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The University of Texas Investment Management Company

UTIMCO

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

Presentation Materials Board of Directors Meeting

December 7, 2000

UTIMCO

BOARD OF DIRECTORS MEETING

The Tower Club, Allegheny Room, Thanksgiving Tower - 48th Floor,
1601 Elm Street, Dallas, Texas

December 7, 2000

AGENDA

10:00 a.m. - 10:05 a.m. Call to Order/Approval of Minutes of October 27, 2000 Meeting

10:05 a.m. - 10:20 a.m. Performance Review

10:20 a.m. - 11:20 a.m. Alternative Equities – Marketable
Manager Presentation: The Maverick Fund, Ltd.-Lee S. Ainslie, III
Manager Presentation: Farallon Capital Offshore Investors, Inc.-Thomas Steyer

11:20 a.m. - 11:45 a.m. Approval of Unitization of PHF and LTF
Approval of Amendment to Investment Management Service Agmts.
U. T. System Board of Regents
State Comptroller

11:45 a.m. - 12:00 p.m. Approval of Investment Policy Statements

12:00 p.m. - 12:30 p.m. [Lunch Break]

12:30 p.m. - 12:45 p.m. Report of Audit and Ethics Committee

12:45 p.m. - 1:45 p.m. Approval of Private Equity Investment Program

1:45 p.m. Adjournment

Next Scheduled Meeting: Thursday, February 22, 2001

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Resolution No. 1

RESOLVED, that the minutes of the Meeting of the Board of Directors held on October 27, 2000 be and are hereby approved.

MINUTES OF SPECIAL 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 a special meeting on the 27th of October 2000 at the Headliners Club, 21st Floor, 221 W. 6th Street, Austin, Texas, said meeting having been called by the Vice 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 (the "Board"):

Robert H. Allen, Vice Chairman
R. D. (Dan) Burck
Woody L. Hunt
J. Luther King
John D. McStay
A. W. "Dub" Riter, Jr.
A. R. (Tony) Sanchez, Jr.

thus, constituting a majority and quorum of the Board of Directors. Directors Susan Byrne and Lowry Mays were absent. Also participating in the meeting were Thomas G. Ricks, President of the Corporation; Cathy Iberg, Secretary and Treasurer for the Corporation; David Russ and Greg Cox of Corporation's management; and Jerry Turner, Vinson & Elkins, legal counsel for the Corporation.

Mr. Allen called the meeting to order at 10:05 a.m. Copies of materials supporting the Board meeting agenda were previously furnished to each Director.

Executive Session

Mr. Allen requested that the Directors convene in executive session at 10:06 a.m. to discuss the election of Corporate officers and the fiscal year 2000 performance compensation award for the Corporation's President and CEO. All staff members left the meeting except for Mr. Ricks, who left the meeting during the discussion of his performance compensation award.

The Directors reconvened the meeting in open session at 11:03 a.m. It was noted that Mr. Sanchez joined the meeting at 11:00 a.m. Mr. Allen stated that the Directors did not take any action in the closed session.

Minutes

The first item to come before the Board was approval of the minutes of the meeting of the Board of Directors held on September 26, 2000. Mr. Allen requested that the portfolio manager monitoring guidelines circulated to the Board members following the September meeting be incorporated as an integral part of the September meeting minutes. 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 September 26, 2000 be and are hereby approved.

Report of Compensation Committee

Mr. King summarized the meeting of the Board's Compensation Committee held on October 24, 2000. Mr. King stated that the committee approved the fiscal year 2000 bonus awards for Corporation's staff. The committee also approved a budget for performance compensation to employees not covered by the Corporation's performance compensation plan for the fiscal year 2001 of $123,750. Mr. King stated that the committee had approved bonus compensation for Mr. Ricks and now recommended approval of the following resolution by the Board. Upon motion duly made and seconded, the following resolution was unanimously adopted:

> RESOLVED, that the 2000 Performance Compensation (for the period January 1, 2000 through August 31, 2000) for the Corporation's President and CEO as recommended by the Compensation Committee be and is hereby approved.

Following the resolution, the Directors discussed the fiscal year 2001 Performance Compensation Plan. The Directors determined that the 2001 Performance Compensation Plan required further review and should be revisited at a subsequent board meeting.

Election of Officers

The next item to come before the Board was the appointment of officers for the Corporation. Upon motion duly made and seconded, the following resolution was unanimously adopted:

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

Name	Office or Offices
Robert H. Allen	Chairman
Woody L. Hunt	Vice-Chairman
Thomas G. Ricks	President and Chief Executive Officer
Cathy A. Iberg	Managing Director, Treasurer and Secretary
David H. Russ	Managing Director

Inflation Hedging Assets

The next item to come before the Board was a presentation on the inflation hedging asset class. Mr. Ricks stated that this new asset class was approved by the Board in September of 1999, and turned the presentation over to Mr. Russ. Mr. Russ stated that the Goldman Sachs Commodities Index (GSCI) futures and REITs are the primary investment portfolios comprising the inflation hedging asset class. Mr. Russ reviewed in detail the strategy and implementation of the GSCI program. Mr. Russ concluded his discussion by stating that the inflation hedging asset class added 90, 100, and 98 basis points of outperformance versus its benchmark for the fiscal year 2000 for the LTF, PUF and the PHF, respectively.

Mr. McStay left the meeting during the inflation hedging asset presentation. Mr. Russ turned the presentation over to Mr. Cox, investment manager for the REIT portfolios. Mr. Cox presented the portfolios' objectives, his investment philosophy, his stock selection process and the returns for the REIT portfolios for each of the last six years starting with the year ended September 30, 1995.

Executive Report

Mr. Ricks stated that the excess returns for fiscal year 2000 were 1.72%, 1.28%, 5.78%, -.03% and .40% for the PUF, PHF, LTF, SITF and STF, respectively. The investment in non-conventional asset classes for the endowment funds produced the greatest benefit. The combined excess return of the PUF, PHF, LTF, SITF translated to $270.4 million of economic value added ("EVA"). EVA was calculated by subtracting the weighted average cost of capital and investment management expenses for each fund from its gross investment return. Mr. Ricks also presented the preliminary performance results for the one-month ended September 30, 2000. Mr. Ricks reviewed the Corporation's plans for the next six months and answered the Directors' questions.

Endowment Risk Profile

Mr. Russ distributed a value at risk analysis report on the LTF for the fiscal year 2001 time horizon. He stated that the Corporation was beginning to measure risk of the endowment funds using value at risk measurement tools. He reviewed the information presented in the report with the Directors and answered their questions.

There being no further business to come before the Board of Directors, the meeting was adjourned at approximately 1:00 p.m.

