

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

The Board of Directors of The University of Texas Investment Management Company (the "Corporation") convened in special meeting on the 20th day of December, 1996, in the Regents Meeting Room, Ashbel Smith Hall, 9th Floor, 201 West Seventh Street, Austin, Texas, said meeting having been called by the Chairman, with notice provided to each Director in accordance with the Bylaws. Participating in the meeting were the following members of the Board of Directors:

Thomas O. Hicks, Chairman
Robert H. Allen
Susan M. Byrne
Donald L. Evans
Richard W. Fisher
J. Luther King, Jr.
Tom Loeffler
Homer L. Luther, Jr.

thus, constituting a majority and quorum of the Board of Directors. Also participating in the meeting were Thomas G. Ricks, President of the Corporation; Jerry E. Turner, Secretary of the Corporation; Austin Long, Craig Nickels, Cathy Iberg and Robert Holland of Corporation management; and Charles M. Preston, III of Vinson & Elkins L.L.P. Director William H. Cunningham was absent from the meeting. Mr. Hicks called the meeting to order at approximately 10:50 a.m.

Approval of Minutes

The first matter to come before the Board of Directors was approval of the minutes of the meeting of the Board of Directors held on October 24, 1996, copies of which had previously been furnished to each Director. Upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the minutes of the Meeting of the Board of Directors held on October 24, 1996, be and are hereby approved in the form presented to the Board.

Approval of Investment Policies

Mr. Ricks then reviewed proposed Investment Policy Statements for the Long Term Fund, the Permanent University Fund, the Short/Intermediate Term Fund, the Short Term Fund and the Separately Invested Endowment, Trust, and Other Accounts, copies of which had previously been distributed to each Director and are attached hereto as Exhibits A-E, respectively, and proposed Specific Asset Allocation Targets, Ranges, and Performance Objectives for the Long Term Fund, the Permanent University Fund and the Short/Intermediate Term Fund, copies of which had previously been distributed to each Director and are attached hereto as Exhibits F-H, respectively.

Mr. Ricks explained that Corporation management was recommending these policy statements for approval by the Board of Directors and adoption by the Board of Regents of The University of Texas System (the "U.T. Board") in replacement of the current investment policies, including the Investment Policy Statement and Specific Asset Allocation Targets, Ranges, and Performance Objectives for the Long Term Fund approved by the Board of Directors on October 11, 1996. The Directors discussed the policy statements and asset allocation targets, ranges, and performance objectives and asked questions of Mr. Ricks. It was generally agreed that the Corporation should report to the U.T. Board specific asset allocation targets, ranges and performance objectives for the Long Term Fund, the Permanent University Fund and the Short/Intermediate Term Fund. After further discussion, upon motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED, that the adoption of the Investment Policy Statements for the Long Term Fund, the Permanent University Fund, the Short/Intermediate Term Fund, the Short Term Fund and the Separately Invested Endowment, Trust, and Other Accounts, as submitted by the President, are hereby approved, subject to the approval of the U.T. Board; and

RESOLVED, FURTHER, that the Investment Policy Statements be submitted to the U.T. Board for approval at the next meeting of the U.T. Board and that the Board of Directors recommend to the U.T. Board the approval of the Policy Statements; and

RESOLVED, FURTHER, that the Specific Asset Allocation Targets, Ranges, and Performance Objectives for the Long Term Fund, the Permanent University Fund and the Short/Intermediate Term Fund, as submitted by the President, are hereby adopted and shall be reported by the President to the U.T. Board; and

RESOLVED, FURTHER, that the proper officers of the Corporation be and they are hereby authorized and directed to take such other action and execute such documents as they in their sole discretion may determine advisable to accomplish the purposes of the foregoing resolutions.

Alternative Illiquid Assets and Valuation Criteria for Alternative Assets

Next, Mr. Ricks and Mr. Long reviewed a Report on Alternative Illiquid Assets, copies of which had previously been distributed to each Director. The Report described the investment objective for Alternative Illiquid Assets as the generation of a minimum total return equal to the Standard & Poor's 500 Index plus 500 basis points and recommended reactivation of a co-investment program, whereby up to 25% of total commitments to partnership funds would be co-invested, on an unpromoted basis, as part of an investment strategy to exceed that benchmark. The Report set forth a strategic plan to invest a policy target of 15% of the market value of the Permanent University Fund and the Long Term Fund in Alternative Illiquid Assets and proposed the following asset allocation within the Alternative Illiquid Asset category: Special Equities—20%; Mezzanine—20%; and Venture (early stage)—10%. Mr. Ricks and Mr. Long responded to questions raised by Directors. (Mr. Holland, Ms. Iberg and Mr. Preston left the meeting room during the discussion of the Report.)

Mr. Turner then made a brief report concerning conflict of interest and other ethical issues that may be raised by investments in Alternative Assets, during which he responded to questions from Directors.

Mr. Ricks then reviewed a proposed Valuation Criteria for Alternative Assets, copies of which had previously been distributed to each Director. The Valuation Criteria sets forth a proposed methodology to determine the market value in financial reports of Alternative Illiquid, Alternative Liquid and Inflation Hedging Assets. The Directors discussed the proposed Valuation Criteria and asked questions of Mr. Ricks.

