

AUG 14 1986

U. T. System: Approval to (a) Adopt Medical Malpractice Self-Insurance Fund Investment Policy Statement and (b) Amend Regents' Rules and Regulations, Part Two, Chapter IX, Section 3, Subsection 3.1.--The Board, upon recommendation of the Land and Investment Committee:

- a. Adopted the following policy statement with regard to management and investment of the Medical Malpractice Self-Insurance Fund:

MEDICAL MALPRACTICE SELF-INSURANCE FUND
INVESTMENT POLICY STATEMENT

FUND CHARACTERISTICS

The University of Texas System Professional Medical Malpractice Self-Insurance Plan, authorized by Chapter 59 of the Texas Education Code, went into effect on April 1, 1977, to provide malpractice insurance coverage for staff physicians, medical students, residents, and fellows at the U. T. System health components. The Self-Insurance Plan's assets, excluding the assets held in an operating account, constitute the "Medical Malpractice Self-Insurance Fund." Internal growth of the Fund may occur through capital appreciation and retention of income in excess of settlement payments.

RESPONSIBILITY AND MANAGEMENT OF THE FUND

Fiduciary responsibility for the Plan and the Fund rests with the Board of Regents of The University of Texas System. Pursuant to the Board of Regents Order of April 15, 1977, and the Regents' Rules and Regulations, the Office of General Counsel administers the Plan. As administrator of the Plan, the Office of General Counsel has the responsibility for interpretation and implementation of the Plan; investigation of all medical malpractice claims; decisions regarding the trial or settlement of claims; retention of outside defense counsel for malpractice litigation; selection of insurance actuaries and consultants to review and make recommendations regarding premium changes, reserve procedures, and loss experiences; coordinating and participating in all risk management programs at health components; and performing such other functions as are appropriate for administration of the Plan. The Office of Finance and Administration has responsibility for the accounting for the Plan, the Plan's operating account monies, and the cash receipts and disbursements of the Plan.

The Office of the Executive Vice Chancellor for Asset Management administers the investment of the Self-Insurance Fund. Specific investment decisions are handled by the investment staff of the Asset Management Office as well as unaffiliated investment managers, who are employed from time to time. The Board retains an Investment Advisory Committee to provide counsel concerning portfolio and economic issues affecting the Fund.

CONFLICT OF INTEREST

Members of the Board and the Investment Advisory Committee are frequently persons of wide-ranging business interests. Therefore, a prudent, independent investment decision process may result in investments in firms or organizations with which a member of the Board or the Investment Advisory Committee is affiliated. Affiliation shall be interpreted within this section to mean an employee, officer, director, or owner of five percent or more of the voting stock of a firm or organization. The investment staff or an unaffiliated investment manager may invest in such securities. However, the following restrictions shall apply:

- ° A member of the Board or the Investment Advisory Committee shall not direct nor participate in the decision to purchase or sell securities of a firm with which such member is affiliated.
- ° Investments will not be purchased from or sold to a member of the Board or the Investment Advisory Committee.
- ° All members of The University of Texas System investment and administrative staff must report any affiliation with another firm or organization to the Regents' Land and Investment Committee. On an annual basis the staff will report the nature and extent of any investments in or business transacted with such firms.

INVESTMENT OBJECTIVES

The primary investment objective is to appreciate the total value of the Fund, over time, through capital appreciation and income generation. Management of the Fund attempts to meet this objective by maximizing the return on the Fund's investments, consistent with an appropriate level of risk and subject to maintaining adequate cash equivalent-short term investments to meet potential near-term settlement payments. Additionally, the Fund shall be diversified at all times to provide reasonable assurance that investment in a single security, a class of securities, or industry will not have an excessive impact on the Fund.

ASSET MIX

Asset mix is the primary determinant of Fund performance, and is the responsibility of the Regents' Land and Investment Committee. Asset mix may be changed from time to time based on the economic and security market outlook.

In establishing asset mix, recognition of the role of short term investments must be considered. Cash equivalent-short term investments provide current income, but their principal purposes are to store purchasing power to fund longer term investments and to store the ability to meet potential near-term settlement payments. In order to insure that the Fund is able to meet settlement payments without suffering principal exposure, the following levels of short term investments will be maintained:

- ° A minimum of 2 times the difference between the maximum and the minimum amount to be maintained in the operating account will be held in cash equivalent-short term investments.
- ° A minimum of .50 times the total of the reserves for legal expenses plus the reserves for claim liabilities will be held in investments with a maturity of six months or less.

Other investments will be held based on their potential risk-adjusted total return.

PERFORMANCE GOALS

To accomplish the investment objectives for the Fund and recognizing the critical role of asset mix, specific performance goals exist for the total Fund as well as separate categories of assets. Achievement of these goals is most appropriately determined over a full market cycle time period ... generally four to five years.

Specific performance goals for the Fund are:

- ° Common Stocks - Performance equal to or greater than the Standard & Poor's 500 Index.
- ° Bonds - Performance equal to or greater than the Shearson Lehman Government/Corporate Bond Index or other appropriate bond index.
- ° Total Fund Return - Performance equal to or greater than that of other comparable funds.

Active trading of bonds is necessary to prevent deterioration of portfolio market value and may result in the realization of book losses from time to time.

PERFORMANCE MEASUREMENT

The investment performance of the Fund will be measured by an unaffiliated organization with recognized expertise in this field, and compared against the stated investment objectives of the Fund. Such measurement will occur at least annually, and will contain data on the results of the total Fund, major classes of investment assets, and individual management organizations.

INVESTMENT GUIDELINES

The Fund must be invested at all times in strict compliance with the Texas Trust Code (Subtitle B, Title 9, Texas Property Code) and other applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment restrictions include the following:

- ° All investments must be U. S. dollar denominated unless held by an investment manager retained to manage an international portfolio.
- ° No investments may be made in securities of the South African government, government agencies, or firms.
- ° Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2), or Standard & Poor's Corporation (A1 or A2).
- ° Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- ° Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.

- ° Repurchase Agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- ° Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the Executive Director for Investments and Trusts and the Executive Vice Chancellor for Asset Management prior to investment of Fund monies in such liquid investment fund. No requirement exists that such funds conform to the above restrictions on money market instruments.
- ° Corporate bonds and preferred stocks must be rated a minimum of Baa3 by Moody's Investors Service, Inc., or BBB- by Standard & Poor's Corporation, respectively, when purchased. Bonds rated below A3 and A- shall not constitute an excessive portion of the total bond portfolio. Unrated bonds or preferred stocks may be purchased prior to review by the Land and Investment Committee if, in the opinion of the System's investment staff, they are at least equal in quality to publicly offered securities eligible for purchase. The cost of unrated bonds and preferred stocks which have not been reviewed by the Land and Investment Committee may not exceed 1% of the book value of the Fund.
- ° No more than five percent of the voting securities of a corporation may be owned.
- ° No securities may be purchased or held which would jeopardize the Fund's tax exempt status.
- ° No securities may be purchased on margin or leverage.
- ° No transactions in short sales will be made.
- ° Transactions in financial futures and options (other than those received as part of an investment unit) may only occur as part of a hedging program authorized by the Land and Investment Committee.
- ° Unaffiliated investment managers transacting solely within their assigned assets:
 - shall hold no more than 25% of their managed portfolio in any one industry at cost unless the manager was retained to concentrate in an industry or industries.
 - shall hold no more than 10% of their managed portfolio in the securities of one corporation at cost.
 - shall not hold investment in real estate, partnerships, and other such illiquid assets unless retained to manage this type of asset and shall hold no more than 10% of their managed portfolio in any other asset category different than the type they were retained to manage. Short-term liquid investments are excluded from this limitation. Convertible securities are considered to be equity equivalents for purposes of this restriction.
 - shall hold no securities traded only in foreign markets unless they were retained to manage an international portfolio.

INVESTMENT MANAGEMENT FIRMS

Unaffiliated investment managers may be hired from time to time to provide the Fund with increased diversity through their unique style and approach to investing. Their purpose is to improve the Fund's return and to alter its volatility. Other than as limited by this Policy, investment managers

shall have complete investment discretion. In addition to performance, investment managers shall be monitored for adherence to their investment style, and shall be available as reasonably requested for open communication with the Board of Regents and The University of Texas System's investment and administrative staff.

FUND ADMINISTRATION

Administration of the Fund is recognized as vital to Fund stability and fulfillment of objectives. Areas of emphasis shall include record keeping, internal controls, protection of assets, cash management and processing efficiency.

Transaction and accounting records shall be complete and prepared on a timely basis with consideration at all times to the adequacy of an audit trail.

Internal controls will assure responsible separation of duties and diminish the real and prospective burden on individual employees.

Custody of the Fund's assets shall be in compliance with applicable law and arranged to provide as much security, trading speed and flexibility as possible. Adequate insurance levels will be maintained by any custodian or transportation agent employed by the Fund.

The daily cash position will be monitored to insure that non-interest bearing cash is minimized. The collection time of all dividend and interest payments will be accelerated to the extent possible.

Operational efficiency is imperative, and computer capabilities shall be extensively used to reduce manual processing and duplication of activities.

System investment and administrative staff will conduct business for the Fund with organizations which, after review, are believed to exercise professional integrity and have financial substance judged adequate in light of the size and nature of the business involved. Normal business entertainment of the staff is recognized as a customary medium for conducting this type of business. Acceptance of material gifts from unaffiliated vendors is prohibited.

Additionally, transactions to purchase or sell securities shall be entered into on the basis of "best execution," which normally means best realized net price for the security. Commissions may be paid for investment services rendered to the Fund including securities research.

INVESTOR RESPONSIBILITY

The Fund provides financial support to activities related to higher education institutions which have a special and unique role in society. It follows that, subject to the "Prudent Person Rule," investment of the Fund must be sensitive to major issues affecting its constituency including the State of Texas and supporters of higher education.

As a significant 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.

The primary basis for all investment decisions is the "Prudent Person Rule" (see Investment Guidelines). The Fund shall not be invested to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

- b. Amended the Regents' Rules and Regulations, Part Two, Chapter IX, Section 3, Subsection 3.1 to read as follows:

Sec. 3. Policy for Investment and Management of Trust and Special Funds.

- 3.1 Unless otherwise limited by the terms of the instrument by which the fund was created, trust and special funds under the control of the Board shall be invested and reinvested in such securities and investments as are permitted by the Texas Trust Code (Subtitle B, Title 9, Texas Property Code) as legal investments for funds held by trustees. The policies for the investment of funds for the Professional Medical Malpractice Self-Insurance Plan shall be those outlined in the Medical Malpractice Self-Insurance Fund Investment Policy Statement.