Secretary: ____________________________

APPROVED:

Vice Chairman: ____________________________

ASSETS UNDER MANAGEMENT

	Asset Value	
	8/31/00	10/31/00
Endowment Funds		
Permanent University Fund	8,452.3	7,839.0
Permanent Health Fund	1,016.6	965.4
Long Term Fund	3,136.2	3,019.7
Separately Invested Funds	200.1	153.4
sub total	12,805.2	11,977.5
Operating Funds		
Short Term Fund	810.6	701.9
Short Intermediate Term Fund	1,844.4	1,881.9
Institutional Index Funds	71.0	81.2
sub total	2,726.0	2,665.0
Total Investment Assets	**15,531.2**	**14,642.5**

ENDOWMENT FUND PERFORMANCE

Performance for Periods ended October 31, 2000

Fund	2 mos.	1 Year	3 Years
UTIMCO - LTF (net)	**-3.93%**	**12.70%**	**12.27%**
UTIMCO - PUF (net)	**-3.81%**	**9.92%**	**10.64%**
UTIMCO - PHF (net)	**-4.32%**	**8.58%**	**N/A**
UTIMCO - Endowment Policy Portfolio	-2.58%	9.02%	12.50%

Performance for Periods ended September 30, 2000

Fund	1 Year	3 Years
UTIMCO - LTF (net)	**18.61%**	**11.89%**
UTIMCO - PUF (net)	**15.44%**	**10.77%**
UTIMCO - PHF (net)	**13.09%**	**N/A**
UTIMCO - Endowment Policy Benchmark	12.76%	11.87%
Russell/Mellon Foundation & Endowment Universe(1)	14.35%	11.28%
Russell/Mellon Universe of Funds >$1BN (2)	14.67%	11.65%
Russell/Mellon Trust Universe (3)	13.80%	11.20%
Texas Permanent School Fund	12.80%	13.70%
Texas Teacher Retirement System	11.52%	11.42%
Texas Employees Retirement System	7.63%	9.15%

(1) Median average return for universe of 69 and 66 funds, respectively.
(2) Median average return for universe of 93 and 87 funds, respectively.
(3) Median average return for universe of 306 and 280 funds, respectively.

ENDOWMENT FUND PERFORMANCE (CONT.)

Performance for Periods ended October 31, 2000

Manager	1 Year	31 mos.
Goldman Sachs Global Asset Allocation Account	7.72%	7.02%
UTIMCO (net)	6.43%	7.06%
Public Markets Benchmark	4.89%	7.38%

OPERATING FUNDS PERFORMANCE

Performance for Periods ended October 31, 2000

	2 Months	1 Year	3 Years	5 Years
SITF (net)	**1.46%**	**6.37%**	**5.75%**	**6.21%**
Benchmark	1.40%	6.34%	5.61%	5.84%
Alpha	0.06%	0.03%	0.14%	0.37%

	2 Months	1 Year	3 Years	5 Years
STF	**1.11%**	**6.32%**	**5.74%**	**5.66%**
91 day T-bill rate	1.05%	5.91%	5.31%	5.35%
Alpha	0.06%	0.41%	0.43%	0.31%

UNITIZATION OF ENDOWMENT FUNDS

Current Status:

- **No progress toward tax exemption for the PUF. Defer unitization of PUF assets. For PUF, need to overcome tax arbitrage issue and % of debt issuance above the 20%**
- **Obtained favorable legal opinion from Vinson & Elkins in June of 2000 to commingle the PHF and LTF for investment purposes**
- **Obtained favorable accounting letter from Deloitte and Touche in November of 2000**
- **Estimated cost savings = $183,000 for FY 2001 and 366,000 for FY2002 (schedule attached)**

Recommended Actions:

- **Establish the GEF**
- **Invest the assets of the PHF ($ 1 billion) and the LTF ($3 billion) in exchange for units in the GEF on March 1, 2001**

Required Board of Directors and Board of Regents Approvals:

- **Board of Directors approval of Investment Policy Statement for the General Endowment Fund, BOR approval on 2/15/00**
- **Board of Directors approval of amendment to the IMSA, BOR approval on 2/15/00**
- **Board of Directors approval of amendment to the IMSA with the Comptroller of State of Texas, BOR approval on 2/15/00**
- **Board of Directors approval of amendments to the Investment Policy Statements for the PHF and the LTF, BOR approval on 02/15/00**

Execution Issues:

- **Obtain approval of IMSA with the Comptroller of the State of Texas**

- **Amend Investment Contracts**
  - **Public Market investment managers-amend investment manager advisory agreements**
  - **Review and amend if necessary all master agreements for foreign currency and futures contracts**
  - **Partnership agreements-Change ownership to the GEF. Explore legal issues regarding assignment of limited partnership interest and notification to General Partners**

- **Operational Issues**
  - **Notify Russell/Mellon for performance analytic changes in advance of quarter**
  - **Establish new Account Structure with Mellon**
  - **Determine Mellon's requirements for manager account information: freezing of old accounts, authorizations for trading in new accounts**
  - **Determine any other operational issues with Mellon and Investment Managers**
  - **Determine system integration issues with the Data Warehouse-new accounts**
- **Accounting/Reporting Issues**
  - **Resolve any financial statement reporting issues prior to conversion**
  - **Complete accounting execution plan to contribute assets of each fund in exchange for units in the GEF**
  - **Resolve any performance reporting issues prior to conversion**
- **Other**
  - **Engage Deloitte and Touche to conduct a mid year audit, requires approval of Board of Directors**
  - **Work with UT System accounting to ensure smooth conversion**

UTIMCO
Projected Savings for Fiscal Year 2001 and 2002

INITIATIVE	YEAR OF SAVINGS	COST SAVINGS
Unitization of the PHF and LTF for investment purposes	2001	$ 183,191
Unitization of the PHF and LTF for investment purposes	2002	$ 366,382

Resolution No. 2

RESOLVED, that the establishment of the General Endowment Fund to serve as a pooled fund for the collective investment of long-term funds under the control and management of the U. T. Board be and is hereby approved; and

BE IT FURTHER RESOLVED, that the General Endowment Fund Investment Policy Statement as presented be and is hereby approved; and

BE IT FURTHER RESOLVED, that this amendment be recommended for approval at the U. T. Board of Regents meeting on February 15, 2001.

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT ~~LONG TERM~~ FUND
INVESTMENT POLICY STATEMENT

Purpose

The General Endowment~~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") on March 1, 2001, as a pooled fund for the collective investment of ~~private endowments and other~~ long-term funds under the control and management of the Board.~~supporting various programs of The University of Texas System.~~ The Fund provides for greater diversification of investments than would 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 66.08, Texas Education Code, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit Corporation to invest funds under the control and management of the U. T. 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"), a nonprofit -Corporation organized for the express purpose of investing funds under the control and management of the Board. 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 the volatility of investment return 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.~~A. ~~A.~~ Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.