After further discussion, upon motion duly made and seconded, the following resolution was unanimously adopted:

RESOLVED, that the strategic plan to invest a policy target of 15% of the market value of the Permanent University Fund and the Long Term Fund in Alternative Illiquid Assets and the Valuation Criteria for Alternative Assets, attached hereto as Exhibit F, as presented by the President, are hereby approved.

Approval of Austin Ventures V, L.P.

Mr. Long and Mr. Nickels then reviewed a Due Diligence Review and Recommendation describing a proposed limited partnership investment in Austin Ventures V, L.P., copies of which had previously been furnished to each Director. After discussion, Joe Aragona and Ken DeAngelis, representatives of Austin Ventures, joined the meeting. Mr. Aragona and Mr. DeAngelis reviewed a written presentation to the Corporation, copies of which were distributed to each Director. Their presentation described Austin Ventures V, L.P., including the prior performance, experience, capabilities, strategy and commitment of Austin Ventures. After responding to questions from Directors, Mr. Aragona and Mr. DeAngelis left the meeting room. Mr. Ricks then made a brief presentation on the proposed investment. Following discussion, upon motion duly made and seconded, the following resolutions were unanimously adopted:

WHEREAS, the Board of Directors has reviewed a Due Diligence Memorandum and Recommendation prepared by the Corporation's management recommending that the Corporation enter into a Limited Partnership Agreement (the "Agreement") with A.V. Partners V, L.P., to invest Permanent University Fund ("PUF") and Long Term Fund ("LTF") assets in Austin Ventures V, L.P. (the "Fund") in an amount equal to the lesser of 20% of capital raised by the Fund or \$15 million; and

WHEREAS, on December 20, 1996, the Board heard a presentation from and interviewed representatives of A.V. Partners V, L.P., concerning the Fund; and

WHEREAS, the Board desires to enter into the Agreement with A.V. Partners V, L.P., to invest PUF and LTF assets in the Fund in an amount equal to the lesser of 20% of capital raised by the Fund or \$15 million; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in Austin Ventures V, L.P. Due Diligence Review and Recommendation dated December 20, 1996 be approved; and be it further

RESOLVED, that the President and any Vice President of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to the Fund; and be it further

RESOLVED, that the President and any Vice President be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

Approval of SKM Equity Fund II, L.P.

Mr. Long and Mr. Nickels also reviewed a Due Diligence Review and Recommendation describing a proposed limited partnership investment in SKM Equity Fund II, L.P., copies of which had previously been furnished to each Director. After discussion, Thomas Saunders and Allan Karp, representatives of SKM Partners, joined the meeting. Mr. Saunders and Mr. Karp reviewed a written presentation to the Corporation, copies of which were distributed to each Director. Their presentation described SKM Equity Fund II, L.P., including the prior performance, experience, capabilities, strategy and commitment of SKM Partners. After responding to questions from Directors, Mr. Saunders and Mr. Karp left the meeting room. Mr. Ricks then made a brief presentation on the proposed investment. Following discussion, upon motion duly made and seconded, the following resolutions were unanimously adopted:

WHEREAS, the Board of Directors has reviewed a Due Diligence Memorandum and Recommendation prepared by the Corporation's management recommending that the Corporation enter into a Limited Partnership Agreement (the "Agreement") with SKM Partners to invest Permanent University Fund ("PUF") and Long Term Fund ("LTF") assets in SKM Equity Fund II, L.P. (the "Fund") in an amount equal to the lesser of 20% of capital raised by the Fund or \$40 million; and

WHEREAS, on December 20, 1996, the Board heard a presentation from and interviewed representatives of SKM Partners concerning the Fund; and

WHEREAS, the Board desires to enter into the Agreement with SKM Partners to invest PUF and LTF assets in the Fund in an amount equal to the lesser of 20% of capital raised by the Fund or \$40 million; and

WHEREAS, the Corporation has determined that the Agreement does not constitute an agreement or transaction entered into in violation of Subsection 66.08(i) of the Texas Education Code;

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed investment as described in SKM Equity Fund II, L.P. Due Diligence Review and Recommendation dated December 20, 1996 be approved; and be it further

RESOLVED, that the President and any Vice President of this Corporation be, and each of them hereby is, authorized to make such further revisions to the terms and provisions as may be necessary or in the best interests of this Corporation, excluding an increase in the amount of the capital commitment to the Fund; and be it further

RESOLVED, that the President and any Vice President be, and each of them hereby is, authorized and empowered (any one of them acting alone) to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Agreement), in the name and on behalf of the Corporation, or otherwise, as such officer of this Corporation may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of this Corporation under the Agreement and the instruments referred to therein.

(Mr. Ricks, Mr. Long and Mr. Nickels left the meeting room.)

Report of the Compensation Committee

Mr. Fisher reported that the Compensation Committee had met earlier in the day. The Committee had received a Report from Diane Doubleday and Marilyn Evans, representatives of William M. Mercer Incorporated. Mercer had been retained to assess the Corporation's compensation programs. The Mercer Report examined the Corporation's base salary structure and performance compensation plan. Mr. Fisher reported that the Committee had requested Mercer to do further analysis, particularly with regard to the Corporation's performance compensation plan, and report back to the Committee. As a result, the Committee will probably need to meet again in early 1997. Mr. Fisher also reported that the Committee approved the annual performance compensation plan awards for the performance period ended September 30, 1996, as presented by the President.