2.
APR 10 1986

U. T. System: Approval to (a) Repeal the Investment Policies for Permanent University Fund of The University of Texas System Adopted on March 11, 1967, (b) Adopt The Permanent University Fund Investment Policy Statement, (c) Adopt The Common Trust Fund Investment Policy Statement, and (d) Amend the Regents' Rules and Regulations, Part Two, Chapter IX (Matters Relating to Investments, Trusts, and Lands).--Upon recommendation of the Land and Investment Committee, the Board:

- a. Repealed the Investment Policies for Permanent University Fund of The University of Texas System adopted on March 11, 1967
- b. Adopted the following policy statement with regard to management and investment of the Permanent University Fund:

PERMANENT UNIVERSITY FUND
INVESTMENT POLICY STATEMENT

FUND CHARACTERISTICS

The Permanent University Fund is a perpetual endowment in support of The University of Texas and The Texas A&M University Systems. The Fund is authorized by the State Constitution and supplies resources in two ways:

- 1) Beneficiary university systems may sell bonds up to 30% of their share of the book value of the Fund, secured and payable from a lien on their portion of the cash income of the Fund. Therefore, The University of Texas System and The Texas A&M University System may sell bonds, respectively, up to 20% and 10% of the book value of the Fund.
- 2) Cash income in excess of debt service requirements is available for current expenditures relating to academic enrichment and excellence at The University of Texas at Austin and Texas A&M University at College Station and Prairie View A&M University.

The Fund was generated and is increased principally by oil and gas royalties and lease bonuses from Permanent University Fund Lands. Cash inflow to the Fund is subject to fluctuation due to petroleum production, prices, and industry economics. Since oil and gas is depleting in nature and the Fund continues to grow from this source as well as appreciation of investments, cash inflow over time will tend to decline as a percentage of the value of the Fund.

The State Constitution requires that all cash income of the Fund consisting of interest and dividends on investments be paid out. Therefore, only the appreciation of securities is able to provide internal growth of the Fund.

RESPONSIBILITY AND MANAGEMENT OF THE FUND

The State Constitution vests fiduciary responsibility for the Fund with the Board of Regents of The University of Texas System. The Board employs an investment and administrative staff, headed by the Executive Vice Chancellor for

Asset Management. Specific investment decisions are handled by the investment staff as well as unaffiliated investment managers, who are employed from time to time. The Board retains an Investment Advisory Committee to provide counsel concerning portfolio and economic issues affecting the Fund.

CONFLICT OF INTEREST

Members of the Board and the Investment Advisory Committee are frequently persons of wide-ranging business interests. Therefore, a prudent, independent investment decision process may result in investments in firms or organizations with which a member of the Board or the Investment Advisory Committee is affiliated. Affiliation shall be interpreted within this section to mean an employee, officer, director, or owner of five percent or more of the voting stock of a firm or organization. The investment staff or an unaffiliated investment manager may invest in such securities. However, the following restrictions shall apply:

- ° A member of the Board or the Investment Advisory Committee shall not direct nor participate in the decision to purchase or sell securities of a firm with which such member is affiliated.
- ° Securities will not be purchased from or sold to a member of the Board or the Investment Advisory Committee.
- ° All members of The University of Texas System investment and administrative staff must report any affiliation with another firm or organization to the Regents' Land and Investment Committee. On an annual basis the staff will report the nature and extent of any investments in or business transacted with such firms.

INVESTMENT OBJECTIVES

There are two primary investment objectives. One is to provide a continuing and dependable cash income stream, stable and preferably growing in real terms, after giving effect to inflation. The second is to cause the total value of the Fund to appreciate over time.

The cash income requirement on the Fund is substantial and continuous. Income must be sufficient to provide debt service coverage of all bonds payable from the Fund as well as provide a residual income stream for academic enrichment programs.

The Fund needs to appreciate to insure preservation of the purchasing power of the Fund and also to satisfy the need for income growth in the future.

Management of the Fund attempts to meet these objectives by maximizing the return on the Fund's investments, consistent with an appropriate level of risk and subject to generation of adequate current income. Additionally the Fund shall be diversified at all times to provide reasonable assurance that investment in a single security, a class of securities, or industry will not have an excessive impact on the Fund.

ASSET MIX

Asset mix is the primary determinant of Fund performance, and is the responsibility of the Regents' Land and Investment Committee. Asset mix may be changed from time to time based on the economic and security market outlook as well as income requirements.

In establishing asset mix, recognition of the role of various classes of investments will be considered. These include:

- ° The principal purpose of fixed income investments is to provide a dependable and predictable source of income. Adequate bonds with low enough book yield to meet arbitrage requirements relating to debt secured and payable from the Fund must be owned.
- ° Equity investments provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund.
- ° Cash equivalent-short term investments provide current income, but their principal purpose is to store purchasing power to fund longer term investments. Cash inflow from Permanent University Fund Lands is recognized as a continuing source of Fund liquidity.

PERFORMANCE GOALS

To accomplish the investment objectives for the Fund and recognizing the critical role of asset mix, specific performance goals exist for the total Fund as well as separate categories of assets. Achievement of these goals is most appropriately determined over a full market cycle time period ... generally four to five years.

Specific performance goals for the Fund are:

- ° Common Stocks - Performance equal to or greater than the Standard & Poor's 500 Index.
- ° Bonds - Performance equal to or greater than the Shearson Lehman Government/Corporate Bond Index or other appropriate bond index.
- ° Total Fund Return - Performance equal to or greater than that of other comparable funds.

Given the income requirements on the Fund, the performance goal for fixed income securities (bonds) is recognized as imperfect and potentially inappropriate in situations where a substantial and prolonged change in the market level of interest rates occurs. A bond index is a useful comparative device, but income protection, maturity control and portfolio quality are other important performance indices as well as critical elements of portfolio strategy. Active trading of bonds is necessary to prevent deterioration of portfolio market value and may result in the realization of book losses from time to time.

PERFORMANCE MEASUREMENT

The investment performance of the Fund will be measured by an unaffiliated organization with recognized expertise in this field and compared against the stated performance goals of the Fund. Measurement will occur at least annually, and will be used to evaluate the results of the total Fund, major classes of investment assets, and individual management organizations.

INVESTMENT GUIDELINES

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

Eligible investments are:

- ° Common stock of companies incorporated in the United States may be purchased. Common stocks must be traded on exchanges registered with the SEC (see Appendix A) excepting bank and insurance company stocks. Additionally, the common stock of a corporation must have paid dividends for five consecutive years prior to the date of purchase.
- ° Preferred stocks and convertible preferred stocks of companies incorporated in the United States may be purchased provided that either the preferred stock or the common stock of that corporation is listed on exchanges registered with the SEC, excepting bank and insurance company stocks. The qualifying stock must have paid dividends for five consecutive years. Preferred stock, but not convertible preferred stock, must also meet the rating criteria mentioned below.
- ° Bonds, debentures, or obligations issued by corporations, associations, or other institutions may be purchased provided that the obligation must be issued by, or financial responsibility must legally rest with, a U. S. corporation and must be U. S. dollar denominated.
 - Certificates of deposit shall not be purchased.
 - Commercial paper must be rated in the two highest quality classes either by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
 - Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
 - Repurchase agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company

meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps. Repurchase agreements must also qualify to be maintained in book-entry form at a member bank of the Federal Reserve System.

- Corporate bonds and preferred stocks must be rated a minimum of Baa3 by Moody's Investors Service, Inc. or BBB- by Standard & Poor's Corporation, respectively, when purchased. Bonds rated below A3 and A- shall not constitute an excessive portion of the total bond portfolio. Unrated bonds or preferred stocks may be purchased prior to review by the Land and Investment Committee if, in the opinion of the System's investment staff, they are at least equal in quality to publicly offered securities eligible for purchase. The cost of unrated bonds and preferred stocks which have not been reviewed by the Land and Investment Committee may not exceed 1% of the book value of the Fund. Convertible bonds may be purchased if the bond qualifies under this bond rating standard or if the common stock into which the bond may be converted qualifies under the common stock eligibility requirements.
- o Bonds of the United States, the State of Texas or counties, cities, or school districts of the State of Texas, or bonds issued under and by virtue of the Federal Farm Loan Act approved by the President of the United States, July 17, 1916, and amendments thereto may be purchased.
- o Bonds or other obligations issued, insured, or guaranteed in any manner by the United States Government or any of its agencies may be purchased.
- o Bonds or notes issued by the Board of Regents of The University of Texas System or the Board of Regents of The Texas A&M University System and payable from income of the Permanent University Fund may be purchased.
- o No other forms of investment are eligible for purchase including investments in securities of the South African government, government agencies, or firms.

Other investment restrictions include the following:

- o The cost of the combined securities (both debt and equities) of one corporation may not exceed one percent of the book value of the Fund.
- o No more than five percent of the voting securities of a corporation may be owned.
- o No securities may be purchased or held which would jeopardize the Fund's tax exempt status.
- o No securities may be purchased on margin or leverage.

- Unaffiliated investment managers transacting solely within their assigned assets:
 - shall hold no more than 25% of their managed portfolio in any one industry at cost unless the manager was retained to concentrate in an industry or industries.
 - shall hold no more than 10% of their managed portfolio in the securities of one corporation at cost.
 - shall hold no more than 10% of their managed portfolio at cost in an asset category different than the type they were retained to manage. Short-term liquid investments are excluded from this limitation. Convertible securities are considered to be equity equivalents for purposes of this restriction.

INVESTMENT MANAGEMENT FIRMS

Unaffiliated investment managers may be hired from time to time to provide the Fund with increased diversity through their unique style and approach to investing. Their purpose is to improve the Fund's return and to alter its volatility. Other than as limited by this Policy Statement, investment managers shall have complete investment discretion. In addition to performance, investment managers shall be monitored for adherence to their investment style, and shall be available as reasonably requested for open communication with the Board and The University of Texas System's investment and administrative staff.

FUND ADMINISTRATION

Administration of the Fund is recognized as vital to Fund stability and fulfillment of objectives. Areas of emphasis shall include record keeping, internal controls, protection of assets, cash management and processing efficiency.

Transaction and accounting records shall be complete and prepared on a timely basis with consideration at all times to the adequacy of an audit trail.

Internal controls will assure responsible separation of duties and diminish the real and prospective burden on individual employees.