~~2.~~B. ~~B.~~ Fixed Income Investments ~~-~~ Intermediate to long term investment grade bonds offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of 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.~~
Below investment grade bonds including high yield bonds usually behave more like equities than high-quality bonds such as Treasuries. In the recovery phase of the market such bonds frequently outperform high-quality bonds.

~~3.~~C. ~~C.~~ 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.~~D. Alternative Investments - generally consist of alternative marketable investments and alternative nonmarketable investments.

- Alternative Marketable Investments -

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

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

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

Asset Allocation Policy

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

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

Investment guidelines include the following:

<u>General</u>

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

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

- Investment policies of any unaffiliated liquid investment 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 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'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.

- The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that~~; i) no~~ leverage is not employed in the implementation of such Derivative purchases or sales.~~; ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii)~~ Leverage occurs when the notional value of the futures contracts exceeds the value of cash assets allocated to those contracts by more than 2%. The cash assets allocated to futures contracts is the sum of the value of the initial margin deposit, the daily variation margin and dedicated cash balances. This prohibition against leverage shall not apply where cash is received within 1 business day following the day the leverage occurs. UTIMCO's Derivatives Guidelines shall be used to monitor compliance with this policy. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, and the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.

- 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.

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. The net market value of exposure of 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 among foreign currencies and between foreign currencies and the U. S. dollar.

<u>Cash and Cash Equivalents</u>

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

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

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

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

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

- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

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

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

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

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

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

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

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

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

Fixed Income

Domestic Fixed Income

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

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

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

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

Non-U.S. Fixed Income

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

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

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

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

Equities

The 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 cost unless authorized by the chief investment officer.

Alternative Investments and Inflation Hedging Assets

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

A. possess specialized investment skills

B. possess full investment discretion subject to the management agreement

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

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

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

Investments in alternative nonmarketable assets and inflation hedging assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the 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 nonmarketable assets portfolio or the inflation hedging assets portfolio at the time of the direct investment.

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested 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)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.~~

~~Annually, the U. T. Board of Regents will approve a per unit distribution amount for the Fund.~~

~~In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the U. T. Board a per unit amount to be distributed to the Fund's beneficiaries during the next~~

~~fiscal year. UTIMCO's recommendation on the annual per unit distribution amount shall be based on the following policy:~~

~~A. Increase the prior year's per unit distribution amount by the average inflation rate (C.P.I.) for the previous twelve quarters.~~

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

~~C. If the inflationary increase in Step A. results in a distribution rate above 5.5% (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value per unit), the UTIMCO Board shall recommend a decrease in the distribution amount per unit as long as such decrease does not result in a distribution rate of less than 3.5%.~~

~~Following approval of the distribution amount, distributions from the Fund may be quarterly or annually at the discretion of UTIMCO Management.~~

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. The Fund's financial statements shall be audited each year by an independent accounting firm selected by UTIMCO's Board of Directors.

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. Valuation of Fund assets shall be based on the books and records of the custodian for the valuation date. ~~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. 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 March 1, 2001~~November 11, 1999~~.
~~Click here for LTF Specific Asset Allocation, Expected Return and Risk, Neutral Position, Ranges, and Performance Objectives~~

EXHIBIT A

GEF ASSET ALLOCATION

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

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

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

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

Risk is defined in annualized standard deviation terms.

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

Resolution No. 3

RESOLVED, that the First Amendment to the Amended and Restated Investment Management Services Agreement between the Corporation and the Board of Regents of The University of Texas System be and is hereby approved; and

BE IT FURTHER RESOLVED, that the First Amendment to the Investment Management Services Agreement by and between the Board of Regents of The University of Texas System and the Office of the Comptroller of Public Accounts for the State of Texas be and is hereby approved; and

BE IT FURTHER RESOLVED, that these amendments be recommended for approval at the U. T. Board of Regents meeting on February 15, 2001.

FIRST AMENDMENT
TO THE
AMENDED AND RESTATED
INVESTMENT MANAGEMENT SERVICES AGREEMENT

This First Amendment to the Amended and Restated Investment Management Services Agreement (this "Amendment") by and between the Board of Regents (the "U. T. Board") of The University of Texas System (the "U. T. System") and The University of Texas Investment Management Company ("UTIMCO"), a Texas non-profit corporation, is effective March 1, 2001 (the "Effective Date").

RECITALS

WHEREAS, the U. T. Board and UTIMCO entered into a certain Investment Management Services Agreement effective March 1, 1996, as amended and restated, effective on November 16, 2000 (the "Agreement"), to authorize UTIMCO to invest certain designated funds under the control and management of the U. T. Board; and

WHEREAS, the U. T. Board and UTIMCO desire to enter into this Amendment to the Agreement in order to provide authorization for the management of the General Endowment Fund, and

WHEREAS, all conditions precedent to the execution and delivery of this Amendment have been fully satisfied and fulfilled, including, without limitation, the condition established by Section 16 of the Agreement;

NOW THEREFORE, in consideration of the premises and the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Revision to Definitions.

Section 1, of the Agreement shall be amended to incorporate a definition for the "General Endowment Fund", and to revise definitions of "Investment Policies" and "U. T. Board Accounts" as follows:

General Endowment Fund or ***GEF*** shall mean the pooled fund for the collective investment of long-term funds under the control and management of the U. T. Board. The PUF, PHF, LTF or other long-term funds may invest in the GEF as authorized by the U. T. Board in each fund's investment policy statement.

Investment Policies shall mean the written investment policies relating to the PUF, GEF, PHF, LTF, SIFs, SITF and the STF, which may be amended from time to time by UTIMCO with the consent and approval of the U. T. Board.

U. T. Board Accounts shall mean the investment assets of the General Endowment Fund and U. T. System Funds.

Section 2. Notices.

Section 17, of the Agreement shall be amended for UTIMCO's address as follows:

To UTIMCO:

The University of Texas Investment Management Company
Attn: President and CEO
221 West Sixth St. –17th Floor
Austin, Texas 78701
Tel. (512) 225-1600
Fax (512) 225-1650

Section 3. Agreement in Effect.

Except as specifically amended herein, all provisions and sections of the Agreement are valid and in full effect.

Approved as to form:

____

Mr. Leo L. Barnes
General Counsel

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

Date:___________

By___________________________
Donald L. Evans
Chairman

ATTEST:

____
Francie A. Frederick
Executive Secretary

THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY,
a Texas non-profit corporation

Date:____________

By:____________________________
Thomas G. Ricks
President and CEO

FIRST AMENDMENT TO THE
INVESTMENT MANAGEMENT SERVICES AGREEMENT

This First Amendment to the Investment Management Services Agreement (this "Amendment") by and between the Board of Regents of The University of Texas System (the "U. T. Board") and the Office of the Comptroller of Public Accounts for the State of Texas (the "Comptroller"), is effective March 1, 2001.