Report of the Audit and Ethics Committee

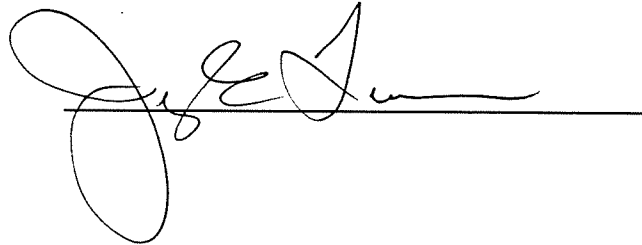
Mr. Evans reported that the Audit and Ethics Committee had met on November 8, 1996. During the meeting, William Strange, CPA, representing the firm of Deloitte and Touche, discussed the results of his firm's audit of the Corporation and the Permanent University Fund, the Long Term Fund and the Short/Intermediate Term Fund. Mr. Evans reported that the Committee had approved the draft Independent Auditor's Reports and accompanying Financial Statements of the Corporation and the Long Term and Short/Intermediate Term Funds and the Financial Statements related to Investment Assets and Liabilities of the Permanent University Fund for the year ended August 31, 1996, all as presented by Mr. Strange. Mr. Evans also advised the Directors that the State Auditor had issued his report on investment practices at The University of Texas System.

Next Meeting

Mr. Hicks advised the Directors that he would call a special meeting of the Board of Directors to be held at the offices of Hicks, Muse, Tate & Furst, 200 Crescent Court, Suite 1600, Dallas, Texas, on Monday, January 27, 1997.

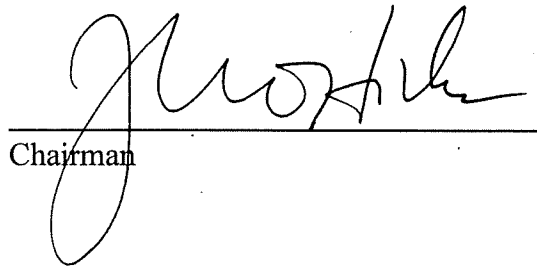
The being no further business to come before the Board of Directors, the meeting was adjourned at approximately 4:00 p.m.

Secretary



A handwritten signature in cursive script, appearing to read "John D. ...", written over a horizontal line.

APPROVED:



A handwritten signature in cursive script, appearing to read "John D. ...", written over a horizontal line.

Chairman

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**THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
INVESTMENT POLICY STATEMENT**

Purpose

The Long Term Fund (the "Fund"), succeeded the Common Trust Fund in February, 1995, and was established by the Board of Regents of The University of Texas System (the "Board") 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 Fund provides for greater diversification of investments than what might be possible if each account were managed separately.

Fund Organization

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

Fund Management

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

Unaffiliated investment managers may be hired by UTIMCO to improve the Fund's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

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

Funds Eligible to Purchase Fund Units

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

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

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

- A. the purchase of Fund units by foundation funds is approved by the chief investment officer
- B. all members of the foundation's governing board are also members of the Board
- C. the foundation has the same fiscal year as the Fund
- D. a contract between the Board and the foundation has been executed authorizing investment of foundation funds in the Fund
- E. no officer of such foundation, other than members of the Board, the Chancellor, the chief investment officer or his or her delegate shall have any control over the management of the Fund other than to request purchase and redemption of Fund units.

Fund Investment Objectives

The primary investment objective shall be to preserve the purchasing power of Fund assets and annual distributions by earning an average annual total return after inflation of 5.5% over rolling ten year periods or longer. The Fund's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

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

Asset Allocation

Asset allocation is the primary determinant of investment performance and, subject to the asset allocation ranges specified herein, is the responsibility of UTIMCO. Specific asset allocation targets may be changed from time to time based on the economic and investment outlook. Fund assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

1. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.
2. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund income. Such bonds should be high quality, and intermediate to long-term duration with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction.
3. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Fund.
4. Alternative Assets - generally consist of alternative liquid investments, alternative illiquid investments, and inflation hedging assets. Alternative asset investments shall be considered to be equities and expected to earn superior equity type returns over extended periods. The advantages of alternative investments is that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their low correlation characteristics. The disadvantages of this asset class are that they are illiquid, require higher and more complex fees, and are dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative investments shall be controlled with extensive due diligence and diversification of investments.

Alternative Marketable Investments -

These investments are broadly defined to include hedge funds, arbitrage and special situation funds, high yield bonds, distressed obligations and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. As such, they offer faster drawdown of committed capital and earlier realization potential than alternative "illiquid" investments. Alternative marketable investments may be made through partnerships, but they will generally provide investors with liquidity at least annually.

Alternative Illiquid Investments -

These investments are generally held through limited partnership interests. They include private equity, buyout, mezzanine debt, and venture capital investments that are privately held and which are not registered for sale on public exchanges. In general, these investments require a commitment of capital for extended periods of time with no liquidity.

Inflation Hedging Assets -

This category includes oil and gas interests, real estate, commodities, and other assets whose current incomes and principal values generally increase as inflation accelerates. These investments may be made through marketable securities or illiquid investments.

Asset Allocation Policy

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

The long-term asset allocation policy targets for the Fund recognize that the 5.5% real return objective implies a high allocation to broadly defined equities, including domestic, international stocks, and alternative asset investments, of 70% to 90%. The allocation to Fixed Income should not exceed 30% of the Fund.