Custody of the Fund's assets shall be in compliance with applicable law and arranged to provide as much security, trading speed and flexibility as possible. Adequate insurance levels will be maintained by any custodian or transportation agent employed by the Fund.

The daily cash position will be monitored to insure that non-interest bearing cash is minimized. The collection time of all dividend and interest payments will be accelerated to the extent possible.

Operational efficiency is imperative, and computer capabilities shall be extensively used to reduce manual processing and duplication of activities.

System investment and administrative staff will conduct business for the Fund with organizations which, after review, are believed to exercise professional integrity and have financial substance judged adequate in light of the size and nature of the business involved. Normal business entertainment of the staff is recognized as a customary medium for conducting this type of business. Acceptance of material gifts from unaffiliated vendors is prohibited.

Additionally, transactions to purchase or sell securities shall be entered into on the basis of "best execution," which normally means best realized net price for the security. Commissions may be paid for investment services rendered to the Fund including securities research.

INVESTOR RESPONSIBILITY

The Fund supports higher education, which has a special and unique role in society. It follows that, subject to the "Prudent Person Rule," investment of the Fund must be sensitive to major issues affecting its constituency including the State of Texas and supporters of higher education.

As a significant 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.

The primary basis for all investment decisions is the "Prudent Person Rule" (see Investment Guidelines). The Fund shall not be invested to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

APPENDIX A

American Stock Exchange
Boston Stock Exchange
Cincinnati Stock Exchange
Intermountain Stock Exchange
Midwest Stock Exchange
New York Stock Exchange
Pacific Coast Stock Exchange
Philadelphia Stock Exchange
Spokane Stock Exchange

- c. Adopted the following policy statement with regard to management and investment of the Common Trust Fund:

COMMON TRUST FUND
INVESTMENT POLICY STATEMENT

FUND CHARACTERISTICS

The Common Trust Fund was established by the Board of Regents to allow for the pooled investment of privately-sourced endowment and trust funds held by The University of Texas System or by the U. T. Board of Regents in a fiduciary capacity. These endowment and trust funds are collectively invested to enhance the diversification of the assets held and to streamline investment and administrative operations.

The endowment and trust funds were given to provide a permanent funding source to support specified academic and enrichment programs at donor-designated components of The University of Texas System. The principal of these funds may not be spent, and therefore only cash income earned on investments is available for distribution. Internal growth of the Fund may occur through capital appreciation or retention of income in excess of distributions.

RESPONSIBILITY AND MANAGEMENT OF THE FUND

Fiduciary responsibility for the Fund rests with the Board of Regents of The University of Texas System. The Board employs an investment and administrative staff, headed by the Executive Vice Chancellor for Asset Management. Specific investment decisions are handled by the investment staff as well as unaffiliated investment managers, who are employed from time to time. The Board retains an Investment Advisory Committee to provide counsel concerning portfolio and economic issues affecting the Fund.

CONFLICT OF INTEREST

Members of the Board and the Investment Advisory Committee are frequently persons of wide-ranging business interests. Therefore, a prudent, independent investment decision process may result in investments in firms or organizations with which a member of the Board or the Investment Advisory Committee is affiliated. Affiliation shall be interpreted within this section to mean an employee, officer, director, or owner of five percent or more of the voting stock of a firm or organization. The investment staff or an unaffiliated investment manager may invest in such securities. However, the following restrictions shall apply:

- ° A member of the Board or the Investment Advisory Committee shall not direct nor participate in the decision to purchase or sell securities of a firm with which such member is affiliated.
- ° Investments will not be purchased from or sold to a member of the Board or the Investment Advisory Committee.
- ° All members of The University of Texas System investment and administrative staff must report any affiliation with another firm or organization to the Regents' Land and Investment Committee. On an annual basis the staff will report the nature and extent of any investments in or business transacted with such firms.

INVESTMENT OBJECTIVES

There are two primary investment objectives. One is to provide a continuing and dependable cash payout, stable and preferably growing in real terms, after giving effect to inflation. The second is to cause the total value of the Fund to appreciate, over time, exclusive of growth derived from donations.

The cash payout requirement on the Fund is substantial and continuous. Income must be sufficient to provide an adequate cash stream for the development of excellence and distinction in the academic programs of the System. In addition, the Fund needs to appreciate to insure preservation of the purchasing power of the Fund, and also to satisfy the need for payout growth in the future.

Management of the Fund attempts to meet these objectives by maximizing the return on the Fund's investments, consistent with an appropriate level of risk and subject to generation of adequate current income. Additionally, the Fund shall be diversified at all times to provide reasonable assurance that investment in a single security, a class of securities, or industry will not have an excessive impact on the Fund.

ASSET MIX

Asset mix is the primary determinant of Fund performance, and is the responsibility of the Regents' Land and Investment Committee. Asset mix may be changed from time to time based on the economic and security market outlook as well as income requirements.

In establishing asset mix, recognition of the role of various classes of investments will be considered. These include:

- ° The principal purpose of fixed income investments is to provide a dependable and predictable source of income.
- ° Equity investments provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund.
- ° Cash equivalent-short term investments provide current income, but their principal purpose is to store purchasing power to fund longer term investments.
- ° Other investments, such as venture capital investments and real estate investments, would be undertaken to provide exceptional returns to the Fund.

PERFORMANCE GOALS

To accomplish the investment objectives for the Fund and recognizing the critical role of asset mix, specific performance goals exist for the total Fund as well as separate categories of assets. Achievement of these goals is most appropriately determined over a full market cycle time period ... generally four to five years.

Specific performance goals for the Fund are:

- Common Stocks - Performance equal to or greater than the Standard & Poor's 500 Index.
- Bonds - Performance equal to or greater than the Shearson Lehman Government/Corporate Bond Index or other appropriate bond index.
- Total Fund Return - Performance equal to or greater than that of other comparable funds.

Given the income requirements on the Fund, the performance goal for fixed income securities (bonds) is recognized as imperfect and potentially inappropriate in situations where a substantial and prolonged change in the market level of interest rates occurs. A bond index is a useful comparative device, but income protection, maturity control and portfolio quality are other important performance indices as well as critical elements of portfolio strategy. Active trading of bonds is necessary to prevent deterioration of portfolio market value and may result in the realization of book losses from time to time.

PERFORMANCE MEASUREMENT

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

INVESTMENT GUIDELINES

The Fund must be invested at all times in strict compliance with the Texas Trust Code (Subtitle B, Title 9, Texas Property Code) and other applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment restrictions include the following:

- All investments must be U. S. dollar denominated unless held by an investment manager retained to manage an international portfolio.
- No investments may be made in securities of the South African government, government agencies, or firms.
- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as

- a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the Executive Director for Investments and Trusts and the Executive Vice Chancellor for Asset Management prior to investment of Fund monies in such liquid investment fund. No requirement exists that such funds conform to the above restrictions on money market instruments.
 - Corporate bonds and preferred stocks must be rated a minimum of Baa3 by Moody's Investors Service, Inc. or BBB- by Standard & Poor's Corporation, respectively, when purchased. Bonds rated below A3 and A- shall not constitute an excessive portion of the total bond portfolio. Unrated bonds or preferred stocks may be purchased prior to review by the Land and Investment Committee if, in the opinion of the System's investment staff, they are at least equal in quality to publicly offered securities eligible for purchase. The cost of unrated bonds and preferred stocks which have not been reviewed by the Land and Investment Committee may not exceed 1% of the book value of the Fund.
 - No more than five percent of the voting securities of a corporation may be owned.
 - No securities may be purchased or held which would jeopardize the Fund's tax exempt status.
 - No securities may be purchased on margin or leverage.
 - No transactions in short sales will be made.
 - Transactions in financial futures and options (other than those received as part of an investment unit) may only occur as part of a hedging program authorized by the Land and Investment Committee.
 - Unaffiliated investment managers transacting solely within their assigned assets:
 - shall hold no more than 25% of their managed portfolio in any one industry at cost unless the manager was retained to concentrate in an industry or industries.
 - shall hold no more than 10% of their managed portfolio in the securities of one corporation at cost.
 - shall not hold investment in real estate, partnerships, and other such illiquid assets unless retained to manage this type of asset and shall hold no more than 10% of their managed portfolio in any other asset category different than the type they were retained to manage. Short-term liquid investments are excluded from this limitation. Convertible securities are considered to be equity equivalents for purposes of this restriction.
 - shall hold no securities traded only in foreign markets unless they were retained to manage an international portfolio.

INVESTMENT MANAGEMENT FIRMS

Unaffiliated investment managers may be hired from time to time to provide the Fund with increased diversity through their unique style and approach to investing. Their purpose is to improve the Fund's return and to alter its volatility. Other than as limited by this Policy Statement, investment managers shall have complete investment discretion. In addition to performance, investment managers shall be monitored for adherence to their investment style, and shall be available as reasonably requested for open communication with the Board of Regents and The University of Texas System's investment and administrative staff.

FUND ADMINISTRATION

Administration of the Fund is recognized as vital to Fund stability and fulfillment of objectives. Areas of emphasis shall include record keeping, internal controls, protection of assets, cash management and processing efficiency.

Transaction and accounting records shall be complete and prepared on a timely basis with consideration at all times to the adequacy of an audit trail.

Internal controls will assure responsible separation of duties and diminish the real and prospective burden on individual employees.

Custody of the Fund's assets shall be in compliance with applicable law and arranged to provide as much security, trading speed and flexibility as possible. Adequate insurance levels will be maintained by any custodian or transportation agent employed by the Fund.

The daily cash position will be monitored to insure that non-interest bearing cash is minimized. The collection time of all dividend and interest payments will be accelerated to the extent possible.

Operational efficiency is imperative, and computer capabilities shall be extensively used to reduce manual processing and duplication of activities.

System investment and administrative staff will conduct business for the Fund with organizations which, after review, are believed to exercise professional integrity and have financial substance judged adequate in light of the size and nature of the business involved. Normal business entertainment of the staff is recognized as a customary medium for conducting this type of business. Acceptance of material gifts from unaffiliated vendors is prohibited.

Additionally, transactions to purchase or sell securities shall be entered into on the basis of "best execution," which normally means best realized net price for the security. Commissions may be paid for investment services rendered to the Fund including securities research.

INVESTOR RESPONSIBILITY

The Fund supports higher education, which has a special and unique role in society. It follows that, subject to the "Prudent Person Rule," investment of the Fund must be sensitive to major issues affecting its constituency including the State of Texas and supporters of higher education.

