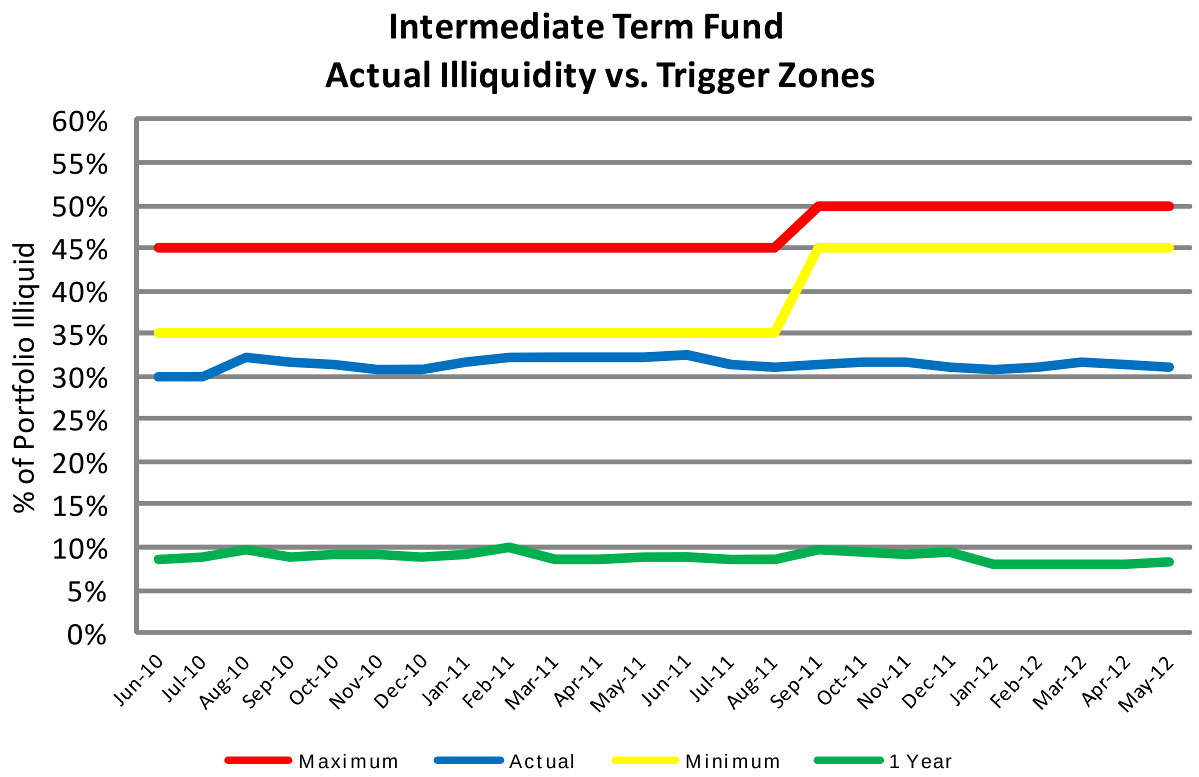
Hypothetical Performance of Current ITF Portfolio in Selected Market Stress Environments



ITF Leverage as of May 31, 2012

- Investment Grade Fixed Income had a long exposure of 1.20x, no net leverage
- All other asset classes and investment types had no net leverage at the portfolio level
  - Portfolio-level hedges are counted as gross leverage in one asset class (Real Estate)
- Overall the portfolio had a gross leverage of 1.17x, net of 0.98x

ITF Liquidity



Contracts Update

Report on New Contracts and Existing Contract Renewals, Leases, and Other Commercial Arrangements For April 1, 2012 through June 30, 2012

(Total Obligation per Agreement greater than $50,000)

Agreement	Purpose	Contract Term	Annual Amount
The Burgiss Group, LLC	Portfolio management system for Private Investments and related services	4/12/2012 – 4/12/2013 (Renews annually)	$55,100

Services that renew via invoice on a monthly or quarterly basis:

Agreement	Purpose	Contract Term	Annual Amount
Bloomberg	Portfolio Order Management System	Renews quarterly via invoice	$140,000
Bloomberg	All-in-one investment platform for trading, analysis and information	Renews quarterly via invoice and may be canceled at any time	$309,840
International Fund Services	Risk System	Quarterly invoice – fees increased as underlying accounts are added	$292,000
Factset Research Systems	Analytical tool for performance	Monthly invoice	$348,411
Albourne America LLC	Advisor to Marketable Alternative staff	Monthly invoice	$240,000