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

Performance Measurement

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

Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment guidelines include the following:

General

- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of Fund assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the Fund's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The Fund may utilize Derivative Securities to simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes, to facilitate trading, to reduce transaction costs, or to seek higher investment returns when a Derivative Security is priced more attractively than the underlying security or index or to hedge risks associated with Fund investments. Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts. The Fund may enter into Derivative Security contracts provided that no more than 5% of Fund assets are required as a margin deposit for such contracts. Additionally, the Fund's investments in warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges. Under no circumstances may Derivative Securities be used for speculative purposes, to leverage the Fund's net assets or to otherwise increase the risk of the Fund above the level appropriate for the Fund if Derivative Securities were not being utilized.

UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Fund and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Fund's underlying securities.

UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Fund.

In the event that there are no Derivative Securities traded on a particular market index such as MSCI EAFE, the Fund may utilize a composite of other Derivative Security contracts to simulate the performance of such index. UTIMCO shall

attempt to reduce any tracking error from the low correlation of the selected Derivative Securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

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

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

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include internal short term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds must be approved by the chief investment officer.
- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase Agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

Fixed Income

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

- Not less than 85% of the market value of domestic fixed income securities shall be invested in direct obligations of the U. S. Treasury.

- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are a) rated, not less than Baa or BBB, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, Fitch Investors Service; or b) in the event that a corporate bond is not rated, it is determined by UTIMCO's investment staff to be at least equal in credit quality and liquidity to the above mentioned ratings.
- The duration of the domestic fixed income portfolio shall be not less than four years unless approved in advance by the UTIMCO Board.
- Not more than 25% of the Fund's fixed income portfolio may be invested in non-U. S. dollar bonds. International currency exposure may be hedged or unhedged at UTIMCO's discretion. Not more than 15% of the Fund's fixed income portfolio may be invested in bonds denominated in any one of the following currencies: Japanese Yen, German Mark, British Pound. Not more than 5% may be invested in bonds denominated in any other currency. Non-dollar bond investments shall be restricted to bonds rated Aa or better.

Equities

- I. The Fund shall:
 - A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market
 - B. hold no more than 5% of its equity securities in the securities of one corporation at market unless authorized by the chief investment officer.

Alternative Assets

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

- II. possess specialized investment skills
- III. possess full investment discretion subject to the management agreement
- IV. are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken
- V. align the interests of the investor group with the management as closely as possible
- VI. charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.

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

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

Fund Distributions

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

- a) provide a predictable, stable stream of distributions over time
- b) ensure that the inflation adjusted value of distributions is maintained over the long-term
- c) ensure that the inflation adjusted value of Fund assets after distributions is maintained over the long-term.

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

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

UTIMCO shall be responsible for establishing the Fund's distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise established by UTIMCO and approved by the Board or prohibited by the Act, fund distributions shall be based on the following criteria:

- **Step 1**

The annual unit distribution amount (currently \$0.175 per unit) shall remain constant until this per unit amount is less than or equal to a distribution percentage of 4.5% calculated as follows:

- a) Using the most recent August 31st year-end, determine an average unit market value using the trailing 12 quarters including the year-end selected
- b) Using the most recent August 31st year-end, determine an average per unit distribution amount using the trailing 12 quarters including the year end selected
- c) Divide step b) by step a) to determine the distribution percentage. If this result is less than or equal to 4.5%, the distribution amount per unit for the next fiscal year shall be established as provided in step 2.

- **Step 2**

- A. Increase the prior year's per unit distribution amount by the average inflation rate (C.P.I.) for the past three years. This is the per unit distribution amount for the next fiscal year beginning with the fiscal year immediately following the date of the distribution recommendation by the UTIMCO Board.
- B. If the inflationary increase in Step 2 results in a distribution rate below 3.5%, the UTIMCO Board, at its sole discretion, may grant an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 4.5%.
- C. If the distribution rate exceeds 5.5%, the UTIMCO Board at its sole discretion, may reduce the per unit distribution amount.

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

Fund Accounting

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

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 Fund net assets and the net asset value per unit of the Fund. Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

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

Purchase of Fund 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 Fund or contribution of assets approved by the chief investment officer, at the net asset value per unit of the Fund as of the most recent quarterly valuation date.

In order to permit complete investment of funds and to avoid fractional units, any purchase amount will be assigned a whole number of units in the Fund based on the appropriate per unit value of the Fund. Any fractional amount of purchase funds which exceeds the market value of the units assigned will be transferred to the Fund but no units shall be issued. Each fund whose monies are invested in the Fund shall own an undivided interest in the Fund in the proportion that the number of units invested therein bears to the total number of all units comprising the Fund.

Redemption of Fund Units

Redemption of Units shall be paid in cash as soon as practicable after the quarterly valuation date of the Fund. If the withdrawal is greater than \$10 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than \$10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the Fund's net asset value, the Board may redeem the requested units in installments and on a pro-rata basis over a reasonable period of time that takes into consideration the best interests of all Fund unitholders. Withdrawals from the Fund 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 Fund for a period less than or equal to one year determined from the date of the contribution to the Fund. This provision does not apply to transfer of units between endowment unitholders.

Securities Lending

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

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

Investor Responsibility

As a shareholder, the Fund 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 Fund. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Fund solely in the interest of Fund unitholders and shall not invest the Fund 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 February 6, 1997.

**THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND
INVESTMENT POLICY STATEMENT**

Purpose

The Permanent University Fund (the "Fund") 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 and Texas A&M University--Texarkana).