RECITALS

WHEREAS, the U. T. Board and the Comptroller entered into a certain Investment Management Services Agreement (the "Agreement") effective August 30, 1999 to authorize the U. T. Board to manage and invest the "Health Funds" under the responsibility of the Comptroller; and

WHEREAS, Section 66.08, Texas Education Code, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit corporation for the corporation to invest funds under the control and management of the U. T. Board, as designated by the U. T. Board; and

WHEREAS, The University of Texas Investment Management Company ("UTIMCO") has been organized under the laws of the State of Texas, including the Texas Non-Profit Corporation Act, Article 1396-1.01 et seq., Vernon's Texas Civil Statutes, for the express purpose of investing funds under the control and management of the U. T. Board, as designated by the U. T. Board, in accordance with the laws of the State of Texas; and

WHEREAS, the Comptroller acknowledges that the U. T. Board has entered into an Amended and Restated Investment Management Services Agreement, effective November 16, 2000, as amended (the "UTIMCO Agreement"), with UTIMCO under which UTIMCO is responsible for investing and managing certain funds under the control and management of the U. T. Board including, by execution of the Agreement, the Health Funds; and

WHEREAS, the U. T. Board and the Comptroller desire to enter into this Amendment to the Agreement in order to amend the definitions under the Agreement to include the General Endowment Fund and to clarify the provisions for investment management fees; and

WHEREAS, all conditions precedent to the execution and delivery of this Amendment have been fully satisfied and fulfilled, including, without limitation, the condition established by Section 11 of the Agreement;

NOW THEREFORE, in consideration of the premises and the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Revision to Definitions.

Section 1 of the Agreement shall be amended to incorporate a definition for the General Endowment Fund as follows:

General Endowment Fund or ***GEF*** shall mean the pooled fund for the collective investment of long-term funds under the control and management of the U. T. Board. The PHF may be invested in the GEF as authorized by the U. T. Board in the investment policy statement for the PHF.

Section 2. Revision to Investment Management Fees.

Section 6 of the Agreement shall be amended to clarify the provisions for investment manager fees as follows:

The U. T. Board has authorized UTIMCO to charge an annual fee (the "Annual Fee") for investing and managing the PHF and to pay from the PHF (or the GEF to the extent the PHF is invested there in) direct expenses incurred for portfolio management, custodian, auditing, and other services which are performed by external vendors for the PHF and the GEF, as appropriate, including the Health Funds. The Annual Fee charged to the Health Funds shall equal the Health Funds' undivided interest in the PHF multiplied by the PHF's Annual Fee (UTIMCO's fee and direct expenses of the Fund), plus, if the PHF is invested in the GEF, the Health Funds' undivided interest in the GEF multiplied by the GEF's Annual Fee (UTIMCO's fee and direct expenses of the Fund). No additional fees or costs will be charged to the Health Funds. The Comptroller agrees that the return of investment on the Health Funds is net of the Annual Fee.

Notwithstanding anything herein to the contrary, in no event shall the cost of this Agreement to the Comptroller exceed .50% of the total aggregate value of the Health Funds determined as of the end of each fiscal year except in the case where the PHF or the GEF, as appropriate, incurs performance based incentive management fees and these fees, when combined with other expenses of the Fund, exceed .50% of the total aggregate value of the Health Funds. If such a case occurs, the cost of this Agreement to the Comptroller shall only exceed .50% of the total aggregate value of the Health Funds in an amount equal to the pro rata share of the performance based incentive management fees that cause such a case to occur.

Section 3. Notices.

Section 12 of the Agreement shall be amended for UTIMCO's address as follows:

To U. T. Board:

c/o UTIMCO
The University of Texas Investment Management Company
Attn: President and CEO
221 West Sixth St. –17th Floor
Austin, Texas 78701
Tel. (512) 225-1600
Fax (512) 225-1650

Section 3. Agreement in Effect.

Except as specifically amended herein, all provisions and sections of the Agreement are valid and in full effect.

By: THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY,
Investment Manager for the U. T. Board

Date:____________

By:___________________________
Thomas G. Ricks
President and CEO

ATTEST:

____
Cathy Iberg, Secretary, Treasurer for UTIMCO

THE OFFICE OF THE COMPTROLLER OF PUBLIC ACCOUNTS FOR THE STATE OF TEXAS

Date:____________________________

By:____________________________________
Billy C. Hamilton
Deputy Comptroller

ATTEST:

By:_____________________________
Name:__________________________
Title:____________________________

<u>EXHIBIT A</u>

INVESTMENT POLICY

Resolution No. 4

RESOLVED, that the amendments to the Investment Policy Statements for the Permanent University Fund, the Permanent Health Fund, and the Long Term Fund as presented be and are hereby approved; and

BE IT FURTHER RESOLVED, that these amendments be recommended for approval at the U. T. Board of Regents meeting on February 15, 2001.

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, Texas A&M University-Texarkana, and Baylor College of Dentistry).

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. The Constitution also requires that all surface income and investment distributions paid to the AUF be expended for certain authorized purposes.

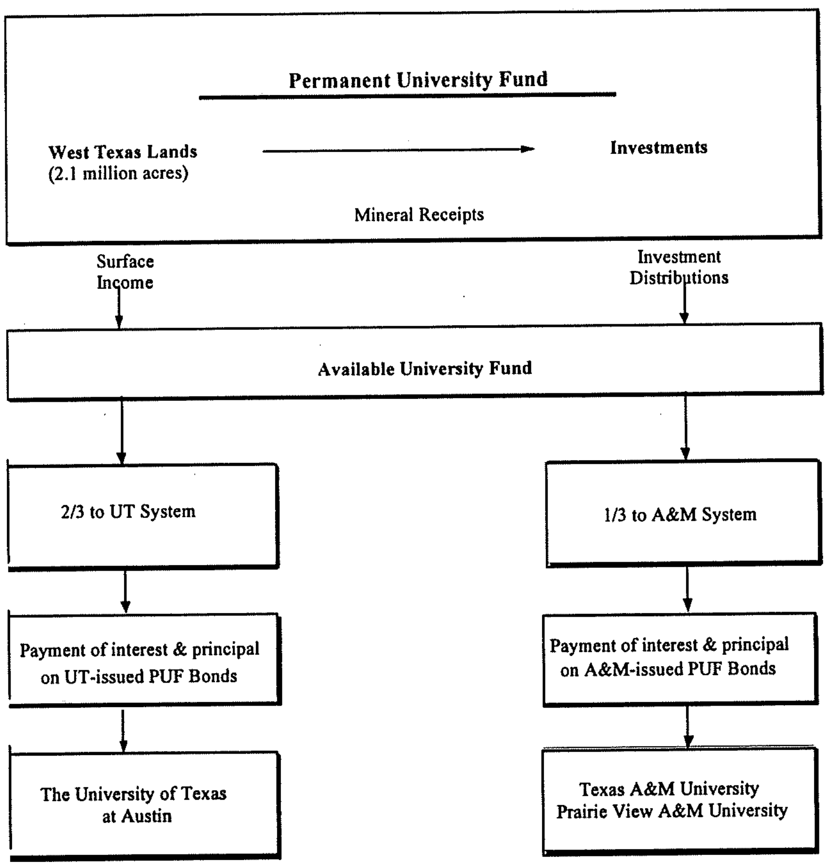
The expenditure of the AUF is subject to a prescribed order of priority:

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

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

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

Exhibit 1



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 provides that the U. T. Board, in making investments, may acquire, exchange sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.

Ultimate fiduciary responsibility for the 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.

Asset Allocation

Asset allocation is the primary determinant of the volatility of investment return 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:

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

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

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

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

- Alternative Marketable Investments -
These investments are broadly defined to include hedge funds, arbitrage and special situation funds, ~~high yield bonds,~~ distressed debt, market neutral, and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. Alternative marketable investments may be made directly by

UTIMCO or through partnerships. If these investments are made through partnerships they offer faster drawdown of committed capital and earlier realization potential than alternative nonmarketable investments. Alternative marketable investments made through partnerships will generally provide investors with liquidity at least annually.

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

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

Asset Allocation Policy

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

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

General

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.
- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of 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'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.

- The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that~~: i) no~~ leverage is not employed in the implementation of such Derivative purchases or sales. ~~; ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii) 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~~ Leverage occurs when the notional value of the futures contracts exceeds the value of cash assets allocated to those contracts by more than 2%. The cash assets allocated to futures contracts is the sum of the value of the initial margin deposit, the daily variation margin and dedicated cash balances. This prohibition against leverage shall not apply where cash is received within 1 business day following the day the leverage occurs. UTIMCO's Derivative Guidelines shall be used to monitor compliance with this policy. ~~.~~ Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, and the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.

- 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.

  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. The net market value of exposure of 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 among foreign currencies and 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 as approved by the chief investment officer.
- Deposits of the Texas State Treasury.
- The Fund's custodian late deposit interest bearing liquid investment fund.
- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

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

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

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

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

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

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

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

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

Fixed Income

Domestic Fixed Income

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

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

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

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

Non-U.S. Fixed Income

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

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

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

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

Equities

The 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 cost unless authorized by the chief investment officer.

Alternative Investments and Inflation Hedging Assets

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

A. possess specialized investment skills

B. possess full investment discretion subject to the management agreement

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

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

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

Investments in alternative nonmarketable assets and inflation hedging assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the 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 nonmarketable assets portfolio or the inflation hedging assets portfolio at the time of the direct investment.

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested 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 and expenses in order to preserve the purchasing power of Fund distributions and underlying assets.

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

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

In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the U. T. Board in May of each year an amount to be distributed to the AUF during the next fiscal year. UTIMCO's recommendation on the annual distribution shall be an amount equal to 4.5% of the trailing twelve quarter average of the net asset value of the Fund for the quarter ending February of each year.

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

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. The Fund's financial statements shall be audited each year by an independent accounting firm selected by UTIMCO's Board of Directors.

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. Valuation of Fund assets shall be based on the books and records of the custodian for the valuation date. ~~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 9, 2000.~~February 15, 2001.
~~Click here for PUF Specific Asset Allocation, Expected Return and Risk, Neutral Position, Ranges, and Performance Objectives~~

EXHIBIT A

PUF SPECIFIC ASSET ALLOCATION

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

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

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

The rebalancing of Fund assets to achieve the neutral allocations shall be subject to the funding of alternative investments.
Risk is defined in annualized standard deviation terms.
The neutral policy portfolio is the sum of the neutrally weighted benchmark returns.

THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT HEALTH FUND
INVESTMENT POLICY STATEMENT

Purpose

The Permanent Health Fund (the PHF [~~Fund~~]), is hereby established by the Board of Regents of The University of Texas System[~~,~~] (the Board), as a pooled fund for the collective investment of permanent funds for health-related institutions of higher education created, effective August 30, 1999, by Chapter 63 of the Texas Education Code. These permanent health funds consist of:

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

B. Separate Permanent Funds for Health Related Institutions (PFHRIs), the distributions from which are to fund research and other programs at health - related institutions of higher education that benefit public health,

C. The Permanent Fund for Higher Education Nursing, Allied Health, and Other Programs (Allied Fund), the distributions from which are to fund grants to public institutions of higher education that offer upper-level academic instruction and training in the field of nursing, allied health, or other health-related education, and,

D. The Permanent Fund for Minority Health Research and Education (Minority Fund), the distributions from which are to fund grants to institutions of higher education, including Centers for Teacher Education, that conduct research or educational programs that address minority health issues or form partnerships with minority organizations, colleges, or universities to conduct research and educational programs that address minority health issues.

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

<u>PHF</u> [~~Fund~~] Organization

The <u>PHF</u> [~~Fund~~] is organized as a mutual fund in which each eligible account purchases and redeems <u>PHF</u> [~~Fund~~] units as provided herein.

<u>PHF</u> [~~Fund~~] Management

Chapter 63 of the <u>Texas Education Code</u> designates: a) the Board as the administrator for the PHFHE; b) the governing board of an institution for which a PFHRI fund is established as the administrator for its own PFHRI, or if the governing board so elects, the Comptroller of Public Accounts (State Comptroller), and c) the State Comptroller as the administrator for the Allied Fund and the Minority Fund. It permits the State Comptroller, in turn, to contract with the governing board of any institution that is eligible to receive a grant under Chapter 63. It further states that the Board may manage and invest the <u>PHF</u> [~~Fund~~] in the same manner as the Board manages and invests other permanent endowments. It also requires that the administrator invest the funds in a manner that preserves the purchasing power of the funds' assets and distributions. It further requires that the administrator make distributions in a manner consistent with the administrator's policies and procedures for making distributions to the beneficiaries of its own endowments in the case of the PHFHE or the funds themselves in the case of the PFHRI funds.