As a significant 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.

The primary basis for all investment decisions is the "Prudent Person Rule" (see Investment Guidelines). The Fund shall not be invested to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

d. Amended the Regents' Rules and Regulations, Part Two, Chapter IX, as set forth below:

1. Section 1 was amended to read as follows:

Sec. 1. Authorizations re Sales, Assignments, Conveyances, Receipt of Property, and Proxies.

1.1 Authority to Purchase, Exchange, and Sell Securities for and on Behalf of the Permanent University Fund (hereinafter sometimes referred to as "PUF") and the Board.--The Chancellor, or his delegate, the Executive Vice Chancellor for Asset Management, and the Executive Director for Investments and Trusts are authorized to purchase, exchange, and sell any and all securities for and on behalf of the PUF or the Board, and to execute all related state government documents. In addition, unaffiliated investment managers appointed by the Board of Regents may purchase, sell, or exchange securities from funds designated from the PUF and the Common Trust Fund in accordance with such manager's contracts.

1.2 Authority to Assign and Transfer Securities Owned by the PUF and the Board.--The Chancellor, or his delegate, the Executive Vice Chancellor for Asset Management, the Executive Director for Investments and Trusts, the Comptroller and Associate Comptroller, and the Trust Officer may each assign and transfer any and all securities of any description whatever and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any securities registered in the name of the PUF or the Board, or in any other form of registration of such securities held for the account of the PUF or the Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said Board. In addition, custodian banks appointed by the Executive Vice Chancellor for Asset Management may assign and transfer securities and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any security owned by the Board.

- 1.3 Authority to Execute Instruments Relating to Land and Mineral Interests.--The Chairman of the Board, the Vice-Chairmen, the Chancellor, or his delegate, and the Executive Vice Chancellor for Asset Management are each authorized to execute conveyances, deeds, surface and/or mineral leases, easements, rights-of-way, oil and gas division orders, and transfer orders, geophysical and material source permits, water contracts, pooling and unitization agreements, and any other instruments as may be necessary or appropriate from time to time, relating to the handling, management, control, and disposition of any real estate or mineral interest held or controlled by the Board as a part of the PUF or as a part of any trust or special fund.
- 1.4 Authority to Receive and Collect Money and/or Property.--The Chancellor, the Executive Vice Chancellor for Asset Management, and the Executive Director for Investments and Trusts are each authorized and empowered to ask, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands, whatever, due, payable, or belonging, or that may become due, payable, or belonging to any of the above funds from investment transactions, from any person or persons, whatever, and to execute any and all necessary or proper receipts, releases, and discharges therefor.
- 1.5 Authority to Execute Proxies and Consent to Modifications in Bond Indentures.--The Chancellor, or his delegate, the Executive Vice Chancellor for Asset Management, the Executive Director for Investments and Trusts, and the Investment Officers are each authorized to consent to modifications in bond indentures and to execute proxies within the approved investment policies.
- 1.6 Authority to Deliver and Maintain Securities in Book-Entry Form.--Securities owned by the PUF or the Board may be delivered and maintained by a custodian bank or a member bank of the Federal Reserve System in book-entry form subject to applicable law.

2. The Title of Section 2 was amended to read as follows:

Sec. 2. Policy for Investment and Management of the PUF.

3. Subsections 2.1 through 2.4 were deleted and a new Subsection 2.1 was added to read as follows:

2.1 The policies for the investment of funds for the Permanent University Fund shall be those outlined in The Permanent University Fund Investment Policy Statement.

4. Present Subsection 2.7 was renumbered as Subsection 2.2 and amended to read as follows:

- 2.2 Advice of Investment Advisory Committee.--
The Chancellor, the Executive Vice Chancellor for Asset Management, and the Executive Director for Investments and Trusts shall seek the advice and counsel of the Investment Advisory Committee at its regular quarterly meetings and at other times as appropriate on all of the major matters involving the PUF.

5. Present Subsection 2.8 was renumbered as Subsection 2.3 and amended to read as follows:

- 2.3 Reports to the Regents' Land and Investment Committee.

- 2.31 All purchases, sales, and exchanges of investments shall be reported for ratification by the Board through the Regents' Land and Investment Committee.

- 2.32 The investment performance of the Fund, as measured by an unaffiliated organization, shall be reported to the Regents' Land and Investment Committee at least annually.

- 2.33 The nature and extent of any investments in or business transacted with any firm with which a member of The University of Texas System investment staff is affiliated will be reported to the Regents' Land and Investment Committee annually.

- 2.34 The Fund's investment in U. S. companies with substantive investments or operations in South Africa will be reported to the Regents' Land and Investment Committee semi-annually in combination with the status review of these firms' effective compliance with the spirit of the six key elements of the Sullivan Principles.

- 2.35 All proxy votes on the social issue of investment and corporate conduct in South Africa will be reported to the Regents' Land and Investment Committee.

6. The lead-in language to Subsection 2.9 and Subdivisions 2.91, 2.92, and 2.94 were deleted and existing Subdivision 2.93 was renumbered as Subsection 2.4 and amended to read as follows:

- 2.4 The Chancellor, the Executive Vice Chancellor for Asset Management, or the Executive Director for Investments and Trusts are each authorized to take any and all steps as may be considered necessary or advisable to protect the interest of the PUF in event of default or any other significant changes occurring with respect to any investment.

7. Subsection 2.5 was amended to read as follows:
- 2.5 Policies with Respect to Stock Rights, Fractional Shares, and Proxies.
- 2.51 Exercise of or sale of stock rights and warrants is to be made at the discretion of the Chancellor, the Executive Vice Chancellor for Asset Management, the Executive Director for Investments and Trusts, or the Investment Officers. Stock rights or warrants which arise in connection with funds under control of an unaffiliated investment manager shall be handled by that manager at its discretion.
- 2.52 Fractional shares which arise in connection with funds under control of an unaffiliated investment manager or the System investment staff shall be handled by that manager or the staff at its discretion.
- 2.53 As a general rule, voting stocks held are to be voted by returning proxies to present management. When the Executive Director for Investments and Trusts determines that a vote with management would not be in the shareholder's best financial interest, or when a proposal under consideration is of a social nature, the matter will be referred to the Chancellor or the Executive Vice Chancellor for Asset Management, or, in the event both of them are absent, to the Chairman of the Land and Investment Committee. Voting on the issue of investments and corporate conduct in South Africa shall correspond to the Regents' Policy Statement on South African Issues adopted by the Board at its February 1986 meeting.
8. Subsection 2.6 was amended to read as follows:
- 2.6 Exchange of Bonds.--The Chancellor, the Executive Vice Chancellor for Asset Management, the Executive Director for Investments and Trusts, and the Investment Officers are each authorized to exchange bonds owned, from time to time, on a par for par basis (with such cash adjustments as may be required) for other eligible bonds or obligations. In any such exchange the cost of the bonds exchanged out (plus or minus the cash adjustments involved) shall be carried forward as the cost of the bonds or obligations acquired, even though the sale and purchase may be effected through different brokers. Such sales and purchases may be considered as exchanges provided there has been an improvement in book yield.

9. Section 3 was amended to read as follows:

Sec. 3. Policy for Investment and Management of Trust and Special Funds.

- 3.1 Investments Authorized for Purchase.-- Unless otherwise limited by the terms of the instrument by which the fund was created, trust and special funds under the control of the Board shall be invested and reinvested in such securities and investments as are permitted by the Texas Trust Code (Subtitle B, Title 9, Texas Property Code) as legal investments for funds held by trustees.
- 3.2 The provisions of Sections 2.2, 2.3, 2.4, 2.5 and 2.6, with respect to the investment and management of the PUF, shall likewise apply to trust and special funds except that Subsection 2.32 shall be applied only when appropriate comparisons and significant amounts are involved.
- 3.3 Trust funds will be managed separately and not commingled with the Common Trust Fund if the terms of the instrument by which the fund was created or documents and instructions from the donor preclude investment through the Common Trust Fund. In addition, non-marketable securities held by a trust fund may be recorded as separately invested. All other endowment funds will be invested through the Common Trust Fund.

10. Section 4 was amended to read as follows:

Sec. 4. Policy for Investment and Management of the Common Trust Fund.

- 4.1 The policies for the investment of funds for the Common Trust Fund shall be those outlined in The Common Trust Fund Investment Policy Statement.
- 4.2 The provisions of Sections 2.2, 2.3, 2.4, 2.5 and 2.6, with respect to the investment and management of the PUF, shall likewise apply to the Common Trust Fund.

11. Present Section 5 was deleted and existing Section 6 was renumbered as Section 5 and amended to read as follows:

Sec. 5. Investment Advisory Committee.--The Investment Advisory Committee is and has been established in order to assist and advise the Chancellor, the Executive Vice Chancellor for Asset Management, and the Executive Director for Investments and Trusts with respect to matters relating to the management of investments. The following rules shall apply to such Committee:

- 5.1 Membership.--Six members of the Committee shall be selected because of their particular qualifications and experience in the field of investments, including experience in bond and corporate stock investments.

- 5.2 Selection Procedure.--Appointments to such Committee shall be made by the Board after recommendation by the Chancellor.
- 5.3 Term of Office.--Each member shall serve a three-year term, with the terms of two members expiring each August 31. A member is eligible for reappointment to a consecutive three-year term, but may not be reappointed thereafter without a three-year break in service.
- 5.4 Meetings.--Meetings shall be held quarterly and at such other dates as may be considered advisable by the Chancellor and the Executive Vice Chancellor for Asset Management.

12. Present Section 7 was renumbered as Section 6 and amended to read as follows:

Sec. 6. Investment Transactions.--Sales, purchases, and exchanges shall be effected through investment dealers or brokers in accordance with the Permanent University Fund and the Common Trust Fund Investment Policy Statements.

IV. INTELLECTUAL PROPERTY

FEB 13 1986^{1.}

U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter V, Section 2, Subsection 2.4, Subdivisions 2.44 and 2.45 (Intellectual Property Policy).--Approval was given to amend Subsection 2.4 of Section 2 of Chapter V of Part Two of the Regents' Rules and Regulations (Intellectual Property Policy) as set forth below:

- a. Subdivision 2.44, Paragraph 2.442 was amended to read as follows:

2.442 The intellectual property is related to the individual's employment responsibility, or has resulted either from activities performed by the individual on System time, or with support by State funds, or from using System facilities.