Fund Organization

The Permanent University Fund 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 Permanent University Fund were completed in 1883 with the contribution of an additional one million acres of land. Today, the Permanent University Fund contains 2,109,190 acres of land (the "PUF Lands") located in 24 counties primarily in West Texas.

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, in the form of surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested in securities. Surface income, as a renewable source of income, is distributed to the Available University Fund, (the "AUF") as received.

The Constitution prohibits the distribution and expenditure of mineral income contributed to the Fund and the realized and unrealized gains earned from Fund investments. The Constitution also requires the distribution of all PUF investment income to the AUF to be expended for certain authorized purposes.

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

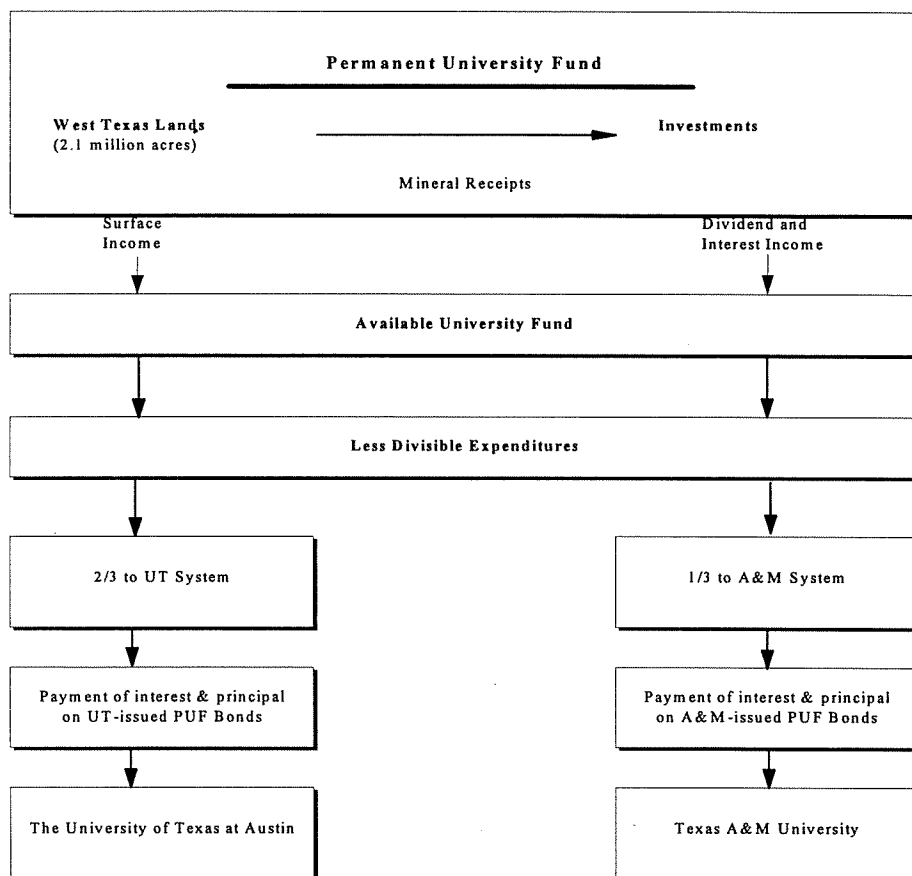
First, expenses incurred in the administration of PUF Lands and Investments. Resolutions adopted by the U. T. Board of Regents (the "U. T. Board") require that administrative expenses of the PUF be restricted to a minimum consistent with prudent business judgment. Second, following a 2/3rds and 1/3rd allocation of distributed PUF income (net of administrative expenses) to the U. T. System and Texas A&M University System, respectively, expenditures for debt service on PUF bonds. Article VII of the Texas Constitution authorizes the U. T. Board and the Texas A&M University System (the "TAMUS Board") to issue bonds payable from their respective interests in distributed PUF income to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes

secured by each System's interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUF parity obligations unless the projected interest in PUF net income for each System covers projected debt service at least 1.5 times.

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

The distribution of income and expenditures from the PUF to the AUF is depicted below in Exhibit 1:

Exhibit 1



Fund Management

Article VII of the Texas Constitution assigns fiduciary responsibility for managing and investing the Fund to the U. T. Board. Article VII authorizes the U. T. Board, subject to procedures and restrictions it establishes, to invest the Fund in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent person investment standard. This standard requires that the U. T. Board, in making investments, shall exercise the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and

intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital.

Ultimate fiduciary responsibility for the Fund rests with the Board. Section 66.08 of the Texas Education Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in investment of the PUF. The Fund shall be managed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the Fund, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with Fund objectives, and c) monitor Fund performance against Fund objectives. UTIMCO shall invest the Fund's assets in conformity with investment policy.

Unaffiliated investment managers may be hired by UTIMCO to improve the Fund's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

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

Fund Investment Objectives

The primary investment objective shall be to preserve the purchasing power of Fund assets and annual distributions by earning an average annual total return after inflation of 5.5% over rolling ten-year periods or longer. The Fund's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

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

The U. T. Board recognizes that achievement of Fund investment objectives is substantially hindered by the inability to make distributions on a total return basis and current distribution rates in excess of long-term equilibrium levels.