Section 163 of the <u>Texas Property Code</u> provides the guidelines for the management, investment and expenditure of endowment funds. It also authorizes the <u>U. T. Board</u> 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 <u>PHF</u> [~~Fund~~]. The <u>PHF</u> [~~Fund~~] shall be governed through The University of Texas Investment Management Company (UTIMCO) which shall : a) recommend investment policy for the <u>PHF</u> [~~Fund~~] ; b) determine specific asset allocation targets, ranges, and performance benchmarks consistent with <u>PHF</u> [~~Fund~~] objectives; and c) monitor <u>PHF</u> [~~Fund~~] performance against <u>PHF</u> [~~Fund~~] objectives. UTIMCO shall invest the <u>PHF</u> [~~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.~~]

<u>PHF</u> [~~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

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

Funds Eligible to Purchase PHF [~~Fund~~] Units

No fund shall be eligible to purchase units of the PHF [~~Fund~~] unless it is a permanent health fund established pursuant to Chapter 63 of the Texas Education Code, under the control, with full discretion as to investments, by the Board and/or UTIMCO.

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

PHF [~~Fund~~] Investment Objectives

The primary investment objective shall be to preserve the purchasing power of PHF [~~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 PHF's [~~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 PHF's [~~Fund's~~] asset allocation policy targets.

Asset Allocation

Asset allocation is the primary determinant of the volatility of investment return 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.~~] PHF [~~Fund~~] assets shall be allocated among the following investments. [~~broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes~~]:

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

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

[~~C.~~] ~~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.~~

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

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

~~Alternative Nonmarketable Investments –~~
~~Alternative Nonmarketable investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative nonmarketable investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative nonmarketable investments shall be controlled with extensive due diligence and diversification. These investments are held through either limited partnership or as direct ownership interests. They include special equity,~~

~~mezzanine venture capital, oil and gas, real estate and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity. They also generally require an extended period of time to achieve targeted investment levels.~~

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

Asset Allocation Policy

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

The long-term asset allocation policy for the PHF [~~Fund must~~] recognizes that the 5.5% real return objective requires a high allocation to the broadly defined conventional equity[~~ies~~], [~~including domestic, international stocks,~~] and alternative equity [~~investments~~], and inflation hedging assets comprising the GEF. [~~of 68% to 90%. The allocation to deflation hedging Fixed Income should therefore not exceed 32% of the Fund.~~] (See Exhibit A and Attachment 1 to Exhibit B).

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

Performance Measurement

The investment performance of the PHF [~~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 benchmarks 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 PHF [~~Fund~~] must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement. (See Exhibit B). [~~Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.~~]

- All investments will be reported in U. S. dollars [~~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 PHF [~~Fund~~] assets in such liquid investment fund.

- No securities may be purchased or held which jeopardize the PHF's [~~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 with the approval of the UTIMCO Board to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such Derivative purchases or sales; ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii) 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. Notwithstanding the above, leverage strategies are permissible~~

~~within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.~~

- ~~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.~~

~~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. The net market value of exposure of 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 among foreign currencies and 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 as approved by the chief investment officer.

- The PHF's custodian late deposit interest bearing liquid investment fund. [~~Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).~~]

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

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

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

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

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

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

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

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

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

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

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

[~~Fixed Income~~

~~Domestic Fixed Income~~

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

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

- ~~U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition.~~

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

[~~Non-U.S. Fixed Income~~

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

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

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

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

[~~Equities~~

~~The 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 cost unless authorized by the chief investment officer.~~]

[~~Alternative Investments and Inflation Hedging Assets~~

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

~~A. possess specialized investment skills~~

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

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

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

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

~~Investments in alternative nonmarketable assets and inflation hedging assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the 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 nonmarketable assets portfolio or the inflation hedging assets portfolio at the time of the direct investment.~~

~~Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested 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.~~]

PHF [~~Fund~~] Distributions

The PHF [~~Fund~~] shall balance the needs and interests of present beneficiaries with those of the future. PHF [~~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 PHF [~~Fund~~] assets after distributions is maintained over the long-term.

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

Annually, the U. T. Board of Regents will approve a per unit distribution amount for the PHF [~~Fund~~].

In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the U. T. Board a per unit amount to be distributed to the PHF's [~~Fund's~~] beneficiaries during the next fiscal year. UTIMCO's recommendation on the annual per unit distribution amount shall be based on the following policy:

A. Increase the prior year's per unit distribution amount by the average inflation rate (C.P.I.) for the previous twelve quarters.

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

C. If the inflationary increase in Step A. results in a distribution rate above 5.5% (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value per unit), the UTIMCO Board shall recommend a decrease in the distribution amount per unit as long as such decrease does not result in a distribution rate of less than 3.5%.

Following approval of the per unit distribution amount, distributions from the PHF [~~Fund~~] may be quarterly or annually at the discretion of UTIMCO Management.

PHF [~~Fund~~] Accounting

The fiscal year of the PHF [~~Fund~~] shall begin on September 1st and end on August 31st. Market value of the PHF [~~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. The PHF's financial statements shall be audited each year by an independent accounting firm selected by UTIMCO's Board of Directors.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PHF [~~Fund~~] net assets and the net asset value per unit of the PHF [~~Fund~~]. Valuation of PHF assets shall be based on the books and records of the custodian for the valuation date. [~~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 PHF's [~~Fund's~~] net assets shall include all related receivables and payables of the PHF [~~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 PHF [~~Fund~~] Units

Purchase of PHF [~~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 PHF [~~Fund~~] or contribution of assets approved by the chief investment officer, at the net asset value per unit of the PHF [~~Fund~~] as of the most recent quarterly valuation date. Each fund whose monies are invested in the PHF [~~Fund~~] shall own an undivided interest in the PHF [~~Fund~~] in the proportion that the number of units invested therein bears to the total number of all units comprising the PHF [~~Fund~~].

Redemption of PHF [~~Fund~~] Units

Redemption of Units shall be paid in cash as soon as practicable after the quarterly valuation date of the PHF [~~Fund~~]. If the withdrawal is greater than $5 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $5 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the PHF's [~~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 PHF [~~Fund~~] unitholders. Withdrawals from the PHF [~~Fund~~] shall be at the market value price per unit determined for the period of the withdrawal.

[**~~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 PHF [~~Fund~~] solely in the interest of PHF [~~Fund~~] unitholders and shall not invest the PHF [~~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 March 1, 2001 [~~November 11, 1999~~].
[~~Click here for PHF Specific Asset Allocation, Expected Return and Risk, Neutral Position, Ranges, and Performance Objectives~~]

EXHIBIT A

PHF ASSET ALLOCATION

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

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

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

Risk is defined in annualized standard deviation terms.