- b. Subdivision 2.45, Paragraph 2.452 and Subparagraph 2.4521 were amended to read as follows:

2.452 Intellectual property either related to the individual's employment responsibility, or resulting from activities performed on System time, or with support by State funds, or from using System facilities. (See 2.442.)

2.4521 Before publishing, a creator of intellectual property that the creator believes may be patentable and which (a) relates to the individual's employment responsibility, or (b) results from activities done on System time, or (c) is created with support by State funds, or (d) is created using System facilities, shall be submitted to the Institutional Patent Committee for determination of the System's interest. In those instances, however, where delay would jeopardize obtaining the appropriate protection for the property, the creator may, with the approval of the Chairman of the Institutional Patent Committee and the chief administrative officer, file a patent application or take other steps to obtain available protection prior to the Committee and administrative review provided in the following two subsections. If the request is granted, the creator may proceed with the filing of a patent application or other available protective measures pending the determination of the System's interest; provided, however, that the creator shall be reimbursed for expenses in filing the patent application or taking other steps to obtain protection if the decision of the System is to assert and exploit its interests. The Chairman of the Institutional Patent Committee shall notify the System Intellectual Property Office of any such application.

These changes are intended to more clearly delineate those intellectual properties that belong to the U. T. Board of Regents and to more specifically designate those particular properties (inventions) that are required to be submitted to an Institutional Patent Committee.

IV. OTHER MATTERS

DEC 06 1985

U. T. System: Approval of Policy Statements, Guidelines, and Amendments to Part Two, Chapter V, Section 2.4 (Patent Policy) of the Regents' Rules and Regulations with Regard to the Management of Intellectual Property.--In order to implement a comprehensive intellectual property program for The University of Texas System and its component institutions, the Board adopted (1) a policy statement and guidelines for agreements licensing U. T. System intellectual property, (2) a policy statement and guidelines relating to sponsored research agreements entered into by component institutions, and (3) a policy statement and guidelines for management and marketing of intellectual property as set forth on Pages 386 - 390 .

POLICY AND GUIDELINES RELATING TO INTELLECTUAL PROPERTY LICENSE AGREEMENTS WITH PRIVATE ENTITIES, INCLUDING THOSE FORMED PRIMARILY FOR THE DEVELOPMENT AND/OR COMMERCIALIZATION OF INTELLECTUAL PROPERTY CREATED AT A COMPONENT INSTITUTION OF THE U. T. SYSTEM

It is the policy of the U. T. Board of Regents that state law concerning conflict of interest and Attorney General's Opinions interpreting and defining such laws (A.G.'s Opinion H-1309 [December 1978], in particular, raises and discusses most issues surrounding such conflict of interest) be observed by all officers and employees of the U. T. System and component institutions in their relationships with an entity that is the licensee of U. T. System intellectual property, including one formed primarily for the development and/or commercialization of intellectual property created at a component institution of the U. T. System. Questions in this regard should be referred to the Office of General Counsel of the U. T. System for consideration. Officers or employees are not prohibited from rendering services to such entities as consultants under negotiated contracts. On behalf of any component institution, the U. T. Board of Regents and the Center for Technology Development and Transfer at The University of Texas at Austin, acting pursuant to Section 65.45, Texas Education Code, may participate in the formation, ownership and operation of corporations, partnerships, joint ventures and other activities authorized by such Section for the purpose of developing, manufacturing or marketing intellectual property.

The Office of General Counsel shall develop a model license agreement for U. T. System intellectual property which agreement shall include, as a minimum, the guidelines set forth below. The model agreement shall be submitted to all potential licensees for U. T. System

intellectual property and individuals involved in negotiation of license agreements shall endeavor to achieve utilization of the significant aspects of the model agreement for all licenses of intellectual property rights.

The following guidelines shall be applicable to license agreements with private entities including those formed primarily for the purpose of developing and/or commercializing intellectual property created at a U. T. System component institution:

- a. No entity shall be granted the exclusive right to the development and/or commercialization of all intellectual property created at a U. T. System component institution. Agreements should grant rights only on a specific project basis.
- b. If an entity is granted the exclusive rights with respect to a particular invention, product, process or other item of intellectual property, the agreement should provide that such rights will revert to the U. T. Board of Regents in the event the entity fails to diligently develop and commercialize the property within a specified period of time that is appropriate to the particular circumstances.
- c. An entity that is granted exclusive rights to develop or commercialize intellectual property that is patentable should be required to reimburse the Board for all expenses incurred by the Board in obtaining a patent or, if a patent has not been obtained, should be required to prosecute and bear the expense of obtaining patent protection for the benefit of the Board and, in either event, the entity should be required to take all actions necessary, including litigation, to protect and preserve such patented rights from infringement.
- d. The U. T. System, the component institution, and the officers and employees of each should be protected and indemnified from all liability arising from the development, marketing, or use of the particular intellectual property.
- e. Restrictions on use by the component institution for research and teaching purposes and the publication rights of researchers should be minimized.
- f. If the entity fails to develop and commercialize the property, any additional technology or know-how discovered by the entity should be granted back to the U. T. Board of Regents so that another entity may be offered the right to develop and commercialize the entire technology package.
- g. The entity should be required to comply with all applicable federal, state, and local laws and regulations, particularly those concerning biological materials and necessary testing and approval by the Federal Drug Administration.

- h. The entity should be required to maintain confidentiality with regard to any unpatented technology or know-how.
- i. An entity that grants a license or sublicense to some other entity for property or technology that is in whole or in part derived from or based on that which is licensed to the entity by the Board, should be required to share with the U. T. System: 50% of any royalty received by the entity and 50% of any equity position to which the entity may be entitled.
- j. License agreements should contain such other provisions as may be determined to be in the best interest of the U. T. System by the Office of Asset Management and the Office of General Counsel.
- k. License agreements are subject to the approval of the Board and normally shall be submitted as docket items.

POLICY AND GUIDELINES FOR THE NEGOTIATION,
REVIEW AND APPROVAL OF SPONSORED RESEARCH
PROJECTS WITH NONPROFIT AND FOR PROFIT NON-
GOVERNMENTAL ENTITIES

U. T. System component institutions and individual faculty are encouraged to use their best efforts to obtain sponsored funding for research projects from governmental agencies as well as nonprofit and for profit nongovernmental entities. Each component institution should establish an appropriate organizational structure to solicit sponsors for research projects and to negotiate appropriate agreements with such sponsors with the assistance of the Office of Asset Management and the Office of General Counsel as provided below.

While it is recognized that sponsored research agreements with governmental entities and some nonprofit entities are not normally subject to change through negotiation, the Office of General Counsel shall develop a model sponsored research agreement that the component institution shall submit to all other potential sponsors for research projects.

Additionally, in its Handbook of Operating Procedures, each U. T. System component institution shall devise a system for early identification of proposed sponsored research projects that: (a) have potential for significant research results that may be marketable; and (b) are being developed by sponsors who are unwilling to utilize the significant aspects of the model agreement. Review currently conducted by the Office of the Chancellor and the Office of the U. T. System Comptroller with regard to the appropriateness of any financial obligations on the part of the U. T. System or its component institutions will be continued and, in addition, all sponsored research agreements evolving from the early identification procedure shall be reviewed and approved by the Office of Asset Management and the Office of General Counsel prior to submission to the Board for approval in the institutional docket. In order to facilitate such review and approval, the Office of Asset Management and the Office of General Counsel should be

consulted at an early stage with regard to the negotiation of the terms that deviate from the model agreement. The Office of the Chancellor, the Office of Asset Management, and the Office of General Counsel shall adopt procedures that insure prompt review and response so that important research projects are not delayed by U. T. System Administration involvement.

It is particularly important that the following guidelines be adhered to if at all possible in sponsored research agreements with nonprofit and for profit non-governmental entities:

- a. The U. T. Board of Regents should own the rights to all patentable discoveries, unpatentable technology, technical know-how, and other intellectual property that results from the research project.
- b. The sponsoring entity may have an option for either an exclusive or non-exclusive right to a license to develop and commercialize any intellectual property resulting from the project for a royalty in an amount to be negotiated.
- c. In the event the sponsor exercises the option for a license, it should be required to reimburse the Board for all expenses incurred with respect to a patent that has been secured on any patentable discovery or, in the event a patent has not been obtained, the sponsor should be required to bear the expense of securing patent protection for the benefit of the Board.
- d. The rights of researchers to publish scholarly work with respect to the research project should be restricted only to the extent necessary to protect the potential value of any discovery resulting from the research.
- e. The agreement should contain appropriate indemnification from the sponsor for all damage or liability that may result when a research project involves the use of materials, processes, or procedures that are furnished by or required by the sponsor to be used in such project and such damage or liability is not due to negligence of the persons performing the research.
- f. License agreements that result from the exercise of options in the sponsored research contracts are subject to the approval of the Board through the docket and should contain provisions for the reversion to the Board of all rights to the intellectual property if it is not developed and marketed in a timely manner.

POLICY AND GUIDELINES FOR MANAGEMENT AND
MARKETING OF INTELLECTUAL PROPERTY

The U. T. Board of Regents finds that intellectual property and technology created at the component institutions are valuable assets with potential for commercialization for the benefit of the citizens of the State, State government, the component institutions, and the U. T. System.

As a part of its Handbook of Operating Procedures, each component institution of the U. T. System shall adopt procedures for identifying, evaluating, and marketing intellectual property and technology created at the component institution:

- a. that are not already subject to an option or license pursuant to a sponsored research agreement;
- b. that have not been committed to an entity, including those formed for the primary purpose of development and commercialization of intellectual property created at the component institution; or
- c. the control of which has been regained by the U. T. System through reversion provisions contained in license agreements.

The intellectual property management and marketing procedures that are to be included in institutional Handbooks of Operating Procedures shall contain provisions that recognize and provide the opportunity for the creator and other knowledgeable institutional personnel to play a major role in marketing while making provision for appropriate involvement of the Offices of Asset Management and General Counsel in the management and marketing of the assets of the Board.

In developing handbook procedures, consideration should be given to the utilization of the Center for Technology Development and Transfer at The University of Texas at Austin (established by Section 65.45, Texas Education Code) as a means of developing and marketing available intellectual property created at component institutions.

The Office of General Counsel shall continue to assist in marketing efforts through its activities, such as submitting available intellectual property and technology to appropriate computer data listing services, and to publications that reach prospective licensees.

The Office of Asset Management shall develop appropriate expertise in the area of marketing of technology to complement the efforts of the component institutions and the Office of General Counsel.

