THE UNIVERSITY OF TEXAS SYSTEM
INTERMEDIATE TERM FUND
INVESTMENT POLICY STATEMENT

Purpose and Structure

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

ITF Organization

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

ITF Management

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

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

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

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

**ITF Administration**

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

**Funds Eligible to Purchase ITF Units**

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

**ITF Investment Objectives**

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

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

The secondary investment objective is to generate average annual returns net of all investment-related expenses, in excess of the approved Policy Portfolio over rolling five-year periods.
Investments must be within the Asset Class and Investment Type ranges, prudently diversified, and within the approved Policy Risk Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO’s risk model. Liquidity of the ITF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

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

**Asset Class and Investment Type Allocation and Policy**

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

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

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

**Asset Classes:**

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

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

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

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

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

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

Investment Types:

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

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

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

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

Investment Guidelines

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

General

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

Investment Grade and Credit-Related Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.
Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity

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

ITF Accounting

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

Valuation of ITF Assets

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

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

Compliance

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

**ITF Distributions**

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

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

**Purchase and Redemption of ITF Units**

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

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

**Securities Lending**

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

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

**Investor Responsibility**

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

**Amendment of Policy Statement**

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

**Effective Date**

The effective date of this Policy shall be September 1, 2011 (except for Min and Max ranges and Risk Bounds in Exhibit A, which became effective August 15, 2011).
**EXHIBIT A - INTERMEDIATE TERM FUND**

**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES**

**EFFECTIVE SEPTEMBER 1, 2011 except Min and Max Ranges and Risk Bounds are Effective August 15, 2011**

<table>
<thead>
<tr>
<th>POLICY PORTFOLIO</th>
<th>FYE 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Min</td>
</tr>
<tr>
<td><strong>Asset Classes</strong></td>
<td></td>
</tr>
<tr>
<td>Investment Grade Fixed Income</td>
<td>30.0%</td>
</tr>
<tr>
<td>Credit-Related Fixed Income</td>
<td>0.0%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>0.0%</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>2.5%</td>
</tr>
<tr>
<td>Developed Country Equity</td>
<td>20.0%</td>
</tr>
<tr>
<td>Emerging Markets Equity</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>Investment Types</strong></td>
<td></td>
</tr>
<tr>
<td>More Correlated &amp; Constrained</td>
<td>60.0%</td>
</tr>
<tr>
<td>Less Correlated &amp; Constrained</td>
<td>30.0%</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>POLICY/TARGET RETURN/RISKS</th>
<th>FYE 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected Annual Return (Benchmarks) **</td>
<td>7.28%</td>
</tr>
<tr>
<td>One Year Downside Deviation</td>
<td>5.34%</td>
</tr>
<tr>
<td><strong>Risk Bounds</strong></td>
<td></td>
</tr>
<tr>
<td>Lower: 1 Year Downside Deviation</td>
<td>70%</td>
</tr>
<tr>
<td>Upper: 1 Year Downside Deviation</td>
<td>115%</td>
</tr>
</tbody>
</table>

**Equal to nominal return, net of all investment-related expenses and assuming an inflation rate of 3%.
### EXHIBIT A - INTERMEDIATE TERM FUND
(continued)

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

**POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2012**

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

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