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

Exhibit B

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT ~~LONG TERM~~ FUND
INVESTMENT POLICY STATEMENT

Purpose

The General Endowment~~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") on March 1, 2001, as a pooled fund for the collective investment of ~~private endowments and other~~ long-term funds under the control and management of the Board.~~supporting various programs of The University of Texas System.~~ The Fund provides for greater diversification of investments than would 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 66.08, Texas Education Code, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit Corporation to invest funds under the control and management of the U. T. 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"), a nonprofit -Corporation organized for the express purpose of investing funds under the control and management of the Board. 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.~~

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

~~2.~~B. ~~B.~~ Fixed Income Investments ~~-~~ Intermediate to long term investment grade bonds offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of 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.~~
Below investment grade bonds including high yield bonds usually behave more like equities than high-quality bonds such as Treasuries. In the recovery phase of the market such bonds frequently outperform high-quality bonds.

~~3.~~C. ~~C.~~ 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.

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~~4.~~D. Alternative Investments - generally consist of alternative marketable investments and alternative nonmarketable investments.

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

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

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

Asset Allocation Policy

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

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

Investment guidelines include the following:

General

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

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

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

- No securities may be purchased or held which 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'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.

- The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that~~; i) no~~ leverage is not employed in the implementation of such Derivative purchases or sales.~~; ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii)~~ Leverage occurs when the notional value of the futures contracts exceeds the value of cash assets allocated to those contracts by more than 2%. The cash assets allocated to futures contracts is the sum of the value of the initial margin deposit, the daily variation margin and dedicated cash balances. This prohibition against leverage shall not apply where cash is received within 1 business day following the day the leverage occurs. UTIMCO's Derivatives Guidelines shall be used to monitor compliance with this policy. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, and the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.

- 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.

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. The net market value of exposure of 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.

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- Holdings of cash and cash equivalents may include internal short term pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by the chief investment officer.

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

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

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

- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

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

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

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

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

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

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

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

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

Fixed Income

Domestic Fixed Income

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

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

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

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

Non-U.S. Fixed Income

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

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

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

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

Equities

The 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 cost unless authorized by the chief investment officer.

Alternative Investments and Inflation Hedging Assets

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

A. possess specialized investment skills

B. possess full investment discretion subject to the management agreement

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

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

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

Investments in alternative nonmarketable assets and inflation hedging assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the 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 nonmarketable assets portfolio or the inflation hedging assets portfolio at the time of the direct investment.

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested 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)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.~~

~~Annually, the U. T. Board of Regents will approve a per unit distribution amount for the Fund.~~

~~In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the U. T. Board a per unit amount to be distributed to the Fund's beneficiaries during the next~~

~~fiscal year. UTIMCO's recommendation on the annual per unit distribution amount shall be based on the following policy:~~

~~A. Increase the prior year's per unit distribution amount by the average inflation rate (C.P.I.) for the previous twelve quarters.~~

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

~~C. If the inflationary increase in Step A. results in a distribution rate above 5.5% (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value per unit), the UTIMCO Board shall recommend a decrease in the distribution amount per unit as long as such decrease does not result in a distribution rate of less than 3.5%.~~

~~Following approval of the distribution amount, distributions from the Fund may be quarterly or annually at the discretion of UTIMCO Management.~~

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. The Fund's financial statements shall be audited each year by an independent accounting firm selected by UTIMCO's Board of Directors.

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. Valuation of Fund assets shall be based on the books and records of the custodian for the valuation date. ~~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. 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 March 1, 2001~~November 11, 1999~~.
~~Click here for LTF Specific Asset Allocation, Expected Return and Risk, Neutral Position, Ranges, and Performance Objectives~~
Attachment

Exhibit A~~I~~ ~~-~~ GEF Specific Asset Allocation,~~-~~ Expected Return and Risk, Neutral Allocations~~position~~, Ranges and Performance Objectives

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ATTACHMENT 1 TO EXHIBIT B

GEF ASSET ALLOCATION

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

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

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

The rebalancing of Fund assets to achieve the neutral allocations shall be subject to the funding of alternative investments.
Risk is defined in annualized standard deviation terms.
The neutral policy portfolio is the sum of the neutrally weighted benchmark returns.

THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
INVESTMENT POLICY STATEMENT

Purpose

The Long Term Fund (the "LTF~~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 would be possible if each account were managed separately.

~~Fund~~LTF Organization

The ~~Fund~~LTF is organized as a mutual fund in which each eligible account purchases and redeems ~~Fund~~LTF units as provided herein. The ownership of ~~Fund~~LTF 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~~LTF Management

Ultimate fiduciary responsibility for the ~~Fund~~LTF 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~~LTF. The ~~Fund~~LTF shall be governed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the ~~Fund~~LTF, b) determine specific asset allocation targets, ranges, and performance benchmarks consistent with ~~Fund~~LTF objectives, and c) monitor ~~Fund~~LTF performance against ~~Fund~~LTF objectives. UTIMCO shall invest the ~~Fund~~LTF 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~~LTF Administration

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

~~Fund~~LTFs Eligible to Purchase ~~Fund~~LTF Units

No fund shall be eligible to purchase units of the ~~Fund~~LTF 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~~LTF.

~~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~~LTF Investment Objectives

The primary investment objective shall be to preserve the purchasing power of ~~Fund~~LTF 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~~LTF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

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

Asset Allocation

Asset allocation is the primary determinant of the volatility of investment return 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~~LTF assets shall be allocated among the following investments. ~~broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:~~

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

~~2.~~B. U. T. System General Endowment Fund (GEF) (See Exhibit B) ~~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.C. 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 Investments - generally consist of alternative marketable investments and alternative nonmarketable investments.~~

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

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

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

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

Asset Allocation Policy

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

The long-term asset allocation policy for the ~~Fund~~LTF ~~must~~ recognizes that the 5.5% real return objective requires a high allocation to the broadly defined conventional equity~~ies, including domestic, international stocks,~~ and alternative equity investments, and inflation hedging assets comprising the GEF. ~~of 68% to 90%. The allocation to deflation hedging Fixed Income should therefore not exceed 32% of the Fund.~~ (See Exhibit A and Attachment 1 to Exhibit B).

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

Performance Measurement

The investment performance of the ~~Fund~~LTF 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 benchmarks 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~~LTF must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement. (see Exhibit B) ~~index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.~~

- All investments will be reported in U. S. dollars. ~~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~~LTF assets in such liquid investment fund.

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

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

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

- ~~The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such Derivative purchases or sales; ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii) 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. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, and the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.~~

~~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.~~

~~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. The net market value of exposure of 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 among foreign currencies and 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 as approved by the chief investment officer.