Asset Allocation

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

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

1. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.
2. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund. Such bonds should be high quality, and intermediate to long-term maturity with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction.
3. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund. Historically, returns for equities have been higher than for bonds over all extended periods. As such, equities represent the best chance of preserving the purchasing power of the Fund.
4. Alternative Assets - generally consist of alternative liquid investments, alternative illiquid investments, and inflation hedging assets. Alternative asset investments shall be considered to be equities and expected to earn superior equity type returns over extended periods. The advantages of alternative investments is that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund assets through their low correlation characteristics. The disadvantages of this asset class are that they are illiquid, require higher and more complex fees, and are dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative investments shall be controlled with extensive due diligence and diversification of investments.

Alternative Marketable Investments -

These investments are broadly defined to include hedge funds, arbitrage and special situation funds, high yield bonds, distressed obligations and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. As such, they offer faster drawdown of committed capital and earlier realization potential than alternative "illiquid" investments. Alternative marketable investments may be made through partnerships, but they will generally provide investors with liquidity at least annually.

Alternative Illiquid Investments -

These investments are generally held through limited partnership interests. They include private equity, buyout, mezzanine debt, and venture capital investments that are privately held and which are not registered for sale on public exchanges.

In general, these investments require a commitment of capital for extended periods of time with no liquidity.

Inflation Hedging Assets -

This category includes oil and gas interests, real estate, commodities, and other assets whose current incomes and principal values generally increase as inflation accelerates. These investments may be made through marketable securities or illiquid investments.

Asset Allocation Policy

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

The long-term asset allocation policy targets for the Fund recognizes that the 5.5% real return objective implies a high allocation to broadly defined equities, including domestic, international stocks, and alternative asset investments of 50% to 90%. The allocation to Fixed Income should not exceed 50% of the Fund.

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

Performance Measurement

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

Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment guidelines include the following:

General

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

- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of Fund assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the Fund's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The Fund may utilize Derivative Securities to simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes, to facilitate trading, to reduce transaction costs, or to seek higher investment returns when a Derivative Security is priced more attractively than the underlying security or index or to hedge risks associated with Fund investments. Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts. The Fund may enter into Derivative Security contracts provided that no more than 5% of Fund assets are required as a margin deposit for such contracts. Additionally, the Fund's investments in warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges. Under no circumstances may Derivative Securities be used for speculative purposes, to leverage the Fund's net assets or to otherwise increase the risk of the Fund above the level appropriate for the Fund if Derivative Securities were not being utilized.

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

In the event that there are no Derivative Securities traded on a particular market index such as MSCI EAFE, the Fund may utilize a composite of other Derivative Security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected Derivative Securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

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

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

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include internal short term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds must be approved by the chief investment officer.
- Deposits of the Texas State Treasury.
- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase Agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

Fixed Income

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

- Not less than 50 % of the market value of domestic fixed income securities shall be invested in securities issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies.
- Not more than 50% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase are a) rated, not less than Baa or BBB, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, Fitch Investors Service; or b) in the event that a corporate bond is not

rated, it is determined by UTIMCO's investment staff to be at least equal in credit quality and liquidity to the above mentioned ratings.

- The weighted average maturity of the domestic fixed income portfolio shall be not less than ten years unless approved in advance by the UTIMCO Board.
- Not more than 25% of the Fund's fixed income portfolio may be invested in non-U. S. dollar bonds. International currency exposure may be hedged or unhedged at UTIMCO's discretion. Not more than 15% of the Fund's fixed income portfolio may be invested in bonds denominated in any one of the following currencies: Japanese Yen, German Mark, British Pound. Not more than 5% may be invested in bonds denominated in any other currency. Non-dollar bond investments shall be restricted to bonds rated Aa or better.

These guidelines shall not require the sale of any fixed income investments prior to their scheduled maturities unless the credit quality of the fixed income portfolio shall decline below Aa2.

Equities

- The Fund shall:
 - hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market
 - hold no more than 5% of its equity securities in the securities of one corporation at market unless authorized by the chief investment officer.

Alternative Assets

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

- possess specialized investment skills
- possess full investment discretion subject to the management agreement
- are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken
- align the interests of the investor group with the management as closely as possible
- charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.

Investments in alternative assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the Fund has invested prior to the co-investment or in transactions sponsored by investment firms well-known to UTIMCO management, provided that such direct investments shall not exceed

~~25% of the market value of the alternative assets portfolio at the time of the direct investment.~~

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

Fund Distributions

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

- a) provide a predictable, stable stream of distributions over time
- b) ensure that the inflation adjusted value of distributions is maintained over the long-term
- c) ensure that the inflation adjusted value of Fund assets after distributions is maintained over the long-term.

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

The Texas Constitution requires that all dividends, interest and other income earned from Fund investments be distributed to the AUF. At the same time, the Constitution prohibits the distribution of mineral income contributed to the Fund and any realized and unrealized gains earned on such contributions.

UTIMCO shall be responsible for the establishment of the Fund's asset allocation so as to produce an annual income distribution that balances the needs of current beneficiaries with those of future beneficiaries. The Board explicitly recognizes that the generation of income under the Constitutional provisions governing the Fund is highly dependent upon the level of interest rates over which the UTIMCO Board has no control. It also recognizes that the distribution rate as a percentage of the Fund's assets is above average and that the maintenance of current levels of distributed income reduces the UTIMCO Board's ability to grow income over time.