On a selective basis, the Office of General Counsel and the Office of Asset Management with the concurrence of the component institution, may utilize the services of intellectual property marketing agencies pursuant to contractual agreements that have been approved by the Board.

Further, approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter V, Section 2.4 (Patent Policy) to read as set forth below and the Executive Secretary to the Board, in consultation with the Office of General Counsel, was authorized to make appropriate editorial changes in the remainder of the Regents' Rules and Regulations that may be necessary in order to conform to the foregoing policies, guidelines, and amendments related to intellectual property.

2.4 Intellectual Property Policy.

2.41 Statement of Basic Philosophy and Objectives.--

While the discovery of patentable processes or inventions and the creation of other intellectual property is not the primary objective of the System, for any such discoveries or creations, it is the objective of the Board to provide an intellectual property policy which will encourage the development of inventions and other intellectual creations for the best interest of the public, the creator, and the research sponsor, if any, and that will permit the timely protection and disclosure of such intellectual property whether by development and commercialization after securing available protection for the creation, by publication or both. The policy is further intended to protect the respective interest of all concerned by ensuring that the benefits of such property accrue to the public, to the inventor, to the System and to sponsors of specific research in varying degrees of protection, monetary return and recognition, as circumstances justify or require.

2.411 Each component institution may develop in its Handbook of Operating Procedures additional policies and rules covering the subject matter of this section not inconsistent with this section or other policies or procedures adopted by the Board.

2.42 General Policy.

2.421 The intellectual property policy as adopted shall apply to all persons employed by the component institutions of the System, to anyone using System facilities under the supervision of System personnel, and to postdoctoral and predoctoral fellows.

2.422 This policy shall apply to intellectual property creations of all types, regardless of whether patentable, except for faculty or staff authored written work that is not produced either as work for hire or as a part of the regular work responsibilities of the author.

2.423 It is the intent of this policy to permit the creator of intellectual property maximum freedom in respect to their creations, consistent with their obligations to the System. Any person

affected by this policy who as a result of his or her activities creates intellectual property other than on certain government or other sponsored research projects, where individual grant agreements provide otherwise, should have a major role in the ultimate determination of how it is to be made public -- by publication, by development and commercialization after securing available protection for the creation, or both.

- 2.424 Property rights in intellectual property will be based on the degree of System support, as hereinafter specified.
- 2.425 The System, with the cooperation of the component institution, will provide review and management services for patentable inventions as well as other intellectual property either by its own staff, through a related Foundation, or by other means.
- 2.426 It is a basic policy of the System that intellectual property be developed primarily to serve the public interest. This objective usually will require development and commercialization by nonexclusive licensing but the public interest may best be promoted by the granting of a limited exclusive license or even an exclusive license for the period of the patent. These determinations will be recommended and made in accordance with the administrative procedures hereinafter set out and with the approval of the Board.

2.43 Institutional Patent Committees and System Intellectual Property Office.

- 2.431 Patent Committees: To help administer the intellectual property policy at each component institution and to make recommendations to chief administrative officers for further referral to the Office of the Chancellor and the Board (in those cases when action by the Office of the Chancellor and/or the Board is required), Institutional Patent Committees shall be established as directed by the Office of the Chancellor. Each institution at its option may use the term "Intellectual Property Committee" in lieu of "Patent Committee."
- 2.432 System Intellectual Property Office: To assist the Institutional Patent Committees to provide advice to individual faculty and staff members in intellectual property matters and to

coordinate details in respect to procedures for protecting and marketing intellectual property, a System Intellectual Property Office shall be established.

2.44 Classification of Discoveries by Source of Research Support.

- 2.441 The intellectual property is unrelated to the individual's employment responsibility, has been developed as a result of the individual's efforts on his or her own time, with no System support or use of System's facilities.
- 2.442 The intellectual property is related to the individual's employment responsibility, has resulted from activities performed by the individual on System time, with support by State funds, or using System facilities.
- 2.443 The intellectual property has resulted from research supported by a grant or contract with the Federal Government or an agency thereof, a nonprofit or for profit nongovernmental entity or by a private gift to the System.

2.45 Property Rights and Obligations.

- 2.451 Intellectual property unrelated to the individual's employment responsibility that is developed on an individual's own time and without System support or use of System facilities (see 2.441) is the exclusive property of the creator, and the System has no interest in any such property and no claim to any profits resulting therefrom. Should the creator choose to offer the creation to the System, the Institutional Patent Committee shall recommend as to whether the System should support and finance a patent application or other available protective measures and manage the development and commercialization of the property. If the creator makes the offer after obtaining a patent or other protection, the Institutional Patent Committee shall recommend as to whether the System should reimburse the creator for expenses in obtaining such protection. If the Patent Committee recommends and the creation is accepted for management by the System, the procedures to be followed and the rights of the parties shall be those set out in Subsection 2.4523 following.
- 2.452 Intellectual property related to the individual's employment responsibility, resulting from activities performed on System time, with support by State funds, or using System facilities. (See 2.442.)

- 2.4521 Before publishing, a creator of intellectual property that (a) relates to the individual's employment responsibility, (b) results from activities done on System time, (c) is created with support by State funds, or (d) is created using System facilities, shall submit such creations to the Institutional Patent Committee for determination of the System's interest. In those instances, however, where delay would jeopardize obtaining the appropriate protection for the property, the creator may, with the approval of the Chairman of the Institutional Patent Committee and the chief administrative officer, file a patent application or take other steps to obtain available protection prior to the Committee and administrative review provided in the following two subsections. If the request is granted, the creator may proceed with the filing of a patent application or other available protective measures pending the determination of the System's interest; provided, however, that the creator shall be reimbursed for expenses in filing the patent application or taking other steps to obtain protection if the decision of the System is to assert and exploit its interests. The Chairman of the Institutional Patent Committee shall notify the System Intellectual Property Office of any such application.
- 2.4522 If the Institutional Patent Committee recommends that the System not assert and exploit its interest, and that recommendation is approved by the System Intellectual Property Office and the Office of the Chancellor, the creator shall be notified within ninety (90) days of the date of submission that he or she is free to obtain and exploit a patent or other intellectual property in his or her own right and the System shall not have any further rights, obligations or duties thereto. (In some instances, the Committee may elect to impose certain limitations or obligations, dependent upon the degree of System support.)
- 2.4523 If the System decides to patent or seek other available protection for intellectual property in which it decides to assert and

exploit its interest, it shall proceed either through its own efforts or those of an appropriate private firm or attorney to obtain protection and manage the intellectual property. Under appropriate circumstances, and with the consent of the General Counsel and the approval of the Attorney General, component institutions may arrange to have services to obtain protection for intellectual property performed by a local outside attorney on a case-by-case basis. It shall be mandatory for all employees, academic and nonacademic, to assign the rights to intellectual property and patents to the Board when such creations fall within Section 2.452. The division of royalties or other income, after cost of licensing and obtaining a patent or other protection for the property have first been recaptured, shall be as follows:

50% to creator

50% to System

With the prior approval of the Board as an agenda item, a component institution may include provisions in its Handbook of Operating Procedures to adjust the allocation of royalties set forth herein, but in no event shall the creator receive more than 50% or less than 25% of such proceeds. The division of royalties and other income from patents or other intellectual property managed by an intellectual property management concern will be controlled by the terms of the System's agreement with such concern, as approved by the Board. Any other deviation from this rule requires the prior approval of the Board.

2.453 Intellectual property resulting from research supported by a grant or contract with the Federal Government, or an agency thereof, with a nonprofit or for profit nongovernmental entity, or by a private gift to the System. (See 2.443.)

2.4531 Administrative approval of application requests to, and acceptance of grants or contracts with, the Federal Government, or any agency thereof, with a nonprofit or for profit nongovernmental entity, or a private donor that contain provisions that are not consistent with this policy, or other policies

and guidelines adopted by the Board from time to time implies a definite decision that the value to the System of receiving the grant or performing the contract outweighs the impact of any non-conforming provisions of the grant or contract on the basic intellectual property policies and guidelines of the System.

- 2.4532 The intellectual property policies and guidelines of the System are subject to, and thus amended and superseded by, the specific terms pertaining to intellectual property rights included in Federal grants and contracts, or grants and contracts with nonprofit and for profit nongovernmental entities or private donors, to the extent of any conflict.
- 2.4533 In those instances where it is possible to negotiate System-wide intellectual property agreements with the Federal agencies or nonprofit and for profit nongovernmental entities, or private donors and thereby obtain more favorable treatment for the creator and the System, every effort will be made to do so with the cooperation and concurrence of the Office of Asset Management and the Intellectual Property Office after consultation with the Institutional Patent Committee and the chief administrative officer.
- 2.4534 Employees of the System whose intellectual property creations result from a grant or contract with the Federal Government, or any agency thereof, with a non-profit or for profit nongovernmental entity, or by private gift to the System shall make such assignment of such creations as is necessary in each case in order that the System may discharge its obligation, expressed or implied, under the particular agreement.

- 2.46 Any agreement altering substantially the basic intellectual property policy of the System as set out in the preceding sections and other policies and guidelines that may be adopted by the Board shall have the advance approval of the chief administrative officer, the Office of the Chancellor, and the Board as an agenda item.
- 2.47 Income from Intellectual Property. The portion of the net income the System retains from royalty or other intellectual property-related income shall be used first to defray the expenses, if any, of the System Intellectual Property Office and thereafter, as approved by the Board, for research purposes at the component institutions where the income providing creation originated. At the option of a component institution, such income may be accumulated in an endowment fund administered by the Office of Asset Management with the income to be distributed to the component institution for such purposes as may be approved by the Board.
- 2.48 Implementation of Intellectual Property Policy. The Office of Asset Management and the Office of General Counsel through the System Intellectual Property Office shall prepare and distribute to the component institutions such Model Agreements and recommended procedures as may be considered appropriate for the implementation of the provisions of this policy as well as other policies and guidelines adopted by the Board.

OCT 11 1985

5. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendment to Chapter IX, Section 2 (Investment Policy for the Permanent University Fund).--To remove a requirement that common stocks purchased for the Permanent University Fund be rated "B" or better, approval was given to delete in its entirety Subsection 2.213 of Section 2, Chapter IX of Part Two of the Regents' Rules and Regulations.

This action will result in the Investment Policy continuing to incorporate the investment restrictions contained in the State Constitution, Article VII, Section 11 and Section 11a, and the Prudent Person Rule standard of care.