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

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

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

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

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

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

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

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

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

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

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

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

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

~~Fixed Income~~

~~Domestic Fixed Income~~

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

- ~~Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate~~

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

- ~~U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition.~~

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

~~Non-U.S. Fixed Income~~

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

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

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

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

~~Equities~~

~~The 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 cost unless authorized by the chief investment officer.~~

~~Alternative Investments and Inflation Hedging Assets~~

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

~~A. possess specialized investment skills~~

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

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

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

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

~~Investments in alternative nonmarketable assets and inflation hedging assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the 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 nonmarketable assets portfolio or the inflation hedging assets portfolio at the time of the direct investment.~~

~~Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested 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~~LTF Distributions

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

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

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

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

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

Pursuant to the Uniform Management of Institutional Funds~~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.

Annually, the U. T. Board of Regents will approve a per unit distribution amount for the ~~Fund~~LTF.

In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the U. T. Board a per unit amount to be distributed to the ~~Fund~~LTF's beneficiaries during the next fiscal year. UTIMCO's recommendation on the annual per unit distribution amount shall be based on the following policy:

A. Increase the prior year's per unit distribution amount by the average inflation rate (C.P.I.) for the previous twelve quarters.

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

C. If the inflationary increase in Step A. results in a distribution rate above 5.5% (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value per unit), the UTIMCO Board shall recommend a decrease in the distribution amount per unit as long as such decrease does not result in a distribution rate of less than 3.5%.

Following approval of the distribution amount, distributions from the ~~Fund~~LTF- may be quarterly or annually at the discretion of UTIMCO Management.

~~Fund~~LTF Accounting

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

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

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

Purchase of ~~Fund~~LTF Units

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

Redemption of Fund Units

Redemption of Units shall be paid in cash as soon as practicable after the quarterly valuation date of the ~~Fund~~LTF. If the withdrawal is greater than $10 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the ~~Fund~~LTF'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~~LTF 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~~ Ttransfer of units between endowment unitholders shall not be considered redemption of units subject to this provision.

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be March 1, 2001~~November 11, 1999.~~
~~Click here for LTF Specific Asset Allocation, Expected Return and Risk, Neutral Position, Ranges, and Performance Objectives~~

EXHIBIT A

LTF ASSET ALLOCATION

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

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

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

Risk is defined in annualized standard deviation terms.
The endowment policy portfolio is the sum of the neutrally weighted benchmark returns for the GEF.

EXHIBIT B

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT ~~LONG TERM~~ FUND
INVESTMENT POLICY STATEMENT

Purpose

The General Endowment~~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") on March 1, 2001, as a pooled fund for the collective investment of ~~private endowments and other~~ long-term funds under the control and management of the Board.~~supporting various programs of The University of Texas System.~~ The Fund provides for greater diversification of investments than would 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 66.08, Texas Education Code, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit Corporation to invest funds under the control and management of the U. T. 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"), a nonprofit -Corporation organized for the express purpose of investing funds under the control and management of the Board. 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 the volatility of investment return 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.~~A. ~~A.~~ Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.

~~2.~~B. ~~B.~~ Fixed Income Investments ~~-~~ Intermediate to long term investment grade bonds offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of 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.~~
Below investment grade bonds including high yield bonds usually behave more like equities than high-quality bonds such as Treasuries. In the recovery phase of the market such bonds frequently outperform high-quality bonds.

~~3.~~C. ~~C.~~ 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.~~D. Alternative Investments - generally consist of alternative marketable investments and alternative nonmarketable investments.

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

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

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

Asset Allocation Policy

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

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

Investment guidelines include the following:

General

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

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

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

- No securities may be purchased or held which 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'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.

- The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that~~; i) no~~ leverage is not employed in the implementation of such Derivative purchases or sales.~~; ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii)~~ Leverage occurs when the notional value of the futures contracts exceeds the value of cash assets allocated to those contracts by more than 2%. The cash assets allocated to futures contracts is the sum of the value of the initial margin deposit, the daily variation margin and dedicated cash balances. This prohibition against leverage shall not apply where cash is received within 1 business day following the day the leverage occurs. UTIMCO's Derivatives Guidelines shall be used to monitor compliance with this policy. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, and the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.

- 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.

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. The net market value of exposure of 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 among foreign currencies and 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 as approved by the chief investment officer.

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

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

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

- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

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

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

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

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

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

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

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

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

Fixed Income

Domestic Fixed Income

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

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

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

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

Non-U.S. Fixed Income

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

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

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

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

<u>Equities</u>

The 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 cost unless authorized by the chief investment officer.

<u>Alternative Investments and Inflation Hedging Assets</u>

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

A. possess specialized investment skills

B. possess full investment discretion subject to the management agreement

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

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

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

Investments in alternative nonmarketable assets and inflation hedging assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the 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 nonmarketable assets portfolio or the inflation hedging assets portfolio at the time of the direct investment.

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested 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)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.~~

~~Annually, the U. T. Board of Regents will approve a per unit distribution amount for the Fund.~~

~~In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the U. T. Board a per unit amount to be distributed to the Fund's beneficiaries during the next fiscal year. UTIMCO's recommendation on the annual per unit distribution amount shall be based on the following policy:~~

~~A. Increase the prior year's per unit distribution amount by the average inflation rate (C.P.I.) for the previous twelve quarters.~~

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

~~C. If the inflationary increase in Step A. results in a distribution rate above 5.5% (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value per unit), the UTIMCO Board shall recommend a decrease in the distribution amount per unit as long as such decrease does not result in a distribution rate of less than 3.5%.~~

~~Following approval of the distribution amount, distributions from the Fund may be quarterly or annually at the discretion of UTIMCO Management.~~

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. The Fund's financial statements shall be audited each year by an independent accounting firm selected by UTIMCO's Board of Directors.

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. Valuation of Fund assets shall be based on the books and records of the custodian for the valuation date. ~~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. 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 March 1, 2001~~November 11, 1999~~.
~~Click here for LTF Specific Asset Allocation, Expected Return and Risk, Neutral Position, Ranges, and Performance Objectives~~

Attachment

Exhibit A~~I~~ ~~-~~ GEF Specific Asset Allocation,~~-~~ Expected Return and Risk, Neutral Allocations~~position~~, Ranges and Performance Objectives

ATTACHMENT 1 TO EXHIBIT B

GEF ASSET ALLOCATION

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

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

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

The rebalancing of Fund assets to achieve the neutral allocations shall be subject to the funding of alternative investments.
Risk is defined in annualized standard deviation terms.
The neutral policy portfolio is the sum of the neutrally weighted benchmark returns.

Resolution No. 5

RESOLVED, that a commitment budget of $470 million for the Alternative Investments – Non Marketable asset class for the period July 1, 2000 through June 30, 2001 be and is hereby approved.

PLEASE REFER TO CAMBRIDGE ASSOCIATES LLC PRESENTATION

(BOUND SEPARATELY)