Fund Accounting

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

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 Fund net assets. Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

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

Securities Lending

The Fund may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of securities by the Fund shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate. The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the Fund 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 Fund. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Fund solely in the interest of Fund unitholders and shall not invest the Fund 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 February 6, 1997.

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

Purpose

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

Fund Organization

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

Fund Management

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

Unaffiliated investment managers may be hired by UTIMCO to improve the Fund's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

Fund Administration

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

Funds Eligible to Purchase Fund Units

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

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

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

- A. the purchase of Fund units by foundation funds is approved by the chief investment officer
- B. all members of the foundation's governing board are also members of the Board
- C. the foundation has the same fiscal year as the Fund
- D. a contract between the Board and the foundation has been executed authorizing investment of foundation funds in the Fund
- E. no officer of such foundation, other than members of the Board, the Chancellor, the chief investment officer or his or her delegate shall have any control over the management of the Fund other than to request purchase and redemption of Fund units.

Fund Investment Objectives

The primary investment objective shall be to provide both income through investment in high grade fixed income obligations and capital appreciation when consistent with income generation, reasonable preservation of capital and maintenance of adequate Fund liquidity. In seeking to achieve its objectives, the Fund shall attempt to minimize the probability of a negative total return over a one-year period. Within the exposure limits contained herein, investments shall be diversified among authorized asset classes and issuers (excluding the U. S. Government) in order to minimize portfolio risk for a given level of expected return.

Achievement of this objective shall be defined by a fund return in excess of the Policy Portfolio benchmark and the average return of the median manager of the MorningStar universe of government bond funds restricted to an average maturity of less than or equal to three years. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect Fund asset allocation policy targets.

Asset Allocation

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

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

1. Cash and Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide the best combination of income and liquidity under both deflation and inflation conditions.
2. Fixed Income Investments - offer predictable income streams without the remarketing risk often associated with cash and cash equivalents.

Asset Allocation Policy

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

The Board delegates authority to UTIMCO to establish specific asset allocation targets and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for or within the asset classes listed above as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the Board.

Performance Measurement

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

Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment guidelines include the following:

General

- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of Fund assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the Fund's tax-exempt status.

- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The Fund may utilize Derivative Securities to simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes, to facilitate trading, to reduce transaction costs, or to seek higher investment returns when a Derivative Security is priced more attractively than the underlying security or index or to hedge risks associated with Fund investments. Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts. The Fund may enter into Derivative Security contracts provided that no more than 5% of Fund assets are required as a margin deposit for such contracts. Under no circumstances may Derivative Securities be used for speculative purposes, to leverage the Fund's net assets or to otherwise increase the risk of the Fund above the level appropriate for the Fund if Derivative Securities were not being utilized.

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

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

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

adequate short-term investments.

- The duration of the portfolio shall be not less than one and not more than four years unless approved in advance by the UTIMCO Board.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include internal short term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds must be approved by the chief investment officer.
- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase Agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

Fixed Income

Holdings of domestic fixed income securities shall be limited to those securities issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies

Fund Distributions

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

Fund Accounting

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

Valuation of Assets

UTIMCO shall determine the fair market value of all Fund net assets and the net asset value per unit of the Fund no less than once a week and on the last business day of each

month. Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation.

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

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

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

Redemption of Fund Units

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

Securities Lending

The Fund 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 Fund solely in the interest of Fund unitholders and shall not invest the Fund 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 February 6, 1997.

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

Purpose

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

Fund Organization

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

Fund Management

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

Unaffiliated investment managers may be hired by UTIMCO to improve the Fund's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

Fund Administration

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

Funds Eligible to Purchase Fund Units

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

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

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

- A. the purchase of Fund units by foundation funds is approved by the chief investment officer
- B. all members of the foundation's governing board are also members of the Board
- C. the foundation has the same fiscal year as the Fund
- D. a contract between the Board and the foundation has been executed authorizing investment of foundation funds in the Fund
- E. no officer of such foundation, other than members of the Board, the Chancellor, the chief investment officer or his or her delegate shall have any control over the management of the Fund other than to request purchase and redemption of Fund units.

Fund Investment Objectives

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

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

Asset Allocation

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

Fund assets shall be allocated among the following broad asset class:

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

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

Purpose

The Separately Invested Endowment, Trust, and Other Accounts are Accounts established in the name of the Board of Regents of The University of Texas System (the "Board") as trustee, and are Accounts which are not 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 endowment document; c) of inability to sell the gifted investment asset; or d) they are assets being migrated upon liquidation into a pooled investment vehicle.

Investment Management

Ultimate fiduciary responsibility for the assets of the Accounts rests with the Board. Section 163 of the Property Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in the investment of the institutional assets for the Account (endowment and operating accounts). The applicable trust instrument will apply to the management of trust investments. The assets for the Account shall be governed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the Accounts, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with the Account objectives, and if appropriate c) monitor the Account's performance against Account objectives. UTIMCO shall invest the Account's assets in conformity with investment policy.

Unaffiliated investment managers may be hired by UTIMCO to improve the Account's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

Account Administration

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

Investment Objectives

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

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), Charitable Trusts (CT), or Charitable Lead Trusts (CLT)). The Board 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; d) and consideration to investment preferences of the income beneficiaries. Taking these conditions into consideration, the fundamental investment objectives of the trust will be to generate a low to moderate growth in trust principal and to provide adequate liquidity in order to meet the payout provisions of the trust.