OCT 11 1985

1. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter VIII, Section 4 (Professional Services) and Section 6, Subsection 6.1 (Modification of Bids).--Upon recommendation of the Buildings and Grounds Committee, approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter VIII, Section 4 (Professional Services) and Subsection 6.1 of Section 6 (Modification of Bids) to read as set forth below:

Sec. 4. Professional Services.--Each component institution is authorized to make use of architects, engineers, and other professional services up to a maximum cost of \$25,000 with the approval of the Executive Director for Finance and Administration and the Office of the Chancellor on recommendation of the chief administrative officer and the chief business officer.

Sec. 6. Modification of Bids.

6.1 No bid shall be changed, amended, or modified by telegram or otherwise after it has been submitted or filed in response to an advertisement for bids in connection with the construction or erection of permanent improvements at any of the component institutions of the System under Section 51.907, Texas Education Code, V.T.C.S.

DEC 13 1984

5. U. T. Board of Regents - Regents' Rules and Regulations: Amendments to Part One, Chapter II, and Part Two, Chapter IX (Duties and Responsibilities of Executive Vice Chancellor for Asset Management), and Authorization for Executive Secretary to Make Editorial Changes Therein.--Regent Yzaguirre moved that the assignment of duties and responsibilities of the Executive Vice Chancellor for Asset Management for The University of Texas System be formalized in the Regents' Rules and Regulations in accordance with the recommendations submitted by Chancellor Mark in Executive Session.

Regent Powell and Vice-Chairman Briscoe seconded the motion which carried without objection.

Whereupon, Chapter II of Part One and Chapter IX of Part Two of the Regents' Rules and Regulations were amended to read as set forth on Pages 225 - 233 and authorization was given for the Executive Secretary, in consultation with the Office of General Counsel, to make such editorial changes therein to conform to these amendments.

AUG - 8 1985

1. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendment to Chapter I, Section 9 (Admission of Nonresident Students)(Catalog Change).--Upon recommendation of the Academic Affairs Committee, approval was given to amend Section 9, Chapter I, Part Two of the Regents' Rules and Regulations to read as set forth below:

Sec. 9 Admission of Nonresident Students.--No nonresident of the State of Texas shall be enrolled as a new or transfer student in any school, college, or degree-granting program at any component institution of the System when all of the three following conditions occur: (1) when there is a limitation on the number of students who will be enrolled in the class of which such nonresident would be a member if he were enrolled; (2) when the result of enrolling such nonresident would be to increase to greater than 10% the percentage of nonresidents enrolled in the class of which such nonresident would be a member if he were enrolled; and (3) when at the time of the proposed enrollment of such nonresident, admission to the school, college, or degree-granting program is being denied to one or more Texas residents who have applied for admission and who reasonably demonstrate that they are probably capable of doing the quality of work that is necessary to obtain the usual degree awarded by the school, college, or degree-granting program. It is provided, however, that the nonresident enrollment at the School of Law, The University of Texas at Austin, may be equal to 15% of each class of which nonresidents are a part provided that the admission of such nonresidents is on the basis of academic merit alone.

This amendment is based upon the modification by the 69th Legislature to the appropriations bill rider which mandates a limitation on the number of nonresidents to be enrolled in restricted enrollment programs of some professional schools. A special provision related to the U. T. Austin School of Law was added to Article III, Section 19 of the appropriations bill.

It was noted that the next appropriate catalog published at U. T. Austin will be amended to reflect this action.

1. Part One, Chapter II, was amended as set forth below:
 - a. Subsections 2.2 and 2.3 of Section 2 were amended to read as follows:
 - 2.2 Composition.

The Office of the Chancellor consists of the Chancellor, the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Asset Management, the Executive Vice Chancellor for Health Affairs and such direct supporting staffs for these officers as may be required and provided for in the annual operating budget and amendments thereto. The Chancellor shall coordinate consultation among the principal officers of the Office of the Chancellor.
 - 2.3 Chancellor/Chief Executive Officer.

The Chancellor is the chief executive officer of the System and directly reports to and is responsible to the Board. He has direct line responsibility for all aspects of the U. T. System's operations. In addition, he has first line supervisory responsibility for the governmental relations and audit functions of the System and provides day-to-day supervision for the holders of the following positions who directly report to the Office of the Chancellor: the Executive Director for Finance and Administration; the General Counsel; the Director of Development; and the Director of the Office of Facilities Planning and Construction.
 - b. A new Subsection 2.5 was added to Section 2 to read as follows:
 - 2.5 Executive Vice Chancellor for Asset Management.

The Executive Vice Chancellor for Asset Management is the chief operating officer of the System for management of the assets of the U. T. System and, in consultation with the Chancellor, directly reports to and is responsible to the Board for conduct of the asset management programs of the U. T. System. The Manager of University Lands - Oil, Gas and Mineral Interests, the Manager of University Lands - Surface Interests, the Executive Director for Investments and Trusts, and the Director of the University Lands Accounting Office, acting in a line capacity for the operation of their functions, report to and are responsible to the Executive Vice Chancellor for Asset Management.
 - c. The existing Subsection 2.5 of Section 2 was renumbered as Subsection 2.6.
 - d. Subsection 4.1 of Section 4 was amended to read as follows:
 - 4.1 Chief Executive and Chief Operating Officers.

The Chancellor, the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Asset Management, and the Executive Vice Chancellor for Health Affairs,

shall be elected by the affirmative vote of a majority of the Regents in office and shall hold office without fixed term, subject to the pleasure of the Board.

- e. The caption of Section 6 was amended to read as follows:

Sec. 6. Primary Duties of the Chief Operating Officers in the Office of the Chancellor.

- f. Subsection 6.1 of Section 6 was deleted, thereby causing the existing Subsection 6.2 to be renumbered as 6.1.

- g. A new Subsection 6.2 was added to read as follows:

6.2 The Executive Vice Chancellor for Asset Management.

The Executive Vice Chancellor for Asset Management has direct responsibility for lands management (including management of trust lands, endowment lands, and management of the Permanent University Fund lands); investments and trusts (including investment and management of trusts, trust assets, and endowments) and management of the investment of the Permanent University Fund. He has as a prime responsibility the management of the lands, trusts, endowments, and other such funds of the System in such a manner as to maximize the monies available for excellence in all activities of the System. Through the Office of the Chancellor, he shall prepare recommendations and supporting information on all such operations for consideration by the appropriate standing committees of the Board of Regents.

- h. The existing Subsection 8.4 of Section 8 was renumbered as Subsection 8.2 and the existing Subsections 8.2 and 8.3 were moved to a new Section 9 where they were revised and renumbered to read as follows:

Sec. 9. Asset Management.

9.1 Lands Management.

9.11 The Executive Vice Chancellor for Asset Management provides direction and management for all transactions relative to Permanent University Fund Lands (hereinafter sometimes referred to as "University Lands"), trust lands, and other noncampus real estate interests owned or controlled by the Board of Regents. In the exercise of those responsibilities, he:

9.111 Works closely with the Board for Lease of University Lands in the discharge of its duties and responsibilities.

9.112 Works closely with the chief administrative officer of a component institution of the System and his delegates with regard

to the management of trust lands and other noncampus real estate interests held by the Board of Regents for and on behalf of a particular institution.

9.113 Establishes procedures that insure effective coordination with the Executive Director for Investments and Trusts with regard to the management of trust lands other than University Lands.

9.114 Directs and manages the operation of the following budgeted activities which are part of the Office of Lands Management:
Board for Lease - University Lands;
University Lands - Oil, Gas, and Mineral Interests;
University Lands Accounting Office;
University Lands - Surface Interests (Oil Field Supervision); and
University Lands - Surface Interests (Leasing and Agricultural Projects).

9.12 Manager of University Lands - Oil, Gas, and Mineral Interests.

Subject to delegation by the Executive Vice Chancellor for Asset Management, the Manager of University Lands - Oil, Gas, and Mineral Interests is responsible for providing field supervision of System operations, activities and transactions involving oil, gas, and mineral development and production on the University Lands. Within limits of authority set by the Executive Vice Chancellor for Asset Management, the Manager's regular duties include:

- 9.121 Making recommendations to the Board for Lease of University Lands, and the Board of Regents, as appropriate, for periodic oil and gas lease sales of University Lands, and for unitization, pooling and other transactions involving oil and gas leasehold and royalty interests and other mineral interests in University Lands.
- 9.122 Organizing, directing, guiding, setting objectives and standards for, and assigning and evaluating the work of all personnel reporting to him.
- 9.123 Reviewing periodically the terms and conditions of forms and transactions involving oil and gas interests in

University Lands, and making recommendations with respect thereto to the Executive Vice Chancellor for Asset Management and the Board for Lease of University Lands.

9.124 Reporting regularly to the Executive Vice Chancellor for Asset Management and the Board for Lease of University Lands all activities, developments and problems which could significantly affect System interests and University Lands, together with his recommendations with respect thereto.

9.125 Working closely with the Board for Lease of University Lands in the discharge of its duties and responsibilities.

9.126 Coordinating with the Manager of University Lands - Surface Interests in the discharge of their respective duties and responsibilities.

9.13 Manager of University Lands - Surface Interests.

Subject to delegation by the Executive Vice Chancellor for Asset Management, the Manager of University Lands - Surface Interests is responsible for providing field supervision of System operations, activities, and transactions pertaining to surface interests, water rights and oil and gas field operations in or on University Lands. Within limits of authority set by the Executive Vice Chancellor for Asset Management, the Manager's regular duties include:

9.131 Making recommendations to the Board with respect to all transactions involving surface interests in University Lands, including research projects, right-of-way easements, agricultural, grazing and other surface use leases, and geophysical permits.

9.132 Organizing, directing, guiding, setting objectives and standards for, and assigning and evaluating the work of all personnel reporting to him.

9.133 Reviewing periodically the terms and conditions of forms and transactions involving surface interests in University Lands, and making recommendations with respect thereto to the Executive Vice Chancellor for Asset Management.

9.134 Reporting regularly to the Executive Vice Chancellor for

Asset Management all activities, developments and problems which could significantly affect System interests in University Lands, together with his recommendations with respect thereto.

9.135 Working closely with federal and state agencies in connection with research and development projects and activities, involving utilization and husbandry of University Lands, of mutual interest to the System and such agencies.

9.136 Coordinating with the Manager of University Lands - Oil, Gas, and Mineral Interests in the discharge of their respective duties and responsibilities, and acts as oil and gas fields supervisor.

