THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
INVESTMENT POLICY STATEMENT

Purpose

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

LTF Organization

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

LTF Management

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

Ultimate fiduciary responsibility for the LTF rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.
Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company (“UTIMCO”), the LTF shall be managed by UTIMCO, which shall a) recommend investment policy for the LTF, b) recommend specific asset allocation targets, ranges, and performance benchmarks consistent with LTF objectives, and c) monitor LTF performance against LTF objectives. UTIMCO shall invest the LTF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

**LTF Administration**

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

**Funds Eligible to Purchase LTF Units**

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

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

**LTF Investment Objectives**

The primary investment objective shall be to preserve the purchasing power of LTF assets by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate, plus the annual expected expense. The current target rate is 5.1%. The target is subject to adjustment from time to time consistent with the primary investment objective of the LTF. The LTF’s success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark and the average median return of the universe of the college and university endowments with assets greater than $1 billion as reported by Cambridge Associates over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect LTF’s asset allocation policy targets.
Limiting factors are that prudent diversification within each approved asset class and that a projected portfolio risk profile within the approved Policy Portfolio risk range, as defined in Exhibit A and B and measured at least monthly by UTIMCO’s risk model, should be sustained at all times. Liquidity of the U. T. System General Endowment Fund (GEF) will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

LTF return, asset allocation, and risk targets are subject to adjustment from time to time by the U. T. System Board of Regents.

**Asset Allocation and Policy**

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A and Exhibit B, is the responsibility of UTIMCO. UTIMCO is responsible for measuring actual asset allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio asset allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific asset allocation positions may be changed within the ranges specified in Exhibit A and B 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 categories or projected portfolio risk 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 LTF asset values could warrant requesting approval of the UTIMCO Board Chairman for remedial action.

LTF assets shall be allocated among the following investments.

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

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

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

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.

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

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Eligible investments within the “Cash and Cash Equivalents” category of the GEF Investment Policy Statement.

LTF Distributions

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

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

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

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

The goal is for the LTF’s average spending rate over time not to exceed the LTF’s average annual investment return after inflation in order to preserve the purchasing power of LTF distributions and underlying assets.
Generally, pursuant to the Uniform Management of Institutional Funds Act, Chapter 163, Texas Property Code, as amended, ("Act"), the Board of Regents may distribute, for the uses and purposes for which the LTF is established, the net appreciation, realized and unrealized, in the fair market value of the assets of the LTF over the historic dollar value of the fund to the extent prudent under the standard provided by the Act.

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

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

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

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

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

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

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

The fiscal year of the LTF shall begin on September 1st and end on August 31st. Market value of the LTF shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government 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. The LTF’s financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

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

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

Purchase of LTF Units

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

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

Redemption of LTF Units

Redemption of LTF units shall be paid in cash as soon as practicable after the quarterly valuation date of the LTF. If the withdrawal is greater than $10 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the LTF’s net
asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the best interests of all LTF unitholders. Withdrawals from the LTF shall be at the market value price per unit determined for the period of the withdrawal except as follows: withdrawals to correct administrative errors shall be calculated at the per unit value at the time the error occurred. To be considered an administrative error, the contribution shall have been invested in the LTF for a period less than or equal to one year determined from the date of the contribution to the LTF. Transfer of units between endowment unitholders shall not be considered redemption of units subject to this provision.

**Investor Responsibility**

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

**Amendment of Policy Statement**

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

**Effective Date**

The effective date of this policy shall be July 13, 2006, except for Exhibit B. Exhibit B follows the effective date of Exhibit A of the GEF.
EXHIBIT A

LTF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

<table>
<thead>
<tr>
<th>Neutral Allocation</th>
<th>Range</th>
<th>Benchmark Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>GEF Commingled Fund</td>
<td>100.0%</td>
<td>95% - 100%</td>
</tr>
<tr>
<td>Liquidity Reserve</td>
<td>0.0%</td>
<td>-1% - 5%</td>
</tr>
<tr>
<td>Unencumbered Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporary Cash Imbalance*</td>
<td></td>
<td></td>
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<tr>
<td>Net non-trading receivable</td>
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</tbody>
</table>

| Expected Annual Return (%) | 8.34 | | % of Target Risk |
| 1yr Downside Deviation (%) | -7.6 | Upper Risk Bound: 1 yr Downside Deviation (%) | 128% |
| Standard Deviation (%)     | 10.8 | Lower Risk Bound: 1 yr Downside Deviation (%) | 74% |

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

*3 trading days or less
**EXHIBIT B**

**GENERAL ENDOWMENT FUND**

**POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES**

**EFFECTIVE DATE JULY 13, 2006**

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Percent of Portfolio (%)</th>
<th>Policy Targets</th>
<th>Policy Ranges</th>
<th>Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equities</td>
<td>20.0</td>
<td>10 to 30</td>
<td>Russell 3000 Index</td>
<td></td>
</tr>
<tr>
<td>Global ex U.S. Equities</td>
<td>17.0</td>
<td>10 to 30</td>
<td></td>
<td></td>
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<tr>
<td>Non-U.S. Developed Equity</td>
<td>10.0</td>
<td>0 to 30</td>
<td>MSCI EAFE Index with net dividends</td>
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<tr>
<td>Emerging Markets Equity</td>
<td>7.0</td>
<td>0 to 10</td>
<td>MSCI Emerging Markets Index with net dividends</td>
<td></td>
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<tr>
<td>Hedge Funds</td>
<td>25.0</td>
<td>15 to 27.5</td>
<td>MSCI Investable Hedge Fund Index*</td>
<td></td>
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<tr>
<td>Directional Hedge Funds</td>
<td>10.0</td>
<td>5 to 15</td>
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<tr>
<td>Absolute Return Hedge Funds</td>
<td>15.0</td>
<td>10 to 20</td>
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<tr>
<td>Private Capital</td>
<td>15.0</td>
<td>5 to 15</td>
<td>Venture Economics’ Periodic IRR Index</td>
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<td>Venture Capital</td>
<td>4.0</td>
<td>0 to 8</td>
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<tr>
<td>Private Equity</td>
<td>11.0</td>
<td>5 to 15</td>
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<td></td>
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<tr>
<td>Inflation Linked</td>
<td>13.0</td>
<td>5 to 20</td>
<td></td>
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<tr>
<td>REITS</td>
<td>5.0</td>
<td>0 to 10</td>
<td>Dow Jones Wilshire Real Estate Securities Index</td>
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<tr>
<td>Commodities</td>
<td>3.0</td>
<td>0 to 6</td>
<td>Combination index: 66.7% GSCI minus .5% plus 33.3% DJ-AIG Commodity Index</td>
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<tr>
<td>TIPS</td>
<td>5.0</td>
<td>0 to 10</td>
<td>Lehman Brothers US TIPS Index</td>
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<tr>
<td>Fixed Income:</td>
<td>10.0</td>
<td>5 to 15</td>
<td>Lehman Brothers Aggregate Bond Index</td>
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<tr>
<td>Liquidity Reserve</td>
<td>0.0</td>
<td>-1 to 10</td>
<td>90 Day T-Bills</td>
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1 year Downside Deviation (%) 74%  

*Changed with approval of the Board of Regents on August 10, 2006, effective retroactively to January 1, 2006.*

** 3 trading days or less