Operating Accounts- These are separately invested securities of component institutions' operating funds that were purchased prior to the creation of the S/ITF. These securities are guaranteed by the government or federally sponsored agencies. Once these securities mature, the component institutions have the option to invest them in one of the pooled investment fund vehicles.

Asset Allocation

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

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

1. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.
2. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of income for the Account. Such bonds should be high quality, with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction. This classification shall include fixed income mutual funds.
3. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation for the Account. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Account. This classification shall include equity mutual funds.

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

Asset Allocation Policy

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

The Board delegates authority to UTIMCO to establish specific asset allocation targets and ranges for each trust or endowment Account.

Performance Measurement

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

Investment Guidelines

The Accounts must be invested at all times in strict compliance with applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment guidelines include the following:

General

- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment Fund must be reviewed and approved by the chief investment officer prior to investment of Account's assets in such liquid investment Fund.
- No securities may be purchased or held which would jeopardize, if applicable, the Account's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include internal short term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds must be approved by the chief investment officer.
- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase Agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

Fixed Income

Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies, and b) issued by corporations and municipalities. These securities should be of investment quality at time of purchase.

Distributions

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

Accounting

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

Valuation of Assets

As of the close of business for each month, UTIMCO shall determine the fair market value of all assets in the Accounts. Such valuation of assets shall be based on the bank

trust custody agreement in effect or other external source if not held in the bank custody account at the date of valuation.

Securities Lending

The Account may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of securities by the Accounts shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate. The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be February 6, 1997.

LONG TERM FUND

SPECIFIC ASSET ALLOCATION TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

	<u>Target</u>	<u>Range</u>	<u>Performance Objective</u>
Cash and Equivalents	0%	0.0%-5.0%	91 day T-Bill Ave. Yield
Equities			
U. S. Common Stocks:			
Med/Large Capitalization Stocks	30%	25%-35%	S&P 500 Index
Small Capitalization Stocks	<u>10%</u>	<u>5%-15%</u>	Russell 2000 Index
sub-total	40%	30%-50%	
International Common Stocks:			
Established Markets	12%	5%-20%	FT Actuaries World (ex-U.S.)
Emerging Markets	<u>3%</u>	<u>0%-10%</u>	MSCI-Emerging Mkts. Free
sub-total	<u>15%</u>	<u>5%-30%</u>	
Total Common Stocks	55%	35%-80%	
Alternative Assets:			
Liquid	5%	0%- 5%	C.P.I. + 8%
Illiquid	15%	10%-20%	S&P500 Index + 5%
Inflation Hedging	<u>5%</u>	<u>0%-5%</u>	C.P.I. + 5%
Total Alternative Assets	25%	10%-30%	
TOTAL EQUITIES	80%	75%-85%	
Fixed Income			
U. S. (Domestic)	15%	15%-25%	Lehman Govt. Long Index
International	5%	0%-5%	JPM Global Govt.
Bond (ex U.S.)			
TOTAL FIXED INCOME	<u>20%</u>	<u>15%-25%</u>	
TOTAL ASSETS	100%		

Achievement of these performance objectives is most appropriately evaluated over a full market cycle of roughly five years. The rebalancing of Fund assets to achieve the target allocations shall be subject to the funding of alternative assets.

PERMANENT UNIVERSITY FUND

SPECIFIC ASSET ALLOCATION TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

	<u>Target</u>	<u>Range</u>	<u>Performance Objective</u>
Cash and Equivalents	0%	0.0%-5.0%	91 day T-Bill Ave. Yield
Equities			
U. S. Common Stocks:			
Med/Large Capitalization Stocks	30%	25%-35%	S&P 500 Index
Small Capitalization Stocks	<u>10%</u>	<u>5%-15%</u>	Russell 2000 Index
sub-total	40%	30%-50%	
International Common Stocks:			
Established Markets	12%	5%-20%	FT Actuaries World (ex-U.S.)
Emerging Markets	<u>3%</u>	<u>0%-10%</u>	MSCI-Emerging Mkts. Free
sub-total	<u>15%</u>	<u>5%-30%</u>	
Total Common Stocks	55%	35%-80%	
Alternative Assets:			
Liquid	5%	0%- 5%	C.P.I. + 8%
Illiquid	15%	10%-20%	S&P500 Index + 5%
Inflation Hedging	<u>5%</u>	<u>0%-5%</u>	C.P.I. + 5%
Total Alternative Assets	25%	10%-30%	
TOTAL EQUITIES	80%	50%-85%	
Fixed Income			
U. S. (Domestic)	15%	15%-50%	Lehman Govt. Long Index
International	5%	0%-5%	JPM Global Govt.
Bond (ex U.S.)			
TOTAL FIXED INCOME	<u>20%</u>	<u>15%-50%</u>	
TOTAL ASSETS	100%		

Achievement of these performance objectives is most appropriately evaluated over a full market cycle of roughly five years. The rebalancing of Fund assets to achieve the target allocations shall be subject to the objective of replicating prior year's income.

SHORT/INTERMEDIATE TERM FUND

SPECIFIC ASSET ALLOCATION TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

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

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

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

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

The specific asset allocation targets adopted by the UTIMCO Board of Directors for the PUF and LTF continues the process initiated by the U. T. Board of Regents in 1995 to diversify the Fund by reducing exposure to fixed income and U. S. domestic equities and increasing the exposure to international and alternative asset classes.