9.2 Investments and Trusts.

Subject to delegation by the Executive Vice Chancellor for Asset Management, the Executive Director for Investments and Trusts implements, when they are approved by the Board, policies and actions with respect to:

9.21 Investing, managing, and administering of all endowment funds belonging to the System and its component institutions, including the Permanent University Fund and all trusts and special funds.

9.22 Issuing, managing, and paying all bonds and other evidences of indebtedness issued by the Board for System and its component institutions.

9.23 Presenting to the Board through the Office of the Chancellor periodic reports of the status and prospect of funds for which he has responsibility and that will be available for expenditure by the System and its component institutions.

9.24 Consulting with the Executive Associate for Economic Affairs with respect to the development of long-range plans for the development and management of the economic resources of the System and its component institutions.

i. Existing Sections 9 through 17 were renumbered as Sections 10 through 18, respectively.

2. Part Two, Chapter IX, was amended as set forth below:

a. Subsections 1.1, 1.2, 1.3, 1.4, 1.5 and 1.6 of Section 1 were amended to read as follows:

1.1 Authority to Purchase, Exchange, and Sell Securities for and on Behalf of the Permanent University Fund of The University of Texas System (hereinafter sometimes referred to as "PUF") and the Board.--The Chancellor,

or his delegate, the Executive Vice Chancellor for Asset Management, and the Executive Director for Investments and Trusts are authorized to purchase, exchange, and sell any and all securities for and on behalf of the PUF or the Board, and to execute any and all documents necessary to the consummation of any purchases or exchanges. In addition, Investment Counselors appointed by the Board of Regents may purchase, sell, or exchange securities from funds designated from the PUF and the Common Trust Fund in accordance with such Counselor's contracts.

- 1.2 Authority to Assign and Transfer Securities Owned by the PUF and the Board.--The Chancellor, the Executive Vice Chancellor for Asset Management, the Executive Director for Investments and Trusts, the Comptroller and Associate Comptroller, and the Trust Officer may each assign and transfer any and all securities of any description whatever and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any securities registered in the name of the PUF or the Board, or in any other form of registration of such securities held for the account of the PUF or the Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said Board.
- 1.3 Authority to Execute Instruments Relating to Land and Mineral Interests.--The Chairman of the Board, the Vice-Chairmen, the Chancellor, or his delegate, and the Executive Vice Chancellor for Asset Management are each authorized to execute conveyances, deeds, surface and/or mineral leases, easements, rights-of-way, oil and gas division orders, and transfer orders, geophysical and material source permits, water contracts, pooling and unitization agreements, and any other instruments as may be necessary or appropriate from time to time, relating to the handling, management, control, and disposition of any real estate or mineral interest held or controlled by the Board as a part of the PUF or as a part of any trust or special fund.
- 1.4 Authority to Receive and Collect Money and/or Property.--The Chancellor, the Executive Vice Chancellor for Asset Management, and the Executive Director for Investments and Trusts are each authorized and empowered to ask, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands, whatever, due, payable, or belonging, or that may become due, payable, or belonging to any of the above funds from investment transactions, from any person or persons, whatever, and to execute any and all necessary or proper receipts, releases, and discharges therefor.

- 1.5 Authority to Execute Proxies.--The Chancellor, or his delegate, the Executive Vice Chancellor for Asset Management, and the Executive Director for Investments and Trusts, and the Investment Officer and the Director of Stock Research are each authorized to execute proxies within the approved investment policies.
 - 1.6 Authority to Purchase, Sell, and Transfer Book-Entry United States Government and Government Agency Securities.--The Chancellor, or his delegate, the Executive Vice Chancellor for Asset Management, and the Executive Director for Investments and Trusts, or the Investment Officer of The University of Texas System may direct a member bank of the Federal Reserve System to purchase, sell, or transfer any United States Government or Government Agency securities in book-entry form for the Permanent University Fund of The University of Texas System and for the Board of Regents of The University of Texas System.
- b. Subsections 2.5, 2.6, and 2.7 of Section 2, and Paragraphs 2.92 and 2.93 of Subsection 2.9 of Section 2 were amended to read as follows:
- 2.5 Policies with Respect to Stock Rights, Fractional Shares, and Proxies.
 - 2.51 Exercise of or sale of stock rights is to be made at the discretion of the Chancellor, the Executive Vice Chancellor for Asset Management, or the Executive Director for Investments and Trusts. Stock rights which arise in connection with funds under control of an investment counselor shall be handled by that counselor in its discretion.
 - 2.52 As a general rule, fractional shares received from stock dividends, etc., are to be sold. In each instance, the decision to round out fractional shares or to sell will be made by the Chancellor, the Executive Vice Chancellor for Asset Management, or the Executive Director for Investments and Trusts. Fractional shares which arise in connection with funds under control of an investment counselor shall be handled by that counselor in its discretion.
 - 2.53 As a general rule, voting stocks held are to be voted by returning proxies to present management. When the Executive Director for Investments and Trusts determines that a vote with management would not be in the shareholder's best financial interest, or when a proposal under consideration is of a social nature, the matter will be referred to the Chancellor and the Executive Vice Chancellor for Asset Management, or, in the event both of them are absent, to the Chairman of the Land and Investment Committee.

2.6 Exchange of Bonds.--The Chancellor, the Executive Vice Chancellor for Asset Management, and the Executive Director for Investments and Trusts are each authorized to exchange bonds owned, from time to time, on a par for par basis (with such cash adjustments as may be required) for other eligible bonds or obligations. In any such exchange the cost of the bonds exchanged out (plus or minus the cash adjustments involved) shall be carried forward as the cost of the bonds or obligations acquired, even though the sale and purchase may be effected through different brokers. Such sales and purchases may be considered as exchanges provided there has been an improvement in book yield.

2.7 Advice of Investment Advisory Committee.--The Chancellor, the Executive Vice Chancellor for Asset Management, and the Executive Director for Investments and Trusts shall seek the advice and counsel of the Investment Advisory Committee at its regular quarterly meetings on all of the major matters involving the PUF.

2.92 Implementation of Mortgage Loan Program: the Chancellor, the Executive Vice Chancellor for Asset Management, or the Executive Director for Investments and Trusts are each authorized to purchase insured mortgage loans and to execute such documents necessary in conducting a mortgage loan program, including the execution of assignments of any notes and liens when appropriate to do so.

2.93 The Chancellor, the Executive Vice Chancellor for Asset Management, or the Executive Director for Investments and Trusts are each authorized to take any and all steps as may be considered necessary or advisable to protect the interest of the PUF in event of default occurring with respect to any guaranteed loans, including the power to acquire title on behalf of the Board to the property securing any such note and to execute on behalf of the Board the necessary deed conveying the properties to the U.S. Government or department or agency thereof.

c. Subsection 5.2 of Section 5 was amended to read as follows:

5.2 Duties.--The Staff Investment Committee shall cooperate with and advise the Chancellor and the Executive Vice Chancellor for Asset Management on matters relating to the management of investments.

d. The lead-in paragraph of Section 6 and Subsection 6.4 of Section 6 were amended to read as follows:

Sec. 6. Investment Advisory Committee.--The Investment Advisory Committee is and has

been established in order to assist and advise the Chancellor, the Executive Vice Chancellor for Asset Management, and the Executive Director for Investments and Trusts with respect to matters relating to the management of investments for which said Executive Director is responsible. The following rules shall apply to such Committee:

- 6.4 Meetings.--Meetings shall be held quarterly and at such other dates as may be considered advisable by the Chancellor and the Executive Vice Chancellor for Asset Management.

DEC 13 1984 2.

U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter V, Section 2, Subsection 2.2 (Maternity Leave).--Approval was given to amend Part Two, Chapter V, Section 2, Subsection 2.2 (Maternity Leave) of the Regents' Rules and Regulations to read as set forth below.

These amendments bring the Regents' Rules and Regulations into compliance with the Pregnancy Discrimination Act which requires, among other things, that pregnancy be treated in the same manner by employers as other temporary disabilities.

2.2 Medical Disability Leave.

2.21 Temporary disabilities caused or contributed to by pregnancy, childbirth, or related medical conditions shall be treated in the same manner as other temporary medical disabilities. Except as provided under Subsection 2.220 of this Section, any employee, whether faculty, classified, or administrative, who expects to be, or who becomes temporarily disabled as a result of injury, illness or pregnancy, may request and receive a leave of absence without pay for a "reasonable period" of time, provided the request is made under the following terms and conditions:

2.211 The employee shall provide the department head with a physician's certification establishing the medical disability and the anticipated period of absence.

2.212 The employee and the department head will submit a request to the chief administrative officer through proper channels. The request will include a statement

from the department head detailing the manner in which the responsibilities of the employee will be assumed. A statement encompassing the details of the medical disability leave shall be entered in the remarks section of the appropriate personnel action form.

2.213 "Reasonable period," as used in this Section, is defined as the length of the leave as determined by the employee's medical disability. The period shall normally not exceed six (6) weeks, following incapacitation or after delivery in the case of maternity. Leave without pay shall be authorized only after the employee has exhausted all accumulated paid leave entitlements (sick leave and then vacation leave). Following a six week absence, the chief administrative officer may authorize an additional reasonable period of time for medical disability leave without pay on an individual basis after review of the merits of each particular case, and subject to the requirement of exhaustion of accumulated paid leave. Total leave without pay for medical disability shall not exceed twelve months.

- 2.214 Vacation leave and sick leave do not accrue while on medical disability leave without pay.
- 2.215 Subject to fiscal constraints, approval of medical disability leave shall constitute a guarantee of employment for the period of the medical disability leave.
- 2.216 The employee returning from medical disability leave will furnish a statement from a duly licensed physician certifying that the employee is medically capable of resuming normal working duties.
- 2.217 In the case of faculty on medical disability leave, the date for return to work will coincide with the beginning of the next semester, following the period of absence, if the chief administrative officer, or his/her delegate, determines that such beginning date is necessary in order to obtain a temporary replacement or to maintain the integrity of the academic program of the institution.
- 2.218 A replacement may be provided on a temporary basis during the absence of an employee on medical disability leave.
- 2.219 An employee on medical disability leave without pay is entitled to continue optional group insurance coverages at his/her own expense.
- 2.220 If an employee is unable to return to work because of an on-the-job injury covered by Workers' Compensation Insurance, the employee may remain on the payroll until vacation and sick leave are exhausted, or may designate in writing that a portion of such leave may be used for this purpose.